

Key events this week – US PCE inflation, CPI reports for the UK, Canada, Japan, and the Euro Area (final), BoJ meeting, RBA minutes

Recap from last week: Communication and signaling from the FOMC diverged from other central banks last week. The FOMC kept policy settings unchanged but altered its forward guidance providing the clearest signal yet that it is shifting (or intends to shift) its policy bias. The current market pricing of rate cuts for 2024 was addressed by the Summary of Economic Projections (SEP) which shows a median of three (3) cuts to the FFR next year. US PCE inflation has eased more than expected through the latter part of 2023 and the projected final inflation rate over the year was revised much lower to +2.8%, from +3.3% expected only back in Sept. While US growth has been robust and unemployment has stayed low, both are expected to weaken in 2024. The SEP is saying that if inflation continues to ease, growth slows, and unemployment rises in line with expectations, then rates will need to be calibrated to the slower growth/lower inflation environment. The press conference statement maintained a general theme that the inflation fight was not yet done, but Chair Powell tempered this sentiment noting that ‘our policy rate is likely at or near its peak for this tightening cycle’.

US data last week suggested that aggregate demand likely improved in Nov and Dec. The latest update to the Atlanta Fed GDPNowcast upgraded the pace of US growth so far in Q4 from +1.2% to +2.6%. Retail sales growth was higher than expected at +0.3% (which included a large drag on nominal sales from falling gasoline prices), mortgage applications continued to rebound (mostly, but not all due to refi activity), and initial jobless claims (SA) eased back to +202k. US CPI continued to ease but at a slower pace than in Oct, as energy prices fell. Core CPI inflation remained unchanged at +4% in Nov.

The ECB kept policy settings and guidance unchanged and ECB President Lagarde pushed back on market expectations of rate cuts;

“We did not discuss rate cuts at all. No discussion, no debate on this issue.” ECB
President Lagarde

Euro area growth concerns were more muted than in the last meeting despite the negative GDP print in Q3 (explained by a drag from inventories). The ECB remained concerned about domestic sources of inflation, noting that important wage data would not be available until Q1 2024. However, ECB President Lagarde outlined a more favorable view on the progress of disinflation, emphasizing new projections that see inflation at +2.1% in 2025, not 2026.

The BoE kept policy and guidance unchanged. The decision remained at 6-3, with three members preferring to raise the bank rate by 25bps.

The prelim PMIs among the G4 (plus Aus) for Dec were mixed – but the prelim data is earlier than usual so could see some revisions. There was a lift in services growth momentum in the US, Japan, and the UK, but services activity continued to contract in the Eurozone, especially in France. The generally stronger services growth helped to offset persistent weakness in manufacturing. Both the headline manufacturing PMI and the manufacturing output indexes fell into contraction across all countries in the prelim Dec release.

Outlook for the week ahead: Inflation data is a key focus this week. The US PCE inflation data for Nov will help to determine whether the pace of disinflation continued to outperform FOMC forecasts. Annual headline PCE inflation is expected to slow to +2.8% in Nov from +3% in Oct and

slow to 0% over the month. Some forecasts are expecting the headline PCE inflation rate to decline over the month. Core PCE inflation is expected to slow to +3.4% in Nov and stay around +0.2% over the month.

There will be a broad range of US data which will provide a view on the pace of aggregate demand in Q4 and whether momentum is continuing to improve from the slow start to the quarter. This includes personal consumption expenditures (expected to increase by +0.3% in Nov, up from +0.2% in Oct) and personal income (expected to increase by +0.4% in Nov, up from +0.2% in Oct). The final University of Michigan consumer sentiment for Dec will be released and is expected to show that the strong rebound in sentiment from the prelim release was sustained through the month. US housing data for Nov will be released this week – permits, starts, existing home sales and new home sales are all expected to moderate further. Further regional manufacturing survey data and durable goods orders for Nov are also out this week. Finally, the third version of US GDP for Q3 is expected to confirm growth of +5.2%.

Global inflation data is broadly expected to show continued progress on disinflation. CPI data for the Euro area is expected to confirm headline inflation slowed to +2.4% in Nov and fell by 0.5% over the month. Canada's CPI rate is expected to slow to +2.9% over the year in Nov and by -0.2% over the month. UK inflation is expected to slow to +4.4% over the year, and by +0.2% over the month in Nov. Finally, Japanese National CPI is expected to slow, with the main BoJ measure of core CPI ex fresh food expected to slow to +2.5% over the year.

The BoJ will meet this week on policy. Policy settings are expected to be unchanged at this meeting. Updates to forecasts are not due until the next meeting.

Finally, the RBA minutes will be released. The Board kept the cash rate on hold in Dec for two main reasons; not much news during the inter-meeting period (the monthly inflation series doesn't provide enough insight into services inflation) and holding the cash rate would allow some time for the latest rate hike to take effect. The minutes should provide some detail about the case to hold rates steady. The Aus labor market report for Nov showed that the economy is still generating strong job growth. However, the unemployment rate ticked higher to 3.9% from 3.8% due to even stronger growth in the size of the labor market – from the latest increase to a new series high in the participation rate.

US Treasury Issuance; 18 -22 Dec 2023

This week, the US Treasury will auction and settle approx. \$429bn in ST Bills, with a net paydown of -\$3bn.

The US Treasury will also auction the 20-Year Bond and 2-Year FRN this week – to settle over the next two weeks.

