

Key events this week – US ISM PMIs, global S&P PMIs, Eurozone prelim CPI, Aus monthly CPI, retail sales, & GDP Q4

Recap from last week: US data mostly confirmed a firming of near-term economic momentum in Jan with a view that this momentum may extend beyond Jan. Rates markets were expecting a slowdown in activity which has yet to materialize more broadly. Current US FFR probabilities are now more in line with the December FOMC 'dots', with the FFR peaking around 5.25-5.5% and no cuts for 2023. So far, long rates have remained below last year's peak.

But there is a large question over how much of the stronger momentum in US consumption and employment data for Jan was due to 'seasonal factors'. So, it's the US Feb data in the following two weeks that may provide important confirmation; payrolls (10 Mar), CPI (14 Mar), and retail sales (15 Mar), all leading up to the FOMC on 21-22 Mar. The Feb US CPI and retail sales reports will be released in the blackout period before the FOMC meeting.

US PCE inflation data for Jan was stronger than expected and broadly showed that progress on disinflation had stalled. The monthly and quarterly pace of inflation increased across the headline, core, super-core, median, and trimmed mean inflation numbers. The quarterly trends show that inflation remains sticky. The FOMC will be disappointed but not surprised. The FOMC minutes were clear that "the historical record cautions strongly against prematurely loosening policy" and that "**substantially more evidence of progress across a broader range of prices would be required**" before declaring inflation was on a 'sustained downward path'.

Stronger US income growth in Jan supported higher consumption and a further increase in the saving rate. US initial claims remained low and below 200k. But weekly mortgage applications fell hard as mortgage rates increased. Regional manufacturing themes remained focused on the weakness in demand, difficulty finding skilled labor, and inflation.

The Feb prelim PMIs were important, indicating an improvement in growth momentum especially across services and manufacturing output. The contraction in US manufacturing output eased, indicating some positive momentum. US services shifted back to expansion in Feb. Overall, manufacturing output shifted back into growth across the Eurozone and the UK but remained weaker in Japan. Services output improved to a more moderate pace of expansion across the G4.

The RBA minutes reflected a shift away from considering a pause in rate hikes – only a 25 or 50bps increase was debated. The guidance appears to be preparing markets for at least another 40bps increase in hikes – and that may be why the "not on a pre-set path" statement was removed last month. This week, Aus monthly CPI is expected to slow to +8.1% in Jan, retail sales growth is expected to rebound by +1.2% in Jan, and GDP in Q4 is expected to increase by +0.9% (QoQ).

Outlook for the week ahead: US survey data for Feb will be a guide for growth momentum in the lead-up to the next few weeks of key Feb data. The US ISM PMIs for Feb are expected to show continued expansion in services, while the softness in manufacturing is likely to persist. There will be several other Feb regional manufacturing surveys. Initial claims are expected to stay low at +197k. There will be several Fed speeches including Governor Waller on the economic outlook.

Europe; The prelim Eurozone CPI for Feb is expected to ease to +8.2% in Feb. The ECB minutes will be released this week.

Global PMI's for Feb will provide a broader view of any change in growth momentum.

US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$438bn in ST Bills, Notes, and Bonds, raising approx. \$70.8bn in new money.

QT: Approx \$29bn in Notes, Bonds, and ST Bills will mature and roll off the Fed balance sheet this week. Approx \$47bn in ST Bills, Notes, and Bonds 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 %
27 Feb - 3 Mar	23-Feb	28-Feb	4 week Bill	75		Actual 4.515%	4.510%
	23-Feb	28-Feb	8 week Bill	60		Actual 4.660%	4.650%
	22-Feb	28-Feb	17 week Bill	36		Actual 4.830%	4.800%
	23-Feb	28-Feb	16-Day CMB	15		Actual 4.460%	n/a
				186	178	8	
	27-Feb	02-Mar	13 week Bill	60		Announced	4.720%
	27-Feb	02-Mar	26 week Bill	48		Announced	4.915%
				108	96	12	
	21-Feb	28-Feb	2yr Note	42		Actual 4.673%	4.139%
	22-Feb	28-Feb	5yr Note	43		Actual 4.109%	3.530%
	23-Feb	28-Feb	7yr Note	35		Actual 4.062%	3.517%
	15-Feb	28-Feb	20yr Bond	15		Actual 3.977%	3.678%
	16-Feb	28-Feb	30yr TIPS	9		Actual 1.550%	0.920%
				144	93.2	50.8	
			Total - securities settling this week	438	367	70.8	
			Net New Cash Raised Qtr to Date	3263	2739	524	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			932	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		28-Feb	Notes & Bonds	32.7			
		28-Feb	Bills	3.0			
		02-Mar	Bills	11.1			
				46.8			
			Maturing & redemption (balance sheet roll-off)				
		28-Feb	Notes & Bonds	28.0			
		02-Mar	Bills	0.9			
				28.8			

Quantitative Tightening Overview – March 2023

In March, the face value of Coupons maturing on the Fed balance sheet is approx. \$55.9bn. As this is below the \$60bn cap for balance sheet roll-off, all Coupons maturing on the Fed balance sheet this month will be redeemed/roll-off. This means that \$4.1bn of maturing ST Bills on the Fed balance sheet will make up the remainder of the \$60bn cap. The remaining \$52.7bn in ST Bills maturing will be reinvested this month.

