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Week Ahead 14-18th March. Highlights include: FOMC, US retail sales, China activity data, BoE

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- **MON:** Eurogroup Meeting, Swedish CPIF (Feb), US Survey of Consumer Expectations (Feb).
- **TUE:** EU Economic/Financial Affairs Council, OPEC OMR, Norges Bank Regional Network, Chinese Industrial Production/Retail Sales (Feb), UK Unemployment (Jan) & Claimant Count (Feb), German ZEW (Mar), EZ Industrial Production (Jan), Canadian Housing Starts (Feb), US PPI (Feb), New Zealand Current Account (Q4), Japanese Trade Balance (Feb).
- **WED:** FOMC & BCB Policy Announcement, IEA OMR, US Retail Sales (Feb), Export/Import Prices (Feb), Canadian CPI (Feb).
- **THU:** BoE, CBRT, Taiwan & Indonesia Policy Announcements, Australian Unemployment (Feb), EZ Final CPI (Feb), US Building Permits/Housing Starts (Feb), Initial Jobless Claims (w/e 7th Mar), Philadelphia Fed (Mar), Industrial Production (Feb), New Zealand GDP (Q4), Japanese CPI (Feb).
- **FRI:** Quadruple Witching, BoJ Policy Announcement, India Holiday, UK CPI (Feb), EZ Trade Balance (Jan), Canadian Retail Sales (Jan).

NOTE: Previews are listed in day-order

CHINESE INDUSTRIAL PRODUCTION/RETAIL SALES (TUE): The Retail Sales metric is expected to rise to 3.8% in February from 1.7% in the prior month, and Industrial Production is expected to have ticked slightly lower to 4.0% from 4.3%. The former is expected to be boosted by a string of targeted fiscal and monetary measures by the authorities. The latter is anticipated to be impacted by China's Zero COVID policy – which remains a grey cloud over manufacturing – and more recently, China reported its largest number of COVID-19 cases in two years. In terms of broader growth, the recent "two-sessions" meeting saw Chinese authorities set a more ambitious 2022 GDP target at "around 5.5%" vs the exp. "5.0-5.5%" – which has spurred speculation of further accommodative policy. Chinese premier Li suggested China faces new downside challenges this year and lowering the deficit rate gives room for policy.

UK JOBS REPORT (TUE): Expectations are for the unemployment rate for the 3M period up to January to fall to 4.0% from 4.1%. With the unemployment rate set to decline further from its December 2020 COVID peak of 5.1%, focus instead will be on the wage components as BoE officials fret over the prospects of second-round effects from the ongoing surge in inflation. For the upcoming report, average earnings ex-bonus are set to decline to 3.6% 3M/YY from the prior 3.7%, however, RBC cautions that the headline metric (inc. bonuses) could to rise to 4.7% from 4.3%. Such an outturn is unlikely to have much follow-through in shaping expectations for the BoE's policy announcement on Thursday. That said, pay growth could be a key driving force in shaping expectations for rate moves beyond May with officials at the Bank cautioning in February that underlying earnings growth is expected to strengthen over the coming year, to around 4.75%. Wage pressures though will need to be balanced against fears over the growth outlook for the UK, with the most recent policy statement from the Bank warning that UK GDP growth is expected to slow to subdued rates and as a result, the unemployment rate is expected to rise to 5% by the end of the forecast period.

RBA MINUTES (TUE): The minutes of the March meeting will be eyed for more colour on the Board's deliberations. In terms of the meeting itself, the RBA provided very little surprises as the decision to keep rates unchanged at the record low 0.10% was seen as a foregone conclusion. Governor Lowe had also previously stated that he wants to see a couple more CPIs before deciding on rates which suggest a live meeting won't be for several months given the quarterly schedule of the inflation data, while domestic banks including CBA and ANZ Bank are anticipating June as the earliest date for a potential hike. The RBA statement reiterated a dovish message with the Board prepared to be patient, while it also noted the Ukraine war is a major new source of uncertainty and that the length of time to resolve supply chain disruptions is a vital source of uncertainty for the inflation outlook. Given the backdrop of the Russia/Ukraine conflict alongside the sharp rise in commodity prices, markets overlooked the release at the time. More recently, given the Russia/Ukraine developments and following the policy decision from the ECB, RBA Governor Lowe said this year should see relatively good growth and that they are not at the point where CPI is sustainably in the 2%-3% target range, while he reiterated that it is plausible interest rates could increase this year and it would be prudent for borrowers to plan for an

