

## Key Themes

Two short weeks coming up with Easter celebrations from 10-13 Apr.

It will be a relatively light week from a data perspective this week. For the US, the important points will be initial and continuing jobless claims, FOMC minutes and Michigan consumer sentiment prelim reading for Apr. US PPI and CPI data will also be released this week for Mar.

In Aus, the RBA will meet on 7 Apr for its rates decision. As of 3 Apr, the ASX rate cut indicator remained at almost a 50-50 chance of a further cut to 0%. The RBA Board has previously said that 0.25% for the overnight cash rate was the lower bound.

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

An emergency OPEC meeting was originally set for 6 Apr which has now been postponed until 9 Apr.

US Treasury issuance will continue to be heavy. Last week, several Cash Management Bills (CMB's) were added to supply bringing the total of US Treasuries settling last week to \$618bn, raising approx. \$362bn in new money – just in one week.

So far this week, the US Treasury will settle approx. \$379bn in short term bills, including three CMB's, raising approx. \$179bn in new money. It is possible that additional CMB's will be added this week.

This week, the NY Fed will purchase approx. \$205bn in Treasury Securities and approx. \$100bn in MBS.

## US Treasury Issuance & Settlements

Treasury issuance has started to increase. Last week, the supply of new money raised increased significantly on the back of six (6) additional Cash Management Bills (CMB's) added throughout the week. In total, last week the US Treasury settled \$618bn in short term bills, notes and TIPS, raising \$362bn in new money. This was just in one week.

This week will see further heavy issuance, with the addition of three CMB's. Note that the Treasury Bill offer amounts have all been increased as well.

The US Treasury will settle approx. \$379bn in ST Bills, including three (3) CMB's this week, raising approx. \$179bn in new money for the week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
6-10 Apr	02-Apr	07-Apr	4 week bill	80			Completed		
	02-Apr	07-Apr	8 week bill	60			Completed		
				140	94.5	45.5			
	02-Apr	07-Apr	154-Day CMB	40			Completed	9127963X5	Matures 8 Sep
	06-Apr	08-Apr	43-Day CMB	60			Announced	9127965R1	Matures 21 May
	07-Apr	09-Apr	119-Day CMB	40			Announced	912796WZ8	Matures 6 Aug
				140	0	140			
	06-Apr	09-Apr	13 week bill	54			Announced		
	06-Apr	09-Apr	26 week bill	45			Announced		
				99	105.7	-6.7			
			<b>Total - securities settling this week</b>	<b>379</b>	<b>200.2</b>	<b>178.8</b>			
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>					
		07-Apr	Treasury Bills	6,800					
		09-Apr	Treasury Bills	9,000					
				15,800					

Additional bills may be added to the supply this week;

<https://www.treasurydirect.gov/instit/annceresult/press/press.htm>

## Current FOMC Settings

FFR 0-0.25%

### QE PROGRAMS

Treasury Security Operations w/c 6 Apr 2020 - forward schedule of purchases by the NY Fed

Monday 6 Apr; \$48bn

Tuesday 7 Apr; \$57bn

Wednesday 8 Apr; \$55bn

Thursday 9 Apr; \$45bn

[https://www.newyorkfed.org/medialibrary/media/markets/treasury-securities-schedule-past/HTPC\\_0406\\_0409\\_2020.pdf](https://www.newyorkfed.org/medialibrary/media/markets/treasury-securities-schedule-past/HTPC_0406_0409_2020.pdf)

MBS Operations w/c 06 Apr 2020 – tentative max of \$100bn in purchases

<https://www.newyorkfed.org/medialibrary/media/markets/ambs/AMBS-Schedule-040620.pdf>

QE Announcement

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

## 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 (ea).

“...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 6 Apr 2020;

Operation Date	Maturity Date	Term	Aggregate Op Limit
Monday, 4/6/2020	Monday, 5/4/2020	28-days	\$500 billion
Thursday, 4/9/2020	Friday, 7/3/2020	85-days	\$500 billion
Monday, 4/13/2020	Monday, 5/11/2020	28-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 6 APRIL 2020

---

### MONDAY 6 APRIL (US Eastern Time)

---

Europe	Germany Factory Orders (Feb)
--------	------------------------------

---

---

---

### TUESDAY 7 APRIL

---

US	JOLTS (Feb), Consumer Credit (Feb)
----	------------------------------------

---

Europe	Germany Industrial Production (Feb)
--------	-------------------------------------

---

Australia	RBA Rates Decision, Monthly Trade Balance (Feb)
-----------	---

---

---

---

### WEDNESDAY 8 APRIL

---

US	FOMC Minutes, Mortgage Applications wk ending 3 Apr
----	---

---

Australia	Housing Lending (Feb)
-----------	-----------------------

---

---

---

### THURSDAY 9 APRIL

---

US	Initial & Continuing Jobless Claims wk ending 3 Apr, PPI (Mar), Michigan Consumer Sentiment Prelim (Apr), Wholesale Inventories (Feb)
----	---

---

	OPEC Meeting – 9 Apr
--	----------------------

---

---

---

### FRIDAY 10 APRIL – GOOD FRIDAY

---

US	Good Friday, CPI (Mar) still scheduled for release
----	--

---

China	TBC – CPI, PPI, New Loans (Mar)
-------	---------------------------------

---

---

---

## Trade & Brexit

---

### US-China Trade Talks

Timing for the commencement of the second phase of the deal remains unclear amid the breakout of the now global pandemic.

The USTR has confirmed progress on the implementation of phase one of the trade deal.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/march/usda-and-ustr-announce-continued-progress-implementation-us-china-phase-one-agreement>

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](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

Now that all parties have ratified the new USMCA, the focus shifts to when the deal will take effect. This is so far likely to be early Jul 2020.

[https://insidetrade.com/daily-news/july-1-now-earliest-usmca-can-enter-force-if-protocol-followed?utm\\_source=dlvr.it&utm\\_medium=twitter](https://insidetrade.com/daily-news/july-1-now-earliest-usmca-can-enter-force-if-protocol-followed?utm_source=dlvr.it&utm_medium=twitter)

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

## BREXIT

The UK PM, and both the UK and EU chief Brexit negotiators have tested positive for Coronavirus. At the time of writing, the UK PM had now been admitted to hospital.

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/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)

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