

## Key events for the week ahead – US CPI & retail sales

Recap from last week; Central bank speeches and policy decisions continued to signal a firm commitment to address inflation to keep inflation expectations anchored.

US Fed Chair Powell remained hawkish and kept the option open for another large rate hike. Other speeches supported a further outsized increase. The market probability of another 75bps hike has now increased to over 90%. “It is very important that inflation expectations remain anchored,” Powell said, adding that the “clock is ticking” on ensuring that they stay that way.” Source: [Bloomberg](#)

The ECB delivered an outsized increase of 75bps while inflation is now expected to average +8.1% over 2022 in the Euro area. It is still early in the ECB hiking cycle and more rate hikes are expected; “Over next several meetings, the Governing Council will raise rates further to dampen demand against the risk of a persistent upward shift in inflation expectations.” Source: [ECB](#)

The BoC hiked by a further 75bps. While inflation has eased, it remains high, and concerns were noted over short-term inflation expectations; “Surveys suggest that short-term inflation expectations remain high. The longer this continues, the greater the risk that elevated inflation becomes entrenched.” Source: [BoC](#)

The RBA hiked by a further 50bps and removed the reference to ‘normalizing policy’ in its statement. Inflation is expected to peak this year at 7.75%. In a speech later in the week, the RBA Governor noted the link between a de-anchoring of inflation expectations and interest rates; “A shift higher in inflation expectations will require higher interest rates. In time that would mean a sharper slowing of the economy. It is in our national interest that we avoid this.” Governor Lowe also indicated that the case to slow the pace of hikes becomes stronger “as the level of the cash rate rises”.

The headline J.P.Morgan composite global PMI for Aug reported a contraction in global output across manufacturing and service sectors for the first time since the start of the pandemic. At the same time, future output growth expectations continued to improve.

Outlook for the week ahead; In the lead-up to the FOMC meeting next week, the focus is on US CPI and retail sales for Aug. The monthly US CPI change is expected to fall slightly by -0.1% (from -0.02% in Jul). The annual inflation rate is expected to slow to +8.1% in Aug from +8.5% in Jul. Core inflation will be closely watched and growth is expected to remain at +0.3% over the month and increase to +6.1% over the year. US retail sales growth is expected to remain flat in nominal terms in Aug. With the FOMC meeting next week, we are now in the blackout period for Fed speeches.

The UK CPI (Aug) is expected to increase to +10.2%, up from +10.1% in Jul. Monthly CPI is expected to remain at +0.6%. The UK labour market survey for the three months to Jul will also be released. These will both be key inputs into the BoE policy meeting which has been postponed until 22 Sep.

The Aus labour market report for Aug is expected to show +35k growth in employment, an increase in the participation rate to 66.6%, and the unemployment rate to remain at 3.4%.

## US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$312bn in ST Bills, Notes, and Bonds, raising approx. \$3bn in new money.

Approx. \$25bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week. Of this, approx. \$13bn of maturing Notes, Bonds, and Bills will be redeemed and the remaining \$12bn in maturing Bills will be reinvested.

| WEEK      | Auction Date | Settlement Date | Marketable Securities  | Auction Amount<br>\$B<br>(TBAC) | Amount<br>Maturing<br>\$B | New<br>Money \$B |               | Prior Auction<br>High Rate % |
|-----------|--------------|-----------------|--|---------------------------------|---------------------------|------------------|---------------|------------------------------|
| 12-16 Sep | 08-Sep       | 13-Sep          | 4 week bill  | 50                              |                           |                  | Actual 2.500% | 2.470%                       |
|           | 08-Sep       | 13-Sep          | 8 week bill  | 45                              |                           |                  | Actual 2.765% | 2.730%                       |
|           | 07-Sep       | 13-Sep          | 119-Day CMB  | 30                              |                           |                  | Actual 3.195% | 3.100%                       |
|           |              |                 |  | 125                             | 125                       | 0                |               |                              |
|           | 12-Sep       | 15-Sep          | 13 week bill   | 54                              |                           |                  | Actual 3.075% | 2.985%                       |
|           | 12-Sep       | 15-Sep          | 26 week bill   | 42                              |                           |                  | Actual 3.465% | 3.320%                       |
|           |              |                 |  | 96                              | 156                       | -60              |               |                              |
|           | 12-Sep       | 15-Sep          | 3yr Note   | 41                              |                           |                  | Actual 3.564% | 3.202%                       |
|           | 12-Sep       | 15-Sep          | 10yr Note  | 32                              |                           |                  | Actual 3.330% | 2.755%                       |
|           | 13-Sep       | 15-Sep          | 30yr Bond  | 18                              |                           |                  | Announced     | 3.106%                       |
|           |              |                 |  | 91                              | 28                        | 63               |               |                              |
|           |              |                 | <b>Total - securities settling this week</b>                     | <b>312</b>                      | <b>309</b>                | <b>3</b>         |               |                              |
|           |              |                 | <b>QTR to date totals</b>  | <b>3,210</b>                    | <b>2,818</b>              | <b>392</b>       |               |                              |
|           |              |                 | <i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>                |                                 |                           | <i>444</i>       |               |                              |
|           |              |                 | <b>Face value of US Federal Reserve SOMA securities maturing</b> | <b>\$B</b>                      |                           |                  |               |                              |
|           |              |                 | <b>Maturing &amp; reinvestment</b>                               |                                 |                           |                  |               |                              |
|           |              | 13-Sep          | Bills  | 4.3                             |                           |                  |               |                              |
|           |              | 15-Sep          | Bills  | 8.0                             |                           |                  |               |                              |
|           |              |                 |  | 12.3                            |                           |                  |               |                              |
|           |              |                 | <b>Maturing &amp; redemption (balance sheet roll-off)</b>        |                                 |                           |                  |               |                              |
|           |              | 13-Sep          | Bills  | 1.1                             |                           |                  |               |                              |
|           |              | 15-Sep          | Bills  | 2.1                             |                           |                  |               |                              |
|           |              | 15-Sep          | Notes & Bonds  | 9.8                             |                           |                  |               |                              |
|           |              |                 |  | 13.0                            |                           |                  |               |                              |

