

The Week Ahead: The Fed, BoE and CBRT likely to keep rates unchanged

► **US: Fed to remain on pause, data-dependency stressed**

We see the Fed maintaining the FFTR at 5.5% (upper-bound) this week. Stronger-than-expected February CPI (page 2) and NFP prints, coupled with the second consecutive soft retail sale report in February, underlines a still-uncertain disinflation trajectory, leading the FOMC to seek further evidence of moderation in the underlying drivers of price pressures before cutting the interest rate. We expect a hawkish adjustment in the policy statement, acknowledging that the pace of job creation has picked up instead of reiterating that the labour market is “moderating”, with the average three-month NFP rising at its fastest pace since last June at 265K. We see some upside risks to the dot-plot showing two instead of three rate cuts, though we believe the FOMC will continue to lean on ongoing supply-side improvements in retaining the projection of three rate cuts in 2024. The Summary of Economic Projections (SEP) will continue to point to a “soft-landing” scenario, with core PCE upgraded marginally to 2.6% for 2024 (previous: 2.4%), albeit still reaching target by 2026, and GDP growth revised up 1.9% for 2024. Meanwhile, Fed Chair Jerome Powell will provide some details on the slowing pace of balance-sheet run-off at the press conference. Powell will maintain a cautious tone and reiterate a data-dependent approach to beginning the rate-easing cycle. We expect the Fed to cut rates by 25 bps in June, but with risks of the first rate cut being pushed to July if the labour market and inflation remain strong.

► **UK: BoE will signal cautious approach to cutting rates**

We expect the BoE to remain on pause this week, keeping the Bank Rate unchanged at 5.25% with a 2 (25 bps hike), 6 (on hold), 1 (25 bps cut) majority. Another three-way split vote will signal that clearer indications of inflation moving sustainably to target are required before cutting rates. As such, the forward guidance of rates staying “restrictive for an extended period of time” will remain unchanged. The vagueness in forward guidance provides the MPC with sufficient optionality given the still-uncertain disinflation path. Indeed, the February PMI points to an increase in consumer spending on services and the c.10.0% rise in minimum wages from April points to still-prevalent upside risks to core CPI. Wage growth (page 3) decelerated to 5.7% y-o-y in January, albeit remaining inconsistent with inflation returning to the target level. We continue to expect the BoE to start its rate-easing cycle only in August.

► **Turkey: CBRT expected to keep rates steady; March CPI key**

The CBRT will likely keep the one-week repo rate unchanged at 45.0% this week. Inflation accelerated sharply in February, though we believe the MPC will await March CPI data before setting its future monetary stance, instead of relying on only one month’s print. Our view is underpinned by Governor Fatih Karahan stressing that a “persistent” deterioration in price pressures will be required for further rate hikes. We believe the CBRT will continue adopting a ‘wait-and-watch’ approach and hike rates by c.350-500 bps rate hike at the April meeting if core CPI continues to accelerate.

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I. Recent Events and Data Releases

A. Advanced Economies

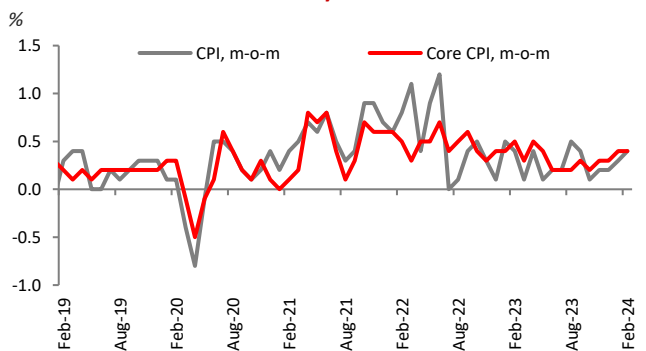
US: Strong CPI print affirms Fed’s cautious approach to rate cuts

