

Key events this week; Inflation - US PCE inflation, Euro Area CPI, Japanese CPI, Aus CPI; US & Canada Q4 GDP; RBNZ Rates Decision

Recap from last week: Central bank minutes and speeches were in focus last week. The message theme from the FOMC & ECB minutes and speeches was; patience on rate cuts.

FOMC guidance shifted to rate cuts as the bias for the next move in policy rates. Guidance was changed as the upside inflation risk has diminished and this is likely the peak in policy rates. However, rate cuts may take longer to materialize – the Committee needs greater confidence that inflation is moving sustainably to 2%. The minutes note balancing the risk of cutting too early and stalling progress on inflation, with the risk of maintaining an ‘overly restrictive’ stance for too long. With the broader economy doing well, there is time to be patient. The Jan US CPI & PPI placed a question mark over the progress on disinflation. Since then, some speeches have suggested a need to see broader disinflation among goods and services to be more confident inflation is moving back down. Governor Waller’s speech last week noted that the Jan CPI report likely pushed back the timing of rate cuts to verify whether the Jan result was noise or the start of the new trend. Governor Waller specifically noted that the uptick in inflation was spread more widely among goods and services. He also noted that there was no rush to start to normalize policy rates but still expects to start that process this year.

One thing that is clear is that by many metrics, the U.S. economy is healthy and well positioned to continue growing and adding jobs.

That makes the decision to be patient on beginning to ease policy simpler than it might be. I am going to need to see at least another couple more months of inflation data before I can judge whether January was a speed bump or a pothole. Source: [Governor Waller, speech 22 Feb 2024](#)

The other important point from the minutes was that the FOMC will begin discussing ‘balance sheet issues’ at the Mar meeting to ‘guide an eventual decision to slow the pace of run-off’.

The ECB minutes held a similar message; that patience was still needed. Policy rates were kept on hold at the Jan meeting. Even though inflation had eased, progress on disinflation remained fragile, and loosening policy rates too early could undo some of the progress.

The RBA minutes outlined the case to keep rates on hold. Only two policy options were discussed – to hike or to hold. The risk that inflation wouldn’t return to the target range had eased, however, it would still be some time before the Board was sufficiently confident that inflation would return to target in a reasonable timeframe. The costs of inflation not returning to target in a reasonable timeframe were potentially very high; which led the Board to agree that it was appropriate not to rule out a further increase in the cash rate. The latest wage price index for Q4 was slightly higher than expected and real wages came in slightly positive for the first time since early 2021. With the CPI retreating and the WPI staying high after years of slower growth, the RBA will be monitoring how consumer spending will respond and what it means for inflation.

The overall direction of the Feb prelim PMIs for the G4 (plus Aus) was a continued improvement in services growth while manufacturing activity stayed little changed and in contraction. There were several crosscurrents this month. The US was an exception with a notable overall improvement; US manufacturing output expanded at a faster pace and services activity continued to expand at a modest pace. Japanese manufacturing returned to a sharp contraction in Feb. Eurozone services

growth returned to expansion while manufacturing activity remained weaker, led by the renewed downturn in German manufacturing.

Outlook for the week ahead: Global inflation and growth data will be in focus this week and both will be important inputs as central banks consider the path of policy rates and the implications for the timing of policy adjustments.

US PCE inflation, the FOMC preferred inflation measure, is expected to increase at a slightly faster monthly rate, given some of the Jan PPI results. Headline PCE inflation is expected to ease to +2.4% over the year, but increase by +0.3% over the month (up from +0.2% in Dec). For comparison, the latest FOMC median headline PCE inflation projection is +2.4% at the end of the year. Core PCE inflation is expected to ease further to +2.8% from +2.9% in Dec. Monthly core PCE inflation is expected to increase by +0.4% over the month, up from +0.2% in Dec. The FOMC median projection for core PCE for 2024 is also +2.4% - the Jan result would still be above that level.

Growth data for the US includes the second estimate for Q4 GDP which is expected to stay around the +3.3% (annualized) rate for Q4. This would mean that growth over the year in 2023 would be +3.1% - which is above the FOMC median projection for 2023 of +2.6%. There will also be a wide range of US income, spending, housing, and industrial activity data for Jan and Feb, including the ISM manufacturing PMI for Feb. These data will feed into a comprehensive update of the [Atlanta Fed GDPNowcast](#) for Q1 US growth - which currently sits at +2.9%. The FOMC median projection is for growth to slow by the end of 2024 to +1.4%.

There will be several Fed speeches, including NY Fed President Williams, Governor Waller (responding to a paper titled, "Quantitative Tightening Around the Globe; What Have We Learned?" - which may start to lay the groundwork for changes to QT), and Fed Governor Kugler.

The Aus monthly CPI for Jan is expected to increase to +3.5% (from +3.4% in Dec).

The Euro Area prelim CPI for Feb is expected to continue to moderate. Headline CPI is expected to slow to +2.5% in Feb (from +2.8% in Jan). Core CPI is expected to ease to +2.9% in Feb (from +3.3% in Jan).

Japanese National CPI figures for Jan will be released early this week. Headline inflation is expected to ease to +2.5% in Jan (from +2.6% in Dec). The BoJ preferred measure of CPI ex fresh food is expected to ease to +1.9% in Jan (from +2.3% in Dec). Core CPI (ex-fresh food and energy) is still running at approx. +3.7% but is also expected to ease. This will be an important input for the BoJ as it considers the case for and timing of its potential exit from the negative rates regime.

