

## Key Themes

The focus this week will be on key economic releases and fall-out from the re-escalation in the US-China trade dispute.

At this stage, we are awaiting any details of a recommencement of face to face talks between the US and China. On other trade issues, a decision by the WTO on the US-EU airline subsidy dispute is expected shortly.

In the US, data will focus on growth, consumption, and manufacturing. The key releases are; advance durable goods orders for Jul and regional manufacturing surveys for Aug, Q2 GDP 2<sup>nd</sup> estimate, personal incomes and outlays for Jul and final consumer sentiment for Aug.

Euro CPI and detailed Q2 GDP for Germany will be the key highlights.

In Australia, investment, housing & credit growth data will be in focus – private capex and construction data for Q2, new home sales, and RBA credit data for Jul will be released.

Of note in Japan, the prelim industrial production data for Jul. Surveys expected an increase in production for Jul, yet PMI output data for Jul indicated further contraction.

US Treasury issuance will be slightly heavier this week, 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 \$207bn in ST bills, TIPS and FRN's raising approx. \$62bn in new money.

## US Treasury Issuance & Settlements

US Treasury supply will be only slightly heavier this week, but the total amount of new money raised will remain elevated.

The US Treasury will settle \$207bn in ST bills, TIPS and FRN's this week, raising approx. \$62bn in new money.

The face value of securities maturing on the Fed balance sheet on 31 Aug is \$14.7bn – this will be reinvested in full.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
26-30 Aug	22-Aug	27-Aug	4 week bill	55			Completed
	22-Aug	27-Aug	8 week bill	40			Completed
				95	70	25	
	26-Aug	29-Aug	13 week bill	45			Announced
	26-Aug	29-Aug	26 week bill	42			Announced
				87	75	12	
	22-Aug	30-Aug-19	30yr TIPS r/o	7			Completed
	28-Aug-19	30-Aug-19	2yr FRN r/o	18			Announced
				25	0	25	
			<b>Total - securities settling this week</b>	<b>207</b>	<b>145</b>	<b>62</b>	
			Fed SOMA - Face Value of SOMA securities maturing 31 Aug (2 Sep)	14.674			

### Background:

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 26 AUGUST 2019

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### MONDAY 26 AUGUST 2019 (US Eastern Time)

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US	Durable Goods Orders (advance) (Jul), Chicago Fed National Activity Index (Jul), Dallas Fed Manufacturing Survey (Aug)
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### TUESDAY 27 AUGUST

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US	CoreLogic Case Shiller House Price Index (Jun), Richmond Fed Manufacturing Index (Aug)
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Europe	Germany GDP Q2 – Detailed
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Australia	Construction Work Done Q2
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### WEDNESDAY 28 AUGUST

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US Mortgage applications for wk ending 23 Aug,

US	Fed Speeches; San Fran Fed President Daly; inflation targeting at the Reserve Bank of New Zealand and the International Monetary Fund Conference in Wellington, New Zealand,
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Australia	Private Capex Q2
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### THURSDAY 29 AUGUST

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US	GDP 2 <sup>nd</sup> Est – Q2, Goods Trade Balance (Jul), Pending Home Sales (Jul)
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Europe	Germany CPI – prelim (Aug)
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Japan	Industrial Production – prelim (Jul), Retail Trade (Jul)
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Australia	Private Sector Credit (RBA) (Jul), HIA New Home Sales (Jul)
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### FRIDAY 30 AUGUST

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US	Personal Income and Outlays (Jul), Chicago PMI (Aug), Uni of Michigan Consumer Sentiment – Final (Aug)
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Europe	Germany Retail Sales (Jul), Eurozone Prelim CPI (Aug)
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China	NBS Manufacturing and Non-Manufacturing PMI (Aug)
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## Trade & Brexit

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On 23 Aug, Reuters reported that the US was still planning face to face meetings with Chinese officials regarding trade – dates are yet to be confirmed;

““The deputies’ call [with Chinese officials] **was quite constructive** and this may lead to a meeting of the principals here in Washington, D.C.,” Kudlow said, referring to a teleconference involving deputy-level officials on Wednesday.”

