

Key themes for the week ahead – US inflation, elevated virus uncertainty

This will be a quiet data week leading into the Holiday period. The key data highlight will be the monthly US PCE inflation data for Nov.

Uncertainty is elevated about the new virus variant. Cases have reached new pandemic highs in some places while restrictions have been reinstated in some countries (i.e., Europe).

This uncertainty comes amid a shift to a tightening bias among central banks. The BoE surprised last week with a 15bp increase in the bank rate to help address higher and more persistent inflation. The ECB remained more dovish but still announced the end of the emergency QE program for Mar 2022 (to be offset though by the regular APP until Q4 2022). The FOMC delivered as expected with a faster pace of taper, and likely ending QE in Mar 2022. This acceleration gives the FOMC flexibility to “better position policy”. The SEP showed a shift to three potential hikes in 2022. Quantitative tightening (QT) was then floated by Fed Governor Waller on Friday, who also suggested that the Mar 2022 meeting could be live for the first hike.

“It would take something like severe disruption from omicron to delay labor market improvement or keep unemployment from falling, to keep March from being a key date to think of for liftoff.” <https://www.bloombergquint.com/onweb/fed-s-waller-says-rate-hike-warranted-shortly-after-taper-ends>

For the US, the trend of the data over the intervening meeting period will be crucial to the timing of the first hike.

The prelim PMIs for Dec (released last week) showed a slowdown in growth momentum across manufacturing and services activity across the US, Eurozone, UK, Japan, and Australia. Most notable was the slowdown in services activity, especially in the UK and Europe.

US PCE Inflation

The US PCE price index data for Nov will be released this week. Headline PCE price growth is expected to increase to +5.6%, up from 5% in Oct. Income growth is expected to slow for the month to 0.2% (from +0.5% in Oct), and expenditure growth is expected to slow slightly to 1% (from 1.3% in Oct).

Other US data includes the final Dec release of the University of Michigan consumer sentiment data (expecting no change to the 70.4 headline index).

This week, the US Treasury will auction and settle approx. \$321bn in ST Bills, raising approx. \$127bn in new money for the week. The US Treasury will also auction 5yr TIPS and the 20yr Bond, both to settle next week. Approx. \$8bn in ST Bills will mature on the Fed balance sheet this week and will be rolled over.

US Treasury Issuance & QE

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Approx. \$8bn 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>25 Dec - Christmas Day</i>								
20-24 Dec	16-Dec	21-Dec	4 week bill	30			Actual 0.030%	0.030%
	16-Dec	21-Dec	8 week bill	25			Actual 0.50%	0.050%
	15-Dec	21-Dec	119-Day CMB	35			Actual 0.091%	0.090%
	17-Dec	21-Dec	23-Day CMB	60			Announced	n/a
				150	65	85		
	20-Dec	22-Dec	78-Day CMB	60	0	60	Announced	n/a
	20-Dec	23-Dec	13 week bill	60			Announced	0.055%
	20-Dec	23-Dec	26 week bill	51			Announced	0.130%
				111	129	-18		
			Total - securities settling this week	321	194	127		
			Net New Cash Raised Qtr to Date	3838	3224	614		
			<i>Estimated Net Cash to be Raised Q4</i>			1015		
			Fed SOMA - Face Value of SOMA securities maturing	\$ B				
		21-Dec	Bills	3.8				
		23-Dec	Bills	3.9				
				7.7				
			Upcoming Auctions					
	23-Dec	31-Dec	5yr TIPS	17		Announced		-1.685%
	22-Dec	31-Dec	20yr Bond	20		Announced		1.872%

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

Recommended US Treasury Financing Q4

The latest TBAC recommended US treasury financing schedule for Q4 has been released. 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 prior estimate).

As previously noted, the US Treasury will begin 'modest reductions' in nominal coupon securities auction sizes from Nov 21 to Jan 22. Seasonal or unexpected variations will be addressed via Bill auction sizes or CMBs.

