MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 18 March 2019

Key Themes

Two points stand out from this week.

The first is the FOMC decision. There was a shift in the signalling of the future path of rates since the Dec meeting – no change in rates through 2019. Growth and inflation targets were revised lower for the year and u/e revised higher. The FOMC sees inflation as muted and acknowledges that the committee is not meeting the inflation target in a symmetrical way. Data is softening at this stage. Details of QT ending and reduction in reinvestment caps were outlined. For now, the Fed is easing without cutting rates, including its signalling of rates on hold.

US data out this week continued to confirm a 'softening' trend, with factory orders and the prelim Mar PMI indicating slower growth. On the other hand, there has been a small improvement and stabilization in some housing metrics.

The second point was the acceleration in the contraction of manufacturing PMI's (prelim) in Europe for Mar – especially in Germany. The magnitude of the contraction was unexpected and raised concerns more broadly over the trajectory of growth. Final reports will provide more detail, but the early indications suggest declines in new orders, including export orders and continued falls in order backlogs, are likely to continue to impact output for some time.

Japanese data was mixed. Inflation remains well below the BoJ target. Trade data for Feb indicated exports continued to decline, but stronger export performance was reported for the two main export markets US and China. Final industrial production numbers for Jan were revised slightly higher on the back of unusually strong growth in Food & Tobacco production & shipments. The prelim Mar PMI indicated that the contraction in manufacturing continued.

The decline in Australian house prices accelerated in Q4. The RBA minutes indicate heightened uncertainty regarding the domestic economy. The bias for rates is no longer 'the next move will be up'. The RBA minutes clearly state that developments in the labour market will be important. The Australian labour market data this week was mostly strong, but employment growth continued to slow.

Brexit disruption continued this week. The third vote was pulled and an extension was granted by the EU27, contingent upon the outcome of another vote or other such agreement by the UK Parliament on the direction of Brexit. The dates for the extension are now shaped by the upcoming EU parliamentary elections. UK data out this week indicated that the labour market remains strong, inflation is steady and retail sales continue to grow. The BoE kept rates on hold citing Brexit as the most important near-term issue in setting policy. The BoE continued to signal that the future path of rates will depend on the nature and timing of Brexit.

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US Data - Housing Market Index (Mar), Mortgage Applications week to 15 Mar, Existing Home Sales (Feb), Factory Orders (Jan), Philadelphia Fed Business Outlook Survey (Mar), Prelim Manufacturing and Services PMI (Mar), Wholesale Trade (Jan)

FOMC Rates Decision

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 - Trade Balance (Jan), Germany Prelim Composite PMI (Mar), Eurozone Prelim Composite PMI (Mar)

Japan – Trade Balance (Feb), Industrial Production - Final (Jan), BoJ Monetary Policy Meeting Minutes, CPI (Feb), Prelim Manufacturing PMI (Mar)

United Kingdom – Brexit, Labour Market Survey (3months to Jan), CPI (Feb), Retail Sales (Feb), BoE Rates Decision

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

Australia – House Price Index Q4, RBA Minutes, Labour Market Survey (Feb)

Trade – US-China Trade Negotiations, Special 2019 S.301 Review, NAFTA/USMCA, S.232 Car and Truck Imports, US-Japan Trade Talks, US-Europe Trade Talks, US-UK Trade Talks

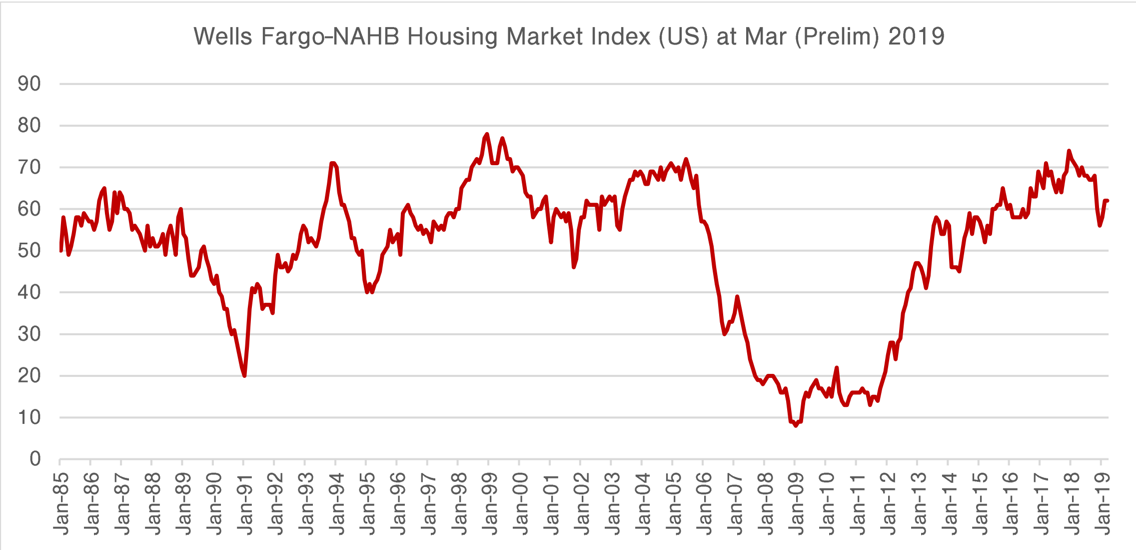
US Data

Housing Market Index (Mar)

The headline index of current housing market conditions was unchanged in Mar. The index remains 16% below the peak of Dec 2017. While present conditions and expectations for sales in the next six months improved in Mar, the traffic of prospective buyers fell again is only 2% above the Dec 18 low.

Monthly housing market index; Mar 62 versus Feb 62

The current index is 10% above



Index Components;

Single-family present conditions; Mar 68 versus Feb 66. The Mar result remains just below the 12-month average of 70.

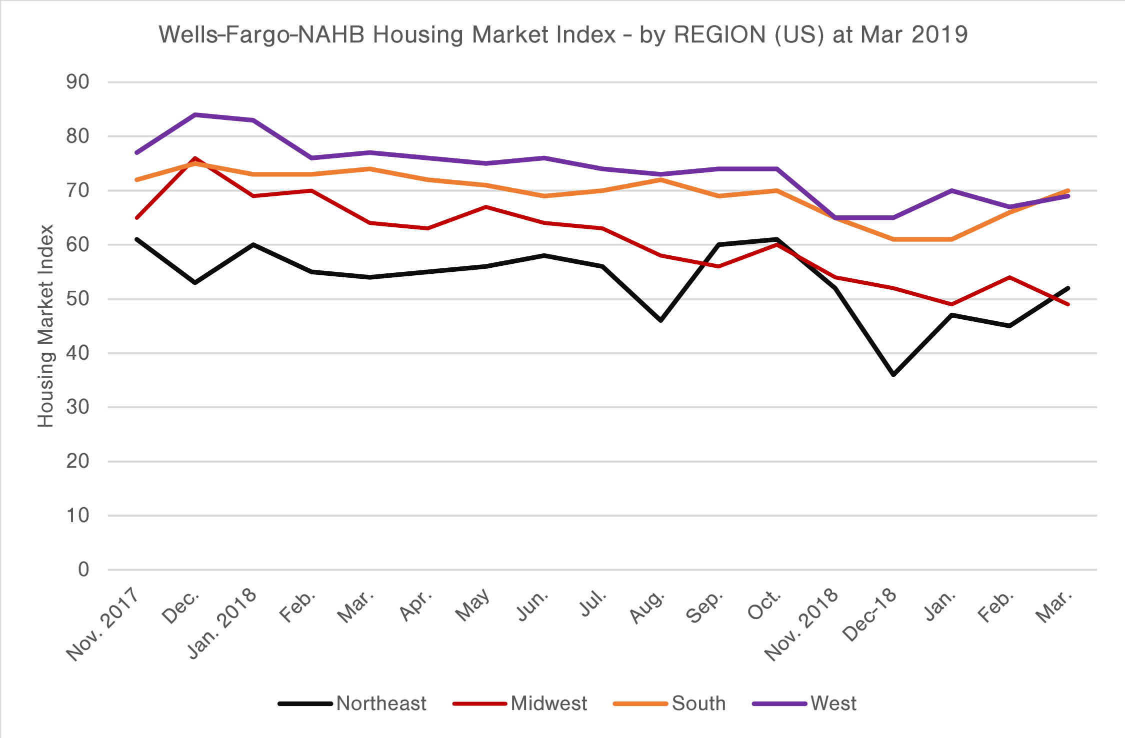
Single-family sales next 6-months; Mar 71 versus Feb 68 (12-mth average 71)

Traffic of prospective buyers; Mar 44 versus Feb 48 (12-mth average 48)

Regional HMI

Conditions in most regions continued to improve in Mar but deteriorated further in the Midwest.

The index of conditions in the Midwest fell to its equal lowest point again; Mar 49 versus Feb 54 (12-mth average 57).



https://www.nahb.org/en/research/housing-economics/housing-indexes/housing-market-index.aspx

Mortgage Applications week to 15 Mar 2019

Weekly mortgage applications continued to increase in the latest week;

Mortgage applications: +1.6% versus a week ago.

Refinance Index; +4% versus the week prior

Purchase Index (unadjusted); +1% versus the same week a year ago.

> "Mortgage rates declined once again, as concerns about the slowing global economy and status of Brexit continued to drive investors' demand for U.S. Treasuries, ultimately pushing yields lower," said Joel Kan, Associate Vice President of Economic and Industry Forecasting. "Rates for most loan types were at their lowest levels in over a year, with the 30-year fixed mortgage rate falling to 4.55 percent - its lowest reading since last February. Although lower rates sparked a 3.5 percent increase in refinance applications, purchase activity was up only slightly last week and from a year ago."

https://www.mba.org/2019-press-releases/march/mortgage-applications-increase-in-latest-mba-weekly-survey-x250273

Existing Home Sales (Feb)

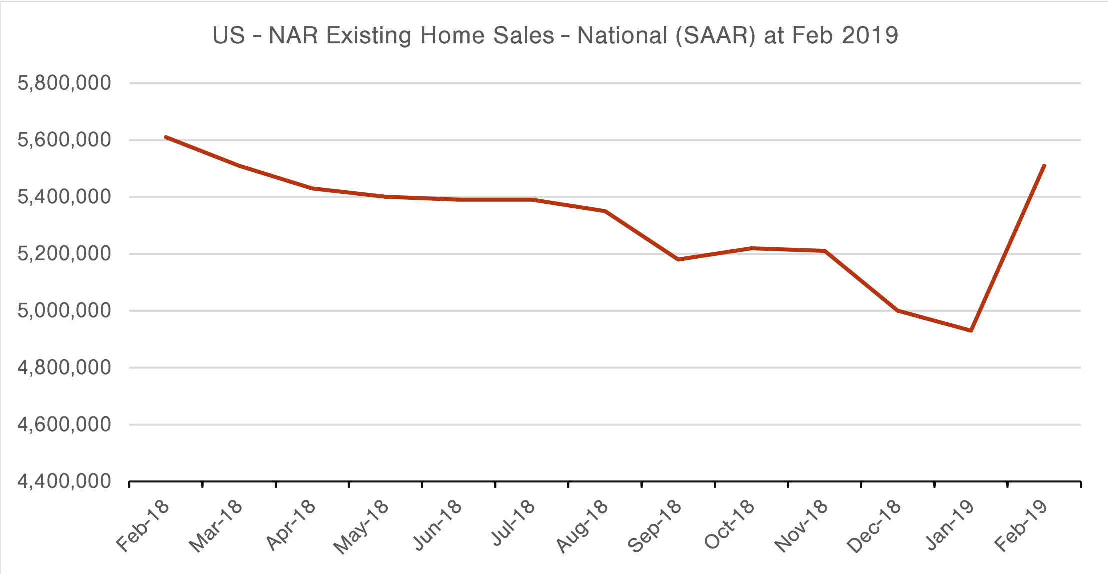
Sales of existing homes increased at a much faster pace in Feb. This was in line with the pick up in mortgage applications and purchases data during that time.

National – Existing Home Sales (annualised rate)

Feb +5.510m units versus Jan 4.930m units

The increase in the month was +11.8% and represented a 3*SD increase (based on the last 20-months).

The annual growth in the sale of existing homes remains -1.8% below the same month a year ago after slowing throughout 2018;



Regional Results

The Midwest, South and West all recorded large increases in sales in Feb. Sales in the Northeast remained subdued;

Northeast; Feb 0.69m versus Jan 0.69m. The annual change though was +1.5% above the same time a year ago.

Midwest; Feb 1.270m versus Jan 1.160m units. The increase in the month was +9.5% which was a 2.3SD increase (based on the last 20-months). Annual growth was 0% versus the same month a year ago.

South; Feb 2.390m units versus 2.080m units. This was a 15% increase in the month which was a 3.4SD increase (based on the last 20-months). The annualised rate in Feb was -0.4% below the same time a year ago.

West; Feb 1.160m units versus Jan 1m units. This was a 2SD increase. Sales in the West remain 8% below the same time a year ago.

https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

Factory Orders (Jan)

The complete view of manufacturer factory activity for Jan shows that new order growth remained low in the month, buoyed by new orders for non-defense aircraft. Excluding transports, the annual growth in new orders continues to slow.

Shipments declined, led by declines across both durable goods (transports) and non-durable goods. The increase in new orders for non-defense aircraft suggest further growth in shipments in the next few months. Excluding the value of transports and petroleum refineries shipments ($ value), the annual growth in shipments is also starting to slow. Notable decline in shipments of automobiles in the month.

Inventories increased in the month.

<u>New Orders</u>

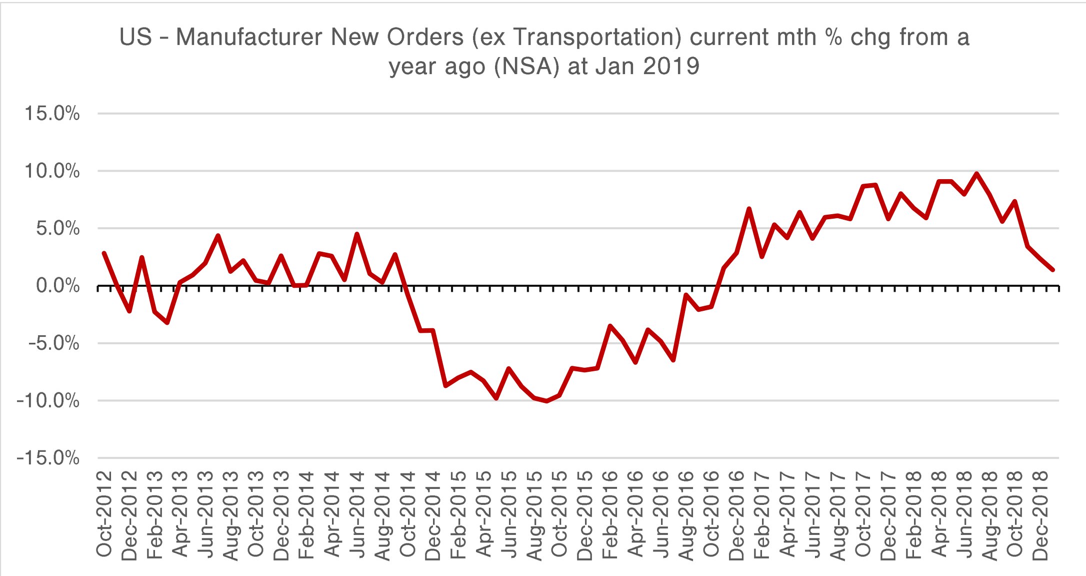
Total manufacturer new orders grew at the same pace in Jan as in Dec;

Jan +0.1% versus Dec +0.1%.

The annual rate (current month versus the same month a year ago) increased slightly; Jan +3.8% versus Dec +2.5%

Excluding transport, new orders declined in Jan for the third month in a row (seas adj basis);

Jan -0.2% versus Dec -0.5%. The annual pace of growth slowed further to a mere +1.4% versus Dec +2.3%. The growth versus year ago has slowed from +9.8% growth in Jul 2018 to +1.4% in Jan 2019;



New orders for durable goods grew at a slower pace; Jan +0.3% versus Dec +1.3%. The main driver of this growth was non-defense aircraft and parts, which grew at a slightly slower pace than in the month prior (15% versus 35%) – there are obviously some large orders received that will now go into production (but yet to see a large build in inventory for this group specifically).

New orders for non-durable goods declined for a third month; Jan -0.2% versus Dec -1.1%.

<u>Shipments</u>

The headline manufacturer shipments declined in Jan;

Jan -0.4% versus Dec -0.2%.

