

Key themes for the week ahead

The focus for the week ahead will be on US retail sales and central bank messaging.

This week, minutes from the latest FOMC and RBA meetings will be released. The FOMC minutes will be further scrutinized for any hints of a shift in the message – especially with the Jackson Hole symposium coming up the following weekend (26-28 Aug). US Fed Chair Powell will host a town hall-style meeting this week. The Reserve Bank of NZ will meet on rates, and it is widely expected to increase the benchmark rate to 0.50%.

Despite an improving labour market situation, there was an alarming fall in US consumer sentiment in early Aug. Headline sentiment in early Aug is now lower than at the onset of the pandemic-led shutdowns back in Apr 2020. Sentiment for both current and expected conditions also fell sharply. Such declines in the past have been associated with a sudden negative shift in the economy. The reason for the decline in early Aug has been traced back to the resurgence in Covid (Delta) infections in the US:

There is little doubt that the pandemic's resurgence due to the Delta variant has been met with a mixture of reason and emotion. Consumers have correctly reasoned that the economy's performance will be diminished over the next several months, but the extraordinary surge in negative economic assessments also **reflects an emotional response, mainly from dashed hopes that the pandemic would soon end.**

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

In this context, data for US consumer spending will be backward-looking this week. Retail sales for Jul are expected to fall by -0.2% (Jun +0.6%). US housing market data will cover building permits (expecting 1.615m SAAR) and housing starts (expecting 1.608m for Jul). US industrial production for Jul is expected to increase by +0.5%. The Empire State and Philadelphia Fed manufacturing surveys will provide the first look at Aug manufacturing activity.

Aus data of note this week will be the labour and employment market survey for Jul. Employment is expected to contract by -45k in Jul (after +29k in Jun). The RBA minutes this week will reflect the meeting when there was a limited shutdown in the largest Aus state. The RBA expected the shutdowns to reduce hours worked but have a limited impact on employment. Since that meeting, both of the most populous states have been placed into even more severe, and extended shutdowns to reduce the rising number of Delta infections.

This week, the US Treasury will settle \$400bn in ST Bills, Notes, and Bonds, raising approx. \$78.4bn in new money. Approx. \$75bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be rolled over. The US Treasury will auction the 20yr Bond and 30yr TIPS this week – to settle on 31 Aug.

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 %
16-20 Aug	12-Aug	17-Aug	4 week bill	40			Actual 0.045%	0.040%
	12-Aug	17-Aug	8 week bill	35			Actual 0.055%	0.050%
	11-Aug	17-Aug	119-Day CMB	30			Actual 0.045%	0.050%
				105	115	-10		
	16-Aug	19-Aug	13 week bill	51			Announced	0.050%
	16-Aug	19-Aug	26 week bill	48			Announced	0.050%
	17-Aug	19-Aug	57-Day CMB	50			Announced	-
	17-Aug	19-Aug	42-Day CMB	20			Announced	0.040%
				169	148	21		
	10-Aug	16-Aug	3yr Note	58			Actual 0.465%	0.426%
	11-Aug	16-Aug	10yr Note	41			Actual 1.340%	1.371%
	12-Aug	16-Aug	30yr Bond	27			Actual 2.040%	2.000%
				126	58.6	67.4		
			Total - securities settling this week	400	321.6	78.4		
			QTR to date totals	2,295	2,245	50		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>673</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		15-Aug	Notes & Bonds	56.2				
		17-Aug	Bills	5.6				
		19-Aug	Bills	13.9				
				75.6				
			Upcoming Auctions					
	18-Aug	31-Aug	20yr Bond	27			Announced	1.890%
	19-Aug	31-Aug	30yr TIPS	8			Announced	-0.040%

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

Recommended US Treasury Financing Q3

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

The announcement also indicated that the US Treasury would likely start to announce a reduction in auction sizes at the November TBAC meeting. It was also confirmed that the 42-day and 119-day CMB's will cease to be issued during Q3 & Q4.

