International Trade: Monex Weekly Report

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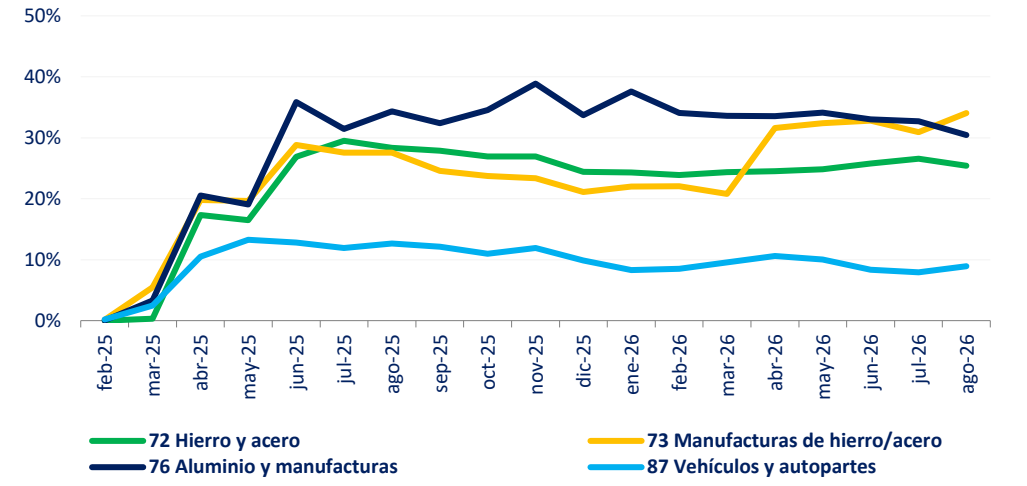
- **Mexico and Canada stepped up talks with the U.S. to reduce Section 232 tariffs in the run-up to midterm elections, though neither managed to reach an agreement.**
- **The European Union is preparing safeguards against China on chemicals, furniture and machinery, in the face of the widening trade deficit with the Asian country, which exceeds €1,000 million a day.**
- **The U.S. has concluded the Section 232 investigation into robotics and industrial machinery without imposing tariffs, while preparing a tariff relief program for companies investing in the U.S.**

In the week of October 26 to 30, relevant events for international trade and financial markets stood out. In North America, Canada and Mexico accelerated their talks with Washington to ease tariffs on steel, aluminum and automobiles, although the signals were mixed and, in the case of Canada, tariff pressure continued with a new modification of Section 338. At the same time, the European Union is preparing to expand its measures against China, beyond the agreement on hybrid vehicles, while Beijing warned that it will respond firmly. For its part, the US chose to negotiate before imposing tariffs on robotics and industrial machinery, and outlines Section 232 as a tool to attract investment.

U.S. – Canada: Trade Dialogue Revived Ahead of Elections

During this week, the trade relationship between the U.S. and Canada showed the first signs of rapprochement since the collapse of negotiations at the end of August. In recent days it was reported that both governments are working on an agreement to ease Section 232 tariffs, which today reach up to 50.0% on steel and 25.0% on Canadian automobiles. According to sources close to the negotiations, Commerce Secretary Howard Lutnick and Minister Dominic LeBlanc have been in contact, while the USTR participates in the discussion of the general framework of the agreement. Likewise, Prime Minister Mark Carney acknowledged a slight intensification of the talks, although he clarified that any progress is explained by Washington having moved closer to the Canadian position and not by concessions from Ottawa.

U.S. Tariffs on Imports from Canada



Source: Prepared by the authors with data from the *US Census Bureau*. Selected chapters of the Harmonized System, with tariffs in force. Monthly figures as of August 2026.

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However, the signals were mixed throughout the week. While a Canadian source considered it possible to reach an agreement before the midterm elections on November 3, U.S. sources indicated that Washington is seeking additional concessions. Subsequently, on October 28, a Canadian official described progress as limited, while the White House stated that the USTR and the Department of Commerce continue to work on key issues with Canada. In addition, until October 27, the talks remained informal, without a formal negotiating table. It should be remembered that previous negotiations broke down in part due to tariffs on medium and heavy vehicles, so the automotive sector will continue to be the main point of friction in bilateral negotiations.

