

## Key themes for the week ahead – US CPI, central bank speeches, and ongoing geopolitical risk

Recap from last week – The FOMC, RBA, and BoE increased rates to curb inflation, announced balance sheet reduction, and guided higher for the likely path of rates.

The FOMC increased the target FFR by 50bps to 0.75-1%. Quantitative tightening will begin in Jun with a cap of \$30bn/mth in balance sheet run-off for the first three months, then increasing to \$60bn/mth. Chair Powell noted that “we are on a path to move our policy rate expeditiously to more normal levels” and that “additional 50bps increases should be on the table at the next couple of meetings” – assuming markets evolve as expected.

Chair Powell said that underlying growth in the US economy remained strong. The decline in Q1 GDP “reflecting swings in inventories and net exports, two volatile categories” that “likely carry little signal for future growth”. The Apr US ISM PMIs recorded slightly slower growth momentum as firms noted ongoing supply challenges and difficulty in finding qualified staff. Higher prices were a major theme as the number of firms reporting higher prices remained extremely elevated and the services sector recorded a new series high in the price index. US labour market indicators were somewhat mixed. Non-farm payrolls increased more than expected by +428k while Feb and Mar were revised lower by 40k. The unemployment rate was unchanged at 3.6%, as a fall in participation helped to offset a decline in employment in the household (population) survey.

The RBA surprised markets with a 25bps increase in the cash rate target to 0.35% (expecting +15bps). The RBA announced that bond holdings and the size of the balance sheet will decline as bonds mature (no reinvestments) – with substantial declines in the balance sheet expected during 2023/4. While rates are not on a preset path, it is expected that further increases in interest rates will be necessary.

The BoE increased rates by a further 25bps in a 6-3 decision, with three members voting for a 50bps increase. The decision highlighted that inflation pressures have “intensified sharply” – “leading to a material deterioration in the outlook for the world and UK growth”. The BoE central inflation forecast has UK CPI peaking in Q4 this year and averaging over 10%. The decision was accompanied by a weaker outlook for growth and rising unemployment. A plan for the outright sale of bond holdings will be presented at the Aug meeting for implementation at a later meeting. The committee noted that “some degree of further tightening in monetary policy may still be appropriate in the coming months”. The UK Q1 GDP is out this week and growth is expected to be +1% for Q1 and +9% over the year.

The week ahead – The US CPI for Apr will be the focus for the week - with growth in consumer prices expected to ease. The headline CPI growth is expected to slow to +8.1% in Apr from +8.5% in Mar. The monthly CPI is expected to ease from +1.2% in Mar to +0.2% in Apr. Core CPI is expected to increase by 6% in Apr, down from +6.5% in Mar. The monthly core CPI is expected to increase by +0.4% in Apr versus +0.3% in Mar.

Central bank speeches will come into focus over the next few weeks. We are watching for: US signaling on a change in the pace/size of rate increases (also a function of the inflation result) and ECB signaling on the path of rates.

## US Treasury Issuance & QE

This week, the US Treasury will auction and settle approx. \$182bn in ST Bills with a further - \$36bn paydown.

The US Treasury will auction \$103bn in 3yr and 10yr Notes and the 30yr Bond this week which will settle next week.

Approx. \$18bn 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 %
9-13 May	05-May	10-May	4 week bill	35			Actual 0.490%	0.480%
	05-May	10-May	8 week bill	30			Actual 0.710%	0.710%
	04-May	10-May	119-Day CMB	30			Actual 1.225%	1.110%
				95	110	-15		
	09-May	12-May	13 week bill	45			Announced	0.910%
	09-May	12-May	26 week bill	42			Announced	1.420%
				87	108	-21		
			<b>Total - securities settling this week</b>	<b>182</b>	<b>218</b>	<b>-36</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>1490</b>	<b>1580</b>	<b>-90</b>		
			<i>Estimated Net Paydown Q2 (\$ Bn)</i>			<i>-26</i>		
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>				
		10-May	Bills	6.5				
		12-May	Bills	12.0				
				18.5				
			<b>Upcoming Auctions:</b>					
	10-May	16-May	3yr Note	45			Announced	2.738%
	11-May	16-May	10yr Note	36			Announced	2.720%
	12-May	16-May	30yr Bond	22			Announced	2.815%
				103	47.85	55.15		

