

Key themes for the week ahead

This week, the focus will be on the US non-farm payrolls report for Jun – just before the US Independence Day long weekend.

It will be a somewhat quieter week on the central bank front. There will be speeches by Governor Lowe of the RBA ahead of the RBA meeting next week, ECB President Lagarde, and BoE Governor Bailey. There will also be several speeches by FOMC members this week. Last week, FOMC speeches highlighted two broad views on the inflation outlook – 1) that the current growth in consumer prices would likely “fade” and 2) the risk that inflation could be more persistent. Testimony by Fed Reserve Chair Powell last week noted that price increases “don’t speak broadly to a tight economy”. But he did state that current price effects had been larger than expected and may turn out to be more persistent.

Annual growth in the US PCE price index (Fed preferred measure of consumer price inflation) increased by +3.9% in May after increasing by +3.6% in Apr. The base effects also eased this month (meaning that there was a slight increase in the index from Apr to May in 2020).

The top three contributors to headline inflation this month were: Gasoline prices (accounting for approx. 24% of the headline inflation growth), Used Light Truck prices (accounting for approx. 9% of headline inflation growth), and the imputed price for owner equivalent rent (accounting for 6% of annual headline inflation growth in May). Overall, the annual growth in the price of goods accelerated from +4.7% in Apr to +5.4% in May. This contributed nearly 47% of headline inflation growth (up from 43% in the year to Apr 2021). The annual growth in the price of services was unchanged at +3.1% (no acceleration in the annual rate between Apr and May).

Annual growth in Core PCE inflation accelerated slightly from +3.1% in Apr to +3.3% in May.

The key event this week in the US will be non-farm payrolls on Friday. Expectations for payrolls growth in Jun are currently at +675k (+559k in May).

Other key US reports this week are the ISM manufacturing PMI for Jun, factory orders, goods trade balance, total vehicle sales, and initial jobless claims (which have been slightly higher in recent weeks).

This week, the US Treasury will settle \$489bn in ST Bills, Notes, Bonds, and TIPS raising approx. \$124bn in new money for the week. This week, approx. \$55bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be rolled over.

Fed purchases of US Treasuries (QE) will be notably lighter this week leading up to the long weekend (\$7.9bn versus \$20bn last week). MBS purchases will be unchanged at \$22bn. Purchases will recommence on 6 Jul.

US Treasury Issuance & QE

This week, the US Treasury will settle \$489bn in ST Bills, Notes, Bonds, and TIPS raising approx. \$124bn in new money for the week.

The net new cash raised for the quarter is approx. \$336bn (US Treasury quarter two estimate was \$463bn).

This week, approx. \$55bn in ST Bills, Notes, and Bonds 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 %
28 Jun - 2 Jul	24-Jun	29-Jun	4 week bill	40			Actual 0.045%	0.045%
	24-Jun	29-Jun	8 week bill	40			Actual 0.050%	0.035%
	23-Jun	29-Jun	119-Day CMB	35			Actual 0.050%	0.035%
				115	140	-25		
	28-Jun	01-Jul	13 week bill	57			Announced	0.045%
	28-Jun	01-Jul	26 week bill	54			Announced	0.055%
	29-Jun	01-Jul	42-Day CMB	40			Announced	0.040%
				151	148	3		
	17-Jun	30-Jun	5yr TIPS	16			Actual -1.416%	-1.631%
	22-Jun	30-Jun	2yr Note	60			Actual 0.249%	0.152%
	23-Jun	30-Jun	5yr Note	61			Actual 0.904%	0.788%
	24-Jun	30-Jun	7yr Note	62			Actual 1.264%	1.285%
	15-Jun	30-Jun	20 yr Bond	24			Actual 2.120%	2.286%
				223	76.4	146.6		
			Total - securities settling this week	489	364.4	124.6		
			Net New Cash Raised Qtr to Date	4677	4341	336		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			463		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		29-Jun	Bills	6.5				
		30-Jun	Notes & Bonds	33.9				
		01-Jul	Bills	15.4				
				55.7				

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

Recommended Q3 US Treasury Finance

The recommended US Treasury Financing for Q3 can be found here:

