

## The Week Ahead: Powell's testimony, NFP and BOJ policy on the agenda

### ► Powell's testimony and NFP will guide markets this week

Fed Chair Jerome Powell's bi-annual testimony to the US congress, JOLTS job openings and non-farm payrolls data headline this week's key indicators. Powell is scheduled to brief Congress on Tuesday (Senate Banking Committee) and Wednesday (House Financial Services Committee) in what will likely be his last public comments before the FOMC heads into a blackout period ahead of the 21-22 March policy review. Powell's remarks will follow a monetary policy report released by the Fed last Friday, which outlined that the central bank is acutely aware of the problem of high inflation and reiterated its strong commitment to bringing inflation back to its target level. There will likely be a particular focus on whether a 50 bps hike is an option for the FOMC or if Powell will guide towards 25 bps hikes going forward. Markets have already repriced significantly since the strong January labour market and inflation reports, and subsequent comments from FOMC participants have revealed a more hawkish tilt. Indeed, recent speeches by FOMC participants – including Christopher J. Waller, Susan Collins and Raphael Bostic – acknowledged the possibility of upside risks to terminal rates should firmer inflation persist.

### ► Still strong labour market reports expected for February

The February labour market report will also be closely watched, with the strength of the labour market central to the high and sticky core inflation backdrop. Consensus expects the US economy to have added 215K jobs in February, following January's unexpectedly robust 517K. A major part of the upside in January's payrolls can be explained by one-off factors such as weather-related distortions in December and the end of worker strikes. Nevertheless, job creation in line with consensus expectations would still point to strong labour market conditions. Indeed, the unemployment rate is expected to remain steady at a historical low of 3.4% in February, while wage growth is expected to accelerate to 4.7% y-o-y (January: 4.4%). Consensus expects JOLTS job openings to have declined to 10.6K in January from 11.0K registered in December, albeit remaining well above pre-pandemic levels.

### ► BOJ meeting: Sticking to the script

We expect the Bank of Japan to keep policy rates on hold at its 10 March meeting. The meeting is unlikely to usher in any material changes to the policy framework, in our view, as it will be the final policy decision under Governor Haruhiko Kuroda's decade-long premiership. Instead, consensus expects incoming governor Kazuo Ueda to implement tweaks to the Yield Curve Control (YCC) framework later this year. Indeed, Ueda has already signalled that he will move cautiously, with any major changes to the policy framework only likely to follow a sustained pick-up in inflation. Elsewhere, Egypt's CPI is due on 9 March, and we expect headline inflation to have accelerated to above 28.0% y-o-y in February from 25.8% the previous month (see page 2); consensus forecasts China's February inflation to have moderated to 1.9% y-o-y from 2.1% in January (see page 4).

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# I. Recent Events and Data Releases

## A. MENA Economies

### Egypt: Fuel price hikes to add to an already elevated inflation rate

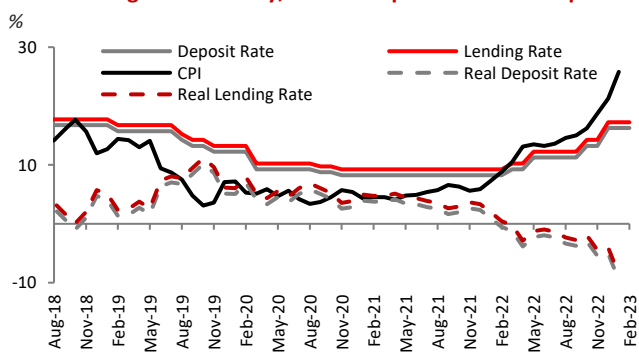
Last week, Egypt’s fuel pricing committee raised domestic petrol prices but left diesel prices unchanged. The price of 80-octane was raised by EGP0.75 to EGP8.75 per litre, while 92-octane was increased by EGP1.0 to EGP10.25 per litre, and 95-octane petrol was raised by EGP0.75 to EGP11.50 per litre. The natural gas price for vehicles was also hiked by 20.0% to EGP4.5 per litre, the first increase since October 2021. However, the diesel price was maintained at EGP7.25 per litre; diesel is the most widely used fuel for transportation and agricultural purposes. The new prices became effective from 2 March. The overall fuel price hikes were marginally below the committee’s regulation maximum 10.0% change in a single quarter. We believe that the cumulative effect of fuel price hikes is likely to be limited at c.0.3 pp to the headline inflation rate, given the steady diesel prices. However, the cumulative effect of a weaker EGP and fuel price hikes is likely to strengthen inflation further in the coming months. We estimate that headline inflation accelerated to above 28.0% y-o-y in February, with the data set to be released this Thursday. The EGP devaluation in January likely resulted in an acceleration of annual prices in broad categories.

*Petrol and natural gas prices raised, but diesel left unchanged*

Headline inflation had already strengthened to a five-year high of 25.8% y-o-y in January and we expect it to rise further and peak at c.30.0-31.0% in 2023 upon the full pass-through of the weaker currency. The rise in inflation pushed real rates deeper into negative territory, with the real deposit rate at -9.6% and the real lending rate at -8.6% in January. Against this backdrop, we believe that the CBE will need to raise interest rates by at least c.300-400 bps in 2023. We also see the potential for an inter-meeting rate hike before the next scheduled policy meeting on 30 March should the EGP remain under pressure. The 12-month ahead EGP forward has been under pressure since the CBE’s on-hold decision on 2 February and is currently at EGP37.1 against the USD.

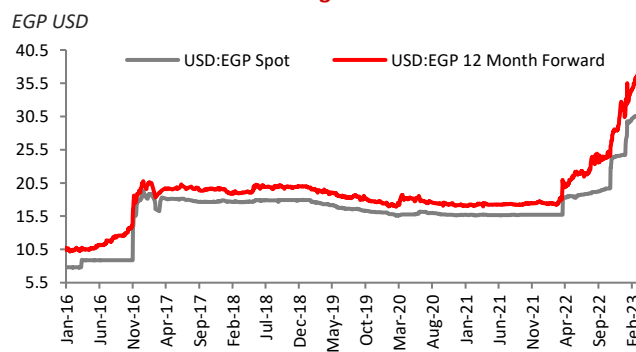
*Acceleration in inflation could force the central bank to undertake an inter-meeting rate hike*

**Fig. 1. Egypt: Real interest rates are currently in deep negative territory, and we expect a further drop ahead**



Source: CBE, CAPMAS, ADCB Economic Research

**Fig. 2. Egypt: The EGP weakened further in recent weeks in the forward market against the USD**



Source: Bloomberg, ADCB Economic Research

## B. G4 Economies

### ECB: Hawkish minutes and stronger core CPI pave way for higher rates

The February ECB minutes showed a significantly hawkish tone among the Governing Council members (GC). Policymakers expressed doubt over the pace of disinflation going forward, given the improvement in the growth outlook and resilience in the labour market. This is despite the pass-through of lower energy prices. The minutes also highlighted divergence within the GC over the extent of monetary tightening required, with some referencing the favourable sentiments expressed in ECB surveys and others pointing to the sharply lower lending volumes. The overall hawkish tone of the minutes was echoed by policymakers in subsequent speeches over the past week. CPI data released following the GC minutes also emphasised the need for tighter monetary policy, with core inflation remaining firm. Headline inflation printed at 8.5% y-o-y (January: 8.6%), higher than the consensus estimate of 8.3%. The upside surprise came from core inflation, which accelerated to 5.6% y-o-y, driven by broad-based price increases. Consensus expected core CPI to have remained steady at 5.3% y-o-y. The notable pick-up in credit volumes data for January, again released subsequently, also strengthens the case for the ECB to maintain its hawkish rhetoric. While a 50 bps hike in March is all but certain, we now also see the ECB hiking by a further 50 bps to 4.0% at its May meeting, against our earlier expectation of a 25 bps hike. It would take a visible deceleration in core inflation to convince policymakers to slow the magnitude of rate hikes, in our view.

*Higher-than-anticipated inflation could add to ECB Governing Council's hawkish sentiment*

Separately, the UK and EU agreed on a framework to manage trade in Northern Ireland last week, resolving an issue that has been under discussion since January 2021. While the direct macro fallout of the event remains minimal, the resolution could reduce the risk of a major escalation in tensions between the two governing blocks.

*UK-EU Northern Ireland framework reduces risks of a blow-out in relations*

## C. Emerging Market Economies

### India: GDP weaker than anticipated

GDP growth slowed more than anticipated in 4Q2022, decelerating to 4.4% y-o-y versus the consensus estimate of 4.7% on softer-than-expected manufacturing activity. Growth in the agricultural sector remains buoyant, while weakness in the manufacturing sector persists, with output contracting for two straight quarters. Despite the sharp sequential pick-up in the service sector, its annual growth slowed in 4Q2022 from a high base. Indeed, the GDP data release also saw upward revisions to FY2020-21 (Apr.-Mar.) and FY2021-22 GDP driven by stronger services activity. Thus far, other high-frequency indicators for 1Q2023 point towards healthy service sector momentum. Real GDP is on course to register c.7.0% growth in FY2022-23, despite the slowdown in the 2HFY2022-23 growth rate, making it among the fastest-growing economies globally. However, we see some moderation in GDP growth in the upcoming fiscal year (FY2023-24) on a combination of higher interest rates, lower banking sector liquidity and weakening global growth. We believe the forecast gradual slowdown is unlikely to deter the RBI from continuing monetary tightening. We maintain our view that the MPC is likely to increase its policy rate by 25 bps at its April meeting and stick to a disinflationary policy stance for a lengthier period.

