

Key themes for the week ahead – inflation, US retail sales, central bank speeches & minutes, and ongoing geopolitical risk

Recap from last week – US CPI for Apr and Fed speeches was the focus of last week. US CPI growth did ease to +8.3% in Apr from +8.5% in Mar but not by as much as expected (expecting +8.1%). The rate of growth is still extremely elevated. The deceleration in Apr was the result of slower growth in energy (gasoline) and used car prices. Household energy prices, food, and shelter price growth continued to accelerate. US consumer sentiment declined markedly again amid high inflation concerns.

Fed speeches reiterated the priority to deal with high inflation by moving to neutral as quickly as possible. This means increases of 50bps are likely at Jun and Jul meetings. The more hawkish speeches called for an even greater tightening of financial conditions. According to Fed Chair Powell, the FOMC is not actively considering 75bps increases but is prepared to do more (or less) if needed.

Chair Powell's interview after the CPI release noted that their "ability to execute a soft landing depends on factors outside of its control" – namely geopolitics and supply chain bottlenecks, both of which remain issues. Growth concerns have become heightened since the invasion of Ukraine. Some US growth forecasts have recently been revised even lower than the FOMC SEP from Mar when 2022 growth was revised from 4% down to 2.8% (without a corresponding increase in the unemployment rate).

The week ahead – A big week of data affecting the growth and inflation outlook and the path for rates. US retail sales this week are expected to increase by +0.8% in Apr from +0.7% in Mar. The Apr US housing data is expected to weaken slightly on rising mortgage rates. Speeches this week by Fed Chair Powell, Bullard, and Mester. Initial manufacturing surveys for May to provide early insight into output growth momentum, prices, employment, and supply chain impact, especially from the latest Chinese lockdowns.

Both the BoC and BoE have guided higher for rates on the back of elevated inflation. This week, Canadian CPI is expected to ease to +6.3% in Apr (from +6.7% in Mar) while UK CPI is expected to accelerate from 7% in Mar to +9.1% in Apr. UK labour market (Mar) and retail sales (Apr) data will also provide some important insight into the pace of economic activity. Last week, UK Q1 GDP was slightly lower than expected at +0.8% (expecting +1%).

Japanese national CPI growth is expected to increase to +1.5% in Apr up from +1.2% in Mar. Core CPI ex fresh food is expected to increase to +2.1% in Apr (from +0.8% in Mar) on the back of higher energy prices. Ex energy and fresh food prices, CPI is expected to decline by -0.9% over the year in Apr. The BoJ has stated that it expects inflation to reach above 2% but will 'look through' rising energy prices which it expects to be transitory. Japanese GDP in Q1 is expected to contract by -0.4%.

The RBA minutes should provide insight behind the May rate hike. The RBA will watch closely the labour market and wages releases this week. Expecting a +30k increase in employment and the unemployment rate to fall to 3.9%. Wages in Q1 are expected to increase by +0.8% in the quarter and by +2.5% over the year. Last week, Aussie consumer sentiment fell further on rising inflation and interest rates impacting the cost of living. The Australian Federal election will be held this weekend.

The ECB minutes will be released this week. Markets are continuing to forecast rate lift-off after QE ends, possibly from Jul. Final Apr Euro area CPI for Apr is expected to confirm Euro area inflation at +7.5%. ECB President Lagarde and numerous other ECB members will speak this week.

Chinese data for Apr continues to reflect weaker economic conditions amid strict covid-zero lockdowns.

G7 leaders meet this week.

US Treasury Issuance & QE

This week, the US Treasury will auction and settle approx. \$319bn in ST Bills, Notes, and Bonds raising approx. \$16bn in new money.

The US Treasury will also auction the 20yr Bond and 10yr TIPS this week – both will settle on 31 May.

Approx. \$97bn in ST Bills, Notes, and Bonds 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 %
16-20 May	12-May	17-May	4 week bill	35			Actual 0.600%	0.490%
	12-May	17-May	8 week bill	30			Actual 0.755%	0.710%
	11-May	17-May	119-Day CMB	30			Actual 1.160%	1.225%
				95	110	-15		
	16-May	19-May	13 week bill	45			Announced	0.900%
	16-May	19-May	26 week bill	42			Announced	1.385%
	17-May	19-May	52 week bill	34			Announced	1.870%
				121	145	-24		
	10-May	16-May	3yr Note	45			Actual 2.809%	2.738%
	11-May	16-May	10yr Note	36			Actual 2.943%	2.720%
	12-May	16-May	30yr Bond	22			Actual 2.997%	2.815%
				103	48	55		
			Total - securities settling this week	319	303	16		
			Net New Cash Raised Qtr to Date	1809	1883	-74		
			<i>Estimated Net Paydown Q2 (\$ Bn)</i>			<i>-26</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		15-May	Notes & Bonds	72.1				
		17-May	Bills	6.7				
		19-May	Bills	18.4				
				97.2				
			Upcoming Auctions					
	18-May	31-May	20yr Bond	17			Announced	3.095%
	19-May	31-May	10yr TIPS	14			Announced	-0.589%
				31				