### Recommended US Treasury Financing Q2 & Q3 - 2022

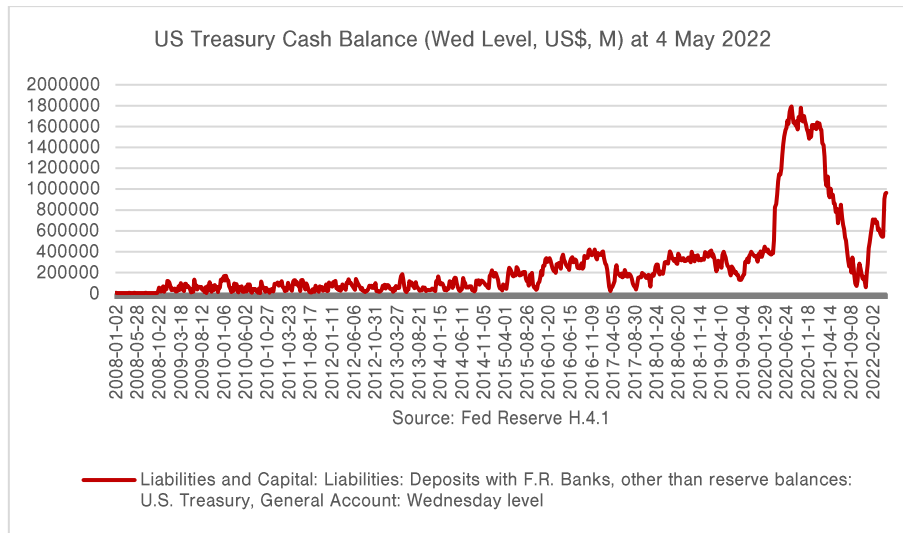
In Q2, the US Treasury estimates a net paydown of -\$26bn. This reflects a -\$433bn paydown of Bills and +\$407bn of net new Coupon issuance for the quarter. The current quarter-to-date estimated net paydown is -\$90bn.

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 increased by \$7bn, reaching a balance of \$964bn as of Wed 4 May. This current balance is approx. \$18bn 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](https://www.newyorkfed.org/markets/opolicy/operating_policy_220126)

The NY Fed Desk plans to purchase approx. \$40.1bn in MBS over the period to 14 Apr – 12 May [https://www.newyorkfed.org/markets/ambs/ambs\\_schedule](https://www.newyorkfed.org/markets/ambs/ambs_schedule)

The next operation schedule will be released on 12 May – the schedule below is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 9 May	0	1.902
Tue 10 May	0	2.076
Wed 11 May	0	1.902
Thur 12 May	0	2.076
Fri 13 May	0	tbc
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](https://www.newyorkfed.org/markets/ambs_operation_schedule)

## WEEK COMMENCING 9 MAY 2022

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### MONDAY 9 MAY (US Eastern Time, unless stated otherwise)

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China (Sunday) Trade Balance, Exports, and Imports (Apr)

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Australia NAB Business Conditions and Confidence (Apr), Retail Sales – Additional Detail Q1

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### TUESDAY 10 MAY

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China New Loans (Apr) TBC, CPI and PPI (Apr)

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US Fed speeches: Williams, Waller, Mester, Bostic

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Australia Westpac Consumer Confidence (May)

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### WEDNESDAY 11 MAY

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US Mortgage Apps wk ending 6 May, CPI (Apr)

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Europe Germany CPI – Final (Apr), ECB President Lagarde speech

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Australia Consumer Inflation Expectations (May)

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### THURSDAY 12 MAY

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US Initial Claims wk ending 6 May, PPI (Apr), US Fed speeches: Daly

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UK GDP Q1

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### FRIDAY 13 MAY

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Europe Eurozone Industrial Production (Mar), ECB speeches

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US University of Michigan Consumer Sentiment prelim (May), US Fed speeches: Mester

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