

Key events for the week ahead – ECB & BoJ policy decisions, RBA Minutes, inflation reports, and prelim PMIs for July

Recap from last week; US CPI accelerated more than expected to +9.1% for Jun. Fed speeches and market reactions indicate that at least another 75bps hike is expected by the FOMC next week. There is a sense that the Jun CPI report marks a near-term peak in the pace of headline inflation given the easing in energy and commodity prices. But measures of core inflation (trimmed and median) and sticky CPI suggest that inflation pressure is still broadening and may take longer for it to peak. Even if headline inflation growth slows, it may take longer for core inflation to return to target levels.

US retail spending for Jun came in better than expected at +1% (still slightly negative in real terms), and consumer sentiment was little changed from Jun. The weakness in Jun US manufacturing from the regional and PMI reports was reflected in the -0.5% decline in manufacturing output in Jun. Both durable and non-durable goods output declined.

Continued high inflation had central banks announcing larger rate hikes last week. The BoC surprised with a 100bps increase in the target overnight rate to 2.5%, citing higher and more persistent inflation than expected. The BoC expects inflation to stay around 8% for the next few months. This week, the Jun CPI for Canada is expected to increase to +8.3% (from 7.7% in May).

The RBNZ also lifted the official cash rate by a further 75bps last week to 2.5%. The bank noted near-term upside inflation risks, supported by a tight labour market (3.2% unemployment rate). This week, NZ Q2 CPI came in higher than expected at 7.3% for Jun.

There will be more central bank activity this week. The BoJ will meet on monetary policy, but no policy change is expected. The BoJ is expected to update its inflation outlook. The Japanese National CPI for Jun will be released this week. Core inflation (ex-fresh food) is expected to stay elevated at +2.2% (from +2.1% in May).

The ECB is expected to increase its key rates by 25bps. The net asset purchases ended on 1 July. So far, inflation has continued to increase at an elevated pace. Sentiment is weakening and there are signs of slowing growth momentum, especially in periphery countries. Generally, markets are expecting a short hiking cycle.

The RBA minutes will be released this week. The RBA raised the cash rate target by another 50bps to 1.35% at the Jul meeting. Last week's Jun labour market report reflected a further tightening in conditions – high employment growth, a new high in participation, and a near-term record low unemployment rate of 3.5%. This will give the RBA confidence to continue hiking rates. This week, Governor Lowe will speak, and Asst Governor Bullock will also speak about how Aus households are placed for interest rate increases. Next week, the Q2 CPI report will be released – in time for the Aug meeting the following week.

UK CPI for Jun is expected to increase further by +9.3% (versus +9.1% in May).

The prelim S&P PMIs for Jul will be released this week. There was a notable slowdown in Jun, especially in US manufacturing and across the Eurozone. The Jul reports are expected to show little change in momentum from Jun.

There will be no Fed-speak this week in the blackout period ahead of the FOMC meeting next week.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$211bn in ST Bills raising approx. \$3bn in new money.

The US Treasury will also auction the 10yr TIPS and the 20yr Bond this week.

Approx. \$19bn 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 % |
|-----------|--------------------------|-----------------|---|---------------------------|---------------------|---------------|---------------------------|
| 18-22 Jul | 14-Jul | 19-Jul | 4 week bill | 45 | | Actual 1.980% | 1.530% |
| | 14-Jul | 19-Jul | 8 week bill | 40 | | Actual 2.270% | 1.840% |
| | 13-Jul | 19-Jul | 119-Day CMB | 30 | | Actual 2.600% | 2.230% |
| | | | | 115 | 100 | 15 | |
| | 18-Jul | 21-Jul | 13 week bill | 54 | | Announced | 2.110% |
| | 18-Jul | 21-Jul | 26 week bill | 42 | | Announced | 2.685% |
| | | | | 96 | 108 | -12 | |
| | | | Total - securities settling this week | 211 | 208 | 3 | |
| | | | Net New Cash Raised Qtr to Date | 710 | 722 | -12 | |
| | | | <i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i> | | | 182 | |
| | Upcoming Auctions | | | | | | |
| | 21-Jul | 29-Jul | 10yr TIPS | 17 | | Announced | 0.232% |
| | 20-Jul | 01-Aug | 20yr Bond | 14 | | Announced | 3.488% |
| | | | Face value of SOMA securities maturing | \$B | | | |
| | | | Maturing & reinvestment | | | | |
| | | 19-Jul | Bills | 5.5 | | | |
| | | 21-Jul | Bills | 13.7 | | | |
| | | | | 19.2 | | | |

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 (due 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.

