

Key Themes

This week, the focus is on the re-escalation of trade tensions between the US and China and the implementation of punitive measures by both countries. The data so far suggests that the implications of the trade tensions and now, a further escalation including the currency depreciation by China, has wider-reaching economic impacts.

The RBA will announce its interest rate decision early this week. The Q2 CPI from last week lifted slightly but core measures continued to slow led by slower price growth from the domestic economy. Rates were cut at the last two meetings and guidance suggested a 'wait and see' approach herein – but the ASX 30-day interbank cash rate futures has shifted to a 50-50 chance of another cut this week (as of 2 Aug)

<https://www.asx.com.au/prices/targetratetracker.htm>

Other Aussie data of note; the AiG performance of industry indexes and housing lending for Jun. The Jun data will incorporate the first of the two recent rate cuts.

In the US, the focus will be on the ISM non-manufacturing PMI, consumer credit and JOLTS data.

Across a range of economies, the services PMI's will round out the broader view of business activity.

Other important data points this week; Germany new orders and industrial production, Japan prelim Q2 GDP, UK prelim Q2 GDP and a raft of data out of China (trade, lending, CPI and PPI).

Treasury issuance will be lighter this week. The US Treasury will issue approx. \$148bn in ST bills this week with a net paydown of \$5bn. We expect to see further increases in the size of ST bill issuance in the following week due to the suspension of the debt ceiling.

US Treasury Issuance, Settlements & Fed Balance Sheet Normalization

With the suspension of the debt ceiling last week, the US Treasury re-issued Q3 finding requirements. In Q3, an additional \$273bn in new money will be raised (from \$160bn to \$433bn) – this will be raised by increased ST bill issuance.

The FOMC also announced at its meeting last week that reduction of its securities holdings in the SOMA will conclude in Aug rather than at the end of Sep. Instead, principal payments from maturing securities will be reinvested;

In particular, beginning in August 2019, principal payments received from agency debt and agency MBS up to \$20 billion per month will be reinvested in Treasury securities to roughly match the maturity composition of Treasury securities outstanding; principal payments in excess of \$20 billion per month will continue to be reinvested in agency MBS. Also beginning in August, all maturing Treasury securities in the SOMA portfolio will be rolled over at Treasury auctions following usual practices.

<https://www.federalreserve.gov/monetarypolicy/policy-normalization.htm>

After the announcement of the debt ceiling suspension, the US Treasury issued a 45day CMB for \$35bn – this was auctioned and settled last week and will mature on 16 Sep 2019.

US Treasury supply will be lighter this week. The US Treasury will settle \$148bn in ST bills this week with a net paydown of \$5bn.

The US Treasury will also auction \$84bn in coupons this week to settle in the following week – raising approx. \$26bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
5-9 Aug	01-Aug	06-Aug	4 week bill	35			Completed		
	01-Aug	06-Aug-19	8 week bill	35			Completed		
				70	75				
	05-Aug	08-Aug	13 week bill	39			Announced		
	05-Aug	08-Aug	26 week bill	39			Announced		
				78	78				
			Total - securities settling this week	148	153	-5			

Monday 5 August 2019

US – Markit Services PMI (Jul), ISM Non-Manufacturing PMI (Jul), Loan Officer Survey Q2

Australia – AiG Performance of Services Index (Jul)

Japan – Markit Services PMI (Jul)

China – Caixin Services PMI (Jul)

Europe – Markit Services PMI (Jul)

UK – Markit Services PMI (Jul)

Tuesday 6 August 2019

US – JOLTS (Jun)

US Fed speeches;

St. Louis Fed President Bullard – speech on the U.S. economy and monetary policy at the National Economists Club annual Summer Signature event held at the National Press Club in Washington

Australia – RBA Rates Decision, AiG Performance of Construction Index. Housing Lending (Jun)

Europe – Germany Factory Orders (Jun)

