

Key events for the week ahead – US non-farm Payrolls, Fed speak, Euro area CPI for Aug, PMI's

Recap from last week: The markets continue to digest the hawkish message from Jackson Hole – that central bankers (except the BoJ) are committed to addressing high inflation, with rates likely to remain higher for longer. This has been the key message from the US Fed over the last few weeks (via speeches and Minutes).

Fed Chair Powell set the tone and used his opening remarks at Jackson Hole to further distill the key messages of the last few weeks. The shorter message: as long as inflation stays high, rates will stay high. Emphasis was on the FOMC moving 'purposefully' to a sufficiently restrictive level to return inflation to 2% and taking 'forceful and rapid steps' to ensure inflation expectations remained anchored. It was noted that there will be some pain, and to expect softer growth and labour market conditions (so while inflation is still high, don't expect rate cuts). The current long-run neutral rate is not the place to stop and claim a premature victory. Once at a sufficiently restrictive level, that policy stance will likely be maintained 'for some time', and until the Fed is 'confident that the job is done'. Chair Powell referenced the median projection of the FFR of just below 4% in the SEP (as of June) – maybe as a guide for an appropriately restrictive level of the FFR.

Towards the end of the speech, Fed Chair Powell referenced the period of 'high and volatile inflation' of the 1970's and 1980's – noting that the FOMC deliberations build on the lessons of that period. The world is once again in a high and volatile inflation environment.

The flash PMI's for Aug were disappointing. Slower growth momentum was recorded across the G4 countries. Weaker orders are still a key theme. Manufacturing output contracted – most notably in the UK, but also in Germany and the Eurozone. Services momentum also slowed, less so in the UK. The US Services sector continued to contract at a notable pace (from 47.3 in Jul to 44.1 in Aug).

US PCE inflation for Jul mirrored that of the CPI for Jul with a slight decline in the month and headline easing to +6.3% in Aug from +6.8% in Jul. Durable and non-durable goods prices declined in the month while services prices were little changed at +0.1%. Core PCE inflation slowed to +4.6% over the year in Aug.

Outlook for the week ahead: The main focus for the week will be US non-farm payrolls for Aug – the second last important data point before the next FOMC meeting. Nonfarm payrolls are expected to increase by +285k in Aug after a +528k increase in Jul. The unemployment rate is expected to remain at 3.5% and participation unchanged at 62.1%. The high frequency initial jobless claims data has been more positive in recent weeks with claims now under +250k.

US Fed speakers are scheduled throughout the week, including Vice Chair Brainard. Speeches are expected to build on the hawkish message.

The flash Aug CPI for the Eurozone will be released this week (including country-level data throughout the week). Inflation is expected to increase by +1.1% in the month (from +0.1% in Jul) and to increase to +9% over the year (from +8.9% in Jul).

The final global PMI's for Aug will be released through the week starting with manufacturing. The official Chinese PMI's will also be released and are expected to show slower growth momentum.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$380bn in ST Bills, Notes, Bonds, and TIPS, raising approx. \$77bn in new money.

Approx. \$37bn in ST Bills and Notes will mature on the Fed balance sheet this week and will be rolled over. Approx \$10bn in Notes, Bonds, and Bills will roll-off the Fed balance sheet this week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
29 Aug - 2 Sep	25-Aug	30-Aug	4 week bill	55			Actual 2.310%	2.150%
	25-Aug	30-Aug	8 week bill	50			Actual 2.610%	2.490%
	24-Aug	30-Aug	119-Day CMB	30			Actual 2.970%	2.200%
				135	115	20		
	29-Aug	01-Sep	13 week bill	54			Announced	2.740%
	29-Aug	01-Sep	26 week bill	42			Announced	3.110%
				96	96	0		
	23-Aug	31-Aug	2yr Note	44			Actual 3.307%	3.015%
	24-Aug	31-Aug	5yr Note	45			Actual 3.230%	2.860%
	25-Aug	31-Aug	7yr Note	37			Actual 3.130%	2.730%
	17-Aug	31-Aug	20yr Bond	15			Actual 3.380%	3.420%
	18-Aug	31-Aug	30yr TIPS	8			Actual 0.920%	0.195%
				149	91.86	57.14		
			Total - securities settling this week	380	302.86	77.14		
			QTR to date totals	2,643	2,264	379		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>444</i>		
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		30-Aug	Bills	6.4				
		31-Aug	Notes & Bonds	19.4				
		01-Sep	Bills	11.6				
				37.3				
			Maturing & redemption					
		31-Aug	Notes & Bonds	7.2				
		01-Sep	Bills	3.0				
				10.2				

Quantitative Tightening Summary – September 2022

The higher month cap of \$60bn for Treasuries comes into effect this month, starting this week. Approx. \$43.6bn in SOMA Coupons on the Fed balance sheet will mature in Sept (15 and 30 Sep). As this total is below the \$60bn cap, all maturing Coupons will be redeemed this month. That means that maturing Bills on the balance sheet will make up the residual \$16.3bn of the \$60bn redemption cap and will also roll-off the balance sheet this month.

