

## Key Themes

The Aug PMI's will be released this week across the major economies providing further insight into the scale of the current slowdown in private sector activity across, Europe, Asia, and the US. So far, US regional manufacturing surveys for Aug have posted improved manufacturing conditions.

Main US data highlights this week; ISM's, factory orders and employment.

US Fed chairman Powell to give a speech on Friday in Zurich. Several regional Fed Presidents will also speak throughout the week. Chicago Fed President Evans will speak about trade and the auto sector on Wednesday

UK/Brexit – the return of the UK Parliament to session this week may add to volatility given the announced/planned suspension of Parliament in the lead up to the second Brexit deadline on 31 Oct. The suspension of Parliament has been seen as a tactic to avoid any attempts to block a no-deal Brexit.

New factory orders and industrial production for Germany will also be released this week – both important given the scale of the current weakness in manufacturing activity.

The RBA meets on rates this week – current expectations are for rates to remain on hold (as of 2 Sep 2019) <https://www.asx.com.au/prices/targetratetracker.htm>. The rates decision will come ahead of the Aussie Q2 GDP release.

New tariff rates have gone into effect from 1 Sep – implemented by both the US and China. The US will continue to run public hearings on the remaining tariff increases due in Oct.

US Treasury issuance will remain heavy this week. The US Treasury will settle approx. \$295bn in ST bills and notes raising approx. \$74bn in new money.

## US Treasury Issuance & Settlements

US Treasury supply will be heavier this week.

The US Treasury will settle \$295bn in ST bills and Notes this week, raising approx. \$74bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
2 Sep holiday - Labor Day							
2-6 Sep	29-Aug	03-Sep	4 week bill	55			Completed
	29-Aug	03-Sep	8 week bill	40			Completed
				95	70	25	
	03-Sep	05-Sep	13 week bill	45			Announced
	03-Sep	05-Sep	26 week bill	42			Announced
				87	75	12	
	27-Aug	03-Sep	2yr note	40			Completed
	28-Aug	03-Sep	5yr note	41			Completed
	29-Aug	03-Sep	7yr note	32			Completed
				113	76.14	36.86	
			<b>Total - securities settling this week</b>	<b>295</b>	<b>221.14</b>	<b>73.86</b>	

### 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 2 SEPTEMBER 2019

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### MONDAY 2 SEPTEMBER (US Eastern Time)

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US	Holiday – Labor Day
Aus	AiG Perf of Manufacturing Index (Aug), Retail Sales (Jul)
Japan	Manufacturing PMI – Final (Aug)
China	NBS Manufacturing & Non-Manufacturing PMI (Aug), Caixin Manufacturing PMI (Aug)
Europe	Germany & Eurozone Manufacturing PMI – Final (Aug)

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### TUESDAY 3 SEPTEMBER

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US	Manufacturing PMI – Final (Aug), ISM Manufacturing PMI (Aug), Motor Vehicle Sales (Aug), Fed Speeches; Rosengren
Aus	RBA Rates Decision, AiG Services Index (Aug), GDP Q2
Europe	Eurozone PPI (Jul)
Japan	Services PMI – Final (Aug)
China	Caixin Services PMI (Aug)

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### WEDNESDAY 4 SEPTEMBER

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US	Fed Speeches; Williams, Bowman, Bullard, Kashkari & Evans
Europe	Germany & Eurozone Services & Composite PMI (Aug), Retail Sales (Jul)
UK	Services PMI (Aug)
Canada	BoC Rates Decision

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### THURSDAY 5 SEPTEMBER

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US	Challenger Job Cuts (Aug), ADP Employment Report (Aug), Factory Orders (Jul), PMI Services – Final (Aug), ISM Non-Manufacturing PMI (Aug)
Aus	AiG Performance of Construction (Aug)

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### FRIDAY 6 SEPTEMBER

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US	Non-Farm Payrolls & Employment (Aug) Fed Speeches; Chairman Powell – “Economic Outlook and Monetary Policy” at University of Zurich
Europe	Germany Factory Orders & Industrial Production (Jul), Eurozone Q2 GDP (detailed)

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## Trade & Brexit

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### US-China Trade Talks

New tariff rates have gone into effect as of 1 Sep.