The second consecutive upside surprise in both headline and core CPI in February is unlikely to have given the Fed “more confidence” that sustained disinflation is underway and re-affirms our view of the rate easing cycle beginning only in June. The higher-than-expected February CPI report underlines our view that the labour market needs to moderate more materially to ensure that inflation reaches the 2.0% target. Headline inflation accelerated 0.4% m-o-m in February (January: 0.3%), with sharp strengthening in energy and core CPI, resulting in annual headline CPI strengthening to 3.2% y-o-y. Core CPI printed above consensus expectations, remaining steady at 0.4% m-o-m (consensus: 0.3%), as goods prices strengthened unexpectedly for the first time in nine months. However, the rise in goods prices is unlikely to be sustained as retail inventories have continued to return to pre-pandemic levels and recent data points to an increase in supply of both new and used vehicles in the coming months. Services CPI decelerated to 0.5% m-o-m, with softening in both rent and OER components. This indicates that the historically wide divergence between OER and rent in the January print was led by one-off factors such as a rise in the weightage of single-family housing units in the OER measure. However, still-strong demand for rent supported by robust labour market conditions, alongside a moderate pace of construction, underpins our view of shelter prices remaining high in the coming months. The critical super-core CPI measure (Fed’s preferred gauge) decelerated substantially to 0.5% from 0.8%, albeit remaining above the pre-pandemic trend of 0.2%. However, core retail sales printed below consensus expectations at 0.3% m-o-m in February (consensus: 0.5%), indicating ongoing monetary tightness weighing on consumer spending.

Core CPI will remain sticky in the coming months with still-high shelter prices

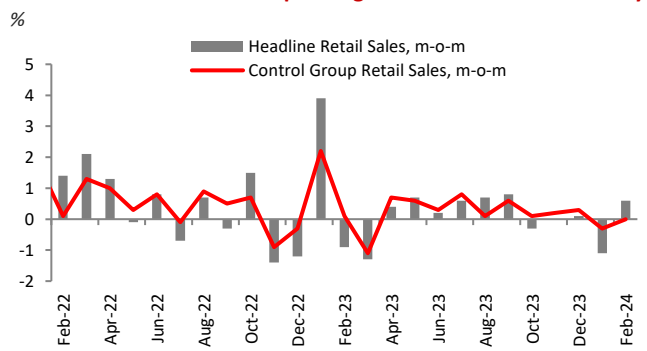
Meanwhile, we expect February core PCE (due 28 March) to decelerate, albeit only marginally as strengthening of PCE-relevant components in the February PPI report, such as airfares, partially offset the sharp moderation in portfolio management fees. As such, the Fed will continue to seek “more good data” to gain confidence inflation is moving to target before starting the rate-easing cycle.

Fig. 1. US: Headline CPI accelerated in February; core inflation remains sticky



Source: Bureau of Labour Statistics, ADCB Economic Research

Fig. 2. US: Rebound in control retail sales likely reflects normalisation of spending after contraction in January



Source: US Census Bureau, ADCB Economic Research

UK: February labour report printed with a marginal dovish surprise

The February labour market data showed continued loosening in market conditions, though we believe the BoE will want to see further re-balancing of labour supply and demand conditions to gain sufficient confidence that the disinflation trajectory is sustainable. Labour demand has continued to moderate, with the redundancy rate rising to its highest level since December 2019 at 0.46% in February (January: 0.40), although the BoE will likely remain concerned with the inactivity rate, which was unchanged at 37.2%. Labour supply remaining unchanged, coupled with January GDP data printing to the upside and pointing to some pick-up in economic activity, adds upside risks of re-tightening in labour market conditions. In this regard, we believe the marginal 2pp cut in income tax announced at the Spring Budget will have only a marginal impact on labour supply, especially with the continued freezing of income thresholds. Private sector wage growth inched down to 6.1% y-o-y in January (consensus: 6.2%), but large conglomerates (Amazon, Aldi, Tesco) announcing pay rises last week will likely slow the wage deceleration process, adding upside risks to the MPR's 1Q2024 wage forecast of 5.7% y-o-y. As such, the moderation in the labour market has continued, albeit insufficient for the MPC to begin discussing rate cuts, in our view.

