

## Key Themes

A big week ahead – the key highlights include the next Presidential debate in the lead up to the US Presidential election, the EU-UK Brexit trade agreement, central bank Governor speeches this week and important data releases.

There are now only 3 weeks until the US Presidential election. The focus this week will be the second Presidential debate and the ongoing posturing around a second stimulus bill.

The EC meeting this week 15-16 Oct will be important for Brexit trade deal proceedings. The status of negotiations will be reviewed and a trade deal has so far not yet been agreed upon. It was originally hoped that a deal would be completed by this week to enable enough time for parties to ratify the trade deal.

There are several central bank Governor speeches this week – the ECB's Lagarde, BoE's Bailey, and RBA's Lowe will all speak this week (different events). There will also be speeches by US Fed Vice Chair Clarida and Vice Chair for Supervision Quarles.

The key data points this week include:

US – Retail sales, CPI, and industrial production for Sep. The first view of Oct production data with NY and Philadelphia regional surveys and the prelim Uni of Michigan consumer confidence data for Oct will also be released.

China trade data, CPI, and PPI for Sep.

Aus employment and labour market survey for Sep.

The next schedule of US Fed purchases of Treasury and MBS will be released this week.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$395bn in ST Bills, Notes, and Bonds this week raising approx. \$72bn in new money.

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## 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	
<i>12 Oct Columbus Day</i>							
12-16 Oct	08-Oct	13-Oct	4 week bill	30			Completed
	08-Oct	13-Oct	8 week bill	35			Completed
				65	130	-65	
	07-Oct	13-Oct	154-Day CMB	30			Completed
	07-Oct	13-Oct	105-day CMB	25			Completed
	13-Oct	15-Oct	119-Day CMB	30			Announced
	13-Oct	15-Oct	43-Day CMB	30			Announced
				115	0	115	
	13-Oct	15-Oct	13 week bill	54			Announced
	13-Oct	15-Oct	26 week bill	51			Announced
				105	172	-67	
	06-Oct	15-Oct	3yr note	52			Announced
	07-Oct	15-Oct	10yr note	35			Announced
	08-Oct	15-Oct	30yr bond	23			Announced
				110	20.92	89.08	
			<b>Total - securities settling this week</b>	<b>395</b>	<b>322.92</b>	<b>72.08</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>714</b>	<b>638.4</b>	<b>75.6</b>	
			<i>Estimated Net Cash to be Raised Q4</i>			<b>1216</b>	
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ B</b>			
		13-Oct	Bills	5.3			
		15-Oct	Bills	11.5			
		15-Oct-20	Notes & Bonds	3.1			
				19.9			

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

## QE PROGRAMS

The next release of purchase operations will be on 14 Oct – the table below is incomplete:

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 12 Oct	Holiday	Holiday
Tue 13 Oct	1.750	7.291
Wed 14 Oct	1.225	3.802
Thur 15 Oct	Tbc	Tbc
Fri 16 Oct	Tbc	Tbc
Total Announced Purchases	\$2.975bn (last wk. \$29.45bn)	\$11.093bn (last wk. \$26.92bn)

Links to Operation Schedules -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

[https://www.newyorkfed.org/markets/ombs\\_operation\\_schedule](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
13 Oct	10 Nov 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 12 OCTOBER 2020

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## MONDAY 12 OCTOBER (US Eastern Time)

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US	Columbus Day
Europe	ECB President Lagarde Speech – IMF/World Bank annual meeting

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## TUESDAY 13 OCTOBER

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US	CPI (Sep)
China	Balance of Trade, Exports & Imports (Sep)
Australia	Westpac Consumer Confidence (Oct)

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## WEDNESDAY 14 OCTOBER

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US	MBA Mortgage Applications wk ending 9 Oct, PPI (Sep) US Fed Vice Chair Clarida Speech - Institute of International Finance
Europe	Eurozone Industrial Production (Aug) ECB President Lagarde Speech – UN Environ Programme Finance Initiative
Japan	Industrial Production Final (Aug)

