

## Key Themes

A big week of data and central bank meetings.

US highlights this week will be:

Regional readings of manufacturing for Jul – important to see how activity is tracking after the Jun rebound.

Initial and continuing claims will remain in focus – especially the Pandemic Unemployment Assistance claims which have been rising quickly over the last few weeks.

The prelim consumer sentiment for Jul will be released, providing some important insight into the impact of rising infections across the South and the West (especially) on consumer sentiment and spending intentions.

Retail sales and CPI for Jun.

Industrial production for Jun which will provide more detail around the Jun PMI's and factory orders data.

In Australia, the labour market survey for Jun will be released.

China Q2 GDP will be released this week, along with the remaining Jun data including retail sales, industrial production, and fixed asset investment.

Rates decisions by the BoJ and the ECB.

Purchases of Treasury and Mortgage securities are incomplete for the week – the full schedule for operations will be released on 13 Jul. Last week, the NY Fed purchased approx. \$21.8bn in Treasury Securities (prior week \$7.8bn, prior week before that \$19.6bn) and approx. \$22.8bn in MBS (prior week \$18.1bn and prior week before that \$22.8bn).

This week, the US Treasury will settle approx. \$438bn in ST bills, Notes and Bonds raising approx. \$31bn in new money.

## US Treasury Issuance & QE

This week, the US Treasury will settle approx. \$438bn in ST bills, notes and bonds, raising approx. \$31bn in new money.

The Q3 estimate for total net new money raised is \$677bn.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
13-17 Jul	09-Jul	14-Jul	4 week bill	40			Completed		
	09-Jul	14-Jul	8 week bill	40			Completed		
				80	180	-100			
	08-Jul	14-Jul	154-Day CMB	30			Completed	9127965C9	Matures 15 Dec
	08-Jul	14-Jul	105-Day CMB	25			Completed	9127964K2	Matures 27 Oct
	14-Jul	16-Jul	43-Day CMB	35			Announced	912796XG9	Matures 27 Aug
	14-Jul	16-Jul	119-Day CMB	35			Announced	912796Z21	Matures 12 Nov
				125		125			
	13-Jul	16-Jul	13 week bill	54			Announced		
	13-Jul	16-Jul	26 week bill	51			Announced		
	14-Jul	16-Jul	52 week bill	34			Announced		
				139	173	-34			
	07-Jul	15-Jul	3yr note	46			Announced		
	08-Jul	15-Jul	10yr note	29			Announced		
	09-Jul	15-Jul	30yr bond	19			Announced		
				94	54.37	39.63			
			<b>Total - securities settling this week</b>	<b>438</b>	<b>407.37</b>	<b>30.63</b>			
			<b>QTR to date totals</b>	<b>758</b>	<b>707</b>	<b>51</b>		8%	
			<i>Treasury Estimate for Q3 2020 (BN)</i>			<i>677</i>			
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>					
		14-Jul	Bills	6.66					
		15-Jul	Notes, Bonds & TIPS	7.46					
		16-Jul	Bills	18.72					
				32.84					

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

## QE PROGRAMS

Operation schedules for the next four weeks will be released on 13 Jul 2020. The details below are incomplete as a result:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 13 Jul	\$1.75bn	\$4.665bn
Tue 14 Jul	\$tbc	\$tbc
Wed 15 Jul	\$tbc	\$tbc
Thur 16 Jul	\$tbc	\$tbc
Fri 17 Jul	\$tbc	\$tbc
Total Announced Purchases	\$tbc (last wk. \$21.825bn)	\$tbc (last wk. \$22.81bn)

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](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## REPO OPERATIONS

Several changes were announced with the new schedule: adjustment of the 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 14 Jul 2020 - TBC		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 13 JULY 2020

---

## MONDAY 13 JULY (US Eastern Time)

---

---

## TUESDAY 14 JULY

---

US	CPI (Jun)
Aus	NAB Business Conditions & Confidence (Jun)
Europe	Eurozone Industrial Production (May) ECB Rates Decision
Japan	Industrial Production – Final (May) BoJ Rates Decision
China	Trade Balance, Exports and Imports (Jun)

