

Key Themes

Global prelim PMIs for Oct indicated mostly consistent momentum in manufacturing growth for the month. The exception was the UK. The Composite UK report was quite downbeat with growth slowing notably but remaining positive. The UK manufacturing result reflected a combination of firms building stock ahead of the final Brexit deadline and firms streamlining inventory to reduce costs. Eurozone manufacturing was lifted by the German manufacturing sector. Japan's manufacturing output index indicated a decline, but industrial manufacturing production is forecast to be positive for Sep – and export performance in Sep continued to improve. Weaker improvement in Japanese imports suggests some ongoing domestic weakness.

Growth in services PMI's was mixed. There was a sharper contraction in Europe and a continued contraction in Japan. Growth was notably slower in the UK. Momentum in the US and Aus services activity was only slightly faster – linked to the easing of restrictions.

In the US, services output was higher, as restrictions were lifted, but there was some easing in the growth of orders and employment. Manufacturing growth maintained steady progress. Regional US manufacturing surveys for Oct have indicated continued improvement in manufacturing conditions.

There is some cautious optimism around slowing US initial jobless claims – especially now that California data has been updated. Continuing claims were lower too but falls in state and some fed programs were offset by increases in other fed programs. This could reflect a transition between programs as benefits expire for some people. How rising infections impact consumption behaviour will be important over the next few weeks.

US housing market data for Sep remained very strong. The Northeast has been a key driver of improved housing market conditions, existing home sales, new permits and new housing starts. All regions recorded stronger existing home sales in Sep. There is some caution ahead though from the mortgage application data. While refi activity has continued to grow as mortgage rates have continued to fall, purchase applications have declined now for the last four weeks. The purchase index is a leading 4-6 week indicator of home sales.

There were two interesting points from the minutes of the RBA Oct meeting. The first is the likelihood of further policy easing for Nov and the second is the change in forward guidance on inflation and full employment. The Board noted that it wants to see more than just progress toward full employment. There will likely be less emphasis on forecast inflation and more emphasis on actual inflation outcomes. It was also noted that inflation outcomes are not likely to be achieved until there is a tight labour market.

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[Europe](#) - Markit Composite PMI Prelim (Oct)

[Japan](#) - Merchandise Trade (Sep), CPI (Sep), Markit Composite PMI Prelim (Oct)

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No Update: US-China Trade Talks, US-Europe Trade Talks, US-Japan Trade Talks, US S.301 Investigation into Digital Services Taxes, Section 232. Car and Truck Imports, US-UK Trade Talks

US Data

Initial Jobless Claims (wk ending 17 Oct), Continuing Unemployment Claims (wk ending 10 Oct), and Pandemic Unemployment Assistance (PUA) Claims

The data for California has been updated now for this week and for the two weeks prior.

There was a further slowdown in weekly initial claims – coming in at 1.1m new claims across both state and federal Pandemic Unemployment Assistance (PUA) programs.

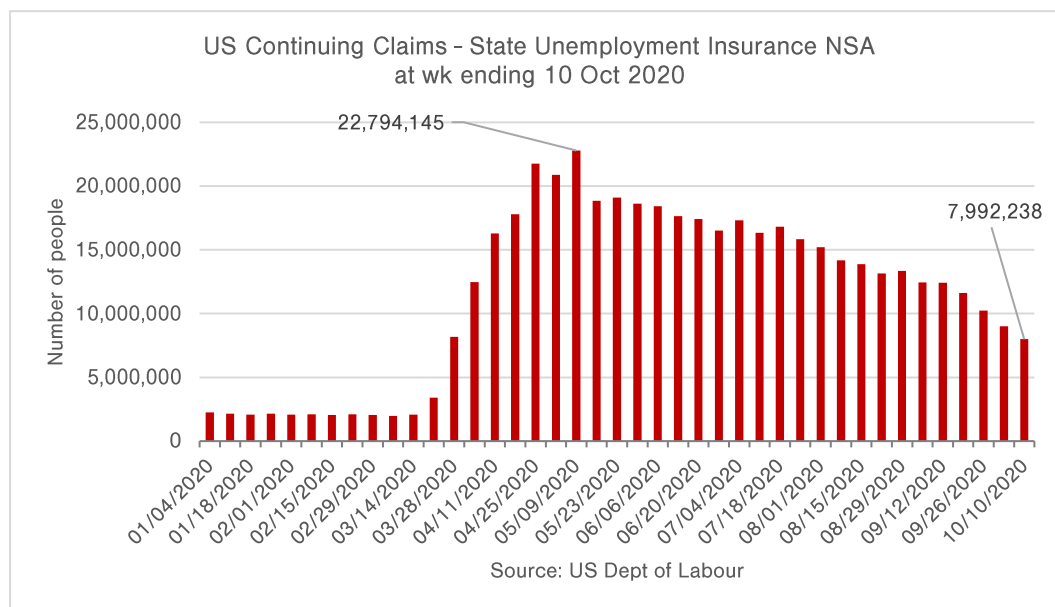
The continuing claims for the wk ending 3 Oct across all programs was lower by 1m people but remains elevated at 23.15m continuing claims. Regular state continuing claims declined notably by 1.2m people, but the decline in continuing claims for PUA was offset by higher ongoing claims for Pandemic Emergency Unemployment Assistance.

State Unemployment Programs

Initial Claims (NSA) wk ending 17 Oct 2020: 756,617 initial claims by people (this was -73k less claims than in the prior week)

Continuing Claims (NSA) wk ending 10 Oct 2020: 7,992,238 ongoing claims

The level of state program continuing claims has continued to decline, falling by just over 1m claims in the wk ending 10 Oct (compared to the prior week):



Federal PUA Programs

Initial PUA Claims (NSA) wk ending 17 Oct 2020: 345,440 initial claims (this was +8k ahead of the prior week)

PUA Continuing Claims (NSA) wk ending 3 Oct 2020: 10,232,853 ongoing claims (this was -425k claims lower than in the week prior).

Pandemic Emergency Unemployment Assistance (NSA) wk ending 3 Oct 2020: 3,296,156 ongoing claims (this was +509k claims higher than the week prior).

<https://oui.doleta.gov/press/2020/102220.pdf>

Markit Composite PMI Prelim (Oct)

The headline composite output index increased in Sep. This reflected a faster pace of growth in services output in the US. Manufacturing output growth remained moderate and at a similar pace as in Sep. Note that the manufacturing industrial production output for Sep was slightly lower than in the month prior.

Both service and manufacturing firms noted a continued increase in costs while selling price discounting was used to generate greater sales.

Firms were more optimistic about the outlook for future output growth.

Composite Output Index: Oct 55.5 versus Sep 54.3

Data collected October 12-22

IHS Markit Composite PMI and U.S. GDP



Sources: IHS Markit, U.S. Bureau of Economic Analysis

Services Business Activity Index: Oct 56 versus Sep 54.6

There was a solid acceleration in the pace of services output growth this month – linked to a further easing of restrictions. The challenge will be to maintain this momentum while infections reach new highs. New business growth increased but at a slower pace this month. Employment growth also slowed this month. Input prices increased further while firms continued to “limit” selling price increases.

Manufacturing Output Index: Oct 53 versus Sep 53.1

The proportion of manufacturing firms reporting an increase in output was little changed in Oct compared to Sep. Note that the Sep industrial production report recorded a slight decline in manufacturing output for Sep of -0.3%. Manufacturing output remained 7% below the same month a year ago in Sep.

The headline manufacturing PMI was overall little changed at 53.3 in Oct versus 53.2 in Sep – reflecting a continued moderate pace of expansion. New orders growth increased at a faster pace than in Sep, reflecting stronger growth in domestic orders while new export orders declined. Work backlogs were little changed despite the increase in orders. Employment growth slowed.

<https://www.markiteconomics.com/Public/Home/PressRelease/5b1ec46ccda14387a09ad44655469302>

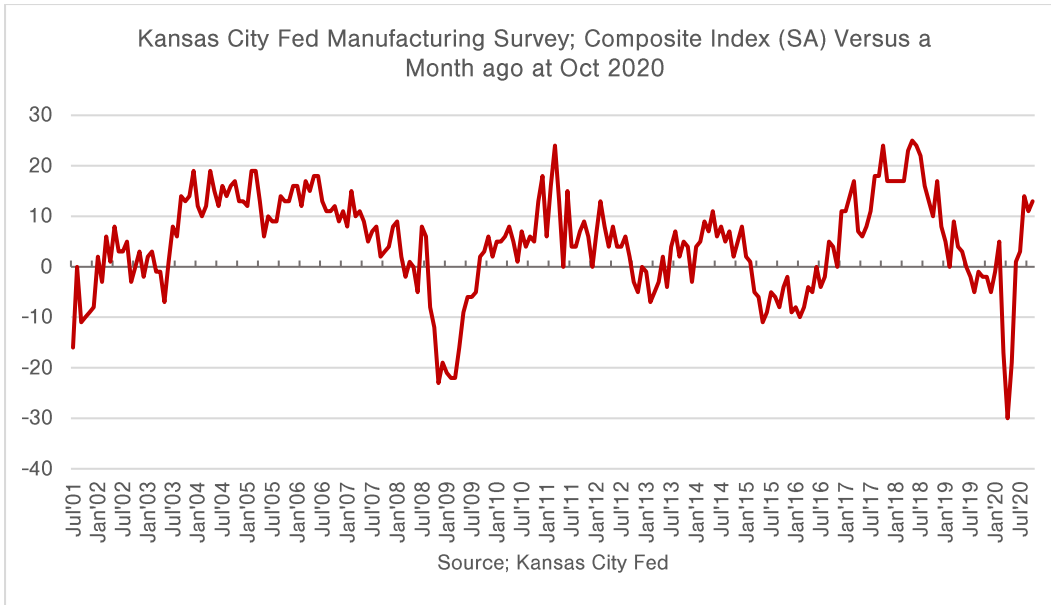
Kansas City Fed Manufacturing Activity (Oct)

The Kansas City Fed manufacturing survey indicated a continued expansion of activity in Oct after slightly slower growth in Sep. The reasonably consistent pace of expansion over the last three months has enabled some firms to make gains versus a year ago. Growth in production and orders has been consistent over the last three months, but order backlogs continue to indicate spare capacity overall. Employment growth has been consistently moderate over the last three months, but still remains well below a year ago. The average workweek is almost back on par with a year ago – this suggests that firms are currently able to operate with lower staff levels (although production levels are still well below a year ago overall).

Input prices appear to be growing at an accelerated pace while selling price growth remains subdued – likely impacting margins.

“Regional factory activity expanded in October but remained below year-ago levels for over half of firms,” said Wilkerson. “While 55% of firms reported that employment was at or above pre-COVID levels, most expected that sales and capital spending would not return to pre-COVID levels in the immediate future.”

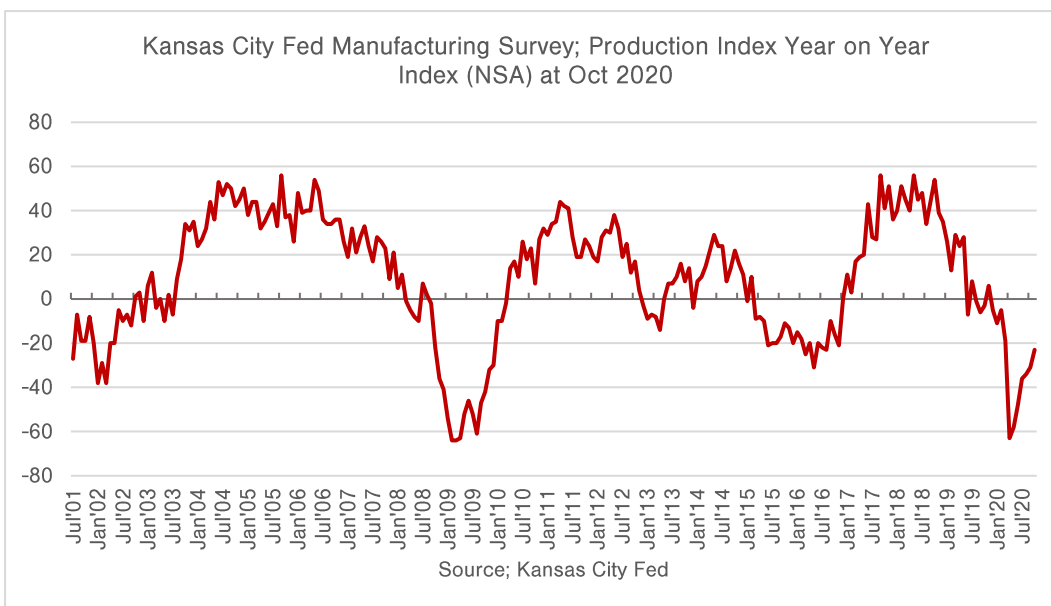
Composite Manufacturing Index: Oct 13 versus Sep 11



Versus a year ago, the index remained in contraction, but to a lesser degree: Oct -12 versus Sep -21.

The pace of growth across the main indicators of demand and activity improved slightly after slower growth in Sep. In most cases, the increase was back on par with Aug growth/index levels.

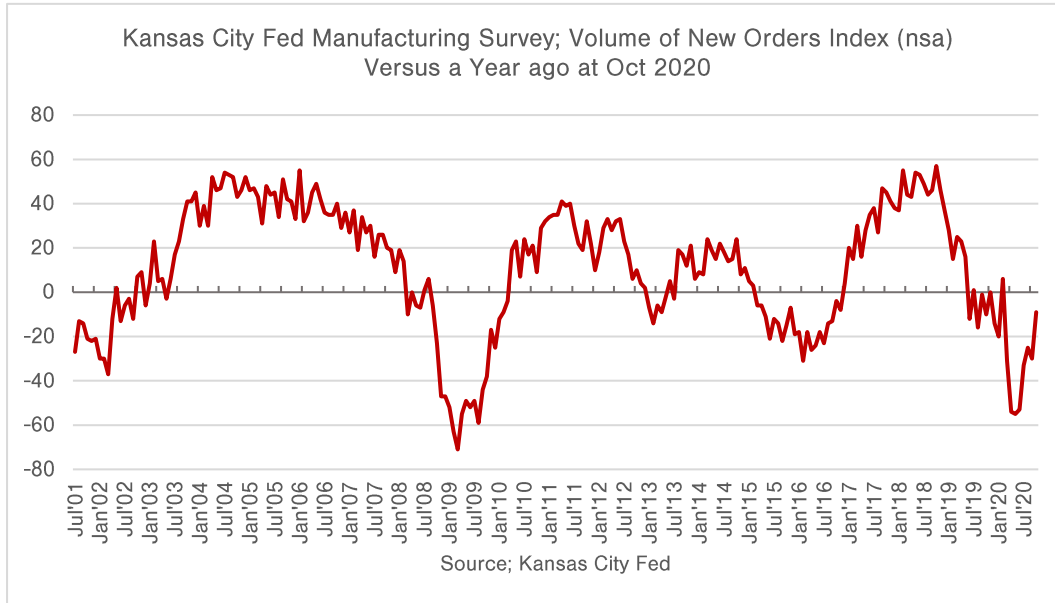
The production index increased from 18 in Sep to 23 in Oct. This was on par with the 23 recorded in Aug. The production index versus a year ago declined, but to a lesser degree than in Sep.



“Some of our business (+/-20%) was food service. We do not expect restaurants to return to "normal" until at least 2022.”

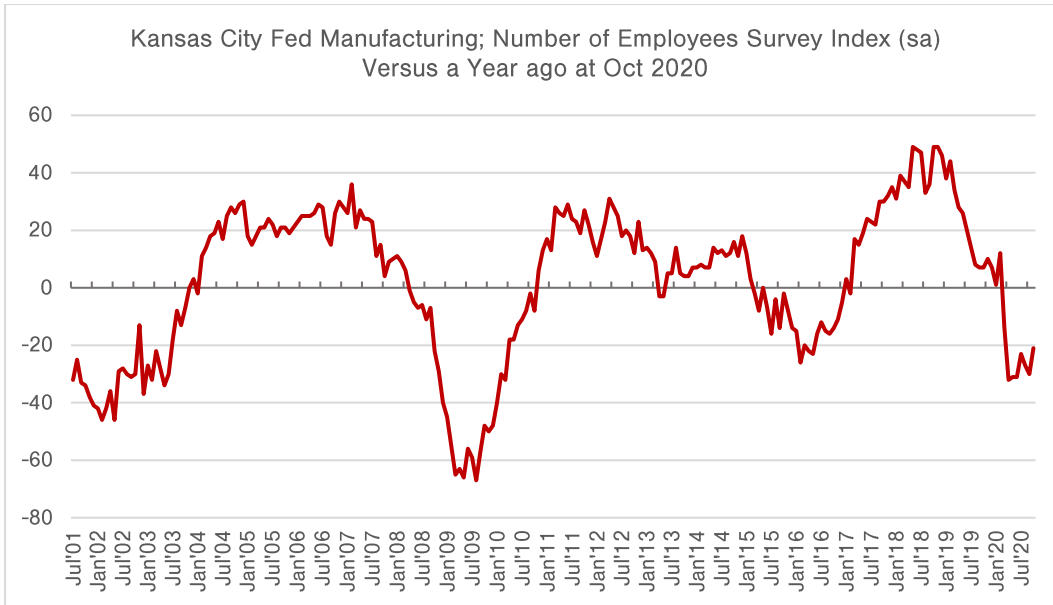
“Our year ends in October and we are on track to have one of our best year's in our history. Not in the way we planned, but we are very fortunate.”

The index of the volume of new orders increased from 23 in Sep to 26 in Oct. This was also on par with the pace of growth in Aug of 26. With these several months of stronger orders, the pace of growth in orders remained in contraction, but by a much smaller number: Oct -9 versus Sep -30.



Order backlogs increased in Oct, but at a slower pace than in Sep. The index slowed to 2 in Oct from 13 in Sep. Despite the stronger monthly growth in new orders, there was a smaller increase in backlogs. The order backlog index remained below a year ago at -15 in Oct versus -23 in Sep – this suggests that spare capacity still remains.

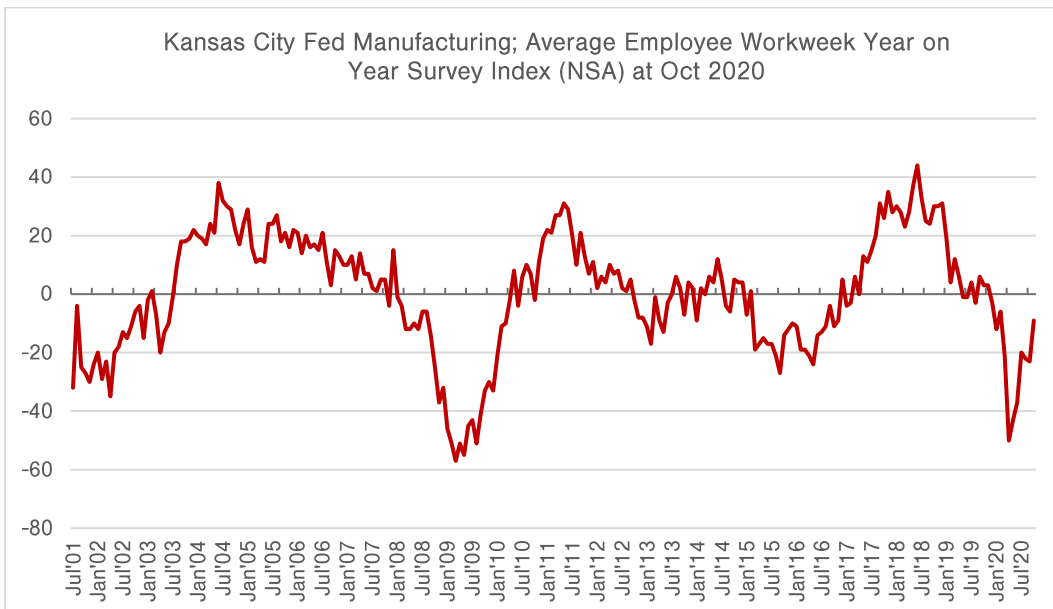
The number of employees index increased slightly, suggesting only a moderate improvement in employment growth. The index increased from 7 in Sep to 9 in Oct. This was the fourth month of month on month growth. The year ago index though indicates much less improvement than other measures with the index still firmly in contraction at -21 in Oct – but was an improvement on -30 in Sep.



“We will look at increasing our finished goods inventory to help offset the lack of people to smooth out our production schedule.”

“We have learned that we can operate with less personnel and other unnecessary expenses.”

The average employee workweek posted a larger improvement, increasing from -1 in Sep to 7 in Oct. There has also been more improvement on a year ago basis, with the index now only slightly below a year ago at -9 in Oct versus -23 in Sep.



