

Key events this week – US PCE inflation, CPI inflation; Euro Area, Aus (monthly), and Tokyo

Recap from last week: A key theme from the [FOMC minutes](#) was the lack of further progress on inflation during Q1. While policy rates were seen as sufficiently restrictive, it was likely going to take longer to gain confidence that inflation was moving toward the 2% target. The Committee did not expect that it would be appropriate to reduce rates until it had gained that greater confidence. The FOMC would be prepared to reduce policy restraint if there was an unexpected weakening in the labor market, and alternatively, ‘various participants’ were prepared to tighten policy under certain circumstances. Fed Chair Powell had [already addressed](#) the possibility of tightening in the short-term - that a hike was “unlikely to be the next policy rate move” and that the conditions for a hike were notably higher (needing persuasive evidence that policy is not restrictive enough). Overall, “participants assessed that monetary policy was well positioned” to respond to evolving economic conditions.

Since that meeting, the Apr CPI has reignited some hope that inflation has resumed its slowing trend. In a [speech](#), Fed Vice Chair Jefferson noted that “the better reading for April is encouraging”. In a separate [speech](#), Fed Governor Waller gave the April CPI report a “C+” – “not a fail, but not a stellar result either”. He cautioned that progress was so modest, that he still needed to see several more months of “good data” – that which “doesn’t require two decimal places”. The Fed-preferred PCE measure of inflation for Apr will be released this week – and is expected to follow the modest easing trend of the Apr CPI report.

Housing activity in the US remained subdued as existing home sales came in less than expected for Apr, while the Mar result was revised higher. Existing home sales remain 7.5% above the pandemic low recorded in Oct 2023. Inventory continued to increase in Apr. New home sales were also lower than expected in Apr.

The preliminary S&P PMI surveys indicated that private sector activity across the major developed market economies continued to improve in May. This was led by manufacturing activity and output growth in Japan, the Eurozone (slower contraction), the UK, and the US. The more moderate pace of services output growth was maintained in May – led by a notable acceleration in services output in the US. This will likely be positive for Q2 growth – especially in the US.

Headline UK inflation came down notably as expected. However, UK core CPI slowed less than expected to +3.9% as services inflation eased only slightly to an elevated +5.9%. This will likely remain a concern for the BoE. Headline inflation in Canada eased in line with expectations, with a more [broad-based slowdown](#) this month – led by food, services, and durable goods. Lower BoC measures of core inflation were encouraging, with the trimmed mean easing to +2.9%. Annual inflation eased in Japan. The main BoJ measure of core CPI ex fresh food slowed from +2.6% in Mar to +2.2% in Apr. However, the monthly pace of inflation has been accelerating over the last three months and the latest 3-month annualized rate is now back up to +2.7%.

Outlook for the week ahead: Inflation remains in focus this week - and importantly how progress on inflation will feed into the broader picture of rates and the path for central bank policy.

The main focus this week will be the US PCE inflation report for Apr. The determination of whether inflation is easing may still come down to two decimal places this month. The main core PCE inflation measure is expected to increase by +0.3% over the month in Apr (around +0.26%). This would bring annual core PCE inflation down slightly to +2.77% from +2.82% in Mar. The monthly

headline PCE inflation rate is expected to ease from +0.3% in Mar and the annual headline rate is expected to ease from +2.7%.

Other US data; The monthly PCE spending (and income) data for Apr will be important for comparison to the recent weaker US retail sales report. Personal spending is expected to increase by +0.3% in Apr, slowing from the more robust +0.8% in Mar. The second reading of US GDP growth for Q1 is expected to ease slightly to +1.5% on an annualized basis (from +1.6% in the advance report). There will be a range of Fed speakers this week and the Fed Beige Book will be released, providing some commentary on activity among the Fed districts.

The Euro Area prelim CPI for May will be released this week – along with country-level CPI data throughout the week. Euro Area headline inflation is expected to be +2.5% in May, up slightly from +2.4% in Apr. Core CPI is expected to be unchanged at +2.7% in May.

The Aus monthly CPI for Apr is expected to ease slightly to +3.4% from +3.5% in Mar. The monthly inflation series differs in composition from the broader quarterly inflation report.

The core Tokyo CPI (ex-fresh food) is expected to increase by +1.9% in May, up from +1.6% in Apr.

