

The Week Ahead: US CPI inflation and RBI meeting

► **US: CPI inflation likely to accelerate further in January**

A strong labour market report for January, including robust hiring activity and wage growth, is supportive of a faster pace of monetary policy normalisation by the Fed. The US added 467K jobs in January (page 3), significantly beating consensus expectations, while the acceleration in wage growth to a 20-month high indicates a strong build-up of underlying inflationary pressures. We believe that the strong labour market and above-target inflation will lead the Fed to frontload rate hikes, beginning with a 25 bps hike at its March meeting. We forecast five 25 bps increases by the Fed in 2022 (March, May, June, September and December). However, market expectations for a 50 bps hike in March have risen to 30.8% given the strong January labour market print. The focus this week will be on January CPI data, with consensus forecasting some modest softening in monthly readings with seasonal holiday price normalisation coming into effect, albeit remaining strong and above trend. Headline CPI is estimated to decelerate to 0.4% m-o-m in January (December: 0.5%), while core inflation is projected to soften to 0.5% (December: 0.6%). Some tentative signs of supply-chain bottlenecks easing are behind consensus expectations for a deceleration in core goods inflation, though services inflation is expected to remain strong, supported by the shelter component and higher wage costs. However, both headline and core CPI are forecast to strengthen further on an annual basis to 7.3% y-o-y (7.0% earlier) and 5.9% (from 5.3%), respectively.

► **India: RBI expected to raise reverse repo rate**

Consensus expects the RBI to hike its reverse repo (borrowing) rate by 20 bps to 3.55% at its 8-10 February policy meeting, while leaving the benchmark repo rate (lending) unchanged at 4.0%. Before the pandemic, the RBI tended to have a 25 bps gap between the repo rate and the reverse repo rate, though this gap was allowed to widen to 65 bps during the peak of COVID lockdowns to discourage banks from parking funds with the RBI. The expected 25 bps increase in the reverse repo rate should be seen as a normalisation of monetary policy and not a tightening of monetary policy per se. Headline inflation in January remained within the RBI's 4.0% (± 2 pp) target range, though higher commodity prices point to upside risks. Separately, last week the Indian government released its FY2023 budget with a focus on building infrastructure to ease supply-side constraints (page 5).

► **Europe: Hawkish surprises by the ECB and BoE last week**

The BoE and the ECB turned more hawkish last week, amidst inflation concerns. The BoE's 25 bps hike was in line with expectation, though dissent from four MPC members looking for a 50 bps hike was a major surprise (page 3). ECB President Christine Lagarde also joined the hawkish bandwagon last week (page 4). Market expectations of rate hikes in 2H2022 have increased following the meeting. Looking ahead, the UK's 4Q GDP data and December industrial production data are due this week, though they are now a bit outdated and unlikely to affect the BoE's policy stance.

Economics Team

Monica Malik, Ph.D.

Chief Economist

+971 (0)2 696 8458

Monica.Malik@adcb.com

Thirumalai Nagesh

Economist

+971 (0)2 696 2704

Thirumalainagesh.Venkatesh@adcb.com

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I. Recent Events and Data Releases

A. MENA Economies

Oil: OPEC+ stays on course with planned increase in production

OPEC+ stuck to its plan to increase its monthly output by 400K b/d for March, as widely expected. There was neither a press conference following the meeting nor were there any details of the discussion in the press statement. OPEC+'s gradual output increase came despite the strengthening in oil market fundamentals, with rising demand and a drop in global oil inventories. There were also increasing concerns about global spare capacity as some OPEC+ countries are struggling to meet their production quotas despite the strong oil price. Notably, Nigeria and Angola were producing significantly below their allotted output, highlighting structural issues. However, the large OPEC+ countries including Saudi Arabia, UAE, Iraq, Russia and Kuwait were broadly producing around their allotted output and we expect this trend to continue. For more details, please see our note – **Oil Update: Strong fundamentals and rising geopolitical tensions supporting oil price**, published on 28 January 2022. We believe that the increase in oil supply in 2022 will be driven by both OPEC+ (Saudi Arabia, UAE, Kuwait, Iraq and Russia) and non-OPEC+ countries (US, Canada, Brazil and Norway). We also envisage that there will not be any supply shortages versus global demand in 2022. However, rising geopolitical tensions and the resultant interruptions to supply remain key risks to the oil market outlook. Brent is trading at USD93.6 p/b at the time of publishing, amidst Texas snowstorms and resultant power outages affecting some production and refining activity. The normalisation of trucking operations, currently affected by icy roads, will be critical for a return to normality.

