

Key themes for the week ahead

The focus for the week ahead will be on growth and the US Federal Reserve Jackson Hole Policy Symposium to be held on Friday 27 Aug.

The growth outlook is under question with the Delta virus gaining a foothold across several countries, including the US. This will be an important test for vaccination strategies. US growth already appeared to be moderating as some fiscal measures have started to roll off. But the concern from Dallas Fed Kaplan late last week (who has been a strong proponent of normalizing monetary policy), the FOMC minutes, and the rescheduling of the Jackson Hole symposium from in-person to online provide some cautious signals.

From the FOMC minutes, a taper announcement seemed unlikely as early as the Jackson Hole meeting this week but is still 'live' for this year. Discussions focused on the impact on financial conditions, the timing, and the composition of the taper. The standard for 'significant further progress' has not yet been met for the labour market but could be met by the end of the year. Concerns were raised over the interpretation of a taper announcement and what it means for the path of rates (the FOMC wants to keep QE taper and rates normalization independent). Risks to the outlook remain – with a slowing vaccination rate and the question of the impact on growth from Delta infections.

In NZ, the RBNZ held off on its anticipated rate increase last week as level 4 restrictions were imposed across the country. The RBNZ Board noted that it will likely return to its normalization stance.

The Committee agreed that their **least regrets policy** stance is to further reduce the level of monetary stimulus so as to anchor inflation expectations and continue to contribute to maximum sustainable employment. They agreed, however, to keep the OCR unchanged at this meeting given the heightened uncertainty with the country in a lockdown. <https://www.rbnz.govt.nz/news/2021/08/official-cash-rate-on-hold-at-025-percent>

In Australia, the outbreak has gone from bad to worse and this will be reflected in weaker economic data.

The prelim PMIs for Aug will provide the first view of the impact of renewed restrictions and outbreaks on the growth momentum. Also, out this week will be the US PCE data for July including the Fed preferred measure of inflation and the final read of the University of Michigan consumer sentiment for Aug.

The US Treasury will settle \$260bn in ST Bills and FRN's, raising approx. \$2bn in new money. Approx. \$18bn in ST Bills will mature on the Fed balance sheet and will be rolled over. The US Treasury will auction the 2yr, 5yr, and 7yr Notes this week – to settle on 31 Aug next week.

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 %
23-27 Aug	19-Aug	24-Aug	4 week bill	35			Actual 0.040%	0.045%
	19-Aug	24-Aug	8 week bill	30			Actual 0.055%	0.055%
	18-Aug	24-Aug	119-Day CMB	30			Actual 0.045%	0.045%
				95	115	-20		
	23-Aug	26-Aug	13 week bill	51			Announced	0.070%
	23-Aug	26-Aug	26 week bill	48			Announced	0.050%
	24-Aug	26-Aug	67-Day CMB	40			Announced	
				139	143	-4		
	25-Aug	27-Aug	2Yr FRN	26			Announced	0.029%
				26	0	26		
			Total - securities settling this week	260	258	2		
			QTR to date totals	2,555	2,503	52		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>673</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		24-Aug	Bills	6.662				
		26-Aug	Bills	10.952				
				17.6				
			Upcoming Auctions					
	24-Aug	31-Aug	2yr Note	60			Announced	0.213%
	25-Aug	31-Aug	5yr Note	61			Announced	0.710%
	26-Aug	31-Aug	7yr Note	62			Announced	1.050%

<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>

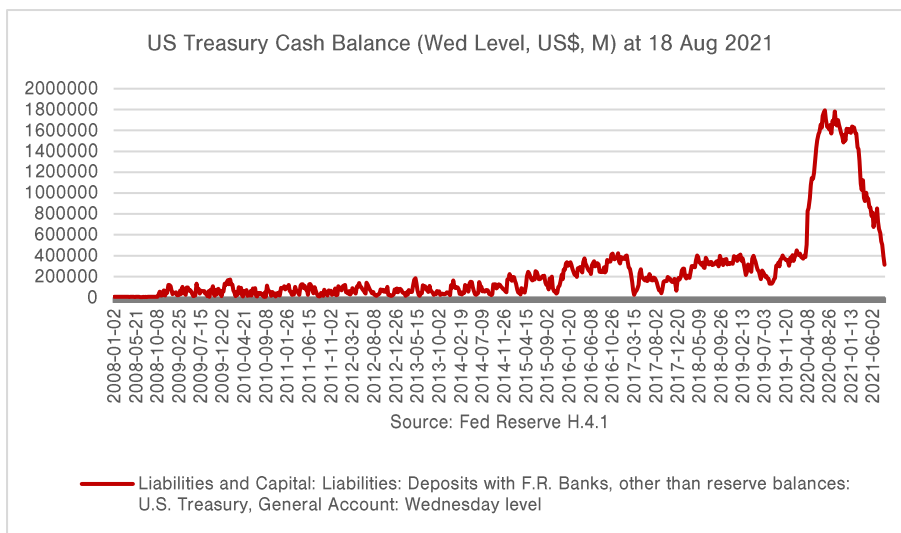
The revised refunding assumptions:

- 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 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 \$76bn (after decreasing by \$116bn in the prior week).

The balance of the TGA (18 Aug) was \$313bn. Since the start of 2021, the TGA balance has declined by \$1.29tr.



<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 MBS purchase schedule is complete up until 26 Aug.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 23 Aug	3.225	4.387
Tue 24 Aug	2.025	4.897
Wed 25 Aug	1.425	4.383
Thur 26 Aug	12.425	4.897
Fri 27 Aug	2.025	Tbc
Total Announced Purchases	\$21.12bn (last week \$19.1bn)	\$18.56bn (last week \$23.5bn)

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/ambis_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 23 AUGUST 2021

MONDAY 23 AUGUST (US Eastern Time, unless stated otherwise)

Australia	Prelim Markit Manufacturing & Services PMI (Aug)
Japan	Prelim Markit Manufacturing & Services PMI (Aug)
Europe	Eurozone Prelim Markit Manufacturing & Services PMI (Aug)
US	Chicago Fed National Activity Index (Jul), Prelim Markit Manufacturing & Services PMI (Aug), Existing Home Sales (Jul)

TUESDAY 24 AUGUST

US	Richmond Fed Manufacturing Survey (Aug), New Home Sales (Jul)
Australia	Construction Work Done Q2

WEDNESDAY 25 AUGUST

US	Mortgage Applications wk ending 20 Aug, Advance Durable Goods Orders (Jul)
Australia	Private Sector Capex Q2

THURSDAY 26 AUGUST

US	Initial Jobless Claims (wk ending 21 Aug), Continuing Unemployment Claims (wk ending 14 Aug), and PUA Claims, GDP First Prelim Est Q2, Kansas City Fed Manufacturing Survey (Aug)
Australia	Retail Sales (Jul)

FRIDAY 27 AUGUST

US	Jackson Hole Symposium – “Macro econ policy in an uneven world”, US Fed Chair Powell speech (9am ET) Personal Consumption, Income, and Price Index (Jul), University of Michigan Consumer Sentiment – Final (Aug)
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