MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 20 July 2020

Key Themes

The prelim PMI's for Jul show that there have been mixed results in the pace of improvement in private sector activity and output.

The important point is the context of these PMI results from Apr, May, Jun, and Jul. The May to Jul activity is coming off extremely low levels of activity. The low point was Apr when most firms reported declines in activity/output due to closure/restriction of non-essential activity.

If firms are re-opening (or restrictions are lifted), then why haven't PMI's rebounded into the 60's or even 70's? Only two PMI's in Jul suggest that re-opening has resulted in a stronger output rebound: UK manufacturing output 59.8, UK services output 56.6 and Aus services output 58.8.

The pace of the rebound in output among the other PMI's has been slow.

The US composite PMI for Jul is at 50 – only a small improvement from Jun. Services firms indicate output is still declining slightly, on net. Manufacturing output recorded the first month on month increase in five months. Employment was unchanged.

The Kansas City Fed manufacturing survey indicated a shift to at least moderate growth in region for Jul. This survey provides the year on year diffusion index – which indicates that 60% of firms in the region still recorded a decline in production versus a year ago.

High frequency employment data for the US was mixed. The seasonally adjusted initial claims increased in the month for the first time in four months, but the non-seasonally adjusted data indicated an improvement. The big picture though is that even at the week ending 4th Jul (when the latest wave of infections was emerging), the total number of people claiming unemployment insurance for both state and federal programs was still over 31m people.

The PMI's for Japan are most concerning. Both manufacturing and services output continue to decline at a similar pace to Jun, indicating little if any improvement in conditions. Employment declined at a faster pace.

Across the Eurozone there was a moderate lift in the number of private sector firms (likely) reporting higher output and activity – the first month on month increase since Feb 2020. Again, context is important. Overall output expansion of around 54 indicates a low level of growth considering the severity of the output fall when the composite output PMI fell to 13.6 in Apr.

The UK composite PMI was stronger and probably one of the better results of the group. The lifting of more restrictions in Jul has resulted in faster growth in output especially across services. The manufacturing output PMI jumped up to 59.8 – which is also a better result. This is clearly an improvement, but growth is likely generated from a low level of activity (which is why the PMI's "should" all be higher). It is telling though that employment continued to contract – and at a faster pace in Jul. Despite the better results for the UK this month, commentary was downbeat:

Despite the restart of more parts of the service economy, especially leisure-related businesses, there were also reports that initial levels of demand had been weaker-than-expected.

The Aus results were mixed. Services output was stronger, showing a likely broader resumption of growth. Manufacturing output increased for the first time in a year. Given how severe the decline was in Apr/May (which indicates that most manufacturing firms recorded declines in output and activity), the headline expansion remains only moderate into the second full month of lifted restrictions. The PMI expansion level needs to be taken in context of just far output fell between Mar and May. Again, it is a telling sign that employment levels continued to be reduced on net in Jul – across both manufacturing and services. A more severe outbreak in infections in one of the larger states (Vic) may result in weaker growth in the following months. As a result, many states have slowed down how quickly restrictions (especially on-premise food etc) have been lifted.

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US Data

Initial Jobless Claims (18 Jul), Continuing Claims (10 Jul) and PUA

After some signs last week that declines in initial and continuing claims might be stalling, the data is more mixed this week. The seasonally adjusted initial claims were higher for the week ending 18 Jul – the first increase in four months. But the non-seasonally adjusted data was more positive – with a decline in initial and continuing claims. The 12-18 Jul is the BLS reference week for the next employment survey.

> The total number of people claiming benefits in **all programs for the week ending July 4 was 31,802,715, a decrease of 200,615 from the previous week**. There were 1,725,953 persons claiming benefits in all programs in the comparable week in 2019.

Initial Claims (SA) – wk ending 18 Jul: 1,416,000 people (+116k increase in initial claims versus the week prior)

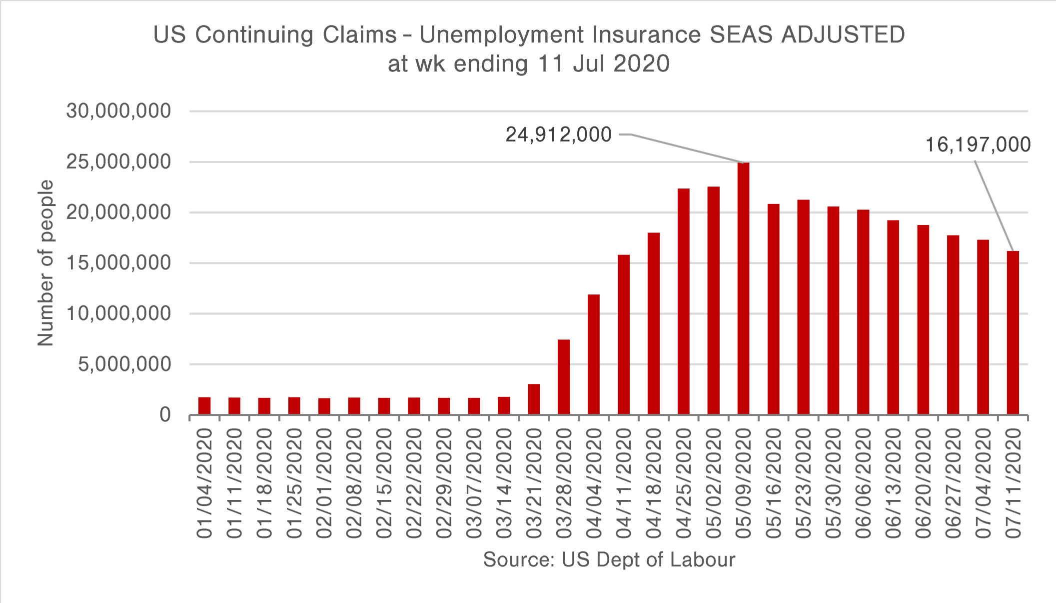
The NSA initial claims were lower after increasing notably in the prior week ending 18 Jul: 1,370,947 claims (this was -132k lower than in the week prior).

The seasonally adjusted trend in initial claims weekly changes continued this week, with the pace of decline now shifting back to an increase. The NSA results have diverged this week.

Continuing Claims (SA) – wk ending 11 Jul 2020: 16,197,000

This represented a larger decline in continuing claims of -1,107,000 people – a positive result.

The NSA continuing claims also showed a similar -1m decline in the number of continuing claims in the state-based programs.



The bigger states recorded lower levels of continuing claims for the wk ending 11 Jul:

California -222k persons to 2,729,281 continuing claims

Florida -223k persons to 692k continuing claims

Georgia -97k persons to 696k continuing claims

New York +21k persons to 1,541,735 continuing claims

Texas -44k persons to 1,268,945 continuing claims

PANDEMIC UNEMPLOYMENT ASSISTANCE

PUA Initial Claims (NSA) wk ending 18 Jul 2020: 974,999 new claims, this is a +20k increase on the week prior

PUA continuing claims (NSA) – wk ending 4 Jul 2020: 13,179,880

The continuing claims for the federal program was also lower by just over -1.1m continuing claims. Note the time lag – and this could be due to the initial reopening leading up the 4th July holiday.

Pandemic Emergency Unemployment Claims were slightly higher again in the wk ending 4 Jul: 940k claims.

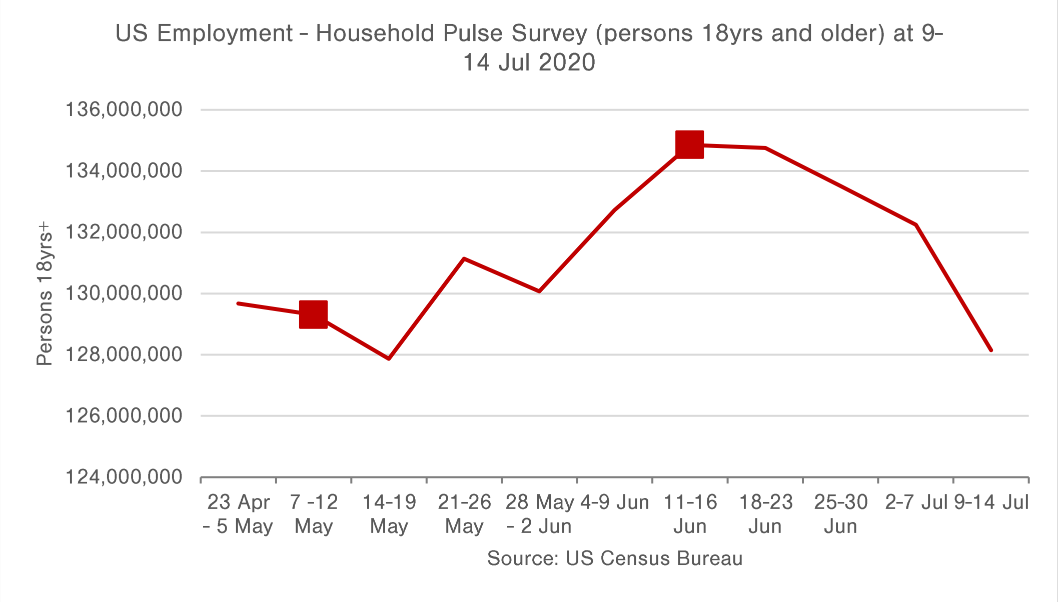
https://www.dol.gov/ui/data.pdf

US Weekly Household Pulse Survey (employment) 9-14 Jul 2020

The household pulse survey indicated a further large fall in employment in the week of 9-14 Jul. There are only eleven (11) weeks of data – so there could be some noise.

The period of this week's pulse survey has just started to pick up the BLS employment reference week 12-18 Jul – the two survey time periods do not line up perfectly.

Employed last 7-days (during wk 9-14 Jul): -4,102,693 persons compared to the week prior



In the last four weeks, this survey has indicated that there has been approx. 6.7m less employed people (compared to the week of 11-16 Jun, roughly the last BLS reference week).

