

Key events this week – Inflation; US PCE, CPI for the Euro Area, Tokyo, Aus, and Canada, ECB Forum on Central Banking – policy panel with Fed Chair Powell, BoE Governor Bailey, ECB President Lagarde, and BoJ Governor Ueda

Recap from last week: If there has been a theme from the recent round of central bank meetings it's central banks signaling that they may not be done raising rates as they continue address persistent inflation. Most central banks have raised rates to levels expected to be restrictive, but for many, inflation remains too high.

This came into sharp focus last week as the Bank of England hiked rates by 50bps after another worse-than-expected inflation report. The BoE noted 'more persistence in the inflation process, against the background of a tight labor market and continued resilience in demand'. UK inflation was higher than expected with headline CPI unchanged at +8.7% in May. The monthly rate slowed to +0.7% (but expecting +0.4%). UK Core CPI accelerated to +7.1% over the year, up from +6.8% in Apr – led by another acceleration in services inflation.

The RBA minutes noted that the decision to increase rates in Jun was another 'finely balanced decision'. The minutes also noted that "the recent data suggested that inflation risks had shifted somewhat to the upside. Given this shift and the already drawn-out return of inflation to target, the Board judged that a further increase in interest rates was warranted". The removal of forward guidance from the minutes was unusual.

Japan has been the exception during this hiking cycle. The latest Japanese CPI showed a modest slowdown in headline inflation to +3.2% in May. Falls in fuel, light, and water charges were the main contributor to the slowdown. But core underlying inflation – ex-fresh food and energy continued to accelerate, reaching another high of +4.3%. The BoJ continues to reinforce its commitment to its YCC program and low rates. The latest [BoJ Summary of Opinions](#) showed mixed views on the expected persistence of current inflation.

The week ended on a low note with the flash PMIs showing a deterioration in private sector momentum in Jun. Services activity continued to offset weakening manufacturing activity, but even services output growth momentum slowed (less so in the US). Manufacturing PMIs and output indexes shifted into and/or remained in contraction across Japan, Aus, the US, the UK, and Europe (especially Germany). Services activity remained mostly positive, but momentum slowed.

Outlook for the week ahead: With most central banks in data-dependence mode, inflation, labor markets, and growth reports will remain important inputs. This week, inflation will be in focus.

US PCE inflation (US Fed preferred measure) is expected to remain around +4.4% for May. Core inflation is expected to remain little changed at +4.7%. The other important US data point will be initial claims. This has been elevated over the last three weeks around the +260k level but has shown little flow through yet to a rise in continuing claims. Initial claims are expected to stay elevated at +266k this week.

The prelim Eurozone headline CPI for Jun is expected to slow to +5.6%(from +6.1%) while core inflation is expected to increase to +5.5% (up from +5.3% in May). Germany, Italy, and France prelim CPI reports for Jun will all be out this week.

The Aus monthly CPI for May will be an important input for the RBA meeting next week given the continued “finely balanced” nature of recent hiking decisions. The headline CPI is expected to slow to +6.1% from +6.8%. CPI ex-volatile items (auto fuel and fruit & veg) is the measure of underlying inflation in this series and is currently running at +6.8%.

Canada's headline CPI for May is expected to ease to +3.4% (from +4.4%) while core CPI is expected to remain elevated at +5.2% (from +5.7%). The last BoC meeting noted concerns over inflation becoming “stuck materially above 2%”.

Finally, Japan’s Tokyo CPI is expected to show more persistent inflation with headline CPI increasing to +3.8% and core (ex-fresh food and energy) increasing to +4.4%.

The ECB Forum on Central Banking runs this week 26-28 Jun. On the final day is a policy panel discussion featuring US Fed Chair Powell, ECB President Lagarde, BoE Governor Bailey, and BoJ Governor Ueda.

US Fed Chair Powell will also take part in a discussion at the Financial Stability Conference in Spain.

US Treasury Issuance; 26 Jun - 30 Jun 2023

This week, the US Treasury will auction and settle approx. \$522bn in ST Bills, Notes, Bonds, FRNs, and TIPS, raising approx. \$198bn in new money.

