

Key Themes

Relatively light supply of treasuries this week. The US Treasury will settle approx. \$163b in treasuries this week, raising approx. \$6b in new money – 4wk bill is yet to be announced.

New tariffs imposed by the US and China will go into effect this week. Considering previous threats, it is possible that the US could impose the further \$267b in tariffs after China retaliated with tariffs and cancelled its high-level trade visit.

President Trump and PM Abe will meet this week on the sidelines of the UN General Assembly. Auto tariffs and the trade deficit are likely to be in focus.

The uncertainty surrounding Brexit is now heightened after the EU rejected the UK Chequers plan. Awaiting the next steps for UK-EU to reconnect on trade and work through the Irish border issues. A deadline of four weeks remains.

FOMC meets this week – expectations are for another 25bps increase to 2-2.25%

This is the last week before the ECB reduces its net asset purchases by half. As of Oct, the ECB net asset purchases will be at a rate of €15b/month.

Important data this week;

US Q2 GDP third estimate, PCE for Aug, regional surveys

Eurozone prelim CPI for Sep

UK Q2 GDP

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

This week, the US Treasury will auction and settle approx. \$163b in bills, TIPS and FRN's and will raise approx. \$7b in new money. The 4wk note is yet to be announced.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
24-28 Sept	23-Sep-18	27-Sep-18	4wk bill	45			TBA	
			3mth bill	48			Announced	
			6mth bill	42			Announced	
				135	156	-21		
	20-Sep-18	28-Sep-18	10yr TIPS (r-o)	11			Announced	
	26-Sep-18	28-Sep-18	2yr FRN (r-o)	17			Announced	
				28	0	28		
				163	156	7		
Fed SOMA - Face Value of SOMA securities maturing 30 Sept 2018					19.006			
Proportion of mthly cap (\$19b total Sept) ****					19.006			
Amount to reinvest					0.000			

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.

Next week is the start of Q4 and there are a few changes to be aware of. The month cap for reinvestment of maturing securities increases to \$30b. The US Treasury will also introduce a new 2mth bill from w/c 12 Nov 2018. At this stage, we expect some heavier supply of treasuries throughout this quarter especially closer to year end.

Treasury supply should be a little heavier next week with the treasury refunding documents forecasting the US Treasury will raise approx. \$26b in new money. Further details provided once auctions are announced.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
1 - 5 Oct 2018	1-Oct	4-Oct	4wk bill	45				
			3mth bill	44				
			6mth bill	40				
				129	135	-6		
	25-Sep	1-Oct	2yr Note	37				
	26-Sep	1-Oct	5yr Note	38				
	27-Sep	1-Oct	7yr Note	31				
				106	73.48	32.52		
				235	208.48	26.52		

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 24 September 2018

US – Chicago Fed National Activity Index (Aug), Dallas Fed Manufacturing Survey (Sep)
Japan – BoJ Policy Meeting Minutes

Tuesday 25 September 2018

US – FOMC Meeting begins, House Price Index (Jul), Richmond Fed Manufacturing Index (Sep)
Japan – BoJ Kuroda speech

Wednesday 26 September 2018

US – FOMC Rates Decision & Press Conference, New Home Sales (Aug)
NZ – RBNZ Rates Decision

Thursday 27 September 2018

US – Durable Goods Orders (Aug), Q2 third estimate GDP, International Trade, Kansas City Manufacturing Index (Sep), Kaplan speech, Pending Home Sales (Aug)
Japan – BoJ Kuroda speech, Tokyo CPI (Sep), BoJ Summary Opinions Report, Industrial Production (Jul), Retail Trade (Aug)
Europe – German Prelim CPI (Sep)
Canada – BoC Poloz speech

Friday 28 September 2018

US – Personal Income and Outlays (Aug), Chicago PMI (Sep), Williams speech
Aus – Private Sector Credit (Aug)
UK – GDP Q2
Europe – Eurozone CPI Prelim (Sep)
Canada – GDP (Jul)

Trade & Brexit

US-China Trade Negotiations

The latest round of US and Chinese tariffs will go into effect from the 24 Sept.

US – 10% tariff on \$200b of Chinese imports from 24 Sept which will increase to 25% from 1 Jan 2019. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/ustr-finalizes-tariffs-200>

China - The Customs Tariff Commission of the State Council imposed a 5% and 10% tariff on \$60bn goods, effective from 24 Sep. China's new tariffs affect 5,207 US products and account for as much as 95% of all US exports to China.

A possible fourth round of tariffs may be implemented by the US on \$267b of Chinese imports after China retaliated.

Awaiting details of the next round of talks. Both leaders planned to meet at the G20 in November – which was a possible deadline for any agreement to be announced by the leaders. This is looking less likely given the status of negotiations (stalled).

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.

NAFTA

There has been no further progress on the US-Canadian arm of the NAFTA agreement. The deadline for a deal is approaching this week (deadline based on ensuring an agreement/Congress approval before the new Mexican PM is sworn in on 1 Dec).

This week, the Canadian PM and Foreign Minister will both present at the UN General Assembly. It is likely that side meetings regarding NAFTA will take place this week. President Trump will chair the UN General Assembly this week.

Text of the US-Mexico portion of NAFTA will be released at the start of October (next week).

US-Japan Trade Talks

President Trump and Prime Minister Shinzo Abe will meet in this week on the sidelines of the United Nations General Assembly in New York.

The US has previously wanted to negotiate a specific US-Japan trade deal, with Japan preferring the US rejoin the TPP.

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

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

<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 should see details regarding the likely path forward for the Brexit negotiations. PM May's annual conservative party conference commences on 30 Sept.

There are now four weeks to renegotiate the trade element of the agreement and have a backstop in place regarding the Irish border issues before the 18 Oct EU summit. An emergency EC meeting will likely be held on 17-18 Nov to formalize the withdrawal agreement – and this will only go ahead if there has been enough progress by the time of the Oct summit.