

Key Themes

Fed-speak picks up again this week. The main focus will be on the three (3) speeches by US Fed Chairman Powell – opening remarks at the stress testing conference in Boston, testimony before the House Financial Services Committee and the semi-annual monetary policy testimony to the Senate Banking Committee.

Other US data in focus this week will be the FOMC minutes for Jun as well as CPI and PPI.

Data out of China will provide some insight into any shifts in activity with new loans, trade and CPI/PPI for Jun.

After the much weaker orders data last week, Germany industrial production for May will be released. The broader industrial production data for the Euro-area will also be released later in the week along with the final figures for Japan in May.

In Australia, the NAB business confidence and conditions for Jun will be released. This will provide another important insight as to any change in activity and sentiment since the first rate cut and covers the first full, post-election month. Housing lending data for May will also be released – it may be difficult to gauge any shift in sentiment/lending given the election was mid-month and APRA only announced a review into changes to serviceability requirements directly after the election.

The Bank of Canada will meet this week on interest rates and monetary policy.

US Treasury supply will be lighter this week – the US Treasury will settle approx. \$147bn in ST bills paying down approx. \$6bn.

Trade negotiations;

Trade talks between the US and China are said to recommence this week in Beijing.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US Treasury supply will be lighter this week. The US Treasury will settle approx. \$147bn in ST bills this week with an estimated paydown of \$6bn.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
8-12 Jul	03-Jul	09-Jul	4 week bill	40			Completed
	03-Jul	09-Jul	8 week bill	35			Completed
				75	75	0	
	08-Jul	11-Jul	13 week bill	36			Announced
	08-Jul	11-Jul	26 week bill	36			Announced
				72	78	-6	
			Total - securities settling this week	147	153	-6	

The US treasury will also auction approx. \$78bn in coupons this week that will settle next week.

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 and the face value of maturing securities (in Fed SOMA) is also provided on the Treasury Direct auction announcements.

Monday 8 July 2019

US – Consumer Credit G.19 Report (May)

Europe – Germany Industrial Production (May), Germany Trade Balance (May)

China – New Loans (Jun)

Tuesday 9 July 2019

US – JOLTS (May)

US Fed speeches;

Fed Chairman Powell - opening remarks at the "Stress Testing: A Discussion and Review" Conference held at the Boston Federal Reserve Bank in Boston

Fed Board of Governors Vice Chairman for Supervision Quarles - keynote speech at the "Stress Testing: A Discussion and Review" Conference hosted by the Federal Reserve Bank of Boston, in Boston

St. Louis Fed Bank President Bullard - welcome address at OMFIF Foundation Main Meeting at Washington University's Knight Center in Saint Louis

Atlanta Fed President Bostic - Armchair Chat at the Official Monetary and Financial Institution Forum Conference held in Washington University, St. Louis

Australia – NAB Business Conditions and Confidence (Jun)

China – CPI and PPI (Jun)

Wednesday 10 July 2019

US – FOMC Minutes (Jun), Atlanta Fed Inflation Expectations (Jul), Wholesale Trade and Inventories (May)

US Fed speeches;

Fed Reserve Chairman Powell to testify before the House Financial Services Committee in Washington, DC

St. Louis Fed President Bullard - moderated Q&A on monetary policy at the OMFIF Foundation Main Meeting Luncheon in Saint Louis

UK – Monthly GDP (May)

Canada – Bank of Canada Rates Decision

Australia – Lending for Housing (May)

Thursday 11 July 2019

US – CPI (Jun)

Federal Reserve Chairman Jerome Powell to deliver his semi-annual monetary policy testimony to the Senate Banking Committee in Washington, DC

New York Fed President Williams – speech & keynote address at Albany region community revitalization during a Hudson Valley and Albany regional visit in Albany

Fed Board of Governors Vice Chairman for Supervision Quarles - speech at the Special Patriot Award Ceremony Recognizing Alice Rivlin at the Bipartisan Policy Center in Washington

Minneapolis Fed President Kashkari - participate in a town hall meeting in Aberdeen, South Dakota

Europe – Germany CPI (Jun)

China – Trade Balance (Jun)

Friday 12 July 2019

US – PPI (Jun)

Japan – Industrial Production – Final (May)

Europe – Industrial Production (May)

Trade & Brexit

US-China Trade Negotiations

Talks are set to resume in the coming week in Beijing.

