MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 6 May 2019

Key Themes

The headlines this week continued to follow the US-China trade negotiations in the countdown to the Friday tariff deadline. The USTR has now been directed by President Trump to increase tariffs from 10 to 25% on approx. $200bn of import from China as well as commence the process of increasing tariffs on “essentially all remaining imports from China, valued at approx. $300bn”. The US has set a one-month deadline to complete the deal or the final stage of tariffs will be imposed.

There was little upward performance momentum in data releases this week. The exception was the better than expected German orders and production data. A disconnect seems to be emerging between the accelerating decline in the German manufacturing PMI and production data.

From the US; JOLT’s data was mixed – slowing growth in hires is important. Involuntary separations are slowing, but growth in voluntary quits is also slowing.

Consumer credit slowed in Mar led by a decline in revolving/credit card credit. Senior Loan Officer Opinion Survey indicated a shift to tighter lending standards for credit cards in Q1.

Price growth was little changed in Apr – headline PPI grew at the same pace and CPI growth increased as faster growth in energy and services prices offset slower growth in food and declines in core commodities prices for the year.

Wholesale sales grew at a faster pace – led mostly by non-durable goods (petroleum) in Mar. Sales of durable goods still grew at a faster pace, but growth underperformed the total. The decline in inventories was led by one area – non-durables (drugs). The value of inventories for durables increased at a faster pace. The sales to inventory ratio declined.

European composite PMI indicated little change in momentum with growth remaining only moderate in Apr.

German factory orders grew overall but was led by foreign orders – domestic orders declined at a faster pace in Mar. Industrial production improved in Mar, but manufacturing production across most areas remains below a year ago and below recent peaks. There was no indication of an accelerating decline in activity as indicated by the Mar PMI for manufacturing.

UK GDP growth accelerated in Q1 – reflecting much faster growth in production and manufacturing, imports, investment spending by government and inventories – likely as the result of preparations for Brexit.

Australian retail data continued to disappoint. Real retail sales declined in Q1, after zero growth in Q4 last year. The RBA kept the overnight cash rate on hold. The Board changed its guidance statement, reflecting the need to see improvements in the labour market (i.e. decrease in the elevated underemployment rate) in order to reach the inflation target. The

Board “will be paying close attention to developments in the labour market”. Key forecasts for the economy were revised lower in the May Statement on Monetary Policy.

Data out of China showed little acceleration in activity. Services PMI was unchanged for Apr. The trade surplus was lower as imports grew, and exports declined (exports still > imports). New loan growth was lower than in prior months likely indicating a more subdued impact on activity.

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US Data

JOLTS (Mar)

The growth in the number of hires slowed in the latest month as the hire rate remained unchanged. There has been a noticeable slow-down in the annual growth of hires over the last two months.

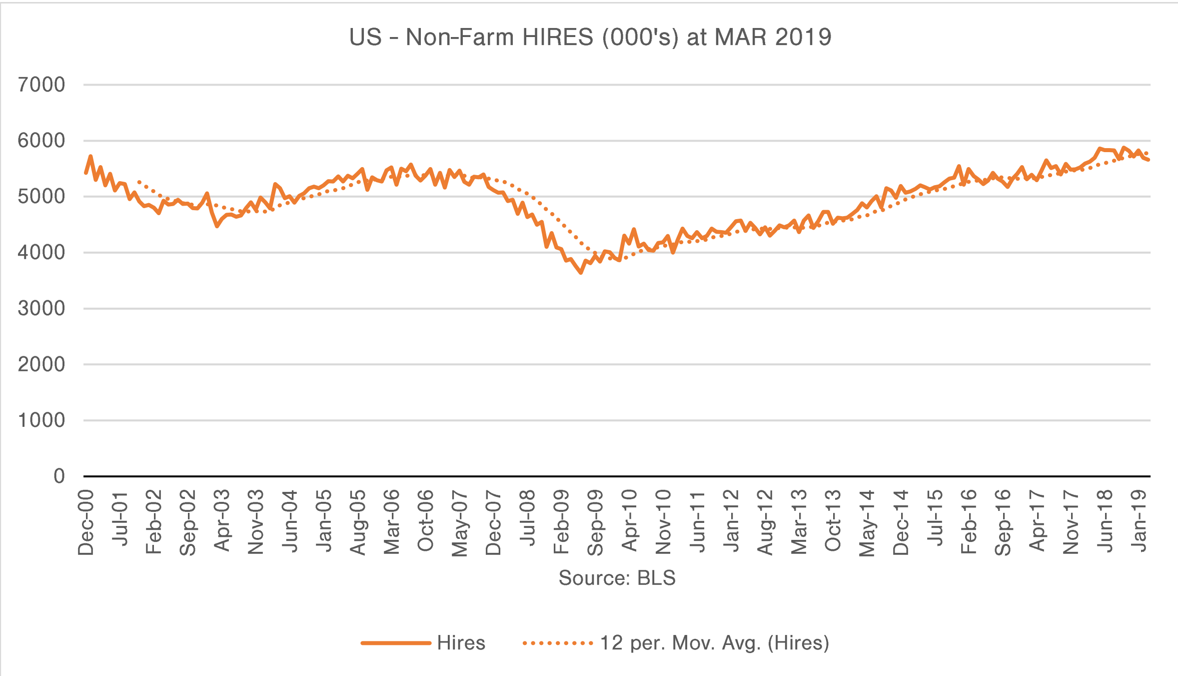
New job openings rebounded somewhat after falling in the month prior.

The growth in separations has also slowed. The involuntary layoffs-and discharges component is slowing but the voluntary employee quits are also slowing.

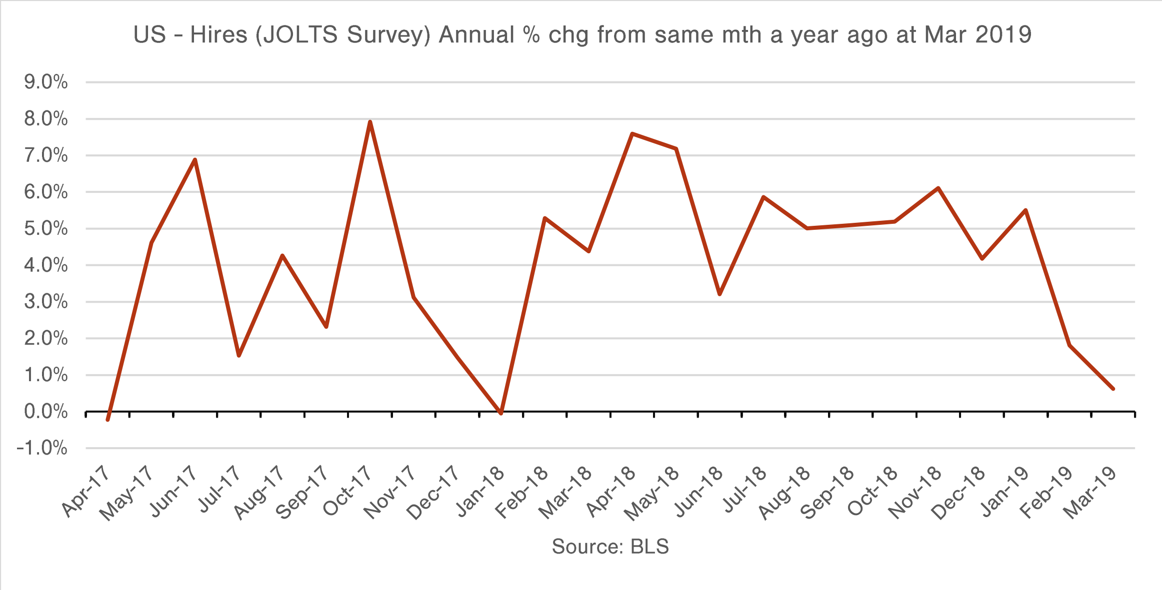
<u>Hires</u>

Mar 5.66m versus Feb 5.7m

The current rate of hires remains at 3.8%, below the 12-month average of 3.9%.



There has been a noticeable slow-down in the annual growth of the number of hires. The annual growth in hires has slowed to only +0.6% in the latest month. The annual growth in hires was averaging around 5% in 2018;

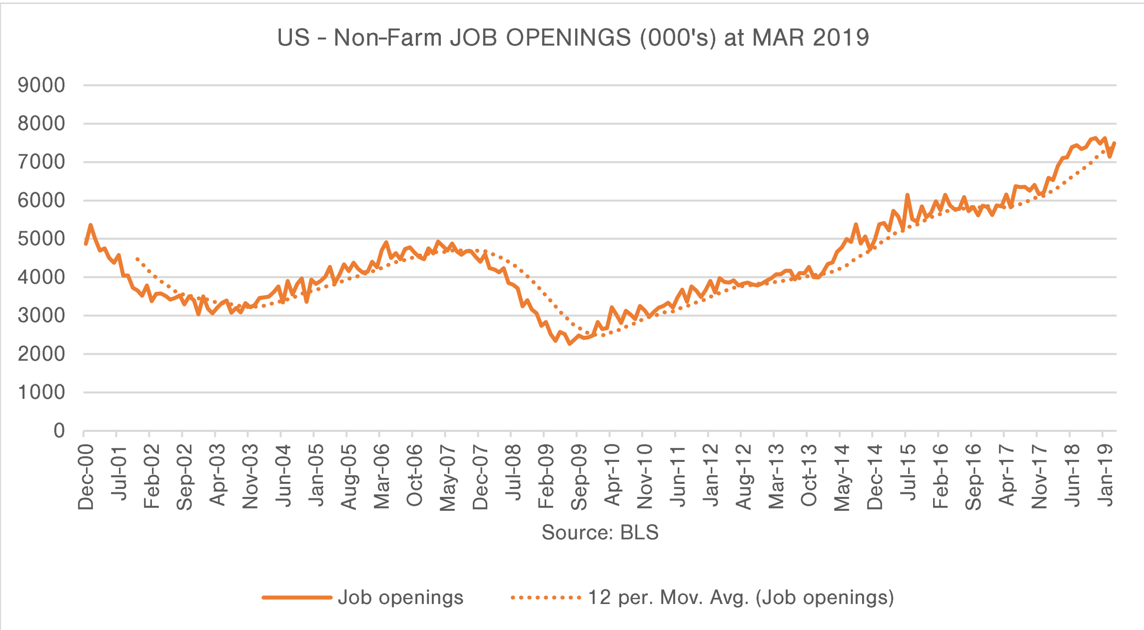


Job Openings

Mar 7.48m versus Feb 7.1m

This was relatively large increase versus the month prior (1.85 SD based on the last 12-mths).

The job openings rate bounced back to 4.7% after falling to 4.5% in the month prior. The current openings rate is equal to the 12-mth average.



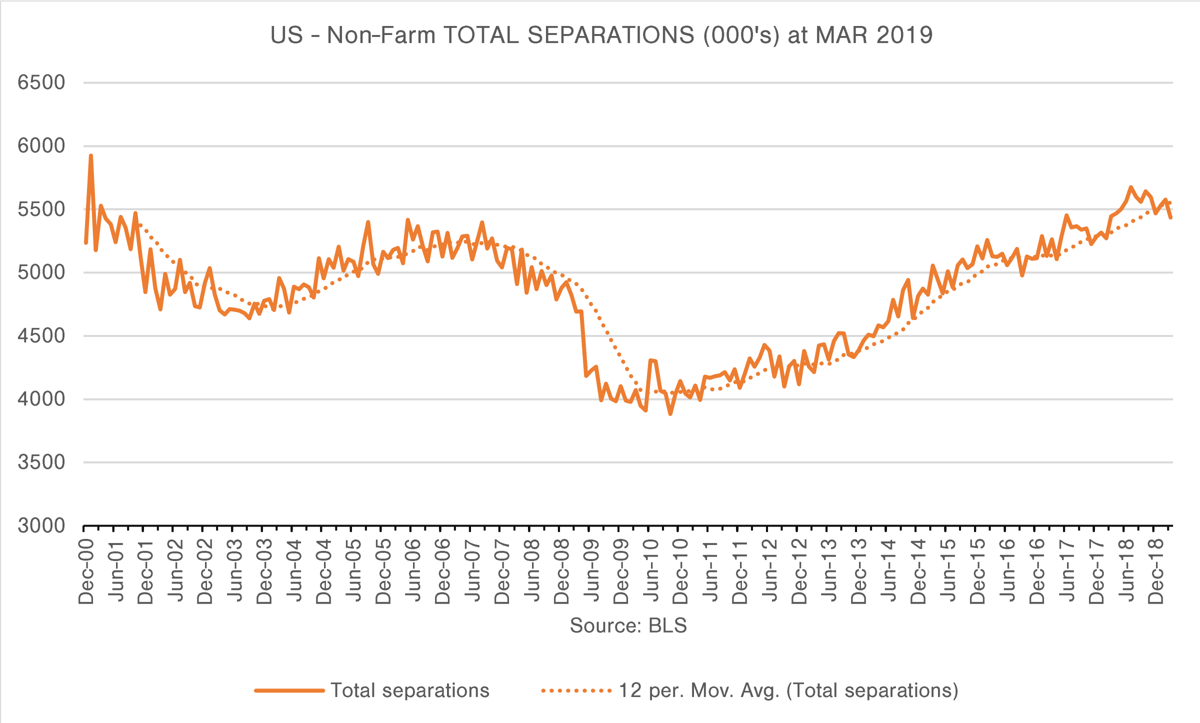
The annual growth in job openings has also slowed. The annual rate of growth of job openings was +24% in Nov 2018 and has now slowed to +8.6% in Mar 2019.

Separations

Mar 5.4m versus Feb 5.6m

This was a relatively large decrease in separations (-1.93 SD based on the last 12-months).

The separation rate has now fallen to 3.6% and is below the 12-mth average of 3.7%.

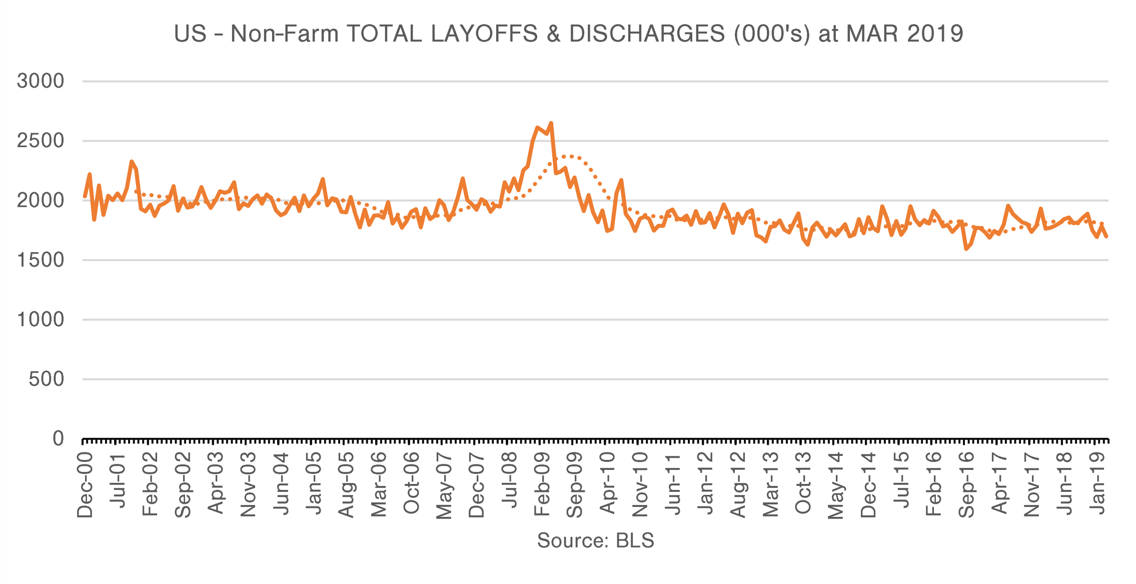


The annual change in separations has fallen to -0.2% versus a year ago.

