MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 8 July 2019

Key Themes

In a speech during the week, Fed Chairman Powell was widely seen as signalling that a rate cut for Jul was likely. The minutes of the prior meeting provided the broader context and outlined the reasons behind the increase in support for a rate cut. The minutes did, however, highlight that committee members acknowledged that some of these heightened risks were only recent – and that accommodations would be required if risks proved to be sustained. In his speeches during the week, US Fed Chairman Powell confirmed that since that FOMC meeting (two weeks ago), those concerns look to be sustained;

> "Since then, based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook."

Even before the speeches, the probability of a 25bp rate cut was very high (94.6% on 5 Jul). The probability of a 50bp cut has now edged up from 5.4% on 5 Jul to 25.6% (as of 14 Jul). https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

On the data front, US CPI growth (not the FOMC preferred measure) grew at a slightly slower pace in Jun of +1.6%. Core CPI growth also slowed slightly to 2%.

The JOLTS data this month is worth noting. The longer-term trend of the annual change in hires suggests some more recent loss of growth momentum – growth is no longer accelerating. The annual change in job openings has slowed noticeably (still growing though) – especially over the last 6-months.

As noted last week, the manufacturing slow down continued to evolve in Jun, with some evidence suggesting that the lack of growth in new orders is manifesting now as falling order backlogs. The reduction in order backlogs continues to support output growth for now.

Despite the weaker manufacturing PMI readings, industrial production in Europe, including Germany and Japan increased in May. These data releases don't provide the levels of outstanding orders.

Industrial production increased in the Euro area and EU in May. Production growth was recorded across most categories with the exception of intermediate goods.

In Germany, industrial production also increased slightly in the latest month. The increase in the month was due to manufacturing, but annual manufacturing production declined by the second-fastest pace of the last 18-months. The accelerated decline in new manufacturing orders reported last week for May suggests that production declines may continue across intermediate goods and capital goods. Production growth is also likely to remain subdued across durable, non-durable and consumer goods based on the new orders data. Production of utilities continued to slow. Construction has also slowed noticeably over the last several months – with annual growth slowing from 13.5% in Feb to 0.1% as of May.

Industrial production growth in Japan in May was revised slightly lower but still positive for the month. The longer-term trend of annual growth highlights the decline in production and shipments while the indexes for inventory and the inventory ratio reached near-term highs in May.

In Australia, business conditions and confidence data indicated that the confidence boost from the election has not been sustained, even as the RBA has cut rates. The improvement in business confidence recorded in May after the federal election was mostly reversed in Jun. Business conditions improved slightly and remain well below average. Despite the improvement in overall conditions, the forward orders remain negative, suggesting that activity is not likely to rebound in the short-term.

The decline in the value of new lending for housing also resumed in May. Data on the number of new commitments suggest that there may be some slow-down in the decline of owner-occupier lending (led by one state).

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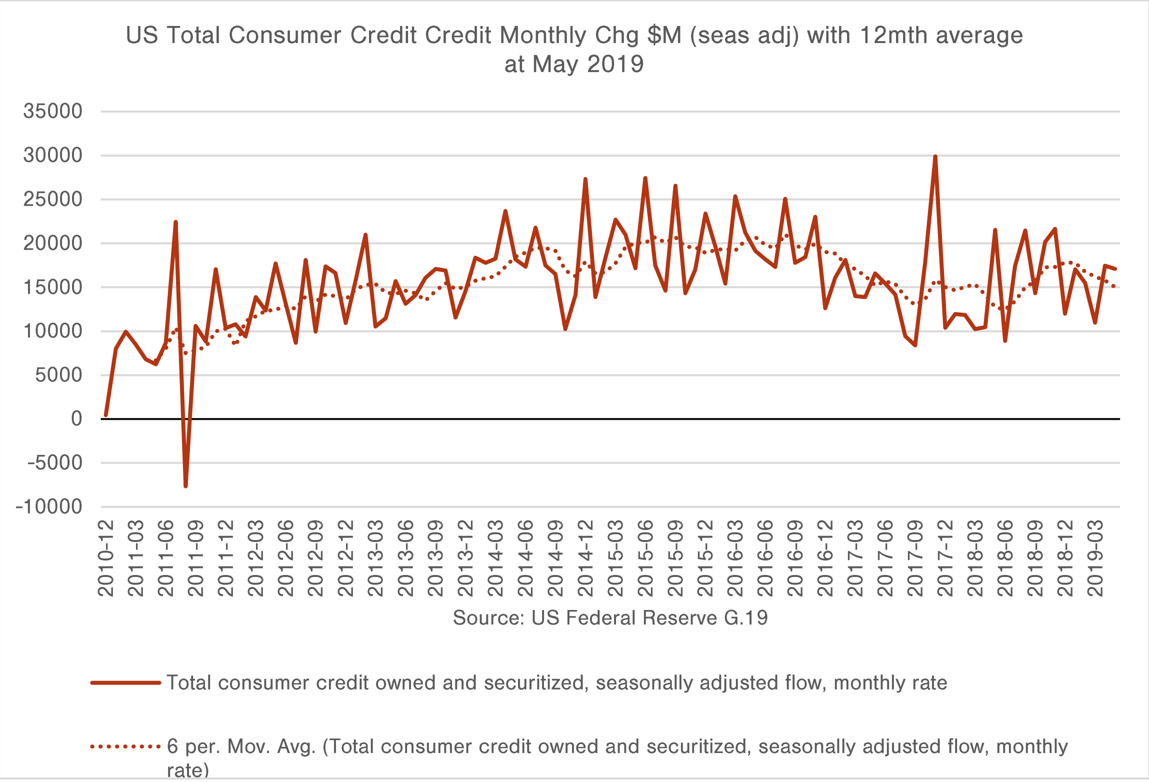
US Data

Consumer Credit G.19 Report (May)

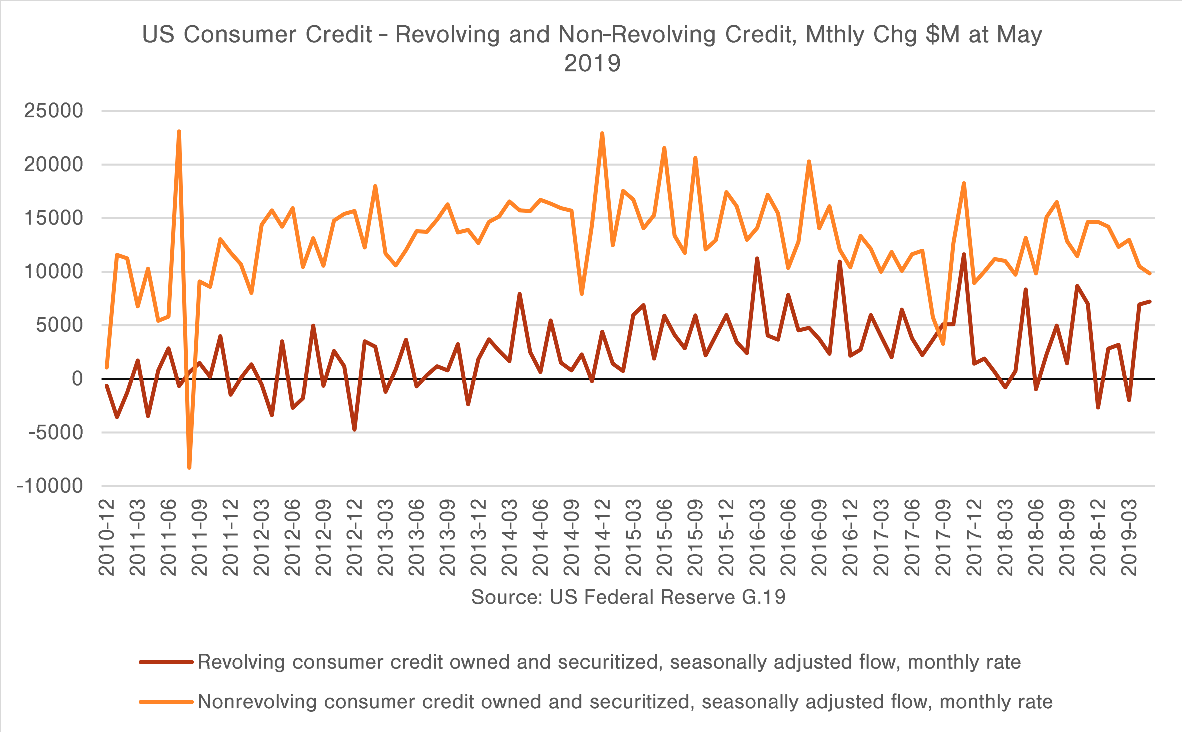
Total US consumer credit grew at a similar pace in May compared to Apr. The somewhat faster growth in revolving credit was offset by slower growth in non-revolving credit.

<u>Total Consumer Credit – month chg:</u> May +$17.1bn versus Apr +$17.4bn

Annual growth is 5.2%, but the annualised pace over the 3-months has slowed slightly to +4.5%.



The two components making up consumer credit are revolving and non-revolving credit. In the latest month, growth in revolving credit only partly offset the slower growth in non-revolving credit.



<u>Revolving Credit (credit card) – month chg</u>; May +$7.2bn versus Apr +$7bn

The annual growth in revolving credit was +4.5% and the annualised pace over the last 3 months is on par with the annual rate.

<u>Non-revolving Credit – month chg:</u> May +$9.8bn versus Apr +$10.5bn

The annual growth in non-revolving credit has slowed slightly to +5.4%, but the annualised rate over the last 3 months has slowed to +4.5%.

https://www.federalreserve.gov/releases/g19/current/default.htm

JOLTS (May)

The level of job openings, hires and separations fell versus the month prior. The longer-term trend of the annual change in hires suggests some more recent loss of growth momentum – growth is not accelerating. The annual change in job openings has slowed noticeably (still growing though) – especially over the last 6-months.

The messages are somewhat mixed with regard to the 'behaviour' suggested by the quits and layoffs-discharges data. The quits data suggests that individuals are somewhat less inclined to voluntarily leave a job (the growth in quits has slowed) yet firms show little/no inclination towards cutting workforce sizes.

<u>Hires</u>

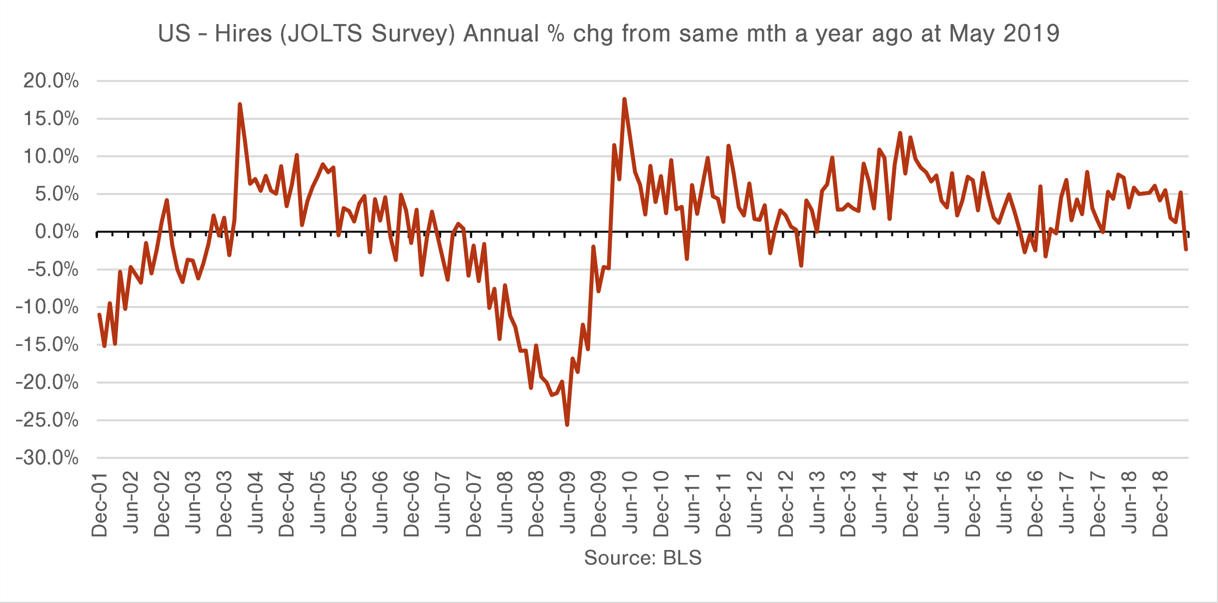
The number of hires fell harder in May – based on the Apr level of hires revised higher.

Month change; May 5.7m versus Apr 6m

The decline in the month was -4% and was almost a 3*SD decline. The level of hires has now slowed to 1% below with the 12-month average.

The hire rate slowed from 4% in Apr to 3.8% in May and is also below the 12-month average of 3.9%.

The annual change in hires declined by 2.3% in May and is the first annual decline since late 2016/early 2017;



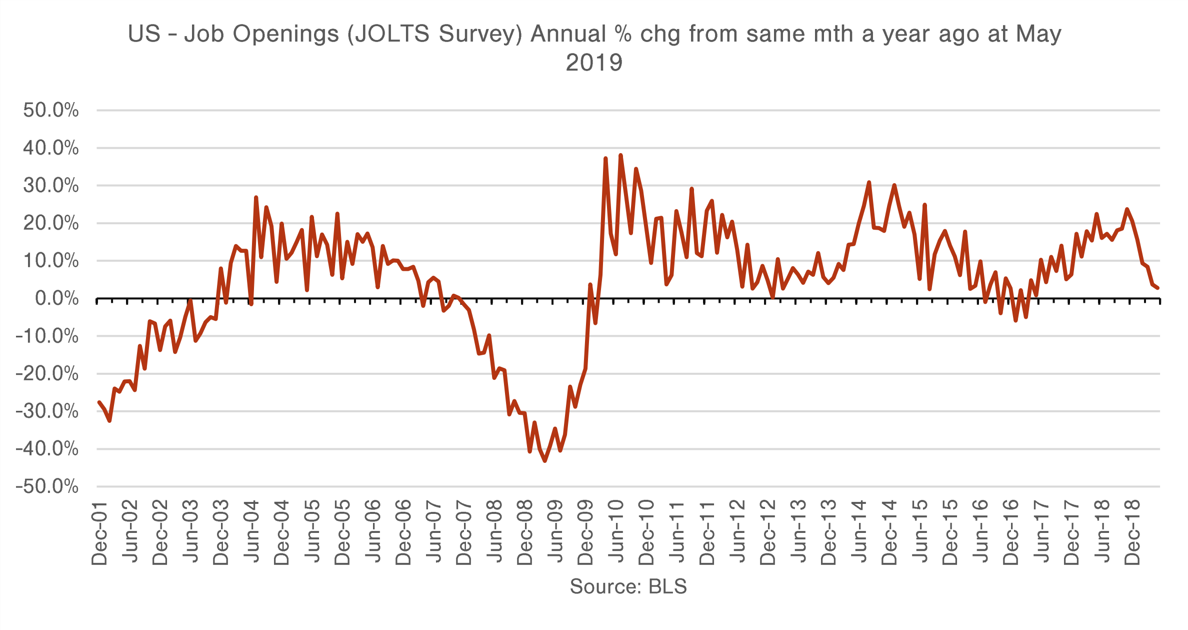
Job Openings

The level of job openings declined further in the latest month after reaching an all-time high in Nov 2018.

