

Key themes for the week ahead – global inflation, central banks, US housing data

This will be a short week in the US with the National holiday for the birthday of Martin Luther King Jr on Monday. The annual WEF gathering at Davos was due to take place this week and has been replaced by a series of virtual sessions between 17-22 Jan.

Last week, US CPI increased at an expected pace of 7.1% in Dec – the fastest pace of consumer price inflation since the early '80s. Inflation remained high for essentials such as food, shelter, and energy. Consumer sentiment for Jan was disappointing, falling to a new low since the GFC, on inflation and expected falls in real income. US retail sales missed badly for Dec – and the result was worse accounting for inflation. Sales fell across most categories due to pulling forward of holiday sales (Oct), lack of inventory, and/or some effect from the latest round of the pandemic.

Markets now reflect a higher probability that rate hikes will start in Mar. Fed speeches also signaled a more aggressive approach to QT – such as the possibility of outright sales of Fed holdings (rather than a roll-off). The US yield curve still finished the week at the equal flattest level for the YTD (both 2's-10's and 5's-30's).

Central Banks - This week, the BoJ meets on policy. With inflation at relatively low levels, no change to policy is expected. However, there is a possibility of a change in wording around inflation risks. A small (by global standards) lift in CPI has reportedly triggered “hints of public discontent” ([Bloomberg](#)). The ECB Dec minutes will be released this week and ECB President Lagarde will speak at a virtual Davos session on Friday. The US FOMC meets next week with the speech blackout taking effect this week.

Global Inflation - CPI for Dec will be reported this week across other major economies. Headline expectations: UK (expecting +5%), Canada (expecting +4.7%), Eurozone (expecting 5%), and Japan (prior +0.6%).

US Housing - US mortgage application data highlights the rising mortgage rate environment affecting refinance activity. Data this week: existing home sales for Dec are expected to fall slightly to 6.43m (SAAR). Housing inventory will be a key highlight of the report. Also, building permits; expecting 1.7m, and housing starts; expecting 1.65m (both SAAR-basis).

Other - The Aus labour market survey for Dec will be released. Employment is expected to increase by +30k, participation is expected to increase to 66.2%, and the unemployment rate is expected to fall to 4.5%. The Nov data last week was strong for retail sales and housing finance. This all reflects the positive impact of reopening. This week, the Westpac consumer sentiment for Jan will highlight any impact on sentiment from this latest outbreak.

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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 %
17 Jan - National Martin Luther King, Jr Day								
17 Jan - 21 Jan	13-Jan	18-Jan	4 week bill	50			Actual 0.040%	0.050%
	13-Jan	18-Jan	8 week bill	40			Actual 0.050%	0.055%
	12-Jan	18-Jan	119-Day CMB	40			Actual 0.200%	0.150%
				130	85	45		
	18-Jan	20-Jan	13 week bill	60			Announced	0.120%
	18-Jan	20-Jan	26 week bill	51			Announced	0.275%
				111	99	12		
	11-Jan	18-Jan	3yr note	52			Actual 1.237%	1.000%
	12-Jan	18-Jan	10yr note	36			Actual 1.723%	1.518%
	13-Jan	18-Jan	30yr bond	22			Actual 2.075%	1.895%
				110	70.9	39		
			Total - securities settling this week	351	255	96		
			Net New Cash Raised Qtr to Date	833	634	199		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			476		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		15-Jan-22	Notes & Bonds	7.3				
		18-Jan-22	Bills	7.7				
		20-Jan-22	Bills	13.7				
				28.8				
			Upcoming Auctions:	\$Bn				
	20-Jan	31-Jan	10yr TIPS	16			Announced	-1.145%
	19-Jan	31-Jan	20yr Bond	20			Announced	1.942%
				36				

<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 finalized, 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

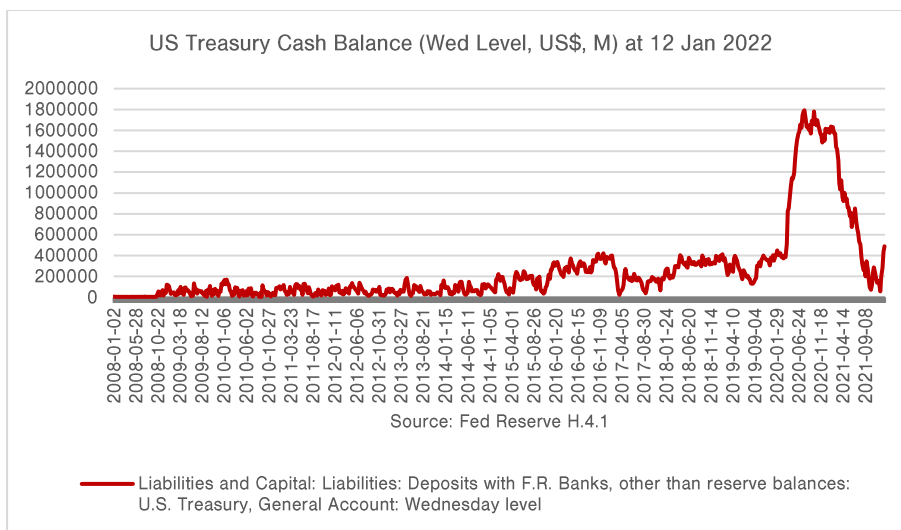
A short-term funding bill was passed into law, providing funding for the government until at least 18 Feb 2022.

The Democrat's spending bill (social funding/Build Back Better) remains at an impasse. The bill is not likely to pass in its current format. However, certain core components of the bill (especially those components that “reduce inflation”) will likely become the focus for the Democrats.

Treasury Cash Levels

The level of the TGA increased by a further \$55bn as of Wed 12 Jan (after increasing by +\$150bn in the prior week). The TGA balance increased to \$489bn (Wed level 12 Jan).

Since the start of 2021, the TGA balance has declined by \$1.11tr.



<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 17 Jan	Holiday	Holiday
Tue 18 Jan	6.025	3.353
Wed 19 Jan	0	3.521
Thur 20 Jan	1.625	3.353
Fri 21 Jan	12.425	3.739
Total Announced Purchases	\$20.1bn (last week \$16.7bn)	\$13.9bn (last week \$20.8bn)

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 17 JANUARY 2022

MONDAY 17 JANUARY (US Eastern Time, unless stated otherwise)

US	National Holiday - MLK Jr Day
China	(Sunday night) GDP Q4, Industrial Production (Dec), Retail Sales (Dec), PBoC Rate Cut
Japan	Industrial Production – Final (Nov) BoJ Policy Decision

TUESDAY 18 JANUARY

US	NY Empire State Manufacturing Index (Jan), NAHB Housing Market Index (Jan)
Australia	Westpac Consumer Sentiment (Jan)

WEDNESDAY 19 JANUARY

US	Mortgage Apps wk ending 14 Jan, Building Permits (Dec), Housing Starts (Dec)
UK	CPI (Dec), BoE Governor Bailey Speech
Canada	CPI (Dec)
Japan	Merchandise Trade Balance, Exports, and Imports (Dec)
Australia	Labour Market Survey (Dec)

THURSDAY 20 JANUARY

US	Initial Claims wk ending 14 Jan, Philadelphia Fed Manufacturing Survey (Jan), Existing Home Sales (Dec)
Europe	Eurozone CPI – Final (Dec), ECB Minutes (Dec meeting)
Japan	National CPI (Dec), BoJ Minutes (Dec meeting)

FRIDAY 21 JANUARY

Europe	ECB President Lagarde speech – this is participation in a virtual plenary session of “The Global Econ Outlook” at Davos (run as a virtual event).
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