

Key Themes

Several central bank decisions will be in focus this week. The FOMC meets this week. While rates are likely to remain on hold, we will look for signalling on future rate changes, the end of the balance sheet run-off and the assessment of the US economy and outlook.

The BoE also meets this week as Brexit goes down-to-the-wire. Rates will most likely remain on hold. The BoE meeting will be after the likely third vote on Tuesday, but before the EC summit. Brexit “should be” clearer after the EC summit on 21-22 Mar – only 7 days before the 29 Mar Brexit deadline.

Data this week to track the slow-down in manufacturing and production – Japan (final) industrial production for Jan, US factory orders for Jan and the prelim round of Mar PMI's for Europe, Japan and the US to round out the view of Q1 activity.

On the Aussie housing market decline – the official ABS Q4 house price index will be released. The Aussie labour market survey for Feb is out this week – leading indicators of employment growth have been slowing. Any material deterioration in the labour market could start to shift the RBA bias towards rate cuts.

US treasury supply will be more moderate this week. The US Treasury will settle approx. \$182bn in ST bills this week raising approx. \$21bn in new money.

The US-China trade negotiations – news on progress will likely continue to be drip-fed throughout the week.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
18-22 Mar 2019	14-Mar	19-Mar	4 week bill	60			Completed		
	14-Mar	19-Mar	8 week bill	35			Completed		
				95	80	15			
	18-Mar	21-Mar	13 week bill	48			Announced		
	18-Mar	21-Mar	26 week bill	39			Announced		
				87	81	6			
			Total - securities settling this week	182	161	21			

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 18 March 2019

US – Housing Market Index (Mar)

Japan – Trade Balance (Feb), Industrial Production - Final (Jan)

Europe – Trade Balance (Jan)

Australia – House Price Index Q4, RBA Minutes

Tuesday 19 March 2019

US – Factory Orders (Jan)

FOMC Meeting Begins

UK – Parliament third vote on Brexit (TBC), Labour Market Survey (3months to Jan)

Japan – BoJ Monetary Policy Meeting Minutes

Wednesday 20 March 2019

US – Mortgage Applications week to 15 Mar

FOMC Rates and policy announcement and press conference

Europe – Germany PPI (Feb)

UK – CPI and PPI (Feb)

Australia – Labour Market Survey (Feb)

Thursday 21 March 2019

US – Philadelphia Fed Business Outlook Survey (Mar)

UK – Retail Sales (Feb)

BoE Rates Decision

Japan – CPI (Feb), Prelim Manufacturing PMI (Feb)

Friday 22 March 2019

US – Prelim Manufacturing and Services PMI (Mar), Existing Home Sales (Feb), Wholesale Trade (Jan)

US Fed Speeches;

Atlanta Fed President Raphael Bostic - speech about economic outlook and monetary policy at the San Francisco Fed's Macroeconomics and Monetary Policy Conference in San Francisco

Chicago Fed President Charles Evans - panel discussion at the 2019 Credit Suisse Asian Investment Conference in Hong Kong

Europe – Germany Prelim Composite PMI (Mar), Eurozone Prelim Composite PMI (Mar)

Canada – Retail Sales (Jan), CPI (Feb)

Trade & Brexit

US-China Trade Negotiations

No confirmation at this stage of any developing agreement between the US and China on trade. Positive news on 'concrete steps' toward an agreement continues to be report though.

The final meeting between President Trump and Xi may now get pushed back until Jun 2019.

Officials from both nations are stepping up negotiations on the text of the trade agreement, but a source said there was a divergence within the Trump administration regarding the deal with China.

The main division within the White House is how much importance will be attached to an enforcement mechanism to ensure the Chinese side lives up to its side of the bargain, or whether it will be enough to secure an agreement in principle and declare success.

<https://www.scmp.com/news/china/diplomacy/article/3001943/trump-xi-meeting-end-trade-war-may-be-put-back-june-sources>

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 delayed due to the shutdown. The report was due 15 Mar but has now been postponed until mid-April.

And some lawmakers are withholding their opinions until they see the results of a U.S. International Trade Commission report analyzing the economic impact of the deal, which likely won't be out until mid-April due to a delay from the 35-day government shutdown.

<https://www.politico.com/story/2019/03/07/trump-nafta-democrats-1247064>

There appears to be some movement now on a 'potential pathway' to approve USMCA through Congress;

"In an interview Thursday, Rep. Kevin Brady, R-Woodlands, ranking member of the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer was working on a "reasonable" replacement for Trump's tariffs on steel and aluminum from Mexico and Canada, which Republicans and Democrats alike have said must be eliminated with to secure their support."

<https://www.houstonchronicle.com/business/article/As-Congress-weights-new-NAFTA-signs-of-support-13671780.php>

"The administration has largely set aside — for now — the threat of pulling out of NAFTA because Lighthizer and others in the administration agree that such a move would undermine the trust they've been working to build on Capitol Hill.

Aides said there were no immediate plans to withdraw from the 25-year-old agreement, though the president hasn't completely ruled out doing it eventually if the negotiations over approving USMCA fall apart."

<https://www.politico.com/story/2019/03/07/trump-nafta-democrats-1247064>

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

This week, Toyota announced a further top up of its investment in its US plants (now up to \$13bn) adding up to 600 manufacturing jobs.

<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 further, 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 is a key issue for European members (as well as Japan);

“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

The focus this week will be the third UK parliamentary vote, likely to be on Tuesday. This will be ahead of the EC summit of 21-22 Mar.

If the PM wins the third vote, then this will go to the EC Summit for final approval (likely with a short technical extension). PM May does not yet have the numbers at the time of writing.

If the vote is again defeated, then the UK will need to request an extension to Article 50. The EU needs to approve the extension by a unanimous vote of remaining EU member states. The EU has suggested that approval of a delay would be based on the duration required and the reason for the delay. (Emphasis added)

Indeed, most commentators east of the channel say the UK will be required to present a clear way forward to what happens after June if they hope to guarantee a longer-term extension to Brexit. Not only would it mean participating in the European elections, it would also mean **promising a new event of the political horizon that would end the impasse – such as second Brexit referendum, or general elections**. <http://en.rfi.fr/europe/20190317-may-hopes-third-vote-will-pave-way-brexit-delay>

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