Prices received for goods increased at a slower pace with the index slowing to 4 in Oct from 12 in Sep. This is well below the recent peak of 27 in Aug 2018. This lack of pricing power is likely impacting margins for some firms as prices paid (input costs) have been increasing at

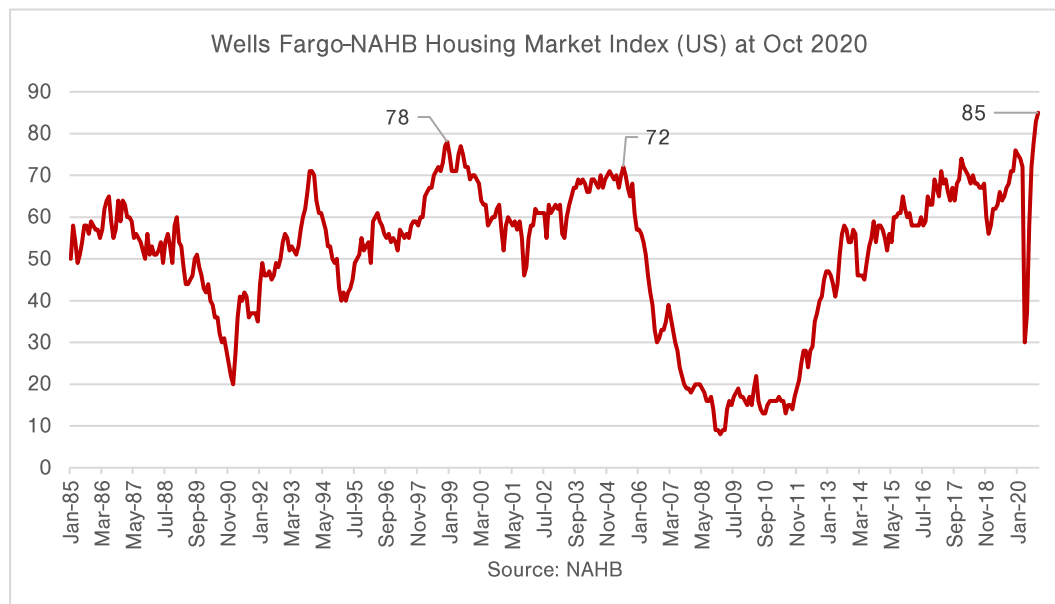
an accelerating pace over the last four months. The prices paid index in Oct was 34 versus 24 in Sep.

<https://www.kansascityfed.org/research/indicatorsdata/mfg>

NAHB Housing Market Index (Oct)

Market conditions for the sale of new homes, as rated by NAHB members, continues to improve. The Housing Market Index (HMI) for Oct reached another new series high this month. Conditions strengthened across current single-family house sales and expected sales in the next six months. One measure that did not improve was the traffic of prospective buyers – physical traffic patterns may not be as strong an indicator as in the past. Two regions were the main drivers of the improvement in the HMI this month – the Northeast and the West. The HMI in the South and Midwest declined slightly.

National Housing Market Index: Oct 85 versus Sep 83

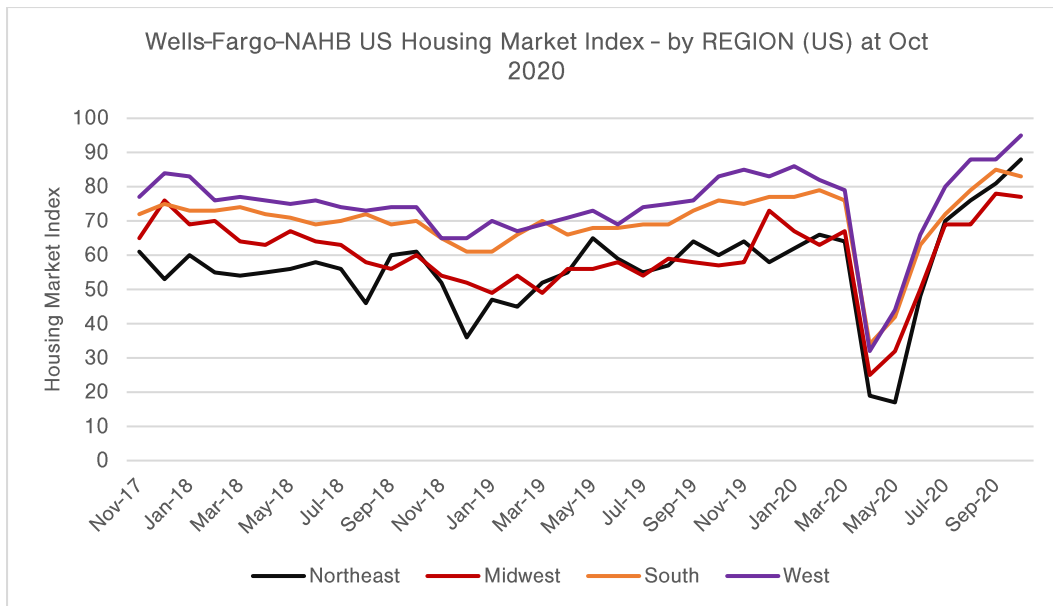


The index components of present single-family house sales and sales for the next six months both increased to 90 and 88 respectively (from 88 and 85).

Traffic of prospective buyers was unchanged at 74 this month. Physical traffic patterns may not be such a strong indicator of potential sales in these current conditions.

Regional HMI

Mixed results on a regional basis. Conditions in the Northeast and West both improved. The improvement in the Northeast was notable given that conditions there have lagged for much of the last several years. The HMI for the Northeast is now the second highest behind the conditions for West.



Conditions in the Midwest were slightly lower (77 in Oct versus 78 in Sep). The HMI conditions in the South was also lower this month (83 in Oct versus Sep 85).

<https://www.nahb.org/news-and-economics/housing-economics/indices/Housing-Market-Index>

Housing Permits and Starts (Sep)

New housing permits continued to increase at a solid pace in Sep – and the survey data indicate that it is a statistically valid increase at a National and on a regional basis.

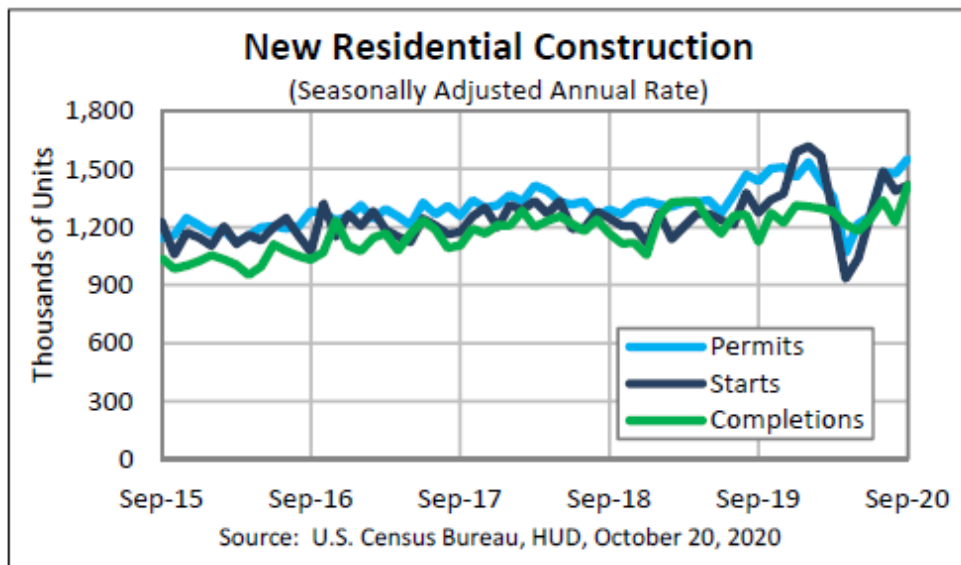
New housing starts data for Sep appears less reliable as the 90% confidence interval includes zero. This suggests that new starts may have increased or decreased.

New Housing Permits Authorized – SAAR/month: Sep 1.55m versus Aug 1.47m

The increase in permits for the month in Sep was +5.2% and the 90% confidence interval was +/- 1.6% pts, so it is likely that permits increased in the month.

On an annual basis, new permits increased by +8.1% with a 90% confidence interval of +/- 1.8% pts (also indicating that it was likely that permits increased on an annual basis).

Across all regions, new housing permits increased at a solid pace. The most notable increase was in the Northeast with an increase of 25.8% (in the SAAR) compared to Aug. The 90% confidence interval was +/- 4.4% pts. Increases were more moderate in the other regions, but all were statistically significant results: Midwest +9.6%, South +2%, and the West +3.2%.



New Housing Starts – SAAR basis/month: Sep 1.4m versus Aug 1.39m

This was a +1.9% increase from the month prior, but the 90% confidence interval was +/- 8.8% pts. This means that it is possible that new housing starts, on a National basis, may have increased or decreased in Sep.

There was a stronger result in the Northeast, but off a low base – with new housing starts increasing at 66.7% in Sep versus Aug (using the SAAR basis). The 90% confidence was +/- 53.7% pts.

The other region recording a statistically significant change in new housing starts was the Midwest, with a -32.7% decline in Sep (+/- 10% pts).

<https://www.census.gov/construction/nrc/pdf/newresconst.pdf>

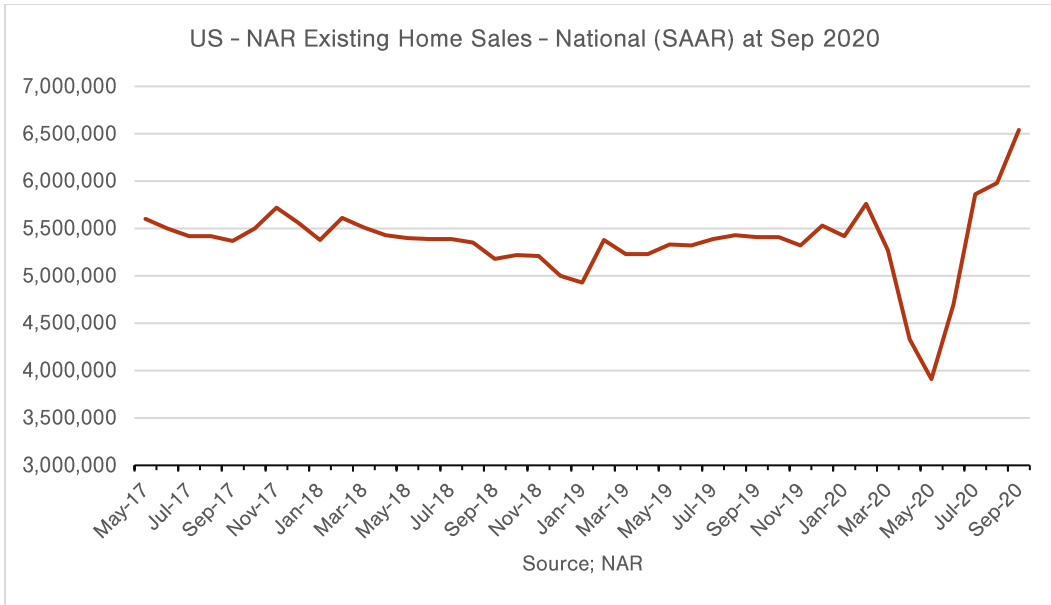
NAR Existing Home Sales (Sep)

There was a further acceleration in the growth of existing home sales in Sep – on both a month and an annual basis. Sales on a regional basis reached new near-term highs across all regions.

