

Key events this week – US retail sales & housing, RBA minutes, Aus labor market, CPI reports; UK, Canada, NZ, Japan, and Eurozone

Recap from last week: US inflation continued to ease in Jun. The headline inflation rate slowed to +3.1% from +4.1% in May. Core CPI eased by slightly more than expected to +4.9%. While the magnitude of the slowdown over the last two months has been aided by the higher base from a year ago, there has been a solid contribution to the deceleration from more recent developments in inflation. This includes lower energy prices and moderating food and shelter price growth. The more consistent measures of the underlying CPI trend – the trimmed mean and median CPI, have also slowed, including the recent annualized periods. But these measures still highlight that accounting for outlier categories, inflation from the centre of the distribution (i.e. those product categories not deemed outliers) remains higher than other measures of core CPI.

Even after the better-than-expected report, Fed speeches remained cautious. Governor Waller noted that he would need to “see this improvement sustained before I am confident that inflation has decelerated”. Taking this CPI report into account, he still sees another two 25bps increases over the four remaining meetings this year (including a hike in Jul) while keeping policy restrictive “for some time” to reach the 2% inflation objective. Markets continue to price in a 25bp hike at the July meeting next week but have not priced in another hike after that. We are now in the blackout period ahead of the FOMC meeting next week – although there will be a speech by Vice Chair for Supervision Barr during the week.

The prelim University of Michigan consumer sentiment report for Jul posted a stronger rebound, citing a “continued slowdown in inflation along with stability in labor markets”. Yet, year-ahead inflation expectations increased slightly to +3.3%. Longer-run inflation expectations were unchanged at +3.1%. Sentiment around long and short-term business conditions improved notably this month. The Fed Beige Book survey for Jul noted that despite an improvement in economic activity since May, growth was expected to slow in the coming months.

The RBNZ kept rates on hold last week at 5.5% and noted that rates would likely remain restrictive for some time to ensure inflation returns to the 1-3% range. The BoC hiked rates by another 25bps to 5.0%. The BoC noted that the slowdown in inflation has been led by falling energy prices and ‘less from easing underlying inflation’.

RBA Governor Lowe outlined several changes to the operation of the Aussie central bank after an independent review. On the outlook, he noted that it remained to be determined whether monetary policy has more work to do and it’s still possible that more tightening will be required. At the end of the week, current Deputy Gov Michele Bullock was announced to replace Philip Lowe as the new RBA Governor.

Outlook for the week ahead: We continue to remain focused on growth and inflation indicators leading into the FOMC meeting next week. This week, US retail sales should provide a view on robust consumer spending in Jun with sales expected to increase by +0.5% (+0.3% in May). US housing data will also be in focus esp. building permits (expecting 1.5m SAAR) and housing starts (expecting 1.48m SAAR). Last month, housing starts jumped to 1.63m – and we’ll see the degree to which this is revised this month. Existing home sales are expected to moderate to 4.23m (from 4.3m). Initial claims are expected to increase slightly to +243k.

The RBA minutes are expected to outline in detail the decision to hold rates steady at the Jul meeting. In his speech last week, Governor Lowe noted that there will be a full review of performance,

forecasts, and assessment of risks related to the inflation outlook at the Aug meeting – there may be some detail around this in the Jul minutes. The Aus labor market survey for Jun is expected to show a slowdown in net employment growth to +17k (from +76k in May). The unemployment rate is expected to stay at a low of 3.6%.

Finally, there will be several important global CPI reports this week. UK CPI is expected to moderate to +8.2% in Jun and +0.4% over the month. This will be an important report for the BoE after the surprise 50bps hike at the last meeting citing persistent inflation pressures. Canadian CPI is expected to moderate to +3% over the year. Core measures will be in focus for the BoC and are expected to remain around +3.7% ex-food & energy and +3.8% for the trimmed mean. The NZ CPI is expected to moderate to +5.9% at the end of Q2. Finally, the headline CPI for Japan is expected to accelerate slightly to +3.5% in Jun while underlying inflation ex fresh food and energy is expected to stay around +4.2%.

US Treasury Issuance; 17-21 July 2023

This week, the US Treasury will auction and settle approx. \$439bn in ST Bills, Notes, and Bonds raising approx. \$63bn in new money. The US Treasury will also auction the 10-Year TIPS and 20-Year Bond this week – both will settle next week.

