

## Key Themes

This will be another big week across the macro spectrum. We are now in the final week leading into the US Presidential election next Tuesday, Brexit talks are intensifying, Covid-19 cases are reaching new highs around the world, US Q3 earnings and growth data will feature, and there are several central bank interest rate decisions due this week.

We are now into the final week leading up to the US Presidential election. Stimulus discussion continues to simmer. The prelim US Q3 GDP will be reported this week – with likely a strong upturn in growth compared to the significant contraction in Q2.

US Q3 earnings this week will feature: Amazon, Apple, Google, Microsoft, Facebook, Twitter, Pinterest, AMD, Fastly, Shopify, Starbucks, Boeing, GE, Caterpillar, 3M, Pfizer, Moderna, Gilead Science, Visa, Mastercard, Exxon Mobil, Chevron, and Ford.

Brexit talks resumed late last week and have intensified into this week in an effort to reach an agreement. The 31 Oct has been identified as a target date to review progress on negotiations allowing enough time for a deal to be ratified ahead of the 31 Dec transition deadline.

There are several central bank meetings this week: The ECB, BoJ, and BoC. It will be quiet on the US Fed front ahead of the FOMC meeting next week 4-5 Nov.

Key data points this week include:

US – prelim Q3 GDP will be a key focus this week with the expectations for a strong growth figure, the final half of Oct consumer sentiment reading, personal consumption, income and prices for Sep, and the advance durable goods report for Sep.

Chinese Oct PMI's will be released over next weekend.

Europe prelim Q3 growth data will also be released along with prelim CPI growth for Oct.

Aus Q3 CPI will be released and will provide a key input into the RBA deliberations and meeting next Tues.

The new schedule of US Fed purchases of Treasury securities and MBS will be released mid-week.

US Treasury issuance will be little changed this week. The US Treasury will settle approx. \$302bn in ST Bills and 5yr TIPS this week, raising approx. \$5bn in new money.

The US Treasury will also auction \$210bn in Notes, Bonds, and FRN's this week, which will settle next week.

This week, approx. \$16bn in Bills will mature on the Fed balance sheet and will be rolled over.

## US Treasury Issuance & QE

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With no progress on further stimulus spending, the current pace of new money raised is running below the \$1.2tr estimate for the quarter (31% of the quarter and 5% of the estimated net cash to be raised for the quarter). The US Treasury cash balance remains elevated at \$1.69tr (Wed 21 Oct level).

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
26-30 Oct	22-Oct	27-Oct	4 week bill	30			Completed
	22-Oct	27-Oct	8 week bill	35			Completed
				65	130	-65	
	21-Oct	27-Oct	154-Day CMB	30			Completed
	21-Oct	27-Oct	105-day CMB	25			Completed
	26-Oct	29-Oct	119-Day CMB	30			Announced
	26-Oct	29-Oct	42-Day CMB	30			Announced
				115	0	115	
	26-Oct	29-Oct	13 week bill	54			Announced
	26-Oct	29-Oct	26 week bill	51			Announced
				105	167	-62	
	22-Oct	30-Oct	5yr TIPS	17	0	17	Announced
			<b>Total - securities settling this week</b>	<b>302</b>	<b>297</b>	<b>5</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>1301</b>	<b>1237</b>	<b>64</b>	
			<i>Estimated Net Cash to be Raised Q4</i>			1216	
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ B</b>			
		27-Oct-20	Bills	6.13			
		29-Oct	Bills	9.49			
				15.62			

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

## QE PROGRAMS

The schedule below is incomplete – the new schedule will be released on 28 Oct 2020

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 26 Oct	3.625	7.589
Tue 27 Oct	1.750	5.573
Wed 28 Oct	-	5.573
Thur 29 Oct	Tbc	Tbc
Fri 30 Oct	Tbc	Tbc
Total Announced Purchases	\$5.375bn (last wk. \$19.575bn)	\$18.735bn (last wk. \$26.822bn)

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](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
27 Oct	24 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 26 OCTOBER 2020

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## MONDAY 26 OCTOBER (US Eastern Time)

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US	Chicago Fed National Activity Index (Sep), New Home Sales (Sep), Dallas Fed Manufacturing Survey (Oct)
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## TUESDAY 27 OCTOBER

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US	Advance Durable Goods Orders (Sep), Case/Shiller House Price Index (Aug), Richmond Fed Manufacturing Survey (Oct)
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## WEDNESDAY 28 OCTOBER

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US	MBA Mortgage Applications wk ending 23 Oct
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Japan	Retail Trade (Sep)
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Australia	CPI Q3
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Canada	BoC rates Decision
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## THURSDAY 29 OCTOBER

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US	Initial Jobless Claims (wk ending 23 Oct), Continuing Unemployment Claims (wk ending 16 Oct), and PUA Claims, Prelim GDP Q3, Pending Home Sales (Sep)
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Europe	ECB Rates Decision
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Japan	BoJ Rates Decision, Industrial Production Prelim (Sep)
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## FRIDAY 30 OCTOBER

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US	Personal Income, Consumption and Savings (Sep), PCE Price Index (Sep), Chicago PMI (Oct), University of Michigan Consumer Sentiment Final (Oct)
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Europe	Euro Area CPI prelim (Oct), GDP – Prelim Q3,
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Australia	Private Sector Credit (Sep)
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China	31 Oct – NBS Manufacturing and Non-Manufacturing PMI (Oct)
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## Trade & Brexit

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### BREXIT

Teams were back into negotiations last week after it had appeared that talks had reached a stalemate. The EU team will remain in the UK this week to continue negotiating the details of the future relationship. So far, there is cautious optimism on the resumption of talks and that a compromise on key issues will be agreed.

"It is clear that significant gaps remain between our positions in the most difficult areas, but we are ready, with the EU, to see if it is possible to bridge them in intensive talks."

The talks had become bogged down in three areas: access to fishing grounds, the extent to which nations should be allowed to subsidize businesses, and ways in which future disputes between the two sides should be resolved.

<http://global.chinadaily.com.cn/a/202010/26/WS5f9622b9a31024ad0ba80d25.html>

It has been reported that this coming Saturday 31 Oct is a deadline of sorts – to evaluate whether a deal can be reached between the two sides ahead of 31 Dec, with enough time for the deal to be ratified by both sides.

From the minutes of the EC Summit last week – preparedness is becoming a focus:

EU leaders called to step up their work on preparedness and readiness at all levels and for all outcomes, including that of no agreement.

<https://www.consilium.europa.eu/en/meetings/european-council/2020/10/15-16/>

If there is no trade deal negotiated in time for the deadline:

The UK and EU had been hoping for a "zero-tariff" agreement to govern their trading relationship once the UK's post-Brexit transition period ends on 31 December.

If no deal is reached, they will operate on World Trade Organization rules, meaning tariffs are imposed. <https://www.bbc.com/news/uk-politics-54566897>

The internal market bill (and the finance bill) has still been making its way through the UK Parliament and goes through the Committee stage this week in the House of Lords. <https://www.parliament.uk/business/news/2020/october/lords-debates-internal-market-bill/>

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 US 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%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](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)