

Key Themes

Highlights this week will be US Fed speeches, the first US Presidential debate, and key data releases.

This week there are several US Fed Governors speaking. On Tue, Vice Chair Clarida will speak on Treasury Market Resilience and Vice Chair Quarles will speak on Financial Regulation and Financial Stability - <https://www.federalreserve.gov/newsevents/calendar.htm>. The ECB President Lagarde will also speak early this week.

US domestic politics will continue to feature. The first of three US Presidential debates between US President Trump and Democrat nominee Joe Biden will take place on 29 Sep this week. The next two debates will be held on 15 and 22 Oct. US President Trump has also announced his nomination for a Supreme Court Justice to replace Justice Ginsburg. The confirmation process is expected to be swift. There was also news late last week that US Treasury Secretary Mnuchin and House Speaker Pelosi would restart stimulus talks.

The key data points this week include: US non-farm payrolls and employment for Sep, the ISM manufacturing PMI for Sep, the PCE and price index data for Aug, and the final reading of consumer sentiment for Sep.

More broadly, the release of the global manufacturing PMI's for Sep will commence this week, with services covered next week.

The next schedule for US Fed purchases of US Treasuries and MBS will be released on 28 Sep.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$474bn in ST Bills, TIPS, Notes, and Bonds this week raising approx. \$103bn in new money. This week, approx. \$40bn in Bills, Notes, and Bonds will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
28 Sep - 2 Oct	24-Sep	29-Sep	4 week bill	30			Completed
	24-Sep	29-Sep	8 week bill	35			Completed
				65	130	-65	
	23-Sep	29-Sep	154-Day CMB	30			
	23-Sep	29-Sep	105-day CMB	25			
	29-Sep	01-Oct	119-Day CMB	30			
	29-Sep	01-Oct	42-Day CMB	30			
				115	0	115	
	28-Sep	01-Oct	13 week bill	54			Announced
	28-Sep	01-Oct	26 week bill	51			Announced
				105	166	-61	
	17-Sep	30-Sep	10yr TIPS	12			Announced
	22-Sep	30-Sep	2yr Note	52			Announced
	23-Sep	30-Sep	5yr Note	53			Announced
	24-Sep	30-Sep	7yr Note	50			Announced
	15-Sep	30-Sep	20yr Bond	22			Announced
				189	75.11	113.89	
			Total - securities settling this week	474	371.11	102.89	
			QTR to date totals	4,815	4,396	419	
			<i>Treasury Estimates for Q3 2020</i>			947	Updated
			Fed SOMA - Face Value of SOMA securities maturing	\$B			
		29-Sep	Bills	6.20			
		30-Sep	Notes & Bonds	25.870			
		01-Oct	Bills	8.740			
				40.810			

<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 28 Sep 2020. Data in the table below is incomplete:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 28 Sep	1.750	5.207
Tue 29 Sep		
Wed 30 Sep		
Thur 1 Oct		
Fri 2 Oct		
Total Announced Purchases	\$bn (last wk. \$21.45bn)	\$bn (last wk. \$29.63bn)

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

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
29 Sep	27 Oct 2020	28 days	\$500bn

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

SWAP LINES

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

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

WEEK COMMENCING 28 SEPTEMBER 2020

MONDAY 28 SEPTEMBER (US Eastern Time)

US Dallas Fed Manufacturing Index (Sep)

Europe ECB President Lagarde speech

TUESDAY 29 SEPTEMBER

US US Fed Reserve Bank Governor speeches: Williams, Clarida, Quarles

Japan Retail Sales (Aug), Industrial Production Prelim (Aug)

WEDNESDAY 30 SEPTEMBER

US MBA Mortgage Applications wk ending 25 Sep, ADP Employment Change (Sep), GDP Q2 – Third Estimate, Chicago PMI (Sep), First US Presidential Debate

Europe Eurozone CPI Prelim (Sep)

