MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 6 February 2023

Key events this week – Central bank speeches including Fed Chair Powell, RBA monetary policy decision.

Recap from last week; As expected, the FOMC increased the FFR target by 25bps. Guidance was unchanged and the main points were clear; "ongoing increases will be appropriate" and "it is our judgment that we're not yet at a sufficiently restrictive policy stance". The disinflationary process is at an early stage and more work needs to be done. Chair Powell noted that the 'super core CPI' highlighted in his Brookings speech was unchanged and sticky. The FOMC will need to stay the course, won't loosen policy prematurely, and will likely need to maintain a restrictive stance for some time. Yet, markets saw a green light when Chair Powell did not push back (unlike at Jackson Hole) when asked whether recent easing in financial conditions would make the job harder to bring down inflation.

The significantly stronger non-farm payrolls for Jan quickly shifted the narrative. The Jan non-farm payrolls increased by +517k jobs – well above even the highest estimates. Most of the job gains were in services, but goods-producing payrolls also increased at an above-average pace. The unemployment rate remained low or little changed (25-54 years) despite a larger increase in participation (mostly across the core working age group). Other labor market indicators remained strong; job openings were higher, ECI growth slowed but remained elevated at +5.1%, and initial claims remained low despite larger layoff announcements. For now, the stronger labor market conditions provide scope for further tightening if inflation stays persistent.

The US ISMs for Jan were mixed. Manufacturing activity remained subdued while services activity rebounded strongly in Jan. Prices were stickier across both sectors this month.

The ECB and BoE increased rates by 50bps. The ECB signaled its intention to hike another 50bps in Mar before "evaluating the subsequent path of our monetary policy". Euro area CPI eased back to +8.5% as energy prices continued to fall while core CPI accelerated to +5.2%. The BoE noted that if price pressure persisted, then further tightening in monetary policy would be required. Inflation in the UK remains extremely elevated but is expected to "fall sharply" over the rest of the year. This week, UK Q4 GDP growth is expected to be flat at 0% after falling by -0.3% in Q3.

The Jan global PMIs were more encouraging. The output contraction eased to only a subdued pace of decline. Manufacturing activity "moved closer to stabilization" and services activity rebounded, especially through the Eurozone. Input price inflation increased at a faster pace across both sectors, while optimism lifted regarding future output growth.

Outlook for the week ahead; A light data week. Speeches by central bankers will feature in the outlook this week. US Fed Chair Powell will take part in a discussion at the Economic Club of Washington. Other US Fed speeches include Governor Waller, NY Fed President Williams, and Philadelphia Fed President Harker. We will continue to watch high-frequency US data. Initial claims remain an important early indicator amid elevated job cut announcements. Claims are expected to increase slightly to +194k this week. Similarly, the recent bounce in mortgage applications reversed sharply last week (adjusted for the prior shorter holiday week) despite falling mortgage rates.

The RBA is expected to increase the cash rate by 25bps this week. Inflation accelerated in Q4, coming in higher than expected, while the labor market remains resilient. The RBA will stay concerned and vigilant over the impact of rising rates on household spending and housing.

US Treasury Issuance & QT

The US Treasury will auction and settle approx. $279bn in ST Bills raising approx. $60bn in new money.

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

Approx $14.5bn 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 $B		Prior Auction High Rate %
6-10 Feb	02-Feb	07-Feb	4 week Bill	75			Actual 4.490%	4.500%
	02-Feb	07-Feb	8 week Bill	60			Actual 4.505%	4.525%
	01-Feb	07-Feb	17 week Bill	36			Actual 4.625%	4.620%
				171	120	51		
	06-Feb	09-Feb	13 week Bill	60			Announced	4.595%
	06-Feb	09-Feb	26 week Bill	48			Announced	4.680%
				108	99	9		
			Total - securities settling this week	279	219	60		
			Net New Cash Raised Qtr to Date	***2090***	***1730***	***360***		
			Estimated Net Cash to be Raised Q1 ($ Bn)			***932***		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		07-Feb	Bills	2.6				
		09-Feb	Bills	11.9				
				14.5				
	Upcoming Auctions			**$B**				
	07-Feb	15-Feb	3yr Note	40				
	08-Feb	15-Feb	10yr Note	35				
	09-Feb	15-Feb	30yr Bond	21				
				96				

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 - Q1 2023

Updated US Treasury borrowing requirements from the TBAC meeting on 1 Feb 2023.

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

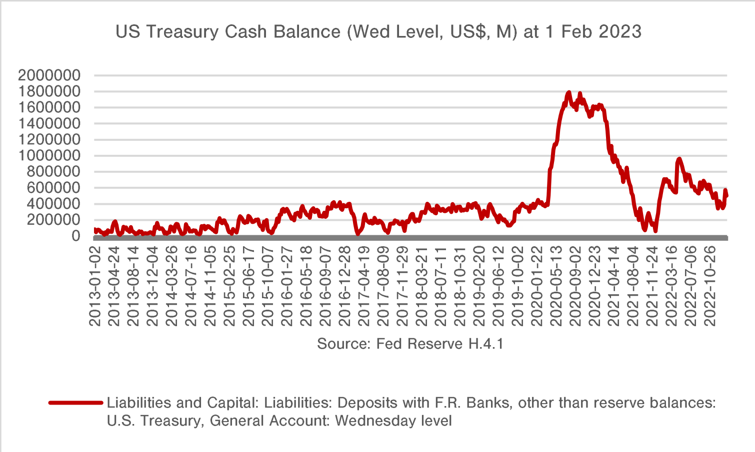
The next meeting of the TBAC will be 1 May 2023.

Treasury Cash Levels

As of Wed 1 Feb, the level of the TGA decreased to $500bn (-$72bn compared to the week prior).

The current TGA balance is approx. $209bn *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 6 FEBRUARY 2023

MONDAY 6 FEBRUARY (US Eastern Time, unless stated otherwise)	
Aus	(Sunday night) Quarterly Retail Sales Q4
Europe	Germany Factory Orders (Dec), Eurozone Retail Sales (Jan)
US	Senior Loan Officer Survey – TBC
Aus	RBA Monetary Policy Decision

TUESDAY 7 FEBRUARY	
Europe	Germany Industrial Production (Dec)
US	Consumer Credit Change (Dec) Fed Chair Powell – Discussion at Econ Club of Washington Vice Chair (Supervision) Barr speech; Financial inclusion US State of the Union
Canada	BoC Macklem speech

WEDNESDAY 8 FEBRUARY	
US	Mortgage Apps wk 4 Feb Fed speeches; Williams, Waller; Economic Outlook

THURSDAY 9 FEBRUARY	
Europe	Germany CPI Prelim (Jan) EU Leaders Summit commences
UK	BoE Governor Bailey; MPC Treasury C'tee Hearings
US	Initial Claims wk 4 Jan
Aus	RBA Quarterly Statement on Monetary Policy
China	CPI & PPI (Jan)

FRIDAY 10 FEBRUARY	
UK	GDP Q4
China	New Loans (Jan) TBC
Canada	Labour Market Survey (Jan)
US	University of Michigan Consumer Sentiment Prelim (Feb) US Fed speeches; Harker & Waller