This week, those stating they were employed in the last 7-days declined across all sectors: government, private companies, non-profits, self-employed, and family business.

https://www.census.gov/programs-surveys/household-pulse-survey/data.html

US Markit Manufacturing & Services PMI Prelim (Jul)

The headline composite output index for private sector firms in Jul indicated that on net, there was an even split of firms reporting higher and lower levels of activity. This was still an improvement from Jun when the number of firms reporting lower activity outnumbered the firms reporting higher activity. The pace of increase remains moderate.

Both manufacturing and services output improved but services output likely remained negative.

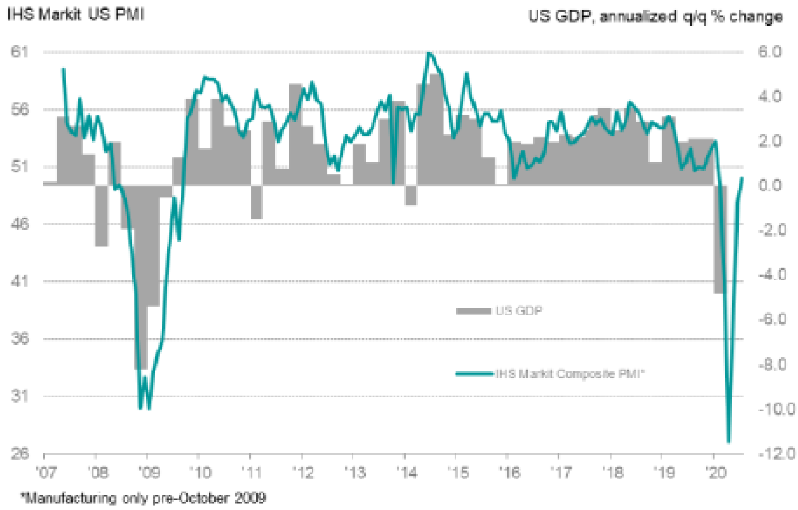
> Moreover, a renewed acceleration in the rate of loss of new business raises concerns that demand is faltering. Many companies, notably in consumer-facing areas of the service sector, linked falling sales to re-imposed lockdowns.

Headline Composite Output Index: prelim Jul 50 versus Jun 47.9

This index measures the month on month change in the number of firms reporting higher, no change, or lower activity. It does not indicate the levels of output recorded by these firms, especially after the shutdown/restricted trade.

Data collected July 12-23

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

<u>Services Business Activity Index</u>: prelim Jul 49.6 versus Jun 47.9

There was a slower pace of decline this month. The headline index indicates that its likely that the number of firms reporting lower services output still outnumbered the number of firms reporting higher output – albeit less than in the month prior.

Unfortunately, more firms started to record lower levels of new business this month. The index declined at a faster pace.

Despite the fall in new orders, there was still a small increase in employment (more firms reported higher employment than lower employment).

Business confidence continued to improve among service providers amid hopes of an end to the pandemic.

<u>Manufacturing PMI:</u> prelim Jul 51.3 versus Jun 49.8

Manufacturing output increased at a faster pace this month with the output index increasing from 47.5 in Jun to 52.1 in Jul. This means that the number of firms reporting higher output was larger than the number of firms reporting lower output – the first such increase in five months.

More firms also reported an increase in new business. The index increased for the first time in five months also.

Backlogs continued to decline, but at a slower pace. It will likely take some time before the pace of new orders is high enough such that firms will be working back at full capacity.

Employment was broadly unchanged.

“…firms noted the return of furloughed workers and the hiring of new employees, others remained cautious due to historically muted demand conditions and the ongoing uncertainty surrounding the pandemic.”

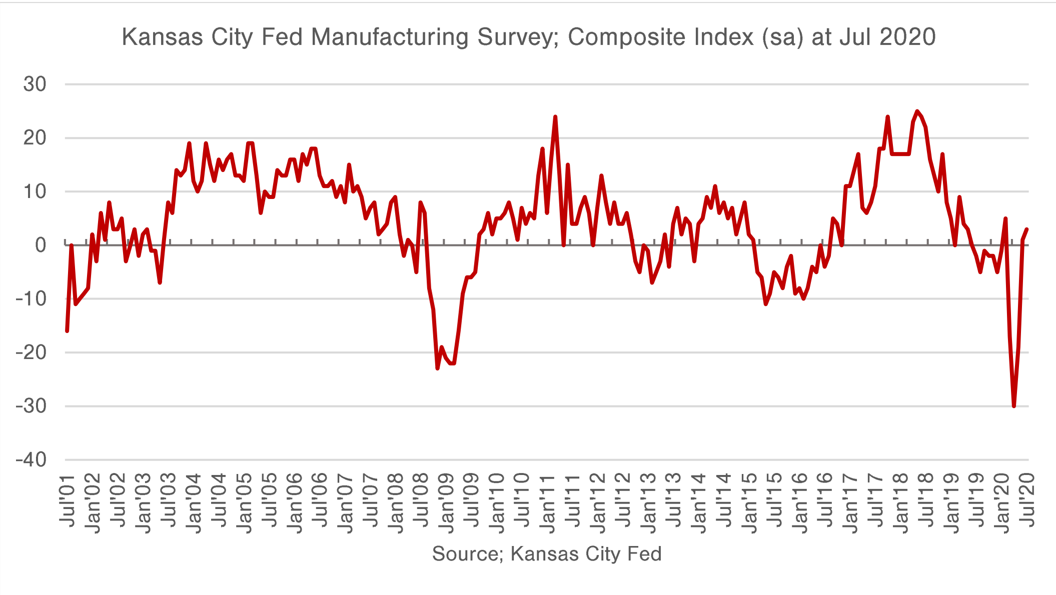
https://www.markiteconomics.com/Public/Home/PressRelease/d8a7828357ff4185a3842d2c21278366

Kansas City Fed Manufacturing Index (Jul)

There was a further, albeit marginal, improvement in manufacturing activity in Jul. The composite manufacturing index shifted into positive territory this month indicating that now at least a slight majority of firms are reporting broader increases in manufacturing activity. Most of the month on month sub-indexes recorded increases. But the year on year results remain mostly negative.

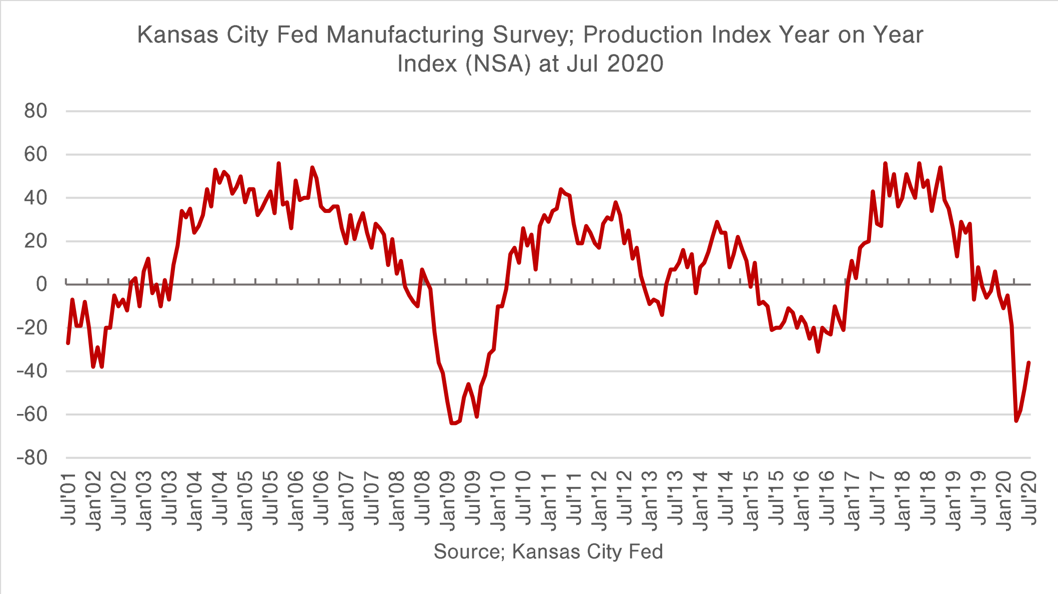
The improvement in activity was still driven by non-durable goods plants. However, activity in most durable goods factories also improved except for continued decreases in fabricated metals and computer and electronics plants.

Headline Composite Manufacturing Index (month on month): Jul 3 versus Jun 1



Production levels improved this month, with the index increasing from 2 in Jun to 7 in Jul. The non-seasonally adjusted index shows that there is almost an even 1/3 split between firms recording increases, no change, or decreases in production in Jul.

The year-ago index shows that approx. 60% of firms in the survey recorded a year-on-year decline in production. It is also worth noting that production levels were already declining versus a year ago prior to the start of the pandemic:



"Business recovery is extremely slow. Running out of improvement projects. Will have to cut staff significantly unless business activity rebounds soon, or additional government employment incentives are implemented."

The volume of new orders increased slightly this month from 7 in Jun to 9 in Jul. There is also a relatively even split in the NSA monthly index among firms recording increases, no change, or decreases in new order volumes. The year-ago index shows that 57% of firms still recorded a year-on-year decline in orders in Jul.

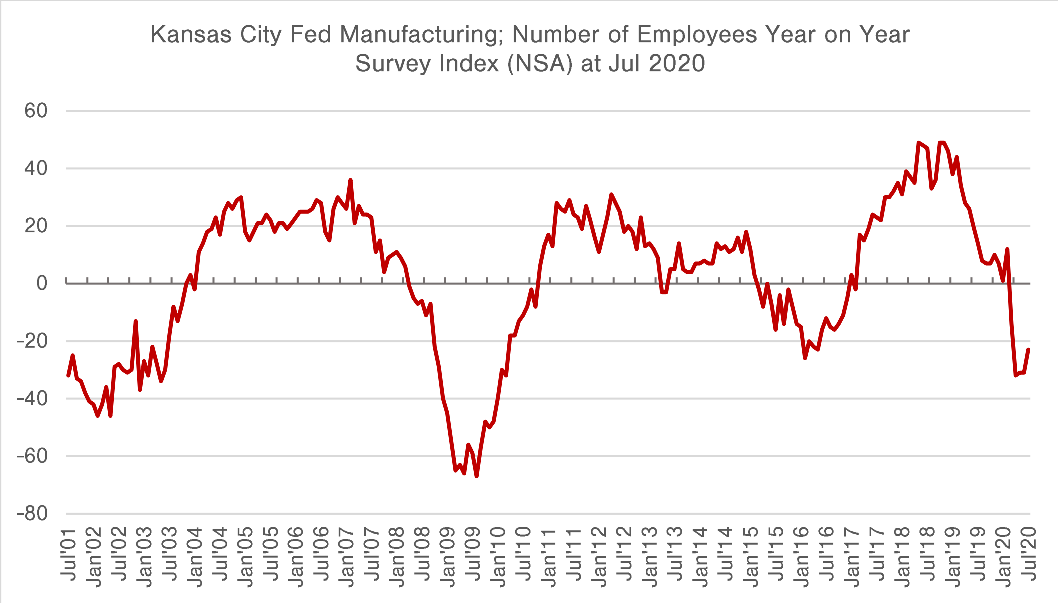
New export orders continued to decline and at a slightly faster pace in Jul. Most firms, 76%, recorded no change in export orders compared to Jun. On a year ago basis, orders are still lower and only 8% of firms recorded a year on year increase in new export orders. Most firms, 59%, recorded no change to export orders.

Order backlogs improved notably with the index increasing from -24 in Jun to 2 in Jul. On an NSA basis, the index is still declining and the number of firms reporting lower backlogs still outnumbers the firms reporting higher backlogs. The year-ago index is still negative and over half of the firms in the survey recorded lower order backlogs versus a year ago.

The number of employees improved from -6 in Jun to 3 in Jul. But still, most firms, 54%, reported no change to employment.

"PPP saved us initially. It has all been utilized and a second round would be welcomed. If that doesn't occur, further cuts will be made."

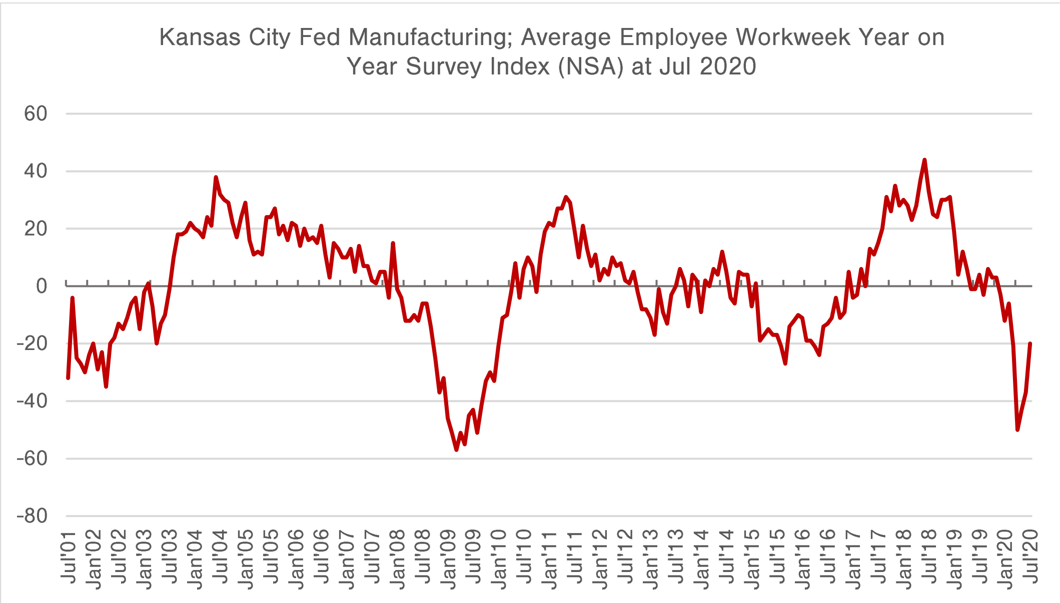
The year on year index is the most telling in terms of how much employment has (not) improved versus a year ago – there is still a long way to go to reclaim the Feb 2020 levels:



The was no change to the slight expansion in the average employee workweek in the month on month indexes: Jun 3 versus Jul 3. Most firms (61%) recorded no change in the average workweek.

"PPP funding allowed working hours and head count to remain the same for the last 12 weeks."

But the year on year index shows that there has been more improvement – but note that hours were already trending below a year ago before the pandemic was declared:



Approx. 41% of firms recorded no change in the workweek versus a year ago and 40% still recorded a declined in average hours versus a year ago.

https://www.kansascityfed.org/~/media/files/publicat/research/indicatorsdata/mfg/2020/kansascity-fed-manufacturing-survey-20200723.pdf?la=en

Mortgage Applications wk ending 17 Jul

Mortgage applications increased this week – with both purchase and refi activity increasing versus the week prior.

Market Composite Index (mortgage loan application volume) wk ending 17 Jul: +4.1% versus the week prior.

The refi index increased by 5% versus the week prior and is +122% ahead of the same week a year ago. The share of refi activity increased slightly from 64.2% last week to 64.8% in the latest week ending 17 Jul.

The purchase index (a measure of the number of loans finalised and a leading indicator of home sales) increased by 2% versus the week prior and is 19% ahead of the same week a year ago.

> "There continues to be strong homebuyer demand this summer, as home shoppers have returned to the market in many states. Purchase activity increased again last week and was up 19 percent compared to last year - the ninth straight week of year-over-year increases."

https://www.mba.org/2020-press-releases/july/mortgage-applications-increase-in-latest-mba-weekly-survey-x271261

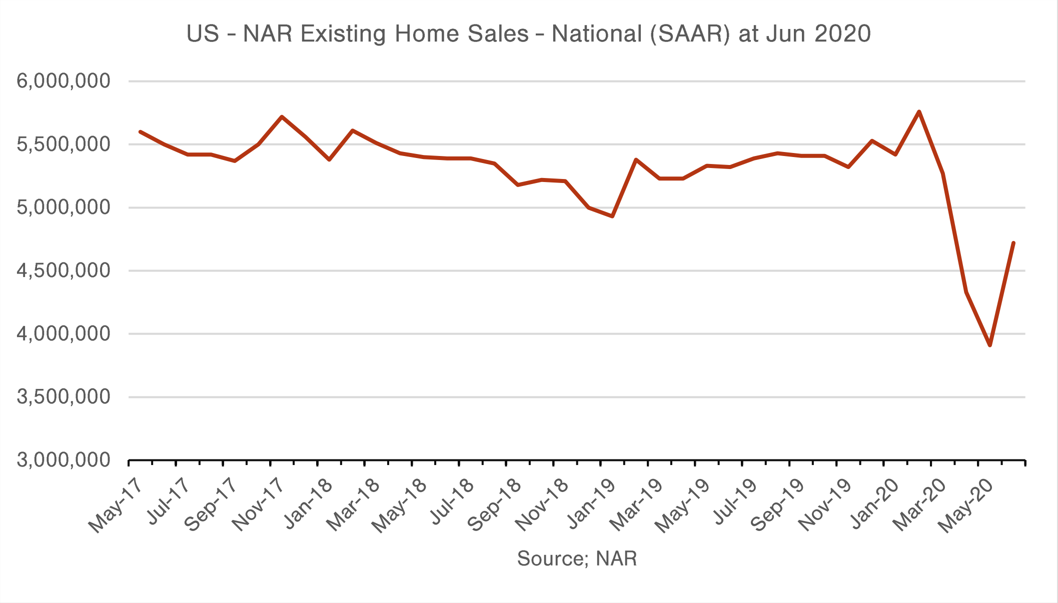
Existing Home Sales (Jun)

Existing home sales increased by 20% in Jun after three consecutive months of decline. The SAAR of sale in Jun was still 11% below the same month a year ago.

The two regions generating the most growth in Jun was the South and the West. Growth in the Northeast was still low and growth in the Midwest was moderate. The question is whether existing home sales growth in the South and West will be maintained now that there has been a wider virus outbreak in those regions in Jul.

The housing market conditions index for Jul (last week) indicated that sales in the Northeast may start to lift.

