MARS CAPITAL PARTNERS

# Weekly Macro Outlook

w/c 20 February 2023

## Key events this week – FOMC & RBA Minutes, RBNZ policy meeting, US PCE inflation, Japan & Canada CPI, prelim PMIs Feb

Recap from last week; US consumer price inflation came in as expected, with headline inflation slowing only slightly while underlying inflation remained sticky. Persistent inflation, together with stronger retail sales and payroll growth in Jan, was another data point adding to questions about more resilient momentum in the US.

US CPI slowed only slightly to +6.35% as higher energy prices added to inflation pressure this month. Core goods remained a larger disinflationary force – led by declining used car prices. Core services remained inflationary – led by rising shelter costs. Measures of underlying CPI showed the path of inflation remaining sticky. Notably, the Cleveland Fed median at +7% and trimmed mean at +6.5% showed little progress in reducing underlying inflation. The Jan CPI report confirms the FOMC's concern about prematurely loosening policy. Rates markets continued to reprice a 'higher for longer' scenario. This was also stoked by hawkish rhetoric from Fed officials during the week.

But not all sectors line up with the softer landing narrative. US industrial production rebounded in Jan but is yet to break the weaker trend in output growth. The first regional manufacturing surveys for Feb showed continued weakness in orders and activity. In both surveys, hours worked were reduced, and employment in the NY Empire State survey contracted for the first time since the start of the pandemic. New home builder sentiment was stronger in Feb (off very low levels) – but hard to see that continue if mortgage rates shift higher again. The latest weekly mortgage applications reversed sharply lower as rates moved higher. US housing starts remained in a firm downward trend.

RBA Governor Lowe's testimony noted that "there's risks that we haven't done enough" to tighten and bring down inflation. Employment in Jan was again weaker than expected and the unemployment rate increased from an all-time low to 3.7%. The RBA is looking through this weaker Jan report, citing data that more people than usual are waiting to start work in Feb. The RBA is expecting a strong rebound in employment in Feb, but if not, Governor Lowe noted that it "may force a rethink on the state of the economy". The Aus Feb consumer sentiment reversed the Jan gains – sentiment on the state of family finances versus a year ago is now that the lowest level since the 1990s recession.

Outlook for the week ahead; It will be a big week of data to round out the near-term view of momentum. US PCE inflation is expected to accelerate over the month to +0.5% with annual headline PCE inflation to slow to +4.9%. Personal income is expected to increase by +0.9% in Jan and spending by +1.3%. Initial jobless claims are expected to rise slightly to +200k.

FOMC minutes will be released this week. The FOMC reduced the hike to 25bps at the last meeting. Markets had reacted favorably to the message that disinflation was underway, and that there was little pushback over concern about easier financial conditions. Rates pricing has moved notably since then due to stronger data.

The RBA minutes will also be released this week. Some expected a pause at the Feb meeting, so the minutes may highlight more detail about the decision to hike and the thinking behind changes to the statement.

RBNZ monetary policy decision – markets are expecting a +50bps hike to 4.75%.

The Japanese core CPI ex fresh food for Jan is expected to increase to +4.2%. A confirmation hearing will take place later in the week for the new BoJ Governor nominee.

The latest prelim PMIs for Feb will provide insight into changes in growth momentum among the G4.

## US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. $335bn in ST Bills and FRNs with a net paydown of approx. -$3bn.

The US Treasury will also auction the 2, 5, and 7-year Notes this week. All will settle on 28 Feb.

QT: Approx $18bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested.

| WEEK | Auction Date | Settlement Date | Marketable Securities | Auction Amount $B (TBAC) | Amount Maturing $B | New Money $B | | Prior Auction High Rate % |
|---|---|---|---|---|---|---|---|---|
| *20 Feb - Washington's Birthday/President's Day Holiday* | | | | | | | | |
| 20-24 Feb | 16-Feb | 21-Feb | 4 week Bill | 75 | | | Actual 4.510% | 4.520% |
| | 16-Feb | 21-Feb | 8 week Bill | 60 | | | Actual 4.650% | 4.600% |
| | 15-Feb | 21-Feb | 17 week Bill | 36 | | | Actual 4.800% | 4.700% |
| | | | | 171 | 148 | 23 | | |
| | 21-Feb | 23-Feb | 13 week Bill | 60 | | | Announced | 4.680% |
| | 21-Feb | 23-Feb | 26 week Bill | 48 | | | Announced | 4.840% |
| | 21-Feb | 23-Feb | 52 week Bill | 34 | | | Announced | 4.470% |
| | | | | 142 | 190 | -48 | | |
| | 22-Feb | 24-Feb | 2yr FRN | 22 | | | | |
| | | | | 22 | 0 | 22 | | |
| | | | **Total - securities settling this week** | 335 | 338 | -3 | | |
| | | | **Net New Cash Raised Qtr to Date** | ***2825*** | ***2372*** | ***453*** | | |
| | | | *Estimated Net Cash to be Raised Q1 ($ Bn)* | | | ***932*** | | |
| | **Face value of US Federal Reserve SOMA securities maturing** | | | **$B** | | | | |
| | | **Maturing & reinvestment** | | | | | | |
| | | 21-Feb | Bills | 3.4 | | | | |
| | | 23-Feb | Bills | 14.5 | | | | |
| | | | | 17.9 | | | | |
| | **Upcoming Auctions** | | | **$B** | | | | |
| | 21-Feb | 28-Feb | 2yr Note | 42 | | | | |
| | 22-Feb | 28-Feb | 5yr Note | 43 | | | | |
| | 23-Feb | 28-Feb | 7yr Note | 35 | | | | |
| | | | | *120* | | | | |

