

Key Themes

Markets are likely to continue to grapple with the potential impact of Coronavirus this week. The level of uncertainty regarding the impact on health, production, trade, expenditure, travel and supply chains remains extremely high. The first view of the quarantine impact on Chinese economic activity indicated a record level of contraction in both the manufacturing and non-manufacturing PMI's for Feb. Other economic data out of China was not released last week. In the coming week, we'll see the Caixin PMI's for manufacturing and services as a comparison to the official NBS data. Chinese trade data for Jan and Feb is due to be released at the end of the week, but delays are likely.

This is a data heavy week and there is likely to be greater headline risk around some of the releases as the narrative of the economic impact starts to develop. That said – some impacts may not appear negative on the surface. Firms may increase orders in order to stockpile parts etc. or look for alternative sources of supply. This also highlights the importance of tracking CPI and PPI over the coming months.

Global PMIs for Feb are due out this week. The prelim Feb PMI's indicated some weakening/contraction in activity – this week's release will include a broader view of economies. Production and order data for Germany and US factory orders for Jan may be too early to record much impact – although German data was already very weak in Dec.

US data of note also includes the ISM manufacturing and non-manufacturing PMI's for Feb as well as non-farm payrolls for Feb.

US domestic politics will also be in focus this week with the Democratic Super Tuesday primaries on 3 Mar. So far, Bernie Sanders has taken the lead and the outcome on Tues will have implications for the expected path of the election and assessment of policy implications.

The Aust economy will also be in greater focus given the reliance on the Chinese economy. The RBA meets this week and the 'official' probability of a rate cut at this meeting remains very low (given the circumstances) – only 11% expectation for a rate cut to 0.5% on 3 Mar as of 27 Feb. This may evolve in the next few days – refer to the tracker here;

<https://www.asx.com.au/prices/targetratetracker.htmtrack>

Other Aussie data out this week (after the RBA meeting) includes Q4 GDP (noting unexpected declines in Q4 investment numbers last week), retail sales and monthly trade data (important in tracking the slow-down in Australia's largest trading partner).

Also this week; OPEC meets on 5 and 6 Mar and the UK and EU commence Brexit trade negotiations.

The supply of US Treasuries settling this week will again be heavy. The US Treasury will settle approx. \$292bn in ST Bills and Notes this week, raising approx. \$51bn in new money. This will continue to be supported with overnight repo operations on each business day of up to \$100bn as well as two 14-day term repo operations this week of up to \$20bn each (\$5bn lower for both term repo operations).

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	
2-6 Mar	27-Feb	03-Mar	4 week bill	50			Completed
	27-Feb	03-Mar	8 week bill	45			Completed
				95	80	15	
	02-Mar	05-Mar	13 week bill	45			Announced
	02-Mar	05-Mar	26 week bill	39			Announced
				84	79	5	
	25-Feb	02-Mar	2yr Note	40			Completed
	26-Feb	02-Mar	5yr Note	41			Completed
	27-Feb	02-Mar	7yr Note	32			Completed
				113	81.7	31.3	
			Total - securities settling this week	292	240.7	51.3	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		29 Feb/2 Mar	Notes and bonds	17.078			
		03-Mar	Bills	1.028			
		05-Mar	Bills	5.012			
				23.118			
			Reserve Management Purchase Operations - Treasury Bills	\$B			
	03-Mar	04-Mar	Bills 0-1yr	7.525			
	04-Mar	05-Mar	Bills 0-1yr	7.525			
				15.050			
			Reinvestment Purchases - Treasury Coupons	\$B			
	28-Feb	02-Mar	Coupons 4.5 - 7yrs	2.425			
	02-Mar	03-Mar	Coupons 7-20yrs	1.425			
	03-Mar	04-Mar	Coupons 20-30	2.225			
	05-Mar	06-Mar	TIPS 1-7.5	1.625			
				7.700			

Approx. \$23bn in treasury bills, notes and bonds will mature this week – the principal payments will be rolled over. The Fed will purchase approx. \$15bn 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 3 and 5 Mar of up to \$20bn each (\$5bn lower for each term operation than in the week prior).

<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 2 MARCH 2020

MONDAY 2 MARCH (US Eastern Time)

US	US Markit Manufacturing PMI – Final (Feb), ISM Manufacturing PMI (Feb)
Europe	Eurozone Markit Manufacturing PMI – Final (Feb)
China	Caixin Manufacturing PMI (Feb)
Japan	Manufacturing PMI – Final (Feb)
Aus	Manufacturing PMI (Feb)

TUESDAY 3 MARCH

US	Super Tuesday Democratic Primaries, ISM NY Business Conditions (Feb), Total Vehicle Sales (Feb)
Europe	CPI (Feb), PPI (Jan)
Aus	RBA Rates Decision, Services PMI (Feb), Building Permits, New Home Sales (Jan)

