

Key themes for the week ahead

The focus this week will be on the FOMC minutes, US housing data, and the global prelim PMI's for May.

The upside surprise for US CPI in Apr dominated the news last week. Other data was generally in line with expectations, although PPI growth also came in higher. US retail sales “disappointed” with a 0% change after a 10% increase in the prior month. Of interest was the University of Michigan consumer sentiment result – consumer sentiment fell unexpectedly by 6pts (despite record stimulus, etc.). The fall was the result of higher inflation expectations and expectations for real income growth the weakest in five years. Despite negative mentions of buying conditions (for homes, vehicles, durables), the expectation is for spending to still advance – supported by rising employment/re-opening, stimulus, and savings. The rationale is interesting:

This combination of persistent demand in the face of rising prices creates the **potential for an inflationary psychology**, fostering buy-in-advance rationales and cost-of-living increases in wages. At present, these rationales remain relatively uncommon, and the power of corrective economic policies is now relatively potent.

Policy commitments to establish full employment while allowing inflation to meaningfully rise have never been attempted with the additional micro goals of equity and fairness across population subgroups.

<http://www.sca.isr.umich.edu/>

This week in the US, the FOMC minutes will be released. There will also be several Federal Reserve Governors speaking during the week, including US Fed Vice Chair Clarida. Housing data will be in focus with permits (exp 1.77m SAAR), starts (exp 1.71m), and existing home sales (exp 6.09m) for Apr.

The prelim global PMI's for May will also be released later in the week for the US, Europe, Japan, UK, and Australia. Input price pressures and supply chain disruptions will be of interest.

In Australia, the RBA will also release the latest minutes. Also out this week will be the Q1 wage price index (exp +0.5%), and the labour market survey for Apr (employment growth exp +15k). The Apr labour market survey will be the first since the end of a major business support program – the JobKeeper subsidy.

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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		Prior Auction High Rate %
17-21 May	13-May	18-May	4 week bill	40			Actual 0.000%	0.010%
	13-May	18-May	8 week bill	40			Actual 0.010%	0.010%
	12-May	18-May	119-Day CMB	35			Actual 0.020%	0.025%
				115	135	-20		
	17-May	20-May	13 week bill	57			Announced	0.015%
	17-May	20-May	26 week bill	54			Announced	0.035%
	18-May	20-May	52 week bill	34			Announced	0.065%
	18-May	20-May	42-Day CMB	40			Announced	0.005%
				185	206	-21		
	11-May	17-May	3yr Note	58			Actual 0.329%	0.376%
	12-May	17-May	10yr Note	41			Actual 1.684%	1.680%
	13-May	17-May	30yr Bond	27			Actual 2.395%	2.320%
				126	47.69	78.31		
			Total - securities settling this week	426	388.69	37.31		
			Net New Cash Raised Qtr to Date	2429	2395	34		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			463		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		18-May	Bills	6.48				
		20-May	Bills	18.17				
				24.65				

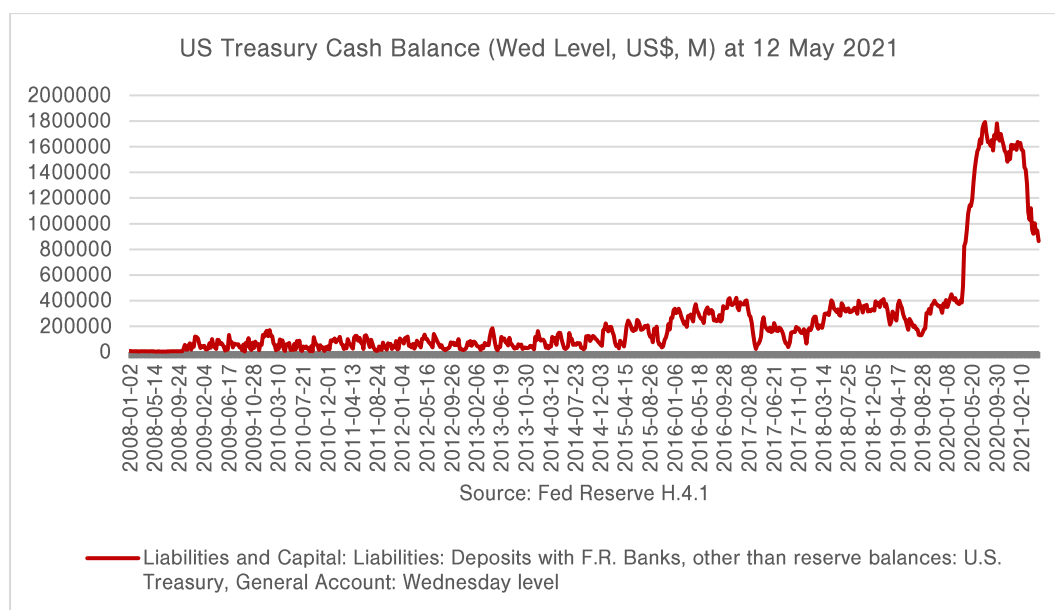
<https://www.treasurydirect.gov/instit/annceresult/press/press.htm>

