

Key themes for the week ahead

The focus this week is likely to remain on the FOMC meeting last week – and the (interpreted) shift in signaling from that meeting. Be aware that many FOMC members will be speaking this week, including Chair Powell providing testimony on the Covid response to the US House of Representatives. We will look for any shift in remarks by Fed officials, including comments ‘walking back’ this interpretation of a change in Fed sentiment.

A change in the dot-plot projections for interest rates signaled, without any commitment, that a change in rates may happen sooner. This also means that tapering QE purchases would also likely start sooner. Again, no explicit comment was made by the FOMC on this. Markets are still digesting the implications of this shift, along with some of the ‘technical adjustments’ to administered rates (interest on reserves and excess reserves, and the overnight RRP rate).

Other key events coming up this week include:

US PCE price inflation data on Fri – annual core PCE prices are expected to increase to +3.4% (from +3.1% in Apr). Headline PCE inflation will not have a lower base effect this month. Some forecasts still expect an acceleration in annual headline PCE growth for May to 4% (from +3.6% in Apr).

Also for the US: existing home sales for May (expecting 5.72m SAAR versus 5.85m in Apr), consumer sentiment for Jun, durable goods orders, and several of the regional manufacturing surveys for Jun.

The Bank of England rates decision will be on Thurs.

Finally, the prelim PMI’s for Jun will be released for the US, Europe, Japan, UK, and Australian economies.

This week, the US Treasury will settle \$292bn in ST Bills and 2yr FRN’s raising approx. \$34bn in new money for the week. The net new cash raised for the quarter to date is approx. \$211bn (full quarter 2 est of \$463bn).

At the latest meeting, the FOMC also made a “technical adjustment” to the interest rate on required and excess reserves (now 15bps up from 10bps) and the overnight repurchase rate (5bps up from zero). Auctions of short-term bill rates appear to have been impacted after the meeting (CMB’s and 4/8-week Bills). Usage of the Fed’s ONRRP program has been increasing recently but increased notably after this adjustment.

This week, the US Treasury will also auction the 2yr, 5yr, and 7yr Notes – which will settle on 30 Jun. Approx. \$9bn in ST Bills will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

This week, the US Treasury will settle \$292bn in ST Bills and 2yr FRN's raising approx. \$34bn in new money for the week. The net new cash raised for the quarter to date is approx. \$211bn (full quarter 2 est of \$463bn).

At the latest meeting, the FOMC made a "technical adjustment" to the interest rate on required and excess reserves (now 15bps up from 10bps) and the overnight repurchase rate (5bps up from zero). Auctions of short-term bill rates appear to have been impacted after the meeting (CMB's and 4/8-week Bills) as highlighted below. Usage of the Fed's ONRRP program has been increasing recently but increased notably after this adjustment (\$755bn bids submitted on 17 Jun with 68 counterparties versus \$447bn and 43 counterparties at the start of the month).

This week, the US Treasury will also auction the 2yr, 5yr, and 7yr Notes – which will settle on 30 Jun. Approx. \$9bn in ST Bills will mature on the Fed balance sheet and will be rolled over.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
21-25 Jun	17-Jun	22-Jun	4 week bill	40			Actual 0.045%	0.005%
	17-Jun	22-Jun	8 week bill	40			Actual 0.035%	0.020%
	16-Jun	22-Jun	119-Day CMB	35			Actual 0.035%	0.030%
				115	110	5		
	21-Jun	24-Jun	13 week bill	57			Announced	0.025%
	21-Jun	24-Jun	26 week bill	54			Announced	0.040%
	22-Jun	24-Jun	42-Day CMB	40			Announced	0.015%
				151	148	3		
	23-Jun	25-Jun	2yr FRN	26			Announced	0.030%
				26	0	26		
			Total - securities settling this week	292	258	34		
			Net New Cash Raised Qtr to Date	4188	3977	211		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			463		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		22-Jun	Bills	5.39				
		24-Jun	Bills	4.00				
				9.39				
			Upcoming Auctions & Settlements					
	17-Jun	30-Jun	5yr TIPS	16			Actual -1.416%	-1.631%
	22-Jun	30-Jun	2yr Note	60			Announced	0.152%
	23-Jun	30-Jun	5yr Note	61			Announced	0.788%
	24-Jun	30-Jun	7yr Note	62			Announced	1.285%
	15-Jun	30-Jun	20 yr Bond	24			Actual 2.120%	2.286%
				223	76.4	146.6		

