MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 27 April 2020

Key Themes

Demand remains firmly in contraction. Pressure is mounting on governments and states to lift distancing restrictions in order to address/reverse the severe economic impact of those restrictions. While infection curves are flattening, in places such as the US, levels of infection remain stubbornly high. This is likely to remain an ongoing issue.

US GDP contracted by 1.2% in Q1. The decline in services expenditure made the largest contribution to the decline, but most other areas also contributed to the decline. Durable goods expenditure decline, non-residential investment declined for the fourth quarter in a row and imports and exports declined at an accelerated pace. “Net exports” recorded a positive contribution to GDP growth because the decline in net exports was smaller than the prior quarter. Residential fixed investment expenditure was one of the few areas that continued to grow.

More recent data indicates that the most severe declines in activity have occurred so far in Apr.

In the US, manufacturing activity contracted at a record pace in Apr as evidenced by the ISM and regional manufacturing surveys. The ISM highlighted that industry breadth also deteriorated. Of the eighteen (18) manufacturing industries covered by the survey, only two reported growth in Apr. Surveys out of the Dallas Fed and Richmond Fed also highlight extreme pessimism in the outlook.

The number of initial unemployment claims in the US continued to increase. The total number of people making a new claim over the last six weeks is now over 30m people.

As expected personal incomes declined sharply in Mar in the US – led by a fall in wages and salaries. This was barely offset by an increase in transfer payments in Mar, but we expect this to change in Apr. There was a much larger decline in expenditures (compared to the decline in income) though – mostly across services (health care expenditure), as well as durable goods. As a result, there was an increase in the surplus between disposable income and expenditure. The saving rate increased to 13.1%.

Other regions also continue to experience falls in demand. Eurozone GDP declined by 3.8% in Q1. This means its likely that some of the larger member states entered into a recession this quarter. China manufacturing slipped back into slight contraction – despite the easing of local restrictions, weak global demand continued to drag on activity.

There were several central bank meetings during the week. Both the BoJ and ECB added programs to further ease financial conditions. The US Fed made no changes to policy. The FOMC statement noted declines in activity, increased job losses and “muted inflation pressure”.

For the moment, inflation is being held down by weaker oil prices. There was some pull back across headline inflation growth reported this week as energy prices declined sharply.

There is some indication of underlying food price inflation. In the US, a recent Nielsen grocery report cited larger increases in prices across grocery categories and there was news of limits placed on some meat purchases due to supply issues (Kroger Supermarkets). In the US, annual growth in food prices for in-home consumption accelerated in Mar to +1.1%.

In Aus, Q1 growth in food prices was +1.9% (while overall all-items CPI increased by +0.4% in the quarter) due to some impact from drought and bushfires. Overall annual growth in consumer prices in Aus came in stronger than expected for Q1 – despite weaker energy prices.

In the Eurozone, unprocessed food prices increased by +3.5% just in Apr.

While food prices don't officially make up a large weight in CPI indexes, it is a fairly sensitive area of expenditure when it comes to meeting basic needs.

Contents

US Data

Initial Jobless Claims wk ending 24 Apr

New jobless claims remained highly elevated for the sixth week in a row. This brings the total number of new claims made by people over the course of the last six weeks to 30,307,000.

Advance claims wk ending 24 Apr 2020 (SA); 3,839,000 new claims by people.

Claims in the week prior were revised higher by 15,000 people to 4,442,000 new claims.

https://www.dol.gov/ui/data.pdf

GDP – Prelim Q1 2020 (real terms)

US real GDP declined in Q1 2020 versus Q4 2019. The decline incorporates the beginning (in many states) of the implementation of containment strategies during Mar.

> The decline in first quarter GDP was, in part, due to the response to the spread of COVID-19, as governments issued "stay-at-home" orders in March. This led to rapid changes in demand, as businesses and schools switched to remote work or canceled operations, and consumers canceled, restricted, or redirected their spending.

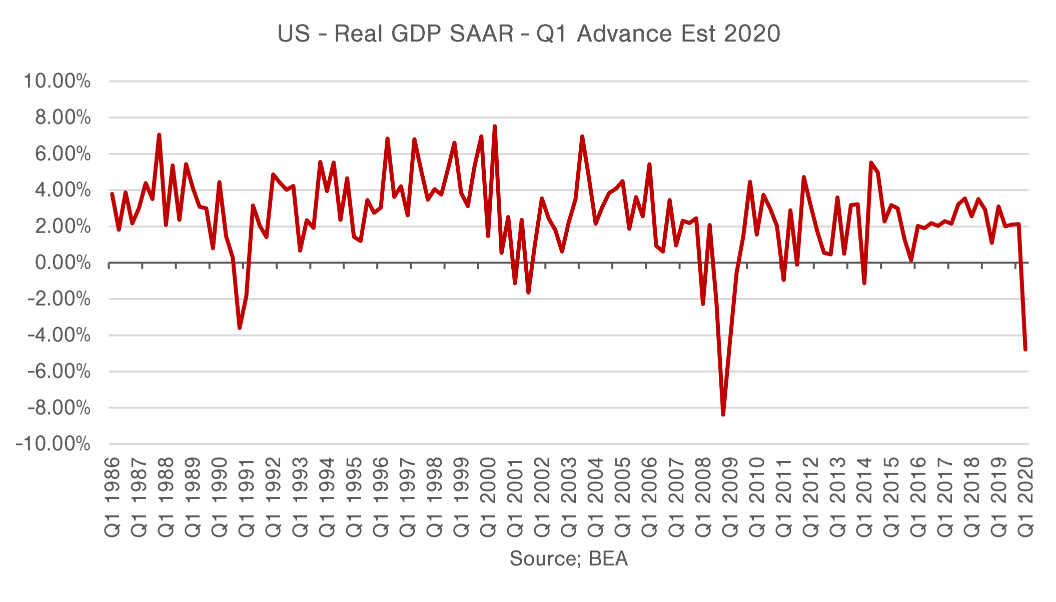
The larger falls in activity have started occurring in Apr. The initial fall in activity reflects weaker consumption growth – the larger decline was in services expenditures, but durable goods expenditure also declined severely. Fixed investment continued to decline – and non-residential investment has declined for the last four quarters now. The positive contribution from net exports was due to a smaller decline in net exports - but both exports and imports declined at an accelerated pace in the quarter also.

US Real GDP Growth – quarter change; Q1 2020 -1.2% versus Q4 2019 +0.5%

The quarterly decline was led by a significant decrease in personal consumption expenditure in Q1 – which was mostly the decline in services-based expenditures.

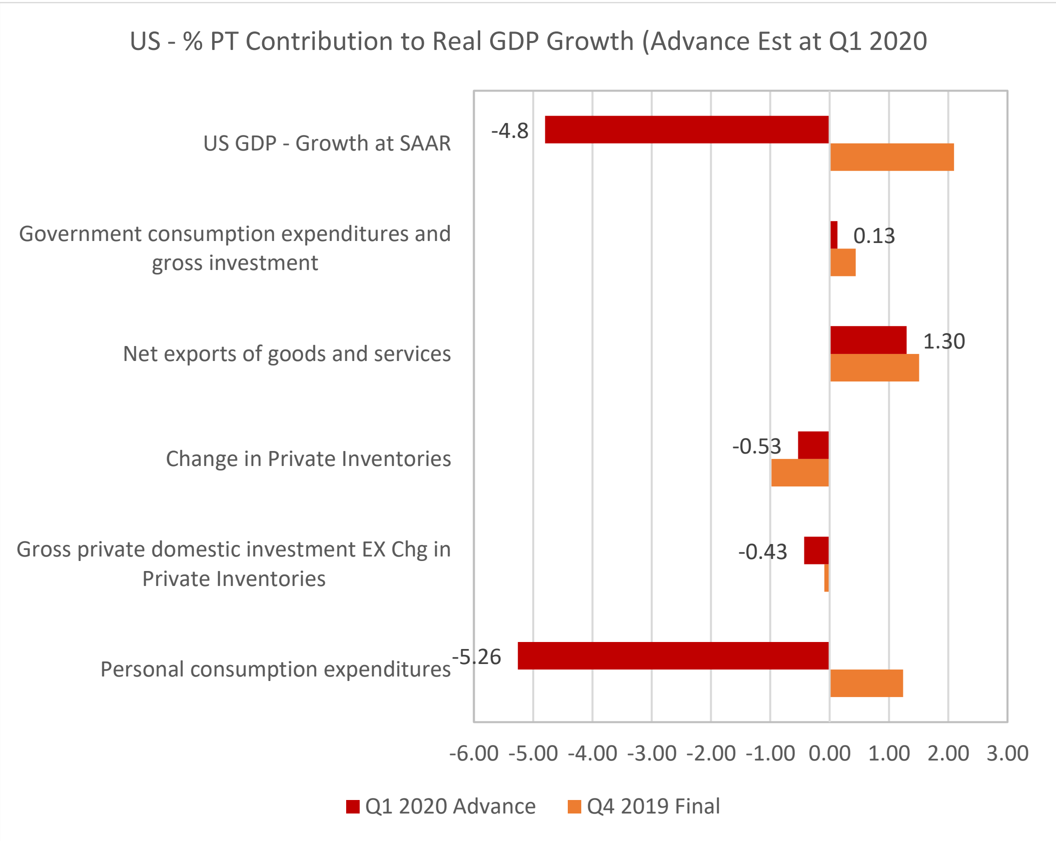
The quarterly decline is severe on an historical basis (going back to the mid-80's).

On an annualised basis, real GDP declined by -4.8% in Q1 2020.



Contribution to GDP Result

The single largest contributor to the decline in real GDP in Q1 was from personal consumption expenditures.

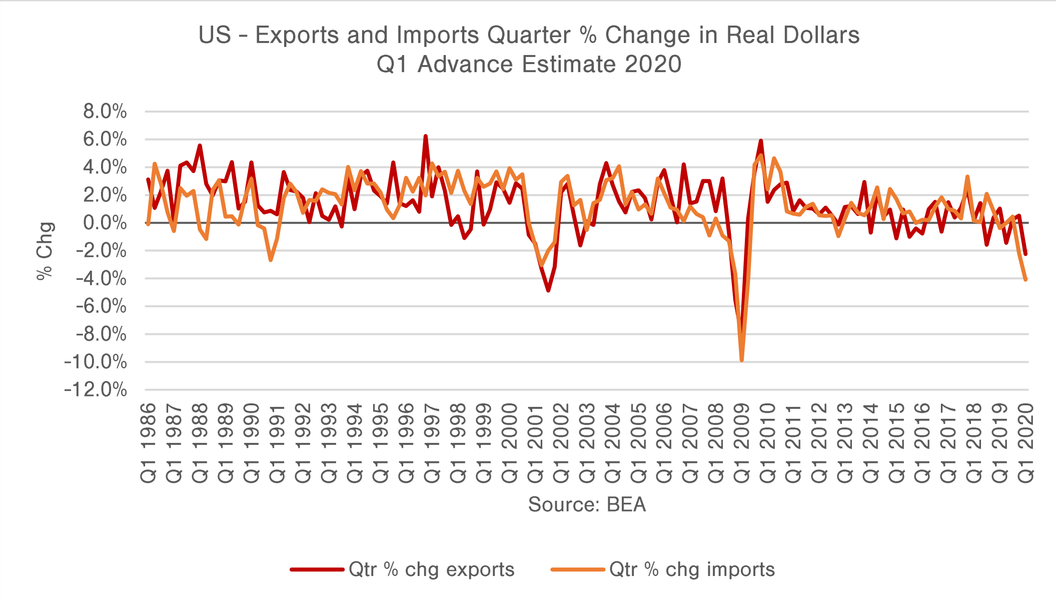


PCE declined by 1.9% in the quarter. While the largest % decline was recorded for durable goods (-4.3% in the quarter), the largest contribution to the decline was expenditure in services, which declined by 2.7%.

Private investment expenditure (ex-inventories) continued to decline this quarter and at an accelerated pace. Fixed investment expenditure had already been declining for the three prior quarters as well. The decline in Q1 was led by non-residential investment (-2.2% in the quarter) while residential investment expenditure continued to increase (+4.9% in the quarter).

The change in inventories was a net negative for growth this quarter. The change in private inventories shifted to decline in this quarter. Last quarter, inventories still increased, but at a much slower rate than in Q3. The change from Q4 to Q1 was a smaller decrease than the change from Q3 to Q4.

Net exports added to GDP growth in this quarter – as the decline in net exports became smaller. In Q1, both imports and exports declined. The decline in exports of -2.2% in the quarter was smaller than the decline in imports of -4.1%.



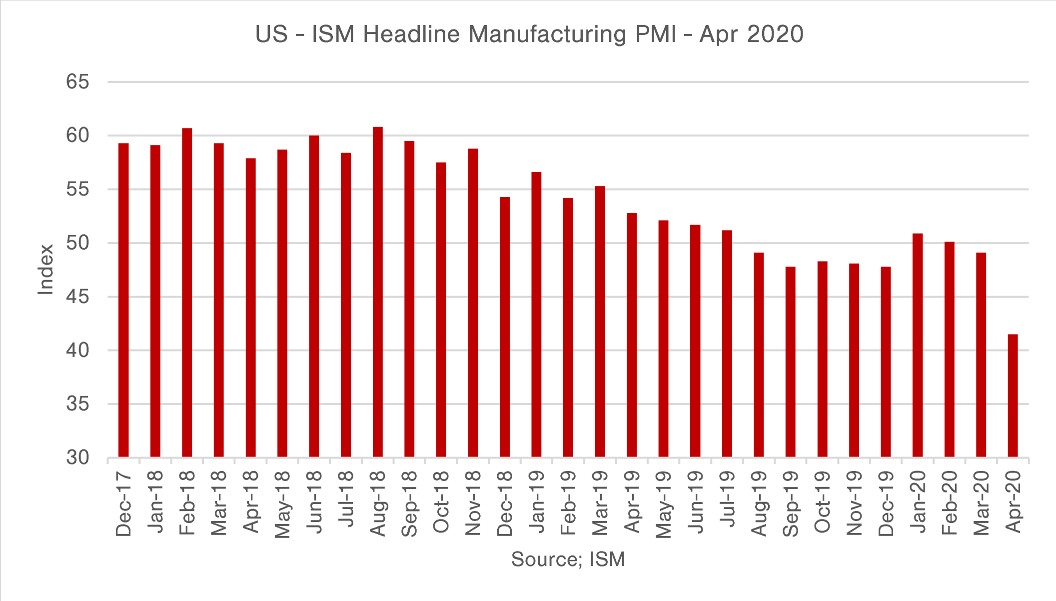
https://www.bea.gov/data/gdp/gross-domestic-product

ISM Manufacturing PMI (Apr)

The headline manufacturing PMI contracted at faster pace in Apr. The decline recorded in Apr (-7.5pts) is one of the largest one-month declines. Most subindexes declined further this month. Overall, this indicates a further weakening in activity, especially across production, orders and employment.

Breadth also deteriorated. Of the eighteen (18) manufacturing industries covered by this survey, only two reported growth in Apr; paper products and food, beverage, and tobacco products.

Headline Manufacturing PMI – month; Apr 41.5 versus Mar 49.1



The headline index reading still in the 40's reflects the offsetting impact of slower supplier deliveries – usually a sign of strengthening demand, but not in this case. The production index reflects just how much activity has contracted – the production index in Apr fell to 27.5 versus 47.7 in Mar. <u>This is the lowest index reading for production activity since the series began in 1948.</u>

This month there was a further decline in the proportion of firms recording higher production (now down to only 18.6% of firms). The big shift this month was the decline in the number of firms reporting the same level of production – down from 53.7% in Mar to 21.2% in Apr. There was a corresponding increase in the number of firms reporting lower production – now up to 60% of firms.

Only two industries reported growth in production in Apr; paper products and food, beverage and tobacco products.

> "We supply the construction industry in various ways, where the slowdown has been a bit slower than most industries. It is, however; beginning to impact our business, and we see more challenges on the horizon." (Fabricated Metal Products)

> "Our packaging business is starting to see signs of a slowdown in May after two strong months into COVID-19." (Paper Products)

> "Production stopped, other than to make hand sanitizer for those in need." (Chemical Products)

New orders also declined at an accelerated pace in Apr with the index falling to 27 in Apr (from 42.2 in Mar). This is the third month of contracting orders. There was an identical underlying shift in the proportion of firms reporting higher, the same and lower orders. Just over 59% of firms reported declines in orders this month (versus 32% last month).

New export orders continued to contract at an accelerated pace. Most firms (46%) reported the same level of export orders, but there was a large increase in the number of firms reporting lower export orders (increased from 19.4% of firms in Mar to 41.5% in Apr).

Order backlogs continued to contract amid the decline in orders.

> "Despite weak production output, backlogs heavily contracted as a result of weak levels of new orders and new export orders. Two of the six big industry sectors' backlogs expanded during the period, most notably Computer & Electronic Products. Panelists' comments indicate supply chain disruptions are the primary cause of backlog growth," says Fiore.

Employment contracted a much faster pace, with the index falling from 43.8 in mar to 27.5 in Apr. The hiring freeze theme is starting to come under pressure here. Only 2.8% of manufacturing firms reported increases in employment in Apr. The proportion of firms reporting the same employment levels fell from 70% of firms in Mar to 50% of firms in Apr. The proportion of firms reporting lower employment in Apr increased to 46% of firms.

Prices continued to decline albeit at only a slightly faster pace in Apr.

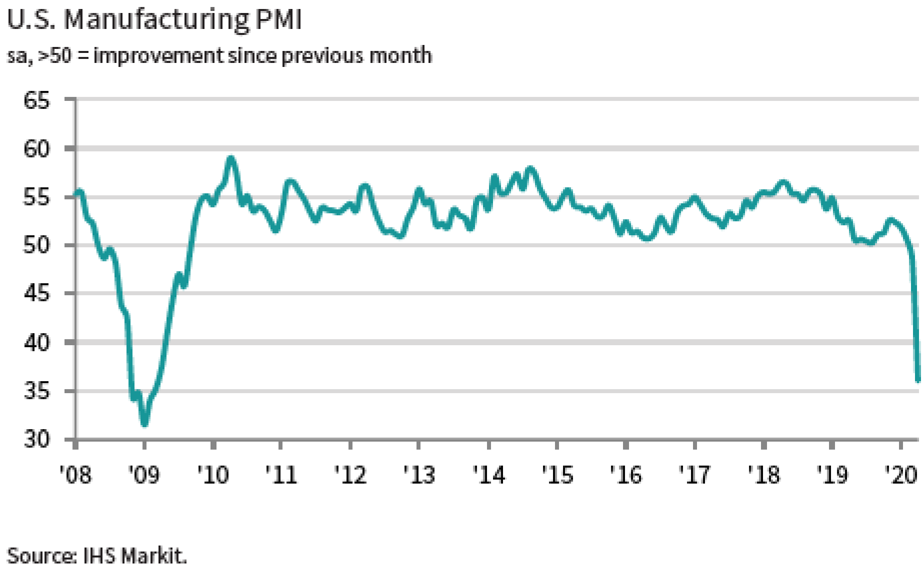
> Prices contracted in April, driven primarily by scrap steel, other steels, aluminum, copper, corn, distillates and other energy sources.

https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1

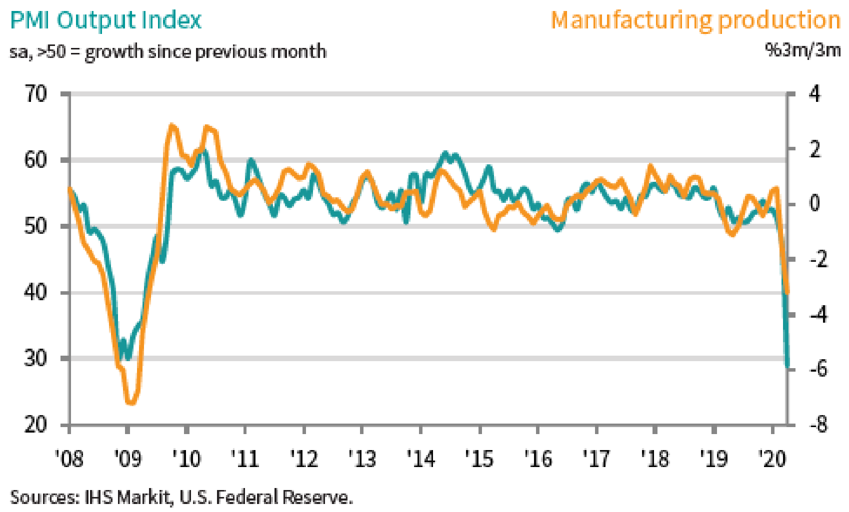
Markit Manufacturing PMI Final (Apr)

The Markit PMI indicated that the contraction in manufacturing activity accelerated further in Apr. The headline PMI index was revised slightly lower from the prelim reading. Production declined as new orders recorded the largest monthly decline on record. Employment declined as firms remained pessimistic about future output growth.

Manufacturing PMI (final); Apr 36.1 versus Mar 48.5



The decline in production was the steepest in the series history – with the index now falling to below that recorded during the GFC.

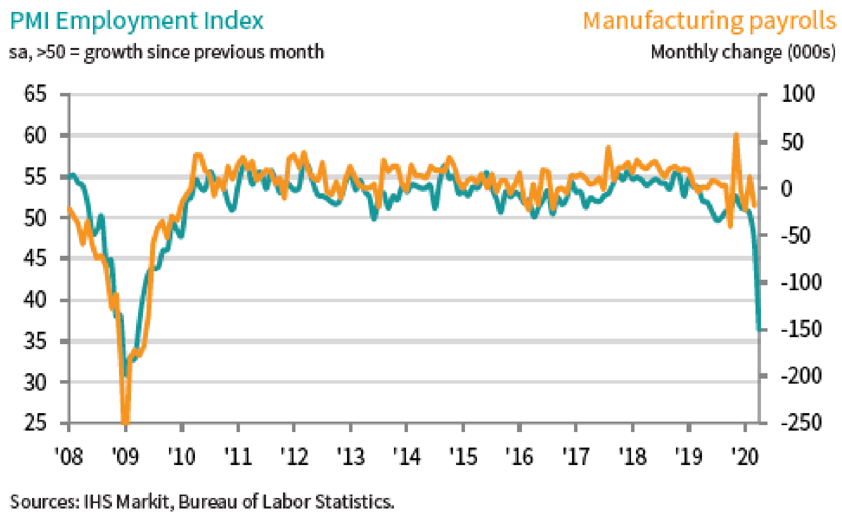


Sources: IHS Markit, U.S. Federal Reserve.

The decline in production was led by falls in new orders. The one month decline in new orders in Apr was the largest on record. The level of the decline still remains above that of the GFC though. Firms cited order cancellations and postponement of jobs. New export orders also fell at the fastest pace in the series history.

Firms continue to face uncertainty over the how long restrictions are to remain in place. This resulted in a further decline in business confidence.

Firms reduced employment amid the outlook uncertainty and the weaker demand conditions.



Sources: IHS Markit, Bureau of Labor Statistics.

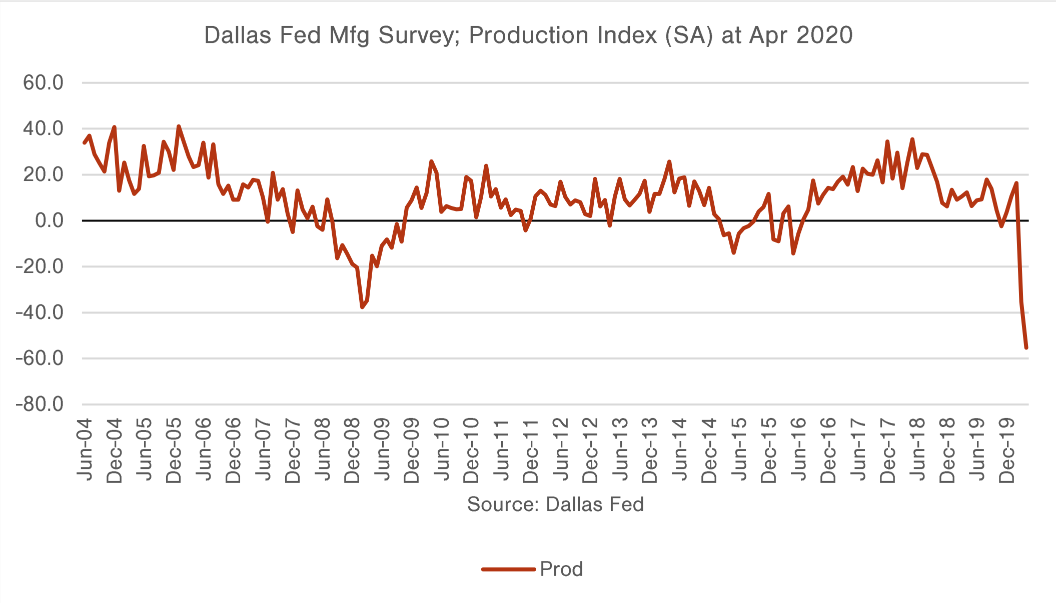
Lower fuel prices resulted in a further fall in input costs. Firms continued to reduce output prices.

https://www.markiteconomics.com/Public/Home/PressRelease/640893d3143c44a3a9118bb835ca6d22

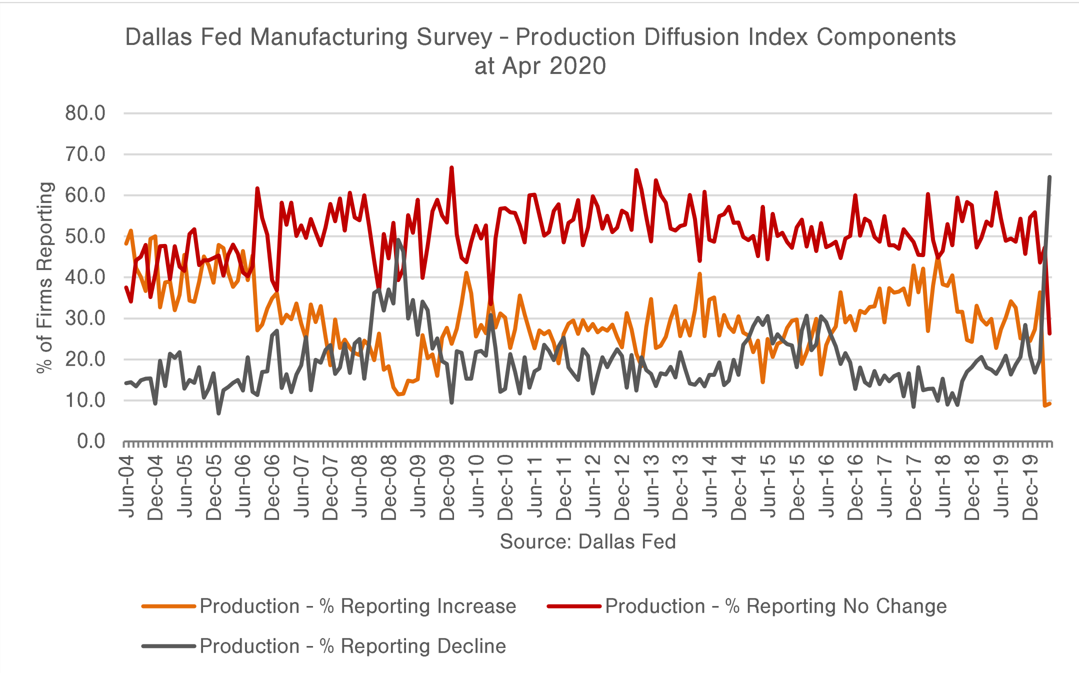
Dallas Fed Manufacturing Survey (Apr)

Manufacturing activity contracted at an even faster pace in Apr, exceeding the near record lows recorded in Mar. The index of general business activity fell to a new all-time low in Apr and the current company outlook continued to indicate extreme pessimism. Production, new orders and shipments all declined at an accelerated pace in Apr – all reaching new series lows. Firms are so far doing their best to keep staff despite the deteriorating conditions. While employment declined at a slower pace, hours worked declined at an accelerated pace. Neither hours worked nor the employment index have reached new lows at this point.

<u>Current Production Index;</u> Apr -55.3 versus Mar -35.3



The index reading for production in Apr reached a new all-time low – and the underlying shift in firms recording a decline in production reached a new series high of 64% of firms.

