MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 13 July 2020

Key Themes

One of the key themes this week is the potentially stalling/slowing recovery in jobs growth in the US. The high frequency data (initial, continuing, and PUA claims and the Household Pulse survey) is showing some signs of slowing.

Regional US manufacturing surveys mostly improved in Jul. There was at least improvement in the number of firms recording new orders growth across both surveys. The Philadelphia Fed survey indicated more stable activity across other key measures rather than a sharp resumption of activity. Unfilled orders across both the NY and Philly Fed surveys still indicate spare capacity across most firms. Most firms still reported no change to employment and hours. The diffusion indexes don't show the scale of the change – it's based on the proportion of firms reporting higher, lower or the same level of activity compared to the month prior.

The Jun US industrial production report showed improved production growth especially for manufacturing sectors. This was consistent with the Jun PMI's and factory orders. Levels of activity are undoubtedly improving. But activity is yet to regain pre-shutdown levels. Capacity utilization is also improving but remains at levels on par with that of mid-2009. The current level of motor vehicle production capacity utilization (still 25% below a year ago) is a big influence on the result, but many other manufacturing industries are also experiencing lower capacity utilization.

Also of note in the industrial production report was that mining production and capacity utilization had fallen further in Jun.

> The index for oil and gas well drilling fell 18.0 percent in June and was about 70 percent below its year-earlier level. For the second quarter, mining output declined 42.7 percent at an annual rate.

Survey data for manufacturing new orders growth indicates some further short-term increase in production. But it is unclear whether this will be strong enough to result in a faster recovery of production and capacity utilization. How quickly this spare capacity is reduced will have implications for how quickly employment, hours and investment improves.

With regard to services output, the question is how much disruption to activity/recovery will there be due to the latest increase in infections?

In Aus, consumer sentiment fell in Jul amid a larger outbreak in one of the most populous states:

> There is likely some loss of confidence regarding the ability to contain the virus and "limiting the extent to which the economy can return to business as usual".

The small "recovery" in US sentiment in Jun was also mostly reversed in the Jul prelim reading especially for expected conditions – citing the potential impact of increased infections on personal finances and the economy.

The US is now on the cusp of the higher unemployment benefit (Federal Pandemic Unemployment Compensation) expiring on 31 Jul without any clarity over an extension. This will affect approx. 25m recipients. Another stimulus bill is likely to be announced in the coming week and it is highly likely that benefits will be extended.

The stimulus checks and enhanced benefits have helped to return US retail sales to annual growth in a short time. Retail sales in Jun were +1.1% ahead of the same month a year ago.

One other area that has continued to improve in the US is housing. The mortgage application data this week indicates that many are taking the chance to refinance based on record low mortgage rates. This obviously boosts income. Housing market conditions have improved across the nation and notably in the Northeast especially.

Contents

US Data

Initial (10 Jul) and Continuing Jobless Claims (3 Jul) and Pandemic Unemployment Assistance (PUA)

There is some evidence this week that employment growth/recovery is stalling amid increasing infections.

Both initial and continuing jobless claims declined on a seasonally adjusted basis. But on an NSA basis, claims within both measures increased in the respective weeks. This is the first increase in initial claims on a weekly NSA basis (after 20 weeks of decline). The pace of decline in initial claims on a weekly basis has been getting smaller and smaller since Apr – indicating that even before the current wave of infections, the level of initial claims remained stubbornly high.

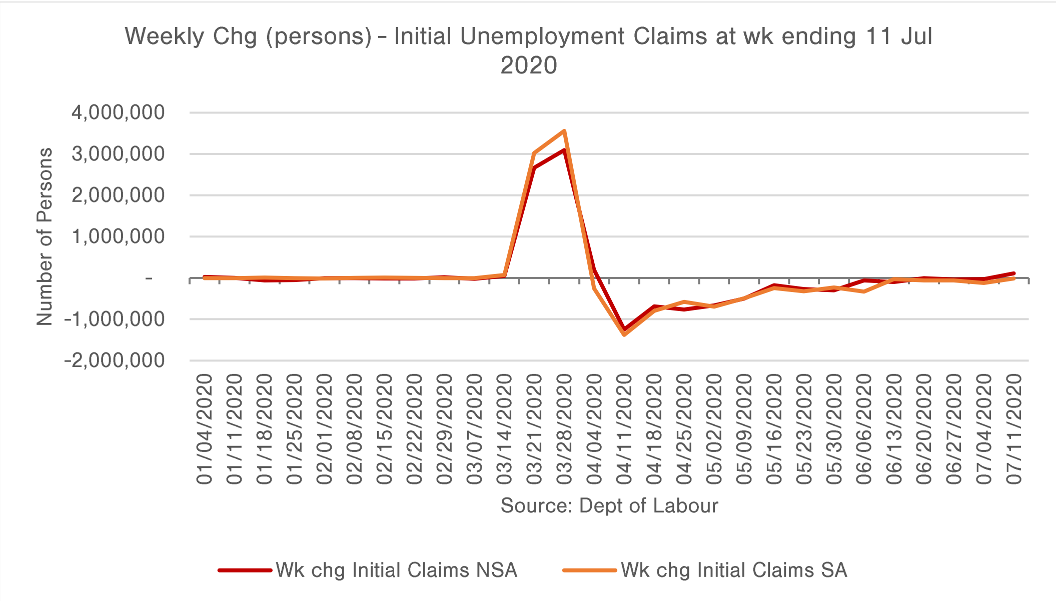
The total view of continuing claims across all programs, including the lagged data for the PUA, for the wk ending 27 Jun is 32,003,330.

<u>INITIAL CLAIMS – WK ENDING 11 JUL 2020:</u> 1,300,000 – seasonally adjusted. This was basically on par (-10k lower) with the prior weeks (revised lower) level of initial claims.

The non-adjusted initial weekly claims increased from 1,395,081 to, 1,503,892 in the wk ending 11 Jul 2020.

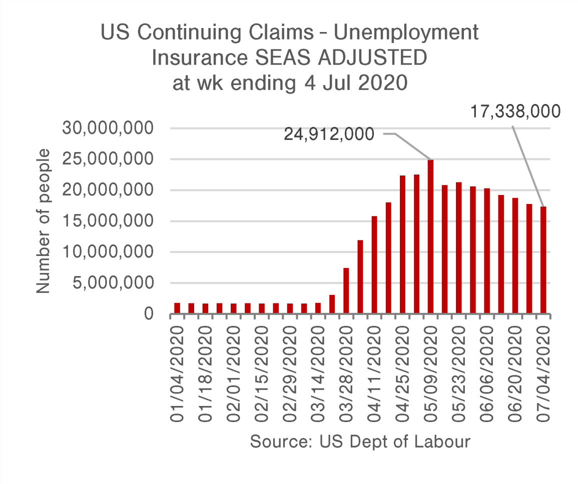
Ignoring the levels for the moment, the trend in the weekly change in initial claims indicates that the weekly slow-down in claims growth has been getting smaller since Apr. On an NSA basis, this has now turned positive (i.e. now shifted to an increase in weekly claims) and on a seasonally adjusted basis, this slow-down is now down to -10k persons.

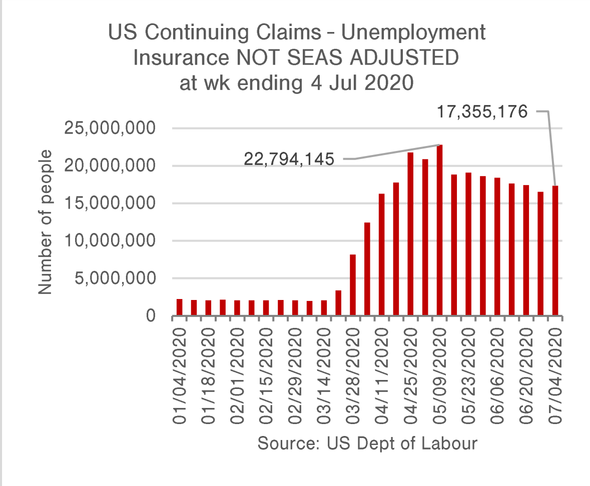
In other words, the level of initial claims is remaining stubbornly high since the widespread shutdowns were lifted.



CONTINUING CLAIMS – WK ENDING 4 JUL 2020: 17,388,000 – seasonally adjusted.

On an NSA basis, continuing claims increased to 17,355,176 (+838k claims versus the week prior). Both are now more in line:





The biggest increases in continuing claims for the wk ending 4 Jul (NSA) were recorded across:

California +216k persons to 2,974,562 continuing claims

Florida +308k persons to 889,934 continuing claims (this is a significant increase)

Georgia +166k persons to 785,649 continuing claims

Pennsylvania +168k persons to 819,225 continuing claims

Texas +102k persons to 1,340,255 continuing claims

The largest decline in continuing claims in the week ending 4 Jul 2020 was in NY -71k continuing claims to 1,526,806 total continuing claims at the wk ending 4 Jul.

PANDEMIC UNEMPLOYMENT ASSISTANCE

PUA Initial Claims – wk ending 11 Jul 2020 (NSA); 928,488 new claims.

This was lower than the prior week initial claims, which was revised higher to 1,046,433 claims in the wk ending 4 Jul.

PUA Continuing Claims – wk ending 27 Jun 2020 (NSA); 14,282,999 ongoing claims by people.

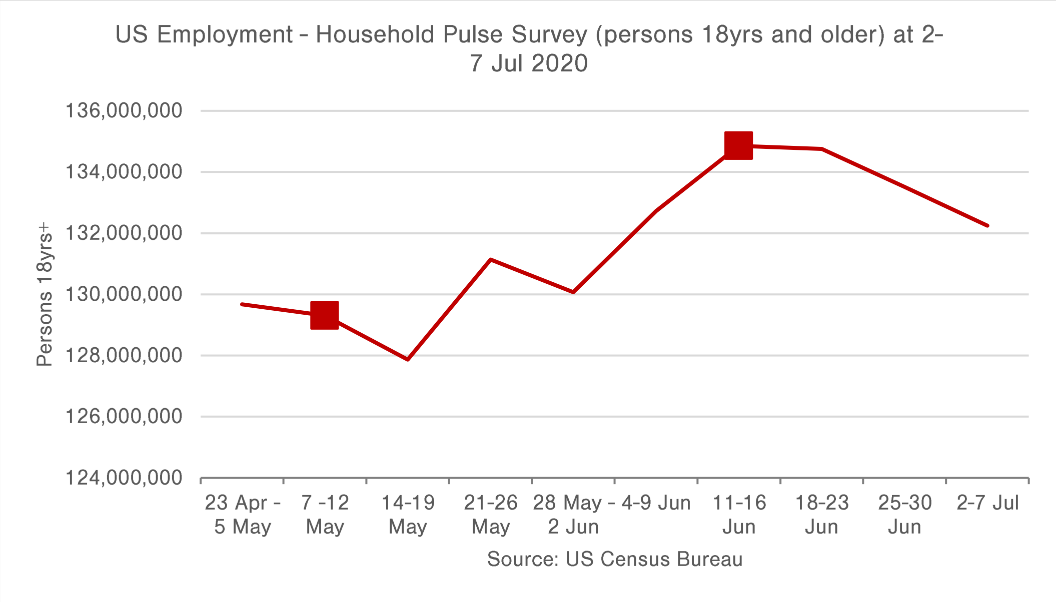
The Pandemic Emergency Unemployment Compensation Claims (PEUC) increased in the wk ending 27 Jun 2020 (NSA); from 850k persons in wk ending 20 Jun to 936,481 persons.

https://oui.doleta.gov/press/2020/071620.pdf

Household Pulse Survey - wk 10 2-7 Jul 2020

This is another high-frequency data point – measuring a range of US household experiences during the outbreak of Covid-19. One area of focus is the employment data. There is only ten (10) weeks of data in the survey series so far.

This high-frequency data set is also pointing to a stall in employment growth over the last three weeks.



The large red squares are the BLS reference weeks for the monthly employment survey (Current Population Survey). The CPS growth (on an NSA basis) between those two weeks was +5.6m. This household pulse survey indicated growth of approx. +5.5m.

The level of employment in wk 2-7 Jul is running at approx. 2.6m below the Jun reference week. There are two more weeks of data until the Jul BLS reference week.

Several sectors are currently tracking below that Jun reference week level:

Govt: -1.3m

Private Company: -1.4m

Non-Profit: -70k

Self Employed: +791k

Family Business: -350k

Did not report: -242k

https://www.census.gov/householdpulsedata

University of Michigan Consumer Sentiment Prelim (Jul)

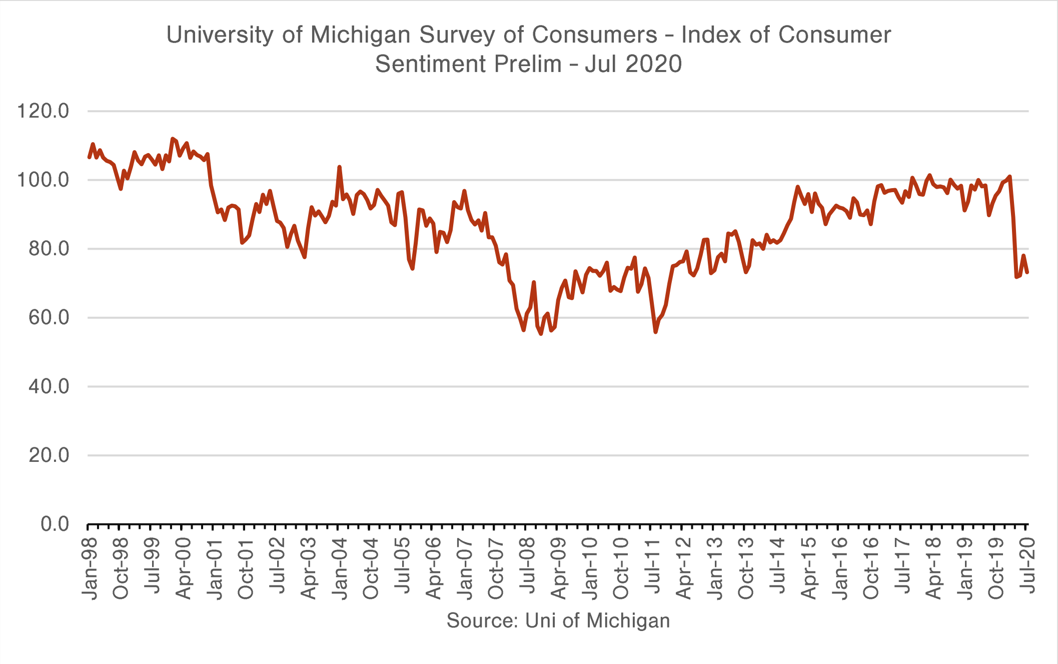
The somewhat fragile recovery in consumer sentiment since the Apr/May lows has reversed in the prelim Jul release. The driver of the fall in sentiment was the renewed outbreak of Covid-19 infections.

> Following the steepest two-month decline on record, it is not surprising that consumers need some time to **reassess the likely economic impact from the coronavirus on their personal finances and on the overall economy**. Unfortunately, declines are more likely in the months ahead as the coronavirus spreads and causes continued economic harm, social disruptions, and permanent scarring.

