

Key Themes

Central bank minutes and prelim Aug PMI's will be the focus this week. The Aug data, more generally, will likely begin to show the underlying pace of recovery in services and manufacturing activity. Much of the current momentum has been driven by reopening and restocking as supply chains have come back online (still a globally uneven process).

The meeting minutes of the US FOMC, ECB and RBA will be released this week. There are no surprises expected, given that the policy focus remains extremely accommodative.

The prelim Aug PMI's will be released for the US, Japan, Australia, the Eurozone, and the UK. While all these markets recorded improvements in activity in Jul, the UK and Aus services rebound was the strongest. The Aus data may start to reflect some of the targeted lockdown measures.

In the US, there has so far been no further progress on the stimulus bill. Both the House and the Senate have left Washington until Sep. The Senate could be recalled if an agreement can be reached and a vote scheduled.

Other US data of note will be initial claims data (which has been slowing notably – possibly due to Census hiring) and regional manufacturing surveys for Aug.

The schedule of US Fed purchases of Treasury and Mortgage-Backed Securities for this week will remain higher. Treasury Security purchases by the Fed this week will be \$21.45bn (last week total \$20.63bn). The purchase of MBS will be \$25.6bn this week (last week \$22.03bn).

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$397bn in ST bills, Notes, and Bonds this week, raising approx. \$70bn in new money. The US Treasury will also auction approx. \$32bn in Bonds and 30-yr TIPS this week that will settle on 31 Aug.

US Treasury Issuance & QE

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The US Treasury will settle approx. \$397bn in ST bills, Notes and Bonds this week, raising approx. \$70bn in new money.

The US Treasury will also auction approx. \$32bn of 20yr Bonds and 30yr TIPS this week that will settle on 31 Aug.

So far, there has been no agreement on the next stimulus bill. The US Treasury estimate for new money raised this quarter is \$947bn. We are just over half the way through this quarter and new money raised in the quarter-to-date is at 12% of the estimate.

Approx. \$85.5bn in securities (Notes, Bonds, and Bills) will mature on the Fed balance sheet this week and will be rolled over.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
17-21 Aug	13-Aug	18-Aug	4 week bill	30			Completed		
	13-Aug	18-Aug	8 week bill	35			Completed		
				65	120	-55			
	12-Aug	18-Aug	154-Day CMB	30			Completed	912796A74	Matures 19 Jan 2021
	12-Aug	18-Aug	105-Day Bill	25			Completed	9127964U0	Matures 1 Dec 2020
	18-Aug	20-Aug	119-Day CMB	30			Announced	9127963K3	Matures 17 Dec 2020
	18-Aug	20-Aug	42-Day CMB	30			Announced	9127962J7	Matures 1 Oct 2020
				115	0	115			
	17-Aug	20-Aug	13 week bill	54			Announced		
	17-Aug	20-Aug	26 week bill	51			Announced		
				105	157.6	-52.6			
	11-Aug	17-Aug	3yr Note	48			Completed		
	12-Aug	17-Aug	10yr Note	38			Completed		
	13-Aug	17-Aug	30yr Bond	26			Completed		
				112	49.52	62.48			
			Total - securities settling this week	397	327.12	69.88			
			QTR to date totals	2,550	2,438	112			12%
			<i>Treasury Estimates for Q3 2020</i>			<i>947</i>	<i>Updated</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
	15-Aug		Notes & Bonds	66.600					
	18-Aug		Bills	5.400					
	20-Aug		Bills	13.500					
				85.500					

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

QE PROGRAMS

The new schedule for Treasury and MBS purchases was released last week:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 17 Aug	1.75	4.981
Tue 18 Aug	8.825	3.587
Wed 19 Aug	1.225	7.043
Thur 20 Aug	3.625	4.980
Fri 21 Aug	6.025	4.987
Total Announced Purchases	\$21.45bn (last wk. \$20.625bn)	\$25.6bn (last wk. \$22.03bn)

Links to Operation Schedules -

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

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

REPO OPERATIONS

Several changes were announced with the new schedule: adjustment of the minimum bid rate and timing of repo operations.

Primary Dealers will be permitted to submit up to two propositions per security type per operation at rates equal to or greater than the operation minimum bid rate, which is set at the rate of interest on excess reserves (IOER) plus a spread.