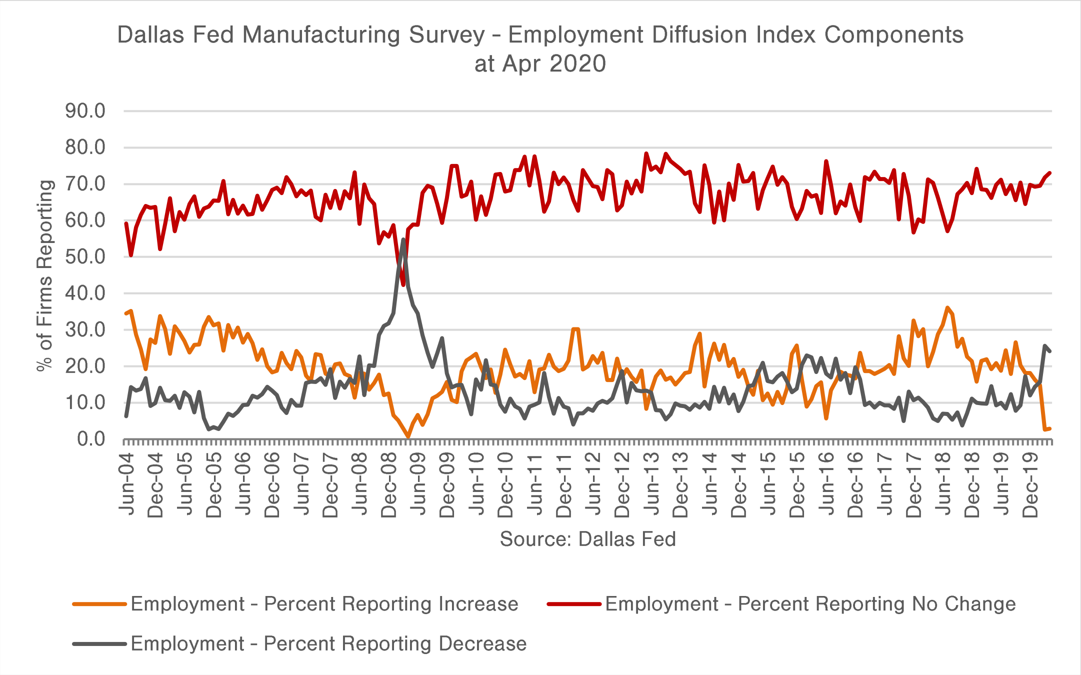


Similarly, new orders declined at an accelerated pace – to a new series low. The proportion of firms reporting an increase in orders fell to an all-time low of 5.2%. The proportion of firms reporting a decline in orders reached a new series high of 72.2% of firms.

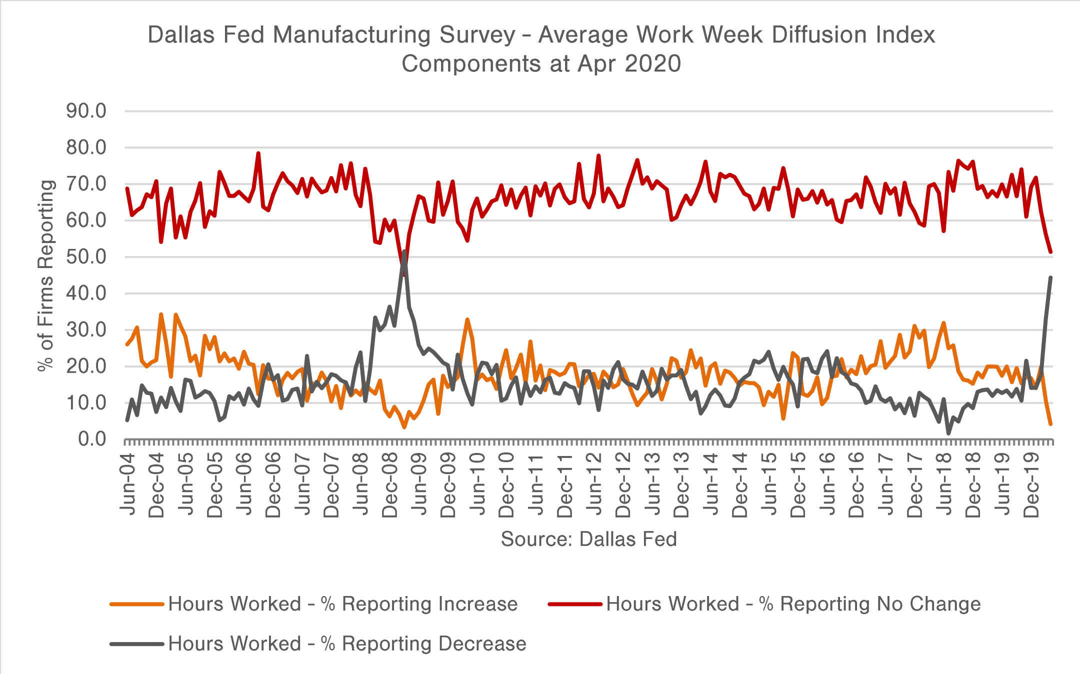
The new order growth rate also contracted an accelerate pace.

With a significant contraction in new business, firms continued to work through order backlogs. Unfilled orders contracted at an accelerated pace compared to the decline in Mar.

Employment continued to contract, but at slightly slower pace than in Mar. The majority of firms are continuing to hold staff and opting to reduce hours worked instead. Approx. 73% of firms recorded no change in employment. The proportion of firms reducing employment remained elevated at 24% (down from 25% in Mar), and still well below the GFC peak of 54.8% of firms.

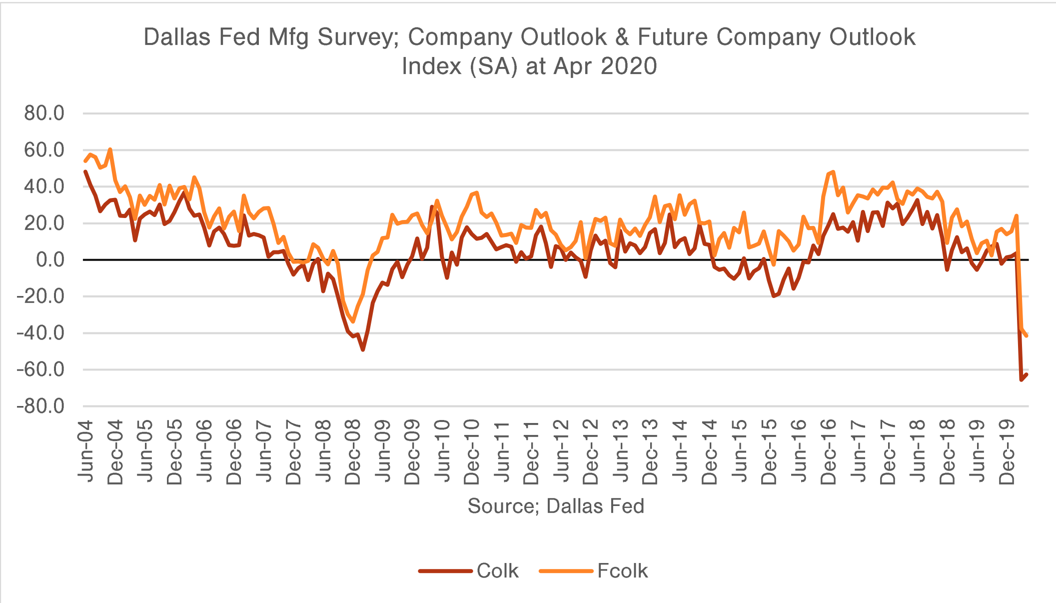


Hours worked has instead suffered. The index of hours worked contracted at an accelerated pace of -40.2 (which is still above the all-time low of -48). This month, the proportion of firms recording lower hours worked increased to 44% of firms (up from 33% in Mar) – the all-time high is 51% of firms reducing hours back int eh GFC;



Prices paid for finished goods contracted at an accelerated pace while prices paid for raw materials increased at a faster pace.

The outlook and future company outlook remained extremely pessimistic. The current company outlook was little changed from last months' all-time low. The future company outlook fell to a new series low;



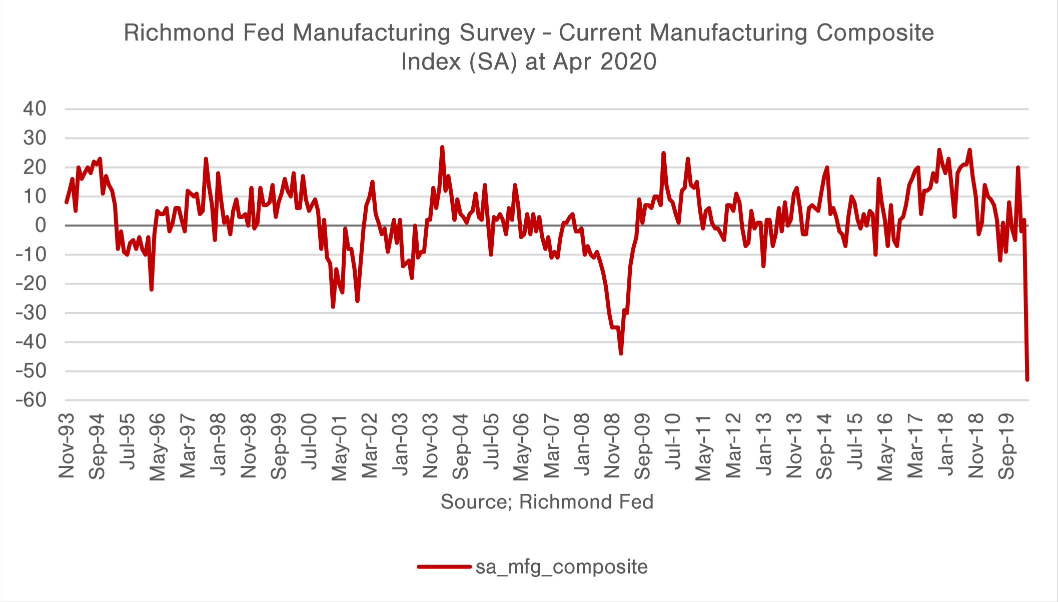
Just under 70% of firms reported a worsening outlook this month – a new series high.

https://www.dallasfed.org/-/media/Documents/research/surveys/tmos/2020/2004/tmos2004.pdf

Richmond Fed Manufacturing Survey (Apr)

Manufacturing conditions deteriorated further in Apr. The composite index of manufacturing activity contracted at a record pace, exceeding that of the GFC. All areas of activity recorded an accelerated pace of decline in Apr.

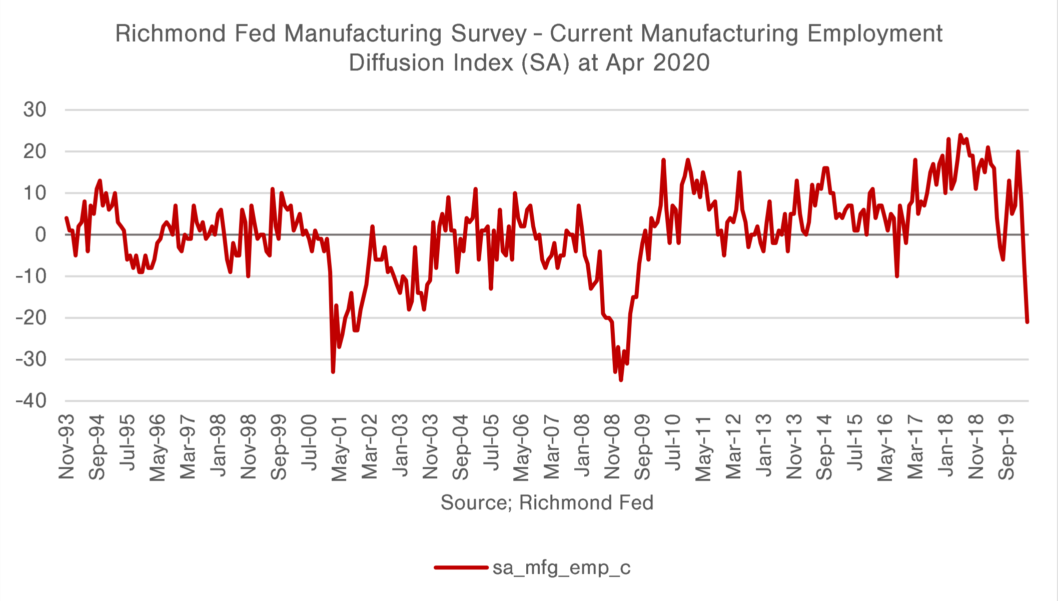
Headline Composite index of Manufacturing Activity; Apr -53 versus Mar 2



It was only four months ago in Jan 2020, that the manufacturing index reached 20, just 7pts shy of the all-time fastest pace of growth. The scale of the decline in activity over the last four months has been large.

This month production, new orders and shipments indexes all fell to a new series low.

Employment also declined in Apr, reaching -21. The all-time low pace of decline in employment is -35, recorded during the GFC. But again, employment was expanding at a near-record pace of 20 in Jan (which is 4pts shy of the all-time high), so again, coming from a high base, this is still a large pace of contraction.



The pace of hours worked contracted at the second fastest pace in the series history -28 in Apr. The fastest pace of decline was recorded in during the GFC when the index fell to -38.

Prices paid for raw materials increased at a faster pace in Apr, while prices received declined at a faster pace.

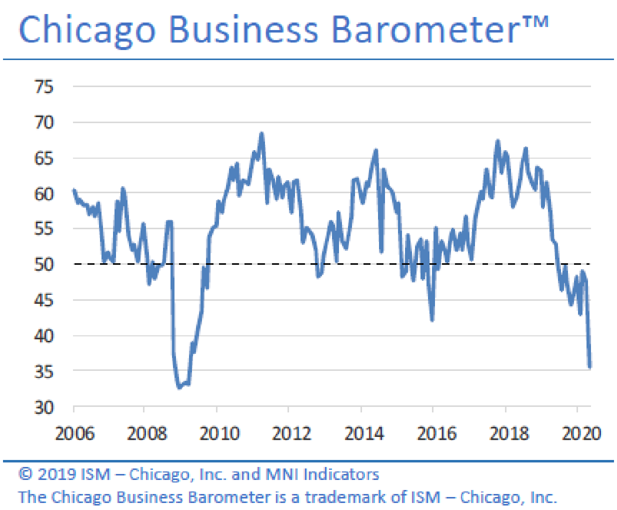
Local business conditions contracted even further to -87 in Apr from -15 in Mar. The index of expectations of future local business conditions indicates severe pessimism with the expectation of further deterioration in local conditions (from already lower levels of activity).

https://www.richmondfed.org/-/media/richmondfedorg/research/regional_economy/surveys_of_business_conditions/manufacturing/2020/pdf/mfg_04_28_20.pdf

Chicago PMI (Apr)

Business activity contracted at an even faster pace in Apr. The headline Chicago business barometer fell to the lowest level since Mar 2009. Steep declines were recorded across orders and production, while delivery lead times increased sharply (usually a positive indicator). Again, production activity is likely a better indicator of current manufacturing conditions.

Chicago PMI; Apr 35.4 versus Mar 47.8



The production activity index fell by 19pts – now at the lowest level since 1980.

New orders declined in Apr by 21pts – the largest decline on record. Order backlogs also declined in the month.

Employment fell by 11.1pts – the lowest level since 2009.

https://www.ism-chicago.org/insidepages/reportsonbusiness/

Weekly Mortgage Applications Wk ending 24 Apr,

Mortgage applications declined again in the latest week, at a slightly faster pace.

Market Composite Index (mortgage loan application volume) (SA); -3.3%

The refi index also decreased by 7% versus a week ago, but remains 218% ahead of the same week a year ago. The share of refi's fell to 71.5% of total applications (was 75.4% in the week prior).

The purchase index – which reflects the number of loans finalised, recorded the first increase in well over a month. The purchase index is a 4-6-week leading indicator of home sales. The purchase index increased by 12% versus the prior week, and remains 20% below the levels from the same week a year ago;

> The ten largest states had increases in purchase activity, which is potentially a sign of the start of an upturn in the pandemic-delayed spring homebuying season, as coronavirus lockdown restrictions slowly ease in various markets," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting. "California and Washington continued to show increases in purchase activity, with New York seeing a significant gain after declines in five of the last six weeks."

	Week-Over-Week Change		Year-Over-Year Change	
State	% Change: Week Ending 4/24/2020	% Change: Week Ending 4/17/2020	% Change: Week Ending 4/24/2020	% Change: Week Ending 4/17/2020
CA	17.2	2.9	(34.1)	(47.9)
WA	16.1	12.3	(36.9)	(45.8)
NY	13.7	(8.3)	(49.9)	(59.2)

NOTE: Not seasonally adjusted, home purchase applications only

Source: Mortgage Bankers Association Weekly Applications Survey

The year over year declines in these markets is still significant.

https://www.mba.org/2020-press-releases/april/mortgage-applications-decrease-in-latest-mba-weekly-survey-x263631

Case-Shiller Home Price Index (Feb)

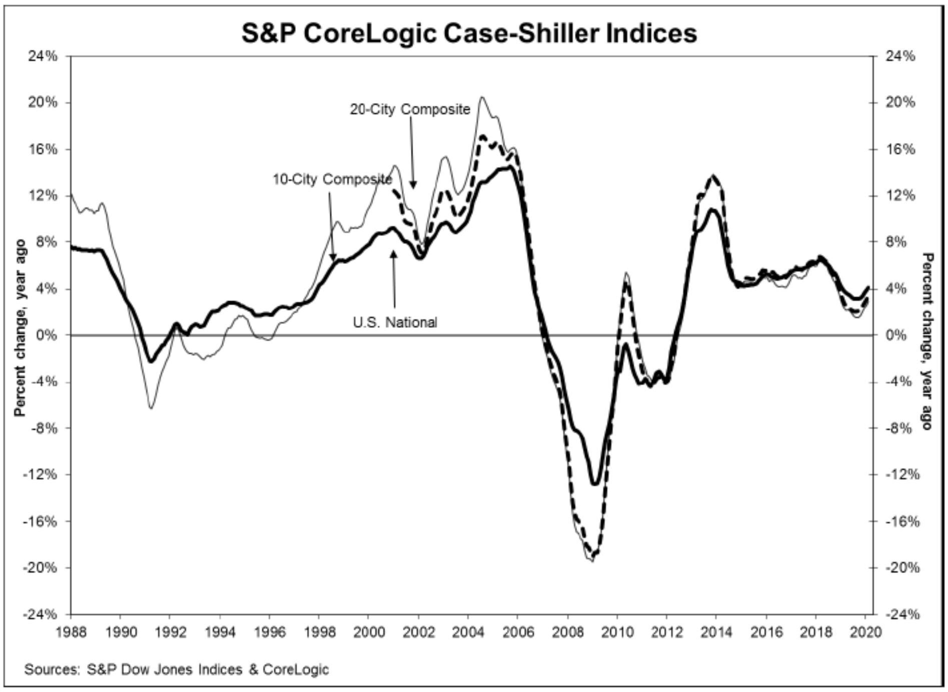
House price growth accelerated in Feb on both a monthly and annual basis.

National Home Price Index – annual change; Feb +4.2% versus Jan +3.9%

10-City Composite Index – annual change; Feb +2.9% versus Jan +2.6%

20-City Composite Index – annual change; Feb +3.5% versus Jan +3.1%

Seventeen of the 20 cities reported higher price increases in the year ending February 2020 versus the year ending January 2020.



https://us.spindices.com/index-family/sp-corelogic-case-shiller/sp-corelogic-case-shiller-composite

Monthly Personal Income, Consumption and Prices (Mar)

The decline in income and outlays for Mar reflects the beginning of the implementation of containment strategies across most states. This month, income declined, led by a sharp fall in wages and salaries. So far, there has only been a modest increase in government transfer payments.

The decline in outlays/expenditure was much larger than the decline in income. This likely reflects a change in behaviour due to uncertainty and/or unemployment as well as physical social distancing restrictions in place. The largest contributor to the decline in outlays was services – and within that, outlays on healthcare.

There was a significant jump in the calculated personal savings rate.

Personal Income

Total Personal Income – month change; Mar -2% (-$382bn) versus Feb +0.6%

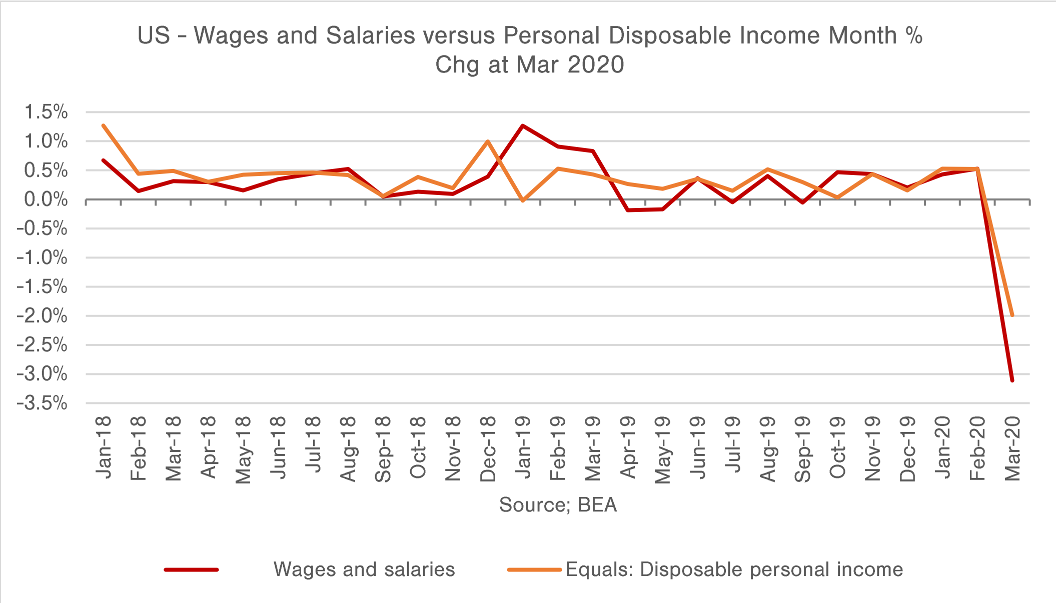
The large decline in the month is mostly the decline in wages and salaries. Wages and salaries declined by 3.1% in Mar (+0.5% in Feb).

The other area of personal income that also contributed to the decline in the month was proprietor's income, which declined by 8.2% in Mar.

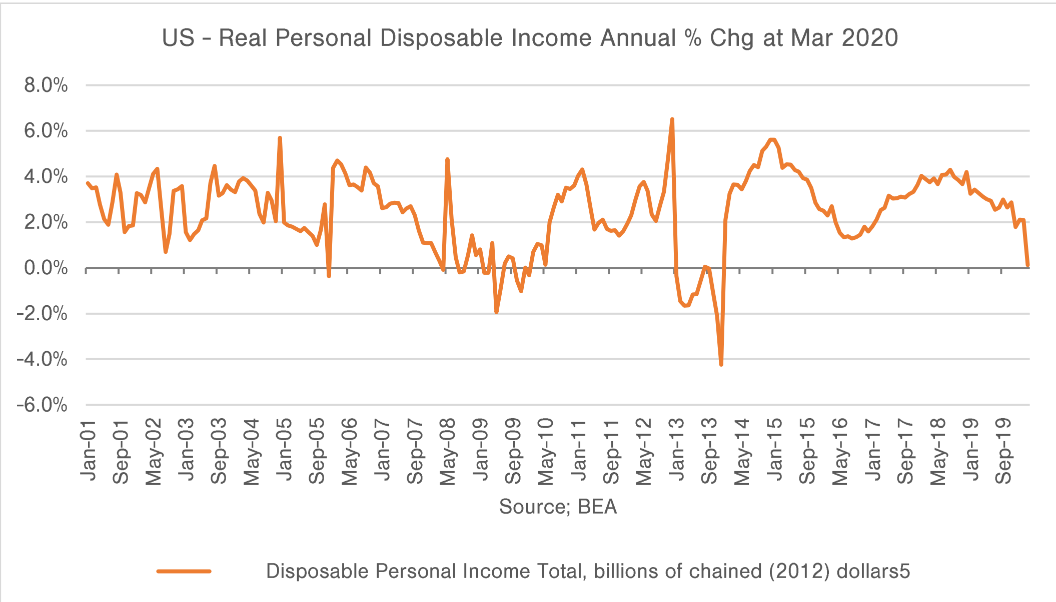
Partly offsetting these declines was a small increase in personal current transfers. In Mar, there was a +1.6% increase in government social benefits – most of the increase was unemployed insurance (+149% versus Feb). An even larger impact of increased government transfer payments will be visible from next month.

The other important note is the decline in personal current taxes – which declined by 2.1%.

The total impact was a -2% decline (-$334bn) in nominal personal disposable income for the month.



On an annual basis, the growth in real personal disposable income slowed to just +0.1% (versus the same month a year ago). Growth had already been slowing through 2018/19;



<u>Personal Consumption Expenditure</u>

Personal expenditures declined at an even faster pace than incomes this month.

Personal Expenditures – month change; Mar -7.5% (-$1,127bn) versus Feb +0.2%

Outlays declined across both goods and services this month.

Goods consumption declined by 3.1% in Mar, led by a larger 15% decline in durable goods. Non-durable goods expenditures increased by 3.1%.

> Within goods, the leading contributor to the decrease was spending on motor vehicles and parts. Partially offsetting the decreases in many categories of spending on goods was an increase in spending for food and beverages purchased for off-premises consumption.

Expenditure on services, which is over twice the size of total goods expenditure, declined by 9.5% in Mar and reflected the majority of the decline in outlays in the month;

> Within services, **the leading contributor to the decrease was spending on health care, including physician, dental, and paramedical services**. Other contributors to the decrease in services were spending on food services and accommodations as well as recreation services.

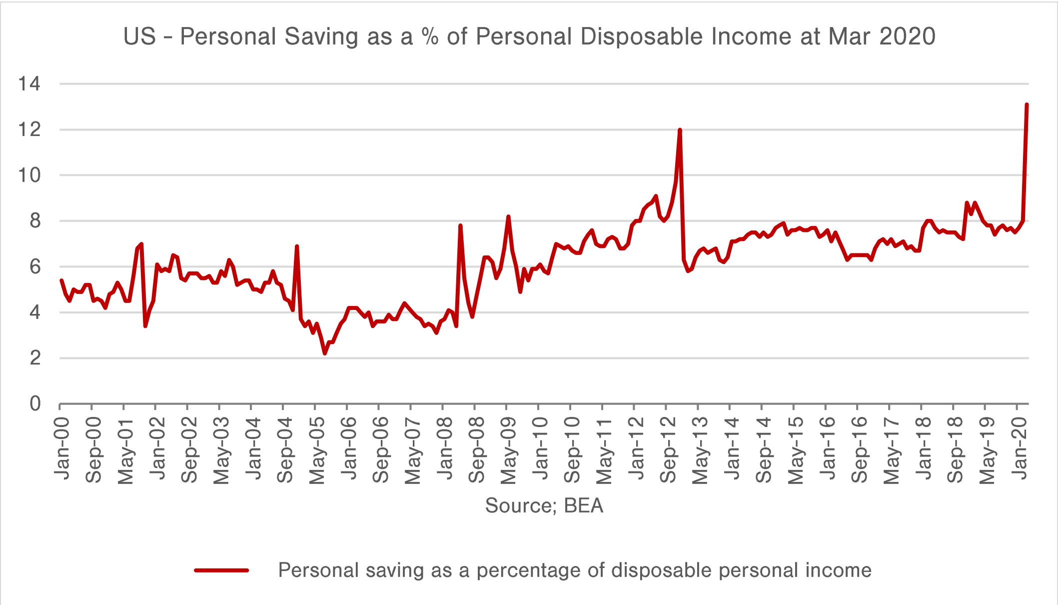
Versus a year ago, personal outlays declined by -3.8%.

The decline in disposable personal income and the larger decline in expenditure resulted in a large increase in personal saving.

Personal Saving

The pace of personal saving (disposable personal income less personal outlays) increased by 61% in Mar (was +4.8% in Feb).

Saving as a proportion of disposable personal income jumped up to 13.1% in Mar – partly reflecting the larger surplus between income and outlays, and also the smaller denominator in disposable income.



Personal Consumption Expenditure Price Index (Mar)

The PCE price index is the Fed preferred measure of consumer price inflation.

On an annual basis, headline PCE price growth slowed due mostly to the fall in energy prices. Growth in core PCE prices also slowed, but to a lesser degree.

PCE Price Index – month change; Mar -0.3% versus Feb +0.09%

Overall, prices were led lower in the month across durable goods and by the decline in energy prices. Slower growth in services prices also contributed.

