

## Key events this week – US PCE inflation & Q3 GDP, Fed speeches, ECB & BoC monetary policy meetings, Aus CPI, Prelim PMIs Oct

Recap from last week: Fed speeches last week acknowledged that US economic activity had picked up through Q3 – including spending and payrolls growth. Recent inflation prints remain on a downward trend, but were “less encouraging”. Moderating wage growth was a stronger theme from the speeches, with wage growth “moving closer to levels that would be consistent with 2% inflation”. However, the central question was whether economic growth would moderate from here given the recent “significant tightening of financial conditions” resulting from higher long-term bond yields. The FOMC stance is unlikely to change from “proceeding carefully” with policy rates staying on hold. Speeches by Fed Chair Powell and Governor Waller suggested that there may be a higher bar for another rate hike, but that another hike was not off the table. More specifically, if growth stays strong AND, even if CPI just stabilizes here, then that could form the basis for more tightening by the FOMC.

In line with recent stronger economic data, US retail sales increased by more than expected while the prior month was revised higher. This lifted the trend of nominal and real retail sales growth through Q3 compared to Q2. US housing data was more downbeat than in recent months, amid rising mortgage rates. New mortgage applications in the prior week fell by -6.9%. New residential construction data recorded a fall in new permits in Sep (across all regions), while housing starts increased modestly compared to the sharper fall in Aug. Existing home sales in Sep fell to a new pandemic-era low of 3.96m units (SAAR-basis). Home builder sentiment in Oct continued to weaken with the headline index falling 9% to 40 - still above the pandemic low of 30. Industrial output growth was stronger than expected in Sep (although Aug was revised lower) and manufacturing output growth improved across both durable and non-durable goods industries.

Outlook for the week ahead: There will be several areas of focus this week. The first will be on US inflation and economic growth to further round out the view of the ‘totality of the data’ leading up to the FOMC meeting next week.

US PCE inflation for Sep is expected to ease slightly to +3.4% (from +3.5% in Aug). Core inflation is expected to slow to +3.7% in Sep (from +3.9% in Aug), with the monthly pace rising slightly to +0.3%. Core PCE at +3.7% would be in line with the current FOMC median projection for the year-end result. The prelim University of Michigan consumer sentiment survey for Oct noted some upward movement in one-year and five-year inflation expectations. The final survey result for Oct this week will show whether the change in inflation expectations has been revised.

The first look at US GDP growth for Q3 may be more important than usual given how much focus has been placed on the ‘resilient’ economic conditions. GDP in Q3 is expected to accelerate to +4.1% (SAAR) from +2.1% in Q2.

There will be several Fed speeches this week - unusual in the week before an FOMC meeting. All speeches are noted as ‘opening remarks’ in the [Federal Reserve Calendar](#). Remarks have been scheduled for Fed Chair Powell, Governor Waller, and Fed Vice Chair for Supervision Barr.

This is the first of several weeks of central bank meetings. This week, the ECB and BoC will meet and both are expected to keep policy rates on hold.

The Aus Q3 CPI will be released. The RBA minutes and speeches over the last two weeks suggest that the Q3 CPI report could be important for the next RBA meeting (7 Nov). Aus headline CPI is expected to slow over the year to +5.3% from 6% in Q2 while the quarterly growth is expected to

increase to +1.1% from +0.8% in Q2. Trimmed mean inflation is expected to stay elevated at +1.1% over the quarter and to slow to +5% over the year (from +5.9% in Q2). Over the last week, there was a modest lift in [market expectations](#) for another hike by the RBA. However, the Sep labor market survey was lacklustre – possibly confirming the RBA view that the labor market has ‘turned a corner’. The RBA Governor Michele Bullock and Assistant Governor Kent will appear before the Aus Senate Economics Committee after the CPI report, providing some opportunity to signal any potential change in policy outlook if appropriate.

Finally, the global flash PMIs for key G4 economies for Oct will be released this week. This will provide the first view of growth momentum across manufacturing and services leading into Q4.

Geopolitical risk and uncertainty remain elevated this week.

The US House of Representatives is yet to appoint a new speaker. The process of nominating a new speaker will continue this week.

## US Treasury Issuance; 23 - 27 Oct 2023

This week, the US Treasury will auction and settle approx. \$454bn in ST Bills raising approx. \$40bn in new money. The US Treasury will also auction approx. \$167bn in 2-Year, 5-Year, 7-Year, and 2-Year FRNs – which will settle on 31 Oct.

QT this week: Approx \$10.5bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx \$1.6bn 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 %
23-27 Oct	19-Oct	24-Oct	4 week bill	95		Actual 5.305%	5.325%
	19-Oct	24-Oct	8 week bill	85		Actual 5.325%	5.345%
	18-Oct	24-Oct	17-week Bill	56		Actual 5.355%	5.355%
				236	196	40	
	23-Oct	26-Oct	13 week bill	75		Announced	5.340%
	23-Oct	26-Oct	26 week bill	68		Announced	5.335%
	24-Oct	26-Oct	42-Day CMB	75		Announced	5.325%
				218	218	0	
			<b>Total - securities settling this week</b>	<b>454</b>	<b>414</b>	<b>40</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>1898</b>	<b>1668</b>	<b>230</b>	
			<i>Estimated Net Cash to be Raised Q4</i>			852	
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>			
			<b>Maturing &amp; reinvestment</b>				
		24-Oct	ST Bills	1.6			
		26-Oct	ST Bills	8.9			
				10.5			
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>				
		24-Oct	ST Bills	0.3			
		26-Oct	ST Bills	1.4			
				1.6			
			<b>Upcoming Auctions</b>	<b>\$B</b>			
	25-Oct	31-Oct	2yr FRN	26			
	24-Oct	31-Oct	2yr Note	51			
	25-Oct	31-Oct	5yr Note	52			
	26-Oct	31-Oct	7yr Note	38			

