

Key events this week – US PCE inflation & Q2 GDP, Bank of Canada policy meeting, S&P prelim PMIs Jul

Recap from last week: Both US Fed Chair Powell and Fed Governor Waller continued to reiterate the shift to a more balanced focus of the Fed's dual mandate. Neither signaled a timing on rate cuts. However, Fed Governor Waller noted that data is getting closer to a point where he can be confident to start cutting rates;

So, while I don't believe we have reached our final destination, I do believe we are getting closer to the time when a cut in the policy rate is warranted. Source: [Fed Governor Waller](#)

Governor Waller outlined several possible paths of inflation and the implications for the timing of rate cuts. Between the two likely outcomes, the difference lies in whether a rate cut will occur "in the not too distant future" or if "a rate cut in the near future is more uncertain". Markets continued to price in the first US rate cut in Sept, with a roughly 50% probability of follow-up cuts in both Nov and Dec (Source: [CME Fed Watch Tool](#)). The FOMC meets next week and is likely to provide a signal for the start of the cutting cycle.

US data provided some upside for Q2 growth last week, which included positive revisions for May data. US nominal retail sales for Jun came in as expected at 0% change. The retail control group measure – which feeds into GDP consumption was much stronger than expected at +0.9% growth in Jun. Retail sales growth in May was revised higher, indicating that spending had not been as weak as previously thought. New housing starts were slightly better than expected in Jun (led by multi-family starts), however overall growth in housing starts remains subdued. Growth in industrial production for Jun was higher than expected at +0.6%, with May also revised higher. Initial claims data jumped in the prior week with half of the increase coming from Texas, likely the result of Hurricane Beryl. The [Atlanta Fed GDP Nowcast](#) for real GDP growth in Q2 increased to +2.7% by the end of last week – led by a higher contribution from spending and change in private inventories. The official advance measure of US Q2 GDP is out this week and is expected to show growth increasing to +1.9% (annualized) in Q2, up from +1.4% in Q1.

The ECB kept its policy rates on hold, as expected, after delivering its first rate cut at the previous meeting. In Jun, inflation measures were either stable or just edged down and inflation is expected to fluctuate around current levels for the rest of the year. The question of a rate cut at the Sept meeting is 'wide open', with the Governing Council adhering to its data-dependent approach. After the meeting, a Bloomberg article indicated some caution over the path of follow-up rate cuts this year;

With inflation pressures still lingering, officials are becoming less confident that a path for two further reductions is realistic, and don't want investors to assume that a move in September is a done deal, said the people, who declined to be identified because deliberations are private. ([Bloomberg](#))

Outlook for the week ahead: The focus this week will be on the US Fed-preferred measure of inflation, the PCE price deflator. This will be an important release, looking to confirm the improving inflation picture ahead of the FOMC meeting next week.

Headline PCE inflation is expected to increase by +0.1% in Jun, after 0% change in May. The annual rate is expected to slow to +2.5% from +2.56% in May. Core PCE inflation is expected to increase by +0.2% in Jun after increasing by +0.1% in May. Core PCE inflation is expected to increase by +2.6% over the year in Jun, slightly above the +2.57% rate in May.

It is the blackout period for US Fed speeches this week, ahead of the FOMC meeting next week.

The Bank of Canada meets this week and is expected to cut rates again by 25bps. Canadian inflation continued to ease in Jun and the unemployment rate drifted higher. The latest (albeit lagging) May retail sales fell more than expected. The Q2 [BoC Outlook Survey](#) maintained the subdued tone from Q1 as firms continued to be pessimistic about discretionary spending and business investment. Despite the lackluster outlook, “few firms plan to reduce headcounts”. At the [press conference](#) in Jun, Gov Macklem noted that “if inflation continues to ease, and our confidence that inflation is headed sustainably to the 2% target continues to increase, it is reasonable to expect further cuts to our policy interest rate. But we are taking our interest rate decisions one meeting at a time”.

Finally, the S&P prelim PMIs for the key G4 (plus Aus) economies will be released this week for Jul. This will provide the first view of momentum across services and manufacturing activity at the start of Q3.

US Treasury Issuance; 22 - 26 July 2024

This week, the US Treasury will auction approx. \$696bn in ST Bills, Notes, Bonds, and FRNs, raising approx. \$117bn in new money. This includes the 10-year TIPS and 20-year Bond auctioned last week.