Goods prices – month change; Mar -0.9% versus Feb -0.12%

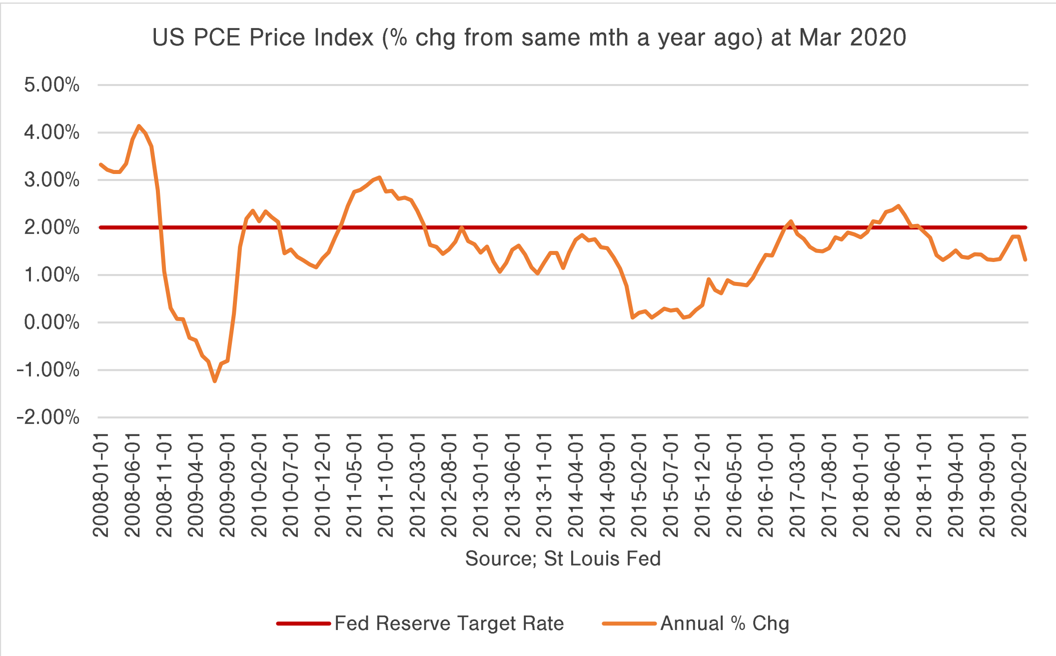
Durable goods prices declined by -0.44% with declines in prices recorded across most durable goods categories.

Non-durable goods prices declined at an accelerated pace in the month of -1.1%. Increases in food & bev prices for off-premise consumption somewhat offset larger declines in clothing prices as well as a 10% decline in gasoline and other energy prices for the month. Other non-durable goods prices were little changed in the month.

Services prices – month change; Mar +0.02% versus Feb +0.2%

Declines across transportation and food services were offset by increases in health care and financial services prices.

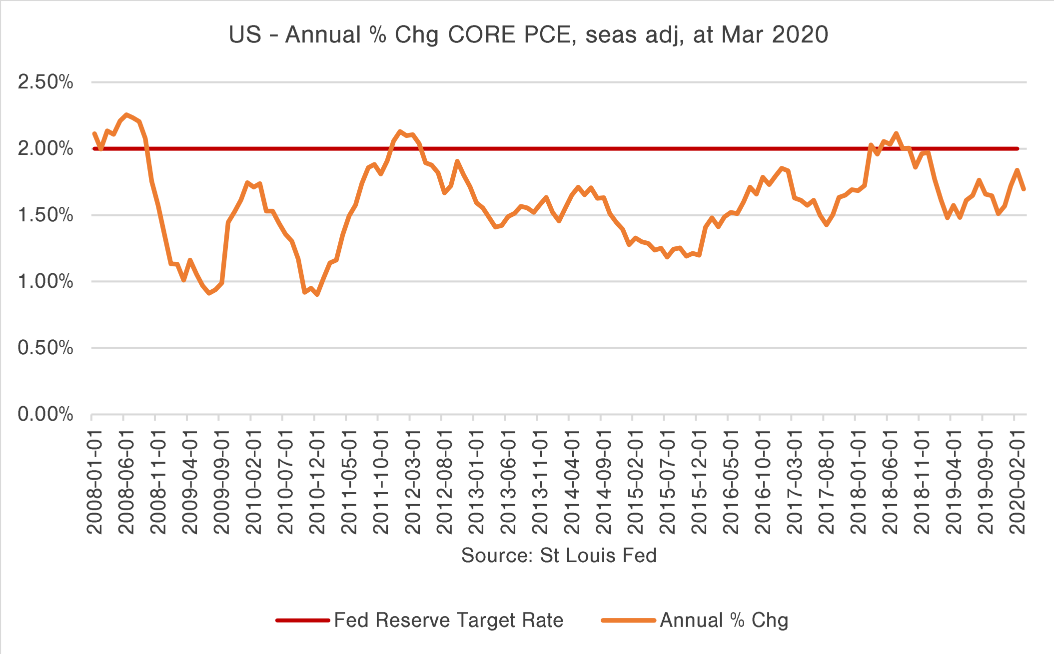
PCE Price Index – annual change; Mar +1.3% versus Feb +1.8%



The main driver of the slower annual growth is the decline in energy prices. Excluding energy, the PCE price index increased by +1.7% in Mar (annual) – which is still slower than in Feb, indicating other drivers of slower price growth.

Overall core PCE annual price growth also slowed in Mar, but not to the same degree.

Core PCE Prices Index (ex Food & Energy) – annual change; Mar +1.7% versus Feb +1.8%



Core goods prices (good excluding food and energy goods) declined at a slightly faster annual pace; Mar -0.7% versus Feb -0.6%

Core services prices (excluding energy services) grew at a slightly slower annual pace of +2.5% in mar versus +2.6% in Feb.

https://www.bea.gov/news/2020/personal-income-and-outlays-march-2020

FOMC Rates Decision – 28-29 Apr

There was no change to current policy settings at this meeting. The Fed continues to note "muted inflation pressure".

Current Settings

FFR 0-0.25%

QE – the Federal Reserve will continue to purchase Treasury securities and MBS to ensure the flow of credit to households and businesses. [A weekly wrap up of purchases is provided in the weekly briefing document.]

Forward Guidance

> The Committee expects to maintain this target range until it is confident that the economy has weathered recent events and is on track to achieve its maximum employment and price stability goals.

The FOMC will monitor incoming information – but the bias is to the downside. The Fed has stated that it will use all its tools to and "act as appropriate" in order to "support the economy" during this difficult time.

Outlook

The FOMC statement focuses on the state of the economy and how activity and unemployment are evolving as a result of Covid-19.

> The ongoing public health crisis will weigh heavily on economic activity, employment, and inflation in the near term, and poses considerable risks to the economic outlook over the medium term

The statement noted declines in activity, increased job losses and "muted inflation pressure".

For the moment, inflation is being held down by weaker oil prices. The issue may become supply disruptions, especially within the food supply chain. There is some evidence already emerging of much higher food inflation – in the US (Nielsen grocery report, news of limits placed on some meat purchases), as well as in Europe (see the Eurozone Prelim CPI for Apr – next section). While food prices might not carry a large weight in the index, in real life, this is a big issue for many people.

https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm

Return to top

Europe

Eurozone GDP Prelim Q1 2020

The prelim Q1 GDP indicated an extremely sharp decline in economic output in the quarter. The decline was so severe that GDP in Q1 also declined versus a year ago – across the entire Eurozone.

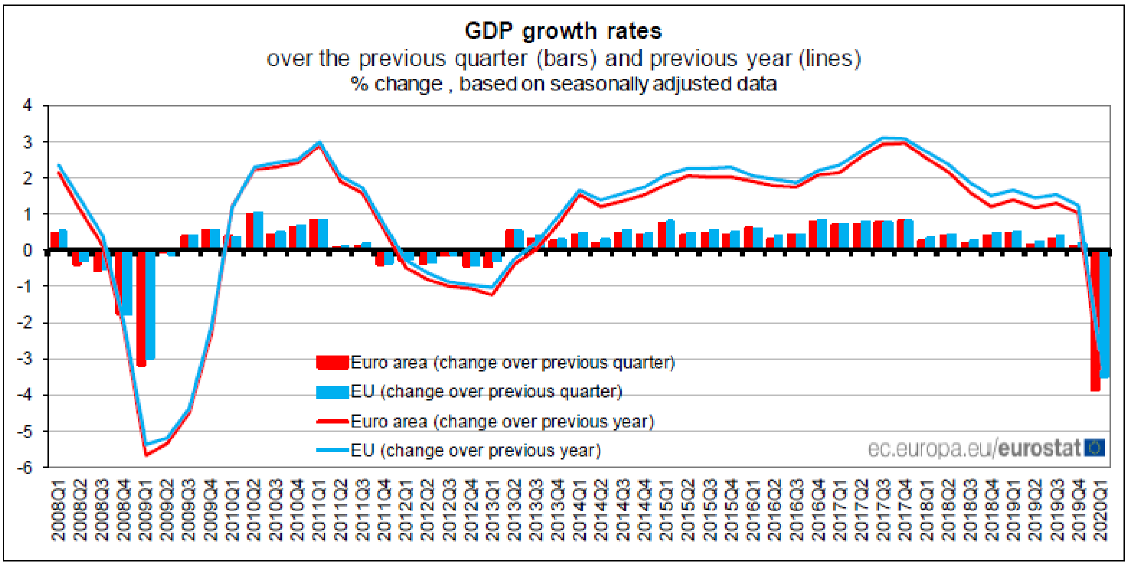
There were several larger member countries on the cusp on recession in Q4 2019 (France and Italy), that likely entered into a recession this quarter.

Euro area GDP – quarter growth; Q1 -3.8% versus Q4 2019 +0.1%

On an annual basis, GDP for the Euro area declined by 3.3% (versus same quarter a year ago).

Broader EU GDP – quarter change; Q1 -3.5% versus Q4 2019 +0.2%

On an annual basis, EU GDP decline by 2.7% versus the same quarter a year ago.



The full release due 15 May.

https://ec.europa.eu/eurostat/documents/2995521/10294708/2-30042020-BP-EN.pdf/526405c5-289c-30f5-068a-d907b7d663e6

Eurozone CPI Prelim (Apr)

The annual growth in consumer prices across the Eurozone slowed further in Apr. The decline in annual growth of energy prices helped to offset accelerating food prices.

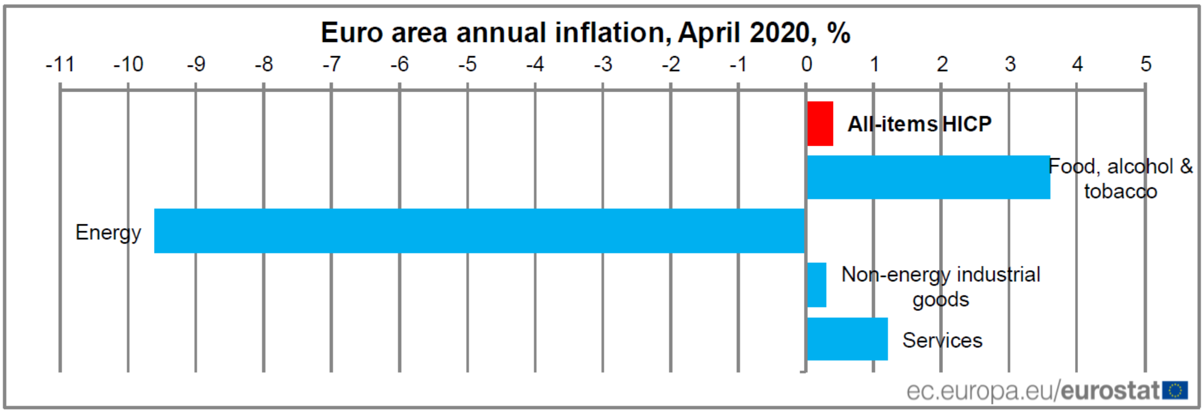
Euro area CPI – annual change; Apr +0.4% versus Mar +0.7%

Excluding energy prices, CPI increased at an annual pace of +1.5%.

Energy prices declined by 9.6% on an annual basis in Apr (after declining by -4.5% in Mar).

As of Apr, the annual growth in food alcohol and tobacco prices increased at an accelerated pace of +3.6% (versus +2.4% in Mar). Unprocessed food prices increased by +7.7% in Apr versus +3.6% in Mar. In the month of Apr alone, unprocessed food prices increased by +3.5% (versus Mar).

The largest weight of the index is services. Services price growth slowed slightly to +1.2% in Apr (from +1.3% in Mar). A year ago, services prices were growing at +1.9% annual pace.



https://ec.europa.eu/eurostat/documents/2995521/10294696/2-30042020-AP-EN.pdf/695df4c4-1a67-bf92-3a0f-69534046cbfe

ECB Rates Decision – 30 Apr 2020

Several changes were made to policy settings at this meeting.

Introduction of new rates & programmes;

> Reduce the interest rate on TLTRO III operations during the period from June 2020 to June 2021 to 50 basis points below the average interest rate on the Eurosystem's main refinancing operations

New;

> Non-targeted pandemic emergency longer-term refinancing operations (PELTROs) will be conducted to support liquidity conditions in the euro area financial system and contribute to preserving the smooth functioning of money markets by providing an effective liquidity backstop

Existing settings;

No changes to the Pandemic Emergency purchase programme (750bn EURO). These purchases will continue to be conducted in a flexible manner over time, across asset classes and among jurisdictions. The Governing Council will conduct net asset purchases under the PEPP until it judges that the coronavirus crisis phase is over, but in any case until the end of this year.

Net purchases of the APP remain at 20bn/mth, with a total of 120bn Euro until the end of the year. The Governing Council continues to expect monthly net asset purchases under the APP to run for as long as necessary to reinforce the accommodative impact of its policy rates, and to end shortly before it starts raising the key ECB interest rates.

Reinvestment of principal payments - to continue as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Benchmark Rates

Remained unchanged at this meeting

main refinancing interest rate; 0%

marginal lending facility interest rate; 0.25%

deposit facility; -0.5%

> The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

Main forward guidance

To some degree, forward guidance is now embedded within each policy instrument – providing some view of when it would be appropriate to expect that policy settings would be changed.

Overall guidance. Note that there is no mention of employment targets. Emphasis added;

> In any case, it [the Governing Council of the ECB] stands ready to adjust all of its instruments, as appropriate, **to ensure that inflation moves towards its aim in a sustained manner, in line with its commitment to symmetry**.

https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200430~1eaa128265.en.html

Return to top

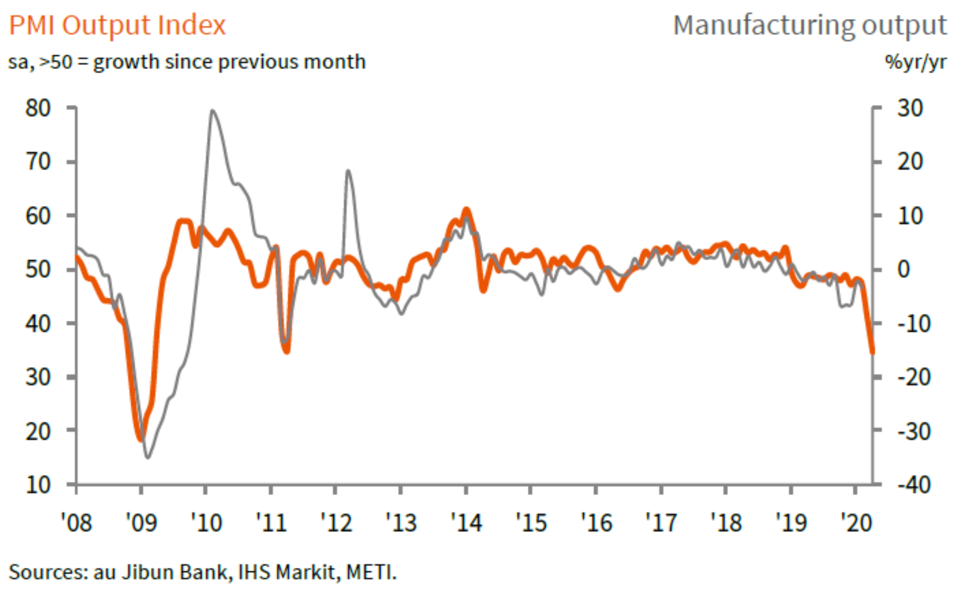
Japan

Markit Manufacturing PMI Final (Apr)

The final headline manufacturing PMI was revised lower for Apr (compared to the prelim release). Output, orders and employment declined at the fastest pace since the GFC. Firms remained pessimistic about the outlook.

Headline Manufacturing PMI: Apr 41.9 (prelim 43.7) versus Mar 44.8

The output index is likely a better barometer of the pace of contraction in activity, given the impact of supply chain issues on delivery times. For Apr, the output index remains around the mid-30's – the lowest now since the GFC.



New orders declined at the fastest pace in over eleven years. Firms noted order cancellations and suspension of operations.

The outlook for production growth remains pessimistic. Firms expect volumes to decline over the coming year.

"Declines in output and new orders are running at rates not seen since the height of the global financial crisis in early-2009. Based on comparisons with official statistics, the latest survey data suggest manufacturing output declined by approximately 15% on an annual basis in April.

Firms reduced employment at the fastest pace since 2009.

https://www.markiteconomics.com/Public/Home/PressRelease/5924f49ed8814e40b66852c27122f2b6

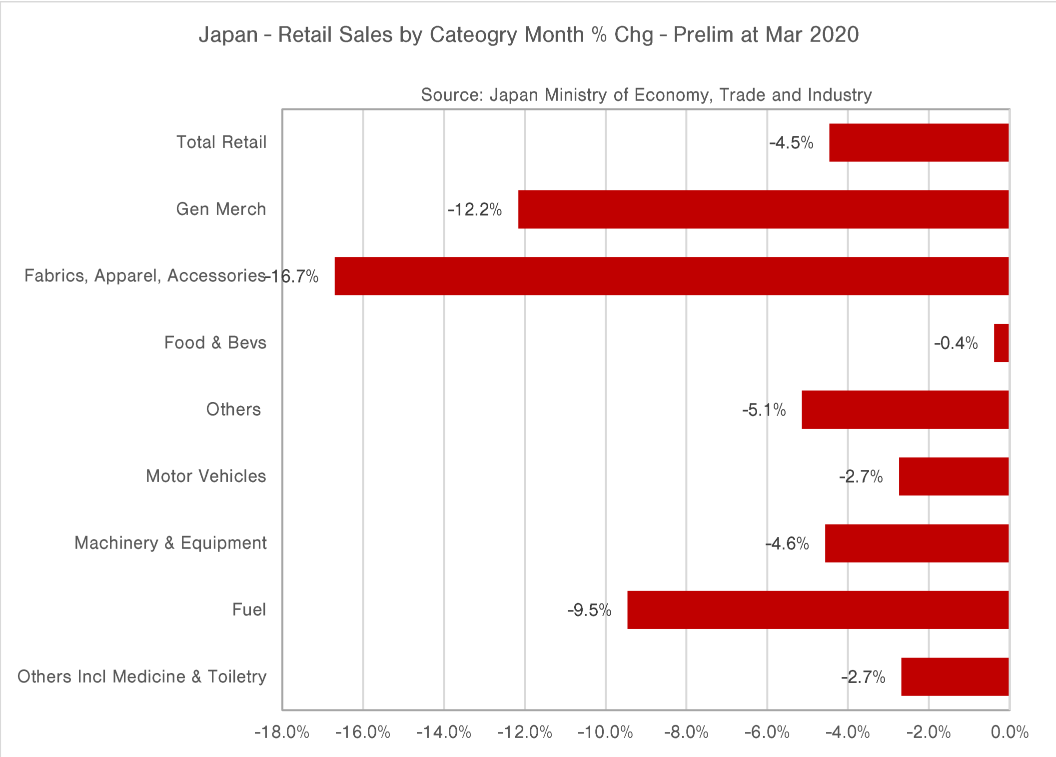
Retail Sales (Mar)

Despite trying to avoid an official shutdown of the economy in Mar (official action was taken in Apr), retail sales still suffered a severe decline. Retail sales declined by 4.5% in Mar – with sales across all categories declining in the month.

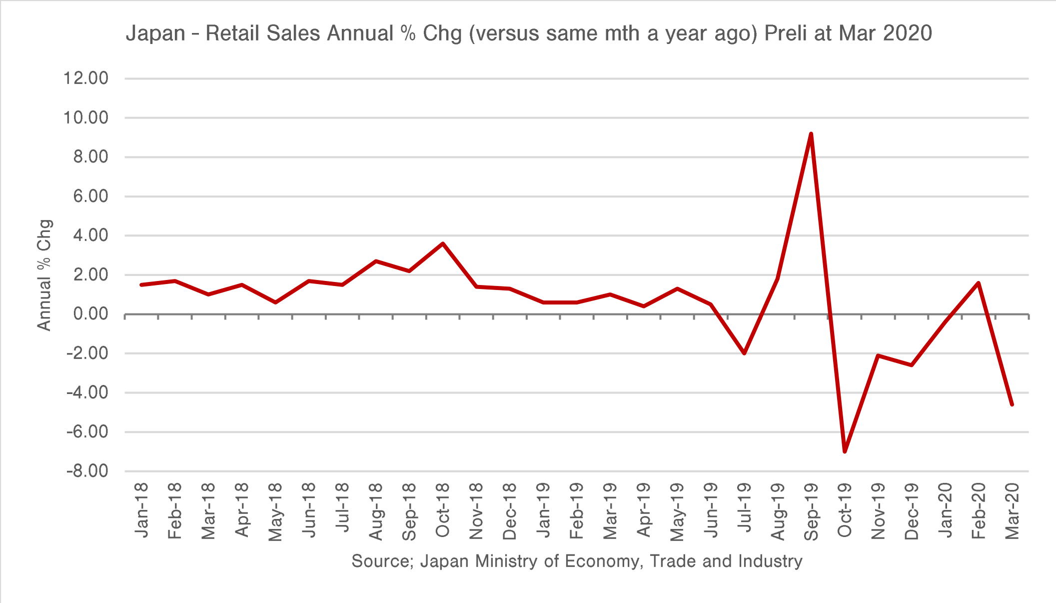
Retail Sales (value) – month change; Mar -4.5% versus Feb +0.5%

Retail sales declined across all sectors this month (value sales basis). The decline was led by several categories; general merchandise, fabrics and apparel, other and fuel.

Food and bev sales declined only slightly.



Retail Sales (value) – annual change; Mar -4.6% versus Feb +1.6%



https://www.meti.go.jp/english/statistics/tyo/syoudou/index.html

Industrial Production - Prelim (Mar)

Japanese industrial production declined further in Mar. Most sectors across mining and manufacturing recorded declines across production and shipments in the month.

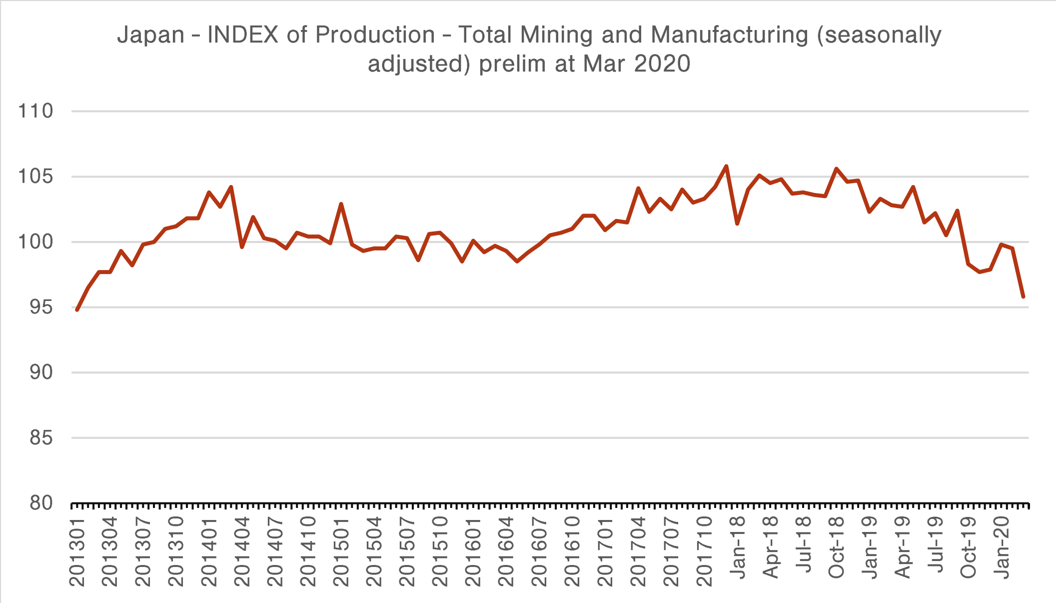
Total Mining & Manufacturing Production – month change; Mar -3.7% versus Feb -0.3%

The decline in the month was recorded across most sectors. The largest monthly declines were recorded for iron, steel and nonferrous metals (-7.4%), fabricated metals (-5.8%), production machinery (-10.2%), general purpose and business machinery (5%) and electronic parts and devices (-4%).

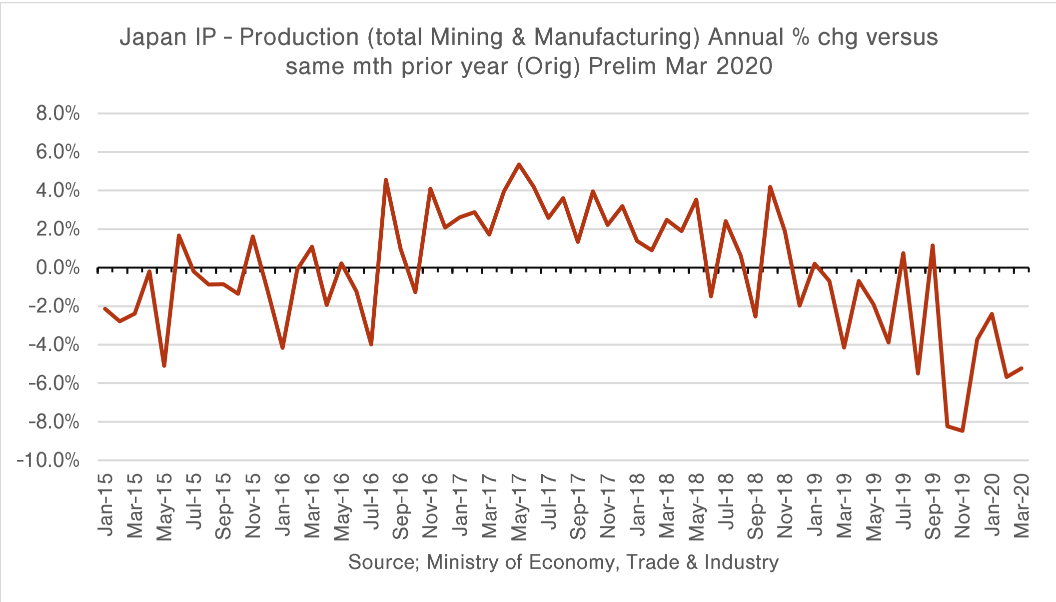
The decline in production of electrical machinery and transport equipment was somewhat smaller (-1% and -2.6% respectively).

But within transport equipment, production of motor vehicles (the largest weight of the index) declined by 5.1% in the month.

While some of this decline will be traced back to the Covid-19 virus impact, it's worth noting that production growth was already lagging. This month, the index of production fell to 9.5% below the recent peak in late 2017 (last month is -6% below that peak);



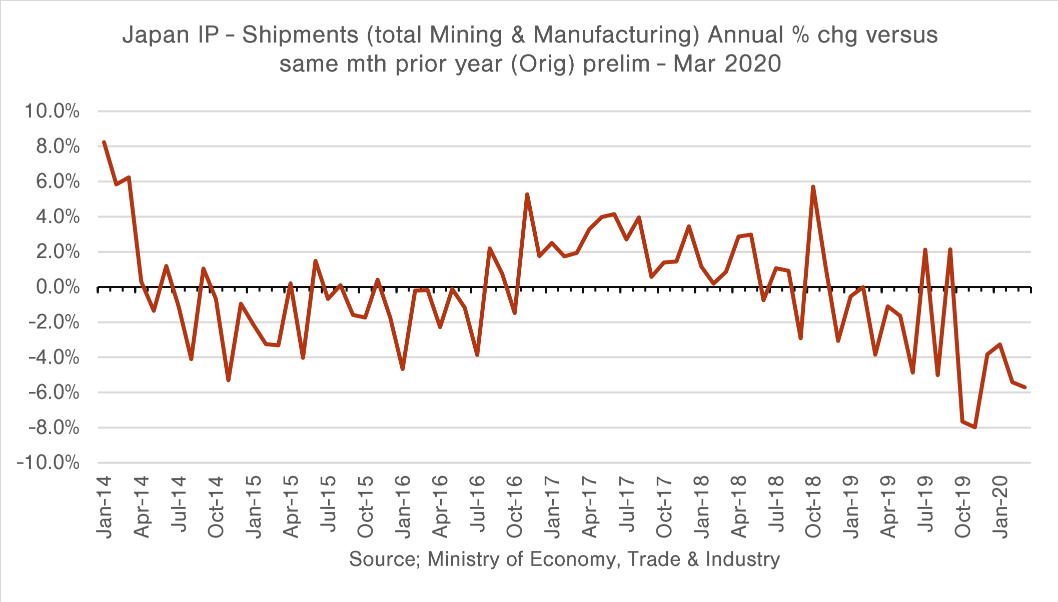
On an annual basis, production continued to decline by 5.2% versus the same month a year ago;



<u>Total Mining and Manufacturing Shipments – month change;</u> Mar -5% versus Feb +1%

Shipments declined across all sectors this month but was led lower by several of the larger sectors. The largest declines were recorded across iron and steel (-5.7%), production machinery (-13%) and motor vehicles (-8.3%). Passenger car shipments alone were -10% lower than in the prior month.

