

Key events for the week ahead – FOMC monetary policy decision, US and Euro area Q2 growth, and inflation data

There were several notable parts of the ECB decision last week. The ECB increased its key interest rates more than expected by 50bps, to ‘front-load’ increases, and noted that further normalization of monetary conditions would be appropriate given the updated inflation assessment. The ECB announced its ‘anti-fragmentation tool’ the Transmission Protection Instrument. Given the highly uncertain geopolitical environment, the ECB also announced a ‘transition to a meeting-by-meeting approach to interest rate decisions’, effectively halting forward guidance. The ECB noted that activity is slowing in the Eurozone, due to both the invasion of Ukraine and high inflation impacting demand.

The Jul flash PMIs showed a continued broad-based slowdown in momentum, including slower order growth and declines in export orders. Services output growth slowed across all markets. Manufacturing output contracted across most markets, except Australia, and contracted more notably in the Euro area (led by Germany). In Germany, finished goods inventory increased at a near record rate highlighting the scale of the slowdown in demand.

The contraction in the US services PMI output component was notable, falling by -5.7pts, and new export orders also contracted. This is roughly in line with the weakening conditions in the housing market with continued declines in mortgage applications, substantial falls in existing home sales for Jun, and weaker housing market conditions in Jul. The US flash manufacturing PMI for Jul showed contracting demand and flat output growth as firms worked through backlogs in the absence of higher demand. The other important development has been the small, but consistent increase in initial jobless claims, now up to +251k as of last week.

Outlook for the week ahead – In the US, the FOMC is expected to increase rates by another 75bps this week bringing the FFR target to 2.5%. We’ll be looking for how signaling might shift as the FFR reaches 2.5% (around the “neutral rate”). Will the FOMC start to signal smaller hikes? Does the FOMC start to show a degree of sensitivity to slower growth and/or easing inflation?

US data this week should provide a further guide on the growth momentum. A key focus will be on the high-frequency initial jobless claims data (expecting around +250k). GDP in Q2 (prelim) is expected to grow by +0.4% on a SAAR-basis, up from -1.6% in Q1 (Q1 GDP showed more resilient private sector demand, but fell due to the change in inventories and net exports). The PCE price inflation data for Jun is expected to show little change from the +6.3% increase in May. Other data includes personal income and spending for Jun, durable goods orders for Jun, consumer sentiment for Jul, and more regional manufacturing surveys for Jul.

Euro area data this week will also provide a guide on growth and inflation momentum. The prelim Q2 GDP for the Euro area (and country-level data) will be released. Euro area growth is expected to slow from +0.6% in Q1 to +0.1% in Q2. The prelim Euro area CPI data for Jul will also be released (including country-level inflation data). The Euro area CPI is expected to accelerate slightly to +8.7% in Jul from +8.6% in Jun.

Finally, important Q2 CPI data for Australia will be released – a timely update for the RBA board meeting next week when a further hike in interest rates is expected. Annual CPI is expected to accelerate to +6.3% in Q2 up from +5.1% in Q1. The QoQ increase is expected to slow to +1.9% in Q2 from +2.1% in Q1.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$248bn in ST Bills and 10yr TIPS raising approx. \$51bn in new money. The US Treasury will also auction the 2yr, 5yr, and 7yr Notes and the 2yr FRN this week and will settle early next week.

Approx. \$24bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be rolled over. Approx. \$16bn in Notes and Bonds (making up the remainder of the monthly \$30bn cap) will mature and roll off the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
25-29 Jul	21-Jul	26-Jul	4 week bill	55			Actual 2.120%	1.980%
	21-Jul	26-Jul	8 week bill	50			Actual 2.230%	2.270%
	20-Jul	26-Jul	119-Day CMB	30			Actual 2.720%	2.600%
				135	95	40		
	25-Jul	28-Jul	13 week bill	54			Announced	2.470%
	25-Jul	28-Jul	26 week bill	42			Announced	2.910%
				96	102	-6		
	21-Jul	29-Jul	10yr TIPS	17			Actual 0.630%	0.232%
				17	0	17		
			Total - securities setting this week	248	197	51		
			QTR to date totals	958	919	39		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			182		
			Upcoming Auctions					
	25-Jul	01-Aug	2yr Note	45			Announced	3.084%
	27-Jul	01-Aug	2yr FRN	24			Announced	-0.010%
	28-Jul	01-Aug	5yr Note	48			Announced	3.271%
	28-Jul	01-Aug	7yr Note	38			Announced	3.280%
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		26-Jul	Bills	6.6				
		28-Jul	Bills	3.2				
		31-Jul	Notes & Bonds	14.5				
				24.3				
			Maturing & redemption					
		31-Jul	Notes & Bonds	16.4				