QT this week: Approx \$8.9bn 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 %
22-26 Jul	18-Jul	23-Jul	4 week bill	90			Actual 5.270%	5.270%
	18-Jul	23-Jul	8 week bill	85			Actual 5.260%	5.260%
	17-Jul	23-Jul	17-week Bill	60			Actual 5.135%	5.195%
				235	210	25		
	22-Jul	25-Jul	13 week bill	76			Announced	5.195%
	22-Jul	25-Jul	26 week bill	70			Announced	4.985%
	23-Jul	25-Jul	42-Day CMB	70			Announced	5.265%
				216	200	16		
	18-Jul	31-Jul	10yr TIPS	19			Actual 1.883%	2.184%
	17-Jul	31-Jul	20-Year Bond	13			Actual 4.466%	4.452%
	25-Jul	31-Jul	7-Year Note	44			Announced	4.276%
	24-Jul	31-Jul	5-Year Note	70			Announced	4.331%
	23-Jul	31-Jul	2-Year Note	69			Announced	4.706%
	24-Jul	31-Jul	2-Year FRN	30			Announced	0.155%
				245	169	76		
			Total - securities settling this week	696	579	117		
			QTR to date totals	2,372	2,045	327		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>847</i>		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		23-Jul	ST Bills	0.7				
		25-Jul	ST Bills	8.3				
				8.9				
			Maturing & redemption (balance sheet roll-off)					
				Nil				

Quantitative Tightening Overview – July 2024

In Jul, the face value of [Coupons](#) maturing on the Fed balance sheet is approx. \$57.8bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$57.8bn of Coupons maturing in Jul, \$25bn will roll off the Fed balance sheet and \$32.8bn will be reinvested. It also means that all ST Bills maturing in Jul will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$25bn redemption cap - Jul			
		\$25	
		Redeem \$Bn	Reinvest \$ Bn
15-Jul-24	Notes, Bonds, and TIPS	14.7	19.3
31-Jul-24	Notes, Bonds, and FRN's	10.3	13.5
	ST Bills		39.7
	Total Notes & Bonds	25	72

Jul 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Jul			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/07/02	0.58	1%	0.00	0.58
2024/07/05	8.82	22%	0.00	8.82
2024/07/09	0.58	1%	0.00	0.58
2024/07/11	10.82	27%	0.00	10.82
2024/07/16	0.60	2%	0.00	0.60
2024/07/18	8.60	22%	0.00	8.60
2024/07/23	0.65	2%	0.00	0.65
2024/07/25	8.28	21%	0.00	8.28
2024/07/30	0.72	2%	0.00	0.72
	39.7	100%	0.0	39.7

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

Recommended US Treasury Financing – Q2 2024

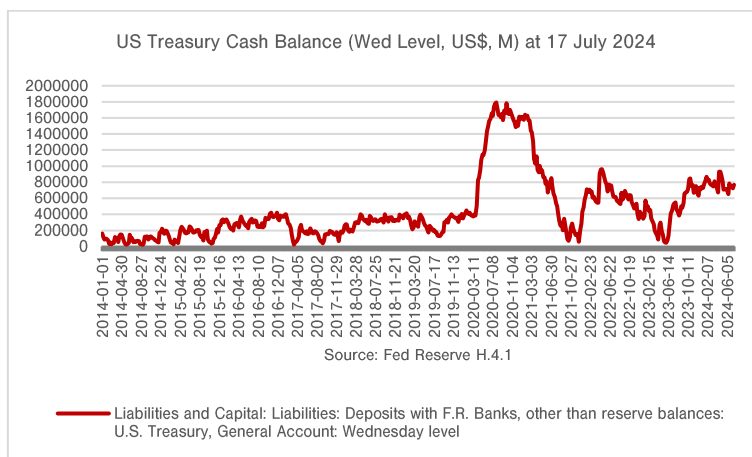
Estimate Q3 2024; The US Treasury expects to borrow \$847 billion in privately held net marketable debt, assuming an end-of-September cash balance of \$850 billion. The next schedule will be released on 29 and 31 Jul 2024.

Q2 2024; The US Treasury expected to borrow \$243 billion in privately held net marketable debt, assuming an end-of-June cash balance of \$750 billion. The cash balance on Wed 26 Jun was \$744bn.

US Treasury Cash Levels (TGA)

As of Wed 17 Jul 2024, the level of the TGA increased to \$767bn (+\$44bn compared to the week prior).

The TGA balance is approx. \$229bn *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 22 JULY 2024

MONDAY 22 JULY (US Eastern Time, unless stated otherwise)

China	PBoC – Prime Rate Decision (10bps cut across benchmark rates)
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US	Chicago Fed National Activity Index (Jun) - tbc
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TUESDAY 23 JULY

US	Existing Home Sales (Jun), Richmond Fed Manufacturing Index (Jul)
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Australia	S&P PMI Manufacturing & Services Prelim (Jul)
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Japan	S&P PMI Manufacturing & Services Prelim (Jul)
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WEDNESDAY 24 JULY

Europe	Eurozone S&P PMI Manufacturing & Services Prelim (Jul)
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UK	S&P PMI Manufacturing & Services Prelim (Jul)
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US	MBA Mortgage Apps wk ending 20 Jul, S&P PMI Manufacturing & Services Prelim (Jul), New Home Sales (Jun)
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Canada	BoC Monetary Policy Meeting
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THURSDAY 25 JULY

US	Initial Jobless Claims wk ending 20 Jul, Durable Goods Orders (Jun), GDP Q2 – Advance, Kansas City Fed Manufacturing Index (Jul)
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Japan	Tokyo CPI (Jul)
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FRIDAY 19 JULY

US	PCE Price Index (Jun), Personal Income and Spending (Jun), University of Michigan Consumer Sentiment – Final (Jul)
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