

## Key events this week – US non-farm payrolls, RBA & BoC meetings, GDP Q3; Aus, Japan and the Euro Area

Recap from last week: Progress on slowing US and Euro Area inflation has reignited optimism for a policy shift with markets pricing a larger number of rate cuts in 2024.

In the US, better-than-expected progress on PCE inflation, amid signs of easing growth momentum and some dovish central bank signaling, saw up to five rate cuts priced for 2024 and commencing as early as Q1. US PCE headline inflation eased more than expected to +3% over the year in Oct – which is now below the lower end of the current FOMC projections for the year (PCE inflation projection range is +3.1% to +3.8%). Core PCE inflation slowed as expected to +3.5% in Oct, with the monthly pace slowing to +0.2%. Measures of underlying inflation, such as core services ex shelter slowed more notably in Oct to +3.2% from +3.5% in Sept.

The speech from Fed Governor Waller garnered the most attention before the PCE inflation report. He was ‘increasingly confident’ that policy was tight enough (signaling not likely to see another hike). While “monetary policy has to work now to get inflation back to 2%”, he did outline a potential path for a Fed policy shift, as a means to align rates with slower inflation;

If the decline in inflation continues "for several more months ... three months, four months, five months ... we could start lowering the policy rate just because inflation is lower," he said. "It has nothing to do with trying to save the economy. It is consistent with every policy rule. There is no reason to say we will keep it really high." (Source: [Reuters](#), 29 Nov 2023)

The FOMC will need to manage the risk that easing policy could slow the progress of bringing down inflation. For now, core inflation remains well above the 2% target and unemployment remains historically low. There are signs that growth is slowing from the robust pace of +4.9% in Q3 and the [Atlanta Fed GDP Nowcast](#) for Q4 did take a step down to 1.2% last week on slower personal spending growth, but it's too early to call. Fed Chair Powell sought to address the enthusiasm for slowing inflation leading to a policy pivot;

“It would be premature to conclude with confidence that we have achieved a sufficiently restrictive stance, or to speculate on when policy might ease. We are prepared to tighten policy further if it becomes appropriate to do so.” US Fed Chair Powell, [Opening Remarks, 1 Dec 2023](#)

The prelim Euro Area CPI for Nov also slowed more than expected. Headline CPI slowed to +2.4% in Oct with the monthly pace falling by -0.5% led by falls in energy and services prices. Core CPI also slowed by more than expected to +3.6% (from +4.2% in Oct). The slowing inflation seems to be more consistent with stalling growth in the Euro Area.

The monthly Aus inflation indicator eased by more than expected with headline inflation slowing to +4.9%. The core trimmed mean measure slowed slightly to +5.3% suggesting that inflationary pressures in the center of the distribution remain broad. The tradable versus non-tradable view of inflation will likely reinforce the RBA governor's view that inflation has become more domestically focused. Non-tradable inflation has eased from a peak of +7.7% in Jan 2023 to +6% in Oct.

Outlook for the week ahead: US labor market data will be the key focus this week. It will be an important and timely data release to help round out the view of the US economy as we look for signs of moderating demand and further easing of wage growth ahead of next week's CPI for Nov and the FOMC meeting on 12-13 Dec.

US non-farm payrolls are expected to rebound to +180k in Nov after weaker growth in Oct of +150k (impacted by labor disputes). The unemployment rate is expected to stay unchanged at 3.9%. Average weekly earnings growth is expected to pick up slightly to +0.3% over the month but stay around 4% over the year. The Oct (lagging) JOLTS data is expected to show a continued slowing in labor demand with job openings easing to 9.4m.

The RBA will meet this week and is expected to keep policy rates unchanged at 4.35% after hiking by 25bps at the previous meeting. Since the last meeting, RBA Governor Bullock has noted that the nature of inflation in Aus has become “increasingly homegrown and demand-driven”, highlighting the role of monetary policy in addressing inflation. Later in the week, Aus Q3 GDP is expected to show that growth slowed to +0.3% over the quarter (from +0.4% in Q2) and slowed to +1.7% over the year.

The BoC will meet this week and is expected to keep policy rates unchanged at 5%. At the last meeting, the Governing Council noted concerns over persistent underlying inflation (with a special note on the war in Israel and Gaza as a new source of geopolitical uncertainty) – but since then headline and core measures of inflation have continued to ease. Last week, Q3 GDP declined by -0.3% (expecting growth to be flat) as exports declined and household consumption growth stalled.

The second release of Japanese Q3 GDP is expected to confirm the -0.5% contraction (from +1.2% in Q2). The fall in GDP was led by the change in inventories which offset a muted contribution from household consumption, private investment, and net export growth.

The second release of the Euro Area Q3 GDP is also expected to confirm growth stalling at -0.1% in Q3.

The remainder of the S&P Global Services PMI's for Nov will be released this week.

## US Treasury Issuance; 4 – 8 Dec 2023

This week, the US Treasury will auction and settle approx. \$429bn in ST Bills raising approx. \$6bn in new money.

QT this week: Approx \$3.7bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$3.1bn 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 %
4-8 Dec	30-Nov	05-Dec	4 week bill	80			Actual 5.290%	5.300%
	30-Nov	05-Dec	8 week bill	80			Actual 5.280%	5.280%
	29-Nov	05-Dec	17 week bill	56			Actual 5.240%	5.260%
				216	221	-5		
	04-Dec	07-Dec	13 week bill	75			Announced	5.280%
	04-Dec	07-Dec	26 week bill	68			Announced	5.240%
	05-Dec	07-Dec	42 Day CMB	70			Announced	5.285%
				213	202	11		
			<b>Total - securities settling this week</b>	<b>429</b>	<b>423</b>	<b>6</b>		
			<b>Net New Cash Raised Qtr to Date</b>	<b>5184</b>	<b>4566</b>	<b>618</b>		
			<i>Estimated Net Cash to be Raised Q4</i>			776		
			<b>Face value of US Federal Reserve SOMA securities maturing</b>	<b>\$B</b>				
			<b>Maturing &amp; reinvestment</b>					
		05-Dec	ST Bills	1.0				
		07-Dec	ST Bills	2.6				
				3.7				
			<b>Maturing &amp; redemption (balance sheet roll-off)</b>					
		05-Dec	ST Bills	0.9				
		07-Dec	ST Bills	2.2				
				3.1				

## 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
<b>Total Notes &amp; Bonds</b>		<b>60.0</b>	<b>17.1</b>

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	5.36	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](#));

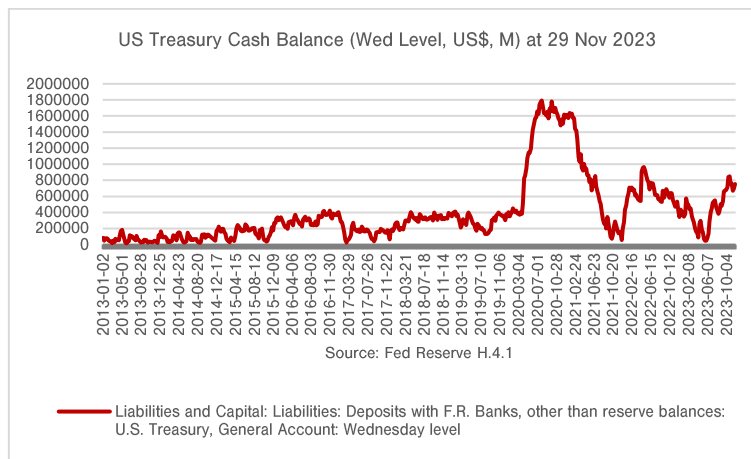
Nominal Coupon and FRN Financing; Auction sizes will continue to be adjusted through to the end of Jan 2024. The US Treasury plans to increase auction sizes for the 2-year through to the 7-year Note. Auction sizes for the 10-year Note, 20-year Bond, and 30-year Bond will be increased by a smaller degree.

Bill Issuance; The US Treasury plans to make “modest reductions” to short-dated bill auction sizes that will likely then be maintained through mid-to-late January. The US Treasury will consider whether to change the regular 6-week CMB to benchmark status.

**Buybacks:** The US Treasury “continues to make significant progress on its plans to implement a regular buyback program in 2024”. An update on the timing for implementing the program will be provided at the next quarterly refunding announcement (31 Jan 2024).

## US Treasury Cash Levels (TGA)

As of Wed 29 Nov, the level of the TGA increased to \$753bn (+\$60bn compared to the week prior). The current TGA balance is approx. \$220bn *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 4 DECEMBER 2023

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### MONDAY 4 DECEMBER (US Eastern Time, unless stated otherwise)

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US	Factory Orders (Oct)
Japan	Tokyo CPI (Oct), S&P Services PMI Final (Nov)
Australia	Current Account Balance Q3, S&P Services PMI Final (Nov) RBA Monetary Policy Meeting

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### TUESDAY 5 DECEMBER

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Europe	Eurozone S&P Services PMI Final (Nov), PPI (Oct)
UK	S&P Services PMI Final (Nov)
US	S&P Services PMI Final (Nov), ISM Services PMI (Nov), JOLTS (Oct)
Australia	GDP Q3

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### WEDNESDAY 6 DECEMBER

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Europe	Germany Factory Orders (Oct), Eurozone Retail Sales (Oct)
US	MBA Mortgage Applications wk ending 2 Dec, ADP Employment Change (Nov)
Canada	BoC Monetary Policy Meeting
China	Trade Balance, Exports & Imports (Nov)

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### THURSDAY 7 DECEMBER

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Europe	Germany Industrial Production (Oct), Eurozone GDP (second release) Q3
US	Initial Claims wk ending 2 Dec, Challenger Job Cut Announcements (Nov), Consumer Credit Chg. (Oct)
Japan	GDP (second release) Q3
Canada	BoC Macklem speech

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### FRIDAY 8 DECEMBER

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Europe	Germany CPI – Final (Nov)
US	Non-Farm Payrolls and Labor Market Survey (Nov), University of Michigan Consumer Sentiment – Prelim (Dec)
China	CPI & PPI (Nov)

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