China NBS Manufacturing and Non-Manufacturing PMI

Australia Private Sector Credit (Aug), Markit Manufacturing PMI Final (Sep), Building Permits (Aug)

THURSDAY 1 OCTOBER

US Initial Jobless Claims (wk ending 25 Sep), Continuing Unemployment Claims (wk ending 18 Sep), and PUA Claims, Challenger Job Cuts (Sep), Personal Consumption, Income and Price Index (Aug), ISM Manufacturing PMI (Sep), Markit Manufacturing PMI Final (Sep), Motor Vehicle Sales (Sep)

UK Markit Manufacturing PMI Final (Sep)

Europe Markit Eurozone Manufacturing PMI Final (Sep)

Japan Markit Manufacturing PMI Final (Sep)

FRIDAY 2 OCTOBER

US Non-Farm Payrolls and Employment (Sep), ISM NY Business Conditions (Sep), University of Michigan Consumer Sentiment Final (Sep)

Australia Retail Sales (Aug)

Trade & Brexit

US-China Trade Talks

Relations between the US and China appear to remain tense. Last week in his speech at the UN General Assembly, US President Trump demanded that the global community hold China responsible for unleashing “this plague onto the world”.

With just weeks before the presidential election, Mr. Trump also used his speech to highlight what he sees as his foreign-policy achievements: isolating Iran, moving to withdraw forces from Afghanistan and orchestrating normalized ties between Israel and two Gulf Arab countries. But his attempt to shift the blame to China for the coronavirus pandemic — and away from what critics call his own inept response — was a dominant theme in the speech.

“We have waged a fierce battle against the invisible enemy — the China virus,” Mr. Trump said. He spoke of American advances in lifesaving treatments, predicted success in finalizing and distributing vaccines and asserted: “We will end the pandemic, and we will enter a new era of unprecedented prosperity, cooperation and peace.”

<https://www.nytimes.com/2020/09/22/world/americas/UN-Trump-Xi-China-coronavirus.html>

This was another speech by US President Trump likely targeted to his base (appearing tough on China), in the lead up to the election.

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

Last week there was some positive news on the trade deal negotiation front. But the EU aimed to dampen the optimism at this stage questioning whether the UK PM had the support of his party to negotiate the deal.

“We cannot trust this prime minister’s word, so the EU member states are not yet willing to go blind into a tunnel negotiation and see what happens,” said

one source. “It will take more than David Frost [the UK’s chief negotiator] telling us Johnson wants a deal.”

EU officials were on Friday unsure how to read an article by the political editor of the Spectator, James Forsyth, which said Downing Street could see “a deal is coming into view” and extolling the benefits for Johnson’s premiership.

A UK government official rejected the hope of an imminent breakthrough saying “there remains a lot of work to do and either outcome is still possible” warning the EU had to be “realistic” in the coming days.

Next week, negotiations restart in the lead up to the 15-16 Oct European Council meeting. That next EC meeting was originally expected to be the final date allowing enough time for the EC to ratify any agreement. Its likely that a special meeting will be required before the Dec EC summit.

When the next round of negotiations opens next week, the EU is hoping Frost will present a compromise proposal on the key issue of control of state aid to businesses. “There is better mood music but no substance yet from London to justify it,” one diplomatic source said.

<https://www.theguardian.com/politics/2020/sep/25/brexit-brussels-punctures-optimism-that-deal-in-sight>

The internal market bill (and the finance bill) has yet to be tabled in the UK parliament. The timetable for the bills will be an indicator of how talks are progressing between the two sides. The internal markets bill is the proposed UK Brexit legislation that would override the Brexit Withdrawal Agreement.

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.

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

The latest minutes from the BoE underlines that current economic projections are based on an orderly Brexit with an established free-trade agreement between the UK and EU. The situation will be reviewed at the Nov BoE meeting – and it is possible that there will not be an agreement in place by then. This may trigger some further stimulus or emergency measures to be taken by the BoE.

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+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

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.

S.301 US 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