

## Key Themes

The focus this week will be on economic growth data.

On the back of EC downgrades to growth, Germany and the broader Eurozone Q4 GDP (prelim) will be released this week. Germany Q3 GDP declined by -0.2%. The German Office of Statistics released an early forecast indicating that Germany would likely avoid a technical recession.

Japanese Q4 GDP will be released this week and all eyes will be on whether a technical recession will be avoided there too. There has at least been a somewhat stronger rebound in activity since the Sep weather related disruption.

We will get a broad view of the performance of the UK economy amid the ongoing Brexit impasse – with retail sales, Q4 GDP and CPI out this week. There will be further meetings between EU and UK negotiators this week, but little hope of changes to the withdrawal agreement.

In the US, CPI, PPI, retail sales for Dec and business inventories will be released along with the first read of consumer sentiment for Feb.

There are two notable US Fed speeches this week – including Chairman Powell and Atlanta Fed president Bostic giving a speech at the European Financial Forum on economic outlook and monetary policy in Ireland.

The US-China trade talks continue at the end of the week with US Treasury Secretary Mnuchin and USTR Lighthizer travelling to Beijing for talks.

US treasury supply will be heavy this week, with an additional \$50bn Cash Mgt Bill to settle on Mon 11 Feb. This week, the US Treasury will settle approx. \$303bn in ST bills, notes and bonds, raising approx. \$89bn (incl the \$50bn CMB). Its also mid-month and \$43bn in US Fed holdings of treasury securities will mature this week. Of that total, approx. \$20bn will be reinvested.

The next deadline for US government funding is this week - 15 Feb.

## US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US treasury supply will be much heavier this week.

A short-term (18-day) Cash Management Bill (CMB) was auctioned late last week and will settle on Monday 11 Feb this week, adding \$50bn to supply.

Overall, the US Treasury will settle approx. \$303bn in ST bills, notes and bonds this week, raising approx. \$89bn in new money. This includes the 18-day CMB (which will mature on 1 Mar 2019).

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
11-15 Feb	06-Feb-19	11-Feb-19	18-day CMB	50			Completed
	07-Feb	12-Feb	4 week bill	50			Completed
	07-Feb	12-Feb	8 week bill	35			Completed
				135	70	65	
	11-Feb	14-Feb	13 week bill	45			Announced
	11-Feb	14-Feb	26 week bill	39			Announced
				84	90	-6	
	05-Feb-19	15-Feb-19	3yr Note	38			Announced
	06-Feb-19	15-Feb-19	10yr Note	27			Announced
	07-Feb-19	15-Feb-19	30yr Bond	19			Announced
				84	54.13	29.87	
			<b>Total - securities settling this week</b>	<b>303</b>	<b>214.13</b>	<b>88.87</b>	
			Fed SOMA - Face Value of SOMA securities maturing 15 Feb 2019	43.52			
			Proportion of mthly cap	23.29			
			Amount to reinvest	20.23			

It is also mid-month and approx. \$43bn in securities will mature on the Fed balance sheet. Of this, \$20bn will be reinvested.

### 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](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 11 February 2019

---

UK – Q4 GDP (Prelim)

Australia – Housing Finance Commitments (Dec)

---

## Tuesday 12 February 2019

---

US – JOLTS (Dec)

US Fed speeches;

Chairman Powell, Economic Development in High Poverty Rural Communities, At the Hope Enterprise Corporation Rural Policy Forum, Miss.

Kansas City Fed President Esther George - speech on "Charting America's Economic Course" at the Kansas City Public Library in Kansas City

Cleveland Fed President Loretta Mester; speech about the economic outlook and monetary policy at the Xavier University and Financial Executives International Cincinnati Chapter meeting in Cincinnati

NZ – RBNZ Interest rate decision (Feb)

---

## Wednesday 13 February 2019

---

US – CPI (Jan), Mortgage Applications (8 Feb 2019)

Fed Speeches;

Atlanta Fed President Raphael Bostic to deliver a speech to the European Financial Forum on economic outlook and monetary policy in Dublin, Ireland

Cleveland Fed President Loretta Mester; speech about economic outlook and monetary policy at the Gatton College of Business and Economics 2019 Economic Outlook Conference in Lexington

UK – CPI (Jan)

Europe – Industrial Production (Dec)

Japan – Q4 GDP – Prelim

China – Trade Balance (Jan)

---

## Thursday 14 February 2019

---

US – PPI (Jan), Retail Sales (Dec), Business Inventories (Nov)

Eurozone – German Q4 GDP (prelim), Eurozone Q4 GDP (prelim)

Japan – Industrial Production final (Dec)

---

## Friday 15 February 2019

---

US – Empire State Manufacturing Survey (Feb), Industrial Production (Jan), Consumer Sentiment – Prelim (Feb)

Fed speeches;

Atlanta Fed President Raphael Bostic - speech to the Public Affairs Research Council of Alabama on "Workforce Development" in Birmingham, Alabama

UK – Retail Sales (Jan)

Europe – Eurozone Trade Balance (Dec)

---

## Trade & Brexit

---

### US-China Trade Negotiations

Further talks have now been scheduled for Treasury Secretary Mnuchin and USTR Lighthizer to travel to Beijing for talks on 14 and 15 Feb 2019 this week.

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 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.

Reports continue to circulate that the new Congress will make it harder for the agreement to be ratified. While many believed that the agreement will end up being approved, some are calling for further changes on labour and environmental protections.

<https://www.nytimes.com/2019/02/06/business/nafta-trump-deal.html>

President Trump has previously 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 fight.

## Section 232 – Car and Truck Imports

The US Department of Commerce is expected to present the investigative report into the chapter 232 on 17 February (next week). President Trump then has 90 days to make a final decision.

<https://www.wiwo.de/politik/europa/plaene-des-us-handelsministeriums-diese-3-optionen-liegen-im-streit-um-autozoelle-auf-dem-tisch/23965242.html>

<https://fas.org/sgp/crs/misc/IF10971.pdf>

## 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](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](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

Further talks have been scheduled for this week (11 Feb) between the two lead negotiators for the EU and the UK. The EU negotiator, Michel Barnier has stated that while the EU will not reopen negotiation of the withdrawal agreement, the EU is open to reworking the Political Declaration. The Political Declaration outlines the plan for the post-Brexit relationship between the EU and the UK. It is not a legally binding agreement. On the clarity of the Political Declaration;

“...EU diplomats, echoing the phrase used by the former Brexit secretary David Davis to describe his own negotiating style, admit the document’s 8,192 words offer a great deal of “constructive ambiguity”.

PM May is set to meet Jean-Claude Juncker again before the end of February.

The focus remains on whether the UK can develop a specific alternative to the current backstop agreement. Given the messaging from the EC and EU leaders, there seems little reason to believe that the EC/EU will reopen negotiations on the withdrawal agreement.

This week, PM May is likely to ask MPs for more time to get legally-binding changes to the backstop agreement. The UK Labour Party are expected to push for a further vote’ final’ meaningful vote on the current deal by 26 Feb.

<https://www.bbc.com/news/uk-47187491>

<https://www.buzzfeed.com/albertonardelli/theresa-may-backstop-solution-eu-buy-time>

<https://www.rte.ie/news/brexit/2019/0208/1028467-brexit-tony-connelly/>

<https://www.theguardian.com/politics/2018/nov/22/the-brexit-political-declaration-rated>

Current Brexit documents;

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](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](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)