MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 10 February 2020

Key Themes

US data reflects the ongoing dichotomy between production and consumer metrics. Industrial production continued to decline slightly led by the weakness in aircraft and electricity and gas output. The USTR also announced this week that the US was increasing the import duty on civilian aircraft imports from the EU from 10% to 15% in Mar.

At the same time, measures of consumer sentiment and expectations lifted to the second highest levels since the GFC. Very few mentions were made by consumers regarding Coronavirus. Retail sales growth increased at a slightly faster pace in Jan with annual growth slowing but remaining elevated. While JOLTS data indicates more significant slowing in job openings, metrics such as new job hires remains elevated. Consumer price growth accelerated led by energy.

Outside of the US, growth remains weaker.

Weaker economic conditions persisted in Q4 for Europe. Industrial production declined notably in Dec across the Eurozone. GDP growth in Q4 was much slower – and particularly weak in the larger economies – zero growth in Germany and declines in Q4 GDP in Italy and France.

UK GDP slowed to zero in Q4 – with distortions in the data due to the Brexit process.

Aus business conditions and confidence in Jan continued to track well below trend averages – reflecting the ongoing malaise in the economy. While there was little obvious deterioration in regional data due to bushfires, trading conditions still weakened and employment growth slowed notably. Conditions are expected to remain weaker as forward orders and exports remain in contraction.

Contents

US Data

JOLT’s (Dec)

The JOLTS release led with the continued decline in job openings for Dec - after a period of much stronger growth in openings throughout 2018. At the same time, growth in job hires continued, and the Dec pace of hires was only 1% below the all-time max recorded in Apr 2019.

Separations data is less clear. Total separations increased in Dec, led by a larger increase in layoffs and discharges (involuntary separations). This was partially offset by a small monthly decline in quits (voluntary separations). The annual pace of quits has certainly slowed, but remains positive, suggesting workers may be slightly less inclined to voluntarily change jobs than a year ago.

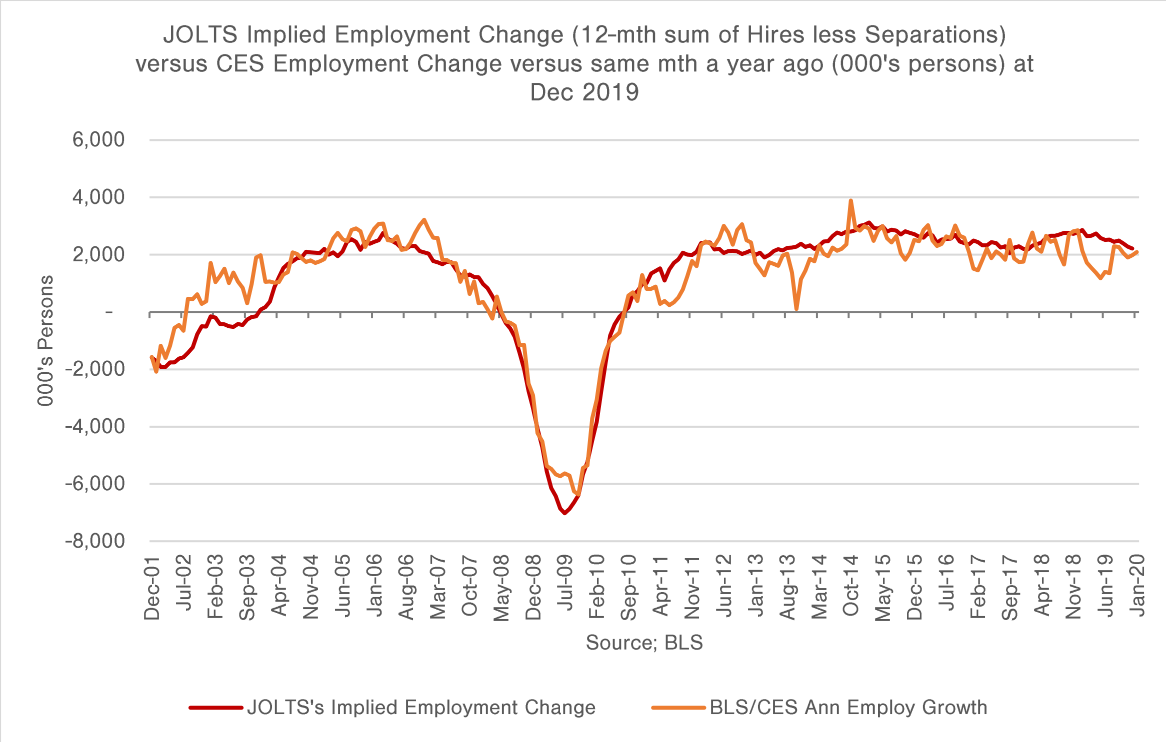
Importantly, both the quit rate and the lay-off and discharge rate remain on par with the 12-month average – suggesting that the monthly changes in separations are in-line with changes in employment trends.

Implied Employment Change from JOLTS

Overall, data indicates some slowing momentum in the labour market. From the JOLTS site; if separations are subtracted from hires, the difference represents the *implied employment change*. While JOLTS and the CES employment data differ in methodology, they provide at least directional similarity over a longer time period of a year (rather than a monthly basis);

> Keeping in mind the differences between the two programs, it is easy to see why the implied employment change and net employment change do not match on a monthly basis. However, despite these differences, the two series track well over time with the bulk of the difference dissipating over the course of a year https://www.bls.gov/jlt/joltsdivergenceinformation.pdf

The current trends highlight slowing employment growth since the start of 2019;

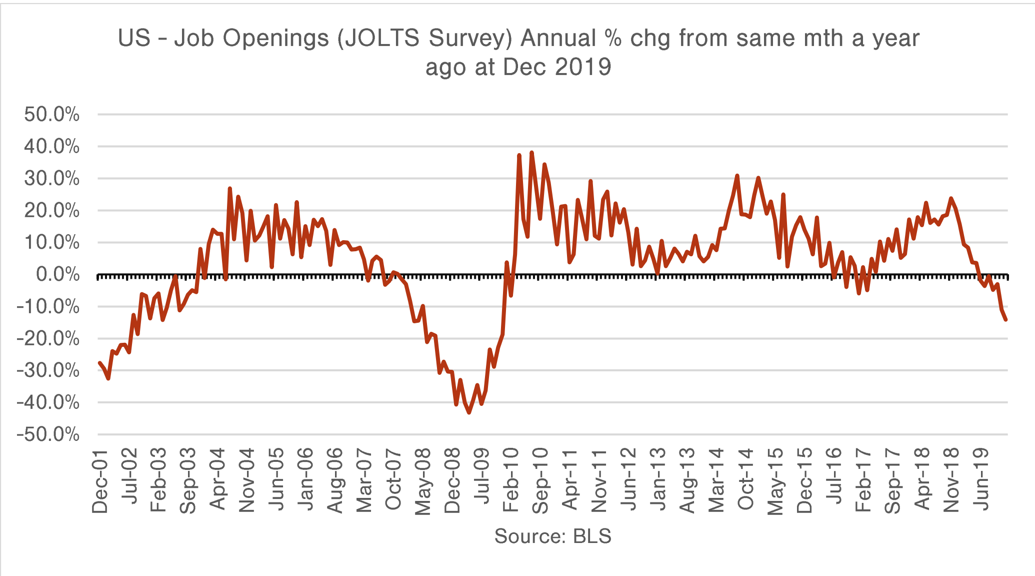


<u>Job Openings – month</u>; Dec 6.4m versus Nov 6.8m

This is a 5% decline in the month (with the Dec level -2.4 SD's below the 12-month average). On an annual basis, openings have declined by 14% versus the same month from a year ago.

Note that annual growth in job openings peaked at over 23% in Nov 2018 – and job hires did not go onto reflect this pace of growth in the following months.

The job opening rate has fallen to 4.0, well below the 12-month average of 4.5.

