



# AURORA

## Trade War Update: Stay at the USMCA

Dimitris Valatsas  
Chief Economist  
dimitris@auroramacro.com  
+12038088132

Daniel Lansberg-Rodriguez  
Managing Director  
daniel@auroramacro.com  
+12038245739

Diego Marroquín Bitar  
Senior Advisor  
diego@auroramacro.com  
+12024154876



# The USMCA endzone

- We think the North American trade war of 2025 will end with a **tough yet accelerated renegotiation** of USMCA—and tariff-free trade for most goods thereafter.
- A period of **maximum uncertainty for U.S. trade** will start next week: high stakes negotiations, new tariffs, potential retaliation, and political brinkmanship.
- **Canadian elections on April 28** should provide the political stability needed for the USMCA renegotiation to proceed in earnest.
- **Fortress North America** - Trump will likely push USMCA partners to limit Chinese imports and potentially mirror other U.S. tariffs. Compliance is likely given political and economic pressure.
- **Intra-regional trade boom:** if we are right, the intra-North American trade share will exceed 60% by 2027 as the U.S. cuts back on global trade and stays in USMCA.
- Economic and market impact: restricted trade flows in North America will lead to **higher inflation** across all three countries, but as the tariff endgame becomes clearer, an oversold CAD may benefit. MXN will recover lost ground vis-a-vis USD from this scenario.
- **Slowdown risk:** all three North American economies still face a sharp growth slowdown in 2025—but should avoid a recession.

## Tariff/Reprieve Dates

**Feb 1:** Additional 10% tariffs imposed on all Chinese imports on top of existing tariffs

**Mar 4:** Additional 10% tariffs on Chinese imports imposed on February 1st doubled to 20%

**Mar 5:** One month reprieve for 25% tariffs on Canadian and Mexican automakers

**Mar 6:** Goods from Mexico and Canada covered under the USMCA exempted from tariffs

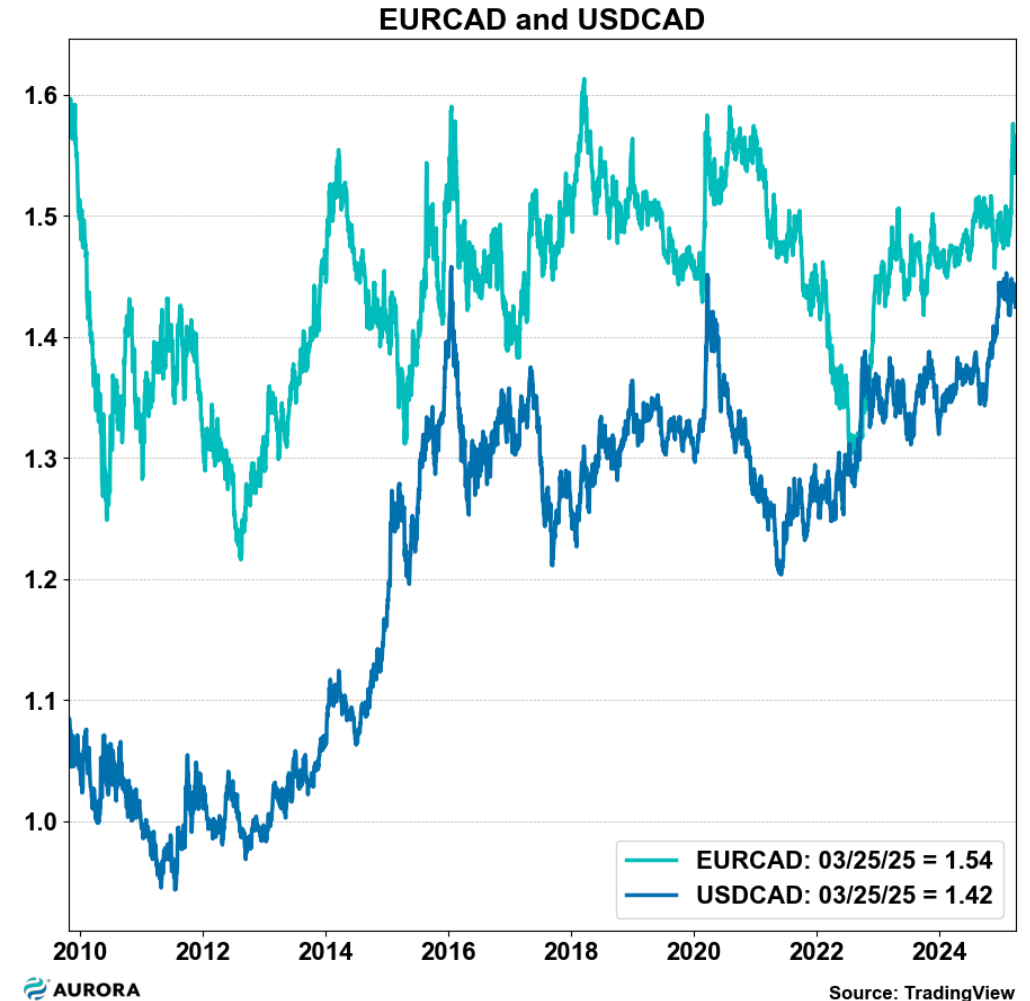
**Mar 12:** Global 25% tariffs on steel imports reinstated. Global tariffs on aluminum imports increased from 10% to 25%