Recommended US Treasury Financing Q2 & Q3 - 2022

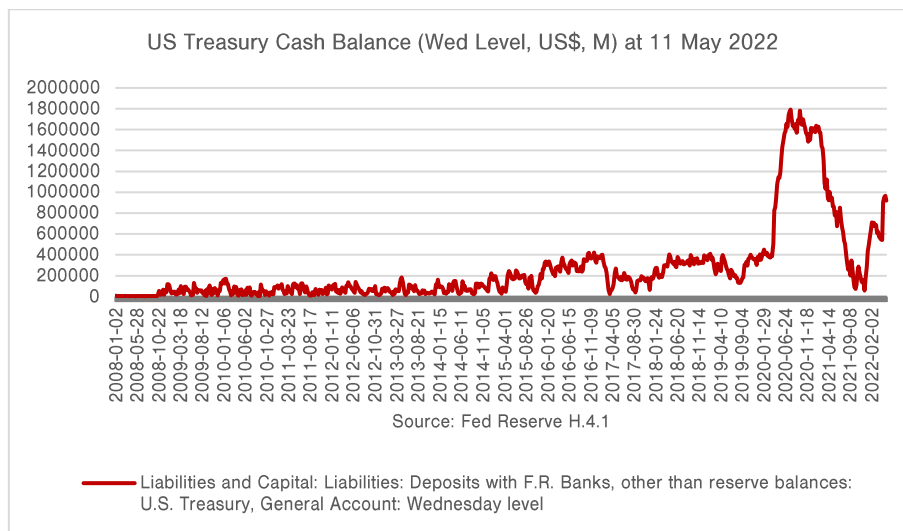
In Q2, the US Treasury estimates a net paydown of -\$26bn. This reflects a -\$433bn paydown of Bills and +\$407bn of net new Coupon issuance for the quarter. The current quarter-to-date estimated net paydown is -\$74bn.

In Q3, the US Treasury estimates it will raise approx. \$182bn in new money. This reflects a -\$153bn paydown of Bills and +\$335bn of net new Coupon issuance for the quarter.

The FOMC announced plans to begin the run-off of maturing securities holdings on its balance sheet, starting in Jun.

Treasury Cash Levels

The level of the TGA decreased by \$45bn, reaching a balance of \$919bn as of Wed 11 May. This current balance is approx. \$55bn ahead of the same week a year ago.



<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

There are no further Treasury purchase operations at this stage.

Current statement and explanation regarding the purchase and reinvestment of Treasury securities and Agency Mortgage-Backed Securities operations:

https://www.newyorkfed.org/markets/opolicy/operating_policy_220126

The NY Fed Desk plans to purchase approx. \$16bn in MBS over the period to 13-26 May.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 16 May	0	1.728
Tue 17 May	0	1.528
Wed 18 May	0	1.728
Thur 19 May	0	1.528
Fri 20 May	0	1.728
Total Announced Purchases	\$0bn	\$8bn (last week \$10bn)

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 16 MAY 2022

MONDAY 16 MAY (US Eastern Time, unless stated otherwise)

China (Sunday) Industrial Production, Retail Sales, and Fixed Asset Investment (Apr)

US NY Empire State Manufacturing Index (May)

Europe EC Growth Forecasts

Australia RBA Meeting Minutes

TUESDAY 17 MAY

Europe GDP Prelim (Q1), ECB President Lagarde speech

US Retail Sales (Apr), Industrial Production (Apr), Business Inventories (Mar), NAHB Housing Market Index (May), US Fed Chair Powell speech; Bullard and Mester speeches

Japan GDP Prelim (Q1)

Australia Wage Price Index Q1

WEDNESDAY 18 MAY

US Mortgage Apps wk ending 13 May, Housing Permits & Starts (Apr)

UK CPI (Apr)

Europe Euro area CPI – Final (Apr)

Canada CPI (Apr)

Japan Merchandise Trade Balance, Exports, and Imports (Apr)

Australia Labour Market Survey (Apr)

THURSDAY 19 MAY

US Initial Claims wk 13 May, Philadelphia Fed Manuf (May), Existing Home Sales (Apr)

Europe ECB Minutes

Japan National CPI (Apr)

China PBoC Rates Decision (TBC)

FRIDAY 20 MAY

UK Retail Sales (Apr)
