

Key Themes

A big week of US data, with the FOMC rates decision, employment and non-farm payrolls and PMI's for Apr.

Personal Income and Outlays and the PCE price index data will round out the Q1 view of consumption activity. We've been tracking slower spending growth and higher savings rates so far in 2019, with stronger growth in retail sales in Mar.

Another data point to watch this week will be whether the higher growth in US motor vehicle sales has continued in Apr.

PMI's for China manufacturing, and services activity will be released this week – looking for whether the recovery in activity has continued into Apr.

UK – BoE rates decision due this week along with the PMI's for Apr. This will provide an early insight into the impact on the UK economy, so far, of postponing Brexit (after preparations were put in place for 29 Mar exit). Talks between the UK Government and the Labour party will continue this week, but it is unlikely that there will be another vote in Parliament on Brexit this week.

Q1 GDP for the Eurozone will be released along with the final PMI's for Apr. Prelim data, especially for manufacturing activity showed continued weakness across the Eurozone into Apr.

US Treasury supply will be heavier this week. The US Treasury will settle approx. \$310bn in ST bills and notes, raising approx. \$37bn in new cash this week (after several weeks of paydowns). It's also month end and \$31.7bn in securities on the Fed balance sheet will mature and approx. \$1.9bn in principal payments will be reinvested. Next month, the cap on reinvestments will be lowered to \$15bn until the end of Sep 2019.

Trade talks between the US and China continue this week with plans to finalise details of a trade deal. At the same time, awaiting further details on the next round of talks between the US and Japan, as well as the commencement of talks between the US and EU.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US Treasury supply will be heavier this week.

The US Treasury will settle approx. \$310bn in ST bills and notes this week, raising approx. \$37bn in new cash.

Its also month end and \$31.7bn of securities on the Fed balance sheet will mature on 30 Apr. This is above the portion of the monthly cap and approx. \$1.9bn in proceeds will be reinvested.

This will be the last month where the monthly cap on reinvestments is \$30bn. From May-Sep the cap will be reduced to \$15bn. Balance sheet run off will conclude at the end of Sep 2019.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
29 Apr - 3 May	25-Apr	30-Apr	4 week bill	50			Completed		
	25-Apr	30-Apr	8 week bill	35			Completed		
				85	85	0			
	29-Apr	02-May	13 week bill	39			Announced		
	29-Apr	02-May	26 week bill	36			Announced		
				75	81	-6			
	18-Apr	30-Apr	5yr TIPS	17			Completed		
	23-Apr	30-Apr	2yr Note	40			Announced		
	24-Apr	30-Apr	2yr FRN	20			Announced		
	24-Apr	30-Apr	5yr Note	41			Announced		
	25-Apr	30-Apr	7yr Note	32			Announced		
				150	107.2	42.8			
			Total - securities settling this week	310	273.2	36.8			
			Fed SOMA - Face Value of SOMA securities maturing 30 Apr 2019	31.75					
			Proportion of mthly cap	29.83					
			Amount to reinvest	1.91					

Securities maturing on the Fed balance sheet in April

In Apr, \$31.925bn of securities on the Fed balance sheet will mature. The monthly cap of \$30bn remains in place for Apr, therefore \$1.925bn will be reinvested.

15 Apr; \$0.179bn in securities will mature. This represents 0.6% of the monthly cap for the month, therefore \$0.011bn will be reinvested.

30 Apr; \$31.746bn in securities will mature. This represents 99.4% of the monthly cap, therefore \$1.914bn will be reinvested.

Data is available at https://www.newyorkfed.org/markets/soma/sysopen_accholdings.html and the face value of maturing securities (in Fed SOMA) is also provided on the Treasury Direct auction announcements.

Monday 29 April 2019

US – Personal Income and Outlays (Mar), PCE Price Index (Mar), Dallas Fed Manufacturing Survey (Apr)

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

Tuesday 30 April 2019

US – S&P Core Logic Case-Shiller House Price Index (Feb), Chicago PMI (Apr), Pending Home Sales (Mar)

US Fed – FOMC meeting commences

Australia – Private Sector Credit Growth (Mar)

Europe – Eurozone GDP Prelim Q1, Germany CPI Prelim (Apr)

Wednesday 01 May 2019

US – Mortgage applications for wk ending 26 Apr, ADP Employment Report (Apr), ISM Manufacturing PMI (Apr), Markit Manufacturing PMI (Apr)

US Treasury Refunding Announcement for Q2 and Q3 Treasury funding requirements

US Fed – FOMC Interest Rate Decision

UK – Manufacturing PMI (Apr)

Australia – New Home Sales (Mar)

China – Caixin Manufacturing PMI (Apr)

Thursday 02 May 2019

US – Motor Vehicle Sales (Apr), Challenger Job Cut report (Apr), US Factory Orders final (Mar)

Europe – Germany Retail Sales (Mar), Germany Manufacturing PMI (Apr), Eurozone Manufacturing PMI (Apr)

UK – BoE Interest Rate Decision

Friday 03 May 2019

US – Employment and Non-Farm Payrolls (Apr), Advance Retail and Wholesale Inventories (Mar), ISM Non-Manufacturing PMI (Apr), Markit Services PMI (Apr)

US Fed Speeches;

Chicago Fed President Evans - remarks at the NABE International Symposium: "Global Economies at the Crossroads: Growing Together While Growing Apart?" in Stockholm, Sweden

New York Fed President Williams - "Tying Down the Anchor: Monetary Policy Rules and the Lower Bound on Interest Rates" at the Strategies for Monetary Policy: A Policy Conference event at Stanford University

St. Louis Fed President Bullard, San Francisco Fed President Daly, Dallas Fed President Kaplan, and Cleveland Fed President Mester - panel on "Strategies For Monetary Policy" at Stanford University in Stanford

UK – Services PMI (Apr)

Europe – Eurozone CPI Prelim (Apr)

Trade & Brexit

US-China Trade Negotiations

USTR Lighthizer and Treasury Secretary Mnuchin will travel to China for further talks w/c 29 Apr with the aim of finalising details of the trade deal.

The following week (early May), Chinese Vice Premier Liu He is scheduled to travel to Washington;

“The next week, Chinese Vice-Premier Liu He will go to Washington for talks, which officials hope will lead to the announcement of a deal and the details of a signing summit, probably for late May, according to the report.”

<https://www.scmp.com/news/china/diplomacy/article/3006694/two-more-rounds-talks-set-may-amid-hope-us-china-trade-war>

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 ITC evaluating the USMCA was released – based on the implementation over the next six years;

“We welcome the International Trade Commission’s independent analysis of the USMCA. This report is an important step forward in gaining congressional approval of the USMCA. The ITC analysis shows that USMCA will increase U.S. employment by 176,000 jobs and is projected to increase GDP by 0.35%. This is more than double the 0.15% growth rate the ITC projected for the multilateral Trans-Pacific Partnership. These findings validate President Trump’s action to withdraw from TPP and renegotiate the disastrous NAFTA. With USMCA, we will have stronger growth, more trade and more jobs – particularly in manufacturing. There can be no doubt that the USMCA is a big win for America’s economy.”

Links to the detail can be found in the USTR announcement; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/statement-us-trade-representative>

The focus now is to have the deal ratified by Congress before the summer.

“Rep. Kevin Brady, ranking member on the House Ways and Means Committee, said U.S. Trade Representative Robert Lighthizer is ready to send legislation to lawmakers when House Speaker Nancy Pelosi “gives the green light.” He called getting the deal to Trump’s desk this summer “crucial.””

<https://www.cnbc.com/2019/03/29/trumps-nafta-usmca-trade-deal-faces-bipartisan-roadblock-in-congress.html>

Link to the USITC report;

https://www.usitc.gov/press_room/news_release/2019/er0418II1087.htm

Section 232 – Car and Truck Imports

The final report on the s.232 investigation was 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

Trade talks between the US and Japan commenced in the week prior. Details of the negotiations came to light last week - Japan would not soften its stance on agriculture (import tariffs have been high);

Donald Trump's hopes of completing a trade deal with Japan next month have been severely dented after he failed to persuade prime minister Shinzo Abe to give the US greater access to the country's agricultural market. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