<u>Consumer Sentiment</u>

<u>Index of Consumer Sentiment</u>: Prelim Jul 73.2 versus Jun 78.1

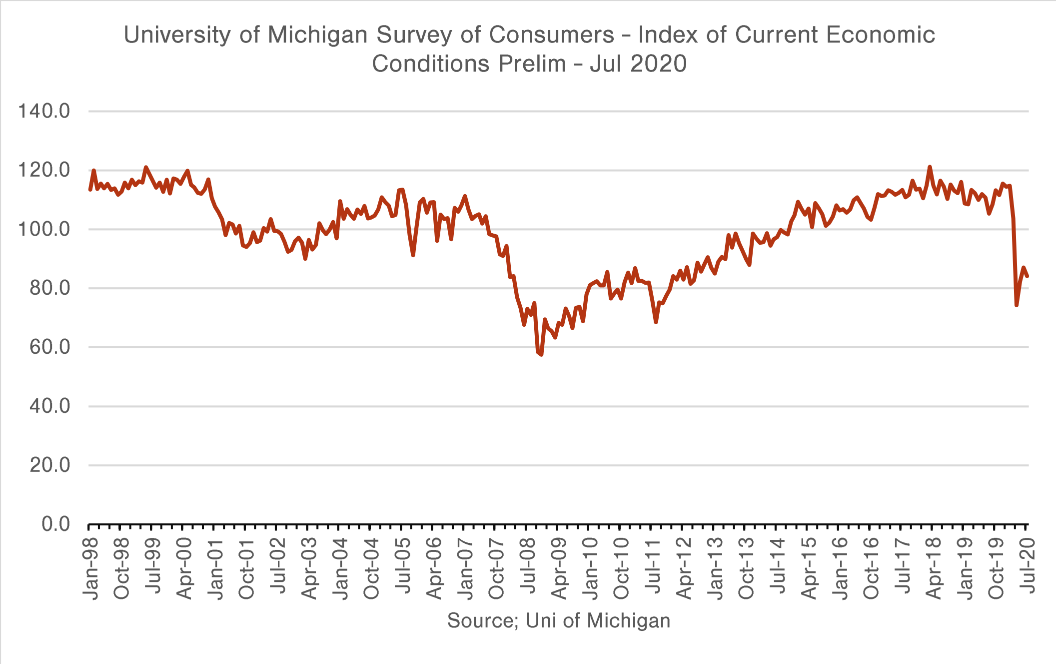
The pandemic low in the sentiment index was recorded in Apr when the index fell to 71.8. The July reading has fallen to only 1.4% pts above that level:



<u>Index of Current Economic Conditions</u>

<u>Sentiment of Current Economic Conditions</u>: Jul prelim 84.2 versus Jun 87.2

The assessment of current conditions has fallen this month but not back down to the Apr low (74.3). Assessment of current conditions remain more robust as more generous federal programs and state unemployment insurance remains in place (as well as mortgage and rental payment holidays).



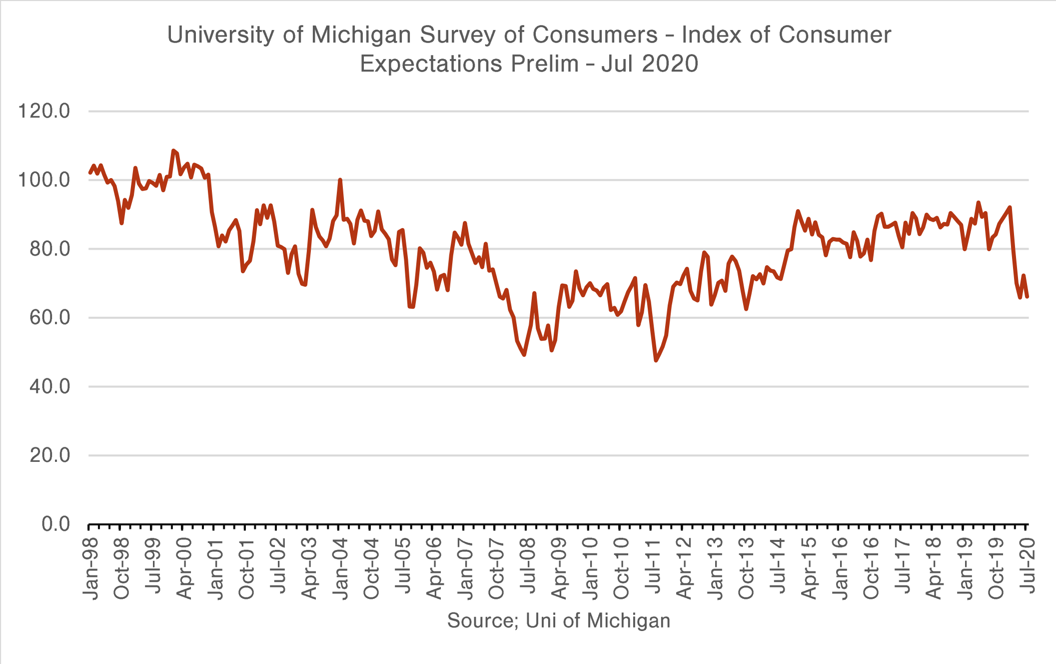
Index of Expected Conditions

Consumer Expectations: Prelim Jul 66.2 versus Jun 72.3

The fall in expected conditions was harder than the sentiment around current conditions. The Jul reading is only +0.3% pts above the May low of 65.9.

Driving this fall is lack of certainty over the extension of benefits and the potential loss of business/income through regions currently affected by the latest outbreak.

> Unfortunately, there is little time left on the political calendar for Congress to act as the election season is about to begin in earnest. Without action, another plunge in confidence and a longer recession is likely to occur.



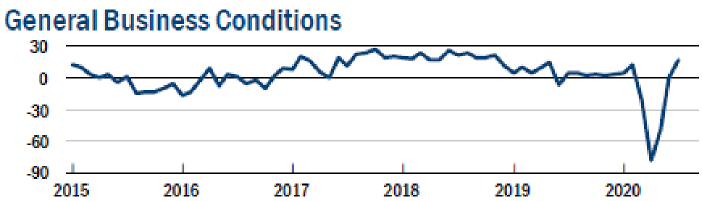
http://www.sca.isr.umich.edu/

NY Empire State Manufacturing Index (Jul)

Manufacturing conditions continued to improve in Jul. There was a continued rebound in overall conditions, shipments, orders and employment. The underlying shifts were positive in that the firms reporting improved conditions are now outnumber the firms reporting worsening conditions. The change in unfilled orders and average workweek indicates that firms are still likely working below capacity.

The reference week was 2-9 Jul.

Headline General Business Conditions: Jul 17.2 versus Jun -0.2



	Percent Reporting		
	Higher	Lower	Index
Jun	36.1	36.3	-0.2
Jul	41.2	24.0	17.2
Change			17.4

More firms are now reporting improved/better conditions than worsening conditions. There was a greater reduction in the number of firms reporting worsening conditions this month.

Measures of demand were stronger this month.

New orders improved from -0.6 in Jun to 13.9 in Jul. Again, the number of firms reporting improving new orders now outnumber the number of firms reporting worsening/declining orders.

Similarly, shipments also increased from 3.3 in Jun to 18.5 in Jul. The number of firms reporting improving shipments outnumber the number of firms reporting declining shipments.

Unfilled orders improved to ‘unchanged’ in the month, increasing from -12.5 in Jun to -0.6 in Jul. This indicates that the flow of new work is such that at least some firms are starting to create a backlog. The underlying shift by firms is less convincing – there was only a small increase in the number of firms reporting higher unfilled orders, but a much larger reduction in the number of firms reporting lower/declining backlogs. Instead, most firms (67%) reported no change in backlogs.

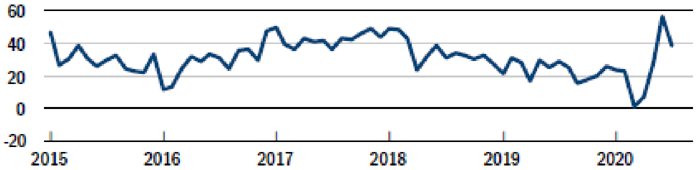
This is supported by the average workweek changes this month. On net, most firms still reported a declining workweek, albeit marginal compared to Jun. Most firms (63%) reported no change in the average workweek.

Employment growth was unchanged in Jul. The index increased from -3.5 in Jun to +0.4 in Jul. There was no change or decline in the proportion of firms reporting lower employment – that figure remained at 21.9% in Jul. There was only a small increase in the proportion of firms reporting higher employment which increased from 18.4% in Jun to 22.4% in Jul.

The outlook for conditions six-months ahead pulled back this month, but the index remains elevated. The high proportion of firms expecting improved conditions is also likely coming off a lower base of activity, which is likely why the index is so elevated:

Expectations Six Months Ahead

General Business Conditions



	Percent Reporting		
	Higher	Lower	Index
Jun	68.6	12.1	56.5
Jul	54.3	15.9	38.4
Change			-18.1

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_7_survey.pdf?la=en

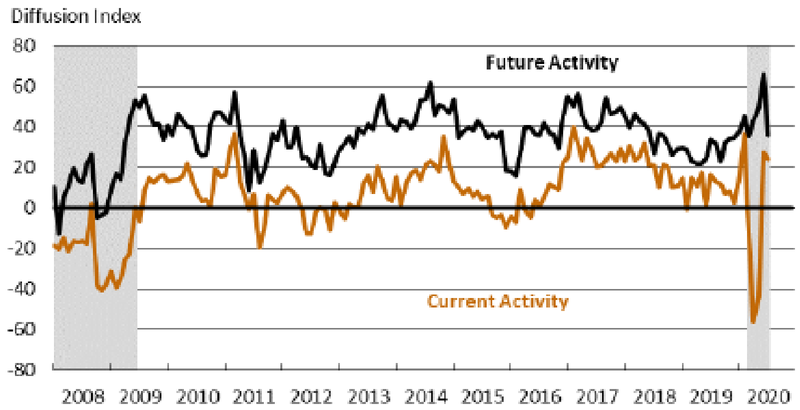
Philadelphia Fed Manufacturing Survey (Jul)

The headline index of the general level of business activity suggested at least stable conditions in Jul. The underlying indicators were a little mixed. More firms reported higher new orders and headline employment and hours increased in July. But shipments weakened. Unfilled orders also weakened – with more/most firms reporting no change in unfilled orders.

Headline General Business Activity Index: Jul 24.1 versus Jun 27.5

The future/expected index of business activity slowed notably from the Jun peak of 66.3. The Jun number reflects the expectations of growth coming off a low base. This month, there was a substantial decrease in the proportion of firms expecting an increase in activity in six months’ time – from 75% of firms in Jun to 48% of firms in Jul. More firms expected no change from the Jun level of activity (from 9% in Jun to 22% of firms in Jul) and there was a small increase in firms expecting worse conditions.

Chart 1. Current and Future General Activity Indexes
January 2008 to July 2020



Note: The diffusion index is computed as the percentage of respondents indicating an increase minus the percentage indicating a decrease; the data are seasonally adjusted.

New orders were again stronger this month. There was an increase in the number of firms reporting higher new orders – now up to 46% of firms. The proportion of firms reporting declining orders was unchanged at 24%.

The index of shipment growth was positive but indicated a slower pace of growth. The index fell from 25.3 in Jun to 15.3 in Jul. The proportion of firms reporting higher shipments fell from 47% of firms to 38% in Jul. The proportion of firms reporting lower shipments increased slightly to 22.9%.

The headline unfilled orders index shifted from -0.1 in Jun to 3.9 in Jul. This would usually be a sign that growth in orders was such that a backlog was created. But the underlying shifts indicate otherwise. There was a decline in the proportion of firms reporting higher unfilled orders from 25% of firms in Jun to 16% in Jul. The was also a corresponding decrease in the proportion of firms reporting lower unfilled orders. Most firms, instead, recorded no change in unfilled orders now up to 69% of firms.

Inventories shifted into decline – as firms likely worked through inventory in these early days of recovery. Most firms, 64%, reported no change to inventories in Jul. Less firms reported an increase in inventories.

The change in the employment index was positive increasing from -4.3 in Jun to 20.1 in Jul. But most firms (62%) still recorded no change to employment. The proportion of firms reporting an increase in employment increased to 29% in Jul.

The improvement in the average employee workweek was similar. The index increased from -6.5 in Jun to 17.2 in Jul. Again, most firms (64%) reported no change in hours.

https://www.philadelphiafed.org/research-and-data/regional-economy/business-outlook-survey/2020/bos0720

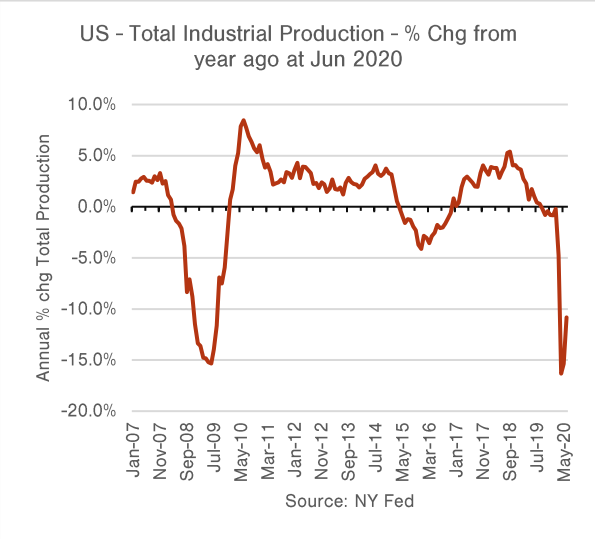
Industrial Production (Jun)

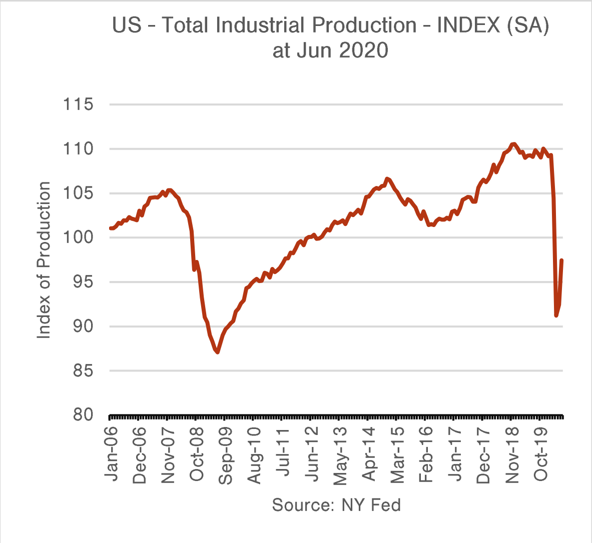
The industrial production data indicates that there was a further monthly increase in production across manufacturing sectors in Jun. This is consistent with the Jun factory orders/shipments data and the ISM PMI's. The IP data provides the scale of the recovery so far – that although production has started to recover, levels remain below the pre-pandemic period. Capacity utilization also remains lower.

Production in mining continued to decline in Jun. Production of utilities increased in the month.

<u>Total US Industrial Production – month change</u>; Jun +5.4% versus May +1.4%

Overall industrial production remains 11% below the same month a year ago. The index of production is less encouraging – with the current level of production still only on par with levels recorded in mid-2011:





The increase in industrial production was led mostly by manufacturing this month.

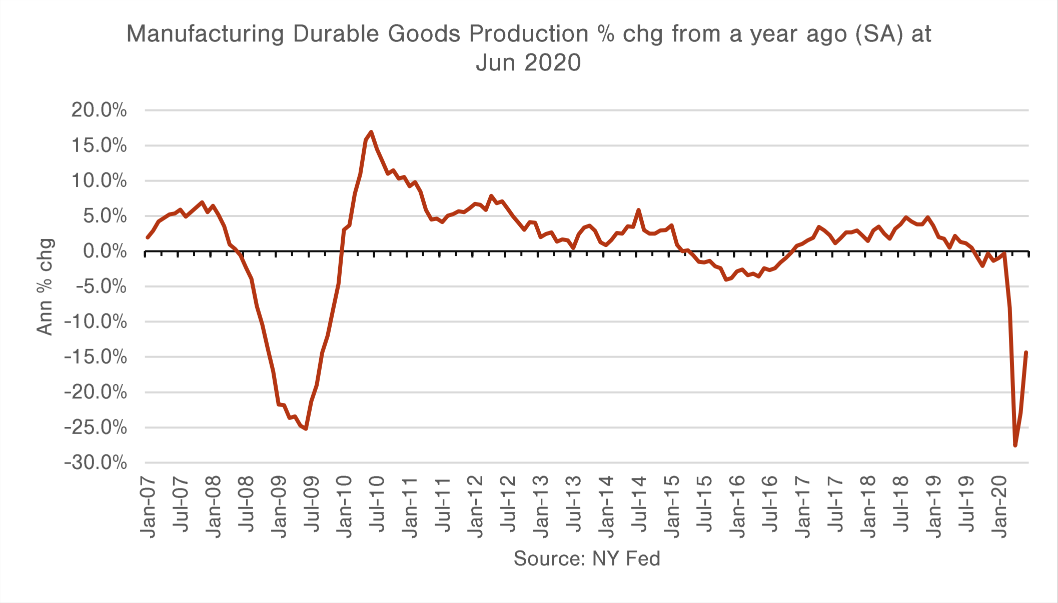
<u>MANUFACTURING PRODUCTION – MONTH CHANGE</u>; Jun +7.2% versus May +3.8%

The manufacturing growth across industry segments was stronger this month – all major industry groups recorded an increase in production in Jun.

