

Key Themes

Markets are likely to continue to digest the impact of Coronavirus as well as now the ramifications of the breakdown in OPEC relations with Russia. This will be a quiet data week with only a few releases of note.

Last week, central banks responded to the threat to economic activity from the outbreak of Coronavirus with further rate cuts. The RBA (-25bps) and BoC (-50bps) cut rates, as well as an 'insurance' (emergency) rate cut (-50bps) by the US Federal Reserve. The ECB is due to meet this week.

US Fed Presidents were out during the week and there was some indication that the Fed may look to expand its mandate on asset purchases. The US FOMC will meet next week on 18 Mar and the current target rate probabilities indicate a further cut to 25-50bps (as of 8 Mar; https://www.cmegroup.com/trading/interest-rates/countdown-to-fomc.html?utm_source=cmegroup&utm_medium=friendly&utm_campaign=fedwatch&redirect=/fedwatch)

Data of note this week in the US will be CPI and PPI for Jan. Likely the most important piece of data will be the first read for Mar of the Uni of Michigan consumer confidence data. Given the falls in the US stocks and the ongoing/escalation in Coronavirus reporting, its possible that we start to see confidence erode.

Data out of Europe includes Eurozone and Germany industrial production for Jan and detailed Q4 GDP.

The NBS in China will release CPI and PPI data for Feb. New loans data is also due to be released this week.

Aus data of note will be the NAB business confidence and conditions for Feb as well as housing loans for Jan.

The supply of US Treasuries settling this week will be lighter and there will be a net paydown due to the 21-day CMB (\$40bn) maturing on 12 Mar. The US Treasury will settle approx. \$173bn in ST Bills this week, with a net paydown of \$32.6bn.

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 \$20bn each (10 and 12 Mar). Last week, repo operations were over-subscribed in some cases, indicating increased funding needs coming into quarter end.

US Treasury Issuance & Settlements

The supply of US Treasuries settling this week will be lighter and there will be a net paydown due to the 21-day CMB maturing on 12 Mar. The US Treasury will settle approx. \$173bn in ST Bills this week, with a net paydown of \$32.6bn.

The US Treasury will also auction approx. \$78bn in Notes and Bonds this week, that will settle next week, raising approx. \$54bn in new money.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
9-13 Mar	05-Mar	10-Mar	4 week bill	50			Completed
	05-Mar	10-Mar	8 week bill	45			Completed
				95	85	10	
	09-Mar	12-Mar	13 week bill	36			Announced
	09-Mar	12-Mar	26 week bill	42			Announced
				78	120.6	-42.6	21-day CMB maturing \$40bn 12 Mar
			Total - securities settling this week	173	205.6	-32.6	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		10-Mar	Treasury Bills	6.014			
		12-Mar	Treasury Bills	3.346			
				9.360			
			Reserve Management Purchase Operations - Treasury Bills	\$B			
	06-Mar	09-Mar	Bills 0-1yr	7.525			
			Reinvestment Purchases - Treasury Coupons	\$B			
	09-Mar	10-Mar	Bills 0-1yr	3.025			
	10-Mar	11-Mar	FRN 0-2yr	0.425			
				3.450			

Approx. \$9bn in treasury bills will mature this week – the principal payments will be rolled over. The Fed will purchase approx. \$7bn 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 10 and 12 Mar of up to \$20bn 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 COMMENCING 9 MARCH 2020

MONDAY 9 MARCH (US Eastern Time)

Europe	Germany Industrial Production (Jan)
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Japan	GDP 2 nd estimate Q4 2019
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TUESDAY 10 MARCH

US	Business Optimism Index (Feb)
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China	CPI & PPI (Feb)
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Europe	GDP (detail) Q4 2019
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Aus	NAB Business Conditions and Confidence (Feb)
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WEDNESDAY 11 MARCH

US	CPI (Feb)
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China	New Loans (Feb)
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Aus	Housing Finance (Jan)
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THURSDAY 12 MARCH

US	PPI (Feb)
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Europe	ECB Rates Decision Industrial Production (Jan)
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FRIDAY 13 MARCH

US	University of Michigan Consumer Sentiment – prelim (Mar)
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Europe	Germany CPI (Feb)
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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_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+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. Legislation was only introduced into the Canadian parliament at the end of Jan after approval by the US. Regarding the timeline for the USMCA;

Ujczko expects **the agreement to be officially ratified between mid-March and early April**, taking into account the Senate’s approval process and March break and holidays. “The USMCA will be fully in force sometime between Fourth of July Picnics and Labor Day,” said Ujczko.

<https://www.asicentral.com/news/newsletters/promogram/february-2020/usmca-ratification-process-continues-in-canada/>

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

The first round of trade negotiations between the UK and the EU commenced last week. As expected, there were some significant differences in objectives at this early stage.

Despite the differences, Barnier said he remained confident that a deal was possible by the end of the year.

<https://www.theguardian.com/politics/2020/mar/05/barnier-warns-of-grave-differences-between-eu-and-uk-in-trade-talks>

PM Johnson has threatened to walk away from negotiations, stating that the agreement must “materialize quickly” – if that does not materialise by Jun, then;

“...the government will need to decide whether the UK's attention should move away from negotiations and focus solely on continuing domestic preparations to exit the transition period in an orderly fashion,” the government said in its negotiating mandate.”

<https://www.cnn.com/2020/02/27/business/brexit-uk-eu-trade-talks/index.html>

There is a broader context within the UK, as well as Europe now too, especially with the onset of the Coronavirus. There is some suggestion that maybe the UK may soften its ‘gung-ho’ approach;

The resignation of Sajid Javid, the flooding emergency, the court judgment about Heathrow expansion, the now growing row over Priti Patel, the Flybe collapse and, especially, the developing Coronavirus crisis have all played their part. Suddenly, this feels like a beleaguered administration.

<https://chrisgreybrexitblog.blogspot.com/2020/03/negotiating-events.html>