MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 31 January 2022

Key themes for the week ahead – central bank meetings and US non-farm payrolls

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

Recap – Last week, the FOMC announced the end of QE in Mar (end of tapering) and signaled that it would be appropriate to start rising the FFR target soon. Over the weekend, the Atlanta Fed President noted that a more aggressive approach to increases was possible "if warranted by the economic data". A separate note was released after the meeting outlining the broad principles of QT. The PCE price index growth for Dec came in below forecast at 5.8%, but still ahead of the Nov rate of 5.7% while monthly growth remained elevated at 0.45%. Annual core PCE price growth accelerated to 4.85%. GDP growth accelerated more than expected in Q4 led by a notable contribution from a larger change in inventories.

The BoC kept rates unchanged, but "decided to end its extraordinary commitment to hold its policy rate at the effective lower bound". The bank is signaling that rates will be "on a rising path".

Central Bank Meetings – The RBA is expected to keep rates on hold and will possibly announce the end of QE/tapering. CPI growth was higher than expected, but core CPI remains within the 2-3% band. Current strong labour market conditions are expected to ease given the latest outbreak. The RBA may signal rate increases to start this year, rather than in 2023, but it is likely the RBA would prefer to see wage growth increase first.

The BoE is expected to hike rates again and may announce its program to start reducing its balance sheet. We haven't seen a situation when multiple CBs are reducing balance sheets at the same time.

The ECB is expected to keep rates on hold with no change in current settings. CPI growth remains more moderate excluding energy. Last week, Q4 GDP was slower across major economies and the German economy contracted by more than forecast in Q4.

US Non-Farm Payrolls – This week US non-farm payrolls are expected to increase by a more moderate +155k jobs (versus +199k in Dec). There has been some easing of momentum in Jan, especially in services and some regional manufacturing surveys (the latest outbreak is impacting staffing and output). Wage pressures eased more than expected in Q4 with the employment cost index increasing by 1% (versus 1.3% in Q3). This month, the participation rate is expected to fall slightly from 61.9% to 61.8% but the unemployment rate is expected to remain at 3.9%. The more detailed ISM surveys for US manufacturing and services activity will also be released for Jan this week. Both surveys are expected to show slightly slower growth momentum for the month.

This week, the US Treasury will auction and settle approx. $465bn in ST Bills, Notes, Bonds, TIPS, and FRNs, raising approx. $121bn in new money. Approx. $55bn in ST Bills, Notes, FRNs, and Bonds will mature on the Fed balance sheet this week and will be rolled over. The US Treasury will also release the latest financing schedules on 2 Feb.

US Treasury Issuance & QE

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
31Jan-4 Feb	27-Jan	01-Feb	4 week bill	50			Actual 0.035%	0.040%
	27-Jan	01-Feb	8 week bill	40			Actual 0.140%	0.085%
	26-Jan	01-Feb	119-day CMB	40			Actual 0.280%	0.275%
				130	105	25		
	31-Jan	03-Feb	13 week bill	60			Announced	0.190%
	31-Jan	03-Feb	26 week bill	51			Announced	0.380%
				111	105	6		
	24-Jan	31-Jan	2yr Note	54			Actual 0.990%	0.769%
	26-Jan	31-Jan	2yr FRN	26			Actual -0.015% (high disc	0.030%
	25-Jan	31-Jan	5yr Note	55			Actual 1.533%	1.263%
	26-Jan	31-Jan	7yr Note	53			Actual 1.769%	1.480%
	20-Jan	31-Jan	10yr TIPS	16			Actual -0.540%	-1.145%
	19-Jan	31-Jan	20yr Bond	20			Actual 2.210%	1.942%
				224	134	90		
		Total - securities settling this week		465	344	121		
		Net New Cash Raised Qtr to Date		***1573***	***1222***	***351***		
		Estimated Net Cash to be Raised Q1 ($ Bn)				***476***		
	Fed SOMA - Face Value of SOMA securities maturing			**$B**				
		31-Jan	Notes & Bonds	31.2				
		31-Jan	FRNs	2.3				
		01-Feb	Bills	6.0				
		03-Feb	Bills	15.3				
				54.7				

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

Recommended US Treasury Financing Q1 - 2022

The next quarterly refunding documents will be released this week 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 to change.

