MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 1 June 2020

Key Themes

The first view of May activity, via the PMI's, showed manufacturing and service sectors beginning the recovery from widespread shut-downs and stay at home orders. The decline in activity eased across the US, Europe, UK, Japan, and Australia, but activity continued to contract. Activity will likely continue to improve from these low levels, but how much and how quickly remains highly uncertain.

There was a welcome lift in US non-farms payrolls (compared to the prior month) after two months of significant declines. The increase in May was linked mostly to leisure and hospitality, construction, education and health services, and retail trade. Considering the reference week 10-16 May, the lift in payrolls appears consistent with the (large) reduction in continuing claims for that same week. There has been some commentary that payrolls lifted in that week because firms needed to keep people on the payrolls in order to qualify and receive government PPP loans – whether people are working or not. But the growth in payrolls is consistent with the economy starting to lift restrictions. The average weekly hours worked also increased in the reference week.

So while there was a lift in non-farm payrolls for May, the level of unemployment remains historically high at 13.3%. And the pace of growth in weekly initial claims remained extreme at just under 2 million people in the week, while continuing claims increased to 21m people. Both are indicative of continued weakness in demand.

Of note this month was the historically large decline in the value of outstanding consumer credit. In May this declined by over $68bn in the month – led by a $58bn decline in revolving credit. This suggests that US consumers opted to pay down debt rather than increase consumption.

The US ISM PMI's reflected some easing in the pace of decline in manufacturing and non-manufacturing activity. But overall activity remained firmly in contraction in May with both sectors reporting only a limited rebound in demand so far. Across manufacturing, just over 50% of firms reported continued lower orders and production in May versus Apr. There was only a slight improvement in the number of firms reporting higher employment and this was well outnumbered by the proportion of firms still reducing employment. The non-manufacturing PMI reflected a similar situation – only one industry reported an increase in new orders in May and no industries (overall) reported an increase in employment.

The Markit PMI's for the US, Europe, and the UK, indicated a slower pace of decline across manufacturing and services in May, compared to the extremely low levels recorded in Apr. But overall, private sector activity still continued to decline, and in some cases, at an historically fast pace.

In Japan, the manufacturing PMI for May indicated that conditions worsened and the pace of decline accelerated. Services business activity improved somewhat but the headline index remained extremely low in the 20's.

In Aus, GDP declined in Q1 for the first time since 2011 – led by weaker household consumption. The PMI's for May indicated limited rebound so far with manufacturing activity declining in May at the same pace as in Apr. Services business activity declined at a slower pace, but the headline index remained extremely low, in the 20's also. Further restrictions have been lifted as of the start of Jun which includes some intra-state travel – likely helping to lift activity levels in the coming months.

Finally, the manufacturing and non-manufacturing PMI's in China reflected further month on month growth. The detail highlights some continued weakness especially in global demand with the export index contracting at a faster pace.

Contents

US Data

Initial and Continuing Jobless Claims wk ending 29 May

There was another extremely large increase in initial jobless claims this week. The total number of new claims over the last eleven weeks now totals 42,647,000 people.

Advance initial jobless claims wk ending 29 May 2020; 1,877,000 people

The advance claims reported last week was revised higher by 3,000 people.

The advance report for continuing claims increased further but remains well below the total number of initial claims made over the last eleven weeks. Either people have found employment between the initial claim or there is much larger time lag between filing the initial claim and receiving unemployment insurance.

Advance continuing claims of insured unemployment wk ending 23 May 2020; 21,487,000 people. The insured unemployment rate was 14.8%.

For comparison, initial unemployment claims during the GFC peaked at 665,000 people. This was obviously a different situation and claims began to increase from late 2007 and increased for well over a year. The level of continuing claims peaked around 6,600,000 people or just above 3% insured unemployment rate.

https://oui.doleta.gov/unemploy/claims_arch.asp

Non-Farm Payrolls and Employment Report (May)

Note that the survey reference week was 10-16 May.

There was a welcomed lift in non-farms payrolls this month after two months of significant declines in payrolls. Considering the reference week 10-16 May, the lift in payrolls appears consistent with the reduction in continuing claims for that same week. There has been some commentary that payrolls lifted because firms need to keep people on the payrolls in order to receive PPP loans – whether people are working or not. The lift in payrolls is also consistent with the economy starting to lift restrictions. The average weekly hours worked increased in the reference week also.

While there was a lift in non-farm payrolls for the month, the level of unemployment remains historically high. If there is one positive, it's that most people that have lost their jobs are still for now, classified as on temporary layoff.

But a note from the BLS highlights ongoing classification issues – those that are employed but not at work due to Covid-19 closures should be classified as unemployed on temporary layoff – meaning that the classification issue may be overstating the level of employment and understating the level of unemployment;

> However, there was also a large number of workers who were classified as employed but absent from work. As was the case in March and April**, household survey interviewers were instructed to classify employed persons absent from work due to coronavirus- related business closures as unemployed on**

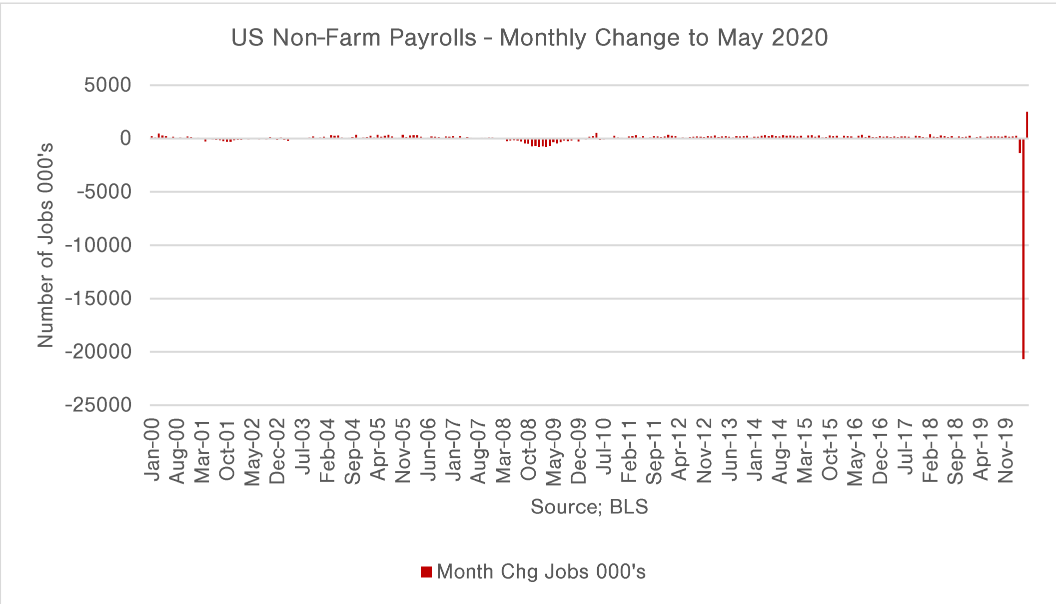
temporary layoff. However, it is apparent that not all such workers were so classified. BLS and the Census Bureau are investigating why this misclassification error continues to occur and are taking additional steps to address the issue.

If the workers who were recorded as employed but absent from work due to "other reasons" (over and above the number absent for other reasons in a typical May) had been classified as unemployed on temporary layoff, the overall unemployment rate would have been about 3 percentage points higher than reported (on a not seasonally adjusted basis).
https://www.bls.gov/news.release/empsit.nr0.htm

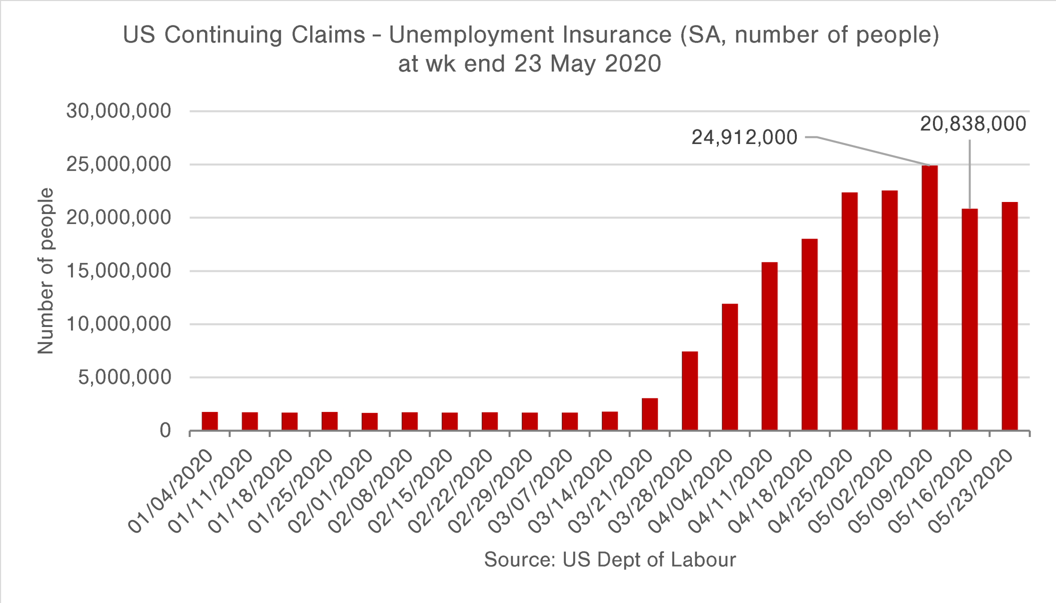
NON-FARM PAYROLLS

Non-farm payrolls – month change; May +2.5m people versus Apr -20.7m people

Large employment increases occurred in May in leisure and hospitality, construction, education and health services, and retail trade. Government employment continued to decline sharply.



The lift in non-farm payrolls is consistent with the reduction in continuing claims in that same reference week. Continuing claims fell by over 4m people in that 10-16 May reference week – which is a large decline.



The reason behind this reduction in that one-week period could be due to firms needing to keep people on the payrolls in order to qualify for the PPP loans.

For the only other week of data since then, continuing claims have remained little changed at around 21m people, but new claims remain in the millions and extremely elevated compared to history. The fact that new claims keep increasing and initial claims have stayed more stable (at a very high level), indicates that either there is a greater time lag between an initial claim and receipt of unemployment benefit (due to sheer volume of claims) or that as the economy opens up, demand for labour has started increasing.

Restrictions are being lifted which may require more people back at work. The ISM reports note only tepid improvements in employment at this stage.

<u>HOUSEHOLD SURVEY – EMPLOYMENT REPORT (MAY)</u>

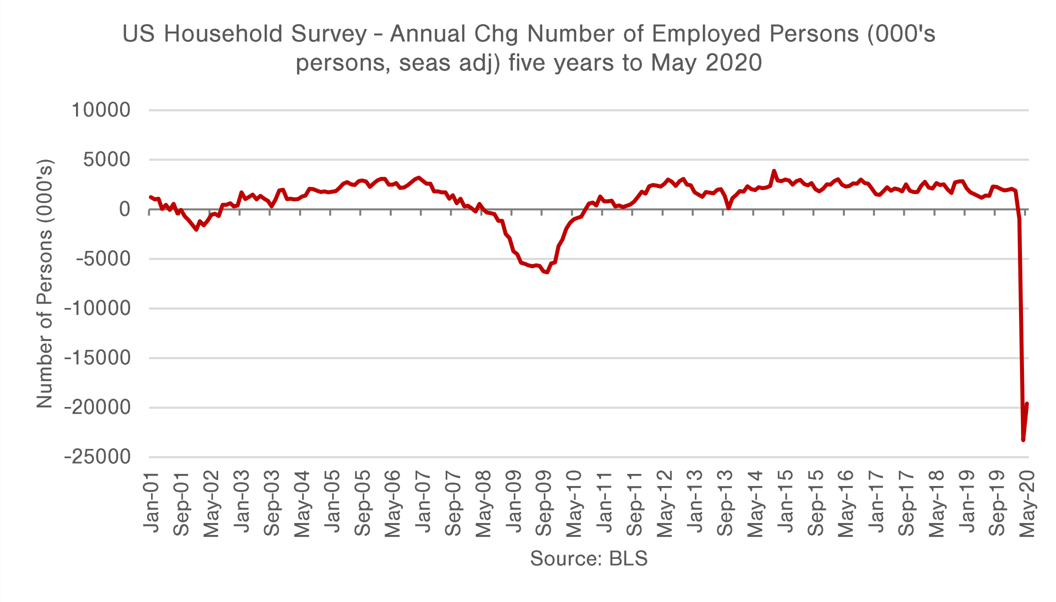
The household survey this month indicated that the growth in employment was larger than what population and the lift in participation added to the labour force. This meant that total unemployment declined as a result.

While that reflects the change in the month, <u>the levels</u> of employment remain much lower and total unemployment remains extremely high.

