

## Key themes for the week ahead – US CPI and central bank policy decisions

The key data point this week will be US CPI on Friday. This will also be the first of two weeks of final central bank policy meetings for the year. Also note: the lead-up to the debt ceiling limit (estimated 15 Dec), finalizing the passage of the Democrats spending bill in the Senate, and some more firm direction on the risk level of the new covid variant.

### Central Banks & US CPI

**FOMC** - Testimony last week by US Fed Chair Powell outlined an explicit shift in policy approach. Chair Powell indicated that inflation is an issue such that it will now need to be addressed in order for the labour market to continue to recover;

“...to get back to the same labour market we had before the pandemic, we need a longer expansion. To get that, we are going to need price stability, the risk of persistent high inflation is a major risk to getting back to such a labour market...” (from 55min

<https://www.banking.senate.gov/hearings/cares-act-oversight-of-treasury-and-the-federal-reserve-building-a-resilient-economy>)

The tone of questioning in the Senate highlighted the political nature of the concern over the current inflation rate. The taper will likely be accelerated, finishing a few months earlier in 2022. Despite risks, the effect of the new variant will not be “remotely comparable” to Mar 2020. The FOMC meets next week on 14/15 Dec.

US data will maintain pressure on the FOMC next week. This week, annual US CPI growth is forecast to accelerate further, expecting +6.7% in Nov up from +6.2% in Oct. The monthly growth in the CPI for Nov is expected to be +0.7% versus +0.9% in Oct. Last week, non-farm payrolls growth disappointed notably for Nov at +210k versus +550k expected. The Sep and Oct non-farm payrolls were revised higher by +82k in total.

**The RBA** meets this week and policy settings are likely to remain unchanged. The RBA was forced to abandon its 3yr target at the last meeting. The RBA Board has continued to push back on more hawkish forecasts for rate increases in 2022 – expect that to continue. As previously announced, QE will be reviewed at the Feb 2022 meeting.

**The BoC** will also meet this week and policy settings are expected to remain unchanged. At its last meeting, the BoC ended QE and shifted to the reinvestment phase. Looking for signaling from the bank on the path of future rate changes – possibly earlier in 2022.

Next week will be a big week for central bank meetings: FOMC, ECB, BoE, and the BoJ.

This week, the US Treasury will auction and settle approx. \$223bn in ST Bills, raising approx. \$53bn in new money. The US Treasury will also auction \$112bn in 3yr and 10yr Notes and 30yr Bonds – that will settle next week. Approx. \$14bn 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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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
6-10 Dec	02-Dec	07-Dec	4 week bill	10			Actual 0.040%	0.125%
	02-Dec	07-Dec	8 week bill	25			Actual 0.045%	0.045%
	01-Dec	07-Dec	8-Day CMB	40			Actual 0.160%	n/a
	01-Dec	07-Dec	119-Day CMB	40			Actual 0.075%	0.070%
				115	65	50		
	06-Dec	09-Dec	13 week bill	57			Announced	0.050%
	06-Dec	09-Dec	26 week bill	51			Announced	0.090%
				108	105	3		
			<b>Total - securities settling this week</b>	<b>223</b>	<b>170</b>	<b>53</b>		
				<b>3227</b>	<b>2622</b>	<b>605</b>		
						<i>Estimated Net Cash to be Raised Q4</i>		1015
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ B</b>				
		07-Dec	Bills	4.7				
		09-Dec	Bills	9.8				
				14.5				
			<b>Upcoming Auctions</b>					
	07-Dec	15-Dec	3yr Note	54			Announced	0.750%
	08-Dec	15-Dec	10yr Note	36			Announced	1.444%
	09-Dec	15-Dec	30yr Bond	22			Announced	1.940%
				112	21.49	90.52		

<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 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

Last week another short-term funding bill was passed into law, providing funding until at least 18 Feb 2022, avoiding the threat of a shutdown.

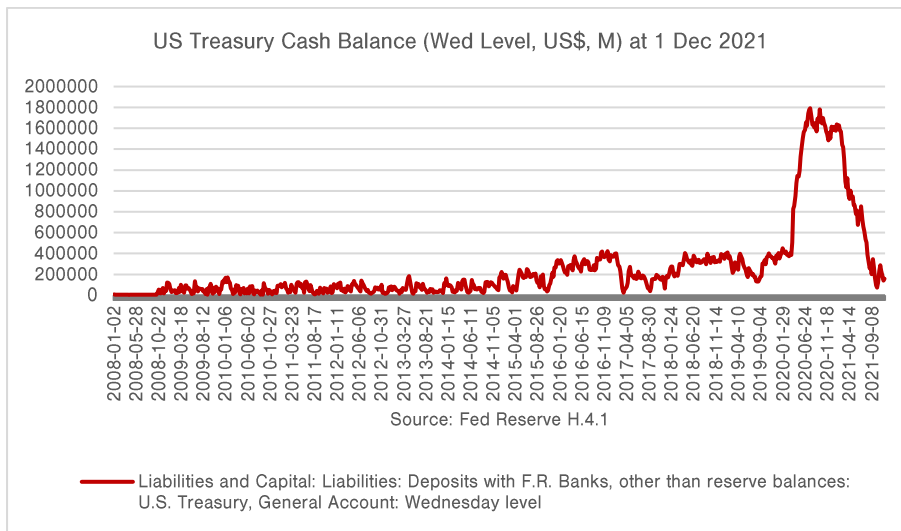
We are now approaching the time when debt ceiling solutions will need to be finalized. The US is expected to reach the debt limit around 15 Dec.

The Democrat's spending bill (social funding/Build Back Better) is now also in the Senate for approval.

## Treasury Cash Levels

The level of the TGA increased last week by \$18bn (after decreasing by \$38bn in the prior week).

The balance of the TGA (1 Dec) was \$159bn. Since the start of 2021, the TGA balance has declined by \$1.44tr.



<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

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 6 Dec	1.775	4.379
Tue 7 Dec	1.600	5.253
Wed 8 Dec	7.375	4.379
Thur 9 Dec	12.300	5.266
Fri 10 Dec	2.825	4.378
Total Announced Purchases	\$25.87bn (last week \$19.6bn)	\$23.65bn (last week \$24.9bn)

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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

# WEEK COMMENCING 6 DECEMBER 2021

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## MONDAY 6 DECEMBER (US Eastern Time, unless stated otherwise)

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n/a

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## TUESDAY 7 DECEMBER

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Australia House Price Index Q3, RBA Policy Meeting & Decision

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China Trade Balance, Exports, and Imports (Nov)

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Europe Germany Industrial Production (Oct), Euro Area GDP 2<sup>nd</sup> Prelim Q3

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US Consumer Credit Change (Oct)

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Japan GDP Q3 (Final)

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## WEDNESDAY 8 DECEMBER

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US Mortgage Applications wk ending 3 Dec, JOLTS (Oct)

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Canada BoC Policy Meeting & Decision

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Australia RBA Governor Lowe speech

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## THURSDAY 9 DECEMBER

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US Initial Claims wk ending 4 Dec

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China CPI & PPI (Nov)

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## FRIDAY 10 DECEMBER

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US CPI (Nov), University of Michigan Consumer Confidence Prelim (Dec)

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