



Basis Points – June 4, 2019

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Above the Fold

Investors shifted away from risky assets on Friday and into Monday as trade concerns spread south. On May 30, the President announced an unexpected 5% tariff on all goods imported from Mexico in response to the growing wave of illegal immigrants streaming across our borders. The tariff is set to begin July 1 and will increase 5% monthly until reaching 25%, unless the two sides come to an agreement.

From produce and auto parts, to appliances, cars, beer and much more, Mexico has eclipsed China and Canada in the first quarter to become our largest trading partner, with roughly \$50 billion in monthly imports and exports exchanged so far this year.

While the goal is likely to bring Mexican officials to the bargaining table to formally help fund an effective border security system, the shock of the announcement could rattle businesses on both sides. Mexico has much more to lose than the U.S. on this deal as well, as 80% of its exports go straight to America – and if the tariffs were to be imposed, Mexico's economy could easily slip into recession.

In terms of optics, the tariffs support Trump's 2016 campaign promise to build a wall, funded by Mexico. Mexico's foreign minister, Marcelo Ebrard, is headed to Washington tomorrow for talks aimed at resolving the trade dispute.

On Sunday, China issued another public display of defiance with a white paper detailing its take on the negotiation breakdown. The communist nation essentially turned the narrative completely around on the U.S., blaming America for no deal getting done. The paper accuses the U.S. of "unreasonable demands" and implies it uses "beggar-thy-neighbor unilateralism." Experts believe that in order for trade talks to progress, America will have to make concessions and approach China with solutions. That said, many also

believe that behind the rhetoric is a true desire and willingness to get a deal done.

What's Ahead

The start of a new month brings fresh employment data. ADP non-farm employment change is due out tomorrow – analysts expect 185,000 new jobs to be reported there. ISM non-manufacturing PMI is also due out; look for a slight rise to 55.6.

Three Things

1. *Cut Competition* – The Mexican tariff news triggered a rethink of interest rate trajectories by several major banks. JP Morgan Chase now expects two rate cuts (25 basis points each), while Barclays is looking for a huge 0.75% cut by end of year. Their sentiments were echoed in Federal Fund futures, which are projecting a 50 basis point decline in 2019.
2. *No Flowers This Year* – The well-known floral delivery company FTD filed for bankruptcy protection and indicated it could be out of business by summer if it didn't raise nearly \$218 million in debt obligations. FTD was founded in 1910.
3. *Alexa Enticing Builders* – In another bold move to broaden Amazon's reach, the company's Smart Properties Team is partnering with home builders, property managers and hoteliers to install millions of discounted smart speakers into new and existing properties. Amazon has even partnered with Zego to facilitate rent payments and maintenance requests.

Did You Know?

Mexico, officially called the United Mexican States, is the world's largest Spanish-speaking nation, but also recognizes 68 official languages. It is also the world's top silver producer and No. 1 exporter of beer globally. The border between Mexico and the U.S. is the second longest in the world; the U.S.-Canadian border is the first.

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