<u>Employment</u>

<u>Total employment – month change</u>; May +3.8m people versus Apr -22.3m people

The lift this month was welcome after the significant declines in the month prior. The annual view still highlights that employment remains close to 20m people below the same month a year ago;

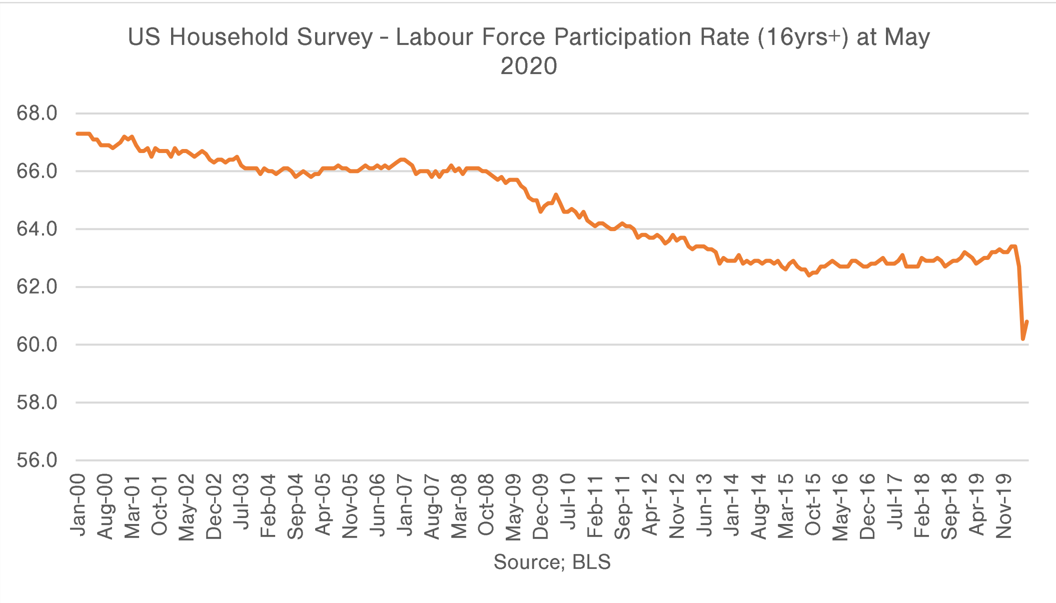


Labour Force

The size of the labour force increased in the month but did not fully reverse the decline in the month prior;

Total labour force – month change; May +1.7m people versus Apr -6.4m people

Most of the lift in the labour force this month was due to an increase in participation. The participation rate increased slightly this month from 60.2% in Apr to 60.8% in May. This was a small increase after the much larger decline between Mar and Apr and equated to approx. 1.6m people coming back into the labour force



Total Unemployment

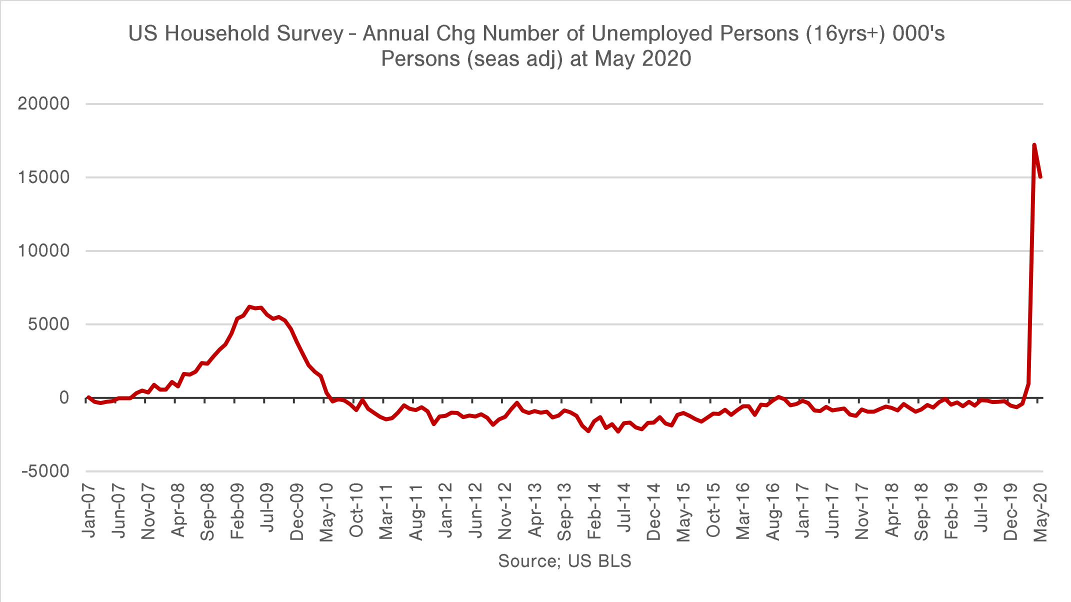
The total number of unemployed people declined compared to last month.

In Apr, the total number of unemployed people increased from 7.1m people to 23.1m people. In May, the total number of unemployed people fell to 21m people. The unemployment rate fell from 14.75% in Apr to 13.3% in May.

The BLS as noted that there have been classification issues and that the number of unemployed persons is likely to be higher – adding approx. 3% pts to the unemployment rate.

<u>Total unemployment – month change;</u> May -2.1m people versus Apr +16m people.

The total number of unemployed people is now +15m above the total compared to the same month a year ago;

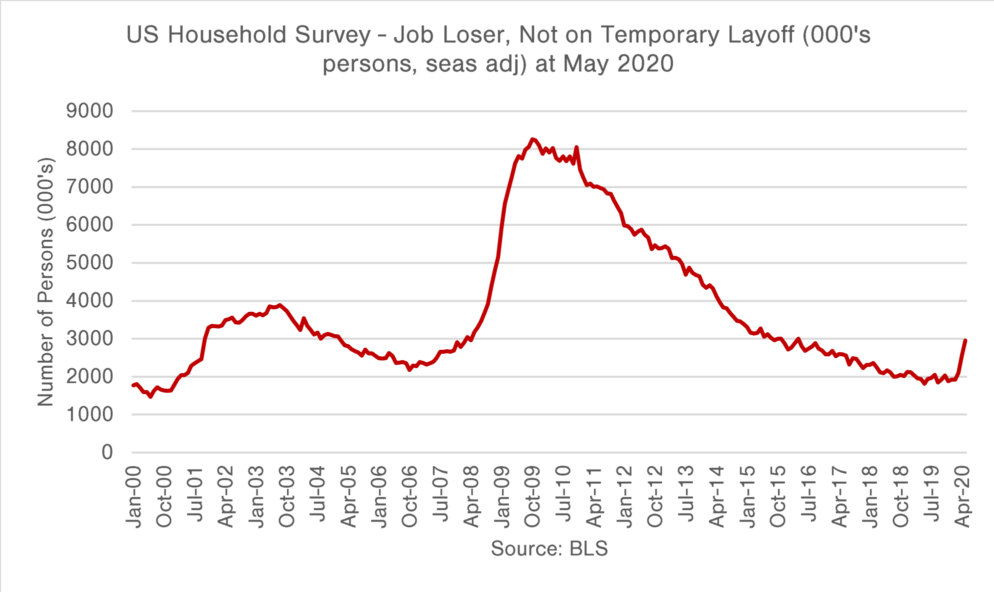


There is a further breakdown of the total unemployment data. The numbers wont sum to the data above as the job loss series is seasonally adjusted separately.

Total job losses continue to reflect that most unemployed persons are classified as on a temporary layoff;

Of those that have lost their job (approx. 18.3m people), 15.3m people were classified as on temporary layoff. The remainder are those that have lost their job and are not on a temporary layoff – this is the permanent job losses. This series has remained well below the peaks of the GFC. But it is ticking up.

<u>Job losses; not on temporary layoff – month change</u>; May +385k persons versus Apr +464k persons.



Summary – Labour Market Changes

000's people (16yrs+)	Annual chg - MAY 2020	Monthly Chg - May
The estimated change in the Labour Force due to pop growth (1)	910	186
How many jobs available for them? (employment growth) (2)	- 19,602	3839
Difference (if negative, then employment growing faster than what pop adds to the labour force) (3)	20,512	-3653
Change labour force participation - (if positive, people entering/returning to the labour force) (4)	- 5,465	1561
The remainder is the chg in total unemployed persons (declining if negative) (4) plus (3)	15,047	-2091
Two views of annual growth in the labour force;		
Total employed persons plus total unemployed persons	- 4,555	1748
Est of what population adds to the labor force plus change in participation	- 4,555	1748
BLS reported change in the size of the labour force	- 4,555	1746

https://www.bls.gov/news.release/empsit.nr0.htm

ISM Manufacturing PMI (May)

The headline manufacturing PMI indicated that activity continued to contract in May, but at a slightly slower pace. The improvement in orders was much weaker – indicating limited rebound so far in demand. Just over 50% of firms continued to report lower orders and production in May versus Apr. There was only a slight improvement in the number of firms reporting higher employment and was well outnumbered by the proportion of firms still reducing employment.

The elevated deliveries index continues to influence the headline PMI.

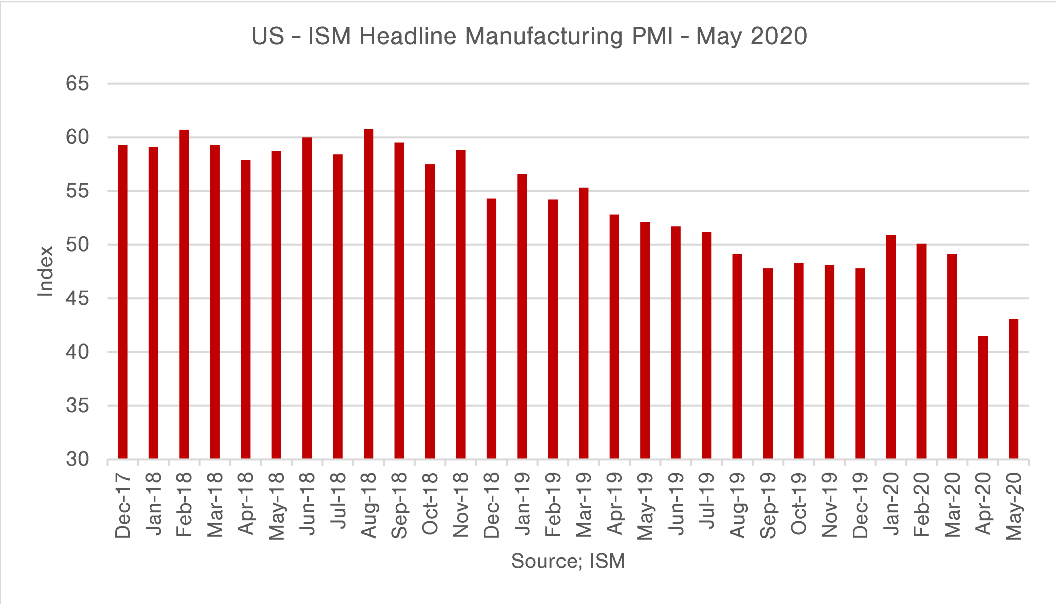
> Among the six biggest industry sectors, Food, Beverage & Tobacco Products remains the only industry in expansion. Transportation Equipment; Petroleum

& Coal Products; and Fabricated Metal Products continue to contract at strong levels,"

Of the total eighteen industries covered in the survey, six reported growth in May; Nonmetallic Mineral Products; Furniture & Related Products; Apparel, Leather & Allied Products; Food, Beverage & Tobacco Products; Paper Products; and Wood Products.

The remaining eleven industries reported further contraction in May; Printing & Related Support Activities; Primary Metals; Transportation Equipment; Petroleum & Coal Products; Fabricated Metal Products; Machinery; Miscellaneous Manufacturing; Electrical Equipment, Appliances & Components; Chemical Products; Computer & Electronic Products; and Plastics & Rubber Products.

<u>Headline Manufacturing PMI – month</u>; May 43.1 versus Apr 41.5



Most indices reflected ongoing contraction this month but at a slower pace.

New orders continued to contract and the orders index remained low; May 31.8 versus Apr 27.1. Of the largest industries, only food & bev orders continued to expand strongly, but still slowed from the pace in Apr. The remaining larger industries continued to report stronger contraction; Transportation Equipment; Fabricated Metal Products; Petroleum & Coal Products; Computer & Electronic Products; and Chemical Products.

The underlying new orders shift saw a slightly higher proportion of firms reporting higher orders (from 17.7% in Apr to 21.2% in May. A larger proportion of firms reported the same level of orders versus the month prior – likely meaning that orders hadn't improved from the very weak Apr reading. The good news was that less firms reported worsening orders; 59.7% in Apr versus 52.9% in May. But still, half of the firms in the survey reported worsening orders.

New export orders also continued to contract, but at a slower pace in May 39.5 versus Apr 35.3.

Production growth was somewhat stronger in May with the index lifting to 33.2 versus 27.5 in Apr. This is still the second lowest reading since Jan 2009. Only four industries reported growth in production in May; Furniture & Related Products; Wood Products; Food, Beverage & Tobacco Products; and Paper Products.

The proportion of firms reporting higher production lifted only marginally from 18.6% of firms in Apr to 20.7% of firms in May. There was a larger increase in firms reporting the same level of production in May as in Apr (the worst month on record). There was a corresponding decrease in the proportion of firms reporting lower production; from 60.2% of firms in Apr to 51.5% of firms in May – still over half of the firms reported lower production in May versus Apr.

Imports continued to decline at an accelerated pace in May – reflecting the ongoing weak demand conditions; May 41.3 versus Apr 42.7.

Inventories increased slightly in May to 50.4 versus 49.7 in Apr. Seven industries reported higher inventories in Apr - Nonmetallic Mineral Products; Plastics & Rubber Products; Furniture & Related Products; Primary Metals; Transportation Equipment; Computer & Electronic Products; and Electrical Equipment, Appliances & Components.

Employment also remained in contraction, with the pace of the decline slowing somewhat. The employment index lifted from 27.5 in Apr to 32.1 in May. Only two industries recorded growth in employment in May; Apparel, Leather & Allied Products; and Paper Products.

Still only a small number of firms reported an increase in employment this month versus last month, lifting from 2.8% of firms in Apr to 7.6% in May. Most firms reported the same level of employment in May as in Apr (51.2%). The number of firms reporting further lower employment remains elevated at 41.1% of firms in May – but down from 46.6% of firms in Apr.

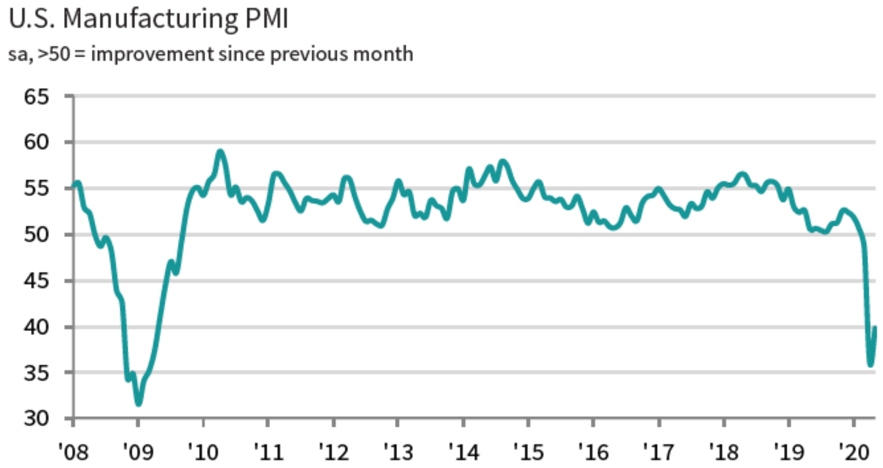
> "We see an issue with suppliers that are affecting production. At the same time, social distancing measures in [the] manufacturing plant and customer demand are impacting the rate of production." (Transportation Equipment)

https://www.instituteforsupplymanagement.org/ISMReport/MfgROB.cfm?SSO=1

Markit US Manufacturing PMI Final (May)

There was only a slightly slower pace of decline in manufacturing activity in May.

Headline Manufacturing PMI – month; May 39.8 versus Apr 36.1



Production continued to decline, but at a slightly slower pace. Firms cited lower sales, shutdowns, and distancing regulations as impacting production levels.

Of concern was the ongoing decline in new orders – the third month in a row. Cancelled and postponed orders continued to impact business sales. New export orders also declined at a 'marked pace'. This was the second fastest decline in new export orders on record.

Order backlogs continued to decline in light of the weak new order growth.

Employment also continued to decline despite firms also reducing work hours or furloughing staff.

Firms cut output prices at the fastest pace since that series began in 2007. Input prices also declined. In a further reflection of weaker demand conditions, purchasing activity fell at a marked pace.

Firms remained pessimistic about the outlook, but at least not to the same degree as in Apr.

https://www.markiteconomics.com/Public/Home/PressRelease/42285f78fdc1438fb0b4031e132b5e77

US Factory Orders (Apr)

The full version of the factory orders report for Apr confirmed the severe decline in shipments and new orders across both durable and non-durable goods in Apr.

SHIPMENTS

Total Manufacturer Shipments – month change; Apr -13.5% (-$63.6bn) versus Mar -5.5%

The severe decline in shipments for the month was led mostly by durable goods (-$42.4bn) but non-durable goods shipments also declined by 9% (-$21.2bn).

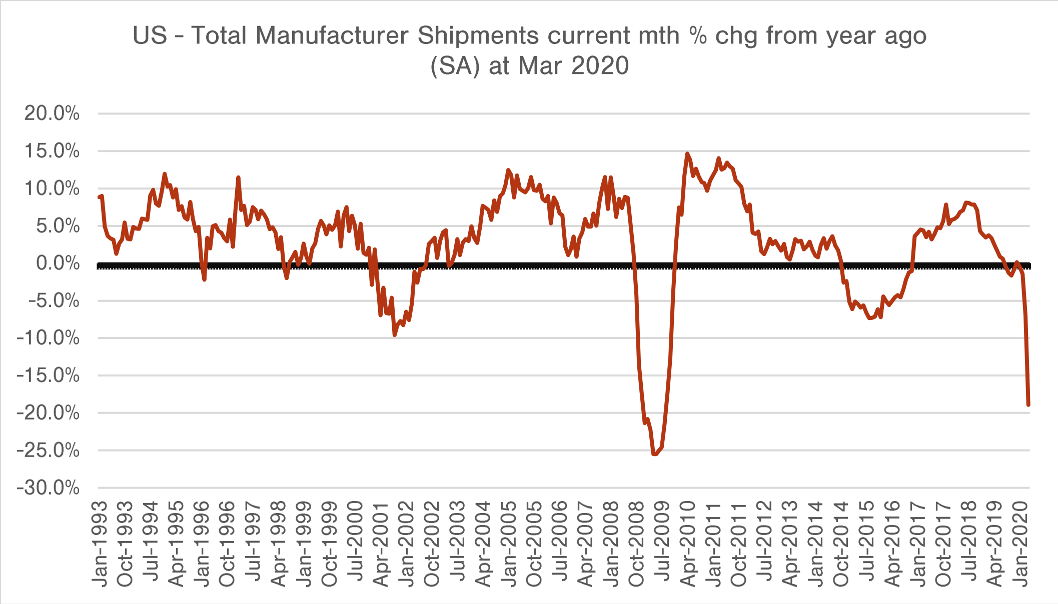
The largest contributor to the decline in durable goods shipments was transport equipment – both in dollar and % decline terms. Transport equipment shipments declined by 43.1% in Apr or -$31.7bn. Declines were notable across autos, light trucks/SUV's, and non-defense aircraft and parts.

Auto shipments in Apr recorded a mere $500m in value – down -91% compared to the prior month. Similarly, SUV and light truck shipments totalled only $1.9bn in value in Apr – and this was down -85% compared to the month prior.

Other notable declines in durable goods shipments were; electrical goods shipments (-9.9% in Apr or -$1.1bn), machinery (-7.5% or -$2.3bn), fabricated metals products (-9.6% or -$3bn), and primary metals (-12.3% or -$2.3bn).

Non-durable goods shipments declined by -9% in the month or -$21.2bn. Half of this was the decline in the value of petroleum shipments. The remaining declines were recorded across food products (-3%), beverage and tobacco products (-9.3%), chemical products (-4.3%), and plastics and rubber products (-9.1%).

On an annual basis, total manufacturer shipments declined by -19% versus the same month a year ago.



Excluding transports, the decline in shipments was still notable, declining by -12.5% versus a year ago.

<u>NEW ORDERS</u>

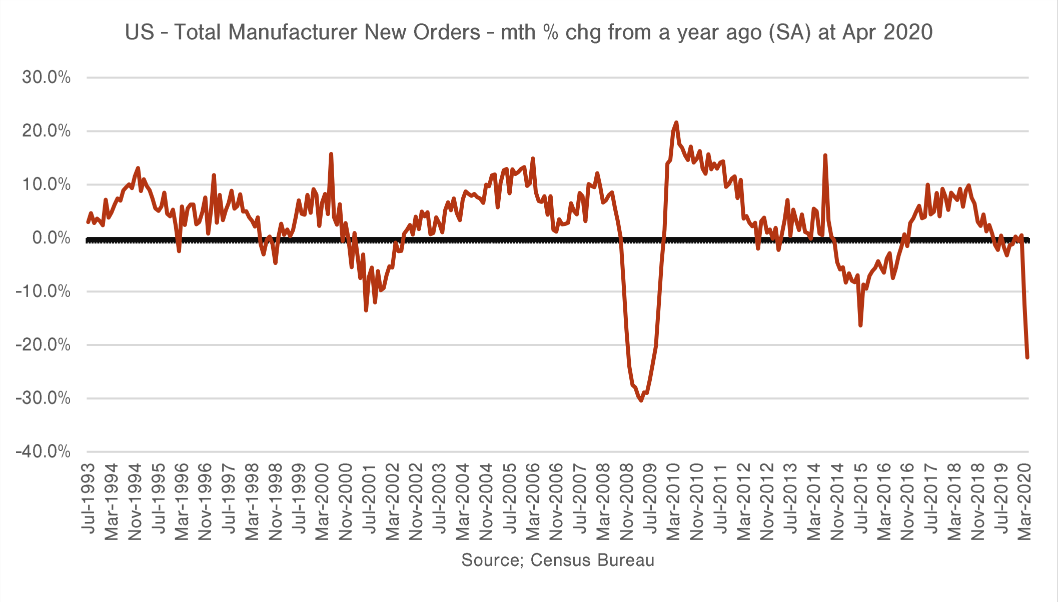
New orders are measured across durable goods only.

<u>Total Durable Goods New Orders – month change</u>; Apr -17.7% (-$36.3bn) versus Mar -16.7%

The decline in transportation orders made the largest contribution to the fall in orders. This included a further -$8.6bn decline in orders for non-defense aircraft for the month. Note that this is not the change, but the actual value of the decline in aircraft orders in Apr.

All other major categories recorded declines in orders for the month; primary metals (-14.7%), fabricated metals (-12.3%), machinery (-7.2%), computers (-0.1%), electrical equipment (-9%), and furniture (-10.2%).

On an annual basis, total manufacturer new orders in Apr were -22.3% lower when compared to the same month a year ago;



Again, excluding transport equipment, the decline in new orders remains notable, but not as high, falling 13.2% below the same month a year ago.

UNFILLED ORDERS

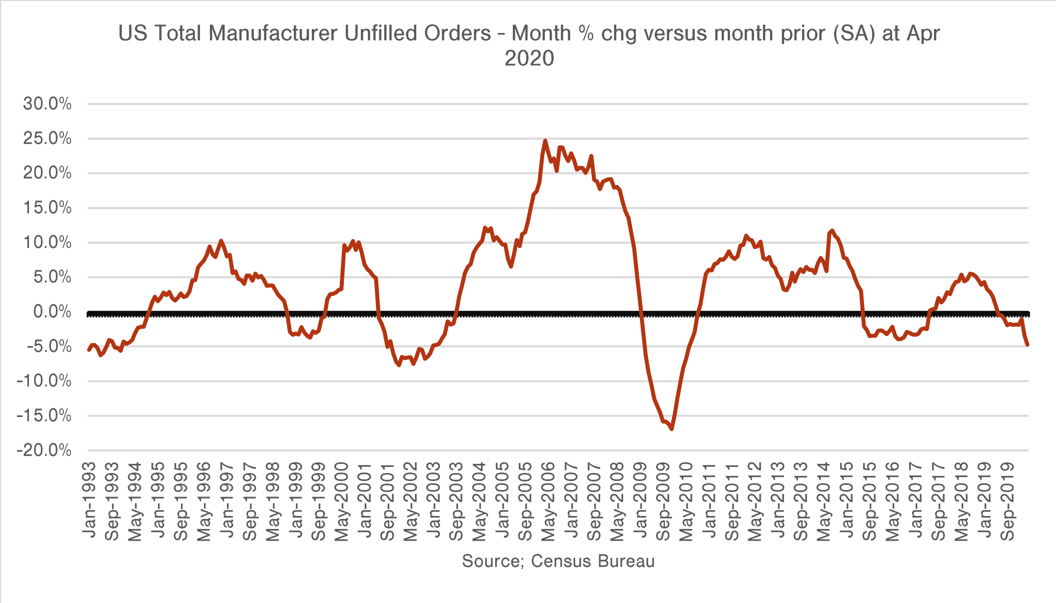
Unfilled orders are also only measured across durable goods.

Total Manufacturer Unfilled Orders – month change; Apr -1.6% (-$17.6%) versus Mar -2.1%

The value of unfilled orders declined at a slower pace in the month. The slower decline in unfilled orders is likely due to factory shutdowns.

The single largest contributor to the decline in unfilled orders was the fall in non-defense aircraft and parts orders – which declined by -2.4% (-$13bn) in unfilled orders.

On an annual basis, the decline in unfilled orders remains relatively small and the decline is linked to transport equipment. Total unfilled orders declined by -4.8% in Apr compared to a year ago. This is still in-line with the declines recorded in mid-2016. The smaller decline is likely linked to issues with supply chains, distancing restrictions and complete shutdowns on non-essential activity.



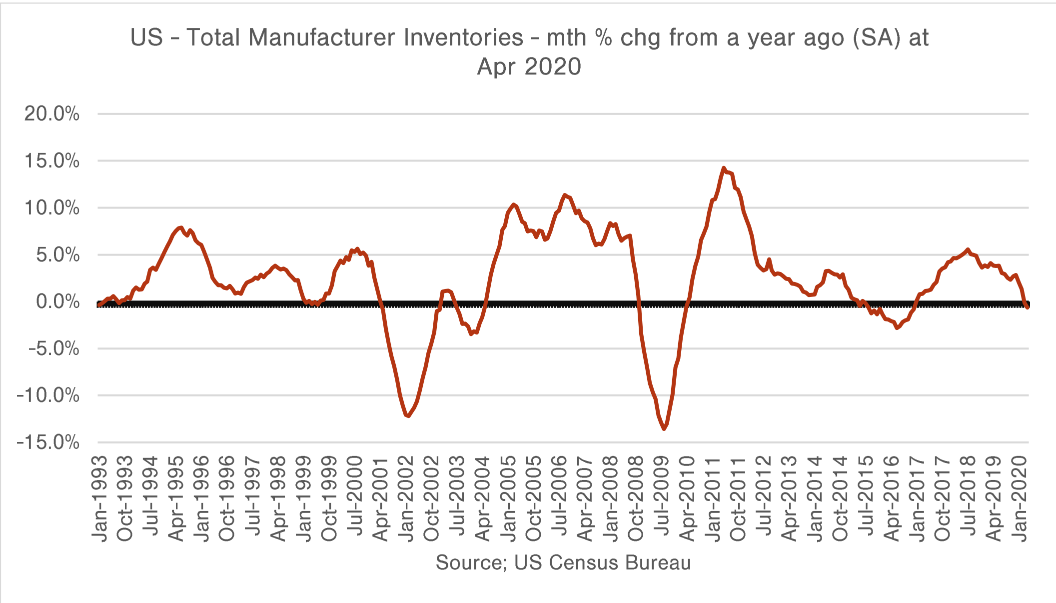
There was only a small decline in unfilled orders excluding transportation of -0.7% versus the same month a year ago.

INVENTORY

Total Manufacturer Inventory – month change; Apr -0.4% (-$2.5bn) versus Mar -1.1%

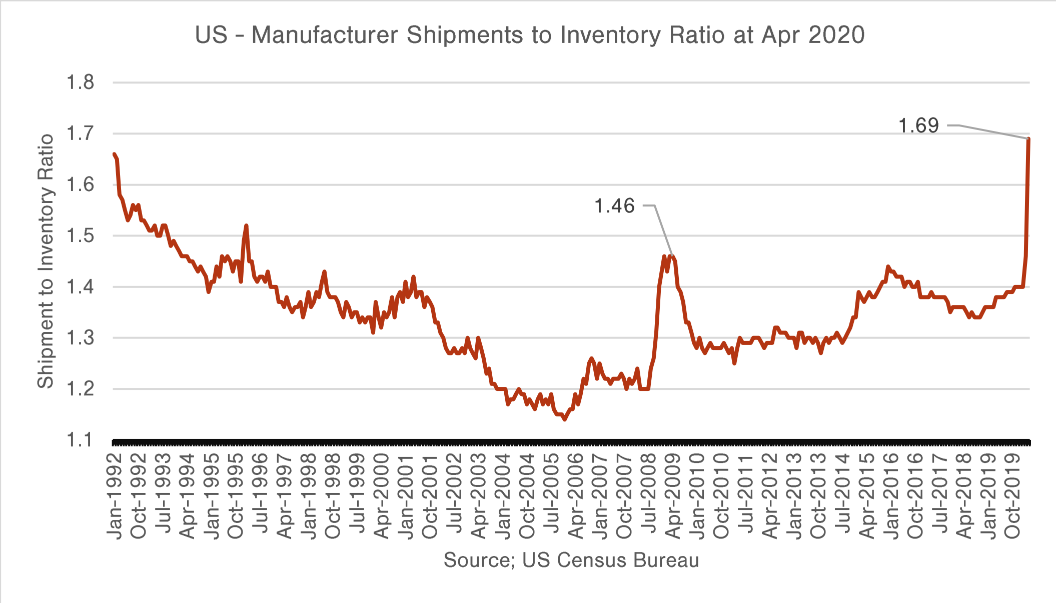
The decline in the value of inventory was led by non-durable goods, which fell by -$3.2bn or -1.2% in Apr. This was mostly all related to the lower value of petroleum inventory (-15% in the month).

On an annual basis, total manufacturer inventory declined slightly by -0.6%.



Excluding both petroleum and transports, total inventory declined by -0.8% compared to the same month a year ago.

But accounting for the current (lower) level of shipments, the shipment to inventory ratio has risen sharply and is well above that recorded during the GFC;



This was the result of a higher shipment to inventory ratio across both durable goods (Mar 1.82 to Apr 2.22) and non-durable goods (Mar 1.12 and Apr 1.21).

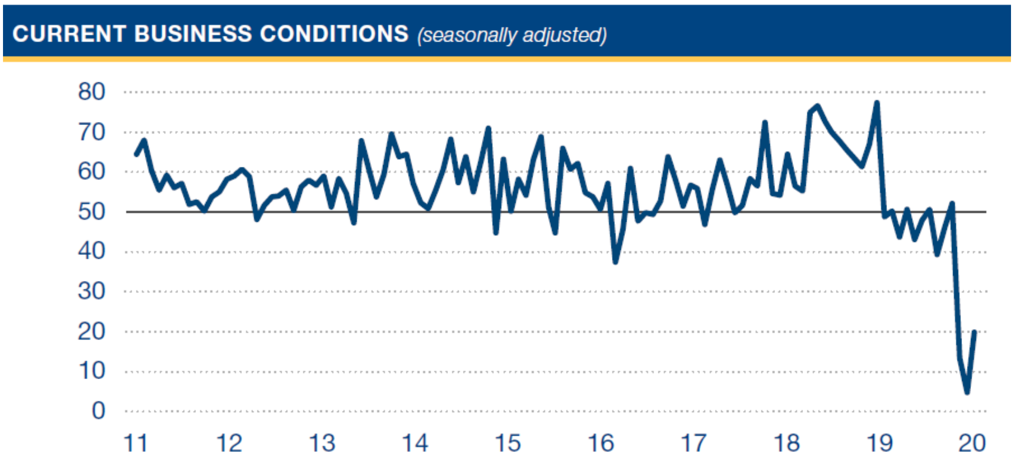
https://www.census.gov/manufacturing/m3/index.html

ISM NY Business Conditions Index (May)

The pace of decline in business conditions eased further in May as firms commenced some limited re-opening.

> In May, New York City purchasing managers reported across the board increases as gradual re openings signal the beginning of the end of the coronavirus pandemic shock

Current Conditions Index; May 19.5 versus Apr 4.3



The reading for the six-month outlook improved from 26.4 in Apr to 48 in May. This signals that there are still lower expectations for the next six-month period at the current time – but it is still an improvement from the continued contraction expected in the prior month.

Employment conditions continued to decline, but the pace also eased from 29.2 in Apr to 33.9 in May.

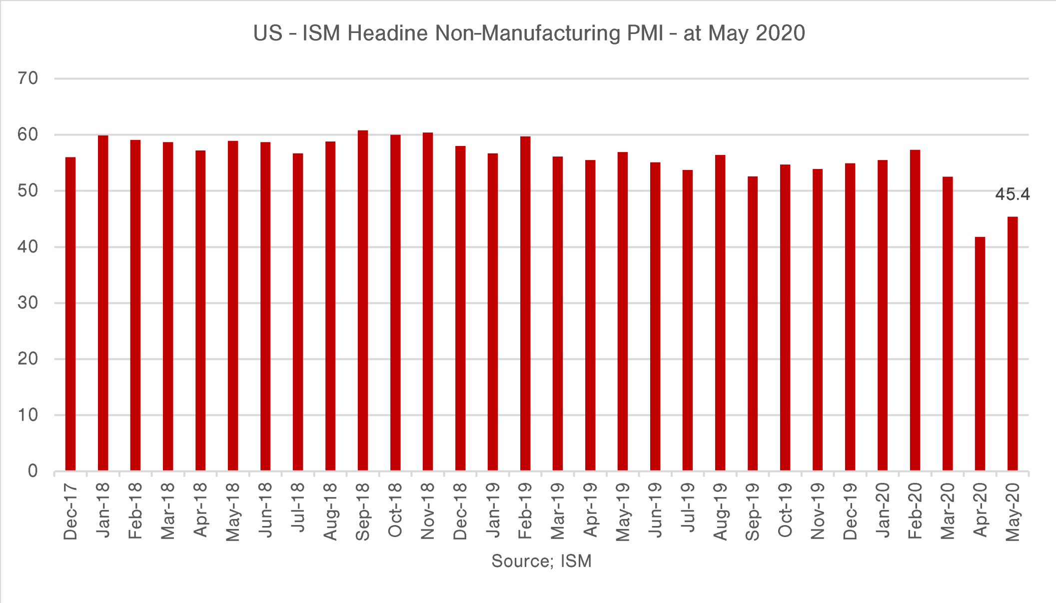
http://www.ismny.com/wp-content/uploads/2020/06/2020_ISM-New-York_May-ROB_v02.pdf

ISM Non-Manufacturing PMI (May)

The headline PMI indicated that non-manufacturing activity continued to contract in May, although the pace of the decline eased. Four industries reported overall growth in May; Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; Public Administration; and Information. The remaining fourteen industries reported ongoing declines.

While the headline index was less negative, the underlying shifts indicated lacklustre improvement in demand. Business activity increased from a low level. But new orders and employment indicate that firms are yet to experience growth in demand. At an industry level, only one industry reported an increase in new orders in May and no industries reported an increase in employment.

Non-Manufacturing PMI – month; May 45.5 versus Apr 41.8



Business activity decreased further, but that pace eased. The index increased from 26 in Apr to 41 in May. The underlying shifts showed some improvement. On the positive side, there was an 8.4% pt increase in the number of firms reporting an increase in business activity - now 29.3% of firms reporting higher business activity. There was also a large decline in the proportion of firms reporting lower business activity, falling from 64% in Apr to 43% in May. Most of those firms though shifted into reporting business activity that was at 'the same level of activity' as compared to the month prior – and Apr was one of the weakest months on record.

Only three industries recorded an increase in business activity; Agriculture, Forestry, Fishing & Hunting; Finance & Insurance; and Retail Trade.

New orders also declined at a slower pace with the index increasing from 32.9 in Apr to 41.9 in May. Of some concern was that there was only a 1.4% pt increase in the number of firms reporting higher new orders (increasing from 26.7% in Apr to 28.1% in May). There was however a large increase in the proportion of firms reporting no change from the Apr low; from 17.3% in Apr to 29.3% in May. On the positive side, there was a 13.2% pt decline in the number of firms reporting further lower new orders. The number of firms reporting lower new orders remains elevated at 42.7% of firms.

Only one industry reported higher new orders in May; Agriculture, Forestry, Fishing & Hunting.

New export orders declined at a slower pace – while less firms reported higher new export orders, there was a larger decline in the proportion of firms reporting lower new export orders.

Order backlogs declined at a faster pace – in lieu of growth in new orders. The order backlog index decreased from 47.7 in Apr to 46.4 in May.

The index of employment growth showed only a slight slowing in the pace of decline, increasing from a low of 30 in Apr to 31.8 in May. There was only a +1.1% pt increase in the number of firms reporting higher employment this month, increasing from 5.8% in Apr to 6.9% in May. There was a decline of 5.5% pts in the number of firms reporting lower employment. But there was still 41.1% of firms reporting further declines in employment. There was a corresponding 4.5% pt increase in the number of firms reporting no change from the Apr lows of employment. Just over 52% of firms reported no change in employment in May.

There were no industries that reported an increase in employment in May. All seventeen industries reported further declines in employment.

The supplier deliveries index continued to grow, but that growth slowed somewhat from 78.3 in Apr to 67 in May. The index remains highly elevated.

Inventories continued to decline at a similar pace with the index in May increasing to 48 from 46.9 in Apr.

Approx. 30% of firms track or use imported goods. This month, there was a faster contraction in imports of materials.

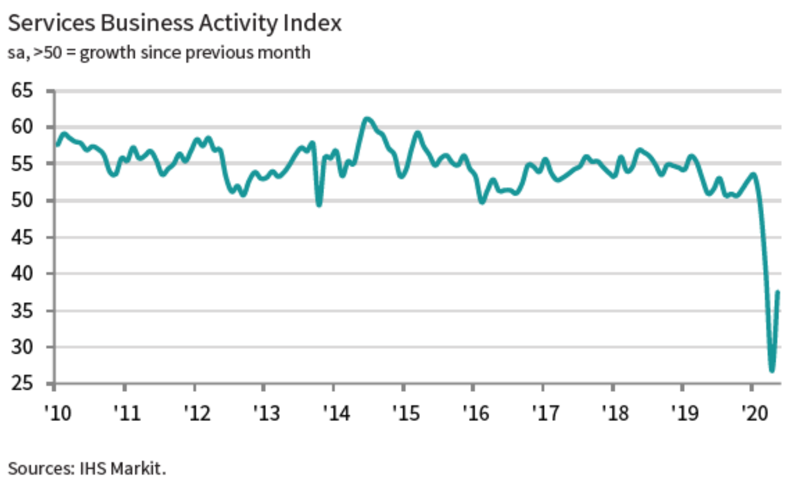
https://www.instituteforsupplymanagement.org/ISMReport/NonMfgROB.cfm?SSO=1

Markit US Services PMI (May)

The headline business activity index indicated that activity continued to contract in May, but at a slower pace. The report mostly mirrors that of the ISM non-manufacturing PMI report for May.

Headline Business Activity Index; May 37.5 versus Apr 26.7

The rate of reduction in activity softened notably amid some reports of businesses returning to work, but was nonetheless the second-sharpest since data collection began in October 2009.



The growth in new orders was ‘sluggish’. The pace of decline in new orders for May was the second steepest after the fall in Apr. There were some reports that domestic demand was starting to increase. New export orders also continued to decline.

While firms remained pessimistic about future output, that negative sentiment moderated in May compared to Apr.

With weaker new orders continuing, firms continued to reduce selling prices for the third month in a row.

Employment also continued to decline 'at a significant rate'.

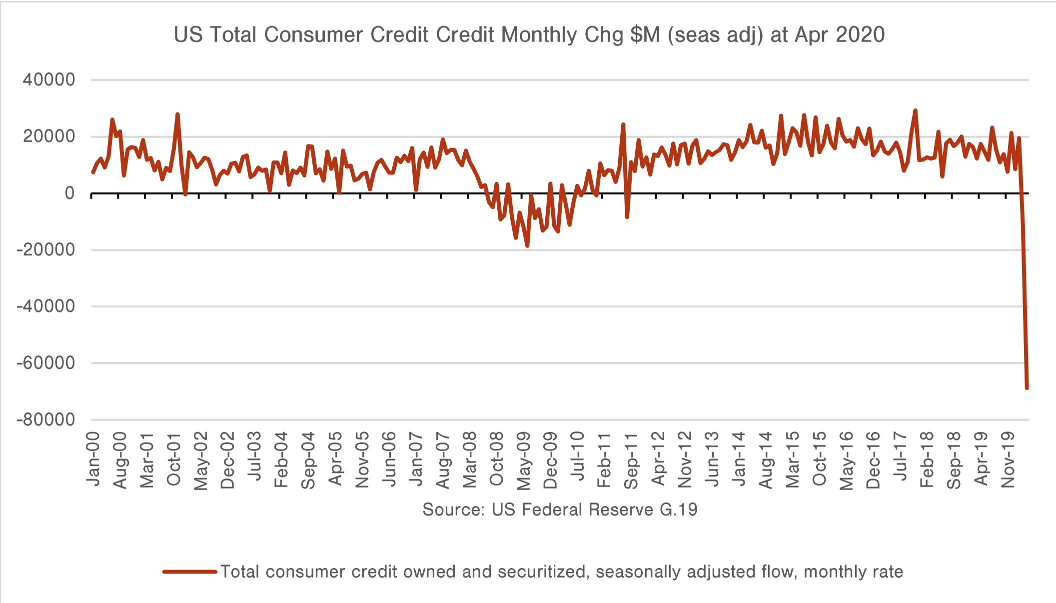
https://www.markiteconomics.com/Public/Home/PressRelease/bd9b8bac880144f1a56b2d8ab7669d14

US Consumer Credit (Apr)

The value of US consumer credit outstanding declined substantially in Apr – this was led mostly by a reduction in revolving (credit card) credit. On net, the decline in outstanding credit means that credit was likely paid down.

It was a month where income declined, but expenditure declined even faster. The fall in wages and salaries income was supplemented by CARES ACT one-off payments.

Total Outstanding Consumer Credit – month change; Apr -$68.8bn versus Mar -$11.5bn

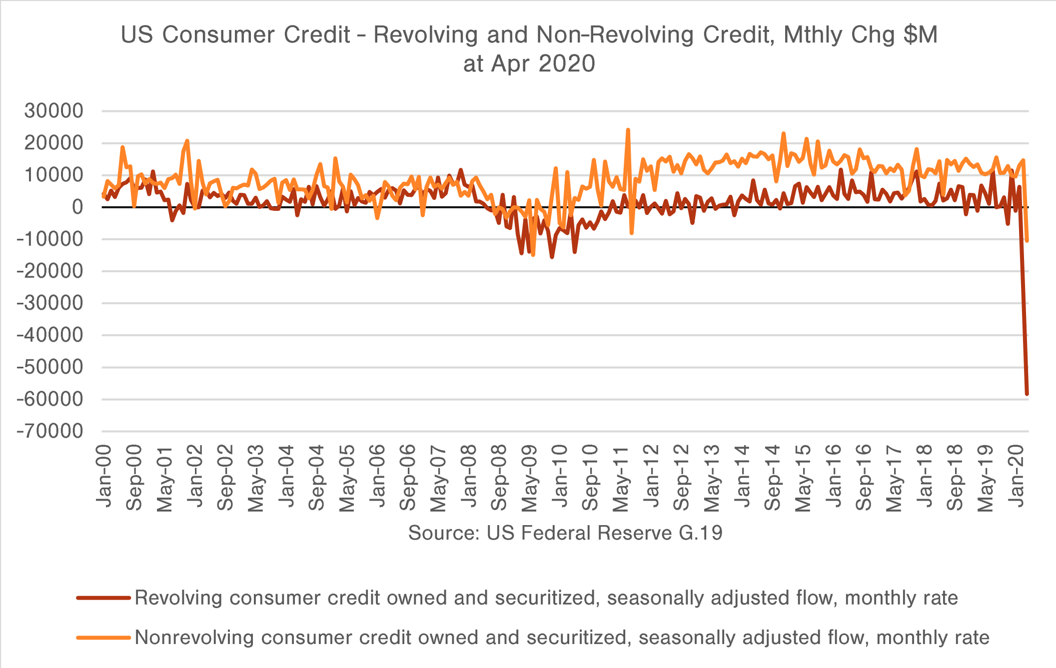


For clarity, given the large decline in Apr, the level of outstanding consumer credit fell from $4.202 trillion in Mar to $4.133 trillion USD in Apr.