China; imposed a 5% tariff on crude oil imports as well as further duties on an unspecified range of imports from the US;

“In retaliation, China started to impose additional tariffs on some of the US goods on a \$US75 billion (\$111 billion) target list. Beijing did not specify the value of the goods that face higher tariffs from Sunday. The extra tariffs of five per cent and 10 per cent were levied on 1,717 items from a total of 5,078 products originating from the United States.”

<https://www.abc.net.au/news/2019-09-01/us-china-trade-war-escalates-with-additional-tariffs/11468922>

US; tariffs were increased to 15% on approx. \$125bn of imports from China (Annex A) and increasing the planned 10% tariff on the remaining of \$300bn of imports to a 15% tariff from 15 Dec (Annex C). <https://www.federalregister.gov/documents/2019/08/30/2019-18838/notice-of-modification-of-section-301-action-chinas-acts-policies-and-practices-related-to>

The USTR made a request for comments on increasing the original 25% tariff on \$250bn of imports to 30% from 1 Oct. <https://www.federalregister.gov/documents/2019/09/03/2019-18946/request-for-comments-concerning-proposed-modification-of-action-pursuant-to-section-301-chinas-acts>

On 23 Aug, Reuters reported that the US was still planning face to face meetings with Chinese officials regarding trade – dates in Sep 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>

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 on 'core principles';

“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.

Over the next month, negotiators will work through the detail of the deal.

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 has been held in the US;

“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

Congress is due back 9 Sep and, given the increased volatility around trade, there is even more pressure on both sides to approve the USMCA;

“Industries from big business to farming and auto manufacturing are pressing Congress to pass the deal and provide a shred of certainty amid a volatile trade

environment. Trump's spat with China and off-the-cuff tariff announcements are causing much of the anxiety over trade, but Canada and Mexico are now the United States' biggest trading partners, and locking in the new North American deal could go a long way toward boosting morale among exporters and importers and sparking new investments, supporters say."

<https://www.politico.com/story/2019/08/31/democrats-trade-trump-1691486>

The Democrats continue to work with USTR Lighthizer on changes required to the USMCA before the deal can go to Congress for approval.

"The end of 2019 has become an informal deadline to get the deal approved amid concerns that it will get lost in the noise of the presidential election if it bleeds into 2020. But the campaign itself could add to pressure for action sometime over the fall, as Democrats seek to defend their House majority."

<https://www.politico.com/story/2019/08/31/democrats-trade-trump-1691486>

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

We are now approx. eight weeks away from the new Brexit deadline of 31 Oct 2019. The focus is on the return of the UK parliament this week and a political showdown regarding the UK PM's plans/announcement to suspend parliament in the lead up to the Brexit deadline. This decision has created further unrest;

"Suspending Parliament at this time of year is fairly typical. But doing it for so long — and with such a hugely significant political decision looming — is highly unusual. It's also a major political gamble for Johnson, who has staked his job on a promise of Brexit by Halloween, "do or die.""

In the meantime, preparations for a no-deal Brexit continue;

"The British government on Sunday launched a giant "Get Ready for Brexit" campaign, featuring billboards and ads directing Britons to a website with detailed information about how to prepare themselves and their businesses for a no-deal Brexit." [https://www.washingtonpost.com/world/europe/britains-johnson-corbyn-headed-for-ferocious-brex-it-showdown-when-parliament-returns-tuesday/2019/09/01/ff9dd0a6-cca6-11e9-8c1c-7c8ee785b855\\_story.html?noredirect=on](https://www.washingtonpost.com/world/europe/britains-johnson-corbyn-headed-for-ferocious-brex-it-showdown-when-parliament-returns-tuesday/2019/09/01/ff9dd0a6-cca6-11e9-8c1c-7c8ee785b855_story.html?noredirect=on)

During the week, the Dutch Foreign Minister stated that ‘serious talks’ had taken place in Brussels last week – emphasis added;

“But he warned “we are not there yet” in terms of bridging divides with the UK to prevent a no-deal exit from the European Union.

“It is up to the British Parliament to judge. We still hope it will be possible to avoid a no-deal Brexit and **we’re looking forward to any proposals from the British government that fit in to the Withdrawal Agreement,**” Blok said, speaking to reporters in Helsinki on Thursday.”

<https://edition.cnn.com/uk/live-news/brexit-johnson-parliament-intl-gbr/index.html>

#### 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)