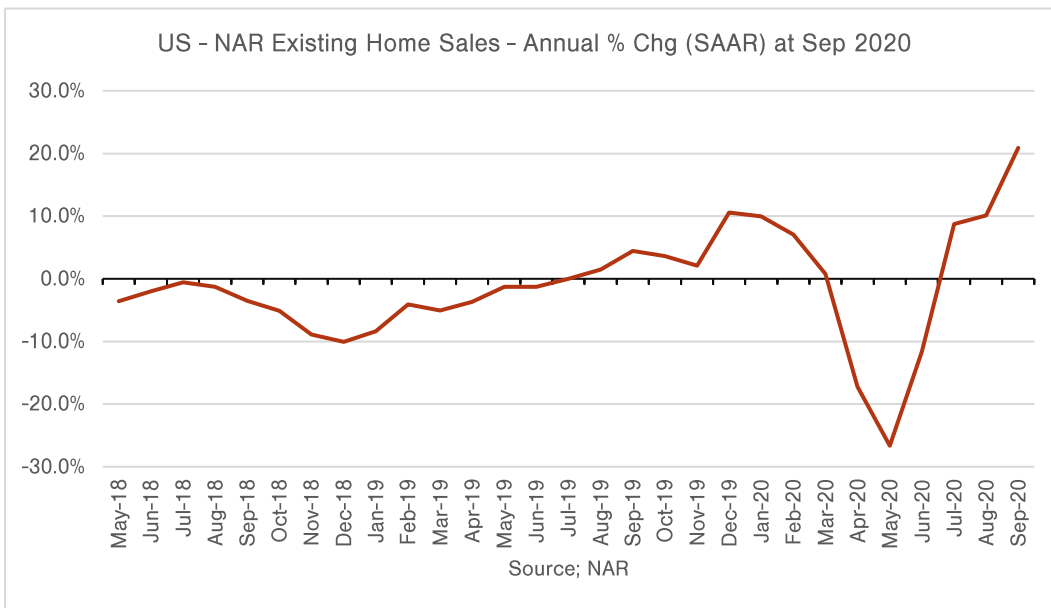
Months' supply and inventory continued to decline.

US Existing Home Sales – SAAR: Sep 6.54m versus Aug 5.98m

The month change was +9.4% for Sep versus Aug month change +2%.



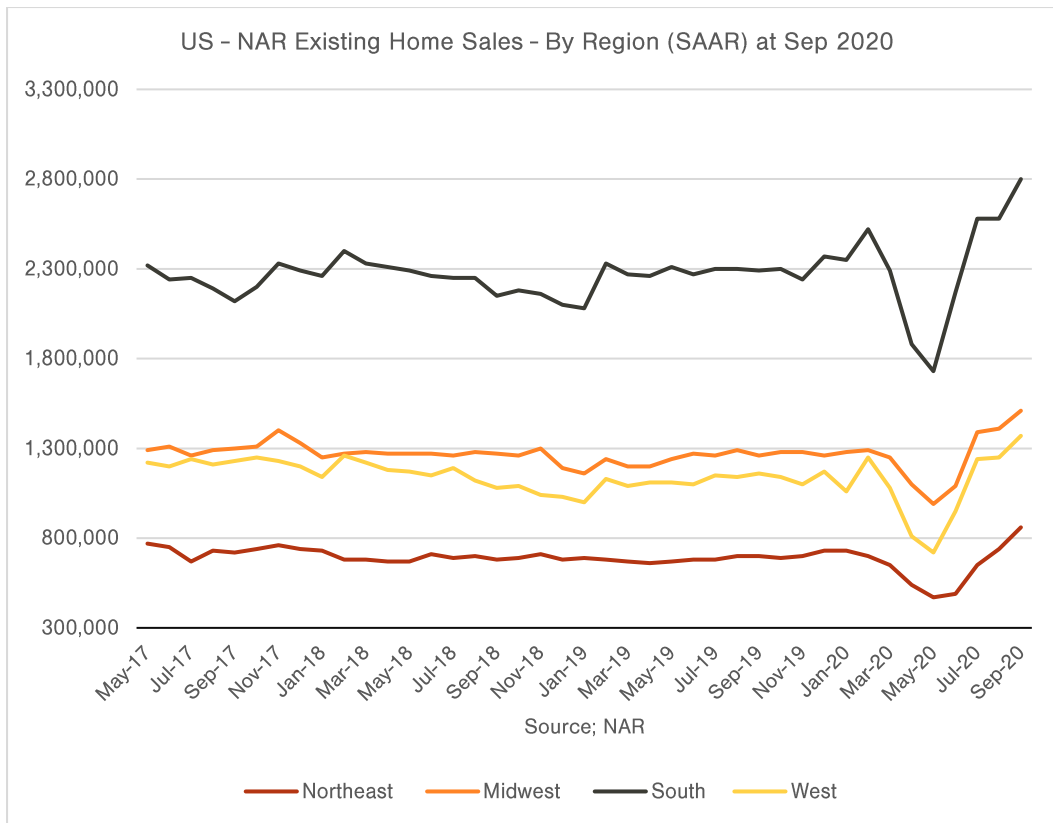
The annual growth in National existing home sales reached +20.9% in Sep:



Regional Existing Home Sales

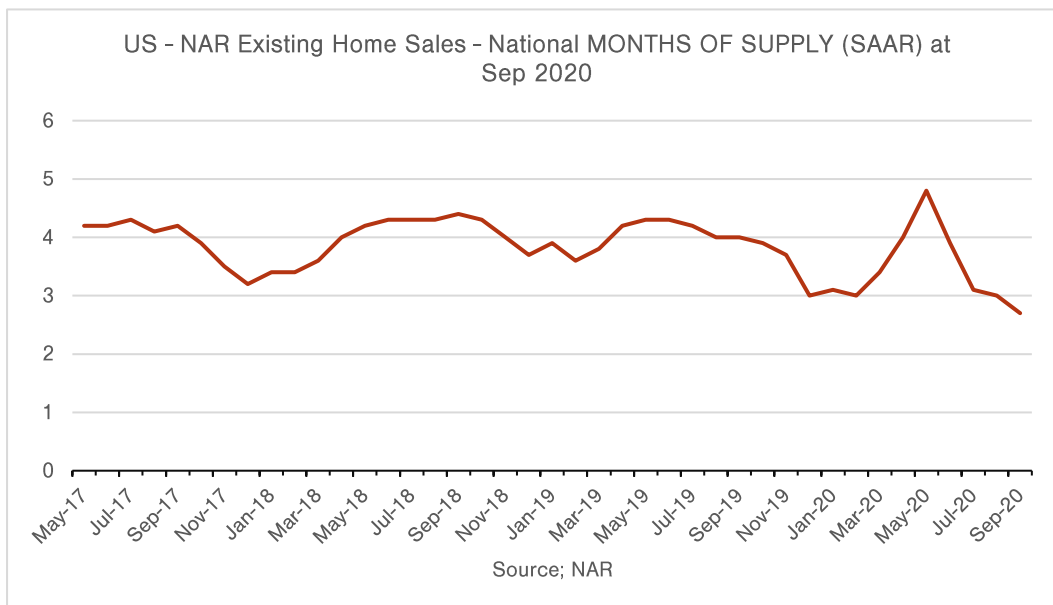
On a regional basis, sales accelerated in Sep across all regions. The Northeast recorded the largest % increase of +16.2% versus the prior month (SAAR basis). Growth in South was +8.5%, the Midwest +7.1%, and the West +9.6%.

The current SAAR level is well above that of a year ago across all regions:



Inventory

Months' supply of inventory declined to the lowest level of the last several years: 2.7



<https://cdn.nar.realtor/sites/default/files/documents/ehs-09-2020-overview-2020-10-22.pdf>

MBA Mortgage Applications wk ending 16 Oct

There was a further fall in mortgage applications this week. This was the result of a further slight increase in refinance applications while purchase applications declined compared to the prior week. This is now the fourth week where purchase applications have declined.

Market Composite Index (mortgage loan application volume) wk ending 16 Oct: -0.6% versus the week prior.

Refinance Index wk ending 16 Oct 2020: +0.2% versus the week prior. Refi applications remain elevated at +74% versus the same week a year ago.

Purchase Index wk ending 16 Oct 2020: -2% versus the prior week. The purchase index remains 26% ahead of the same week a year ago.

"Mortgage rates increased last week, with the 30-year fixed rate climbing 2 basis points to 3.02 percent - the highest since late September. Despite the uptick in rates, refinance activity held steady, with FHA refinance applications posting a 17.6 percent increase, helping to offset declines in the other loan types," said Joel Kan, MBA's Associate Vice President of Economic and Industry Forecasting.

"Homebuyer demand remains strong this fall, but purchase applications did decrease 2 percent, with both conventional and government purchase activity taking a step back. Given the ongoing housing market recovery and low rate environment, both purchase and refinance applications remained robust compared to a year ago, rising 26 percent and 74 percent, respectively."

<https://www.mba.org/2020-press-releases/october/mortgage-applications-decrease-in-latest-mba-weekly-survey-x273541>

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Europe

Markit Eurozone Composite PMI Prelim (Oct)

There was overall a further slight weakening in output across the broader Eurozone in Oct. This was the result of a larger contraction in services output while the pace of manufacturing output growth was unchanged.

The eurozone is at increased risk of falling into a double-dip downturn as a second wave of virus infections led to a renewed fall in business activity in October.

The survey revealed a tale of two economies, with manufacturers enjoying the fastest growth since early-2018 as orders surged higher amid rising global demand, but intensifying COVID-19 restrictions took an increasing toll on the services sector, led by weakening demand in the hard-hit hospitality industry.

Eurozone Composite Output PMI: Oct 49.4 versus Sep 50.4

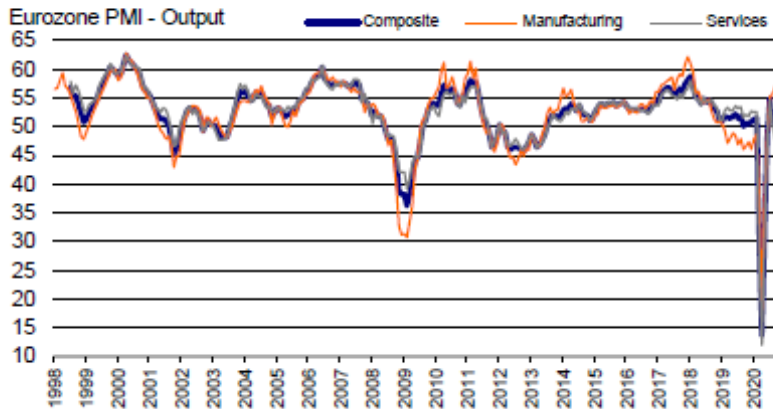
IHS Markit Eurozone PMI and GDP



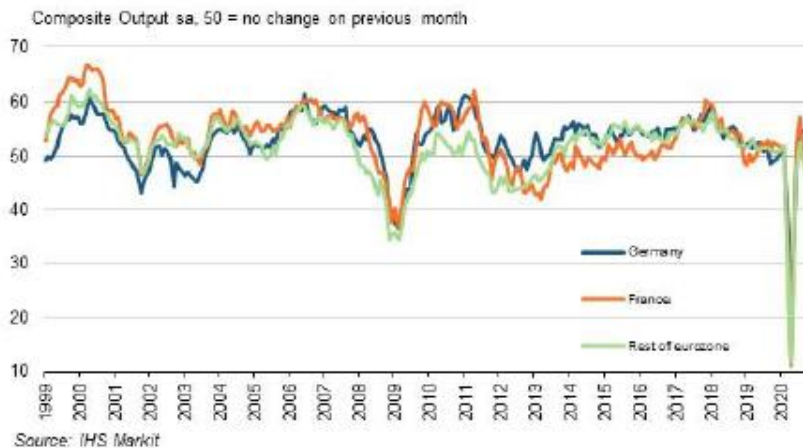
On a regional basis, German output continued to grow at a similar pace in Oct – but this was the result of stronger manufacturing output while services activity declined. Output in France declined overall as services activity declined for a second month and manufacturing output growth slowed.

Output across the rest of Europe declined for the third month. A renewed decline in services output more than offset continued output growth in manufacturing.

Output



Core v. Periphery PMI Output Indices



Services Business Activity Index: Oct 46.3 versus Sep 48

Across Europe overall, services output contracted further in Oct. New business also contracted at a faster pace and backlogs also fell. Employment still declined, but at a slower pace than in Sep (but both services and manufacturing firms continued to cut employment). Firms margins remained under pressure as input costs continued to increase and output charges fell 'modestly'.

Manufacturing Output PMI: Oct 57.8 versus Sep 57.1

The overall manufacturing PMI was 54.4 in Oct (versus 53.7 in Sep) – indicating at least a moderate level of manufacturing expansion in Oct. Output growth continued to increase at a faster pace – led by consistent growth in Germany. New orders increased at a faster pace and order backlogs also increased. Despite the stronger picture of output and orders, manufacturing jobs declined at a faster pace in Oct across the Eurozone. Input costs increased at a faster pace.

<https://www.markiteconomics.com/Public/Home/PressRelease/52fdb4a53db44dd98609f69ccf8c0a7e>

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Japan

Merchandise Trade Balance - Provisional (Sep)

All values in ¥.

The Japanese trade surplus increased to 674bn yen in Sep (NSA). A year ago, the trade deficit was 129bn. Both imports and exports increased further in Sep, but export growth was stronger.

On an annual basis (same month year ago), both exports and imports remain below the 2019 level, but levels are improving, especially for exports. This is the fourth month now of rebound in exports – led by improved transport (motor vehicles), machinery, and electrical machinery exports. This applies to key export markets too.

Performance of imports was mixed. Whilst most of the decline is still led by the weaker value of mineral fuels compared to a year ago, imports of machinery and electrical machinery declined at an accelerated pace in Sep. Imports from China, the single largest source of imports for Japan, also declined at an accelerated pace in Sep.

The improvement in exports, especially motor vehicles, indicates at least some refill of the supply chain, but also some improvement in global demand. The weaker import performance for Japan reflects some remaining weakness in domestic demand.

TRADE BALANCE: Sep 2020 Surplus 674bn versus Sep 2019 Deficit 129bn

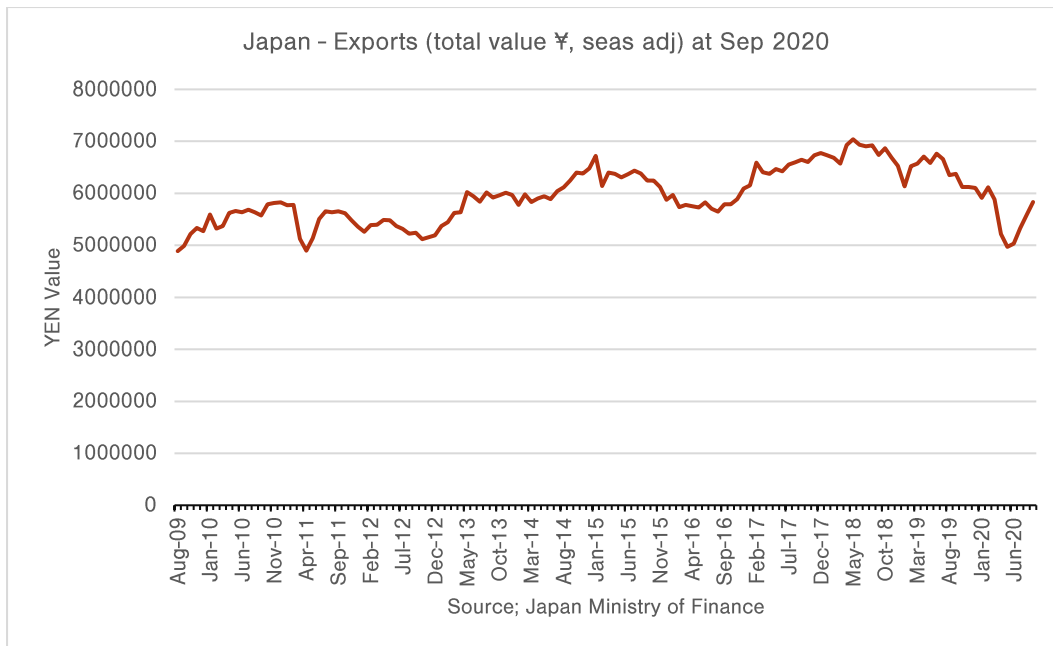
The trade surplus in Aug 2020 was 248bn.

The earlier trend has been reversing and exports are now improving at a faster pace than imports.

EXPORTS

Exports (NSA) – annual change at Sep 2020: -4.9%

On a seasonally adjusted basis, there was a consistent increase in exports versus the prior month (+4.5% in Sep versus Aug +4.7% versus the month prior). This is the fourth month in a row where export growth has been positive. The seasonally adjusted annual decline in Sep slowed and is now only -8.5% below the same month a year ago:



Exports By Region

There have been some notable improvements in export growth for Japan, especially related to the two largest exports markets of China and the US.

Exports to China increased at a much faster pace of +14% versus a year ago (in Aug that growth was +5.1%). Exports to China were ahead of a year ago across most commodities.

One of the bigger improvements has been exports to the US. We have previously noted the significant weakness in exports to the US (down as much as 50% at one point). But this month, exports versus a year ago shifted to growth of +0.7% (in Aug that was -21.3% below a year ago). One of the larger contributors to that improvement has been the lift in motor vehicle exports (+19% in Sep). Much of this growth is likely refill of the supply chain at this stage. Exports to the US across most other categories were still in decline.

Exports to Europe remained -6.4% below a year ago, but an improvement on the -15% annual decline in Aug.

Exports By Commodity

On an NSA basis, exports overall declined by -4.9%. There were some mixed results underlying that.

The largest negative contribution was export of transport equipment still down -7.2%. But motor vehicle exports were down by only -0.5% versus a year ago – a significant improvement from the -19% decline in Aug.

Both machinery and manufactured goods made a negative contribution to exports, with machinery exports declining at a slower pace.

Electrical machinery exports increased versus a year ago by +1% versus the -5.5% decline in Aug.

IMPORTS

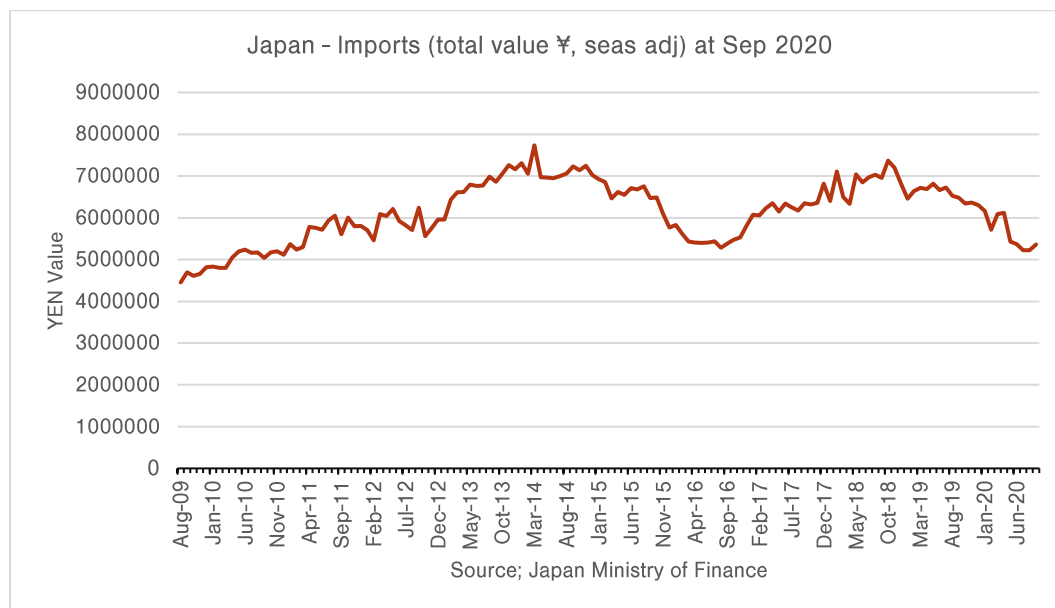
The improvement in imports was less notable this month.