<u>Growth in durable goods categories was strong</u>; Jun +11.6% versus May +6.8%

Most notable was the further substantial improvement in the production of motor vehicles (+100% in the month). Both production and capacity utilization remain 25% below a year ago.

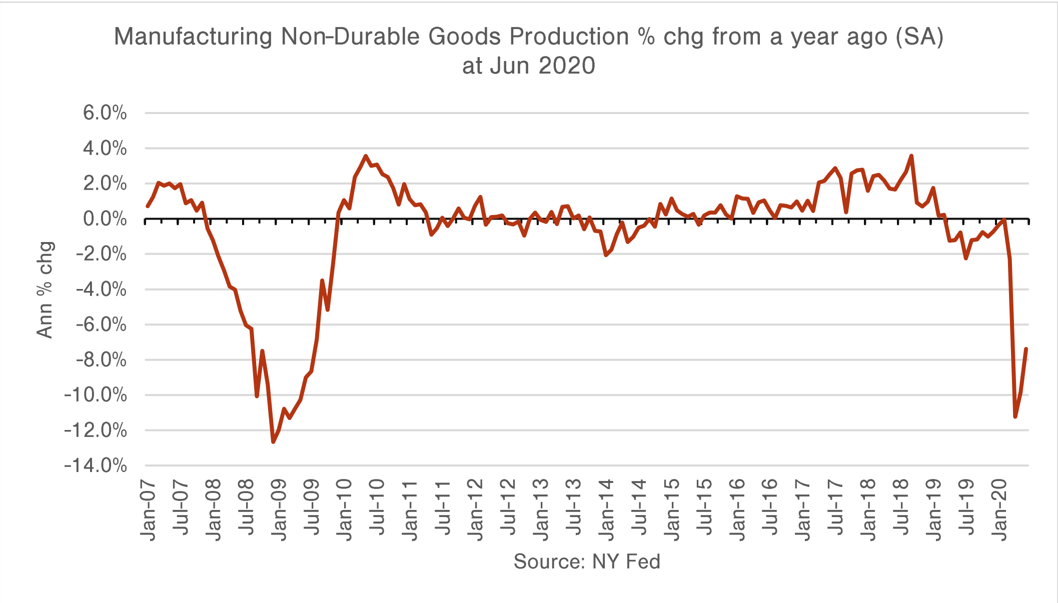
Despite the growth in the month, there is only one category where production in the month was ahead of the same month a year ago – Computer and Electronic products (+2%). Production across all other durable goods categories is still well below a year ago:



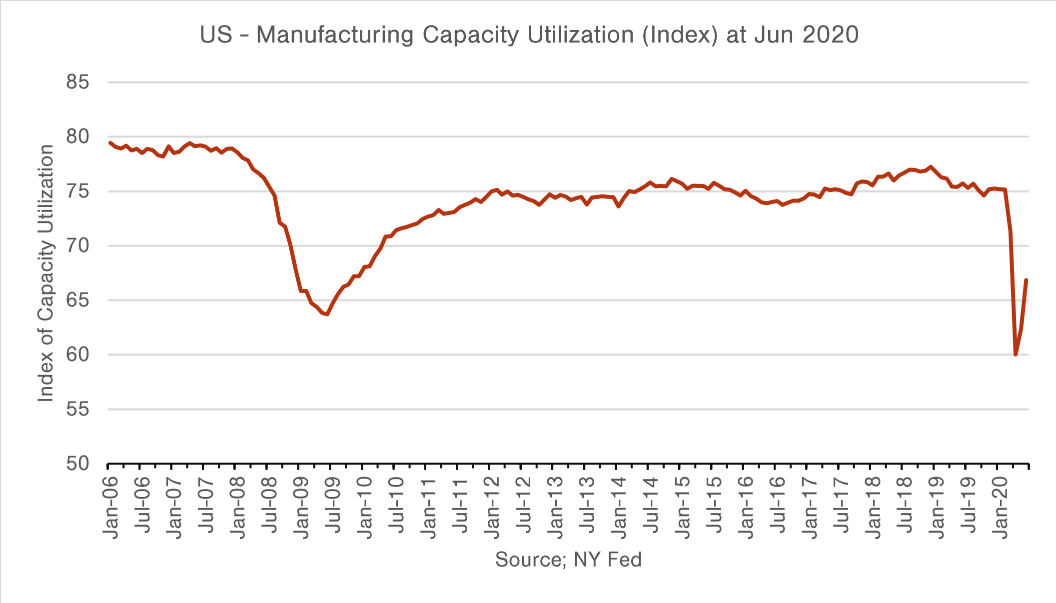
<u>Manufacture of non-durable goods also increased</u>, but at a slower pace than durable goods; Jun +3.4% versus May +1.4%

The strongest growth in the month was recorded in textiles/apparel and plastics/rubber.

Production of non-durable goods remains below the same month a year ago:



Manufacturing capacity utilization increased further in the month by 7% and current levels of utilization remain around 12% below a year ago. The current index of utilization is on par with levels during the start of the recovery in mid-2009:

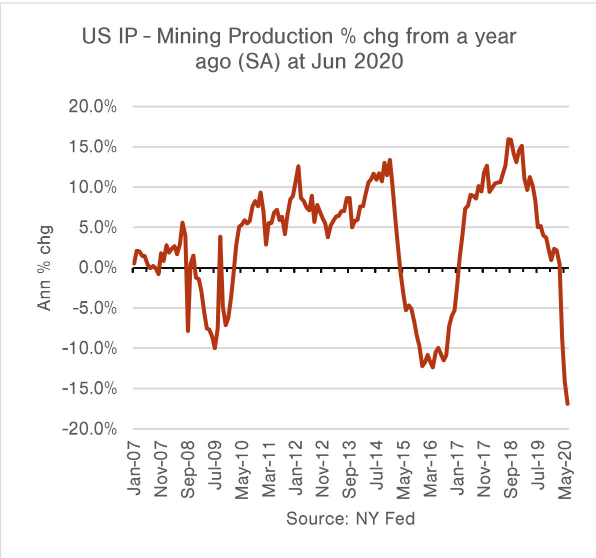


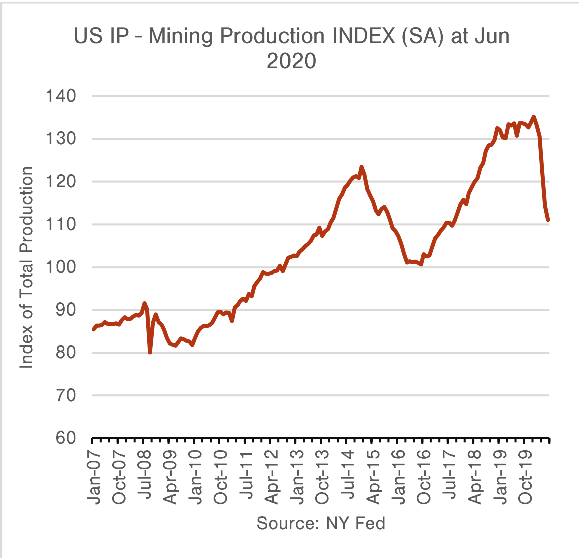
<u>MINING PRODUCTION – MONTH CHANGE</u>; Jun -2.9% versus May -6.1%

Mining production declined further in Jun:

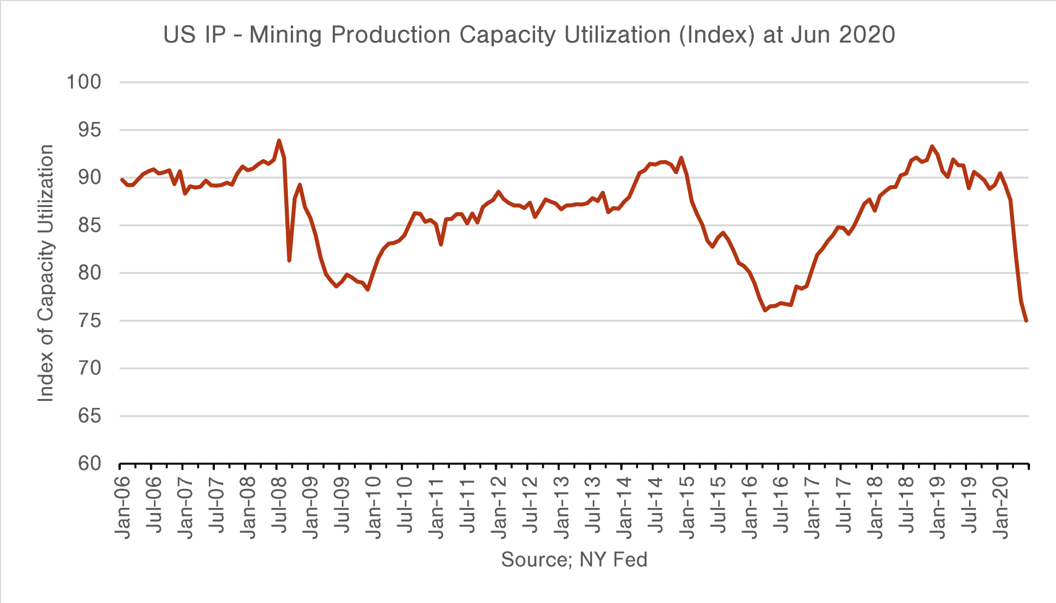
> The index for oil and gas well drilling fell 18.0 percent in June and was about 70 percent below its year-earlier level. For the second quarter, mining output declined 42.7 percent at an annual rate.

The annual pace of decline in mining extended to -17% below a year ago:



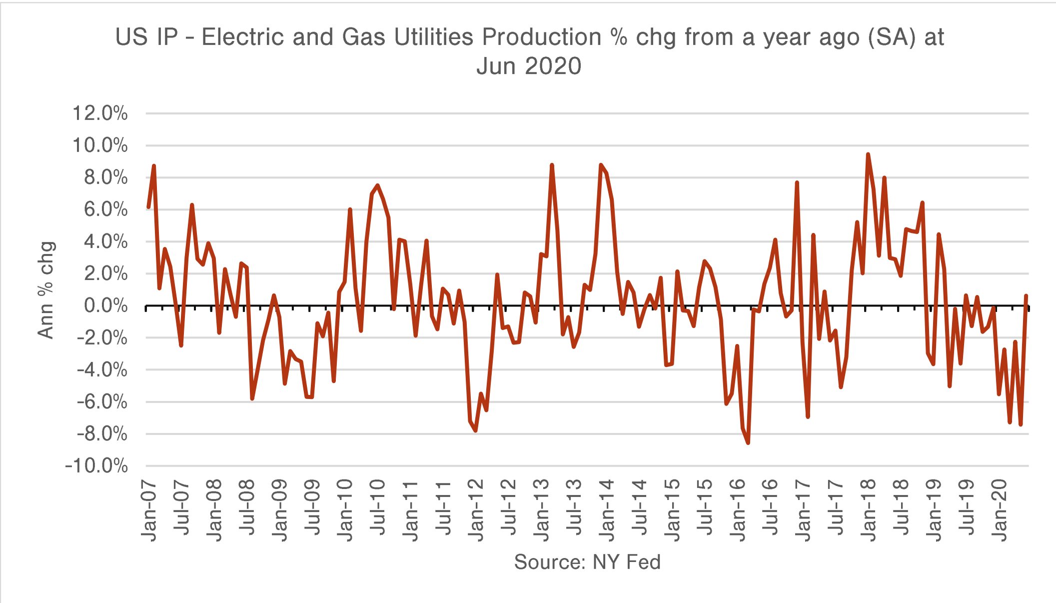


Mining capacity utilization has also continued to fall and reached a new low (going back to 2006):

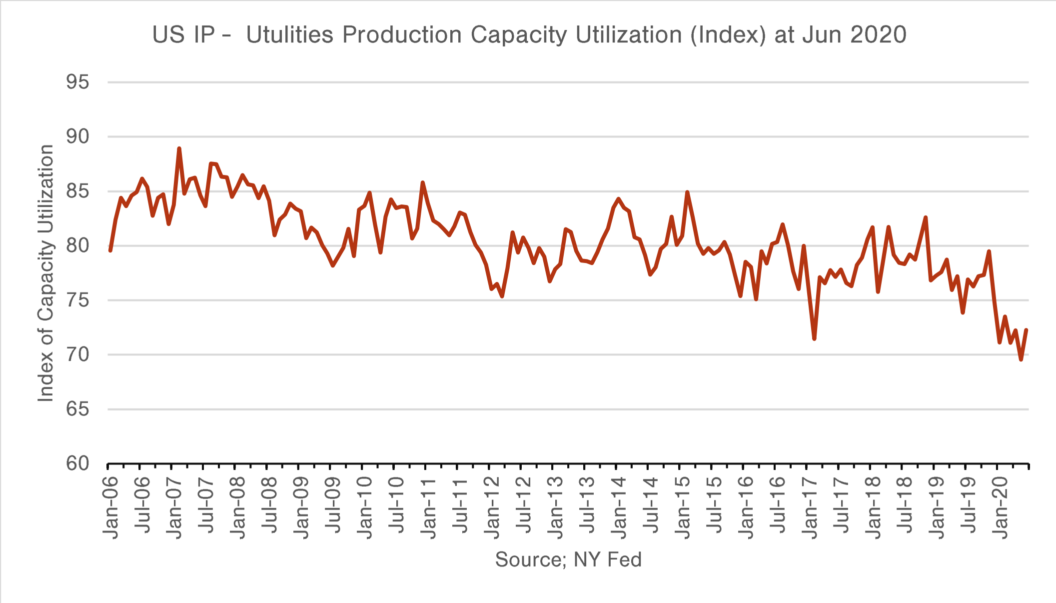


<u>ELECTRIC & GAS UTILITIES PRODUCTION – MONTH CHANGE</u>: Jun +4.2% versus May -3.5%

There was a rebound in electric and gas utilities production this month. The annual change shifted back to +0.6% growth versus the same month a year ago:



While the levels of production display little trend, the index of capacity utilization has continued to trend lower:



https://www.federalreserve.gov/releases/G17/Current/g17.pdf

Retail Sales (Jun)

US retail sales continued to rebound this month. Sales increased across most categories in the month. The shift in sales growth broadly reflects the lifting of stay at home restrictions. Sales were higher for autos, clothing, and food on-premise. While sales declined across grocery, non-store retail, and building supplies.

On an annual basis, retail sales shifted to +1.1% higher than the same month a year ago. Stimulus payments and additional unemployment payments are helping the retail recovery.

Retail Sales ($ value) – month change; Jun +7.5% (+$36.5bn) versus May +18.2%

The largest contributor to the increase in retail sales this month was clothing and accessories stores (+$8.7bn, +105% versus the month prior). Clothing store sales had fallen to low of $3bn – total – in Apr. Sales are still 23% below the same month a year ago.

Auto's also made a large contribution to the headline growth this month: +$8.4bn or +8.2% versus the month prior. Auto retail sales were +7.5% ahead of the same month a year ago.

The other large contributor to retail sales growth this month was food service and drinking places; +$7.9bn or +20% versus the prior month. Despite the increase in the month, sales are 26% below the same month a year ago.

Sales declined in several categories this month.

