

Key Themes

It will be a short week in the US with the National Thanksgiving Day holiday. Despite the short week, it will still be a heavy data week including the FOMC minutes, and the prelim PMI's for Nov.

Key data points this week include:

Most of the US data will be released on Wednesday this week including weekly initial claims data, durable goods orders for Oct, the prelim Q3 GDP (2nd release), personal income, expenditures, and prices for Oct, Uni of Michigan consumer sentiment final for Nov, and the FOMC minutes.

US Fed Vice Chair Clarida will give a speech at the IMF Conference on New Policy Frameworks for a "lower for longer" world. The link is provided in the calendar.

The prelim PMI's for Nov will be released this week. These will provide some insight into the impact on activity from the latest Covid restrictions in Europe and the UK especially. Services will likely remain weaker.

In Australia, construction work done and private sector CAPEX for Q3 will be released this week. Both reports are key inputs into the Q3 GDP release scheduled for the following week.

US Fed purchases of Treasury securities and MBS will be lower this week due to the shorter week. Last week, purchases of US Treasuries totaled approx. \$34bn, and this week, purchases will be around \$4bn. Purchases of MBS will remain elevated and the Fed appears to be buying well above the \$40bn/month rate. Last week's purchases were approx. \$36bn and this week's purchases are expected to total \$20bn, even with the shorter week.

US Treasury issuance will be somewhat lighter this week. The US Treasury will settle approx. \$309bn in ST Bills and 2yr FRN's this week, raising approx. \$11bn in new money.

The US Treasury will also auction \$169bn in 2, 5, and 7-year Notes this week that will settle on 30 Nov. Note that the settlement of 10yr TIPS, Notes, and Bonds on Monday 30 Nov will be heavy at \$208bn – raising approx. \$130bn in new money. This does not include the regular ST Bills for the week.

This week, approx. \$15bn in Bills will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

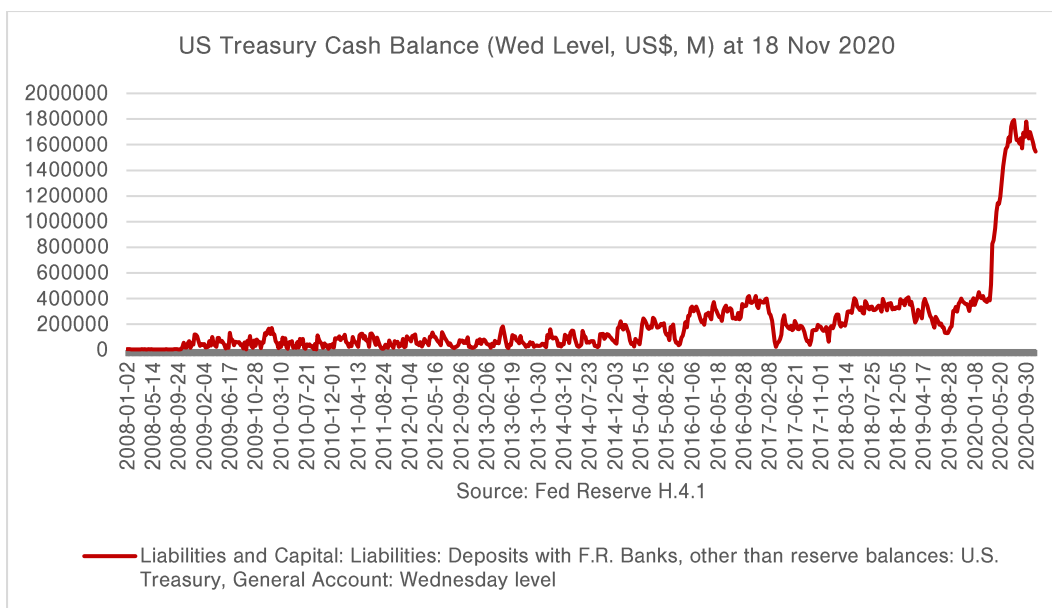
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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
<i>26 Nov Thanksgiving Day</i>							
23-27 Nov	19-Nov	24-Nov	4 week bill	30			Completed
	19-Nov	24-Nov	8 week bill	35			Completed
				65	130	-65	
	18-Nov	24-Nov	154-Day CMB	30			Completed
	18-Nov	24-Nov	105-day CMB	25			Completed
	24-Nov	27-Nov	118-Day CMB	30			Announced
	24-Nov	27-Nov	41-Day CMB	30			Announced
				115	0	115	
	23-Nov	27-Nov	13 week bill	54			Announced
	23-Nov	27-Nov	26 week bill	51			Announced
				105	168	-63	
	24-Nov	27-Nov	2Yr FRN	24			Announced
				24	0	24	
	Total - securities settling this week			309	298	11	
	Net New Cash Raised Qtr to Date			2424	2291	133	
	<i>Estimated Net Cash to be Raised Q4</i>					617	
	Fed SOMA - Face Value of SOMA securities maturing			\$ B			
		24-Nov	Bills	6.150			
		27-Nov	Bills	8.9			
				15.050			