OPEC+ agrees to raise output by 400K b/d in March

Egypt: CBE kept interest rates steady, as expected

The CBE kept benchmark interest rates on hold at its 3 February meeting, with the lending rate remaining at 9.25% and the deposit rate at 8.25%. This was the tenth consecutive meeting at which rates were kept steady, and the decision was in line with both our and consensus expectations. The February policy statement highlighted that the MPC will “utilize all available tools to achieve its price stability mandate”, compared to its December statement which emphasised “to utilize all available tools to support the recovery of economic activity, within its price stability mandate”. The change in guidance underlines the rising risks to the inflation outlook amid higher global commodity prices and a need to raise rates if necessary. At this point, headline inflation remains contained within the CBE's lower bound target band (7.0% \pm 2 pp), helping Egypt to offer the highest real rate globally. We believe that the CBE will continue to maintain high real interest rates to support the EGP and attract capital inflows at a time of weakening appetite for EM assets. This is especially the case when global central banks are turning hawkish and tightening their monetary policies. Our core view is that the CBE will remain on hold in 1H2021, though we see the potential for it to raise benchmark interest rates in 2H2022 to maintain the attractiveness of its local assets, even if the domestic inflation environment does not warrant it.

We expect the CBE to remain on hold in 1H2022, followed by rate hikes in 2H

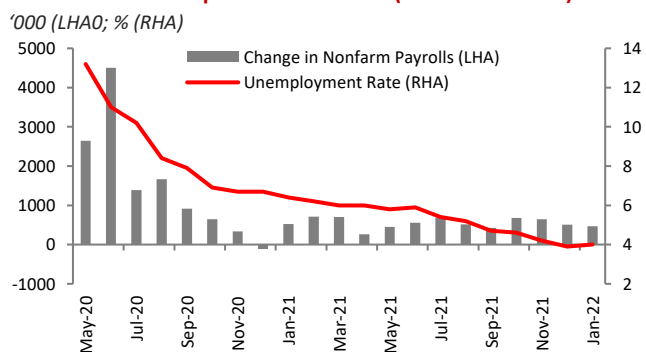
B. G4 Economies

US: Strong labour market data to be supportive of Fed rate hikes

The January NFP report was robust, with a broad-based increase in hiring activity, wage growth and a rise in the participation rate. This ran contrary to market expectations for a soft NFP reading due to the impact of the Omicron variant. Non-farm payrolls increased by 467K in January, with data for the previous two months revised up by 709K. Even key service sectors saw strong job gains despite the higher COVID cases, such as leisure and hospitality (+151K) and retail trade (+61K). Note that the Bureau of Labor Statistics revised its historical data in January as part of annual benchmark revisions and the updating of seasonal adjustment factors. This seasonal adjustment makes interpreting the January data somewhat challenging, including the impact of Omicron, though the overall trend points to strong underlying market conditions. Wage growth accelerated to 0.7% m-o-m in January (December: 0.5%), taking the annual reading to 5.7% (4.9% previously), while the labour force participation rate increased to 62.2% in January, after remaining in a relatively tight range throughout 2021. The higher participation rate resulted in the unemployment rate ticking up to 4.0% (December: 3.9%), which is still in line with the Fed’s medium-term unemployment forecast. Tightness in the labour market and wage growth are driving the more persistent nature of inflation and are supportive of a fast pace of monetary policy normalisation.

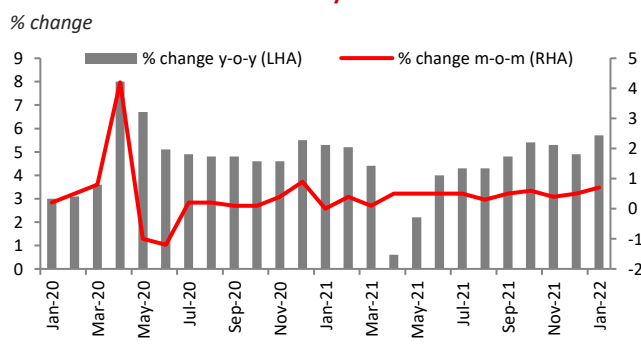
NFP grew by 467K in January with a broad-based pick-up in hiring activity