*Slower growth is unlikely to deter the RBI from undertaking further rate hikes*

## China: Economic recovery strengthens further in February

Robust PMIs added to a list of high-frequency indicators, signalling a sharp recovery in China. The upside surprise in manufacturing and services PMI in February is in line with the spike in in-person activities following the Lunar New Year holiday. Overall, activity indicators point towards a robust and building recovery in China's economic growth, albeit clearly led by private consumption.

*Stronger PMIs point to recovery gathering further momentum in China*

China's inflation figures are due this Thursday; consensus expects it to have moderated to 1.9% y-o-y in February from 2.1% in January. With inflation remaining manageable, we expect monetary policy to remain accommodative in the near future. The focus now falls on the National People's Congress (NPC) meeting, which is currently underway (5-10 March). The NPC opted for a conservative approach, setting a growth target of "around 5.0%", which dampened hopes of major fiscal stimulus from the government, with the budget deficit set at 3.0% of GDP. Premier Li Qiang's comments on 13 March could provide more details on the government's agenda for the next year.

## II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai CPI, y-o-y	Feb	4.6%	
	Egypt	Net Reserves	Feb	34.2B	
	China	Aggregate Financing CNY	Feb	5980.0B	2250.0B
	China	Money Supply M2, y-o-y	Feb	12.6%	12.5%
	China	New Yuan Loans CNY	Feb	4900.0B	1500.0B
<b>Monday, 6 March</b>					
13:30	UK	S&P Global/CIPS UK Construction PMI	Feb	48.4	48.6
19:00	US	Factory Orders	Jan	1.8%	-1.8%
19:00	US	Durable Goods Orders	Jan F	-4.5%	-4.5%
19:00	US	Durables ex-Transportation	Jan F	0.7%	0.7%
<b>Tuesday, 7 March</b>					
19:00	US	Powell Appears Before Senate Banking Panel			
19:00	US	Wholesale Inventories, m-o-m	Jan F	-0.4%	-0.4%
	China	Foreign Reserves	Feb	3184.46B	3154.0B
<b>Wednesday, 8 March</b>					
3:50	Japan	BoP Current Account Balance	Jan	33.4B	-770.0B
3:50	Japan	Trade Balance BoP Basis	Jan	-1225.6B	-2912.1B
14:00	Eurozone	GDP SA, q-o-q	4Q F	0.1%	0.0%
14:00	Eurozone	GDP SA, y-o-y	4Q F	1.9%	1.9%
14:00	Eurozone	ECB's Lagarde Speaks			
17:15	US	ADP Employment Change	Feb	106K	200K
17:30	US	Trade Balance	Jan	-67.4B	-69.0B
19:00	US	Powell Appears Before House Financial Service Committee			
19:00	US	JOLTS Job Openings	Jan	11012K	10584K
<b>Thursday, 9 March</b>					
3:50	Japan	Money Stock M2, y-o-y	Feb	2.7%	
3:50	Japan	Money Stock M3, y-o-y	Feb	2.3%	
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	0.6%	0.8%
3:50	Japan	GDP SA, q-o-q	4Q F	0.2%	0.2%
5:30	China	CPI, y-o-y	Feb	2.1%	1.9%
5:30	China	PPI, y-o-y	Feb	-0.8%	-1.3%
17:30	US	Initial Jobless Claims	4-Mar	190K	195K
17:30	US	Continuing Claims	25-Feb	1655K	1659K
	Egypt	Urban CPI, y-o-y	Feb	25.8%	
	Egypt	CPI Core, y-o-y	Feb	31.2%	
<b>Friday, 10 March</b>					
3:50	Japan	PPI, y-o-y	Feb	9.5%	8.5%
11:00	UK	Monthly GDP, m-o-m	Jan	-0.5%	0.1%
11:00	UK	Monthly GDP, 3M/3M	Jan	-0.3%	0.0%
11:00	UK	Industrial Production, m-o-m	Jan	0.3%	0.0%
11:00	UK	Industrial Production, y-o-y	Jan	-4.0%	-4.0%
11:00	UK	Trade Balance GBP/Mn	Jan	-7150M	-6200M
11:00	Turkey	Industrial Production, m-o-m	Jan	1.6%	
16:00	India	Industrial Production, y-o-y	Jan	4.3%	5.5%
17:30	US	Change in Non-farm Payrolls	Feb	517K	215K
17:30	US	Unemployment Rate	Feb	3.4%	3.4%
17:30	US	Average Hourly Earnings, m-o-m	Feb	0.3%	0.3%
17:30	US	Average Hourly Earnings, y-o-y	Feb	4.4%	4.7%
17:30	US	Labour Force Participation Rate	Feb	62.4%	62.4%
	Japan	BOJ Policy Balance Rate	10-Mar	-0.1%	-0.1%