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.

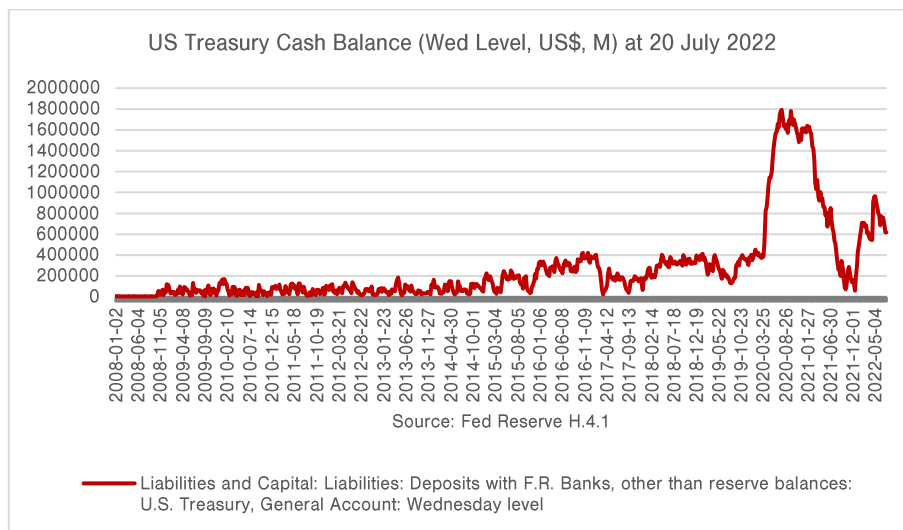
The US Treasury has raised approx. \$39bn in new money in the quarter to date.

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 20 Jul, the level of the TGA reached \$616bn, declining by \$2.4bn compared to the week prior. The current TGA balance is approx. at the same level as 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 25 Jul	0	0.832
Tue 26 Jul	0	0.492
Wed 27 Jul	0	0.832
Thur 28 Jul	0	0.830
Fri 29 Jul	0	Tbc
Total Announced Purchases	\$0bn	\$3bn

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 25 JULY 2022

MONDAY 25 JULY (US Eastern Time, unless stated otherwise)

US	Chicago Fed National Activity Index (Jun), Dallas Fed Manufacturing Survey (Jul)
Japan	BoJ Minutes

TUESDAY 26 JULY

US	Case/Shiller House Price Index (May), New Home Sales (Jun), Richmond Fed Manufacturing Index (Jul)
Australia	CPI Q2

WEDNESDAY 27 JULY

US	Mortgage Apps wk 22 Jul, Durable Goods Orders (Jun), Pending Home Sales (Jun) FOMC – Monetary Policy Decision
Australia	Retail Sales (Jun)

THURSDAY 28 JULY

Europe	Germany CPI Prelim (Jul)
US	Initial Claims wk 22 Jul, GDP Q2 Prelim, Kansas City Manufacturing Index (Jul)
Japan	Industrial Production Prelim (Jun), Retail Trade (Jun)
Australia	Private Sector Credit (Jun)

FRIDAY 29 JULY

Europe	Eurozone CPI Prelim (Jul), Eurozone GDP Q2 Prelim
US	PCE Price Inflation (Jun), Personal Income (Jun), Personal Spending (Jun), Employment Cost Index Q2, Chicago PMI (Jul), University of Michigan Consumer Sentiment Final (Jul)
China	NBS Manufacturing and Non-Manufacturing PMIs (Jul)