Month change; May 7.3m versus Apr 7.4m (a -0.7% decline). The all-time high level was 7.6m – despite the fall in the month, openings remain elevated.

The rate of job openings also fell to 4.6% from 4.7% recorded in the month prior.

The annual change in the level of openings slowed to +2.8% in May. The long-term trend in the annual change highlights how much the growth in openings has slowed in the last 6-months – note that the levels remain elevated;



<u>Total Separations</u>

The level of overall separations declined faster in the latest month. This was led mostly by quits (voluntary) and layoffs-discharges (involuntary).

Total Separations month level; May 5.5m versus Apr 5.7m. The decline in the month was -3.4% and was almost a 3*SD decline in the month.

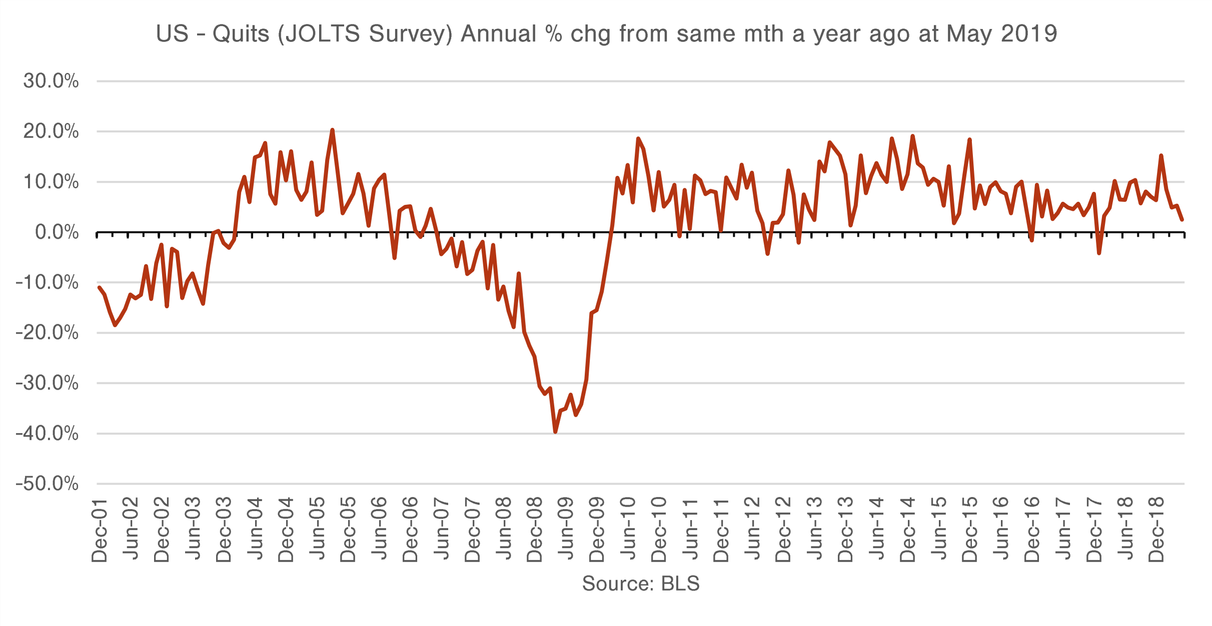
The messages are somewhat mixed with regard to the 'behaviour' suggested by the quits and layoffs-discharges data. The quits data suggests that individuals are somewhat less inclined to voluntarily leave a job (is it obvious that openings not growing the same way?) yet firms show little/no inclination toward cutting workforce sizes.

Quits

Month level; May 3.4m versus Apr 3.5m. The decline in the month was -2.6% and was almost a 2*SD decline versus the month prior. But note that the level of quits had reached an all-time high in Apr.

The quit rate remained unchanged at 2.3%.

The annual change though indicates that quits are no longer increasing at the same pace as at the start of the year and suggests a somewhat lower inclination towards voluntary change in jobs. The annual growth has slowed from +15% in Jan to +2.5% in May;

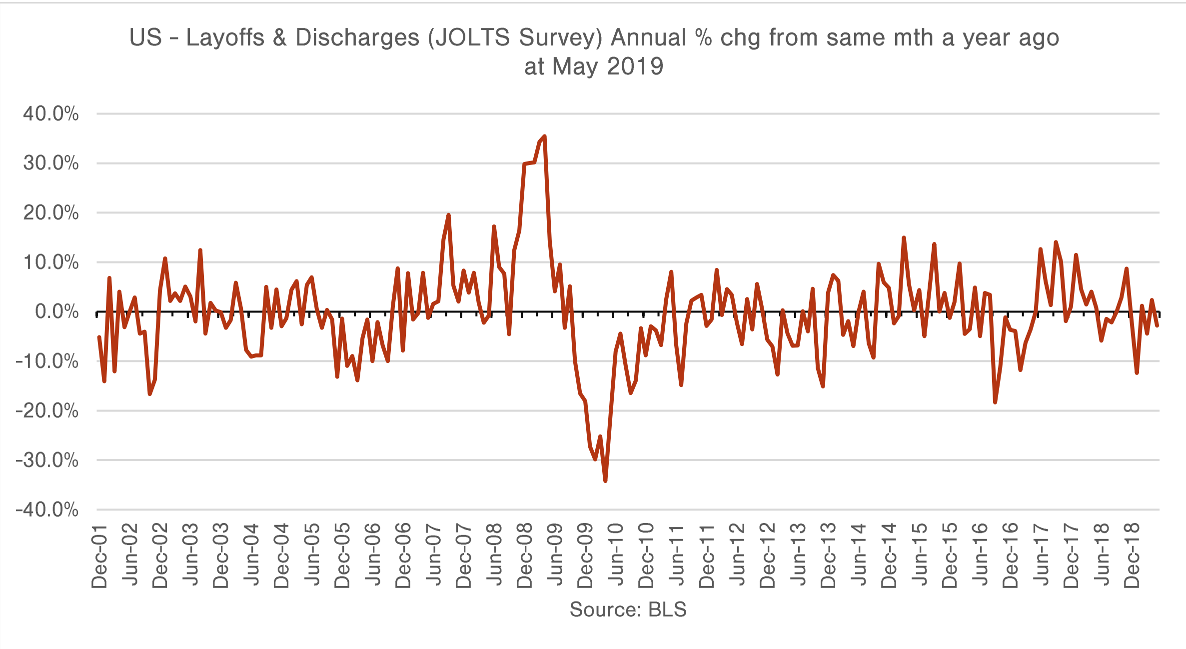


Layoffs and discharges

Conversely, layoffs and discharges declined in the month. The level of layoffs and discharges at this stage of the cycle remain low and are currently running -2% below the 12-month average.

Month level; May 1.76m versus Apr 1.8m. The decline was -3.8% versus the month prior and was 1*Sd decline.

The level of discharges and lay-offs in May was 2.8% below the same month a year ago;



The trend highlights though that the annual decline since Jan has slowed.

https://www.bls.gov/news.release/jolts.nr0.htm

Wholesale Trade and Inventories (May)

Wholesale sales increased at a slightly faster pace in May – led mostly by faster growth in automotive sales. Total wholesale inventories also increased in the latest month, but at slower rate than in the month prior. The inventory to sales ratio continued to increase.

Wholesale Sales – month change; May +0.1% versus Apr -0.4%

The increase in the month was the result of faster growth in durable goods sales; Jun +$1.4bn versus the month prior. Contributing the most to this was automotive growing by +$1.2bn versus the month prior. Lumber, metals, machinery and misc durable all declined in the month.

Wholesale sales of non-durable goods declined in the month; Jun -$0.9bn. This was led by falls in apparel, groceries, petroleum and misc non-durable goods.

Wholesale inventories – month change; May +0.4% versus Apr +0.8%

The annual change in the value of inventories remains at a near term high of +7.7%.

The increase in the value of inventories for the month of +$2.4bn was the result of an equal increase in both durable and non-durable goods inventories.

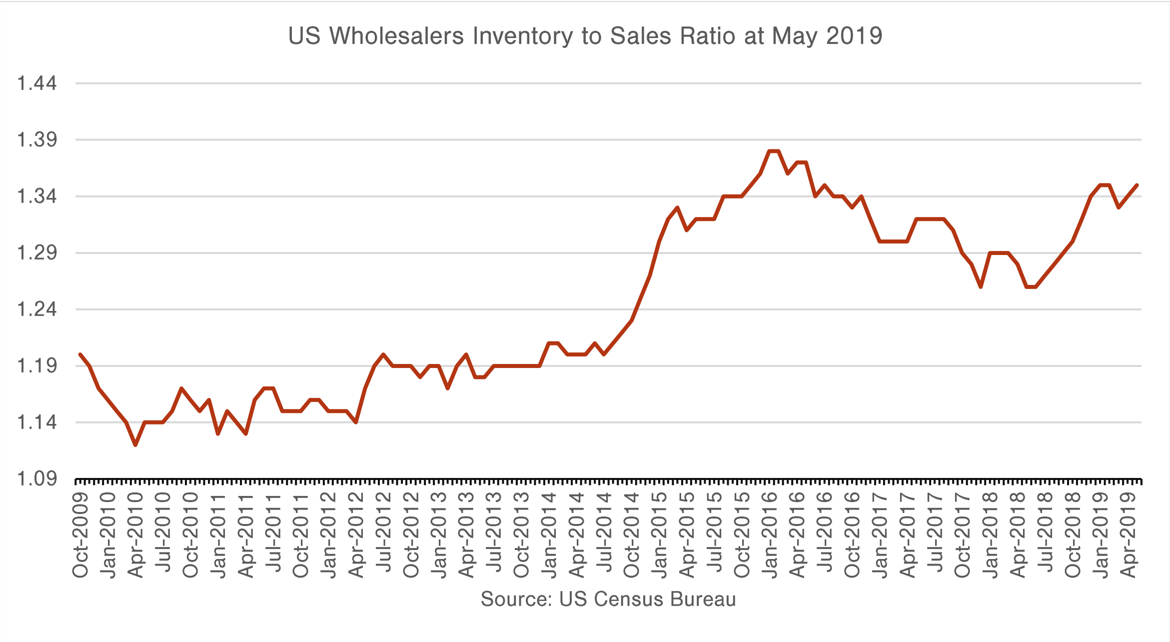
Durable goods inventories increased mostly as a result of the increase in automotive inventories – but given the increase in automotive sales, the inventory to sales ratio for auto's decreased.

Non-durable goods inventories increased due mostly to farm products and misc non-durable goods.

Inventory to Sales Ratio; May 1.35 versus Apr 1.34

The increase in the ratio was led higher by non-durable goods; May 0.98 versus Apr 0.97.

The sales to inventory ratio for durable goods was unchanged at 1.75.



https://www.census.gov/wholesale/index.html

CPI (Jun)

In the latest month, the CPI increased at the same pace as in the month prior. On an annual basis, the CPI increased at a slower pace – led mostly by slower growth in energy prices. The measure of underlying CPI growth – excluding food and energy indicated that consumer prices increased at a slightly faster pace and remains around the 2% mark.

All-Items CPI – month change; Jun +0.1% versus May +0.1%

The decline in energy prices for the month was offset by faster growth in commodities less energy commodities and services. Food prices were unchanged in Jun.

All-Items CPI – annual change; Jun +1.6% versus May +1.7%

The slower annual growth was mostly the result of the decline in annual energy prices compared to the annual decline in the prior month;

Food; Jun +1.9% versus May +2%. The annual contribution to the headline growth in CPI was slightly lower than in the month prior.

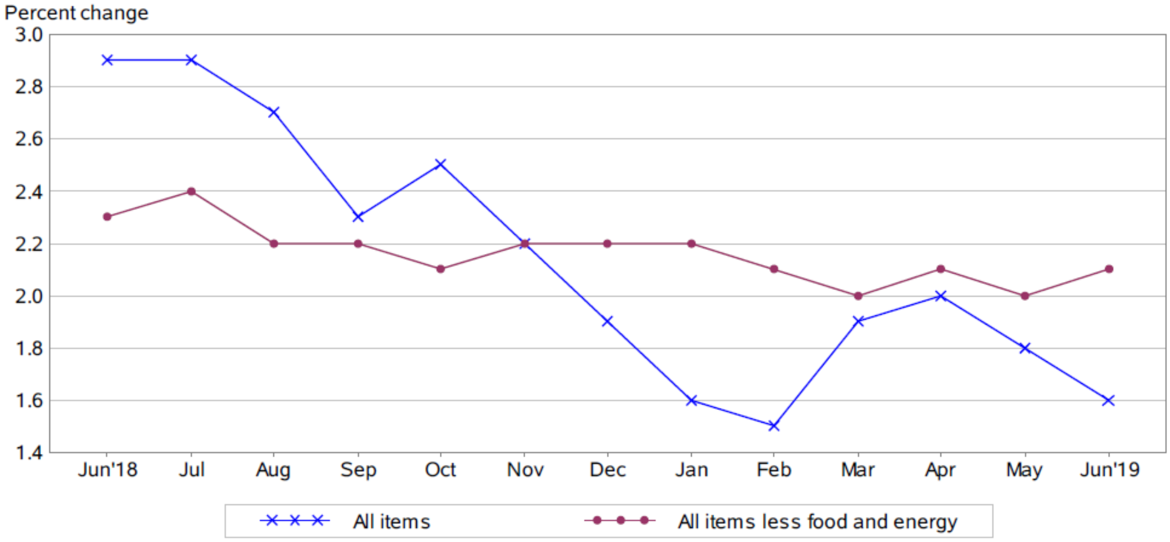
Energy; Jun -3.4% versus May -0.5%. The decline in energy prices detracted -0.26% pts from the headline annual growth in Jun – significantly larger than the -0.036% pts in May.

All items less food and energy (Core CPI); Jun +2.1% versus May +2%

One of the contributors to the faster annual growth in core CPI was commodities less energy commodities. Growth accelerated from -0.2% in May to +0.2% in Jun. Apparel made a less negative contribution and used cars and trucks made a larger contribution to the annual growth in prices.

Services less energy services also increased at a faster pace; Jun +2.8% versus May +2.7%. Shelter made a larger contribution to the annual growth in services prices which offset the lower contribution from transport services. Medical services made a similar contribution to annual price growth.

