

Key Themes

The focus this week will be on central bank minutes, Jackson Hole, the G7 and the prelim PMI's for Aug.

This week, minutes for the most recent meetings of the US Fed, ECB and RBA will be released.

The Jackson Hole Economic Symposium will commence this Thursday hosted by the Kansas City Fed. The agenda is yet to be released but the key topic will be 'challenges for monetary policy'. Further details;

<https://www.kansascityfed.org/publications/research/escp/symposiums/escp-2019>

The G7 summit in France will commence on 24 Aug. The key topic will be dealing with inequality. It's also likely that other issues will be discussed on the sidelines – including Brexit and trade negotiations. The invited guest countries are Australia, India, and Spain.

On the data front, we will receive our first view of Aug activity with the prelim private sector manufacturing and services PMI across the US, Europe, Japan (mfg), and Australia.

On trade negotiations, it will be important to watch for progress on the US-Japan trade talks. Talks will continue this week in Washington and are at an important stage in order to reach a deal by the end of Sep. On other trade issues, US representatives will continue to hold discussions with China this week in the hope of moving negotiations forward. A decision by the WTO on the US-EU airline subsidy dispute is expected shortly.

US Treasury issuance will be lighter but new money raised will remain elevated, in line with the increase in ST bills issuance and the recent suspension of the debt ceiling. The US Treasury will settle \$182bn in ST bills raising approx. \$37bn in new money.

US Treasury Issuance & Settlements

Although US Treasury supply will be lighter this week, the new money raised will remain elevated.

The US Treasury will settle \$182bn in ST bills this week, raising approx. \$37bn in new money.

| WEEK | Auction Date | Settlement Date | Marketable Securities | Auction Amount \$B (TBAC) | Amount Maturing \$B | New Money \$B | | | |
|-----------|--------------|-----------------|--|---------------------------|---------------------|---------------|-----------|--|--|
| 19-23 Aug | 15-Aug | 20-Aug | 4 week bill | 55 | | | Completed | | |
| | 15-Aug | 20-Aug | 8 week bill | 40 | | | Completed | | |
| | | | | 95 | 70 | 25 | | | |
| | 19-Aug | 22-Aug | 13 week bill | 45 | | | Announced | | |
| | 19-Aug | 22-Aug | 26 week bill | 42 | | | Announced | | |
| | | | | 87 | 75 | 12 | | | |
| | | | Total - securities settling this week | 182 | 145 | 37 | | | |

Several important changes announced by the Fed and US Treasury recently;

With the suspension of the debt ceiling, the US Treasury re-issued Q3 funding 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 increased issuance of treasury securities will result in an increase the cash balance of the US Treasury at the end of Q3.

The FOMC also announced at its meeting in July that reductions 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>

WEEK OF 19 AUGUST 2019

MONDAY 19 AUGUST 2019 (US Eastern Time)

| | |
|-------|---------------------------------|
| Japan | Merchandise Trade Balance (Jul) |
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| Europe | Eurozone CPI (Jul) |
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| Australia | RBA Meeting Minutes |
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TUESDAY 20 AUGUST

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|--------|-------------------|
| Europe | Germany PPI (Jul) |
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WEDNESDAY 21 AUGUST

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| US | FOMC Minutes, Existing Home Sales (Jul) |
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|-----------|--|
| Australia | Commonwealth Bank Composite PMI – Prelim (Aug) |
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|-------|---|
| Japan | Nikkei Manufacturing PMI – Prelim (Aug) |
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THURSDAY 22 AUGUST

Jackson Hole Economic Symposium

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| US | Composite PMI – Prelim (Aug), Kansas City Fed Manufacturing Survey (Aug) |
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| Europe | ECB Meeting Minutes, Germany Composite PMI – Prelim (Aug), Eurozone Composite PMI – Prelim (Aug) |
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|-------|--------------------|
| Japan | National CPI (Jul) |
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FRIDAY 23 AUGUST

Jackson Hole Economic Symposium
US Fed Chairman Powell speech “Challenges for Monetary Policy”

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| US | New Home Sales (Jul) |
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SATURDAY 24 AUGUST

G7 2019 Summit - France

Trade & Brexit

US-China Trade Negotiations

Talks between the two countries are expected to continue over the next two weeks.

Last week, US President Trump softened his stance on the next 10% tariff on approx. \$300bn of US imports from China.

The USTR announced that certain products would be removed from the list based on health, safety, national security and other factors.

USTR intends to conduct an exclusion process for products subject to the additional tariff. The USTR will publish in the Federal Register as soon as possible additional details and lists of the tariff lines affected by this announcement.

As well, the implementation of the tariff on some products would be delayed until 15 Dec;

“Further, as part of USTR’s public comment and hearing process, it was determined that the tariff should be delayed to December 15 for certain articles. Products in this group include, for example, cell phones, laptop computers, video game consoles, certain toys, computer monitors, and certain items of footwear and clothing.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/ustr-announces-next-steps-proposed>

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>

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>

The lack of progress on agriculture purchases remained an issue for the US and it became clear 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>

US-Japan Trade Talks

Talks are to continue this week in Washington – the outcome of which will be important for meeting the intended Sep deadline for an agreed trade deal.

The Asian Nikkei Review (19 Aug), is calling talks between the US and Japan as ‘stalled’. A pessimistic light is cast on whether the sides can agree a deal within the timeframe set out.

“Toshimitsu Motegi, Japan's minister in charge of the talks, and U.S. Trade Representative Robert Lighthizer hope to move the stalled negotiations forward over two days of sessions starting Wednesday.”

“Under the quickest scenario, Japanese Prime Minister Shinzo Abe and Trump would sign a trade agreement in late September. But for this to happen, Motegi and Lighthizer must find common ground on tariffs for beef, pork, dairy products and auto parts.”

“Many uncertainties persist. For one, it usually takes three months to half a year for countries to iron out the language of a trade deal. Not much time remains until the potential September agreement and the submission to the Diet in October.”

There are several important timing windows, which, if missed will mean that any agreement will not go into effect much before the US 2020 presidential election (making it difficult for President Trump to campaign on).

<https://asia.nikkei.com/Politics/International-relations/Japan-and-US-hurry-trade-talks-with-Trump-calendar-in-mind2>

As previously, noted, the US and Japan will 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>

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, investigations into digital services, 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

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;

“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. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/public-hearing-additional-products>

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

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>

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.

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.

Interim UK PM Johnson will meet with EU officials this week. While the meeting will revolve around preparations for the G7 summit in France in the following week, it is likely that Brexit will also be discussed. Little change is expected;

“At his meetings with Merkel and Macron, Johnson is expected to reiterate that he will only accept a new deal that abandons the backstop, over concerns that it could trap the UK indefinitely in a customs union.”

“With the EU collectively refusing to budge on the issue, No 10 is only expecting minimal discussion of Brexit with Merkel and Macron – more a restatement of each side’s existing positions.”

<https://www.theguardian.com/politics/2019/aug/18/number-10-furious-leak-document-predicting-no-deal-brex-it-shortages>

Last week, the Irish Premier, Leo Varadkar, also confirmed that there would be no movement on the Irish border backstop. The UK PM and the Irish Premier will meet in Sept.

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

The UK government has announced new spending commitments in preparation for a no-deal Brexit.

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