

Key Themes

Several key events will be in focus this week;

US President Trump will meet with North Korean Supreme Leader Kim Jong-un in Vietnam. While not directly related to the markets, headlines could impact sentiment.

US Fed Chairman Powell will provide testimony on monetary policy to the US Senate over two days.

USTR Lighthizer will also provide testimony to the House Ways and Means Committee on the progress of trade talks. Progress on US-China talks will be of interest as well as any possible commentary regarding the s.232 investigation.

Brexit – although the meaningful vote was postponed until 12 Mar, there could still be a vote this week that results in a delay to Brexit if an amended deal is not completed by 13 Mar 2019.

It will be a big week of data for the US. Of most interest will be Q4 GDP and Personal Consumption Expenditure and price data. Housing data will also be released including house prices, pending home sales and housing starts. US manufacturing will remain in focus – ISM manufacturing PMI for Feb, final Markit manufacturing PMI for Feb, durable goods orders (full report) and regional manufacturing surveys.

US Fed speeches will feature heavily throughout the week including a further speech by Chairman Powell later in the week.

There will be heavier supply of treasuries settling this week with the US Treasury settling approx. \$319bn in bills, notes and TIP's. Its also month end and approx. \$12.3bn in securities on the Fed balance sheet will mature of which \$5.82bn will be reinvested.

Other releases of note as we continue to track slowing manufacturing activity;

PMI's for China, Canada and UK manufacturing for Feb as well as the final manufacturing PMI for the Eurozone for Feb.

Japan industrial production data for Jan and final manufacturing PMI for Feb.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US treasury supply will be heavier this week.

The US Treasury will settle approx. \$319bn in ST bills, Notes and TIPS this week, raising approx. \$56bn in new money.

Its also month end and \$12.29bn in securities on the Fed balance sheet will mature. The proportion of the monthly cap that applies this week is \$6.7bn – which is the value of what will roll off the Fed balance sheet. The remaining \$5.82bn will be reinvested.

Not included in this summary is the 18-day CMB (CUSIP 912796XJ3) that settled on 11 Feb 2019 (\$50bn in new money) and will mature on 1 Mar 2019.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
25 Feb - 1 Mar 2019	21-Feb	26-Feb	4 week bill	50			Completed		
	21-Feb	26-Feb	8 week bill	35			Completed		
				85	75	10			
	25-Feb	28-Feb	13 week bill	48			Announced		
	25-Feb	28-Feb	26 week bill	39			Announced		
	26-Feb	28-Feb	52 week bill	26			Announced		
				113	106	7			
	21-Feb	28-Feb	30 Yr TIPS	8			Completed		reopening
	25-Feb	28-Feb	2yr Note	40			Announced		
	25-Feb	28-Feb	5yr Note	41			Announced		
	26-Feb	28-Feb	7yr Note	32			Announced		
				121	81.58	39.42			
			Total - securities settling this week	319	262.58	56.42			
			Fed SOMA - Face Value of SOMA securities maturing 28 Feb 2019	12.53					
			Proportion of mthly cap	6.71					
			Amount to reinvest	5.82					

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 25 February 2019

US – Chicago Fed National Activity Index (Jan), Wholesale Trade & Inventories (Dec), Dallas Fed Manufacturing Survey (Feb)

US Fed Speeches –

US Fed Vice Chairman Clarida - A Conversation with Community Leaders in Southern Dallas and Moderated discussion with Dallas Fed President Robert S. Kaplan

UK – BoE Carney Speech

Tuesday 26 February 2019

US – CoreLogic Case Shiller House Price Index (Dec), Richmond Fed Manufacturing Index (Feb), Housing Starts (Dec)

US Fed Speeches – US Fed Chairman Powell – semi-annual monetary policy report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate (day one)

UK – PM May speech (TBC)

Australia – Construction Work Done Q4

Wednesday 27 February 2019

US – Mortgage Applications (wk 22 Feb), International Trade in Goods (Dec), Factory Orders – Full report (Dec), Pending Home Sales Index (Jan)

US Fed Speeches – US Fed Chairman Powell – day two, semi-annual monetary policy report to the Committee on Banking, Housing, and Urban Affairs, U.S. Senate

Canada – CPI (Jan)

Japan – Industrial Production – Prelim (Jan), Retail Trade (Jan)

Australia – Private Sector Credit (Jan), Private Capex Q4

China – NBS Manufacturing PMI (Feb) and Non-Manufacturing PMI (Feb)

Thursday 28 February 2019

US – Prelim GDP and PCE Q4, Chicago PMI (Feb), Kansas City Fed Manufacturing Survey (Feb)

US Fed Speeches -

US Fed Chairman Powell - Recent Economic Developments and Longer-Term Challenges, at the Citizens Budget Commission 87th Annual Awards Dinner, New York, New York

US Fed Vic Chairman Clarida - opening remarks on "Promoting Global Growth and Domestic Economic Security" at the 35th Annual NABE Economic Policy Conference in Washington DC.

Atlanta Fed President Bostic - panel about "Economic and Housing Landscape" at the 2019 Banking Outlook Conference in Atlanta, GA, with audience Q&A.

Philadelphia Fed President Harker - speech on economic outlook at The Philadelphia Inquirer's Influencers of Finance in Philadelphia.

Dallas Fed President Kaplan – moderated Q&A at the Real Estate Council of San Antonio in San Antonio.

Europe – Germany CPI – Prelim (Feb)

Japan – Nikkei Manufacturing PMI (Feb)

China – Caixin Manufacturing PMI (Feb)

Friday 1 March 2019

US – Personal Income and Outlays & PCE Price Index (Dec), Personal Income (Jan), Manufacturing PMI (Feb), ISM Manufacturing PMI (Feb), Uni of Michigan Consumer Sentiment – Final (Feb)

US Fed Speeches –

Atlanta Fed President Bostic – “fireside chat” on economic outlook and monetary policy at the 35th annual NABE Economic Policy Conference in Washington, DC, with audience Q&A.

Europe – Eurozone Manufacturing PMI (Feb), Eurozone CPI – Prelim (Feb), Eurozone Unemployment Rate (Jan)

UK – Manufacturing PMI (Feb)

Canada – GDP Q4, Markit Manufacturing PMI (Feb)

Trade & Brexit

US-China Trade Negotiations

President Trump announced that the US would now delay the imposition of further tariffs originally scheduled for 2 March given the “substantial progress made” so far on trade talks with China.

A further summit between Presidents Trump and Xi will be scheduled to finalise the details of the trade deal. <https://www.bloomberg.com/news/articles/2019-02-24/trump-vents-frustration-with-trade-czar-as-china-talks-continue>

USTR Lighthizer will testify on progress of trade talks before the House Ways and Means Committee this Wednesday.

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>

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 final report on the s 232 investigation has been provided to President Trump. The President has 90 days to make a final decision on the recommendations.

“Some analysts have considered the secrecy around the U.S. report on Section 232 tariffs as leverage which Trump likely intends to use in the U.S. trade negotiations with the EU.”

"We're trying to make a deal. They are very tough to make a deal with," Trump told reporters at the White House on Wednesday. "If we don't make a deal, we'll do the tariffs." http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

<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

No further indication of when negotiations with Japan will commence. The commencement of talks could be delayed until April, especially now that the US-China negotiations have been 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 release of the S.232 investigation into car and truck imports as a key issue for European members;

“As the sword of Damocles hangs over the European automotive industry, the trade ministers discussed the bloc's trading relationship with Washington.

European Trade Commissioner Cecilia Malmstrom has called on EU governments to decide soon to start negotiations with the United States.

She also warned "there is full support" from member states to hit back if the United States were to levy the tariffs, escalating the transatlantic tension.”

http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm

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. Details regarding the public hearings can be found here; <https://ustr.gov/countries-regions/europe-middle-east/europe/united-kingdom/us-uk-trade-agreement-negotiations>

<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

With no changes to the withdrawal agreement, PM May has announced that there will not be a ‘meaningful vote’ on Brexit in the UK Parliament this week. The PM has stated that the UK Parliament will get to vote by 12 March (emphasis added);

“[PM] May said: “My team will be back in Brussels on Tuesday. As a result of that, we won’t bring a meaningful vote to parliament this week, but we will ensure that that happens by 12 March. But it’s still **within our grasp** to leave

the EU by the 29 March and that is what we are planning to do.””

<https://www.theguardian.com/politics/2019/feb/24/theresa-may-postpones-meaningful-vote-on-final-brexit-deal>

The final vote on/before 12 March comes just before the next EU summit on 21 March (although an emergency meeting could always be held)

<https://edition.cnn.com/2019/02/13/uk/brexit-endgame-gbr-intl/index.html>

Senior MP's are also reported to be planning a vote (this week) to force the government to delay Brexit if a deal hasn't been completed by 13 March (emphasis added);

“Due to be tabled this week by Labour’s Yvette Cooper and the former Tory minister Oliver Letwin, the amendment would force the government to make time available to pass a bill requesting an extension to article 50 if parliament has not agreed a deal by mid-March.

MPs will vote on the amendment on Wednesday, and it now looks highly likely to pass.” <https://www.theguardian.com/politics/2019/feb/24/theresa-may-brexit-vote-delay-what-does-it-all-mean>

PM May continues to talk down any plans to extend article 50;

“People are talking about the extension of article 50 as if it solves the issue when of course it won't. It defers the point of decision. There comes a point when we must make that decision.”

<https://www.theguardian.com/politics/2019/feb/24/theresa-may-postpones-meaningful-vote-on-final-brexit-deal>

The issue remains; there is no amended deal with the EU regarding some form of alternative arrangement for the Irish border backstop.

“Officials briefed by the EU chief negotiator Michel Barnier on Thursday emerged with their bleakest assessment yet of May’s plan to deliver Brexit by March 29. They now expect a deadline extension or a catastrophic no-deal departure.” <https://www.thetimes.co.uk/edition/news/theresa-may-is-driving-us-to-edge-of-abyss-over-brexit-say-eu-envoys-spb9fcnpj>

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