MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 13 June 2022

Key events for the week ahead – Central bank decisions; FOMC, BoE, BoJ, and SNB, US retail sales, and ongoing geopolitical risk

Last week, the RBA surprised markets, and the broader community, with a 50bps rate hike and signaled "doing what is necessary" to ensure inflation returns to target. The size and timing of further hikes are to be guided by incoming data.

The ECB stayed on course with its policy normalization sequencing. Purchases under the APP will end on 1 Jul (reinvestments to continue). Guidance for Jul & Sep was clear – conditions for a rate hike have been met and expect +25bps at the Jul meeting. Another increase is planned for Sep and depending on the updated medium-term outlook for inflation, a 'larger rate increment may be appropriate'. Beyond Sep, 'gradual but sustained increases' will be appropriate. Inflation forecasts were revised higher and growth forecasts revised lower.

The US CPI growth rattled markets, accelerating faster than expected to +8.6% in May, up from +8.2% in Apr. The inflation mix continues to shift as food, energy, and shelter prices contributed more to the acceleration while used and new car price growth decelerated. High inflation reads have corresponded with a sustained and notable deterioration in US consumer sentiment, now at a new series low.

Last week, the RBNZ announced that it would actively start to sell securities on its balance sheet starting in Jul. It plans to dispose of its holdings over the next five (5) years.

<u>Outlook for the week ahead</u>

The hotter CPI report poses a further challenge for the US Fed as it navigates market expectations for even higher rates and political pressure to reduce high inflation, while it hopes to orchestrate a 'soft landing' for the economy. The FOMC was already expected to increase rates by 50bps at the Jun meeting this week and in Jul. The FOMC signaling and how it responds to this further acceleration in inflation will be important. Will there be a shift beyond 'raising expeditiously to neutral' to starting to consider further larger hikes and/or restrictive policy settings? So far, Fed Chair Powell and Governor Waller are scheduled to speak at the end of the week.

Other central bank meetings this week include the BoE – which is expected to increase the bank rate by another 25bps. The SNB and the BoJ are both expected to keep policy rates unchanged.

US retail sales will provide an important gauge of consumer spending this week. Retail sales for May are expected to increase by +0.2% after increasing by +0.9% in Apr.

We are also watching US initial claims, which came in higher than expected last week at +229k. While claims are still low, it is an important high-frequency data point to watch.

Aus labour market data for May will be released. The RBA noted the strength of the labour market as underpinning its confidence to front-load larger rate hikes. Employment is expected to increase by +25k persons, and unemployment is expected to fall further to 3.8%.

This week, the US Treasury will auction and settle approx. $312bn in ST Bills, Notes, and Bonds raising approx. $39bn in new money. This is the first week of QT. Approx. $35.7bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week. Of this, $9bn of Coupons will roll off the Fed balance sheet.

US Treasury Issuance & QT

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
13-17 Jun	09-Jun	14-Jun	4 week bill	35			Actual 1.040%	0.860%
	09-Jun	14-Jun	8 week bill	30			Actual 1.150%	1.040%
	08-Jun	14-Jun	119-Day CMB	30			Actual 1.510%	1.390%
				95	105	-10		
	13-Jun	16-Jun	13 week bill	45			Announced	1.230%
	13-Jun	16-Jun	26 week bill	42			Announced	1.710%
	14-Jun	16-Jun	52 week bill	34			Announced	2.100%
				121	145	-24		
	07-Jun	15-Jun	3yr Note	44			Actual 2.927%	2.809%
	08-Jun	15-Jun	10yr Note	33			Actual 3.030%	2.943%
	09-Jun	15-Jun	30yr Bond	19			Actual 3.185%	2.997%
				96	23.08	72.92		
		Total - securities settling this week		312	273.1	38.9		
		Net New Cash Raised Qtr to Date		***2857***	***2894***	***-37***		
		Estimated Net Paydown Q2 ($ Bn)				*-26*		
		Face Value of SOMA securities maturing		**$B**				
	Maturing & reinvestment							
		14-Jun	Bills	6.7				
		16-Jun	Bills	14.0				
		15-Jun	Notes & Bonds	5.6				
	Maturing & redemption							
		15-Jun	Notes & Bonds	9.3				
				35.7				

Quantitative Tightening – JUNE 2022

According to FOMC guidelines, there will be a $30bn cap on the decline in Treasury securities on the Fed balance sheet in June.

SOMA Coupon maturities are estimated to be $48.3bn this month (15th and 30th June). Of the $48.3bn, a total of $30bn will be redeemed (the cap) and the remaining $18.3bn in maturing Coupons will be reinvested. Given that the value of Coupons maturing is greater than the redemption cap this month, maturing Bills on the balance sheet will be rolled over/reinvested.

Quantitative Tightening - Monthly cap $ Bn JUNE 2022:				**30**		
SOMA securities maturing June 2022 $ Bn				**% of total month**	**Redemption Amt**	**Reinvest Amt**
	15-Jun-22	Notes & Bonds	14.9	0.31	9.3	5.6
	30-Jun-22	Notes & Bonds	33.3	0.69	20.7	12.6
			48.3		30	18.3

https://www.newyorkfed.org/markets/treasury-rollover-faq

Recommended US Treasury Financing Q2 & Q3 - 2022

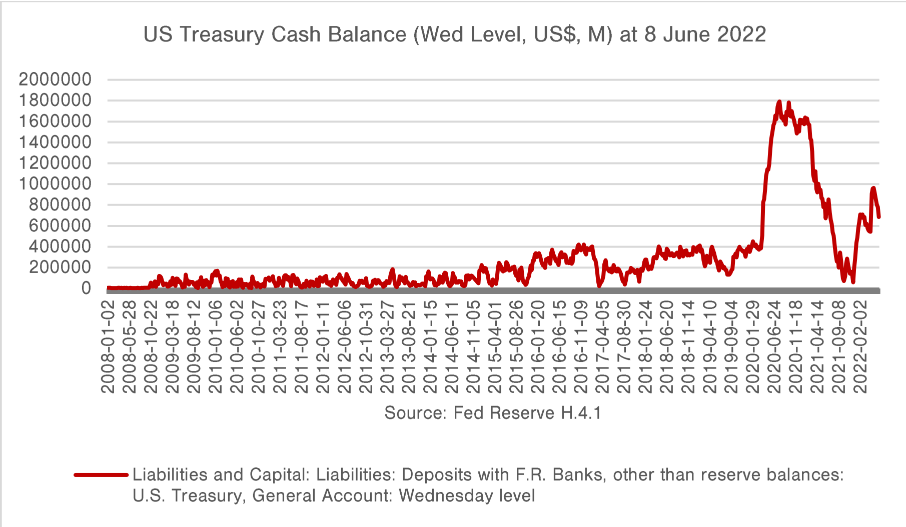
In Q2, the US Treasury estimates a net paydown of -$26bn. This reflects a -$433bn paydown of Bills and +$407bn of net new Coupon issuance for the quarter.

The current quarter-to-date estimated net paydown is -$37bn.

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.

Treasury Cash Levels

The level of the TGA decreased by $97bn, reaching a balance of $683bn as of Wed 8 June. This current balance is approx. $10bn above the same week a year ago.



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

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 next tentative schedule of MBS purchases will be released on 13 Jun.

Date	Treasury Security Operations ($ BN)	MBS Operations, Max Value ($ BN)
Mon 13 Jun	0	1.706
Tue 14 Jun	0	Tbc
Wed 15 Jun	0	Tbc
Thur 16 Jun	0	Tbc
Fri 17 Jun	0	Tbc
Total Announced Purchases	$0bn	$1.7bn

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 13 JUNE 2022

MONDAY 13 JUNE (US Eastern Time, unless stated otherwise)	
Australia	House Price Index Q1, NAB Business Conditions and Confidence (May)

TUESDAY 14 JUNE	
Japan	Industrial Production – final (Apr)
Europe	Germany CPI – Final (May)
US	PPI (May)
Australia	Westpac Consumer Confidence (Jun)
China	Industrial Production (May), Retail Sales (May)

WEDNESDAY 15 JUNE	
US	Mortgage Apps wk ending 10 Jun, NY Empire State Manufacturing Index (Jun), Retail Sales (May), Business Inventories (Apr), NAHB Housing Market Conditions (Jun) FOMC Monetary Policy Decision
Europe	Industrial Production (Apr), ECB President Lagarde speech
NZ	GDP Q1
Japan	Merchandise Trade, Exports, and Imports (May)
Australia	Labour Market Survey (May)

THURSDAY 16 JUNE	
Switzerland	SNB Monetary Policy Decision
UK	BoE Monetary Policy Decision
US	Initial Claims wk 10 Jun, Building Permits and Housing Starts (May), Philadelphia Fed Manufacturing Index (Jun)
Japan	BoJ Monetary Policy Decision

FRIDAY 17 JUNE	
Europe	Eurozone CPI – Final (May)
US	Industrial Production (May) Fed Chair Powell speech; opening remarks Fed Governor Waller speech (Sat 18 Jun)