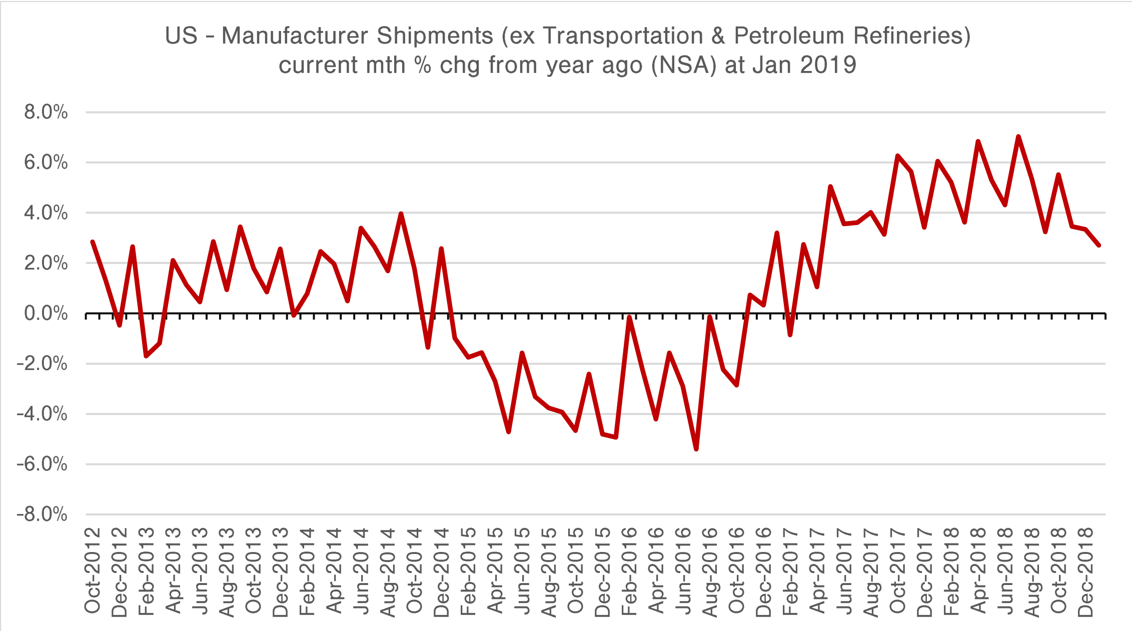
This is the fourth month in row where shipments have declined. The annual rate of growth in shipments slowed further also; Jan +2.9% versus Dec +4.2%.

Excluding transportation, the decline was somewhat less; Jan -0.2% versus Dec -0.6%. But the annual change in shipments ex transports slowed further; Jan +1.5% versus Dec +2.6%

Petroleum shipments are also included in these figures (approx. 10% of shipments) and given the fall in the value of oil at that time, this is likely impacting the value of shipments;

The annual change in shipments ex petroleum refineries and transports also continues to slow;

Jan +2.7% versus Dec +3.3%



Both durable and non-durable goods contributed to the decline in shipments in the month;

Durable goods; Jan -0.5% versus Dec +0.7%.

Declines in the month were recorded across some of the larger categories; transport (including non-defense aircraft and parts, autos and motor vehicle parts and bodies), electrical equipment and primary metals.

Few categories recorded declines in shipments versus a year ago, but the one notable standout remains Automobiles; -6.4% in Jan and -6.6% versus a year ago (Dec was 0% versus a year ago).

Also down versus a year ago; wood products, mining, oil field and gas field machinery, metal working machinery, computer storage devices, electronic components, electric lighting and components and misc.

Non-durable goods; Jan -0.2% versus Dec -1.1%

Declines were widespread; Food products, beverage and tobacco products, textile products, petroleum and coal products and chemical products (the largest contributor to the decline).

<u>Inventories</u>

The value of inventory increased in the month;

Jan +0.5% versus Dec +0.1%

Increases in inventories were recorded across both durable and non-durable goods;

Durable Goods was led by a large increase for transport equipment, but not related to the new orders for non-defense aircraft and parts. Expect further increases in the next month or two.

The value of inventories for non-durable goods increased surprisingly for petroleum and coal products – this represented the bulk of the increase.

https://www.census.gov/manufacturing/m3/index.html

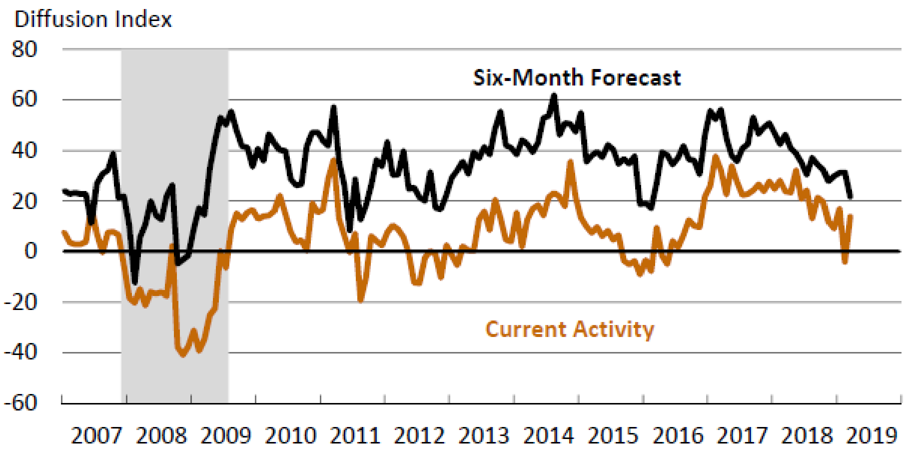
Philadelphia Fed Business Outlook Survey (Mar)

The headline index of manufacturing activity in the region returned to positive territory in the latest month. Activity expanded at a faster pace led by faster growth in shipments, inventories and growth in the average employee workweek.

<u>Current Activity Index</u>

Mar 13.7 versus Feb -4.1

Chart 1. Current and Future General Activity Indexes
January 2007 to March 2019



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

The improvement was led by a faster expansion in shipments, going from -5.3 in Feb to 20 in Mar.

The increase in New Orders was surprisingly modest shifting from -2.4 in Feb to 1.9 in Mar. Unfilled orders grew at a slower pace.

Inventories grew at a much faster pace. From a reading of 3.3 in Feb to 17.2 in Mar.

Both prices paid and price received grew at a somewhat slower pace. Growth in prices paid has slowed from a much higher level.

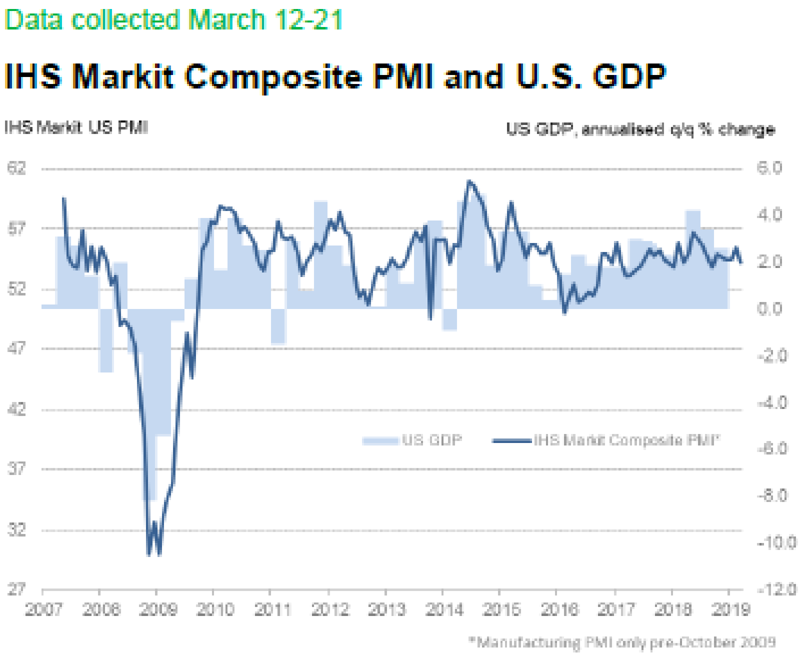
Growth in the number of employees grew at a slower pace, while the average employee workweek increased at a faster pace.

https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2019/bos0319.pdf?la=en

Prelim Manufacturing and Services PMI (Mar)

The headline index of US private sector activity slowed in the latest month. Both services and manufacturing activity grew at a slower pace.

Composite PMI; Mar 54.3 versus Feb 55.5 (-1.2 pts)



Sources: IHS Markit, U.S. Bureau of Economic Analysis.

<u>Services Activity; Mar 54.8 versus Feb 56 (-1.2 pts)</u>

New business activity increased at a slower rate. While employment grew at the slowest rate since May 2017. Input costs grew at the slowest rate for two years.

<u>Manufacturing PMI; Mar 52.5 versus Feb 53</u>

Improvement in business conditions was somewhat weaker in manufacturing. Output, new orders and employment growth expanded at a low rate. Expansion of current production volumes were 'modest'.

> "A number of manufacturers commented on a cyclical slowdown in client demand. Reflecting this, new orders increased at the weakest rate for just under two years in March"

Purchase of inputs grew at a slower pace in line with softer demand conditions. Input costs grew at a slower pace and prices received also grew at 'relatively subdued pace'.

https://www.markiteconomics.com/Survey/PressRelease.mvc/ad93b509d930421cb51d3a15a855a2bb

Wholesale Trade (Jan)

US wholesale sales grew at a faster pace in Jan after declining in Dec. A large driver of the decline in Dec was the lower value of petroleum wholesale sales. In Jan, non-durable goods led overall growth higher while durable goods wholesale sales were flat compared to the month prior. Despite the overall faster growth, inventories continued to increase.

Wholesale sales

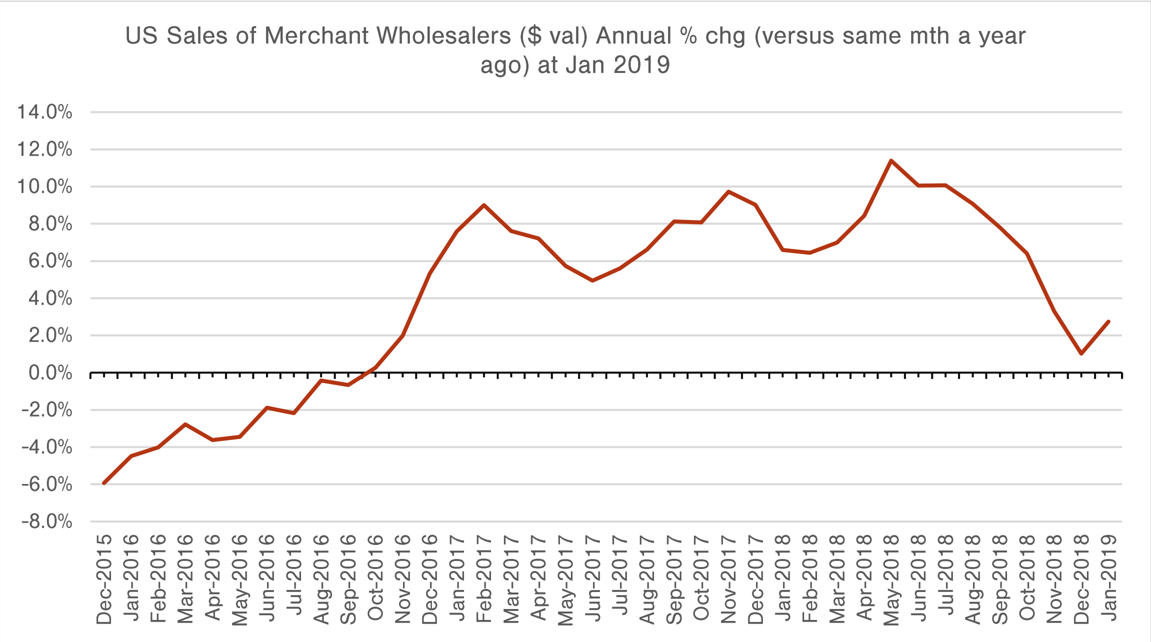
Jan +0.5% versus Dec -0.9%

Growth in durable goods wholesale sales were lower; Jan 0% versus Dec +0.6%, while durable goods inventories increased by +0.9% in Jan after a +1.7% growth in Dec.

Growth in non-durable goods wholesale sales shifted back to growth; Jan +0.9% versus Dec -2.3%. Inventory grew at a slightly faster pace +1.6%.

Petroleum continues to impact the non-durable goods result; growth in petroleum wholesale sales in Jan was the largest contributor to value growth; Jan +1.1% versus -10.9% in Dec. Petroleum accounted for half of the growth in inventory value; Jan +10.7% versus Dec -5.2%. The inventory to sales ratio increased from 0.37 in Dec to 0.41 in Jan.

On an annual basis, wholesale sales growth accelerated slightly; Jan +2.9% versus Dec +1.3% (NSA);

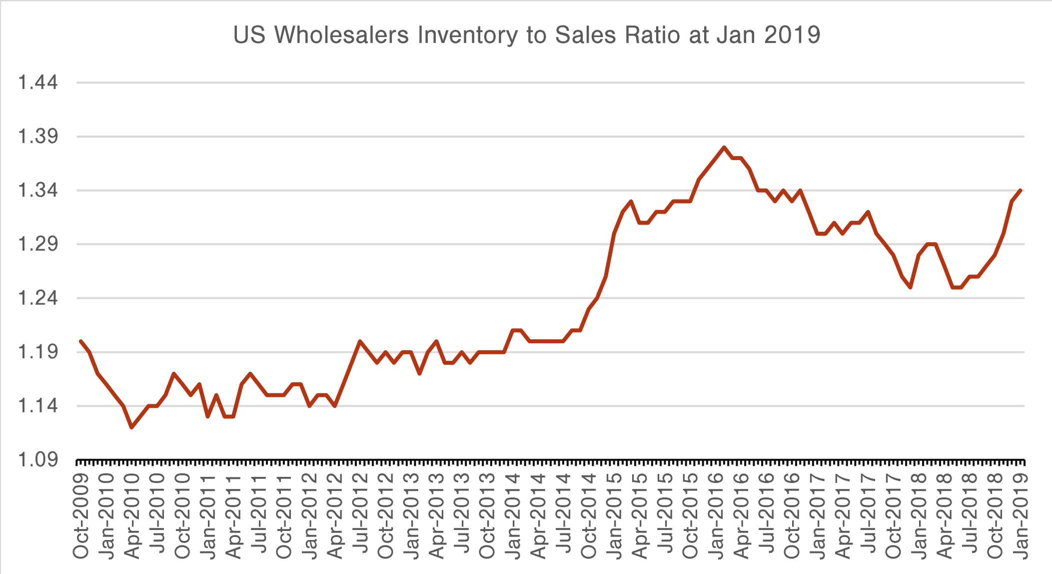


Inventory

Inventory grew by 1.2% in Jan versus Dec +1.1%

Inventory growth was led higher predominantly by; Electrical, Automotive, Machinery, Drugs, Apparel and Petroleum – all of which more than offset the declines.

Despite the increase in sales, the overall inventory to sales ratio increased further; Jan 1.34 versus Dec 1.33



https://www.census.gov/wholesale/index.html

FOMC – Rates Decision 20 March 2019

Rates remained on hold. The statement was neutral regarding any indication of the future direction in rates.

The 'normalising of the balance sheet' is now almost complete and no longer on auto. The FOMC announced it will conclude balance sheet run-off at the end of Sept, will lower the cap for reinvestments between May and Sept from $30bn to $15bn and it will also use principal payments from MBS up to $20bn to reinvest back into Treasury securities from Oct 2019.

Growth and CPI projections were downgraded for 2019, unemployment projections were increased.

Rates Decision

FFR range remains unchanged; 2.25 – 2.5%

> "In light of global economic and financial developments and **muted inflation pressures**, **the Committee will be patient** as it determines what future adjustments to the target range for the federal funds rate may be appropriate to support these outcomes."

Path of future hikes;

There was no emphasis or bias to either hiking or lowering rates in this statement. This signalling was adopted in the Jan statement.

> "The federal funds rate is now in the broad range of estimates of neutral--the rate that tends neither to stimulate nor to restrain the economy. As I noted, my

colleagues and I think that **this setting is well-suited to the current outlook** and believe that we should be patient in assessing the need for any change in the stance of policy. Patient means that we see no need to rush to judgment. It may be some time before the outlook for jobs and inflation calls clearly for a change in policy."

But this represents a shift from the last set of projection materials in Dec where most FOMC participants expected rate increases into 2019.

Policy Settings

Rate setting regime – one in which there is ample supply of reserves to ensure "control over the level of the federal funds rate and other short-term interest rates is exercised primarily through the setting of the Federal Reserve's administered rates and in which active management of the supply of reserves is not required."

Size of the balance sheet/levels of reserves; the pace of balance sheet run off and decline in reserves will be reduced. The monthly cap is reduced from $30bn per month to $15bn per month from May 2019.

Balance sheet run-off/reduction in SOMA holdings; this will conclude at the end of Sept 2019. Holdings of MBS will continue to decline – the intention is for the Fed to hold primarily Treasury securities.

To this end, from Oct 2019, any principal payments from its holdings of agency MBS will be reinvested back into Treasury securities up to a max of $20bn per month. Any principal payments above $20bn will be reinvested back into agency MBS.

Projections

"Data arriving since September suggest that growth is slowing somewhat more than expected."

GDP growth was revised lower for 2019; from +2.3% (Dec meeting) to +2.1% (Mar meeting)

The unemployment rate was revised higher for 2019; from 3.5% at the Dec meeting to 3.7% at the Mar meeting

Headline inflation was revised lower; from +1.9% to +1.8% in 2019, while core inflation projections remained unchanged at 2% for 2019.

