MARS CAPITAL PARTNERS

Weekly Macro Outlook

w/c 11 March 2024

Key events this week – US: CPI & PPI, retail sales, and industrial production

Recap from last week: US data last week indicated minimal change in the labor market and growth outlook for the FOMC in two weeks. Although US labor market conditions are gradually easing, they remain mostly positive, while growth remains moderate.

In his testimony last week, US Fed Chair Powell reiterated that the FOMC is in "no rush" to cut rates, and is "waiting to become more confident that inflation is moving sustainably to 2%", noting that "we're not far from that". If the economy evolves as expected, then it will be appropriate to begin to dial back some of the policy restriction "at some point this year".

One important pillar of the 'patience on rate cuts' stance is 'continued robust jobs growth'. The labor market update for Feb suggests that labor demand continues to ease – but there were mixed messages in the data. Non-farm payroll growth was higher than expected in Feb at +275k, but growth in the prior two months was revised notably lower – especially with the stronger Jan result revised down from +353k to +229k. Even though job growth may not have been as high as previously thought, the pace of growth has remained steady over the last three months. Conversely, the household survey recorded a pronounced rise in the unemployment rate from 3.7% in Jan to 3.9% in Feb. The unemployment rate is at the lower end of the range of FOMC projections for 2024. Could this be enough for the FOMC to begin to become more neutral on labor market conditions? The JOLTS survey for Jan provides a good summary of labor market conditions overall; a continued slowdown in labor demand (as job openings and hires ease further), while layoffs and discharges stay low. The layoff and discharge rate in the JOLTS survey remains at a *series low* of 1.0. Similarly, initial jobless claims have stayed low so far in this cycle. The anecdotes from the Challenger Job Cut Announcement survey suggest further layoffs may be coming (hiring announcements from this survey also remain relatively low).

Indicators of US economic activity remained positive last week – suggesting continued moderate growth through Q1. Both US services PMI surveys indicated continued modest expansion in Feb. The US Fed Beige Book for the 3 months to the end of Feb noted that activity increased "slightly on balance" since the last update, with only one region noting a slight softening of conditions. The survey noted some softness in retail spending due to heightened price sensitivity. However, retail sales for Feb (out this week) are likely to be bolstered by the rebound in auto sales. The latest Atlanta Fed GDPNowcast showed that US growth inched back up to a pace of +2.6% so far in Q1.

More broadly, the global growth context continued to improve as the Global S&P PMIs for Feb suggested a further improvement in growth momentum across both manufacturing and services activity. Amid the uptick in growth momentum, Chinese trade data came in better than expected with export (and import) growth accelerating more than expected. Chinese CPI also came in hotter than expected, increasing by +1% over the month in Feb and rising by +0.7% over the year in Feb up from -0.8% in Jan.

The Bank of Canada kept rates on hold last week. Guidance was unchanged with the Governing Council noting that higher rates need more time to do their work. Despite some improvement in inflation, the headline rate remains above 3% and underlying inflation pressures are persisting.

The ECB also kept rates on hold last week. While inflation had been easing through the latter half of 2023, the ECB Governing Council is not yet "sufficiently confident" enough that inflation is on the path to 2% to begin easing. ECB President Lagarde hinted at timing milestones though;

"We will know a little more in April, but we will know a lot more in June."

Outlook for the week ahead; It's a US data-centric week. The focus shifts to the important US CPI report for Feb out this week. The stronger Jan US CPI result was important, and, together with subsequent speeches, helped to push back the timeline to begin policy normalization. The Feb CPI report will play a crucial role in providing insights into the ongoing progress on disinflation and whether the Jan result was merely a temporary setback or a change in trend.

US headline CPI growth is expected to stay unchanged at +3.1% in Feb, while monthly inflation is expected to increase by +0.4% in Feb, up from +0.3% in Jan. Core inflation is expected to ease to +3.7% in Feb from +3.9% in Jan. The monthly core inflation is also expected to ease to +0.3% in Feb from +0.4% in Jan. As usual, the components contributing to CPI growth will be important – goods versus services, and core services ex-housing.

The US PPI report for Feb will also be released this week – and can provide some insight into possible changes in the Fed's preferred PCE inflation measure. Headline PPI for Feb is expected to increase by +1.2% over the year in Feb, up from +0.9% in Jan. The monthly PPI is expected to increase by +0.3% in Feb – the same as in Jan. Core PPI is expected to stay unchanged at +2% over the year in Feb, while the monthly core PPI reading is expected to slow to +0.2% in Feb from +0.5% in Jan.

Several other reports will feed into the broader US growth picture. The most important one will be US retail sales. US retail sales are expected to increase by +0.7% in Feb after falling -0.8% in Jan. A rebound in auto sales for Feb suggests some support for retail sales growth. Last week, the US Fed Beige Book for Feb had noted that "consumer spending, especially on retail goods, "inched down in recent weeks". Reports noted heightened price sensitivity by consumers and households trading down and shifting away from discretionary spending."

There will be several reports on US manufacturing and output. Industrial production growth in Feb is expected to stay unchanged at 0% after falling by -0.1% in Jan. The US manufacturing output PMI shifted into expansion in Feb. The first regional manufacturing update for Mar will be the NY Empire State manufacturing survey.

We are in the blackout period for Fed speeches ahead of the next FOMC meeting next week on 19-20 Mar.

US Treasury Issuance; 11 - 15 Mar 2024

This week, the US Treasury will auction and settle approx. $591bn in ST Bills, Notes, and Bonds raising approx. $87bn in new money.