### Quantitative Tightening Summary – September 2022

The higher month cap of \$60bn for Treasuries has come into effect this month. 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 up to the \$60bn redemption cap this month.

| Summary of Total Coupon & Bills to Redeem with \$60bn cap |               |       | \$60 |
|---|---------------|-------|------|
| 15-Sep  | Notes & Bonds | 9.79  |      |
| 30-Sep  | Notes & Bonds | 33.86 |      |
| Total Notes & Bonds to Redeem - Sept                      |               | 43.64 |      |
| Remainder: Bills to Redeem - Sept                         |               | 16.36 |      |

The schedule of the \$16.36bn 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>

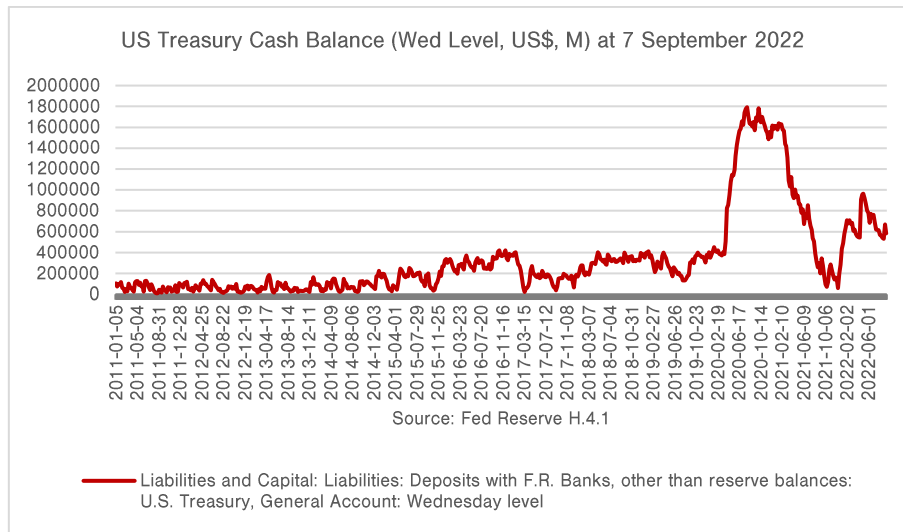
The US Treasury has raised approx. \$392bn in new money in the quarter to date.

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>

The next quarterly refunding update will be on 2 Nov 2022.

## Treasury Cash Levels

As of Wed 7 Sep, the level of the TGA decreased to \$582bn, falling by \$87bn compared to the week prior. The current TGA balance is approx. \$382bn 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](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 12 Sep                | 0                                    | 0.754                             |
| Tue 13 Sep                | 0                                    | Nil                               |
| Wed 14 Sep                | 0                                    | 0.387                             |
| Thur 15 Sep               | 0                                    | Tbc                               |
| Fri 16 Sep                | 0                                    | Tbc                               |
| Total Announced Purchases | \$0bn                                | \$1.1bn                           |

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](https://www.newyorkfed.org/markets/ambs_operation_schedule)

# WEEK COMMENCING 12 SEPTEMBER 2022

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## MONDAY 12 SEPTEMBER (US Eastern Time, unless stated otherwise)

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Japan PPI (Aug)

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Australia NAB Business Conditions and Confidence (Aug)

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## TUESDAY 13 SEPTEMBER

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UK Labour Market (3mth Jul), BoE Governor Bailey speech

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US CPI (Aug)

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Australia Westpac Consumer Confidence (Sep)

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## WEDNESDAY 14 SEPTEMBER

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Japan Industrial Production – final (Jul), Merchandise Trade, Exports, and Imports (Aug)

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UK CPI (Aug)

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Europe Industrial Production (Jul), EC President speech

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US Mortgage Apps wk 9 Sep, PPI (Aug)

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NZ GDP Q2

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Australia Labour Market Survey (Aug)

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## THURSDAY 15 SEPTEMBER

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UK *BoE Monetary Policy Decision – postponed to 22 Sep 2022*

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US Initial Claims wk 9 Sep, NY Empire State Manufacturing Index (Sep), Philadelphia Fed Manufacturing Index (Sep), Retail Sales (Aug), Industrial Production (Aug)

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China House Price Index, Fixed Asset Investment, Industrial Production, and Retail Sales (Aug)

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## FRIDAY 16 SEPTEMBER

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UK Retail Sales (Aug)

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Europe Euro area CPI Final (Aug)

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US University of Michigan Consumer Sentiment Prelim (Sep)

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