

## Key events this week – Inflation; US, Europe, and Australia, US Fed speak, China PMIs

Recap from last week: The recent turmoil in the banking sector did not stop central banks from raising rates again last week.

The FOMC increased the FFR by another 25bps last week to 4.75-5%. The FOMC made several changes to the statement, emphasizing that the US banking system is ‘sound and resilient’. The main theme is the effect of bank failures is expected to result in tighter credit conditions for businesses and households with a high degree of uncertainty about these effects. FOMC guidance changed to “anticipates that some additional policy firming may be appropriate” which means that potentially tighter credit conditions may be enough to help slow inflation without further tightening from the Fed. The summary of projections for the path of rates was little changed from Dec (the median was unchanged at 5.1%) – with rates projected to stay high this year (cuts weren’t the “base case” this year).

There is now a large discrepancy between where market pricing and the FOMC see the path of the FFR for this year. Market pricing (as of 27 Mar) has shifted to a pause in May and June and cuts in the FFR after that. The economic projections imply further growth weakness through 2023 – reflected in an increase in unemployment by the end of the year (this projection was mostly unchanged from Dec). We are yet to see a turn in the data. For example, US initial claims remained very low last week at +191k.

The BoE hiked rates by 25bps last week. Inflation increased unexpectedly in Feb, but ‘remains likely to fall sharply’ over the rest of this year. The BoE noted that ‘uncertainties around the financial and economic outlook have risen’.

The SNB also increased rates by 50bps to 1.50%.

The RBA minutes noted somewhat weaker domestic conditions in Q4, and that sluggish growth may have continued into Mar. The softer Jan labor market report played into this growth concern (but the stronger Feb labor market report reversed that weakness). The RBA expects that inflation peaked in Q4 2022 and the Board agreed to ‘reconsider’ the case for a pause at the following meeting (next week).

The prelim PMIs for Mar were encouraging. Across the G4, stronger growth momentum across services helped to offset stalled momentum in manufacturing. There was a notable acceleration in services momentum, especially in Europe (France & Germany) and the US. Headline manufacturing momentum remained weaker but there were some small signs of renewed output growth. In Australia, momentum across services and manufacturing slipped into contraction.

Outlook for the week ahead: More inflation data is out this week. US PCE inflation is expected to increase by +0.2% over the month and by +5.3% over the year to Feb. Core inflation is expected to remain little changed at +4.7% over the year.

Euro Area prelim CPI for Mar is expected to increase by +7.2% over the year from +8.5% as higher energy prices in the base month will see the headline rate fall. But core CPI inflation is expected to increase to +5.7% in Mar.

The monthly Aus CPI (a new series) is expected to slow to +7.1% in Feb (from +7.4%). Aus retail sales are expected to increase by +0.4% in Feb after the stronger +1.9% increase in Jan. Both reports will be important inputs for the RBA next week.

Fed (central bank) speak is back this week with several speeches on the economic outlook and monetary policy. There will also be two days of testimony from Vice Chair Barr on bank oversight.

## US Treasury Issuance; 27-31 March 2023

A big week in US Treasury issuance to round out month and quarter end – including the addition of two CMB's. This week, the US Treasury will auction and settle approx. \$495bn in ST Bills, CMBs, Notes, Bonds, FRNs, and TIPS, raising approx. \$133bn in new money. This brings the estimated net new money raised for the quarter to \$657bn (Treasury forecast; \$932bn)

QT: Approx \$50bn in ST Bills, Notes, and Bonds will mature and roll off the Fed balance sheet this 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 %
27-31 Mar	23-Mar	28-Mar	4 week Bill	60			Actual 4.150%	4.220%
	23-Mar	28-Mar	8 week Bill	50			Actual 4.400%	4.450%
	22-Mar	28-Mar	17 week Bill	36			Actual 4.805%	4.750%
				146	168	-22		
	27-Mar	30-Mar	13 week Bill	57			Announced	4.675%
	27-Mar	30-Mar	26 week Bill	48			Announced	4.620%
	28-Mar	30-Mar	7-Day CMB	30			Announced	n/a
				135	96	39		
	28-Mar	31-Mar	17-Day CMB	45			Announced	n/a
				45		45		
	21-Mar	31-Mar	20yr Bond	12			Actual 3.909%	3.977%
	23-Mar	31-Mar	10yr TIPS	15			Actual 1.182%	1.220%
	27-Mar	31-Mar	2yr Note	42			Announced	4.673%
	28-Mar	31-Mar	5yr Note	43			Announced	4.109%
	29-Mar	31-Mar	7yr Note	35			Announced	4.062%
	29-Mar	31-Mar	2yr FRN	22			Announced	
				189	97.8	71.2		
			<b>Total - securities settling this week</b>	<b>495</b>	<b>361.8</b>	<b>133</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>4670</b>	<b>4013</b>	<b>657</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>					
		28-Mar	Bills	2.9				
		30-Mar	Bills	11.6				
				14.5				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		28-Mar	Bills	0.2				
		30-Mar	Bills	0.9				
		31-Mar	Notes & Bonds	48.8				
				49.9				

