

Key events this week – US CPI, PPI, & retail sales, UK CPI, RBNZ meeting, Aus labour market, GDP; Eurozone, UK, & Japan

Recap from last week: The week began with heightened fears of a slowdown in US growth amid significant market turbulence. Despite a light week for major data releases, the available data still managed to ease growth concerns.

The US ISM services PMI did rebound in Jul, and the improvement was enough to calm the narrative that the US economy was suddenly slowing. The rebound in Jul was moderate at 51.4 with several bright spots including more widespread growth in new orders, output, and employment.

US initial claims data also managed to push back on concerns over US labor market softness. Initial claims came in lower than expected at +233k – and back in line with the 12-week average.

Growth in mortgage applications rebounded more notably (+6.9% over the week) as mortgage rates continued to fall. The rebound in applications was led by refinance applications for now, however, it will be important to track the effect of lower rates on a recovery in housing activity.

The latest US Senior Loan Officer Opinion Survey also hinted that lending standards may not have tightened to the same degree in Q2 compared to Q1;

While banks, on balance, reported having tightened lending standards further for most loan categories in the second quarter, **the net shares of banks that reported having tightened lending standards are lower** than in the first quarter across almost all loan categories. Source: [SLOOS Q2](#)

A speech by BoJ Deputy Governor Uchida helped to calm markets after the BoJ had increased its policy rates and guided further possible rate increases. This was an important speech for signaling on the near-term path of Japanese rates given the volatility in markets, especially in Japan. He summed up by distinguishing the current path of the BoJ and other central banks;

“...in contrast to the process of policy interest rate hikes in Europe and the United States, Japan's economy is not in a situation where the Bank may fall behind the curve if it does not raise the policy interest rate at a certain pace. Therefore, **the Bank will not raise its policy interest rate when financial and capital markets are unstable.**”

Source: [Speech to Local leaders in Hakodate](#), 7 Aug 2024

The RBA kept policy settings unchanged as expected. The Board noted the increased risk that inflation in Aus will take too long to return to target. The latest CPI data “demonstrated that inflation is proving persistent” and growth expectations were revised higher. In a speech later in the week, Governor Bullock confirmed that **the Board's expectations for when inflation will come back to target have been pushed out**. While the Board did discuss a rate hike at this meeting, the decision to stay on hold aligned more strongly with its dual mandate objectives as it “steers a narrow path” between keeping employment growing and inflation slowing”.

S&P Global PMIs indicated that the current expansion slowed at the start of Q3. This was led by a slowdown in global manufacturing activity as the global manufacturing PMI slipped back into contraction and the manufacturing new orders index fell for the first time in six months. This was only partly offset by services output which resumed expanding at a faster pace in Jul, after a brief pause in Jun.

Outlook for the week ahead: The focus this week will likely remain on US inflation and the US growth narrative ahead of the Jackson Hole symposium next week.

The FOMC recently noted that inflation readings don't need to be 'better', and that it just wants more readings around this level to increase its confidence that inflation is slowing. US headline CPI for Jul is expected to be unchanged at +3% over the year, from +3% in Jun. Over the month, inflation is expected to increase by +0.2%, up from -0.1% in Jun. Core CPI is expected to ease to +3.2% over the year, down from +3.3% in Jun. Over the month core CPI is expected to increase by +0.2%, up from +0.1% in Jun.

This week the US PPI report for Jul will be released before the CPI report. The US headline PPI for Jul is expected to be little changed at +2.6% versus +2.6% in Jun. Over the month, PPI is expected to increase by +0.2% - the same pace as Jun. Core PPI is expected to increase by +3% over the year in Jul, while monthly core PPI is expected to slow to +0.2% in Jul from +0.4% in Jun.

The broader US growth context will be in focus this week with the first comprehensive update on growth at the start of Q3 across consumption, output, and housing activity in Jul. US retail sales are expected to increase by +0.4% in Jul, after a 0% change in Jun. Despite the flat growth of headline retail sales in Jun, the increase in the retail control group sales (which feeds into GDP consumption) was notably stronger at +0.9%. This measure is expected to ease in Jul.