Existing Home Sales – SAAR: Jun 4.72m (+20%) versus May 3.91m

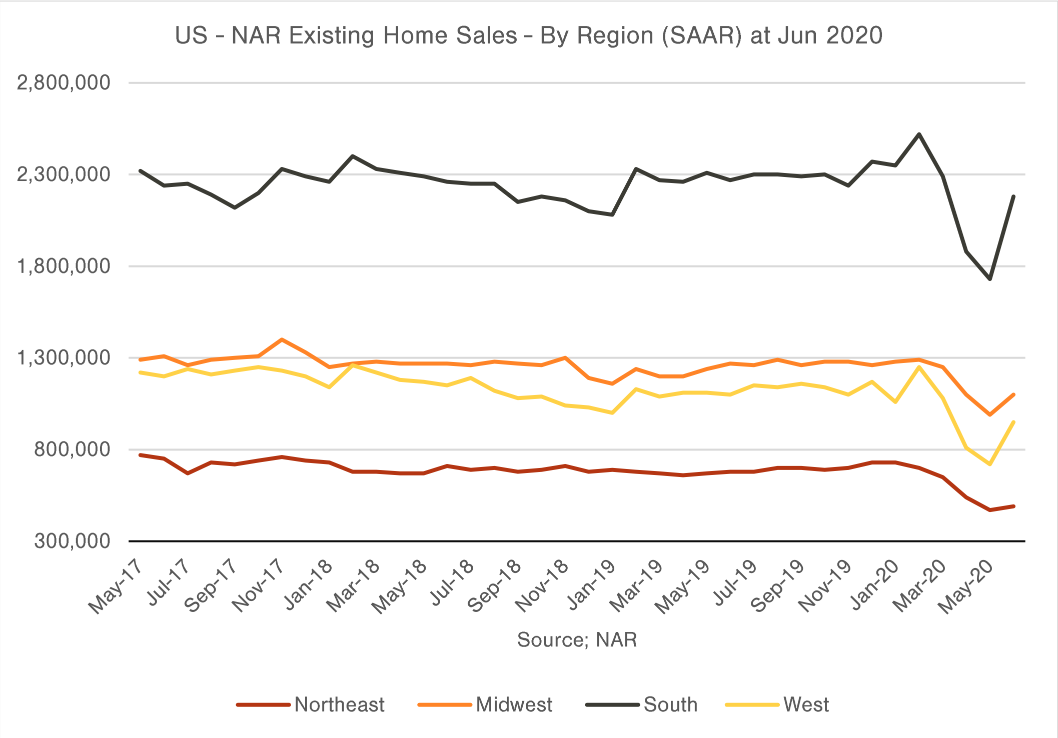


The SAAR in Jun was 11% below the same month a year ago – improving from the -27% decline in May.

<u>Regional Performance</u>

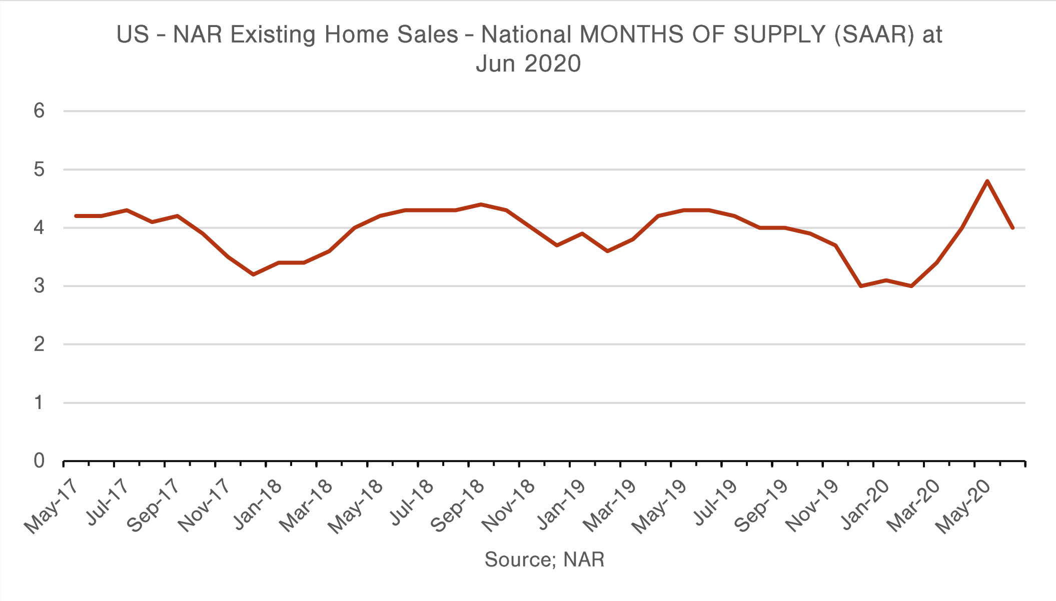
The two key regions driving higher growth this month was the South (+26%) and West (+32%). Sales in the South are now only 4% below the same month a year ago.

Given the wider outbreak in infections in these regions in Jul, its unclear whether this pace of growth will be maintained.



Sales growth in the Northeast is much lower at +4.3% in Jun and remains 28% below the same month a year ago. Sales in the Midwest were more moderate at +11.1% in Jun.

Given the lift in sales this month, the month's of supply rate came down (more in-line with recent trends), but inventory still increased by +1.3% in the month:



https://www.nar.realtor/research-and-statistics/housing-statistics/existing-home-sales

New Home Sales (Jun)

The estimated seasonally adjusted annual rate of sale of new homes increased further, rising to the fastest pace of the last several years.

A note of caution: results are based on sample data and the 90% confidence interval is provided. If a range (the confidence interval) does not contain zero, the change is statistically significant. If it does contain zero, the change is not statistically significant; that is, it is uncertain whether there was an increase or decrease.

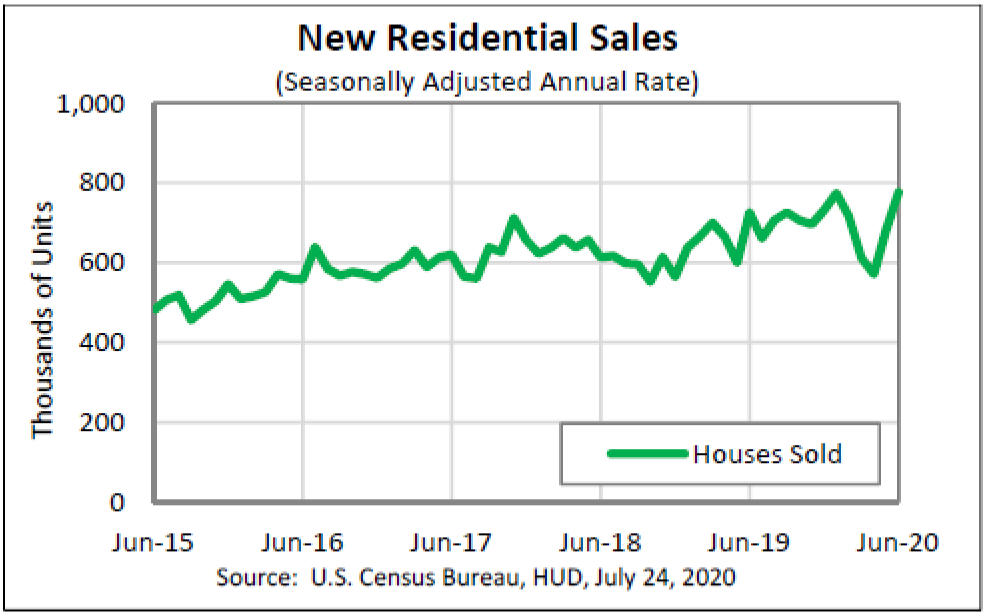
It takes four months to establish a trend.

New Home Sales – SAAR: Jun 776k (+13.8%) versus May 682k (revised up from 626k)

The 90% confidence interval for the month of Jun for the +13.8% increase was +/- 17.8% pts. As this is greater than the actual increase, the interval includes zero, so the change is not statistically significant.

This is also true for the annual change in Jun of +6.9%. The 90% confidence interval is +/- 13.7% pts – which contains zero and is therefore not statistically significant.

The regional results are all similar. The 90% confidence intervals for the regional results all contain zero this month. This makes it uncertain that there was an increase in the month.



The Census Bureau cautions that it takes four (4) months to establish a trend. This month, there were some larger (lower) revisions to the Mar and Apr reported sales. Feb was revised higher (pre-pandemic).

The revisions to the SAAR of new home sales for the four prior months as of the June report are:

Jun – prelim: 776k

May: 682k (revised higher from 626k reported in May)

Apr: 571k (revised lower from 679k reported in May)

Mar: 612k (revised lower from 705k reported in May)

Feb: 716k (revised higher from 669k reported in May)

https://www.census.gov/construction/nrs/pdf/newressales.pdf

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Europe

Eurozone Markit Manufacturing & Services PMI Prelim (Jul)

There was a more notable increase in the headline composite output index this month and the first month on month growth since Feb 2020. This means that it is likely that more manufacturing and services firms were recording an increase in activity in Jul than in Jun. An increase in both services and manufacturing output contributed to the increase in the month.

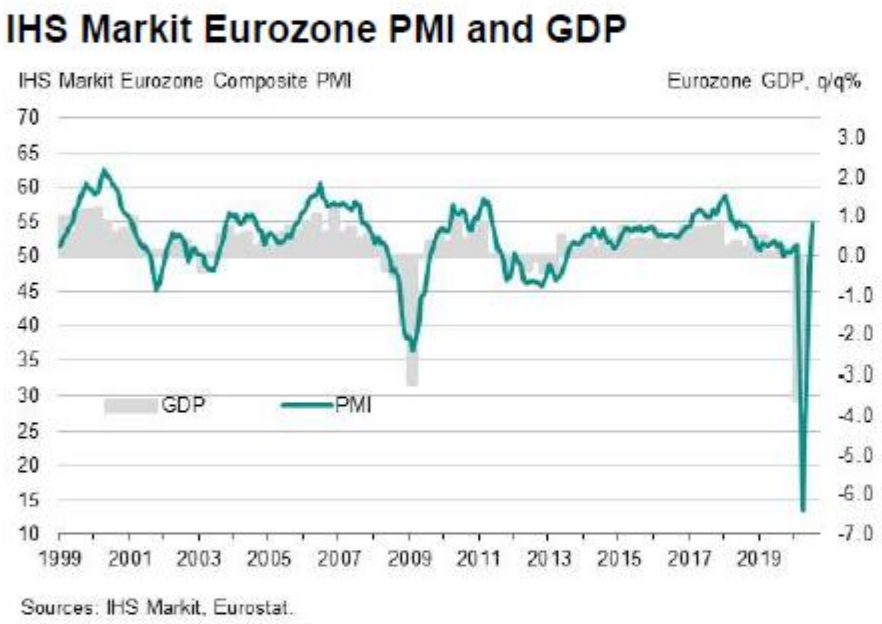
> However, the upturn in new orders was less marked than that recorded for output, thanks in part to a further loss of export sales, leading to an ongoing depletion of backlogs of work during the month.

The PMI level expansion (54.8) is still only moderate considering that the output PMI fell to such a low level back in Apr, likely creating a large output deficit for the year.

The low Apr PMI of 13.6 would indicate that (approx.) 80% of firms may have recorded declines in output that month. While there has been a further improvement this month, the PMI of 54.8 in Jul does not indicate that, even just by virtue of reopening, have most firms recorded increases. It is likely that there is now a roughly even (but not exactly) split among firms reporting increases, no change, or declines in output versus the month prior. The important point is that the context of these PMI results from Jun and Jul is that they are coming off a much lower base than prior to the pandemic shutdowns.

The PMI's do not provide any sense of how firms are tracking regarding the degree of improvement.

Headline Eurozone Composite PMI: prelim Jul 54.8 versus Jun 48.5



Services Business Activity Index; prelim Jul 55.1 versus Jun 48.3

This was the first month on month increase in services output. The index likely indicates that the firms reporting increases outnumbers the firms reporting decreases for the month.

It was also the first month on month increase in orders. But order backlogs continued to decline, but at a slower pace. This likely means that order growth is starting to fill some of the excess capacity.

Despite the improvement in activity, firms continued to reduce employment.

Margins continued to come under pressure as input costs increases and output costs continued to decline.

Manufacturing PMI: prelim Jul 51.1 versus Jun 47.4

The output index increased this month from 48.9 in Jun to 54 in Jul. This was the first month on month increased in manufacturing output since Jan 2019. The increase was still low considering the severity of the output fall during the pandemic shutdowns, as well as the fall in production through 2019.

New orders increased month on month for the first time since Sep 2018. But new export orders continued to fall.

Despite the increase in orders, order backlogs continued to decline. This suggests that faster growth in orders is still required for firms to reach capacity.

Despite the headline month on month increase in output, employment continued to decline and at a faster pace. In other words, the firms that reduced employment still likely outnumbered those firms that increased employment in the month.

Both input and output prices declined, albeit at a slower rate.

> "The concern is that the recovery could falter after this initial revival. Firms continue to reduce headcounts to a worrying degree, with many worried that underlying demand is insufficient to sustain the recent improvement in output. Demand needs to continue to recover in coming months, but the fear is that increased unemployment and damaged balance sheets, plus the need for ongoing social distancing, are likely to hamper the recovery."

https://www.markiteconomics.com/Public/Home/PressRelease/cd490e8574cd4ffabd5b0896839d48d3

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Japan

Merchandise Trade (Jun)

All values in ¥

Weaker global demand is still impacting exports, but there are some small signs of improvement. At best, there has been a slightly slower pace of annual decline across most export markets. There was a small increase in exports in Jun (seasonally adjusted basis) and this is only the third month where a month-on-month increase in exports has been recorded in the last year.

The weak export performance across some markets (US, Europe) is likely impacting the weaker domestic manufacturing activity. The main highlight from the export performance is the continued weakness of exports to the US (which used to be equally as large an export market as China) – still down -46.6% versus a year ago. This is across all sectors. This has improved marginally from the -50% decline recorded in May.

Total exports to China are only coming back on par with a year ago – the largest export market.

Import performance is mixed. Most of the import decline is linked back to the fall in petroleum imports/fall in prices. But imports across most other categories still declined. There are still pockets of weakness (in volume terms), especially across some intermediate inputs. There has also been a notable slowdown in the volume of motor vehicles imported as of Jun.

Japan Merchandise Trade Balance (Deficit) Jun 2020

The non-seasonally adjusted merchandise trade balance was a deficit of 268.8bn in Jun 2020.

A year ago, that was a trade surplus of 588.1bn.

While both imports and exports have fallen versus a year ago, the decline in exports has been larger – resulting in the shift from surplus to deficit (versus the year ago result).

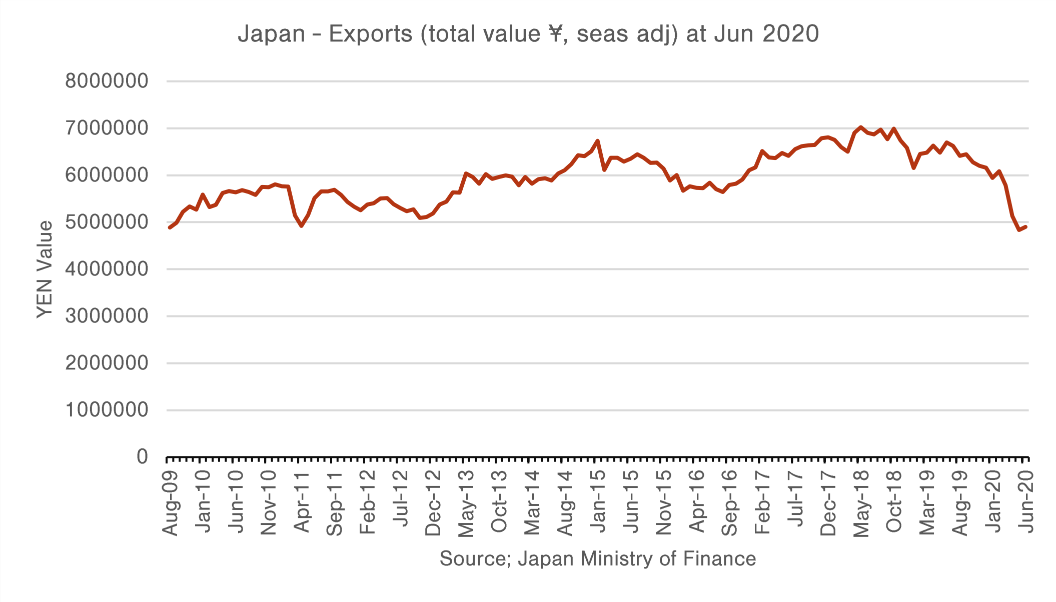
EXPORTS

Exports (Yen value) – annual change (Not seasonally adjusted) Jun 20: -26.2%

The annual decline in the value of exports was -28.3% in May.

On a seasonally adjusted basis, there was a small lift in the month on month growth in exports +1.4% in Jun versus May – after three consecutive months of declines. In the last year, there has only been three months where exports increased versus the month prior.

On a seasonally adjusted basis, the annual decline in exports accelerated to -26.8% in Jun.



Exports by Region

The following is based on non-seasonally adjusted data and % changes are versus the same month a year ago.

The single largest export market for Japan is China. Exports to China are now almost on par with that of a year ago; -0.2% in Jun (versus -1.9% in May). There was a larger increase in exports of manufactured goods (iron, steel, non-ferrous metals) and transport equipment.

Exports to the rest of Asia were mixed. Exports to ASEAN countries was still down -35% versus year ago.

It used to be that the value of exports to both China and the US were on par, but exports to the US have basically halved versus a year ago. In Jun, the value of exports is still -46% below that of a year ago (in May it was -50.6%). Exports are still down substantially across every sector. The largest is transport equipment which exports to the US is down -60.4% versus a year ago (in May it was down -76%).

Exports to Western Europe are also still down by -30.9% versus a year ago. Germany is the largest export market in that group and the value of exports is still down by -30%.

Exports by Commodity

The three largest exports by share are: machinery (20.7%), electrical machinery (18.6%), and transport equipment (18.4%).

The decline in transport equipment exports is so large, that it is making the largest contribution to the overall decline in exports.

Transport equipment exports are down -41% (motor vehicles -50% versus a year ago) – contributing -9.5% pts of the overall decline in exports.

Machinery exports are down -24% versus a year ago – contributing -5.5% pts to the overall decline. Semiconductor machinery recorded the smallest decline within the group of -6.6%.

Electrical machinery exports are down 18.5% versus a year ago and contributed -3.1% pts to the headline decline in exports. This is a faster annual decline than that recorded in May. Semiconductor exports are the least worst in the group, with exports declining by -7.8%.

All other areas recorded declines versus a year ago:

Manufactured goods -25%, others -22.6%, foodstuffs -3.3%, raw materials -20%, mineral fuels - 53%, and chemicals -14.2%.

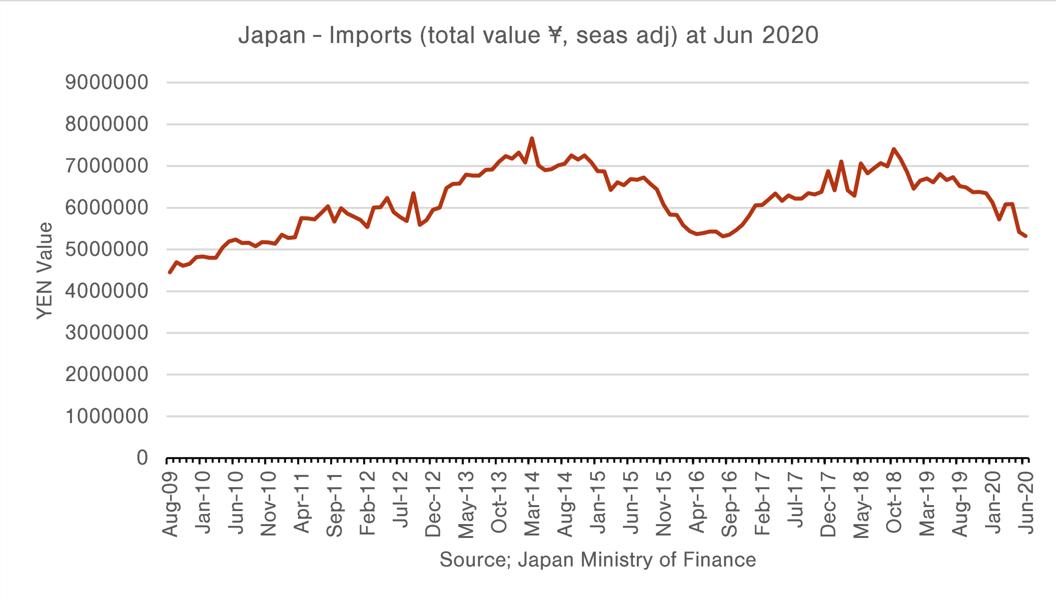
IMPORTS

Imports (Yen value) – annual change (Not seasonally adjusted) Jun 20: -14.4%

The annual decline in the value of imports was -26.2% in May.