WEDNESDAY 4 MARCH

US	ADP Employment Change (Feb), US Markit Services PMI – Final (Feb), ISM Non-Manufacturing PMI (Feb)
Europe	Eurozone Services PMI – Final (Feb), Retail Sales (Jan)
China	Caixin Services PMI (Feb)
Japan	Services PMI (Feb)
Aus	GDP Q4

THURSDAY 5 MARCH

US	Challenger Job Cuts (Feb), Factory Orders (Jan)
Aus	Monthly Trade Balance (Jan)
	OPEC Meeting 5 & 6 Mar

FRIDAY 6 MARCH

US	Non-Farm Payrolls (Feb), Wholesale Inventories (Jan), Consumer Credit (Jan)
Germany	Factory Orders and Industrial Production (Jan)
China	(7 Mar) Trade Balance, Exports, Imports (Jan & Feb)
Aus	Retail Sales (Jan)

Trade & Brexit

US-China Trade Talks

Timing for the commencement of the second phase of the deal remains unclear amid the breakout of the Coronavirus;

The question right now is the timing of a theoretical phase two agreement. China's fight against a mysterious viral infection that's infected hundreds of thousands — and killed over 600 people — is clouding the near term outlook. https://finance.yahoo.com/news/steve-schwarzman-on-phase-two-trade-deal-outlook-130000221.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2xlLmNvbS8&guce_referrer_sig=AQAAACX-q3at62V2Tic-8dQFYsO1aYKy56Lwh_6LcNtLmeyzxwicbFsdfP168Cx5LAZZJx1cdA7B-dBre56Zxr9XEMmOuIR3iiddF_XyFQqms-UNGH2buYJVvCLcD7FgW_p7AVgGOLJhvB5vCwefUnQJQX7HxB51j19htdO6Pq_w3zeE

Reconfirming what a 'win' in the negotiations with China looks like – a statement of the key negotiating goals as outlined by the USTR from the initial USTR objectives (emphasis added);

The meetings were held as part of the agreement reached by President Donald J. Trump and President Xi Jinping in Buenos Aires to engage in 90 days of negotiations **with a view to achieving needed structural changes in China with respect to forced technology transfer, intellectual property protection, non-tariff barriers, cyber intrusions and cyber theft of trade secrets for commercial purposes, services, and agriculture.**

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-united-states-trade>

US-Japan Trade Talks

The focus in early 2020 will be on phase two of the deal – likely to begin from April or May this year;

After the deal enters into force, the countries have agreed to conclude consultations for further trade talks within four months. Then discussions between their lead negotiators, Foreign Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer, will start again in earnest.

The United States is seeking a full-fledged free trade agreement that covers areas including services and investment.

<https://www.japantimes.co.jp/news/2019/12/04/business/economy-business/upper-house-approves-united-states-japan-trade-deal/#.Xe3HTegzaUk>

The issue for phase two talks is auto tariffs;

Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.

<https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK>

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have.effect%20on%20January%201%2C%202020>.

The summary of US negotiating objectives for the US-Japan trade talks;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

There are several fronts to the US-EU trade discussions.

Airline Subsidies

From 18 Oct, the US had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case>

The counter-case where the EU is pursuing tariffs against US support for Boeing is running approx. six-months behind.

Trade Deal Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing

concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

Digital Services

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a \$2.4 billion list of French imports, a French diplomatic source said.

<https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ>

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

“USTR’s decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies,” Ambassador Robert Lighthizer said. **“Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey.** The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation>

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6-8 Jan 2020. <https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances>

and

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0>

Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

Section 232 – Car and Truck Imports

Back in May 2019, President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security

grounds. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: <https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK>

The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the “escape hatch” for President Trump;

A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, “the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security.” It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds. There are other avenues for how these tariffs may be implemented.

NAFTA/USMCA

The new USMCA has now been signed into law in the US.

Canada has yet to approve the deal – this will likely happen now that the US has ratified the deal. Timeline is TBC.

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 on trade will commence this week on Monday 2 Mar. Both sides have set out divergent objectives for the outcome of the trade negotiations.

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>

Details of the UK trade negotiation mandate;

The British government on Thursday committed itself to pursuing a basic free-trade agreement that would maintain zero tariffs and quotas on goods but still introduce new friction at borders, an outcome long feared by business.

Failure to reach agreement could subject companies in the United Kingdom to steep new tariffs, threaten their supply chains and make their products and services more expensive. UK business groups have strenuously warned the government against such an outcome.

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

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>

Brussels, meanwhile, insists that Britain must agree to a set of rules to secure preferential access to the bloc's huge single market, and that it's not prepared to merely trust that the United Kingdom won't cut food safety or environmental standards in the future to gain a competitive advantage. Michel Barnier, the chief EU negotiator, points to commitments Britain has already made. <https://www.cnn.com/2020/02/27/business/brexit-uk-eu-trade-talks/index.html>

The first round of negotiations is due to commence this week on 2 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>