

The Mexican Senate approves USMCA

- Yesterday, the Mexican Senate approved the United States, Mexico and Canada trade agreement (USMCA) with 114 votes in favor, 4 against and 3 abstentions
- With this, we are waiting for the approval from the rest of the signing members, with special attention on the process in the US
- We still expect this latter country to approve the agreement towards the end of the year. Nevertheless, we cannot rule out that the process is delayed by the US Congress given the challenging political backdrop ahead of the 2020 Presidential Election
- We consider that this is an important step in order to reduce uncertainty in the trade front, despite not being able to rule out new threats against Mexico in this matter
- In conjunction with a more dovish stance from the Federal Reserve, we believe that the approval opens more possibilities for Banxico to start an easing cycle later this year. In particular, we still expect the central bank to begin this in the November 14th meeting with a 25bps rate cut

USMCA approved in Mexico by a wide margin. With 114 votes in favor, 4 against and 3 abstentions, the Mexican Senate approved the *United States, Mexico and Canada Agreement* (USMCA), substituting the North America Free Trade Agreement (NAFTA). Specifically, the Senate authorized: (1) The text signed by the three countries' mandataries on November 30th, 2018 in Buenos Aires, Argentina; and (2) six secondary agreements, two of which contain safeguards due to possible tariffs implemented by the US under the so-called Section 232 (for more details see: "*USMCA signature triggers the ratification process in the three countries*" published on November 30th, 2018 <[pdf](#)>; and "*Successful end to NAFTA renegotiation*" published on October 1st, 2018 <[pdf](#)>).

It should be noted that these include changes to labor laws that have already been approved by the Mexican Congress, considering these were necessary to align our country's laws in this matter to what had already been outlined in the USMCA (for more information see: "*The Lower Chamber approved the Labor Reform*" published on April 12th <[pdf](#)>).

With this, the approval process in Mexico is practically over, awaiting only the signature from President López-Obrador for its publication in the Official Gazette (*Diario Oficial de la Federación*). Given that the final text has not been ratified either in Canada or the US, if changes were to be made, this would have to be approved again by the Mexican Senate.

The approval process of the USMCA in the US is still highly uncertain. In this country, the ratification process started on May 30th, with a letter from the US Trade Representative, Robert Lighthizer, to the US Congress announcing their intent to present the treaty for its approval. This letter kick started a maximum period of 30 days for the administration to submit the treaty to Congress (June 29th). After this, the next steps for approval are the following:

June 20, 2019

www.banorte.com
@ analisis_fundam

Gabriel Casillas

Chief Economist and Head of Research
gabriel.casillas@banorte.com

Delia Paredes

Executive Director of Economic Analysis
delia.paredes@banorte.com

Juan Carlos Alderete, CFA

Senior Economist, Mexico
juan.alderete.macal@banorte.com

Francisco Flores

Economist, Mexico
francisco.flores.serrano@banorte.com

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Steps for the ratification of USMCA in the US

Steps	Concept	Maximum number of sessions
1	Consideration by the Ways and Means Committee of the House of Representatives	45
2	Debate in the House of Representatives	15
3	Hearings in the Senate Finance Committee	45
4	Debate in the Senate	15

Source: Center for Strategic and International Studies

It is important to mention that this timeline reflects the maximum number of sessions allowed assuming that the *Trade Promotion Authority* (TPA) is followed, which is intended to speed-up the process. Assuming a sequential framework, the total number of sessions would be 120. Nevertheless, there is the possibility that the process is done simultaneously in both Congress and the Senate. Moreover, it should be taken into account that: (1) On average, 3 legislative sessions take place in a given week, which would result in 20 to 40 weeks in total; and (2) the process should not necessarily follow the TPA procedure, which that it is at the discretion of House majority leader Nancy Pelosi, which has ultimate control on the timing and passage. Given this, the evolution is highly uncertain as it depends to a great extent on negotiations and political will in this country.