The single largest contributor to the annual decline in imports has been the fall in the value of mineral fuel (energy) imports due to the fall in oil/oil related prices. This is also the case this month.

On a seasonally adjusted basis, there was a continued decline in the month on month change in imports -1.8% in Jun versus May. On a seasonally adjusted basis, the annual decline in imports was little changed at -20.1% in Jun (-20.4% in May).



Imports by Region

The largest import market is China and imports are up slightly by +0.8% versus a year ago. This was led by three categories only: manufactured goods (textiles & yarns +70%) +7.6%, machinery (computers & units +38.4%) +12.3%, and electrical machinery (telephone & telephone sets+21.3%) +4.6%.

Imports from the broader ASEAN group are still down by -11.8%.

Imports from the US are still down -12.2%, which is improved from the -27.5% decline in May. US imports were only positive across two sectors: raw materials (iron ore & soya beans) +4.6% and chemicals +27.8%. Declines were still recorded across all other sectors, but a slower pace of decline than in May, so there was likely some month on month improvement.

Imports from Europe are still down by -10%, but this was an improvement over the -31% decline recorded in May.

Imports from the Middle East are still down by -61% versus a year ago. This is also a small improvement from the -76% decline in May.

Imports by Commodity

Of the -14.4% decline in imports in Jun versus a year ago, the single largest contributor to that decline was mineral fuels, which was -9.9% pts of the headline -14.4% decline.

But excluding that decline, imports were still down versus a year ago across most other sectors. The exception was chemical imports +9.6% and machinery +2.6% (computer units).

The annual decline in transport equipment imports deteriorated from -56% in May to -58% in Jun. Motor vehicle imports fell harder in Jun -75% on a quantity basis. In May motor vehicle imports were -50% on a quantity basis.

There are still some pockets of weakness in imports. In volume terms, some notable declines are: irone ore & concentrates -32%, iron & steel products -18%, non-ferrous metals -20.7%, power generating machinery -30.4%, computer parts -19.1%, and insulated wires -23%.

https://www.customs.go.jp/toukei/latest/index_e.htm

Markit Composite PMI Prelim (Jul)

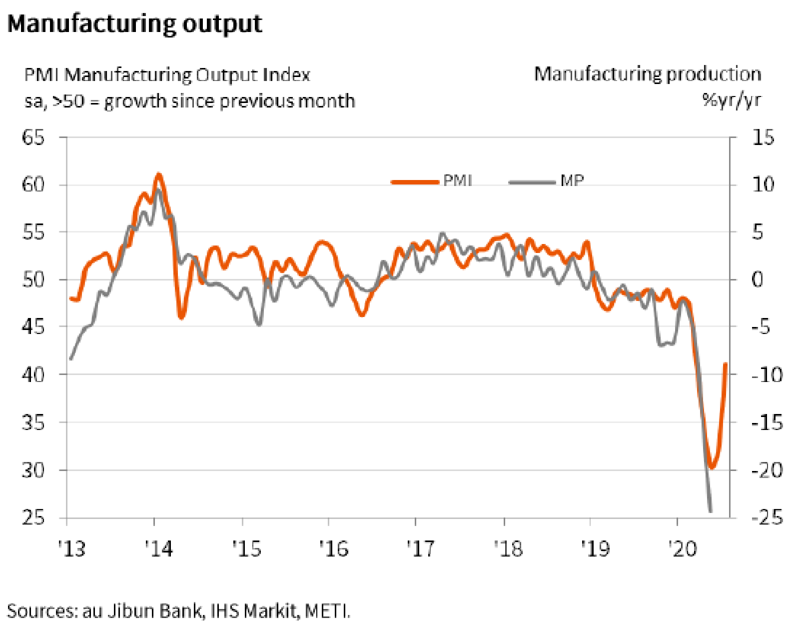
There was little change in the headline output indexes for Japanese private sector output in Jul. Both manufacturing and services output continued to decline in Jul and the outlook for future output growth became more negative, led by services firms.

Services business activity was little changed from Jun. Manufacturing output declined, but likely at a slower pace.

> *"As the economy remained mired in a downturn, companies sought to contain costs and survive the pandemic by cutting jobs. Employment continued to fall in July, with factory jobs reduced at a sharper rate than seen in the service sector. Rising unemployment adds to fears that consumption may weaken in the coming months.*

Manufacturing Output Index; Jul 41.2 versus Jun 32.3

The headline manufacturing PMI increased slightly (but remaining negative) from 40.1 in Jun to 42.6 in Jul.



Both production and new orders continued to decline at "substantial rates". Meaning that most firms likely still recorded further declines in output and orders. New export orders also continued to decline but at a slower pace.

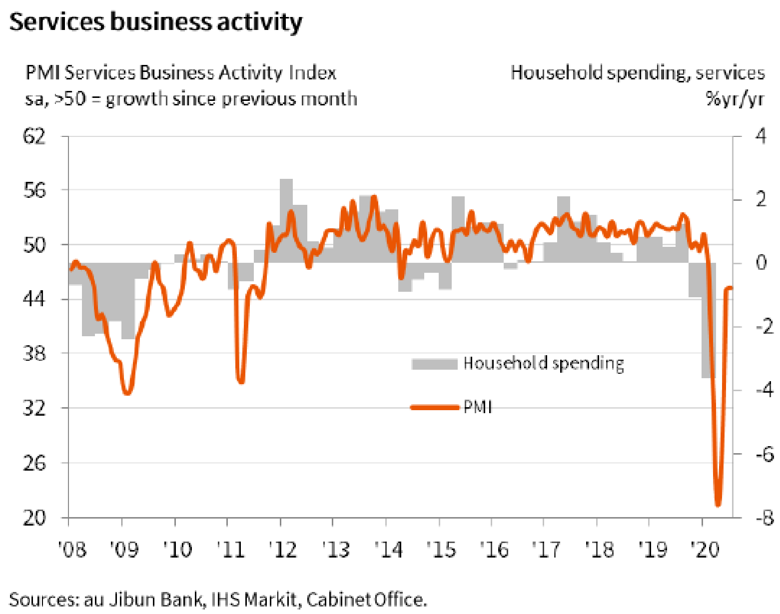
Work backlogs continued to decline, but at a slower pace.

Employment in manufacturing declined at a faster pace.

Firms continued to run down inventory and purchasing activity. Inventory of finished goods declined at a faster pace – this is likely positive for future output growth.

The outlook for future output growth remained negative, but at least improved versus Jun.

<u>Services Business Activity Index</u>: Jul 45.2 versus Jun 45



The headline decline indicated that services output continued to decline in Jul and at a similar pace as in Jun. New business also continued to contract but at a slower pace. New export work declined at a faster pace.

The backlogs of work declined at a faster pace – indicating ongoing presence of spare capacity. As a result, employment declined at a faster pace.

Firms became even more negative on their outlook for output growth.

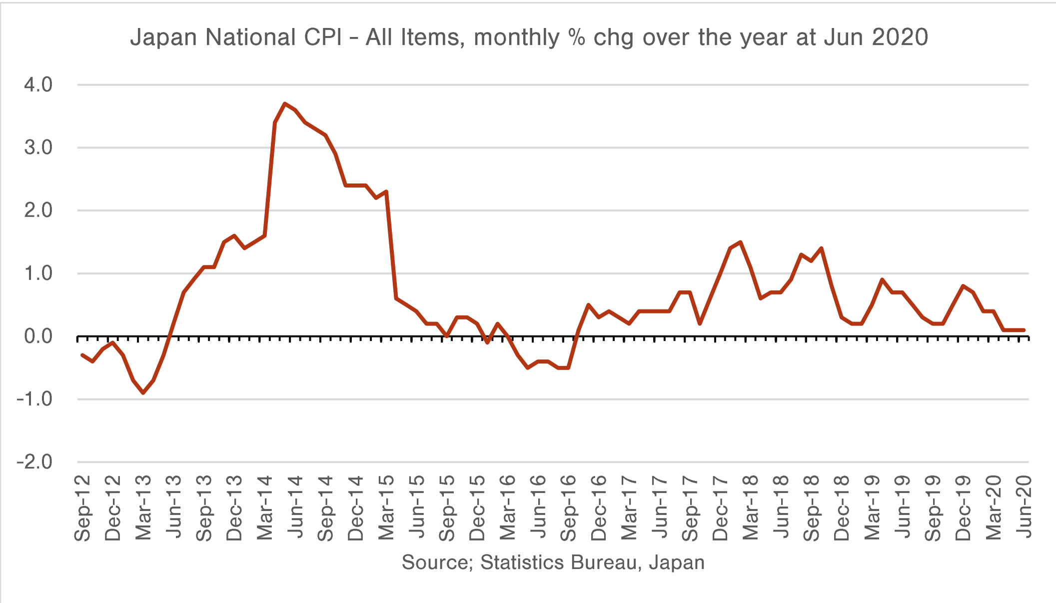
https://www.markiteconomics.com/Public/Home/PressRelease/356bc4d64ba94c1e97e9fba21987d36e

Japan National CPI (Jun)

The annual all-items CPI growth rate remained constant in Jun. The core CPI measure excluding fresh food was unchanged at 0% growth after declining slightly on an annual basis in the two prior months.

The pace of growth in consumer prices remains extremely low and is well below the 2% target set by the BoJ. The trend of price growth does not appear to be increasing.

