

Key Themes

Later in the week we get our first view of Feb private sector manufacturing and service activity with the prelim Feb PMI's to be released for the US, Eurozone and Japan.

It will be a short week in the US – the focus will be on the FOMC minutes and especially comments around the balance sheet size and the interest rate regime. Durable Goods Orders for Dec will be released as well as the latest housing market index (Feb) and existing home sales data (Jan). As we move into reporting Feb data for the US, it will be interesting to see any impact on data from the end of the partial government shutdown and the pivot by the Fed to hold off on further rate hikes.

Several Fed speeches are so far scheduled for Friday – topics include “the future of the Federal Reserve’s balance sheet”.

The US-China trade talks continue this week - USTR Lighthizer and Vice Premier Lui He will meet again in Washington as the 1 March deadline approaches.

US treasury supply will be much lighter this week, with the US Treasury settling approx. \$169bn in ST bills and raising approx. \$12bn in new money.

In Australia, the Wage Price Index for Q4 will be released along with the Jan Labour Force Survey results. Both will be crucial inputs for the RBA decision on interest rates.

Also of note this week will be the UK Labour Force Survey and Canada Retail Sales for Dec.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US treasury supply will be lighter this week.

Overall, the US Treasury will settle approx. \$169bn in ST bills this week, raising approx. \$12bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
18-22 Feb 2019	14-Feb	19-Feb	4 week bill	50			Completed		
	14-Feb	19-Feb	8 week bill	35			Completed		
				85	70				
	19-Feb	21-Feb	13 week bill	45			Announced		
	19-Feb	21-Feb	26 week bill	39			Announced		
				84	87				
			Total - securities settling this week	169	157	12			

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 18 February 2019

US – Presidents Day Holiday

Australia – RBA Meeting Minutes (Feb)

Tuesday 19 February 2019

US – Housing Market Index (Feb)

US Fed Speeches – Cleveland Fed President Loretta Mester - economic outlook and monetary policy at the 2019 Economic Forecast event held at the University of Delaware in Newark, DE, with audience and media Q&A.

UK – Labour Force Survey (Dec)

Japan – Merchandise Trade Balance (Jan)

Australia – Wage Price Index (Q4)

Wednesday 20 February 2019

US – FOMC Minutes (Jan), Mortgage Applications (wk ending 15 Feb)

Japan – Prelim Manufacturing PMI (Feb)

Australia – Labour Force Survey (Jan)

Thursday 21 February 2019

US – Durable Goods Orders (Dec), Philadelphia Fed Business Outlook Survey (Feb), Prelim Composite PMI (Feb), Existing Home Sales (Jan)

Europe – Germany CPI (Jan), Prelim Germany Manufacturing and Services PMI (Feb), Prelim Eurozone Manufacturing and Services PMI (Feb)

Japan – National CPI (Jan)

Friday 22 February 2019

US Fed speeches –

NY Fed President John Williams - panel discussing the "Prospects for Inflation with a High-Pressure Economy" US Monetary Policy Forum Report at the 2019 US Monetary Policy Forum held by the Chicago Booth School of Business in New York

US Fed Reserve Bank Vice Chairman Richard Clarida and St. Louis Fed President James Bullard - panel on "The Future of the Federal Reserve's Balance Sheet" at the InterContinental New York Barclay in New York

Philadelphia Fed Chairman Patrick Harker - speech on the future of the Federal Reserve's balance sheet panel discussion in New York, New York, followed by audience Q&A.

NY Fed President John Williams - closing remarks at the First Annual Joint Research Day on Quantitative Tools for Monitoring Macroeconomic and Financial Conditions event held by the Federal Banks of Atlanta and New York, in New York.

Europe – Germany Q4 GDP (Detail), Eurozone CPI (Jan)

Canada – Retail Sales (Dec)

Trade & Brexit

US-China Trade Negotiations

Talks are set to continue in Washington this week led by USTR Lighthizer and Chinese Vice Premier Lui He.

“Both sides agreed to work towards a “memorandum of understanding” that could form the basis of a deal between Trump and Chinese President Xi Jinping, although a summit between the two leaders has yet to be scheduled.”

<https://www.scmp.com/news/china/diplomacy/article/2186511/donald-trump-says-us-china-trade-talks-were-very-productive>

US President Trump has said that the hard deadline of 1 Mar could be shifted if both sides are close to a deal.

“Trump said Friday in Washington that “I would not increase the tariffs” if the negotiations are going in a positive direction.”

https://www.washingtonpost.com/business/technology/the-latest-chinas-xinhua-us-trade-talks-for-next-week/2019/02/15/ed76c806-3110-11e9-8781-763619f12cb4_story.html?utm_term=.5131e9d9e314

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>

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 final report of its investigation into the National security implications of car and truck imports by 17 Feb. President Trump then has 90 days to make a final decision on the recommendations.

This could lead to further tariffs imposed on imported cars and trucks to 'protect' local production.

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

<https://www.washingtonexaminer.com/opinion/trumps-next-national-security-charade-car-tariffs>

<https://www.ft.com/content/899e7472-3134-11e9-8744-e7016697f225>

<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

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

Further talks are likely this week between PM May and the EC President Juncker. Talks will also continue on the 'alternative arrangements' for the Irish border backstop provisions;

“[UK] Brexit secretary, Stephen Barclay, will meet the EU’s chief negotiator, Michel Barnier, on Monday to discuss the proposals of the “alternative arrangements working group” of Tories, who have been seeking a compromise solution to avoid the need for backstop.”

<https://www.theguardian.com/politics/2019/feb/17/theresa-may-letter-conservative-mps-attempts-unite-warring-party>

After that, the focus shifts to the UK Parliament on 26-27 Feb;

“Here's where the Brexit endgame starts to become clear. Both the Robbins calculation and the no-deal scenario rely on a relatively strict calendar: British and EU negotiating teams meet before the end of February; May puts whatever comes of that to MPs on for a vote on February 27; May meets EU leaders at a summit on March 21, leading to agreement just before the Brexit deadline of March 29.” <https://edition.cnn.com/2019/02/13/uk/brexit-endgame-gbr-intl/index.html>

The other consideration to this timeline is whether the UK Parliament “mandates” that PM May request an extension to the Brexit process. This could be an outcome from 26-27 Feb.

The 26-27 Feb are likely to be the most important date in the process over the next few weeks. Various sources have different perspectives of what will be debated and voted on during those days. That will become clearer over the next week.

See further detail here; <https://www.reuters.com/article/us-britain-eu-feb27-explainer/explainer-britains-next-brexit-flashpoint-what-happens-in-parliament-on-feb-26-27-idUSKCN1Q41RN>

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