

Key events this week – US CPI, Aus monthly CPI & retail sales

Recap from last week: Details of the latest FOMC deliberations provided some balanced commentary. The change in guidance to include ‘any additional tightening’ was intended to relay that while the FFR was likely at or near its peak, the door remained open to further tightening if appropriate. Other commentary highlighted the possibility of keeping the “target range at its current value for longer than they currently anticipated”, depending on how the economy continued to evolve. Concerns noted that the easing in financial conditions “beyond what is appropriate” could make it more difficult to reach the inflation goal. Despite the more balanced commentary, the SEP still reflects a consensus around several rate cuts for 2024, amid an “unusually elevated degree of uncertainty”;

In their submitted projections, almost all participants indicated that, reflecting the improvements in their inflation outlooks, their baseline projections implied that a lower target range for the federal funds rate would be appropriate by the end of 2024.

Source: [FOMC Minutes](#), 12-13 Dec 2023

The decision to keep rates unchanged in Dec was still deemed the appropriate path; job gains were slowing, growth had slowed from the fast pace of Q3, and generally tighter financial conditions were still expected to weigh on activity, hiring, and inflation. This remains the context going into 2024.

US labor market conditions continued to ease in Dec. The current labor market dynamic is one of resilience though; job growth is easing, but unemployment has stayed low. In Dec, non-farm payrolls came in stronger than expected at +216k, while the two prior months were revised lower by -71k. Annual growth in payrolls slowed further to 1.75% in Dec, the slowest pace of growth of the last year, and is now just above the 5-year pre-pandemic average. The household survey was less encouraging as employment fell markedly in Dec, reversing the stronger Nov gains. The unemployment rate was unchanged at 3.7% though (below the FOMC median projection of 3.8% for the year-end) due to the accompanying fall in participation. Average weekly hours were little changed. Annual average hourly earnings growth ticked up slightly to +4.1% in Dec but growth has consistently slowed from the +4.8% pace of a year ago.

The US PMI survey data for Dec showed that manufacturing activity remained weaker – this was consistent across both the ISM and S&P surveys. The PMIs provided a mixed view of momentum across services, however, growth remained positive across both surveys. At the end of the week, the [Atlanta Fed GDP Nowcast](#) ticked up to +2.5% for Q4 – led by growth in personal consumption expenditures (vehicle sales for Dec).

The prelim Eurozone CPI ticked higher as expected in Dec. Euro area inflation is expected to be +2.9% in Dec, up from +2.4% in Nov. Core CPI is expected to come in slightly lower than expected at +3.4%.

The S&P Global PMIs for Dec were more constructive into year-end. While global manufacturing activity stayed in mild contraction, it was offset by another moderate lift in services growth momentum.

Outlook for the week ahead: Inflation will be the main focus this week with US, Aus, and China CPI reports out this week.

US CPI for Dec is expected to continue to confirm the disinflation trend established during the latter part of 2023. In the latest FOMC minutes, upside risks to inflation were seen as having “diminished” but it was noted that inflation is still well above the Committee's longer-run goal. Headline CPI in Dec is expected to be +3.2%, up slightly from +3.1% in Nov. Over the month, CPI is expected to increase by +0.1% in Dec, up from 0% in Nov. Core CPI is expected to ease to +3.8% over the year in Dec from +4% in Nov and is expected to increase by +0.2% over the month, down slightly from +0.3% in Nov.

The Aus monthly CPI series for Nov will be released, ahead of the more comprehensive quarterly CPI update for Q4 due at the end of the month. In Nov, headline CPI is expected to have eased to +4.4% from +4.9% in Oct. The Nov retail sales are expected to increase by +1.2% over the month after falling by -0.2% in Oct.

US Treasury Issuance; 8 - 12 January 2024

This week, the US Treasury will auction and settle approx. \$429bn in ST Bills, raising approx. \$13bn in new money. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond this week – to settle next week.

QT this week: Approx \$9bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$1.4bn 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 %	
8-12 Jan 2024	04-Jan	09-Jan	4 week Bill	80			Actual 5.290%	
	04-Jan	09-Jan	8 week Bill	80			Actual 5.285%	
	03-Jan	09-Jan	17 week Bill	56			Actual 5.200%	
				216	215	1		
	08-Jan	11-Jan	13 week Bill	75			Announced 5.245%	
	08-Jan	11-Jan	26 week Bill	68			Announced 5.045%	
	09-Jan	11-Jan	42-Day CMB	70			Announced 5.290%	
				213	201	12		
				Total - securities settling this week	429	416	13	
				Net New Cash Raised Qtr to Date	1026	940	86	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			578		
Face value of US Federal Reserve SOMA securities maturing				\$B				
Maturing & reinvestment								
	09-Jan		ST Bills	1.1				
	11-Jan		ST Bills	7.8				
				9.0				
Maturing & redemption (balance sheet roll-off)								
	09-Jan		ST Bills	0.2				
	11-Jan		ST Bills	1.3				
				1.4				
Upcoming Auctions				\$B				
	09-Jan	16-Jan	3yr Note	52				
	10-Jan	16-Jan	10yr Note	37				
	11-Jan	16-Jan	30yr Bond	21				
				110				

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>

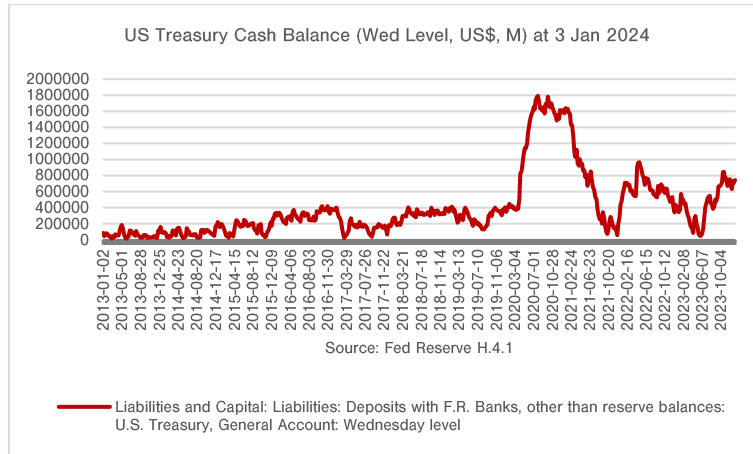
Recommended US Treasury Financing – Prelim Q1 2024

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 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 3 Jan 2024, the level of the TGA increased to \$743bn (+\$30bn compared to the week prior). The current TGA balance is approx. \$363bn *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 8 JANUARY 2024

MONDAY 8 JANUARY (US Eastern Time, unless stated otherwise)

Europe	Germany Factory Orders (Nov), Eurozone Retail Sales (Nov)
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US	Consumer Credit Change (Nov), Fed speeches; Bostic
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Australia	Retail Sales (Nov)
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TUESDAY 9 JANUARY

Europe	Germany Industrial Production (Nov)
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Australia	CPI – Monthly Series (Nov)
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WEDNESDAY 10 JANUARY

US	MBA Mortgage Apps wk ending 5 Jan, Fed speeches: Williams
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China	New Loans (Dec) - tbc
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THURSDAY 11 JANUARY

US	Initial Jobless Claims wk ending 5 Jan, CPI (Dec)
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Australia	Housing Finance (Nov)
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China	CPI & PPI (Dec)
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FRIDAY 12 JANUARY

US	PPI (Dec), Fed speeches; Kashkari
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China	Trade Balance, Exports, and Imports (Dec)
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