

Key events for the week ahead – US non-farm payrolls, FOMC & ECB minutes, RBA policy decision

At the ECB Forum at Sintra last week, central bankers agreed that we aren't returning to a 'lowflation' world. While Inflation may come down from these peaks, it could stay elevated compared to before the pandemic – and this has implications for monetary policy settings. Central bankers also felt there was urgency in tightening to ensure inflation does not become entrenched. Whilst Chair Powell thought there was a risk of "going too far" with tightening and risking a recession, in fact, "the bigger mistake to make, let's put it that way, would be to fail to restore price stability." (US Fed Chair Powell).

But will these central banks maintain this hawkishness if growth does slow in a meaningful way? In Europe, the Euro area flash CPI for Jun continued to accelerate to a record +8.6% but the flash PMIs for Jun suggests a slowdown in manufacturing and services momentum plus weak sentiment. The ECB has yet to even start raising rates (although conditions are tightening). There is still a considerable downside risk to growth in the Euro area from a further escalation with Russia/Ukraine and energy policy.

The BoE is not seen as behind the curve. The UK economy is "at a turning point" and showing signs of slowing while the inflation rate remains at an extreme +9.1%. The BoE Governor noted at Sintra that it would act more forcefully if inflation remained persistent, but hinted that raising the policy rate was not the only option.

Finally, the FOMC has been tightening more aggressively. The PCE inflation rate increased at a constant pace of 6.3% in May (+6.3% in Apr), but the Atlanta Fed trimmed mean still shows inflation broadening across categories. There are signs of easing pressure from energy and other commodity prices, which may be reflected in upcoming inflation reports. But US manufacturing, services, and housing data are fuelling growth concerns. US regional manufacturing surveys for Jun recorded a notable slowdown in orders over the last two months. Firms are instead working through backlogs and tight inventories are starting to ease. The ISM manufacturing report for Jun also reported a slight contraction in orders as well as a further, moderate contraction in employment.

During his FOMC press conference in Jun, Chair Powell said that the "objective is to bring inflation down to 2% while the labour market remains strong". The labour markets will remain a key barometer for the central banks and for the pace of tightening in the near term.

This week, the focus will be on US non-farm payrolls for Jun. Initial claims over the last few weeks have remained steady, albeit slightly elevated. Non-farm payrolls are expected to increase by +270k in Jun (+390k in May). Participation is expected to be little changed at 62.3% and the unemployment rate is expected to remain at an extremely low 3.6%.

The FOMC and ECB minutes from the prior meetings will be released this week.

The RBA will meet on policy this week. Governor Lowe noted that the discussion will likely focus on a 25 or 50bps increase in the cash rate target. Markets are expecting another 50bps increase. The labour market remains strong, while there is some evidence of the housing market starting to slow.

The final global PMIs for Jun will continue to be released this week. Also, Germany's factory orders and industrial production data for May will be an important gauge of activity in the Euro area.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$182bn in ST Bills, with an estimated paydown of \$26bn.

Approx. \$20bn 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 %
Monday 4th July - National Independence Day Holiday							
4-8 Jul	30-Jun	05-Jul	4 week bill	35		Actual 1.240%	1.100%
	30-Jun	05-Jul	8 week bill	30		Actual 1.650%	1.500%
	29-Jun	05-Jul	119-Day CMB	30		Actual 2.185%	2.060%
				95	100		
	05-Jul	07-Jul	13 week bill	45		Announced	1.750%
	05-Jul	07-Jul	26 week bill	42		Announced	2.500%
				87	108		
			Total - securities settling this week	182	208	-26	
			Net New Cash Raised Qtr to Date	182	208	-26	
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			182	
			Face value of SOMA securities maturing	\$B			
			Maturing & reinvestment				
		05-Jul	Bills	6.5			
		07-Jul	Bills	14.2			
				20.6			
			Quantitative Tightening Summary - Monthly cap \$ Bn JULY 2022:		30		
			SOMA securities maturing July 2022 \$ Bn		% of total month	Redemption Amt	Reinvest Amt
	15-Jul-22	Notes & Bonds	25.9	0.62		18.6	7.3
	31-Jul-22	Notes & Bonds	15.9	0.38		11.4	4.5
			41.7			30	11.7

Quantitative Tightening Summary – 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 \$41.7bn this month (on 15 and 31 July). Of the \$41.7bn, a total of \$30bn (the cap) will be redeemed and the remaining \$11.7bn 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	25.9	0.62	18.6	7.3
31-Jul-22	Notes & Bonds	15.9	0.38	11.4	4.5
		41.7		30	11.7

<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 in Q3. This reflects a -\$153bn paydown of Bills and +\$335bn of net new Coupon issuance for the quarter.