The US Treasury has released the latest estimate for Q2 financing requirements. The latest schedule outlines the continued paydown in ST Bills of -\$247bn. Coupon auctions are expected to raise \$710bn in new money. Net cash to be raised for Q2 2021 is \$463bn (up from the initial estimate of \$95bn for the quarter).

The recommended financing for Q3 is \$821bn in new money to be raised. This is expected to be made up of net new Bill issuance of \$157bn and net new Coupon issuance of \$663bn.

<https://home.treasury.gov/system/files/221/TBACRecommendedFinancingTableQ22021-05052021.pdf>

The US Treasury cash balance (TGA) has been updated for the latest week (Wed 12 May 2021 level).



The level of the TGA decreased by \$81bn last week to \$864bn (Wed 12 May level).

<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

New operation schedules were released last week.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 17 May	1.425	5.164
Tue 18 May	1.225	4.483
Wed 19 May	6.025	5.164
Thur 20 May	2.025	6.344
Fri 21 May	3.225	5.164
Total Announced Purchases	\$13.93bn (last week \$20.2bn)	\$26.32bn (last week \$28.38bn)

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

There was also an update released regarding adjustments to the maturity ranges for the purchases of securities by the FOMC. The NY Fed purchases securities “roughly proportional” to the securities outstanding. Issuance patterns have changed over the last year, including the introduction of the 20yr Bond back in May 2020:

As a result, the Desk will segment its purchase sectors for longer-dated securities into additional maturity ranges to reflect last year’s introduction of a new benchmark security.

With the recent paydown in ST Bills, there will be a more subtle shift of purchases into longer-duration Notes and Bonds.

New maturity ranges below:

NOMINAL COUPON SECURITIES BY MATURITY RANGE*							TIPS**	
SECTOR	0-2¼ yrs	2¼-4½ yrs	4½-7 yrs	7-10 yrs	10- 22½ yrs	22½-30 yrs	1 - 7½ yrs	7½ - 30 yrs
SECTOR WEIGHT	31%	21%	15%	8%	7%	10%	5%	3%

https://www.newyorkfed.org/markets/opolicy/operating_policy_210513

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 17 MAY 2021

MONDAY 17 MAY (US Eastern Time, unless stated otherwise)

US	NY Empire State Manufacturing Index (May) US Fed Vice Chair Clarida - speech
China	Retail Sales, Industrial Production, and Fixed Asset Investment (Apr)
Japan	GDP Prelim Q1
Australia	RBA Minutes

TUESDAY 18 MAY

Europe	Eurozone GDP Prelim Q1
US	Building Permits, Housing Starts (Apr)
Australia	Wage Price Index Q1

WEDNESDAY 19 MAY

US	Mortgage Applications wk ending 14 May FOMC Minutes
Japan	Industrial Production Final (Mar), Trade Balance (Apr)
Europe	Eurozone CPI Final (Apr)
Australia	Employment/ Labour Market Survey (Apr)

THURSDAY 20 MAY

US	Initial Jobless Claims (wk ending 14 May), Continuing Unemployment Claims (wk ending 7 May), and PUA Claims, Philadelphia Fed Manufacturing Survey (May)
Australia	Markit Composite PMI Prelim (May)
Japan	National CPI (Apr), Markit Composite PMI Prelim (May)

FRIDAY 21 MAY

Europe	Markit Composite PMI Prelim (May)
US	Markit Composite PMI Prelim (May), Existing Home Sales (Apr)
