

## Key Themes

A full calendar of data and US Fed speeches this week.

Highlights in the US; Fed Chairman Powell will testify before the Congressional Joint Economic Committee and House Budget Committee on Wed and Thu respectively. The US Fed Vice Chairman Clarida will also give a speech at the Swiss National Bank on Monetary Policy, Bond Yields and Price Stability on Tue.

Key highlights on the data front include CPI, Retail Sales and Industrial production for Oct.

The data dump out of China will be important this week as we continue to look for signs of improved/changes in demand. Highlights include trade balance, industrial production, retail sales, CPI, PPI and new loans (since the lowering of the benchmark rate).

Prelim Q3 GDP data will be released for Germany, the broader Eurozone, Japan and the UK – all important barometers of current activity.

A heavy week of UK data also includes CPI, retail sales and the labour market. The PMI's have indicated the economy stagnating as a result of Brexit uncertainty but expecting some lift in the Oct data, especially retail sales, as consumers prepared (brought forward purchases) for Brexit at the end of Oct.

The final Sep industrial production report for Japan will be important. The prelim headline numbers were stronger for the month, but there was notable weakness across some categories including passenger cars.

In Australia, the important labour market report for Oct and Q3 wage price index will be released this week. This will be closely watched by the RBA.

Headline risks this week; details of phase one of the US-China trade deal, a possible vote on the USMCA to be announced and the possible release or decision on auto tariffs related to the S.232 report into auto imports and national security.

It will be a heavier week for US Treasury supply. The US Treasury will settle approx. \$266bn in short term bills, notes and bonds this week, raising approx. \$40bn in new money. There will be approx. \$41bn in securities on the Fed balance maturing on 12, 14 and 15 Nov. There will be no reserve management purchases settling this week. The Fed will purchase approx. \$3.4bn in Treasury coupons as a part of the restarted reinvestment of principal payments.

## US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be heavier. The US Treasury will settle \$266bn in ST bills, Notes and Bonds this week, raising approx. \$40bn in new money.

| WEEK                       | Auction Date | Settlement Date | Marketable Securities  | Auction Amount \$B (TBAC) | Amount Maturing \$B | New Money \$B |           |
|----------------------------|--------------|-----------------|--|---------------------------|---------------------|---------------|-----------|
| <i>11 Nov Veterans Day</i> |              |                 |  |                           |                     |               |           |
| 11-15 Nov                  | 7-Nov        | 12-Nov          | 4 week bill  | 55                        |                     |               | Completed |
|                            | 7-Nov        | 12-Nov          | 8 week bill  | 40                        |                     |               | Completed |
|                            |              |                 |  | 95                        | 90                  | 5             |           |
|                            | 12-Nov       | 14-Nov          | 13 week bill   | 45                        |                     |               | Announced |
|                            | 12-Nov       | 14-Nov          | 26 week bill   | 42                        |                     |               | Announced |
|                            |              |                 |  | 87                        | 76                  | 11            |           |
|                            | 5-Nov        | 15-Nov          | 3yr Note   | 38                        |                     |               | Completed |
|                            | 6-Nov        | 15-Nov          | 10yr Note  | 27                        |                     |               | Completed |
|                            | 7-Nov        | 15-Nov          | 30yr Bond  | 19                        |                     |               | Completed |
|                            |              |                 |  | 84                        | 60.52               | 23.48         |           |
|                            |              |                 | <b>Total - securities settling this week</b>                   | <b>266</b>                | <b>226.52</b>       | <b>39.48</b>  |           |
|                            |              |                 | <b>Fed SOMA - Face Value of SOMA securities maturing</b>       | <b>\$B</b>                |                     |               |           |
|                            |              |                 | Notes and Bonds - 15 Nov                                       | 39.800                    |                     |               |           |
|                            |              |                 | Bills - 12 & 14 Nov  | 2.000                     |                     |               |           |
|                            |              |                 |  | 41.800                    |                     |               |           |
|                            |              |                 | <b>Reserve Management Purchase Operations - Treasury Bills</b> | <b>\$B</b>                |                     |               |           |
|                            |              |                 |  | 0.000                     |                     |               |           |
|                            |              |                 | <b>Reinvestment Purchases - Treasury Coupons</b>               | <b>\$B</b>                |                     |               |           |
|                            | 8-Nov        | 12-Nov          | 0-1 Bills  | 3.025                     |                     |               |           |
|                            | 13-Nov       | 14-Nov          | 0-2 FRN's  | 0.425                     |                     |               |           |
|                            |              |                 |  | 3.450                     |                     |               |           |

Approx. \$41bn in securities on the Fed balance sheet will mature this week – including notes, bonds and bills.

There will be no reserve management purchase operations settling this week.

The Fed will also purchase approx. \$3.4bn in Treasury coupons as a part of the restarted reinvestment of principal payments.

The next month schedule for reinvestment and reserve management purchases will be released 14 Nov. <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 11 November 2019

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## MONDAY 11 NOVEMBER (US Eastern Time)

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|       |  |
|-------|--|
| US    | Veterans Day                             |
| UK    | GDP – Prelim Q3                          |
| China | Trade Balance, New Loans, CPI, PPI (Oct) |

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## TUESDAY 12 NOVEMBER

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|           |   |
|-----------|---|
| US        | US Fed speeches; Harker, Kashkari, Clarida                                      |
| Australia | NAB Business Conditions and Confidence (Oct), Westpac Consumer Confidence (Nov) |
| UK        | Labour Market Survey (Jul-Sep)  |

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## WEDNESDAY 13 NOVEMBER

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|-----------|---|
| US        | CPI (Oct). US Fed speeches; Powell, Kashkari            |
| Australia | Wage Price Index Q3                                     |
| Europe    | Germany CPI (Oct), Eurozone Industrial Production (Sep) |
| Japan     | GDP – prelim Q3   |
| NZ        | RBNZ Rate Decision                                      |
| UK        | CPI (Oct)   |

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## THURSDAY 14 NOVEMBER

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|           |   |
|-----------|---|
| US        | PPI (Oct). US Fed speeches; Powell, Evans, Williams, Clarida, Quarles |
| China     | Industrial Production, Retail Sales (Oct)                             |
| Australia | Labour Market Survey (Oct)  |
| Europe    | Germany GDP – prelim Q3, Eurozone GDP – prelim Q3                     |
| UK        | Retail Sales (Oct)  |

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## FRIDAY 15 NOVEMBER

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|        |   |
|--------|---|
| US     | Retail Sales (Oct), Empire State Manufacturing Index (Nov), Industrial Production (Oct), Business Inventories (Sep) |
| Japan  | Industrial Production - Final (Sep)   |
| Europe | Eurozone CPI (Oct)  |

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## Trade & Brexit

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### US-China Trade Talks

Headline risk remains very high around the trade talks and the phase-one deal details. There has been no confirmation at this stage that removal of tariffs has been agreed to by either the US or China.

The situation is likely to remain tenuous. The purchase of agriculture has been a key part of this phase (China agreeing to purchase \$40-\$50bn of US agriculture). It has been reported that the large agricultural purchases were still a major sticking point for China in the talks;

Commerce ministry spokesman Gao Feng told reporters on Oct. 17 that China would “increase U.S. farm purchases based on domestic demand and market principles, while the U.S. would provide favorable conditions.”

The hefty agricultural purchases Trump is asking for are market distortive, Lamb-Hale said. China is telling Trump they are “just not feasible.”

<https://www.cnn.com/2019/10/30/us-china-trade-talks-beijing-wary-about-us-pressure-to-buy-farm-goods.html>

Chile will no longer host the APEC summit, so the timing of the signing of the agreement is now unclear – with some reports that a signing may not happen until Dec.

Trump still sounded an optimistic note on Thursday. "China and the USA are working on selecting a new site for signing of Phase One of Trade Agreement," Trump said on Twitter. "The new location will be announced soon. President Xi and President Trump will do signing!" <https://asia.nikkei.com/Economy/Trade-war/US-China-trade-talks-virtually-done-on-agriculture-and-finance>

There is a further tariff increase scheduled for 15 Dec. It's unclear what the hurdle will be to have that tariff increase suspended.

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%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

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](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>

The threat of auto tariffs also remains an issue. After postponing a decision on auto tariffs (based on National security issues) back in May, US President Trump may decide on 13 Nov (or around this time). <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

## 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**

Back in May, 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. The six-month delay means that the release of the report and the decision on tariffs may be made this week, or around the next few weeks – there is some headline risk.

Previously, President Trump 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

It is possible that the US House of Representatives could vote on the USMCA either this coming week or the following week before Thanksgiving.

While on a caucus conference call last week, Peterson says Pelosi talked about the push to pass USMCA. “She wouldn’t be doing that if she didn’t want this to get done,” Peterson explained. “So, this is going to get done.”

<https://www.hoosieragtoday.com/peterson-usmca-vote-possible-week-next/>

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

The UK has now had a further Brexit extension approved – until 31 Jan 2020. This will allow time for the general election to be held on 12 Dec 2019.

Despite doing the seemingly impossible and getting a new deal from the EU, he [PM Johnson] simply doesn't have the numbers in Parliament to pass the legislation required to deliver Brexit. Holding an election in which he secures a fresh majority was his only real option.

<https://edition.cnn.com/2019/11/02/uk/boris-johnson-brexit-risk-intl-gbr/index.html>

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 11 Nov - 15 Nov 2019

### MONDAY

Veterans Day

### TUESDAY

Speech—Vice Chair Richard H. Clarida *Monetary Policy, Price Stability, and Bond Yields* at the High-Level Conference on Global Risk, Uncertainty, And Volatility, co-sponsored by the Bank for International Settlements, the Board of Governors of the Federal Reserve System, and the Swiss National Bank, Rüschtikon, Switzerland

Philadelphia Federal Reserve Bank President Patrick Harker to speak about "What's Next for the U.S. Economy and the Fed?" at the Society for Advancing Business Editing and Writing Fall Conference in New York, NY, with audience Q&A

Minneapolis Federal Reserve Bank President Neel Kashkari to speak in a moderated discussion at the Center for Research on the Wisconsin Economy in Madison, Wisconsin. The event will be live-streamed on the Minneapolis Fed website

### WEDNESDAY

Federal Reserve Chairman Jerome Powell to testify before the Congressional Joint Economic Committee in a hearing on "The Economic Outlook" in Washington, DC.

Minneapolis Federal Reserve Bank President Neel Kashkari to speak in a town hall at the University of Wisconsin-La Crosse Student Union in La Crosse, Wisconsin, with audience Q&A. The event will be live-streamed

### THURSDAY

Testimony—Chair Jerome H. Powell *The Economic Outlook* Before the House Budget Committee, Washington, D.C.

Speech—Vice Chair Randal K. Quarles *Welcoming Remarks (via pre-recorded video remarks)* At the International Association of Insurance Supervisors' (IAIS) 26th Annual Conference, Abu Dhabi, United Arab Emirates

Speech—Vice Chair Richard H. Clarida *The Federal Reserve's Review of Its Monetary Policy Strategy, Tools, and Communication Practices* at the Cato Institute's 37th Annual Monetary Conference, Washington, D.C.

Chicago Federal Reserve Bank President Charles Evans to speak at the Third Annual Fintech Conference at the Philadelphia Fed in Philadelphia, Pennsylvania

New York Federal Reserve Bank President John Williams to give the opening address at the San Francisco Fed's Asia Economic Policy Conference 2019 in San Francisco, CA, with audience Q&A. The event will be live-streamed on the San Francisco Fed Twitter page

FRIDAY

Nil

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

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