The path of the Fed Funds rate was revised much lower; from a median projection in 2019 of 2.9% (as of the Dec meeting) to 2.4% at the Mar meeting. The median projections for rates have shifted significantly lower since the Dec meeting.

Domestic Conditions

Somewhat mixed; growth in economic activity has slowed in Q1 (slower growth in household spending and business fixed investment), job gains solid, headline inflation falling due to lower energy prices but core inflation around 2%.

Chairman Powell addressed questions on inflation at the press conference;

"So, what I see is inflation that's close to two percent but that sort of keeps **bumping up against two percent** and then maybe moving back down a little bit. **And I don't feel that we have kind of convincingly achieved our two percent mandate in a symmetrical way**. Now, what do we mean by symmetrical? What we really mean is that we would look at, we know inflation will move around on both sides of the target, and what we say is that we would be equally concerned with inflation, persistently above as persistently below the target. So that's really our framework, and I don't think we've quite achieved it yet, because we're really ten years deep in this, almost ten years, in this expansion, and inflation is still kind of, I'd say not, you know, clearly meeting our target."

From the press conference, Chairman Powell talks about the challenges of low inflation;

"It gives central banks less room to, you know, to respond to downturns, right."

"The proximity to the zero lower bound calls for more creative thinking about ways we can, you know, uphold the credibility of our inflation target, and you know, we're openminded about ways we can do that."

https://www.federalreserve.gov/newsevents/pressreleases/monetary20190320a.htm

https://www.federalreserve.gov/monetarypolicy/fomcpresconf20190320.htm

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Europe

Eurozone Trade Balance (Jan)

All figures quoted are in € value.

The Euro Area and EU trade balances narrowed in Jan versus a year ago as exports grew at a slower pace than imports.

Euro Area – Trade Balance

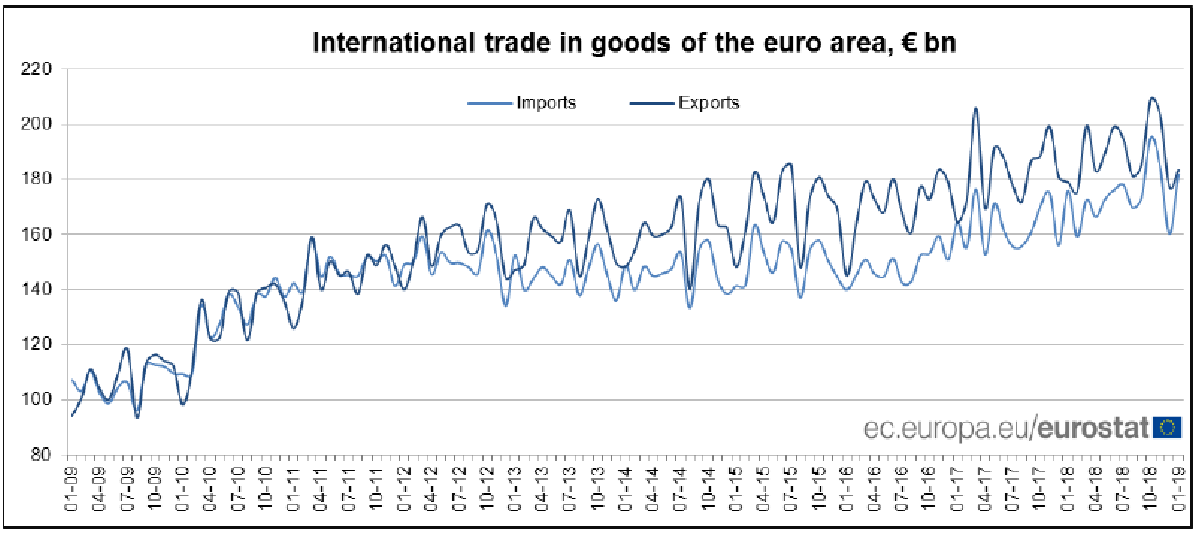
The trade surplus narrowed in Jan 2019 compared to the same month a year ago.

Jan 2019 +1.5bn versus Jan 2018 +3.1bn

This was the result of lower growth in exports versus imports.

Exports; Jan +2.5% versus a year ago

Imports; +3.4% versus a year ago



European Union (EU28) – Trade Balance

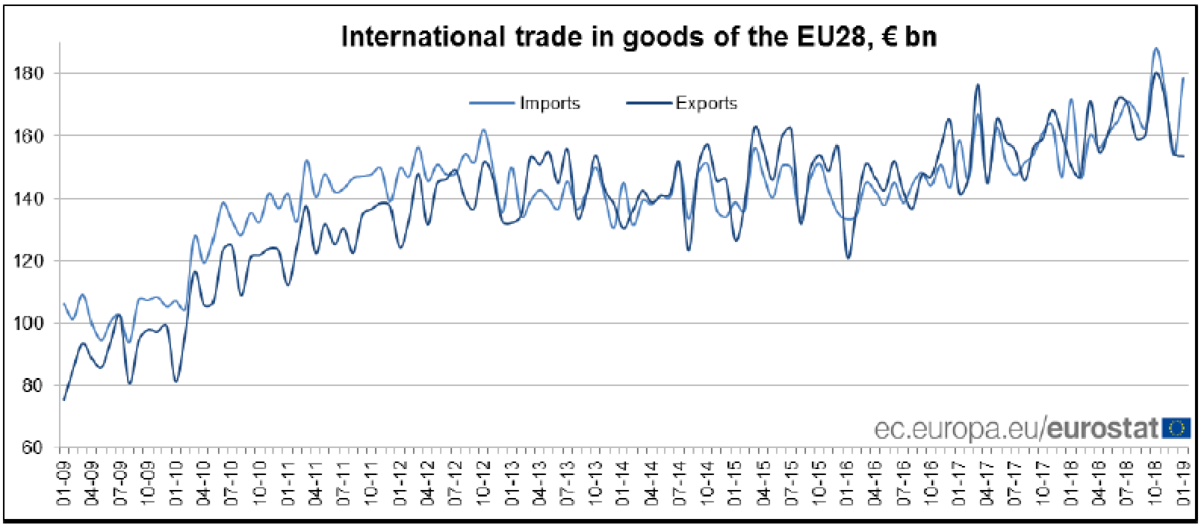
The trade deficit increased versus a year ago.

Jan 2019 -24.9bn versus Jan 2018 -21.4bn

Imports grew faster than exports;

Exports (Jan 2019) +2.1% versus the same month a year ago

Imports; +3.9% versus a year ago



<u>Trade in Goods by Category – EU28</u>

Export growth was impacted by declines in primary goods exports for Jan versus a year ago due mostly to energy, while growth in manufactured goods exports remained above the same month last year.

Import growth of primary goods was lower than the total due to lower energy imports.

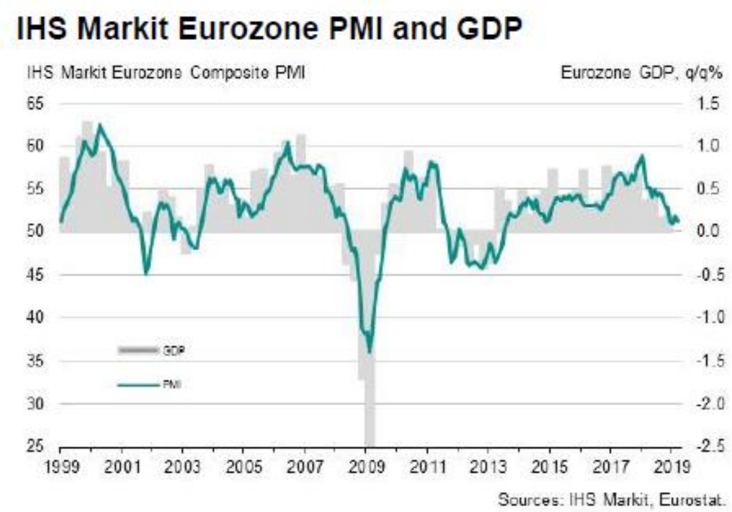
	Extra-EU28 exports			Extra-EU28 imports			Trade balance	
	Jan 18	Jan 19	Growth	Jan 18	Jan 19	Growth	Jan 18	Jan 19
Total	**150.4**	**153.6**	**2.1%**	**171.8**	**178.5**	**3.9%**	**-21.4**	**-24.9**
Primary goods:	**22.4**	**21.9**	**-2.2%**	**51.6**	**52.4**	**1.6%**	**-29.2**	**-30.5**
Food & drink	9.4	9.9	5.3%	10.0	10.7	7.0%	-0.6	-0.7
Raw materials	4.1	4.1	0.0%	6.9	7.2	4.3%	-2.8	-3.1
Energy	8.9	7.9	-11.2%	34.6	34.5	-0.3%	-25.7	-26.6
Manufactured goods:	**123.3**	**127.9**	**3.7%**	**114.4**	**119.7**	**4.6%**	**8.9**	**8.2**
Chemicals	30.5	32.2	5.6%	16.9	18.7	10.7%	13.5	13.5
Machinery & vehicles	59.3	61.2	3.2%	53.6	55.4	3.4%	5.7	5.8
Other manuf'd goods	33.5	34.5	3.0%	43.8	45.6	4.1%	-10.2	-11.0
Other	**4.7**	**3.8**	**-19.1%**	**5.9**	**6.5**	**10.2%**	**-1.2**	**-2.6**

https://ec.europa.eu/eurostat/documents/2995521/9677750/6-18032019-AP-EN.pdf/6fce968a-cc9f-494d-a19c-e04576e42fa9

Eurozone Prelim Composite PMI (Mar)

Overall private sector activity in the Eurozone grew at a slower pace, with growth remaining low. Services activity remained mostly unchanged while manufacturing continued to contract at a faster pace.

Composite PMI; Mar 51.3 versus Feb 51.9



Services PMI Activity Index; Mar 52.7 versus Feb 52.8

While the slow-down in service sector activity was marginal, growth remained below the levels recorded in 2018. New orders increased, but new export orders fell 'to the greatest extent since data was available in 2014". Work backlogs fell for the second time in three months. As a result, employment growth also slowed.

Manufacturing PMI; Mar 47.6 versus Feb 49.3

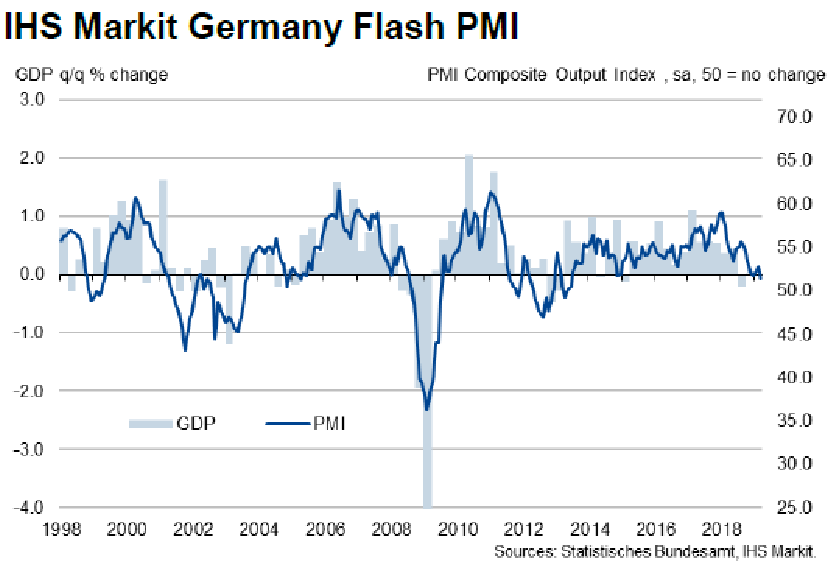
Declines in both output and new orders accelerated. The fall in new orders was driven by the largest decline in new export orders since Dec 2012. Output has now declined for two months in a row. In a sign of likely continued contraction, new orders are falling at a steeper rate and backlogs of orders fell to the largest extent since Dec 2012 also. Employment growth was marginal.

https://www.markiteconomics.com/Survey/PressRelease.mvc/4cefa382ccdb442abacb89f63243a682

Germany Prelim Composite PMI (Mar)

A larger than expected slow-down in private sector activity in Germany for Mar. Services activity continued to grow albeit at a slower pace, helping to offset the worsening contraction in manufacturing activity.

Composite PMI; Mar 51.5 versus Feb 52.8



<u>Services PMI Activity Index</u>; Mar 54.9 versus Feb 55.3

Business activity in the services sector slowed. New orders continued to grow at a faster pace. Employment growth continued to ease. Wage pressures continued to impact costs resulting in a steep increase in output costs.

<u>Manufacturing PMI</u>; Mar 44.7 versus Feb 47.6 (-2.9 %pts)

Manufacturing output contracted further (falling from 47.9 in Feb to 45 in Mar). New business/orders fell again, led by a further decline in new export orders. Firms cited delays to decision making due to uncertainty as well as weaker demand in the auto sector. Backlogs of orders recorded the steepest decline in ten years. Employment declined slightly for the first time in three years.

> "The domestic market remains strong, which continues to be reflected in wage pressures and robust growth across the services sector of the economy, but the question is whether it can withstand a protracted downturn in manufacturing. The first decrease in factory employment for three years is perhaps a warning sign for the health of domestic demand, with overall job creation now running at its lowest since May 2016."

https://www.markiteconomics.com/Survey/PressRelease.mvc/5b44eec864a24ca29ecd317e65e22ac8

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Japan

Trade Balance (Feb)

The slightly better export performance (a smaller decline than what was recorded in Jan) was driven by growth in exports to the two main export markets for Japan – China and the US. Imports were down mostly due to a larger fall in imports from China.

Imports declined across most categories. The larger declines in exports were recorded in electrical machinery and transport equipment. This was partly offset by growth in machinery and chemical exports.

All values in ¥.

Trade Balance (Surplus)

Trade surplus Feb 2019; 339bn versus the deficit from a year ago -13.8bn. In the month prior, the trade deficit was -1,415bn.

Despite the positive trade balance, both exports and imports declined again (versus a year ago);

Exports; Feb -1.2% versus Jan -8.4%

Imports; Feb -6.7% versus Jan -0.6%

Regional Drivers

Exports; the two largest markets for Japanese exports are the US and China and both markets out-performed the total export result.

Exports to the US grew by +2% while exports to China also grew by +5.5% (while total exports to Asia declined by -1.8%).

Other markets; exports to Western Europe declined by -3.8%, middle east by -10% and Oceania -14.2%

Imports; China is the single largest market for imports and imports from China declined by 16%. Imports from Asia declined by 10.6% overall. Imports from Western Europe declined by -1.4%. Imports from the US increased by 5%. Imports from the middle east also declined by -9%.

Category Drivers

Exports; the decline in exports was driven by two main categories; electrical machinery which contributed -0.9%pts to the decline (of which semi-conductors contributed -0.5% pts) and transport equipment which contributed -0.8% pts to the decline (motor vehicles made the largest contribution to the decline).

Imports; most categories contributed to the decline in imports for the month. The largest contributor to the decline was the value of imports of mineral fuels/petroleum (-1.5% pts), then chemicals -1% pt. Imports of machinery, electrical machinery manufactured goods, raw materials and food stuffs also all declined.

The import of transport equipment was the only category to grow in Feb and contributed +0.2% pts to the 6.7% decline in imports the month.

http://www.customs.go.jp/toukei/shinbun/trade-st_e/2019/2019024e.pdf

Industrial Production - Final (Jan)

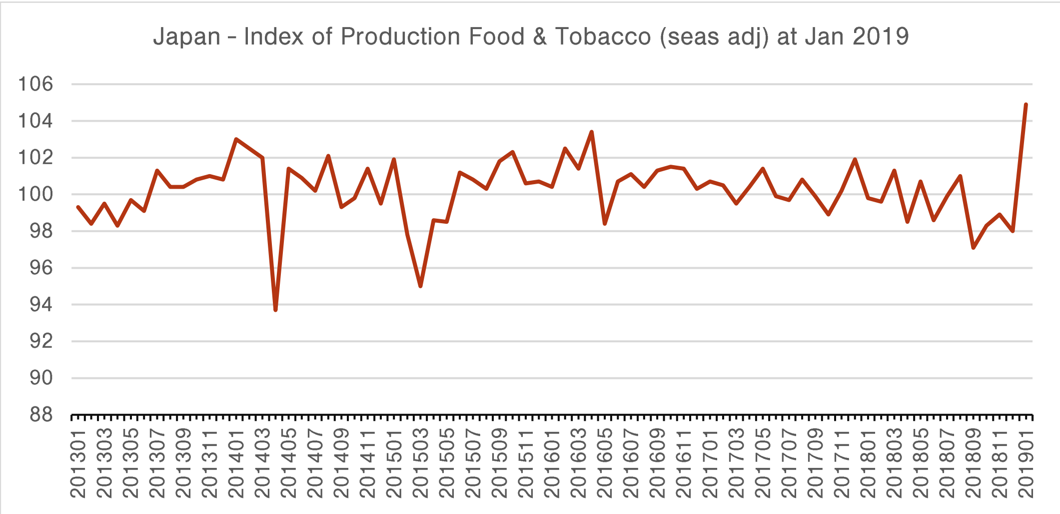
In the final report, industrial production was revised slightly higher at the total level – led by much larger growth (than usual) for production and shipments of food and tobacco (which is reported in the final release).

Industrial Production – monthly change

Production; Jan -3.4% (previous -3.7%) versus Dec -0.1%

Not much change to the results from the bigger categories except; electrical machinery and info & communication equipment revised lower.

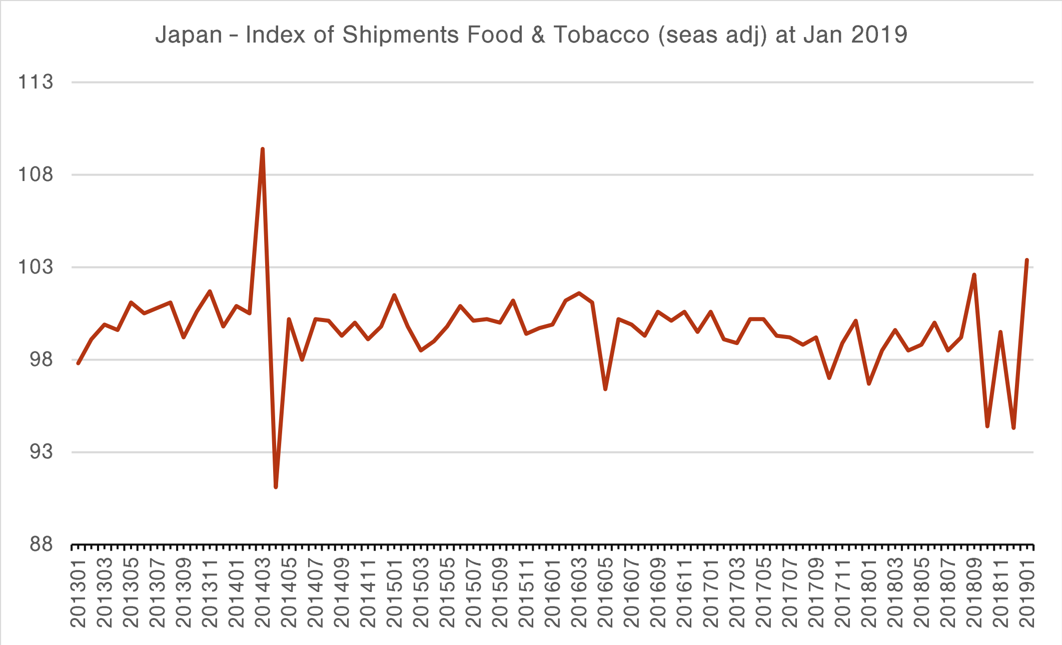
The final report included results for; Chemicals -1.8% and Foods & Tobacco +7%. Foods & Tobacco is approx. 13% of the production index – the other single largest group is Transport (approx. 17% of the index). The growth in Foods & Tobacco was abnormally large in Jan;



Shipments; Jan -3.4% (previous -4%) versus Dec 0%

Similarly, little change across some of the larger categories; Electrical machinery, and Information and communication electronics equipment and Information and communication electronics equipment was revised lower.

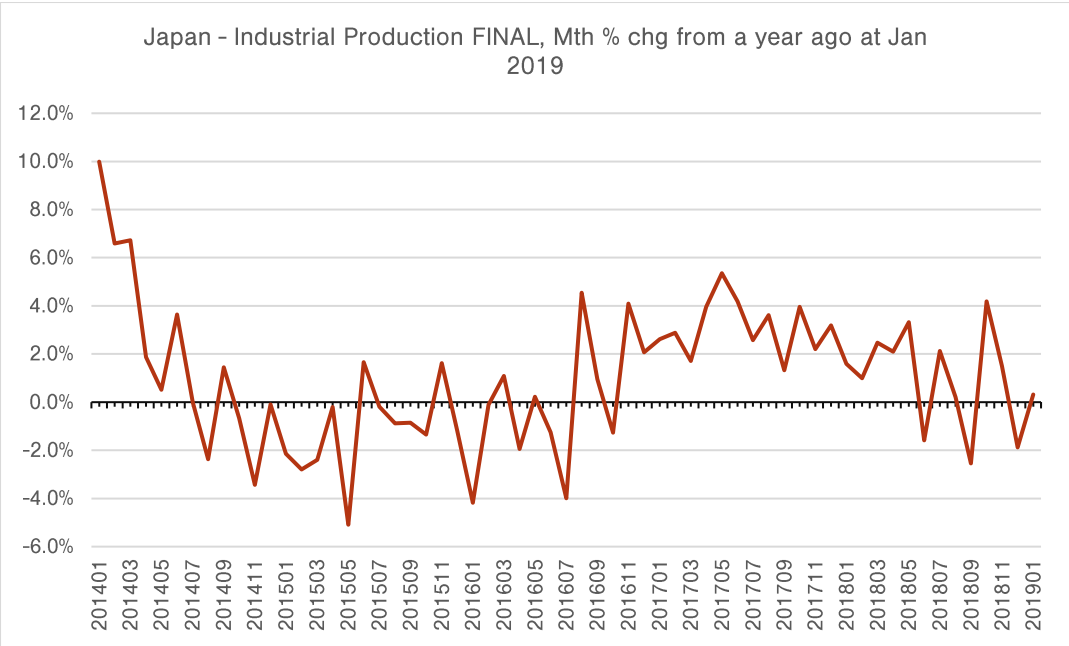
Final shipments results included (larger categories only); Chemicals -2%, Food & Tobacco +9.7%. The index of Food and Tobacco shipments has become more volatile over the last few months;



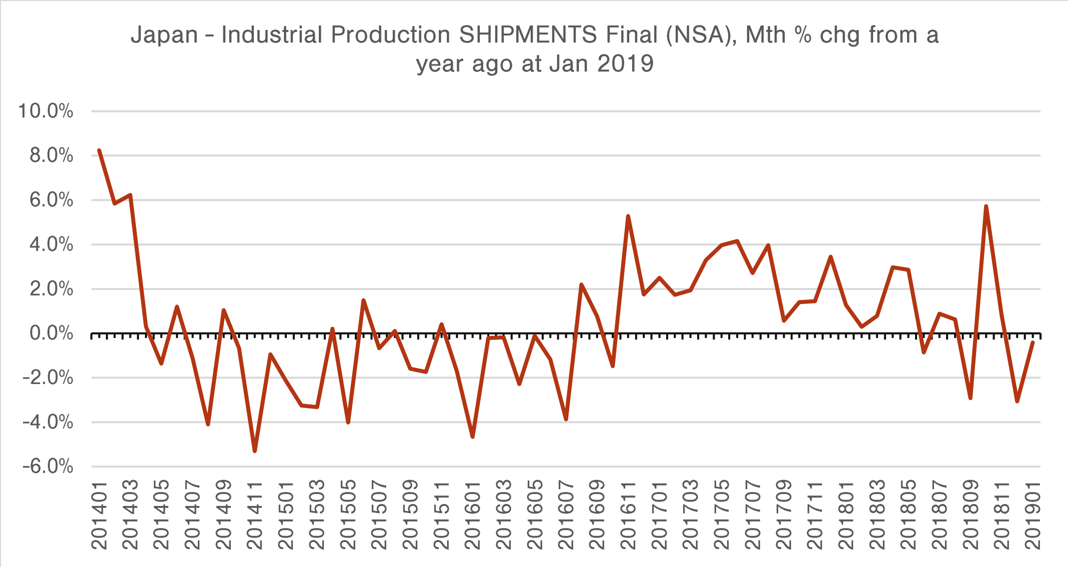
Inventory; Jan -1.4% (previous -1.5%) versus Dec +1.7%

<u>Industrial Production – annual change</u>

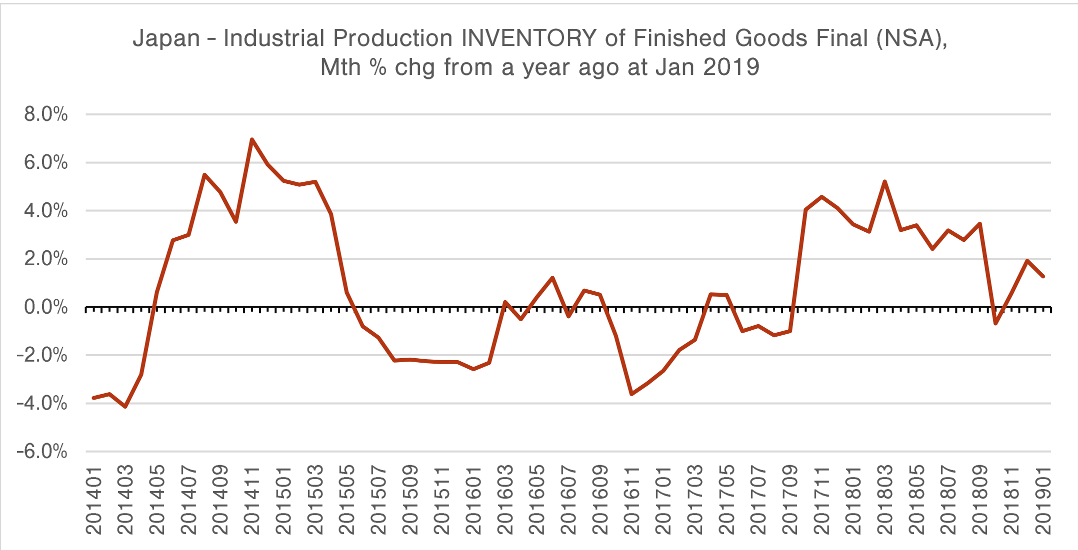
Total production; annual growth revised higher for Jan from 0% to +0.3% ahead of last year;



Total Shipments; revised higher from -0.9% to -0.4% below the same time a year ago;



Inventory growth was revised slightly higher from a year ago from +1.2% to +1.3% in Jan.



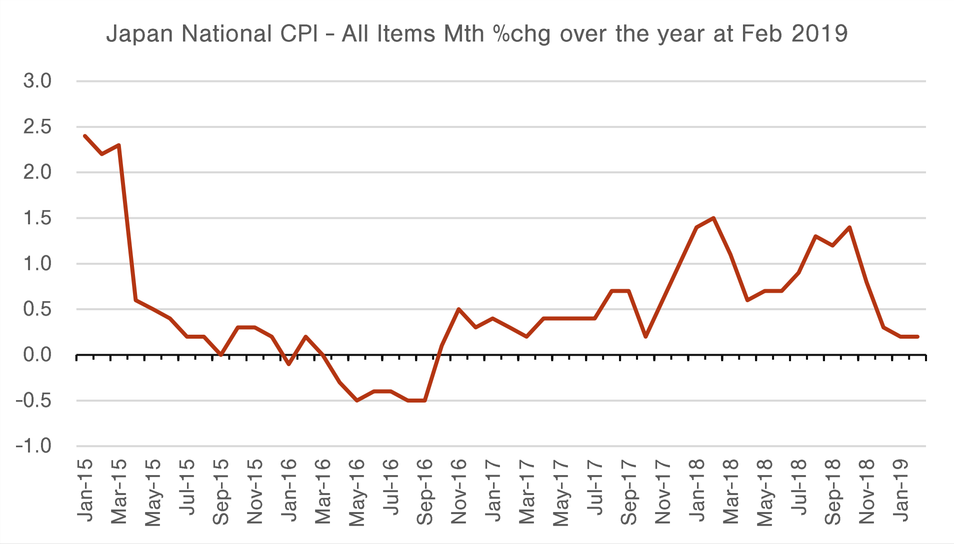
https://www.meti.go.jp/english/statistics/tyo/iip/index.html

CPI (Feb)

Growth in consumer prices remains low. Annual headline CPI growth was 0.2% while growth in the BoJ preferred measure of core CPI slowed to +0.7%, moving further away from the 2% target.

Headline CPI

Annual chg Feb +0.2% versus Jan +0.2%

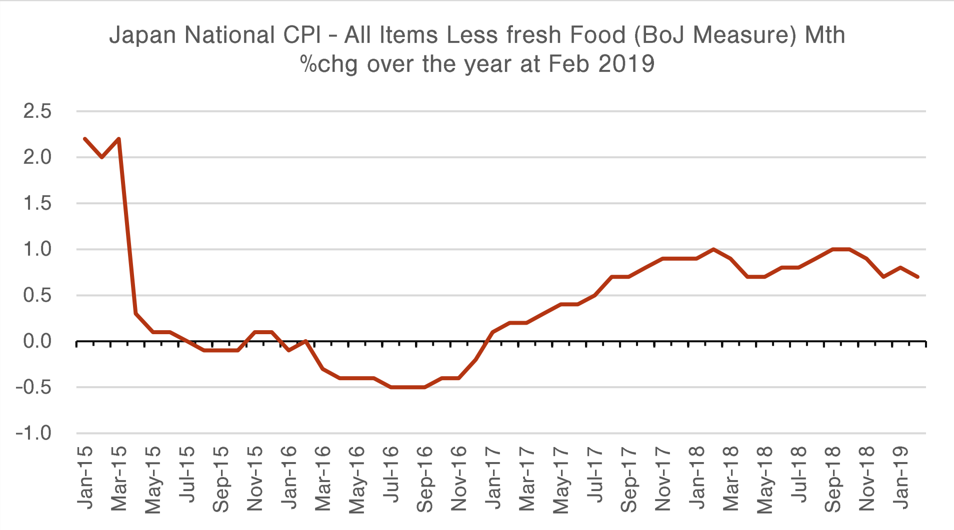


CPI Ex Fresh Food

The BoJ target measure is CPI ex fresh food. In Feb, annual growth slowed slightly;

Feb +0.7% versus Jan +0.8%

The BoJ target for inflation is 2%......



Fresh food prices continued to fall, hence exerting more downward pressure on the headline growth.

Fresh Food in Feb; -11% annual and -2.9% in the month

Food less fresh food prices grew by +0.6% in the year to Feb.

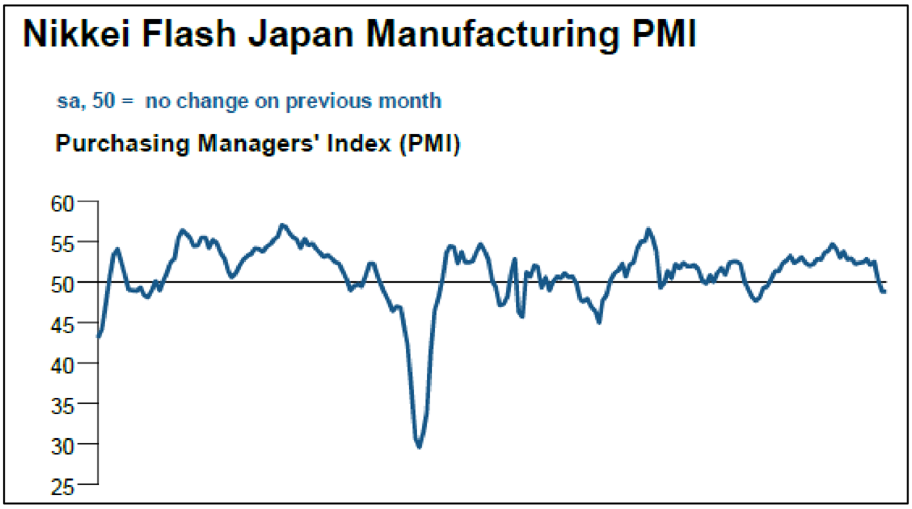
Energy prices continue to exert some pressure, growing at annual pace of +4.5% in Feb and by +0.4% in the month (after several months of decline).

https://www.stat.go.jp/english/data/cpi/1581-z.html

Prelim Manufacturing PMI (Mar)

The Japanese prelim manufacturing PMI showed that private sector manufacturing activity continued to decline/deteriorate in Mar. This was led by further cutbacks in production, continued falls in new orders and continued falls in new export orders.

Mar 48.9 versus Feb 48.9



Order backlogs continued to decline.

Employment continued to increase at a faster pace.

Input and output prices also increased at a faster pace – growth remains well below recent peaks.

https://www.markiteconomics.com/Survey/PressRelease.mvc/76605c1860f74556afa327ee927a777c

BoJ Monetary Policy Meeting Minutes – MPM 22 Jan 2019

The minutes mostly reflect the concerns of members over the volatility of the global stock markets in the preceding few months. At the time of the meeting, that volatility has settled down and there was optimism expressed at the slow-down in the pace of normalisation of US monetary policy.

Overseas; domestic demand had been maintained in many economies, but some signs of a slow down in Europe and China.

Risks; US-China trade frictions, political situation in Europe and relatively weak economic indicators in China

Domestic; an optimistic view of the Japanese economy was expressed. The Q3 weakness was seen as transitory with exports and industrial production improving. Financial conditions remained highly accommodative and inflation expectations were unchanged.

CPI growth remained positive but had shown “relatively weak developments compared to the economic expansion and labour market tightening”.

Members retain the expectation that prices will increase – the current rate influenced by lower oil prices;

> “Most members shared the view that the year-on-year rate of change in the CPI was likely to increase gradually toward 2 percent, mainly on the back of the output gap remaining positive and medium- to long-term inflation expectations rising. These members agreed that, comparing the current projections with those presented in the October 2018 Outlook Report, the projected rates of **increase in the CPI were lower, mainly for fiscal 2019, due primarily to the decline in crude oil prices**.”