Summary of Total Coupons to Redeem at the \$60bn redemption cap - MAR			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Mar-23	Notes & Bonds	7.1	0.0
31-Mar-23	Notes & Bonds	48.8	0.0
	ST Bills	4.1	52.7
	Total Notes & Bonds	60.0	52.7

March Bills reinvestment schedule;

Bill Maturity Schedule - MAR			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2023/03/02	11.99	21%	0.86	11.13
2023/03/07	3.19	6%	0.23	2.97
2023/03/09	8.01	14%	0.57	7.43
2023/03/14	3.06	5%	0.22	2.84
2023/03/16	8.21	14%	0.59	7.62
2023/03/21	3.41	6%	0.24	3.17
2023/03/23	4.51	8%	0.32	4.19
2023/03/28	1.82	3%	0.13	1.69
2023/03/30	12.51	22%	0.89	11.61
	56.71	100%	4.1	52.66

<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 \$524bn.

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>

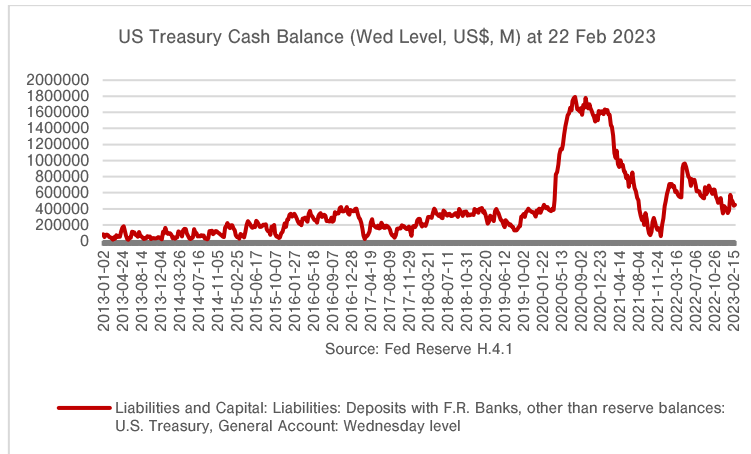
The next meeting of the TBAC will be on 1 May 2023.

Treasury Cash Levels

As of Wed 22 Feb, the level of the TGA increased to \$451bn (+\$11bn compared to the week prior).

The current TGA balance is approx. \$223bn 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

WEEK COMMENCING 27 FEBRUARY 2023

MONDAY 27 FEBRUARY (US Eastern Time, unless stated otherwise)

NZ	Retail Sales Q4
Australia	Company Gross Operating Profits Q4, Private Sector Credit (Jan), Retail Sales (Jan)
US	Durable Goods Orders (Jan), Pending Home Sales (Jan), Dallas Fed Manufacturing Index (Feb) Fed speeches: Jefferson
Japan	Industrial Production Prelim (Jan), Retail Trade (Jan)

TUESDAY 28 FEBRUARY

Canada	GDP Q4
US	Case/Shiller House Price Index (Dec), Chicago PMI (Feb), Richmond Fed Manufacturing Survey (Feb)
Japan	S&P Manufacturing PMI Final (Feb)
Australia	S&P Manufacturing PMI Final (Feb), GDP Q4, CPI Monthly (Jan)
China	NBS Manufacturing & Non-Manufacturing PMI (Feb)

WEDNESDAY 1 MARCH

Europe	S&P Eurozone Manufacturing PMI Final (Feb), Germany CPI Prelim (Feb)
UK	S&P Manufacturing PMI Final (Feb), BoE Bailey speech
US	Mortgage Apps wk 25 Feb, ISM Manufacturing PMI (Feb), S&P Manufacturing PMI Final (Feb)

THURSDAY 2 MARCH

Europe	Eurozone CPI Prelim (Feb), ECB Minutes
US	Initial Claims wk 25 Feb, Unit Labour Costs Q4 Fed speech; Waller – Economic Outlook
Australia	S&P Services PMI Final (Feb), Housing Finance (Jan)
Japan	Tokyo CPI (Jan), S&P Services PMI Final (Feb)

FRIDAY 3 MARCH

Europe	S&P Eurozone Services PMI Final (Feb), Eurozone PPI (Jan)
UK	S&P Services PMI Final (Feb)
US	ISM Services PMI (Feb), S&P Services PMI Final (Feb), Fed speeches: Logan, Bostic, Barkin, Bowman
