

## Key themes for the week ahead – FOMC Minutes, US Non-Farm Payrolls, and Dec PMI's

In our last outlook note for 2021, we said that the trend of US data over the intervening FOMC meeting period will be important to the timing of the first US rate hike. This is especially relevant as inflation continues to trend above target and the economy continues to rebound from the pandemic.

To Recap - The last FOMC decision in Dec was in line with expectations for a faster taper and possible earlier liftoff in rates. Later, Governor Waller suggested that quantitative tightening (QT) might be under consideration and the Mar 2022 FOMC meeting could be live for the first hike.

“It would take something like severe disruption from omicron to delay labor market improvement or keep unemployment from falling, to keep March from being a key date to think of for liftoff.” <https://www.bloomberquint.com/onweb/fed-s-waller-says-rate-hike-warranted-shortly-after-taper-ends>

Since our last note, PCE inflation for Nov came in higher than expected at 5.7% while Oct inflation was also revised higher. The continued high pace of the monthly PCE inflation (expecting +0.2% growth in Nov – actual +0.6%) will likely remain a concern. Uncertainty has also been elevated about the rapid spread of the new virus variant and the potential impact on the economy.

FOMC Minutes - The minutes of that last FOMC meeting will be released this week. The key points will be around the extent of the discussion for an earlier rates lift-off and QT.

US Non-Farm Payrolls - This week, the Dec US non-farm payrolls will be released. Unless there is a 'severe disruption' to either payrolls growth or the reduction in unemployment, the FOMC is likely to remain on target (at least) for an earlier end to taper. The growth in non-farm payrolls is expected to be +400k in Dec (prior actual +210k). The participation rate will also be a key data point – the Nov participation rate was 61.8% (16yrs+).

PMIs Dec - The final Dec Markit PMI's will be released this week. The prelim Dec PMIs highlighted a general deceleration in momentum going into Dec 2021 – especially across Europe and UK services sectors. The US ISM PMI's will be released this week. Momentum across services and manufacturing is expected to decelerate somewhat but remain elevated. Headline ISM manufacturing PMI (Dec) expected 60.4 (prior 61.1) and services PMI (Dec) expected 67.2 (prior 69.1). Prices, lead times, inventory, and demand will be key metrics.

This week, the US Treasury will auction and settle approx. \$241bn in ST Bills, raising approx. \$80bn in new money for the first week of Q12022.

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

## US Treasury Issuance & QE

This week, the US Treasury will auction and settle approx. \$241bn in ST Bills, raising approx. \$80bn in new money for the first week of Q12022.

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

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
3-7 Jan 2022	30-Dec	04-Jan	4 week bill	50			Actual 0.055%	0.040%
	30-Dec	04-Jan	8 week bill	40			Actual 0.055%	0.050%
	29-Dec	04-Jan	119-Day CMB	40			Actual 0.125%	0.110%
				130	65	65		
	03-Jan	06-Jan	13 week bill	60			Announced	
	03-Jan	06-Jan	26 week bill	51			Announced	
				111	96	15		
			<b>Total - securities settling this week</b>	<b>241</b>	<b>161</b>	<b>80</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>241</b>	<b>161</b>	<b>80</b>		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			<b>476</b>		
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ Bn</b>				
		04-Jan-22	Bills	4.7				
		06-Jan-22	Bills	13.8				
				18.5				

<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 in new money 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.

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 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

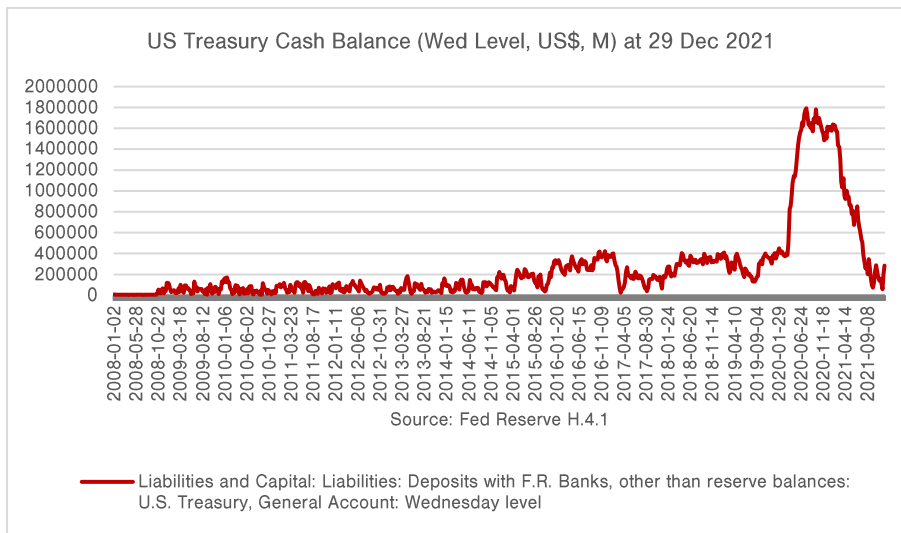
A short-term funding bill was passed into law, providing funding for the government until at least 18 Feb 2022.

The Democrat's spending bill (social funding/Build Back Better) is currently 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 final two weeks of 2021 by +\$226bn. The TGA balance increased from a recent low of \$58bn (Wed level 15 Dec) to \$ \$284bn (Wed level 29 Dec).

Since the start of 2021, the TGA balance has declined by \$1.32tr.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H4.1&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 3 Jan	6.325	3.660
Tue 4 Jan	1.525	4.472
Wed 5 Jan	4.250	3.660
Thur 6 Jan	0.925	4.477
Fri 7 Jan	9.325	3.660
Total Announced Purchases	\$22.3bn (last week \$0bn)	\$19.9bn (last week \$15.2bn)

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

## WEEK COMMENCING 3 JANUARY 2022

---

### MONDAY 3 JANUARY (US Eastern Time, unless stated otherwise)

---

Europe	Eurozone Markit Manufacturing PMI Final (Dec)
--------	---

---

US	Markit Manufacturing PMI Final (Dec)
----	--------------------------------------

---

Australia	Markit Manufacturing PMI Final (Dec)
-----------	--------------------------------------

---

Japan	Markit Manufacturing PMI Final (Dec)
-------	--------------------------------------

---

---

### TUESDAY 4 JANUARY

---

US	OPEC meeting, ISM Manufacturing PMI (Dec), JOLTS (Nov), Vehicle Sales (Dec)
----	---

---

---

### WEDNESDAY 5 JANUARY

---

US	Mortgage Apps wk ending 31 Dec, ADP Employment Change (Dec), Markit Services PMI Final (Dec) FOMC Minutes
----	--

---

Europe	Eurozone Services PMI Final (Dec)
--------	-----------------------------------

---

Australia	Markit Services PMI Final (Dec)
-----------	---------------------------------

---

Japan	Markit Services PMI Final (Dec)
-------	---------------------------------

---

---

### THURSDAY 6 JANUARY

---

US	Initial Claims wk ending 31 Dec, Challenger Job Cuts (Dec), Factory Orders (Nov), ISM Services PMI (Dec)
----	--

---

---

### FRIDAY 7 JANUARY

---

Europe	Euro Area CPI Prelim (Dec), Eurozone Retail Sales (Nov)
--------	---

---

US	Non-Farm Payrolls (Dec) exp +400k (prior 210k), Consumer Credit (Nov)
----	---

---