

Key events this week – BoE & RBA monetary policy meetings, US non-farm payrolls, US ISM surveys, Euro area CPI prelim for Jul, global PMIs for Jul

Recap from last week: Both the FOMC and ECB hiked rates last week but provided limited forward guidance. Despite recent improvements in inflation, neither central bank is claiming a victory over inflation, and both emphasized a data-dependent approach to future decisions.

The FOMC raised the FFR by 25bps to 5.25-5.5%. US GDP growth was stronger than expected for Q2 at +2.4%, unemployment remains low, and inflation appears to be moving in the right direction. Chair Powell noted that the Jun CPI was “a bit better than expected” but remained cautious that inflation is on a sustainable path to 2% and that the “process of getting inflation down to 2% has a long way to go”. The Sep meeting may or may not be “live”, depending on the inter-meeting data which includes two payroll and two inflation reports. On this, Chair Powell noted that the assessment for another hike in Sep would be based on the “totality of the data” specifically, growth, labor market conditions, and inflation.

On the growth front last week, US durable goods orders for Jun surprised strongly to the upside led by higher non-defense aircraft orders. This was somewhat supported by the flash US PMIs at the start of the week hinting at stabilizing manufacturing activity. Services growth was moderate but still slowed. The Jul flash PMI commentary was surprisingly downbeat with ‘gloomier business confidence’ noted.

US inflation for Jun was lower than expected as the PCE price index confirmed the improvement in the Jun CPI. While there are some base-year effects, the more recent annualized views confirm that near-term inflation continues to ease. Core inflation readings remain higher/still elevated – and this will stay a focus for the FOMC. The Employment Cost Index also came in slightly lower than expected at +1% for Q2, with the annual rate slowing, but remaining elevated at +4.5%.

The ECB hiked policy rates by another 25bps reflecting the current assessment of the inflation outlook. Inflation has started to ease over recent months, but the Governing Council noted that underlying inflation remains high. This was balanced against a deteriorating outlook for Euro area growth. The ECB bank lending survey noted tighter lending conditions and weaker demand for credit across sectors. Looking forward, the flash Euro area PMIs for Jul indicated a further deterioration in manufacturing activity as service sector momentum continued to ease.

The BoJ announced its intention to ‘flexibly’ manage the 10yr JGB trading band. The +/- 0.5% is now a reference rate, and the yield cap has been moved to +1%. The BoJ continued to signal that the achievement of its 2% inflation target “has not yet come in sight”. While fiscal 2023 inflation forecasts were increased, the BoJ revised its core forecast inflation slightly lower for 2024.

Outlook for the week ahead: Over the next two months, the ‘totality’ of US growth, inflation, and labor market data will be central in determining the next policy steps for the FOMC. The focus this week will be on the US labor market and growth momentum going into Q3. The first of the two important payroll reports for the US will be released this week. Non-farm payroll growth is expected to ease further to +184k in Jul (from +209k last month). At the same time, the unemployment rate is expected to stay at a low of 3.6%. The JOLTS report for Jun will provide a broader context for the balance between labor supply and demand, with job openings expected to fall further to 9.6m. The US ISM surveys will provide a view of manufacturing and services growth momentum going into Q3. Finally, the US Federal Reserve senior loan officer opinion survey for the

latest quarter will be released. Chair Powell has already hinted at further tightening in lending conditions and weaker loan demand.

The RBA will meet this week. [Market pricing](#) for another hike moved much lower last week but some forecasters expect another hike. Quarterly headline inflation came in lower than expected but still elevated at +6%. Underlying inflation remained elevated at +5.9% and services inflation accelerated slightly to +6.3%. In a speech in Jul, Governor Lowe noted many cross-currents affecting the inflation outlook, and the Board is expected to provide an assessment of the inflation risks. Retail sales in Jun fell notably by -0.8%. The effect of higher rates on household consumption has been an important barometer for the RBA.

The BoE will meet this week and is expected to hike rates by a further 25bps.

Inflation and growth data for the Euro area will be in focus this week. The prelim Euro area CPI for Jul is expected to slow to +5.3% over the year and to +0.3% over the month. Core inflation is also expected to slow slightly to +5.4%. The flash Euro area GDP growth for Q2 is expected to increase by +0.2%, up from -0.1% in Q1.

Finally, the full suite of global PMIs for Jul will be released this week. Back in Jun, the growth momentum across manufacturing and services had started to slow. The flash Jul PMIs for the G4 plus Aus showed a continued slowdown in the pace of services growth. There was a slight improvement in manufacturing activity, despite all five headline manufacturing PMIs remaining in contraction territory.

US Treasury Issuance; 31 Jul – 4 Aug 2023

This week, the US Treasury will auction and settle approx. \$522bn in ST Bills, Notes, FRNs, TIPS, and Bonds raising approx. \$41bn in new money.

Aug QT: Approx \$17.5bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$31.4bn in Notes, Bonds, and FRNs will mature and roll off the Fed balance sheet (on 31 Jul).

