MARS CAPITAL PARTNERS

Weekly Macro Review

w/c 17 August 2020

Key Themes

The prelim PMI's for Aug were mixed.

The strongest PMI among the larger economies for Aug remains UK services. Given the severe declines recorded around the world from Feb to Jun, the rebound in the UK PMI's since Jun are more the expected magnitude of growth following such historic low levels of activity followed by a broad reopening of the economy. But UK firms continued to reduce employment and were concerned about future output growth.

The US PMI's indicated a moderate lift in growth for Aug. The rebound in the US has so far been slow. Context is important – US firms overall recorded significant, consecutive monthly declines between Feb and Jun. The Jul result across both services and manufacturing was a 'no change' versus Jun after five months of falls. The Aug result is the first month on month increase for firms on net since Jan 2020. There are more positive signs this month regarding orders, export orders and employment.

The two regional US manufacturing surveys were less encouraging – there was an obvious stalling of growth momentum after the last two months. What was concerning was weaker growth in employment and in the average workweek for the month across both reports.

US housing remains a brighter spot. Housing market conditions improved back to pre-shut-down levels. Existing sales, permits and starts were all stronger this month.

There was some positive news for Japan this month. Exports & imports remain below a year ago but to a lesser degree than last month. There was a further improvement in exports for the month of Jul and this is consistent with the forecast for higher growth in Japanese industrial production for Jul. The improvement in global merchandise export demand will help domestic Japanese industrial production. Japanese industrial production recorded a rebound in Jun with shipment growth higher than production growth.

The growth in Japanese exports over the last two months is a somewhat encouraging sign of an uplift in global demand and trade especially from the two largest Japanese export markets China and the US. Weaker Japanese imports though suggests some weakening of Japanese domestic demand conditions. This was further emphasised in the Japanese Aug PMI – both manufacturing and services activity and output continued to contract, with no improvement from the prior month.

Across the Eurozone, there was a notable slow down in the pace of services growth while growth in manufacturing activity was unchanged at a low level. Excluding Germany and France, the output PMI shifted back into slight contraction. Employment continued to decline across the Eurozone.

In Aus, private sector services activity shifted back into decline. This was expected given the severe restrictions reimposed in on the key states, Victoria. The infection rates are slowing notably in Vic. Growth in manufacturing activity continued at a moderate pace. Reinstated border closures within Aus will likely continue to hamper production growth.

Contents

US Data

Initial Jobless Claims (wk ending 15 Aug), Continuing Unemployment Claims (wk ending 7 Aug), and PUA Claims

A disappointing result this week with increases in advance initial claims across both state and federal programs for the week ending 15 Aug.

The reduction in the level of continuing claims for the wk ending 7 Aug reflects the slowdown in initial claims over the prior weeks.

The total number of people that claimed ongoing benefits at the wk ending 1 Aug 2020 remains extremely elevated at 28,059,349 people. This was approx. 200k people lower than in the week prior.

ADVANCE INITIAL JOBLESS CLAIMS – STATE & FEDERAL PROGRAMS wk ending 15 Aug

Across both state and federal programs, there was a total of 1,433,797 people making an initial claim for unemployment insurance in the latest week ending 15 Aug (NSA). This was up from the 1,328,373 initial claims made in the week prior.

State Programs Advance Initial Claims – wk ending 15 Aug 2020 (SA): 1,106,000 people

The week prior seasonally adjusted initial claims were 963,000 (revised higher to 971,000).

On an NSA basis, the state program initial claims for the week ending 15 Aug were: 891,510 (versus 838,734 in the week prior).

Federal PUA Initial Claims – wk ending 15 Aug 2020 (NSA basis only): 542,797 people

This was an increase on the 489,639 claims from the week prior. PUA claims have declined notably since the wk ending 25 Jul (when initial PUA claims totalled 908,800).

CONTINUING JOBLESS CLAIMS – STATE AND FEDERAL PROGRAMS

On an NSA basis for the week ending 1 Aug 2020, a total of 28,059,349 people claimed ongoing benefits across both state and federal programs. This total is running two weeks behind the advance initial claims. Next week should reflect a further decline in ongoing claims consistent with the slowdown in initial claims in that week.

State Programs Continuing Claims (SA) for the week ending 8 Aug was 14,844,000 people. This was a 636,000 reduction from the week prior.

On an NSA basis, continuing claims for state-based programs in the wk ending 8 Aug was 14,265,344 people. This was just over a 900,000 reduction in claims versus the week ending 1 Aug of 15,201,342 continuing claims.

Federal PUA Continuing Claims (NSA basis only) wk ending 1 Aug 2020; 11,224,774 people

This was an increase of over 500,000 people versus the week prior.

The number of people also claiming Pandemic Emergency UC benefits also increased to 1,289,125 people in the wk ending 1 Aug 2020 (NSA basis).

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

Temporary Census Workers – for wk 2-8 Aug

Consistent with the reduction in initial claims in the wk ending 8 Aug, there was a further notable increase in the number of temporary decennial Census workers claiming any pay for the week 2-8 Aug. This level has been steadily increasing over the last few weeks and may help to partly explain some of the slowdown in initial claims.

The full extent of government hiring will be highlighted in the Aug payrolls data.

Number of 2020 Census Paid Temporary Workers by Weekly Pay Period and Census Bureau Region: August 2020

Census Bureau region	Weekly pay period:	
	August 2–August 8, 2020	July 26–August 1, 2020
Total	**270,468**	**155,239**
New York[1]	39,608	23,666
Philadelphia	41,997	26,981
Chicago	40,667	24,143
Atlanta	45,764	18,433
Denver	43,143	27,550
Los Angeles	59,289	34,466

[1] New York total does not include Puerto Rico.
Note: This table provides the total number of 2020 Census temporary workers that earned any pay during a specific weekly pay period.
Source: Decennial Applicant Personnel and Payroll System (DAPPS).

Prior weeks:

Number of 2020 Census Paid Temporary Workers by Weekly Pay Period and Census Bureau Region: July 2020

Census Bureau region	Weekly pay period:			
	July 19–July 25, 2020	July 12–July 18, 2020	July 5–July 11, 2020	June 28–July 4, 2020
Total	**83,809**	**50,404**	**33,226**	**29,261**
New York[1]	11,899	7,615	4,837	4,476
Philadelphia	16,710	9,554	6,191	5,013
Chicago	16,574	7,504	5,450	4,947
Atlanta	7,297	6,821	3,980	3,684
Denver	13,908	9,353	6,483	6,091
Los Angeles	17,421	9,557	6,285	5,050

[1] New York total does not include Puerto Rico.
Note: This table provides the total number of 2020 Census temporary workers that earned any pay during a specific weekly pay period.
Source: Decennial Applicant Personnel and Payroll System (DAPPS).

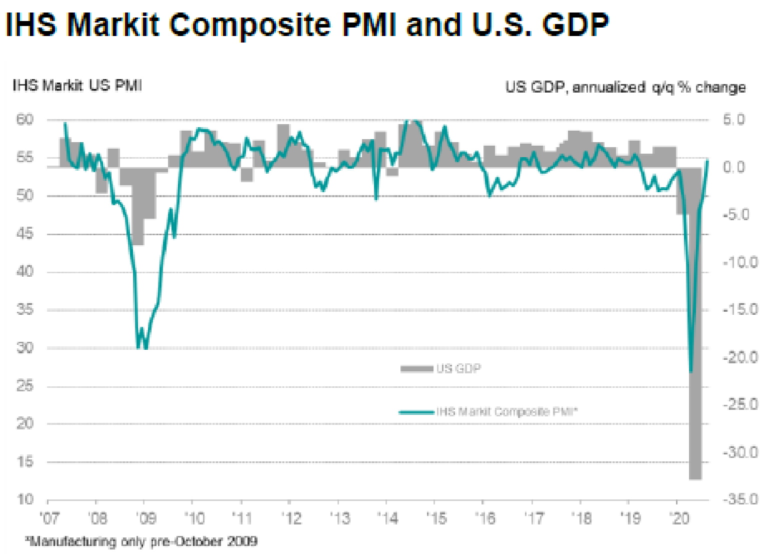
https://www.census.gov/content/dam/Census/newsroom/press-kits/2020/2020-census-weekly-hires.pdf

Markit Manufacturing and Services PMI Prelim (Aug)

Private sector output increased across both services and manufacturing after no change in the month prior. The pace of growth remains moderate and the rebound has been slow. The context is important – firms overall recorded significant, consecutive monthly declines in Mar, Apr, May, and Jun. The Jul result was a ‘no change’ versus the month prior after four months of severe falls. The Aug result is the first month on month increase for firms on net since Jan 2020.

That said, there are some more positive signs this month regarding orders, export orders and employment.

<u>US Composite Output Index</u>: Aug 54.7 versus Jul 50.3



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

<u>US Services Business Activity Index</u>: Aug 54.8 versus Jul 50

This was the first month increase in services output since the start of the year.

The increased output was led by growth in new orders including new export orders.

The increase in new work resulted in an increase in order backlogs. Firms increased employment at the fastest pace since Feb 2019. Again, context is important – this growth is coming off a low base.

Optimism over the next twelve months eased.

<u>US Manufacturing PMI</u>: Aug 53.6 versus Jul 50.9

Output increased at a faster pace this month – the output index increased from 51.7 in Jul to 53.9 in Aug – a moderate acceleration.

Orders also increased this month as firms cited client re-openings and larger orders. Firms also noted the increased in new export work since Dec 2019.

This was the first month where unfilled orders increased – indicating some pressure on capacity.

Employment also increased.

> .. business confidence among manufacturing firms picked up in August amid hopes that client demand will continue to increase as economies start to reopen."

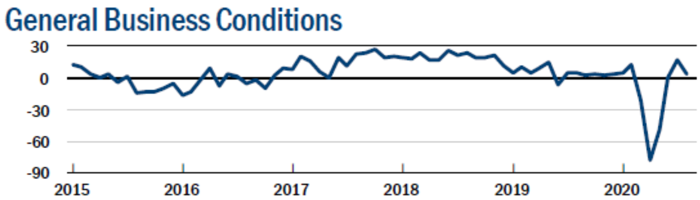
https://www.markiteconomics.com/Public/Home/PressRelease/b8fe1953311a43c795488641e8b75bb7

NY Empire State Manufacturing Index (Aug)

A lacklustre report for Aug – indicating a slow-down in growth momentum after some recent improvement. Overall growth/improvement in conditions slowed. New orders and shipments recorded no follow-up acceleration in the month. The faster decline in hours worked compared to last month is a worrying sign that output and order growth remains too low.

General Business Conditions: Aug 3.7 versus Jul 17.2

The underlying shifts in business performance is somewhat concerning – less firms recorded higher/improved conditions and more firms reported worse/lower conditions compared to the month prior.



	Percent Reporting		
	Higher	Lower	Index
Jul	41.2	24.0	17.2
Aug	33.6	29.8	3.7
Change			-13.5

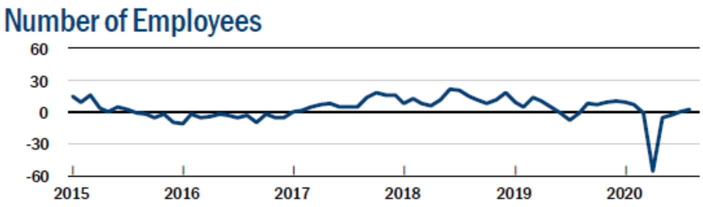
New orders fell slightly this month after stronger growth in the month prior. Less firms recorded higher orders and more firms recorded lower new orders compared to the month prior. The lack of continued growth momentum after the last month is not a positive sign for future output growth.

Growth in shipments also slowed notably this month, but still managed to grow versus the month prior. But there was a similar shift – less firms recorded higher shipments and more firms recorded lower orders than in the month prior.

The (slower) growth in shipments for the month was partly linked to a sharp decline in unfilled orders. Last month, there was no change in unfilled orders (supporting a somewhat positive shift to higher output). This month, there was no change in the proportion of firms recording higher unfilled orders, but the number of firms reporting lower unfilled orders doubled compared to the prior month.

Inventories also continued to decline and at a slightly faster pace than in the month prior. Firms are likely continuing to manage costs by keep inventory levels lower – in the face of still weak demand conditions.

The headline employment index increased slightly this month – indicating at least some growth versus the month prior. BUT the underlying shift is less positive. Less firms recorded higher employment this month. The index increased because there was also a reduction in the number of firms reporting lower employment. This means that, at best, there was no change in employment levels for the month.



