

## Key Themes

A big week ahead with several central bank interest rate decisions, important data releases and heavy US treasury supply.

Central bank decisions this week – BoJ, especially of interest given reports of possible changes to monetary policy accommodations, FOMC and BoE.

Liquidity – heavy supply of treasuries this week with the US Treasury auctioning and settling \$273b in notes, bills and TIPS, raising approx. \$43b in new money (4wk bill TBA). Its also month end, so the US Fed will see \$30b in securities maturing in its portfolio on 31 July – only \$7b will be reinvested.

This is also a heavy data week – US PCE and Outlays, US Non-Farm Payrolls, Eurozone CPI and Eurozone Q2 GDP are among the bigger reports.

PMI's will also be released this week across the major economies.

Earnings continue and the last of the FAANG's report this week – Apple Q2. Also, of interest is Caterpillar Q2.

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## US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

It's month end this week. The US Treasury will auction and settle approx. \$273b in bills, notes and TIPS this week raising approx. \$43b in new money – a heavy supply week. The key dates to watch are 31 July and 2 August. Note that the 4week bill auction is yet to be announced – and the total could move +/- \$10b.

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	51			Announced	
			6mth bill	45			Announced	
				141	125	16		
	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		
				273	230.22	42.78		35.62
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			

This week, the US Fed will also see \$30b in securities maturing in its portfolio on 31 July. Only \$7b will be reinvested.

A quieter week next week at this stage, with a possibly a small paydown. This will be updated once auction announcements are made.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
6 Aug - 10 Aug	6-Aug-18	9-Aug-18	4wk bill	45				
			3mth bill	45				
			6mth bill	43				
				133	135	-2		

Data is available at [https://www.newyorkfed.org/markets/soma/sysopen\\_accholdings.html](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.

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## Monday 30 July 2018

US – Dallas Fed Manufacturing Survey (Jul)

US Earnings – Caterpillar

Japan – Retail Trade (Jun)

UK – Consumer Credit (Jun)

Eurozone – German CPI (Jul)

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## **Tuesday 31 July 2018**

US – Personal Consumption and Outlays (Jun), Employment Cost Index (Q2), Chicago PMI (Jul), Consumer Confidence, US FOMC meeting – day one

US Earnings – Apple

Japan – Industrial Production (Jun), Unemployment (Jun), **BoJ Rates Decision and Q2 Outlook report**

Australia – Private Sector Credit (June), AiG Perf of Manufacturing Index (Jul)

China – PMI Manufacturing and Non-Manufacturing (Jul)

Eurozone - German Retail Sales (Jun), Eurozone GDP Q2, Eurozone Unemployment (Jun), Eurozone CPI (Jul)

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## **Wednesday 1 August 2018**

US – ADP Employment Report (Jul), PMI Manufacturing Index (Jul), ISM Manufacturing PMI Index (Jul), Treasury Refunding Announcement, **FOMC Announcement**

Japan – Manufacturing PMI (Jul)

China – Manufacturing PMI (Jul)

Eurozone – Eurozone Manufacturing PMI (Jul), German Manufacturing PMI (Jul)

UK – Manufacturing PMI (Jul)

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## **Thursday 2 August 2018**

US – ISM NY Index Bus Conditions (Jul), Factory Orders (Jun)

UK – **BoE Rates Decision & Governor Carney Speech**

Australia – AiG Performance of Services Index (Jul), Retail Sales (Jun)

Japan – BoJ Monetary Policy Meeting Minutes

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## **Friday 3 August 2018**

US – Non-Farm Payrolls (Jul), International Trade data, Composite and Services PMI (Jul), ISM Non-Manufacturing PMI (Jul)

Japan – Services PMI (Jul)

China – Services PMI (Jul)

Eurozone – Eurozone Services and Composite PMI (Jul), German Services and Composite PMI (Jul), Eurozone Retail Sales (Jun)

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## **Trade & Brexit**

### **US-China Trade Negotiations**

The Office of the U.S. Trade Representative (USTR) held public hearings July 24-25, 2018 regarding proposed tariffs on approximately \$16 billion worth of Chinese products (this is the remaining \$16b of the original \$50b levied in response to unfair trade practices related to technology transfer, intellectual property, and innovation).

Awaiting outcomes of these hearings.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/july/public-hearings-proposed-section-301>

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

### **NAFTA**

High level talks recommenced last week to restart stalled NAFTA negotiations. Both Canadian and Mexican officials confirmed their support for the trilateral nature of the trade agreement.

Mexico's incoming NAFTA negotiator wants to accelerate talks to have an agreement in place within the next two months.

Last week, President Trump had stated that he was in discussions with incoming Mexican President Andres Manuel Lopez Obrador about doing something "very dramatic, very positive for both countries".

The key issues remain unresolved at this stage including automotive rules of origin, five-year sunset provision, and dispute settlement process. An upcoming ministerial meeting is planned.

### **US-Japan Trade Talks**

US Trade Representative Lighthizer has told a senate hearing committee that the first meeting with Japan on a new trade dialogue will be in the next 30 days.

The United States "ought to be negotiating" a free trade agreement with Japan, Lighthizer said. The trade deficit with Japan was the third largest of all trading partners in 2017.

The trade deficit with Japan is "chronic," Lighthizer said. Particularly, he pointed to "unfair barriers" in the country's beef imports.

<http://the-japan-news.com/news/article/0004616338>

Previously, the Japanese Government has signalled that it would prefer that the US re-join 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>

## Section 232 – Car and Truck Imports

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

President Trump met with EC President Jean-Claude Juncker in Washington. For the moment, the threat of auto tariffs has been put on hold as both sides agree to start talks to reduce trade barriers related to all industrial goods other than cars. Steel and aluminium tariffs remain unresolved. President Trump claimed that the EU would “almost immediately” begin buying “a lot of” US soybeans.

Joint statement; [http://europa.eu/rapid/press-release\\_STATEMENT-18-4687\\_en.htm](http://europa.eu/rapid/press-release_STATEMENT-18-4687_en.htm)

## Brexit

The UK government is now in recess for the summer.

Another round of discussions took place last week. A summary of the key areas of agreement and disagreement (from an EC perspective) can be found here; [http://europa.eu/rapid/press-release\\_SPEECH-18-4704\\_en.htm](http://europa.eu/rapid/press-release_SPEECH-18-4704_en.htm)

According to the EC, approx. 80% of the details of the withdrawal agreement have been agreed upon. But there are significant points of disagreement, especially with regard to frictionless trade.

“Chequers was bound to be the beginning of the EU pushing the UK to the unacceptable combination of EEA and customs union membership,” Baker said. “On this road, eventually we will reach a fork between final capitulation or exit with no agreement.”

<https://www.bbc.co.uk/news/uk-politics-44975696>

The outstanding issues (outlined in the link above) will be reviewed and proposals tabled at the next round of meetings with the UK and EC will be mid-August.