

## Key Themes

The US-China trade negotiations are back front and center this week. There is no confirmation yet that Vice Premier Lui He will cancel his planned trip to Washington this week. The US President has given 10 May as a deadline to complete the deal before tariffs are increased.

Data will likely focus on China this week; trade, CPI, new loans and services PMI will be released. Again, we look for signs of further improvement in the economy.

Important US data this week will be CPI and PPI. Wholesale trade data will provide a view on inventories through the distributive channels. Consumer credit for Mar will include the quarterly view of auto loans.

US Fed speeches will feature this week, including Chairman Powell providing opening remarks at the "Renewing the Promise of the Middle Class" research conference.

The Reserve Bank of Australia will meet this week. Its been a long time since there was an elevated chance of a rate cut. The latest probability is a 40% chance of a cut to 1.25% (down from a 68% chance of a cut after the weak CPI report on 23 Apr). The only reason the RBA may not cut is that a) the labour market remains in good condition and b) the upcoming federal election is on 18 May 2019. The rate tracker based on the ASX 30 Day Interbank Cash Rate Futures - <https://www.asx.com.au/prices/targetratetracker.htm>

Also up this week will be German trade, new orders, and industrial production data. This will help to provide some further detail around the deteriorating manufacturing PMI data.

US-EU trade negotiations will continue this week – but both sides remain apart on agreement of the scope of negotiations. The opening gambit for both the EU and Japan has been to exclude agriculture from negotiations.

US Treasury supply will be lighter this week. The US Treasury will settle approx. \$169bn in ST bills with a paydown of approx. \$9bn. The US Treasury will also auction approx. \$84bn in notes and bonds this week which will settle next week at mid-month (raising approx. \$28.6bn in new money).

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## US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

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Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
02-May	07-May	4 week bill	50			Completed
02-May	07-May	8 week bill	35			Completed
			85	85	0	
06-May	09-May	13 week bill	39			Announced
06-May	09-May	26 week bill	36			Announced
			75	84	-9	
		<b>Total - securities settling this week</b>	160	169	-9	

### Securities maturing on the Fed balance sheet in May

In May, \$58.532bn of securities on the Fed balance sheet will mature. The monthly cap is now reduced to \$15bn, which means approx. \$43bn in principal payments will be reinvested this month. This will be split over mid and end of month;

15 May; \$38.475bn in securities will mature. This represents 66% of the total for the month. The proportion of the monthly cap is therefore \$9.860bn. This means that \$28.615bn in principal payments will be reinvested.

31 May; \$20.057bn in securities will mature. This represents the remaining 34% of the total for the month. The remaining portion of the monthly cap is \$5.140bn. This means that approx. \$14.917bn in principal payments will be reinvested.

Data is available at [https://www.newyorkfed.org/markets/soma/sysopen\\_accholdings.html](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.

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## Monday 06 May 2019

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US Fed speeches;

Philadelphia Fed President Harker - speech on economic outlook at the 37th Annual Monetary and Trade Conference at Drexel University in Philadelphia

China – Caixin Services PMI (Apr)

Europe – German Services PMI (Apr), Eurozone Services PMI (Apr), Eurozone Retail Sales (Mar)

Japan – Nikkei Manufacturing PMI (Apr)

Australia – Retail Sales (Mar)

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## Tuesday 07 May 2019

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US – JOLTS (Mar), Consumer Credit (Mar)

US Fed speeches;

Dallas Fed President Kaplan - participate in a moderated Q&A session at the Tsinghua University School of Economics and Management in Beijing, China

Australia – RBA Rates Decision – rate tracker has probability at 40% of a cut (down from 68% chance of a cut after the CPI report on 23 Apr).

<https://www.asx.com.au/prices/targetratetracker.htm>

Europe – German Factory Orders (Mar)

Japan – BoJ Meeting Minutes, Services PMI (Apr)

China – Trade Balance, Exports and Imports (Apr)

New Zealand – Rates Decision

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## Wednesday 08 May 2019

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US – Mortgage Applications for wk ending 3 May 2019

Europe – German Industrial Production (Mar)

China – CPI & PPI (Apr)

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## Thursday 09 May 2019

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US – International Trade (Mar), PPI (Apr), Wholesale Trade (Mar)

US Fed speeches;

Federal Reserve Chairman Powell - opening remarks at the "Renewing the Promise of the Middle Class" Federal Reserve System Community Development Research Conference in Washington

Chicago Fed President Evans - remarks at the Community Development Research Conference: "Renewing the Promise of the Middle Class" in Washington

Atlanta Fed President Bostic - speech about economic outlook and monetary policy at the Louisiana Bankers Association's 119th Annual Convention and Exposition in New Orleans

UK – Rolling 3mth GDP Estimate (Apr)

Japan – Trade Balance (Mar)

Australia – Housing Credit (Mar)

China – New Loans (Apr)

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## Friday 10 May 2019

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US – CPI (Apr)

US Fed speeches;

Federal Reserve Member of the Board of Governors Lael Brainard - opening remarks on the second day of the "Renewing the Promise of the Middle Class" Federal Reserve System Community Development Research Conference, in Washington

Atlanta Fed President Bostic - participate in a discussion about economic outlook and monetary policy at the East Mississippi Business Development Corporation's Bank President's Roundtable in Meridian, MS

New York Fed President Williams - keynote remarks at the 21st Annual Bronx Bankers Breakfast in Bronx, NY

Europe – German Trade Balance (Mar)

UK – Q1 Prelim GDP

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## Trade & Brexit

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### US-China Trade Negotiations

Talks between the US and China appear to have stalled with no agreement on key issues. Frustrated with the lack of progress, US President Trump has tweeted that if an agreement is not reached by Friday (10 May 2019), tariffs would increase from 10% to 25%.

“Could be Trump trying to increase leverage going into a potential last round or could be an indication that things aren’t going well on the outstanding items,” Erin Ennis, vice president at the USCBC, said in an email. “It’s hard to know if it was wishful thinking that negotiations would conclude this month, since we have never been given solid information about what is outstanding and how close or far [apart] the two sides are on those issues.”

<https://www.politico.com/story/2019/05/05/trump-china-trade-tariffs-1302635>

Chinese Vice Premier Lui He may delay his scheduled visit to Washington for talks this coming week.

An arbitrary line in the sand is this coming Friday 10 May 2019.

Within the US, business groups have expressed concerns over increasing tariffs;

“If the President follows through on this threat, the consequences will be dire,” it added. “Raising tariffs to 25 percent could cost nearly one million American jobs, according to recent estimates. This decision will also roil financial markets and increase the likelihood of retaliation on American farmers who are facing the lowest income levels in years.”

<https://www.politico.com/story/2019/05/05/trump-china-trade-tariffs-1302635>

Agriculture has been particularly hurt by retaliatory tariffs imposed by China. This comes at a time when both Japan and EU trade negotiations opening gambit is to refuse to include agriculture in the scope of discussions i.e. consider opening markets to US agriculture.

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

The USTR released its annual Special 301 Report on Intellectual Property Protection and Review of Notorious Markets for Piracy and Counterfeiting late last week.

“Specifically, over the coming weeks, USTR will review the developments against the benchmarks established in the Special 301 action plans for countries that have been on the Priority Watch List for multiple years. For such countries that fail to address U.S. concerns, USTR will take appropriate actions, such as enforcement actions under Section 301 of the Trade Act or pursuant to World Trade Organization or other trade agreement dispute settlement procedures, necessary to combat unfair trade practices and to ensure that trading partners follow through with their international commitments.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/ustr-releases-annual-special-301>

The report prepared a ‘priority watch list’, a ‘watch list’ and a ‘notorious markets list’.

The report highlighted;

“trading partners that do not adequately or effectively protect and enforce intellectual property (IP) rights or otherwise deny market access to U.S. innovators and creators that rely on protection of their IP rights.

Trading partners that currently present the most significant concerns regarding IP rights are placed on the Priority Watch List or Watch List. USTR identified 36 countries for these lists in the Special 301 Report:

Algeria, Argentina, Chile, China, India, Indonesia, Kuwait, Russia, Saudi Arabia, Ukraine and Venezuela are on the Priority Watch List.

Barbados, Bolivia, Brazil, Canada, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Jamaica, Lebanon, Mexico, Pakistan, Paraguay, Peru, Romania, Switzerland, Thailand, Turkey, Turkmenistan, the United Arab Emirates, Uzbekistan and Vietnam are on the Watch List.”

### Notorious Markets List

“The Notorious Markets List highlights 33 online markets and 25 physical markets that are reported to engage in and facilitate substantial copyright piracy and trademark counterfeiting”

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The link to the notorious markets reports is here;

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The first country on the list is China.

The full report; [https://ustr.gov/sites/default/files/2019\\_Special\\_301\\_Report.pdf](https://ustr.gov/sites/default/files/2019_Special_301_Report.pdf)

## 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/er041811087.htm](https://www.usitc.gov/press_room/news_release/2019/er041811087.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 – this will be on or around 19 May 2019.

“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](http://www.xinhuanet.com/english/2019-02/23/c_137845093.htm)



## US-Japan Trade Talks

Trade talks between the US and Japan have commenced. 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](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](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)



## US-Europe Trade Talks

Negotiations are set to commence this coming week, but the scope of the talks remain a sticking point.

Meetings this coming week will focus on regulatory co-operation and will set the groundwork for higher level discussions between the EU chief negotiator Cecilia Malmstrom and USTR Lighthizer.

Both representatives are set to meet later in May, with possibly follow-up meetings in order to agree the scope of the negotiations;

“According to one EU official, the Malmström-Lighthizer meeting will take place on the sidelines of an OECD ministerial meeting in Paris on May 22-23. It may, however, take another meeting of the two trade chiefs in June, or even longer, to reach agreement on the scope of the talks.”

<https://www.politico.com/newsletters/morning-trade/2019/05/03/the-gop-fight-blocking-nafta-20-432006>

Background – 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](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)

Issues regarding US and EU aircraft subsidies remains live also. 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](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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

## BREXIT

Cross party talks are set to resume this week. Local elections during the week resulted in losses for both the Labour party and the Conservatives. This has prompted fresh calls from PM May to ‘break the deadlock’ and find a compromise between the Conservatives and the Labour party to get the withdrawal agreement passed in Parliament.

Opposition to a compromise remains;

“If Theresa May faces losing dozens of Tories opposed to a customs union, or Jeremy Corbyn faces losing dozens of labour MPs who want another referendum, they might not have the numbers to get this through the Commons. And in that case, a compromise is useless.”

<https://www.bbc.com/news/uk-48165373>

To avoid participation in the EU elections, the UK government needs to approve the current Brexit deal by 23 May 2019.

Current Brexit documents:

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](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](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)