QT Jun: Approx \$11.8bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$39.1bn in ST Bills, Notes, and Bonds will mature and 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 %
26-30 Jun	22-Jun	27-Jun	4 week bill	70			Actual 5.010%
	22-Jun	27-Jun	8 week bill	60			Actual 5.140%
	21-Jun	27-Jun	17 Week Bill	46			Actual 5.220%
				176	116	60	
	26-Jun	29-Jun	13 week bill	65			Announced 5.130%
	26-Jun	29-Jun	26 week bill	58			Announced 5.170%
	27-Jun	29-Jun	42-Day CMB	50			Announced 5.070%
				173	102	71	
	21-Jun	30-Jun	20 yr Bond	12			Actual 4.010%
	22-Jun	30-Jun	5yr TIPS	19			Actual 1.832%
	26-Jun	30-Jun	2yr Note	42			Announced 4.300%
	27-Jun	30-Jun	5yr Note	43			Announced 3.749%
	28-Jun	30-Jun	7yr Note	35			Announced 3.827%
	28-Jun	30-Jun	2yr FRN	22			Announced
				173	106	67	
			Total - securities settling this week	522	324	198	
			Net New Cash Raised Qtr to Date	4726	4009	717	
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>726</i>	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		27-Jun	Bills	2.0			
		29-Jun	Bills	9.8			
				11.8			
			Maturing & redemption (balance sheet roll-off)				
		27-Jun	Bills	0.5			
		29-Jun	Bills	2.5			
		30-Jun-23	Notes & Bonds	36.1			
				39.1			

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 \$11.7bn of the \$60bn redemption cap. So of the \$57.9bn in ST Bills maturing this month, \$11.7bn will be redeemed/roll off the balance, and the remaining \$46.2bn 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	46.2	
Total Notes & Bonds			60.0	46.2	

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

Q2; With the debt limit now suspended (through to Jan 2025), the focus shifts to rebuilding the US Treasury TGA cash balance. 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.

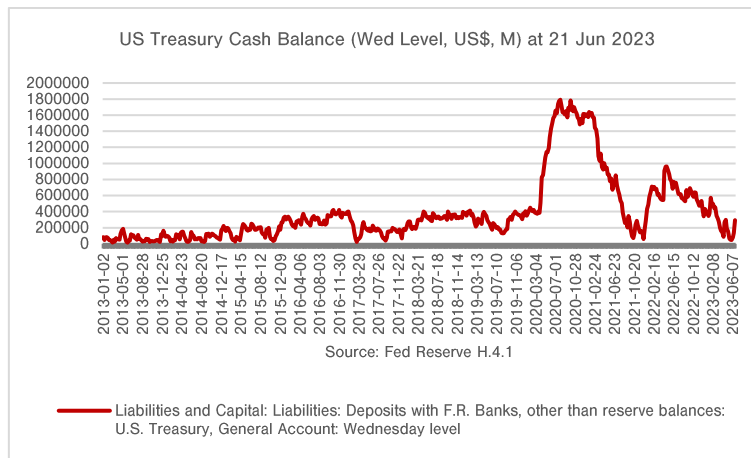
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

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 prelim Q3 estimates can be found [here](#).

US Treasury Cash Levels (TGA)

As of Wed 21 Jun, the level of the TGA increased to \$292bn (+\$157bn compared to the week prior). The current TGA balance is approx. \$453bn 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/ombs_operation_schedule

WEEK COMMENCING 26 JUNE 2023

MONDAY 26 JUNE (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Survey (Jun), Fed speeches; Williams (Sunday)
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Europe	ECB Forum on Central Banking Commences (Sintra) – 26-28 Jun
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TUESDAY 27 JUNE

US	Durable Goods Orders (May), Case/Shiller House Price Index (Apr), New Home Sales (May), Richmond Fed Manufacturing Survey (Jun)
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Canada	CPI (May)
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Australia	CPI – Monthly Series (May)
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WEDNESDAY 28 JUNE

Europe	ECB Central Bank Forum – Policy panel with US Fed Chair Powell, BoE Governor Bailey, ECB President Lagarde, and BoJ Governor Ueda
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US	Mortgage Apps wk 24 Jun, US Fed Bank stress test results (TBC)
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Japan	Retail Trade (May)
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Australia	Retail Sales (May)
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THURSDAY 29 JUNE

Europe	Germany CPI – Prelim (Jun)
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US	US Fed Chair Powell – Dialogue with Bank of Spain Governor at Fin Stability Conf Initial Claims wk 24 Jun, GDP Q1 (Third Est), Pending Home Sales (May), Fed speeches: Bostic
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Japan	Tokyo CPI (May), Industrial Production – Prelim (May)
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China	NBS Manufacturing and Non-Manufacturing PMI (Jun)
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Australia	Private Sector Credit (May)
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FRIDAY 30 JUNE

UK	GDP (Q1)
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Europe	Germany Retail Sales (May), Eurozone CPI – Prelim (Jun)
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US	PCE Price Index (May), Personal Income & Personal Spending (May), Chicago PMI (Jun), University of Michigan Consumer Sentiment – Final (Jun)
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