

Key Themes

The highlights this week will be the prelim Jun PMI's for the US, Europe, Japan, the UK, and Aus.

US Fed Chairman Powell will speak on Fri on building a resilient workforce during the Covid-19 era. Vice Chair for Supervision Quarles will give a speech on stress testing on Fri also.

Data is mostly US-focused this week aside from the prelim PMI's. The important US data for the week; prelim PMI's and regional surveys for Jun, personal income and expenditure for May, final consumer sentiment of Jun, and initial and continuing unemployment claims.

Purchases of Treasury and Mortgage securities remain at a similar pace as the week prior – but the schedule for the week is incomplete and the new schedule out on 25 Jun. For the first four days of this week, the NY Fed will purchase approx. \$11bn in Treasury Securities (last week \$25bn, prior week \$20bn) and approx. \$18.1bn in MBS (last week \$22.8bn 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 will remain heavier, but much lower net new money will be raised this week. The US Treasury will settle approx. \$421bn in ST Bills and FRN this week. The US Treasury will raise approx. \$92bn 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 \$2.409 trillion USD. This is 80% of the requirement for the quarter and we are now 92% 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. \$590bn in new money next weeks – the last week of the quarter.

US Treasury Issuance & QE

This week w/c 22 Jun will see continued heavy issuance, but a much lower net new money raised this week. The US Treasury will settle approx. \$421bn in ST Bills and FRN this week. The US Treasury will raise approx. \$92bn in new money for the week.

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In order to meet its \$2.999 trillion target for the quarter, the US Treasury will need to raise approx. \$590bn in new money next weeks – the last week of the quarter.

This would represent a significant increase in issuance.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
22-26 Jun	18-Jun	23-Jun	4 week bill	60			Completed
	18-Jun	23-Jun	8 week bill	55			Completed
				115	185	-70	
	22-Jun	25-Jun	13 week bill	57			
	22-Jun	25-Jun	26 week bill	54			
				111	144	-33	
	17-Jun	23-Jun	154-Day CMB	40			Completed
	17-Jun	23-Jun	105-Day CMB	35			Completed
	23-Jun	25-Jun	273-Day CMB	20			Announced
	23-Jun	25-Jun	119-Day CMB	40			Announced
	23-Jun	25-Jun	42-Day CMB	40			Announced
				175	0	175	
	24-Jun	26-Jun	2yr FRN	20			Completed
				20	0	20	
	Total - securities settling this week			421	329	92	
	QTR to date totals			6,026	3,617	2,409	80%
	<i>Treasury Estimates for Q2 2020</i>					2,999	
	Fed SOMA - Face Value of SOMA securities maturing			\$B			
		23-Jun	Bills	5.700			
		25-Jun	Bills	4.200			
				9.900			

The US Treasury will also auction \$134bn in notes this week to settle next week.

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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 22 Jun	\$1.75bn	\$4.721bn
Tue 23 Jun	\$6.025bn	\$4.349bn
Wed 24 Jun	\$1.225bn	\$4.721bn
Thur 25 Jun	\$1.75bn	\$4.350bn
Fri 26 Jun	\$TBC	\$TBC
Total Announced Purchases	\$10.75bn (last wk. \$25bn)	\$18.14bn (last wk. \$22.8bn)

The next purchase schedules will be released on 25 Jun.

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

REPO OPERATIONS

Several changes were announced with the new schedule; adjustment of minimum bid rate and timing of repo operations.

