The Week Ahead: Central bank meetings in focus as stagflation risks loom

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Global: Energy shock to force central bank caution

The surge in energy prices following escalation of the Middle East conflict has renewed fears of a global inflation resurgence. A series of key central bank meetings in the coming week should shed light on how policymakers are weighing heightened inflation and softer growth risks. Against a backdrop of elevated uncertainty, we expect all G4 central banks to hold rates this week and stress vigilance until there is greater clarity on whether the energy shock is temporary or more lasting. The Brent price remains above USD100 p/b, with risks skewed firmly towards the upside. The scale and persistence of any disruption will be critical in determining the magnitude of the shock.

The International Energy Agency (IEA) announced a record release of 400 million barrels of crude oil from its emergency reserves. While this is the largest coordinated release on record — almost double that undertaken during the Russia-Ukraine crisis — it represents only a fraction of the oil volumes that typically transit the Strait of Hormuz, equivalent to c.20-25 days of flows. Moreover, the pace of the release is expected to be limited, potentially around 2 million b/d, which remains modest relative to volumes passing through the Strait (c.20 million b/d). As such, the IEA emphasised that opening the Strait of Hormuz is essential to normalise flows, and the market impact of the reserve release announcement has so far been muted. The Strait has been effectively blocked since end-February, alongside multiple ongoing production shut-ins by major GCC producers. The risk of further energy supply disruption remains elevated, with no clear indication of how long the conflict may last. Please see our report, **MENA Economic Update - Reviewing transmission channels - duration and intensity critical**, published on 4 March 2026.

US: Fed pause reinforced by re-emerging inflation risks

We expect the Fed to hold rates at 3.75% (upper bound), reflecting rising upside risks to inflation and heightened uncertainty from the ongoing Iran conflict. While a Fed pause was expected even prior to the fighting, a prolonged Middle East conflict would have significant macroeconomic repercussions for the US, reaffirming the need for a vigilant stance by the Fed. As such, market focus will be on the Fed's post-policy communication, changes to its Summary of Economic Projections (SEP) and the dot plot. Markets have significantly repriced the Fed rate cut view, expecting only one 25 bps cut in 2026, versus c.60 bps of cuts priced at end-February. Recent data indicates core CPI stabilising at 2.5% y-o-y, alongside a labour market showing a loss of momentum. However, the data is backwards-looking, and with the Fed's focus on evolving inflation risks, the ability to counterbalance any further weakening in the labour market will be constrained.

We expect Fed staff to only partially incorporate the impact of the energy shock, with SEP likely to show higher 2026 core PCE (2.7% y-o-y vs 2.5%), slightly higher unemployment (4.5% vs 4.4%), and lower GDP growth (2.0% vs 2.3%). We expect the Fed dot plot to continue signalling one 25bp cut in 2026,

although post-policy communication is likely to acknowledge the risk of no cuts should the conflict prove prolonged. We now expect only one rate cut this year (December), against our earlier expectation of two (July and December).

US: Disinflation remains intact, but upside risks are building

US inflation data released last week signalled that the disinflation path remained broadly intact, though the data is backwards-looking and predates the energy price shock. February headline and core CPI remained steady at 2.4% y-o-y and 2.5% y-o-y, respectively, reflecting moderation in core goods and further deceleration in shelter inflation, though still sticky services (ex-shelter). In contrast to the benign CPI, the January core PCE – the Fed's preferred price gauge – was firmer, rising to 3.1% y-o-y (December: 3.0%), underpinned by a second consecutive 0.4% m-o-m print. Firmer PCE vs CPI reflects stronger momentum in services-heavy components and technical factors such as differences in expenditure weights, alongside limited government shutdown-related distortions affecting PCE. With core PCE still running well above target, and the recent surge in energy prices posing material upside risks — both directly and via potential second-round effects and inflation expectations — the Fed is likely to remain cautious, reinforcing a higher-for-longer stance despite cooling growth and labour market momentum.

Separately, the US administration initiated fresh Section 301 trade investigations covering 60 countries last week, encompassing all major trading partners. The probes are widely seen as a potential pathway to reinstating the International Emergency Economic Powers Act (IEEPA)-based tariffs, which were struck down by the US Supreme Court last month.