Participation rate remaining steady raises some concerns on labour market conditions re-tightening

The February CPI report (due 20 March) will be closely watched as it prints before the BoE meeting, with any downside or upside surprises likely to weigh on the tone and forward guidance of the MPC. Consensus expects headline inflation to decelerate to 3.6% y-o-y in February (January: 4.0%) with softer energy and core inflation. We see favourable base effects and the c.12.0% decline in Ofgem's energy price cap from April adding downward pressure on headline inflation in the coming months. Core CPI is envisaged by consensus to cool to 4.6% y-o-y from 5.1% in January, led by previous easing in supply-chain conditions and weak consumer demand continuing to soften goods prices. We see some scope for further deceleration in services CPI with the recent easing in nominal wages. The MPC will likely want to see sustained deceleration in core CPI before beginning the rate-easing cycle.

Sustained deceleration in core CPI a key prerequisite for the BoE to start cutting rates

Japan: BoJ to hike rates with strong wage hikes at shunto negotiations

We now believe the BoJ will likely exit the negative interest rate policy (NIRP) regime this week (previous: April) and shift the policy rate back to the uncollateralized overnight call rate (OCR). We expect the BoJ to guide the OCR to a range of 0.0-0.1% (from -0.1%-0.0%) by hiking the excess reserves on policy rate balance by 20bps to 0.1% from -0.1%. Our view is underpinned by recent communication from BoJ pointing to a higher level of conviction in achieving the inflation target in a "stable and sustainable manner", and the strong wage hikes offered in the first-round of the Shunto wage negotiations agreed last week. Japanese firms agreed to raise wages by average c.5.3% in FY2024 (April-March), substantially above market expectation of 2.5% and marking the largest increase in incomes in 33 years. This sharp rise in wage growth will likely boost the MPC's confidence that the "virtuous cycle" of wage growth and inflation is underway. However, we believe the BoJ will seek broader range of information on business sentiment from its quarterly Tankan survey and the Branch Manager meeting before removing its Yield Curve Control (YCC) policy. The forward guidance will likely note that the MPC will "consider appropriate policy framework given the latest wage data" in signalling that the BoJ will discard the YCC and ETF purchases in the upcoming meetings. We believe monetary policy will remain accommodative even after the exit from the NIRP, in line with Governor Kazuo Ueda's comments at the January meeting.

We believe monetary policy will remain accommodative even after exit from NIRP

B. Emerging Economies

China: Activity data shows some growth momentum; MLF rate steady

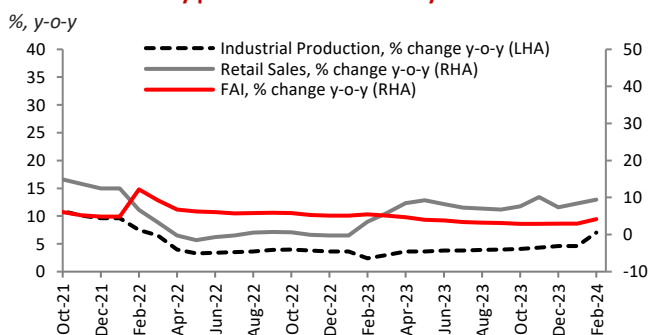
The February activity data points to some strengthening in economic growth, with industrial production and fixed asset investments accelerating and printing above consensus expectations at 4.2% y-o-y (consensus: 3.0%) and 7.0% y-o-y (consensus: 6.8%), respectively. The growth in industrial production was led by higher-end manufacturing, in line with the government's aim to "upgrade" the manufacturing sector. Retail sales strengthened to 9.4% y-o-y for the Jan-Feb period, led by a sharp rise in service retail sales, likely reflecting favourable seasonal effects, with Lunar New Year boosting demand for restaurants and catering. We see scope for a further increase in retail sales with the lowering of downpayment ratios for auto loans and subsidies for trade-ins boosting consumption demand. However, continued weakness in the property sector, with property investment contracting 9.0% y-o-y and new home sales falling by c.20.0% in value terms in February, will likely weigh on consumer confidence and growth. As such, we continue to believe that stabilisation in the property sector, potentially through additional pledged supplementary lending (PSL), remains critical in supporting economic growth. In this regard, we believe that further coordinated policy support through both expansionary fiscal and monetary policy will be required to achieve the ambitious GDP target of c.5.0%.

