

Key events this week – US retail sales, Fed speak, BoJ policy decision, CPI reports; Japan, Canada, UK, and the Eurozone, China GDP, Davos

Recap from last week: US CPI slowed again in Dec to +6.4% (from +7.1% in Nov). The monthly pace declined slightly. Food, core goods, and (mainly) energy prices contributed to the deceleration between Nov and Dec. The more nuanced view of CPI now taken by the FOMC is to look at underlying inflation via core services ex shelter. The closest metric, services excluding rent of shelter, accelerated from +7.3% in Nov to +7.4% in Dec but is down from the high of +8.2% in Sep.

Despite the peak in headline CPI, the Cleveland Fed core measures of median and trimmed-mean CPI are only easing slowly and remain elevated. The median CPI for Dec slowed to +6.92% from +6.98% in Nov (the peak was +7% in Oct) – and is still showing a broad persistence of inflation. Even the month change remained high BUT is on a slowing trend. The trimmed mean CPI slowed to +6.5% in Dec from +6.6% in Nov (peaked at +7.3% in Sep).

Despite persistent underlying inflation, the soft-landing narrative has quickly gained favor as headline inflation has eased amid robust labor market conditions. Fed speeches last week supported slowing the pace of hikes to 25bps in Feb but reiterated the expectation of a higher for longer policy rate setting.

Aus CPI growth was higher than expected, accelerating to +7.4% in Nov. Inflation likely remains uncomfortably high for the RBA – keeping alive further rate hike expectations. The re-set of higher mortgage rates is a concern for the RBA trying to keep the economy on “an even keel”. The Aus labor market survey for Dec is out this week – and labor market conditions are expected to remain tight. The next RBA meeting is on 6 Feb.

Outlook for the week ahead: US retail sales for Dec will gauge how consumption has been affected during this tightening cycle. US retail sales are expected to fall -0.8% in Dec. US industrial production (including manufacturing) for Dec will be important in the context of the current weakness in manufacturing surveys and falling hours. US industrial production is expected to fall by -0.1% in Dec (after a -0.2% decline in Nov). Rounding out commentary on the trajectory of the US economy this week will be US earnings.

US Fed speak; This is the last week leading up to the blackout period ahead of the FOMC meeting on 1 Feb. US Fed Vice Chair Brainard and Board of Governors member Chris Waller will both speak on the economic outlook this week. They may signal a slower pace of hikes.

The BoJ is not expected to change policy settings this week, but another adjustment can't be completely ruled out. The BoJ is expected to review the functioning of the wider band around the 10yr yield target.

CPI data should show further easing in headline inflation rates; UK CPI is expected to ease slightly to +10.6% in Dec from +10.9% in Nov. Canada CPI is expected to ease to +6.3% in Dec from +6.8% in Nov. Euro area CPI for Dec is expected to be confirmed at +9.2%. Japan's core CPI ex-fresh food (BoJ preferred measure) is expected to accelerate to 4% while core ex-energy & fresh food is expected to be little changed at +2.8% in Dec.

Markets will look through weaker data in the lead-up to China's exit from the Covid-zero policy. Chinese Q4 GDP is expected to contract by -0.8% in Q4.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$409bn in ST Bills (including a CMB), Notes, and Bonds, raising approx. \$107bn in new money.

The US Treasury will also auction the 10-Year TIPS and 20-Year Bond this week – to settle on 31 Jan.

Approx \$14bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$19.6bn in Notes, Bonds, TIPS, and 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 %
16 Jan - National Martin Luther King, Jr Day							
16-20 Jan	12-Jan	17-Jan	4 week Bill	60		Actual 4.370%	4.100%
	12-Jan	17-Jan	8 week Bill	55		Actual 4.465%	4.430%
	11-Jan	17-Jan	17 week Bill	36		Actual 4.680%	4.570%
				151	130	21	
	17-Jan	19-Jan	13 week Bill	60		Announced	4.562%
	17-Jan	19-Jan	26 week Bill	48		Announced	4.710%
	12-Jan	19-Jan	35-Day CMB	60		Actual 4.490%	n/a
				168	99	69	
	10-Jan	17-Jan	3yr Note	40		Actual 3.977%	4.093%
	11-Jan	17-Jan	10yr Note	32		Actual 3.575%	3.625%
	12-Jan	17-Jan	30yr Bond	18		Actual 3.585%	3.513%
				90	73.5	16.5	
			Total - securities settling this week	409	302	107	
			Net New Cash Raised Qtr to Date	991	850	141	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			476	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		17-Jan	Bills	2.6			
		19-Jan	Bills	11.6			
				14.3			
			Maturing & redemption (balance sheet roll-off)				
		15-Jan	Notes, Bonds, and TIPS	18.6			
		17-Jan	Bills	0.2			
		19-Jan	Bills	0.8			
				19.6			
			Upcoming Auctions	\$B			
	19-Jan	31-Jan	10yr TIPS	17		Announced	1.485%
	18-Jan	31-Jan	20yr Bond	12		Announced	3.935%
				29			

Quantitative Tightening Overview – January 2023

In January, the face value of Coupons maturing on the Fed balance sheet is approx. \$55.5bn. 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 \$4.5bn up to the \$60bn redemption cap this month.

Summary of Total Coupons & Bills to Redeem and Reinvest at the \$60bn redemption cap - Jan				
			\$60	
			Redeem \$Bn	Reinvest \$ Bn
15-Jan-23	Notes & Bonds		18.6	
31-Jan-23	Notes & Bonds		36.9	
	Total Notes & Bonds		55.5	
	Remainder - Bills to redeem		4.5	63.4
Total Notes, Bonds, and Bills - Jan			60.0	63.4

The schedule of the \$4.5bn of Bills to be redeemed is based on the proportion of Bills maturing on the Fed balance sheet each week over Jan;

Bill Maturity Schedule - Jan	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2023/01/03	2.77	4%	0.18	2.58
2023/01/05	13.62	20%	0.90	12.72
2023/01/10	3.33	5%	0.22	3.11
2023/01/12	11.58	17%	0.77	10.81
2023/01/17	2.82	4%	0.19	2.63
2023/01/19	12.48	18%	0.83	11.65
2023/01/24	2.86	4%	0.19	2.67
2023/01/26	16.28	24%	1.08	15.20
2023/01/31	2.19	3%	0.15	2.05
	67.93	100%	4.5	63.4

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

Recommended US Treasury Financing - Projected Q1 2023

The Q1 US Treasury borrowing requirements (net cash) are projected to be \$578bn.

The estimated Net Bill issuance for Q1 is \$301bn (prior was net \$249bn) and the estimated Net Coupon issuance over the quarter is \$277bn (prior was net \$300bn).

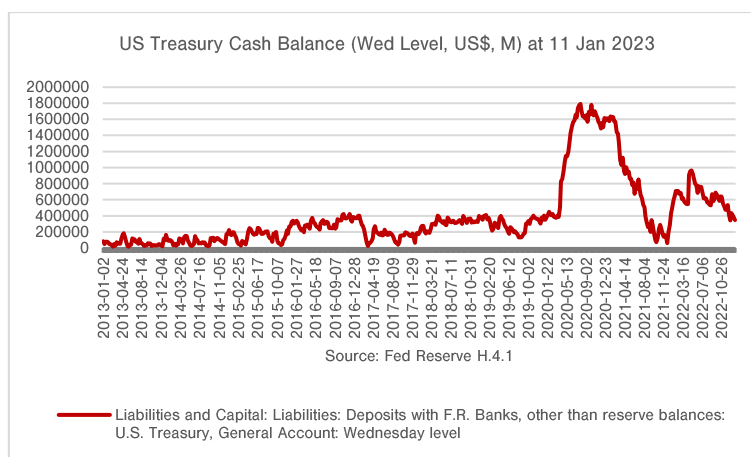
The next auction schedule update will be on 1 Feb 2023. The full details of Q1 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 11 Jan, the level of the TGA decreased to \$346bn (-\$33bn compared to the week prior).

The current TGA balance is approx. \$143bn lower than the same week a year ago.

The US Treasury forecasts assume an end-of-Q1 cash balance of \$500bn (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 16 JANUARY 2023

MONDAY 16 JANUARY (US Eastern Time, unless stated otherwise)

China	GDP Q4, Industrial Production and Retail Sales (Dec)
	WEF Meeting – Davos 16-20 Jan; schedule of speakers

TUESDAY 17 JANUARY

UK	Labour Market Survey (3mth to Nov)
Europe	Germany CPI Final (Dec), Eurozone CPI Final (Dec)
Canada	CPI (Dec)
US	Empire State Manufacturing Index (Jan), US Fed Speeches; Williams
Japan	Industrial Production Final (Nov) BoJ Monetary Policy Decision

WEDNESDAY 18 JANUARY

UK	CPI (Dec)
Europe	Eurozone CPI Final (Dec)
US	Mortgage Apps wk 13 Jan, PPI (Dec), Retail Sales (Dec), Industrial Production (Dec), NAHB Housing Market Index (Jan), US Fed Beige Book, Speeches; Harker, Logan
Japan	Merchandise Trade, Exports, and Imports (Dec)
Australia	Labour Market Survey (Dec)

THURSDAY 19 JANUARY

US	Initial Claims wk ending 13 Jan, Building Permits & Housing Starts (Dec), Philadelphia Fed Manufacturing Survey (Jan), Speeches: Williams, Brainard (Econ Outlook, Chicago Booth School)
Japan	National CPI (Dec)
China	PBoC Rates Decision (Tbc)

FRIDAY 20 JANUARY

US	Existing Home Sales (Dec), Speeches; Harker, Waller (Econ Outlook, at CFR, NY)
UK	Retail Sales (Dec)
Canada	Retail Sales (Nov)
China	Chinese New Year (22 Jan)