QT this week: Approx $1bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx $9bn in ST Bills, Notes, and 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 $B		Prior Auction High Rate %
11-15 Mar	07-Mar	12-Mar	4 week Bill	95			Actual 5.280%	5.285%
	07-Mar	12-Mar	8 week Bill	90			Actual 5.280%	5.285%
	06-Mar	12-Mar	17 week Bill	60			Actual 5.205%	5.225%
				245	231	14		
	11-Mar	14-Mar	13 week Bill	79			Announced	5.240%
	11-Mar	14-Mar	26 week Bill	70			Announced	5.105%
	12-Mar	14-Mar	42-Day CMB	80			Announced	5.285%
				229	217	12		
	11-Mar	15-Mar	3yr Note	56			Announced	4.169%
	12-Mar	15-Mar	10yr Note	39			Announced	4.093%
	13-Mar	15-Mar	30yr Bond	22			Announced	4.360%
				117	56.3	60.7		
			Total - securities settling this week	591	504.3	86.7		
			Net New Cash Raised Qtr to Date	*6101*	*5379*	*722*		
			Estimated Net Cash to be Raised Q1 ($ Bn)			*760*		
	Face value of US Federal Reserve SOMA securities maturing			**$B**				
		Maturing & reinvestment						
		12-Mar	ST Bills	0.2				
		14-Mar	ST Bills	0.6				
				0.9				
		Maturing & redemption (balance sheet roll-off)						
		12-Mar	ST Bills	1.0				
		14-Mar	ST Bills	2.6				
		15-Mar	Notes & Bonds	5.3				
				9.0				

Quantitative Tightening Overview – Mar 2024

In Mar, the face value of Coupons maturing on the Fed balance sheet is approx. $44.8bn. This is less than the $60bn monthly cap for balance sheet roll-off and means that all Coupons maturing in Mar will be redeemed. 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 $18.8bn in ST Bills maturing this month, $15.2bn will be redeemed/rolled off the balance sheet and the remaining $3.6bn of ST Bills maturing will be reinvested.

Summary of Total Coupons to Redeem at the $60bn redemption cap - MAR			
			$60
		Redeem $Bn	**Reinvest $ Bn**
15-Mar-24	Notes & Bonds	5.3	0.0
31-Mar-24	Notes & Bonds	39.5	0.0
Mar-24	ST Bills	15.2	3.6
	Total Notes & Bonds	**60.0**	**3.6**

March 2024 ST Bill maturity schedule;

Bill Maturity Schedule - MAR			Weekly Totals $Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/03/05	1.29	7%	1.04	0.25
2024/03/07	3.06	16%	2.47	0.59
2024/03/12	1.26	7%	1.01	0.24
2024/03/14	3.25	17%	2.63	0.62
2024/03/19	1.30	7%	1.05	0.25
2024/03/21	2.27	12%	1.83	0.44
2024/03/26	1.36	7%	1.10	0.26
2024/03/28	5.04	27%	4.07	0.97
	18.8	1.0	15.2	3.6

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

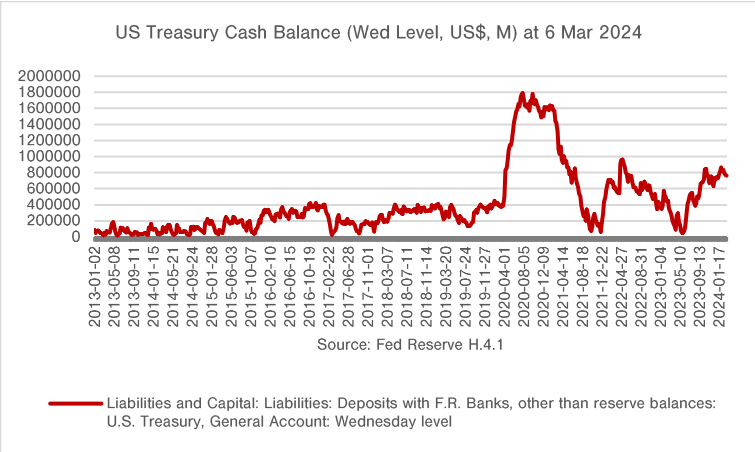
Recommended US Treasury Financing – Q1 and Prelim Q2 2024

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 6 Mar 2024, the level of the TGA decreased to $760bn (-$7bn compared to the week prior). The TGA balance is approx. $448bn *higher* than the same week a year ago.



https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=spreadsheetml&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/ambs_operation_schedule

CALENDAR W/C 11 MARCH 2024

MONDAY 11 MARCH (US Eastern Time, unless stated otherwise)	
Japan	(Sun Night) GDP Q4 – Final
Australia	Westpac Consumer Confidence (Mar), NAB Business Conditions & Confidence (Feb)

TUESDAY 12 MARCH	
Europe	Germany CPI – Final (Feb)
UK	Labour Market Survey (3mth Jan)
US	CPI (Feb), NFIB Business Optimism (Feb), OPEC Monthly report (TBC)

WEDNESDAY 13 MARCH	
Europe	Eurozone Industrial Production (Jan)
US	MBA Mortgage Apps wk ending 9 Mar

THURSDAY 14 MARCH	
US	Initial Jobless Claims wk ending 9 Mar, Retail Sales (Feb), PPI (Feb)

FRIDAY 15 MARCH	
US	Export & Import Price Indexes (Feb), Industrial Production (Feb), NY Empire State Manufacturing Index (Mar), University of Michigan Consumer Sentiment – Prelim (Mar)