

The Week Ahead: Focus turns to Fed, BoE and BoJ; no changes expected

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► **US: No change in Fed policy expected, despite solid data**

The key event of the week will be the FOMC meeting on 15-16 March, where we expect the Fed to keep policy steady. This includes maintaining the fed funds target rate (FFTR) range at 0.25-0.5%. This is despite positive US data so far in 2016, including for the critical labour market and consumer spending. Moreover, there are tentative signs of stabilisation in the manufacturing sector and a pickup of inflation in the service components. We think the still fragile market sentiment and global economic outlook will prompt the FOMC to remain on hold. Furthermore, we believe the Fed will need more time to assess the economic impact of the recent tightening of financial conditions. Finally, the Fed has not prepared the market for a rate change, and is unlikely to want to spring a surprise.

► **US: Guidance to be closely watched for changes**

The tone and guidance of the meeting will be critical. Markets will focus on new interest rate (dot plot) and economic projections, and the post-meeting conference. The next FOMC meeting with the full format is on 14-15 June, when we see the Fed raising the FFTR by 25 bps. We believe that the tone of the meeting could be more bullish than the January meeting, though with the Fed still highlighting some caution and with the dot plot showing fewer rate hikes. We expect the new dot plot to indicate a median of three hikes for 2016, down from four previously, and with a number of members only looking for two hikes. We expect any changes to macroeconomic forecasts to be relatively small. The FOMC's perception of the balance of risk will also be important to gauge the timing of the next move, in our view. We highlight our expectation for two 25 bps rate hikes in 2016, in June and December. Meanwhile, the lesser ability of the ECB and BoJ to weaken their currencies when they eased policy recently, even though this was not the ECB's objective last week, supports the outlook for US rate hikes, in our view. The further strengthening in the USD was a key concern, especially given the outlook for monetary policy divergence.

► **Global: BoJ and BoE also expected to remain on hold**

We also expect the BoJ to remain on hold at its 14-15 March meeting, after the introduction of negative deposit interest rates in January. This includes maintaining the annual monetary base target at JPY80 trillion and the marginal deposit rate at -0.1%. However, we do expect further easing by the BoJ in 2016, possibly as early as April. Thus, the assessment of the economy and possible guidance will be particularly important. The BoE is widely expected to leave its monetary policy stance on hold on 17 March. However, the accompanying statement and minutes are expected to be more dovish than the February meeting. Elsewhere, the focus will be on the UK budget statement and US and Eurozone inflation data for February.

Contents

I.	Recent Events and Data	2
II.	Economic Calendar	4

I. Recent Events and Data

A. G4 Economies

ECB: Beats market expectations with comprehensive package

The ECB introduced a comprehensive package of monetary loosening measures at its 10 March meeting, markedly surpassing market expectations. We believe that the ECB delivered all it could, in stark contrast to the cautious communication ahead of the meeting. The broad-based package highlights rising concerns over the weakening inflation and growth outlooks, especially the second-round impacts of the lower oil price. These concerns were also reflected in the ECB's new macroeconomic forecasts; the growth and inflation forecasts for 2016 and 2017 were significantly lowered (Figure 1).

Broad-based package to support growth and the inflation outlook

Fig. 1. Eurozone: New ECB staff projections, March 2016

	2016	2017	2018 (new)
Real GDP growth, %	1.4 (1.7 previously)	1.7 (1.9 previously)	1.8
Headline inflation, %	0.1 (1 previously)	1.3 (1.6 previously)	1.6
Core inflation, %	1.1 (1.3 previously)	1.3 (1.6 previously)	1.6

Source: ECB

The measures included:

- Lowering the main refi rate and marginal lending rate by 5 bps each, to 0% and 0.25%, respectively;
- Lowering the deposit rate by 10 bps to -0.4%;
- Expanding the monthly asset purchase (QE) programme by EUR20 billion to EUR80 billion, from April. The acceleration went beyond market expectations. The duration of the programme was maintained until at least March 2017;
- Including investment grade corporate debt (EUR denominated, excluding banks) in the QE programme to facilitate the increase in the programme. The ECB also increased its ability to purchase securities issued by eligible international organisations and multilateral development banks; and
- Introducing a new round of targeted longer-term refinancing operations (TLTRO) for banks, the current programme of which is due to end in June. Under the new programme, there will be four rounds, with maturities of four years. Borrowing rates will initially start at the refi rate (0%), moving towards the deposit rate (-0.4%) the more a bank lends. Thus, banks could be paid to borrow under the negative interest rate. Moreover, the size of the programme is large; banks will be able to borrow up to 30% of a specific eligible part of their loan book as at 31 January 2016, less any amount still outstanding under the earlier TLTRO operations.

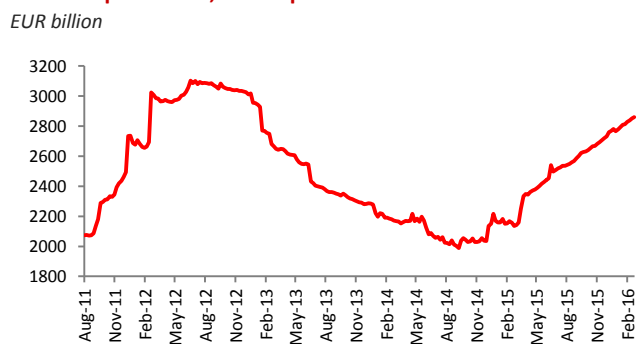
Shift in focus from solely cutting the deposit rate recently

In the post-meeting conference, the guidance on policy rates was surprisingly defensive. President Mario Draghi highlighted that the ECB “does not anticipate” cutting interest rates further. We believe that this point is critical. It is positive for reducing concerns over bank profitability, by putting an expected floor on negative interest rates. Indeed, Draghi highlighted that one of the reasons the Governing Council ultimately rejected a “tiered” deposit rate system was to limit the perception that there was no lower bound for the deposit rate. However, Draghi did note that the stance on

Interest rates close to bottoming out

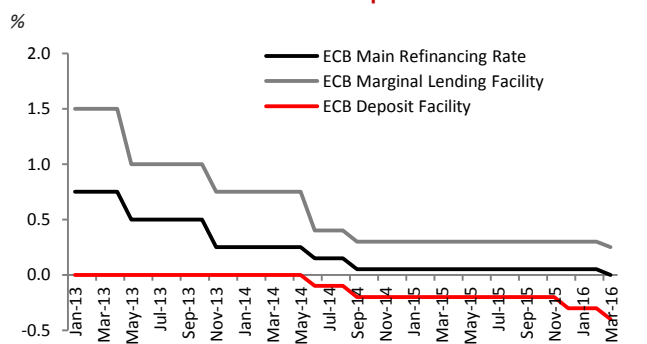
rates could change if there was a material change in the outlook – thereby providing space for further easing if required.

Fig. 2. Eurozone: QE programme expanded to EUR80 billion per month, from April 2016



Source: Bloomberg

Fig. 3. Eurozone: All three ECB policy rates reduced in March; but ECB indicated limited space for further cuts



Source: Bloomberg

While we do not expect the latest package to materially change the short-term growth or inflation outlooks, we do see the measures as positive overall. To a large degree the ECB addressed key market concerns: i) the negative impact of negative rates on bank profitability; ii) the limited benefits of a currency war; and iii) the moderating effectiveness of monetary policy. Moreover we see the shift in policy focus, to one on bolstering credit growth and domestic demand through greater monetary policy transmission, as positive. This is in contrast to its earlier stance of relying on a weaker EUR (led by cuts to the deposit rate) to support external demand or higher imported inflation. We see the addition of corporate bonds to the QE programme and the new and generous TLTRO programme and as being particularly constructive. The TLTRO extension addresses concerns about the ability of peripheral banks in particular to refinance. Moreover, the TLTRO lending operations should stimulate bank lending, especially given the possibility that borrowing rates under the programme may turn negative.

Focus on bolstering domestic demand – rather than on external recovery led by a weaker EUR

Finally, we expect the ECB to remain on hold for the next couple of meetings. The bank will likely want to observe the impact of these broad-based measures before looking to make any adjustments.

