

Key events this week – Central bank policy decisions; FOMC, BoE, and ECB, US non-farm payrolls

Recap from last week: US inflation moderated in line with expectations. Headline US PCE inflation came in at +5% for Dec, slowing from +5.5% in Nov, led by falling energy prices. Core PCE eased as expected to +4.4%. The 'super core' measure emphasized by Fed Chair Powell remained little changed at just above +4% - highlighting the stickier nature of underlying inflation.

US growth was more robust than expected in Q4, increasing at an annualized pace of +2.9%. Growth is slowing, but not as much as expected. The data late in Q4 suggested some softening of US activity, as shown by falling retail sales and industrial production. But more recent growth in personal income, adjusted for inflation, has continued to accelerate. The 6mth SAAR of personal income (ex-transfer payments) adjusted for inflation reached +2.9% in Dec. The 10-year pre-pandemic avg is +3.1%. While spending growth has eased, the saving/surplus between income and spending, has instead started to increase again but remains well below the pre-pandemic level.

Continued strength in the US labor market will be important to help support income growth while the balance between consumption and saving adjusts. Initial claims continued to move lower last week to +186k despite further anecdotes of planned job cuts. The Jan non-farm payrolls growth this week is still expected slow, but remain robust at +175k jobs added.

Other: The BoC has now signaled a likely pause in its hiking cycle to assess the impact of rate increases. Aus CPI came in higher than expected at +7.8% (the RBA had previously noted a higher Q4 CPI print was expected). Aus PMIs and business surveys suggested some stalling in activity.

The G7 prelim PMIs for Jan showed services output improved (less negative in most cases) while manufacturing activity remained at a stalled pace.

Outlook for the week ahead: The FOMC this week is expected to step down to a pace of a 25bps increase. As growth and the labor market continue to hold up, the focus will be on remaining at a sufficiently restrictive level to help bring down inflation. Not likely to see a dovish shift as the job on inflation is not yet done. The tone is not likely to be overly hawkish though given some emerging weakness in economic activity. There may be greater emphasis on the optionality of "data dependence".

The ECB is expected to increase rates by 50bps this week to 2.5%. Inflation is still elevated. The latest CPI for the Euro Area will be released before the ECB announcement. The prelim Jan CPI is expected to fall in the month, but remain elevated over the year at +9.1%. The prelim Eurozone GDP for Q4 is expected to contract slightly by -0.1%.

Similarly, the BoE is expected to increase rates by a further 50bps to 4%. Inflation is still elevated at +10.5%.

US labor market data will be in focus; non-farm payrolls are expected to increase by +175k in Jan. The Employment Cost Index (ECI) will also be released this week and will be an important marker for the pace of wage growth – expecting +1.2% for Q4. The Dec JOLTS report is expected to show a further slowdown in job openings to 10.2m. The Jan US ISM PMIs will also be released.

The S&P PMIs for Jan will provide a reading on the broader global growth momentum in Jan.

US Treasury Issuance & QT

The US Treasury will auction and settle approx. \$452bn in ST Bills, Notes, Bonds, TIPS, and FRN's raising approx. \$49bn in new money.

Approx \$17.4bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$37bn in ST Bills, Notes, Bonds, and FRN's 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 %
30 Jan- 3 Feb	26-Jan	31-Jan	4 week Bill	75		Actual 4.500%	4.480%
	26-Jan	31-Jan	8 week Bill	60		Actual 4.525%	4.520%
	25-Jan	31-Jan	17 week Bill	36		Actual 4.620%	4.610%
				171	120	51	
	30-Jan	02-Feb	13 week Bill	60		Announced	4.575%
	30-Jan	02-Feb	26 week Bill	48		Announced	4.685%
				108	99	9	
	24-Jan	31-Jan	2yr Note	42		Actual 4.139%	4.373%
	25-Jan	31-Jan	2yr FRN	24		Actual HDM 0.200%	HDM 0.239%
	25-Jan	31-Jan	5yr Note	43		Actual 3.530%	3.973%
	26-Jan	31-Jan	7yr Note	35		Actual 3.517%	3.921%
	19-Jan	31-Jan	10yr TIPS	17		Actual 1.220%	1.485%
	18-Jan	31-Jan	20yr Bond	12		Actual 3.678%	3.935%
				173	184	-11	
			Total - securities settling this week	452	403	49	
			Net New Cash Raised Qtr to Date	1811	1511	300	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			578	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		31-Jan	Bills	2.0			
		02-Feb	Bills	15.4			
				17.4			
			Maturing & redemption (balance sheet roll-off)				
		31-Jan	Bills	0.1			
		31-Jan	Notes, Bonds, FRNs	36.9			
				37.0			

Quantitative Tightening Overview – February 2023

In February, the face value of Coupons maturing on the Fed balance sheet is approx. \$130bn.

