

Key Themes

The focus this week will be on central bank rate decisions.

This week the US FOMC meeting will take place. This meeting has taken on a more significant tone over the last week or two. Whilst there had been expectations that the Fed will cut rates at this meeting, we are now looking at the development of the language the FOMC will use in the rates decision, and for monetary policy generally, as well as changes in economic forecasts.

The current probabilities as of 17 Jun suggest that rates are likely to remain on hold for this next meeting. For the latest probabilities;

https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

Two other important central bank meetings/rates decisions will take place this week – the BoJ and the BoE. The minutes of the 4 Jun RBA rate cut decision will also be released this week.

The next two weeks will be important for the escalation of the (trade) dispute between the US and China - expect headline risk to be heightened. The G20 meeting will provide a catalyst for action in either direction. Public hearings in the US on the proposed tariff list for the remaining \$300bn will be completed over the next two weeks – in time for any proposed meeting between Presidents Trump and Xi on the sidelines of the G20. This potentially clears the path for this round of tariffs to be applied. No meeting between the two Presidents has been confirmed at this stage. Since early May, negotiations remain at an impasse.

The highlight on the data front will be the first reading for June private sector activity - Markit prelim manufacturing and services PMI's for the US, Europe, and Japan will be released towards the end of the week.

US Treasury supply will be heavier this week – the US Treasury will settle approx. \$251bn in ST bills, notes, and bonds, raising approx. \$32bn in new money this week.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US Treasury supply will be heavier this week - the US Treasury will settle approx. \$251bn in ST bills, notes and bonds raising approx. \$32bn in new cash.

There has also been an addition to securities maturing on the Fed balance sheet. **This week, \$45m in ST Bills (4 and 8wk) will mature on the Fed balance sheet.**

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
17-21 Jun	13-Jun	18-Jun	4 week bill	40			Completed
	13-Jun	18-Jun	8 week bill	35			Completed
				75	85	-10	
	17-Jun	20-Jun	13 week bill	36			Announced
	17-Jun	20-Jun	26 week bill	36			Announced
	17-Jun	20-Jun	52 week bill	26			Announced
				98	110	-12	
	11-Jun	17-Jun	3yr Note	38			Announced
	12-Jun	17-Jun	10yr Note R/O	24			Announced
	13-Jun	17-Jun	30yr Bond R/O	16			Announced
				78	24	54	
			Total - securities settling this week	251	219	32	
			Fed SOMA - Face Value of SOMA securities maturing 18 JUN 2019	0.05			(ST Bills - 4 & 8 wk)
			Proportion of mthly cap	0.03			
			Amount to reinvest	0.02			

UPDATED - Securities maturing on the Fed balance sheet in June

In June, \$21.513bn of long-term securities on the Fed balance sheet will mature and \$45m in ST bills will also mature (4 and 8wk bills);

18 June; \$45m in ST bills (4 and 8 week) will mature. The proportion of the monthly cap is \$0.035bn which means that \$0.015bn in principal payments will be reinvested.

30 June; \$21.463bn in securities will mature. The proportion of the monthly cap is \$14.965bn. This means that approx. \$6.498bn 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 17 June 2019

US – Empire State Manufacturing Survey (Jun), NAHB Housing Market Index (Jun)

China – House Price Index (May)

Australia – House Price Index (Q1 2019), RBA Meeting Minutes

Tuesday 18 June 2019

US – FOMC meeting for Jun commences, Housing Starts (May)

Europe – Eurozone CPI (May)

Japan – Merchandise Trade Balance (May)

Wednesday 19 June 2019

US – FOMC Announcement, forecasts and press conference

See latest probabilities for rate changes here;

https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

UK – CPI (May)

NZ – GDP (Q1 2019)

Japan – BoJ Rates Decision

Thursday 20 June 2019

US – Philadelphia Fed Business Outlook Survey (Jun)

UK – Retail Sales (May), BoE Rates Decision

Japan – CPI (May), Prelim Manufacturing PMI (Jun)

Friday 21 June 2019

US – Prelim Manufacturing & Services PMI (Jun), Existing Home Sales (May)

US Fed speeches;

Federal Reserve Member of the Board of Governors Brainard to participate with Cleveland Federal Reserve Bank President Loretta Mester in a discussion on community development and the economy at the Cleveland Federal Reserve 2019 Policy Summit in Cincinnati, Ohio

Europe – Germany Prelim Manufacturing & Services PMI (Jun), Eurozone Prelim Manufacturing and Services PMI (Jun)

Trade & Brexit

US-China Trade Negotiations

Negotiations appear to remain stalled.

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. Public hearings will commence this coming week on the proposed tariff list for 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 -25 June – public hearings in Washington <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/june/public-hearings-proposed-section-301>

The main G20 Summit in Osaka will be the following weekend 28-29 Jun. This coincides with the completion of public hearings in Washington and a potential meeting between President Trump and President Xi on the sidelines of the G20.

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](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

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](https://www.politico.com/story/2019/05/17/donald-trump-auto-tariffs-1330014)

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

The next round of talks between USTR Lighthizer and Japanese economic revitalization minister Toshimitsu Motegi will take place this week on Thursday in Washington.

The latest news is that Japan may consider reducing the tariffs on US agriculture products to levels equal to those applied as a part of the TPP. In return, Japan would be looking for concessions;

“such as removing U.S. levies on Japanese automobiles and vehicle parts”.

<https://japantoday.com/category/politics/japan-eyes-cutting-u.s.-farm-tariffs-immediately-to-tpp-levels>

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. The recent EU parliamentary elections will change the composition of the EU parliament – adding some complexity;

“There very likely will be a whole new set of parties with whom to negotiate a transaction,” said Ross. “So my guess is it’s going to take a while to know whether there is any real prospect of a new agreement with the European Commission.” https://www.theepochtimes.com/wilbur-ross-eu-trade-talks-are-far-more-complex-than-negotiating-with-china_2965690.html

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

US-EU civil aircraft subsidies; 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

The process to select a new leader of the Conservative Party is likely to be completed by late July. The first ballots for the leadership have taken place last week, reducing the field of contenders. At this stage Boris Johnson remains the favourite.

“In his first broadcast interview of the Tory leadership race, the frontrunner to succeed Theresa May said “fortitude and determination” were needed in the negotiations with the EU. And he vowed to “honour the will of the people” by getting the UK out of the EU this autumn with or without a deal.”

<https://brexitcentral.com/today/brexit-news-for-saturday-15-june/>

There is a possibility that Boris Johnson may be the only contender for the PM job that is put to a vote by the Tory membership – avoiding 4 weeks of votes and public party infighting etc.

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