

Key Themes

There are several important highlights this week.

On the data front, the prelim PMI's for the US, Europe, Japan, UK and Aus will be released at the end of the week. This will be one of the broader, earlier indicators of any disruptions to output from the Coronavirus quarantine.

In the US, FOMC minutes, PPI for Jan and several regional manufacturing surveys for Feb will be released.

The US Treasury will be settling approx. \$303bn in in ST bills, notes and bonds this week – raising approx. \$77.5bn in new money. One of the heavier weeks of supply for a while. This will continue to be supported with overnight repo operations on each business day of up to \$100bn as well as two 14-day term repo operations this week of up to \$25bn each.

The ECB minutes will also be released this week.

Data out of Japan this week includes the prelim Q4 GDP result, industrial production and merchandise trade for Dec and CPI for Jan.

For Aus, the RBA minutes will be released. Important Q4 wage price index and Jan labour market data will be released.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be much heavier. The US Treasury will settle approx. \$303bn in ST Bills, Notes and Bonds this week, including another new 21-day Cash Management Bill (CMB) for \$40bn, raising approx. \$77.5bn in new money.

| WEEK | Auction Date | Settlement Date | Marketable Securities | Auction Amount \$B (TBAC) | Amount Maturing \$B | New Money \$B |
|--|--------------|-----------------|--|---------------------------|---------------------|---------------|
| 17 Feb - Presidents Day Holiday | | | | | | |
| 17-21 Feb | 13-Feb | 18-Feb | 4 week bill | 50 | | Completed |
| | 13-Feb | 18-Feb | 8 week bill | 45 | | Completed |
| | | | | 95 | 69 | 26 |
| | 18-Feb | 20-Feb | 21-day CMB | 40 | | 40 Announced |
| | 18-Feb | 20-Feb | 13 week bill | 45 | | Announced |
| | 18-Feb | 20-Feb | 26 week bill | 39 | | Announced |
| | | | | 84 | 86 | -2 |
| | 11-Feb | 18-Feb | 3yr Note | 38 | | Completed |
| | 12-Feb | 18-Feb | 10yr Note | 27 | | Completed |
| | 13-Feb | 18-Feb | 30yr Bond | 19 | | Completed |
| | | | | 84 | 70.486 | 13.514 |
| | | | Total - securities settling this week | 303 | 225.486 | 77.51 |
| | | | Fed SOMA - Face Value of SOMA securities maturing | \$B | | |
| | | 18-Feb | T Bills | 4.300 | | |
| | | 20-Feb | T Bills | 1.300 | | |
| | | | | 5.600 | | |
| | | | Reserve Management Purchase Operations - Treasury Bills | \$B | | |
| | 14-Feb | 18-Feb | T Bills 0-1yr | 7.525 | | |
| | 19-Feb | 20-Feb | T Bills 0-1yr | 7.525 | | |
| | | | | 15.050 | | |
| | | | Reinvestment Purchases - Treasury Coupons | \$B | | |
| | 18-Feb | 19-Feb | Coupons 0-0.75 | 1.625 | | |
| | 20-Feb | 21-Feb | Coupons 0.75-1.5 | 1.825 | | |
| | | | | 3.450 | | |

Approx. \$5.6bn in treasury bills will mature this week – the principal payments will be rolled over. The Fed will purchase approx. \$15bn in ST Treasury bills as a part of its Reserve Management Operations this week.

Overnight repo operations will continue – up to \$100bn per operation. Plus there will be two 14-day term repo operations this week on 18 and 20 Feb of up to \$25bn each.

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 17 February 2020

MONDAY 17 FEBRUARY (US Eastern Time)

| | |
|-------|--|
| US | Presidents Day Holiday |
| Japan | GDP – Prelim Q4, Industrial Production – Final (Dec) |
| China | New Loans and FDI (Jan) - TBC |

TUESDAY 18 FEBRUARY

| | |
|-------|---|
| US | NY Empire State Manufacturing Index (Feb), Housing Market Index (Feb) |
| Japan | Merchandise Trade Balance (Jan) |
| Aus | RBA Meeting Minutes |
| UK | Labour Market Report (Oct-Dec) |

WEDNESDAY 19 FEBRUARY

| | |
|-----|--|
| US | Producer Price Index (Jan) FOMC Minutes |
| Aus | Wage Price Index Q4 |
| UK | CPI (Jan) |

THURSDAY 20 FEBRUARY

| | |
|--------|---|
| US | Philadelphia Fed Manufacturing Survey (Feb) |
| Japan | CPI (Jan) |
| Europe | ECB Minutes |
| Aus | Labour Market Report (Jan) |
| UK | Retail Sales (Jan) |
| China | PBoC Rates Decisions (TBC) |

FRIDAY 21 FEBRUARY

| | |
|--------|--|
| US | Prelim Markit Manufacturing & Services PMI (Feb), Existing Home Sales (Jan) |
| Japan | Prelim Manufacturing PMI (Feb) |
| Europe | Prelim Eurozone & Germany Manufacturing & Services PMI (Feb), Eurozone CPI (Jan) |
| UK | Prelim Manufacturing and Services PMI (Feb) |

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_6LcNtLmeyzxwicbFsdP168Cx5LAZZJx1cdA7B-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 – likely to begin from April or May this year;

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%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 had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case>

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+authorities+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 2019, 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, 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-brex-it-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-brex-it-poker-on-trade-talks/a-52247177>