

Key Themes

Highlights this week include the ECB rates decision, Brexit talks in London, and a generally quiet data week across the board.

A short week for the US with the Labor Day National holiday on the 7 Sep. US data highlights this week will be the initial and continuing jobless claims data and the CPI for Aug.

The US Senate and House are both back from recess over the next week. With the US Presidential election less than two months away now, further negotiations on stimulus will likely be in focus.

Other highlights this week:

China trade data for Aug – an important barometer for the recovery of global demand and production.

Germany Industrial Production for Aug – also an important barometer for the recovery of global demand.

The ECB will meet this week on rates and monetary policy.

The Brexit trade deal negotiations between the EU and the UK will be held in London this week. It is expected that the UK PM Johnson will set a 15 Oct deadline for the trade negotiations. There has been little progress on the trade deal negotiations so far.

The US Fed purchase of Treasury securities is again below the \$20bn benchmark, while purchases of MBS are above the \$20bn benchmark (note that this is a short week). Treasury Security purchases by the Fed this week will be \$11.95bn (last week total \$15.42bn). The purchase of MBS will be \$22.1bn this week (last week \$24bn).

US Treasury issuance will be lighter this week and there will be a net paydown. The US Treasury will settle approx. \$319bn in ST Bills this week, with a net paydown of \$13.7bn.

US Treasury Issuance & QE

US Treasury issuance will be lighter this week and there will be a net paydown.

The US Treasury will settle approx. \$319bn in ST Bills this week, with a net paydown of \$13.7bn.

The US Treasury will also auction \$108bn in Notes and Bonds this week that will settle next week – raising approx. \$88bn in new money.

Approx. \$21bn 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			
Holiday - Mon 7 Sep - Labour Day									
7-11 Sep	03-Sep	08-Sep	4 week bill	30					
	03-Sep	08-Sep	8 week bill	35					
				65	150	-85			
	02-Sep	08-Sep	154-Day CMB	30			Completed	912796B73	Matures 9 Feb 2021
	02-Sep	08-Sep	105-Day CMB	25			Completed	9127965D7	Matures 22 Dec
	08-Sep	10-Sep	119-Day CMB	30			Announced	9127963T4	Matures 7 Jan 2021
	08-Sep	10-Sep	42-Day CMB	30			Announced	9127962S7	Matures 22 Oct
				115	0	115			
	08-Sep	10-Sep	13 week bill	54					
	08-Sep	10-Sep	26 week bill	51					
	08-Sep	10-Sep	52 week bill	34					
				139	182.7	-43.7			
			Total - securities settling this week	319	332.7	-13.7			
			QTR to date totals	3,641	3,394	247			
			<i>Treasury Estimates for Q3 2020</i>			<i>947</i>	<i>Updated</i>		
			Fed SOMA - Face Value of SOMA securities maturing	\$B					
		08-Sep	Bills	6.3					
		10-Sep	Bills	14.7					
				21.0					

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

QE PROGRAMS

The latest schedule of US Fed purchases of US Treasury Securities and MBS.

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 7 Sep	National Holiday	National Holiday
Tue 8 Sep	1.750	7.490
Wed 9 Sep	2.425	4.975
Thur 10 Sep	6.025	4.221
Fri 11 Sep	1.750	5.385
Total Announced Purchases	\$11.95bn (last wk. \$15.425bn)	\$22.1bn (last wk. \$24.04bn)

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

Several changes were announced with the new schedule: adjustment of the minimum bid rate and timing of repo operations.

Primary Dealers will be permitted to submit up to two propositions per security type per operation at rates equal to or greater than the operation minimum bid rate, which is set at the rate of interest on excess reserves (IOER) plus a spread.

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
Tue 8 Sep 2020	6 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 7 SEPTEMBER 2020

MONDAY 7 SEPTEMBER (US Eastern Time)

US	Labor Day National Holiday
China	Balance of Trade, Exports & Imports (Aug)
Japan	GDP Q2 (second est)
Europe	Germany Industrial Production (Jul)

TUESDAY 8 SEPTEMBER

US	Consumer Credit G.19 (Jul)
Europe	Eurozone GDP Q2 (second est)
Australia	NAB Business Conditions and Confidence (Aug)

WEDNESDAY 9 SEPTEMBER

US	MBA Mortgage Applications wk ending 4 Sep, JOLTS (Jul)
China	CPI & PPI (Aug)
Australia	Housing Finance (Jul)

THURSDAY 10 SEPTEMBER

US	Initial Jobless Claims (wk ending 4 Sep), Continuing Unemployment Claims (wk ending 28 Aug), and PUA Claims, PPI (Aug)
Europe	ECB Rates Decision

FRIDAY 11 SEPTEMBER

US	CPI (Aug)
----	-----------

Trade & Brexit

US-China Trade Talks

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

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

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

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

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

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

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

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

The next round of talks on a UK-EU trade deal will resume this week in the UK.

It is being reported that the UK will set a deadline of 15 Oct to have a finalised trade deal with the EU. But it appears that the UK is not rushing to make a deal by that date.

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

If no deal is agreed, Britain would have a trading relationship with the bloc like Australia's, which would be "a good outcome", Johnson will say.

"As a government we are preparing, at our borders and at our ports, to be ready for it," he will say. "We will have full control over our laws, our rules, and our fishing waters." https://www.reuters.com/article/uk-britain-eu-johnson-idUSKBN25X0XK?taid=5f55bf83b524370001652256&utm_campaign=trueAnthem:+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

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

Johnson will say there is still a deal to be had based on a standard free trade agreement if the EU is ready to rethink its current position.

"But we cannot and will not compromise on the fundamentals of what it means to be an independent country to get it," he will say. https://www.reuters.com/article/uk-britain-eu-johnson-idUSKBN25X0XK?taid=5f55bf83b524370001652256&utm_campaign=trueAnthem:+Trending+Content&utm_medium=trueAnthem&utm_source=twitter

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-brexite#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

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