

Key events this week – US non-farm payrolls, PCE Price Inflation, Euro Area CPI

Recap from last week:

“As is often the case, we are navigating by the stars under cloudy skies.”

An obscure closing reference to the Jackson Hole symposium theme of structural shifts in the global economy contributing to the complexity of navigating policy in a post-pandemic world. For the most part though, [US Fed Chair Powell's speech at Jackson Hole](#) reiterated the key messages from recent meetings while striking a cautious tone on the path forward. Inflation has come down from its peak, but still has “substantial further ground to cover”. Chair Powell emphasized again the risk management approach, noting uncertainties around the possible outcomes. Potential lagged effects of policy tightening may still be felt – complicating the task of balancing over-tightening and under-tightening. The FOMC will proceed carefully but is prepared to increase rates further if appropriate, and at least maintain policy at a restrictive level.

Questions remain over how restrictive current policy is given that US growth has remained resilient, and the unemployment rate remains at a low 3.5%. Chair Powell did note that additional evidence of persistently above-trend growth or evidence that labor market tightness was no longer easing could call for a monetary response. Since the Jackson Hole speech, markets have started to price the possibility of [another hike in Nov.](#)

US data last week was still mixed. The prelim US S&P PMIs for Aug indicated that private sector momentum continued to slow. Persistent manufacturing weakness was offset by positive, yet slowing services sector momentum. But the overall employment situation remained unchanged and sentiment in the outlook improved somewhat. US mortgage applications continued to show the effects of renewed mortgage rate increases as applications (leading) fell to the lowest level since 1995. Existing home sales in Jul missed expectations and are now only just above the Jan 2023 low. But new home sales increased more than expected in Jul. Initial claims continued to move lower after a recent spike higher. Durable goods orders fell as expected, reflecting the large-scale aircraft orders from the prior month. The [Atlanta Fed GDPNowcast](#) ticked up to +5.9% for Q3 (still limited data) as the change in inventories helped to offset the weakness in residential investment.

The prelim Aug PMIs for the G4 (including Aus) showed overall momentum slowing. Manufacturing activity was weaker in all markets this month, with output indexes below 50. Services momentum stalled with shifts to outright declines in Germany, France, the UK, and Aus. Services remained in expansion in Japan (accelerating) and in the US. Despite the weakening conditions, employment growth was mostly unchanged from the prior month – except for falls in Europe & UK manufacturing sectors. There were signs of renewed input cost inflation this month.

Outlook for the week ahead: This week will be important for assessing the path of the US labor market, inflation, and growth ahead of the next FOMC meeting.

US non-farm payroll growth is expected to slow further to +170k in Aug (from +187k in Jul). The unemployment rate is expected to stay unchanged at 3.5%. Job openings for Jul are expected to show a slight increase to 9.8m (up from 9.5m in Jun). Average weekly hours are expected to stay unchanged at 34.3. This will be the second of the two labor market reports before the next FOMC meeting.

US PCE inflation data will be released earlier than usual this week (Thur rather than Fri). Headline PCE inflation is expected to increase to +3.3% from +3% (base effects). The monthly pace is expected to stay at +0.2%. Core PCE inflation is expected to increase to +4.2% from +4.1% in Jul.

US personal spending in Jul is expected to be a robust +0.6% in Jul, up from +0.5% in Jun.

The second estimate of US Q2 GDP will be released and is expected to stay at +2.4%.

The US ISM manufacturing PMI for Aug is expected to stay in mild contraction.

The Euro area prelim CPI for Aug will be released, and headline inflation is expected to ease from +5.3% to +5.1% in Aug. Core CPI is expected to ease from +5.5% in Jul to +5.3% in Aug.

The broader release of the Aug PMIs will commence with global manufacturing activity later in the week.

Finally, the Aus monthly CPI series is expected to show a further slowdown in inflation to +5.2% in Jul (from +5.4% in Jun).

Next week is a short week in the US with the Labor Day Holiday on 4 Sep.

US Treasury Issuance; 28 Aug – 1 Sep 2023

This week, the US Treasury will auction and settle approx. \$542bn in ST Bills, Notes, Bonds, and TIPS raising approx. \$111bn in new money.

