

Key events this week – US; FOMC minutes, Fed speak, & Durable goods orders; RBA minutes; RBNZ meeting; CPI – UK, Canada, and Japan; Prelim S&P PMIs for May

Recap from last week: The strength of US inflation and growth through Q1 had supported a shift in the expected path of policy rates in the US. However, Q2 data has so far suggested a deceleration in the stronger US economic momentum, a trend that persisted in data released last week.

US CPI for Apr came in mostly in line with expectations and at least did not surprise to the upside given how persistent inflation has been so far in 2024. The headline and core readings did show progress on inflation slowing – albeit slow progress. This may be seen by the FOMC as one small step, in a series of steps needed over the coming months, to build confidence that inflation is moving ‘sustainably’ back down. There were several encouraging signs from the CPI report; the trimmed mean and median inflation rates suggested that inflation may no longer be broadening out to more categories. Services and shelter inflation also appeared to make more progress on easing this month.

Last week, US data on spending, housing, and output for Apr indicated some easing in growth momentum at the start of Q2. That said, the latest iteration of the [Atlanta Fed GDP Nowcast](#) still has growth at a robust pace of +3.6% so far for Q2. Retail sales for April were disappointing as growth stalled and sales growth in Mar was revised lower. New housing permits and starts came in lower than expected. New home builder sentiment also weakened notably, especially in the West. Industrial production stalled, as manufacturing output fell in Apr.

With inflation easing this month and data continuing to be less-hot, [rate cut probabilities](#) have firmed around the Sep and Dec FOMC meetings.

Euro area GDP for Q1 was confirmed at +0.3% - rebounding from the weaker growth experienced through Q3 and Q4. Euro area inflation also continued to ease in Apr. Headline inflation was confirmed at +2.4% over the year and +0.6% over the month. Core CPI came in as expected at +2.7% over the year. Recent activity surveys have also pointed to further strengthening in activity in the Euro area at the start of Q2. With inflation easing and activity starting to firm, rate cut expectations beyond the Jun cut may now come into question – from a speech by ECB Board member Schnabel last week;

“Based on current data, a rate cut in July does not seem warranted,” she told Nikkei newspaper in comments published Friday. “We should look very carefully at the data because there is a risk of easing prematurely.” Source: [Bloomberg](#)

Aus labour market data was mixed for the RBA. Wage growth in Q1 was lower than expected – led in part by slower public sector wage growth. Growth in real wages increased slightly over the year by +0.5%. Despite employment growth rebounding this month, the unemployment rate ticked higher than expected to 4.05% in Apr. The rise in unemployment this month was the result of employment growth not keeping pace with growth in the labour force (due to higher participation and population growth). It will be important to see whether this increase in labour supply will be absorbed into employment next month. The RBA will likely be watching this closely given that the unemployment rate of 4.05% in Apr is already in line with its forecast for unemployment at the end of Q2.

Outlook for the week ahead: There will be a wide range of data this week.

The focus in the US will likely be on the large number of [US Fed speeches](#) scheduled for this week. These should provide some insight into the characterization of the Apr inflation report amid easing growth momentum. Speeches of note: US Fed Vice Chair Jefferson on the Economic Outlook and Housing Price Dynamics and Fed Governor Waller will give several speeches this week, including one on the Economic Outlook and one on R*.

The FOMC minutes of the 30 Apr -1 May meeting will be released. The FOMC kept rates on hold, citing a continued lack of progress on disinflation. The Committee noted that confidence did not increase that inflation was moving sustainably to the 2% target and was prepared to stay on hold for as long as necessary. The FOMC also announced that it was slowing the pace of QT.

US data this week will focus on output and housing. Durable Goods Orders for Apr are expected to slow to -0.5%. Existing home sales are expected to increase to 4.2m annualized in Apr, while new home sales are expected to slow to 0.674m annualized.

The RBA minutes will be released this week. The RBA kept rates on hold at the last meeting due to the recent bout of stickier inflation. The Board remains vigilant to upside inflation risks, with no course of action ruled in or out at this stage, although the Board thinks that it won't necessarily have to tighten again. At the press conference, Governor Bullock noted that a rate hike was discussed at this meeting, and the minutes should provide some insight into that discussion.

The RBNZ will meet this week and is expected to keep rates on hold.

Inflation data for the UK, Canada, and Japan will be released this week. In both Canada and the UK, inflation remains high but there has been more encouraging progress recently. Both central banks are starting to suggest that the timing of rate cuts could be coming into view as long as inflation progress continues.

UK CPI is expected to ease more notably this month, as base effects kick in. Headline inflation is expected to slow to +2.1% in Apr from +3.2% in Mar. Core inflation is also expected to ease to +3.6% in Apr from +4.2% in Mar.

Progress on inflation in Canada is expected to remain slow. Headline inflation is expected to ease to +2.8% in Apr from +2.9% in Mar. However core inflation measures, such as the trimmed mean are expected to come in under three percent, slowing to +2.9% in Apr from +3.1% in Mar.

Japanese core inflation (ex-fresh food) is expected to slow to +2.2% in Apr, from +2.6% in Mar. Headline inflation is expected to be little changed at +2.7%.

Finally, the prelim S&P PMI surveys for May will be released for the G4 plus Aus. In Apr, manufacturing momentum remained weak but was offset by a continued moderate expansion across services sectors. Activity PMIs for the US in Apr showed some slower momentum while activity remained positive

US Treasury Issuance; 20 - 24 May 2024

This week, the US Treasury will auction and settle approx. \$435bn in ST Bills, raising approx. \$10bn in new money.