The decline in separations this month was led by lower layoffs and discharges and by lower quits.

Lay-offs and Discharges; Mar 1.7m versus Feb 1.78m

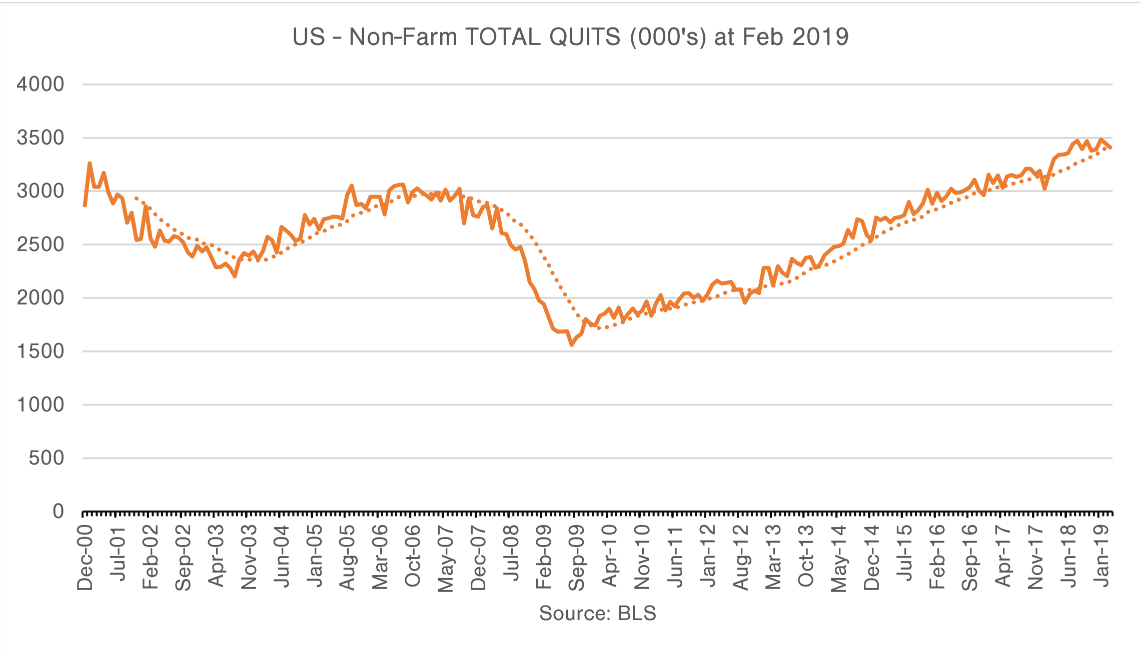
Layoffs and discharges are involuntary separations and tend to increase during times of employment/economic stress – the trend doesn't suggest that this is happening. The current number of separations based on layoffs and discharges is running at below the 12-month average.



<u>Quits:</u> Mar 3.4m versus Feb 3.44m

Quits are voluntary separations by employees and tend to decline during times of employment/economic stress. Despite the fall in Mar, the number of quits is still running on par with the 12-month average.

The quit rate remains at 2.3% which is also equal to the 12-month average.



The annual growth in quits has slowed to 3.3% since peaking in Jan 2019 at 15%.

https://www.bls.gov/jlt/

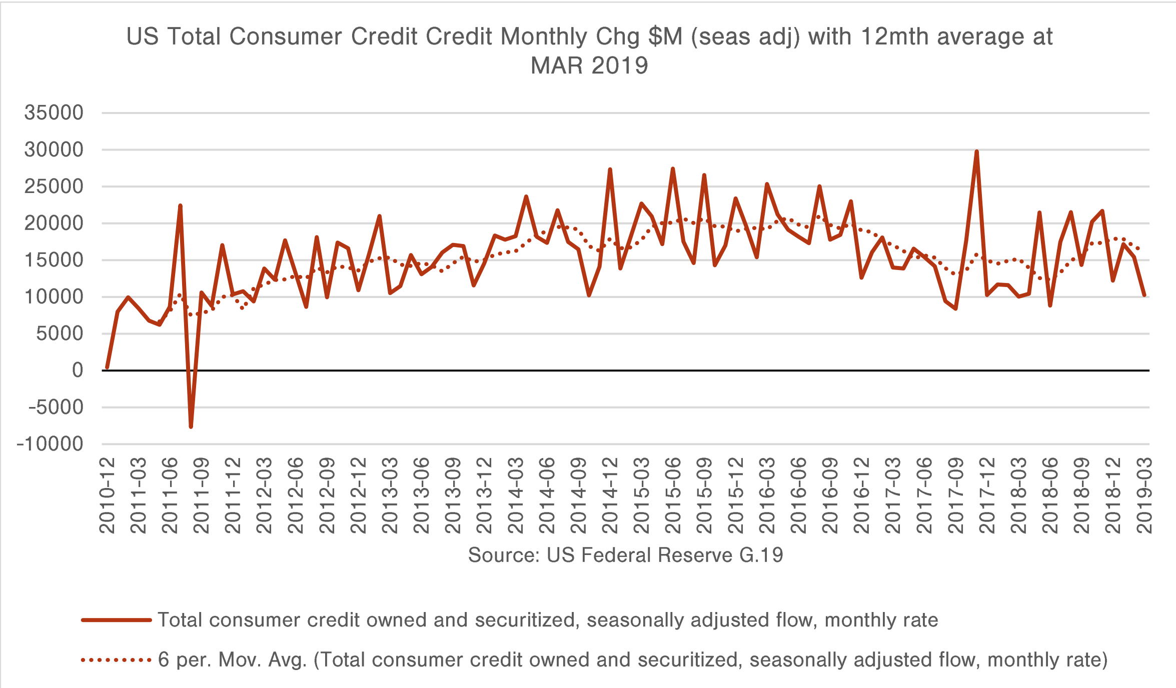
Consumer Credit (Mar)

Consumer credit growth slowed in Mar, the result no change in the growth of non-revolving credit while revolving credit (credit cards) declined in the month.

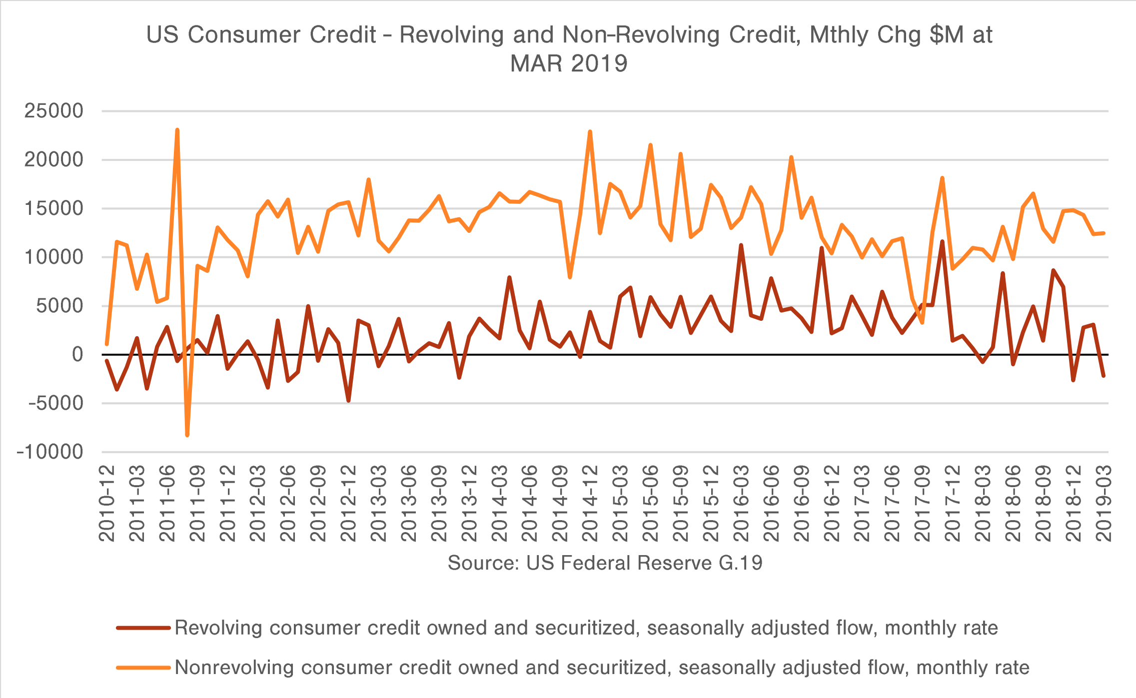
From the Senior Loan Officer Opinion Survey (SLOOS) for Apr (up to Feb data), lending standards for credit cards tightened in Feb/Q1, while standards for auto and all other consumer loans was mostly unchanged. Credit card lending demand remained weaker but was less negative on net than the month prior. Demand for auto loans was noticeably less negative on net for Feb/Q1 – consistent with the improvement in auto sales for Mar.

<u>Total Consumer Credit – Monthly flow</u>; Mar +$10.8bn versus Feb +$15.4bn

In the latest quarter, total outstanding consumer credit increased by +1.1%, a somewhat slower rate than the actual annual rate of 4.9%.



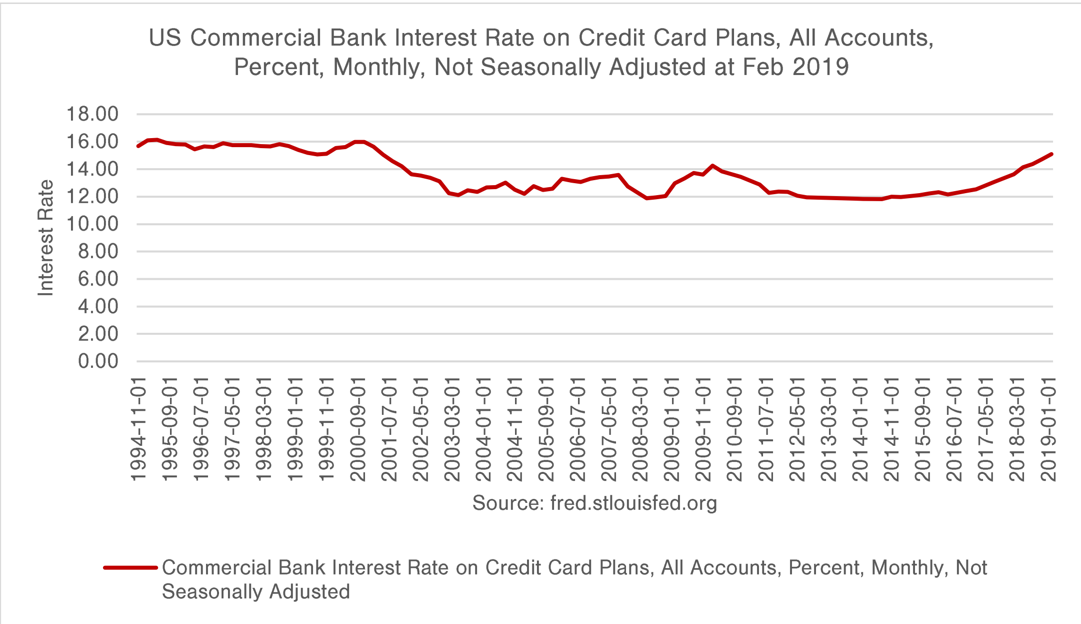
The two main components of consumer credit are revolving and non-revolving credit. In the latest month, growth of non-revolving credit was mostly unchanged while revolving credit declined versus the month prior;



<u>Revolving credit;</u> Mar -$2.2bn versus Feb +$3.1bn

In the latest quarter, total outstanding revolving credit increased by +0.4%, which, at an annualised rate, is well below the current annual rate of growth in outstanding revolving credit of +3.2%.

Is this a supply or demand issue? The latest Senior Loan Officer Opinion Survey (SLOOS) at Apr (with data up to Feb) shows that credit card lending standards tightened substantially on net in Feb. Interest rates remain elevated and increased further in Feb, but not any more so than in previous months;



Demand for credit card lending remained weaker on net, but less so than in the month prior.

<u>Non-revolving credit</u>; Mar +$12.5bn versus Feb +$12.4bn

In the latest quarter, total outstanding non-revolving credit increased by +1.3%, which, at an annualised rate, is just below the actual annual growth of total outstanding non-revolving credit of +5.6%.

According to the latest SLOOS report, there was more of a shift in demand rather than supply for non-revolving credit. Lending standards for new and used auto's and all other consumer loans (ex-credit cards and autos) remained only slightly tighter on net and were unchanged in Feb versus Jan. **The net demand for auto loans, while still negative, became much less negative in Feb**. Demand for all other consumer loans (ex-credit cards and autos) remained little changed at a net negative reading (meaning weaker demand on net).

<u>Senior Loan Officer Opinion Survey (Apr release of Feb data) – lending standards and demand for consumer loans</u>

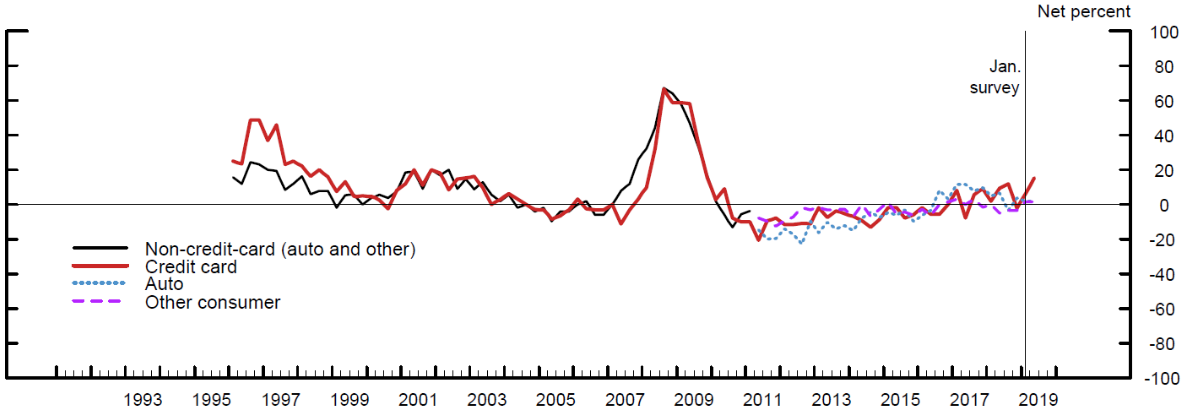
Commentary on lending standards;

> "A moderate net percentage of banks reported tightening lending standards on credit card loans in the first quarter, while all terms associated with credit cards were basically unchanged on net."

> "…lending standards for auto loans were basically unchanged, on net, in the first quarter, and a moderate net fraction of banks reportedly increased interest rate spreads on auto loans during this period."

> "Lending standards and terms were basically unchanged, on net, for other consumer loans in the first quarter."

Net Percent of Domestic Respondents Tightening Standards for Consumer Loans



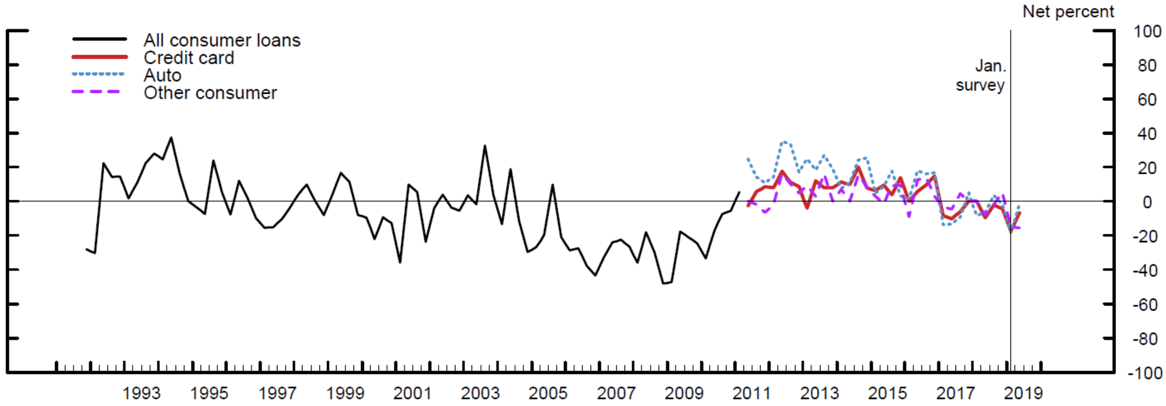
Note: For data starting in 2011:Q2, changes in standards for auto loans and consumer loans excluding credit card and auto loans are reported separately. In 2011:Q2 only, new and used auto loans are reported separately and equally weighted to calculate the auto loans series.

