

## Key events this week – US CPI, FOMC Minutes, Fed Speak

Recap from last week: For the moment, robust US labor market conditions continue to support growth resilience. Through the tightening cycle so far, indicators of heightened labor demand across non-farm payrolls, employment, job openings, and wage growth have been slowing from historically elevated levels. However, as the stimulus-fuelled growth of the pandemic-era reverses, there has not yet been a material deterioration in labor market conditions. The unemployment rate has stayed low so far in this tightening cycle, initial and continuing claims are low, and layoffs, discharges, and quits are almost back in line with pre-pandemic averages.

The FOMC is likely to view the Sep payrolls as in line with “recent stronger than expected activity” as the process of rebalancing continues. Non-farm payroll growth was stronger than expected in Sep at +336k (expecting +163k), while growth in the two prior months was revised higher by +119k. Growth in average hourly earnings stayed low at +0.2% over the month while annual growth slowed to +4.1%. Contributing to slower average hourly wage growth could be the change in the mix of employment growth. Over the last few months, the household survey has shown that employment growth has been driven by higher part-time employment while full-time employment growth has slowed but has stayed elevated. The average work week and participation rate were unchanged, and the unemployment rate stayed low at 3.8%. The JOLTS data for Aug showed a surprise increase in the job openings rate, back up to 5.8. The number of job openings has been falling through this tightening cycle, but is still above the pre-pandemic average of 4.2, reflecting some ongoing tightness in the labor market.

The global S&P PMI’s showed stalling manufacturing activity persisted through to the end of Q3. Eurozone manufacturing remained in firm contraction, with conditions deteriorating in Japan, the UK, Aus, Canada, and the ASEAN group at the end of Q3. US manufacturing conditions have stayed little changed. Stronger global services growth had been helping to offset weaker manufacturing conditions. However, the services expansion has slowed throughout Q3 to a more modest pace of growth. Services growth has slowed to a stalled pace in the US, the UK, China, and the Eurozone.

The RBA and RBNZ both kept policy settings unchanged in Oct.

Outlook for the week ahead: There are several important events this week. We are now in the lead-up to the next FOMC meeting on 1 Nov and the CPI report for Sep will be an important input. The FOMC is looking for continued progress on slowing inflation and while inflation is still too high, recent reports have been going in the right direction. Headline CPI growth is expected to slow to +3.6% in Sep from +3.7% in Aug and the monthly rate is also expected to ease to +0.3% in Sep from +0.6% in Aug. Core CPI is also expected to ease to +4.1% in Sep from +4.3% in Aug while the monthly core rate is expected to stay unchanged at +0.3%.

The US PPI data for Sep will come out before the CPI report this month. Headline PPI growth is expected to slow to +0.4% over the month, from +0.7% in Aug. Annual growth in the PPI is expected to be little changed around +1.6%.

The latest minutes of the FOMC meeting will be released this week. Of interest will likely be discussions around the timing of (or need for) further rate hikes, as outlined in the Summary of Economic Projections. The market-based probability of another hike in 2023 has come down in recent weeks while long-end yields have been rising.

We will continue to watch initial claims (expected +210k) and the weekly mortgage application data. Mortgage applications continued to deteriorate, falling by 6% last week as mortgage rates increased to the highest level since 2000.

There will be a large number of Fed speakers this week, including Governor Jefferson (The Economic Outlook and Monetary Policy Transmission), Governor Waller (The Evolution of Monetary Policy), and Governor Bowman (Financial Stability in Uncertain Times).

There will be several other data releases; European country-level CPI for Sep, Eurozone, and German industrial production for Aug. The first round of Chinese data for Sep will be released this week which will include CPI/PPI and trade data. Chinese export and import data are expected to continue to improve.

Renewed and elevated geopolitical unrest and local US political uncertainty (due to the removal of the US House Speaker last week) may provide further headline risk through the week.

## US Treasury Issuance; 9 - 13 Oct 2023

This week, the US Treasury will auction and settle approx. \$433bn in ST Bills, raising approx. \$24bn in new money. This week, the US Treasury will also auction approx. \$101bn in Notes and Bonds – which will settle next week.

