

Key Themes

A big week of data, central bank interest rate decisions and the Brexit 31 Oct deadline.

Brexit - an extension has been confirmed by the EU, but no date yet supplied. The UK will likely go to another general election in early Dec and this will be confirmed early in the week. The second Brexit deadline comes up this week on 31 Oct.

Several central banks will meet this week regarding interest rates and monetary policy;

Interest rate decisions will be announced by the Bank of Canada (Wed), the Bank of Japan (Thu) and the US FOMC (Wed). As of 27 Oct, the probability of a further 25bps rate cut in the US is now 93%. https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch

The major data releases this week;

US – Non-farm payrolls and employment, the prelim Q3 GDP, ISM and Markit manufacturing PMI's

Europe – Eurozone prelim Q3 GDP and prelim CPI for Oct

Japan – The prelim industrial production for Sep, retail sales for Sep (the month prior to the increase in the consumption tax) and the final manufacturing PMI for Oct

Australia – Q3 CPI, private sector credit and the manufacturing PMI's for Oct

Finally, it will be a much heavier week for US Treasury supply. The US Treasury will settle \$332bn in bills, notes, FRN's and TIPS this week, raising approx. \$59bn in new money. Approx. \$15bn in reserve management purchases will settle this week and the Fed will purchase approx. \$4.6bn in Treasury coupons as a part of the restarted reinvestment of principal payments. Approx. \$15.6bn in securities in the Fed SOMA account will mature on 31 Oct – the full amount will be reinvested/rolled over.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be much heavier than recent weeks. The US Treasury will settle \$332bn in ST bills, notes, FRN's and TIPS this week, raising approx. \$59bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
28 Oct - 2 Nov	24-Oct	29-Oct	4 week bill	55			Completed
	24-Oct	29-Oct	8 week bill	40			Completed
				95	85	10	
	28-Oct	31-Oct	13 week bill	45			Announced
	28-Oct	31-Oct	26 week bill	42			Announced
				87	72	15	
	22-Oct	31-Oct	2yr Note	40			Completed
	23-Oct	31-Oct	2yr FRN	20			Completed
	23-Oct	31-Oct	5yr Note	41			Completed
	24-Oct	31-Oct	7yr Note	32			Completed
	17-Oct	31-Oct	5yr TIPS	17			Completed
				150	116.34	33.66	
			Total - securities settling this week	332	273.34	58.66	
			Fed SOMA - Face Value of SOMA securities maturing 31 Oct \$BN	15.683			
			Reserve Management Purchase Operations - Treasury Bills	\$B			
	25-Oct	28-Oct	Bills 0-1yrs	7.525			
	29-Oct	30-Oct	Bills 0-1trs	7.525			
				15.050			
			Reinvestment Purchases - Treasury Coupons	\$B			
	28-Oct	29-Oct	Coupons 3-4.5yrs	2.225			
	31-Oct	1-Nov	Coupons 4.5 - 7yrs	2.425			
				4.650			

Reserve management purchase operations - the FOMC will purchase and settle approx. \$15bn of this month's \$60bn allocation of ST Treasury Bills.

The Fed will also purchase approx. \$4.6bn in Treasury coupons as a part of the restarted reinvestment of principal payments.

Approx. \$15.6bn in securities in the Fed SOMA account will mature on 31 Oct – the full amount will be reinvested/rolled over.

<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 28 October 2019

MONDAY 28 OCTOBER (US Eastern Time)

US	International Trade in Goods (Sep), Chicago Fed National Activity Index (Sep), Dallas Fed Manufacturing Index (Oct), Loan Officer Survey Q3, Wholesale Inventories Prelim (Aug)
Europe	Draghi Speech

TUESDAY 29 OCTOBER

US	FOMC meeting begins, S&P Corelogic House Price Index (Aug), Pending Home Sales (Sep)
Japan	Retail Sales (Sep)

WEDNESDAY 30 OCTOBER

US	ADP Employment Change (Oct), Q3 GDP Prelim Estimate, FOMC Meeting Announcement
Australia	CPI Q3
Europe	Germany CPI – Prelim (Oct)
Canada	BoC Rates Decision
Japan	Industrial Production – Prelim (Sep)

THURSDAY 31 OCTOBER

US	Challenger Job Cuts (Oct), Personal Income & Outlays (Sep), Chicago PMI (Oct)
Europe	Germany Retail Sales (Sep), Eurozone GDP - Prelim Q3, Eurozone CPI – Prelim (Oct)
Australia	Private Sector Credit – RBA (Sep), Building Permits (Sep), AiG & CBA Manuf PMI (Oct)
Japan	BoJ Rates Decision
China	NBS Manufacturing and Non-Manufacturing PMI (Oct)

FRIDAY 1 NOVEMBER

US	Non-Farm Payrolls and Employment (Oct), Manufacturing PMI (Oct), ISM Manufacturing Index (Oct), Vehicle Sales (Oct). Fed Speeches; Williams and Clarida
Japan	Manufacturing PMI (Oct)
China	Caixin Manufacturing PMI (Oct)
UK	Manufacturing PMI (Oct)

Trade & Brexit

US-China Trade Talks

Both the US and China indicated that 'good progress' was being made on negotiations for the first phase of the trade deal.

