

## Key events this week – US ISM Services PMI, RBA & BoC policy decisions, global services PMIs

Recap from last week: US labor market data provided conflicting signals from the latest non-farm payrolls report and household employment survey. But with so much monetary policy tightening already done, Fed speeches this week continued to signal a possible skip/pause for next week. We are now heading into the blackout period ahead of next week's FOMC meeting.

US non-farm payroll growth in May was much stronger than expected at +339k (expecting a further slowdown to +180k). The prior two months were revised higher by approx. +90k jobs. This lifted the growth momentum back above recent averages. Despite the stronger payrolls growth, the household survey recorded a fall in employment and this flowed through to an increase in unemployment. Across the 16yrs+ group, the fall in employment was mostly PT jobs, but FT employment also declined slightly. Another view of the fall in employment was that private sector wage and salary employment increased, but was more than offset by falls in government and self-employment for the month. The unemployment rate increased from 3.4% in Apr to 3.65% in May. Last month we noted that the unemployment rate had been rising within the core working age group (25-54yrs). This trend continued in May and the 25-54yr unemployment rate has increased, albeit slightly, from a historically low level of 2.95% in Dec to +3.25% in May. The average hourly earnings data showed only a slight slowdown in wage growth from +4.4% in Apr to +4.3% in May.

The Fed Beige Book report indicated little change in growth momentum between Apr and May. Only two districts reported worsening conditions; New York and Philadelphia. The report noted that financial conditions were stable or somewhat tighter across all of the districts. High inflation “continued to stress the budgets of low-and moderate-income households”.

The US ISM manufacturing PMI showed no improvement in manufacturing growth momentum in May, but employment growth remained stable.

The global manufacturing PMI showed no change in growth momentum, with the headline index remaining in slight contraction territory. Underlying that, output growth improved slightly as new orders continued to contract. Global input and output prices fell for the first time in three years.

Outlook for the week ahead: There will be two central bank meetings this week. Firstly, the RBA is expected to keep rates on hold this month at 3.85%. Over the last week, markets have priced in another hike around Aug/Sep – especially after the increase in the minimum wage and another sticky inflation reading. Aus GDP growth for Q1 will be released and is expected to be higher at +0.8%.

Secondly, the Bank of Canada is expected to stay on hold this month at 4.5%. The latest Canadian labor market survey will be released, and employment growth is expected to ease while the unemployment rate is expected to stay at a low 5%.

This week we get a reading on the globally stronger services growth momentum. The US ISM services PMI will be released this week along with the suite of S&P global services PMIs. In the US, the ISM services PMI has shown some slowing of momentum while the S&P services PMI has recorded stronger momentum.

Other data includes; US Factory Orders for Apr, Germany Factory Orders & Industrial Production for Apr, Europe and Japan GDP for Q1, and Chinese CPI for May.

## US Treasury Issuance; 5 Jun - 9 Jun 2023

This week, the US Treasury will auction and settle approx. \$352bn in ST Bills, including Cash Management Bills (CMB), raising approx. \$89bn in new money.

QT Jun: Approx \$8.5bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$2.2bn in ST Bills 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 %
5-9 Jun	01-Jun	06-Jun	4 week bill	35			Actual 5.130%	5.750%
	01-Jun	06-Jun	8 week bill	35			Actual 5.220%	5.350%
	31-May	06-Jun	17 Week Bill	44			Actual 5.325%	5.260%
	05-Jun	06-Jun	44-Day CMB	50			Announced	n/a
				164	136	28		
	02-Jun	05-Jun	38-Day CMB	50			Actual 5.250%	n/a
	01-Jun	02-Jun	3-Day CMB		25		Actual 6.150%	Matures 5 Jun
	02-Jun	05-Jun	1-Day CMB	15			Actual 5.060%	Matures 6 Jun
				65	25	40		
	05-Jun	08-Jun	13 week bill	65			Announced	5.300%
	05-Jun	08-Jun	26 week bill	58			Announced	5.290%
				123	102	21		
			<b>Total - securities settling this week</b>	<b>352</b>	<b>263</b>	<b>89</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>3413</b>	<b>3143</b>	<b>270</b>		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>726</i>		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		06-Jun	Bills	2.2				
		08-Jun	Bills	6.3				
				8.5				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		06-Jun	Bills	0.6				
		08-Jun	Bills	1.6				
				2.2				

## 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 to 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
	<b>Total Notes &amp; Bonds</b>		<b>60.0</b>	<b>46.2</b>

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: 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;

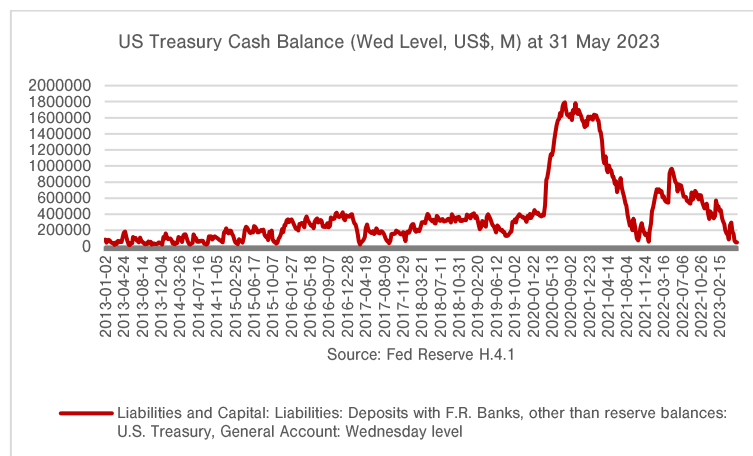
The borrowing estimate is \$449 billion higher than announced in January 2023, primarily due to the lower beginning-of-quarter cash balance (\$322 billion), and projections of lower receipts and higher outlays (\$117 billion).

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 to Jan 2025) has been reached and legislation passed. The focus will shift to rebuilding the US Treasury TGA cash balance.

## US Treasury Cash Levels (TGA)

As of Wed 31 May, the level of the TGA decreased to \$48bn (-\$1bn compared to the week prior). The current TGA balance is approx. \$732bn 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](https://www.newyorkfed.org/markets/ambs_operation_schedule)

## WEEK COMMENCING 5 JUNE 2023

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### MONDAY 5 JUNE (US Eastern Time, unless stated otherwise)

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Australia	S&P Services PMI (May)
China	Caixin Services PMI (May)
Japan	S&P Services PMI (May)
Europe	Eurozone S&P Services PMI (May), Euro Area PPI (Apr)
UK	S&P Services PMI (May)
US	S&P Services PMI (May), ISM Services PMI (May), Factory Orders (Apr)

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### TUESDAY 6 JUNE

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Australia	RBA Monetary Policy Decision RBA Governor Lowe speech – Morgan Stanley Australia Summit GDP Q1
Europe	Germany Factory Orders (Apr), Euro Area Retail Sales (Apr)
China	Trade Balance, Exports, and Imports (May)

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### WEDNESDAY 7 JUNE

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Europe	Germany Industrial Production (Apr)
US	Mortgage Apps wk 3 June, Consumer Credit Change (Apr)
Canada	Bank of Canada Monetary Policy Decision
Japan	GDP Final Q1

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### THURSDAY 8 JUNE

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Europe	GDP – First Prelim Q1
US	Initial Claims wk 3 Jun
China	CPI & PPI (May)

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### FRIDAY 9 JUNE

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Canada	Labour Market Survey (May)
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