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# Week Ahead March 20-24th: Highlights include FOMC, PBoC, SNB, Flash PMIs

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- **MON:** PBoC LPR Setting, BoJ Summary of Opinions (Mar), German PPI (Feb), New Zealand Trade Balance (Feb).
- **TUE:** RBA Minutes, Japanese Holiday, German ZEW Survey (Mar), Canadian CPI (Feb).
- **WED:** FOMC Policy Announcement, BoC Minutes (Mar), BCB Policy Announcement, UK Inflation (Feb).
- **THU:** BoE Policy Announcement, SNB Policy Announcement, Norges Bank Policy Announcement, CBRT Policy Announcement, Japanese National CPI (Feb).
- **FRI:** UK Retail Sales (Feb), EZ/UK/US Flash PMIs (Mar), US Durable Goods (Mar), German Unemployment (Feb).

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***NOTE: Previews are listed in day-order***

**CHINA PRESIDENT XI VISITS RUSSIA (MON-WED):** Chinese President Xi is to visit Moscow on March 20-22, according to state media. Both presidents are set to sign “important documents” and discuss their strategic partnership. According to the Chinese Foreign Ministry, the objective of the visit is to further deepen bilateral ties, enhance the construction of the Belt and Road Initiative, and strengthen the Eurasian Economic Union. China will also exchange opinions on major international and regional issues with President Putin during this visit. The visit would take place sooner than previously anticipated and comes amid China’s recent offer to broker peace in Ukraine, despite its diplomatic support for Russia. Xi’s upcoming visit follows a trip to Moscow by China’s top diplomat, Wang Yi, in February, which was intended to prepare for Xi’s visit. China and Russia have continued to strengthen their ties, with the two nations striking a “no limits” partnership in February 2022. Additionally, sources via the WSJ reported that Xi is planning to speak with Ukrainian President Zelensky for the first time since the beginning of the war, likely after meeting with Putin in Moscow. Some say this reflects Beijing’s attempts to play a more active role in resolving the conflict in Ukraine and would be a significant step in China’s efforts to establish itself as a peacemaker in the region. Reports also note that Xi is considering visiting other European countries during his trip, although this has not been confirmed.

**PBOC POLICY ANNOUNCEMENT (MON):** The consensus expects the PBoC will keep its benchmark lending rates unchanged next week, with the 1-Year and 5-Year Loan Prime Rates forecast to be kept at 3.65% and 4.30%, respectively; these key rates have been left unchanged since August, and analysts generally expect the central bank will continue to refrain from adjustments as the economy is seen to recover after exiting strict COVID policies late last year, and the reopening of China’s borders, which reduces the urgency for policy support. Data releases have been mixed: on the one hand, the recent import and export components of trade remained negative (in dollar terms), although on the other hand, the manufacturing PMI showed factory activity expanding at the fastest pace in over a decade. Additionally, the central bank recently maintained its 1-Year MLF rate, which usually serves as an accurate precursor for its LPRs. Analysts also said that the surprise decision to keep PBoC Governor Yi as head of the central bank suggests policy stability, and could signal that China’s top decision makers were happy with the implementation of monetary policy; its new Premier Li Qiang has pledged to support economic growth and restore business confidence. Analysts will be keeping a close eye on the 5-Year LPR, UOB’s analysts have said that any reduction here would signal strong support for the real estate sector. That said, the bank notes that authorities could provide more targeted support to certain sectors, and could also tweak its RRR rates. And late on Friday, that is what the central bank did: it announced that it would be lowering the Reserve Requirement Ratio for banks by 25bps, which would bring the weighted average RRR for the banking system to 7.6%.

**BOJ SOO (MON):** The BoJ will release the Summary of Opinions from its March meeting when the central bank unsurprisingly maintained policy settings, with the rate kept at -0.10% and QQE with YYC retained at a 10yr yield target of 0% and +/-50bps band in the final meeting under the stewardship of Governor Kuroda whose term ends in early April, while it was also the last policy meeting for Deputy Governors Amamiya and Wakatabe. The decision was expected, although resulted in a knee-jerk USD/JPY spike as there was some positioning heading into the meeting on the off chance that the BoJ leadership may deliver a parting surprise. The rhetoric from the central bank provided little in the way of fresh insight as it maintained its forward guidance on rates and reiterated that Japan’s economy is picking up and expected to recover as the impact of the pandemic and supply constraints fade, although it did acknowledge that core

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consumer inflation is moving around 4% and inflation expectations are rising. Nonetheless, the 'early' release of the BoJ policy decision, which was announced right at the start of the Tokyo lunch break, also suggested a lack of extensive discussion from the central bank in terms of sticking with its ultra-easy policy settings.

**NEW ZEALAND TRADE BALANCE (MON):** There are currently no forecasts for February's trade balance. Analysts at Westpac see the deficit narrowing to USD 800mln from USD 1.954bln in January, as export prices ease and import demand remains firm. In January 2023, New Zealand's goods exports increased by 14%, while goods imports rose 26%. The rise in exports was led by milk powder, butter, and cheese, with China being the primary driver of the increase. Imports were mainly driven by petroleum and products, while South Korea surpassed Japan as New Zealand's fifth-largest import partner.

**RBA MINUTES (TUE):** Minutes from the March meeting are due next week and to recap the central bank delivered a 10th consecutive rate increase, in which it hiked the Cash Rate Target by 25bps to 3.60%, as expected. The RBA noted that the Board remains resolute in its determination to return inflation to target and expects further tightening of monetary policy will be needed, which was a slight tweak from its previous guidance that the Board expects further increases in interest rates will be needed, while it also stated that monthly CPI data suggests that inflation seems to have peaked. The RBA added that growth has slowed and while the labour market remains very tight, conditions have eased a little and uncertainties mean that there is a range of potential scenarios for the Australian economy. Furthermore, it noted that in assessing when and how much further interest rates need to rise, the Board will be paying close attention to developments in the global economy, trends in household spending and the outlook for inflation and the labour market. The rhetoric from the central bank was less hawkish than previous, but still pointed to further tightening and Governor Lowe noted the following day that they are closer to the point where it will be appropriate to pause and the timing of the pause will be determined by the data and assessment of the outlook. He reiterated that further tightening is likely to be required, but kept options open for the next meeting in which they could pause if that's what the data suggests, but keep going otherwise, and will have a completely open mind at Board meetings. This places (even more) emphasis on the incoming data releases before the next meeting, although Westpac has revised its call to a pause from a hike in April and trimmed its peak view by 25 bp to 3.85% accordingly.

**CANADA CPI (TUE):** The consensus looks for CPI to rise 0.7% M/M in February, firming from the +0.5% pace in January; the annual reading is seen ticking up to 6.1% Y/Y from 5.9%. The BoC paused rate hikes in January, and the pause has been conditional on economic developments broadly evolving in line with its outlook. Canada's recent data may challenge this, however: TD Securities said that the recent jobs report did not provide any evidence that rates were high enough to bring inflation back to its 2% target, while Scotiabank noted that wage pressures and rebounding GDP have both added to inflationary risk, and the trend remains pointed to how wage gains have been outpacing headline inflation for almost a year now. Offsetting that, analysts at RBC note that the global manufacturing outlook has softened, and easing supply chain disruptions and lower (albeit still-high) commodity prices are helping to slow inflation. It is worth noting that the BoC's March meeting minutes, released the day after the CPI report, will offer further colour on the central bank's thinking.

**BOC MEETING MINUTES (WED):** The minutes will be eyed for further details on the state of the economy, and any conditions that officials would need to see for the central bank to resume its hiking cycle. The BoC is likely to repeat the case for its "conditional pause", where it left rates unchanged at the meeting. With slowing growth and cooling inflation, the case for the BoC to resume hikes is small. Senior Deputy Governor Rogers noted in her economic progress report that the economy is evolving in line with the BoC's projections. Meanwhile, the jobs market returned to a more "normal" pace in February following two consecutive months of over 100k job additions, although the unemployment rate did fall further showing signs of a still-tight labour market, therefore commentary from the BoC on the labour market and its implications will also be eyed. Given the minutes are an account of the March 8th meeting, commentary on the labour market will centre around the hot December and January reports, as it had not seen the February jobs data by then. It is also unlikely there will be any commentary surrounding the latest global banking woes, thus the minutes could be deemed stale, given that the market has seen a sharp repricing with easier policy settings from global central banks now being factored in. Although the direct impact on Canada is unclear, the Canadian banking regulator has since announced it will be monitoring domestic banks' financial health in wake of the SVB collapse.

