MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 30 October 2023

Key events this week – FOMC, BoJ, and BoE monetary policy decisions, US non-farm payrolls & ISM surveys

Recap from last week; The prelim release of US Q3 GDP did not disappoint last week. Real GDP growth in Q3 was higher than expected at +4.9% (annualized basis). Even nominal GDP growth accelerated to +8.5% (annualized) in Q3. The acceleration in real GDP was led by growth in personal consumption expenditures across both goods & services (the Sep monthly PCE was much stronger than expected at +0.7%), a larger change in inventories, and growth in government expenditure. Private investment spending slowed.

US PCE inflation for Sep showed little improvement in the headline rate, with inflation stalling at +3.4%. Core PCE inflation slowed to +3.7% but picked up over the month to +0.3%. Price growth of core goods continued to moderate (used cars) while core services inflation has remained more persistent at +5% (shelter). Across a range of inflation measures (trimmed mean, median, and headline), the monthly trend of inflation is showing a slight re-acceleration. The final University of Michigan consumer inflation expectations for Oct stayed higher with year-ahead inflation expectations revised higher to +4.2%.

To round out the 'totality of the data' ahead of the FOMC meeting this week; US data has been consistently 'better than expected' through Q3. This has been across retail sales & consumption growth, non-farm payrolls, the moderate improvement in manufacturing conditions, and the overall acceleration in Q3 GDP growth (prelim). However, short-term indicators show higher rates impacting mortgage applications and some parts of the housing market. There has been slower, 'less encouraging' progress on inflation recently. The FOMC meets this week and is unlikely to change its stance from "proceeding carefully" and is expected to keep policy rates unchanged. As noted last week, Fed speeches questioned the degree to which economic growth may moderate from here given the recent "significant tightening of financial conditions" resulting from higher long-term bond yields. Guidance from the FOMC will be important this week. Another hike may not be off the table – but the bar for another hike is likely to be higher. Fed speeches noted that if growth stays strong AND, even if inflation just stabilizes here, then that could form the basis for more tightening by the FOMC.

The BoC and ECB kept policy settings unchanged last week. The BoC remained concerned over inflation, noting that some "inflation risks have increased".

Aus Q3 headline inflation slowed to +5.4% in Q3 (from +6% in Q2). The larger-than-expected increase in the quarterly rate to +1.2% was notable – led by faster growth in housing, transport (fuel), alcohol & tobacco, food, and insurance prices. The trimmed mean (RBA preferred measure) also accelerated over the quarter to +1.2% and slowed to +5.2% over the year. Since the CPI release, markets have been pricing in a higher probability (close to 50% on 27 Oct) that the RBA will increase rates by a further 25bps by Feb 2024. The RBA meets next week.

The prelim Oct PMIs for the G4 (plus Australia) showed a slowdown across service momentum while manufacturing PMIs were broadly unchanged staying in moderate contraction. Services output slipped to just below the 50-expansion level – due to a further deterioration in the Eurozone and a shift back to a contraction in Aus. Conditions in the US were the standout of the report with both services and manufacturing output growth improving.

Outlook for the week ahead; There will be several important areas of focus this week.

The first will be central bank policy decisions. Broadly, the global rise in longer-term yields is likely to weigh on most central bank decisions at this stage. The BoJ is expected to keep policy settings unchanged. However, there have been news items suggesting (signaling) that adjustments to policy settings are under consideration. The updated outlook report will also be released and there may be scope for changes to the inflation outlook.

The FOMC is expected to keep policy settings unchanged. As noted above, guidance will be important.

The BoE is also expected to keep policy rates unchanged. The last policy decision to keep rates on hold was not unanimous due to high inflation and the weakening momentum of the real economy. The decision this week could also be finely balanced.

The second area of focus will be data. The key economic report for the US will be non-farm payrolls and the broad update of US labor market indicators for Oct. US non-farm payrolls are expected to increase by +182k (from +336k in Sep). The unemployment rate is expected to stay unchanged at 3.8%. The employment cost index (ECI) for Q3 is expected to show no change in the pace of employment cost growth of +1% over the quarter. The JOLTS survey for Sep is expected to show a slowdown in the number of job openings to 9.3m. The US ISM surveys for Oct will provide a detailed view of momentum going into Q4 – manufacturing activity is expected to stay at a stalled pace while services momentum is expected to slow.

In Europe, the prelim CPI for the Euro Area is expected to show further progress on slowing inflation in Oct. Headline inflation is expected to slow to +3.2% in Oct from +4.3% in Sep. Core CPI is expected to stay elevated at +4.2%, but still moderate from +4.5% in Sep. The Eurozone prelim GDP is expected to contract slightly by -0.1% in Q3.

The full suite of global S&P PMIs will be released this week for Oct. This will provide a broader view of global private sector momentum going into Q4.

Finally, geopolitical risk and uncertainty remain elevated this week.

US Treasury Issuance; 30 Oct – 3 Nov 2023

This week, the US Treasury will auction and settle approx. $700bn in ST Bills, Notes, Bonds, TIPS, and FRNs raising approx. $114bn in new money.

QT this week: Approx $22bn in ST Bills will mature on the Fed balance sheet this week and will be reinvested. Approx $39bn in ST Bills, 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 $B		Prior Auction High Rate %
30 Oct - 3 Nov	26-Oct	31-Oct	4 week bill	95			Actual 5.295%	5.305%
	26-Oct	31-Oct	8 week bill	85			Actual 5.330%	5.325%
	25-Oct	31-Oct	17-week bill	56			Actual 5.335%	5.355%
				236	201	35		
	30-Oct	02-Nov	13 week bill	75			Announced	5.310%
	30-Oct	02-Nov	26 week bill	68			Announced	5.325%
	31-Oct	02-Nov	42-Day CMB	75			Announced	5.300%
	31-Oct	02-Nov	52 week bill	44			Announced	5.185%
				262	207	55		
	19-Oct	31-Oct	5yr TIPS	22			Actual 2.440%	1.832%
	25-Oct	31-Oct	2yr FRN	26			Actual 0.17%disc margin	
	24-Oct	31-Oct	2yr Note	51			Actual 5.055%	5.085%
	25-Oct	31-Oct	5yr Note	52			Actual 4.899%	4.659%
	26-Oct	31-Oct	7yr Note	38			Actual 4.908%	4.673%
	18-Oct	31-Oct	20yr Bond	13			Actual 5.245%	4.592%
				202	178	24		
			Total - securities settling this week	700	586	114		
			Net New Cash Raised Qtr to Date	***2598***	***2254***	***344***		
			Estimated Net Cash to be Raised Q4			*852*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		31-Oct	ST Bills	1.5				
		02-Nov	ST Bills	20.4				
				21.9				
		Maturing & redemption (balance sheet roll-off)						
		31-Oct	ST Bills	0.2				
		31-Oct	Notes & Bonds	38.6				
				38.8				

Quantitative Tightening Overview – Nov 2023

In November, the face value of Coupons maturing on the Fed balance sheet is approx. $64.2bn. This is greater 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 $4.2bn will be reinvested.

It also means that all ST Bills maturing on the Fed balance sheet this month will be reinvested.

Summary of Total Coupons & Bills to Redeem at the $60bn redemption cap - Nov			
			$60
		Redeem $Bn	**Reinvest $ Bn**
15-Nov-23	Notes & Bonds	30.5	2.1
30-Nov-23	Notes, Bonds, and FRN's	29.5	2.1
	ST Bills - Nov	-	77.5
	Total Notes & Bonds	**60.0**	**81.7**

November 2023 Bill maturity schedule;

Bill Maturity Schedule - Nov			Weekly Totals $Bn	
	Par Value of Bills Maturing	**% Maturity by Wk**	**Bill Redemption**	**Bill Reinvestment**
2023/11/02	20.41	26%		20.41
2023/11/07	1.70	2%		1.70
2023/11/09	11.87	15%		11.87
2023/11/14	1.66	2%		1.66
2023/11/16	13.79	18%		13.79
2023/11/21	1.64	2%		1.64
2023/11/24	11.18	14%		11.18
2023/11/28	1.23	2%		1.23
2023/11/30	14.06	18%		14.06
	77.5	100%	**0.0**	**77.5**

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 latest quarterly refunding announcement will be made this week. Announcements regarding the financing requirements for Q4 2023 and Q1 2024 (estimate) will be made on 30 Oct and further details will be released on 1 Nov this week.