### 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** |
| | | **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 | 66.6 |
| | **Total Notes & Bonds** | **60.0** | **136.8** |

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 current net cash raised in the quarter-to-date is $453bn.*

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.[1] 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

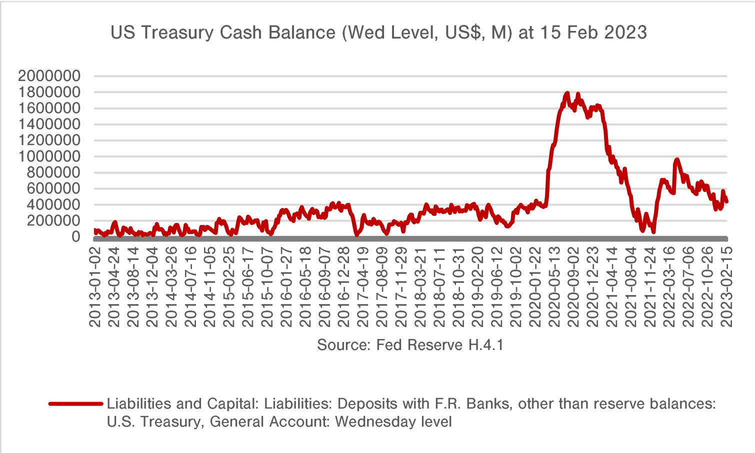
The next meeting of the TBAC will be on 1 May 2023.

## Treasury Cash Levels

As of Wed 15 Feb, the level of the TGA decreased to $439bn (-$56bn compared to the week prior).

The current TGA balance is approx. $269bn *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=spreadsheetml&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 20 FEBRUARY 2023

| **MONDAY 20 FEBRUARY** (US Eastern Time, unless stated otherwise) | |
|---|---|
| NZ | PPI (Q4) |
| Australia | Manufacturing & Services PMI Prelim (Feb)<br>RBA Minutes |
| Japan | Manufacturing & Services PMI Prelim (Feb) |

| **TUESDAY 21 FEBRUARY** | |
|---|---|
| Europe | Eurozone Manufacturing & Services PMI Prelim (Feb) |
| UK | Manufacturing & Services PMI Prelim (Feb) |
| Canada | CPI (Jan), Retail Sales (Dec) |
| US | Manufacturing & Services PMI Prelim (Feb), Existing Home Sales (Jan) |
| Australia | Wage Price Index (Q4), Construction Work Done (Q4) |
| NZ | RBNZ Monetary Policy Decision |

| **WEDNESDAY 22 FEBRUARY** | |
|---|---|
| Europe | Germany CPI Final (Jan) |
| US | Mortgage Apps wk 18 Feb, Fed speeches: Williams<br>FOMC Meeting Minutes |
| Australia | Private Sector Capex (Q4) |

| **THURSDAY 23 FEBRUARY** | |
|---|---|
| Europe | Eurozone CPI Final (Jan) |
| US | Initial Claims wk 18 Feb, Chicago Fed National Activity Index (Jan), GDP 2nd Prelim (Q4), Kansas City Fed Manufacturing Index (Feb), Fed speeches; Bostic |
| Japan | CPI (Jan) |

| **FRIDAY 24 FEBRUARY** | |
|---|---|
| Japan | BoJ Governor Nominee Ueda Confirmation Hearing |
| Europe | Germany GDP (Q4) |
| US | PCE Price Index (Jan), Personal Spending & Income (Jan), University of Michigan Consumer Sentiment Final (Feb)<br>Fed speeches: Jefferson “managing disinflation”, Mester |