

The Week Ahead: Geopolitical tensions and inflation concerns dominate

► **Global: Russia-Ukraine tensions pushing up oil prices**

Geopolitical concerns will dominate market sentiment this week amidst rising Russia-Ukraine tensions. The US administration recently warned that a Russian attack on Ukraine looks imminent and encouraged all Americans to leave as soon as possible. The US and EU warned of 'unprecedented sanctions' against Russia if an invasion takes place. Diplomatic talks between Russia and Western countries are still underway, with German Chancellor Olaf Scholz expected to meet Russian President Vladimir Putin on Tuesday. However, reaching a meaningful resolution could be challenging given the widening rift and limited trust between the parties. The supply disruption fears have resulted in the oil price strengthening further, with Brent currently trading at a seven-year high of USD94.3 p/b. If tensions escalate, oil prices could rise further to above USD100.0 p/b, leading to an additional build-up in global price pressures. This is at a time when inflation is accelerating to multi-decade highs and central banks are looking to tighten monetary policy with greater urgency to rein in price pressures.

► **US: FOMC minutes may shed more light on interest rate outlook**

The January CPI inflation report surprised to the upside, pointing to sustained and broadening price pressures (page 3). The widening inflation drivers, tight labour market conditions and increasing wage growth indicate that the Fed is behind the curve and needs to raise interest rates at a faster pace than outlined so far. The market currently sees a 56.0% probability of a 50 bps rate hike at the March meeting and a 44.0% chance of a 25 bps increase. However, in recent weeks, most Fed members (ex-James Bullard) have ruled out the possibility of a 50 bps increase in March. We believe that the Fed is more likely to opt for two consecutive 25 bps hikes, though a single 50 bps hike cannot be ruled out. January FOMC meeting minutes due this week will be closely scrutinised to ascertain the likelihood of the latter. Moreover, any discussions around quantitative tightening will also be important to gauge the timing and magnitude of balance sheet reduction. Separately, a number of key data releases are due this week, including US retail sales (Jan.) and UK inflation, retail sales (both Jan.) and labour market conditions (Jan./Dec.), and the first estimate of the Eurozone and Japan's 4Q GDP.

► **EM: CBRT likely on hold; India and China inflation due**

We and consensus expect the CBRT to keep its benchmark one-week repo rate steady at 14.0% at its 17 February policy meeting. Headline inflation accelerated to a 19-year high of 48.7% y-o-y in January (Dec. 36.1%). We expect inflationary pressures to remain elevated and unanchored throughout 2022, with the feed-through of weak TRY continuing. Among major emerging markets, Turkey currently has the lowest real benchmark rate, at -34.7%, and we expect it to remain around this level, given that the CBRT is not inclined to raise rates to curb inflation. Elsewhere, China and India are due to release their January inflation data this week. The CPI in India is forecast to rise to 6.0% y-o-y (Dec. 5.6%), reflecting higher commodity prices.

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I. Recent Events and Data Releases

A. MENA Economies

Saudi Arabia: 4.0% of Aramco transferred from state to PIF

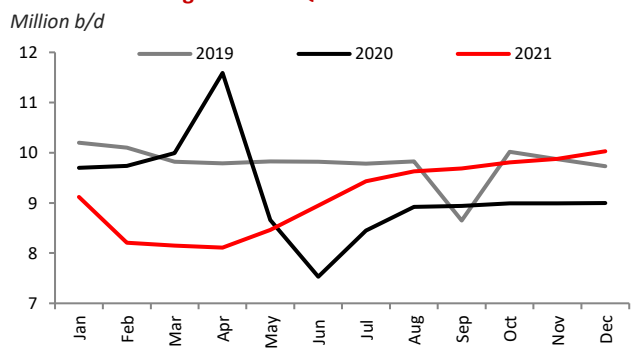
Crown Prince Mohammed bin Salman announced the transfer of 4.0% of Aramco shares to the Public Investment Fund (PIF), Saudi's sovereign wealth fund (SWF). The value of the shares is c.USD80.0 billion. The government remains the largest shareholder in Aramco following the transfer, with just over 94.0% of the company's shares. Aramco highlighted that this is a private transfer between the state and the PIF and does not affect the company's operations, dividend strategy or governance framework. We see a number of drivers behind this move. Firstly, it will help boost the PIF's assets under management, which are targeted to grow to c.SAR4.0 trillion (USD1.07 trillion) by the end of 2025. Secondly, it will help to support fundraising for the transformation programme (Vision 2030), which is being driven by the PIF. The PIF's funding requirements remain significant given the breadth of the investment drive. The fundraising could include collateralised lower-cost loans and tapping the bond market, whilst also benefiting from Aramco dividends. The PIF received its first ratings earlier in February and is expected to tap the international debt capital market for the first time. The official statement noted that the transfer will "bolster the fund's strong financial position and high credit ratings in the medium term," and that it "relies on the value of its assets and the returns on its assets under management for its funding strategy". The transfer could also potentially support a further sale of Aramco shares to strategic investors, after c.1.7% was sold in a part-IPO in 2019. The currently higher oil price will be positive for an additional asset sale, while the government will continue to benefit from higher oil revenues and a fiscal surplus. The overall impact of the transfer on government revenue will be contained.

