

Key events this week – FOMC and BoE meetings, US non-farm payrolls, Aus Q4 CPI, Euro Area prelim CPI & GDP Q4

Recap from last week: There was more good news on US growth and inflation last week.

US GDP growth came in higher than expected at +3.3% annualized in Q4, beating expectations for a moderation to +2%. GDP growth has not slowed as much as the FOMC expected. At the end of 2023, the median projection for GDP growth over 2023 was upgraded to +2.6% (range between +2.5% and +2.7%) – the actual year-on-year growth rate in the advance Q4 GDP release last week was +3.1%.

Importantly, against this backdrop of more buoyant growth, US PCE inflation continued to ease. Headline PCE inflation stayed at +2.6% over the year with the monthly pace rising to +0.2% as expected. This has again come in below the FOMC median projection for the 2023 inflation rate of +2.8% and is below the lower bound of the projection range (+2.7% to +3.2%). These projections were only updated at the recent Dec FOMC meeting – suggesting that inflation is still easing faster than the FOMC expected. Annual core PCE inflation eased from +3.2% in Nov to +2.9% in Dec. The core PCE inflation rate also came in well below the FOMC median projection of +3.2% over the year ending Dec and well below the lower bound of the projection range (+3.2% to +3.7%).

The BoC and ECB kept policy settings unchanged. BoC deliberations shifted from whether policy is restrictive enough, to how long to maintain the current level of restrictive rates. The ECB noted that restrictive policy settings are helping to push down inflation. While inflation is expected to ease further, it was premature to discuss rate cuts at this meeting. The BoJ also kept policy settings unchanged. However, a more meaningful shift in policy was hinted at during the press conference. The BoJ could have enough information on wage growth by the Apr meeting to decide on a shift away from negative interest rates with the possibility of several interest rate increases to follow.

The Jan prelim PMIs among the G4 suggested an improvement in growth momentum at the start of 2024. Services output growth accelerated while manufacturing PMIs became less negative. The lengthening of lead times was a theme among manufacturing PMI reports in Jan – due to conflicts in the Red Sea. There was a general link between an improvement in headline manufacturing PMIs and a less severe contraction in the manufacturing output index. The US headline manufacturing PMI improved to above 50 in Jan – somewhat at odds with the weaker US regional manufacturing surveys.

Outlook for the week ahead: The FOMC meets this week and is broadly expected to keep policy settings unchanged at this meeting. Signaling on the outlook will be important, especially given better growth and inflation metrics, but we don't expect to have a clear timing regarding the start of policy calibration. Despite the good inflation report for Dec, Governor Waller previously noted that the annual CPI revisions in the upcoming Jan report will be an important hurdle to confirming the inflation picture ahead of any policy changes. Governor Waller also noted that risks to the employment and inflation mandates have become more balanced – so more focus on labor market metrics could start to feature for the FOMC.

The US Jan labor market reports will be important later this week. While non-farm payrolls were elevated in Dec, the overall picture was mixed as weaker hiring and employment were offset by a fall in participation. Non-farm payrolls are expected to increase by +173k in Jan (+216k in Dec). Revisions to past payroll growth will stay in focus. The unemployment rate is expected to increase

slightly to 3.8% (from 3.7%), which suggests either a softening in employment growth or a rebound in participation (or a mix of both). The level of job openings is expected to be little changed at 8.75m in Dec (an approximate vacancy rate of 5.3%). Governor Waller's recent speech highlighted that a vacancy rate of 4.5% is an important benchmark for the outlook of labor market conditions.

The BoE will meet this week and is expected to keep policy settings unchanged.

Euro Area growth is expected to stay at a stalled pace while inflation continues to ease. Euro Area GDP growth for Q4 is expected to stay slightly negative at -0.1% over the quarter and at 0% over the year. The prelim Euro Area headline inflation rate for Jan is expected to ease to +2.8% (from +2.9% in Dec). Core inflation for the Euro Area is expected to ease to +3.2% (from +3.4% in Dec).

The Aus quarterly CPI for Q4 will be released this week ahead of the RBA meeting next week. Headline inflation is expected to slow to +0.8% over the quarter (from +1.2%) and to +4.3% over the year (from +5.4%).

The full suite of S&P global PMIs for Jan will be released, starting with manufacturing this week.

The US Treasury will provide its latest quarterly refunding announcement for Q1 and Q2 – on 29 and 31 Jan.

US Treasury Issuance; 29 January – 2 February 2024

This week, the US Treasury will auction and settle approx. \$690bn in ST Bills, Notes, Bonds, FRNs, and TIPS raising approx. \$96bn in new money.