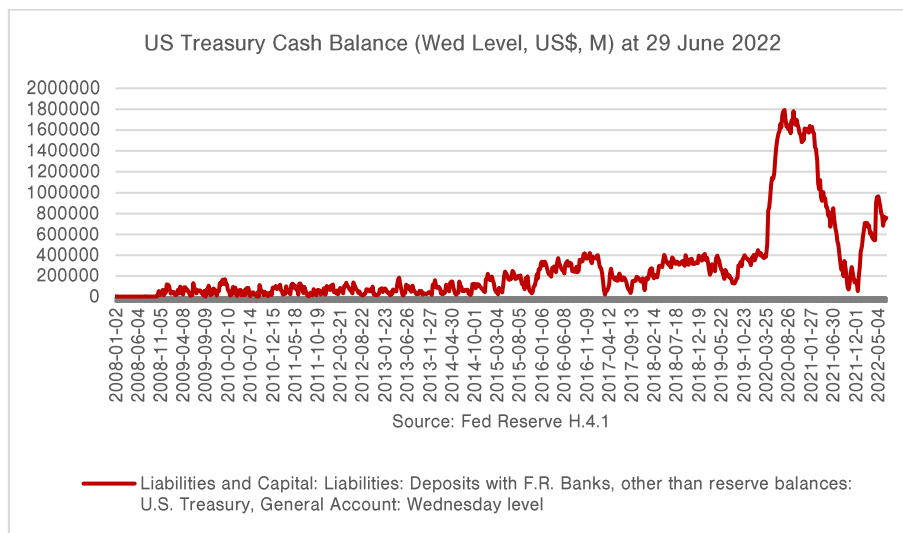
As of the end of Q2, the US Treasury raised approx. \$7bn in new money over the quarter.

The next release of the final Q3 refunding schedule and the estimate for Q4 will be 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

The level of the TGA increased by \$14bn, reaching a balance of \$759bn as of Wed 29 June. This current balance is approx. \$92bn below 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. \$6.8bn in MBS over the period 29 Jun -13 Jul. The next tentative schedule will be released on 14 Jul.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 4 Jul	0	Holiday
Tue 5 Jul	0	0.922
Wed 6 Jul	0	0.531
Thur 7 Jul	0	0.922
Fri 8 Jul	0	0.311
Total Announced Purchases	\$0bn	\$2.7bn

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 4 JULY 2022

MONDAY 4 JULY (US Eastern Time, unless stated otherwise)

US	Independence Day Holiday
Europe	Eurozone PPI (May)
Canada	S&P Global Manufacturing PMI (Jun), BoC Outlook Survey
Australia	Housing Finance (May), Services PMI Final (Jun) RBA Monetary Policy Decision
Japan	Services PMI Final (Jun)

TUESDAY 5 JULY

Europe	Eurozone Services PMI Final (Jun)
UK	Services PMI Final (Jun), BoE Governor Bailey Speech
US	Factory Orders (May)

WEDNESDAY 6 JULY

US	Mortgage Apps wk ending 1 Jul, S&P US Services PMI Final (Jun), ISM Services PMI (Jun), JOLTS (May), Fed speeches: Williams FOMC Minutes
Europe	Germany Factory Orders (May), EC Growth Forecasts, Eurozone Retail Sales (May)

THURSDAY 7 JULY

US	Initial Claims wk 1 Jul, Challenger Job Cuts (Jun), Fed speeches: Bullard & Waller
Europe	Germany Industrial Production (May), ECB Minutes

FRIDAY 8 JULY

Europe	ECB President Lagarde speech
US	Non-Farm Payrolls (Jun) exp +270k, Consumer Credit (May), Wholesale Inventories Final (May), Fed speeches: Williams
Canada	Labour Market Report (Jun)
China	CPI & PPI (Jun)
