The Week Ahead: Fed and BoE's forward guidance critical for interest rate outlook

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US: Fed's interest rate lift-off expected with a 25 bps hike

The FOMC is widely expected to raise the FFTR by 25 bps at its 15-16 March meeting, despite the heightened market volatility and softer economic outlook due to the Russia-Ukraine war. Market focus will be on a number of areas, including new economic projections, especially the dot-plot forecasts, the tone of Chair Jerome Powell's press conference and the discussions surrounding the balance sheet reduction plan. Powell is likely to reiterate that upside risks to the inflation outlook have increased with higher commodity prices and that the FOMC will likely proceed with a series of interest rate hikes amidst elevated inflation. However, he is also likely to underline that downside risks to the growth outlook have risen and its policy outlook will be data-dependent. In terms of balance sheet reduction, Powell recently noted that the FOMC will not finalise its quantitative tapering plan at its March meeting, although it is expected to release some additional details to prepare the market for an eventual announcement in the coming meetings. We currently forecast a total of four 25 bps FFTR hikes in 2022, with balance sheet reduction beginning either in May or June.

Europe: BoE likely to hike for the third time in a row

BoE is also likely to raise the benchmark rate by 25 bps to 0.75% at its 17 March meeting. This would be the third consecutive hike since December and would take the bank rate to pre-COVID levels. The market has currently priced in a total 95 bps increase by June, indicating at least one 50 bps hike in the next three meetings. The recent sharp rise in commodity prices and the deterioration in the inflation backdrop is likely behind the market aggressively pricing in a 50 bps increase ahead. However, the Russia-Ukraine conflict puts the MPC in a difficult position with regards to how it balances the outlook for slowing economic growth with rising inflation. Separately, the ECB delivered a hawkish surprise last week and brought forward the asset purchase tapering plan despite rising risks to the growth outlook due to the marked jump in gas prices (page 3).

Global: BoJ and CBRT expected to be on hold

Meanwhile, the BoJ is expected to keep its monetary policy unchanged at its 18 March meeting as underlying price pressures in Japan are relatively subdued compared to those in the US and UK. BoJ Governor Haruhiko Kuroda recently highlighted that it is not appropriate to tighten monetary policy even if energy and commodity prices push up costs. The focus of the meeting will be on the BoJ's economic projections to assess the impact of the higher commodity prices. Elsewhere, the CBRT is expected to keep its one-week benchmark rate at 14.0% at its 17 March meeting. This is despite inflation reaching a 20-year high of 54.4% y-o-y in February and a deteriorating external backdrop. The rising commodity prices and falling tourism revenues due to a drop in tourists from Russia and Ukraine are likely to worsen the current account deficit, putting downward pressure on the TRY. The real one-week benchmark rate also remains unfavourable and is currently at -40.4%.

I. Recent Events and Data Releases

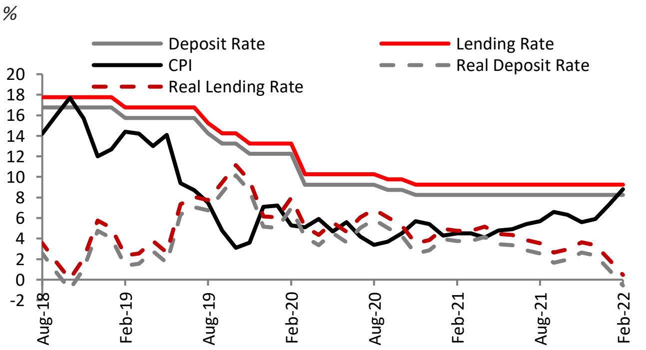
A. MENA Economies

Egypt: Surging inflation increases possibility of rate hike in March

We now expect CBE to raise benchmark rate at March meeting

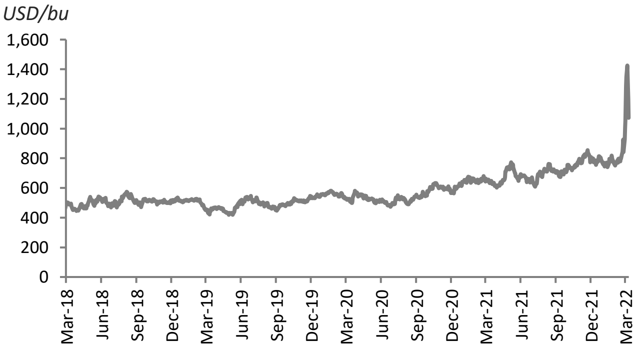
Headline inflation accelerated to 8.8% y-o-y in February (January: 7.3%), led by a sharp rise in food prices (mostly domestic). Food inflation strengthened to 17.6% y-o-y, its highest level since November 2018, with broad-based increases in the price of fruit, vegetables and meat. The sharp rise in global commodity and food costs is likely to add to upward price pressures in the coming months. Around 80.0% of Egypt's wheat imports come from Russia and Ukraine. The acceleration in the inflation rate also resulted in the real deposit rate turning negative (-0.6%) in February, the first time since November 2018. The expected rise in food and commodity import costs and fall in tourism revenues due to a drop in visitors from Russia is likely to lead to a deterioration in the current account deficit, in our view. The government has already imposed a ban on exports of key staples such as wheat, flour, pasta and lentils to safeguard food reserves and limit the import bill. Indications are that Egypt is also working on a plan to attract more tourists from Western Europe and the GCC, ahead of Ramadan and Easter, to limit the revenue loss caused by the fall in Russian arrivals. The combination of rising inflation expectations, the now negative real benchmark deposit rate and the weakening external outlook is likely to increase the pressure on the CBE to raise interest rates at its 24 March meeting. The expected Fed rate hike this week, if enacted, will also be a supportive factor for an increase in EGP interest rates. We therefore expect the CBE to raise benchmark rates by 50 bps at the March meeting. We also see the potential for a further c.100-150 bps of interest rate increases in 2H2022.

Fig. 1. Egypt: Real deposit rate turned negative for the first time since November 2018, with the rise in inflation



Source: CBE, CAPMAS, ADCB Economic Research

Fig. 2. Global: Wheat prices surged to record highs in March with the Russia-Ukraine war affecting supplies



Source: Bloomberg, ADCB Economic Research

B. G4 Economies

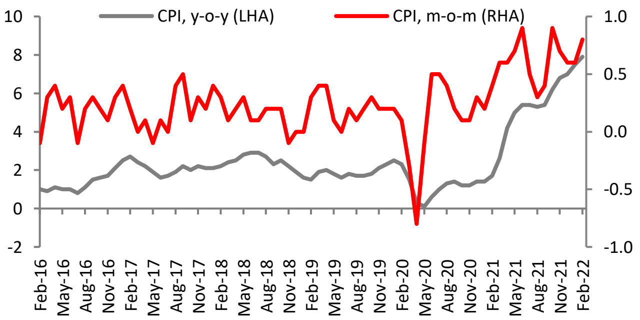
US: Annual CPI inflation accelerated again in February

February CPI report supportive for March rate hike

Both headline and core inflation for February were in line with consensus expectations. Headline CPI inflation accelerated to 0.8% m-o-m (January: 0.6%; consensus: 0.8%) driven by both food (+1.0%) and energy (+3.5%) prices. This took annual headline inflation to a 40-year high of 7.9% y-o-y (January: 7.5%). A further sharp rise in commodity and food prices in March due to the Russia-Ukraine conflict is widely expected to push headline inflation to well over 8.0% in the coming months. Core inflation also remained strong at 0.5% m-o-m in February (January: 0.6%), the fifth consecutive monthly reading of c.0.5-0.6%. The y-o-y reading accelerated to the fastest pace since 1982 at 6.4%. The softening in monthly core inflation was mainly due to the decline in used car prices (-0.2%), while all other segments, including airline fares, hotel lodging and apparel prices firmed. Overall, the strong underlying momentum in price pressures at a time of rising commodity prices is likely to support the Fed in proceeding with a March interest rate hike, with a potential hawkish tone. During his post-meeting press conference, Chair Jerome Powell is also likely to reiterate that the FOMC expects a "series of rate hikes" this year. We currently expect a total of four 25 bps FFTR increases in 2022.

Fig. 3. US: Headline inflation in February driven by both food and energy prices

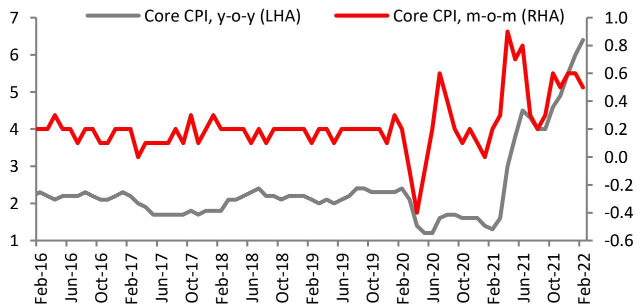
% change



Source: Bureau of Labor statistics, ADCB Economic Research

Fig. 4. US: Underlying price pressures remain strong in February with rising shelter and travel costs

