

Key Themes

The focus this week will be on the US mid-term elections on Tuesday.

The FOMC also meets this week and its likely rates will remain on hold at this meeting.

There will be medium level of treasury supply, with the US Treasury auctioning \$263b in notes and bills. The bills will settle this week, raising approx. \$27b in new money.

On Brexit, there may be a tentative solution/compromise for the Irish border backstop issue. A cabinet meeting is scheduled this week. UK Services PMI and Q3 GDP are also out this week.

German industrial production, factory orders and trade will be important this week, given the recent weakness in Europe/German manufacturing PMI's. Services PMI's will also help to balance out the view of private sector activity.

Similarly, Japanese trade balance and machinery orders will be important considering the weaker industrial production data last week.

The Sep housing credit data will be out for Australia this week. This will be the first read on mortgage credit growth since the Australian banks increased mortgage interest rates (out of cycle increases). Auction clearance rates continue to deteriorate suggesting further falls in prices.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Heavier activity in US Treasury issuance over the next two weeks.

This week, the US Treasury will auction \$263b in ST bills and notes and bonds. The ST bills will settle this week and raise approx. \$27b in new money;

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
5-9 Nov 2018	06-Nov	08-Nov	4wk bill	45			TBA	
	06-Nov	08-Nov	8wk bill	25			TBA	
	05-Nov	08-Nov	3mth bill	45			Announced	
	05-Nov	08-Nov	6mth bill	39			Announced	
	06-Nov	08-Nov	12mth bill	26			Announced	
				180	153	27		

The 3yr, 10yr and 30yr will settle next week.

Next week; Based on the slightly revised Q4 funding requirements, the US Treasury will auction \$152b in ST bills and settle approx. \$235b from ST bills plus the 3/10/30yr auctions from this week;

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
12-16 Nov 2018	12-Nov	15-Nov	4wk bill	45			TBA
			2mth bill	25			TBA
			3mth bill	43			TBA
			6mth bill	39			TBA
				152	133	19	
	06-Nov	15-Nov	3yr Note	37			Announced
	07-Nov	15-Nov	10yr Note	27			Announced
	08-Nov	15-Nov	30yr Bond	19			Announced
				83	54.34	28.66	
				235	187.34	47.66	
			Fed SOMA - Face Value of SOMA securities maturing 15 Nov 2018	34.33			
			Proportion of mthly cap	17.38			
			Amount to reinvest	16.95			

Next week will also be mid-month and \$34.3b in Fed holdings of Treasury securities will mature. This is 58% of the total of securities maturing in Nov. Therefore 58% of the \$30b cap will be applied on the 15 Nov and \$17b will be rolled off the Fed balance sheet and the remaining \$16b will be reinvested by the FOMC.

Securities maturing on the Fed balance sheet in November

In November, \$59.246b of securities on the Fed balance sheet will mature. As the monthly cap (for the roll-off of maturing securities) is \$30b, \$29.25b will be reinvested. This will be the first reinvestment/roll-over since the end of August.

15 Nov; \$34.33b in securities will mature, the proportion of the \$30b cap is \$17.38b - \$16.95 will be reinvested.

30 Nov; \$24.916b in securities will mature, the proportion of the \$30b cap is \$12.62b - therefore \$12.3b will be reinvested.

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 5 November 2018

US – Services & Composite PMI (Oct), ISM Non-Manufacturing Index (Oct)

US Fed speeches; Kaplan, Williams

Japan – BoJ Meeting Minutes, Services PMI (Oct), Kuroda Speech

China – Services PMI (Oct)

UK – Services PMI (Oct)

Canada – BoC Poloz Speech

Tuesday 6 November 2018

US – Mid-term elections

US – JOLTS

Australia – RBA Interest Rate Decision

Europe – Germany Factory Orders (Sep), Germany and Eurozone Services and Composite PMI (Oct)

Wednesday 7 November 2018

US – FOMC Meeting starts, Consumer Credit (Sep)

Europe – Germany Industrial Production (Sep), Eurozone Retail Sales (Sep)

NZ – RBNZ Interest Rate Decision

Japan – Trade Balance (Sep), Machinery Orders (Sep)

Thursday 8 November 2018

US – FOMC Interest Rate Decision

Europe – Germany Trade Balance (Sep)

Friday 9 November 2018

US – PPI (Oct), Wholesale Inventories (Oct)

US Fed speeches; Williams, Harker and Quarles

Australia – Housing Lending (Sep)

UK – Q3 GDP (prelim)

Trade & Brexit

US-China Trade Negotiations

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

It appears confirmed that Presidents Trump and Xi will meet on the sidelines of the G20 in November.

NAFTA/USMCA

U.S. officials intend to sign the agreement with Canada and Mexico at the end of November, after which it would be submitted to the U.S. Congress for approval.

The joint statement can be found on the USTR website; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/september/joint-statement-united-states>

US-Japan Trade Talks

A hearing is now scheduled to take place on 10 Dec 2018 on the negotiating objectives for a US-Japan trade agreement. Talks likely to start in Jan 2019.

<https://www.federalregister.gov/documents/2018/10/26/2018-23569/request-for-comments-on-negotiating-objectives-for-a-us-japan-trade-agreement>

Section 232 – Car and Truck Imports

Awaiting the outcome of the public hearings.

US-Europe Trade Talks

Official notification of trade talks was sent to the US Congress two weeks ago (also notifying the US Congress of the intention to commence trade talks with Japan and the UK).

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin.

No formal consultation for the US-EU negotiations has been announced on the US Federal Register (only for US-Japan trade talks at this stage).

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces>

BREXIT

Possibility that a UK-wide customs backstop compromise will be announced to the UK cabinet this week as a solution to Irish border backstop. Reports are unconfirmed at this stage. The cabinet meeting has been called for Tuesday.

Other unconfirmed reports claim that further progress has been made on key areas of the withdrawal agreement.

The Times is reporting that PM May will “trigger full-scale parliamentary preparations for a ‘no-deal’ Brexit in 3 weeks”.

<https://www.thetimes.co.uk/edition/news/brexit-theresa-may-to-trigger-no-deal-planning-in-three-weeks-svwr8rhr>

To recap timings; the EU has indicated it will call an emergency EC meeting at such time that there is a draft withdrawal agreement to discuss and approve. The final EC meeting in the calendar is 12-13 Dec 2018. Both sides need enough time to approve the agreement in their respective parliaments before the 29 Mar 2019 deadline.