

## MXN: It's fun to stay in the USMCA

Reports suggest the Trump administration wants to get its Nafta-replacement USMCA deal ratified in Congress. Positive news on the deal would likely help the Canadian dollar and Mexican peso



### ➔ USD: China's sale of US Treasuries looks passive at this stage

The dollar is consolidating in narrow ranges, waiting to take its cue from the global trade outlook or domestic data. On the latter, a softish US April retail sales yesterday seemed to support the narrative that the US is talking itself into recession with 10-year US Treasury yields now back at the lows for the year at 2.35%. Important for the dollar here will be the Federal Reserve reaction. Does the Fed start to acknowledge market calls for a rate cut, where the Dec Fed 19 Fund futures now prices 32 basis points of easing? We'll look out for a speech at 1815CET today from Fed's Lael Brainard on the monetary policy outlook. Elsewhere, there's focus on China selling \$10 billion of US Treasuries in March. This looks more passive selling in defence of the renminbi (back in 2H16, China had sold up to \$40 billion per month in defence of the CNY) rather than an active decision to unload US assets. DXY steady near term near 97.50, but downside risks emerge if the Fed turns dovish.

### ⬇ EUR: Deflationary risks building

Market-based measures of euro inflation expectations continue to sink, with the 5Y5Y inflation swap dropping back to the lows of the year again near 1.33%. At these kind of levels one would be

expecting to hear an even more dovish message from the European Central Bank. A six month delay on the auto tariff decision from President Trump is good news for Europe, but until there's more clarity on US-China trade, we'd expect EUR/USD to keep drifting towards 1.1110/30.

## ⬇️ GBP: May's moment of reckoning?

Prime Minister Theresa May this morning meets the 1922 Tory party committee. There is speculation this committee will take another vote on rule changes that would allow May's leadership to be challenged before December. A rule change would increase the chances of a more eurosceptic PM emerging this summer. GBP was the worst G10 performer yesterday and cable risks 1.2770/2800 today.

## ⬆️ MXN: Optimism on USMCA progress and a still hawkish Banxico will help

Some reports have emerged over the last 24 hours that the Trump administration is floating new proposals to get its Nafta-replacement USMCA deal ratified in Congress. Little progress has been seen since all three leaders signed off on it at the G20 meeting in Argentina last November. Positive news on the deal would likely help the Canadian dollar and Mexican peso, both of which have been on the receiving end of steel and aluminium tariffs. Today also sees a Banxico meeting. Despite a desperately disappointing 1Q19 GDP figure and what is seen as merely a temporary spike in inflation, our [Gustavo Rangel believes Banxico](#) will stay neutral/hawkish – prioritising stability of the Mexican peso. Even though the risk environment remains fragile, a weaker EUR/USD and a stable USD/MXN suggests EUR/MXN should outperform its 3m forward, now at 21.86. Spot could even retest the lows at 21.07/10.

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