

Key events this week – FOMC minutes, RBA minutes, and RBNZ policy meeting, US growth indicators; retail sales, housing construction, and industrial production, global CPIs; UK, Canada, Euro Area (final), and Japan

Recap from last week: Last week we continued to fill in more of the evolving picture of US growth, inflation, and labor market conditions leading up to the next FOMC meeting. US inflation in Jul (CPI) continued to ease amid tight labor market conditions, easing labor demand, and resilient growth. So far, the overall picture points to the likelihood of another pause at the Sep FOMC meeting.

Headline US CPI did accelerate slightly to +3.3% from +3.1% in Jun, but near-term measures show the inflation trend is easing. There was a further deceleration in core CPI – which provides a better signal of the overall direction of inflation. Core CPI increased by +4.7% in Jul versus +4.9% in Jun. Core goods inflation slowed to +0.9% over the year, as new and used car and truck prices declined. Core services prices continued to grow at +6.1%. The trimmed mean inflation slowed to +4.8% in Jul from +5% in Jun and the monthly change in trimmed mean inflation remains lower, around +0.2% (the avg of the last three months). This was overall a good inflation report for the Fed – the second in a row. Measures of core inflation are still elevated over the year, but slowing over the more recent periods. So far, continuing to go in the right direction.

Fed speak has been quiet over the last few weeks. Last week, [NY Fed President Williams](#) was signaling that maintaining a restrictive stance will be important, but if inflation is coming down, then it will be “natural to bring nominal interest rates down next year consistent with that, to keep the stance of monetary policy appropriate for an economy that’s growing, and for inflation moving to the 2 percent level.” This was in line with Fed Chair Powell’s last press conference comments – “if we see inflation coming down credibly, sustainably, then we don’t need to be at a restrictive level anymore, we can you know, we can move back to a neutral level and then below a neutral level at a certain point”. Both sets of comments note general caution around ensuring that inflation is coming down sustainably before a change in policy stance.

Data from China continued to disappoint. Weaker export and import growth reflected weaker global demand for goods and weaker domestic demand in China. Headline inflation declined by -0.3% over the year, while core inflation accelerated from +0.4% in Jun to +0.8% in Jul as the monthly core inflation rate increased to +0.5% - the fastest of the last twelve months. New loans in China were also a notable miss in the month – reflecting weaker domestic demand. Further data this week on retail sales, production, and investment.

Outlook for the week ahead: This week, we get US growth indicators on spending, housing construction, and production. US retail sales for Jul are expected to increase by +0.4% over the month, up from +0.2% in Jun. Housing data this week includes permits (expected to increase to 1.46m SAAR) and housing starts (expected to increase to 1.44m). Industrial production is expected to increase by +0.3% after falling by -0.5% in Jun. We will continue to watch initial claims, which came in slightly higher than expected last week at +248k. All of these data points should feed into a solid update of the [Atlanta Fed GDPNowcast](#) for US Q3 growth.

The FOMC minutes will be released this week. The FOMC hiked rates by 25bps at the last meeting. Minutes may reflect discussion around the inflation outlook and the need for data-

dependent guidance. Fed speak looks to be minimal again this week, ahead of the Jackson Hole Symposium next week (24-26 Aug).

The RBA minutes will be released. The Board kept the cash rate on hold at 4.1% at this meeting. Previous minutes have revealed that decisions have been 'finely balanced', so it will be interesting to see how the rate hike debate has shifted. The Aus labor market survey for Jul will be released and net employment growth is expected to slow to +21k while the unemployment rate remains unchanged at 3.5%. The wage price index is expected to increase by +1% in Q2 from +0.8% in Q1. The increase in the minimum wage award came into effect from 1 Jul – strictly speaking in Q3.

The RBNZ is expected to keep policy rates on hold this week.

Finally, global inflation readings will be in focus throughout the week. Canada's CPI is expected to increase by +2.7% in Jul (from +2.8%) with the trimmed mean slowing to +3.4%. UK CPI is also expected to slow to +6.8% in Jul from +7.9% in Jun, with core CPI staying around +6.8%. The final Euro area CPI for Jul is expected to confirm headline inflation at +5.3% and core inflation at +5.5%. Euro area services inflation had accelerated in the prelim release to +5.6% (and by +1.4% in the month). Finally, the Japanese National CPI is expected to slow to +2.5% in Jul with core CPI ex-fresh food slowing to +3.1%.

US Treasury Issuance; 14-18 Aug 2023

This week, the US Treasury will auction and settle approx. \$482bn in ST Bills, Notes, and Bonds raising approx. \$82bn in new money.

Aug QT: Approx \$54bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested.