Commentary on demand for credit;

> "Banks reported that demand for auto loans was basically unchanged, on net, in the first quarter. Meanwhile, a modest net fraction of banks reportedly experienced weaker demand for credit card loans, and a moderate net fraction of banks reported weaker demand for other consumer loans."

The slow down in auto sales in Feb was offset by the growth in Mar – lending data seems to fit this.

Net Percent of Domestic Respondents Reporting Stronger Demand for Consumer Loans



Note: For data starting in 2011:Q2, changes in demand for credit card loans, auto loans, and consumer loans excluding credit card and auto loans are reported separately.

https://www.federalreserve.gov/releases/g19/current/default.htm

https://www.federalreserve.gov/data/documents/sloos-201904-fullreport.pdf

International Trade (Mar)

Versus a year ago, the US trade deficit widened as the value of imports grew at a faster pace than exports.

In the latest month, the trade deficit also widened as imports grew at a slightly faster pace than exports.

All values USD.

Trade Balance – Deficit -$50bn (in Mar 2018 -$47bn)

Versus a year ago, the trade deficit was larger due to faster growth in imports versus exports;

Exports +1% or +$2.7bn

Imports +2% or +$5.3bn

Versus the month prior, trade deficit was larger due to slightly faster growth in imports versus exports;

Exports; +1% or +$2.1bn

Imports +1% or +$2.8bn

The value of export and import growth (goods plus services) has been slowing throughout 2018 and growth remains at this lower level (compared to the first half of 2018);

US EXPORTS

Overall US export growth – versus a year ago; +$2.7bn (+1%) was led by both goods and services.

Export growth versus the prior month; +$2.bn was mostly all growth in goods exports.

Goods exports; +1% or +$1.5bn versus a year ago.

The value of petroleum exports account for all that growth versus a year ago;

Petroleum exports; Mar 13.3% or +$1.8bn

Non-petroleum exports; Mar -0.2% or -$0.3bn

From an end-use perspective, consumer goods, industrial supplies and foods/feeds/beverages account for the growth in goods exports. Both capital goods and auto vehicle exports declined versus a year ago and versus the month prior.

In the latest month though, the value of export growth of petroleum and non-petroleum goods are on par. Industrial supplies, foods/feeds/bevs and other exports, offset declines in exports of capital goods, auto vehicles and lower growth in consumer goods exports.

Services exports; +2% or +$1.2bn versus a year ago accounting for just under half of the annual growth in exports. But in the latest month, services export growth slowed to 0%.

US IMPORTS

Overall US import growth – versus a year ago; +$5.3bn (+2%) led by larger $ growth in goods imports than services.

Import growth versus the month prior; +$2.8bn (+1%) – which was mostly all goods imports due to petroleum.

Goods imports; Mar +2% or +$3.6bn versus a year ago.

The value of non-petroleum imports accounted for all the growth in goods imports versus a year ago;

Petroleum imports; -7% or -$1.2bn

Non-petroleum imports; +2.5% or +$4.7bn

The value of imports increased across all categories except industrial supplies on an annual basis. But there was a notable shift though in terms of the monthly growth of imports by category – with petroleum import growth offsetting slower non-petroleum goods import growth in the month.

In the latest month, non-petroleum imports increased by only +0.4% or +$0.8bn, with categories such as consumer goods and other goods recording declines in imports. Of note from the Census Bureau report;

> "Consumer goods decreased $0.7 billion, within which, cell phones and other household goods decreased $1.1 billion."

Import growth of capital goods and auto vehicles was very low at 0% and +0.3% respectively versus the month prior.

Petroleum imports increased by 12% or +$1.7bn versus the month prior.

Services Imports; Mar +4% or +$1.6bn, accounting for only 30% of the annual growth in imports. Like exports, the growth in the value of service imports slowed to only +0.5%.

https://www.census.gov/foreign-trade/data/index.html

PPI (Apr)

US PPI growth moderated in the month of Apr and remained unchanged versus a year ago.

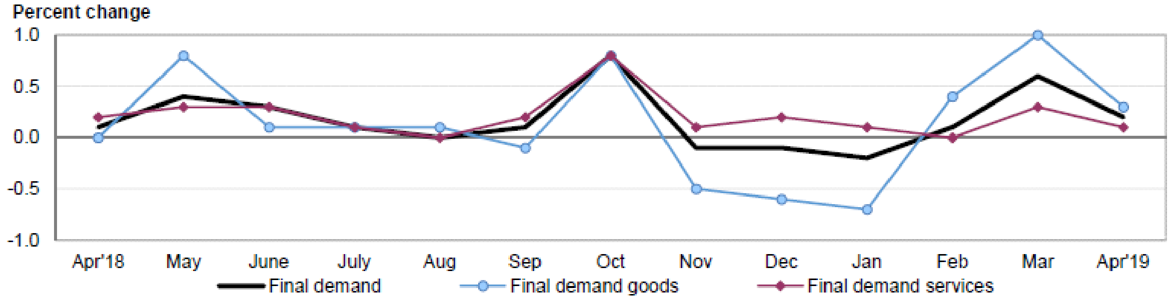
Mth chg PPI; Apr +0.2% versus Mar +0.6%

Both final demand goods and services prices slowed in the latest month;

Goods; Most of the increase in Apr was due to the increase in prices for gasoline +5.9%

Services; Most of the April increase in the index for final demand services was the result of growth in prices for portfolio management +5.3%

Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted

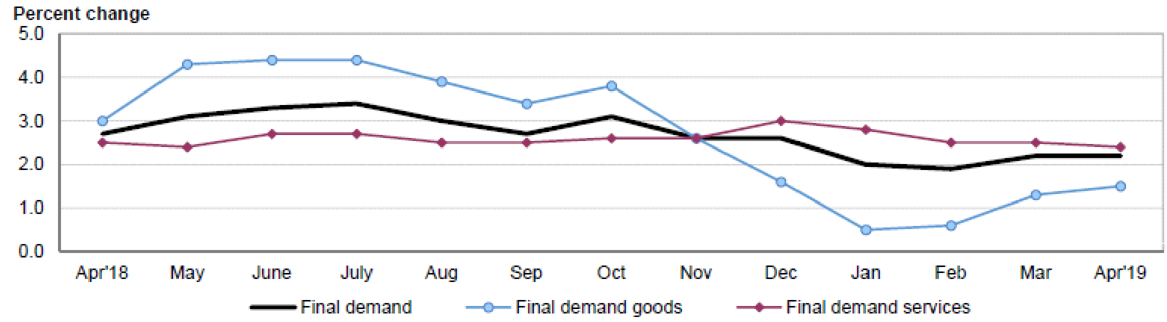


Annual chg PPI; Apr +2.2% versus Mar +2.2%

Final demand prices for goods accelerated from +1.3% in Mar to +1.5% in Apr.

Final demand prices for services slowed slightly from +2.5% in Mar to +2.4% in Apr.

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



https://www.bls.gov/ppi/

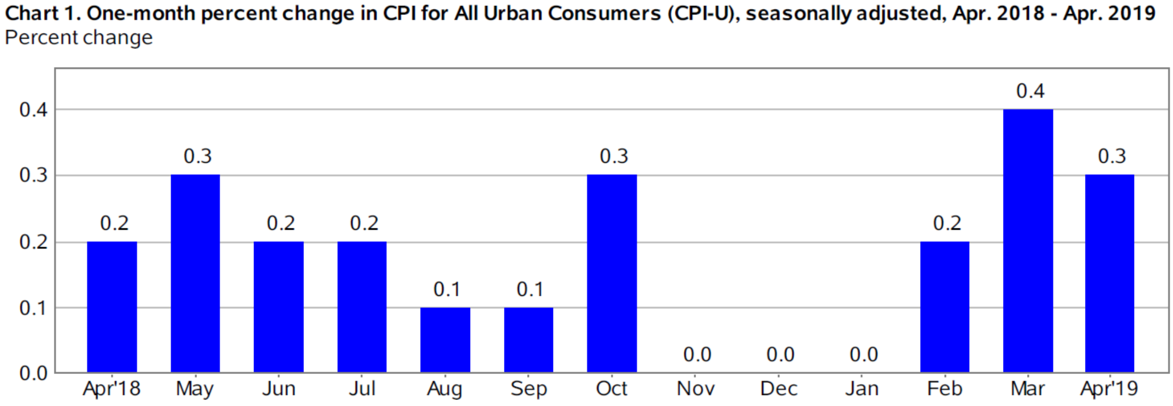
CPI (Apr)

Headline/all items CPI growth slowed slightly in the latest month as food prices declined, energy prices grew at a slower pace and core CPI grew at a constant pace.

The annual rate of CPI growth increased slightly in Apr as faster growth in energy and services prices offset slower growth in food and declines in core commodities prices for the year.

Monthly chg All-items CPI growth; Apr +0.3% versus Mar +0.4%

Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, Apr. 2018 - Apr. 2019



On a monthly basis, the slower CPI growth was the result of;

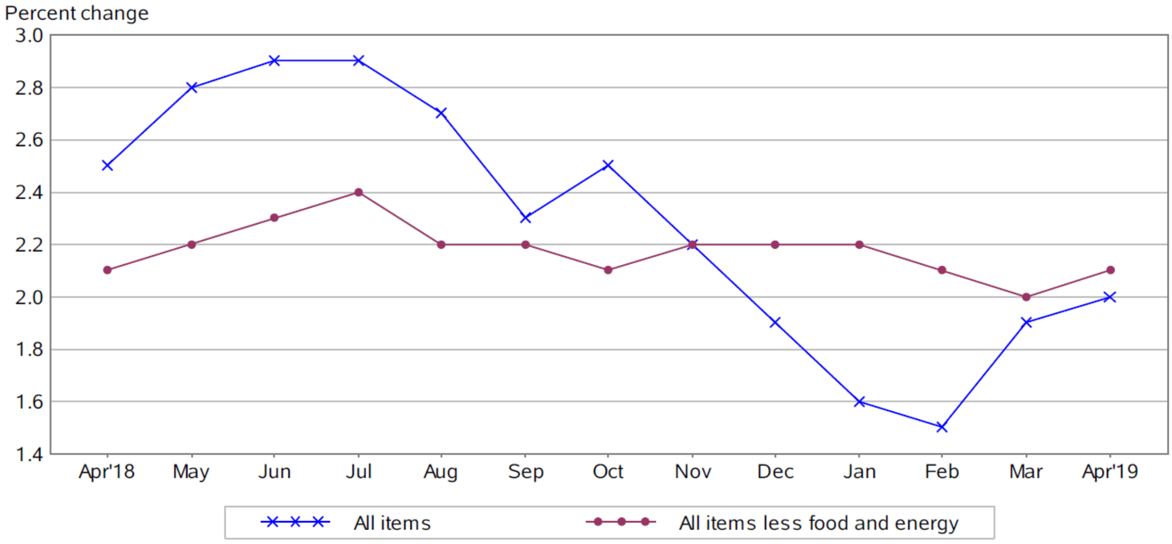
A decline in food prices; Apr -0.1% versus Mar +0.3%

Slower growth in energy prices (although growth remains elevated); Apr +2.9% versus Mar +3.5%

Constant growth in all items less food and energy; Apr +0.1% versus Mar +0.1%

Annual chg All-items CPI growth; Apr +2% versus Mar +1.9%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, Apr. 2018 - Apr. 2019



Slightly faster annual growth was the result of;

Slower growth and a lower contribution from the change in food prices; Apr +1.8% versus Mar 2.1% - contributing approx. 12% of the change in CPI in Apr (15% in Mar)

Much faster growth and a higher contribution from energy prices; Apr +1.7% versus Mar -0.4% - contributing approx. 6% of the change in CPI in Apr (versus -1.57% in Mar)

Core CPI – All items ex food & energy; Apr +2.1% versus Mar +2% - contributing approx. 82% of the change in CPI in Apr.

Within core CPI;

Commodities less energy and food commodities/goods; Apr -0.2% versus Mar 0% and accounting for approx. -0.5% of the change in CPI for the year to Apr.

The main contributor to CPI growth continues to be Services less energy services; Apr +2.8% versus Mar +2.7% - contributing +1.681% pts to the headline 2% growth in Apr (84% of the change in CPI).

Shelter continues to make up the bulk of the change in services, contributing 57% of the change in CPI (owner equivalent rent =40% of the annual change in CPI in Apr).

https://www.bls.gov/cpi/

Wholesale Trade (Mar)

US wholesale trade sales increased at a much faster rate in Mar than in Feb. But half of the growth in the month was the result of higher growth in petroleum sales (non-durable goods accounted for nearly 70% of the growth in the month). The annual growth in durable goods wholesale sales remains constant – no acceleration at the total level.

Inventories declined overall versus the month prior. This was led by a decline in inventories of non-durable goods, notably drugs. Inventories for durable goods continued to increase with machinery making the larger contribution to growth.

Wholesale Sales

US Total Wholesale Sales; Mar +$11.4bn or +2.3% versus the month prior

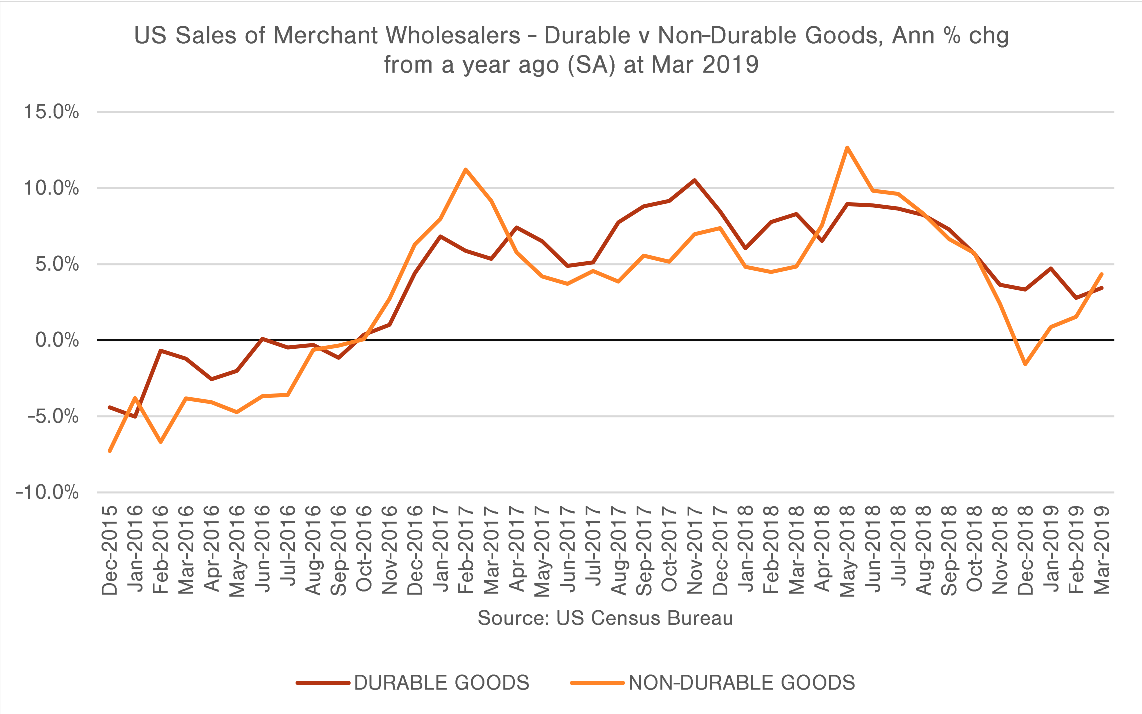
The two main categories are durable and non-durable goods;

Durable goods sales underperformed; Mar +$3.37bn or +1.4% versus the month prior

Of the larger categories; electrical made the largest contribution growing at +3.2%/+$1.6bn. Prof equipment grew by +1.4%/+$0.5bn. Sales of automotive and machinery categories grew by only +0.2% versus the month prior.

