

Height Commentary

Clayton Allen
(202) 629-0029
callen@heightllc.com



Trade

With Steel and Aluminum Tariffs, Trump Increases the Difficulty of Trade Talks

THE TAKEAWAY

We believe that President Trump's [decision](#) to apply steel and aluminum tariffs to the EU, Mexico, and Canada - in the midst of larger trade talks with all three parties - will delay progress on future negotiations, even as Commerce Secretary Ross highlighted the administration's desire to continue negotiating. There is a counter argument that the administration's actions are simply the maximal application of Trump's brinksmanship style of negotiating, but this appears at odds with statements from Canadian PM Trudeau and the Mexican delegation. Absent some significant US concessions in the coming week, NAFTA approval appears likely to be pushed into 2019 as we approach the latest possible date a deal may come together and still receive a Congressional vote in 2018. Domestically, trade is rapidly becoming a point of contention between Trump and other Republicans, setting the table for increased intraparty conflict heading into midterm elections. This is exacerbated by increasingly [contentious](#) disagreements among Trump's advisors about how best to approach trade policy, which in turn have spilled into public view and highlighted the lack of a cohesive approach within the White House. This lack of cohesion gives rise to an increasing level of unpredictability. Almost any outcome now seems feasible, and prediction is hampered by the understanding that policy is driven now more than ever by the minute-to-minute decisions of President Trump.

Height Commentary

Clayton Allen
(202) 629-0029
callen@heightllc.com



Trudeau's [announcement](#) that he canceled a trip to meet with Trump to finalize a new NAFTA agreement over US inflexibility in negotiating a sunset provision hints at a possible motivation for the US including Canada and Mexico on the tariff list. Yesterday, on May 31, Canadian Prime Minister Justin Trudeau announced that he canceled a trip to Washington scheduled for earlier this week when the Vice President Mike Pence demanded Canada accept a five-year "sunset clause" as a precondition to further negotiation. The sunset clause, in general, would force negotiation of a new NAFTA every five years or allow the existing agreement to lapse. This appears to be a red line issue for both Canada and Mexico, and US demands that it be included are a significant obstacle to successful re-negotiation. The timing of Trudeau's decision, canceling his trip reportedly quite recently, makes the timing of yesterday's tariff announcement from Trump appear linked to the Canadian rejection of a sunset clause precondition. This matches with our understanding of how the decision to include Canada and Mexico was rolled out, with both nations believing up until the last minute that they would see their exclusions extended.

This is matched by [comments](#) from the Mexican delegation, which dismissed Trump's announcement as posturing and appeared to reduce expectations for near-term progress in negotiations. Mexican Economy Minister Ildefonso Guajardo [characterized](#) Trump's announcement as political posturing "meant to send, more so, a political message about toughness and determination ..." rather than a justified action to correct a trade imbalance. In discussing the state of discussions with the US administration, he said that while US Commerce Secretary Wilbur Ross and others may want negotiations to proceed, progress will "be as short, or as fast or as far as the positions be logical and constructive in the re negotiation of the agreement..." In our view, this statement highlights the negative impact of imposing steel and aluminum tariffs on the willingness of Mexico's negotiators to offer additional concessions, which in turn limits expectations for progress. Guajardo highlighted this in his [comments](#), saying that as of now it appears "very difficult" to reach a new agreement ahead of the July 1 Mexican elections.

To reach a deal this year, the White House would need to offer significant concessions, which, while not impossible, appears unlikely at this time. The [unpredictable](#) way in which Trump has developed trade policy thus far gives rise to a chance that a NAFTA deal could still come together, but we see very slim odds that this occurs.

Trump already faces significant political blowback in the US over his trade policy, and a failure to negotiate a new NAFTA in 2018 could add to this. House Ways and Means Committee Chair [Kevin Brady](#) (R-TX), Senate Finance Committee Chair [Orrin Hatch](#) (R-UT), Sen. [Pat Toomey](#) (R-PA), and Sen. [Ben Sasse](#) (R-NE) have all criticized Trump's trade policies in recent days, adding to a growing [sense](#) among Republicans that Trump is losing the larger trade war. We expect that a failure to successfully negotiate a new NAFTA will add to this criticism, and that could negatively impact GOP messaging on the economy in the midterm elections this fall.

Much of the instability and uncertainty, which seems to be driving criticism almost as much as the decision themselves, is caused by a growing disagreement among Trump's advisors as to the best way to proceed. The clearest example of this struggle for influence with the President was Senior Advisor Peter Navarro's public [rebutal](#) of Treasury Secretary Steve Mnuchin over the latter's [announcement](#) that the trade war was "on hold." This is not the only point of conflict, and we expect that [arguments](#) within the administration will continue to drive significant instability in trade policy.

1 JUNE 2018

Height Commentary

Clayton Allen

(202) 629-0029

callen@heightllc.com



RISKS

The legislative and regulatory agendas are subject to change at the discretion of leadership. Unprecedented economic conditions could instigate unanticipated and/or sweeping shifts in policy. Predicting the future is a hazardous endeavor and economic / market forecasting is an imprecise science. Actual outcomes may differ substantially from our forecasts. The predictions and opinions expressed herein are subject to change at any time.

ANALYST CERTIFICATION

I, Clayton Allen, certify with respect to each security or issuer covered in this research report that (i) the views expressed in this research report accurately reflect my personal views about those subject securities or issuers and (ii) no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

DISCLAIMER

This report is intended for the private use of Height Analytics' and Height Securities' clients and prospective clients. Reproduction or editing by any means, in whole or in part, or any other unauthorized use, disclosure or redistribution of the contents without the express written permission of Height Analytics is strictly prohibited. The information contained in this report has been obtained from sources which Height Analytics believes to be reliable; however, Height Analytics does not guarantee the accuracy, completeness or timeliness of any information or analysis contained in the report. Opinions in this report constitute the personal judgment of the analysts and are subject to change without notice. The information in the report is not an offer to purchase or sell any security. The information herein is not intended to a complete analysis of all material facts representing any company discussed herein nor by itself is this report sufficient upon which to base an investment decision. This report may be distributed by Height Securities, LLC, member FINRA/SIPC. Height Analytics and Height Securities are affiliates.

Users assume the entire cost and risk of any investment decisions they choose to make. Height Analytics shall not be liable for any loss or damages resulting from the use of the information contained in the report, or for errors of transmission of information, or for any third party claims of any nature. Nothing herein shall constitute a waiver or limitation of any person's rights under relevant federal or state securities laws.