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increase in rates. However, Lowe added that he doesn't think there is a lot of demand for a rate hike and that there are plausible scenarios where a hike could be earlier or where there is no hike this year. The minutes overall may offer little in terms of timely commentary given the fluidity of the macro situation.

US RETAIL SALES (WED): The Street expects retail sales to rise by 0.6% M/M in February (prev. +3.8%), with the ex-autos measure seen rising +0.8% M/M (prev. 3.3%), and the control group rising +1.2% M/M (prev. 4.8%). Credit Suisse' analysts–who are against consensus in expecting a 0.4% M/M decline–note that auto sales could weigh given the surge seen in January. Gas may provide some offset however (February CPI data suggested that prices rose by 6.7% in the month), and the energy disruptions relating to Ukraine will likely have boosted spending on gas. CS says the underlying trend for real spending was around flat through the holiday season, but as the economy shifts away from Omicron, consumer spending will shift away from goods spending and towards services. Ahead, the bank argues that retail sales should continue to gradually decline throughout this year, though the final batch of Child Tax Credit payments disbursed this season could offer some upside in the next few months. "Household balance sheets are in good shape and an intense labour market recovery is leading to strong wage growth," CS writes, "gradual normalisation towards trend is our base case, but a sharp inflationary shock due to the Russia-Ukraine conflict paired with rising rates may quickly eat away at the financial buffer households have built up throughout the pandemic, leading to a sharper drop below the pre-pandemic trend"

FOMC PREVIEW (WED): At his semi-annual testimonies to lawmakers, Fed Chair Powell endorsed a 25bps rate hike at the March 16th FOMC, leaning back against calls for a 50bps move that some hawkish elements on the FOMC had argued for to tame price pressures. However, Powell added that if high inflation persisted, the Committee would be prepared to move more aggressively by raising rates by more than 25bps "at a meeting or meetings". Money market pricing for a 50bps increment rate hike has pared back completely (5-10% probability), with the base case now seeking a 25bps move, in line with the Powell guide. Through the rest of 2022, markets are now pricing six 25bps rate rises–prior to the Ukraine conflict, they were shooting for seven, and in wake of the initial Russian invasion, it had pared back to five. Powell suggested that the Fed would be cautious amid the Ukraine conflict, but still felt a 25bps move was appropriate given high inflation and with the labour market effectively at maximum employment. Traders will also want some insight into the Fed's balance sheet plans. The Fed has now concluded its asset purchases, and the focus is on how the central bank will begin to 'normalise' its USD 9tln balance sheet (which has grown by USD 4.8trln since early 2020). The Fed Chair has made clear that balance sheet plans will not be finalised at the March confab, but the Committee will begin discussing strategies; he thinks it will take around three years to get the balance sheet to where the Fed wants, with the central bank retaining optionality to speed up or slow the pace of reduction depending on how conditions evolve. Powell was coy on what the eventual size of the balance sheet would be (will be 'relative' to the size of the economy), and he was keen to emphasise that the Fed will try to minimise disruptions in the process by keeping it 'running in the background' and predictable.

