

## Key Themes

The focus this week will be on US non-farm payrolls for May, ECB and RBA meetings and global PMI's for May.

Global PMI's for May will be released this week. This should provide some insight as to how economies and regions are performing as restrictions start to lift – especially for services sectors.

Important US data this week will focus on non-farm payrolls for May, initial and continuing jobless claims and the ISM manufacturing and non-manufacturing PMI's for May. The final release of factory orders data for Apr will also be released this week.

The RBA and ECB meet this week. It will be a quiet week for the US Fed ahead of the FOMC meeting next week.

In Aus, Q1 GDP will be released on Wed. The expectation is for a slight decline in GDP for Q1 as most of the economic impact was in the latter half of Mar. Inventory components will be released on Tue which could tip the scale. Retail sales for Apr will also be released – the prelim retail turnover released last week indicated a severe decline in sales in Apr.

Purchases of Treasury and Mortgage securities remain at a similar pace as the week prior. This week, the NY Fed will purchase approx. \$22.5bn in Treasury Securities (last week \$20bn, prior week \$30bn) and approx. \$22.5bn in MBS (last week \$18bn and prior wk. \$22.5bn).

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 US Treasury will settle approx. \$600bn in ST Bills, Notes and the new 20-year Bond this week. This includes four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$223bnbn 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 \$2.048 trillion USD. This is 68% of the requirement for the quarter and we are 69% of the way through the quarter (in weeks).

## US Treasury Issuance & QE

**This week** w/c 1 Jun will see continued heavy issuance. The US Treasury will settle approx. \$600bn in ST Bills, Notes and the new 20yr Bond this week. This includes four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$223bnbn in new money for 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 \$2.048 trillion USD. This is 68% of the requirement for the quarter and we are 69% 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			
1-5 June	28-May	02-Jun	4 week bill	80					
	28-May	02-Jun	8 week bill	70					
				150	150	0			
	01-Jun	04-Jun	13 week bill	63			Announced		
	01-Jun	04-Jun	26 week bill	54			Announced		
				117	138.5	-21.5			
	27-May	02-Jun	105-Day CMB	40			Completed	9127963Y3	Matures 15 Sep
	28-May	02-Jun	154-Day CMB	40			Completed	9127964Q9	Matures 3 Nov
	02-Jun	04-Jun	119-Day CMB	40			Announced	9127962J7	Matures 1 Oct
	02-Jun	04-Jun	42-Day CMB	65			Announced	9127965Z3	Matures 16 Jul
				185	0	185			
	26-May	01-Jun	2yr Note	44			Announced		
	27-May	01-Jun	5yr Note	45			Announced		
	28-May	01-Jun	7yr Note	38			Announced		
	<b>20-May</b>	<b>01-Jun</b>	<b>20yr Bond</b>	20			<b>NEW - Completed</b>		
				147	87.29	59.71			
			<b>Total - securities settling this week</b>	599	375.79	223.21			
			<b>QTR to date totals</b>	<b>4,623</b>	<b>2,575</b>	<b>2,048</b>	<b>68%</b>		
			<i>Treasury Estimates for Q2 2020</i>			<i>2,999</i>			
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>					
		02-Jun-20	Treasury Bills	6,700					
		04-Jun	Treasury Bills	10,200					
				16,900					

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

## QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 1 Jun	\$7bn	\$4.47bn
Tue 2 Jun	\$3bn	\$4.54bn
Wed 3 Jun	\$3bn	\$4.47bn
Thur 4 Jun	\$4.5bn	\$4.54bn
Fri 5 Jun	\$5bn	\$4.47bn
Total Announced Purchases	\$22.5bn (last wk. \$20bn)	\$22.5bn (last wk. \$18bn)

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 1 Jun 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
Mon 1 Jun 2020	30 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 1 JUNE 2020

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## MONDAY 1 JUNE (US Eastern Time)

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US	ISM Manufacturing PMI (May), Markit Manufacturing PMI Final (May)
Europe	Eurozone Markit Manufacturing PMI Final (May)
Japan	Manufacturing PMI (Final) May
Australia	CBA Manufacturing PMI Final (May)
China	NBS Manufacturing and Non-Manufacturing PMI (May), Caixin Manufacturing PMI (May)

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## TUESDAY 2 JUNE

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US	ISM NY Business Conditions Index (May), Total Vehicle Sales (May)
Europe	Eurozone Markit Services PMI Final (May)
Japan	Services PMI Final (May)
Australia	CBA Services PMI Final (May) RBA Rates Decision

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## WEDNESDAY 3 JUNE

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US	Mortgage applications wk ending 29 May, ADP Employment (May), ISM Non-Manufacturing PMI (May), Markit Services PMI (May), Factory Orders (Apr)
Australia	GDP Q1
Europe	Eurozone Services PMI Final (May)
UK	Markit Services PMI Final (May)
China	Caixin Services PMI (May)

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## THURSDAY 4 JUNE

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US	Initial and Continuing Jobless Claims wk ending 29 May, Challenger Job Cuts (May)
Europe	Eurozone Retail Sales (Apr) ECB Rates Decision
Australia	Retail Sales (Apr)

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## FRIDAY 5 JUNE

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US	Non-Farm Payrolls and Employment Report (May), Consumer 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.

Late last week, US President Trump announced that steps would commence to revoke the favoured trade status of Hong Kong. Markets were expecting more dramatic measures in the announcement.

President Trump on Friday announced no specific action as a result of plans to strip Hong Kong of its special status as semiautonomous from Beijing, so little may change in the immediate term for the internationalized Chinese city.

The president on Friday said China's decision to impose a national security law was "absolutely smothering Hong Kong freedoms" and made it impossible for the U.S. to continue treating the city with a special status.

[https://www.wsj.com/articles/u-s-china-disputes-growing-harder-to-solve-11590963070?mod=hp\\_lead\\_pos6](https://www.wsj.com/articles/u-s-china-disputes-growing-harder-to-solve-11590963070?mod=hp_lead_pos6)

Stage two of trade negotiations were planned to follow on from last years' agreement – but there has been no further progress. 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. There is no indication of timing for the start of phase two at this stage.

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](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](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0)

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

The new USMCA will 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 actual details of the negotiations are largely unknown and causing concern in the UK;

“The precise details of any UK-US Free Trade Agreement are a matter for formal negotiations, and we would not seek to pre-empt these discussions.

“The Government is clear that when negotiating FTAs we will continue to protect our right to regulate in the public interest where we deem fit.”

<https://www.express.co.uk/news/world/1288548/uk-government-brexit-trade-deal-chlorinated-chicken-farmers-us-trade-liz-truss>

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 2 Jun ahead of the EU summit later in the month. Little progress has been made in previous rounds of talks;

In a statement released on May 15, after the last round of meetings, Frost said the "major obstacle" in the negotiations at the moment is represented by "unbalanced proposals" that, according to Frost, would see the UK still "bind to EU law or standards" after Brexit - something which is "unprecedented in Free Trade Agreements", he added.

The transition period is set to expire on December 31 this year, hence the UK and the EU need to reach an agreement by then or risk ending up in a "no-deal" scenario, which both sides repeatedly claimed they want to avoid. <https://www.euronews.com/2020/05/31/they-ve-taken-three-steps-back-barnier-points-finger-at-uk-ahead-of-brex-it-talks-resumpti>

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/brex-it-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)