	Percent Reporting		
	Higher	Lower	Index
Jul	22.4	21.9	0.4
Aug	19.3	17.0	2.4
Change			2.0

The average employee workweek declined at a faster pace versus the month prior. Less firms recorded higher hours worked and the proportion of firms that recorded lower hours remained the same as last month. This is a worrying sign that output growth remains too low.

https://www.newyorkfed.org/medialibrary/media/survey/empire/empire2020/esms_2020_8_survey.pdf?la=en

Philadelphia Fed Manufacturing Survey (Aug)

The indexes this month all indicated that manufacturing growth slowed across the region. While its positive that there was not a decline in activity, there has been no follow through growth momentum this month.

The proportion of firms reporting increases in shipments, orders, employment and hours all declined this month. Less firms were reporting increases in those indexes in Aug versus Jul. While this is concerning, there were also less firms reporting declines across these indexes. Instead, most firms were reporting no change in activity this month.

Headline General Business Activity Index: Aug 17.2 versus Jul 24.1

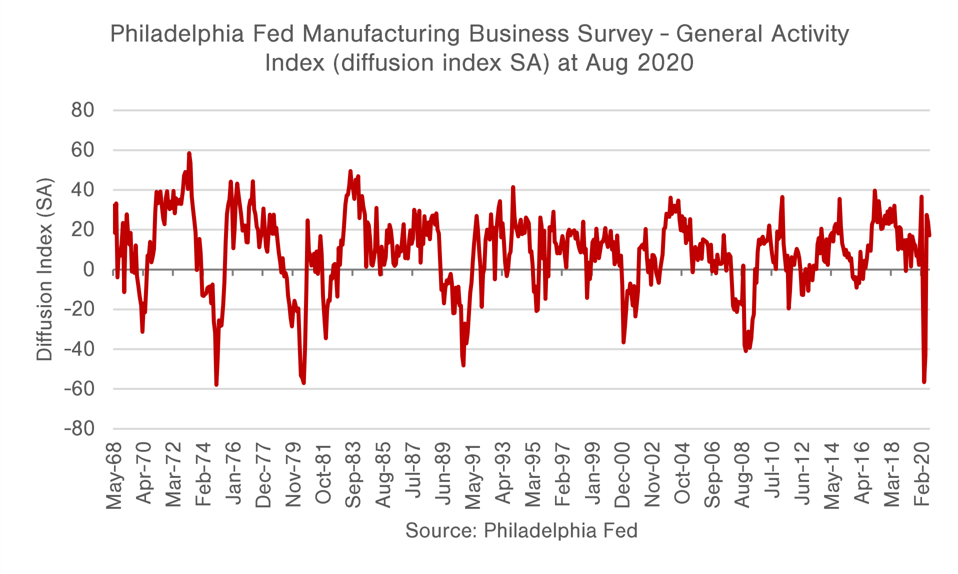
This was the second month where growth slowed somewhat. The diffusion index “peaked” after the shutdowns at 27.5 in Jun.

The change this month reflected that manufacturers, on net, recorded no change in general activity. In fact, the proportion of firms recording increases, decreases or no change in activity came back down to be in line with historical averages.

The number of firms reporting an increase in activity decreased notably from 45% of firms in Jul to 28% of firms in Aug. The Aug result is in line with the long-term average.

The number of firms reporting a decline in activity also decreased from 21% in Jul to 10% in Aug.

There was a larger increase in the proportion of firms reporting no change from the month prior from 29% of firms in Jul to 55.4% of firms in Aug. The LT average is 51.9% of firms.



There were similar changes across the component indexes this month with growth slowing and most firms reporting 'no change' in activity.

New orders continued to increase versus the month prior, but growth slowed. **Less firms reported increases in new orders** and less firms also reported decreases in new orders. There was a larger increase in the number of firms reporting no change in orders from the month prior: 51% of firms in Aug versus 29% of firms in Jul.

The shipments index also indicated that growth slowed this month. As well, **less firms reported increases in shipments** and less firms also reported decreases in shipments. Instead, there was a larger increase in the number of firms reporting no change in shipments from the month prior: 58% of firms in Aug versus 39% of firms in Jul.

The unfilled orders index overall was unchanged versus the prior month at -0.6 in Aug after increasing slightly in Jul 3.9. There was a larger increase in the number of firms reporting a decrease in unfilled orders (suggesting spare capacity) from 13% in Jul to 22% in Aug. Less firms reported no change in unfilled orders, but this still represents most firms in the survey at 56%. There was also a slight increase in the number of firms reporting an increase in backorders (suggesting pressure on capacity).

Inventories declined at a slower pace this month with the index increasing to -1.9 in Aug from -11.8 in Jul. The change this month was the larger proportion of firms reporting an increase in inventory from 10% of firms in Jul to 18% of firms in Aug. There was a slight decline in the proportion of firms reporting lower inventory.

The employment index was the most disappointing this month. The index fell back from 20.1 in Jul to 9 in Aug – indicating that employment growth had slowed. The underlying shifts were negative: more firms reported a decline in employment (from 9% in Jul to 14% in Aug) and **less firms reported increased employment (from 29% in Jul to 23% in Aug)**. Most firms continued to report no change in employment which was 63% of firms in the survey. This has been mostly consistent throughout the pandemic this year.

The average workweek index also indicated slower growth this month. But underlying the index, shows that most firms (71% of firms) reported no change in the average workweek in Aug, which was up from 64% in Jul. **There was also a reduction in the proportion firms**

reporting an increase in the workweek from 26% in Jul to 18% in Aug. The proportion of firms reporting a decline in the workweek was little changed.

https://www.philadelphiafed.org/-/media/research-and-data/regional-economy/business-outlook-survey/2020/bos0820.pdf?la=en

NAHB Housing Market Index (Aug)

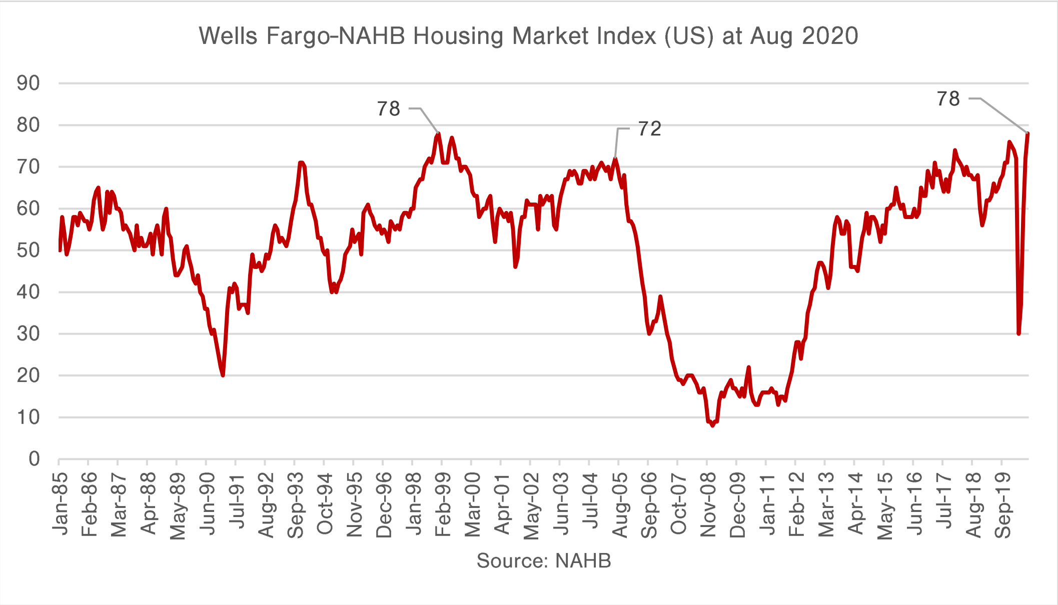
There was further improvement in the housing market index this month – now on par with the previous peak back in Dec 1998.

> The survey asks respondents to rate market conditions for the sale of new homes at the present time and in the next six months as well as the traffic of prospective buyers of new homes.

There was a larger improvement in the underlying traffic of prospective buyers. The index of Single-family sales conditions increased in Aug and is now back on par with the pre-pandemic level.

<u>Housing Market Index</u>: Aug 78 versus Jul 72

The index has increased forty-eight points since the Apr low of 30.

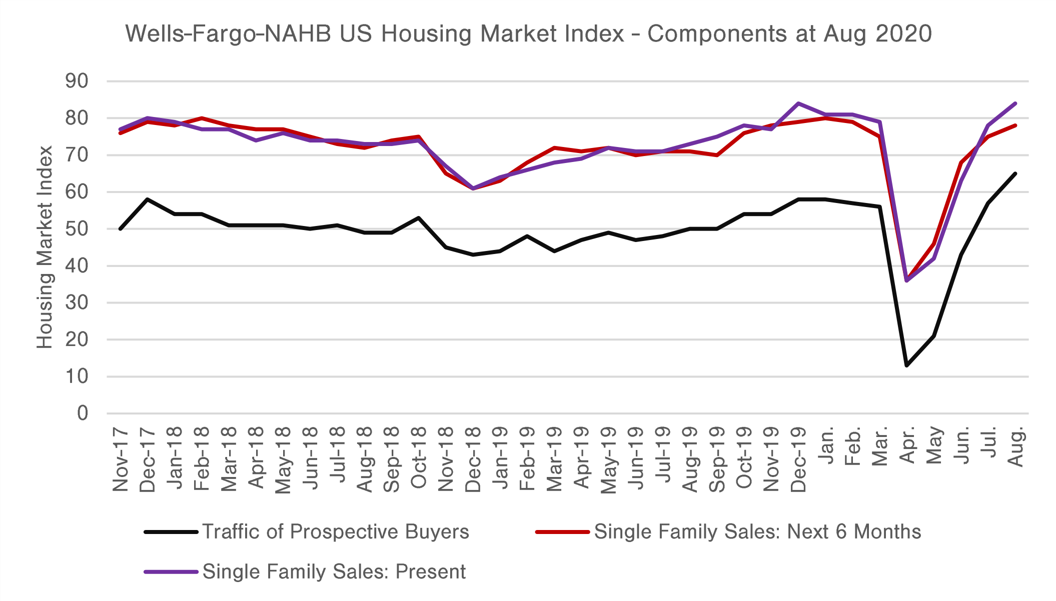


<u>Index Components</u>

The traffic of prospective buyers increased this month to 65 and exceeded the pre-pandemic highpoint of 58 in Jan 2020.

The single-family home sales index increased to 84 in Aug and is now back on par with the pre-pandemic highpoint of 84 in Dec 2019.

The index of expectations for single-family home sales in the next six months also increased to 78 but remains below the Jan 2020 level of 80.



Regional Indexes

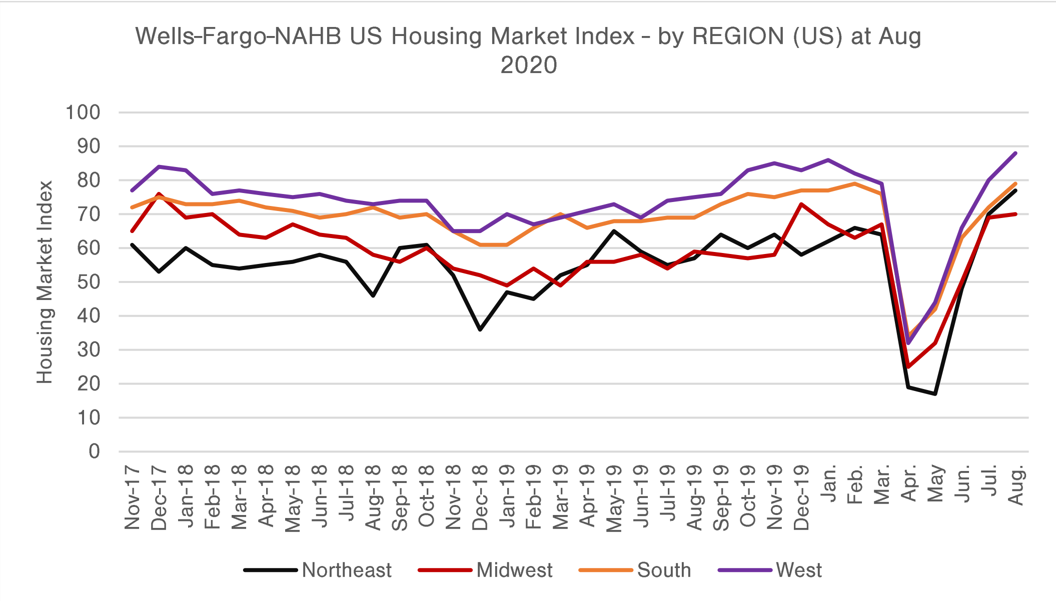
The indexes of regional performance indicated that conditions improved in all regions. The pace of improvement in the Midwest was the slowest.

One of the notable improvements this month was in the Northeast. Conditions in the Northeast had been lagging and certainly fared worse during Apr and May this year. The index increased to 77 in Aug – well above the pre-pandemic high of 66 in Feb.

Conditions in the West improved with the index reaching 88 in Aug. – this is above the pre-pandemic level of 86.

Conditions in the South are now back on par with the pre-pandemic high.

Conditions in the Midwest increased only slightly this month from 69 in Jul to 70 in Aug. This is still just below the pre-pandemic high of 73.



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

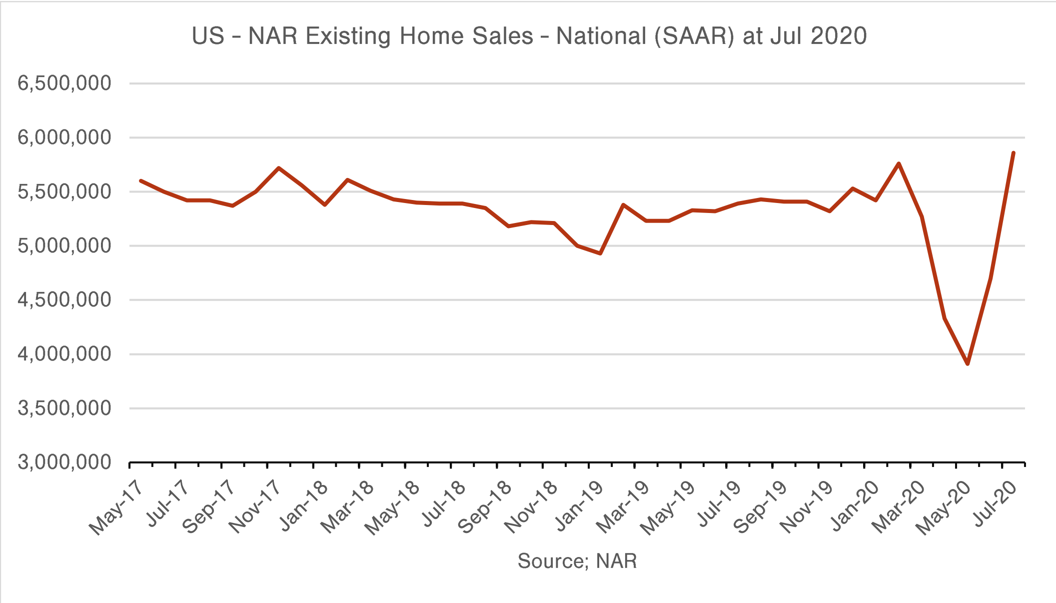
Existing Home Sales (Jul)

The SAAR of existing home sales increased at a faster pace for the second month in Jul. The pace of growth was so strong that annual sales growth rebounded to be positive again. Growth was recorded across all markets and only the SAAR of sale in the Northeast remains below the same month a year ago.

Inventory declined on a monthly basis and remains 21% below the same month a year ago.

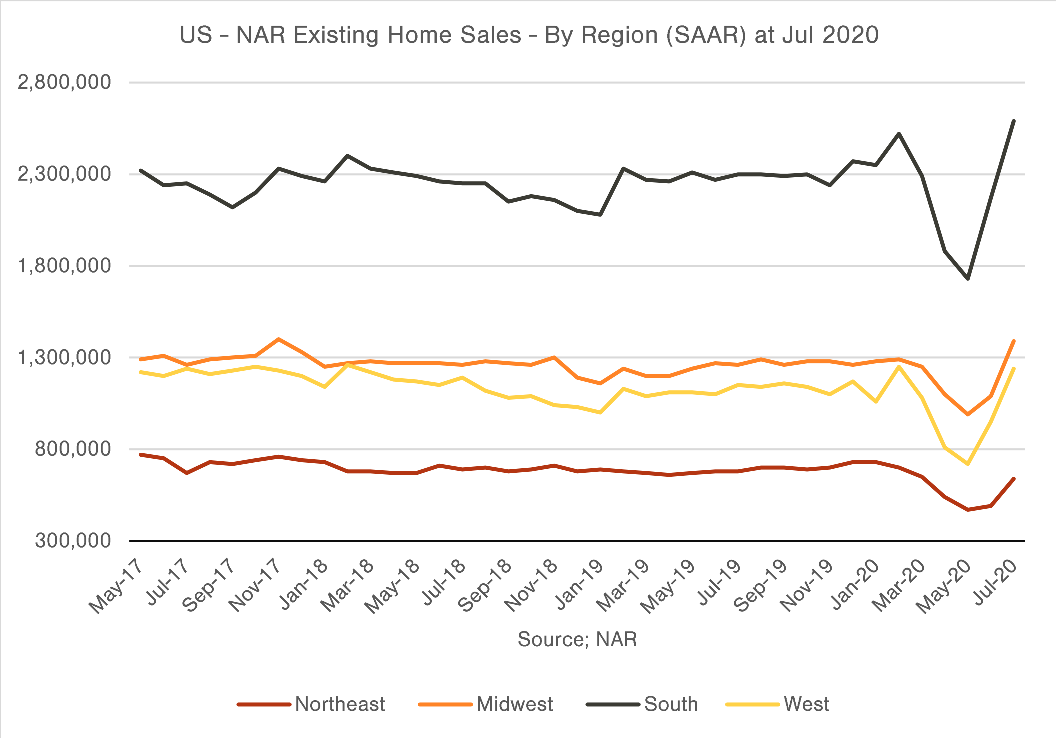
Existing Home Sales (SAAR): Jul 5.86m (+24.7%) versus Jun 4.7m (+20.2%)

On an annual basis, the SAAR of sale in Jul was +8.7% ahead of the same month a year ago. This was the first positive annual result in three months.

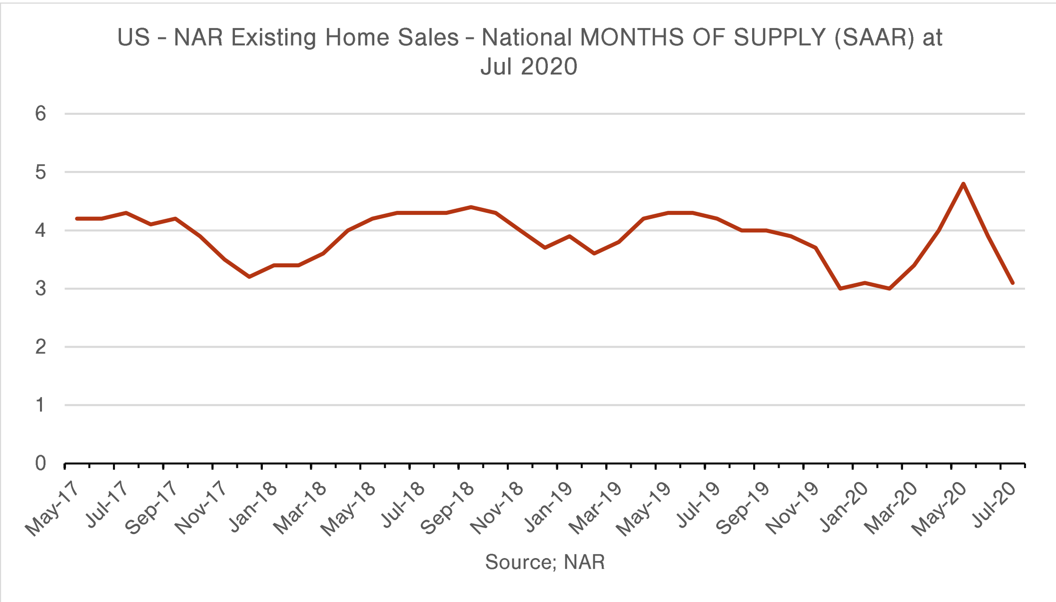


The monthly increase was led by strong sales growth across all regions - the South (+19.4%), the Midwest (+27.5%), the West (+30.5%), and the Northeast (+30.6%).

The pace of sales in the Northeast remain below pre-pandemic shutdown levels.



Inventory declined further in the month by -2.6% and is 21% below the same month a year ago. Taking account for seasonality, the inventory level is lower than usual for this time of year. This is also reflected in the months of supply, which is down to 3.1 in Jul – which is 26% below the same month a year ago.



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

Building Permits & Housing Starts (Jul)

This was a notably stronger result for building permits issued this month with all regions recording strong growth this month. As this is survey data, it was also notable that the month increase in each region was statistically significant.

New housing starts also increased in the month and on an annual basis (both statistically significant). But the South was the only region where the growth in new housing starts was statistically significant. This means it is unclear among the other regions whether the number of new starts increased or not.

National Building Permits SAAR – month: Jul 1.495m versus Jun 1.258

The increase in the month was +18.8% at a National level and the 90% confidence interval was only +/- 1.1% pts which indicates that the number of building permits issued did likely increase in the month.

On an annual basis, permits were +9.4% ahead of the same month a year ago and the 90% confidence interval was also only +/- 1.5% pts. This indicates that permits did likely increase versus a year ago.

Regional Building Permits

All four regions recorded increases in permits this month and all increases in the month were statistically significant.

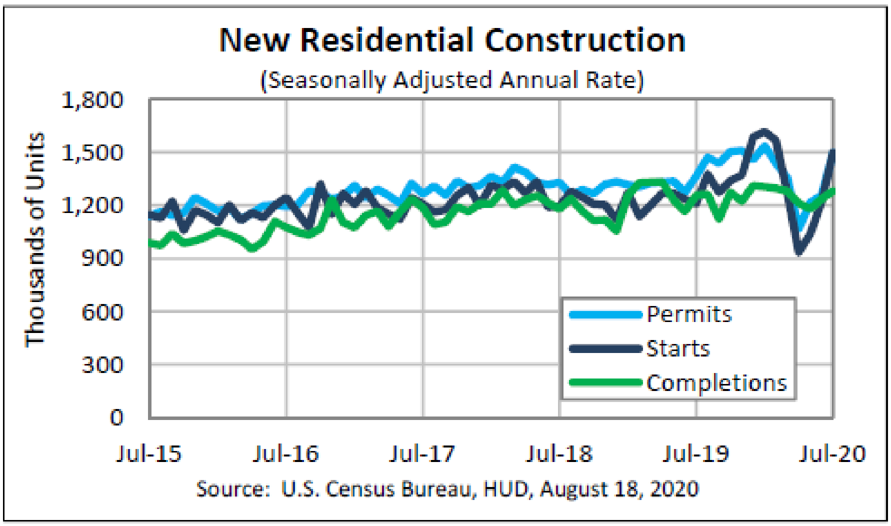
The largest increase in the month was the West (+29.1%) followed by the Midwest (+23.8%), the Northeast (+14.8%), and the South (+13.7%).

National Housing Starts SAAR – month: Jul 1.496m versus Jun 1.22m

The increase in the month was +22.6% and the 90% confidence interval was +/- 14.7% pts – so it is likely that the number of housing starts did increase in the month.

On an annual basis, the number of starts increased by +23.4% versus a year ago. The 90% confidence interval was +/- 12.4% pts which also suggests that starts increased versus the same month a year ago.

On a regional basis though, the month change in new housing starts was only statistically significant in the South (+33.2% increase in the month with the 90% confidence interval at +/- 25.6%).



https://www.census.gov/construction/nrc/pdf/newresconst.pdf

Mortgage Applications wk ending 14 Aug

Mortgage loan applications declined in the latest week after a more solid increase in the week prior.

Market composite Index (mortgage loan application volume) wk ending 14 Aug 2020: -3.3% versus the week prior (wk prior +6.8%)

The decline this week was led by a weekly fall in refinance activity, while the purchase index increased.

The refi index declined by -5% versus a week ago but remained +38% ahead of the same month a year ago.

The purchase index (a measure of completed loans and a leading indicator of home sales) increased by 1% versus the same week a year ago. The purchase index was +27% ahead of the same month a year ago.