Non-durable goods accounted for most of the growth in wholesale sales (led by petroleum); Mar + $7.8bn or +3.1% versus the month prior

Petroleum accounted for most of the growth in non-durable goods; Mar +$5.4bn or +9.4% versus the month prior. Groceries also contributed +$1.4bn or +2.7% versus the month prior.



Inventory

The overall value of inventory declined in Mar. Underlying this change was an increase in the value of durable goods inventory which was offset by a decline in non-durable goods inventories.

Total Inventories; Mar -$0.4bn or -0.1% versus the month prior

Durable goods inventories increased; Mar +$1.1bn or +0.3% versus the month prior

This increase was led by an increase in machinery inventories (+$1.3bn).

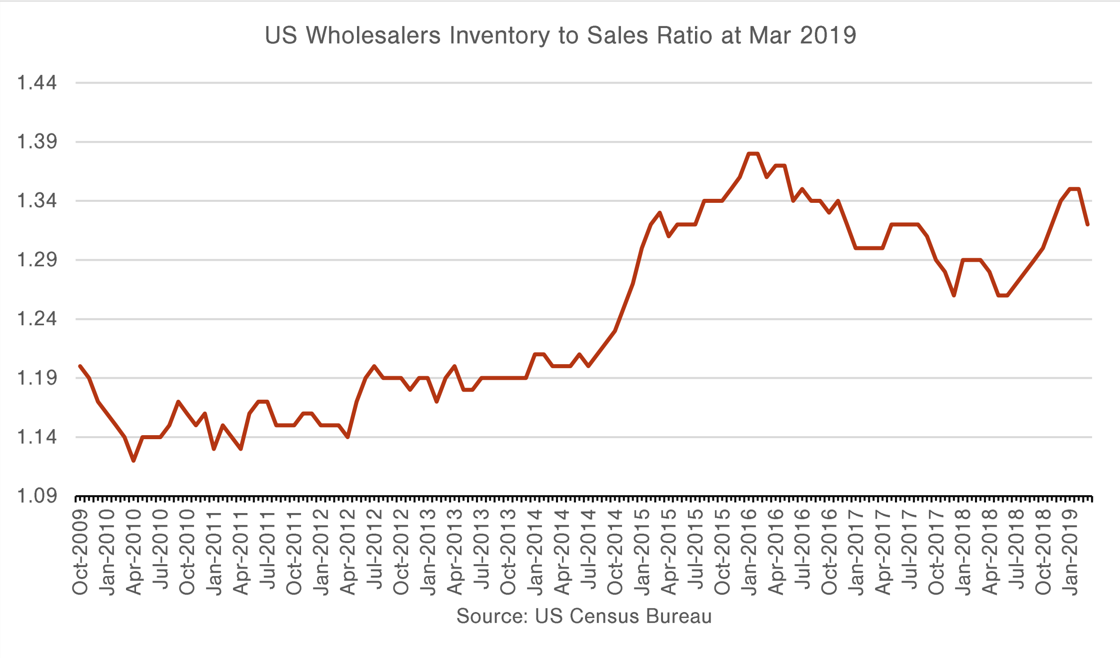
Non-durable goods inventories declined; Mar -$1.5bn or -0.6% versus the month prior

The decline in non-durable goods inventories was led by Drugs -$2.14bn or -3.2%.

<u>Inventory to Sales Ratio</u>

The overall inventory to sales ratio declined in Mar; 1.32 versus 1.35 in Feb.

The inventory to sale ratio for durable goods declined from 1.72 in Feb to 1.7 in Mar and declined for non-durable goods, falling from 1.0 in Feb to 0.96 in Mar.



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

US Fed Speeches

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

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

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

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

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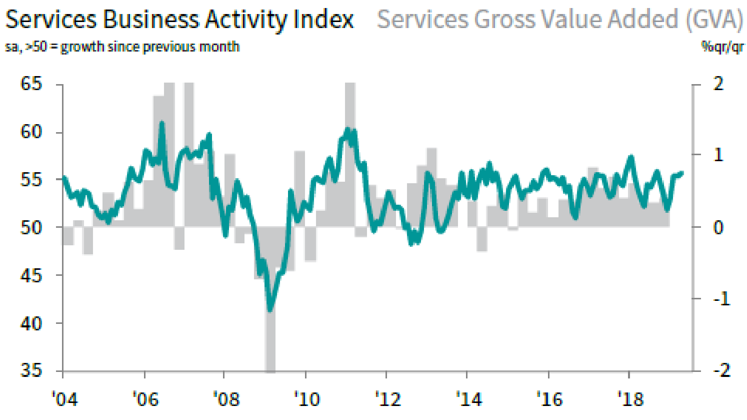
Europe

German Services PMI (Apr)

The headline index of services activity increased at a slightly faster pace in Apr. The activity was buoyed by domestic demand with new orders and output increasing at a faster pace. This is in sharp contrast to the continued weakness in manufacturing activity in Germany.

Services PMI; Apr 55.7 versus Mar 55.4



Note: Services GVA data include retail, which is not included in the PMI.
Sources: IHS Markit, Federal Statistical Office

Business activity increased at a faster pace in five out of the six broad sub-categories. Transport and storage was the only sector to record a decline in activity.

New orders increased at a faster rate, reaching the highest growth in seven months. New orders from abroad declined, decreasing for the ninth time out of the last ten months.

Employment grew at faster pace – the fastest since Oct 2007. While outstanding work continued to increase, the pace slowed to lowest level in three months.

Wage, energy costs and rents were drivers of faster growth of input costs. Firms continued to pass on these higher costs, albeit at a slower pace than the peak in the prior month.

Confidence in the outlook remained strong, but growth in sentiment slowed to a three-month low.

https://www.markiteconomics.com/Public/Home/PressRelease/9717bb460a184bcbb2d4ac5442c2efc2

Eurozone Services PMI (Apr)

The services business activity index grew at a slower pace across the Eurozone in Apr.

Services activity Index; Apr 52.8 versus Mar 53.3

There was a slight improvement in growth in new orders. Employment grew at a faster pace, the fastest in over six months across the Eurozone. Order backlogs recorded no change from the month prior.

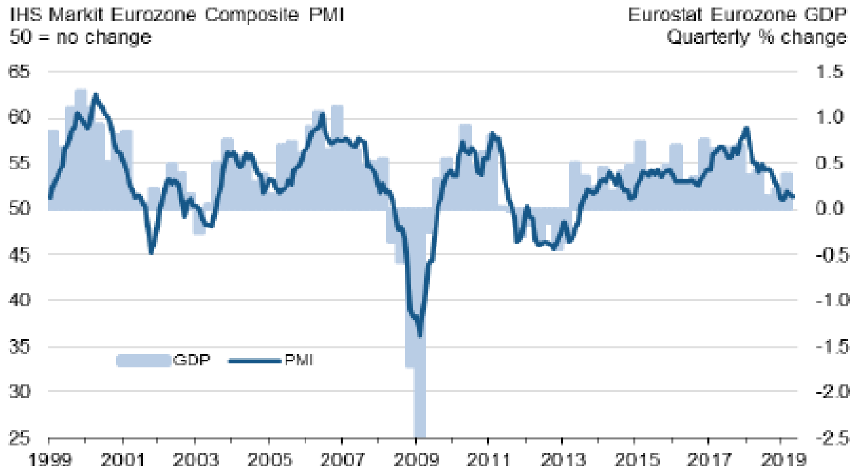
Input prices increased on the back of higher employment costs. But output charges grew at a slower pace versus the month prior.

There was little change in the level of business confidence compared to the month prior.

At the composite level, overall PMI suggested little change versus the month prior in the level of activity across the Eurozone;

Composite PMI; Apr 51.5 versus Mar 51.6

IHS Markit Eurozone Composite PMI



Sources: IHS Markit, Eurostat. GDP = gross domestic product

"The final eurozone PMI for April came in slightly higher than the flash estimate, though still indicated that the economy lost a little momentum at the start of the second quarter and that growth remains worryingly lacklustre. The survey is indicative of the economy growing at a quarterly rate of approximately 0.2%, but manufacturing remained mired in its steepest downturn since 2013 and service sector growth slipped lower."

https://www.markiteconomics.com/Public/Home/PressRelease/6544d4ac67644980af107810a691ccff

Eurozone Retail Sales (Mar)

The monthly growth in retail trade has slowed for the second month. Retail growth in the Euro area slowed to zero while retail in the the broader EU28 group grew by +0.3%.

Euro Area Retail Sales

Monthly chg; Mar 0% versus Feb +0.5%

Monthly sales growth was lower across non-food sales (-0.4% in Mar) and automotive fuel (-0.6% in Mar). Food, drinks, tobacco grew at a slightly faster pace (+0.6%).

Annual chg; Mar +1.9% versus Feb +3%

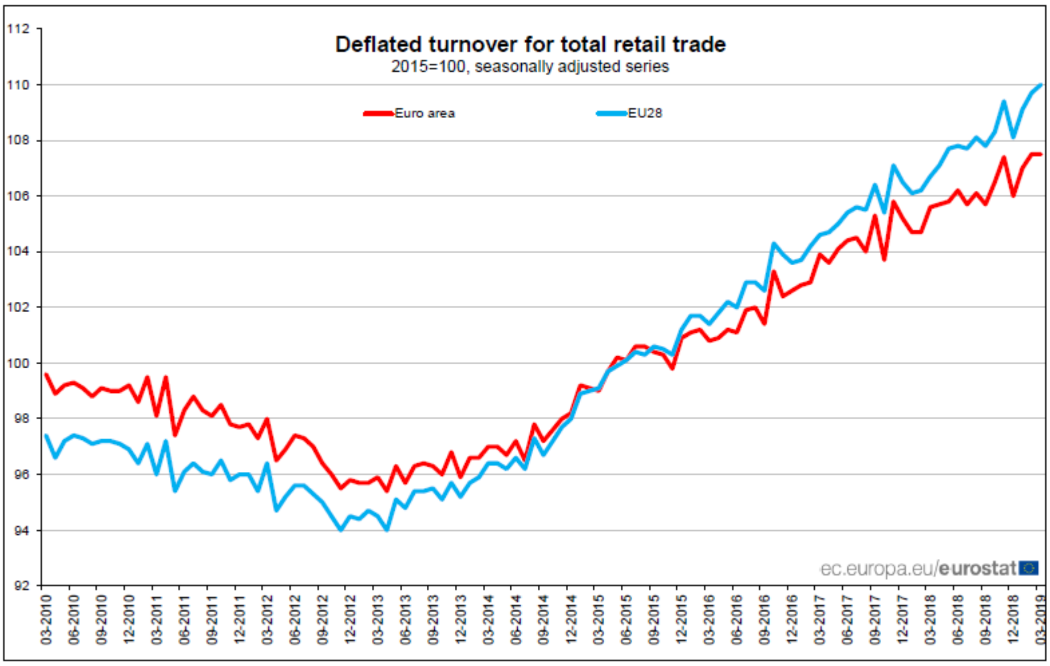
Annual growth slowed across all categories in Mar.

EU28 Retail Sales

Monthly chg; Mar +0.3% versus Feb +0.5%

Monthly sales growth was lower across non-food products (+0.2% Mar v +1.2% in Feb) and automotive fuel sales growth slowed from +0.1% to 0% in Mar. Sales of food, drink tobacco increased from 0% in Feb to +0.5% in Mar.

Annual chg: Mar +2.9% versus Feb +3.4%



https://ec.europa.eu/eurostat/documents/2995521/9765839/4-06052019-AP-EN.pdf/34cafafd-8c96-4d10-9257-1827243c5390

German Factory Orders (Mar)

Growth of the headline German factory orders index increased in the latest month due to stronger growth orders from foreign countries. Domestic new orders remained weaker and declined at an accelerated pace – this decline was experienced across most groups except for durable and consumer goods.

Annual growth in new orders declined at a slower pace due to improvement in foreign market orders.

Overall Manufacturing New Orders

Month chg; Mar +0.6% versus Feb -4%

The improvement in the month was the result of stronger growth in new orders from foreign countries – both Euro area and non-Euro area countries.

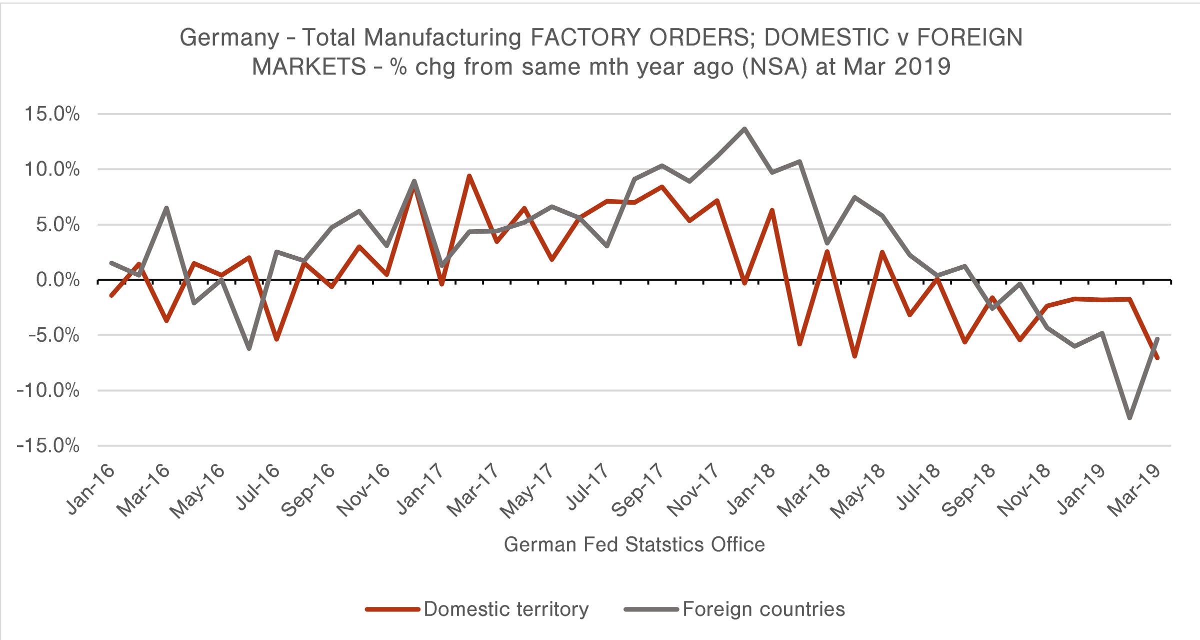
In the latest month, domestic orders declined at an accelerated pace; Mar -4.2% versus Feb - 1.4%

<u>Annual chg:</u> Mar -6% versus Feb -8.1%

New orders from foreign countries continued to decline but at a slower pace; Mar -5.3% versus Feb -12.5%.

But new orders from the domestic market declined at a much faster pace; Mar -7.1% versus Feb 1.8%

Annual change in domestic versus foreign manufacturing new orders;



Intermediate Goods – growth remains under pressure.

