

The Week Ahead: Central banks deliver a hawkish message amid elevated uncertainty

► **Global: Investor sentiment falls; Central banks hawkish shift**

The focus remains on the Iran conflict as it enters its fourth week, with the Strait of Hormuz still virtually closed and increasing damage to regional energy infrastructure. Qatar has announced that two LNG trains at Ras Laffan – the world’s largest complex accounting for 20% of global LNG supply – were severely damaged and could take between three to five years to repair, potentially resulting in the country declaring force majeure on related contracts. This was in retaliation to attacks on Iran’s South Pars gas field. European natural gas prices have surged further, while oil prices remain elevated with Brent crude at c.USD113 p/b at the time of publishing. Global markets continue to concentrate on the inflationary shock, with a sell-off in bond markets, especially gilts, given the UK’s vulnerability to higher gas prices. Natural gas accounted for c.35% of total UK energy demand in 2024, including for most households. Stock markets also came under selling pressure on inflation and growth concerns. The Fed, ECB, BoE, and BoJ all remained on hold last week, albeit with a notable hawkish shift in communication across the board, given the renewed inflation risk from the Middle East conflict. The market is now pricing in no rate cuts from the Fed this year, and over 75 bps of hikes by the ECB and the BoE.

Geopolitical developments were being watched at the beginning of the week, after US President Donald Trump on Saturday issued Iran a 48-hour ultimatum to unblock Hormuz or face attacks on its power plants. This raises the risks of a further escalation, after Trump suggested a few days earlier that he was considering winding down the military efforts. On the data front, markets will look for signs that the energy shock is starting to show up in activity data, especially flash PMIs (US, Eurozone, UK, Germany, and Australia) and consumer confidence. February inflation prints (UK and Japan) are also due this week, with some pickup in energy-related prices expected given a rise in geopolitical premiums ahead of the conflict. The impact of the oil shock will be more marked in the March inflation data. The focus will also be on comments and speeches by central bank committee members to gauge if monetary policy will need to stay tighter for longer, even as the impact on economic activity increases.

► **US: Fed turns modestly hawkish, with uncertainty emphasised**

The FOMC kept the policy rate unchanged at 3.75% (upper bound) last week, as widely expected, though the communication leaned hawkish. The median dot continued to signal one 25 bps rate cut in 2026 and another in 2027, though the distribution was noticeably less dovish than the December one. The number of participants projecting two 25 bps cuts in 2026 fell to five from eight, underscoring rising caution around the inflation outlook. The Summary of Economic Projections reinforced this message, with 2026 core PCE projections raised to 2.7% y-o-y (December 2025: 2.5%), reflecting renewed energy-related pressures on an already sticky underlying backdrop. GDP growth and unemployment projections were broadly unchanged, suggesting the Fed’s primary concern is inflation at this point.

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The statement and Chair Jerome Powell's press conference repeatedly highlighted "elevated uncertainty", noting that it is too soon to know the scope and duration of the war-related shock and its effects on the US economy. Chair Powell emphasised risks from higher oil prices to inflation expectations, adding that a "mildly restrictive" stance remains appropriate under current conditions. There was only one dissent, with Governor Stephen Miran again voting for an immediate 25 bps cut, while other typically dovish members supported a pause — reinforcing a broader shift toward patience within the committee. We continue to expect one 25 bps Fed rate cut in December, as core inflation should decelerate by late-2026, driven by fading tariff effects, with the new framework pointing to a lower weighted-average tariff rate and easing demand pressures. A rise in the unemployment rate above 4.6% should eventually provide the Fed with sufficient confidence to resume easing, albeit cautiously. However, much will depend on the duration of the conflict and damage to the MENA energy infrastructure.

Separately, Powell noted that he intends to stay on as chair of the FOMC until the new leader is confirmed. He added that he has "no intention of leaving" the board until the Department of Justice investigation is concluded with "transparency and finality". A continuation of Powell adds another mildly hawkish shift to the FOMC board's composition.

