

Key Themes

The major data highlights this week will be China data, US Q4 prelim GDP and Japan retail sales and industrial production. This will be amid the ongoing headlines regarding the now global spread of coronavirus.

Data out for China this week includes retail sales, industrial production and fixed asset investment. At the end of the week, the Chinese NBS will also release the Manufacturing and Non-Manufacturing PMI's. Note that this data could be delayed as a result of managing fallout from the spread of coronavirus.

US data will feature the prelim reading of Q4 GDP. More regional survey data for Feb will also be released this week. The feature of the regional surveys last week was the acceleration in growth of new orders (as well as inventories). The US manufacturing PMI showed growth slowing and services were even weaker, falling into contraction – at odds so far with the stronger readings from the regional surveys. It's possible that supply chain disruptions due to coronavirus could manifest in several ways (aside from just the halt in supply) – firms could start to stockpile parts/finished goods in the short term, resulting in the spike in new orders and some firms could benefit as alternative suppliers are sought. More detail should come to light as further regional survey results and durable goods data are released this week. The final consumer sentiment reading for Feb will also be released – looking to see whether there has been any revision to US sentiment from the coronavirus news (there was minimal mention in the prelim Feb release).

The main Fed speaker this week is Vice Chair Clarida – US Economic Outlook and Monetary Policy, at the 36th Annual National Association for Business Economics Economic Policy Conference, Washington, D.C.

Japan remains firmly on the radar – especially after last weeks' decline in GDP for Q4 and now the accelerated contraction in the Feb prelim PMI's. This week, retail sales and the prelim industrial production for Jan will be released.

Also note that Germany will release this week the detail (and possible revision) for Q4 GDP.

The supply of US Treasuries settling this week will again be heavy, but not to the same degree as the week prior. The US Treasury will settle approx. \$231bn in ST Bills, FRNs and TIPS this week, raising approx. \$45.9bn in new money. 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.

US Treasury Issuance & Settlements

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The US Treasury will also auction approx. \$113bn in notes this week that will settle next week, raising approx. \$31bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B
24-28 Feb	20-Feb	25-Feb	4 week bill	50		Completed
	20-Feb	25-Feb	8 week bill	45		Completed
				95	74.4	20.6
	24-Feb	27-Feb	13 week bill	45		Announced
	24-Feb	27-Feb	26 week bill	39		Announced
	25-Feb	27-Feb	52 week bill	26		Announced
				110	110.7	-0.7
	20-Feb	28-Feb	30yr TIPS	8		Completed
	26-Feb	28-Feb	2Yr FRN	18		Announced
				26	0	26
			Total - securities settling this week	231	185.1	45.9
			Fed SOMA - Face Value of SOMA securities maturing	\$B		
		25-Feb	Bills	4.5		
		27-Feb	Bills	2.3		
		29-Feb	Notes & Bonds	17.1		
				23.9		
			Reserve Management Purchase Operations - Treasury Bills	\$B		
	21-Feb	24-Feb	Bills	7.525		
	26-Feb	27-Feb	Bills	7.525		
	27-Feb	28-Feb	Bills	7.525		
				22.575		
			Reinvestment Purchases - Treasury Coupons	\$B		
	24-Feb	25-Feb	Coupons 1.5-2.25yr	1.825		
	24-Feb	25-Feb	Coupons 2.25-3yr	1.625		
	25-Feb	26-Feb	Coupons 3-4.5yr	2.225		
				5.675		

Approx. \$24bn in treasury bills, notes and bonds will mature this week – the principal payments will be rolled over. The Fed will purchase approx. \$23bn in ST Treasury bills as a part of its Reserve Management Operations this week.

Overnight repo operations will continue – up to \$100bn per operation on each business day. Plus there will be two 14-day term repo operations this week on 25 and 27 Feb of up to \$25bn each. <https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements/repurchase-agreement-operational-details>

The FOMC announced that reductions of its securities holdings in the SOMA will conclude and that 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 24 February 2020

MONDAY 24 FEBRUARY (US Eastern Time)

US	Chicago Fed National Activity Index (Jan), Dallas Fed Manufacturing Index (Feb)
China	Fixed Asset Investment, Industrial Production, Retail Sales (Jan)

TUESDAY 25 FEBRUARY

US	S&P Case Shiller House Price Index (Dec), Richmond Fed Manufacturing Survey (Feb) US Fed speeches; Clarida
Europe	Germany Q4 GDP (detail)

WEDNESDAY 26 FEBRUARY

US	New Home Sales (Jan)
Aus	Construction Work Done (Q4)

THURSDAY 27 FEBRUARY

US	Durable Goods Orders (Jan), GDP Q4 – Prelim, Kansas City Fed Manufacturing Activity (Feb)
Japan	Retail Sales (Jan), Industrial Production – prelim (Jan)
Aus	Private Capex Q4

FRIDAY 28 FEBRUARY

US	PCE, Income and Prices (Jan), Chicago PMI (Feb), Uni of Michigan Consumer Sentiment – final (Feb)
Aus	Private Sector Credit (Jan)
China	(29 Feb – NBS Manufacturing & Non-Manufacturing PMI - Feb)

Trade & Brexit

US-China Trade Talks

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_p7AVgGOLJhvB5vCwefUnQJQX7HxB51j19htdO6Pq_w3zeE

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%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 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+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 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>