

Key events for the week ahead – US CPI & retail sales, RBNZ & BoC policy decisions, and US Q2 earnings

The pace of inflation, the strength of the labour market, and growth remain key barometers for central banks in this tightening cycle.

The FOMC minutes reflected the hawkish tilt at the June meeting following the May CPI report. A key change was the shift from 'expeditiously to neutral' to restrictive policy, and, possibly to an 'even more restrictive stance' if elevated inflation pressure persists. At this stage, it's likely the FOMC will raise the FFR target by another 75bps at the Jul meeting. Since the last meeting, the market narrative has shifted to growth and recession concerns if the Fed maintains this hawkish angle. The FOMC has done little to dampen this narrative.

US labour force data continued to confirm robust conditions for May and Jun. Non-farm payrolls for Jun were higher than expected at +372k, but with -72k revisions for the two prior months.

The US labour market started the year on a strong note, but the pace of momentum has eased since Mar. This is evident across slower (yet still high) payroll and household employment growth and a slightly rising trend in initial jobless claims since Mar. The peak (so far) in job openings was in Mar, the peak in hires was in Feb, and quits peaked back in Nov 2021. US layoffs and discharges reached a low in Dec 2021.

The US ISM reports highlight slower growth momentum since late 2021 also. Manufacturing conditions eased more notably by Jun – especially new orders (confirmed by the S&P PMI and regional surveys). The ISM services momentum also eased, but the headline expansion remains at the average 2019 pre-pandemic level. There is some sign of slowing services new orders/demand growth (especially in the US S&P Services PMI).

Global S&P PMIs for Jun was stronger – led by broader expansion from the reopening of China. Ex China highlights slower growth momentum in manufacturing – led by the Eurozone (including Germany) and the US. Eurozone services also slowed notably. The PMIs summarise the different headwinds facing many nations; including the roll-off of significant covid-era stimulus, high inflation impacting consumption, a war on the doorstep of Europe, an energy crisis, and rising rates.

There are several important US reports out this week in the lead-up to the Jul FOMC meeting. The first is US CPI. Inflation is expected to accelerate to +8.8% for the year (expectations for up to +9%), up from +8.6% in May. Monthly CPI is also expected to remain high at +1.1% in Jun (versus +1% in May). Core CPI is expected to increase at a constant +0.6% for the month and +5.8% for the year, down from +6% in May.

The second is US retail sales growth, which is expected to rebound to +0.8% in Jun after a fall in nominal sales in May of -0.3%.

RBNZ monetary policy decision – markets are expecting a 50bps increase.

BoC monetary policy decision – and the expectation is for a 75bps increase. Headline CPI in Canada remains elevated. The employment decline in Jun was offset by a fall in participation, so the unemployment rate fell to 4.9%. Wage growth was stronger than expected.

Aus labour market report for Jun will be another important barometer for the RBA. Employment growth is expected to slow but the unemployment rate is also expected to fall to a record 3.8%.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$317bn in ST Bills, Notes, and Bonds raising approx. \$10bn in new money.

Approx. \$36bn in ST Bills, Notes, Bonds, and TIPS (incl compensation) will mature on the Fed balance sheet this week and will be rolled over. Approx. \$13.6bn in Notes, Bonds, and TIPS (incl compensation) will roll off the balance sheet this week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
11-15 Jul	07-Jul	12-Jul	4 week bill	35			Actual 1.530%	1.240%
	07-Jul	12-Jul	8 week bill	30			Actual 1.840%	1.650%
	06-Jul	12-Jul	119-Day CMB	30			Actual 2.230%	2.185%
				95	100	-5		
	11-Jul	14-Jul	13 week bill	51			Announced	1.850%
	11-Jul	14-Jul	26 week bill	42			Announced	2.500%
	12-Jul	14-Jul	52 week bill	34			Announced	3.020%
				127	142	-15		
	11-Jul	15-Jul	3yr Note	43			Announced	2.927%
	12-Jul	15-Jul	10yr Note	33			Announced	3.030%
	13-Jul	15-Jul	30yr Bond	19			Announced	3.185%
				95	64.4	30.6		
			Total - securities settling this week	317	306.4	10.6		
			Net New Cash Raised Qtr to Date	499	514	-15		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			182		
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		12-Jul	Bills	6.7				
		14-Jul	Bills	17.0				
		15-Jul	Notes, Bonds, & Tips	12.1				
				35.8				
			Maturing & redemption					
		15-Jul	Notes, Bonds, & TIPS	13.6				

Quantitative Tightening Summary – Updated JULY 2022

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

SOMA Coupon maturities are estimated to be \$56.6bn this month (on 15 and 31 July). Of the \$56.6bn, a total of \$30bn (the cap) will be redeemed and the remaining \$26.6bn 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.

