The Week Ahead: Market uncertainty clouds Fed's rate outlook

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US: Sharp market volatility seen last week

Markets experienced significant volatility last week, selling off in the wake of hawkish comments from Fed Chair Jerome Powell, who indicated an outlook for faster interest rate hikes. Powell significantly lowered the bar for a 50 bps hike, noting that recent disinflationary momentum has perhaps partly reversed, with stronger price pressures being felt across a wider spectrum of the inflation basket. Powell observed that incoming activity data has also been stronger than anticipated and acknowledged that if the "totality" of data remains firm, the committee would be prepared to increase the pace of rate hikes. However, US Treasuries rallied at the end of the week after the collapse of Silicon Valley Bank (SVB) and the mixed February labour market report. Markets are now pricing in a 23 bps rate hike for the March meeting, after expectations rose to above 40 bps following Powell's hawkish testimony to Congress. Market uncertainty and volatility are likely to remain elevated as the fallout of the SVB failure on the financial and tech sectors is assessed, though the Fed, US Treasury and the Federal Deposit Insurance Corporation acted swiftly to reduce systemic risks. With the measures announced, all SVB deposits will be safeguarded and a new funding facility has been made available to institutions short of liquidity (the Bank Term Funding Programme).

US: Mixed February jobs report supports a 25 bps March hike

We maintain our expectation of a 25 bps rate hike by the FOMC at its 21-22 March meeting, given market uncertainties and mixed February non-farm payrolls data, which reduces the near-term urgency to hike by 50 bps. Nevertheless, the underlying labour market is still strong and we see the possibility of a 50 bps hike in the future, especially if inflation remains sticky and the fallout of the SVB collapse is contained. As such, the release of February CPI data (due on Tuesday) will also be central to the FOMC's rate hike decision. The February job report showed that payroll additions remained robust, though with wage growth softening and the unemployment rate rising. NFP added 311K jobs in February, higher than the consensus expectation of 225K. The January and December job addition figures were lowered by a combined 34K, though the three-month average job creation was still robust at 351K. However, an increase in labour force participation (to 62.5%, from 62.4% earlier) pushed the unemployment rate higher to 3.6% (consensus: 3.4%). Wage growth slowed to 0.2% m-o-m, lower than the consensus estimate of 0.3%. However, average hourly earnings still rose in annual terms to 4.6% y-o-y in February, from 4.4% in the previous month.

Japan: No changes from the BoJ, as expected

Last Friday, the BoJ delivered an "in-line with expectations" policy review, maintaining the status quo on all key policy rates, its yield curve control framework and its forward guidance. Given that the March policy review was the last under outgoing Governor Kuroda's decade-long stewardship, it was choreographed to be a 'non-event', leaving the incoming premier Kazuo Ueda to undertake any necessary policy tweaks. The post-meeting statement noted that economic momentum has picked up, though the BoJ maintained its view that inflation could decelerate later in 2023 due to lower energy prices and the waning of costlier import price pass-through. Given the downside risks to inflation, market participants expect the BoJ to undertake changes to its policy framework under Ueda in a gradual fashion.

Chinese CPI remains weak, leaving scope for monetary stimulus

China's CPI surprised to the downside, slowing to 1.0% y-o-y, sharply weaker than consensus expectations of 1.9%. Producer price inflation saw deflation for the fifth straight month, contracting by 1.4% y-o-y. Governor Yi Gang signalled last week that inflation is likely to be under control through 2023 and hinted at the possibility of a cut in the reserve requirement ratio. Overall, monetary conditions are set to stay accommodative. A slew of high-frequency indicators scheduled for release this week, including retail sales and industrial production, will offer guidance as to the strength of recovery momentum in China's activity.

Egypt: Runaway CPI makes rate tightening necessary

Inflation continues to accelerate in Egypt, making a decisive intervention from the central bank imperative to restore macroeconomic stability and credibility. CPI rose 31.9% y-o-y in February, slightly lower than the record 33.0% registered in 2017. Food and beverage prices remain the key driver of the upswing, expanding at 27.8% m-o-m in February, though non-food also showed an uptick. The above-consensus prints (for the second straight month) could partly be explained by supply disruptions and speculative behaviour, given the limited availability of food stocks. Core inflation surged to an all-time high of 40.3% y-o-y, up from 31.2% in January. Going forward, while the acceleration in food prices could moderate thanks to Ramadan discounts, an increase in fuel prices (effective 2 March) and continued pass-through of exchange-rate devaluation is expected to push up inflation. As such, we do not believe that inflation has peaked and see it rising to record highs in 2Q2022 at over 35.0% y-o-y. Another round of devaluation, if implemented, will only add to latent inflationary pressures. Much work needs to be done to restore inflation to its target (7.0% y-o-y), which is unlikely to materialise before 2H2024.

Devaluation pressures are again mounting on the EGP, with indications of a rising differential between the official and parallel market rates against the USD. Indeed, Egyptian sovereign USD bond spreads have widened and CDS premiums have increased. We see the CBE delivering a cumulative 300-400 bps of rate hikes in 2023, on top of the 800 bps increases delivered in 2022. Overall, runaway inflation and the need for the CBE to restore its credibility make monetary tightening necessary, though other reforms are also required to tackle the deep structural challenges facing the economy and attract foreign investment. Capital inflows will be central to raising FX liquidity, which remains in short supply. The first review under the IMF programme is due later this month.

The week ahead: US CPI, ECB policy and UK budget will be key events

In the US, February CPI is due tomorrow, and consensus expects headline inflation to slow to 6.0% y-o-y (January: 6.4%), with core inflation forecast at 5.5% (January: 5.6%). An upside surprise in core CPI could increase the odds for a 50 bps rate hike during next week's FOMC policy review. February retail sales will also give an indication of the durability of the economic reacceleration seen recently. Across the Atlantic, members of the ECB Governing Council (GC) have already communicated a 50 bps rate hike at Thursday's policy review. As such, much of the focus will be on the outlook for the May meeting and the GC's view on the inflation outlook. Firmness in domestic CPI and an aggressive stance from the Fed could force the ECB to stick to a 50 bps rate hike, even at the May policy meeting. Meanwhile, the UK government will announce its budget on Wednesday. While tax revenues have been stronger and expenditures lower than budgeted, the government is unlikely to opt for meaningful fiscal loosening, especially after the disruptive reaction to last September's mini-budget. Market participants expect a continuation of the price cap that brings the average household energy bill to c.GBP2,500 per year under the Energy Price Guarantee scheme, an increased defence budget and a boost to government employee salaries. A more expansionary fiscal push could be reserved for later this year, ahead of the upcoming general election in 2024.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	M3 Money Supply, y-o-y	Jan	13.1%	
	UAE	Dubai CPI, y-o-y	Feb	4.6%	
	India	BoP Current Account Balance	4Q	-36.40B	-23.00B
Monday, 13 March					
16:00	India	CPI, y-o-y	Feb	6.5%	6.4%
Tuesday, 14 March					
10:30	India	Wholesale Prices, y-o-y	Feb	4.7%	4.0%
11:00	UK	Claimant Count Rate	Feb	3.9%	
11:00	UK	Jobless Claims Change	Feb	-12.9K	
11:00	UK	ILO Unemployment Rate 3Mths	Jan	3.7%	3.8%
16:30	US	CPI, m-o-m	Feb	0.5%	0.4%
16:30	US	CPI Ex Food and Energy, m-o-m	Feb	0.4%	0.4%
16:30	US	CPI, y-o-y	Feb	6.4%	6.0%
	Egypt	Production Index, m-o-m	Jan	-2.8%	
Wednesday, 15 March					
6:00	China	Industrial Production YTD, y-o-y	Feb	3.6%	2.5%
10:00	Saudi Arabia	CPI, y-o-y	Feb	3.4%	
15:00	US	MBA Mortgage Applications	10-Mar	7.4%	
15:30	India	Exports, y-o-y	Feb	-6.6%	
16:30	US	PPI Final Demand, m-o-m	Feb	0.7%	0.3%
16:30	US	PPI ex-Food and Energy, m-o-m	Feb	0.5%	0.4%
16:30	US	PPI Final Demand, y-o-y	Feb	6.0%	5.4%
16:30	US	PPI ex-Food and Energy, y-o-y	Feb	5.4%	5.2%
16:30	US	Empire Manufacturing	Mar	-5.8	-8.0
16:30	US	Retail Sales Advance, m-o-m	Feb	3.0%	0.4%
16:30	US	Retail Sales ex-Auto, m-o-m	Feb	2.3%	-0.1%
16:30	US	Retail Sales ex-Auto and Gas	Feb	2.6%	-0.3%
16:30	US	Retail Sales Control Group	Feb	1.7%	-0.3%
	India	Trade Balance	Feb	-17750.0M	-19200.0M
	UK	UK Chancellor Presents Spring Budget to Parliament			
Thursday, 16 March					
3:50	Japan	Core Machine Orders, m-o-m	Jan	1.6%	1.5%
16:30	US	Initial Jobless Claims	11-Mar	211K	205K
16:30	US	Import Price Index, m-o-m	Feb	-0.2%	-0.2%
16:30	US	Continuing Claims	4-Mar	1718K	1698K
16:30	US	Housing Starts	Feb	1309K	1310K
16:30	US	Philadelphia Fed Business Outlook	Mar	-24.3	-15.0
17:15	Eurozone	ECB Main Refinancing Rate	16-Mar	3.0%	3.5%
17:15	Eurozone	ECB Marginal Lending Facility	16-Mar	3.3%	3.8%
17:15	Eurozone	ECB Deposit Facility Rate	16-Mar	2.5%	3.0%
17:45	Eurozone	ECB President Christine Lagarde Holds Press Conference			
Friday, 17 March					
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	-0.4%	0.5%
14:00	Eurozone	CPI, m-o-m	Feb F	0.8%	0.8%
14:00	Eurozone	CPI, y-o-y	Feb F	8.6%	8.5%
17:15	US	Industrial Production, m-o-m	Feb	0.0%	0.5%
18:00	US	Leading Index	Feb	-0.3%	-0.3%
18:00	US	U. of Mich. Sentiment	Mar P	67.0	67.0

*UAE time
Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
EM Data						
	Egypt	Net Reserves	Feb	34.2B		34.4B
	China	Aggregate Financing CNY	Feb	5980.0B	2300.0B	3160.0B
	China	Money Supply M2, y-o-y	Feb	12.6%	12.5%	12.9%
	China	New Yuan Loans CNY	Feb	4900.0B	1500.0B	1810.0B
Monday, 6 March						
13:30	UK	S&P Global/CIPS UK Construction PMI	Feb	48.4	48.6	54.6
19:00	US	Factory Orders	Jan	1.8%	-1.8%	-1.6%
19:00	US	Durable Goods Orders	Jan F	-4.5%	-4.5%	-4.5%
19:00	US	Durables ex-Transportation	Jan F	0.7%	0.7%	0.8%
Tuesday, 7 March						
19:00	US	Powell Appears Before Senate Banking Panel				
19:00	US	Wholesale Inventories, m-o-m	Jan F	-0.4%	-0.4%	-0.4%
	China	Foreign Reserves	Feb	3184.46B	3157.00B	3133.15B
Wednesday, 8 March						
3:50	Japan	BoP Current Account Balance	Jan	33.4B	-785.0B	-1976.6B
3:50	Japan	Trade Balance BoP Basis	Jan	-1225.6B	-2923.8B	-3181.8B
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.1%	0.0%	0.0%
14:00	Eurozone	GDP SA, y-o-y	4Q F	1.9%	1.9%	1.8%
14:00	Eurozone	ECB's Lagarde Speaks				
17:15	US	ADP Employment Change	Feb	106K	200K	242K
17:30	US	Trade Balance	Jan	-67.4B	-68.7B	-68.3B
19:00	US	Powell Appears Before House Financial Service Committee				
19:00	US	JOLTS Job Openings	Jan	11012K	10546K	10824K
Thursday, 9 March						
3:50	Japan	Money Stock M2, y-o-y	Feb	2.7%		2.6%
3:50	Japan	Money Stock M3, y-o-y	Feb	2.3%		2.2%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	0.6%	0.8%	0.1%
3:50	Japan	GDP SA, q-o-q	4Q F	0.2%	0.2%	0.0%
5:30	China	CPI, y-o-y	Feb	2.1%	1.9%	1.0%
5:30	China	PPI, y-o-y	Feb	-0.8%	-1.3%	-1.4%
17:30	US	Initial Jobless Claims	4-Mar	190K	195K	211K
17:30	US	Continuing Claims	25-Feb	1655K	1660K	1718K
	Egypt	Urban CPI, y-o-y	Feb	25.8%		31.9%
	Egypt	CPI Core, y-o-y	Feb	31.2%		40.3%
Friday, 10 March						
3:50	Japan	PPI, y-o-y	Feb	9.5%	8.4%	8.2%
11:00	UK	Monthly GDP, m-o-m	Jan	-0.5%	0.1%	0.3%
11:00	UK	Monthly GDP, 3M/3M	Jan	-0.3%	0.0%	0.0%
11:00	UK	Industrial Production, m-o-m	Jan	0.3%	0.0%	-0.3%
11:00	UK	Industrial Production, y-o-y	Jan	-4.0%	-4.1%	-4.3%
11:00	UK	Trade Balance GBP/Mn	Jan	-7150M	-7100M	-5861M
11:00	Turkey	Industrial Production, m-o-m	Jan	1.6%	0.7%	1.9%
16:00	India	Industrial Production, y-o-y	Jan	4.3%	5.1%	5.2%
17:30	US	Change in Non-farm Payrolls	Feb	517K	225K	311K
17:30	US	Unemployment Rate	Feb	3.4%	3.4%	3.6%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.3%	0.3%	0.2%
17:30	US	Average Hourly Earnings, y-o-y	Feb	4.4%	4.7%	4.6%
17:30	US	Labor Force Participation Rate	Feb	62.4%	62.4%	62.2%
	Japan	BOJ Policy Balance Rate	10-Mar	-0.1%	-0.1%	-0.1%

*UAE time
Source: Bloomberg, ADCB Economic Research

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