

Key events this week – US ISM services PMI, RBA monetary policy meeting

Recap from last week: The FOMC kept policy settings unchanged, however, noted that it is getting closer to the point at which it will be appropriate to reduce the policy rate.

“...that the broad sense of the Committee is that we're getting closer to the point at which it will be appropriate to reduce our policy rate, but that we're not quite at that point yet.” [US Fed Chair Powell Q&A](#)

The Fed Chair went on to outline his test for a rate cut, which, if met, could see a cut on the table as soon as the next meeting in Sept.

The question will be whether the totality of the data, the evolving outlook, and the balance of risks are consistent with rising confidence on inflation and maintaining a solid labor market.

The [policy decision and statement](#) shifted back to reflect an equal balance between the dual mandate goals. This step mirrored the FOMC noting that risks around the mandates have come back into balance. The last couple of readings on inflation have added to confidence and the Fed is looking for more good data. The Fed Chair noted that the "quality" of this year's disinflation was higher but emphasized that it is based on one quarter of data. More data is needed to be confident that the path to 2% inflation is solid. However, confidence is growing across a broader range of measures.

On the labor market, the Fed Chair noted that “what the data broadly show in the labor market is an ongoing, gradual normalization of labor market conditions”.

It's a rough balance, but it does feel like, again, the labor market feels like it's in a place where it's just a process of ongoing normalization, 4.1 percent unemployment is still historically low and we'll just have to see what the data show us. [US Fed Chair Powell Q&A](#)

Would the FOMC see the weaker-than-expected jobs report for July as still within the realm of “ongoing normalization”, or as an “unexpected weakening” in conditions? Non-farm payroll growth of +114k in Jul was notably slower than the average pace for the first half of this year. This report went against the recent trend of payroll reports that have been ‘better than expected’ when released, only to be revised lower in subsequent months. There has been a cumulative -279k in payroll revisions since Jan 2024. The question is whether the weaker Jul result will also be revised lower.

Labor demand continued to cool, and the unemployment rate increased to 4.25% as growth in the labor supply increased. Temporary layoffs contributed to this rise in unemployment (possibly reversing next month), while firms have not moved to significant job shedding, as shown by the equal series low JOLTS layoff rate in Jun. The employment-to-population ratio also increased to a post-pandemic high of 80.9% among the core working-age group in Jul, surpassing the pre-pandemic level. Despite some positive labor statistics, the unemployment rate exceeding the Fed's year-end projection of 4.1% signals a risk of a broader negative feedback loop developing if labor demand continues to slow.

At the time of writing, the [CME FedWatch tool](#) has markets pricing in a 50bps rate cut in Sep.

The Bank of Japan took further steps towards normalizing its policy settings. The BoJ increased its policy rate to 'around 0.25%' in a 7-2 majority decision. Guidance indicated that further increases in the policy rate could be expected if the outlook presented in the July Outlook Report was to be realized. The Board also decided, by a unanimous vote, on a plan to reduce the amount of its monthly outright purchases of JGBs by about 400bn yen each calendar quarter in principle – [see details here](#).

The Bank of England also cut rates for the first time in this part of the cycle in a finely balanced 5-4 decision. The BoE noted that it was appropriate to begin the process of reducing policy restrictiveness as risks of persistent inflation have moderated, and the impact of external shocks has abated.

Outlook for the week ahead; There will be relatively few notable data releases this week.

The US ISM services PMI will be released this week. This is expected to rebound from a slight contraction in Jun of 48.8 to a modest expansion of 51 in Jul. Last week, the ISM manufacturing PMI for Jul came in worse than expected at 46.8 indicating a deterioration in manufacturing conditions. The more notable weakness in the ISM manufacturing employment index was not confirmed by the payroll data.

We will continue to watch the US initial claims data. Claims are expected to stay around +250k for last week.

The US Federal Reserve's Q2 Senior Loan Officer survey will be released this week. At this stage, there are no Fed speeches scheduled on the [US Federal Reserve calendar](#). However, with some turbulence in the markets at the time of writing, this could change.

The RBA will meet this week and is expected to keep policy settings unchanged. The RBA cash rate of 4.35% remains well below the policy rate of other key central banks. The Q2 inflation report provided little evidence supporting the case for the RBA to hike rates, however, underlying inflation remained elevated, and this likely supports the case to stay on hold. Core trimmed mean inflation eased only slightly from +3.95% in Q1 to +3.9% in Q2. RBA Governor Bullock will also speak later in the week.