% change



Source: Bureau of Labor statistics, ADCB Economic Research

Eurozone: ECB announces faster pace of monetary policy normalisation

The ECB announces faster pace of QE tapering than in earlier plan

The ECB surprised the market last week by announcing an increase in the pace of monetary policy normalisation, despite the war in Ukraine and its economic impact on the region. The central bank announced that bond purchases under the Asset Purchase Programme (APP) would be EUR40.0 billion in April, EUR30.0 billion in May and EUR20.0 billion in June, and that net asset purchases will end in 3Q2022 if the medium-term inflation outlook does not weaken in the coming months. In December last year, the ECB announced asset purchases of EUR40.0 billion in 2Q2022, EUR30.0 billion in 3Q and EUR20.0 billion from October 2022 onwards without an end date. ECB President Christine Lagarde highlighted that the decision to drop open-ended QE was in continuity with the decisions taken at the December and February meetings and in line with the incoming data. The guidance on policy sequencing was also tweaked to highlight that policy rate adjustments will now come "some time after" the end of net asset purchases and will "be gradual". This replaces the previous language of QE ending "shortly before" policy rate rises. The changes made in the statement provide some flexibility, allowing the Governing Council to raise interest rates if inflation continues to strengthen markedly or delay it if necessary. Overall, the policy changes made at the March meeting open up the possibility of rate hikes as soon as September, or in 4Q2022.

Headline inflation revised up while economic growth estimates revised down for 2022 and 2023

The ECB also published its macroeconomic projections, providing the first assessment of the impact of the Russia-Ukraine war on the Eurozone economy. In its base-case scenario, the ECB lowered its real GDP growth forecast to 3.7% for 2022 (December: 4.2%) and 2.8% for 2023 (December: 2.9%). Consensus sees these economic growth estimates as optimistic and expects the potential for further downward revisions in the upcoming meetings. Meanwhile, inflation estimates were revised up significantly to 5.1% for 2022 (3.2% earlier) and 2.1% from 2023 (1.8% previously). Lagarde highlighted that if price pressures lead to higher wages or supply-side constraints turn more persistent, it could lead to higher inflation over the medium-term than currently assumed.

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	M3 Money Supply, y-o-y	Dec	3.5%	
	Kuwait	CPI, y-o-y	Jan	4.3%	
	Oman	CPI, y-o-y	Jan	3.8%	
Monday, 14 March					
16:00	India	CPI, y-o-y	Feb	6.0%	6.0%
Tuesday, 15 March					
5:20	China	1-Yr Medium-Term Lending Facility Rate	15-Mar	2.85%	2.75%
6:00	China	Industrial Production, YTD y-o-y	Feb	9.6%	4.0%
6:00	China	Retail Sales, YTD y-o-y	Feb	12.5%	3.0%
10:00	Saudi Arabia	CPI, y-o-y	Feb	1.2%	
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Jan	4.3%	4.6%
11:00	UK	ILO Unemployment Rate, 3M	Jan	4.1%	4.0%
14:00	Eurozone	Industrial Production SA, m-o-m	Jan	1.2%	0.1%
15:30	India	Exports, y-o-y	Feb	25.3%	
16:30	US	PPI Final Demand, m-o-m	Feb	1.0%	0.9%
16:30	US	Empire Manufacturing	Mar	3.1	7
Wednesday, 16 March					
3:50	Japan	Exports, y-o-y	Feb	9.6%	20.6%
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	4Q F	6.8%	
16:30	US	Retail Sales Advance, m-o-m	Feb	3.8%	0.4%
16:30	US	Retail Sales Control Group	Feb	4.8%	0.3%
16:30	US	Import Price Index, m-o-m	Feb	2.0%	1.6%
22:00	US	FOMC Rate Decision (Upper Bound)	16-Mar	0.25%	0.5%
22:00	US	FOMC Rate Decision (Lower Bound)	16-Mar	0.00%	0.25%
22:30	US	Fed Chair Holds Press Conference Following FOMC Meeting			
Thursday, 17 March					
3:50	Japan	Core Machine Orders, m-o-m	Jan	3.6%	-2.0%
13:30	Eurozone	ECB's Lagarde Speaks in Frankfurt			
14:00	Eurozone	CPI, y-o-y	Feb F	5.1%	5.8%
14:00	Eurozone	CPI Core, y-o-y	Feb F	2.7%	2.7%
14:15	Eurozone	ECB's Lane Speaks in Frankfurt			
15:00	Turkey	One-Week Repo Rate	17-Mar	14.0%	14.0%
16:00	UK	Bank of England Bank Rate	17-Mar	0.5%	0.75%
16:30	US	Building Permits	Feb	1899K	1850K
16:30	US	Housing Starts	Feb	1638K	1700K
16:30	US	Initial Jobless Claims	12-Mar	227K	220K
16:30	US	Continuing Claims	5-Mar	1494K	1480K
16:45	Eurozone	ECB's Schnabel Speaks in Frankfurt			
17:15	US	Industrial Production, m-o-m	Feb	1.4%	0.5%
Friday, 18 March					
3:30	Japan	Natl CPI, y-o-y	Feb	0.5%	0.9%
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	0.4%	-1.0%
18:00	US	Existing Home Sales	Feb	6.5M	6.1M
18:00	US	Leading Index	Feb	-0.3%	0.4%
21:20	US	Fed's Barkin Discusses Economic Outlook			
	Japan	BOJ Policy Balance Rate	18-Mar	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	18-Mar	0.0%	0.0%

