

Key events this week – US durable goods orders, Fed Beige Book, PBoC & BoC meeting, S&P prelim PMIs

Recap from last week; A More Deliberate Approach for US Rate Cuts Amid Global Inflation Trends

The implications of US data and speeches last week contrasted with those of global CPI reports for central banks last week.

In his speech last week, Fed Gov Waller reiterated a sentiment similar to that of Fed Chair Powell, about stepping away from the expectation of larger rate cuts to quickly bring the FFR down to neutral. He noted that US data has shifted recently such that further easing should proceed with more caution.

“I view the totality of the data as saying monetary policy should proceed with more caution on the pace of rate cuts than was needed at the Sept meeting”. [Speech: Fed Governor Waller, 14 Oct 2024](#)

Waller's views on the labor market shifted from concerns over cooling conditions to the unexpectedly strong labor market report for Sep. While the Oct payroll data is likely to be noisy, Waller stated that the stability of the labor market has bolstered his confidence that they can achieve further progress toward the inflation goal. The latest CPI data was disappointing (firmer), but he noted that there are good reasons to think increases will be modest going forward. The important question is how far and how fast for rate cuts? Waller outlined three scenarios for the near-term outlook but none where the Fed reverses its current policy direction. There are conditions where the FOMC may pause cuts, but the bar seems high. Waller's most likely scenario closely reflects his view of current conditions; 'strong economic developments', inflation nearing target, and the unemployment rate moving up only slightly, implying they can move policy rates down to neutral at a deliberate pace.

US data last week supported the view that the economy continues to be better than expected from just a few months ago. The [Atlanta Fed GDP Nowcast](#) for Q3 growth increased to a run rate of +3.4% (annualized). The general trend of the nowcast through Q3 has been upwardly rising. The slightly stronger-than-expected increase in retail sales for Sep contributed to a further increase in the GDP nowcast last week. While headline retail sales increased by +0.4%, the control group measures (that feed into GDP calculations) increased by +0.7% in nominal terms. Deflated by CPI though, annual growth in real retail sales is still -0.7% below the same month a year ago. US manufacturing output was weaker, as expected – due to strikes and weather-related effects. Manufacturing activity has generally been weaker in the US recently and the first two Oct regional manufacturing surveys pointed to a continuation of that trend. But what was striking in both the Philadelphia Fed and NY Fed surveys was the continued improvement in the sentiment for future business outlook.

Outside of the US, most CPI data suggested more room for central banks to ease. Canadian headline CPI came in under 2% for the first time in this cycle, at +1.6%. The BoC core measures were unchanged around the +2.2% average of the three measures. The BoC meets this week, and markets are expecting a larger 50bps cut.

NZ CPI slowed to +2.2% in Q3, from +3.3% in Q2. While domestic-led inflation remains elevated, the trimmed mean inflation rate came down to between +2.3% and +2.7% and is now much closer to the headline rate. This will likely give the RBNZ further room for rate cuts to address weakness in economic activity. Labour market data for Q3 is due before the 27 Nov meeting, but markets are expecting a larger cut at this stage.

Progress on UK CPI improved again in Sep after stalling in Aug with headline CPI falling to +1.7%. Core CPI also eased at a faster pace and by more than expected, falling back to +3.2%. The easing wages and inflation picture, together with recent solid labor market data, suggests the BoE may follow in the FOMC footsteps of 'recalibration' of policy rates and move policy rates down at a 'deliberate' pace. The next meeting of the BoE is on 7 Nov.

The ECB cut rates again last week, despite no new forecasts tabled at the meeting. While guidance did not change, there was an emphasis on weakness in recent economic activity/data. It was noted that the disinflationary process is 'well on track', with inflation falling further in Sep to +1.7%, while services inflation remained elevated, but eased to +3.9%. After the meeting, [ECB officials were quoted](#) as saying another cut in Dec "is highly likely" amid expectations that inflation would settle at +2% faster than expected.

There were two outliers last week. The continued strengthening in Aus labour market conditions in Sep suggests that the RBA would need to see inflation fall further before commencing rate cuts. The next RBA meeting is on 5 Nov.