**Apr 2:** Under the IEEPA, the U.S. intends on implementing reciprocal tariffs on any country that imposes tariffs on U.S. goods and employs other [non-tariff barriers](#) including “currency manipulation, unfair funding, and labor suppression.”



# The North American Trade War of 2025

- **Timeline of Trump's Executive Orders (EOs) on USMCA partners:**
  - **Feb 1, 2025: 25%** tariffs announced on all Canadian and Mexican imports, citing national security concerns related to illegal migration and fentanyl flows (IEEPA tariffs)—then **postponed** on Feb 3, 2025.
  - **March 6, 2025:** two additional EOs delay tariffs until April 2, 2025, for USMCA-qualifying goods.
  - **March 12, 2025:** Steel & Aluminum tariffs take effect including for USMCA partners. Ontario threatens to impose 25% tariff on electricity exports to U.S. states
  - **April 2, 2025:** Reciprocal and VAT tariffs to take effect.
- **Takeaways: USMCA goods vs non-USMCA goods**
  - The U.S. has drawn a distinction between USMCA and non-USMCA goods—suggesting it remains committed to the treaty.
  - In principle, USMCA goods are exempt from tariffs, though aluminum and steel have already been hit.
  - All other goods set to pay a 25% tariff starting April 2, 2025.
  - Non-USMCA potash & oil from Canada receive a lower 10% tariff exception.
  - De minimis duty-free treatment remains for eligible shipments.
- **Short-term pain:**
  - As of Dec 2024, 50% of Mexican exports to the US would face tariffs and more than 60% Canadian goods would be hit.
  - We still expect significant **supply chain disruptions and price spikes** in key sectors (autos, steel, aerospace, manufacturing).

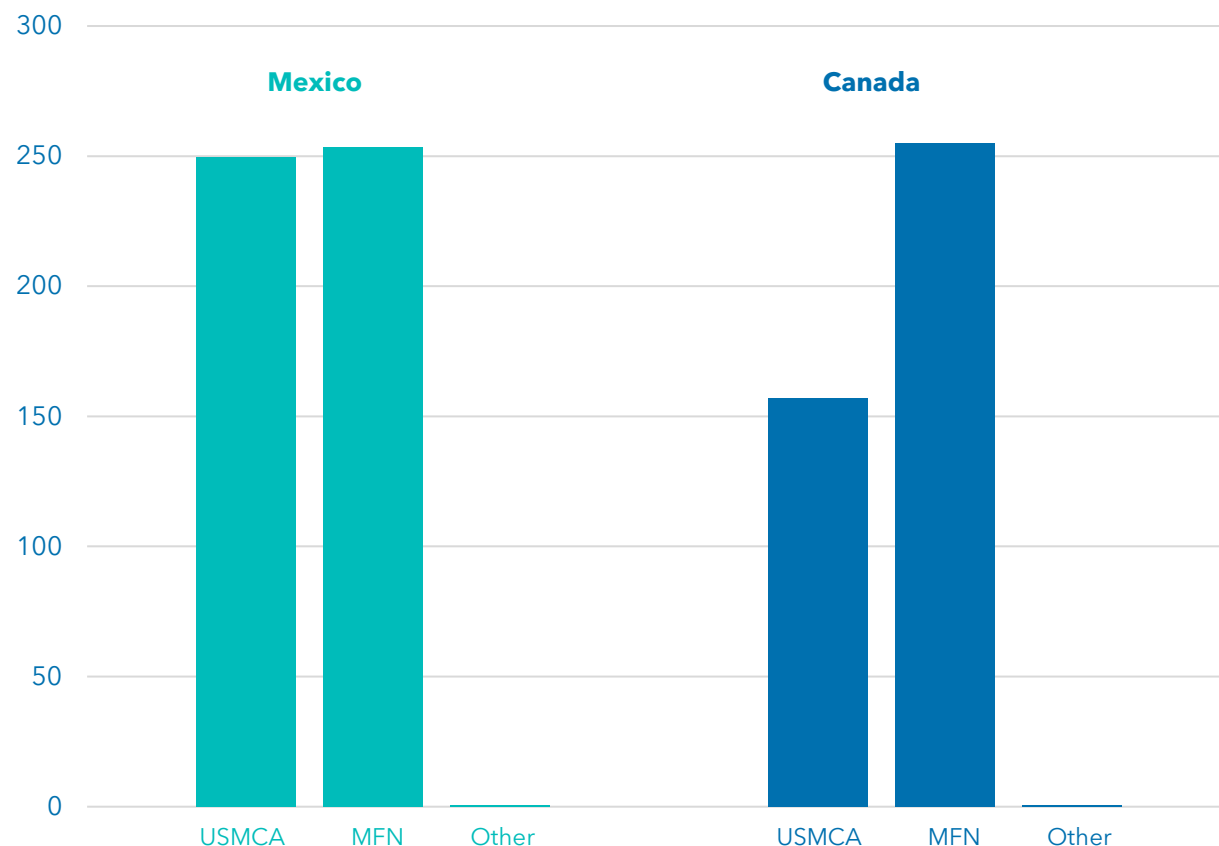




## U.S. - The Worst is Yet To Come: Sectoral Winners and Losers

- The U.S. may be driving this policy, but it is not immune to the **stagflationary shock**. A large share of non-USMCA goods are inputs for U.S. industrial production.
- Exemptions for USMCA goods, an accelerated negotiation timeline, and applying pressure to bolster to North American supply chains can ameliorate the pain.
- **Mounting Pressure and Retaliation Risk:** Autos and agribusiness will intensify lobbying to reverse tariffs. We can expect increased trade tensions and potential counter-tariffs if negotiations falter.
- **The winners:** USMCA-compliant manufacturers (autos, aerospace, industrial), U.S.-based reshoring & nearshoring firms benefiting from realignment, agile Mexican/Canadian exporters that can pivot to USMCA-compliant sourcing.
- **The losers:** China-dependent supply chains in Mexico & Canada like electronics, retail & consumer goods hit by higher import costs, U.S. businesses reliant on global (non-USMCA) suppliers.
- **Erosion of certainty:** Even if USMCA is successfully renegotiated and extended—our base case—constantly changing trade terms erodes investor certainty and threatens long-term investment flows in North America's supply chains.

Canada & Mexico's U.S. Exports Under USMCA vs. Other Programs



Note: 'Other' programs include exports whose country of origin is unknown, the Agreement on Trade in Civil Aircraft, and the Agreement on Trade Pharmaceutical Products

