

## Key themes for the week ahead

Highlights for the short week leading up to the Christmas holiday celebrations include the announcement of a compromise on stimulus in the US, increased Covid restrictions, and US data.

News of Covid-19 vaccinations is running alongside reports of new outbreaks, a new faster-spreading strain, and flare-ups across several countries.

Over the weekend, the UK PM announced further restrictions in response to the discovery of a faster-spreading strain of Covid-19. European nations responded swiftly with border closures and flight bans, including the closure of the Channel Tunnel “for at least 48 hours”.

The travel restrictions come at a difficult time for many British companies, which are engaged in last-minute stockpiling before December 31, when a status-quo transition period with the European Union ends and new customs rules come into effect. <https://www.abc.net.au/news/2020-12-21/european-union-nations-halt-uk-flights-over-covid-19-variant/13002548>

A small outbreak of community transmission in Australia (NSW) has resulted in some border closures and social distancing restrictions to be reinstated.

US data is the focus this week. The highlights include initial jobless claims (which have been trending a little higher since Thanksgiving), personal income, expenditure and prices, and consumer sentiment leading into the end of the year.

The US Fed purchases of Treasuries and MBS will be lower in this shorter week. The Fed will purchase approx. \$9bn in US Treasury securities this week (last week \$31.2bn) and approx. \$18.4bn in MBS (last week \$27.9bn).

US Treasury issuance will be lighter this week. The US Treasury will settle approx. \$310bn in ST Bills this week, raising approx. \$22bn in new money. The US Treasury will also auction the FRN, 5yr TIPS, and 20yr Bond this week, which will settle next week. Approx \$230bn in Notes and Bonds will be auctioned and settled next week, raising approx. \$159bn in new money. This may be revised based on the final stimulus number and the TGA balance.

This week, approx. \$10bn in Bills will mature on the Fed balance sheet and will be rolled over.

## US Treasury Issuance & QE

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This week includes an 8-Day Cash Management Bill with an offer amount of \$25bn – which is a previously announced small value contingency auction:

The Treasury Department announced on November 4, 2020, its intent to conduct a live small-value contingency auction operation within the next quarter. Treasury believes that it is prudent to regularly test its contingency auction infrastructure.

[https://www.treasurydirect.gov/instit/annceresult/press/preanre/2020/SPL\\_20201216\\_9.pdf](https://www.treasurydirect.gov/instit/annceresult/press/preanre/2020/SPL_20201216_9.pdf)

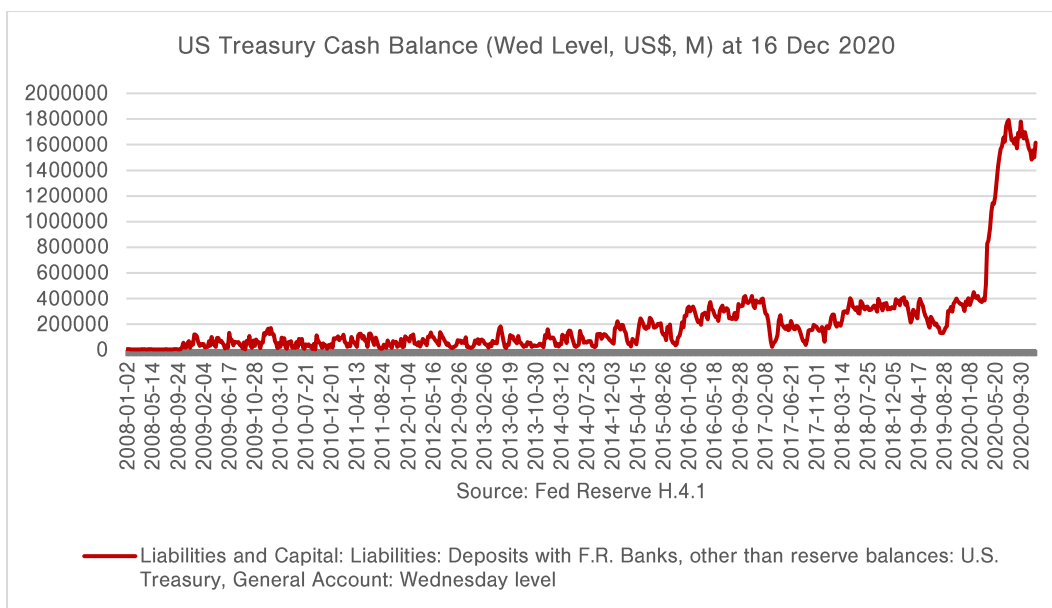
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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B			
<i>25 Dec - Christmas Day</i>									
21 - 25 Dec	17-Dec	22-Dec	4 week bill	30			Completed		
	17-Dec	22-Dec	8 week bill	35			Completed		
				65	120	-55			
	16-Dec	22-Dec	154-Day CMB	30			Completed		
	16-Dec	22-Dec	105-day CMB	25			Completed		
	17-Dec	21-Dec	8-Day CMB	25			Completed		<i>Small value contingency auction</i>
	22-Dec	24-Dec	119-Day CMB	30			Announced		
	22-Dec	24-Dec	42-Day CMB	30			Announced		
				140	0	140			
	21-Dec	24-Dec	13 week bill	54			Announced		
	21-Dec	24-Dec	26 week bill	51			Announced		
				105	168	-63			
			<b>Total - securities settling this week</b>	310	288	22			
			<b>Net New Cash Raised Qtr to Date</b>	<b>3949</b>	<b>3562</b>	<b>387</b>			
			<i>Estimated Net Cash to be Raised Q4</i>			<b>617</b>			
			<b>Fed SOMA - Face Value of SOMA securities maturing</b>	<b>\$ B</b>					
		22-Dec	Bills	6.1					
		24-Dec	Bills	4.1					
				10.22					

