

Key Themes

We pick up the new year with a full schedule of data, treasury issuance, Fed speeches and ongoing trade negotiations.

Heavy supply of US treasuries to be settled this week with the US Treasury settling approx. \$298bn in bill and note auctions throughout the week, raising approx. \$42b in new money.

The partial US govt shutdown continues amid escalating threats/posturing to shut down the border with Mexico if funding for the border wall is not approved. Democrats will take control of the House of Representatives this week on 3 Jan 2019.

US Fed Chairman Powell will take part in a panel discussion on Friday – looking for any further signalling on rates from the Fed Chairman.

Data releases this week keep trade and growth in focus;

US ISM Manufacturing PMI to provide further insight into US manufacturing momentum after several weaker regional survey results recently.

US non-farm payrolls will be released on Friday (despite the partial govt shutdown).

Final versions of the Dec PMI's will be released across key economies during the week to also provide some insight into the extent of export new orders/trade and manufacturing slow-down especially within the Eurozone, China and Japan.

Trade negotiations between the US and China are set to continue next week. The 1 March deadline for negotiations remains in place.

The UK vote on Brexit remains on the radar with a vote now likely during the week of 14 Jan 2019.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

A heavy level of treasury issuance to settle this week.

The US Treasury will settle approx. \$298b in bills and notes this week, raising approx. \$42b in new money.

It's also month end, and approx. \$18b of Fed holdings of securities (7yr note) will mature today. As the total amount of holdings to mature this month is less than the \$30b cap, the full amount will roll off the Fed balance sheet.

Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
27-Dec	02-Jan-19	4 week bill	40			Announced	912796UL1	
27-Dec	02-Jan-19	8 week bill	30			Announced	912796UQ0	
			70	70	0			
31-Dec	03-Jan-19	13 week bill	39			Announced	912796RD3	
31-Dec	03-Jan-19	26 week bill	36			Announced	912796RW1	
31-Dec	03-Jan-19	52 week bill	26			Announced	912796RT8	
			101	110	-9			
20-Dec	31-Dec	5yr TIPS r-o	14			Announced	9128284H0	reopening
24-Dec	31-Dec	2yr Note	40			Announced	9128285S5	
26-Dec	31-Dec	5yr Note	41			Announced	9128285U0	
27-Dec	31-Dec	7yr Note	32			Announced	9128285T3	
			127	76.18	51			
		Total - securities settling this week	298	256	41.82			
		SOMA - Face Value of SOMA securities maturing 31 Dec 2018	18.21					
		Proportion of mthly cap	18.21					
		Amount to reinvest	0.00					

Securities maturing on the Fed balance sheet in December

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

15 Dec; no securities maturing

31 Dec; \$18.209b in securities will mature - 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 31 December 2018

US – Dallas Fed Manufacturing Survey (Dec)

Australia – Private Sector Credit (Nov)

China – Manufacturing and Non-Manufacturing PMI (Dec) - China Federation of Logistics and Purchasing

Tuesday 1 January 2019

New Year's Day - holiday

China – Caixin Manufacturing PMI (Dec)

Wednesday 2 January 2019

US – Manufacturing PMI (Dec)

Europe – Eurozone and Germany Manufacturing PMI (Dec)

UK – Manufacturing PMI (Dec)

Thursday 3 January 2019

US – Motor Vehicle Sales (Dec), Challenger Job Cut Report (Dec), ADP Employment Report (Nov), ISM Manufacturing Index (Dec)

Japan – Manufacturing PMI (Dec)

China – Caixin Services PMI (Dec)

Friday 4 January 2019

US – Non-Farm Payrolls (Dec), Services & Composite PMI (Dec),

US Fed Speeches (not yet confirmed on the Fed calendar);

Chairman Powell; panel on monetary policy and central banking at the American Economic Association in Atlanta, Georgia, incl former Fed Chair's Yellen and Bernanke.

Bostic speech

Bostic and Williams speeches on Saturday

Europe – Germany Unemployment (Dec), Germany Services PMI (Dec), Eurozone Services & Composite PMI (Dec), Eurozone CPI Prelim (Dec)

UK – Services PMI (Dec)

Canada – Labour Force Survey (Dec)

Trade & Brexit

US-China Trade Negotiations

The focus now turns to the schedule of meetings to address key issues over the next 2 months.

It has been reported that a US trade delegation will travel to China for talks around 7 Jan 2019.

US President Trump continued to feed the news cycle with a positive mention of a telephone call with President Xi that 'big progress' is being made.

USTR Lighthizer is now leading the negotiations with China. The following article is recommended regarding the trade dispute and the perspective of Robert Lighthizer; <https://www.theatlantic.com/politics/archive/2018/12/robert-lighthizers-bid-cut-chinas-trade-influence/578611/>

“We’ve been in a trade war for 25 years. We haven’t engaged; it’s been waged on us. They’ve [China] done it by sleight of hand, by lying, by using short-term greed to undermine long-term success. And Trump knows all of that, and he’s put Bob in charge,”

On the other side;

Xi Jinping, the Chinese president who recently had the constitution changed to remove his term limits, has been explicit about his overall goal: “He came out and said, as dictator-in-chief for life, that China was going to dominate all the industries of the future, not be a competitor, not be a partner, but to dominate the global industries—semiconductors, artificial intelligence, and aerospace, you name it. They were going to use all the tactics and economic aggression and trade mercantilism and predatory pricing that they had used against the steel industry for all these other industries.”

<https://www.theatlantic.com/politics/archive/2018/12/robert-lighthizers-bid-cut-chinas-trade-influence/578611/>

A 'hard deadline' of 1 Mar 2019 has been established for both sides to reach an agreement. But given the perspective of the current US administration - that “the United States is currently engaged in a long-overdue reckoning with China over its predatory trade practices” – it would seem an enormous task to engineer a complete 'restructure' of the trade relationship between the two countries by this date.

<https://www.theatlantic.com/international/archive/2018/10/trump-china-trade/572122/>

With a focus now on a looming hard deadline, uncertainty and headline risk around trade and tariffs remains as heightened as ever. Adding further strain to this deadline will be the Christmas and Chinese New Year breaks.

<https://www.federalregister.gov/documents/2018/12/19/2018-27458/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to>

NEW – Special 2019 Section 301 Review

Posted on the Federal Register by the USTR is a request for comments and a notification of a public hearing for the annual special S.301 review;

to identify countries that deny adequate and effective protection of intellectual property rights (IPR) or deny fair and equitable market access to U.S. persons who rely on intellectual property protection.

The special 301 subcommittee will hold a hearing on 27 Feb 2019.

On 26 Apr 2019, the USTR will publish the 2019 special 301 report within 30 days of the National Trade Estimate Report.

<https://www.federalregister.gov/documents/2018/12/28/2018-28319/request-for-comments-and-notice-of-a-public-hearing-regarding-the-2019-special-301-review>

NAFTA/USMCA

A series of tweets from President Trump over the weekend have threatened to close the US border with Mexico if the Democrats don't provide approval for the border wall funding. Many are reporting that pulling out of NAFTA is also part of this threat;

Trump has repeatedly claimed the border wall is necessary to stop illegal immigration. However, he appeared to put the USMCA/USMCA, his newly-negotiated NAFTA replacement deal, on the line Friday with his threats to close the border, saying it would be a "profit making operation" to reduce the trade deficit with Mexico

<https://globalnews.ca/news/4798424/trump-close-border-wall-mexico-nafta/>

Earlier in the month, President Trump was reported to be considering pulling out of NAFTA and is now considering/threatening doing that before Congress approves the new USMCA to ensure that Congress passes the revised trade agreement;

The logic of withdrawing from NAFTA before the USMCA would be to pressure Congress to approve Trump's trade deal and any laws needed to comply with it. By formally withdrawing from NAFTA, Trump would set a hard deadline of six months for Congress to approve the USMCA or face having tariffs reintroduced on substantial portions of the approximately \$1.3 trillion worth of trade between the U.S., Canada, and Mexico.

<https://www.washingtonexaminer.com/policy/economy/trump-weighs-canceling-nafta-to-force-hand-of-democrats-on-trade>

It's been reported that the Democrats support the new labor provisions of the agreement (they were consulted by the USTR in the negotiation process) but are concerned that provisions don't go far enough to protect workers.

Sen. Chuck Grassley (R-IA), who will chair the Senate Finance Committee that will usher the USMCA through the chamber in 2019, even gave a sort-of endorsement of the president's hardball strategy. "That's a hard-nosed

approach, but sometimes the president has to use that if he wants to get things accomplished,” Grassley said on a Monday radio show, according to the Washington Post.

<https://www.vox.com/2018/12/4/18123809/usmca-trump-nafta-withdrawal-congress>

US-Japan Trade Talks

Public hearings have been completed and 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

Public hearings for input into the negotiating objectives have been completed.

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 Brexit is now likely to take place in the week of 14 Jan 2019.

The vote was pulled late in 2018 as it became clear that the vote for the current withdrawal agreement would not pass the UK parliament.

Parliament is deeply divided, with both supporters and opponents of Brexit opposed to May's deal, which seeks to maintain close ties with the EU.

Approval of the deal is not out of the question though;

[Jeremy] Hunt said May's withdrawal agreement could be passed by MPs if the EU made clear that the Irish "backstop" would be time-limited.

Critics fear the backstop will trap Britain in a customs union with the EU indefinitely, while European leaders have said they would not renegotiate the treaty.

<https://www.reuters.com/article/us-britain-eu/mays-brexit-deal-can-get-through-parliament-hunt-idUSKCN1OR0J8>

Current documents;

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