The Week Ahead: Fed widely expected to keep rates on hold

Global: US tariff uncertainty elevated with Canada levy threat

EU-US tensions eased significantly last week after US President Donald Trump backtracked on Greenland-related tariff threats and the use of military force, after reaching a "framework of a future deal" following a meeting with NATO chief Mark Rutte. The deal's details are unclear, though Trump indicated that it would involve mineral rights for the US and the "Golden Dome" missile defence system. Still, the external backdrop remains volatile with Trump now threatening to impose a 100% tariff on Canada if it strikes a trade deal with China. This is in the runup to US-Mexico-Canada talks later this year, and is likely a negotiating tactic. Meanwhile, US domestic political uncertainties have also increased. Democrats are planning to block a major spending package needed to avert another government shutdown (30 January), if it includes money for Department of Homeland Security. This comes after escalations in immigration enforcement, with the short timeline providing little room for compromise. Another shutdown could mean another statistical blackout.

US: Fed likely to keep both rates and guidance unchanged

We and consensus expect the Fed to hold rates at 3.75% (upper-bound) on upside risks to inflation, signs of labour market stability and strong GDP growth. Unemployment fell to 4.4% in December, below the median year-end outlined in the December Summary of Economic Projections (SEP). This would mark the first pause after three sequential 25 bps cuts from September, amid heightened concerns over Fed independence. Comments from several FOMC members prior to the blackout pointed to a pause, highlighting that the FOMC is well-positioned to wait and assess the impact of rate cuts. There was still one dovish dissent for a 50 bps cut, again from Stephen Miran. We expect the policy statement to reiterate that the extent and timing of policy rate adjustments would depend on incoming data and the balance of risks. At the press conference, we will look for changes in the wording and tone that Chair Jerome Powell uses to describe the labour market. We still expect two 25 bps cuts in 1H2026, though with risks of delayed easing.

India: FY2027 budget likely to be focused on policy reform

The FY2026-27 (Apr-Mar) budget will be critical, as it comes amid 50% US tariffs weighing significantly on the growth outlook. India recently signed several trade deals, which are unlikely to offset the US tariff shock. The government likely met its fiscal deficit target of 4.4% of GDP in FY2025-26, despite income tax and GST cuts on higher-than-expected RBI dividends. The budget will aim to strike a balance, continuing fiscal prudence while supporting tariff-exposed sectors and boosting defence capex. The fiscal deficit target will likely be lowered to 4.3% of GDP, led by cuts to current expenditure, scaling back non-defence capex and subsidy rationalisation. Reforms aimed at boosting external competitiveness will be key, including GST-style rationalisation of customs duties. To attract investments, the government will likely lower FDI barriers. These reforms should support India's medium-term growth outlook.

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I. Recent Events and Data Releases

A. Global Developments

Global: IMF lifts growth forecast on tech investments

AI-led investments and outlook for strong activity in China and the US drove global GDP growth upgrade

The IMF upgraded its projection for global GDP growth by 0.2 ppts to 3.3% based on substantial AI investments in the US and China, and accommodative monetary and fiscal conditions offsetting trade shocks. The report highlighted the resilience of the global economy, noting that businesses have adapted to US tariffs via supply chain rerouting, while the continued AI investment upcycle has fuelled asset wealth and expectations of productivity gains. However, the IMF stressed that risks to the outlook remain tilted to the downside. A revaluation of productivity growth expectations for AI could lead to a decline in investment and trigger an abrupt financial market correction, spreading from AI-linked companies to other segments and eroding household wealth. Another flare-up in trade tensions was also flagged by the IMF as a factor that could weigh on GDP growth.

