

## Key themes for the week ahead

The focus for the week ahead will be on the US FOMC meeting, inflation data, and Q2 GDP.

The FOMC will meet this week and no change to policy is anticipated. The expected timing of a tapering announcement has moved out from Aug (Jackson Hole) to possibly Dec. In recent testimony, Fed Chair Powell noted that the economy was still “a ways off” from reaching the threshold for tapering. But the Fed Chair has also promised plenty of warning of any changes. Given the range of views on the FOMC, it's likely that tapering will be a key point of discussion.

In Australia, widespread lockdowns due to an outbreak of the 'Delta' variant of Covid-19 have resulted in a sharp contraction in output (especially services). The RBA will meet next week, and previously announced QE tapering may be reversed temporarily.

US data this week will focus on inflation, manufacturing reports, housing, and GDP. This week, the PCE measure of consumer inflation will be released, and annual core PCE price growth is expected to accelerate to 3.7% (from 3.4% in May). US GDP for Q2 is expected to grow at 8.6% (annualized) – prior Q1 growth was 6.4%. US new home sales are expected to grow by 792k in Jun after 769k growth (SAAR) in May. House prices in May are expected to increase by +15.4% year on year.

US manufacturing data for July highlights continued strong demand but ongoing issues with longer lead times, higher input prices, and tighter labour supply. The prelim US services PMI for July recorded a slowdown in output growth, but that was coming off the series high recorded in Jun. Weaker demand was reported due to “hesitancy” over higher prices.

Other inflation data out this week includes: Aus Q2 CPI expected to grow by 3.8% (Q1 growth 1.1%) and Eurozone CPI (prelim) for Jul is expected to grow by 2% (versus 1.9% annual growth in Jun).

The prelim Eurozone GDP for Q2 is expected to increase by 1.5% after recording -0.3% in Q1.

This week, the US Treasury will settle \$246bn in ST Bill auctions, with an estimated pay down of \$17bn for the week (issuance < amount maturing). The US Treasury will also auction approx. \$235bn in Notes and FRN's this week which will settle next week.

Approx. \$42bn in ST Bills, Notes & Bonds, and FRN's will mature on the Fed balance sheet and will be rolled over.

Markets are currently unfazed by the upcoming expiration of the debt ceiling suspension on 31 Jul. A further suspension of or an increase in the debt ceiling is currently under negotiation in the US Congress.

## US Treasury Issuance & QE

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There will be an update next week (4 Aug) on the estimated borrowing requirements for the US Treasury.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
26-30 Jul	22-Jul	27-Jul	4 week bill	40			Actual 0.045%	0.045%
	22-Jul	27-Jul	8 week bill	35			Actual 0.045%	0.050%
	21-Jul	27-Jul	119-Day CMB	30			Announced	0.050%
				105	115	-10		
	26-Jul	29-Jul	13 week bill	54			Announced	0.050%
	26-Jul	29-Jul	26 week bill	51			Announced	0.050%
	27-Jul	29-Jul	42-Day CMB	20			Announced	0.045%
				125	148	-23		
	22-Jul	30-Jul	10yr TIPS	16			Actual -1.016%	-0.805%
				16	0	16		
			<b>Total - securities settling this week</b>	<b>246</b>	<b>263</b>	<b>-17</b>		
			<b>QTR to date totals</b>	<b>1,166</b>	<b>1,222</b>	<b>(56)</b>		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>821</i>		
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>				
		27-Jul	Bills	6.43				
		29-Jul	Bills	13.10				
		31-Jul	Notes & Bonds	20.86				
		31-Jul	FRN	1.65				
				42.03				
			<b>Upcoming Auctions</b>					
	26-Jul	02-Aug	2yr Note	60			Announced	0.249%
	28-Jul	02-Aug	2yr FRN	28			Announced	0.030%
	27-Jul	02-Aug	5yr Note	61			Announced	0.904%
	29-Jul	02-Aug	7yr Note	62			Announced	1.264%
	21-Jul	02-Aug	20yr Bond	24			Actual 1.890%	2.120%
				235	141.25	93.748		

<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 next week 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 this week. 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:

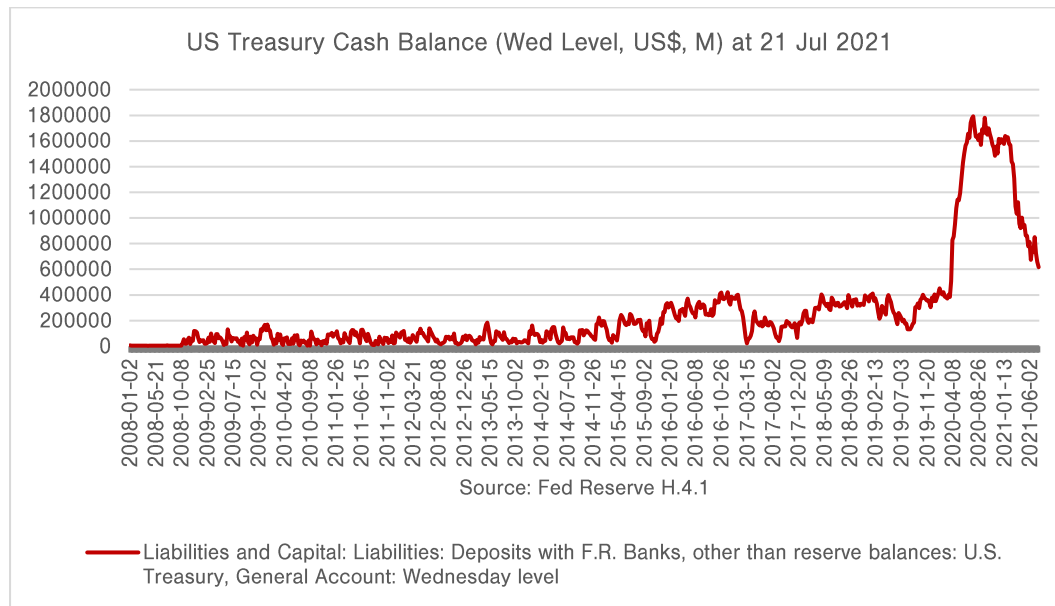
Treasury is assuming a cash balance of approximately \$450 billion at the expiration of the debt limit suspension on July 31 based on expected outflows under its cash management policies and consistent with its authorities and obligations, including the Bipartisan Budget Act of 2019. **The actual cash 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 \$41bn (after decreasing by \$67bn in the prior week).

The balance of the TGA (21 Jul) was \$616bn. Since the start of 2021, the TGA balance has declined by \$991bn.



<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 new MBS purchase schedule will be released 28 Jul – MBS purchase operation data is incomplete for this week.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 26 Jul	2.025	4.493
Tue 27 Jul	1.425	5.334
Wed 28 Jul	0	4.497
Thur 29 Jul	2.025	Tbc
Fri 30 Jul	8.425	Tbc
Total Announced Purchases	\$13.9bn (last week \$19.25bn)	\$14.3bn (last week \$25bn)

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](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 26 JULY 2021

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## MONDAY 26 JULY (US Eastern Time, unless stated otherwise)

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Japan	Composite PMI Prelim (Jul)
US	New Home Sales (Jun), Dallas Fed Manufacturing Activity (Jul)

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## TUESDAY 27 JULY

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US	Durable Goods Orders (Jun), Case/Shiller House Price Index (May), Richmond Fed Manufacturing Index (Jul)
Japan	BoJ Summary of Opinions Report
Australia	RBA Debelle Speech, CPI Q2

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## WEDNESDAY 28 JULY

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US	Mortgage Applications wk ending 23 Jul FOMC Meeting and Press Conference
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## THURSDAY 29 JULY

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US	Initial Jobless Claims (wk ending 23 Jul), Continuing Unemployment Claims (wk ending 16 Jul), and PUA Claims, GDP Q2 Advance
Japan	Industrial Production Prelim (Jun), Retail Sales (Jun)
Australia	Private Sector Credit (Jun)

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## FRIDAY 30 JULY

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Europe	Eurozone CPI Prelim (Jul), GDP Q2 Prelim
US	PCE; Income, Outlays, and Prices (Jun), Chicago PMI (Jul), University of Michigan Consumer Sentiment final (Jul), Brainard speech (evening) – rebuilding the post-pandemic economy

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