

Key events for the week ahead – Central banks, CB speeches including Fed Chair Powell, Eurozone CPI, and US PCE inflation

Recap from last week - Markets are continuing to digest the details of last week's monetary policy decisions. High, and seemingly persistent, inflation is keeping the FOMC on its unwavering hawkish path. The FOMC increased rates by +75bps as expected. The SEP shows rates higher for longer, with no cuts projected until 2024. The FOMC view of restrictive policy is where real yields are positive across the yield curve (using core PCE measures). The market reaction so far has been a shift up in the yield curve, further inversion, and pricing another 75bp hike for Nov.

The BoE raised by 50bps as expected with the decision to sell bonds from its Asset Purchase Facility. The rate hike decision was not unanimous. Three members voted for a 75bps increase citing that the energy price guarantee and fiscal support would add to demand pressure. This was a prescient outlook in light of the budget released at the end of the week. The proposed spending amid high inflation and monetary tightening has added greater pressure to rates and markets are currently pricing additional hikes before the next meeting (Source: [Bloomberg](#)). Eyes on the BoE this week.

Despite rising inflation, the BoJ kept policy settings unchanged, and markets are questioning how long the BoJ can remain an outlier. After weeks of currency weakening, and signaling an intervention, the government intervened to strengthen the Yen after the BoJ kept policy unchanged. The rates differential is still a fundamental issue that is reflected in currency weakness.

The RBA minutes for Sep highlighted that the Board was already starting to consider slowing the pace of hikes. When this was detailed several days after the Sep Board meeting, the implied cash rate futures terminal rate fell to 3.55% (Jul 2023) from 3.76%. But as of 26 Sep, the cash rate futures now peak at 4.325% (source: [ASX](#)). The RBA meets next week, and it will be important how it responds to market expectations of higher rates (even another 100bps priced by year-end) and how this aligns with slowing the pace of hikes to keep an even keel.

Global prelim PMIS for Sep were mixed. Manufacturing output contracted except in Aus while services activity weakened except in Japan. Input cost increases were more widespread in Europe, especially in Germany.

Outlook for the week ahead - There will be a notable number of central bank speeches this week, including US Fed Chair Powell and ECB President Lagarde.

Inflation data will be in focus, especially in Europe. The Eurozone headline CPI is expected to increase to +9.6% in Sep (from +9.1% in Aug). Country-level CPIs will also be released.

US PCE inflation for Aug is expected to increase to +6.6% from +6.3% in Jul. The monthly pace is expected to increase to +0.3% from -0.1% in Jul. The University of Michigan consumer sentiment for Sep is expected to be unchanged. Durable goods orders for Aug are expected to decline by -0.5% (versus Jul -0.1%).

This week also marks the first large redemption as a part of this QT program.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$393bn in ST Bills, Notes, Bonds, TIPS, and FRN's, raising approx. \$73bn in new money.

This week also marks the first large redemption as a part of this QT program. In total, approx. \$55.6bn of ST bills, Notes and Bonds will mature on the Fed balance sheet this week. Of this total;

- Approx. \$33.9bn in Notes & Bonds maturing will be redeemed/roll-off the balance sheet on 30 Sep.
- Approx. \$21.7bn in ST Bills will mature on the Fed balance sheet this week. Of this, approx. \$4.3bn of maturing Bills will be redeemed and the remaining \$17.4bn of maturing Bills will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
26-30 Sep	22-Sep	27-Sep	4 week bill	50			Actual 2.660%	2.670%
	22-Sep	27-Sep	8 week bill	45			Actual 2.990%	2.925%
	21-Sep	27-Sep	119-Day CMB	30			Actual 3.590%	3.550%
				125	135	-10		
	26-Sep	29-Sep	13 week bill	54			Announced	3.270%
	26-Sep	29-Sep	26 week bill	42			Announced	3.780%
				96	93	3		
	28-Sep	30-Sep	2yr FRN	22			Announced	0.090% HDM
	22-Sep	30-Sep	10yr TIPS	15			Actual 1.248%	0.630%
	26-Sep	30-Sep	2yr Note	43			Announced	3.307%
	27-Sep	30-Sep	5yr Note	44			Announced	3.230%
	28-Sep	30-Sep	7yr Note	36			Announced	3.130%
	20-Sep	30-Sep	20yr Bond	12			Actual 3.820%	3.380%
				172	92	80		
			Total - securities settling this week	393	320	73		
			QTR to date totals	3,824	3,367	457		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>444</i>		
			Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		27-Sep	Bills	5.1				
		29-Sep	Bills	12.2				
				17.4				
			Maturing & redemption					
		27-Sep	Bills	1.3				
		29-Sep	Bills	3.0				
		30-Sep	Notes & Bonds	33.9				
				38.2				

