

## Key Themes

The main event for this week will be the US FOMC meeting. At this stage, the probability of a rate hike is high at 77%. The FOMC statement/press conference will be of interest as we look for indications of what to expect in this post-forward guidance world.

In the US this week, the focus will be on the PCE price index, Durable Goods and housing data.

There will be a moderate level of treasury issuance this week with the US Treasury settling approx. \$223b in US Treasury securities and raising approx. \$34b in new money.

The UK remains in focus this week with the heightened uncertainty surrounding Brexit. The BoE meets this week on interest rates and it will be important to see how the BoE responds to the latest developments/deadlock on Brexit. CPI data for the UK will be out before the BoE meeting and retail sales will provide some indication on changes in consumer sentiment.

The BoJ also meets this week. Japan National CPI will be released after the BoJ meeting.

The Eurozone and Japanese trade data will be in focus as we continue to track the impact of slower trade.

The Australian labour market survey will be out this week. This is an important indicator for the economy and how it might fare amid the house price correction. So far, employment growth has remained strong.

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

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A moderate level of treasury issuance this week. The US Treasury will settle approx \$223b in bills, notes and bonds this week, raising approx. \$34b in new money.

The 3yr/10yr/30yr were auctioned last week – raising approx. \$54b in new money. The ST bills will be auctioned and settled this week – and the US Treasury is expecting to paydown \$20b in ST debt.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B		
17-21 Dec 2018	18-Dec	20-Dec	4 week bill	45			TBA	
	18-Dec	20-Dec	8 week bill	25			TBA	
	17-Dec	20-Dec	13 week bill	39			Announced	
	17-Dec	20-Dec	26 week bill	36			Announced	
				145	165	-20		
	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		
				223	188.99	34.01		

The 4wk and 8wk bill auctions are yet to be announced for this week.

### 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](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.

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## **Monday 17 December 2018**

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US – Empire State Manufacturing Survey (Dec), NAHB Housing Market Index (Dec)

Europe – Eurozone Trade Balance (Oct), Eurozone CPI (Nov)

Australia – RBA meeting minutes

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## **Tuesday 18 December 2018**

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US – FOMC Meeting (day one), Housing Starts (Nov)

Japan – Trade Balance (Nov)

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## **Wednesday 19 December 2018**

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US – FOMC Rates Decision, Existing Home Sales (Nov)

UK – CPI (Nov)

Canada – CPI (Nov)

Australia – Labour Market Survey (Nov)

Japan – BoJ Rates Decision

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## **Thursday 20 December 2018**

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US – Philadelphia Fed Business Outlook Survey (Dec)

UK – BoE Rates Decision, Retail Sales (Nov)

Japan – CPI (Nov)

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## **Friday 21 December 2018**

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US – Durable Goods (Nov), Q3 GDP and Personal Consumption Expenditures (Third Est), Personal Income and Outlays and PCE Price Index (Nov), Kansas City Fed Manufacturing Index (Dec)

UK – GDP Q3 (second estimate)

Canada – Retail sales (Oct), Monthly GDP (Oct)

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## Trade & Brexit

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### 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.

USTR Lighthizer stated that 1 Mar 2019 was a 'hard deadline' to reach an agreement with China.

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

The public hearing took place last week. 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

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

The public hearing for input into the negotiating objectives was held last week.

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

At this stage, the Brexit process is uncertain. The UK Parliament goes into recess next week.

Current documents;

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](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](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)