

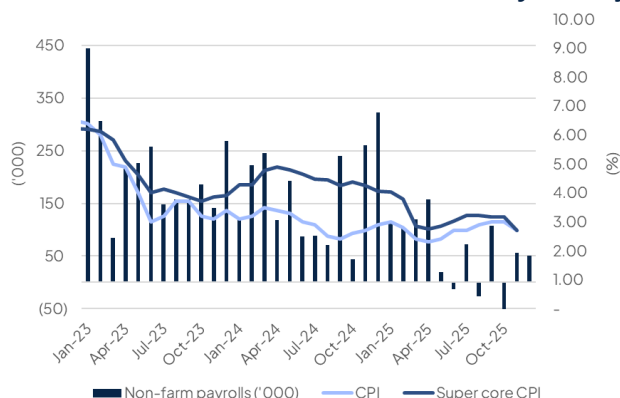


This week's FOMC to be a pause with regional central banks to follow Fed

26 January 2026 – Market Economics

The Federal Reserve holds its first FOMC meeting of the year this week with a decision on policy expected 28 January 2026. We expect no change in policy at this meeting and markets are assigning virtually no chance of a rate cut at the January FOMC. Economic data critical for the Fed have remained mixed. Total nonfarm payrolls expanded by 50k in December 2025 with a total of 584k jobs added in 2025 as a whole, down from more than 2m in 2024 and 2.6m in 2023. At the same time inflation has remained stubborn and disinflation has slowed. CPI inflation as of November in the US printed at 2.7% y/y.

US labour market cools while inflation stays sticky



Source: Bloomberg, Emirates NBD Research.

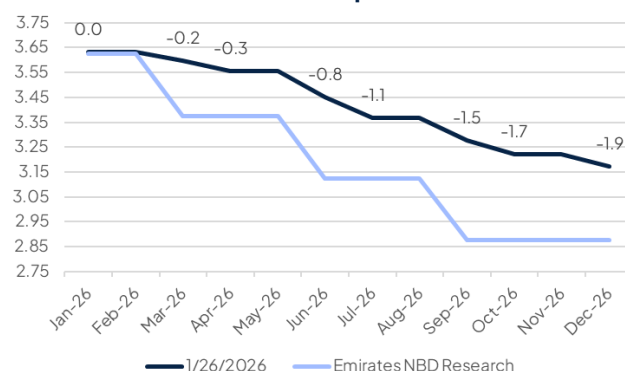
While we expect that the considerable cooling in labour market activity will push the Fed to cut rates this year, Fed governance is the more critical variable for markets at present. US President Donald Trump has kept up his criticism of the Fed, the US Department of Justice has launched an investigation into chair Jerome Powell's handling of renovations of the Fed's headquarters in Washington DC and President Trump has still not named his candidate to replace Powell whose term as chair ends in May this year.

More focus on changes to Fed leadership

Prediction markets are now placing nearly a 50% probability that Rick Rieder, head of fixed income at BlackRock, will be nominated as the next Fed chair after President Trump said he favoured keeping Kevin Hassett at the White House as head of the National Economic Council.

As of 26 January 2026, markets are pricing in a total of 47bps of easing in the Fed Funds rate this year or almost two 25bps cuts. Our expectation has been for 75bps of cuts as the Fed leadership takes on a more dovish tilt though the pressure on Jerome Powell as chair may lead him to retain his post as governor, which does not expire until 2028, and vote against excessive easing in monetary policy.

Fed Funds effective rate expectations

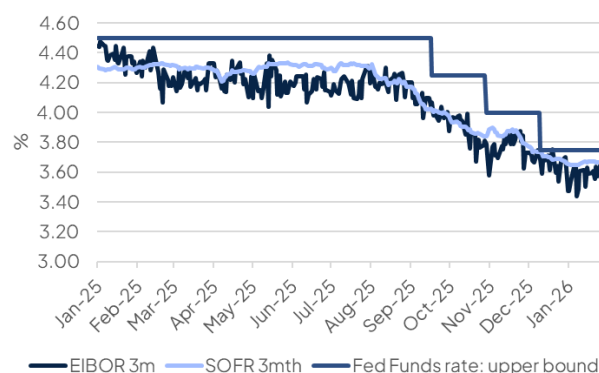


Source: Bloomberg, Emirates NBD Research.

Regional central banks to follow Fed on policy

Central banks in the GCC will follow the Fed on policy this year and while lower rates will be a support for regional economies, higher oil and gas output will be more important for growth this year. Moreover, non-oil economic activity has been robust even with rates at higher levels in the last several years so between 50-75bps of easing is unlikely to materially impact our outlook for GCC growth.

Local rates to track Fed Funds

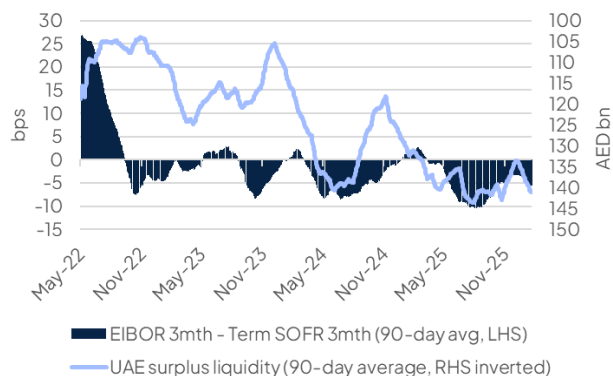


Source: Bloomberg, Emirates NBD Research.



Local interbank rates in the UAE have been pricing at a consistent discount to US dollar rates for similar tenors. The spread for 3mth EIBOR to 3mth term SOFR has been getting wider since the start of 2026, recording an average of -5bps for the past 90 days as of 26 January 2026.

EIBOR remains at discount to SOFR



Source: Bloomberg, Emirates NBD Research.

Substantial growth in deposits in the UAE banking system thanks to robust non-oil economic activity has helped to lead to large increases in surplus liquidity: deposit facilities (conventional and Islamic) plus reserve accounts relative to reserve requirements.

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