

Key Themes

The US Presidential election, central bank policy decisions, and a heavy data week will feature against a backdrop of new peaks in Covid-19 infections in the US, Europe and the UK. Further restrictions have been announced for European countries, and another month-long shutdown has been announced for England.

The US Presidential election will be held on Tuesday 3 Nov. A 'blue wave' result is not assured as there is the risk of a surprise Trump win, a contested election, and/or a divided government. The wider use of mail-in ballots will increase the likelihood that there will not be an official winner announced on the night. The process is likely to extend beyond Tuesday night and if the result is contested, this process will likely be prolonged further. A divided result either way could see some disruption for markets due to lowered expectations for stimulus and increased ambiguity over the policy process for the next four years.

The US Fed FOMC will hand down its policy decision on Thursday and there is no expectation for a change in stance at this stage. The economy is rebounding, albeit unevenly, but infections continue to rise to new peaks, possibly dampening progress. Last week the Fed adjusted its Main Street Lending program – reducing the minimum loan size to \$100k and reducing fees to encourage smaller businesses to use the facility.

<https://www.federalreserve.gov/newsevents/pressreleases/monetary20201030a.htm>

The RBA will meet on Tuesday and market expectations of a rate cut to 0% has held steady at 84% for the last week (source: <https://www2.asx.com.au/markets/trade-our-derivatives-market/futures-market/rba-rate-tracker>). From the minutes of the last RBA meeting, the Board noted that it expected more traction from further easing with states coming out of lockdown. It is also possible that further changes to the Term Funding Facility will be announced (expanded) – placing possible further downward pressure on mortgage rates in Australia.

The BoE also meets this week – the two key issues will be the Brexit trade agreement (no ratified agreement) and a new month-long lockdown for Britain. An announcement is expected on the status of the Brexit trade negotiation on Wednesday or Thursday this week – as more intensive negotiations continue in Brussels.

Key data points this week include:

US – Non-farm payrolls and ISM manufacturing and services PMI's for Oct will be the key data focus.

The final global PMI's for Oct will be released. Europe PMI's for Oct are only starting to reflect the impact of restrictions on trade, especially for services.

US Fed purchases of Treasury securities will increase this week. Last week, purchases were lower at around \$8bn and this week, purchases will increase to the \$20bn benchmark.

Purchases of MBS remain elevated. Last week purchases totaled \$28bn and this week purchases are expected to reach \$32bn, well above the \$20bn benchmark.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$529bn in ST Bills, Notes, and Bonds this week, raising approx. \$76bn in new money.

With progress on stimulus stalled until after the election result, the current pace of new money raised is running below the \$1.2tr estimate for the quarter (38% of the quarter and 11% of the estimated net cash to be raised for the quarter). The US Treasury cash balance remains elevated at \$1.65tr (Wed 28 Oct level).

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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	
2-6 Nov	29-Oct	03-Nov	4 week bill	30			Completed
	29-Oct	03-Nov	8 week bill	35			Completed
				65	130	-65	
	28-Oct	03-Nov	154-Day CMB	30			Completed
	28-Oct	03-Nov	105-day CMB	25			Completed
	03-Nov	05-Nov	119-Day CMB	30			Announced
	03-Nov	05-Nov	42-Day CMB	30			Announced
				115	0	115	
	02-Nov	05-Nov	13 week bill	54			Announced
	02-Nov	05-Nov	26 week bill	51			Announced
	03-Nov	05-Nov	52 week bill	34			Announced
				139	186.7	-47.7	
	28-Oct	02-Nov	2Yr FRN	26			Announced
	27-Oct	02-Nov	2yr Note	54			Announced
	28-Oct	02-Nov	5yr Note	55			Announced
	29-Oct	02-Nov	7yr Note	53			Announced
	21-Oct	02-Nov	20yr Bond	22			Announced
				210	136.29	73.71	
			Total - securities settling this week	529	452.99	76.01	
			Net New Cash Raised Qtr to Date	1830	1690	140	
			<i>Estimated Net Cash to be Raised Q4 (BN)</i>			1216	
			Fed SOMA - Face Value of SOMA securities maturing	\$ B			
		03-Nov	Bills	6.3			
		05-Nov	Bills	22.0			
				28.3			

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

QE PROGRAMS

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 2 Nov	1.750	5.685
Tue 3 Nov	6.025	7.563
Wed 4 Nov	-	5.685
Thur 5 Nov	-	7.563
Fri 6 Nov	12.825	5.685
Total Announced Purchases	\$20.6bn (last wk. \$8.35bn)	\$32.18bn (last wk. \$28.25bn)

Links to Operation Schedules -

<https://www.newyorkfed.org/markets/domestic-market-operations/monetary-policy-implementation/treasury-securities/treasury-securities-operational-details>

https://www.newyorkfed.org/markets/ambs_operation_schedule

REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
3 Nov	1 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 2 NOVEMBER 2020

MONDAY 2 NOVEMBER (US Eastern Time)

US ISM Manufacturing PMI (Oct), Markit Manufacturing PMI Final (Oct)

Australia Markit Manufacturing PMI Final (Oct), Housing Finance (Sep)

Japan Markit Manufacturing PMI Final (Oct)

UK Markit Manufacturing PMI Final (Oct)

Europe Markit Eurozone Manufacturing PMI Final (Oct)

TUESDAY 3 NOVEMBER

Presidential Election
US ISM/NY Business Conditions Index (Oct), US Factory Orders (Sep), Total Vehicle Sales (Oct)

Australia Markit Services PMI Final (Oct)
RBA Rates and Policy Decision

WEDNESDAY 4 NOVEMBER

US Mortgage Applications wk ending 30 Oct, ADP Employment Change (Oct), ISM Services PMI (Oct), Markit Services PMI Final (Oct)

UK Markit Services PMI Final (Oct)

Europe Markit Eurozone Services PMI Final (Oct)

Australia Retail Sales (Sep)

THURSDAY 5 NOVEMBER

US Initial Jobless Claims (wk ending 30 Oct), Continuing Unemployment Claims (wk ending 23 Oct), and PUA Claims, Challenger Job Cuts (Oct)
US Fed – Rates and Policy Decision and Press Conference

UK **BoE Rates and Policy Decision**

Europe Euro Area Retail Sales (Sep)

Japan Markit Services PMI Final (Oct)

FRIDAY 6 NOVEMBER

US Non-Farm Payrolls (Oct), Consumer Credit (Sep)

Europe Germany Industrial Production (Sep)

China 7 Nov: Trade Balance, Exports, and Imports (Oct)

Trade & Brexit

BREXIT

Negotiations are continuing this week in Brussels with a statement expected on Wed or Thur of this coming week.

An EU diplomatic source and a UK official said negotiations would continue face-to-face in Brussels on Monday following a full weekend of talks. An update on their progress and the chances of a deal was expected on Wednesday or Thursday, they added.

With time running out, financial markets and businesses are increasingly jittery as Britain and the EU face three main scenarios: a deal this year that salvages free trade, a tumultuous economic split, or a fudged arrangement that would settle future ties in a handful of areas but leave the rest up in the air.

https://www.business-standard.com/article/international/brexit-talks-go-into-another-week-as-eu-uk-push-to-salvage-trade-deal-120110200099_1.html

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 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 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 next meeting of the BoE is on Thursday this coming week, which means there will not be a ratified agreement in place. The BoE will likely signal some readiness for further stimulus or emergency measures to be taken – especially in light of the renewed virus outbreak and lockdown measures.

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