
From: Xavier Avila [REDACTED]
Sent: 3/28/2018 7:27:40 PM
To: Paul Barrett [REDACTED]
CC: Martin Zeman [REDACTED]; Stewart Oldfield [REDACTED]
Subject: FW: Mexico - NAFTA euphoria?

MXN holding well...

From: Sebastian Livesey (DEUTSCHE BANK SECURI) [mailto:[REDACTED]]
Sent: Wednesday, March 28, 2018 6:49 PM
Subject: Mexico - NAFTA euphoria?

The last month has been good for the peso. In a time of fairly broad based EMFX nausea it has held in well and the last few days really gained ground on a TWI basis. Increasingly positive body language from Lighthizer and Ross on NAFTA progress as well as the exemption of Mexico and Canada from the steel and aluminum tariffs were the main impetus for the move. An article from Inside Trade (yes it is a real publication) on Monday indicating a breakthrough was likely this week prompted a more extended break of 18.50 and the 200dma lurking below. RM risk addition (visible in MBONOs over the last week as well) was a key driver of the move flow-wise. Is this a bit too much to hope for or are we finally going to get the MXN rally for which we have been waiting?

Our trade consultants (and reality itself) cast a pall on the chances of a real NAFTA "agreement in principle" any time in the next few weeks. There is another round of talks scheduled for 12 April and given recent flexibility from the US around rules-of-origin, the chances are good that a number of chapters could be closed. Investor dispute resolution remains an open question and an important one for Canada. But is hope a good enough reason to own the peso? Let's remember who is sitting in the White House. If China gives ground on trade, will NAFTA need some tough love?

Ultimately it is hard to logically expect major progress on NAFTA before the next round. But the type of strong hands that have been buying the peso suggest to me that it will not turn quickly either. Signing a deal into law before Mexican elections is basically impossible and AMLO is real holistic risk. But the chances of a NAFTA dissolution have dramatically decreased as its main detractor has gone mostly silent / positive. The beginning of proper election season (with its 48 minutes a day of mandatory political commercials) is a bigger risk than trade disappointment. Not chasing the MXN here but would see bounces back towards 18.60 as opportunities to add. TIIE has lagged the MXN and MBONO rally after leading it before. Still prefer 5y5y receivers there.

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