Aramco share transfer will help to finance PIF's spending and investment objectives

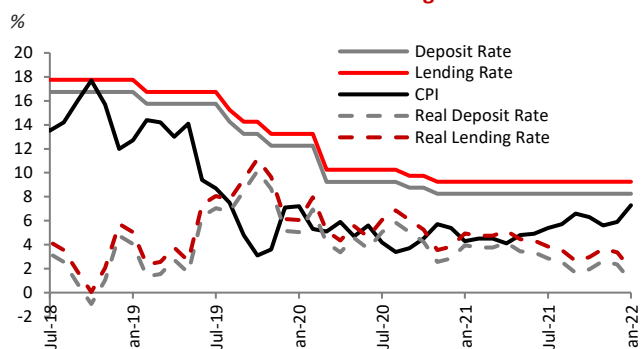
Saudi Arabia: Real GDP growth remains strong in 4Q2021 at 6.8% y-o-y

Real GDP expanded by a robust 6.8% y-o-y in 4Q2021, according to flash estimates released last week. This is down modestly from the 7.0% y-o-y 3Q expansion, which was the highest level since 2012. The oil sector grew by 10.8% in real terms, with the non-oil sector expanding by 5.0%. The oil sector growth reflects higher production in line with OPEC+ targets; oil price changes are not included in real data. The slight moderation in headline GDP growth from 3Q was expected, given some normalisation in non-oil sector growth. Non-oil GDP growth in 2Q and 3Q2021 reflected the low base from 2020 due to COVID-related lockdowns. Moreover, PMI data showed some impact from the Omicron variant towards the end of 2021 and in January 2022, though the economy has remained open. A breakdown of non-oil activity is not provided in the flash estimates and there also tend to be revisions in the final print. The 4Q data bring 2021 real GDP growth to 3.3%, from a contraction of 4.1% in 2020. We forecast real GDP growth of 6.0% in 2022 as Saudi oil production rises further. We see non-oil GDP growth being underpinned by the PIF's investment programme gathering pace.

Saudi economy grows by 3.3% in 2021 after contraction of 4.1% in 2020

Fig. 1. Saudi Arabia: Rise in crude production behind strong oil GDP growth in 4Q2021

Source: Bloomberg, ADCB Economic Research

Fig. 2. Egypt: Real deposit rate falls below 1.0% for first time since November 2018 amid rising inflation

Source: CBE, CAPMAS, ADCB Economic Research

Egypt: Headline inflation accelerates to two-year high in January

CPI inflation strengthened to 7.3% y-o-y in January (December: 5.9%), its highest reading since September 2019. The acceleration in inflation was due to rising food prices as well as the low base in 2020. Food prices, which tend to be more volatile, saw a sharp increase (12.4%) but non-food inflation remained relatively contained, indicating still soft underlying price pressure. Despite the rise, the headline reading was still within the central bank's inflation target of 7.0% \pm 2pp, though this is the first time in over two and a half years it has crossed the mid-point. Steady interest rates at a time of rising inflation were also behind a lower real deposit rate of 0.95%, its lowest point since November 2018. We see a possibility of the real deposit rate falling further in the coming months as low base effects are likely to continue to push up headline inflation. The expected fall in real rates, especially at a time of increasing sell-off pressure on EM assets, will put additional pressure on the CBE to consider interest rate hikes, potentially from 2H2022. Given Egypt's heavy reliance on capital for its funding requirements, we see a possibility of c.100-150 bps of interest rate hikes by the CBE in 2H. In our view, any aggressive monetary policy tightening by the Fed at the March and June meetings could even bring forward the possibility that the CBE hiking interest rates as soon as in 2Q2022.