The previous week, President Trump signed a proclamation that modified the list of Canadian products subject to the additional 50.0% tariff under Section 338, whose changes came into force on October 30. With this adjustment, 22 tariff items were removed, including plywood, cardboard boxes, plastic film, and food machinery, and 100 were added, such as cocoa powder, paints, MDF boards, carpets, and air conditioning equipment. In this way, it is a substitution of products and not a reduction in pressure, since the tariff applies even when the goods comply with the USMCA and is cumulative with those of Section 232.

With this, Canada currently faces a set of trade restrictions:
Section 232: Up to 50.0% on steel and aluminum and 25.0% on automobiles, with the announcement to raise steel and autos to 50.0% effective January 1, 2027.
Section 338: 50.0% tariff on a list of products that was amended again on October 30.
Import prohibitions: alcoholic beverages, dairy products and motorcycles, in force since September 29.
Canadian response: countertariffs of between 15.0% and 50.0% on C$27.6 billion of U.S. goods.

For its part, trade data still do not fully reflect the impact of the escalation. In August, according to *Statistics Canada*, exports of goods to the U.S. grew 8.1% month-on-month, while imports from that country contracted 2.5%. With this, the bilateral surplus widened from C$6.1 billion to C$11.2 billion, the largest monthly increase on record. On a year-on-year basis, exports to the U.S. increased 23.7% (YoY), compared to a 13.9% increase in imports. However, this result could partly reflect an advance in shipments before the 50.0% tariffs took effect on August 22, so the September figures, which will be published in early November, will be the first to capture the effect of a full month.

In contrast, Mexico maintains a permanent channel with Washington. On October 28, President Claudia Sheinbaum affirmed that an agreement is being sought before November 3 and explained that the Secretary of Economy, Marcelo Ebrard, spoke with Howard Lutnick and with Trade Representative Jamieson Greer, and that the non-tariff barriers indicated by the US were practically resolved. So the main concern, for both Mexico and Canada, focuses on a reduction in Section 232 tariffs linked to automobiles (25.0%), steel and aluminum (50.0%). Even so, Sheinbaum acknowledged that the conditions to close the pact are not yet reached and that the final decision will be hers and Trump's.

September's data show why Section 232 is the priority for Mexico. As we noted in our Trade Balance Report, non-oil exports to the U.S. grew 43.5% YoY; however, while non-automotive exports rebounded 57.2%, automotive exports had an advance of only 8.5% YoY. In the accumulated from January to September, total automotive exports grew only 1.3% YoY, compared to 46.0% YoY for non-automotive, driven by electrical and electronic equipment. On the U.S. side, in the Trade balance In September, the goods deficit widened to $134.9 billion (billion), up from $132.1 billion in August, keeping the trade imbalance as Washington's central argument in both negotiations. In particular, the trade deficit with Mexico expanded 21.2% YoY from January to August 2026 ($155.9 billion, compared to $128.6 billion in the same period of 2025).

Finally, the political factor became a catalyst to boost the negotiations. The tariffs on Canada represent an electoral cost for Republicans in border states, such as Michigan, whose candidates have called for ending the dispute. Going forward, the result of the elections will be decisive for the course of both negotiations. An agreement in the coming days would relieve the automotive and steel sectors of Mexico and Canada; on the other hand, without electoral pressure, the talks could be extended, less than two months before the increase to 50.0% on Canadian cars and steel comes into force.

European Union – China: Brussels Prepares New Safeguards

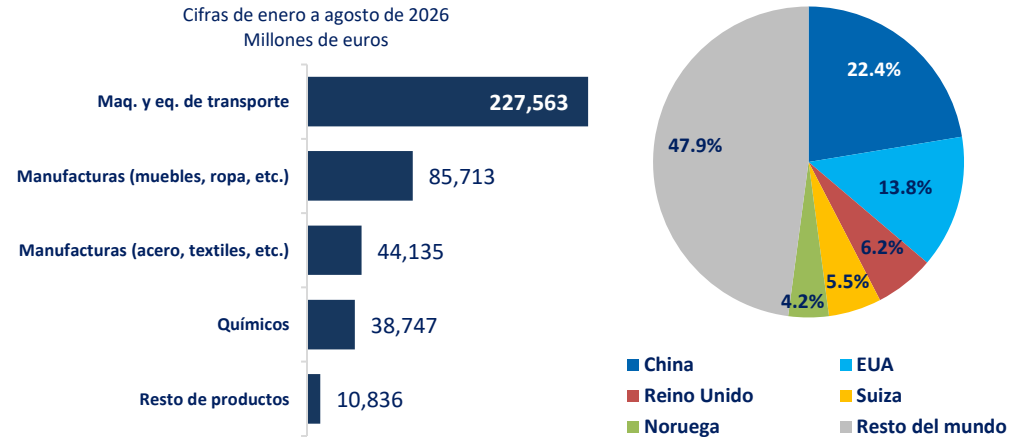
In recent days, the European Union (EU) has signaled that the agreement on hybrid vehicles would not be its only measure against China. On October 26, Bloomberg reported that the European Commission is preparing safeguards on Chinese imports of chemicals, furniture and machinery, which could take the form of quotas or tariffs and be presented from Q1-27. To comply with WTO rules, these measures would apply to all countries outside the European Economic Area, although the main target is China. In addition, they would replicate the hybrid vehicle scheme, through quotas or tariff quotas that would tax imports above a certain volume, and the EU could adopt them unilaterally, without Beijing's agreement.

Days earlier, on 23 October, Trade Commissioner Maroš Šefčovič had indicated after the meeting of trade ministers in Dublin that Brussels is analyzing which sectors to serve through negotiation with Beijing or unilateral measures.

It should be remembered that the October 9 Both parties agreed to limit the entry of Chinese hybrids to 350,000 units per year for four years, with an adjustment of 6.0% per year. According to Bloomberg, the limit would come into force in December and would almost halve Chinese exports of these vehicles by 2027. However, Commission President Ursula von der Leyen acknowledged that the agreement does not correct the structural imbalance: the goods deficit with China exceeds €1 billion per day, and Šefčovič warned that this year it could reach a record. In comparison, in 2025 the deficit totaled €371.6 billion, up from €317.9 billion in 2024, and between January and August 2026 it reached €277.9 billion, representing an increase of 14.7% YoY. In August, the negative balance reached €38.3 billion, its highest level since September 2022, as imports from China grew 19.7% YoY, compared to a 3.2% advance in European exports.

At the product level, the trade imbalance with China is concentrated in manufacturing. Between January and August, imports from China totaled €407.0 billion, an increase of 9.0% YoY. In particular, machinery and transport equipment accounted for 55.9% of purchases, followed by miscellaneous manufactures, including furniture (21.1%), and chemicals (9.5%). In fact, machinery and manufacturing together accounted for around 98.0% of the deficit, while the EU maintained limited surpluses in raw materials and food. Compared to other partners, China is the EU's main supplier, with 22.4% of its extra-EU imports, above the US (13.8%), and its deficit is almost nine times that of Norway (€30.8 billion), the second largest, which is mainly explained by the purchase of fuels.

EU: Imports by Product from China and Participation of its Main Partners



Source: Prepared by the authors with Eurostat data. Cumulative figures from January to August 2026.
Share of the 5 main supplier partners in extra-EU imports (% of the total).

In some products, dependence is even greater (according to data from Eurostat and Bloomberg): in 2025, China supplied 72.0% of European imports of lighting items, 58.0% of furniture and 52.0% of telecommunications and audio equipment, compared to 22.0% of vehicles and auto parts.

