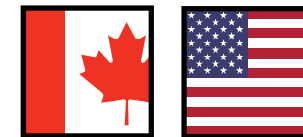


Canada/US Steel Trade: Just the Non-Alternative Facts



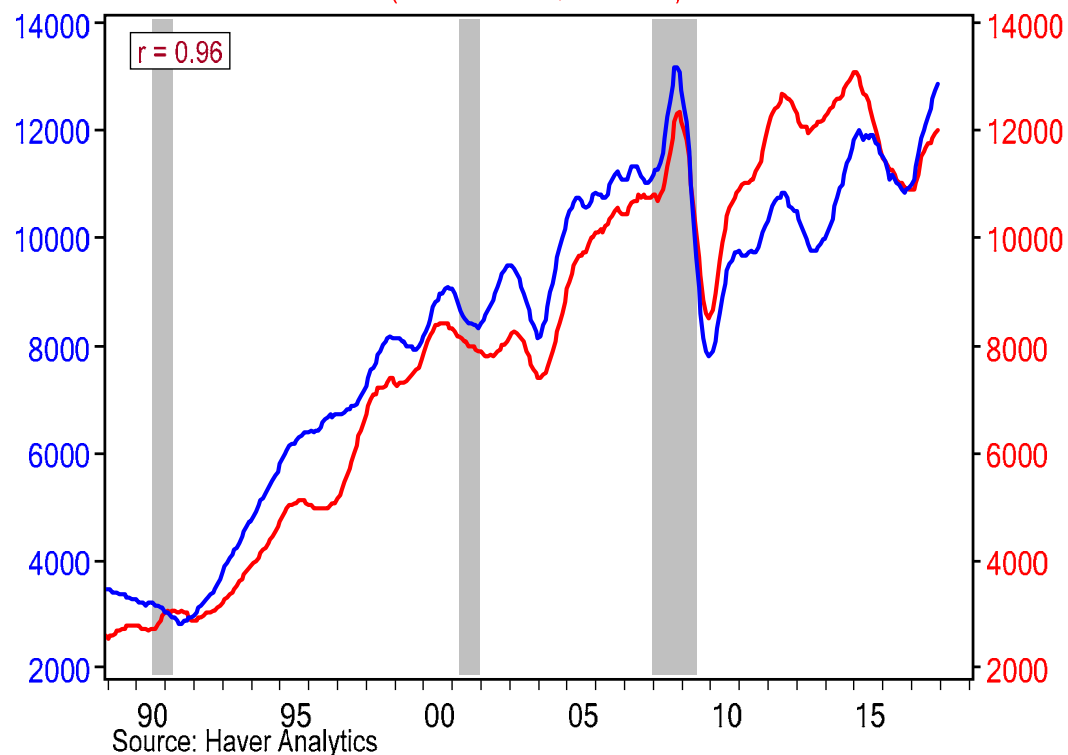
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Canadian and U.S. trade in raw and processed steel is well balanced. According to StatsCan's latest data, Canada exported a total of \$12.9 billion of these goods to the U.S. in 2017, up 17.7% from the prior year and is 3% of total exports to the States. Almost \$900 million of that total represents re-exports from other countries. Meantime, Canada imported \$12 billion of raw steel and products from the U.S. last year, up 10% from the prior year. The moderate trade surplus last year followed a consistent string of bilateral deficits in steel goods from 2009 to 2015 (inclusive). Stretching back to the start of the FTA in 1989, net trade in steel has tended to be in small Canadian surplus—with the ratio of exports to imports averaging about 1.06 to 1.00 (last year it was 1.07 to 1.00), or nearly balanced.

True, it is a different story for aluminum, where Canada is by far the main supplier for the U.S. market. Last year, Canadian sales of aluminum and articles to the U.S. totaled \$11.1 billion, compared with \$3.6 billion of imports. But that is a classic case of comparative advantage, i.e. low electricity prices (in Quebec particularly).

