

Key Themes

While the 'hard data' will be important this week, there are several events lining up that could be important to sentiment.

High level US-China trade talks will take place in Washington 30-31 Jan. President Trump's key economic advisor, Larry Kudlow has called this meeting "determinative" (Source:<http://www.atimes.com/article/chinese-vice-ministers-heading-to-washington-ahead-of-trade-talks/>), underlining the importance of these particular talks. The 30 Jan is also the final date for the US to file an extradition order for Huawei CFO Meng. US authorities have previously confirmed that they will request the extradition from Canada. China's Foreign Ministry hit back last week 'strongly urging' that the US 'correct its mistake' and cancel the arrest order. The US has continued to take a hard-line on China outside of these talks and it's possible that this highly visible case could impact the sentiment of the talks this week.

The FOMC also meets this week and rates are expected to remain on hold. Details that the Fed is considering rolling back its balance sheet run off were reported by the WSJ late last week. As we are in the Fed blackout period leading up to the FOMC meeting, there has been no confirmation or denial by the Fed – yet the markets responded positively to the report. The messaging by the Fed will be important to watch this week.

Finally, there is Brexit. There will be another vote in the UK Parliament this coming week on a plan that the EU has already (previously) ruled out. Other amendments will be tabled within the Parliament to request an extension to 29 Mar deadline. If any of the amendments are successful, this could lead the way to a second referendum possibly breaking the current deadlock.

There will also be heavy US treasury supply this week with the US Treasury settling \$333bn in bills, notes and TIPS this week, raising approx. \$31bn in new money. Its also month end, and approx. \$14.2bn in Fed holdings of treasury securities will roll off the Fed balance sheet.

There are several important data releases this week;

US Non-farm payrolls, the first estimate of US Q4 GDP (possibly delayed), the ISM Manufacturing PMI for Jan and the final Markit Manufacturing PMI for Jan.

Final Manufacturing PMI's for Jan will also be released; UK, Japan and Eurozone.

Australian Q4 CPI

US earnings announcements will continue this week.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Heavier treasury supply this week and month end roll-off from the Fed balance sheet. The key date to watch is 31 Jan.

The US Treasury will settle \$333bn in notes, bills and TIPS this week, raising approx. \$31.47b in new money. Most of the auctions will also occur this week.

Approx. \$14.191bn in Fed holdings of US Treasury securities will also mature on 31 Jan 2019. As this is below the monthly cap, the full amount will roll off the Fed balance sheet – there will be no reinvestments.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
28 Jan - 1 Feb	24-Jan	29-Jan	4 week bill	45			Completed		
	24-Jan	29-Jan	8 week bill	35			Completed		
				80	70	10			
	28-Jan	31-Jan	13 week bill	42			Announced		
	28-Jan	31-Jan	26 week bill	39			Announced		
	29-Jan	31-Jan	52 week bill	26			Announced		
				107	110	-3			
	17-Jan	31-Jan-19	10yr TIPS	13			Completed		
	28-Jan-19	31-Jan-19	2yr Note	40			Announced		
	29-Jan-19	31-Jan-19	2yr FRN	20			Announced		
	28-Jan-19	31-Jan-19	5yr Note	41			Announced		
	29-Jan-19	31-Jan-19	7yr Note	32			Announced		
				146	121.53	24.47			
			Total - securities setting this week	333	301.53	31.47			
			Fed SOMA - Face Value of SOMA securities maturing 31 JAN 2019	14.191					
			Proportion of mthly cap	14.191					
			Amount to reinvest	0.00					

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 28 January 2019

US – Chicago Fed National Activity Index (Dec), Dallas Fed Manufacturing Survey (Jan)

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

Japan – BoJ Meeting Minutes Report

Europe – ECB President Draghi speech (Intro Statement at the ECON hearing at the European Parliament)

Uk – BoE's Carney speech

Tuesday 29 January 2019

US – FOMC Meeting begins, CoreLogic Case-Shiller House Price Index (Nov), International Trade (Nov)

