

Key Themes

The focus this week will be on US retail, industrial and sentiment data, including two May data releases and Q1 GDP for the UK, Europe, and Germany.

Important highlights for this week include -

US: the first data out for May will be the prelim University of Michigan consumer sentiment survey and the NY Empire State Manufacturing Survey. The NY Fed manufacturing survey reference week will likely be the first week of May, so there might be some small lift in activity. Last month, the general business conditions index in the survey fell 57pts to -78.2.

The advance retail sales for Apr will be released. Note that stimulus checks were sent starting mid-Apr.

Initial and continuing claims will remain a key focus. So far, over 33m new unemployment claims have been made over the last seven weeks. Weekly claims remain in the millions.

Finally, US industrial production for Apr will be released. The Apr PMI's indicated severe declines in output were experienced.

Prelim Q1 GDP will be released for the UK and Germany. The more detailed Q1 Eurozone GDP will be released.

Aussie employment data for Apr will be released along with the Q1 wage price index and consumer and business sentiment for May.

More data out for China this week including retail sales, industrial production, CPI, and PPI for Apr. This will be an important marker to see how the Chinese economy is performing so far.

The US Fed will continue to reduce purchases of Treasury and Mortgage securities. This week, the NY Fed will purchase approx. \$35bn in Treasury Securities (last week \$40bn, prior week \$50bn) and approx. \$25bn in MBS (last week \$30bn and prior wk \$40bn).

There will be one term repo operation this week. The new repo schedule will be release mid-week.

US Treasury issuance remains heavy amid increased fiscal spending. This week w/c 11 May, the US Treasury will settle approx. \$528bn in ST Bills, Notes and Bonds raising approx. \$157bn in new money for the week, still somewhat lower than in recent weeks. It is possible that additional Cash Management Bill's will be added this week. Last week the US Treasury released its funding requirements for Q2 which totalled \$2.999trillion in new money. So far this quarter, new money raised is \$1.447 trillion.

US Treasury Issuance & QE

This week w/c 11 May will see continued heavy issuance but a somewhat lower value of new money raised as more of the new CMB's mature.

The US Treasury will settle approx. \$528bn in ST Bills, Notes and Bonds this week. This includes, so far, four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$157bn 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.

The US Treasury released the Q2 borrowing requirement last week – with the total new money to be raised this quarter to be \$2.999 trillion USD. The quarter to date value of new money raised is now included in the table below and currently stands at \$1.447 trillion USD.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
11-15 May	07-May	12-May	4 week bill	80			Completed		
	07-May	12-May	8 week bill	70			Completed		
				150	175	-25			
	06-May	12-May	154-Day CMB	35			Completed	9127964H9	Matures 13 Oct
	07-May	12-May	105-Day CMB	30			Completed	9127963Q0	Matures 25 Aug
	12-May	14-May	119-Day CMB	35			Announced	912796TJ8	Matures 10 Sep
	12-May	14-May	42-Day CMB	65			Announced	912796UA5	Matures 25 Jun
				165	0	165			
	11-May	14-May	13 week bill	63			Announced		
	11-May	14-May	26 week bill	54			Announced		
				117	138.3	-21.3			
	11-May	15-May	3yr Note	42			Announced		
	12-May	15-May	10yr Note	32			Announced		
	13-May	15-May	30yr Bond	22			Announced		
				96	56.96	39.04			
			Total - securities settling this week	528	370.26	157.74			
			QTR to date totals	3,037	1,590	1,447			
			<i>Treasury Estimates for Q2 2020</i>			<i>2,999</i>			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		12-May	Bills	6.400					
		14-May	Bills	10.940					
		15-May	Notes & Bonds	50.800					
				61.740					

The final total of Treasury issuance settling last week w/c 4 May was \$426bn in ST bills, raising approx. \$163.7bn 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 11 May	\$4bn	\$5.083bn
Tue 12 May	\$11bn	\$4.875bn
Wed 13 May	\$5.75bn	\$5.083bn
Thur 14 May	\$7.75bn	\$4.875bn
Fri 15 May	\$7bn	\$5.083bn
Total Announced Purchases	\$35.5bn (last wk \$40bn)	\$25bn (last wk \$30bn)

Links to Operation Schedules;

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

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

REPO OPERATIONS

W/c 11 May 2020; New schedule to be released 13 May

Date	Maturity Date	Term	Aggregate Operation Limit
Morning – daily operation	Next day	O/N	\$500bn
Afternoon – daily operation	Next Day	O/N	\$500bn
Mon 11 May 2020	08 Jun 2020	28-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 11 MAY 2020

MONDAY 11 MAY (US Eastern Time)

China	New Loans (Apr)
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TUESDAY 12 MAY

US	CPI (Apr)
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China	CPI & PPI (Apr)
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Australia	NAB Business Confidence and Conditions (Apr)
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WEDNESDAY 13 MAY

US	PPI (Apr), Mortgage Applications wk ending 8 May
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Australia	Westpac Consumer Confidence (May), Wage Price Index Q1
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NZ	RBNZ Rates Decision
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UK	GDP Prelim Q1
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Europe	Eurozone Industrial Production (Mar)
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THURSDAY 14 MAY

US	Initial & Continuing Jobless Claims wk ending 8 May
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Australia	Employment and Labour Force Report (Apr)
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FRIDAY 15 MAY

US	NY Empire State Manufacturing Index (May), Retail Sales (Apr), Industrial Production (Apr), University of Michigan Sentiment Index Prelim (May), JOLTS (Mar)
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China	Fixed Asset Investment, Industrial Production and Retail Sales (Apr)
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Europe	Germany GDP Prelim Q1, Eurozone GDP Prelim Q1
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Trade & Brexit

US-China Trade Talks

With indications of renewed tension between the US and China, the USTR and the US Treasury released a joint statement outlining the details of a call with Chinese counterparts. The release of the statement was likely aimed at reducing speculation regarding the state of relations between the two countries.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/ustr-and-treasury-statement-call-china>

As noted in the USMCA announcement several weeks ago, there is some focus on strengthening/returning to more local supply chains. There are reports that the US is planning to actively promote a return to local supply chains;

The Trump administration is “turbocharging” an initiative to remove global industrial supply chains from China as it weighs new tariffs to punish Beijing for its handling of the coronavirus outbreak, according to officials familiar with U.S. planning.

“I think it is essential to understand where the critical areas are and where critical bottlenecks exist,” Krach said, adding that the matter was key to U.S. security and one the government could announce new action on soon. <https://www.reuters.com/article/us-health-coronavirus-usa-china-idUSKBN22G0BZ>

Timing for the ‘official’ commencement of the second phase of the deal remains unclear amid the 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

The US has officially notified the WTO that it has complied with the dispute raised by the EU on US subsidies to Boeing. The US has now enacted the Senate Bill that eliminates the preferential tax treatment for aerospace manufacturing.

The removal of the subsidy fully implements the WTO's recommendation to the United States, bringing an end to this long-running dispute.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/us-notifies-full-compliance-wto-aircraft-dispute>

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>

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

Last week the USTR notified the US Congress that both Mexico and Canada taken the measures required to comply with new USMCA and that the agreement would enter into force on 1 Jul 2020.

A quote from the release highlights further focus on manufacturing in the US, especially in the post-pandemic world;

“The crisis and recovery from the Covid-19 pandemic demonstrates that now, more than ever, **the United States should strive to increase manufacturing capacity and investment in North America.** The USMCA's entry into force is a landmark achievement in that effort. Under President Trump's leadership, USTR will continue working to ensure a smooth implementation of the USMCA so that American workers and businesses can enjoy the benefits of the new agreement,” said Ambassador Robert Lighthizer. <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/april/usmca-enter-force-july-1-after-united-states-takes-final-procedural-steps-implementation>

US-UK Trade Talks

Trade negotiations between the UK and the US commenced last week (w/c 4 May). These negotiations will run in parallel with the EU Brexit/trade negotiations.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/statement-ustr-robert-lighthizer-launch-us-uk-trade-negotiations>

Initial talks will be held via videoconference and are expected to run for two weeks.

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

The next round of official talks will commence this week via videoconference.

Both sides have emphasised the need to make as much progress as possible in the future relationship talks ahead of an EU-UK summit in June but positions remain far apart, with a matter of months left to conclude a

deal. <https://www.ft.com/content/12e40098-cf26-46dc-ac7b-cfd6a238718f>

Previous rounds of talks have yet to result in any substantial progress on bringing both parties closer to an agreement.

After five days of videoconference talks, involving a total of 100 officials, the prospects of an agreement by the end of the year seemed remote as the two sides emerged from the negotiations to attack each other.

Barnier appeared exasperated by the British team, led by David Frost, who has said the UK will leave the single market and customs union with or without a deal by the end of the year.

<https://www.theguardian.com/politics/2020/apr/24/britain-running-down-the-clock-in-brexit-talks-says-michel-barnier-eu>

The deadline for extending the negotiations is approaching at the end of June 2020. The UK maintains that an extension will not be requested.

"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