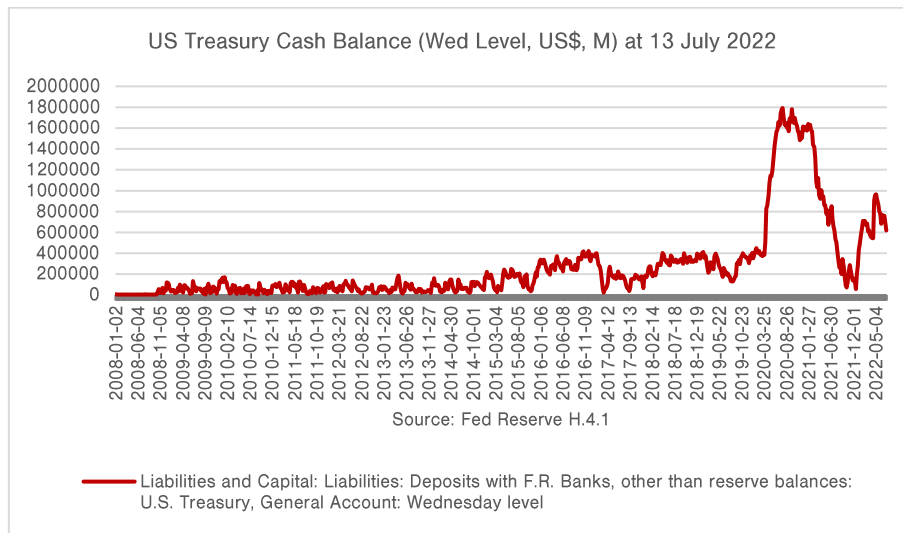
The US Treasury has paid down approx. \$12bn in the quarter to date.

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

As of Wed 13 Jul, the level of the TGA reached \$619bn, declining by \$69bn compared to the week prior. The current TGA balance is approx. \$39bn 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. \$6bn in MBS over the period 15 -28 Jul. The next tentative schedule will be released on 28 Jul.

| Date | Treasury Security Operations (\$ BN) | MBS Operations, Max Value (\$ BN) |
|---------------------------|--------------------------------------|-----------------------------------|
| Mon 18 Jul | 0 | 0.832 |
| Tue 19 Jul | 0 | 0.493 |
| Wed 20 Jul | 0 | 0.832 |
| Thur 21 Jul | 0 | 0.493 |
| Fri 22 Jul | 0 | 0.180 |
| Total Announced Purchases | \$0bn | \$2.8bn |

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 18 JULY 2022

MONDAY 18 JULY (US Eastern Time, unless stated otherwise)

| | |
|-----------|--|
| NZ | CPI (Q2) |
| US | NAHB Housing Market Index (Jul) |
| Australia | RBA Meeting Minutes, RBA Asst Gov Bullock speech |

TUESDAY 19 JULY

| | |
|-----------|---|
| Europe | CPI – Final (Jun) |
| US | Building Permits & Housing Starts (Jun) |
| Australia | RBA Governor Lowe speech; The Aus Strategic Bus Forum |

WEDNESDAY 20 JULY

| | |
|--------|--|
| UK | CPI (Jun) |
| Canada | CPI (Jun) |
| US | Mortgage Apps wk ending 15 Jul, Existing Home Sales (Jun) |
| Japan | Trade Balance, Exports, & Imports (Jun) BoJ Monetary Policy Meeting |

THURSDAY 21 JULY

| | |
|-----------|---|
| Europe | ECB Monetary Policy Meeting |
| US | Initial Claims wk 15 Jul, Philadelphia Fed Manufacturing Survey (Jul) |
| Australia | S&P Manufacturing & Services PMIs – Prelim (Jul) |
| Japan | National CPI (Jun), S&P Manufacturing & Services PMIs – Prelim (Jul) |

FRIDAY 22 JULY

| | |
|--------|---|
| Europe | Eurozone S&P Manufacturing & Services PMIs – Prelim (Jul) |
| UK | S&P Manufacturing & Services PMIs – Prelim (Jul) |
| US | S&P Manufacturing & Services PMIs – Prelim (Jul) |