We forecast c.100-150 bps of rate hikes in 2022, aimed at supporting capital inflows into EGP assets

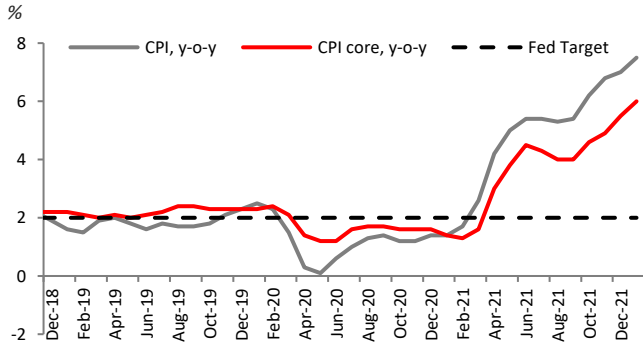
B. G4 Economies

US: Sharp rise in inflation raises prospect of 50 bps hike in March

CPI inflation again surprised to the upside in January, accelerating to 7.5% y-o-y (consensus: 7.2%), from 7.0% in December. Core inflation also strengthened, to 6.0% y-o-y (December: 5.5%), the highest reading since 1982. There was broad-based strengthening across major sub-components, including core goods (11.7% y-o-y) and services (4.1%). Corporates passing the rising wage costs through to consumers was likely behind the broad-based acceleration in price pressure. Tight labour market conditions and strong demand for labour point to the potential for further strengthening in wage growth. The persistent nature of wage inflation, strong shelter prices and the expected rise in demand for travel and other recreational activities ahead are likely to be the key drivers of inflation in 2022, even if goods inflation softens on easing supply-chain-related constraints. Against this backdrop, we believe that the Fed is well behind the curve and needs to hike rates in order to curb further increases in inflation expectations.

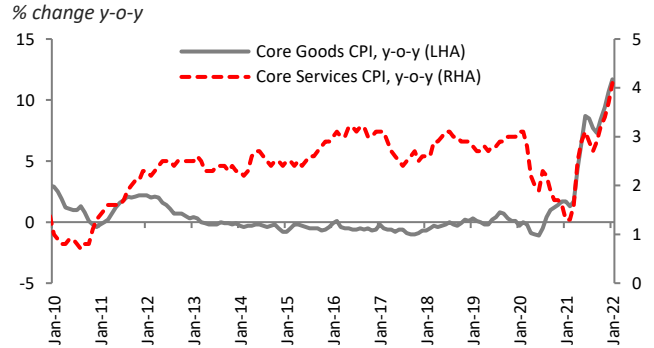
Market currently pricing in 40 bps rate hike at March meeting

Fig. 3. US: Both headline and core inflation accelerate sharply in January, beating expectations



Source: Bureau of Labor statistics, Federal Reserve, ADCB Economic Research

Fig. 4. US: Broad-based strengthening in price pressure across core goods and services

