

Key Themes

Global economic activity and growth is likely to remain in focus this week. This is a very large week of data, rates decisions and speeches - on top of the headline risk regarding trade disputes.

We should get a solid read on global manufacturing and services activity with PMI's for May being released this week.

There will be a large amount of US data and Fed speeches to digest this week. Data will provide a broad overview of activity; motor vehicle sales, ISM manufacturing and non-manufacturing PMI's, non-farm payrolls and employment, and the final factory orders data for Apr. The US Fed will be running its review of monetary policy strategy, tools, and communication practices – both Chairman Powell and Vice Chairman Clarida will speak at this conference.

European growth will be a key focus. The ECB will meet on rates this week. Of interest will be Germany factory orders and industrial production data (noting some divergence between PMI's and German data over recent months), Eurozone retail sales and the more detailed release of Q1 GDP.

It's a very big week for Australia. The RBA will meet on rates. As of 31 May, the 30-day interbank cash rate futures indicated a 100% expectation that the RBA will cut rates on Tuesday. <https://www.asx.com.au/prices/targetratetracker.htm>. The rates decision will be made before Q1 GDP is released on Wednesday. Housing lending and retail sales will also be released this week – both data points are still prior to the general election.

UK PMIs will provide some indication as to how the economy is responding to the continued Brexit limbo.

Trade negotiations will continue to feature. Negotiations between the US and Japan are live and issues regarding aircraft subsidies continue to simmer between the EU and the US which could flare up shortly. There is now a question over whether the USMCA will be ratified as a new round of tariffs on imports from Mexico go into effect. Although there was a one-month deadline given for the trade deal with China, this is likely to draw out until after the US has completed its review process into tariffs on the remaining \$300bn of Chinese imports (after 17 Jun).

US Treasury supply will be lighter this week. The US Treasury will settle approx. \$147bn in ST bills this week, with a net pay down of \$22bn.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US Treasury supply will be lighter this week.

This week, the US Treasury will settle approx. \$147bn in ST bills, with a net paydown of \$22bn.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
3-7 Jun	30-May	04-Jun	4 week bill	40			Completed		
	30-May	04-Jun	8 week bill	35			Completed		
				75	85	-10			
	03-Jun	06-Jun	13 week bill	36			Announced		
	03-Jun	06-Jun	26 week bill	36			Announced		
				72	84	-12			
			Total - securities settling this week	147	169	-22			

Securities maturing on the Fed balance sheet in June

In June, \$21.463bn of securities on the Fed balance sheet will mature. The monthly cap is now reduced to \$15bn, which means approx. \$6.463bn in principal payments will be reinvested this month. This will occur at the end of month;

15 June; there are no securities maturing on the Fed balance sheet mid-month

30 June; \$21.463bn in securities will mature. This represents 100% of the total for the month. This means that approx. \$6.463bn in principal payments will be reinvested.

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

Monday 3 June 2019

US – Markit Manufacturing PMI (May), ISM Manufacturing PMI (May)

US Fed Speeches;

Vice Chair for Supervision Quarles - The Next Stage in the LIBOR Transition (via pre-recorded video) - at the Alternative Reference Rates Committee (ARCC) Roundtable, co-hosted by the ARCC and the NYU Stern School of Business and its Salomon Center for the Study of Financial Institutions, New York University, New York

St. Louis Fed President Bullard - presentation on "The US Economy and Monetary Policy" at the Union League Club of Chicago

San Francisco Fed President Daly - speech at the Symposium on Asian Banking and Finance in Singapore

Japan – Manufacturing PMI – Final (May)

China – Caixin Manufacturing PMI (May)

Europe – Germany and Eurozone Manufacturing PMI (May)

UK – Manufacturing PMI (May)

Australia - Retail Sales (Apr)

Tuesday 4 June 2019

US – Motor Vehicle Sales (May), Factory Orders – Final (Apr)

US Fed Speeches;

US Fed Chairman Powell - Monetary Policy Strategy, Tools, and Communication Practices - at the Conference on Monetary Policy Strategy, Tools, and Communication Practices (A Fed Listens Event), Federal Reserve Bank of Chicago, Chicago, Illinois

New York Fed President Williams - opening remarks at the "Building Cultural Capital in the Financial Services Industry: Emerging Practices, Risks and Opportunities" event held by the Federal Reserve Bank of New York in New York

Australia – RBA Rate Decision, Q1 GDP

Europe – Eurozone CPI – Prelim (May)

Japan – Markit Services PMI (May)

China – Caixin Services PMI (May)

Wednesday 5 June 2019

US – MBA Mortgage Applications wk. to 31 May 2019, ADP Employment Report (May), Markit Services PMI (May), ISM Non-Manufacturing PMI (May)

US Fed Speeches;

Vice Chairman Clarida – speech Monetary Policy Strategy, Tools, and Communication Practices - at the Conference on Monetary Policy Strategy, Tools, and Communication Practices (A Fed Listens Event), Federal Reserve Bank of Chicago, Chicago, Illinois

Governor Michelle W. Bowman –Nomination Hearing, testimony before the Senate Banking Committee, Washington, D.C.

Atlanta Fed President Bostic - speech at the Atlanta Regional Housing Forum on housing affordability

Europe – Germany and Eurozone Services and Composite PMI (May), Eurozone PPI (Apr), Eurozone Retail Sales (Apr)

UK – Services PMI (May)

Thursday 6 June 2019

US – Challenger Job Cut Report (May), International Trade (Apr)

US Fed Speeches;

Dallas Fed President Kaplan - panel at Boston College's 4th Annual Carroll School of Management Finance Conference

New York Fed Bank President Williams - keynote remarks at the Peter McColough Series on International Economics event held by the Council on Foreign Relations in New York

Europe – ECB Rates Decision, Germany Factory Orders (Apr), Eurozone Q1 GDP

Australia – Lending for Housing (Apr)

Friday 7 June 2019

US – Non-Farm Payrolls and Employment (May), Wholesale Trade (Apr), Consumer Credit (Apr)

US Fed Speeches;

San Francisco Fed President Daly - speech at Singapore Management University

Europe – Germany Industrial Production (Apr)

Trade & Brexit

US-China Trade Negotiations

Negotiations appear to remain stalled – awaiting further detail of any steps to recommence talks.

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 around the time of this meeting.

Over the weekend, China released its ‘white paper’, “China’s Position on the China-US Economic and Trade Consultations”, (June 2019) The State Council Information Office of The People’s Republic of China. A copy in English can be downloaded here;

<https://t.co/NRoiVJypin>

Background;

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>

These tariffs will go into effect from 15 June 2019; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/notice-regarding-application-section>

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

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

Late last week, US President Trump announced that from 10 Jun, the US will impose a 5% tariff on all imports from Mexico. This tariff will continue to increase each month by 5% pts (up to 25% by Oct) until Mexico acts to halt the flow of illegal immigrants into the US. Once the problem is 'remedied' the tariff will be removed.

On 30 May, USTR Lighthizer had submitted a 'statement of administrative action' letter to Congress, allowing the White House to submit the USMCA deal to Congress for vote within 30 days. House speaker Pelosi said;

"The Trump Administration's decision to send Congress a draft statement of administrative action before we have finished working with U.S. Trade Representative Lighthizer to ensure the USMCA benefits American workers and farmers is not a positive step," Pelosi said in a statement Thursday. "It indicates a lack of knowledge on the part of the Administration on the policy and process to pass a trade agreement."

<https://www.washingtonexaminer.com/policy/white-house-to-formally-submit-usmca-trade-deal>

This action means that the House must vote on the deal within 60 days.

Both Canada and Mexico had commenced the process to ratify the deal. Mexico had just submitted the deal to its Republic of the Congress on the same Thursday as President Trump had announced the surprise tariff on imports from Mexico. <https://www.washingtonexaminer.com/policy/white-house-to-formally-submit-usmca-trade-deal>

In the week prior, 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 steel and aluminium tariffs was meant to help the process to ratify the new USMCA agreement. The latest development puts a question mark over the deal being ratified.

The administration of the tariff will be handled by the US Dept of Homeland Security – no the USTR. <https://www.japantimes.co.jp/news/2019/06/01/business/economy-business/trumps-top-two-trade-advisers-opposed-decision-impose-tariffs-mexico-sources-say/?hootPostID=82e83d11c4e8f217706d63fb5441175f#.XPSZRBYzZhF>

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

Awaiting details of the next round of talks. Negotiations between the two countries has commenced. The Japanese Economic Revitalization Minister Toshimitsu Motegi met with USTR Lighthizer last weekend –

““We agreed to make efforts to bridge the gaps between us,” Motegi told reporters after the meeting, noting that the two countries' positions are not completely the same.”

“At the two-and-a-half-hour meeting, Motegi and Lighthizer discussed mainly cuts and elimination in tariffs on farm products and automobiles”.

<https://www.nippon.com/en/news/yjj2019052600019/japan-u-s-to-accelerate-trade-talks-to-bridge-gaps.html>

President Trump suggested that August is the likely deadline for the two countries to announce a deal – after Jul elections. Importantly within the six-month window for auto-tariffs.

<https://asia.nikkei.com/Politics/International-relations/Trump-touts-August-trade-deal-with-Japan>

Key issues for the US remain the trade deficit, access for agriculture and auto exports, as well as currency clauses to ‘prevent competitive devaluations’.

https://www.washingtonpost.com/business/whats-at-stake-in-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef_story.html?utm_term=.776b6d909b48

Background:

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.

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

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

Talks are yet to begin in earnest as the US remains focused on China;

“Malmstrom said she met with U.S. Trade Representative Robert Lighthizer earlier on Wednesday, which was the first time the two had seen each other in person since EU member states gave the European Commission the green light to begin negotiations more than a month ago. Separately, Malmstrom said that U.S. discussions with China is “their main focus.””

“Malmstrom said that if talks do begin soon, she hopes a deal could be struck during this commission’s term, which wraps up at the end of October.”

<https://news.yahoo.com/eu-says-u-may-not-170529340.html>

The joint statement from the trilateral meeting between the US, Japan and the EU is available on the USTR website; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/joint-statement-trilateral-meeting>

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

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

US-UK Trade Talks

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

BREXIT

PM May to stand down as Conservative Party leader and PM on 7 Jun 2019. PM May will remain as a caretaker until a new leader is selected which is likely to be completed by late July.

This now raises uncertainty again about the form Brexit will take. Will need to watch the front runners to replace PM May over the next few weeks to understand the implications for Brexit.

“Scottish First Minister Nicola Sturgeon, an opponent of Brexit, tweeted that May’s exit “will not solve the Brexit mess that the Tories have created. ... The prospect of an even more hard-line Brexiteer now becoming PM and threatening a no deal exit is deeply concerning.””

“Most businesses and economists think that would cause economic turmoil and plunge Britain into recession. Parliament has voted to rule out a no-deal Brexit, though it remains the legal default option.”

“But many Conservatives think embracing a no-deal Brexit may be the only way to keep the support of voters who opted in 2016 to leave the EU.”

<https://www.apnews.com/2ac10eef56b941b6b2f405a3319a7720>

Current Brexit documents:

Announcement; http://europa.eu/rapid/press-release_IP-18-6424_en.htm

Comprehensive factsheet; http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm

Q&A Protocol on Ireland and Northern Ireland; http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm