

Key events this week – Central bank decisions; FOMC, ECB, and the RBA, US non-farm payrolls, Eurozone CPI, global PMI's Apr

Recap from last week: Data continued to highlight slower US growth momentum while core inflation remained persistent. US real GDP growth slowed notably in Q1 to +1.1% (expecting +2%). Growth has been slowing over the last two quarters and is expected to underperform given the stage of the tightening cycle. In Q1, personal consumption expenditure made a larger positive contribution to GDP growth, but this was offset by stalling inventory growth. The recent decline in domestic investment expenditure slowed, which was positive, partly due to a slower decline in residential investment. Net exports made a smaller contribution to growth even as both exports and imports increased over the quarter.

Inflation and wage growth pressures persisted into Mar. The headline PCE inflation slowed as energy prices continued to fall and food inflation also slowed further. But measures of core inflation were little changed at +4.6% in Mar (from +4.7% in Feb). The trimmed mean PCE inflation was unchanged at +4.7% in Mar highlighting that price pressures remain broad. As a measure of wage growth, the Employment Cost Index (ECI) growth accelerated slightly over Q1. Over the year, the ECI growth slowed to +4.8%.

The monthly PCE data places a question mark over the strength of US household expenditure growth in Q1 GDP though. The increase in the quarter was led mostly by the peak in Jan. Through Feb & Mar, real expenditure was flat to slightly down compared to Jan suggesting a loss of momentum towards the end of the quarter. Expenditure growth was supported by real disposable income growth led by the large increase in non-farm payrolls in Jan, cost of living adjustments for transfer payments (Jan), wage growth, and slower headline inflation. Personal savings (surplus of income over spending) continued to recover over the quarter and to a greater degree in Feb and Mar. Some of these positive income effects may fade and there is likely some caution building amid negative news on the economy. But despite the slowdown in growth, US initial claims show little sign of weakening yet with new claims falling last week to +230k (expecting a slight increase to +250k) while continuing claims were unchanged at the higher level. US new home sales increased more than expected and mortgage applications also increased.

Aus quarterly CPI showed inflation slowing but remaining elevated at +7%. It will likely be enough of a slowdown for the RBA to keep rates on hold again this month. Much of the disinflation to date has come from tradable/goods categories (petrol) while domestic/non-tradable inflation continued to increase.

Outlook for the week ahead: This will be a big week of central bank meetings and important economic data. These are the highlights for the week;

The FOMC is expected to hike rates again by 25bps. This will bring the FOMC in line with its SEP expectation of a peak in rates for this cycle. The FOMC may indicate a pause from here – balancing slower growth momentum and persistent inflation which will likely require rates to stay higher. Markets continue to price in cuts for later in the year.

US labor market data will feature this week, including non-farm payrolls at the end of the week. Payroll growth is expected to slow to +180k this month, while unemployment is expected to remain at a low of 3.5%. JOLTS data for Mar is expected to show a fall in job openings to 9.6m. This is effectively the FOMC soft landing scenario of slowing payroll growth without a meaningful rise in

unemployment. The US ISM surveys for Apr this week will provide a view of growth momentum across manufacturing and services going into Q2.

The ECB is expected to increase rates by 25bps this week. The Euro area prelim CPI for Apr will be released before the ECB meeting. Headline inflation is expected to remain extremely high at +0.9% over the month, but slowing to +7% over the year. Core inflation is also expected to remain extremely high at +1.1% over the month and +5.7% over the year.

The RBA is expected to keep rates on hold as inflation begins to slow. RBA Governor Lowe will also speak after the board meeting at a scheduled event.

Global PMIs for Apr will be released this week, providing some broader context of growth momentum going into Q2.

US Treasury Issuance; 1-5 May 2023

This week, the US Treasury will auction and settle approx. \$477bn in ST Bills, CMBs, Notes, FRNs, and Bonds, raising approx. \$46bn in new money.

QT: Approx \$33.7bn 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 % | |
|---------|--------------|-----------------|--|---------------------------|---------------------|---------------|---------------|---------------------------|--|
| 1-5 May | 27-Apr | 02-May | 4 week bill | 50 | | | Actual 3.830% | 3.190% | |
| | 27-Apr | 02-May | 8 week bill | 45 | | | Actual 4.940% | 4.850% | |
| | 26-Apr | 02-May | 17 week Bill | 36 | | | Actual 4.975% | 5.060% | |
| | | | | 131 | 153 | -22 | | | |
| | 01-May | 04-May | 13 week bill | 57 | | | Announced | 5.065% | |
| | 01-May | 04-May | 26 week bill | 48 | | | Announced | 4.840% | |
| | 02-May | 04-May | 21-Day CMB | 40 | | | Announced | n/a | |
| | | | | 145 | 105 | 40 | | | |
| | 27-Apr | 01-May | 17-Day CMB | 45 | | | Actual 4.350% | n/a | |
| | | | | 45 | 0 | 45 | | | |
| | 26-Apr | 01-May | 2yr FRN | 24 | | | HDM 0.169% | HDM 0.190% | |
| | 26-Apr | 01-May | 5yr Note | 43 | | | Actual 3.500% | 3.665% | |
| | 27-Apr | 01-May | 7yr Note | 35 | | | Actual 3.563% | 3.626% | |
| | 25-Apr | 01-May | 2yr Note | 42 | | | Actual 3.969% | 3.954% | |
| | 19-Apr | 01-May | 20yr Bond | 12 | | | Actual 3.920% | 3.909% | |
| | | | 156 | 173 | -17 | | | | |
| | | | Total - securities settling this week | | | 477 | 431 | 46 | |
| | | | Net New Cash Raised Qtr to Date | | | 1611 | 1610 | 1 | |
| | | | <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 | | | | | | |
| | 30-Apr | | Notes & Bonds | 15.2 | | | | | |
| | 02-May | | ST Bills | 3.0 | | | | | |
| | 04-May | | ST Bills | 15.5 | | | | | |
| | | | | 33.7 | | | | | |
| | | | Maturing & redemption (balance sheet roll-off) | | | | | | |
| | 30-Apr | | Notes & Bonds | 43.5 | | | | | |

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 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 (\$71.2bn approx.) will be reinvested.

| Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - May | | | | |
|---|---------------|--|-------------|----------------|
| | | | \$60 | |
| | | | Redeem \$Bn | Reinvest \$ Bn |
| 15-May-23 | Notes & Bonds | | 28.9 | 26.2 |
| 31-May-23 | Notes & Bonds | | 31.1 | 28.2 |
| | ST Bills | | 0.0 | 71.2 |
| Total Notes & Bonds | | | 60.0 | 125.6 |

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 | 1.52 | 2% | 0.00 | 1.52 |
| | 71.2 | | 0.00 | 71.2 |

<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).

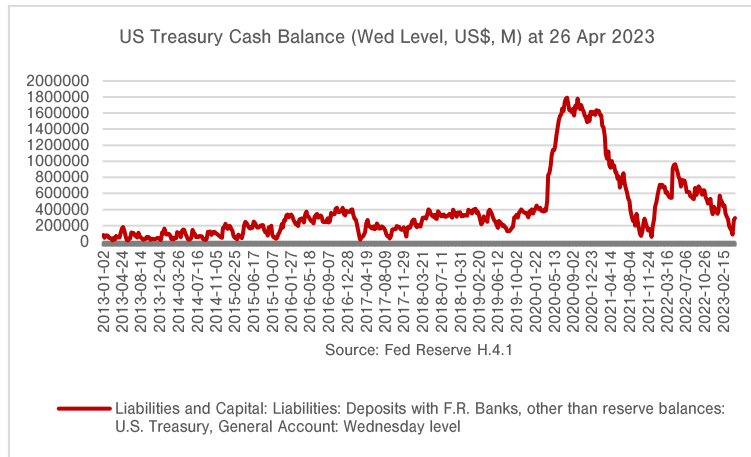
Q2: The prelim Q2 estimate for net cash to be raised is \$278bn. This does not account for the shortfall in the Q1 actual. This Q2 estimate will be updated at the next meeting of the TBAC this week on 1 May 2023.

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 26 Apr, the level of the TGA increased to \$296bn (+\$31bn compared to the week prior). The current TGA balance is approx. \$661bn lower than the same week a year ago.

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.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 1 MAY 2023

MONDAY 1 MAY (US Eastern Time, unless stated otherwise)

| | |
|-----------|--|
| Australia | S&P Manufacturing PMI (Apr) |
| Japan | S&P Manufacturing PMI (Apr) |
| US | ISM Manufacturing PMI (Apr), S&P Manufacturing PMI (Apr) |

TUESDAY 2 MAY

| | |
|-----------|--|
| Australia | RBA Policy Decision, RBA Gov Lowe Speech |
| Europe | Eurozone Bank Lending Survey, S&P EZ Manufacturing PMI (Apr), Euro Area CPI Prelim (Apr) |
| UK | S&P Manufacturing PMI (Apr) |
| US | Factory Orders (Mar), JOLTS (Apr) |
| NZ | Labour Market Q1, RBNZ Governor Orr Speech |
| Australia | S&P Services PMI (Apr), Retail Sales (Mar) |

WEDNESDAY 3 MAY

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|----|--|
| US | Mortgage Apps wk 28 Apr, ADP Employment (Apr), Ism Services PMI (Apr), S&P Services PMI (Apr) FOMC Monetary Policy Decision |
|----|--|

THURSDAY 4 MAY

| | |
|-----------|---|
| Europe | S&P EZ Services PMI (Apr), EZ PPI (Mar) ECB Monetary Policy Decision |
| UK | S&P Services PMI (Apr) |
| US | Initial Claims wk 28 Apr, Challenger Job Cut Announcements (Apr) |
| Canada | BoC Governor Macklem Speech |
| Australia | Housing Finance (Mar), RBA Statement on Monetary Policy |

FRIDAY 5 MAY

| | |
|--------|---|
| Europe | Germany Factory Orders (Mar), EZ Retail Sales (Mar) |
| US | Non-Farm Payrolls & Labour Market Survey (Apr), Consumer Credit (Mar) |
| Canada | Labour Market Survey (Apr) |