NZ – RBNZ Rates Decision

Wednesday 7 August 2019

US – Consumer Credit (Jun)

US Fed speeches;

Chicago Fed President Evans to speak at a media breakfast event in Chicago

Europe – Germany Industrial Production (Jun)

China – Trade/Exports/Imports (Jul)

Thursday 8 August 2019

US – Wholesale Trade (Jun)

Australia – RBA Governor Lowe speech

Japan – Prelim GDP Q2

China – CPI and PPI (Jul)

Friday 9 August 2019

US – PPI (Jul)

China – New Loans (Jul)

UK – Prelim GDP Q2

Trade & Brexit

US-China Trade Negotiations

In response to a new round of tariffs announced by President Trump last week, China has begun to implement a range of counter-measures.

Depreciation of the currency was likely one of those counter-measures with the CNY and CNH both breaking 7.00 during 5 Aug. A press release from the Chinese State Administration of Foreign Exchange (SAFE);

Reporter: Why is the RMB exchange rate "breaking 7" ?

A: Affected by unilateralism and trade protectionism measures and the imposition of tariff increases on China, the RMB has depreciated against the US dollar today, breaking through 7 yuan, but the renminbi continues to be stable and strong against a basket of currencies. This is the market. Supply and demand and the reflection of fluctuations in the international currency market.

<http://www.safe.gov.cn/safe/2019/0805/13792.html>

There were also reports that Chinese state buyers were asked to halt US agricultural imports.

Despite the announcement of the new round of tariffs, China has committed to further talks in Washington in Sep. Source:

<https://www.scmp.com/news/china/diplomacy/article/3021316/chinese-state-media-questions-whether-us-trade-talks-should>

Last week, the US announced a new round of tariffs on imports from China. The new tariffs will come into effect on 1 Sep; 10% on \$300bn (the value of the remaining imports from China).

The response from China was that counter-measures would be implemented.

We previously noted that 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-idUSKCN1U900N>

There were reports during the week that a decision on special licenses for US companies to sell to Huawei could be announced this week. <https://www.reuters.com/article/us-huawei-tech-usa-ross/u-s-could-decide-on-licenses-for-companies-to-sell-to-huawei-by-next-week-ross-idUSKCN1UP2A9>

The lack of progress on agriculture purchases remained an issue for the US. Notes from the prior week suggest that China was not likely to move too much on the issue either;

“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

The link to the notorious markets reports is here;

https://ustr.gov/sites/default/files/2018_Notorious_Markets_List.pdf

The first country on the list is China.

The full report; https://ustr.gov/sites/default/files/2019_Special_301_Report.pdf

NAFTA/USMCA

The 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

It was announced during the week that the US and Japan would target Sep to agree a ‘broad trade deal’.

“...both sides hope to have a broad trade deal in place by the time Japanese Prime Minister Shinzo Abe meets U.S. President Donald Trump on the sidelines of United Nations’ general assembly scheduled for later in September in New York.” <https://www.reuters.com/article/us-usa-japan-trade/japan-us-target-broad-bilateral-trade-deal-by-september-nikkei-idUSKCN1UU01X>

After meetings during the week, the Japanese Economy Minister Toshimitsu Motegi said that both sides made ‘significant’ progress on narrowing the differences on trade. Another round of talks will take place later this month.

Washington seeks early opening of Japan’s agriculture sector including reductions in 38.5% tariffs on U.S. beef imports, while Japan calls for abolition of U.S. tariffs on Japan’s industrial goods such as car parts.

<https://www.reuters.com/article/us-usa-japan-trade/japan-us-target-broad-bilateral-trade-deal-by-september-nikkei-idUSKCN1UU01X>

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

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.

