

Key events this week – US PCE inflation & ECI Q1, Aus CPI, US & Euro Area flash GDP Q1, BoJ Meeting

Recap from last week: Data painted a mixed picture of US growth momentum at the end of Q1 going into Q2. The US Fed Beige Book survey contained anecdotes of stagnant growth between Mar and Apr among the Federal Reserve Districts. Three districts reported modest growth while nine reported no change. Of note was the varying experience of tighter lending and credit conditions since the recent bank failures. The first US regional manufacturing surveys for Apr were mixed. The NY Fed manufacturing survey recorded a stronger rebound, while the Philadelphia Fed survey reflected continued weakness in manufacturing activity. US housing data for Mar indicated a stall in the recent momentum across existing home sales, new permits, and starts. Homebuilder sentiment was little changed going into Apr, remaining low. Mortgage applications weakened further last week, retracing the prior five weeks of gains. Initial claims increased slightly to +245k, remaining within the higher, but sideways trend, while continuing claims increased further.

In stark contrast were the flash PMIs for Apr. Across the G4 generally, the expansion in services growth that started in Feb strengthened further in Apr. This helped to offset some weakness in manufacturing, especially across Europe, the UK, and Aus. The US flash PMI for Apr showed stronger momentum across both manufacturing and services sectors as growth in output, inflation, and employment were more widespread.

Despite the mixed data messages, markets continued to price in a further rate hike at the May FOMC meeting next week. Rate cuts priced in after the recent bank failures have now been shifted further out to Nov.

Inflation remained persistent. Japanese core CPI surprised to the upside at +3.8% - a peak not seen since the 1908's. UK CPI surprised to the upside for Mar at +10.1% and core at +6.2% (plus a strong labor market report). Inflation in Canada was mostly as expected while NZ CPI growth was lower than expected at +6.7%.

The RBA minutes outlined the case for a pause in hikes for at least one meeting. The minutes noted that policy could still be tightened further and that the pause would allow time to assess more data – especially the next quarterly inflation report this week (26 Apr), another labor market report, and updated staff forecasts. The minutes suggest that this data would be important in assessing the need for further tightening.

Outlook for the week ahead: A full week of US data across inflation, manufacturing, housing, growth, and the US consumer – ahead of the FOMC meeting next week. The US PCE inflation for Mar is expected to slow to +4.6% (from +5% in Feb), as core inflation is expected to remain little changed at +4.5% in Mar (+4.6% Feb). The important employment cost index for Q1 is expected to increase by +1.1% over the quarter (up from 1% in Q4). The flash US GDP growth for Q1 is expected to slow to +2% (annualized) from +2.6% in Q4. Also; durable goods orders, more regional manufacturing surveys for Apr, new home sales, and personal spending & income for Mar.

The latest Aus quarterly CPI report will be an important input for the RBA meeting next week. The quarterly CPI for Q1 is expected to show inflation slowing to +6.9% from +7.8% in Q4. Trimmed mean inflation is expected to stay elevated at +6.7% (from +6.9% in Q4).

The BoJ will meet this week – the first meeting led by Governor Ueda. There is speculation that the BoJ will review its policy approach – but not likely at this meeting. A full update on BoJ forecasts will be released and the framing around rising core inflation will be important.

US Treasury Issuance; 24-28 April 2023

This week, the US Treasury will auction and settle approx. \$257bn in ST Bills and TIPS, with a net paydown of \$1bn.

The US Treasury will also auction the 2yr, 5yr, 7yr Notes, and the 2yr FRN this week – to settle next week.

QT: Approx \$29.8bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested. Approx \$43.5bn in Notes and Bonds will mature on the Fed balance sheet (30 Apr) and will be redeemed.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
24-28 Apr	20-Apr	25-Apr	4 week bill	50			Actual 3.190%	4.030%
	20-Apr	25-Apr	8 week bill	45			Actual 4.850%	4.790%
	19-Apr	25-Apr	17 week Bill	36			Actual 5.060%	4.980%
				131	153	-22		
	24-Apr	27-Apr	13 week bill	57			Announced	5.080%
	24-Apr	27-Apr	26 week bill	48			Announced	4.870%
				105	105	0		
	20-Apr	28-Apr	5yr TIPS	21			Actual 1.320%	1.504%
				21	0	21		
			Total - securities settling this week	257	258	-1		
			Net New Cash Raised Qtr to Date	1134	1179	-45		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>278</i>		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		25-Apr	Bills	3.1				
		27-Apr	Bills	11.4				
		30-Apr	Notes & Bonds	15.2				
				29.8				
			Maturing & redemption (balance sheet roll-off)					
		30-Apr	Notes & Bonds	43.5				
			Upcoming Auctions	\$B				
	26-Apr	01-May	2yr FRN	24				
	26-Apr	01-May	5yr Note	43				
	27-Apr	01-May	7yr Note	35				
	25-Apr	01-May	2yr Note	42				
				144				

Quantitative Tightening Overview – April 2023

In April, the face value of Coupons maturing on the Fed balance sheet is approx. \$81bn. This is larger than the \$60bn cap for balance sheet roll-off. So, \$60bn of Coupons maturing on the Fed balance sheet this month will be redeemed/roll-off and the remaining \$21bn in Coupons will be reinvested.

This also means that all maturing ST Bills on the Fed balance sheet this month (\$62.9bn) will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - APR			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Apr-23	Notes & Bonds	16.5	5.8
30-Apr-23	Notes & Bonds	43.5	15.2
	ST Bills	0.0	62.9
	Total Notes & Bonds	60.0	83.9

April 2023 Bill maturity schedule;

Bill Maturity Schedule - APR	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2023/04/04	3.13	5%	0.00	3.13
2023/04/06	12.20	19%	0.00	12.20
2023/04/11	3.06	5%	0.00	3.06
2023/04/13	10.57	17%	0.00	10.57
2023/04/18	3.38	5%	0.00	3.38
2023/04/20	15.98	25%	0.00	15.98
2023/04/25	3.13	5%	0.00	3.13
2023/04/27	11.44	18%	0.00	11.44
	62.9	100%	0.0	62.9

<https://www.newyorkfed.org/markets/treasury-rollover-faq>

Recommended US Treasury Financing – Act Q1 & Est Q2 2023

End Q1: The US Treasury borrowing requirement (net cash) for Q1 was increased to \$932bn and was reflected in (expected) higher issuance of Bills for the quarter. The actual net cash raised at the end of Q1 came in below the revised forecast at \$657bn.

The expected/forecast cash balance at the end of Q1 was \$500bn. The actual TGA balance at the end of Q1 was approx. \$167bn (Wed balance on 29 Mar).

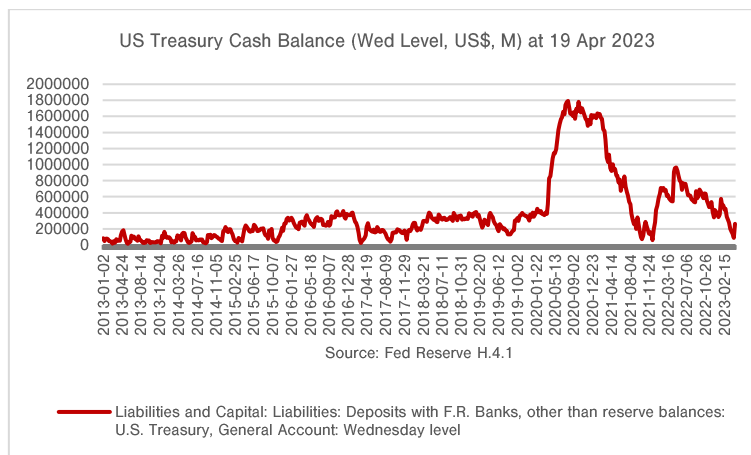
Q2: The prelim Q2 estimate for net cash to be raised is \$278bn. This does not account for the shortfall in the Q1 actual. This Q2 estimate will be updated at the next meeting of the TBAC next week on 1 May 2023.

The full details of Q1 & Q2 2023 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

US Treasury Cash Levels (TGA)

As of Wed 19 Apr, the level of the TGA increased to \$265bn (+\$178bn compared to the week prior). The current TGA balance is approx. \$642bn lower than the same week a year ago. Last year, the TGA balance increased by approx. \$364bn after Tax Day.

Tax Day was 18 April 2023 and the filing deadline was extended for several states (California, Georgia, Alabama) to 15 Oct. Source: [IRS](https://www.irs.gov)



<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 24 APRIL 2023

MONDAY 24 APRIL (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Index (Apr)
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TUESDAY 25 APRIL

US	Case/Shiller House Price Index (Feb), New Home Sales (Mar), Richmond Fed Manufacturing Index (Apr)
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Australia	CPI Quarterly Series Q1, CPI Monthly Series (Mar)
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WEDNESDAY 26 APRIL

US	Mortgage Apps wk 22 Apr, Durable Goods Orders (Mar)
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Australia	Export/Import Price Index (Q1)
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THURSDAY 27 APRIL

US	Initial Claims wk 22 Apr, GDP Q1, Pending Home Sales (Mar), Kansas City Fed Manufacturing Index (Apr)
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Japan	Tokyo CPI (Mar), Industrial Production Prelim (Mar), Retail Trade (Mar) BoJ Monetary Policy Meeting
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Australia	Private Sector Credit (Mar), PPI Q1
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FRIDAY 28 APRIL

Europe	Germany/France/Spain Prelim CPI (Apr), Germany/Spain/Italy GDP Q1, Eurozone GDP Q1
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US	ECI (Q1), PCE Inflation (Mar), Personal Spending (Mar), Personal Income (Mar), Chicago PMI (Apr), University of Michigan Consumer Sentiment Final (Apr)
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China	(weekend) NBS Manufacturing & Non-Manufacturing PMI (Apr)
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