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	18%	2.91	11.69
2022/09/06	6.60	8%	1.31	5.28
2022/09/08	13.19	16%	2.63	10.56
2022/09/13	5.46	7%	1.09	4.37
2022/09/15	10.07	12%	2.01	8.06
2022/09/20	6.56	8%	1.31	5.26
2022/09/22	3.91	5%	0.78	3.13
2022/09/27	6.42	8%	1.28	5.14
2022/09/29	15.30	19%	3.05	12.25
	82.097	100%	16.36	65.74

<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>

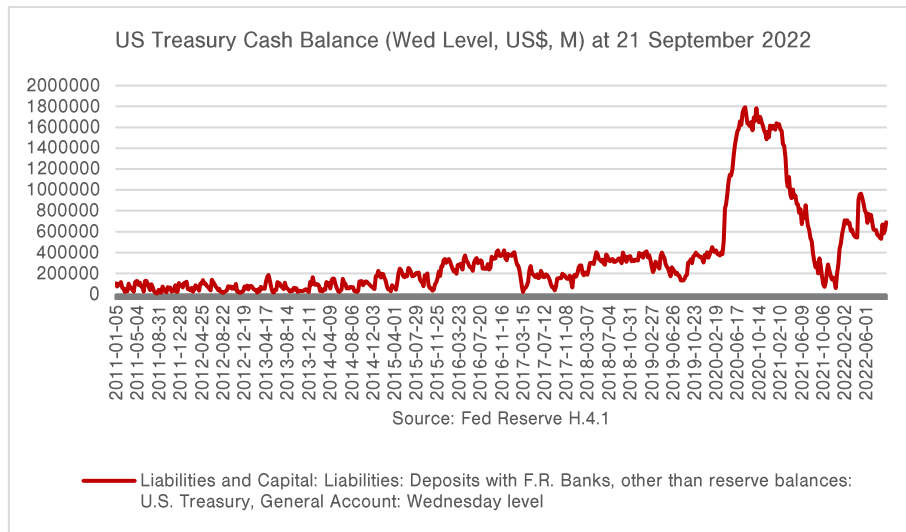
The US Treasury has raised approx. \$457bn in new money over Q3.

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 21 Sep, the level of the TGA increased to \$690bn, increasing by \$72bn compared to the week prior. The current TGA balance is approx. \$417bn 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 PROGRAM

There are no further Treasury or MBS purchase operations scheduled at this time.

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 26 SEPTEMBER 2022

MONDAY 26 SEPTEMBER (US Eastern Time, unless stated otherwise)

Japan	S&P Manufacturing and Services PMI Prelim (Sep) BoJ Governor Kuroda speech
Europe	ECB President Lagarde speech (Intro statement – Hearing before the Committee on Economic and Monetary Affairs)
US	Chicago Fed National Activity Index (Aug), Dallas Fed Manufacturing Index (Sep) US Fed speeches; Rosengren, Bostic, Mester

TUESDAY 27 SEPTEMBER

Europe	ECB President Lagarde speech (panel on digitalization of fin services)
US	Durable Goods Orders (Aug), CaseShiller House Price Index (Jul), New Home Sales (Aug), Richmond Fed Manufacturing Survey (Sep) US Fed Chair Powell speech – TBC, Bullard and Evans speeches
Japan	BoJ Policy Meeting Minutes
Australia	Retail Sales (Aug)

WEDNESDAY 28 SEPTEMBER

Europe	ECB President Lagarde – forum discussion
US	Mortgage Apps wk 23 Sep, Pending Home Sales (Aug) US Fed Chair Powell speech – welcoming remarks, Bowman and Bullard speeches

THURSDAY 29 SEPTEMBER

Europe	Germany/Spain CPI Prelim (Sep)
US	Initial Claims wk 23 Sep, Real GDP Q2 – Final, US Fed speeches Bullard and Mester
Japan	Industrial Production Prelim (Aug), Retail Trade (Aug)
China	NBS Manufacturing and Non-Manufacturing PMI (Sep)

FRIDAY 30 SEPTEMBER

Europe	France/Italy, Eurozone CPI Prelim (Sep), ECB Schnabel speech
US	PCE Price Index (Aug), Personal Income & Spending (Aug), University of Michigan Consumer Sentiment Final (Sep), Chicago PMI (Sep), Fed Vice Chair Brainard speech, Bowman, Williams, and Mester speeches