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

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>

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>

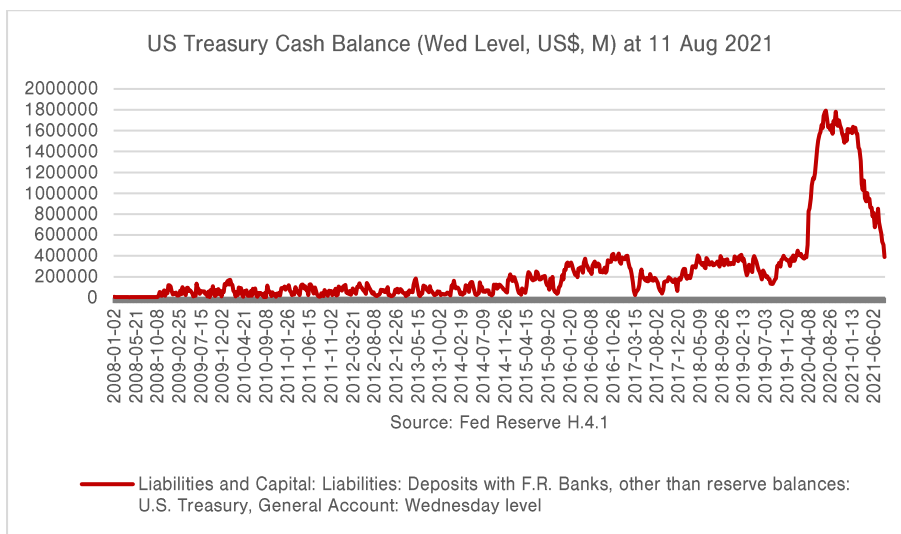
The revised refunding assumptions:

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

The Democrats in the US Senate approved a \$3.5t spending plan last week which is in addition to the \$1t bipartisan infrastructure bill. The spending plan/budget has not yet addressed the debt limit – which needs to be increased by the start of Oct.

The level of the TGA decreased last week by a further \$116bn (after decreasing by \$31bn in the prior week).

The balance of the TGA (11 Aug) was \$389bn. Since the start of 2021, the TGA balance has declined by \$1.2tr.



<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

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 16 Aug	1.425	4.897
Tue 17 Aug	1.225	4.387
Wed 18 Aug	8.425	4.897
Thur 19 Aug	6.025	4.387
Fri 20 Aug	2.025	4.897
Total Announced Purchases	\$19.1bn (last week \$23.9bn)	\$23.5bn (last week \$22.4bn)

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 16 AUGUST 2021

MONDAY 16 AUGUST (US Eastern Time, unless stated otherwise)

Japan	(Sunday) GDP Q2 Prelim, Industrial Production Final (Jun)
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China	Industrial Production (Jul), Retail Sales (Jul)
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US	NY Empire State Manufacturing Survey (Aug)
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Aus	RBA Minutes
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TUESDAY 17 AUGUST

Europe	Eurozone GDP Q2 Prelim
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US	Retail Sales (Jul), Industrial Production (Jul), NAHB Housing Market Index (Aug) Fed Chair Powell – Hosts student/teacher town hall
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Japan	Merchandise Trade, Imports, and Exports (Jul)
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Australia	Wage Price Index Q2
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NZ	RBNZ Rates Decision
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WEDNESDAY 18 AUGUST

US	Mortgage Applications wk ending 13 Aug, Building Permits (Jul), Housing Starts (Jul) FOMC Minutes
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Europe	Eurozone CPI Final (Jul)
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Australia	Employment and Labour Market Survey (Jul)
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THURSDAY 19 AUGUST

US	Initial Jobless Claims (wk ending 13 Aug), Continuing Unemployment Claims (wk ending 6 Aug), and PUA Claims, Philadelphia Fed Manufacturing Survey (Aug)
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Australia	RBA Asst Governor Kent speech
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Japan	National CPI (Jul)
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China	PBoC Rates Decision (tbc)
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FRIDAY 20 AUGUST

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