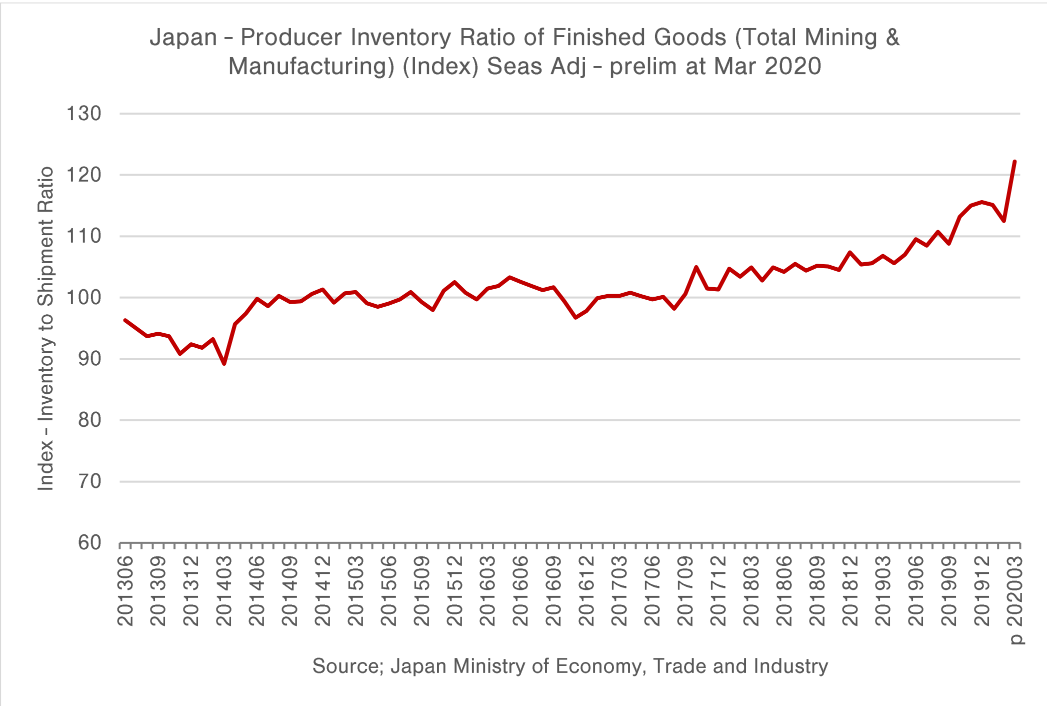
The annual decline in shipments accelerated slightly to -5.7% versus the same month a year ago;



<u>Producers Inventory Ratio of Finished Goods – month change</u>: Mar +8.5% versus Feb -2.3%

The inventory ratio significantly increased this month, especially given the fall in shipments. The largest increases were recorded across iron and steel (+11%), production machinery (+14.5%), general purpose and business machinery (+18.6%) and transport equipment (+20.4%).

The inventory to shipment ratio has been steadily increasing over 208/19;



https://www.meti.go.jp/english/statistics/tyo/iip/index.html

BoJ Rates Decision – 27 Apr 2020

At the latest meeting, the BoJ announced further easing of policy to address less accommodative conditions in corporate financing.

Policy Changes

Increase the purchase of commercial paper and corporate bonds

Additional purchases with the upper limit of the amount outstanding to 20 trillion YEN. The max amount of a single issuers paper and bonds to be purchases will also be increased from 25% to 50% and 30% respectively. The maximum remaining maturity of bonds the BoJ can hold will be extended to up to 5 years. Additional purchases will continue until the end of Sep 2020.

Strengthening of the Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (COVID-19)

Expand the range of eligible collateral – including household debt, expand the types of eligible counterparties and apply a positive interest rate to the outstanding current balances of institutions that provide loans through this facility

Further active purchases of JGBs and T-Bills

"Active purchase" of increased issuance of JGB's and Treasury bills as a part of the government fiscal response to stabilize the yield curve at a low level

Current Policy Settings

Yield Curve Control

ST Rates; -0.1% rate on balances in current accounts held by financial institutions at the BoJ

LT Rates; Purchase JGB's, **without an upper limit**, such that the 10yr yield will remain at zero.

Purchase of ETF's and JREITS

Continue purchases such that amounts outstanding increase with the upper limit of 12 trillion and 180 billion YEN respectively

Forward Guidance

> The Bank will continue with "Quantitative and Qualitative Monetary Easing (QQE) with Yield Curve Control," aiming to achieve the price stability target of 2 percent, as long as it is necessary for maintaining that target in a stable manner.
>
> It will continue expanding the monetary base until the year-on-year rate of increase in the observed consumer price index (CPI, all items less fresh food) exceeds 2 percent and stays above the target in a stable manner.
>
> For the time being, the Bank will closely monitor the impact of COVID-19 and will not hesitate to take additional easing measures if necessary, and also it expects **short- and long-term policy interest rates to remain at their present or lower levels**.

https://www.boj.or.jp/en/announcements/release_2020/k200427a.pdf

Return to top

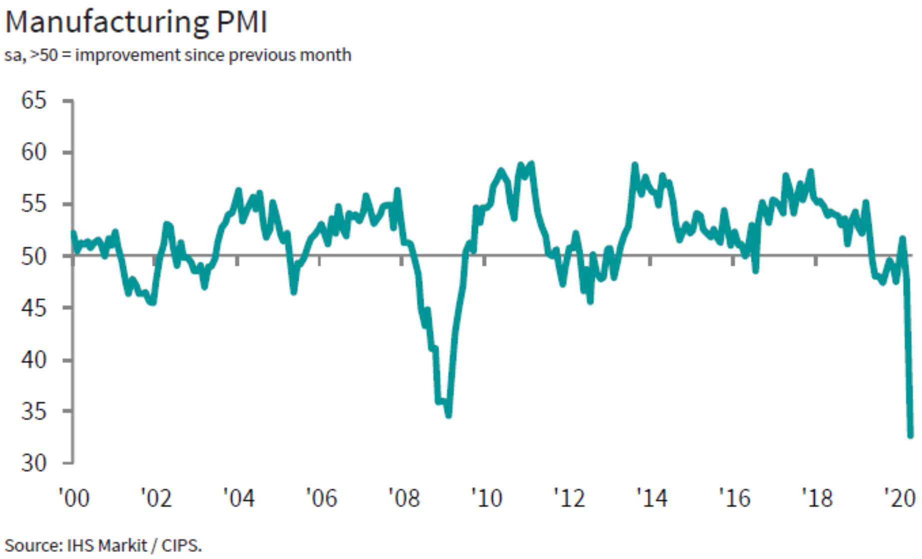
United Kingdom

Markit Manufacturing PMI Final (Apr)

Manufacturing activity contracted at the fastest pace in the survey history this month. This was the result of record declines across production and orders. Employment also declined amid the weaker demand conditions.

Delivery lead times lengthened to the 'greatest extent so far' – usually would be treated as a positive sign of activity, but not in this case. So again, the production index is likely a better indicator of current activity as the headline PMI likely still overstates the level of activity.

<u>Manufacturing PMI:</u> Apr 32.6 versus Mar 47.8



"Last month's dismal predictions became a reality in April as the manufacturing sector took an abrupt nosedive into the red with purchasing activity, production and new orders falling at the fastest rates in the near 30-year survey history.

"There was only one reason for such a ruinous result – the COVID 19 coronavirus pandemic which affected supply chains from beginning to end. Domestic customers deferred orders and export customers thrashed around trying to source a dwindling number of raw materials to keep their supply chains operating before finally giving up.

Logistical issues, border difficulties for overseas goods and delays to shipping and airfreight were the main reasons behind the lengthening delivery lead-times. Despite the reduction in purchasing activity, some firms still experienced input availability constraints.

Input costs still increased in the latest month, albeit slightly. Higher prices from shortages and transport costs were somewhat offset by lower oil prices. Selling prices declined at a pace equal to the four-year low.

https://www.markiteconomics.com/Public/Home/PressRelease/1312313a7f714426b8fdeab6d97f06bf

Return to top

Australia

CPI Q1

The quarter on quarter CPI growth slowed as higher food, housing, health and education prices were offset by larger declines in fuel and overseas holiday prices. While the slower growth is welcomed, the broader range of categories adding to price growth is somewhat concerning.

The annual pace of CPI growth accelerated in Q1 and is within the RBA 2-3% band. The acceleration in annual CPI growth in Q1 was led by growth in prices across food, alcohol, household goods & services, health, education, transport and education.

Core CPI growth increased at a faster pace in Q1 also – but still remains outside of the RBA band.

While the slower quarterly CPI growth is welcomed, the acceleration in the annual pace, which includes the weaker fuel prices, must be a concern for the RBA. The price growth comes at a time when incomes are falling and interest rates are at an all-time low. The expectation at this stage is that price growth will slow in Q2.

<u>All-Items CPI – Quarter change</u>; Q1 Mar +0.4% versus Q4 Dec +0.7%

Growth in both goods and services prices slowed in the quarter. There were some larger offsetting changes;

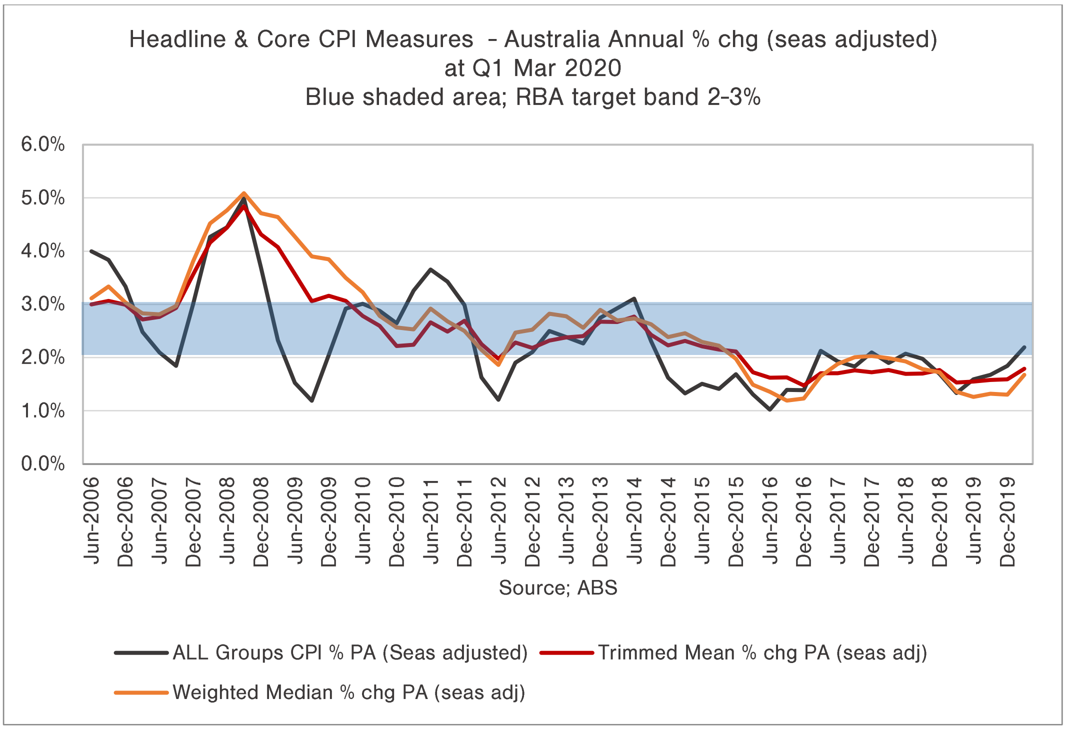
Food and non-alcoholic bevs prices increased at a faster quarterly pace of +1.9% in Q1 2020 – this was the result of drought conditions and some bushfire impacts on the supply/availability of vegetables. There was some note of impacts from Covid-19 on grocery prices as consumers sought to stockpile items.

Alcohol & tobacco made a smaller, but still positive contribution to headline CPI growth.

Health and education all made a larger contribution to CPI growth this quarter.

This was offset by declines in clothing, transport (fuel), comms, recreation & culture price growth in the quarter.

