

Key events this week – ECB & BoC meetings, US non-farm payrolls & ISM surveys, Aus GDP Q1, Global S&P PMIs

Recap from last week: The US PCE inflation print for Apr was in line with expectations and most likely qualifies as ‘heading back in the right direction’. Overall, this is likely to be seen as progress, albeit slow, and the FOMC will still need to see further easing across successive reports to be confident that inflation is moving sustainably towards the 2% target. Core PCE inflation slowed to +0.2% over the month from +0.3% in Mar. The annual core PCE inflation rate eased slightly to +2.75% in Apr from +2.81% in Mar, still above the current median FOMC projection of +2.6% over 2024. The 3-month annualized core PCE rate is still running at +3.5% but did slow from +4.4% in Mar. Services ex-energy & housing inflation has been a measure often cited by the FOMC as a gauge of the direction of underlying inflation. This measure eased in Apr to +0.32% from +0.4% in Mar, while the annual rate increased from +3.4% to +3.5%. The monthly trimmed mean eased further in Apr to +0.23% from +0.27% in Mar – and this monthly rate is almost back in line with the slower pace of H2 2023. The annual trimmed mean continued to slow to +2.9% from +3% in Mar.

Other US data from last week led to a lower estimate for GDP growth in Q2 (albeit still at an elevated pace). By the end of the week, [the Atlanta Fed GDPNow cast for Q2](#) had slowed to +2.7% from +3.5% at the start of the week. Lower-than-expected personal spending growth for Apr was a key contributor. The resilient consumer narrative came further into question as the second reading for Q1 GDP growth was also revised lower than expected to +1.3% – due mostly to lower personal consumption expenditures.

Other CPI reports last week suggested firm inflation is persisting. The Euro Area prelim CPI for May came in higher across both headline and core measures. This week, the ECB is broadly expected to cut its benchmark interest rates by 25bps. The firmer inflation print, and improving growth outlook may keep guidance for follow-up rate cuts somewhat opaque.

The monthly Aus inflation print for Apr indicated that progress on disinflation stalled. This result is likely to keep inflation concerns elevated at the RBA. However, the [latest minutes of the RBA meeting](#) noted that “members judged that it remained reasonable to look through short-term variation in inflation to avoid excessive fine-tuning”. The Board is balancing the task of staying on a ‘credible path’ to the midpoint of the inflation target with maintaining employment growth.

Outlook for the week ahead: This week marks the beginning of several weeks of important central bank meetings. Recently, central bank guidance (among developed markets) has ranged from rates staying higher at these peaks (holding for longer) to rate cuts starting to come into view to calibrate with a lower inflation environment and to achieve a soft landing.

The first of these developed market central banks are expected to cut rates this week – and the focus will shift to the guidance and outlook for further easing. The BoC is expected to cut its policy rate this week by 25bps (possible). BoC guidance had noted that rates had peaked, and it was waiting for more progress on inflation. In recent months, slower inflation prints have been more favorable, while growth improved in Q1 to +0.4% (after stalling through the second half of 2023). The next update on the Canadian labour market for May will be at the end of the week – and the unemployment rate is expected to remain elevated at around 6.1%.

The ECB is broadly expected to cut its key policy rates by 25bps this week. The ECB has been more consistent in its signalling of a cut at this Jun meeting. As noted already, the firmer inflation

reading in May, and a more positive growth environment could make guidance less clear on the path of follow-up rate cuts.

The FOMC meets next week – and it currently sits in the camp of staying on hold for longer. Inflation data from last week will not likely change that guidance. The US labor market data this week will be important for how the FOMC sees the path of policy – continued resilient labor conditions are likely to support the FOMC in staying on hold for longer. Non-farm payroll growth is expected to remain at the more moderate pace of +185k in May (from +175k in Apr). The unemployment rate is expected to be unchanged at 3.9%. Metrics of labor demand, such as Job Openings are expected to continue to ease with openings falling slightly to 8.35m in Apr.

Other US data this week includes the ISM surveys for May. These will be instructive in confirming the recent improvement in the S&P PMI surveys for May. Manufacturing conditions are expected to stay around the neutral level, while services are expected to shift back into slight expansion.

This is also the blackout period for Fed speeches ahead of the FOMC meeting next week.

Aus Q1 GDP growth is expected to be little changed at +0.2% over the quarter and to slow to +1.2% over the year (from +1.5% in Q4).

The broader global S&P PMI's for May will be released this week.

US Treasury Issuance; 3 – 7 June 2024

This week, the US Treasury will auction and settle approx. \$400bn in ST Bills, with a net paydown of approx. \$17bn.

QT this week: Approx \$2.4bn in ST Bills will mature on the Fed balance sheet and will be reinvested. The lower cap of \$25bn for monthly Treasury redemptions comes into effect this month.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	Prior Auction High Rate %
3-7 Jun 2024	30-May	04-Jun	4 week bill	70			Actual 5.270%
	30-May	04-Jun	8 week bill	70			Actual 5.275%
	29-May	04-Jun	17 Week Bill	60			Actual 5.240%
				200	205	-5	
	03-Jun	06-Jun	13 week bill	70			Announced 5.255%
	03-Jun	06-Jun	26 week bill	70			Announced 5.170%
	04-Jun	06-Jun	42-Day CMB	60			Announced 5.275%
				200	212	-12	
			Total - securities settling this week	400	417	-17	
			Net New Cash Raised Qtr to Date	5220	5010	210	
			<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				
		04-Jun	ST Bills	0.8			
		06-Jun	ST Bills	1.6			
				2.4			
			Maturing & redemption (balance sheet roll-off)				
			nil				
				0.0			

Quantitative Tightening Overview – June 2024

In Jun, the face value of Coupons maturing on the Fed balance sheet is approx. \$35.7bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$35.7bn of Coupons

maturing in Jun, \$25bn will roll off the Fed balance sheet and \$10.7bn will be reinvested. It also means that all ST Bills maturing in Jun will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$25bn redemption cap - June			
			\$25
		Redeem \$Bn	Reinvest \$ Bn
15-Jun-24	Notes & Bonds	9.0	3.8
30-Jun-24	Notes & Bonds	16.0	6.8
Jun	ST Bills	0.0	12.3
Total Notes & Bonds		25.00	23.0

Jun 2024 ST Bill maturity schedule;

Bill Maturity Schedule - JUNE			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/06/04	0.81	7%	0.00	0.81
2024/06/06	1.56	13%	0.00	1.56
2024/06/11	0.82	7%	0.00	0.82
2024/06/13	3.98	32%	0.00	3.98
2024/06/18	0.84	7%	0.00	0.84
2024/06/20	0.68	6%	0.00	0.68
2024/06/25	0.83	7%	0.00	0.83
2024/06/27	2.84	23%	0.00	2.84
	12.35	100%	0.00	12.35

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

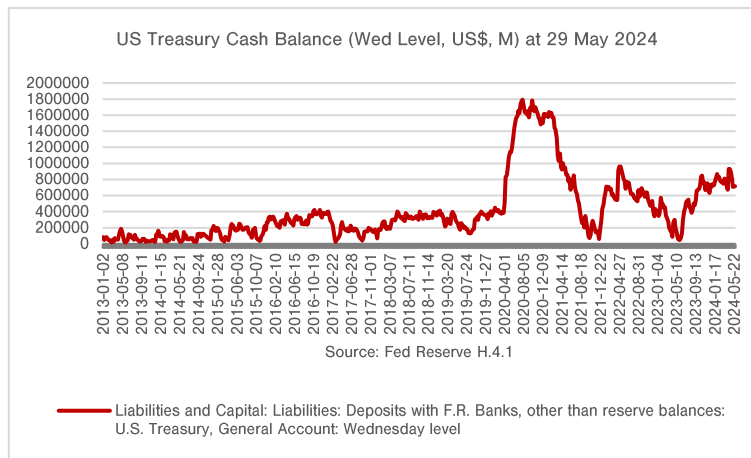
Recommended US Treasury Financing – Q2 2024

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 29 May 2024, the level of the TGA increased to \$716bn (+\$5bn compared to the week prior). The TGA balance is approx. \$667bn 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 3 JUNE 2024

MONDAY 3 JUNE (US Eastern Time, unless stated otherwise)

Europe	Eurozone S&P Manufacturing PMI – Final (May)
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US	S&P Manufacturing PMI – Final (May), ISM Manufacturing PMI (May)
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TUESDAY 4 JUNE

US	Factory Orders (Apr), JOLTS (Apr), Vehicle Sales – tbc (May)
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Australia	GDP Q1, S&P Services PMI – Final (May)
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Japan	S&P Services PMI – Final (May)
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WEDNESDAY 5 JUNE

Europe	Eurozone S&P Services PMI – Final (May)
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US	MBA Mortgage Apps wk ending 31 May, ADP Employment Change (May), S&P Services PMI – Final (May), ISM Services PMI (May)
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Canada	Bank of Canada Monetary Policy Meeting
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Australia	Building Approvals (Apr), Housing Finance (Apr)
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THURSDAY 6 JUNE

Europe	Germany Factory Orders (Apr), Eurozone Retail Sales (Apr) ECB Monetary Policy Meeting
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US	Initial Jobless Claims wk ending 31 May, Challenger Job Cut Announcements (May)
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FRIDAY 7 JUNE

Europe	Germany Industrial Production (Apr), Eurozone GDP – Second est Q1
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US	Non-Farm Payrolls and Labor Market Survey (May), Consumer Credit Change (Apr)
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Canada	Labour Market Survey (May)
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China	Trade Balance, Exports, and Imports – tbc (May)
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