

Key events this week – US CPI & PPI, US Fed Chair Powell testimony, RBNZ monetary policy meeting

Recap from last week: At the Sintra forum last week, Fed Chair Powell noted that the US had experienced solid growth in the first half, a robust but rebalancing labor market, and inflation showing signs of resuming a disinflationary trend after modest progress in Q1. His message was consistent; the FOMC wants more inflation data to be confident that inflation is moving sustainably down toward 2% before starting the process of loosening policy.

Because the US economy and labour market is strong, **we have the ability to take our time and get this right and that what we're planning to do.** *US Fed Chair Powell, [SINTRA Panel Discussion, Jul 2024](#)*

Going into last week, the FOMC view of the US labor market was that the recovery was now mostly back to its pre-pandemic condition of 'relatively tight, but not overheating' and a better balance in labor market conditions had been observed.

We see gradual cooling, gradual moving toward better balance. We're monitoring it carefully for signs of something more than that, but we really don't see that. *US Fed Chair Powell, FOMC press conference, Jun 2024*

The Jun labor market data showed more of those balanced conditions; labor demand continued to ease, but there was little evidence that firms were reducing staffing. Non-farm payroll growth has slowed back to around pre-pandemic rates. Employment growth in the household survey has slowed to well below its pre-pandemic rate of growth. The lagging JOLTS survey for May showed job openings remaining firmer – with the vacancy rate increasing slightly to 4.9% – still above the 4.5% rate before the pandemic. The hiring rate slowed to 3.6% in May, and this is now below the 3.9% rate before the onset of the pandemic.

While these indicators suggest labor demand has eased, other data suggest little shift to firms actively reducing employment. The layoff and discharge rate for May stayed at a low of 1.0% (it was 1.3% on the eve of the pandemic). Initial jobless claims have increased through Jun, but have not accelerated, but continuing claims are rising. Despite this, the unemployment rate has continued to drift higher – employment growth has not kept pace with the growth of the labor force since around Nov last year. The unemployment rate increased from 3.96% in May to 4.05% in Jun. The FOMC projection for the unemployment rate is 4.1% at the end of 2024. Fed Chair Powell has referenced the core working age group of 25-54yrs in several speeches – and the unemployment rate for this group was up more notably to 3.5% in Jun from 3.3% in May, and above the 3% unemployment rate recorded just before the pandemic.

The FOMC minutes suggest growing awareness among Committee members that the unemployment rate could increase further now that labor demand has mostly normalized;

Several participants specifically emphasized that with the labor market normalizing, **a further weakening of demand may now generate a larger unemployment response** than in the recent past when lower demand for labor was felt relatively more through fewer job openings. *FOMC Minutes, Jun 2024*

In the context of already rising unemployment, the slowdown in the growth run rate for Q2 is important for what it means to the risk of further increases in unemployment while the Fed waits for

more confidence on inflation. The latest [Atlanta Fed GDP Nowcast for US Q2 GDP](#) growth stepped down further to +1.5% annualized, after starting the week at +2.2%. Weaker ISM surveys for Jun, factory output, construction spending, and vehicle sales data contributed to the lowered growth run rate.

Outlook for the week ahead: With growth slowing and unemployment drifting higher, June's updated inflation data will be an important input for the FOMC's policy rate assessment at the end of the month. A continued slowdown in inflation would likely add to the case for the FOMC to consider plans to start cutting rates. The current [target rate probabilities](#) have been firming around Sept for the FOMC to commence its rate-cutting cycle (Source; CME FedWatch).

Before the CPI release this week, US Fed Chair Powell will give two days of testimony in his semi-annual monetary policy report to Congress. There will also be several other Fed speeches throughout the week.

This will be followed by the US CPI and PPI report for Jun. Headline CPI is expected to slow to +3.1% over the year in Jun from +3.3% in May. Monthly headline inflation is expected to be +0.1% in Jun, up from 0% in May. However, core CPI is expected to stay at +3.4% in Jun, unchanged from +3.4% in May. The monthly core inflation reading is also expected to be unchanged at +0.2% in Jun.

US headline PPI inflation is expected to be unchanged at +2.2% in Jun, while the monthly rate is expected to increase to +0.1% in Jun, up from -0.2% in May. Core PPI is expected to rise slightly to +2.5% in Jun, up from +2.3% in May. The monthly core rate is expected to increase to +0.2% in Jun, up from 0% in May.

The Fed-preferred PCE inflation gauge will be released on 26 Jul, just before the next FOMC meeting.

