

Key events this week – FOMC, ECB, and BoJ decisions, US PCE inflation, ECI & Q2 GDP, Aus CPI, prelim PMI's Jul

Recap from last week: US data last week continued to reflect resilient results and little change in recent trends amid the higher rates environment.

US consumer spending remained positive in both nominal and real terms in Jun. Retail sales in Jun increased by less than expected by +0.2%, but sales growth in May was revised higher to +0.5%. The overall trend in retail sales (both nominal and real) has been easing but remains elevated and above the pre-pandemic trend.

US housing data remained mostly positive – especially for construction. Homebuilder sentiment stabilized in Jul. Permits came in lower than expected for Jun but still posted growth over Q2. New housing starts came in lower than expected in Jun and the stronger May result was revised lower – but new housing starts were still higher overall for Q2. Existing home sales were lower than expected in Jun at 4.16m (SAAR) and are now only 4% above the low of 4.0m in Jan 2023.

US manufacturing has been weaker and another fall in manufacturing output for Jun (-0.3%) confirmed recent softer survey results. While durable goods output growth has been modest (+0.8% over the year), this has not been enough to offset weakness in non-durable goods output which fell by -0.6% in Jun and is down -1.4% over the year.

Initial claims (SA) fell to +228k and were unchanged in NSA terms. There was a notable increase in continuing claims (NSA) for the week ending 8 Jul but this could be an effect from the 4th of Jul holiday.

Global inflation data was mixed. UK inflation did ease by more than expected with the annual headline rate falling to +7.9%. The monthly rate remained elevated at +0.8%. Canadian headline CPI eased by more than expected to +2.8% but was the result of a base-year effect from higher gasoline prices. The important core BoC measures of the trimmed mean, median, and common CPI showed little improvement in Jun compared to May. Annual headline inflation in Japan was up slightly to +3.3% in Jun, but monthly growth stayed low at +0.1%. Japanese CPI ex fresh food & energy remains at a near-term high of +4.2% - but stalled in the month at 0%.

Outlook for the week ahead: This week will be a big week of central bank decisions, growth, and inflation data.

The FOMC is expected to increase the FFR by a further 25bps this week. At this stage, markets are not pricing in another hike for this year. The FOMC will likely reiterate data dependence in its guidance. It will be important to see how the FOMC might change the way it frames the recent improvement in the inflation results. US GDP for Q2 is expected to slow to +1.7% from +2% in Q1. The latest [Atlanta Fed GDP Nowcast](#) has GDP growth running at +2.4% annualized in Q2. The important US PCE inflation data will be out later in the week and core PCE is expected to slow to +4.2% while headline PCE inflation is expected to slow from +3.8% in May. The employment cost index will also be released this week providing some insight into the pace of wage increases over Q2. The ECI is expected to increase by +1.1% in Q2 from +1.2% in Q1.

The ECB is expected to increase its policy rates by another 25bps, with a further hike expected later this year. The BoJ is expected to keep rates unchanged. It was reported late last week that BoJ officials see “little urgent need” to address YCC settings but “expect to discuss the issue ([here](#))”.

The Aus quarterly CPI for Q2 will be released this week. Headline inflation is expected to ease from +7% in Q1 to +6.2% in Q2 and the trimmed mean is expected to slow from +6.6% to +6%. This CPI report will be an important input into the RBA assessment of the inflation outlook for its meeting and rates decision next week.

Finally, the prelim PMIs for Jul will be released. This will provide a timely update on shifts in the growth momentum of manufacturing versus service sectors among the larger developed economies. Growth in services has been a key driver of global growth momentum helping to offset weaker manufacturing activity.

US Treasury Issuance; 24-28 July 2023

This week, the US Treasury will auction and settle approx. \$522bn in ST Bills, Notes, FRNs, TIPS, and Bonds raising approx. \$46bn in new money.

QT Jul: Approx \$11.4bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$33.6bn in Notes, Bonds, FRNs, and ST Bills will mature and roll off the Fed balance sheet (incl 31 Jul).

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount New Money Maturing \$B	New Money \$B	Prior Auction High Rate %
24-28 Jul	20-Jul	25-Jul	4 week bill	70		Actual 5.255%	5.210%
	20-Jul	25-Jul	8 week bill	60		Actual 5.255%	5.230%
	19-Jul	25-Jul	119-Day CMB	46		Actual 5.270%	5.260%
				176	141	35	
	24-Jul	27-Jul	13 week bill	65		Announced	5.250%
	24-Jul	27-Jul	26 week bill	58		Announced	5.250%
	25-Jul	27-Jul	42-Day CMB	50		Announced	5.240%
				173	150	23	
	20-Jul	31-Jul	10yr TIPS	17		Actual 1.495%	1.395%
	19-Jul	31-Jul	20-Year Bond	12		Actual 4.036%	4.010%
	27-Jul	31-Jul	7-Year Note	35		Announced	3.839%
	25-Jul	31-Jul	5-Year Note	43		Announced	4.019%
	24-Jul	31-Jul	2-Year Note	42		Announced	4.670%
	26-Jul	31-Jul	2-Year FRN	24		Announced	
				173	184.965	-12	
			Total - securities settling this week	522	475.965	46	
			QTR to date totals	1,787	1,475	312	
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			733	
			Face value of US Federal Reserve SOMA securities maturing			\$B	
			Maturing & reinvestment				
		25-Jul	Bills	2.0			
		27-Jul	Bills	9.5			
				11.4			
			Maturing & redemption (balance sheet roll-off)				
		25-Jul	Bills	0.4			
		27-Jul	Bills	1.9			
		31-Jul	Notes, Bonds, & FRN's	31.4			
				33.6			

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
17-Jul-23	Notes, Bonds, and TIPS	18.6	0.0
31-Jul-23	Notes, Bonds, and FRN's	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.

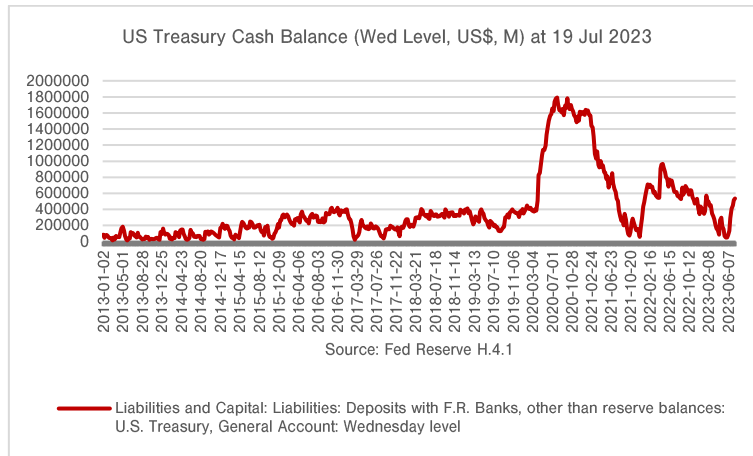
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

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 19 Jul, the level of the TGA increased to \$537bn (+\$20bn compared to the week prior). The current TGA balance is now only approx. \$79bn 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 24 JULY 2023

MONDAY 24 JULY (US Eastern Time, unless stated otherwise)

Australia	S&P Manufacturing & Services PMI Prelim (Jul)
Japan	S&P Manufacturing & Services PMI Prelim (Jul)
Europe	Eurozone S&P Manufacturing & Services PMI Prelim (Jul)
UK	S&P Manufacturing & Services PMI Prelim (Jul)
US	S&P Manufacturing & Services PMI Prelim (Jul), Chicago Fed National Activity Index (Jun)

TUESDAY 25 JULY

Europe	ECB Bank Lending Survey
US	Case/Shiller House Price Index (May), Richmond Fed Manufacturing Survey (Jul)
Australia	CPI – quarterly series (Q2), CPI - monthly series (Jun)

WEDNESDAY 26 JULY

US	Mortgage Apps wk 22 Jul, New Home Sales (Jun) FOMC Monetary Policy Decision
Australia	Export & Import Price Indexes (Q2)

THURSDAY 27 JULY

Europe	ECB Monetary Policy Decision
US	Initial Claims wk 22 Jul, GDP Advance (Q2), Durable Goods Orders (Jun), Pending Home Sales (Jun), Kansas City Fed Manufacturing Index (Jul)
Australia	Retail Sales (Jun)
Japan	Tokyo CPI (Jun) BoJ Monetary Policy Decision

FRIDAY 28 JULY

Europe	Germany CPI – Prelim (Jul)
US	PCE Price Index, Income, and Spending (Jun), Employment Cost Index (Q2), Chicago PMI (Jul), University of Michigan Consumer Sentiment – Final (Jul)
