

Key Themes

The highlights this week will be the commencement of US Q2 earnings announcements, US and China economic data and a speech by US Fed Chairman Powell.

US Q2 earnings;

“Earnings Growth: For Q2 2019, the estimated earnings decline for the S&P 500 is -3.0%. If -3.0% is the actual decline for the quarter, it will mark the first time the index has reported two straight quarters of year-over-year declines in earnings since Q1 2016 and Q2 2016.”

https://www.factset.com/hubfs/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_071219A.pdf

Fed Chairman Powell will give a speech during the week “Aspects of Monetary Policy in the Post-Crisis Era”. The probability of a 25bp rate cut at the Jul meeting remains high – with an increase in the chance of a 50bp cut.

US data this week will focus on output and consumer demand. This week we get the first look at some Jul manufacturing data with two regional surveys - Philly Fed and the Empire State. Industrial production for Jun will also be released. On the consumer side, retail sales for Jun will be released (likely weaker/flat auto sales) and the prelim consumer sentiment for Jul.

Data out of China this week – Q2 GDP growth, retail sales and industrial production.

In the UK, data on retail sales, CPI and the labour market will be released this week. Next week, on 22 Jul, expect the results of the Conservative Party leadership ballot.

The minutes of the last RBA meeting will be released this week - covering the second cut in the overnight cash rate. The important labour market survey will be a key focus for the week.

US Treasury supply will be heavier this week – the US Treasury will settle approx. \$246bn in ST bills and coupons this week, raising approx. \$25bn in new cash.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

US Treasury supply will be heavier this week. The US Treasury will settle approx. \$246bn in ST bills and coupons this week, raising approx. \$25bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
15-19 Jul	11-Jul	16-Jul	4 week bill	35			Completed
	11-Jul	16-Jul	8 week bill	35			Completed
				70	75	-5	
	15-Jul	18-Jul	13 week bill	36			Announced
	15-Jul	18-Jul	26 week bill	36			Announced
	16-Jul	18-Jul	52 week bill	26			Announced
				98	104	-6	
	09-Jul	15-Jul	3yr Note	38			Announced
	10-Jul	15-Jul	10yr Note r/o	24			Announced
	11-Jul	15-Jul	30yr Bond r/o	16			Announced
				78	41,549	36,451	
			Total - securities settling this week	246	220,549	25,451	
			Fed SOMA - Face Value of SOMA securities maturing 15 Jul	2,091			
			Proportion of mthly cap	1,466			
			Amount to reinvest	0,625			

Also, approx. \$2bn of securities on the Fed balance sheet will mature on the 15 Jul this week. This represents approx. 1% or \$1.5bn of the \$15bn cap for the month, which means approx. \$0.6bn will be reinvested.

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 15 July 2019

US – Empire State Manufacturing Index (Jul)

US Fed Speeches;

NY Fed President Williams - keynote remarks at the "LIBOR Transition Briefing: The Transition to Alternative Reference Rates" held by SIFMA in New York

China – GDP Q2, Industrial Production (Jun), Retail Sales (Jun)

Australia – RBA Meeting Minutes (Jul meeting)

Tuesday 16 July 2019

US – Retail Sales (Jun), Industrial Production (Jun), Business Inventories (May), Housing Market Index (Jul)

US Fed speeches;

US Fed Chairman Powell – Speech “Aspects of Monetary Policy in the Post-Crisis Era”, at the French G7 Presidency 2019 – Bretton Woods: 75 Years Later, Thinking About the Next 75, Paris, France

UK – Labour Market Survey (Mar-May)

Eurozone – Zew Economic Sentiment Survey (Jul)

Wednesday 17 July 2019

US – Housing Starts (Jun)

UK – CPI (Jun)

Europe – Eurozone CPI (Jun)

Japan – Merchandise Trade Balance (Jun)

Australia – Labour Market Survey (Jun)

Thursday 18 July 2019

US – Philadelphia Fed Business Outlook Survey (Jul)

US Fed speeches;

NY Fed President Williams - Keynote address on Monetary Policy at the 2019 Annual Meeting of the Central Bank Research Association in New York

UK – Retail Sales (Jun)

Japan – CPI (Jun)

Friday 19 July 2019

US – University of Michigan Consumer Sentiment – prelim (Jul)

US Fed speeches;

St. Louis Fed President Bullard – Speech on technology and the future of the monetary and financial system at the Central Bank Research Association (CEBRA) 2019 Annual Meeting at Columbia University's Kellogg Center in New York

Boston Fed President Rosengren - Panel about central bank independence at the Annual Meeting of the Central Bank Research Association at Columbia University's School of International and Public Affairs in New York City

Trade & Brexit

US-China Trade Negotiations

There is no further detail regarding the schedule of talks between the US and China. Last week, a high-level phone conversation was held between USTR Lighthizer, US Treasury Secretary Mnuchin and Chinese Vice Premier He. <https://www.9news.com.au/world/us-chinese-trade-negotiators-resume-talks/575d3066-8bbc-4608-97be-c0bcb9ced38a>

The progress of talks likely hinges on whether the US and China can move forward on the Huawei/agriculture compromise. The lift on the US ban to supply Huawei, where there was no threat to US National security, was offered in return for an increase in the purchase of US agriculture by China. Reports indicate that US firms may be allowed to start supplying Huawei again in several weeks. <https://www.reuters.com/article/us-huawei-tech-usa-blacklist-exclusive/exclusive-u-s-firms-may-get-nod-to-restart-huawei-sales-in-2-4-weeks-official-idUSKCN1U900N>

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

The US Congress will commence summer recess on 27 Jul – likely to see some more action on the approval over the next two weeks. Once the US approves/ratifies the USMCA, Canada will take steps to approve the USMCA in parliament.

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

No further detail on progress of the talks. The upper house election campaign in Japan has officially started with the vote to take place on 21 Jul. <https://asia.nikkei.com/Politics/Japan-election/Five-things-to-know-about-Japan-s-upper-house-election>

Talks at the recent G20 generated little in the way of concrete progress;

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

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

The US continued to apply pressure on the EU last week. The USTR announced a further S.301 investigation, this time into the digital services tax to be approved by the Govt of France.

“The services covered are ones where U.S. firms are global leaders. The structure of the proposed new tax as well as statements by officials suggest that France is unfairly targeting the tax at certain U.S.-based technology companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-announces-initiation-section-301>

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

The USTR has commenced another review; “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

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 ballot to replace PM May is currently underway. At this stage, Boris Johnson is the favourite to take on the leadership.

The results of the poll are expected to be announced on 22 Jul 2019.
<https://www.theguardian.com/politics/2019/jul/13/johnson-leads-hunt-by-two-to-one-in-tory-leader-race-poll>

There are different views among the five (5) contenders regarding Brexit;

Mr Johnson and Mr Javid both said they would opt to leave the European Union without an agreement rather than delay Brexit beyond October 31. Mr Gove and

Mr Hunt both said they would support another postponement if needed to secure a deal, but only for a short time.

Mr Stewart said "there would never be no-deal" Brexit if he was prime minister because it would be too damaging to the economy. He said was the only candidate facing up to political reality, arguing the only way to leave the EU was to get Parliament to approve outgoing Prime Minister Theresa May's unpopular Brexit deal.

<https://www.abc.net.au/news/2019-06-19/boris-johnson-has-increased-his-lead-in-tory-contest/11223170>

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