<https://www.reuters.com/article/us-usa-trade-china/us-chinese-officials-held-productive-trade-call-white-house-adviser-idUSKCN1VC2NR>

Last week, US President Trump then announced that a further escalation in tariffs on Chinese imports - additional 5% on \$550bn of imports;

Increasing the original 25% tariff on \$250bn of imports to 30% from 1 Oct. and increasing the planned 10% tariff on \$300bn of imports to a 15% tariff (from 15 Dec).

China responded with an additional 5-10% tariff on \$75bn of US imports and to resume tariffs on US auto imports.

Even with the truce announced in Osaka, the threat of re-escalation was never far away;

“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>

## US-Japan Trade Talks

On sidelines of the G7 summit, the US President and the Japanese PM announced a deal in principal;

“The U.S. and Japan agreed in principle on a trade deal that would slash Tokyo’s tariffs on American beef, pork and other agricultural products, while delaying for now the threat of additional levies on Japanese auto exports to the U.S.”

“As I expected, Japan gave ground on agriculture and didn’t win anything on autos,” former Japanese Prime Minister Yukio Hatoyama, an opponent of Abe’s long-ruling Liberal Democratic Party, said on Twitter. “This kind of obsequious diplomacy makes Abe happy, and hurts the people.”

“U.S. Trade Representative Robert Lighthizer said the proposed deal would **open markets to \$7 billion of American products including ethanol, as well as beef, pork, dairy products and wine.** He said tariffs on some Japanese industrial products would be reduced, but that these wouldn’t include cars. The proposed agreement also includes a clause on e-commerce, he said.”

<https://finance.yahoo.com/news/trump-says-very-close-japan-075851225.html>

The full details are not yet available, but it is expected that the deal will be signed at the UN General Assembly in NY in Sep.

It’s not clear at this stage whether this deal covers currency clauses to ‘prevent competitive devaluations’. [https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef\\_story.html?utm\\_term=.776b6d909b48](https://www.washingtonpost.com/business/whats-at-stakein-us-japan-trade-talks/2019/05/24/62d6104a-7e5d-11e9-b1f3-b233fe5811ef_story.html?utm_term=.776b6d909b48)

The summary of US negotiating objectives for the US-Japan trade talks;

[https://ustr.gov/sites/default/files/2018.12.21\\_Summary\\_of\\_U.S.-Japan\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

There are several fronts to the US-Europe trade talks; the outstanding dispute and pending WTO decision on airline subsidies, 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](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](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

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

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

### Instex

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

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

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

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

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

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

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

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

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

### Digital Services

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

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

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

Further to the USTR S.301 investigation into the digital services tax approved by the French government, a public hearing on the tax implications was held during the week;

“The French DST law imposes a 3% tax on annual revenues generated by some companies that provide certain digital services to, or aimed at, French users. The tax applies only to companies with annual revenues from the covered services of at least €750 million globally and €25 million in France. The services covered are ones where U.S. firms are global leaders.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/august/public-hearing-section-301>

### Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

[https://ustr.gov/sites/default/files/01.11.2019\\_Summary\\_of\\_U.S.-EU\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)

## **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](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. We are now approx. eight weeks out from this deadline. The experience from the last deadline was that there was a lift in activity leading up to the original deadline in Mar. It's likely that we will start to experience that lift in UK activity. Firms stockpiling might be more pronounced this time given the proximity to the holiday trading period. The UK government has also been clearer about preparing for a no deal Brexit and has again allocated expenditure for preparations;

"But the important thing is to get ready to come out without a deal."

Interim UK PM Johnson met with G7 nations prior to and at the G7 summit during the week. Discussions around Brexit shed little light on progress;

"Speaking on the sidelines of the summit, Mr Johnson said that in the last few days, following visits to France and Germany, it has dawned on the EU what "the shape of the problem is for the UK"."

"As the clock runs down to the October 31 exit date, Johnson injected doubt into hopes that a deal might be struck, despite previously saying the odds of a no-deal Brexit were "a million to one"." <https://www.abc.net.au/news/2019-08-26/boris-johnson-uses-rock-as-metaphor-for-brexit/11447122>

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](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release MEMO-18-6422\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6422_en.htm)

Q&A Protocol on Ireland and Northern Ireland; [http://europa.eu/rapid/press-release\\_MEMO-18-6423\\_en.htm](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)