

## Key Themes

Global PMI's for Aug, US non-farm payrolls and further US Fed speeches on the new US monetary policy framework will be in focus this week.

Early this week there will be two further speeches by US Fed Vice Chair Clarida and Governor Brainard on the monetary policy framework announced last week. This will likely contain further operational detail.

The global PMI's for Aug will be released this week.

Data highlights will be -

**US:** Non-farm payrolls and the monthly employment report for Aug. The Challenger job cut report might become more of a focus to gauge announcements on further job cuts across industries. The ISM manufacturing and services PMI's will also be released this week for Aug.

**Japan:** retail trade and industrial production for Jul.

**Australia:** the RBA meets this week on interest rates and monetary policy. Also of note this week will be the Q2 GDP and retail sales for Jul.

The latest schedule of US Fed purchases of Treasury and Mortgage-Backed Securities was updated last week. The purchase of Treasury securities is again below the \$20bn benchmark, while purchases of MBS have been increasing and are above the \$20bn benchmark. Treasury Security purchases by the Fed this week will be \$15.425bn (last week total \$18.75bn). The purchase of MBS will be \$24bn this week (last week \$27bn).

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$465bn in ST Bills, Notes, Bonds and TIPS this week, raising approx. \$111bn in new money.

Next Monday 7 Sep is a National US holiday (Labor Day).

## US Treasury Issuance & QE

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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 28% of the estimate.

Approx. \$34bn in securities (Bills, Notes, and Bonds) 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			
31 Aug - 4 Sep	27-Aug	01-Sep	4 week bill	30			Completed		
	27-Aug	01-Sep	8 week bill	35			Completed		
				65	110	-45			
	31-Aug	03-Sep	13 week bill	54			Announced		
	31-Aug	03-Sep	26 week bill	51			Announced		
				105	157.1	-52.1			
	26-Aug	01-Sep	154-Day CMB	30			Completed	912796B65	Matures 2 Feb 2021
	26-Aug	01-Sep	105-Day CMB	25			Completed	9127965C9	Matures 15 Dec
	01-Sep	03-Sep	119-Day CMB	30			Announced	912796TY5	Matures 31 Dec
	01-Sep	03-Sep	42-Day CMB	30			Announced	9127962R9	Matures 15 Oct
				115	0	115			
	25-Aug	31-Aug	2yr Note	50			Completed		
	26-Aug	31-Aug	5yr Note	51			Completed		
	27-Aug	31-Aug	7yr Note	47			Completed		
	19-Aug	31-Aug	20yr Bond	25			Completed		
	20-Aug	31-Aug	30yr TIPS	7			Completed		
				180	86.9	93.1			
			<b>Total - securities selling this week</b>	<b>485</b>	<b>354</b>	<b>111</b>			
			<b>QTR to date totals</b>	<b>3,322</b>	<b>3,061</b>	<b>261</b>	<b>28%</b>		
			<i>Treasury Estimates for Q3 2020</i>			<i>947</i>	<i>Updated</i>		
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$B</b>					
	31-Aug-20		Notes & Bonds	15.6					
	01-Sep		Bills	6.1					
	03-Sep		Bills	12.7					
				34.4					

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

## QE PROGRAMS

The new schedule for Treasury and MBS purchases by the Fed was released on 27 Aug. Last week's total has been updated to reflect the inclusion of Fri 28 Aug operations.

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 31 Aug	8.825	4.979
Tue 1 Sep	1.75	4.987
Wed 2 Sep	1.225	7.042
Thur 3 Sep	3.625	4.987
Fri 4 Sep	0	TBC
Total Announced Purchases	\$15.425bn (last wk. \$18.75bn)	\$24.041bn (last wk. \$26.975bn)

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](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 1 Sep 2020	29 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 31 AUGUST 2020

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## MONDAY 31 AUGUST (US Eastern Time)

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US	Dallas Fed Manufacturing Index (Aug) <i>Speech - US Fed Vice Chair Clarida - The US Fed's New Monetary Policy Framework, PIIE, Washington</i>
China	NBS Manufacturing and Non-Manufacturing PMI (Aug)
Japan	Retail Trade (Jul), Industrial Production - Prelim (Jul)
Australia	Private Sector Credit (Jul), CBA Manufacturing PMI - Final (Aug)

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## TUESDAY 1 SEPTEMBER

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US	ISM Manufacturing Index (Aug), Markit Manufacturing Index - Final (Aug) <i>Speech - US Fed Governor Brainard - Monetary Policy Framework Review, Brookings, Washington</i>
Europe	Eurozone Manufacturing PMI - Final (Aug), Eurozone CPI Prelim (Aug)
Japan	Manufacturing PMI - Final (Aug)
Australia	RBA Interest Rate Decision
UK	Manufacturing PMI - Final (Aug)

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## WEDNESDAY 2 SEPTEMBER

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US	MBA Mortgage Applications wk ending 28 Aug, ADP Employment Index (Aug), ISM NY Business Conditions (Aug), Factory Orders (Jul)
Australia	Real GDP Q2, CBA Services PMI - Final (Aug)

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## THURSDAY 3 SEPTEMBER

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US	Initial Jobless Claims (wk ending 28 Aug), Continuing Unemployment Claims (wk ending 21 Aug), and PUA Claims, Challenger Job Cuts (Aug), ISM Services PMI (Aug), Markit Services PMI - Final (Aug)
Europe	Eurozone Services PMI - Final (Aug), Eurozone Retail Sales (Jul)
Japan	Services PMI (Aug)
UK	Services PMI - Final (Aug)

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## FRIDAY 4 SEPTEMBER

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US	Non-Farm Payrolls and Household Employment Survey (Aug)
Australia	Retail Sales (Jul)

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## Trade & Brexit

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### US-China Trade Talks

The first high level talks between the US and China were held by telephone early last week. The discussion largely focused on reviewing the progress of the trade deal signed earlier in the year.

“both sides see progress and are committed to taking the steps necessary to ensure the success of the agreement”.

The discussions portrayed an image of dialogue between the countries as President Trump continued to use the ‘tough on China’ re-election platform.

Kelly-Ann Shaw, a former White House trade official who helped negotiate the deal, said that while the check-in was required by the terms of the phase one agreement, **the fact that it went ahead “shows that both sides are still committed to the deal, despite broader tensions”**.

The talks came just after US President Donald Trump delivered a tirade of invective against China and his political opponent, Joe Biden, at the Republican National Convention (RNC), saying **“China will own our country if this guy gets elected”**.

Importantly, there was a further indication of what might be in store for the US-China relationship in a second Trump Presidency. Emphasis added:

That was just a day after Trump’s 2020 re-election campaign published a policy agenda that vowed to further hack away at ties with Beijing by **offering tax credits for American firms that repatriate manufacturing and by banning US companies from federal government contracts if they outsource to China**. <https://www.scmp.com/economy/china-economy/article/3098811/us-china-trade-war-both-sides-cling-phase-one-deal-wider>

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’ as the US election draw closer.

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](https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/january/statement-<br/>united-states-trade)

## **BREXIT**

The next round of talks will commence on 7 Sep.

This week, the EU council meeting was scheduled to discuss Brexit. The rotating presidency is currently held by the German government, and Germany has now taken Brexit off the agenda for this week:

“Since there hasn’t been any tangible progress in EU-UK negotiations, the Brexit item was taken off the agenda,” an EU diplomat said.

The decision matters because Angela Merkel was billed as a potential dealmaker when talks on the UK-EU future relationship reach a crucial stage this autumn.

Dropping Brexit from next week’s diplomatic agenda is a sign of deepening pessimism in Brussels. “People underestimate how bleak the mood is in the EU negotiation team,” said an EU official who added that time was running out to negotiate a complex legal treaty expected to exceed 400 pages.

[https://www.theguardian.com/politics/2020/aug/26/germany-scrap-plans-  
for-brexit-talks-at-eu-ambassadors-summit](https://www.theguardian.com/politics/2020/aug/26/germany-scrap-plans-for-brexit-talks-at-eu-ambassadors-summit)

Both sides continue to position themselves in the lead up to the Oct deadline for the EU ratification of a trade deal and the year deadline for the actual transition. The UK negotiators claim that the EU is slowing progress and the EU negotiators claim that the UK is not being pragmatic and waiting to make a deal in the ‘eleventh hour’ will be problematic.

If a trade deal is not in place the UK and EU trade relationship reverts to WTO rules.

A current list of all trade deals that the UK has so far negotiated is available at:

[https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries-in-a-no-deal-  
brexit#trade-agreements-that-have-been-signed](https://www.gov.uk/guidance/uk-trade-agreements-with-non-eu-countries-in-a-no-deal-<br/>brexit#trade-agreements-that-have-been-signed)

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

[https://www.business-standard.com/article/international/britain-european-union-set-new-  
timetable-of-meetings-for-post-brexit-deal-120080100099\\_1.html](https://www.business-standard.com/article/international/britain-european-union-set-new-<br/>timetable-of-meetings-for-post-brexit-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](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](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](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://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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)