US Treasury Issuance; 5 – 9 Aug 2024

This week, the US Treasury will auction and settle approx. \$502bn in ST Bills, raising approx. \$47bn in new money. The US Treasury will also auction the 3-year and 10-year Notes and the 30-year Bond this week – and will settle next week.

QT this week: Approx \$16bn 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 %
5 - 9 Aug	01-Aug	06-Aug	4 week bill	90		Actual 5.285%	5.285%
	01-Aug	06-Aug	8 week bill	85		Actual 5.230%	5.260%
	31-Jul	06-Aug	17-week Bill	60		Actual 5.090%	5.115%
				235	215	20	
	05-Aug	08-Aug	13 week bill	76		Announced	5.145%
	05-Aug	08-Aug	26 week bill	70		Announced	4.930%
	06-Aug	08-Aug	52 week bill	46		Announced	4.775%
	06-Aug	08-Aug	42-Day CMB	75		Announced	5.280%
				267	240	27	
Total - securities settling this week				502	455	47	
Net New Cash Raised Qtr to Date				3570	3079	491	
<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							
	06-Aug		ST Bills	0.7			
	08-Aug		ST Bills	15.4			
				16.1			
Upcoming Auctions				\$B			
	06-Aug	15-Aug	3yr Note	58			
	07-Aug	15-Aug	10yr Note	42			
	08-Aug	15-Aug	30yr Bond	25			
				125			

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	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			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

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

Recommended US Treasury Financing – Q3 & Q4 2024

The latest [US Treasury quarterly refunding and financing estimates](#) for Q3 and Q4 were released last week.

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.

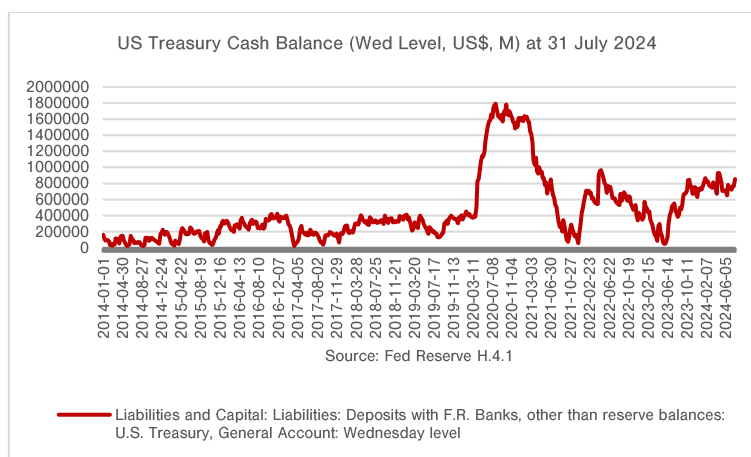
The borrowing estimate is \$106 billion lower than announced in April 2024, largely due to lower Federal Reserve System Open Market Account (SOMA) redemptions and a higher beginning-of-quarter cash balance.

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 31 Jul 2024, the level of the TGA increased to \$854bn (+\$86bn compared to the week prior).

The TGA balance is approx. \$393bn *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 5 AUGUST 2024

MONDAY 5 AUGUST (US Eastern Time, unless stated otherwise)

Europe	Eurozone S&P Services PMI – Final (Jul)
UK	S&P Services PMI – Final (Jul)
US	ISM Services PMI (Jul), S&P Services PMI – Final (Jul), Senior Loan Officer Survey Q2, Fed speeches: Daly

TUESDAY 6 AUGUST

Australia	RBA Monetary Policy Meeting
Europe	Germany Factory Orders (Jun), Eurozone Retail Sales (Jun)
NZ	Labour Market Survey Q2
China	Trade Balance, Exports, and Imports (Jul) - tbc

WEDNESDAY 7 AUGUST

Europe	Germany Industrial Production (Jun)
US	MBA Mortgage Apps wk ending 3 Aug, Consumer Credit Change (Jun)
Australia	RBA Governor Bullock speech

THURSDAY 8 AUGUST

US	Initial Jobless Claims wk ending 3 Aug
China	CPI & PPI (Jul)

FRIDAY 9 AUGUST

Europe	Germany CPI – Final (Jul)
Canada	Labor Market Survey (Jul)