Japan wants to ensure it gets something in return for granting US farmers greater market access to its market, namely removing the threat of tariffs on car imports on the basis of US national security. <https://www.ft.com/content/6ae28e80-698b-11e9-80c7-60ee53e6681d>

A group of major US farm groups has lobbied USTR Lighthizer regarding the trade talks with Japan and access to the Japanese market (emphasis added);

“In recent weeks, Japan cut tariffs for the second time on agricultural imports from the European Union and CPTPP member countries. **As a result, U.S. exporters of wheat, beef, pork, dairy, wine, potatoes, fruits and vegetables, and other products are facing collapse of their Japanese market share as these lucrative sales are handed over to their competitors.**” https://www.hpj.com/ag_news/plenty-of-trade-action-on-several-fronts/article_6ac3fc7d-8eb4-5d6d-965d-602094ce6a66.html

The two representatives will ‘meet again in the near future to continue talks’.

“The United States and Japan discussed trade issues involving goods, including agriculture, as well as the need to establish high standards in the area of digital trade. In addition, the United States raised its very large trade deficit with Japan – \$67.6 billion in goods in 2018.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/statement-ustr-meetings-discuss>

President Trump is due to meet with Prime Minister Shinzo Abe at the Group of 20 summit in Osaka in June – securing an agreement before then seems unlikely that this stage.

<https://ustr.gov/countries-regions/japan-korea-apec/japan/us-japan-trade-agreement-negotiations>

The summary of US 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

No further details on the commencement of trade talks between the US and EU.

Last week the EC authorised negotiations to commence between the EU and the US.
Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

Emphasis added;

“[US President] Donald Trump reiterated his threat that trade talks with the EU must open up markets to farmers or he would impose tariffs on European car imports. **EU negotiating directives agreed Monday say agriculture must be excluded from planned negotiations.**”

“EU trade chief Cecilia Malmström held out hope Monday that a transatlantic trade deal could be done "quite quickly" if both sides could agree on a basis to start negotiations, but such an agreement appears difficult to reach amid the row over agriculture.”

“Brussels has said it would immediately suspend trade talks should Trump impose auto tariffs.”

<https://www.politico.eu/article/trump-to-eu-include-agriculture-in-us-trade-talks-or-face-tariffs/>

A further escalation between the US and EU on aircraft subsidies. Last week, the USTR announced it will commence a process that will identify products of the EU that additional duties will be applied to in response to continued EU subsidies for Airbus.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/ustr-proposes-products-tariff>

The USTR has now launched an “investigation to enforce U.S. rights in the World Trade Organization (WTO) dispute against the European Union (EU) and certain EU member States addressed to EU subsidies on large civil aircraft.”

The Trade Representative proposes to take action in the form of additional duties on products of the EU or certain member States, to be drawn from the preliminary list annexed to this Notice.

Key dates for this investigation;

May 6, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony.

May 15, 2019: The Section 301 Committee will convene a public hearing.

May 28, 2019: Due date for submission of written comments, including post-hearing rebuttal comments.

<https://www.federalregister.gov/documents/2019/04/12/2019-07267/initiation-of-investigation-notice-of-hearing-and-request-for-public-comments-enforcement-of-us-wto>

Last week the EC has identified approx. €20bn in US exports for tariffs;

“The European Commission Wednesday said it wants to hit around €20 billion of U.S. exports with tariffs in retaliation for unlawful subsidies given by the U.S to American aircraft manufacturer Boeing.” <https://www.politico.eu/article/eu-prepares-e20b-retaliation-against-us-over-boeing-subsidies/>

<https://www.politico.eu/tag/eu-us-trade-talks/>

The summary of US 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

BREXIT

Talks between UK government and the Labour party will recommence this coming week.

“[PM] May herself has described the discussions as “difficult,” while Labour officials say she has refused to compromise.”

“Labour wants May to guarantee the U.K. will join a post-Brexit customs union with the EU; May argues that would rule out pursuing free-trade deals with countries including the U.S.”

<https://www.bloomberg.com/news/articles/2019-04-28/u-k-conservatives-still-seeking-brexit-deal-before-eu-election>

To avoid participation in the EU elections, the UK government needs to approve the current Brexit deal by 23 May 2019. It appears unlikely that there will be another parliamentary vote in the coming week.

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