BCB PREVIEW (WED): Brazil's central bank lifted rates by 150bps to 10.75% at its February meeting, but the minutes of that meeting said it sees a reduction in the pace of adjustments (ie. a smaller increment of hikes) given the high uncertainty; accordingly, the Committee did not signal the size of future rate moves. "Despite the fact that the recent sharp increase in global commodity prices worsened the inflation outlook for this year and the next, we do not expect it to change this view," analysts at Credit Suisse said; the bank expects a +100bps hike to 11.75%. Officials have previously indicated that the pace of moves will be adjusted based on bringing inflation to target. CS says the bias for Brazilian price pressures is still to the upside, but argues that the BCB's balance of risks for inflation should deteriorate owing to high commodity prices. "As the room to accommodate this new high inflationary shock is extremely limited... we expect the BCB to keep tightening monetary policy further and for longer," Credit Suisse rates. "For the May and June meetings, we are revising our previous expectations of increases at each meeting from 50bps to 75bps," and for 2023, CS expects the Selic to fall to 8.5% (previously it had expected 7.5%). "We acknowledge that the current scenario of high uncertainty and an already high monetary policy rate might be compatible with a strategy of gradual hikes (of 50bps at each meeting, for example) over a consistent period of time, until inflation and inflation expectations decline to the inflation target," but "a stronger-than-expected reduction in the pace of tightening would probably been seen by the market and the BCB as a factor that could deter an appreciation of the currency and a reduction in inflation expectations for 2023 and 2024." CS again does not expect the central bank to signal the increment of future rate moves.

CANADIAN CPI (WED): There is not yet an analyst consensus formed on how Canada's February CPI report will look. Canadian bank RBC looks for the headline to register 5.4% Y/Y (from 5.1% in January), and ahead, the bank says it will rise closer to 6% in the following months' data on the back of surging pump prices. "In the first week of March alone, gas prices soared 16%—to 46% above year ago levels—as the Russian invasion of Ukraine sent global oil prices surging," adding that "commodity prices for products including wheat and metals have risen sharply too, and are expected to dominate the near-term inflation outlook," all as policymaker concerns on prices was already elevated.

BOE PREVIEW (THU): After hiking rates by 15bps in December and 25bps in February, the BoE is set to come to market with another 25bps worth of tightening at its upcoming meeting. Recall, the decision to raise rates at the prior

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confab was unanimous, however, there was a split of views in terms of the magnitude with five policymakers voting for a 25bps increase and the remaining four preferring a 50bps increase to signal the Bank's inflation-fighting credentials. This time around after failing to pull the trigger on a 50bps move, the consensus is firmly towards a 25bps hike. The backdrop to the upcoming meeting is once again characterised by rampant inflation in the UK with Y/Y CPI climbing to 5.5% in Jan from 5.4% in December. The Russian invasion of Ukraine has presented a further headache for policymakers with the conflict likely to further fan the flames of inflation whilst cooling growth. Note, the February statement already suggested that UK GDP growth was expected to slow to subdued rates. UBS highlights that further advances in inflation will likely increase the MPC's concerns about second-round effects via higher wages with the Bank's Agents report suggesting that there are signs of significant increases in wage growth this year. Looking beyond the upcoming decision, markets currently price in around five additional rate hikes (excluding March) by year-end. UBS, as well as several other desks, suggest that such pricing will likely prove to be too aggressive. UBS expects that after raising the Bank rate to 1% in May, policymakers will hold off from lifting rates further given the squeeze on real incomes and demand from rising energy prices.

CBRT PREVIEW (THU): The CBRT will likely stand pat on its rates at the upcoming meeting, as things stand. The meeting will be conducted as G10 central banks are stuck between a rock and a hard place concerning runaway inflation and stagflation concerns. The Turkish CPI and PPI Y/Y metrics came in at eye-watering 54.44% (prev. 48.69%) and 105.01% (prev. 93.53%), with Turkey also being a large net importer of crude, although data will likely not sway the central bank based on recent history. At the prior meeting, the CBRT held its policy settings and suggested "Comprehensive review of the policy framework is being conducted with the aim of encouraging permanent liraization in all policy tools of the CBRT." In terms of the most recent CBRT survey: the Repo Rate is seen at 14.78% (prev. 15.19%) in 12 months, GDP Growth at 3.4% (prev. 3.7%), USD/TRY at 16.6774 (prev. 16.0431) and finally year-end CPI at 40.47% (prev. 34.06%; vs CBRT's 5% target).