Done for now

II. Economic Calendar

Fig. 4. Upcoming events and data releases

Time*	Country	Data point	Period	Prior	Consensus
Monday 14 Mar					
3:50	Japan	Machine Orders, m-o-m	Jan	4.2%	1.9%
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	-1%	1.7%
16:00	India	CPI, y-o-y	Feb	5.7%	5.5%
Tuesday 15 Mar					
	Japan	BOJ Annual Rise in Monetary Base	15-Mar	¥80T	¥80T
	Japan	BOJ Policy Rate	15-Mar	-0.1%	-0.1%
8:30	Japan	Industrial Production, m-o-m	Jan F	3.7%	--
10:30	Japan	BOJ Governor Kuroda Holds Post Policy Meeting Press Conference			
14:00	Eurozone	Employment, y-o-y	4Q	1.1%	--
16:30	US	Retail Sales Advance, m-o-m	Feb	0.2%	-0.1%
16:30	US	Retail Sales, ex-Auto, m-o-m	Feb	0.1%	-0.2%
16:30	US	Retail Sales, ex-Auto and Gas, m-o-m	Feb	0.4%	0.2%
16:30	US	Retail Sales Control Group, m-o-m	Feb	0.6%	0.2%
16:30	US	Empire Manufacturing	Mar	-16.6	-11.5
Wednesday 16 Mar					
13:30	UK	Jobless Claims Change	Feb	-14.8K	-9.1K
13:30	UK	Average Weekly Earnings, 3M/y-o-y	Jan	1.9%	2%
13:30	UK	ILO Unemployment Rate, 3Mths	Jan	5.1%	5.1%
15:00	US	MBA Mortgage Applications	11-Mar	0.2%	--
16:30	UK	UK's Osborne Makes Budget Speech to Parliament			
16:30	US	Housing Starts	Feb	1099K	1150K
16:30	US	Housing Starts, m-o-m	Feb	-3.8%	4.6%
16:30	US	CPI, m-o-m	Feb	0%	-0.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.3%	0.2%
16:30	US	CPI, y-o-y	Feb	1.4%	0.9%
16:30	US	CPI, ex-Food and Energy, y-o-y	Feb	2.2%	2.2%
17:15	US	Industrial Production, m-o-m	Feb	0.9%	-0.3%
22:00	US	FOMC Rate Decision (Lower Bound)	16-Mar	0.25%	0.25%
22:00	US	FOMC Rate Decision (Upper Bound)	16-Mar	0.5%	0.5%
22:30	US	Fed Chair Yellen Holds Press Conference After Rate Decision			
	China	China Premier Li Concludes NPC With Press Conference			
Thursday 17 Mar					
3:50	Japan	Trade Balance	Feb	-¥648.8B	¥395.1B
3:50	Japan	Exports, y-o-y	Feb	-12.9	-3
3:50	Japan	Imports, y-o-y	Feb	-18	-15.8
14:00	Eurozone	CPI, m-o-m	Feb	-1.4%	0.1%
14:00	Eurozone	CPI, y-o-y	Feb F	-0.2%	-0.2%
14:00	Eurozone	CPI Core, y-o-y	Feb F	0.7%	0.7%
16:00	UK	Bank of England Bank Rate	17-Mar	0.5%	0.5%
16:00	UK	BOE Asset Purchase Target	Mar	375B	375B
16:30	US	Initial Jobless Claims	12-Mar	259K	266K
18:00	US	JOLTS Job Openings	Jan	5607	5550
	Egypt	Deposit Rate	17-Mar	9.25%	--
	Egypt	Lending Rate	17-Mar	10.25%	--
Friday 18 Mar					
17:00	US	Fed's Dudley Gives Opening Remarks at Supervision Conference			
18:00	US	U. of Mich. Sentiment	Mar P	91.7	92.2
19:00	US	Fed's Rosengren Speaks on a Panel at Supervision Conference			
22:00	US	Fed's Bullard Speaks at Policy Forum in Frankfurt			

* UAE time

Source: Bloomberg

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