

## Key Themes

This week, the focus will be on the FOMC minutes, a speech by Chairman Powell, US-China relations and the first release of PMI's for May.

Trade headlines and posturing are likely to remain a feature over the next few weeks. The news from Friday was that negotiations between the US and China had stalled. Further escalations were announced as Huawei was "placed on a business blacklist" by the US. Details of further talks are expected as the US has placed a one-month deadline to complete negotiations – although so far, meeting this deadline is looking less likely. US trade representatives will also meet with Japan and EU trade negotiators this week.

In the US, the focus will be on the FOMC minutes, initial durable goods orders report for Apr and the prelim PMI's for May.

There is another large array of Fed speeches this week. Of note will be a keynote speech by US Federal Reserve Chairman Powell on Monday at the "Mapping the Financial Frontier: What does the next decade hold?" Annual Financial Markets Conference held by the Atlanta Federal Reserve Bank in Florida.

Also, of note this week, will be the RBA minutes and UK retail sales.

European parliament elections will commence during the week, with most member countries holding elections on Sunday 26 May. Voters in 28 countries will elect 751 Members of the European Parliament for a five (5) year term. The UK will take part in these elections. Once Brexit occurs, these MEP's will resign, and the Parliament will be reduced to 705 members.

US Treasury supply will be lighter this week. The US Treasury will settle approx. \$183bn in ST bills, with a net paydown of \$9bn.

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

US Treasury supply will be lighter this week with another paydown.

This week, the US Treasury will settle approx. \$183bn in ST bills, with a net paydown of approx. \$9bn.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
20-24 May	16-May	21-May	4 week bill	50			Completed		
	16-May	21-May	8 week bill	35			Completed		
				85	85	0			
	20-May	23-May	13 week bill	36			Announced		
	20-May	23-May	26 week bill	36			Announced		
	21-May	23-May	52 week bill	26			Announced		
				98	107	-9			
			<b>Total - securities settling this week</b>	<b>183</b>	<b>192</b>	<b>-9</b>			

The US Treasury will also auction approx. \$113bn in notes that will settle next week.

### 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 20 May 2019

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US – Chicago Fed National Activity Index (Apr)

Japan – GDP Prelim Q1, Industrial Production – Final (Mar)

Australia – RBA Minutes

US Fed Speeches;

Federal Reserve Chairman Powell - keynote speech at the "Mapping the Financial Frontier: What does the next decade hold?" Annual Financial Markets Conference held by the Atlanta Federal Reserve Bank in Florida

Fed Reserve Board of Governors Vice Chairman Clarida - discussion on monetary policy strategy, tools, and communication practices with New York Federal Reserve Bank President John Williams, in New York

Philadelphia Fed President Harker - speech on the US economic outlook at the Management Science 65th Anniversary Conference in Boston

Atlanta Fed President Bostic - welcoming remarks at the "Mapping the Financial Frontier: What does the next decade hold?" Annual Financial Markets Conference held by the Atlanta Federal Reserve Bank in Florida

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## Tuesday 21 May 2019

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US – Existing Home Sales (Apr)

Japan – Merchandise Trade Balance (Apr)

Australia – Construction Work Done (Q1)

US Fed Speeches;

Atlanta Fed President Bostic - moderate the keynote note speech by Freddie Mac chief Donald Layton on the second day of the "Mapping the Financial Frontier: What Does the Next Decade Hold?" Annual Financial Markets Conference held by the Atlanta Fed in Florida

Chicago Fed President Evans to speak at the Financial Markets Conference at Fernandina Beach, Florida

Boston Fed President Rosengren to speak at the Economic Club of New York, in New York

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## Wednesday 22 May 2019

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US – FOMC Minutes

UK – CPI (Apr)

Japan – Prelim Manufacturing PMI (May)

US Fed Speeches;

St. Louis Fed President Bullard - presentation about the US economy and monetary policy at the Foreign Correspondents' Club of Hong Kong in Hong Kong

