

Key Themes

A full week of data, US Fed speeches and it's also quarter end.

Important US data out this week; non-farm payrolls and employment, ISM manufacturing and non-manufacturing PMI's for Sep and the final Markit PMI's for Sep.

There is also a full week of Fed speeches. The highlight will be on Friday with a 'Fed Listens' event - "Fed Listens: Perspectives on Maximum Employment and Price Stability". US Fed Chairman Powell will give the opening remarks at this event. Also speaking will be Board members Brainard and Quarles.

Other speeches of note will be; Board Vice Chairman Clarida (Thursday) - outlook for the economy and monetary policy at the Wall Street Journal's Future of Global Markets event in New York.

Across Europe, the final PMI's for Sep will be released as well as Euro Area and German CPI and retail sales data.

The final PMI's for the UK in Sep and Q2 GDP will also be in focus this week. Brexit is now coming into the *final* four week stretch. Further alternative plans for the Irish border issue are expected to be tabled with the EU later this week.

The focus on Australia will be on the RBA rates decision on Tuesday. The expectations are for a further cut in the overnight cash rate to 0.75% (at 27 Sep 2019 a 78% expectation <https://www.asx.com.au/prices/targetratetracker.htm>). The probability for a further rate cut increased after the labour market data in mid-Sep indicated unemployment had moved higher. Later in the week Aus retail sales data will also be released.

On trade, the WTO is expected to announce this week the findings of its arbitration on the amount of US tariffs related to the Airbus case.

US Treasury issuance will be heavier this week and its quarter end. The US Treasury will settle \$297bn in ST bills, notes and TIPS this week, raising approx. \$51bn in new money.

US Treasury Issuance & Settlements

US Treasury supply will be heavier this week and it is also quarter end. The US Treasury will settle \$297bn in ST bills, notes and TIPS this week, raising approx. \$51bn in new money.

The notes and TIPS auctions from last week will settle on Mon 30 Sep and the ST bills will settle throughout the week. Key dates are below;

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
30 Sep - 4 Oct	26-Sep	1-Oct	4 week bill	45			Completed
	26-Sep	1-Oct	8 week bill	40			Completed
				85	90	-5	
	30-Sep	3-Oct	13 week bill	45			Announced
	30-Sep	3-Oct	26 week bill	42			Announced
				87	75	12	
	19-Sep	30-Sep	10 Yr TIPS r/o	12			Announced
	24-Sep	30-Sep	2yr Note	40			Announced
	25-Sep	30-Sep	5yr Note	41			Announced
	26-Sep	30-Sep	7yr Note	32			Announced
				125	80.25	44.75	
			Total - securities settling this week	297	245.25	51.75	
			Fed SOMA - Face Value of SOMA securities maturing 30 Sep 2019	12.99			

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 30 SEPTEMBER 2019

MONDAY 30 SEPTEMBER (US Eastern Time)

US	Chicago PMI (Sep), Dallas Fed Manufacturing Survey (Sep)
Europe	Germany Retail Sales (Aug), Germany CPI Prelim (Sep)
Australia	Private Sector Credit (Aug), AiG Performance of Manufacturing Index (Sep)
Japan	Industrial Production Prelim (Aug)
China	NBS Manufacturing & Non-Manufacturing PMI (Sep)
UK	GDP Q2

TUESDAY 1 OCTOBER

US	Markit Manufacturing PMI (Sep), ISM Manufacturing PMI (Sep) US Fed speeches; Evans, Clarida, Bullard & Bowman
Japan	Manufacturing PMI (Sep)
Australia	RBA Rates Decision, Building Permits (Aug)
Europe	Eurozone and Germany Manufacturing PMI (Sep), Eurozone CPI Prelim (Sep)

WEDNESDAY 2 OCTOBER

US	ADP Employment Report (Sep), ISM NY Business Conditions (Sep) US Fed speeches; Harker & Williams
Australia	AiG Performance of Services Index (Sep)

THURSDAY 3 OCTOBER

US	Challenger Job Cut Report (Sep), Markit Services PMI (Sep), Factory Orders (Aug), ISM Non-Manufacturing PMI (Sep), Motor Vehicle Sales (Sep). US Fed speeches; Evans, Quarles, Mester & Clarida
Japan	Services PMI (Sep)
Europe	Germany & Eurozone Services & Composite PMI (Sep), Eurozone PPI (Aug), Eurozone Retail Sales (Aug)

FRIDAY 4 OCTOBER

US	US Non-Farm Payrolls and Employment (Sep) US Fed speeches; Chairman Powell, Bostic, Brainard, Quarles & George (Sunday)
Australia	Retail Sales (Aug)

Trade & Brexit

US-China Trade Talks

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

“...the United States looks forward to welcoming a delegation from China for principal-level meetings in October.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/september/statement-united-states-deputy>

Two weeks ago, 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. There is a weeklong celebration of the founding of the PRC this week,

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

On the sidelines of the UN General Assembly last week, the US and Japan signed a limited trade deal.

Trump said the first-phase deal would open up Japanese markets to some \$7 billion worth of U.S. products annually, cutting Japanese tariffs on American beef, pork wheat and cheese. Although the agreement does not cover trade in autos, Abe said he had received reassurance from Trump that the United States would not impose previously threatened “Section 232” national security tariffs on Japanese car imports.

<https://www.reuters.com/article/us-usa-trade-japan/us-japan-sign-limited-trade-deal-leaving-autos-for-future-talks-idUSKBN1WA2D8>

There will be a second phase now to the negotiations which is expected to start in April 2020 and will cover the main issue of Autos;

U.S. Trade Representative Robert Lighthizer said after a signing ceremony between the two leaders on the sidelines of the United Nations General Assembly that the two countries would tackle cars in a later round of negotiations expected to start next April.

Lighthizer said it was not the U.S. intention to impose additional car tariffs, which would be based on the results of a Commerce Department study that has found auto imports to threaten national security.

<https://www.reuters.com/article/us-usa-trade-japan/us-japan-sign-limited-trade-deal-leaving-autos-for-future-talks-idUSKBN1WA2D8>

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

The WTO is expected to announce the findings of its arbitration tribunal on the amount of US tariffs related to the Airbus case this week. (Source: <https://www.reuters.com/article/wto-aircraft/wto-to-back-around-7-5-bln-u-s-tariffs-on-eu-over-airbus-aid-sources-idUSP6N25O029>)

It is expected that the US will be granted approval to impose approx. \$7.5bn in tariffs on EU goods;

Washington has drawn up a list of goods from planes to wine and handbags worth a total of \$25 billion from which it could choose items to target if it goes ahead with the tariffs.

<https://www.reuters.com/article/wto-aircraft/wto-to-back-around-7-5-bln-u-s-tariffs-on-eu-over-airbus-aid-sources-idUSP6N25O029>

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

Amid the current negotiations, the EU will transition to new leadership from the start of Nov 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 further news of progress at this stage. Both sides appear to be making moves to progress the approval of the trade deal. 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

We are now heading into the final four weeks leading up to the next Brexit deadline on 31 Oct 2019.

The first important date leading up to the 31 Oct is the EU Summit on 17-18 Oct. In the weeks leading up to this summit, the current UK government will need to finalise a workable and legally binding alternative for the Irish border issue. It has been reported that proposals will be table this week on Thursday after the Conservative Party conference;

Mr Barclay has reportedly told Mr Barnier that the UK will table proposals to the EU on Thursday, following Mr Johnson's speech at the Conservative Party conference.

<https://inews.co.uk/news/politics/brexit/boris-johnson-eu-brexit-deal-michel-barnier-chances-language-humbug-638195>

Negotiations have been underway and there had been an air of optimism that an alternative could be reached.

