

Key themes for the week ahead

The focus this week will be on the pace of global growth momentum in Feb, Central Bank minutes, and the development of the next US stimulus package.

The prelim global PMI's for Feb will be released across the larger economies this week. While infection rates have started to ease and vaccinations have commenced, many countries are still affected by restrictions. Consumer-facing service sectors remain the most affected while manufacturing has generally remained resilient.

It is a short week in the US, but it will be busy on the data front. Key data releases for the US include retail sales for Jan, FOMC minutes, and a range of housing data (starts, approvals, and existing home sales) for Jan. Industrial production data for Jan will be released and will provide some hard data to contrast with the manufacturing survey data.

Last week, US consumer sentiment data indicated a continued weakening of expectations and sentiment generally. This was despite the expectation for another round of stimulus payments – the details of which are currently under development.

More surprising was the finding that consumers, despite the expected passage of a massive stimulus bill, viewed prospects for the national economy less favorably in early February than last month. <http://www.sca.isr.umich.edu/>

The decline in sentiment was led by falls in the expectations index as well as sentiment among households with annual incomes below \$75,000. This highlights the significant progress that still needs to be made in employment and income growth. The current initial claims data continued to edge lower last week. The direction is positive, but the level remains elevated. Total continuing claims (latest data is from the week ending 16th Jan) were substantially higher at 20.3m people compared to 17.8m people in the prior week. This was led by a continued shift into Federal pandemic assistance programs.

Both Europe and Japan will report prelim Q4 GDP growth this week.

The ECB and RBA will release the minutes of recent interest rate decisions.

Finally, the Australian labour market and employment report for Jan will be released.

The US Fed plans to purchase \$17.8bn in US Treasury securities (last week \$29.5bn). The Fed will also purchase \$24.1bn in MBS (\$32.5bn last week). The target for the monthly increase in Fed holdings of MBS is at least \$40bn/mth.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$411bn in ST Bills, Notes, and Bonds this week, raising \$63bn in new money. The US Treasury will also auction \$33bn in 30yr TIPS and 2yr FRN's – which will settle next week. This week, approx. \$65bn in Bills, Notes, and Bonds will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
15 Feb - Washington's Day Holiday							
15-19 Feb	11-Feb	16-Feb	4 week bill	30			
	11-Feb	16-Feb	8 week bill	35			
				65	120	-55	
	10-Feb	16-Feb	154-Day CMB (22 wk)	30			last wk of issuance
	10-Feb	16-Feb	105-day CMB (15 wk)	25			last wk of issuance
	16-Feb	18-Feb	119-Day CMB (17 wk)	30			Announced
	16-Feb	18-Feb	42-Day CMB (6 wk)	30			Announced
				115	0	115	
	16-Feb	18-Feb	13 week bill	54			Announced
	16-Feb	18-Feb	26 week bill	51			Announced
				105	165	-60	
	09-Feb	16-Feb	3yr Note	58			Completed
	10-Feb	16-Feb	10yr Note	41			Completed
	11-Feb	16-Feb	30yr Bond	27			Completed
				126	62.86	63.14	
			Total - securities settling this week	411	347.86	63.14	
			Net New Cash Raised Qtr to Date	2525	2286	239	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			274	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		15-Feb	Notes and Bonds	45.70			
		16-Feb	Bills	6.14			
		18-Feb	Bills	13.80			
				65.64			

<https://www.treasurydirect.gov/instit/annceresult/press/press.htm>

As outlined in the latest refunding announcement, this will likely be the final issuance of the 22wk and 15wk CMB's (in this cycle):

Treasury anticipates that weekly issuance of the 15- and 22-week CMBs will cease after settlement on February 16, whereas weekly issuance of the 6- and 17-week CMBs will continue at least through the end of April. When this modification occurs, the 6-week CMB will remain as part of the Thursday settlement and maturity cycle, whereas the 17-week CMB will transition to the Tuesday settlement and maturity cycle. The remaining CMBs will continue to be

announced as part of the regular Tuesday and Thursday bill announcement cycle.

To help partly offset the pace of decline in the supply of 15wk and 22wk CMB's, the US Treasury will increase the auction size of other Bill offerings:

Treasury may also increase the auction size of one or more of its remaining bill offerings to moderate the pace of decline in the aggregate supply of bills outstanding in anticipation of the existing 15- and 22-week CMBs maturing without reissuance.

From the quarterly refunding announcement in Feb 2021: The estimated net cash to be raised this quarter (Q1) will decrease to \$274bn (from the original \$1.127tr estimate). Net new money raised from the issuance of Notes, Bonds, TIPS, and FRN's is estimated to be \$695bn. Net Bills to be issued this quarter is estimated to be -\$421bn.

The substantial increases in nominal coupon and FRN issuance sizes over recent quarters will allow Treasury to gradually reduce bills as a percent of Treasury debt outstanding in a manner consistent with recommendations made by the Treasury Borrowing Advisory Committee at the November 2020 meeting.

