

Key Themes

This week there will be a rare paydown by the US Treasury. The US Treasury will auction and settle \$145b in ST bills this week, creating a net paydown of \$20bn. The US Treasury will also auction \$78b in 3/10/30yr securities, raising approx. \$54b in new money – these will settle next week. There are no Fed holdings of securities that will mature this week.

UK Brexit will be a key focus this week with the UK Parliament expected to vote on 11 Dec.

Prelim PMI's for Dec are out this week for Japan, Eurozone and the US providing a first glimpse at momentum going into the last month of Q4 and the last month of the year.

For the US this week, the focus will be on the PPI and CPI reports as well as retail sales and industrial production.

The ECB rates decision is this week. The ECB will provide a further assessment of current economic conditions in the Eurozone. It is still expected that Net Asset Purchases will reduce to zero at the end of the month.

A final read on Q3 Japanese GDP will be out this week. The important industrial production data will also be confirmed for Oct.

We'll get further signs of the slowing housing market in Australia with the Q3 house price index and Oct housing lending data out this week.

The trade negotiations process continues this week. The first public hearing will take place on Monday 10 Dec for the US-Japan Trade negotiations. A public hearing for the US-Europe trade negotiations was scheduled for 14 Dec but has not yet been confirmed by the USTR.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

A rare pay-down for US Treasury issuance this week.

It's also mid-month this week but there is are no Fed holdings of securities that will mature this week. The total amount for this month will mature at month end.

The US Treasury will auction and settle approx. \$145b in short term bills this week creating a net pay-down of \$20b.

The 4wk and 8wk bills are yet to be announced and, based on revisions over the last few weeks, could add a further \$10b to the auction amount for the week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
10-14 Dec 2018	11-Dec	13-Dec	4 week bill	45			TBA	
	11-Dec	13-Dec	8 week bill	25			TBA	
	10-Dec	13-Dec	13 week bill	39			Announced	
	10-Dec	13-Dec	26 week bill	36			Announced	
				145	165	-20		
Fed SOMA - Face Value of SOMA securities maturing 15 Dec 2018				0				
Proportion of mthly cap				0				
Amount to reinvest				0				

Also, this week the US Treasury will auction \$78bn in 3yr, 10yr and 30yr bonds, raising approx. \$54b in new money. These auctions will settle next week;

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
17-21 Dec 2018	17-Dec	20-Dec	4 week bill	45			TBA	
			8 week bill	25			TBA	
			13 week bill	46			TBA	
			26 week bill	41			TBA	
				157	133	24		
	11-Dec	17-Dec	3yr Note	38			Announced	
	12-Dec	17-Dec	10yr Note r-o	24			Announced	
	13-Dec	17-Dec	30yr Bond r-o	16			Announced	
				78	23.99	54.01		
				235	156.99	78.01		

Securities maturing on the Fed balance sheet in December

In December, \$18.209b of securities on the Fed balance sheet will mature. As the monthly cap (for the roll-off of maturing securities) is \$30b, there will be no reinvestments.

15 Dec; no securities maturing

31 Dec; \$18.209b in securities will mature. As this is under the \$30b cap, the full amount will roll off the Fed balance sheet.

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 10 December 2018

US – JOLTS (Oct)

Japan – Q3 GDP (Final), Trade Balance (Oct)

Australia – Housing Credit (Oct), House Price Index Q3

Eurozone – Germany Trade Balance (Oct)

UK – Brexit; ECJ ruling, Monthly GDP (Oct),

Tuesday 11 December 2018

US – PPI (Nov)

UK – UK Parliament BREXIT Vote, UK Labour Force Survey (Oct)

Wednesday 12 December 2018

US – CPI (Nov)

US Fed Speeches – TBC Chairman Powell (not yet listed on the Fed Reserve Calendar;
<https://www.federalreserve.gov/newsevents/calendar.htm>)

Eurozone – Industrial Production (Oct)

Thursday 13 December 2018

Eurozone – ECB Rates Decision, Germany CPI (Nov)

Canada – House Price Index (Oct)

Japan – Prelim Manufacturing PMI (Dec), Industrial Production (Oct)

Friday 14 December 2018

US – Retail Sales (Nov), Industrial Production (Nov), Business Inventories (Oct), Prelim Manufacturing and Services PMI (Dec)

Eurozone – Eurozone Prelim Manufacturing and Services PMI (Nov), Germany Prelim Manufacturing and Services PMI (Dec)

Trade & Brexit

US-China Trade Negotiations

The focus now turns to the schedule of meetings to address key issues over the next 90-days. No detail available at this stage.

In an interview on Sunday night, USTR Lighthizer stated that 1 Mar 2019 was a 'hard deadline' to reach an agreement with China and avert an intensifying trade war.

With a focus now on a looming hard deadline, uncertainty and headline risk around trade and tariffs is as heightened as ever. Adding further strain to this deadline will be the Christmas and Chinese New Year breaks. Nothing we have seen or heard suggests that both sides are close to a compromise.

NAFTA/USMCA

The deal now needs to be submitted to the U.S. Congress for approval. Given mid-term election results, the deal is still likely to gain approval in Congress.

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 this week on 10 Dec 2018 on the negotiating objectives for a US-Japan trade agreement. Talks are likely to start in Jan 2019.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces>)

<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

Last week President Trump hinted that he is consider imposing steeper tariffs on imported passenger vehicles in response to the cost cutting announcement by GM.

"If Washington imposed a 25% tariff on cars as it long has with small trucks, "many more cars would be built here" and GM "would not be closing their plants in Ohio, Michigan & Maryland," Trump tweeted."

"The President has great power on this issue," he wrote."

<https://asia.nikkei.com/Economy/Trade-War/Trump-threatens-to-boost-auto-tariffs-on-GM-restructuring>

This is contrary to commitments made to Japan and Europe to hold off on any tariffs until trade negotiations get underway.

The White House has pledged not to move forward with imposing tariffs on the European Union or Japan as long as it is making constructive progress in trade talks.

<https://www.straitstimes.com/world/united-states/tariff-proposals-on-imported-cars-and-parts-given-to-white-house>

US-Europe Trade Talks

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

Formal consultation for the US-EU negotiations has now been announced on the US Federal Register

<https://www.federalregister.gov/documents/2018/11/15/2018-24979/request-for-comments-on-negotiating-objectives-for-a-us-european-union-trade-agreement>

A public hearing was also set for this week on 14 Dec for input into the negotiating objectives for the US-EU trade negotiations. There is no formal notification of the public hearing on the USTR website at this stage; <https://ustr.gov/about-us/policy-offices/press-office/press-releases>

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin (<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces>)

US-UK Trade Talks

A formal request has now been posted on the US Federal Register for comments on the negotiating objectives for a US-UK trade agreement.

<https://www.federalregister.gov/documents/2018/11/16/2018-24987/request-for-comments-on-negotiating-objectives-for-a-us-united-kingdom-trade-agreement>

A public hearing has been scheduled for 29 Jan 2019 on the negotiating objectives for the US-UK trade talks.

As noted in the announcement, the USTR will publish objectives for the negotiations at least 30 days before negotiations begin. (<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2018/october/trump-administration-announces>).

BREXIT

The UK Parliament vote on the Brexit deal is expected to take place this week on 11 Dec 2018.

Prior to that, the European Court of Justice will rule on whether article 50 can be revoked. The ruling is expected on Monday 10 Dec 2018.

Announcement; http://europa.eu/rapid/press-release_IP-18-6424_en.htm

Comprehensive factsheet; http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm

Q&A Protocol on Ireland and Northern Ireland; http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm