

## The Week Ahead: Geopolitics and tariffs in focus; BoJ expected to remain on hold

### ► **Global: US using tariffs to meet Greenland objectives**

US-EU trade tensions escalated sharply last week after US President Donald Trump threatened to impose an additional 10% tariff (effective 1 Feb) on eight European nations: Denmark, Norway, Sweden, France, Germany, UK, Netherlands, and Finland. The tariffs are in response to several EU countries opposing the US taking control of Greenland and comes after eight nations sent troops to Greenland. The US-EU deal reached last year lowered tariffs on the EU to 15% from 25%, and provided relief to EU manufacturers. Tariffed nations account for 50% of EU exports to the US, posing a significant headwind to the bloc's GDP growth and reopening doors for rate cuts (page 2). Trump noted that tariffs would rise to 25% on 1 June if a "deal is not reached for complete and total purchase of Greenland". The EU is reportedly considering counter-tariff measures of EUR93 billion, including an 'Anti-Coercion Act' to block US firms' access to EU markets. These likely aim at gaining leverage ahead of meetings with Trump at the World Economic Forum this week.

### ► **Central banks: BoJ on hold; CBRT to ease on disinflation**

We and consensus expect the BoJ to keep its policy rate steady at 0.75% given increased domestic political volatility, after hiking by 25 bps in December. Policy uncertainties rose last week after Prime Minister Sanae Takaichi unexpectedly dissolved parliament and called for snap elections to strengthen the Liberal Democratic Party's position in the lower house. External risks have also reemerged, with China imposing a ban on rare-earth exports to Japan. We expect GDP growth to be revised up marginally by 0.1 ppts to 0.9% for FY2026 in the BoJ's updated outlook report, with the impulse from the fiscal package somewhat offset by China trade barriers. We forecast 25 bps hikes in July and December, with risks of an April hike if JPY weakness persists. The JPY has already weakened 7.2% since October. In Turkey, we expect the CBRT to cut rates by 150 bps this week with headline CPI decelerating below the CBRT's forecast in December, and a decline in household inflation expectations. We continue to forecast two further 150 bps cuts in 1H2026.

### ► **Global: US core PCE to rise; UK wage disinflation set to continue**

Key data this week out of the US will be the delayed October and November prints. US core PCE will likely rise to 2.9% y-o-y in November (September: 2.6%) on continued tariff passthroughs, and following a rise in PCE-relevant PPI components, including healthcare. Looking ahead, the January CPI print will be critical with businesses likely using the start-of-year price revisions to pass on high tariff costs. This should lead to strong upward price rises for several goods components, including new vehicles and household items. The expected rise in both CPI and PCE should lead the Fed to be patient and remain on hold in January. In the UK, consensus sees headline inflation inching up to 3.3% y-o-y (November: 3.2%), in line with the BoE's forecast, on the tobacco duty hike and higher seasonal airfares. Expected wage deceleration to 3.7% y-o-y in November should support disinflation and keep the BoE on track for gradual rate easing, with two 25 bps cuts, in March and September 2026.

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# I. Recent Events and Data Releases

## A. Advanced Economies

### US: Core inflation surprised to the downside in December

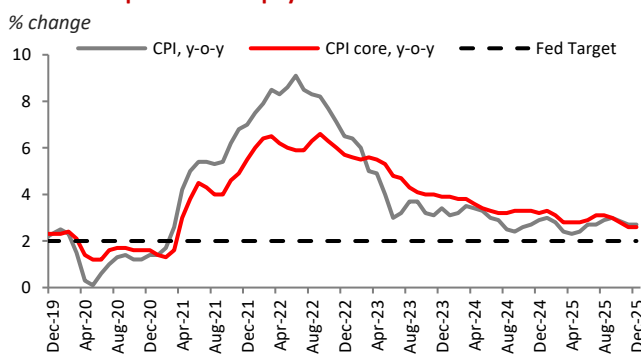
The December CPI data showed broadly stable inflation, albeit with only limited implications for the Fed’s rate path, as it still contained data noise. We believe the Fed will likely await further CPI and PCE prints to gauge actual inflation trends before easing rates, especially given increasing concerns over its independence. Headline inflation remained unchanged at 2.7% y-o-y, though the major surprise was core CPI holding at 2.6% y-o-y, against consensus expectations of a strong acceleration given the unwinding of the soft November report and seasonal factors. The downside surprise was mainly on disinflation in goods prices, despite the deep discounts seen in November. This offset the firming in several service components, including OER and rents. Core services (ex. housing) accelerated to 3.3% y-o-y in December (November: 3.0%) on a seasonal increase in restaurant spending and airfares given the Christmas holidays. Meanwhile, the sharp rise in PCE-relevant components in the November PPI print, including healthcare and portfolio management fees, has likely added material upward pressure to the core PCE print, further strengthening the case for the Fed to keep rates steady.

