

Key events for the week ahead – Global PMIs for Jul, BoE and RBA decisions, and US non-farm payrolls

The FOMC raised the FFR target by 75bps to 2.25%-2.5%. The FOMC has followed its plan to increase rates 'expeditiously' to the 'neutral' rate. In a highly contentious statement, Chair Powell said that the neutral level had probably been reached after the Jul hike. The Fed will take a measured approach to the next rate increases, as the FFR likely starts to increase into more restrictive territory. Some saw this decision as a pivot, especially compared to the overtly hawkish tone in the Jun meeting (after the May CPI shock when the Fed was seen as behind the curve and notably upped its hawkish rhetoric). Still, the FOMC stated that another 'unusually large' hike could be appropriate, depending on the data. At the very least, ongoing increases are still appropriate.

The FOMC acknowledged a willingness to accept a period of 'below-trend' growth in the short term to achieve lower inflation over the long term. Soft demand isn't going to get the Fed to pivot unless there is a material deterioration in labour market. And inflation is yet to fall – although easing in inflation is expected now that energy/commodity prices have fallen from recent peaks. With greater data uncertainty, FOMC guidance has been reduced. We continue to focus on Fed speak/signaling, inflation, labour market indicators, and broader growth momentum going into the next meeting.

US data last week showed another decline in Q2 GDP (advance release). The slowdown was more broad-based than the decline in Q1. The PCE inflation for Jun though, surprised to the upside with a strong increase in the month of +1% (up from +0.6% in May) and the annual rate increasing to +6.8% from +6.3% in May.

US data this week will provide a good overview of the US labour market. Non-farm payrolls for Jul are expected to increase at a slower pace of +250k. The unemployment rate is expected to remain at 3.6% with little/no change in participation at 62.2%. Initial claims will be watched closely – which were revised higher in prior weeks and is now up to +250k/week. JOLTS data for Jun will also be released. On the growth front, the ISM surveys for Jul will be in focus – especially after the weaker flash US PMIs (output). Regional manufacturing surveys in Jul have been mostly stable after the deterioration in Jun, but there are pockets of weakness.

It was mixed news for the ECB with faster growth in Q2 but higher inflation. Euro area Q2 GDP growth surprised to the upside, increasing by +0.7% (expecting +0.1%) versus +0.5% in Q1. But Germany's GDP growth slowed to 0% in Q2. The Euro area flash inflation for Jul was higher than expected at +8.9% (expecting +8.7%) versus +8.6% in Jun. But the monthly growth slowed notably to +0.1%. Similarly, Euro area core CPI accelerated to +4% from +3.7% in Jun, but the monthly pace declined by -0.2%. This week, a further read on growth momentum from the Jul PMIs, retail sales, and Germany factory orders and industrial production.

The BoE is expected to increase rates by a further 25bps this week. UK inflation is still elevated at +9.4% in Jun having accelerated from +9.1% in May.

The RBA is expected to increase rates by a further 50bps this week. Headline CPI came in slightly lower than expected at +6.1% (expecting +6.3%), but still higher than the +5.1% inflation recorded in Q1. Measures of core CPI also accelerated to over 4% and well above the target band of 2-3% inflation. Aus economic activity and the labour market have remained resilient, while there have been some signs of softening in the housing market. The RBA is expected to release its latest inflation forecasts in the Statement on Monetary Policy.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$398bn in ST Bills, Notes, Bonds, and FRNs raising approx. \$47bn in new money.

Approx. \$21bn 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 %
1-5 Aug	28-Jul	02-Aug	4 week bill	55			Actual 2.140%	2.120%
	28-Jul	02-Aug	8 week bill	50			Actual 2.210%	2.230%
	27-Jul	02-Aug	119-Day CMB	30			Actual 2.690%	2.720%
				135	95	40		
	01-Aug	04-Aug	13 week bill	54			Announced	2.520%
	01-Aug	04-Aug	26 week bill	42			Announced	2.920%
				96	96	0		
	25-Jul	01-Aug	2yr Note	45			Actual 3.015%	3.084%
	27-Jul	01-Aug	2yr FRN	24			High Disc Margin 0.037%	-0.010%
	26-Jul	01-Aug	5yr Note	46			Actual 2.860%	3.271%
	28-Jul	01-Aug	7yr Note	38			Actual 2.730%	3.280%
	20-Jul	01-Aug	20yr Bond	14			Actual 3.420%	3.488%
				167	159.8	7.2		
			Total - securities settling this week	398	350.8	47.2		
			QTR to date totals	1,356	1,270	86		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			182		
			Face value of SOMA securities maturing \$B					
			Maturing & reinvestment					
		02-Aug	ST Bills	6.5				
		04-Aug	ST Bills	15.1				
				21.6				
			QT Summary - Monthly cap \$ Bn AUGUST 2022:			30		
			SOMA securities maturing August 2022 \$ Bn		% of total month	Redemption Amt	Reinvest Amt	
		15-Aug-22	Notes & Bonds	84.8	0.76	22.8	62.0	
		31-Aug-22	Notes & Bonds	26.5	0.24	7.2	19.4	
				111.4		30	81.4	

Quantitative Tightening Summary – August 2022

This is the final month of the lower \$30bn cap on the decline in Treasury Securities on the Fed balance sheet. This cap increases to \$60bn in September.

Approx. \$111.4bn in SOMA Coupons will mature this month (15 and 31 Aug). Of the \$111.4bn, a total of \$30bn (the cap) will be redeemed and the remaining \$81.4bn in maturing Coupons will be reinvested. Given that the value of Coupons maturing is greater than the redemption cap this month, Bills maturing in August will be rolled over/reinvested.

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<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.

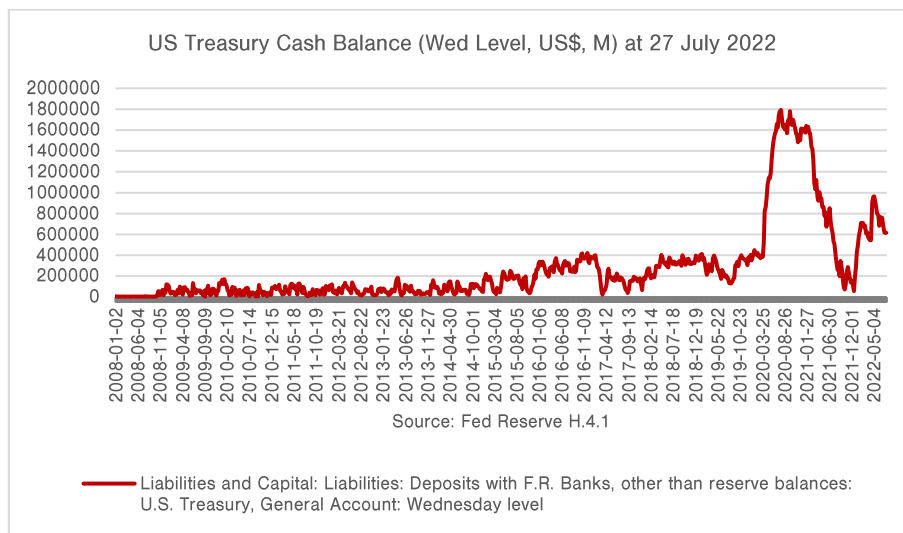
The US Treasury has raised approx. \$86bn in new money in the quarter to date.

The final Q3 refunding schedule and the estimate for Q4 will be released this week 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 27 Jul, the level of the TGA reached \$615bn, declining by \$0.8bn compared to the week prior. The current TGA balance is approx. \$78bn higher than 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 29 Jul – 11 Aug. The next tentative schedule will be released on 11 Aug.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 1 Aug	0	0.839
Tue 2 Aug	0	0.497
Wed 3 Aug	0	0.839
Thur 4 Aug	0	0.497
Fri 5 Aug	0	0.839
Total Announced Purchases	\$0bn	\$3.5bn

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 1 AUGUST 2022

MONDAY 1 AUGUST (US Eastern Time, unless stated otherwise)

Australia	S&P Manufacturing PMI (Jul), Building Permits (Jun), Housing Finance (Jun)
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Japan	S&P Manufacturing PMI (Jul)
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Europe	Germany & Eurozone S&P Manufacturing PMI (Jul)
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UK	S&P Manufacturing PMI (Jul)
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US	ISM Manufacturing PMI (Jul), S&P Manufacturing PMI (Jul)
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TUESDAY 2 AUGUST

Australia	RBA Monetary Policy Decision, S&P Services PMI (Jul)
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Canada	S&P Manufacturing PMI (Jul)
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US	JOLTS (Jun), Fed Speeches; Bullard, Evans
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NZ	Employment Q2
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Japan	S&P Services PMI (Jul)
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WEDNESDAY 3 AUGUST

Europe	Germany & Eurozone S&P Services PMI (Jul), Eurozone Retail Sales (Jun)
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UK	S&P Services PMI (Jul)
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US	Mortgage Apps wk 29 Jul, ISM Services PMI (Jul), S&P Services PMI (Jul), Factory Orders (Jun)
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THURSDAY 4 AUGUST

Europe	Germany Factory Orders (Jun)
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UK	BoE Monetary Policy Decision
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US	Initial Claims wk 29 Jul, Challenger Job Cuts (Jul), Fed Speeches; Mester
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Australia	Statement on Monetary Policy
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FRIDAY 5 AUGUST

Europe	Germany Industrial Production (Jun)
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US	Non-Farm Payrolls & Labour Force Survey (Jul), Consumer Credit Change (Jun)
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Canada	Labour Force Survey (Jul)
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