> "The rise in rates dampened refinance activity, but purchase applications continued their strong run and were 27 percent higher than a year ago - the third straight month of year-over-year increases,"

https://www.mba.org/2020-press-releases/august/mortgage-applications-decrease-in-latest-mba-weekly-survey-x271818

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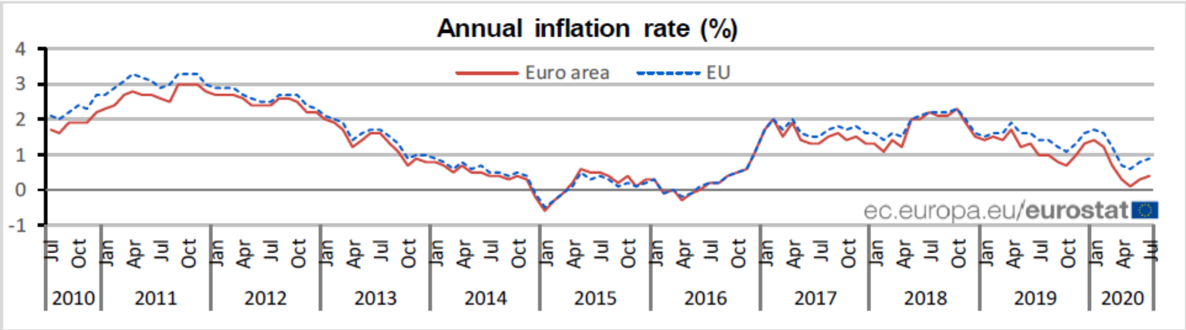
Europe

Eurozone CPI (Jul)

Both the core Euro area and broader EU annual CPI growth increased slightly this month. This was the result of a slower pace of decline in energy prices as well as a larger contribution to overall CPI growth from price increases for non-energy industrial goods. This offset the slower annual growth in food and services prices.

Euro Area headline All-Items CPI – annual change: Jul +0.4% versus Jun +0.3%



A year ago, the annual CPI growth was 1%.

The slower pace of growth is mostly due to the annual decline in energy prices. Energy prices declined by -8.4% versus a year ago in Jul, which was a slower pace of decline than in Jun of -9.3%, so contributed to the lift in CPI growth.

The Euro Area annual CPI growth excluding energy is much higher at +1.4%.

The annual change in food, alcohol, and tobacco prices slowed further from +3.2% in Jun to 2% in Jul. On a monthly basis, food prices declined by -1%.

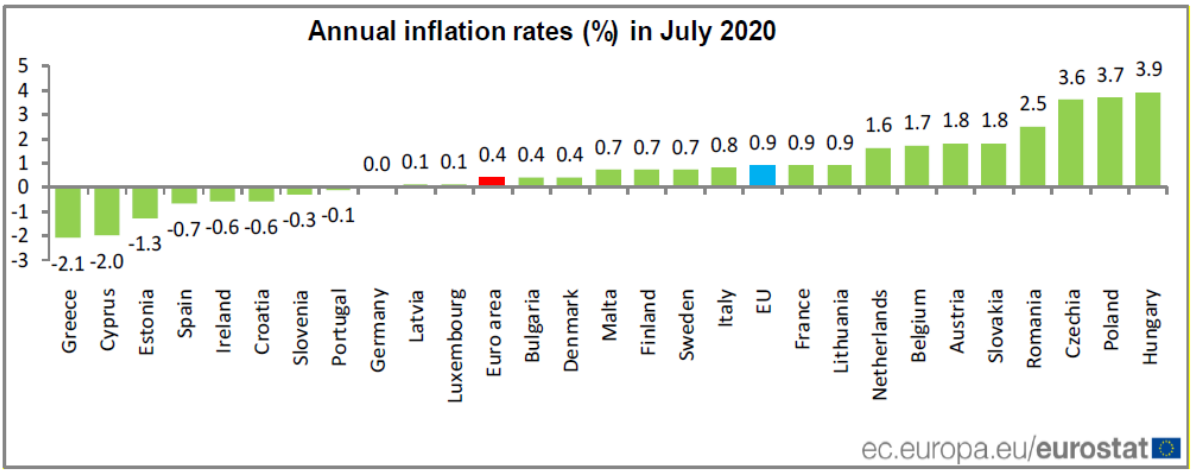
Services have the largest weight in the index. The annual change in services prices slowed from +1.2% in Jun to +0.9% in Jul.

Non-energy industrial goods prices increased notably on an annual basis from +0.2% growth in Jun to +1.6% growth in Jul. Prices declined by -1.9% on a monthly basis though.

The core CPI growth excluding energy, food, alcohol, and tobacco accelerated from +0.8% in Jun to +1.2% in Jul.

EU CPI Growth

Across the broader EU group, annual CPI growth was higher at +0.9% in Jul versus +0.8% in Jun.



https://ec.europa.eu/eurostat/documents/2995521/10545399/2-19082020-AP-EN.pdf/33b5562f-f773-68f7-d45a-a38f5e5f2e83

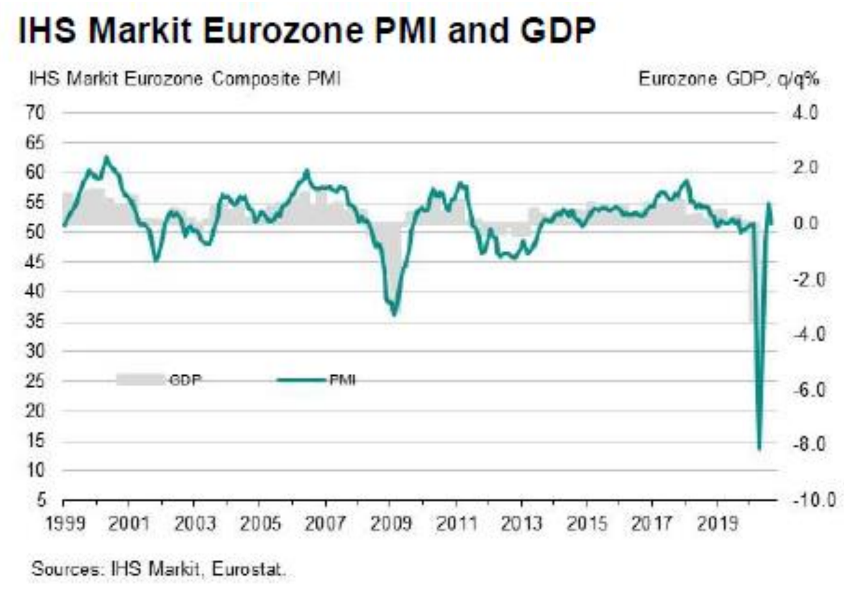
Eurozone Manufacturing and Services PMI Prelim (Aug)

The growth momentum across the Eurozone slowed this month. The headline composite output index remained positive, but growth slowed notably across services while manufacturing output growth increased at a similar pace as the month prior.

While growth in Germany slowed somewhat in Aug, the growth in France slowed more notably.

> While the two largest eurozone economies remained in growth territory, outside the 'big-2' output decreased in August. That said, the contraction was only marginal. New orders also fell slightly, while companies reduced employment at a solid pace that was unchanged from that seen in the previous month.

<u>Eurozone Composite Output Index</u>: Aug 51.6 versus Jul 54.9



Eurozone Services Business Activity Index: Aug 50.1 versus Jul 54.7

Despite the stronger Jul, growth in services activity paused this month. This is somewhat disappointing given that the growth momentum from the prior month has not been maintained. There was some note of restrictions to trade reimposed after an increase in infections in some countries.

New work declined compared to the month prior and order backlogs declined at a faster pace.

Firms continued to reduce employment.

Margins were placed under pressure as input prices increased at a faster pace and output prices continued to decline (albeit at a slower pace).

Eurozone Manufacturing PMI: Aug 51.7 versus Jul 51.8

The pace of manufacturing output growth was little changed with the index increasing from 55.3 in Jul to 55.7 in Aug.

New orders increased for the second month. Backlogs of orders were unchanged from the prior month. Despite the improvement in orders and output, firms continued to reduce employment.

Input prices were little changed while there was a small decline in output prices.

https://www.markiteconomics.com/Public/Home/PressRelease/fa5fb6e1a20a45c7b2b1f335df461d95

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Japan

Real GDP (first prelim) Q2

The first prelim release of Q2 GDP indicated a sharp contraction in Japanese output. This is now the third quarter in a row where GDP declined on a quarterly and on an annual basis.

<u>Prelim Real GDP – quarter change</u>: Q2 -7.8% versus Q1 -0.6%

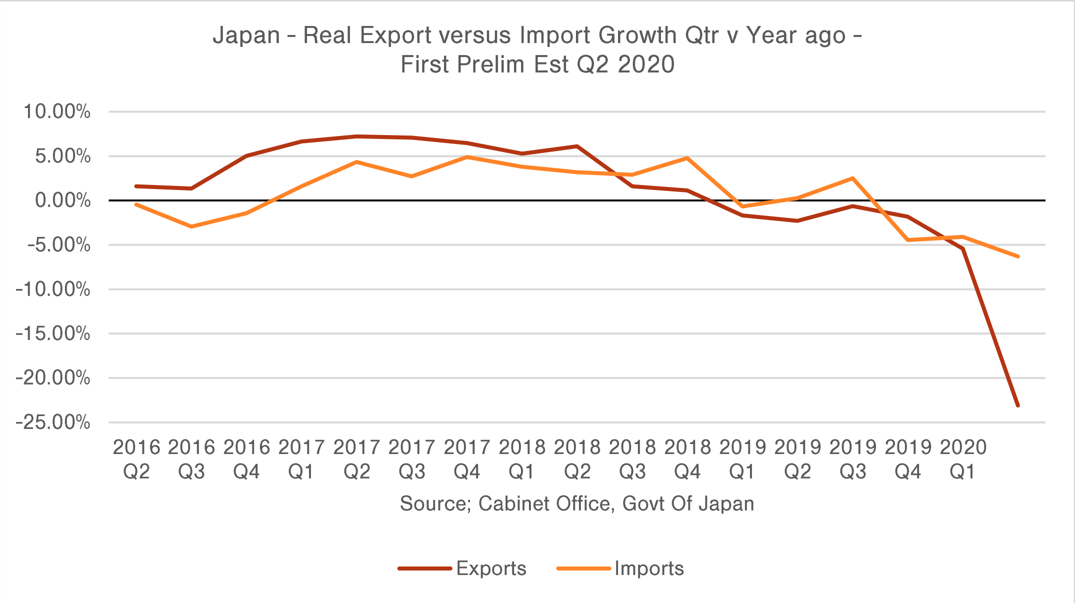
The only area of expenditure that did not decline in the quarter was Public Investment.

Two expenditure areas contributed the most to the severe decline in the quarter.

The first was private consumption. Private consumption expenditure declined by -8.2% in the quarter and was -11% below a year ago – in real terms. This decline contributed -4.53% pts to the headline decline in the quarter.

The other area that made a large contribution to the headline decline in GDP was exports. Exports declined by 18.5% in the quarter (and declined by -5.4% in Q1). Real exports in Q2 were 23% below the same quarter a year ago. The decline in imports was less severe in the quarter only declining by -0.5% in Q2. The overall decline in net exports detracted -2.97% pts from headline GDP growth.

On an annual basis, both exports and imports declined in Q2, with exports declining more severely.



The fall in GDP in other expenditure areas was not as severe.

Private residential investment declined at a slower pace in the quarter by -0.2% versus -4.2% in Q1. But private non-residential investment fell at a faster pace of 1.5% after increasing by +1.7% in Q1.

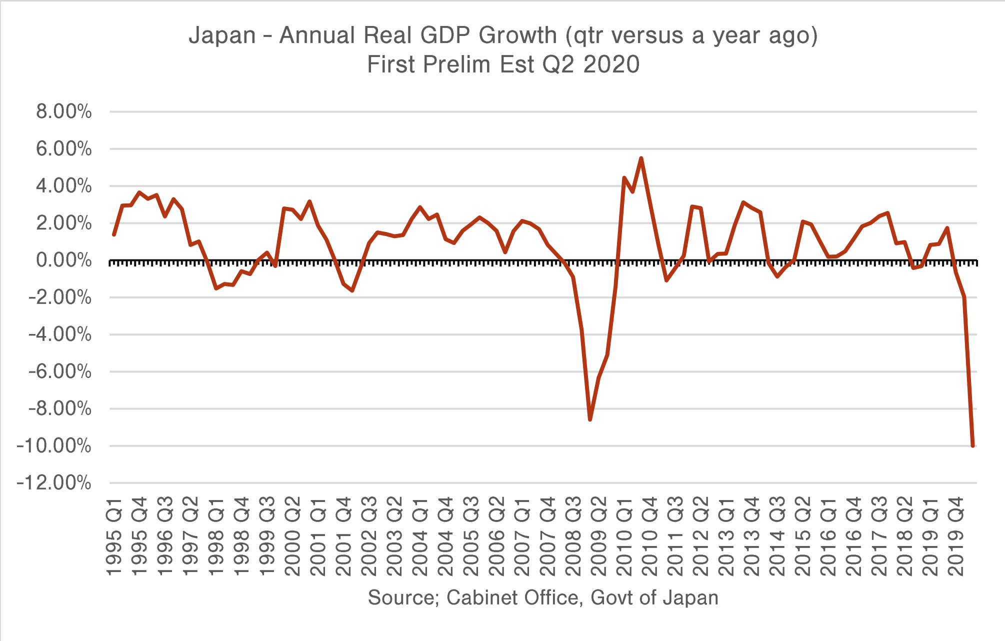
The change in private inventories also detracted from growth in the quarter -0.05% pts.

