

Key themes for the week ahead – inflation & central bank speeches

It's been a huge two weeks of central bank policy decisions. Central Banks acknowledged that inflation has not been as transitory as they had initially expected – due to persistent demand/supply imbalances affecting supply chains. While inflation is above targets, policy makers signaled that they would effectively 'look through' this current inflation impulse and expect that inflation will ease through H1 next year as supply chains recover. The case for rate increases was not made because labour market goals have yet to be met. The exception is the BoE – still with market expectations of an increase in the bank rate by the end of the year.

The US FOMC announced a flexible approach to its taper schedule. It noted that it can be patient on rate hikes for the moment but still emphasized data dependence, flexibility, and a willingness to move either way (including with taper).

We don't think it's time yet to raise interest rates. There is still ground to cover to reach maximum employment both in terms of employment and in terms of participation.

There will be several central bank speeches this week – with Powell, Lagarde, Maklem, and Bailey all speaking. We'll be looking for any follow-up commentary.

A decision on the US Fed Chair should also be imminent.

US labour market data was stronger than expected for Oct with upward revisions for the prior two months. The US services ISM reported a broader expansion in activity in Oct – reaching a new series high. Manufacturing momentum is still constant at this higher level. Pricing pressures and longer lead-times appeared to reassert this month across several surveys.

This week, the key economic release will be US CPI for Oct. Annual growth in the headline index is expected to accelerate from 5.4% in Sep to 5.8% in Oct. US PPI, JOLTS, and the Uni of Michigan consumer sentiment data will also be released. Veterans Day falls on Thursday this week. US initial claims will be reported on Wednesday.

Chinese CPI and PPI data is also out this week. Chinese CPI is expected to increase from 0.7% in Sep to 1.4% in Oct. The monthly rate is also expected to accelerate from +0.1% in Sep to +0.6% in Oct.

The Aus labour market and employment survey for Oct will start to pick up the reopening of the two largest states. Employment is expected to increase by +50k persons (after falling by -138k in Sep) and participation is expected to increase from 64.5% to 64.8%.

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US Treasury Issuance & QE

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Approx. \$16bn in ST Bills 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 %
<i>11 Nov Veterans Day</i>							
8-12 Nov	04-Nov	09-Nov	4 week bill	10		Actual 0.040%	0.055%
	04-Nov	09-Nov	8 week bill	25		Actual 0.055%	0.095%
	03-Nov	09-Nov	119-Day CMB	40		Actual 0.055%	0.055%
				75	75	0	
	08-Nov	12-Nov	13 week bill	54		Announced	0.050%
	08-Nov	12-Nov	26 week bill	48		Announced	0.065%
				102	108	-6	
			Total - securities settling this week	177	183	-6	
			Net New Cash Raised Qtr to Date	1834	1379	455	
			<i>Estimated Net Cash to be Raised Q4</i>			1015	
			Fed SOMA - Face Value of SOMA securities maturing	\$ B			
		09-Nov	Bills	4.6			
		12-Nov	Bills	11.8			
				16.4			
			Upcoming Auctions				
	08-Nov	15-Nov	3yr Note	56		Announced	0.635%
	09-Nov	15-Nov	10yr Note	38		Announced	1.584%
	10-Nov	15-Nov	30yr Bond	25		Announced	2.049%
				119	75.86	43.14	

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

Recommended US Treasury Financing Q4

The latest TBAC recommended US treasury financing schedule for Q4 was released last week. Net Bills to be issued this quarter is estimated to be \$380bn. Net coupons to be issued this quarter is estimated to be \$634bn. Total net cash to be raised this quarter was revised higher to \$1.015tr (up from the \$703bn estimate in Q3).

As previously noted, the US Treasury will begin ‘modest reductions’ in nominal coupon securities auction sizes during Nov 21 to Jan 22. Seasonal or unexpected variations will be addressed via Bill auction sizes or CMB’s.

This approach reflects Treasury’s desire to preserve flexibility to adjust future financing plans in light of the remaining uncertainty in the fiscal outlook. Any additional issuance-size changes will be announced quarterly in subsequent refunding statements.

Nominal coupon changes – details can be [found here](#).

Debt Limit

The debt limit was increased on 14 Oct 21 and

Secretary Yellen stated in a letter to Congress on October 18, 2021 that the \$480 billion increase in the debt limit provided “a high degree of confidence that Treasury will continue to be able to finance the operations of the federal government through December 3, 2021.” The letter also stated that “it is imperative that Congress act to increase or suspend the debt limit in a way that provides longer-term certainty that the government will satisfy all its obligations.”

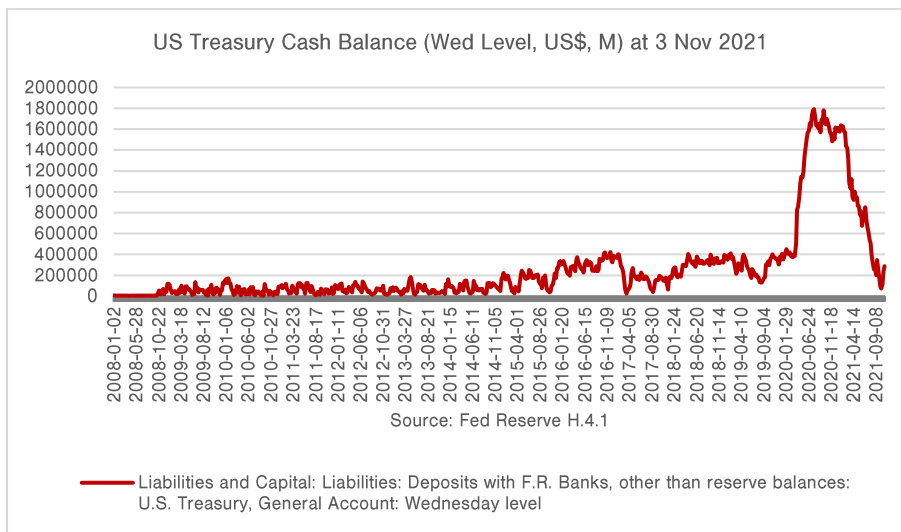
This increase in the debt limit enabled the Treasury to increase its cash balance. As we saw, this was via adhoc CMB's and some increases in Bill auction sizes. The supply of Bills is now expected to decline until the debt limit is resolved.

The 17-week (119-day) CMB will continue to be issued “at least” through the end of Jan 22.

<https://home.treasury.gov/system/files/221/TBACRecommendedFinancingTableQ42021-11032021.pdf>

The level of the TGA increased last week by \$50bn (after increasing by \$119bn in the prior week).

The balance of the TGA (3 Nov) was \$286.9bn. Since the start of 2021, the TGA balance has declined by \$1.32tr.



<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 new purchase schedule will be released on 12 Nov – the Treasuries purchase schedule below is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 8 Nov	2.025	4.739
Tue 9 Nov	1.225	5.953
Wed 10 Nov	3.225	4.737
Thur 11 Nov	n/a	n/a
Fri 12 Nov	Tbc	5.946
Total Announced Purchases	\$6.5bn (last week \$19.9bn)	\$21.4bn (last week \$27.3bn)

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 8 NOVEMBER 2021

MONDAY 8 NOVEMBER (US Eastern Time, unless stated otherwise)

US	Fed Chair Powell opening remarks – Gender and the Economy conference, Vice Chair Clarida – virtual panel discussion (At Taking Stock of the New Fed and ECB Monetary Policy Frameworks), Fed Governor Bowman speech
UK	BoE Governor Bailey speech

TUESDAY 9 NOVEMBER

Australia	NAB Business Conditions & Confidence Survey (Oct)
US	PPI (Oct), Fed Chair Powell opening remarks - Gender and the economy conference
Canada	BoC Governor Maklem speech
Europe	ECB President Lagarde speech
China	CPI & PPI (Oct)

WEDNESDAY 10 NOVEMBER

US	Mortgage Applications wk ending 5 Nov, Initial Jobless Claims (wk ending 6 Nov), Continuing Claims (wk ending 29 Oct), CPI (Oct)
Australia	Labour Market and Employment Survey (Oct)

THURSDAY 11 NOVEMBER

US	Veterans Day
UK	Q3 GDP

FRIDAY 12 NOVEMBER

China	Total Social Financing (Oct)
Europe	Eurozone Industrial Production (Sep)
US	JOLTS (Sep), University of Michigan Consumer Sentiment Prelim (Nov)
