

Key Themes

The focus this week will be on central bank interest rate and policy decisions and key data releases.

This week, the FOMC, BoJ, and BoE will meet on monetary policy.

Data highlights for the week:

US – retail sales for Aug, prelim consumer sentiment for Sep and the stalling weekly jobless claims will be important metrics of the consumer recovery this week. Manufacturing data includes the first view of Sep activity via the Empire State and the Philadelphia Fed manufacturing surveys. Industrial production data will also be released for Aug – an important hard data point to track the recovery in manufacturing activity and capacity utilization.

The US Senate and House will be back from recess. The US Presidential election is less than two months away and further negotiations (posturing) on stimulus will remain in focus.

China - data on industrial production, fixed asset investment and retail sales for Aug will be released.

Australia – the labour market report for Aug will be released this week – providing an important gauge on the pace of recovery in employment.

The Brexit trade deal negotiations between the EU and the UK will continue this week. The focus will remain on the introduction of Brexit legislation by the UK which breaches the commitment made to ensuring no hard border between Ireland and Northern Ireland as a part of the Brexit agreement.

The forward schedule of US Fed purchases of Treasury Securities and MBS will be released on 14 Sep. Last week, purchases of Treasury Securities by the Fed were \$11.95bn and purchases of MBS were \$22.1bn.

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US Treasury Issuance & QE

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The US Treasury will also auction the 10yr TIPS and 20yr Bond this week that will settle on 30 Sep.

Approx. \$18bn 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			
14-18 Sep	10-Sep	15-Sep	4 week bill	30			Completed		
	10-Sep	15-Sep	8 week bill	35			Completed		
				65	145	-80			
	09-Sep	15-Sep	154-Day CMB	30			Completed	912796B81	Matures 16 Feb 2021
	09-Sep	15-Sep	105-Day CMB	25			Completed	9127965F2	Matures 29 Dec
	15-Sep	17-Sep	119-Day CMB	30			Announced	9127963U1	Matures 14 Jan 2021
	15-Sep	17-Sep	42-Day CMB	30			Announced	9127962T5	Matures 29 Oct
				115	0	115			
	14-Sep	17-Sep	13 week bill	54			Announced		
	14-Sep	17-Sep	26 week bill	51			Announced		
				105	166	-61			
	08-Sep	15-Sep	3yr Note	50			Announced		
	09-Sep	15-Sep	10yr Note	35			Announced		
	10-Sep	15-Sep	30yr Bond	23			Announced		
				108	19.56	88.44			
			Total - securities settling this week	393	330.56	62.44			
			QTR to date totals	4,034	3,724	310			
			<i>Treasury Estimates for Q3 2020</i>			<i>947</i>	<i>Updated</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		15-Sep	Bills	5.16					
		15-Sep	Notes & Bonds	4.44					
		17-Sep	Bills	8.39					
				17.99					

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

QE PROGRAMS

The latest schedule of US Fed purchases of US Treasury Securities and MBS will be released on 14 Sep 2020 – the detail below is incomplete.

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 14 Sep		6.716
Tue 15 Sep		
Wed 16 Sep		
Thur 17 Sep		
Fri 18 Sep		
Total Announced Purchases	\$bn (last wk. \$11.95bn)	\$bn (last wk. \$22.1bn)

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/ambs_operation_schedule

REPO OPERATIONS

The new schedule of operations will also be released on 14 Sep 2020. The detail below is incomplete.

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
TBC			

<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 14 SEPTEMBER 2020

MONDAY 14 SEPTEMBER (US Eastern Time)

Europe	Eurozone Industrial Production (Jul)
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Japan	Industrial Production – final (Jul)
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TUESDAY 15 SEPTEMBER

US	NY Empire State Manufacturing Index (Sep), Industrial Production (Aug)
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China	Fixed Asset Investment, Retail Sales, and Industrial Production (Aug)
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Japan	Merchandise Trade (Aug)
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Australia	House Price Index Q2, RBA Meeting Minutes
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WEDNESDAY 16 SEPTEMBER

US	MBA Mortgage Applications wk ending 11 Sep, Retail Sales (Aug), NAHB Housing Market Index (Sep) FOMC Rates Decision
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THURSDAY 17 SEPTEMBER

US	Initial Jobless Claims (wk ending 11 Sep), Continuing Unemployment Claims (wk ending 4 Sep), and PUA Claims, Building Permits & Housing Starts (Aug), Philadelphia Fed Manufacturing Survey (Sep)
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Europe	Eurozone CPI (Aug)
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Japan	National CPI (Aug) BoJ Rates Decision
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Australia	Employment and Labour Market Survey (Aug)
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UK	BoE Rates Decision
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FRIDAY 18 SEPTEMBER

US	University of Michigan Consumer Sentiment Prelim (Sep)
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Trade & Brexit

US-China Trade Talks

Relations between the US and China remain tense. There is likely to be continued posturing on the part of US President Trump, especially in the lead up to the US general election.

High level “talks” between the US and China were held by telephone several weeks ago to portray an image of dialogue between the two countries.

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”**.

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

Tensions flared during the week as the UK proposed Brexit legislation that would breach international law.

The proposed legislation would override aspects of a landmark Brexit withdrawal agreement involving the treatment of the border between Northern Ireland, which is part of the United Kingdom, and Ireland, which will remain in the European Union.

The EU demanded that the legislation be withdrawn, or the EC would take legal action:

But the vice president of the European Commission, Maros Sefcovic, said Mr. Johnson's draft bill would constitute "an extremely serious violation" of international law, and demanded its withdrawal by the end of the month.

"The E.U. is not going to allow peace in Ireland to be leveraged in a negotiation," said Mujtaba Rahman, an expert on Brexit at the political risk consultancy, Eurasia Group. "They see very clearly what the government is doing, and they're not going to be bullied. Britain is playing a very dangerous game of chicken with Europe."

Despite the tensions, talks will continue. Neither side is backing down at this stage:

There is no sign Mr. Johnson plans to back down to either, claiming earlier this week that failing to reach a trade deal with the European Union would still be a "good outcome." Though he has shown flexibility in the past, and his government has made a series of policy reversals, the government has taken an uncompromising line on Brexit, giving few hints that it intends to compromise, let alone give way to Brussels.

Britain argues that its new draft legislation is to provide a fallback option in case it cannot strike a trade deal with Brussels, but it not even clear that it will pass through Parliament unscathed.

<https://www.nytimes.com/2020/09/10/world/europe/brexit-boris-johnson-ireland.html>

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. If a trade deal is not in place by the end of the year, 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>

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+authoris

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“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%20however%20will%20have,effect%20on%20January%202020>.

The summary of US negotiating objectives for the US-Japan trade talks;

https://ustr.gov/sites/default/files/2018.12.21_Summary_of_U.S.-Japan_Negotiating_Objectives.pdf

US 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