WEEKLY COMMENTARY

What Did We Learn from Central Banks This Week?

By Mirza Shaheryar Baig, Foreign Exchange Strategist

Eight major central banks, including the Federal Reserve and the Bank of Canada, met this week against the backdrop of war in the Middle East. If there was one takeaway, it's that geopolitics now sits squarely at the centre of monetary policy. Central bankers cannot control gas prices at the pump, but they *can* try to stop a price spike from turning into a broader inflationary spiral. That's a tall order when the trigger is a supply shock rather than overheating demand. Should policymakers "look through" a one-off surge in energy prices, or should they act pre-emptively and risk tightening into an already slowing economy? It's a tough call, and it's no wonder central banks ended up reading from very different playbooks this week.

Let's start with the Bank of England (BoE), which delivered the week's biggest curveball. In its first unanimous decision in more than four years, the BoE held rates at 3.75% and warned it "stands ready to act" if inflation expectations start rising. This was notably more hawkish than markets expected, especially after February's messaging hinted that cuts might be on the horizon. The shift in market pricing was substantial. The swaps market was pricing in 50bps of rate cuts just a month ago. Now it's pricing in 70bps of rate hikes!

Across the Channel, the European Central Bank (ECB) held its own meeting, but was relatively more measured in its assessment of inflation. Since last year, President Lagarde has often said "we are in a good place" to signal an on-hold stance. She retracted that language this week and emphasized the need for "agility" in responding to risks. This puts hikes on the table, though it leaves the timing vague.

The Reserve Bank of Australia (RBA) went a step further and hiked rates by 25bps, lifting the cash rate to 4.10%. Australian policymakers framed the move as pre-emptive, as domestically driven inflation had already been running too hot before the energy supply shock. As Governor Michele Bullock made clear, higher fuel prices "will add to inflation" but were not the reason for the decision—inflation was already too high, demand too strong, and the labour market was tight. That said, it wasn't an easy decision. The hike came with a 5–4 split, making this the most hotly contested decision in at least the last 17 years.

Closer to home, the Federal Reserve maintained its policy rate with one FOMC member voting for a cut. The median projections of committee members showed fewer officials now expect multiple rate reductions this year. But clearly there was broad disagreement in the committee: One member expects the fed funds rate to be 25 basis points higher by the end of next year, while another is expecting it to be 125 basis points lower (presumably Governor Miran who voted for a cut this week). Chair Powell emphasized that the inflation outlook was now more uncertain and avoided commenting on whether higher gas prices would translate to rising inflation expectations. Nevertheless, it's clear that the likelihood of multiple rate cuts this year has diminished and the possibility of hikes has increased.

Finally, the Bank of Canada tried to walk the middle ground. Officials held the policy rate steady again at 2.25% but flagged that risks to economic growth are tilted to the downside while risks to inflation are tilted to the upside. However, the Bank was clearly more sanguine on the risk of second-round effects than

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other central banks. According to Governor Macklem's monetary policy statement, Governing Council concluded that, "With inflation close to target and the economy in excess supply, the risk that higher energy prices quickly spread to the prices of other goods and services looks contained." The overall tone of the meeting indicated that the Bank of Canada is more willing than its peers in Europe and Australia to look through higher energy prices so long as the conflict doesn't last for too long.

Ultimately, this week showed that the energy supply shock has upended the prior path of monetary policy. All central banks are grappling with the same challenge: how to keep inflation anchored in a world where geopolitical risks can change the outlook overnight. Starting points and relative exposures mean there is scope for central banks to diverge. But everyone faces costly trade-offs.

What to Watch For

UNITED STATES

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

FRIDAY March 27 - 10:00

March	
Consensus	n/a
Desjardins	53.0
February	**55.5**

University of Michigan consumer sentiment index (March – final) – The final version of the University of Michigan consumer sentiment index usually comes in close to its preliminary reading. However, we expect March's final release to move more substantially. Conditions have been turbulent since the beginning of the month due to the fallout of the war in Iran. Responses for the preliminary version were collected between February 17 and March 9, and the first bombings took place in the middle of this period. According to the University of Michigan, early responses before the war began suggested that the confidence index was improving. However, this was more than offset by the negative responses received after the hostilities had begun. Responses for the final version of the survey will be collected until March 23, and the most recent ones are expected to pull the index down even further. The stock market is down, mortgage rates are rising and, most importantly, gasoline prices continue to soar. Look for the index to decline more than two points when the final version is released, on top of the 1.1-point drop between February's final print and March's preliminary reading.

OVERSEAS

TUESDAY March 24 - 5:00

March	
Consensus	51.0
February	**51.9**

Eurozone: PMI (March – preliminary) – The eurozone's composite PMI rose to 51.9 in February from 51.3 in January, indicating an expansion in private sector activity early in the year. This improvement reflects stronger performance in the manufacturing and services sectors, with Germany making a meaningful contribution. However, the crisis in Iran has triggered a 60% spike in the price of natural gas in Europe, which will push up electricity prices. Combined with rising fuel prices, particularly for jet fuel, this could drag down the composite PMI in the coming months.