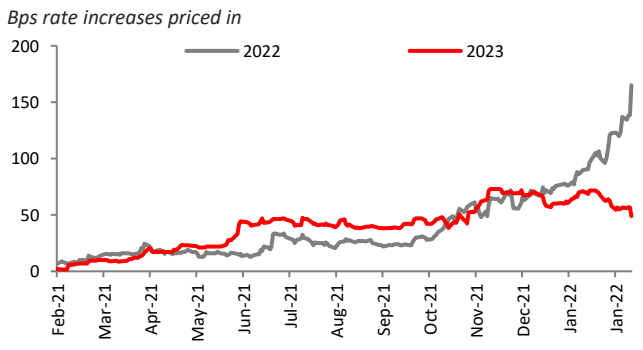


Source: Bureau of Labor statistics, ADCB Economic Research

Our core scenario at this point is for a 25 bps rate hike in March, given that a number of Fed members recently ruled out the possibility of a 50 bps hike. We do not anticipate a majority for a 50 bps at this point though this could change as there is still time left ahead of the March meeting. FOMC members will also have a chance to gauge the February inflation report (due 10 March) ahead of the 16 March FOMC meeting. Our current assumption is that headline inflation will peak in 2Q, followed by some moderation in 2H, allowing the Fed to pause at a couple of meetings should economic growth slow down. We forecast five 25 bps hikes in 2022, with one each in March, May, June, September and December, though we also highlight the risk for an additional increase depending on the inflation backdrop. We also expect three additional 25 bps rate hikes in 2023, which would take the upper bound FFTR to 2.25%. At this point, we see the Fed’s terminal rate in a range of 2.25-2.5%. Moreover, the pace of balance sheet run-off will also be important in tightening monetary conditions. The Fed members are yet to provide specific guidance regarding the exact timing or the magnitude of monthly balance sheet reduction, though there could be further progress at the March meeting. An announcement on balance sheet reduction looks likely either at May or June meetings.

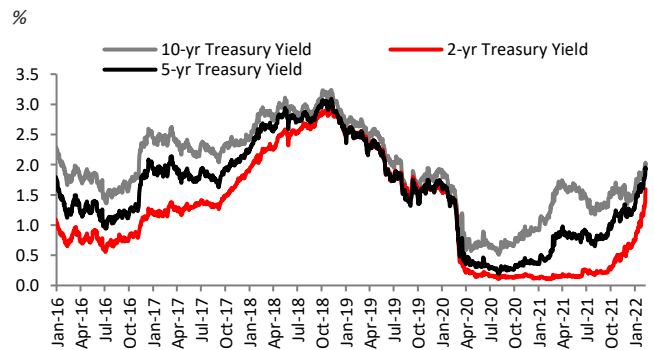
We continue to see five 25 bps rate hikes in 2022, with risks tilting in favour of additional one

Fig. 5. US: Market currently pricing in 165 bps of rate hikes by end-2022, equivalent to six and half 25 bps increases



Source: Bloomberg, ADCB Economic Research

Fig. 6. US: Bond yields rise sharply after upside surprise in inflation, with two-year touching 1.6% mark



Source: Bloomberg, ADCB Economic Research

UK: Real GDP growth steady at 1.0% q-o-q in 4Q2021

The first estimate of 4Q real GDP growth was steady at 1.0% q-o-q (as in 3Q), though on a y-o-y basis, it decelerated to 6.5% from 7.0% in 3Q. The quarterly GDP growth was driven by strong contributions from net exports (+1.6pp), household consumption (+0.7pp) and government spending (+0.5pp). The strong household consumption growth was despite the impact of Omicron during the quarter. However, investment activity contributed negatively (-1.8pp) to the headline growth alongside inventories. Looking ahead, a number of headwinds to economic growth are building up, including rising inflation, which could affect household spending. The persistent labour shortages and expected higher interest rates are also likely to affect corporate investments. Despite the headwinds to the growth outlook, the elevated inflation backdrop is likely to lead the BoE to continue with its hiking cycle in the coming months. We expect three additional 25 bps hikes by the MPC in 2022, with one each in March, May and June.

