

Key events this week – Central banks; BoJ, BoC, and ECB, US PCE inflation, Prelim PMIs Jan

Recap from last week: As markets anticipate the start of the US rate-cutting cycle, US Fed Governor Waller provided important context and markers around the FOMC projections of (a median of) three rate cuts through 2024. He was clear on one thing; the FOMC will now likely have a more balanced focus between the dual mandates of 2% inflation and full employment as it moves to calibrate policy settings.

While the emphasis of policy since that time has been on pushing down inflation, given the strength of the current labor market the **FOMC's focus now is likely to be more balanced: keeping inflation on a 2 percent path while also keeping employment near its maximum level.** Today, I view the risks to our employment and inflation mandates as being more closely balanced. Source: Governor Waller, [Speech at The Brookings Institution](#)

Labor demand has slowed through the tightening cycle via a lower vacancy rate (from a peak of 7.5% to 5.3% in Nov) while unemployment/involuntary separations have stayed low. According to Waller's research, the US labor market is approaching a point where a lower vacancy rate could mean a notable increase in unemployment;

We showed in our research that if the vacancy rate continued to fall **below 4.5 percent** there would be a significant increase in the unemployment rate. So, from now on, the **setting of policy needs to proceed with more caution to avoid over-tightening.**

Waller noted that economic activity and the labor market 'was in good shape' and he was 'more confident than since 2021' that inflation was on the path to 2%. To keep the economy on this trajectory, the FOMC can consider lowering the policy rate "to keep the real policy rate at an appropriate level of tightness" without the need to "cut as rapidly as in the past". Data dependence remained the important caveat. On the subject of timing, more information would be needed "in the coming months" to confirm that inflation is on a sustainable path to 2%. One important hurdle on that path is the Jan CPI revisions (9 Feb) – along with key labor market reports.

US data last week was in line with the recent shape of US growth trends – led by robust consumer spending and weakness in manufacturing. Consumer retail sales growth was higher than expected in Dec. Anecdotes in the Fed Beige Book also noted strong consumer holiday spending and increased leisure travel. Consumer sentiment moved higher at the start of Jan and initial claims fell below +200k.

Manufacturing activity stayed weaker. The NY Empire State Manufacturing survey for Jan showed widespread contraction in orders and the Beige Book noted that nearly all districts reported decreases in manufacturing activity. Within the industrial production report, manufacturing output in Dec was up +0.1% in Dec.

US housing data was mixed as mortgage rates continued to ease. Home builder sentiment increased by more than expected but the recovery was uneven across the regions. Mortgage applications continued to grow. Housing permits were higher, housing starts were lower, and completions rose notably into the end of 2023. Existing home sales fell in Dec to a new pandemic low.

Piecing this together, the advance release of US GDP this week is expected to show that growth slowed to +2% in Q4 from the very fast pace of +4.9% in Q3.

Outlook for the week ahead: The main focus this week will be US PCE inflation. This is the preferred measure of inflation for the FOMC and a further slowing of inflation will be important for sentiment around the timing of rate cuts. US PCE inflation for Dec is expected to be +2.6% (unchanged from Nov) over the year and +0.2% over the month. Core PCE inflation is expected to slow to +3% in Dec from +3.2% in Nov and increase to +0.2% over the month (from +0.1% in Nov). The FOMC projections for 2023 year-end PCE inflation are; +2.8% headline and +3.2% core. The FOMC meets next week.

There will be several central bank meetings this week. Settings are expected to be unchanged however central banks may start to adjust guidance as inflation eases. The Bank of Japan is expected to keep policy settings unchanged. Last week, the Japanese national CPI continued to improve as headline and core inflation rates slowed.

The Bank of Canada is expected to keep policy settings unchanged. At the prior meeting, the BoC noted that there had been clearer signs that monetary policy was helping to moderate spending and relieve price pressures. The increase in Canada's headline CPI in Dec was partly the result of gasoline price base effects. The trimmed mean inflation rate increased to +3.7% from +3.5% in Nov suggesting some persistence in underlying inflation. The latest BoC Business Outlook Survey noted some softening in firm's output price growth, however, wage growth was 'expected to ease only gradually'.

The ECB is also expected to keep policy settings unchanged at this meeting. At the last meeting, the ECB noted that inflation had eased, but that domestic price pressures remain elevated. The Euro area CPI for Dec was confirmed at +2.9% - higher than in Nov but a 'temporary' increase was expected at the last ECB meeting. Underlying inflation continued to ease, and slowed to +3.4% in Dec.

Finally, the prelim S&P PMIs for Jan will be released this week providing some insight into growth momentum at the start of 2024.

