

Key themes for the week ahead

The focus for the week ahead will be on US non-farm payrolls for Aug and growth momentum.

It will be a surprisingly quiet week on the central bank front ahead of key meetings next week (RBA, BoC, and ECB next week). Next Monday will be the US Labour Day holiday long weekend.

There was no taper announcement at the US Federal Reserve Jackson Hole symposium last week. As telegraphed in the recent minutes, the performance of the US labour market has yet to reach the 'substantial further progress' benchmark. However, Fed Chair Powell noted that employment has made 'good progress' and if the economy evolves as anticipated, then a taper could be announced this year (three meetings left).

This means an even greater focus on US non-farm payrolls over next months – especially headline payrolls, participation, and the U6 measure. Growth in non-farm payrolls this week for Aug is expected to be +728k (prior was +943k). The Fed is also watching for a reduction in labour market slack – in particular, the participation rate ($\downarrow 61.1\%$) and the U6 measure of underemployment ($\uparrow 9.5\%$). Job openings indicate that demand for workers is strong, but labour market slack remains an issue. The Fed is looking for indications that workers are returning to the labour force especially as students go back to on-site schooling.

The Fed minutes and Chair Powell's Jackson Hole speech also highlighted the risk to growth from the latest outbreak of the virus and especially the impact on the unvaccinated population. The final consumer sentiment readings for Aug remained weak amid concerns over inflation, slowing income gains (rolling-off of benefits), and the recurrence of covid outbreaks.

The extraordinary falloff in sentiment also reflects an emotional response, from dashed hopes that the pandemic would soon end and lives could return to normal.

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

The US ISM manufacturing and services surveys for Aug will provide some insight into any impact on growth momentum. Last month, the manufacturing ISM indicated more consistent growth while services recorded faster expansion. Themes around short supply of inputs, long lead-times, and rising prices have continued to play out in the regional (unrelated) surveys in Aug.

The final Markit PMI's for Aug will be released this week covering the major economies.

In Australia, the two most populous states remain in strict lockdown and NZ had also extended its lockdown (related outbreak). Aus data out this week – Q2 GDP (mostly reflecting activity prior to the lockdowns) expecting +0.5% (QoQ), building permits expecting a -5% fall for Jul, and housing finance for Jul expecting a -2% fall.

This week, the US Treasury will settle \$452bn in ST Bills, Notes, Bonds, and TIPS raising approx. \$110bn in new money. Approx. \$48bn in ST Bills and Notes 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 %
30 Aug - 3 Sep	26-Aug	31-Aug	4 week bill	30			Actual 0.035%	0.040%
	26-Aug	31-Aug	8 week bill	30			Actual 0.060%	0.055%
	25-Aug	31-Aug	119-Day CMB	30			Actual 0.050%	0.045%
				90	115	-25		
	30-Aug	02-Sep	13 week bill	51			Announced	0.055%
	30-Aug	02-Sep	26 week bill	48			Announced	0.050%
	31-Aug	02-Sep	21-Day CMB	45			Announced	n/a
				144	143	1		
	24-Aug	31-Aug	2yr Note	60			Actual 0.242%	0.213%
	25-Aug	31-Aug	5yr Note	61			Actual 0.831%	0.710%
	26-Aug	31-Aug	7yr Note	62			Actual 1.155%	1.050%
	18-Aug	31-Aug	20yr Bond	27			Actual 1.850%	1.890%
	19-Aug	31-Aug	30yr TIPS	8			Actual -0.292%	-0.040%
				218	83.13	134.87		
			Total - securities settling this week	452	341.13	110.87		
			QTR to date totals	3,007	2,844	163		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			673		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		31-Aug-21	Bills	6.5				
		31-Aug	Notes & Bonds	27.4				
		02-Sep	Bills	14.4				
				48.3				

<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 report also indicated that the US Treasury would likely announce the commencement of a reduction in auction sizes at the November TBAC meeting. It was 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>

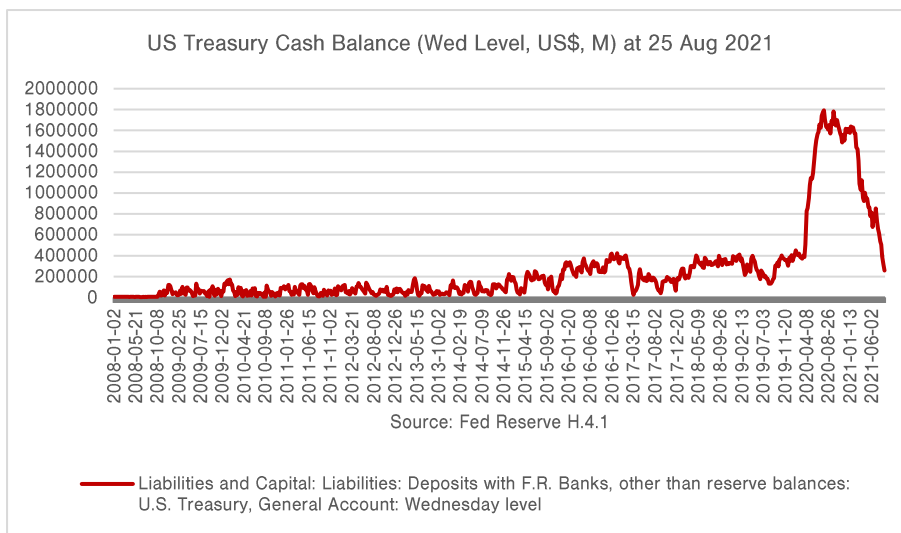
The revised refunding assumptions:

- 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 \$55bn (after decreasing by \$76bn in the prior week).

The balance of the TGA (25 Aug) was \$258bn. Since the start of 2021, the TGA balance has declined by \$1.35tr.



<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

There are no Treasury security purchase operations scheduled for Fri 3 Sep.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 30 Aug	1.225	5.161
Tue 31 Aug	1.425	4.591
Wed 1 Sep	3.225	5.161
Thur 2 Sep	2.025	4.591
Fri 3 Sep	n/a	1.990
Total Announced Purchases	\$7.9bn (last week \$21.1bn)	\$21.5bn (last week \$21.7bn)

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 31 AUGUST 2021

MONDAY 30 AUGUST (US Eastern Time, unless stated otherwise)

Japan	Advance Retail Sales (Jun), Industrial Production Prelim (Jul)
Australia	Private Sector Credit (Jul), Building Permits (Jul), Current Account and Company Profits Q2
US	Pending Home Sales (Jul), Dallas Fed Manufacturing Index (Aug)
China	NBS Manufacturing and Non-Manufacturing PMI (Aug)

TUESDAY 31 AUGUST

Europe	Euro Area CPI Prelim (Aug)
US	Case/Shiller House Price Index (Jun), Chicago PMI (Aug)
Australia	Markit Manufacturing PMI Final (Aug), GDP Q2
Japan	Markit Manufacturing PMI Final (Aug)

WEDNESDAY 1 SEPTEMBER

US	Mortgage Applications wk ending 27 Aug, ADP Employment Change – exp 638k (Aug), ISM Manufacturing PMI Final (Aug), Markit Manufacturing PMI Final (Aug), FOMC Member Bostic speech
Europe	Eurozone Markit Manufacturing PMI Final (Aug)
Australia	Housing Finance (Jul)

THURSDAY 2 SEPTEMBER

US	Initial Jobless Claims (wk ending 27 Aug), Continuing Unemployment Claims (wk ending 21 Aug), and PUA Claims, Challenger Job Cuts (Aug), Factory Orders (Jul)
Australia	Markit Services PMI Final (Aug)
Japan	Markit Services PMI Final (Aug)

FRIDAY 3 SEPTEMBER

US	Non-Farm Payrolls (Aug) – exp 728k (prior 943k), ISM Services PMI (Aug), Markit Services PMI Final (Aug)
Europe	Eurozone Markit Services PMI Final (Aug), Eurozone Retail Sales (Jul)