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, June 2018 - June 2019



https://www.bls.gov/news.release/cpi.nr0.htm

PPI (Jun)

There was no change in the monthly PPI change – with growth in services prices offsetting a further decline in final demand goods prices (led by energy).

On an annual basis the change in the PPI slowed. Growth in producer prices has continued to slow over the last year. Services prices grew at a constant pace while final demand goods prices declined slightly on an annual basis.

<u>Final Demand Producer Prices – month change</u>; Jun +0.1% versus May +0.1%

Faster growth in the prices for services offset further slower growth in final demand goods prices.

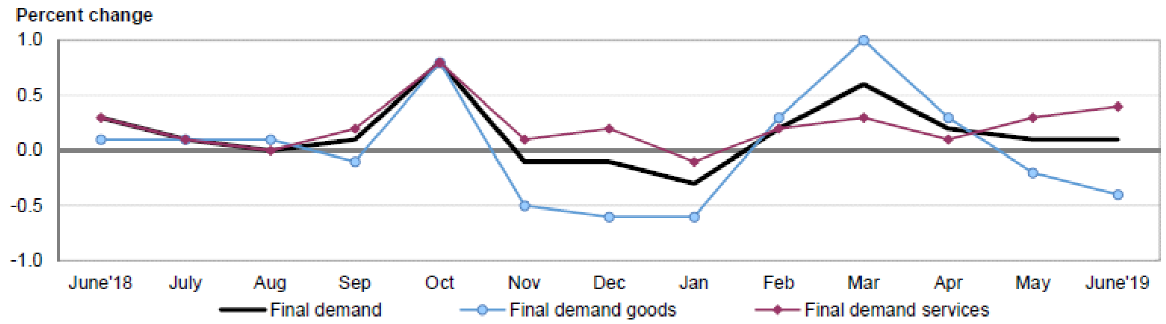
Final demand goods prices – month change; Jun -0.4% versus May -0.2%. The accelerated decline was mostly the result of a further decline in energy prices; Jun -3.1% versus May -1%. Food prices increased versus the month prior +0.6% in Jun versus -0.3% in May.

> "Nearly 60 percent of the June decrease in the index for final demand goods can be traced to a 5.0-percent decline in prices for gasoline. The indexes for diesel fuel, meats, liquefied petroleum gas, iron and steel scrap, and residual fuels also moved lower. In contrast, corn prices rose 19.9 percent. The indexes for ethanol and residential electric power also increased."

Final demand services prices – month change; Jun +0.4% versus May +0.3%. Trade prices (margins for final demand trade services) shifted from -0.5% decline in May to +1.3% in Jun. Transportation and warehousing prices grew at a slower pace.

> "Over a quarter of the June increase in prices for final demand services can be traced to margins for fuels and lubricants retailing, which jumped 12.2 percent."

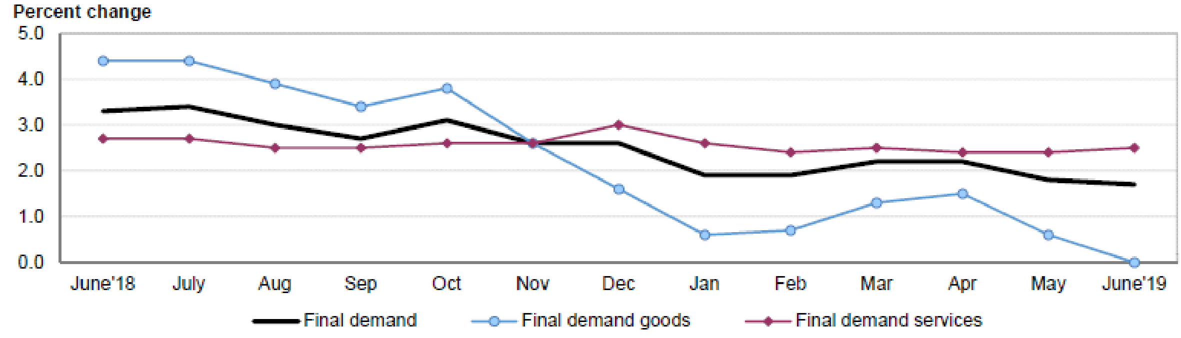
Chart 1. One-month percent changes in selected PPI final demand price indexes, seasonally adjusted



<u>Annual change – Final Demand Producer Prices;</u> Jun +1.7% versus May +1.8%.

The headline growth in prices has slowed over the last year – the annual growth in Jun 2018 was +3.3%.

Chart 2. Twelve-month percent changes in selected PPI final demand price indexes, not seasonally adjusted



Removing the more volatile food, energy and trade components shows that underlying changes in producer prices have also continued to slow; Jun +2.1% versus May +2.3%. A year ago, annual core PPI growth was +2.7%.

https://www.bls.gov/news.release/pdf/ppi.pdf

FOMC Minutes (18-19 Jun Meeting)

While the Fed Funds Rate remained unchanged at this meeting, the key theme of the announcement was "more support for policy accommodation among committee members at this meeting" – establishing expectations for a rate cut in the future. The minutes outlined in more detail the reasons behind the greater support for rate cuts – with a detailed discussion about the current conditions that had led committee members to seeing increased downside risks.

The minutes did however highlight that most participants acknowledged that some of these heightened risks were only recent – and that accommodations would be required if risks proved to be sustained. The list of circumstances provides some wide coverage for further action by the FOMC.

There were still 'some' participants that saw cuts as not yet warranted and one dissenting vote (Bullard) that a cut now was required in order to meet inflation and unemployment objectives.

Current Conditions

Downside risks and uncertainties had increased significantly leading up to the meeting. "Many participants" reported greater chances of economic activity falling below the 'sustained expansion' scenario.

> "Several participants noted comments from business contacts reporting that their base case now assumed that uncertainties about the global outlook would remain prominent over the medium term and would continue to act as a drag on investment."

Recent weaker confidence, business spending, manufacturing activity, trade developments and signs of slowing global growth were cited as reasons for shifting the balance of risks to the downside.

The minutes note that the following were discussed in more detail;

Business fixed investment – 'shipments and orders of new capital goods looked weak', 'some manufacturing surveys had dropped sharply'.

Long term corporate profit growth had been marked down ‘sharply’ by private sector analysts.

Manufacturing production had posted declines so far this year.

Investment spending plans – sentiment weighed down by softer export sales, weaker activity abroad and uncertainties about the global outlook.

Trade uncertainties – causing some manufacturing firms to pause hiring and investment plans.

Agriculture – trade uncertainty, weak exports, wet weather and severe flooding.

Household sector – noted that spending had been ‘solid’ (this was after the stronger May retail sales growth and the upwardly revised Apr sales result). Consumer sentiment remained upbeat.

Housing – softness still a concern, falling mortgage rates to provide impetus, participants optimistic that residential investment would increase as a result.

Employment remained strong, but the May payroll increase was weaker than expected.

> “…in light of other developments, participants judged that it would be important to closely monitor incoming data for any signs of softening in labor market conditions.”

Combination of muted inflation pressure, moderate wage growth and expanding employment – a sign that some slack remains in the labour market.

Inflation – mixed views on inflation expectations. Consumer expectations had fallen to historically low levels and continued weaker expectations could make it difficult to achieve the inflation target on a sustained basis. Others noted that inflation expectations were at a level consistent with the 2% objective.

On inflation generally, the risks were viewed as to the downside and projections marked lower;

> The forecast for total PCE price inflation this year was revised down somewhat, reflecting a lower near-term projection for energy prices. The core inflation forecast for this year was unchanged at a level below 2 percent. Both total and core inflation were projected to move up slightly next year, **as the low readings early this year were expected to be transitory**, but nevertheless to continue to run below 2 percent.

<u>Outlook for Monetary Policy</u>

There appears to be three views. First, the main/majority – “many” participants had revised lower the outlook for rates, but that cut was not yet warranted;

> Participants widely noted that the global developments that led to the heightened **uncertainties about the economic outlook were quite recent**. Many judged additional monetary policy accommodation **would be warranted in the near term should these recent developments prove to be sustained** and continue to weigh on the economic outlook.

Second, “some” judged that the appropriate path to allow a ‘flatter trajectory’ for rates and there was not yet a strong case for cuts.

> A few participants expressed the view that with the economy still in a favorable position in terms of the dual mandate, **an easing of policy in an attempt to increase inflation a few tenths of a percentage point risked overheating** the labor markets and fueling financial imbalances.

Finally, there was one dissenting vote (Bullard) that advocated for a rate cut now.

Policy Action

Economic conditions to be assessed relative to the maximum-employment and symmetric 2 percent inflation objectives.

Adjustments to the statement were noted; added clause to underscore the heightened uncertainties of the outlook, removed ‘patient’ and instead emphasized that the committee would monitor the implications of incoming information.

https://www.federalreserve.gov/monetarypolicy/fomcminutes20190619.htm

US Fed Speeches

Fed Reserve Chairman Powell to testify before the House Financial Services Committee in Washington, DC – 10 Jul 2019

(Identical remarks were submitted to the US Senate Banking Committee in Washington, DC on 11 Jul 2019).

The testimony mostly mirrors the detail released in the minutes related to performance of the economy. Baseline case is growth to remain solid, but that momentum has slowed globally. The statement was widely seen as signalling a rate cut of at least 25bps at the next meeting.

Two points stand out when compared to the minutes;

The first is highlighting that weak inflation may be more persistent;

> “And **there is a risk that weak inflation will be even more persistent than we currently anticipate**. We are carefully monitoring these developments, and we will continue to assess their implications for the U.S economic outlook and inflation.”

The minutes highlight that while risks were tilted to the downside for inflation, there were some transitory factors behind the lower prints so far this year.

Secondly, Chairman Powell carefully outlined the shift in the FOMC approach from ‘patient’ in Jan, Feb, Mar, and May, to ‘act as appropriate’ in the Jun statement/meeting. Taken in light of the minutes, which clarifies the FOMC view that ‘should recent developments be sustained’, the testimony offered by Chairman Powell suggests that, in the last two weeks, the FOMC does in fact see “uncertainties continue to weigh”.

> Many FOMC participants saw that the case for a somewhat more accommodative monetary policy had strengthened. **Since then, based on incoming data and other developments, it appears that uncertainties around trade tensions and concerns about the strength of the global economy continue to weigh on the U.S. economic outlook**. Inflation

pressures remain muted.
https://www.federalreserve.gov/newsevents/testimony/powell20190710a.htm

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

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

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

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Europe

Germany Industrial Production (May)

Total industrial production increased slightly in the latest month.

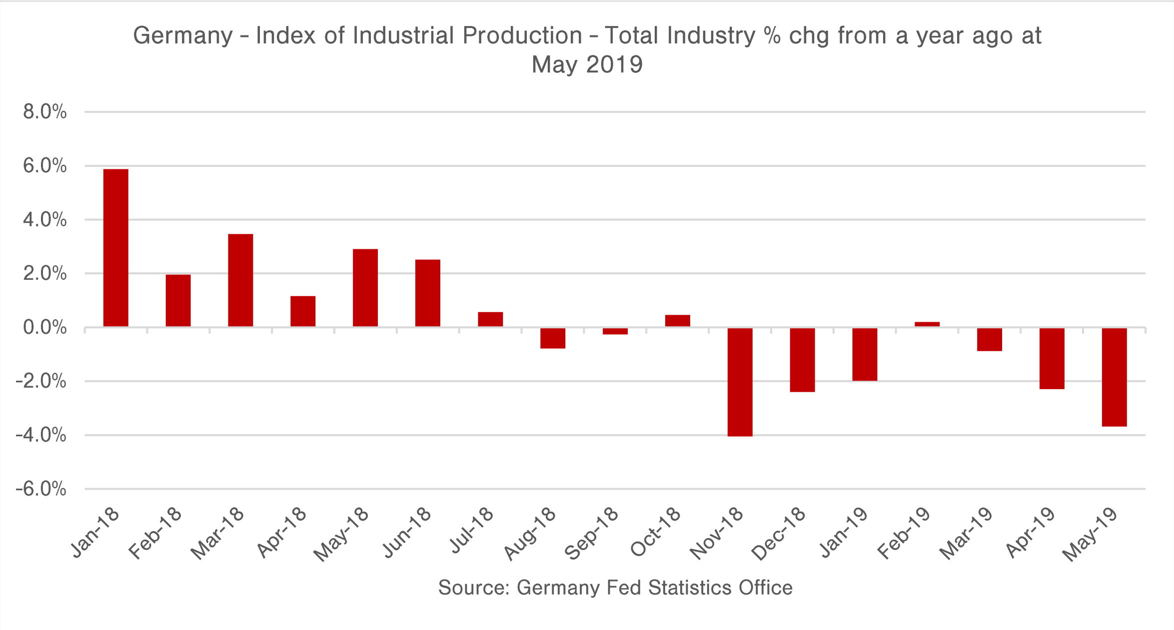
The increase in the month was the result of an increase in production in manufacturing for the month. Despite the small increase in the month, annual production declined by the second fastest pace of the last 18-months. The accelerated decline in new orders reported last week for May suggests that production declines may continue across intermediate goods and capital goods. Production growth is also likely to remain subdued across durable, non-durable and consumer goods based on the new orders data.

Production of utilities continues to slow. Construction has also slowed noticeably over the last several months – with annual growth slowing from 13.5% in Feb to 0.1% as of May.