In parallel, on 27 October, the consultation with companies on a new instrument to reduce strategic dependencies on a single supplier was closed, which the Commission will present at the beginning of December, a week before the summit of European leaders. Although it does not mention China explicitly, the tool responds to the rare earth restrictions that Beijing applied in 2025. In addition, the leaders gave the Commission a political mandate to work on a mechanism that would allow China's access to the European market to be cut off in the face of economic distortions.

For its part, Beijing responded immediately. On October 29, China's Ministry of Commerce warned that artificially restricting trade could violate WTO rules, that the measures would raise inflation in the EU, and that it would take "all necessary measures" to defend its companies. Still, the dialogue continues: European officials will travel to Beijing the week of November 23 for a macroeconomic dialogue, and Šefčovič will take stock with his counterparts in early 2027. Going forward, if European safeguards move forward, sectors such as chemicals, machinery and agricultural products could be exposed to retaliation, as China seeks to show openness with other European partners, such as Switzerland.

U.S.: Section 232 as a Trading and Investment Tool

During this week, the Trump administration used Section 232 again, although this time without immediately imposing tariffs. On October 28, the president signed a proclamation determining that imports of robotics, industrial machinery, and their components threaten national security, based on an investigation that the Department of Commerce launched in September 2025. The measure covers robots, CNC machining centers, turning and milling machines, stamping and pressing equipment, as well as laser cutting machinery and industrial ovens.

Instead of applying tariffs, President Trump instructed Howard Lutnick and Jamieson Greer to negotiate with trading partners and submit a first report within 180 days, around April 26, 2027. Depending on the outcome of those talks, the administration could then resort to tariffs, quotas, charges or an investment incentive program. It should be noted that on October 22, the same scheme was followed with wind turbines and their components, so any new tariffs were left for after the midterm elections. In addition, critics have warned that taxing these goods would make U.S. manufacturing itself more expensive, since they are inputs to produce.

In parallel, Section 232 is also emerging as a bargaining chip to attract investment. On October 29, *The Wall Street Journal* reported that the administration promised to reduce tariffs on automakers that commit to producing in U.S. territory, amid negotiations for Audi to build a $4.0 billion plant in Georgia, with a capacity for 200,000 vehicles a year. Currently, Audi imports all the cars it sells in the U.S. from Mexico and Europe, and last year it paid tariffs of more than $1.0 billion. According to the report, the Commerce Department is preparing a program that would grant tariff exemptions or offsets on imported vehicles and auto parts to companies that start construction of a plant before the end of 2027, similar to the one already applied to polysilicon.

On Oct. 29, the U.S. Aluminum Association called for Canada and Mexico to match U.S. tariffs on aluminum imports from outside North America, without taking a position on a reduction from the current 50.0% tariff. In addition, it called for strict rules of origin and smelting and casting requirements, in a market where the U.S. imports about 60.0% of its primary aluminum and Canada is its main supplier.

Going forward, the focus will be on the April 2027 report on robotics and machinery, as well as on the details of the Commerce Department's tariff relief program. Both cases show that Washington has chosen to use Section 232 as a pressure tool, first to negotiate with its partners and then to condition access to its market on new investments. In the case of Mexico and Canada, this could translate into greater demands in bilateral negotiations, from investment commitments to a common tariff policy vis-à-vis third countries, such as the one already proposed by the aluminum industry.

U.S.: Recent Actions under Section 232

Sector	Measurement	Status
Steel, aluminum and copper	Tariff of 50.0% on products of these metals, 25.0% on derivatives and 15.0% on certain industrial and electrical equipment	Effective; policy modified April 2, 2026
Automobiles and Auto Parts	Tariff of 25.0%	Effective April 2025
Drones	Tariff from 25.0% to 100.0%	Effective September 3, 2026
Wind turbines	No new tariff; negotiation with partners	Proclamation of October 22; report in April 2027
Robotics and industrial machinery	No tariff; negotiation with partners	Proclamation of October 28; report in April 2027

Source: Prepared by the authors with data from the White House (proclamations and fact sheets).
Measures in force as of October 30, 2026. Steel, aluminum and copper and *fact sheet*; automobiles and auto parts; drones; wind turbines; and robotics and industrial machinery and *fact sheet*.

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