

Key themes for the week ahead – central bank policy decisions part 2, US payrolls, and global growth momentum

This is the second of two weeks of major central bank policy decisions. The context of these meetings is significant as markets continue to bring forward rate hikes amid higher (and more persistent-than-expected) inflation and flattening yield curves.

The RBA did not defend the 3yr (Apr '24 3yr AGB) target of 0.1% last week and by Friday that rate had reached 0.775%. CPI growth was lower-than-expected but the core (trimmed mean) increased into the 2-3% target band. RBA guidance has been more dovish than what market pricing now suggests (RBA see's wages growth condition not met before 2024). The Board needs to navigate that difference this week – any shift in guidance will be important. At this stage, there is no press conference scheduled (a press conference is usually scheduled if a policy change is announced).

The FOMC is expected to announce the start of QE taper. Market projections of rate hikes have been bought forward and the yield curve has flattened. Details of the taper process will be important. Growth for Q3 came in lower-than-expected last week as did the headline PCE inflation rate – but PCE is still elevated. The ECI indicated faster growth in compensation costs at Q3. Annual wages and salaries growth remained below annual PCE inflation. The Oct regional surveys show supply issues are still acute, price pressures widespread, and employment mostly robust. The non-farm payrolls for Oct will be released on Friday and are expected to increase by 413k jobs (up from 194k in Sep). The ISM surveys for Oct will provide important insight into momentum going into Q4.

The BoE also meets this week. The new BoE chief economist expected inflation to be higher into H1 next year. It was suggested that this meeting could be “live” for a rate hike discussion – but it would be “finely balanced”.

Last week the BoC ended its QE program and noted that inflation may not be as transitory as previously thought. Guidance - policy rates to remain low until 2% inflation target sustainably achieved and slack in the economy absorbed – which it now projects will happen in the middle quarters of 2022.

The ECB announced a slowing of bond purchases over the next few months. Guidance was maintained - the ECB noted that the current conditions did not suggest rates would increase by mid-2022. But there was little pushback on whether markets were “getting ahead of themselves” by pricing in an earlier start to hikes. Inflation was expected to “last longer than originally expected”. The Oct flash CPI growth accelerated further on the back of accelerating energy prices. Underlying inflation also accelerated and is now at the 2% threshold.

The BoJ remained dovish and downgraded growth and inflation forecasts for 2021.

OPEC+ is expected to meet this week. The US Treasury will settle approx. \$496bn in ST Bills, Notes, Bonds, and FRN's, raising approx. \$135bn in new money. The US Treasury will also release the Q4 TBAC refunding documents on 3 Nov.

US Treasury Issuance & QE

This week, the US Treasury will settle approx. \$496bn in ST Bills, Notes, Bonds, and FRN's, raising approx. \$135bn in new money.

The shift in timing for debt ceiling negotiations is reflected in the still somewhat elevated ST Bill rates.

Approx. \$50bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be rolled over.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
1-5 Nov	28-Oct	02-Nov	4 week bill	60			Actual 0.055%	0.050%
	28-Oct	02-Nov	8 week bill	25			Actual 0.095%	0.100%
	27-Oct	02-Nov	119-Day CMB	40			Actual 0.055%	0.055%
				125	75	50		
	01-Nov	04-Nov	13 week bill	54			Announced	0.055%
	01-Nov	04-Nov	26 week bill	48			Announced	0.060%
	02-Nov	04-Nov	52 week bill	34			Announced	0.090%
				136	142	-6		
	27-Oct	01-Nov	2Yr FRN	28			Actual (HDM) 0.035%	0.026% (HDM)
	26-Oct	01-Nov	2yr Note	60			Actual 0.481%	0.310%
	27-Oct	01-Nov	5yr Note	61			Actual 1.157%	0.990%
	28-Oct	01-Nov	7yr Note	62			Actual 1.461%	1.332%
	20-Oct	01-Nov	20yr Bond	24			Actual 2.1%	1.795%
				235	143.5	91.5		
			Total - securities settling this week	496	360.5	135.5		
			Net New Cash Raised Qtr to Date	1657	1196	461		
			<i>Estimated Net Cash to be Raised Q4</i>			<i>703</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$ B				
		02-Nov	Bills	5.42				
		04-Nov	Bills	20.4				
		31-Oct-21	Notes & Bonds	20.5				
		31-Oct-21	FRN	3.4				
				49.7				

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

Recommended US Treasury Financing Q4

The next quarterly recommended US Treasury financing will be released on 3 Nov this week.

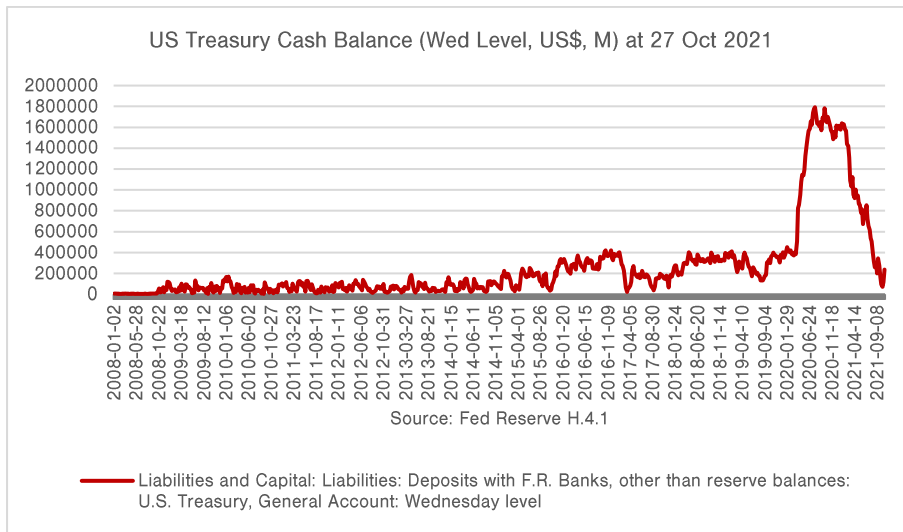
The latest release of the recommended US Treasury financing for Q3 can be found here:

<https://home.treasury.gov/system/files/221/TBACRecommendedFinancingTableQ32021-08042021.pdf>

The suspension of the federal debt ceiling ended on 31 July. A short-term funding agreement has extended the debt ceiling deadline to approx. 3 Dec 2021. As well, short-term measures were passed keeping the US government funded until Dec 3.

The level of the TGA increased last week by \$119bn (after increasing by \$44bn in the prior week).

The balance of the TGA (27 Oct) was \$236.5bn. Since the start of 2021, the TGA balance has declined by \$1.37tr.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H4.1&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 1 Nov	2.025	5.953
Tue 2 Nov	2.025	4.739
Wed 3 Nov	n/a	5.953
Thur 4 Nov	7.450	4.739
Fri 5 Nov	8.425	5.953
Total Announced Purchases	\$19.9bn (last week \$18.5bn)	\$27.3bn (last week \$26.1bn)

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

WEEK COMMENCING 1 NOVEMBER 2021

MONDAY 1 NOVEMBER (US Eastern Time, unless stated otherwise)

China	(Sun) NBS Manufacturing & Non-Manufacturing PMI (Oct)
Australia	(Sun) Markit Manufacturing PMI Final (Oct), (Sun) Housing Finance (Sep) RBA Policy Decision
Japan	(Sun) Markit Manufacturing PMI Final (Oct), (Mon) BoJ Minutes (Sep)
US	ISM Manufacturing PMI (Oct), Markit Manufacturing PMI Final (Oct), Loan Officer Survey Q3

TUESDAY 2 NOVEMBER

Europe	Eurozone Markit Manufacturing PMI Final (Oct)
US	Vehicle Sales (Oct)
NZ	RBNZ Governor Orr speech
Australia	Markit Services PMI Final (Oct), Building Permits (Sep)

WEDNESDAY 3 NOVEMBER

US	Mortgage Applications wk ending 30 Oct, ADP Employment Chg exp +400k (Oct), ISM Services PMI (Oct), Markit Services PMI (Oct), Factory Orders (Sep) FOMC Policy Decision
Europe	ECB President Lagarde speech
Japan	Markit Services PMI Final (Oct)

THURSDAY 4 NOVEMBER

US	Initial Jobless Claims (wk ending 29 Oct), Continuing Claims (wk ending 22 Oct), Challenger Job Cuts (Oct), OPEC+
Europe	Markit Eurozone Services PMI Final (Oct), ECB President Lagarde speech
UK	BoE Policy Decision

FRIDAY 5 NOVEMBER

Europe	Germany Industrial Production (Sep), Eurozone Retail Sales (Sep)
US	Non-Farm Payrolls exp 413k (Oct), Consumer Credit Change (Sep)