Japanese CPI fell in the month (led by a -6.6% fall in energy prices) while the main BoJ core measures of CPI ex fresh food remained above its target at +2.4%, but slowed from +2.8% in Aug. The BoJ has shifted away from its hawkish signaling in early Aug and has continued to reiterate its caution over the outlook, especially now in the lead-up to the Japanese general election this weekend (27 Oct). The BoJ is expected to keep policy settings unchanged at its meeting on 30 Oct, the following week.

Outlook for the week ahead; Preparing for central bank decisions, elections, and S&P prelim PMIs

The focus now shifts to the outlook for the next several weeks and it will be filled with important central bank decisions, data, and elections.

This will be the last week of US Fed speeches ahead of the usual blackout period (next week) before the next FOMC meeting on 6 Nov. US data of consequence for the FOMC will be released during that blackout period (PCE inflation Sep & labor market Oct). The US Presidential election will be held on the day before the FOMC meeting on 5 Nov. Many other major central bank meetings are scheduled for the next two weeks and important US earnings for Q3 will also be reported over the next few weeks.

There will be numerous US Fed speeches this week. The IMF and World Bank meetings will be held in Washington and global central bankers are scheduled to speak at various events through the week.

The US Fed will release its Beige Book for Q3, providing anecdotes on the labor market, prices, and general activity.

The main US data release will be durable goods orders for Sep – which are expected to fall by -1.1%. Existing home sales for Sep are expected to increase slightly to a 3.88m annualized rate. Similarly, new home sales are expected to stay little changed at a 0.71m annualized rate in Sep. There will be several regional manufacturing surveys for Oct released this week, along with the S&P prelim PMIs for Oct. We will continue to monitor initial jobless claims. Last week claims eased as expected to +241k, and are expected to stay around that level this week at +245k.

As noted, the Bank of Canada meets this week, and markets are expecting a 50bps cut this week. The PBoC has cut several of its lending rates at the start of this week.

Finally, the S&P prelim PMIs for Oct will be released this week. These will provide a view of momentum going into the final quarter of 2024. The Sep PMIs had shown a marked weakening in manufacturing activity while services PMIs helped to offset that weakness with continued modest expansion.

US Treasury Issuance; 21 - 25 Oct 2024

This week, the US Treasury will auction and settle approx. \$482bn in ST Bills, raising approx. \$46bn in new money. The US Treasury will also auction the 5-yr TIPS and 20-yr Bond – both will settle on 31 Oct.

QT this week: Approx \$9.4bn of 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 %	
21 - 25 Oct 2024	17-Oct	22-Oct	4 week bill	95			Actual 4.700%	
	17-Oct	22-Oct	8 week bill	90			Actual 4.630%	
	16-Oct	22-Oct	17-week Bill	64			Actual 4.420%	
				249	230	19		
	21-Oct	24-Oct	13 week bill	81			Announced	
	21-Oct	24-Oct	26 week bill	72			Announced	
	22-Oct	24-Oct	42-Day CMB	80			Announced	
				233	206	27		
				Total - securities settling this week	482	436	46	
				Net New Cash Raised Qtr to Date	2284	2012	272	
			<i>Estimated Net Cash to be Raised Q4</i>			<i>565</i>		
			Face value of US Federal Reserve SOMA securities maturing	\$B				
			Maturing & reinvestment					
		22-Oct	ST Bills	0.8				
		24-Oct	ST Bills	8.6				
				9.4				
			Maturing & redemption (balance sheet roll-off)					
				Nil				
			Upcoming Auctions	\$B				
	23-Oct	31-Oct	20-Yr Bond	13				
	24-Oct	31-Oct	5-Yr TIPS	24				
				37				

Quantitative Tightening Overview – Oct 2024

In Oct, the face value of Coupons maturing on the Fed balance sheet is approx. \$30.8bn. This is more than the \$25bn monthly cap on Treasury redemptions. So of the \$30.8bn of Coupons maturing in Oct, \$25bn will roll off the Fed balance sheet and \$5.8bn will be reinvested. It also means that all ST Bills maturing in Oct will be reinvested.

