

## Key Themes

There are no US Fed speeches scheduled ahead of the FOMC meeting next week.

The ECB meets this week on interest rates and monetary policy – there is some uncertainty as to whether the ECB will apply further accommodations in July.

Although it will be a quieter week on the data front, there are several important releases this week.

We will get the first view of July manufacturing and services activity with the prelim PMI's released across the major markets.

In the US, the prelim Q2 GDP will be released later in the week along with the advance durable goods report for Jun. The PMI's and regional surveys will help to clarify the extent to which weaker manufacturing results have persisted into July.

US earnings will remain in focus with both major tech and industrial companies reporting earnings this week.

In the UK, the results of the ballot for the Conservative Party leadership will be announced on Tuesday.

US Treasury supply will be lighter this week – the US Treasury will settle approx. \$142bn in ST bills, with a net paydown of approx. \$14bn.

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## US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

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US Treasury supply will be lighter this week. The US Treasury will settle \$142bn in ST bill auctions, paying down approx. \$14bn.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
22-26 Jul	18-Jul	23-Jul	4 week bill	35			Completed		
	18-Jul	23-Jul	8 week bill	35			Completed		
				70	75	-5			
	22-Jul	25-Jul	13 week bill	36			Announced		
	22-Jul	25-Jul	26 week bill	36			Announced		
				72	81	-9			
			<b>Total - securities settling this week</b>	<b>142</b>	<b>156</b>	<b>-14</b>			

This week, the US Treasury will also auction approx. \$147bn in coupons raising approx. \$31bn in new money and will settle the following 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](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 22 July 2019**

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US – Chicago Fed National Activity Index (Jun)

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## **Tuesday 23 July 2019**

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US – Existing Home Sales (Jun), Richmond Fed Manufacturing Index (Jul)

Japan – Manufacturing PMI – prelim (Jul)

UK – Announcement of the UK Conservative Party leadership ballot results

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## **Wednesday 24 July 2019**

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US – Composite PMI – Prelim (Jul), New Home Sales (Jun)

Europe – Germany Composite PMI – Prelim (Jul), Eurozone Composite PMI – Prelim (Jul)

Australia – RBA Governor Lowe speech

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## **Thursday 25 July 2019**

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US – Durable Goods Orders (advance) (Jun), Goods Trade Balance (Jun), Kansas City Fed Manufacturing Index (Jul)

Europe – ECB Interest Rate Decision

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## **Friday 26 July 2019**

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US – Q2 GDP – First Estimate/prelim

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## Trade & Brexit

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### US-China Trade Negotiations

Further calls between the US and China are expected this week. So far, there has been little progress since the G20.

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-idUSKCN1U90ON>

<https://www.wsj.com/articles/u-s-china-talks-stuck-in-rut-over-huawei-11563393280>

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>

“China and the United States remain divided over which negotiating text to base their revived trade talks on, with Washington demanding a longer document be used that lists earlier promises made by Beijing, according to observers.”

<https://www.scmp.com/news/china/diplomacy/article/3019373/china-us-said-be-wrangling-over-text-trade-talks-can-resume>

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

The US Congress will commence summer recess on 27 Jul, and it was possible that the USMCA might be ratified prior to the recess. This is now looking unlikely;

“Most Democrats say mid-fall is a more likely time to take up the agreement, given that the July agenda is full and Congress will then recess until after Labor Day.”

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>

Previously, the chief economic adviser Larry Kudlow has said that the legislation will be submitted once the House Speaker Pelosi approves the vote for the legislation. USTR Lighthizer continues to work with the Democrats on key issues;

“Lighthizer has said that we will submit formal legislation when she gives the green light on the vote,” he said in an interview at CNBC’s Capital Exchange event. Mrs. Pelosi, who has a monthly meeting with Mr. Lighthizer, as well as phone calls, according to an aide, **has said the deal may need to be reopened with surgical precision to accommodate Democrats’ requests.**”

<https://www.wsj.com/articles/lighthizer-charms-congress-but-struggles-to-sell-usmca-11563355920>

Once the US approves/ratifies the USMCA, Canada will take steps to approve the USMCA in parliament.

## 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**

Shinzo Abe’s ruling coalition retained a majority in the Upper House elections over the weekend. They did not retain the two-thirds ‘supermajority’ though. <https://www.japantimes.co.jp/news/2019/07/22/national/politics-diplomacy/u-s-reiterates-commitment-alliance-election-sticky-bilateral-trade-talks-await-abe/#.XTU9NPlzZhE>

Trade talks are now likely to continue;

“The Wall Street Journal marked upcoming trade talks with the United States as one of the biggest challenges the LDP leader will face, with President Donald

Trump pushing for greater market access while threatening to raise auto tariffs. Trump had said that he expected to announce something “very good for both countries” in August after the election.”

<https://www.japantimes.co.jp/news/2019/07/22/national/politics-diplomacy/u-s-reiterates-commitment-alliance-election-sticky-bilateral-trade-talks-await-abe/#.XTU9NPlzZhE>

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)

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

Undeterred by the USTR investigation into the digital services tax to be approved by the Govt of France, the EU has opened its own investigation into possible anti-competitive conduct of Amazon;

“The European Commission has opened a formal antitrust investigation to assess whether Amazon's use of sensitive data from independent retailers who sell on its marketplace is in breach of EU competition rules.”

[https://ec.europa.eu/commission/presscorner/detail/en/ip\\_19\\_4291](https://ec.europa.eu/commission/presscorner/detail/en/ip_19_4291)

Last week the USTR opened a S.301 investigation into the digital services tax approved by the French government;

“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>

On Wednesday trade representative Robert Lighthizer said an investigation would “determine whether it is discriminatory or unreasonable and burdens or restricts United States commerce”. <https://www.bbc.com/news/world-europe-48947922>

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](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=dsm-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=dsm-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](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 results of the leadership poll are expected to be announced on 23 Jul 2019.

<https://www.theguardian.com/politics/2019/jul/13/johnson-leads-hunt-by-two-to-one-in-tory-leader-race-poll>

Boris Johnson remains the favourite. His approach is to leave the EU by 31 Oct with or without a deal – although this quote tempers the ‘do or die’ view;

“Johnson has said he would ramp up preparations for a no deal if he becomes prime minister to try to force the EU’s negotiators to make changes to the deal that Prime Minister Theresa May sealed with Brussels and UK lawmakers voted down.”

It has been reported that there is growing opposition within the UK parliament to a no deal Brexit. Key members of parliament still think there is a chance for a ‘negotiated’ Brexit deal, even though the EU continues to refuse to renegotiate. <https://www.cnbc.com/2019/07/21/uk-finance-minister-hammond-to-resign-on-wednesday-over-no-deal-brex.html>

Re-iterating the Brexit views among the (5) contenders for the Tory leadership;

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](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)