<u>All-items CPI – annual change</u>: Jun +0.1% versus May +0.1%



To say that there is no or low growth in consumer prices ignores some of the price growth across several important categories. There is some influence from the Oct sales tax increase – but this impact is both positive and negative.

Consider that the largest weight item in the CPI index is food (26%). This month food price growth slowed from +2.1% in May to +1.5% in Jun. This pace of growth is still well above the headline all-items level. Fresh food, which is 4% of the CPI index weight increased by +3.2% in Jun after a +5.8% increase in May.

The second largest weight item in the index is housing (21%). Annual growth in housing was +0.7% in Jun – also above the all-items CPI growth. This pace of growth accelerated from +0.2% back in Sep 2019 to this higher +0.7% to +0.8% growth level. Then, if you exclude imputed rents (which comes down to a 4% index weight), annual housing price growth is much higher at +2.2%.

Household furniture is only a 3% weight in the index. But growth in prices accelerated to +3.1% in Jun from +1.7% in May. Price growth has been accelerating since mid-2018.

Clothing is 4% weight in the index. Annual price growth is mostly steady around +1.3% - there is an obvious impact on price growth from Oct 2019 due to the sale tax increase.

Recreation and culture prices (10% weight in the index) are increasing at an annual pace of +1% - but this is a slower pace of growth.

Several categories are offsetting these pockets of higher price growth.

Education – which is only 3% of the index weight, but prices are declining by -10% on an annual basis. This deceleration in prices also appears related to the sales tax increase.

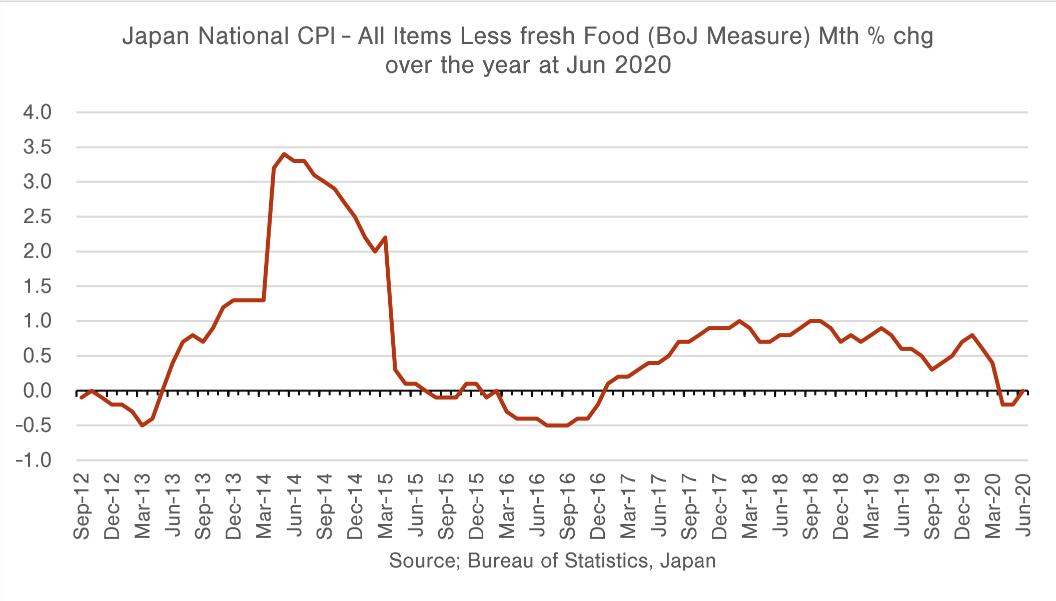
Energy prices are approx. 8% weight of the index and prices are declining by -5.3% on an annual basis.

Fuel, light and water charges (7%) of the index, are declining at an accelerated pace of -2%.

Another large weight in the index is transport & communication – 15% weight. Prices across this group are declining by -0.5%. But within that group, private transportation price declines (-2.5%) are offsetting the increases of public transport prices +3.4% and communication prices which shifted from -0.7% in May to +1.8% in Jun.

Finally, misc prices which is 6% of the index weight is declining by -3% on an annual basis – there is also an obvious impact (shifting from positive to negative) around the Oct 2019 sales tax increase.

All-items CPI ex Fresh food (BoJ Measure of core CPI) – annual change: Jun 0% versus May -0.2%



https://www.stat.go.jp/english/data/cpi/1581-z.html

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United Kingdom

Retail Sales (Jun)

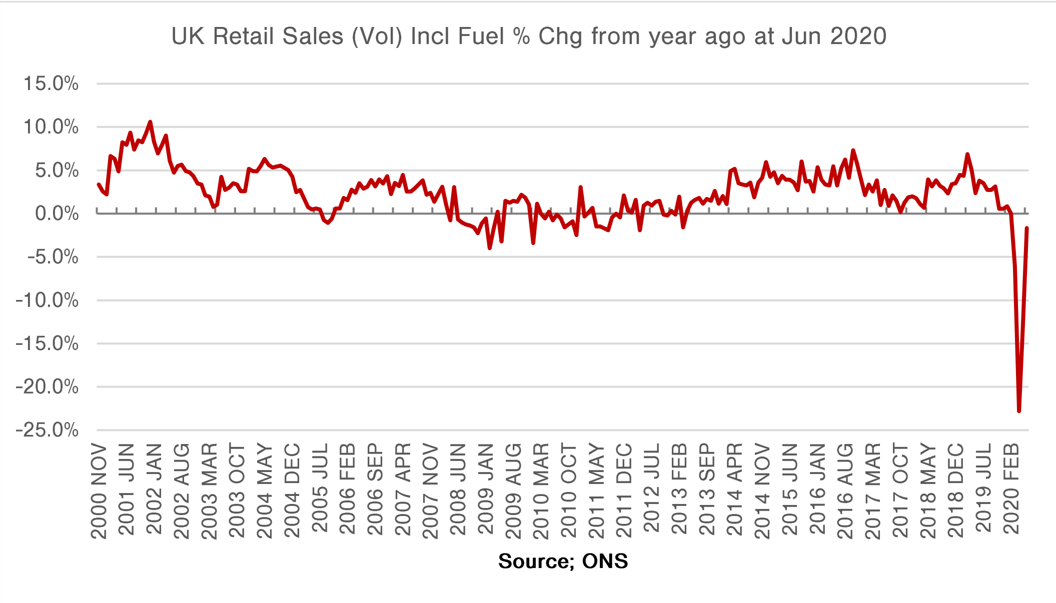
Retail sales increased for the second month in Jun. In volume terms, sales are almost back on par with the same month a year ago.

While government restrictions were in place for non-essential stores from mid-March, this lifted with the government's recent recovery strategy and many stores were able to start trading again in June 2020.

Retail Sales – month change: Jun +13.9% versus May +12.3%

Food and non-store retailing sales remain strong. The rebound in fuel and non-food retailing (in total) is just commencing.

On an annual basis, the lift in total retail sales during May and Jun has resulted in Jun sales now only -1.7% below the same month a year ago.



https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/june2020

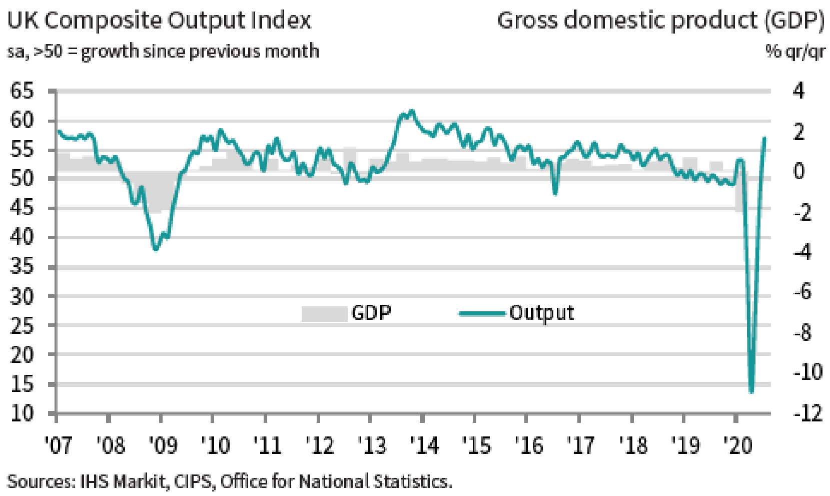
Markit Manufacturing and Services PMI Prelim (Jul)

The headline composite output PMI shifted from contraction to expansion in Jul as the easing of lockdown restrictions came into effect.

The increase in the output index indicates that the number of firms reporting an increase in output now outnumbers the number of firms reporting decreases in output. This is clearly an improvement, but growth is likely being generated from a low level of activity. **It is again telling that employment continues to contract.**

The headline composite PMI fell to 13.8 at its lowest level in Apr – indicating that most firms reported declines when the economy was shutdown (or, at best 13.8% of firms reported increases, the remaining reported declines or no change from the month prior). The headline index of 57.1 in Jul, indicates that, at best, 57% of firms reported increases – which means the remaining 43% either reported no change from the lower levels of the month prior or still recorded further declines. This is one of the better PMI results in this prelim report.

Headline Composite Output Index: prelim Jul 57.1 versus Jun 47.7



Services Business Activity Index: prelim Jul 56.6 versus Jun 47.1

The comment in the report of a '60-month high' in the PMI output index is somewhat misleading – as it does not reflect that growth is coming off a low base. Given that many service providers were able to reopen, it just seems like the number of firms reporting higher output should be much higher.

> Despite the restart of more parts of the service economy, especially leisure-related businesses, there were also reports that initial levels of demand had been weaker-than-expected.

