

Key events for the week ahead – Jackson Hole Economic Symposium

Recap from last week: The minutes of the Jul FOMC meeting quelled the idea of a dovish Fed pivot at this time. The minutes showed that moving to a “restrictive stance of policy was required” given the elevated level of inflation. The Fed is still concerned about the upside risks to inflation and of inflation expectations becoming unanchored. Even though the Jul CPI had moved lower, the FOMC noted that declines in the price of oil and other commodities “could not be relied on as providing a basis for sustained lower inflation”.

But as policy tightens further, the FOMC said that it would be appropriate to “slow the pace of increases” as it assesses the cumulative impact of hikes/tightening. Once policy was “sufficiently restrictive” it may also be appropriate to **maintain that level** to ensure inflation was firmly on a path back to 2%. In other words, rates may stay higher for longer, depending on the path of inflation and the economy. The unanswered question; what is the ‘appropriate’ level of restrictive policy rates?

Data out of the US was mixed last week. The recent negative trend in initial jobless claims has reversed somewhat. The weekly growth in initial claims remains around +250k. US headline retail sales growth for Jul was slightly lower than expected – led by declines in motor vehicles and gasoline, noting that gasoline prices declined by over 7% in the month. Ex autos and gasoline, retail sales increased by +0.7% in Jul (+0.7% in Jun). The regional manufacturing surveys for Aug continued to reflect weakness in new orders. But industrial output and, specifically, manufacturing output growth improved in Jul. Data on the US housing market continued to disappoint with conditions deteriorating further in Aug and existing home sales also falling notably in Jul.

Inflation outside of the US is still extremely elevated as energy prices in the UK and Europe continue to rise. UK CPI in Jul was +10.1% (expecting +9.8%). UK core CPI was also higher at +6.2% (expecting +5.9%). Eurozone CPI for Jul was confirmed at +8.9% and +0.8% in the month. Germany's PPI for Jul surprised to the upside, increasing by 37.2% over the year (expecting +32.7%) and increasing by over 5% in the month. This was led by but was not limited to, further increases in electricity and natural gas prices. The headline CPI for Japan also increased more than expected in Jul by +2.6% (expecting +2.2%). This was led mostly by higher food prices, but also a smaller contribution from prices for electricity & gas charges, clothing, and communications.

The outlook for the week ahead: The annual Kansas City Fed Jackson Hole Symposium will be the main event this week - "Reassessing Constraints on the Economy and Policy". US Fed Chair Powell will speak on Friday morning. We expect a continued hawkish tone. Chair Powell isn't likely to provide any detail for the Sep FOMC meeting, given another CPI and payrolls report is due before then.

US PCE inflation for Jul will be released on Fri, along with the University of Michigan consumer sentiment reading for Aug.

The prelim S&P PMIs for Aug will be released this week and will provide a further guide on private sector momentum compared to Jul. Growth is expected to ease slightly, especially across Europe and the UK.

The Minutes of the last ECB meeting will also be released this week.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$313bn in ST Bills and 2yr FRN's, raising approx. \$102bn in new money. Treasury issuance will be supplemented with the addition of a 21-Day CMB. The US Treasury will also auction approx. \$126bn in 2yr, 5yr, and 7yr Notes – which will settle on 31 Aug.

Approx. \$17bn 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 %
22-26 Aug	18-Aug	23-Aug	4 week bill	55			Actual 2.150%	2.150%
	18-Aug	23-Aug	8 week bill	50			Actual 2.490%	2.430%
	17-Aug	23-Aug	119-Day CMB	30			Actual 2.890%	2.780%
				135	115	20		
	22-Aug	25-Aug	13 week bill	54			Announced	2.610%
	22-Aug	25-Aug	26 week bill	42			Announced	3.020%
	23-Aug	25-Aug	21-Day CMB	60			Announced	n/a
				156	96	60		
	24-Aug	26-Aug	2Yr FRN	22			Announced	HDM 0.037%
				22	0	22		
			Total - securities settling this week	313	211	102		
			QTR to date totals	2,263	1,961	302		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>444</i>		
			Upcoming Auctions					
	23-Aug	31-Aug	2yr Note	44			Announced	3.015%
	24-Aug	31-Aug	5yr Note	45			Announced	2.860%
	25-Aug	31-Aug	7yr Note	37			Announced	2.730%
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		23-Aug	Bills	6.5				
		25-Aug	Bills	10.9				
				17.4				

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, all Bills maturing in August will be rolled over/reinvested.