The US Treasury cash balance (TGA) increased by \$113bn last week. The US Treasury TGA balance was \$1.62tr (Wed 16 Dec level) – approx. \$113bn higher than the Wed level a week prior.

The stimulus package is looking to be approx. \$900bn. While there is ample cash in the TGA, there may still be an increase in some of the CMB funding – TBC.



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

## QE PROGRAMS

The next schedule will be released on 28 Dec. There are no Treasury purchases scheduled for Mon 28 Dec but there will be approx. \$6.9bn in MBS purchased.

Date	Treasury Security Operations (\$ BN)	MBS Operations, Max Value (\$ BN)
Mon 21 Dec	1.225	5.729
Tue 22 Dec	1.750	6.928
Wed 23 Dec	6.025	5.732
Thur 24 Dec	0	0
Fri 25 Dec	-	-
<b>Total Announced Purchases</b>	<b>\$9bn (last wk. \$31.2bn)</b>	<b>\$18.4bn (last wk. \$27.9bn)</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
22 Dec	19 Jan 2021	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 21 DECEMBER 2020

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### MONDAY 21 DECEMBER (US Eastern Time)

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US	Chicago Fed National Activity Index (Nov)
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### TUESDAY 22 DECEMBER

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US	GDP Q3 – Third Est, Existing Home Sales (Nov), Richmond Fed Manufacturing Index (Dec)
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Australia	Retail Sales Prelim (Nov)
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### WEDNESDAY 23 DECEMBER

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US	Mortgage Applications wk ending 11 Dec, Personal Income, Consumption, and Prices Monthly (Nov), Initial Jobless Claims (wk ending 18 Dec), Continuing Unemployment Claims (wk ending 11 Dec), and PUA Claims, Durable Goods Orders (Nov), University of Michigan Consumer Sentiment – Final (Dec), New Home Sales (Nov)
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Australia	Private Sector Credit (Nov)
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Japan	Retail Trade (Nov)
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### THURSDAY 24 DECEMBER

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### FRIDAY 25 DECEMBER

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## Trade & Brexit

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### BREXIT

So far there has been no breakthrough in the trade deal negotiations between the UK and EU. Talks will continue over the next week.

Disruption to trade will be likely now that the Channel Tunnel has been closed leading up to Christmas. This was in response to the discovery of a 'faster spreading' strain of Covid-19 in the UK.

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>

A no-deal situation may also trigger some action from the BoE – which will meet this week.

The internal market bill has been making its way through the UK Parliament.

The House of Lords considers Commons amendments to the [United Kingdom Internal Market Bill](#) on Monday 14 December as 'ping pong' continues. <https://www.parliament.uk/business/news/2020/october/lords-debates-internal-market-bill/>

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 these will commence shortly.

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-brexite-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)