Specifically, it is worth remembering that the Democratic Party retook the majority of the House in the mid-term elections held last November. In this context, the Congresswoman has said that they need more time to evaluate the agreement, looking for additional enforcement mechanisms for complying with labor and environmental standards, among others. This could even imply the need to reopen all the negotiation. The administration has said that this is not necessary, with USTR Lighthizer commenting recently that they are making progress resolving House Democrats' objections. On the other hand, President Trump and the Republican Party, which control the Senate, wish to accelerate the process in order to be approved before the August recess. This has the goal of avoiding budget discussions and the intensification of the 2020 presidential campaign.

Considering the backdrop ahead of the 2020 Election, Democrats have the option of using the approval process as a bargaining chip. We still believe that conditions are in place for an approval near the end of this year. Nevertheless, and given the highly polarized state of affairs between Democrats and Republicans along the inherent uncertainty about the process, we cannot discard additional delays.

The process in Canada should also be relatively simple. In this country, the process began on May 29th with the introduction of the agreement in the House of Commons. Given that the Prime Minister has already signed it, this instance can only discuss the agreement but is not allowed to reverse the signature or change the text. Nevertheless, a 21-legislative day period has to elapse in order to complete this requirement. The faculty of approval lies in the hands of the Cabinet, without the need of approving specific legislation.

Usually, the person in charge is the Minister of Foreign Affairs (Chrystia Freeland) although it can also be done by the Prime Minister, Justin Trudeau. In spite of the latter and only after the approval, implementation laws need to be passed in the country.

In this context, the Prime Minister will meet President Trump today in Washington, D.C. with the goal of pushing forward the approval in the US. He will also meet with Nancy Pelosi and Mitch McConnell with the same objective. This is particularly relevant considering that General Elections will take place in October, leaving room up until mid-September as a soft limit.

The market's attention will remain centered in the US. Given the process that needs to be followed and the political backdrop, financial markets will stay focused on its evolution in the US with the goal of assessing its probability of success and timing. Therefore and although the passage in Mexico is an important step to reduce uncertainty in the trade front, the possibility of new trade threats against Mexico is still there. Market participants remain focused on the migration deal that suspended the threat of implementing tariffs on all Mexican exports to the US. Based on the current calendar, the first key date in this front is July 22nd (45 days after the initial agreement). In our view, these tariffs will not be imposed, although new periods of stress could be in store in case that the US administration finds the measures implemented by Mexico in this front as insufficient.

On the other hand, we believe Banxico will continue considering the approval of USMCA as one of the main short-term risks for the Mexican economy. This would be the case given that the process is fraught by very high uncertainty about its timing, even with President Trump pushing to accelerate it. In a similar fashion, it is likely that the business sector continues operating in a highly uncertain environment due to this factor, limiting economic activity and with the risk of low growth as a relevant risk for the central bank. Lastly, we should also say that the Fed showed a significantly more dovish bias in its decision yesterday. As a result, we now expect a 25bps rate cut of the Fed funds rate on July 31st. For further details, please refer to: "*Decisión del FOMC – El Fed considera que no es momento de ser 'pacientes'*", [pdf](#) (only available in Spanish).

Based on our expectation that the USMCA will be approved by the end of this year, coupled with the more dovish stance by the Fed, among other factors, we continue to believe that the gradual reduction of uncertainty in coming months will be favorable for Banxico, allowing the central bank to find enough room to cut the reference rate by 25bps in its decision to be held on November 14th.

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GRUPO FINANCIERO BANORTE S.A.B. de C.V.
Research and Strategy

Gabriel Casillas Olvera	Chief Economist and Head of Research	gabriel.casillas@banorte.com	(55) 4433 - 4695
Raquel Vázquez Godínez	Assistant	raquel.vazquez@banorte.com	(55) 1670 - 2967