Monthly chg; Mar -1.5% versus Feb -0.9%

Orders for intermediate goods in Mar was lower due to both domestic and foreign markets, although foreign orders declined at a slower pace.

On an annual basis, orders declined at an accelerated pace; Mar -7.3% versus Feb -6.1%.

Capital Goods – growth rebounded in the latest month due to foreign orders.

Monthly chg; Mar +1.1% versus Feb -5.7%

Orders for capital goods in the domestic market declined at an accelerated pace (now -6.5% in Mar), while new orders from foreign markets increased at a faster pace, especially from Euro area countries.

On annual basis, new orders for capital goods declined at a slower pace; Mar -5.9% versus Feb -9.8%.

Consumer Goods – growth in new orders rebounded strongly, again led by higher growth from foreign markets.

Monthly chg; Mar +6.4% versus Feb -2.9%

New orders for consumer goods from the domestic market grew at a slightly slower pace in Mar (+1.1%) while foreign orders for consumer goods accelerated from -0.3% in Feb to +10.3% in Mar.

On an annual basis, new orders for consumer goods declined at a much slower pace; Mar -0.8% versus Feb -5.6%.

Durable Goods – growth in the month accelerated due to stronger growth from the domestic market.

Monthly chg; Mar +2.1% versus Feb +0.5%

New orders for durable goods increased at a faster pace from the domestic market (now +5.9%), while order from foreign countries declined at a slower pace (-0.7%).

On annual basis, growth in new orders for durable goods continued to accelerate; Mar +6.1% versus Feb +2.3%.

Non-Durable Goods – growth in new orders also rebounded strongly in the latest month.

Monthly chg; Mar +8.1% versus Feb -4.3%

New orders for non-durable goods declined slightly in the domestic market, which was more than offset by the +14.8% growth from foreign countries.

On an annual basis, non-durable goods new orders declined at a slower pace; Mar -3.2% versus Feb -8%.

https://www.destatis.de/EN/Press/2019/05/PE19_172_421.html

German Industrial Production (Mar)

Overall production in industry increased at a slightly faster pace in the month versus the month prior. Although production remains below the same level from a year ago, the rate of decline has become smaller Dec 2018.

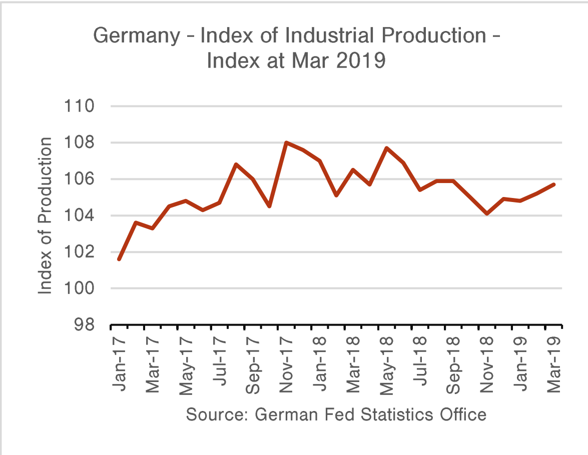
Growth in manufacturing and utilities production remains below the same level from a year ago while construction continues to grow.

Production of intermediate, capital, non-durable and consumer goods remains below the same level from a year ago and well below recent peaks in production. The annual growth in the production of durable goods accelerated in the latest month.

<u>Production in Industry</u>

Increased in the latest month; Mar +0.5% versus Feb +0.4%

Decline versus a year ago; Mar -0.9% versus Feb +0.2%

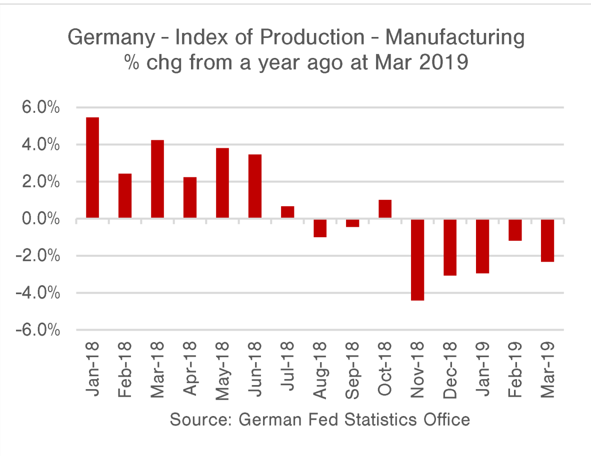


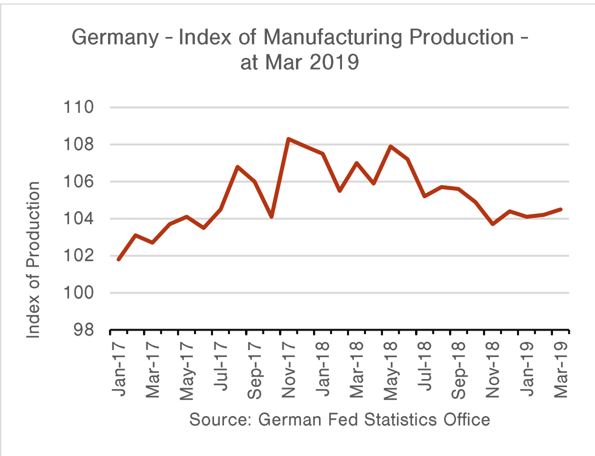
<u>Manufacturing</u>

Increased at a faster pace in the month; Mar +0.3% versus Feb +0.1%

But declined at a faster pace versus a year ago; Mar -2.3% versus Feb -1.2%

The index of manufacturing production highlights that there has been very little uplift since Nov 2018;





Production of intermediate goods remains below last year; Mar -1.4% versus Feb -2.1% and remains well below the peak in production reached in Dec 2017.

Production of capital goods declined versus a year ago; Mar -2.5% versus Feb +0.6% and production has remained lower since Jul 2018.

Production of durable goods increased at a faster pace versus a year ago; Mar +1% versus Feb +0.6% and production has continued to improve since Nov 2018.

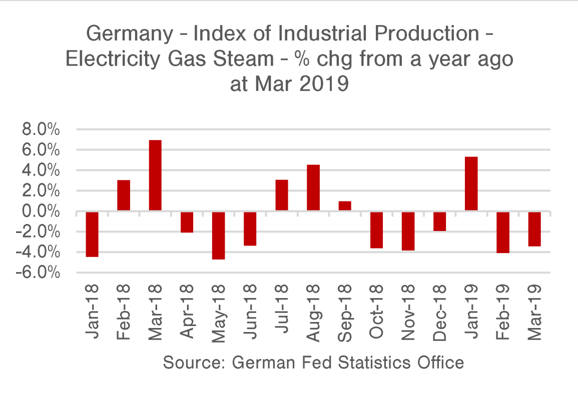
Production of non-durable goods continued to decline versus a year ago; Mar -4.7% versus Feb -5.1% and remains well below the peak in production in May 2018.

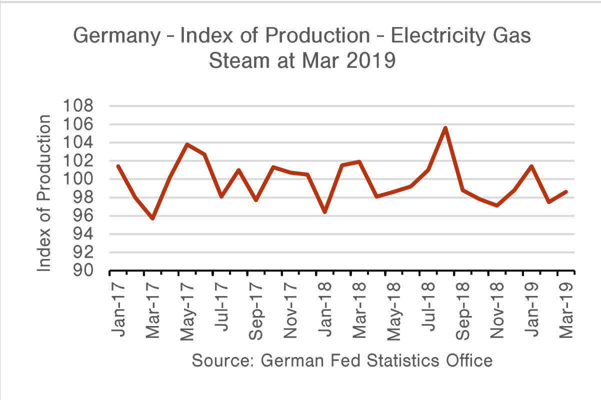
Production of consumer goods also continued to decline versus a year ago; Mar -3.6% versus Feb -4.1% and remains well below the production peak in May 2018.

Utilities - Electricity, gas, steam, air conditioning supply

Growth increased in the month; Mar +1.1% versus Feb -3.8%

Production remains below a year ago; Mar -3.4% versus Feb -4.1%

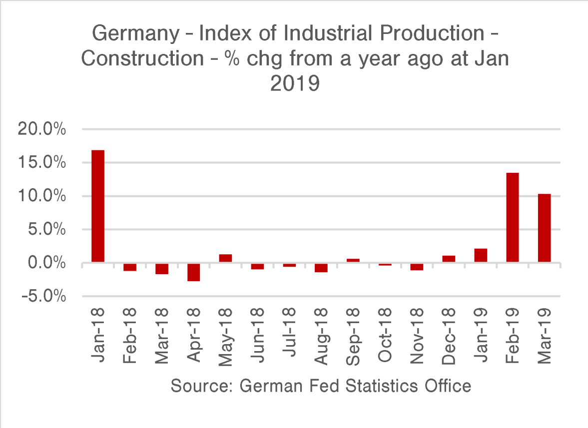


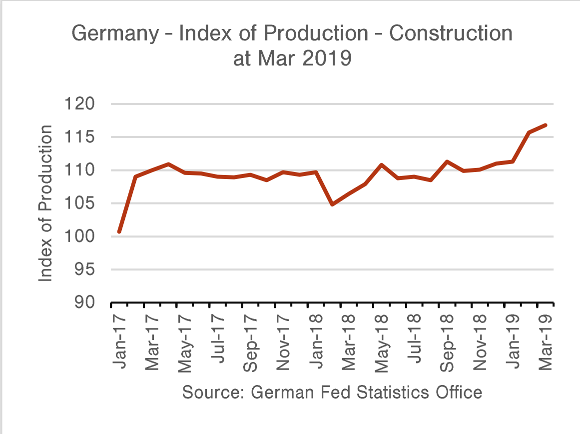


Construction

Growth slowed somewhat in the latest month; Mar +1% versus Feb +4%

Although annual growth slowed slightly from a year ago, growth remains elevated; Mar +10.3% versus Feb +13.5%





https://www.destatis.de/EN/Press/2019/05/PE19_173_421.html

German Trade Balance (Mar)

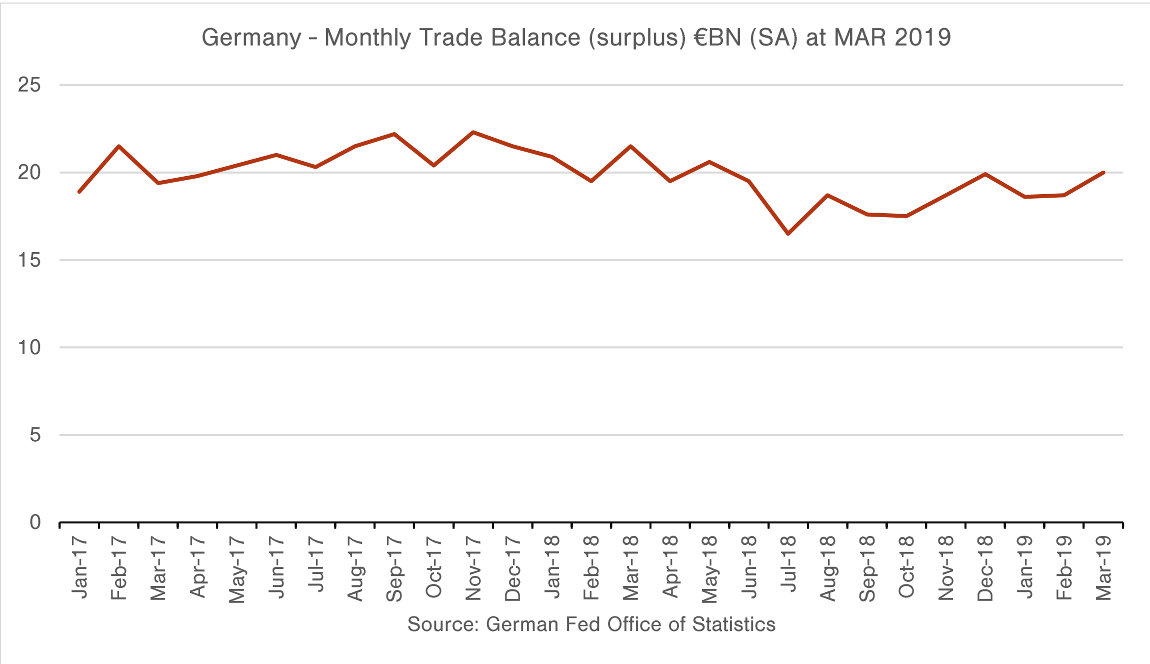
The German trade surplus widened/increased in Mar. On a monthly, seas adjusted basis, exports grew at a faster pace than imports.

On an annual basis (same month a year ago), exports grew at a slower pace than imports and the trade surplus was slightly narrower versus a year ago at Mar 2018.

All values €.

Trade surplus Mar (Seas Adj); 20bn

(versus 18.7bn in Feb 2019 and 21.5 Mar 2018)



Monthly change (SA):

Exports in Mar grew by +1.5% versus Feb.

Imports in Mar grew by +0.4% versus Feb.

Annual change at Mar (NSA):

Exports grew by +1.9% in Mar versus a year ago.

This was led by faster growth in exports to non-Eurozone EU member states (+6%). Exports within the Eurozone increased by +0.5% while exports to third countries increase by +1.1%.

Imports grew by +4.5% in Mar versus a year ago.

This was led by faster growth in imports from EU member states (both Eurozone and non-Eurozone members). Imports from third countries grew at a slower pace at +3%.

https://www.destatis.de/EN/Press/2019/05/PE19_178_51.html

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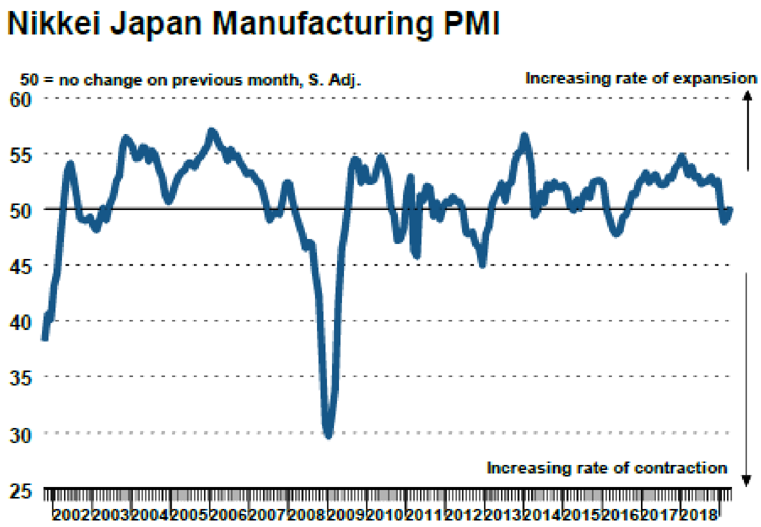
Japan

Nikkei Manufacturing PMI (Apr)

The headline index of manufacturing indicated that activity shifted back to slight expansion in Apr. Key measures of demand remain in contraction such as production and new orders overall but with that decline easing in Apr. The detail highlights concerning trends remain such as the faster decline in new exports orders in Apr.

Manufacturing PMI; Apr 50.2 versus Mar 49.2



Sources: Nikkei, IHS Markit

Despite the improvement in the headline index, both output and new orders continued to decline. The declines eased somewhat though.

The fall in new orders was linked to weaker underlying demand as well as lower orders from export markets;

> "Split by market group, capital goods producers recorded the steepest fall in demand. Meanwhile, new business from abroad fell at a slightly sharper pace in April."

Production continued to decline for the fourth month on the back of weaker new orders. Manufacturers of investment goods recorded the steepest decline in production.

Order backlogs declined at the fastest pace since 2016. Inventories also fell into contraction. Purchases of inputs slowed further.

The increase in input costs remained the weakest since Aug 2017. Output charges increased at a similar pace as in Mar.

Despite the current conditions, confidence improved with sentiment readings improving to a five-month high.

