

Key Themes

A much lighter week of data flow. The main highlights are;

Prelim composite PMI's for our first view of Nov activity across the US, Eurozone, Germany, Japan and Australia.

Central bank meeting minutes to be released this week – FOMC, ECB and the RBA. A relatively quiet week for US Fed speeches.

There are two other notable releases this week;

Japan CPI for Oct – the first month after the consumption tax increase.

Germany Q3 GDP detailed release – any slight deterioration in the headline growth could see Germany “officially” in recession.

Headline risks remain this week;

Details of progress, or lack of, regarding phase one of the US-China trade deal.

Possible announcement of a vote by the US House of Representatives on the USMCA.

Possible release or decision on auto tariffs related to the S.232 report into auto imports and national security.

The Japanese parliament is also debating the phase one US-Japan trade deal bill. The bill will either pass the lower house on the 19 Nov or there is the possibility of a delay. Lawmakers remain concerned about the threat of auto tariffs.

It will be a much lighter week for US Treasury supply. The US Treasury will settle approx. \$182bn in short term bills this week, raising only approx. \$6bn in new money.

Added liquidity will be reasonably strong, especially considering the lighter issuance. There will be approx. \$22.6bn in reserve management purchases settling this week – operations this week represent 42% of the total reserve management purchases for the month. The Fed will also purchase approx. \$5.3bn 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 much lighter than recent weeks. The US Treasury will settle \$182bn in ST bills, raising approx. \$6bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
18-23 Nov	14-Nov	19-Nov	4 week bill	55			Completed
	14-Nov	19-Nov	8 week bill	40			Completed
				95	95	0	
	18-Nov	21-Nov	13 week bill	45			Announced
	18-Nov	21-Nov	26 week bill	42			Announced
				87	81	6	
			Total - securities settling this week	182	176	6	
			Reserve Management Purchase Operations - Treasury Bills	\$B			
	15-Nov	18-Nov	Tbills	7.525			
	18-Nov	19-Nov	Tbills	7.525			
	21-Nov	22-Nov	Tbills	7.525			
				22.575			
			Reinvestment Purchases - Treasury Coupons	\$B			
	18-Nov	19-Nov	Coupons 0-.75yr	1.825			
	19-Nov	20-Nov	Coupons 0.75 -1yr	1.825			
	21-Nov	22-Nov	Coupons 1.5-2.25yr	1.825			
				5.275			

There will be several Reserve Management Purchase operations (purchase of T-Bills by the Fed) settling this week – totalling \$22.6bn. This is 42% of the total in Reserve Mgt Purchases for the Mid-Nov-Mid-Dec period.

The Fed will also purchase approx. \$5.3bn in Treasury coupons as a part of the restarted reinvestment of principal payments.

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 18 November 2019

MONDAY 18 NOVEMBER (US Eastern Time)

US	NAHB Housing Market Index (Nov). US Fed speeches; Mester
----	--

TUESDAY 19 NOVEMBER

US	Housing Starts (Oct). US Fed speeches; Williams
----	---

Australia	RBA Minutes, Westpac Leading Index (Oct)
-----------	--

Japan	Merchandise Trade (Oct)
-------	-------------------------

WEDNESDAY 20 NOVEMBER

US	FOMC Minutes
----	--------------

Europe	Germany PPI (Oct)
--------	-------------------

China	PBoC Rates Decision
-------	---------------------

THURSDAY 21 NOVEMBER

US	Philadelphia Fed Business Outlook (Nov), Existing Home Sales (Oct). US Fed Speeches; Kashkari, Mester
----	---

Japan	CPI (Oct)
-------	-----------

Australia	CBA Prelim Composite PMI (Nov)
-----------	--------------------------------

Europe	ECB Minutes
--------	-------------

FRIDAY 22 NOVEMBER

US	Prelim Composite PMI (Nov), Uni of Michigan Consumer Sentiment - Final (Nov), Kansas City Fed Manufacturing Index (Nov)
----	---

Japan	Prelim Manufacturing PMI (Nov)
-------	--------------------------------

Europe	Germany GDP (detail) Q3, Germany Prelim Composite PMI (Nov), Eurozone Prelim Composite PMI (Nov)
--------	--

Trade & Brexit

US-China Trade Talks

Headline risk remains very high around the trade talks and the phase-one deal details.

“There have been conflicting reports about the state of trade negotiations in recent days. The talks hit a stalemate this week as the U.S. pushes Beijing for greater concessions on intellectual property rights and forced technology transfers in exchange for a rollback of tariffs”

<https://www.cnbc.com/2019/11/17/china-and-us-had-constructive-discussions-about-phase-one-trade-deal.html>

The situation is likely to remain tenuous. The purchase of agriculture has been a key part of this phase of the deal (China agreeing to purchase \$40-\$50bn of US agriculture). The purchase of a specific amount of agricultural commodities remains a sticking point – and China has been consistent on this point over time;

“Beijing, for its part, is hesitant to include a specific amount of agricultural purchases in a deal, The Wall Street Journal reported. Trump has claimed Beijing agreed to purchase up to \$50 billion in U.S. farm goods.”

<https://www.cnbc.com/2019/11/17/china-and-us-had-constructive-discussions-about-phase-one-trade-deal.html>

Back in late Oct (and prior to that), Chinese officials continued to voice concerns over agricultural purchases;

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.cnbc.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.

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

This is an important week in Japan for the ratification of the US-Japan phase one of the trade deal. It's worth noting that there appears to be some risk of delays or complications;

Depending on where you get your news, **Japan's lower house will pass the deal on Nov. 19 – or delay voting indefinitely.** The odds of a delay are rising.

The same goes for when the upper house might take up the bill.

<https://www.asiatimes.com/2019/11/article/tokyos-trumpian-trade-troubles/>

The trade bill hasn't been fast-tracked because lawmakers are requesting to see transcripts of the summit meetings between Abe and Trump. Lawmakers are most concerned about the remaining threat of auto tariffs;

When negotiating the first phase, Abe's team failed to extract a firm commitment that Trump won't suddenly ruin Japan Inc.'s 2020. Such levies would upend supply chains in unpredictable ways.

<https://www.asiatimes.com/2019/11/article/tokyos-trumpian-trade-troubles/>

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

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>

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

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

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

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

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 18 Nov - 22 Nov 2019

MONDAY

Cleveland Federal Reserve Bank President Loretta Mester to speak in a fireside chat at the University of Maryland in College Park, Maryland, with audience Q&A

TUESDAY

New York Federal Reserve Bank President John Williams to speak in a moderated "One-on-One with New York Fed President and CEO John Williams" session at the Securities Industry and Financial Markets Association (SIFMA) Annual Meeting in Washington, DC, with audience and media Q&A

WEDNESDAY

Nil

THURSDAY

Cleveland Federal Reserve Bank President Loretta Mester to speak at the "2019 Financial Stability Conference: Risks, Resilience, and Policy" event in Cleveland, Ohio, with audience and media Q&A

Minneapolis Federal Reserve Bank President Neel Kashkari to speak in a moderated discussion at the Minnesota Chamber of Commerce Economic Summit in Minneapolis, Minnesota, with audience and media Q&A

FRIDAY

Nil

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

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