The US Treasury cash balance (TGA) remains elevated at \$1.55tr (Wed 11 Nov level) – approx. \$24bn lower than the Wed level a week prior.



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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 23 Nov	1.750	6.889
Tue 24 Nov	2.425	8.429
Wed 25 Nov	-	5.467
Thur 26 Nov	-	-
Fri 27 Nov	-	-
Total Announced Purchases	\$4.175bn (last wk. \$34.275bn)	\$20.785bn (last wk. \$36.158bn)

The next operation schedule will be released on Monday 30 Nov.

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/ambts_operation_schedule

REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
24 Nov	22 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 23 NOVEMBER 2020

MONDAY 23 NOVEMBER (US Eastern Time)

US	Markit Composite PMI Prelim (Nov), Chicago Fed National Activity Index (Oct)
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UK	Markit Composite PMI Prelim (Nov)
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Europe	Eurozone Composite PMI Prelim (Nov)
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Australia	Markit Composite PMI Prelim (Nov)
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TUESDAY 24 NOVEMBER

US	Case Shiller House Price Index (Sep), Richmond Fed Manufacturing Index (Nov) US Fed Vice Chair Clarida – New Policy Framework for a “lower for longer world” (https://www.imf.org/en/News/Seminars/Conferences/2020/11/24/new-policy-frameworks-for-a-lower-for-longer-world)
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Europe	Germany Q3 GDP
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WEDNESDAY 25 NOVEMBER

US	Mortgage Applications wk ending 20 Nov, Initial Jobless Claims (wk ending 20 Nov), Continuing Unemployment Claims (wk ending 14 Nov), and PUA Claims, GDP Prelim Q3, Durable Goods Orders (Oct), Personal Income, Consumption, and Prices Monthly (Oct), University of Michigan Consumer Sentiment Final (Nov) FOMC Minutes
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Australia	Construction Work Done Q3
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THURSDAY 26 NOVEMBER

US	Thanksgiving Holiday
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Australia	Private Capex Q3
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FRIDAY 27 NOVEMBER

Trade & Brexit

BREXIT

There has been no breakthrough yet on the Brexit trade deal negotiations. Both sides believe that “a deal is within grasp”.

One EU diplomat said there would be a “breakthrough or breakdown” by the weekend.

British officials said Mr Johnson may speak to Ursula von der Leyen, European Commission president, later in the week to try to unlock the talks, which remain stuck on familiar issues of fisheries and a “level playing field” for competition between the UK and EU. <https://www.ft.com/content/716e14ed-8632-4678-a4d0-33b64eeb02cd>

Talks will continue this week with the possibility of a return to face-to-face talks at the end of the week.

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 commenced last week and will continue 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 at the last meeting and continues 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