**FOMC POLICY ANNOUNCEMENT (WED):** Although the Fed has recently been prioritising the progress of inflation as the key influence in its policymaking (where latest data has generally alluded to still high inflation and a strong labour market), the main focus of this week's confab may centre around whether the central bank will raise rates in the face of a potential banking liquidity crisis. At the time of writing, money markets assess that the FOMC will lift rates by 25bps to 4.75-5.00%, though there is some pricing suggesting that it could even leave rates unchanged; there seems to be virtually no significant pricing suggesting that the Fed could hike by a larger 50bps. While measures taken to support the banking sector (both in Europe and the US) have supported sentiment, the weekly Fed balance sheet data revealed that lending at the discount window spiked by a record amount. The central bank's 'emergency loans' stood at USD 318bln (vs USD 15bln W/W). Its new BTFP programme total outstanding amount was USD 11.9bln as of March 15th; the Fed

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said there was USD 15.9bln total collateral under the new bank term funding programme; the Fed's balance sheet jumped to USD 8.69tln on March 15th, from USD 8.39tln on March 8th, the highest level since November; other credit extensions rose to USD 142.8bln as of March 15th from zero on March 8th. Capital Economics said that it showed the scale of the stress in the financial system, and was a far more severe liquidity crunch than at the start of the pandemic (emergency loans peaked at USD 130bln then), and not far off the financial crisis peak of USD 437.5bln in 2008. "The size of the spike in the Fed's emergency lending underlines that this is a very serious crisis in the banking system that will have significant knock-on effects on the real economy," CapEco wrote.

**BCB POLICY ANNOUNCEMENT (WED):** At February's Copom, the BCB held its Selic rate at 13.75%, in line with consensus. Analysts judged its statement to be on the hawkish side, noting that the central bank said it was uncertain on the "fiscal side and the inflation expectations drifting away from the inflation target on longer horizons" which "raises the cost of the disinflation that is needed to reach the targets". It also said it was "assessing if the strategy of maintaining the Selic rate for a longer period than in the reference scenario will be enough to ensure the convergence of inflation." Analysts at Credit Suisse said that "overall, we view the communique as reinforcing our expectation that the uncertainty regarding the new fiscal framework and economic plan, in addition to the recent questions about the level of the inflation target, hinders the central bank's objective of converging inflation to its target range, despite the better international scenario and signs of deceleration in domestic economic activity." CS thinks that the central bank will hold rates in March, with an easing cycle starting in Q3 2024.

**UK INFLATION (WED):** Headline CPI Y/Y is seen cooling to 9.9% in February from 10.1% the prior month, with the M/M index expected at -0.4% (prev. -0.6%). However, Core Y/Y inflation is seen ticking higher to 6.2% from 5.8% with the M /M rate seen at -0.5% (prev. -0.9%). The prior report saw headline Y/Y inflation decline to 10.1% from 10.5%, Core Y/Y inflation cooled to 5.8% from 6.3% and the widely watched core services CPI fell to 6% from 6.5% vs. the MPC's expectation of 6.7%. This time around, analysts at Pantheon Macroeconomics forecast that the headline inflation rate fell to 9.9% in February, from 10.1% in January, matching the MPC's forecast. PM also forecasts that overall core inflation fell to 5.7%, from 5.8% in January. As such PM suggests the report will provide the MPC with more evidence that the pace of price rises is slowing, in line with its February MPR forecast. It is worth noting that market pricing for major central banks has been erratic in the wake of the fallout from the collapse of SVB and subsequent financial stability concerns. However, Pantheon suggests that should its forecast be realised, the chances of a 25bp hike in the Bank Rate on March 23 are smaller than the 67% now priced in by investors. The CPI report could potentially tip the balance for the upcoming meeting with the latest labour market report somewhat of a mixed bag with the unemployment rate unexpectedly holding steady (vs. expectations of an uptick), whilst ex-bonus earnings were slightly cooler than expected.

**BOE POLICY ANNOUNCEMENT (THU):** The backdrop to the upcoming meeting is an increasingly complicated one in lieu of recent developments in financial markets. In the wake of the February meeting which saw policymakers deliver a 50bps hike via a 7-2 vote, consensus leaned towards the MPC delivering a final 25bps hike, taking the Base Rate to 4.25%. Market pricing nearly fully priced in such a move during February following strong wage and retail sales metrics, whilst inflation remained in double-digits and January GDP saw growth of 0.3%. Furthermore, hawks on the MPC were in favour of further action with external member Mann stating that "more needs to be done on rates" amid concerns over the persistence of core inflation. However, the economic landscape has clearly changed amid the regional banking woes in the US and concerns in the European banking sector over contagion from the stresses currently facing Credit Suisse. This has subsequently lessened expectations for the Fed with markets torn between whether the FOMC will hikes by 25bps or stand pat on rates which is a far cry from the 50bps that was priced in post-Powell following his remarks last week. That said the ECB defied bets for a step down to a 25bps hike and stuck to its guns on 50bps, albeit this might have been more a result of credibility concerns than an actual policy preference. Nonetheless, policymakers on the MPC might see the better course of action as holding fire for now whilst the dust settles and more clarity is provided on potential systemic risks within the banking sector. Whether the MPC would resume hiking thereafter remains to be seen, however, one thing for sure is that the potential for a more fractious MPC going forward is more likely with hawks on the Board likely to be focused on fighting inflation, whilst doves such as Tenreyro are already of the view that rates are too high. Moderates on the MPC have some cover to pause the tightening cycle with previous comms from the likes of Chief Economist Pill already noting that there is a lot of tightening in the pipeline whilst Governor Bailey has cautioned against suggesting either that the BoE is done with hiking rates or that it will inevitably need to do more.

**SNB POLICY ANNOUNCEMENT (THU):** Expected to hike by 50bp, or perhaps 75bp from the current 1.00% policy rate. A sizeable tightening move is justified by the recent unexpected uptick in domestic CPI, with February's YY measure printing at 3.4% compared to the SNB's Q1 view of 3.0%. Pertinently, CapEco believes headline inflation is likely to remain above 3.0% in the coming months, which is markedly above the 2.0% inflation target and the SNB's forecast for a decline to 2.5% in Q2. As such, the SNB will likely elect to act now to stop inflation from becoming entrenched at such levels; therefore, a 75bp hike in March cannot be dismissed and may be followed by further hikes depending on how the inflation situation develops. However, it is worth caveating the recent banking instability, with particular emphasis on

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Credit Suisse, serves as a potential counter-argument to aggressive tightening. Recent commentary from Chairman Jordan has reiterated a willingness to use interest rates and FX to get monetary conditions to appropriate levels for price stability. Note, Maechler is to leave in June 2023 with a replacement yet to be announced.

**NORGES POLICY ANNOUNCEMENT (THU):** Expected to hike by 25bp, in fitting with guidance from the January meeting for tightening to “most likely” take place in March. Developments since then are supportive of a Q1 hike, as guided, with inflation still well above target and the domestic economy proving more resilient than expected in Q4, according to hard data and subsequent survey indications. Specifically, the latest regional network report showed that developments are stronger than contacts expected in the prior survey; however, wage and cost expectations are expected to tick up in 2023, with the wage growth figure seen substantially higher vs November’s estimate. Given the lack of forward guidance in January, where Governor Bache said forecasts beyond March had not yet been made, participants will be particularly attentive to any new guidance or path adjustment. DNB expects the recent NOK weakness, which it writes can be thought of as for every 1pp of NOK depreciation this increases CPI-ATE by 0.1pp over 5/6months, to be described as a temporary phenomenon, but to prompt a rate path increase of at least 25bp given the inflation implications. However, the February inflation print saw both the headline and core measures cool by a larger-than-expected magnitude and thus serves as a potential counterargument to an upward revision of the repo path.

**CBRT POLICY ANNOUNCEMENT (THU):** The Central Bank of the Republic of Turkey (CBRT) is currently expected to maintain its Weekly Repo Rate next week. After a series of devastating earthquakes in Turkey, the CBRT reduced its policy rate by 50bps in February to facilitate economic recovery. The Bank anticipates short-term negative effects on the economy, but no permanent impacts. In a move to bolster the Turkish economy, Saudi Arabia agreed to deposit USD 5bln in Turkey’s central bank, intending to strengthen economic ties and support Turkey’s efforts to improve its economy, stimulate social growth, and foster sustainable development. The earthquakes have adversely affected Turkey’s net foreign exchange reserves. The Saudi deposit is predicted to stabilize Turkey’s foreign reserves and the Turkish lira, which has experienced significant depreciation in recent years. This decision is also expected to help combat inflation in the country. The CBRT meeting precedes the crucial May 14 elections, which will have significant implications for President Erdogan’s political future. Erdogan’s popularity has waned due to the depreciation of the Turkish lira and a contentious low-interest-rate economic model. According to Reuters sources, the draft election manifesto of Turkey’s ruling AK Party suggests a return to orthodox, free-market economic policies. This shift occurs as Erdogan faces challenges linked to the depreciating Turkish lira and the nation’s controversial economic model. Some analysts speculate that Turkey may implement additional rate cuts before the elections.

**JAPAN CPI (THU):** Nationwide Core CPI Y/Y is seen falling to 3.1% from 4.2%. The timelier Tokyo CPI showed inflation declining from 4.4% to 3.4% in February, thanks to government energy subsidies. Analysts a CapEco anticipate a nationwide decrease from 4.3% to 3.2%, and suggest that despite the drop in headline figures, underlying inflation is expected to increase from 3.2% to 3.3%, driven by food inflation and a slight pickup in services inflation. Food inflation is projected to rise from 7.6% to 7.8% and national services inflation to increase from 1.1% to 1.2%, the highest since April 1998 when accounting for tax impacts. CapEco predicts inflation will fall below the BoJ’s 2% target this year, as producer prices dropped in February for the first time in two years, and the output price component of manufacturing PMI indicates a decline in “core” goods inflation in the coming months.

**UK RETAIL ALES (FRI):** Retail Sales Y/Y for February is expected at -5.5% (prev. -5.1%) with the Core Y/Y metric seen steady at -5.3%. Oxford Economics notes a significant downward trend in retail sales over the past few years, only briefly interrupted by monthly volatility. January saw a 0.5% M/M rise, reversing less than half of December’s decline. Consumers continue to face pressure from falling real incomes, but the low sales level in January suggests the potential for a catch-up, especially in the food and non-food sectors. Consequently, Oxford Economics predicts a 0.2% M/M rise in February’s retail sales, including fuel. In terms of recent retail indicators, BRC retail sales printed at 4.9% Y/Y vs. prev. 3.9%, and with the accompanying report noting “Retail sales held up better than expected this February, though volumes remained down on last year. While the cost-of-living crisis has made customers increasingly price sensitive, they are still ready to celebrate special occasions”. Adding, “the economic backdrop means retailers face volatile trading conditions. Many consumers will be concerned as they prepare for further energy price and tax rises in April”. Elsewhere, the Barclaycard Consumer Spending Report observed that “overall Retail spending grew 2.6% when compared to the same period last year, the fifth consecutive positive month since October 2022”.

**EUROZONE FLASH PMI (FRI):** Flash PMI data for March is expected to be little changed; the consensus looks for the manufacturing gauge to improve to 49.0 from 48.5, the services measure to fall very slightly to 52.6 from 52.7, which should leave the composite unchanged at 52.0. Analysts at Investec seem to be more optimistic than the consensus, and note that the strength in the prior report (improving confidence, rising demand, continued easing of supply chain issues), underpinned by decent performance in the services sector, should continue into March. While the survey will be looked at for clues about how businesses are viewing the recent banking crisis, analysts have said it may be too soon for these concerns to be reflected in the flash March data.

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**UK FLASH PMI (FRI):** Analysts will be watching to see if the upside surprise seen in February can be sustained. The composite rose 4.6 points to 53.1 in February, the first time the index had been above the 50 mark (which separates expansion and contraction) since July 2022. The data was underpinned by a solid performance in the services sector. “Certainly, the economic outlook has become brighter over the last few months, aided by the steep falls in wholesale gas prices,” Investec writes, “we have recently revised up our GDP projections for 2023 by 0.4ppts to -0.5%,” it said, adding that it suspects that the March PMI data will provide further signs of a recovery in activity.

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