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
31 Jul - 4 Aug	27-Jul	01-Aug	4 week bill	70			Actual 5.275%
	27-Jul	01-Aug	8 week bill	60			Actual 5.285%
	26-Jul	01-Aug	17-week bill	46			Actual 5.300%
				176	141	35	
	31-Jul	03-Aug	13 week bill	65			Announced
	31-Jul	03-Aug	26 week bill	58			Announced
	01-Aug	03-Aug	42-Day CMB	50			Announced
				173	155	18	
	20-Jul	31-Jul	10yr TIPS	17			Actual 1.495%
	19-Jul	31-Jul	20-Year Bond	12			Actual 4.036%
	27-Jul	31-Jul	7-Year Note	35			Actual 4.087%
	25-Jul	31-Jul	5-Year Note	43			Actual 4.170%
	24-Jul	31-Jul	2-Year Note	42			Actual 4.823%
	26-Jul	31-Jul	2-Year FRN	24			Actual disc margin 0.125%
				173	184.97	-12.0	
			Total - securities settling this week	522	481.0	41.0	
			QTR to date totals	2,309	1,956	353	
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			733	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		01-Aug	Bills	2.2			
		03-Aug	Bills	15.3			
				17.5			
			Maturing & redemption (balance sheet roll-off)				
		31-Jul	Notes, Bonds, & FRN's	31.4			

Quantitative Tightening Overview – August 2023

In August, the face value of Coupons maturing on the Fed balance sheet is approx. \$114.2bn. This is higher than the \$60bn monthly cap for balance sheet roll-off. So of the Coupons maturing in Aug, \$60bn will roll the Fed balance sheet and the remaining \$54.2bn will be reinvested.

It also means that all ST Bills maturing on the Fed balance sheet in Aug (\$76.1bn) will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Aug			
			\$60
			Redeem \$Bn
			Reinvest \$ Bn
15-Aug-23	Notes & Bonds		42.6
31-Aug-23	Notes & Bonds		17.4
	Bills		0.0
	Total Notes & Bonds		60.0
			130.3

August 2023 Bill maturity schedule;

Bill Maturity Schedule - Aug	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2023/08/01	2.24	3%	0.00	2.24
2023/08/03	15.25	20%	0.00	15.25
2023/08/08	2.26	3%	0.00	2.26
2023/08/10	15.89	21%	0.00	15.89
2023/08/15	2.37	3%	0.00	2.37
2023/08/17	13.50	18%	0.00	13.50
2023/08/22	2.32	3%	0.00	2.32
2023/08/24	10.74	14%	0.00	10.74
2023/08/29	1.50	2%	0.00	1.50
2023/08/31	9.99	13%	0.00	9.99
	76.1	100%	0	76.1

<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.

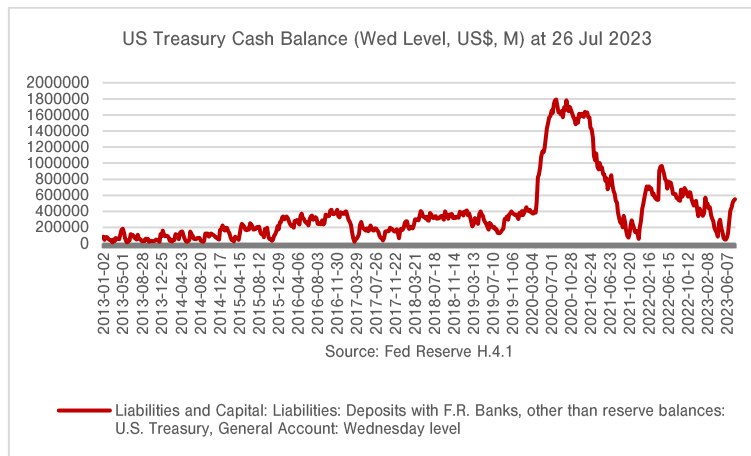
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

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 updated Q3 estimates will be released this week on 31 Jul and 2 Aug 2023. The prelim estimates were that the US Treasury expected 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](#).

US Treasury Cash Levels (TGA)

As of Wed 26 Jul, the level of the TGA increased to \$550bn (+\$12bn compared to the week prior). The current TGA balance is now only approx. \$65bn 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 31 JULY 2023

MONDAY 31 JULY (US Eastern Time, unless stated otherwise)

Japan	Industrial Production & Retail Trade (Jun), S&P Manufacturing PMI Final (Jul)
China	NBS Manufacturing & Non-Manufacturing PMI (Jul)
Europe	Eurozone CPI Prelim (Jul), Eurozone GDP Q2 - Prelim
US	Chicago PMI (Jul), Dallas Fed Manufacturing Survey (Jul), US Federal Reserve Senior Loan Officer Survey

TUESDAY 1 AUGUST

Australia	S&P Manufacturing PMI Final (Jul), Building Permits (Jun), Housing Finance (Jun) RBA Monetary Policy Decision
Europe	Eurozone S&P Manufacturing PMI Final (Jul)
US	ISM Manufacturing PMI (Jul), S&P Manufacturing PMI Final (Jul), JOLTS (Jun)
NZ	Labor Market Survey Q2, Labor Costs Index Q2
Japan	BoJ Minutes

WEDNESDAY 2 AUGUST

US	Mortgage Apps wk 29 Jul, ADP Employment Change (Jul)
Australia	S&P Services PMI Final (Jul), Real Retail Sales Q2
Japan	S&P Services PMI Final (Jul)

THURSDAY 3 AUGUST

Europe	Eurozone S&P Services PMI Final (Jul), Eurozone PPI (Jun)
UK	S&P Services PMI Final (Jul) BoE Monetary Policy Decision
US	Initial Claims wk 29 Jul, Challenger Job Cuts (Jul), Unit Labor Costs Q2, ISM Services PMI (Jul), S&P Services PMI Final (Jul), Factory Orders (Jun)

FRIDAY 4 AUGUST

Europe	Germany Factory Orders (Jun), Eurozone Retail Sales (Jun)
US	Non-Farm Payrolls & Labor Market Survey (Jul)
Canada	Labor Market Survey (Jul)
