

Key events for the week ahead – US housing & production data, inflation for the UK, Canada, NZ, Eurozone, and Japan, RBA minutes

Recap from last week – US CPI growth was higher than expected adding to the uncertainty around the path of inflation and keeping pressure on the FOMC to hike. The headline inflation rate has moderated from a peak of +9% in Jun to +8.2% in Sep. But the deceleration stalled between Aug and Sep. This month, falling gasoline and used/new car prices (and core commodity prices generally) was offset by an acceleration in core services price growth (broad). Annual food price growth is still extremely elevated but did not accelerate between Aug and Sep. Core CPI growth has continued to accelerate across most measures. Even excluding the well-known categories adding to/detracting from inflation – food, energy, shelter, and used cars, shows that price growth continued to accelerate in the remaining categories. This measure of core CPI increased to a new cycle high of +6.7% in Sep versus +6.3% in Aug. US consumer inflation expectations increased in the prelim University of Michigan sentiment report for Oct due to a change in gasoline price expectations. It will concern the FOMC to see inflation expectations increase again.

US nominal retail sales were flat at a total level, or -0.4% in real terms for the month. Initial claims (wk of 7 Oct) increased again to +228k. One third of the increase in the NSA claims was recorded in Florida (likely due to Hurricane Ian), but some of the other bigger states also recorded an uptick. A further increase in initial claims is expected this week to +235k.

The FOMC minutes maintained a hawkish stance. The 75bps increase at that meeting was seen as “another step towards sufficiently restrictive”. Since the last meeting though, concerns over financial stability risks have increased. Some FOMC members have highlighted the two-sided risks from the rapid tightening of global financial conditions. The minutes also note that “...it likely would become appropriate at some point to slow the pace of policy rate increases while assessing the effects of cumulative policy adjustments on economic activity and inflation”.

While US inflation has eased, it is not yet on a clear downward trajectory, and there are both upside and downside risks. The pace of further tightening will continue to be data dependant. After the stronger-than-expected CPI last week, the target FFR probability for Nov indicates another +75bps hike is likely.

Outlook for the week ahead – US Q3 earnings will continue to be in focus. Data will focus on housing and output. US existing home sales are expected to slow to 4.69m (SAAR) in Sep from 4.8m in Aug. Industrial production is expected to increase by +0.1% in Sep (from 0% in Aug). The first of the regional manufacturing surveys for Oct will be released.

Global inflation data will be in focus; UK CPI (expecting \uparrow +10%), Canada (\downarrow +6.8%), NZ (\downarrow +6.6%), and Japan (\uparrow +3.1%). The final Eurozone CPI result for Sep will be released and is expected to increase by +10%.

China data for Sep and Q3 GDP is expected to rebound amid rolling covid lockdowns.

The RBA minutes will be released and of interest will be the decision to shift to a slower pace of rate hikes. The market reaction has been to push out the peak in the cash rate later into 2023 (now Nov rather than Jul), while the peak rate has fluctuated with global volatility (now back up to 4%). The Aus labour market survey for Sep will be released and employment is expected to increase by +25k, the participation rate to remain at 66.6%, and the unemployment rate to remain at 3.5%.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$335bn in ST Bills, Notes, and Bonds, raising approx. \$80bn in new money.

The US Treasury will also auction the 5-year TIPS and 20-year Bond – to settle on 31 Oct.

QT; approx. \$19.78bn of ST Bills will mature on the Fed balance sheet this week. Of this total, approx. \$3.3bn in ST Bills will be redeemed/roll-off the balance sheet and approx. \$16.5bn in ST 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 %
17-21 Oct	13-Oct	18-Oct	4 week bill	60		Actual 3.250%	2.920%
	13-Oct	18-Oct	8 week bill	50		Actual 3.480%	3.230%
	12-Oct	18-Oct	119-Day CMB	33		Actual 3.890%	3.700%
				143	130	13	
	17-Oct	20-Oct	13 week bill	57		Announced	3.510%
	17-Oct	20-Oct	26 week bill	45		Announced	4.030%
				102	102	0	
	11-Oct	17-Oct	3yr note	40		Actual 4.318%	3.564%
	12-Oct	17-Oct	10yr note	32		Actual 3.930%	3.330%
	13-Oct	17-Oct	30yr bond	18		Actual 3.930%	3.511%
				90	23	67	
			Total - securities settling this week	335	255.2	79.8	
			Net New Cash Raised Qtr to Date	817	741	76	
			<i>Estimated Net Cash to be Raised Q4</i>			400	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		18-Oct	Bills	4.9			
		20-Oct	Bills	11.6			
				16.5			
			Maturing & redemption (balance sheet roll-off)				
		18-Oct	Bills	1.0			
		20-Oct	Bills	2.3			
				3.3			
			Upcoming Auctions	\$B			
	20-Oct	31-Oct	5yr TIPS	21		Announced	0.362%
	19-Oct	31-Oct	20yr Bond	12		Announced	3.820%

Quantitative Tightening Summary – October 2022

The monthly cap for the redemption of Treasuries maturing on the Fed balance sheet is \$60bn this month. Approx. \$46.4bn in SOMA Coupons on the Fed balance sheet will mature in Oct (15 and 31 Oct). 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 \$13.6bn up to the \$60bn redemption cap this month.

