

## Key events this week – US CPI, retail sales, production, and housing data, UK CPI, RBA Governor Lowe's testimony

Recap from last week: The stronger US nonfarm payrolls were a catalyst for a shift in the narrative last week. Markets have been digesting the stronger US labor market data, an expected increase in inflation this week, and growth that generally hasn't been as bad as expected. Yields increased last week and the FFR futures are mostly back in line with projections provided at the Dec FOMC meeting.

In an interview during the week, US Fed Chair Powell noted that the disinflation process has started, but is in the very early stages and that the process will take time. Chair Powell does "expect significant progress on inflation this year and it's our job to produce it". So far, the disinflation process has not happened at the expense of higher unemployment.

The US senior loan officer survey for Q4 confirmed broadly tighter lending standards and lower demand for credit. The US consumer credit growth for Dec was notably slower. This was partly the result of lower growth of non-revolving credit linked to slower growth of motor vehicle sales in Dec (motor vehicle sales rebounded in Jan). Initial claims are still below 200k but NSA continuing claims appear to be edging higher. The Atlanta Fed wage growth tracker for Jan showed some easing in wage growth over the year, but the pace of growth remains elevated.

The RBA increased the cash rate target by 25bps to 3.35%. Inflation is high and Q4 core inflation at 6.9% was higher than expected. The labor market is tight, and unemployment remains at its lowest level since 1974. Rising rates are starting to impact household budgets and house prices. The guidance noted that "further increases in interest rates will be needed in the months ahead". A key phrase, 'rates not on a pre-set path' was removed from the statement, and when previously added, it was thought to be a precursor to a pause in the hiking cycle.

RBA Governor Lowe has been criticized for earlier statements that rates wouldn't increase until 2024. Household mortgage rates and payments are now resetting higher and community backlash has increased. This week, Governor Lowe will provide testimony in front of the Senate and House of Representatives economics committees.

Outlook for the week ahead: US CPI will set the tone for the week. Headline CPI in Jan is expected to slow to +6.2% over the year (from +6.5% in Dec). The monthly change in CPI is expected to increase to +0.5% in Jan (from +0.1% in Dec). Core CPI is expected to increase by +0.4% over the month, unchanged from Dec.

Other data this week may highlight some near-term improvement in US momentum. Monthly US retail sales growth is expected to rebound in Jan by +1.6% after falling -1.1% in Dec. Similarly, industrial production is expected to increase by +0.5% in Jan after a -0.7% fall in Dec. The first regional US manufacturing surveys for Feb will provide some insight into the persistence of weaker manufacturing activity. US homebuilder sentiment is expected to lift slightly. There will be several US Federal Reserve speeches during the week.

Inflation in the UK is expected to slow to +10.2% in Jan. Monthly CPI is expected to fall by -0.4%. UK labor market data will also be released this week.

The Aus labor market data for Jan will be released. Employment is expected to increase by +20k while the participation rate and unemployment rate are expected to be little changed at 66.6% and 3.5% respectively.

## US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$400bn in ST Bills, Notes, and Bonds raising approx. \$96bn in new money.

The US Treasury will also auction 30-year TIPS and 20-year Bonds this week. Both will settle on 28 Feb.

QT: Approx \$53bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested. Approx \$32bn in Notes and Bonds will mature on the Balance sheet this week and will be redeemed/roll off the balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
13-17 Feb	09-Feb	14-Feb	4 week Bill	75			Actual 4.520%
	09-Feb	14-Feb	8 week Bill	60			Actual 4.600%
	08-Feb	14-Feb	17 week Bill	36			Actual 4.700%
				171	138	33	
	13-Feb	16-Feb	13 week Bill	60			Announced
	13-Feb	16-Feb	26 week Bill	48			Announced
	14-Feb	16-Feb	12-Day CMB	25			Announced
				133	99	34	n/a
	07-Feb	15-Feb	3yr Note	40			Actual 4.073%
	08-Feb	15-Feb	10yr Note	35			Actual 3.613%
	09-Feb	15-Feb	30yr Bond	21			Actual 3.686%
				96	67	29	
			<b>Total - securities settling this week</b>	<b>400</b>	<b>304</b>	<b>96</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>2490</b>	<b>2034</b>	<b>456</b>	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			<b>932</b>	
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>			
			<b>Maturing &amp; reinvestment</b>				
		14-Feb	Bills	2.3			
		15-Feb	Notes & Bonds	37.5			
		16-Feb	Bills	13.6			
				53.4			
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>				
		15-Feb	Notes & Bonds	32.0			
				32.0			
			<b>Upcoming Auctions</b>	<b>\$B</b>			
	15-Feb	28-Feb	20yr Bond	15			
	16-Feb	28-Feb	30yr TIPS	9			

### 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. This 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
			Reinvest \$ Bn
15-Feb-23	Notes & Bonds	Redeem \$Bn	37.5
28-Feb-23	Notes & Bonds	Redeem \$Bn	32.7
	ST Bills	Redeem \$Bn	66.6
	<b>Total Notes &amp; Bonds</b>	<b>Redeem \$Bn</b>	<b>136.8</b>

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	20%		13.58
2023/02/21	3.38	5%		3.38
2023/02/23	14.51	22%		14.51
2023/02/28	2.97	4%		2.97
	66.59	100%		66.59

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

### **Recommended US Treasury Financing - Final Q1 2023**

The US Treasury borrowing requirement (net cash) for Q1 was increased from \$578bn to \$932bn. This increase is reflected in the higher issuance of Bills for the quarter.

The estimated net Bill issuance for Q1 was revised to \$655bn (from \$301bn) and the estimated net Coupon issuance over the quarter remained unchanged at \$277bn (prior was net \$300bn).

The expected cash balance at the end of Q1 was unchanged at \$500bn.

The revised higher issuance for Q1 was the result of a lower-than-expected cash balance at the end of Q4 2022 and a projection of lower tax receipts and higher outlays over Q1.

Statement on the impact of the debt limit;

Since January 19, 2023, Treasury has been using extraordinary measures to finance the government on a temporary basis.<sup>11</sup> As Secretary Yellen outlined in recent letters to Congress, the period of time that extraordinary measures may last is subject to considerable uncertainty due to a variety of factors, including the challenges of forecasting the payments and receipts of the U.S. government months into the future. While Treasury is not currently able to provide an estimate of how long extraordinary measures will enable us to continue to pay the government's obligations, it is **unlikely that cash and extraordinary measures will be exhausted before early June.**

Until the debt limit is suspended or increased, debt limit-related constraints will lead to greater-than-normal variability in benchmark bill issuance and significant usage of CMBs. Source: [US Treasury](#)

The full details of Q1 2023 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

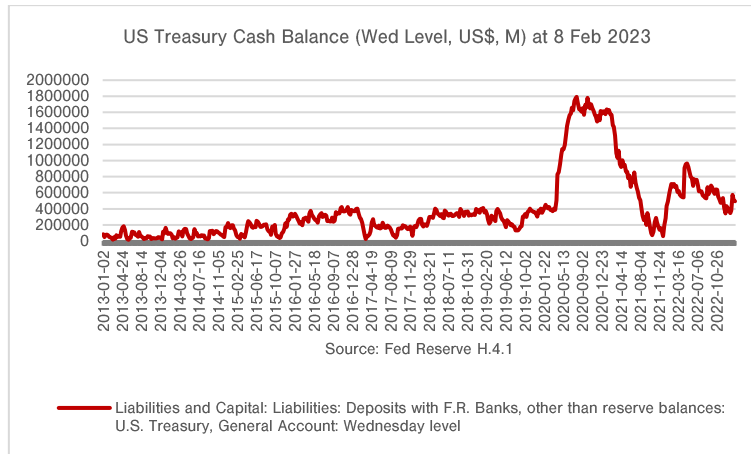
The next meeting of the TBAC will be on 1 May 2023.

## Treasury Cash Levels

As of Wed 8 Feb, the level of the TGA decreased to \$495bn (-\$5bn compared to the week prior).

The current TGA balance is approx. \$183bn lower than the same week a year ago.

The updated 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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## WEEK COMMENCING 13 FEBRUARY 2023

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### MONDAY 13 FEBRUARY (US Eastern Time, unless stated otherwise)

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US	Fed Reserve speeches: Bowman
Japan	GDP Q4
Australia	NAB Business Conditions & Confidence (Jan), Westpac Consumer Sentiment (Feb)
Japan	Industrial Production – Final (Dec)

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### TUESDAY 14 FEBRUARY

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UK	Labour Market Survey (3mth to Dec)
Europe	Euro area GDP Q4
US	CPI (Jan), NFIB Small Business Optimism Index (Jan) US Fed speeches; Harker, Williams, Logan
Australia	RBA Governor Lowe – Senate testimony

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### WEDNESDAY 15 FEBRUARY

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UK	CPI (Jan)
Europe	Eurozone Industrial Production (Dec)
US	Mortgage Apps wk 11 Feb, NY Empire State Manufacturing Index (Feb), Retail Sales (Jan), Industrial Production (Jan), NAHB Housing Market Index (Feb)
Japan	Merchandise Trade, Exports, & Imports (Jan)
Australia	Consumer Inflation Expectations (Feb), Labour Market Survey (Jan)

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### THURSDAY 16 FEBRUARY

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US	Initial Claims wk 11 Feb, Building Permits & Housing Starts (Jan), Philadelphia Fed Manufacturing Survey (Feb), PPI (Jan) US Fed speeches; Cook, Mester, and Bullard
Australia	RBA Governor Lowe – House of Representatives testimony

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### FRIDAY 17 FEBRUARY

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UK	Retail Sales (Jan)
US	Export & Import Price Indexes (Jan) US Fed speeches; Bowman
	US Holiday Monday 20 Feb – Presidents Day

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