---

---

## WEDNESDAY 15 JULY

---

US	MBA Mortgage Applications wk ending 10 Jul, NY Empire State Manufacturing Index (Jul), Industrial Production (Jun)
----	--

---

---

## THURSDAY 16 JULY

---

US	Initial (10 Jul) and Continuing Jobless Claims (3 Jul), Retail Sales (Jun), Philadelphia Fed Manufacturing Survey (Jul), NAHB Housing Market Index (Jul)
China	GDP Q2 Prelim, Industrial Production, Retail Sales & Fixed Asset Investment (Jun)
Aus	Labour Market Survey (Jun)

---

---

## FRIDAY 17 JULY

---

US	Building Permits & Housing Starts (Jun), University of Michigan Consumer Sentiment Prelim (Jul)
Europe	Eurozone CPI (Jun)

---

---

## Trade & Brexit

---

### US-China Trade Talks

It has been unofficially observed that there was a low chance of a phase two trade deal being completed between the US and China. This week, that position was made somewhat more official:

President Trump damped expectations for a promised phase-two trade pact with China on Friday, saying the relationship between the countries has been too badly damaged by the coronavirus pandemic.

The economic fallout from the pandemic also made it increasingly unlikely that China would meet its targets for expanded purchases of U.S. goods under the phase-one deal, fueling further doubts about prospects for new talks. <https://www.wsj.com/articles/trump-pessimistic-on-phase-two-china-trade-deal-11594400326>

It was only recently that USTR Lighthizer acknowledged the second phase of the trade deal in testimony to the House Ways & Means Committee (Jun 2020).

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

As a part of the push to localise production, the US is considering further stimulus for manufacturing. This could have far wider effects than just an 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>

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 recent testimony, USTR Lighthizer referred to the second phase trade deal negotiations 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 negotiations were originally planned to commence around Apr/May this year. There is no indication of the timing for the start of phase two negotiations 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](https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf)

## US-Europe Trade Talks

USTR Lighthizer noted in recent testimony of the intention to continue to pursue negotiations with the EU. This still seems some way into the future – after US elections.

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

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

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

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

### Digital Services

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

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

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

The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation>

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

and

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



## Background

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

[https://ustr.gov/sites/default/files/01.11.2019\\_Summary\\_of\\_U.S.-EU\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)

## **Section 232 – Car and Truck Imports**

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

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

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

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

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

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

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

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

The USTR has announced an investigation into various digital services taxes that have been implemented or have been 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>

## 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://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 recent testimony 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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)

## BREXIT

Rounds of ‘intensive’ negotiations between the EU and UK have commenced. These were 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.

[https://www.japantimes.co.jp/news/2020/06/29/world/eu-uk-brexit/#.Xvlra5MzY\\_U](https://www.japantimes.co.jp/news/2020/06/29/world/eu-uk-brexit/#.Xvlra5MzY_U)

The face to face negotiations have so far not appeared to make much progress. This is raising concerns (again) for businesses over the potential disruption from a 'crash out' style exit.

Analysts at Berenberg said they do not see a Brexit deal being reached by the end of the year, putting a 60% chance on negotiators switching focus to "limit the immediate economic and social disruptions" of a crash-out exit on 31 December.

Michel Barnier, Europe's top Brexit negotiator, said on 30 June there was "no way member states or the European Parliament would accept" the UK's bid to smooth access to European markets for London's financial district after it leaves the EU. The UK's chief negotiator David Frost said on 2 July that there remained "significant differences" between the two sides "on a number of important issues".

<https://www.fnlondon.com/articles/fears-of-a-brexit-crash-out-return-to-haunt-the-city-20200706>

Link to the EU draft is embedded in the release;

[https://ec.europa.eu/commission/presscorner/detail/en/IP\\_20\\_447](https://ec.europa.eu/commission/presscorner/detail/en/IP_20_447)

The UK negotiating objectives;

[https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/868874/The\\_Future\\_Relationship\\_with\\_the\\_EU.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/868874/The_Future_Relationship_with_the_EU.pdf)