

Key events this week – US non-farm payrolls, RBA & RBNZ decisions, global S&P PMIs, and US ISM PMIs

Recap from last week: Attention shifted back to price stability last week. US PCE headline inflation eased slightly more than expected as food and gasoline prices contributed most to the deceleration in Feb. Core measures of inflation remained persistent. Core goods inflation eased, while core services continued to accelerate somewhat, led by housing. Measures of underlying inflation such as the trimmed mean and median inflation have eased from recent peaks, but suggest inflation pressure remains broad-based. More recent measures of core and underlying inflation (the 3mth and 6mth SAARs) are still slightly above the annual rates – suggesting more persistent core inflation around the mid-4% rate, above the 2% mandate, and the SEP for 2023 of +3.6%. The market pricing for the FFR has shifted again and is now 40/60 in favor of another hike in May while pricing several cuts through H2.

The fall in US consumer sentiment (University of Michigan) for Mar was noteworthy for its commentary; “This month’s turmoil in the banking sector had limited impact on consumer sentiment, which was already exhibiting downward momentum prior to the collapse of Silicon Valley Bank”. “While sentiment fell across all demographic groups, the declines were sharpest for lower-income, less-educated, and younger consumers, as well as consumers with the top tercile of stock holdings. All five index components declined this month, led by a notably sharp weakening in one-year business conditions.” Weakness across manufacturing and housing, persistent inflation, and higher rates are contributing to weakening sentiment.

The Mar prelim Euro area inflation picture worsened. Headline annual inflation slowed notably mostly due to the higher base from energy prices a year ago. Importantly, the monthly and core readings show that inflation is not only persistent but also continues to accelerate. The estimated monthly increase in headline inflation for Mar accelerated to +0.9%, up from +0.8% in Feb. Core inflation accelerated further to +5.7% while the monthly core inflation rate also accelerated from +0.8% in Feb to +1.2% in Mar. Food, non-energy industrial goods, and services price growth continued to accelerate. Energy prices fell versus a year ago, and more notably over the month.

Aus headline inflation slowed more than expected in Feb (the monthly series) to +6.8%. Since Dec, most of the rapid disinflation has been due to the reversal of the higher holiday travel and accommodation prices reported during Nov and Dec (first vacations without Covid restrictions). Looking through the impact of higher recreation and culture prices, ‘underlying’ inflation has eased, but remains high. Retail sales growth slowed as expected, but stayed positive. Both will be important inputs for the RBA this week.

Outlook for the week ahead: Growth in US non-farm payrolls for Mar is expected to moderate to +240k this month after increasing by +311k in Feb. Participation is expected to stay at 62.5% and the unemployment rate is expected to be unchanged at a low of 3.6%. The payroll report will be released on the morning of the Good Friday holiday.

A wide range of US labor market indicators will be released this week, including Feb JOLTS and the Challenger job cuts survey for Mar. Note that new seasonal factors for 2023 initial and continuing claims will be released and revisions to 2018-2022 will be released on 6 Apr. Last week, initial claims increased to +198k and are expected to be around +200k for the week ending 31 Mar.

The US ISM surveys for Mar will provide a gauge of private sector growth momentum in the US. Manufacturing is expected to remain in contraction while services are expected to continue to expand moderately.

The RBA will meet this week. Some forecasters suggest that the RBA will raise by another 25bps to +3.85%, but current market pricing suggests a hold. The minutes of the latest meeting noted that it

agreed to reconsider the case for a pause at the upcoming meeting this week. At the last meeting, the softer Jan labor market report played into growth concerns (Feb employment was stronger). RBA Governor Lowe will also give his annual address at the National Press Club this week.

The RBNZ will meet this week and is expected to increase the policy rate by 25bps.

The global S&P PMIs for March will be released this week. The prelim PMIs (released last week) for Mar were encouraging, with stronger growth momentum across services helping to offset stalled momentum in manufacturing. There was a notable acceleration in services momentum, especially in Europe (France & Germany) and the US.

US Treasury Issuance; 3-7 April 2023

This week, the US Treasury will auction and settle approx. \$251bn in ST Bills with a paydown of approx. \$43bn.

The estimated net new money to be raised for Q2 is \$278bn and the final US Treasury forecast for Q2 will be updated on 1 May.