*Core goods remained unchanged, against expectations of a strong rebound*

Looking ahead, the January CPI print will be critical, with businesses using start-of-year price revisions to pass on high tariff costs. This will likely lead to strong upward price rises for several goods components, including new vehicles and household items. The expected rise in both CPI and PCE should allow the Fed to be patient when considering further cuts and remain on hold in January.

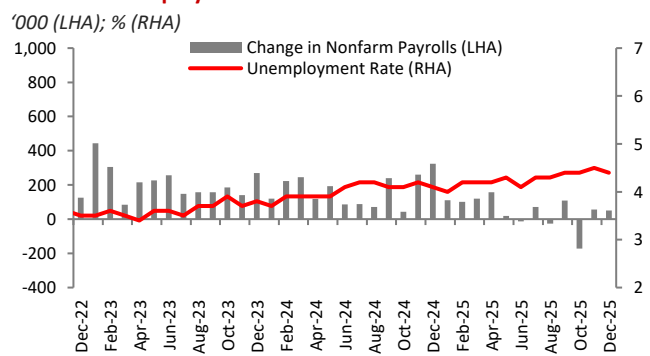
*January CPI will be key to gauging the actual tariff passthrough*

**Fig. 1. US: Core CPI unexpectedly unchanged in December vs expectations of payback from soft November**



Source: Bureau of Labour Statistics, ADCB Economic Research

**Fig. 2. US: Labour market stabilising somewhat, unemployment ticked back down to 4.4% in December**



Source: Bureau of Labour Statistics, ADCB Economic Research

### Eurozone: Escalating trade tensions with US put GDP growth at risk

Headwinds to GDP growth rose after President Trump threatened to impose a 10% tariff on eight key exporting EU nations from 1 February, reopening the door for further rate cuts. However, we expect the ECB to adopt a patient approach and await further clarity and trade negotiations instead of frontloading easing. For now, we continue to expect the ECB to remain on hold throughout 2026, albeit with risks now tilted towards two 25 bps cut in 3Q2026. If the tariffs are implemented, it would likely shed 0.1-0.3% across all

*Continued trade tensions will likely weigh more materially on GDP growth, pushing the ECB towards more cuts*

eight nations via diminished exports, with an implied drag on GDP growth for the EU bloc of 0.2 ppts. Risks to GDP growth are tilted to the downside, with any more retaliatory measures from the US further diminishing external demand and weighing on corporate sentiment and broader business investments. However, the inflation outlook will be dependent on the extent of tariff retaliation by the EU. The trade tension episode in 2025 saw the European Council adopt a more cautious approach, though recent speeches from EU leaders now point to greater resolve, strengthening the outlook for counter-tariff measures being introduced. This will likely add some upward pressure on prices, though offset somewhat by the inflow of cheap Chinese goods and soft domestic demand.

