MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 21 February 2022

Key themes for the week ahead – US PCE Inflation data, Fed speak, continued geopolitical headline risk

Recap from last week - We noted last week that 'fed speak' would be prominent in the lead-up to the next FOMC meeting. Over the next three weeks, the question remains: is the Fed preparing markets for more or less aggressive tightening?

The FOMC minutes noted that members "expected" that it would soon be appropriate to raise the target range. The probability of a Mar rate lift-off looks likely. Several members had favoured ending QE earlier than Mar to signal a stronger commitment to bringing down inflation – this did not happen. Inflation risks were seen as tilted to the upside. QT: "conditions would likely warrant" beginning to reduce the size of the balance sheet "sometime later this year". Also noted was that "if inflation does not move down as expected, it would be appropriate for the committee to remove accommodation at a faster pace than they currently anticipate".

Coming into last week, markets were pricing the possibility of a 50bps increase at the Mar meeting after the Jan CPI. Speeches through the week have dampened that idea for the moment – citing the risk of unduly tightening financial conditions. At the very least, markets are expecting a 25bps increase in the FFR target range at the Mar meeting. This is still a fluid situation and US inflation data this week will be another important input for the Mar meeting.

US data remained solid last week – especially the Jan retail sales result led by non-store and motor vehicle sales (although Dec was revised lower). US PPI also surprised to the upside (with little impact on markets).

The week ahead - Geopolitical headline risk remains heightened.

Fed speak will continue with FOMC members Governor Waller, Cleveland President Mester, and Governor Bowman speaking this week.

US PCE inflation data will be released this week – the FOMC preferred measure of inflation. Headline PCE inflation is expected to increase by +5.5% in Jan from +5.8% in Dec. Monthly PCE inflation is also expected to ease to +0.3% from +0.4% in Dec.

The global prelim PMIs for Feb will be released this week providing insight into the rebound in global growth.

The RBNZ will also meet this week and is expected to increase the official cash rate by 25bps to 1%.

The Aussie Wage Price Index for Q4 is expected to increase by +0.7% QoQ/+2.4% YoY. This would be above current RBA forecasts of +2.25% YoY. This will be an important data point for the RBA as it looks for evidence of a higher trend in wage and inflation growth over the next several quarterly wage and CPI releases as it considers the case for earlier rate hikes.

US Treasury Issuance & QE

This week, the US Treasury will auction and settle approx. $297bn in ST Bills and 2-year FRN, raising approx. $28bn in new money.

The US Treasury will also auction the 2-year, 5-year, and 7-year Notes this week which will settle on 28 Feb.

Approx. $21bn 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 $B		Prior Auction High Rate %
21 Feb - Washington's Birthday/President's Day Holiday								
21-25 Feb	17-Feb	22-Feb	4 week bill	50			Actual 0.080%	0.020%
	17-Feb	22-Feb	8 week bill	40			Actual 0.250%	0.250%
	16-Feb	22-Feb	119-day CMB	40			Actual 0.055%	0.430%
				130	130	0		
	22-Feb	24-Feb	13 week bill	60			Announced	0.440%
	22-Feb	24-Feb	26 week bill	51			Announced	0.770%
	22-Feb	24-Feb	52 week bill	34			Announced	0.630%
				145	139	6		
	23-Feb	25-Feb	2yr FRN	22			Announced	-0.015% (HDM)
				22	0	22		
			Total - securities settling this week	297	269	28		
			Net New Cash Raised Qtr to Date	***2462***	***1971***	***491***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***729***		
			Fed SOMA - Face Value of SOMA securities maturing	**$B**				
		22-Feb	Bills	6.2				
		24-Feb	Bills	14.7				
				20.9				
	Upcoming Auctions:							
	22-Feb	28-Feb	2yr Note	52			Announced	0.990%
	23-Feb	28-Feb	5yr Note	53			Announced	1.533%
	24-Feb	28-Feb	7yr Note	50			Announced	1.769%
				155.0				

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

Recommended US Treasury Financing Q1 - 2022

The latest quarterly refunding forecast for US Treasury financing in Q1; total estimated net cash to be raised in Q1 of $729bn. This includes +$220bn of net Bills issuance and +$508bn of net Coupon issuance for the quarter.

Nominal coupon changes – details can be found here.

The next quarterly refunding announcement will be made on 4 May 2022.