On the conduct of monetary policy; although the achievement of price growth targets had been delayed, still appropriate to continue with ‘powerful monetary easing’.

http://www.boj.or.jp/en/mopo/mpmsche_minu/minu_2019/g190123.pdf

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United Kingdom

Brexit

An extension to Brexit has been approved, but it comes down to what happens this week in the UK Parliament. The actual date for the extension is contingent on what happens with the 3rd Parliamentary vote (or some other deal that the UK Parliament can agree upon that doesn't require renegotiation of the withdrawal agreement).

If the UK parliament approves the withdrawal agreement (which needs to happen almost immediately), then the deadline is extended to 22 May 2019.

If the deal is rejected, then the extension is reduced to 12 Apr 2019. This provides the UK with the option of;

> "…leaving the EU without a divorce deal and a new path, such as revoking the decision to leave the bloc, or calling another voter referendum on Brexit.
>
> Parliament may hold a series of votes this week to determine what Brexit proposals, if any, could command majority support."
> https://www.abc.net.au/news/2019-03-25/theresa-may-faces-heavy-pressure-to-step-down-to-save-brexit/10934986

The dates are important and revolve around the EU Parliamentary elections;

> "April 12 would be the deadline for the UK to register its intention to take part in the elections. Even though May has ruled this out, it would be a prerequisite if the UK were to end up seeking a longer Brexit extension. May 22 is the day before the elections. The EU is building a "cordon sanitaire" to ensure that Brexit does not contaminate its institutional integrity".

The options for the UK Parliament are unchanged;

> "…the withdrawal agreement will not be renegotiated, only the political declaration defining the terms of UK-EU post-Brexit relationship can be amended. A no-deal Brexit is not the preferred scenario, but the EU is ready for it."

http://theconversation.com/brexit-deadline-extended-why-brussels-chose-these-dates-and-what-happens-now-114050

Labour Market Survey (3months to Jan)

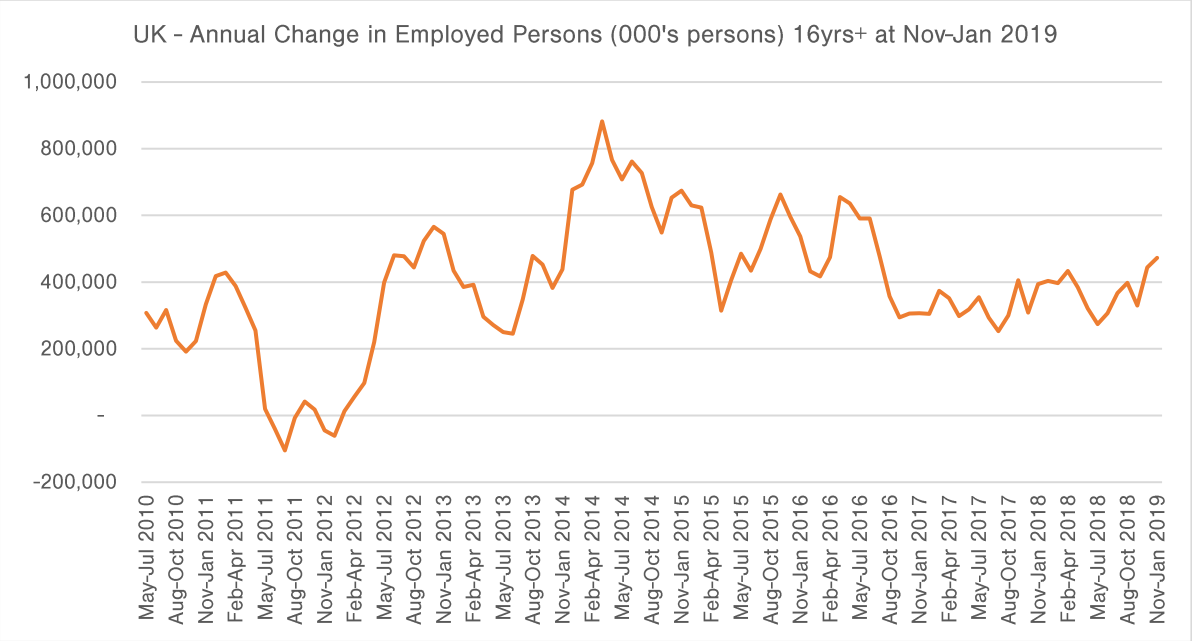
Two things stand out in this months' labour market survey – the continued increase in participation and the strong employment growth, especially on a monthly basis. The 16yrs + Labour Force Participation Rate (LFPR) is only -0.7% below the all-time high reached back in 89/90. The 16-64yrs LFPR continues to reach new all-time highs. In the face of Brexit, employment growth continues to accelerate with this growth in participation. As a result, the total number of unemployed persons continues to fall.

Employment Growth (16yrs+ age group)

Annual change; +472k persons

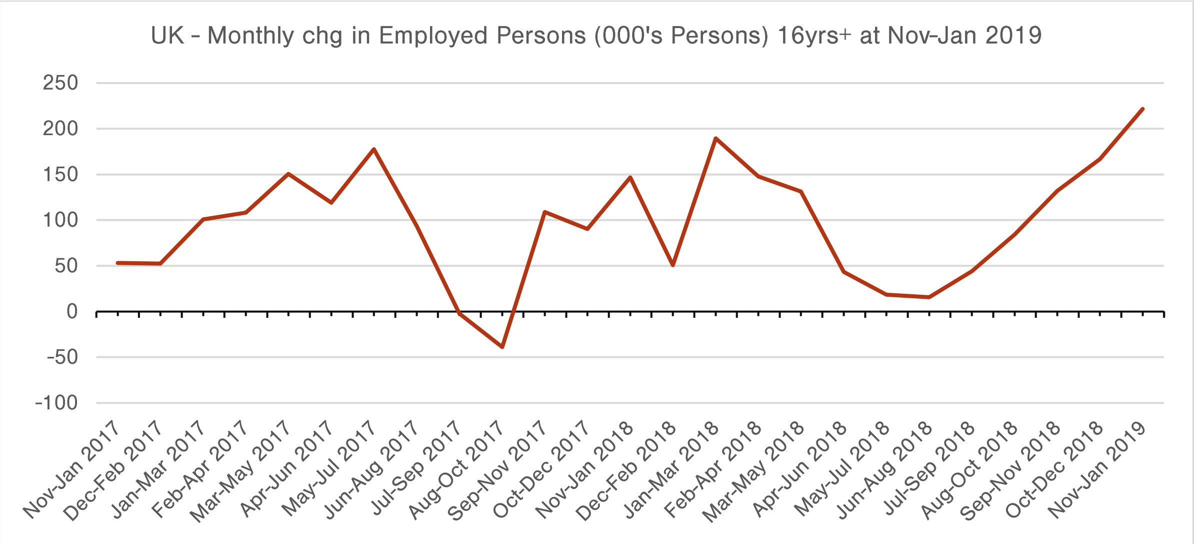
Most of this growth is FT employment +424k persons versus +49k persons PT employment growth.

This annual rate has been accelerating since mid-2018;



The monthly change in employment highlights the accelerating growth since mid-2018.

The 3mth chg (Nov-Jan); 222k persons



Importantly, the growth in employment continues to be faster/greater than the growth in the total labour force.

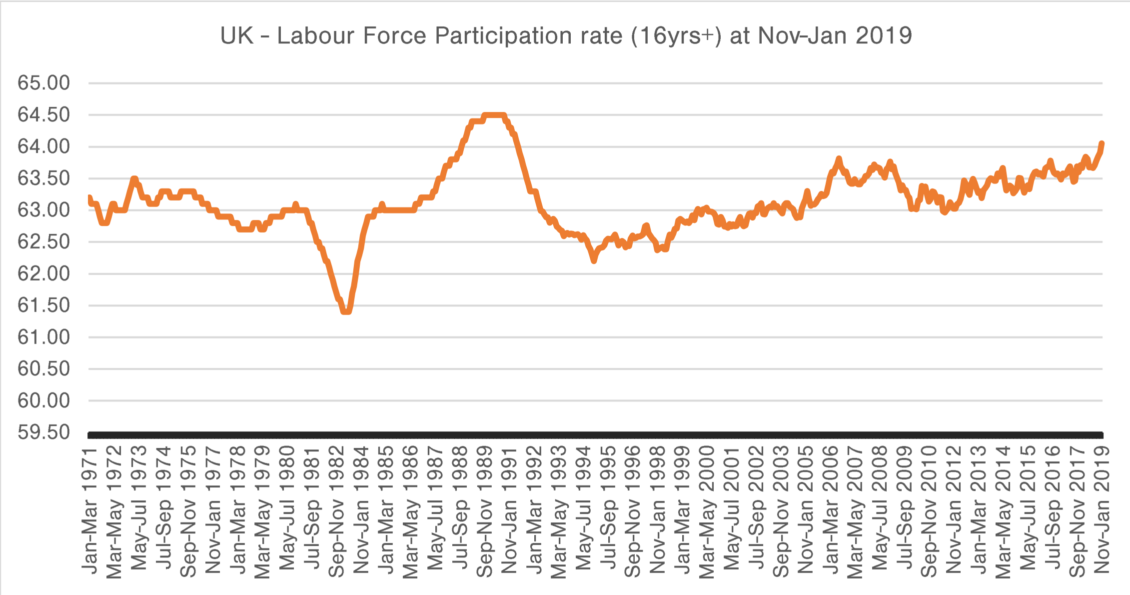
Total Labour Force Growth

The total labour force grew by +360k persons in Nov-Jan (annual rate). Making up this growth was the (estimated) growth of what population adds to the labour force (+178k persons) and what the change in participation adds/detracts from the labour force (+182k persons).

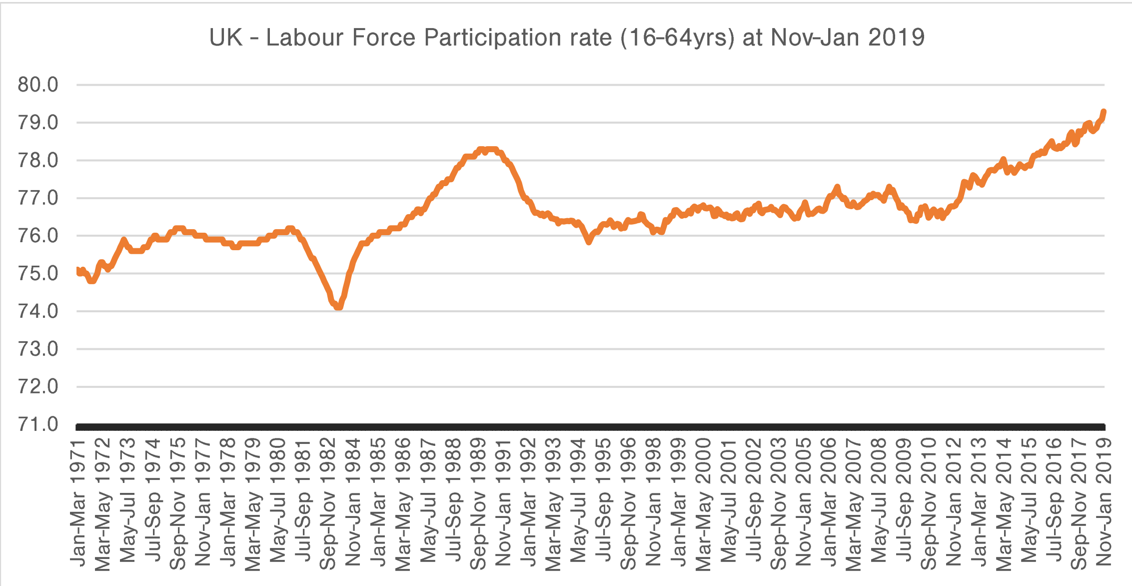
On a monthly basis, the size of the labour force grew by +186k persons – most of which (+143k persons) was due to the increase in participation.

Participation has grown by +0.34%pts over the last year and +0.27% pts over the last 3-month period.

The current labour force participation rate (LFPR) is 64.05% and is only -0.7% below the all time high reached in late 89/90;



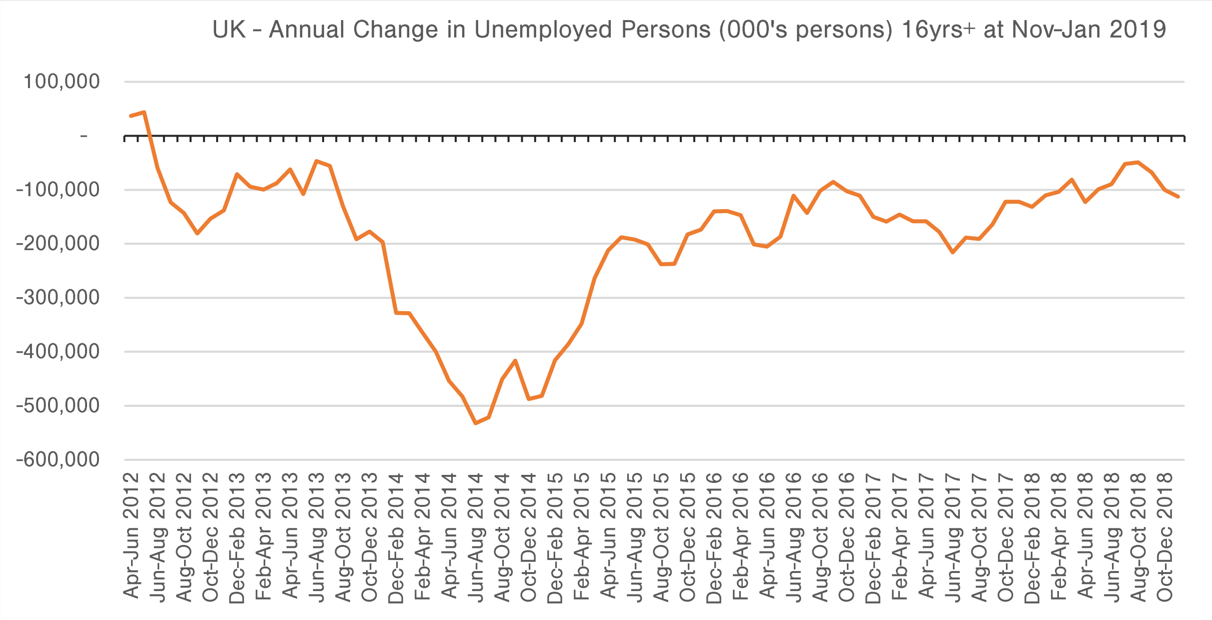
This increase in participation is similar for the 16-64yr age group – the LFPR reached another new all time high in Nov-Jan of 79.3%;



Despite these increases in participation, employment growth has been large enough to absorb this growth in the size of the labour force, resulting in further declines in total unemployed persons.

Total Unemployment

In Nov-Jan, the total number of unemployed persons declined by a further 112k persons (annual rate). In the latest 3-month period, total unemployed persons declined by -34k persons.



The decline in total unemployed persons isn't large relative to recent history but is still impressive given the large increases in participation.

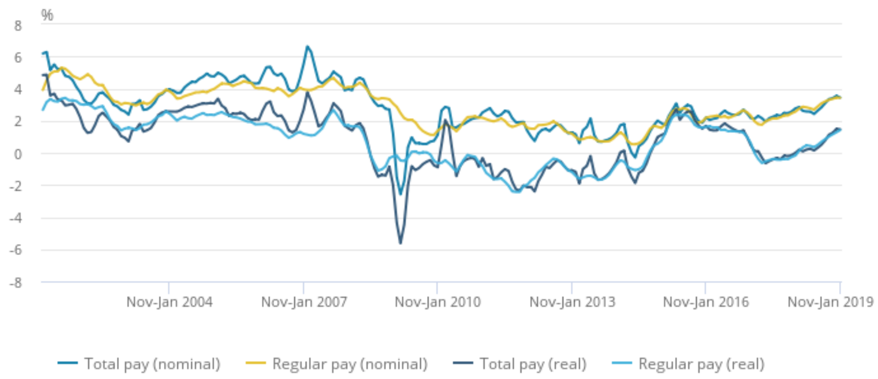
The unemployment rate fell from 4.1% in Aug-Oct to 3.9% in Nov-Jan 2019.

Earnings

Growth in total and regular pay continues to increase. Total pay grew (annual rate) by +3.4% in nominal terms and +1.5% in real terms at Nov-Jan 2019.

Figure 4: Pay for employees (including bonuses) increased by 1.5% on the year when adjusted for inflation

Great Britain average weekly earnings annual growth rates, seasonally adjusted, January to March 2001 to November 2018 to January 2019



Source: Office for National Statistics – Monthly Wages and Salaries Survey

Summary of the key labour market indicators;

Employment continues to grow faster than the what both population and large increases in participation have added to the labour force. As a result, the total number of unemployed persons continues to decline. The unemployment rate is falling and the LFPR is either at or close to all-time highs.

	16yrs+ (000's of persons)	
	Latest Qtr Chg Nov-Jan 2019	**ANN Chg Nov-Jan 2019**
Estimated change in the Labour Force due to pop growth (1)	43.675	178.322
How many jobs available for them? (employment growth) (2)	221.694	472.665
Difference; employment less est chg in labour force due to pop (3)	178.019	294.343
(if positive, then employment growing faster than pop)		
Change in the labour force due to the change in participation (4)	143.111	181.997
The remainder is the chg in total unemployed persons (4) less (3) - if neg, then unemployment decreasing	-34.908	-112.346
Different views of the Labour Force:		
Double check - change in total economically active (pop + participation)	186.786	360.319
Double check - change in total economically active (employ + unemp)	186.786	360.319
Actual economically active ann chg (as reported)	186.786	360.319

https://www.ons.gov.uk/surveys/informationforhouseholdsandindividuals/householdandindividualsurveys/labourforcesurvey

CPI (Feb)

The annual growth in the headline CPI (including owner occupier housing costs) remained unchanged in the latest month.

Overall price growth continues to moderate compared to the peaks in late 2017 (driven somewhat by a weaker GBP).

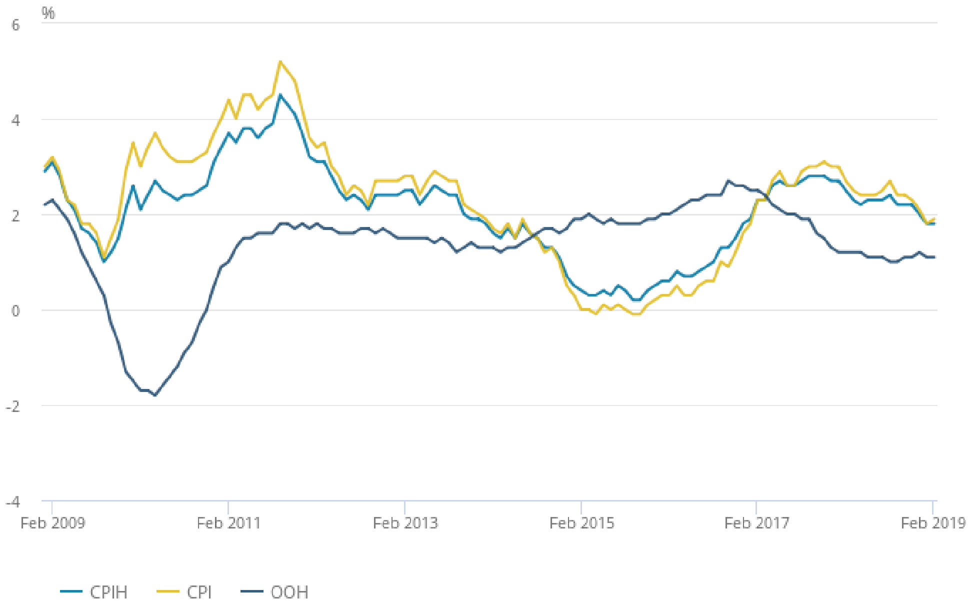
Core CPI shows that underlying consumer prices are growing in line with the headline CPI.

Headline CPI-H annual % chg; Feb +1.8% versus Jan +1.8%

The annual growth in Owner Occupier Housing costs remains constant at +1.1%

Figure 1: CPIH, OOH component and CPI 12-month rates for the last 10 years: February 2009 to February 2019

UK

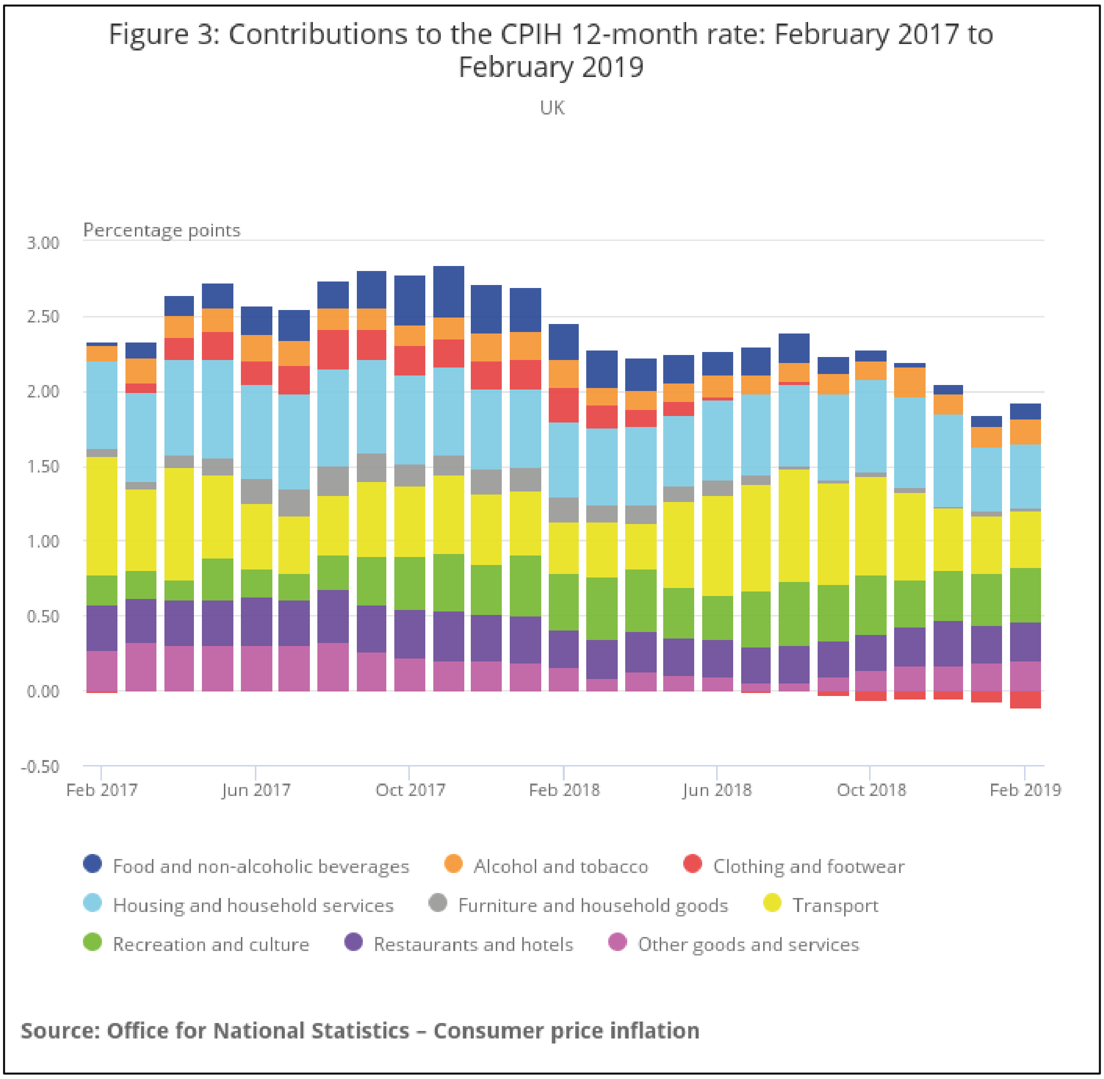


Source: Office for National Statistics – Consumer price inflation

The largest contributors to the current growth in CPI-H are;

Housing and Household Services, Transport, Recreation & Culture and Restaurants & Hotels.

Clothing and Footwear was the only category that detracted from CPI growth in the latest year.



One measure of core/underlying consumer price growth – CPI-H ex energy, food, alcoholic beverages and tobacco is growing in line with the headline rate of consumer price growth;

CPI-H ex- energy, food, alcoholic beverages and tobacco; Feb +1.8% versus Jan +1.8%.

https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/february2019

Retail Sales (Feb)

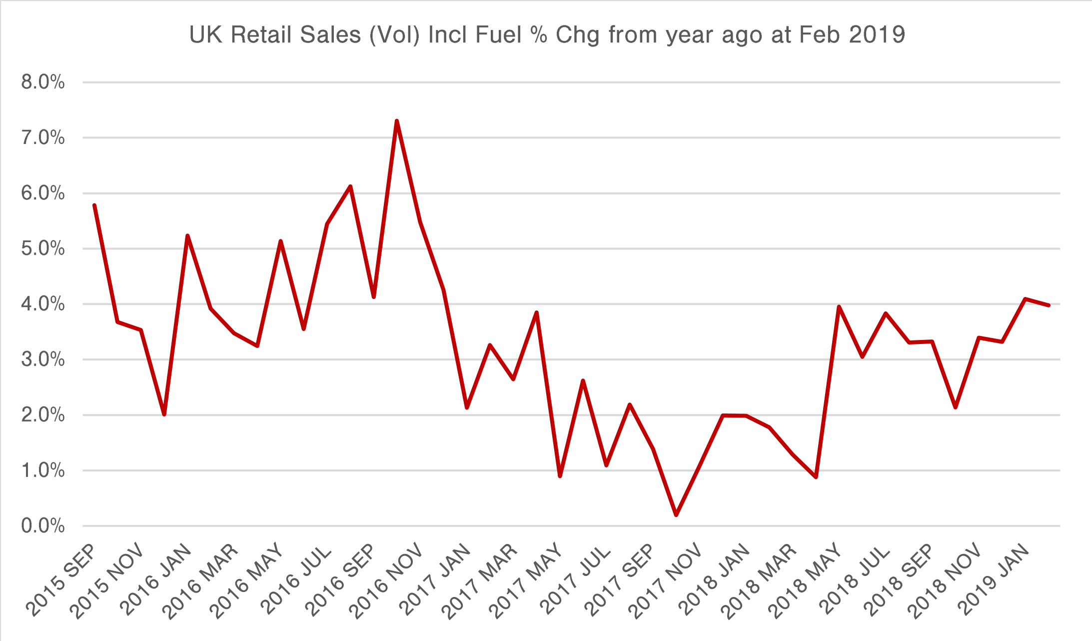
Retail sales in the UK continue to grow, albeit at a slower pace in the latest month. The main contributor to the slower growth was the decline in food store sales in the month.

Retail Sales (volume index) – incl Fuel

Month % chg; Feb +0.4% versus Jan +0.8%

Annual growth; Feb +4%

The general trend in retail sales growth remains moderate and constant;



Excluding fuel, retail sales growth has been more mixed. The Jan growth was stronger (than retail incl fuel) but Feb growth was weaker (data is volume-based).

Month % chg; Feb +0.2% versus Jan +1.1%

Annual growth; Feb +3.8%

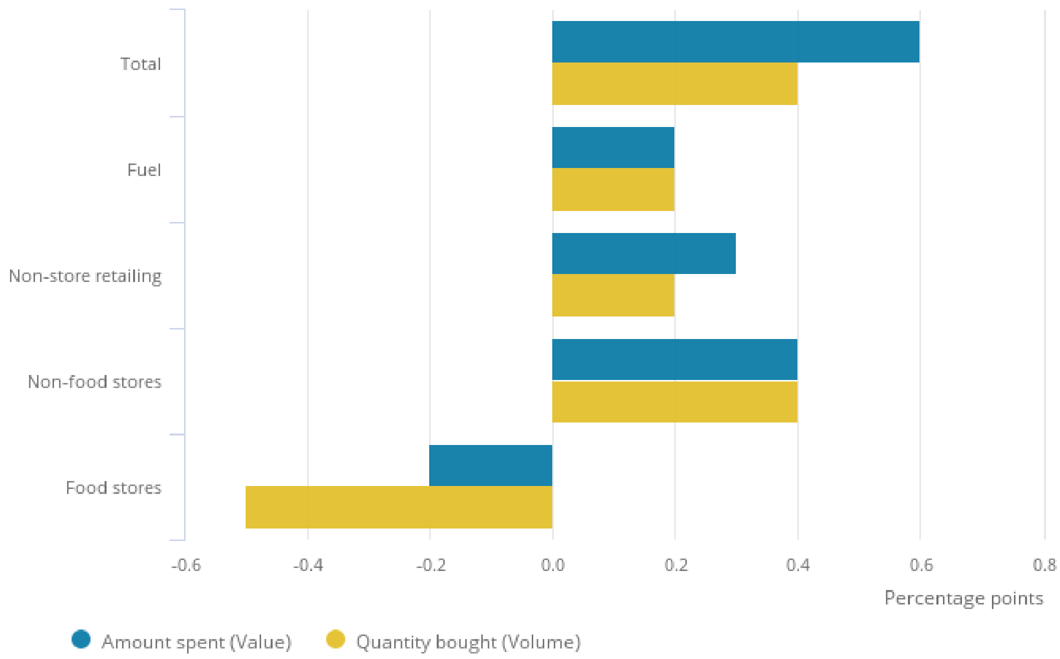
<u>Retail Sales by Category</u>

In the latest month, the volume growth in retail sales (+0.4%) was the result of growth in fuel, non-store retailers and non-food stores.

The decline in in Food Store sales detracted -0.5%pts from headline growth;

Figure 2: Non-food stores was the largest contributor towards the increase seen in February 2019 for quantity bought and amount spent

Contributions to month-on-month volume and value growth, four main sectors, Great Britain, February 2019 compared with January 2019



Source: Office for National Statistics - Monthly Business Survey - Retail Sales Inquiry

Food Store sales declined by -1.2% in the month of Feb. Retail sales in Supermarkets declined by 1%, Specialist Food Stores -3.2% and Alcohol Stores -5.3%.

Supermarket sales have the largest weight in the index.

The rolling 3month growth remains positive;

Table 2: Sector summary, February 2019
Seasonally adjusted, Great Britain

		Percentage change on previous month	Percentage change 3 month on 3 month	Annual Weight
		Quantity bought (volume)	**Quantity bought (volume)**	**Weight to RSI**
Predominantly food stores		-1.2	0.5	38.5
	Supermarkets	-1.0	0.4	35.8
	Specialist Food Stores	-3.2	0.4	2.1
	Alcohol Stores	-5.3	7.1	0.7

Source: Office for National Statistics

From the UK Office of National Statistics;

> "Feedback from supermarkets suggested that the fall was attributed to "going back to normal" as many January sales and promotions, following the festive period, ended in February."

https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/february2019

BoE Rates Decision – 21 Mar 2019

Rates remained on hold – the current bank rate is 0.75%. The most important issue for the setting of monetary policy in the near term is Brexit.

There were no changes to other monetary policy settings;

Maintain the current stock of sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, at £10 billion

Maintain the stock of UK government bond purchases, financed by the issuance of central bank reserves, at £435 billion

Outlook

The most important issue for the outlook is Brexit;

> "Brexit uncertainties also continue to weigh on confidence and short-term economic activity, notably business investment"

> "The economic outlook will continue to depend significantly on the nature and timing of EU withdrawal, in particular: the new trading arrangements between the European Union and the United Kingdom; whether the transition to them is abrupt or smooth; and how households, businesses and financial markets respond"

Likely path of rates - will depend on the form of Brexit and its effect on demand, supply and the exchange rate. The monetary response to Brexit "will not be automatic".

Inflation – somewhat weaker near-term outlook for inflation continues to play out. Inflation is expected to remain close to the 2% target.

Labour market – remains tight. Survey indicators suggest the outlook has softened.

Consumer spending – modest growth.

https://www.bankofengland.co.uk/monetary-policy-summary-and-minutes/2019/march-2019

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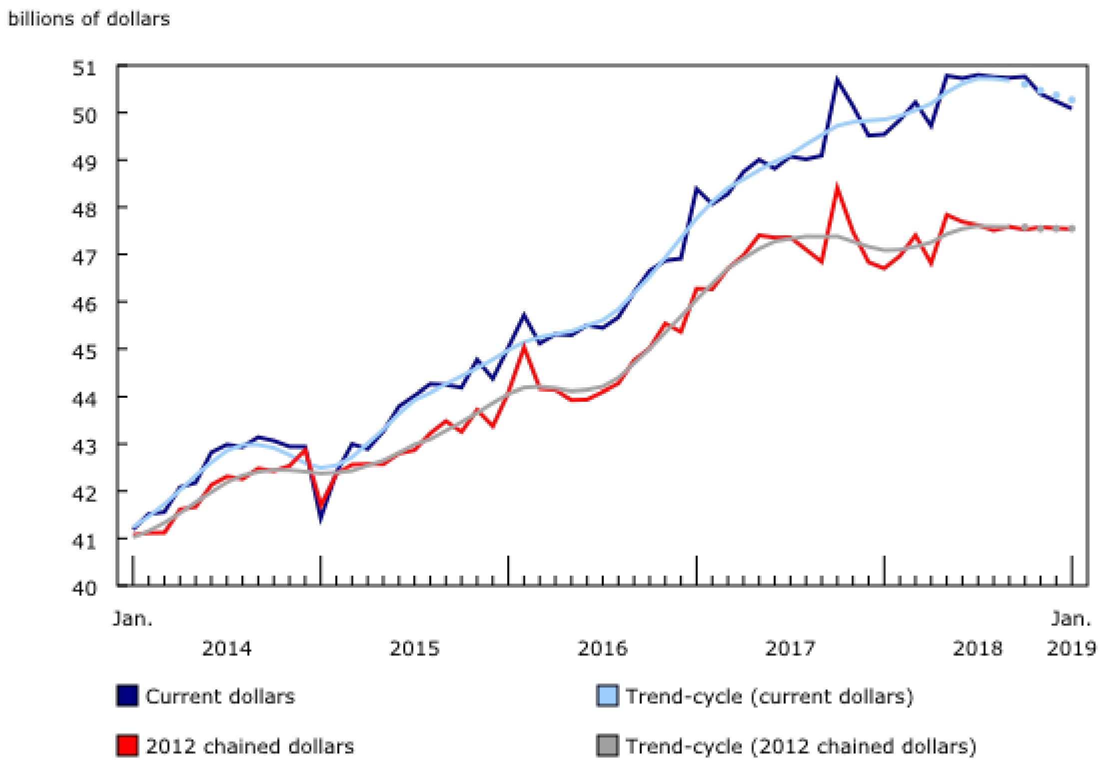
Canada

Retail Sales (Jan)

Retail sales growth stalled in Jan in real terms, growing at 0%. In value terms, retail sales declined for the third month in a row.

Total retail sales growth (real terms) – month % chg

Jan 0% versus Feb -0.2%



The flat growth in real retail sales in Jan was mostly the result of a decline Motor Vehicle and Parts Dealers (sale of new and used cars declined). Growth also slowed in the Food and Bev Stores sector.

This was partly offset by higher volume sales at gasoline stations (although value sales declined).

https://www150.statcan.gc.ca/n1/daily-quotidien/190322/dq190322b-eng.htm?indid=3660-1&indgeo=0

CPI (Feb)

The annual growth in the headline CPI grew at a slightly faster pace in Feb. The monthly change also grew at a faster pace. Higher annual growth in shelter and food contributed most to the growth, offsetting lower annual growth in energy prices. Growth in the BoC preferred measures of core CPI remained constant.

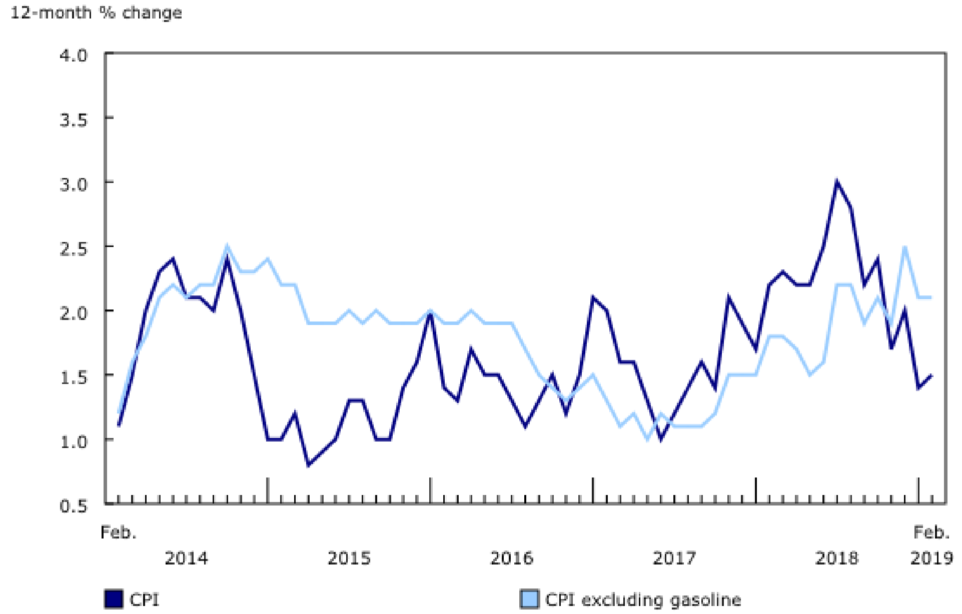
Annual headline CPI; Feb +1.5% versus Jan +1.4%

Monthly chg – headline CPI; Feb +0.3% versus Jan -0.1%

Excluding energy, annual CPI growth was higher and remained unchanged at 2.1% in Feb. The annual change in Energy prices was -5.7% in Feb.

CPI ex Gasoline; Feb +2.1%

CPI ex Energy; Feb +2.1%



The BoC preferred measures of core CPI remain mostly unchanged. Measures of core CPI continue to grow at a constant pace;

CPI – Common; Feb +1.8% versus Jan +1.9%

CPI – Median; Feb +1.8% versus Jan +1.8%

CPI Trim; Feb +1.9% versus Jan +1.9%

Main Contributors to the annual change in the CPI:

Main contributors to the 12-month and 1-month change in the Consumer Price Index

	February 2018 to February 2019
	% change
Main contributors to the 12-month change	
Main upward contributors	
Mortgage interest cost	8.1
Passenger vehicle insurance premiums	6.3
Fresh vegetables	14.3
Rent	2.5
Food purchased from restaurants	2.7
Main downward contributors	
Gasoline	-11.9
Internet access services	-9.2
Traveller accommodation	-4.7
Travel tours	-3.4
Digital computing equipment and devices	-4.7

https://www150.statcan.gc.ca/n1/daily-quotidien/190322/dq190322a-eng.htm?HPA=1

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Australia

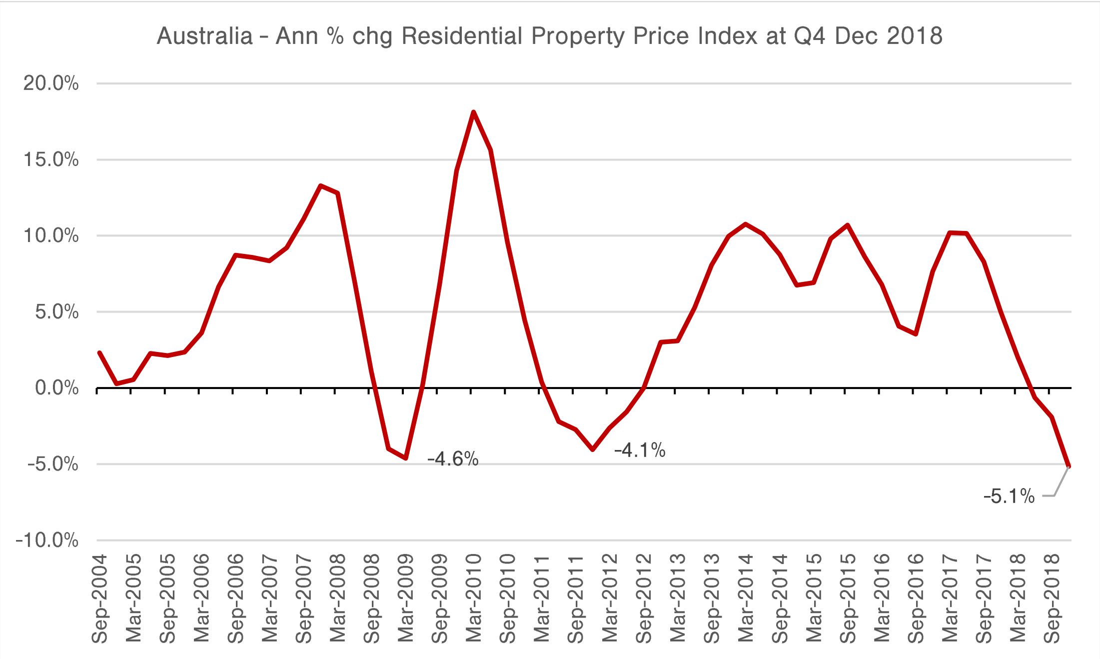
House Price Index Q4

House prices in Australia continued to decline in Q4 with the decline accelerating at a National level.

Headline growth – Residential Property Price Index

Q4 v Q3; -2.4%

Annual change at Q4; -5.1%



The rate of decline is now faster than that of the two previous periods of weakness – the GFC and the end of the mining investment boom. The most obvious point about this is the different context. By the time house price declines had reached these levels in '09 and '11, both monetary and fiscal policy responses were well underway.

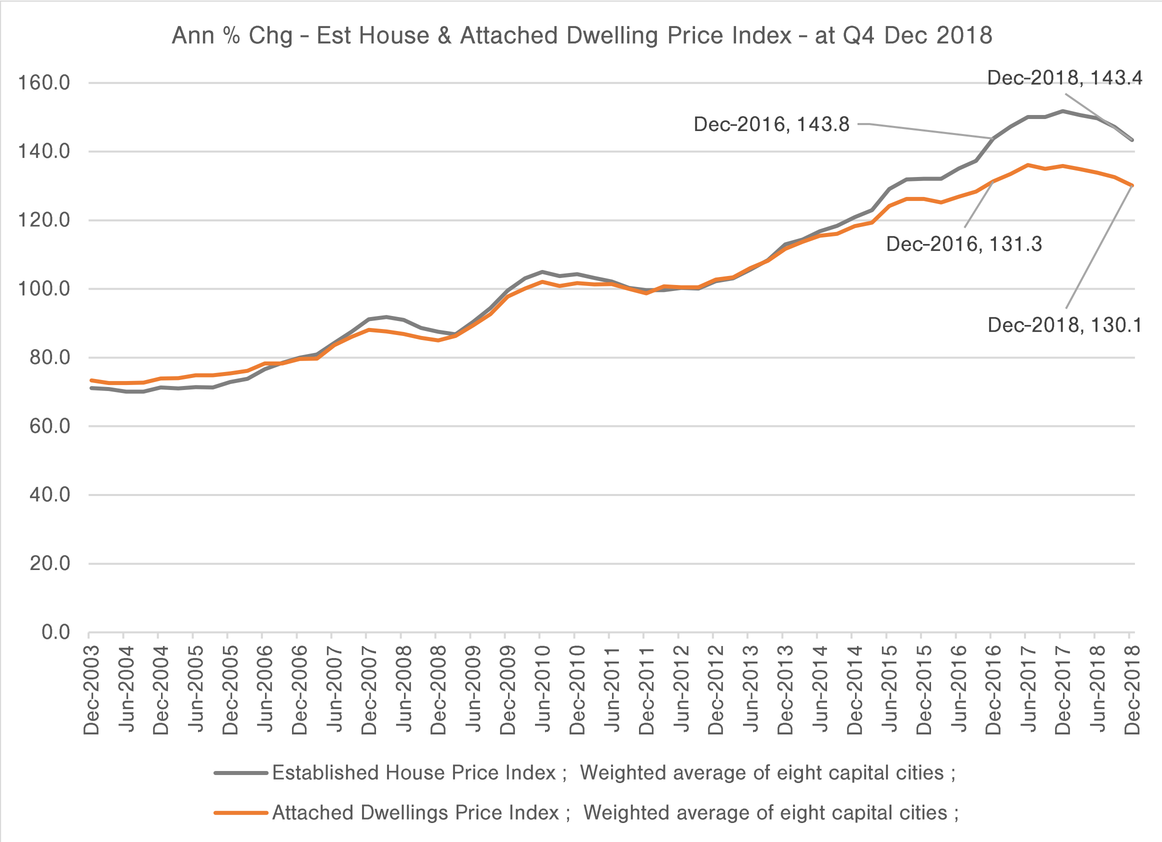
For the moment, there is a chance that some fiscal stimulus may be announced in the April budget. The composition of that stimulus is unknown and the implementation of such measures would still be subject to the timing and outcome of the Federal election (likely, but not confirmed, to be in May).

Unless there is a material deterioration in say the labour market, a speech this week by RBA Asst Governor Michelle Bullock (source: https://www.rba.gov.au/speeches/2019/sp-ag-2019-03-20.html), suggests that the RBA isn't concerned about the current falls, at least from a financial stability perspective (emphasis added);

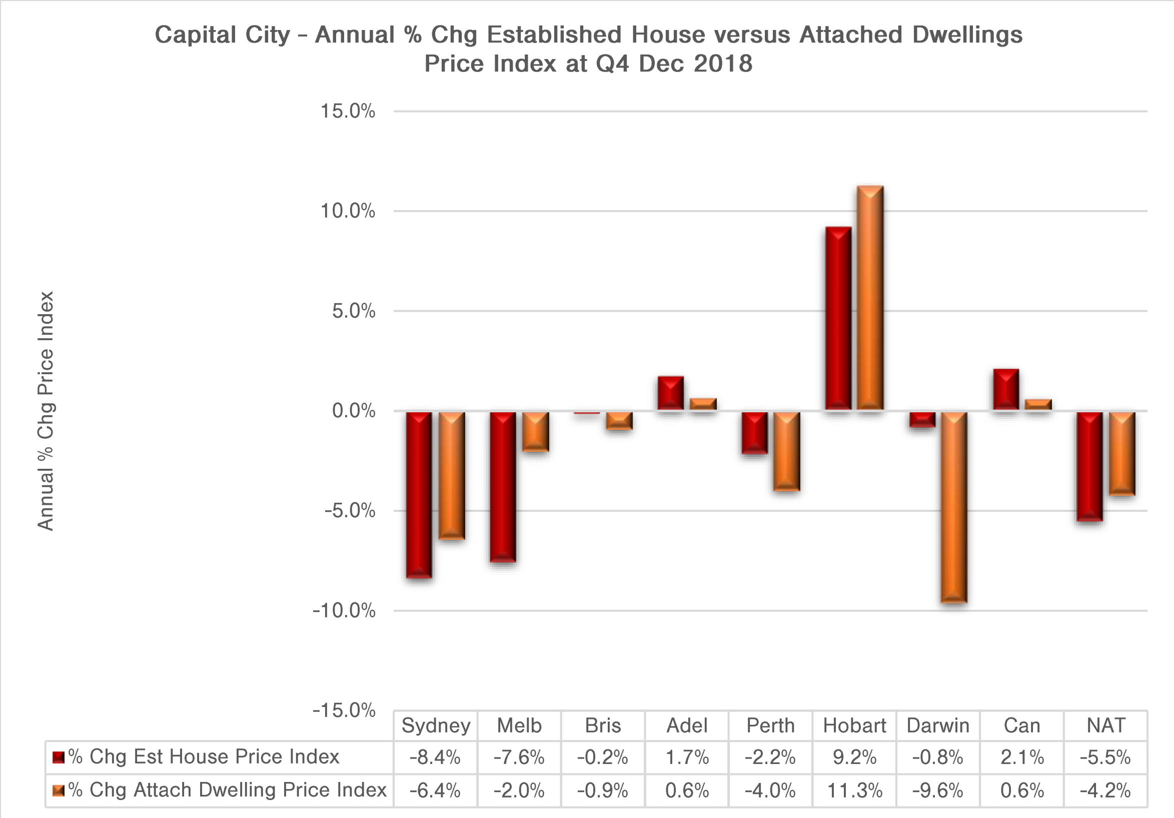
> "The question we are asking ourselves is, given the high levels of debt and falling housing prices, are there any significant implications for financial stability? The answer would be no at this stage – **the impacts are not large**

enough to result in widespread problems in the financial sector. This is not to downplay the financial stress that some households are experiencing. But most of the debt remains well secured against property, even with the decline in housing prices."

From an index perspective, prices have retraced back to Dec 2016 levels Nationally;

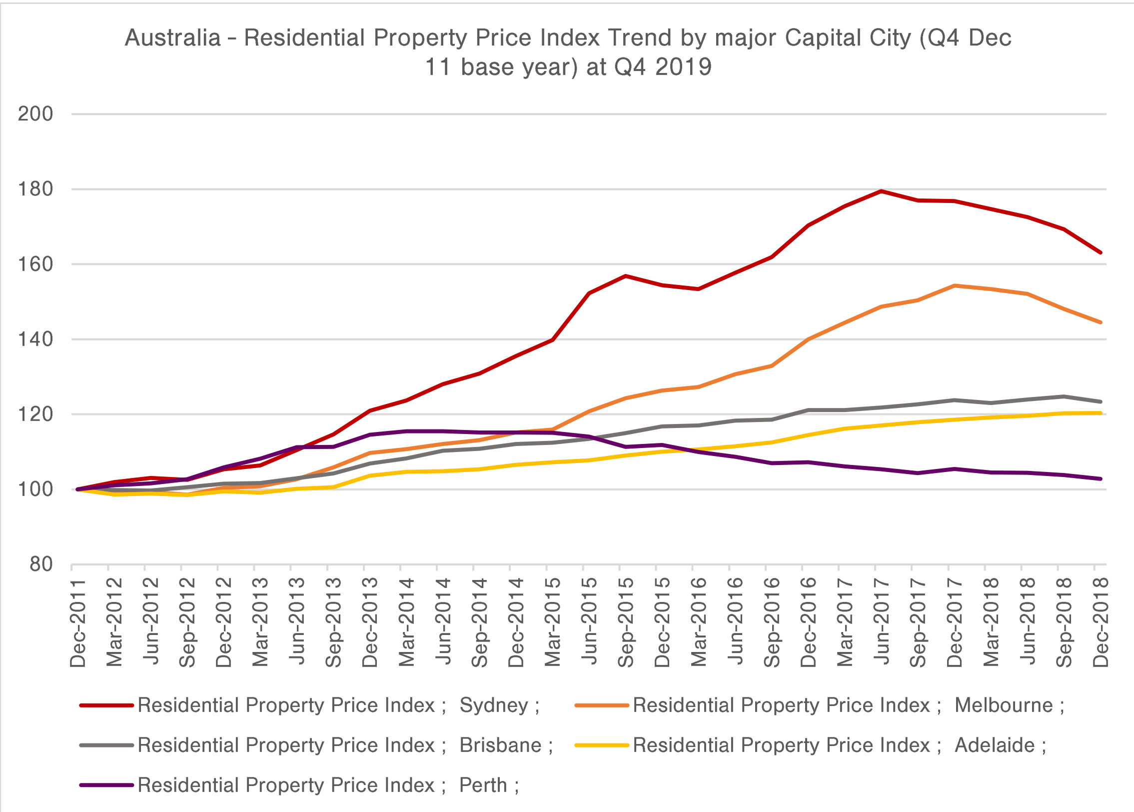


On a state basis, the larger falls have occurred in Sydney and Melbourne (40% of the index).



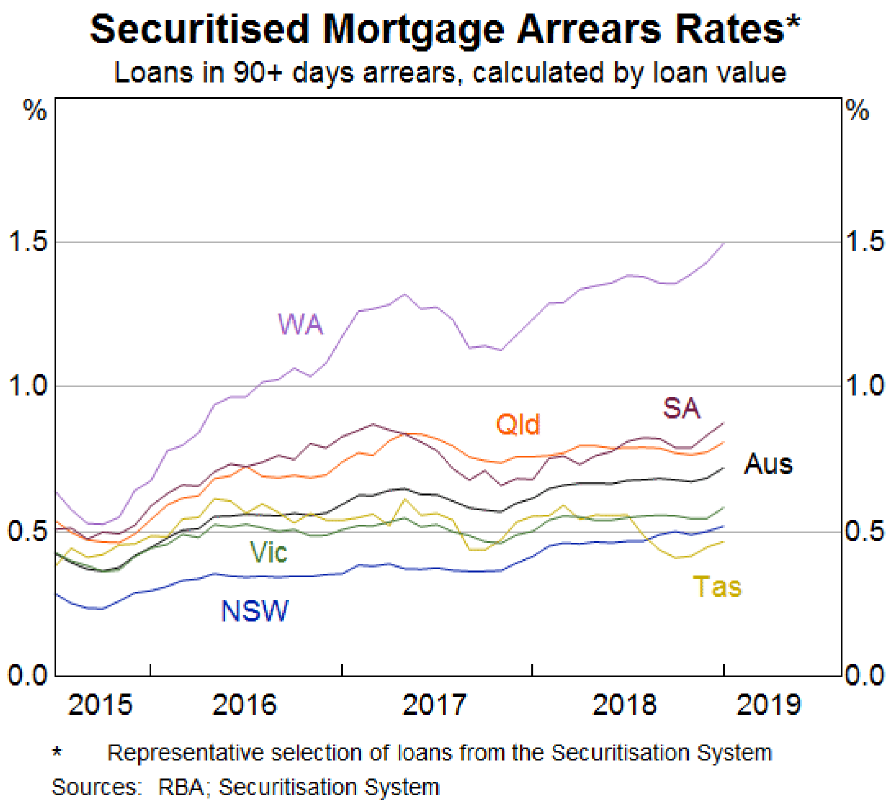
	Sydney	Melb	Bris	Adel	Perth	Hobart	Darwin	Can	NAT
% Chg Est House Price Index	-8.4%	-7.6%	-0.2%	1.7%	-2.2%	9.2%	-0.8%	2.1%	-5.5%
% Chg Attach Dwelling Price Index	-6.4%	-2.0%	-0.9%	0.6%	-4.0%	11.3%	-9.6%	0.6%	-4.2%

The annual chart (above) hides the under/over-performance of some states. House price growth in markets such as Brisbane, Adelaide and Perth remain well below that of Sydney and Melbourne (using Dec Q4 2011 as a base year).



This partly explains why there has been lower/little change/decline in prices in markets such as Adelaide, Brisbane and Perth - these markets didn't partake in the rally.

Another chart in this weeks RBA speech caught my eye – mortgage arrears by state. The three states/markets that didn't see as much price growth (Perth (WA), Adelaide (SA) and Brisbane (QLD) are experiencing higher than National average rates of arrears. All markets are ahead of 2015 levels except for Tas.



https://www.abs.gov.au/AUSSTATS/abs@.nsf/ProductsbyCatalogue/510D8915596EEFE9CA257F1B001B0107?OpenDocument

https://www.rba.gov.au/speeches/2019/sp-ag-2019-03-20.html

Labour Market Survey (Feb)

On an annual basis, the latest survey results still reflect robust labour market conditions. Changes in the monthly trends are worth noting though. Employment growth continues to slow on a monthly basis. In Feb, that lower employment growth was slightly below the growth in the size of the labour force (which grew at a faster pace) resulting in a small increase in total unemployed persons. The unemployment rate remained unchanged.

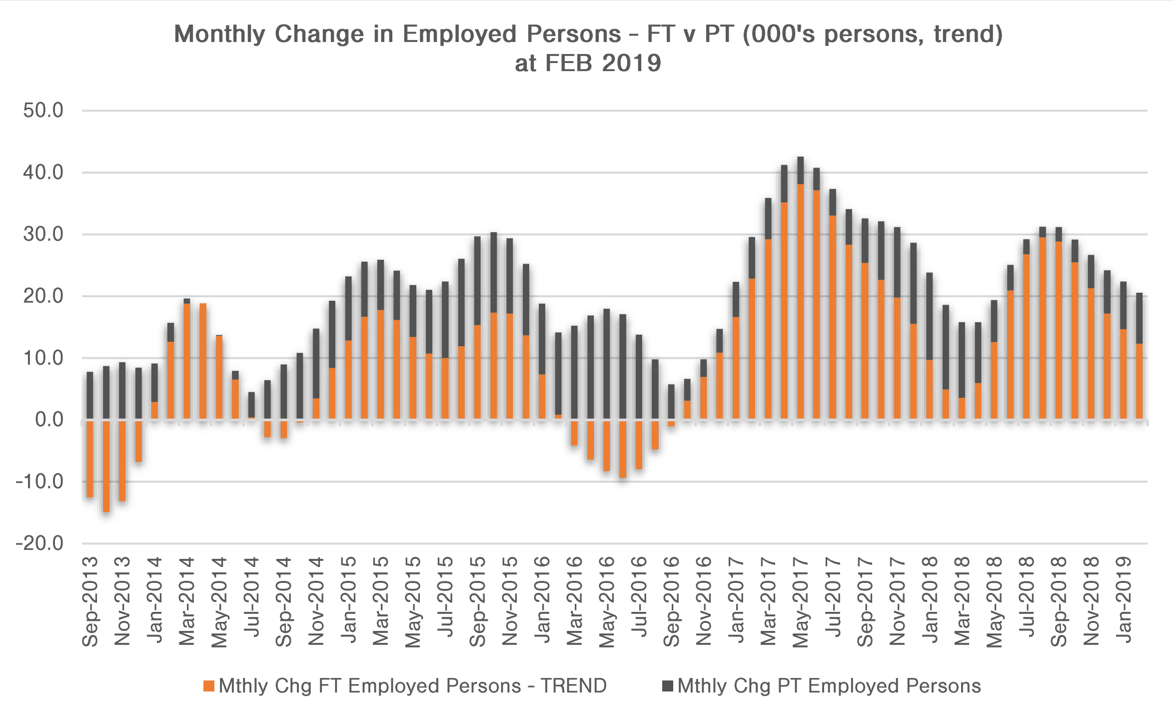
A reminder, that this analysis uses the 'trend' estimate of employment data as recommended by the Aus Bureau of Stats – this will differ to the seasonally adjusted figures widely reported.

Employment Growth

Annual employment growth; Feb 290k versus Jan 289k persons

Month Chg; Feb +20k versus Jan 22k persons

The monthly change in employed persons has been slowing over the last five months, led by slower growth in FT employed persons;



One barometer of 'what is enough employment growth?" is when employment grows faster than the size of the total labour force – resulting in declining unemployment.

One of two views of the labour force that is useful; what population growth adds to the labour force plus what changes in participation add/detract to/from the labour force. If employment is growing faster than both measures together, unemployment falls.

Employment growth has been slowing since Sept 2018 but has mostly remained above the growth of the labour force – hence unemployment has been declining.

But this is now the second month where employment growth has dropped below the growth in the size of the total labour force.

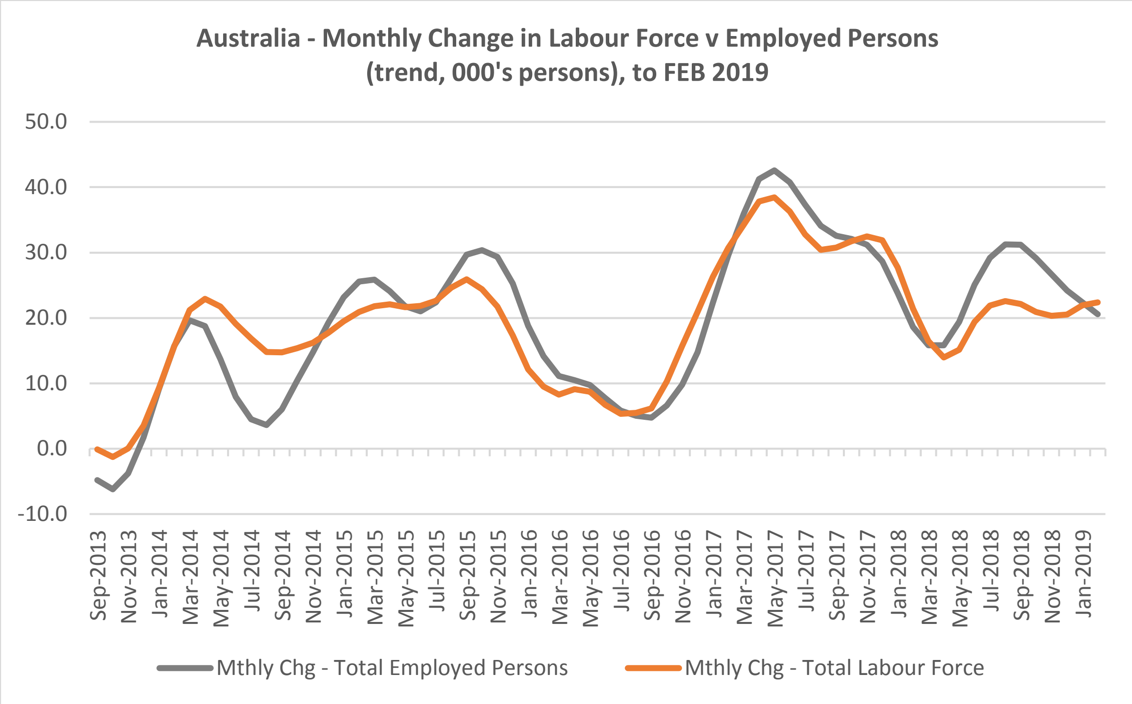
<u>Labour Force Growth</u>

On an annual basis, the size of the labour force has grown by +237k persons in Feb (obviously < employment growth of +290k persons).

This was made up of the projected change in the labour force due to population growth of approx. 237k persons, plus, virtually no change in participation on an annual basis (+0.2k persons annual).

On a monthly basis, the size of the labour force grew by 22.4k persons, including a small decline in participation.

The chart below brings together both employment and total labour market growth by month – this is now the second month where employment growth has slowed to either equal or below that of the labour force.



The difference equals the increase in the number of unemployed persons.

<u>Total Unemployed Persons</u>

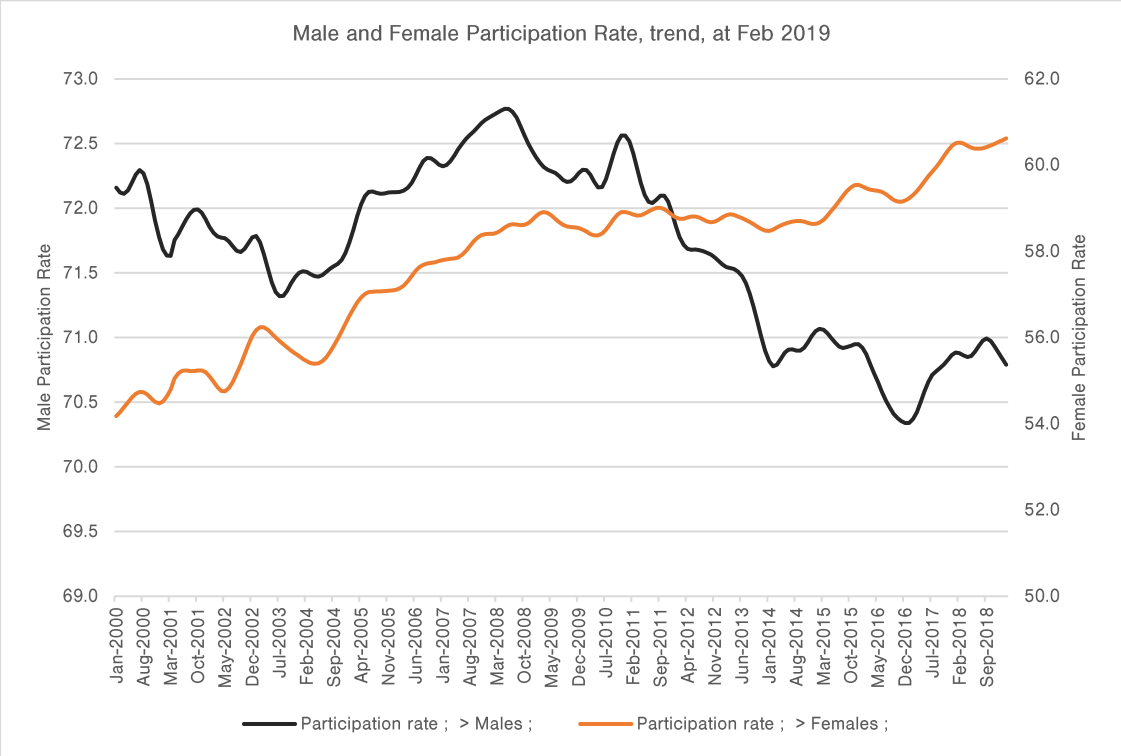
On an annual basis, total unemployed persons declined by 53k persons (+290k employment growth minus +237k labour force growth – employment is growing faster than the labour force).

On a monthly basis, total unemployed persons increased slightly by +1.8k persons.

As the size of the labour force increased proportionally to the number of unemployed persons, the unemployment rate remained unchanged at 5%.

Participation

The participation rate has been flat overall versus a year ago but start declining again in the last two months. The increase in female participation has been more than offset by the decline in male participation;



Summary of key indicators;

On an annual basis, employment continues to grow faster than what both population and participation adds to the labour force. This has resulted in a continued decline in total unemployed persons.

On a monthly basis, the trend appears to have shifted. Employment growth is no longer larger than what population growth adds to the labour force. This was moderated by a fall in participation. If participation had continued to increase, then the resulting increase in total unemployed persons would have been larger.

	000's Persons	
	Annual Chg - FEB	Month Chg - FEB
The estimated change in the Labour Force due to pop growth	237.314	23.357
How many jobs available for them? (employment growth)	290.734	20.573
Difference (if positive, employment growing faster than pop est)	53.421	-2.784
Change in labour force due to the change in participation	0.210	-0.974
The reminder is the change in total unemployed persons	-53.211	1.811
Double Check - Annual chg in size of the Labour Force	237.523	22.385
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	237.523	22.383
Total employed persons plus total unemployed persons	237.523	22.383

https://www.abs.gov.au/AUSSTATS/abs@.nsf/DetailsPage/6202.0Feb%202019?OpenDocument

RBA Minutes – Meeting 5 Mar 2019

The key statement remains; "members assessed that the current stance of monetary policy was supporting jobs growth and a gradual lift in inflation".

This statement is now qualified by a further consideration that uncertainties around the next move in rates – increase or decrease were more evenly balanced. This has shifted from the stance that the next move in rates was likely to be up.

Key issues for the Australian economy remain external risk factors (US-China trade etc) as well as slower domestic demand and the impact of the slowing housing market on household consumption and construction. The heightened uncertainty stems from the domestic market.

GDP growth had surprised to the downside in Q3 (and remained lower in Q4 – which was unknown at the time of this meeting).

The RBA signalled that developments in the labour market were important (emphasis added);

> "…the sustained low level of interest rates over recent years had been supporting economic activity and had allowed for gradual progress to be made in reducing the unemployment rate and returning inflation towards the midpoint of the target
>
> Looking forward, the central forecast scenario was still for growth in GDP of around 3 per cent over 2019 and a further decline in the unemployment rate to 4¾ per cent over the next couple of years.
>
> **This further reduction in spare capacity underpinned the forecast of a gradual pick-up in wage pressures and inflation. Given this, members agreed that developments in the labour market were particularly important."**

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2019/2019-03-05.html#considerations-for-monetary-policy

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Trade

US-China Trade Negotiations

The next round of trade negotiations will take place from 28 Mar. USTR Lighthizer and Treasury Secretary Mnuchin will travel to Beijing. This has been confirmed in a statement by the White House.

The White House statement also indicated that Chinese Vice Premier Lui He will visit Washington on 3 April for further talks.

> "President Donald Trump said on Friday the negotiations with China were progressing and a final agreement seemed probable, as the world's two largest economies seek to ease tensions from an eight-month-old trade war."
> https://www.reuters.com/article/us-usa-trade-china/u-s-s-lighthizer-mnuchin-to-travel-to-china-for-trade-talks-white-house-idUSKCN1R40N8

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

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).

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