

Key Themes

This will be a shorter week for US markets with the Thanksgiving Holiday on Thu 28 Nov. Happy holidays to those celebrating this week!

Despite the shorter week, there will still be relatively moderate data flow in the US, Australia and Japan.

It will be mostly quiet on the central bank front with speeches by US Fed Chairman Powell on Mon and RBA Governor Lowe on Tue.

Key US data highlights; durable goods orders, PCE price index, 2nd prelim GDP for Q3, National house prices and a range of regional manufacturing surveys.

Data in Australia will focus on important construction activity and private sector capex for Q3 as key inputs for the Q3 GDP release next week (4 Dec).

In Japan, retail trade data will be released for Oct. Retail growth has accelerated in the months leading up to the Oct consumption tax increase – and we'll see the degree to which the tax hike has impacted demand.

On the trade front, headline risk remains high regarding the US-China trade negotiations, which are ongoing.

There was no agreement reached last week within the US on the USMCA – frustrating efforts for a vote before Thanksgiving.

It now appears that the US has missed the deadline to announce auto tariffs as a part of the S.232 National Security investigation. It's possible that this action may take another form and we'll continue to monitor the US Federal register for announcements.

The phase one trade deal between the US and Japan passed the lower house of the Japanese parliament last week – now likely to be ratified by the end of the year.

US Treasury supply will be a little heavier, especially after the addition of a 16-day Cash Management Bill last week which will settle this week. This week, the US Treasury will settle approx. \$219bn in ST bills, FRN's and TIP's raising approx. \$43bn in new money.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will somewhat heavier given the addition of a 16-day CMB by the US Treasury to settle this week. The US Treasury will settle \$219bn in ST bills, FRN's and TIP's this week raising approx. \$43bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
<i>28 Nov Thanksgiving Holiday</i>							
25-29 Nov	20-Nov	26-Nov-19	16-day CMB	15	0	15	Completed
	21-Nov	26-Nov	4 week bill	50			Completed
	21-Nov	26-Nov	8 week bill	40			Completed
				90	95	-5	
	25-Nov	29-Nov	13 week bill	45			Announced
	25-Nov	29-Nov	26 week bill	39			Announced
				84	81	3	
	21-Nov	29-Nov	10yr TIPS	12			Completed
	26-Nov	29-Nov	2Yr FRN	18			Announced
				30	0	30	
			Total - securities settling this week	219	176	43	
Fed SOMA - Face Value of SOMA securities maturing 30 Nov				\$B			
			26 Nov - bills	0.02			
			2019/11/29 - bills	0.005			
			2019/11/30 - Notes and Bonds	8.971			
				8.996			
Reserve Management Purchase Operations - Treasury Bills				\$B			
	22-Nov	25-Nov	Tbills 0-1yr	7.525			
	26-Nov	27-Nov	Tbills 0-1yr	7.525			
				15.050			
Reinvestment Purchases - Treasury Coupons				\$B			
	25-Nov	26-Nov	Coupons 2.25-3yrs	1.625			
	26-Nov	27-Nov	Coupons 3-4.5yrs	2.225			
				3.850			

The US Treasury will also auction \$113bn in notes that will settle next week.

There will be several Reserve Management Purchase operations (purchase of T-Bills by the Fed) settling this week – totalling \$15bn.

The Fed will also purchase approx. \$3.8bn in Treasury coupons as a part of the restarted reinvestment of principal payments. On the 30 Nov, approx. \$9bn in securities on the Fed balance sheet will mature (and will be rolled over).

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 25 November 2019

MONDAY 25 NOVEMBER (US Eastern Time)

US	Chicago Fed National Activity Index (Oct), Dallas Fed Manufacturing Survey (Nov). Fed speeches; Chairman Powell
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TUESDAY 26 NOVEMBER

US	Wholesale Inventories (Oct), Goods Trade Balance (Oct), CoreLogic House Price Index (Sep), New Home Sales (Oct), Richmond Fed Manufacturing Survey (Nov). Fed Speeches; Brainard
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Australia	RBA speeches; Governor Lowe
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WEDNESDAY 27 NOVEMBER

US	Durable Goods Orders (Oct), GDP 2 nd prelim Q3, Personal Income and Outlays and PCE Price Index (Oct)
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Japan	Retail Trade (Oct)
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Australia	Construction Work Done (Q3)
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THURSDAY 28 NOVEMBER

US	Thanksgiving National Holiday
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Japan	Industrial Production – prelim (Oct)
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Australia	Private Capex (Q3)
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Europe	Germany CPI – Prelim (Nov)
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FRIDAY 29 NOVEMBER

US	Chicago PMI (Nov)
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Europe	Eurozone CPI – prelim (Nov)
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Trade & Brexit

US-China Trade Talks

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

Chinese Vice Premier Lui He has invited the US trade delegation for further talks in Beijing in Dec.

While some reports are mixed, there are indications that the US will most likely postpone the tariffs scheduled to increase on 15 Dec. Nothing is confirmed and will likely depend on the outcome of talks in Beijing.

It's possible a more detailed trade deal could be negotiated – and the deadline for this phase of the deal could move further out into 2020. Requests from China to roll back tariffs may require more concessions;

China's commerce ministry said this month that removing tariffs imposed during the trade war is an important condition to any deal. The demand has U.S. officials wondering if higher Chinese purchases of U.S. farm goods, promises of improved access to China's financial services industry, and pledges to protect intellectual property are enough to ask in return.

whether Trump will agree to remove existing tariffs depends largely on whether he believes it will benefit his re-election chances. Some White House advisers would like to see China agree to large, specific agricultural purchases, while the U.S. maintains existing tariffs for future leverage.

<https://uk.reuters.com/article/uk-usa-trade-china/beijing-tariff-demands-may-expand-u-s-china-phase-one-trade-deal-significantly-idUKKBN1XU0DH>

<https://uk.reuters.com/article/us-usa-trade-china-phasetwo/no-phase-two-u-s-china-deal-on-the-horizon-officials-say-idUKKBN1XZ00H>

The situation is likely to remain tenuous. The purchase of a specific quantity of agriculture has been a key sticking point for China.

“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.cnn.com/2019/11/17/china-and-us-had-constructive-discussions-about-phase-one-trade-deal.html>

The other issue at hand is that of Hong Kong. The US Hong Kong Democracy bill has two versions – one approved by the House of Representatives and one approved by the Senate. Both versions need to be reconciled before being signed into law by President Trump. On the passing of the Bill by the Senate;

Beijing hit back instantly at the passage of the bill, summoning a senior US diplomat and telling the US to keep its hands off China's internal affairs,

warning of retaliation if Trump gives it the green light. Hong Kong commerce minister Edward Yau Tang-wah called it “unwarranted and unnecessary”, saying the bill “adds fuel to the fire”.

<https://www.scmp.com/news/hong-kong/politics/article/3038671/hong-kong-democracy-bill-passed-us-senate-spells-hope>

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 week, the lower house of Japan’s parliament approved the phase one of the limited trade deal with the US;

The government’s proposal to ratify the trade deal will next be brought to the upper house for a vote but its passage in the powerful lower house increases the chances it will come into force in January.

The focus then moves to phase two negotiations;

After the deal is ratified, Japan and the United States have four months to consult on further talks, and Trump has said he wants more trade talks with Japan after the initial deal.

But Japanese government sources familiar with the talks say the momentum to negotiate a deeper deal appears to have waned for now with Washington preoccupied with talks with Beijing.

The issue for phase two talks is auto tariffs;

Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.

<https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK>

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, despite the US missing the S.232 deadline of 14 Nov. After postponing a decision on auto tariffs (based on National security issues) back in May, US President Trump may decide on 14 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. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: <https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK>

The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the “escape hatch” for President Trump;

A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, “the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security.” It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to 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. There are other avenues for how these tariffs may be implemented.

NAFTA/USMCA

No final agreement was reached last week on the USMCA, frustrating hopes of a vote prior to Thanksgiving.

Leaving a meeting with House Speaker Nancy Pelosi and U.S. Trade Representative Robert Lighthizer, House Ways and Means Committee Chairman Richard Neal said the sides made progress but did not strike a final agreement, his office confirmed. <https://www.cnbc.com/2019/11/21/pelosi-neal-and-lighthizer-do-not-reach-deal-on-trump-uscma-agreement.html>

“Work will continue” to narrow differences between the two sides and it’s unclear whether a vote will take place this year.

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 25 Nov - 29 Nov 2019

MONDAY

Speech—Chair Jerome H. Powell; **Building on the Gains from the Long Expansion** - at the Greater Providence Chamber of Commerce 2019 Annual Meeting, Providence, Rhode Island

TUESDAY

Speech—Governor Lael Brainard; **Federal Reserve Framework Review of Monetary Policy Strategy, Tools, and Communication** - at the New York Association for Business Economics Presentation of the 2019 William F. Butler Award, New York, New York

WEDNESDAY

Nil

THURSDAY

National Holiday

FRIDAY

Nil

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

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