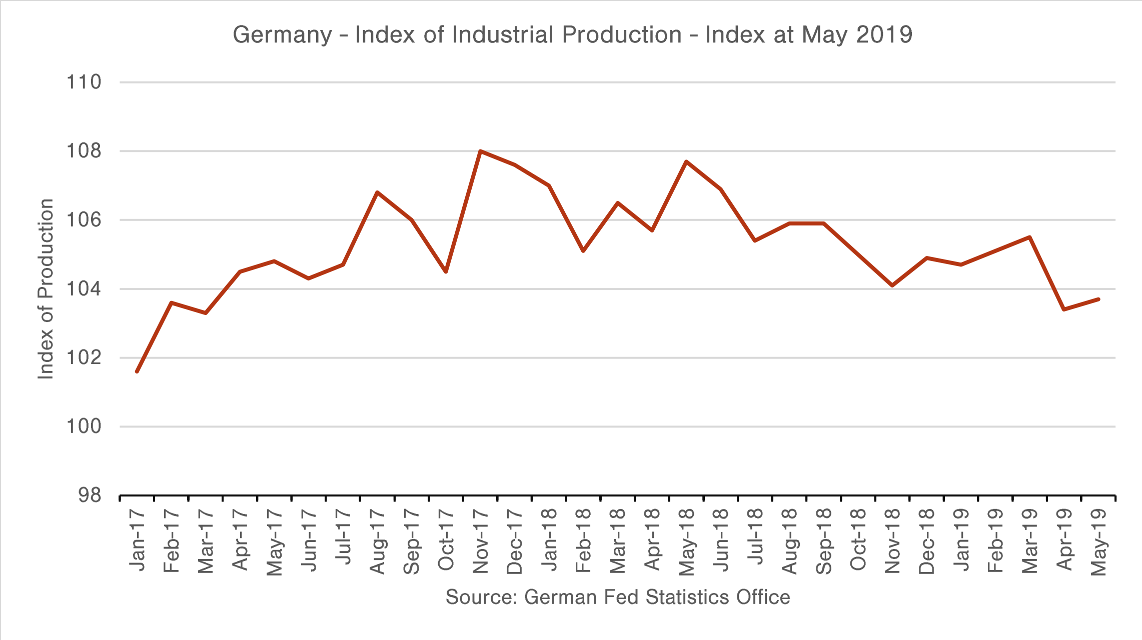
Total Industrial Production

Month change; May +0.3% versus Apr -2%

On an annual basis, total production remains 3.7% below the same month a year ago. This is the second largest decline of the last 18-months;



Despite the small increase in the month, the index of production remains 4% below the recent peak of Nov 2017;

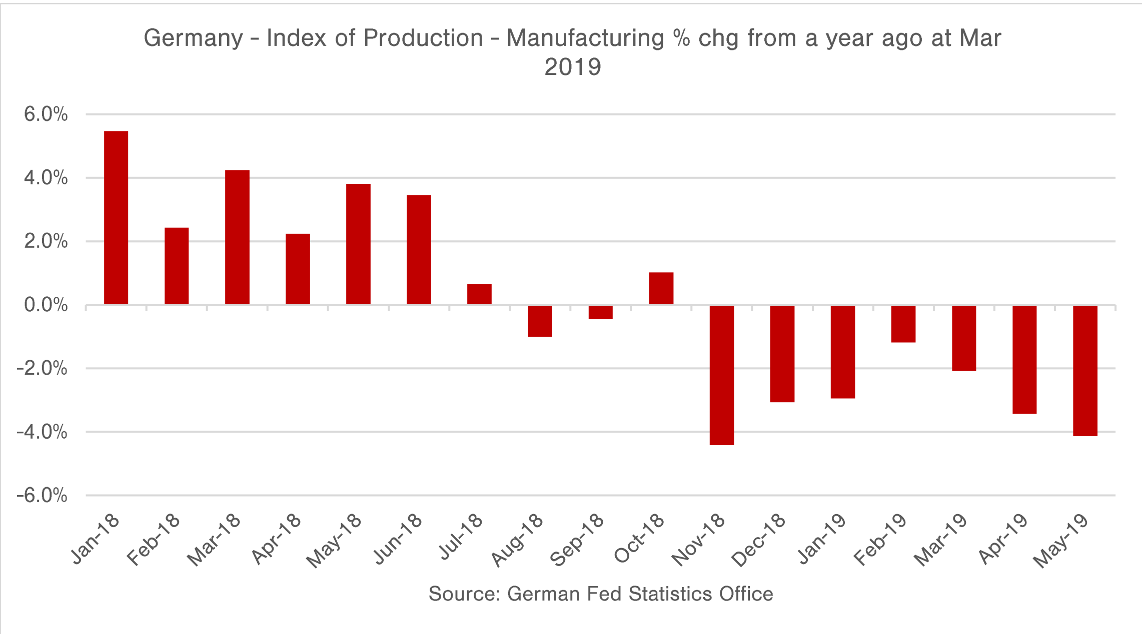


MAIN INDUSTRY SEGMENTS

Manufacturing

Manufacturing production increased in the last month after a larger decline in the month prior; May +0.9% versus Apr -1.9%

On an annual basis, manufacturing production in May is 4.1% below a year ago – this is also the second largest decline of the last 18-months;



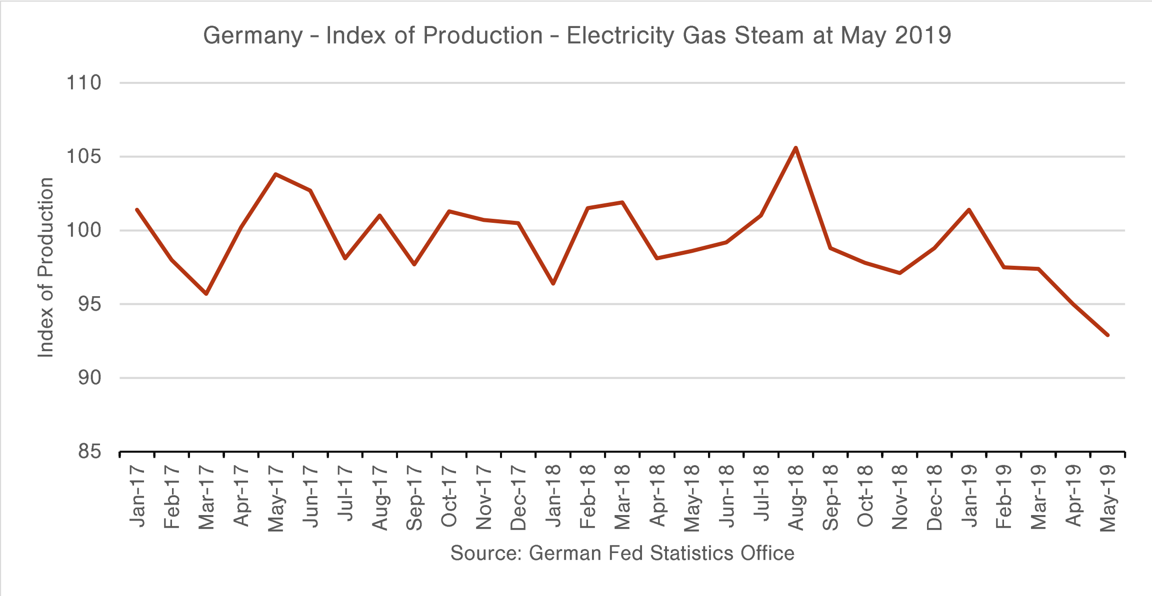
Manufacturing production remains 5% below the recent peak also reached in Nov 2017.

The new orders in manufacturing data reported last week suggests that production growth in the near term may remain under pressure. New orders in May declined by 2.2% led by foreign orders. New orders in manufacturing are now 8.6% below a year ago, as of May.

Electricity, Gas, Steam, Air Conditioning Supply (Utilities)

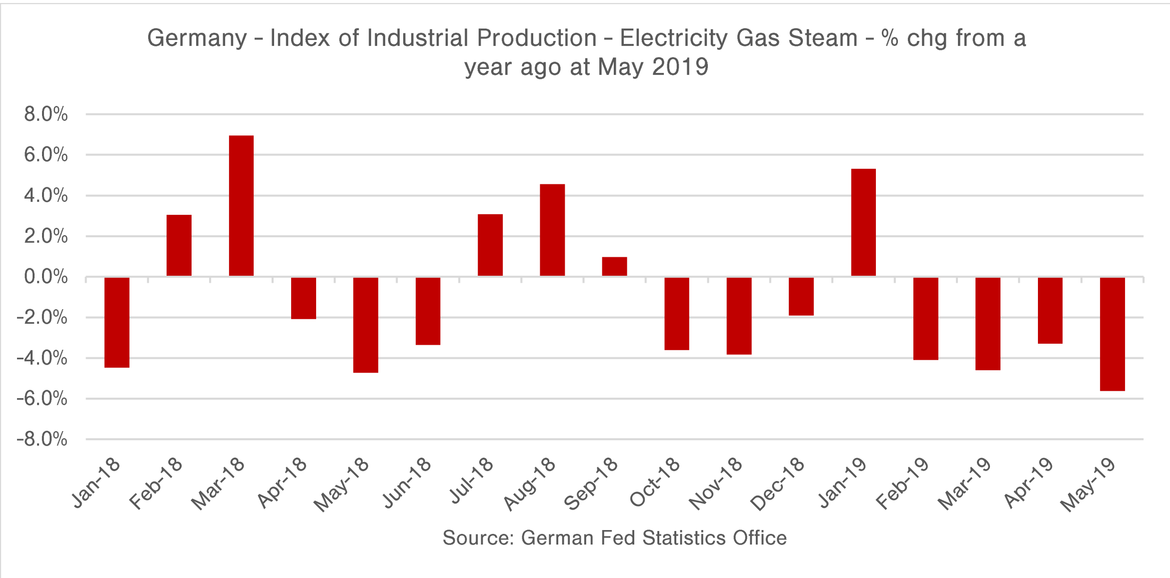
Production/supply of utilities declined in the latest month the third such decline in four months;

Month change; May -2.2% versus Apr -2.5%



The straight index of production highlights the more recent downward trend. The May index of utility production/supply is now 12% below the recent peak in Aug 2018.

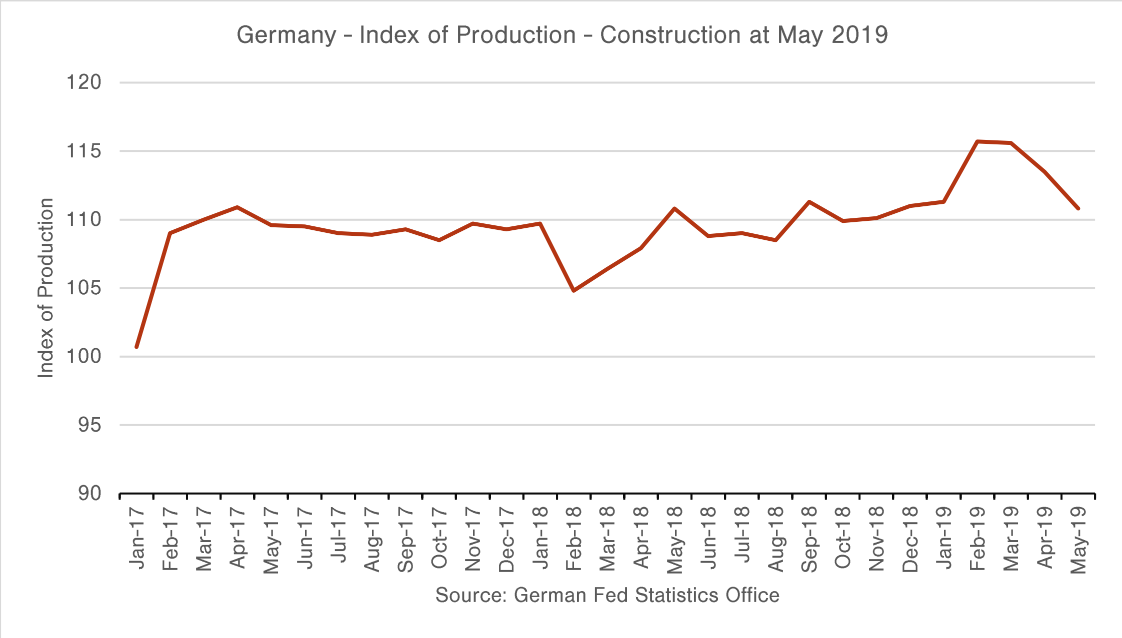
On an annual basis, production/supply is 5.6% below the same month a year ago – this is the steepest decline of the last 18-months;



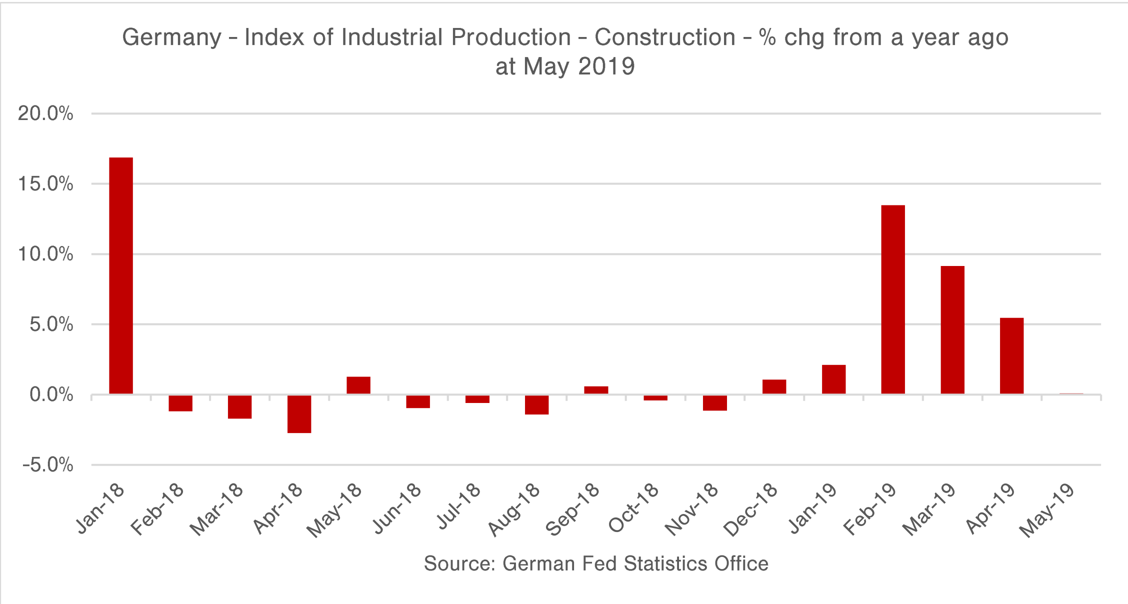
Construction

Construction has been one of the stronger areas of performance recently. In the latest month, the decline in construction activity accelerated slightly; May -2.4% versus Apr -1.8%.

The near-term peak was reached only recently in Mar 2019 and construction activity has slowed since then – but the index of activity remains elevated compared to the last 18-months;



On an annual basis, the index of construction production/activity has slowed. In Feb 2019, annual growth was 13.5%. In May, that annual growth has slowed to 0.1%;

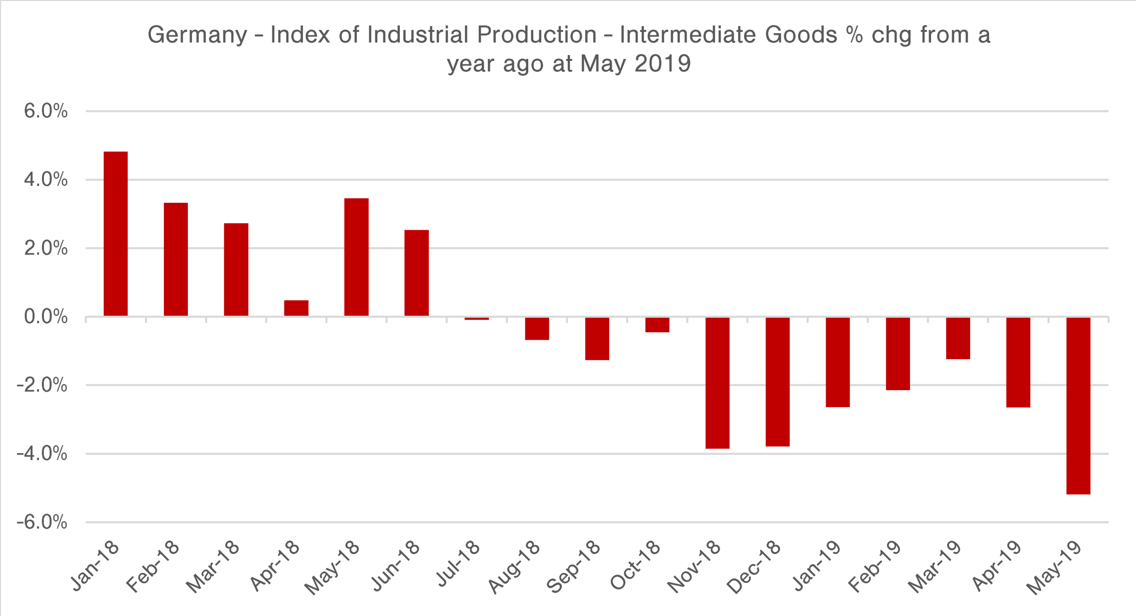


MAIN GROUPS

Intermediate Goods

The production of intermediate goods has continued to slow in the latest month; May -0.5% versus Apr -1.5%. The index of production of intermediate goods remains well below the peak of Dec 2017.

On an annual basis, production is 5.2% below the same month a year ago and is the largest annual decline recorded over the last 18-months;

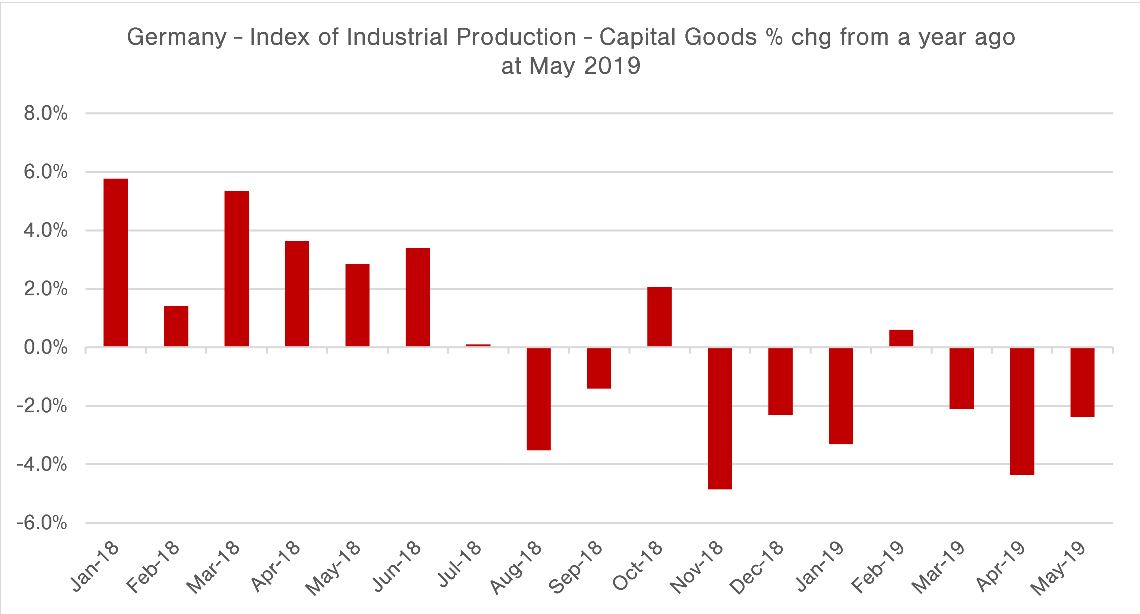


The new orders data from the week prior suggests the manufacturing output of intermediate goods will remain under pressure in the near term.

Capital Goods

The production of capital goods increased in the latest month after a larger fall in the month prior; May +2% versus Apr -2.7%.

The annual change in the production of captial goods continues to decline, falling 2.4% below the same month a year ago;

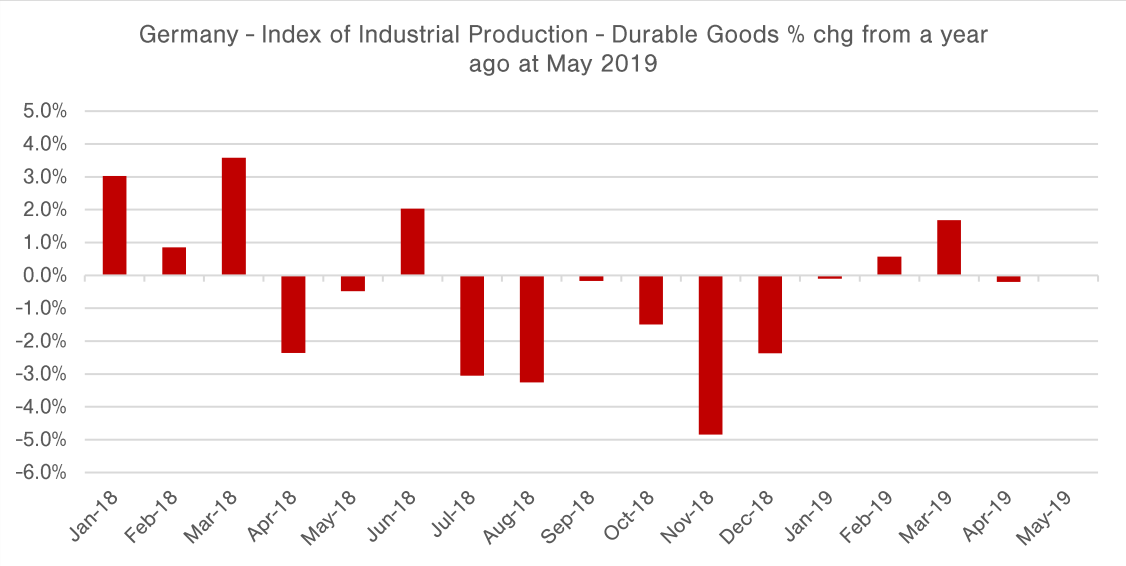


The decline in new orders reported in the week prior suggests output is likely to remain lower in the near term. The monthly decline was the result of a decline in foreign capital goods orders.

Durable Goods

The production of durable goods has been in the improve since last 2018. In the latest month, production increased after a larger fall in the month prior; May +2.7% versus Apr -4.1%.

On an annual basis, production has improved to at least now be on par with the same time a year ago (0% change) after declining by as much as 5% in Nov 2018;



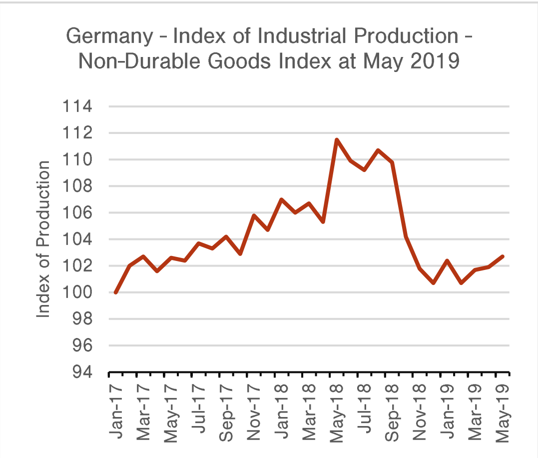
The increase in durable goods new orders reported in the week prior suggests that further improvements/growth in durable goods production is likely in the near term. Durable goods orders increased by 2.3% in May – due to foreign and domestic orders.

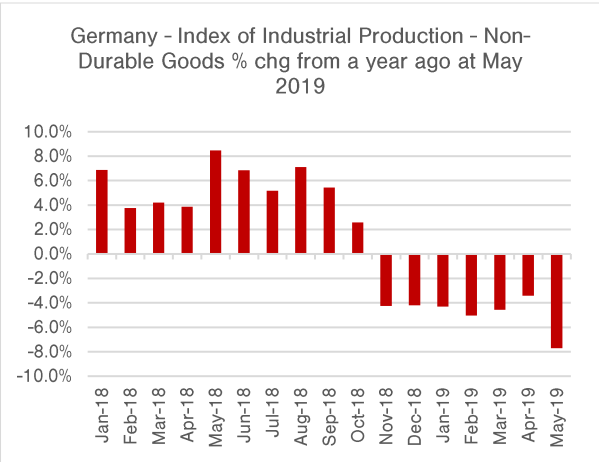
Non-Durable Goods

The production of non-durable goods has fallen during the last half of 2018. During 2019, production has started to increase again, but remains well below the mid-2018 peak.

Month change; May +0.8% versus Apr +0.2%

At the same time, the annual decline accelerated in May to -7.7% from a year ago.





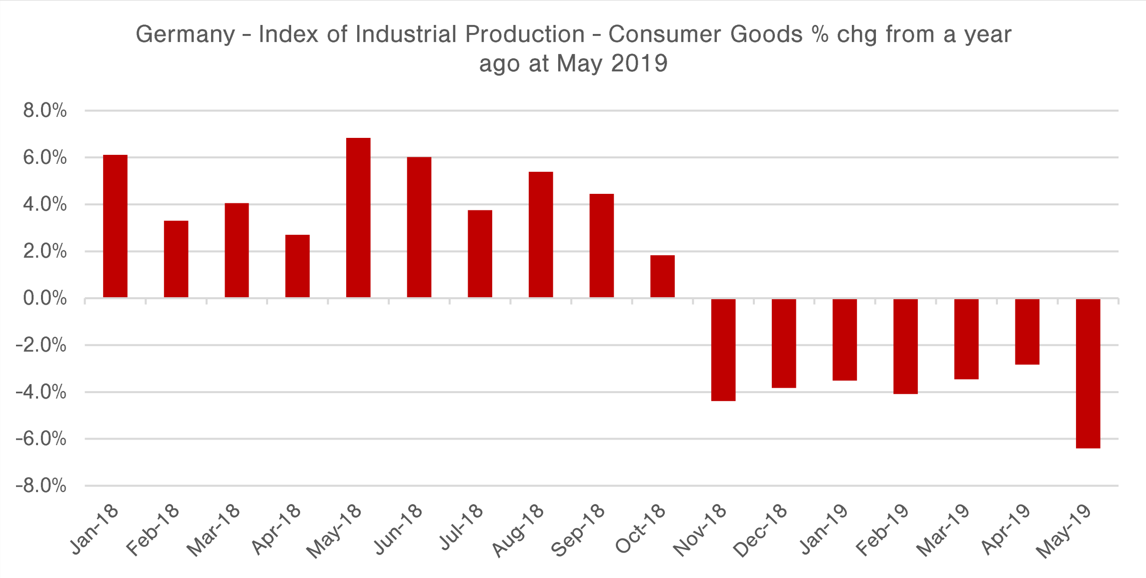
A further decline in new orders suggets that growth in production will remain more subdued.

Consumer Goods

The production of consumer goods follows a similar trend to non-durable goods. The level of production has slowed during the last half of 2018 and has started to improve over 2019, but remains well below the 2018 peaks.

Month change; May +1.1% versus Apr -0.6%

The annual decline in May accelerated to -6.4%



New orders for consumer goods reported last week declined slightly versus the month prior. The annual growth in new orders is 3% below a year ago and suggests that production growth will also remain more subdued.

https://www.destatis.de/EN/Press/2019/07/PE19_258_421.html

Eurozone Industrial Production (May)

Industrial production increased in the Euro area and EU in May after recording declines in the month prior. Production growth was recorded across most categories with the exception of intermediate goods.

Euro area – Industrial Production

Month change; May +0.9% versus Apr -0.4%

Production of intermediate goods continued to decline, albeit at a slower pace in the month. Production of energy grew at a slower pace. The production of capital goods and non-durable goods increased after declining in the month prior. Production of non-durable consumer goods increased at a faster pace.

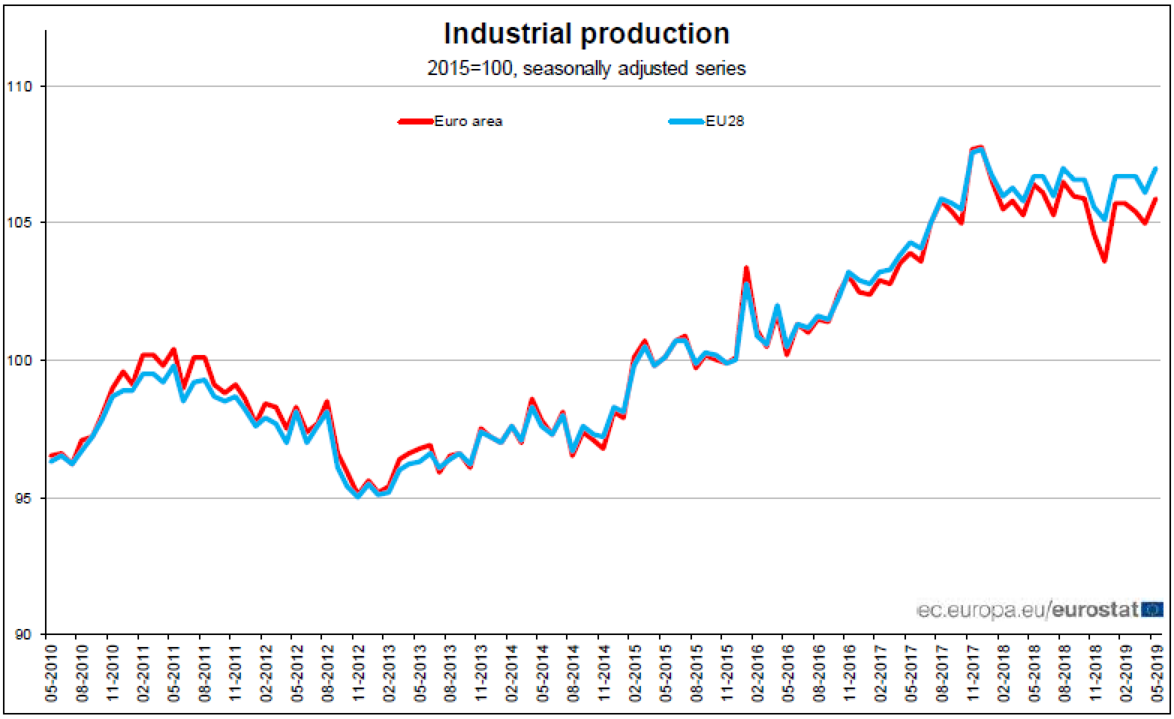
On an annual basis, production levels across the Euro area remain below the same month a year ago; May -0.5% versus Apr -0.4%.

EU 28 group – Industrial Production

Month change; May +0.8% versus Apr -0.6%

Production growth was similar across the broader group. Growth in production of intermediate goods continued to decline, but at a slower pace. Energy production increased at a slightly faster pace. Production of capital goods and consumer durable goods shifted from a declined in the month prior to growth in May. Production of non-durable consumer goods increased at a faster pace.

On an annual basis, growth in industrial production across the broader Eurozone increased at a slightly faster pace; May +0.4% versus Apr 0%.



https://ec.europa.eu/eurostat/documents/2995521/9968005/4-12072019-AP-EN.pdf/9b50c6ca-012e-4256-b402-a726b1ffd048

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Japan

Industrial Production – Final (May)

Both production and shipments growth for May were revised slightly lower in the final release, but growth remained elevated for the month.

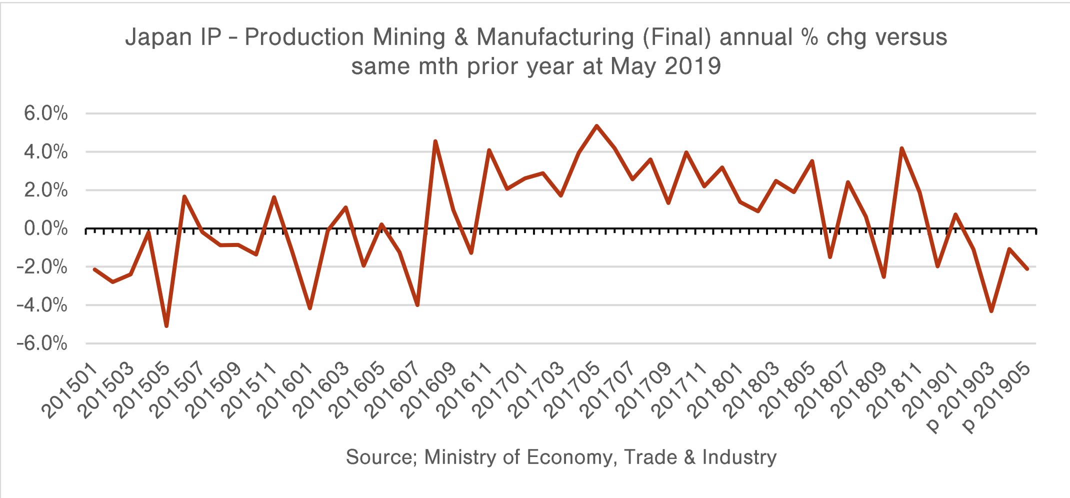
Despite the stronger production and shipments growth in the month, the annual trend continues to slow. The trend in the annual growth of production and shipments remains negative. At the same time, the indexes for inventory and the inventory ratio reached near-term highs in May.

Index of Production

The monthly change was revised slightly lower in the final release but remained positive;

Month change; May 2% (prelim 2.3%) versus Apr +0.6%

Annual change in production; May -2.1% (prelim -1.8%) versus Apr -1.1%



Index of Shipments

The month change in shipments was also revised lower and remained positive.

Month change; May +1.3% (prelim 1.6%) versus Apr +1.8%

Annual change in shipments; May -1.8% (prelim -1.5%) versus Apr -1.4%

Inventory

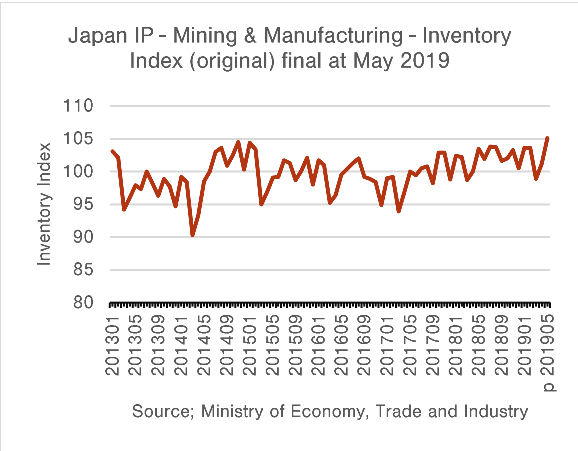
Inventory growth was revised slightly lower in the final release;

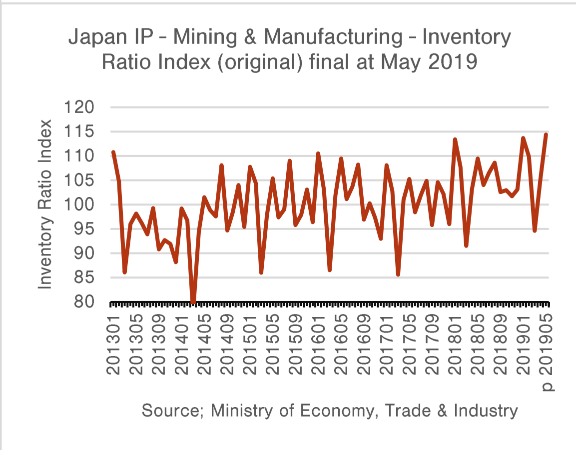
Month change; May +0.5% (prelim +0.6%) versus Apr 0%

Annual change in inventory; May +1.5% (prelim 1.6%) versus Apr +1.2%.

The annual growth of the inventory ratio increased at a much faster pace in the latest month; May +4.5% versus Apr +2%.

As highlighted in the prelim report, both the index of inventory and inventory ratio reached new highs (going back to 2013;





https://www.meti.go.jp/english/statistics/tyo/iip/index.html

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United Kingdom

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

Monthly GDP (3-months to May)

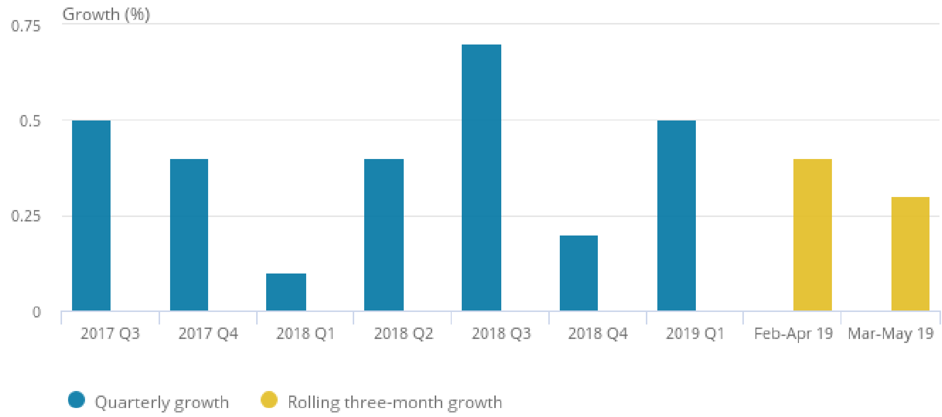
The rolling 3-month GDP grew at a slightly slower pace in May. Services remained the single largest contributor to growth over the 3-month prior. Production growth remained positive as auto firms resumed some production during the period. Construction made a zero contribution to growth in the 3-month period.

Rolling 3-month GDP - May

3-months to May +0.3% versus 3-months to Apr +0.4%

Figure 1: Rolling three-month growth slowed for the second consecutive month after growth of 0.5% in Quarter 1 2019

UK GDP growth, Quarter 3 (July to Sept) 2017 until March to May 2019



Source: Office for National Statistics – GDP monthly estimate

Growth varied greatly in the underlying 3-month period, although the monthly GDP change is less reliable; Mar +0.1%, Apr -0.4% and May +0.3%.

<u>Sector Growth</u>

Services continued to be the largest contributor to overall growth, growing at 0.3% in the 3-months to May and contributing +0.24% pts to the headline growth. The underlying growth in each of the 3 months of Mar to May remains relatively low. In May the index of services grew by only 0.1%.

Production increased by +0.3% in the 3-months to May, adding +0.05%pts. Growth in the underlying 3-months was mixed; Mar +1.4%, Apr -2.9% and returning to growth in May +1.4%. This was helped by the return of car production;

> "This was driven largely by a pick-up in the manufacture of transport equipment, following several car firms shutting down production around the originally intended departure date from the European Union. Despite this rebound, the levels of output in this industry are below those seen in the months prior to April 2019."

Construction growth for the rolling 3-month period was 0%. In the underlying 3 months, construction declined by 1.5% in Mar, -0.5% in Apr and increased by +0.6% in May.

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpmonthlyestimateuk/may2019

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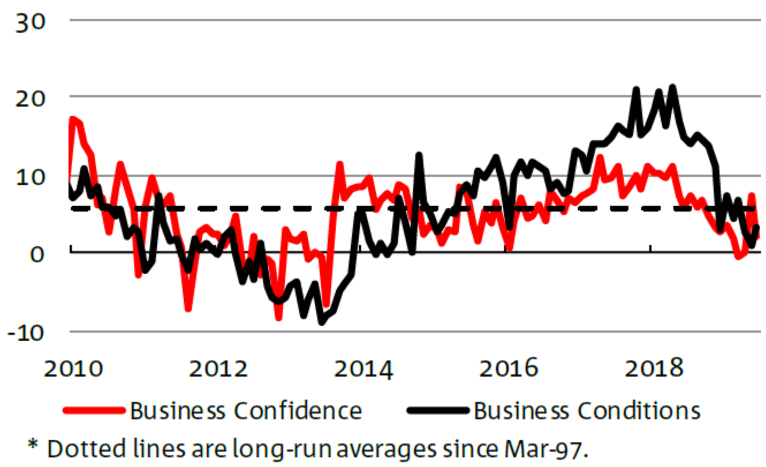
NAB Business Conditions and Confidence (Jun)

This is our first view of the business response to the election and the first interest rate cut. So far, the confidence boost from the election has not been sustained, even as the RBA has cut rates. The improvement in business confidence recorded in May after the federal election was mostly reversed in Jun. Business conditions improved slightly and remain well below average. Despite the improvement in overall conditions, the forward orders remain negative, suggesting that activity is not likely to rebound in the short-term.

CHART 1: CONFIDENCE KICK SHORT-LIVED, CONDITIONS BELOW AVERAGE



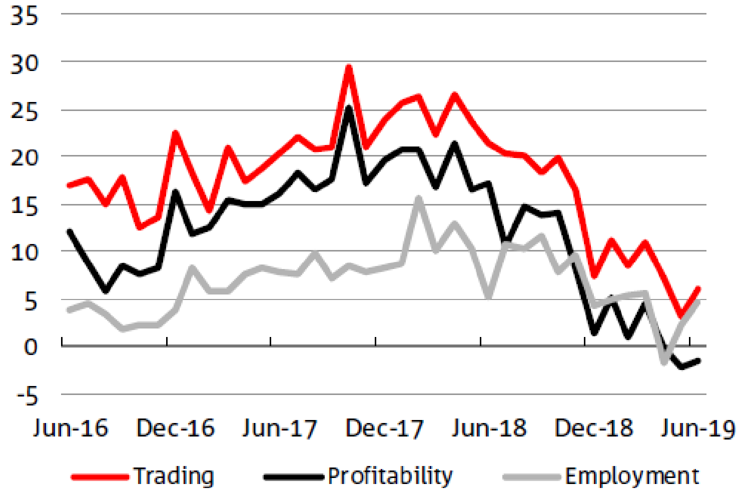
Business Confidence Index; Jun 2 versus May 7

The spike in confidence after the election in May was mostly reversed in Jun. The Jun result is also after the first interest rate cut (start of Jun).

Business Conditions Index; Jun 3 versus May 1

The slight improvement in business conditions was the result of an improvement in trading and employment. The index of employment growth is back above the average. Business profitability remained negative.

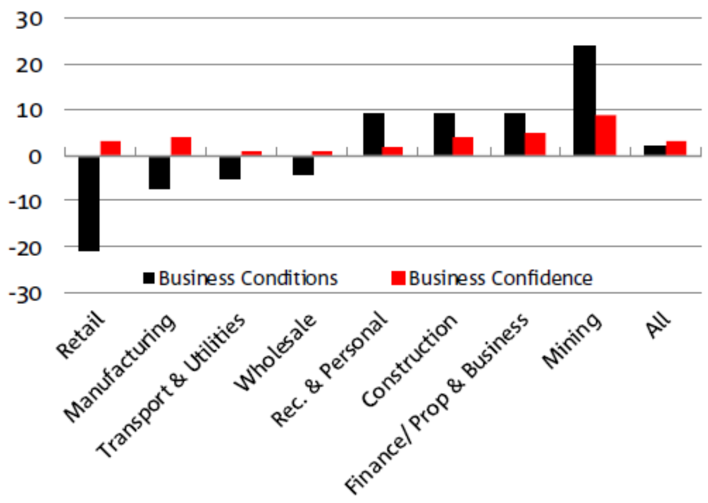
CHART 7: COMPONENTS OF BUSINESS CONDITIONS, NET BALANCE, S.A.



Conditions remain the weakest in Retail;

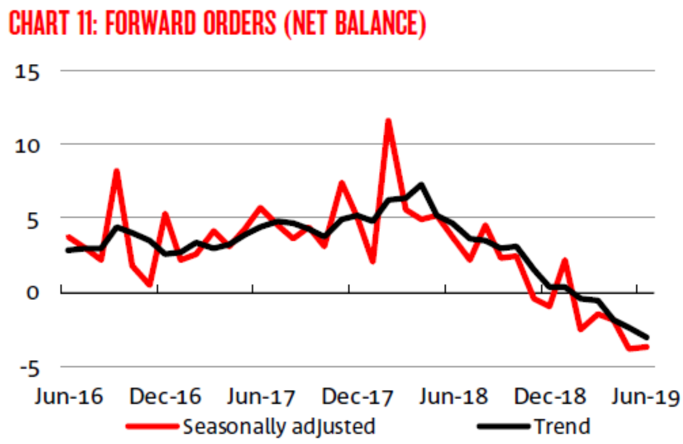
> “The retail sector remains the weakest of all industries with levels of business conditions last seen in the GFC. This suggests that activity in the sector is going backwards – and in line with other indicators suggesting both price and volumes growth has remained weak, while margins continue to face pressure. “

CHART 9: BUSINESS CONDITIONS BY INDUSTRY, LATEST MONTH (TREND) [NEED TO ADJUST SCALE FOR RETAIL]



Forward Orders

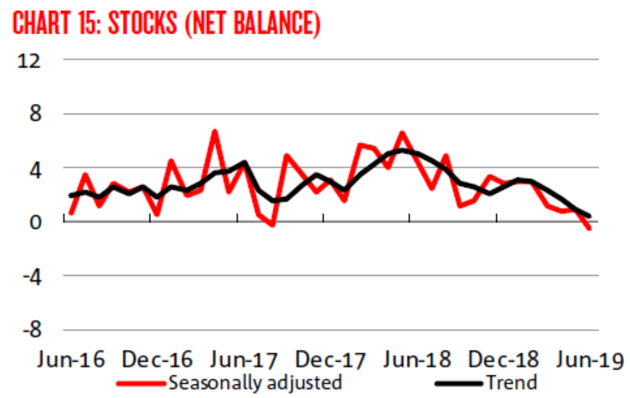
As an indicator of further activity, forward orders declined again in Jun at the same pace as in May; Jun -4 versus May -4.