Last week, China announced plans to name foreign companies as a risk to National security. This list of 'unreliable entities' and other measures such as the purchase of US agriculture will possibly be used if talks stall again.

“The plan, first announced in May, would see foreign companies that are deemed to hurt China’s legitimate interests or pose a risk to national security added to the blacklist.”

<https://www.scmp.com/news/china/diplomacy/article/3017475/chinas-threat-blacklist-us-firms-security-risk-could-be-key>

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. President Trump has also allowed US firms to start supplying Huawei again. This was in return for China buying more US agriculture.

The threat of talks stalling is likely still high – nothing has really changed;

“There have been no signs either side is willing to back down from their red lines, which begs the question: if one side must back down, which will it be? Surely, whether a deal can be made will depend on how much Beijing agrees to Washington’s terms, rather than vice versa. Trump has repeated often that China should be ready to strike a deal or tariffs will rise “very, very substantially”.” <https://www.scmp.com/week-asia/opinion/article/3017495/us-china-trade-war-ignore-hype-trump-and-xi-are-no-closer-deal>

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

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

While Mexico has become the first of the three nations to ratify the new USMCA, officials continue to work with the US to close a loophole on labour and environment that may help to get the approval of the Democrats in the US. <https://dailytimes.com.pk/425004/mexico-and-us-try-new-trade-fix-to-win-over-democrats-official/>

The issue now relates to the timing of the approval of the USMCA in the US. The US Congress will commence summer recess on 27 Jul. 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, in line with the commencement of the summer recess.

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

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 US-Europe trade talks; the outstanding dispute and pending WTO decision on airline subsidies, the main trade negotiation and the special trade channel (Instex) set up to bypass the US sanctions on Iran to enable trade between Europe and Iran.

Airline Subsidies

Last week the USTR published a press release outlining “Additional Products for Tariff Countermeasures in Response to Harm Caused by EU Aircraft Subsidies” (1 Jul 2019) <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-proposes-additional-products#>

The US is considering more products for tariffs thereby reinstating the threat of tariffs in the EU.

Among other things, this announcement builds on the current 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.”

[As outlined previously...key dates for that 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>]

According to the Federal Register announcement during the week;

“A number of public comments submitted in response to the April 12 notice requested that the U.S. Trade Representative consider additional products that were not included in the April 12 list for possible inclusion on the final list of products to be subject to additional duties.”

https://ustr.gov/sites/default/files/enforcement/301Investigations/Notice_for_Additional_Products.pdf

The dates for this latest review;

July 24, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony.

August 5, 2019: Due date for submission of written comments. August 5, 2019: The Section 301 Committee will convene a public hearing in the Main Hearing Room of the U.S. International Trade Commission, 500 E Street SW, Washington DC 20436 beginning at 9:30 a.m.

August 12, 2019: Due date for submission of post-hearing rebuttal comments.

Also, from the USTR announcement this week, if there is a decision on the case before the end of the public comment phase, then additional duties could be imposed before that process is complete;

“In the event the Arbitrator issues its decision prior to completion of the public comment process on the supplemental list, the USTR may immediately impose increased duties on the products included in the initial list, and take further possible actions with respect to products on the supplemental list.”

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

Trade Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. 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

“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>

Instex

Last week, 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.””

Background

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 continues. It is now only several weeks until the Conservative party leadership ballot is finalised.

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

Both candidates to replace Theresa May as prime minister, Boris Johnson and Jeremy Hunt, have promised to take the UK out of the EU this year, with or without a deal, with Johnson insisting that leaving on October 31 is “do or die.”

<https://www.businessinsider.com.au/no-deal-brexite-british-are-stockpiling-food-medicine-and-clothes-2019-7?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-brexite-idUSKCN1TN0MX>

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