

Key events for the week ahead – CPI reports (UK, Japan, and Canada), Chair Powell testimony, and prelim PMIs for June

Higher than expected CPI and inflation expectations readings from the University of Michigan survey prompted the FOMC to implement a larger shift in policy last week. The aim of the FOMC was to signal its willingness to move decisively and not wait for another meeting to quell rising inflation and inflation expectations.

The target for the FFR was increased by +75bps – higher than the +50bps guidance for the meeting. The FOMC noted that this was an “unusually large increase” and that moves of this size are not expected to be common. But ongoing increases in the target FFR will be appropriate. There was a notable shift in guidance for monetary policy in favour of implementing a moderately restrictive policy by the end of the year.

In his press conference, Chair Powell noted “our objective really is to bring inflation down to 2 percent while the labor market remains strong”.

The FOMC is looking for “compelling evidence” that inflation is coming down, such as a series of declining monthly inflation reads before it starts to slow the pace of tightening.

US Fed Chair Powell will give two days of testimony this week to the Senate and House of Reps standing committees. This will provide a broader view of the political pressure placed on the Fed to rein in inflation. We might also see guidance on the preference of the next hike in Jul – either 50 or 75bps.

US data was softer last week. Consumer retail spending was weaker than expected, declining slightly. Manufacturing output (from the Industrial Production report) also declined slightly, and early Jun regional manufacturing reports highlight weaker momentum. Housing activity continued to slow as mortgage rates increased rapidly.

The BoE raised its bank rate by a further 25bps (6-3 decision where three members voted for a 50bps increase). UK inflation and retail sales will be released this week. CPI is expected to remain elevated and increase to +9.1% in May (from +9% in Apr).

The SNB surprised markets with a +50bps increase in its key policy rate (now at -0.25%).

The BoJ kept policy settings unchanged and remained in easing mode. Within the context of rising rates and hawkish central banks, bond purchases by the BoJ to defend yield targets reached a new high last week. This week, Japan CPI will be released – with headline inflation expected to reach +2.9% in May. Minutes of last week’s meeting will also be released.

The RBA minutes will be released this week and should provide important insight into the surprise 50bps increase at the last meeting. Last week Governor Lowe announced an upgraded inflation forecast during a prime-time interview – catching many off guard. There will be several speeches given by Governor Lowe this week.

With central banks becoming increasingly hawkish, attention now shifts to signs of changes in growth momentum. This week, the Jun prelim PMIs will provide an early reading on growth momentum at the mid-year point.

The final reading for the US University of Michigan consumer sentiment survey for Jun will also be released on Friday.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$204bn in ST Bills and FR Notes with an estimated paydown of \$9bn. The US Treasury will also auction the 20yr Bond and 5yr TIPS this week – both to settle next week.

Approx. \$9.5bn 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 %
20 Jun - Juneteenth Holiday								
20-24 Jun	16-Jun	21-Jun	4 week bill	35			Actual 1.180%	1.040%
	16-Jun	21-Jun	8 week bill	30			Actual 1.470%	1.150%
	15-Jun	21-Jun	119-Day CMB	30			Actual 2.090%	1.510%
				95	105	-10		
	21-Jun	23-Jun	13 week bill	45			Announced	1.640%
	21-Jun	23-Jun	26 week bill	42			Announced	2.160%
				87	108	-21		
	22-Jun	24-Jun	2yr FRN	22			Announced	
				22	0	22		
			Total - securities settling this week	204	213	-9		
			Net New Cash Raised Qtr to Date	3061	3107	-46		
			<i>Estimated Net Paydown Q2 (\$ Bn)</i>			<i>-26</i>		
			Auctions this week (settle next week)					
	22-Jun	30-Jun	20 yr Bond	14			Announced	3.290%
	23-Jun	30-Jun	5yr TIPS	18			Announced	-0.340%
				32				
			Face Value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		21-Jun	Bills	5.5				
		23-Jun	Bills	4.0				
				9.5				