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## THURSDAY 15 OCTOBER

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US	Initial Jobless Claims (wk ending 9 Oct), Continuing Unemployment Claims (wk ending 2 Oct), and PUA Claims, NY Empire State Manufacturing Index (Oct), Philadelphia Fed Manufacturing Survey (Oct) US Presidential Debate #2 US Fed Vice Chair Supervision Quarles Speech – Institute of International Finance
Europe	European Council Meeting day 1
China	CPI & PPI (Sep)
Australia	Employment and Labour Market Survey (Sep) RBA Governor Lowe Speech - Citi Australia and New Zealand Annual Investment Conference

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## FRIDAY 16 OCTOBER

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US	Retail Sales (Sep), Industrial Production (Sep), Uni of Michigan Consumer Sentiment Prelim (Oct)
Europe	European Council Meeting day 2, CPI (Sep)

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## Trade & Brexit

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### BREXIT

This is an important week for Brexit. The EU-UK trade Brexit deal has yet to be negotiated and this could prove to be an important week for proceedings. The EC meeting this coming week has been a key milestone for negotiations.

The European Council will take stock of the implementation of the withdrawal agreement and review the state of the negotiations on the future EU-UK partnership. Leaders will discuss preparatory work for all scenarios after 1 January 2021. <https://www.consilium.europa.eu/en/meetings/european-council/2020/10/15-16/>

One thing that both sides have agreed on is that a deal needs to be struck in October to ensure sufficient time for ratification, before the end of the transition period.

But negotiators are unlikely to get until the end of the month.

Mr Johnson has previously said he wants to agree a free trade deal by the time of an EU summit in the Belgian capital - **which is next week, on Thursday 15 October.**

Mr Johnson has said the two sides should "move on" if nothing is agreed by then. <https://www.bbc.com/news/uk-politics-54493246>

This upcoming EC meeting was originally expected to be the final date for negotiating the trade relationship, allowing enough time for the EC to ratify any agreement. It is 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 still been making its way through the UK Parliament:

The Bill completed its passage through the House of Commons on 29 September, having been amended by the Government to clarify some aspects of its intended operation. It is currently making its way through the House of Lords, where it is expected to have a more difficult passage.

<https://www.lexology.com/library/detail.aspx?g=bfa6cb0c-9f71-49aa-8c72-444615e32a44>

MPs have given their final backing to government plans to override parts of its Brexit agreement with the EU.

Amid concerns that the move would break international law, ministers agreed to give Parliament a say before ever using the powers they would be granted by the Internal Market Bill. <https://www.bbc.com/news/uk-politics-54341534>

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-China Trade Talks**

There has been little change on the US-China trade front. The focus over the next few weeks will be the Presidential election.

Relations between the US and China appear to remain tense. In a recent 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>

## US-Europe Trade Talks

The USTR issued a modification to the products that are authorized by the WTO for additional duties due to the case regarding subsidies for large civil aircraft.

USTR is removing from the tariff list certain products from Greece and the United Kingdom and adding an equivalent amount of trade from France and Germany. The changes are modest; the amount of products subject to countermeasures will remain unchanged at \$7.5 billion and the tariff rates will remain unchanged at 15% for aircraft and 25% for all other products.

“The EU and member states have not taken the actions necessary to come into compliance with WTO decisions,” Ambassador Robert Lighthizer stated. “The United States, however, is committed to obtaining a long-term resolution to this dispute. Accordingly, the United States will begin a new process with the EU in an effort to reach an agreement that will remedy the conduct that harmed the U.S. aviation industry and workers and will ensure a level playing field for U.S. companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/august/ustr-modifies-75-billion-wto-award-implementation-relating-illegal-airbus-subsidies>

USTR Lighthizer noted in recent testimony of the intention to continue to pursue negotiations with the EU. This still seems some way into the future – after US elections.

