The Week Ahead: Dovish Fed outlook boosts expectations for end of hiking cycle

Economics Team

Sri Virinchi Kadiyala
Senior Economist
+971 (0)2 697 3582
SriVirinchi.Kadiyala@adcb.com

Monica Malik, Ph.D.
Chief Economist
+971 (0)2 696 8458
Monica.Malik@adcb.com

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US: Tightening in lending standards to substitute rate action

Last week, the Fed delivered a 25 bps rate hike, bringing the policy rate to 5.0% (the upper bound), while also softening its forward guidance, suggesting that only "some additional policy firming may be appropriate". The median peak rate in the dot plot was unchanged at 5.1%, implying just one more 25 bps rate hike. Chair Jerome Powell suggested that the ongoing banking stress and subsequent tightening in lending standards could be a substitute for rate action, though he acknowledged the uncertainty around the extent and duration of its impact on the broader economy. The unchanged dot plot – despite the upside surprise in inflation – and relatively soft forward guidance were read as a dovish signal by markets, which increased the odds of policy easing by the Fed in 2H2023. Current market pricing indicates around a 46.0% chance of a 25 bps rate hike at the May meeting, followed by a cumulative 80 bps of rate cuts from the central bank by year-end. Such market pricing is in contrast to comments made by Powell, who explicitly ruled out the possibility of rate cuts in 2023 and expressed his openness to raising policy rates further than anticipated should the need arise (see our note **GCC Economic Update: Regional central banks shadow the Fed's 25 bps rate hike**, published on 23 March 2023). We expect the Fed to pause after an additional 25 bps rate hike in May, which would take the FFTR to 5.25% (the upper bound). However, if the banking turmoil is contained and core inflation remains elevated, we highlight the risk of further rate hikes later. Core PCE, to be released on Friday (see page 2 for details), will be the next key trigger for the rates market this week.

UK BoE hikes by 25 bps, leaves door open for further hike

Last Thursday, the BoE's Monetary Policy Committee (MPC) raised its policy rate by 25 bps, taking it to 4.25%, with a 7-2 split vote. The MPC retained its forward guidance, where it continued to note scope for further rate increases on evidence of persistent price pressures. However, the policy statement also observed weakness in private sector wage growth and removed the reference to upside risks to its CPI projections. The BoE noted that the UK banking system remains resilient and that it is closely monitoring credit conditions to gauge any impact from the ongoing stress in the banking sector. Future policy decisions will be heavily data-dependent, particularly regarding core inflation and growth developments. While monetary tightening will weigh on growth, the UK economy is now expected to avoid a technical recession this year. Moreover, the February CPI print saw both headline (10.4% y-o-y vs consensus: 9.9%) and core CPI (6.2% y-o-y vs consensus: 5.7%) surprise to the upside and accelerate from January levels. The uptick was broad based, driven by sharp sequential momentum in the prices of restaurants and hotels, food and non-alcoholic beverages, and clothing and footwear, which more than offset the moderation in recreation inflation. Persistent core inflation pressures amid a resilient growth outlook could tilt the BoE in favour of one final rate hike in the current cycle, in our view. As such, we now expect the BoE to hike by 25 bps at its May meeting, taking the policy rate to 4.5%.

Turkey: CBRT holds policy rate; rate cut still possible pre-elections

As expected, the CBRT kept the repo rate on hold at 8.5%, following a 50 bps rate cut in February. The central bank continues to prioritise supportive financial conditions to minimise the economic fallout from the devastating earthquake in February. The policy statement maintained that supply constraints in certain food segments have led to higher prices, and this has been further aggravated by high global inflation. The central bank dropped its reference to a sustained increase in GDP growth drivers, likely in response to weakening activity following the earthquake. The statement also flagged the risks of global banking turmoil and its threats to Turkey's financial stability. Inflation in Turkey remains high (February: 55.2% y-o-y), and the record fiscal and current account deficits continue to put downward pressure on the TRY. Still, the CBRT could deliver a rate cut in April to support the economy ahead of the general elections in May 2023.