Canadian Exports of Iron, Steel and Products to the USA
 (12-month sum, \$ millions)

Canadian Imports of Iron, Steel and Products from the USA
 (12-month sum, \$ millions)



Steel and Aluminum Exports: A Provincial Look

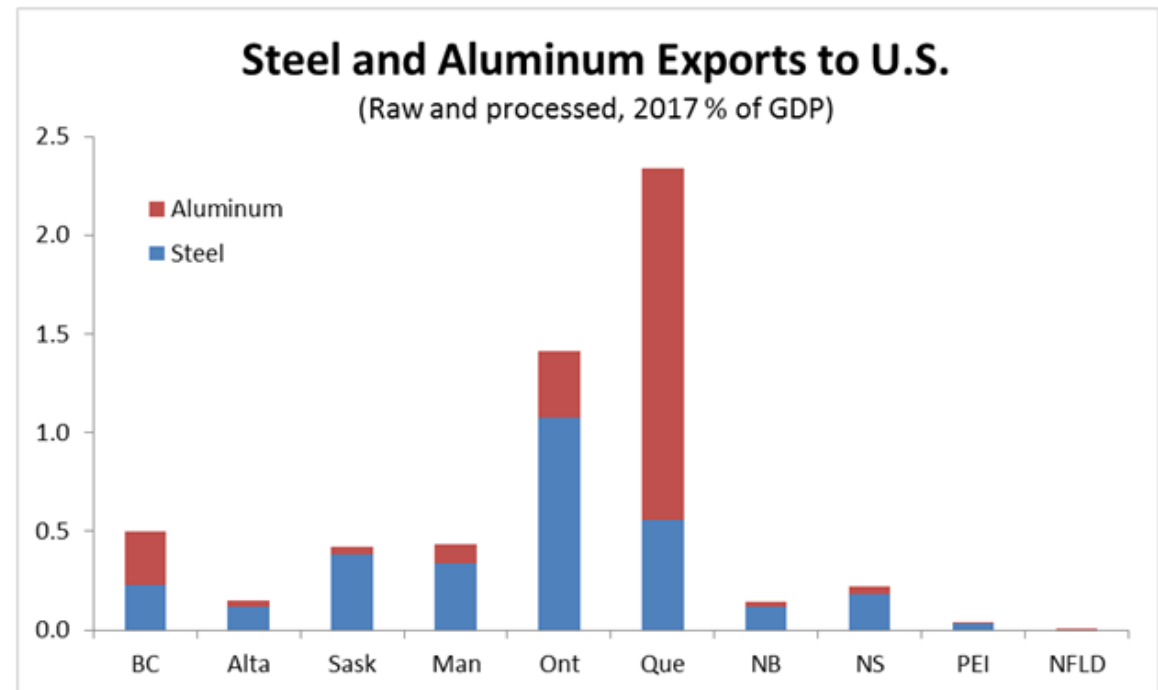


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Canadian steel and aluminum exports to the U.S. totaled \$24.1 billion in 2017, or roughly 1.1% of GDP. Regionally, Ontario and Quebec are most exposed, with exports from the latter province weighing in at nearly 2.5% of GDP. That said, the bulk of Quebec's exports are concentrated in aluminum, so if producers in that sector are able to pass on much of any tariff through higher prices, the economic impact would be relatively modest.

Atlantic Canada carries little direct exposure, while exports from B.C. and the Prairies all weigh in at less than 0.5% of GDP.

The bigger risk is probably that this is a precursor to more troubling trade outcomes ahead (and bigger economic consequences)—that argues for risk aversion, and is likely why provincial spreads have widened out.



