

## Key Themes

There are several key events and data releases this week.

The process to complete Brexit continues this week. The legislation required to implement the alternative Brexit deal is expected to be introduced into the UK parliament early this week. If this legislation passes, then it is possible that the Brexit deal will be approved by the UK parliament.

The ECB meets this week and it will be President Draghi's final meeting as President.

Important data out this week;

Prelim PMI's for Oct will be released across the US, Europe, Asia and Australia this week.

US durable goods orders, regional manufacturing surveys, existing home sales and final consumer sentiment readings for Oct will be released.

Japan merchandise trade.

It will be a lighter week for US Fed speeches ahead of the FOMC meeting next week on 30 Oct. As of 21 Oct, the probability of a further rate cut next week is 89.3%.

[https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm\\_source=cmegroup&utm\\_medium=friendly&utm\\_campaign=fedwatch&redirect=/fedwatch](https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch)

Finally, it will be a lighter week for US Treasury supply. The US Treasury will settle \$182bn in Treasury bills raising approx. \$25bn in new money. Approx. \$22.6bn in reserve management purchases will settle this week.

## US Treasury Issuance & Settlements

US Treasury supply settling this week will be lighter. The US Treasury will settle \$182bnbn in ST Treasury Bills raising approx. \$25bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
21-25 Oct	17-Oct	22-Oct	4 week bill	55			Completed
	17-Oct	22-Oct	8 week bill	40			Completed
				95	85	10	
	21-Oct	24-Oct	13 week bill	45			Announced
	21-Oct	24-Oct	26 week bill	42			Announced
				87	72	15	
			<b>Total - securities settling this week</b>	<b>182</b>	<b>157</b>	<b>25</b>	
			<b>Reserve Management Purchase Operations - Treasury Bills</b>	<b>\$B</b>			
	18-Oct-19	21-Oct-19	Bills 0-1yr	7.525			
	22-Oct	23-Oct	Bills 0-1yr	7.525			
	23-Oct	24-Oct	Bills 0-1yr	7.525			
				22.575			
			<b>Reinvestment Purchases - Treasury Coupons</b>	<b>\$B</b>			
	21-Oct	22-Oct	Coupons 1.5-2.25	1.825			
	24-Oct	25-Oct	Coupons 2.25-3	1.625			
				3.450			

The US treasury will also auction approx. \$150bn in coupons this week that will settle next week on 31 Oct, raising approx. \$33bn in new money.

Reserve management purchase operations - the FOMC will purchase and settle approx. \$22.6bn of this months' \$60bn allocation of ST Treasury Bills.

The Fed will also purchase approx. \$3.4bn 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 21 October 2019

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### MONDAY 21 OCTOBER (US Eastern Time)

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US	US Fed Speeches; Bowman
Japan	Merchandise Trade (Sep)
China	PBoC Rates Decision, House Price Index (Sep)
Europe	Germany PPI (Sep)

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### TUESDAY 22 OCTOBER

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US	Existing Home Sales (Sep), Richmond Fed Manufacturing Index (Oct). US Fed Speeches; Kaplan
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### WEDNESDAY 23 OCTOBER

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Australia	CBA Composite PMI – Prelim (Oct)
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### THURSDAY 24 OCTOBER

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US	Durable Goods Orders (Sep), US Composite PMI Prelim (Oct), New Home Sales (Sep), Kansas City Fed Manufacturing Index (Oct). US Fed Speeches; Williams
Japan	Manufacturing PMI – Prelim (Oct)
Europe	Germany Composite PMI – Prelim (Oct), Eurozone Composite PMI – Prelim (Oct) ECB Rates Decision

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### FRIDAY 25 OCTOBER

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US	Consumer Sentiment – Final (Oct)
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## Trade & Brexit

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### US-China Trade Talks

Conflicting reports were circulating early in the week regarding the uncertainties of the first of the phased negotiations between the US and China. The Chinese Vice Premier, Liu He, made his first public remarks regarding the deal last week. The emphasis has been on negotiations on an equal basis;

China and the United States made “concrete progress” in many areas during their latest round of talks to resolve the trade war, but **negotiations must be on an equal basis**, Chinese Vice-Premier Liu He said on Saturday.

“China will work with the United States on the basis of equal and mutual respect to address each other’s core concerns.”

<https://www.scmp.com/news/china/diplomacy/article/3033674/china-us-made-concrete-progress-trade-war-deal-washington-vice>

There is still uncertainty about this phase one deal. The purchase of agriculture has been a key part of this phase (China agreeing to purchase \$40-\$50bn of US agriculture). During the week, and previously, China has stated that it would **make such purchases only according to market need**. It’s not clear how the deal can resolve this.

There have also been calls from China for the removal of tariffs – but it’s not clear whether this has been a stipulation for further negotiations into phase two.

“We hope both sides can continue to work together to advance the negotiations and, as soon as possible, reach a phased agreement and make new progress on canceling tariffs,” Gao said.

In terms of next steps, the phase one deal will likely take 3-5 weeks to develop before both sides could sign the agreement. There are no further plans to meet, although both sides will be in communication. So far, the APEC summit in Chile 16-17 Nov remains the likely place where both Presidents Trump & Xi will sign the agreement.

The additional tariff rate (on imports from China) that was scheduled for 15 Oct did not go ahead as a part of the phase one deal.

The more difficult issues of the negotiations have been reserved for the next phase of the negotiations. This stage of the negotiation will commence after the first deal is signed.

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.

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](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-<u>united-states-trade</u>)

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

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%201%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. This was announced during the week on the Federal Register;

<https://www.federalregister.gov/documents/2019/10/18/2019-22902/technical-adjustments-to-section-301-action-enforcement-of-us-wto-rights-in-large-civil-aircraft>

“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**

During the week, at her regular press conference, House Speaker Pelosi stated that the Republicans and Democrats were getting closer to ‘wrapping up’ changes to the USMCA.

Democrats moved at least one step forward in their ongoing negotiations on Thursday when they received a letter from Mexican President Andrés Manuel López Obrador pledging to fully implement sweeping labor forms required under the new agreement.

"There is still fluidity on the labor stuff and enforcement," Neal told reporters. "So we're looking for more assurances.

<https://www.politico.com/news/2019/10/17/pelosi-democrats-trump-administration-usmca-050128>

At this stage, there is some sign that both sides want to finalise changes by Thanksgiving. As always though “there is still a ways to go”.

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.

The Brexit process continues this week with key outcomes still to be decided.

The UK Parliament voted against the deal until the legislation required to implement the bill is passed by the UK parliament. **That legislation is expected to be introduced into the parliament this week.**

There is no further word at this stage whether the EU has granted the deadline extension. The UK PM was required to request an extension, but he also requested that the extension not be granted. This is now up for discussion among EU leaders – likely to be decided once the legislation has been voted on in the UK parliament.

The delay is important to ensure that the UK does not crash out without a deal (as a deal is currently in development). If a deal is approved by the UK parliament before said extended end date, then the deadline becomes less relevant.

If the House of Commons refuses to approve the new Brexit deal in the next couple of weeks, then granting a new extension would be in EU leaders' interest. They are keen not be blamed by their own citizens for a costly no-deal Brexit.

They [the EU leaders] will want to know what it's for. Are there plans in the UK to hold a general election, a second referendum or a referendum on the new Brexit deal? Or is a bit more time needed to pass Brexit-related legislation?

**EU diplomats rule out the idea of further negotiations or amending the new Brexit deal**, whatever comes out of the House of Commons over the next few days. <https://www.bbc.com/news/world-europe-50113287>

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 21-25 October 2019

### MONDAY

**Federal Reserve Member of the Board of Governors Michelle Bowman** to give closing remarks at the Gender and Career Progression conference in Frankfurt, Germany

### TUESDAY

**Dallas Federal Reserve Bank President Kaplan** to moderate a conversation with Bank of International Settlements General Manager Agustin Carstens at the Dallas Fed's Technology-Enabled Disruption: Implications for Business, Labor Markets and Monetary Policy conference in Dallas, TX

### WEDNESDAY

Nil

### THURSDAY

**New York Federal Reserve Bank President John Williams** to receive the Lucille Bulger Legacy Award at the Community League of the Heights 2019 Annual Gala in New York, NY

### FRIDAY

Nil

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

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