

Key events for the week ahead – US CPI, US Fed Chair Powell panel discussion

Recap from last week: Data continued to paint a picture of a robust US labor market despite slowing employment growth momentum. Growth in average hourly earnings slowed but highlighted the noisy nature of the 'average' as the prior month (Nov) was revised from an uncomfortably high (for the FOMC) +0.6% to +0.4%. The Dec month growth slowed to +0.3% as the annual growth slowed to +4.6% (expecting +5%). The FOMC will likely see this as a step in the right direction.

While payroll growth slowed to +223k, it is still above the level needed to absorb population growth (approx. +100k jobs). Employment growth in the household survey increased more notably for the month by +717k – but was led almost entirely by part-time employed persons (+679k).

Participation increased at the same time that the unemployment rate fell even further. The unemployment rate for the core working age group 25-54 years fell to 2.95% in Dec (from +3.27% in Nov). The 16yr+ unemployment rate fell to 3.47% (from 3.65% in Nov). The Nov JOLTS survey showed a slowing in openings and hires but layoffs and discharges remained near series lows – a good sign of resilience so far in this tightening cycle. But private sector hours and manufacturing overtime hours have started to decline, especially manufacturing overtime hours. This may be a precursor to future weakness in employment.

The fall in overtime hours is consistent with an obvious slowing in US manufacturing activity. US activity measured by the S&P and ISM PMIs deteriorated in Dec. The ISM manufacturing PMI contracted again while the ISM services PMI showed services activity slowing quite notably, falling from 56.5 in Nov to 49.9 in Dec.

The FOMC minutes reflected the decision to slow the pace of the Dec rate hike to 50bps. The stronger hawkish tone of earlier in the year has been softened as policy approaches a restrictive level; ongoing increases are still appropriate, inflation starting to ease but need to see more evidence of progress, the labor market is still tight, but “a couple” of participants starting to see the risks to the inflation outlook becoming more balanced and the risks of over-tightening versus under-tightening as becoming more balanced.

The S&P global PMIs for Dec showed a further fall in global manufacturing momentum. While the contraction in the Eurozone and Japan stabilized in Dec, momentum in other parts of Asia slowed, and the US contraction gained momentum. The S&P global services contraction stabilized at a modest level as momentum improved across Europe, Japan, and the UK. Again, the US contraction in services gained momentum

Outlook for the week ahead: The focus this week will be on US CPI for Dec. Headline CPI is expected to moderate to +6.5% from +7.1% in Nov. Monthly CPI is expected to remain at +0.1%. US core CPI is expected to slow to +5.7% from +6% in Nov with monthly core CPI for Dec at +0.3%. Other inflation reports; Aus Nov (monthly) CPI is expected to increase to +7% from +6.9%. China's CPI for Dec is expected to remain low at +1.8%.

Germany and Eurozone production data for Nov will provide some scale for the weakness in the manufacturing PMIs. Last week, German factory orders declined by over 5% in Nov.

US Fed Chair Powell is to take part in a discussion panel on central bank independence.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$228bn in ST Bills, with a paydown of \$1bn.

The US Treasury will also auction the 3 and 10-year Notes and the 30-year Bond this week – all will settle next week.

Approx \$14bn 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/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 %
9-13 Jan	05-Jan	10-Jan	4 week Bill	45		Actual 4.100%	3.830%
	05-Jan	10-Jan	8 week Bill	45		Actual 4.430%	4.250%
	04-Jan	10-Jan	17 week Bill	33		Actual 4.570%	4.550%
				123	130	-7	
	09-Jan	12-Jan	13 week Bill	57		Announced	4.410%
	09-Jan	12-Jan	26 week Bill	48		Announced	4.635%
				105	99	6	
			Total - securities settling this week	228	229	-1	
			Net New Cash Raised Qtr to Date	582	548	34	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			578	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		10-Jan	Bills	3.1			
		12-Jan	Bills	10.8			
				13.9			
			Maturing & redemption (balance sheet roll-off)				
		10-Jan	Bills	0.2			
		12-Jan	Bills	0.8			
				1.0			
			Upcoming Auctions	\$B			
	10-Jan	17-Jan	3yr Note	40		Announced	4.093%
	11-Jan	17-Jan	10yr Note	32		Announced	3.625%
	12-Jan	17-Jan	30yr Bond	18		Announced	3.513%
				90	73.5	16.5	

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).

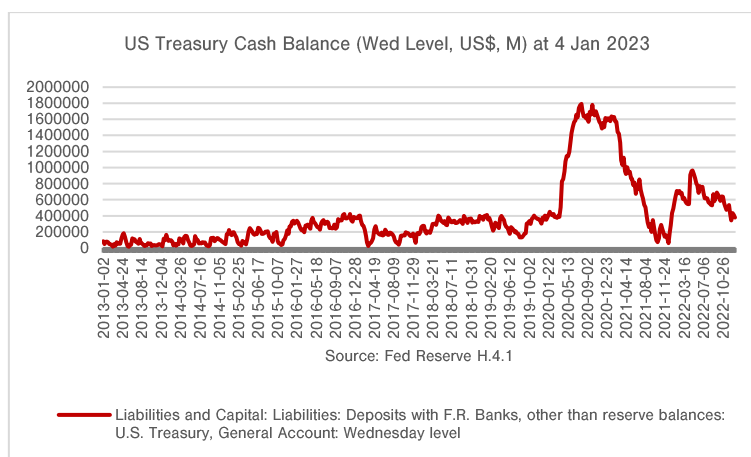
The next auction schedule update will be on 1 Feb 2023. The full details of Q1 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

Treasury Cash Levels

As of Wed 4 Jan, the level of the TGA decreased to \$379bn (-\$30bn compared to the week prior).

The current TGA balance is approx. \$55bn 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=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 9 JANUARY 2023

MONDAY 9 JANUARY (US Eastern Time, unless stated otherwise)

Australia (Sunday night) Building Permits (Nov)

Europe Germany Industrial Production (Nov)

US Consumer Credit Change (Nov)

Japan Tokyo CPI (Dec)

TUESDAY 10 JANUARY

China New Loans (Dec), CPI & PPI (Dec) - *tbc*

Sveriges Riksbank International Symposium on [Central Bank Independence](#); BoC Governor Macklem, BoJ Governor Kuroda, ECB Board member Schnabel, and US Fed Chair Powell (discussion on central bank independence & the mandate)

Australia CPI Monthly (Nov), Retail Sales (Nov)

WEDNESDAY 11 JANUARY

US Mortgage Apps wk 6 Jan

THURSDAY 12 JANUARY

US Initial Claims wk ending 6 Jan, CPI (Dec)
Fed speeches: Harker

Australia Housing Finance (Nov)

FRIDAY 13 JANUARY

UK Industrial Production (Nov)

Europe Eurozone Industrial Production (Nov)

US Export & Import Price Index (Dec), University of Michigan Consumer Sentiment Prelim (Jan)
US Fed speeches: Harker

China Trade Balance, Exports, and Imports (Dec)
