

Key Themes

Liquidity – relatively heavy supply in treasuries this week with the US Treasury auctioning/settling \$225b in notes and bills and \$25b in new money to be raised.

A relatively quiet week for central banks – RBA rates decision, BoE Carney speech and FOMC minutes out this week.

Trade - US tariffs on Chinese imports go into effect 6 July. Canadian tariffs on US imports went into effect 1 July.

Global growth;

- Manufacturing and services PMI's for June released across a range of countries
- US non-farm payrolls & factory orders
- Europe employment, retail sales, German industrial production

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

In July, the cap for the roll-off of maturing Fed holdings increases to \$24b.

This week, the US Treasury will auction/settle approx. \$225b in notes and bills and raise approx. \$25b in new money. This is a relatively heavy week, with the key date to watch 2nd July with \$100b in notes settling before the 4th July holiday.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
2-6 July 2018	2-Jul-18	5-Jul-18	4wk bill	35			Announced
			3mth bill	48			Announced
			6mth bill	42			Announced
				125	135	-10	
	26-Jun-18	2-Jul-18	2year note	34			Announced
	27-Jun-18	2-Jul-18	5yr note	36			Announced
	28-Jun-18	2-Jul-18	7yr note	30			Announced
				100	64.27	35.73	
				225	199.27	25.73	

A quick look into the following week and it looks to be a light supply week with \$135b in bill auctions and a possible paydown of \$10b by the US Treasury (TBC once auction announcements made). Approx. \$1.1b in Fed holdings mature (approx. 4% of the total for the month) on 15 July. This means that the proportion of the \$24b monthly cap that will be rolled off the balance sheet will be \$0.8b (4%). The remaining \$0.3b will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
9-13 Jul 2018	9-Jul-18	12-Jul-18	4wk bill	35			TBA	
			3mth bill	48			TBA	
			6mth bill	42			TBA	
				125	135	-10		-10.27
Fed SOMA - Face Value of SOMA securities maturing 15 Jul 2018						1.13		
Proportion of mthly cap (\$24b total July)						0.86		
Amount to reinvest						0.27		

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 2 July 2018

US – Manufacturing PMI (June), ISM Prices Paid (June)

Japan – Manufacturing PMI (June)

China - Manufacturing PMI (June)

Europe – Manufacturing PMI (June), Unemployment (May)

UK – Manufacturing PMI (June)

Tuesday 3 July 2018

US – ISM NY Index Business Conditions (June), Factory Orders (May)

Aus – RBA Interest rate decision, Retail Sales (May)

Europe – Retail Sales (May)

UK – Construction PMI (June)

Canada – Manufacturing PMI (June)

China – Services PMI (June)

Japan – Services PMI (June)

Wednesday 4 July 2018

US – Independence Day

Europe – Services & Composite PMI (June)

UK – Services PMI (June)

Thursday 5 July 2018

US – Challenger Job Cuts (June), ADP Employment Change (June), Services and Composite PMI (June), ISM Non-Manufacturing PMI (June), FOMC Minutes

Japan – Overall Household Spending (May)

Europe – German Factory Orders (May)

UK – BoE Carney speech

Friday 6 July 2018

EUROPE – German Industrial Production (May)

US – Non-farm payrolls (June)

Canada – Employment (June), Ivey PMI (June)

UK – Government offsite to work through detail on UK-EU relationship post Brexit

Trade

US-China Trade Negotiations -

The first wave of US tariffs, affecting \$34 billion worth of Chinese goods across 818 product categories, goes into effect on **July 6**.

The second wave – affecting \$16 billion of Chinese goods focused on semiconductors and electronics – is subject to a review and comment period as well as a public hearing.

China responded quickly with its own list of US imports that it will apply tariffs to (including soy and auto's). China's retaliatory tariffs will follow a similar schedule.

Car and Truck Imports - President Trump indicated on 25 June that he was close to completing a study on tariffs on car and truck imports from Europe. He also tweeted;

“We are finishing our study of Tariffs on cars from the E.U. in that they have long taken advantage of the U.S. in the form of Trade Barriers and Tariffs. In the end it will all even out - and it won't take very long!”

In the previous week, President Trump threatened a 20% tariff on all imports of EU assembled cars.

US-Japan trade talks in July – implications for Japanese automakers and for trade negotiations of the US investigation into car and truck imports – auto's are one of Japan's major exports to the US.

NAFTA – Negotiations remain at an impasse. Not likely to get an agreement with the issue of the sunset clause. Other sticking points; Canadian dairy policy, Mexican auto wages and whether NAFTA should be a single agreement or a series of bilateral agreements.

Steel Tariffs - Canada considering quotas and tariffs on steel imports (protecting local steel producers) originally earmarked for US markets. “US tariffs opens the door to cheaper steel imports (into Canada) from abroad”

EU considering similar antidumping measures.

Canadian tariffs on US imports go into effect 1st July – approx. \$12.6b in imports from the US including steel, aluminium, and consumer goods.

Canada is threatening further action if the US goes ahead with threatened duties on Canadian-made autos and auto parts – this will be a large threat for the Canadian (and other) economies, especially Europe.