

**Key events this week – US PCE Price Index, US GDP Q4, Aus & NZ CPI Q4, BoC policy meeting**

Recap from last week: US data was mixed last week. Consumer spending and industrial output fell in Dec, while initial jobless claims remained low. Housing data was weak, but there was some sign of stabilizing. The FOMC is likely to step down to 25bps next week.

US retail sales fell more than expected in Dec and the decline was broad-based. The decline in the 6mth annualized change of real retail sales (now -3.8%) shows the slowdown in consumer spending gathered pace in Dec. US Industrial production data confirmed recent survey weakness. Manufacturing output declined again and has now fallen behind a year ago (-0.5% below Dec 2021 versus up by +3.8% just back in Sep). Output growth has slowed notably over each of the last three months across both durable & non-durable goods industries. Housing data showed some stabilization in home builder sentiment, while existing home sales continued to fall, albeit at a slower pace. Existing home sales have fallen to be only +0.2% ahead of the 2020 pandemic low. Mortgage purchase applications were stronger in the latest week aided partly by slightly lower mortgage rates. Despite the weakening Dec data, US initial jobless claims (SA) fell below the 200k/week level to +197k for the week ending 14 Jan. Continuing claims were little changed.

Fed speeches suggested that a further slowing in the pace of hikes could be expected next week. Vice Chair Brainard noted that the recent 'downshift' enables the FOMC to assess more data, while also reiterating that the policy rate will need to be sufficiently restrictive for some time given high inflation. The shift to a 25bps hike was all but confirmed with a [WSJ article](#) on 22 Jan - "Federal Reserve officials are preparing to slow interest-rate increases for the second straight meeting".

The BoJ left policy unchanged last week. Guidance remained that the BoJ "will not hesitate to take additional easing measures if necessary; it also expects short- and long-term policy interest rates to remain at their present or lower levels". Inflation is expected to decelerate toward the middle of the year while the median forecast for core inflation over 2023 was revised slightly higher to +1.8%. Actual core inflation (ex-fresh food & energy) increased to +3% in Dec (from +2.8% in Nov). Monthly core inflation slowed to +0.1% in Dec.

Outlook for the week ahead: US headline PCE price inflation for Dec is expected to ease from +5.5% in Nov. Core PCE is expected to ease to +4.4% in Dec from +4.7% in Nov. The advance estimate for US GDP growth in Q4 is expected to slow to an annualized pace of +2.6% (from +3.2% in Q3). Moderating inflation and growth will be important inputs for the FOMC meeting next week on 1 Feb.

Aus and NZ Q4 CPI will be released. Aus CPI is expected to moderate to +1.6% in Q4 but accelerate over the year to +7.5%. The next RBA meeting is on 7 Feb. NZ CPI is expected to ease slightly over the year to +7.1%. The next meeting of the RBNZ is on 22 Feb.

The BoC is expected to increase rates by a further 25bps and may then signal a pause in the hiking cycle. Inflation eased to +6.3% in Dec mainly due to lower energy prices. Core median inflation was little changed at 5% in Dec. Retail sales declined in Nov, with core retail falling the most in eleven months.

The prelim S&P PMIs for Jan 2023 will be released this week providing a gauge of global growth momentum into the new year.

## US Treasury Issuance & QT

It will be another big week of US Treasury issuance. The US Treasury will auction and settle approx. \$368bn in ST Bills (including another CMB) raising approx. \$110bn in new money.

The US Treasury will also auction the 2, 5, and 7-year Notes and the 2yr FRN this week – to settle on 31 Jan.

Approx \$18bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$1.3bn 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 %
23-27 Jan	19-Jan	24-Jan	4 week Bill	70			Actual 4.480%	4.370%
	19-Jan	24-Jan	8 week Bill	60			Actual 4.520%	4.465%
	18-Jan	24-Jan	17 week Bill	36			Actual 4.610%	4.680%
	19-Jan	24-Jan	44-Day CMB	60			Actual 4.525%	n/a
				226	125	101		
	23-Jan	26-Jan	13 week Bill	60			Announced	4.560%
	23-Jan	26-Jan	26 week Bill	48			Announced	4.685%
	24-Jan	26-Jan	52 week Bill	34			Announced	4.515%
				142	133	9		
			<b>Total - securities settling this week</b>	<b>368</b>	<b>258</b>	<b>110</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>1359</b>	<b>1108</b>	<b>251</b>		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			<b>578</b>		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		24-Jan	Bills	2.7				
		26-Jan	Bills	15.2				
				17.9				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		24-Jan	Bills	0.2				
		26-Jan	Bills	1.1				
				1.3				
			<b>Upcoming Auctions</b>	<b>\$B</b>				
	24-Jan	31-Jan	2yr Note	42				
	25-Jan	31-Jan	2yr FRN	24				
	25-Jan	31-Jan	5yr Note	43				
	26-Jan	31-Jan	7yr Note	35				

### 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
<b>Total Notes, Bonds, and Bills - Jan</b>			<b>60.0</b>	<b>63.4</b>

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%	0.69	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).

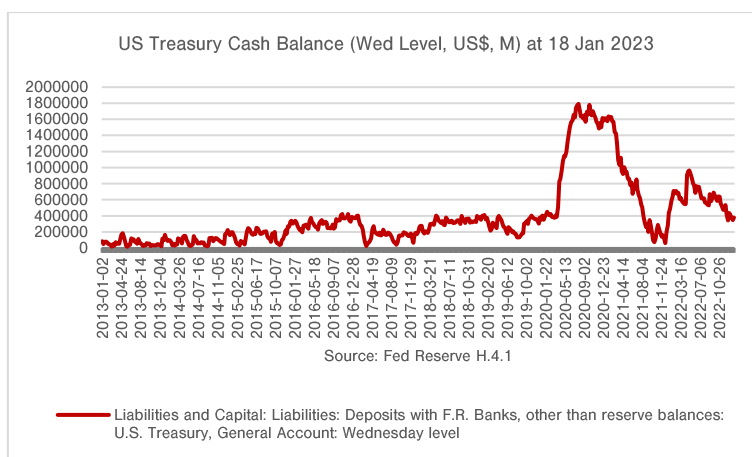
The next auction schedule update will be next week on 1 Feb 2023. The full details of Q1 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

### **Treasury Cash Levels**

As of Wed 18 Jan, the level of the TGA increased to \$377bn (+\$31bn compared to the week prior).

The current TGA balance is approx. \$202bn 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](https://www.newyorkfed.org/markets/ambs_operation_schedule)

# WEEK COMMENCING 23 JANUARY 2023

---

## MONDAY 23 JANUARY (US Eastern Time, unless stated otherwise)

---

US	Chicago Fed National Activity Index (Dec)
Aus	S&P Manufacturing & Services PMI Prelim (Jan), NAB Business Conditions & Confidence (Dec)
Japan	S&P Manufacturing & Services PMI Prelim (Jan)

---

---

## TUESDAY 24 JANUARY

---

Europe	Eurozone S&P Manufacturing & Services PMI Prelim (Jan)
UK	S&P Manufacturing & Services PMI Prelim (Jan)
US	S&P Manufacturing & Services PMI Prelim (Jan), Richmond Fed Manufacturing Survey (Jan)
NZ	CPI Q4
Australia	CPI Q4

---

---

## WEDNESDAY 25 JANUARY

---

US	Mortgage Applications wk 21 Jan
Canada	BoC Monetary Policy Decision

---

---

## THURSDAY 26 JANUARY

---

US	Initial Claims wk ending 21 Jan, Durable Goods Orders (Dec), GDP Advance Est Q4, New Home Sales (Dec), Kansas City Fed Manufacturing Index (Jan)
Japan	Tokyo CPI (Dec)
Australia	Export/Import Price Index Q4, PPI Q4

---

---

## FRIDAY 27 JANUARY

---

US	PCE Price Index (Dec), Personal Income (Dec), Personal Spending (Dec), University of Michigan Consumer Sentiment Final (Jan), Pending Home Sales (Dec)
----	--

---