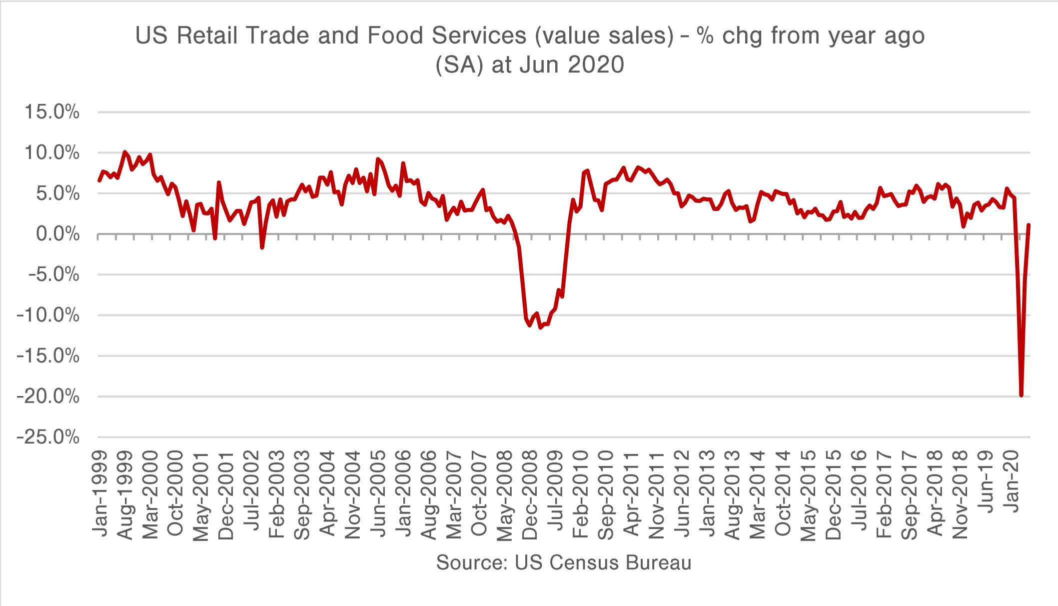
Non-store retailers – which is likely the result of the lifting of more restrictions for physical stores. Sales declined by -$2bn or -2.4% and remain 23% ahead of the same month a year ago.

Grocery sales were slightly lower -$1bn or -1.2% versus the month prior and are still +12% ahead of a year ago.

Building materials also declined slightly -$0.1bn or -0.3%. Sales remain 17% ahead of a year ago.

Retail Sales ($ value) – annual change: Jun +1.1% (+$5.7bn) versus May -5.6%

The stimulus checks and enhanced benefits have helped to return retail sales to annual growth in a short time:



https://www.census.gov/retail/marts/www/marts_current.pdf

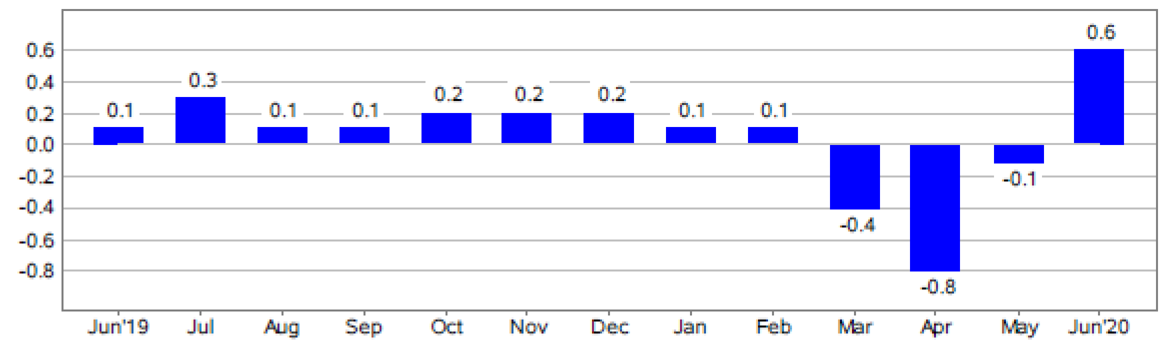
CPI (Jun)

US CPI growth rebounded strongly in the month of June. This reflected the ongoing increase in food price growth as well as the rebound in energy prices. Services prices also accelerated slightly in the month but continue to ease on an annual basis.

The headline inflation growth also accelerated on an annual basis, (led by food and energy prices. Core CPI was little changed.

Headline CPI All Items – month change; Jun +0.6% versus May -0.1%

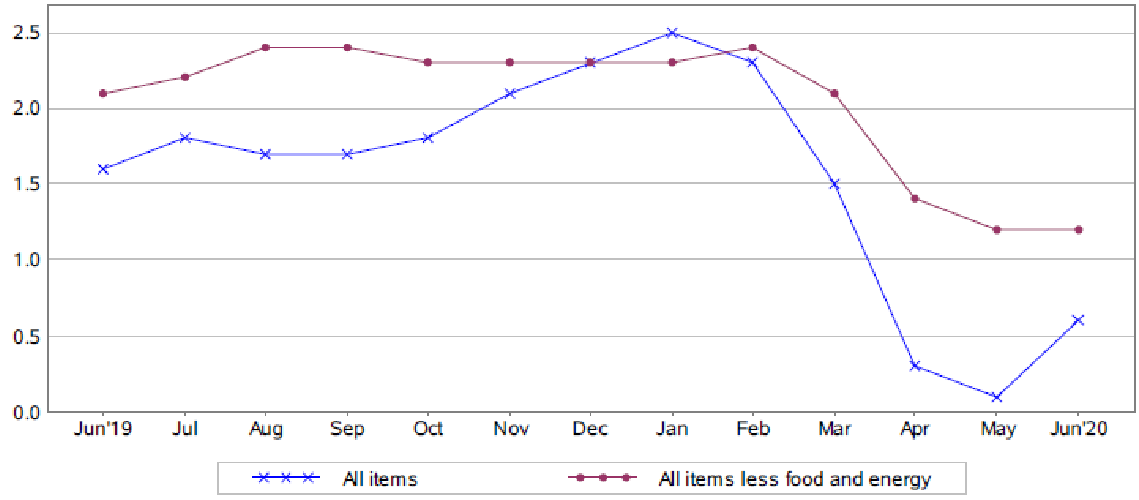
Chart 1. One-month percent change in CPI for All Urban Consumers (CPI-U), seasonally adjusted, June 2019 - June 2020
Percent change



On an annual basis, the headline CPI also increased at a faster pace.

<u>Headline CPI All Items – annual change</u>: Jun +0.6% versus May +0.1%

Chart 2. 12-month percent change in CPI for All Urban Consumers (CPI-U), not seasonally adjusted, June 2019 - June 2020
Percent change



The main driver of the acceleration in CPI growth in the month was energy prices. In Jun, energy prices increased by +5.1% compared to -1.8% in May. Within that group, motor fuel increased by +12.3% in Jun after declining by -3.5% in May (and -20% in Apr).

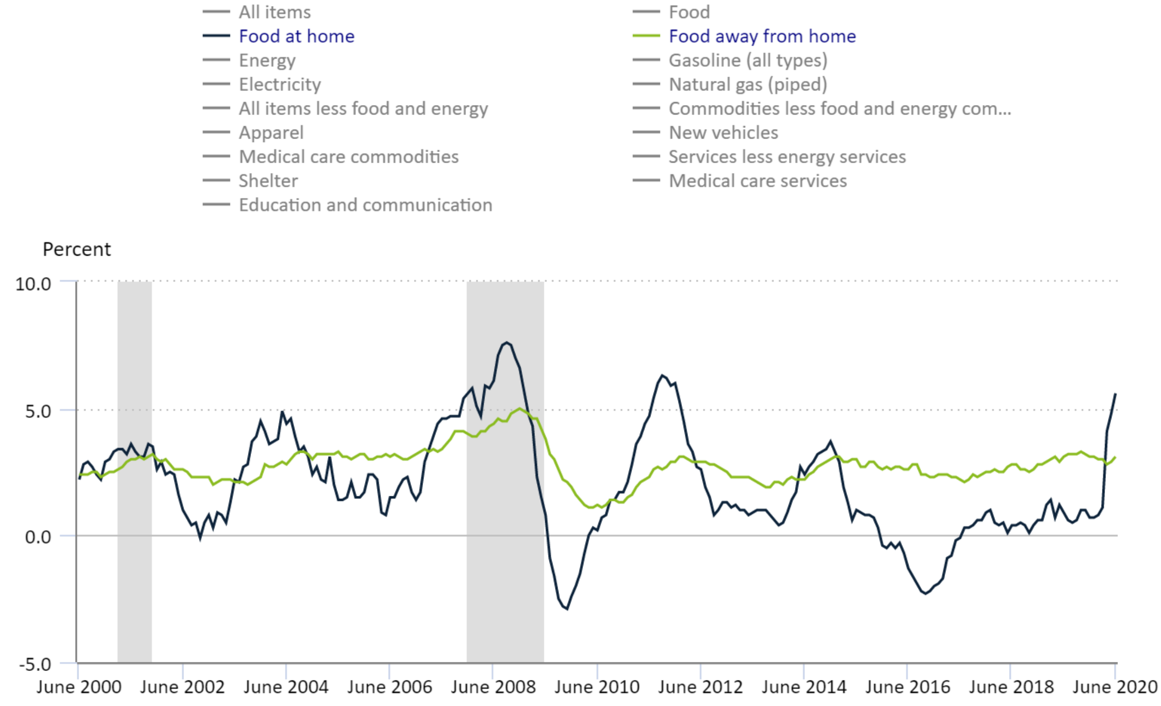
On an annual basis, the decline in energy prices eased in Jun to -12.6% compared to -19% in May.

Food prices continued to grow, albeit at a slightly slower pace; Jun +0.6% versus May +0.7%

> Five of the six major grocery store food group indexes rose in June. The index for meat, poultry, fish, and eggs increased 2.0 percent in June. This reflected another increase in the beef index which rose 4.8 percent in June and increased 20.4 percent over the last 3 months.

On an annual basis though, food price growth is accelerating. In Jun, food prices increased by +4.5% versus a year ago. In May, that annual growth was +4%. Growth in food prices, especially food at home, is extremely elevated:

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



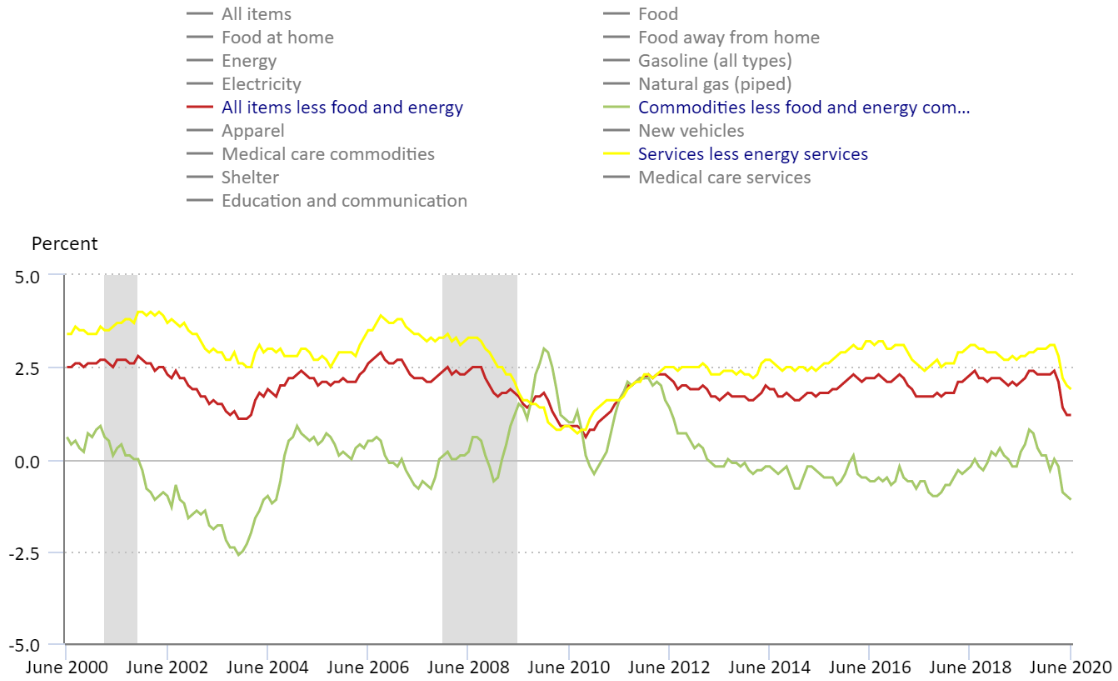
Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

The food at home index increased 5.6 percent over the last 12 months, its largest 12-month increase since the period ending December 2011.

Excluding Food & Energy items, the core CPI also increased at a slightly faster pace this month of +0.2% (versus -0.1% in May), while the annual growth was unchanged at +1.2% in Jun.

Within the Core CPI group, prices for commodities (ex food and energy commodities) and services (less energy services) increased at a faster pace in the month. But growth has been slowing on an annual basis:

12-month percentage change, Consumer Price Index, selected categories, not seasonally adjusted



Hover over chart to view data.
Note: Shaded area represents recession, as determined by the National Bureau of Economic Research.
Source: U.S. Bureau of Labor Statistics.

Commodities less food and energy commodities increased by +0.2% in Jun (after a decline of -0.2% in May). Apparel prices, medical commodities and tobacco prices all increased at a faster pace. This offset an accelerated decline in used car and truck prices.

On an annual basis prices for commodities less food and energy commodities declined by -1.1% in Jun (versus a year ago), slightly faster than the -1% annual decline in May.

Services prices increased in Jun by +0.3% after no change in May. Prices for shelter eased in the month and was offset by the acceleration in transportation services prices from -3.6% in May to +2.1% in Jun – led by motor vehicle insurance and airline fares.

On an annual basis services prices also eased from 2% in May to 1.9% in Jun.

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

MBA Mortgage Applications wk ending 10 Jul

Weekly mortgage applications increased this week. It is likely that refinance activity was the main driver of activity in the week as mortgage rates continued to fall.

The market composite index (loan application volume) wk ending 10 Jul: +5.1%

The refi' component was strong with refi's increasing by 12% in the week. Refi activity is +107% ahead of the same month a year ago. The share of refi activity of all mortgage applications this week increased to 64%, up from 60.1% in the prior week.

One striking development in the week was that the purchase index was down for the week ending 10 Jul: -6% (SA). The purchase index is a measure of completed sales. Purchase activity remains 15% ahead of the same month a year ago.

> "Mortgage rates continued their downward trend, with the 30-year fixed rate falling 7 basis points to 3.19 percent - another record low in MBA's survey and 63 basis points lower than the recent high in late March. The drop in rates led to a jump in refinance activity to the highest level in a month, with refinance loan balances also climbing to a high last seen in March,"

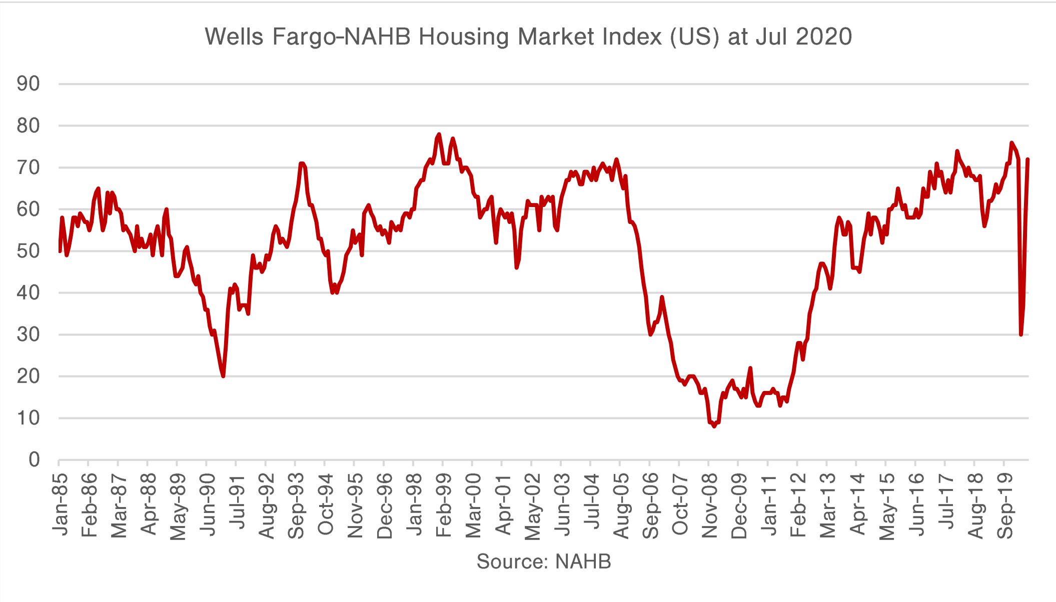
https://www.mba.org/2020-press-releases/july/mortgage-applications-increase-in-latest-mba-weekly-survey-x271130

NAHB Housing Market Index (Jul)

The Jul reading for housing market conditions in the US continued to improve. The headline index is now just four (4) points behind the Dec 2019 near term peak. Traffic of prospective buyers reached the Dec peak, while single family sales conditions lagged slightly. Sales across regions indicates a stronger rebound in the Northeast and Midwest. Conditions in improved in the South and West, but to a lesser degree.