<u>All Items CPI – Annual change</u>; Q1 Mar +2.2% versus Q4 Dec +1.8%

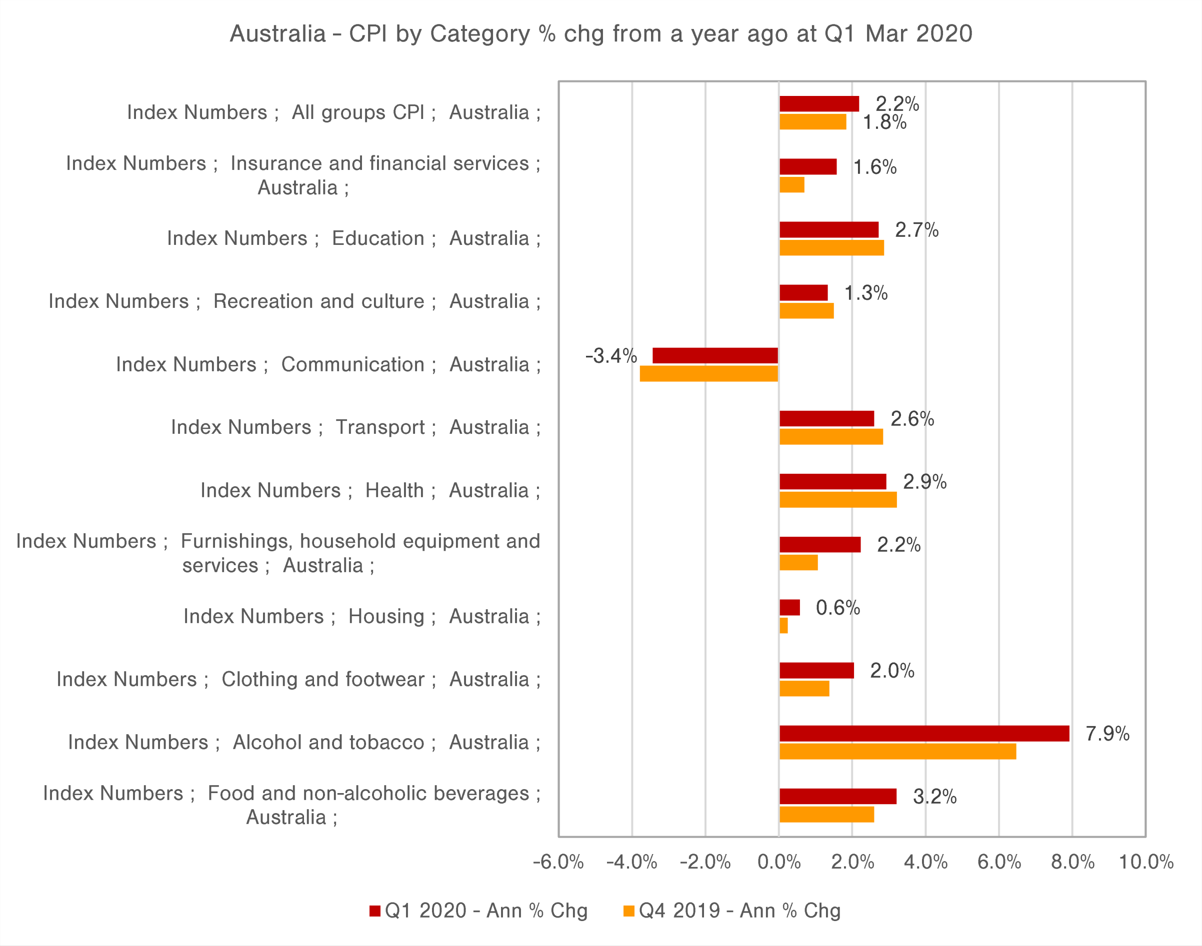


The RBA preferred measures of core CPI – the trimmed mean and weighted median both also increased at a faster pace;

<u>Core CPI Trimmed Mean – annual change</u>; Q1 Mar +1.8% versus Q4 Dec +1.6%

<u>Core CPI Weighted Median – annual change</u>; Q1 Mar 1.7% versus Q4 Dec +1.3%

Most expenditure categories recorded annual growth in prices as of Q1 – the only offsetting decline was communication prices;



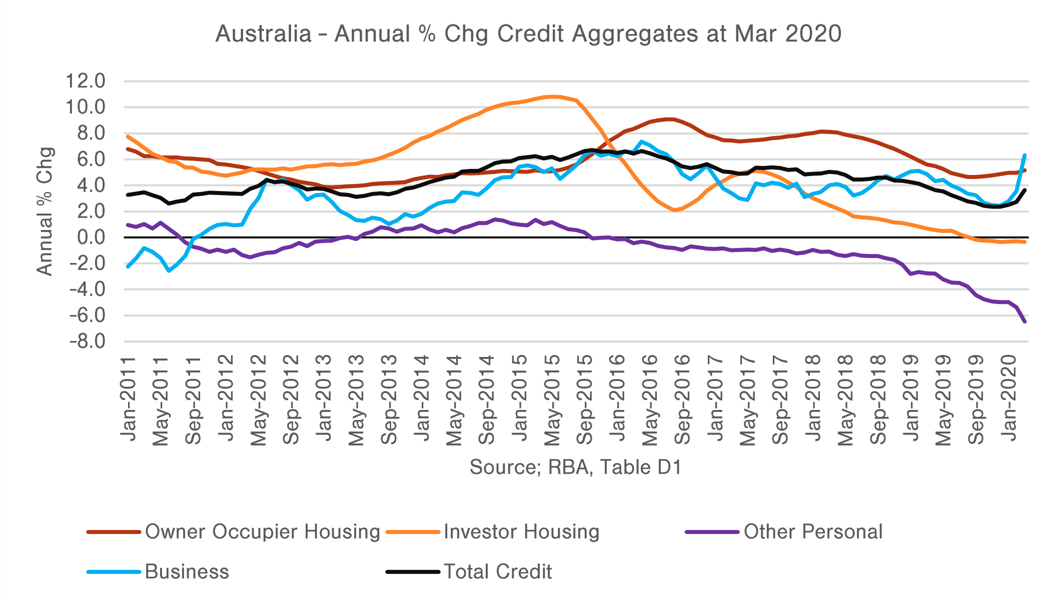
https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/EA89371966C6F6BECA2585580016BC4B?OpenDocument

Private Sector Credit (Mar)

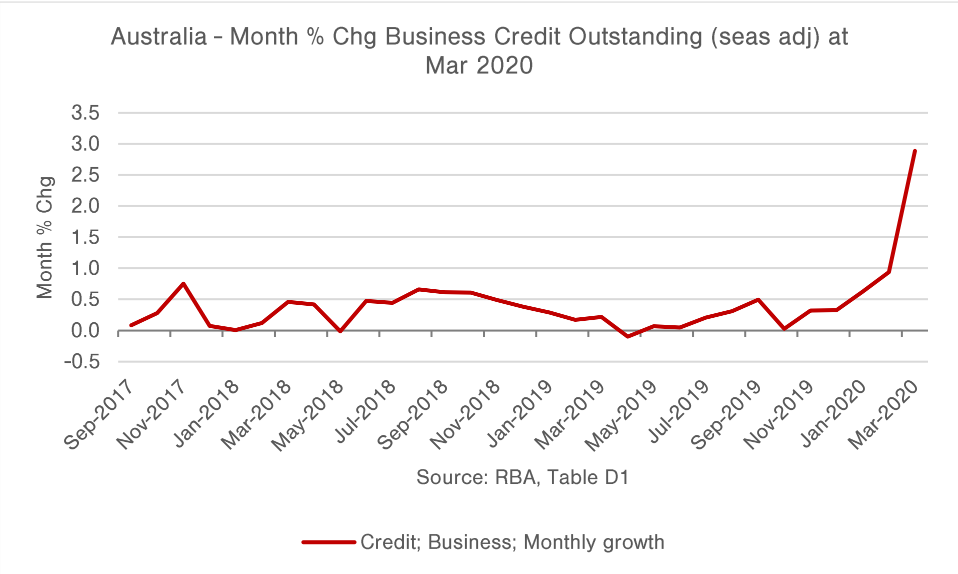
Growth in total private sector credit outstanding accelerated in Mar. This was led by growth in the latest month by business – with many businesses drawing down on credit lines to support cash flow until the Covid-19 restrictions are lifted.

Total Private sector credit – annual change; Mar +3.6% versus Feb +2.7%

Its worth noting that annual growth in private sector credit had been accelerating over the last three months.



Growth was higher this month due to the acceleration in business credit. On a monthly basis, business credit increased by +2.9% - leading the annual rate higher to +6.3% in Mar.



Owner occupier housing credit outstanding, has also continued to grow at a steady, slightly faster, pace. The growth in investor housing credit outstanding continued to decline on both a monthly and annual basis.

Other personal credit declined at an even faster pace this month by -1.4% with the annual pace of outstanding personal credit declining by -6.5%.

https://www.rba.gov.au/statistics/frequency/fin-agg/2020/fin-agg-0320.html

CBA/Markit Manufacturing PMI Final (Apr)

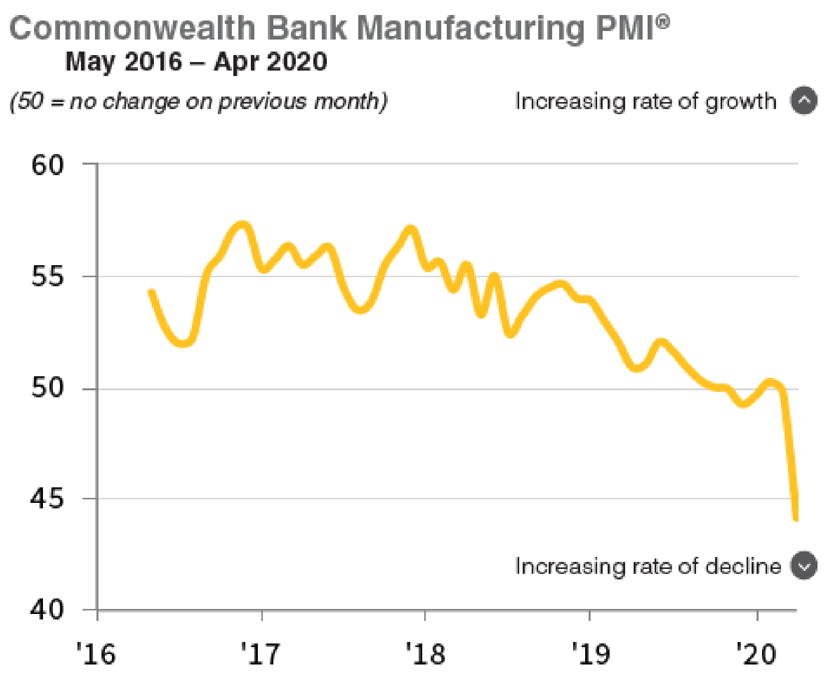
As outlined in the prelim release, manufacturing activity contracted at an accelerated pace in Apr, reaching a new series low.

Headline Manufacturing PMI; Apr 44.1 versus Mar 49.7

> In recent months, the headline index has been heavily influenced by the COVID-19 pressure on supply chains as reflected by a severe lengthening of delivery times, which under normal circumstances will reflect a busier manufacturing economy.

In other words, the headline number likely understates the extent of the decline. We would usually look at a separate production index to understand the extent of the slow down – no separate production or output index has been provided here.

A note, which is not obvious from the chart below, is that output contracted for the eighth month.



Demand conditions continued to deteriorate. New orders declined led by a record pace led by a decline in foreign orders. Firms also cited cancelled orders and business suspension as reasons for the weaker demand.

Order backlogs declined at a faster pace.

Employment declined further.

One important note here for firms is the pace of input price inflation. Input prices increased at the fastest pace since Jun 2018 – weaker currency and higher transport prices were cited.

At the same time, selling price growth slowed.

https://www.markiteconomics.com/Public/Home/PressRelease/ac41b0478575464cbec5cb7d8adca2b9

Return to top

China

NBS Manufacturing and Non-Manufacturing PMI (Apr)

The full release by the NBS has not yet been published. The headline manufacturing PMI came in at 50.8 in Apr (versus 52 in Mar). The non-manufacturing PMI came in at 53.2 in Apr versus 52.3 in Mar.

http://www.stats.gov.cn/english/

Caixin Manufacturing PMI Final (Apr)

Manufacturing activity in China contracted slightly in the latest month. The easing of local restrictions resulted in lifts in output, but weak global demand continued to drag on activity.

In the detail, it's clear that the headline PMI is not representative of a robust recovery.

> Unlike in February and March, manufacturers' confidence was not high in April as the coronavirus's hard hit on external demand forced them to reassess the pandemic's impact: the economic shock may be greater than previously thought, and it may take longer for the economy to recover. Amid sluggish demand, employment contracted at a steeper rate.

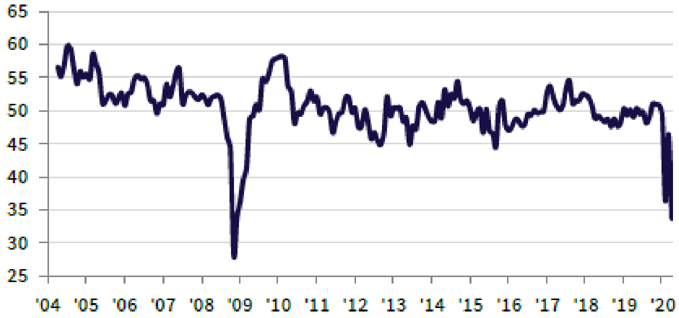
Headline Manufacturing PMI: Apr 49.4 versus Mar 50.1

Production increased versus the month prior as more firms returned to operation and/or production was scaled up. The pace of expansion was small. Order backlogs increased, but at a much slower pace.

New orders continued to fall for the third month. This was led mostly by weaker export demand – which declined at the fastest pace since 2008.

New Export Orders Index

sa, >50 = growth since previous month



Sources: Caixin, IHS Markit.

Firms continued to reduce employment and at a faster pace.

Firms reduced buying activity and instead reduced inventory of inputs. There was some lengthening of delivery lead times.

Input costs fell at the fastest pace in over four years as raw materials prices declined.

> Prices of industrial products continued to fall. Amid a plunge in global oil prices, input costs dropped markedly. The gauges for input costs and output prices had the same reading in April. Meanwhile, downward pressure on the prices of raw materials including glass and steel grew amid large inventories and limited demand recovery.

In a further sign that all is still not well within Chines manufacturing, output charges continued to decline "as firms sought to remain competitive and attract sales".

https://www.markiteconomics.com/Public/Home/PressRelease/ff100419303d4864ae187d4acf04c4c2

Return to top

Trade

US-China Trade Talks

It's worth noting the renewed threat of tariffs on China by US President Trump.

As noted in the USMCA announcement last week, there is some focus now 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

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

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

It has been announced that trade negotiations between the UK and the US will commence this week (4 May). These will run in parallel with the EU Brexit/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 restart of talks last week has not been positive so far. The next round of official talks via videoconference is scheduled for 11 May. https://www.consilium.europa.eu/en/policies/eu-uk-negotiations-on-the-future-relationship/

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 fast – end of June 2020;

Asked whether the EU could request an extension if the British did not, Barnier said it was not up to one side to be the “demandeur” (seeker), but it had to be a common decision for both parties before 30 June, as stated in the withdrawal agreement.

Talks have failed to bridge the divide on trade between both parties;

“We regret that the detail of the EU’s offer on goods trade falls well short of recent precedent in free trade agreements it has agreed with other sovereign countries,” the spokesman said. “This considerably reduces the practical value

> of the zero-tariff, zero-quota aspiration we both share."https://www.theguardian.com/politics/2020/apr/24/britain-running-down-the-clock-in-brexit-talks-says-michel-barnier-eu

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

Return to top