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	UAE	M3 Money Supply, y-o-y	Dec	15.3%		13.1%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Jan	1651.7B		1642.4B
	Bahrain	CPI, y-o-y	Jan	3.6%		0.8%
<b>Monday, 27 February</b>						
17:30	US	Durable Goods Orders	Jan P	5.6%	-4.0%	-4.5%
17:30	US	Cap Goods Shipments, Non-defence, ex-Air	Jan P	-0.6%	0.2%	1.1%
19:00	US	Pending Home Sales, m-o-m	Jan	2.5%	1.0%	8.1%
<b>Tuesday, 28 February</b>						
3:50	Japan	Industrial Production, m-o-m	Jan P	0.3%	-2.9%	-4.6%
3:50	Japan	Retail Sales, y-o-y	Jan	3.8%	4.0%	6.3%
16:00	India	GDP, y-o-y	4Q	6.3%	4.7%	4.4%
16:00	India	GDP Annual Estimate, y-o-y	2023	7.0%	6.9%	7.0%
17:30	US	Wholesale Inventories, m-o-m	Jan P	0.1%	0.1%	-0.4%
18:45	US	MNI Chicago PMI	Feb	44.3	45.5	43.6
19:00	US	Conference Board Consumer Confidence	Feb	107.1	108.5	102.9
<b>Wednesday, 1 March</b>						
4:30	Japan	Jibun Bank Japan PMI Mfg	Feb F	47.4		47.7
5:30	China	Manufacturing PMI	Feb	50.1	50.6	52.6
5:30	China	Non-manufacturing PMI	Feb	54.4	54.9	56.3
5:45	China	Caixin China PMI Mfg	Feb	49.2	50.7	51.6
9:00	India	S&P Global India PMI Mfg	Feb	55.4		55.3
11:00	Turkey	S&P Global/ICI Turkey Manufacturing PMI	Feb	50.1		50.1
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Feb F	48.5	48.5	48.5
13:30	UK	Mortgage Approvals	Jan	35.6K	38.5k	39.6k
13:30	UK	S&P Global/CIPS UK Manufacturing PMI	Feb F	49.2	49.2	49.3
18:45	US	S&P Global US Manufacturing PMI	Feb F	47.8	47.8	47.3
19:00	US	ISM Manufacturing	Feb	47.4	48.0	47.7
19:00	US	ISM Prices Paid	Feb	44.5	46.5	51.3
<b>Thursday, 2 March</b>						
3:50	Japan	Capital Spending, y-o-y	4Q	9.8%	7.1%	7.7%
14:00	Eurozone	CPI Estimate, y-o-y	Feb	8.6%	8.3%	8.5%
14:00	Eurozone	CPI, m-o-m	Feb P	-0.2%	0.5%	0.8%
17:30	US	Initial Jobless Claims	24-Feb	192K	195K	190K
<b>Friday, 3 March</b>						
3:30	Japan	Tokyo CPI, y-o-y	Feb	4.4%	3.3%	3.4%
3:30	Japan	Jobless Rate	Jan	2.5%	2.5%	2.4%
4:30	Japan	Jibun Bank Japan PMI Composite	Feb F	50.7		51.1
5:45	China	Caixin China PMI Composite	Feb	51.1		54.2
5:45	China	Caixin China PMI Services	Feb	52.9	54.5	55.0
8:15	UAE	S&P Global United Arab Emirates PMI	Feb	54.1		
9:00	India	S&P Global India PMI Composite	Feb	57.5		
11:00	Turkey	CPI, y-o-y	Feb	57.7%	55.7%	
13:00	Eurozone	S&P Global Eurozone Composite PMI	Feb F	52.3	52.3	
13:30	UK	S&P Global/CIPS UK Services PMI	Feb F	53.3	53.3	
18:45	US	S&P Global US Services PMI	Feb F	50.5	50.5	
19:00	US	ISM Services Index	Feb	55.2	54.5	

\*UAE time

Source: Bloomberg, ADCB Economic Research

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