

Key events this week – BoE and RBA monetary policy meetings, S&P Global Services PMIs

Recap from last week: The message from the FOMC was clear last week; restrictive policy settings need more time to do their job. As expected, the FOMC kept interest rate settings unchanged, noting that it would be appropriate to reduce interest rates once it has gained greater confidence that inflation was moving sustainably towards the 2% target. The main driver of this decision was the “lack of further progress towards the Committee’s 2% inflation target” through Q1.

While the FOMC did remove “rates are likely at their peak” from the statement, the easing bias was maintained. The FOMC is prepared to stay on hold for as long as necessary, highlighting that current policy settings were “well positioned” for a range of outcomes; either to stay on hold (where progress on inflation stalls) or to lower rates (progress on inflation resumes and/or there is an unexpected weakening in the labor market). A hike is not likely to be the next move in rates – and the bar seems much higher to consider a hike (needing “persuasive evidence” that policy settings are no longer restrictive).

The FOMC also announced plans to lower the monthly redemption cap on its QT program beginning in Jun.

US data suggested growth and labor market momentum eased at the start of Q2. US non-farm payrolls in Apr were lower than expected at +175k (expecting +243k, while the prior two months were revised higher on net by +22k). Other labor market metrics remained steady – and do not suggest a weakening in the labor market in Apr. The employment growth measure from the household survey has been slowing since late 2023, however, the unemployment rate has only drifted slightly higher. The JOLTS survey continued to point to labor demand ‘coming into better balance’. While still elevated, the vacancy rate fell to 5.1%. Hiring continued to slow. So far, this slowdown in labor demand has not corresponded to a more notable shift higher in unemployment and the involuntary separations rate fell back to a series low of 1.0%. The quit rate is back below the pre-pandemic level, suggesting a reduced willingness to change jobs.

Wage growth has stayed somewhat elevated. The ECI quarterly measure did accelerate over the quarter and remained elevated at +4.1% over the year in Q1. The monthly average hourly earnings report did ease in Apr. Average hourly earnings growth slowed to +0.2% over the month and to +3.9% over the year. The [Challenger Job Cut Announcement survey](#) for Apr noted that “The labor market remains tight. But as labor costs continue to rise, companies will be slower to hire, and we expect further cuts will be needed. This low April figure may be the calm before the storm”.

The US ISM surveys also indicated slower growth momentum (also highlighted in the S&P PMIs for Apr) across both manufacturing and services sectors. While activity and employment indexes weakened in both surveys, input price indexes continued to rise driven by commodity prices. A slight fall in aggregate hours and average weekly hours in Apr also suggested a slowdown in the pace of activity.

The [pricing of US rate cuts](#) shifted by the end of last week – and is now back to pricing in two cuts for the back half of 2024.

Growth data out of Europe was positive with the Q1 flash Euro Area GDP returning to a moderate pace of growth of +0.3% in Q1, after stalling through Q3 and Q4 last year. The flash Euro Area inflation reading for Apr was mostly in line with expectations however core inflation came in slightly

higher at +2.7% (expecting +2.6%) but at least down from +2.9% in Mar. Services inflation fell below 4% to +3.7% in Apr.

Outlook for the week ahead: It will be a quiet week data-wise. The focus will shift to the RBA and BoE monetary policy meetings this week.

The RBA is expected to keep rates unchanged. At the last meeting, the Board shifted to a more neutral stance of policy, no longer overtly suggesting that 'further increases cannot be ruled out'. However, the most recent Q1 CPI is not likely to have improved the confidence of the Board that inflation is moving sustainably to the 2-3% band. It will be important to see how Governor Bullock characterizes the recent stronger-than-expected inflation, and what it might mean for the path of policy.

The BoE will also meet this week and is expected to keep rates on hold at this meeting. While there has been a continued slowdown in both headline (to +3.2%) and core inflation (to +4.2%) measures over the last few months, inflation remains elevated. It will be important to see how the BoE views the recent disinflation progress relative to its policy settings. The Q1 UK GDP will be released later in the week and growth is expected to rebound to +0.4% in Q1 after falling by -0.3% in Q4 2023.

The US data out this week; the University of Michigan Consumer Sentiment survey (prelim) for May, consumer credit change (Mar), the Q1 senior loan officer survey, and the weekly mortgage applications and initial claims data. There will be several Fed speeches throughout the week.

Canada labor market data for Apr will be released. Employment growth is expected to rebound after falling slightly last month. The unemployment rate is expected to continue to rise to 6.2%. This will be closely watched by the BoC.

The final S&P global services PMIs will be released this week to round out the full view of global growth momentum in Apr. Last week, the final manufacturing surveys were released, and global manufacturing momentum was little changed at 50.3 in Apr, down from 50.6.

US Treasury Issuance; 6 – 10 May 2024

This week, the US Treasury will auction and settle approx. \$420bn in ST Bills, with a net paydown of -\$13bn. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond this week – all will settle next week on 15 May.

QT this week: Approx \$12.6bn 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 %
6-10 May	02-May	07-May	4 week bill	70		Actual 5.275%	5.275%
	02-May	07-May	8 week bill	75		Actual 5.270%	5.275%
	01-May	07-May	17 week Bill	60		Actual 5.245%	5.240%
				205	216	-11	
	06-May	09-May	13 week bill	70		Announced	5.250%
	06-May	09-May	26 week bill	70		Announced	5.165%
	07-May	09-May	42-Day CMB	75		Announced	5.285%
				215	217	-2	
			Total - securities settling this week	420	433	-13	
			Net New Cash Raised Qtr to Date	3111	3087	24	
			<i>Estimated Net Cash to be Raised Q2 (\$ Bn)</i>			<i>243</i>	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		07-May	ST Bills	0.6			
		09-May	ST Bills	12.0			
				12.6			
			Maturing & redemption (balance sheet roll-off)				
				nil			
			Upcoming Auctions	\$B			
	07-May	15-May	3yr Note	58			
	08-May	15-May	10yr Note	42			
	09-May	15-May	30yr Bond	25			
				125			

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>

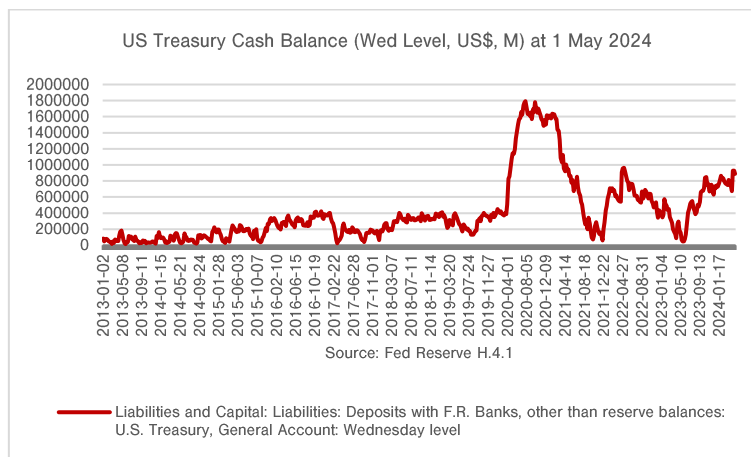
Recommended US Treasury Financing – Q2 2024

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 slightly higher than the initial estimate of +\$202bn due to lower cash receipts, 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 1 May 2024, the level of the TGA fell to \$890bn (-\$39bn compared to the week prior). The TGA balance is approx. \$702bn *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 6 MAY 2024

MONDAY 6 MAY (US Eastern Time, unless stated otherwise)

Europe	Eurozone S&P Services PMI – Final (Apr)
US	Senior Loan Officer Opinion Survey Q1, Fed speeches; Williams

TUESDAY 7 MAY

Australia	RBA Monetary Policy Meeting
Europe	Germany Factory Orders (Mar), Eurozone Retail Sales (Mar)
US	Consumer Credit Change (Mar), US Fed speeches: Kashkari

WEDNESDAY 8 MAY

Europe	Germany Industrial Production (Mar)
US	MBA Mortgage Apps wk ending 4 May, Fed speeches: Vice Chair Jefferson (Economics career discussion), Cook (Financial Stability)
Australia	Retail Sales (Real) Q1
China	Trade Balance, Exports, and Imports (Apr)

THURSDAY 9 MAY

UK	BoE Monetary Policy Meeting
US	Initial Jobless Claims wk ending 4 May

FRIDAY 10 MAY

UK	GDP Q1
US	University of Michigan Consumer Sentiment Prelim (May), Fed speeches; Logan, Goolsbee, Bowman, Barr (Commencement speech)
Canada	Labour Market Survey (Apr)
China	CPI & PPI (Apr)