Imports NSA – annual change Sep 2020: -17.2%

The annual decline in Aug was -20.8%, so the deceleration was smaller than for exports.

On a seasonally adjusted basis, imports actually increased versus the prior month by 2.5% – compared to the more modest increase of +0.1% in Aug. This is only the second month on month increase in imports since May.

The single largest driver of the weaker imports is mineral fuels, imports of which on a value basis remains 38.7% below the same month a year ago (NSA).



Imports by Region

The single largest source of imports for Japan is China. Imports from China were still down 11.9% versus a year ago – this was actually a slightly worse result than the -7% decline in Aug.

Imports from the US were less negative this month -10% in Sep versus -21% in Aug (annual change NSA).

Imports from Europe were down by -14.4% – but that was still slower than the -22% in Aug.

Imports from the Middle East were down by 41.5% in Sep, only slightly better than the -48% in Aug.

Imports by Commodity

Imports across all commodity groups was still below the same month a year ago. The largest contributors to the decline were mineral fuels, electrical equipment, other, chemicals, and electrical machinery.

In Sep, the decline in the value (and volume) of mineral fuels was still the largest contributor to the decline in imports. The value of petroleum imports was down by -43% (-52% in Aug) and volume was down by -20% in Sep (annual).

The import of electrical machinery declined at an accelerated pace in Sep by -16% versus by -5.6% in Aug. Both semiconductors and telephone equipment contributed to this decline.

Other imports were down by -13% - similar to Aug. Most of the decline was clothing and accessories.

Chemical imports were down -10% in Sep, better than the -15% decline in Aug.

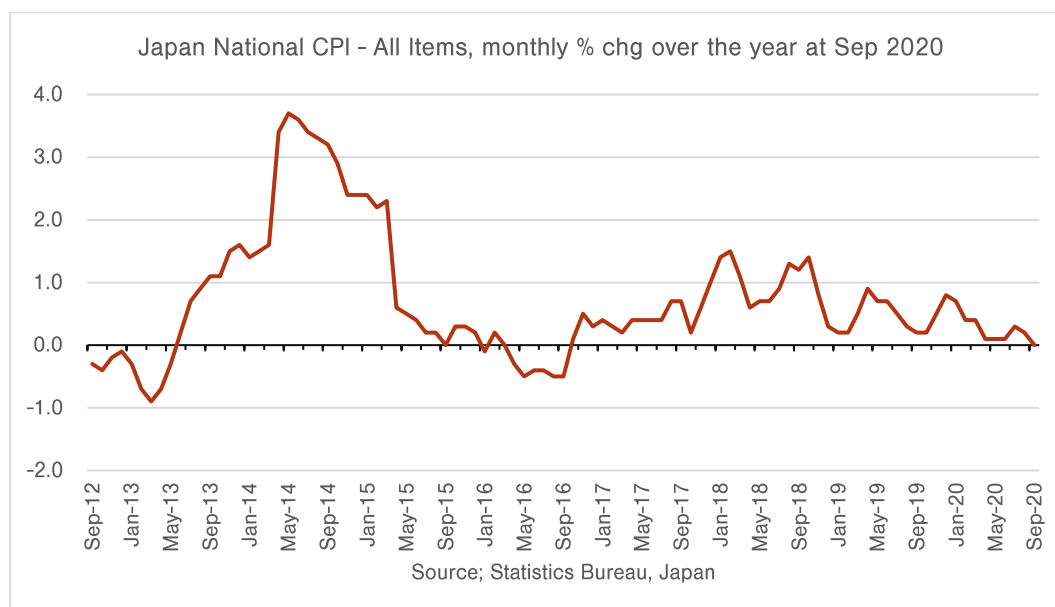
Machinery imports recorded an accelerated decline in Sep, falling by 9% in Sep (power and computer parts were well down), compared to the 7% decline in Aug.

https://www.customs.go.jp/toukei/latest/index_e.htm

Japan National CPI (Sep)

Japanese CPI for Sep indicated, overall, continued weaker consumer price growth. The headline all-items annual CPI growth slowed further in Sep, recording zero growth. The measure of core CPI used by the BoJ - all-items less fresh food - indicated that underlying prices continued to fall on an annual basis. A large part of that fall in underlying prices was the decline in energy prices.

All-Items CPI – annual change: Sep 0% versus Aug +0.2%



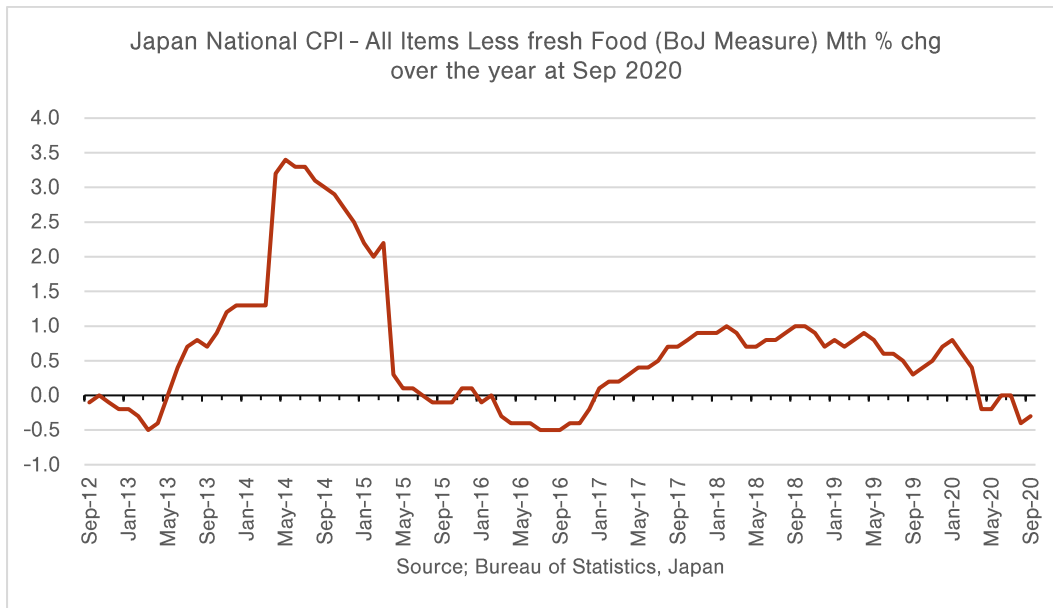
There are still quite a few pockets of higher price growth. Food prices increased by +1.9% (annual) in Sep – mostly a +7.8% increase in fresh food prices. Housing prices also increased by +0.8%. Furniture & household utensil price growth was +3%, clothing and footwear +1.7% and transport & comms prices continued to increase now at +0.4%. Some of these higher prices are due to the increase in consumption tax back in Oct 2020 – the effect of which will start to roll off after the Oct 2020 data release.

Offsetting these price increases were fuel, light, and water charges -2.2%, education -10.3%, and culture & recreation -1.8%. Energy prices overall declined by -3.5%.

The BoJ preferred measure of core CPI declined again in Sep, but at a slightly slower pace.

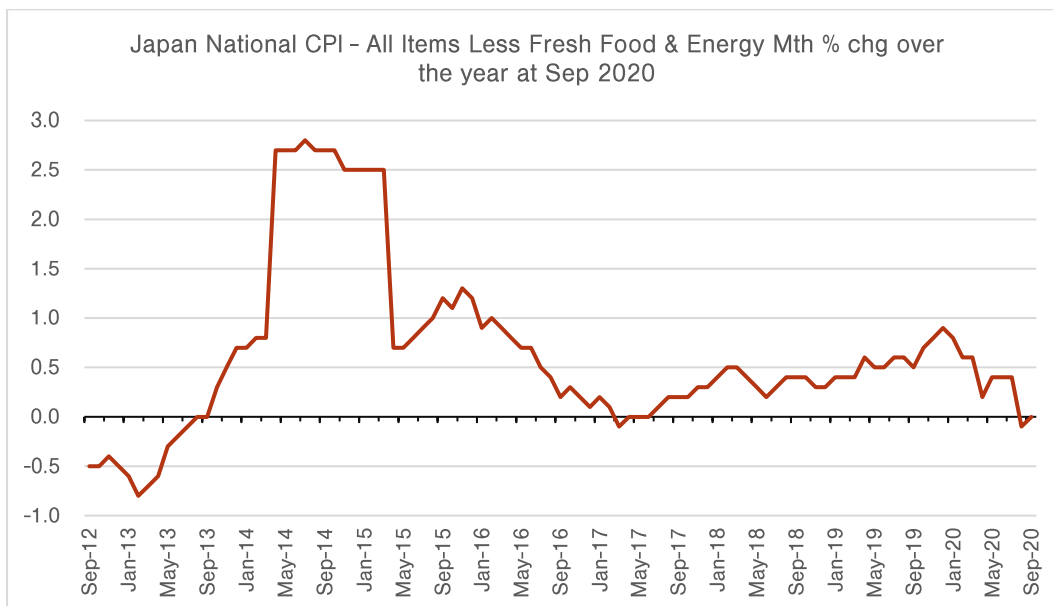
Core CPI All-Items Ex Fresh Food – annual change: Sep -0.3% versus Aug -0.4%

Fresh food prices increased by +7.8% in Sep which was slightly slower than the +13.6% in Aug. On a monthly basis, fresh food price growth paused in Sep falling by -0.5% compared to the +8.4% increase in Aug.



Excluding both fresh food and energy prices this year results in no underlying change in the annual growth in consumer prices at Sep – after falling slightly in Aug.

Core CPI All-items Ex Fresh Food & Energy: Sep 0% versus Aug -0.1%



<https://www.stat.go.jp/english/data/cpi/1581-z.html>

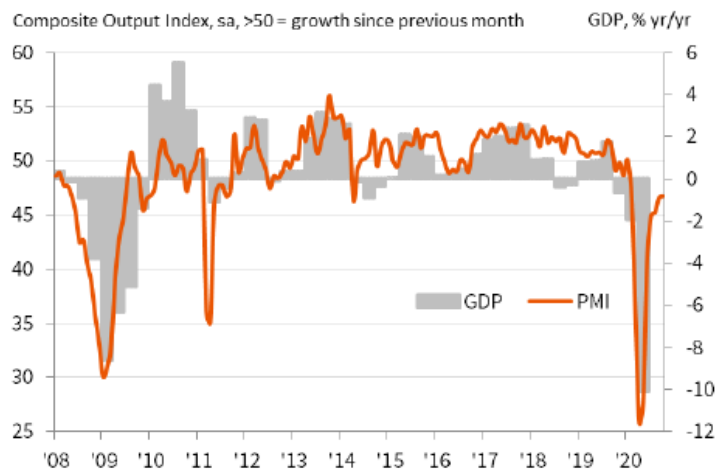
Markit Japan Composite PMI Prelim (Oct)

There was little change in the headline composite output index – indicating that the pace of decline was unchanged from the month prior. Both services and manufacturing output indexes remained in contraction.

