

Key events this week – RBA & BoC policy meetings, US ISM Services, Global services PMIs

Recap from last week: It was an important week of US data inputs helping to assess the path of the US labor market, growth, and inflation ahead of the next FOMC meeting this month. Data revisions played a prominent role in tempering the recent enthusiasm around resilient growth and a persistently tight labor market.

Payroll growth came in higher than expected for Aug at +187k despite the bankruptcy in transport and warehousing and several strikes. However notable revisions in the prior months suggest that payroll growth has not been as strong as previously thought. The 6-month average payroll growth is now down to +194k.

Several points indicate that labor market tightness may be easing. The participation rate increased more notably in Aug after several months unchanged but is still below the pre-pandemic peak of 63.3%. This led to a rise in the unemployment rate to 3.8% (also still historically low). Average hourly earnings growth continued to slow – now down to +4.3% over the year and +0.2% for the month. The JOLTS report for Jul, with revisions for May and Jun, suggested an accelerated slowdown in hiring, openings, and quits over the last two months. Hiring and openings are now mostly back in line with pre-pandemic levels. Layoffs & discharges remained low.

US growth indicators remained positive. Overall average weekly hours increased to 34.4 hours – led by goods-producing industries (mining & construction). The ISM manufacturing survey showed some improvement in manufacturing conditions, though still lacklustre. Anecdotes focused on weak orders growth; a function of unwinding inventories and backlogs, improving supply, and weaker demand.

US GDP growth for Q2 was revised lower to +2.1% from +2.4%. That was driven by fixed investment, change in inventories, and net exports making a smaller contribution to growth. Personal consumption growth was revised slightly higher. Still, the first view of Q3 PCE growth in Jul was stronger, increasing by +0.6% in real terms with both goods and services contributing to consumption growth. The [updated Atlanta Fed GDP Nowcast for Q3](#) shows growth easing after the data from last week, but staying very high at +5.6% annualized.

Finally, there was little change in PCE inflation with both headline and core just slightly higher in Jul (due to base effects). Monthly inflation remained at a low +0.2% pace. So far, the headline and core measures of PCE inflation are within the range of FOMC projections provided at the Jun meeting. Headline PCE inflation in Jul of +3.3% is just above the median projection of +3.2%. Core PCE inflation in Jul was +4.2%, just above the median projection of +3.9%.

Outlook for the week ahead: US data this week will focus on services activity surveys for Aug, factory orders for Jul, and non-farm productivity data for Q2.

The final global PMI's for services will be released this week helping to round out the view of global private sector momentum in Aug. The PMIs released so far indicate that the slowdown in global manufacturing activity has eased in Aug.

This week, the RBA and BoC will meet on monetary policy. The RBA is expected to keep policy rates unchanged. The monthly inflation data for Jul continued to ease, but core inflation measures are still high and persistent. There had been some easing in labor market conditions in Jul with the unemployment rate increasing to 3.7%, despite a fall in participation. Governor Lowe will give a

speech this week titled “Some Closing Remarks”. This will be his final meeting before the new RBA Governor, Michele Bullock takes over in mid-Sep. Aus GDP for Q2 will be released after the RBA board meeting and growth is expected to be +0.3%, up slightly from +0.2% in Q1.

The Bank of Canada is expected to keep policy rates unchanged at 5%. GDP growth in Q2 stalled (fell slightly on an annualized basis by -0.2%) after expecting annualized growth of +1.2%. Readings of core CPI continued to slow in Jul. The unemployment rate in Jul increased for the third month in a row as employment growth stalled and participation declined. The latest Aug labor market report will be released later in the week. Employment growth is expected to rebound by +18.7k and the unemployment rate to stay unchanged at 5.5%.

US Treasury Issuance; 4 – 8 Sep 2023

This week, the US Treasury will auction and settle approx. \$433bn in ST Bills raising approx. \$70bn in new money.

QT this week: Approx \$6bnbn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$6bn in ST Bills 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 %
Holiday - Labour Day 4 Sep 2023							
4-8 Sep	31-Aug	05-Sep	4 week bill	80		Actual 5.280%	5.285%
	31-Aug	05-Sep	8 week bill	70		Actual 5.290%	5.290%
	30-Aug	05-Sep	17-week Bill	50		Actual 5.330%	5.315%
				200	166	34	
	05-Sep	07-Sep	13 week bill	69		Announced	5.340%
	05-Sep	07-Sep	26 week bill	62		Announced	5.350%
	05-Sep	07-Sep	52 week bill	42		Announced	5.060%
	05-Sep	07-Sep	42-Day CMB	60		Announced	5.290%
				233	197	36	
			Total - securities settling this week	433	363	70	
			QTR to date totals	4,579	3,815	764	
			<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				
		05-Sep	ST Bills	1.2			
		07-Sep	ST Bills	4.7			
				5.9			
			Maturing & redemption				
		05-Sep	ST Bills	1.3			
		07-Sep	ST Bills	4.8			
				6.1			

