

Key events for the week ahead – US ISM services PMI, RBA & BoC policy decisions, global services PMIs

Recap from last week – As broadly expected, Chair Powell signaled that “the time for moderating the pace of rate increases may come as soon as Dec.” The timing of that moderation was “far less significant” than questions over how far rates need to go to control inflation and the length of time to hold policy at restrictive. The policy message was ‘higher for longer’ amid a high degree of concern and uncertainty around the path of inflation. The Q&A with Chair Powell outlined the FOMC approach to managing the risk of inflation becoming entrenched (emphasis added);

Another is to hold on longer at a high level and not, you know, loosen policy too early. I don't want to over-tighten certain we, my colleagues, and I do not want to over-tighten because, you know, **we, I think that cutting rates is not something we want to do soon.** ([Brookings speech transcript; 45.54sec](#))

Chair Powell's [Brookings speech](#) laid out how the FOMC views the conditions it needs to see to bring inflation back to 2%. To that end, several points this week may be concerning for the FOMC; the re-acceleration of average hourly earnings growth, continued falls in participation, and sticky PCE core-services ex-housing inflation.

There are signs of moderation in the US labour force momentum. The Fed's [Beige Book](#) for Nov noted that ‘hiring and retention difficulties eased further, although labor markets were still described as tight’. Payrolls growth came in higher than expected but growth continues to moderate. The household survey showed a decline in the number of people employed. The fall in participation, albeit slight, offset the decline in employed persons, so the unemployment rate remained at a low 3.7%. JOLTS data from Oct reinforced that the labour market momentum is slowing, but not yet showing negative trends in broader layoffs and discharges. Initial claims remain low but there is an upward trend in continuing claims (SA) beginning to emerge.

The PCE ‘core services ex housing’ measure of inflation was a key focus in Chair Powell's Brookings speech – outlining the link between current tightness in the labour market, wage growth, and trends in underlying inflation pressure (important). While headline US PCE inflation continued to moderate, the core services (ex-energy services) accelerated to +5.1% as housing and other services prices ex-housing continued to accelerate or remained elevated. The Oct data suggests little in the way of underlying inflation trends abating.

Outlook for the week ahead – We are now in the blackout period ahead of the FOMC meeting next week.

This week, the RBA and BoC will meet on policy. The RBA is expected to increase rates by a further 25bps to 3.10% (outside chance for +15bps?). Inflation remains high and the labour market remains tight in Australia. There is uncertainty over whether the BoC may step down to a smaller 25bps increase this month from 50bps.

The US ISM services PMI for Nov will be released and is expected to show moderation in services activity but remain in expansion. The global S&P services PMIs will be released this week also.

The ECB will meet next week. ECB President Lagarde will give speeches this week which may provide an opportunity to fine-tune/change any signaling for that meeting (currently expecting +50bps in rates).

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$22bn in ST Bills with a net paydown of \$54bn.

Approx \$11.8bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested.

Approx \$1bn in ST Bills will mature on the Fed balance sheet this week and will be redeemed.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
5-9 Dec	01-Dec	06-Dec	4 week bill	45			Actual 3.950%
	01-Dec	06-Dec	8 week bill	45			Actual 4.080%
	30-Nov	06-Dec	17 week bill	33			Actual 4.430%
				123	140	-17	
	05-Dec	08-Dec	13 week bill	54			Announced
	05-Dec	08-Dec	26 week bill	45			Announced
				99	136	-37	
			Total - securities settling this week	222	276	-54	
			Net New Cash Raised Qtr to Date	3101	2776	325	
			<i>Estimated Net Cash to be Raised Q4</i>			<i>550</i>	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		06-Dec	Bills	3.4			
		08-Dec	Bills	8.4			
				11.8			
			Maturing & redemption (balance sheet roll-off)				
		06-Dec	Bills	0.3			
		08-Dec	Bills	0.8			
				1.1			

Quantitative Tightening Summary – 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 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 remained at \$300bn.

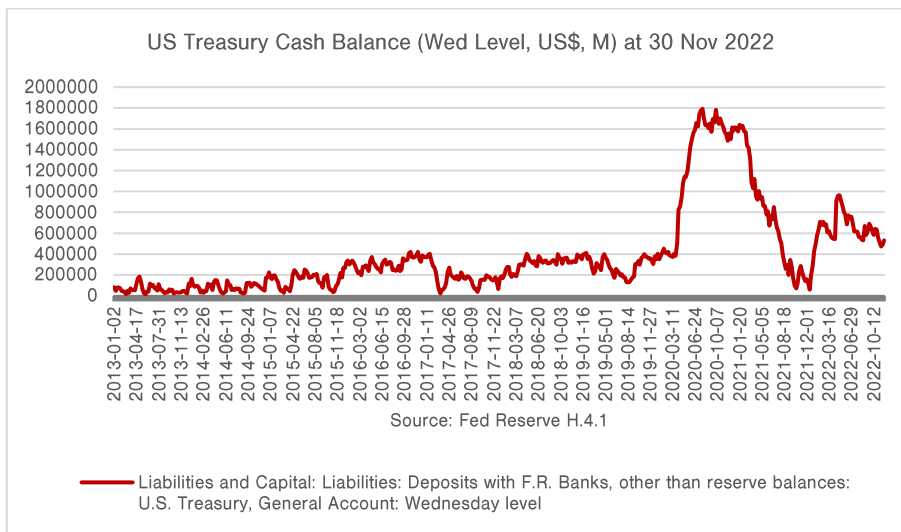
The full details for estimates for Q4; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 30 Nov, the level of the TGA increased to \$532bn (+\$40bn compared to the week prior).

The current TGA balance is approx. \$373bn higher than the same week a year ago.

The cash balance at the end of Dec 2022 is forecast 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 5 DECEMBER 2022

MONDAY 5 DECEMBER (US Eastern Time, unless stated otherwise)

Australia	S&P Services PMI Final (Nov), Company Gross Operating Profits Q3 RBA Monetary Policy Decision
Japan	S&P Services PMI Final (Nov)
China	Caixin Services PMI (Nov)
Europe	S&P Eurozone Services PMI Final (Nov), Euro Area Retail Sales (Oct)
UK	S&P Services PMI Final (Nov)
US	S&P Services PMI Final (Nov), ISM Services PMI (Nov), Factory Orders (Oct)

TUESDAY 6 DECEMBER

Europe	Germany Factory Orders (Oct)
Australia	GDP Q3
Japan	BoJ Board Member Nakamura speech
China	Trade Balance, Exports, and Imports (Nov)

WEDNESDAY 7 DECEMBER

Europe	Germany Industrial Production (Oct), Eurozone GDP second est Q3
US	Mortgage Apps wk 2 Dec, Unit Labour Costs Q3, Consumer Credit (Oct)
Canada	BoC Monetary Policy Decision
Japan	GDP second est Q3

THURSDAY 8 DECEMBER

US	Initial Claims wk ending 2 Dec
China	CPI & PPI (Nov)
Europe	ECB President Lagarde speech

FRIDAY 9 DECEMBER

US	PPI (Nov), University of Michigan Consumer Sentiment – Prelim (Dec)
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