

## Key Themes

Although it will be a short week in the US with the Independence Day holiday, it will be a data-heavy week.

Global private sector manufacturing and services output will be in focus this week with the Markit PMI's for June to be released.

In the US, the focus will be on a wide range of datapoints including non-farm payrolls and employment, the ISM PMI's, factory orders for May and motor vehicle sales.

In Australia, the RBA will meet on Tuesday for the July rate decision. As of 28 Jun, there is a 70% expectation for a further 25bps cut in the overnight cash rate to 1%. This is down slightly from the 89% expectation on 24 Jun – see details

<https://www.asx.com.au/prices/targetratetracker.htm>

Other Aussie data points released this week will be retail sales for May and the AiG industry performance indices for Jun – included this month as it is one of the first datapoints since the May federal election.

US Treasury supply will be heavier this week – the US Treasury will settle approx. \$260bn in ST bills and coupons, raising approx. \$32bn in new money. Approx. \$21.463bn in SOMA holdings of securities will mature on 1 Jul – with \$6.5bn to be reinvested.

Trade negotiations;

There may follow-up from the G20 with further details to emerge (or key points walked back?) on the roadmap to restart talks between the US and China.

Also, waiting to see whether there is any fallout from the EU announcement on the special trade channel designed to enable trade with Iran that circumvents the US sanctions.

Previously President Trump has stated that the deadline for a trade deal with Japan was August – expect action/activity to ramp up in the coming weeks.

## 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	
4 Jul public holiday - Independence Day							
1-5 Jul 2019	27-Jun	02-Jul	4 week bill	40			Completed
	27-Jun	02-Jul	8 week bill	35			Completed
					75	0	
	01-Jul	05-Jul	13 week bill	36			Announced
	01-Jul	05-Jul	26 week bill	36			Announced
					72	-9	
	25-Jun	01-Jul	2yr note	40			Completed
	26-Jun	01-Jul	5yr note	41			Completed
	27-Jun	01-Jul	7yr note	32			Completed
					113	41.01	
			<b>Total - securities settling this week</b>	<b>260</b>	<b>227.99</b>	<b>32.01</b>	
			Fed SOMA - Face Value of SOMA securities maturing 01 Jul (30 Jun)	21.463			
			Proportion of mthly cap	14.965			
			Amount to reinvest	6.498			

### Securities maturing on the Fed balance sheet in July

In July, \$21.4bn of long-term securities on the Fed balance sheet will mature and \$3m in ST bills will also mature (4 and 8wk bills);

7 July; \$3m in ST bills (4 and 8 week) will mature.

15 July; \$2.09bn in securities will mature. The proportion of the monthly cap is \$1.5bn which means that \$0.625bn in principal payments will be reinvested.

31 July; \$19.3bn in securities will mature. The proportion of the monthly cap is \$13.5bn. This means that approx. \$5.8bn in principal payments will be reinvested.

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

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## Monday 1 July 2019

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US – Manufacturing PMI – Final (Jun), ISM Manufacturing PMI (June)

Australia – AiG Manufacturing Perf Index (Jun)

Japan – Manufacturing PMI – Final (Jun)

Europe – Eurozone Manufacturing PMI (Jun), Germany Manufacturing PMI (Jun)

UK – Manufacturing PMI (Jun)

China – NBS Manufacturing and Non-Manufacturing PMI (June), Caixin Manufacturing PMI (Jun)

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## Tuesday 2 July 2019

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US – Motor Vehicle Sales (Jun), ISM NY Business Conditions (Jun)

US Fed speeches;

New York Fed President Williams - panel discussion at a "Special High Level Event on the Global Economic and Monetary Policy Outlook" held by UBS in Zurich, Switzerland

Cleveland Fed President Mester - speech on economic outlook at the European Economics and Financial Centre in London, England

Australia – New Home Sales (May), AiG Services Index (Jun), Building Permits (May), Trade Balance (May)

RBA Interest Rate Decision and Statement

Europe – Germany Retail Sales (May)

Japan – Markit Services PMI (Jun)

China – Caixin Services PMI (Jun)

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## Wednesday 3 July 2019

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US – Challenger Job Cut Report (Jun), ADP Employment Report (Jun), International Trade (May), Services PMI – Final (Jun), Factory Orders (May), ISM Non-Manufacturing PMI (Jun)

Europe – Germany Services & Composite PMI (Jun), Eurozone Services & Composite PMI (Jun)

UK – Markit Services PMI (Jun)

Australia – Retail Sales (May)

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## **Thursday 4 July 2019**

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US – National Holiday Independence Day

Europe - Eurozone Retail Sales (May)

Australia – AiG Performance of Construction Index (Jun)

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## **Friday 5 July 2019**

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US – Non-Farm Payrolls & Employment (Jun)

Europe – Germany Factory Orders (May)

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## Trade & Brexit

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### US-China Trade Negotiations

The US and China have agreed to restart trade negotiations. There is speculation that talks would not restart until later this year - Dec 2019. No deadline for a deal was announced this time.

For the moment, the pause means that the threat of the further 25% tariff on the remaining \$300bn is on hold. All other current tariffs remain in place.

““There is no point in escalating the trade war now and creating problems in the economy and losing the election”, Ed Yardeni said of Trump’s position.”

<https://www.cnbc.com/2019/06/29/g20-summit-trump-and-xi-agree-to-talks-but-offer-no-clear-path-to-end-the-trade-war.html>

It was reported that several concessions were made in order to secure a commitment to restart negotiations; pause on further tariffs on imports from China, China to purchase more US farm goods (although this has been reported differently in China), removal of some restriction on US companies selling to Huawei “as long as the sales did not involve equipment that threatened US national security”.

<https://www.scmp.com/news/china/diplomacy/article/3016717/despite-donald-trump-and-xi-jinpings-g20-handshake-mistrust>

The issue of intellectual property remains a key obstacle to the deal –

“Indeed, China’s Vice Premier Liu He has only reiterated Beijing’s position that a deal must be balanced and “expressed in terms that are acceptable to the Chinese people and do not undermine the sovereignty and dignity of the country.”

<https://www.cnbc.com/2019/06/29/g20-summit-trump-and-xi-agree-to-talks-but-offer-no-clear-path-to-end-the-trade-war.html>

Reconfirming what a ‘win’ in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR (emphasis added);

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade>

### Special 2019 Section 301 Review

No further notification on progress.

The USTR released its annual Special 301 Report on Intellectual Property Protection and Review of Notorious Markets for Piracy and Counterfeiting late last week.

“Specifically, over the coming weeks, USTR will review the developments against the benchmarks established in the Special 301 action plans for countries that have been on the Priority Watch List for multiple years. For such countries that fail to address U.S. concerns, USTR will take appropriate actions, such as enforcement actions under Section 301 of the Trade Act or pursuant to World Trade Organization or other trade agreement dispute settlement procedures, necessary to combat unfair trade practices and to ensure that trading partners follow through with their international commitments.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/april/ustr-releases-annual-special-301>

The report prepared a ‘priority watch list’, a ‘watch list’ and a ‘notorious markets list’. The report highlighted;

“trading partners that do not adequately or effectively protect and enforce intellectual property (IP) rights or otherwise deny market access to U.S. innovators and creators that rely on protection of their IP rights.

Trading partners that currently present the most significant concerns regarding IP rights are placed on the Priority Watch List or Watch List. USTR identified 36 countries for these lists in the Special 301 Report:

Algeria, Argentina, Chile, China, India, Indonesia, Kuwait, Russia, Saudi Arabia, Ukraine and Venezuela are on the Priority Watch List.

Barbados, Bolivia, Brazil, Canada, Colombia, Costa Rica, Dominican Republic, Ecuador, Egypt, Greece, Guatemala, Jamaica, Lebanon, Mexico, Pakistan, Paraguay, Peru, Romania, Switzerland, Thailand, Turkey, Turkmenistan, the United Arab Emirates, Uzbekistan and Vietnam are on the Watch List.”

#### Notorious Markets List

“The Notorious Markets List highlights 33 online markets and 25 physical markets that are reported to engage in and facilitate substantial copyright piracy and trademark counterfeiting”

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The link to the notorious markets reports is here;

[https://ustr.gov/sites/default/files/2018\\_Notorious\\_Markets\\_List.pdf](https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf)

The first country on the list is China.

The full report; [https://ustr.gov/sites/default/files/2019\\_Special\\_301\\_Report.pdf](https://ustr.gov/sites/default/files/2019_Special_301_Report.pdf)

## **NAFTA/USMCA**

Last week Mexico’s Senate passed the USMCA – the first of the three parties to ratify the agreement.

“The move is welcome news for the Trump administration as it pushes for the U.S. Congress to approve the deal this summer. But Democrats have said they will not be rushed into passing the deal until the administration makes changes to the agreement’s provisions on enforcement, labor, the environment and drug pricing.”

“Canada, for its part, has already introduced an implementation bill in the country’s Parliament. But Canadian officials have expressed a desire to approve the deal at roughly the same time as any final votes are held in the U.S. Congress.” <https://www.politico.com/story/2019/06/19/mexico-passes-usmca-1538543>

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 – which is approx. the end of July.

## 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

Talks continued at the G20, but little in the way of concrete progress was revealed;

Japanese and U.S. officials will meet next month to accelerate progress toward a trade deal, Economy Minister Toshimitsu Motegi told reporters after meeting Lighthizer, but added that they did not discuss a target date.

<https://www.reuters.com/article/us-g20-summit-trump-abe/trump-talks-trade-at-g20-as-chinas-xi-others-warn-of-risks-of-protectionism-idUSKCN1TT00H>

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](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](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](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

While not directly related to the trade talks, a statement released by the EU over the weekend could result in a negative escalation between the EU and the US.

The EU confirmed that Britain, France and Germany had established a special trade channel (Instex) that would enable trade with Iran that circumvents the US sanctions. It was announced last year that the EU would work on developing the channel.

<https://www.reuters.com/article/us-iran-nuclear-talks-statement/europe-says-iran-trade-channel-operational-statement-idUSKCN1TT2RL>

President Trump made some mention of this development at the G-20;

“President Donald Trump said there was “absolutely no time pressure” in dealing with Iran as European nations pushed to salvage what remains of the 2015 nuclear accord and avert a slide toward war.”

<https://finance.yahoo.com/news/trump-chats-putin-shakes-hands-081017994.html>

The Instex system enables trade with Iran without the use of U.S. dollars or US banks. The US has previously stated opposition to this;

“According to Bloomberg, the Treasury Department’s undersecretary for terrorism and financial intelligence, Sigal Mandelker, sent a letter on May 7 warning that Instex, the European SPV to sustain trade with Tehran, and anyone associated with it could be barred from the U.S. financial system if it goes into effect.”

“Separately, during a visit to London on May 8, Mike Pompeo also warned that there was no need for Instex because the U.S. allows for humanitarian and medical products to get into Iran without sanction.”

““When transactions move beyond that, it doesn’t matter what vehicle’s out there, if the transaction is sanctionable, we will evaluate it, review it, and if appropriate, levy sanctions against those that were involved in that transaction,” Pompeo said. “It’s very straightforward.””

This comes on the back of several issues facing 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 relates to the main talks to negotiate a trade deal between the US and EU. The ongoing problem – that the EU mandate does not include agriculture in the scope of negotiations.

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

Also hanging over the negotiations are the US threats of tariffs on auto imports from Europe.

Background –

The EC authorised negotiations to commence between the EU and the US. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

[https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

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](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](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 continues.

Boris Johnson remains the favourite to win the leadership and has been advocating for a 'hard-line Brexit';

“...has promised to take the UK out of the EU “do or die” on October 31, and has refused to rule out shutting down parliament in order to force through Brexit, as he bids for the votes of the overwhelmingly pro-Brexit Conservative membership.” <https://www.businessinsider.com.au/stop-brexit-boris-johnson-boosts-campaign-against-leaving-eu-2019-6?r=US&IR=T>

Conservative Party members, approx. 160k members, will vote on the leadership.

“The result of the postal ballot will be announced in the week of July 22.”  
<https://www.reuters.com/article/uk-britain-eu-leader/pm-favourite-johnson-reiterates-desire-for-october-31-brexit-idUSKCN1TNOMX>

### Current Brexit documents:

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm)

Q&A Protocol on Ireland and Northern Ireland; [http://europa.eu/rapid/press-release\\_MEMO-18-6423\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)