Source: U.S. International Trade Commission





# Mexico: No Other Options

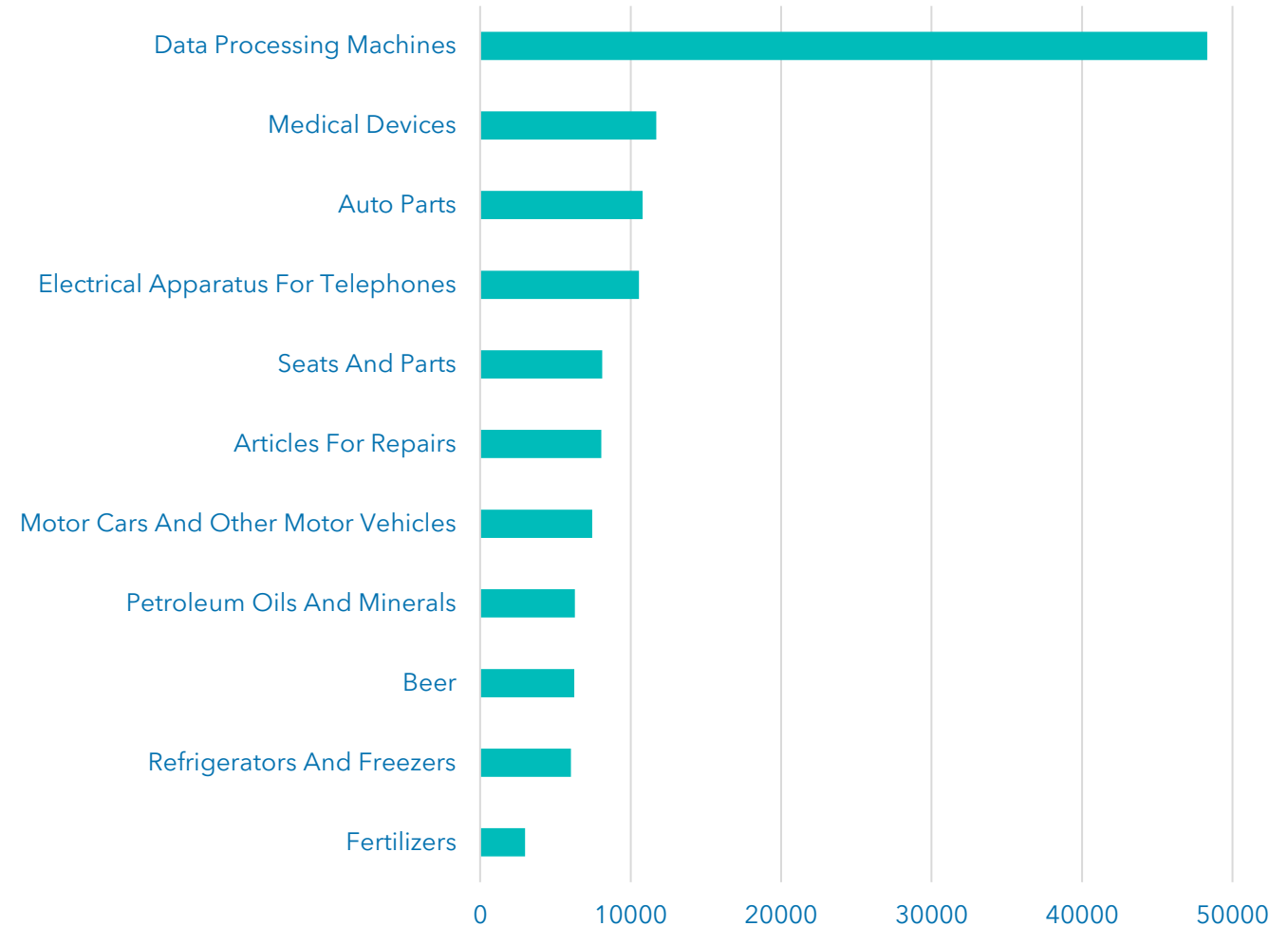
- **Main industries impacted by IEEPA tariffs:**

- Electronics, auto parts, medical devices, oil, beer, and appliances.
- We expect that Mexico's share of USMCA-compliant goods can increase up to 80-85% in 2025 from 50% in 2024.

- **Consumer and business impact:**

- Higher costs for U.S. consumers as intermediate goods become more expensive.
- U.S. manufacturers face rising input costs, reducing competitiveness.
- Mexican auto content currently penalized more than Korean & Japanese cars with no U.S. content—a situation that is unlikely to last.
- Total goods trade between Mexico and the U.S. was estimated at \$839 billion in 2024, \$257 billion more than China.

