

## Key Themes

A short week this week due to the US Memorial Day holiday. Expect to hear some anecdotal information regarding activity over the US holiday weekend. Tensions regarding China are likely to continue.

Important highlights for this week -

US data will be in focus this week. The important highlights providing some early insight into May activity; initial and continuing jobless claims, several important regional manufacturing surveys for May, and the final University of Michigan consumer sentiment survey for May.

The US advance durable goods orders data for Apr will help to confirm the scale and scope of the contraction in orders as indicated by the PMI's. The personal income and expenditure data for Apr will provide some insight into income impacts and shifts in expenditure and saving.

So far, a somewhat quieter week for US Federal Reserve speeches. US Fed Chairman Powell will speak on Fri.

In Japan, the first view of Apr industrial production will be released. Again, this will provide confirmation of the level of impact on production in Japan during one of the worst months as measured by the PMI's.

Aus data of note this week will be Q1 capex in preparation for the GDP release. As well, the month end private sector credit data for Apr will be released – also providing some insight into the scale of contraction in spending and investment across business, housing, and personal expenditure.

The US Fed will continue to reduce purchases of Treasury and Mortgage securities (shorter week also). This week, the NY Fed will purchase approx. \$20bn in Treasury Securities (last week \$30bn, prior week \$35bn) and approx. \$18bn in MBS (last week \$22.5bn and prior wk. \$25bn).

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. \$509bn in ST Bills, TIPS and FRN's this week. This includes, so far, five (5) Cash Management Bills (CMB's). The US Treasury will raise approx. \$228bnbn in new money for the week. The US Treasury Q2 borrowing requirement is \$2.999 trillion USD in new money. The quarter to date value of new money raised currently stands at \$1.825 trillion USD. This is 61% of the requirement for the quarter and we are 61% of the way through the quarter (in weeks).

## US Treasury Issuance & QE

**This week** w/c 25 May will see continued heavy issuance. The US Treasury will settle approx. \$509bn in ST Bills, TIPS and FRN's this week. This includes, so far, five (5) Cash Management Bills (CMB's). The US Treasury will raise approx. \$228bnbn 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 approx. \$147bn in Notes that will settle next week.

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 \$1.825 trillion USD. This is 61% of the requirement for the quarter and we are 61% 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		
<b>25 May - Memorial Day National Holiday</b>								
25-29 May	21-May	26-May	4 week bill	80			Completed	
	21-May	26-May	8 week bill	70			Completed	
				150	140	10		
	26-May	28-May	13 week bill	63			Announced	
	26-May	28-May	26 week bill	54			Announced	
				117	140.35	-23.35		
	20-May	26-May	154-Day CMB	40			Completed	9127964K2 Matures 27 Oct
	20-May	26-May	105-Day CMB	40			Completed	9127963X5 Matures 8 Sep
	26-May	28-May	42-Day CMB	65			Announced	912796WW5 Matures 9 Jul
	27-May	28-May	273-Day CMB	25			Announced	912796XE4 Matures 25 Feb 2021
	27-May	28-May	119-Day CMB	40			Announced	9127962H1 Matures 24 Sep
				210	0	210		
	21-May	29-May	10yr TIPS	12			Completed	
	22-May	29-May	2Yr FRN	20			Announced	
				32	0	32		
			<b>Total - securities settling this week</b>	509	280.35	228.65		
			<b>QTR to date totals</b>	<b>4,024</b>	<b>2,199</b>	<b>1,825</b>		61%
			<i>Treasury Estimates for Q2 2020</i>			2,999		
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>				
		26-May	Treasury Bills	5.1				
		28-May	Treasury Bills	9.6				
				14.7				

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

## QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 25 May	\$0bn	\$0bn
Tue 26 May	\$4bn	\$4.23bn
Wed 27 May	\$4.5bn	\$4.77bn
Thur 28 May	\$5bn	\$4.23bn
Fri 29 May	\$6.5bn	\$4.77bn
Total Announced Purchases	\$20bn (last wk. \$30bn)	\$18bn (last wk. \$22.5bn)

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](https://www.newyorkfed.org/markets/ambs_operation_schedule)

## REPO OPERATIONS

W/c 25 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 operations	Next day	O/N	\$500bn
Tue 26 May 2020	23 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 25 MAY 2020

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### MONDAY 25 MAY (US Eastern Time)

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US National Memorial Day Holiday

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Europe Germany Q1 GDP (Detailed)

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### TUESDAY 26 MAY

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US Chicago Fed National Activity Index (Apr), S&P CaseShiller House Price Index (Mar),  
New Home Sales (Apr), Dallas Fed Manufacturing Business Index (May)

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### WEDNESDAY 27 MAY

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US Richmond Fed Manufacturing Index (May), US Mortgage Applications wk ending 22  
May

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Australia Construction Work Done Q1

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### THURSDAY 28 MAY

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US Initial and Continuing Jobless Claims wk ending 22 May, Durable Goods Advance  
Orders (Apr), GDP Prelim Q1, Kansas City Fed Manufacturing Activity Index (May)

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Australia Private Sector Capex (Q1)

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Japan Retail Trade Advance (Apr), Industrial Production Prelim (Apr)

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### FRIDAY 29 MAY

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US Personal Income, Expenditure and Price Indexes – Month (Apr), Chicago PMI (May),  
University of Michigan Consumer Sentiment Final (May)

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US Fed Chairman Powell Speech - Griswold Center for Economic Policy Studies  
Princeton Reunions Talk

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Australia Private Sector Credit (Apr)

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## Trade & Brexit

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### US-China Trade Talks

Tensions between the two countries continue to simmer amid accusations and posturing regarding China's role in the spread of the Covid-19 virus. The delicate trade truce between the two countries remains at risk as both sides threaten renewed trade restrictions.

Last week though the USTR released a statement outlining the progress made so far on Chinese purchases of US agriculture exports; <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/usda-and-ustr-announce-continued-progress-implementation-us-china-phase-one-agreement>

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%20however%2C%20will%20have.effect%20on%20January%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

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](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

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

There has been no further update on the first round of trade negotiations between the UK and the US at this stage. Trade negotiations commenced w/c 4 May and were expected to 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>

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

Negotiations are set to resume on 1 Jun ahead of the EU summit later next 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](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](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf)