

Key Themes

In focus this week will be US domestic politics, in particular, tracking the health of President Trump after he contracted Covid-19, FOMC Minutes, RBA meeting, and US and global services PMI performance.

This week US Fed Chairman Powell will give a speech on the economic outlook at the National Association of Business Economics annual meeting. Link to viewing: https://www.youtube.com/watch?v=AxFVQJG_Wbk&feature=youtu.be

US domestic politics will likely continue to dominate in the lead up to the Presidential election. So far, President Trump has played down the severity of the infection on his health. With the first debate out of the way last week, the question is whether the second debate will go ahead on 15 Oct. News of further stimulus talks continue. The confirmation process for US Supreme Court Justice is also underway.

The key data points this week include:

US – ISM Services PMI, initial and continuing jobless claims, and the Aug JOLTS data. The focus in the JOLTS data will be on the pace of growth in job openings as well as separations/layoffs.

Global services PMI's will be released early in the week providing some insight into the momentum behind service sector rebounds after/during these times of restricted trade.

It is a big week in Aus with the RBA meeting early in the week on rates and policy. This will be before the Federal government hands down the annual budget. There is some expectation that the overnight cash rate may be lowered further by the RBA (possibly by the end of the year) – as of Friday that was a 67% implied expectation of a further rate cut at the next meeting (down from 77% in the week prior). The Federal Budget is expected to include significant spending increases and tax cuts.

The US Fed will increase Treasury and MBS purchases this week. Treasury purchases are expected to be \$29bn and MBS purchases are expected to be \$26bn this week.

US Treasury issuance will be lighter this week. The US Treasury will settle approx. \$319bn in ST Bills this week raising approx. \$3bn in new money.

This week, approx. \$27bn in Bills will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

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The US Treasury will also auction \$110bn in Notes and Bonds this week that will settle next week.

WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
5-9 Oct	01-Oct	06-Oct	4 week bill	30			Completed
	01-Oct	06-Oct	8 week bill	35			Completed
				65	130	-65	
	30-Sep	06-Oct	154-Day CMB	30			Completed
	30-Sep	06-Oct	105-day CMB	25			Completed
	06-Oct	08-Oct	119-Day CMB	30			Announced
	06-Oct	08-Oct	42-Day CMB	30			Announced
				115	0	115	
	05-Oct	08-Oct	13 week bill	54			Announced
	05-Oct	08-Oct	26 week bill	51			Announced
	06-Oct	08-Oct	52 week bill	34			Announced
				139	185.5	-46.5	
			Total - securities settling this week	319	315.5	3.5	
			Net New Cash Raised Qtr to Date	319	315.5	3.5	
			<i>Estimated Net Cash to be Raised Q4</i>			1216	
			Fed SOMA - Face Value of SOMA securities maturing	\$ B			
		06-Oct	Bills	6.39			
		08-Oct	Bills	21.11			
				27.5			

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

QE PROGRAMS

The latest schedule of US Fed purchases of US Treasury Securities and MBS has been released. Below are the operation dates for this week

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 5 Oct	3.625	7.297
Tue 6 Oct	12.825	5.273
Wed 7 Oct	1.750	5.273
Thur 8 Oct	2.425	5.273
Fri 9 Oct	8.825	3.808
Total Announced Purchases	\$29.45bn (last wk. \$9.525bn)	\$26.92bn (last wk. \$25.41bn)

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
6 Oct	3 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 5 OCTOBER 2020

MONDAY 5 OCTOBER (US Eastern Time)

US	ISM Services PMI (Sep), Markit Services PMI Final (Sep)
UK	Markit Services PMI Final (Sep)
Europe	Eurozone Markit Services PMI Final (Sep), Eurozone Retail Sales (Aug)
Japan	Markit Services PMI Final (Sep)
Australia	Markit Services PMI Final (Sep), NAB Business Conditions & Confidence (Sep)

TUESDAY 6 OCTOBER

US	JOLTS (Aug) Speech: Fed Chairman Powell – Economic Outlook, Ann Meeting Nat Association for Business Economics
Australia	RBA Rates Decision Federal Budget Release

WEDNESDAY 7 OCTOBER

US	MBA Mortgage Applications wk ending 2 Oct, Consumer Credit (Aug) FOMC Minutes
Europe	Speech; ECB President Lagarde

THURSDAY 8 OCTOBER

US	Initial Jobless Claims (wk ending 2 Oct), Continuing Unemployment Claims (wk ending 25 Sep), and PUA Claims,
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FRIDAY 9 OCTOBER

Australia	Housing Finance (Aug)
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Trade & Brexit

US-China Trade Talks

There has been little change on the US-China trade front. The focus over the last week has been on the Presidential debate, stimulus discussions and, of course, the US President contracting Covid-19.

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>

BREXIT

Talks will continue this week and next week on the post-Brexit trade deal between the UK and the EU.

Boris Johnson and Ursula von der Leyen have approved a further month of Brexit negotiations after agreeing that enough progress has been made to justify a last push to reach a deal on trade and security.

The fresh rounds were agreed after a phone call on Saturday afternoon between the British prime minister and European commission president. EU sources said the conversation was “not a game-changer” but not “unhelpful”, with both sides showing resolve to find “landing zones” on the most difficult areas. <https://www.theguardian.com/politics/2020/oct/03/johnson-and-von-der-leyen-extend-brexit-talks-by-a-month>

The EU leaders will meet on 15-16 Oct and will assess progress of talks. The UK has also said that it “wants clarity” by 15 Oct as to “whether a deal is possible or not”.

The EU says that any deal must be sealed by the end of October, or in the first days of November at the latest, to leave enough time for ratification by the bloc before the end of the year. <https://uk.reuters.com/article/uk-britain-eu-johnson/johnson-says-he-doesnt-want-no-deal-brexit-but-can-live-with-it-idUKKBN26P0B9?il=0>

That next EC meeting was originally expected to be the final date 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 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-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

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