

Key Themes

Liquidity – relatively light supply in treasuries this week with the US Treasury auctioning/settling \$125b in bills with no paydown or new money raised. Several speeches from FOMC members, Fed Monetary Policy report, BoE and BoC rates decision this week.

With US and Chinese tariffs now in effect, waiting for the next level of escalation. Hearings for the next round of US tariffs not until 24 July. Also awaiting US investigations on autos – impacts on Europe and Asia.

Brexit likely to feature this week after the key minister for Brexit resigns amid disagreement on direction of UK-EU Brexit deal.

US CPI for June and JOLTS data

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. \$125b in bills – no paydown or new money raised. This is a relatively light week, with the key date to watch 12 July.

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			Announced	
			6mth bill	42			Announced	
				125	125	0		-0.27
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		

The US Treasury will also auction approx \$69b in notes and bonds this week which will settle next week. At this stage, approx \$204b in bills, notes and bonds will settle next week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
16-20 Jul 2018	16-Jul-18	19-Jul-18	4wk bill	45			TBA
			3mth bill	45			TBA
			6mth bill	45			TBA
				135	155	-20	
	11-Jul-18	17-Jul-18	3yr note	33			Announced
	12-Jul-18	17-Jul-18	10yr note (r-o)	22			Announced
	13-Jul-18	17-Jul-18	30yr bond	14			Announced
				69	40.23	28.77	
				204	195.23	8.77	

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 9 July 2018

China – Money supply and new loans (June), CPI and PPI (June)

US – Consumer Credit (May), FOMC Kashkari speech

Europe – German trade balance (May)

UK – MPC Broadbent speech, BRC Like for Like Retail Sales (June)

Tuesday 10 July 2018

UK – Manufacturing and Industrial production (May), Monthly est of GDP (May)

US – JOLTS Data (May)

Europe – German and EU Zew economic sentiment (Jul)

Canada – Housing starts (June) and building permits (May)

Japan – Machinery Orders (May)

Australia – New housing loans (May)

Wednesday 11 July 2018

US – PPI (June), Wholesale inventories (May), FOMC Williams speech

Canada – Interest rate decision

UK – BoE Carney speech

Europe – Eurogroup meeting

Thursday 12 July 2018

Europe – German CPI (June), Industrial Production (May), ECB monetary policy accounts

UK – BoE Credit conditions report

US – FOMC Kashkari speech, Monthly CPI (June), FOMC Harker speech

China – Trade Balance (June)

Friday 13 July 2018

Japan – Industrial Production (May)

US – Michigan Consumer sentiment (July prelim), Fed Monetary Policy Report (US Senate), FOMC Bostic

Trade

US-China Trade Negotiations -

The first wave of US tariffs, affecting \$34 billion worth of Chinese goods across 818 product categories, have gone into effect on **6 July 2018**. China has retaliated with duties on \$34 billion in US exports at the same time. China announced it had delayed the imposition of tariffs due to the difference in time-zone claiming it didn't want to be the first to "fire shots" in a potential trade war. The deadlines came and went with a little heated language on behalf of Chinese authorities: China was "prepared to fight ... to defeat the [unilateralism] of the US".

China says U.S. has 'ignited the largest trade war in economic history,'

The second wave of US tariffs – affecting \$16 billion of Chinese goods focused on semiconductors and electronics – is subject to a review scheduled for 24th July 2018.

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 –

First round of trade talks are likely to occur late July in Washington.

Implications for Japanese automakers and for trade negotiations of the US investigation into car and truck imports - one of Japan's major exports to the US. Its unclear whether the results of the section 232 investigation will be released before the trade talks.

NAFTA –

Negotiations are likely to remain in limbo as the new incoming President of Mexico, Andrés Manuel López Obrador, prepares to take office in December. Canadian Foreign Affairs Minister Chrystia Freeland expects negotiations to take a “higher gear” over the summer.

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.