

## Key events this week – US CPI and retail sales, ECB decision, China data, and Aus labor market

A turbulent week of shifting US monetary policy signaling was capped off by the seemingly rapid collapse of two US banks. Over the weekend, the US Federal Reserve, US Treasury, and the FDIC announced a comprehensive backstop for depositors of the failed banks, and for depositors in the US financial system more broadly, to avoid wider potential funding issues.

Earlier in the week, US Fed Chair Powell's testimony surprised markets by signaling a willingness to reconsider an increase in the pace of hikes, "if the totality of data were to indicate that faster tightening is warranted". After the CPI revisions in Jan, the FOMC became concerned that they had not made as much progress on inflation as they had thought.

Since that testimony, broader concern over the financial system has created a greater level of uncertainty for the path of rates. After a round trip during the week, markets are back to pricing a +25bps increase (at the time of writing), and a small probability that the FOMC may pause hikes next week. In this context, the US CPI report on Tuesday is likely even more important to the FOMC and how it may need to address both financial stability and inflation concerns. In light of this heightened uncertainty, there is a risk that the FOMC provides some policy signaling during the blackout period, should there be a need to shift market expectations ahead of the meeting on 21-22 Mar. Despite the blackout period, there is a speech by Board of Governors member Bowman scheduled on Tuesday in Hawaii after the CPI report.

Recap from other events last week; Growth in US payrolls slowed in Feb but remained elevated even after the larger increase in Jan. The trend in slower payroll growth has seemed to stabilize over the last few months. Overall, the US labor market remains strong. Since Nov 22 there has been a further improvement in the participation rate (LFPR) and in Feb, the LFPR for the core working age group reached its pre-pandemic level for the first time in this recovery. While the unemployment rate ticked up in Feb, the demand for labor has mostly absorbed the increase in supply over the last few months. Hours growth remained stalled in Feb while manufacturing overtime hours continued to fall. The average hourly earnings ex-bonus accelerated to +4.6% over the year, while slowing slightly over the month to +0.2%.

US initial claims increased to over +200k last week and this may be something to watch. While the increase in initial claims was concentrated in New York for wk ending 4 Mar, there was a corresponding increase in continuing claims for wk ending 25 Feb – and this data lags initial claims by a week.

The RBA increased rates by a further 25bps to 3.60% and signaled in a speech later that "we are closer to the point where it will be appropriate to pause" and assess the cumulative impact of increases. The RBA cited peaking inflation and shifted its reference to a slowdown in household spending. This week, the Aus labor market report for Feb is expected to remain strong with a +48k increase in employment and a further tick lower in the unemployment rate to 3.6%.

Outlook for the week ahead; It's still a big week of important US data, including the Feb CPI and retail sales. US CPI for Feb is expected to increase by +0.4% over the month in Feb (from +0.5% in Jan) and by +6% over the year (from +6.4% in Jan). Core inflation is expected to be unchanged at +0.4% over the month and slowing slightly to +5.5% over the year. Other US pricing data out this week includes the PPI and export/import price indexes for Feb.

US retail sales are expected to slow by -0.3% in Feb after a stronger increase of +3% in Jan.

US manufacturing and output data will include the first round of regional Fed manufacturing surveys for Mar. US industrial production for Feb is expected to increase by +0.4% in Feb after no growth in Jan.

The ECB meets on monetary policy this week. The Governing Council has previously signaled a +50bps increase is to be expected at this meeting. Eurozone inflation remains elevated and core inflation continues to increase. The final revision of Q4 GDP released last week showed a slight contraction in GDP for the Eurozone by -0.1%. Falls in consumption and private investment in Q4 were somewhat offset by a larger contribution from net exports (falling imports). This may affect ECB guidance. The ECB has also started QT this Mar and is expected to continue through to Jun at the initial lower rate.

Data out of China for Jan-Feb will be released providing some insight into the rebound in investment, production, and retail sales.

Finally, the BoJ will release the minutes of the last meeting for Governor Kuroda.

## US Treasury Issuance & QT

This week, the US Treasury will auction and settle approx. \$351bn in ST Bills, Notes, and Bonds, raising approx. \$46.1bn in new money.

QT: Approx \$8bn in ST Bills, Notes, and Bonds will mature and roll off the Fed balance sheet this week. Approx \$10.5bn 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 %
13-17 Mar	09-Mar	14-Mar	4 week Bill	65			Actual 4.640%	4.590%
	09-Mar	14-Mar	8 week Bill	55			Actual 4.820%	4.655%
	08-Mar	14-Mar	17 week Bill	36			Actual 5.045%	4.885%
				156	163	-7		
	13-Mar	16-Mar	13 week Bill	57			Announced	4.765%
	13-Mar	16-Mar	26 week Bill	48			Announced	4.970%
				105	111	-6		
	07-Mar	15-Mar	3yr Note	40			Actual 4.635%	4.073%
	08-Mar	15-Mar	10yr Note	32			Actual 3.985%	3.613%
	09-Mar	15-Mar	30yr Bond	18			Actual 3.877%	3.686%
				90	30.9	59.1		
			<b>Total - securities settling this week</b>	<b>351</b>	<b>304.9</b>	<b>46.1</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>3890</b>	<b>3353</b>	<b>537</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-Mar	Bills	2.8				
		16-Mar	Bills	7.6				
				10.5				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		14-Mar	Bills	0.2				
		15-Mar	Notes & Bonds	7.1				
		16-Mar	Bills	0.6				
				7.9				

## Quantitative Tightening Overview – March 2023

In March, the total 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 \$54bn of ST Bills maturing on the balance sheet will be reinvested this month.

Summary of Total Coupons to Redeem at the \$60bn redemption cap - MAR			
			<b>\$60</b>
		<b>Redeem \$Bn</b>	<b>Reinvest \$ Bn</b>
15-Mar-23	Notes & Bonds	7.1	0.0
31-Mar-23	Notes & Bonds	48.8	0.0
Mar	ST Bills	4.1	54.0
	<b>Total Notes &amp; Bonds</b>	<b>60.0</b>	<b>54.0</b>

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%	0.84	11.15
2023/03/07	3.19	6%	0.22	2.97
2023/03/09	8.01	14%	0.56	7.45
2023/03/14	3.06	5%	0.21	2.85
2023/03/16	8.21	14%	0.57	7.64
2023/03/21	3.41	6%	0.24	3.17
2023/03/23	4.51	8%	0.32	4.20
2023/03/28	3.13	5%	0.22	2.91
2023/03/30	12.51	22%	0.87	11.63
	58.0	100%	4.1	54.0

<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 \$537bn.*

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>[1]</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>

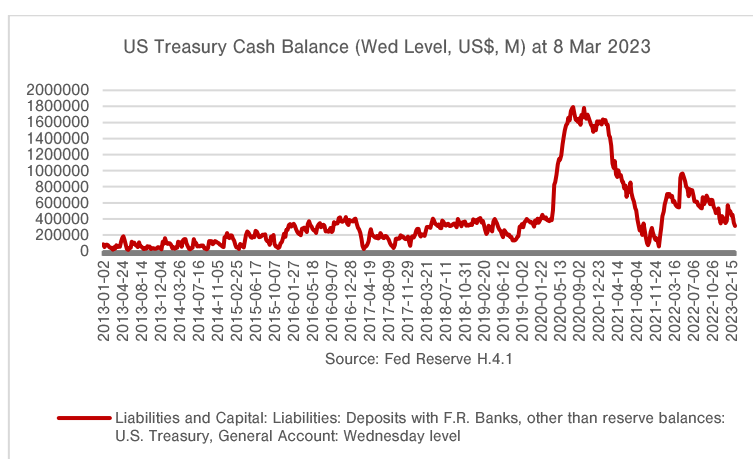
The next meeting of the TBAC will be on 1 May 2023.

### Treasury Cash Levels

As of Wed 8 Mar, the level of the TGA decreased to \$311bn (-\$39bn compared to the week prior).

The current TGA balance is approx. \$297bn 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/ambs\\_operation\\_schedule](https://www.newyorkfed.org/markets/ambs_operation_schedule)

## WEEK COMMENCING 13 MARCH 2023

---

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

---

Australia	NAB Business Conditions and Confidence (Feb)
-----------	--

---

---

### TUESDAY 14 MARCH

---

UK	Labour Market Survey (3mth to Feb)
----	------------------------------------

---

US	CPI (Feb), NFIB Business Optimism Index (Feb) Fed speech; Bowman
----	---

---

Japan	BoJ Meeting Minutes
-------	---------------------

---

China	Fixed Asset Investment, Industrial Production, and Retail Sales (YTD Feb)
-------	---

---

---

### WEDNESDAY 15 MARCH

---

Europe	Eurozone Industrial Production (Feb)
--------	--------------------------------------

---

US	Mortgage Apps wk 11 Mar, NY Empire State Manufacturing Index (Mar), PPI (Feb), Retail Sales (Feb), NAHB Housing Market Index (Mar)
----	---

---

NZ	GDP Q4
----	--------

---

Japan	Merchandise Trade, Exports, and Imports (Feb)
-------	---

---

Australia	Labour Market Survey (Feb)
-----------	----------------------------

---

---

### THURSDAY 16 MARCH

---

US	Initial Claims wk 11 Mar, Building Permits & Housing Starts (Feb), Import & Export Price Index, Philadelphia Fed Manufacturing Index (Mar)
----	---

---

Europe	ECB Monetary Policy Meeting
--------	-----------------------------

---

---

### FRIDAY 17 MARCH

---

Europe	Eurozone CPI – Final (Feb)
--------	----------------------------

---

US	Industrial Production (Feb), University of Michigan Consumer Sentiment Prelim (Mar)
----	---

---