Headwinds to economic growth are building up

C. Emerging Market Economies

India: RBI on hold with dovish communication

The RBI kept its policy rates steady (reverse repo rate at 3.35% and repo rate at 4.0%) at its 10 February meeting. This was against the consensus expectation for a 20 bps reverse repo rate hike. The tone of the meeting was dovish on a number of fronts, including Governor Shaktikanta Das's post-meeting conference and the central bank's economic projections. The forward guidance reiterated that the MPC will continue with its "accommodative stance as long as necessary to revive and sustain growth on a durable basis". This steady stance came at a time when global central banks recently turned more hawkish amid rising inflation concerns. Governor Das also highlighted that any "policy actions will be calibrated and well-telegraphed", potentially indicating that they are not in a rush to normalise monetary policy immediately, including narrowing the interest rate corridor to 25 bps. The central banks' economic projections were also softer than consensus expected, with the MPC projecting FY2023 (Apr.-Mar.) real GDP growth at 7.8% and inflation at 4.5%. We regard the FY2023 inflation forecast as conservative and see upside risks, given elevated global commodity prices, including crude oil. However, we expect headline inflation to still be within the RBI's target of 4.0% (± 2 pp). Against this backdrop, we expect the RBI to keep its benchmark interest rates (both repo and reverse repo rates) unchanged, at least until end-1H2022, followed by a gradual monetary policy normalisation.

Governor Das highlights that any "policy actions will be calibrated and well-telegraphed"

II. Economic Calendar

Fig. 7. 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	M3 Money Supply, y-o-y	Dec	3.5%	
	Oman	CPI, y-o-y	Jan	3.8%	
Monday, 14 February					
10:30	India	Wholesale Prices, y-o-y	Jan	13.6%	12.7%
16:00	India	CPI, y-o-y	Jan	5.6%	6.0%
20:00	Eurozone	ECB's Lagarde Speaks			
Tuesday, 15 February					
3:50	Japan	GDP Annualized SA, q-o-q	4Q P	-3.6%	6.0%
3:50	Japan	GDP SA, q-o-q	4Q P	-0.9%	1.5%
10:00	Saudi Arabia	CPI, y-o-y	Jan	1.2%	
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Dec	4.2%	3.8%
11:00	UK	ILO Unemployment Rate, 3M	Dec	4.1%	4.1%
14:00	Eurozone	Trade Balance SA	Dec	-1.3B	-4.7B
14:00	Eurozone	GDP SA, q-o-q	4Q P	0.3%	0.3%
17:30	US	Empire Manufacturing	Feb	-0.7	11.0
17:30	US	PPI Final Demand, m-o-m	Jan	0.2%	0.5%
Wednesday, 16 February					
5:30	China	PPI, y-o-y	Jan	10.3%	9.5%
5:30	China	CPI, y-o-y	Jan	1.5%	1.0%
8:30	Japan	Tertiary Industry Index, m-o-m	Dec	0.4%	0.3%
11:00	UK	CPI, y-o-y	Jan	5.4%	5.4%
11:00	UK	CPI Core, y-o-y	Jan	4.2%	4.3%
14:00	Eurozone	Industrial Production SA, m-o-m	Dec	2.3%	0.3%
17:30	US	Retail Sales Advance, m-o-m	Jan	-1.9%	2.0%
17:30	US	Retail Sales Control Group	Jan	-3.1%	1.4%
17:30	US	Import Price Index, m-o-m	Jan	-0.2%	1.3%
18:15	US	Industrial Production, m-o-m	Jan	-0.1%	0.4%
23:00	US	FOMC Meeting Minutes	26-Jan		
Thursday, 17 February					
3:50	Japan	Exports, y-o-y	Jan	17.5%	17.0%
3:50	Japan	Core Machine Orders, m-o-m	Dec	3.4%	-2.0%
15:00	Turkey	One-Week Repo Rate	17-Feb	14.0%	14.0%
17:30	US	Building Permits	Jan	1885K	1750K
17:30	US	Housing Starts	Jan	1702K	1700K
17:30	US	Initial Jobless Claims	12-Feb	223K	220K
17:30	US	Continuing Claims	5-Feb	1621K	
17:30	US	Philadelphia Fed Business Outlook	Feb	23.2	20.0
18:00	Eurozone	ECB's Lane Speaks			
20:00	US	Fed's Bullard Discusses the Economy and Policy Outlook			
Friday, 18 February					
2:00	US	Fed's Mester Speaks on Economic and Policy Outlook			
3:30	Japan	Natl CPI, y-o-y	Jan	0.8%	0.6%
11:00	UK	Retail Sales, inc-Auto Fuel, m-o-m	Jan	-3.7%	1.2%
11:00	UK	Retail Sales, inc-Auto Fuel, y-o-y	Jan	-0.9%	9.3
19:00	US	Existing Home Sales	Jan	6.18M	6.1M
19:00	US	Leading Index	Jan	0.8%	0.2%
19:00	Eurozone	Consumer Confidence	Feb A	-8.5	-8.0
19:45	US	Fed's Evans and Waller takes Part in Policy Panel			
20:00	US	Fed's Williams Discusses Economic Outlook			

