

Key Themes

This week, markets are likely to continue to follow geopolitical developments regarding the US and Iran. We will also hear more about a possible signing of the US-China phase one trade agreement. At this stage, there appears to be tentative plans for a delegation from China to visit the US for a 15 Jan signing.

On the data front, there are several important highlights this week;

In the US; Non-farm payrolls and employment data for Dec, ISM non-manufacturing PMI for Dec and factory orders for Nov.

There is also a speech of interest coming up this week by Vice Chair of the US Fed Richard H. Clarida on the U.S. Economic Outlook and Monetary Policy.

Data for Europe includes the final services PMI's for Dec as well as Germany factory orders and industrial production for Nov.

Final services PMI's for Dec will be released for the UK, Australia and China as well this week.

Aussie retail sales for Nov will also be released later this week.

It will be a lighter week for US Treasury settlements. The US Treasury will settle approx. \$148bn in ST Bills this week, with a paydown of approx. \$12bn. The US Treasury will auction approx. \$78bn in notes and bonds this week, that will settle next week, raising approx. \$32.6bn in new money.

US Treasury Issuance & Settlements

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B				
6-10 Jan	02-Jan	07-Jan	4 week bill	35			Completed			
	02-Jan	07-Jan	8 week bill	35			Completed			
				70	80	-10				
	06-Jan	09-Jan	13 week bill	42			Announced			
	06-Jan	09-Jan	26 week bill	36			Announced			
				78	80	-2				
			Total - securities settling this week	148	160	-12				
			Fed SOMA - Face Value of SOMA securities maturing							
		07-Jan-20	Bills	1.170						
		09-Jan-20	Bills	0.266						
				1.436						
			Reserve Management Purchase Operations - Treasury Bills	\$B						
	03-Jan-20	06-Jan-20	Bills	7.525						
	07-Jan-20	08-Jan-20	Bills	7.525						
	08-Jan-20	09-Jan-20	bills	7.525						
				22.575						
			Reinvestment Purchases - Treasury Coupons	\$B						
	06-Jan	07-Jan	Coupons 7-20yrs	1.425						
	08-Jan	09-Jan	FRN's 0-2yrs	0.425						
	09-Jan	10-Jan	TIPS 1-7.5	1.625						
				3.475						

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Reserve management operations for this week will total \$22.5bn. Reinvestment purchases will total approx. \$3.5bn.

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 6 January 2020

MONDAY 6 JANUARY (US Eastern Time)

US	Services PMI Final (Dec)
Aus	Services PMI Final (Dec)
Japan	Manufacturing PMI Final (Dec)
China	Caixin Services PMI Final (Dec)
Europe	Eurozone and Germany Services PMI Final (Dec)
UK	Services PMI Final (Dec)

TUESDAY 7 JANUARY

US	ISM Non-Manufacturing PMI (Dec), Factory Orders (Nov)
Japan	Services PMI Final (Dec)
Europe	Eurozone Retail Sales (Nov), Eurozone CPI Prelim (Dec)

WEDNESDAY 8 JANUARY

US	Consumer Credit (Nov), ADP Employment Report (Dec) US Fed speeches; Brainard
Aus	Building Permits (Nov)
Europe	Germany Factory Orders (Nov)

THURSDAY 9 JANUARY

US	US Fed speeches; Clarida (US Economic Outlook and Monetary Policy)
China	CPI, PPI (Dec)
Europe	Germany Industrial Production (Nov)

FRIDAY 10 JANUARY

US	Non-Farm Payrolls (Dec), Wholesale Inventories (Nov)
Aus	Retail Sales (Nov)

Trade & Brexit

US-China Trade Talks

Details and text of the phase one deal are under development. In a positive move, there appears to be plans for a signing of the deal in the US. China's trade delegation has made tentative plans to travel to the US to sign the phase one deal. This indicates that both sides may be close to an agreement.

The delegation from China, led by Vice Premier Lui He, plans to travel to Washington from 13 Jan with a deal signing possibly on 15 Jan.

“While the two sides had been expected to wrap up their phase one negotiations by January, the Chinese side had not expected Trump to make a unilateral announcement about the date, or to say that he would be willing to sign the deal -even if President Xi Jinping was not available.”

“...the Chinese side decided to revise their plan to accommodate Trump, and will return to China on January 16, although **Washington and Beijing have yet to officially confirm Liu's visit.**” <https://www.scmp.com/economy/china-economy/article/3044741/trade-war-chinese-put-back-visit-sign-truce-after-donald>

Decisions regarding the commencement of phase two negotiations will likely be made by/before the implementation of the first phase of the deal.

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

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

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