In China, the outlook for structural labour market reforms in 1H2026 may support consumption growth

The IMF raised its 2026 US GDP growth projection by 0.3 ppts to 2.4%, supported by fiscal policy and a lower interest rate backdrop, while the impact of higher trade barriers gradually fades. The outlook for healthy household consumption should also support GDP growth in 2026, with the preliminary consumer sentiment index rising to a four-month high in January on fading tariff concerns. In Asia, China's 2026 GDP growth forecast was also revised up by 0.3 ppts to 4.5%, reflecting the lower US effective tariff rates on Chinese goods following the year-long trade truce agreed in November, and the outlook for fiscal stimulus measures. We believe policymakers will remain focused on boosting the domestic drivers of GDP growth, introducing additional services subsidies and structural labour market reforms in 1H2026 to boost household consumption.

B. Advanced Economies

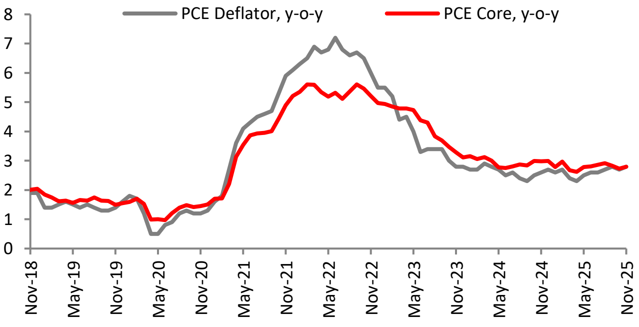
US: Delayed PCE prints contain data noise and idiosyncratic drivers

Core PCE in December will likely firm on the unwinding of data biases

The October and November PCE reports were in line with consensus expectations and showed broadly contained price pressures. However, the prints have only little policy relevance as the data was delayed and contains significant noise from government shutdown-related disruptions. As such, the Fed will likely look through these prints, with increased importance for the January data as it will more clearly reflect tariff passthroughs. Headline PCE in November rose modestly by 0.21% m-o-m (October: 0.16%), taking the annual measure to 2.8%, with higher energy prices more than offsetting core moderation. Core PCE softened modestly by 0.16% in November (October: 0.21%), taking the 3MMA to 0.2%, in line with the pace seen in most of 2H2025. The soft core PCE print was driven by a monthly contraction in goods prices, though we highlight that the print is likely biased downward due to the absence of data collection during the government shutdown (October to mid-November). The services measure was also noisy, with the lack of October rent data understating both the rental PCE measure and overall core services. Looking ahead, we expect to see upward pressure on PCE in December 2025, given the unwinding of the data biases, with the prints in 1Q2026 likely to show clearer tariff passthroughs.

Fig. 1. **US: Contraction in goods prices drove soft core PCE measure in November; payback likely in December**

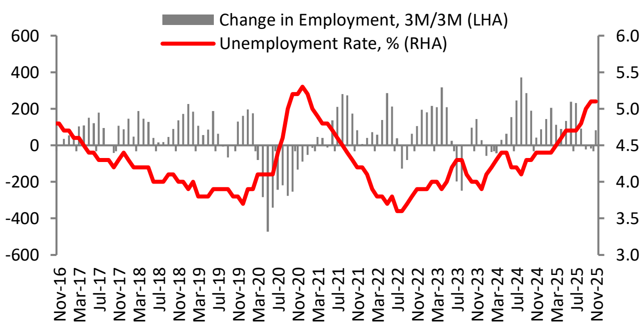
% change



Source: Bureau of Labour Statistics, ADCB Economic Research

Fig. 2. **UK: Softening labour market conditions with wage disinflation should weigh on core CPI**

'000 (LHA); % (RHA)