Egypt: Runaway inflation warrants big rate hike by CBE

We expect the Central Bank of Egypt (CBE) to deliver a 300 bps rate hike at its March policy meeting (on Thursday), taking the deposit rate to 19.25%. The surprise pause undertaken by the CBE in February was widely considered a mistake, given the high and accelerating inflation backdrop and already deeply negative real policy rates. This raised further concerns around the credibility of central bank policy. Indeed, CPI delivered a sharp upside surprise in February, with headline inflation moving to near record levels (31.9% y-o-y), and we expect further strengthening through 2Q2023. Moreover, ongoing macroeconomic imbalances are fuelling depreciation expectations for the EGP, which would pose an upside to inflation risks. We now see the EGP settling in the 36.0-38.0 range against the USD by end-2023. The differential between the official and parallel market rates for the EGP/USD pair remains wide, with persistent USD shortages. Moreover, Egyptian sovereign USD bond spreads have widened, and CDS premiums have increased. In addition to interest rate hikes, other reforms are also required to bolster investor sentiment (FDI and portfolio) and place the economy on a more sustainable path. These include moving to a truly flexible exchange rate and tackling the deep structural challenges facing the economy. Swift execution of the asset sales programme could help boost capital inflows and address FX liquidity constraints. The first review under the IMF programme is also due later this week, which will assess the government's progress on the agreed reform initiatives. Containing inflation, commitment to a flexible exchange rate and visible progress on the asset sales programme will likely remain topics of discussion among IMF and government officials during the first review, in our view.

Week ahead: US PCE, Eurozone CPI and China PMI the key releases

The focus this week shifts to US PCE data due this Friday. Consensus expects February PCE to slow to 5.1% (from 5.4% earlier), while core PCE is expected to remain steady at 4.7% y-o-y. In February, monthly energy prices fell, goods prices likely continued to decline and healthcare costs could also ease. Any downside surprise in core PCE excluding shelter (the Fed's preferred gauge) could bolster market expectation of an end to the FOMC rate-hiking cycle. In the Eurozone, consensus forecasts for March preliminary CPI slowed to 7.1% y-o-y (8.5% previously) with favourable base effects and lower energy costs, though core CPI is expected to rise to 5.8% y-o-y (February: 5.6%). Earlier in March, the ECB delivered a hawkish 50 bps rate hike while reiterating its commitment to reduce inflation back to its target (2.0% y-o-y) as a key priority. Speeches from ECB officials due this week will also provide critical clues as to future policy direction. China's official PMI gauges for March are set to be released on Friday and will offer vital signals on the strength of the economic recovery. There will be a particular focus on services activity to gauge the return of private consumption, while strong government support could push up manufacturing activity.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Qatar	GDP Constant Prices, y-o-y	4Q	4.3%	
	UK	Nationwide House PX, m-o-m	Mar	-0.5%	-0.3%
	UK	Nationwide House PX NSA, y-o-y	Mar	-1.1%	-2.2%
Monday, 27 March					
12:00	Germany	IFO Business Climate	Mar	91.1	91.0
12:00	Germany	IFO Current Assessment	Mar	93.9	94.1
12:00	Germany	IFO Expectations	Mar	88.5	88.5
12:00	Eurozone	M3 Money Supply, y-o-y	Feb	3.5%	3.2%
19:00	Eurozone	ECB's Schnabel Speaks			
21:00	UK	BOE's Bailey speaks			
Tuesday, 28 March					
12:00	Eurozone	ECB's Muller Speaks			
16:30	US	Wholesale Inventories, m-o-m	Feb P	-0.4%	-0.1%
17:00	US	Bloomberg March United States Economic Survey			
18:00	US	Conf. Board Consumer Confidence	Mar	102.9	101.0
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Feb	1642.4B	
Wednesday, 29 March					
12:30	UK	Mortgage Approvals	Feb	39.6K	42.0K
15:00	US	MBA Mortgage Applications	24-Mar	3.0%	
18:00	US	Pending Home Sales, m-o-m	Feb	8.1%	-3.0%
22:50	UK	BOE's Catherine Mann speaks			
Thursday, 30 March					
16:00	Germany	CPI, m-o-m	Mar P	0.8%	0.6%
16:00	Germany	CPI, y-o-y	Mar P	8.7%	7.3%
16:00	Germany	CPI EU Harmonised, m-o-m	Mar P	1.0%	0.8%
16:00	Germany	CPI EU Harmonised, y-o-y	Mar P	9.3%	7.5%
16:30	US	Initial Jobless Claims	25-Mar	191K	196K
16:30	US	GDP Annualised, q-o-q	4Q T	2.7%	2.7%
16:30	US	GDP Price Index	4Q T	3.9%	3.9%
	Egypt	Lending Rate	30-Mar	17.3%	
	Egypt	Deposit Rate	30-Mar	16.3%	18.8%
Friday, 31 March					
3:30	Japan	Job-To-Applicant Ratio	Feb	1.4	1.4
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Mar	3.3%	3.1%
3:30	Japan	Jobless Rate	Feb	2.4%	2.4%
3:50	Japan	Industrial Production, m-o-m	Feb P	-5.3%	2.7%
3:50	Japan	Industrial Production, y-o-y	Feb P	-3.1%	-2.3%
5:30	China	Manufacturing PMI	Mar	52.6	51.6
5:30	China	Non-manufacturing PMI	Mar	56.3	54.9
10:00	UK	GDP, q-o-q	4Q F	0.0%	0.0%
10:00	UK	GDP, y-o-y	4Q F	0.4%	0.4%
11:55	Germany	Unemployment Change (000's)	Mar	2.0K	0.0K
13:00	Eurozone	CPI Estimate, y-o-y	Mar	8.5%	7.1%
13:00	Eurozone	CPI, m-o-m	Mar P	0.8%	1.1%
16:30	US	Personal Income	Feb	0.6%	0.2%
16:30	US	Personal Spending	Feb	1.8%	0.3%
16:30	US	PCE Deflator, y-o-y	Feb	5.4%	5.1%
16:30	US	PCE Core Deflator, m-o-m	Feb	0.6%	0.4%
16:30	US	PCE Core Deflator, y-o-y	Feb	4.7%	4.7%
17:45	US	MNI Chicago PMI	Mar	43.6	43.0

