Week Ahead 7-11th February: Highlights include US CPI, geopolitics, Riksbank, RBI, CBR

Week Ahead 7th-11th February 2022

- **MON:** Biden/Scholz Meeting; Chinese Caixin Services PMI (Jan); Russia-Ukraine Berlin Meeting.
- **TUE:** NBP Announcement; EIA STEO.
- **WED:** RBI Announcement; New Zealand Inflation Forecasts (Q1).
- **THU:** Riksbank Announcement; Banxico Announcement; Bank of Indonesia Announcement; UK GDP (Q4); US CPI (Jan); OPEC MOMR.
- **FRI:** CBR Announcement; UK GDP Estimate (Dec); Swiss CPI (Jan); Uni of Michigan Prelim. (Feb); IEA OMR; Japanese National Foundation Day.

NOTE: Previews are listed in day-order

RUSSIA/UKRAINE: French President Macron is poised to visit Russia on Feb 7th and Ukraine on Feb 8th. Meanwhile, the US and German heads are to meet on 7th Feb. The talks come amid efforts to dial down tensions between Russia and NATO whilst safeguarding Ukraine's interests. Tensions have been heating up on almost all fronts in recent days, with the latest piece out of the NYT suggesting the US has intel on a Russian plan to fake a pretext for an invasion of Ukraine using a faked video that would build on a recent disinformation campaign. Meanwhile, Russia is yet to respond to the US' written response on Russia's security demands – with no word of further talk since the meeting between Russian Foreign Minister Lavrov and US Secretary of State Blinken. More recently, Russian President Putin told Chinese President Xi that Russian oil firms have prepared plans for supplies to China and offered to supply 10bcm of gas per year from Russia's Far East, in what is seemingly a contingency move against NATO sanctions.

RBI ANNOUNCEMENT (TUE): RBI will conclude its final 3-day policy meeting of the current fiscal year on Wednesday with the central bank expected to maintain the Repurchase Rate at 4.00% although there are mixed views on whether the central bank will keep or hike the Reverse Repo Rate which is currently at 3.35%, while the central bank is likely to stick to an accommodative stance. As a reminder, RBI Governor Das stated at the last meeting that continued policy support is still warranted given the slack in the economy and ongoing catch up in activity. Das also noted the MPC views continued policy support is required for a durable recovery and there were more recent comments from Deputy Governor Patra that the RBI has not fallen behind the curve by maintaining its easy monetary policy stance despite other central banks tightening and that the accommodative policy stance has served India well. These comments suggest that the central bank is unlikely to hike rates immediately and a recent survey showed economists were not forecasting an increase to the Repurchase Rate before April, although some analysts anticipate the central bank could begin normalising the Reverse Repo Rate ahead of that to drain excess liquidity from the market as it seeks to keep inflation in check, while it was also suggested that India's expansionary budget including record borrowing for the next fiscal year could further spur the RBI to act in order to contain inflationary risks.

RIKSBANK ANNOUNCEMENT (THU): The Riksbank is expected to keep current policy parameters unchanged, holding its Key Rate at zero. Since that November meeting, inflation readings have seen headline CPIF for November rise to 4.1% Y/Y, substantially above the Riksbank's 2.9% expectation. Elevated price metrics have fuelled expectations that the Riksbank will bring forward its tightening guidance, but analysts still think it is unlikely to be raised by magnitude sufficient to bring a hike into the 'near term' horizon. However, many speculate that, like the ECB, the Riksbank would likely first reduce QE purchases before lifting rates. A survey by Nordic bank SEB ascribes a 24% chance to such an announcement, with around 5% predicting a rate hike at this meeting. It is worth caveating that sourced reports have suggested that a March announcement from the ECB on ending APP is an option, therefore, it would not be surprising to see the Riksbank wait until the ECB revises its programme before altering its own. Returning to inflation, and in the base-case of an unchanged announcement, Governor Ingves is likely to use the fact that core measures are in-fitting with their expectations and explain the headline upside as being energy driven, as justification for such a decision.

US CPI (THU): Consumer prices are expected to rise by +0.5% M/M in January, boosting the annual rate by 0.3ppts to 7.3% Y/Y. The core measure of inflation is seen rising 0.5% M/M too, with the annual rate seen rising by 0.4ppts to 5.9% Y/Y. Credit Suisse explains that goods inflation is likely to remain strong, used vehicle prices should continue to rise following three months of gains. The bank also cites its own industry sources who suggested that prices were strong in the early part of the month, and although prices for services could ease due to the impact of Omicron, CS argues that increases in wage growth and strong shelter inflation should support a high reading in services CPI. "Along with a pickup in shelter inflation, faster wage growth will help support inflation well above 2.0% going forward, even as the temporary shocks to goods prices fade," Credit Suisse writes, "this should support the Fed’s decision to begin a hiking cycle in March, followed by balance sheet reduction in the summer."

BANXICO RATE DECISION (THU): There is not yet a consensus on what the Mexican central bank will do at its February confab. Last week, GDP data for Q4 confirmed that Mexico fell into recession in H2 2021. But despite the economic softness, analysts still see the Banxico lifting rates by either 25bps or 50bps from the current 5.5%, as it focuses on tackling high inflation. First half of January inflation data revealed core prices eased but remained elevated; reopening from the pandemic, supply chain issues, higher energy costs and raw materials are likely to keep price pressures firm, analysts have argued. Meanwhile, there remains some questions on how the new governor will set policy. Oxford Economics think that the appointment of Victoria Rodriguez Ceja, an inexperienced public sector economist, "could bring a decisive dovish turn to the traditionally hawkish board, however, "the more hawkish pivot of the US Fed erased the space for Banxico to take a long pause," and it sees the central bank continuing with rate hikes through Q1 2022 until rates hit the 6.00% terminal rate level.

UK GDP ESTIMATE (FRI): Expectations are for the December data print to show a contraction of -0.5% M/M vs. the 0.9% expansion seen in November. The 3M/3M rate is seen at 1.1% and would cover the entire Q4 period. The upcoming release is set to be characterised by the emergence of the Omicron variant, on which, RBC highlights that "card spending data showed consumers responding by pulling back on social spending while switching to food and other staples." As such, the Canadian bank expects a brunt of the impact from Omicron to be felt in the hospitality sector. Note, an outturn of -0.5% M/M would be in line with the MPC's latest projections, and as such should have little bearing on the rate outlook; the MPC this week lifted the Bank Rate by 25bps, with inflation clearly a greater concern for the Bank. In terms of the growth path ahead, the latest policy statement from the MPC suggested that GDP growth is expected to slow to subdued rates amid the adverse impact from higher global energy and tradable goods prices.

CBR RATE DECISION (FRI): After a 100bps rate rise in December, the consensus expects Russia's central bank will raise its key rate by another 100bps to 9.50%, as it tries to get inflation back to its 4.0% target by the end of 2022, and amid geopolitical tensions with Ukraine which saw the RUB currency fall significantly against the USD in January. However, analysts polled by Reuters expect that the CBR will begin lowering rates later this year, with its key rate seen ending 2022 at 8.50%. The central bank's tone will be monitored for any guidance on future rate moves; after the December meeting, some had framed the central bank's tone as softer, and there were then expectations of a 50bps rate rise in February; but the aforementioned geopolitical events and the subsequent fall in the currency is likely to see the CBR make a bigger move in February.