Source: Office for National Statistics, ADCB Economic Research

UK: Weakening labour demand keeps door open for March rate cut

Weakening labour demand and soft inflation keep the door open for March rate cut

Easing wage pressures (November) and a downside surprise relative to the BoE's forecast across core and services CPI (December) strengthen the outlook for a 25 bps March cut. Unemployment remained unchanged at 5.1% in November (BoE: 5.0%) and continued to highlight soft labour demand, driven by weak business confidence and anaemic economic activity. Private sector wage growth decelerated below consensus expectations to 3.6% y-o-y in November (October: 3.9%; consensus: 3.7%), likely giving the BoE some confidence on the outlook for sustained disinflation, as elevated wages have been a key reason for sticky services CPI. Minutes for both the November and December meetings highlighted wage disinflation as a crucial prerequisite for further rate cuts. December headline CPI accelerated to 3.4% y-o-y, though below the BoE's forecast and narrowly led by seasonal and one-off factors, including the tobacco duty hike. Core CPI remained steady at 3.2% y-o-y (consensus: 3.3%) with some rise in services prices offset by a weakening in goods CPI. Services ex. packaged holidays, and accommodation (closely tracked by the BoE), decelerated further to 4.5% y-o-y in December, indicating soft price pressures. We continue to expect two 25 bps cuts this year, in March and September.

Japan: BoJ on hold, though materially upgrades outlook report

Outlook report materially upgraded, including language on risk factors

The BoJ kept rates steady at 0.75%, as was widely expected, though overall communication leaned hawkish and signalled that it remains firmly on a rate hiking path. Despite ongoing domestic political volatility, one of the board members dissented for a 25 bps hike. The outlook report was in focus, with both the GDP and CPI forecasts for FY2026-27 (Apr-Mar) revised materially above market expectations. The FY2026-27 GDP growth forecast was increased by 0.4 ppts to 1.2% (consensus: 0.8%), with the statement adopting a more optimistic tone and noting that risks are in "general balanced", whereas risks were previously judged as being "tilted to downside". Reduced uncertainty over US tariffs, the outlook for strong wage growth and the fiscal package led to the forecast revision. However, risks related to China imposing a ban on critical minerals have likely not yet been incorporated. The BoJ now sees inflation reaching its 2.0% target in FY2026-27 (previous: 1.8%), with the statement noting for the first time that continued JPY depreciation should "affect underlying inflation". This likely shows increasing concerns over spillovers of JPY deprecation versus the USD on inflation, with the BoJ aiming to keep the door open for an April hike if JPY weakness persists. The remainder of the statement was unchanged, with Governor Kazuo Ueda reiterating that rates will be hiked if economic data prints in line with its projections.

C. Emerging Economies

Turkey: CBRT unexpectedly decelerates pace of monetary easing

Hawkish cut raises risks of a more gradual pace of easing

The CBRT delivered a hawkish surprise last week, easing rates by 100 bps, lower than our and market expectations of 150 bps. This reflects a slowing in the pace of cuts, after the 150 bps cut in December 2025. The statement leaned hawkish, noting that leading indicators point to a pick-up in monthly inflation, and some "rise in underlying inflation". Moreover, the CBRT stressed for the first time that the "disinflationary impact of demand conditions has moderated", in line with several activity indicators pointing to strengthening household consumption and GDP growth. The outlook for deteriorating inflation and a higher-than-expected wage hike (27%) likely drove the CBRT to slow the pace of easing. The smaller magnitude of cuts likely strengthens the CBRT's policy credibility and could help contain a potential rise in household inflation expectations. The CBRT also omitted references to macroprudential measures, potentially indicating a preference for using interest rates to tighten financial conditions. We now see risks of two 100 bps rate cuts (previous: 150 bps), in March and June.

