Weekly Macro Outlook

w/c 7 August 2023

MARS CAPITAL PARTNERS

Key events this week – US CPI

Recap from last week; 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 last week was on the US labor market and growth momentum going into Q3. The Jul data continued to reflect a slowdown in hiring while the labor market remained tight/resilient. This labor market theme has also been evident across other developed markets.

US non-farm payrolls growth came in as expected around +187k, but the prior two months were revised lower by approx. -50k in total. At the same time, labor market conditions remained tight. From the household survey, the number of employed persons continued to increase (an increase in part-time employment more than offset the fall in full-time employment) while participation was unchanged. This resulted in another fall in the unemployment rate to 3.5%. The avg hourly earnings growth remained at +0.4% over the month and at a still elevated +4.4% over the year – consistent with tighter conditions. The US JOLTS data for Jun also reflected the underlying theme; demand for labor continued to ease as the rate of hiring and openings fell, but layoffs and discharges also declined.

The US services and manufacturing PMIs for Jul reflected the somewhat slower pace of hiring from the non-farm payrolls report. US manufacturing activity, which has remained lacklustre for many months, at best didn't deteriorate further in Jul, but stayed in mild contraction. Services activity continued to expand modestly, but the pace of growth slowed. Services firms reported more widespread increases in prices this month.

Central bank decisions last week remained cautious on the inflation outlook, noting tight labor markets, and opting for data-dependent guidance. The RBA kept rates on hold to allow more time to assess the impact of the rate increases to date. Some further tightening of monetary policy may be required, and will depend upon the data and "the evolving assessment of risks". The 'evolving assessment of risks' was an addition to the statement this month. The RBA continued to note that inflation was too high, and that services-led inflation remained persistent.

The BoE increased rates by a further 25bps as expected. Inflation risks remained skewed to the upside. The Committee noted that if "there were to be evidence of more persistent [inflation] pressures, then further tightening of policy would be required".

Global PMIs for Jul continued to reflect slower growth momentum. Services activity growth remained moderate but slowed again. Global manufacturing activity continued to contract and at a slightly faster pace in Jul. This was led by further falls in output and orders, especially in the Eurozone and China. It's worth noting that the global future output index for manufacturing continued to show reasonably widespread and improving sentiment in the outlook.

Outlook for the week ahead; US CPI for Jul will be the key data release this week. This will be the first of two inflation reports before the next FOMC meeting and will feed into the broader picture of economic activity for the FOMC. US Fed Chair Powell noted that while the Jun CPI reading was good and welcomed, it was only one reading and not a definitive view that inflation is on a 'sustainable path' back to the 2% target.

This week, US headline CPI for Jul is expected to accelerate slightly, due to base effects, to +3.3% from 3.1% in Jun. Inflation is expected to increase by +0.2% over the month versus +0.2% in Jun. Core CPI is expected to stay elevated at +4.7% in Jul, down slightly from +4.8% in Jun. Core inflation is also expected to increase by +0.2% over the month versus +0.2% in Jun.

We will continue to watch initial US jobless claims, which had shifted lower recently. This week, claims are expected to increase slightly to +230k from +227k last week.

US Treasury Issuance; 7-11 Aug 2023

This week, the US Treasury will auction and settle approx. $398bn in ST Bills raising approx. $53bn in new money. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond this week – these will settle next week.

<u>Aug QT:</u> Approx $18.2bn in ST Bills will mature on the Fed balance sheet this week and will be <u>reinvested</u>.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount $B (TBAC)	Amount Maturing $B	New Money $B		Prior Auction High Rate %
7-11 Aug	03-Aug	08-Aug	4 week bill	70			Actual 5.275%	5.275%
	03-Aug	08-Aug	8 week bill	60			Actual 5.285%	5.285%
	02-Aug	08-Aug	17-week Bill	46			Actual 5.300%	5.300%
				176	156	20		
	07-Aug	10-Aug	13 week bill	67			Announced	5.280%
	07-Aug	10-Aug	26 week bill	60			Announced	5.270%
	08-Aug	10-Aug	52 week bill	40			Announced	5.130%
	08-Aug	10-Aug	42-Day CMB	55			Announced	5.280%
				222	189	33		
			Total - securities settling this week	398	345	53		
			Net New Cash Raised Qtr to Date	***2707***	***2301***	***406***		
			Estimated Net Cash to be Raised Q3 ($ Bn)			*1,007*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		08-Aug	Bills	2.3				
		10-Aug	Bills	15.9				
				18.2				
	Upcoming Auctions			**$B**				
	08-Aug	15-Aug	3yr Note	42				
	09-Aug	15-Aug	10yr Note	38				
	10-Aug	15-Aug	30yr Bond	23				
				103.0				

Quantitative Tightening Overview – Aug 2023

In August, the face value of <u>Coupons</u> 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			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	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;

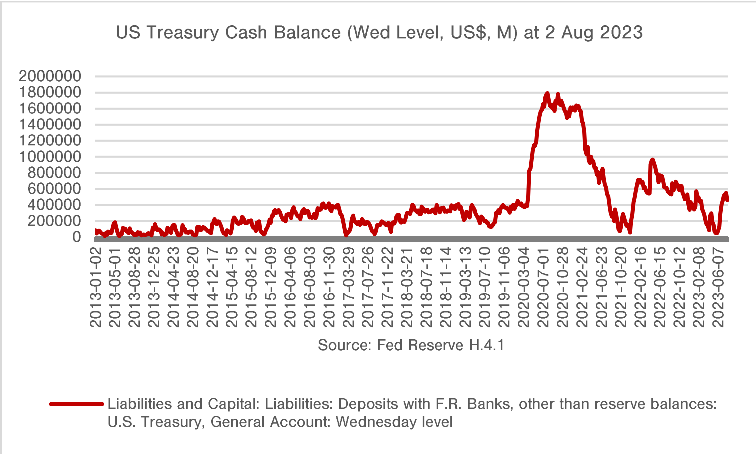
> During the July – September 2023 quarter, Treasury expects to borrow **$1.007 trillion in privately-held net marketable debt,** assuming an end-of-September cash balance of $650 billion. The borrowing estimate is $274 billion higher than announced in May 2023, primarily due to the lower beginning-of-quarter 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 the 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 2 Aug, the level of the TGA decreased to $461bn (-$89bn compared to the week prior). The current TGA balance is now only approx. $105bn *lower* than the same week a year ago.



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&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/ambs_operation_schedule

WEEK COMMENCING 7 AUGUST 2023

MONDAY 7 AUGUST (US Eastern Time, unless stated otherwise)	
Europe	Germany Industrial Production (Jun)
US	Consumer Credit Change (Jun), Fed speeches; Bowman & Harker
Australia	Westpac Consumer Confidence (Aug), NAB Business Conditions & Confidence (Jul)
China	Trade Balance, Exports, & Imports (Jul)

TUESDAY 8 AUGUST	
US	NFIB Business Optimism Index (Jul)
China	CPI & PPI (Jul)

WEDNESDAY 9 AUGUST	
US	Mortgage Apps wk ending 5 Aug
Japan	PPI (Jul)

THURSDAY 10 AUGUST	
US	Initial Claims wk ending 5 Aug, CPI (Jul) US Fed speeches: Harker

FRIDAY 11 AUGUST	
UK	GDP Q2, Monthly Trade & Output (Jun)
US	PPI (Jul), University of Michigan Consumer Sentiment Prelim (Aug)