

Key events this week – US PCE inflation, FOMC minutes, Prelim PMIs May, RBNZ policy decision

Recap from last week: In his speech last week, US Fed Chair Powell gave the strongest indication yet of a potential pause in the US rate hiking cycle. He noted that the stance of policy is restrictive and there are uncertainties regarding the lagged effects of the tightening done so far, including the additional tightening from recent “banking stresses”;

“Having come this far, we can afford to look at the data and the evolving outlook to make careful assessments,”

The justification to pause changes the focus to a forward-looking expectation that, due to long and variable lags, the full effect of policy tightening has yet to take effect (rather than a policy shift to a pause due to an obvious slowdown in the economy). After Powell’s speech last week, markets priced out the slightly higher probability of another hike in Jun.

Given that US inflation remains elevated, and the labor market remains tight, markets also started pricing out some of the near-term rate cuts and firmed up a pause through to Nov. US data last week showed the economy remained on a solid footing. US retail sales growth was positive albeit slower than expected – still reflecting a resilient consumer. Real retail sales have slowed and are shifting back toward the pre-pandemic trend. US manufacturing output growth was stronger in Apr, increasing by +1% over the prior month, led by motor vehicles, but also other durable & non-durable goods output. But the first two regional manufacturing surveys for May suggest some weakness in manufacturing could return. US housing activity, especially homebuilder sentiment, has continued to improve (led by the South and the West). Existing home sales were weaker in Apr. Importantly, the initial claims spike from last week was revised lower and claims fell back in line with the recent trend. Continuing claims remained stable.

Other global inflation data was mostly higher than expected. The BoC is still on a “hawkish hold” as Canadian headline inflation accelerated slightly to +4.4% in Apr and +0.7% over the month. The ECB has remained more hawkish with Euro area headline inflation confirmed at +7% in Apr and +0.6% over the month. Japanese CPI growth accelerated this month across headline and core measures. The BoJ preferred measure of inflation accelerated to +3.4% over the year with the monthly pace accelerating to +0.7% - the fastest monthly pace so far in this cycle.

The RBA minutes indicated that arguments were ‘finely balanced’ in deciding to hike by 25bps in May. After pausing in Apr, the Board was ultimately concerned about the upside risks to inflation and was buoyed by strong employment growth in Mar. The Aus data last week may weigh unevenly on the RBA decision next month; despite stronger than expected wage growth in Q1 of +3.7% (from +3.4% in Q4), employment for Apr was weaker than expected. The small decline in employment added to the increase in labor supply, resulting in a higher unemployment rate of 3.7% (from 3.5%). Signs of a weakening labor market will likely be a concern for the RBA.

Outlook for the week ahead: There will be continued headline risk from US debt ceiling negotiations this week and US Treasury Secretary Yellen is expected to provide an update on the ‘x-date’. Headline risk is likely to remain elevated, especially leading into the holiday long weekend.

US data will focus on inflation for Apr, housing, consumer income, spending, manufacturing, and growth momentum going into May. This will provide important input for assessing the path of the economy, amid expectations of an imminent slowdown. Headline PCE inflation is expected to ease

slightly to +3.9% over the year while increasing over the month to +0.4%. Core PCE inflation is expected to be unchanged at +4.6% over the year. The final University of Michigan consumer sentiment reading for May will be released on Fri and will provide an update on the surprise spike higher in longer-term inflation expectations (up to +3.2%) reported in the prelim release.

There will also be several US Fed speeches throughout the week, including Governor Waller on the economic outlook.

The FOMC minutes of the May meeting will be released. This may provide some insight into discussions around the conditions for further hikes or for a pause in the hiking cycle. The minutes may also provide some insight into financial stability reports from staff.

The RBNZ will meet this week and it is expected to hike rates by another 25bps to 5.50%.

Finally, the prelim Global S&P PMIs will provide the first view of growth and activity momentum for May across key developed markets. The prelim May PMIs will be important in indicating whether stronger momentum, led mostly by services, has continued in Q2.

US Treasury Issuance; 22-26 May 2023

This week, the US Treasury will auction and settle approx. \$322bn in ST Bills and FRNs, raising approx. \$41bn in new money. The US Treasury will also auction the 2-year, 5-year, and 7-year Notes this week which will settle at the end of the month.

