

The Week Ahead: Focus on ECB and CBRT communication as inflation strengthens

► Eurozone: ECB likely on hold with forward guidance in focus

The ECB is expected to remain on hold at its 14 April meeting, albeit with a hawkish tone. We and consensus expect the ECB to reiterate that it expects to “conclude net asset purchases” under the Asset Purchase Programme (APP) in 3Q and to start raising rates “sometime later”, as outlined in the minutes of the March meeting. Particular focus will be on President Christine Lagarde’s post-meeting comments for any indications of the timing of interest rate hikes. The market is currently pricing in a full 25 bps rate hike in September and 63.7 bps by end-2022. Our core view is that the ECB will likely end the asset purchases in July, followed by a rate hike at either the September or October meeting. Lagarde is also likely to stress the need for flexibility given the increased uncertainty surrounding the economic outlook amidst the Ukraine war. Incoming data shows that consumer and business confidence has weakened markedly in recent months, while price pressure continues to build amidst the energy price shock. Separately, President Emmanuel Macron received c.27.0% of the votes in the first round of the French presidential election held yesterday, with his main opponent Marine Le Pen securing c.24.0%. Macron and Le Pen will face off in the second-round election on 24 April. Polls taken after the first round of voting gave Macron a narrow advantage heading into the second round.

► Global: Important data week with US and UK CPI inflation

A number of key global data releases are due this week, including US and UK CPI inflation, US retail sales and UK labour. Consensus expects US CPI inflation to accelerate further to 8.4% y-o-y in March (February: 7.9%), driven by energy and food costs. Core inflation is also expected to strengthen to 6.4% y-o-y in March (February: 6.1%), with greater pass-through of higher wages, strong shelter prices and solid domestic demand. The headline retail sales figure for March is expected to reflect increased consumer spending on gasoline with the rise in pump prices, though discretionary spending is likely to be impacted by higher food and fuel prices. Strong inflation and retail sales prints for March will further strengthen market expectations for a 50 bps hike at the FOMC’s May meeting (page 2). Elsewhere, the UK’s CPI inflation data will be closely scrutinised given that the market is pricing in a cumulative c.94.4 bps worth of hikes at the May and June meetings. Consensus expects headline inflation to surge to 6.7% y-o-y in March (February: 6.2%), driven again by fuel prices.

► Turkey: CBRT to remain on hold despite elevated inflation

The CBRT is widely expected to keep its one-week repo rate steady at 14.0% at its 14 April meeting. The forecast on-hold stance is despite the sharp rise in headline inflation to 61.1% y-o-y in March, resulting in the real interest rate falling to -47.1%. Turkey currently has the deepest negative real interest rate globally. However, with politics taking precedence over economics, the CBRT is likely to keep its monetary policy steady at this point. We still see the need for higher interest rates on a fundamental basis and see the potential for rate hikes in 2H2022.

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I. Recent Events and Data Releases

A. MENA Economies

Egypt: Inflation strengthens in March, led by food prices

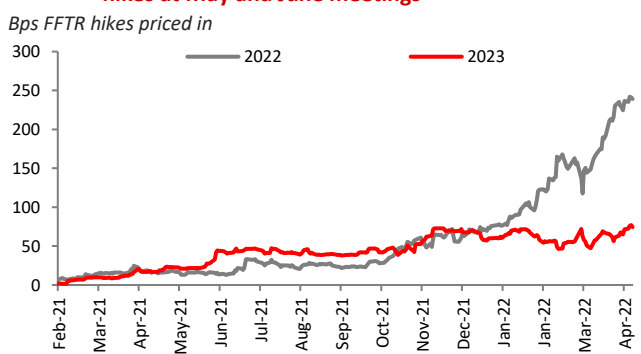
CPI inflation strengthened for the fourth consecutive month in March amidst rising food and fuel prices on the back of the Ukraine war. Headline inflation accelerated to 10.5% y-o-y in March (February: 8.8%), the highest print since June 2019. Increased seasonal demand ahead of Ramadan is also likely to have supported the rise in food prices. The pass-through of EGP devaluation on 21 March was limited in the March inflation print and will be greater in the coming months. For more details, please see our note – **Egypt Economic Update: Adjusts policy and turns to the IMF to deal with external crisis**, published on 31 March 2022. The surge in inflation in March also resulted in real benchmark rates turning negative, with the real deposit rate at -1.25% and the real lending rate at -0.25%. We expect headline inflation to accelerate further ahead and potentially peak in the range of 14.0-15.0% in 3Q2022, followed by some deceleration in 4Q. Against this inflation backdrop and rising interest rates in major developed economies (US and UK), we see the need for additional rate increases by the CBE at the upcoming meetings. We expect the CBE to increase its benchmark rate by an additional 200-300 bps by end-2022, with most of the increase likely to be frontloaded at May and June meetings.