US Treasury Issuance; 27 - 31 May 2024

This week, the US Treasury will auction and settle approx. \$668bn in ST Bills, Notes, FRNs, TIPS, and Bonds raising approx. \$158bn in new money.

QT this week: Approx \$26bn in ST Bills will mature on the Fed balance sheet and will be reinvested. Approx \$29bn in Notes & Bonds will be redeemed and will roll off the Fed balance sheet.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
27 May - Memorial Day Holiday							
27-31 May 2024	23-May	28-May	4 week bill	80		Actual 5.270%	5.270%
	23-May	28-May	8 week bill	80		Actual 5.275%	5.270%
	22-May	28-May	17 week Bill	60		Actual 5.235%	5.235%
				220	210	10	
	28-May	30-May	13 week bill	70		Announced	5.245%
	28-May	30-May	26 week bill	70		Announced	5.160%
	28-May	30-May	42-Day CMB	65		Announced	5.270%
				205	212	-7	
	22-May	31-May	20yr Bond	16		Actual 4.635%	4.618%
	23-May	31-May	10yr TIPS	16		Actual 2.184%	1.932%
	28-May	31-May	2yr Note	69		Announced	4.698%
	28-May	31-May	5yr Note	70		Announced	4.659%
	29-May	31-May	7yr Note	44		Announced	4.718%
	29-May	31-May	2yr FRN	28		Announced	0.150%
				243	88	155	
			Total - securities settling this week	668	510	158	
			Net New Cash Raised Qtr to Date	4820	4593	227	
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			243	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		28-May	ST Bills	0.8			
		30-May	ST Bills	10.6			
		31-May	Notes & Bonds	14.4			
				25.8			
			Maturing & redemption (balance sheet roll-off)				
		31-May	Notes & Bonds	28.7			

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>

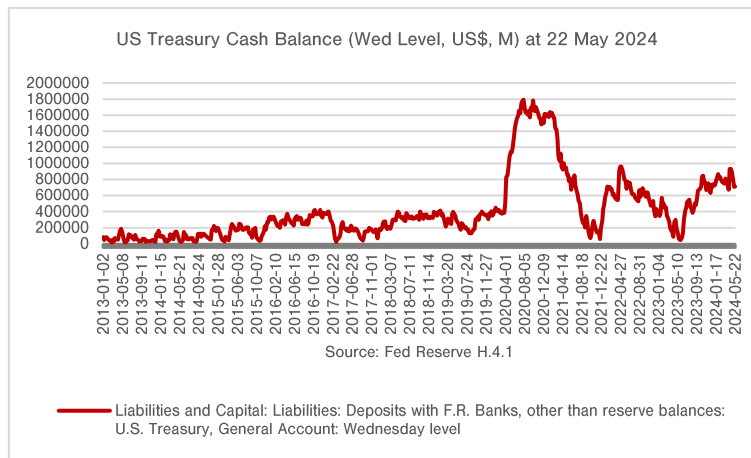
Recommended US Treasury Financing – Q2 2024

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 22 May 2024, the level of the TGA increased to \$711bn (+\$5bn compared to the week prior). The TGA balance is approx. \$661bn 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 27 MAY 2024

MONDAY 27 MAY (US Eastern Time, unless stated otherwise)

US	Memorial Day Holiday US Fed speeches; Williams
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Australia	Retail Sales (Apr)
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TUESDAY 28 MAY

US	Case/Shiller House Price Index (Mar), Dallas Fed Manufacturing Survey (May) US Fed speeches: Bowman, Mester, Cook
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Australia	CPI – Monthly Series (Apr), Construction Work Done Q1
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WEDNESDAY 29 MAY

US	MBA Mortgage Apps wk ending 25 May, Richmond Fed Manufacturing Survey (May), US Fed Beige Book, US Fed speeches: Williams, Bostic
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Australia	Private Sector Capex Q1
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THURSDAY 30 MAY

US	Initial Jobless Claims wk ending 25 May, GDP Q1 – First Prelim, Pending Home Sales (Apr), US Fed speeches; Williams, Logan
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Japan	Tokyo CPI (May), Industrial Production (Apr), Retail Trade (Apr)
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China	NBS Manufacturing and Non-Manufacturing PMI (May)
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FRIDAY 31 MAY

Europe	Euro Area CPI – Prelim (May)
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Canada	GDP Q1
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US	PCE Inflation (Apr), Personal Spending & Income (Apr), US Fed speeches: Bostic
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