Quantitative Tightening Overview – Sep 2023

In September, the face value of Coupons maturing on the Fed balance sheet is approx. \$39.4bn. This is less 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 sheet will make up the residual up to the \$60bn redemption cap. So of the \$40.7bn in ST Bills maturing this month, \$20.6bn will be redeemed/roll-off the balance sheet and the remaining \$20.1bn of ST Bills maturing will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Sep			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
	Notes & Bonds	18.9	0.0
	Notes & Bonds	22.5	0.0
	Bills	20.6	20.1
	Total Notes & Bonds	60.0	20.1

September 2023 Bill maturity schedule;

Bill Maturity Schedule - Sep			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2023/09/05	2.5	6%	1.3	1.2
2023/09/07	9.5	23%	4.8	4.7
2023/09/12	2.7	7%	1.4	1.3
2023/09/14	7.4	18%	3.7	3.6
2023/09/19	2.6	6%	1.3	1.3
2023/09/21	2.8	7%	1.4	1.4
2023/09/26	2.7	7%	1.4	1.3
2023/09/28	10.5	26%	5.3	5.2
	40.7	100%	20.6	20.1

<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).

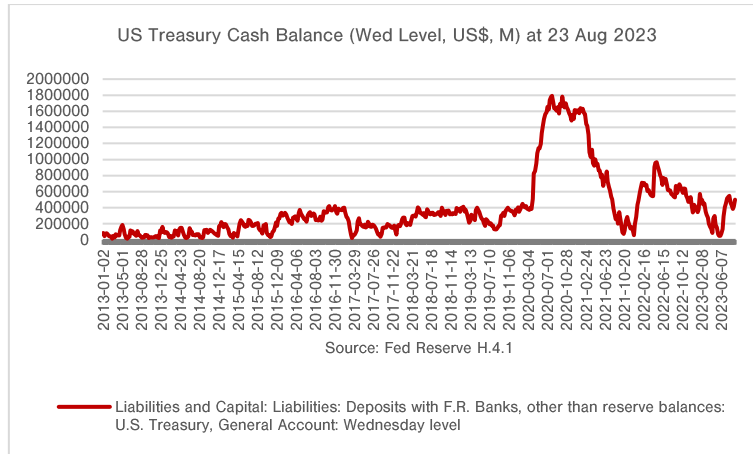
Q4 Prelim; The estimate for Q4 at this stage is that the US Treasury will borrow \$852bn in privately held **net marketable debt**, assuming an end-of-December cash balance of \$750bn.

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 30 Aug, the level of the TGA increased to \$501bn (+\$85bn compared to the week prior). The current TGA balance is approx. \$169bn 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 4 SEPTEMBER 2023

MONDAY 4 SEPTEMBER (US Eastern Time, unless stated otherwise)

US	Labor Day Holiday
Europe	ECB President Lagarde speech
Australia	S&P Services PMI Final (Aug)
Japan	S&P Services PMI Final (Aug)

TUESDAY 5 SEPTEMBER

Australia	RBA Monetary Policy Decision, later; GDP Q2
Europe	Eurozone S&P Services PMI Final (Aug), Eurozone PPI (Jul)
UK	S&P Services PMI Final (Aug)
US	Factory Orders (Jul)

WEDNESDAY 6 SEPTEMBER

Europe	Germany Factory Orders (Jul), Eurozone Retail Sales (Jul)
US	Mortgage Apps wk ending 1 Sep, S&P Services PMI Final (Aug), ISM Services PMI (Aug), US Federal Reserve Beige Book
Canada	BoC Monetary Policy Decision
Australia	RBA Governor Lowe speech (Anika Foundation) <i>"Some Closing Remarks"</i>
China	Trade Balance, Exports, and Imports (Aug)

THURSDAY 7 SEPTEMBER

Europe	Germany Industrial Production (Jul), Eurozone GDP Q2 – Final Est
US	Initial Claims wk ending 1 Sep, Non-Farm Productivity and Unit Labor Costs Q2, Fed Speeches; Bowman, Harker, Williams, Goolsbee, Logan
Canada	BoC Governor Macklem speech
Japan	GDP Q2 - Final

FRIDAY 8 SEPTEMBER

Europe	Germany CPI – Final (Aug)
US	Consumer Credit Change (Jul)
Canada	Labor Market Survey (Aug)
China	CPI and PPI (Aug)