It's worth noting that while the output index for manufacturing remains below 50, indicating a contraction, industrial/manufacturing output has been growing over the last few months (up to Aug and is forecast to increase further in Sep).

Composite Output PMI: Oct 46.7 versus Sep 46.6

au Jibun Bank Japan Composite Output Index



Sources: au Jibun Bank, IHS Markit, Cabinet Office.

Services Business Activity Index (output): Oct 46.6 versus Sep 46.9

Services output declined at a slightly faster pace this month. New orders remained in contraction, but the pace of contraction eased. Backlogs of work declined at a slower pace, but still indicated that spare capacity was an issue. Firms continued to reduce employment, albeit at a slower pace. Firms continued to reduce prices at a faster pace in an effort to boost sales, while input price declines eased.

Manufacturing Output Index: Oct 47 versus Sep 46

The pace of decline in output (measured in this survey by the proportion of firms reporting either higher, lower output or no change in output, rather than actual output) eased slightly. Japanese industrial output data confirms that manufacturing output returned to month on month growth in Aug – but remained approx. 14% below the same month a year ago.

Both new orders and new export orders declined at a slower pace. Backlogs of work continued to decline but at a slower pace. Employment declined at a slightly faster pace.

Firms continued to reduce stocks of finished goods and quantities of purchases also declined at a faster pace.

<https://www.markiteconomics.com/Public/Home/PressRelease/9e9bf75f3e4548b1817845443a0934fd>

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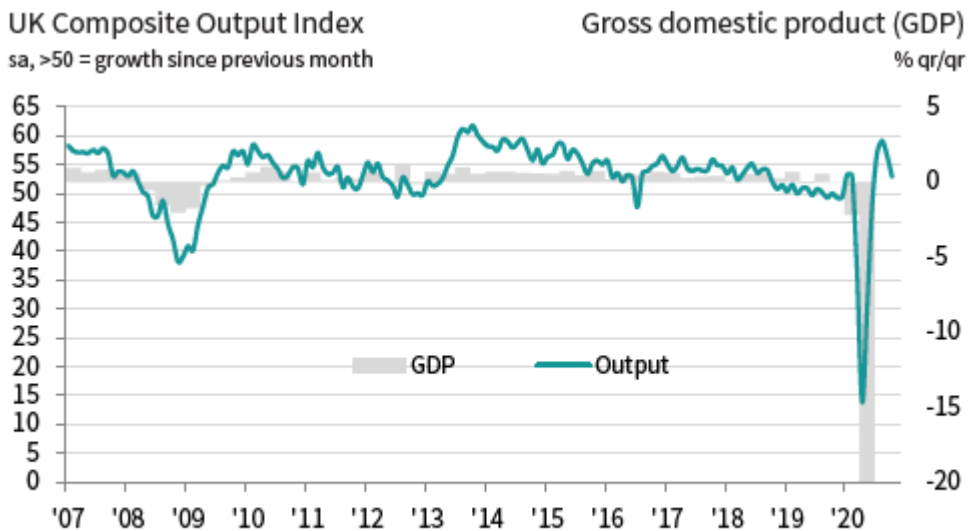
United Kingdom

Markit UK Composite PMI Prelim (Oct)

There was unfortunately a further slowdown in the UK composite output index for Oct. Both services business activity and manufacturing output growth slowed notably compared to the prior month.

"Optimism fell to levels last seen in May, and unpredictability remains the only predictable conclusion for the remainder of the year. With more lockdowns, Brexit within touching distance and new government support at weaker levels than when the pandemic hit, it is clear businesses will have figure out their own survival tactics as the economy heads back towards square one."

Composite Output PMI: Oct 52.9 versus Sep 56.5



Sources: IHS Markit, CIPS, Office for National Statistics.

Services Business Activity Index: Oct 52.3 versus Sep 56.1

Activity/output growth slowed for the second month running and was more notable this month. Firms cited an increase in local restrictions on trade amid another wave of infections. New business declined. Firms also continued to reduce employment. The outlook among services firms worsened.

October data indicated a steep fall in employment numbers, with another month of deep job cuts signalled in both the manufacturing and service sectors. Lower staffing numbers were primarily widely attributed to redundancies and the need to reduce operating costs amid shrinking customer demand.

Manufacturing Output PMI: Oct 56.4 versus Sep 59

Production growth remained more moderate despite slowing this month. Firms noted new export orders increased especially from the US and China as well inventory building among

clients in Europe. Some firms reported inventory build ahead of Brexit while others continued to reduce inventories to streamline costs.

Manufacturing companies had a better month as production remained steady, but at its slowest pace since July when the recovery first started to pick up speed. Sharper falls in job numbers as a result of redundancies and reduced customer demand along with higher prices for raw materials means the sector is still under pressure.

<https://www.markiteconomics.com/Public/Home/PressRelease/67777e5fdf8949959881048618c2480e>

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Australia

RBA Minutes – Meeting 6 Oct 2020

Two interesting points from the minutes. The first is the likelihood of further policy easing and the second is the change in forward guidance on inflation and full employment.

At the release of the Minutes on 20 Oct, the expectations of a further rate decrease at the Nov meeting increased to 82% (now at 84% on 21 Oct).

Forward Guidance Changes

At the very end of the minutes, the Board discussed the forward guidance for the cash rate. Few details are provided in the minutes, but the Board felt it was more appropriate for forward guidance evolution to be announced in a speech last week (15 Oct)

More emphasis would be placed on actual inflation outcomes rather than forecast. And the Board also wanted to see more than just “progress” towards full employment.

as the Board views addressing the high rate of unemployment as an important national priority

Members recognised that while inflation can move up and down for a range of reasons, **achieving inflation consistent with the target is likely to require a return to a tight labour market.**

More Policy Easing

Context – largest peacetime contraction in Aus history, slow and uneven recovery underway, and Vic lockdowns still a drag on activity. Unemployment and underemployment expected to stay high for an “extended period” and inflation expected to be “subdued” for some time. Restrictions on activity remain in some form across the entire Nation.

Two points stand out. The impact of overseas policy especially on the AUD exchange rate and the degree to which a further easing of policy might help the recovery.

Obviously one concern for the RBA is that more aggressive easing by other CB's might strengthen the AUD. Emphasis added.

In considering the case for further monetary measures, members discussed monetary policy developments abroad and their implications for financial conditions in Australia, through the yield curve and the exchange rate.

Members noted that the **larger balance sheet expansions by other central banks relative to the Reserve Bank was contributing to lower sovereign yields in most other advanced economies than in Australia. Members discussed the implications of this for the Australian dollar exchange rate.**

The Board then also discussed how much more traction for the economy might be achieved by easing policy further. The RBA had previously noted that 0.25 bps for the overnight cash

rate was the lower bound it was willing to go to. But, in these extraordinary conditions, it appears likely that the OCR will be eased further.

Members also discussed **how much traction further monetary easing might obtain in terms of better economic outcomes**. They recognised that some parts of the **transmission of easier monetary policy had been impaired** as a result of the restrictions on activity in parts of the economy. However, as the economy opens up, **members considered it reasonable to expect that further monetary easing would gain more traction than had been the case earlier**. Members also considered the effect of lower interest rates on community confidence and on those people who rely on interest income.

The Term Funding Facility (TFF) has been the main (new) vehicle for the banks to expand lending as a means of bypassing wholesale credit markets. This program is so far temporary, and funding availability has been extended further in Sep.

Authorised deposit-taking institutions had drawn down \$83 billion of low-cost funding through the Term Funding Facility and had access to a further \$114 billion under the facility.

Current policy settings:

Cash rate target of 0.25%

A target of 0.25% for the yield on 3-year Australian Government bonds

Term Funding Facility expanded to support credit to businesses, particularly small and medium-sized businesses. The TFF is providing lower cost 3yr financing for Aus banks – currently at a rate of 0.25bps. (there are any number of elements of the TFF that can be used to eased policy – the interest rate to banks, the amount of credit to be made available to banks, the terms etc)

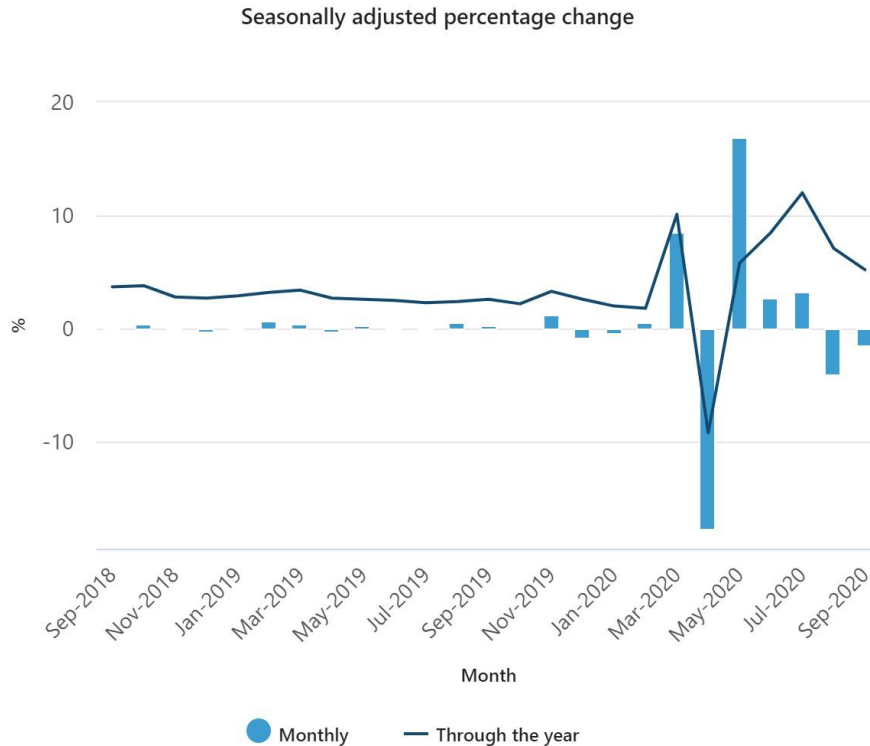
Banks receive 10 basis points on Exchange Settlement balances held by financial institutions at the Bank.

