

Key events for the week ahead – US PCE inflation, Eurozone inflation, ECB Forum on Central Banking

An increasingly hawkish Fed has raised the risk of a recession, or at least, reduced the chances of a soft landing on a narrow landing strip. In testimony last week, Chair Powell reaffirmed that the economy is “very strong and well positioned to handle tighter monetary policy”. The Senate and Congress were concerned that the Fed had failed to heed their inflation warnings and that aggressive tightening to reduce inflation could bring on a recession. Chair Powell made an “unconditional commitment” to tame inflation – while waiting for “compelling evidence” that inflation is moving down before easing the pace of tightening. At this stage, either a 50bps or 75bps increase is on the table for Jul.

With growth concerns heightened, there will be increased attention to incoming data. The prelim PMIs for Jun were disappointing. Momentum slowed more than expected in the US and across Europe. The main theme was a contraction in demand/new orders and weaker confidence in the growth outlook. This was evident across US manufacturing and surprisingly, services. Across the Eurozone, orders slowed across services and contracted sharply across manufacturing. Private sector manufacturing activity in Japan also slowed – with demand affected by Covid restrictions in China. Service sector momentum was stronger in Japan as travel and tourism restrictions were eased. The prelim PMI for the UK and Aus showed momentum remained little changed in Jun.

In Aus, the RBA minutes noted the further upside surprises in inflation over the prior month. The minutes suggest that the decision to go with a 50bps increase was that the current/low starting level of rates was seen as too stimulatory for an economy with a tight labour market and facing higher inflation. The Board was concerned that the inflation mindset was shifting and did not want to risk higher inflation becoming entrenched. Governor Lowe noted that the Board will be having the same discussion next month on whether to increase the cash rate target by 25 or 50bps.

Inflation was elevated across CPI reports last week. CPI growth in Canada came in higher than expected at +7.7% (expecting +7.5%) in May, the UK CPI came in as expected at +9.1%, and CPI growth in Japan remained at +2.5% for May, slower than expected, but still elevated.

The ECB hosts its Forum on Central Banking this week 27-29 Jun. Members from the ECB will speak at the start of the week. On Wed, US Fed Chair Powell, ECB President Lagarde, and BoE Governor Bailey will take part in the economic policy panel.

Inflation will remain top of mind this week. US PCE price inflation for May will be released. This is the FOMC preferred measure of inflation. Headline PCE is expected to remain elevated in May (the Apr headline PCE inflation was +6.3% and core was +4.9%). Other US data will include the ISM manufacturing PMI for Jun, durable goods orders for May, and the monthly personal income and spending for May.

The flash Euro area inflation for Jun will be reported and inflation is expected to accelerate from +8.1% in May to +8.3% in Jun – another record reading. The flash CPIs for Euro area countries will also be released during the week: Spain, Germany, France, and Italy.

The final PMIs for Jun manufacturing activity will start to be released this week. The official Chinese Bureau of Statistics China PMIs will also be released for Jun.

Next Monday is the US National Independence Day holiday.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$347bn in ST Bills, TIPS, Notes, and Bonds, raising an estimated \$53bn in new money.

Approx. \$35bn in ST Bills, Notes & Bonds will mature on the Fed balance sheet this week and will be rolled over. Approx. \$21bn in Notes and Bonds will mature and roll off the Fed balance sheet this week, making up the bulk of the \$30bn QT cap for June.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
27Jun-1Jul	23-Jun	28-Jun	4 week bill	35			Actual 1.100%	1.180%
	23-Jun	28-Jun	8 week bill	30			Actual 1.500%	1.470%
	22-Jun	28-Jun	119-Day CMB	30			Actual 2.060%	2.090%
				95	100	-5		
	27-Jun	30-Jun	13 week bill	45			Announced	1.670%
	27-Jun	30-Jun	26 week bill	42			Announced	2.390%
				87	108	-21		
	22-Jun	30-Jun	20 yr Bond	14			Actual 3.488%	3.290%
	23-Jun	30-Jun	5yr TIPS	18			Actual 0.362%	-0.340%
	27-Jun	30-Jun	2yr Note	46			Announced	2.519%
	27-Jun	30-Jun	5yr Note	47			Announced	2.738%
	28-Jun	30-Jun	7yr Note	40			Announced	2.777%
				165	86.1	78.91		
			Total - securities settling this week	347	294.1	52.91		
			Net New Cash Raised Qtr to Date	3408	3401	7		
			<i>Estimated Net Paydown Q2 (\$ Bn)</i>					-26
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		28-Jun	Bills	6.6				
		30-Jun	Bills	15.7				
		30-Jun	Notes & Bonds	12.6				
				34.9				
			Maturing & redemption					
		30-Jun	Notes & Bonds	20.7				

