

Key Themes

It will be a short week in the US with the National Independence Day holiday commencing on Fri 3 Jul. Important data releases will be packed into the short US week; Non-farm payrolls for Jun, ISM Manufacturing PMI for Jun, FOMC minutes and the weekly initial and continuing jobless claims.

The USMCA comes into effect on 1 Jul this week.

US Fed Chairman Powell will provide testimony to the House of Representatives Financial Services Committee on Tue 1 Jul on the CARES Act.

Other data highlights include:

Final PMI's for Jun will start to be released this week – including manufacturing activity across the US, Europe, Japan, and Aus.

Japanese data includes retail sales and the prelim view of May industrial production.

In Aus retail sales for May will be released as well as private sector credit changes for May.

Purchases of Treasury and Mortgage securities will be slower this week due to the shortened week. For the first four days of this week, the NY Fed will purchase approx. \$7.8bn in Treasury Securities (last week \$19.6bn, prior week \$25bn) and approx. \$18.1bn in MBS (last week \$22.8bn and prior wk. \$22.8bn).

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, with net new money raised this week remaining at the lower end of the recent scale. The US Treasury will settle approx. \$506bn in ST Bills and Notes this week. The US Treasury will raise approx. \$135bn in new money for the week.

The US Treasury Q2 borrowing requirement is \$2.999 trillion USD in new money. The quarter end total of new money raised is estimated at \$2.545 trillion USD. This is 85% of the requirement for the quarter.

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			
3 JUL National Holiday Independence Day									
29 Jun - 3 Jul	25-Jun	30-Jun	4 week bill	50			Completed		
	25-Jun	30-Jun	8 week bill	50			Completed		
				100	150	-50			
	24-Jun	30-Jun	154-Day CMB	35			Completed	9127964U0	Matures 1 Dec
	24-Jun	30-Jun	105-day CMB	30			Completed	9127964H9	Matures 13 Oct
	30-Jun	02-Jul	119-Day CMB	35			Announced	9127962T5	Matures 29 Oct
	30-Jun	02-Jul	42-Day CMB	35			Announced	912796TD1	Matures 13 Aug
				135	0	135			
	29-Jun	02-Jul	13 week bill	54			Announced		
	29-Jun	02-Jul	26 week bill	51			Announced		
				105	140.64	-35.64			
	18-Jun	30-Jun	5yr TIPS	15			Completed		
	23-Jun	30-Jun	2yr Note	46			Completed		
	24-Jun	30-Jun	5yr Note	47			Completed		
	25-Jun	30-Jun	7yr Note	41			Completed		
	17-Jun	30-Jun	20 yr Bond	17			NEW - Completed		
				166	79.5	86.5			
			Total - securities settling this week	506	370.14	135.86			
			QTR to date totals	6,532	3,987	2,545			85%
			<i>Treasury Estimates for Q2 2020</i>			<i>2,999</i>			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		30-Jun	Bills	6.5					
		30-Jun	Notes & Bonds	22.700					
		02-Jul	Bills	13.500					
				42.700					

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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 29 Jun	\$1.75bn	\$4.665bn
Tue 30 Jun	\$2.425bn	\$4.406bn
Wed 1 Jul	\$3.625bn	\$4.665bn
Thur 2 Jul	\$Nil	\$4.406bn
Fri 3 Jul	National holiday	National holiday
Total Announced Purchases	\$7.8bn (last wk. \$19.6bn)	\$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/ombs_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 30 Jun 2020	28 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 29 JUNE 2020

MONDAY 29 JUNE (US Eastern Time)

US	Dallas Fed Manufacturing Survey (Jun)
Japan	Retail Sales (May), Industrial Production Prelim (May)

TUESDAY 30 JUNE

US	Case/Shiller National House Price Index (Apr), Chicago PMI (Jun)
Europe	Eurozone CPI Prelim (Jun)
China	NBS Manufacturing & Non-Manufacturing PMI (Jun)
Aus	Private Sector Credit (May), CBA Manufacturing PMI Final (Jun)

WEDNESDAY 1 JULY

US	Weekly Mortgage Applications wk ending 26 Jun, Challenger Job Cuts (Jun), ADP Employment Change (Jun), US Markit Manufacturing PMI Final (Jun), ISM Manufacturing PMI (Jun), FOMC Minutes
Europe	Eurozone Manufacturing PMI Final (Jun)
Japan	Manufacturing PMI Final (Jun)

THURSDAY 2 JULY

US	Initial (26 Jun) and Continuing Jobless Claims (19 Jun), Non-Farm Payrolls (Jun), ISM NY Business Conditions (Jun), US Factory Orders (May)
Aus	CBA Services PMI Final (Jun)

FRIDAY 3 JULY

US	Public Holiday – 4 th July National holiday
Europe	Eurozone Services PMI Final (Jun)
Japan	Services PMI Final (Jun)
Aus	Retail Sales (May)

Trade & Brexit

US-China Trade Talks

A comment by Whitehouse adviser Navarro, stating that the US-China trade deal was off, was quickly walked back by President Trump during the week. Some of President Trump's re-election bid will rest on the 'success' of striking a deal with China and taking a continued hard line against the trade deficit with China.

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 - this coming week.

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

A round of ‘intensive’ negotiations between the EU and UK is set to commence this week. They will be the first face-to-face meetings since the beginning of the global pandemic. The talks will alternate between Brussels and London for five weeks through Jul and Aug.

Without a new agreement, the two sides would see ties reduced to minimum standards set by the World Trade Organization, with high tariffs and serious disruptions to business.

London wants to agree on at least the bare bones of a trade deal this summer — at least politically, if not legally — in order to offer businesses clarity well before the end of the year.

The EU is less pressed for time, and believes that the necessary ratification by the European Parliament and others would require a deal by late October. https://www.japantimes.co.jp/news/2020/06/29/world/eu-uk-brexit/#.Xvlra5MzY_U

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