



# Julius Bär

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16 August 2017

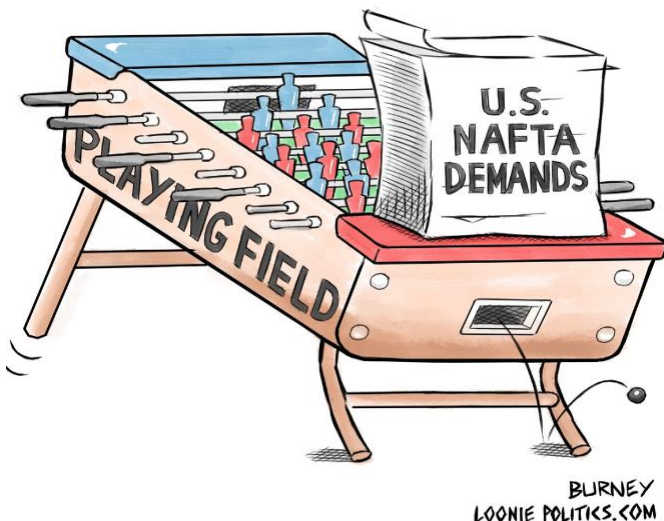
## CURRENCIES & MORE OUR INSIGHT INTO THE WORLD'S LARGEST MARKET

**Dollar: The start of NAFTA negotiations today will have a limited impact on currencies**  
**Pound: The UK handed in two scenarios for a customs arrangement but divorce has to be settled first**  
**Dollar: Dollar Index and Emerging Market Currencies higher on back of risk-on sentiment**

### Dollar: To NAFTA or not to NAFTA

Trump is on a collision course this week as renegotiations of the 23-year-old NAFTA trade pact will be launched today. Trump's aim is to shrink the growing trade deficit with Mexico as well as to tighten the rules of origin for cars and parts. With these renegotiations he wants to fulfill one of his core campaign promises: to make a better deal for American workers.

### U.S. NAFTA Demands



Source: Jeff Burney / Loonie Politics

Trump's ultimate aim: to produce more American factory jobs. The trade deficit with Mexico in autos and auto parts of 64bio \$ is to blame for pretty much everything. Interestingly, experts say that Trump's list of NAFTA objec-

tives is nearly identical to key parts of the Trans-Pacific Partnership (TPP) that Trump withdrew from. Ideally, Trump wants to broker a deal which would create more manufacturing jobs for Americans but at the same time doesn't force Americans to pay more. Mexico has presidential elections next year, therefore Mexican President Enrique Pena Nieto wants to have a deal done by year end. Note though that he cannot run again due to term limits. Mexico's Economy Minister Ildefonso Guajardo sees a 60% probability of NAFTA talks being settled by year end. Remember that the original NAFTA took years to negotiate. A 5 months renegotiation could be wishful thinking. Andres Manuel Lopez Obrador, the leading presidential candidate, promised voters to get tough on trade with the U.S. However, getting a trade deal approved during campaign season could pose difficult. For now, the peso is extending its two-day rally in line with emerging market peers as concerns over geopolitical tensions between the U.S. and North Korea have eased somewhat. In this entire scenario, do not forget that Canada also plays a big part. More on that to come in tomorrow's C&M.

**Conclusion:** We are not expecting the start of NAFTA renegotiations to have an impact on the peso in the near-term.

### Sterling: Brexit Continued

The U.K. outlined two potential visions for a customs arrangement with the European Union. One plan is called "a highly streamlined customs arrangement" with Britain extending customs declaration requirements while simplifying processes, negotiating waivers and increasing automation to prevent disruption at ports. They maintained that administration will be increased compared with being inside the customs union. In a second plan dubbed a "new customs partnership with the EU" no EU-UK customs

border will be needed. The UK would mirror EU requirements for imports if the final destination for goods will be the EU. For that, a tracking process, to keep goods that don't comply with EU trade policy in the UK, will be implemented. A repayment mechanism where importers who pay the higher of the two tariffs could claim a refund should the end destination have lower tariffs will also be implemented. The EU said it would carefully study the proposals but still defends its position that the divorce terms are needed to be settled first. € / £ seems to like the headlines, slowly approaching October 16 highs.

**€/£ approaching October highs**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** The euro bullish sentiment continues and we currently see no reason for the trend to reverse.

**QUICK NEWS HEADLINES (time in CET)**

The following two headlines might have an impact on currency markets today:

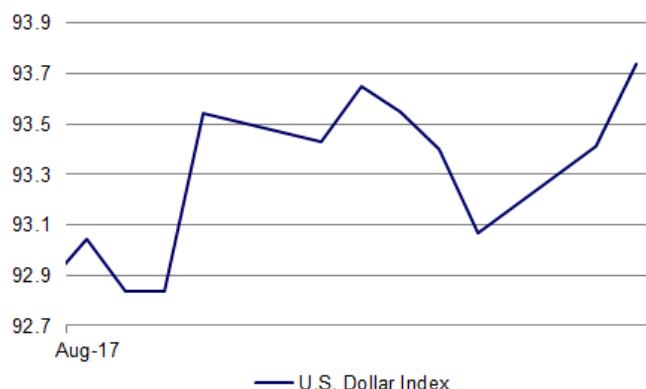
- CZ, HU, PL & IT GDP (09:00 – 10:00)
- UK: Unemployment Rate 3m (10:30)
- UK: Employment Change 3m /3m (10:30)
- Eurozone GDP Q/Q (11:00)
- US FOMC Meeting Minutes (20:00)

**Dollar: Risk-on leads dollar and EM higher**

The Asian session optimism filtered through into Europe with further easing of North Korean risks. The Dollar Index rose for the second consecutive day, with dollar gaining the most against yen and sterling. U.S. retail sales and trade data saw a positive reaction in the dollar as they advanced by the most this year. All eyes are set on tomorrow's FOMC Minutes for more clarity on their July meeting. The dollar was also supported by New York Fed

President William Dudley who said he would be in favour of one more rate hike this year. Emerging market currencies have gained on the back of risk-on mode with rand, peso and lira all higher. Gold has suffered since the beginning of the week, declining almost 1.5% over two days. Beware that any geopolitical risk headlines could easily trip the current state.

**DXY increase in Mid-August**



Source: Bloomberg Finance L.P., Julius Bär

**Conclusion:** The dollar is profiting from the risk-on sentiment and easing tensions but we would be wary for a reversal.

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