## 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				
			\$60	
			Redeem \$Bn	Reinvest \$ Bn
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 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 (end Q1) is below the revised forecast at \$657bn.*

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>

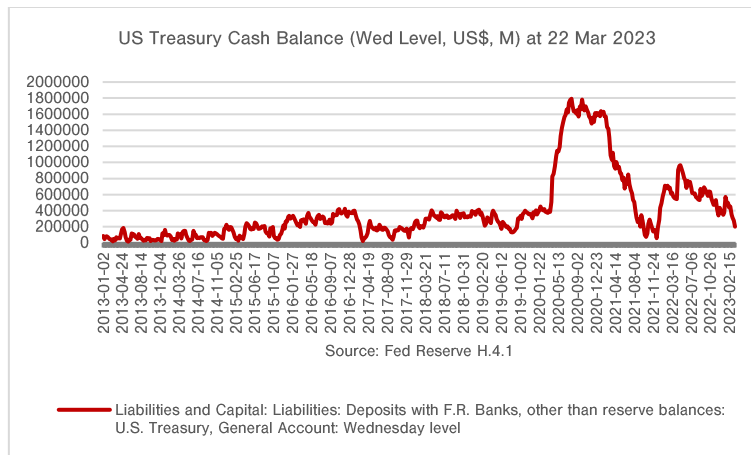
The next meeting of the TBAC will be on 1 May 2023.

## US Treasury Cash Levels (TGA)

As of Wed 22 Mar, the level of the TGA decreased to \$199.8bn (-\$78bn compared to the week prior).

The current TGA balance is approx. \$376bn lower than the same week a year ago.

The updated US Treasury forecast assumes 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 27 MARCH 2023

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### MONDAY 27 MARCH (US Eastern Time, unless stated otherwise)

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US	Dallas Fed Manufacturing Survey (Mar) US Fed speech; Jefferson (Implementation & Transmission of Mon Pol)
UK	BoE Governor Bailey speech
Australia	Retail Sales (Feb)

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### TUESDAY 28 MARCH

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Japan	BoJ Governor Kuroda speech (Fin/Sum 2023 conference)
Europe	ECB President Lagarde speech
US	S&P Case/Shiller House Prices (Jan), Richmond Fed Manufacturing Survey (Mar) Fed Testimony – Vice Chair (Supervision), Barr; Bank Oversight
Australia	CPI – monthly series (Feb)

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### WEDNESDAY 29 MARCH

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Switzerland	SNB Quarterly Bulletin Q1
US	Mortgage Apps wk 24 Mar, Pending Home Sales (Feb) Fed Testimony – Vice Chair (Supervision), Barr; Bank Oversight

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### THURSDAY 30 MARCH

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Europe	Germany CPI Prelim (Mar)
US	Initial Claims wk 24 Mar, GDP Q4 (final) Fed speeches; Barkin, US Treasury Secretary (TBC)
Japan	Tokyo CPI (Feb), Industrial Production Prelim (Feb), Retail Sales (Feb)
China	NBS Manufacturing and Non-Manufacturing PMI (Mar)

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### FRIDAY 31 MARCH

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UK	GDP Q4 Final
Europe	Germany CPI Prelim (Mar), Eurozone CPI Prelim (Mar) ECB President Lagarde speech
US	PCE Price Index (Feb), Personal Income (Feb), Personal Spending (Feb), Chicago PMI (Mar), University of Michigan Consumer Sentiment - Final (Mar) US Fed speeches; Williams, Cook (Economic Outlook & Mon Pol), Waller (The Unstable Phillips Curve)

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