QT this week: Approx \$28bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet this week and will be reinvested. Approx \$17.4bn in Notes and Bonds will mature on the Fed balance sheet this week 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 %
28 Aug - 1 Sep	24-Aug	29-Aug	4 week bill	80			Actual 5.285%	5.280%
	24-Aug	29-Aug	8 week bill	70			Actual 5.290%	5.280%
	23-Aug	29-Aug	17-week Bill	50			Actual 5.315%	5.305%
				200	166	34		
	28-Aug	31-Aug	13 week bill	69			Announced	5.300%
	28-Aug	31-Aug	26 week bill	62			Announced	5.295%
	29-Aug	31-Aug	42-Day CMB	60			Announced	5.280%
				191	161	30		
	28-Aug	31-Aug	2yr Note	45			Announced	4.823%
	28-Aug	31-Aug	5yr Note	46			Announced	4.170%
	29-Aug	31-Aug	7yr Note	36			Announced	4.087%
	23-Aug	31-Aug	20yr Bond	16			Actual 4.499%	4.036%
	24-Aug	31-Aug	30yr TIPS	8			Actual 1.970%	1.550%
				151	104	47		
			Total - securities settling this week	542	431	111		
			QTR to date totals	4,146	3,452	694		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>1,007</i>		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		29-Aug	Bills	2.4				
		31-Aug	Bills	10.0				
		31-Aug	Notes & Bonds	15.7				
				28.1				
			Maturing & redemption					
		31-Aug	Notes & Bonds	17.4				
				17.4				

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).

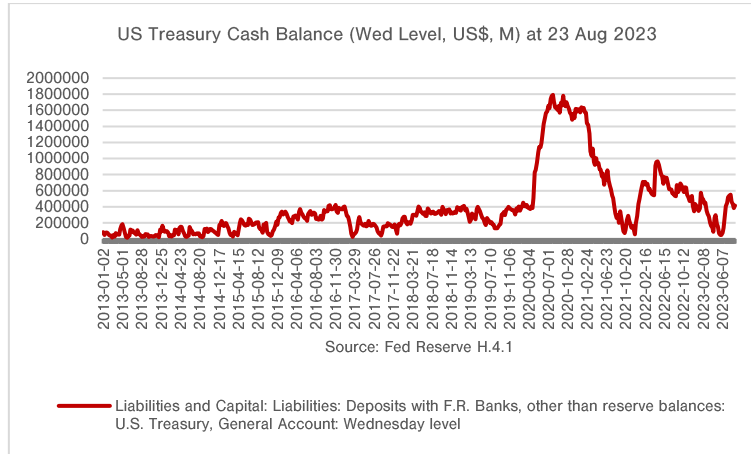
Q4 Prelim; The estimate for Q4 at this stage is that the US Treasury will borrow \$852bn in privately held **net marketable debt**, assuming an end-of-December cash balance of \$750bn.

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 23 Aug, the level of the TGA increased to \$416bn (+\$31bn compared to the week prior). The current TGA balance is approx. \$114bn lower than the same week a year ago.

The US Treasury estimates an end-of-Sept cash balance of \$650bn.



<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 28 AUGUST 2023

MONDAY 28 AUGUST (US Eastern Time, unless stated otherwise)

Australia Retail Sales (Jul)

US Dallas Fed Manufacturing Index (Aug)

TUESDAY 29 AUGUST

US Case/Shiller House Price Index (Jun), JOLTS (Jul)

Australia Building Permits (Jul), Construction Work Done Q2, Monthly CPI (Jul), Asst Gov
Bullock speech (new incoming RBA Governor)

WEDNESDAY 30 AUGUST

US Mortgage Apps wk ending 25 Aug, ADP Employment Change (Aug), US GDP Q2 –
Second Est, Pending Home Sales (Jul)

Japan Industrial Production Prelim (Jul), Retail Trade (Jul)

China NBS Manufacturing & Non-Manufacturing PMI (Aug)

Australia Private Sector Capex Q2

THURSDAY 31 AUGUST

Europe Eurozone CPI – Prelim (Aug), ECB Minutes

US Initial Claims wk ending 25 Aug, PCE Price Index (Jul), Personal Spending & Income
(Jul), Chicago PMI (Aug), Challenger Job Cuts (Aug), Fed speech; Collins

Australia S&P Manufacturing PMI Final (Aug), Housing Finance (Jul)

Japan S&P Manufacturing PMI Final (Aug)

FRIDAY 1 SEPTEMBER

Europe Eurozone S&P Manufacturing PMI Final (Aug),

US Non-Farm Payrolls, Employment Survey, Hours, and Average Earnings (Aug), S&P
Manufacturing PMI Final (Aug), ISM Manufacturing PMI (Aug)

Canada GDP Q2