Government consumption expenditure declined by -0.3% in Q2 and public investment expenditure increased by +1.2% in Q2 (after declining slightly in Q1 by -0.5%).

Annual Change in Real GDP

On an annual basis (current quarter versus same quarter a year ago), the pace of the decline in real GDP was faster than that recorded during the GFC:

Real GDP – annual change: Q2 -10% versus Q1 -1.97%



https://www.esri.cao.go.jp/en/sna/data/sokuhou/files/2020/qe202/gdemenuea.html

Industrial Production Final (Jun)

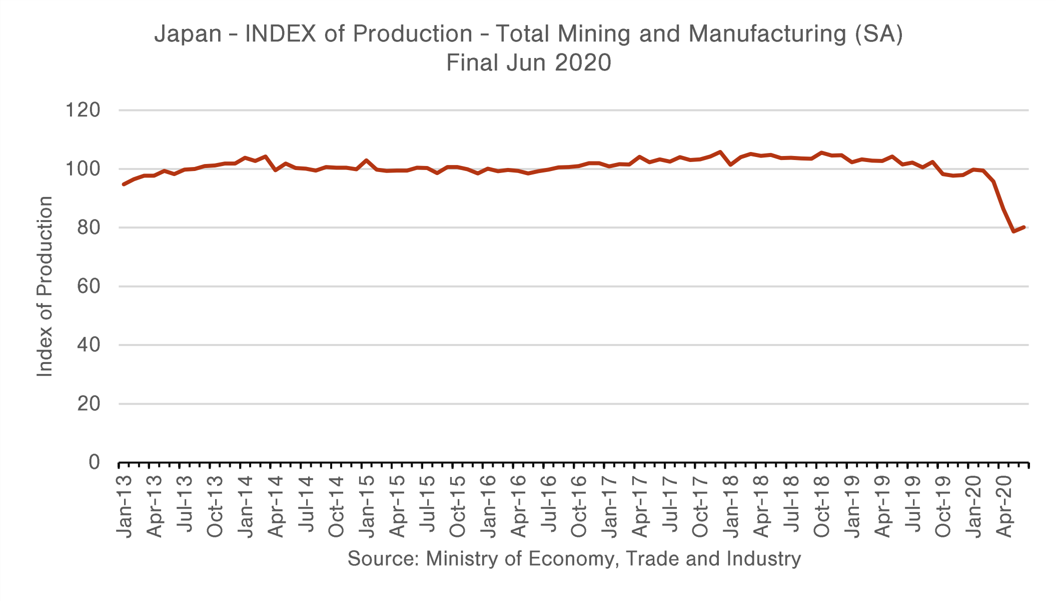
The difference in the final version of industrial production is the inclusion of non-durables (chemicals and food & bev production) – both have large weights in the production and shipments indexes.

The main trend from the prelim report remained unchanged. Production growth was lower than shipment growth. Both production and shipment growth were revised lower in this final release.

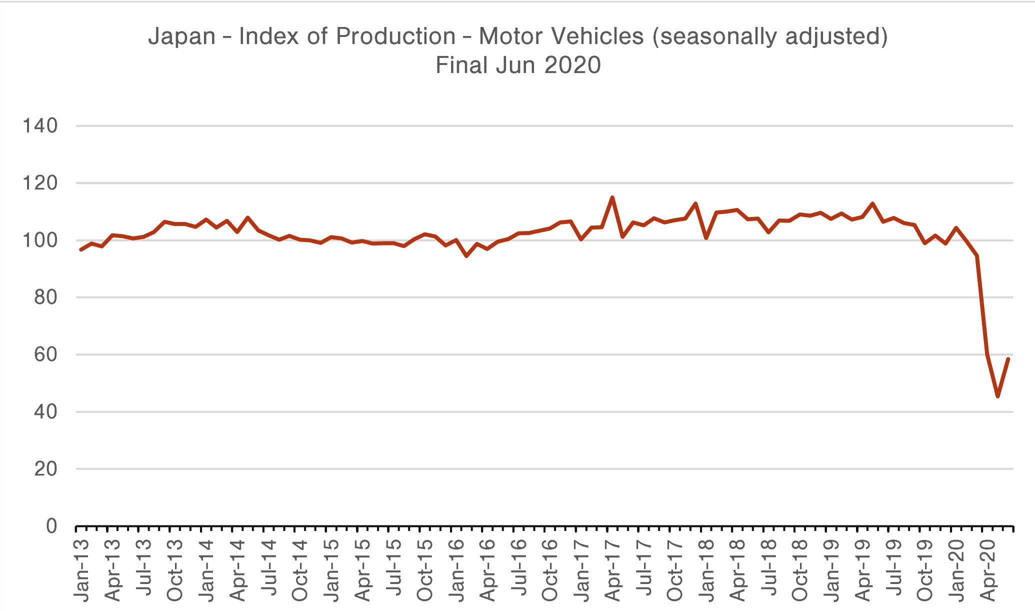
This was the first month of 'rebound' for Japanese production and shipments in most industries. Levels remain well below a year ago. The Jul merchandise trade data for Japan supports the forecast for higher growth in Jul.

Production Manufacturing & Mining (SA) – month change: Jun +1.9% (revised lower from +2.7% in the initial) versus May -8.9%

This is so far, a low rebound in production. But shipments increased at a faster pace, so it appears that firms are working through inventory of finished goods.



The largest increase in production this month was for transport equipment (also the largest weight in the production index). Motor vehicle production increased by 28.6% this month – but the overall level of production remains low.



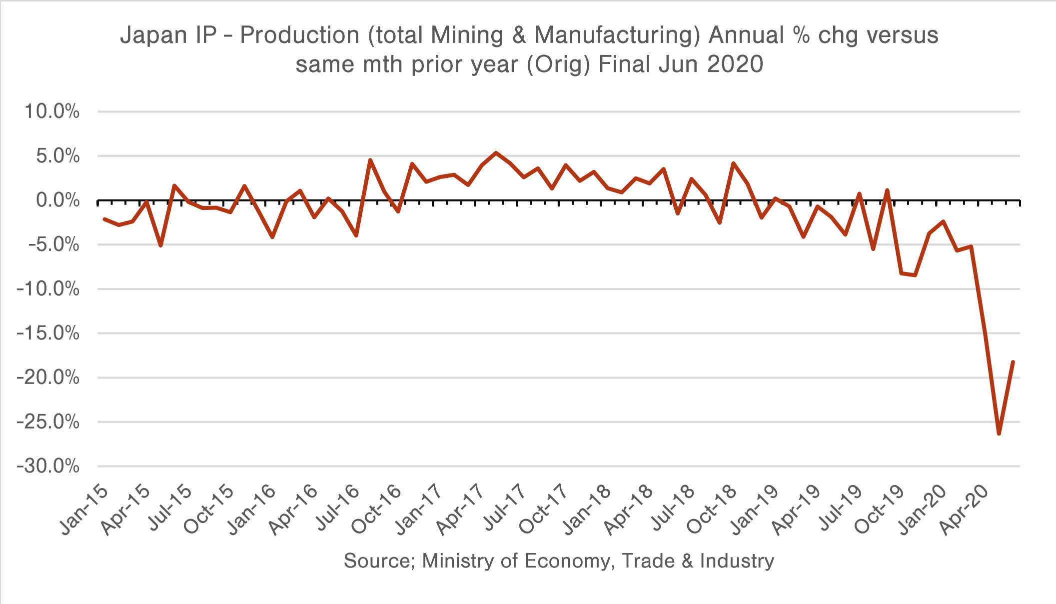
The Jul trade data suggests that exports for motor vehicles is starting to slowly improve (becoming less negative at this stage)

Production also increased across: fabricated metals (+0.3%), production machinery (+10%), general purpose machinery (+0.5%), electronic parts (+0.2%), and electrical machinery (+2%).

Production across chemicals declined in Jun by -2.2% after a -6% decline in May.

Food & tobacco production also declined by -2% in Jun after a 2% decline in May. There has been a notable slow-down in production since Mar 2020.

Production remains 18.6% below the same month a year ago (NSA basis). This was revised lower from the -17.7% decline in the prelim Jun report.

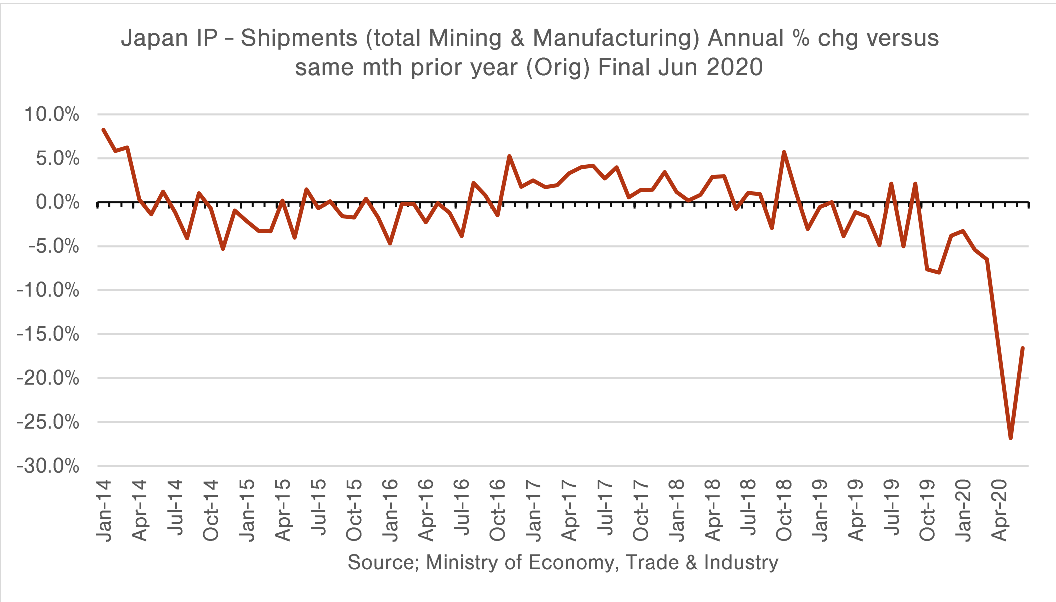


<u>Shipments mining & manufacturing (SA) – month change</u>: Jun +4.8% (revised lower from +5.2% in the prelim report) versus May -8.9%

Shipments increased across most industries, except for iron, steel, and non-ferrous metals, electronic parts and devices, and chemicals.

There was again a big uplift in shipments of motor vehicles +25.8% (on par with production) in Jun versus the 14% decline in May. Motor vehicle shipments in Jun were still 40% below the same month a year ago.

Overall shipments were -16.6% below the same month a year ago. This was little changed from the prelim Jun release.

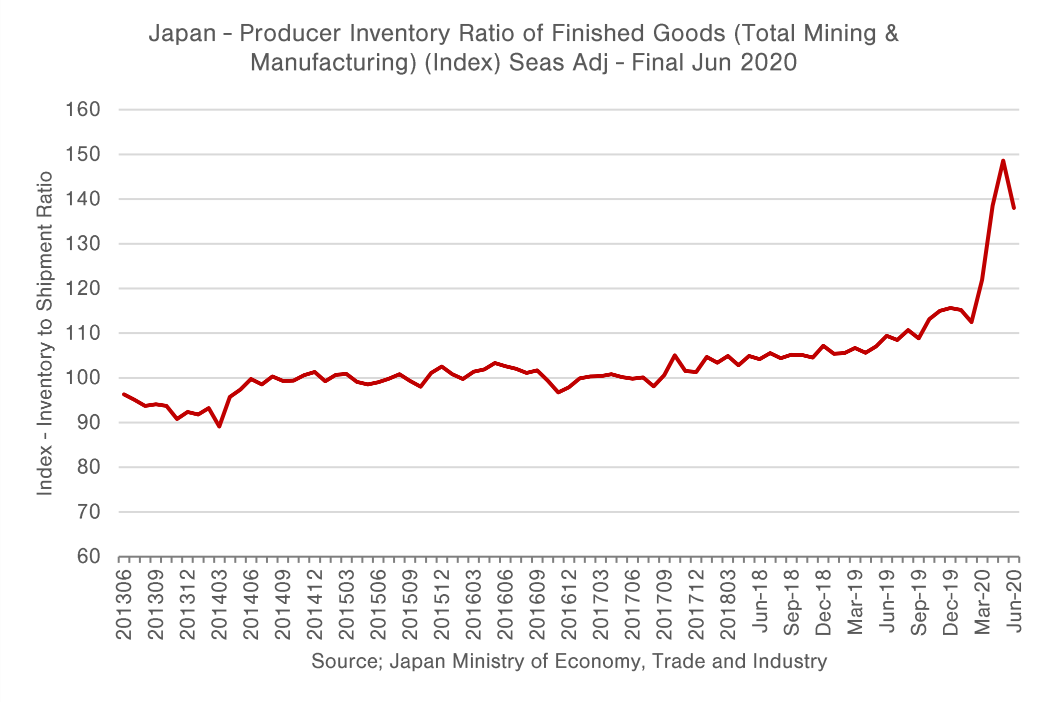


<u>Inventory manufacturing & mining (SA) – month change</u>: Jun -2.4% versus May -2.6%

The monthly inventory result was unchanged from the initial release. The inventory of finished goods declined across most industries.