Fig. 1. US: Economy added 467K jobs in January, beating market expectations of 125K (December: 510K)



Source: Bureau of Labor Statics, ADCB Economic Research

Fig. 2. US: Wage growth accelerates in both monthly and annual terms in January



Source: Bureau of Labor Statics, ADCB Economic Research

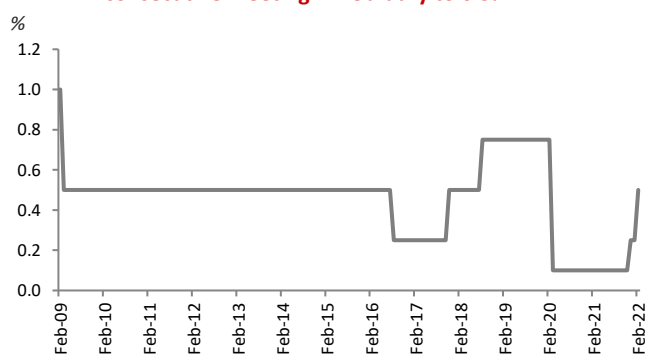
UK: BoE raises interest rate with a hawkish guidance

The BoE hiked interest rates for the second consecutive meeting, raising the policy rate by 25 bps to 0.5%. The major hawkish surprise came from the voting pattern, with four MPC members (Dave Ramsden, Michael Saunders, Jonathan Haskel and Catherine Mann) dissenting for a 50 bps hike. The forward guidance indicated that “some further modest tightening in monetary policy is likely to be appropriate in the coming months”. The hawkish tone was against a backdrop of rising inflation, which is forecast to peak at c.7.25% in April 2022 (November 2021: 6.0%). During his post-meeting conference, BoE Governor Andrew Bailey highlighted that “we face the risk that some of the higher imported inflation could become entrained within the domestic economy, leading to a longer period of high inflation.” We believe that a majority of the MPC committee is increasingly concerned about the near-term upside risks to the inflation outlook and is willing to frontload rate hikes at consecutive meetings, rather than spread out gradual increases, to limit the second-round pass-through effects. We have already forecast four

We expect three additional 25 bps rate hikes in 1H2022

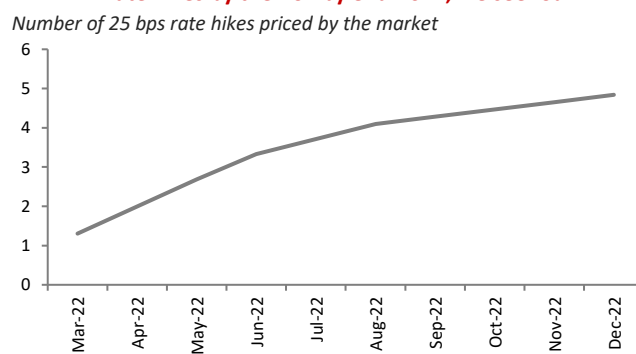
25 bps hikes for 2022, with one each at the February, March, May and June meetings. Current market pricing is consistent with earlier rate hike timings but is looking for a total of five 25 bps increases by the end of 2022. However, market economists are of the view that the BoE could pause the interest rate hikes in 2H2022.

Fig. 3. UK: BoE raises interest rates for the second consecutive meeting in February to 0.5%



Source: BoE, ADCB Economic Research

Fig. 4. UK: Market is currently pricing in a total of five 25 bps rate hikes by the BoE by end-2022; we see four



Source: Bloomberg, ADCB Economic Research

On the QE side, the BOE announced that it will immediately stop reinvesting maturing gilts and will initiate a plan to offload its stock of corporate bonds (GBP20 billion) by the end of 2023. The MPC also highlighted that “it will consider beginning the process of actively selling UK government bonds only once Bank Rate has risen to at least 1% and depending on economic circumstances at the time.” Our expectation is that the bank rate will reach 1.0% at the May meeting, paving the way for active quantitative tightening thereafter. The BoE did not provide any further details on active gilt sales though the upcoming meetings will be important for further guidance on this front.

BoE plans to offload stock of corporate bonds (GBP20 billion) by the end of 2023

Eurozone: ECB President Lagarde signals hawkish pivot

The ECB left its monetary policy unchanged at its February meeting, with the policy statement being similar to the December statement. However, President Christine Lagarde’s post-meeting press conference provided a hawkish undertone, highlighting upside risks to the inflation outlook and that the situation had objectively changed. She also underlined that the Eurozone is getting much closer to the ECB’s inflation target and that “March and June were especially important for the inflation verdict.” Moreover, Lagarde refrained from affirming that rate hikes in 2022 were unlikely, which she emphasised at the December meeting. The overall message was more hawkish than at the December meeting, but is still meaningfully more dovish than the Fed and the BOE, in our view. The BoE has already begun hiking rates, while the Fed is widely expected to start increasing at the March meeting.

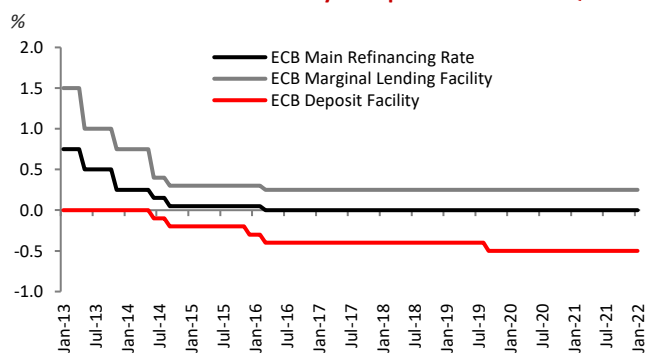
ECB members are increasingly concerned about inflation outlook

Despite the hawkish message, Lagarde noted that any ECB decision will be gradual and that the sequencing (first QE taper, then rate hikes) will be respected. We now believe that the tapering programme will be recalibrated to end by September 2022, followed by a 25 bps interest rate hike. The ECB’s Pandemic Emergency Purchase Programme (PEPP) is due to end in March. This is partly being compensated by higher bond purchase bonds under the Asset Purchase Programme (APP) – currently planned at EUR40.0 billion per month in 2Q2022, EUR30.0 billion per month in 3Q2022 and EUR20.0 billion per

Recalibration of the asset purchase programme looks likely in the upcoming meetings

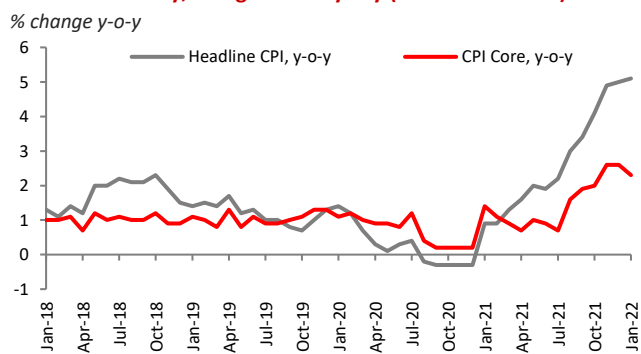
month from 4Q2022 onwards “for as long as necessary.” The ECB currently has its deposit rate at -0.5% and a 25 bps increase will take it to -0.25% by the end of 2022. The market is currently pricing in a 50 bps rate hike by the end of December 2022, which looks aggressive at this point, though we do not completely rule out the possibility. The pace of interest rate adjustment is likely to depend largely on how inflationary pressures evolve in 2H2022.

Fig. 5. Eurozone: The ECB turns more hawkish though any interest rate hikes only look possible around 4Q2022



Source: European Central Bank, ADCB Economic Research

Fig. 6. Eurozone: Headline inflation surprised to the upside in January, rising to 5.1% y-o-y (December: 5.0%)



Source: Eurostat, ADCB Economic Research

C. Emerging Market Economies

India: FY2023 budget focuses on boosting CAPEX

India released its budget for FY2023 (Apr.2022-Mar.2023) last week with a focus on supporting economic growth rather than lowering the fiscal deficit to pre-pandemic levels. The government announced a budget deficit target of 6.4% of GDP for FY2023, from 6.9% in FY2022, a modest fiscal consolidation compared to the market’s expectations. Total expenditure was forecast to increase by 4.6% in FY2023, with capital spending allocations rising by a robust 35.4%. The focus was on building infrastructure, including ports, cargo terminals, and railways. On the revenue side, the anticipated economic recovery and planned privatisation programme is expected to bolster income, which is forecast to rise by 9.6% in FY2023. The budget assumes a conservative nominal GDP growth forecast of 11.1% and we see the potential for upside risk to this estimate as well as to overall government revenues. With the government prioritising economic growth over fiscal consolidation, we see the potential for additional revenue to be spent rather than for it to be used to lower the deficit. No changes were made to either personal or corporate tax rates, thus maintaining a steady policy environment. On the divestment and privatisation programme, the government plans to sell its stake in the Life Insurance Corporation of India (LIC) alongside other entities planned previously. Overall, budget outlays are likely to be supportive for further economic recovery though is unlikely there will be a boost to inflationary pressures, as the focus of the spending plan is to ease supply bottlenecks rather than to boost consumer purchasing power.