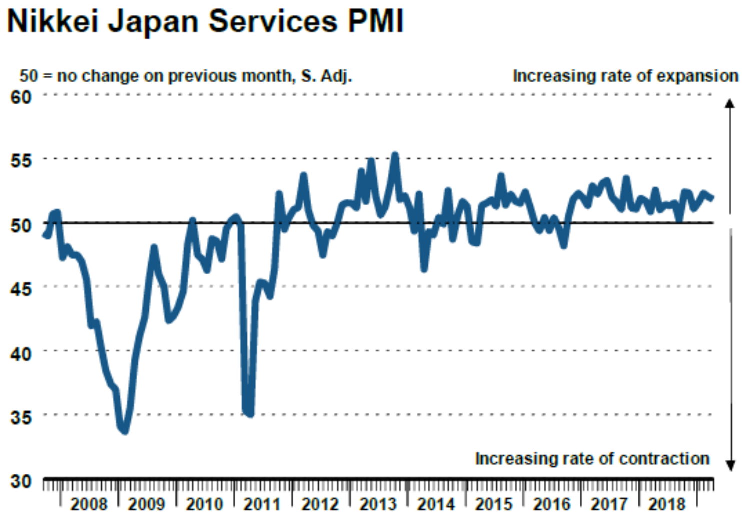
"Firms expect demand to pick up and support manufacturing over the coming 12 months."

https://www.markiteconomics.com/Public/Home/PressRelease/e8ad23ca24754880bf0d0e7b40113595

Services PMI (Apr)

The headline index of service activity grew at a slightly slower pace in Apr. Output growth slowed while new orders from the domestic market increased. New export orders declined in the month.

Services Business Activity Index; Apr 51.8 versus Mar 52



Sources: Nikkei, IHS Markit

Overall output growth slowed but remains on par with the average growth rate since Oct 2016. This was supported by growth in new orders – led by domestic customers. New export orders declined in the month.

Backlogs of work increased marginally after falling slightly in the prior month.

Employment growth was 'strong' and increased to a 'survey record' in Apr.

Input costs increased – firms cited higher staffing expenses as well as higher fuel costs in the month. The increase in selling prices eased to a five-month low.

"As has been the case since the start of the year, Japan's service sector continued to tick along at a modest pace. Domestic demand is holding up, currently supporting activity and keeping the year-ahead outlook well anchored…."

https://www.markiteconomics.com/Public/Home/PressRelease/0d74e6f8872249a3a26b93fbac7cfae6

Trade Balance (Mar)

The trade surplus narrowed versus a year ago. The value of exports declined led by lower exports to China while imports increased (also led by higher imports from China).

The decline in exports was led by machinery, electrical machinery and manufactured goods. The growth in imports was led by 'other', manufactured goods and electrical machinery, which was offset by a decline in the value of mineral fuel imports.

All values in ¥.

Trade Balance

Mar 2019 trade surplus; 527.8bn (-32% from a year ago)

Exports Mar -2.4% versus a year ago

Imports Mar +1.2% versus a year ago

Regional results

Exports;

While exports to the US increased by +4.4% (largest export market), this was offset by a -9.4% decline in exports to China (second largest export market).

Overall exports to Asia declined by -5.5%.

Exports to western Europe improved, increasing by +1.8%.

Imports;

Imports from China increased at +11% - the single largest import market. Overall imports from Asia increased by +4%.

Imports from Australia were up +22% from a year ago.

Imports from the US declined by -0.2%.

Imports from western Europe increased slightly by +0.5% but declined by -7.5% from Germany.

Imports from the Middle East declined by 10%.

Japan Export Performance by Commodity

The value of the exports categories that declined represented approx. 60% of total exports for the month. The largest contributors to the -2.4% decline in exports were;

Machinery (-1.2% pts or half of the decline), Electrical machinery (-0.9% pts) and Manufactured goods (-0.8% pts).

While the value of transport equipment exports increased, the quantities declined – total motor vehicle export quantities were -0.3% versus a year ago.

Japan Import Performance by Commodity

The categories that contributed to the increase in imports accounted for approx. 61% of the value of imports in the month. The main categories contributing to growth in the month;

Food stuffs (+0.2% pts), Chemicals (+0.3% pts), Manufactured goods (+0.5%), Electrical machinery (+0.7% pts) and other imports (+1.1% pts).

This growth was offset by a decline in the value of mineral fuels, detracting -1% pt from import growth.

http://www.customs.go.jp/toukei/shinbun/happyou_e.htm

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United Kingdom

Brexit

The deadlock on Brexit remains firmly in place. Cross-party talks have yet to result in any change for the support for the withdrawal agreement;

> "But while both Downing Street and the Labour leadership claim publicly that the talks have been worthwhile, after more than a month of discussions, both sides concede privately that there has been basically no progress."
>
> "Labour basically want us to accept their Brexit policy in total," one senior government source told Business Insider. "That's just not going to happen." https://www.businessinsider.com.au/running-down-the-clock-how-british-politics-fell-into-a-brexit-coma-2019-5?r=US&IR=T

UK political parties remain divided and there is no majority for any Brexit alternative in the UK Parliament. Momentum for negotiating within parliament has also stalled – with no votes planned.

> But whether the current political deadlock is the government's deliberate intent, or whether it is just the result of a parliament that is irretrievably divided on Brexit, the fact remains that **there is no end in sight for Britain's political crisis.** https://www.businessinsider.com.au/running-down-the-clock-how-british-politics-fell-into-a-brexit-coma-2019-5?r=US&IR=T

Q1 Prelim GDP

Both quarterly and annual GDP growth accelerated in Q1 – likely reflecting an increase in activity leading up the original Brexit deadline of 29 Mar.

Quarterly growth; Q1 +0.5% versus Q4 2018 +0.2%

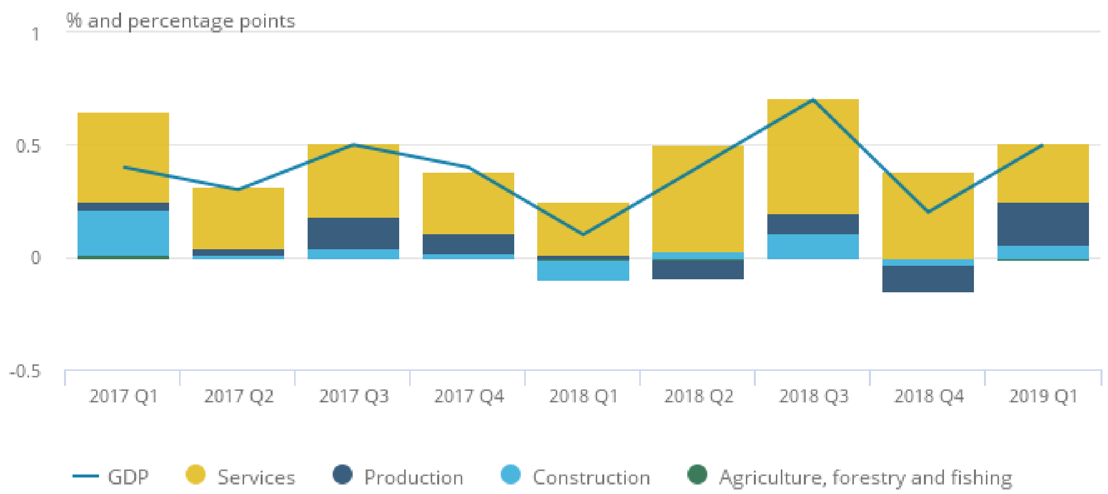
Annual growth in Q1 +1.8% versus Q4 2018 +1.4%

<u>Output Perspective</u>

The main change in the latest quarter was a larger and positive contribution from production and construction in Q1 versus Q4. Growth in services was slightly lower but remained positive and continued to be the largest contributor to overall GDP growth in the quarter.

Figure 2: Growth in services output drives GDP growth in Quarter 1 2019

UK, Quarter 1 (Jan to Mar) 2017 to Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics

Production; Q1 +1.4% versus -0.8% in Q4 2018. This was led by much stronger growth in manufacturing output;

> "the latest Bank of England's Agents' Summary shows that "around half of all respondents had been building inventories as part of their contingency planning for Brexit", while almost one-third of respondents to the latest Decision Maker's Panel Survey reported an increase in stock levels. It is difficult to unpick how much of the increase in manufacturing output in Quarter 1 2019 might reflect the increase of domestic output produced by UK manufacturers in response to the stockpiling demands by UK and/or foreign manufacturers."

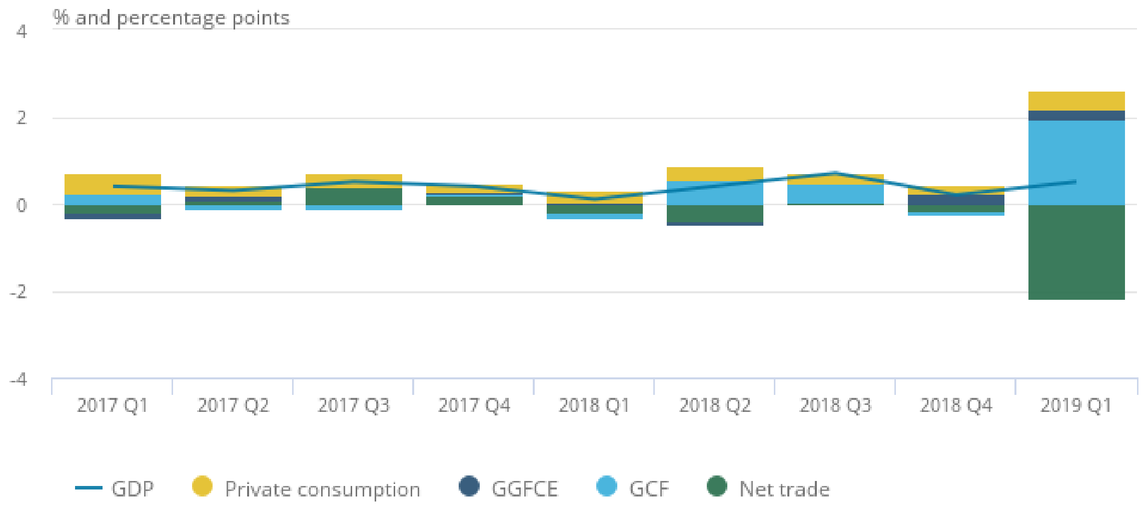
Construction; Q1 +1% versus -0.5% in Q4 2018. While growth was stronger in Q1, the trend within the quarter has deteriorated – with stronger growth in Jan shifting to a decline in Mar.

Services; Q1+0.3% versus +0.5% in Q4 2018. Retail wholesale and motor trade made a larger contribution in the latest quarter but was offset by slower growth from other services and profession/scientific and technical activities.

Expenditure Perspective

Figure 7: There have been large offsetting movements in imports of unspecified goods in Quarter 1 2019

UK, Quarter 1 (Jan to Mar) 2017 to Quarter 1 (Jan to Mar) 2019



Source: Office for National Statistics

Private Consumption Expenditure; Household consumption increased by +0.7% in Q1 versus +0.3% in Q4 2018.

General Govt Consumption Expenditure; increased by +1.4% in Q1 accelerating slightly from +1.3% in Q4.

Gross capital formation increased by 11.1% in Q1 versus a -0.4% decline in Q4. This was led by an +8.1% increase in general government investment. Business investment increased by +0.5% (after declining for the last four quarters).

Inventories;

> "the underlying data show a substantial increase of £5.2 billion in stocks being held by UK companies in the most recent quarter"

Net Trade; the trade deficit widened in Q1 and net trade detracted -2.16%pts from GDP growth. The wider deficit was the result of faster growth in imports than exports in the quarter. Exports grew by 0% in Q1 versus Q4 (goods exports growth was offset by a decline in services exports) while imports increased significantly by +6.8% in Q1 (goods imports increased by +11% in Q1 while services imports declined).

Of note this quarter was the large offsetting movements in imports of unspecified goods (emphasis added);

"There have been some notable movements in imports of unspecified goods in the first quarter of 2019. These unspecified goods include non-monetary gold (NMG) and account for the large and offsetting impacts to gross capital formation and net trade. These movements do not affect headline GDP as they are recorded as equivalent offsetting impacts in the UK National Accounts, but this is reflected in the composition of GDP growth. **There has been a sizeable import of NMG in Quarter 1 2019, reflected in a record high in the acquisition less disposal of valuables**."

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/januarytomarch2019

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Australia

Retail Sales (Mar)

In real terms, retail sales declined in Q1 versus Q4 2018. The small improvement in sales across food and other retailers was offset by declines or slower growth in clothing/footwear, dept stores and household goods. The results were more concerning by state – retail sales in real terms only increased in NSW in Q1.

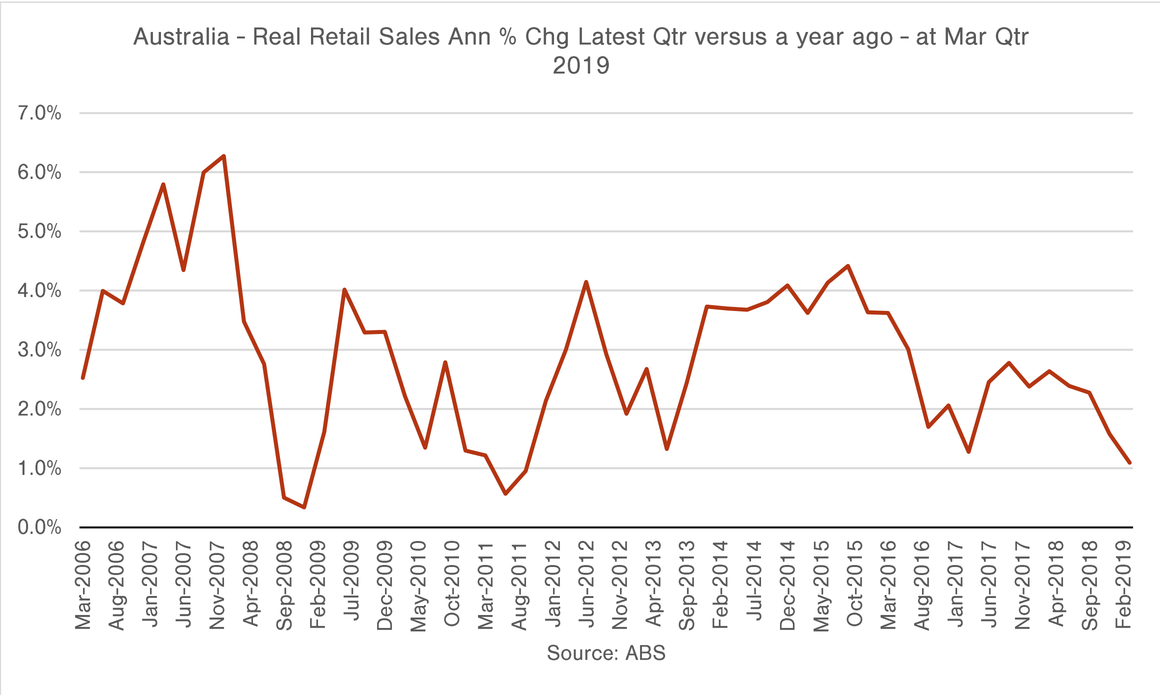
The value of retail sales grew at a faster pace in Q1. This was led by only two categories – food/bev retailing and café/restaurants. Food CPI in Q1 was +1.3% (qtr chg) versus 0% CPI growth overall for Australia. Despite this faster value growth, these were the only two categories where real sales increased in the quarter.

<u>Retail Sales – Real terms (seas adj)</u>

Mar Qtr -0.1% versus Dec Qtr 0%

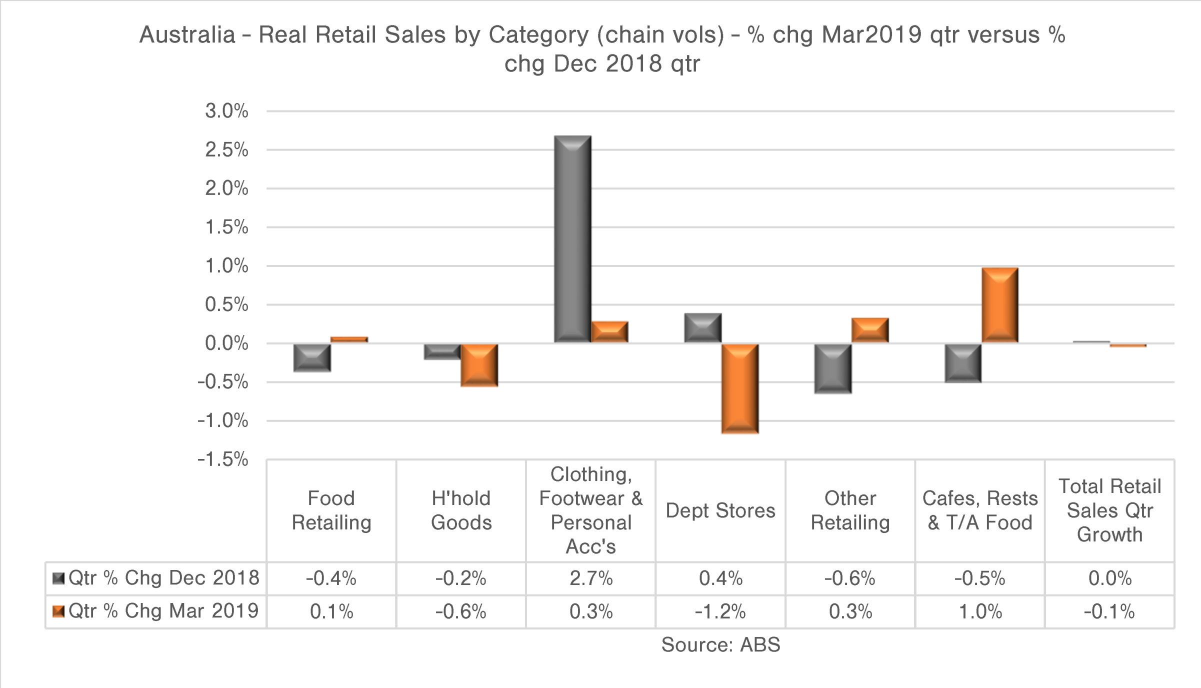
At a total level, there was a small deterioration in sales in real terms which will likely have a small impact the household consumption element of GDP.

On an annual basis, growth in real retail sales continues to slow and is now approaching the lower levels of growth reached during 2008 and 2011;



<u>Real Retail Sales Growth by Category</u>

In the latest quarter, real retail sales growth improved across; food retailers, other retailing and notably cafes/restaurants. This has been offset by a further slowing in households goods, clothing and footwear (growth was still positive) and dept stores;

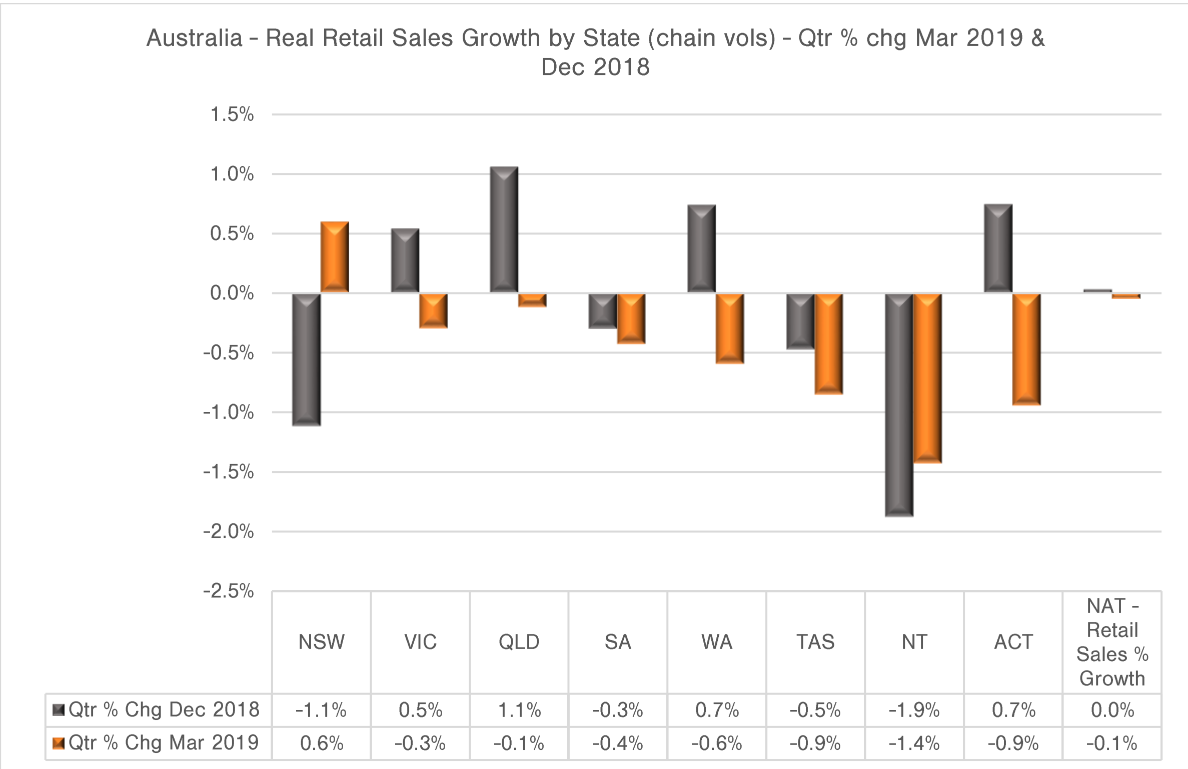


<u>Real Retail Sales Growth by State</u>

The latest quarter data shows a further deterioration in retail sales across most states in Q1.

The only state where retail sales increased in Q1 was NSW. The smaller state, NT declined by a lesser degree.

The improvement in NSW was slightly off-set by the decline in retail sales across all other states;

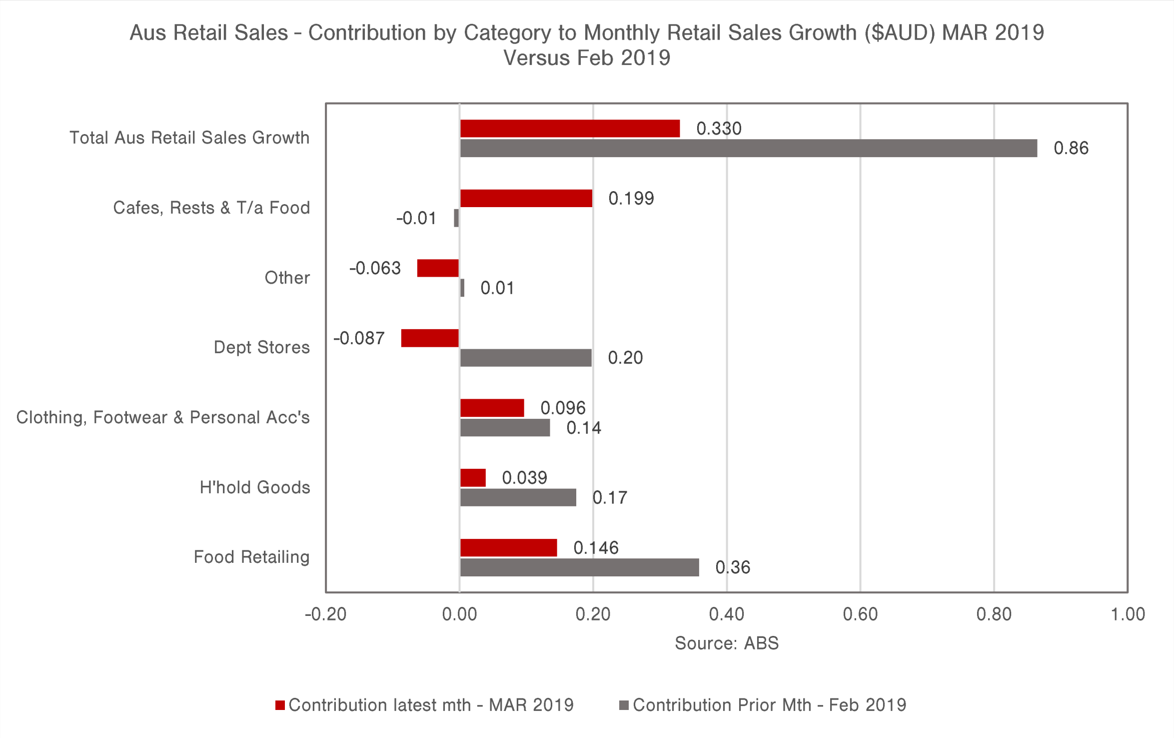


Retail Sales – value sales (Seas adj)

The regular monthly retail sales results (value sales) shows that retail sales slowed after the much stronger Feb result. The Feb growth was the outlier over the last 12-months, with growth only averaging +0.2% each month.

Mar +0.3% versus Feb +0.9%

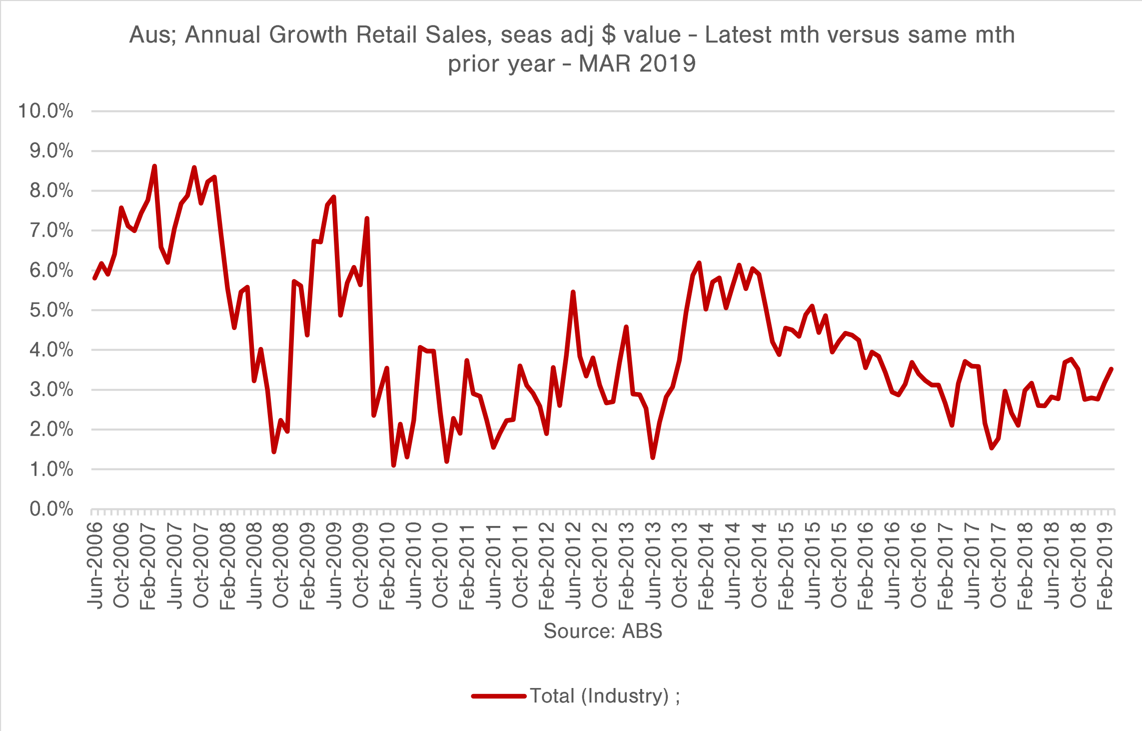
Retail sales by category – growth was slower in the month across most categories, except Cafes, Restaurants and Take-away.



Comparing Q1 value and chain vol retail sales;

In Q1 retail sales value increased by +0.7% in Q1 versus +0.4% in the Qtr prior – led by growth in retail sales value across food retailing and cafés/restaurants. It's worth noting that in Q1 CPI, Food & Bev CPI growth just for the qtr was +1.3% - versus total CPI growth of 0%. Interestingly, the increase in prices across food retailing or cafes restaurants has not had a negative impact on volume sales in the quarter – as both those categories over performed in real terms in Q1.

In value terms, annual retail sales growth accelerated slightly; Mar +3.5% versus Feb +3.2%.



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Mar%202019?OpenDocument

RBA Rates Decision – 7 May 2019

The RBA decided to keep rates on hold – with the overnight cash rate at +1.5%

The key signalling statement has changed significantly from the April meeting and future rate changes appear to hinge on the state of the labour market. The RBA noted that 'spare capacity' still exists in the economy and that 'further improvement' in the labour market would be required in order to achieve the inflation target. This was an acknowledgement of the continued high underemployment rate in Australia.

The full statement for May (emphasis added);

> "The Board judged that it was appropriate to hold the stance of policy unchanged at this meeting. In doing so, it recognised that there was still spare capacity in the economy and that a further improvement in the labour market was likely to be needed for inflation to be consistent with the target. Given this assessment, **the Board will be paying close attention to developments in the labour market** at its upcoming meetings."

From the April meeting;

> "The low level of interest rates is continuing to support the Australian economy. Further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual. Taking account of the available information, the Board judged that it was appropriate to hold

> the stance of policy unchanged at this meeting. The Board will continue to monitor developments and set monetary policy to support sustainable growth in the economy and achieve the inflation target over time."

https://www.rba.gov.au/media-releases/2019/mr-19-11.html

Statement on Monetary Policy (May)

The quarterly report outlines the RBA assessment of the current domestic and international economic conditions.

The technical note is of interest this qtr regarding movements in the cash rate;

> Technical assumptions include the cash rate moving in line with market pricing, TWI at 60, A$ at US$0.70 and Brent crude oil price at US$68 per barrel; shaded regions are historical data

As of 10 May, the futures indicate an implied rate cut either Jul or Aug this year and possibly another in early 2020. The rates part of the technical note was not included in the Feb forecasts, so suggests that the RBA is likely to cut in the coming months.

There were some large downward revisions to key economic forecasts in this report (compared to the Feb SoMP forecasts). Some of the key ones are below and both the May and Feb forecast tables are included.

GDP growth – in the Feb statement, GDP growth was forecast for the June qtr at +2.4% - this has been revised lower to +1.7% growth.

Household consumption growth has also been revised much lower; from +2.2% for the June qtr to +1.6%

Growth in dwelling investment was downgraded from -1.7% to -6% in the Jun qtr and in the forward qtrs.