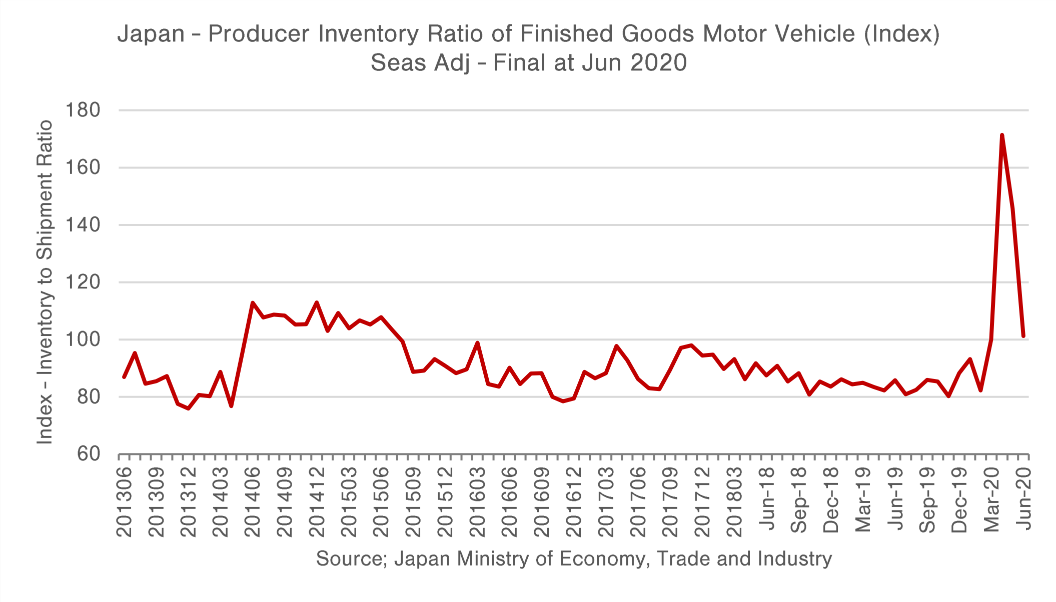
The inventory ratio of finished goods remains elevated but has started to fall. The inventory ratio across most industries follows this pattern. The levels remain extremely elevated.

Shipments will need to grow at a faster pace.



The largest weight industry in the inventory index is iron, steel, and non-ferrous metals – and the inventory ratio remains extremely elevated (shipments declined again in Jun).

On the other extreme, the inventory ratio of finished goods for motor vehicles has now mostly reversed the pandemic-led spike higher – this is partly due to the fall in inventory (the index of inventory is at a near term low) and shipment growth is also helping.



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

Japan Merchandise Trade (Jul)

The Japanese merchandise trade balance shifted into surplus in Jul as the value of exports was larger than imports. But the underlying performance of exports and imports remains weak with both imports and exports well below the level from a year ago. On a monthly, seasonally adjusted basis though, exports increased month on month for the second month, while imports declined for the third month.

The stronger export performance this month is consistent with the forecast for higher growth in Japanese industrial production for Jul. The improvement in merchandise export demand will help domestic Japanese industrial production.

The growth in Japanese exports over the last two months is a somewhat encouraging sign of an uplift in global demand and trade especially from the two largest export markets China and the US. Weaker Japanese import growth though, especially from China, the US and Europe will hinder production growth in those key markets. It also suggests some weakening in domestic Japanese demand conditions.

All values in ¥.

Japanese Merchandise Trade Balance (Surplus) Jul 2020

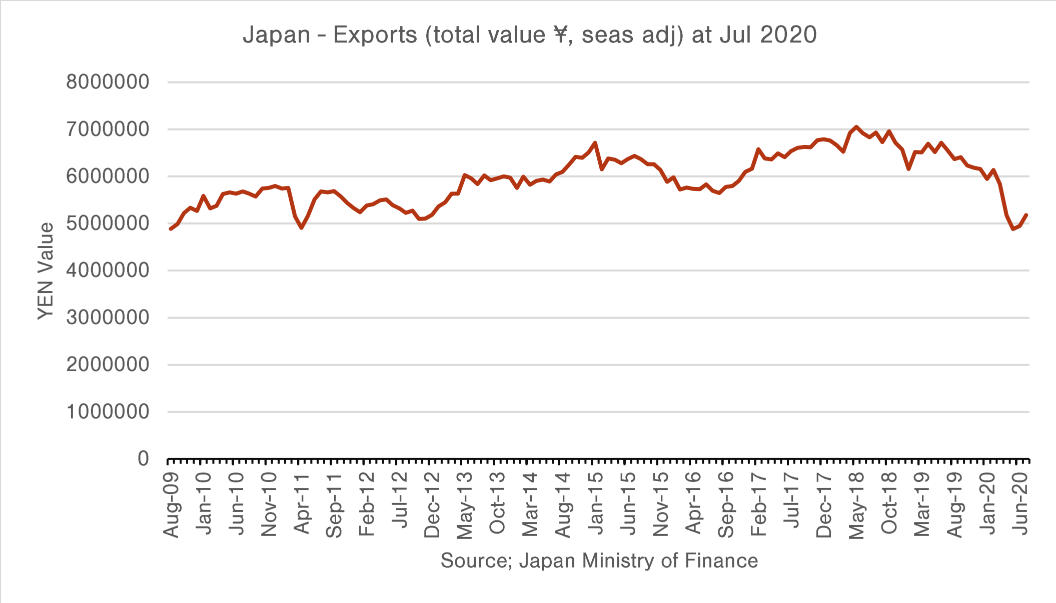
The non-seasonally adjusted trade balance in Jul was a surplus of 11.6bn. A year ago, Japan recorded a trade deficit of -253.8bn.

Both exports and imports remain well below a year ago level. But this month, the decline in imports was larger while exports increased at a faster pace.

EXPORTS

Exports (Yen value) – annual change (NSA) Jul 20: -19.2% (last month -26.2%)

On a seasonally adjusted basis, exports increased for the second month in a row and at a faster pace. In the month, exports increased by +4.7% versus Jun.



Exports by Region

There was a continued improvement in export growth to the largest Japanese export market, China.

In Jul, the value of exports to China increased by +8.2% versus a year ago. Last month, this figure was -0.2%. The biggest contributors to the +8.2% growth in exports to China this month were: manufactured goods, machinery, electrical machinery and transport equipment.

Export performance across the rest of Asia was mixed. Exports were -8.2% down versus a year ago to Asia (incl China), better than the headline -19.2% decline. But exports to markets such as Singapore, Korea, Thailand, Malaysia, Indonesia, Philippines and India were still well down on a year ago and well below the total -8.2% decline across Asia for the year.

The next largest export market is the US. The size of exports to the US used to be on par with that of China prior to the pandemic shutdowns. At the worst point, exports to the US were down 50% versus a year ago in May 2020. This improved only slightly in Jun to -46% below a year ago. But this month, there has been an improvement in the pace of decline with exports to the US now down -19% below a year ago. Most commodity exports are still below a year ago, but much less so. For example, in Jun exports of transport equipment to the US were -60% below a year ago and in Jul this has improved to -10% below a year ago.

Exports to Europe were little changed and remained -32% below a year ago. There was little improvement, and even some deterioration, in export growth across key markets this month. Exports to Europe remained weak across all commodity groups. Exports of machinery is the largest share of the key groups and exports to Europe declined by 33.6% in Jul (versus -34.4% in Jun). Transport equipment is the second largest export group and exports to Europe declined by 48.3% in Jul (versus -35.2% in Jun).

Exports by Commodity

Exports of all commodities declined in Jul versus a year ago. There are three main export commodities that made up the bulk of exports this month: transport equipment (20.2%), machinery (19.4%), and electrical machinery (19.3%).

The single largest contributor to -19% decline in exports this month was transport equipment.

Transport equipment exports declined by -32.9% in Jul. This was an improvement on the -41.1% decline in Jun. The decline contributed -8.0% pts to the headline decline in exports in Jul.

Machinery exports declined by -17.7% in Jul – which was lower (improved) than the -24% decline in Jun.

Electrical machinery exports declined by -7.8% in Jul – this was an improvement on the -18.5% decline in Jun.

Other categories of exports also declined:

Manufactured goods exports declined by -22% in Jul – this was only slightly improved from the -25% decline in Jun.

Chemical exports declined by -10.7% in Jul versus -14% in Jun.

Other exports (which accounted for 15% of exports in Jul) declined by 11% in Jul versus a year ago, also better than the -22% decline in Jun.

<u>IMPORTS</u>

<u>Imports (Yen value) – annual change Jul 20</u>: -22.3% (was -14.4% versus a year ago in Jun)

On a seasonally adjusted basis, imports declined by -2.7% in Jul versus Jun after falling -1.4% in Jun. The larger fall in imports was in May -11.2%. Most of the weakness in imports has been the result of declines in the value of mineral fuel imports. But this month, while mineral fuel imports remained over 48% below a year ago, imports across all other categories declined this month. This could be an indication of continued weakness in domestic demand.

<u>Imports by Region</u>

The value of imports across all key regions continued to decline this month.

The largest import market for Japan is China and imports from China declined by 9.8% in Jul – after increasing by +0.8% in Jun. Imports from China were down across most commodities except machinery, which increased by +1.5%. The single largest contributor to the decline this month was clothing and accessories -22.7% or accounting for -2.2% pts of the annual decline this month (down -19% last month).

Imports from the Middle East are down -58% in Jul, only marginally improved from the -61% decline in Jun. Most of the decline is attributed to a fall in mineral fuel imports.

Imports from Europe were down -18% in Jul – this was a deterioration from the -10.9% decline in Jun. Imports across other, transport, electrical machinery, machinery and manufactured goods were all down versus a year ago. There was only an improvement in the pace of decline in transport imports from Europe from -73% in Jun to -22% in Jul.

Imports from the US were down by -25% in Jul – this was also worse than the -12% decline in Jun. Most notably, especially for US production, the larger decline in imports of US transport equipment in Jul of -81% versus the -60% in Jun. Imports from the US were down across all commodities.

<u>Imports by Commodity</u>

Half of the decline in imports into Japan is attributed to the decline in mineral fuel imports. But all commodity categories contributed to the decline in imports this month.

The second largest contribution to the decline in imports was other (including clothing and accessories) – and imports declined at an accelerated pace of -17.7% in Jul.

Transport equipment imports declined by -47% in Jul and this was only slightly improved from the -58% decline in Jun.

Electrical machinery imports declined by -9.6% in Jul, slightly worse than the -6.3% in Jun.

Manufactured goods imports declined by -17.4% in Jul – a faster pace of declined than the -8.1% in Jun.

https://www.customs.go.jp/toukei/shinbun/trade-st_e/2020/2020074e.pdf

Japan National CPI (Jul)

The annual headline CPI growth accelerated slightly in Jul, led by faster growth in fresh food prices (among other things). The BoJ preferred measure of core CPI is all-items excluding fresh food and, in Jul, this showed that underlying prices in Japan did not increase on an annual basis. This is the second month where core prices ex fresh food year over year growth was 0%. The larger decline in energy prices contributed to this result.

The core measure of CPI excluding fresh food and energy prices indicated that underlying annual growth in consumer prices was higher at +0.4%, but the pace was unchanged from Jun (core prices ex fresh food and energy also increased by +0.4% annual in Jun).

<u>Headline All-Items CPI – annual change</u>: Jul +0.3% versus Jun +0.1%

Food prices increased at a faster pace this month, led by a +3.3% increase in fresh food prices for the month and a +6.9% year over year increase. Food, less fresh food prices grew at a slightly slower pace but was still elevated at +1%.

Annual price changes across most other categories were mixed – but resulted in overall no annual change excluding fresh food.

