

Key Themes

The signing of the phase one trade deal between the US and China will be a key focus this week. The signing is planned to take place on 15 Jan and text of the deal will be released after. It was reported late last week by Reuters that Chinese officials were yet to confirm purchase commitments of agriculture of \$40-\$50bn.

Brexit legislation will also continue to make its way through the House of Lords in the UK Parliament this week.

Senate committees are currently reviewing the USMCA legislation and it's not likely that there will be a Senate vote this week.

House Speaker Pelosi said her caucus will decide this week when to send impeachment articles to the Senate for trial.

There are several data highlights this week;

In the US, retail sales for Dec, CPI and PPI, prelim consumer sentiment for Jan will be released.

China Q4 GDP will be released this week with the second half of the Dec data – trade, industrial production, retail sales and new loans.

In Aus – housing finance for Nov and consumer sentiment for Jan will be released.

It will be a somewhat heavier week for US Treasury settlements. The US Treasury will settle approx. \$226bn in ST Bills, Notes and Bonds this week, raising approx. \$25.1bn in new money. Approx. \$12.5bn of securities on the Fed balance sheet will mature this week. There will also be approx. \$5bn in reinvestment purchases made this week.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be heavier. The US Treasury will settle approx. \$226bn in ST Bills. Notes and Bonds this week, raising approx. \$25.1bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
13-17 Jan	09-Jan	14-Jan	4 week bill	35			Completed		
	09-Jan	14-Jan	8 week bill	35			Completed		
				70	80	-10			
	13-Jan	16-Jan	13 week bill	42			Announced		
	13-Jan	16-Jan	26 week bill	36			Announced		
				78	75.5	2.5			
	07-Jan	15-Jan	3yr note	38			Completed		
	08-Jan	15-Jan	10yr note	24			Completed		
	09-Jan	15-Jan	30yr bond	16			Completed		
				78	45.4	32.6			
			Total - securities settling this week	226	200.9	25.1			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		14-Jan	Treasury Bills	4.3					
		16-Jan	Treasury Bills	5.5					
		15-Jan	Notes & Bonds	1.3					
		15-Jan	TIPS	1.2					
				12.3					
			Reserve Management Purchase Operations - Treasury Bills	\$B					
			<i>Latest schedule to be announced early this week</i>						
				0.000					
			Reinvestment Purchases - Treasury Coupons	\$B					
	10-Jan-20	13-Jan-20	Treasury Bills 0-1yrs	3.025					
	13-Jan-20	14-Jan-20	Coupons 20-30yrs	2.225					
				5.250					

So far, reserve management operations (Purchase of T-Bills) have not been announce yet for this week and coming month.

There will be approx. \$12bn in securities maturing on the Fed balance sheet during the week.

The FOMC 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 13 January 2020

MONDAY 13 JANUARY (US Eastern Time)

UK	Monthly GDP (Nov)
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TUESDAY 14 JANUARY

US	CPI (Dec) US Fed Speeches; Williams
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China	Trade Balance, Exports & Imports (Dec)
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Aus	Westpac Consumer Confidence (Jan)
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WEDNESDAY 15 JANUARY

US	NY Empire State Manufacturing Index (Jan), PPI (Dec)
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UK	CPI (Dec)
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Europe	Eurozone Industrial Production (Nov)
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THURSDAY 16 JANUARY

US	Retail Sales (Dec), Philadelphia Fed Manufacturing Survey (Jan), Business Inventories (Nov), NAHB Housing Market Index (Jan)
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Aus	Housing Finance (Nov)
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Europe	Germany CPI (Dec) ECB Meeting Minutes
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China	New Loans (Dec)
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FRIDAY 17 JANUARY

US	Housing Permits and Starts (Dec), Industrial Production (Dec), Uni of Michigan Consumer Sentiment – prelim (Jan), JOLTS (Nov)
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China	GDP Q4 2019, Industrial Production (Dec), Retail Sales (Dec), Fixed Asset Investment (Dec)
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UK	Retail Sales (Dec)
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Europe	Eurozone CPI (Dec)
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Trade & Brexit

US-China Trade Talks

It is expected that the phase one of the trade agreement will be signed on 15 Jan this coming week. Text for the agreement (English version) will also be released by US officials.

White House officials had said as late as Friday that the final Chinese text was not yet completed, even as invitations went out to more than 200 people for a Jan. 15 signing event at the White House.

Asked if he still expected China to purchase \$40 billion to \$50 billion in U.S. farm products under the deal, Mnuchin said: "I do. Let me just say, it is \$200 billion of additional products across the board over the next two years, and, specifically in agriculture, \$40 billion to \$50 billion."

Thus far, **Beijing has not confirmed those purchase commitments, and recent government actions here in the agriculture industry have raised questions over the \$40 billion to \$50 billion target** cited repeatedly by Trump administration officials.

https://mobile.reuters.com/article/amp/idUSKBN1ZB0LU?_twitter_impression=true

Decisions regarding the commencement of phase two negotiations will likely be made by/before the implementation of the first phase of the deal. Phase two is expected to deal with the existing tariffs, as well as restrictions on digital trade, subsidies for Chinese-state owned companies and cyber-security.

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 6-8 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](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0)

and

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0>

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 was expected to be voted on in the Senate early in Jan 2020, but it is likely that a Senate vote will not occur for another week;

The Senate is unlikely to vote on the U.S.-Mexico-Canada Agreement next week because several committees have yet to review the deal, Senate Finance Chairman Chuck Grassley (R-IA) said on Thursday. The USMCA implementing bill, approved earlier this week by the Senate Finance Committee, has also been sent to the Health, Education, Labor and Pensions; Environment and Public Works; Appropriations; Foreign Relations; Commerce, Science and Transportation; and Budget committees. https://insidetrade.com/daily-news/grassley-full-senate-usmca-vote-unlikely-next-week-due-committee-markups?utm_source=dlvr.it&utm_medium=twitter

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

The passage of the Brexit Withdrawal Agreement bill through the House of Commons has been completed.

The House of Lords will continue to debate areas of the bill early this week. The bill will enter the committee stage on 14,15 & 16 Jan this week. The report stage is scheduled for 20 and 21 Jan. The third reading will then take place once the report stage is completed.

Following completion of third reading, the bill may pass to the Commons for consideration of any Lords amendments. House of Lords consideration of Commons amendments is scheduled to take place on Wednesday 22 January.

<https://www.parliament.uk/business/news/2020/january/lords-debates-european-union-withdrawal-agreement-ill/>

Once this first stage of Brexit is completed on 31 Jan 2020, The UK will enter a transition period with the EU and commence negotiations of a trade agreement. The negotiations can only commence after 31 Jan 2020. The UK PM has enshrined in law that the UK will only have until 31 Dec 2020 to complete trade negotiations with the EU.