Steady tax policy maintained for FY2023

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%	
	Egypt	Net Reserves	Jan	40.9B	
	China	New Yuan Loans CNY	Jan	1131.8B	3600.0B
	China	Money Supply M2, y-o-y	Jan	9.0%	9.2%
Monday, 7 February					
5:45	China	Caixin China PMI Services	Jan	53.1	50.5
9:00	Japan	Leading Index CI	Dec P	103.2	103.7
9:00	Japan	Coincident Index	Dec P	92.8	92.6
13:30	Eurozone	Sentix Investor Confidence	Feb	14.9	15.2
19:40	Eurozone	ECB's Lagarde Speaks			
	China	Foreign Reserves	Jan	\$3250.2B	\$3254.0B
Tuesday, 8 February					
3:50	Japan	BoP Current Account Balance	Dec	¥897.3B	¥106.4B
3:50	Japan	Trade Balance BoP Basis	Dec	-¥431.3B	-¥200.7B
15:00	US	NFIB Small Business Optimism	Jan	98.9	97.5
17:30	US	Trade Balance	Dec	-\$80.2B	-\$83.0B
Wednesday, 9 February					
8:15	UAE	Dubai PMI	Jan	55.3	
8:30	India	RBI Repurchase Rate	9-Feb	4.0%	4.0%
8:30	India	RBI Reverse Repo Rate	9-Feb	3.35%	3.55%
8:30	India	RBI Cash Reserve Ratio	9-Feb	4.0%	4.0%
17:10	UK	BOE chief economist Huw Pill speaks			
19:00	US	Wholesale Inventories, m-o-m	Dec F	2.1%	2.1%
19:30	US	Fed's Bowman Speaks to Community Bankers			
21:00	US	Fed's Mester Speaks on Economic and Policy Outlook			
Thursday, 10 February					
3:50	Japan	PPI, y-o-y	Jan	8.5%	8.2%
10:00	Saudi Arabia	GDP Constant Prices, y-o-y	4Q P	7.0%	
17:10	Eurozone	ECB's Lane speaks			
17:30	US	CPI, m-o-m	Jan	0.5%	0.4%
17:30	US	CPI, ex-Food and Energy, m-o-m	Jan	0.6%	0.5%
17:30	US	CPI, y-o-y	Jan	7.0%	7.3%
17:30	US	CPI, ex-Food and Energy, y-o-y	Jan	5.5%	5.9%
17:30	US	Initial Jobless Claims	5-Feb	238K	230K
17:30	US	Continuing Claims	29-Jan	1628K	1618K
23:00	US	Monthly Budget Statement	Jan	-\$21.3B	-\$25.0B
	Egypt	Urban CPI, y-o-y	Jan	5.9%	
	Egypt	CPI Core, y-o-y	Jan	6.0%	
Friday, 11 February					
0:15	UK	Bank of England Governor Andrew Bailey speaks			
4:00	US	Fed's Barkin Discusses Policy Amid Pandemic Uncertainty			
11:00	Turkey	Current Account Balance	Dec	-2.68B	-4.25B
11:00	Turkey	Industrial Production, y-o-y	Dec	11.4%	9.7%
11:00	UK	GDP, q-o-q	4Q P	1.1%	1.1%
11:00	UK	GDP, y-o-y	4Q P	6.8%	6.4%
11:00	UK	Monthly GDP, m-o-m	Dec	0.9%	0.9%
11:00	UK	Industrial Production, m-o-m	Dec	1.0%	0.1%
11:00	UK	Manufacturing Production, m-o-m	Dec	1.1%	0.1%
11:00	UK	Trade Balance, GBP Million	Dec	£626M	-£400M
16:00	India	Industrial Production, y-o-y	Dec	1.4%	1.7%
19:00	US	U. of Mich. Sentiment	Feb P	67.2	67.5