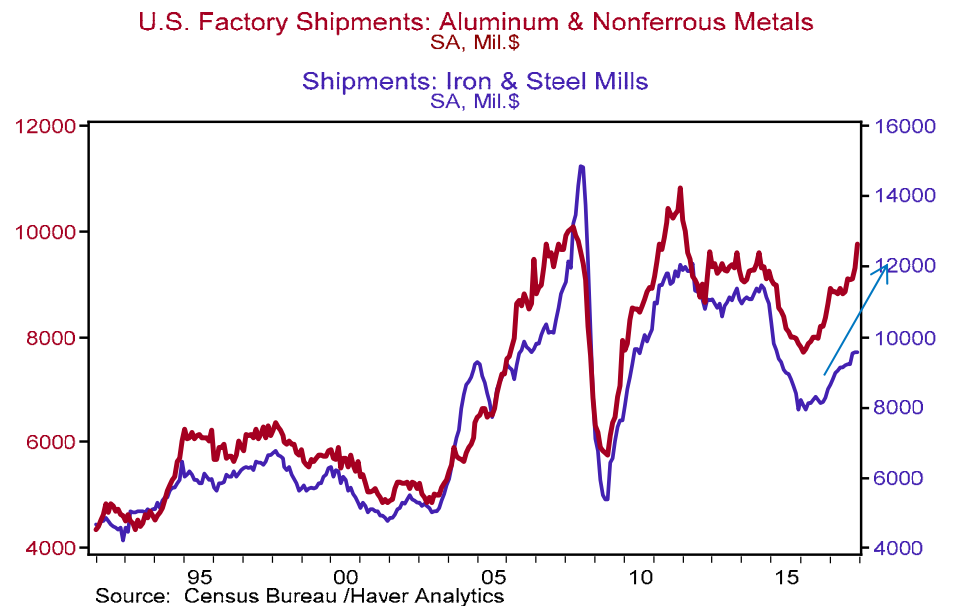
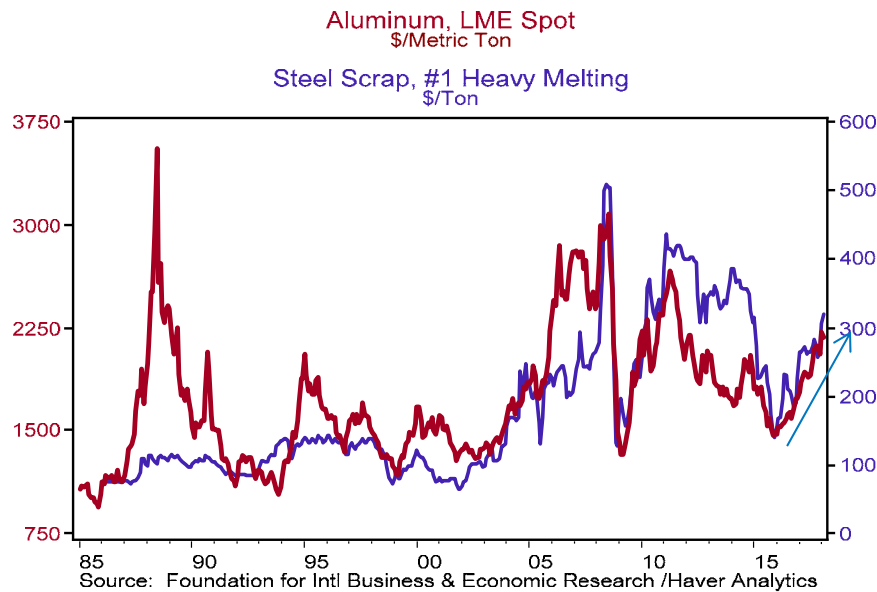
Dutiful Pass-through



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The Administration's proposed tariffs are designed to support U.S. steel and aluminum makers, but, based on recent data, they don't seem to need much help. Prices of the two primary metals have been on an upswing, while shipments rose 13% last year. New orders of steel are up similarly, while aluminum bookings have jumped 18%. The strength in these two industries suggests the tariff will be largely passed on to users; i.e., just about all Americans.

As a side-note, if saving jobs in these industries is the goal, then a tariff on imported automation would likely be more effective...albeit at the expense of wrecking U.S. competitiveness and creating job losses in other industries.



Let's Make A Deal!

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Although there were no real surprises, Italy's election delivered a large dose of uncertainty for financial markets. The ruling Democrat Party (PD) was the biggest loser, which cost Matteo Renzi the leadership. The Five Star Movement (M5S), led by Luigi Di Maio, was a big winner, becoming the single largest party in Parliament. The Eurosceptic Northern League (LN), led by Matteo Salvini, also gained ground, at the expense of Silvio Berlusconi's Forza Italia (FI) and will now lead the centre-right coalition. Yes, the swing to the right is concerning. But before any real discussions can be made about Italy's role in the euro and within Europe, this is a hung parliament so governing will be, to say the least, challenging.

So let the deal-making begin.

The centre-right coalition has to bring more parties under its wing and the M5S would be an obvious choice as both had an anti-euro stance at one point (M5S is much less so now). However, Di Maio declared that he will not support the coalition, and Salvini ruled out joining forces with the M5S, although he tempered his remarks later on. Granted there may be an element of pride speaking but even if talks do begin, there is no guarantee that a deal can be made. Di Maio will want to lead the coalition (given that his party is the largest), but Salvini will not want to give up his dream to lead Italy. This could take weeks/months, leaving Italy spinning its wheels. In other words, the government cannot properly act on its anti-euro stance. Perhaps it was that realization that pulled Italian 10-year yields off their highs.



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