QT this week: Approx \$16.4bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$27.6bn in ST Bills, Notes, Bonds, and FRNs 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 %
29 Jan - 2 Feb	25-Jan	30-Jan	4 week Bill	90			Actual 5.280%
	25-Jan	30-Jan	8 week Bill	90			Actual 5.275%
	24-Jan	30-Jan	17 week Bill	60			Actual 5.185%
				240	212	28	
	29-Jan	01-Feb	13 week Bill	79			Announced
	29-Jan	01-Feb	26 week Bill	70			Announced
	30-Jan	01-Feb	42-Day CMB	80			Announced
				229	203	26	
	23-Jan	31-Jan	2yr Note	60			Actual 4.385%
	24-Jan	31-Jan	2yr FRN	28			0.245% HDM
	24-Jan	31-Jan	5yr Note	61			Actual 4.055%
	25-Jan	31-Jan	7yr Note	41			Actual 4.109%
	18-Jan	31-Jan	10yr TIPS	18			Actual 1.810%
	17-Jan	31-Jan	20yr Bond	13			Actual 4.423%
				221	179	42	
			Total - securities settling this week	690	594	96	
			Net New Cash Raised Qtr to Date	2751	2491	260	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			816	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		30-Jan	ST Bills	1.1			
		01-Feb	ST Bills	15.4			
				16.4			
			Maturing & redemption (balance sheet roll-off)				
		30-Jan	ST Bills	0.2			
		31-Jan	Notes, Bonds, & FRNs	27.5			
				27.6			

Quantitative Tightening Overview – Feb 2024

In February, the face value of Coupons maturing on the Fed balance sheet is approx. \$77.3bn. This is more than the \$60bn monthly cap for balance sheet roll-off. This means that off the \$77.3bn of Coupons maturing, \$60bn will roll off the Fed balance sheet, and \$17.3bn will be reinvested. It also means that all ST Bills maturing on the Fed balance sheet in February will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - Feb 2024			
			\$60
		Redeem \$Bn	Reinvest \$ Bn
15-Feb-24	Notes & Bonds	31.0	8.9
29-Feb-24	Notes & Bonds	29.0	8.4
	Bills		70.1
	Total Notes & Bonds	60.0	87.4

February 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Feb 2024			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/02/01	15.38	22%		15.4
2024/02/05	1.21	2%		1.2
2024/02/08	11.94	17%		11.9
2024/02/13	1.17	2%		1.2
2024/02/15	13.62	19%		13.6
2024/02/20	1.21	2%		1.2
2024/02/22	14.42	21%		14.4
2024/02/27	0.78	1%		0.8
2024/02/29	10.37	15%		10.4
	70.1	100%	0.0	70.1

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

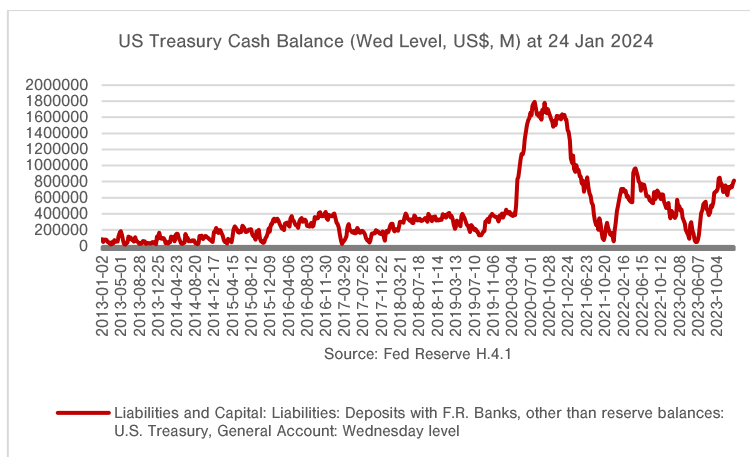
Recommended US Treasury Financing – Prelim Q1 2024

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 **this 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 24 Jan 2024, the level of the TGA increased to \$815bn (+\$41bn compared to the week prior). The TGA balance is approx. \$242bn 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 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 29 JANUARY 2024

MONDAY 29 JANUARY (US Eastern Time, unless stated otherwise)

US	Dallas Fed Manufacturing Index (Jan)
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Australia	Retail Sales (Dec)
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TUESDAY 30 JANUARY

Europe	Advance Euro Area GDP Q4
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US	Case-Shiller House Price Index (Nov), JOLTS (Dec)
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Japan	Retail Trade (Dec), Industrial Production – prelim (Dec)
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Australia	CPI Q4 (quarterly release), Monthly CPI (Dec)
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China	NBS Manufacturing and Non-Manufacturing PMI (Jan)
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WEDNESDAY 31 JANUARY

Europe	Germany Retail Sales (Dec), Germany CPI – Prelim (Jan)
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US	MBA Mortgage Apps wk ending 27 Jan, ADP Employment Change (Jan), Employment Cost Index Q4, Chicago PMI (Jan) FOMC Monetary Policy Meeting
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Australia	Export & Import Price Index Q4
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THURSDAY 1 FEBRUARY

Europe	Euro Area CPI – Prelim (Jan), EU Leaders Summit, ECB President Lagarde speech
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UK	BoE Monetary Policy Meeting
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US	OPEC Meeting (tbc), Initial Jobless Claims wk ending 27 Jan, Challenger Job Cut Announcements (Jan), Unit Labor Costs & Non-Farm Productivity Q4, ISM Manufacturing PMI (Jan)
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Australia	Housing Finance Lending (Dec)
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FRIDAY 2 FEBRUARY

US	Non-Farm Payrolls and Labor Market Survey (Jan), University of Michigan Consumer Sentiment – Final (Jan), Factory Orders (Dec)
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