QT this week: Approx \$2.1bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$1.7bn in ST Bills will mature and roll off (redeemed) the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
18-22 Dec	14-Dec	19-Dec	4 week Bill	80			Actual 5.270%	5.285%
	14-Dec	19-Dec	8 week Bill	80			Actual 5.275%	5.275%
	13-Dec	19-Dec	17 week Bill	56			Actual 5.250%	5.240%
				216	230	-14		
	18-Dec	21-Dec	13 week Bill	75			Announced	5.260%
	18-Dec	21-Dec	26 week Bill	68			Announced	5.190%
	19-Dec	21-Dec	42 Day CMB	70			Announced	5.285%
				213	202	11		
			Total - securities setting this week	429	432	-3		
			Net New Cash Raised Qtr to Date	6150	5472	678		
			<i>Estimated Net Cash to be Raised Q4</i>			<i>776</i>		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		19-Dec	ST Bills	1.0				
		21-Dec	ST Bills	1.1				
				2.1				
			Maturing & redemption (balance sheet roll-off)					
		19-Dec	ST Bills	0.8				
		21-Dec	ST Bills	0.9				
				1.7				
			Upcoming Auctions	\$B				
	20-Dec	02-Jan	20yr Bond	13				
	21-Dec	29-Dec	5yr TIPS	20				

Quantitative Tightening Overview – Dec 2023

In December, the face value of Coupons maturing on the Fed balance sheet is approx. \$45.7bn. 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 \$31.4bn in ST Bills maturing this month, \$14.3bn will be redeemed and \$17.1bn will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Dec			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Dec-23	Notes & Bonds	14.2	
31-Dec-23	Notes & Bonds	31.5	
	Bills	14.3	17.1
	Total Notes & Bonds	60.0	17.1

December 2023 ST Bill maturity schedule;

Bill Maturity Schedule - Dec				Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk		Bill Redemption	Bill Reinvestment
2023/12/05	1.89	6%		0.9	1.0
2023/12/07	4.83	15%		2.2	2.6
2023/12/12	1.87	6%		0.8	1.0
2023/12/14	5.38	17%		2.4	2.9
2023/12/19	1.83	6%		0.8	1.0
2023/12/21	1.96	6%		0.9	1.1
2023/12/26	1.87	6%		0.9	1.0
2023/12/28	11.84	38%		5.4	6.5
	31.4	100%		14.3	17.1

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

Recommended US Treasury Financing – Q4 Announcement 2023

Q4; US Treasury financing requirements were revised slightly lower (from the prelim estimate of \$852bn) to \$776bn in new money to be raised over the quarter. The estimate for new money raised from ST Bills was lower at \$437.45bn and Coupons were unchanged at \$338.55bn. This assumes an end-of-Q4 cash balance of \$750bn.

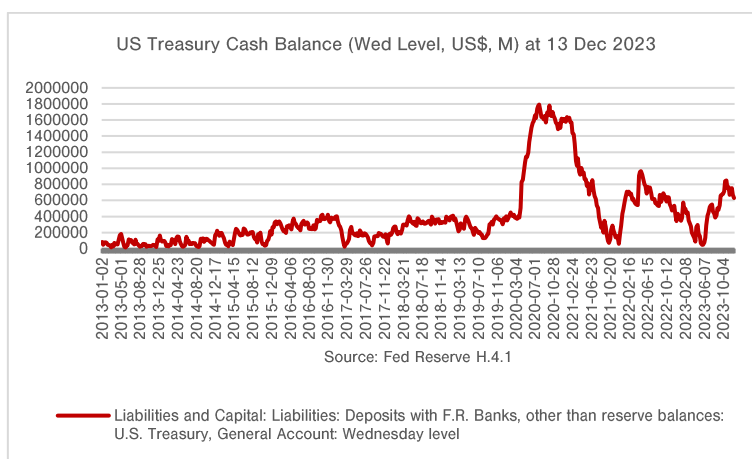
The borrowing estimate is \$76 billion lower than announced in July 2023, largely due to projections of higher receipts somewhat offset by higher outlays. (US Dept of Treasury – [Announcement](#))

Q1 2024; The US Treasury expects to borrow \$816bn in privately held net marketable debt, assuming an end-of-Q1 cash balance of \$750bn.

The Quarterly Refunding Statement had several important points (the full statement is [HERE](#)).

US Treasury Cash Levels (TGA)

As of Wed 13 Dec, the level of the TGA decreased to \$630bn (-\$37bn compared to the week prior). The current TGA balance is approx. \$288bn *higher* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheet&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 18 DECEMBER 2023

MONDAY 18 DECEMBER (US Eastern Time, unless stated otherwise)

US	NAHB Housing Market Index (Dec)
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Aus	RBA Minutes
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Japan	BoJ Monetary Policy Meeting
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China	PBoC Rates Decision (TBC)
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TUESDAY 19 DECEMBER

Europe	Euro Area CPI – Final (Nov)
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US	Building Permits & Housing Starts (Nov)
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Canada	CPI (Nov)
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Japan	Merchandise Trade Balance, Exports, and Imports (Nov)
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WEDNESDAY 20 DECEMBER

UK	CPI (Nov)
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US	MBA Mortgage Applications wk ending 15 Dec, Existing Home Sales (Nov)
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THURSDAY 21 DECEMBER

US	Initial Jobless Claims wk ending 15 Dec, GDP Q3 Final, Philadelphia Fed Manufacturing Survey (Dec), Kansas City Fed Manufacturing Survey (Dec)
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Canada	Retail Sales (Nov)
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Japan	National CPI (Nov)
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FRIDAY 22 DECEMBER

UK	GDP Q3, Retail Sales (Nov)
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US	PCE Price Index (Nov), Personal Spending and Income (Nov), Durable Goods Orders (Nov), New Home Sales (Nov), University of Michigan Consumer Sentiment – Final (Dec)
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