CBE likely to frontload rate hikes with the surge in inflation

B. G4 Economies

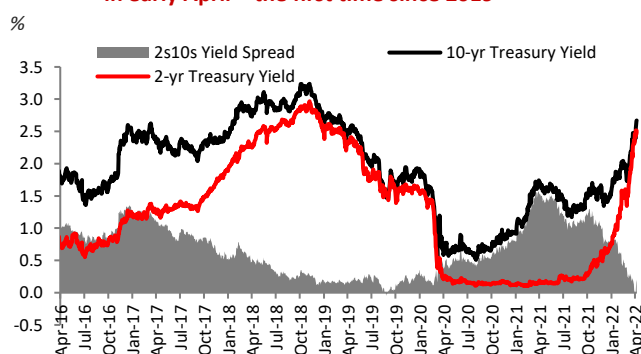
US: FOMC minutes outline balance sheet reduction plan

Fig. 1. US: Market currently pricing in possibility of 50 bps hikes at May and June meetings



Source: Bloomberg, ADCB Economic Research

Fig. 2. US: 2-year and 10-year Treasury yields inverted briefly in early April – the first time since 2019



Source: Bloomberg, ADCB Economic Research

The March FOMC meeting minutes confirmed the possibility of a faster pace of monetary policy tightening ahead, including 50 bps interest rate hikes and balance sheet size reduction. Fed officials stated that “Many participants noted that one or more 50 basis point increases in the target range could be appropriate at future meetings, particularly if inflation pressures remained elevated or intensified.” They also “judged that it would

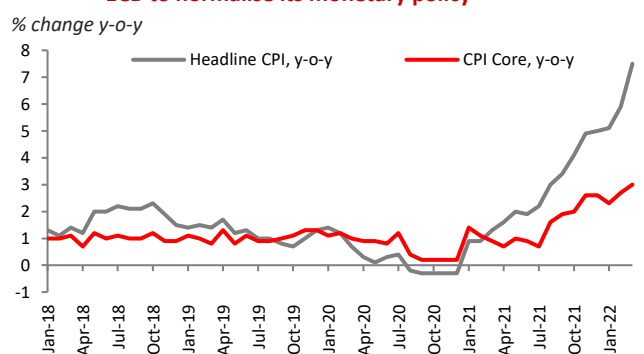
March FOMC minutes confirm likelihood of 50 bps hikes at upcoming meetings

be appropriate to move the stance of monetary policy toward a neutral posture expeditiously”, indicating the urgency to frontload the rate increases. We expect the Fed to raise the FFTR by 50 bps in May and June, followed by 25 bps increases in the subsequent meetings until end-2022. A number of Fed officials, including Lael Brainard and John Williams, have in recent weeks highlighted the need to move faster with rate hikes amidst rising upside risks to the inflation outlook. Against this backdrop, the market is currently pricing in the FFTR reaching 2.5% by end-2022.

FOMC officials also had a detailed discussion about balance sheet normalisation in March and indicated their inclination for a faster run-off than in the previous cycle. The minutes noted that participants agreed to run off the balance sheet at a maximum cap of USD95.0 billion per month, including USD60.0 billion in Treasuries and USD35.0 billion in Mortgage-Backed Securities (MBS). The FOMC underlined that the maximum cap of USD95.0 billion will be phased in over three months, or slightly longer if necessary. The announced peaking of balance sheet run-off in around three months’ time was a surprise to market participants, given that most of them were anticipating a quarterly increase in the pace. The planned monthly run-off will reduce the balance sheet size by c.USD580.0 billion in 2022 (assuming a May start) and USD950.0 billion each in 2023 and 2024. The committee did not provide an exact time for the balance sheet reduction programme to begin, though indicated that it could be as early as May. We and the consensus believe that the balance sheet run-off will likely be announced at the May meeting.

Balance sheet run-off capped at maximum of USD95.0 billion per month

Fig. 3. Eurozone: Surging headline inflation adds pressure on ECB to normalise its monetary policy



Source: Eurostat, ADCB Economic Research

Fig. 4. Eurozone: EUR weakness against USD adds upside risks to inflation backdrop



Source: Bloomberg, ADCB Economic Research

Eurozone: March ECB minutes confirm increased hawkishness

The minutes of the March ECB policy meeting showed that the Governing Council members are increasingly concerned about the inflation outlook. The minutes stated that "a large number of members held the view that the current high level of inflation and its persistence called for immediate further steps towards monetary policy normalisation". Some members preferred to set a "firm end date for APP net purchases during the summer", which in turn "could clear the way for a possible rate rise in the third quarter of this year". These members also argued that preserving optionality on asset purchases adds "risk of falling behind the curve". However, other members highlighted the need for a "wait-and-see approach" given the exceptionally high uncertainty surrounding the economic outlook due to the Russia-Ukraine war. The March meeting minutes also clearly showed the divergence in members' views, with hawks increasingly worried about the high-inflation backdrop and dovish counterparts highlighting downside risks to economic growth. Inflation data for March released after the ECB meeting surprised to

