

Key events this week – Monetary policy decisions; FOMC, ECB, and the BoJ, US CPI & Retail Sales, Aus Employment, Euro Area CPI

Recap from last week: Both the RBA and BoC have restarted policy hikes, citing persistent inflation. The RBA hiked for the second month in a row after pausing in Apr. The statement reflected a renewed concern for upside inflation risk and inflation expectations becoming entrenched. A notable change in the statement was the removal of “medium-term inflation expectations remain well anchored”. The Board noted concerns globally over persistent services inflation, higher unit labor costs, and ‘subdued’ productivity growth. Guidance was clear; some further tightening may be required. Markets priced in [another hike](#) for later in the year. Aus growth eased in Q1 with GDP slowing to +0.2%. This week, the May labor market survey is expected to show employment increased by +15k and the unemployment rate remained at 3.7%.

The BoC also hiked after being on pause since Jan. The Governing Council noted an increase in the pace of inflation and stronger growth in consumption across ‘interest rate sensitive goods’ including a pickup in housing market activity. The hike reflects the view that ‘monetary policy was not sufficiently restrictive’ to bring inflation sustainably back to the 2% target. The Governing Council has kept the option open to assess the next move in rates. Last week, Canadian employment declined and there was a small uptick in the unemployment rate.

US data remained mixed. The uptick in initial claims to +261k was notable and something to monitor. The S&P PMIs continued to show a divergence between stronger services momentum and sluggish manufacturing activity in May. The S&P PMI report showed that services activity broadly accelerated this month – led by “the fastest increase in output in just over a year”, while the ISM services PMI has started to show some moderation in service sector growth. US consumer credit growth continued to rebound in Apr.

Outlook for the week ahead: This will be a big week of central bank policy decisions. The FOMC is broadly expected to keep its policy rate on hold at 5.25% ([approx. 26% probability of an increase](#) at the time of writing) while maintaining a hawkish bias. The FOMC will present an updated set of projections across inflation, growth, unemployment, and the FFR. The projections are likely to show an expectation for some further tightening and guidance may reinforce keeping optionality for further hikes. The FOMC will have the latest CPI report for May, which will be released this week. Headline US CPI is expected to ease to +4.2% over the year, while core inflation is expected to remain elevated at +5.1% over the year (+0.4% over the month in May). US retail sales are expected to show some further moderation in demand with growth slowing to 0% in May (from +0.4% in Apr).

The ECB is expected to hike its policy rate by 25bps. The forward guidance on rates will be important given that the growth outlook has weakened notably over the last two quarters and inflation may be starting to moderate. The May inflation report showed inflation still elevated, but easing to +6.1% led by a large fall in energy prices. Core inflation ex-energy is still running at +7% over the year.

The BoJ will also meet this week. While there is no signal or expectation of an impending change to policy settings, there is likely to be some risk from here that the BoJ will tinker with its YCC. The Japanese economy continued to rebound with growth accelerating to +0.7% in Q1 from +0.1% in Q4 – led by household consumption, private investment, and inventories. Core inflation remains elevated and above the 2% target suggesting some pass-through from stronger growth. This momentum continued into May with both manufacturing and services PMI’s rising further.

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%	2.41	9.51
2023/06/06	2.78	5%	0.56	2.22
2023/06/08	7.87	14%	1.59	6.28
2023/06/13	2.66	5%	0.54	2.12
2023/06/15	11.99	21%	2.43	9.57
2023/06/20	2.68	5%	0.54	2.14
2023/06/22	3.25	6%	0.66	2.59
2023/06/27	2.50	4%	0.51	1.99
2023/06/29	12.27	21%	2.48	9.79
	57.9		11.72	46.2

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

Recommended US Treasury Financing – Act Q2 & Est Q3 2023

With the debt limit now suspended (through to Jan 2025), the focus shifts to rebuilding the US Treasury TGA cash balance. Last week, [the US Treasury announced](#) details to rebuild the cash balance which included a focus on shorter-tenor securities through to 14 Jun and the introduction of a regular 6-Week CMB.

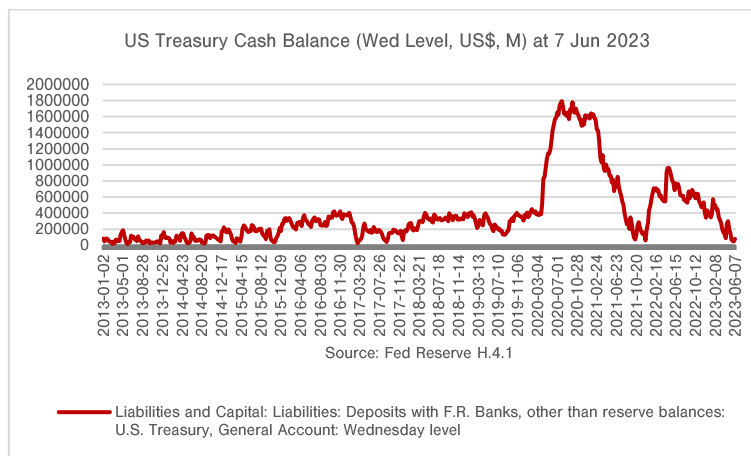
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

The updated end of quarter cash balance is expected to be \$425bn (from \$550bn) at the end of June.

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 Q3 estimates are found [here](#).

US Treasury Cash Levels (TGA)

As of Wed 7 Jun, the level of the TGA increased to \$77bn (+\$29bn compared to the week prior). The current TGA balance is approx. \$606bn *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 12 JUNE 2023

MONDAY 12 JUNE (US Eastern Time, unless stated otherwise)

Japan PPI (May)

Australia Westpac Monthly Consumer Sentiment (Jun), NAB Conditions and Confidence (May)

TUESDAY 13 JUNE

UK Labour Market Survey (3mth Apr), BoE Governor Bailey speech

Europe Germany CPI – Final (May)

US NFIB Business Optimism Index (May), CPI (May)

WEDNESDAY 14 JUNE

Europe Eurozone Industrial Production (Apr)

US Mortgage Apps wk 10 Jun, PPI (May)
FOMC Policy Decision

NZ GDP Q1

Japan Merchandise Trade, Exports, and Imports (May)

Australia Labour Market Survey (May), RBA Bulletin

China Fixed Asset Investment, Industrial Production, and Retail Sales (May)

THURSDAY 15 JUNE

Europe ECB Policy Decision

US Initial Claims wk 10 Jun, Export & Import Price Index (May), NY Empire State
Manufacturing Index (Jun), Philadelphia Fed Manufacturing Survey (Jun), Retail
Sales (May), Industrial Production (May)

Japan BoJ Policy Decision

FRIDAY 16 JUNE

Europe Eurozone CPI – Final (May)

US University of Michigan Consumer Sentiment Prelim (Jun)
US Fed speeches: Bullard & Waller
