

Key Themes

Disruptions to financial markets continued last week. Central banks have responded with emergency rate cuts and further measures to ease financial conditions. The RBNZ cut rates by 75bps to +0.25% and the US Federal Reserve cut rates by 100bps to 0-0.25% ahead of its scheduled meeting this week.

The US Fed announced a range of further significant policy easing measures on 15 Mar (details included in this briefing document), including the coordinated Central Bank action to “enhance the provision of liquidity via the standing US dollar swap line arrangements”.

The Bank of Japan announced a range of easing measures ahead of its scheduled meeting; details; https://www.boj.or.jp/en/announcements/release_2020/k200316b.pdf, https://www.boj.or.jp/en/announcements/release_2020/rel200316d.pdf, <https://www.boj.or.jp/en/announcements/index.htm/>

Although the RBA cut its benchmark rate two weeks ago, it announced further liquidity measures today (16 Mar) - <https://www.rba.gov.au/media-releases/2020/mr-20-07.html>. This includes the purchase of AUD bonds in the secondary market and standing repo operations. The statement indicates that further policy measures will be announced during the week on 19 Mar. This is likely to include a further reduction in the overnight cash rate to 0.25% and possibly details of a QE program. The Aus government has also indicated that further fiscal stimulus is to be announced shortly.

Data out of China early this week indicates significant declines across retail sales, industrial production and fixed asset investment over the Jan-Feb period.

Data of note this week; US retail sales (Feb), regional manufacturing data (Mar) and US industrial production – we will include a special focus on US initial jobless claims and weekly mortgage applications data.

Labour market reports from Aus and the UK will also be in focus this week.

The supply of US Treasuries settling this week will be heavier. The US Treasury will settle approx. \$246bn in ST Bills, Notes and Bonds this week, raising approx. \$57.3bn in new money.

This will be supported with significant increases in repo operations each week, as well as purchases of Treasury securities by the Fed. At this stage, there has been no forward schedule released for the planned purchases of securities. Purchase details this will be released daily on the NY Fed website. On Mon 16 Mar, the Desk at the NY Fed will purchase approx. \$40bn in Treasuries. On 13 Mar, the Desk at the NY Fed purchased approx. \$37bn in securities.

US Treasury Issuance & Settlements

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
16-20 Mar	12-Mar	17-Mar	4 week bill	50			Completed
	12-Mar	17-Mar	8 week bill	40			Completed
				90	83.3	6.7	
	16-Mar	19-Mar	13 week bill	42			Announced
	16-Mar	19-Mar	26 week bill	36			Announced
				78	81.4	-3.4	
	10-Mar	16-Mar	3yr Note	38			Completed
	11-Mar	16-Mar	10yr Note	24			Completed
	12-Mar	16-Mar	30yr Bond	16			Completed
				78	24	54	
			Total - securities settling this week	246	188.7	57.3	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		16-Mar	Notes/Bonds	0.075			
		17-Mar	Bills	5.56			
		19-Mar	Bills	2.67			
				8.305			

The FOMC announced an emergency rate cut of the FFR to 0-0.25% as well as increased measures to support the functioning of the financial system.

QE Programs

Effective March 16, 2020, the Federal Open Market Committee (FOMC) directed the Open Market Trading Desk (the Desk) to increase over coming months the System Open Market Account (SOMA) holdings of Treasury securities and agency mortgage-backed securities (MBS) by at least \$500 billion and at least \$200 billion, respectively.

The FOMC also directed the Desk to continue rolling over at auction all principal payments from Treasury securities holdings and to reinvest all principal payments from agency debt and agency MBS holdings in agency MBS.

These plans replace the Desk's previously communicated plans for reserve management and reinvestment purchases.

In addition, the FOMC directed the Desk to continue conducting term and overnight repurchase (repo) agreement operations to ensure that the supply of reserves remains ample and to support the smooth functioning of short-term U.S. dollar funding markets.

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details#current-schedule>

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Repo Operations

Repo operations will be significantly increased;

Overnight repo operations will be conducted daily of up to \$175bn

14-day term repo operations twice a week of up to \$45bn

One-month term repo operation, one per week, of up to \$500bn

Three-month term repo operation, one per week, of up to \$500bn

Federal Reserve Actions to Support the Flow of Credit to Households and Businesses

In a related set of actions to support the credit needs of households and businesses, the Federal Reserve announced measures related to the discount window, intraday credit, bank capital and liquidity buffers, reserve requirements, and—in coordination with other central banks—the U.S. dollar liquidity swap line arrangements.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>

Swap Lines

The Bank of Canada, the Bank of England, the Bank of Japan, the European Central Bank, the Federal Reserve, and the Swiss National Bank are today announcing a coordinated action to enhance the provision of liquidity via the standing U.S. dollar liquidity swap line arrangements.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315c.htm>

<https://apps.newyorkfed.org/markets/autorates/fxswap>

FOMC statement 15 Mar 2020;

https://www.newyorkfed.org/markets/opolicy/operating_policy_200315

Coordinated Central Bank Action to Enhance the Provision of U.S. Dollar Liquidity 15 Mar 2020; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315c.htm>

Federal Reserve Actions to Support the Flow of Credit to Households and Businesses 15 Mar 2020; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>

WEEK COMMENCING 16 MARCH 2020

MONDAY 16 MARCH (US Eastern Time)

US	Fed Decision (15 Mar), NY Empire State Manufacturing Index (Mar)
China	House prices Index, Fixed Asset Investment, Industrial Production & Retail Sales (Feb)
Japan	BoJ Rates Decision

TUESDAY 17 MARCH

US	Retail Sales (Feb), Industrial Production (Feb), NAHB Housing Market Index (Mar), JOLTS (Jan), Business Inventories (Jan)
UK	Labour Market (Nov-Jan)
Japan	Industrial Production – Final (Jan), Merchandise Trade (Feb)
Aus	RBA Meeting Minutes, House Price Index Q4
Eurozone	Zew Economic Sentiment (Mar)

WEDNESDAY 18 MARCH

US	Mortgage Applications (13 Mar), Building Permits (Feb)
Eurozone	CPI (Feb)
Japan	National CPI (Feb)

THURSDAY 19 MARCH

US	Philly Fed Manufacturing Survey (Mar), Initial Jobless Claims (6 Mar)
Aus	Expected RBA Announcement on interest rates and QE, Labour Market (Feb)

FRIDAY 20 MARCH

US	Existing Home Sales (Feb)
China	PBoC Rates Decision (TBC)

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 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 have commenced. 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>