Stocks

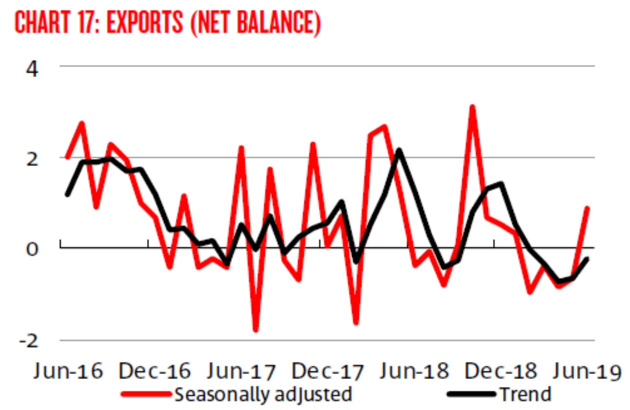
Firms continued to manage stock levels with the index falling into contraction for the month;

Jun -1 versus May 1



Exports

The rebound in exports has continued in the latest month;



https://business.nab.com.au/wp-content/uploads/2019/07/2019m06-NAB-Monthly-Business-Survey.pdf

Lending for Housing (May)

The monthly decline in lending for housing recommenced in Jun. Lending for owner occupiers led the decline in the month but lending for both owner occupiers and investors declined.

This data point now captures the federal election and the surprise win by the Liberal (incumbent) government. This meant that the reforms to lending for investment properties proposed by the Opposition would not be implemented – which should be somewhat supportive for the housing market.

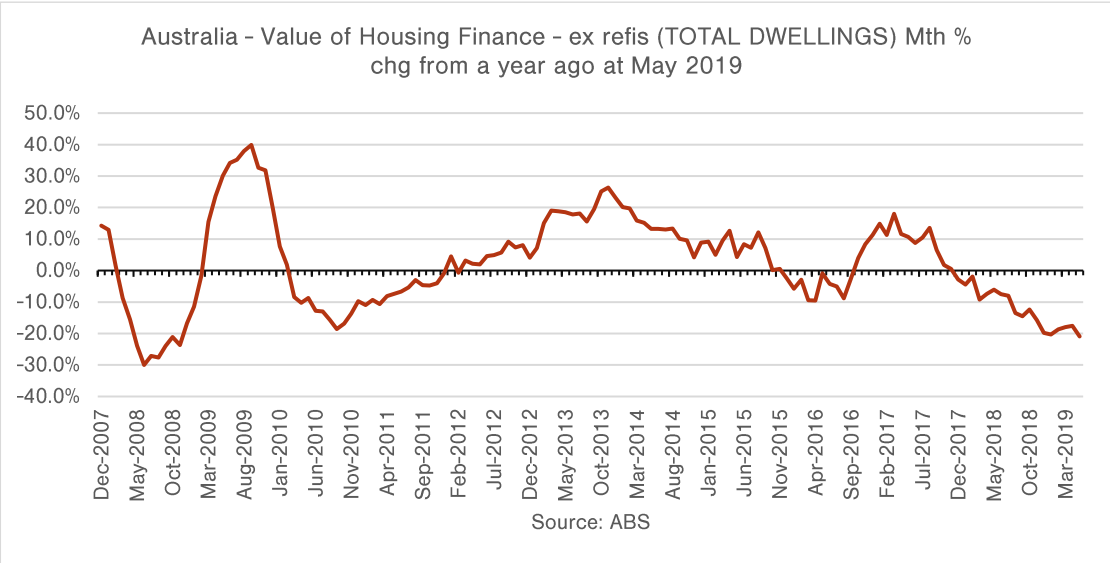
The next data release will be important – it will capture the first of the two interest rate cuts as well as some of the changes (easing) to lending standards announced by the prudential body APRA.

<u>Lending to Households for Dwellings</u>

Total lending for housing declined at a faster pace in the latest month;

Total lending for dwellings ex-refis – month change; May -2.4% versus Apr 0%

Total lending for housing in May was 21% below the same month a year ago, now the fastest rate of annual decline;



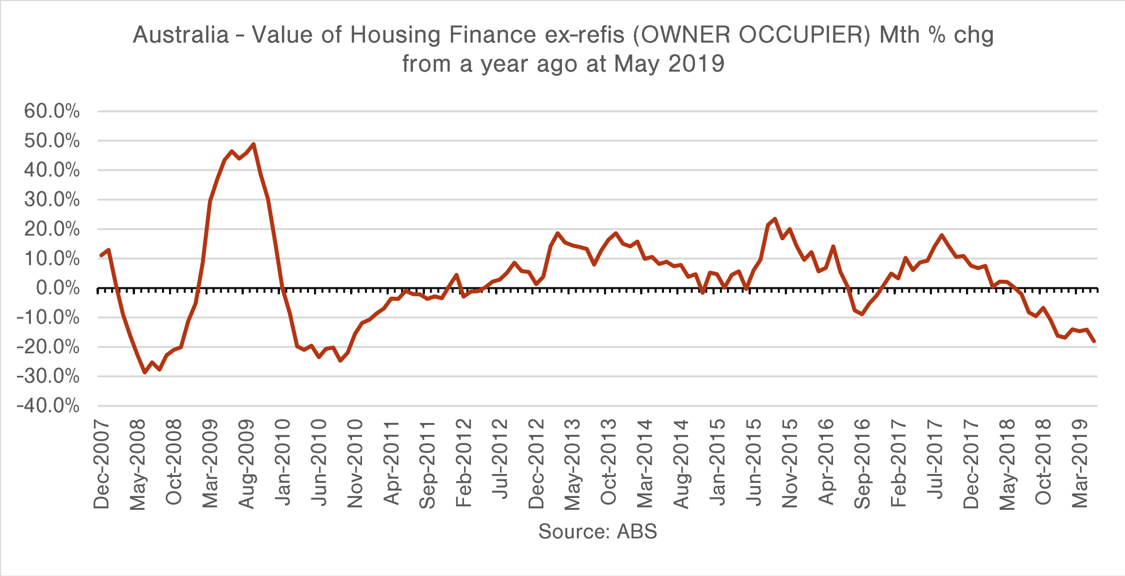
Lending for all housing is now 27% below the peak.

<u>Lending for Owner Occupier Dwellings</u>

Lending for owner occupiers also declined at a faster pace in the latest month. Lending for established dwellings (the main part of the market) declined the most. Lending for new houses also declined at a faster pace (after a larger increase in the month prior). Lending for construction of new homes increased (still a small segment of the market).

Lending for owner occupier housing ex-refi's; May -2.7% versus Apr +0.8%

The annual decline accelerated from 14% in Apr to 18% in May – this is also now the fastest rate of decline recorded as a part of this cycle;

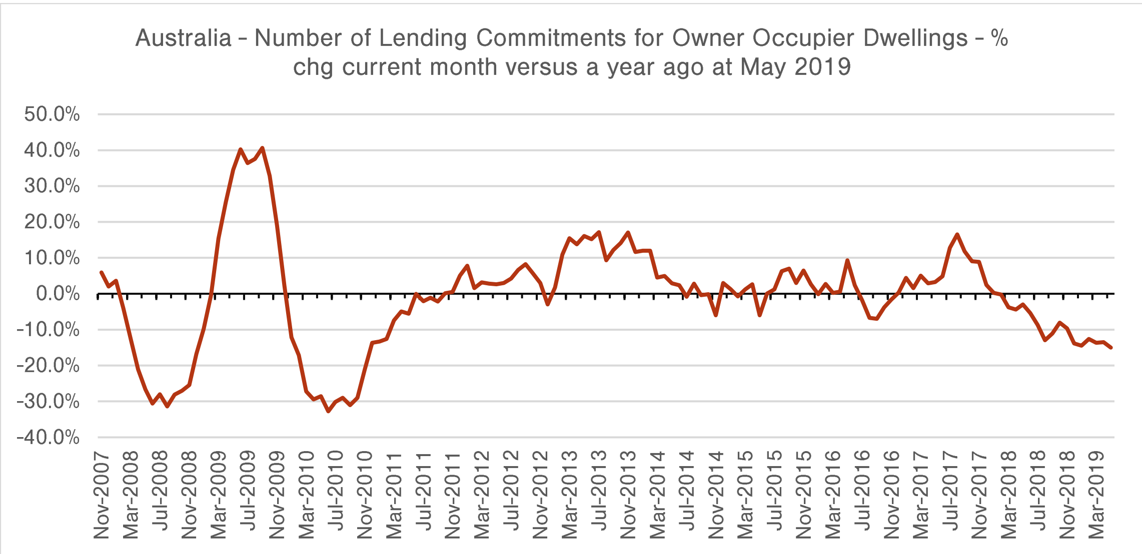


The monthly value of owner occupier lending is now 20% below the peak in lending.

The acceleration in decline of the housing lending is partly the result of the fall in the value of housing. <u>The number of housing finance commitments for owner occupiers</u> did not decline by the same degree in the month;

Number of owner occupier housing finance commitments – month chg; May -0.1% versus Apr -0.9%.

On an annual basis, the number of commitments is still 15% below the same month a year ago – which is the fastest rate of decline since the GFC;



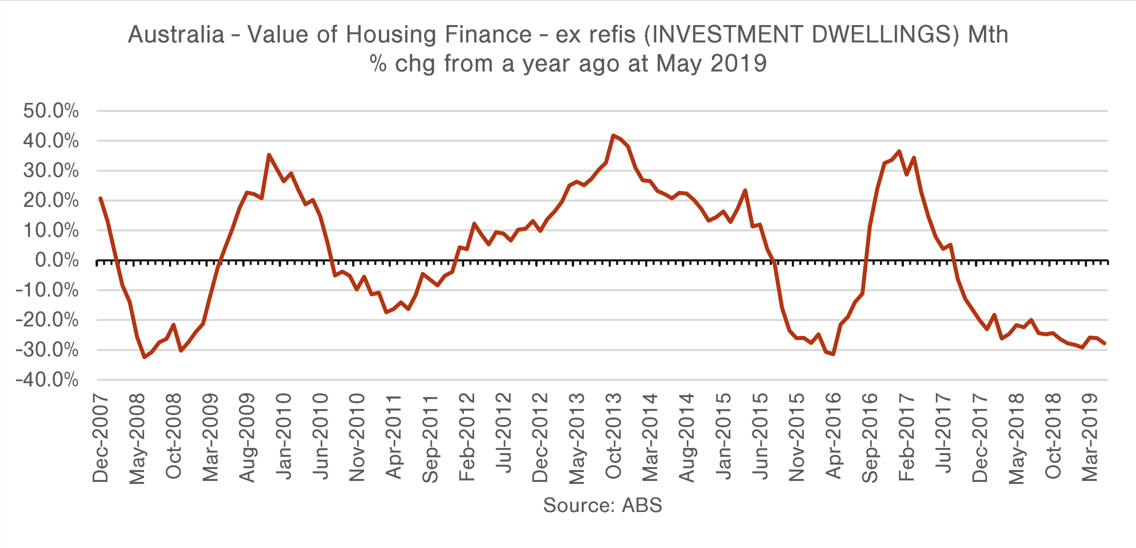
A decline in the number of commitments was recorded in most states (NSW, SA, WA & NT). There was a no change in QLD. The declines were mostly offset by an increase in activity in Victoria (+2.7%). Small increases were recorded in the smaller states TAS and ACT.

Lending for Investment Properties

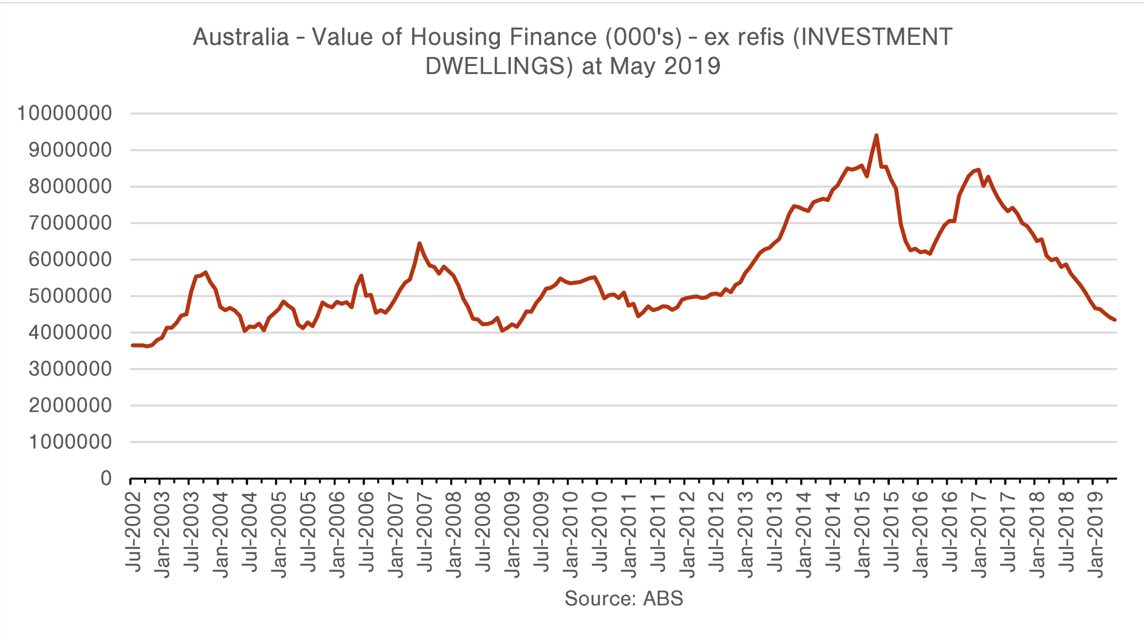
The value of lending for investment properties continued to decline in the latest month – the pace of that decline was somewhat slower;

Lending for investment properties ex-refi's; May -1.7% versus Apr -2.2%

Annual growth in lending is now down 28% versus the same month a year ago.



The monthly value of lending for investment properties is now 54% below the peak reached in Apr 2015;



https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/CD780691805A926CCA25839E001987B5?OpenDocument

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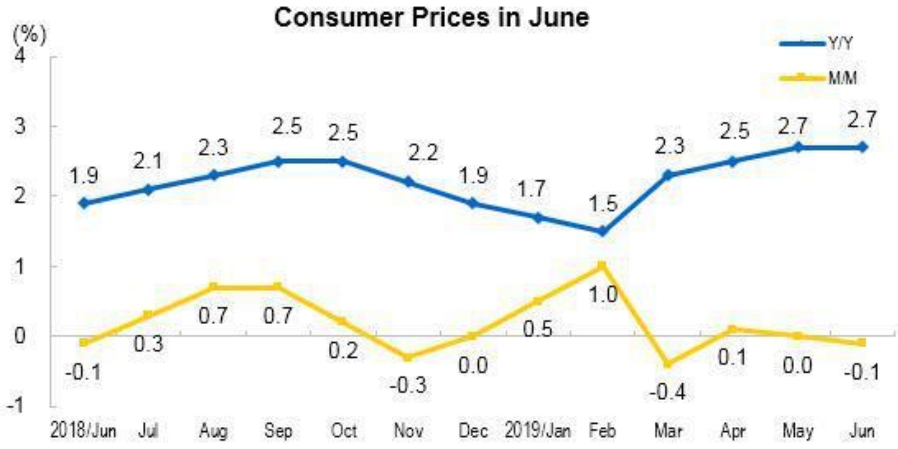
China

CPI (Jun)

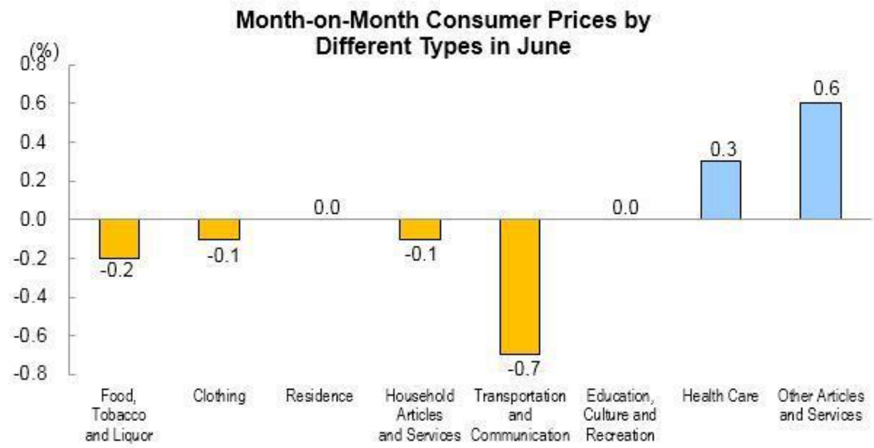
Consumer prices in China declined in the latest month and the annual growth remained unchanged at 2.7% in Jun. The annual growth remains at the high point for the last year.

Chart 1; China Consumer Price Index



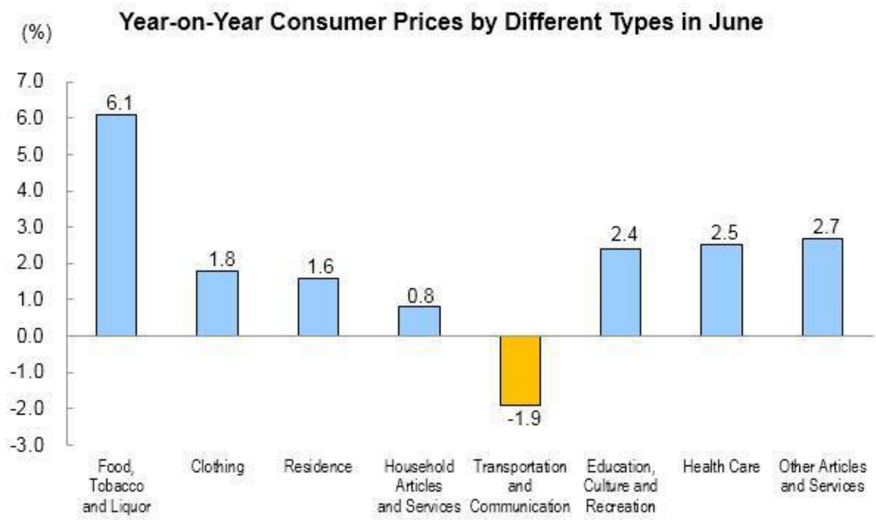
All-Items CPI – month change; Jun -0.1% versus May 0%

The decline in the month was led by a decline in food prices of -0.3% and non-food prices also declined by -0.1%. This was partly offset by a +0.1% increase in services prices



All-Items CPI – annual change; Jun +2.7% versus May +2.7%

The main contributor to the higher annual growth in consumer prices if food, tobacco and liquor.



http://www.stats.gov.cn/english/PressRelease/201907/t20190710_1675307.html

PPI (Jun)

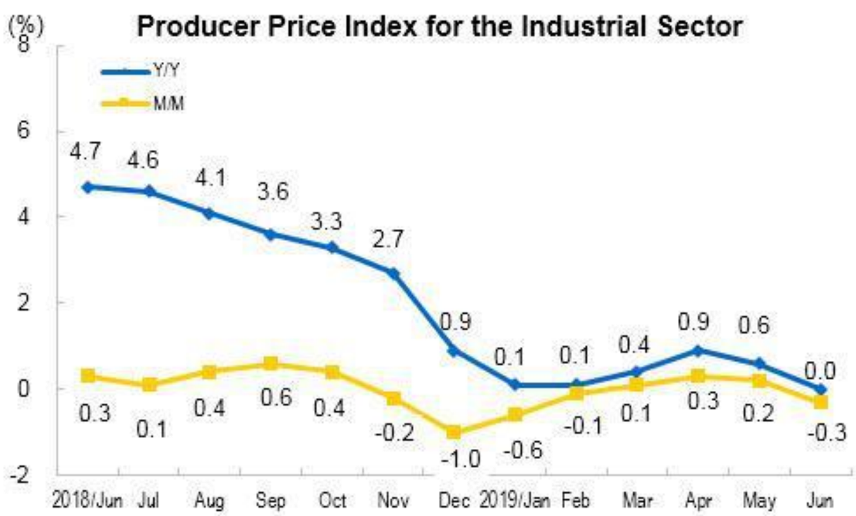
Producer prices declined in the latest month and growth continued to slow on an annual basis.

Month change; Jun -0.3% versus May +0.2%

Annual change; Jun 0% versus May +0.6%

In the month and over the last year, the PPI was lower due to falls in the means of production, led mostly by declines in raw materials.

Chart 1; China Producer Price Index



http://www.stats.gov.cn/english/PressRelease/201907/t20190710_1675305.html

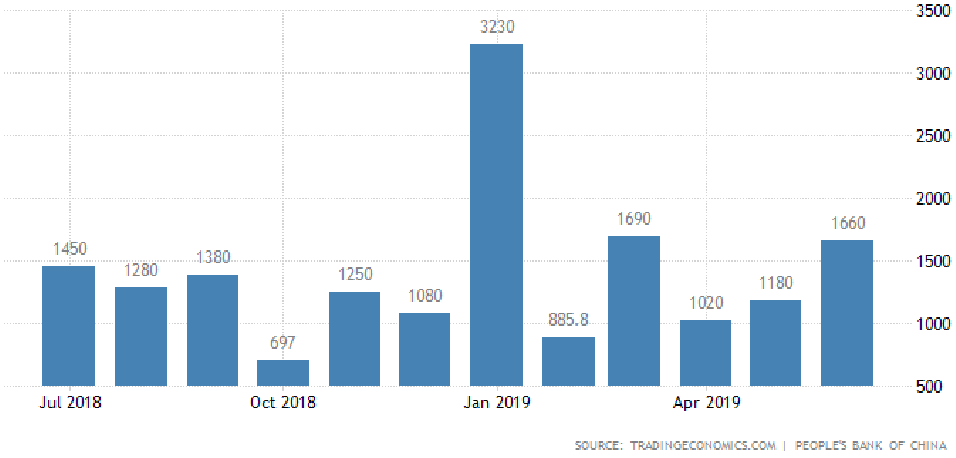
New Loans (Jun)

New loans in China increased at a faster pace in Jun, but were below forecast;

Jun 1.660tr Yuan (forecast for 1.7tr Yuan)

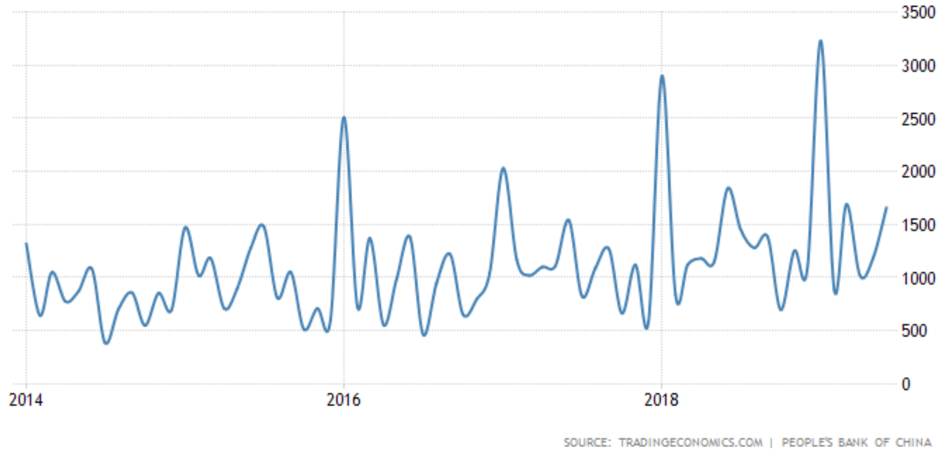
The value of new loans has increased at a faster pace over the last two months.

Chart 1; China New Loans (CNY)



The trend of growth of new lending continues to accelerate compared to prior years;

Chart 2; China New Loans – CNY



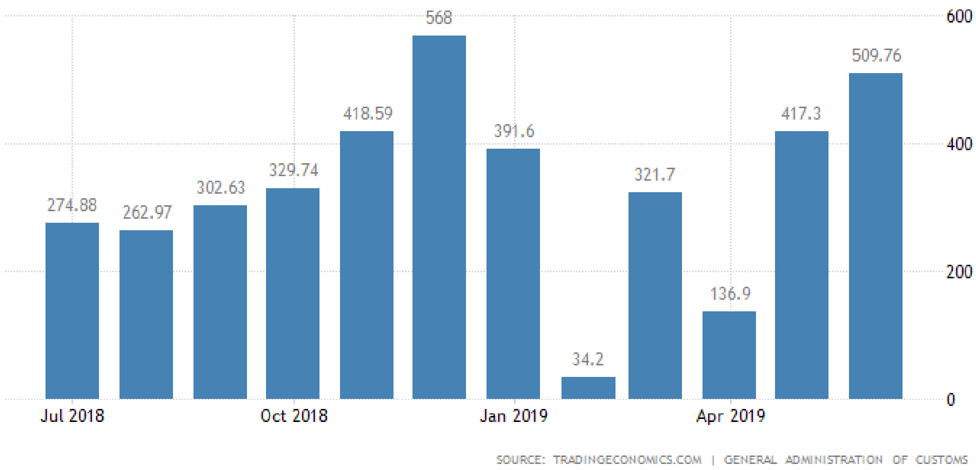
https://tradingeconomics.com/china/banks-balance-sheet

Trade Balance (Jun)

The trade surplus increased in further in Jun.

Trade Balance; Jun $50.9bn (USD) versus May $41.7bn

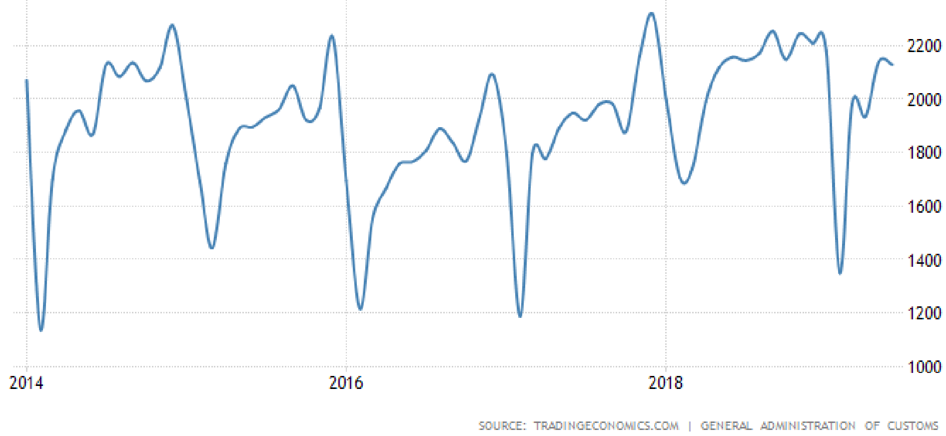
Chart 1; China Trade Balance (USD)



The wider surplus was the result of a decline in exports and a larger decline in imports versus a year ago;

Exports -1.3% versus a year ago and were slightly lower versus the month prior;

Chart 2; China Exports (USD)

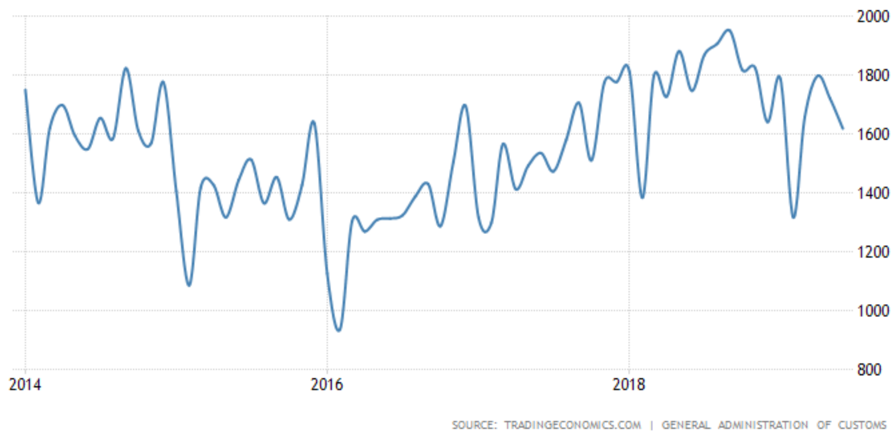


Imports -7.3% versus a year ago (forecast a -4.5% decline).

> "Purchases fell for: unwrought copper (-27.2 percent); iron ore (-9.7 percent); and soybeans (-25.1 percent) amid higher tariff on US cargoes and following outbreaks of African swine fever"

There has clearly been a change in the trajectory of imports since approx. mid-2018;

Chart 3; China Imports (USD)



https://tradingeconomics.com/china/balance-of-trade

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Trade

US-China Trade Negotiations

A phone conversation was held this week between USTR Lighthizer, US Treasury Secretary Mnuchin and Chinese Vice Premier He. The talks were reported as "constructive". No details yet as to a face to face meeting between the two countries. https://www.9news.com.au/world/us-chinese-trade-negotiators-resume-talks/575d3066-8bbc-4608-97be-c0bcb9ced38a

Previously, officials in 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 - in return for China buying more US agriculture. Little, if any, progress has been made by either side.

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

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 in the 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

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

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