II. Economic Calendar

Fig. 3. The week ahead

Time*	Country	Event	Period	Prior	Consensus
Expected this week					
	Saudi Arabia	M3 Money Supply, y-o-y	Dec	6.6%	
	Saudi Arabia	SAMA Net Foreign Assets, SAR	Dec	1650.8B	
Monday, 26 January					
13:00	Germany	IFO Business Climate	Jan	87.6	88.2
13:00	Germany	IFO Current Assessment	Jan	85.6	86.0
13:00	Germany	IFO Expectations	Jan	89.7	90.3
15:00	Eurozone	ECB's Nagel Speaks in Berlin			
17:30	US	Durable Goods Orders	Nov P	-2.2%	3.0%
17:30	US	Durables ex-Transportation	Nov P	0.1%	0.3%
17:30	US	Cap Goods Orders Non-def ex-Air	Nov P	0.5%	0.3%
Tuesday, 27 January					
3:50	Japan	PPI Services, y-o-y	Dec	2.7%	2.7%
4:01	UK	BRC Shop Price Index, y-o-y	Jan	0.7%	0.7%
5:30	China	Industrial Profits YTD, y-o-y	Dec	0.1%	
5:30	China	Industrial Profits, y-o-y	Dec	-13.1%	
19:00	US	Richmond Fed Manufact. Index	Jan	-7.0	-5.0
19:00	US	Richmond Fed Business Conditions	Jan	-11	
19:00	US	Conf. Board Consumer Confidence	Jan	89.1	90.6
19:00	US	Conf. Board Present Situation	Jan	116.8	
19:00	US	Conf. Board Expectations	Jan	70.7	
Wednesday, 28 January					
11:00	Germany	GfK Consumer Confidence	Feb	-26.9	-25.8
14:30	India	Industrial Production, y-o-y	Dec	6.7%	6.0%
16:00	US	MBA Mortgage Applications	23-Jan	14.1%	
23:00	US	FOMC Rate Decision (Upper Bound)	28-Jan	3.75%	3.75%
23:00	US	FOMC Rate Decision (Lower Bound)	28-Jan	3.50%	3.50%
23:00	US	Fed Interest on Reserve Balances Rate	29-Jan	3.65%	3.65%
23:00	US	Fed Reverse Repo Rate	29-Jan	3.50%	
Thursday, 29 January					
3:50	Japan	Japan Buying Foreign Bonds, JPY	23-Jan	-361.4B	
3:50	Japan	Japan Buying Foreign Stocks, JPY	23-Jan	272.5B	
3:50	Japan	Foreign Buying Japan Bonds, JPY	23-Jan	1467.4B	
3:50	Japan	Foreign Buying Japan Stocks, JPY	23-Jan	874.0B	
14:00	Eurozone	Economic Confidence	Jan	96.7	97.0
14:00	Eurozone	Industrial Confidence	Jan	-9.0	-8.2
14:00	Eurozone	Services Confidence	Jan	5.6	5.9
17:30	US	Nonfarm Productivity	3Q F	4.9%	4.9%
17:30	US	Unit Labor Costs	3Q F	-1.9%	-1.9%
Friday, 30 January					
3:30	Japan	Tokyo CPI, y-o-y	Jan	2.0%	1.7%
3:30	Japan	Tokyo CPI ex-Fresh Food, y-o-y	Jan	2.3%	2.2%
3:30	Japan	Tokyo CPI ex-Fresh Food, Energy, y-o-y	Jan	2.6%	2.6%
3:50	Japan	Retail Sales, m-o-m	Dec	0.7%	-0.5%
3:50	Japan	Retail Sales, y-o-y	Dec	1.1%	0.7%
14:00	Eurozone	GDP SA, q-o-q	4Q A	0.3%	0.2%
14:00	Eurozone	GDP SA, y-o-y	4Q A	1.4%	1.3%
17:30	US	PPI ex-Food and Energy, m-o-m	Dec	0.0%	0.3%
17:30	US	PPI ex-Food, Energy, Trade, m-o-m	Dec	0.2%	0.2%