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 and Government Funding

A short-term funding bill was passed into law, providing funding for the government until at least 18 Feb 2022.

Legislation was passed in the House and the Senate last week to increase the debt ceiling.

The Democrat's spending bill (social funding/Build Back Better) is currently at an impasse. The path of the Bill in the Senate is unclear without the support of Senator Manchin (D).

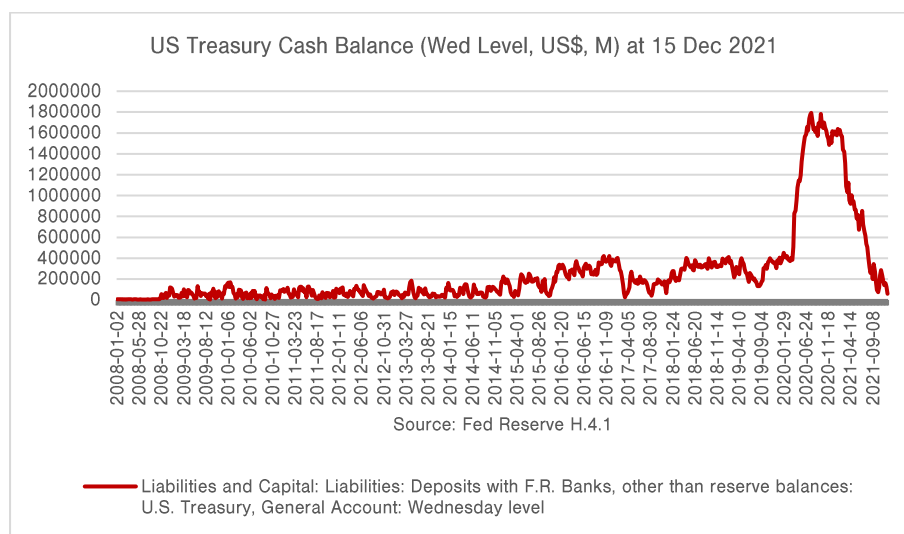
Source: [Bloomberg](#).

Treasury Cash Levels

The level of the TGA decreased last week by a further \$66bn (-\$34bn in the prior week also) when the Treasury pay-down was -\$118bn (unusually large).

The balance of the TGA (15 Dec) was \$58.3bn – a low for the YTD. In non-pandemic times, this is a low cash balance. But even prior to the pandemic, the last time the cash balance was lower (than at 15 Dec 2021) was in Sep 2017, then Mar 2017, and then prior to that, Oct 2015.

Since the start of 2021, the TGA balance has declined by \$1.8tr.



<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 next scheduled purchase of Treasury securities is 3 Jan 2022.

The next scheduled purchase of MBS is 27 Dec 2021.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 20 Dec	4.525	4.394
Tue 21 Dec	0.925	3.828
Wed 22 Dec	1.625	4.159
Thur 23 Dec	0	3.826
Fri 24 Dec	0	0
Total Announced Purchases	\$7.075bn (last week \$15.9bn)	\$16.2bn (last week \$21.5bn)

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/ambs_operation_schedule

WEEK COMMENCING 20 DECEMBER 2021

MONDAY 20 DECEMBER (US Eastern Time, unless stated otherwise)

Australia RBA Minutes

TUESDAY 21 DECEMBER

Japan BoJ Minutes

WEDNESDAY 22 DECEMBER

US Mortgage Apps wk 17 Dec, Chicago Fed National Activity Index (Nov), GDP Q3 –
Second Est, Existing Home Sales (Nov)

THURSDAY 23 DECEMBER

US Initial Claims wk 17 Dec, Monthly Personal Income, Expenditure, and Price Index
(Nov), Durable Goods Orders (Nov), University of Michigan Consumer Sentiment
Final (Dec), New Home Sales (Nov)

Japan National CPI (Nov)

FRIDAY 24 DECEMBER