Quantitative Tightening Summary – 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

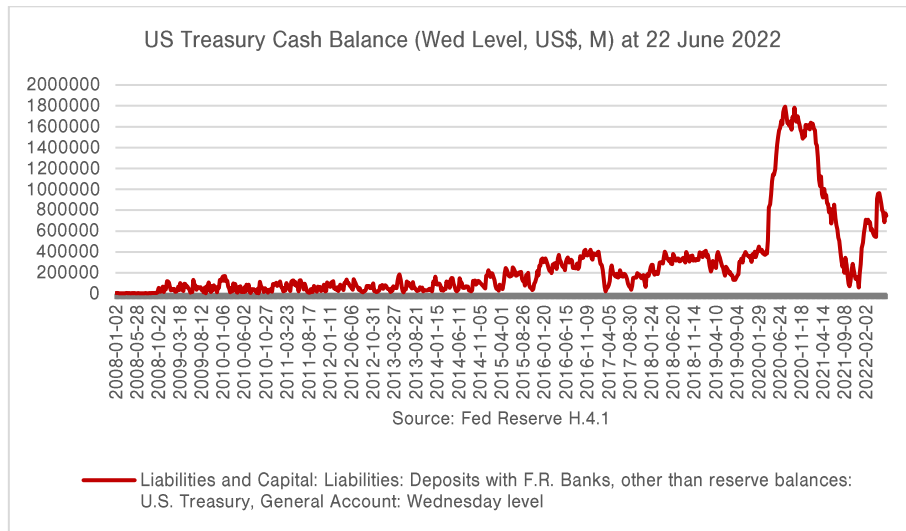
In Q2, the US Treasury estimates a net paydown of -\$26bn. This reflects a -\$433bn paydown of Bills and +\$407bn of net new Coupon issuance for the quarter.

In the quarter to date at the end of Q2, the US Treasury raised approx. \$7bn in new money.

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 \$25bn, reaching a balance of \$745bn as of Wed 22 June. This current balance is approx. \$11bn 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. The next tentative schedule will be released on 28 Jun – the table below is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 27 Jun	0	0.719
Tue 28 Jun	0	0.484
Wed 29 Jun	0	Tbc
Thur 30 Jun	0	Tbc
Fri 1 Jul	0	Tbc
Total Announced Purchases	\$0bn	\$1.2bn

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 27 JUNE 2022

MONDAY 27 JUNE (US Eastern Time, unless stated otherwise)

US	Durable Goods Orders (May), Pending Home Sales (May), Dallas Fed Manufacturing Index (Jun), Fed Williams speech
Europe	ECB Forum on Central Banking – ECB President Lagarde; opening speech

TUESDAY 28 JUNE

Europe	ECB Forum on Central Banking
US	Wholesale Inventories (May), Case/Shiller House Price Index (Apr), Richmond Fed Manufacturing Index (Jun)
Japan	Retail Trade (May)
Australia	Retail Trade (May)

WEDNESDAY 29 JUNE

US	Mortgage Apps wk ending 24 Jun, GDP Q1 – Final, Fed speeches – Bullard & Mester
Europe	Germany CPI – Prelim (Jun) ECB Forum on Central Banking – Econ Policy Discussion; Fed Chair Powell, ECB President Lagarde, and BoE Governor Bailey
Japan	Industrial Production – Prelim (May)
China	NBS Manufacturing & Non-Manufacturing PMI (Jun)
Australia	Private Sector Credit Outstanding (May)

THURSDAY 30 JUNE

US	Initial Claims wk 24 Jun, US PCE Price Index (May), Personal Income (May), and Personal Spending (May), Chicago PMI (Jun), OPEC Meeting - tentative
Australia	Manufacturing PMI Final (Jun)
Japan	Manufacturing PMI Final (Jun)

FRIDAY 1 JULY

Europe	Eurozone Manufacturing PMI Final (Jun), Eurozone CPI – Prelim (Jun)
US	Manufacturing PMI – Final (Jun), ISM Manufacturing PMI (Jun), Vehicle Sales (Jun)
