

The Week Ahead: Volatile week capped by Kevin Warsh nomination as Fed chair

► **Global: Geopolitical developments continue to be centre stage**

After a volatile last week, global markets will remain focused on geopolitical risks. Oil prices spiked on renewed US-Iran tensions, briefly trading above USD70.0 p/b for the first time since July 2025, before retreating to c.USD66.5 p/b. There was also volatility ahead of Kevin Warsh being announced as the nominee for Fed chair, with Jerome Powell's term ending in May. Warsh, a former Fed governor (2006-11), is widely seen as an inflation hawk, and favouring lower rates, albeit with a central focus on inflation and a significantly smaller Fed balance sheet. Equities fell, precious metals plunged, the USD strengthened, and long-end government Treasury yields rose ahead of and following the nomination. We maintain our interest rate call after this announcement (page 2). Risk sentiment was further weighed by disappointing results from some tech firms, raising questions over the AI valuation. The US government entered a partial shutdown on Saturday, though a quick resolution is expected, as the funding package has already passed the Senate and is expected to be approved by the House of Representatives today.

► **US: Labour data to test the stabilisation narrative**

Attention will be on the US labour market for confirmation of stabilisation, as in December, rather than a marked deterioration. Consensus expects January nonfarm payrolls to rise by c.78K (December: 50K), with the unemployment rate remaining steady at 4.4%. A print of this magnitude would be modest by historical standards, though still exceeding most estimates of current breakeven job growth (around 20-50K per month), suggesting underlying labour market resilience. The December JOLTS report is expected to hold near 7.1 million job openings with the vacancies-to-unemployed ratio close to 0.9. This would be in line with gradually softening labour demand growth, supporting further wage moderation, which is critical for moderating sticky non-housing services inflation. Taken together, the data should allow the Fed to remain patient, with limited urgency to ease policy aggressively in the near term to support the labour market.

► **Global: ECB and BoE on hold but for different reasons**

The ECB and the BoE are both expected to remain on hold this week, though with diverging rationales. The ECB is likely to reiterate a meeting-by-meeting stance to preserve optionality, reflecting rates already at neutral. Headline inflation remains close to the 2% target. Eurozone GDP growth also ended the year on a strong footing (4Q2025: 0.3% q-o-q), bolstered by domestic demand. However, the ongoing strengthening in the EUR vs the USD remains a key headwind for Eurozone exports. By contrast, the BoE decision is expected to be finely balanced, with a 5-4 MPC split (dissenters for a cut), with still sticky services inflation. UK CPI has fallen from its peak but remains above target, so even as growth slows, the majority will likely prefer to wait. However, guidance should tilt dovish, signalling openness to cuts if services disinflation gains traction in the coming months. We see two 25 bps cuts in March and September, on labour market cooling and gradual disinflation.

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I. Recent Events and Data Releases

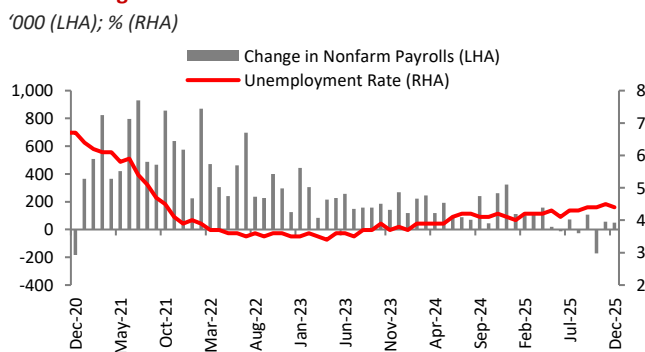
A. Advanced Economies

US: Fed on hold, changing the timing of our rate cut expectations

The FOMC kept the policy rate unchanged at 3.75% (upper bound) last week, as widely expected, marking a pause after three consecutive 25 bps cuts in September, October and December 2025. The statement struck a modestly hawkish tone, upgrading growth to a “solid pace”, noting “some signs of stabilisation” in the unemployment rate and retaining the view that inflation remains “somewhat elevated”. Two dissents were recorded, with Governor Christopher Waller joining Governor Stephen Miran in favour of a 25 bps cut. Chair Powell offered no guidance on the timing of further cuts, emphasising a data-dependent approach. He described the current stance as “loosely neutral or somewhat restrictive”, implying a higher bar for near-term easing. We pushed out our expectation of 25 bps rate cuts at the July and October FOMC meetings on labour market resilience and stalling disinflation progress. While the next Fed chair is expected to adopt a more dovish policy stance on rate cuts, the 2026 FOMC composition will be just as important in determining the pace and magnitude of rate cuts. A modestly more hawkish 2026 FOMC composition could lead to more frequent dissents and limit the pace of easing. Please see our report **US Economic Update: Fed on hold with labour market trends supporting patience; change in our rate call**, published on 29 January 2026, for further details.

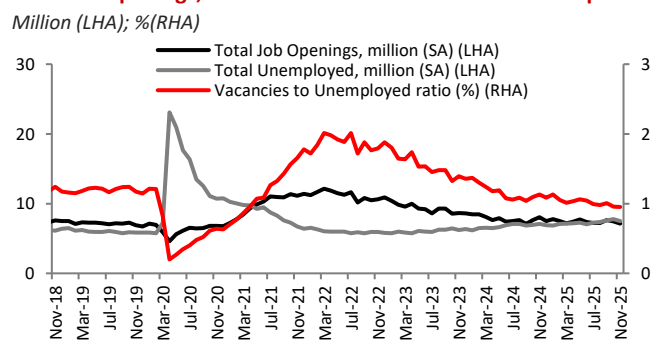
Labour market resilience and stalling disinflation progress should keep the Fed cautious in the near term

Fig. 1. Payroll gains will be in focus, particularly with recent signs of labour market stabilisation



Source: Bureau of Labor Statistics, ADCB Economic Research

Fig. 2. Labour demand conditions show decrease in job openings, albeit with ‘low-hire low-fire’ backdrop



Source: Bureau of Labor Statistics, ADCB Economic Research

The market sees Kevin Warsh’s nomination as the next Fed chair as a shift toward a somewhat easier interest-rate policy, with a push to shrink the Fed’s balance sheet and rethink how the Fed operates, rather than a radical overhaul. Warsh is expected to be more dovish on rates than Jerome Powell, with more openness to cutting rates if inflation allows. He has criticised the current Fed for being “backward-looking” and too slow to cut, and would likely support at least the rate-cut path already signalled in the Fed’s projections. He has also said that the Fed’s balance sheet is too large and he would likely look to reduce it substantially compared with the post-QE era. Overall, lower policy rates over time, but with tighter financial conditions via balance-sheet runoff, would indicate a steepening in the yield curve. He is widely seen as a credible, establishment figure, and if appointed, would be viewed as a change in emphasis rather than a marked shift in policy. Concerns over the Fed’s independence have moderated following Warsh’s nomination. We maintain our call for two further rate cuts this year.

Warsh is thought to have an easier stance on interest rates than Powell, albeit with a leaner balance sheet

B. Emerging Economies

India: Fiscal deficit consolidation to continue; capex still a priority

The FY2026-27 (Apr-Mar) budget signals a strategic focus on long-term infrastructure and manufacturing, while maintaining a disciplined path toward fiscal consolidation. The FY2026-27 fiscal deficit was set at 4.3% of GDP, a marginal improvement from 4.4% targeted in FY2025-26, marking the smallest annual consolidation in several years. The medium-term anchor of debt-to-GDP was projected to narrow to 55.6% in FY2026-27 (FY2025-26: 56.1%), remaining on track to meet the 50.0% medium term target by 2030-31. The budget continued to prioritise capital expenditure, which was raised to a record INR12.2 trillion (3.1% GDP, 11.5% y-o-y), with significant allocation for upgrading infrastructure (high-speed railways and roads), defence, manufacturing and logistics. Higher capex is expected to be mildly inflationary in the short run but improves potential growth and jobs over time. The government's capex-led growth strategy is looking to crowd in private investment over the medium term, amplifying the growth impact of public spending and supporting a more durable investment cycle.

Capex priority to help crowd-in private investments, supporting a more durable investment cycle

No major changes were made to income or corporate taxes, preserving revenue stability. The underlying revenue assumptions look credible, particularly with nominal GDP growth assumed at a relatively subdued 10%, and realistic tax growth assumptions (personal income tax: 11.7%; corporate tax: 11%). From a market perspective, the key disappointment was the higher-than-expected gross market borrowing (FY2026-27: INR17.2 trillion), which will continue to put upward pressure on longer-end bond yields. The government also announced a hike in the Securities Transaction Tax (STT) on derivatives trading, which triggered the sharpest fall on budget day in the last six years (Sensex: (-)1.9%; Nifty50: (-)2.0%).

Conservative estimates on revenue growth signal room for manoeuvre

CPII base revision: Separate to the budget, the Ministry of Statistics and Programme Implementation (MOSPI) released new weights for the CPI basket, with the first consumer inflation print under the new series due next week (for January). The weight of food and beverages has been reduced to 36.7% (from 45.9%), while housing and services weights have increased. This is expected to mechanically lift the new headline CPI by c.0.3-0.5pp, given the lower food weights (amid deep food deflation) and higher weights for goods and services, where inflation remains elevated. Over the medium term, lower weights for food will help reduce inflation volatility, with higher services weights to make it more representative of underlying demand conditions. As such, we expect the RBI to remain on hold while it awaits further clarity on the inflation trajectory. The RBI's pause should also be guided by a desire to assess the full transmission of the 125 bps in cumulative rate cuts delivered in 2025, with the last reduction in December.