## B. Emerging Economies

### China: Export growth exceeded expectations by a wide margin

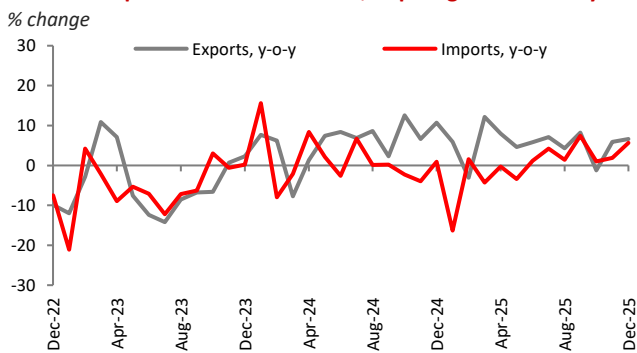
December trade data underscored China’s strong external demand with export growth surprising to the upside by a wide margin, strengthening 6.6% y-o-y (consensus: 3.1%). The print also reflected a continuation of trade diversification, with export growth to the EU and ASEAN economies more than offsetting the sharp slump in exports to the US. The material strengthening in exports occurred despite an unfavourable base related to earlier frontloading, providing tailwinds to 4Q2025 GDP growth and taking the overall trade balance to a record high of USD1.2 trillion. We believe the ongoing AI-led tech cycle will support demand for China’s high-tech products, including semiconductors. Import growth was encouraging, rising 5.7% y-o-y, though narrowly driven by commodities on reserve restocking and tech products, including PCs. Looking ahead, we see scope for a further rise in import growth with the recent deployment of new financing policy tools and an acceleration in construction activity later in 1Q2026, after the cold weather fades.

*China’s external demand remains resilient with strong demand for high-tech products*

Despite the robust trade data, policymakers will likely remain focused on strengthening domestic drivers of GDP growth, as indicated at both the 2025 CWEC and December Politburo meetings. The 4Q2025 activity data showed a continued divergence between strong external demand and soft domestic consumption, with retail sales missing expectations and softening to 0.9% y-o-y. More meaningful fiscal policies, including additional services subsidies and structural labour market reforms (such as raising minimum wages and enhancing social welfare), may be undertaken in 1H2026.

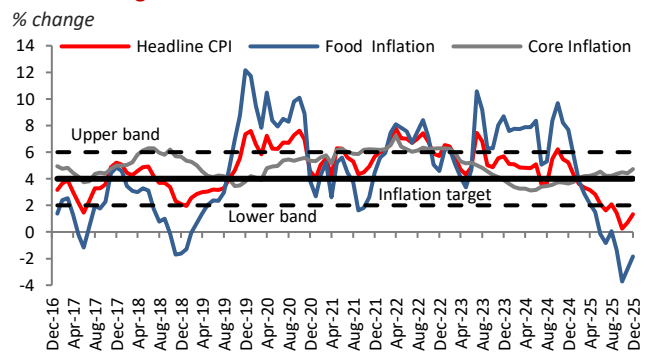
*Structural reforms, including labour market support, may be undertaken in 1H2026*

**Fig. 3. China: Exports accelerated materially above expectations in December; import growth healthy**



Source: Customs General Administration PRC, ADCB Economic Research

**Fig. 4. India: Headline inflation remained below RBI’s lower target for fourth consecutive month in December**



Source: RBI, ADCB Economic Research

## India: Headline CPI remained below RBI's target at end-2025

The December CPI report showed that inflation was still benign, with headline CPI remaining below the RBI's 2.0% lower bound for the fourth consecutive month. This should keep the door open for a 25 bps cut in February. Headline inflation printed below expectations in December at 1.3% y-o-y (November: 0.8%; consensus: 1.6%), with the downside surprise led by a sharp deceleration in vegetable prices. This takes 4Q2025 average inflation to 0.7%, below the 3Q average and broadly in line with the RBI's forecast. Core inflation accelerated by 0.3 bps to 4.6% y-o-y in December, albeit largely due to the rise in gold and silver prices, while other services and goods components, including transport, recreation and household goods, softened. Indeed, the 'supercore' measure (core ex. petrol, diesel, gold and silver) inched down to 2.4% y-o-y, indicating soft underlying drivers of inflation. Looking ahead, the February print should reflect methodological revisions with the RBI rebasing the year to 2024 using the household consumption expenditure survey (HCES). This will likely lead to a decreased weighting of the food component and higher weights for household services, which would mechanically push CPI higher, given the current deflation in food CPI.

