

Key Themes

The highlights for the week will be speeches/testimony by the US Fed Chairman, rates decisions by the BoJ and BoE, US retail sales and several views of regional US manufacturing activity in Jun.

US Fed Chairman Powell will provide testimony to the Senate Committee on Banking, Housing, and Urban Affairs on the 16th Jun and will deliver the semi-annual report on Monetary Policy to the US Congress on the 17th Jun.

Vice Chair Clarida will deliver a speech via pre-recorded video at the Foreign Policy Association annual dinner. Both Chairman Powell and Vice Chair Clarida will also give speeches later in the week on the 19th. <https://www.federalreserve.gov/newsevents/2020-june.htm>

The BoJ and BoE will deliver rates decisions this week.

The important US data this week; retail sales for May, NY and Philly Fed regional manufacturing Surveys for Jun, US industrial production for May, and initial and continuing unemployment claims.

UK data this week will include labour market (Feb-Apr), CPI and retail sales results for May.

The key data highlight for Australia will be the May labour market survey.

Purchases of Treasury and Mortgage securities remain at a similar pace as the week prior. This week, the NY Fed will purchase approx. \$25bn in Treasury Securities (last week \$20bn, prior week \$22.5bn) and approx. \$22.8bn in MBS (last week \$22.5bn and prior wk. \$22.5bn).

There will be one term repo operation this week and overnight operations have been reduced to one per day. Note several changes were made to repo operations last week.

US Treasury issuance will remain heavy. The amount of new money raised will increase over last week, but is down on recent weeks as more CMB's mature. The US Treasury will settle approx. \$535bn in ST Bills, Notes, and Bonds this week. The US Treasury will raise approx. \$164bn 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 stands at \$2.317 trillion USD. This is 77% of the requirement for the quarter and we are now 83% of the way through the quarter (in weeks).

In order to meet its \$2.999 trillion target for the quarter, the US Treasury will need to raise approx. \$682bn in new money in the next two weeks. This would represent a significant increase in issuance over the coming weeks.

US Treasury Issuance & QE

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
15-19 Jun	11-Jun	16-Jun	4 week bill	70			Completed		
	11-Jun	16-Jun	8 week bill	60			Completed		
				130	195	-65			
	10-Jun	16-Jun	154-Day CMB	40			Completed	912796455	Matures 17 Nov
	10-Jun	16-Jun	105-Day CMB	35			Completed	912796444	Matures 29 Sep
	16-Jun	18-Jun	119-Day CMB	40			Announced	9127962R9	Matures 15 Oct
	16-Jun	18-Jun	42-Day CMB	50			Announced	912796WY1	Matures 30 Jul
				165		165			
	15-Jun	18-Jun	13 week bill	60			Announced		
	15-Jun	18-Jun	26 week bill	54			Announced		
	16-Jun	18-Jun	52 week bill	34			Announced		
				148	152.8	-4.8			
	08-Jun	15-Jun	3yr Note	44			Announced		
	09-Jun	15-Jun	10yr Note	29			Announced		
	11-Jun	15-Jun	30yr Bond	19			Announced		
				92	22.69	69.31			
			Total - securities settling this week	535	370.49	164.51			
			QTR to date totals	5,605	3,288	2,317	77%		
			<i>Treasury Estimates for Q2 2020</i>			<i>2,999</i>			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		15-Jun	Notes & Bonds	1.3					
		16-Jun	Bills	6.8					
		18-Jun	Bills	17.6					
				25.7					

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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 15 Jun	\$4.175bn	\$4.721bn
Tue 16 Jun	Nil	\$4.349bn
Wed 17 Jun	\$4.425bn	\$4.721bn
Thur 18 Jun	\$3.625bn	\$4.349bn
Fri 19 Jun	\$12.825bn	\$4.721bn
Total Announced Purchases	\$25.02bn (last wk. \$20bn)	\$22.8bn (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/ombs_operation_schedule

REPO OPERATIONS

Several changes were announced with the new schedule; adjustment of minimum bid rate and timing of repo operations. Beginning June 16, 2020, the Desk will set the minimum bid rate on overnight and one-month term repo operations equal to the rate of interest on excess reserves (IOER) on the day of the operation plus an additional spread of five and ten basis points, respectively. In addition, beginning June 22, 2020, the Desk plans to shift daily overnight repo operations to the afternoon.

Primary Dealers will be permitted to submit up to two propositions per security type per operation at rates equal to or greater than the operation minimum bid rate, which is set at the rate of interest on excess reserves (IOER) plus a spread.