Canadian Q4 GDP is expected to return to growth of +0.8% annualized (from -1.1% in Q3).

The RBNZ will meet this week and is expected to stay on hold at 5.50%. There has been some speculation that the RBNZ may raise its policy rate further.

The broader global suite of S&P PMIs for Feb will be released towards the end of the week - starting with global manufacturing activity.

US Treasury Issuance; 26 Feb – 1 Mar 2024

This week, the US Treasury will auction and settle approx. \$668bn in ST Bills, Notes, Bonds, and TIPS raising approx. \$137bn in new money.

QT this week: Approx \$20bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx \$29bn in Notes & Bonds will mature on the Fed balance sheet and be redeemed/rolled off the balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
26 Feb - 1 Mar	22-Feb	27-Feb	4 week Bill	95			Actual 5.285%
	22-Feb	27-Feb	8 week Bill	90			Actual 5.275%
	21-Feb	27-Feb	17 week Bill	60			Actual 5.215%
				245	226	19	
	26-Feb	29-Feb	13 week Bill	79			Announced 5.230%
	26-Feb	29-Feb	26 week Bill	70			Announced 5.100%
	27-Feb	29-Feb	42-Day CMB	80			Announced 5.280%
				229	207	22	
	26-Feb	29-Feb	2yr Note	63			Announced 4.385%
	26-Feb	29-Feb	5yr Note	64			Announced 4.055%
	27-Feb	29-Feb	7yr Note	42			Announced 4.109%
	21-Feb	29-Feb	20yr Bond	16			Actual 4.595%
	22-Feb	29-Feb	30yr TIPS	9			Actual 2.200%
				194	98.3	96	
			Total - securities settling this week	668	531	137	
			Net New Cash Raised Qtr to Date	5036	4431	605	
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			760	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		27-Feb	ST Bills	1.2			
		29-Feb	ST Bills	10.4			
		29-Feb	Notes & Bonds	8.4			
				20.0			
			Maturing & redemption (balance sheet roll-off)				
		29-Feb	Notes & Bonds	29.0			
				29.0			

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	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			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>

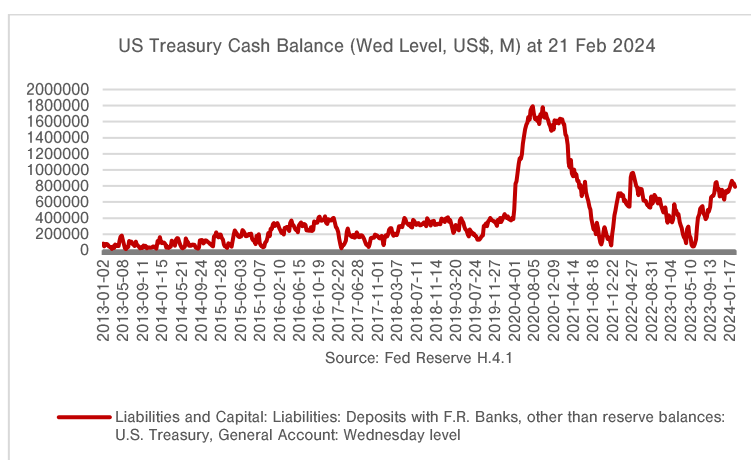
Recommended US Treasury Financing – Q1 and Prelim Q2 2024

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 21 Feb 2024, the level of the TGA decreased to \$789bn (-\$43bn compared to the week prior). The TGA balance is approx. \$337bn *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 26 FEBRUARY 2024

MONDAY 26 FEBRUARY (US Eastern Time, unless stated otherwise)

US	New Home Sales (Jan), Dallas Fed Manufacturing Survey (Feb)
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Japan	National CPI (Jan)
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TUESDAY 27 FEBRUARY

US	Durable Goods Orders (Jan), Case/Shiller House Price Index (Dec), Richmond Fed Manufacturing Survey (Feb), US Fed speeches; Barr
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Australia	Monthly CPI (Jan), Construction Work Done Q4
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NZ	RBNZ Monetary Policy Meeting
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WEDNESDAY 28 FEBRUARY

US	MBA Mortgage Apps wk ending 24 Feb, GDP Q4 – Second Est, Fed speeches; Bostic, Collins, Williams
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Japan	Industrial Production – Prelim (Jan), Retail Sales (Jan)
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Australia	Retail Sales (Jan), Private Capex Q4
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THURSDAY 29 FEBRUARY

Europe	Germany Retail Sales (Jan), Germany CPI – Prelim (Feb)
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Canada	GDP Q4
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US	Initial Jobless Claims wk ending 24 Feb, PCE Price Index (Jan), Personal Income & Spending (Jan), Kansas City Fed Manufacturing Survey (Feb), Chicago PMI (Feb), Pending Home Sales (Jan), Fed speeches: Bostic, Goolsbee, Mester, Williams
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China	NBS Manufacturing and Non-Manufacturing PMI (Feb)
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FRIDAY 1 MARCH

Europe	Eurozone CPI – Prelim (Feb)
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US	S&P Manufacturing PMI – Final (Feb), ISM Manufacturing PMI (Feb), University of Michigan Consumer Sentiment – Final (Feb), Fed speeches; Boastic, Daly, Waller (Response to ‘QT around the globe; What have we learned?’), Kugler (‘Pursuing the Dual Mandate)
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