

Key events for the week ahead – US non-farm payrolls, Euro Area prelim CPI (Dec), S&P global PMIs, FOMC minutes (TBC)

The US PCE inflation report for Nov was released before the holiday break. PCE inflation slowed more than expected to +5.5% in Nov from +6.1% in Oct. Food inflation is still high – but the monthly food inflation trend continues to ease. Energy prices are volatile, but growth has slowed. Core goods disinflation is progressing as expected. The core services ex-housing component is what the FOMC is looking at to judge how inflation may develop from here;

This is the largest of our three categories, constituting more than half of the core PCE index. Thus, this may be the most important category for understanding the future evolution of core inflation. (US Fed Chair Powell – [Brookings speech](#), 30 Nov 2022)

This measure of underlying inflation may have peaked in Oct, but remains elevated.

Because wages make up the largest cost in delivering these services, the labor market holds the key to understanding inflation in this category. (US Fed Chair Powell – [Brookings speech](#), 30 Nov 2022)

Outlook for the week ahead - US labour market reports will be a key focus this week. With headline measures of inflation easing, the performance of the labour market is important in understanding how wages, underlying inflation, and the monetary policy outlook, may evolve from here.

US non-farm payrolls for Dec are expected to increase by +200k (from +263k in Nov). This is still robust growth and above the estimated +100k growth required to accommodate population growth. The unemployment rate is expected to remain at 3.7% and participation at 62.1%.

Growth in average weekly earnings is expected to increase by +5% over the year (from +5.1% in Nov). For the FOMC, higher nominal wage growth reflects the ongoing imbalance between the supply of labour and demand for labour.

The Nov job openings are expected to fall to 10m in Nov (from 10.34m in Oct). The Oct JOLTS report showed falls in openings and hires (both below their 12mth averages, but openings remaining historically elevated). But this did not result in a corresponding increase in layoffs and discharges and both of these measures were still near series lows. Quits also remain elevated.

The weekly jobless claims data is an important high-frequency measure of the labour market. This week, initial claims (SA) are expected to increase by +230k (from +225k in the week prior). The current level of initial jobless claims is on par with the start of the year. The trend of the SA continuing claims series has been increasing steadily since Oct (after falling at the start of the year) and is now only 4.3% below the level at the start of 2022.

The FOMC minutes from the Dec meeting would usually be released this week – but is not yet scheduled on the Federal Reserve website.

The final global PMIs for Dec will be released this week. To recap, the G7 manufacturing PMIs remained in contraction. The contraction in Eurozone manufacturing slowed. Services output expanded in Japan, while services output in the UK shifted back to neutral, and the Eurozone services contraction slowed. The US S&P manufacturing and services PMIs contracted at a faster pace, falling to 46.2 and 44.4 respectively in early Dec.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$354bn in ST Bills, Notes, and Bonds raising approx. \$35bn in new money.

Approx \$13.6bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested.

Approx \$2.8bn 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 %
2-6 Jan 2023	29-Dec	03-Jan	4 week Bill	45			Actual 3.830%
	29-Dec	03-Jan	8 week Bill	45			Actual 4.250%
	28-Dec	03-Jan	17 week Bill	33			Actual 4.550%
				123	130	-7	
	03-Jan	05-Jan	13 week bill	54			Announced
	03-Jan	05-Jan	26 week bill	45			Announced
				99	96	3	
	21-Dec	03-Jan	20yr Bond	12			Actual 3.935%
	27-Dec	03-Jan	2yr Note	42			Actual 4.373%
	28-Dec	03-Jan	5yr Note	43			Actual 3.973%
	29-Dec	03-Jan	7yr Note	35			Actual 3.921%
				132	92.91	39.09	
			Total - securities settling this week	354	318.91	35.09	
			Net New Cash Raised Qtr to Date	354	319	35	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			578	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		03-Jan	Bills	2.3			
		05-Jan	Bills	11.3			
				13.6			
			Maturing & redemption (balance sheet roll-off)				
		03-Jan	Bills	0.5			
		05-Jan	Bills	2.3			
				2.8			

Quantitative Tightening Overview – January 2023

In January, the face value of Coupons maturing on the Fed balance sheet is approx. \$48.6bn. 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 \$11.4bn 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		15.5
31-Jan-23	Notes & Bonds		33.1
	Total Notes & Bonds		48.6
	Remainder - Bills to redeem		11.4
			55.6
	Total Notes, Bonds, and Bills - Jan		60.0
			55.6

The schedule of the \$11.4bn 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	Weekly Totals \$Bn			
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2023/01/03	2.77	4%	0.47	2.30
2023/01/05	13.62	20%	2.32	11.31
2023/01/10	3.33	5%	0.57	2.77
2023/01/12	11.58	17%	1.97	9.61
2023/01/17	2.82	4%	0.48	2.34
2023/01/19	12.48	19%	2.12	10.35
2023/01/24	2.86	4%	0.49	2.38
2023/01/26	16.28	24%	2.77	13.52
2023/01/31	1.25	2%	0.21	1.04
	66.98	100%	11.4	55.6

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

Recommended US Treasury Financing - Projected Q1 2023

The Q1 US Treasury borrowing requirements (net cash) is 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).

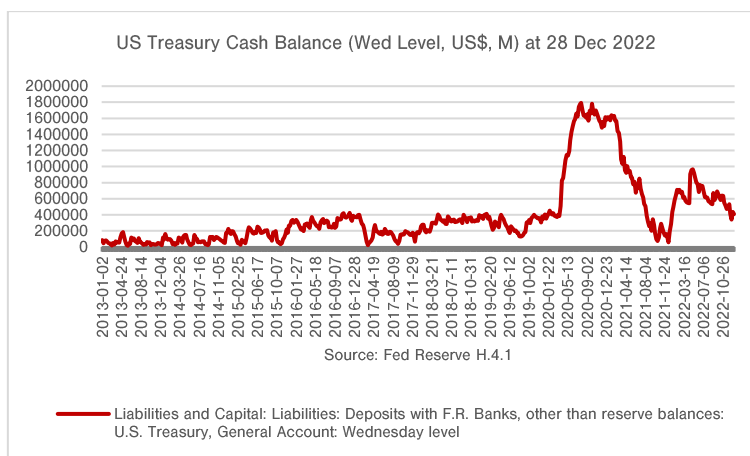
The next auction schedule update will be on 1 Feb 2023. The full details of Q1 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 28 Dec, the level of the TGA decreased to \$409bn (-\$25bn compared to the week prior).

The current TGA balance is approx. \$125bn higher 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=spreasheetml&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 2 JANUARY 2023

MONDAY 2 JANUARY (US Eastern Time, unless stated otherwise)

Europe	Eurozone S&P Manufacturing PMI Final (Dec)
--------	--

Australia	S&P Manufacturing PMI Final (Dec)
-----------	-----------------------------------

China	Caixin Manufacturing PMI (Dec)
-------	--------------------------------

TUESDAY 3 JANUARY

Europe	Germany CPI – Prelim (Dec)
--------	----------------------------

US	S&P Manufacturing PMI Final (Dec)
----	-----------------------------------

UK	S&P Manufacturing PMI Final (Dec)
----	-----------------------------------

Japan	S&P Manufacturing PMI Final (Dec)
-------	-----------------------------------

WEDNESDAY 4 JANUARY

Europe	Eurozone S&P Services PMI Final (Dec)
--------	---------------------------------------

US	Mortgage Apps wk 30 Dec, ISM Manufacturing PMI (Dec), JOLTS (Nov) FOMC Minutes (TBC)
----	---

Australia	S&P Services PMI Final (Dec)
-----------	------------------------------

China	Caixin Services PMI (Dec)
-------	---------------------------

THURSDAY 5 JANUARY

Europe	Euro Area PPI (Nov)
--------	---------------------

UK	S&P Services PMI Final (Dec)
----	------------------------------

US	Initial Claims wk ending 30 Dec, Challenger Job Cuts (Dec), ADP Employment Change (Dec), S&P Services PMI Final (Dec) Fed Speech; Cook 'Inflation; What Lies Ahead'
----	---

Japan	S&P Services PMI Final (Dec)
-------	------------------------------

FRIDAY 6 JANUARY

Europe	Euro Area CPI – Prelim (Dec), Euro Area Retail Sales (Dec)
--------	--

US	Non-Farm Payrolls (Dec), Factory Orders (Nov), ISM Services PMI (Dec)
----	---

Canada	Labour Market Survey (Dec)
--------	----------------------------