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations	Next day	O/N	\$500bn
Tue 16 Jun 2020	14 Jul 2020	28-Days	\$500bn

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/repo-reverse-repo-agreements/repurchase-agreement-operational-details#monthly-summary>

SWAP LINES

Announcements; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>

<https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

WEEK COMMENCING 15 JUNE 2020

MONDAY 15 JUNE (US Eastern Time)

US	NY Empire State Manufacturing Index (Jun)
China	Fixed Asset Investment, Industrial Production and Retail Sales (May)

TUESDAY 16 JUNE

US	Retail Sales (May), Industrial Production (May), NAHB Housing Market Index (Jun) US Fed Chairman Powell Testimony, Vice Chair Clarida Speech
Japan	Merchandise Trade (May) BoJ Rates Decision
Australia	House Price Index Q1
UK	Labour Market (Feb-Apr)

WEDNESDAY 17 JUNE

US	Weekly Mortgage Applications wk ending 12 Jun, Housing Permits & Starts (May) US Fed Chairman Powell Testimony
Europe	Eurozone CPI (May)
Australia	New Home Sales (Apr)
UK	CPI (May)

THURSDAY 18 JUNE

US	Initial and Continuing Jobless Claims wk ending 12 Jun, Philadelphia Fed Manufacturing Survey (Jun),
Japan	National CPI (May)
Australia	Labour Market Survey (May)
UK	BoE Rates Decision

FRIDAY 19 JUNE

US	US Fed Speeches; Chairman Powell and Quarles
UK	Retail Sales (May)

Trade & Brexit

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 a part of the push to localise production, President Trump is looking at a phase 4 of the stimulus package of around \$2trillion for manufacturing. This could have far wider effects than just the impact on Chinese manufacturing. Emphasis added;

"Put simply, we need to create more manufacturing jobs," Navarro said.
"Manufacturing jobs not only provide good wages but also create more jobs both up- and downstream through multiplier effects."

Navarro said House Speaker Nancy Pelosi would like a \$3 trillion dollar package, Senate Majority Leader Mitch McConnell would like a \$1 trillion dollar package, but President Donald Trump would like a package of "at least \$2 trillion dollars that is strategically focused around the President's two simple rules -- Buy American, Hire American -- **along with incentives for American companies to bring offshored jobs back home.**"

<https://edition.cnn.com/2020/06/13/politics/navarro-white-house-coronavirus-stimulus/index.html>

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%20however%2C%20will%20have.effect%20on%20January%201%2C%202020.>

The summary of US negotiating objectives for the US-Japan trade talks;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US-Europe Trade Talks

There are several fronts to the US-EU trade discussions.

Airline Subsidies

The US has officially notified the WTO that it has complied with the dispute raised by the EU on US subsidies to Boeing. The US has now enacted the Senate Bill that eliminates the preferential tax treatment for aerospace manufacturing.

The removal of the subsidy fully implements the WTO's recommendation to the United States, bringing an end to this long-running dispute.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/us-notifies-full-compliance-wto-aircraft-dispute>

From 18 Oct, the US had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case>

Trade Deal Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

Digital Services

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a \$2.4 billion list of French imports, a French diplomatic source said. <https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ>

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

“USTR’s decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies,” Ambassador Robert Lighthizer said. **“Indeed, USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey.**

The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies.” <https://ustr.gov/about-us/policy-offices/press->

[office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation](#)

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6-8 Jan 2020. <https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances>

and

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

Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf

Section 232 – Car and Truck Imports

Back in May 2019, President Trump has agreed to delay the decision to impose tariffs on auto imports as a part of the s.232 investigation on car and truck imports on national security grounds. A Reuters article during the week reported that President Trump may no longer be able to impose tariffs under this S.232 investigation because of the missed announcement deadline. Source: <https://www.reuters.com/article/us-usa-trade-autos/trump-can-no-longer-impose-section-232-auto-tariffs-after-missing-deadline-experts-idUSKBN1XT0TK>

The 1962 act is clear about the time limits that a president has for invoking tariffs to protect U.S. national security.

The article outlines other recent cases where the increase in tariffs have been challenged due to missed deadlines (Turkey and the increase in steel tariffs in 2018).

The article outlines the “escape hatch” for President Trump;

A clause in the 1962 law may offer an escape hatch for Trump. If an agreement is not reached within 180 days or proves ineffective, “the President shall take such other actions as the President deems necessary to adjust the imports of such article so that such imports will not threaten to impair the national security.” It adds that Trump would be required to publish these actions in the Federal Register, but does not specify a time frame.

For the moment, there have been no announcements made by the USTR or by the USTR on the Federal Register.

The threat of auto tariffs is likely to remain as negotiating leverage between the US and Japan and the EU. The S.232 report has not been made public, but President Trump’s statement provided some insight as to how the Commerce Dept justified the ‘national security’ grounds. There are other avenues for how these tariffs may be implemented.

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.

A deal is not likely to be finalised until the completion of the UK-EU post-Brexit trade deal. https://www.washingtonpost.com/business/what-trump-johnson-want-from-us-uk-trade-deal/2020/06/10/e116d732-ab75-11ea-a43b-be9f6494a87d_story.html

<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-brex-it-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

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

This week, UK PM Johnson will take part in the online negotiations.

"So far we haven't had actual negotiations, just an exchange of views," an EU diplomat told AFP. "It's a battle of strategies at this point."

<https://au.news.yahoo.com/britains-johnson-eu-chiefs-seek-brex-it-talks-reboot-025450148--spt.html>

The deadline for extending the negotiations is approaching at the end of June 2020. The UK maintains that an extension will not be requested.

The overall deal needs to be struck by the end of Oct in order to have deal ratified by the EU members. Work will continue throughout the summer to come to an agreement.

On Friday, the UK said that whatever the outcome of the talks, British customs officers would not be ready to deal with new rules at their ports or borders on January 1.

<https://au.news.yahoo.com/britains-johnson-eu-chiefs-seek-brex-it-talks-reboot-025450148--spt.html>

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

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