

Key events for the week ahead – US CPI and the US midterm election

Recap from last week – Last week the FOMC opened the door to changing the pace of rate hikes. This allows the FOMC to consider the “cumulative tightening of monetary policy” and its effects. The decision gives the FOMC the optionality to adjust the size of the next hike which will be decided “on the totality of incoming data”. This decision comes against the backdrop of higher-than-expected inflation and significant uncertainty around the path of rates. But there is no reason to pivot policy right now – and Chair Powell noted that we “still have some ways to go” on rates and that “the ultimate level of interest rates will be higher than previously expected”. By the end of the week though, and after the payrolls beat on Friday, the somewhat steeper yield curve (higher long rates) may be indicating that it’s too early to be slowing. This will be something to watch. This also sets the scene for the important US CPI report this week – and inflation is expected to ease only slightly from +8.2% in Sep to +8% in Oct, with an acceleration in monthly CPI expected from +0.4% in Sep to +0.7% in Oct.

US labour market momentum was still robust. Non-farm payrolls for Oct beat expectations at +261k and Sep was revised higher to +315k. Payroll growth is slowing but is well ahead of the pre-pandemic trend. The household survey had some divergence as monthly employment declined and the unemployment rate increased to 3.7% (from 3.5% in Sep). JOLTS for Sep showed hires may have peaked, but are still elevated. Layoffs & discharges are at near-series lows. Openings rebounded after the fall last month. Quits are also within 10% of the series high but did fall further this month. This softening suggests an increasing reluctance to shift jobs.

Last week, the BoE also increased rates by a further 75bps. The statement highlighted the considerable uncertainty around inflation, the path of rates, and growth. Inflation stands at 10.1% and is expected to peak at 11%. Guidance was that further increases in the Bank rate may be needed for a sustainable return of inflation to target “albeit to a peak lower than priced into financial markets”. The press conference placed more emphasis on the assertion that the Bank Rate will need to go up by less than what markets are currently pricing.

The RBA increased the cash rate target by 25bps as expected. Inflation is now expected to peak higher at +8% (from +7.8%). The RBA noted that it had “increased rates materially since May to help return inflation to target”. There remains high uncertainty around how households will respond to higher mortgage rates. Further increases in rates are expected and the timing and size are to be determined by incoming data.

Global PMI momentum continued to slow into Oct. Both the global manufacturing and services PMIs slipped into slight contraction. G7 manufacturing was weaker, especially in Europe, the UK, and Canada. There was a notable slowdown in US and ASEAN manufacturing (both still expanding). The slowdown in services momentum was also noted this month – especially in the US, UK, Eurozone, China, and Aus. Japan was the only G7 economy where both manufacturing and service activity was expanding.

Outlook for the week ahead – The US CPI for Oct and the US midterm election are the main focus this week. There will also be a number of US Fed (and other CB) speakers– and this may start to add to headline risk with speeches fluctuating between dovish and hawkish sentiment ahead of the next Fed meeting.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$255bn in ST Bills, raising approx. \$34bn in new money.

The US Treasury will also auction the 30yr Bond and the 10yr and 3yr Notes this week. These will settle on 15 Nov.

Approx \$16.5bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested/rolled over.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
<i>11 Nov - Veterans Day</i>							
7-11 Nov	03-Nov	08-Nov	4 week bill	65		Actual 3.620%	3.600%
	03-Nov	08-Nov	8 week bill	55		Actual 3.880%	3.820%
	02-Nov	08-Nov	17 week bill	33		Actual 4.280%	4.180%
				153	125	28	
	07-Nov	10-Nov	13 week bill	57		Announced	4.070%
	07-Nov	10-Nov	26 week bill	45		Announced	4.440%
				102	96	6	
			Total - securities settling this week	255	221	34	
			Net New Cash Raised Qtr to Date	1793	1615	178	
			<i>Estimated Net Cash to be Raised Q4</i>			550	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		08-Nov	Bills	4.2			
		10-Nov	Bills	12.3			
				16.5			
			Maturing & redemption (balance sheet roll-off)				
			nil	0.0			
				0.0			
			Upcoming Auctions	\$B			
	08-Nov	15-Nov	3yr Note	40		Announced	4.318%
	09-Nov	15-Nov	10yr Note	35		Announced	3.930%
	10-Nov	15-Nov	30yr Bond	21		Announced	3.930%
				96			

Quantitative Tightening Summary – November 2022

In November, the face value of coupons maturing on the Fed balance sheet is approx. \$109.9bn. Of this total, \$60bn in Notes & Bonds will be redeemed – in line with the redemption cap. The remaining \$49.9bn will be rolled over. As the face value of Notes & Bonds maturing is larger than the \$60bn redemption cap, all maturing Bills on the Fed balance sheet will be rolled over in Nov.