► **UK: BoE turns hawkish amid rising inflation risks**

The BoE delivered a decisively hawkish hold last week, with the MPC voting 9-0 to keep the Bank Rate unchanged at 3.75%. The unanimous decision itself was a hawkish surprise, as both we and the market had expected at least one dissent in favour of a cut from long-standing doves, such as Swati Dhingra. The MPC also overhauled its guidance, dropping earlier language on openness to rate cuts and instead signalling a readiness to act, to ensure CPI returns sustainably to the 2.0% target. The committee highlighted that upside risks to inflation have increased significantly since the previous meeting, noting that higher energy and food prices could lift inflation expectations and trigger second-round effects. Consistent with this shift, inflation forecasts were revised up sharply, with CPI now projected to accelerate to around 3.5% y-o-y by 3Q2026, compared with the February projection that inflation would return to target by 3Q2026.

Markets reacted forcefully, repricing cumulative rate hikes in 2026 to c.80 bps, from just c.21 bps prior to the meeting, implying more than three 25 bps hikes. Gilt yields rose sharply last week, with the 10-year yield up c.60 bps since the outbreak of the war – the highest level since the financial crisis. This removes much of the fiscal space created over the last six months from lower interest rates. However, Governor Andrew Bailey cautioned against drawing firm conclusions about imminent rate hikes, downplaying comparisons with the 2022 energy price shock given softer demand conditions and the already restrictive policy stance. The committee stressed the need to remain "alert" to second-round effects, even as it acknowledged that the MPC cannot influence global energy prices directly. In our base case, we now expect the MPC to remain on hold through 2026, though risks of a hike would increase materially if the conflict is prolonged and inflation expectations become less anchored.

► **EU: Cautious stance amid rising inflation and growth risks**

The ECB held rates steady last week, leaving the deposit rate unchanged at 2%, in line with expectations. The policy statement reiterated that the Governing Council (GC) will continue to follow a data-dependent, meeting-by-meeting approach, though it refrained from offering any forward guidance on the rate path. President Christine Lagarde warned that the conflict is creating upside risks to inflation and downside risks to GDP growth, stressing that the GC remains well-positioned and

well-equipped to respond to the unfolding shock. She noted that policymakers will closely monitor the duration, intensity and transmission of the shock to assess medium-term inflation dynamics, with particular attention to commodity markets, emerging supply-chain bottlenecks and ECB survey indicators. Notably, the Eurozone is relatively better placed to deal with the energy shock than it was following Russia's invasion of Ukraine, with increased renewable power generation and diversification of gas imports. Overall, the Eurozone imports most of its gas from Norway (pipeline) and the US rather than from the Middle East. The Iran shock still negatively affects Europe via higher global oil and LNG prices, though it is less about losing a dominant supplier, with Russia having accounted for c.40% of the EU's total natural gas imports prior to 2022.

Staff projections were revised materially, with 2026 inflation raised to 2.6% y-o-y (from 1.9% in December 2025) and GDP growth lowered to 0.9% y-o-y (from 1.2%). The ECB also outlined a "severe scenario", under which inflation would average a significantly higher 4.4% this year, while GDP growth would slip into a mild technical recession in 2026. Markets reacted by pricing in c.82 bps of rate hikes in 2026, implying more than three 25 bps moves, with a c.78% probability of the first hike in April.

► **Japan: BoJ holds rates; vigilance on upside inflation risks**

The Bank of Japan kept its short-term policy rate unchanged at 0.75%, with one dissent from board member Hajime Takata, who voted to raise rates to 1%. Governor Kazuo Ueda acknowledged the voting division, citing downside growth risks and upside inflation risks from higher oil prices, though the current consensus is leaning toward heightened vigilance. As a result, the BoJ will maintain a data-dependent stance, closely monitoring the impact of the Middle East conflict and a weak JPY on underlying inflation, with guidance likely to be clarified in the April Outlook Report. The tone of communication suggests greater sensitivity to upside inflation risks, even as uncertainty around external shocks remains elevated.

We expect the BoJ to resume rate hikes at the July meeting (25 bps), as rising energy prices feed through to inflation, and the risk of GDP growth deteriorating into a recession remains limited. While market pricing has begun to lean toward an April hike, we see this as a high bar, given the lack of sufficient evidence that inflation pressures are sustainably entrenched at this stage.

I. Economic Calendar

Fig. 1. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	UAE	Dubai CPI, y-o-y	Jan	3.0%	
	Qatar	Trade Balance Month	Feb	12111M	
	Bahrain	CPI, y-o-y	Feb	1.3%	
Monday, 23 March					
18:00	US	Construction Spending, m-o-m	Jan	0.3%	0.1%
19:00	Eurozone	ECB's Cipollone Speaks in Brussels			
20:00	Eurozone	ECB's Lane Speaks in Frankfurt			
Tuesday, 24 March					
3:30	Japan	Natl CPI, y-o-y	Feb	1.5%	1.5%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Feb	2.0%	1.7%
4:30	Japan	S&P Global Japan PMI Composite	Mar P	53.9	
4:30	Japan	S&P Global Japan PMI Mfg	Mar P	53	
4:30	Japan	S&P Global Japan PMI Services	Mar P	53.8	
9:00	India	HSBC India PMI Composite	Mar P	58.9	
9:00	India	HSBC India PMI Mfg	Mar P	56.9	
9:00	India	HSBC India PMI Services	Mar P	58.1	
12:30	Germany	S&P Global Germany Services PMI	Mar P	53.5	52.5
12:30	Germany	S&P Global Germany Composite PMI	Mar P	53.2	52.0
12:30	Germany	S&P Global/BME Germany Manufacturing PMI	Mar P	50.9	49.5
13:00	Eurozone	S&P Global Eurozone Manufacturing PMI	Mar P	50.8	49.6
13:00	Eurozone	S&P Global Eurozone Services PMI	Mar P	51.9	51.1
13:00	Eurozone	S&P Global Eurozone Composite PMI	Mar P	51.9	51.0
13:30	UK	S&P Global UK Services PMI	Mar P	53.9	53.0
13:30	UK	S&P Global UK Manufacturing PMI	Mar P	51.7	50.0
13:30	UK	S&P Global UK Composite PMI	Mar P	53.7	52.9
17:45	US	S&P Global US Manufacturing PMI	Mar P	51.6	51.3
17:45	US	S&P Global US Services PMI	Mar P	51.7	52.0
17:45	US	S&P Global US Composite PMI	Mar P	51.9	
18:00	US	Richmond Fed Manufact. Index	Mar	-10.0	-8.0
Wednesday, 25 March					
11:00	UK	CPI, m-o-m	Feb	-0.5%	0.4%
11:00	UK	CPI, y-o-y	Feb	3.0%	3.0%
11:00	UK	CPI Core, y-o-y	Feb	3.1%	3.1%
13:00	Germany	IFO Business Climate	Mar	88.6	86.6
15:00	US	MBA Mortgage Applications	20-Mar	-10.9%	
16:30	US	Current Account Balance	4Q	-226.4B	-207.0B
Thursday, 26 March					
13:00	Eurozone	M3 Money Supply, y-o-y	Feb	3.3%	3.2%
13:30	UK	BoE Deputy Governor Sarah Breeden Speaks			
16:30	US	Initial Jobless Claims	21-Mar	205K	210K
16:30	US	Continuing Claims	14-Mar	1857K	1848K
Friday, 27 March					
11:00	UK	Retail Sales Inc Auto Fuel, m-o-m	Feb	1.8%	-0.7%
11:00	UK	Retail Sales Inc Auto Fuel, y-o-y	Feb	4.5%	2.1%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Feb	2.0%	-1.0%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Feb	5.5%	2.7%
18:00	US	U. of Mich. Sentiment	Mar F	55.5	54.0

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 2. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	M3 Money Supply, y-o-y	Jan	17.2%		
	Qatar	GDP Constant Prices, y-o-y	4Q	2.9%		
Monday, 16 March						
10:30	India	Wholesale Prices, y-o-y	Feb	1.8%	2.1%	2.1%
11:54	India	Exports, y-o-y	Feb	0.6%		-0.8%
14:31	India	Unemployment Rate	Feb	5.0%		4.9%
16:30	US	Empire Manufacturing	Mar	7.1	3.9	-0.2
17:15	US	Industrial Production, m-o-m	Feb	0.7%	0.1%	0.2%
Tuesday, 17 March						
8:30	Japan	Tertiary Industry Index, m-o-m	Jan	-0.5%	0.9%	1.7%
10:15	Qatar	CPI, y-o-y	Feb	2.3%		2.5%
11:38	Kuwait	CPI, y-o-y	Jan	2.1%		2.0%
18:00	US	Pending Home Sales, m-o-m	Feb	-0.8%	-0.6%	1.8%
Wednesday, 18 March						
14:00	Eurozone	CPI, y-o-y	Feb F	1.9%	1.9%	1.9%
14:00	Eurozone	CPI, m-o-m	Feb F	0.7%	0.7%	0.6%
14:00	Eurozone	CPI Core, y-o-y	Feb F	2.4%	2.4%	2.4%
15:00	US	MBA Mortgage Applications	13-Mar	3.2%		-10.9%
16:30	US	PPI Final Demand, m-o-m	Feb	0.5%	0.3%	0.7%
18:00	US	Factory Orders	Jan	-0.7%	0.1%	0.1%
18:00	US	Durable Goods Orders	Jan F	0.0%	0.0%	0.0%
22:00	US	FOMC Rate Decision (Upper Bound)	18-Mar	3.75%	3.75%	3.75%
22:00	US	FOMC Rate Decision (Lower Bound)	18-Mar	3.50%	3.50%	3.50%
22:00	US	Fed Interest on Reserve Balances Rate	19-Mar	3.65%	3.65%	3.65%
22:00	US	Fed Reverse Repo Rate	19-Mar	3.50%		3.50%
22:00	US	FOMC Median Rate Forecast: Current Yr	18-Mar	3.38%	3.38%	3.38%
22:00	US	FOMC Median Rate Forecast: Next Yr	18-Mar	3.13%	3.13%	3.13%
22:00	US	FOMC Median Rate Forecast: +2 Yrs	18-Mar	3.13%	3.13%	3.13%
22:00	US	FOMC Median Rate Forecast: Long-Run	18-Mar	3.00%	3.13%	3.13%
22:30	US	Fed Holds Press Conference				
Thursday, 19 March						
6:46	Japan	BoJ Target Rate	19-Mar	0.75%	0.75%	0.75%
8:30	Japan	Industrial Production, m-o-m	Jan F	2.2%		4.3%
11:00	UK	ILO Unemployment Rate 3Mths	Jan	5.20%	5.30%	5.20%
11:00	UK	Claimant Count Rate	Feb	4.40%		4.40%
11:00	UK	Jobless Claims Change	Feb	28.6K		24.7K
16:00	UK	Bank of England Bank Rate	19-Mar	3.75%	3.75%	3.75%
16:30	US	Initial Jobless Claims	14-Mar	213K	215K	205K
17:15	Eurozone	ECB Deposit Facility Rate	19-Mar	2.00%	2.00%	2.00%
17:15	Eurozone	ECB Main Refinancing Rate	19-Mar	2.15%	2.15%	2.15%
17:15	Eurozone	ECB Marginal Lending Facility	19-Mar	2.40%	2.40%	2.40%
17:45	Eurozone	ECB President Christine Lagarde Holds Press Conference				
18:00	US	Leading Index	Jan	-0.2%	-0.1%	-0.1%
18:00	US	New Home Sales	Jan	745K	722K	587K
18:00	US	Wholesale Inventories, m-o-m	Jan F	0.2%	0.2%	-0.5%
Friday, 20 March						
13:00	Eurozone	ECB Current Account SA	Jan	14.6B		37.9B
21:30	Eurozone	ECB's Nagel Speaks in Goslar, Germany				

*UAE time

Source: Bloomberg, ADCB Economic Research

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