

Key themes for the week ahead – US CPI, Fed nomination hearings, and US retail sales.

Last week, the Fed minutes signaled another shift from the FOMC to promote further steps in policy normalization. The timing and conditions for quantitative tightening (QT) or, balance sheet runoff, was discussed. There was a flavor of ‘this time is different’ concerning QT (the first QT program ended abruptly in Sep 2019) and would likely start much sooner after rates liftoff than in the prior cycle. The accelerated end to taper was seen as warranted with inflation exceeding forward guidance criteria. There were mixed views on full employment, but it was generally agreed that maximum employment criteria were not yet met, but would be soon. The accelerated end to taper now provides the FOMC with the flexibility for an earlier start to rates lift-off. Markets are pricing a higher probability for a Mar hike.

Later in the week, US non-farm payrolls growth for Dec disappointed. But in the five months to Dec, non-farm payrolls have been revised higher by +730k jobs (compared to the initial number announced from Jul to Nov). Labour market indicators continue to improve. Employment growth remained strong and the employment to population ratio is now 1.6%pts below the pre-pandemic peak. The participation rate was unchanged in Dec but had been revised higher for Nov to 61.9%. The unemployment rate fell below 4% to 3.9% (16yrs+).

The ISM surveys were disappointing for Dec. The services ISM eased more notably with slower output and orders growth. Firms noted continued price pressures. Manufacturing momentum also eased somewhat – especially the pace of price growth and supplier delivery times.

This week the focus will be on the important FOMC nomination hearings in the US senate for Chair Powell (Tue) and Governor Brainard (Thur). The last time Chair Powell testified, senators conveyed their concern about high inflation.

The US CPI for Dec will be released this week. CPI is expected to increase by 7% in Dec (up from 6.8% in Nov). The monthly increase is expected to ease to +0.4% (from +0.8% in Nov). Core CPI is expected to increase by 5.4% (up from +4.9% in Nov).

Also out this week will be US retail sales (expecting -0.1% in the month versus +0.3% in Nov) and the University of Michigan prelim consumer sentiment for Jan (expecting 70).

This week, the US Treasury will auction and settle approx. \$241bn in ST Bills, raising approx. \$23bn in new money. The US Treasury will also auction the 3yr and 10yr Notes and the 30yr Bond this week – to settle next week.

Approx. \$18.5bn in ST Bills will mature on the Fed balance sheet this week and will be rolled over.

Next Monday 17 Jan will be Martin Luther King Jr Holiday (US).

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		
10-14 Jan	06-Jan	11-Jan	4 week bill	50			Actual 0.050%	0.055%
	06-Jan	11-Jan	8 week bill	40			Actual 0.055%	0.055%
	05-Jan	11-Jan	119-Day CMB	40			Actual 0.150%	0.125%
				130	65	65		
	10-Jan	13-Jan	13 week bill	60			Announced	0.090%
	20-Feb	13-Jan	26 week bill	51			Announced	0.220%
				111	153	-42		
			Total - securities settling this week	241	218	23		
			Net New Cash Raised Qtr to Date	482	379	103.0		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			476		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		11-Jan	Bills	6.3				
		13-Jan	Bills	12.5				
				18.9				
			Upcoming Auctions					
	11-Jan	18-Jan	3yr note	52			Announced	1.000%
	12-Jan	18-Jan	10yr note	36			Announced	1.518%
	13-Jan	18-Jan	30yr bond	22			Announced	1.895%
				110	70.9	39.1		

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

Recommended US Treasury Financing Q1 - 2022

The forecast US Treasury financing schedule for Q1 (released in Nov 2021) estimated net cash to be raised in Q1 of \$476bn. This was the result of a -\$31bn paydown in Bills and +\$507bn of new money to be raised in Coupon issuance for the quarter. The Democrats spending bill is yet to be finalised, so this financing estimate is likely out of date. The next quarterly refunding documents will be released on 2 Feb 2022.

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

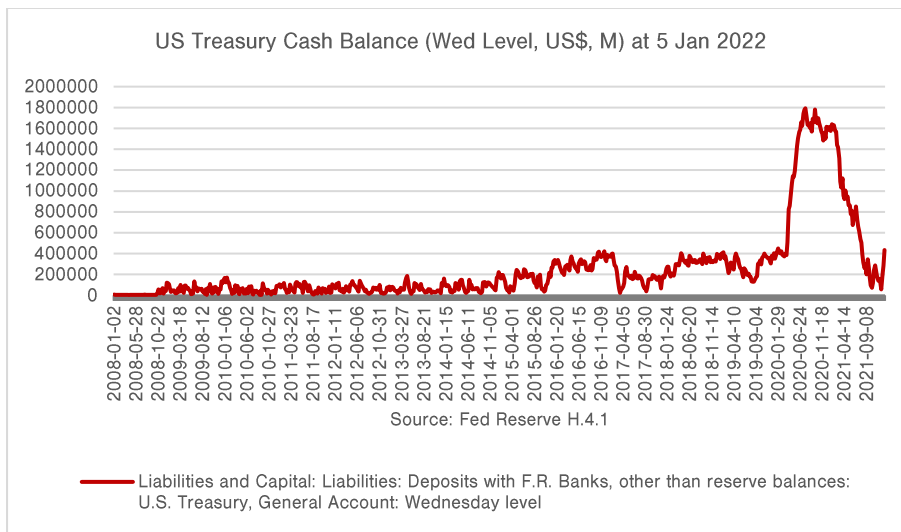
A short-term funding bill was passed into law, providing funding for the government until at least 18 Feb 2022.

The Democrat's spending bill (social funding/Build Back Better) remains 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 increased in the first week of 2022 by +\$150bn (after increasing by +\$86bn in the prior week). The TGA balance increased to \$434bn (Wed level 5 Jan).

Since the start of 2021, the TGA balance has declined by \$1.17tr.



<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 operation schedule will be released on 13 Jan 2022 – the table below is incomplete as of 10 Jan 2022.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 10 Jan	2.425	4.471
Tue 11 Jan	6.150	3.662
Wed 12 Jan	1.825	4.477
Thur 13 Jan	6.325	4.462
Fri 14 Jan	Tbc	Tbc
Total Announced Purchases	\$16.7bn (last week \$22.3bn)	\$17.1bn (last week \$19.9bn)

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

WEEK COMMENCING 10 JANUARY 2022

MONDAY 10 JANUARY (US Eastern Time, unless stated otherwise)

Australia	Retail Sales (Nov)
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TUESDAY 11 JANUARY

US	Fed Chair Powell – Nomination Hearing (Senate) Fed speeches – Governor’s Mester and George
China	CPI (Dec), PPI (Dec)

WEDNESDAY 12 JANUARY

US	Mortgage Apps wk ending 7 Jan, CPI (Dec)
Europe	Eurozone Industrial Production (Nov)

THURSDAY 13 JANUARY

US	Initial Claims wk ending 7 Jan, PPI (Dec) Fed Governor Brainard – Nomination Hearing (Senate)
Australia	Housing Lending Finance (Nov)
China	Exports & Imports (Dec)

FRIDAY 14 JANUARY

US	Retail Sales (Dec), Industrial Production (Dec), University of Michigan Consumer Sentiment Prelim (Jan) Fed speech - Governor Williams
Europe	ECB President Lagarde speech