Policy support to stabilise the property sector still key to bolster economic growth

Nonetheless, the PBoC kept the medium-term lending facility (MLF) rate steady at 2.5% at its meeting last week, in line with our and consensus expectations. The rate decisions indicate that policymakers continue to prioritise currency stability as decreasing interest rates before the Fed would widen the interest rate differential and lead to capital outflows. We continue to see potential for the PBoC to cut the MLF and RRR by 20 bps and 50 bps, respectively, only in 3Q-4Q2024, after the Fed begins its rate-easing cycle.

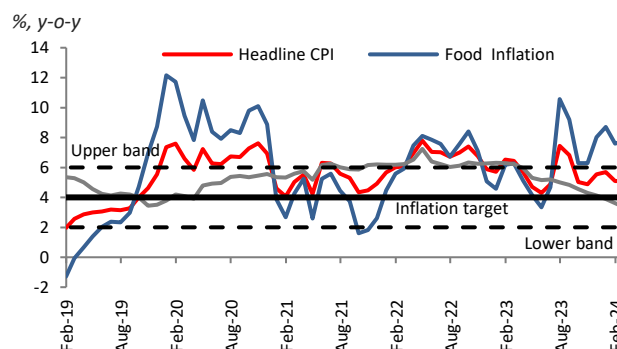
We continue to see scope for a 20 bps MLF rate cut only in 3Q-4Q2024

Fig. 3. China: Rise in industrial production and investments in February points to some recovery momentum



Source: National Bureau of Statistics, ADCB Economic Research

Fig. 4. India: Rising food inflation offsets the moderation in core inflation



Source: India Central Statistical Organisation, ADCB Economic Research

India: Inflation moves sideways; moderation in core a key positive

India's CPI remained flat at 5.1% y-o-y, as a spike in food inflation offset the moderation in core inflation. Food inflation rose further to 7.8% y-o-y (January: 7.6%), driven by a rise in vegetables and poultry prices. Core inflation dropped sharply to 3.3% y-o-y (January: 3.6%), the lowest since 2012, reflecting weakness in domestic demand and a lagged

Core inflation dipping to a record low increases pressure on RBI to ease interest rates

impact of rate hikes. The sharp moderation in core inflation will increase pressure on the central bank to ease interest rates. Moreover, recent decisions to reduce cooking gas (INR100.0, c.11.1%) and motor fuel prices (INR2.0/litre c.2.0%) will also help to moderate price pressures over the coming months. However, the elevated food inflation and possibility of volatility in perishables prices, particularly during the upcoming summer months, will keep policymakers vigilant, in our view. We continue to expect the RBI's easing cycle to be shallow (a cumulative 50 bps) this fiscal year FY2023-24 (Apr-Mar) and commence only in 3Q2024.

