

Key Themes

Its year end this week and there will be some focus on the repo market and any potential stress in the markets/rates. The Fed has ramped up liquidity support leading up to the year-end turn in order to avoid the funding pressures experienced in Sep. Over the next few weeks, the term repo operations will unwind.

Although a shortened week, there are still several important data releases;

FOMC Minutes from the 10-11 Dec Fed meeting

US ISM Manufacturing PMI for Dec

Global PMI's (final version) for Dec will start to be released this week, starting with manufacturing activity in the US, UK, Europe and Australia

The Chinese NBS will release the manufacturing and non-manufacturing PMI's for Dec

On the trade front, the US-Japan phase one deal comes into effect on 1 Jan. Negotiations on phase two will start shortly.

The US and China continue to work through the detail and draft of the phase one deal.

The USMCA has passed through the House of Reps and will now go to the Senate for approval some time over the next few weeks.

The US Treasury will settle approx. \$302bn in ST bills, Notes and TIPS this week, raising approx. \$32bn in new money.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be heavier this week. The US Treasury will settle \$302bn in ST Bills, Notes and TIPS this week, raising approx. \$32bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
30 Dec - 3 Jan	26-Dec	31-Dec	4 week bill	35			Completed
	26-Dec	31-Dec	8 week bill	35			Completed
				70	81	-11	
	30-Dec	02-Jan	13 week bill	42			Announced
	30-Dec	02-Jan	26 week bill	36			Announced
	30-Dec	02-Jan	52 week bill	26			Announced
				104	107	-3	
	19-Dec	31-Dec	5yr TIPS	15			Completed
	23-Dec	31-Dec	2yr Note	40			Completed
	24-Dec	31-Dec	5yr Note	41			Completed
	26-Dec	31-Dec	7yr Note	32			Completed
				128	81.347	46.653	
			Total - securities settling this week	302	269.347	32.653	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		31-Dec	Notes & Bonds	12.047			
		02-Jan	Bills	4.617			
				16.664			
			Reserve Management Purchase Operations - Treasury Bills	\$B			
			Nil				
			Reinvestment Purchases - Treasury Coupons	\$B			
	02-Jan	03-Jan	Coupons 4.5-7yrs	2.425			

There will be no reserve management operations for this week. Reinvestment purchases will total approx \$2.4bn.

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 30 December 2019

MONDAY 30 DECEMBER (US Eastern Time)

US	Wholesale & Retail Inventories Prelim (Nov), Dallas Fed Manufacturing Index (Dec), Chicago PMI (Dec)
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TUESDAY 31 DECEMBER

US	S&P/Case Shiller House Price Index (Oct)
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China	NBS Manufacturing and Non-Manufacturing PMI (Dec)
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WEDNESDAY 1 JANUARY

New Year's Day

THURSDAY 2 JANUARY

US	Markit Manufacturing PMI Final (Dec)
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Aus	CBA Manufacturing PMI Final (Dec), ANZ Job Ads (Dec)
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China	Caixin Manufacturing PMI (Dec)
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UK	Manufacturing PMI Final (Dec)
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Europe	Eurozone and Germany Manufacturing PMI Final (Dec)
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FRIDAY 3 JANUARY

US	ISM Manufacturing PMI (Dec), Motor Vehicle Sales (Dec) FOMC Minutes from 10-11 Dec 2019
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Europe	Germany CPI Prelim (Dec)
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Trade & Brexit

US-China Trade Talks

The final details and text of the phase one deal remain under development. While President Trump has indicated that he and President Xi will meet to sign the deal, this is yet to be confirmed by Chinese officials. So far, we remain in a similar situation to previous deals and truces reached between the US and China throughout 2019 – the detail is yet to be finalised and the process to firm up the details is the point where negotiations have become unstuck previously.

But China did not confirm that the two leaders would meet, saying only that both sides had been in close contact to work on preparations, including a legal review and translation.

“And if there are any differences, any problems, the two sides should work closely together to solve them.”

“I’m confident that since we have spent so much time with such great efforts at reaching this agreement, I think it would certainly serve the interests of both sides if this agreement is implemented,” he said. (Cui Tiankai)

<https://www.scmp.com/news/china/diplomacy/article/3043811/china-will-honour-us-trade-war-deal-promises-talks-progress>

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 1 Jan, phase one of the US-Japan digital and trade deal comes into effect;

The bilateral pact will cut tariffs on farm and industrial products, allowing U.S. farmers to be treated the same way as those from Australia, Canada and New Zealand, which are members of the Trans-Pacific Partnership free trade pact.

The deal has been criticized by opposition parties and some businesses as being more advantageous to the United States.

<https://www.japantimes.co.jp/news/2019/12/29/reference/week-ahead-dec-30-jan-5/#.Xgla-0czaUk>

The focus in early 2020 will be on phase two of the deal;

After the deal enters into force, the countries have agreed to conclude consultations for further trade talks within four months. Then discussions between their lead negotiators, Foreign Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer, will start again in earnest.

The United States is seeking a full-fledged free trade agreement that covers areas including services and investment.

<https://www.japantimes.co.jp/news/2019/12/04/business/economy-business/upper-house-approves-united-states-japan-trade-deal/#.Xe3HTegzaUk>

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>

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%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

New EU commissioners are now in place and there will likely be progress on the US-EU trade negotiations, as well as Brexit/EU-UK trade deal negotiations.

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.

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. <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

Digital Services

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

“USTR’s decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies,” Ambassador Robert Lighthizer said. **“Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey.** The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation>

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6 Jan 2020. <https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances>

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

The revised draft USMCA agreement was approved in the House prior to the holiday break. The agreement is expected to be voted on in the Senate early in Jan 2020. A Senate mark-up hearing is scheduled for 7 Jan 2020.

Senate leadership expects they could quickly consider and pass the agreement within a couple of days. However, if the Senate must start the year with impeachment trials, then a vote will come near the end of January, following the hearings. <https://www.hoosieragtoday.com/usmca-senate-prospects-markup-january-7-2020/>

Canada has yet to approve the deal – this is likely to happen once 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

The UK election has now been decided and Brexit is likely to happen by the end of Jan 2020. The US President reconfirmed his eagerness to begin talks with the UK on a trade deal, once 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

After Brexit legislation is approved in the UK parliament in time for the 31 Jan separation date, the UK and EU can commence negotiations on the trade and security agreement.

From 31 Jan, the UK and the EU will enter a transition period in which a new trade agreement will be negotiated. This can be extended to 2022, but the Conservative party has now legislated that this transition/negotiation period will not be extended beyond 2020.

The Brexit bill contained amendments that bar the British government from extending the transition period beyond 2020.

While the UK has legislated the ‘no extension date’, there is a deadline for when an extension could be requested – but from all previous Brexit negotiations, these arbitrary dates are mostly pliable.

Under Article 50 of the EU’s Lisbon Treaty rule book, which governs how countries leave the bloc, any new extension to the departure process must be agreed by June 30, 2020.

The new EC President, Ursula von der Leyen, has cast doubt over whether such an agreement can be negotiated within a such a short period of time:

Such trade pacts routinely take years to complete, and businesses fear that the U.K. could face a new “no-deal” Brexit scenario at the start of 2021 if questions about whether tariff-free trade with the country’s biggest trading partner remain unanswered.

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