The two main components of consumer credit are revolving (credit cards) and non-revolving credit. This month it was the decline in outstanding revolving credit (credit cards) that accounted for most of the decline;

Revolving Credit – month change; Apr -$58.3bn versus Mar -$26.2bn

Non-revolving Credit – month change; Apr -$10.4bn versus Mar +$14.6bn



https://www.federalreserve.gov/releases/g19/current/default.htm

Mortgage applications wk ending 29 May

Total mortgage applications declined notably in the latest week. The latest week has been adjusted for the Memorial Day holiday.

Market composite index (mortgage loan application volume) for wk ending 29 May (SA); -3.9%

Refis also declined by 9% compared to the prior week and remain 137% ahead of the same week a year ago. Refis continue to fall as a share of total applications, now at 59.5% in the latest week.

The purchase index was stronger in the week, and is more of a leading indicator of home sales. The purchase applications increased by 5% versus the week prior and are +18% compared to the same week a year ago.

https://www.mba.org/2020-press-releases/june/mortgage-applications-decrease-in-latest-mba-weekly-survey

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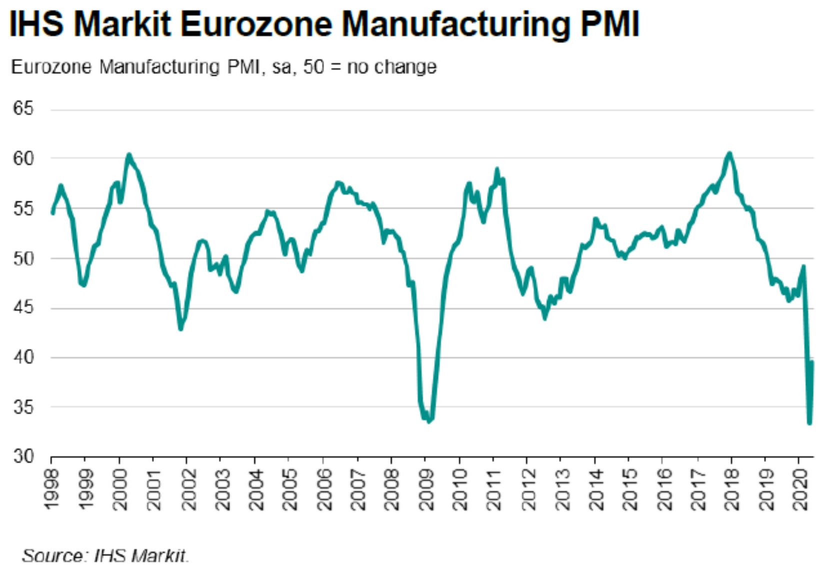
Europe

Eurozone Markit Manufacturing PMI Final (May)

Manufacturing across the broader Eurozone continued to decline notably in May, albeit at a slower pace of decline compared to Apr. Most of the larger economies reported an easing in the pace of decline.

Headline Manufacturing PMI – month; May 39.4 versus Apr 33.4



Production and new orders both declined at a slower pace than the record lows recorded in Apr. Despite the eased conditions, declines remained severe in May. New export orders declined at the second fastest pace in the 23-year history of the series.

Order backlogs continued to fall amid the continued weaker growth in new orders.

Purchasing activity continued to contract.

Employment across the Eurozone also continued to decline as demand remained weak;

Led by France, Spain and Germany, all nations recorded severe reductions in employment.

Firms continued to cut output charges at a similar pace as the severe decline recorded in Apr.

While the outlook improved from the low levels of the last few months, firms remained broadly pessimistic.

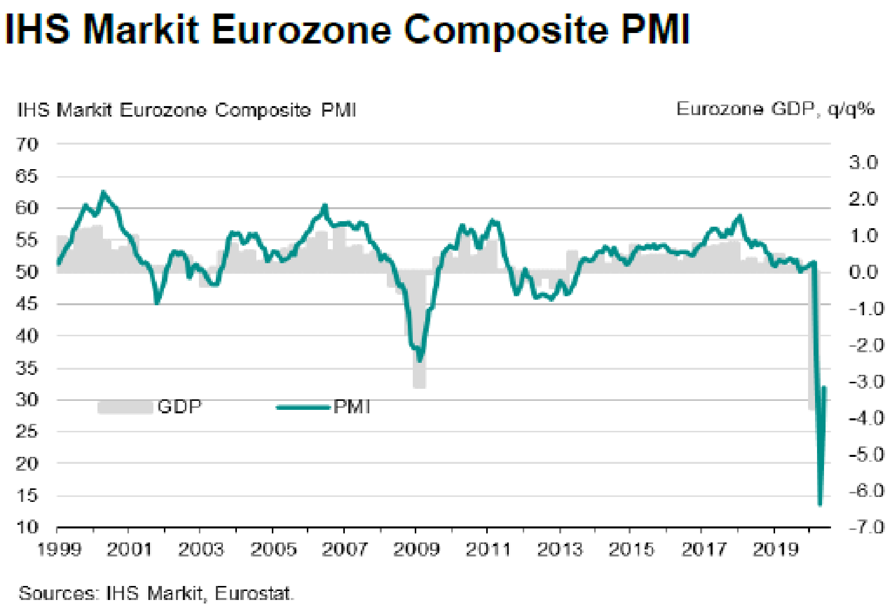
https://www.markiteconomics.com/Public/Home/PressRelease/687f08fa4a6c4996ac315ef9041278dd

Eurozone Markit Services PMI Final (May)

The Eurozone services business activity index contracted at a slower pace in May. The Index level recorded in May still indicated a steep level of contraction across the Eurozone. At the composite level, most of the larger economies recorded a slower pace of contraction

Services Business Activity Index; May 30.5 versus Apr 12

The composite output index (services and manufacturing output) recorded 31.9 in May versus 13.6 in Apr.



Most of the sub-indexes performed similarly with activity contracting at a slower pace.

New orders contracted at a slower pace. The pace of decline remained steep though and firms across the Eurozone further reduced employment.

Firms across the Eurozone remained pessimistic in May, although the level of pessimism abated.

Notably, Italian service providers returned to optimism. Companies in Germany were the most pessimistic.

https://www.markiteconomics.com/Public/Home/PressRelease/6577650d2ad8424ebbb2670f1d3541d7

Eurozone Retail Sales (Apr)

There was a further sharp decline in retail sales across the Euro Area and EU this month. Most retail segments recorded large declines in the month with the exception of mail orders and internet. Most member countries also recorded declines in retail sales in the month. One exception was Norway, where prelim data indicates retail sales in Norway increased by +4.8%.

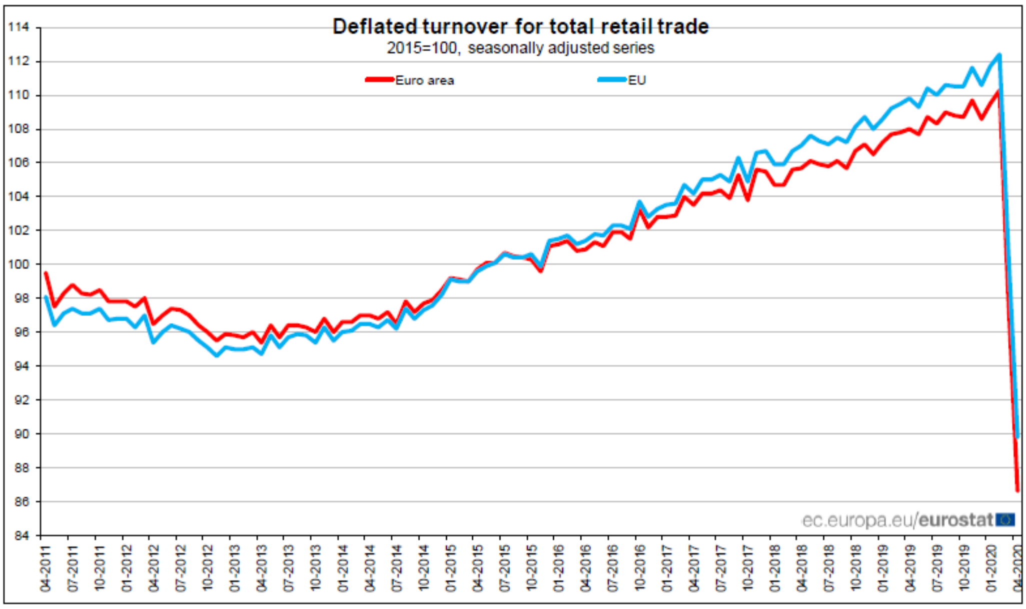
EU Retail Sales (vol) – month change; Apr -11.1% versus Mar -10.1%

The largest declines were recorded across non-food categories (-14.7%). This included a 21% decline in clothing and footwear sales, and declines across electrical goods, furniture, computer equipment, books, pharmaceuticals, and medical goods. Mail order and internet sales increased by +11.9% in the month.

Auto fuel sales also declined further (volume sales) by 25% in Apr.

The decline in food, drink, and tobacco was less severe after stronger growth in the two months prior; Apr -5.9% versus Mar +4.9%.

EU Retail Sales (vol) – annual change; Apr -18% versus Mar -7.6%



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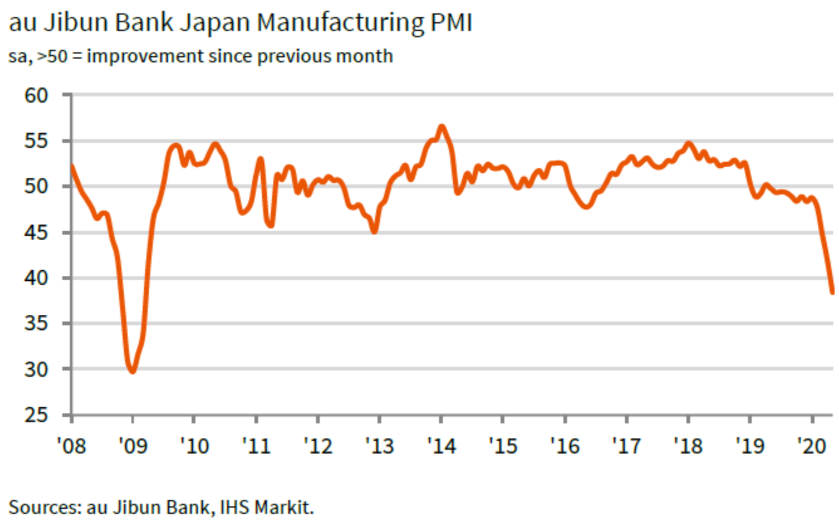
Japan

Japan Manufacturing PMI (Final) May

Manufacturing conditions continued to worsen in May.

"While Japan has lifted the state of emergency across most parts of the country, making way for a restart of its economy, latest survey data indicated that the manufacturing sector downturn is playing catch-up."

Headline Manufacturing PMI – month: May 38.4 versus Apr 41.9



Production continued to fall in May and was the steepest since Mar 2009.

Approximately 55% of companies recorded lower output volumes when compared to April, which anecdotal evidence suggests was due to production suspensions and sinking demand conditions.

New orders declined at the fastest pace since Feb 2009. Firms linked the decline to the pandemic and that restrictions had reduced client requirements and cancelled orders. New export orders also declined further with approx. 46% of firms reporting declines in export orders versus Apr.

Amid the weaker new orders, backlogs of orders declined at a faster pace.

Despite the weakening conditions, the decline in employment was only marginal in May. The vast majority of firms reported no change in employment in May, after much larger declines in Apr.

Both input costs and output charges declined in May.

Given the current conditions, firms remained pessimistic regarding the outlook, citing a fears of a protracted global downturn.

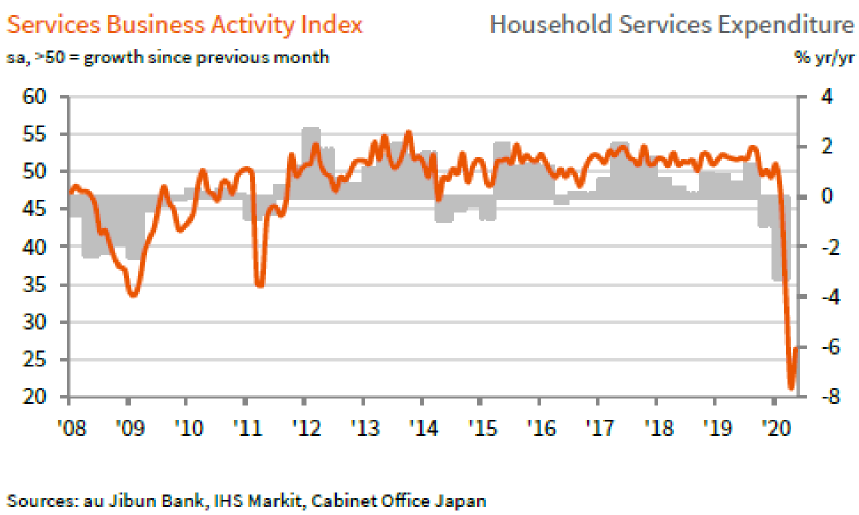
https://www.markiteconomics.com/Public/Home/PressRelease/2ed59b9ddfcf433fa54bf77eca825569

Japan Services PMI Final (May)

The was only a small moderation in the pace of decline in the services business activity index in May. Activity continued to contract at a steep pace this month again.

> Although the headline figure increased from April's record low of 21.5, it remained indicative of a contraction in activity that was unparalleled in comparison to those seen since data were first collected in September 2007.

