

Key Themes

A solid week of data to focus on given the US Fed blackout period will be in effect leading up to the FOMC meeting next week.

The main focus this week will be data out of China – trade, retail sales, industrial production and new loans for May.

US data will focus on inflation with the latest CPI and PPI for May. Retail sales for May and the first reading of consumer sentiment for Jun will provide some insight into spending patterns. US industrial production will also help to gauge changes in output – both ISM and Markit manufacturing PMI's suggested little output growth in May.

Following closely on the rate cut from last week, the Australian labour market survey will be released this week for May. Business confidence and sentiment data for May will also be released. There is some caution with the May data given that it will still partly reflect the expectation that there would be a change in government at the federal election in mid-May.

US-China trade; the increase in the tariff rate goes into effect on 15 Jun from 10 to 25% on \$200bn of imports. A decision on the USTR investigation into further tariffs on \$300bn of imports is due shortly.

The results of the USTR investigation into EU subsidies for large civil aircraft is likely due shortly.

G20 meetings continue in the lead up to the Summit in Osaka on 28-29 June 2019.

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 \$42bn. The 37-day CMB issued on 7 May will also mature this week on 13 Jun – adding another \$20bn to the net paydown.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
10-14 Jun	06-Jun	11-Jun	4 week bill	40			Completed		
	06-Jun	11-Jun	8 week bill	35			Completed		
				75	85	-10			
	10-Jun	13-Jun	13 week bill	36			Announced		
	10-Jun	13-Jun	26 week bill	36			Announced		
				72	104	-32			
			Total - securities settling this week	147	189	-42			
	02-May	07-May-19	37-day CMB		20		Matures 13 Jun 2019	CUSIP	912796RU5

The US Treasury will also auction \$78bn in 3/10/30yr coupons and bonds this week – to settle next week on Monday 17 Jun.

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 10 June 2019

US – JOLTS (Apr)

Japan – Q1 GDP, Balance of Trade (Apr)

China – Trade Balance (May), New Loans (May)

UK – Monthly GDP (Apr)

Australia – NAB Business Conditions and Confidence (May)

Tuesday 11 June 2019

US – PPI (May)

UK – Labour Market Survey (Apr)

China – CPI & PPI (May)

Wednesday 12 June 2019

US – CPI (May)

Australia – Labour Force Survey (May)

Thursday 13 June 2019

Europe – Germany CPI (May)

China – Retail Sales (May), Industrial Production (May)

Friday 14 June 2019

US – Retail Sales (May), Industrial Production (May), Business Inventories (Apr), Consumer Sentiment – prelim (Jun)

Japan – Industrial Production - Final (Apr)

Saturday 15 June 2019

G20 - Ministerial Meeting on Energy Transitions and Global Environment for Sustainable Growth Karuizawa, Nagano Prefecture – 15-16 June

Trade & Brexit

US-China Trade Negotiations

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

The US has stated that it will be happy to recommence talks ‘on the terms we’ve done’. Talks between Presidents Trump and Xi will possibly take place at the G20 in Osaka later in June – TBC.

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>

Depending on the status of negotiations, this next round of tariffs could go into effect from late Jun/early Jul around the time of the G20 in late June.

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](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

After announcing the imposition of a tariff on all imports from Mexico (due to go into effect on Monday 10 Jun), US President Trump announced on the weekend that an agreement was reached with Mexico. Mexico had agreed to take 'strong measures to stem the tide of migration through Mexico to our southern border'. This is likely to aid the progress of ratifying the USMCA.

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 further details of the next round of talks between the US and Japan.

Talks were held over the weekend, as a part of the G20 Ministerial meetings between US Treasury Secretary Mnuchin and Japan Finance Minister Aso about trade but also about a requirement to ‘refrain’ from currency manipulation. This is a measure ‘strongly opposed’ by Japan.

“Japan is strongly against the introduction of a currency manipulation rule, which reduces its discretion in trade” <https://asia.nikkei.com/Economy/US-Japan-trade-talks-to-include-currency-manipulation-rules>

President Trump stated 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-stakein-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

There are several fronts to the talks between the US and the EU. The first is the current live investigation by the USTR into EU civil aircraft subsidies. The due date for the submission of written comments was 28 May – awaiting the outcome of that investigation (which should be completed shortly).

The second front is the main talks to negotiate a trade deal between the US and EU. 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

During his visit to the UK, President Trump announced that the US would begin talks with the UK on a trade deal as soon as Brexit was completed.

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

Theresa May will remain as caretaker PM until a new leader is selected which is likely to be completed by late July. The first ballots for the leadership will take place in the UK parliament this week.

The uncertainty regarding how a new leader will navigate Brexit remains elevated as the process to select a new Tory leader & PM commences. Will need to watch the front runners to replace PM May over the next few weeks to understand the implications for Brexit.

<https://uk.reuters.com/article/uk-britain-eu-leadership-factbox/factbox-deal-no-deal-or-delay-what-will-pm-mays-successor-do-about-brexid-idUKKCN1TA0HV>

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