

Key Themes

Liquidity – there is heavy treasury issuance this week. Key dates are 30 and 31 Aug. The US Treasury will auction and settle \$267b in bills and coupons, raising approx. \$46b in new money. The 4wk bill is yet to be announced. It's month end and \$20.9b of securities in the Fed SOMA will mature on 31 Aug – of that, \$9b will be reinvested.

Trade – given previous timelines and current progress, it's possible that a deal between US and Mexico on NAFTA could be announced this week. The restarting of US-China negotiations last week appears to have made little headway so far – awaiting announcement of further rounds of negotiations and/or escalations.

Brexit negotiations will now become ongoing between the UK and the EU. The UK parliament returns from summer recess next week.

Key data this week is focused on growth and CPI;

US – 2nd estimate of Q2 GDP and PCE and Core PCE prices for July

Eurozone – Final CPI for July and German prelim CPI for Aug

Canada – Q2 GDP

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Its month end and it's a relatively heavy week for treasury issuance. The key dates to watch will be 30 and 31 August.

The US Treasury will auction and settle \$276b in notes and bills, raising approx. \$46b in new money.

At this stage the 4wk bill is yet to be announced. The 4wk bill amount has been increased over the last few weeks and we are now cycling over the higher auction amounts. If the 4wk stays as per the treasury refunding forecast of \$45b, then Treasury will pay down \$17b in ST bills maturing. This is the scenario outlined below.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
27 - 31 Aug	27-Aug-18	30-Aug-18	4wk bill	45			TBA	
			3mth bill	51			Announced	
			6mth bill	45			Announced	
				141	158	-17		
	23-Aug-18	31-Aug-18	5yr TIPS (r-o)	14			Announced	
	27-Aug-18	31-Aug-18	2yr Note	36			Announced	
	28-Aug-18	31-Aug-18	5yr Note	37			Announced	
	29-Aug-18	31-Aug-18	7yr note	31			Announced	
	29-Aug-18	31-Aug-18	2yr FRN (r-o)	17			Announced	
				135	71.73	63.27		
				276	229.73	46.27		36.755
Fed SOMA - Face Value of SOMA securities maturing 31 Aug 2018					20.932			
Proportion of mthly cap (\$24b total Aug)					11.417			
Amount to reinvest					9.515			

The latest refunding forecasts were only released in early August and provided no indication that the 4wk bill auction amounts would be increased. IF the US Treasury increases the 4wk bill to \$70b (which is what it has done over the last 3 weeks), then the total amount of new money raised this week will increase to \$71b.

For a quick view of the total new cash/pay down for the week –

https://www.treasurydirect.gov/instit/annceresult/press/press_cashpydown.htm

Its also month end and on 31 Aug \$20.9b in securities held in the Fed SOMA will mature. The share of the monthly \$24b cap is \$11.4 (split between mid and end of month maturity dates). This means only \$9b of maturing securities will be reinvested.

Next week will be quieter. Expect some revisions at minimum to the amount maturing - it will be higher. If the auction amounts do not change, then there may be a larger paydown.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
3-7 Sept	3-Sep-18	6-Sep-18	4wk bill	45				
			3mth bill	48				
			6mth bill	42				
				135	138	-3		

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 27 August 2018

US – Chicago Fed National Activity Index, Dallas Fed Manufacturing Survey

Tuesday 28 August 2018

US – International Trade, Richmond Fed Manufacturing Index

UK – Inflation Report Hearings

Wednesday 29 August 2018

US – Q2 GDP 2nd Estimate including Core PCE

Japan – Retail Trade (Jul)

Thursday 30 August 2018

US – Personal Income and Outlays and PCE Index (Jul)

Eurozone - German CPI (Prelim - Aug)

Canada – GDP Q2

Japan – Tokyo CPI (Aug), Employment (Jul), Industrial Production (Jul – prelim)

Friday 31 August 2018

US – Chicago PMI, Consumer Sentiment

Australia – Private Sector Credit (Jul)

Eurozone – German Retail Sales (Jul), Eurozone CPI (Final - Jul)

Trade & Brexit

US-China Trade Negotiations

Little/no stated achievements from the mid-level talks last week.

These talks were seen to start more higher-level talks in order to produce an agreement between US and China. It's been suggested that a deal would be completed after the Nov election by President Trump and Chinese leader Xi Jinping at an already planned multi-lateral summit <https://www.wsj.com/articles/u-s-china-trade-talks-end-with-no-sign-of-progress-1535065800>

Awaiting notice of further negotiations. There is a chance for further escalations as the WSJ notes that the US met with representatives from the EU and Japan in Washington last week on how to use WTO to pressure China.

The last of the public hearings take place this week for the third tranche of tariffs on approx. \$200b worth Chinese products. - <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/august/public-hearings-proposed-section-301>

NAFTA

Talks between the US and Mexico to continue this week with the possibility of a deal announcement.

The Canadian Foreign Minister has stated that Canada will rejoin talks once the US and Mexico resolve bilateral issues.

US-Japan Trade Talks

Cabinet-level talks did not result any clear agreement between US and Japan. The Japanese negotiators requested no tariffs be implemented while talks are underway. President Trump and Japanese PM Abe will meet in late Sept.

Section 232 – Car and Truck Imports

Awaiting the outcome of the public hearings.

BREXIT

Still little headway made on key issues from the negotiations last week. It has now been agreed that negotiations will be continuous between the UK and EU as the process to finalise the agreement moves into the final stages.

http://europa.eu/rapid/press-release_STATEMENT-18-5105_en.htm

Next week the UK parliament comes back from summer recess and key legislation around trade and taxation will be discussed/reviewed.

A “crisis” UK cabinet meeting is set for 13 Sept to discuss further contingency plans in the case of no deal.

Key points in the timeline;

Timing - comments from Michel Barnier highlighted that the Oct 18 EU meeting was “no longer an absolute deadline”, but that a deal should be finalised by the start of November. This initial timing was based on securing an agreement at the EU Council meeting and allowing enough time for both parliaments to approve the deal.

Key dates; 20 Sept - The informal meeting of heads of state or government (PM May had suggested the Salzburg meeting for further talks); Official EU council meeting Brussels 18 Oct – where it is hoped a deal can be struck/finalised; the next ‘official’ EU council meeting will be 13/14 Dec in Brussels.

Scheduling an emergency meeting in November to finalise the agreement would be ‘straightforward’.

<https://www.theguardian.com/politics/2018/aug/24/october-no-longer-deadline-for-brexit-deal-david-lidington-finalising-agreement>