UK – Parliamentary vote of Brexit plan B

Japan – Retail Trade (Dec)

Australia – CPI Q4

Wednesday 30 January 2019

US – Mortgage Applications wk 25 Jan, ADP Employment Report (Jan), Q4 GDP – First Estimate (likely delayed), Pending Home Sales (Dec)

US - FOMC Meeting Announcement

US – China trade talks with Premier Lui He commence

Europe – German CPI – Prelim (Jan)

Japan – Summary Opinion Report, Industrial Production – Prelim (Dec)

Australia – Private Sector Credit (Dec), RBA meeting minutes

China – NBS Manufacturing PMI (Jan) and Non-manufacturing PMI (Jan)

Thursday 31 January 2019

US – Challenger Job Cut Report (Jan), Personal Income and Outlays and PCE Price Index (Dec) – also a likely delay, Chicago PMI (Jan)

Europe – German Retail Sales (Dec), German Unemployment Change (Jan), Eurozone Q4 GDP – Prelim, Eurozone Unemployment (Dec)

Canada – Monthly GDP (Nov)

Japan – Manufacturing PMI – Final (Jan)

Friday 1 February 2019

US – Monthly Non-Farm Payrolls and Labour Force Survey (Jan), Manufacturing PMI Final (Jan), ISM Manufacturing Index (Jan), ISM-NY Business Conditions (Jan), Motor Vehicle Sales (Delayed), University of Michigan Consumer Sentiment – Final (Jan)

Europe – German Manufacturing PMI - Final (Jan), Eurozone Manufacturing PMI – Final (Jan)

UK – Manufacturing PMI (Jan)

Australia – Final report to be handed down – Royal Commission into Banking Misconduct

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 on 30 and 31 Jan 2019.

This will coincide with the deadline for filing the extradition order for Huawei executive Meng – that deadline is 30 Jan.

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 US Government shutdown has hindered progress on the evaluation of the USMCA. The report by the US International Trade Commission on the economic impact of the new agreement is likely to be delayed. The report is due 15 Mar 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. But it appears the Democrats aren't shying away from a clash;

“Just a few weeks into the new Congress, senior Democrats say they want changes to the trade deal signed by Donald Trump with Justin Trudeau, Canada's prime minister, and Enrique Peña Nieto, Mexico's former president, in November last year.”

<https://www.ft.com/content/6f1b275a-1b43-11e9-9e64-d150b3105d21>

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-Japan Trade Talks

The government shutdown and the looming deadline on the negotiations with China is hindering the progress on trade negotiations with Japan. It's now likely the negotiations with Japan will be postponed, possibly as late as April (if the US-China negotiations are extended).

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June. <https://asia.nikkei.com/Economy/Trade-War/US-Japan-trade-talks-face-delay-as-Trump-focuses-on-China>

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

US-Europe Trade Talks

Awaiting further notice on the commencement of talks – likely to be delayed.

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. Given the Federal Register was not being updated throughout the shutdown, its unclear whether this hearing will go ahead or be delayed

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

This could be a very important week for Brexit.

The UK Parliament will vote on PM May's 'plan B' on Tuesday 29 Jan. This plan is essentially asking the EU for further concessions on the details of the Article 50 withdrawal agreement. EU leaders have repeatedly stated that there will be no renegotiation of the withdrawal agreement. Its difficult to see how 'plan b' is an option (unless there are other areas still up for compromise);

“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>

Amendments are likely to be tabled in Parliament to request an extension to Article 50 as well as the Labor proposal. If these amendments are successful, then this sets up a possible further crisis as the House of Commons overrules the Govt action. This could pave the way for a second referendum.

If the amendments are not successful, then PM May's Plan B goes into effect – despite clear rejection by the EU. PM May has already ruled out an extension to Article 50 and a second referendum.

There were also moves during the week to block any possibility of a 'no deal' Brexit.

<https://www.telegraph.co.uk/politics/0/theresa-mays-brexit-plan-b-will-parliament-vote1/>

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