QT this week: Approx \$12bn 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 %
20-24 May	16-May	21-May	4 week bill	80			Actual 5.270%	5.270%
	16-May	21-May	8 week bill	80			Actual 5.270%	5.275%
	15-May	21-May	17 week Bill	60			Actual 5.235%	5.240%
				220	213	7		
	20-May	23-May	13 week bill	70			Announced	5.250%
	20-May	23-May	26 week bill	70			Announced	5.165%
	21-May	23-May	43-Day CMB	75			Announced	5.280%
				215	212	3		
			Total - securities settling this week	435	425	10		
			Net New Cash Raised Qtr to Date	4152	4084	68		
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			243		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		21-May	ST Bills	0.7				
		23-May	ST Bills	11.2				
				11.8				

Quantitative Tightening Overview – May 2024

In May, the face value of Coupons maturing on the Fed balance sheet is approx. \$90.1bn. This is more than the \$60bn monthly cap for balance sheet roll-off. So of the \$90.1bn of Coupons maturing in Apr, \$60bn will roll off the Fed balance sheet and \$30.1bn will be reinvested. It also means that all ST Bills maturing in May will be reinvested. From Jun, the monthly redemption cap on Treasuries will be lowered from \$60bn to \$25bn. The monthly redemption cap on agency and mortgage-backed securities will be maintained at \$35bn.

Summary of Total Coupons & Bills to Redeem at the \$60bn redemption cap - May				
			\$60	
			Redeem \$Bn	Reinvest \$ Bn
15-May-24	Notes & Bonds		31.3	15.7
31-May-24	Notes & Bonds		28.7	14.4
	ST Bills		0.0	70.6
	Total Notes & Bonds		60.0	100.7

May 2024 ST Bill maturity schedule;

Bill Maturity Schedule - MAY			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2024/05/02	15.57	37%	0.00	15.57	
2024/05/07	0.65	2%	0.00	0.65	
2024/05/09	11.97	28%	0.00	11.97	
2024/05/14	0.65	2%	0.00	0.65	
2024/05/16	18.49	43%	0.00	18.49	
2024/05/21	0.67	2%	0.00	0.67	
2024/05/23	11.16	26%	0.00	11.16	
2024/05/28	0.81	2%	0.00	0.81	
2024/05/30	10.61	25%	0.00	10.61	
	70.6		0.00	70.6	

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

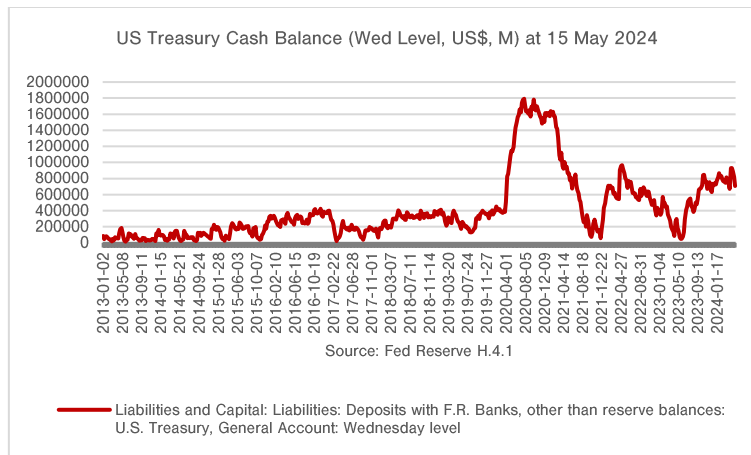
Recommended US Treasury Financing – Q2 2024

Q2 2024; The US Treasury expects to borrow \$243 billion in privately held net marketable debt, assuming an end-of-June cash balance of \$750 billion. This was revised slightly higher than the initial estimate of +\$202bn, due to lower cash receipts that were partially offset by a higher start-of-quarter cash balance.

Estimate Q3 2024; Treasury expects to borrow \$847 billion in privately held net marketable debt, assuming an end-of-September cash balance of \$850 billion.

US Treasury Cash Levels (TGA)

As of Wed 15 May 2024, the level of the TGA fell to \$706bn (-\$110bn compared to the week prior). The TGA balance is approx. \$638bn *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 20 MAY 2024

MONDAY 20 MAY (US Eastern Time, unless stated otherwise)

US	Fed speeches; Bostic, Mester, Barr, Waller (opening remarks), Fed Vice Chair Jefferson (US Economic Outlook and Housing Price Dynamics)
Australia	Westpac Consumer Confidence (May), RBA Minutes

TUESDAY 21 MAY

Canada	CPI (Apr)
US	Fed speeches; Waller (Economic Outlook), Williams, Barr, Bostic, Collins, Mester, Barkin
Japan	Merchandise Trade, Exports, and Imports (Apr)
NZ	RBNZ Monetary Policy Meeting

WEDNESDAY 22 MAY

UK	CPI (Apr)
US	MBA Mortgage Apps wk ending 18 May, Existing Home Sales (Apr), Fed speeches; Goolsbee FOMC Minutes
Australia	S&P Manufacturing & Services PMI Prelim (May)
Japan	S&P Manufacturing & Services PMI Prelim (May)

THURSDAY 23 MAY

Europe	Eurozone S&P Manufacturing & Services PMI Prelim (May)
UK	S&P Manufacturing & Services PMI Prelim (May)
US	Initial Jobless Claims wk ending 18 May, S&P Manufacturing & Services PMI Prelim (May), New Home Sales (Apr), Kansas City Fed Manufacturing Index (May), Fed speeches; Bostic
Japan	National CPI (Apr)

FRIDAY 24 MAY

UK	Retail Sales (Apr)
Canada	Retail Sales (Mar)
US	Durable Goods Orders (Apr), University of Michigan Consumer Confidence – Final (May), Fed speeches; Waller (R*)
