

Key Themes

Brexit negotiations shift to Brussels this week (26 July) where an important element of the withdrawal agreement will be addressed/negotiated; the issues of Ireland and Northern Ireland.

Trade disputes and negotiations remain a focus. President Trump has threatened a further escalation of tariffs on China, NAFTA negotiations resume albeit in a fragmented approach, US-Japan trade talks were supposed to be scheduled for July, President Trump also meets with European Commissioner Jean-Claude Juncker in Washington this week to continue trade talks and awaiting outcomes of public hearings on section 232 auto tariffs held last week.

Liquidity – moderate supply of treasuries this week with the US Treasury auctioning and settling approx. \$141b in ST bills and raising approx. \$16b in new money this week (could <\$10b – 4wk bill TBA). Key date to watch 26 July. The US Treasury will also auction \$119b in notes, to settle next week.

ECB rates decision this week.

US GDP Q2 – the consensus currently at +4.2% (real GDP, qtr annualized), a large acceleration from Q1 growth of 2%

Australia CPI Q2.

Preliminary PMI's July – first gauge of activity for July across US, Japan, Eurozone and Germany.

Earnings continue and several of the FAANG's report this week – Alphabet/Google, Amazon and Facebook.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

This week, the US Treasury will auction and settle approx. \$141b in short term bills raising approx. \$16b in new money. The key date to watch is 26 July. Note that the 4week bill is yet to be announced and could be less \$10b.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
23 - 27 Jul 2018	23-Jul-18	26-Jul-18	4wk bill	45			TBA
			3mth bill	51			Announced
			6mth bill	45			Announced
				141	125	16	

This week, the US Treasury will also auction \$119b in notes, with \$132b in notes settling next week 31 July.

Supply is likely to be relatively heavy again next week with the US Treasury raising approx \$25b in new money.

Its also month end next week - the next scheduled roll-off/reinvestment of Fed holdings of securities that will mature. The increase in the cap on securities to roll over (now \$24b), means a lower amount will be reinvested this month;

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
30 Jul - 3 Aug 201	30-Jul-18	2-Aug-18	4wk bill	45			TBA
			3mth bill	45			TBA
			6mth bill	43			TBA
				133	135	-2	
	19-Jul-18	31-Jul-18	10yr TIPS	13			Completed
	24-Jul-18	31-Jul-18	2yr note	35			Announced
	25-Jul-18	31-Jul-18	2yr FRN	18			Announced
	25-Jul-18	31-Jul-18	5yr note	36			Announced
	26-Jul-18	31-Jul-18	7yr note	30			Announced
				132	105.22	26.78	
				265	240.22	24.78	17.62
Fed SOMA - Face Value of SOMA securities maturing 31 Jul 2018					30.30		
Proportion of mthly cap (\$24b total July)					23.14		
Amount to reinvest					7.16		

Data is available at https://www.newyorkfed.org/markets/soma/sysopen_accholdings.html and the face value of maturing securities (in Fed SOMA) is also provided on the Treasury Direct auction announcements.

Monday 23 July 2018

US – Chicago Fed National Activity Index, Existing home sales

US Earnings – Alphabet Q2

Japan – Nikkei Manufacturing PMI (prelim July)

Tuesday 24 July 2018

US – PMI Composite (Flash July), Richmond Fed Manufacturing Index

Eurozone – German and Eurozone PMI (prelim July)

Australia – CPI Q2

Wednesday 25 July 2018

US – New home sales

US Earnings – Facebook Q2

Eurozone – Germany IFO Sentiment (June)

Australia – Terms of Trade Index (Q2)

Thursday 26 July 2018

US – Durable Goods Orders, Kansas City Fed Manufacturing Index

US Earnings – Amazon Q2

Eurozone – ECB Rates Decision

Japan – Tokyo CPI (July)

Friday 27 July 2018

US – GDP Q2 (expectations at this stage range between 3-4.8% with consensus at 4.2% real GDP growth annualised)

Trade & Brexit

US-China Trade Negotiations

In an interview on Friday, President Trump threatened tariffs on all \$500b of Chinese imports.