Services Business Activity Index; May 26.5 versus Apr 21.5



Activity continued to fall due to store closures, weak demand, and cancelled events. Only 6% of firms recorded any growth in output this month.

New orders, both domestic and foreign, continued to decline in May.

Firms reduced workforces at the fastest pace since Feb 2010.

Firms remained pessimistic about the next twelve months;

> Some companies also anticipate that demand levels will be substantially weaker for the foreseeable future. However, the degree of pessimism was the weakest since February as some firms predict a resumption of business activity.

https://www.markiteconomics.com/Public/Home/PressRelease/b1cbb76509df405fb5be519fdff1a840

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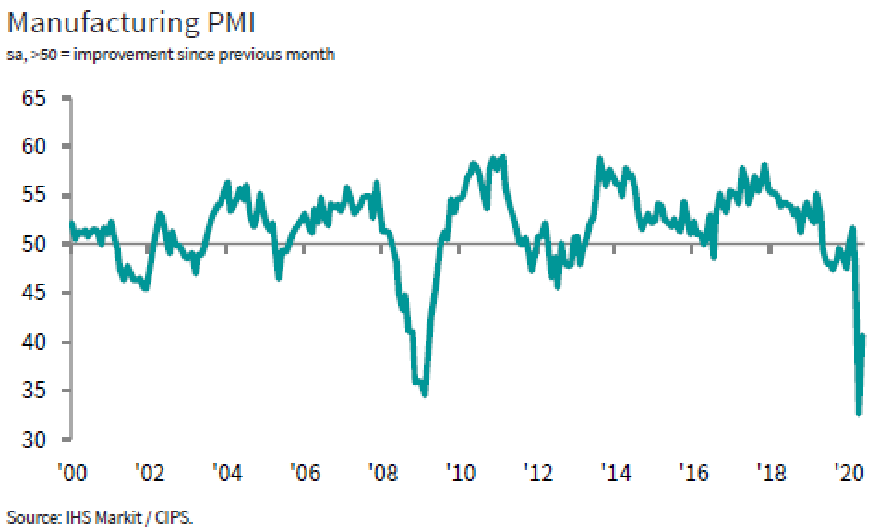
United Kingdom

UK Markit Manufacturing PMI Final (May)

UK manufacturing activity continued to decline in May, albeit at a slower pace.

Headline Manufacturing PMI – month; May 40.7 versus Apr 32.6



The pace of decline across output, new orders and new export orders remained one of the steepest in the series history, but had eased compared to the declines in Apr. Declines continued across consumer, intermediate and investment goods industries. Growth was linked to healthcare and PPE products.

Employment declined at a slower pace than that of Apr, but was still the second fastest pace of decline on record.

The business outlook remained 'downbeat' by historical standards. Firms still expect output to increase over the next year.

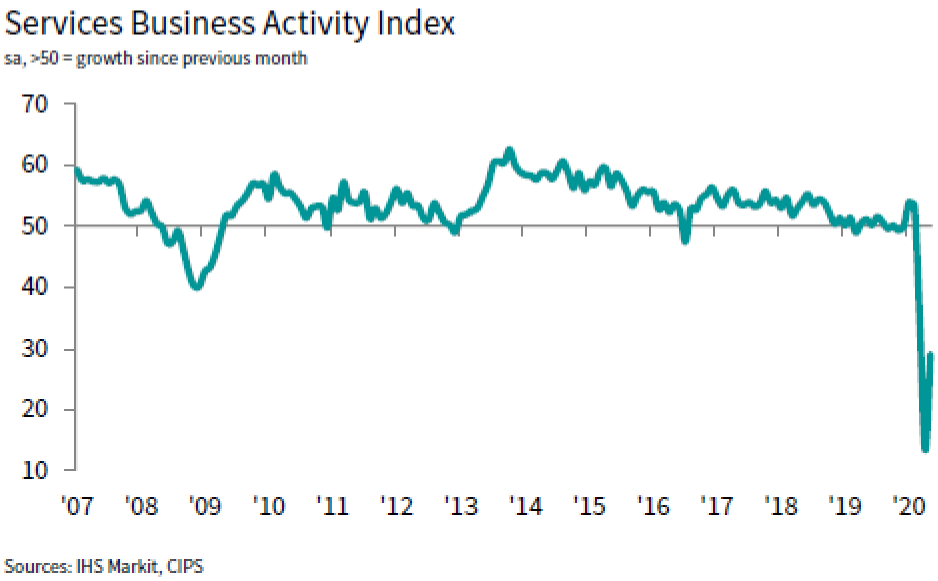
https://www.markiteconomics.com/Public/Home/PressRelease/a586ad660bc74f9ea79ee2c9fb824742

UK Markit Services PMI Final (May)

UK Services activity continued to decline at a severe pace in May. But the pace of that decline moderated as some sectors of the economy, such as construction, started to emerge from stay at home restrictions.

UK Services Business Activity Index; May 29 versus Apr 13.4

This month, 54% of firms still reported a decline in business activity in May while only 13% of firms recorded growth.



New business continued to decline, but at a slower pace than compared to Apr. Firms cited order cancellations, customer closures and continued operating constraints. New export work also continued to decline. Some service providers noted that severe travel restrictions had result in zero work from overseas.

As a result of the continued fall in new work, employment continued to decline. This was the second fastest pace of decline since the series began in 1996.

> Anecdotal evidence frequently indicated that employees had been placed on furlough, while some reported redundancies amid an expected slump in customer demand over the long term.

Business expectations about the year ahead remained 'subdued'.

https://www.markiteconomics.com/Public/Home/PressRelease/ed38c310ddc94acbbaa3d3cce8b3ff7b

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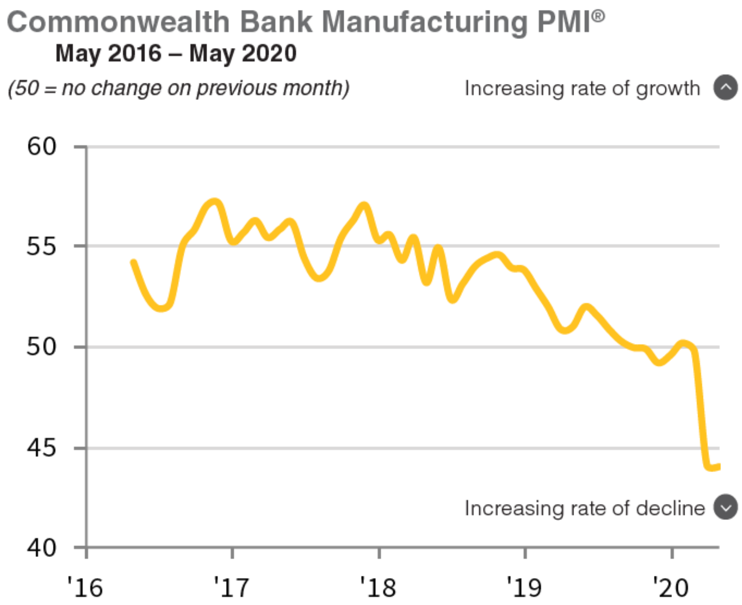
Australia

CBA Manufacturing PMI Final (May)

The Aus manufacturing PMI indicated that manufacturing activity contracted at virtually the same pace in May as in Apr. Restrictions started easing from May and this has buoyed business sentiment this month, despite the current weaker conditions.

Headline Manufacturing PMI – month; May 44 versus Apr 44.1



The decline in new orders in May remained severe and was on par with that of the record fall in Apr. There was also a further steep fall in new export orders.

There was also a record fall in production in May. Weak demand, factory closures and some note of material shortages impacted production levels.

With the weak new orders inflow, order backlogs declined at a new record pace.

The lower output requirements resulted in further cuts to employment. This was the sixth month of employment decline.

Weaker demand was again reflected in weaker purchasing activity – the sharpest decline on record. Firms continued to work through inventory of raw materials and finished goods inventory was also reduced at a fast pace.

Supplier lead times remained longer than usual, but had improved from the record lengthening in Apr.

Despite the current weaker conditions, business sentiment for the year ahead improved. Firms expected to see rising output and a 'return to normal conditions' as restrictions start to ease.

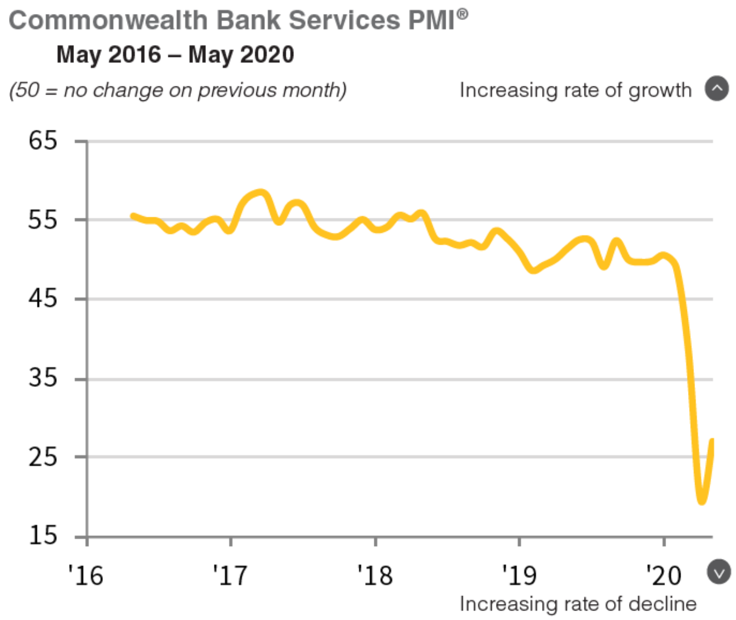
https://www.markiteconomics.com/Public/Home/PressRelease/14dbe5c83f50486ebeefc589cd2350ba

CBA Services PMI Final (May)

While the headline PMI indicated that the decline in services business activity eased in May, the index at 26.9 still represents a significant ongoing decline.

Across most of Aus, stay at home restrictions started to ease during May. This easing of restrictions has continued into early Jun. The problem faced by some services segments, such as hospitality is that distancing restrictions remain in place – most outlets cannot operate at full capacity.

Headline Business Services Activity Index; May 26.9 versus Apr 19.5



Unfortunately, new business continued to decline, despite easing restrictions. Some firms noted weaker demand as well as event cancellations.

As a result, employment also declined for the fourth month in a row.

Costs were lower this month again due to government financial support, lower energy prices and lower purchasing activity. This enabled firms to continue to reduce selling prices which declined at the same record pace as in Apr.

Despite the current weak conditions, confidence for the year ahead improved. This was the result of effective reduction in the number of Covid-19 cases in Aus – leading expectations for further easing of restrictions.

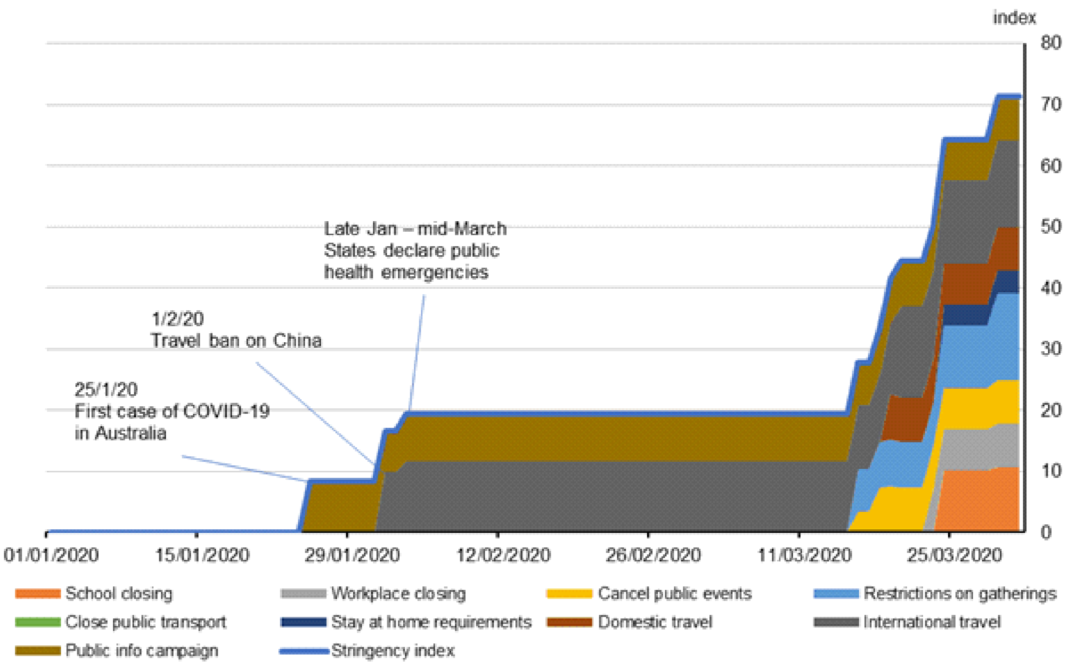
https://www.markiteconomics.com/Public/Home/PressRelease/3ae7381d2a314550a5ee55c7e20b8c86

Australia GDP Q1 2020

Real GDP declined in Q1 2020 compared to the Q4 2019. This is the first quarterly decline in GDP since the Q1 Mar quarter 2011.

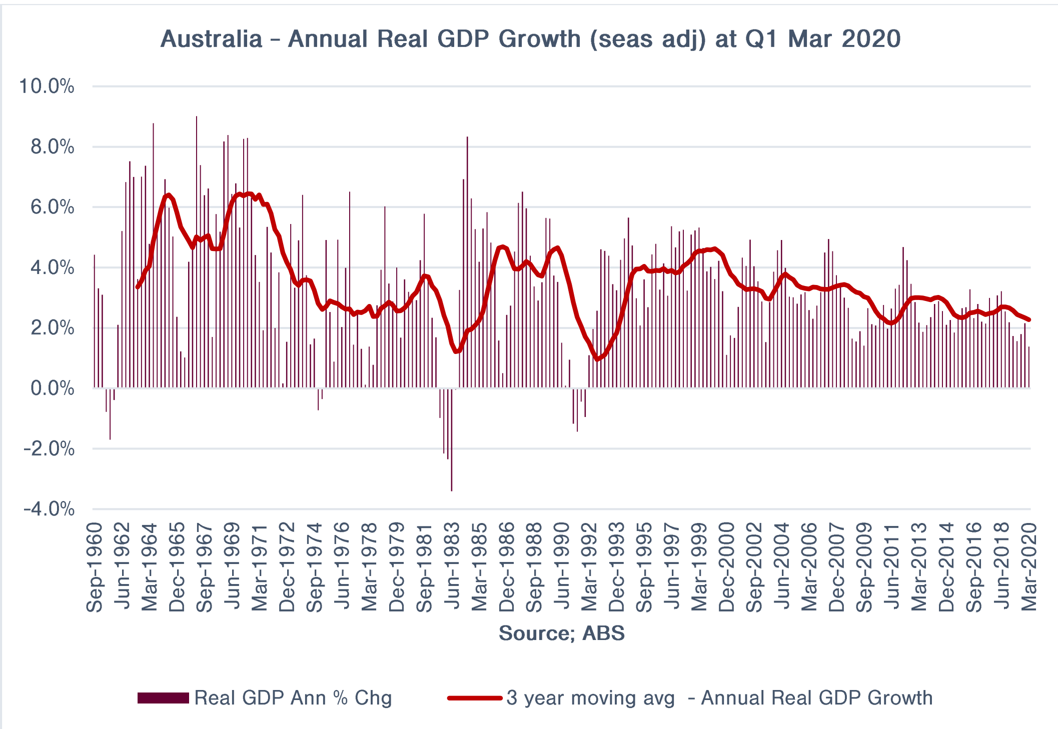
The demand shock to the Aus economy was the result mostly of shutdowns that occurred from the third week of Mar. But work-from-home and the cancellation of public events started as early as the end of Jan. The following is a view from the ABS of the timeline of containment measures;

Figure 2: Australia's containment measures contribution to overall stringency



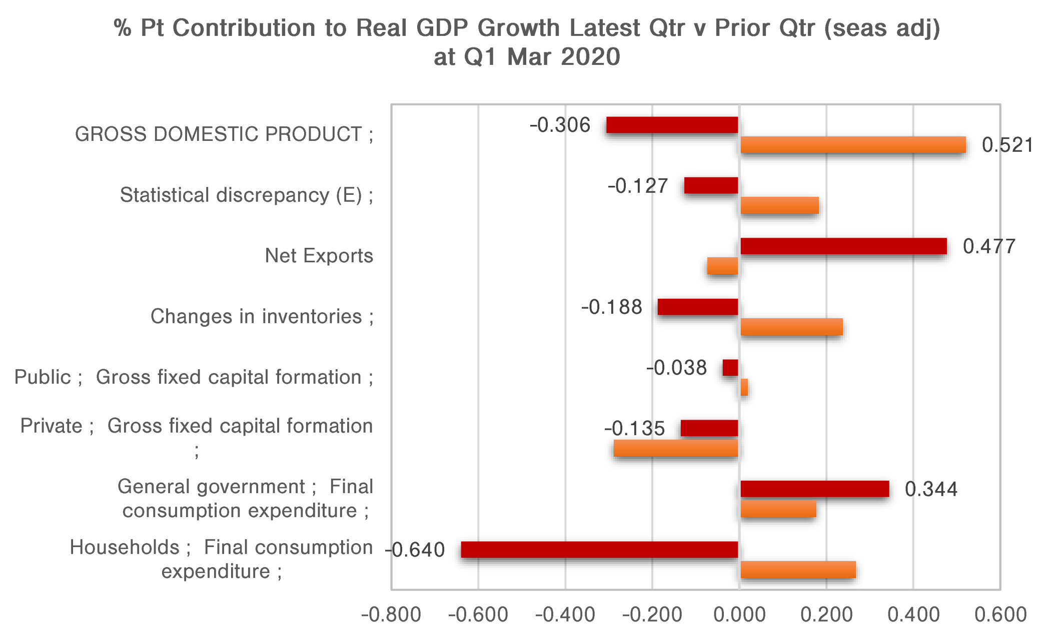
Real GDP – quarter change; Q1 2020 -0.3% versus Q4 2019 +0.5%

On an annual basis, real GDP growth slowed to +1.4%;



Expenditure View of GDP

Most areas of expenditure contributed to the decline in GDP this quarter. The exceptions were government consumption expenditure and net exports. Underlying the change in net exports was further evidence of the decline in consumption and demand with imports falling faster than the decline in exports.

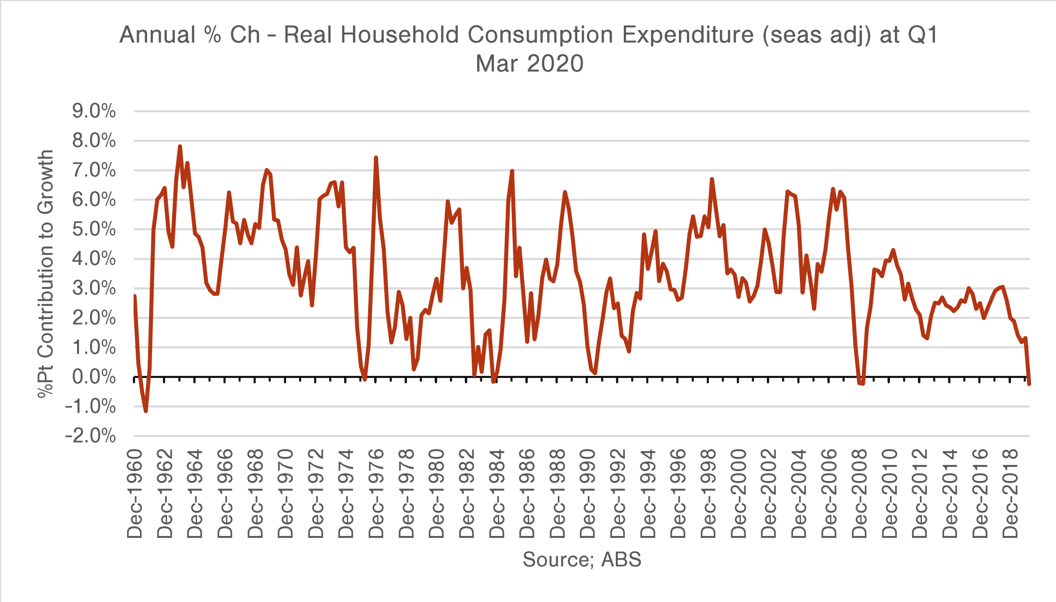


	Households ; Final consumption expenditure ;	General government ; Final consumption expenditure ;	Private ; Gross fixed capital formation ;	Public ; Gross fixed capital formation ;	Changes in inventories ;	Net Exports	Statistical discrepancy (E) ;	GROSS DOMESTIC PRODUCT ;
Latest Qtr Q1 Mar 2020	-0.640	0.344	-0.135	-0.038	-0.188	0.477	-0.127	-0.306
Prior Qtr 4 2019	0.267	0.176	-0.288	0.019	0.238	-0.073	0.183	0.521

Household consumption – real household consumption represents 53% of total real GDP. This quarter, household consumption declined by 1.1%. This is the largest quarterly fall in consumption since the Mar quarter in 1986. The fall was so severe on a quarterly basis, that the annual change also shifted to negative -0.2% versus the same quarter a year ago.

The fall in the quarter is concerning given the stronger retail result for Q1 and the role of household stockpiling.

Unfortunately, this is likely to be worse in the next quarter which encompasses the full brunt of the stay at home orders throughout Apr and May. As of early Jun, these orders/restrictions are being eased even further. But strict distancing rules remain in place – making it difficult for many businesses to return to prior levels of operation.



Government consumption – increased at a faster pace this quarter, adding +0.34%pts to the headline result.

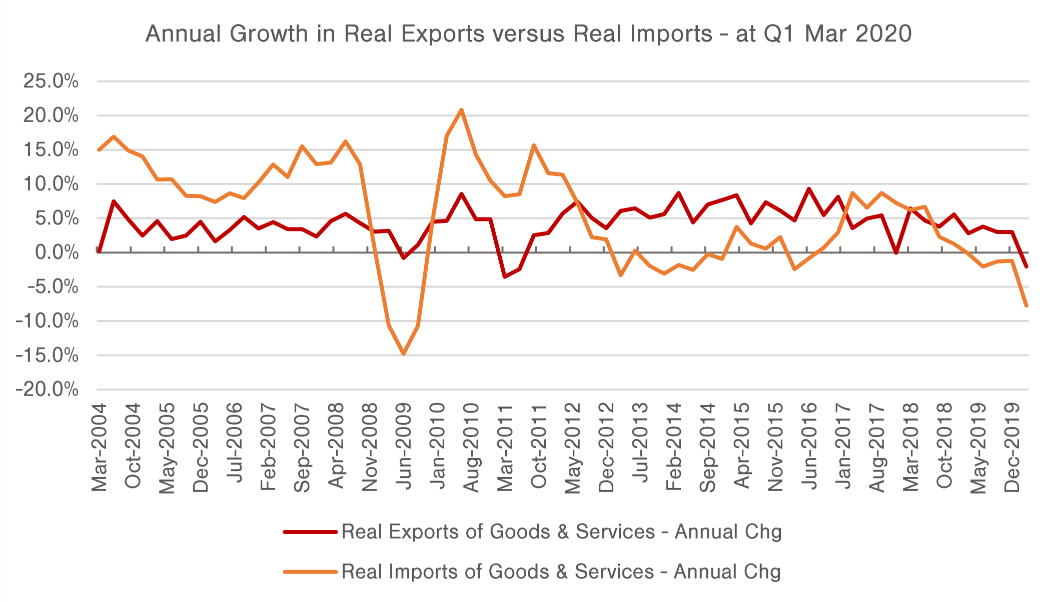
Private investment expenditure – the decline in private fixed capital formation expenditure eased this quarter. But both areas of dwellings and private business investment expenditure still declined. This was inline with the quarterly results for construction work done.

Public investment expenditure – public capital formation declined in Q1 compared to Q4.

The change in inventories detracted from growth in Q1 and was one of the larger contributors to the decline in Q1, detracting -0.2% pts from the headline result. The fall in inventories in Q1 was larger than the fall in Q4 2019.

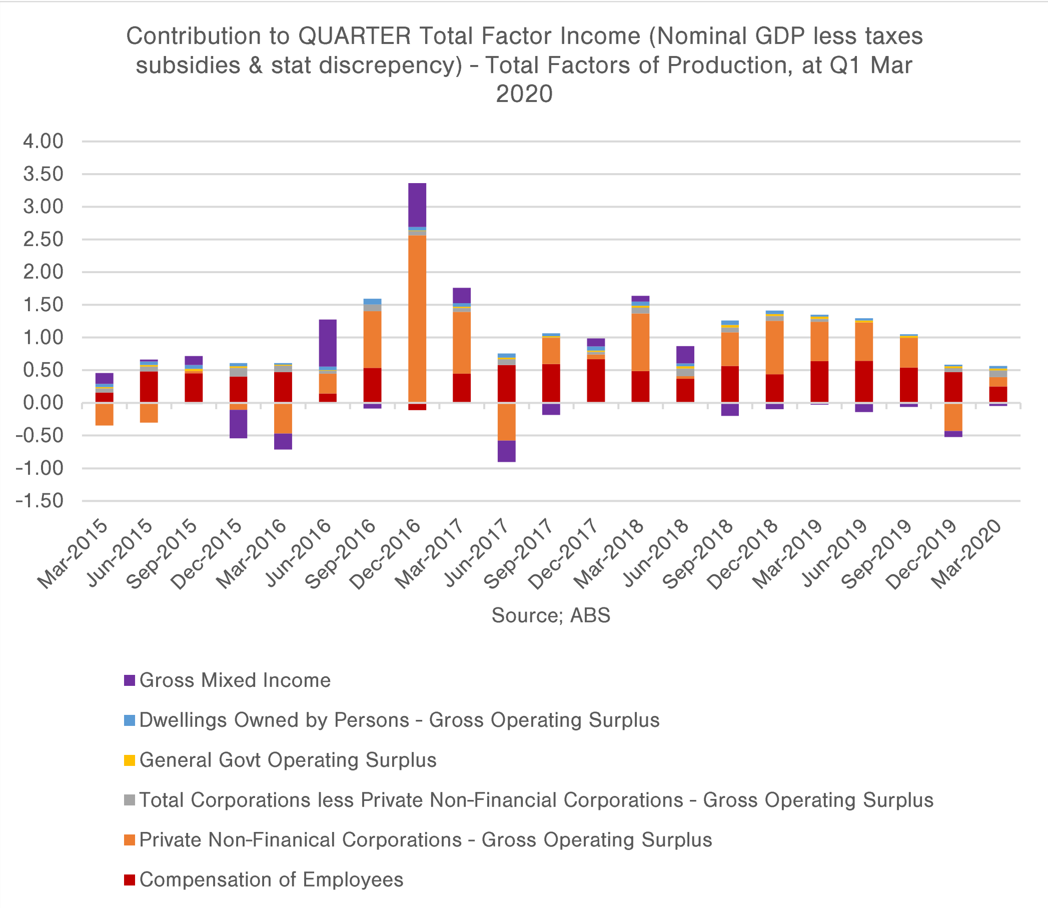
One of the largest positive contributors to headline GDP in the quarter was the change in net exports, which added +0.47% pts to GDP change. This was the result though of a decline in both exports and imports in the quarter – reflecting weaker domestic and global demand in the quarter. Real exports declined by 3.5% in Q1 and the value of real imports declined by 6%.

