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Alex Fusté

@AlexfusteAlex

alex.fuste@andbank.com

A quick assessment of the new USMCA. Some bullet points

- Canada and the US resolved their differences, allowing all three nations to announce the “US-Mexico-Canada trade agreement”
- The trilateral trade deal removes one major source of uncertainty (specially for Mexico, where the focus will shift now onto the policies of AMLO, who seems to have adopted a remarkably centrist tone: He is to respect existing contracts in oil auctions, new ones will resume in February, James Heat appointment to Banxico’s Board means he will not politicize the central bank. While it is true that next year’s Mexican budget will contain a 7.5% increase in spending, this will represent an increase of deficit from 2.5% to 3% -on the smaller scale of fiscal expansions that most estimated-).
- Of particular importance in the agreement are the **new rules of origin** and **new labor content requirement** (which implies a strong improvement in the Mexican worker’s salary, and thus, stronger costs for auto makers and exporters). 40% of the value in cars (45% in light trucks) will need to be added by workers earning \$16 per hour (from the current 2\$-3\$ph that Mexican workers could be currently earning), but this will only affect to workers directly involved in adding the value.
- It has been agreed a partial exemption for Mexico and Canada from any future US tariffs in the auto sector.
- This means that Mexico (and Canada) will be able to export up to 2.6mn to the US tariff-free always that the products sold meet the new labor content requirement needed to qualify for tariff-free trade. 2.6mn units is clearly higher than the current 1.4mn units exported from Mexico.
- If Mexico’s auto makers can not meet the new labor content requirement, they will face an WTO most-favored (MFN) tariff of just 2.5%. Also for vehicle parts.
- Outlook: The peso and Mexican assets could perform well in a relative basis after the new USMCA.

Regards,