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 (pm)	Next day	O/N	\$500bn
Tue 23 Jun 2020	21 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 22 JUNE 2020

MONDAY 22 JUNE (US Eastern Time)

US	Chicago Fed National Activity Index (May), Existing Home Sales (May)
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TUESDAY 23 JUNE

US	Markit Manufacturing and Services PMI Prelim (Jun), Richmond Fed Manufacturing Index (Jun), New Home Sales (May)
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Europe	Markit Eurozone Manufacturing and Services PMI Prelim (Jun)
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UK	Markit Manufacturing and Services PMI Prelim (Jun)
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Japan	Markit Manufacturing PMI Prelim (Jun)
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Aus	CBA Manufacturing and Services PMI Prelim (Jun)
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WEDNESDAY 24 JUNE

US	Weekly Mortgage Applications wk ending 19 Jun
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THURSDAY 25 JUNE

US	Initial (19 Jun) and Continuing Jobless Claims (12 Jun), Durable Goods Orders (May), Q1 GDP – third est, Kansas City Fed Manufacturing (Jun)
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FRIDAY 26 JUNE

US	Personal Income, Consumption expenditure and PCE Price Index (May), University of Michigan Consumer Sentiment – Final (Jun)
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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 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. The phase two of the negotiation was noted recently in USTR Lighthizer's testimony to the House Ways and Means Committee (emphasis added);

The President directly confronted China's abusive trade practices through substantial tariffs, resulting in the groundbreaking Phase One trade agreement signed on January 15 of this year. The agreement secured enforceable commitments from China to cease its abusive trade practices – including intellectual property theft, forced technology transfer, discriminatory regulations, and currency manipulation. It also committed China to significantly increase its purchases of U.S. goods and services by at least \$200 billion over 2017 purchase levels.

By establishing a strong dispute resolution system and maintaining tariffs on approximately \$370 billion in goods from China, **the Administration has maintained the authority and leverage to enforce China's compliance with the agreement while pursuing additional reforms under a future Phase Two agreement.**

With China, "Phase Two" will focus on issues of overcapacity, subsidization, disciplines on China's state-owned enterprises, and cyber theft.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

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

In his testimony last week, USTR Lighthizer referred to the second phase deal with Japan;

Last year, the United States also entered into two agreements with Japan that established preferred or zero-rate tariffs on more than 90 percent of U.S. food and agricultural products imported into Japan and enhanced the existing \$40 billion in digital trade between our countries.

In the case of Japan, the two countries intend to enter into further negotiations on customs duties, barriers to trade in services and investment, and other trade restrictions.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

Phase two of the deal was 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

US-Europe Trade Talks

USTR Lighthizer also noted in his testimony last week of the intention to continue to pursue negotiations with the EU;

The United States also seeks to rebalance our trade relationship with the European Union. For many years, U.S. businesses have been at a disadvantage in doing business in the EU. Both tariff and non-tariff barriers in the EU have led to increasing and unsustainable trade deficits with the EU – reaching \$179 billion in 2019. With recent changes in EU leadership, the United States is hopeful for more progress in the coming year.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

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-brexit-trade-deal-chlorinated-chicken-farmers-us-trade-liz-truss>

USTR Lighthizer also noted in his testimony last week of the US intention to continue to pursue a trade agreement with the UK;

The Trump Administration has taken numerous steps to pave the way for negotiating a trade agreement with the UK, including a review of public comments, a public hearing, and extensive consultations with congressional and trade advisory committees. USTR published detailed negotiating objectives on February 28, 2019, and aims to reach an agreement with substantive results for U.S. consumers, businesses, farmers, ranchers, and workers as soon as possible.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

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

While a high-level round of talks took place during the week, mostly in the hopes of injecting some ‘positivity’ into the direction of talks, there is little to suggest that any breakthrough was made;

European Council President Charles Michel, European Commission President Ursula von der Leyen and European Parliament President David Sassoli, along with the UK Prime Minister, acknowledged the need for increased momentum in future talks. Negotiations, they said, must intensify in July in order “to create the most conducive conditions for concluding and ratifying a deal before the end of 2020”. While the overall exchange appears to have been positive, there is no indication that any of the ongoing issues, in particular how to deliver on the commitment of a regulatory “level playing field”, have been resolved.

<https://www.natlawreview.com/article/transatlantic-trade-us-and-european-trade-talk-update-june-19-2020>

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 reach 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-brexite-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/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

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