

28 August 2018  
Article

## US-Mexico Nafta deal no panacea

Despite some progress with Mexico, we're still concerned about Trump's overall protectionist stance and think emerging markets remain fragile

### Contents

- USD: Positioning may limit much of a dollar rebound this week
- EUR: Italy may limit the euro bounce
- GBP: Breakout from an 11-month range
- CAD: Tactically position for short-term upside as BoC tightening odds too low

### USD: Positioning may limit much of a dollar rebound this week

The US dollar index (DXY) is just over 2% off the highs seen in mid-August. This largely looks a function of stretched long dollar positioning, some remedial measures overseas (e.g. China's managed stability of the renminbi) and some better activity data out of Europe – most recently an encouraging recovery in the [German August IFO](#). We think the dollar could correct slightly lower ahead of next Monday's US Labor Day public holiday, but it's probably too early to sound the all clear on Trump's protectionist trends – despite some progress with Mexico. Indeed, we're concerned that the push to place 25% tariffs on \$200 billion worth of Chinese imports will come to dominate markets in September and that, in general, the emerging markets FX complex remains fragile. For today, we should see US August consumer confidence print near cycle highs (Monday saw a new high for US equities). Overall, DXY could dip to 94.00/94.20 this week, but not a high conviction call.

### EUR: Italy may limit the euro bounce

The German IFO witnessed an impressive recovery in August and feeds the narrative that the 1H18 collapse could well have been triggered by temporary factors. After being bruised by the ECB's forward guidance, however, we doubt the market will have much enthusiasm in trying to chase a higher EUR on the back of a normalisation in ECB policy. The euro also has to contend with deliberations on the Italian budget in September, which could prove negative for the euro. We'll also see Fitch give an update on Italian sovereign ratings this Friday, although it will be too early to expect major changes before a budget has been agreed. 1.1600-1.1750 looks the range trade over coming days.

### GBP: Breakout from an 11-month range

EUR/GBP has seen a decisive upside break-out, which could extend into the 0.91/92 area over coming weeks – ahead of fraught Brexit negotiations.

### CAD: Tactically position for short-term upside as BoC tightening odds too low

Narrowing our focus to the September Bank of Canada meeting (5 September), we think there are material upside risks to the Canadian dollar – with markets underestimating the odds of a 25 basis point rate hike at the meeting (currently 22% priced in). Second-quarter Canadian GDP data this

week (Wednesday) may see these odds pick-up sharply; our economists are looking for a 3.0% quarter on quarter annualised print – a touch stronger than the BoC's own 2.8% estimate in the July Monetary Policy Report. While Canada has been 'left out' of the US-Mexico preliminary trade deal, we note that Nafta is not dead in the water, not least as it is US Congress that has the power to terminate Nafta (not the President). We think CAD has solid reasons to post a short-term move higher and prefer to position for tactical upside (targeting USD/CAD 1.27-1.28).

**Chris Turner**

Global Head of Strategy and Head of EMEA and LATAM Research

+44 20 7767 1610

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### **Disclaimer**

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("**ING**") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group NV and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. The producing legal entity ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is subject to limited regulation by the Financial Conduct Authority (FCA). ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.