

Key themes for the week ahead

Key highlights for the week will be US data, the ECB rates decision, and Brexit negotiations ahead of the EC summit later in the week.

Key data points this week include:

US – CPI for Nov, initial unemployment claims, and the University of Michigan Consumer Sentiment prelim release for Dec. It will be a quiet week for Fed speeches ahead of the FOMC meeting next week on 15-16 Dec.

Chinese trade data, CPI, and PPI for Nov will be released this week.

Europe – ECB rates decision likely to focus on the economic impact of further restrictions to manage Covid infections, German industrial production data for Oct.

As we come into the final weeks of the year, the end of the Brexit transition period will be in focus. The final date is 31 Dec 2020. Negotiations are yet to reach any compromise on a trade deal, but there is some chance for a deal to be presented at the EC summit by Thur/Fri of this week. The end of the transition period is likely to be disruptive for both regions regardless of whether a deal is agreed to or not by the end of the week.

The US Fed purchases of Treasuries and MBS will remain elevated this week. The Fed appears to be purchasing well above the \$40bn/month rate of MBS. The US Fed will purchase approx. \$22.4bn of Treasury securities this week, slightly above the \$19.6bn purchased in the week prior. Purchases of MBS will total approx. \$32.1bn this week, just slightly below the \$35.2bn purchased in the week prior.

US Treasury issuance will be lighter this week. The US Treasury will settle approx. \$285bn in ST Bills this week, with a net paydown of \$3bn. Net cash raised this quarter so far, continues to lag behind the \$617bn estimated cash required for Q4.

The US Treasury will also auction approx. \$118bn in Notes and Bonds this week that will settle on the 15 Dec.

This week, approx. \$14bn in Bills will mature on the Fed balance sheet and will be rolled over.

US Treasury Issuance & QE

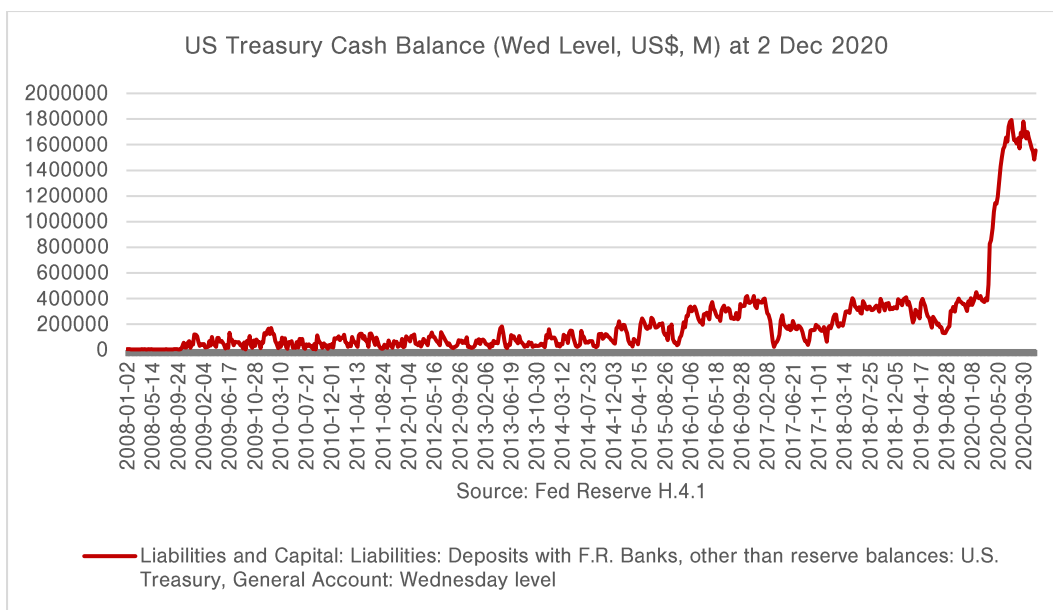
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WEEK	Auction Date	Settlement Date	Marketable Securities	Auction Amount \$B (TBAC)	Amount Maturing \$B	New Money \$B
7-11 Dec	03-Dec	08-Dec	4 week bill	30		
	03-Dec	08-Dec	8 week bill	35		
				65	120	-55
	02-Dec	08-Dec	154-Day CMB	30		
	02-Dec	08-Dec	105-day CMB	25		
	08-Dec	10-Dec	119-Day CMB	30		
	08-Dec	10-Dec	42-Day CMB	30		
				115	0	115
	07-Dec	10-Dec	13 week bill	54		
	07-Dec	10-Dec	26 week bill	51		
				105	168	-63
			Total - securities settling this week	285	288	-3
			Net New Cash Raised Qtr to Date	3236	2967	269
			<i>Estimated Net Cash to be Raised Q4</i>			617
			Fed SOMA - Face Value of SOMA securities maturing	\$ B		
		08-Dec	Bills	5,253		
		10-Dec	Bills	9,031		
				14,284		

The US Treasury cash balance (TGA) increased for the first time in five weeks after last weeks' heavier treasury issuance. The US Treasury TGA balance was \$1.55tr (Wed 2 Dec level) – approx. \$73bn higher than the Wed level a week prior.