QT this week: Approx \$10.3bn 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 %
<b>9 Oct - Columbus Day</b>							
9-13 Oct	05-Oct	10-Oct	4 week bill	90			Actual 5.310%
	05-Oct	10-Oct	8 week bill	80			Actual 5.355%
	04-Oct	10-Oct	17-week Bill	54			Actual 5.350%
				224	191	33	
	10-Oct	12-Oct	13 week bill	73			Announced
	10-Oct	12-Oct	26 week bill	66			Announced
	10-Oct	12-Oct	42-Day CMB	70			Announced
				209	218	-9	
			<b>Total - securities selling this week</b>	<b>433</b>	<b>409</b>	<b>24</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>889</b>	<b>800</b>	<b>89</b>	
			<i>Estimated Net Cash to be Raised Q4</i>			<i>852</i>	
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>			
			<b>Maturing &amp; reinvestment</b>				
		10-Oct	ST Bills	1.7			
		12-Oct	ST Bills	8.6			
				10.3			
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>				
		10-Oct	ST Bills	0.3			
		12-Oct	ST Bills	1.3			
				1.6			
			<b>Upcoming Auctions</b>				
	10-Oct	16-Oct	3yr note	46			
	11-Oct	16-Oct	10yr note	35			
	12-Oct	16-Oct	30yr bond	20			
				101			

## 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 on 30 Oct and 1 Nov.

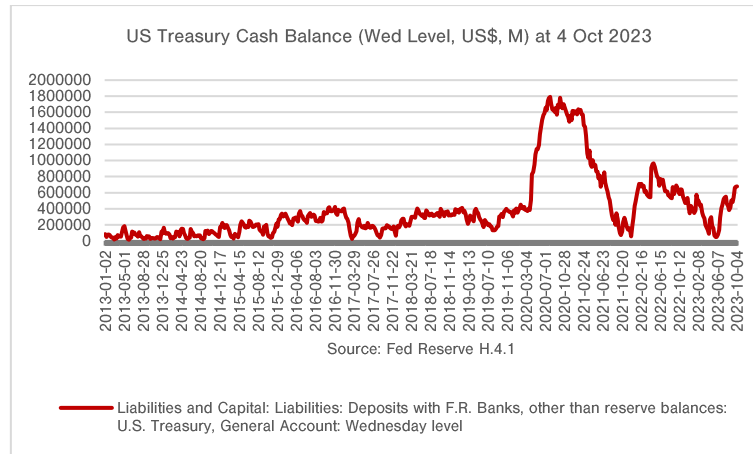
Q3;

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 4 Oct, the level of the TGA increased to \$678bn (+\$7bn compared to the week prior). The current TGA balance is approx. \$57bn *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 9 OCTOBER 2023

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## MONDAY 9 OCTOBER (US Eastern Time, unless stated otherwise)

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Europe	Germany Industrial Production (Aug)
US	Columbus Day Fed speeches; Vice Chair (Supervision) Barr – Bank Regulation, Jefferson (US Econ Outlook & Monetary Policy Transmission)
Australia	Westpac Consumer Sentiment (Sep), NAB Business Confidence & Conditions (Sep)
	IMF Meeting 9-15 Oct, schedule <a href="#">HERE</a>

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## TUESDAY 10 OCTOBER

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China	New Loans (Sep)
US	NFIB Business Optimism Index (Sep), Fed speeches; Bostic, Kashkari, Daly, and Waller (Evolution of Monetary Policy)

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## WEDNESDAY 11 OCTOBER

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Europe	Germany CPI – Final (Sep)
US	Mortgage Apps wk ending 7 Oct, PPI (Sep) Fed speeches; Bostic, Waller (fireside chat), and Bowman (Financial Stability in Uncertain Times) FOMC Minutes

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## THURSDAY 12 OCTOBER

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UK	Monthly GDP (Aug), BoE Credit Conditions Survey Q3
Europe	ECB Minutes
US	Initial Claims wk ending 7 Oct, CPI (Sep)
China	CPI & PPI (Sep), Trade balance, Exports, and Imports (Sep)

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## FRIDAY 13 OCTOBER

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Europe	Eurozone Industrial Production (Aug), European country-level CPI reports
US	Export and Import Price Indexes (Sep), University of Michigan Consumer Sentiment – Final (Sep) Fed speeches; Harker

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