

Key events this week – US PCE inflation, Aus & Canada CPI

Recap from last week: US spending, housing, and output data for May pointed to solid growth continuing through Q2, providing important context for the policy outlook as the FOMC considers when rate cuts will come into view.

The Atlanta Fed GDP Nowcast for Q2 dipped slightly from +3.2% to +3%, with consumption and housing data offsetting gains in industrial production. US retail sales growth for May of +0.1% was slower than expectations for a modest +0.3% increase. The fall in gasoline sales of 2.2% (related to a fall in gasoline prices of 3.6% in May) was the main driver of slower growth. Apr was revised lower from 0% growth to a -0.2% decline. The overall lacklustre growth in real terms highlights the normalizing trend of retail sales over the last two years.

Housing data was weaker in May. Falls in single-family permits and starts, which had been more buoyant, are now contributing to the slowing trend. Home builder sentiment also weakened in Jun. Existing home sales continued to drift lower.

US production/output was a bright spot in May. Manufacturing output growth accelerated, and the stronger result was evident across both durable and non-durable goods output.

The US prelim PMIs for Jun pointed to a continued improvement in growth momentum through the end of Q2. US services and manufacturing sectors continued to expand in Jun, contrasting with declines in other G4 economies.

Central bank decisions continued to diverge last week. The RBA stayed on hold, citing concerns over persistent inflation and reinforcing the need to 'remain vigilant to the upside risks to inflation'. The Jun quarterly CPI will be important in 'giving a much more comprehensive view of what's going on'. The case for a rate hike was considered at this meeting, but a hold was deemed the most appropriate policy course.

The BoE kept rates on hold but signalled that Aug could be live for consideration of a rate cut.

As part of the August forecast round, members of the Committee would consider all of the information available and how this affected the assessment that the risks from inflation persistence were receding. On that basis, the Committee would keep under review for how long Bank Rate should be maintained at its current level. *Source; BoE Minutes*

Deliberations showed that a growing number of MPC members considered that UK inflation was on a downward trajectory and, despite still elevated services inflation, the policy decision at this meeting had become 'finely balanced'.

The SNB cut rates for the second time in this cycle.

Outlook for the week ahead: This week's US inflation data will provide a crucial update for the FOMC's policy outlook. While US growth remains solid and the labor market rebalances, the FOMC needs consistent evidence that inflation is sustainably moving towards the 2% target before it considers initiating the rate-cutting cycle.

This week, the FOMC preferred PCE inflation data for May will provide a further reading on the progress of disinflation.

US PCE inflation is expected to slow to +2.6% in May, from +2.7% in Apr. This would be in line with the latest FOMC projection for the median PCE inflation rate of +2.6% over 2024. The monthly headline rate is expected to slow to 0% in May from +0.3% in Apr.

Core PCE inflation is expected to slow to +2.6% in May from +2.8% in Apr - this would be below the projection of +2.8% for core PCE inflation over 2024. The monthly core PCE inflation rate is also expected to slow to +0.1% in May from +0.2% in Apr.

There will be further important US consumption, housing, and output data to update the view of Q2 growth.

Personal spending for May is expected to increase by +0.3%, up from +0.2% in Apr. Personal income is expected to increase by +0.4% in May, up from +0.3% in Apr.

New home sales are expected to increase slightly to 0.65m annualized in May, up from 0.634m in Apr. Pending home sales will provide a view of the pipeline of housing sales for May.

US Q2 GDP (third estimate) is expected to be confirmed at +1.3% annualized.

Durable goods orders are expected to increase by +0.3% in May after increasing by +0.6% in Apr.

We are monitoring initial jobless claims as the 4-week average continues to rise. Last week, the seasonally adjusted initial claims series remained elevated at +238k, and are expected to be +240k this week.

Finally, there will be a range of Fed speeches this week. Fed Governor Waller will provide opening remarks on Monday (not clear that he'll talk about the economy or monetary policy), and Governor Cook will speak on the economic outlook at the Economic Club of NY on Tuesday.

The Aus monthly CPI series for May will be released this week and will be important given the concerns of persistent inflation. Headline inflation is expected to be +3.8% in May, up from +3.6% in Apr. RBA Governor Bullock noted that the monthly series is useful in providing an update on the momentum of inflation, but doesn't yet provide the full picture of inflation.

The Canadian CPI for May is expected to continue easing. Headline inflation is expected to slow to +2.6% in May from +2.7% in Apr. The important trimmed mean is also expected to slow further to +2.8% in May, from +2.9% in Apr. The BoC started cutting rates at its meeting in Jun citing continued evidence that underlying inflation is easing, and policy no longer needs to be as restrictive.