*Headline inflation printed below the RBI's 2.0% lower bound target for the fourth consecutive month*

The INR has weakened against the USD, though recent RBI surveys indicate that both consumer and producer inflation expectations remain contained for now, rather than anticipating higher input costs. The RBI's healthy USD696.6 billion (c.15.0% of 2025 GDP) international reserves should allow for FX interventions to stem persistent INR depreciation, with recent episodes signalling that levels above the 90.0-90.5 mark would warrant further RBI action. However, we acknowledge that persistent INR weakness against the USD may gradually spill over into household inflation expectations, posing upside risks to inflation and constraining room for further monetary easing.

## II. Economic Calendar

Fig. 5. The week ahead

Time*	Country	Event	Period	Prior	Consensus
<b>Expected this week</b>					
	UAE	Dubai CPI, y-o-y	Dec	2.7%	
	Oman	CPI, y-o-y	Dec	1.7%	
<b>Monday, 19 January</b>					
14:00	Eurozone	CPI, y-o-y	Dec F	2.0%	2.0%
14:00	Eurozone	CPI, m-o-m	Dec F	0.2%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Dec F	2.3%	2.3%
<b>Tuesday, 20 January</b>					
5:00	China	5-Year Loan Prime Rate	20-Jan	3.50%	3.50%
5:00	China	1-Year Loan Prime Rate	20-Jan	3.00%	3.00%
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Nov	4.7%	4.6%
11:00	UK	Weekly Earnings ex-Bonus, 3M/y-o-y	Nov	4.6%	4.5%
11:00	UK	Private Earnings ex-Bonus, 3M/y-o-y	Nov	3.9%	3.7%
11:00	UK	ILO Unemployment Rate, 3Mths	Nov	5.10%	5.0%
15:30	India	Eight Infrastructure Industries	Dec	1.8%	
<b>Wednesday, 21 January</b>					
11:00	UK	CPI, m-o-m	Dec	-0.2%	0.4%
11:00	UK	CPI, y-o-y	Dec	3.2%	3.3%
11:00	UK	CPI Core, y-o-y	Dec	3.2%	3.3%
11:00	UK	CPI Services, y-o-y	Dec	4.4%	4.6%
11:30	Eurozone	ECB's Lagarde Speaks on Panel in Davos			
13:15	France	ECB's Villeroy Speaks on Panel in Davos			
22:30	Eurozone	ECB's Nagel Speaks in Davos			
<b>Thursday, 22 January</b>					
3:50	Japan	Exports, y-o-y	Dec	6.1%	6.1%
3:50	Japan	Imports, y-o-y	Dec	1.3%	3.6%
11:00	UK	Central Government NCR	Dec	13.6B	
11:00	UK	Public Sector Net Borrowing	Dec	11.7B	13.0B
11:00	UK	PSNB ex Banking Groups	Dec	11.7B	
17:30	US	GDP Annualized, q-o-q	3Q T	4.3%	4.3%
17:30	US	Personal Income	Nov		0.4%
17:30	US	Personal Spending	Nov		0.5%
17:30	US	Real Personal Spending	Nov		0.3%
17:30	US	PCE Price Index, m-o-m	Nov		0.2%
17:30	US	PCE Price Index, y-o-y	Nov		2.8%
17:30	US	Core PCE Price Index, m-o-m	Nov		0.2%
17:30	US	Core PCE Price Index, y-o-y	Nov		2.8%
<b>Friday, 23 January</b>					
3:30	Japan	Natl CPI, y-o-y	Dec	2.9%	2.1%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Dec	3.0%	2.4%
3:30	Japan	Natl CPI ex-Fresh Food, Energy, y-o-y	Dec	3.0%	2.8%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Dec	-0.2%	-0.1%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Dec	1.2%	1.7%
13:30	UK	BOE's Megan Greene Speaks			
14:00	Eurozone	ECB's Lagarde, IMF's Georgieva Speak on Panel in Davos			
19:00	US	U. of Mich. Sentiment	Jan F	54.0	54.0
19:00	US	U. of Mich. Current Conditions	Jan F	52.4	
19:00	US	U. of Mich. 1 Yr Inflation	Jan F	4.2%	
	Japan	BoJ Target Rate	23-Jan	0.75%	0.75%

