

Key events this week – US non-farm payrolls, FOMC minutes, RBA rate decision, global PMIs

Recap from last week: The recent pulse of stronger-than-expected US data has cast doubt over the magnitude of the slow-down in the US economy. As recession expectations drift further out in the time horizon, central bankers reaffirm expectations for some further tightening.

The most notable data point last week was the final/third revision of US GDP for Q1. Growth was revised higher to +2% on stronger consumption expenditures, a smaller decline in fixed investment, and an improvement in net exports. Personal consumption expenditure was the largest contributor to growth – and the monthly breakdown shows that Jan was the standout month of growth during Q1. So far in Q2, growth in real monthly personal consumption expenditure has slowed but volumes have remained at a higher level. The latest [Atlanta Fed GDPNow](#) (updated 30 Jun) has US Q2 growth *accelerating* to +2.2%.

US housing continued to surprise with an especially large increase in new home sales for May (possibly revised over the next few months). Mortgage applications continued to rebound, increasing by +3% on the week. US durable goods orders for May showed stronger than expected growth across a range of industries making it difficult to align with recent weakness in manufacturing surveys. Finally, the recent rise in initial claims reversed in the latest week with claims coming back down to +239k.

Headline PCE inflation continued to moderate in May and is now within the range of the latest FOMC projections for the end of 2023. Core inflation is moderating more slowly. The disinflation in core goods prices seems to have stalled, while core services price growth slowed slightly. Underlying measures such as the trimmed mean and median (especially the median) remain elevated but are starting to show signs of moderation.

From Sintra, the message was that the major central banks ex-Japan, are staying hawkish with policy rates expected to rise further and remain higher. The persistence of inflation was a key theme of the panel discussion, as were tight labor markets. US Fed Chair Powell noted that it was surprising that inflation had been persistent “but the bottom line is that policy has not been restrictive enough for long enough”.

Outlook for the week ahead: With many central banks in data-dependence mode, inflation, labor markets, and growth data will remain important inputs. This week, US non-farm payrolls will be in focus and this will be the only labor market report before the next FOMC meeting. Non-farm payroll growth is expected to slow to +200k in Jun. Participation is expected to remain little changed at 62.2% while the unemployment rate is expected to be unchanged at 3.7%. Other US labor market indicators this week include the JOLTS report for May and the Challenger Job Cuts announcements for Jun. We will continue to watch initial claims (expecting +245k) and any flow through to changes in continuing claims.

The minutes of the latest FOMC meeting in Jun will be released. This should provide further insight into the decision by the FOMC to pause hiking while guiding expectations for possible further increases in the FFR. The FOMC remained concerned about the slow progress on core inflation.

The RBA will meet this week on monetary policy. There is some expectation for another hike to 4.35%, but it's likely to be another ‘finely balanced’ decision. The monthly Aus inflation data (only a new series) was mixed last week. Headline inflation slowed more than expected, but the

core/underlying inflation rates were unchanged in May, remaining at elevated levels. Retail sales growth in May was stronger than expected.

Finally, the full range of global PMIs for Jun will be released this week providing a broader view of global growth momentum. The prelim/flash Jun PMIs across the G4 economies had been somewhat disappointing.

US Treasury Issuance; 3-7 July 2023

This week, the US Treasury will auction and settle approx. \$349bn in ST Bills, raising approx. \$131bn in new money.

QT Jul: Approx \$2.4bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$12.3bn 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 %
Tuesday 4th July - National Independence Day Holiday								
3-7 July	29-Jun	05-Jul	4 Week Bill	70			Actual 5.085%	5.010%
	29-Jun	05-Jul	8 Week Bill	60			Actual 5.190%	5.140%
	28-Jun	05-Jul	17-Week Bill	46			Actual 5.225%	5.220%
				176	116	60		
	03-Jul	06-Jul	13 week bill	65			Announced	5.180%
	03-Jul	06-Jul	26 week bill	58			Announced	5.215%
	03-Jul	06-Jul	42-Day CMB	50			Announced	5.105%
				173	102	71		
			Total - securities settling this week	349	218	131		
			Net New Cash Raised Qtr to Date	349	218	131		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			733		
			QT: Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		05-Jul	Bills	2.0				
		06-Jul	Bills	10.4				
				12.3				
			Maturing & redemption (balance sheet roll-off)					
		05-Jul	Bills	0.4				
		06-Jul	Bills	2.0				
				2.4				

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	Weekly Totals \$Bn			
	Par Value of Bills Maturing	% Maturity by Wk	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 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.

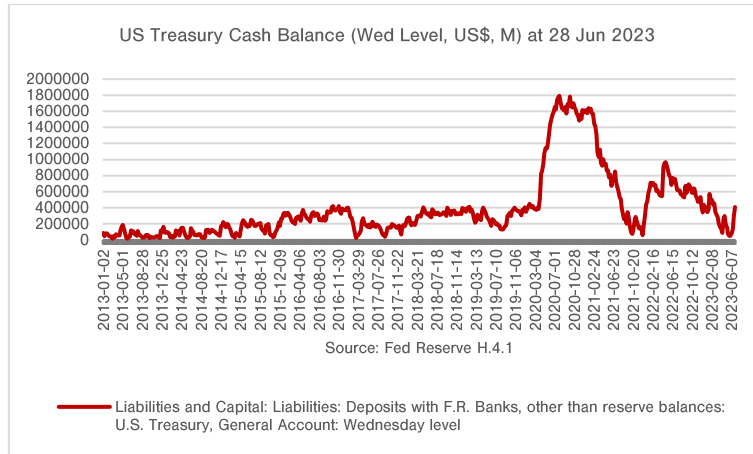
Initial increases in bill issuance will be focused on shorter-tenor benchmark securities and cash management bills (CMBs), including the introduction of a regular weekly 6-week CMB (the first of which will be announced on June 8).

The updated end-of-quarter cash balance is 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 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 28 Jun, the level of the TGA increased to \$408bn (+\$116bn compared to the week prior). The current TGA balance is approx. \$351bn 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 3 JULY 2023

MONDAY 3 JULY (US Eastern Time, unless stated otherwise)

Australia	S&P Manufacturing PMI Final (Jun), ANZ Job Ads (Jun), Building Permits (May), Housing Finance (May)
Japan	S&P Manufacturing PMI Final (Jun)
Europe	Eurozone S&P Manufacturing PMI Final (Jun)
UK	S&P Manufacturing PMI Final (Jun)
US	ISM Manufacturing PMI (Jun), S&P Manufacturing PMI (Jun), Vehicle Sales Tbc (Jun)

TUESDAY 4 JULY

Australia	RBA Monetary Policy Decision, (later) S&P Services PMI Final (Jun)
US	Independence Day Holiday
Japan	S&P Services PMI Final (Jun)

WEDNESDAY 5 JULY

Europe	Eurozone S&P Services PMI Final (Jun), Eurozone PPI (May)
UK	S&P Services PMI Final (Jun)
US	Factory Orders (May) FOMC Minutes, Fed speeches; Williams

THURSDAY 6 JULY

Europe	Germany Factory Orders (May), Eurozone Retail Sales (May)
US	Mortgage Apps wk 30 Jun, Initial Claims wk 30 Jun, ADP Employment (Jun), Challenger Job Cuts (Jun), S&P Services PMI Final (Jun), ISM Services PMI (Jun), JOLTS (May), Fed speeches; Logan

FRIDAY 7 JULY

Europe	Germany Industrial Production (May), ECB President Lagarde – panel discussion
US	Non-Farm Payrolls & Labor Market Survey (Jun)
Canada	Employment & Labor Market Survey (Jun)
