

Key Themes

Important datapoints this week will be the prelim PMI's for Sep across the US, Japan and the Eurozone. Manufacturing has remained weak and/or in contraction across most regions with services activity helping to off-set some of the weakness.

In the US there will be more housing data – new home sales and Case-Shiller House Price Index for (Jul). More recent data indicates that activity in the housing sector appears to be picking up. Other important US data will be; durable goods and the monthly personal income, outlays and PCE price index for Aug. The US goods trade balance and the third est for GDP in Q2 will also be released this week.

It will be a full week of US Fed speeches. Of note will be speeches by; NY Fed President Williams speaking at the US Treasury Market Conference in New York, Vice Chairman Clarida speaking at the Fed Listens event in San Francisco and Vice Chairman Quarles speaking on macro-prudential regulation in Washington, DC.

The annual UN General Assembly will take place this week 23-27 Sep in New York. Sideline meetings on trade and Brexit will be important. Of particular interest is the US-Japan trade deal - a completed deal is expected to be signed at the meeting this week (possibly Wednesday). The UK PM and EU President are also expected to make the most of the meeting to further discussions on a Brexit backstop alternative.

Not all leaders will be present at the UN General Assembly; notable absences will be Chinese President Xi, PM Netanyahu and Russian President Putin.

US Treasury issuance will be somewhat lighter this week. The US Treasury will settle \$190bn in ST bills and FRN's this week, raising approx. \$25bn in new money (relatively light given recent weeks).

US Treasury Issuance & Settlements

US Treasury supply will be lighter this week.

The US Treasury will settle \$190bn in ST bills and 2yr FRN this week, raising approx. \$25bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
23-27 Sep	19-Sep	24-Sep	4 week bill	45			Completed
	19-Sep	24-Sep	8 week bill	40			Completed
				85	90	-5	
	23-Sep	26-Sep	13 week bill	45			Announced
	23-Sep	26-Sep	26 week bill	42			Announced
				87	75	12	
	25-Sep	27-Sep	2yr FRN r/o	18	0	18	Announced
			Total - securities settling this week	190	165	25	

The US Treasury will also auction \$125bn of notes and TIPS this week that will settle next week, raising approx. \$44bn 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 23 SEPTEMBER 2019

MONDAY 23 SEPTEMBER (US Eastern Time)

US Chicago Fed National Activity Index (Aug), Composite PMI Prelim (Sep)
Speeches; Williams, Bullard and Daly

Europe Germany and Eurozone Composite PMI Prelim (Sep)

Australia Composite PMI Prelim (Sep)

TUESDAY 24 SEPTEMBER

US S&P CoreLogic Case Shiller House Price Index (Jul), Richmond Fed Manufacturing
Index (Sep)

Japan Manufacturing PMI Prelim (Sep), Monetary Policy Meeting Minutes

WEDNESDAY 25 SEPTEMBER

US New Home Sales (Aug)
Fed speeches; Evans, George, Kaplan

NZ RBNZ Rates Decision

THURSDAY 26 SEPTEMBER

US GDP (third est) Q2, Kansas City Fed Manufacturing Index (Sep), Goods Trade Balance
(Aug), Pending Home Sales (Aug)
Fed speeches; Kaplan, Bullard, Daly, Clarida, Kashkari

FRIDAY 27 SEPTEMBER

US Durable Goods Orders (Aug), Personal Income, Outlays and PCE Price Index – Month
(Aug)
Fed speeches; Quarles, Harker

Trade & Brexit

US-China Trade Talks

No detail at this stage of the upcoming talks in Washington in Oct.

Last 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.

Some new tariff rates went into effect as of 1 Sep.

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>

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

The coming week will be crucial to finalising the trade deal between the US and Japan. It is expected that PM Abe and US President Trump will meet on the sidelines of the UN General Assembly early in the week.

Trump and Abe are expected to secure a deal on farm tariffs and digital trade when they meet on the sidelines of the United Nations General Assembly in New York later this week. Full details of the prospective trade agreement have not been disclosed.

One unresolved issue relates to auto exports. Motegi has said he wants written assurances that Trump will not impose tariffs on U.S.-bound auto exports from Japan. However, any promises arising from this week's talks will still need Trump's final approval, adding uncertainty to the prospects of a deal, Japanese sources familiar with the matter said recently.

<https://www.japantimes.co.jp/news/2019/09/22/business/motegi-says-u-s-japan-trade-talks-will-bring-peace-mind-farmers-automakers/#.XYhDuigzaUk>

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 last week was that the WTO had provided a confidential ruling in favour of the US for illegal subsidies provided to Airbus. A formal announcement is expected in several weeks' time.