Summary of Total Coupons to Redeem and Reinvest at the \$60bn redemption cap - NOV			
			\$60
		Redeem \$	Reinvest/Roll over \$
15-Nov-22	Notes & Bonds	40.42	33.7
30-Nov-22	Notes & Bonds	19.58	16.3
	Total Notes & Bonds - Nov	60.00	49.97

Approx \$80bn of Bills will mature on the Fed balance sheet in Nov – and all will be reinvested/rolled over.

Bill Maturity Schedule - Nov			Weekly Totals \$Bn	
	Bill Maturity - November	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2022/11/01	5.12	6%		5.12
2022/11/03	21.02	26%		21.02
2022/11/08	4.22	5%		4.22
2022/11/10	12.28	15%		12.28
2022/11/15	5.16	6%		5.16
2022/11/17	13.89	17%		13.89
2022/11/22	4.47	6%		4.47
2022/11/25	11.51	14%		11.51
2022/11/29	2.36	3%		2.36
	80.03	100%	0.00	80.03

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

Recommended US Treasury Financing - Final Q4 2022

The confirmed Q4 US Treasury borrowing requirements were increased from \$400bn to \$550bn.

The borrowing estimate is \$150 billion higher than announced in August 2022, primarily due to changes to projections of fiscal activity, greater than projected discount on marketable securities, and lower non-marketable financing.

The estimated Net Bill issuance for Q4 was revised higher to \$249bn (prior \$100bn) and the estimated Net Coupon issuance over the quarter remains at \$300bn.

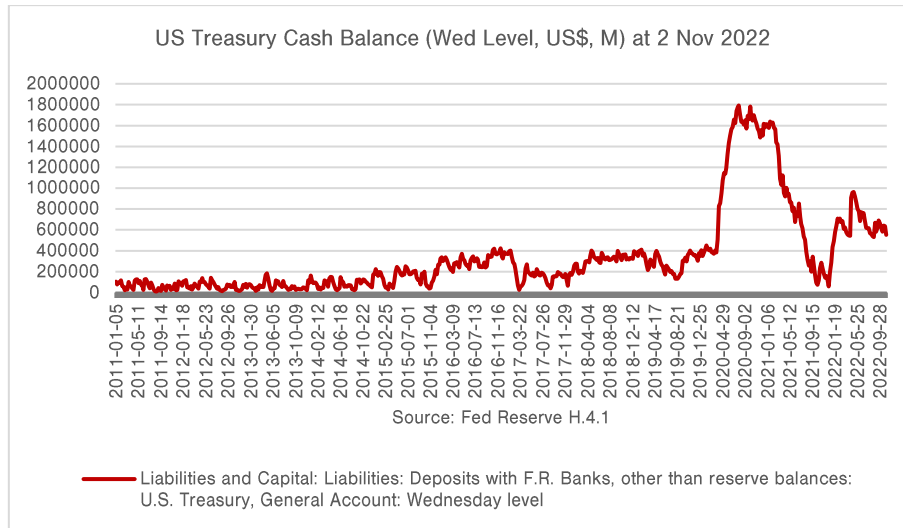
The full details for estimates for Q4 can be found here; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 2 Nov, the level of the TGA decreased to \$552bn (-\$84bn compared to the week prior).

The current TGA balance is approx. \$265bn higher than the same week a year ago.

The cash balance at the end of Dec 2022 is estimated to be \$700bn. (Source: US Treasury <https://home.treasury.gov/news/press-releases/jy1063>)



<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 7 NOVEMBER 2022

MONDAY 7 NOVEMBER (US Eastern Time, unless stated otherwise)

China	Trade Balance, Exports & Imports (Oct)
Europe	Germany Industrial Production (Sep), ECB President Lagarde speech
US	Consumer Credit Change (Sep), Loan Officer Survey Q3 Fed speeches; Collins, Mester
Australia	Westpac Consumer Confidence (Nov), NAB Business Conditions & Confidence (Oct)
Japan	BoJ Summary of Opinions

TUESDAY 8 NOVEMBER

Europe	Euro Area Retail Sales (Sep)
China	CPI & PPI (Oct)
US	MIDTERM ELECTIONS

WEDNESDAY 9 NOVEMBER

US	Mortgage Apps wk 4 Nov US Fed speeches: Williams
Australia	Consumer Inflation Expectations (Nov) RBA Asst Gov Bullock speech

THURSDAY 10 NOVEMBER

US	Initial Claims wk 4 Nov, CPI (OCT) Fed speeches: Waller, Mester, George, and Williams
Canada	BoC Governor Macklem speech
Japan	PPI (Oct)

FRIDAY 11 NOVEMBER

UK	GDP Q3
Europe	Germany CPI – Final (Oct)
US	VETERANS DAY University of Michigan Consumer Sentiment Prelim (Nov)