Economic Indicators

Week of March 23 to 27, 2026

*** Due to the federal government shutdown in the United States, there may be some changes to the data release schedule.**

UNITED STATES

Date	Time	Indicator	Period	Consensus		Previous reading
MONDAY 23	10:00	Construction spending (m/m)	Jan.	0.1%	0.0%	0.3%
TUESDAY 24	8:30	Nonfarm productivity – final (ann. rate)	Q4	2.4%	1.8%	2.8%
	8:30	Unit labor costs – final (ann. rate)	Q4	3.4%	3.8%	2.8%
	18:30	Speech by Federal Reserve Vice Chair M. Barr				
WEDNESDAY 25	8:30	Current account (US$B)	Q4	n/a	-206.5	-226.4
	8:30	Export prices (m/m)	Feb.	n/a	0.8%	0.6%
	8:30	Import prices (m/m)	Feb.	n/a	0.4%	0.2%
	16:10	Speech by Federal Reserve Governor S. Miran				
THURSDAY 26	8:30	Initial unemployment claims	March 16–20	n/a	212,000	205,000
	16:00	Speech by Federal Reserve Governor L. Cook				
	18:30	Speech by Federal Reserve Governor S. Miran				
	19:00	Speech by Federal Reserve Vice Chair P. Jefferson				
	19:10	Speech by Federal Reserve Vice Chair M. Barr				
FRIDAY 27	10:00	University of Michigan consumer sentiment index – final	March	n/a	53.0	55.5
	11:30	Speech by Federal Reserve Bank of San Francisco President M. Daly				
	11:40	Speech by Federal Reserve Bank of Philadelphia President A. Paulson				

CANADA

MONDAY 23	---	---
TUESDAY 24	---	2026 Manitoba Budget
WEDNESDAY 25	---	---
THURSDAY 26	12:00	Speech by Bank of Canada Senior Deputy Governor C. Rogers
FRIDAY 27	---	---

Note: Each week, Desjardins Economic Studies takes part in the Bloomberg survey for Canada and the United States. Approximately 15 economists are consulted for the Canadian survey and a hundred or so for the United States. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours). Desjardins Economic Studies forecast.

Economic Indicators

Week of March 23 to 27, 2026

Country	Time	Indicator	Period	Consensus m/m (q/q)	Consensus y/y	Previous reading m/m (q/q)	Previous reading y/y
OVERSEAS							
MONDAY 23							
Eurozone	11:00	Consumer confidence – preliminary	March	-15.0		-12.2	
Japan	19:30	Consumer price index	Feb.		1.5%		1.5%
Japan	20:30	Composite PMI – preliminary	March	n/a		53.9	
Japan	20:30	Manufacturing PMI – preliminary	March	n/a		53.0	
Japan	20:30	Services PMI – preliminary	March	n/a		53.8	
TUESDAY 24							
France	4:15	Composite PMI – preliminary	March	49.3		49.9	
France	4:15	Manufacturing PMI – preliminary	March	49.3		50.1	
France	4:15	Services PMI – preliminary	March	49.0		49.6	
Germany	4:30	Composite PMI – preliminary	March	52.2		53.2	
Germany	4:30	Manufacturing PMI – preliminary	March	49.5		50.9	
Germany	4:30	Services PMI – preliminary	March	52.5		53.5	
Eurozone	5:00	Composite PMI – preliminary	March	51.0		51.9	
Eurozone	5:00	Manufacturing PMI – preliminary	March	49.4		50.8	
Eurozone	5:00	Services PMI – preliminary	March	51.0		51.9	
United Kingdom	5:30	Composite PMI – preliminary	March	52.9		53.7	
United Kingdom	5:30	Manufacturing PMI – preliminary	March	50.3		51.7	
United Kingdom	5:30	Services PMI – preliminary	March	53.0		53.9	
WEDNESDAY 25							
Japan	1:00	Leading index – final	Jan.	n/a		112.4	
Japan	1:00	Coincident index – final	Jan.	n/a		116.8	
United Kingdom	3:00	Consumer price index	Feb.	0.4%	3.0%	-0.5%	3.0%
United Kingdom	3:00	Producer price index	Feb.	0.3%	2.6%	0.0%	2.5%
Germany	5:00	ifo Business Climate Index	March	86.3		88.6	
Germany	5:00	ifo Current Assessment Index	March	86.1		86.7	
Germany	5:00	ifo Expectations Index	March	86.0		90.5	
THURSDAY 26							
Germany	3:00	Consumer confidence	April	-28.0		-24.7	
France	3:45	Consumer confidence	March	89		91	
France	3:45	Business confidence	March	96		97	
France	3:45	Production outlook	March	n/a		-6	
Norway	5:00	Bank of Norway meeting	March	4.00%		4.00%	
Eurozone	5:00	M3 money supply	Feb.		3.2%		3.3%
Italy	5:00	Consumer confidence	March	95.5		97.4	
Italy	5:00	Economic confidence	March	n/a		97.4	
Mexico	15:00	Bank of Mexico meeting	March	6.75%		7.00%	
United Kingdom	20:01	Consumer confidence	March	-24		-19	
FRIDAY 27							
United Kingdom	3:00	Retail sales	Feb.	-0.4%	2.3%	1.8%	4.5%

Note: Unlike release times for US and Canadian economic data, release times for overseas economic data are approximate. Publication dates are provided for information only. The abbreviations m/m, q/q and y/y correspond to month-over-month, quarter-over-quarter and year-over-year change respectively. Following the quarter, the abbreviations f, s and t correspond to first estimate, second estimate and third estimate respectively. Times shown are Eastern Daylight Time (GMT -4 hours).