*UAE time
Source: Bloomberg, ADCB Economic Research

Fig. 4. Last week's data

Time*	Country	Event	Period	Prior	Consensus	Actual
GCC Economies						
	UAE	Dubai CPI, y-o-y	Dec	2.7%		3.0%
	Oman	CPI, y-o-y	Dec	1.7%		
Monday, 19 January						
14:00	Eurozone	CPI, y-o-y	Dec F	2.0%	2.0%	1.9%
14:00	Eurozone	CPI, m-o-m	Dec F	0.2%	0.2%	0.2%
14:00	Eurozone	CPI Core, y-o-y	Dec F	2.3%	2.3%	2.3%
Tuesday, 20 January						
5:00	China	5-Year Loan Prime Rate	20-Jan	3.50%	3.50%	3.50%
5:00	China	1-Year Loan Prime Rate	20-Jan	3.00%	3.00%	3.00%
11:00	UK	Average Weekly Earnings, 3M/y-o-y	Nov	4.8%	4.6%	4.7%
11:00	UK	Weekly Earnings ex-Bonus, 3M/y-o-y	Nov	4.6%	4.5%	4.5%
11:00	UK	Private Earnings ex-Bonus, 3M/y-o-y	Nov	3.9%	3.7%	3.6%
11:00	UK	ILO Unemployment Rate, 3Mths	Nov	5.10%	5.1%	5.1%
15:30	India	Eight Infrastructure Industries	Dec	2.1%		3.7%
Wednesday, 21 January						
11:00	UK	CPI, m-o-m	Dec	-0.2%	0.4%	0.4%
11:00	UK	CPI, y-o-y	Dec	3.2%	3.3%	3.4%
11:00	UK	CPI Core, y-o-y	Dec	3.2%	3.3%	3.2%
11:00	UK	CPI Services, y-o-y	Dec	4.4%	4.6%	4.5%
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				
Thursday, 22 January						
3:50	Japan	Exports, y-o-y	Dec	6.1%	6.1%	5.1%
3:50	Japan	Imports, y-o-y	Dec	1.3%	3.6%	5.3%
11:00	UK	Central Government NCR	Dec	13.6B		14.5B
11:00	UK	Public Sector Net Borrowing	Dec	10.9B	13.0B	11.6B
11:00	UK	PSNB ex-Banking Groups	Dec	10.9B		11.6B
17:30	US	GDP Annualized, q-o-q	3Q T	4.3%	4.3%	4.4%
17:30	US	Personal Income	Nov	0.1%	0.4%	0.3%
17:30	US	Personal Spending	Nov	0.5%	0.5%	0.5%
17:30	US	Real Personal Spending	Nov	0.3%	0.3%	0.3%
17:30	US	PCE Price Index, m-o-m	Nov	0.2%	0.2%	0.2%
17:30	US	PCE Price Index, y-o-y	Nov	2.7%	2.8%	2.8%
17:30	US	Core PCE Price Index, m-o-m	Nov	0.2%	0.2%	0.2%
17:30	US	Core PCE Price Index, y-o-y	Nov	2.7%	2.8%	2.8%
Friday, 23 January						
3:30	Japan	Natl CPI, y-o-y	Dec	2.9%	2.2%	2.1%
3:30	Japan	Natl CPI ex-Fresh Food, y-o-y	Dec	3.0%	2.4%	2.4%
3:30	Japan	Natl CPI ex-Fresh Food, Energy, y-o-y	Dec	3.0%	2.8%	2.9%
11:00	UK	Retail Sales ex-Auto Fuel, m-o-m	Dec	-0.1%	0.0%	0.4%
11:00	UK	Retail Sales ex-Auto Fuel, y-o-y	Dec	2.6%	1.7%	3.1%
13:30	UK	BOE's Megan Greene Speaks				
19:00	US	U. of Mich. Sentiment	Jan F	54.0	54.0	56.4
19:00	US	U. of Mich. Current Conditions	Jan F	52.4	52.3	55.4
19:00	US	U. of Mich. 1 Yr Inflation	Jan F	4.2%	4.2%	4.0%
19:00	Japan	BoJ Target Rate	23-Jan	0.75%	0.75%	0.75%

*UAE time
Source: Bloomberg, ADCB Economic Research

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