

Key Themes

Of most interest this week will be the Jan prelim PMI's for the major economies. This should provide some insight into whether production and export weakness has extended into 2019.

The ECB and BoJ hand down interest rate decisions this week – no change is expected. It's possible the BoJ will revise inflation forecasts lower. As the US Fed will be on board next week, the blackout period for communications is in effect.

US data flow will likely continue to be interrupted by the Government shutdown and this week we will miss the US Durable Goods and New Home Sales reports for Dec. We will get further reads on regional manufacturing activity in Jan from the Richmond Fed and Kansas City Fed.

Very light treasury supply this week. The US Treasury will settle \$151b in ST bills, paying down \$9bn.

Labour market surveys for Dec will be out for Australia and the UK this week. This will be an important indicator for the Australian economy as the housing market continues to decline and Chinese growth continues to slow.

After the large defeat of the Brexit Article 50 vote last week, PM May outlined her plan B for Brexit to the UK Parliament on Monday. This mostly consists of the UK seeking further concessions from the EU – something that has already been rejected by the EU.

The next stage of US-China trade negotiations will continue next week. Expecting headline risk to remain elevated.

US earnings announcements will continue this week.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Light treasury supply this week and another net paydown.

The US Treasury will settle \$151b in ST bills this week and will pay down approx. \$9b in outstanding bills.

The US Treasury will also auction \$148b in notes this week – which will settle next week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
21 - 25 Jan 2019	17-Jan	22-Jan	4 week bill	40			Announced		
	17-Jan	22-Jan	8 week bill	30			Announced		
				70	70				
	22-Jan	24-Jan	13 week bill	42			Announced		
	22-Jan	24-Jan	26 week bill	39			announced		
				81	90				
			Total - securities settling this week	151	160	-9			

Heavier supply of treasuries will return next week. It will also be month end and another \$14b in US treasury securities held by the Fed will mature and roll off the Fed balance sheet.

Securities maturing on the Fed balance sheet in January

In January, \$16.282b 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 Jan; \$2.091b in securities will mature – the full amount will roll off the Fed balance sheet.

31 Jan; \$14.191b 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 21 January 2019

US – Martin Luther King’s Birthday – National Holiday

Earnings announcements continue this week; <https://www.bloomberg.com/markets/earnings-calendar/us>

China – GDP, Retail Sales Industrial Production

Tuesday 22 January 2019

US – Existing Home Sales (Dec)

UK – Labour Force Survey (Jan)

Europe – Zew survey of current and economic sentiment

Japan – Merchandise Trade Balance (Dec), BoJ Interest Rate Decision

Davos – 22-25 Jan 2019

Wednesday 23 January 2019

US – Richmond Fed Manufacturing Index (Jan), Mortgage applications w/c 18 Jan

Canada – Retail Sales (Nov)

Japan – Prelim Manufacturing PMI (Jan)

Australia – Labour Force Survey (Dec)

Thursday 24 January 2019

US – Prelim Manufacturing and Services PMI (Jan), Kansas City Fed Manufacturing Index (Jan)

Europe – German and Eurozone Prelim Manufacturing and Services PMI (Jan), ECB Rates Decision & Press Conference

Friday 25 January 2019

US – Durable Goods (Dec), New Home Sales (Dec) (not likely to be released)

Trade & Brexit

US-China Trade Negotiations

It has been confirmed that Chinese Premier Liu He will return to Washington DC for the next round of trade talks next week on 30 and 31 Jan 2019.

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key goals as outlined by the USTR (emphasis added);

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade>

The final deadline for negotiations is 1 Mar 2019 before further tariffs and increased rates are imposed. From the USTR on the Federal Register in mid-Dec;

As set out in this notice, the rate of additional duty for the products covered by the September 2018 action will increase to 25 percent on March 2, 2019.

<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

The government shutdown is reportedly halting further progress on the evaluation of the USMCA. The report by the US International Trade Commission on the economic impact of the new agreement has been delayed by the shutdown.

The report is due 15 March 2019 and will be used by member of Congress to inform their view of the agreement.

President Trump has already indicated that he will withdraw from NAFTA if there is any push to renegotiate the USMCA by the Democrats.

US-Japan Trade Talks

Awaiting details on when talks are to start, but likely to be late Jan/early Feb 2019.

The summary of negotiating objectives for the US-Japan trade talks have been published;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

Section 232 – Car and Truck Imports

The final report/recommendations into whether President Trump should impose tariffs of up to 25 percent on imported cars and parts on national security grounds is due by mid-February.

<https://www.reuters.com/article/us-autos-trade/trump-inclined-to-impose-new-u-s-auto-tariffs-senator-idUSKCN1PA31S?il=0>

US-Europe Trade Talks

Awaiting further notice on the commencement of talks.

The summary of negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

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

After the defeat of the Brexit Article 50 vote in the UK Parliament last week, PM May set out 'plan b' yesterday – which consists of seeking further concession from the EU. This is something the EU has said it won't do, saying that;

“The withdrawal agreement with all its dimensions, including the backstop, is the best deal possible. This debate is much more now on the future relationship. As I said last week at the EU parliament, if the UK want to be more ambitious, we are ready to be,” Mr Barnier told Irish broadcaster RTE after meeting Mr Coveney.”

<https://www.ft.com/content/ee06a784-1d77-11e9-b126-46fc3ad87c65>

The plan b is to be voted on next week 29 Jan.

https://www.theguardian.com/politics/2019/jan/20/corbyn-holds-back-from-conceding-to-calls-for-second-eu-referendum?CMP=Share_iOSApp_Other

<https://www.theguardian.com/politics/2019/jan/20/mps-to-ambush-may-with-amendments-to-stop-no-deal-brexite>

Current Brexit 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