Base year revision, which lowered food weights, is likely to mechanically boost CPI

India: India-EU FTA to give a structural boost to medium-term growth

Separately, India and the EU concluded a landmark free trade agreement (FTA), which is now under legal review and expected to be signed and in force by early 2027. EU duties on 99% of Indian goods will be dropped almost entirely on Day 1, while India will phase in cuts on about 92% of EU products over up to a decade. The pact gives Indian labour-intensive sectors and services major new access to Europe, while EU exporters gain deeper access to India with staged reductions for sensitive items such as autos and alcohol. The agreement also included pacts on professional mobility, recognition of qualifications, and services market access, which is critical since the EU accounts for c.33.0% of India's software service exports. Strategically, the FTA should help India diversify amid rising US trade frictions and strengthen its leverage in future negotiations, while giving the EU a firmer foothold in the Indo-Pacific region. We believe the near-term

India-EU FTA supports medium-term growth prospects

impact of the India-EU FTA will be limited, though it is likely to lift India’s medium-term potential growth by an estimated c.0.3-0.5 pp by strengthening exports, attracting investment, deepening manufacturing value chains and reducing external vulnerability.

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	Saudi Official Reserve Assets, SAR	Jan	1725.9B	
	Qatar	QCB Int'l Reserves & Foreign Currency Liquidity, QAR	Jan	261.9B	
Monday, 2 February					
9:30	India	India Budget			
	Saudi Arabia	GDP Constant Prices, y-o-y	4Q P	4.8%	
4:30	Japan	S&P Global Japan PMI Mfg	Jan F	51.5	
5:45	China	RatingDog China PMI Mfg	Jan	50.1	50.0
9:00	India	HSBC India PMI Mfg	Jan F	56.8	
12:55	Germany	HCOB Germany Manufacturing PMI	Jan F	48.7	48.7
13:00	Eurozone	HCOB Eurozone Manufacturing PMI	Jan F	49.4	49.4
13:30	UK	S&P Global UK Manufacturing PMI	Jan F	51.6	51.6
15:45	UK	BOE's Sarah Breeden speaks in London			
18:45	US	S&P Global US Manufacturing PMI	Jan F	51.9	52.0
19:00	US	ISM Manufacturing	Jan	47.9	48.3
Tuesday, 3 February					
3:50	Japan	Monetary Base, y-o-y	Jan	-9.8%	
8:15	Saudi Arabia	S&P Global Saudi Arabia PMI	Jan	57.4	
Wednesday, 4 February					
8:15	UAE	S&P Global United Arab Emirates PMI	Jan	54.2	
14:00	Eurozone	CPI, m-o-m	Jan P	0.2%	-0.5%
14:00	Eurozone	CPI Core, y-o-y	Jan P	2.3%	2.2%
16:00	US	MBA Mortgage Applications	30-Jan	-8.5%	
17:15	US	ADP Employment Change	Jan	41K	45K
18:45	US	S&P Global US Services PMI	Jan F	52.5	52.5
18:45	US	S&P Global US Composite PMI	Jan F	52.8	
19:00	US	ISM Services Index	Jan	53.8	53.5
Thursday, 5 February					
11:00	Germany	Factory Orders, m-o-m	Dec	5.6%	-2.4%
16:00	UK	Bank of England Bank Rate	5-Feb	3.75%	3.75%
17:15	Eurozone	ECB Deposit Facility Rate	5-Feb	2.00%	2.00%
17:15	Eurozone	ECB Main Refinancing Rate	5-Feb	2.15%	2.15%
17:15	Eurozone	ECB Marginal Lending Facility	5-Feb	2.4%	2.4%
17:30	US	Initial Jobless Claims	31-Jan	209K	212K
17:45	Eurozone	ECB President Christine Lagarde Holds Press Conference			
Friday, 6 February					
8:30	India	RBI Repurchase Rate	6-Feb	5.25%	5.25%
13:00	Eurozone	ECB Survey of Professional Forecasters			
13:00	Eurozone	ECB's Kocher Speaks in Vienna			
16:00	UK	BOE's Huw Pill Speaks			
17:30	US	Change in Nonfarm Payrolls	Jan	50K	68K
17:30	US	Two-Month Payroll Net Revision	Jan	-76K	
17:30	US	Change in Private Payrolls	Jan	37K	75K
17:30	US	Change in Manufact. Payrolls	Jan	-8K	-7K
17:30	US	Nonfarm Payrolls 3-Mo Avg Chg	Jan	-22K	
17:30	US	Unemployment Rate	Jan	4.40%	4.40%
17:30	US	Labor Force Participation Rate	Jan	62.40%	62.40%
17:30	US	Underemployment Rate	Jan	8.40%	
19:00	US	U. of Mich. Sentiment	Feb P	56.4	55.0

*UAE time

Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	Saudi Arabia	M3 Money Supply, y-o-y	Dec	6.6%		8.4%
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Dec	1650.8B		1637.2B
Monday, 26 January						
13:00	Germany	IFO Business Climate	Jan	87.6	88.2	87.6
13:00	Germany	IFO Current Assessment	Jan	85.6	86.0	85.7
13:00	Germany	IFO Expectations	Jan	89.7	90.3	89.5
15:00	Eurozone	ECB's Nagel Speaks in Berlin				
17:30	US	Durable Goods Orders	Nov P	-2.1%	4.0%	5.3%
17:30	US	Durables ex-Transportation	Nov P	0.1%	0.3%	0.5%
17:30	US	Cap Goods Orders Nondef ex-Air	Nov P	0.3%	0.3%	0.7%
Tuesday, 27 January						
3:50	Japan	PPI Services, y-o-y	Dec	2.7%	2.7%	2.6%
4:01	UK	BRC Shop Price Index, y-o-y	Jan	0.7%	0.7%	1.5%
5:30	China	Industrial Profits YTD, y-o-y	Dec	0.1%		0.6%
5:30	China	Industrial Profits, y-o-y	Dec	-13.1%		5.3%
19:00	US	Richmond Fed Manufact. Index	Jan	-7.0	-7.0	-6.0
19:00	US	Richmond Fed Business Conditions	Jan	-11		-6.0
19:00	US	Conf. Board Consumer Confidence	Jan	64.2	91.0	84.5
19:00	US	Conf. Board Present Situation	Jan	123.6		113.7
19:00	US	Conf. Board Expectations	Jan	74.6		65.1
Wednesday, 28 January						
11:00	Germany	GfK Consumer Confidence	Feb	-26.9	-25.5	-24.1
14:30	India	Industrial Production, y-o-y	Dec	7.2%	5.9%	7.8%
16:00	US	MBA Mortgage Applications	23-Jan	14.1%		-8.5%
23:00	US	FOMC Rate Decision (Upper Bound)	28-Jan	3.75%	3.75%	3.75%
23:00	US	FOMC Rate Decision (Lower Bound)	28-Jan	3.50%	3.50%	3.50%
23:00	US	Fed Interest on Reserve Balances Rate	29-Jan	3.65%	3.65%	3.65%
23:00	US	Fed Reverse Repo Rate	29-Jan	3.50%		3.50%
Thursday, 29 January						
3:50	Japan	Japan Buying Foreign Bonds, JPY	23-Jan	-361.1B		177.6B
3:50	Japan	Japan Buying Foreign Stocks, JPY	23-Jan	272.6B		-156.0B
3:50	Japan	Foreign Buying Japan Bonds, JPY	23-Jan	1466.7B		375.1B
3:50	Japan	Foreign Buying Japan Stocks, JPY	23-Jan	878.9BB		328.1B
14:00	Eurozone	Economic Confidence	Jan	96.2	97.1	99.4
14:00	Eurozone	Industrial Confidence	Jan	-8.5	-8.2	-6.8
14:00	Eurozone	Services Confidence	Jan	5.8	6.0	7.2
17:30	US	Nonfarm Productivity	3Q F	4.9%	4.9%	4.9%
17:30	US	Unit Labor Costs	3Q F	-1.9%	-1.9%	-1.9%
Friday, 30 January						
3:30	Japan	Tokyo CPI, y-o-y	Jan	2.0%	1.7%	1.5%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Jan	2.3%	2.2%	2.0%
3:30	Japan	Tokyo CPI ex-Fresh Food, Energy, y-o-y	Jan	2.6%	2.6%	2.4%
3:50	Japan	Retail Sales, m-o-m	Dec	0.7%	-0.5%	-2.0%
3:50	Japan	Retail Sales, y-o-y	Dec	1.1%	0.7%	-0.9%
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.3%	0.2%	0.3%
14:00	Eurozone	GDP SA, y-o-y	4Q A	1.4%	1.3%	1.3%
17:30	US	PPI ex-Food and Energy, m-o-m	Dec	0.0%	0.2%	0.7%
17:30	US	PPI ex-Food, Energy, Trade, m-o-m	Dec	0.2%	0.3%	0.4%

*UAE time

Source: Bloomberg, ADCB Economic Research

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