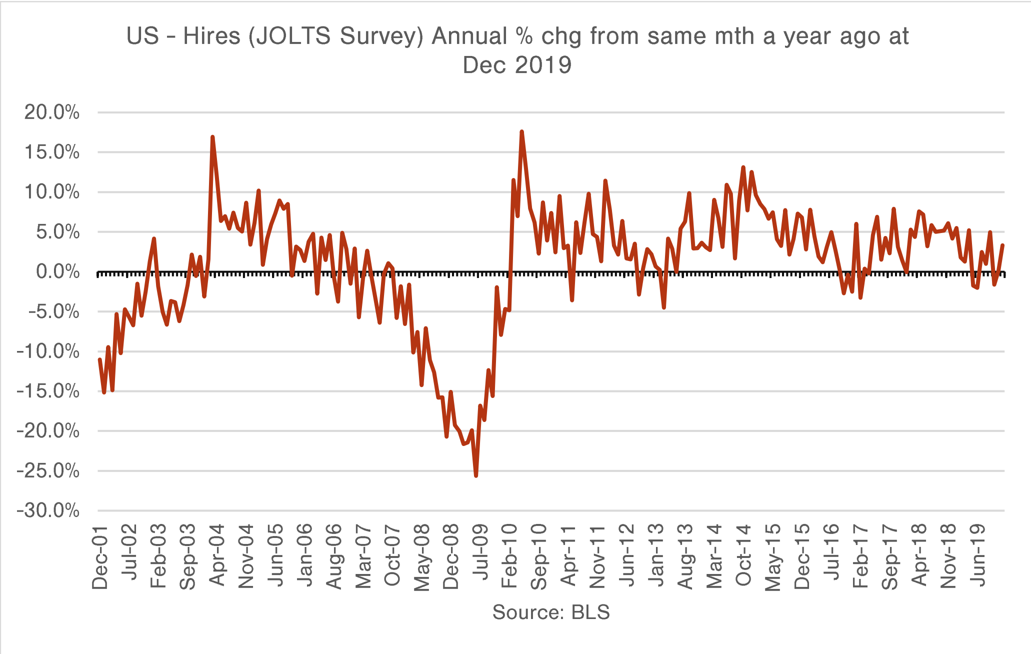


Job Hires – month; Dec 5.9m versus Nov 5.8m

This is a 1.3% increase in hires for the month and the Dec pace is only 1% below the all-time largest monthly pace of job hires from Apr 2019 of 5.99m.

The annual growth in hires lifted to +3% versus a year ago. The annual growth in job hires never followed the much larger growth in job openings throughout 2018.

The job hire rate increased to 3.9 in Dec and is equal to the 12-month average. The pace of hires remains steady;



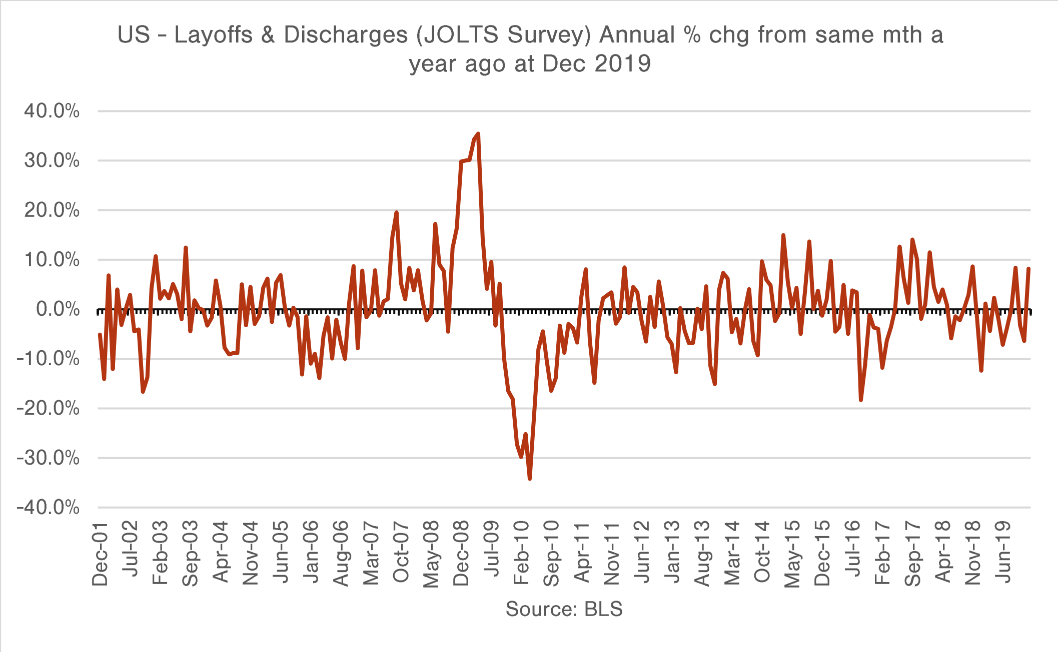
The separations data is a little less clear. Separations reflect a combination of involuntary layoffs and discharges (an increase in which would been seen as a deterioration in conditions) voluntary quits (an increase in which would suggest that workers are less concerned with changing jobs in the current labour market).

In Dec layoffs and discharges increased while quits declined. But the rate of layoffs/discharges and quits remains equal to the 12-month average.

Total Layoffs and Discharges – month; Dec 1.9m versus Nov 1.8m

This is a 7% increase in the month (and +1.3SD's from the 12-month average). The annual growth in discharges jumped to +8% in Dec.

But the discharge rate was unchanged at 1.2 in Dec – which is equal to the 12-month average.

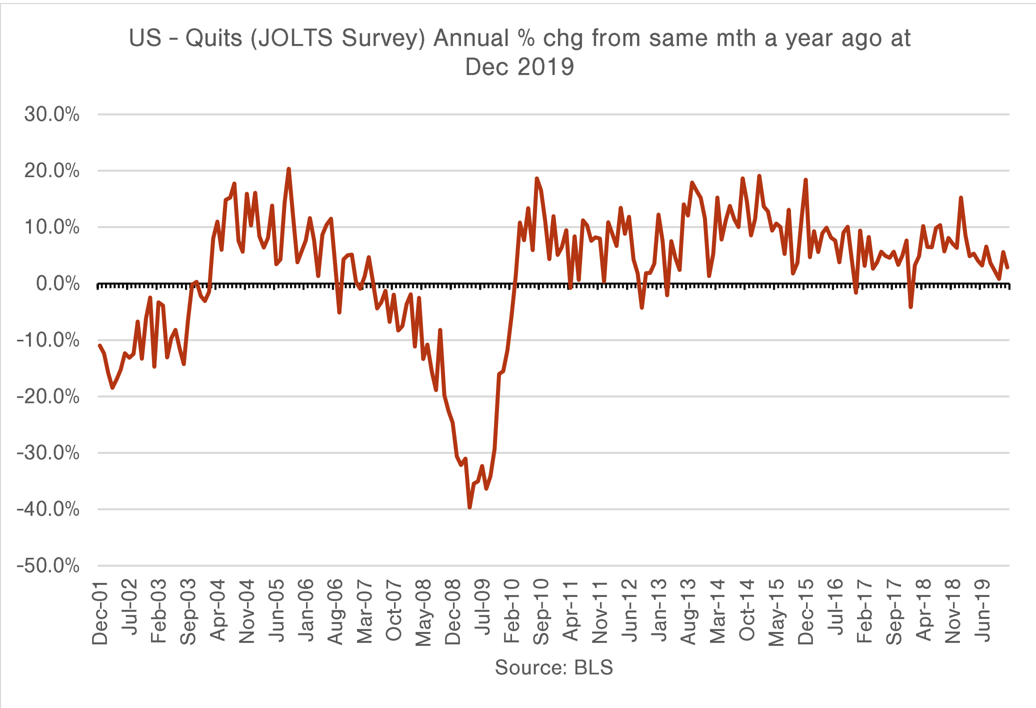


Quits – month; Dec 3.5m versus Nov 3.6m

This is a 2% decline in quits for the month, but the annual pace of quits remains 3% above a year ago.

The annual growth in quits has been slowing throughout 2019, suggesting that workers may feel somewhat less comfortable/secure in changing employment than say a year ago.

Importantly, the quit rate remains at 2.3 in Dec which is equal to the 12-month average.

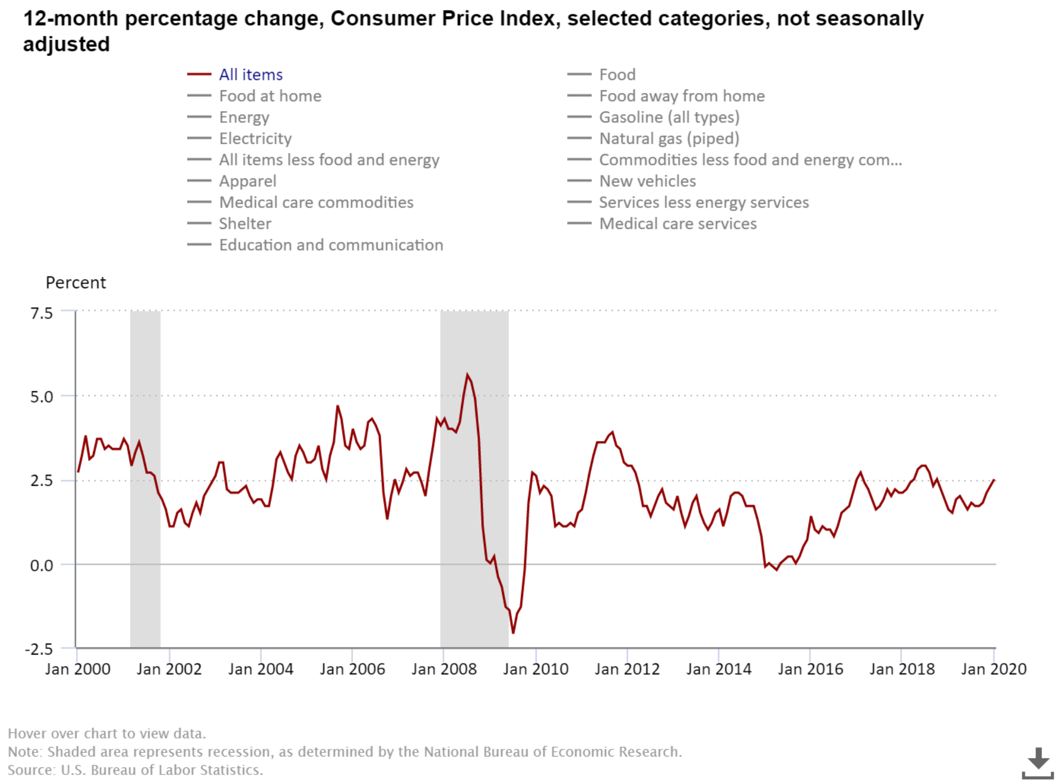


https://www.bls.gov/news.release/jolts.nr0.htm

CPI (Jan)

Consumer price growth was little changed in the month, but accelerated further on an annual basis. The main contributor to the faster annual growth in consumer prices in Jan were energy prices. On a monthly basis, energy prices were slightly lower.

Headline CPI – annual change; Jan +2.5% versus Dec +2.3%



The acceleration on an annual basis was the result of a larger contribution from the growth in energy prices between Dec and Jan.

Energy prices – annual change; Jan +6.2% versus Dec +3.4%. The increase in energy prices accounted for most of the acceleration in headline CPI in Jan. In Dec, energy price growth accounted for 10% of the increase in CPI but in Jan that increased to 17% of the headline CPI.

Food prices – annual change; Jan +1.8% versus Dec +1.8%. The pace of annual (as well as monthly) growth in food prices was constant. Food prices accounted for 10% of the increase in headline CPI in Jan – and this was unchanged from Dec.

The remainder/core CPI;

All items less food and energy prices – annual change; Jan +2.3% versus Dec +2.3%

Core CPI categories accounted for 72% of the increase in CPI for Jan compared to 78% in Dec. Within that group though, the annual decline in prices for commodities less food and energy commodities were offset by an acceleration in services prices;

CPI commodities less food and energy commodities – annual change; Jan -0.3% versus Dec +0.1%

The annual decline in commodities prices was led mostly by the further decline in used car and truck prices (Jan -2% versus Dec -0.7%).

CPI Services less energy services – annual change; Jan +3.1% versus Dec 3%

Shelter, medical and transport services price growth all made slightly larger contributions to headline annual CPI growth.

https://www.bls.gov/news.release/cpi.nr0.htm

Retail Sales (Jan)

Retail sales growth accelerated at a slightly faster pace in Jan. Growth among retail categories was mixed with the stronger performers being food services/on-premise and building materials. Value sales declined across clothing and gasoline.

Annual retail growth slowed in Jan, but remains elevated compared to the recent trend.

Retail Sales Value – month change; Jan +0.3% (+$1.3bn) versus Dec +0.2%

The top three largest contributors to growth in the month by category were;

On-premise/food services (+$0.8bn or +1.2% growth in the month)

Building supplies (+$0.7bn or +2.1% growth in the month)

General Merchandise stores (+$0.3bn or +0.5% growth in the month)

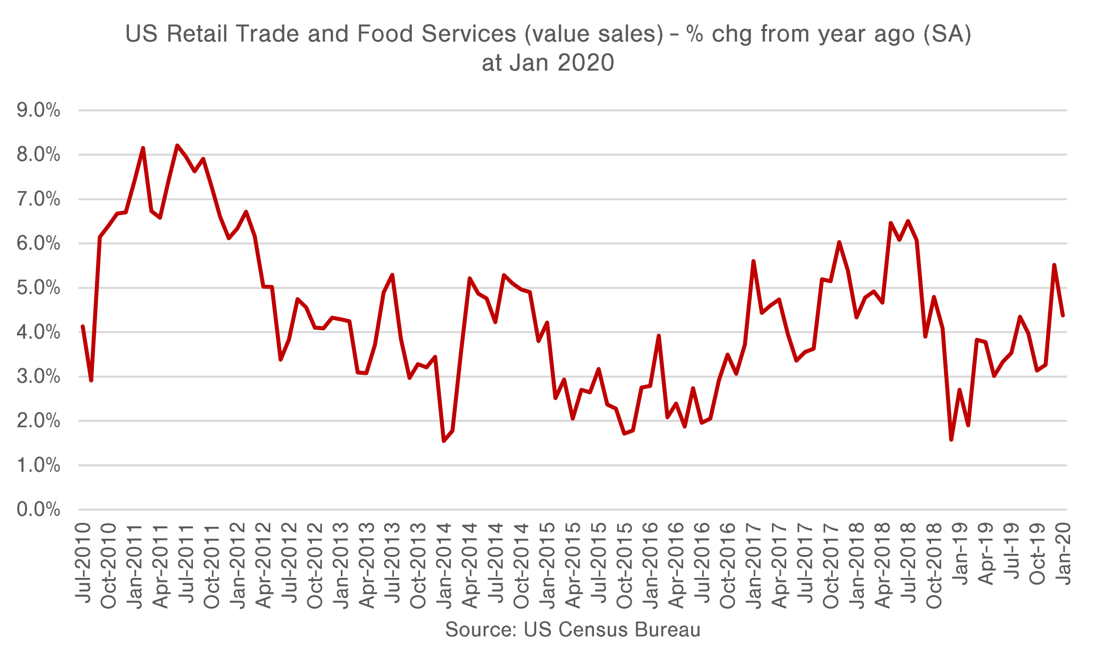
Growth of the two largest retail categories was more moderate this month; Motor vehicles +0.2% in Jan versus -1.7% in Dec. Grocery retail sales increased by +0.2% in Jan after +0.5% in Dec.