**Top Mexican Non-USMCA Exports to the U.S. in 2024 (US\$, Millions)**



**Source: U.S. International Trade Commission**



# Mexico: No Dauphine Left Behind

- **I, Claudia**

- The trade crisis doubles as a political opportunity for President Sheinbaum, enabling her to independently position herself as indispensable Trump whisperer, even as her predecessor AMLO continues to dominate Congress and influence her administration.
- Sheinbaum's pragmatic diplomacy contrasts effectively with AMLO's nationalist style.
- Her approval ratings now exceed AMLO's peak popularity, expanding her appeal beyond traditional Morena supporters.
- However, AMLO's persistent control over Congress and administration continues to constrain her autonomy.
- Her current popularity provides critical leverage, potentially allowing greater influence over policy and personnel decisions without openly challenging AMLO.
- The tension between Sheinbaum's rising independence and AMLO's lingering influence will shape Morena's internal dynamics ahead of the 2027 midterms.





# Canada: Shock, Surprise, and Patriotism

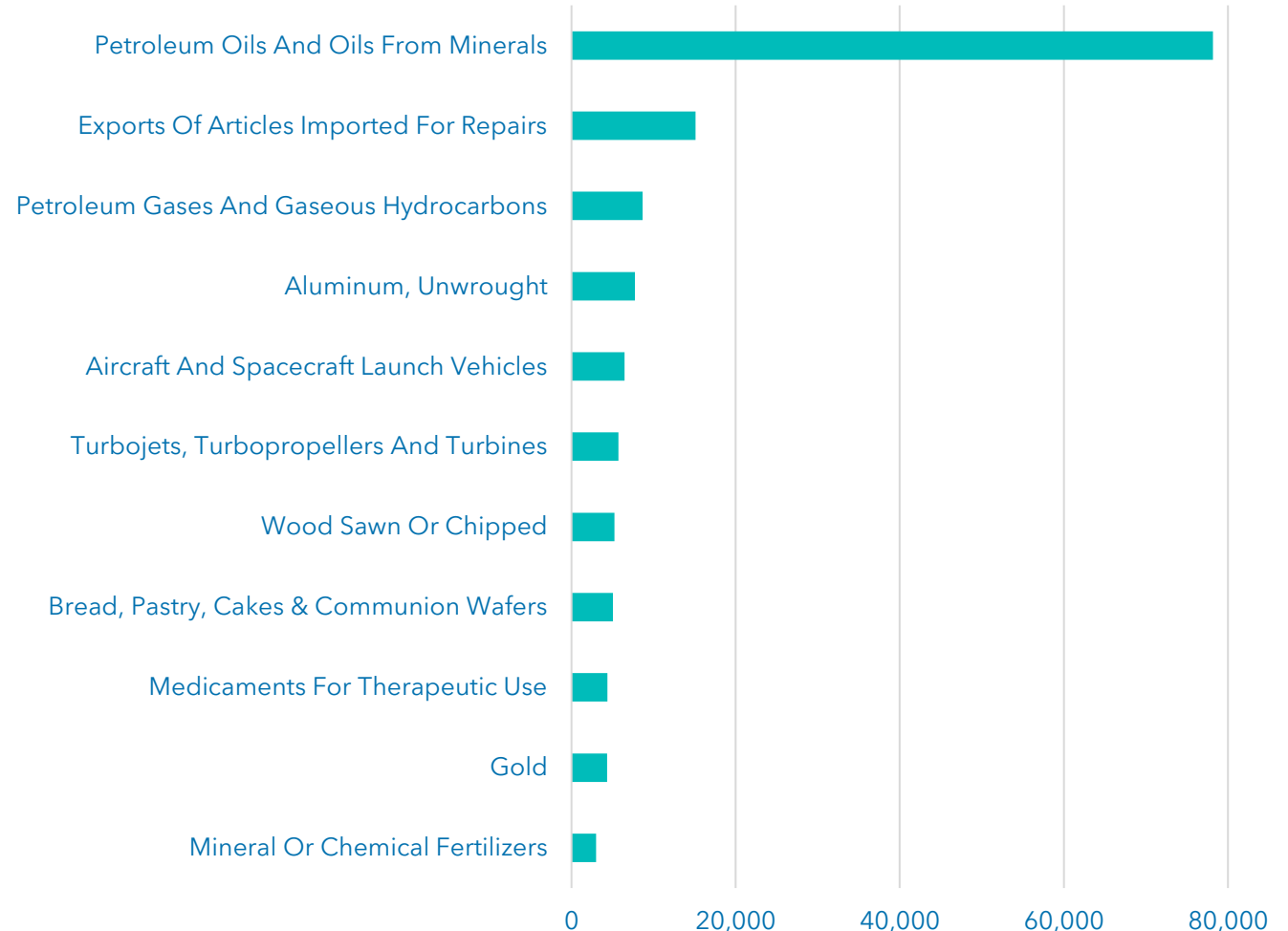
- **Main industries impacted by IEEPA tariffs:**