II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Kuwait	CPI, y-o-y	Feb	3.3%	
Monday, 18 March					
3:50	Japan	Core Machine Orders, m-o-m	Jan	1.9%	-0.7%
6:00	China	Retail Sales YTD, y-o-y	Feb		5.6%
6:00	China	Property Investment YTD, y-o-y	Feb		-8.0%
6:00	China	Fixed Assets ex-Rural YTD, y-o-y	Feb		3.2%
14:00	Eurozone	CPI, y-o-y	Feb F	2.6%	2.6%
14:00	Eurozone	CPI, m-o-m	Feb F	0.6%	0.6%
14:00	Eurozone	CPI Core, y-o-y	Feb F	3.1%	3.1%
Tuesday, 19 March					
8:30	Japan	Industrial Production, m-o-m	Jan F	-7.5%	
14:00	Germany	ZEW Survey Expectations	Mar	19.9	20.2
14:00	Germany	ZEW Survey Current Situation	Mar	-81.7	-82.3
16:30	US	Housing Starts	Feb	1331K	1430K
	Japan	BOJ Policy Balance Rate	19-Mar	-0.1%	-0.1%
	Japan	BOJ 10-Yr Yield Target	19-Mar	0.0%	0.0%
Wednesday, 20 March					
0:00	US	Net Long-term TIC Flows	Jan	160.2B	
11:00	UK	CPI, m-o-m	Feb	-0.6%	0.7%
11:00	UK	CPI, y-o-y	Feb	4.0%	3.5%
11:00	UK	CPI Core, y-o-y	Feb	5.1%	4.6%
11:00	UK	CPI Services, y-o-y	Feb	6.5%	6.0%
11:00	UK	RPI, m-o-m	Feb	-0.3%	0.7%
11:00	UK	RPI, y-o-y	Feb	4.9%	4.5%
15:00	US	MBA Mortgage Applications	15-Mar	7.1%	
22:00	US	FOMC Rate Decision (Upper Bound)	20-Mar	5.5%	5.5%
22:00	US	FOMC Rate Decision (Lower Bound)	20-Mar	5.3%	5.3%
Thursday, 21 March					
12:30	Germany	HCOB Germany Manufacturing PMI	Mar P	42.5	43.0
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Mar P	46.5	47.0
13:00	Eurozone	HCOB Eurozone Composite PMI	Mar P	49.2	49.7
13:30	UK	S&P Global UK Manufacturing PMI	Mar P	47.5	47.8
13:30	UK	S&P Global UK Services PMI	Mar P	53.8	53.8
15:00	Turkey	One-Week Repo Rate	21-Mar	45.0%	45.0%
16:00	UK	Bank of England Bank Rate	21-Mar	5.25%	5.25%
16:30	US	Current Account Balance	4Q	-200.3B	-209.0B
16:30	US	Philadelphia Fed Business Outlook	Mar	5.2	-2.3
16:30	US	Initial Jobless Claims	16-Mar	209K	215K
17:45	US	S&P Global US Manufacturing PMI	Mar P	52.2	51.8
17:45	US	S&P Global US Services PMI	Mar P	52.3	52.0
17:45	US	S&P Global US Composite PMI	Mar P	52.5	52.1
18:00	US	Leading Index	Feb	-0.4%	-0.2%
18:00	US	Existing Home Sales	Feb	4.00M	3.94M
Friday, 22 March					
3:30	Japan	Natl CPI, y-o-y	Feb	2.2%	2.9%
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Feb	3.4%	-0.3%
11:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Feb	0.7%	-0.8%
13:00	Germany	IFO Business Climate	Mar	85.5	85.8
13:00	Germany	IFO Expectations	Mar	84.1	84.6

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M3 Money Supply, y-o-y	Jan	16.0%		
	Qatar	CPI, y-o-y	Feb	3.0%		
	Oman	CPI, y-o-y	Feb	-0.1%		
Monday, 11 March						
3:50	Japan	GDP SA, q-o-q	4Q F	-0.1%	0.3%	0.1%
3:50	Japan	GDP Annualized SA, q-o-q	4Q F	-0.4%	1.1%	0.4%
3:50	Japan	GDP Deflator, y-o-y	4Q F	3.8%	3.8%	3.9%
Tuesday, 12 March						
11:00	UK	ILO Unemployment Rate, 3Mths	Jan	3.8%	3.8%	3.9%
11:00	UK	Employment Change, 3M/3M	Jan	72K	5K	-21K
11:00	Germany	CPI, y-o-y	Feb F	2.5%	2.5%	2.5%
11:00	Germany	CPI, m-o-m	Feb F	0.4%	0.4%	0.4%
11:00	Germany	CPI EU Harmonized, y-o-y	Feb F	2.7%	2.7%	2.7%
11:00	UK	Claimant Count Rate	Feb	4.0%		4.0%
11:00	UK	Jobless Claims Change	Feb	3.1K		16.8K
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Jan	5.8%	5.7%	5.6%
11:00	UK	Weekly Earnings ex-Bonus, 3M/y-o-y	Jan	6.2%	6.2%	6.1%
16:00	India	Industrial Production, y-o-y	Jan	4.2%	4.1%	3.8%
16:00	India	CPI, y-o-y	Feb	5.1%	5.0%	5.1%
16:30	US	CPI, m-o-m	Feb	0.3%	0.4%	0.4%
16:30	US	CPI ex-Food and Energy, m-o-m	Feb	0.4%	0.3%	0.4%
16:30	US	CPI, y-o-y	Feb	3.1%	3.1%	3.2%
16:30	US	CPI ex-Food and Energy, y-o-y	Feb	3.9%	3.7%	3.8%
16:30	US	Real Avg Weekly Earnings, y-o-y	Feb	0.1%		0.5%
16:30	US	Real Avg Hourly Earning, y-o-y	Feb	1.3%		1.1%
Wednesday, 13 March						
11:00	UK	Industrial Production, m-o-m	Jan	0.6%	0.0%	-0.2%
11:00	UK	Manufacturing Production, m-o-m	Jan	0.8%	0.0%	0.0%
11:00	UK	Trade Balance GBP/Mn	Jan	-2603M	-3000M	-3129M
15:00	US	MBA Mortgage Applications	8-Mar	9.7%		7.1%
Thursday, 14 March						
10:00	Saudi Arabia	CPI, y-o-y	Feb	1.6%		1.8%
16:30	US	Retail Sales Advance, m-o-m	Feb	-1.1%	0.8%	0.6%
16:30	US	Retail Sales ex-Auto and Gas	Feb	-0.8%	0.3%	0.3%
16:30	US	Retail Sales Control Group	Feb	-0.3%	0.4%	0.0%
16:30	US	PPI Final Demand, m-o-m	Feb	0.3%	0.3%	0.6%
16:30	US	PPI ex-Food and Energy, m-o-m	Feb	0.5%	0.2%	0.3%
16:30	US	PPI Final Demand, y-o-y	Feb	1.0%	1.2%	1.6%
16:30	US	PPI ex-Food and Energy, y-o-y	Feb	2.0%	1.9%	2.0%
16:30	US	Initial Jobless Claims	9-Mar	210K	218K	209K
Friday, 15 March						
5:20	China	1-Yr Medium-Term Lending Facility Rate	15-Mar	2.5%	2.5%	2.5%
16:30	US	Empire Manufacturing	Mar	-2.4	-7.0	-20.9
16:30	US	Import Price Index, m-o-m	Feb	0.8%	0.3%	0.3%
17:15	US	Industrial Production, m-o-m	Feb	-0.5%	0.0%	0.1%
18:00	US	U. of Mich. Sentiment	Mar P	76.9	77.1	76.5
18:00	US	U. of Mich. Expectations	Mar P	75.2	75.1	74.6
18:00	US	U. of Mich. 1 Yr Inflation	Mar P	3.0%	3.1%	3.0%
18:00	US	U. of Mich. 5-10 Yr Inflation	Mar P	2.9%	2.9%	2.9%

*UAE time

Source: Bloomberg, ADCB Economic Research

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