Nominal coupon changes – details can be found here.

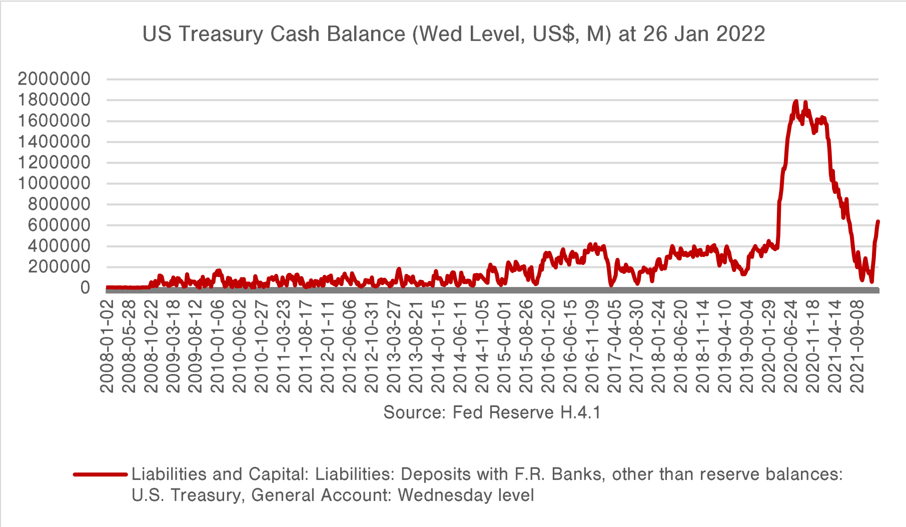
Debt Limit and Government Funding

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 $59bn as of Wed 26 Jan (after increasing by +$90bn in the prior week). The TGA balance increased to $639bn (Wed level 26 Jan).



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&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 31 Jan	8.425	3.663
Tue 1 Feb	1.225	3.429
Wed 2 Feb	0	3.571
Thur 3 Feb	1.625	3.425
Fri 4 Feb	0	3.663
Total Announced Purchases	$11.3bn (last week $3.8bn)	$17.75bn (last week $17.7bn)

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 31 JANUARY 2022

MONDAY 31 JANUARY (US Eastern Time, unless stated otherwise)	
Europe	GDP Prelim Q4
US	Chicago PMI (Jan), Dallas Fed Manufacturing Survey (Jan)
Australia	Markit Manufacturing PMI Final (Jan), Housing Finance (Dec), Retail Trade (Dec) RBA Monetary Policy Decision
Japan	Markit Manufacturing PMI Final (Jan)

TUESDAY 1 FEBRUARY	
Europe	Eurozone Markit Manufacturing PMI Final (Jan)
US	ISM Manufacturing PMI (Jan), Markit Manufacturing PMI Final (Jan), JOLTS, Vehicle Sales (Jan)
Australia	RBA Governor Lowe - speech

WEDNESDAY 2 FEBRUARY	
US	Mortgage Apps wk ending 28 Jan, ADP Employment Change (Jan)
Europe	Eurozone CPI Prelim (Jan)
Australia	Markit Services and Composite PMI Final (Jan)
Japan	Markit Services and Composite PMI Final (Jan)

THURSDAY 3 FEBRUARY	
US	Initial Claims wk ending 28 Jan, Challenger Job Cuts Report (Jan), Ism Services PMI (Jan), Markit Services PMI Final (Jan), Factory Orders (Dec)
Europe	Eurozone Markit Services and Composite PMI Final (Jan) ECB Monetary Policy Decision
UK	BoE Monetary Policy Decision

FRIDAY 4 FEBRUARY	
Europe	Germany Factory Orders (Dec), Eurozone Retail Sales (Dec)
US	Non-Farm Payrolls (Jan) exp +150k, and Employment Report (Jan)