“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

No news of progress at this stage. The US Congress was back mid-Sep, and there is even more pressure on both sides to approve the USMCA. Both sides appear to be making moves to progress the approval. Last 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>

Canada has yet to approve the deal. It has been reported that Canada will wait to approve the deal until after 21 Oct elections. It was originally reported that Canada would not take steps to approve the deal until the US had ratified the deal. (Source; <https://www.reuters.com/article/us-usa-trade-usmca/pence-upbeat-that-congress-will-pass-usmca-trade-deal-this-year-idUSKBN1W22FF>)

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

The focus for the coming week will be on discussions between the EU President and the UK PM at the UN General Assembly in New York. The UK PM met with EU President Juncker last week. Talks were said to be positive. The EU President said that, during talks, the UK PM repeated that the UK would not request an extension to the 31 Oct Brexit deadline;

“In the segment released Sunday, Juncker said Johnson told him multiple times he would not request an extension to negotiations past the current date of Britain's planned exit on October 31.”

<https://www.politico.eu/article/juncker-uk-dont-blame-brussels-for-post-brexit-border-ireland/>

There were reports of contradictory claims that progress had been made in talks with the EU;

“The European Commission reportedly believes that the process is going backwards as the UK plans do not contain the essential elements needed to clinch an agreement. Its mood of pessimism followed a meeting between Steve Barclay, the Brexit Secretary, and Michel Barnier, the EU's chief negotiator.” <https://brexitcentral.com/today/brexit-news-for-sunday-22-september/>

Johnson and Brexit Secretary Stephen Barclay both put a positive spin on ongoing talks with the EU this week. Barclay said they were “moving forward with momentum” and that the two sides share a “common purpose.” **The European side was a little more cautious**, with Chief EU negotiator Michel Barnier saying that “**lots of work has to be done in the next few days.**” Irish Deputy Prime Minister Simon Coveney said, “We are still waiting for serious proposals from the British government” on how to resolve the contentious Irish border issue, and that the two sides are still very far apart despite the improved “mood music.” <https://slate.com/news-and-politics/2019/09/this-week-in-brexit-embarrassment-in-brexit-and-a-contentious-court-case.html>

UK PM Johnson has until 19 Oct to secure a revised Brexit deal with the EU before he is legally obliged to request an extension. Negotiations are now becoming even more important.

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

US Fed Speeches – 23-27 September 2019

Monday

New York Federal Reserve Bank President John Williams to speak at the U.S. Treasury Market Conference organized by the Department of the Treasury, The Board of Governors of

the Federal Reserve System, The Securities and Exchange Commission and the Commodity Futures Trading Commission, in New York, NY. The event will be available via webcast.

St. Louis Federal Reserve Bank President James Bullard to speak on "US Economy and Monetary Policy," in Effingham, Illinois. with audience and media Q&A.

San Francisco Federal Reserve Bank President Mary Daly to speak about "Supporting Economic Opportunity in America's Urban and Rural Communities" at the Salem Community Leaders Luncheon event in Salem, Oregon. Remarks to be live-streamed.

Tuesday

Nil

Wednesday

Chicago Federal Reserve Bank President Charles Evans to speak at the Lake Forest Rotary Club Economic Breakfast on the economic outlook and monetary policy, in Lake Forest, Illinois, with audience and media Q&A.

Kansas City Federal Reserve Bank President Esther George to testify at a Senate Banking Committee hearing on "Facilitating Faster Payments in the U.S", in Washington, D.C.

Dallas Federal Reserve Bank President Robert Kaplan to take part in a moderated session at a Dallas Business Club Economic Update in Dallas, Texas, with audience Q&A.

Thursday

Dallas Federal Reserve Bank President Robert Kaplan to give opening remarks at a Dallas Fed conference on trade and immigration in North America, in Dallas, Texas, with audience and media Q&A.

St. Louis Federal Reserve Bank President James Bullard to give opening remarks at the "Banking and the Economy: A Forum for Minorities in Banking" event in St. Louis, Missouri.

San Francisco Federal Reserve Bank President Mary Daly to give welcoming remarks at the "Fed Listens, San Francisco" event in San Francisco, CA. The event will be live-streamed.

Federal Reserve Board of Governors Vice Chairman Richard Clarida to speak at a Fed Listens event on the Fed's review of its monetary policy strategy, tools, and communication practices, in San Francisco, CA. The speech will be live-streamed.

Minneapolis Federal Reserve Bank President Neel Kashkari to speak at a town hall in Billings, Montana. The event will be live streamed by the Minneapolis Federal Reserve Bank.

Friday

Federal Reserve Board of Governors Vice Chairman for Supervision Randal Quarles to speak at Georgetown University on macroprudential regulation, in Washington, D.C., with audience Q&A. The event will be webcast.

Philadelphia Federal Reserve Bank President Patrick Harker to speak on the economic outlook at the "Shadow Open Market Committee Fall 2019 Meeting" event held in the Princeton Club of New York, in New York, NY.

<https://us.econoday.com/byweek.asp?cust=us>