

## The Week Ahead: US February core PCE set to edge up; UK spring budget in focus

### ► **US: PCE expected to edge up, justifying Fed's pause**

Retail sales rebounded in February, signalling that rising uncertainty and declines in sentiment indicators have yet to translate into hard data. Solid spending data thus far justifies the Fed's decision to keep rates on hold at last week's policy meeting (page 2). We maintain our base case of two 25 bps rate cuts at the June and December meetings. We see the Fed waiting for a clear signal from hard economic data instead of responding to survey indicators. Market attention now shifts to February's core PCE, due this Friday, though we believe it is too soon to reflect the impact of tariffs. Consensus expects core PCE to edge up to 2.7% y-o-y (January: 2.6%), led by slightly stronger goods inflation and an acceleration in supercore services inflation (healthcare and financial services). Housing inflation should continue to decelerate, the sustaining of which will be a critical ingredient for the broader disinflation trajectory. Overall PCE spending should rebound to 0.6% m-o-m (0.2% contraction in January), likely reflecting some front-loading in spending ahead of tariff implementation and ongoing strength in job additions and wage growth. The focus will also be on the Conference Board's March consumer confidence index for data on how policy uncertainty is weighing on consumer sentiment.

### ► **Europe: UK Spring statement in focus; Germany passes fiscal bill**

The Spring budget (26 March) is expected to announce a significant c.GBP15.0 billion of fiscal consolidation measures, spanning until FY2029-30. Some GBP5.0 billion of welfare and broader departmental spending cuts are expected to take place this fiscal year (Apr-Mar), with the remainder spread over the next five years. The new measures are aimed at rebuilding fiscal headroom to c. GBP 10.0 billion. These measures will follow Office of Budget Responsibility (OBR) revised estimates (due Wednesday), which are expected to show budgetary headroom declining from GBP10.0 billion in October 2024 to a deficit of c.GBP5.0 billion (pre-measures) on slower-than-expected GDP growth and higher bond yields. The spending cuts will likely only have a modest incremental drag on GDP growth, given the planned rise in defence spending (target of c.2.5% GDP by 2027 vs. c.2.3% GDP currently). The German parliament and upper house approved a historic fiscal bill last week which will boost Germany and the Eurozone's medium-term growth outlook. The bill exempts defence from debt-brake rules, allowing spending of above 1.0% of GDP, establishing a EUR500.0 billion infrastructure fund, and raising federal states' annual borrowing limit to 0.35% of GDP (from 0.0%). This opens fiscal room and is a material shift in its historically prudent fiscal stance.

### ► **UK: February CPI likely to show limited disinflation progress**

The focus will also be on the February CPI, after the BoE held rates steady, albeit with a hawkish vote split and highlighting risk of a slower pace of cuts (page 3). Both headline and core CPI are expected to inch down to 2.9% y-o-y (January: 3.0%), and 3.6% (January: 3.7%) respectively, with the headline CPI still slightly above BoE's projection (2.8%).

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# I. Recent Events and Data Releases

## A. Advanced Economies

### US: Fed holds rates while acknowledging increased uncertainties

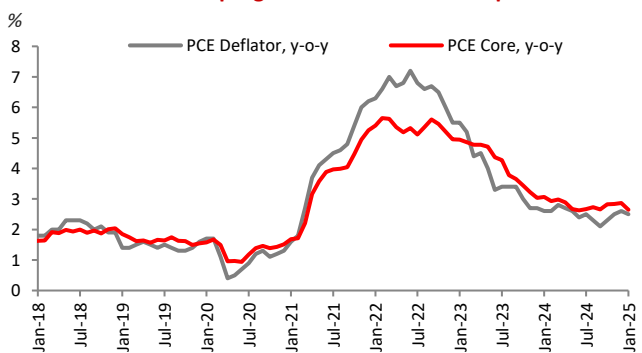
The FOMC held its Fed Funds Target Rate (FFTR) steady at 4.5% (upper bound) last week, as was widely anticipated. A key development was the FOMC now explicitly acknowledging that uncertainties around the economic outlook have increased. The broader tone of the meeting was slightly dovish, with Chair Jerome Powell downplaying the recent rise in inflation expectations and characterising the impact of tariffs as transitory, in the Fed’s base case. However, the Summary of Economic Projections (SEP) nodded to stagflation risks by sharply reducing its GDP growth projections and raising inflation forecasts. We expect the Fed to deliver two 25 bps rate cuts in 2025, in June and December. We acknowledge that the interest rate outlook could become binary in the event of either a recessionary environment (deeper cuts) or stagflation (prolonged pause). We see the Fed waiting for a clear signal from hard economic data instead of responding to survey indicators. Please see our note **US Economic Update - Fed holds rates while acknowledging increased uncertainties; two cuts forecast**, published on 20 March 2025. Ongoing strength in the labour market and still-solid expansion in broader activity should allow the Fed to remain on an extended pause.

