

## Key Themes

A quieter week on the data front. The highlight this week will be the US FOMC meeting. The FOMC announcement and press conference will be held on Wed.

US data of note this week will be initial and continuing jobless claims, CPI and PPI for May and the first view of consumer confidence for Jun.

Data out of China this week includes trade, new loans, CPI and PPI for May.

Europe data highlights will include industrial production for Apr and the detailed view of Q1 GDP.

Finally, Aus housing lending data for Apr will be released along with the NAB business conditions and confidence report for May. We will also get the first view of consumer confidence for Jun.

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

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

US Treasury issuance will remain heavy, but there will be a lower amount of new money raised this week as more of the CMB's mature. The US Treasury will settle approx. \$447bn in ST Bills this week. This includes four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$104bn 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 \$2.153 trillion USD. This is 72% of the requirement for the quarter and we are 76% of the way through the quarter (in weeks). Over the last three weeks of the quarter, the US Treasury will need to raise approx. \$846bn in new money in order to meet the \$2.999 trillion target. This would represent a significant increase in issuance over the coming weeks.

## US Treasury Issuance & QE

**This week** w/c 8 Jun will see continued heavy issuance, but a lower amount of new money raised as more of the CMB's mature. The US Treasury will settle approx. \$447bn in ST Bills this week. This includes four (4) Cash Management Bills (CMB's). The US Treasury will raise approx. \$104bn in new money for the week.

This week, the US Treasury will also auction approx. \$92bn in Bonds and Notes that will settle next week.

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
8-12 Jun	04-Jun	09-Jun	4 week bill	80			Completed		
	04-Jun	09-Jun	8 week bill	70			Completed		
				150	195	-45			
	03-Jun	09-Jun	154-Day CMB	40			Announced	9127964R7	Matures 10 Nov
	03-Jun	09-Jun	105-Day CMB	40			Announced	9127963Z0	Matures 22 Sep
	09-Jun	11-Jun	119-Day CMB	40			Announced	912796TN9	Matures 8 Oct
	09-Jun	11-Jun	42-Day CMB	60			Announced	912796WX3	Matures 23 Jul
				180	0	180			
	08-Jun	11-Jun	13 week bill	63			Announced		
	08-Jun	11-Jun	26 week bill	54			Announced		
				117	147.6	-30.6			
			<b>Total - securities settling this week</b>	<b>447</b>	<b>342.6</b>	<b>104.4</b>			
			<b>QTR to date totals</b>	<b>5,070</b>	<b>2,917</b>	<b>2,153</b>	<b>72%</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>					
		09-Jun	Treasury Bills	6.470					
		11-Jun	Treasury Bills	7.190					
				13.660					

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

## QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 8 Jun	\$2bn	\$4.47bn
Tue 9 Jun	\$3.5bn	\$4.54bn
Wed 10 Jun	\$6.5bn	\$4.47bn
Thur 11 Jun	\$4bn	\$4.54bn
Fri 12 Jun	\$4bn	\$4.47bn
Total Announced Purchases	\$20bn (last wk. \$22.5bn)	\$22.5bn (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 8 Jun 2020; the new schedule will be released at the end of the week for the month ahead.

Date	Maturity Date	Term	Aggregate Operation Limit
Morning – daily operations	Next day	O/N	\$500bn
Mon 8 Jun 2020	7 Jul 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 8 JUNE 2020

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### MONDAY 8 JUNE (US Eastern Time)

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Japan	GDP Q1 (2nd Est)
China	Trade Balance, Exports, and Imports (May)
Europe	Germany Industrial Production (Apr)

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### TUESDAY 9 JUNE

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US	JOLTS (Apr), Wholesale Inventories (Apr)
Australia	NAB Business Conditions and Confidence (May), ANZ Job Ads (May)
Europe	Eurozone GDP Q1 (detailed)

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### WEDNESDAY 10 JUNE

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US	Mortgage Applications wk ending 5 Jun, CPI (May) FOMC Rates Decision
Australia	Westpac Consumer Confidence (Jun), Lending for Housing (Apr)
China	CPI, PPI, New Loans (May)

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### THURSDAY 11 JUNE

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US	Initial and Continuing Jobless Claims wk ending 5 Jun, PPI (May)
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### FRIDAY 12 JUNE

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US	University of Michigan Consumer Sentiment Survey Prelim (Jun)
Japan	Industrial Production Final (Apr)
Europe	Eurozone Industrial Production (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.

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-idUSKBN1XTOIK>

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%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.

## NEW – S.301 Investigation of Digital Services Taxes

It was announced this week that the USTR would commence an investigation into various digital services taxes that have been implemented or considered for implementation on US firms.

"President Trump is concerned that many of our trading partners are adopting tax schemes designed to unfairly target our companies," said USTR Robert Lighthizer. "We are prepared to take all appropriate action to defend our businesses and workers against any such discrimination."

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/june/ustr-initiates-section-301-investigations-digital-services-taxes>

## 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 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

The fourth round of negotiations took place last week. Little progress has been made in previous rounds of talks and, over the last week, further issues arose especially in regard to an agreement on fisheries.

“We are now at an important moment for these talks,” a government spokesman said. “If we are to make progress, it is clear that we must intensify and accelerate our work. Any such deal must of course accommodate the reality of the UK’s well-established position on the so-called level playing field, on fisheries, and the other difficult issues.”

Barnier said “the EU wants the status quo, the UK wants to change everything”, but called for discussions “somewhere between”  
<https://www.theguardian.com/politics/2020/jun/07/brexit-uk-fears-eu-chief-negotiator-has-lost-grip-on-fishing-talks>

Both parties remain far apart on key negotiating objectives;  
<https://audiovisual.ec.europa.eu/en/video/I-191665>

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)