Several categories recorded larger retail sales declines in the month;

Clothing; Jan -3.1% versus Dec +2.7%

Gasoline stations; Jan -0.5% versus Dec +1.7%

Retail Sales Value – annual change; Jan +4.4% versus Dec +5.5%



The acceleration in the annual pace of retail sales growth in prior month of Dec was more of a base effect after retail sales declined by 2% between Nov and Dec 2018. The pull back to +4.4% in Jan is still elevated compared to the 2019 trend.

https://www.census.gov/retail/index.html

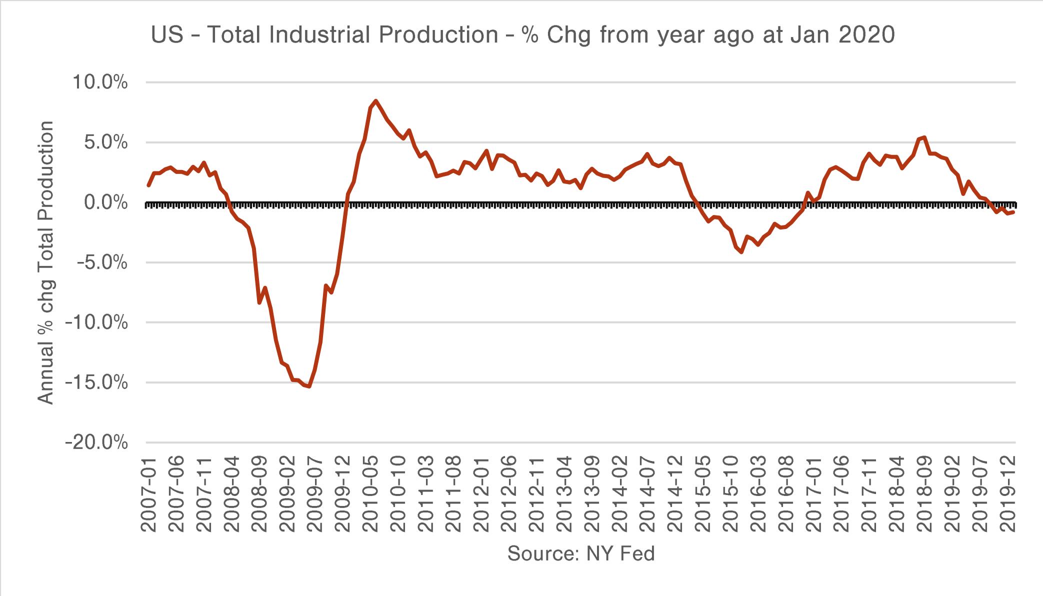
Industrial Production (Jan)

US industrial production continued to decline in the latest month. This was led by manufacturing (durable goods led by lower aircraft production) and utilities production (unseasonably warm weather). Mining production increased at a slightly slower pace in Jan.

Overall industrial production levels remained below a year ago in Jan.

Total Industrial Production – month change; Jan -0.3% versus Dec -0.4%

On an annual basis, production remains 0.8% below a year ago;



Of the three main industries making up total industrial production, manufacturing and utilities production both contributed to the decline in the month. Mining production continued to grow.

Manufacturing

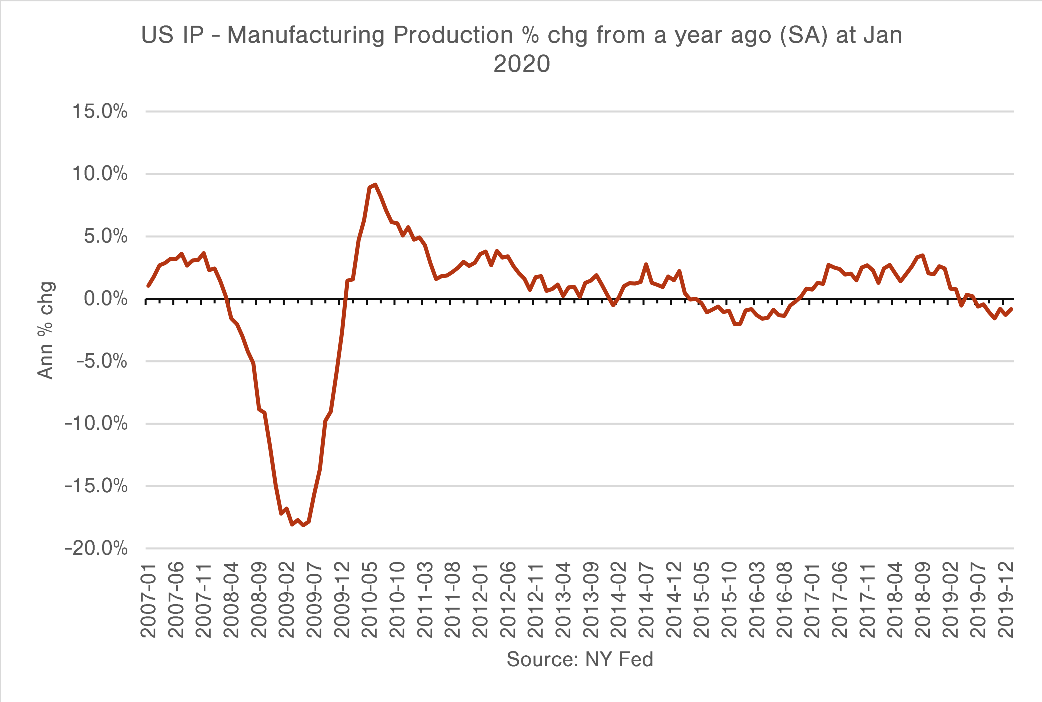
Manufacturing Production – month change; Jan -0.1% versus Dec +0.1%

The main contributor the weaker manufacturing production in the month was durable goods – which offset a smaller increase in non-durable goods production.

Durable goods manufacturing output declined at a faster pace of -0.5% in Jan after a -0.4% decline in Dec. The main decline was a -7.4% decline in output in Jan for Aerospace and misc transport. But declines were also recorded across primary metals, machinery, electrical equipment and furniture. In all, five of the eleven durable goods categories recorded declines in Jan versus only three categories in Dec.

Non-durable goods manufacturing output increased at a slower pace; Jan +0.3% versus Dec +0.5%. Production of food/bev, apparel and other all declined in the month and this was offset by growth in petroleum, plastics and printing production.

On an annual basis, manufacturing production remains below a year ago; Jan -0.8% versus Dec -1.3%.

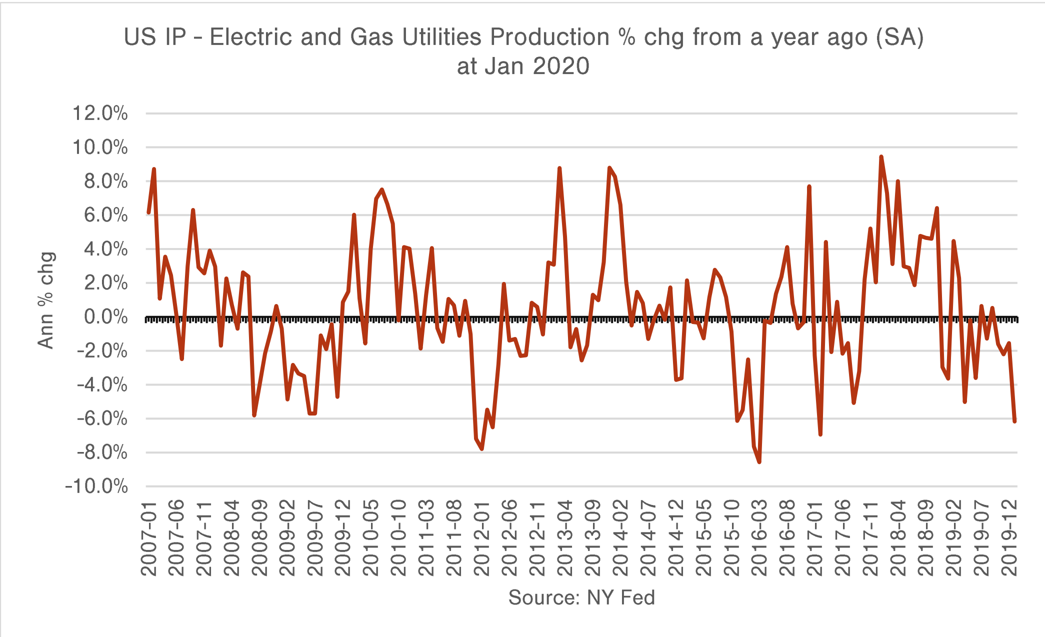


<u>Utilities</u>

<u>Electric and Gas Utilities Production – month change</u>; Jan -4% versus Dec -6.2%

"…unseasonably warm weather held down the output of utilities…"

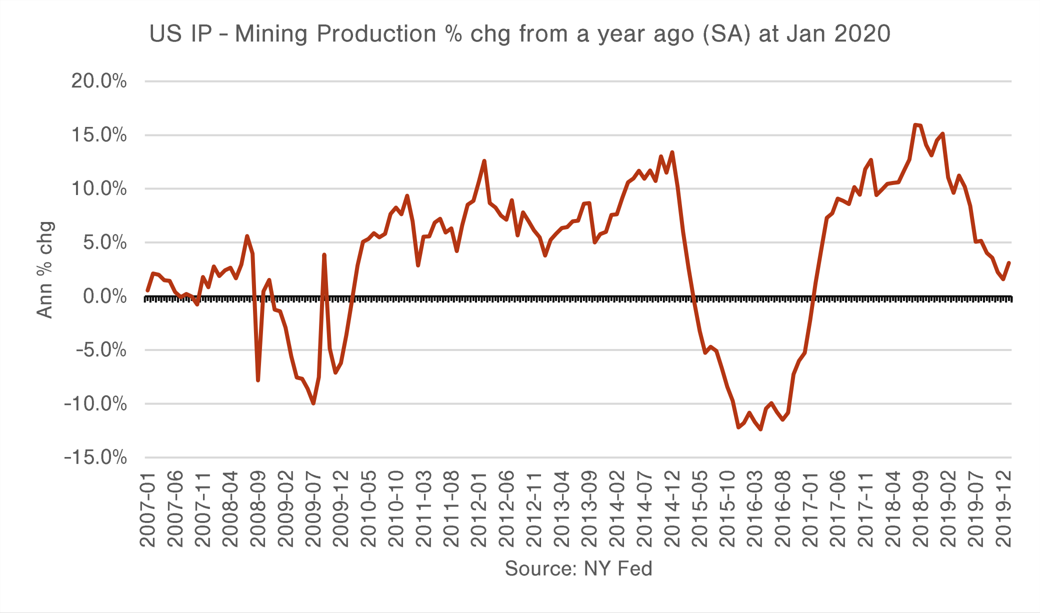
On an annual basis, utilities output declined at an accelerated pace; Jan -6.2% versus Dec -1.5%.



Mining

Mining Production – month change; Jan +1.2% versus Dec +1.5%

Mining output growth has been slowing on an annual basis since the third quarter of 2018. In Jan, annual growth lifted to +3.1%;



https://www.federalreserve.gov/releases/g17/current/default.htm

Uni of Michigan Consumer Sentiment – prelim (Feb)

The index of consumer sentiment and sentiment of expected conditions continued to increase in the Feb prelim reading. Both readings were the second highest since the since the GFC.

Sentiment of current economic conditions declined versus the month prior.

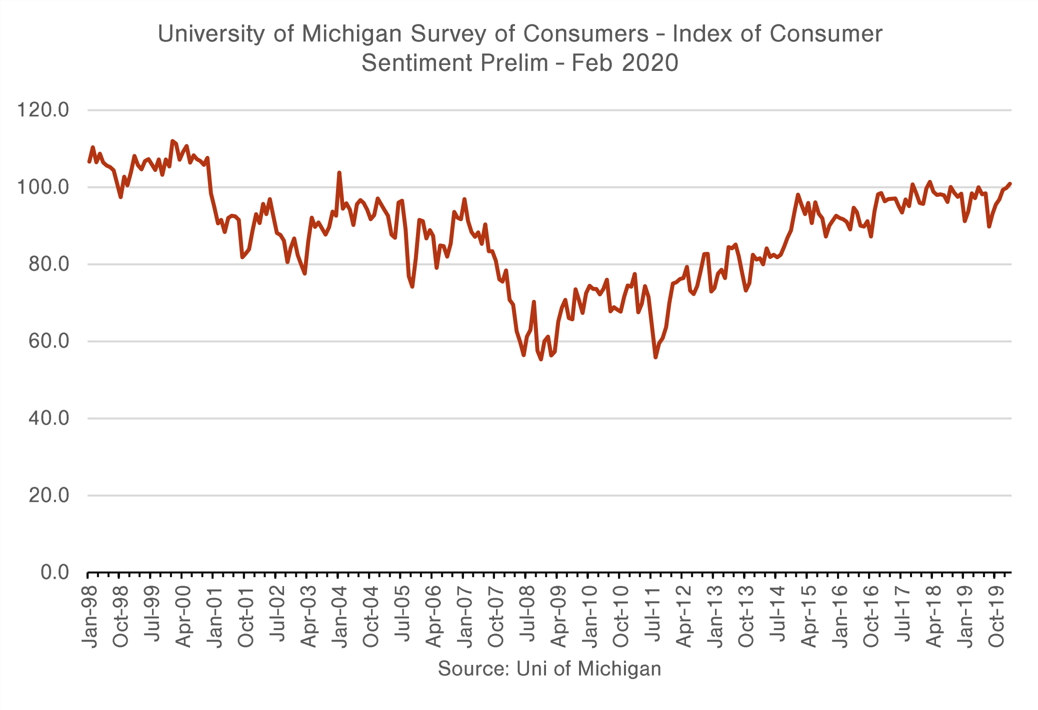
> The early February gain was not uniform, however. Current personal finances as well as evaluations of the national economy each posted large gains, while consumers' views on buying conditions for household durables posted a significant loss.
>
> Net gains in household income and wealth were reported more frequently in early February than at any prior time since 1960 (see the chart).

Overall, little mention was made of Coronavirus – only 7% mentioned it in explanations for economic expectations. The other factor was the impact of changes in taxing and spending expectations related to the Presidential elections – only 10% made mentioned that this may have an impact on economic expectations (so far).

Consumer Sentiment

Index of current consumer sentiment – month; Feb prelim 100.9 versus Jan final 99.8

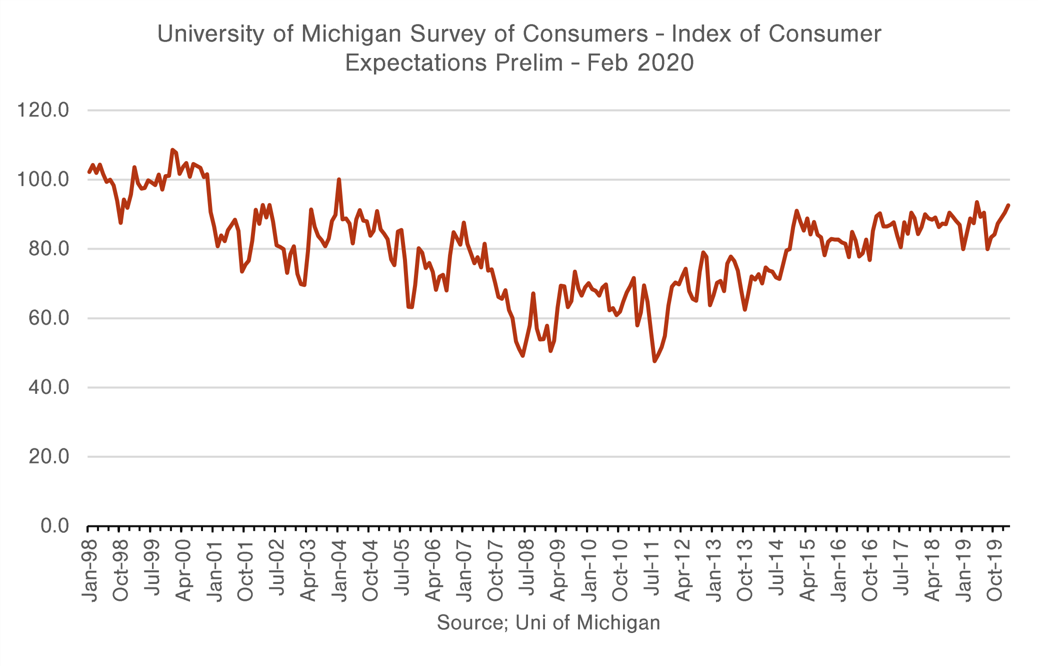
The Feb prelim result is now only -0.5% below the peak in sentiment reached in Mar 2018 and Feb 2020 is the second highest reading since the GFC.



