

Key Themes

Data will be in focus this week ahead of the US Thanksgiving holiday next week. The G20 summit will be held later this week (virtually) and discussion will focus on Covid-19 response and management.

Key data points this week include:

US – housing market data (conditions for Nov, existing home sales, and permits) will be released this week. Mortgage purchase applications have been falling for six out of the last seven weeks, so there may be some stalling of recent improvements. US retail sales for Oct will be released this week. Several regional manufacturing surveys will provide the first view of US manufacturing activity for Nov. We will be looking for any impact on factory activity from rising infection rates, especially export orders.

China Oct data will continue to be released this week – including industrial production and retail trade.

Japan – merchandise trade data for Oct will be released and there will likely be some impact from the notable decline in Chinese imports for the month. The prelim manufacturing PMI for Nov will be released, and we will be looking for a possible impact on activity due to the renewed COVID-19 outbreak among key trading partners.

Australia – the RBA minutes will be released this week, providing some insight into deliberations behind the launch of QE. The important employment and labour market survey for Oct will be released this week.

US Fed purchases of Treasury securities and MBS will be significantly higher this week ahead of the shorter Thanksgiving week next week. Last week, purchases totaled approx. \$17bn, and this week, purchases will be around \$34bn. The schedule for Thanksgiving week has approx. \$4bn in purchases of US Treasuries.

Purchases of MBS remain elevated and the Fed appears to be buying well above the \$40bn/month rate. Last week's purchases were approx. \$20bn and this week's purchases are expected to total \$36bn. The schedule for Thanksgiving week has approx. \$20bn in purchases of MBS. This is all in-line with continued declines in mortgage rates.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$407bn in ST Bills, Notes, and Bonds this week, raising approx. \$48bn in new money.

The US Treasury will also auction \$39bn in 10yr TIPS and 20yr Bonds this week that will settle on 30 Nov.

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US Treasury Issuance & QE

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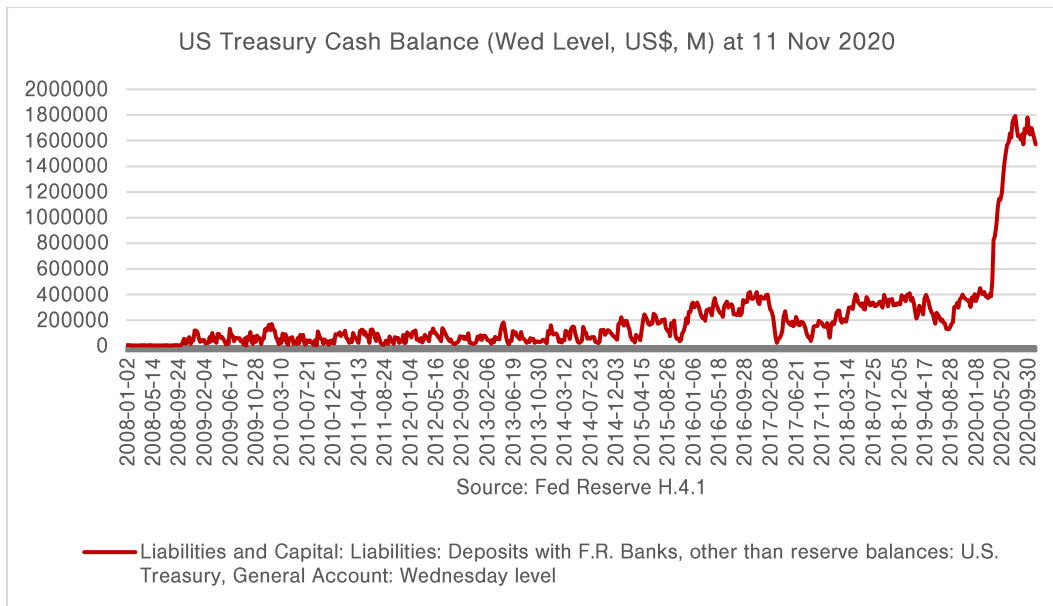
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The US Treasury released the estimated funding requirements for Q4 just before the election. The estimated net new money raised for Q4 was reduced from \$1.2tr to \$617bn for the quarter. The Q1 2021 estimate was also released and the net new money raised was estimated at \$1.12tr.

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
16-20 Nov	12-Nov	17-Nov	4 week bill	30			Completed
	12-Nov	17-Nov	8 week bill	35			Completed
				65	130	-65	
	12-Nov	17-Nov	154-Day CMB	30			Completed
	12-Nov	17-Nov	105-day CMB	25			Completed
	17-Nov	19-Nov	119-Day CMB	30			Announced
	17-Nov	19-Nov	42-Day CMB	30			Announced
				115	0	115	
	16-Nov	19-Nov	13 week bill	54			Announced
	16-Nov	19-Nov	26 week bill	51			Announced
				105	168	-63	
	09-Nov	16-Nov	3yr Note	54			Announced
	10-Nov	16-Nov	10yr Note	41			Announced
	12-Nov	16-Nov	30yr Bond	27			Announced
				122	60.87	61.13	
			Total - securities settling this week	407	358.87	48.13	
			Net New Cash Raised Qtr to Date	2115	1993	122	
			<i>Estimated Net Cash to be Raised Q4</i>			617	
			Fed SOMA - Face Value of SOMA securities maturing	\$ B			
		17-Nov	Bills	6,300			
		19-Nov	Bills	14,200			
				20,500			

The US Treasury cash balance (TGA) remains elevated at \$1.57tr (Wed 11 Nov level) – approx. \$48bn lower than the Wed level a week prior.



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

QE PROGRAMS

There will be a large increase in the purchase of Treasury securities and MBS this week ahead of the shorter Thanksgiving week next week.

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 16 Nov	6.025	6.883
Tue 17 Nov	10.575	6.710
Wed 18 Nov	1.225	9.145
Thur 19 Nov	3.625	6.710
Fri 20 Nov	12.825	6.710
Total Announced Purchases	\$34.275bn (last wk. \$16.625bn)	\$36.158bn (last wk. \$19.555bn)

The estimated purchases of Treasury securities for Thanksgiving week will be \$4.175bn.

The estimated purchases of MBS for Thanksgiving week will still be \$20.785bn.

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/amsb_operation_schedule

REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
17 Nov	15 Dec 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 16 NOVEMBER 2020

MONDAY 16 NOVEMBER (US Eastern Time)

US	NY Empire State Manufacturing Index (Nov)
China	Fixed Asset Investment, Industrial Production, and Retail Sales (Oct)
Japan	GDP Prelim Q3, Industrial Production Final (Sep)

TUESDAY 17 NOVEMBER

US	Retail Sales (Oct), Industrial Production (Oct), NAHB Housing Market Index (Nov)
Japan	Merchandise Trade Balance (Oct)
Australia	RBA Meeting Minutes, RBA Governor Lowe Speech

WEDNESDAY 18 NOVEMBER

US	Mortgage Applications wk ending 13 Nov, Building Permits and Housing Starts (Oct)
Europe	Eurozone CPI (Oct)
Australia	Wage price Index Q3

THURSDAY 19 NOVEMBER

US	Initial Jobless Claims (wk ending 14 Nov), Continuing Unemployment Claims (wk ending 7 Nov), and PUA Claims, Philadelphia Fed Manufacturing Survey (Nov), Existing Home Sales (Oct), Kansas City Fed Manufacturing Survey (Nov)
Europe	EU Leaders Summit
Japan	National CPI (Oct)
Australia	Employment and Labour Market Survey (Oct)

FRIDAY 20 NOVEMBER

Europe	G20 Meeting (21-22 Nov) https://www.consilium.europa.eu/en/meetings/international-summit/2020/11/21-22/
Japan	Markit Manufacturing PMI Prelim (Nov)
Australia	Prelim Retail Sales (Oct)

Trade & Brexit

BREXIT

Negotiations have started to bridge some of the gaps between the UK and EU on the trade deal, but differences remain.

It comes ahead of a week in which Johnson faces a mammoth decision over whether or not to back a Brexit deal that will inevitably require compromises on the British side. Senior figures such as Michael Gove, the cabinet office minister overseeing Brexit preparations, and Rishi Sunak, the chancellor, are said to be advocating a deal.

<https://www.theguardian.com/politics/2020/nov/15/no-deal-fears-rise-as-boris-johnson-least-willing-to-budge-on-brexite>

Negotiations are continuing this week. There is an EU leaders summit this coming week (19 Nov) and this has been reported as a final deadline for a draft Brexit deal. Such a deadline has been touted before and extended.

Next Thursday's video conference summit of the 27 heads of state and government, arranged to discuss the latest developments in the coronavirus pandemic, is being seen as a key moment in the Brexit saga.

"If there isn't good news by then, then you really have to say that time is up – it just isn't possible," said one senior EU diplomat. "The leaders will need to see that it is there." <https://www.theguardian.com/politics/2020/nov/11/eu-summit-19-november-deadline-draft-brexite-deal>

If there is no trade deal negotiated in time:

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 the Committee stage in the House of Lords has now concluded. The report stage commences this week. <https://www.parliament.uk/business/news/2020/october/lords-debates-internal-market-bill/>

Members voted by 433 to 165 to remove clause 42 which included provisions on the Northern Ireland Protocol.

The House of Lords also voted to remove clause 44 which would override parts of the Brexit withdrawal agreement relating to Northern Ireland, by 407 to 148.

<https://www.parliament.uk/business/news/2020/october/lords-debates-internal-market-bill/>

The previous 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 BoE announced some additional asset purchases last week and continue to wait for a trade deal result.

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 finalized 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