Summary of Total Coupons & Bills to Redeem at the \$25bn redemption cap - Oct				
			\$25	
			Redeem \$Bn	Reinvest \$ Bn
15-Oct-24	Notes, Bonds, TIPS		7.0	1.6
31-Oct-24	Notes, Bonds, FRNs		18.0	4.2
	Bills		0.0	62.8
	Total Notes & Bonds		25.0	68.6

Oct 2024 ST Bill maturity schedule;

Bill Maturity Schedule - Oct			Weekly Totals \$Bn		
	Par Value of Bills Maturing	% Maturity by Wk	Bill Redemption	Bill Reinvestment	
2024/10/01	0.76	1%	0.00		0.76
2024/10/03	12.41	20%	0.00		12.41
2024/10/08	0.77	1%	0.00		0.77
2024/10/10	8.38	13%	0.00		8.38
2024/10/15	0.80	1%	0.00		0.80
2024/10/17	9.21	15%	0.00		9.21
2024/10/22	0.77	1%	0.00		0.77
2024/10/24	8.61	14%	0.00		8.61
2024/10/29	0.69	1%	0.00		0.69
2024/10/31	20.40	32%	0.00		20.40
	62.8	100%	0.0		62.8

<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.

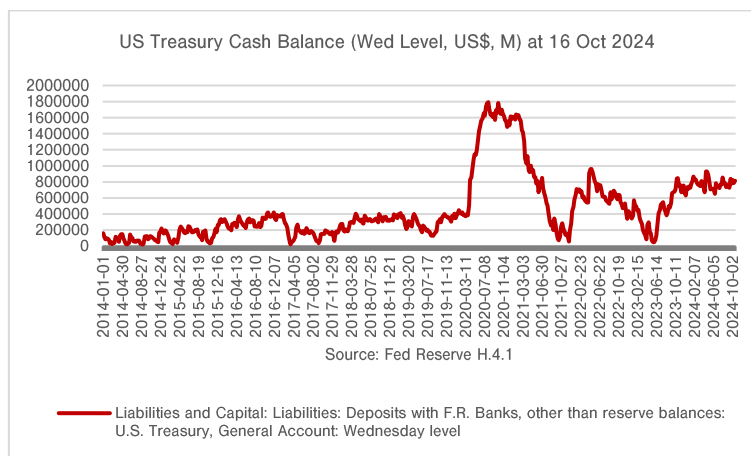
The borrowing estimate is \$106 billion lower than announced in April 2024, largely due to lower Federal Reserve System Open Market Account (SOMA) redemptions and a higher beginning-of-quarter cash balance.

The 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. The next quarterly refunding update will be on 28 - 30 Oct.

US Treasury Cash Levels (TGA)

As of Wed 16 Oct 2024, the level of the TGA increased to \$814bn (+\$27bn compared to the week prior).

The TGA balance is approx. \$26bn lower 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/ambs_operation_schedule

CALENDAR W/C 21 OCTOBER 2024

MONDAY 21 OCTOBER (US Eastern Time, unless stated otherwise)

China	PBoC Rates Decision
US	Fed speeches; Kashkari, Logan, Daly

TUESDAY 22 OCTOBER

UK	BoE Governor Bailey – Keynote address
US	Richmond Fed Manufacturing Index (Oct), US Fed speeches; Harker
Europe	ECB Lagarde speech

WEDNESDAY 23 OCTOBER

Canada	BoC Monetary Policy Meeting
US	MBA Mortgage Apps wk ending 19 Oct, Existing Home Sales (Sep) US Fed Beige Book, US Fed speeches; Bowman, Barkin
Europe	ECB President Lagarde speech
NZ	RBNZ Governor Orr speech
UK	BoE Governor Bailey speech
Australia	S&P Manufacturing & Services PMI Prelim (Oct)
Japan	S&P Manufacturing & Services PMI Prelim (Oct)

THURSDAY 24 OCTOBER

Europe	Eurozone S&P Manufacturing & Services PMI Prelim (Oct)
UK	S&P Manufacturing & Services PMI Prelim (Oct)
US	Initial Jobless Claims wk ending 19 Oct, S&P Manufacturing & Services PMI Prelim (Oct), New Home Sales (Sep), Kansas City Fed Manufacturing Index (Oct)
Japan	Tokyo CPI (Oct)

FRIDAY 25 OCTOBER

Canada	Retail Sales (Aug)
US	Durable Goods Orders (Sep), University of Michigan Consumer Sentiment – Final (Oct)