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

QE PROGRAMS

The next operation schedule will be released on 11 Dec 2020.

Date	Treasury Security Operations (\$ BN)	MBS Operations (\$ BN)
Mon 7 Dec	1.750	6.697
Tue 8 Dec	2.425	6.380
Wed 9 Dec	1.750	8.700
Thur 10 Dec	3.625	4.932
Fri 11 Dec	12.825	5.390
Total Announced Purchases	\$22.375 (last wk. \$19.575bn)	\$32.099 (last wk. \$35.153bn)

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

REPO OPERATIONS

Current schedule

Date	Maturity Date	Term	Aggregate Operation Limit
Daily operations (pm)	Next day	O/N	\$500bn
8 Dec	5 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 7 DECEMBER 2020

MONDAY 7 DECEMBER (US Eastern Time)

US	Consumer Credit (Oct)
Europe	Germany Industrial Production (Oct)
China	Trade Balance, Exports, and Imports (Nov)
Japan	Q3 GDP

TUESDAY 8 DECEMBER

Europe	Euro Area Q3 GDP
Australia	House Price Index Q3, NAB Business Confidence and Conditions (Nov), Westpac Consumer Confidence (Dec)

WEDNESDAY 9 DECEMBER

US	Mortgage Applications wk ending 4 Dec, JOLTS (Oct)
China	CPI & PPI (Nov)

THURSDAY 10 DECEMBER

US	Initial Jobless Claims (wk ending 4 Dec), Continuing Unemployment Claims (wk ending 27 Nov), and PUA Claims, CPI (Nov)
Europe	EC Meeting Commences, ECB Rates Decision
China	New Loans (Nov)

FRIDAY 11 DECEMBER

US	PPI (Nov), University of Michigan Consumer Sentiment Prelim (Dec)
Europe	EC Meeting day 2

Trade & Brexit

BREXIT

Negotiators will continue talks over the next few days with the hope of having some prospect of a deal to present to leaders at the EC meeting on Thur and Fri this week. The negotiations are coming down to the wire as the Brexit transition period ends on 31 Dec 2020.

Ireland's prime minister, whose country would face more economic pain than any of the other 26 EU member states in the case of a "no-deal", cautioned against over-optimism, putting the chances of an agreement at only 50-50.

The key issues are; fishing rights in UK waters, fair competition, and ways to solve future disputes. There were some mixed messages over a "major breakthrough" on fishing rights late on Sunday.

The Guardian reported after talks resumed on Sunday that there had been "a major breakthrough" on the rights of European fleets to fish in UK waters, leaving only a wrestle over how closely Britain should hew to EU environmental, social and labour standards over time to ensure a level playing field.

A British government source said there had been no breakthrough on fishing rights on Sunday.

Even with a deal in place, the end of the transition is still likely to result in some disruption to trade and movement across borders from 1 Jan 2021. Having no deal (or possibly even an extremely late deal) creates another level of complication for commerce. The next few days will be important to see if some semblance of a deal can be presented at the EU summit at the end of the week. The issue is balancing some short-term economic disruption with the longer-term aims of the UK leaving the EU in the first place.

Mairead McGuinness, Ireland's commissioner on the EU's executive, said the next 48 hours were "very crucial", but even if negotiators fail to reach an accord the two sides will still have to discuss their future relationship in the new year.

"Johnson has a huge decision to make in the next 48 hours," said Mujtaba Rahman of the Eurasia Group, a consultancy.

"A majority of the cabinet would prefer an agreement to limit the disruption at the borders on January 1, but will back the Prime Minister's judgment if he opts for no deal," he said.

https://www.scmp.com/news/world/europe/article/3112825/brexit-knife-edge-uk-eu-trade-talks-reach-crisis-point?utm_content=article&utm_medium=Social&utm_source=Twitter#Echobox=1607314617?exp_signup=opt-ggl-sign-in

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 also possibly triggers some action from the BoE.

The internal market bill (and the finance bill) has been making its way through the UK Parliament. The third reading of the report stage of the bill was completed last week and several amendments were made.

The House of Lords have returned the Bill to the House of Commons with [amendments](#). The amendments will be considered on the floor of the House on Monday 7 December 2020. <https://services.parliament.uk/bills/2019-21/unitedkingdominternalmarket.html>

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

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-brexith#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