

## The Week Ahead: Inflation shock forcing central banks to raise rates rapidly

### ► Inflationary pressures broadening with rising input costs

Inflation data continued to surprise to the upside in both developed and emerging market economies in March, with the supply shock from the Ukraine war boosting food, fuel and metals prices. The US, UK and Eurozone CPI inflation hit multi-decade highs in March, whilst prices pressures in India, Egypt and other major emerging economies also intensified swiftly. The US CPI inflation rose to 8.5% y-o-y (February: 7.9%; consensus: 8.4%), reflecting the sharp rise in energy and food prices. Core inflation also strengthened to 6.5% y-o-y (February: 6.4%), but came in lower than the consensus expectation of 6.6%, with used car prices dropping sequentially. However, other major core CPI components, including shelter and services prices, showed strong underlying momentum. Consensus expects both headline and core inflation to have peaked in March with the favourable high base set to kick in from April. Despite the expected deceleration in inflation, the underlying price pressures are remaining strong, supporting interest rate hikes by the Fed. Food and energy prices are likely to persist longer given the uncertainty surrounding the Ukraine war. Moreover, the supply chain issues exacerbated by the latest lockdowns in China add upside risks to goods inflation in the coming months. Meanwhile, the UK's CPI inflation accelerated to 7.0% y-o-y in March (February: 6.2%), whilst India's inflation rose to 7.0% y-o-y in the same month (February: 6.1%).

### ► ECB reiterates that the QE programme will end in 3Q2022

Amidst a worsening inflation outlook, a number of central banks, including the Bank of Canada, Reserve Bank of New Zealand, Bank of Korea and Monetary Authority of Singapore, tightened their monetary policy settings last week. The communication from the above-mentioned central banks was more hawkish than market expectations, highlighting the need to tighten monetary policy further to rein in inflation. The Fed and the BoE communication also reinforced the need to lift interest rates further in the coming meetings. However, some other central banks, including the ECB and PBOC, are increasingly concerned about slowing economic momentum and weakening consumer and business confidence. The ECB last week kept its monetary policy steady and reiterated that net asset purchases will end in the third quarter and rate hikes will follow "some time after". The Governing Council (GC) did not provide any hints on the precise end-date of the asset purchase programme (APP). We continue to believe that the ECB will end APP in July, followed by a rate hike at either the September or October meetings. Amidst increased economic uncertainty due to the war in Ukraine, ECB President Christine Lagarde continued to stress the need for optionality, gradualism and flexibility. She warned that the Ukraine war is weighing heavily on both business and consumer confidence, and that inflation pressures have broadened and intensified. The overall message is that the GC is not in a hurry to normalise its monetary policy and that the policy adjustments will be gradual.

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#### Contents

Economic Calendar 3

► **PBOC cuts RRR to infuse liquidity into the system**

Meanwhile, China's PBoC on Friday announced a 25 bps cut in the reserve requirement ratio (RRR) for most banks, with a greater 50 bps reduction enacted for select banks that operate only in a single province, cities or rural areas. The RRR cuts will be effective from 25 April and will infuse c.CNY530.0 billion (USD83.0 billion) of liquidity into the economy. Consensus had expected a greater magnitude of liquidity infusion than that announced. The PBoC highlighted that it will continue to implement prudent monetary policy whilst maintaining "reasonably ample" market liquidity to bolster credit growth. We believe that the RRR cuts will provide some support to counter the economic headwinds caused by the COVID lockdowns, but will not be sufficient to fully offset the impact. China's March activity data released earlier today presented a mixed picture, with a contraction in retail sales growth (-3.5% y-o-y) and an acceleration in industrial production growth (+5.0 y-o-y). Real GDP growth for 1Q decelerated sequentially to 1.3% q-o-q, though on an annual basis it accelerated to 4.8% (4Q2021: 4.2%). Looking ahead, we expect a further weakening in economic momentum in 2Q2022 with the ongoing restrictions having a greater impact on household and industrial activity.

► **Turkey: CBRT on hold with some minor tweak to language**

The CBRT kept its policy rate unchanged at 14.0% at its 14 April policy meeting, in line with our and consensus expectations. The short statement released after the April meeting was largely the same as in March, except for one addition. The new sentence highlighted that "the committee decided to strengthen the macroprudential policy set" in the context of supporting credit growth including long-term investment loans and targeted usage of accessed funds to ensure financial stability. However, the MPC did not provide any additional information on the macroprudential measures, but we believe these could be related to selective support for key industries aimed at achieving current account surpluses. On the economy front, the MPC reiterated that the rise in inflation has been largely driven by temporary factors, including supply constraints and rising commodity prices. The CBRT also underlined that the "price formations" are not supported by economic fundamentals. We expect inflation to accelerate further in the coming months from the current 61.1% y-o-y in March, resulting in a deepening of negative real interest rates. We continue to believe that the Turkish economy needs higher interest rates on a fundamental basis and still see the potential for rate hikes in 2H2022 with the further pickup in inflation.

► **Europe: UK retail sales and French presidential elections due**

Looking ahead, the holiday-shortened week will be a relatively quiet one, with the UK's March retail sales data release (due 22 April) and the second round of French presidential elections on 24 April the key events. Ahead of the final round, Emanuel Macron and Marine Le Pen will take part in a TV debate on 20 April that could play a critical role in shaping the outcome of the election. Latest polling data is indicating that Macron is leading Le Pen, albeit with a smaller margin than in 2017. However, a Le Pen win cannot be completely ruled out given the close contest. If the Eurosceptic Le Pen wins the election, the European markets could witness high volatility. However, implementing her economic agenda would depend on gaining a majority in the parliamentary elections due on 12 and 19 June 2022.

## I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	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	4.0%	
	Kuwait	CPI, y-o-y	Mar	4.4%	
<b>Monday, 18 April</b>					
6:00	China	GDP, y-o-y	1Q	4.0%	4.2%
6:00	China	Industrial Production, y-o-y	Mar	4.3%	4.0%
6:00	China	Retail Sales, y-o-y	Mar	1.7%	-3.0%
10:30	India	Wholesale Prices, y-o-y	Mar	13.1%	13.3%
<b>Tuesday, 19 April</b>					
0:00	US	Fed's Bullard Discusses the U.S. Economy and Monetary Policy			
8:30	Japan	Industrial Production, m-o-m	Feb F	0.1%	
16:30	US	Building Permits	Mar	1865K	1829K
16:30	US	Housing Starts	Mar	1769K	1741K
20:05	US	Fed's Evans Speaks to Economic Club of New York			
	Egypt	Trade Balance	Feb	-2441.0M	
<b>Wednesday, 20 April</b>					
3:50	Japan	Trade Balance	Mar	-¥669.7B	-¥70.0B
5:15	China	1-Year Loan Prime Rate	20-Apr	3.7%	3.6%
5:15	China	5-Year Loan Prime Rate	20-Apr	4.60%	4.55%
13:00	Eurozone	Industrial Production SA, m-o-m	Feb	0.0%	0.7%
18:00	US	Existing Home Sales	Mar	6.02M	5.8M
18:30	US	Fed's Daly Discusses the Outlook			
19:30	US	Fed's Evans Discusses the Economic and Policy Outlook			
21:00	US	Fed's Bostic Discusses Equity in Urban Development			
<b>Thursday, 21 April</b>					
13:00	Eurozone	CPI, y-o-y	Mar F	7.5%	7.5%
16:30	US	Philadelphia Fed Business Outlook	Apr	27.4	20.0
16:30	US	Initial Jobless Claims	16-Apr	185K	180K
16:30	US	Continuing Claims	9-Apr	1475K	1458K
17:00	UK	BOE's Catherine Mann speaks			
18:00	US	Leading Index	Mar	0.3%	0.3%
18:00	Eurozone	Consumer Confidence	Apr A	-18.7	-20.0
20:30	UK	Bank of England Governor Andrew Bailey speaks			
21:00	US	Powell and Lagarde Take Part in IMF Panel on Global Economy			
<b>Friday, 22 April</b>					
3:30	Japan	Natl CPI, y-o-y	Mar	0.9%	1.2%
3:30	Japan	Natl CPI, ex-Fresh Food, y-o-y	Mar	0.6%	0.8%
4:30	Japan	Jibun Bank Japan PMI Mfg	Apr P	54.1	
10:00	UK	Retail Sales, inc-Auto Fuel, m-o-m	Mar	-0.3%	-0.3%
10:00	UK	Retail Sales, inc-Auto Fuel, y-o-y	Mar	7.0%	2.8%
12:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Apr P	56.5	54.7
12:00	Eurozone	S&P Global Eurozone Services PMI	Apr P	55.6	55.0
12:30	UK	S&P Global/CIPS UK Manufacturing PMI	Apr P	55.2	54
12:30	UK	S&P Global/CIPS UK Services PMI	Apr P	62.6	60.0
15:30	India	RBI Policy Minutes			
17:00	Eurozone	ECB's Lagarde Speaks			
17:45	US	S&P Global US Manufacturing PMI	Apr P	58.8	58.0
17:45	US	S&P Global US Services PMI	Apr P	58.0	58.1

\* UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>Monday, 11 April</b>						
5:30	China	PPI, y-o-y	Mar	8.8%	8.1%	8.3%
5:30	China	CPI, y-o-y	Mar	0.9%	1.4%	1.5%
8:15	UAE	S&P Global Dubai PMI	Mar	54.1		55.5
10:00	UK	Monthly GDP, m-o-m	Feb	0.8%	0.2%	0.1%
10:00	UK	Industrial Production, m-o-m	Feb	0.7%	0.3%	-0.6%
10:00	UK	Index of Services, 3M/3M	Feb	1.4%	0.7%	0.8%
10:00	UK	Trade Balance, GBP Million	Feb	£12838.0M	£7150.0M	£9261.0M
11:00	Turkey	Current Account Balance	Feb	-7.0B	-5.3B	-5.2B
12:00	China	Money Supply M2, y-o-y	Mar	9.2%	9.2%	9.7%
<b>Tuesday, 12 April</b>						
10:00	UK	Claimant Count Rate	Mar	4.4%		4.3%
10:00	UK	Jobless Claims Change	Mar	-58.0K		-46.9K
10:00	UK	Average Weekly Earnings, 3M/y-o-y	Feb	4.8%	5.4%	5.4%
10:00	UK	ILO Unemployment Rate, 3M	Feb	3.9%	3.8%	3.8%
16:00	India	Industrial Production, y-o-y	Feb	1.5%	2.7%	1.7%
16:00	India	CPI, y-o-y	Mar	6.1%	6.4%	7.0%
16:30	US	CPI, m-o-m	Mar	0.8%	1.2%	1.2%
16:30	US	CPI, ex-Food and Energy, m-o-m	Mar	0.5%	0.5%	0.3%
16:30	US	CPI, y-o-y	Mar	7.9%	8.4%	8.5%
16:30	US	CPI, ex-Food and Energy, y-o-y	Mar	6.4%	6.6%	6.5%
<b>Wednesday, 13 April</b>						
3:50	Japan	Core Machine Orders, m-o-m	Feb	-2.0%	-1.5%	-9.8%
8:42	China	Exports, y-o-y	Mar	6.2%	12.8%	14.7%
8:42	China	Imports, y-o-y	Mar	10.4%	8.4%	-0.1%
10:00	UK	CPI, y-o-y	Mar	6.2%	6.7%	7.0%
10:00	UK	CPI Core, y-o-y	Mar	5.2%	5.3%	5.7%
10:50	India	Exports, y-o-y	Mar	25.1%		19.8%
16:30	US	PPI Final Demand, m-o-m	Mar	0.9%	1.1%	1.4%
<b>Thursday, 14 April</b>						
10:00	Saudi Arabia	CPI, y-o-y	Mar	1.6%		2.0%
15:00	Turkey	One-Week Repo Rate	14-Apr	14.0%	14.0%	14.0%
15:45	Eurozone	ECB Main Refinancing Rate	14-Apr	0.0%	0.0%	0.0%
15:45	Eurozone	ECB Marginal Lending Facility	14-Apr	0.25%	0.25%	0.25%
15:45	Eurozone	ECB Deposit Facility Rate	14-Apr	-0.5%	-0.5%	-0.5%
16:30	US	Retail Sales Advance, m-o-m	Mar	0.8%	0.6%	0.5%
16:30	US	Retail Sales Control Group	Mar	-0.9%	0.1%	-0.1%
16:30	US	Import Price Index, m-o-m	Mar	1.6%	2.3%	2.6%
16:30	US	Initial Jobless Claims	9-Apr	166K	170K	185K
16:30	US	Continuing Claims	2-Apr	1523K	1500K	1475K
18:00	US	U. of Mich. Sentiment	Apr P	59.4	59.0	65.7
<b>Friday, 15 April</b>						
5:20	China	1-Yr Medium-Term Lending Facility Rate	15-Apr	2.85%	2.75%	2.85%
16:30	US	Empire Manufacturing	Apr	-11.8	1.0	24.6
17:15	US	Industrial Production, m-o-m	Mar	0.9%	0.4%	0.9%

\* UAE time

Source: Bloomberg, ADCB Economic Research

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