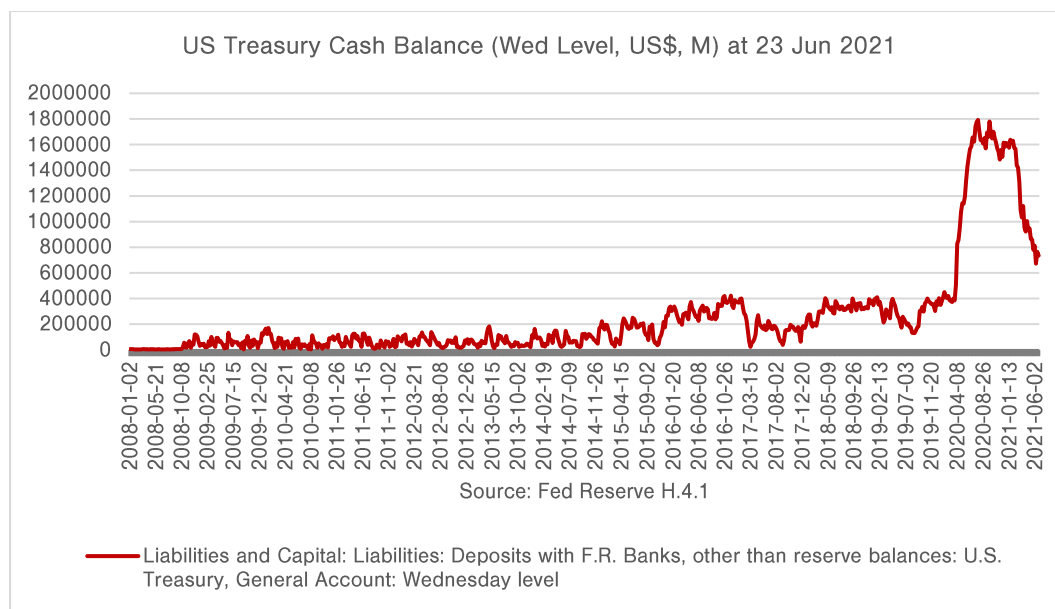
<https://home.treasury.gov/system/files/221/TBACRecommendedFinancingTableQ32021-05052021.pdf>

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.

The next release of the recommended funding requirements will be released on 4 August 2021.

The US Treasury cash balance (TGA) has been updated for the latest week (Wed 23 Jun 2021 level). The level of the TGA decreased this week by \$31bn (after increasing by \$91bn last week) to \$733bn (Wed 23 Jun level).

Since the start of 2021, the TGA balance has declined by \$873bn.



<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

Purchase operations will be lighter this week in the lead-up to the National Fourth of July long weekend. Purchase operations will recommence on 6 Jul 2021.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 28 Jun	1.425	5.244
Tue 29 Jun	1.225	4.116
Wed 30 Jun	3.225	5.244
Thur 1 Jul	2.025	4.116
Fri 2 Jul	0	2.953

Total Announced Purchases

\$7.9bn (last week \$19.9bn)

\$21.67bn (last week \$22bn)

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/ambs_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 28 JUNE 2021

MONDAY 28 JUN (US Eastern Time, unless stated otherwise)

US	FOMC Member and NY Fed President Williams speech, Vice Chair Quarles speech CBDC, Dallas Fed Manufacturing Survey (Jun)
Japan	Retail Sales Prelim (Apr)

TUESDAY 29 JUN

US	FOMC Member Barkin speech, Case/Shiller House Price Index (Apr)
Australia	RBA Lowe speech, Private Sector Credit (May)
Japan	Industrial Production Prelim (May)
China	NBS Manufacturing and Non-Manufacturing PMI's (Jun)

WEDNESDAY 30 JUN

US	Mortgage Applications wk ending 25 Jun, ADP Non-Farm Payrolls (Jun), Chicago PMI (Jun), Pending Home Sales (May)
Europe	Eurozone Prelim CPI (Jun)
Australia	Markit Manufacturing PMI (Jun)
Japan	Markit Manufacturing PMI (Jun)

THURSDAY 1 JUL

US	Initial Jobless Claims (wk ending 25 Jun), Continuing Unemployment Claims (wk ending 18 Jun), and PUA Claims, Challenger Job Cuts (Jun), ISM Manufacturing PMI (Jun), Markit Manufacturing PMI (Jun), Total Vehicle Sales (Jun)
Australia	Housing Finance (May)
Europe	Eurozone Markit Manufacturing PMI (Jun)
UK	BoE Governor Bailey speech

FRIDAY 2 JUL

US	Non-Farm Payrolls (Jun), Goods Trade Balance (May), Factory Orders (May), ISM NY Business Conditions (Jun)
Europe	Eurozone PPI (May), ECB President Lagarde speech
