

## Key events this week – US Retail Sales, US Fed Chair Powell, Central Bank speeches, RBA Minutes, global CPIs for Apr; Canada, Japan, Euro Area

Recap from last week: There was only a small deceleration in annual US inflation for Apr. Inflation remains high with headline CPI growing at +5% and core CPI at +5.5%. The more recent 3mth and 6mth annualized time frame shows that headline inflation continues to ease. But this is less so the case for core CPI with recent time frames still showing persistent inflation pressure. Some of the underlying changes in the CPI were more positive this month with a further slowdown in the trend of the monthly shelter price growth. Will it continue? Slowing shelter price growth is central to most forecasts for overall slowing inflation.

The trimmed mean inflation has remained elevated through this cycle so far, suggesting that inflation pressure has been broad across expenditure categories. While the annual trimmed mean inflation rate slowed only slightly to +6.1% in Apr, the monthly rates have been slowing more consistently and the 3mth annualized rate is now down to +4.2%. This may indicate that broader inflation pressure has eased faster over the last few months.

But other data pointed to slower progress on inflation. Last week, the University of Michigan consumer inflation expectations over five years increased to +3.2% - the highest in over a decade. The Atlanta Fed wage data for Apr showed wage growth remained at an elevated level.

Was this CPI report enough for the FOMC to pause next month? Markets say yes for the moment – but there is still a lot of data before the next meeting. The challenge for the FOMC will be getting persistent inflation down to the 2% target without any further tightening and especially while the labor market remains tight.

Still, the first interest rate cuts remain priced in for Sep – indicating that the US economy is expected to weaken. Some data last week added weight to this outlook. Growth in initial claims shifted notably higher to +264k. But it was alleged that fraud was driving some of the increase in claims (Source; [Bloomberg](#)). The other report was the loan officer survey. While the survey showed no shift up to a 'considerable' tightening in credit conditions (resulting from the recent bank failures), credit conditions have continued to tighten and some demand for credit has slowed further. This provides a headwind for the growth outlook.

Outlook for the week ahead: The most recent US PMIs indicated that momentum improved somewhat in the US in Apr, so data this week will be about confirming that shift in momentum going into Q2. Retail sales growth is expected to increase to +0.7% in Apr, supported by stronger growth in motor vehicle sales. Overall US industrial production for Apr is expected to remain flat/weaker at -0.1%. The first regional manufacturing surveys for May will provide some insight into the trend in manufacturing activity. There will also be important housing data. Existing home sales for Apr are expected to slow to 4.3m (annualized rate), while home builder sentiment for May is expected to stay unchanged. New permits and starts for Apr are expected to be little changed.

There will be a lot of central bank-speak this week. This will include a discussion between US Fed Chair Powell and former Fed Chair Ben Bernanke on Friday. US Fed Vice Chair for Supervision Barr will also give two days of testimony.

More global inflation data for Apr will be reported this week. Canada's CPI is expected to slow to +3.7% over the year, but increase to +0.9% over the month. Japan's CPI ex fresh food is expected

to stay elevated at +3.1%. The Euro Area headline inflation for Apr is expected to be confirmed at +7% over the year and +0.7% over the month.

Finally, the RBA will release the minutes of the last meeting, and this should provide insight into the decision to increase rates after deciding to pause at the prior meeting. The important Aus wage growth data for Q2 will be released and wage growth is expected to accelerate to +3.6% and by +0.9% QoQ. The Aus labor market survey for Apr will also be released and net employment growth is expected to slow to +25k, while participation (66.7%) and unemployment (3.5%) remain unchanged.

Headline risk around debt ceiling negotiations will remain elevated.

## US Treasury Issuance; 15-19 May 2023

This week, the US Treasury will auction and settle approx. \$436bn in ST Bills, Notes, and Bonds, raising approx. \$31bn in new money. The US Treasury will also auction the 20-year Bond and 10-year TIPS this week – both will settle at the end of the month.

QT: Approx \$48bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested. Approx \$29bn in Notes & Bonds will mature on the Fed balance sheet this week 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 %
15-19 May	11-May	16-May	4 week bill	35		Actual 5.605%	5.840%
	11-May	16-May	8 week bill	35		Actual 4.680%	4.680%
	10-May	16-May	17 week Bill	36		Actual 5.000%	4.980%
	11-May	16-May	149-Day CMB	45		Actual 5.040%	n/a
				151	146	5	
	15-May	18-May	13 week bill	57		Announced	5.140%
	15-May	18-May	26 week bill	51		Announced	4.890%
	16-May	18-May	52 week bill	38		Announced	4.530%
	16-May	18-May	154-Day CMB	45		Announced	n/a
				189	184	5	
	09-May	15-May	3yr Note	40		Actual 3.695%	3.810%
	10-May	15-May	10yr Note	35		Actual 3.448%	3.455%
	11-May	15-May	30yr Bond	21		Actual 3.741%	3.661%
				96	75.2	21	
			<b>Total - securities settling this week</b>	<b>436</b>	<b>405</b>	<b>31</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>2283</b>	<b>2268</b>	<b>15</b>	
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>726</i>	
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>			
			<b>Maturing &amp; reinvestment</b>				
		15-May	Notes & Bonds	26.2			
		16-May	Bills	3.1			
		18-May	Bills	18.9			
				48.1			
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>				
		15-May	Notes & Bonds	28.9			
			<b>Upcoming Auctions</b>	<b>\$B</b>			
	17-May	31-May	20yr Bond	15			
	18-May	31-May	10yr TIPS	15			

## Quantitative Tightening Overview – May 2023

In May, the face value of Coupons maturing on the Fed balance sheet is approx. \$114bn. This is larger than the \$60bn cap for monthly balance sheet roll-off. So, \$60bn of Coupons maturing on the Fed balance sheet this month will be redeemed/roll-off and the remaining \$54bn in Coupons will be reinvested.

This also means that all maturing ST Bills on the Fed balance sheet this month (\$72.4bn approx.) will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - May			
			<b>\$60</b>
		<b>Redeem \$Bn</b>	<b>Reinvest \$ Bn</b>
15-May-23	Notes & Bonds	28.9	26.2
31-May-23	Notes & Bonds	31.1	28.2
	ST Bills	0.0	72.4
	<b>Total Notes &amp; Bonds</b>	<b>60.0</b>	<b>126.7</b>

May 2023 Bill maturity schedule;

Bill Maturity Schedule - MAY			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2023/05/02	3.02	5%	0.00	3.02	
2023/05/04	15.50	25%	0.00	15.50	
2023/05/09	3.09	5%	0.00	3.09	
2023/05/11	12.03	19%	0.00	12.03	
2023/05/16	3.10	5%	0.00	3.10	
2023/05/18	18.85	30%	0.00	18.85	
2023/05/23	2.77	4%	0.00	2.77	
2023/05/25	11.36	18%	0.00	11.36	
2023/05/30	2.67	4%	0.00	2.67	
	72.4		0.00	72.4	

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

## Recommended US Treasury Financing – Act Q2 & Est Q3 2023

Q2: The prelim Q2 estimate for net cash to be raised has been increased from \$278bn to \$726bn – assuming an end-of-quarter cash balance of \$550bn. This revised estimate for the US Treasury borrowing requirement accounts for the lower starting cash balance and the projections of lower receipts & higher outlays;

The borrowing estimate is \$449 billion higher than announced in January 2023, primarily due to the lower beginning-of-quarter cash balance (\$322 billion), and projections of lower receipts and higher outlays (\$117 billion).

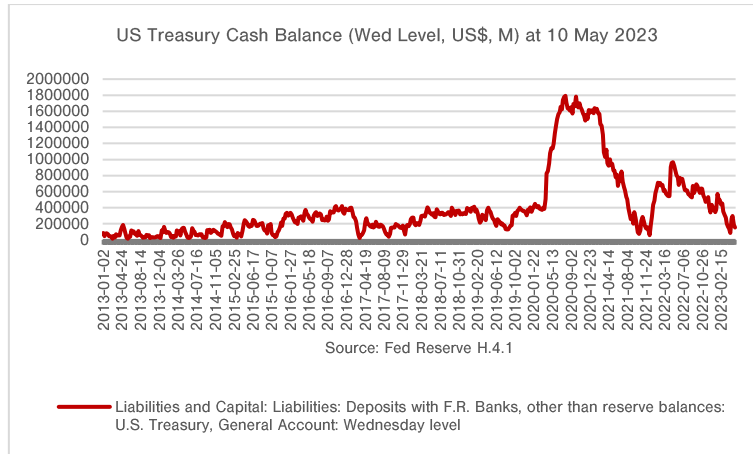
Q3: The US Treasury expects to borrow \$733 billion in privately held net marketable debt, assuming an end-of-September cash balance of \$600 billion. The full details of Q2 & Q3 estimates are found [here](#).

**Debt Limit** – the debt limit ‘X date’ has not been updated at this stage and remains around early June;

As Secretary Yellen outlined in her recent letter to Congress, our best estimate is that we will be unable to continue to satisfy all of the government’s obligations by early June, **and potentially as early as June 1**, if Congress does not raise or suspend the debt limit before that time. Source: [US Treasury](#)

## US Treasury Cash Levels (TGA)

As of Wed 10 May, the level of the TGA decreased to \$154bn (-\$33bn compared to the week prior). The current TGA balance is approx. \$764bn *lower* than the same week a year ago.



<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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## WEEK COMMENCING 15 MAY 2023

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### MONDAY 15 MAY (US Eastern Time, unless stated otherwise)

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Europe	Eurozone Industrial Production (Mar), EC Growth Forecasts/Euro Group meetings
US	NY Empire State Manufacturing (May), Fed speeches; Bostic, Kashkari, Barkin, Cook
Australia	RBA Minutes
China	FA Investment, Industrial Production, and Retail Sales (Apr)

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### TUESDAY 16 MAY

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UK	Labour Market Survey (3mth to Mar)
Europe	Eurozone Real GDP – First Est Q1
US	Retail Sales (Apr), Industrial Production (Apr), NAHB Housing Market Index (May) Fed Vice Chair Barr – testimony day 1, Fed speeches; Mester, Bostic, Williams, Logan
Canada	CPI (Apr)
Japan	Real GDP Q1
Australia	Wage Price Index Q2, Westpac Consumer Sentiment (May) - TBC

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### WEDNESDAY 17 MAY

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Europe	Euro Area CPI – Final (Apr)
UK	BoE Governor Bailey speech
US	Mortgage Apps wk 13 May, New Housing Permits & Starts (Apr) Fed Vice Chair Barr – testimony day 2, Fed speeches; Jefferson (econ outlook)
Japan	Merchandise Trade, Exports, & Imports (Apr)
Australia	Labour Market & Employment Survey (Apr)

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### THURSDAY 18 MAY

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Canada	BoC Governor Macklem speech
US	Initial Claims wk 13 May, Philadelphia Fed Manufacturing Survey (May), Existing Home Sales (Apr)
Japan	CPI (Apr)

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### FRIDAY 19 MAY

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Europe	Germany PPI (Apr), ECB Schnabel speech
US	Fed Chair Powell – Discussion with Ben Bernanke (Thomas Laubach Research Conference), Fed speeches; Bowman, Williams

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