

## Key events for the week ahead – US PCE Price inflation, Japan & Canada CPI, BoJ Monetary Policy Meeting, RBA Minutes

Recap from last week – Major central banks continued to tighten policy last week. The FOMC increased the FFR by 50bps as US CPI showed signs of continued moderation. The FOMC remained hawkish despite further good news on inflation, reinforcing that it expects ongoing increases to the target range will be appropriate to get the policy rate to a “sufficiently restrictive” level. Further hikes will be at a measured pace, allowing for the rapid tightening in rates to take effect.

The FOMC upgraded the FFR projections for 2023 from a median of 4.6% (in Sept) to 5.1%. The 2023 core PCE projection was also revised higher from the Sept projection to +3.5% - highlighting the concern that inflation may remain above the target in the near term. Importantly, the FOMC wants to see “clear progress” on inflation, that slowing inflation is on a sustainable path to achieving its 2% target before considering cutting rates. The ‘higher rates for longer’ message was reinforced for now.

US CPI growth eased from +7.7% in Oct to +7.1% in Nov. Core inflation continued to ease. Growth in core goods prices eased which offset a further increase in core services price growth.

The ECB increased rates by 50bps. Guidance was hawkish, with the Governing Council noting that “interest rates will still have to rise significantly at a steady pace to reach levels that are sufficiently restrictive to ensure a timely return of inflation to the 2% medium-term target”. The inflation outlook was revised higher from the prior forecast. The ECB also announced its plan to commence QT in Mar 2023 – with detailed plans to be announced at the Feb 2023 meeting.

The BoE also increased its Bank Rate by 50bps. The decision was split; one member voted for a larger increase and two for no increase at this meeting. Guidance was that further increases in the Bank Rate would be necessary if inflation and the economy evolved in line with projections. The Nov inflation rate was +10.7%, slightly below expectations.

The prelim Dec S&P PMIs showed only a slight improvement in growth momentum among G7 countries. Manufacturing PMIs remained in contraction with output continuing to contract. Services output expanded in Japan, UK services shifted back to neutral, and the Eurozone services contraction slowed. The US manufacturing and services PMIs contracted again, falling to 46.2 and 44.4 respectively in early Dec.

Outlook for the week ahead – Inflation data will be in focus. The FOMC preferred US PCE inflation data for Nov will be released. Headline PCE inflation is expected to increase by +0.3% in the month and slow to +5.7% over the year. Core PCE inflation is expected to ease to +4.6%.

Canada's CPI for Nov is expected to slow to +6.6%.

The Japanese National CPI growth is expected to stay around +3.7% with core CPI ex-fresh food increasing to +3.7% for Nov. The BoJ is meeting this week and policy is expected to remain unchanged – despite the higher CPI growth.

The RBA meeting minutes will be released. The Board increased rates by 25bps at the last meeting and the minutes may provide some insight into the debate over the pace of that hike and possibly the pace of future hikes.

## US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$222bn in ST Bills, with a net paydown of approx. -\$24bn.

Approx \$6.7bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested.

Approx \$0.6bn in ST Bills will mature on the Fed balance sheet this week and will be redeemed/roll-off the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
19-23 Dec	15-Dec	20-Dec	4 week Bill	45			Actual 3.780%	3.650%
	15-Dec	20-Dec	8 week Bill	45			Actual 4.060%	3.940%
	14-Dec	20-Dec	17 week Bill	33			Actual 4.440%	4.400%
				123	150	-27		
	19-Dec	22-Dec	13 week Bill	54			Announced	4.270%
	19-Dec	22-Dec	26 week Bill	45			Announced	4.630%
				99	96	3		
			<b>Total - securities settling this week</b>	<b>222</b>	<b>246</b>	<b>-24</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>3635</b>	<b>3289</b>	<b>346</b>		
			<i>Estimated Net Cash to be Raised Q4</i>			<i>550</i>		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		20-Dec	Bills	3.3				
		22-Dec	Bills	3.4				
				6.7				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		20-Dec	Bills	0.3				
		22-Dec	Bills	0.3				
				0.6				
			<b>Upcoming Auctions</b>	<b>\$B</b>				
	21-Dec	03-Jan	20yr Bond reopening	12.0			Announced	4.072%

### Quantitative Tightening Overview – December 2022

In December, the face value of Coupons maturing on the Fed balance sheet is approx. \$53.5bn. As this is below the \$60bn cap for balance sheet roll-off, all maturing Coupons will be redeemed this month. That means that maturing Bills on the balance sheet will make up the residual \$6.5bn up to the \$60bn redemption cap this month.

Summary of Total Coupons & Bills to Redeem and Reinvest at the \$60bn redemption cap - Dec			
			\$60
		Redeem \$Bn	Reinvest/Roll over \$ Bn
15-Dec-22	Notes & Bonds	12.1	
31-Dec-22	Notes & Bonds	41.4	
Total Notes & Bonds - Dec		53.47	
Remainder - Bills to redeem		6.54	

The schedule of the \$6.5bn of Bills to be redeemed is based on the proportion of Bills maturing on the Fed balance sheet each week over Dec;

Bill Maturity Schedule - Dec			Weekly Totals \$Bn	
	Bill Maturity - November	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2022/12/01	18.53	25%	1.60	16.93
2022/12/06	3.73	5%	0.32	3.41
2022/12/08	9.22	12%	0.80	8.42
2022/12/13	4.42	6%	0.38	4.04
2022/12/15	9.40	12%	0.81	8.59
2022/12/20	3.62	5%	0.31	3.31
2022/12/22	3.69	5%	0.32	3.37
2022/12/27	3.65	5%	0.32	3.33
2022/12/29	19.27	26%	1.67	17.60
	75.54	100%	6.54	69.00

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

### Recommended US Treasury Financing - Final Q4 2022

The confirmed Q4 US Treasury borrowing requirements 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 was \$100bn) and the estimated Net Coupon issuance over the quarter remained at \$300bn.

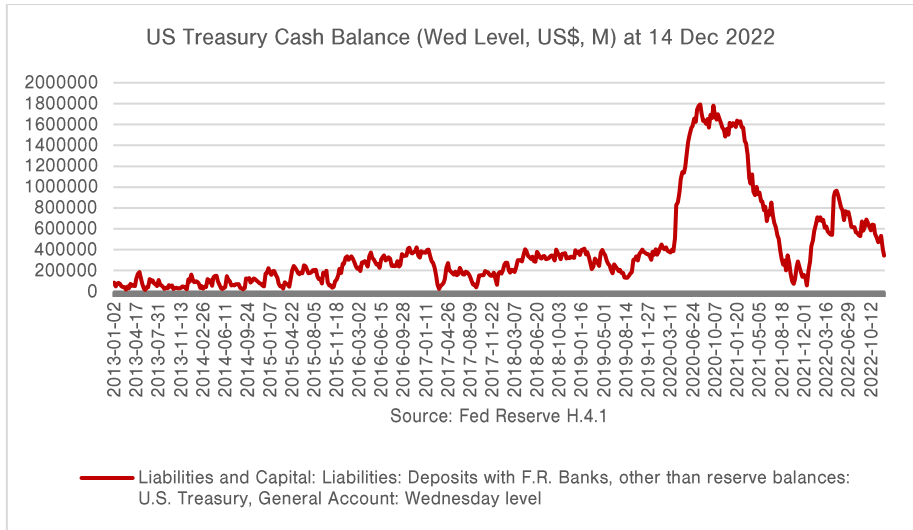
The full details for estimates for Q4; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

### Treasury Cash Levels

As of Wed 14 Dec, the level of the TGA decreased to \$342bn (-\$68bn compared to the week prior).

The current TGA balance is approx. \$283bn higher than the same week a year ago.

The US Treasury forecasts assume a cash balance of \$700bn at the end of Dec 2022. (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/ombs\\_operation\\_schedule](https://www.newyorkfed.org/markets/ombs_operation_schedule)

# WEEK COMMENCING 19 DECEMBER 2022

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## MONDAY 19 DECEMBER (US Eastern Time, unless stated otherwise)

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US	NAHB Housing Market Index (Dec)
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Australia	RBA Meeting Minutes
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Japan	BoJ Monetary Policy Decision
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## TUESDAY 20 DECEMBER

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US	Building Permits & Housing Starts (Nov)
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Canada	Retail Sales (Oct)
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## WEDNESDAY 21 DECEMBER

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Canada	CPI (Nov)
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US	Mortgage Apps wk 16 Dec, Existing Home Sales (Nov)
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## THURSDAY 22 DECEMBER

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UK	GDP Q3
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US	Initial Claims wk ending 17 Dec, Chicago Fed National Activity Index (Nov), GDP - Final Q3, Kansas City Fed Manufacturing Index (Dec)
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Japan	National CPI (Nov), BoJ Meeting Minutes
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Australia	Private Sector Credit (Nov)
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## FRIDAY 23 DECEMBER

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US	PCE Price Index (Nov), Personal Spending (Nov), Personal Income (Nov), Durable Goods Orders (Nov), University of Michigan Consumer Sentiment – Final (Dec), New Home Sales (Nov)
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