

Key Themes

A somewhat quieter week on the data front – the main features this week will be FOMC and ECB minutes, Fed Chairman Powell speeches, the US-China trade meeting and Germany factory orders and industrial production.

The focus in the US this week will be on the FOMC minutes and three (3) speeches by Chairman Powell throughout the week. On the data front, the key highlights will be prelim consumer confidence for Oct, PPI and CPI for Sep.

US-China trade negotiations will be in focus with Vice Premier Lui He meeting USTR Lighthizer in Washington this week 10-11 Oct.

ECB minutes and Germany factory orders and industrial production (Aug) will be in focus for Europe this week, especially after the much weaker PMI data for German manufacturing last week. Trade and tariff headlines regarding the WTO ruling on Airbus and US tariffs on EU imports may continue to feature this week.

We are now within ten days of the next key date of the EU Summit on 17/18 Oct. At this summit, the UK and EU would need to agree on an alternative to the current Irish border backstop. Negotiations are expected to continue this week.

In Australia, the important housing lending data will be out this week for Aug. Softer data will feature more this week with a final wrap up of the Aus. Industry Group services, manufacturing and construction performance indexes for Sep and the NAB business conditions and confidence report for Sep.

Final wrap up of Sep manufacturing and services PMI's for China and new loans data.

US Treasury issuance will be lighter this week. The US Treasury will settle \$200bn in ST bills this week raising approx. \$7bn in new money (much lighter than prior weeks). The US Treasury will also auction 3yr and 10yr notes and the 30yr bond this week which will settle next week on 15 Oct. These auctions will raise approx. \$54bn in new money.

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	
7-11 Oct	3-Oct	8-Oct	4 week bill	45			Completed
	3-Oct	8-Oct	8 week bill	40			Completed
				85	95	-10	
	7-Oct	10-Oct	13 week bill	45			Announced
	7-Oct	10-Oct	26 week bill	42			Announced
	8-Oct	10-Oct	52 week bill	28			Announced
				115	98	17	
			Total - securities settling this week	200	193	7	

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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 7 October 2019

MONDAY 7 OCTOBER (US Eastern Time)

US	Consumer Credit (Aug) US Fed speeches; Chairman Powell, Kashkari
Europe	Germany Factory Orders (Aug)
Australia	AiG Perf of Construction Index (Sep)
China	National Day

TUESDAY 8 OCTOBER

US	PPI (Sep) US Fed Speeches; Chairman Powell, Evans, Kashkari
China	Caixin Services PMI (Sep)
Australia	NAB Business Conditions & Confidence (Sep), ANZ Job Ads (Sep)
Europe	Germany Industrial Production (Aug)

WEDNESDAY 9 OCTOBER

US	JOLTS (Aug), Wholesale Trade (Aug), FOMC Minutes US Fed speeches; Chairman Powell, George
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THURSDAY 10 OCTOBER

US	CPI (Sep), US Fed speeches; Mester, Kashkari
Australia	Housing Lending (Aug)
China	New Loans (Sep)
UK	Monthly GDP (Aug)
Europe	ECB minutes

FRIDAY 11 OCTOBER

US	University of Michigan – Consumer Sentiment Prelim (Oct) US Fed speeches; Kashkari, Rosengren, Kaplan
Europe	Germany CPI Final (Sep)

Trade & Brexit

US-China Trade Talks

Vice Premier Liu He will fly to Washington this week Oct 10-11 for the next round of talks with the US on trade negotiations.

There could now be a shift in the shape of the agreement between the two countries – more of a truce in the short-term, dealing with agriculture and energy purchases and then rolling back some tariffs etc as long as progress is made on a deal regarding the main issues of industrial policy and intellectual property protections.

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 month, the US and Japan signed a limited trade deal that will precede a more comprehensive deal/negotiation to commence next year.

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>

The current limited deal still needs to be ratified by the Japanese parliament and is likely to take effect from the beginning of Jan 2020.

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 found in favour of the US in the Airbus case with a \$7.5bn award. The US has announced that from 18 Oct, tariffs on some EU imports will take effect;

“The tariffs will be applied to a range of imports from EU Member States, with the bulk of the tariffs being applied to imports from France, Germany, Spain, and the United Kingdom – the four countries responsible for the illegal subsidies. Although USTR has the authority to apply a 100 percent tariff on affected products, at this time the tariff increases will be limited to **10 percent on large civil aircraft and 25 percent on agricultural and other products**. The U.S. has the authority to increase the tariffs at any time, or change the products affected.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/october/us-wins-75-billion-award-airbus>

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/>

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

Both sides of politics in the US continue to support the passing of the USMCA trade deal. The key issues to address remain labour, environment, enforcement and prescription drug provisions.

The Democrats are working 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 into the final 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. This summit is important because if no alternative Irish border solution is agreed to by the end of the EU Summit, the UK PM is now required by law to request a delay to Brexit, to avoid a 'no deal' Brexit. The UK PM has campaigned heavily on delivering Brexit without further delays and continues to promote the hard Brexit option.

During the week, the UK put forward an alternative plan for the current Irish border backstop that would see Northern Ireland leave the customs territory but remain in the single market for goods. The EU rejected that plan;

“...Barnier said that there were serious problems with the plans which threatened the EU single market and did not answer EU concerns on the need for customs checks: “We are a single market. That’s a complete ecosystem, with common rights, common norms, common standards, common rules, a common legal system. It requires checks at its borders.” <https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

As a result, talks/negotiations appear to have stalled;

Downing St had suggested before the weekend that the prime minister would be touring EU capitals this week to try to make progress towards a deal.

But in a firm rebuff, the European Commission made clear there was insufficient basis for more negotiation as the gulf between the two sides remained too wide, and it did not want to give the impression that progress could be made when it could not.

“If they do not change, I do not believe, on the basis of the mandate I have been given by the EU27, that we can advance,” Barnier said on Saturday at an event in Paris organised by Le Monde.

If the UK was still serious about a deal it would return with “different proposals” this week and the EU side would be prepared to talk, he said.

<https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

While talks are set to continue this week between the UK and the EU, the Conservative party remains firm on threatening to leave without a deal.

At a meeting of government advisers on Friday night, Johnson’s closest aide, Dominic Cummings, said if Brussels did not soften its opposition to the UK’s proposals, the UK would be ready to leave with no deal.

<https://www.theguardian.com/politics/2019/oct/05/michel-barnier-blame-boris-johnson-brexit-talks-eu-uk>

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 7-11 October 2019

MONDAY

Federal Reserve Chairman Jerome Powell to give brief remarks before the premiere screening of KUED film "Marriner Eccles: Father of the Modern Federal Reserve" in Salt Lake City, Utah.

Minneapolis Federal Reserve Bank President Neel Kashkari to participate in a fireside chat talking about Minneapolis Fed work in Indian Country, in Prior Lake, Minnesota. The event will be live-streamed.

TUESDAY

Federal Reserve Chairman Jerome Powell to speak at the 61st National Association of Business Economics Annual Meeting in luncheon remarks entitled "A View from the Federal Reserve Board of Governors" in Denver, Colorado.

Chicago Federal Reserve Bank President Charles Evans to speak at the Chicago Rotary Club Luncheon, followed by media Q&A, in Chicago.

Minneapolis Federal Reserve Bank President Neel Kashkari to speak at a town hall at St. Cloud State University, with audience Q&A, in St. Cloud, Minnesota. The event will be live-streamed.

WEDNESDAY

Federal Reserve Chairman Jerome Powell to co-host a roundtable session with Kansas City Fed President Esther George discussing labor market conditions, local banking and other topics with a group of local businesses and community leaders in Kansas City, Missouri. The event will be live-streamed.

Kansas City Federal Reserve Bank President Esther George to discuss labor market conditions, local banking and other topics in a roundtable session with Fed Chair Jerome Powell and a group of local businesses and community leaders in Kansas City, Missouri. The event will be live-streamed.

THURSDAY

Minneapolis Federal Reserve Bank President Neel Kashkari to participate in a fireside chat on the Federal Reserve, the economy and markets before the Yahoo Finance 2019 All Markets Summit in New York,

Cleveland Federal Reserve Bank President Loretta Mester to participate in a fireside chat at John Carroll University in University Heights, Ohio, with media and audience Q&A

FRIDAY

Minneapolis Federal Reserve Bank President Neel Kashkari to participate in a fireside chat at the Council on Foreign Relations, in New York, NY, with audience Q&A.

Boston Federal Reserve Bank President Eric Rosengren to speak at the American Economic Challenges Symposium held at the University of Wisconsin-Madison in Madison, Wisconsin.

Dallas Federal Reserve Bank President Robert Kaplan to speak in a moderated Q&A at the Commonwealth Club of California Luncheon in San Francisco, CA, with audience and media Q&A.

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