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Economies						
	Egypt	Net Reserves	Jan	40.9B		41.0B
	China	New Yuan Loans CNY	Jan	1131.8B	3700.0B	3980.0B
	China	Money Supply M2, y-o-y	Jan	9.0%	9.2%	9.8%
Monday, 7 February						
5:45	China	Caixin China PMI Services	Jan	53.1	50.5	51.4
9:00	Japan	Leading Index CI	Dec P	103.9	103.7	104.3
9:00	Japan	Coincident Index	Dec P	92.8	92.6	92.6
12:40	China	Foreign Reserves	Jan	\$3250.2B	\$3254.0B	\$3221.6B
13:30	Eurozone	Sentix Investor Confidence	Feb	14.9	15.2	16.6
Tuesday, 8 February						
3:30	Japan	Labor Cash Earnings, y-o-y	Dec	0.8%	0.9%	-0.2%
3:50	Japan	BoP Current Account Balance	Dec	¥897.3B	¥106.4B	-¥370.8B
15:00	US	NFIB Small Business Optimism	Jan	98.9	97.5	97.1
17:30	US	Trade Balance	Dec	-\$79.3B	-\$83.0B	-\$80.7B
Wednesday, 9 February						
3:50	Japan	Money Stock M2, y-o-y	Jan	3.7%	3.6%	3.6%
8:15	UAE	Dubai PMI	Jan	55.3		52.6
19:00	US	Wholesale Inventories, m-o-m	Dec F	2.1%	2.1%	2.2%
Thursday, 10 February						
3:50	Japan	PPI, y-o-y	Jan	8.7%	8.2%	8.6%
8:30	India	RBI Repurchase Rate	9-Feb	4.0%	4.0%	4.0%
8:30	India	RBI Reverse Repo Rate	9-Feb	3.35%	3.55%	3.35%
8:30	India	RBI Cash Reserve Ratio	9-Feb	4.0%	4.0%	4.0%
9:57	Egypt	Urban CPI, y-o-y	Jan	5.9%		7.3%
9:57	Egypt	CPI Core, y-o-y	Jan	6.0%		6.3%
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	4Q P	7.0%		6.8%
11:00	Turkey	Unemployment Rate	Dec	11.3%		11.2%
17:30	US	CPI, m-o-m	Jan	0.6%	0.4%	0.6%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.6%	0.5%	0.6%
17:30	US	CPI, y-o-y	Jan	7.0%	7.3%	7.5%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	5.5%	5.9%	6.0%
17:30	US	Initial Jobless Claims	5-Feb	239K	230K	223K
17:30	US	Continuing Claims	29-Jan	1621K	1615K	1621K
23:00	US	Monthly Budget Statement	Jan	-\$162.8B	-\$23.0B	\$118.7B
Friday, 11 February						
11:00	Turkey	Current Account Balance	Dec	-2.82B	-4.2B	-3.8B
11:00	Turkey	Industrial Production, y-o-y	Dec	11.3%	10.9%	14.4%
11:00	UK	GDP, q-o-q	4Q P	1.0%	1.1%	1.0%
11:00	UK	GDP, y-o-y	4Q P	7.0%	6.4%	6.5%
11:00	UK	Monthly GDP, m-o-m	Dec	0.7%	-0.5%	-0.2%
11:00	UK	Industrial Production, m-o-m	Dec	0.7%	0.1%	0.3%
11:00	UK	Manufacturing Production, m-o-m	Dec	0.7%	0.2%	0.2%
11:00	UK	Trade Balance, GBP Million	Dec	£2586M	-£400M	-£2337M
16:00	India	Industrial Production, y-o-y	Dec	1.3%	1.6%	0.4%
19:00	US	U. of Mich. Sentiment	Feb P	67.2	67	61.7

* UAE time

Source: Bloomberg, ADCB Economic Research

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