* UAE time

Source: Bloomberg

Fig. 8. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	CPI, y-o-y	Dec	2.6%		2.5%
	Oman	CPI, y-o-y	Dec	3.6%		3.8%
Monday, 31 January						
14:00	Eurozone	GDP SA, q-o-q	4Q A	2.3%	0.4%	0.3%
14:00	Eurozone	GDP SA, y-o-y	4Q A	3.9%	4.6%	4.6%
18:45	US	MNI Chicago PMI	Jan	64.3	61.5	65.2
Tuesday, 1 February						
3:30	Japan	Jobless Rate	Dec	2.8%	2.8%	2.7%
9:00	India	Markit India PMI Manufacturing	Jan	55.5		54.0
11:00	Turkey	Markit/ISO Turkey PMI Manufacturing	Jan	52.1		50.5
14:00	Eurozone	Unemployment Rate	Dec	7.1%	7.1%	7.0%
19:00	US	Construction Spending, m-o-m	Dec	0.6%	0.6%	0.2%
19:00	US	ISM Manufacturing	Jan	58.8	57.5	57.6
19:00	US	ISM Prices Paid	Jan	68.2	67.0	76.1
19:00	US	JOLTS Job Openings	Dec	10775K	10300K	10925K
Wednesday, 2 February						
3:50	Japan	Monetary Base, y-o-y	Jan	8.3%		8.4%
14:00	Eurozone	CPI Estimate, y-o-y	Jan	5.0%	4.4%	5.1%
14:00	Eurozone	CPI Core, y-o-y	Jan P	2.6%	1.9%	2.3%
17:15	US	ADP Employment Change	Jan	776K	180K	-301K
Thursday, 3 February						
8:15	UAE	IHS Markit UAE PMI	Jan	55.6		54.1
8:15	Egypt	IHS Markit Egypt PMI	Jan	49.0		47.9
8:15	Saudi Arabia	IHS Markit Saudi Arabia PMI	Jan	53.9		53.2
9:00	India	Markit India PMI Composite	Jan	56.4		53.0
11:00	Turkey	CPI, y-o-y	Jan	36.1%	48.0%	48.7%
11:00	Turkey	CPI Core Index, y-o-y	Jan	31.9%	38.9%	39.5%
13:00	Qatar	IHS Markit Qatar PMI	Jan	61.4		57.6
16:00	US	Bank of England Bank Rate	3-Feb	0.25%	0.5%	0.5%
16:00	US	BOE Corporate Bond Target	Feb	20B	20B	0B
16:45	Eurozone	ECB Main Refinancing Rate	3-Feb	0.0%	0.0%	0.0%
16:45	Eurozone	ECB Marginal Lending Facility	3-Feb	0.25%	0.25%	0.25%
16:45	Eurozone	ECB Deposit Facility Rate	3-Feb	-0.5%	-0.5%	-0.5%
17:30	US	Initial Jobless Claims	29-Jan	261K	245K	238K
17:30	US	Continuing Claims	22-Jan	1672K	1620K	1628K
19:00	US	ISM Services Index	Jan	62.3	59.5	59.9
19:00	US	Factory Orders	Dec	1.8%	-0.4%	-0.4%
19:00	US	Durable Goods Orders	Dec F	-0.9%	-0.9%	-0.7%
	Egypt	Lending Rate	3-Feb	9.25%	9.25%	9.25%
	Egypt	Deposit Rate	3-Feb	8.25%	8.25%	8.25%
Friday, 4 February						
13:30	US	UK Construction PMI	Jan	54.3	54.3	56.3
14:00	Eurozone	Retail Sales, m-o-m	Dec	1.0%	-0.9%	-3.0%
17:30	US	Change in Nonfarm Payrolls	Jan	510K	125K	467K
17:30	US	Change in Private Payrolls	Jan	503K	35K	444K
17:30	US	Unemployment Rate	Jan	3.9%	3.9%	4.0%
17:30	US	Average Hourly Earnings, m-o-m	Jan	0.5%	0.5%	0.7%
17:30	US	Average Hourly Earnings, y-o-y	Jan	4.9%	5.2%	5.7%
17:30	US	Labor Force Participation Rate	Jan	61.9%	61.9%	62.2%

* UAE time

Source: Bloomberg

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