Week Ahead 21-25th March: Highlights include PBoC, Norges, SNB, Banxico, SARB; Flash PMIs; EU Council meeting; UK Spring Statement

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- **MON:** PBoC LPR, Japan Vernal Equinox Day; German Producer Prices (Feb), US National Activity Index (Feb).
- **TUE:** UK PPI (Feb), German Flash PMIs (Mar), US New Home Sales (Feb), EZ Consumer Confidence Flash (Mar), Australian Flash PMIs (Mar).
- **WED:** NBH Policy Announcement; EZ Current Account/Construction Output (Jan), UK PSNB (Feb), US Richmond Fed Composite Index (Mar), UK Budget.
- **THU:** Norges Bank, SNB, SARB & Banxico Policy Announcements, European Council (1/2), BoJ Minutes (Jan), CBRT Minutes (Mar); EZ, UK & US Flash PMIs (Mar), US Final GDP (Q4), Durable Goods (Feb), Initial Jobless Claims (w/e 14th Mar).
- **FRI:** European Council (2/2); UK Retail Sales (Feb), German Ifo (Mar), EZ M3/Loans to Households (Feb), US Uni. of Michigan Final (Mar), Canadian Budget Balance (Jan).

NOTE: Previews are listed in day-order

PBOC LPR PREVIEW (MON): The PBoC is to update on its Loan Prime Rates next week in which there are mixed views on whether the central bank will cut or maintain its benchmark lending rates with the 1-Year Loan Prime Rate currently at 3.70% and with the 5-Year Loan Prime Rate at 4.60%. There has been increased speculation for the central bank to continue to loosen policy given slowdown concerns with China recently setting its slowest annual economic growth target in 31 years at around 5.5% for 2022, with the outlook mired by tightening among some of the world's key central banks including the Fed and with disruptions from ongoing COVID-19 outbreaks in China which has maintained a zero-tolerance approach to the virus, while uncertainty from the war in Ukraine and upward pressure on commodity prices are also a risk to global economic activity. This has spurred calls for the PBoC to further loosen policy in the near-term, although the central bank recently disappointed those expectations when it decided to maintain the rate of its 1yr MLF operation at 2.85% vs. expectations for a 10bps cut. Nonetheless, China Securities Journal noted that an interest rate cut window is not completely closed and that China could still adjust rates despite maintaining its 1yr MLF rate during the past week, while the State Council's recent pledges to support the economy and capital markets could also pressure the central bank to act.

NBH PREVIEW (WED): The consensus expects the National Bank of Hungary will raise rates by 75bps to 4.15% as it looks to manage price pressures which are being exacerbated by the Russia-Ukraine War; the range of forecasts sees the potential for a move as little as +50bps, and as much as +125bps. Inflation is expected to average 8.15% in 2022, according to a Reuters poll of economists – analysts had expected an average of around 6% in the previous months' poll. There will be attention on any commentary relating to the HUF currency, after the central bank intervened when EURHUF rose to 400; the NBH said it would use all tools available, and raised the upper-end of its rate corridor by 100bps to allow it more maneuver to tighten. Additionally, traders will be keeping an eye on the updated economic projections to help gauge the extent to which the central bank will continue to tighten; ING Bank argues that the projections are likely to show a significant revision in the CPI path vs December's forecasts, and that will suggest that the NBH will need to tighten policy further.

UK CPI (WED): Expectations are for Y/Y CPI to climb to 5.9% from 5.5% with the core metric seen rising to 4.8% from 4.4%. Part of the upside in the prior release was attributed to an adjustment to basket weightings which now see the basket more heavily tilted towards goods spending than pre-pandemic, where the fastest price rises have often been seen, as opined by ING. This time around, Moody's notes that core inflation will likely be "supported by a boost in demand for services and goods following the retraction of pandemic era social-distancing measures at the end of January". That said, the ratings agency notes that energy prices remain somewhat contained by the country's electric and gas price cap, albeit this will be recalculated in April and add to upside inflationary impulses. Previously the MPC had expected inflation to peak at 7.25% in April on account of the price cap. However, given events in Ukraine, inflation is expected to climb to 8% in Q2 with a risk of further advances thereafter.