- Oil and gas, aluminum, aerospace, lumber, and medical devices
- We expect that Canada's share of USMCA-compliant goods can increase up to 80% in 2025 from 38% in 2024.

- **Consumer and business impact:**

- Without energy exports, Canada runs a trade deficit with the U.S. Its primary U.S. exports are energy and intermediate goods.
- Tariffs will lead to the loss of Canadian customers for U.S. products and growing nationalist reactions against U.S. consumer goods, as seen in Ontario and Manitoba.
- Total goods trade between Canada and the U.S. was estimated at \$762 billion in 2024.
- Canada will hold federal elections on April 28, which should provide the political stability necessary to enter negotiations in earnest.

**Top Canadian Non-USMCA Exports to the U.S. in 2024 (US\$, Millions)**



**Source: U.S. International Trade Commission**



# USMCA Review: Bigger, Tougher, Faster

- **Immediate Priorities for the Trump administration:**

- Stricter Automotive Rules of Origin: Tightening regional content requirements.
- Enhanced China containment: increased limits to Chinese trade (tariffs) and investment (FDI screening).
- Supply Chain Integrity: Enhanced traceability and “forced labor” (i.e. anti-China) enforcement.
- Data Sovereignty: Uniform cross-border data protection standards.
- Strategic Resource Access: Increased access to Canadian dairy (supply management system) and critical minerals.
- Digital Policy Alignment: Addressing Canada's digital services tax and Online Act.

Contrary to official timelines, **the review is underway**. Confirmation of Jamieson Greer as United States Trade Representative on February 26, 2025, signaled immediate commencement.

**We expect rapid, decisive action** on key negotiation points, far ahead of the 2026 deadline.

## USMCA Key Official Dates

**November 30, 2018:** USMCA signed by the United States, Canada, and Mexico.

**December 19, 2019 & January 7, 2020:** USMCA Implementation Act is approved by the U.S. Congress

**January 29, 2020:** USMCA signed into law

**July 1, 2020:** USMCA entered into force.

**Early October 2025:** Federal Register notice date for public comment and public hearing date on whether the United States should extend the pact.

**Early January 2026:** USTR report to Congress due on:

- Issues the United States wants to address in the review
- Assessment of the operation of USMCA.
- USTR's position with respect to whether to the U.S. should extend the term of the USMCA until 2042

**July 1, 2026:** Joint Review of USMCA to begin.





# Trump's Trade Strategy: Not All Tariffs are Equal

## • Types of U.S. Tariffs & Their Outlook

### ✦ 1. Tariffs to Boost U.S. Manufacturing – Here to Stay

- Steel & aluminum tariffs designed to make foreign production less attractive relative to U.S. manufacturing.
- This is a long-term protectionist measure that is unlikely to be lifted, regardless of trade negotiations.

### ✦ 2. Geopolitical Tariffs – Likely to Escalate

- Punitive tariffs on rivals (e.g., Venezuelan oil, China) are part of broader strategic competition.
- Expect further escalation as retaliation from affected countries increases.

### ✦ 3. Negotiation Leverage Tariffs – Temporary but Recurring

- IEEPA tariffs on Mexico & Canada are a bargaining tool in USMCA negotiations.

- Short-term but disruptive—these tariffs will come and go as trade talks evolve.

❖ The "Damocles Sword" of trade: Even if removed, these tariffs can return at any moment, creating uncertainty for businesses and investors.

❖ Pricing Strategies: Some companies will pass costs to consumers, leading to inflationary pressures.

❖ Lobbying & Legal Challenges: Affected industries will pressure policymakers for tariff relief or exemptions.

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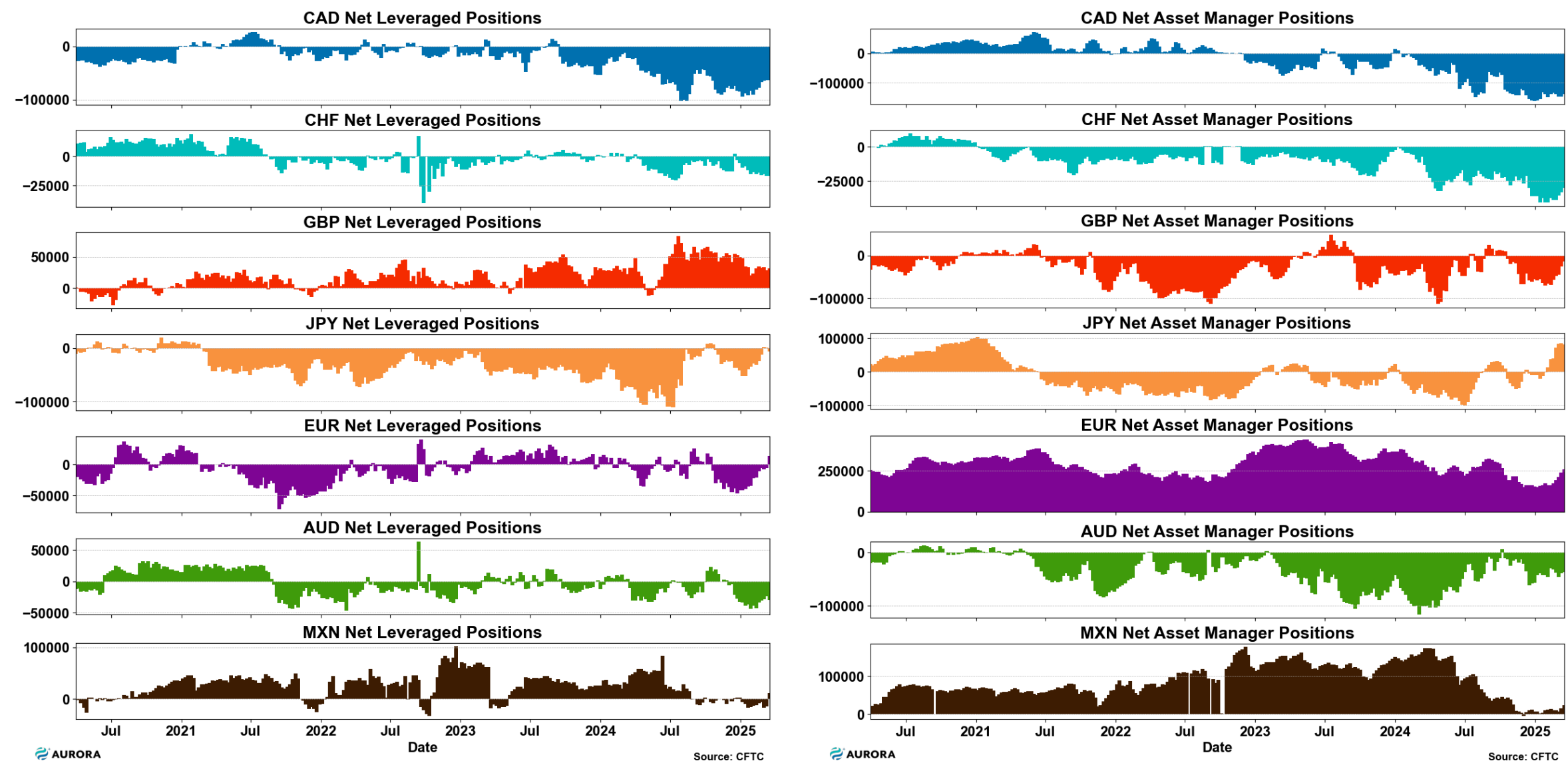


# USMCA: The FX Track Record





# Reminder: CAD is the most shorted major currency in the world





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