

Key Themes

Central bank decisions will be the key focus this week. The FOMC, BoJ and BoE decisions are all scheduled this week. The FOMC is expected to cut rates – despite economic data remaining resilient. The current probability for the FOMC to cut rates to 175-200bps is 84% (as of 16 Sep) (https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch).

In the US, we will get our first reading of Sep manufacturing conditions with two regional surveys released this week. Industrial production and housing data will also be published.

The Eurozone CPI and Zew economic sentiment survey will be released. The focus for Europe may start to shift more onto possible escalation of trade tensions with the US considering the (currently confidential) WTO ruling, possible subsequent tariffs and the transition to the new EU leadership taking over the negotiations.

In the UK, the focus will remain on Brexit and the emerging optimism for a deal on Brexit. Data of note this week will be retail sales and the CPI.

This will also be an important week for Aus data with Q2 house prices and the important labour market report for Aug. The RBA minutes for Sep will also be published.

US Treasury issuance will be somewhat heavier this week. The US Treasury will settle \$255bn in ST bills, notes and bonds this week, raising approx. \$66bn in new money. This may be somewhat offset by the paydown of the maturing 45-day CMB from back in Aug (\$35bn).

US Treasury Issuance & Settlements

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
16-20 Sep	12-Sep	17-Sep	4 week bill	50			Completed		
	12-Sep	17-Sep	8 week bill	40			Completed		
				90	90	0			
	16-Sep	19-Sep	13 week bill	45			Announced		
	16-Sep	19-Sep	26 week bill	42			Announced		
				87	75	12			
	10-Sep-19	16-Sep-19	3yr Note	38			Completed		
	11-Sep-19	16-Sep-19	10yr Note r/o	24			Completed		
	12-Sep-19	16-Sep-19	30yr Bond r/o	16			Completed		
				78	24	54			
			Total - securities settling this week	255	189	66			
			CMB comes due 16 Sep; 45day CMB for \$35bn issued 2 AUG CUSIP 912796XK0						
			Fed SOMA - Face Value of SOMA securities maturing 15 Sep 2019	0.00					
			Proportion of mthly cap	0.00					
			Amount to reinvest	0.00					

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 16 SEPTEMBER 2019

MONDAY 16 SEPTEMBER (US Eastern Time)

US	Empire State Manufacturing Survey (Sep)
China	Retail Sales, Industrial Production & Fixed Asset Investment (Aug)

TUESDAY 17 SEPTEMBER

US	FOMC Meeting begins, Industrial Production (Aug)
Aus	RBA Meeting Minutes (Sep)
Europe	Zew Economic Sentiment Survey (Sep)
Japan	Merchandise Trade (Aug)

WEDNESDAY 18 SEPTEMBER

US	FOMC Meeting Announcement, Housing Starts (Aug)
UK	CPI (Aug)
Aus	House Price Index Q2
Europe	CPI (Aug)
NZ	GDP Q2

THURSDAY 19 SEPTEMBER

US	Philly Fed Manufacturing Survey (Sep), Existing Home Sales (Aug)
UK	BoE Rates Decision, Retail Sales (Aug)
Aus	Labour Market Survey (Aug)
Japan	BoJ Rates Decision, CPI (Aug)

FRIDAY 20 SEPTEMBER

US	Fed speeches; Williams (presentation on "Tying Down the Anchor: Monetary Policy Rules and the Lower Bound on Interest Rates" at the Swiss National Bank Research Conference on "New Normal Monetary Policy Frameworks" in Zurich, Switzerland. Event is closed to the press) & Rosengren (speak at a conference on credit markets at New York University's Stern School of Business in New York)
Europe	Germany PPI (Aug)

Trade & Brexit

US-China Trade Talks

During the week, US President Trump announced a two-week delay to the implementation of the tariff increase on \$250bn of imports from China originally planned for 1 Oct. The delay was in observance to the PRC's 70th anniversary on 1 Oct.

Last week, it was announced that USTR Lighthizer and Vice Premier Liu He will meet in Washington in early Oct – no further details regarding dates at this stage.

Talks will take place later in Sep in the lead up to, and in preparation for, the meeting in Oct.