Headline National Housing Market Index: Jul 72 versus Jun 58

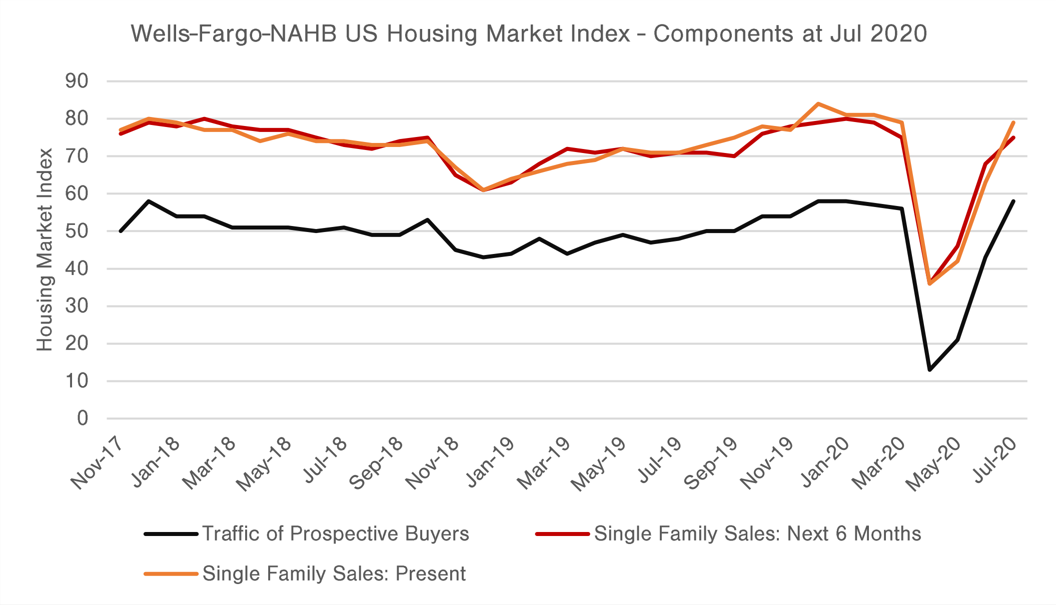
The near-term peak was in Dec 2019 when the index reached 76:



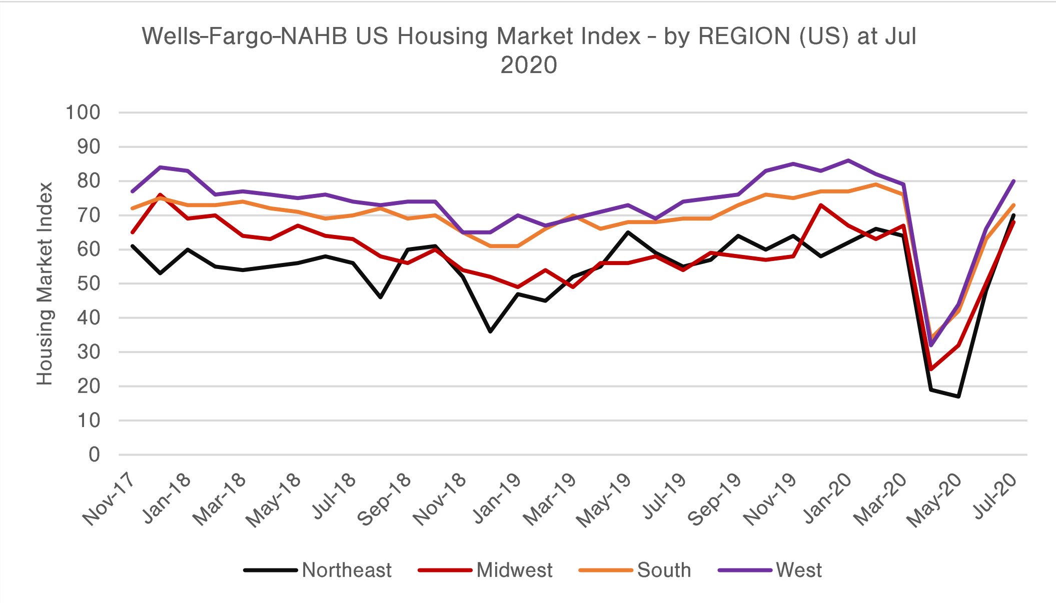
The improvement was the result of increases across all three components: single family present sales, future sales and traffic of prospective buyers.

The traffic of prospective buyers index increased the most this month +35% - and is now on par with the Dec 19 index peak of 58.

Family sales next 6-months increased by 10% in Jul to 75 – and remains below the Jan 20 index peak of 80.



Conditions improved in all regions this month. There was a much stronger improvement in conditions in the Northeast, with the index increasing by 46% in the month to 70 – and now exceeds the Feb 20 index peak of 66.



https://www.nahb.org/News-and-Economics/Housing-Economics/Indices/Housing-Market-Index

Return to top

Europe

Eurozone Industrial Production (May)

Industrial production in May increased versus the larger declines in Mar and Apr – as many economies through the EU commenced reopening. All sectors recorded growth in the month, but some sectors were stronger than others.

This is consistent with the May PMI's – which for manufacturing indicated that more firms were starting to record increases in activity across the region. While there has been an improvement in conditions, production levels are yet to regain the levels prior to the shutdowns. The Jun PMI's indicated further improvement, so it is likely that there will be another increase in production next month.

Euro area Industrial Production – month change: May +12.4% versus Apr -18.2%

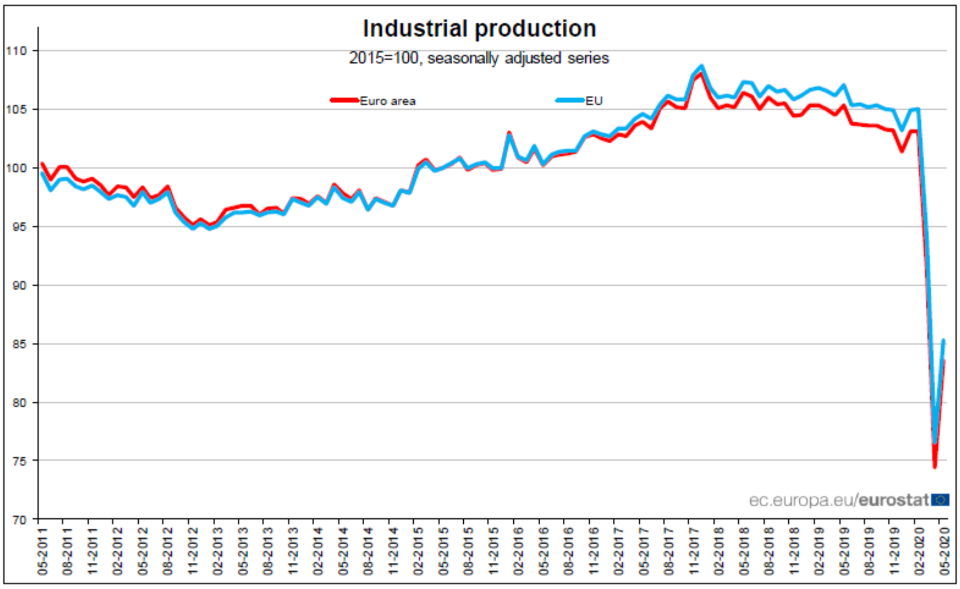
Monthly growth in production was recorded across all industry sectors. The largest increase was recorded across durable consumer goods +54.2%. Growth in capital goods production was also stronger at +25.4%.

Growth in production lagged across energy +2.3% versus Apr and non-durable consumer goods +2.8% versus Apr.

Euro area Industrial Production – annual change: May -20.9% versus Apr -28.7%

Despite the improvement in the month, production remains well below the year ago level.

Production levels across all sectors is below the same month a year ago. The biggest improvement was for durable consumer goods. The annual decline in Apr was -50.4%, which 'improved' to -24% versus a year ago in May.



https://ec.europa.eu/eurostat/documents/2995521/11096023/4-14072020-AP-EN.pdf/dc899de9-ce8d-c114-ab06-2bfa1f4d5dd7

Eurozone CPI (Jun)

The annual growth in the Euro area CPI increased slightly in Jun. Energy prices continued to fall while food price growth remained elevated. Core CPI growth was little changed.

Headline All-Items CPI – annual change: Jun +0.3% versus May +0.1%

While the headline growth accelerated slightly in Jun, annual growth in prices across all components slowed slightly.

The largest (negative) contributor to the headline growth was energy prices, which declined by 9.3% in Jun, and detracted -0.93% pts from the headline growth.

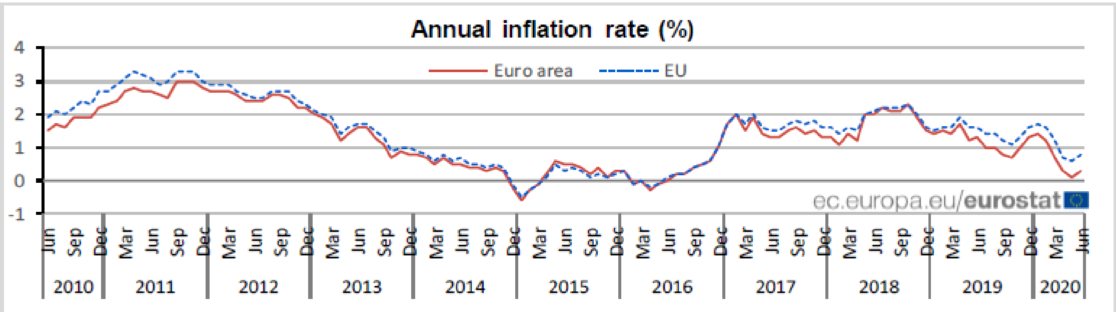
The impact of the energy price decline is notable – with the CPI excluding energy prices increasing by +1.3% versus a year ago.

Food (food, alcohol, and tobacco) price growth remains elevated at +3.2% (down from +3.4% in May). A year ago, food prices were growing at +1.6% annual pace. Unprocessed food component continues to grow at +6% on an annual basis (down from +6.7% annual growth in May).

Core CPI ex food, alcohol, and tobacco and energy – annual change: Jun +0.8% versus May +0.9%

A year ago, in Jun 2019, Core CPI growth was slightly faster at +1.1%.

Growth in services prices was little changed at +1.2% (contributing +0.55% pts to the headline growth in the CPI). Non-energy industrial goods prices also grew at a similar pace of +0.2% - adding +0.05% pts to headline CPI growth.



https://ec.europa.eu/eurostat/documents/2995521/11107828/2-17072020-AP-EN.pdf/9b5bd6a9-3002-7a65-197a-e046f030c600

ECB Rates Decision – 16 Jul 2020

There was no change to current ECB policy settings. The focus across the EU is on the summit of EU leaders negotiating the terms of an economic recovery package.

Current Interest Rate Settings

Main Refi Operations: 0%

Marginal Lending Facility: 0.25%

Deposit Facility: -0.5%

Pandemic Emergency Purchase Program

Purchases will continue with a likely total target of 1.35tr (Euro). These purchases are likely to continue until at least Jun 2021, or until the crisis phase of the pandemic is over. The governing council will reinvest maturing securities until at least the end of 2022.

> These purchases contribute to easing the overall monetary policy stance, thereby helping to offset the pandemic-related downward shift in the projected path of inflation.

Net Asset Purchase Program

Net asset purchases will continue at a pace of 20bn Euro a month. This will continue to run as long as necessary to reinforce the accommodative impact of lower rates.

> The Governing Council intends to continue reinvesting, in full, the principal payments from maturing securities purchased under the APP for an extended period of time past the date when it starts raising the key ECB interest rates, and in any case for as long as necessary to maintain favourable liquidity conditions and an ample degree of monetary accommodation.

Refinance Operations (TLTRO)

These operations will continue. The latest operations “registered a very high take-up of funds, supporting bank lending to firms and households”.

Forward Guidance

The Governing Council reinforced its “do whatever is necessary’ stance – and is willing to adjust all instruments to ensure inflation moves towards its aim/target inflation rate. “in line with its commitment to symmetry” – which likely means they will allow an overshoot.

> The Governing Council expects the key ECB interest rates to remain at their present or lower levels until it has seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2% within its projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

https://www.ecb.europa.eu/press/pr/date/2020/html/ecb.mp200716~fc5fbe06d9.en.html

EU Summit - Economic Recovery Aid

There has so far been no agreement on a 1.8tr (Euro) recovery package currently being debated at the EU summit.

> Leaders must agree on two huge, politically sensitive programs. One is the EU’s regular seven-year budget, due to run from next year to 2027, with Brussels proposing more than €1 trillion in spending.

> The second is a special coronavirus-recovery fund, pitched at €750 billion by Brussels. Its most controversial element is a proposal for the EU’s executive

arm to raise debt in bond markets to fund €500 billion in grants to member states and €250 billion in loans.

https://www.wsj.com/articles/european-union-talks-on-economic-recovery-aid-to-enter-a-third-day-11595108325

Return to top

Japan

Industrial Production – Final (May)

The final release of industrial production in Japan resulted in production and shipments revised lower in the month. The decline in inventory was revised slightly higher. The May production data is in line with the continued decline as reported by the Manufacturing PMI.

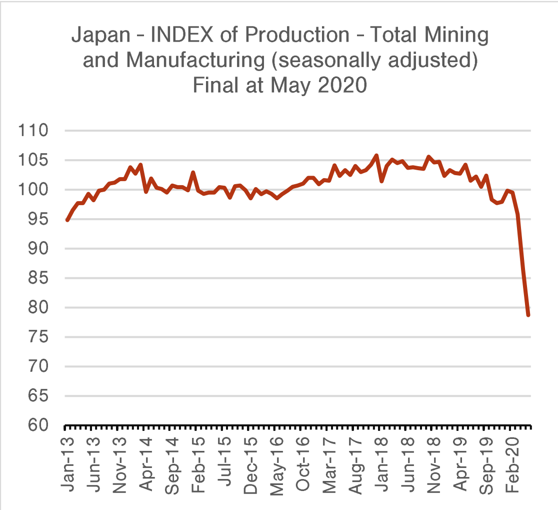
The final release includes food and beverage and chemical industries.

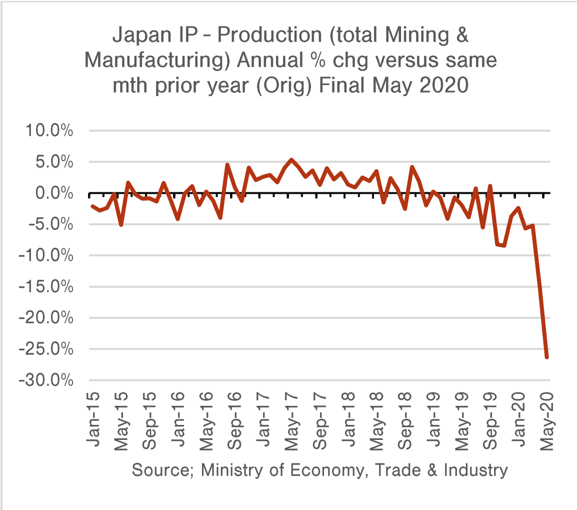
PRODUCTION – MONTH CHANGE: May -8.9% (revised lower from -8.4%) versus Apr -9.8%

As previously reported, the decline in production was recorded across all industry groups.

Production of food and tobacco declined by 2.1% in May. Production of chemicals also declined by 6% in May (after +1.6% in Apr).