QT Jul: Approx \$11.9bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$21bn in Notes, Bonds, TIPS, and 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 %
17-21 Jul	13-Jul	18-Jul	4 week bill	70			Actual 5.210%
	13-Jul	18-Jul	8 week bill	60			Actual 5.230%
	12-Jul	18-Jul	17-Week Bill	46			Actual 5.260%
				176	136	40	
	17-Jul	20-Jul	13 week bill	65			Announced 5.250%
	17-Jul	20-Jul	26 week bill	58			Announced 5.270%
	18-Jul	20-Jul	42-Day CMB	50			Announced 5.210%
				173	155	18	
	11-Jul	17-Jul	3yr Note	40			Actual 4.534%
	12-Jul	17-Jul	10yr Note	32			Actual 3.857%
13-Jul	17-Jul	30yr Bond	18			Actual 3.910%	
			90	84.9	5.1		
			Total - securities settling this week	439	376	63	
			Net New Cash Raised Qtr to Date	1265	999	266	
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			733	
			Face value of US Federal Reserve SOMA securities maturing			\$B	
			Maturing & reinvestment				
	18-Jul		Bills	2.1			
	20-Jul		Bills	9.8			
				11.9			
			Maturing & redemption (balance sheet roll-off)				
	17-Jul		Notes, Bonds, and TIPS	18.6			
	18-Jul		Bills	0.4			
	20-Jul		Bills	1.9			
				21.0			

Quantitative Tightening Overview – July 2023

In July, the face value of Coupons maturing on the Fed balance sheet is approx. \$50bn. This is lower than the \$60bn monthly cap for 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 \$10bn up to the \$60bn redemption cap. So of the \$60.4bn in ST Bills maturing this month, \$10bn will be redeemed/roll off the balance, and the remaining \$50.4bn of ST Bills maturing, will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Jul			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Jul-23	Notes & Bonds	18.6	0.0
30-Jul-23	Notes & Bonds	31.4	0.0
	ST Bills	10.0	50.4
	Total Notes & Bonds	60.0	50.4

July 2023 Bill maturity schedule;

Bill Maturity Schedule - Jul	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2023/07/05	2.37	4%	0.39	1.98
2023/07/06	12.40	21%	2.05	10.35
2023/07/11	2.50	4%	0.41	2.08
2023/07/13	15.22	25%	2.51	12.71
2023/07/18	2.51	4%	0.41	2.09
2023/07/20	11.73	19%	1.94	9.79
2023/07/25	2.34	4%	0.39	1.96
2023/07/27	11.34	19%	1.87	9.47
	60.4	100%	10.0	50.4

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

Recommended US Treasury Financing – Est Q3 2023

Q2: With the debt limit now suspended (through to Jan 2025), the focus has shifted 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.

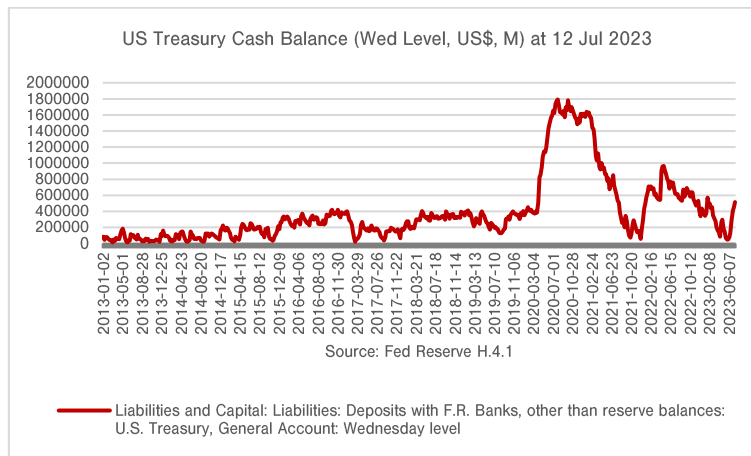
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

The updated end-of-quarter cash balance for Q2 was expected to be \$425bn (from \$550bn) at the end of June. The TGA balance as of Wednesday 28 Jun was \$408bn.

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 the prelim Q3 estimates can be found [here](#). The updated Q3 estimates will be released on 2 Aug 2023.

US Treasury Cash Levels (TGA)

As of Wed 12 Jul, the level of the TGA increased to \$517bn (+\$70bn compared to the week prior). The current TGA balance is now only approx. \$101bn 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 17 JULY 2023

MONDAY 17 JULY (US Eastern Time, unless stated otherwise)

China	GDP Q2, Industrial Production & Retail Sales (Jun)
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US	Empire State Manufacturing Index (Jul)
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Australia	RBA – Meeting Minutes
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TUESDAY 18 JULY

US	Retail Sales (Jun), Industrial Production (Jun), NAHB Housing Market Index (Jul) Vice Chair Supervision Barr speech - Fair Lending Practices, Director of Supervision Gibson testimony - Climate Risk
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Canada	CPI (Jun)
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NZ	CPI (Q2)
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WEDNESDAY 19 JULY

UK	CPI (Jun)
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Europe	Eurozone CPI – Final (Jun)
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US	Mortgage Apps wk 15 Jul, Building Permits & Housing Starts (Jun)
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Japan	Merchandise Trade, Exports & Imports (Jun)
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China	PBoC – Prime Loan Rate Decision
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Australia	Labour Market Survey (Jun)
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THURSDAY 20 JULY

US	Initial Claims wk 15 Jul, Philadelphia Fed Manufacturing Survey (Jul), Existing Home Sales (Jun)
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Japan	National CPI (Jun)
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FRIDAY 21 JULY

UK	Retail Sales (Jun)
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Canada	Retail Sales (May)
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