Forecast Table – May 2019[(a)]

Percentage change over year to quarter shown

	Dec 2018	Jun 2019	Dec 2019	Jun 2020	Dec 2020	Jun 2021
Gross domestic product	2.3	1.7	2.6	2.7	2.7	2.8
Household consumption	2.0	1.6	2.0	2.4	2.6	2.7
Dwelling investment	2.5	-6.0	-6.7	-7.4	-5.7	-2.2
Business investment	-0.2	1.6	4.5	4.5	5.0	5.7
Public demand	6.3	5.9	3.8	3.6	3.1	3.0
Gross national expenditure	2.5	1.5	1.9	2.4	2.6	2.9
Imports	1.5	-1.3	0.6	2.5	3.1	3.4
Exports	4.7	1.3	4.0	3.9	3.5	3.0
Real household disposable income	0.4	1.2	2.6	2.4	2.4	2.3
Terms of trade	6.1	5.4	-3.4	-8.0	-5.5	-2.9
Major trading partner (export-weighted) GDP	3.8	3.6	3.7	3.8	3.8	3.8
Unemployment rate (quarterly, %)	5.0	5.0	5.0	5.0	4.9	4.8
Employment	2.4	2.4	2.0	1.8	1.8	1.8
Wage price index	2.3	2.4	2.5	2.5	2.5	2.6
Nominal (non-farm) average earnings per hour	2.4	2.8	2.8	2.8	2.8	2.9
Trimmed mean inflation	1.8	1.6	1.7	2.0	2.0	2.1
Consumer price index	1.8	1.7	1.9	2.0	2.0	2.1

(a) Technical assumptions include the cash rate moving in line with market pricing, TWI at 60, A$ at US$0.70 and Brent crude oil price at US$68 per barrel; shaded regions are historical data
Sources: ABS; RBA

Forecast Table – February 2019[(a)]

Percentage change over year to quarter shown

	Dec 2018	Jun 2019	Dec 2019	Jun 2020	Dec 2020	Jun 2021
Gross domestic product	2.8	2.4	3.0	2.7	2.7	2.7
Household consumption	2.1	2.2	2.5	2.6	2.7	2.7
Dwelling investment	5.9	-1.7	-4.5	-5.6	-5.3	-3.2
Business investment	-0.9	0.7	4.8	4.8	4.9	4.7
Public demand	4.2	4.1	3.9	4.1	3.8	3.4
Gross national expenditure	2.2	1.8	2.6	2.7	2.8	2.8
Imports	1.3	-0.9	1.3	2.7	3.2	3.4
Exports	5.4	1.3	2.7	2.6	2.7	2.6
Real household disposable income	0.5	1.7	2.7	2.5	2.3	2.3
Terms of trade	5.6	-0.6	-7.8	-6.4	-3.8	-2.1
Major trading partner (export-weighted) GDP	3.9	3.8	3.8	3.7	3.8	3.8
Unemployment rate (quarterly, %)	5.0	5.0	5.0	4.9	4.9	4.8
Employment	2.3	2.3	2.1	2.0	1.9	1.8
Wage price index	2.4	2.5	2.5	2.5	2.6	2.6
Nominal (non-farm) average earnings per hour	2.0	2.3	2.8	2.9	3.0	3.0
Trimmed mean inflation	1.8	1.8	2.0	2.1	2.1	2.2
Consumer price index	1.8	1.4	1.7	2.1	2.1	2.2

(a) Technical assumptions include TWI at 62, A$ at US$0.72, and Brent crude oil price at US$63 per barrel; shaded regions are historical data
Sources: ABS; RBA

https://www.rba.gov.au/publications/smp/2019/may/

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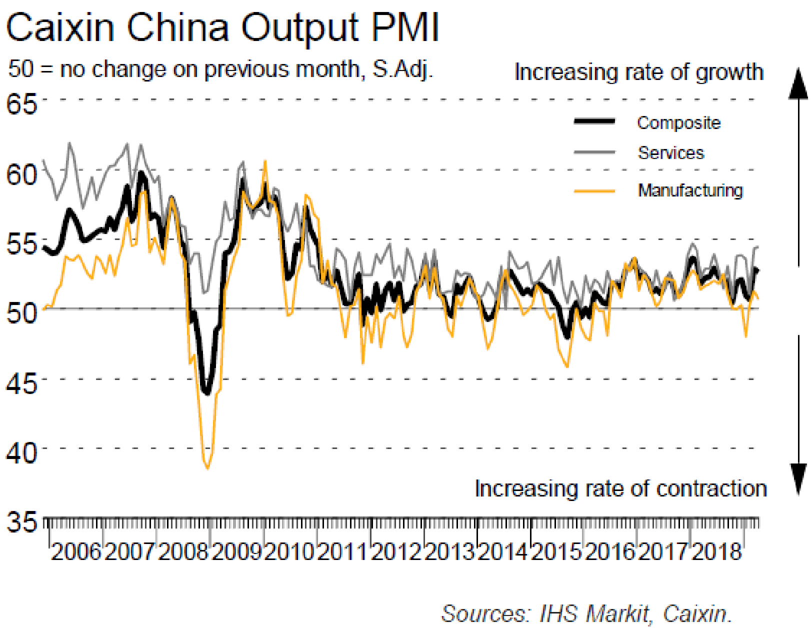
China

Caixin Services PMI (Apr)

There was little change in the headline index of services activity in Apr. This was supported by continued growth in new orders, albeit at a slightly slower pace. New export orders increased at a much faster pace. Outstanding work continued to decline as firms worked through backlogs.

Services Business Activity Index; Apr 54.5 versus Mar 54.4



New work increased but at slightly slower pace than the high reached in Mar. New export orders increased at a much faster pace – the fastest since collection of data in Apr 2014.

Service firms continued to add to payrolls although growth remains modest.

Backlogs of orders declined, and that decline was the slowest in the YTD.

Input costs/operating expenses increased at a faster pace. While output charges increased only marginally.

Business confidence remained subdued – sentiment fell to its joint lowest in five months. Firms cited concerns over the strength of the global economy.

https://www.markiteconomics.com/Public/Home/PressRelease/f999d78bf06c4d6c9ed4ff342b9068fe

Trade Balance, Exports and Imports (Apr)

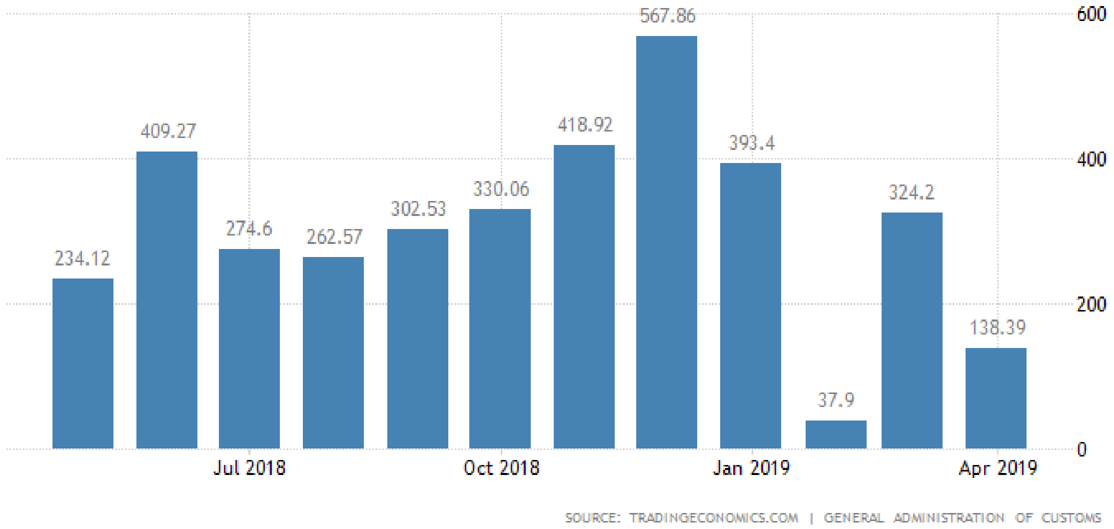
Trade surplus; fell to USD 13.84bn Apr (from USD 26.21bn same month a year ago)

Imports; versus a year ago +4% to USD 179.65bn

Exports versus a year ago -2.7% to USD 193.49bn

YTD 2019 - trade surplus widened to USD 90.16 billion from USD 70.94 billion in the corresponding period 2018.

China – Trade Balance (USD)



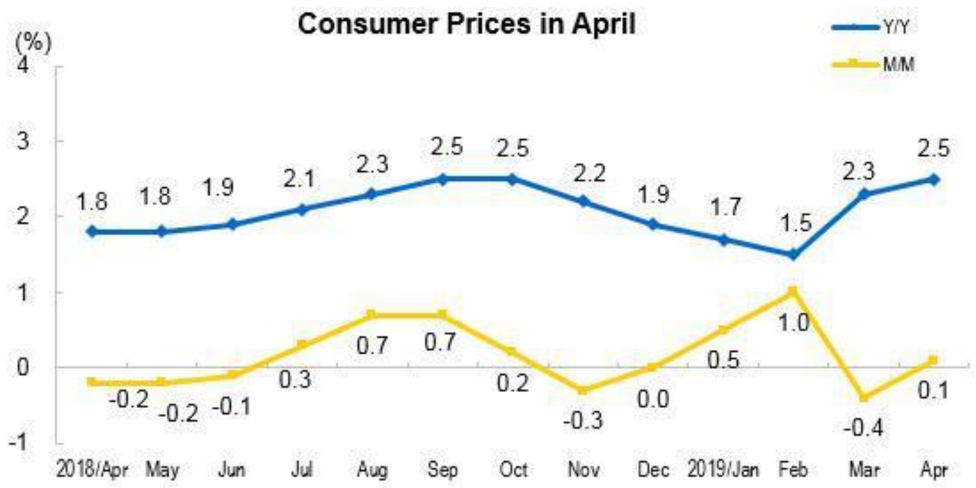
https://tradingeconomics.com/china/balance-of-trade

CPI (Apr)

Consumer price growth increased in the month as well as on an annual basis in Apr;

Month chg; Apr +0.1% versus Mar -0.4% - the contributors to the growth were household articles, education/culture, health care and other services/activities.

Annual chg; Apr +2.5% versus Mar +2.3% - the main contributors to the growth were food, tobacco and liquor (accounting for approx. 1.4% pts of the annual increase).



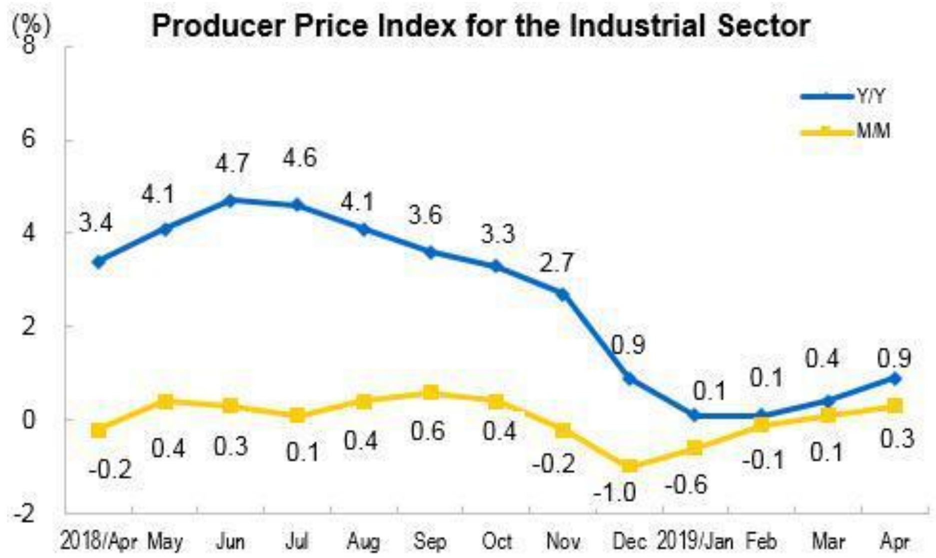
http://www.stats.gov.cn/english/PressRelease/201905/t20190509_1664030.html

PPI (Apr)

Producer prices increased at a faster pace in both annual and month on month terms;

Month chg; Apr +0.3% versus Mar +0.1%

Annual chg; Apr +0.9% up from +0.4% in Mar

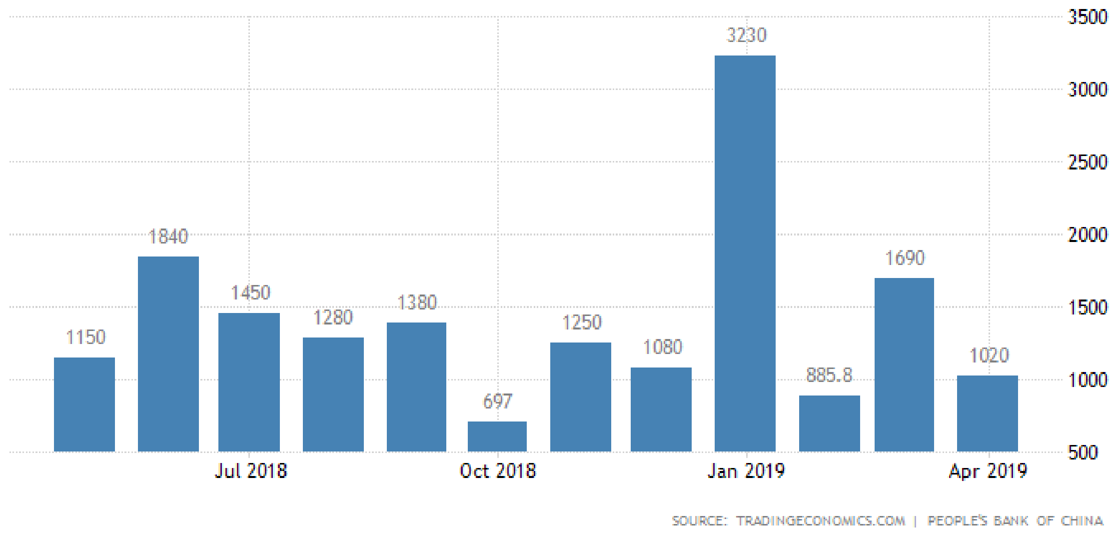


http://www.stats.gov.cn/english/PressRelease/201905/t20190509_1664062.html

New Loans (Apr)

Chinese banks extended CNY 1.02tr in net new loans in Apr. In the month prior, this was CNY 1.69tr.

China – Net New Loans (CNY)



https://tradingeconomics.com/china/banks-balance-sheet

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Trade

US-China Trade Negotiations

Talks between the US and China stalled with no agreement on key issues by the 10 May deadline. 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

> "In the most recent negotiations, China has chosen to retreat from specific commitments agreed to in earlier rounds. In light of the lack of progress in discussions with China, the President has directed the Trade Representative to increase the rate of additional duty to 25 percent." https://www.federalregister.gov/documents/2019/05/09/2019-09681/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to

The US has set a one-month deadline for a deal to be completed or the second stage of tariffs will be imposed on the final $300bn of Chinese exports to the US. https://www.pressherald.com/2019/05/11/china-names-its-trade-deal-price-as-trump-sets-month-deadline/

The office of the USTR will also establish a process for parties to request products to be excluded from the additional duties.

> USTR will publish a separate notice describing the product exclusion process, including the procedures for submitting exclusion requests, and an opportunity for interested persons to submit oppositions to a request. https://www.federalregister.gov/documents/2019/05/09/2019-09681/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to

Awaiting the details of retaliation from China.

It is likely that Presidents Trump and Xi will meet at the G20 in Japan next month. Awaiting details of further talks before then.

From last week; Business groups in the US 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

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

The link to the notorious markets reports is here; 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

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/er0418ll1087.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 18 or 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

> "Automakers expect Trump to extend the deadline by up to six months, although he could still give a date to impose new duties if no deals with the EU and Japan are reached." https://www.reuters.com/article/us-usa-trade-eu/after-trump-hikes-china-tariffs-europe-girds-for-battle-over-cars-idUSKCN1SG1JJ

US-Japan Trade Talks

Trade talks between the US and Japan have commenced. Further talks are expected to be scheduled between May and June. The stalling of talks between the US and China has increased uncertainty about the future path of negotiations.

> "Deloitte Tohmatsu Consulting LLC partner Keisuke Hanyuda, an expert on trade negotiations, warned, "The United States may press for major concessions in the agricultural sector by threatening to impose the additional tariffs."" https://www.japantimes.co.jp/news/2019/05/11/business/economy-business/japan-worried-trump-will-take-hard-line-bilateral-trade-deal-china-eludes/#.XNj_TBQzZhE

Details of the negotiations came to light after the first round of talks 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

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

EU negotiators were in Washington during the week to discuss the launch of negotiations. The scope of negotiations remains a problem as the EU has ruled out including agriculture or farm products.

> "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/

USTR Lighthizer and the chief negotiator for the EU, Cecilia Malmström, 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

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

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

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