

Key events this week – US CPI & PPI, ECB policy meeting

Recap from last week: The US labor market hiring continued to slow in Aug while the unemployment rate edged only slightly lower. Last week, US Fed Governor Waller noted that the risks to the labor market have shifted to the downside and aligned with Fed Chair Powell in indicating that it's time for policy adjustments. His outlook was balanced;

While I don't see the recent data pointing to a recession, I do see some downside risk to employment that I will be watching closely. But at this point, I believe there is substantial evidence that the economy retains the strength and momentum to keep growing, **supported by an appropriate loosening of monetary policy**. Source: [Speech](#)
[Fed Governor Waller](#), 6 Sep 2024

US nonfarm payrolls rose by +142k in Aug, coming in lower than expected, with further notable downward revisions for Jun and Jul. The 3-month average for NFP growth slowed to +116k in Aug, continuing to decelerate since Mar. Job openings dropped sharply at the end of Jul to 7.67m (expecting 8m), with Jun also revised lower. The job openings rate fell to 4.6%. Fed Governor Waller has previously quoted research indicating that a vacancy rate below the 4.5% threshold could result in a “significant increase in the unemployment rate” (source: [Governor Waller, speech Jan 16, 2024](#)).

The Fed's Beige Book reported steady employment across regions, though some companies reduced hours or relied on attrition to manage employment levels. The Beige Book noted that reports of layoffs “remain rare”. The JOLTS layoff rate inched up to 1.1% in Jul but remains relatively low. A notable rise in the Challenger Job Cut Announcements in Aug signaled the potential for an increase in layoffs ahead. High-frequency initial claims, however, have eased, indicating layoffs are not yet a significant concern.

Despite weaker hiring, the US unemployment rate edged down from 4.25% to 4.22% in Aug but still sits above the FOMC's projection of 4% by the end of 2024. The small fall in the unemployment rate was the result of a rebound in household employment growth while labor force growth slowed. Household employment growth is still especially low on an annual and monthly basis – and this month, employment growth was led by part-time employment, as full-time employment declined.

Uncertainty over the US growth outlook has increased recently, adding to concerns over the labor market. The Beige Book highlighted a weakening or stalling in growth conditions in the 3 months to Sep, but the slowdown seems to be marginal. The US ISM PMIs for Aug indicated offsetting effects of contracting manufacturing activity with a continued modest expansion in services. A more robust reading of the US Q3 growth run-rate is expected next week – but the latest [Atlanta Fed GDP Nowcast](#) has Q3 growth remaining around +2.1%.

There is little uncertainty now whether the FOMC will cut rates next week. But despite the lackluster labor report for Aug, markets pared back expectations over the size of the first rate cut, and are currently pricing in a 25bp cut next week (source: [CME FedWatch](#)).

Outlook for the week ahead: The focus this week will be on US inflation data.

Ahead of the FOMC meeting next week, the importance of the CPI report for Aug is to reinforce that inflation is on a sustainable path to 2%. Recent Fed speeches suggest that there is already growing confidence that inflation is on that path and that upside risks to inflation have diminished.

US headline CPI is expected to slow to +2.6% in Aug over the year, from +2.9% in Jul. The monthly pace of CPI growth is expected to stay at +0.2%. Core CPI is expected to be little changed at +3.2% over the year in Aug, versus +3.2% in Jul. Over the month, core CPI is expected to increase by +0.2% in Aug, versus +0.2% in Jul.

US headline PPI is expected to slow to +1.8% over the year in Aug, from +2.3% in Jul. Over the month, headline PPI is expected to increase slightly to +0.2% in Aug from +0.1% in Jul. Core PPI is expected to increase to +2.5% in Aug, from +2.4% in Jul. Over the month, core PPI is expected to increase to +0.2% in Aug from 0% in Jul.

Initial claims data is expected to stay little changed, rising slightly to +231k this week, from +227k last week. The trajectory of the initial and continuing claims has remained lower in recent weeks.

The US Presidential debate will be held early this week.

We are also in the blackout period for Fed speeches ahead of the FOMC meeting next week – however, Fed Vice Chair (Supervision) Barr will give a speech this week on the Basel III endgame.

The ECB will meet this week and is expected to cut its policy rate by a further 25bps. The ECB has maintained its data-dependent and meeting-by-meeting approach to determining the level and duration of its policy restriction. Inflation in Aug continued to ease with headline inflation slowing to +2.2% however, core inflation eased only slightly to +2.8%. Growth in Q2 across the Eurozone was lower than previously expected at +0.2%. Recent PMIs have highlighted the ongoing contraction in the manufacturing sector, especially in Germany, while services have expanded moderately, buoyed by the Olympics in France.

There will also be a wide range of China data out this week.

US Treasury Issuance; 9 – 13 September 2024

This week, the US Treasury will auction and settle approx. \$426bn in ST Bills, with a net paydown of \$59bn. The US Treasury will also auction the 3-year and 10-year Notes and 30-year Bonds – and will settle next week.

