

Key themes for the week ahead – FOMC, inflation, and growth momentum amid the latest outbreak

This will be a big week of economic data and central bank meetings.

The focus will be on the FOMC monetary policy meeting. The FOMC is expected to confirm the end of QE (end of tapering) in Mar. At the Dec meeting, Chair Powell noted that the earlier conclusion of QE/tapering was intended to provide the FOMC with the flexibility to adjust policy, especially given more persistent inflation. We expect some signalling on the timing for a rates lift-off – possibly Mar. Speeches by various Fed officials have supported a Mar timing for the first hike and the end of QE in Mar opens the way for the Fed to commence hiking. The FOMC is also expected to provide further details of QT (pace and timing).

The BoC meets this week. At the last meeting, policy guidance suggested mid-2022 for rates lift-off. Canada CPI data for Dec came in softer for the month with MoM CPI recording a slight fall of -0.1% led by lower gasoline prices. Annual CPI growth accelerated to +4.8%.

Next week the RBA, BoE, and ECB will meet on monetary policy.

Inflation data will remain in focus this week. The US PCE price index growth is expected to accelerate to +6.1% in Dec from +5.7% in Nov. The US employment cost index will be an important barometer of wage pressure. The index is expected to increase at a slightly slower pace of 1.2% in Q4 (from +1.3% in Q3).

Both Aus and NZ Q4 CPI data will be released this week. Aus CPI is expected to have accelerated in Q4 to 3.2% (from +3% in Q3). The QoQ CPI growth is also expected to accelerate to 1% in Q4 from +0.8% in Q3. Faster inflation will place greater pressure on the RBA to review its rate hike timing (currently 2023) – especially after the strong Dec labour force report and a potentially earlier FOMC hike. The latest omicron impact (PMI services back into contraction in Jan) is likely to be viewed as a short-term disruption.

Growth momentum is likely to have slowed amid the omicron outbreak. The prelim Jan PMIs for the major economies will highlight the extent of the impact of the omicron outbreak, especially on services. So far, Aus & Japan services PMIs recorded a sharp contraction in Jan.

US GDP in Q4 is expected to increase by 5.5% (SAAR basis) after slower growth in Q3 of +2.3%. There has been some softening of US data toward the end of Q4 – especially in terms of personal expenditure. PCE spending is expected to decline by -0.6% in Dec (in line with the weaker Dec retail sales).

Weaker economic conditions are expected to be reflected in Europe for Q4; GDP in Germany is expected to contract by -0.2% in Q4.

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FRN this week – which will settle on 31 Jan. Approx. \$26bn 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 %
24-28 Jan	20-Jan	25-Jan	4 week bill	50			Actual 0.040%	0.040%
	20-Jan	25-Jan	8 week bill	40			Actual 0.085%	0.050%
	19-Jan	25-Jan	119-Day CMB	40			Actual 0.275%	0.200%
				130	105	25		
	24-Jan	27-Jan	13 week bill	60			Announced	0.170%
	24-Jan	27-Jan	26 week bill	51			Announced	0.365%
	25-Jan	27-Jan	52 week bill	34			Announced	
				145	139	6		
			Total - securities settling this week	275	244	31		
			Net New Cash Raised Qtr to Date	1108	878	230		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			476		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		25-Jan	Bills	8.0				
		27-Jan	Bills	17.6				
				25.7				
			Upcoming Auctions:	\$Bn				
	24-Jan	31-Jan	2yr Note	54			Announced	
	26-Jan	31-Jan	2yr FRN	26			Announced	
	25-Jan	31-Jan	5yr Note	55			Announced	
	26-Jan	31-Jan	7yr Note	53			Announced	
				188				

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

Recommended US Treasury Financing Q1 - 2022

The next quarterly refunding documents will be released next week on 2 Feb 2022. The current forecast for US Treasury financing in 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 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](#).

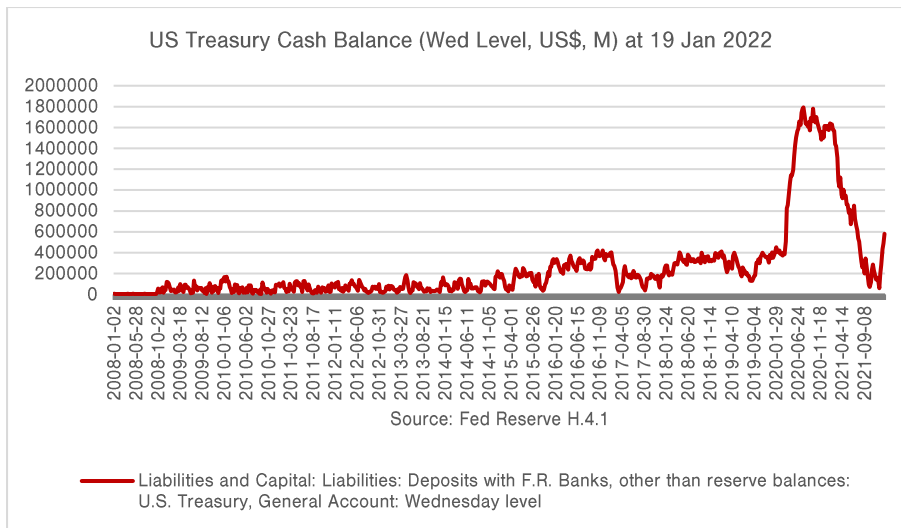
Debt Limit and Government Funding

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 will likely become the focus for the Democrats to pass.

Treasury Cash Levels

The level of the TGA increased by a further \$90bn as of Wed 19 Jan (after increasing by +\$55bn in the prior week). The TGA balance increased to \$580bn (Wed level 19 Jan).



<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 24 Jan	0	3.799
Tue 25 Jan	2.025	3.353
Wed 26 Jan	0	3.739
Thur 27 Jan	1.825	3.353
Fri 28 Jan	0	3.517
Total Announced Purchases	\$3.85bn (last week \$20.1bn)	\$17.76bn (last week \$13.9bn)

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 24 JANUARY 2022

MONDAY 24 JANUARY (US Eastern Time, unless stated otherwise)

Australia	(Sunday night) Prelim Manufacturing & Services PMI (Jan)
Japan	(Sunday night) Prelim Manufacturing & Services PMI (Jan)
Europe	Eurozone Prelim Manufacturing & Services PMI (Jan)
UK	Prelim Manufacturing & Services PMI (Jan)
US	Chicago Fed National Activity Index (Dec), Prelim Manufacturing & Services PMI (Jan), Dallas Fed Manufacturing Survey (Jan)
Australia	CPI Q4

TUESDAY 25 JANUARY

US	Case/Shiller House Price Index (Nov), Richmond Fed Manufacturing Survey (Jan)
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WEDNESDAY 26 JANUARY

US	Mortgage Apps wk ending 21 Jan, New Home Sales (Dec) FOMC Monetary Policy Decision
Canada	BoC Monetary Policy Decision
NZ	CPI Q4

THURSDAY 27 JANUARY

US	Initial Claims wk ending 21 Jan, Durable Goods Orders (Dec), Prelim GDP Q4, Pending Home Sales (Dec), Kansas City Fed Manufacturing Survey (Jan)
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FRIDAY 28 JANUARY

US	PCE, Income, and Prices - Monthly (Dec), Employment Cost Index Q4, University of Michigan Consumer Sentiment - Final (Jan)
Europe	Germany GDP Q4