Proportion of total Sep cap \$B - Total Coupon to Redeem			\$60
15-Sep	Notes & Bonds	9.79	
30-Sep	Notes & Bonds	33.86	
Notes & Bonds to Redeem - Sept		43.64	
Bills to Redeem - Sept		16.36	

The timing of Bills to be redeemed is based on the proportion of Bills maturing on the Fed balance sheet each week over Sept;

	Bill Maturity - Setpember	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2022/09/01	14.60	19%	3.03	11.57
2022/09/06	6.60	8%	1.37	5.23
2022/09/08	13.19	17%	2.74	10.45
2022/09/13	5.46	7%	1.13	4.33
2022/09/15	10.07	13%	2.09	7.97
2022/09/20	6.56	8%	1.36	5.20
2022/09/22	3.91	5%	0.81	3.10
2022/09/27	3.08	4%	0.64	2.44
2022/09/29	15.30	19%	3.18	12.12
	78.758	100%	16.36	62.40

<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.

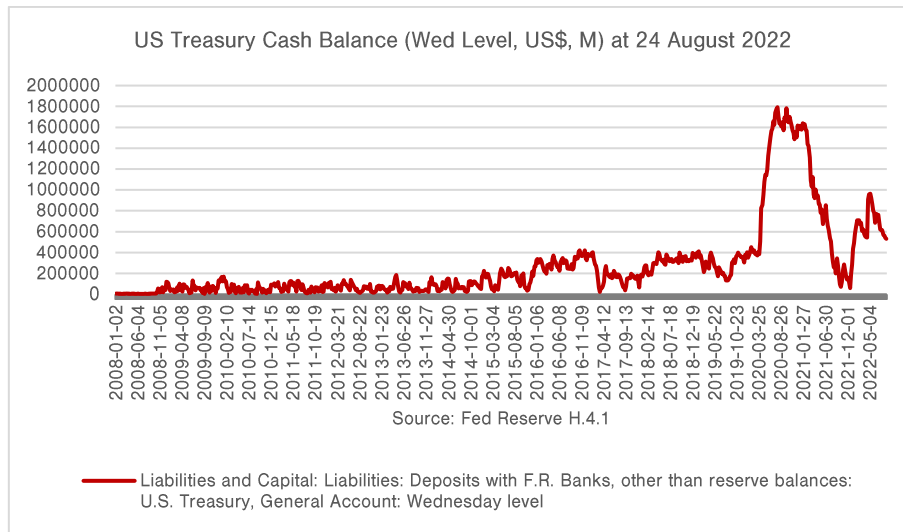
Over the next three months, Treasury anticipates incrementally reducing the size of each of the 2-, 3-, 5-, and 7-year note auctions by \$1 billion per month. As a result, the size of the 2-, 3-, 5-, and 7-year note auctions will each decrease by \$3 billion by the end of October. <https://home.treasury.gov/news/press-releases/jy0908>

The US Treasury has raised approx. \$379bn 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 24 Aug, the level of the TGA declined to \$530bn, declining by \$9bn compared to the week prior. The current TGA balance is approx. \$272bn 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. \$4.4bn in MBS over the period 26 Aug – 14 Sep. The next tentative schedule will be released on 15 Sep “if necessary”.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 29 Aug	0	0.756
Tue 30 Aug	0	0.101
Wed 31 Aug	0	0.386
Thur 1 Sep	0	0.756
Fri 2 Sep	0	Nil
Total Announced Purchases	\$0bn	\$2bn

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 29 AUGUST 2022

MONDAY 29 AUGUST (US Eastern Time, unless stated otherwise)

Australia Retail Sales (Jul), Building Permits (Jul)

US Dallas Fed Manufacturing Survey (Aug), Fed Vice Chair Brainard speech

TUESDAY 30 AUGUST

Europe Germany CPI – Prelim (Aug)

US Case-Shiller House Price Index (Jun), JOLTS (Jul), Fed speeches: Williams, Barkin

Japan Industrial Production Prelim (Jul), Retail Trade (Jul)

China NBS Manufacturing and Non-Manufacturing PMI (Aug)

Australia Construction Work Done Q2

WEDNESDAY 31 AUGUST

Europe Eurozone CPI – Prelim (Aug)

US Mortgage Apps wk 26 Aug, ADP Employment Change (Aug), Chicago PMI (Aug), Fed speeches; Mester, Bostic

Canada GDP Q2

Australia S&P Manufacturing PMI Final (Aug), Housing Finance (Jul), Private Capex Q2

Japan S&P Manufacturing PMI Final (Aug)

China Caixin Manufacturing PMI Final (Aug)

THURSDAY 1 SEPTEMBER

Europe S&P Eurozone Manufacturing PMI Final (Aug)

UK S&P Manufacturing PMI Final (Aug)

US Initial Claims wk 26 Aug, Challenger Job Cuts (Aug), ISM Manufacturing PMI (Aug), S&P Manufacturing PMI Final (Aug), Fed speeches: Bostic

FRIDAY 2 SEPTEMBER

US Non-Farm Payrolls and Household Employment Survey (Aug), Factory Orders (Jul)