QT this week: Approx \$2.5bn 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 %
9-13 Sep	05-Sep	10-Sep	4 week bill	80			Actual 5.080%
	05-Sep	10-Sep	8 week bill	80			Actual 5.040%
	04-Sep	10-Sep	17-week Bill	60			Actual 4.810%
				220	240	-20	
	09-Sep	12-Sep	13 week bill	76			Announced
	09-Sep	12-Sep	26 week bill	70			Announced
	10-Sep	12-Sep	42-Day CMB	60			Announced
				206	245	-39	
			Total - securities settling this week	426	485	-59	
			OTR to date totals	6,243	5,546	697	
		<i>Estimated Net Cash to be Raised Q3 (\$ Bn)</i>			740		
		Face value of US Federal Reserve SOMA securities maturing		\$B			
		Maturing & reinvestment					
		10-Sep	ST Bills	0.7			
		12-Sep	ST Bills	1.8			
				2.5			
		Maturing & redemption (balance sheet roll-off)					
			Nil				
				0.0			
		Upcoming Auctions		\$B			
	10-Sep	16-Sep	3yr Note	56			
	11-Sep	16-Sep	10yr Note	39			
	12-Sep	16-Sep	30yr Bond	22			

Quantitative Tightening Overview – Sep 2024

In Sep, the face value of Coupons maturing on the Fed balance sheet is approx. \$30.5bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$30.5bn of Coupons maturing in Sep, \$25bn will roll off the Fed balance sheet and \$5.5bn will be reinvested. It also means that all ST Bills maturing in Sep will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$25bn redemption cap - Sep				
			\$25	
			Redeem \$Bn	
			Reinvest \$ Bn	
15-Sep-24	Notes & Bonds		5.1	1.1
30-Sep-24	Notes & Bonds		19.9	4.4
	Bills			9.2
Total Notes & Bonds			25.0	14.7

Sep 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Sep	Par Value of Bills Maturing	% Maturity by Wk	Weekly Totals \$Bn	
			Bill Redemption	Bill Reinvestment
2024/09/03	0.7	7%	0.0	0.7
2024/09/05	2.2	24%	0.0	2.2
2024/09/10	0.7	7%	0.0	0.7
2024/09/12	1.8	19%	0.0	1.8
2024/09/17	0.7	8%	0.0	0.7
2024/09/19	0.5	5%	0.0	0.5
2024/09/24	0.7	8%	0.0	0.7
2024/09/26	1.9	21%	0.0	1.9
	9.2	100%	0.0	9.2

<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 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.

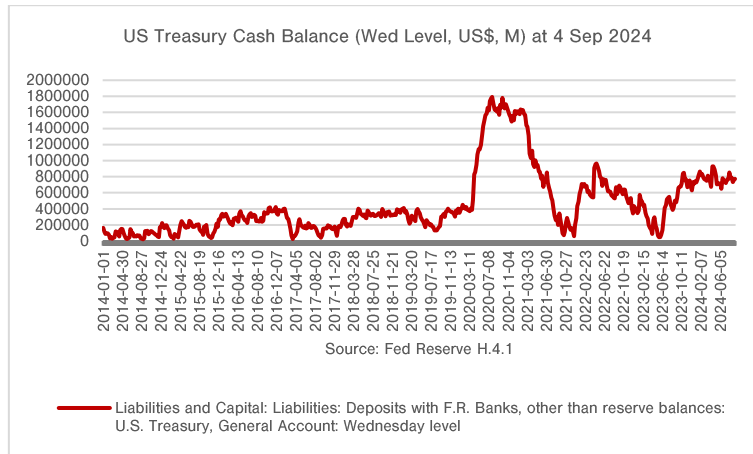
The borrowing estimate is \$106 billion lower than announced in April 2024, largely due to lower Federal Reserve System Open Market Account (SOMA) redemptions and a higher beginning-of-quarter cash balance.

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 4 Sep 2024, the level of the TGA increased to \$771bn (+\$14bn compared to the week prior).

The TGA balance is approx. \$289bn *higher* than the same week a year ago.



<https://www.federalreserve.gov/datadownload/Download.aspx?rel=H41&series=53198152b62add5ad59ae42b6d3d720d&filetype=sheet&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 9 SEPTEMBER 2024

MONDAY 9 SEPTEMBER (US Eastern Time, unless stated otherwise)

Japan	GDP Q2 – Final
China	CPI & PPI (Aug), Trade Balance, Exports, and Imports (Aug)
US	Consumer Credit Change (Jul), Conference Board Employment Trends (Aug)
Australia	Westpac Consumer Sentiment (Sep), NAB Business Conditions and Confidence (Aug)

TUESDAY 10 SEPTEMBER

UK	Labour Market Survey (3-mth Jul)
US	NFIB Small Business Optimism Survey (Aug) OPEC Monthly Report US Fed Vice Chair (Supervision) Barr speech - Basel III endgame US Presidential Debate
Canada	BoC Governor Macklem speech

WEDNESDAY 11 SEPTEMBER

China	New Loans (Aug) - tbc
US	MBA Mortgage Apps wk ending 7 Sep, CPI (Aug)

THURSDAY 12 SEPTEMBER

Europe	ECB Monetary Policy Meeting
US	Initial Jobless Claims wk ending 7 Sep, PPI (Aug)

FRIDAY 13 SEPTEMBER

Japan	Industrial Production – Final (Jul)
Europe	Eurozone Industrial Production (Jul)
US	Export and Import Price Indexes (Aug), University of Michigan Consumer Sentiment – Prelim (Sep)
China	House Price Index, Fixed Asset Investment, Industrial Production, and Retail Sales (Aug) - tbc