US Treasury Issuance; 22 - 26 January 2024

This week, the US Treasury will auction and settle approx. \$496bn in ST Bills raising approx. \$49bn in new money. The US Treasury will also auction the 7-Year, 5-Year, and 2-Year Notes and the 2-Year FRN this week – to settle at the end of the month (next week).

QT this week: Approx \$12.2bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$2bn in ST Bills 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 %
22-26 Jan	18-Jan	23-Jan	4 week Bill	85			Actual 5.285%	5.280%
	18-Jan	23-Jan	8 week Bill	85			Actual 5.275%	5.275%
	17-Jan	23-Jan	17 week Bill	58			Actual 5.185%	5.180%
				228	210	18		
	22-Jan	25-Jan	13 week Bill	77			Announced	5.225%
	22-Jan	25-Jan	26 week Bill	70			Announced	4.975%
	23-Jan	25-Jan	42-Day CMB	75			Announced	5.285%
	23-Jan	25-Jan	52 week Bill	46			Announced	4.595%
				268	237	31		
			Total - securities settling this week	496	447	49		
			Net New Cash Raised Qtr to Date	2061	1897	164		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			816		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		23-Jan	ST Bills	1.2				
		25-Jan	ST Bills	11.0				
				12.2				
			Maturing & redemption (balance sheet roll-off)					
		23-Jan	ST Bills	0.2				
		25-Jan	ST Bills	1.8				
				1.9				
			Upcoming Auctions	\$B				
	23-Jan	31-Jan	2yr Note	60				
	24-Jan	31-Jan	2yr FRN	28				
	24-Jan	31-Jan	5yr Note	61				
	25-Jan	31-Jan	7yr Note	41				
				190				

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
		Redeem \$Bn	Reinvest \$ Bn
15-Jan-24	Notes, Bonds, and TIPS	25.9	
31-Jan-24	Notes, Bonds, and FRNs	27.5	
	Bills	6.6	41.4
	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>

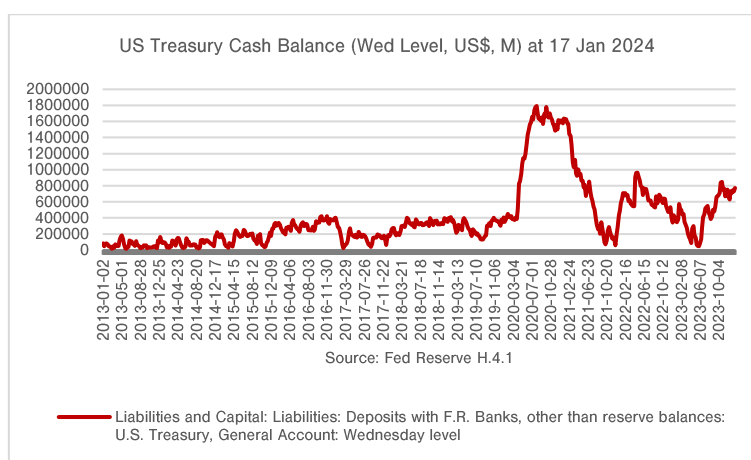
Recommended US Treasury Financing – Prelim Q1 2024

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 **next week on 29 and 31 Jan 2024**.

Q4 2023; 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 assumed 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 17 Jan 2024, the level of the TGA increased to \$773bn (+\$45bn compared to the week prior). The TGA balance is approx. \$396bn *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

WEEK COMMENCING 22 JANUARY 2024

MONDAY 22 JANUARY (US Eastern Time, unless stated otherwise)

Australia	NAB Business Conditions and Confidence (Dec)
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Japan	Bank of Japan Monetary Policy Meeting
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TUESDAY 23 JANUARY

US	Richmond Fed Manufacturing Survey (Jan)
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NZ	CPI Q4
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Australia	S&P Prelim Manufacturing & Services PMI (Jan)
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Japan	Merchandise Trade Balance, Exports, and Imports (Dec), S&P Prelim Manufacturing & Services PMI (Jan)
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WEDNESDAY 24 JANUARY

Europe	Eurozone S&P Prelim Manufacturing & Services PMI (Jan)
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UK	S&P Prelim Manufacturing & Services PMI (Jan)
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Canada	Bank of Canada Monetary Policy Meeting
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US	MBA Mortgage Apps wk ending 20 Jan, S&P Prelim Manufacturing & Services PMI (Jan)
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THURSDAY 25 JANUARY

Europe	ECB Monetary Policy Meeting
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US	Initial Jobless Claims wk ending 20 Jan, Durable Goods Orders (Dec), Advance GDP Q4, New Home Sales (Dec), Kansas City Fed Manufacturing Index (Jan)
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Japan	Tokyo CPI (Dec)
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FRIDAY 26 JANUARY

US	PCE Price Index (Dec), Personal Income & Spending (Dec), Pending Home Sales (Dec)
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