The United States also seeks to rebalance our trade relationship with the European Union. For many years, U.S. businesses have been at a disadvantage in doing business in the EU. Both tariff and non-tariff barriers in the EU have led to increasing and unsustainable trade deficits with the EU – reaching \$179 billion in 2019. With recent changes in EU leadership, the United States is hopeful for more progress **in the coming year.** <https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

There are several fronts to the US-EU trade discussions.

### Airline Subsidies

The US has officially notified the WTO that it has complied with the dispute raised by the EU on US subsidies to Boeing. The US has now enacted the Senate Bill that eliminates the preferential tax treatment for aerospace manufacturing.

The removal of the subsidy fully implements the WTO's recommendation to the United States, bringing an end to this long-running dispute.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/us-notifies-full-compliance-wto-aircraft-dispute>

From 18 Oct, the US had implemented tariffs on some EU imports as a part of the WTO ruling on the Airbus case. This week, the USTR announced a further increase in the tariff rate in aircraft imported from the EU into the US from 10% to 15% - effected from 18 Mar 2020.

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/february/ustr-revises-75-billion-award-implementation-against-eu-airbus-case>

### Trade Deal Negotiations

The key sticking point remains agriculture. The EC authorised negotiations to commence between the EU and the US – but excluding agriculture. Emphasis added;

“Today's adoption of the EU negotiating directives gives a clear signal of the EU's commitment to a positive trade agenda with the US and the implementation of the strictly defined work programme agreed by Presidents Trump and Juncker on 25 July 2018. **But let me be clear: we will not speak about agriculture** or public procurement.”

[https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm\\_source=dsms-auto&utm\\_medium=email&utm\\_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment](https://www.consilium.europa.eu/en/press/press-releases/2019/04/15/trade-with-the-united-states-council-authorises-negotiations-on-elimination-of-tariffs-for-industrial-goods-and-on-conformity-assessment/?utm_source=dsms-auto&utm_medium=email&utm_campaign=Trade+with+the+United+States%3a+Council+authorises+negotiations+on+elimination+of+tariffs+for+industrial+goods+and+on+conformity+assessment)

““I do not think we will reach an agreement if agriculture is not included,” McKinney told reporters on a teleconference during his visit to Brussels, citing concerns raised by U.S. lawmakers and Trump.”

<https://www.reuters.com/article/us-usa-trade-eu/no-u-s-eu-trade-deal-without-agriculture-u-s-official-idUSKCN1TS2SH>

The threat of auto tariffs also remains an issue, despite the US missing the S.232 deadline of 14 Nov. <https://www.cnbc.com/2019/11/08/trump-wont-impose-tariffs-on-european-cars-eu-juncker-says.html>

### Digital Services

France on Monday agreed to suspend a 3% digital tax on U.S. tech companies in exchange for Washington holding off on a threat to impose tariffs of up to 100% on a \$2.4 billion list of French imports, a French diplomatic source said.

<https://www.reuters.com/article/us-usa-trade-deals/after-china-trade-deal-europe-and-uk-next-on-trumps-to-do-list-idUSKBN1ZL2TJ>

The USTR S.301 investigation into the digital services tax approved by the French government has been completed and released its report on 2 Dec 2019;

“USTR's decision today sends a clear signal that the United States will take action against digital tax regimes that discriminate or otherwise impose undue burdens on U.S. companies,” Ambassador Robert Lighthizer said. **“Indeed,**



**USTR is exploring whether to open Section 301 investigations into the digital services taxes of Austria, Italy, and Turkey.** The USTR is focused on countering the growing protectionism of EU member states, which unfairly targets U.S. companies, whether through digital services taxes or other efforts that target leading U.S. digital services companies.” <https://ustr.gov/about-us/policy-offices/press-office/press-releases/2019/december/conclusion-ustr%E2%80%99s-investigation>