Earlier, Irish Deputy Prime Minister Simon Coveney said significant gaps remain between the UK and EU. He was speaking after meeting EU chief negotiator Michel Barnier in Brussels.

<https://www.bbc.com/news/world-europe-49857618>

Michael Gove, the minister in charge of planning for a so-called no-deal Brexit, was equally confident the government's plans would not be derailed, saying ministers knew the shape of the deal they wanted to pursue ahead of an Oct. 17/18 EU summit.

<https://www.reuters.com/article/uk-britain-eu/johnson-vows-to-stay-put-to-hit-october-31-brexit-deadline-idUSKBN1WE09U>

If no alternative Irish border solution is agreed to by the end of the EU Summit in Oct, the UK PM is now required by law to request a delay to Brexit, to avoid a 'no deal' Brexit. That said, the UK PM Johnson continues to advocate for a 'do or die' approach to Brexit – that he will deliver Brexit with or without a deal.

Johnson and his ministers again declined to explain how he plans to circumvent that law and deliver on his Brexit promise, deepening uncertainty around Britain's biggest trade and foreign policy shift for more than 40 years. <https://www.reuters.com/article/uk-britain-eu/johnson-vows-to-stay-put-to-hit-october-31-brexit-deadline-idUSKBN1WE09U>

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 – 30 September – 4 October 2019

Monday

Nil

Tuesday

Chicago Fed President Evans to speak on monetary policy in Frankfurt, Germany,

Fed Reserve Board of Governors Vice Chairman Richard Clarida - introductory remarks at the Conference on Non-traditional Data, Machine Learning, and Natural Language Processing in Macroeconomics, in Washington, D.C.

St. Louis Fed President Bullard - welcoming remarks at the 2019 Community Banking in the 21st Century Research and Policy Conference, in St. Louis, Missouri

Fed Reserve Member of the Board of Governors Bowman - opening keynote at the 2019 Community Banking Research Conference in St. Louis, Missouri

Wednesday

Philadelphia Fed President Harker - keynote on second day of 2019 Community Banking Research Conference, in St. Louis, Missouri

New York Fed President Williams - moderated discussion at the UC San Diego Economics Roundtable Lecture Series in La Jolla, CA

Thursday

Chicago Fed President Evans - speech on monetary policy at a Global Interdependence Centre Central Banking Series event in Madrid, Spain, with media Q&A

Fed Reserve Board of Governors Vice Chairman for Supervision Quarles - speech on "The Financial Stability Board at 10 Years" at the European Banking Federation's European Banking Summit 2019, in Brussels, Belgium

Cleveland Fed President Mester - panel discussion on inflation and the implications for monetary and other policy at the Hutchins Centre on Fiscal and Monetary Policy event held at the Brookings Institution Falk Auditorium in Washington, D.C.

Federal Reserve Board of Governors Vice Chairman Clarida - speech on the outlook for the economy and monetary policy at the Wall Street Journal's Future of Global Markets event in New York, New York

Friday

Federal Reserve Chairman Jerome Powell to give opening remarks at the "Fed Listens: Perspectives on Maximum Employment and Price Stability" event held by the Federal Reserve Board in Washington, D.C

Federal Reserve Member of the Board of Governors Lael Brainard to moderate a panel on "Gauging Maximum Employment in a Changing Labour Market" at the "Fed Listens: Perspectives on Maximum Employment and Price Stability" event held by the Federal Reserve Board in Washington, D.C

Federal Reserve Board Vice-Chairman for Supervision Randal Quarles to moderate a panel on "The Importance of Price Stability and Low Inflation in Today's Economy" at the "Fed

Listens: Perspectives on Maximum Employment and Price Stability" event held by the Federal Reserve Board in Washington, D.C

Atlanta Fed President Bostic - fireside chat at the 40th Annual Tulane Business Forum in New Orleans, Louisiana, with audience Q&A

Kansas City Fed President George - First Day closing remarks at the 61st annual meeting of the National Association of Business Economics in Denver, Colorado

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