

Key Themes

There has been resolution across several important fronts so far this year – removing some of the uncertainties that had been plaguing markets in 2019; the US has officially ratified the USMCA, the phase one trade deal with China and Japan has been signed, the impeachment trial of the US President has been dismissed and the first part of Brexit has been completed.

Headline risk of late has been centered around the onset of the coronavirus and the possible implications for global demand (aside from the dreadful human cost). There has been little data yet to show how quarantine actions to control the virus has impacted the second largest economy – China. In some regions in China, firms have been asked to “voluntarily” return to work from 1 Mar after New Year break. Trade data for Jan due to be released last week, has been postponed until the Feb data is released. This week we will see several of the major economic releases from China which may start to show the impact within China; retail sales, industrial production, CPI, PPI, fixed asset investment and new loans (Jan).

There are several other important data highlights this week;

In the US, retail sales, CPI, industrial production for Jan and the prelim consumer sentiment for Feb will be released.

US Fed Chairman Powell will give testimony this week over two days with the semi-annual Monetary Policy Report to the Congress. The other Fed speech of note will be Vice Chair Quarles on Bank Supervision (Yale Law School Dean's Lecture, New Haven, Conn).

The prelim Q4 GDP will be released for the Eurozone including Germany and the UK.

In Aus, housing finance for Dec will be released along with the NAB business conditions for Jan. There is likely to be some disruption to the economy from bushfires/natural disasters and the impact from the coronavirus.

It will be a somewhat heavier week for US Treasury settlements from the perspective of new money raised. The US Treasury will settle approx. \$209bn in ST Bills this week, including a new 56-day Cash Management Bill (CMB) for \$30bn, raising approx. \$54.2bn in new money.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be heavier from the perspective of new money raised. The US Treasury will settle approx. \$209bn in ST Bills this week, including a new 56-day Cash Management Bill (CMB) for \$30bn, raising approx. \$54.2bn in new money.

The US Treasury will also auction approx. \$84bn in notes and bonds this week, which will settle in the following week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
10-14 Feb	06-Feb	11-Feb	4 week bill	50			Completed
	06-Feb	11-Feb	8 week bill	45			Completed
				95	69.2	25.8	
	11-Feb	13-Feb	56-day CMB	30	0	30	Announced
	10-Feb	13-Feb	13 week bill	45			Announced
	10-Feb	13-Feb	26 week bill	39			Announced
				84	85.6	-1.6	
			Total - securities settling this week	209	154.8	54.2	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		11-Feb	T Bills	6.770			
		13-Feb	T Bills	2.410			
				9.180			
			Reserve Management Purchase Operations - Treasury Bills	\$B			
				0.000			
			Reinvestment Purchases - Treasury Coupons	\$B			
	07-Feb	10-Feb	Treasury FRN's	0.425			
	10-Feb	11-Feb	Treasury Coupons 20-30yrs	2.225			
	11-Feb	12-Feb	Treasury Bills 0-1yr	3.025			
				5.675			

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

There will be approx. \$9bn 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 10 February 2020

MONDAY 10 FEBRUARY (US Eastern Time)

China	CPI, PPI, New Loans (Jan) - TBC
Japan	Trade Balance (Dec)

TUESDAY 11 FEBRUARY

US	JOLT's (Dec) US Fed speeches; Powell testimony
Aus	Housing Loans (Dec), NAB Business Conditions & Confidence (Jan)
UK	Q4 GDP (prelim)

WEDNESDAY 12 FEBRUARY

US	US Fed speeches; Powell testimony
NZ	Rates decision
Europe	Industrial Production (Dec)

THURSDAY 13 FEBRUARY

US	CPI (Jan)
Europe	Germany CPI (Jan)

FRIDAY 14 FEBRUARY

US	Retail Sales (Jan), Industrial Production (Jan), Uni of Michigan Consumer Sentiment – prelim (Feb), Business Inventories (Dec)
Europe	Eurozone Q4 GDP – prelim, Germany Q4 GDP - prelim
China	Retail Sales, Industrial Production, Fixed Asset Investment (Jan) - TBC

Trade & Brexit

US-China Trade Talks

As a part of the phase one deal, China announced that it would lower tariffs on \$75bn worth of US imports – and will take effect this week (14 Feb). The halving of tariffs (to 7.5%) on \$120bn of Chinese imports will take effect on 15 Feb. <https://www.nationalreview.com/news/china-halves-tariffs-on-75-billion-in-u-s-goods-as-part-of-phase-one-trade-deal/>

Timing for the commencement of the second phase of the deal remains unclear amid the breakout of the coronavirus;

The question right now is the timing of a theoretical phase two agreement. China's fight against a mysterious viral infection that's infected hundreds of thousands — and killed over 600 people — is clouding the near term outlook. https://finance.yahoo.com/news/steve-schwarzman-on-phase-two-trade-deal-outlook-130000221.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAACX-q3at62V2Tic-8dQFYsO1aYKy56Lwh_6LcNtLmeyzxwicbFsdfP168Cx5LAZZJx1cdA7B-dBre56Zxr9XEMmOuIR3iiddF_XyFQqms-UNGH2buYJVvCLcD7FgW_p7AVgGOLJhvB5vCwefUnQJQX7HxB51j19htdO6Pqw3zeE

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR from the initial USTR objectives (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

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 Deal 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

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a \$2.4 billion list of French imports, a French diplomatic source said. <https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ>

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>

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 new USMCA has now been signed into law in the US.

Canada has yet to approve the deal – this will likely happen now that the US has ratified the deal.

US-UK Trade Talks

With Brexit now completed, the US President reconfirmed his eagerness to begin talks with the UK on a trade deal. The likely priority for the UK will be the UK-EU trade deal negotiation to complete the transition. 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

With the first stage of Brexit now completed, the UK will enter a transition period with the EU and commence negotiations of a trade agreement.

The EU chief negotiator, Michel Barnier, set out negotiation goals last week, focusing on alignment with EU trading rules; <https://ec.europa.eu/info/sites/info/files/communication-annex-negotiating-directives.pdf>

In response, the UK PM stated his preference for a Canada or Australia-style deal...

“...than accept alignment with any Brussels regulations or oversight by European courts.”

The gulf between the UK and EU’s goals in trade talks has been laid bare as Boris Johnson threatened to walk away with no deal at the end of the year rather than sign up to EU rules on competition and state aid.

<https://www.theguardian.com/politics/2020/feb/03/uk-and-eu-set-out-contrasting-goals-for-post-brexit-trade-deal>

The first round of negotiations is due to commence in Mar.

According to an initial timetable presented by Barnier, only two major rounds of negotiations are planned. The results are expected in October, to be written up as contracts and approved by the various bodies in the EU in good time before the end of the year. <https://www.dw.com/en/eu-uk-begin-post-brexit-poker-on-trade-talks/a-52247177>