

Key Themes

The focus this week will be on the ECB rates decision – with a possibility that the ECB will ease at this meeting.

US data highlights this week; CPI, retail sales and consumer sentiment. There will be no Fed speeches this week in the black-out period leading up to the Fed meeting next week.

The US Congress is back in session this week. The approval of the USMCA through Congress may receive renewed focus/urgency given increased volatility around trade.

Australian data this week will focus on housing finance – an important barometer of how recent rate cuts and easing of lending conditions are affecting demand for credit. The NAB business conditions and confidence data for Aug will also continue to track the response to stimulus from business.

It will likely to be another turbulent week in UK politics with a second vote on a snap election and the possibility of a parliament shutdown. Data highlights will be the labor market report for May-Jul and monthly GDP for Jul.

Data out of China will focus on trade flows and internal demand conditions with the new loans, CPI and PPI out this week.

There is potential for headline risk regarding trade. Discussions will continue over the next few weeks in the lead up to the re-commencement of high-level talks between the US and China in Washington (Oct). The detail of the US-Japan trade deal is currently in development under a tight deadline, to be completed for signing at the UN General Assembly later this month in NY. The WTO ruling on EU (and US) airline subsidies is also due shortly.

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US Treasury Issuance & Settlements

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The US Treasury will settle \$210bn in ST bills this week, raising approx. \$24bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
9-13 Sep	5-Sep	10-Sep	4 week bill	55			Completed		
	5-Sep	10-Sep	8 week bill	40			Completed		
				95	85	10			
	9-Sep	12-Sep	13 week bill	45			Announced		
	9-Sep	12-Sep	26 week bill	42			Announced		
	10-Sep	12-Sep	52 week bill	28			Announced		
				115	101	14			
			Total - securities settling this week	210	186	24			

The US Treasury will also auction the 3yr and 10yr notes and 30yr bond this week, to settle next week. These auctions will raise approx. \$54bn in new money.

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 9 SEPTEMBER 2019

MONDAY 9 SEPTEMBER (US Eastern Time)

US	Consumer Credit (Jul)
Aus	Housing Finance (Jul)
Japan	GDP – second prelim est Q2
China	Trade Balance, Exports and Imports (Aug)
UK	Monthly GDP (Jul)

TUESDAY 10 SEPTEMBER

US	JOLTS (Jul)
Aus	NAB Business Conditions and Confidence (Aug)
UK	Employment and Labour Market Survey (May-Jul)
China	CPI, PPI, New Loans (Aug)

WEDNESDAY 11 SEPTEMBER

US	PPI (Aug), Wholesale Trade (Jul)
Japan	PPI (Aug)

THURSDAY 12 SEPTEMBER

US	CPI (Aug)
Europe	ECB Rates Decision, Eurozone Industrial Production (Jul), Germany CPI (Aug)

FRIDAY 13 SEPTEMBER

US	Retail Sales (Aug), Business Inventories (Jul), Uni of Michigan Consumer Sentiment – Prelim (Sep)
Europe	Eurozone Trade Balance (Jul)
Japan	Industrial Production – Final (Jul)

Trade & Brexit

US-China Trade Talks

The main news last week was the announcement that USTR Lighthizer and Vice Premier Liu He will meet in Washington in early Oct. Talks will take place later in Sep in the lead up to, and in preparation for, the meeting in Oct. This was, at least, a positive step towards the two sides beginning to bridge the gap in negotiations.

From last week; new tariff rates went 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 the sidelines of the G7 summit, the US President and the Japanese PM announced a trade deal on 'core principles'.

Both sides are now working through the detail of the deal - with a very tight deadline of having the deal ready to sign on the sidelines of the UN General Assembly later this month (Sep).

The Japan Times reported last week that the original announcement at the G7 had surprised Japanese officials and that the "core principles" didn't include the more contentious issue – namely auto tariffs;

“Japanese officials were caught by surprise when Trump called a news conference at the G7 to announce a deal in principle, people close to the talks said. The situation moved so quickly that the Japanese government didn't even have time to invite journalists to attend the briefing.”

“The announcement also came before a firm agreement on the most contentious issue on the bargaining table, the people said. While Trump told reporters that the U.S. wouldn't impose new tariffs on autos and auto parts imported from Japan “at this moment,” the president wasn't clear on whether he'd agreed to that as a concession. And Trump kept the tariff threat alive by saying he could still impose the levies at a later date.”

<https://www.japantimes.co.jp/news/2019/09/06/business/u-s-japan-trade-deal-trump-deadline/#.XXXQAygzaUk>

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

US-Europe Trade Talks

There has been little news on progress of talks between the US and Europe. Europe has remained steadfast in creating boundaries for the trade negotiations – which has been a source of frustration for the US. If anything, there were several hints by US President Trump over the last week that Europe could be next in line to escalate trade tensions.

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

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

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 US Congress is due back this week 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

BREXIT

This week there will be a second vote on a snap election. Royal approval will likely be given for the measure blocking a no-deal Brexit passed by both Houses last week. Royal approval was also given to the UK PM to shut down Parliament. It will likely be another turbulent week.

““The situation in Britain is quite a mess now and we don’t know what is happening there,” said Finnish Prime Minister Antti Rinne, whose country currently holds the EU’s rotating presidency.”

<https://www.bostonglobe.com/news/politics/2019/09/06/house-lords-approves-bill-block-deal-brexite-which-will-now-become-law/4OeXa0pMvrUcalYv6zuM7L/story.html>

The return of the UK Parliament last week was as contentious as expected. By the end of the week, the House of Lords and the House of Commons had approved a measure that would block the PM’s plans to leave the EU without a deal. Once given royal approval, the measure will become law and require the PM to extend the Brexit deadline for three (3) further months IF a new deal has not been negotiated by the 19 Oct.

This goes against what PM Johnson had campaigned on – to deliver Brexit on 31 Oct as planned. Conservatives in Parliament sided with the opposition to support legislation to block a no-deal Brexit and many were expelled or resigned as a result.

PM Johnson looked to schedule a snap election to break the deadlock – which has been rejected by Parliament – but a further vote will likely take place this week.

“After discussions Friday, lawmakers from several opposition parties said they would not back an election unless the government asked the EU to postpone Brexit, removing the risk the U.K. could crash out without a deal. **Johnson says he would “rather be dead in a ditch” than delay Brexit.**”

<https://www.bostonglobe.com/news/politics/2019/09/06/house-lords-approves-bill-block-deal-brexite-which-will-now-become-law/4OeXa0pMvrUcalYv6zuM7L/story.html>

In the meantime, meetings with the EU on Brexit have yielded no progress;

“EU sources have said there is no evidence the British government is even working on “concrete proposals” to strike a Brexit deal, and the latest resignations from the government, recent reports of “sham negotiations” and constant election talk have all contributed to the impression that the government is not serious about finding an agreement.”

<https://www.theguardian.com/politics/2019/sep/08/france-threatens-to-veto-further-brexite-extension>

In a win for PM Johnson during the week, the UK High Court rejected a challenge that would block the PM from suspending Parliament for several weeks. PM Johnson’s prorogation plan was approved by the Queen last week. An appeal will be heard on 17 Sep.

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-brexite-showdown-when-parliament-returns-tuesday/2019/09/01/ff9dd0a6-cca6-11e9-8c1c-7c8ee785b855_story.html?noredirect=on

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