

Nafta is dead: Long live the US / Mexico Trade Agreement

The Canadian dollar is looking more supported after Mexico struck a deal with the US on trade. But this is not going to be a pushover. Nafta is dead. Will Canada be willing to sign up to a deal on Mexican terms?



The Mexico deal replaces, rather than amends Nafta

With Mexico signing on the dotted line of the new trade deal, the big question now is, will Canada follow? Trump is at this stage sounding quite downbeat about Canada's prospects. But then this gruff approach could simply be a way to get Canada to bend a little more to US will to make a deal possible. Certainly, there is no great love lost between President Trump and the Canadian Prime Minister Justin Trudeau. And there are still some issues for Canada, including dispute resolution and dairy protection to overcome. These may remain dealbreakers. We don't see the US softening its stance, so it is all for Canada to do. The US would like a deal done as soon as possible. But if this proves elusive, it appears that Canada has the right to sign the deal at a later stage. If they don't sign quickly, this deal will move through Congress for a simple Yes / No vote as a bilateral deal.

If that happened, then Nafta would indeed be dead. Even if Canada does come on board, Trump is jettisoning the name Nafta, which he feels has negative connotations, for the US / Mexico Trade Agreement (snappy, huh?). Presumably, it would then become the United States / Mexico / Canada Trade Agreement...

What Mexico has agreed to in order to get this deal done is:

- Increased regional automotive content to 75% from 62.5%
- 40-45% of workers in automotive earning \$16 per hour
- Deal to be reviewed after six years (from an initial suggestion of five)
- Greater protection for copyright holders aimed at protecting internet and pharmaceutical companies where intellectual property is key
- Duty-free access for agricultural products to remain
- Mexico to take legislative action to recognise collective action by workers
- Recognition of Tequila and Mezcal as distinctive Mexican products and Bourbon and Tennessee whiskey as specifically American
- No restriction on market access for US named cheeses

The Mexico deal offers no hope for China

Far from ushering in a more reasonable attitude to free trade generally, it is safer to view this latest deal as one that the US has managed to bash into shape by sheer negotiating muscle. But there seems to be no appetite now for pushing forward with a deal for China. There is, right now, no visible interest from the US administration in pursuing talks with China over trade, and there will likely not be either unless China proposes some far-reaching changes to issues such as intellectual property protection and forced technology transfer. Meanwhile, the public consultation on the rate of tariffs to set on an additional \$200 billion of Chinese imports is ticking away and will likely see new tariffs imposed by the end of September. So as far as China and Asia are concerned, this new Mexico deal solves nothing. Indeed, it strengthens the US position to play hard-ball with China. This doesn't look good for the region.

Regional currencies look bid today, helped by a slightly weaker US dollar (on the Mexico trade deal) and stronger risk appetite, providing some support for emerging market assets. But it is really the about-face by the Chinese yuan that is providing the greater lifting power, thanks to the recently introduced countercyclical policy amendments.

Asia Day Ahead

Thailand reports manufacturing data for July later today, with the consensus forecasting a slight slowdown in growth to 4.3% year-on-year from 4.7% in June. We are below consensus at 3.6%, as high base-year effects and tapering export strength in recent months are likely to slow manufacturing and thereby GDP growth in the current quarter. However, the recent step-up in hawkish rhetoric by Bank of Thailand officials, especially Governor Veerathai Santiprabhob about the need for monetary policy normalisation, will put all activity data under intense scrutiny. Creating some policy space for the future is one thing, but the economy isn't screaming out for a policy tightening and higher rates could also threaten the fragile recovery reflected by still anaemic domestic demand. That said, our call for the BoT keeping policy unchanged this year remains at risk at the next policy meeting on 19 September.

South Korean consumer confidence data for August doesn't make happy reading. The index dipped further to 99.2 from 101.0 and shows few signs of abating the decline that has been going on since the end of last year. Policy initiatives to boost household incomes and increase worker leisure time seem to have backfired by limiting weekly hours and causing some loss of retail jobs. Recent policies to address some of these concerns such as the impact of higher minimum wages on small firms have yet to be felt and certainly aren't evident in this data. The BoK meets to set rates later this week (31 August). We see no chance of them hiking policy rates. The consensus is almost unanimous in supporting this view.

Author

Amrita Naik Nimbalkar

Junior Economist, Global Macro

amrita.naik.nimbalkar@ing.com

Mateusz Sutowicz

Senior Economist, Poland

mateusz.sutowicz@ing.pl

Alissa Lefebre

Economist

alissa.lefebvre@ing.com

Deepali Bhargava

Regional Head of Research, Asia-Pacific

Deepali.Bhargava@ing.com

Ruben Dewitte

Economist

+32495364780

ruben.dewitte@ing.com

Kinga Havasi

Economic research trainee

kinga.havasi@ing.com

Marten van Garderen

Consumer Economist, Netherlands

marten.van.garderen@ing.com

David Havrlant

Chief Economist, Czech Republic

420 770 321 486

david.havrlant@ing.com

Sander Burgers

Senior Economist, Dutch Housing

sander.burgers@ing.com

Lynn Song

Chief Economist, Greater China

lynn.song@asia.ing.com

Michiel Tukker

Senior European Rates Strategist

michiel.tukker@ing.com

Michal Rubaszek

Senior Economist, Poland

michal.rubaszek@ing.pl

This is a test author

Stefan Posea

Economist, Romania

tiberiu-stefan.posea@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Jesse Norcross

Senior Sector Strategist, Real Estate

jesse.norcross@ing.com

Teise Stellema

Research Assistant, Energy Transition

teise.stellema@ing.com

Diederik Stadig

Sector Economist, TMT & Healthcare

diederik.stadig@ing.com

Diogo Gouveia

Sector Economist

diogo.duarte.vieira.de.gouveia@ing.com

Marine Leleux

Sector Strategist, Financials

marine.leleux2@ing.com

Ewa Manthey

Commodities Strategist

ewa.manthey@ing.com

ING Analysts

James Wilson

EM Sovereign Strategist

James.wilson@ing.com

Sophie Smith

Digital Editor

sophie.smith@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Adam Antoniak

Senior Economist, Poland

adam.antoniak@ing.pl

Min Joo Kang

Senior Economist, South Korea and Japan

min.joo.kang@asia.ing.com

Coco Zhang

ESG Research

coco.zhang@ing.com

Jan Frederik Slijkerman

Senior Sector Strategist, TMT

jan.frederik.slijkerman@ing.com

Katinka Jongkind

Senior Economist, Services and Leisure

Katinka.Jongkind@ing.com

Marina Le Blanc

Sector Strategist, Financials

Marina.Le.Blanc@ing.com

Samuel Abettan

Junior Economist

samuel.abettan@ing.com

Franziska Biehl

Senior Economist, Germany

Franziska.Marie.Biehl@ing.de

Rebecca Byrne

Senior Editor and Supervisory Analyst

rebecca.byrne@ing.com

Mirjam Bani

Sector Economist, Commercial Real Estate & Public Sector (Netherlands)

mirjam.bani@ing.com

Timothy Rahill

Credit Strategist

timothy.rahill@ing.com

Leszek Kasek

Senior Economist, Poland

leszek.kasek@ing.pl

Oleksiy Soroka, CFA

Senior High Yield Credit Strategist

oleksiy.soroka@ing.com

Antoine Bouvet

Head of European Rates Strategy

antoine.bouvet@ing.com

Jeroen van den Broek

Global Head of Sector Research

jeroen.van.den.broek@ing.com

Edse Dantuma

Senior Sector Economist, Industry and Healthcare

edse.dantuma@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Rico Luman

Senior Sector Economist, Transport and Logistics

Rico.Luman@ing.com

Jurjen Witteveen

Sector Economist

jurjen.witteveen@ing.com

Dmitry Dolgin

Chief Economist, CIS

dmitry.dolgin@ing.de

Nicholas Mapa

Senior Economist, Philippines

nicholas.antonio.mapa@asia.ing.com

Egor Fedorov

Senior Credit Analyst

egor.fedorov@ing.com

Sebastian Franke

Consumer Economist

sebastian.franke@ing.de

Gerben Hieminga

Senior Sector Economist, Energy

gerben.hieminga@ing.com

Nadège Tillier

Head of Corporates Sector Strategy

nadege.tillier@ing.com

Charlotte de Montpellier

Senior Economist, France and Switzerland

charlotte.de.montpellier@ing.com

Laura Straeter

Behavioural Scientist

+31(0)611172684

laura.Straeter@ing.com

Valentin Tataru

Chief Economist, Romania

valentin.tataru@ing.com

James Smith

Developed Markets Economist, UK

james.smith@ing.com

Suvi Platerink Kosonen

Senior Sector Strategist, Financials

suvi.platerink-kosonen@ing.com

Thijs Geijer

Senior Sector Economist, Food & Agri

thijs.geijer@ing.com

Maurice van Sante

Senior Economist Construction & Team Lead Sectors

maurice.van.sante@ing.com

Marcel Klok

Senior Economist, Netherlands

marcel.klok@ing.com

Piotr Poplawski

Senior Economist, Poland

piotr.poplawski@ing.pl

Paolo Pizzoli

Senior Economist, Italy, Greece
paolo.pizzoli@ing.com

Marieke Blom
Chief Economist and Global Head of Research
marieke.blom@ing.com

Raoul Leering
Senior Macro Economist
raoul.leering@ing.com

Maarten Leen
Head of Global IFRS9 ME Scenarios
maarten.leen@ing.com

Maureen Schuller
Head of Financials Sector Strategy
Maureen.Schuller@ing.com

Warren Patterson
Head of Commodities Strategy
Warren.Patterson@asia.ing.com

Rafal Benecki
Chief Economist, Poland
rafal.benecki@ing.pl

Philippe Ledent
Senior Economist, Belgium, Luxembourg
philippe.ledent@ing.com

Peter Virovacz
Senior Economist, Hungary
peter.virovacz@ing.com

Inga Fechner
Senior Economist, Germany, Global Trade
inga.fechner@ing.de

Dimitry Fleming
Senior Data Analyst, Netherlands
Dimitry.Fleming@ing.com

Ciprian Dascalu
Chief Economist, Romania
+40 31 406 8990
ciprian.dascalu@ing.com

Muhammet Mercan

Chief Economist, Turkey

muhammet.mercan@ingbank.com.tr

Iris Pang

Chief Economist, Greater China

iris.pang@asia.ing.com

Sophie Freeman

Writer, Group Research

+44 20 7767 6209

Sophie.Freeman@uk.ing.com

Padhraic Garvey, CFA

Regional Head of Research, Americas

padhraic.garvey@ing.com

James Knightley

Chief International Economist, US

james.knightley@ing.com

Tim Condon

Asia Chief Economist

+65 6232-6020

Martin van Vliet

Senior Interest Rate Strategist

+31 20 563 8801

martin.van.vliet@ing.com

Karol Pogorzelski

Senior Economist, Poland

Karol.Pogorzelski@ing.pl

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Viraj Patel

Foreign Exchange Strategist

+44 20 7767 6405

viraj.patel@ing.com

Owen Thomas

Global Head of Editorial Content

+44 (0) 207 767 5331

owen.thomas@ing.com

Bert Colijn

Chief Economist, Netherlands

bert.colijn@ing.com

Peter Vanden Houte

Chief Economist, Belgium, Luxembourg, Eurozone

peter.vandenhoute@ing.com

Benjamin Schroeder

Senior Rates Strategist

benjamin.schroeder@ing.com

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Gustavo Rangel

Chief Economist, LATAM

+1 646 424 6464

gustavo.rangel@ing.com

Carlo Cocuzzo

Economist, Digital Finance

+44 20 7767 5306

carlo.cocuzzo@ing.com