

Key Themes

There are two headline events this week. The main one is the Jackson Hole central bank symposium later in the week. US Fed Chairman Powell's speech on Thurs is expected to present the outcomes from the monetary policy framework review.

The Republican Convention will be at the start of the week.

It will be a lighter week of data, focusing mostly on US data. The important datapoints will be - initial and continuing claims, the second half of Aug consumer sentiment data from the University of Michigan, personal income, consumption and prices for Jul and the advance durable goods data for Jul.

Important Q2 Aus data will be released this week in preparation for the Q2 GDP release next week. This week will be Q2 private sector capex and construction work done.

The schedule of US Fed purchases of Treasury and Mortgage-Backed Securities for this week is incomplete – the new schedule will be released on 27 Aug. Purchases are up to and including Thurs 27 Aug. Treasury Security purchases by the Fed this week will be \$5.925bn (last week total \$21.45bn). The purchase of MBS will be \$22bn this week (last week \$25.6bn).

US Treasury issuance will be somewhat lighter this week. The US Treasury will settle approx. \$307bn in ST bills and FRNs this week, raising approx. \$38bn in new money. The US Treasury will also auction approx. \$148bn of Notes this week that will settle on 31 Aug.

US Treasury Issuance & QE

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The US Treasury will also auction approx. \$148bn of Notes this week that will settle on 31 Aug. Total coupons to settle on the 31 Aug will be \$180bn, raising approx. \$93bn in new money.

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 over half the way through this quarter and new money raised in the quarter-to-date is at 16% of the estimate.

Approx. \$15bn in securities (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			
24-28 Aug	20-Aug	25-Aug	4 week bill	30			Completed		
	20-Aug	25-Aug	8 week bill	35			Completed		
				65	110	-45			
	24-Aug	27-Aug	13 week bill	54			Announced		
	24-Aug	27-Aug	26 week bill	51			Announced		
				105	159.3	-54.3			
	19-Aug	25-Aug	154-Day CMB	30			Completed	912796A82	Matures 26 Jan 2021
	19-Aug	25-Aug	105-Day CMB	25			Completed	9127965B1	Matures 8 Dec
	25-Aug	27-Aug	42-Day CMB	30			Announced	912796TN9	Matures 8 Oct
	25-Aug	27-Aug	119-Day CMB	30			Announced	9127963L1	Matures 24 Dec
				115	0	115			
	26-Aug	28-Aug	2Yr FRN	22			Announced		
				22	0	22			
			Total - securities settling this week	307	269.3	37.7			
			QTR to date totals	2,857	2,707	150			
			<i>Treasury Estimates for Q3 2020</i>			<i>947</i>	<i>Updated</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		25-Aug	Bills	6.22					
		27-Aug	Bills	8.67					
				14.9					

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

QE PROGRAMS

The new schedule for treasury and MBS purchases by the Fed will be released on the 27 Aug. The schedule below is incomplete:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 24 Aug	1.75	4.979
Tue 25 Aug	0	4.987
Wed 26 Aug	2.425	7.042
Thur 27 Aug	1.75	4.987
Fri 28 Aug	TBC	TBC
Total Announced Purchases	\$5.925bn (last wk. \$21.45bn)	\$22bn (last wk. \$25.6bn)

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 25 Aug 2020	22 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 24 AUGUST 2020

MONDAY 24 AUGUST (US Eastern Time)

US	Chicago Fed National Activity Index (Jul)
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TUESDAY 25 AUGUST

US	Case-Shiller Home Price Index (Jun), Richmond Fed Manufacturing Index (Aug), New Home Sales (Jul),
Europe	Germany GDP Q2

WEDNESDAY 26 AUGUST

US	MBA Mortgage Applications wk ending 21 Aug, Advance Durable Goods Orders (Jul)
Australia	Private Capex Q2, Construction Work Done Q2

THURSDAY 27 AUGUST

Jackson Hole Central Bank Symposium & FOMC Chairman Powell speech Monetary Policy Framework Review, "Navigating the Decade Ahead: Implications for Monetary Policy" Link to video (then scroll down to 27 Aug calendar):
<https://www.federalreserve.gov/newsevents/calendar.htm>

US	Initial Jobless Claims (wk ending 21 Aug), Continuing Unemployment Claims (wk ending 14 Aug), and PUA Claims, Real GDP – First Est Q2 2020, Kansas Fed Manufacturing Activity (Aug)
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FRIDAY 28 AUGUST

Jackson Hole Central Bank Symposium

US	Personal Income, Expenditure and Price Indexes (Jul), Chicago PMI (Aug), University of Michigan Consumer Sentiment – Final (Aug)
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Trade & Brexit

US-China Trade Talks

There are mixed signals regarding a resumption of talks between the US and China. The semi-annual review of the phase one deal was postponed last week, and it is not clear whether or when it will be rescheduled:

Beijing's commerce ministry said on Thursday the two sides have agreed to talk "in coming days" after US President Donald Trump claimed he postponed discussions on the phase one trade deal because he was unhappy with China's handling of the coronavirus. The Trump administration, however, has refused to confirm if the talks have been rescheduled.

While trade may be at the top of the agenda, the talks will be a rare platform for senior officials to tone down growing bilateral hostilities and for Beijing to keep relations on track ahead of the US presidential election on November 3, according to analysts. <https://www.scmp.com/economy/china-economy/article/3098369/us-china-trade-talks-opportunity-beijing-negotiate-and-manage>

Relations between the US and China remain tense. There is likely to be posturing on the part of President Trump to use the division with China to further his re-election prospects, but without igniting a full re-escalation of the 'trade war', so as not to impact the stock market.

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>

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

There has been no further progress on a trade agreement between the UK and the EU in the latest round of Brexit talks. Talks will move to the UK in early Sep.

Despite their public declarations of frustration, both sides still say a deal can be reached but it must happen by October to allow time for ratification by the European Parliament.

Downing Street has ruled out an extension to this year's transition period. So, if no deal is done, the UK would trade with the EU on World Trade Organization terms for the first time in decades.

Each denounces the other side as unreasonable, unfair and uncompromising. A tough tactic which increases the chances of another cliff-edge of sorts.

<https://www.bbc.com/news/uk-politics-53866813>

The timetable for talks has a "final" deadline for a trade agreement on 2 Oct to enable ratification the European parliament.

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

The following trade items have recorded no change in status:

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

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