

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.

Author

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
michieltukker@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