

Key events for the week ahead – US CPI

Recap from last week; US Fed speeches walked back market interpretations of a Fed ‘pivot’ from the last FOMC meeting. Speakers remained hawkish, signaling their commitment to bring down inflation, that there was ‘still a long way to go to reach the price stability target of 2%’, and that the Fed was looking for “compelling evidence” of inflation slowing.

Stronger US data helped to offset the emerging recession narrative. This was led by higher-than-expected growth in non-farm payrolls for Jul of +528k (versus +250k expected). Average hourly earnings also increased by more than expected. The household employment survey was mixed; employment growth was positive, but low for the month. The unemployment rate still declined to 3.5% because more people left the labour market. Initial claims continued to edge slightly higher.

The Jul US ISM PMI surveys diverged. The manufacturing PMI recorded a further, albeit slight slowdown in momentum (similar to the S&P PMI). Manufacturing demand contracted led by domestic orders while new export orders rebounded. The ISM Services PMI recorded improved momentum as growth in orders and output were more widespread in Jul. This is in stark contrast to the S&P services PMI which recorded a sharp contraction in the US services sector in Jul.

The BoE surprised markets by increasing the bank rate by a further 50bps. It was also a notable meeting in that the inflation forecast was upgraded to peak around +13% in Q4 2022 and the BoE announced that it expects the UK to enter a recession from Q4 2022. The BoE staff presented a strategy for the outright sale of UK Gilts held on the BoE balance sheet. This program will be voted on at the Sep meeting and is likely to begin shortly thereafter. This week, UK Q2 GDP will be released, and the economy is expected to contract by -0.2% in Q2.

The RBA increased the cash rate target by a further 50bps last week. There was little in the way of guidance other than further normalization is to be expected in the coming months due to high inflation. The Board needs to see elevated inflation come down (forecast to take about 2 years to get back to the 2-3% range) to the target but is intent on keeping the economy ‘on an even keel’.

The Jul S&P PMIs reflected slower growth momentum in manufacturing and services activity in many developed markets. There were notable falls in headline PMIs in US services (-5.4pts), Mexico manufacturing (-3.7pts), Taiwan manufacturing (-5.2pts), and Japan services (-3.7pts).

The week ahead; Inflation will be the key theme this week. The US Jul CPI report will be one of two CPI reports before the next FOMC meeting in Sep. Inflation data generally, will be important in the context of the next steps for the path of rates in the US and will be closely monitored over the next six weeks. The expectation is for Jul CPI to have slowed to +8.7% (from +9.1% in Jun). The monthly growth will be closely watched with CPI expected to increase by just +0.2% in Jul after increasing by +1.3% in Jun. Core measures of CPI are expected to stay elevated at +6.1% over the year and +0.5% for the month. Fed speeches after the CPI release are expected. The prelim Aug University of Michigan consumer sentiment, including inflation expectations, and Q2 unit labour costs will also be released this week.

There will be other measures of inflation reported this week with four European final CPI reports for Jul (Germany, France, Italy, and Spain), China CPI for Jul, and Aus consumer inflation expectations for Aug.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$265bn in ST Bills, raising approx. \$40bn in new money.

The US Treasury will also auction approx. \$98bn in 3yr and 10yr Notes and 30yr Bonds – which will settle next week.

Approx. \$22bn 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 %	
8-12 Aug	04-Aug	09-Aug	4 week bill	55			Actual 2.110%	2.140%	
	04-Aug	09-Aug	8 week bill	50			Actual 2.280%	2.210%	
	03-Aug	09-Aug	119-Day CMB	30			Actual 2.730%	2.690%	
				135	95	40			
	08-Aug	11-Aug	13 week bill	54			Announced	2.490%	
	08-Aug	11-Aug	26 week bill	42			Announced	2.850%	
	09-Aug	11-Aug	52 week bill	34			Announced	2.960%	
				130	130	0			
	Total - securities settling this week				265	225	40		
	Net New Cash Raised Qtr to Date				1621	1495	126		
<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>						<i>444</i>			
Upcoming Auctions									
	09-Aug	15-Aug	3yr Note	42			Announced	3.093%	
	10-Aug	15-Aug	10yr Note	35			Announced	2.960%	
	11-Aug	15-Aug	30yr Bond	21			Announced	3.115%	
Face value of SOMA securities maturing				\$B					
Maturing & reinvestment									
	09-Aug		Bills	6.7					
	11-Aug		Bills	15.6					
				22.3					

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 latest recommended US Treasury financing for Q3 was released last week. Overall there was an increase in borrowing requirements from +\$182bn to +\$444bn for Q3. 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. 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>

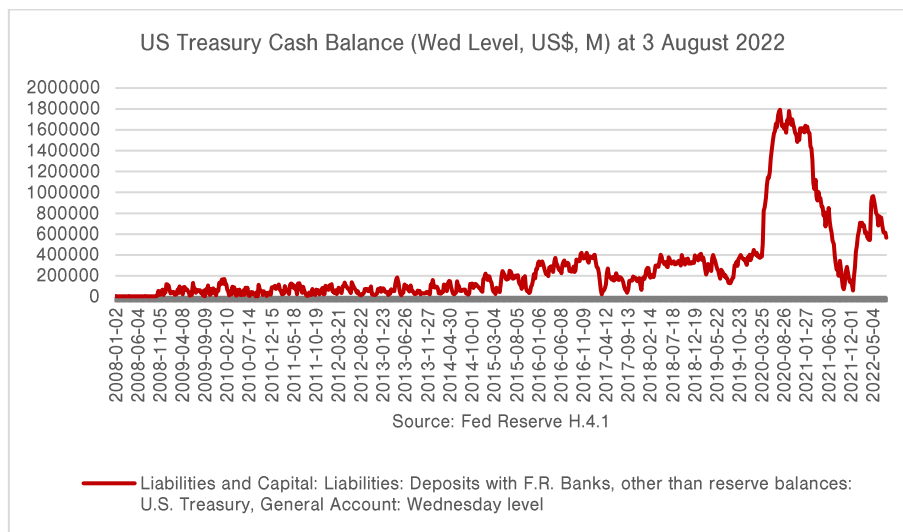
The US Treasury has raised approx. \$126bn in new money in the quarter to date.

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 3 Aug, the level of the TGA declined to \$566bn, declining by \$49bn compared to the week prior. The current TGA balance is approx. \$61bn 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 8 Aug	0	0.839
Tue 9 Aug	0	0.149
Wed 10 Aug	0	0.840
Thur 11 Aug	0	0.497
Fri 12 Aug	0	Tbc
Total Announced Purchases	\$0bn	\$2.3bn

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 8 AUGUST 2022

MONDAY 8 AUGUST (US Eastern Time, unless stated otherwise)

Australia	NAB Business Conditions & Confidence Survey (Jul)
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TUESDAY 9 AUGUST

US	Unit Labour Costs Q2
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Australia	Westpac Consumer Sentiment (Aug)
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China	CPI & PPI (Jul)
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WEDNESDAY 10 AUGUST

Europe	Germany CPI – Final (Jul), Italy CPI – Final (Jul)
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US	Mortgage Apps wk 5 Aug, CPI (Jul)
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Australia	Consumer Inflation Expectations (Aug)
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THURSDAY 11 AUGUST

US	Initial Claims wk 5 Aug, PPI (Jul)
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FRIDAY 12 AUGUST

UK	GDP Q2 – Prelim
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Europe	Eurozone Industrial Production (Jun), France CPI – Final (Jul), Spain CPI – Final (Jul)
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US	University of Michigan Consumer Sentiment – Prelim (Aug)
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