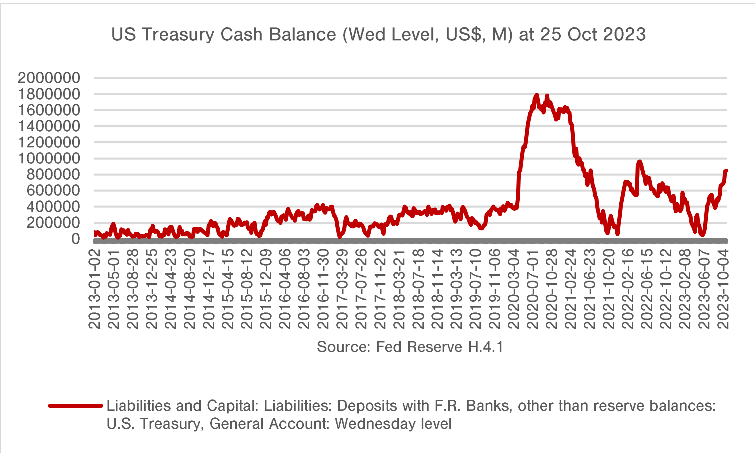
The prior financing requirements announced for Q3 (and Q4) were increased notably – the Q3 announcement can be found here. The prelim Q4 announcement estimated that the US Treasury would borrow $852bn in privately held net marketable debt, assuming an end-of-December cash balance of $750bn.

The end of Q3 cash balance of the TGA was close to its estimate of $650bn. The Q3 announcement details;

> 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).

US Treasury Cash Levels (TGA)

As of Wed 25 Oct, the level of the TGA increased to $847bn (+$6bn compared to the week prior). The current TGA balance is approx. $211bn *higher* 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 30 OCTOBER 2023

MONDAY 30 OCTOBER (US Eastern Time, unless stated otherwise)	
Australia	Sunday night - Retail Sales (Sep)
Europe	Germany GDP Q3, Germany CPI – prelim (Oct)
US	Dallas Fed Manufacturing Survey (Oct)
Canada	BoC Governor Macklem – testimony
Japan	Industrial Production – Prelim (Sep), Retail Sales (Sep) BoJ Monetary Policy Meeting
China	NBS Manufacturing & Non-Manufacturing PMIs (Oct)

TUESDAY 31 OCTOBER	
Europe	Euro Area CPI – Prelim (Oct), Euro Area GDP Q3 Prelim
US	Employment Cost Index Q3
NZ	Labour Market Survey Q3, RBNZ Governor Orr speech
Australia	S&P Manufacturing PMI Final (Oct), Building Permits (Sep)
Japan	S&P Manufacturing PMI Final (Oct)

WEDNESDAY 1 NOVEMBER	
US	Mortgage Apps wk ending 28 Oct, S&P Manufacturing PMI Final (Oct), ISM Manufacturing PMI (Oct), JOLTS (Sep) FOMC Monetary Policy Decision
Australia	Housing Finance (Sep)

THURSDAY 2 NOVEMBER	
Europe	Eurozone S&P Manufacturing PMI – Final (Oct)
UK	BoE Monetary Policy Decision
US	Initial Claims wk ending 28 Oct, Challenger Job Cut Announcements (Oct), Factory Orders (Sep)
Australia	S&P Services PMI Final (Oct), Retail Sales (Real) Q3

FRIDAY 3 NOVEMBER	
US	Non-Farm Payrolls & Labor Market Survey (Oct), S&P Services PMI Final (Oct), ISM Services PMI (Oct)
Canada	Labour Market Survey (Oct)