

Key themes for the week ahead – global growth momentum, US PCE inflation, FOMC minutes, RBNZ, and ongoing geopolitical risk

Recap from last week – There was a hawkish tone from Fed Chair Powell last week. The FOMC needs to see inflation come down in a “clear and convincing way” and they are “going to keep pushing until we see that”. Prior signaling has been to lift rates ‘expeditiously’ to neutral, but Chair Powell noted that the Fed “wouldn’t hesitate” to move beyond “broadly understood levels of neutral” to achieve its aim of reducing inflation. Rate hikes of 50bps seem likely for Jun and Jul meetings if inflation remains high.

US data last week was mixed. Retail sales increased by more than expected in Apr and the prior month was revised higher. Quarterly retail results caused concern about a slowdown, inventory levels, and staffing. Initial claims shifted above the 200k mark. The housing market continued to slow amid the rising rate environment. Within industrial production data, manufacturing output continued to increase at a constant pace. Manufacturing capacity utilization at 79.45% is almost back up to the prior series high going back to the start of 2006. Headline regional manufacturing surveys suggested slower growth momentum coming into May – with demand data mixed. Growth in lead times remained constant, price increases were widespread, and employment growth was broadly stable.

UK inflation accelerated to 9% in Apr from 7% in Mar and the 3mth unemployment rate came in lower at 3.7%. The BoE Governor will speak this week. CPI growth in Canada came in higher than expected at +6.8% in Apr.

The National CPI growth for Japan was also higher than expected at +2.4% in Apr, up from +1.2% in Mar. Core measures were similarly higher. The main contributor to the acceleration was cycling over to the lower base in 2021 communications prices.

The RBA minutes confirmed that the condition for a rate increase had been met. The Board debated the size of the rate increase, settling on 25bps to signal a “return to normal operating procedure” from extraordinary policy settings. The Q1 wage price growth was slightly lower than expected meaning real wages declined. Labour market data was mixed. Employment growth was weak but a fall in participation resulted in a decline in the unemployment rate to 3.9%.

In an interview last week, ECB President Lagarde (among other recent ECB speeches), suggested that the ECB may hike rates “within weeks” of ending the Net Asset Purchase Program (expected to end early in Q3).

Outlook for the week ahead – US PCE inflation result for Apr – the Fed preferred measure. Headline inflation is expected to be unchanged at +6.6% over the year to Apr and increase by +0.8% in the month. Core PCE inflation is expected to moderate to +4.6%.

The FOMC minutes for the May meeting will provide insight behind the decision to increase by 50bps and begin balance sheet run-off. Speeches since that meeting have reiterated the aim of policy to reduce inflation.

The prelim global PMIs for May will provide early insight into changes in growth momentum amid rising growth concerns. Global growth forecasts have been downgraded as inflation, the war in Ukraine, and shutdowns in China are forecast to affect demand and further disrupt supply chains.

The RBNZ will meet this week and is expected to increase rates again, possibly by another 50bps.

Fed speakers this week include pre-recorded remarks from Chair Powell. The World Economic Forum at Davos will run all week.

US Treasury Issuance & QE

This week, the US Treasury will auction and settle approx. \$204bn in ST Bills and 2yr FRNs, with an approx. paydown of \$12bn.

The US Treasury will also auction the remainder of next week's issuance – the 2yr, 5yr, and 7yr Notes. All will settle next week on 31 May.

Approx. \$17bn 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 %
23-27 May	19-May	24-May	4 week bill	35			Actual 0.640%	0.600%
	19-May	24-May	8 week bill	30			Actual 0.900%	0.755%
	18-May	24-May	119-Day CMB	30			Actual 1.250%	1.160%
				95	105	-10		
	23-May	26-May	13 week bill	45			Announced	1.050%
	23-May	26-May	26 week bill	42			Announced	1.490%
				87	111	-24		
	25-May	27-May	2yr FRN	22			Announced	
				22	0	22		
			Total - securities settling this week	204	216	-12		
			Net New Cash Raised Qtr to Date	2013	2099	-86		
			<i>Estimated Net Paydown Q2 (\$ Bn)</i>			<i>-26</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B				
		24-May	Bills	5.6				
		26-May	Bills	11.1				
				16.7				
			Upcoming Auctions					
	24-May	31-May	2yr Note	47			Announced	2.585%
	25-May	31-May	5yr Note	48			Announced	2.785%
	26-May	31-May	7yr Note	42			Announced	2.908%

Recommended US Treasury Financing Q2 & Q3 - 2022

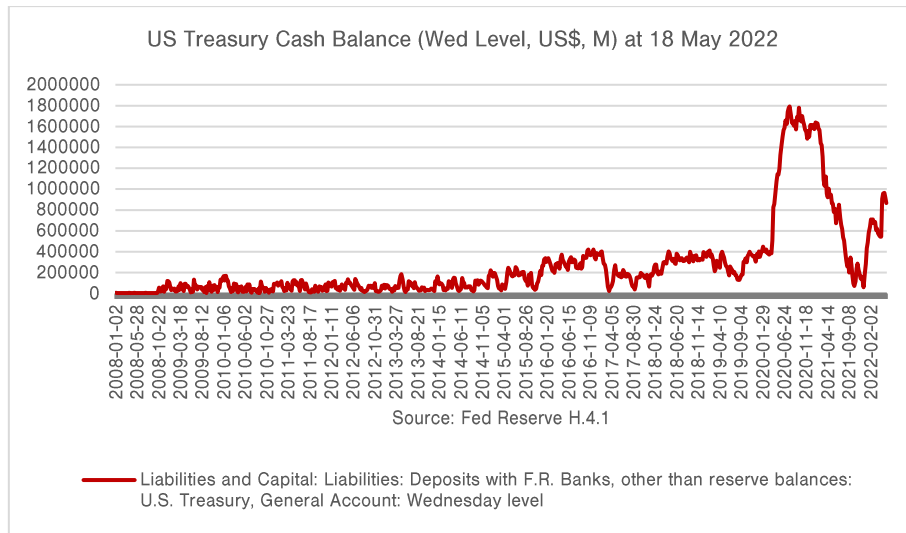
In Q2, the US Treasury estimates a net paydown of -\$26bn. This reflects a -\$433bn paydown of Bills and +\$407bn of net new Coupon issuance for the quarter. The current quarter-to-date estimated net paydown is -\$86bn.

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 \$53bn, reaching a balance of \$867bn as of Wed 18 May. This current balance is approx. \$6bn ahead of the same week a year ago.



<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

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. The next tentative schedule of purchases will be released on 27 May – the data below is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 23 May	0	1.728
Tue 24 May	0	1.528
Wed 25 May	0	1.725
Thur 26 May	0	1.521
Fri 27 May	0	tbc
Total Announced Purchases	\$0bn	\$6.5bn (last week \$8bn)

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/amb operation schedule>

WEEK COMMENCING 23 MAY 2022

MONDAY 23 MAY (US Eastern Time, unless stated otherwise)

WEF - Davos

US Chicago Fed National Activity Index (Apr), Fed E.George speech

UK BoE Governor Bailey speech

Aus Prelim Manufacturing and Services PMI (May)

Japan Prelim Manufacturing and Services PMI (May)

TUESDAY 24 MAY

Europe Eurozone Prelim Manufacturing and Services PMI (May)

UK Prelim Manufacturing and Services PMI (May)

US Prelim Manufacturing and Services PMI (May), New Home Sales (Apr), Richmond Fed Manufacturing Survey (May)
Fed Chair Powell speech (pre-recorded opening remarks)

Australia Construction Work Done Q1

NZ RBNZ Monetary Policy Decision

WEDNESDAY 25 MAY

US Mortgage Apps wk ending 20 May, Durable Goods Orders (Apr)
FOMC Minutes, Governor Brainard Commencement Remarks

Japan BoJ Governor Kuroda speech

Australia Private Capex Q1

THURSDAY 26 MAY

US Initial Claims wk 20 May, GDP First Prelim Q1, Pending Home Sales (Apr), Kansas City Fed Manufacturing Survey (May)

Australia Prelim Retail Sales (Apr)

FRIDAY 27 MAY

US Personal Income, Expenditure, and PCE Price Index – Monthly (Apr), University of Michigan Consumer Sentiment – Final (May), Fed Bullard speech