US Treasury Issuance; 24 - 28 June 2024

This week, the US Treasury will auction and settle approx. \$645bn in ST Bills, Notes, and Bonds, raising approx. \$113bn in new money.

QT this week: Approx \$10.5bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx. \$16bn in Notes & Bonds will be redeemed and rolled 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 %
24 - 28 Jun 2024	20-Jun	25-Jun	4 week bill	70			Actual 5.230%
	20-Jun	25-Jun	8 week bill	70			Actual 5.260%
	20-Jun	25-Jun	17 Week Bill	60			Actual 5.220%
				200	215	-15	
	24-Jun	27-Jun	13 week bill	70			Announced
	24-Jun	27-Jun	26 week bill	70			Announced
	25-Jun	27-Jun	42-Day CMB	60			Announced
				200	216	-16	
	18-Jun	01-Jul	20 yr Bond	13			Actual 4.452%
	20-Jun	28-Jun	5yr TIPS	21			Actual 2.050%
	25-Jun	30-Jun	2yr Note	69			Announced
	26-Jun	30-Jun	5yr Note	70			Announced
	27-Jun	30-Jun	7yr Note	44			Announced
	26-Jun	28-Jun	2yr FRN	28			Announced
				245	101	144	
			Total - securities settling this week	645	532	113	
			Net New Cash Raised Qtr to Date	6830	6492	338	
			<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						
	25-Jun		ST Bills	0.8			
	27-Jun		ST Bills	2.8			
	30-Jun		Notes & Bonds	6.8			
				10.5			
	Maturing & redemption (balance sheet roll-off)						
	30-Jun		Notes & Bonds	16.0			
				16.0			

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>

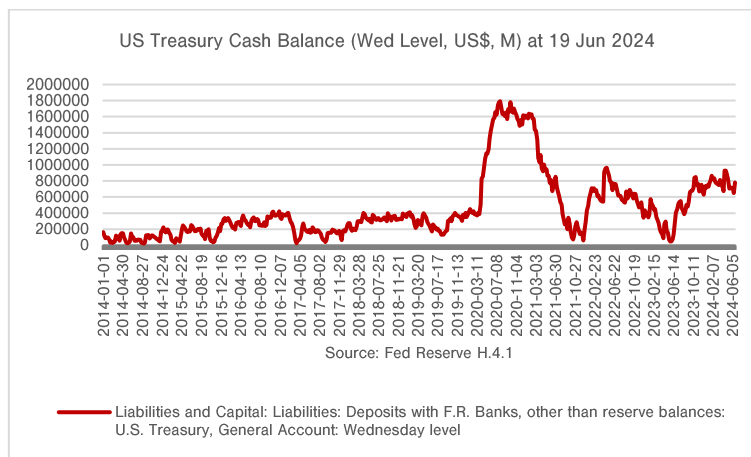
Recommended US Treasury Financing – Q2 2024

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 19 Jun 2024, the level of the TGA increased to \$782bn (+\$131bn compared to the week prior). The TGA balance is approx. \$490bn *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 24 JUNE 2024

MONDAY 24 JUNE (US Eastern Time, unless stated otherwise)

US	Chicago Fed National Activity Index (May) – tbc, Dallas Fed Manufacturing Index (Jun), US Fed speeches: Waller (Opening Remarks), Daly
Canada	BoC Governor Macklem speech
Australia	Westpac Consumer Sentiment (Jun)

TUESDAY 25 JUNE

Canada	CPI (May)
US	Case/Shiller House Price Index (Apr), Conference Board Consumer Confidence (Jun), Richmond Fed Manufacturing Index (Jun), Fed speeches: Cook (Economic Outlook), Bowman
Australia	CPI – Monthly series (May)

WEDNESDAY 26 JUNE

US	MBA Mortgage Apps wk ending 22 Jun, New Home Sales (May)
Japan	Retail Trade (May)

THURSDAY 27 JUNE

US	Initial Jobless Claims wk ending 22 Jun, Durable Goods Orders (May), GDP Q1 – Third Est, Pending Home Sales (May), Kansas City Fed Manufacturing Index (Jun)
Japan	Tokyo CPI (Jun), Industrial Production – Prelim (May)
Australia	Private Sector Credit (May)

FRIDAY 28 JUNE

UK	GDP Q1 – Final Est
US	PCE Price Index (May), Personal Spending & Income (May), Chicago PMI (Jun), University of Michigan Consumer Sentiment – Final (Jun), Fed speeches; Bowman, Barkin