UK SPRING STATEMENT (WED): The upcoming Spring Statement from Chancellor Sunak is not expected to be a major fiscal event with the “mini-budget” more of an opportunity for the Chancellor to deliver an assessment on the performance of the UK economy and developments since the October budget. As such, major spending plans or tax adjustments are unlikely to be forthcoming next week. In terms of pre-announced measures, the Chancellor is set to confirm that the increases to national insurance contributions and income taxes unveiled in the Autumn budget will go ahead as planned on April 1st. After announcing a GBP 9.1bln support package to help UK households combat rising energy prices last month, the Chancellor has faced pressure to go beyond these measures with the conflict in Ukraine set to squeeze household incomes even more. However, reports in the UK press suggest that the Chancellor is set to resist such calls. Note, UK PM Johnson is expected to outline a broader energy strategy next week; it is unclear how this will align with the Chancellor’s announcement. One area which could garner some attention will be any increases in defence spending given recent events. As it stands, defence spending in the UK amounts to 2.3% of GDP and is expected to decline to 2.1% by 2024/25. The latest round of projections from the OBR that will be used as a basis for borrowing forecasts will be subject to greater uncertainty than normal given events in Ukraine. As such, and as was the case during the pandemic, RBC suggests that the OBR might opt for a more scenario-based approach. That said, the basic takeaway will likely be an environment characterised by lower growth and higher inflation than assumed in October. RBC forecasts that the FY 2022/23 real GDP growth forecast will be lowered to 1.9% from 4.2%. In terms of Public Sector Net Borrowing (PSNB), RBC expects it will be GBP 24.4bln lower than forecast in the October budget at GBP 158.6bln. Thereafter, as of FY 22/23 all years across the forecast horizon are expected to be revised higher on account of lower projections for GDP and increased debt costs. For the FY 22/23 DMO remit, RBC notes forecasts that the lower gross financing requirement of GBP 13bln will result in gross gilt issuance of GBP 176.6bln which would leave ‘net issuance post-QE’ rising to GBP 71bln with the bulk of the increase in longer-dated Gilts.

NORGES BANK PREVIEW (THU): In January, as expected, the Norges Bank held its Key Policy Rate at 0.50% and reiterated guidance towards a March hike based on their assessment of the outlook and balance of risks. At the time, the Norges Bank noted that underlying inflation had increased more than expected and it is nearing the inflation target, even though CPI upside is being restrained by the electricity support scheme for households. Since then, we have seen the Norwegian Gov’t decide to extend the household electricity subsidy until March 2023, thus continuing to restrain inflation. Even amidst such intervention, inflation has continued to climb with both headline and core measures printing notably above exp. for March amid the current geopolitical/energy situation. Interestingly, energy hasn’t been directly driving CPI, however, its indirect influence is evident. More broadly, inflation expectations evidenced via the Regional Network report (albeit, a pre-Russia/Ukraine survey) remain elevated and, alongside the current price situation and commodity action, should serve as justification for a March hike, as guided. Separately, and perhaps more pertinently, will be the discussion around the repo path which currently implies three further hikes (including March) this year, not one for each of the four remaining MPRs as markets currently expect. Overall, recent domestic and geopolitical developments serve to justify a 25bp hike as guided. Focus will be on the repo path and whether the Norges Bank believes the current /expected situation, particularly inflation, justifies another hawkish tilt.

SNB PREVIEW (THU): To keep rates on hold at -0.75%; as always, focus will be on the language and classification of the CHF, particularly in light of recent moves that saw EUR/CHF move below parity. Currently, the SNB classifies the Franc as being “highly valued” and if they were to upgrade the classification, based on precedent, the Board has “even more highly valued” and “significantly overvalued” at its disposal. Amid the pronounced appreciation in the CHF, the SNB itself reiterated the current classification and preparedness to intervene if needed; interestingly, it put the appreciation down to inflation differentials. On this, the most recent SECO forecasts highlight elevated inflation globally and on the domestic front, but, point to inflation falling back to a 0.7% average for 2023 – seemingly endorsing the SNB’ s between-the-lines view that they cannot swiftly alter global inflation differentials that are causing the CHF to be sought after. More broadly, SECO writes that the direct impact of Ukraine on Switzerland is likely to be limited. Overall, ‘traditional’ policy action is unlikely to be forthcoming regarding Ukraine and energy inflation; however, the significant appreciation of the Franc perhaps merits an upgrade to its classification and a continuation of its interventionist approach. Albeit, such a call is muddied by the Franc’s swift pull-back from its venture below parity. Elsewhere, and particularly as the ECB referred to their equivalent in March, we remain attentive to any alterations regarding the exemption threshold for domestic banks, currently at 30x. Note, since the last outing, we have seen the reactivation of the CCyB, a step that has been a focal point around recent policy announcements.

SARB PREVIEW (THU): Analysts see the South African Reserve Bank raising rates by 25bps to 4.25% as it continues to battle inflation; a small minority looks for an unchanged decision. A Reuters poll found that economists see inflation averaging 5.5% this year–close to the top-end of the SARB’s 3-6% target range–before easing to an average of 4.4% in 2023 and 2024; economists believe risks to the inflation profile are to the upside. "Supply challenges and bottlenecks that faced the globe from the onset of the COVID-19 pandemic now look to worsen, regardless of whether tensions between Russia and Ukraine calm down in the coming weeks," BNP Paribas said. Economists see the potential for more rate rises in Q3 and Q4.

BANXICO PREVIEW (THU): In February, the central bank raised rates by a 50bps increment, as expected. However, the 4-1 vote saw Deputy Governor Esquivel call for a smaller 25bps move. Statement changes were subtle: although it said slack was ample, the central bank did not say that the balance of risks for inflation had "once again worsened" as it did in December. However, the February statement added that "inflationary pressures have been of a greater-than-expected magnitude and duration." Banxico's March private sector survey revealed that analysts had raised expectations of where benchmark rates will end this year, with the view now that rates will rise to 7.25% by end-2022 (vs the previous poll's 6.75% view, and the current 6.00%). With the US Federal Reserve lifting rates in March and pencilling in a further six 25bps rate rises this year, one of the key questions is whether the Banxico will have to follow the Fed. Recently, money markets have been suggesting that Mexican central bank will need to follow its US counterpart, and UBS argues that given core inflation in Mexico picked up in February, it is likely that Banxico may need to continue raising interest rates at a 50bps clip in March. UBS also argues that rising energy and food prices due to the Ukraine war could also mean that Banxico may have to frontload its hikes.

EUROPEAN COUNCIL MEETING (THU): European leaders and NATO members (including the US) will meet on the 24th of March in Brussels. Defence and Security will be among the top topics and the date will mark one month since the war began. The meeting also comes amid increasing violence inside Ukraine but closer to the Polish border – with the Ukrainian city of Lviv under fire this morning – just over an hour’s drive from the border with Poland. The West has continuously spoken against imposing a “No-Fly Zone” over Ukraine as it could mean NATO is forced into a confrontation with Russia. Western officials will likely continue to resist this option whilst expressing solidarity with Ukraine and mulling over further sanctions. Eurasia’s Rahman suggested, “The threshold for energy import bans is very high”, although some fear the West has exhausted a large part of its sanctions arsenal.

EZ FLASH PMIS (THU): Expectations are for the March manufacturing metric to slip to 56.0 from 58.2, services fall to 54.3 from 55.5, leaving the composite at 53.3, down from the February reading of 55.5. The prior release saw the composite metric rise to 55.5 from 52.3 with IHS Markit noting “the survey data for February depict a eurozone economy that was regaining robust growth momentum ahead of the invasion of Ukraine”. Since the prior report, the key focus for economists and market participants has been attempting to quantify the fallout from the invasion of Ukraine with several officials at the ECB suggesting that there is now a risk of stagflation as the crisis propels energy prices higher and hampers growth. In terms of recent indicators, Nordea reminds us that the recent ZEW survey saw the expectations metric fall to a pandemic low and as such the bank expects the upcoming PMI report to reflect this backdrop. That said the impact will likely be minimal given the recent policy announcement from the ECB which means that policymakers will likely be on auto-pilot for the next few meetings after it tweaked its bond-buying schedule and continues to attempt to assess the fallout from the Russian invasion of Ukraine.

UK MARKIT FLASH PMIS (THU): Expectations are for the services metric to cool to 59.0 from 60.5, while manufacturing is seen falling to 57.1 from 58.0 leaving the composite at 58.7 vs. February’s 59.9. The prior release saw the composite metric jump to an 8-month high of 59.9 from 54.2 with IHS Markit noting "the ebbing of the Omicron wave of the COVID-19 pandemic contributed to a rebound in growth in the UK service sector in February". This time around RBC notes that although the survey period will likely have been carried out after the Russian invasion of Ukraine, it is unlikely to have an immediate impact on the survey. Accordingly, the bank suggests just a modest downtick in the services reading with domestic demand conditions sufficiently robust. On the manufacturing front, the growth of output and new orders seen in February is expected to underpin the upcoming report, however, RBC suggests that of greater interest will be how fast Russia-Ukraine conflict has fed into supply times and input prices.

UK RETAIL SALES (FRI): Expectations are for Y/Y retail sales to grow 8% vs. the 9.1% increase seen in January with the ex-fuel metric seen up 6.1% vs. prev. 7.2%. Moody’s expects that M/M sales likely rose 0.7% in February following the decent 1.9% rise seen in January with sales supported by the easing of social-distancing measures. In terms of recent retail indicators, BRC retail sales for February rose 2.7% Y/Y vs. prev. 8.1% with the consortium noting that “February saw continued sales growth, although dampened by Storm Eunice and falling consumer confidence”. However, “the future is looking increasingly uncertain, with current demand unlikely to be sustained”. Elsewhere, the Barclaycard Consumer Spending Report revealed 18.9% growth in retail card spending vs. 2020 levels with Barclays suggesting that pent up demand was a catalyst for growth with particular strength in the clothing sector.

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