<https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

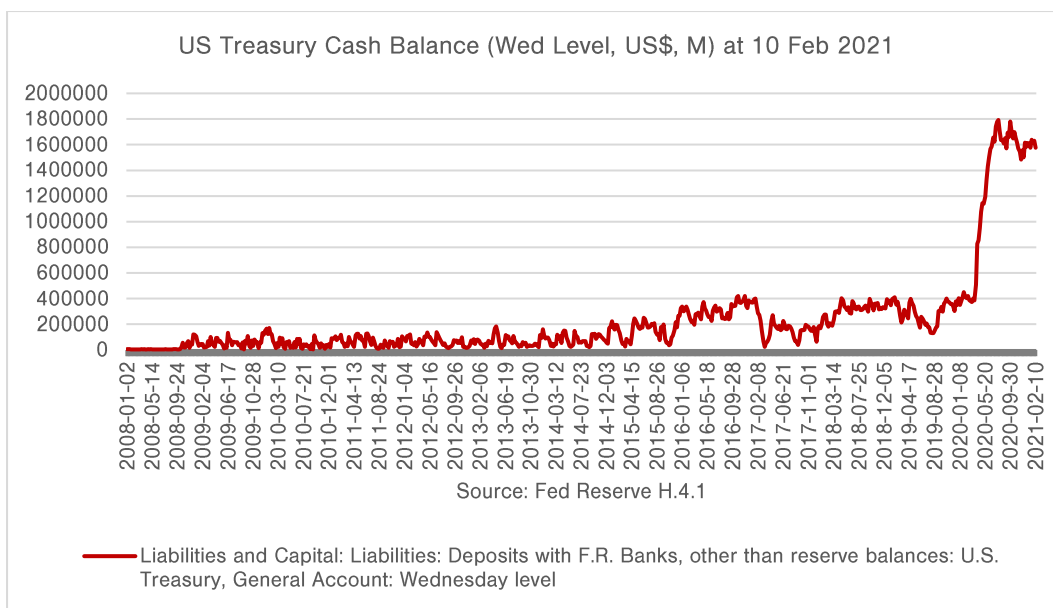
The US Treasury cash balance (TGA) has been updated for the latest week (Wed 10 Feb 2021 level). The level of the TGA had decreased more substantially last week by \$53bn to \$1.576tr (Wed 10 Feb level).

The latest guidance from the Treasury on the TGA cash balance is still somewhat cautious. The end of quarter one (1) cash balance is expected to fall to \$800bn (from the current \$1.57tr level).

https://home.treasury.gov/system/files/136/Sources_and_Uses_January_2021_Final.pdf

Consistent with its guidance in the November 2020 refunding statement, Treasury continues to take a precautionary, risk-management driven approach by maintaining large cash balances in light of the unprecedented size and ongoing uncertainty regarding COVID-19 related outlays. Treasury also seeks to change auction sizes gradually to minimize any potential market disruption. While Treasury expects its cash balance to decline over the upcoming quarter, the path and extent of the decline will depend on several uncertain factors, including the pace of outflows under current law and the potential for additional legislation.

<https://home.treasury.gov/news/press-releases/jy0016>



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 15 Feb	Holiday	Holiday
Tue 16 Feb	1.750	4.595
Wed 17 Feb	1.225	7.606
Thur 18 Feb	6.025	6.646
Fri 19 Feb	8.825	5.296
Total Announced Purchases	\$17.8bn (last week \$29.5bn)	\$24.1bn (last week \$32.5bn)

Links to Operation Schedules -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ombs_operation_schedule

REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements/repurchase-agreement-operational-details#monthly-summary>

SWAP LINES

Announcements; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>

<https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

WEEK COMMENCING 15 FEBRUARY 2021

MONDAY 15 FEBRUARY (US Eastern Time)

US	Presidents Day Holiday
Europe	Eurozone Industrial Production (Dec)
Japan	Prelim GDP Q4 2020, Industrial Production Final (Dec)

TUESDAY 16 FEBRUARY

US	NY Empire State Manufacturing Index (Feb) US Fed Governor Bowman speech – Community Bank Regulation
Europe	Eurozone Prelim GDP Q4 2020
Japan	Trade Balance, Exports, and Imports (Jan)
Australia	RBA Meeting Minutes

WEDNESDAY 17 FEBRUARY

US	Mortgage Applications wk ending 12 Feb, PPI (Jan), Retail Sales (Jan), Industrial Production (Jan), NAHB Housing Market Index (Feb) FOMC Minutes
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THURSDAY 18 FEBRUARY

US	Initial Jobless Claims (wk ending 13 Feb), Continuing Unemployment Claims (wk ending 5 Feb), and PUA Claims, Building Permits and Housing Starts (Jan), Philadelphia Fed Manufacturing Survey (Feb) US Fed Governor Brainard speech – Climate Change
Europe	ECB Meeting Minutes
Japan	National CPI (Jan)
Australia	Employment and Labour Market (Jan)

FRIDAY 19 FEBRUARY

US	Markit Composite PMI Prelim (Feb), Existing Home Sales (Jan)
UK	Retail Sales (Jan), Markit Composite PMI Prelim (Feb)
Europe	Markit Composite PMI Prelim (Feb)
Japan	Markit Composite PMI Prelim (Feb)
Australia	Markit Composite PMI Prelim (Feb), Retail Sales Prelim (Jan)

Trade & Brexit

BREXIT

An agreement on a trade deal was reached on Christmas Eve and the UK has now officially left the EU single market and customs union. The UK parliament approved the new trade deal on 30 Dec 2020.

The EU (Future Relationship) Bill, bringing the trade deal into UK law, was backed in the House of Commons by 521 to 73 votes on Wednesday, after Parliament was recalled from its Christmas break.

<https://www.bbc.com/news/uk-politics-55493437>

While EU ambassadors approved the trade deal, the EU parliament will vote on the deal later in February.

European Commission President Ursula von der Leyen and European Council President Charles Michel signed the deal earlier on Wednesday in Brussels.

It will come into force at 23:00 on Thursday, but although the European Parliament has begun its scrutiny of the 1,246-page document, it will not get a chance to ratify it formally until early in the new year.

<https://www.bbc.com/news/uk-politics-55493437>