Approx \$42.6bn in Notes and Bonds will mature on the Fed balance sheet and will be redeemed/roll off the balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %	
14-18 Aug	10-Aug	15-Aug	4 week bill	75			Actual 5.280%	
	10-Aug	15-Aug	8 week bill	65			Actual 5.280%	
	09-Aug	15-Aug	17-week Bill	48			Actual 5.310%	
				188	161	27		
	14-Aug	17-Aug	13 week bill	69			Announced	
	14-Aug	17-Aug	26 week bill	62			Announced	
	15-Aug	17-Aug	42-Day CMB	60			Announced	
				191	155	36		
	08-Aug	15-Aug	3yr Note	42			Actual 4.398%	
	09-Aug	15-Aug	10yr Note	38			Actual 3.999%	
10-Aug	15-Aug	30yr Bond	23			Actual 4.189%		
			103	84	19			
			Total - securities settling this week			482	400	82
			QTR to date totals			3,189	2,701	488
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>					1,007
			Face value of US Federal Reserve SOMA securities maturing			\$B		
			Maturing & reinvestment					
		15-Aug	Bills	2.4				
		15-Aug	Notes & Bonds	38.5				
		17-Aug	Bills	13.5				
				54.4				
			Maturing & redemption (balance sheet roll-off)					
		15-Aug	Notes & Bonds	42.6				

Quantitative Tightening Overview – Aug 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 (\$77bn) 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	38.5
31-Aug-23	Notes & Bonds		17.4	15.7
	Bills		0.0	77.0
Total Notes & Bonds			60.0	131.2

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	2.40	3%	0.00	2.40
2023/08/31	9.99	13%	0.00	9.99
	77.0	100%	0	77.0

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

Recommended US Treasury Financing – Q3 & Q4 Est 2023

The Q3 and Q4 financing requirements increased notably in the latest US borrowing estimates announcement ([here](#)).

Q3;

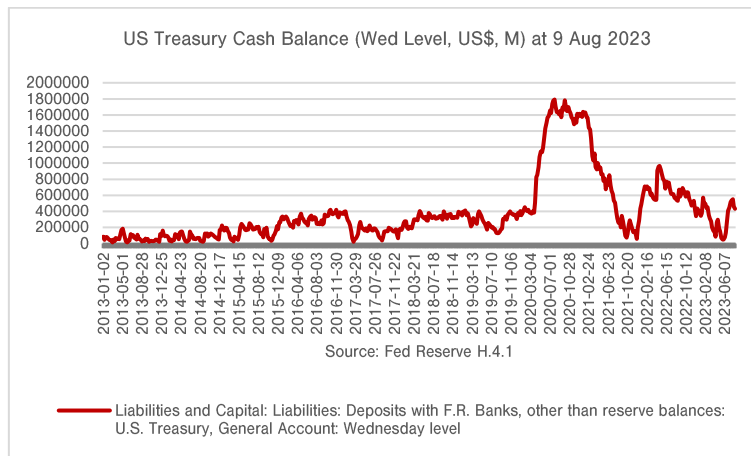
During the July – September 2023 quarter, Treasury expects to borrow **\$1.007 trillion in privately-held net marketable debt**, assuming an end-of-September cash balance of \$650 billion. The borrowing estimate is \$274 billion higher than announced in May 2023, primarily due to the lower beginning-of-quarter cash balance (\$148 billion) and higher end-of-quarter cash balance (\$50 billion), as well as projections of lower receipts and higher outlays (\$83 billion).

The estimate for Q4 at this stage is that the US Treasury will borrow \$852bn in privately-held **net marketable debt**, assuming an end-of-December cash balance of \$750bn.

Since the suspension of the debt limit, the US Treasury has been rebuilding the TGA/cash balance via increased Bill issuance. The US Treasury noted that it will likely achieve a cash balance “consistent with its policy” by the end of Sep. Through Q3, Bill auction sizes will continue to increase and the 6wk/42-day CMB will be issued through to the end of 2023. The US Treasury also announced plans to increase Coupon auction sizes from Aug.

US Treasury Cash Levels (TGA)

As of Wed 9 Aug, the level of the TGA decreased to \$432bn (-\$28bn compared to the week prior). The current TGA balance is now only approx. \$129bn 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 14 AUGUST 2023

MONDAY 14 AUGUST (US Eastern Time, unless stated otherwise)

Japan	GDP Q2
Australia	RBA Minutes, Wage Price Index Q2
China	Industrial Production, Retail Sales, FA Investment (Jul)

TUESDAY 15 AUGUST

Japan	Industrial Production – Final (Jun)
UK	Labor Market Survey (3mth Jun)
US	Empire State Manufacturing Index (Aug), Retail Sales (Jul), Export/Import Price Index (Jul), NAHB Housing Market Index (Aug)
Canada	CPI (Jul)
NZ	RBNZ Monetary Policy Meeting

WEDNESDAY 16 AUGUST

UK	CPI (Jul)
Europe	Euro Area GDP – First Prelim Q2, Industrial Production (Jun)
US	Mortgage Apps wk ending 12 Aug, Building Permits & Housing Starts (Jul), Industrial Production (Jul), FOMC Minutes
Japan	Merchandise Trade Balance, Exports, and Imports (Jul)
Australia	Labor Market Survey (Jul)

THURSDAY 17 AUGUST

US	Initial Claims wk ending 12 Aug, Philadelphia Fed Manufacturing Survey (Aug)
Japan	National CPI (Jul)

FRIDAY 18 AUGUST

UK	Retail Sales (Jul)
Europe	Euro Area CPI – Final (Jul)
