

Key events this week – US Non-Farm Payrolls, Euro Area CPI May, Aus Monthly CPI

Recap from last week: The latest FOMC minutes showed uncertainty about the path of rates in the outlook and the extent to which further rate increases would be appropriate. Members noted the need for policy optionality. Views on the outlook diverged among committee members. Progress on reaching 2% inflation could be too slow so additional hikes could be warranted or, if the economy evolved according to some outlooks, then further policy firming may not be necessary.

Data so far had not 'provided sufficient clarity' for the policymaker's next steps, so Governor Waller introduced a framework option for the next FOMC meeting; hike, skip, or pause. Skipping a meeting allows the Fed to hold rates, with the option to hike again, while maintaining a hawkish bias (given that progress on inflation is slow/stalling, and the labor market remains tight). Waller also noted that changes in credit conditions could be a deciding factor between hiking or skipping in June or July. One important factor could be the resolution of the debt ceiling and the resulting rebuild of the Treasury cash account.

By the end of the week, markets had priced in another US hike for Jun with cuts still commencing in Nov or Dec. This repricing was also in part due to the stronger US PCE inflation reading for Apr across headline and core measures, faster consumption growth in Apr, improvement in real disposable income growth, initial jobless claims that were revised lower, an increase in new home sales, and an acceleration in the May PMI activity led by services.

The prelim global PMIs for May were mixed. The headline manufacturing PMIs recorded a fourth month of slowing momentum, with Japan the exception. The US manufacturing PMI slipped back into contraction while output growth stayed positive. Services growth remained moderate, but momentum stalled across Europe, the UK, and Aus, while growth continued to accelerate in Japan and the US. The broader release of the May PMI's will commence this week.

Outlook for the week ahead: The next FOMC meeting is 14 Jun, meaning this is the last week before the blackout period for that meeting. There are several Fed speeches scheduled this week with possibly more to be added. The US labor market data this week will be important as the FOMC determines the path forward for policy.

US non-farm payrolls for May are expected to increase at a slower pace of +180k (prior +253k). Participation is expected to remain unchanged while the unemployment rate is expected to increase slightly to 3.5%. Job openings for Apr are expected to fall to 9.3m (from 9.6m). The ISM manufacturing PMI will be released this week along with the Fed's Beige Book overview of regional activity.

Other inflation data will be important this week. The Euro Area prelim CPI reading for May will be released and headline CPI is expected to remain elevated at +7% while core inflation is also expected to remain elevated at +5.5%. The ECB minutes will also be released this week.

Aus monthly inflation for Apr is expected to edge below +7%. RBA Governor Lowe will provide testimony this week ahead of the RBA meeting next week.

US Treasury Issuance; 29 May -2 Jun 2023

This week, the US Treasury will auction and settle approx. \$431bn in ST Bills, Notes, Bonds, and TIPS, raising approx. \$100bn in new money.

QT end of May/start of June: Approx \$40.3bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested. Approx \$33.6bn in Notes, Bonds, and ST Bills will roll off the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
29 May - Memorial Day Holiday								
29 May - 2 Jun	25-May	30-May	4 week bill	35			Actual 5.750%	5.370%
	25-May	30-May	8 week bill	35			Actual 5.350%	5.020%
	24-May	30-May	17 week Bill	42			Actual 5.260%	5.100%
				112	136	-24		
	30-May	01-Jun	13 week bill	63			Announced	5.250%
	30-May	01-Jun	26 week bill	56			Announced	5.170%
	30-May	01-Jun	161-Day CMB	50			Announced	n/a
				169	105	64		
	17-May	31-May	20yr Bond	15			Actual 3.954%	3.920%
	18-May	31-May	10yr TIPS	15			Actual 1.395%	1.182%
	23-May	31-May	2yr Note	42			Actual 4.300%	3.969%
	24-May	31-May	5yr Note	43			Actual 3.749%	3.500%
	25-May	31-May	7yr Note	35			Actual 3.827%	3.563%
				150	90	60		
			Total - securities settling this week	431	330.8	100.3		
			Net New Cash Raised Qtr to Date	3036	2880	156		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			726		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		30-May	Bills	2.7				
		31-May	Notes & Bonds	28.2				
		01-Jun	Bills	9.5				
				40.3				
			Maturing & redemption (balance sheet roll-off)					
		31-May	Notes & Bonds	31.1				
		01-Jun	Bills	2.4				
				33.6				

Quantitative Tightening Overview – June 2023

In June, the face value of Coupons maturing on the Fed balance sheet is approx. \$48.3bn. This is lower than the \$60bn cap for monthly balance sheet roll-off and means that all maturing Coupons will be redeemed this month.

It also means that ST Bills maturing on the Fed balance will make up the residual up to the \$60bn redemption cap. So of the \$57bn in ST Bills maturing this month, \$11.7bn will be redeemed/roll off the balance and the remaining \$45.4bn of ST Bills maturing, will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - June				
			\$60	
			Redeem \$Bn	
			Reinvest \$ Bn	
15-Jun-23	Notes & Bonds		12.2	0.0
30-Jun-23	Notes & Bonds		36.1	0.0
	ST Bills		11.7	45.4
	Total Notes & Bonds		60.0	45.4

June 2023 Bill maturity schedule;

Bill Maturity Schedule - JUNE		Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2023/06/01	11.92	21%	2.45	9.47
2023/06/06	2.78	5%	0.57	2.21
2023/06/08	7.87	14%	1.62	6.25
2023/06/13	2.66	5%	0.55	2.11
2023/06/15	11.99	21%	2.46	9.53
2023/06/20	2.68	5%	0.55	2.13
2023/06/22	3.25	6%	0.67	2.58
2023/06/27	1.66	3%	0.34	1.32
2023/06/29	12.27	21%	2.52	9.75
	57.1		11.72	45.4

<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 projection of lower receipts & higher outlays;

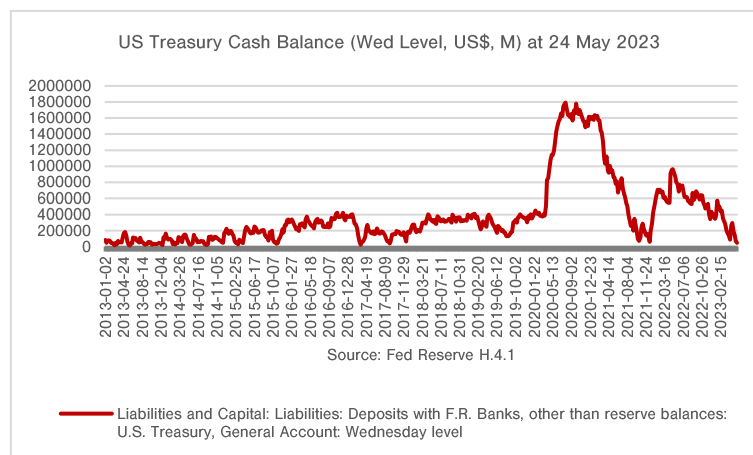
The borrowing estimate is \$449 billion higher than announced in January 2023, primarily due to the lower beginning-of-quarter cash balance (\$322 billion), and projections of lower receipts and higher outlays (\$117 billion).

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 – a deal to suspend the debt limit (through Jan 2025) has been reached. Details are now going into draft legislation with a vote expected midweek. The estimated X-date was updated to a likely 5 Jun 2023.

US Treasury Cash Levels (TGA)

As of Wed 24 May, the level of the TGA decreased to \$49bn (-\$19bn compared to the week prior). The current TGA balance is approx. \$752bn 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 historical operation schedules -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ambs_operation_schedule

WEEK COMMENCING 29 MAY 2023

MONDAY 29 MAY (US Eastern Time, unless stated otherwise)

US Memorial Day Holiday

Aus Building Permits (Apr)

TUESDAY 30 MAY

US Case/Shiller House Price Index (Mar), Dallas Fed Manufacturing Index (May)

Japan Industrial Production Prelim (Apr), Retail Trade (Apr)

China NBS Manufacturing & Non-Manufacturing PMI (May)

Australia Construction Work Done Q1, Monthly CPI (Apr)
RBA Gov. Lowe – Testimony Senate Budget Estimates

WEDNESDAY 31 MAY

Canada GDP Q1

US Mortgage Apps wk 27 May, Chicago PMI (May), JOLTS (Apr), Fed Beige Book, US
Fed speeches: Bowman, Jefferson, and Harker

Australia S&P Manufacturing PMI Final (May)

THURSDAY 1 JUNE

Europe Germany Retail Sales (Apr), Eurozone S&P Manufacturing PMI Final (May), Euro
Area CPI Prelim (May)
ECB Minutes

US Initial Claims wk 27 May, Challenger Job Cut Announcements (May), ADP
Employment Change (May), Non-Farm Productivity & Unit Labor Costs (Q1), S&P
Manufacturing PMI Final (May), ISM Manufacturing PMI (May)

Australia Housing Finance (Apr)

FRIDAY 2 JUNE

US Non-Farm Payrolls (May) and Household Employment Survey (May)