Consumer Expectations

Index of consumer expectations – month; Feb prelim 92.6 versus Jan final 90.5

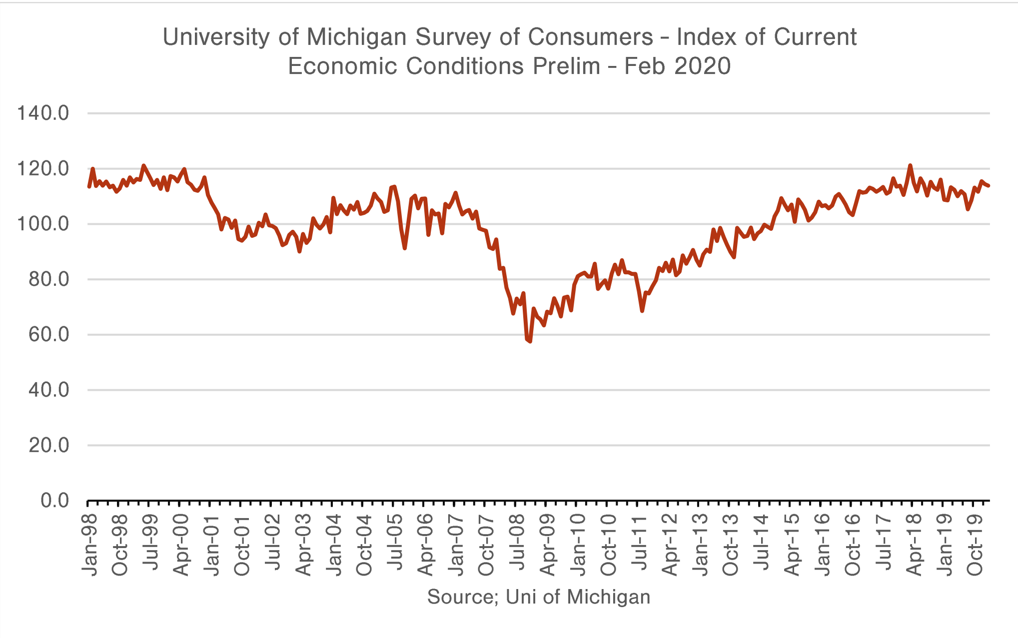
This is also the second highest reading of expected conditions since the GFC. The expectations index peaked in May 2019 at 93.5.



Current Economic Conditions

Index of current economic conditions – month; Feb prelim 113.8 versus Jan final 114.4

Despite the stronger readings for current overall sentiment and expectations, the assessment of current conditions slipped somewhat for the second month. The assessment of current conditions had been improving since Aug 2019 after peaking back in Mar 2018. The index of current conditions remains 6% below the post GFC peak in Mar 2018.



http://www.sca.isr.umich.edu/

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Europe

Industrial Production (Dec)

Industrial production weakened markedly across the Eurozone in Dec. Production across all sectors declined. Annual growth also declined at an accelerated pace across the Euro area and the broader EU27.

Euro area industrial production – month change; Dec -2.1% versus Nov 0%

Declines across all categories accelerated in Dec. This was led by a -4% decline in capital goods production, followed by intermediate goods (-1.7%), non-durable consumer goods (-1.3%), durable consumer goods (-1.1%) and energy (-0.5%).

Similarly, production declined in the month across the broader EU28 group;

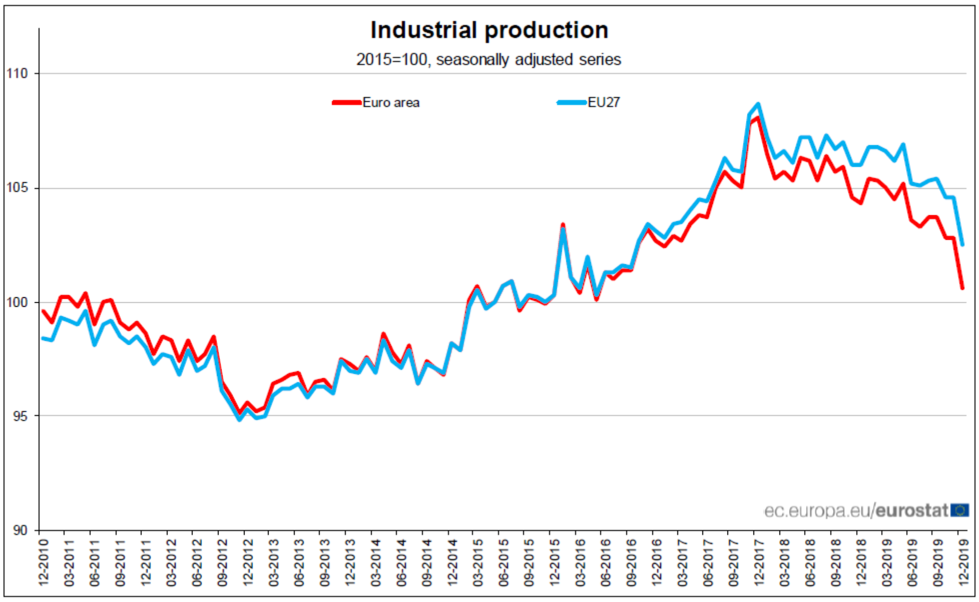
EU28 industrial production – month change; Dec -1.7% versus Nov -0.2%

Excluding the UK, the EU27 group month change was lower; Dec -2% versus Nov 0%. All categories recorded declines in production, led by capital goods (-3.5%), intermediate goods (-1.6%), durable consumer goods (-1.4%), non-durable consumer goods (-1.2%) and energy (-0.7%).

Industrial production on an annual basis within Europe declined at an accelerated pace;

EU27 industrial production – annual change; Dec -3.9% versus Nov -1.3%

Annual production declined at an accelerated pace across capital goods (-6%), intermediate goods (-4.9%) and energy (-3%). Annual production of durable consumer goods shifted into decline (-0.9%). Annual production of non-durable consumer goods slowed to +0.9%.



https://ec.europa.eu/eurostat/documents/2995521/10159460/4-12022020-AP-EN.pdf/c2154713-4603-be3d-7e6c-d495954f6baa

Eurozone Q4 GDP – prelim

The prelim result indicated that economic growth slowed in Q4 across both the Euro area and broader EU27 group. Weak growth and declines were recorded across some of the larger European economies.

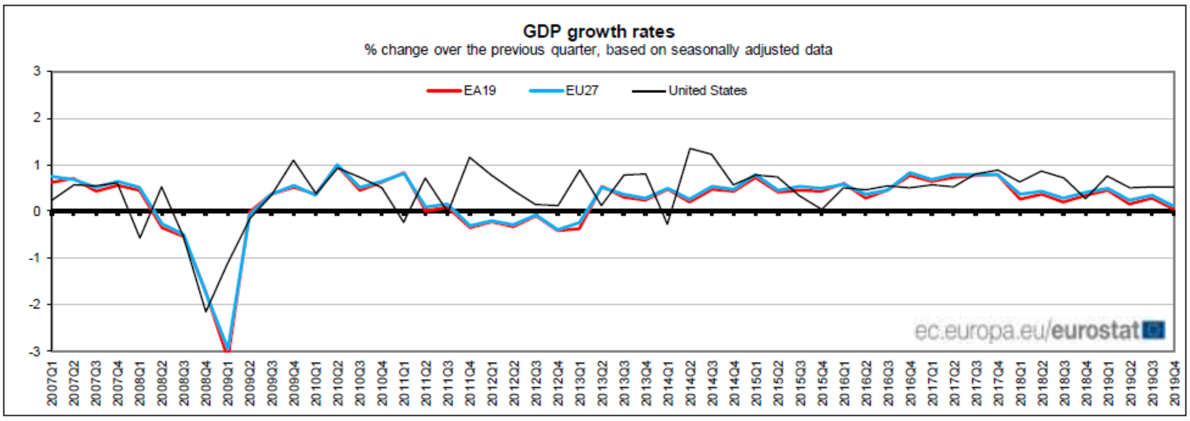
Euro area GDP – quarter change; Q4 +0.1% versus Q3 +0.3%

Annual growth in the Euro area slowed from +1.2% in Q3 to +0.9% in Q4.

