

Key Themes

Central bank interest rate decisions will feature this week;

RBA decision scheduled for early in the week while GDP for Q4 will not be released until after the decision

BoC – looking for signaling on the slower growth from Q4

ECB – also looking for any shift in signaling as growth and activity data continues to disappoint

Several US Fed speeches this week. Of note is a speech by Chairman Powell on Monetary Policy Normalization and Review - at the 2019 Stanford Institute for Economic Policy Research (SIEPR) Economic Summit. As well, NY Fed President John Williams will give a speech on "The Economic Outlook: The 'New Normal' Is Now" at the Economic Club of New York.

US data of note; the monthly employment and non-farm payrolls for Feb, motor vehicle sales for Feb (Jan data was very soft), ISM non-manufacturing PMI.

Services PMI's will be released across the major economies rounding out the view of private sector activity and output in Feb.

Also of note; Germany factory orders for Jan to confirm the weaker manufacturing PMI readings and China trade data out later in the week.

There will be lighter supply of treasuries settling this week with the US Treasury settling approx. \$182bn in ST bills, raising approx. \$21bn in new money.

Other important events this week that could shift sentiment;

Progress on an appendix to the Brexit Article 50 agreement leading up to the UK Parliament meaningful vote on 12 Mar.

An announcement of an agreement on trade between the US and China – with details.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US treasury supply will be somewhat lighter this week.

The US Treasury will settle approx. \$182bn in ST bills, raising approx. \$21bn in new money. The auction amounts for the 4 & 8wk bills were increased.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
4-8 Mar 2019	28-Feb	05-Mar	4 week bill	60			Completed		
	28-Feb	05-Mar	8 week bill	35			Completed		
				95	80	15			
	04-Mar	07-Mar	13 week bill	48			Announced		
	04-Mar	07-Mar	26 week bill	39			Announced		
				87	81	6			
			Total - securities settling this week	182	161	21			

As mentioned last week, the 18-day CMB (CUSIP 912796XJ3) for \$50bn that settled on 11 Feb 2019 matured on 1 Mar. This was offset by another CMB (41-day CMB CUSIP Number 912796RG6) which auctioned on 28 Feb for \$23bn and settled 1 Mar. This effectively reduced the paydown on 1 Mar from \$50bn to \$27bn. This new 41-day CMB will mature on 11 Apr 2019.

Securities maturing on the Fed balance sheet in March

In March, \$22.379bn of securities on the Fed balance sheet will mature. As this is below the monthly cap (for the roll-off of maturing securities) of \$30b, there will be no reinvestments this month.

15 Mar; no securities maturing mid-month

31 Mar; \$22.379bn 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 4 March 2019

US – Construction Spending (Dec), Motor Vehicle Sales (Feb), ISM-NY Business Conditions Index (Feb)

Australia – Building Permits (Jan), Company Gross Operating Profits Q4, New Home Sales (Jan), ANZ Job Advertisements (Feb), Q4 Current Account Balance

RBA – Rates Decision

UK – Construction PMI (Feb)

Europe – Eurozone PPI (Feb)

Japan – Services PMI (Feb)

China – Caixin Services PMI (Feb)

Tuesday 5 March 2019

US – Services PMI (Feb), ISM Non-Manufacturing PMI (Feb), New Home Sales (Dec)

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

UK – Services PMI (Feb), BoE Carney speech

Australia – RBA Governor Lowe speech, Q4 GDP

Wednesday 6 March 2019

US – Mortgage Applications wk ending 1 Mar, ADP Employment Report (Feb), International Goods Trade (Dec)

US Fed Speeches –

Cleveland Fed President Loretta Mester - moderated question and answer hosted by Columbus Partnership of Columbus, Ohio.

NY Fed President John Williams - speech on "The Economic Outlook: The 'New Normal' Is Now" at the Economic Club of New York, followed by audience Q&A.