QT: Approx \$14bn 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 %	
22-26 May	18-May	23-May	4 week bill	35			Actual 5.370%	5.604%	
	18-May	23-May	8 week bill	35			Actual 5.020%	4.680%	
	17-May	23-May	17 week Bill	39			Actual 5.100%	5.000%	
	18-May	23-May	156-Day CMB	45			Actual 5.230%	n/a	
				154	136	18			
		22-May	25-May	13 week bill	57			Announced	5.060%
		22-May	25-May	26 week bill	54			Announced	4.980%
		23-May	25-May	21-Day CMB	35			Announced	5.060%
					146	145	1		
		24-May	26-May	2yr FRN	22			Announced	
				22	0	22			
			Total - securities setting this week	322	281	41			
			Net New Cash Raised Qtr to Date	2605	2549	56			
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>726</i>			
			QT: Face value of US Federal Reserve SOMA securities maturing	\$B					
			Maturing & reinvestment						
		23-May	ST Bills	2.8					
		25-May	ST Bills	11.4					
				14.1					
			Upcoming Auctions	\$B					
	23-May	31-May	2yr Note	42					
	24-May	31-May	5yr Note	43					
	25-May	31-May	7yr Note	35					

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			
			\$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	72.4
Total Notes & Bonds		60.0	126.7

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](#).

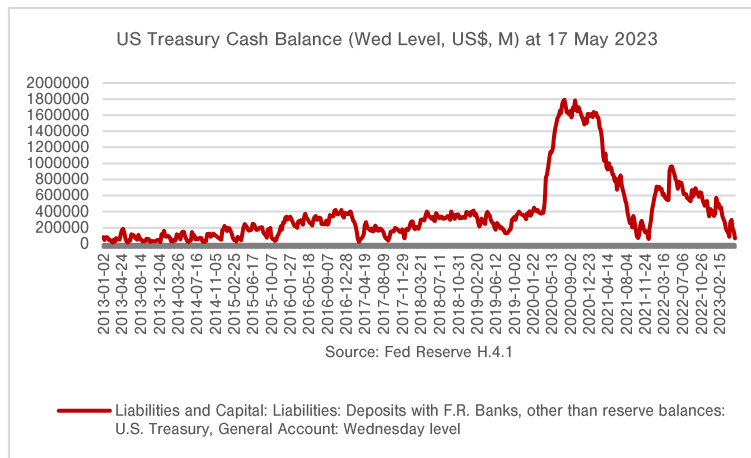
Debt Limit – the debt limit ‘X date’ has not been updated at this stage and remains around early June;

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](#)

An update on the ‘x-date’ is expected this week.

US Treasury Cash Levels (TGA)

As of Wed 17 May, the level of the TGA decreased to \$68bn (-\$86bn compared to the week prior). The current TGA balance is approx. \$798bn 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

WEEK COMMENCING 22 MAY 2023

MONDAY 22 MAY (US Eastern Time, unless stated otherwise)

US	Fed speeches: Bullard, Barkin, Bostic, and Logan
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Australia	S&P Manufacturing & Services PMI Prelim (May)
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Japan	S&P Manufacturing & Services PMI Prelim (May)
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TUESDAY 23 MAY

Europe	Eurozone S&P Manufacturing & Services PMI Prelim (May)
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UK	S&P Manufacturing & Services PMI Prelim (May)
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US	S&P Manufacturing & Services PMI Prelim (May), New Home Sales (Apr), Richmond Fed Manufacturing Survey (May)
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NZ	Retail Sales Q1, RBNZ Monetary Policy Decision
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WEDNESDAY 24 MAY

UK	CPI (Apr)
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US	Mortgage Apps wk 20 May FOMC Minutes, Fed speeches; Waller (Econ Outlook) US Treasury Secretary Yellen (tbc)
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THURSDAY 25 MAY

Europe	Germany GDP Q1
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US	Initial Claims wk 20 May, Chicago Fed National Activity Index (Apr), GDP Q1 Prelim, Pending Home Sales (Apr), Kansas City Fed Manufacturing Index (May), Fed speeches: Collins
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Australia	Retail Sales (Apr)
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Japan	Tokyo CPI (Apr)
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FRIDAY 26 MAY

UK	Retail Sales (Apr)
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US	PCE Price Inflation (Apr), Personal Income & Expenditure (Apr), Durable Goods Orders (Apr), University of Michigan Consumer Sentiment Final (May)
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US	Monday 29 May – Memorial Day Holiday
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