Summary of Total Coupon & Bills to Redeem at the \$60bn cap			\$
			\$60
15-Oct-22	Notes & Bonds	14.77	
31-Oct-22	Notes, Bonds, FRNs	31.61	
Total Notes & Bonds to Redeem - Oct		46.37	
Remainder; Bills to Redeem - Oct		13.63	

The schedule of the \$13.6bn of Bills to be redeemed is based on the proportion of Bills maturing on the Fed balance sheet each week over Oct;

Bill Maturity Schedule - Oct	Weekly Totals \$Bn			
	Bill Maturity - October	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2022/10/04	5.97	7%	0.99	4.98
2022/10/06	19.55	24%	3.24	16.32
2022/10/11	4.90	6%	0.81	4.09
2022/10/13	12.78	16%	2.11	10.67
2022/10/18	5.87	7%	0.97	4.90
2022/10/20	13.91	17%	2.30	11.61
2022/10/25	5.74	7%	0.95	4.79
2022/10/27	13.63	17%	2.26	11.38
	82.36	100%	13.63	68.73

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

Recommended US Treasury Financing - Updated Q4 2022

The estimated borrowing requirements for the US Treasury in Q4 is \$400bn. The estimated net Bills issuance for Q4 is \$100bn in new money and the estimated net new Coupon issuance over the quarter is \$300bn in new money

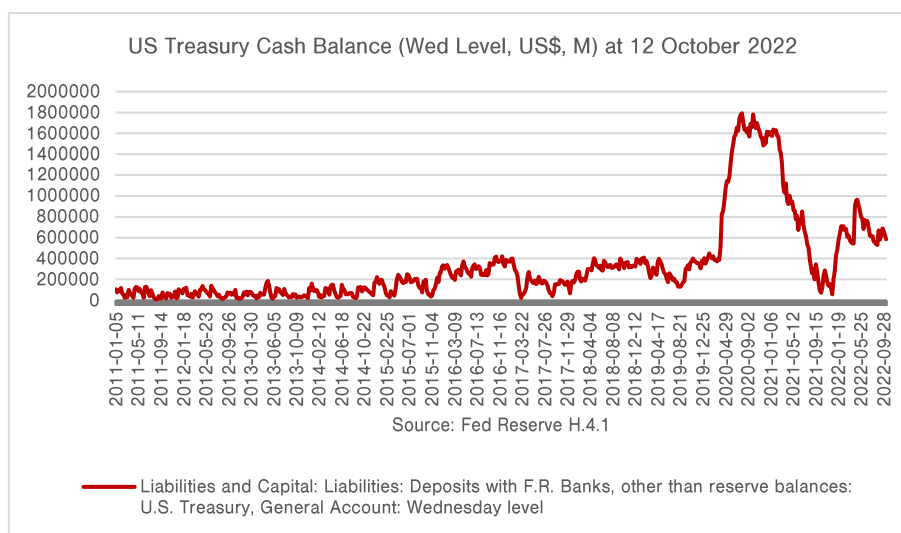
The full details for estimates for Q4 can be found here; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

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

Treasury Cash Levels

As of Wed 12 Oct, the level of the TGA decreased to \$583bn, decreasing by a further \$38bn compared to the week prior.

The current TGA balance is approx. \$511bn 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 17 OCTOBER 2022

MONDAY 17 OCTOBER (US Eastern Time, unless stated otherwise)

Japan	Industrial Production - Final (Aug)
US	Empire State Manufacturing Index (Oct)
NZ	CPI Q3
Australia	RBA Minutes
China	Merchandise Trade, Exports, & Imports (Sep), GDP Q3, Industrial Production (Sep), Retail Sales (Sep)

TUESDAY 18 OCTOBER

US	Industrial Production (Sep), NAHB Housing Market Index (Oct)
China	House Price Index (Sep)
Europe	ECB Member; Schnabel speech

WEDNESDAY 19 OCTOBER

UK	CPI (Sep)
US	Mortgage Apps wk 14 Oct, Building Permits & Housing Starts (Sep) Fed speeches; Bullard
Canada	CPI (Sep)
Japan	Merchandise Trade Balance, Exports, and Imports (Sep)
Australia	Labour Market Survey (Sep)
China	PBoC Prime Loan Rate Decision (tbc)

THURSDAY 20 OCTOBER

Europe	Germany PPI (Sep), EU Leaders Summit commences
US	Initial Claims wk 14 Oct, Philadelphia Fed Manufacturing Survey (Oct), Existing Home Sales (Sep), Fed speeches: Bowman, Jefferson, Cook
Japan	National CPI (Sep)

FRIDAY 21 OCTOBER

UK	Retail Sales (Sep)
Canada	Retail Sales (Aug)
US	US Fed speeches; Williams