*The interest rate outlook could become binary in the event of a recession (deeper cuts) or stagflation (prolonged pause)*

February retail sales recovered after the contraction in January. The control group sales, which feed into GDP, rose sharply by 1.0% m-o-m, significantly above consensus estimates of 0.4% (January: -1.0%), led by a particularly sharp expansion in auto sales. Consumer spending is supported by strong wage growth and historically low unemployment rates. However, household and business confidence has deteriorated sharply from March, including over the inflation and labour market outlooks. Reduced confidence and a cautious spending backdrop could negatively affect domestic demand, even before the impact of rising tariffs and other government policies are felt.

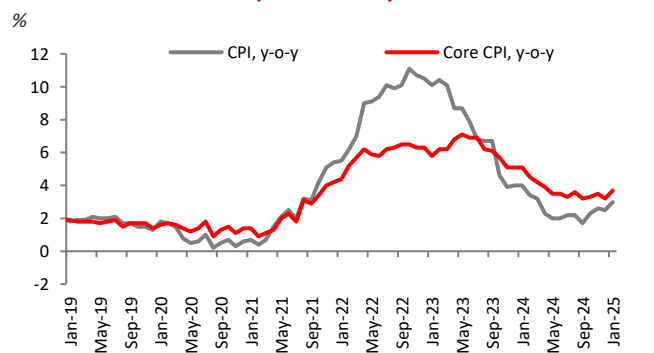
*Underlying consumer spending remains solid so far, in contrast to weak sentiment indicators*

**Fig. 1. US: Core PCE decelerated in January; we expect disinflation progress to stall on tariff implementation**



Source: Bureau of Economic Analysis, ADCB Economic Research

**Fig. 2. UK: Labour market strength and core CPI behind BoE’s decision to keep rates steady last week**



Source: UK Office for National Statistics, ADCB Economic Research

### UK: BoE holds rates, albeit with hawkish 8-1 vote split

The BoE kept the Bank Rate steady last week at 4.5%, as was widely expected. However, the 8-1 vote split was on the hawkish side, and in contrast to market expectations of 7-2, as MPC member Catherin Mann flipped to a hold after dissenting for a 50 bps rate cut in February. The MPC statement emphasised increased uncertainty, particularly in geopolitics and trade policy. The statement maintained its “gradual and careful” approach to further easing and reiterated that decisions would be made on a meeting-by-meeting basis. On balance, we maintain our view of quarterly rate cuts by the BoE (cumulative 75 bps in 2025), as the committee balances elevated headline inflation against weaker demand. The BoE acknowledged that activity momentum was slightly stronger than anticipated, though cautioned against optimism, given the softness in recent business and consumer surveys. The inflation outlook was broadly maintained, as upside in non-energy consumer goods was offset by weaker energy prices. Separately, the January labour market report showed continued resilience, with unemployment holding steady at 4.4%, though wage growth slowed to 6.1% (December: 6.2%). Vacancies fell in February, though the declines appear to be stabilising. Governor Andrew Bailey downplayed the recent weakening in employment surveys, noting that they have yet to reflect redundancies, a key leading indicator of labour market health.

*Despite the hawkish vote split, we still see BoE delivering quarterly rate cuts, including in May*

### Japan: BoJ kept rates steady; increased uncertainty emphasised

The BoJ kept its main policy rate unchanged at 0.5% last week, in line with our and market expectations. The key change was the policy statement highlighting the increasingly uncertain external backdrop and that US tariffs are a key risk to Japan’s economic outlook. The remainder of the statement was unchanged, reiterating that both GDP growth and prices have continued to rise “modestly” on the back of strong private consumption. BoJ Governor Kazuo Ueda adopted a moderately hawkish tone at the press conference, noting that initial shunto wage results were “somewhat” strong and that the BoJ will hike rates if the economy “evolves in-line” with its forecasts. We see the BoJ raising rates by 25 bps in July, after assessing the final results of the shunto wage negotiations (due July). We believe the BoJ will seek greater confirmation on the pass-through of the higher wages to household consumption and prices before raising rates further, especially against an uncertain external backdrop.

*Governor Ueda reiterated that the BoJ remains on track for hiking rates*

## B. Emerging Economies

### Turkey: CBRT delivers an unscheduled hike in its overnight lending rate

The CBRT raised its overnight lending rate by 200 bps to 46.0% in an unscheduled meeting last week to contain the TRY’s fall following the arrest of Istanbul Mayor Ekrem Imamoglu, a key opposition party leader. The overnight lending rate is little used by the CBRT, with the hike indicating a commitment to orthodox monetary policy and a willingness to act to contain upside inflationary pressures stemming from FX weakness. The main policy rate (one-week repo) was left unchanged at 42.5%, though the CBRT suspended repo auctions at this rate to tighten TRY liquidity. The arrest occurred four days before he was set to be named presidential candidate of the opposition Republic People’s Party. The TRY depreciated sharply by c.12.7% against the USD on the day of the arrest to a record low of c.42.1, before recovering some of its losses and settling at c.38.03. The CBRT’s rate guidance shifted hawkish, noting that “monetary policy will be tightened” if the inflation outlook deteriorates. We now see material risks of the CBRT

*Tightening in monetary conditions signals CBRT commitment to orthodox monetary policy*

keeping the one-week repo rate steady at its April meeting, in contrast to our prior expectations of a 250 bps rate cut.

Additional measures to tighten monetary conditions were also announced last week, including to absorb TRY liquidity (bill auction with 91-day maturity), with outflows of foreign investment and signs of dollarisation of local savings. Moreover, TRY-settled FX forward selling operations were reintroduced to reduce pressures on FX reserves. This allows the CBRT to pay the difference between the spot and forward FX rate in TRY, if the spot rate is stronger than the forward. The facility was introduced in 2017 during currency volatility and frequently utilised in 2018-20.

*The CBRT reintroduced TRY-settled forward FX operations*

## II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Feb	1543.6B	
	Qatar	GDP Constant Prices, y-o-y	4Q	2.0%	
	Bahrain	CPI, y-o-y	Feb	0.0%	
<b>Monday, 24 March</b>					
4:30	Japan	Jibun Bank Japan PMI Mfg	Mar P	49.0	
9:00	India	HSBC India PMI Mfg	Mar P	56.3	
9:00	India	HSBC India PMI Services	Mar P	59.0	
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Mar P	47.6	48.2
13:00	Eurozone	HCOB Eurozone Services PMI	Mar P	50.6	51.1
13:00	Eurozone	HCOB Eurozone Composite PMI	Mar P	50.2	50.7
22:00	UK	BOE's Bailey Speaks			
<b>Tuesday, 25 March</b>					
3:50	Japan	BOJ Minutes of Jan. Meeting			
13:00	Germany	IFO Business Climate	Mar	85.2	86.8
13:00	Germany	IFO Current Assessment	Mar	85.0	85.6
	China	1-Yr Medium-Term Lending Facilities Volume	25-Mar	300.0B	
	China	1-Yr Medium-Term Lending Facility Rate	25-Mar	2.00%	2.00%
<b>Wednesday, 26 March</b>					
11:00	UK	CPI, m-o-m	Feb	-0.1%	0.5%
11:00	UK	CPI, y-o-y	Feb	3.0%	2.9%
11:00	UK	CPI Core, y-o-y	Feb	3.7%	3.6%
11:00	UK	CPI Services, y-o-y	Feb	5.0%	4.9%
16:30	US	Durable Goods Orders	Feb P	3.2%	-1.0%
16:30	US	Durables ex-Transportation	Feb P	0.0%	0.2%
<b>Thursday, 27 March</b>					
12:30	UK	BOE's Dhingra Speaks			
16:30	US	GDP Annualized, q-o-q	4Q T	2.3%	2.3%
16:30	US	Wholesale Inventories, m-o-m	Feb P	0.8%	1.0%
16:30	US	Personal Consumption	4Q T	4.2%	4.2%
16:30	US	GDP Price Index	4Q T	2.4%	2.4%
16:30	US	Initial Jobless Claims	22-Mar	223K	225K
<b>Friday, 28 March</b>					
3:30	Japan	Tokyo CPI, y-o-y	Mar	2.8%	2.7%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Mar	2.2%	2.2%
3:30	Japan	Tokyo CPI ex-Fresh Food, Energy, y-o-y	Mar	1.9%	1.9%
3:50	Japan	BOJ Summary of Opinions (March MPM)			
11:00	UK	GDP, q-o-q	4Q F	0.1%	0.1%
11:00	UK	GDP, y-o-y	4Q F	1.4%	1.4%
11:00	UK	Private Consumption, q-o-q	4Q F	0.0%	0.0%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Feb	2.1%	-0.5%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Feb	1.2%	0.4%
16:30	US	Personal Income	Feb	0.9%	0.4%
16:30	US	Personal Spending	Feb	-0.2%	0.5%
16:30	US	Real Personal Spending	Feb	-0.5%	0.3%
16:30	US	PCE Price Index, m-o-m	Feb	0.3%	0.3%
16:30	US	PCE Price Index, y-o-y	Feb	2.5%	2.5%
16:30	US	Core PCE Price Index, m-o-m	Feb	0.3%	0.3%
16:30	US	Core PCE Price Index, y-o-y	Feb	2.6%	2.7%
18:00	US	U. of Mich. Expectations	Mar F	54.2	
18:00	US	U. of Mich. 1 Yr Inflation	Mar F	4.9%	

\*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	Jan	13.7%		
	Qatar	CPI, y-o-y	Jan	0.2%		-1.2%
	Kuwait	CPI, y-o-y	Feb	2.5%		
<b>Monday, 17 March</b>						
10:30	India	Wholesale Prices, y-o-y	Feb	2.3%	2.3%	2.4%
16:30	US	Empire Manufacturing	Mar	5.7	-1.9	-20.0
16:30	US	Retail Sales Advance, m-o-m	Feb	-1.2%	0.6%	0.2%
16:30	US	Retail Sales ex-Auto, m-o-m	Feb	-0.6%	0.3%	0.3%
16:30	US	Retail Sales ex-Auto and Gas	Feb	-0.8%	0.4%	0.5%
16:30	US	Retail Sales Control Group	Feb	-1.0%	0.4%	1.0%
	India	Exports, y-o-y	Feb	-2.4%		-10.9%
<b>Tuesday, 18 March</b>						
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	0.4%	-0.1%	-0.3%
16:30	US	Housing Starts	Feb	1350K	1385K	1501K
17:15	US	Industrial Production, m-o-m	Feb	0.3%	0.2%	0.7%
<b>Wednesday, 19 March</b>						
3:50	Japan	Trade Balance	Feb	-2736.6B	688.3B	584.5B
3:50	Japan	Exports, y-o-y	Feb	7.3%	12.6%	11.4%
3:50	Japan	Imports, y-o-y	Feb	16.2%	0.8%	-0.7%
3:50	Japan	Core Machine Orders, m-o-m	Jan	-0.8%	-0.1%	-3.5%
8:30	Japan	Industrial Production, m-o-m	Jan F	-1.1%		-1.1%
14:00	Eurozone	Labour Costs, y-o-y	4Q	4.5%		3.7%
14:00	Eurozone	CPI, y-o-y	Feb F	2.4%	2.4%	2.3%
14:00	Eurozone	CPI, m-o-m	Feb F	0.5%	0.5%	0.4%
14:00	Eurozone	CPI Core, y-o-y	Feb F	2.6%	2.6%	2.6%
15:00	US	MBA Mortgage Applications	14-Mar	11.2%		-6.2%
22:00	US	FOMC Rate Decision (Upper Bound)	19-Mar	4.50%	4.50%	4.50%
22:00	US	FOMC Rate Decision (Lower Bound)	19-Mar	4.25%	4.25%	4.25%
22:00	US	Fed Interest on Reserve Balances Rate	20-Mar	4.40%	4.40%	4.40%
22:00	US	FOMC Median Rate Forecast: Current Yr	19-Mar	4.38%	3.88%	3.88%
22:00	US	FOMC Median Rate Forecast: Next Yr	19-Mar	3.88%	3.88%	3.38%
22:00	US	FOMC Median Rate Forecast: +2 Yrs	19-Mar	3.38%	3.13%	3.13%
	Japan	BOJ Target Rate	19-Mar	0.50%	0.50%	0.50%
<b>Thursday, 20 March</b>						
5:00	China	1-Year Loan Prime Rate	20-Mar	3.10%	3.10%	3.10%
5:00	China	5-Year Loan Prime Rate	20-Mar	3.60%	3.60%	3.60%
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Jan	6.1%	5.8%	5.8%
11:00	UK	Weekly Earnings ex-Bonus, 3M/y-o-y	Jan	5.9%	5.9%	5.9%
11:00	UK	Private Earnings ex-Bonus, 3M/y-o-y	Jan	6.2%	6.1%	6.1%
11:00	UK	ILO Unemployment Rate, 3Mths	Jan	4.40%	4.4%	4.4%
11:00	UK	Jobless Claims Change	Feb	2.8K		44.2K
16:00	UK	Bank of England Bank Rate	20-Mar	4.50%	4.50%	4.50%
16:30	US	Initial Jobless Claims	15-Mar	220K	224K	223K
18:00	US	Leading Index	Feb	-0.2%	-0.2%	-0.3%
18:00	US	Existing Home Sales	Feb	4.09M	3.95M	4.26M
<b>Friday, 21 March</b>						
3:30	Japan	Natl CPI, y-o-y	Feb	4.0%	3.5%	3.7%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Feb	3.2%	2.9%	3.0%
3:30	Japan	Natl CPI ex-Fresh Food, Energy, y-o-y	Feb	2.5%	2.6%	2.6%

\*UAE time

Source: Bloomberg, ADCB Economic Research

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