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Feb	4.6%		4.9%
	Oman	CPI, y-o-y	Feb	1.9%		1.9%
	Kuwait	CPI, y-o-y	Feb	3.3%		3.2%
Monday, 20 March						
11:00	Germany	PPI, y-o-y	Feb	17.8%	14.5%	15.8%
14:00	Eurozone	Trade Balance SA	Jan	-18.1B		-11.3B
Tuesday, 21 March						
14:00	Germany	ZEW Survey Expectations	Mar	28.1	15.0	13.0
14:00	Germany	ZEW Survey Current Situation	Mar	-45.1	-44.3	-46.5
18:00	US	Existing Home Sales	Feb	4.0M	4.2M	4.6M
Wednesday, 22 March						
11:00	UK	CPI, m-o-m	Feb	-0.6%	0.6%	1.1%
11:00	UK	CPI, y-o-y	Feb	10.1%	9.9%	10.4%
11:00	UK	CPI Core, y-o-y	Feb	5.8%	5.7%	6.2%
11:00	UK	RPI, y-o-y	Feb	13.4%	13.2%	13.8%
22:00	US	FOMC Rate Decision (Upper Bound)	22-Mar	4.8%	5.0%	5.0%
22:30	US	Fed Chair Holds Press Conference Following FOMC Meeting				
Thursday, 23 March						
14:00	Eurozone	ECB's Holzmann Speaks				
16:00	UK	Bank of England Bank Rate	23-Mar	4.0%	4.3%	4.3%
16:30	US	Current Account Balance	4Q	-217.1B	-214.0B	-206.8B
16:30	US	Initial Jobless Claims	18-Mar	192K	197K	191K
18:00	US	New Home Sales	Feb	670K	650K	640K
19:00	UK	BOE's Catherine Mann speaks				
19:00	Eurozone	Consumer Confidence	Mar P	-19.0	-18.9	-19.2
Friday, 24 March						
3:30	Japan	Natl CPI, y-o-y	Feb	4.3%	3.3%	3.3%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Feb	4.2%	3.1%	3.1%
4:30	Japan	Jibun Bank Japan PMI Composite	Mar P	51.1		51.9
4:30	Japan	Jibun Bank Japan PMI Mfg	Mar P	47.7		48.6
4:30	Japan	Jibun Bank Japan PMI Services	Mar P	54.0		54.2
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Feb	0.5%	0.2%	1.2%
11:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Feb	-5.1%	-4.7%	-3.5%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Feb	0.4%	0.2%	1.5%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Feb	-5.3%	-4.8%	-3.3%
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Mar P	48.5	49.0	47.1
13:00	Eurozone	S&P Global Eurozone Composite PMI	Mar P	52.0	52.0	54.1
13:00	Eurozone	S&P Global Eurozone Services PMI	Mar P	52.7	52.5	55.6
13:30	UK	S&P Global/CIPS UK Manufacturing PMI	Mar P	49.3	49.7	48.0
13:30	UK	S&P Global/CIPS UK Services PMI	Mar P	53.5	53.0	52.8
13:30	UK	S&P Global/CIPS UK Composite PMI	Mar P	53.1	52.7	52.2
16:30	US	Durable Goods Orders	Feb P	-4.5%	0.2%	-1.0%
16:30	US	Durables ex-Transportation	Feb P	0.8%	0.2%	0.0%
17:45	US	S&P Global US Manufacturing PMI	Mar P	47.3	47.0	49.3
17:45	US	S&P Global US Services PMI	Mar P	50.6	50.3	53.8
17:45	US	S&P Global US Composite PMI	Mar P	50.1	49.5	53.3

*UAE time
Source: Bloomberg, ADCB Economic Research

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