Atlanta Fed Bank President Bostic - opening remarks at Dallas Fed's Technology-Enabled Disruption: Implications for Business, Labor Markets and Monetary Policy conference in Dallas, TX

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## Thursday 23 May 2019

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US – Composite Prelim PMI (May), New Home Sales (Apr), Kansas City Fed Manufacturing Activity (May)

Europe – Germany GDP Detailed Q1, Germany Prelim Manufacturing and Services PMI (May), Eurozone Prelim Manufacturing and Services PMI (May)

Japan – National CPI (Apr)

US Fed Speeches;

Richmond Fed Reserve President Barkin - participate in a moderated Q&A with Robert Kaplan, Raphael Bostic, and Mary Daly at the "Technology-Enabled Disruption: Implications for Business, Labor Markets and Monetary Policy" conference in Dallas, TX

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## Friday 24 May 2019

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US – Durable Goods Orders (Apr)

UK – Retail Sales (Apr)

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## Trade & Brexit

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### US-China Trade Negotiations

The US is continuing the process of investigating imposing the next round of tariffs on the remaining \$300bn of imports from China.

Key dates for the USTR investigation;

10 June – filing deadline for requests to appear at the public hearing

17 June – public hearing in Washington

<https://www.federalregister.gov/documents/2019/05/17/2019-10191/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts>

The next key date is the G20 in Osaka on 27-28 Jun – this had been widely touted as a key date for when both President Trump and President Xi would meet.

Depending on the status of negotiations, this next round of tariffs could go into effect from late Jun/early Jul.

The USTR announced on 10 May that;

“Earlier today, at the direction of the President, the United States increased the level of tariffs from 10 percent to 25 percent on approximately \$200 billion worth of Chinese imports. **The President also ordered us to begin the process of raising tariffs on essentially all remaining imports from China, which are valued at approximately \$300 billion.**” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/statement-us-trade-representative>

As expected last week, China announced retaliatory tariffs on \$60 billion of U.S. goods.

Over the last week, the state of negotiations between the two countries is now being viewed through a less positive lens. On Friday, it was reported that negotiations had stalled.

" But sources say scheduling discussions have not taken place since the Trump administration ratcheted up its scrutiny of Chinese telecom companies. The move was seen as a shot across the bow...." <https://www.cnbc.com/2019/05/17/us-china-trade-talks-have-stalled-sources.html>

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 notification on progress.

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

Last week the US agreed with Mexico and Canada to lift retaliatory tariffs under the s.232 duties on steel and aluminium. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/united-states-announces-deal-canada-and>

Removal of the tariffs also means that the process to ratify the USMCA agreement for Mexico and Canada will get underway and will likely be easier;

““We were very clear that as long as the 232 tariffs were there it would be very, very hard for us to ratify the new NAFTA, and that is why we did not table the legislation,” [Chrystia] Freeland said in an interview broadcast by CBC radio.”

<https://globalnews.ca/news/5291708/canada-cusma-ratification/>

“U.S. Vice President Mike Pence said on Friday he would meet with Canada’s Prime Minister Justin Trudeau in Ottawa on May 30 to discuss “advancing” ratification.” <https://globalnews.ca/news/5291708/canada-cusma-ratification/>

The report by the ITC evaluating the USMCA was released – based on the implementation over the next six years. 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>

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

President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. But he has **stated that he agrees with the conclusion of the Commerce Dept report that imports harmed national security by causing declining market share for US-owned carmakers.**

““I concur in [Commerce Secretary Wilbur Ross'] finding that automobiles and certain automobile parts are being imported into the United States in such quantities and under such circumstances as to threaten to impair the national security of the United States,” Trump said in a proclamation outlining his decision.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

As a part of the announcement, US President Trump also...

“directed U.S. Trade Representative Robert Lighthizer to pursue the negotiation of agreements with the EU, Japan and other countries that address the alleged national security threat posed by auto imports.