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
Tue 18 Aug 2020	15 Sep 2020	28-Days	\$500bn

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

SWAP LINES

Announcements; <https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315b.htm>

<https://www.newyorkfed.org/markets/international-market-operations/central-bank-swap-arrangements>

WEEK COMMENCING 17 AUGUST 2020

MONDAY 17 AUGUST (US Eastern Time)

US	NY Empire State Manufacturing Index (Aug), NAHB Housing Market Index (Aug)
Japan	GDP Q2, Industrial Production Final (Jun)

TUESDAY 18 AUGUST

US	Building Permits & Housing Starts (Jul)
Japan	Merchandise Trade (Jul)
Australia	RBA Minutes

WEDNESDAY 19 AUGUST

US	MBA Mortgage Applications wk ending 14 Aug, FOMC Minutes
Europe	Eurozone CPI (Jul)
UK	CPI (Jul)

THURSDAY 20 AUGUST

US	Initial Jobless Claims (wk ending 14 Aug), Continuing Unemployment Claims (wk ending 7 Aug), and PUA Claims, Philadelphia Fed Manufacturing Survey (Aug)
Japan	National CPI (Jul)
Australia	CBA Manufacturing and Services PMI Prelim (Aug)
Europe	ECB Minutes

FRIDAY 21 AUGUST

US	Markit Manufacturing and Services PMI Prelim (Aug), Existing Home Sales (Jul)
Europe	Eurozone Manufacturing and Services PMI Prelim (Aug)
Japan	Japan Manufacturing PMI Prelim (Aug)
UK	Markit Manufacturing and Services PMI Prelim (Aug), Retail Sales (Jul)

Trade & Brexit

US-China Trade Talks

Relations between the US and China remain tense and this is likely to be an enduring theme leading up to the US election in Nov.

Part of reason for the escalation – without a full reescalation in the ‘trade war’ (so as not to impact the stock market) - is most likely due to the positive impact on President Trump’s re-election bid:

But Wang’s conciliatory posture, rather rare in recent months, was met with **an increasingly impatient, hostile administration under embattled US President Donald Trump, who was eager to get tougher on China to revive his imperilled re-election bid.**

<https://www.scmp.com/news/china/diplomacy/article/3095498/china-us-relations-why-wang-yi-went-back-wolf-warrior-mode>

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>

In the weeks leading to the consulate closures on both sides, which Beijing lamented as “unprecedented escalation”, Washington significantly piled pressure on Beijing, with muscle-flexing in the disputed South China Sea, sanctions on Hong Kong and Xinjiang and its warming ties with Taiwan.

<https://www.scmp.com/news/china/diplomacy/article/3095498/china-us-relations-why-wang-yi-went-back-wolf-warrior-mode>

A recent speech by US Secretary of State, Mike Pompeo had added further to tensions - “Communist China and Free World’s Future” <https://www.state.gov/communist-china-and-the-free-worlds-future/>

The Chinese foreign ministry denounced the speech:

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

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

A review of the phase one deal was scheduled for the last weekend and did not go ahead.

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>

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

The next round of talks between the UK and the EU will commence this week.

This is part of a new timetable for talks with the final deadline for a trade agreement on 2 Oct.

https://www.business-standard.com/article/international/britain-european-union-set-new-timetable-of-meetings-for-post-brexite-deal-120080100099_1.html

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-brexite-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

US-Europe Trade Talks

The USTR issued a modification to the products that are authorized by the WTO for additional duties due to the case regarding subsidies for large civil aircraft.

USTR is removing from the tariff list certain products from Greece and the United Kingdom and adding an equivalent amount of trade from France and Germany. The changes are modest; the amount of products subject to countermeasures will remain unchanged at \$7.5 billion and the tariff rates will remain unchanged at 15% for aircraft and 25% for all other products.

“The EU and member states have not taken the actions necessary to come into compliance with WTO decisions,” Ambassador Robert Lighthizer stated. “The United States, however, is committed to obtaining a long-term resolution to this dispute. Accordingly, the United States will begin a new process with the EU in an effort to reach an agreement that will remedy the conduct that harmed the U.S. aviation industry and workers and will ensure a level playing field for U.S. companies.”

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/august/ustr-modifies-75-billion-wto-award-implementation-relating-illegal-airbus-subsidies>

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

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

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