Growth across the broader EU27 group also slowed;

EU27 GDP – quarter change; Q4 +0.1% versus Q3 +0.3%

Annual GDP growth slowed to +1.2% from +1.5% in Q3.



Member Countries

Growth slowed and/or declined within the larger member countries;

Germany GDP – quarter change; Q4 0% versus Q3 +0.2%

Italy GDP – quarter change; Q4 -0.3% versus Q3 +0.1%

France GDP – quarter change; Q4 -0.1% versus Q3 +0.3%

Growth in Spain and Portugal remained elevated at +0.5% and +0.6% respectively.

Growth in Poland slowed from +1.2% in Q3 to +0.2% in Q4.

Ireland and Sweden are yet to report.

https://ec.europa.eu/eurostat/documents/2995521/10159400/2-14022020-AP-EN.pdf/f9d9764c-bd84-e8f9-90b1-24b12ecee7a4

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United Kingdom

Q4 GDP (prelim)

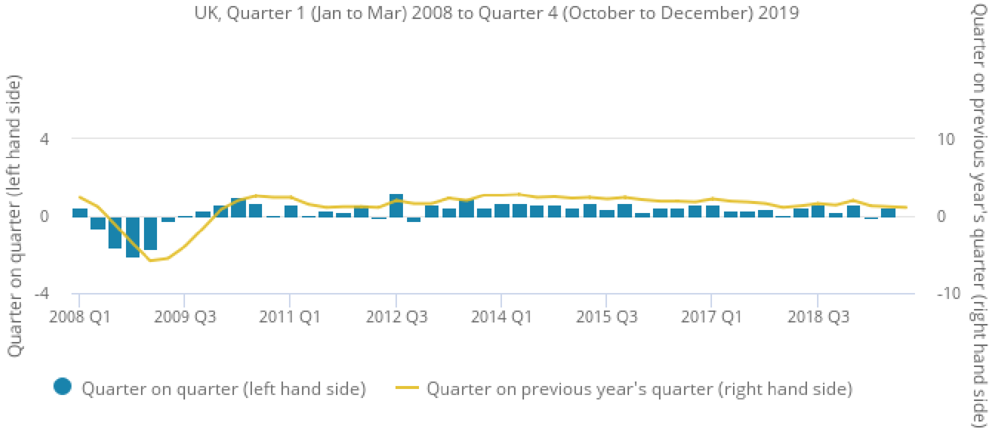
The prelim GDP figure indicated that growth slowed to zero in Q4 while growth in Q3 was revised slightly higher. The Q4 result was led by much slower growth in Services and Construction while Production declined.

> This was in part linked to changes in the timing of activity around the originally planned departure dates of the UK from the EU in March and October 2019.

Prelim UK GDP – quarter change; Q4 0% versus Q3 +0.5%

Figure 1: Real GDP was flat in Quarter 4 2019, as the underlying momentum in the UK economy appeared to be slowing

UK, Quarter 1 (Jan to Mar) 2008 to Quarter 4 (October to December) 2019



Source: Office for National Statistics

Expenditure View of GDP

In Q4, Net exports continued to contribute most to over GDP growth, adding +1.56% to headline growth. This has been led by movements in 'unspecified goods' including non-monetary gold. Excluding precious metals, the trade surplus shifts to a trade deficit.

Private consumption expenditure slowed from adding +0.23%pts to growth in Q3 to virtually flat in Q4, adding only +0.04%pts to growth.

Government consumption expenditure added +0.4%pts to headline growth.

Gross Capital Formation detracted from growth at a faster pace in Q4, detracting -1.99% pts from headline growth (versus -1.18%pts in Q3). The weakness in Q4 was driven mostly by acquisitions less disposal of valuables. Gross fixed capital formation still declined by -1.6% in Q4. The change in inventories also added to growth.

https://www.ons.gov.uk/economy/grossdomesticproductgdp/bulletins/gdpfirstquarterlyestimateuk/octobertodecember2019

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Australia

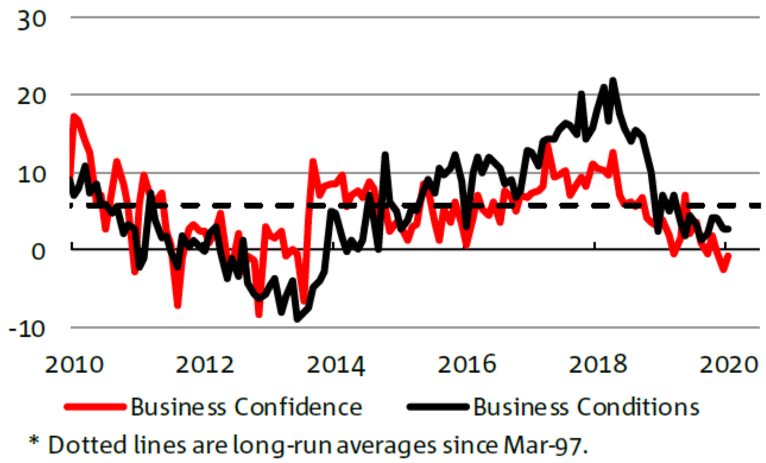
NAB Business Conditions & Confidence (Jan)

In Jan, business confidence remained negative, but still improved slightly. Business conditions remained unchanged. Both continue to track well below historical averages indicating the ongoing malaise in the economy.

Business Confidence; Jan -1 versus Dec -2

Business Conditions; Jan 3 versus Dec 3

CHART 1: MORE OF THE SAME

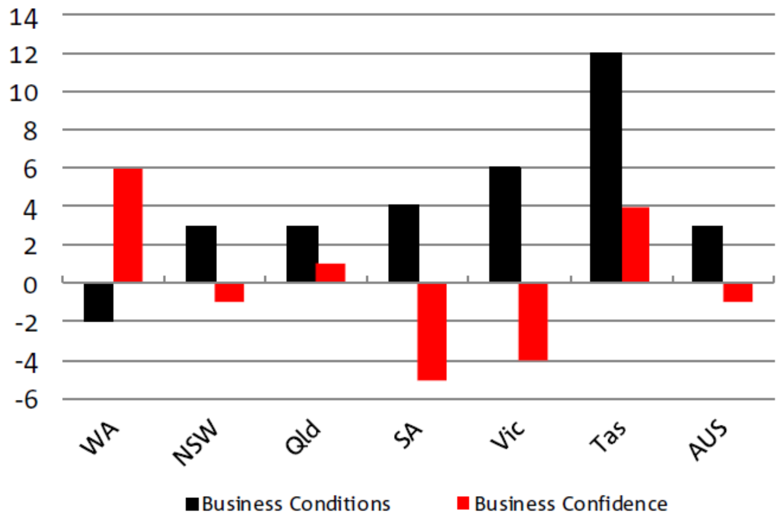


Within business conditions, trading conditions continued to fall slightly, profitability increased slightly and the index of employment fell from 4 in Dec to 1 in Jan.

Forward orders remain in contraction (-1), stocks are unchanged and exports continued to decline.

