

Key themes for the week ahead

A big week of Central Bank rate decisions, data out of China, US inflation, US earnings, and global industrial production.

This week, the RBNZ, BoC, and BoJ meet on rates. There have been growing expectations of a rate hike later in the year for NZ and the BoC is expected to announce plans for tapering at this meeting. There will be several speeches by US Fed officials during the week including two days of testimony by Fed Chair Powell.

Late last week, the PBoC reduced the RRR by 50bps to further support the economy. CPI growth in China was weaker than expected for Jun, while new loan growth increased. Data out of China this week includes Q2 GDP, retail sales, trade, and industrial production.

US Inflation will be in focus this week with the CPI and PPI. CPI growth is expected to hold steady at 4.9%. Last week, the US Fed submitted its Monetary Policy report, noting:

Even though the pace of price increases has jumped in the first half of this year, recent readings on various measures of inflation expectations indicate that inflation is expected to return to levels broadly consistent with the FOMC's 2 percent longer-run inflation objective after a period of temporarily higher inflation. That said, **upside risks to the inflation outlook in the near term have increased.**

https://www.federalreserve.gov/monetarypolicy/files/20210709_mprfullreport.pdf

This week, the US Treasury will also commence payments of the expanded Child Tax Credit covering 39m households and approx. 88% of children in the US.

Other data releases of note this week will be industrial production for the US, Japan (final), China, and Europe. US retail sales for Jun will also be released this week – expecting a decline of -0.4% after a -1.3% decline in May.

The Australian labour market survey will be released this week for Jun. Expectations are for lower growth of +30k employment (after +115k last month) and the u/e rate to fall to 5%. There will be other Aus consumer and business sentiment readings out this week which might be important given the latest lockdown in the most populous Aus state (NSW).

This week, the US Treasury will settle \$409bn in ST Bills, Notes, and Bonds raising approx. \$31bn in new money for the week. Several ST Bill auctions have been reduced as the suspension of the US federal debt ceiling ends on 31 July.

US Treasury Issuance & QE

This week, the US Treasury will settle \$409bn in ST Bills, Notes, and Bonds raising approx. \$31bn in new money for the week.

Note that several ST Bill auctions have been reduced this week – the 13 wk Bill from \$57bn to \$54bn, the 26 wk Bill from \$54bn to \$51bn, and the 42 Day CMB from \$40bn to \$35bn.

Approx. \$43bn in ST Bills, Notes & Bonds, and TIPS 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 %
12-16 Jul	08-Jul	13-Jul	4 week bill	40			Actual 0.050%	0.050%
	08-Jul	13-Jul	8 week bill	40			Actual 0.045%	0.045%
	07-Jul	13-Jul	119-Day CMB	35			Actual 0.050%	0.050%
				115	140	-25		
	12-Jul	15-Jul	13 week bill	54			Announced	0.050%
	12-Jul	15-Jul	26 week bill	51			Announced	0.050%
	13-Jul	15-Jul	52 week bill	34			Announced	0.070%
	13-Jul	15-Jul	42-Day CMB	35			Announced	0.045%
				174	182	-8		
	12-Jul	15-Jul	3yr Note	58			Announced	0.325%
	12-Jul	15-Jul	10yr Note	38			Announced	1.497%
	13-Jul	15-Jul	30yr Bond	24			Announced	2.172%
				120	55.99	64.01		
			Total - securities settling this week	409.0	378.0	31.01		
			Net New Cash Raised Qtr to Date	675	666	9		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>821</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		13-Jul	Bills	6.5				
		15-Jul	Bills	17.0				
		15-Jul	Notes & Bonds	8.9				
		15-Jul	TIPS (incl Inflation comp)	10.8				
				43.2				

<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.

In the meantime, the suspension of the federal debt ceiling ends on 31 July. A solution to raise the ceiling will likely be enacted before the end of the month – but it is unclear how that will happen at this stage. It is something to watch develop over the next few weeks. The latest refunding assumptions (from May) were:

- Q2 end of quarter TGA balance of \$800bn (actual \$851bn and 30 Jun)
- Regarding the debt ceiling negotiations for the end of July 2021:

Treasury is assuming a cash balance of approximately \$450 billion at the expiration of the debt limit suspension on July 31 based on expected outflows under its cash management policies and consistent with its authorities and obligations, including the Bipartisan Budget Act of 2019. **The actual cash balance on July 31 may vary from this assumption based on changes to expected outflows in that period.**

(The current cash balance is \$724bn at 7 Jul)