Some 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 (now postponed by 2 weeks).

<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.cnn.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

News late last week was that the WTO had provided a confidential ruling in favour of the US for illegal subsidies provided to Airbus.

“The decision means that U.S. President Donald Trump will almost certainly soon announce tariffs on European products ranging from cheeses to Airbus planes. One official said Trump had won the right to collect a total of between €5 billion and €8 billion. Another said the maximum sum was close to \$10 billion.” <https://www.politico.eu/article/trump-poised-to-hit-eu-with-billions-in-tariffs-after-airbus-win/>

Amid the current negotiations, the EU is now starting to transition to new leadership including a new lead trade negotiator;

“The decision sets the stage for a showdown between Europe and Washington just as the EU is transitioning to new leadership under incoming Commission President Ursula von der Leyen and Trade Commissioner-designate Phil Hogan. In unveiling her team on Tuesday, von der Leyen signaled **a robust approach to transatlantic disputes on trade and other issues with the Trump administration**” <https://www.politico.eu/article/trump-poised-to-hit-eu-with-billions-in-tariffs-after-airbus-win/>

The WTO ruling, together with new EU leadership, could see escalation in trade and tariff tensions between the EU and the US over the next few weeks once the ruling has been made official and public.

There are several fronts to the US-EU trade discussions.

Airline Subsidies

The WTO has now ruled in favour of the US (confidential judgement) 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.

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#>

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 process for the latest review has been completed – with no final announcement.

“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 was back last week, and given the increased volatility around trade, there is even more pressure on both sides to approve the USMCA. Both sides appear to be making moves to progress the approval.

During the week USTR Lighthizer provided formal responses to address concerns over labor, environment, enforcement and prescription drug provisions.

House Democrats said Thursday they believe they are making progress with the Trump administration over how to fix their concerns with the new North American trade agreement, indicating a congressional vote on the measure is still possible this year.

The two sides are likely to spend the next several weeks exchanging texts as the Trump administration continues to push for Congress to pass the agreement before the end of the year.

White House trade adviser Peter Navarro said earlier this week that the administration wants to "get this thing done within the next 30 to 60 days," — a timeline House Agriculture Chairman Collin Peterson (D-Minn.) also embraced on Thursday. <https://www.politico.com/story/2019/09/12/democrats-nafta-usmca-talks-1729037>

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

Talks continue this week across most levels of the UK government and the EU on Brexit. There is some indication that the UK government may consider an option/alternative to the Irish border backstop that is in the current (and rejected) withdrawal agreement.

The option is an ‘all Ireland backstop’. Details remain unclear but the indication is that the UK government is willing to make some compromises;

“Mr Johnson has made a proposal in the last few days talking about an all-Ireland food zone,” Hogan told The Irish Times in an interview after his nomination. “That is certainly a clear indication of divergence between Northern Ireland and the Republic of Ireland, the EU and the rest of the UK. This is the first time that this has been spoken about by a British prime minister where **they are prepared to accept some level of divergence between Northern Ireland and the rest of the UK.**”

<https://www.irishtimes.com/news/world/europe/penny-finally-dropping-for-uk-on-brex-it-says-phil-hogan-1.4013645?mode=amp>

There is some optimism emerging that an alternative could be developed in the coming weeks;

“The prime minister will be seeing President Juncker tomorrow, I’ll be meeting with Michel Barnier tomorrow, so there’s extensive talks been happening both at a technical level but also at a political level. So, there has been a huge amount of work going on behind the scenes. We can see a landing zone in terms of a future deal but there is significant work still to do.”

<https://www.theguardian.com/politics/2019/sep/15/brexit-uk-ministers-talk-up-irish-border-compromise-as-key-to-deal>

“With Johnson vehemently committed to leaving the EU on 31 October but bound by law to seek an extension if a deal is not in place by the time of the European council summit on 17 October, **there has been intense focus on ways he could find a plan acceptable to Brussels but which would not be seen by Conservative MPs as a betrayal.**”

<https://www.theguardian.com/politics/2019/sep/15/brexit-uk-ministers-talk-up-irish-border-compromise-as-key-to-deal>

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