

Key events this week – US CPI, PPI, & retail sales, Aus labour market survey

Recap from last week: Among the larger economies, central bank guidance continues to shift from an outright tightening bias to maintaining current interest rates. Recent guidance from the FOMC, BoE, and ECB suggests that policy rates have likely peaked but may need to stay at current restrictive levels to continue to bring inflation back to target.

The RBA and the BoC have not fully ruled out the need for further rate hikes as policy rates stay on hold. Last week, the RBA kept rates unchanged while guidance maintained the optionality for a further increase in rates, depending on the evolution of data. Disinflation in Aus has not yet progressed as fast, and measures of domestic-led inflation remain elevated. The RBA also cited a highly uncertain outlook and a priority to return inflation to target among its reasons to keep policy rates unchanged. The updated forecast assumptions in the [latest SoMP](#) were based on a cash rate of 3.9% in H2 2024. The BoJ remains the outlier as it considers dismantling YCC and negative rates.

In Jan, the FOMC was more explicit in its guidance that the bias for the next move may be a cut in rates – but that cuts may take longer to materialize. Speeches by Fed officials last week continued to affirm there is no rush to cut rates. Fed Chair Powell made it clear in the recent press conference Q&A that the FOMC no longer expects weaker growth or rising unemployment to see further progress on inflation. However, having confidence that inflation is moving sustainably to 2% means seeing more than six months of good data. Not better data – just more good data;

“The question really is, that six months of good inflation data, is it sending us a true signal that we are, in fact, on a path, a sustainable path down to 2 percent inflation? That’s the question. And the answer will come from some more data that’s also good data. **It’s not that the six-month data isn’t low enough. It is.** It’s a question of, can we take that with confidence that we’re moving sustainably down to 2%?” US Fed Chair

Powell, [Press Conference Q&A, 31 Jan 2024](#)

US Fed Governor Waller’s [speech in Jan](#) indicated that one hurdle on the path of ‘good inflation data’ was the update to US CPI seasonal adjustment factors released last week and whether it affected the trend of disinflation during 2023. Importantly, there was no notable revision to the path of disinflation over the last year, and this implies no change in policy guidance.

Data flow was minimal last week. US activity reflected in various industry PMIs remained positive and suggested that growth ticked higher at a moderate pace in Jan. The US S&P manufacturing PMI lifted back above the neutral 50 level in Jan while the expansion in services activity continued to accelerate at a moderate pace. The latest US Fed senior loan officer opinion survey for Q4 suggests that lending standards were tightened in Q4, but that a “lower net share of banks reported tightening standards compared to Q3”.

The Global S&P PMIs suggested that economic activity increased in Jan as growth in orders and output increased to a ‘seven-month high’. Global services activity increased at the fastest pace in six months while manufacturing activity also shifted back into expansion led by output growth in consumer goods. Pockets of weak manufacturing conditions remain in the Euro Area (Germany and France).

Outlook for the week ahead: After stronger US payroll data for Jan, the focus shifts to US inflation, consumption, housing, and industrial data to round out the view of US economic activity at the start of 2024. The [Atlanta Fed GDPNowcast](#) for Q1 is still based on limited data and currently sits at an elevated +3.4%. The next update will be this week on 15 Feb.

US CPI for Jan is expected to be another 'good' inflation report for the FOMC. Headline CPI is expected to ease to +2.9% over the year in Jan (from +3.4% in Dec) and increase by +0.2% over the month in Jan (unchanged from +0.2% in Dec). Core CPI is expected to stay elevated at +3.8% over the year in Jan (down only slightly from +3.9% in Dec) and stay at +0.3% over the month in Jan (unchanged from +0.3% in Dec).

The US PPI for Jan will also be released this week; the headline PPI is expected to ease to +0.7% over the year in Jan (from +1% in Dec). Core PPI is expected to ease to +1.6% over the year in Jan (from +1.8% in Dec).

US retail sales growth is expected to stall in Jan at -0.1% after the much stronger than expected growth in Dec of +0.6%. The prelim reading from the University of Michigan consumer sentiment survey for Feb is expected to show a continued improvement in consumer sentiment as inflation eases.

The first view of US regional manufacturing surveys for Feb will be released and are expected to show a small improvement in activity compared to Jan. US industrial production in Jan is expected to increase by +0.3%, up from +0.1% in Dec.

US housing data for Jan is expected to be little changed as mortgage rates stabilize. New housing permits are expected to increase to 1.515m (SAAR) in Jan while housing starts are expected to increase slightly to 1.47m (from 1.46m in Dec).

There will be several Fed speeches this week, including Governor Waller ("The Dollar's International Role").

Aus labour market data for Jan will be released this week. The latest RBA decision noted that conditions continue to ease, but "remain tighter than is consistent with sustained full employment and inflation at target". Net employment growth is expected to rebound to +20k in Jan (from -65k in Dec) as participation is expected to increase to 66.9% and the unemployment rate edge up slightly to 4% (from 3.9% in Dec).

UK data will be in focus this week including the latest Q4 GDP, labour market for Dec, and retail sales and CPI for Jan.