SOMA securities maturing July 2022 \$ Bn		% of total month	Redemption Amt	Reinvest Amt	
15-Jul-22	Notes & Bonds (incl TIPS)	25.7	0.45	13.6	12.1
31-Jul-22	Notes & Bonds (incl FRN)	30.8	0.55	16.4	14.5
		56.6		30	26.6

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

Recommended US Treasury Financing Q3 - 2022

In Q3, the TBAC estimates that the US Treasury will raise approx. \$182bn in new money for the quarter. This reflects a -\$153bn paydown of Bills and +\$335bn of net new Coupon issuance over the quarter.

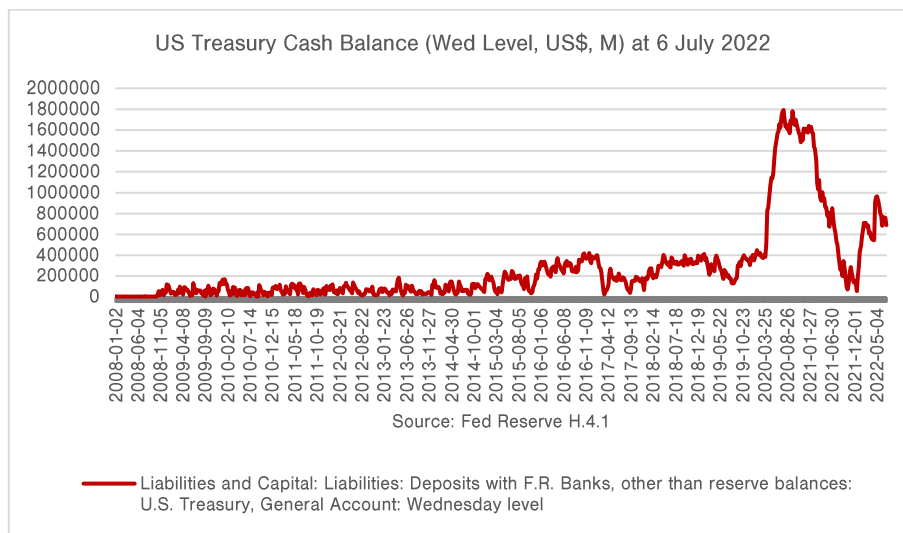
The US Treasury has paid down approx. \$15bn in the quarter to date.

The final Q3 refunding schedule and the estimate for Q4 will be released on 3 August 2022. Overall financing estimates will be released on 1 August 2022.

<https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

In the week of Wed 6 Jul, the level of the TGA decreased by \$72bn, reaching a balance of \$688bn. This current balance is approx. \$37bn below 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 plans to purchase approx. \$6.8bn in MBS over the period 29 Jun -14 Jul. The next tentative schedule will be released on 14 Jul.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 11 Jul	0	0.922
Tue 12 Jul	0	0.531
Wed 13 Jul	0	0.924
Thur 14 Jul	0	0.529
Fri 15 Jul	0	Tbc
Total Announced Purchases	\$0bn	\$2.9bn

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 11 JULY 2022

MONDAY 11 JULY (US Eastern Time, unless stated otherwise)

Japan	BoJ Governor Kuroda speech, PPI (Jun)
Australia	NAB Business Conditions & Confidence (Jun), Westpac Consumer Confidence (Jul)
US	NY Fed President Williams speech
UK	BoE Governor Bailey speech

TUESDAY 12 JULY

UK	BoE Governor Bailey speech
NZ	RBNZ Monetary Policy Decision
China	Trade Balance, Exports, & Imports (Jun)

WEDNESDAY 13 JULY

US	Mortgage Apps wk ending 8 Jul, CPI (Jun)
UK	Monthly GDP (May), Industrial Production (May)
Europe	Eurozone Industrial Production (May), Germany CPI – Final (Jun)
Canada	BoC Monetary Policy Decision
Australia	Consumer Inflation Expectations (Jul), Labour Market Survey (Jun)

THURSDAY 14 JULY

Japan	Industrial Production – Final (May)
US	Initial Claims wk 8 Jul, PPI (Jun), US Fed Governor Waller speech
China	GDP Q2, Industrial Production (Jun), Retail Sales (Jun)

FRIDAY 15 JULY

US	NY Empire State Manufacturing Index (Jul), Retail Sales (Jun), Industrial Production (Jun), University of Michigan Consumer Sentiment – Prelim (Jul)
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