

Key Themes

UPDATED 31 Mar 2020 - After posting this brief, the US Treasury added two Cash Management Bills (CMB) for the week - a 42-Day and 69-Day CMB. Together, this increased the total of Bills and Coupons settling this week by \$105bn. Totals have been updated in the first paragraph below and in the Treasury Issuance section of this brief.

Treasury issuance to increase. There will be a significant increase in the supply of US Treasuries settling this week. The US Treasury will settle approx. \$493bn in ST Bills, TIPS, Notes and three (3) CMB's this week, raising approx. \$237bn in new money for the week. There was an increase in auction amounts across all Bills plus the addition of three (3) CMB's.

Looking forward, the initial Q2 Treasury financing schedule released back at the start of Feb had a recommended net \$56bn paydown (Bills -\$278bn and Coupons +\$222bn). The next update is not until mid Apr, but several estimates indicate that revisions to the Treasury financing needs, across Q2 and Q3 could reach over a trillion USD in net new money raised.

QE is now open ended. This week, the NY Fed will purchase approx. \$345bn in Treasury Securities and approx. \$200bn in MBS.

It's a reasonably heavy data week – still mostly focused on Feb data. Some of the more important Mar data will be released this week.

In the US, the most important released will be non-farm payrolls for Mar and initial jobless claims for last week ending 27 Mar. Also of note will be the ISM PMI's and the final Markit PMI's for Mar. Several important regional manufacturing/business conditions reports will be released this week – NY, Chicago and Dallas.

The prelim Eurozone CPI for Mar will be released this week.

We will get a more global view of the state of the economic impact via the release of the final PMI's for Mar this week.

US Treasury Issuance & Settlements

This is likely to be the start of higher Treasury issuance. The supply of US Treasuries settling this week will be extremely heavy.

EDITED 31 Mar 2020 – The US Treasury announced a further two CMB's after the briefing document was published. This is now updated to reflect the latest schedule for the week.

The US Treasury will settle approx. \$493bn in ST Bills, TIPS, Notes and three (3) CMB's this week, raising approx. \$237bn in new money for the week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
30 Mar - 3 Apr	26-Mar	31-Mar	4 week bill	60			Completed
	26-Mar	31-Mar	8 week bill	50			Completed
				110	93.5	16.5	
	30-Mar	02-Apr	13 week bill	51			Announced
	30-Mar	02-Apr	26 week bill	42			Announced
				93	80	13	
	31-Mar	02-Apr	42 -Day CMB	60			
	30-Mar	31-Mar	37-Day CMB	60			
	31-Mar	01-Apr	69-Day CMB	45			
				165		165	
	19-Mar	31-Mar	10yr TIPS	12			Completed
	24-Mar	31-Mar	2yr Note	40			Announced
	25-Mar	31-Mar	5yr Note	41			Announced
	26-Mar	31-Mar	7yr Note	32			Announced
				125	82.5	42.5	
			Total - securities settling this week	493	256	237	
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		31-Mar	Tbills	2.6			
		31-Mar	Notes & Bonds	16.8			
		02-Apr	Tbills	4.0			
				23.4			

Current FOMC Settings

FFR 0-0.25%

QE PROGRAMS

On 23 Mar the FOMC effectively announced that QE would be open ended (no longer a \$500bn target) -

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20200323a.htm>

Forward schedule for w/c 30 Mar 2020 – the desk at the NY Fed plans to purchase approx. \$75bn in Treasury Securities on Mon 30 Mar, Tue 31 Mar and Wed 1 Apr (total \$225bn).

Schedule for Monday, March 30, 2020 – Wednesday, April 1, 2020 (all times ET)

9:30 – 9:50 am: Treasury Coupons 7 to 20-year sector, for around \$6 billion

10:20 – 10:40 am: Treasury Coupons 4.5 to 7-year sector, for around \$11 billion

11:00 – 11:20 am: Treasury Coupons 20 to 30-year sector, for around \$5 billion

12:00 – 12:20 pm: Treasury Coupons 2.25 to 4.5-year sector, for around \$17 billion

12:50 – 1:10 pm: TIPS 1 to 7.5-year sector (Monday and Wednesday), 7.5 to 30-year sector (Tuesday), for around \$7 billion each

1:40 – 2:00 pm: Treasury Coupons 20 to 30-year sector, for around \$5 billion

2:30 – 2:50 pm: Treasury Coupons 0 to 2.25-year sector, for around \$24 billion

The Desk at the NY Fed will then purchase approx. \$60bn in Treasury Securities on Thur 2 Apr and Fri 3 Apr (total \$120bn)

Schedule for Thursday, April 2, 2020 – Friday, April 3, 2020 (all times ET)

9:30 – 9:50 am: Treasury Coupons 7 to 20-year sector, for around \$5 billion

10:20 – 10:40 am: Treasury Coupons 4.5 to 7-year sector, for around \$9 billion

11:00 – 11:20 am: Treasury Coupons 20 to 30-year sector, for around \$4 billion

12:00 – 12:20 pm: Treasury Coupons 2.25 to 4.5-year sector, for around \$14 billion

12:50 – 1:10 pm: TIPS 7.5 to 30-year sector (Thursday), 1 to 7.5-year sector (Friday), for around \$5 billion each

1:40 – 2:00 pm: Treasury Coupons 20 to 30-year sector, for around \$4 billion

2:30 – 2:50 pm: Treasury Coupons 0 to 2.25-year sector, for around \$19 billion

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

Results are yet to be released for the weeks prior.

MBS Operations w/c 30 Mar 2020 – tentative max of \$200bn in purchases

https://www.newyorkfed.org/markets/ambbs_operation_schedule

REPO OPERATIONS

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

Term repo operations for w/c 30 Mar 2020;

Operation Date	Maturity Date	Term	Aggregate Op Limit
Monday, 3/30/2020**	Monday, 4/27/2020	28-days	\$500 billion
Tuesday, 3/31/2020	Monday, 4/13/2020	13-days	At least \$45 billion
Thursday, 4/2/2020	Monday, 4/13/2020	11-days	At least \$45 billion
Friday, 4/3/2020**	Friday, 6/26/2020	84-days	\$500 billion

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

SWAP LINES

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>

USD swap line arrangements were further expanded;

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>

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

WEEK COMMENCING 30 MARCH 2020

MONDAY 30 MARCH (US Eastern Time)

US	Pending Home Sales (Feb), Dallas Fed Manufacturing Business Index (Mar)
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Japan	Retail Trade (Feb), Industrial Production Prelim (Feb)
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TUESDAY 31 MARCH

US	Case-Shiller Home Price Index (Jan), Chicago PMI (Mar)
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Europe	Eurozone CPI Prelim (Mar)
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China	NBS Manufacturing and Non-Manufacturing PMI (Mar)
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Aus	New Home Sales (Feb), Private Sector Credit (Feb), CBA Manufacturing PMI (Mar)
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UK	GDP Q4
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WEDNESDAY 1 APRIL

US	Mortgage Applications wk ending 27 Mar, ADP Employment Change (Mar), Markit Manufacturing PMI (Mar), ISM Manufacturing PMI (Mar), Total Vehicle Sales (Mar)
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Europe	Eurozone Manufacturing PMI (Mar)
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Japan	Manufacturing PMI (Mar)
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China	Caixin Manufacturing PMI (Mar)
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Aus	Building Permits (Feb)
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UK	Markit Manufacturing PMI (Mar)
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THURSDAY 2 APRIL

US	Initial Jobless Claims wk ending 27 Mar, Challenger Job Cuts (Mar), NY Business Conditions (Mar), Factory Orders (Feb)
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Aus	CBA Services PMI (Mar)
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FRIDAY 3 APRIL

US	Non-Farm Payrolls and Labour Market Report (Mar), Markit Services PMI (Mar), ISM Non-Manufacturing PMI (Mar)
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Europe	Eurozone Markit Services PMI (Mar), Eurozone Retail Sales (Feb)
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Japan	Markit Services PMI (Mar)
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China	Caixin Services PMI (Mar)
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Aus	Retail Sales (Feb)
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UK	Markit Services PMI (Mar)
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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 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 – 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%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 Canadian parliament rushed through the ratification of the USMCA in the prior week.

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

The likely priority for the UK will be the UK-EU trade deal negotiation to complete the Brexit transition.

The USTR has 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

Now the UK PM, and both the UK and EU chief Brexit negotiators have tested positive for Coronavirus.

Brexit negotiations are still planned to go ahead in the coming week as the UK 'insists' that there will be no change to the timeline.

The EU outlined 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/STATEMENT_20_455

The UK has also published a set of negotiating objectives;

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf