

Key events this week – US retail sales & housing data, US Fed Governor Waller speech, CPI; Japan, UK, Eurozone, and Canada

Recap from last week: Speeches by Fed officials reiterated that a range of policy outcomes were still possible – pushing back on markets and the degree of easing so far priced in. The message from Dallas Fed President Logan (speech [here](#)) and NY Fed President Williams (speech [here](#)); there has been ‘meaningful’ progress on inflation, and data is moving in the right direction, however, we are still ‘a ways from our price stability goal’ and will need to keep a sufficiently restrictive stance ‘for some time’ to ‘fully achieve’ the 2% inflation target. Some frustration was expressed around the easing of financial conditions potentially making the job harder to bring down inflation.

Both Williams and Logan discussed the path of QT suggesting that changes to QT may be on the table, however, Williams pushed back on an imminent need to slow the pace of QT.

US CPI came in slightly higher than expected – indicating less progress on inflation this month. US headline CPI was +3.3% in Dec, up slightly from +3.1% in Nov. Core CPI eased to +3.9% from +4% in Nov. Parts of underlying/core inflation have stayed stickier this month (shelter). The trimmed mean inflation slowed to +3.9% over the year, as the monthly pace accelerated to +0.35% in Dec. The PPI report for Dec reflected faster easing in some prices with final demand prices falling by -0.1% over the month and staying at around +1% over the year. Core PPI also came in lower than expected. The PPI result suggests that the upcoming PCE price index (Fed preferred inflation measure) is likely to continue to improve in Dec. After the US CPI and PPI reports, markets were pricing rate cuts to start in Mar with potentially seven further rate cuts through the year (source; [CME at 15 Jan](#)).

Outlook for the week ahead: So far, the tightening cycle in the US has correlated with an easing in the supply/demand imbalance in the labor market and a more rapid improvement in inflation over the last six months. Growth has slowed from the fast pace of Q3 but is still tracking at around +2.2% for Q4 (latest [Atlanta Fed GDPNow](#) 10 Jan). The focus this week shifts to US retail sales and housing data to round out the growth picture at the end of 2023.

US retail sales are expected to increase by +0.4% in Dec, up from +0.3% in Nov.

Housing market data for Dec is expected to show further stabilization in activity as mortgage rates remain below recent peaks. New housing permits are expected to increase to 1.47m (SAAR basis) and housing starts are expected to be somewhat lower at 1.415m (SAAR). Existing home sales are expected to increase slightly to 3.83m on an annualized basis.

There will be a range of Fed speeches throughout the week. The focus will be on Fed Governor Waller speaking on the Economic Outlook at the Brookings Institution. The Q&A from his Nov speech (“Something appears to be giving”- [here](#)) was notable for suggesting that if inflation continues falling for several more months, the policy rate could be lower. Waller was unsure whether the FOMC had done enough to achieve price stability, and noted that “data we receive over the next couple of months will help answer that question”. We’ll be looking to Governor Waller this week to review the data since that speech, especially the latest inflation numbers, and what he thinks it means for the path of policy, in preparation for the FOMC meeting at the end of Jan.

The path of inflation remains a key focus outside of the US with CPI reports for; Canada, the UK, the Euro Area (final release), and Japan. Inflation is expected to continue to ease.

The Aus labor market survey for Dec will be released this week. Net employment growth is expected to slow to +16k in Dec, from +61k in Nov. The unemployment rate is expected to stay unchanged at 3.9% while participation is expected to fall slightly.

Growth data out of China will also be in focus with Q4 GDP, industrial production and retail sales for Dec to be released this week.

US Treasury Issuance; 15 - 19 January 2024

This week, the US Treasury will auction and settle approx. \$539bn in ST Bills, Notes, and Bonds raising approx. \$29bn in new money. The US Treasury will also auction the 10-year TIPS and the 20-year Bond this week – to settle at the end of the month.

QT this week: Approx \$9.3bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$27.4bn in ST Bills, Notes, Bonds, and TIPS will mature and roll off 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 %
15 Jan - National Martin Luther King, Jr Day							
15-19 Jan	11-Jan	16-Jan	4 week Bill	80		Actual 5.280%	5.290%
	11-Jan	16-Jan	8 week Bill	80		Actual 5.275%	5.285%
	10-Jan	16-Jan	17 week Bill	56		Actual 5.180%	5.200%
				216	215	1	
	16-Jan	18-Jan	13 week Bill	75		Announced	5.235%
	16-Jan	18-Jan	26 week Bill	68		Announced	5.030%
	16-Jan	18-Jan	42-Day CMB	70		Announced	5.280%
				213	203	10	
	09-Jan	16-Jan	3yr Note	52		Actual 4.105%	4.490%
	10-Jan	16-Jan	10yr Note	37		Actual 4.024%	4.296%
	11-Jan	16-Jan	30yr Bond	21		Actual 4.229%	4.344%
				110	91.9	18	
			Total - securities settling this week	539	510	29	
			Net New Cash Raised Qtr to Date	1565	1450	115	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			578	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		16-Jan	ST Bills	1.1			
		18-Jan	ST Bills	8.2			
				9.3			
			Maturing & redemption (balance sheet roll-off)				
		16-Jan	Notes, Bonds, and TIPS	25.9			
		16-Jan	ST Bills	0.2			
		18-Jan	ST Bills	1.3			
				27.4			
			Upcoming Auctions	\$B			
	18-Jan	31-Jan	10yr TIPS	18			
	17-Jan	31-Jan	20yr Bond	13			
				31			

