

Key events this week – RBA monetary policy meeting, US CPI seasonal factors, US ISM Services PMI, S&P global services PMI's

Recap from last week: As expected, the FOMC kept rates on hold last week. Guidance evolved in line with a series of changes over the last several meetings that more overtly pave the way to easing later this year;

We believe that our policy rate is likely at its peak for this tightening cycle and that, if the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year. US Fed Chair Powell, 31 Jan, [FOMC press conference](#)

At the same time, Fed Chair Powell warned that rate cuts may take longer to materialize. He noted that the economy “has surprised forecasters in many ways since the pandemic” and even at this stage progress to the 2% inflation target ‘is not assured’. Later in the press conference, Chair Powell pushed back on the possibility of rate cuts starting at the Mar meeting. He did note that the FOMC would start in-depth discussions of ‘balance sheet issues’ at the Mar meeting.

The FOMC is balancing policy amid slowing but elevated inflation, solid growth, and strong job gains. Cut too early, or too much, and risk the progress made on bringing down inflation. But cut too late and risk too much weakening in the labor market. Policy is currently tilted to ‘not cutting too early’ and for the moment, the FOMC will maintain the current restrictive stance of policy until it has “gained greater confidence” that inflation is moving sustainably toward 2%.

US data last week indicated that the labor market and growth are not yet weakening. US non-farm payrolls were strong for Jan at +353k (well above expectations for +173k) and revisions for the prior two months were notable at +126k payroll jobs. The revisions across 2023 suggest that payroll growth has been higher and has been *accelerating* over the last few months. This challenges the narrative that hiring has been slowing.

The picture from other labor market measures suggests that conditions have slowed (or are slowing) back to more ‘normal’ levels. The unemployment rate in Jan fell to 3.66%, just above the pre-pandemic level of 3.56% (Jan 2020). Average weekly hours and growth in aggregate hours have slowed through this tightening cycle, especially in Jan. JOLTS vacancies strengthened a little in Dec and are still above pre-pandemic levels while layoffs and discharges are still at the series low rate of 1.0%. There are a few crosscurrents in the labor market view. The forward-looking initial claims remain low, but continuing claims have been rising (the NSA series is at a two-year high in the latest week, while the SA series is trending higher). The Challenger survey for Jan showed a much smaller number of hiring announcements over the last two months amid a renewed rise in layoff announcements.

Wages growth indicators remain elevated, and this is likely to weigh on the FOMC. The ECI for Q4 showed continued progress with wage growth slowing to +4.1% at the end of Q4 but remaining elevated and above the pre-pandemic average of +2.4%.

The other standout in data last week was the improvement in US manufacturing surveys. The S&P and ISM manufacturing PMI surveys for Jan showed stronger growth in demand and an improvement in the outlook for output growth. The prices component increased across both surveys. The Atlanta Fed GDP Nowcast kicked off US Q1 2024 growth at +4.2% - but based on limited data.

Globally, manufacturing conditions also improved in Jan. The S&P Global manufacturing PMI moved back to a neutral 50 level for the first time in over a year. Output increased while the contraction in new orders eased further. The positive outlook for output growth continued to strengthen. Input price growth also accelerated.

Outlook for the week ahead: The main focus this week will be the RBA meeting, the US CPI updated seasonal adjustment factors, and the services components of the Jan PMI surveys.

The RBA will meet for the first time this year with a new approach including fewer meetings and post-meeting press conferences. The RBA is expected to stay on pause at this meeting. The Aus Q4 CPI report last week likely reduced the case for further tightening (some were still expecting one more hike) as inflation slowed more than expected and more than forecast by the RBA. Pockets of persistent and still elevated inflation remain in the non-tradable and services views – but neither is accelerating now. For the RBA, it will likely be more of a case of how long to hold policy rates here to ensure that inflation, especially in the services/non-tradable sector comes down further. Other data suggests policy settings are having an impact. Aus retail sales in Dec were much weaker than expected, and more than reversed the Black Friday sales growth in Nov. The Dec labor market report was also weaker than expected.

One of the important releases this week will be the updated CPI seasonal adjustment factors on Fri 9 Feb ([here](#)). This will help determine the extent of revisions to CPI through 2023. This has been noted as an important hurdle for the path of rates policy. The actual Jan US CPI report will be released the following week.

Other US data includes the ISM services PMI for Jan, consumer credit data, and the Q4 Senior Loan Officer Opinion survey. There will also be several US Fed speeches, including Fed Chair Powell on 60Minutes (already gone to air at the time of writing).

The global services PMIs for Jan will round out the view of growth momentum at the start of 2024.

US Treasury Issuance; 5 - 9 February 2024

This week, the US Treasury will auction and settle approx. \$474bn in ST Bills raising approx. \$55bn 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 \$13.1bn in ST Bills will mature on the Fed balance sheet and will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		Prior Auction High Rate %
5-9 Feb	01-Feb	06-Feb	4 week Bill	95			Actual 5.280%	5.280%
	01-Feb	06-Feb	8 week Bill	90			Actual 5.265%	5.275%
	31-Jan	06-Feb	17 week Bill	60			Actual 5.150%	5.185%
				245	214	31		
	05-Feb	08-Feb	13 week Bill	79			Announced	5.210%
	05-Feb	08-Feb	26 week Bill	70			Announced	4.985%
	06-Feb	08-Feb	42-Day CMB	80			Announced	5.280%
				229	205	24		
			Total - securities settling this week	474	419	55		
			Net New Cash Raised Qtr to Date	3225	2910	315		
			<i>Estimated Net Cash to be Raised Q1 (\$ Bn)</i>			760		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		06-Feb	ST Bills	1.2				
		08-Feb	ST Bills	11.9				
				13.1				
			Upcoming Auctions	\$B				
	06-Feb	15-Feb	3yr Note	54				
	07-Feb	15-Feb	10yr Note	42				
	08-Feb	15-Feb	30yr Bond	25				
				121				

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

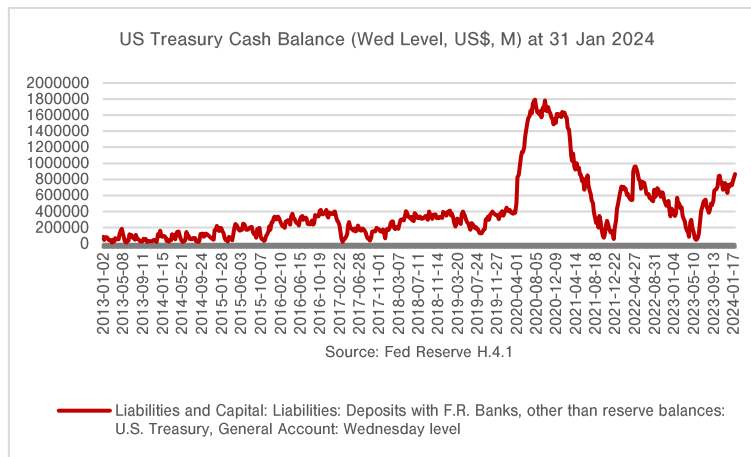
Q1 2024; The estimate of the US Treasury borrowing requirement for Q1 is \$760bn in privately held net marketable debt, assuming an end-of-Q1 cash balance of \$750bn. The

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 31 Jan 2024, the level of the TGA increased to \$865bn (+\$50bn compared to the week prior). The TGA balance is approx. \$365bn *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 5 FEBRUARY 2024

MONDAY 5 FEBRUARY (US Eastern Time, unless stated otherwise)

Europe	Eurozone S&P Services PMI – Final (Jan)
UK	S&P Services PMI – Final (Jan)
US	Fed Chair Powell – 60Minutes Interview, S&P Services PMI – Final (Jan), ISM Services PMI (Jan), Senior Loan Officer Survey Q4, US Fed speeches; Bostic
Australia	Retail Sales Volumes (Q4) RBA Monetary Policy Meeting

TUESDAY 6 FEBRUARY

Europe	Germany Factory Orders (Dec), Eurozone Retail Sales (Dec)
US	US Fed speeches: Mester
Canada	BoC Governor Macklem speech
NZ	Labor Market Survey Q4

WEDNESDAY 7 FEBRUARY

Europe	Germany Industrial Production (Dec)
US	MBA Mortgage Apps wk ending 3 Feb, Consumer Credit Change (Dec) US Fed speeches; Governor Kugler (Outlook for the Economy & Monetary Policy at The Brookings Institution), Barkin, and Bowman
China	CPI & PPI (Jan)

THURSDAY 8 FEBRUARY

US	Initial Jobless Claims wk ending 3 Feb US Fed speeches; Barkin
Australia	RBA Governor Michele Bullock – Appearance before the House of Representatives Standing Committee on Economics

FRIDAY 9 FEBRUARY

Europe	Germany CPI – Final (Jan)
China	New Lonas (Jan) – tbc Chinese New Year
Canada	Labor Market Survey (Jan)
US	CPI - Updated Seasonal Adjustment Factors
