

Key Themes

Several important points to note this week.

Firstly, the US Fed announced further reductions in purchases of Treasury and Mortgage securities for the week. This week, the NY Fed will purchase approx. \$75bn in Treasury Securities (last week \$150bn, prior week \$205bn) and approx. \$50bn in MBS (last week \$75bn and prior wk \$100bn).

The number of term repo operations has also been halved from four operations a week last month to two operations a week this month. The twice daily O/N operations remain unchanged.

At the same time, US Treasury issuance remains very heavy amid increased fiscal spending. This week w/c 20 Apr, the US Treasury will settle approx. \$413bn in ST Bills, including three (3) Cash Management Bills (CMB's), raising approx. \$224bn in new money for the week. It is possible that additional CMB's will be added this week.

The final total of US Treasury issuance settling last week w/c 13 Apr was \$542bn in ST bills, Notes and Bonds raising approx. \$292bn in new money for the week.

Finally, on the data front, the key highlights this week will be the prelim PMI's for Apr across the US, Europe and Asia.

Other releases of note for the US will be initial jobless claims for last week, the final read of consumer sentiment for Apr, durable goods orders for Mar and existing home sales for Mar.

US Treasury Issuance & QE

This week w/c 20 Apr will see continued heavy issuance especially for ST bills. The US Treasury will settle approx. \$413bn in ST Bills, including so far, three (3) Cash Management Bills (CMB's) this week, raising approx. \$224bn in new money for the week.

Please note that this may not be the final amount for this week as the US Treasury may add further CMB's during the week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
20-24 Apr	16-Apr	21-Apr	4 week bill	90			Completed		
	16-Apr	21-Apr	8 week bill	70			Completed		
				160	92	68			
	16-Apr	21-Apr	154-Day CMB	30			Completed	9127963Z0	Matures 22 Sep
	20-Apr	22-Apr	43-Day CMB	65			Announced	912796TX7	Matures 4 Jun
	21-Apr	23-Apr	119-Day CMB	25			Announced	912796XF1	Matures 20 Aug
				120		120			
	20-Apr	23-Apr	13 week bill	57			Announced		
	20-Apr	23-Apr	26 week bill	48			Announced		
	20-Apr	23-Apr	52 week bill	28			Announced		
				133	97	36			
			Total - securities settling this week	413	189	224			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		21-Apr-20	Bills	7.60					
		23-Apr	Bills	14.00					
				21.60					

The final total of Treasury issuance settling last week w/c 13 Apr was \$542bn in ST bills, notes and bonds, raising approx. \$292 bn in new money for the week.

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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 20 Apr	\$15.5bn	\$10.7bn
Tue 21 Apr	\$16bn	\$8.9bn
Wed 22 Apr	\$7bn	\$10.7bn
Thur 23 Apr	\$21bn	\$8.9bn
Fri 24 Apr	\$15.5bn	\$10.7bn
Total Announced Purchases	\$75bn (last wk \$150bn)	\$49.9bn (last wk \$75bn)

Links to schedules;

https://www.newyorkfed.org/medialibrary/media/markets/treasury-securities-schedule-past/HTPC_0420_0424_2020.pdf

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

REPO OPERATIONS

W/c 20 Apr 2020;

Date	Maturity Date	Term	Aggregate Operation Limit
Morning – daily operation	Next day	O/N	\$500bn
Afternoon – daily operation	Next Day	O/N	\$500bn
Mon 20 Apr 2020	18 May	28-Days	\$500bn
Friday 24 Apr 2020	17 Jul	84-Days	\$500bn

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

SWAP LINES

Announcements;

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

USD swap line arrangements were further expanded;

<https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

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

WEEK COMMENCING 20 APRIL 2020

MONDAY 20 APRIL (US Eastern Time)

US	Chicago Fed National Activity Index (Mar)
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Japan	Merchandise Trade (Mar)
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TUESDAY 21 APRIL

US	Existing Home Sales (Mar)
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Australia	RBA Minutes
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UK	Labour Market Survey (rolling 3-mth Dec-Feb)
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WEDNESDAY 22 APRIL

US	Mortgage Applications wk ending 18 Apr
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UK	CPI (Mar)
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Australia	CBA Prelim Services and Manufacturing PMI (Apr)
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THURSDAY 23 APRIL

US	Initial Jobless Claims wk ending 18 Apr, Markit Prelim Manufacturing and Services PMI (Apr), Kansas Fed Manufacturing Survey (Apr), New Home Sales (Mar)
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UK	Retail Sales (Mar), Markit Prelim Services and Manufacturing PMI (Apr)
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Europe	Eurozone Prelim Services and Manufacturing PMI (Apr)
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Japan	Prelim Manufacturing PMI (Apr), National CPI (Mar)
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FRIDAY 24 APRIL

US	Durable Goods Orders (Mar), University of Michigan Consumer Sentiment Final (Apr)
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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 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

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

Now that all parties have ratified the new USMCA, the focus shifts to when the deal will take effect. So far, Jul 1 has been the date agreed for implementation. Some new rules (especially for Auto manufacturing/imports), requiring changes to the supply chain, will be difficult to implement by this date, due to current suspension of operations at many plants (esp Mexico).

<https://www.reuters.com/article/us-mexico-usmca-autos/mexican-auto-lobby-says-90-days-not-enough-to-meet-usmca-rules-idUSKBN21O310>

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

BREXIT

Talks restart this week via videoconference – the first since the beginning of Mar.

The UK has continued to reject suggestions to extend the final Brexit date of 31 Dec 2020.

"Transition ends on 31 December this year," Frost said on Twitter last week.
"We will not ask to extend it. If the EU asks, we will say no."

If the two sides can't reach a deal, the UK would default to trading on terms set by the World Trade Organisation, meaning the return of tariffs and quotas where there are none today.

<https://www.straitstimes.com/world/europe/brexit-talks-resume-with-time-for-a-deal-running-out>

At this stage, both sides have shared draft legal agreements;

Link to the EU draft is embedded in the release;

https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447

The UK negotiating objectives;

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