

## Key themes for the week ahead

Key highlights for the week will be important US data, global PMI's for Nov, and US Fed Chairman Powell's testimony on the CARES Act.

In the short-term, managing the spread of Covid-19 infections continues to impact economic activity. New cases remain extremely high in the UK, Europe, and the US (as well as many other countries). Longer-term, a vaccine now seems likely to be released around the middle of next year and fast-tracking is expected. The prelim PMI's from last week reflect the impact of different approaches to managing the spread of infections. There was a sharp contraction in output across the UK and Europe as both regions implemented restrictions. Whereas the US prelim PMI's indicated that growth accelerated across manufacturing and services in Nov – there has been no nationally mandated approach to managing the spread of the virus.

The stronger prelim PMI for US manufacturing was expected. Regional surveys had been strong for Nov. This week the ISM PMI's will provide more detail across services and manufacturing for Nov. US non-farm payrolls and employment for Nov will also provide a vital gauge on the pace of the recovery. There has been some hint of stalled improvement in initial unemployment claims over the last two weeks, so this will be important to watch.

Key data points this week include:

US – Non-farm payrolls for Nov, initial unemployment claims, and the ISM PMI's across manufacturing and services.

US Fed Chairman Powell will give two days of testimony on the CARES Act to the US Congress.

The final version of the global PMIs will be released this week and will likely reflect the marked contraction across the UK and European economies, the somewhat weaker growth in Japan, and the likely acceleration of growth in the US.

In Australia, the RBA will meet on rates on Tue 1 Dec. As of 30 Nov, there was a 43% expectation of no change to rates (source: <https://www2.asx.com.au/markets/trade-our-derivatives-market/futures-market/rba-rate-tracker>). Aus Q3 GDP will also be released this week.

Data on US Fed purchases of Treasury securities and MBS are incomplete as of the time of posting. The new schedule will be released late on 30 Nov. Last week, purchases of US Treasuries totaled approx. \$4bn. Purchases of MBS were elevated, and the Fed appears to be buying well above the \$40bn/month rate. Last week's purchases of MBS were approx. \$20bn.

US Treasury issuance will be heavier this week. The US Treasury will settle approx. \$527bn in ST Bills, Notes, TIPS, and Bonds this week, raising approx. \$140bn in new money. The bulk of the settlements will take place on Mon 30 Nov. This week, approx. \$27bn in Bills will mature on the Fed balance sheet and will be rolled over.

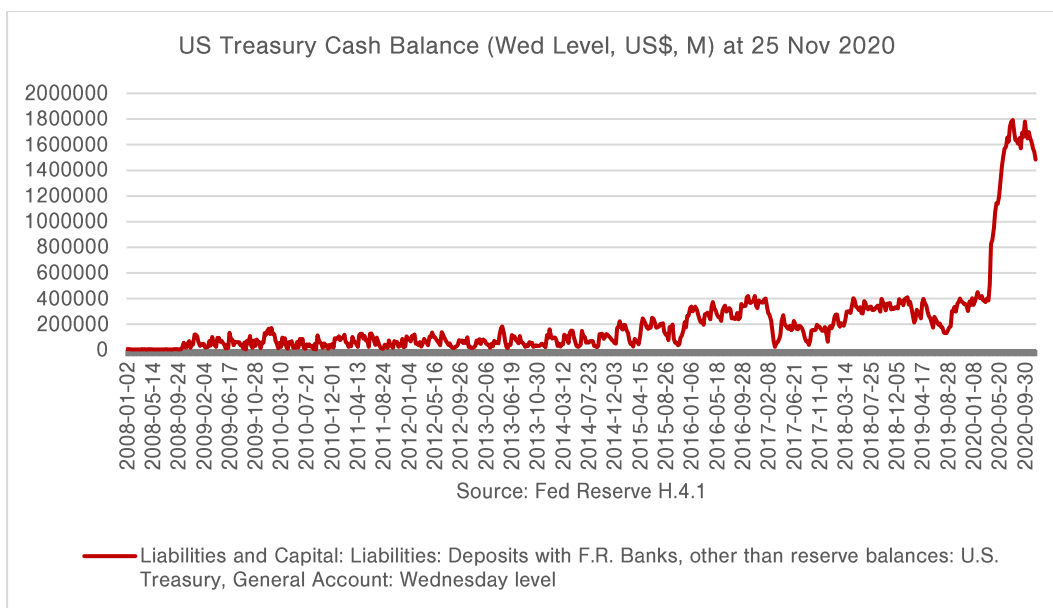
## US Treasury Issuance & QE

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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B	
30 Nov - 4 Dec	25-Nov	01-Dec	4 week bill	30			Completed
	25-Nov	01-Dec	8 week bill	35			Completed
				65	125	-60	
	25-Nov	01-Dec	154-Day CMB	30			Completed
	25-Nov	01-Dec	105-day CMB	25			Completed
	01-Dec	03-Dec	119-day CMB	30			Announced
	01-Dec	03-Dec	42-Day CMB	30			Announced
				115	0	115	
	30-Nov	03-Dec	13 week bill	54			Announced
	30-Nov	03-Dec	26 week bill	51			Announced
	01-Dec	03-Dec	52 week bill	34			Announced
				139	184.9	-45.9	
	19-Nov	30-Nov	10yr TIPS	12			Announced
	23-Nov	30-Nov	2yr Note	56			Announced
	23-Nov	30-Nov	5yr Note	57			Announced
	24-Nov	30-Nov	7yr Note	56			Announced
	18-Nov	30-Nov	20yr Bond	27			Announced
				208	77.6	130.4	
			<b>Total - securities settling this week</b>	<b>527</b>	<b>387.5</b>	<b>139.5</b>	
			<b>Net New Cash Raised Qtr to Date</b>	<b>2951</b>	<b>2679</b>	<b>272</b>	
			<i>Estimated Net Cash to be Raised Q4</i>			617	
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ B</b>			
		01-Dec	Bills	6.370			
		03-Dec	Bills	20.400			
				26.770			

The US Treasury cash balance (TGA) remains elevated at \$1.48tr (Wed 25 Nov level) – approx. \$63bn lower than the Wed level a week prior. This is still the lowest level since Jun 2020.