Public hearings proposed for 20-23 August for a further investigation and proposal for additional 10% tariff on \$200b in trade value with China (announced 10 July).

NAFTA

Efforts are underway to restart stalled NAFTA negotiations, albeit via separate meetings.

Canadian Minister for Foreign Affairs will meet with outgoing Mexican President Enrique Pena Nieto as well as president-elect Andres Manuel Lopez Obrador this week on 25 July.

Meanwhile, Mexico's Economy Secretary and chief trade negotiator Ildefonso Guarjardo is scheduled to meet in Washington, D.C., on July 25 with U.S. Trade Representative Robert Lighthizer.

US-Japan Trade Talks

By all accounts “Japanese Economy Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer are expected to sit down for bilateral trade discussions later this month” – although its late July and there appears no firm plans for talks in place.

But the Japanese Government has signalled that it would prefer that the US rejoin the TPP (rather than negotiate a bilateral trade deal), which they claim is in the best interests of both countries.

<https://www.bloomberg.com/news/articles/2018-07-22/abe-s-lieutenant-pours-cold-water-on-bilateral-japan-u-s-fta>

At the same time, Japan has signed a historic trade deal with the EU, cutting or eliminating tariffs on nearly all goods.

“In remarks on Tuesday, European Council president Donald Tusk said: “We are putting in place the largest bilateral trade deal ever. This is an act of enormous strategic importance for the rules-based international order, at a time when some are questioning this order.”

Cooperation between Japan and the EU would extend beyond trade to other areas, said Tusk, including climate change.

Malmström said: “We are sending a strong signal to the world that two of its biggest economies still believe in open trade, opposing both unilateralism and protectionism.”

<https://www.euractiv.com/section/climate-environment/news/eu-japan-trade-deal-first-to-carry-paris-climate-clause/>

Section 232 – Car and Truck Imports

Public hearing last week 19 July on proposed tariffs. Awaiting the outcome of the public hearings.

A sample of the comments from the German Association of the Automotive Industry, representing more than 620 companies - manufacturers of cars, vans, trucks, trailers, and automobile parts:

<https://www.vda.de/de/presse/Pressemeldungen/20180719-VDA-President-Bernhard-Mattes-at-the-Public-Hearing-of-the-U.S.-Department-of-Commerce-on-the-Section-232-National-Security-Investigation-of-Imports-of-Automobiles-and-Automotive-Parts-0.html>

This week, President Trump is meeting with European Commissioner Jean-Claude Juncker in Washington to continue trade talks, including import tariffs on European automakers.

Brexit

PM May won her series of votes in the UK parliament last week after making concessions to Brexit supporters. So far, despite the media frenzy, the division and the backlash from all sides of the debate, PM May's plan remains in place. The speculation now is whether the EU will approve the details of the whitepaper.

PM May needs a withdrawal agreement in order to avoid a no-deal Brexit.

From the statement made on Friday by Michel Barnier (head of the EC Brexit Taskforce);

“Let me recall that the Withdrawal Agreement is the prerequisite for an orderly withdrawal, for the transition period, and for creating the trust that we need to build a solid partnership for the future.

This requires in particular a legally operative backstop – an "all-weather insurance policy" – to address the issues of Ireland and Northern Ireland. All 27 Member States insist on this.”

“And I made clear to Dominic Raab yesterday that we are not asking for a border between Northern Ireland and the rest of the UK. What we need is checks on goods because the UK wants to leave the Single Market, the Customs Union and our common commercial policy.

We cannot afford to lose time on this issue. And this is why we have invited the UK to work on the backstop next week.

We are open to any solutions as long as they are workable and can be transformed into a legally operative text in time for the Withdrawal Agreement.”

The UK government will return to Brussels for talks this week (Thursday).

http://europa.eu/rapid/press-release_STATEMENT-18-4626_en.htm

Recommended; <https://www.irishtimes.com/news/world/uk/brexit-what-is-the-backstop-agreement-and-why-does-it-matter-1.3571135>