<https://www.rba.gov.au/monetary-policy/rba-board-minutes/2020/2020-10-06.html>

Prelim Retail Sales (Sep)

The prelim retail sales indicated a further -1.5% decline in the value of National retail sales in Sep.

Despite the decline in the month, retail sales value remains +5.2% ahead of the same month a year ago.



Source: Australian Bureau of Statistics, undefined September 2020

This month, retail sales fell in most states, except the Northern Territory.

There were falls in turnover in Food retailing, Household goods retailing, and Other retailing, in September. Despite the month-on-month falls, these industries continue to trade at levels above September 2019.

<https://www.abs.gov.au/statistics/industry/retail-and-wholesale-trade/retail-trade-australia-preliminary/sep-2020>

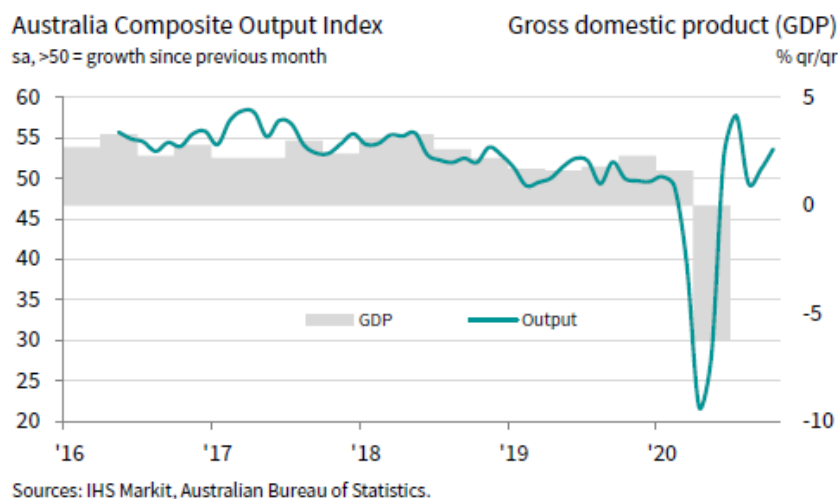
Markit Composite PMI Prelim (Oct)

There was a at least a moderate month on month increase in activity in Oct. This was led by a slight increase in services output, which helped to offset slower growth in manufacturing output.

This outcome reflects some growth after no change in the month prior. This index provides no indication of the level of output/activity, only the proportion of firms reporting higher, lower, or no change in activity – compared to the month prior.

"An area of concern, however, was the subdued growth in new business, casting doubt on the durability of the current upturn in private sector activity. Furthermore, lacklustre sales meant that firms continued to be saddled with unused capacity. In response to rising costs and a further development of spare capacity, companies reduced their workforce numbers again in October, with lower employment seen in both the manufacturing and service sectors."

Aus Composite Output Index: Oct-prelim 53.6 versus Sep 51.1



Services Business Activity Index (output): Oct 53.8 versus Sep 50.8

Some easing of restrictions has helped to lift output and new orders in the month for the services sector. But growth remains low on a monthly level. Firms continued to reduce employment, albeit at a slower pace than in Sep.

Manufacturing Output Index: Oct 52.3 versus Sep 53.5

The overall manufacturing PMI also indicated that growth slowed in Oct with the index at 54,2 versus Sep 55.4. This was led by slower output and new orders growth, New exports declined slightly versus the prior month. Employment also declined in Oct (versus Sep) after increasing slightly in Sep (versus Aug). Supply issues remained a problem for manufacturers. Note that the way the PMI is calculated, the increase in lead times is likely to overstate the strength of the PMI. In the past, a lengthening in lead times has been an indicator of generally stronger demand conditions.

Meanwhile, supply conditions continued to deteriorate at a severe rate, with the time taken for delivering inputs to manufacturers increasing at the fastest rate since the height of the pandemic during April and May.

<https://www.markiteconomics.com/Public/Home/PressRelease/536331e41f4d4c30ba97b57ebfa4fe93>

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China

China GDP Q3 – Prelim

Annual GDP growth was slightly higher in Q3 at +4.9% (real terms) versus the annual growth of +3.2% in Q2. The annual rate of GDP growth in Q3 2019 was 6%.

On a quarterly basis, GDP growth slowed to +2.7% in Q3 versus Q2. In Q2 versus Q1, GDP growth was +11.7% following on from the 10% contraction in Q1.

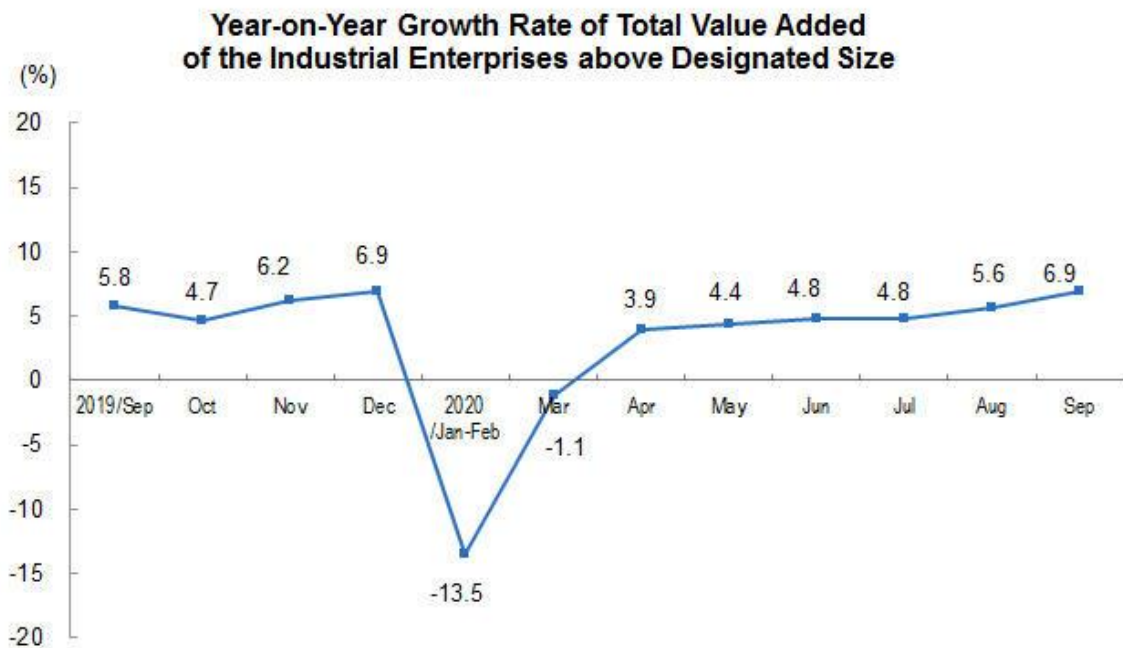
http://www.stats.gov.cn/english/PressRelease/202010/t20201021_1795384.html

Industrial Production (Sep)

Annual growth in China's industrial production increased at a faster pace of +6.9% in Sep.

Total industrial production in the YTD 2020 is now above the same period a year ago by +1.2%.

Manufacturing has been a key driver of the annual and YTD growth, especially manufacture of high-tech industry (+7.8%).



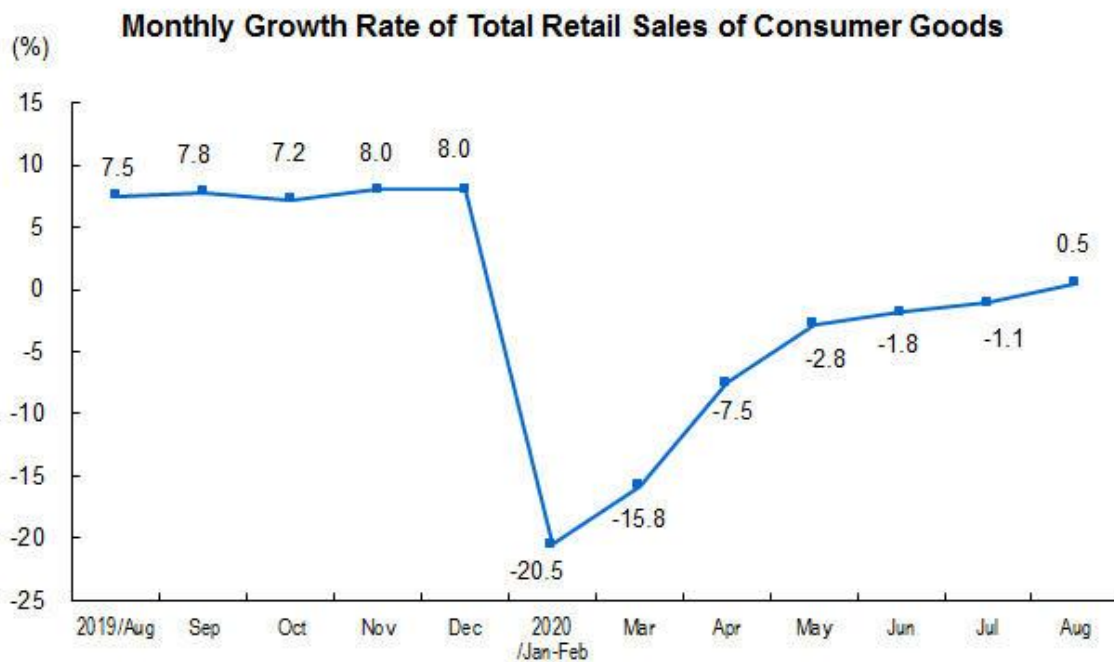
http://www.stats.gov.cn/english/PressRelease/202010/t20201020_1794926.html

Retail Sales (Sep)

There has been a continued improvement in retail sales, but growth still lags. This remains a lopsided recovery for China – with the industrial sector recovering much faster than the consumer/retail sector.

Data published this month by the NBS appears to be incorrect. Looking back at the retail report from a year ago, annual growth was +7.8% (Sep 2019 v Sep 2018). The chart below indicates a month on month growth, but it the data is annual growth.

The annual pace of growth for Sep 2020 edged slightly ahead of a year ago for the first time this year at +0.5%. The trend of improvement is positive.



On a YTD basis (Jan-Sep), retail sales remain -7.2% below the same month a year ago – indicating that significant gap in sales performance still exists.

http://www.stats.gov.cn/english/PressRelease/202010/t20201020_1794975.html

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Trade

BREXIT

Teams were back into negotiations during the week after it had appeared that talks had hit a stalemate. The EU team will remain in the UK this coming 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

““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

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