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

## QE PROGRAMS

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

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 30 Nov	1.750	\$8.431
Tue 1 Dec	TBC	TBC
Wed 2 Dec	TBC	TBC
Thur 3 Dec	TBC	TBC
Fri 4 Dec	TBC	TC
<b>Total Announced Purchases</b>	<b>\$TBC (last wk. \$4.175bn)</b>	<b>\$TBC (last wk. \$20.785bn)</b>

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/ombs\\_operation\\_schedule](https://www.newyorkfed.org/markets/ombs_operation_schedule)

## **REPO OPERATIONS**

Current schedule

<b>Date</b>	<b>Maturity Date</b>	<b>Term</b>	<b>Aggregate Operation Limit</b>
Daily operations (pm)	Next day	O/N	\$500bn
1 Dec	29 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 30 NOVEMBER 2020

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## MONDAY 30 NOVEMBER (US Eastern Time)

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US	Chicago PMI (Nov), Dallas Fed Manufacturing Survey (Nov)
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China	NBS Manufacturing and Non-Manufacturing PMI (Nov)
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Japan	Retail Trade (Oct), Industrial Production Prelim (Oct)
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Australia	Private Sector Credit (Oct), Markit Manufacturing PMI (Nov)
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## TUESDAY 1 DECEMBER

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US	ISM Manufacturing PMI (Nov), Markit Manufacturing PMI (Nov), Vehicle Sales (Nov) US Fed Chair Powell Testimony - CARES Act Before the Committee on Banking, Housing, and Urban Affairs, U.S. Senate
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UK	Markit Manufacturing PMI (Nov)
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Europe	Eurozone Markit Manufacturing PMI (Nov), Euro Area CPI Prelim (Nov)
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Japan	Markit Manufacturing PMI (Nov)
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Australia	RBA Rates Decision & RBA Governor Lowe Speech
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## WEDNESDAY 2 DECEMBER

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US	Mortgage Applications wk ending 27 Nov, ADP Employment Change (Nov), ISM-NY Business Conditions Index (Nov) US Fed Chair Powell Testimony – CARES Act, Committee on Financial Services, U.S. House of Representatives
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Australia	GDP Q3, Markit Services PMI (Nov)
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## THURSDAY 3 DECEMBER

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US	Initial Jobless Claims (wk ending 27 Nov), Continuing Unemployment Claims (wk ending 20 Nov), and PUA Claims, ISM Services PMI (Nov), Markit Services PMI (Nov), Challenger Job Cuts (Nov)
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UK	Markit Services PMI (Nov)
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Europe	Markit Services PMI (Nov), Euro Area Retail Sales (Oct)
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Japan	Markit Services PMI (Nov)
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Australia	Housing Finance (Oct)
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## FRIDAY 4 DECEMBER

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US	Non-Farm Payrolls and Employment Report (Nov), Factory Orders (Nov)
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Australia	Retail Sales (Oct)
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## Trade & Brexit

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### BREXIT

There has been no breakthrough in the Brexit trade deal negotiations. Meetings are set to continue this week.

As crunch points have come and gone, the eventual decision on "deal or no deal" is coming down to the European Union's judgement on whether Boris Johnson is bluffing about his willingness to accept higher levels of economic cost, or if he's ignoring them. <https://www.bbc.com/news/uk-scotland-55123346>

Members of the European parliament have advised that to allow for enough time for proper scrutiny of the deal, an agreement would need to be made by Wednesday this week. This seems unlikely at this stage.

Barnier told MEPs in a private meeting on Friday that he would work through the weekend and then "maybe one or two more days" in a last-ditch attempt to bridge the large gaps between the sides.

With just 34 days before the end of the transition period, Barnier has been advised by officials in the European parliament that arranging for sufficient scrutiny and a consent vote by MEPs before the end of the year would be difficult without a deal by Wednesday.

<https://www.theguardian.com/politics/2020/nov/28/last-ditch-brexit-deal-talks-resume-amid-growing-eu-scepticism>

Last week, there was some cautious optimism around both sides believing that a deal was "within grasp".

The negotiations remain stuck on the level of access that will be granted to European fishing fleets in UK waters, and the means by which either side will be able to hit back if the other seeks to gain a competitive advantage by diverging on environmental, labour or social standards.

<https://www.theguardian.com/politics/2020/nov/28/last-ditch-brexit-deal-talks-resume-amid-growing-eu-scepticism>

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>

Modelling completed by the UK government's official independent economic advisers has indicated that a 'no trade deal' scenario may result in higher prices, inflation, and slower growth. A brief outline of potential impacts can be found here: <https://www.bbc.com/news/uk-scotland-55123346>

The internal market bill (and the finance bill) has been making its way through the UK Parliament. The report stage of the bill was completed last week and several amendments were made (see: <https://www.parliament.uk/business/news/2020/october/lords-debates-internal-market-bill/>)

The third reading will take place this week on 2 Dec in the House of Lords.

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-brexite#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](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](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](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://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](https://ustr.gov/sites/default/files/Summary_of_U.S.-UK_Negotiating_Objectives.pdf)