

Key themes for the week ahead

The focus for the week ahead will be on US housing data, the ECB rates decision, and the first look at global manufacturing and services growth for July.

Central bank activity will focus on the ECB rates decision and the release of the minutes from the latest RBA and BoJ meetings. The RBA July minutes will outline the decision to start tapering bond purchases – this decision may be reconsidered as the current lockdowns in Australia have been extended. Officials from the US Fed will be in the blackout period ahead of the FOMC meeting next week on 27-28 July.

Last week, US annual CPI growth accelerated more than expected to 5.4% in Jun from 5% in May. Used car prices contributed the most to the acceleration, but shelter/owners' equivalent rent, new cars, food, and energy service price growth also contributed to the acceleration. Slower annual growth in energy prices (gasoline) was the largest offsetting category.

The Uni of Michigan recorded a more notable decline in US consumer sentiment in the first two weeks of July. Consumers are concerned about inflation:

Inflation has put added pressure on living standards, especially on lower and middle income households, and caused postponement of large discretionary purchases, especially among upper income households. Consumers' complaints about rising prices on homes, vehicles, and household durables has reached an all-time record. Purchase rates, however, have benefitted from record increases in accumulated savings and reserve funds. **A critical issue is whether consumers will find greater value in keeping a significant portion of their savings as a precautionary hedge, or spending a significant portion in an effort to avoid their inflationary erosion** and to benefit from buying-in-advance of increasing market prices.

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

The key releases in the week ahead:

The US housing data for Jun, including building permits (expecting 1.7m SAAR), housing starts (expecting 1.597m SAAR), and existing home sales (expecting 5.9m SAAR). Last week, US mortgage applications rose a notable +16% (on the prior week) as rates started to ease. Both refi's and purchase applications increased.

The prelim manufacturing and services PMI's across key economies for July will be released later in the week.

This week, the US Treasury will settle \$245bn in ST Bill auctions, paying down an estimated \$48bn for the week (issuance < amount maturing). The US Treasury will also auction the 20yr Bond (settle 2 Aug) and 10yr TIPS (settle 30 Jul) this week. Approx. \$19bn in ST Bills 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		Prior Auction High Rate %
19-23 Jul	15-Jul	20-Jul	4 week bill	40			Actual 0.045%	0.045%
	15-Jul	20-Jul	8 week bill	35			Actual 0.050%	0.045%
	14-Jul	20-Jul	119-Day CMB	30			Actual 0.050%	0.050%
				105	145	-40		
	19-Jul	22-Jul	13 week bill	54			Announced	0.050%
	19-Jul	22-Jul	26 week bill	51			Announced	0.050%
	20-Jul	22-Jul	42-Day CMB	35			Announced	0.045%
				140	148	-8		
			Total - securities settling this week	245	293	-48		
			Net New Cash Raised Qtr to Date	920	959	-39		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>821</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		20-Jul	Bills	5.38				
		22-Jul	Bills	13.92				
				19.28				
			Upcoming Auctions					
	21-Jul	02-Aug	20yr Bond	24			Announced	2.120%
	22-Jul	30-Jul	10yr TIPS	16			Announced	-0.805%
				40				

<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 be enacted – 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:

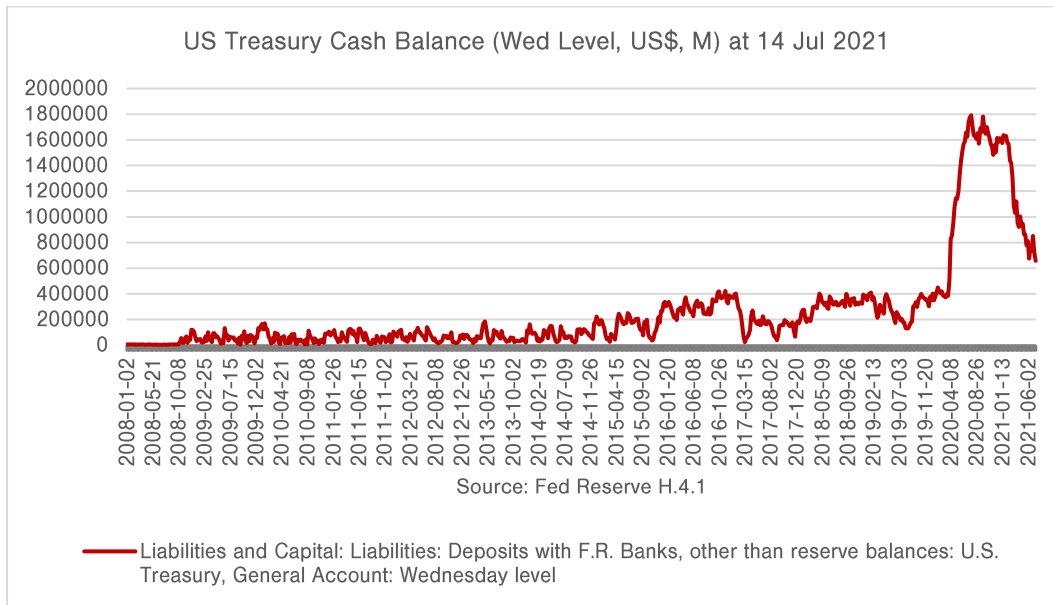
Treasury is assuming a cash balance of approximately \$450 billion at the expiration of the debt limit suspension on July 31 based on expected outflows under its cash management policies and consistent with its authorities and obligations, including the Bipartisan Budget Act of 2019. **The actual cash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

- 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 a further \$67bn (after decreasing by \$127bn in the prior week).

The balance of the TGA (14 Jul) was \$657bn. Since the start of 2021, the TGA balance has declined by \$950bn.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H4.1&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheetml&label=include&layout=seriescolumn&from=01/01/2002&to=01/27/2021>

QE PROGRAMS

The latest schedule was released last week:

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 19 Jul	1.425	5.334
Tue 20 Jul	1.225	4.493
Wed 21 Jul	8.425	5.334
Thur 22 Jul	2.025	4.493
Fri 23 Jul	6.025	5.334
Total Announced Purchases	\$19.25bn (last week \$21.1bn)	\$25bn (last week \$22.3bn)

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 19 JULY 2021

MONDAY 19 JULY (US Eastern Time, unless stated otherwise)

US	NAHB Housing Market Index (Jul)
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Japan	National CPI (Jun)
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Australia	RBA Meeting Minutes
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TUESDAY 20 JULY

US	Building Permits (Jun), Housing Starts (Jun)
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Japan	Trade Balance, Exports, and Imports (Jun), BoJ Meeting Minutes
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Australia	Prelim Retail Sales (Jun)
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WEDNESDAY 21 JULY

US	Mortgage Applications wk ending 16 Jul
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THURSDAY 22 JULY

Europe	ECB Rates Decision
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US	Initial Jobless Claims (wk ending 16 Jul), Continuing Unemployment Claims (wk ending 9 Jul), and PUA Claims, Chicago Fed National Activity Index (Jun), Existing Home Sales (Jun), Kansas City Fed Manufacturing Index (Jul)
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Australia	Markit Prelim Manufacturing and Services PMI (Jul)
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FRIDAY 23 JULY

Europe	Eurozone Markit Prelim Manufacturing and Services PMI (Jul)
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US	Markit Prelim Manufacturing and Services PMI (Jul)
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