On a state basis, there has been no material deterioration due to bushfires, but NSW conditions and confidence remain weaker (largest state);

CHART 7: BUSINESS CONDITIONS BY STATE, LATEST MONTH (TREND)



https://business.nab.com.au/wp-content/uploads/2020/02/NAB-Monthly-Business-Survey-January-2020.pdf

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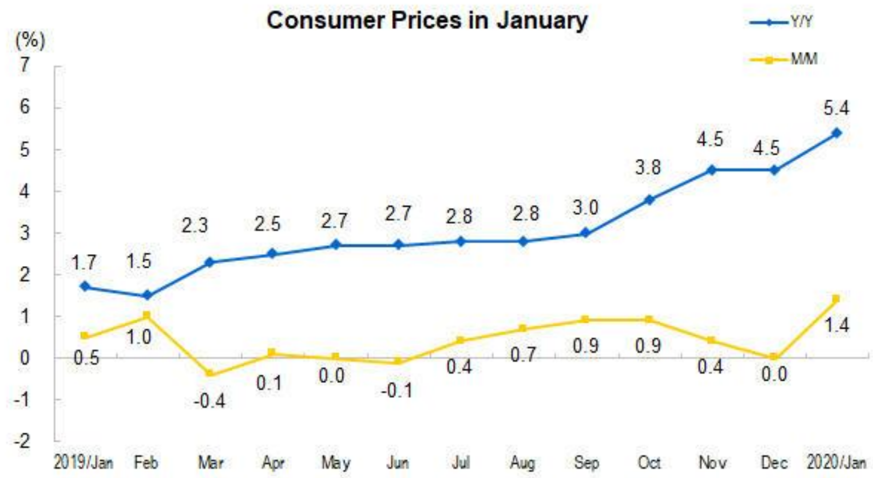
China

CPI (Jan)

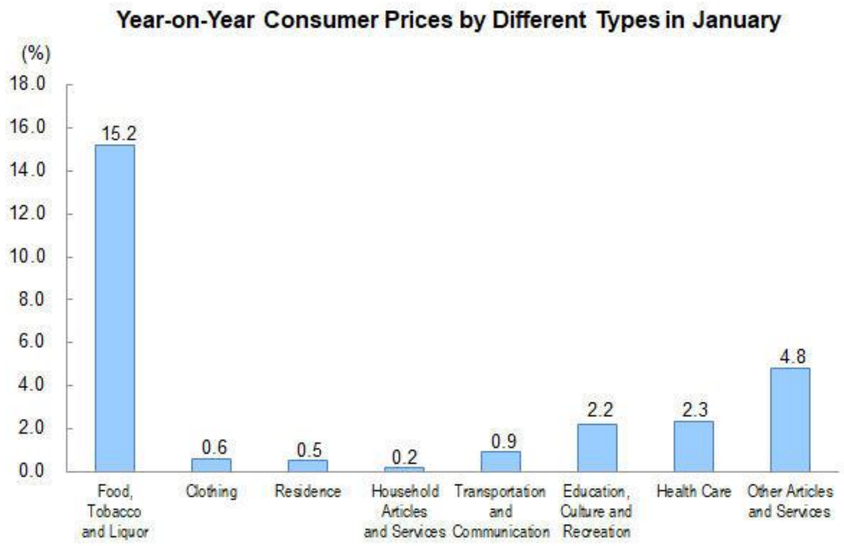
The annual growth in consumer prices in China accelerated further in Jan. Most of the increase in the CPI rate was attributed to an increase in food, tobacco and liquor prices – led by livestock meat prices. Overall, food prices increased at an annual pace of +20.6% while non-food price growth was more moderate at +1.6% over the year.

The increase in prices for the month, was the larger than for the same period a year ago (going into Lunar New Year).

<u>CPI – annual change</u>; Jan +5.4% versus Dec 4.5%



Leading the growth in consumer prices has been livestock prices – led by Swine Flu.



http://www.stats.gov.cn/english/PressRelease/202002/t20200211_1725792.html

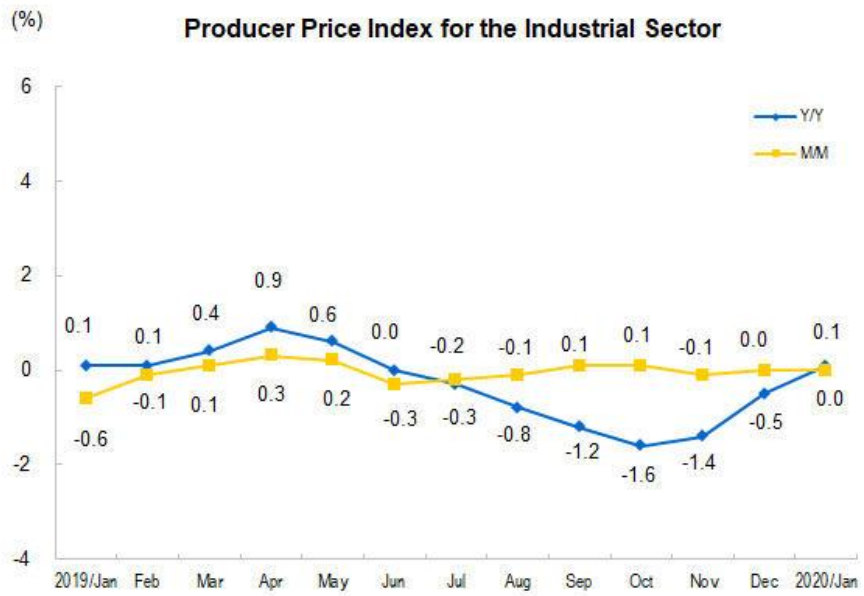
PPI (Jan)

Overall producer prices have stopped declining on an annual basis. Growth remains little changed on a monthly basis. Producer input prices are also starting to increase on a monthly basis and the annual decline has been slowing.

<u>PPI Industrial Sector – annual change</u>; Jan 0% versus Dec -0.5%

> The industrial producer price index reflects the trend and level of prices change when the products are sold for the first time.

This provides some insight into prices received by goods producers in China – and for the moment, prices have stopped declining.



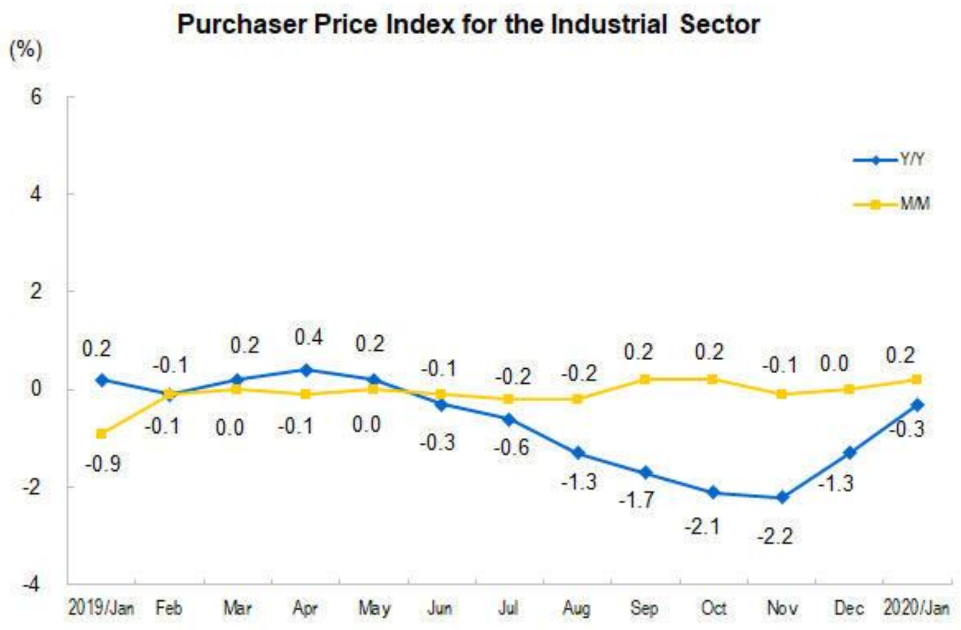
Producers prices across the means of production continued to decline, but at a slower pace (-0.4% annual decline in Jan). This was led by price declines across raw materials and processing.

Producer prices across the means of subsistence were higher on an annual basis +1.3% in Jan. This was led mostly by a +5% growth in food prices. Prices for clothing, durable consumer goods and articles for daily use were either flat to declining.

<u>Purchaser Price Index – annual change</u>; Jan -0.3% versus Dec -1.3%

> The industrial purchaser price index reflects the trend and level of prices change for the products purchased by the industrial enterprises as intermediate inputs.

On a monthly basis, input prices have again started to increase at a faster pace than the growth in producer prices – something to watch from a profitability perspective.



http://www.stats.gov.cn/english/PressRelease/202002/t20200211_1725794.html

Data for Retail Sales, Industrial Production, Fixed Asset Investment for Jan was not released.

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Trade

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-dBre56Zxr9XEMmOuIR3iidddF_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%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+authoris

es+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-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

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