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

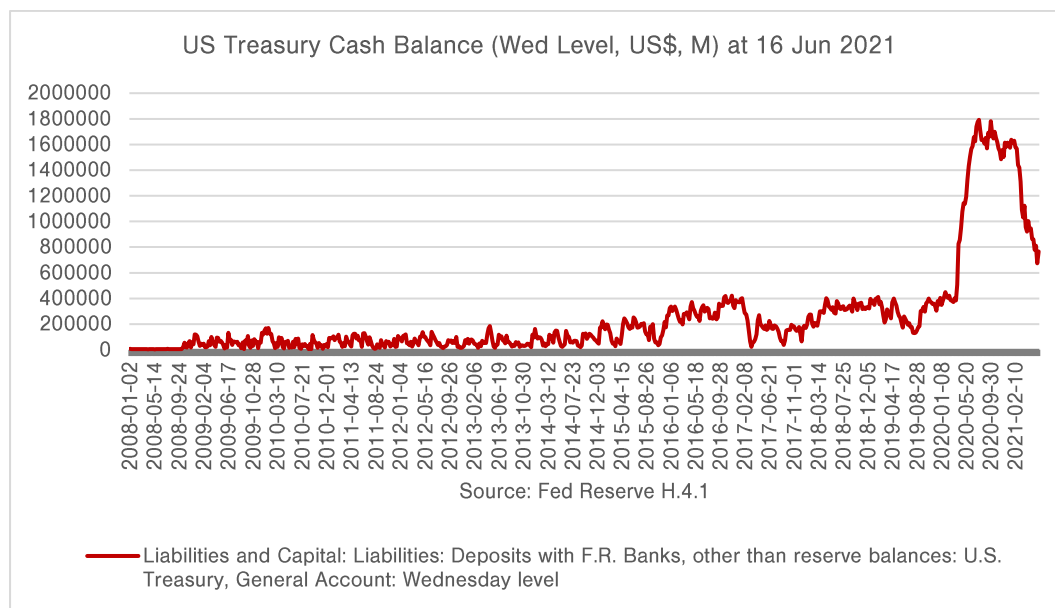
The Q2 schedule outlines the continued paydown in ST Bills of -\$247bn in Q2. Coupon auctions are expected to raise \$710bn in new money in Q2. The net cash to be raised for Q2 2021 is \$463bn (up from the initial estimate of \$95bn for the quarter).

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 16 Jun 2021 level). The level of the TGA increased this week by \$91bn (after decreasing by -\$138bn last week) to \$756bn (Wed 16 Jun level).

Since the start of Mar 2021, the TGA balance has declined by \$864bn.



<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 21 Jun	1.425	4.055
Tue 22 Jun	2.025	4.924
Wed 23 Jun	6.025	4.055
Thur 24 Jun	2.025	4.926
Fri 25 Jun	8.425	4.057
Total Announced Purchases	\$19.9bn (last week \$18.9bn)	\$22.02bn (last week \$22.9bn)

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

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 21 JUNE 2021

MONDAY 21 JUN (US Eastern Time, unless stated otherwise)

Australia Prelim Retail Sales (May)

US Chicago Fed National Activity Index (May), FOMC Member Williams speech

Europe ECB President Lagarde speech

TUESDAY 22 JUN

US Existing Home Sales (May), Richmond Fed Manufacturing Index (Jun), FOMC Member Daly speech, US Fed Chair Powell Testimony - US House of Representatives

Australia Prelim Composite PMI (Jun), RBA Assist Governor Ellis speech

Japan BoJ Minutes, Prelim Composite PMI (Jun)

WEDNESDAY 23 JUN

US Mortgage Applications wk ending 18 Jun, Prelim Composite PMI (Jun), New Home Sales (May), FOMC Members Bostic & Bowman speeches

Europe Eurozone Prelim Composite PMI (Jun)

THURSDAY 24 JUN

US Initial Jobless Claims (wk ending 18 Jun), Continuing Unemployment Claims (wk ending 11 Jun), and PUA Claims, Durable Goods Orders (May), Q1 GDP Final Est, Kansas City Fed Manufacturing Survey, FOMC Member Williams speech

UK BoE Rates Decision

FRIDAY 25 JUN

US Personal Consumption, Income, and Prices (May), University of Michigan Consumer Sentiment – Final (Jun)