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 (the cap) will be redeemed 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

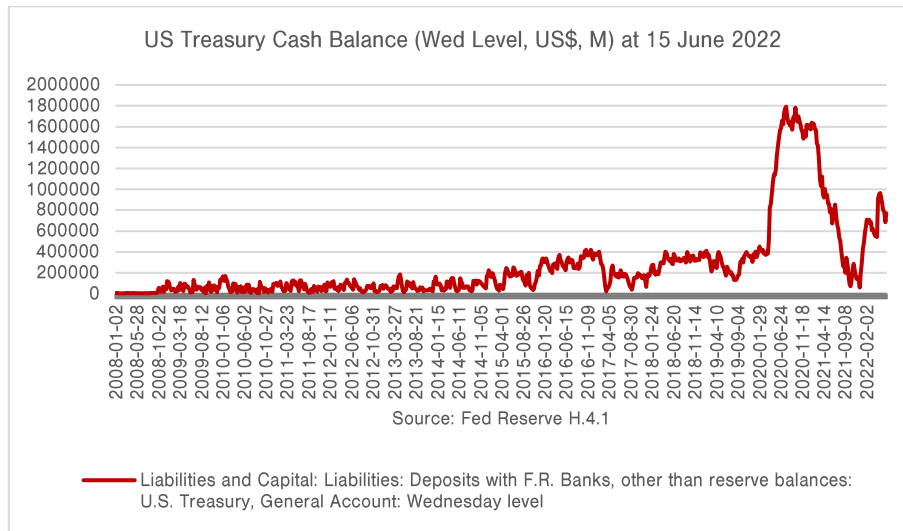
In Q2, the US Treasury estimates a net paydown of -\$26bn. This reflects a -\$433bn paydown of Bills and +\$407bn of net new Coupon issuance for the quarter.

The current quarter-to-date estimated net paydown is -\$46bn.

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 increased by \$86bn, reaching a balance of \$769bn as of Wed 15 June. This current balance is approx. \$4bn above 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 plans to purchase approx. \$6.2bn in MBS over the period 14-28 Jun.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 20 Jun	0	-
Tue 21 Jun	0	0.718
Wed 22 Jun	0	0.482
Thur 23 Jun	0	0.919
Fri 24 Jun	0	0.284
Total Announced Purchases	\$0bn	\$2.4bn

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 20 JUNE 2022

MONDAY 20 JUNE (US Eastern Time, unless stated otherwise)

US	Juneteenth National Holiday, Fed speeches: Bullard
Europe	ECB President Lagarde speech
Australia	RBA Meeting Minutes, RBA Governor Lowe speech; Inflation & Mon Pol

TUESDAY 21 JUNE

US	Chicago Fed National Activity Index (May), Existing Home Sales (May), Fed speeches; Mester
Canada	Retail Sales (Apr)
Japan	BoJ Meeting Minutes

WEDNESDAY 22 JUNE

US	Mortgage Apps wk ending 17 Jun, Fed Chair Powell – Testimony Senate Committee Banking, Housing, and Urban Affairs
UK	CPI (May)
Canada	CPI (May)
Australia	Prelim Manufacturing & Services PMI (Jun)
Japan	Prelim Manufacturing & Services PMI (Jun)

THURSDAY 23 JUNE

Europe	Eurozone Prelim Manufacturing & Services PMI (Jun), EU Leaders Summit (2 days)
UK	Prelim Manufacturing & Services PMI (Jun)
US	Initial Claims wk 17 Jun, Prelim Manufacturing & Services PMI (Jun), Kansas City Fed Manufacturing Index (Jun), Fed Chair Powell – Testimony House of Reps Committee on Financial Services
Japan	National CPI (May)

FRIDAY 24 JUNE

UK	Retail Sales (May)
Australia	RBA Governor Lowe – panel discussion on central banks & inflation
US	University of Michigan Consumer Sentiment - Final (Jun), New Home Sales (May), Fed speeches: Bullard