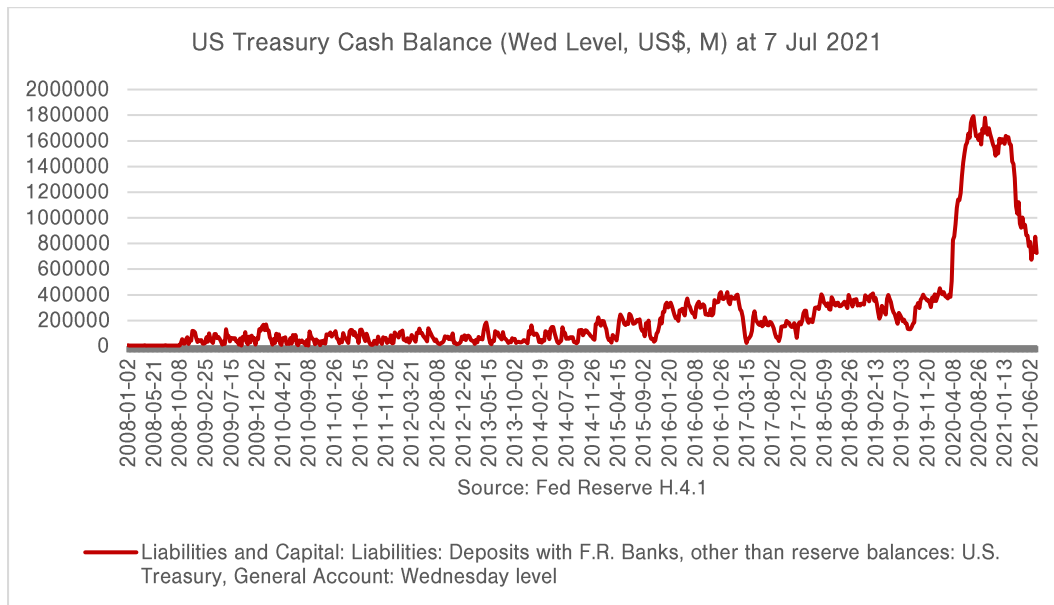
- By the end of Q3, the TGA balance is expected to be \$750bn.

The end-of-September cash balance assumes enactment of a debt limit suspension or increase.

<https://home.treasury.gov/news/press-releases/jy0158>

The level of the TGA decreased last week by \$127bn (after increasing by \$118bn in the prior week) to \$724bn (Wed 7 Jul level).

Since the start of 2021, the TGA balance has declined by \$882bn.



<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

The next schedule will be released on 14 Jul – data for this week is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 12 Jul	2.025	4.116
Tue 13 Jul	6.025	5.240
Wed 14 Jul	1.425	4.121
Thur 15 Jul	Tbc	Tbc
Fri 16 Jul	Tbc	Tbc
Total Announced Purchases	\$9.475bn (last week \$24.3bn)	\$13.477bn (last week \$18.7bn)

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 12 JULY 2021

MONDAY 12 JULY (US Eastern Time, unless stated otherwise)

Japan	PPI (Jun)
US	Note & Bill Auctions, Fed Vice Chair Quarles & NY Fed President Williams speeches
Australia	NAB Business Conditions & Confidence (Jun), New Home Sales (Jun)

TUESDAY 13 JULY

US	CPI (Jun), 30yr Bond Auction
China	Trade Balance, Exports & Imports (Jun)
NZ	RBNZ Rates Decision
Australia	Westpac/MI Consumer Sentiment (Jul)

WEDNESDAY 14 JULY

US	Mortgage Applications wk ending 9 Jul, PPI (Jun), Fed Chair Powell Testimony Day 1
Japan	Industrial Production Final (May)
Europe	Eurozone Industrial Production (May)
Canada	BoC Rates Decision
Australia	Labour Market (Jun)
China	Q2 GDP, Industrial Production & Retail Sales (Jun)

THURSDAY 15 JULY

US	Initial Jobless Claims (wk ending 9 Jul), Continuing Unemployment Claims (wk ending 2 Jul), and PUA Claims, NY Fed Empire State Manufacturing Index & Philadelphia Fed Manufacturing Survey (Jul), NAHB Housing Market Index (Jul), Industrial Production (Jun), OPEC Monthly Report, Fed Chair Powell Testimony Day 2
Japan	BoJ Rates Decision

FRIDAY 16 JULY

Europe	CPI (Jun)
US	Retail Sales (Jun), University of Michigan Consumer Sentiment (Jul), NY Fed President Williams speech