The proposed action includes up to 100% duties on certain French products imported into the US. The USTR is now inviting comments on the proposed action at a public hearing in Washington on 6-8 Jan 2020. <https://www.federalregister.gov/documents/2019/12/06/2019-26325/notice-of-determination-and-request-for-comments-concerning-action-pursuant-to-section-301-frances>

and

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/january/public-hearing-proposed-action-frances-digital-services-tax-0>

#### Background

The summary of US negotiating objectives for the US-EU trade talks have been published;

[https://ustr.gov/sites/default/files/01.11.2019\\_Summary\\_of\\_U.S.-EU\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/01.11.2019_Summary_of_U.S.-EU_Negotiating_Objectives.pdf)

## US-Japan Trade Talks

In recent testimony, USTR Lighthizer referred to the second phase trade deal negotiations with Japan.

Last year, the United States also entered into two agreements with Japan that established preferred or zero-rate tariffs on more than 90 percent of U.S. food and agricultural products imported into Japan and enhanced the existing \$40 billion in digital trade between our countries.

In the case of Japan, the two countries intend to enter into further negotiations on customs duties, barriers to trade in services and investment, and other trade restrictions.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

Phase two of the deal negotiations were originally planned to commence around Apr/May this year. There is no indication of the timing for the start of phase two negotiations at this stage.

After the deal enters into force, the countries have agreed to conclude consultations for further trade talks within four months. Then discussions between their lead negotiators, Foreign Minister Toshimitsu Motegi and U.S. Trade Representative Robert Lighthizer, will start again in earnest.

The United States is seeking a full-fledged free trade agreement that covers areas including services and investment.

<https://www.japantimes.co.jp/news/2019/12/04/business/economy-business/upper-house-approves-united-states-japan-trade-deal/#.Xe3HTegzaUk>

The issue for phase two talks is auto tariffs.

Japan has said it has received U.S. assurance that it would scrap tariffs on Japanese cars and car parts, and that the only remaining issue was the timing. But Washington has not confirmed that.

<https://www.reuters.com/article/us-usa-trade-japan/japan-lower-house-passes-u-s-trade-deal-auto-tariffs-still-in-question-idUSKBN1XT0IK>

Details from the Congressional Research Service;

<https://crsreports.congress.gov/product/pdf/IF/IF11120#targetText=Japan's%20Diet%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](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://www.washingtonpost.com/business/what-trump-johnson-want-from-us-uk-trade-deal/2020/06/10/e116d732-ab75-11ea-a43b-be9f6494a87d_story.html)

<https://ustr.gov/about-us/policy-offices/press-office/press-releases/2020/may/statement-ustr-robert-lighthizer-launch-us-uk-trade-negotiations>

The actual details of the negotiations are largely unknown and causing concern in the UK;

"The precise details of any UK-US Free Trade Agreement are a matter for formal negotiations, and we would not seek to pre-empt these discussions.

"The Government is clear that when negotiating FTAs we will continue to protect our right to regulate in the public interest where we deem fit."

<https://www.express.co.uk/news/world/1288548/uk-government-brexit-trade-deal-chlorinated-chicken-farmers-us-trade-liz-truss>

USTR Lighthizer also noted in his recent testimony of the US intention to continue to pursue a trade agreement with the UK;

The Trump Administration has taken numerous steps to pave the way for negotiating a trade agreement with the UK, including a review of public comments, a public hearing, and extensive consultations with congressional and trade advisory committees. USTR published detailed negotiating objectives on February 28, 2019, and aims to reach an agreement with substantive results for U.S. consumers, businesses, farmers, ranchers, and workers as soon as possible.

<https://waysandmeans.house.gov/sites/democrats.waysandmeans.house.gov/files/documents/HWMCTestimonyon2020TradeAgenda-Final.pdf>

The USTR has published the summary of specific negotiating objectives for the US-UK trade negotiations; [https://ustr.gov/sites/default/files/Summary\\_of\\_U.S.-UK\\_Negotiating\\_Objectives.pdf](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)