

Key Themes

It will be a busy week of central bank minutes, US Fed speeches and the prelim PMI's for May.

Important highlights for this week -

Central bank meetings minutes this week for the US FOMC, RBA, and ECB.

Speeches and testimony by US Fed Chairman Powell and Vice Chair Clarida.

The prelim PMI's for May will be released for the US, Europe, Japan, and Australia. This will provide some insight into how manufacturing and services activity is rebounding as some markets start to ease restrictions.

Late in the week, the annual Chinese National Peoples Congress will commence. This will occur with the backdrop of rising trade and diplomatic tensions among China and some of its trade partners.

The US Fed will continue to reduce purchases of Treasury and Mortgage securities. This week, the NY Fed will purchase approx. \$30bn in Treasury Securities (last week \$35bn, prior week \$40bn) and approx. \$22bn in MBS (last week \$25bn and prior wk. \$30bn).

There will be one term repo operation this week and overnight operations have been reduced to one per day.

US Treasury issuance remains heavy amid increased fiscal spending. The offer amounts, across the CMB's especially, have started to increase as more of the earlier issuance matures. The US Treasury will settle approx. \$478bn in ST Bills this week. This includes, so far, four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$149bn in new money for the week.

US Treasury Issuance & QE

This week w/c 18 May will see continued heavy issuance. The offer amounts, across the CMB's especially, have started to increase as more of the earlier issuance matures.

The US Treasury will settle approx. \$478bn in ST Bills this week. This includes, so far, four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$149bn in new money for the week.

The US Treasury may add further CMB's during the week.

This week, the US Treasury will also auction the 20-year bond (\$20bn) – this will settle on 1 Jun.

The US Treasury Q2 borrowing requirement is \$2.999 trillion USD in new money. The quarter to date value of new money raised is now included in the table below and currently stands at \$1.596 trillion USD. This is 53% of the requirement for the quarter and we are 53% of the way through the quarter (in weeks).

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
18-22 May	14-May	19-May	4 week bill	80			Completed		
	14-May	19-May	8 week bill	70			Completed		
				150	175	-25			
	13-May	19-May	154-Day Bill	40			Completed	9127964J5	Matures 20 Oct
	13-May	19-May	105-Day Bill	35			Completed	9127963R8	Matures 1 Sep
	19-May	21-May	119-Day CMB	40			Announced	9127962G3	Matures 17 Sep
	19-May	21-May	42-Day CMB	65			Announced	912796UB3	Matures 2 Jul
				180	0	180			
	18-May	21-May	13 week bill	63			Announced		
	18-May	21-May	26 week bill	54			Announced		
	19-May	21-May	52 week bill	31			Announced		
				148	153.8	-5.8			
			Total - securities settling this week	478	328.8	149.2			
			QTR to date totals	3,515	1,919	1,596			53%
			<i>Treasury Estimates for Q2 2020</i>			<i>2,999</i>			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
	19-May		Treasury Bills	6,500					
	21-May		Treasury Bills	19,900					
				26,400					

The final total of Treasury issuance settling last week w/c 11 May was \$528bn in ST bills, Notes and Bonds raising approx. \$158bn 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 18 May	\$3.5bn	\$4.545bn
Tue 19 May	\$9.5bn	\$4.433bn
Wed 20 May	\$6bn	\$4.545bn
Thur 21 May	\$5bn	\$4.433bn
Fri 22 May	\$6bn	\$4.545bn
Total Announced Purchases	\$30bn (last wk. \$35.5bn)	\$22.5bn (last wk. \$25bn)

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 18 May 2020; the new schedule released last week indicates that overnight repo operations have now been reduced to one per day

Date	Maturity Date	Term	Aggregate Operation Limit
Morning – daily operation	Next day	O/N	\$500bn
Mon 18 May 2020	16 Jun 2020	29-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 18 MAY 2020

MONDAY 18 MAY (US Eastern Time)

US	NAHB Housing Market Conditions (May)
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Japan	GDP prelim Q1 2020
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TUESDAY 19 MAY

US	Housing Starts (Apr) US Fed Chairman Powell testimony before the Senate Banking, Housing, and Urban Affairs Committee, U.S. Senate
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Japan	Industrial Production Final (Mar)
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UK	Labour Market Survey (Jan-Mar)
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Australia	RBA Meeting Minutes
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WEDNESDAY 20 MAY

US	Weekly Mortgage Applications wk. ending 15 May FOMC Minutes
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Europe	Eurozone CPI (Apr)
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Japan	Merchandise Trade (Apr)
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UK	CPI (Apr)
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Australia	CBA Manufacturing and Services PMI Prelim (May)
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THURSDAY 21 MAY

US	Initial and Continuing Jobless Claims wk. ending 15 May, Philly Fed Manufacturing Survey (May), Markit Prelim Manufacturing & Services PMI (May), Existing Home Sales (Apr) US Fed – Chairman Powell Speech, Clarida speech
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Europe	Eurozone Prelim Manufacturing and Services PMI (May)
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Japan	Markit Manufacturing PMI Prelim (May), National CPI (Apr)
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UK	Markit Manufacturing and Services PMI Prelim (May)
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FRIDAY 22 MAY

Europe	ECB Minutes
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China	Opening of Chinese Communist Party Annual Congress
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UK	Retail Sales (Apr)
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Trade & Brexit

US-China Trade Talks

Tensions between the two countries have increased over the last few weeks. The delicate trade truce between the two countries now appears to be at risk again. Both sides continue to up the ante regarding trade restrictions.

The US continues to focus on strengthening and/or 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>

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 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

Trade talks last week yielded little progress after prior rounds of negotiations also resulted in little progress. Negotiations are set to resume on 1 Jun ahead of the EU summit later that month.

With a trade deal of huge complexity to negotiate, for the moment taking place over video links, the European Union and the U.K. have yet to agree even on the basic elements of an accord—including whether there should be a single overarching agreement with one set of rules and oversight or multiple smaller ones. <https://www.wsj.com/articles/brexit-talks-go-nowhere-adding-new-european-economic-headache-11589559642?mod=searchresults&page=1&pos=2>

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>

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