US industrial production is expected to ease in Jul. Output is expected to fall by -0.2%, slowing from +0.6% in Jun. This would be broadly in line with weaker output readings across US manufacturing PMIs. The first US regional manufacturing surveys for Aug will provide a guide on momentum through Q3.

The first round of housing data for Jul will be released. Given the falls in mortgage rates, it will be important to gauge the shift in the NAHB homebuilder sentiment index this week - which is expected to be unchanged at 42. New housing permits for Jul are still expected to ease to an annualized pace of 1.43m, from 1.454m in Jun. New housing starts are also expected to ease to an annualized pace of 1.34m in Jul from 1.353m in Jun.

Initial claims are expected to stay low at +232k for the prior week.

The calendar of Fed speeches will be light this week. A more substantial round of signaling on the path of US rates is expected next week at the annual [Jackson Hole Symposium on Central Banking](#) (22-24 Aug).

The RBNZ is expected to keep policy settings unchanged, but this could be another finely balanced decision. Last time, the RBNZ noted that policy restraint will be tempered over time as inflation eases further. In Q2, measures of domestically led inflation improved but remained elevated at +5.4%. The Q2 employment report last week could concern policymakers - employment growth was better than expected, but the unemployment rate increased from 4.3% to 4.6% (just below the expectation of a 4.7% unemployment rate).

Finally, the Aus labour market data for Jul will be important for the RBA. The net change in employment is expected to slow to +20k, the participation rate is expected to be unchanged at 66.9%, and the unemployment rate is expected to be unchanged at 4.1%. The Wage Price Index for Q2 will also be released and is expected to increase slightly over the quarter by +0.9%, up from +0.8% in Q1.

US Treasury Issuance; 12 - 16 Aug 2024

This week, the US Treasury will auction and settle approx. \$591bn in ST Bills, Notes, and Bonds, raising approx. \$55bn in new money.

QT this week: Approx \$38bn in ST Bills, Notes, and Bonds will mature on the Fed balance sheet and will be reinvested. Approx \$15bn in Notes & Bonds will be redeemed and roll 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 %
12-16 Aug	08-Aug	13-Aug	4 week bill	95		Actual 5.285%	5.285%
	08-Aug	13-Aug	8 week bill	90		Actual 5.190%	5.230%
	07-Aug	13-Aug	17-week Bill	60		Actual 4.990%	5.090%
				245	220	25	
	12-Aug	15-Aug	13 week bill	76		Announced	5.075%
	12-Aug	15-Aug	26 week bill	70		Announced	4.700%
	13-Aug	15-Aug	42-Day CMB	75		Announced	5.270%
				221	205	16	
	06-Aug	15-Aug	3yr Note	58		Actual 3.810%	4.399%
	07-Aug	15-Aug	10yr Note	42		Actual 3.960%	4.276%
	08-Aug	15-Aug	30yr Bond	25		Actual 4.314%	4.405%
				125	111	14	
			Total - securities settling this week	591	536	55	
			QTR to date totals	4,161	3,615	546	
			<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			<i>740</i>	
			Face value of US Federal Reserve SOMA securities maturing	\$B			
			Maturing & reinvestment				
		13-Aug	ST Bills	0.8			
		15-Aug	ST Bills	13.4			
		15-Aug	Notes & Bonds	23.8			
				37.9			
			Maturing & redemption (balance sheet roll-off)				
		15-Aug	Notes & Bonds	15.0			

Quantitative Tightening Overview – Aug 2024

In Aug, the face value of Coupons maturing on the Fed balance sheet is approx. \$64.6bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$64.6bn of Coupons maturing in Aug, \$25bn will roll off the Fed balance sheet and \$39.6bn will be reinvested. It also means that all ST Bills maturing in Aug will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$25bn redemption cap - Aug			
			\$25
		Redeem \$Bn	Reinvest \$ Bn
15-Aug-24	Notes & Bonds	15.0	23.8
31-Aug-24	Notes & Bonds	10.0	15.8
	Bills	0.0	67.6
	Total Notes & Bonds	25.0	107.2

Aug 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Aug			Weekly Totals \$Bn	
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment
2024/08/01	15.01	22%	0.00	15.01
2024/08/06	0.74	1%	0.00	0.74
2024/08/08	15.40	23%	0.00	15.40
2024/08/13	0.76	1%	0.00	0.76
2024/08/15	13.36	20%	0.00	13.36
2024/08/20	0.78	1%	0.00	0.78
2024/08/22	10.76	16%	0.00	10.76
2024/08/27	0.67	1%	0.00	0.67
2024/08/29	10.18	15%	0.00	10.18
	67.6	100	0.00	67.6

Recommended US Treasury Financing – Q3 & Q4 2024

The latest [US Treasury quarterly refunding and financing estimates](#) for Q3 and Q4 have been released.

Updated Q3 borrowing requirement: The US Treasury expects to borrow \$740bn (previously \$847 bn) in privately-held net marketable debt, assuming an end-of-September cash balance of \$850 billion.

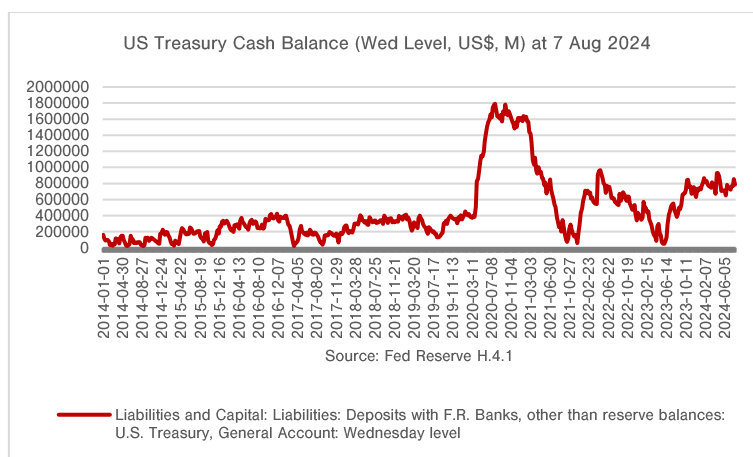
The borrowing estimate is \$106 billion lower than announced in April 2024, largely due to lower Federal Reserve System Open Market Account (SOMA) redemptions and a higher beginning-of-quarter cash balance.

Estimated Q4 borrowing requirement: The US Treasury expects to borrow \$565bn in privately-held net marketable debt, assuming an end-of-December cash balance of \$700 billion.

US Treasury Cash Levels (TGA)

As of Wed 7 Aug 2024, the level of the TGA decreased to \$785bn (-\$69bn compared to the week prior).

The TGA balance is approx. \$353bn *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 12 AUGUST 2024

MONDAY 12 AUGUST (US Eastern Time, unless stated otherwise)

US	OPEC monthly report
Australia	Westpac Consumer Confidence (Aug), NAB Business Confidence & Conditions (Jul), Wage Price Index (Q2)

TUESDAY 13 AUGUST

UK	Labour Market Update – (3mth Jun)
US	NFIB Business Optimism Index (Jul), PPI (Jul), Fed speeches: Bostic
NZ	RBNZ Monetary Policy Meeting

WEDNESDAY 14 AUGUST

UK	CPI (Jul)
Europe	Eurozone GDP & Employment – Prelim Q2, Eurozone Industrial Production (Jun)
US	MBA Mortgage Apps wk ending 10 Aug, CPI (Jul)
Japan	GDP – Prelim Q2
Australia	Labour Market Survey (Jul)
China	Fixed Asset Investment, Industrial Production, and Retail Sales (Jul) - tbc

THURSDAY 15 AUGUST

UK	GDP Q2
US	Initial Jobless Claims wk ending 10 Aug, Export & Import Price Index (Jul), NY Empire State Manufacturing Index (Aug), Philadelphia Fed Manufacturing Index (Aug), Retail Sales (Jul), Industrial Production (Jul), NAHB Housing Market Index (Aug), Fed speeches: Harker

FRIDAY 16 AUGUST

UK	Retail Sales (Jul)
US	Building Permits & Housing Starts (Jul), University of Michigan Consumer Sentiment – Prelim (Aug), Fed speeches: Goolsbee
