

## Key Themes

The human and economic cost of the spread of Coronavirus will remain the key focus. Quarantine requirements continue to be stepped up across countries and regions. There is some good news in the form of slowing growth in the number of new cases in some regions (due to quarantine), including Asia, that are further along in this outbreak.

The fall-out for the financial markets continues. Central banks continue to implement measures to ease liquidity issues.

The focus now starts to shift to the understanding the extent of economic shock and how fiscal stimulus will be applied. This week, we will *start* to gauge that impact with the prelim PMI's for Mar across the US, Europe and Asia. Two other important data points will be US Initial Jobless Claims from last week (20 Mar) and the final version of the University of Michigan Consumer Sentiment for Mar. Estimates for Initial Jobless Claims from last week have hit extreme levels (millions) – and there was talk that this number may not be released.

The supply of US Treasuries settling this week will remain heavy. The US Treasury will settle approx. \$236bn in ST Bills, a FRN and a new 79-day CMB this week, raising approx. \$43.1bn in new money. The US Treasury will also auction approx. \$125bn in Notes this week, to settle next week (raising approx. \$42.5bn).

Liquidity will be supported with further significant increases in repo operations each week, as well as purchases of Treasury securities by the Fed. There is still no forward schedule released for the planned purchases of securities - details to be released daily on the NY Fed website. On Mon 23 Mar, the Desk at the NY Fed will purchase approx. \$75bn in Treasuries. While the results of purchase operations for last week have also not yet been released, the 'planned' purchases for last week totalled \$275bn. Last week the Fed announced purchases of \$500bn "over the coming months" – last week's purchases represents over half of those planned purchases *just in the first week*. Further announcements from the Fed are likely as it looks for new ways to ease financial conditions.

## 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	
23-27 Mar	19-Mar	24-Mar	4 week bill	50			Completed
	19-Mar	24-Mar	8 week bill	40			Completed
				90	89	1	
	19-Mar-20	24-Mar-20	CMB 79 Day	20			
	23-Mar	26-Mar	13 week bill	45			Announced
	23-Mar	26-Mar	26 week bill	39			Announced
	24-Mar	26-Mar	52 week bill	26			Announced
				110	105.9	4.1	
	25-Mar	27-Mar	2yr FRN	18			
				18	0	18	
			<b>Total - securities settling this week</b>	<b>238</b>	<b>194.9</b>	<b>43.1</b>	
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>			
		24-Mar-20	Bills	4.830			
		26-Mar-20	Bills	4.891			
				9.721			

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>

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

On Mon 23 Mar, the Desk at the NY Fed will purchase approx. \$75bn in Treasuries.

Results are yet to be released for the week prior, but planned purchase amounts for the week prior 16 Mar totalled \$275bn.

#### Repo Operations – 20 Mar Announcement

Overnight repo operations will be conducted twice daily now, with both morning and afternoon operations conducted for an aggregate offer amount of up to \$500bn

“...the Open Market Trading Desk (the Desk) at the Federal Reserve Bank of New York will conduct additional overnight repurchase agreement (repo) operations for same-day settlement each afternoon from 1:30 PM ET to 1:45 PM ET for the remainder of the current monthly operational schedule. These repo operations will be conducted for an aggregate offered amount of \$500 billion. Also, the aggregate offered amount for the overnight repo operations conducted each morning will increase to \$500 billion for the remainder of the current monthly operational schedule.”

[https://www.newyorkfed.org/markets/opolicy/operating\\_policy\\_200320a](https://www.newyorkfed.org/markets/opolicy/operating_policy_200320a)

Term repo operations for w/c 23 Mar 2020;

Monday, 3/23/2020**	Monday, 4/20/2020	28-days	\$500 billion
Tuesday, 3/24/2020	Monday, 4/6/2020	13-days	At least \$45 billion
Thursday, 3/26/2020	Monday, 4/6/2020	11-days	At least \$45 billion
Friday, 3/27/2020**	Friday, 6/19/2020	84-days	\$500 billion

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements/repurchase-agreement-operational-details>

#### 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

USD swap line arrangements were further expanded last week;

On March 19, 2020, the New York Fed entered into temporary U.S. dollar liquidity arrangements (swap lines) with the Reserve Bank of Australia, the Banco Central do Brasil, the Danmarks Nationalbank (Denmark), the Bank of Korea, the Banco de Mexico, the Norges Bank (Norway), the Reserve Bank of New Zealand, the Monetary Authority of Singapore, and the Sveriges Riksbank (Sweden). <https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

Announcement at the start of the week;

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](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 23 MARCH 2020

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### MONDAY 23 MARCH (US Eastern Time)

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US	Chicago Fed National Activity Index (Feb)
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### TUESDAY 24 MARCH

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US	Prelim Markit Manufacturing & Services PMI (Mar), Richmond Fed Manufacturing Survey (Mar), New Home Sales (Feb)
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Europe	Eurozone Prelim Markit Manufacturing & Services PMI (Mar)
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Japan	Prelim Markit Manufacturing PMI (Mar)
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Aus	Prelim CBA Manufacturing & Services PMI (Mar)
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UK	Prelim Markit Manufacturing & Services PMI (Mar)
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### WEDNESDAY 25 MARCH

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US	Mortgage Applications (20 Mar), Durable Goods Orders (Feb)
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UK	CPI (Feb)
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NZ	RBNZ Rates Decision
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### THURSDAY 26 MARCH

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US	GDP Q4 (third est), Wholesale Inventories (Feb), Initial Jobless Claims (20 Mar), Kansas City Manufacturing Activity (Mar)
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UK	Retail Sales (Feb), BoE MPC Meeting
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### FRIDAY 27 MARCH

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US	Personal Consumption Expenditure, Income and PCE Price Index (Feb), Uni of Michigan Consumer Sentiment – Final (Mar)
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## Trade & Brexit

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### 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\\_p7AVgGOLJhvB5vCwefUnQJQX7HxB51j19htdO6Pq\\_w3zeE](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 – originally planned 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](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](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](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 Canadian parliament rushed the ratification of the USMCA last week. Legislation was rushed through as the Canadian parliament

The House of Commons lower chamber, which had weeks of deliberations left, agreed the instant approval on Friday after opposition legislators dropped their objections. The upper Senate chamber backed the pact later in the day, Deputy Prime Minister Chrystia Freeland told reporters.

In a letter to the U.S. Congress on Wednesday, Lighthizer sent notice of an entry-into-force date of June 1 for USMCA, according to a spokesman for the Senate Finance Committee, which oversees tax and trade issues.

<https://www.reuters.com/article/us-usa-trade-usmca-canada/canadian-parliament-rushes-through-ratification-of-usmca-trade-pact-idUSKBN2102I5>

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/ambassador-lighthizer-statement-canadas-approval-usmca>

## 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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

## BREXIT

The next round of Brexit negotiations was due to commence during this week in London. Face to face meetings were cancelled.

The lead negotiator for the EU, Michel Barnier, announced that he had tested positive for Coronavirus (verified via Twitter account).

The EU published a draft legal agreement for the future of the EU-UK partnership. The link to the draft is embedded in the release.

Emphasis added;

The UK has indicated that it will put forward some texts covering some of the elements of the future EU-UK relationship outlined in the Political Declaration.

Given developments related to COVID-19, EU and UK negotiators are currently exploring alternative ways to continue discussions, including if possible the use of video conferences. Both sides remain in close contact with one another. **Substantive work on the legal texts on both sides will continue over the coming weeks.**

[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_447](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447)

[https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT\\_20\\_455](https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_455)