AUSTRALIAN UNEMPLOYMENT (THU): The headline figure is expected to have added 40k jobs in February (vs 12.9k in January), and the Unemployment Rate is expected to tick lower to 4.1% (prev. 4.2%) whilst the participation rate is seen at 66.3% (prev. 66.2%). Desks suggest that last month marked the third straight month of upside surprises in the labour force survey. Westpac suggests the weak Weekly Payrolls print has massaged market expectations toward a relatively flat print but the Aussie Bank sees the addition of 30k jobs. That being said, the central bank is "cautious about how far participation can be pushed in any one month from these levels. The risk is for a small rise in participation and a larger fall in unemployment." Nonetheless, from a monetary policy perspective, the jobs market overall looks healthier and the RBA has shifted its primary focus to inflation.

NEW ZEALAND GDP (THU): Q4 GDP metrics are expected to show growth across all metrics – in what is expected to be an almost-full reversal of the contraction seen as a result of the COVID Delta lockdown. Physical goods production rebounded but in-person services were lacklustre, according to some desks. However, it is worth noting the metric will be stale given the Russia-Ukraine crisis which kicked off two weeks ago and exacerbated fear of global stagflation, whilst the RBNZ is wholly expected (by desks and money markets) to hike the OCR at its upcoming meeting.

JAPANESE CPI (THU): Core CPI is seen ticking higher to 0.6% from 0.2%. The BoJ has intimated that the recent upticks in inflation are a function of higher oil prices as opposed to a weaker Yen. The Ukrainian war has intensified price pressures from an energy standpoint, but nonetheless, monetary authorities have maintained a dovish message in the face of slowing growth – with energy-induced inflation not expected to persist. Building on this, analysts at CapEco suggest "While the war in Ukraine will lift Japanese inflation to the Bank of Japan's 2% target, continued weakness in wage pressures and underlying inflation mean that the Bank won't respond with a rate hike." CapEco does not see the BoJ tightening. While the Japanese inflation metric is interesting, it is unlikely to spur much market action (barring a large surprise) given the BoJ's policy stance.

BOJ PREVIEW (FRI): BoJ is likely to keep its policy settings unchanged at next week's meeting with the central bank expected to maintain rates at -0.10% and its QQE with YCC to flexibly target the 10yr government bond yield at around 0.10%, while a recent source report suggested the BoJ could lower its economic assessment with consumption taking a larger-than-expected hit from COVID and amid uncertainty from the war in Ukraine. The rhetoric from officials continues to point to an unwillingness to shift away from the central bank's ultra easy policy as Governor Kuroda stated that Japan will continue its expansive monetary policy unlike other G7s and that they have to continue extremely accommodative easy policy as inflation is so low. Furthermore, Kuroda noted it is inappropriate to tighten policy and withdraw stimulus even if energy and commodity costs push up inflation, while he also said the BoJ are not engaging in any specific debate on an exit policy and there is no chance it will do so under the remainder of his term as BoJ Governor, which is set to end in April next year. Other officials have also echoed this view including BoJ board member Nakagawa who affirmed that the BoJ must continue powerful monetary easing under YCC and board member Nakamura also thinks the BoJ must patiently maintain current easy policy until wages begin to increase sustainably and has not seen conditions to

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tweak easy policy. Furthermore, the central bank's recent actions also suggest the unlikelihood of a change in policy after it stepped in last month to curb rising yields by purchasing an unlimited amount of 10yr JGBs at a yield of 0.25% which was the first time it announced this type of special operation since 2018 to defend its cap on yields.

CANADIAN RETAIL SALES (FRI): Within the December data, StatsCan's flash estimate forecast that retail sales would likely rise by 2.4% M/M in January, rebounding from the -1.8% printed in December. Canadian bank RBC's card spending tracker also points to a firm reading in February too underpinned by rises in travel and hospitality spending as pandemic restrictions eased.

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