* UAE time
Source: Bloomberg

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
Monday, 7 March						
7:15	China	Exports YTD, y-o-y	Feb	60.6%	14.0%	16.3%
7:15	China	Imports YTD, y-o-y	Feb	22.2%	17.0%	15.5%
12:00	China	Foreign Reserves	Feb	$3221.6B	$3225.0B	$3213.8B
13:30	Eurozone	Sentix Investor Confidence	Mar	16.6	5.3	-7.0
Tuesday, 8 March						
3:50	Japan	BoP Current Account Balance	Jan	-¥370.8B	-¥870.5B	-¥1188.7B
9:00	Japan	Leading Index CI	Jan P	104.7	103.6	103.7
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.3%	0.3%	0.3%
14:00	Eurozone	GDP SA, y-o-y	4Q F	4.6%	4.6%	4.6%
15:00	US	NFIB Small Business Optimism	Feb	97.1	97.3	95.7
17:30	US	Trade Balance	Jan	-$82.0B	-$87.3B	-$89.7B
19:00	US	Wholesale Inventories, m-o-m	Jan F	0.8%	0.8%	0.8%
Wednesday, 9 March						
3:50	Japan	Money Stock M2, y-o-y	Feb	3.6%	3.5%	3.6%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	5.4%	5.6%	4.6%
3:50	Japan	GDP SA, q-o-q	4Q F	1.3%	1.4%	1.1%
5:30	China	PPI, y-o-y	Feb	9.1%	8.6%	8.8%
5:30	China	CPI, y-o-y	Feb	0.9%	0.9%	0.9%
8:15	UAE	Dubai PMI	Feb	52.6		54.1
10:00	Japan	Machine Tool Orders, y-o-y	Feb P	61.3%		31.6%
19:00	US	JOLTS Job Openings	Jan	11448K	10950K	11263K
Thursday, 10 March						
3:50	Japan	PPI, y-o-y	Feb	8.9%	8.6%	9.3%
16:45	Eurozone	ECB Main Refinancing Rate	10-Mar	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	10-Mar	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	10-Mar	-0.5%	-0.5%	-0.5%
17:30	US	CPI, m-o-m	Feb	0.6%	0.8%	0.8%
17:30	US	CPI, ex-Food and Energy, m-o-m	Feb	0.6%	0.5%	0.5%
17:30	US	CPI, y-o-y	Feb	7.5%	7.9%	7.9%
17:30	US	CPI, ex-Food and Energy, y-o-y	Feb	6.0%	6.4%	6.4%
17:30	US	Initial Jobless Claims	5-Mar	216K	217K	227K
17:30	US	Continuing Claims	26-Feb	1469K	1450K	1494K
	Egypt	Urban CPI, y-o-y	Feb	7.3%		8.8%
	Egypt	Core CPI, y-o-y	Feb	6.3%		7.2%
Friday, 11 March						
11:00	Turkey	Current Account Balance	Jan	-3.8B	-7.3B	-7.1B
11:00	Turkey	Industrial Production, m-o-m	Jan	1.7%	-2.2%	-2.4%
11:00	UK	Monthly GDP, m-o-m	Jan	-0.2%	0.1%	0.8%
11:00	UK	Industrial Production, m-o-m	Jan	0.3%	0.1%	0.7%
11:00	UK	Index of Services, 3M/3M	Jan	1.2%	0.8%	1.0%
11:00	UK	Trade Balance, GBP million	Jan	-2337M	-2400M	-16159M
16:00	India	Industrial Production, y-o-y	Jan	0.7%	1.4%	1.3%
19:00	US	University of Michigan Sentiment	Mar P	62.8	61.0	59.7

* UAE time
Source: Bloomberg, ADCB Economic Research

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