

Key Themes

This will be a big week of data, the US FOMC meeting, key US earnings reports, and important guidance on the extension of the CARES Act/Federal unemployment insurance funding, as expiration of the programs approach at the end of the week.

It is anticipated that the Republicans will table a further stimulus bill including the extension of Federal unemployment programs this week. The current programs are due to expire on 31 Jul. The bill is likely to also include a National extension of the initial four-month moratorium on rental evictions (affecting approx. 12m people).

The FOMC will meet on Tue and Wed with the policy announcement on Wed.

Data highlights this week:

US – prelim Q2 GDP, the final consumer sentiment for Jul, the first view of durable goods orders for Jun and the initial, continuing, and Pandemic unemployment insurance claims.

There will be a heavy schedule of earnings releases to be aware of this week. Of note will be Thurs (US EST), which will include Amazon, Alphabet and Apple.

More information: <https://twitter.com/eWhispers/status/1287004960304095232>

Eurozone prelim Q2 GDP

Japan industrial production for Jun – important given how weak the PMI's have been. There is likely to be some improvement.

Aus Q2 CPI.

The schedule of US Fed purchases of Treasury and Mortgage-Backed Securities will be updated as of 27 Jul. Purchases had been tracking back up around the \$20bn/week level.

US Treasury issuance will remain heavy, but the net new money raised will be relatively low. The US Treasury will auction and/or settle approx. \$481bn in ST bills, notes, bonds and TIPS this week, raising approx. \$20bn in new money.

US Treasury Issuance & QE

US Treasury issuance will be heavier this week. Despite the larger total issuance (\$481bn), the total new money raised this week is relatively low – ‘only’ \$20bn.

The US Treasury will auction and/or settle approx. \$481bn in ST bills, notes, bonds and TIPS this week, raising approx. \$20bn in new money.

Approx. \$40bn in securities will mature on the Fed balance sheet this week and will be rolled over.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
27-31 Jul	23-Jul	28-Jul	4 week bill	30			Completed		
	23-Jul	28-Jul	8 week bill	35			Completed		
				65	150	-85			
	22-Jul	28-Jul	154-Day CMB	30			Completed	9127965F2	Matures 29 Dec
	22-Jul	28-Jul	105-Day CMB	25			Completed	9127964R7	Matures 10 Nov
	28-Jul	30-Jul	120-Day CMB	30			Announced	9127963B3	Matures 27 Nov
	28-Jul	30-Jul	42-Day CMB	30			Announced	912796TJ8	Matures 10 Sep
				115	0	115			
	27-Jul	30-Jul	13 week bill	54			Announced		
	27-Jul	30-Jul	26 week bill	51			Announced		
				105	178.2	-73.2			
	23-Jul	31-Jul	10yr TIPS	14			Completed		
	27-Jul	31-Jul	2yr Note	48			Announced		
	28-Jul	31-Jul	2yr FRN	24			Announced		
	27-Jul	31-Jul	5yr Note	49			Announced		
	28-Jul	31-Jul	7yr Note	44			Announced		
	22-Jul	31-Jul	20yr Bond	17			Completed		
				196	132.8	63.2			
			Total - securities settling this week	481	461	20			
			QTR to date totals	1,549	1,481	68			
			<i>Treasury Estimate for Q3 2020 (BN)</i>			<i>677</i>			
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
	28-Jul		Bills	6.40					
	30-Jul		Bills	12.20					
	31-Jul		Notes & Bonds	20.10					
	31-Jul		FRN	2.20					
				40.90					

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

QE PROGRAMS

Operation schedules for the following two weeks will be released on 27 Jul 2020. Data below is incomplete:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 27 Jul	\$1.75bn	\$5.573bn
Tue 28 Jul		
Wed 29 Jul		
Thur 30 Jul		
Fri 31 Jul		
Total Announced Purchases	\$tbc (last wk. \$20.775bn)	\$tbc (last wk. \$23.792bn)

Links to Operation Schedules -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ombs_operation_schedule

REPO OPERATIONS

Several changes were announced with the new schedule: adjustment of 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 28 Jul 2020	25 Aug 2020	28-Days	\$500bn

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

SWAP LINES

Announcements; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>
<https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

WEEK COMMENCING 27 JULY 2020

MONDAY 27 JULY (US Eastern Time)

US	Durable Goods Orders (Jun), Dallas Fed Manufacturing Survey (Jul)
----	---

TUESDAY 28 JULY

US	S&P/CaseShiller House Price Index (May), Richmond Fed Manufacturing Survey (Jul)
----	--

WEDNESDAY 29 JULY

US	Mortgage Applications wk ending 24 Jul US FOMC Rates Decision
----	--

Japan	Retail Trade (Jun)
-------	--------------------

Aus	CPI Q2
-----	--------

THURSDAY 30 JULY

US	Initial Jobless Claims (24 Jul), Continuing Claims (17 Jul) and PUA, GDP Q2 – Prelim
----	--

Europe	Germany Q2 GDP - Prelim
--------	-------------------------

Japan	Industrial Production Prelim (Jun)
-------	------------------------------------

FRIDAY 31 JULY

US	Personal Income, Consumption Expenditure and PCE Price Index (Jun), Chicago PMI (Jul), University of Michigan Consumer Sentiment – Final (Jul)
----	--

Europe	Eurozone CPI (Jul), Eurozone GDP Q2 - Prelim
--------	--

China	Manufacturing and Non-Manufacturing PMI (Jul)
-------	---

Aus	Private Sector Credit (Jun)
-----	-----------------------------

Trade & Brexit

US-China Trade Talks

There appeared to be a further break-down of US and China relations last week. The US announced the closure of the Chinese Consulate in Houston. The Chinese government, in turn, announced the closure of the US Consulate in Chengdu.

Tensions have been rising over several issues:

President Donald Trump's administration has clashed repeatedly with Beijing over trade and the coronavirus pandemic, as well as China's imposition of a controversial new security law in Hong Kong.

<https://www.bbc.com/news/world-asia-china-53522640>

As well, a speech by US Secretary of State, Mike Pompeo during the week further inflamed tensions - "Communist China and Free World's Future" <https://www.state.gov/communist-china-and-the-free-worlds-future/>

The Chinese foreign ministry denounced the speech:

"Pompeo made a speech in which he made a malicious attack on the Chinese Communist Party," Mr Wang said, adding: "To this, China expresses strong indignation and resolute opposition."

<https://www.bbc.com/news/world-asia-china-53522640>

It has been unofficially observed that there was a low chance of a phase two trade deal being completed between the US and China. That position has been 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>

BREXIT

Rounds of 'intensive' negotiations between the EU and UK have commenced. The talks will alternate between Brussels and London for five weeks through Jul and Aug.

The latest round of negotiations last week yielded no progress:

The two sides completed their latest round of negotiations in London on Thursday without being able to agree on the basic outlines of a deal to reassure businesses about the future, which Boris Johnson had said in June should be possible.

<https://www.theguardian.com/politics/2020/jul/24/germany-calls-on-uk-show-more-realism-brexite-negotiations>

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-brexite/#.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.fnlonon.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

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

The following trade items have recorded no change in status:

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-idUSKBN1XTOIK>

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%202020>

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

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

US-Europe Trade Talks

USTR Lighthizer 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

““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

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://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