\*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 6. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
<b>GCC Economies</b>						
	Qatar	Trade Balance Month. USD	Dec	12488M		
<b>Monday, 12 January</b>						
14:30	India	CPI, y-o-y	Dec	0.7%	1.6%	1.3%
21:00	Eurozone	ECB's Villeroy Speaks in Paris				
21:30	US	Fed's Bostic Moderates Discussion				
21:45	US	Fed's Barkin Participates in Fireside Chat				
<b>Tuesday, 13 January</b>						
3:00	US	Fed's Williams Delivers Keynote Remarks				
3:50	Japan	BoP Current Account Balance, JPY	Nov	2833.5B	3608.7B	3674.1B
3:50	Japan	Trade Balance BoP Basis, JPY	Nov	98.3B	508.3B	625.3B
13:40	Eurozone	ECB's Kocher Speaks in Vienna				
17:30	US	CPI, m-o-m	Dec		0.3%	0.3%
17:30	US	Core CPI, m-o-m	Dec		0.3%	0.2%
17:30	US	CPI, y-o-y	Dec	2.7%	2.7%	2.7%
17:30	US	Core CPI, y-o-y	Dec	2.6%	2.7%	2.6%
17:30	US	Real Avg Weekly Earnings, y-o-y	Dec	0.9%		1.1%
17:30	US	Real Avg Hourly Earnings, y-o-y	Dec	0.9%		1.1%
<b>Wednesday, 14 January</b>						
1:00	US	Fed's Barkin in Moderated Conversation				
12:20	Eurozone	ECB's Guindos Speaks in Madrid				
13:15	UK	BOE's Alan Taylor Speaks				
17:30	US	PPI Final Demand, m-o-m	Nov	0.1%	0.2%	0.2%
17:30	US	PPI ex-Food and Energy, m-o-m	Nov	0.3%	0.2%	0.0%
17:30	US	PPI ex-Food, Energy, Trade, m-o-m	Nov	0.7%	0.2%	0.2%
18:50	US	Fed's Paulson Speaks on Economic Outlook				
19:00	US	Fed's Miran Speaks in Athens				
21:00	US	Fed's Kashkari Speaks in Virtual Town Hall				
21:00	US	Fed's Bostic Participates in Moderated Discussion				
23:10	US	Fed's Williams Delivers Opening Remarks				
	China	Exports, y-o-y	Dec	5.9%	3.1%	6.6%
	China	Imports, y-o-y	Dec	1.9%	0.9%	5.7%
	China	Trade Balance, USD	Dec	111.56B	114.35B	114.14B
<b>Thursday, 15 January</b>						
11:00	UK	Monthly GDP (3M/3M)	Nov	0.0%	-0.2%	0.1%
11:00	UK	Trade Balance, GBP	Nov	-6531B	2500M	-6116M
14:30	India	Trade Balance	Dec	-24532M	-25000M	25046M
14:30	India	Exports, y-o-y	Dec	19.4%		1.9%
14:30	India	Imports, y-o-y	Dec	-1.9%		8.8%
17:35	US	Fed's Bostic Speaks at Metro Atlanta Chamber				
21:40	US	Fed's Tom Barkin Speaks on Virginia Economic Outlook				
<b>Friday, 16 January</b>						
1:00	US	Net Long-term TIC Flows	Nov	30.9B		220.2B
3:50	Japan	Japan Buying Foreign Bonds	9-Jan	-223.6B		101.1B
3:50	Japan	Japan Buying Foreign Stocks	9-Jan	236.6B		27.5B
3:50	Japan	Foreign Buying Japan Bonds	9-Jan	273.5B		1007.8B
3:50	Japan	Foreign Buying Japan Stocks	9-Jan	124.9B		1141.4B

\*UAE time

Source: Bloomberg, ADCB Economic Research

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