

Key Themes

Trade talks and the Fed will feature this week.

A US delegation will attend trade talks in China on 7-8 Jan this week. President Trump continues to stoke the fires with optimistic tweets about progress between the two countries. We have been here before and there is a possible headline risk – but a positive outcome is something that could shift sentiment, especially regarding the business outlook in the US.

There are many Fed speeches scheduled for this week including Fed Chairman Powell. The two speeches of most interest will be Chairman Powell at the Economic Club of Washington and Vice Chairman Clarida giving a speech on the economic outlook and monetary policy at the Downtown Association in New York, New York.

The FOMC Dec minutes will be released this week.

US data flow will likely be interrupted with the continued Government shutdown. The CPI report for Dec still looks like it will be released on Friday. CPI, ISM Non-Manufacturing and Factory Orders (likely delayed) will be the highlights for the week.

German data this week should help to confirm the weaker PMI reads with Industrial Production, New Orders and Trade for Nov. Retail sales for Germany and Europe should provide a good read on consumer sentiment.

The BoC interest rate decision is also this week. This is first meeting since further large falls in the oil price during Dec - will be important for signalling on growth and rates.

Treasury supply will be very light this week, with the US Treasury settling approx. \$145b in ST bills, paying down approx. \$15b. More moderate supply will likely return next week.

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 much lighter week of treasury issuance this week including a net paydown.

The US Treasury will settle \$145b in ST bills this week, paying down approx. \$15b in outstanding Treasury bills.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
7-11 Jan 2019	03-Jan	08-Jan	4 week bill	40			Completed		
			8 week bill	30			Completed		
				70	70	0			
	07-Jan	10-Jan	13 week bill	39			Announced		
			26 week bill	36			Announced		
				75	90	-15			
			Total - securities settling this week	145	160	-15			

The US Treasury will also auction \$79b in Notes and Bonds this week, raising approx. \$40b in new money – these auctions will settle next week, and details will be outlined in next week’s summary.

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 7 January 2019

US – Factory Orders (Nov) (likely delayed), ISM Non-Manufacturing Index (Dec)

US Fed speeches; Atlanta Fed President Bostic - economic outlook and monetary policy at the Rotary Club of Atlanta, in Atlanta GA, with audience Q&A.

Japan – Services PMI (Dec)

Europe – Germany Retail Sales (Nov), Germany Factory Orders (Nov), Eurozone Retail Sales (Nov)

Tuesday 8 January 2019

US – JOLTS (Nov), International Trade (Nov), Consumer Credit (Nov)

Europe – German Industrial Production (Nov)

Wednesday 9 January 2019

US – FOMC Minutes (from Dec meeting)

US Fed speeches; Atlanta Fed President Bostic - speech to the Chattanooga Chamber of Commerce at their 2019 Economic Outlook Breakfast, in Chattanooga, TN, with audience Q&A.

Boston Fed President Rosengren - provide economic outlook to members of the Boston Economic Club as well as Boston Fed staff in Boston, Massachusetts.

Europe – Germany Trade Balance (Nov)

Canada – BoC Rates Decision

UK – BoE Carney Speech, BRC Like for Like Retail Sales (Dec)

China – CPI, PPI, Money Supply and New Loans (Dec)

Thursday 10 January 2019

US – Wholesale Trade (Nov) (likely delayed)

US Fed speeches;

US Fed Reserve Chairman Powell - participate in discussion at the Economic Club of Washington in Washington, DC.

Others;

Richmond Fed President Barkin - provide economic outlook to members of the Boston Economic Club as well as Boston Fed staff in Boston, Massachusetts

St. Louis Fed President Bullard (presentation on U.S. economic and monetary policy at the Little Rock Chamber of Commerce's Power Up Little Rock Event in Little Rock, AR, with audience Q&A)

Chicago Fed President Evans (speech and participate in a moderated Q&A session at the Milwaukee Business Journal Economic Forecast in Milwaukee, Wisconsin, with audience Q&A.),

Minneapolis Fed President Kashkari - speak about immigration and economic growth at the Jewish Community Relations Council Luncheon in Minneapolis, MN, with audience Q&A.

Fed Reserve Vice Chairman Clarida - give a speech on economic outlook and monetary policy at the Downtown Association in New York, New York.

UK – BoE Credit Conditions Survey

Europe – ECB Monetary Policy Meeting Accounts/Minutes

Japan – Trade Balance (Nov)

Australia – Retail Sales (Nov)

Friday 11 January 2019

US – CPI (Dec)

UK – Monthly GDP (Nov)

Trade & Brexit

US-China Trade Negotiations

A US delegation will attend trade talks in China on 7-8 Jan. The USTR statement including attendee's, can be found here; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-regarding-united-states>

A 'hard deadline' of 1 Mar 2019 has been established for both sides to reach an agreement. With a focus now on this 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

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 – there are currently no new announcements.

<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

The final report on the S232 has not yet been made public.

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

<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. No announcements have been made at this time.

<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. There are rumours that the next vote may also be pulled as PM May continues to try and negotiate further concessions from the EU, despite the EU stating that the agreement is final.

The initial 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-brexiteal-can-get-through-parliament-hunt-idUSKCN1OR0J8>

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