

Key Themes

In the US, the focus shifts back to the data this week with important readings on services PMI's, industrial orders, trade, consumer credit and motor vehicle sales.

US agencies will continue to catch up with delayed data releases – and updated data will be added as available. US government funding remains in place until the next deadline of 15 Feb (next week).

Notable speeches will be the State of the Union address delivered by President Trump this week and Fed Chairman Powell will provide brief remarks in Washington.

US earnings announcements will continue this week.

It will be a lighter week for US treasury issuance, with the US Treasury settling approx. \$169bn in ST bills and raising approx. \$9bn in new money.

Its Chinese New Year this week and US-China trade talks are likely to pick up again next week – awaiting confirmation on further meetings.

The BoE will meet this week and rates are most likely to remain on hold as the Brexit impasse continues. The UK services PMI for Jan will be an important gauge of activity in the economy.

The RBA will also meet this week – rates are expected to remain on hold. Australian retail sales will be released for Dec providing a gauge for how spending is tracking amid the housing slowdown. Likely to affect sentiment this week will be public release of the Royal Commission into Banking Misconduct in Australia.

Eurozone data this week will round out the view of private sector activity in Jan with services PMI's to be released. Broader Eurozone retail sales, final German factory orders and industrial production data for Dec will also be released.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

Treasury supply settling this week will be somewhat lighter.

The US Treasury will settle \$169bn in ST bills this week, raising approx. \$9b in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
4-8 Feb 2019	31-Jan	05-Feb	4 week bill	50			Completed		
	31-Jan	05-Feb	8 week bill	35			Completed		
				85	70	15			
	04-Feb	07-Feb	13 week bill	45			Announced		
	04-Feb	07-Feb	26 week bill	39			Announced		
				84	90	-6			
			Total - securities settling this week	169	160	9			

Treasury supply will be much heavier next week. Approx. \$84bn in longer term notes and bonds will be auctioned this week and will settle next week along with new ST bill issuance.

It will be mid-month next week and approx. \$43bn in securities will mature on the Fed balance sheet.

Securities maturing on the Fed balance sheet in February

In February, \$56.05bn of securities on the Fed balance sheet will mature. As this is above the monthly cap (for the roll-off of maturing securities) of \$30b, there will be \$26.05bn reinvested.

15 Feb; \$43.523bn in securities will mature. This represents 78% of the total amount maturing for the month. Hence, \$23.295bn (78%) of the monthly \$30b cap will apply which means the remaining \$20.23bn will be reinvested.

28 Feb; \$12.528bn in securities will mature. This represents the remaining 22% of the total amount maturing for the month. Hence the proportion of the monthly cap will be \$6.7bn which means that \$5.82bn will be reinvested.

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 4 February 2019

US – Motor Vehicle Sales (Dec & Jan), Factory Orders (Nov)

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

Cleveland Fed President Loretta Mester - speech on economic outlook and monetary policy at the 50 Club of Cleveland Annual meeting in Cleveland, Ohio

China – Chinese New Year commences, Caixin Services PMI (Jan)

UK – Construction PMI (Jan), Like for Like Retail Sales (Jan)

Europe – Eurozone PPI (Jan)

Australia – Retail Sales (Dec), RBA Interest Rate Decision (Feb), public release of the final report into Banking Misconduct in Australia.

Tuesday 5 February 2019

US – Services PMI (Jan), ISM Non-Manufacturing PMI (Jan)

US – State of the Union Speech

Europe – Eurozone and Germany Services PMI (Jan), Eurozone Retail Sales (Dec)

UK - Services PMI (Jan)

Australia – RBA Governor Lowe speech

Wednesday 6 February 2019

US – Mortgage applications 1 Feb, International Trade (Nov)

US Fed Chairman Powell speech - Brief Opening Remarks at the Conversation with the Chairman: A Teacher Town Hall Meeting, Washington, D.C.

Vice Chairman for Supervision Randal K. Quarles - Federal Reserve Stress Testing Conference at the Council for Economic Education Vantage Point Reception, New York.

Europe – Germany Factory orders – Final (Dec)

Thursday 7 February 2019

US – Consumer Credit (Dec)

US Fed speeches – Bullard speaks

Europe – Germany Industrial Production (Dec)

UK – BoE Interest Rate Decision (Feb)

Friday 8 February 2019

Europe – Germany Trade Balance (Dec)

Canada – Labour Force Survey (Jan)

Trade & Brexit

US-China Trade Negotiations

The US has now requested extradition of Huawei CFO Meng and has laid further charges against Huawei regarding bank fraud, wire fraud, conspiracy to defraud the US and theft of trade secrets;

“The charges unsealed today are the result of years of investigative work conducted by the FBI and our law enforcement partners,” FBI Director Christopher Wray said today at a Department of Justice press conference announcing the indictments. “Both sets of charges expose Huawei’s brazen and persistent actions to exploit American companies and financial institutions and to threaten the free and fair global marketplace.”

<https://www.fbi.gov/news/stories/chinese-telecom-firm-huawei-indicted-012819>

TBC - Further talks have now been scheduled for Treasury Secretary Mnuchin and USTR Lighthizer to travel to Beijing after the end of Chinese New Year (4-10 Feb) and a possible meeting between Presidents Trump and Xi later in the month.

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

No further update on progress. 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 process to ratify the USMCA remains underway. The report outlining what needs to change in law to approve the USMCA has reached the Senate Finance Committee.

The report by the US International Trade Commission on the economic impact of the new agreement is likely to be delayed due to the shutdown. The report is due 15 Mar and will be used by members 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>

<https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations>

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 statement was released by the USTR last week confirming that the public hearing for negotiating objectives went ahead on 29 Jan.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/public-hearing-negotiating>

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

Latest news is that the UK government may be looking to extend Article 50 beyond 29 Mar to provide enough time to renegotiate a deal with the EU. The UK parliament passed the amendment during the week that approved the current withdrawal agreement **only on the basis that it be renegotiated**.

The issue remains the terms of the Irish border backstop;

“Those provisions would be replaced with what the Brady amendment, mysteriously and Britishly, refers to only as “alternative arrangements.” Could May, Corbyn wondered, “set out today what these alternative arrangements might be?”

A working group has been set up to develop new ideas for ways to avoid a hard Irish border.

The bottom line is this: the government knows it has to return to Brussels with something to ask for. And the Prime Minister could be back there by the end of the week.

Both sides have reaffirmed the desire to maintain an open border between Northern Ireland (UK) and the republic of Ireland (EU), which is an essential part of the Good Friday Agreement/peace accord.

If a trade deal hasn't been renegotiated by the end of the transition period between the UK and EU, then all of the UK remains in the EU customs union – which is what has been rejected by the UK parliament. The UK Labour leader has now confirmed his support for PM May to renegotiate the backstop so that backstop deal (if a trade agreement is not reached) does not become permanent.

The passing of the Brady amendment was;

“...good enough, May told the M.P.s, for her to go back to Brussels with something that “crucially showed what it would take” to get a deal through Parliament.”

So far, there is little detail regarding the alternative ideas;

"When I return to Brussels I will be battling for Britain and Northern Ireland, I will be armed with a fresh mandate, new ideas and a renewed determination to agree a pragmatic solution that delivers the Brexit the British people voted for, while ensuring there is no hard border between Northern Ireland and the Republic of Ireland."

At the same time, the EU has continued to reaffirm that the article 50 is not up for renegotiation.

<https://www.newyorker.com/news/daily-comment/brexit-enters-the-realm-of-science-fiction>

<https://news.sky.com/story/may-could-call-june-election-and-vows-to-battle-for-britain-during-talks-for-new-brexit-deal-11626710>

<https://www.bbc.com/news/uk-politics-47110641>

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