The RBNZ will meet on monetary policy this week and is expected to keep policy settings unchanged.

US Treasury Issuance; 8 - 12 July 2024

This week, the US Treasury will auction and settle approx. \$487bn in ST Bills, raising approx. \$36bn in new money. The US Treasury will also auction the 30-year Bond, 10-year Note, and 3-year Note this week to settle next week.

QT this week: Approx \$11.4bn 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 %
8-12 Jul	03-Jul	09-Jul	4 week bill	85			Actual 5.280%	5.270%
	03-Jul	09-Jul	8 week bill	80			Actual 5.275%	5.260%
	03-Jul	09-Jul	17-Week Bill	60			Actual 5.205%	5.220%
				225	210	15		
	08-Jul	11-Jul	13 week bill	76			Announced	5.240%
	08-Jul	11-Jul	26 week bill	70			Announced	5.115%
	09-Jul	11-Jul	52 week bill	46			Announced	4.915%
	09-Jul	11-Jul	42-day CMB	70			Announced	5.270%
				262	241	21		
			Total - securities settling this week	487	451	36		
			Net New Cash Raised Qtr to Date	1106	970	136		
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>847</i>		
			QT: Face value of SOMA securities maturing	\$B				
			Maturing & reinvestment					
		09-Jul	ST Bills	0.6				
		11-Jul	ST Bills	10.8				
				11.4				
			Maturing & redemption (balance sheet roll-off)					
			Nil	0.0				
				0.0				
			Upcoming Auctions	\$B				
	09-Jul	15-Jul	3yr Note	58				
	10-Jul	15-Jul	10yr Note	39				
	11-Jul	15-Jul	30yr Bond	22				

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	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			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-roll-over-faq>

Recommended US Treasury Financing – Q2 2024

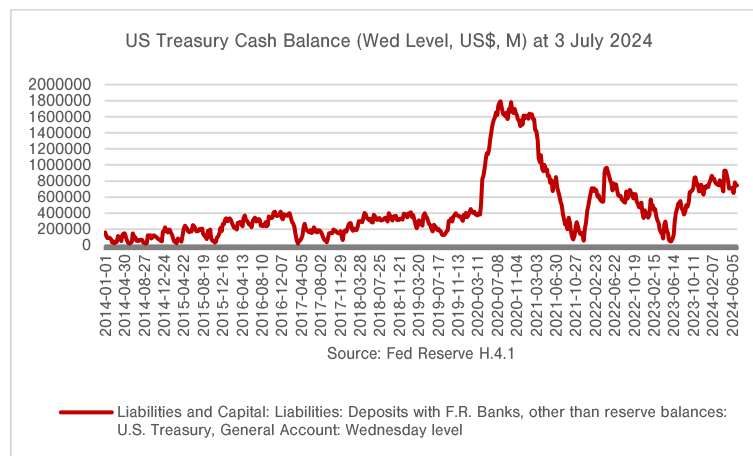
Estimate Q3 2024; Treasury expects to borrow \$847 billion in privately held net marketable debt, assuming an end-of-September cash balance of \$850 billion. The next schedule will be released on 29 and 31 Jul 2024.

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 3 Jul 2024, the level of the TGA increased to \$745bn (+\$1bn compared to the week prior). This is close to the estimated end-of-quarter cash balance of \$750bn.

The TGA balance is approx. \$299bn *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 8 JULY 2024

MONDAY 8 JULY (US Eastern Time, unless stated otherwise)

US	Consumer Credit Change (May)
Australia	Sunday night - Housing Finance (May), Westpac Consumer Confidence (Jul), NAB Business Confidence and Conditions (Jun)

TUESDAY 9 JULY

US	NFIB Business Optimism Index (Jun) US Fed Chair Powell – Testimony Day 1 US Fed speeches: Barr, Bowman
China	CPI & PPI (Jun)
NZ	RBNZ Monetary Policy Meeting

WEDNESDAY 10 JULY

US	MBA Mortgage Apps wk ending 6 Jul, OPEC monthly report US Fed Chair Powell – Testimony Day 2 US Fed speeches; Bowman, Cook (Global Inflation & Monetary Policy Challenges)
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THURSDAY 11 JULY

Europe	Germany CPI – Final (Jun)
UK	Monthly growth and output data (May)
US	CPI (Jun), Initial Jobless Claims wk ending 6 Jul US Fed speeches; Bostic

FRIDAY 12 JULY

US	PPI (Jun), University of Michigan Consumer Sentiment – Prelim (Jul)
China	Trade Balance, Exports, and Imports (Jun) – TBC
