

## Key Themes

A range of data, news events and US Fed speeches this week.

The emphasis will shift onto the substance of this first phase of the US-China trade agreement as the details are put into writing for the APEC meeting mid-Nov. The next round of tariff increases on imports from China into the US (which were initially postponed) will not go into effect this week.

This is an important week for Brexit with the EC summit on 17-18 Oct. Negotiations will continue throughout the week in order to find some agreement on an alternative to the Irish border backstop. Both sides have stated that there is still a large distance to cover. The UK Parliament has an extraordinary sitting of the House of Commons planned for Sat 19 Oct in order to vote on any alternative that has been approved at the EC summit. If no agreement is in place by 11pm on Sat 19 Oct, the UK PM is required to request a further extension to the 31 Oct Brexit deadline.

The first of the tariffs on imports from the EU (related to the WTO-Airbus case) will likely take effect on 18 Oct.

Important data out this week;

US retail sales, housing data and industrial production. There is also a very heavy schedule of Fed speeches this week.

China data dump including trade, CPI, retail sales and industrial production.

Eurozone industrial production and CPI.

UK retail sales, employment and CPI.

Australia employment survey.

Finally, it will be a very heavy week for US Treasury supply. The US Treasury will settle \$255bn in Treasury bills and coupons raising approx. \$69bn in new money (a relatively large amount). This will also be the first week of 'reserve management purchase' operations.

## US Treasury Issuance & Settlements

US Treasury supply settling this week will be heavier. The US Treasury will settle \$255bn in ST bills and coupons raising approx. \$69bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
14-18 Oct	10-Oct	15-Oct	4 week bill	50			Completed
	10-Oct	15-Oct	8 week bill	40			Completed
				90	90	0	
	15-Oct	17-Oct	13 week bill	45			Announced
	15-Oct	17-Oct	26 week bill	42			Announced
				87	72	15	
	8-Oct	15-Oct	3yr note	38			Announced
	9-Oct	15-Oct	10yr note	24			Announced
	10-Oct	15-Oct	30yr bond	16			Announced
				78	24	54	
			<b>Total - securities settling this week</b>	<b>255</b>	<b>186</b>	<b>69</b>	
			<b>Fed SOMA - Face Value of SOMA securities maturing 15 Oct</b>	<b>0.000</b>			
			<b>Reserve Management Purchase Operations - Treasury Bills</b>	<b>\$B</b>			
	16-Oct-19	17-Oct-19	Bills 0-1yr	7.525			
	18-Oct-19	21-Oct-19	Bills 0-1yr	7.525			
				15.050			
			<b>Reinvestment Purchases - Treasury Coupons</b>	<b>\$B</b>			
	15-Oct-19	16-Oct-19	Coupons 0-0.75	1.625			
	17-Oct-18	18-Oct-19	Coupons 0.75-1.5	1.625			
				3.250			

The first of the reserve management purchase operations will commence this week. The FOMC will purchase approx. \$15bn of this month's \$60bn allocation of ST Treasury Bills. Note that the settlement for the second operation will be next week.

The Fed will also purchase approx. \$3bn in Treasury coupons as a part of the restarted reinvestment of principal payments. There are no securities maturing in the Fed SOMA account on the 15 Oct. Approx. \$15.6bn will mature at month end.

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details#current-schedule>

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. Principal payments from maturing securities will be reinvested;

“...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 14 October 2019

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### MONDAY 14 OCTOBER (US Eastern Time)

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US	Columbus Day
Europe	Eurozone Industrial Production (Aug)
China	Trade Balance, Imports & Exports (Sep)

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### TUESDAY 15 OCTOBER

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US	Empire State Manufacturing Index (Oct) US Fed speeches; Bullard, Bostic & Daly
China	CPI & PPI (Sep)
Australia	RBA Minutes
Japan	Industrial Production – Final (Aug)
UK	Labour Market Survey (Jul-Aug)

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### WEDNESDAY 16 OCTOBER

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US	Retail Sales (Sep), Business Inventories (Aug), Housing Market Index (Oct) US Fed speeches; Evans, Brainard
UK	CPI (Sep)
Europe	Eurozone CPI (Sep)

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### THURSDAY 17 OCTOBER

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US	Housing Starts (Sep), Philadelphia Fed Business Outlook Survey (Oct), Industrial Production (Sep). US Fed speeches; Evans, Williams, Bowman
Europe	EC Summit Commences
Australia	Labour Market Survey (Sep)
UK	Retail Sales (Sep)
Japan	CPI (Sep)

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### FRIDAY 18 OCTOBER

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US	US Fed speeches; George, Kaplan, Kashkari, Clarida
Europe	EC Summit Day 2
China	Industrial Production (Sep), Retail Sales (Sep), GDP (Q3)

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## Trade & Brexit

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### US-China Trade Talks

Details of the phase one deal/truce should begin to emerge over the next few weeks. Importantly, for now, the next round of tariff increases on imports from China will not go into effect on 15 Oct.

While the more difficult issues of the negotiations have been reserved for the next phase of the negotiations, there is, at the very least, no further deterioration in the situation. But with the details yet to be put into writing and fully agreed to (we were here back in May), the situation will likely remain tenuous.

It is possible that this first phase of the 'truce' is signed at the APEC meeting in Chile 16-17 Nov 2019.

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 70<sup>th</sup> anniversary on 1 Oct. This increase in the tariff rate will now not go ahead on the 15 Oct.

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 before it is to take effect from the beginning of Jan 2020. The US Congress does not need to ratify this first more limited deal.

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have,effect%20on%20January%20%2C%202020>.

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](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](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](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](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](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](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.

This week is the important EC summit on 17-18 Oct. At this summit, the UK and the EU need to agree on an alternative to the current backstop. Meetings and negotiations will continue in earnest this week in the lead up to the EC summit. Both sides have stated that there remains a large distance to cover in order to reach an agreement.

The UK Parliament has an extraordinary sitting of the House of Commons planned for Sat 19 Oct in order to vote on any alternative that has been approved at the EC summit. If no agreement is in place by 11pm on Sat, the UK PM is required by the Benn Act to request an extension to the 31 Oct Brexit deadline. The UK PM has been adamant that the UK will leave on 31 Oct.

If the stalemate is not broken at this point, a law recently passed by the parliament dictates that London must ask the EU to extend the Oct. 31 deadline to Jan. 31 – a period in which a national election may be held to try to break the Brexit deadlock. <https://www.reuters.com/article/uk-britain-eu-countdown/countdown-to-divorce-meetings-that-will-decide-brexit-idUSKBN1WS0AY>

Current Brexit documents:

Announcement; [http://europa.eu/rapid/press-release\\_IP-18-6424\\_en.htm](http://europa.eu/rapid/press-release_IP-18-6424_en.htm)

Comprehensive factsheet; [http://europa.eu/rapid/press-release\\_MEMO-18-6422\\_en.htm](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](http://europa.eu/rapid/press-release_MEMO-18-6423_en.htm)

## US Fed Speeches 14-18 October 2019

### MONDAY

Columbus Day

### TUESDAY

**St. Louis Federal Reserve Bank President James Bullard** to speak about "The Federal Reserve's Monetary Policy Options" at the 2019 Monetary And Financial Policy Conference in London, England, with audience and media Q&A

**Atlanta Federal Reserve Bank President Raphael Bostic** to participate in moderated Q&A on community development at the Purpose Built Communities conference

**San Francisco Federal Reserve Bank President Mary Daly** to speak at the Los Angeles World Affairs Council and Town Hall in Los Angeles, California, with media Q&A

### WEDNESDAY

Speech—Governor Lael Brainard - **Future of Money** - At The Future of Money in the Digital Age, co-hosted by The Peterson Institute for International Economics and Princeton University's Center for Finance, Washington, D.C.

**Chicago Federal Reserve Bank President Charles Evans** to speak about current economic conditions and monetary policy in a moderated discussion at the Greater Peoria Development Council in Peoria, Illinois, with audience and media Q&A

### THURSDAY

Discussion—Governor Michelle W. Bowman - **Opening Remarks** - Fed Listens: Monetary Policy's Impact on Workers and Their Communities, Federal Reserve Bank of Chicago, Chicago, Illinois

**Chicago Federal Reserve Bank President Charles Evans** to speak at the "Fed Listens: Monetary Policy's Impact on Workers and Their Communities" event in Chicago, Illinois

**New York Federal Reserve Bank President John Williams** to deliver the keynote address and participate in a moderated discussion at Managed Funds Association Outlook 2019 Conference in New York, NY, with media Q&A

### FRIDAY

Speech—Vice Chair Richard H. Clarida - **U.S. Economic Outlook and Monetary Policy** - At the CFA Institute Fixed-Income Management Conference 2019, Boston, Massachusetts

**Kansas City Federal Reserve Bank President Esther George** to speak at a Conference on Energy and the Economy, in Denver, Colorado

**Dallas Federal Reserve Bank President Robert Kaplan** to speak at a Conference on Energy and the Economy, in Denver, Colorado

**Minneapolis Federal Reserve Bank President Neel Kashkari** to speak at the Federal Home Loan Bank of Des Moines Annual Leadership Summit in Bloomington, Minnesota. The event will be live-streamed

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

<https://www.federalreserve.gov/newsevents/calendar.htm>