

Key themes for the week ahead

The focus for the week ahead will be on US CPI, PPI, and JOLTS data. It will be a quiet week on the central bank front.

US data last week provided a reasonably strong view of the economy. Non-farm payrolls growth exceeded expectations for Jul and the prior two months were revised notably higher. The unemployment rate declined against a backdrop of increased participation – which is positive. The employment to population ratio also increased. The ISM manufacturing PMI indicated a steady pace of growth at the current higher-level while the services PMI reached another all-time high. Supply chain disruptions rather than demand appear to be the main impediment to output growth. Consumer credit growth for Jun (credit card revolving) exceeded expectations (+\$35bn versus +\$17bn expected) and suggests some improved confidence to increase leverage (but could equally indicate a more bearish situation).

Covid-19 infections continue to increase across several countries. In some cases, this is against a backdrop of rising vaccinations (that help to negate a need for shutdowns). Lockdowns have been extended across several of the largest Australian states and vaccination rates remain low. Last week, the RBA did not reverse QE tapering scheduled for Sep and was unexpectedly upbeat given the circumstances. The RBA noted a supportive fiscal response to the current lockdowns and expressed confidence that the state economies seem to bounce back after a shutdown.

This week, annual US CPI growth for Jul is expected to ease to +5.3% versus +5.4% in Jun. Core CPI growth is also expected to ease to 4.3% (from +4.5% in Jun). JOLTS data for Jun is expected to report a sustained elevated level of job openings of 9.2m jobs in Jun (versus 9.2m in May). Finally, the prelim read of the University of Michigan consumer sentiment for Aug is expected to show little change in sentiment levels between Jul and Aug.

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Last week, the US Treasury released the Q3 quarterly refunding requirements. One point of interest was that the US Treasury noted that the current issuance size and patterns may “provide more borrowing capacity than is needed” with an “expectation of announcing an initial set of auction size reductions as soon as the November refunding announcement” (<https://home.treasury.gov/news/press-releases/jy0307>).

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 %
9-13 Aug	05-Aug	10-Aug	4 week bill	40			Actual 0.040%	0.045%
	05-Aug	10-Aug	8 week bill	35			Actual 0.050%	0.045%
	04-Aug	10-Aug	119-Day CMB	30			Actual 0.050%	0.050%
				105	115	-10		
	09-Aug	12-Aug	13 week bill	54			Announced	0.050%
	09-Aug	12-Aug	26 week bill	51			Announced	0.055%
	10-Aug	12-Aug	52 week bill	34			Announced	0.075%
	10-Aug	12-Aug	42-Day CMB	20			Announced	0.040%
				159	182	-23		
			Total - securities settling this week	264	297	-33		
			Net New Cash Raised Qtr to Date	1895	1923	-28		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			673		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		10-Aug	Bills	6.520				
		12-Aug	Bills	15.720				
				22.240				
			Upcoming Auctions					
	10-Aug	16-Aug	3yr Note	58			Announced	0.426%
	11-Aug	16-Aug	10yr Note	41			Announced	1.371%
	12-Aug	16-Aug	30yr Bond	27			Announced	2.000%
				126	58.6	67.4		

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

Recommended US Treasury Financing Q3

The latest release of the recommended US Treasury Financing for Q3 can be found here: <https://home.treasury.gov/system/files/221/TBACRecommendedFinancingTableQ32021-08042021.pdf>

In Q3, the US Treasury will raise approx. \$673bn in new money. This will be made up of an estimated \$8.8 net issuance of Bills and \$664bn net issuance of Coupons.

There were several interesting insights from the announcement. The first is that there was agreement that, given the current 'shape' of issuance, the US Treasury is likely to be over-financed and there is a need for and the likelihood of a reduction in auction sizes including the continued removal of weekly CMB issuance (used instead for seasonal variance).

Consistent with the forecasts that Treasury will be over-financed, all primary dealers expected reductions in coupon auction sizes by the end of CY2022.

Most primary dealers anticipated that Treasury would begin reducing auction sizes at the November quarterly refunding.

The US Treasury confirmed that the current issuance size and patterns may “provide more borrowing capacity than is needed” with an “expectation of announcing an initial set of auction size reductions as soon as the Nov refunding announcement”.