## Quantitative Tightening Overview – Oct 2023

In October, the face value of Coupons maturing on the Fed balance sheet is approx. \$52.4bn. 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 \$55.8bn in ST Bills maturing this month, \$7.6bn will be redeemed/roll-off the balance sheet and the remaining \$48.3bn of ST Bills maturing will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Oct				
			\$60	
			Redeem \$Bn	Reinvest \$ Bn
15-Oct-23	Notes & Bonds		13.9	
31-Oct-23	Notes, Bonds, and FRN's		38.6	
	Bills		7.6	48.3
	<b>Total Notes &amp; Bonds</b>		<b>60.0</b>	<b>48.3</b>

October 2023 Bill maturity schedule;

Bill Maturity Schedule - Oct			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2023/10/03	2.12	4%	0.29	1.83	
2023/10/05	15.32	27%	2.07	13.24	
2023/10/10	1.98	4%	0.27	1.71	
2023/10/12	9.96	18%	1.35	8.61	
2023/10/17	1.91	3%	0.26	1.65	
2023/10/19	10.69	19%	1.45	9.25	
2023/10/24	1.90	3%	0.26	1.64	
2023/10/26	10.27	18%	1.39	8.88	
2023/10/31	1.68	3%	0.23	1.45	
	55.83	100%	7.6	48.3	

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

## Recommended US Treasury Financing – Q4 Est 2023

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

Q4 Prelim; The estimate for Q4 is that the US Treasury will borrow \$852bn in privately held net marketable debt, assuming an end-of-December cash balance of \$750bn. The next quarterly refunding announcements will be made next week on 30 Oct and 1 Nov.

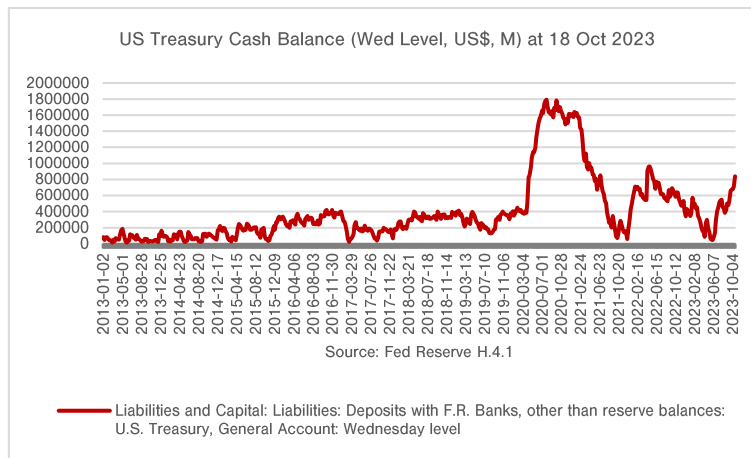
Q3;

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).

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.

## US Treasury Cash Levels (TGA)

As of Wed 18 Oct, the level of the TGA increased to \$841bn (+\$128bn compared to the week prior). The current TGA balance is approx. \$200bn higher 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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## WEEK COMMENCING 23 OCTOBER 2023

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### MONDAY 23 OCTOBER (US Eastern Time, unless stated otherwise)

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US	Chicago Fed National Activity Index (Sep)
Australia	S&P Manufacturing & Services PMI Prelim (Oct)
Japan	S&P Manufacturing & Services PMI Prelim (Oct)

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### TUESDAY 24 OCTOBER

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UK	Labor Market Survey (3mth Aug) – delayed from last week, S&P Manufacturing & Services PMI Prelim (Oct)
Europe	Eurozone S&P Manufacturing & Services PMI Prelim (Oct)
Australia	RBA Governor Bullock speech (Monetary Policy in Australia)
US	S&P Manufacturing & Services PMI Prelim (Oct), S&P Case Shiller House Price Index (Aug), Richmond Fed Manufacturing Index (Oct)
Australia	CPI Q3

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### WEDNESDAY 25 OCTOBER

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US	Mortgage Apps wk ending 21 Oct, New Home Sales (Sep) US Fed Chair Powell speech (opening remarks)
Canada	BoC Monetary Policy Meeting
Europe	EU Leaders Summit
Australia	RBA Governor Bullock & Asst Governor Kent; Senate Economics Legislation C'tee

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### THURSDAY 26 OCTOBER

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Europe	ECB Monetary Policy Decision
US	Initial Claims wk ending 21 Oct, GDP Q3, Durable Goods Orders (Sep), Pending Home Sales (Sep), Kansas City Fed Manufacturing Index (Oct), US Fed Governor Waller speech (opening remarks)
Japan	Tokyo CPI (Sep)

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### FRIDAY 27 OCTOBER

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US	PCE Price Index (Sep), Personal Income & Spending (Sep), University of Michigan Consumer Sentiment – Final (Oct), US Fed Vice Chair Supervision Barr speech (opening remarks)
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