Some ECB members highlight risk of falling behind curve amidst surge in inflation

the upside, accelerating to 7.5% y-o-y from 5.9% in February. We believe that the ECB will likely retain its hawkish tone at the upcoming policy meetings, highlighting the need to tighten faster given the increasing risks of persistent inflation. However, we do not expect any policy adjustments by the ECB at this week's meeting. We see potential for a policy recalibration at the June policy meeting when the ECB will have new projections.

C. Emerging Market Economies

India: RBI prioritises inflation control over economic growth

The RBI kept its benchmark repo rate steady at 4.0% at its 8 April meeting, with a unanimous vote. However, in a surprise move, the MPC adopted a new monetary policy tool – the standing deposit facility rate (at 3.75%) – as a floor for its liquidity adjustment facility, instead of the reverse repurchase rate previously. The interest rate gap between the standing deposit facility rate and the benchmark repo rate is fixed at 25 bps, compared to the 65 bps difference between the repo and reverse repo rates. This policy move will likely make the reverse repo rate largely redundant, in our view. The forward guidance was tweaked to put the focus on “withdrawal of accommodation to ensure that inflation remains within the target going forward, while supporting growth”. Governor Shaktikantha Das, during a press conference, highlighted that the MPC now prioritises inflation control over economic growth – a notable shift in stance after three years. Moreover, Deputy Governor Michael Patra emphasised that “ultra-accommodation” is being removed and the process of moving towards positive real rates has started. We see this as an indication that the MPC will likely begin its rate-hiking cycle at an upcoming meeting, potentially as early as June. We see potential for 100-150 bps worth of hikes to the repo rate by March 2023.

MPC adopts standing deposit facility rate as a floor for its liquidity adjustment facility

On the macroeconomic side, the MPC upgraded its inflation projections to reflect the higher oil prices. Headline inflation is estimated at 5.7% for FY2023 (Apr.-Mar.), up from 4.5% previously. The new inflation forecast is based on our oil price assumption of USD100.0 p/b. The RBI emphasised that “a combination of high international commodity prices and elevated logistic disruptions could aggravate input costs across [the] agriculture, manufacturing and services sectors”. We see upside risks to the RBI's inflation forecast of 5.7% and expect it at c.6.0% for FY2023. The MPC revised down its real GDP growth estimate for FY2023 to 7.2% (7.8% earlier), factoring in the impact of elevated commodity prices, persistent supply-side constraints and weakening external demand.

Headline inflation forecast revised up to 5.7% for FY2023 from 4.5% previously

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Jan	1.1%	
	UAE	Abu Dhabi CPI, y-o-y	Jan	3.1%	
	UAE	CPI, y-o-y	Jan	2.5%	
	UAE	M3 Money Supply, y-o-y	Dec	3.5%	
	Oman	CPI, y-o-y	Mar	4.02%	
Monday, 11 April					
5:30	China	PPI, y-o-y	Mar	8.8%	8.1%
5:30	China	CPI, y-o-y	Mar	0.9%	1.4%
8:15	UAE	S&P Global Dubai PMI	Mar	54.1	
10:00	UK	Monthly GDP, m-o-m	Feb	0.8%	0.3%
10:00	UK	Index of Services, 3M/3M	Feb	1.0%	0.7%
10:00	UK	Trade Balance, GBP Million	Feb	−£16159.0M	−£7150.0M
17:30	US	Fed's Bostic Makes Opening Remarks at Fed Listens Event			
17:30	US	Fed's Bowman, Waller Give Remarks at Fed Listens Event			
20:40	US	Fed's Evans Discusses Economy and Monetary Policy			
	Japan	BOJ Governor Kuroda Speech at the Branch Managers Meeting			
Tuesday, 12 April					
10:00	UK	Average Weekly Earnings 3M/y-o-y	Feb	4.8%	5.4%
10:00	UK	ILO Unemployment Rate, 3M	Feb	3.9%	3.8%
16:00	India	Industrial Production, y-o-y	Feb	1.3%	2.7%
16:00	India	CPI, y-o-y	Mar	6.1%	6.4%
16:30	US	CPI, m-o-m	Mar	0.8%	1.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.5%	0.5%
16:30	US	CPI, y-o-y	Mar	7.9%	8.4%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	6.4%	6.6%
20:10	US	Fed's Brainard Takes Part in Wall Street Journal Live Event			
Wednesday, 13 April					
10:00	UK	CPI, y-o-y	Mar	6.2%	6.7%
10:00	UK	CPI Core, y-o-y	Mar	5.2%	5.3%
10:15	Japan	BOJ Kuroda Speech at the 97th Trust Companies Assembly			
16:30	US	PPI Final Demand, m-o-m	Mar	0.8%	1.1%
	China	Exports, y-o-y	Mar	20.9%	13.0%
	China	Imports, y-o-y	Mar	19.5%	8.4%
Thursday, 14 April					
10:00	Saudi Arabia	CPI, y-o-y	Mar	1.6%	
15:00	Turkey	One-Week Repo Rate	14-Apr	14.0%	14.0%
15:45	Eurozone	ECB Main Refinancing Rate	14-Apr	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	14-Apr	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	14-Apr	-0.5%	-0.5%
16:30	Eurozone	ECB President Christine Lagarde Holds Press Conference			
16:30	US	Retail Sales Advance, m-o-m	Mar	0.3%	0.6%
16:30	US	Retail Sales Control Group	Mar	-1.2%	-0.1%
16:30	US	Import Price Index, m-o-m	Mar	1.4%	2.3%
16:30	US	Initial Jobless Claims	9-Apr	166K	173K
16:30	US	Continuing Claims	2-Apr	1523K	1500K
18:00	US	U. of Mich. Sentiment	Apr P	59.4	59.0
23:50	US	Fed's Mester Discusses Workforce Development			
Friday, 15 April					
2:00	US	Fed's Harker Discusses Economy and Job Market			
16:30	US	Empire Manufacturing	Apr	-11.8	1.0
17:15	US	Industrial Production, m-o-m	Mar	0.5%	0.4%

* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 4 April						
3:50	Japan	Monetary Base, y-o-y	Mar	7.6%		7.9%
9:00	India	S&P Global India PMI Mfg	Mar	54.9		54.0
11:00	Turkey	CPI, y-o-y	Mar	54.4%	61.5%	61.1%
11:00	Turkey	CPI Core Index, y-o-y	Mar	44.1%	47.1%	48.4%
18:00	US	Factory Orders	Feb	1.5%	-0.6%	-0.5%
18:00	US	Durable Goods Orders	Feb F	-2.2%	-2.2%	-2.1%
18:00	US	Cap Goods Shipments, Non-defence, ex-Air	Feb F	0.5%		0.3%
Tuesday, 5 April						
4:30	Japan	Jibun Bank Japan PMI Services	Mar F	48.7		49.4
4:30	Japan	Jibun Bank Japan PMI Composite	Mar F	49.3		50.3
8:15	UAE	S&P Global United Arab Emirates PMI	Mar	54.8	54.8	55.6
8:15	Egypt	S&P Global Egypt PMI	Mar	48.1		46.5
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Mar	56.2		56.8
12:00	Eurozone	S&P Global Eurozone Composite PMI	Mar F	54.5	54.5	54.9
12:30	UK	S&P Global/CIPS UK Composite PMI	Mar F	59.7	59.7	60.9
13:00	Qatar	Qatar Financial Center PMI	Mar	61.4		61.8
16:30	US	Trade Balance	Feb	-\$89.2B	-\$88.5B	-\$89.2B
17:45	US	S&P Global US Services PMI	Mar F	58.9	58.9	58.0
18:00	US	ISM Services Index	Mar	56.5	58.5	58.3
Wednesday, 6 April						
5:45	China	Caixin China PMI Composite	Mar	50.1		43.9
5:45	China	Caixin China PMI Services	Mar	50.2	49.7	42
9:00	India	S&P Global India PMI Composite	Mar	53.5		54.3
9:00	India	S&P Global India PMI Services	Mar	51.8		53.6
12:30	UK	S&P Global/CIPS UK Construction PMI	Mar	59.1	58.0	59.1
Thursday, 7 April						
9:00	Japan	Leading Index CI	Feb P	102.5	100.8	100.9
12:00	China	Foreign Reserves	Mar	\$3213.8B	\$3199.0B	\$3188.0B
13:00	Eurozone	Retail Sales, y-o-y	Feb	8.4%	4.9%	5.0%
16:30	US	Initial Jobless Claims	2-Apr	171K	200K	166K
16:30	US	Continuing Claims	26-Mar	1506K	1302K	1523K
Friday, 8 April						
3:50	Japan	BoP Current Account Balance	Feb	-¥1196.4B	¥1450.0B	¥1648.3B
8:30	India	RBI Repurchase Rate	8-Apr	4.0%	4.0%	4.0%
18:00	US	Wholesale Inventories, m-o-m	Feb F	2.1%	2.1%	2.5%

* UAE time

Source: Bloomberg, ADCB Economic Research

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