

## Key Themes

Not a very data heavy week, but there are several important events;

Central bank decisions this week – FOMC, ECB and SNB. The current target rate probabilities indicate rates likely to remain on hold in the US. Source;

[https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm\\_source=cmegroup&utm\\_medium=friendly&utm\\_campaign=fedwatch&redirect=/fedwatch](https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch)

The UK general election will take place this week. An increased majority for the Conservative party will see Brexit likely go ahead by the end of Jan 2020.

On 15 Dec, the tariff rate on certain imports from China is due to increase. There is little indication at this stage that talks have progressed enough on a phase one deal to avoid this increase. Expecting headline risk on trade deals this week.

The Australian government will release its mid-year economic and financial outlook (a mid-year budget statement). While there has been no indication so far, there is still the possibility that stimulus measures could be announced for the economy.

Data highlights this week;

US retail sales, CPI & PPI

China trade, CPI, PPI and new loans data

Australia Q3 house price index, Governor Lowe speech

US Treasury supply will be much lighter and with a rare paydown. . The US Treasury will settle \$153bn in ST bills this week paying down approx. \$38bn in outstanding bills. The 16-day CMB from late Nov will also mature this week and there is no indication that it will be rolled over at this stage. The effect is likely to continue to help ease pressure on primary dealer balance sheets.

## US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be lighter this week and there will be a rare paydown. The US Treasury will settle \$153bn in ST bills this week paying down approx. \$38bn in outstanding bills. The 16-day CMB from late Nov will also mature this week and there is no indication that it will be rolled over at this stage. The effect is likely to continue to help ease pressure on primary dealer balance sheets.

The US Treasury will also auction approx. \$78bn in notes and bonds that will settle next week, raising approx. \$54bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
9-13 Dec	05-Dec	10-Dec	4 week bill	40			Completed
	05-Dec	10-Dec	8 week bill	35			Completed
				75	95	-20	
	09-Dec	12-Dec	13 week bill	36			Announced
	09-Dec	12-Dec	26 week bill	42			Announced
				78	96	-18	
			<b>Total - securities settling this week</b>	153	191	-38	
	20-Nov	26-Nov-19	16-day CMB	0	15	-15	Matures 12 Dec 2019
			<b>Fed SOMA - Face Value of SOMA securities maturing 10 Dec</b>	<b>\$B</b>			
			Tbills	0.200			
			<b>Reserve Management Purchase Operations - Treasury Bills</b>	<b>\$B</b>			
	06-Dec	09-Dec	Tbills	7.525			
			<b>Reinvestment Purchases - Treasury Coupons</b>	<b>\$B</b>			
	09-Dec	10-Dec	TIPS 7.5-30yrs	1.625			
	10-Dec	11-Dec	FRN's -2yrs	0.425			
	10-Dec	11-Dec	Tbills 0-1yrs	3.025			

There will be one remaining Reserve Management Purchase operation in round (purchase of T-Bills by the Fed) settling this week – totalling \$7.525bn. New operations for the next month will be announced this week.

The Fed will also purchase approx. \$5bn in Treasury coupons as a part of the restarted reinvestment of principal payments. On the 10 Dec, approx. \$0.2bn in T-bill 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 9 December 2019

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### MONDAY 9 DECEMBER (US Eastern Time)

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Australia	RBA Governor Lowe Speech
Japan	Q3 GDP Second Est
China	Trade balance/Exports/Imports (Nov)

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### TUESDAY 10 DECEMBER

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Australia	House Price Index Q3, NAB Business Conditions and Confidence (Nov), Federal Government MYEFO (mid-year budget statement)
China	PPI, CPI, New Loans (Nov)
UK	GDP Month (Oct)

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### WEDNESDAY 11 DECEMBER

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US	CPI (Nov), FOMC Rates Decision and Press Conference
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### THURSDAY 12 DECEMBER

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US	PPI (Nov)
UK	General Election
Europe	Germany CPI (Nov), ECB Rates Decision
Switzerland	SNB Rates Decision

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### FRIDAY 13 DECEMBER

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US	Retail Sales (Nov), Business Inventories (Oct)
Japan	Industrial Production (Final) 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. An important milestone is approaching - the 15 Dec schedule increase in tariff rates on Chinese imports into the US.

The current points of contention are; the US support of the HK Democracy Bill, China requesting a rollback of all tariffs as a part of the phase one deal (not just a postponement of upcoming tariff increase) and the quantity of purchases of US agriculture products.

During the week, US President Trump stated that the deal may not get done until after the 2020 election.

While reports are mixed, there are indications that the US will likely postpone the tariffs scheduled to increase on 15 Dec. Nothing is confirmed and this will likely depend on the progress of talks. As always, 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.”

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 Upper House of the Japanese Parliament approved phase one of the trade deal. The US Congress does not need to approve the deal, so phase one will come into force in early 2020.

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%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.

### 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, 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](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**

“Work continues” on negotiating changes to the USMCA. There are further indications that the deal and changes are close to completion;



“We’re getting close, I’m confident,” J sus Seade, the deputy foreign minister for North America, told reporters outside the US trade representative’s office. He said he would probably return on Monday to continue talks.

One point of contention is over steel, after the US trade representative, Robert Lighthizer, made a last-minute demand for a revised definition of what would constitute North American steel under automotive rules of origin.

<https://www.theguardian.com/us-news/2019/dec/07/trump-usmca-mexico-canada-trade-pelosi>

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

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 general election will be held this week. A clear win/increased majority for the Conservative Party will likely see Brexit happen at the end of Jan 2020.

The UK has a further Brexit extension approved – until 31 Jan 2020 to allow for the election.

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 9 - 13 December 2019

MONDAY

TUESDAY

WEDNESDAY

THURSDAY

FRIDAY

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