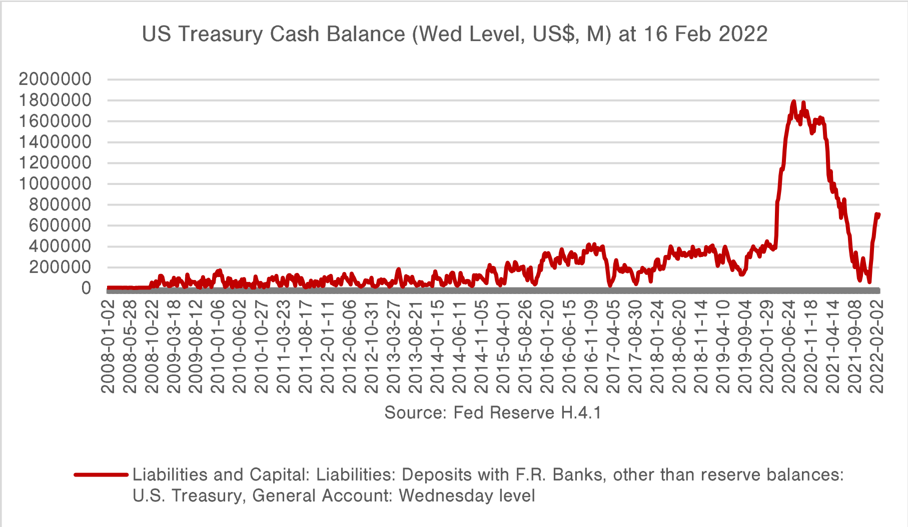
Debt Limit and Government Funding

The US House of Reps and the Senate passed a temporary government funding bill. The bill will extend government funding until 11 Mar 2022 allowing for negotiations to continue over the next three weeks.

> Appropriators hope the three-week funding extension will give them enough time to craft a spending plan that goes through the end of the fiscal year on Sept. 30. They failed to strike a long-term deal before the Feb. 18 deadline.
>
> "We are close to reaching a framework government funding agreement, but we will need additional time to complete the legislation in full," House Appropriations Committee Chair Rep. Rosa DeLauro, D-Conn., said in a statement Monday. Source: https://www.cnbc.com/2022/02/08/government-shutdown-house-passes-funding-bill.html
>
> House-Senate negotiations on a spending deal likely would appropriate around $1.5 trillion in "discretionary" funds for an array of government programs, including those administered by the Pentagon, the Environmental Protection Agency, State Department and other Cabinet-level departments. Source: https://www.cnbc.com/2022/02/17/us-senate-nears-passage-of-stop-gap-funding-bill-to-avoid-govt-shutdown.html

Treasury Cash Levels

The level of the TGA increased by $30bn as of Wed 16 Feb (after decreasing by $31bn in the prior week). The TGA balance increased to $709bn (level as of Wed 16 Feb).



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 21 Feb	0	0
Tue 22 Feb	1.025	2.667
Wed 23 Feb	0	2.612
Thur 24 Feb	6.225	3.102
Fri 25 Feb	0	2.650
Total Announced Purchases	$7.25bn (last week $5bn)	$11bn (last week $14.1bn)

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 21 FEBRUARY 2022

MONDAY 21 FEBRUARY (US Eastern Time, unless stated otherwise)	
Australia	(Sunday night) Prelim Manufacturing and Services PMI (Feb) (Monday) Speech: RBA Asst Governor Kent
Japan	(Sunday night) Prelim Manufacturing and Services PMI (Feb)
US	President's Day Holiday Speech: FOMC Member Bowman
Europe	Prelim Eurozone Manufacturing and Services PMI (Feb)
UK	Prelim Manufacturing and Services PMI (Feb)

TUESDAY 22 FEBRUARY	
US	Case/Shiller House Price Index (Dec), Prelim Manufacturing & Services PMI (Feb), Richmond Fed Manufacturing Survey (Feb)
Australia	Wage Price Index Q4, Construction Work Done Q4
NZ	RBNZ Monetary Policy Review Meeting

WEDNESDAY 23 FEBRUARY	
US	Mortgage Apps wk ending 18 Feb
Europe	Euro Area CPI Final (Jan)
Australia	Private Sector Capex Q4

THURSDAY 24 FEBRUARY	
US	Initial Claims wk ending 18 Feb, Chicago Fed Activity Index (Jan), GDP First Prelim Q4, New Home Sales (Jan), Kansas City Fed Manufacturing Index (Feb) Speeches: FOMC Members Waller and Mester
UK	Speech: BoE Governor Bailey

FRIDAY 25 FEBRUARY	
Europe	Germany GDP final Q4, Euro Group Meetings, Speech: ECB President Lagarde
US	Personal Income, Consumption, and Price Indexes (Jan), Durable Goods Orders (Jan), University of Michigan Consumer Sentiment Final (Feb), Pending Home Sales (Jan)