

## Key Themes

Moderate supply of treasuries this week. The US Treasury will auction approx. \$135b in ST bills and settle a total of approx. \$208b in bills and coupons (including auctions from last week). The 4wk bill is yet to be announced. The US Treasury will raise approx. \$21b in new money this week.

Trade will be a key focus this week. Threats of escalation over the weekend after Vice Premier Lui He was invited to Washington to re-start trade talks. Reports are that China may not accept the invitation if the next round of tariffs are implemented. There is a threat that China could retaliate by creating disruptions to US supply chains in China (such actions would have obvious implications for any other country considering operating within China in the future).

Brexit will be a key focus of an unofficial summit of EU leaders in Salzburg this week 19-20 Sept. No final agreement is likely, but it is hoped that the meeting will create new momentum leading into the final stages of the negotiations.

BoJ rates decision this week.

Important data out this week;

Prelim PMI's across US, Europe and Japan, providing an important read on growth momentum going into the final month of Q3.

CPI reports from the Eurozone, UK, Japan and Canada.

Australian house price index for Q2.

UK retail sales.

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

This week, the US Treasury will auction and settle approx. \$135b in short term bills. Note and bond auctions from last week of \$73b will settle on the 17 Sept. This week, the US Treasury will raise approx. \$21b in new money. The 4wk note is yet to be announced.

Friday 21 Sept is also quadruple witching.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
17-21 Sept	17-Sep-18	20-Sep-18	4wk bill	45			TBA	
			3mth bill	48			Announced	
			6mth bill	42			Announced	
				135	163	-28		
	11-Sep-18	17-Sep-18	3yr note	35			Announced	
	12-Sep-18	17-Sep-18	10yr note (r-o)	23			Announced	
	13-Sep-18	17-Sep-18	30yr bond (r-o)	15			Announced	
				73	24	49		
				208	187	21		

Treasury supply will be somewhat lighter next week, but still raising approx \$27b in new money. It will also be month/qtr end.

Note on Fed reinvestment of principal payments this month – While the current monthly cap is \$24b, the cap will be reduced to \$19b this month as this is the total amount of treasury holdings of the US Fed that will mature this month (all at month end). This means there will be no reinvestment of principal payments this month.

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.

## Monday 17 September 2018

US – Empire State Manufacturing Index (Sep)

Eurozone – CPI (Aug)

## Tuesday 18 September 2018

US – Housing Market Index (Sep)

Australia – House Price Index Q2, RBA Sept Meeting Minutes released

Japan – Trade Balance (Aug)

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## **Wednesday 19 September 2018**

Japan – BoJ Rates Decision

UK – PPI, CPI and Retail Price Index (Aug)

Eurozone – ECB Draghi speech

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## **Thursday 20 September 2018**

US – Existing Home Sales (Aug), Philly Fed Manufacturing Survey (Sept)

Eurozone – SNB Rates Decision

UK – Retail Sales (Aug)

Japan – National CPI (Aug)

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## **Friday 21 September 2018**

US – Prelim Composite/Services/Manufacturing PMI (Sept)

Japan – Prelim Manufacturing PMI (Sept)

Eurozone – German Prelim Composite/Services/Manufacturing PMI (Sept), Eurozone Prelim Composite/Services/Manufacturing PMI (Sept)

Canada – Retail Sales (Jul), CPI (Aug)

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## **Trade & Brexit**

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

Chinese Vice Premier Lui He was invited to visit the US on 27-28 Sept by Treasury Secretary Mnuchin. Reuters is reporting the meeting around the 20 Sept.

Vice Premier Lui He is yet to accept. It has been reported that China may not accept the invitation if the next round of tariffs goes into effect.

We have some indication of how China could start to retaliate through the disruption of US supply chains in China – by imposing limits on the sale of parts and supplies needed by US businesses. <https://www.reuters.com/article/us-usa-trade-china/china-may-reject-new-trade-talks-if-more-tariffs-imposed-wsj-idUSKCN1LW0NS>

Reports are that the third tranche of tariffs may go ahead this week – a 10% import tariff on \$200b of Chinese imports. The new tariffs would apply to more than 1,000 products, including smartphones, televisions, toys, and a range of other products.

President Trump may direct the USTR to implement a fourth tranche of tariffs on \$267b of Chinese imports – as threatened several weeks ago.

China has previously offered energy and agri purchases, small reduction in the auto tariffs, some liberalization of JV requirement as a part of their negotiation.

Both leaders will meet at the G20 in November – which is a possible deadline for any agreement to be announced by the leaders.

## **NAFTA**

Next steps in the negotiations unclear. Planned high level face to face talks did not go ahead last week. The Canadian Foreign Minister opted to remain in Canada (but talked by phone to USTR Lighthizer) to allow officials time to 'do more work' before negotiations could recommence in earnest.

<http://www.kitco.com/news/2018-09-13/Canada-s-Freeland-won-t-hold-NAFTA-talks-says-more-work-needed.html>

Reuters is now reporting that the President of Dairy Farmers of Canada industry lobby will meet with the Canadian Foreign Minister. <https://www.reuters.com/article/us-trade-nafta-canada-dairy/head-of-powerful-canada-dairy-lobby-to-meet-freeland-about-nafta-idUSKCN1LU2GN>

Text of the US-Mexico portion of NAFTA will be released at the start of October.

## **US-Japan Trade Talks**

A cabinet-level negotiation is to be organised for later this month. This will be a precursor to direct talks between Trump and Prime Minister Shinzo Abe, likely on the sidelines of the United Nations General Assembly in New York.

The US is looking for further trade concessions to reduce the trade deficit with Japan and is using a 25% tariff of Japanese auto imports as a threat.

There is a possibility that the US may escalate the dispute given comments made by US President Trump last week.

<https://asia.nikkei.com/Economy/Trade-War/Japan-girds-for-Trump-auto-tariffs-with-trade-talks-set-to-resume>

## **Section 232 – Car and Truck Imports**

Awaiting the outcome of the public hearings.

## **BREXIT**

This week's informal summit of EU leaders at Salzburg is shaping up as an important event to discuss Brexit. While no final decision is expected, it is hoped that this will create some needed momentum leading into these final stages.

19-20 Sept - discussion of timing of a deal, key sticking points and whether to provide additional instructions to Michel Barnier to “serve as a sort of mandate to do the deal”

<https://www.ft.com/content/477ac3e4-b433-11e8-bbc3-ccd7de085ffe>

<https://www.reuters.com/article/uk-britain-eu/britain-and-eu-closing-in-on-a-brexite-agreement-raab-says-idUSKCN1LU1YO>