Economic Analysis

Delia María Paredes Mier	Executive Director of Economic Analysis	delia.paredes@banorte.com	(55) 5268 - 1694
Katia Celina Goya Ostos	Senior, Global Economist	katia.goya@banorte.com	(55) 1670 - 1821
Juan Carlos Alderete Macal, CFA	Senior Economist, Mexico	juan.alderete.macal@banorte.com	(55) 1103 - 4046
Miguel Alejandro Calvo Domínguez	Economist, Regional	miguel.calvo@banorte.com	(55) 1670 - 2220
Francisco José Flores Serrano	Economist, Mexico	francisco.flores.serrano@banorte.com	(55) 1670 - 2957
Francisco Duarte Alcocer	Analyst, Global Economist	francisco.duarte.alcocer@banorte.com	(55) 1103 - 4000 x 2707
Lourdes Calvo Fernández	Analyst (Edition)	lourdes.calvo@banorte.com	(55) 1103 - 4000 x 2611

Fixed income and FX Strategy

Alejandro Padilla Santana	Head Strategist – Fixed income and FX	alejandro.padilla@banorte.com	(55) 1103 - 4043
Santiago Leal Singer	FX Senior Strategist	santiago.leal@banorte.com	(55) 1670 - 2144
Leslie Thalia Orozco Vélez	Fixed Income and FX Strategist	leslie.orozco.velez@banorte.com	(55) 5268 - 1698

Equity Strategy

Manuel Jiménez Zaldivar	Director Equity Research — Telecommunications / Media	manuel.jimenez@banorte.com	(55) 5268 - 1671
Victor Hugo Cortes Castro	Technical Analysis	victorh.cortes@banorte.com	(55) 1670 - 1800
Marissa Garza Ostos	Equity Research – Conglomerates / Financials/ Mining / Petrochemicals	marissa.garza@banorte.com	(55) 1670 - 1719
José Itzamna Espitia Hernández	Equity Research – Airlines / Airports / Cement / Infrastructure / REITs	jose.espitia@banorte.com	(55) 1670 - 2249
Valentín III Mendoza Balderas	Equity Research – Auto Parts/ Consumer Discretionary / Real Estate / Retail	valentin.mendoza@banorte.com	(55) 1670 - 2250
Jorge Antonio Izquierdo Lobato	Analyst	jorge.izquierdo.lobato@banorte.com	(55) 1670 - 1746
Itzel Martínez Rojas	Analyst	itzel.martinez.rojas@banorte.com	(55) 1670 - 2251

Corporate Debt

Tania Abdul Massih Jacobo	Director Corporate Debt	tania.abdul@banorte.com	(55) 5268 - 1672
Hugo Armando Gómez Solís	Senior, Corporate Debt	hugo.gomez@banorte.com	(55) 1670 - 2247
Gerardo Daniel Valle Trujillo	Manager, Corporate Debt	gerardo.valle.trujillo@banorte.com	(55) 1670 - 2248

Wholesale Banking

Armando Rodal Espinosa	Head of Wholesale Banking	armando.rodal@banorte.com	(55) 1670 - 1889
Alejandro Eric Faesi Puente	Head of Global Markets and Institutional Sales	alejandro.faesi@banorte.com	(55) 5268 - 1640
Alejandro Aguilar Ceballos	Head of Asset Management	alejandro.aguilar.cebillos@banorte.com	(55) 5268 - 9996
Arturo Monroy Ballesteros	Head of Investment Banking and Structured Finance	arturo.monroy.ballesteros@banorte.com	(55) 5004 - 1002
Gerardo Zamora Nanez	Head of Transactional Banking, Leasing and Factoring	gerardo.zamora@banorte.com	(81) 8318 - 5071
Jorge de la Vega Grajales	Head of Government Banking	jorge.delavega@banorte.com	(55) 5004 - 5121
Luis Pietrini Sheridan	Head of Private Banking	luis.pietrini@banorte.com	(55) 5004 - 1453
René Gerardo Pimentel Ibarrola	Head of Asset Management	pimentelr@banorte.com	(55) 5268 - 9004
Ricardo Velázquez Rodríguez	Head of International Banking	rvelazquez@banorte.com	(55) 5004 - 5279
Victor Antonio Roldan Ferrer	Head of Corporate Banking	victor.rolan.ferrer@banorte.com	(55) 5004 - 1454