It was also confirmed that the 42-day and 119-day CMB's will cease to be issued during Q3 & Q4:

Accordingly, Treasury plans to further modify its regular cadence of CMBs. Treasury anticipates that weekly issuance of the 6-week CMBs will cease after settlement on August 19, whereas weekly issuance of the 17-week CMBs will continue at least through the end of October.

<https://home.treasury.gov/news/press-releases/jy0307>

The suspension of the federal debt ceiling ended on 31 July. A solution to raise the ceiling will be enacted – but it is unclear how that will happen at this stage.

“Since that date, Treasury has begun using extraordinary measures to finance the government on a temporary basis. As Secretary Yellen recently outlined in a July 23 letter to Congress, the period of time that extraordinary measures may last is subject to considerable uncertainty due to a variety of factors, including the challenges of forecasting the payments and receipts of the U.S. government months into the future, exacerbated by the heightened uncertainty in payments and receipts related to the economic impact of the pandemic. Given this, Treasury is not able to currently provide a specific estimate of how long extraordinary measures will last.”

<https://home.treasury.gov/news/press-releases/jy0307>

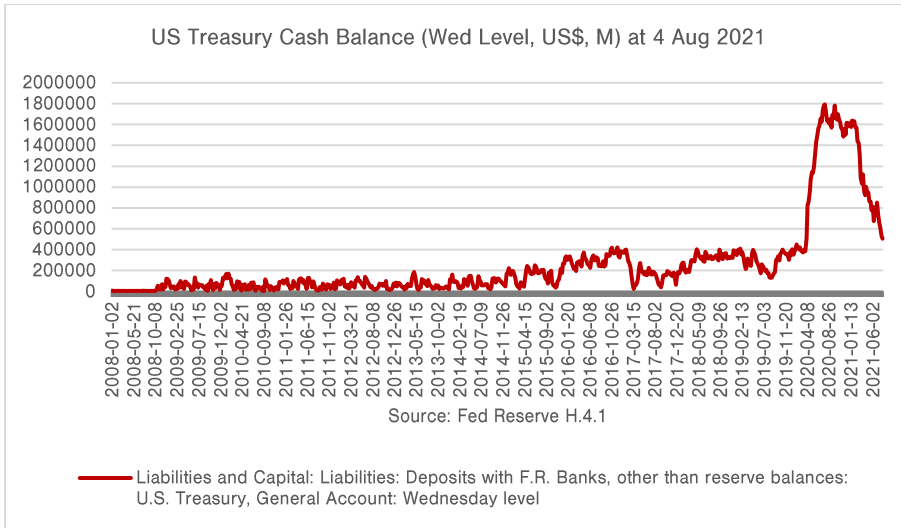
A reduction in financing requirements and a budget resolution may have implications (support) for a tapering announcement.

The revised refunding assumptions:

- Q3 end of quarter TGA balance of \$750bn
- End of Dec 2021 cash balance of \$800bn

The level of the TGA decreased last week by a further \$31bn (after decreasing by \$79bn in the prior week).

The balance of the TGA (4 Aug) was \$506bn. Since the start of 2021, the TGA balance has declined by \$1.1tr.



<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 QE schedule will be released on 12 Aug – the data below is incomplete for the week.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 9 Aug	1.425	4.621
Tue 10 Aug	6.025	5.156
Wed 11 Aug	2.025	4.621
Thur 12 Aug	2.025	5.158
Fri 13 Aug	Tbc	Tbc
Total Announced Purchases	\$11.5bn (last week \$20.32bn)	\$19.5bn (last week \$24.7bn)

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 9 AUGUST 2021

MONDAY 9 AUGUST (US Eastern Time, unless stated otherwise)

China (Sunday) CPI (Jul), PPI (Jul)

US JOLTS (Jun)

Australia New Home Sales (Jul), Building Approvals (Jun), NAB Business Confidence & Conditions (Jul)

TUESDAY 10 AUGUST

US Unit Labour Costs Q2

Australia Westpac Consumer Sentiment (Aug)

WEDNESDAY 11 AUGUST

US Mortgage Apps wk ending 6 Aug, CPI (Jul)

THURSDAY 12 AUGUST

Europe Eurozone Industrial Production (Jun)

US Initial Jobless Claims (wk ending 7 Aug), Continuing Unemployment Claims (wk ending 30 Jul), and PUA Claims, PPI (Jun)

FRIDAY 13 AUGUST

US University of Michigan Consumer Sentiment Prelim (Aug)
