

No Canada

Negotiations to bring a Tripartite North American deal together flounder as leaked Trump comments undermine good faith of negotiations



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Reporting undermines Canada negotiations

Off the record comments made by President Trump to Bloomberg suggested that any deal with Canada would be “totally on our terms” and with Canada's auto exports to the US a key sticking point for the President, he added, “Canada's working their ass off. And every time we have a problem with a point, I just put up a picture of a Chevrolet Impala”.

The leak, which the US President himself reportedly admitted was accurate, has scuppered negotiations to bring Canada into the deal brokered with Mexico for a re-vamped Nafta, though of course, that name has now been consigned to history.

Fortunately, Chrystia Freeland, the Canadian negotiator, seems to be made of tough stuff and believes the US delegation, led by Robert Lighthizer, is, in fact, negotiating in good faith. The negotiations recommence this Wednesday. The leak certainly hampers the chances of a deal being struck, and significant gaps remain. But if there is room for any movement by the US (in total contrast to what the President has indicated), then a deal could be possible by the end of September.

US needs Canada for a trade deal

Without Canada, the bilateral deal between the US and Mexico would stand almost no chance of making it through Congress, as it would need a two-thirds majority. With Canada on board, a tripartite deal would be able to fast-track through with only a majority deal. Which all begs the question, does President Trump really want to get this through and build on the deal with Mexico, or do we put more weight on another of his tweets?

"There is no political necessity to keep Canada in the new NAFTA deal. If we don't make a fair deal for the U.S. after decades of abuse, Canada will be out. Congress should not interfere w/ these negotiations or I will simply terminate NAFTA entirely & we will be far better off...".

USDCAD is about 1.3064 right now, weaker than the 1.2960 levels at the end of last week when there was still an air of optimism.

Asia Day ahead

Its been a good start to the day in Asia, where both Japanese capital spending for 2Q18 and corporate profits are adding to the consumer strength lent by rising wages and promising a better 2Q18 GDP figure than we had been penciling in. We were already looking for a 2.4% rebound after the -0.9% disappointment of 1Q18. Upside risk to this could take the annualized QoQ growth figure closer to 3.0%.

South Korea also posted a reasonable print on August exports over the weekend, with the 8.7%YoY gain missing consensus on the downside, but beating the July growth figure. This still leaves the smoothed trend of this choppy series slightly down from the previous month. Though on a longer basis, the trend growth of exports seems to have bottomed out at about a 5% rate. We see this trend growth rate being maintained over coming months, barring any further substantial changes to what we already know about the difficult global trade backdrop.

We have also already had most of the day's manufacturing PMI data. There are no clear trends.

- Recording increases: South Korea, Malaysia, Indonesia, Philippines.
- Recording no change: Japan.
- Recording declines: Taiwan, Thailand.

Later today, we also have the Caixin China PMI. We are in line with the consensus looking for a small decline from 50.8 to 50.7 for this survey in contrast to the better numbers of the less export-oriented official PMI last week.

Inflation data from Thailand and Indonesia for August complete the day. Currency weakness in both economies (though more so in Indonesia) could see headline inflation measures nudge up in both economies.

And this from my colleague Prakash Sakpal on India:

In an outstanding performance, the Indian economy grew by 8.2% year-on-year in 1QFY2019, beating the consensus estimate of 7.6%. This [stunning economic performance despite all woes](#) raise two key questions: Will strong GDP growth help to stimulate foreign investors' confidence in the Indian economy and prevent a free-fall of the INR? Also, will it open the door for more

aggressive RBI policy tightening to stem currency weakness and keep inflation in check? We are skeptical of the first; the INR isn't quite out of trouble from adverse domestic economic factors, let alone external contagion. But we are hopeful on the second.

We maintain our view of the RBI hiking rates again at the next scheduled meeting in early October, possibly a double-up (50 basis point) hike or even an inter-meeting hike if the ongoing external contagion drags the currency even weaker. That said, we continue to see more upside than downside risk to our USD/INR 71.5 end-year forecast. But for today, we can expect some knee-jerk strengthening of the currency, as markets have had no chance to respond to the data released after the close of trading on Friday.

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