Canada – BoC Rates Decision

Australia – Retail Sales (Jan), International Trade Mthly (Jan)

Thursday 7 March 2019

US – Challenger Job Cuts (Feb), Productivity and Costs – full report Q4, Consumer Credit G.19 (Jan)

Europe – Eurozone Q4 GDP (2nd estimate), Eurozone Employment Q1

ECB – Interest Rate Decision

Japan – GDP Q4 (2nd Estimate)

China – Trade Balance (Feb)

Friday 8 March 2019

US – Employment and Non-Farm Payrolls (Feb), Housing Starts (Jan)

US Fed Speeches;

US Fed Chair Jerome Powell – speech on Monetary Policy Normalization and Review - at the 2019 Stanford Institute for Economic Policy Research (SIEPR) Economic Summit, Stanford, California

San Fran Fed President Mary Daly - participate in the conference of the Brookings Papers on Economic Activity at the Brookings Institution in Washington, DC.

Europe – Germany Factory Orders (Jan)

Canada – Labour Market Survey (Feb)

China – PPI and CPI (Feb)

Trade & Brexit

US-China Trade Negotiations

Looking for possible confirmation and details on whether the US and China can/have reached a deal. News from last week is that the US and China are now 'close' to a trade deal.

<https://www.reuters.com/article/us-global-markets/wall-street-futures-jump-on-us-china-trade-dealHopes-asian-shares-seen-higher-idUSKCN1QK0SQ>

This contrasts with the opening statement made by USTR Lighthizer last week which downplayed the status of the agreement (emphasis added), but did confirm that 'real progress' has been made on negotiations;

“We are making real progress. If we can complete this effort – and again I say “if” – and can reach a satisfactory solution to the all-important outstanding issue of enforceability as well as some other concerns, we might be able to have an agreement that helps us turn the corner in our economic relationship with China. **Let me be clear: much still needs to be done both before an agreement is reached and, more importantly, after it is reached, if one is reached.**” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/february/opening-statement-ustr-robert>

A further summit between Presidents Trump and Xi will be scheduled to finalise the details of the trade deal. This could be scheduled as soon as late March.

<https://www.bloomberg.com/news/articles/2019-03-03/u-s-and-china-in-final-stages-of-completing-trade-deal-wsj>

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 on 17 Feb. 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.internationallawoffice.com/Newsletters/International-Trade/USA/Arent-Fox-LLP/Trump-administration-moves-closer-to-decision-on-auto-tariffs>

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

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

The USTR publishes 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 the meaningful vote scheduled for next week 12 Mar, focus is likely to be whether the EU and UK can negotiate/develop the additional appendix that states that neither side intends for the Irish border backstop to be permanent.

There have been some more positive signs of flexibility from both sides on this issue;

Speaking to German newspaper Die Welt, Mr Barnier said: “We know that there are misgivings in Britain that the backstop could keep Britain forever connected to the EU. This is not the case. And we are ready to give further guarantees, assurances and clarifications that the backstop should only be temporary.”

The EU negotiator for Brexit indicated that an ‘interpretive document’ could be developed to outline the guarantee, but that there would not be a time limit placed on the backstop nor could the UK pull out of the agreement. <https://www.irishtimes.com/news/world/uk/brexit-barnier-doubts-whether-uk-will-leave-eu-on-schedule-1.3812513>

This comes as Sir Graham Brady (that led the win on the ‘Brady amendment’ in late Jan to remove the Irish backstop and replace it with ‘alternative arrangements’);

“...suggested he will recommend that MPs back it – if the prime minister secures new assurances on the Irish backstop.”

Note; The backstop is only meant to remain in place until such time that the EU and the UK negotiate a new trade deal for the post-Brexit regime.

At this stage, the meaningful vote on Brexit in the UK parliament is scheduled for the 12 Mar. If the vote does not pass, PM May has agreed to a vote to delay Brexit.

“May’s decision last week to hold a vote on delaying **Brexit** if her deal is rejected again, coupled with Labour’s coming out more clearly in support of a second referendum, have been key factors in persuading many Conservatives to consider switching their vote to support the prime minister.”

<https://www.theguardian.com/politics/2019/mar/03/mays-hopes-rise-as-senior-tory-mps-soften-opposition-to-brexit-deal>

The UK Attorney General Geoffrey Cox has been in Brussels to work in developing this additional appendix that states that neither side intends for the Irish border backstop to be permanent. He will return to Brussels this week for further talks.

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