Lighthizer was directed to update the president on the status of those talks within 180 days.” <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

The tariffs remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds;

“The rapid application of commercial breakthroughs in automobile technology is necessary for the United States to retain competitive military advantage and meet new defense requirements,” the proclamation said.

The proclamation added that the U.S. defense industrial base depends on the “American-owned automotive sector” for development of technologies essential to military superiority. Foreign imports have eroded the ability of U.S. companies to compete and research and develop new technologies, the proclamation said.

“The lag in R&D expenditures by American-owned producers is weakening innovation and, accordingly, threatening to impair our national security,” the proclamation stated. <https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014>

## US-Japan Trade Talks

Further talks are expected to be scheduled for this week 24 May in Washington.

Along with the postponement of the auto tariffs, USTR Lighthizer has also confirmed that the US will not push for import quotas as a part of the trade deal.

After President Trump announced the postponement of auto tariffs and agreeing with the claimed conclusion that auto imports pose a national security threat, Toyota Corp came out with a strongly worded statement;

“Toyota Motor Corp. rebuked U.S. President Donald Trump’s declaration that imported cars threaten national security, signalling contentious talks are ahead for the White House and America’s key trading partners.”

“In an unusually strong-worded statement, Japan’s largest automaker said Trump’s proclamation Friday that the U.S. needs to defend itself against foreign cars and components “sends a message to Toyota that our investments are not welcomed.” The company said it has spent more than \$60 billion building operations in the country, including 10 manufacturing plants.”

<https://www.japantimes.co.jp/news/2019/05/19/business/no-u-s-auto-import-quota-works-says-japans-economic-revitalization-chief-toshimitsu-motegi/#.XOijTllzZhE>



Agriculture as well as auto tariffs remain important to the negotiations. Representatives have previously stated that 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)

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

US and EU negotiators will meet this week 22-23 May at the OECD meeting in Paris as well as on 27 May in Paris. It now seems likely that the US and EU will enter talks “on a limited trade agreement, which covers vehicles”. <https://menafn.com/1098537328/EU-set-for-talks-with-US-on-limited-trade-agreement>

“The EU indicated last month it is ready to start talks with the United States on only two areas: cutting tariffs on industrial goods and making it easier for companies to show products meet EU or US standards.”

<https://www.bworldonline.com/eu-says-agriculture-not-on-agenda-for-us-talks/>

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. Details; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/public-hearing-proposed-countermeasures>

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

The focus this week is on EU parliamentary elections. Both the Conservative and Labour party performed poorly in the recent local council elections.

“Thirteen-hundred Conservative councillors lost their seats. The opposition Labour Party, which according to past trends should have made large gains, didn’t do much better. Both look set to struggle next week.”

The new Brexit Party is polling at 18%, capitalising on voter frustration.

<https://www.nbcnews.com/storyline/brexit-referendum/next-week-s-european-elections-u-k-could-be-100m-n1006836>

<https://www.theguardian.com/politics/2019/may/19/european-election-all-you-need-to-know-dos-dhondts>

The deadlock on Brexit remains in place and frustration remains elevated that Brexit has not yet delivered after the referendum 3 years ago. PM May is considering yet another round of votes on different options for Brexit. Rumours are continuous that PM May will step down if these votes fail;

“May also plans to make a fourth attempt to get lawmakers’ backing for Brexit terms by putting a withdrawal agreement bill to **a vote during the week of June 3**. She says that if it passes, Britain could leave the EU in July, well before the October deadline set by the bloc.”

“But it’s unclear how the government plans to persuade a majority of lawmakers to back May’s EU divorce terms, since few on either side of the Brexit divide seem prepared to change their positions.”

<https://www.pressherald.com/2019/05/17/uncertainty-looms-over-uk-as-brexit-compromise-talks-fail-2/>

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)