On an annual basis, production fell to -26% below the same month a year ago (unchanged from the prelim):



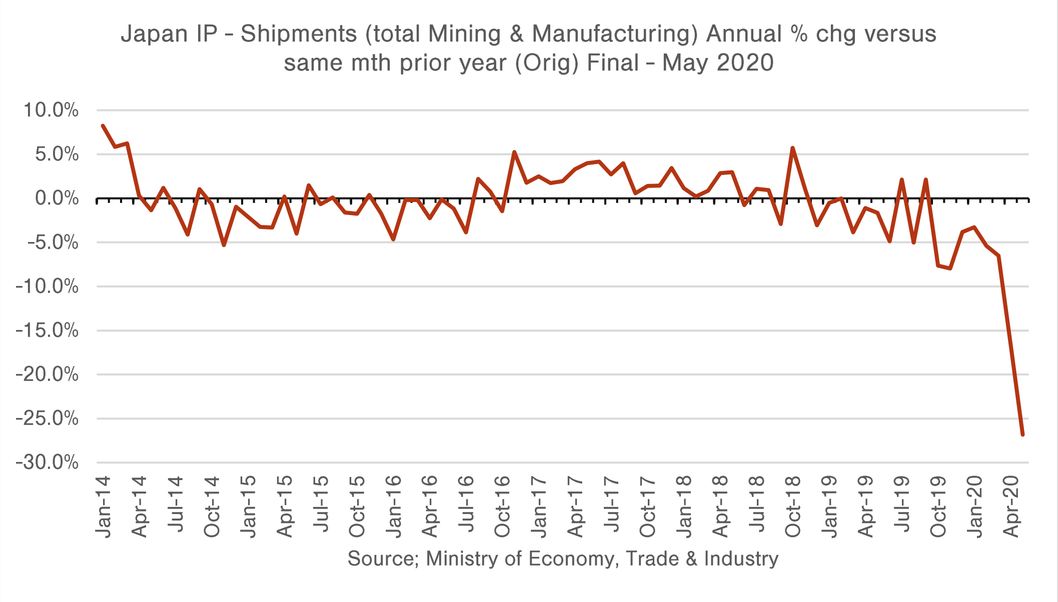


SHIPMENTS – MONTH CHANGE: May -8.9% (revised lower from -8.4%) versus Apr -9.5%

All sectors recorded a decline in shipments in the month.

Shipments of food and tobacco fell by -1.5% in May (after -2.4% in Apr). Shipments of chemicals also declined by -5.6% in my (after +1.1% in Apr).

Shipments declined by 26% versus the same month a year ago:



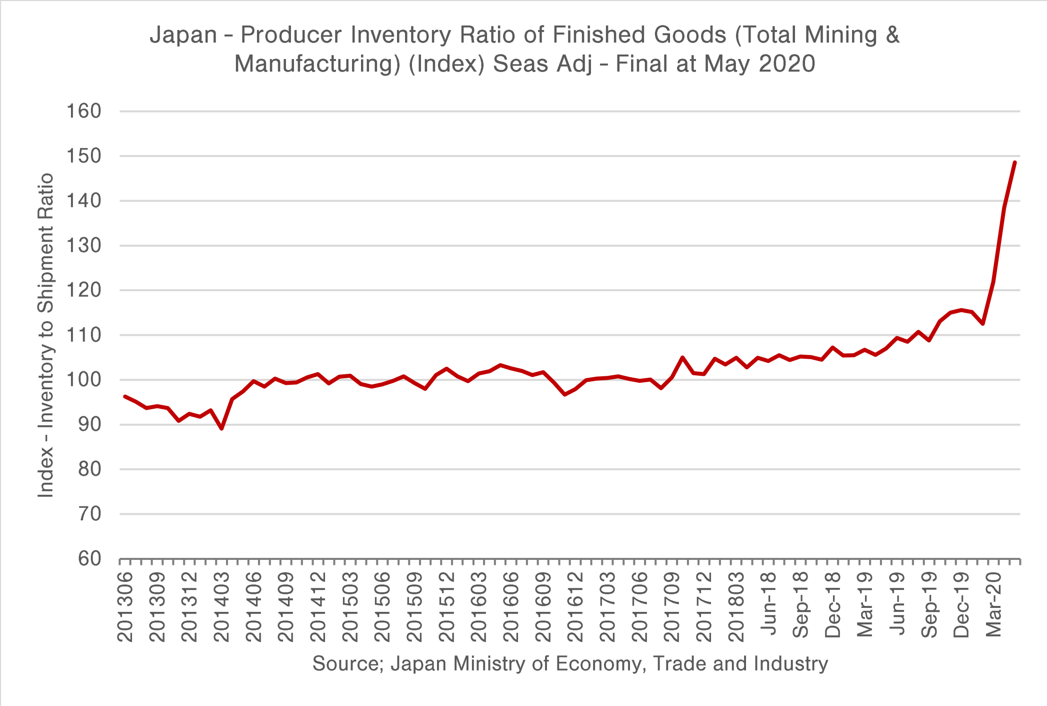
<u>INVENTORY – MONTH CHANGE</u>: May -2.6% (revised lower from -2.5%) versus Apr -0.3%

The inventory results were mixed with smaller increases and decreases recorded across most categories.

One larger standout remains the decline in producers inventory of finished goods for transport (-30.8% in May). Steep declines in inventory for motor vehicles were recorded in May for Motor Vehicles of -31%, after a +9.7% increase in Apr.

Inventory of finished goods for chemicals increased by 2.5% in May. While food and tobacco inventory declined by -4.7%.

Overall, and given the decline in shipments, the producers inventory ratio of finished goods remains extremely elevated – more of a reflection of the slowdown in shipments.



https://www.meti.go.jp/english/statistics/tyo/iip/index.html

Bank of Japan – Rates Decision 15 Jul 2020

There were no changes made to policy settings this month. The outlook report was also released at this meeting – highlighting the increased uncertainty for the outlook depending on how the Covid-19 pandemic develops.

Current policy settings

Yield Curve Control

St Rates: -0.1% Policy-Rate balances in current accounts held by financial institutions at the BoJ

LT Rates: 10yr yield to remain around zero – the BoJ will purchase JGB's in quantities necessary to achieve this

Asset Purchases

Purchase of ETF's – purchase at rates such that amounts outstanding increase by 12 trillion Yen p.a

Purchase of J-Reits – at rates such that amounts outstanding increase by about 180bn Yen p.a

Commercial Paper and Corporate Bonds – purchase in quantities such that the BoJ will maintain amounts outstanding at 2 and 3 trillion Yen respectively, p.a.

In addition, until the end of March 2021, it will conduct additional purchases with the upper limit of the amounts outstanding of 7.5 trillion yen for each asset.

Forward Guidance

The BoJ plans to maintain QQE with YCC to achieve the price stability target of 2%, and for as long as necessary for maintaining that price growth at the target in a stable manner.

The Bank will continue to support financing mainly of firms and maintain stability in financial markets through (1) the Special Program to Support Financing in Response to the Novel Coronavirus (COVID-19), (2) an ample provision of yen and foreign currency funds without setting upper limits mainly by purchasing JGBs and conducting the U.S. dollar funds-supplying operations, and (3) active purchases of ETFs and J-REITs.

For the time being, the Bank will closely monitor the impact of the novel coronavirus (COVID19) and will not hesitate to take additional easing measures if necessary, and also it expects short- and long-term policy interest rates to remain at their present or lower levels.

https://www.boj.or.jp/en/announcements/release_2020/k200715a.pdf

Outlook Report: https://www.boj.or.jp/en/mopo/outlook/gor2007b.pdf

Return to top

Australia

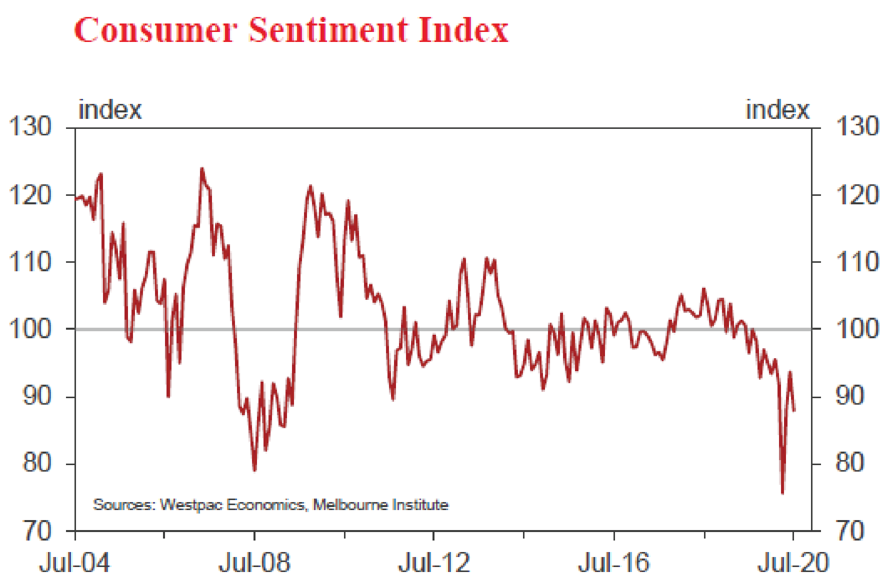
Westpac Consumer Confidence (Jul)

The headline index of consumer confidence for Jul fully reversed the Jun rebound, declining by 6%. The decline in sentiment was linked to concerns around the inflection rate in Vic, possible interstate spread and the spill over effects for the broader economy.

Westpac notes that timing is important for this release:

> It covered the week in which the lock down was announced for Melbourne but the survey closed before the news of a significant cluster was reported for Sydney.

Consumer Sentiment Index; Jul 87.9 versus Jun 93.7



The biggest impact was a 10% decline in sentiment in Vic – the source of current infection outbreak. The rest of the nation recorded a 4.5% decline in sentiment.

Sentiment around the economy fell harder. There is likely some loss of confidence regarding the ability to contain the virus and "limiting the extent to which the economy can return to business as usual".

Sentiment for the year ahead fell by 14% in Jul and is 25% below the pre-Covid level (the low point was 40% below the pre-Covid level in Mar/Apr).

Finances versus a year ago was slightly better. This likely reflects some of the stimulus measures as well as people access Super balances (over 2.5m applications so far, approx. $27bn). Despite the boost, finances over the next 12-mths fell by 7% in the month, now back in line with a year ago.

Time to buy a dwelling increased in the month by 4% but remains 9% below a year ago.

Nationally it rose by 4.1% to 112.1, a six- month high but still well below the long run average of 120. State index moves varied materially: up 3.8% in Victoria; steady in NSW; but surging in Queensland (16.6%); South Australia (14.6%) and Western Australia (7.2%). Index levels tell a similar story with Victoria (103.8) and NSW (106.9) lagging well behind Western Australia (124), Queensland (122) and South Australia (120). Clearly, affordability is a key driver of this discrepancy but developments this month also point to a significant COVID effect emerging for housing across the nation.

The unemployment expectations index increased notably by 12% and is back up to +6% ahead of a year ago.

https://www.westpac.com.au/content/dam/public/wbc/documents/pdf/aw/economics-research/er20200715BullConsumerSentiment.pdf

NAB Business Conditions & Confidence (Jun)

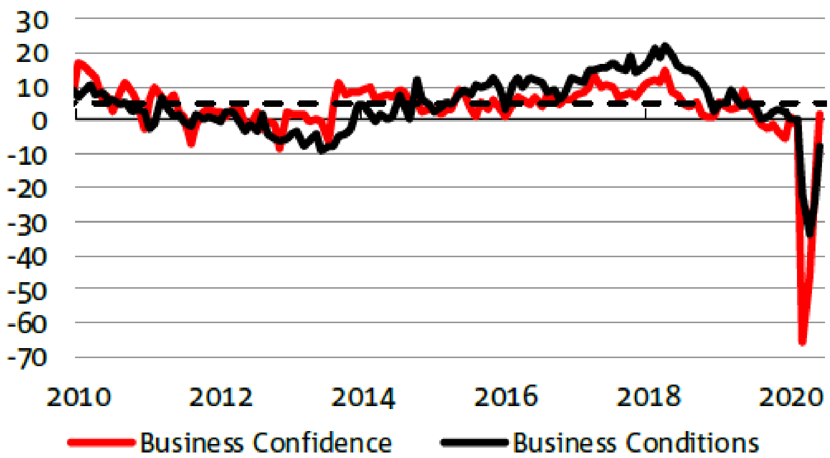
The NAB business survey was taken 24-30 Jun – prior to the current infection outbreak and lock-down in Vic.

The data prior to this current set back indicated some further strong improvement in confidence. Conditions also improved but remained negative overall.

Business Confidence – month; Jun 1 versus May -20

Business Conditions – month; Jun -7 versus May -24

CHART 1: CONFIDENCE AND CONDITIONS RISE



* Dotted lines are long-run averages since Mar-97.

The elements of business conditions all improved notably in Jun.

Trading increased from -19 in May to -7 In Jun

Profitability increased from -19 in May to -8 in Jun

Employment also increased from -31 in May to -11 in Jun

Forward orders improved from -29 to in May to -9 in Jun – still indicating weak growth in output in the short term.

Stocks declined at a slower pace from -9 in May to -6 in Jun.

Exports also continued to decline at a slower pace from -9 in May to -5 in Jun.

> Overall, it is encouraging that the business survey has shown a continued improvement in June, but while this rebound has been quite rapid it is important to note that overall, conditions remain very weak. It is likely that the business sector will require ongoing support via fiscal measures in addition to low interest rates if businesses are to see a turnaround in expansion plans and hiring going forward.

https://business.nab.com.au/nab-monthly-business-survey-june-2020-41210/

Labour Market Survey (Jun)

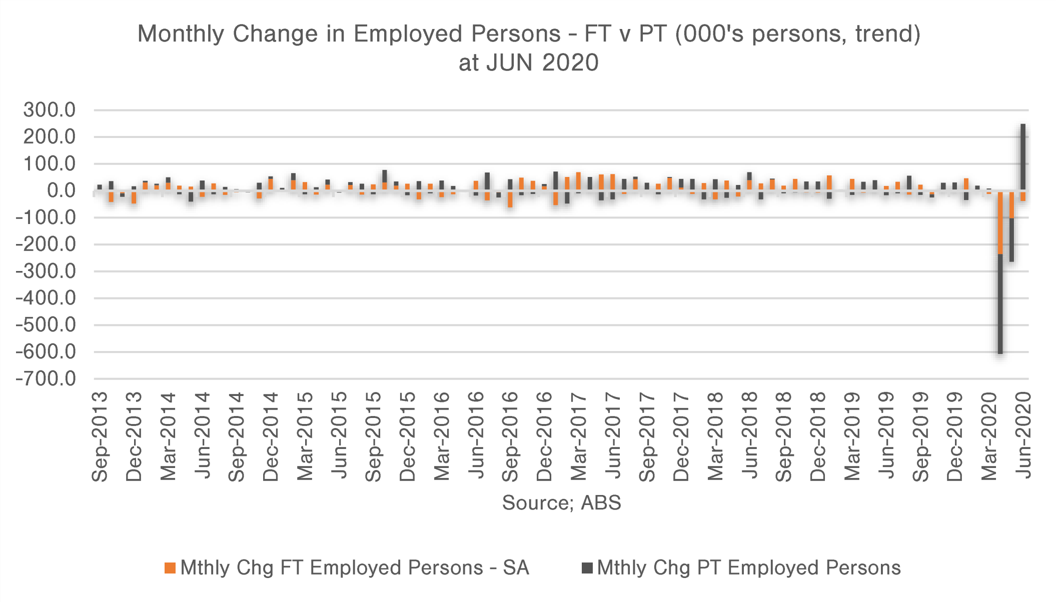
Consistent with the easing of restrictions leading up to Jun, there was an improvement in the labour market in Jun. In the month, there was a rebound in employment, led by growth in PT employment (FT employment continued to decline). Participation increased notably in the month which contributed mostly to the increase in total unemployed persons. The flow data suggests that most of those people (70%) that moved into unemployment in Jun had not been in the labour force in May. Note that part of this is due to the change in the JobSeeker mutual obligation requirements to look for a job once movement restrictions were lifted.

> The relatively large flow of people from not in the labour force into unemployment was particularly pronounced for people aged 15-24, accounting for around 79% of newly unemployed people in that age group.

Employment:

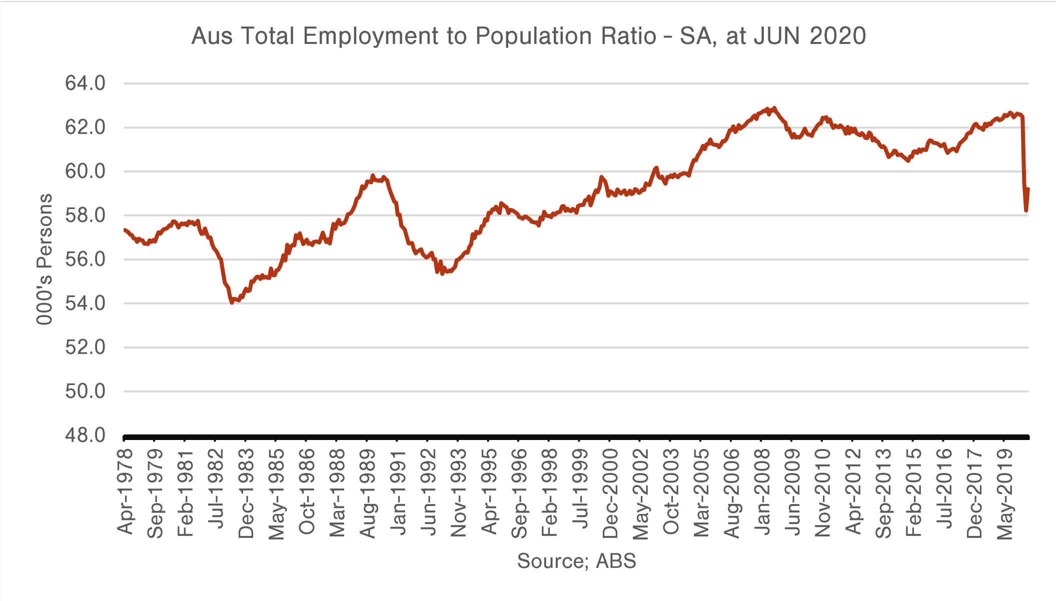
Total Employed Persons – month change; Jun +210k versus May -264k persons

The improvement in employment this month was all driven by growth in Part Time (PT) employment. Those employed PT increased by +249k persons in Jun. Full-Time (FT) employment continued to decline in Jun by a further -38k persons.



On an annual basis, employment was still 500k lower than in the same month a year ago.

The employment to population ratio increased to 59.2%, up from 58.2% in May. Aside from the result in May, this level of employment within the population is still on par with that of Jul 2002.



<u>Employment Flows (Original data)</u>

The improvement in employment in Jun was the result of a 400k outflow of employed persons (to unemployed or not in the labour force) and just under +600k inflow into employment in Jun.

Around 30% of the people moving into employment in June were aged 15 to 24 years.

Labour Force

There was a larger increase in the labour force this month. This was the result of the large increase in the participation rate.

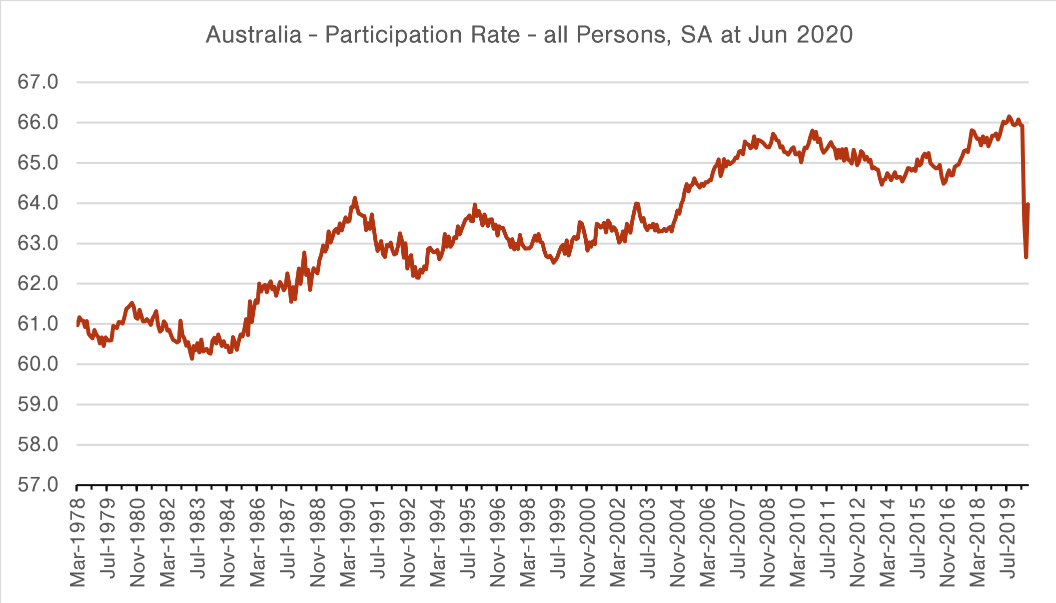
The increase in the participation rate was likely the result of the return to the mutual obligation requirement to look for work once community movement restrictions were lifted.

Total Labour Force – month change; Jun +280k versus May -183k persons

The size of the labour force is still smaller by 242k persons versus the same month a year ago.

The main contributor to the increase in the labour force this month was the increase in participation. The participation rate increased from the pandemic low of 62.7% in May to 64% in Jun. This is approx. +273k persons no longer classified as "Not in the Labour Force".

While there was an improvement in the month, participation remains extremely low:



The estimated change in the labour force due to population growth remained low and little changed from the month prior (approx. +7k in the Jun month).

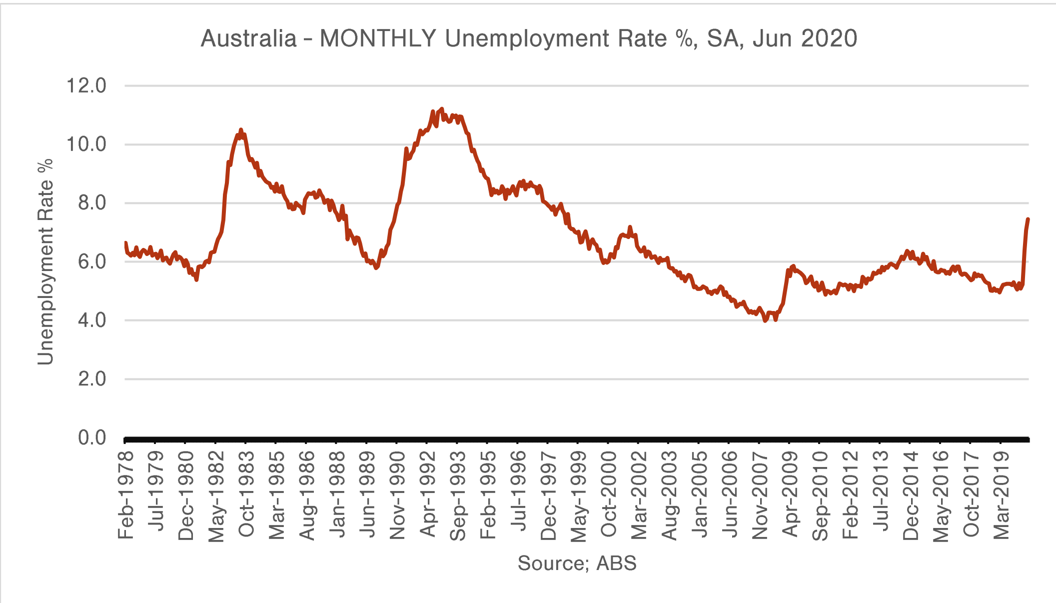
The important point though is that the month change in employment was still lower than that of the total labour force, which resulted in a further increase in unemployment.

Total Unemployment

Total Unemployed Persons – month change; Jun +69k versus May +81k persons

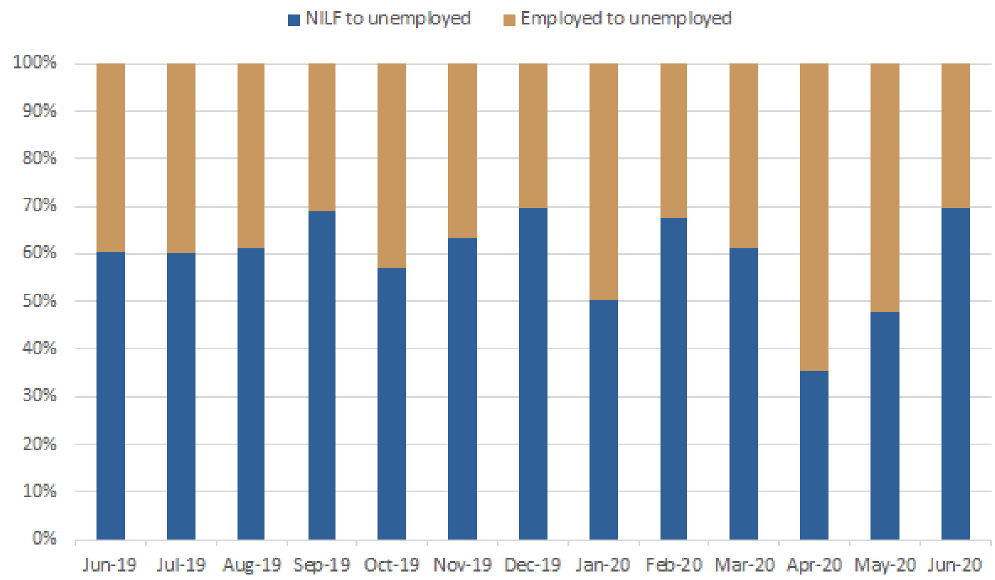
The total number of unemployed persons reached 966k persons in Jun and is +280k higher than in Jun 2019.

The unemployment rate increased to 7.4% in Jun. Still below the last two recessions in the 80's and 90's but now above that reached during the GFC and 2000:



Most people that moved into unemployment this month were not in the labour force in May (70% of the increase in unemployment in Jun was due to the increase in participation). The remaining increase was from people moving from a status of employed to unemployed.

People moving into unemployment, Original



The relatively large flow of people from not in the labour force into unemployment was particularly pronounced for people aged 15-24, accounting for around 79% of newly unemployed people in that age group.

Summary

In the month of Jun, there was a rebound in employment growth. This was led exclusively by growth in PT employment. FT employment continued to decline. While there was an increase in employment, the number of people coming back into the labour force was larger than the number of jobs – resulting in an increase in total unemployment.

Approx. 70% of that increase in unemployment in Jun was the result of the increase in participation and the remaining 30% was the result of people losing their jobs.

On an annual basis, employment remains much lower than a year ago. This has been somewhat offset by the annual decline in participation. Total unemployment increased on an annual basis but would have been higher were it not for the large annual decline in participation (i.e. people leaving the labour force).

	000's Persons	
	Annual Chg - JUN	Month Chg - JUN
The estimated change in the Labour Force due to pop growth	177.461	6.814
How many jobs available for them? (employment growth)	-522.273	210.831
Difference (if positive, employment growing faster than pop est)	-699.734	204.016
Change in labour force due to the change in participation	-419.580	273.460
The reminder is the change in total unemployed persons	280.154	69.444
Double Check - Reported chg in size of the Labour Force	-242.119	280.134
Two views of the size of the Labour Force:		
Underlying population growth plus changes in participation	-242.119	280.274
Total employed persons plus total unemployed persons	-242.119	280.274

https://www.abs.gov.au/AUSSTATS/abs@.nsf/Latestproducts/6202.0Main%20Features5Jun%202020?opendocument&tabname=Summary&prodno=6202.0&issue=Jun%202020&num=&view=

Return to top

China

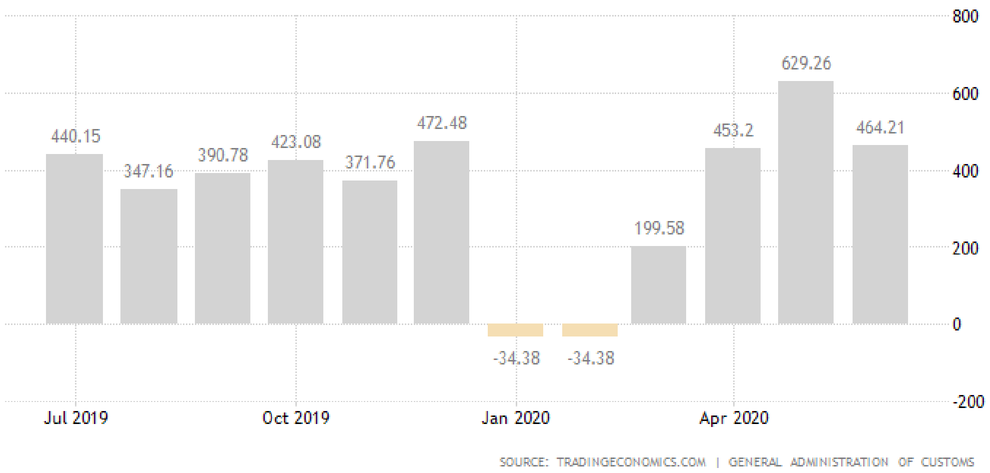
Trade Balance, Exports and Imports (Jun)

The trade surplus was smaller this month versus a year ago. This month, both exports and imports increased versus a year ago, with imports increasing at a faster pace. The Jun result for imports was the first year on year increase in imports so far for 2020. Import growth was led by commodities; a new record import (level in tonnes) for copper, oil (on a bpd basis), and iron ore (largest since Oct 2017).

On a YTD basis, both exports and imports remain 6.2% and 7.1% below the same period a year ago.

<u>China trade surplus (USD);</u> Jun 2020 46.4bn versus Jun 2019 49.6bn

Chart: China Balance of Trade (USD) 12-mths to Jun 2020



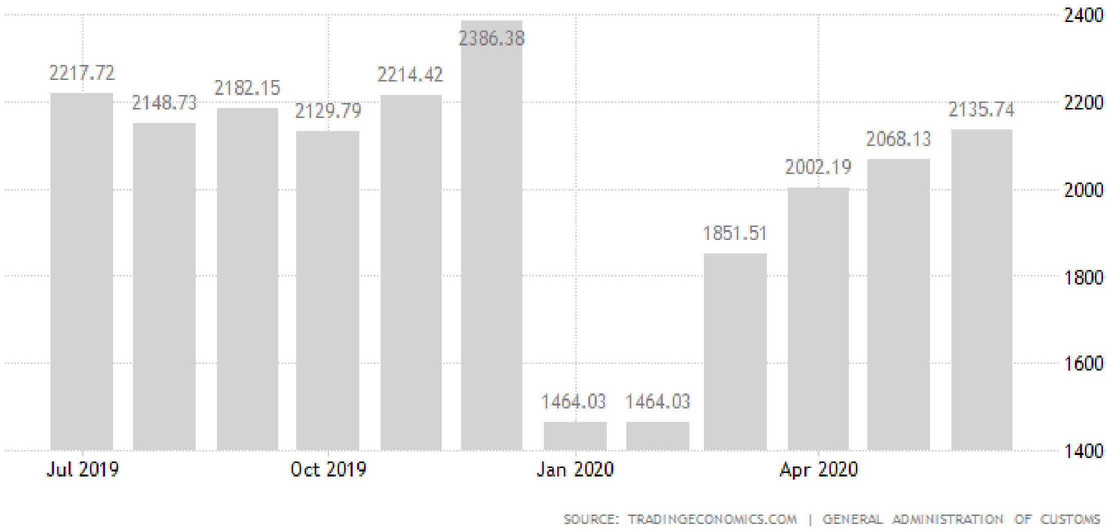
The lower surplus in the month was the result of faster growth in imports than in exports versus a year ago.

<u>Exports (USD);</u> Jun 2020 213.5bn versus Jun 2019 212.5bn

Exports in June were +0.5% versus the same month a year ago.

> Demand for virus-related medical products, such as face masks and personal protective equipment, has helped China sell more products overseas. In contrast, exports of refined products declined 28.6 percent; those of unwrought aluminium and products were down 30 percent; and steel fell 30.3 percent.

Chart: China Exports (USD) by Month at Jun 2020



On a YTD basis at Jun 2020, exports are still down by -6.2% versus the same period a year ago. This slightly improved from the -7.7% decline recorded in the YTD to May.

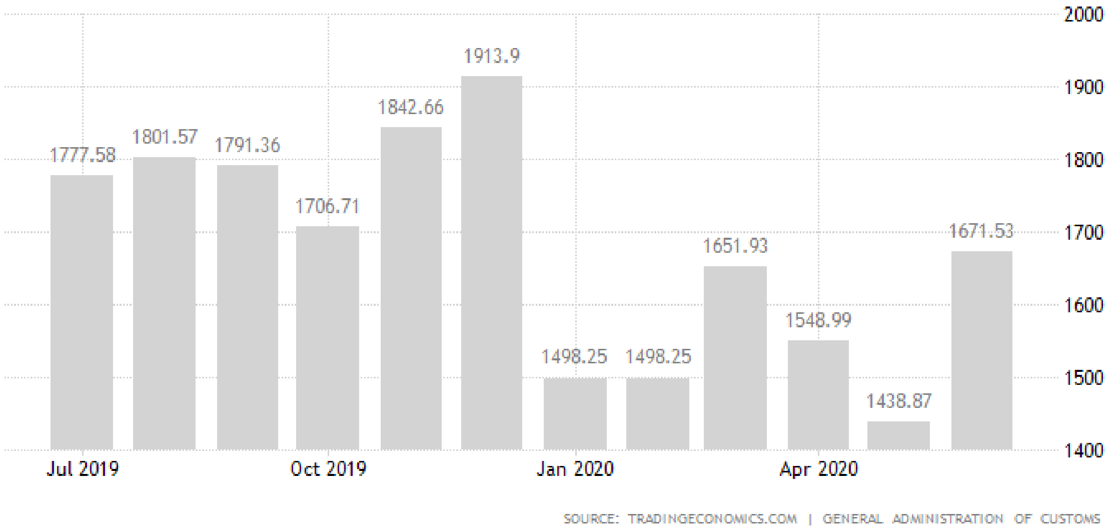
On a YTD basis (Jan-Jun 2020), exports to several key markets are still well below a year ago.

Exports to the US -11%, Hong Kong -12.2%, Africa -8% and Latin America -9%.

Imports (USD): Jun 2020 167.1bn versus Jun 2019 162.7bn

Imports in Jun were +2.7% ahead of the same month a year ago – the first year on year growth recorded this year.

Chart: China Imports (USD) by Month at Jun 2020



China's unwrought copper imports soared by 101.4 percent year-on-year to hit a record high of 656,483 tonnes in June, amid increased manufacturing activity and shortages of scrap. Also, purchases of iron ore jumped 35.3 percent to the largest since October 2017 of 101.68 million tonnes. Imports of crude oil

> reached 53.18 million tonnes, or 12.9 million barrels per day, surpassing a prior record of 11.3 million bpd in May. Arrivals of soybeans climbed 71 percent to the largest on record of 11.16 million tonnes. In contrast, China's coal imports dropped 6.7 percent due to stringent purchase restrictions at ports despite solid fuel demand.

Ona YTD basis, imports are still -7.1% below the same period a year ago. This is also slightly better than the -8.2% decline in the YTD to May result.

Imports are down across several key markets in the YTD:

EU -10% and within that, imports from Germany are down -13%, Africa -31%, Singapore -13%, UK -17%, and Canada -35%.

US imports are down -4.8% in the YTD – slightly small decline than at the total level.

https://tradingeconomics.com/china/balance-of-trade

http://english.customs.gov.cn/Statics/6bd9d613-6a26-4078-82e8-54ee3bbe1f92.html

http://english.customs.gov.cn/Statics/552722c0-44a8-4f78-8f30-5a8692da71ed.html

China GDP Q2 Prelim

The prelim GDP growth in real terms rebounded in Q2 – technically avoiding a recession. This was led by stronger growth across construction, finance, and industry/manufacturing. Growth was generally weaker or declining across the consumer facing sectors.

The output across most sectors for Q1+Q2 remains below the same two quarters a year ago – the exceptions are farming/forestry, finance, and information transmission, software & IT services.

GDP Growth – quarter change: Q2 2020 +11.5% versus Q1 2020 -10%

On an annual basis, GDP growth increased from a decline of -6.8% in Q1 to +3.2% growth in Q2.

The Q2 annual growth of +3.2% is just above half the pace of growth in Q2 2019 (+6.2%).

On an annual basis, growth was recorded across most industry sectors. The largest annual growth was recorded across: construction +7.8%, finance +7.2%, info transmission, software and IT +15.7%, and industry/manufacturing +4.4% (the largest by value).

Sectors that still recorded growth, but at a slower pace than the year on year result: wholesale and retail trade +1.2% and transport, storage and post +1.7%.

Sectors still recording a year on year decline in output are: accomms and restaurants -18%, renting and leasing activities -8% and others -0.9%.

http://www.stats.gov.cn/english/PressRelease/202007/t20200717_1776596.html

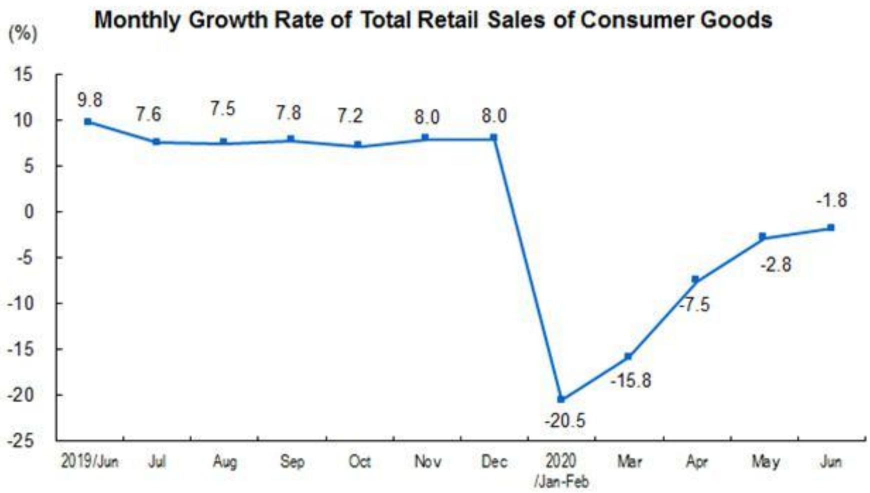
Retail Sales (Jun)

The consumer spending recovery in China remains weaker. Total retail sales declined in the month and remain below the same month a year ago (albeit declining at a slower pace). The YTD retails sales, versus the same period last year, recorded a decline of -11.4% - highlighting that while the year on year by month is slowly coming back up to par with a year ago, a large gap in retail sales performance still exists.

Retail Sales (nominal terms) – annual change: Jun -1.8% versus May -2.8%

In real terms, the decline in retail sales was larger at -2.9%.

Juan retail sales were -1% on the prior month and excluding auto sales, retail sales were also down -1% on the prior month.



Performance of the largest categories is mixed (in order of size, value Yuan):

The single largest sales category (by value Yuan) is autos and sales are still -8.2% below the same month a year ago and YTD is 15% below the same period a year ago.

Next largest category is petroleum and annual growth is -13% below a year ago in Jun and -18% down on the YTD.

Grain, oil, and foodstuffs are +10.5% versus a year ago and +13% in the YTD.

Garments and footwear are -0.1% versus a year ago and remain down 20% in the YTD.

Household appliances and AV Equipment +9.8% in Jun but still -12.2% down in the YTD versus the same period a year ago.

http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776339.html

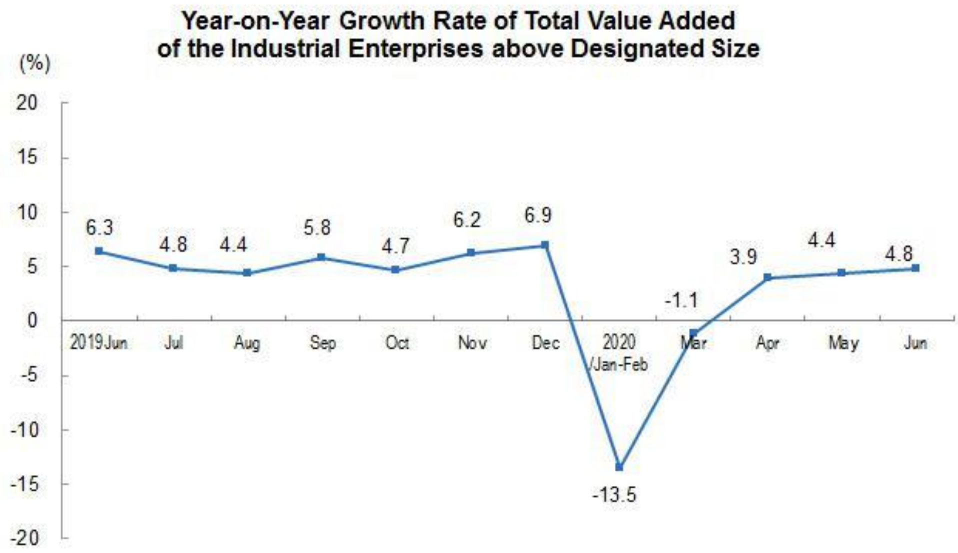
Industrial Production (Jun)

The monthly pace of growth in industrial production continued to increase in Jun. The YTD growth though highlights that the fall in production in Jan-Mar is yet to be fully recovered (versus a year ago).

Industrial Production – annual change (versus same month a year ago): Jun +4.8% versus May +4.4%

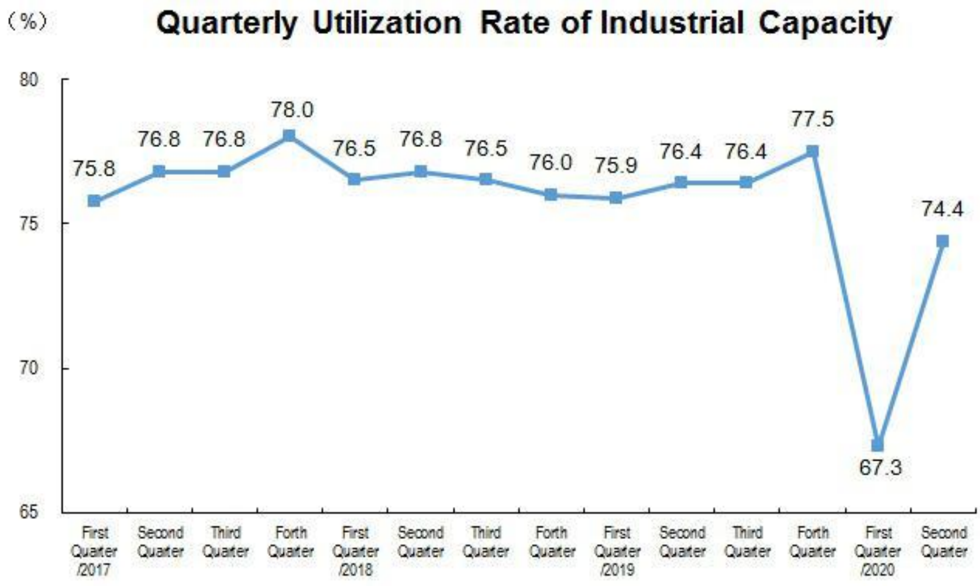
Monthly production increased by +1.3% versus May.

On a YTD basis (Jan-Jun), production was -1.3% below the same period a year ago.



In terms of three categories, in June, the value added of the mining industry increased by 1.7 percent year-on-year, up 0.6 percentage point over last month; **that of the manufacturing industry increased by 5.1 percent, 0.1 percentage point of decrease over last month**; that of the production and distribution of electricity, heating, gas and water increased by 5.5 percent, 1.9 percentage points of higher over last month.

Capacity utilization over Q2 continues to recover and remains below the 2019 levels:



Despite the lift in production, utilization remains below the same quarter a year ago (considering that Q2 was mostly production recovery):

Mining & quarrying capacity is 72.1% and 2.5%pts below a year ago

Manufacturing capacity utilization is 74.8% and -2.1% below a year ago

Utilities production capacity utilization is 70.6% and -0.2% below a year ago.

The capacity utilization across all industrial sectors is below the same time a year ago.

http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776318.html

http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776351.html

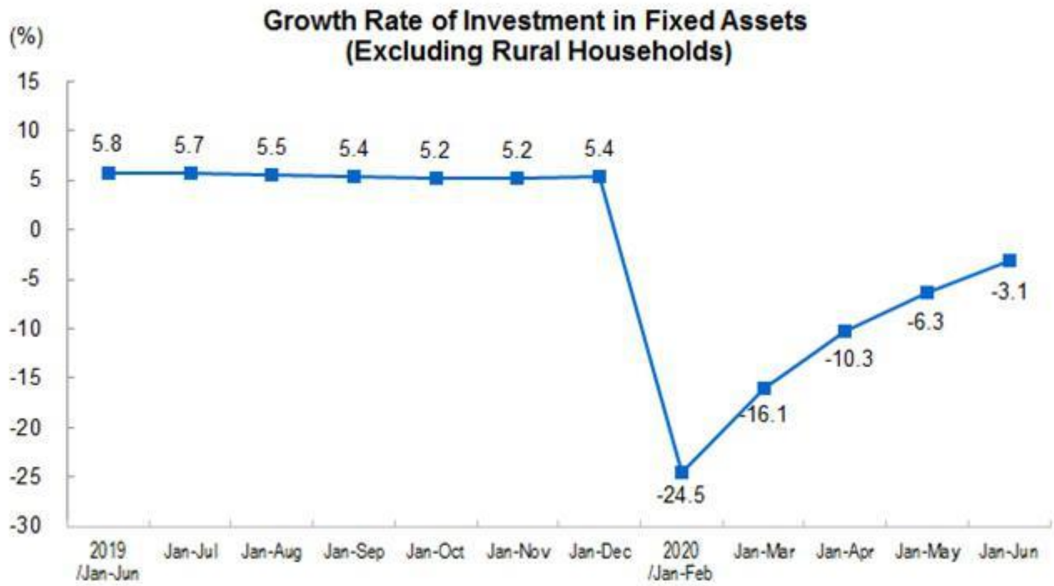
Fixed Asset Investment (Jun)

Given the weaker, albeit improving capacity utilization, it is not surprising to see fixed asset investment remain below a year ago – especially across manufacturing. While there has been a narrowing of the decline in investment as the year has progressed, there has not been a broad return to investment growth by industry (despite lending growth).

The industry groups that recorded an increase in fixed asset investment are notable:

manufacture of telecom equipment, computers, and other electronic equipment (+9.4%), manufacture of medicines (+13.6%), production of electricity supply, gas and water (+18.2%), education (+10.8%), and health (+14%). Railway and road infrastructure investment increased by +2.6% and +0.8% respectively.

Fixed Asset Investment – annual change (YTD 2020 versus a year ago); Jan-Jun -3.1% versus Jan-May -6.3%



Across the main industry groupings (at YTD Jan-Jun versus the same period a year ago):

Primary industry investment increased by +3.8% (agriculture investment +5.5%)

Secondary industry investment declined by -7.4%, including:

Mining -3.9%

Manufacturing -11.7%

Utilities +18.2%

Tertiary Industry (ex-utilities) declined by -2.7%:

> In the tertiary industry, infrastructure investment (excluding power, heat, gas and water production and supply industries) decreased by 2.7 percent year on year, narrowed 3.6 percentage points of decline than that in the first five month. Among them, investment in water conservancy management industry increased by 0.4 percent, which was 2.0 percent of decrease in the first five months; the investment in public facilities management industry decreased by 6.2 percent, with a decrease rate of 2.1 percentage points; the investment in road transportation industry and in railway transportation industry increased by 0.8 and 2.6 percent, which was 2.9 and 8.8 percent of decrease in the first five months.

http://www.stats.gov.cn/english/PressRelease/202007/t20200716_1776325.html

Return to top

Trade

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. 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

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

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.

Round six of the negotiations will commence this week and run from 20-23 Jul. https://ec.europa.eu/info/sites/info/files/brexit_files/info_site/20200717_r6_draft_agenda_fin.pdf

> 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

Return to top