Employment continued to be reduced:

> Latest data indicated another rapid drop in staffing levels across the service sector and the rate of decline accelerated since June. Around one-in-three survey respondents (34%) reported a fall in employment during July, while only 10% signalled an increase. There were again widespread reports that extremely weak demand had resulted in prolonged use of furlough arrangements and redundancy programmes running in parallel.

Manufacturing PMI: prelim Jul 53.6 versus Jun 50.1

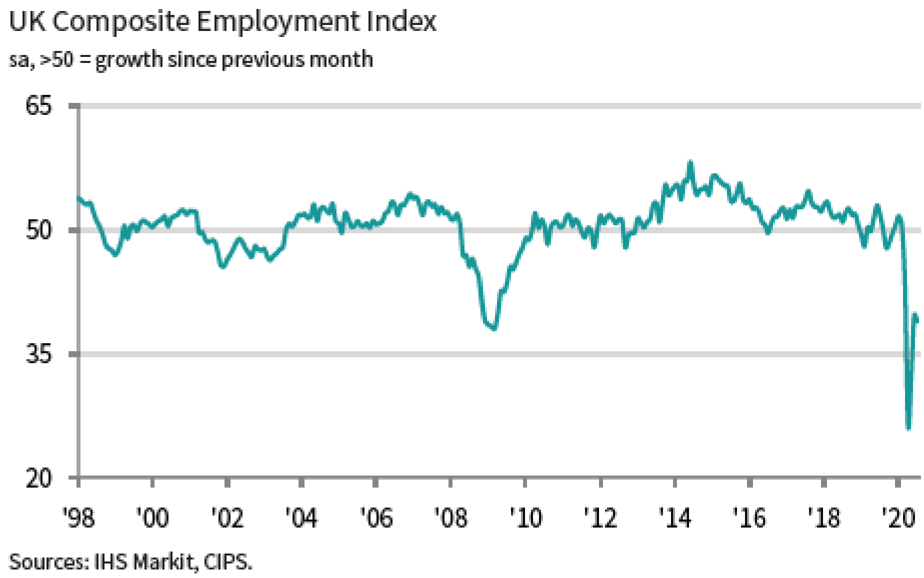
The output index increased from 50.7 in Jun to 59.8 in Jul. This is probably one of the stronger results for manufacturing this month. It indicates that even more firms likely reported higher output this month than last month. At its worse level, the manufacturing output index was 16.6 in Apr.

New orders recorded the first month on month increase in five months.

Despite the improvement in output, employment continued to fall.

Employment – Composite

At the composite level, employment growth continued to decline – and at a slightly faster pace than the month prior. Despite what looks like a sharp return to growth, this is likely coming off a low level.



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Australia

RBA Minutes – Meeting 7 Jul 2020

There were no changes made to policy settings at this meeting.

Two important aspects from these minutes.

The first is the admission that, although conditions are not currently as bad as forecast, the Aus economy was "experiencing the biggest economic contraction since the 1930's". An important admission likely aimed at ensuring an ongoing focus by the government to maintain supporting fiscal measures.

> The Board recognised that the substantial, coordinated and unprecedented easing of fiscal and monetary policy in Australia was helping the economy through this difficult period. It was likely that fiscal and monetary support would be required for some time.

The Board reaffirmed its commitment to supporting growth in jobs, incomes, and businesses.

> This accommodative approach would be maintained for as long as necessary.

The second is the discussion regarding the consideration of unconventional monetary policy measures, including negative interest rates. The Board dismissed these measures as not required.

While there has been a pick-up in activity since the lifting of restrictions, the pace of recovery remains in question. This pace of recovery will depend largely on containment of the virus.

> Uncertainty about the future path of the economy as well as the health situation was continuing to affect the consumption and investment plans of many households and businesses.

<u>Domestic Economic Conditions</u>

While the impacts of the broader community shutdown on spending, production and employment were less severe than originally anticipated, the shock to the economy is still one of the largest since the 1930's depression.

> Nevertheless, the shock to the Australian economy would be the most severe since the 1930s, and the outlook remained highly uncertain as it depended in large part upon containment of the pandemic.

Household consumption is expected to continue to decline in the Jun quarter, partly the result of non-existent international travel and limited availability of personal services. Other areas of retail spending increased due to substitution "away from expenditure where restrictions were applied".

> Mortgage payment forbearance, rental reductions and withdrawals from superannuation balances had also supported household cash flows in the June quarter and into the September quarter. **Superannuation withdrawals had**

> **been significant, equivalent to around 6 per cent of quarterly household income**, with more than 3 million requests filed to date.

Imports were weaker linked to some consumption weakness. Exports of goods were little changed but services exports (international students) declined.

Labour market conditions remain weak, but not as severely impacted as initially forecast. {impact of govt programs?}. The employment to population ratio remains at a low level.

> Payroll data also suggested that the worst of the job losses was likely to have passed.

Housing market conditions were mixed. There is much noise in the data linked to restrictions on auctions, as well as mortgage and rental forbearance. The rental market remained weaker, especially in capital cities.

Investment activity has been subdued in non-mining and residential capex.

> Members noted that uncertainty about job losses had affected the demand for new housing, and building approvals had declined, particularly for apartments.

[But note that 'investment lending' for investment properties has been weaker since before the onset of the pandemic.]

Overall investment (non-mining) is likely to remain weaker given the excess labour market capacity and high degree of uncertainty regarding control of the pandemic.

Monetary Policy Considerations

At this stage, there was no need to adjust the package of policy measures. But this does not rule any possible future changes depending on how the situation evolves.

> Members also reviewed the international experience with other monetary policies and their relevance in the Australian context, as they had done the previous year. These policies included negative interest rates, foreign exchange intervention, the purchase of private sector assets and also direct government financing.

The Board noted "legitimate questions about policy effectiveness of some of these measures".

Negative interest rates in Australia "remain extraordinarily unlikely".

No case for intervention in forex markets.

Reaffirmed importance of retaining a separation between monetary and fiscal policy.

https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-07-07.html

Monthly Retail Sales Prelim (Jun)

The prelim report into retail sales for Jun indicated that sales increased by +2.4% versus the month prior. This is +8.2% higher than the same month a year ago.

The continued increase reflects, to some degree the substitution of sales where some restrictions remain in place (grocery sales versus on-premise & café dining). Sales also reflect the lifting of further restrictions – with a full trading month.

Grocery store sales remain elevated – there was some evidence of stockpiling again in Jun, especially in Vic. But some retailers reimposed purchase limits across several categories.

Jun sales:

> Rises in June 2020 were led by cafes, restaurants and takeaway food services, and clothing, footwear and personal accessory retailing. While some restrictions on trade remained in June, many businesses in these industries saw a full month of trade, having been closed for the first week of May 2020. Turnover in these industries remained below the levels of June 2019.
>
> Household goods retailing fell in June 2020, however this industry continued to trade significantly above the levels of June 2019. Department stores fell 12 per cent following a large rise in May.

https://www.abs.gov.au/ausstats/abs%40.nsf/mediareleasesbyCatalogue/2927B2B34EA54818CA25852E0079A627?OpenDocument

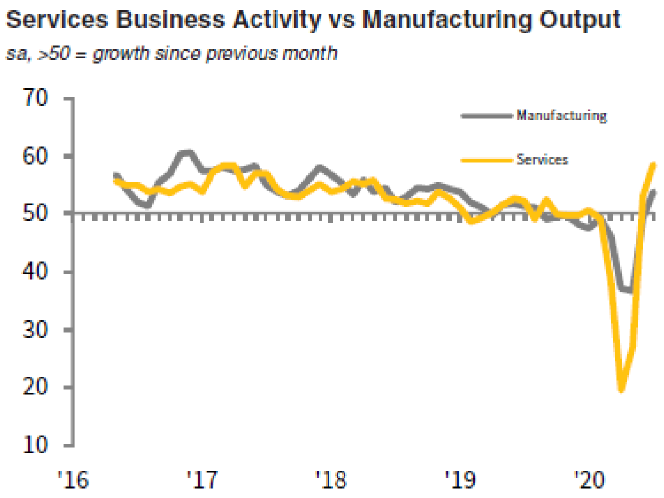
CBA Manufacturing and Services PMI Prelim (Jul)

The increase in the headline composite output index indicated a further expansion in the number of firms recording increases in output in Jul. This is the second month on month increase in output. The pace of expansion was somewhat faster for services than for manufacturing firms.

I would still suggest that, given how severe the decline was in Apr/May (which indicates that most firms recorded declines in output and activity), the headline expansion remains only moderate into the second full month of lifted restrictions (although large parts of Victoria went back into community lockdown). The PMI expansion level needs to be taken in context of just far output fell between Mar and May.

It is telling sign that employment levels continued to be reduced on net in Jul.

Headline Composite Output Index: prelim Jul 57.9 versus Jun 52.7



Services Business Activity Index: prelim Jul 58.5 versus Jun 53.1

The increase in output indicated that more firms were reporting higher output than firms reporting declines. New orders also continued to increase as firms continued to cut output prices.

Despite the month on month growth, employment continued to decline.

Manufacturing PMI: prelim Jul 53.4 versus Jun 51.2

This was the first time the number of firms reporting higher output outnumbered the number of firms reporting lower output in over a year. Which means that there is likely a long way until there is any year on year growth in output.

Similarly, new orders also increased versus the month prior. But new export orders continued to decline – and this suggests that there is still a large gap in the number/value of new orders. The overall month on month increase in new manufacturing orders is possibly happening at a low level.

Its not surprising then that firms continued to reduce employment levels in Jul.

https://www.markiteconomics.com/Public/Home/PressRelease/4e91ee8e6d434a58af134632fdcff5cc

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Trade

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 this 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-brexit-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-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

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-idUSKBN1XT0IK

Details from the Congressional Research Service; https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%2C%20however%2C%20will%20have,effect%20on%20January%201%2C%202020.

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

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

US-Europe Trade Talks

USTR Lighthizer 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

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