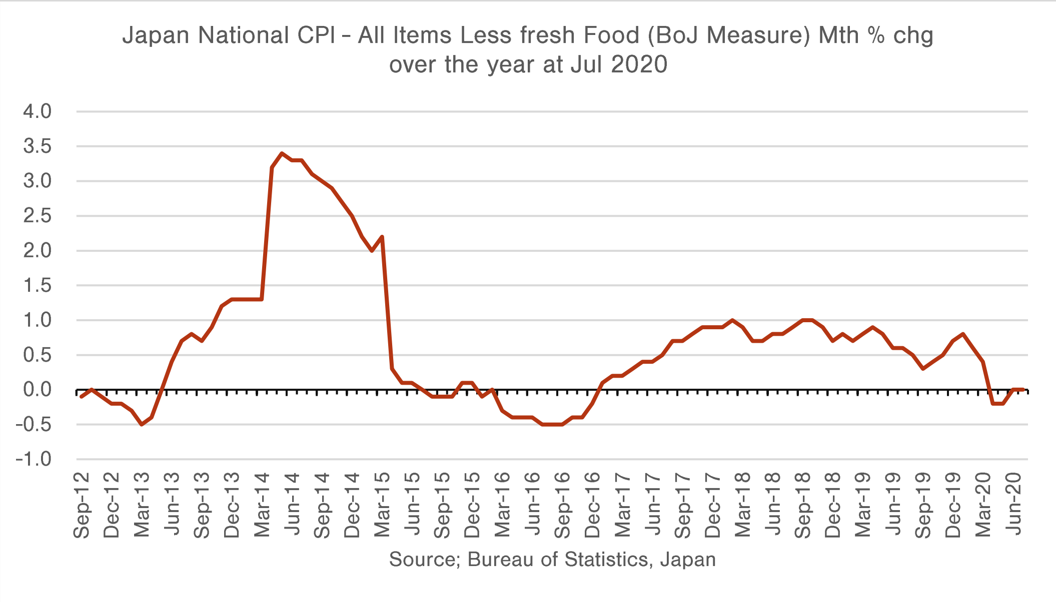
Housing prices increased by +0.7% (unch from Jun), clothing and footwear prices increased by +1.3% (unch from Jun), education prices declined by -10.3% (unch from Jun), misc prices declined by 3% (unch from Jun)

Fuel, light & water charges declined at a faster pace of -2.2% and medical care prices increased at a slower pace of +0.5%.

Furniture and household utensil prices increased at a faster pace of +3.3%, recreation and culture prices increased at a faster pace of +1.7%

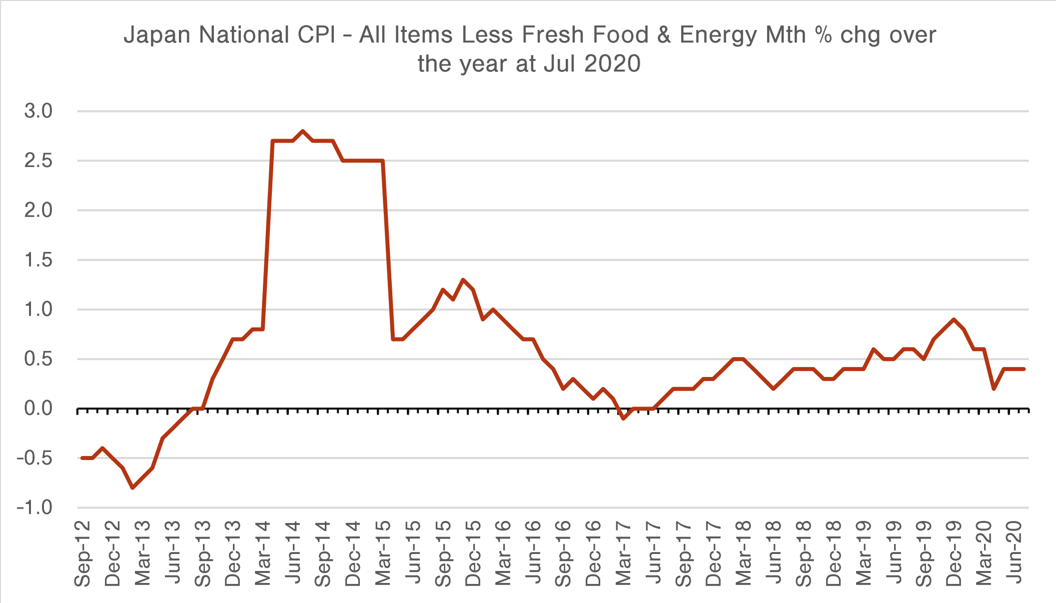
Transport prices declined at a slower pace of -0.1% and energy prices declined at a slower pace of -4.5%.

National CPI All-Items ex Fresh Food – annual change: Jul 0% versus Jun 0%



National CPI All-Items ex Fresh Food and Energy – annual change: Jul +0.4% versus Jun +0.4%

Excluding the larger impact of energy price declines and fresh food prices, reveals that underlying annual price growth remained constant at +0.4% in Jul.



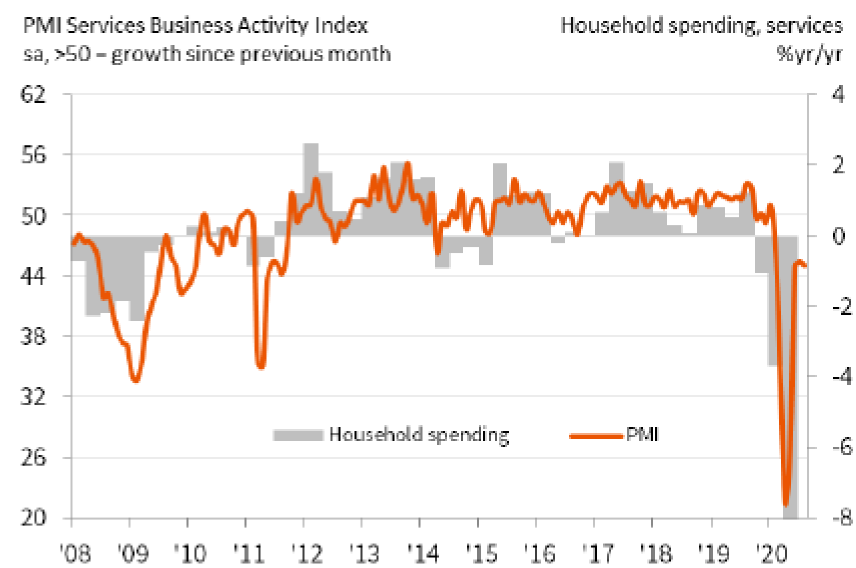
https://www.stat.go.jp/english/data/cpi/1581-z.html

Japan Manufacturing & Services PMI Prelim (Aug)

Unfortunately, there was no change in the pace of output decline across both manufacturing and services sectors in Aug. The composite output index was 44.9 in Aug versus 44.9 in Jul. The conditions across services appeared to deteriorate this month. Manufacturing conditions also appeared weak, but at least declines slowed across most measures, indicating some underlying improvement.

Services Business Activity Index – month: Aug 45 versus Jul 45.4

Services business activity



Sources: au Jibun Bank, IHS Markit, Cabinet Office.

The underlying performance was weak.

The pace of new work declined at an accelerated and "substantial" pace this month – reflecting both domestic and export weakness. Export orders declined at a slower pace.

Firms continued to reduce order backlogs.

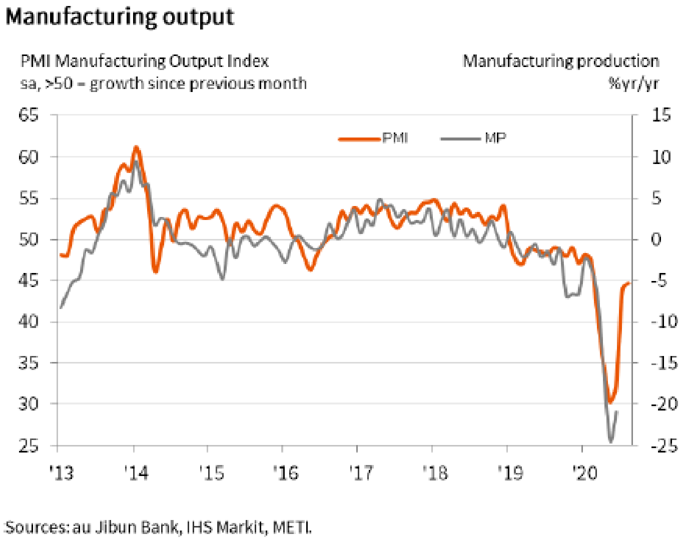
Employment within the services sector declined in the month (and at an accelerated pace) for the sixth month in a row.

The outlook among service sectors firms shifted from a positive to a negative outlook in Aug.

Manufacturing PMI – month: Aug 46.6 versus Jul 45.2

The manufacturing output index (used for the composite measure) improved only slightly from 43.9 in Jul to 44.7 in Aug, indicating that output continued to decline in Aug.

This suggests that there may not be as large a rebound in industrial manufacturing production as the IP report had forecast for Jul and Aug. But across all the measures in manufacturing, the pace of decline eased, possibly indicating some improvement in conditions.



Both production and new orders declined in Aug, but at a slower pace. New export orders also declined at a slower pace.

Firms were able to continue working through backlogs and order backlogs declined at a slower pace this month. Inventory of finished goods continued to decline at a faster pace. The lengthening of supplier delivery times suggests some ongoing supply chain issues.

Employment also declined at a slower pace this month.

The sentiment for output growth in the future was less positive this month.

https://www.markiteconomics.com/Public/Home/PressRelease/96e7adea00864be08c7e29f0a521c5be

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United Kingdom

Markit Manufacturing and Services PMI Prelim (Aug)

The rebound in the UK PMI's remain strong. The increase in the headline composite index indicate that output growth continued to accelerate in Aug. Both services and manufacturing output increased at a faster pace.

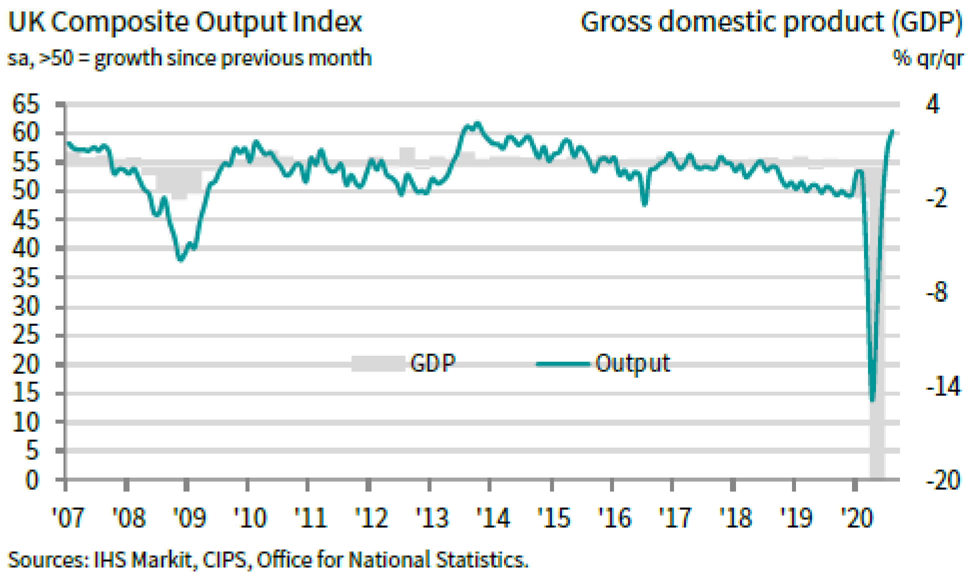
Given the severe declines recorded around the world from Feb to Jun, the rebound since Jun in the UK PMI's are more the expected magnitude of growth following such historic low levels of activity followed by a broad reopening of the economy.

> Higher levels of private sector output were overwhelmingly attributed to the reopening of the UK economy after the lockdown period in the second quarter of the year and a subsequent increase in both consumer and business spending.

That firms continued to reduce employment and were concerned about future output growth highlights that even this level of rebound growth may still be too slow.

As of Aug, there has also been no trade agreement reached between the EU and the UK on terms. There could be another round of stockpiling after Oct if there has been no agreement reached.

UK Composite Output Index: Aug 60.3 versus Jul 57



Services Business Activity Index: Aug 60.1 versus Jul 56.5

After several months of severe falls, new work and orders increased at a historically fast pace. The context is important because this improvement is coming off extreme lows.

Service providers noted that customer footfall had improved in August and easing lockdown measures had helped them to accelerate the restart of business operations.