Quantitative Tightening Overview – Jan 2024

In January, the face value of Coupons maturing on the Fed balance sheet is approx. \$53.4bn. 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 \$48bn in ST Bills maturing this month, \$6.6bn will be redeemed and \$41.4bn will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Jan 2024			
			\$60
			Reinvest \$ Bn
			Redeem \$Bn
15-Jan-24	Notes, Bonds, and TIPS		25.9
31-Jan-24	Notes, Bonds, and FRNs		27.5
	Bills		6.6
	Total Notes & Bonds		60.0
			41.4

January 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Jan 2024			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2024/01/02	1.30	3%	0.2	1.1	
2024/01/04	10.17	21%	1.4	8.8	
2024/01/09	1.31	3%	0.2	1.1	
2024/01/11	9.09	19%	1.3	7.8	
2024/01/16	1.28	3%	0.2	1.1	
2024/01/18	9.46	20%	1.3	8.2	
2024/01/23	1.39	3%	0.2	1.2	
2024/01/25	12.75	27%	1.8	11.0	
2024/01/30	1.24	3%	0.2	1.1	
	48.0	100%	6.6	41.4	

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

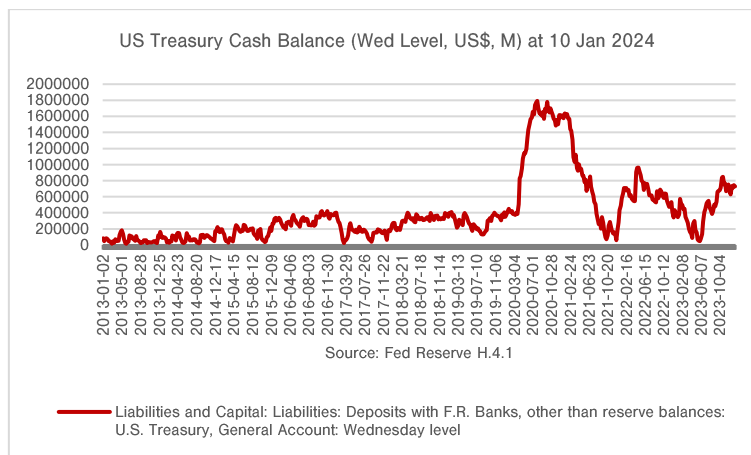
Recommended US Treasury Financing – Prelim Q1 2024

Q1 2024; The prelim estimate of the US Treasury borrowing requirement for Q1 is \$816bn in privately held net marketable debt, assuming an end-of-Q1 cash balance of \$750bn. The next quarterly refunding update will be on 29 and 31 Jan 2024.

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. This assumes an end-of-Q4 cash balance of \$750bn. The estimated end-of-quarter Q4 net cash raised was \$741bn with an end-of-quarter cash balance closer to \$713bn (as of 27 Dec 2023).

US Treasury Cash Levels (TGA)

As of Wed 10 Jan 2024, the level of the TGA decreased to \$728bn (-\$15bn compared to the week prior). The current TGA balance is approx. \$381bn *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/ambs_operation_schedule

WEEK COMMENCING 15 JANUARY 2024

MONDAY 15 JANUARY (US Eastern Time, unless stated otherwise)

Australia ANZ Job Ads (Dec) (Sunday), Westpac Consumer Confidence (Jan)

Europe Eurozone Industrial Production (Nov)

Canada BoC Business Outlook Survey

WEF - Davos

US MLK Jr Birthday – National Holiday

TUESDAY 16 JANUARY

Europe Germany CPI – Final (Dec)

UK Labour Market Survey (3mths to Nov)

Canada CPI (Dec)

US NY Empire State Manufacturing Index (Jan), US Fed Governor Waller – speech on the Economic Outlook (Brookings)

China GDP Q4, Fixed Asset Investment, Industrial Production, and Retail Sales (Dec)

WEDNESDAY 17 JANUARY

UK CPI (Dec)

Europe Euro Area CPI – Final (Dec)

US MBA Mortgage Apps wk ending 12 Jan, Retail Sales (Dec), Industrial Production (Dec), NAHB Housing Market Index (Jan), Export/Import Prices (Dec)
Fed Beige Book, Fed speeches; Bowman, Williams

Australia Labour Market Survey (Dec)

THURSDAY 18 JANUARY

Europe ECB Minutes

US Initial Jobless Claims wk ending 12 Jan, Housing Permits & Starts (Dec), Philadelphia Fed Manufacturing Index (Jan), Fed speeches: Bostic

Japan CPI (Dec)

FRIDAY 19 JANUARY

UK Retail Sales (Dec)

Canada Retail Sales (Nov)

US Existing Home Sales (Dec), University of Michigan Consumer Sentiment Prelim (Jan), Fed speeches: Daly