Both exports and imports also declined on an annual basis, with imports declining faster than exports in Q1;



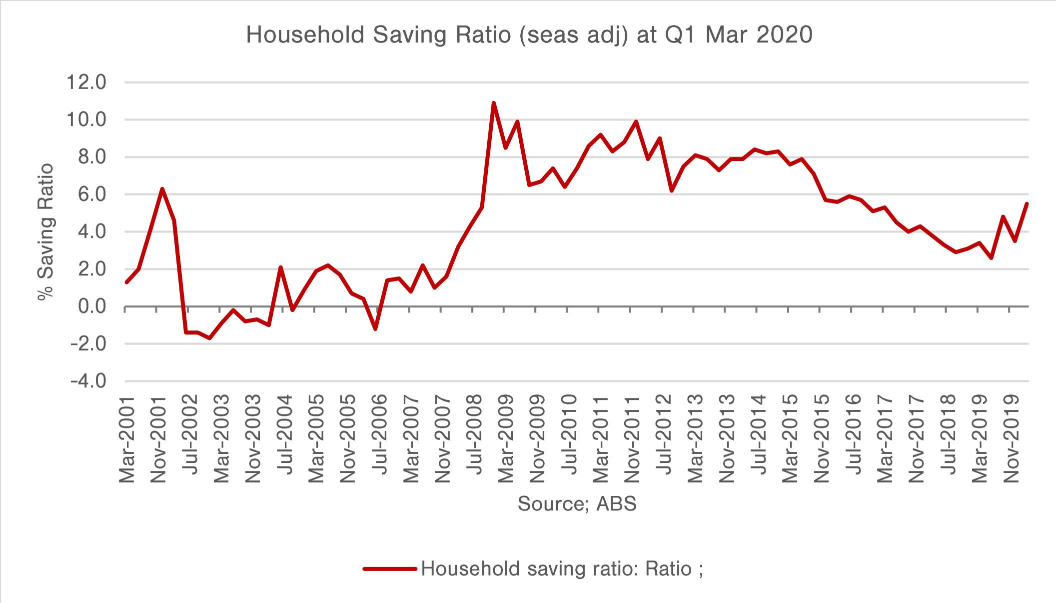
Income View

Total factor income growth actually increased at a faster pace in Q1 compared to the decline in Q4 2019. This was due to an improvement in non-financial coproration profits;



There was a notable impact on employee compensation in Q1 with growth slowing further to +0.5% in the quarter and adding a mere +0.25% pts to total factor income growth for the quarter. Employee compensation accounted for approx 47% of total factor income in Q1 and is the single largest income group.

Similar to the US, the household saving ratio continued to increase;



https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/C9973AC780DDFD3FCA257F690011045C?OpenDocument

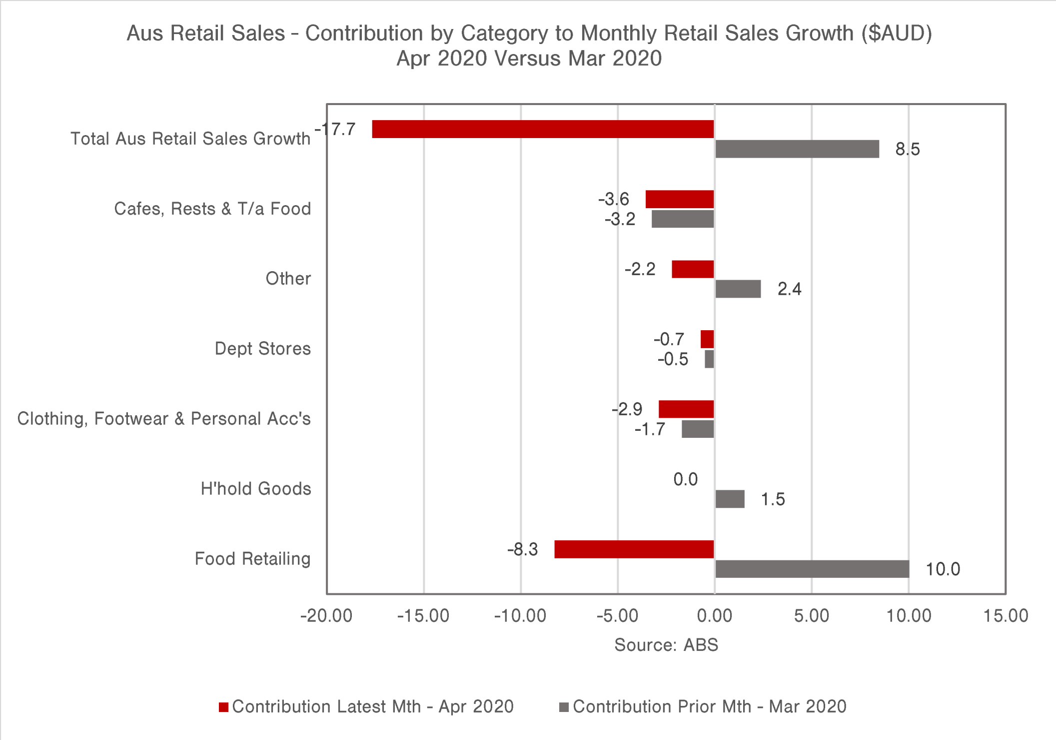
Retail Sales (Apr)

The headline growth in retail sales value declined significantly in Apr. The decline in Apr was experienced across all categories this month with a notable decline in food retailing. Last month, the impact of stockpiling in food retailing, ahead of expected stay-at home orders, led a larger increase in retail sales.

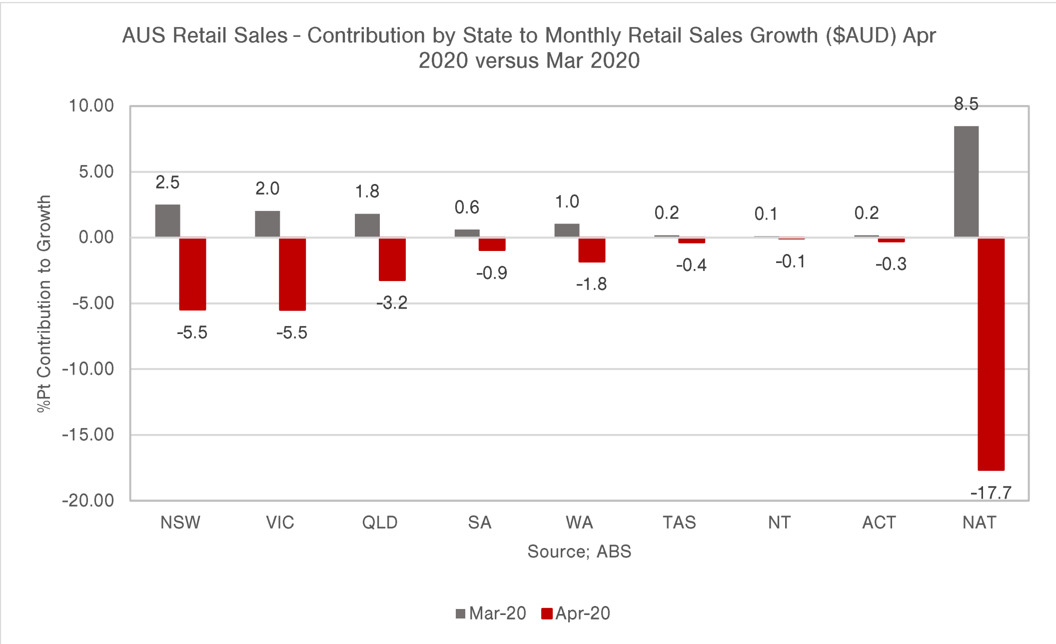
Retail Turnover ($ val) – month change; Apr -17.7% versus Mar +8.5%

This month, every category contributed to the decline in retail sales – most notably food retailing.

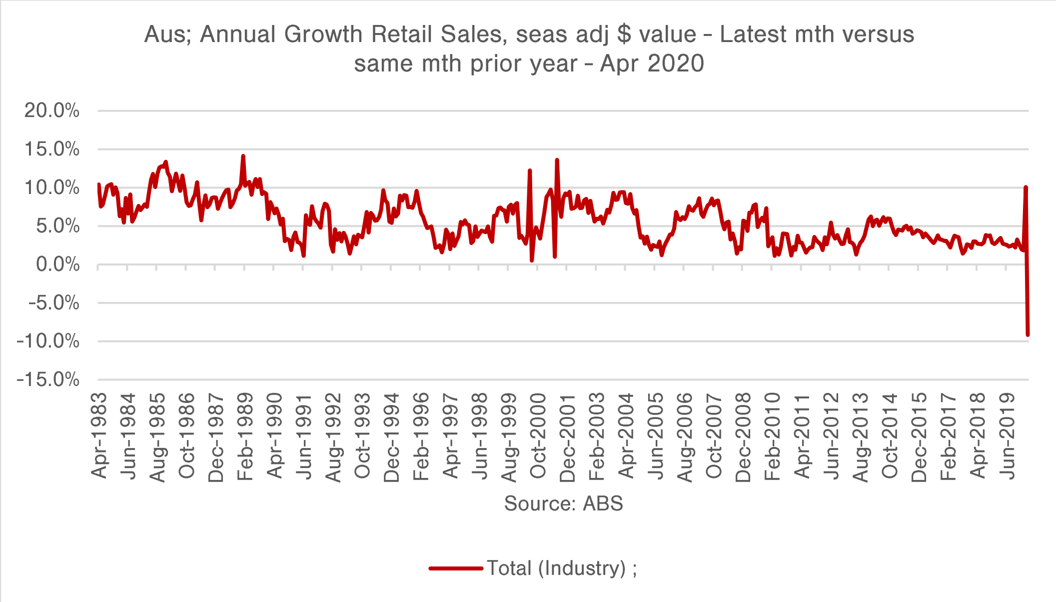
The decline in food retailing was also likely partly the result of significant out-of-stocks experienced within outlets due to supply chain disruptions.



On a state basis, every state experienced declines in retail sales this month. The larger states contributed most to the headline decline in sales for the month;



Retail Sales turnover ($ val) – annual change; Apr -9.2% versus Mar +10.1%



https://www.abs.gov.au/AUSSTATS/abs@.nsf/Lookup/8501.0Main+Features1Apr%202020?OpenDocument

RBA Rates Decision – 2 Jun 2020

At the Jun meeting the RBA made no changes to the current policy settings.

Current Settings

Overnight Cash Rate (OCR); +0.25%

Target for yield of 3yr Govt Bond; +0.25%

Current Conditions

Domestic financial markets continue to operate smoothly and the 3yr yield remains around the target of 0.25% – the RBA has only purchased bonds on one occasion since the prior meeting. Total bond purchases to date are $50bn.

Domestic economy is experiencing the largest contraction in activity since the 1930's. Unemployment is extremely elevated. Hours worked has been falling. Household expenditure has declined. Investment plans are either being deferred or cancelled.

The Board notes though some positive shifts;

> Notwithstanding these developments, it is possible that **the depth of the downturn will be less than earlier expected**. The rate of new infections has declined significantly and some restrictions have been eased earlier than was previously thought likely. And there are signs that hours worked stabilised in early May, after the earlier very sharp decline. There has also been a pick-up in some forms of consumer spending.

Fiscal and monetary will likely be required for some time. The pace of the recovery, and the impact of the pandemic, remain highly uncertain.

> …much will depend on the confidence that people and businesses have about the health situation and their own finances.

Forward Guidance

The RBA intends to keep funding costs low and support the flow of credit to households and businesses. This accommodation will be maintained “as long as it is required”.

> The Board will not increase the cash rate target until progress is being made towards full employment and it is confident that inflation will be sustainably within the 2–3 per cent target band.

https://www.rba.gov.au/media-releases/2020/mr-20-15.html

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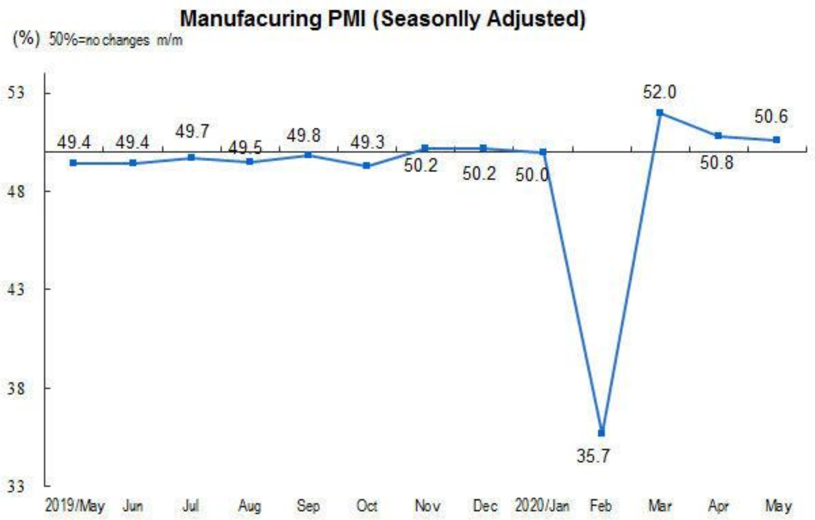
China

NBS Manufacturing PMI (May)

The headline PMI indicated that manufacturing activity continued grow compared to the prior month but at a marginal pace. The PMI of larger enterprises increased at a slightly faster pace, medium enterprises declined at an accelerated pace and growth among small enterprises slowed.

<u>Headline PMI – month</u>; May 50.6 versus Apr 50.8



The production index remained little changed at 53.2, slowing only slightly compared to the month prior. New orders continue to grow at a slightly faster pace, but growth remains marginal. Employment declined in May after slight growth in Apr.

Of most note is that the new export orders index remains deeply in contraction at 35.3 in May. There was some improvement from the 33.5 recorded in Apr. This indicates that global demand remains weak.

The import index contracted again in May with the index falling to 45.3 – suggesting that domestic demand also continues to weaken somewhat.

The lower growth of the purchase quantity index (slowing down to 50.2 in May) supports the view of anaemic growth this month.

The business expectations index increased at a much faster pace to 57.9 in May.

NBS Non-Manufacturing PMI (May)

The headline PMI indicted that non-manufacturing activity continued to grow at a faster pace in May. The increase was led by faster growth in the construction index, but services business activity also increased at a marginally faster pace.

> From the perspective of industry categories, the business activity index of retail industry, catering industry, railway transportation industry, air transportation industry, telecommunication, radio and television satellite transmission service and Internet software information service were more than 55.0 percent, and that of culture, sports and entertainment industry and capital market service were less than 45.0 percent.

<u>Headline Non-Manufacturing PMI – month;</u> May 53.6 versus Apr 53.2

Half of the sub-indexes making up the non-manufacturing PMI remain in contraction this month.

The sub-indexes continuing to grow include; new orders, which increased at a slightly faster pace to 52.6. The business activities expectations index increased to 63.9 in May – the highest reading from the last year. The supplier delivery index also increased at a faster pace.

Declining this month;

Sales price index at 48.6 – indicating that demand remains an issue as prices fall.

Employment declined at a similar pace in May compared to Apr at 48.5.

The foreign new orders index also declined in May, but at a slower pace of decline with the index at 41.3.

Unfilled orders continued to decline (at the same pace as most months in the last year).

The stock index also declined in May.

http://www.stats.gov.cn/english/PressRelease/202006/t20200601_1753274.html

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Trade

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-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

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 of 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

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

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

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