UK: BoE likely to signal a pause as inflation risks build

We now expect the Bank of England to hold the Bank Rate at 3.75% this week, marking a shift from our previous call for a 25bp cut. The escalation of the Iran conflict has materially tilted risks toward higher near-term inflation, reinforcing caution despite still-weak underlying growth momentum. We also expect the MPC statement to drop the explicit reference to further rate cuts included in the February statement, reinforcing a more cautious, meeting-by-meeting approach. January labour-market data, due ahead of the March decision, will also be a key input for policymakers. While headline CPI has continued to cool (January: 3% y-o-y), the Iran conflict has seriously complicated the inflation outlook, with the sharp rise in crude oil and LNG prices — if sustained — posing a meaningful upside risk to headline inflation over the coming year. Meanwhile, labour market slack continues to build, with the unemployment rate rising to 5.1% in January, a four-year high, though private-sector wage growth cooled to 3.4% y-o-y in December, signalling easing but not outright weakness. At the same time, economic activity remains subdued, with both 4Q GDP growth (0.1% q-o-q vs 0.2% consensus) and January monthly GDP (0.0% vs 0.2% consensus) undershooting expectations. While recent domestic data would, in isolation, support further easing, geopolitical and inflation risks now dominate the near-term calculus. Elevated uncertainty increases the value of waiting for clearer signals before easing policy, in our view.

EU: Hawkish hold expected; energy price risks call for vigilance

We and consensus expect the ECB to keep policy rates unchanged at this week's meeting, leaving the deposit rate at 2%, but with a clear hawkish shift in tone. This reflects the rising risks to inflation from the Iran conflict. Recent data has been broadly consistent with the ECB's prior outlook, though the sharp increase in oil and gas prices has significantly altered the near-term risk balance. We expect the Governing Council to reiterate its meeting-by-meeting approach, while emphasising heightened vigilance and policy agility. This would be consistent with the recent hawkish tilt by ECB members, such as Joachim Nagel and Villeroy de Galhau, who

emphasised a readiness to act should prolonged energy supply disruptions pose material upside risks to the medium-term inflation outlook. Eurozone inflation remains below target (2%), though the energy price shock raises the risk of second-round effects, particularly if higher costs feed into inflation expectations and wage-setting behaviour. The updated staff projection should see growth revised lower, with risks tilted to the downside. Inflation estimates are likely to be raised, acknowledging further upside risks if energy supply disruptions persist. We acknowledge the risk that a sustained, prolonged war could create substantial upside to Europe's inflation trajectory, forcing the ECB to hike rates later this year.

Japan: BoJ set to hold amid uncertainty; changes to YCC eyed

We expect the BoJ to hold its short-term policy rate at 0.75% at the 19 March meeting, opting for patience despite inflation running above target. Governor Kazuo Ueda previously described the meeting as "live," but a pause is widely anticipated given still-insufficient evidence of durable, wage-led growth and a recent loss of momentum in the domestic economy, with softer consumption weighing on activity. Rising global uncertainties and higher energy costs further argue against any hasty policy tightening into a potential external demand shock. Ueda has also cautioned that the Iran conflict – which has weakened the JPY to multi-year lows against the USD – could significantly worsen Japan's terms of trade and amplify import price inflation, reinforcing the case for caution. At the same time, underlying inflation dynamics remain supportive of further normalisation, with core CPI at 3.1% y-o-y in January, while wage growth has continued to firm. Moreover, this year's Shunto wage negotiations are expected to deliver solid pay increases (potentially c. 3-5%), which would strengthen the BoJ's confidence that inflation can be sustained around its 2% target. Against this backdrop, we expect the BoJ to signal patience rather than a definitive pause, emphasising data dependence and preserving policy optionality. We expect policymakers to reiterate that any further rate hikes will require clearer evidence of durable inflation and growth. The BoJ will also update its JGB purchase plans, with markets focused on any hints of potential adjustments to yield curve control later in the year, should inflation surprise to the upside.

India: Inflation picks up in February; external sector risks in focus

Headline inflation surprised to the upside in February, rising to 3.2% y-o-y from 2.7% in January, marking the fourth consecutive monthly increase but remaining comfortably within the RBI's 2-6% tolerance band. The uptick in CPI was driven by a sharp acceleration in food inflation to 3.5% y-o-y (January: 2.1%), reflecting a faster rise in vegetable prices along with a low base. However, core inflation remains steady at 3.4% y-o-y, underscoring still-subdued underlying price pressures, despite some firming from precious metals. The RBI's focus remains firmly on emerging upside risks, as the ongoing Middle East conflict has pushed international energy prices sharply higher. Higher energy prices are likely to significantly widen India's current account deficit due to greater energy imports, though the impact on inflation would be limited, given the government's scope to cushion domestic consumers through fiscal measures. Nonetheless, the INR has come under renewed pressure, hitting a series of record lows against the USD last week, reportedly prompting FX interventions by the RBI to curb excess volatility. Against this backdrop, the RBI is likely to remain on a prolonged pause, maintaining a vigilant stance against external sector risks.

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