QT: Approx \$15.3bn 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 %
Easter - Good Friday								
3-7 Apr 2023	30-Mar	04-Apr	4 week bill	60			Actual 4.600%	4.150%
	30-Mar	04-Apr	8 week bill	50			Actual 4.600%	4.400%
	29-Mar	04-Apr	17-week Bill	36			Actual 4.780%	4.805%
				146	168	-22		
	03-Apr	06-Apr	13 week bill	57			Announced	4.675%
	03-Apr	06-Apr	26 week bill	48			Announced	4.650%
				105	126	-21		
			Total - securities settling this week	251	294	-43		
			Net New Cash Raised Qtr to Date	251	294	-43		
			<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					
		04-Apr	Bills	3.1				
		06-Apr	Bills	12.2				
				15.3				
			Maturing & redemption (balance sheet roll-off)					
			Nil	0.0				

Quantitative Tightening Overview – April 2023

In April, the total face value of Coupons maturing on the Fed balance sheet is approx. \$80.9bn. 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 \$20.9bn 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		16.4
30-Apr-23	Notes & Bonds		43.6
	ST Bills		0.0
Total Notes & Bonds			60.0
			83.8

April 2023; Bill maturity schedule;

Bill Maturity Schedule - APR			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	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 was \$657bn - below the revised forecast for Q1.

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 on 1 May 2023.

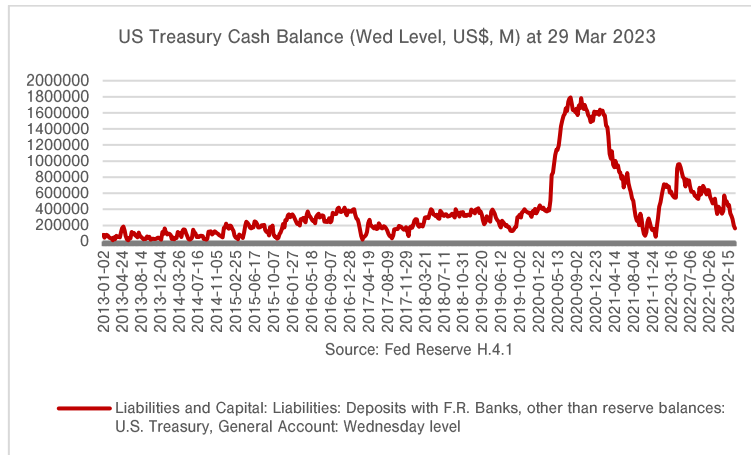
The full details of Q1 & Q2 2023 estimates; <https://home.treasury.gov/policy-issues/financing-the-government/quarterly-refunding/most-recent-quarterly-refunding-documents>

US Treasury Cash Levels (TGA)

As of Wed 29 Mar, the level of the TGA decreased to \$162.7bn (-\$37bn compared to the week prior). The current TGA balance is approx. \$394bn lower than the same week a year ago.

The US Treasury forecast assumed an end-of-Q1 cash balance of \$500bn – the actual is likely to fall short of this estimate. (Source: US Treasury

<https://home.treasury.gov/news/press-releases/jy1063>). Tax Day will be 18 April.



<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 3 APRIL 2023

MONDAY 3 APRIL (US Eastern Time, unless stated otherwise)

Australia	S&P Manufacturing PMI Final (Mar), Building Approvals (Feb), Housing Finance (Feb)
China	Caixin Manufacturing PMI (Mar)
Japan	S&P Manufacturing PMI Final (Mar)
Europe	Eurozone S&P Manufacturing PMI Final (Mar)
UK	S&P Manufacturing PMI Final (Mar)
US	S&P Manufacturing PMI Final (Mar), ISM Manufacturing PMI (Mar), Vehicle sales - tbc (Mar), Fed speeches: Cook (Econ outlook & mon pol)

TUESDAY 4 APRIL

Australia	RBA Policy Decision (late) RBA Governor Lowe National Press Club, S&P Services PMI Final (Mar)
US	Factory Orders (Feb), JOLTS (Feb), Fed speeches; Rosengren & Cook
Japan	S&P Services PMI Final (Mar)
NZ	RBNZ Policy Decision

WEDNESDAY 5 APRIL

Europe	Germany Factory Orders (Feb), Eurozone S&P Services PMI Final (Mar),
UK	S&P Services PMI Final (Mar)
US	Mortgage Apps wk 31 Mar, ADP Employment Change (Mar), S&P Services PMI Final (Mar), ISM Services PMI (Mar)
China	Caixin Services PMI (Mar)
Australia	RBA: Financial Stability Review

THURSDAY 6 APRIL

Europe	Germany Industrial Production (Feb)
US	Initial Claims wk 31 Mar, Challenger Job Cuts (Mar)
Canada	Labour Market Survey (Mar)

FRIDAY 7 APRIL (Good Friday)

US	Non-Farm Payrolls and Labour Market Survey (Mar), Consumer Credit Change (Feb)
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