On the downside, employment continued to decline. Firms linked the reduction to redundancy programmes to manage the fall in demand. Firms shifted back into pessimism after four months of rising optimism. Concerns regarding the economy and sustainability of the recovery were cited by firms.

Manufacturing PMI: Aug 55.3 versus Jul 53.3

Manufacturing output growth accelerated from 59.3 in Jul to 61.6 in Aug. Again, the context is important because output had declined to extremely low levels.

New work increased for the second month in a row. Firms noted that clients were beginning to restart work that had been placed on hold. Demand levels remained well below that of the shutdowns though.

Firms also noted that customers and clients needed to replenish inventories.

Employment still declined at an accelerated pace in Aug. Despite the uplift in demand, firms cited concerns over the sustainability of the current level of activity.

https://www.markiteconomics.com/Public/Home/PressRelease/cb9e40f687064dd2b0cbc9324d5dd4ae

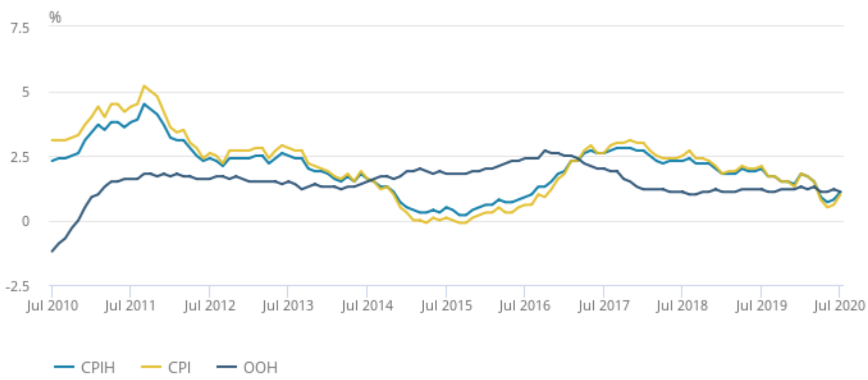
UK CPI (Jul)

The UK annual CPI growth including owner occupier housing costs accelerated in Jul versus Jun. Clothing and footwear and fuel prices contributed most to the acceleration.

All Items CPI-H – annual change: Jul +1.1% versus Jun +0.8%

Figure 1: Clothing and rising motoring fuel prices help to drive increase to CPIH and CPI 12-month inflation rates

CPIH, OOH component and CPI 12-month inflation rates for the last 10 years, UK, July 2010 to July 2020



Source: Office for National Statistics – Consumer price inflation

Contribution by Category

Most categories made a positive contribution to the annual headline growth this month.

Food & non-alcoholic bevs made a slightly smaller contribution to annual CPI growth between Jun and Jul.

The two categories that contributed most to the increase in the annual change between Jun and Jul were clothing and footwear and transport prices:

Clothing and footwear prices shifted from a decline in Jun to no change in Jul.

Transport prices (fuel) continued to decline, but at a slower pace.

The largest overall contributors to the CPI in Jul were:

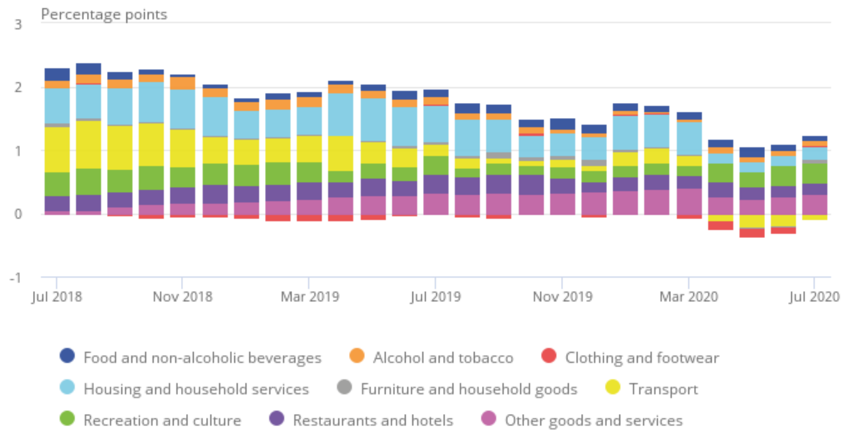
Recreation and Culture prices which contributed +0.33% pts to headline growth – this was +0.01% pts higher than in Jun.

Other goods and services contributed +0.31% pts to headline growth, which was +0.04% pts higher than in Jun.

Housing and household services contributed +0.19%pts to headline growth in Jul, which was +0.02% pts higher than in Jun.

Figure 2: Recreation and culture continues to make the largest contribution to inflation

Contributions to the CPIH 12-month inflation rate, UK, July 2018 to July 2020



Source: Office for National Statistics – Consumer price inflation

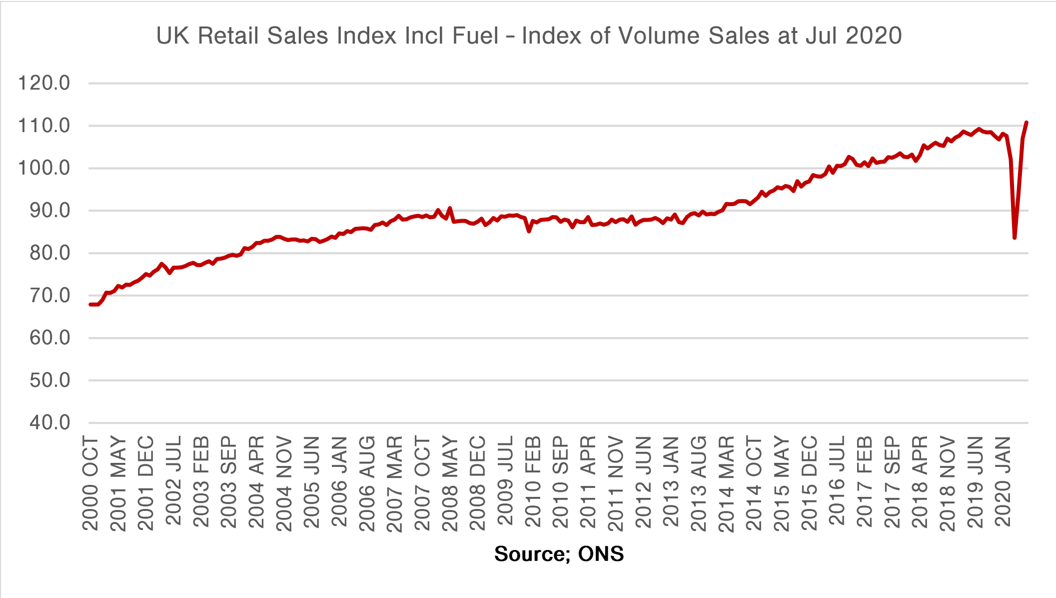
https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/july2020

UK Retail Sales (Jul)

UK retail sales volume continued to grow in the latest month.

Retail Sales (vol index) – month change: Jul +3.6% versus Jun +14%

Retail sales volumes, in total, have regained pre-shutdown levels but there remains a gap in total sales for those months of the shutdown.



Growth in the month was heavily influenced by the reopening of the economy and a subsequent shift in consumer behaviour.

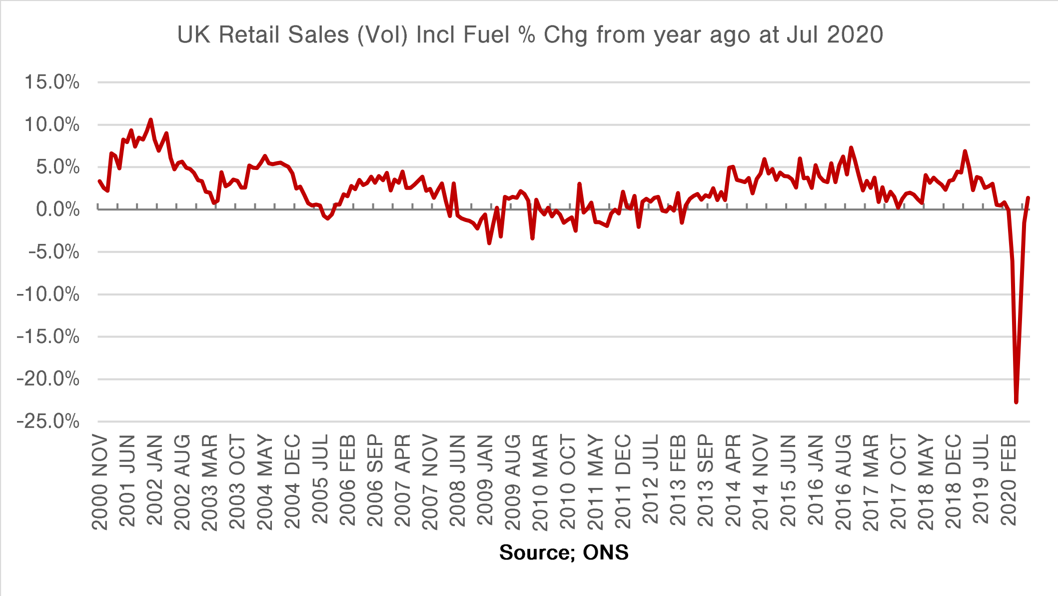
Sales across food stores declined as on-premise dining was reopened. Non-store retail also declined in the month as physical stores reopened. Sales of both food and non-store sales remain higher than before the pandemic.

Sales at non-food stores are slowly recovering. Department stores and clothing store sales remain below the pre-shutdown levels (Feb 2020). Sales of household goods and 'other' goods are above the level of sales in Feb 2020.

Fuel sales are also below the Feb 2020 level.

Retail sales volume versus a year ago turned positive in Jul.

<u>Retail Sales (vol index) – annual change</u>: Jul +1.4% versus Jun -1.6%.



https://www.ons.gov.uk/businessindustryandtrade/retailindustry/bulletins/retailsales/july2020

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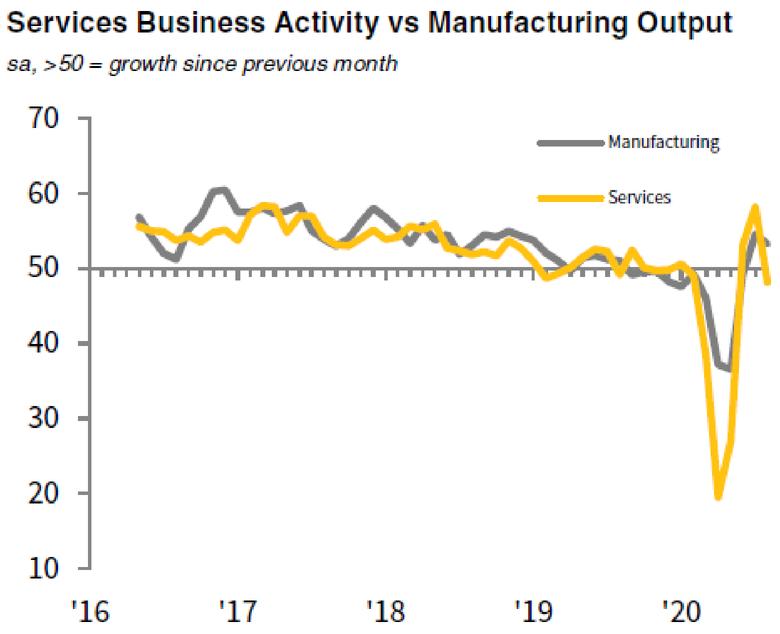
Australia

CBA Manufacturing and Services PMI Prelim (Aug)

The headline composite index for Aug showed that private sector activity shifted sharply back into contraction this month. This was mostly to be expected as parts of the country (Vic) were put back into lockdown and other states closed borders. The overall decline was led by the decline in services while manufacturing activity continued to grow at a similar pace as in Jul.

> "The decline in business activity over August is hardly surprising given the lockdown measures in Victoria. With the August composite flash PMI only modestly in contractionary territory it is highly likely that outside of Victoria private output continued to expand over the month".

Composite Business Output Index: Aug 48.8 versus Jul 57.8



Services Output Index: Aug 48.1 versus Jul 58.2

This was disappointing because the rebound in services in Aus had been one of the strongest among the main economies in Jul.

New orders declined sharply along with employment.

Input costs grew by the fastest pace in six months.

Manufacturing PMI: Aug 53.9 versus Jul 54

Output and new orders increased at a slower pace this month. But new export work continued to "fall sharply".

Of note were issues regarding supplier deliveries and freight delays related to border closures.

Employment also continued to decline in Aug for the ninth month in a row. The pace of decline eased though.

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Trade

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-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

> ""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

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