

## Key Themes

A big week in the global macro sphere.

Interest rate decisions will be announced by three major central banks this week – the BoJ, the BoE, and the FOMC.

It is expected that the FOMC will cut rates by 25bps and, at this stage, there remains a lower probability applied to a 50bps cut. [https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm\\_source=cmegroup&utm\\_medium=friendly&utm\\_campaign=fedwatch&redirect=/fedwatch](https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch)

Of note this week will be important data out of the US; non-farm payrolls and employment, personal consumption expenditure, the PCE price index and consumer sentiment. We will also get a further read on manufacturing activity with the ISM and Markit Manufacturing PMI's for Jul, the final factory orders data for Jun and several regional surveys.

The final PMI's for July will also begin to be released this week across the major economies with manufacturing in focus.

In Europe, Q2 GDP will be published along with Jul prelim CPI.

In Australia, the important Q2 CPI will be released along with retail sales. Both will be important considerations for the RBA meeting on rates next week.

On trade, US and Chinese officials will meet for the first time since the G20 on trade. Further meetings with officials in Japan are also expected as officials agreed to 'speed-up' negotiations.

US Treasury supply will be heavier this week – the US Treasury will settle approx. \$289bn in ST bills and coupons, raising approx. \$20bn in new cash. As its also month end, approx. \$19bn in securities will mature on the Fed balance sheet. Of this, approx. \$5.8bn will be reinvested.

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

US Treasury supply will be heavier this week. The US Treasury will settle \$289bn in ST bills and coupons this week, raising approx. \$20bn in new money.

As this is month end, approx. \$19bn in securities on the Fed balance sheet will mature on 31 Jul and approx. \$5.8bn of this will be reinvested.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
29 Jul - 2 Aug	25-Jul	30-Jul-19	4 week bill	35			Completed
	25-Jul	30-Jul-19	8 week bill	35			Completed
				70	75	-5	
	29-Jul	01-Aug-19	13 week bill	36			Announced
	29-Jul	01-Aug-19	26 week bill	36			Announced
				72	78	-6	
	18-Jul	31-Jul	10yr TIPS	14			Completed
	23-Jul	31-Jul	2yr note	40			Announced
	24-Jul	31-Jul	2yr FRN	20			Announced
	24-Jul	31-Jul	5yr note	41			Announced
	25-Jul	31-Jul	7yr note	32			Announced
				147	115.87	31.13	
			<b>Total - securities settling this week</b>	<b>289</b>	<b>268.87</b>	<b>20.13</b>	
			Fed SOMA - Face Value of SOMA securities maturing 31 Jul 2019	19.31			
			Proportion of mthly cap	13.53			
			Amount to reinvest	5.77			

### 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.

---

## **Monday 29 July 2019**

---

US – Dallas Fed Manufacturing Business Index (Jul)

Japan - Retail Sales (Jun), Industrial Production – prelim (Jun)

**BoJ Interest Rate Decision**

---

## **Tuesday 30 July 2019**

---

US – Personal Consumption Expenditure and PCE Price Index (Jun), Case-Shiller House Price Index (May), Pending Home Sales (Jun)

Europe – Germany CPI – prelim (Jul)

China – NBS Manufacturing and Non-Manufacturing PMI (Jul)

Australia – Private Sector Credit (Jun), Q2 CPI

---

## **Wednesday 31 July 2019**

---

US – ADP Employment (Jul), Chicago PMI (Jul)

**US Fed Interest Rate Decision**

Europe – Eurozone Prelim GDP Q2, Eurozone Prelim CPI (Jul)

Japan – Manufacturing PMI (Jul)

China – Caixin Manufacturing PMI (Jul)

Australia – AiG Manufacturing Perf Index (Jul)

---

## **Thursday 01 August 2019**

---

US – Challenger Job Cuts (Jul), Manufacturing PMI (Jul), ISM Manufacturing PMI (Jul)

Eurozone – Manufacturing PMI (Jul)

**UK – BoE Rates Decision**

Australia – Retail Sales (Jun)

---

**Friday 02 August 2019**

---

US – Non-Farm Payrolls (Jul), ISM NY Business Conditions (Jul), Uni of Michigan Consumer Sentiment – Final (Jul), Factory Orders – Final (Jun)

Europe – Retail Sales (Jun), PPI (Jun)

---

## Trade & Brexit

---

### US-China Trade Negotiations

The US and Chinese officials will meet for talks on trade early this week for a two-day meeting in Shanghai. Expectations for progress continued to be dampened by the US administration.

The progress of talks likely hinges on whether the US and China can move forward on the Huawei/agriculture compromise. <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>

The Xinhua news agency reports that;

“The new purchase of American farm products has shown that China is honouring its commitment and also a response to the recent signals of goodwill by the US side,” the Xinhua commentary said.

But it also said China had diversified its imports to include agricultural products from countries such as Brazil and Australia, and to uphold the spirit of self-reliance and ensure a firm grip of its own “rice bowl”, meaning it would rely on domestic output for its food supply.

“No matter how much uncertainty lies ahead of us, China will continue its own path, do its own thing and to strengthen its ability in handling risks and challenges.”

<https://www.scmp.com/news/china/diplomacy/article/3019558/china-us-trade-talks-could-resume-soon-washingtons-tariffs>

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 Democrats continue to work with USTR Lighthizer on changes required to the USMCA before the deal can go to Congress for approval. Lawmakers have indicated that they will continue to work on the revisions throughout the recess in August.

Republican President Donald Trump views ratification of the trade deal as a top priority, but Democrats say they will not move forward until their concerns over labor, environmental issues and access to medicine have been addressed.

Officials on both sides now say the deal could move forward in September after lawmakers return from the August recess. <https://www.reuters.com/article/us-usa-trade-usmca/democrat-calls-for-good-faith-talks-with-ustr-on-trade-deal-idUSKCN1UL2A3>

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

A ministerial-level meeting is likely to take place this week.

“With U.S. President Donald Trump pushing for a deal to be reached after Japan's House of Councillors election held last Sunday, a key issue is whether Tokyo and Washington will be able to achieve a win-win agreement in September -- the perceived goal of the White House.”

<https://japantoday.com/category/politics/japan-u.s.-vow-to-speed-up-talks-for-bilateral-trade-pact>

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

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.

One of the main issues standing in the way of a trade deal is that agriculture has been exempt from the negotiations by the EU.

Tariff threats escalated again during the week. It is now expected that the WTO would rule in favour of the US over illegal European subsidies to Airbus. The EU also has a similar case related to Boeing. Both sides have already identified potential areas for further sanctions if matters escalate and the US has already instigated a second process to identify further targets for tariffs.

“An arbitrator for the WTO is expected to decide in September what level of sanctions Washington can impose after winning a case before the WTO about European subsidies to Airbus, with the EU likely to get a decision in its favor several months later.” <https://www.reuters.com/article/us-usa-trade-eu/eu-redoubles-threat-to-retaliate-if-u-s-raises-auto-tariffs-idUSKCN1UH1N5?il=0>

In addition to helicopters and aircraft parts, the U.S. tariffs may also be aimed at goods such as cheese, olives and pasta, along with some types of whiskey in **what the officials see as an effort to gain concessions from EU members to the American agricultural sector.** [bloomberg.com/news/articles/2019-07-15/europe-braces-for-7-billion-u-s-tariff-hit-over-airbus-dispute](https://www.bloomberg.com/news/articles/2019-07-15/europe-braces-for-7-billion-u-s-tariff-hit-over-airbus-dispute)

### 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=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)

““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.””

### Digital Services

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>

## 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)

## **BREXIT**

With the conservative party leadership now resolved, focus shifts back to the Brexit deadline of 31 Oct.

There are no details at this stage of a restarting of negotiations with the EU on the withdrawal agreement. The UK government has announced that it will commit to additional spending in preparation for a no-deal Brexit. Details of the expenditure are yet to be released.

“At the same time, Sajid Javid, the new chancellor, told the Sunday Telegraph there would be “significant extra funding” this week to get Britain “fully ready to leave” the EU on 31 October, with or without a deal.”

“Gove and Javid are part of a new “war cabinet” of six key ministers to deliver Brexit by 31 October “by any means necessary””

“Of course we would prefer to [leave] with a new deal, one that removes this anti-democratic backstop,” he said. “We are prepared to enter into negotiations with the spirit of friendship and determination but if the EU doesn’t want to do that it is right we are absolutely prepared for that. We are turbo-charging preparations for no deal. That is now the government’s number one priority.” <https://www.theguardian.com/politics/2019/jul/28/boris-johnson-turbo-charging-no-deal-brex-it-plans-say-ministers>

## 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)