This is above the \$60bn cap for balance sheet roll-off and means that the remaining \$70bn in Coupons maturing, plus all ST Bills maturing on the Fed balance sheet will be reinvested this month.

Summary of Total Coupons to Redeem at the \$60bn redemption cap - FEB			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Feb-23	Notes & Bonds	32.0	37.5
28-Feb-23	Notes & Bonds	28.0	32.7
	ST Bills	0	65.7
	Total Notes & Bonds	60.0	135.9

January Bills Schedule; The schedule of \$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		Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	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

February Bills reinvestment schedule;

Bill Maturity Schedule - FEB		Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2023/02/02	15.38	23%		15.38
2023/02/07	2.61	4%		2.61
2023/02/09	11.90	18%		11.90
2023/02/14	2.25	3%		2.25
2023/02/16	13.58	21%		13.58
2023/02/21	3.38	5%		3.38
2023/02/23	14.51	22%		14.51
2023/02/28	2.05	3%		2.05
	65.66	100%		65.66

<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).

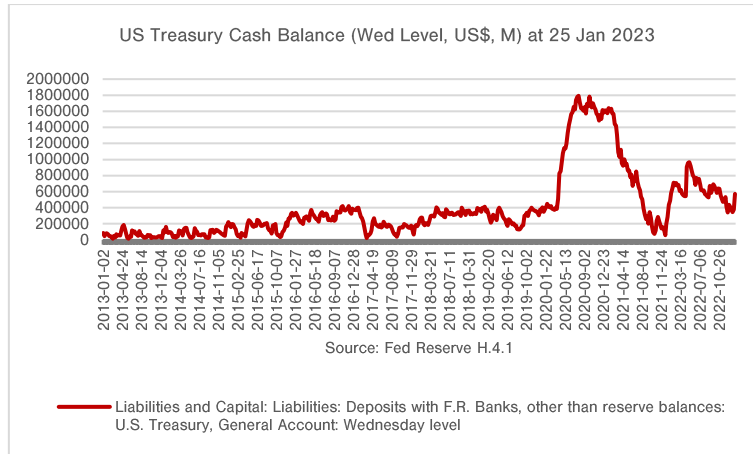
The next auction schedule update will be this week on 1 Feb 2023. The full details of Q1 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 25 Jan, the level of the TGA increased to \$572bn (+\$198bn compared to the week prior).

The current TGA balance is approx. \$67bn 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/ombs_operation_schedule

WEEK COMMENCING 30 JANUARY 2023

MONDAY 30 JANUARY (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Survey (Jan)
Japan	Industrial Production Prelim (Dec), Retail Trade (Dec)
Australia	Private Sector Credit (Dec), Retail Trade (Dec)
China	NBS Manufacturing & Non-Manufacturing PMI (Jan)

TUESDAY 31 JANUARY

Europe	Eurozone GDP Prelim (Q4)
US	ECI (Q4), Case Shiller House Price Index (Nov), Chicago PMI (Jan)
Australia	S&P Manufacturing PMI Final (Jan)
Japan	S&P Manufacturing PMI Final (Jan)
China	Caixin Manufacturing PMI Final (Jan)

WEDNESDAY 1 FEBRUARY

Europe	Eurozone S&P Manufacturing PMI Final (Jan), Euro Area CPI Prelim (Jan)
US	Mortgage Apps wk 28 Jan, ADP Employment Chg (Jan), S&P Manufacturing PMI Final (Jan), ISM Manufacturing PMI (Jan), JOLTS (Dec) FOMC Monetary Policy Decision

THURSDAY 2 FEBRUARY

UK	BoE Monetary Policy Decision
Europe	ECB Monetary Policy Decision
US	Initial Claims wk 28 Jan, Challenger Job Cuts (Jan), Factory Orders (Dec)
Australia	S&P Services PMI Final (Jan), Housing Finance (Dec)
Japan	S&P Services PMI Final (Jan)
China	S&P Services PMI Final (Jan)

FRIDAY 3 FEBRUARY

Europe	S&P Services PMI Final (Jan)
UK	S&P Services PMI Final (Jan)
US	Non-Farm Payrolls & Employment Survey (Jan), S&P Services PMI Final (Jan), ISM Services PMI (Jan)