US Treasury Issuance; 12 - 16 February 2024

This week, the US Treasury will auction and settle approx. \$595bn in ST Bills, Notes, and Bonds raising approx. \$67bn in new money.

QT this week: Approx \$23.7bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx \$31bn in Notes and Bonds will be redeemed.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
12-16 Feb	08-Feb	13-Feb	4 week Bill	95			Actual 5.280%	5.280%
	08-Feb	13-Feb	8 week Bill	90			Actual 5.270%	5.265%
	07-Feb	13-Feb	17 week Bill	60			Actual 5.180%	5.150%
				245	216	29		
	12-Feb	15-Feb	13 week Bill	79			Announced	5.235%
	12-Feb	15-Feb	26 week Bill	70			Announced	5.045%
	13-Feb	15-Feb	42-Day CMB	80			Announced	5.280%
				229	207	22		
	06-Feb	15-Feb	3yr Note	54			Actual 4.169%	4.105%
	07-Feb	15-Feb	10yr Note	42			Actual 4.093%	4.024%
	08-Feb	15-Feb	30yr Bond	25			Actual 4.360%	4.229%
				121	105	16		
			Total - securities settling this week	595	528	67		
			Net New Cash Raised Qtr to Date	3820	3438	382		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			760		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		13-Feb	ST Bills	1.2				
		15-Feb	ST Bills	13.6				
		15-Feb	Notes & Bonds	8.9				
				23.7				
			Maturing & redemption (balance sheet roll-off)					
		15-Feb	Notes & Bonds	31.0				
				31.0				

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 of 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		70.5
	Total Notes & Bonds	60.0	87.9

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
2024/02/06	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	20%		14.4
2024/02/27	1.21	2%		1.2
2024/02/29	10.37	15%		10.4
	70.5	100%	0.0	70.5

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

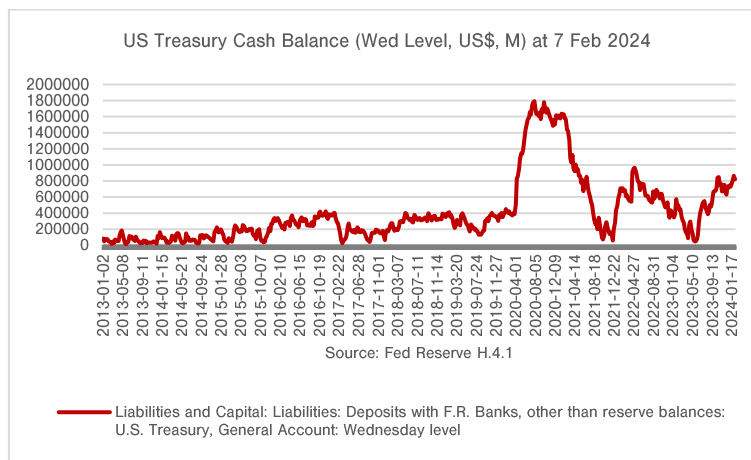
Recommended US Treasury Financing – Q1 and Prelim Q2 2024

Q1 2024; The estimate of the US Treasury borrowing requirement for Q1 is \$760bn in privately held net marketable debt, assuming an end-of-Q1 cash balance of \$750bn. The borrowing estimate is lower (than the prelim estimate) due to 'higher net fiscal flows' and a higher cash balance at the start of the quarter.

Q2 2024 prelim; The US Treasury expects to borrow \$202 billion in privately held net marketable debt, assuming an end-of-June cash balance of \$750 billion.

US Treasury Cash Levels (TGA)

As of Wed 7 Feb 2024, the level of the TGA decreased to \$821bn (-\$44bn compared to the week prior). The TGA balance is approx. \$325bn *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

CALENDAR W/C 12 FEBRUARY 2024

MONDAY 12 FEBRUARY (US Eastern Time, unless stated otherwise)

US Fed speeches: Bowman, Barkin, and Kashkari

UK BoE Governor Bailey speech

Australia NAB Business Conditions and Confidence (Jan)

TUESDAY 13 FEBRUARY

UK Labour Market Survey (3mths to Dec)

US NFIB Business Optimism Index (Jan), CPI (Jan)

OPEC Monthly Market Report

WEDNESDAY 14 FEBRUARY

UK CPI (Jan)

Europe Euro Area GDP Q4, Industrial Production (Dec), and Employment Q4

US MBA Mortgage Apps wk ending 10 Feb, Fed speeches; Goolsbee, Barr

Japan GDP Q4, Industrial Production – Final (Dec)

Australia Labour Market Survey (Jan)

THURSDAY 15 FEBRUARY

UK GDP Q4

Europe ECB President Lagarde speech

US Initial Jobless Claims wk ending 10 Feb, Retail Sales (Jan), Empire State Manufacturing Index (Feb), Philadelphia Fed Manufacturing Index (Feb), Industrial Production (Jan), NAHB Housing Market Index (Feb), Export & Import Price Indexes (Jan), Fed speeches; Governor Waller (“The Dollar’s International Role”)

FRIDAY 16 FEBRUARY

UK Retail Sales (Jan)

US Building Permits & Housing Starts (Jan), PPI (Jan), University of Michigan Consumer Sentiment – Prelim (Feb), Fed speeches; Barr, Daly