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

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

Recommended US Treasury Financing - Updated Q3 2022

The borrowing requirements in the updated recommended US Treasury financing for Q3 were increased from +\$182bn to +\$444bn. Emphasis added;

Since the May refunding, Treasury has continued to receive information regarding projected borrowing needs, including an additional quarter of tax receipts and **clarity on the timing and pace of redemptions of Treasury securities from the Federal Reserve System Open Market Account.** <https://home.treasury.gov/news/press-releases/jy0908>

Estimated net Bills issuance for Q3 increased from a -\$153bn paydown to +\$123bn in new money raised for the quarter. The estimated net new Coupon issuance over the quarter decreased slightly from +\$335bn to +\$320bn as a result of reduced auction sizes;

Based on this updated information, Treasury intends to continue reducing auction sizes of nominal coupon securities during the upcoming August – October 2022 quarter.

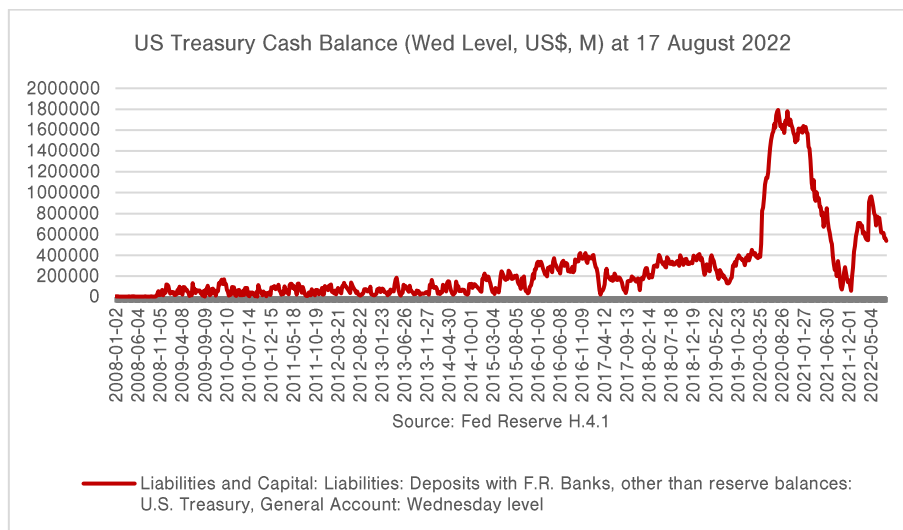
Over the next three months, Treasury anticipates incrementally reducing the size of each of the 2-, 3-, 5-, and 7-year note auctions by \$1 billion per month. As a result, the size of the 2-, 3-, 5-, and 7-year note auctions will each decrease by \$3 billion by the end of October. <https://home.treasury.gov/news/press-releases/jy0908>

The US Treasury has raised approx. \$302bn in new money in the quarter to date.

The full details for Q3 and estimates for Q4 can be found here; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 17 Aug, the level of the TGA declined to \$539bn, declining by \$22bn compared to the week prior. The current TGA balance is approx. \$225bn 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. \$3.4bn in MBS over the period 12 - 25 Aug. The next tentative schedule will be released on 25 Aug.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 22 Aug	0	0.169
Tue 23 Aug	0	Nil
Wed 24 Aug	0	0.445
Thur 25 Aug	0	0.777
Fri 26 Aug	0	TBC
Total Announced Purchases	\$0bn	\$1.4bn

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 22 AUGUST 2022

MONDAY 22 AUGUST (US Eastern Time, unless stated otherwise)

US	Chicago Fed National Activity Index (Jul)
Australia	S&P Prelim Manufacturing & Services PMI (Aug)
Japan	S&P Prelim Manufacturing & Services PMI (Aug)

TUESDAY 23 AUGUST

Europe	S&P Eurozone Prelim Manufacturing & Services PMI (Aug)
UK	S&P Prelim Manufacturing & Services PMI (Aug)
US	S&P Prelim Manufacturing & Services PMI (Aug), New Home Sales (Jul), Richmond Fed Manufacturing Index (Aug)

WEDNESDAY 24 AUGUST

US	Mortgage Apps wk 19 Aug, Durable Goods Orders (Jul), Pending Home Sales (Jul)
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THURSDAY 25 AUGUST

Europe	Germany GDP Q2 ECB Minutes
US	Initial Claims wk 19 Aug, GDP Prelim Q2, Kansas City Fed Manufacturing Index (Aug) Jackson Hole Symposium

FRIDAY 26 AUGUST

US	US Fed Chair Powell Speech: Jackson Hole Symposium PCE Price Index (Jul), Personal Spending (Jul), Personal Income (Jul), University of Michigan Consumer Sentiment – Final (Aug)
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SATURDAY 27 AUGUST

US	Jackson Hole Symposium
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