So far, China has agreed to purchase more agricultural products (was this going to happen anyway?) in exchange for suspending a tariff increase on the 15 Oct. There is, however, a further tariff increase scheduled for 15 Dec. It's unclear what the hurdle will be to have that tariff increase suspended.

Emphasis added;

"Hopes are rising that a deal will be ready for President Xi Jinping and President Donald Trump to sign when they meet on the sidelines of the Asia-Pacific Economic Cooperation summit in Chile on November 16-17."

<https://www.politico.com/news/2019/10/26/china-trade-war-058425>

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. The purchase of agriculture has been a key part of this phase (China agreeing to purchase \$40-\$50bn of US agriculture). Last 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.

The APEC summit in Chile 16-17 Nov remains the likely place where both Presidents Trump & Xi will sign the phase one agreement.

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.

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.

The Japanese Cabinet has approved a bill to ratify this trade pact. The bill will now be up for debate in the extraordinary session of Parliament. This session ends on 9 Dec, in time to have pact ratified for the Jan 2020 deadline.

<https://mainichi.jp/english/articles/20191015/p2g/00m/0bu/046000c>

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%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

US-Europe Trade Talks

On 1 Nov, the new EU commissioners take up office. Phil Hogan takes over as EU Trade Commissioner – a key role in the negotiation with the US. Once the new commissioners are in place, there will likely be further progress on the US-EU trade negotiations, as well as Brexit/EU-UK trade deal negotiations.

<https://www.ft.com/content/d5d1e928-e9c6-11e9-a240-3b065ef5fc55>

There are several fronts to the US-EU trade discussions.

Airline Subsidies

From 18 Oct, the US has implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This was announced during the week on the US 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.

Also hanging over the negotiations are the US threats of tariffs on auto imports from Europe.

Trade Negotiations

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>

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

Late last week, a Mexican official said that the USMCA was “at the threshold” of its final ratification;

"The end of this complex story is approaching, and we will soon see the United States starting the formal process for the approval of the treaty," said Jesus Seade, undersecretary for North America of the Mexican Ministry of Foreign Affairs, during President Andres Manuel Lopez Obrador's daily press conference. http://www.xinhuanet.com/english/2019-10/26/c_138504592.htm

This mirrors comments made by US House Speaker Pelosi 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

BREXIT

Uncertainty remains elevated regarding the timetable and process for Brexit coming into the final days before the 31 Oct deadline.

The UK Parliament voted down the programme motion – the timetable for the bill, giving PM Johnson no choice but to pause the progress of the Withdrawal Agreement legislation through Parliament. It now seems possible that there will be a general election called (likely early-mid Dec). This will be PM Johnsons third attempt at forcing an election – there will likely be a vote on an election on Monday. Labour needs to approve the move;

Corbyn replied he would wait to see what the EU does on a Brexit delay before deciding which way to vote, repeating that he could only back an election when the risk of a no-deal Brexit was off the table.

While the EU has now agreed to the Brexit extension, it has not decided yet on how long of an extension to grant.

The EU envoys had been due to discuss the length of a third delay to Brexit but diplomats decided to hold off to let events play out in London.

“Everyone wanted a decision today. But France had a problem with that and wanted to wait until Monday/Tuesday to see what happens in London,” the diplomat said.

At this stage, a date for the extension is still up for debate by the EU – with a likely response early next week.

<https://www.theguardian.com/commentisfree/2019/oct/24/election-boris-johnson-deal-12-december-brexit-withdrawal-bill>

<https://edition.cnn.com/2019/10/21/uk/brexit-boris-johnson-monday-explainer-intl-gbr/index.html>

<https://brexitcentral.com/mps-back-johnsons-brexit-deal-at-second-reading-but-defeat-programme-motion-how-every-mp-voted/>

<https://www.apnews.com/f1a602a355dc46e78ef31366845796a7>

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 28 Oct – 1 Nov 2019

MONDAY

Nil

TUESDAY

Nil

WEDNESDAY

FOMC Meeting Announcement and Chairman Powell Press Conference

THURSDAY

Nil

FRIDAY

New York Federal Reserve Bank President John Williams to participate in a Roundtable Conversation held by the Newark Anchor Collaborative in Newark, New Jersey

New York Federal Reserve Bank President John Williams to participate in a moderated discussion at the Rutgers Business School in Newark, New Jersey, with audience and media Q&A

Federal Reserve Board of Governors Vice Chairman Richard Clarida to speak at a "Special Luncheon with Federal Reserve Board Vice Chair Richard Clarida" event held by the Japan Society in New York, NY, with audience Q&A

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

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