On a positive note this week, the US and the EU announced a 'breakthrough' agreement on US beef exports to the EU – nearly tripling annual duty-free exports of beef to the EU. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/united-states-and-european-union>

Airline Subsidies

It is now expected that the WTO will rule in favour of the US over illegal European subsidies to Airbus. The EU also has a similar case pending 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)

The USTR has commenced another review; “Additional Products for Tariff Countermeasures in Response to Harm Caused by EU Aircraft Subsidies” (1 Jul 2019) <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/july/ustr-proposes-additional-products#>

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

Among other things, this announcement builds on the current investigation “to enforce U.S. rights in the World Trade Organization (WTO) dispute against the European Union (EU) and certain EU member States addressed to EU subsidies on large civil aircraft.”

[As outlined previously...key dates for that investigation; May 6, 2019: Due date for submission of requests to appear at the public hearing and summary of testimony. May 15, 2019: The Section 301 Committee will convene a public hearing. Details; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/may/public-hearing-proposed-countermeasures>. May 28, 2019: Due date for submission of written comments, including post-hearing rebuttal comments. <https://www.federalregister.gov/documents/2019/04/12/2019-07267/initiation-of-investigation-notice-of-hearing-and-request-for-public-comments-enforcement-of-us-wto>]

According to the Federal Register announcement during the week;

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

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

The dates for this latest review;

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

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

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

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

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

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

Trade Negotiations

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.

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

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

Instex

The EU confirmed that Britain, France and Germany had established a special trade channel (Instex) that would enable trade with Iran that circumvents the US sanctions. It was announced last year that the EU would work on developing the channel.

<https://www.reuters.com/article/us-iran-nuclear-talks-statement/europe-says-iran-trade-channel-operational-statement-idUSKCN1TT2RL>

President Trump made some mention of this development at the G-20;

“President Donald Trump said there was “absolutely no time pressure” in dealing with Iran as European nations pushed to salvage what remains of the 2015 nuclear accord and avert a slide toward war.”

<https://finance.yahoo.com/news/trump-chats-putin-shakes-hands-081017994.html>

The Instex system enables trade with Iran without the use of U.S. dollars or US banks. The US has previously stated opposition to this;

“According to Bloomberg, the Treasury Department’s undersecretary for terrorism and financial intelligence, Sigal Mandelker, sent a letter on May 7 warning that Instex, the European SPV to sustain trade with Tehran, and anyone associated with it could be barred from the U.S. financial system if it goes into effect.”

“Separately, during a visit to London on May 8, Mike Pompeo also warned that there was no need for Instex because the U.S. allows for humanitarian and medical products to get into Iran without sanction.”

““When transactions move beyond that, it doesn’t matter what vehicle’s out there, if the transaction is sanctionable, we will evaluate it, review it, and if appropriate, levy sanctions against those that were involved in that transaction,” Pompeo said. “It’s very straightforward.””

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

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

US-UK Trade Talks

During his visit to the UK, President Trump announced that the US would begin talks with the UK on a trade deal as soon as Brexit was completed.

The USTR has now published the summary of specific negotiating objectives for the US-UK trade negotiations; https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf

BREXIT

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

The new UK Brexit secretary, Stephen Barclay has 'called on' his counterpart in the EU, Michel Barnier to request a new mandate for Brexit in order to avoid a 'no-deal' Brexit. The hard-line approach on a no deal Brexit has been promised by this new administration;

“The Brexit secretary warned Mr Barnier that no deal was “coming down the tracks” and said the “political realities have changed” since negotiations began.” <https://www.independent.co.uk/news/uk/politics/brexit-eu-no-deal-latest-michel-barnier-stephen-barclay-boris-johnson-a9038506.html>

There are no details at this stage of a restarting of negotiations with the EU on the withdrawal agreement.

The UK government has already announced new spending commitments 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.” <https://www.theguardian.com/politics/2019/jul/28/boris-johnson-turbo-charging-no-deal-brexit-plans-say-ministers>

Current Brexit documents:

Announcement; http://europa.eu/rapid/press-release_IP-18-6424_en.htm

Comprehensive factsheet; http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm

Q&A Protocol on Ireland and Northern Ireland; http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm