



NAFTA Negotiations: Should Investors Avoid Canadian Lumber?

Description

NAFTA renegotiations are set to begin between the United States, Canada, and Mexico. The talks have generated a tremendous degree of anxiety for investors from all North American countries. Statements from the Trump administration have varied from reassurance to boisterous promises of protectionism if certain demands are not met, though stipulations are murky.

On April 25, 2017, the United States upped the ante ahead of negotiations by announcing plans to impose duties of up to 24% on Canadian lumber. Whether this will remain in place will likely be a tenuous subject over the course of the negotiating process, which is expected to last months.

Shares of **West Fraser Timber Co. Ltd.** (TSX:WFT), **Canfor Corporation** ([TSX:CFP](#)), and **Interfor Corp.** ([TSX:IFP](#)) fell markedly to begin the week on Monday, August 14. **Bank of Montreal's** Capital Markets division sparked a sell-off after downgrading the sector. The bank expects the dispute to bleed into the long term in light of the hike on duties and ongoing negotiations.

How will the negotiations play out?

Coming into the NAFTA renegotiations, American and Canadian officials have expressed a desire to highlight possibly conflicting priorities. Some of the bitterest disputes in the U.S. election surrounded lamentations over the effect of the multi-decade agreement. In his first week in office, President Trump withdrew from the Trans-Pacific Partnership by way of executive order, signaling that the administration was serious about its tough trade talk.

In April, the president was reportedly on the verge of pulling out of NAFTA outright, before he was talked out of the move by his advisors and Canadian prime minister Justin Trudeau. Nevertheless, the willingness to entertain such a dramatic move has illustrated how tense negotiations are expected to be.

Chapter 19 of the agreement permits NAFTA members to review anti-dumping and countervailing duties. Canada has used this stipulation in instances where the U.S. has sought to impose duties on its softwood lumber industry. The Trump administration has made it clear that it wants to eliminate Chapter 19, while Canadian officials have been vocal about preserving the review process.

Should you stay away from lumber stocks?

Interfor stock has fallen 8.7% week over week as of August 15, Canfor has fallen 4%, and West Fraser has fallen 6.1%. West Fraser offers a dividend of \$0.07 per share, representing a 0.44% yield as of offering.

The NAFTA renegotiation process promises to be tough, but there are a number of cards that Canada will be able to play to alleviate pressure in key areas. Canadian dairy supply management is one particular area which analysts have pointed at to cede ground in order to protect other key industries. Ultimately, it becomes a guessing game for investors looking for insight into which industry will take a hit or benefit from the talks.

In the short and medium term, it may be wise for investors to stay away from these stocks over the course of the negotiations which, in all likelihood, are going to bleed into 2018.

CATEGORY

1. Investing

TICKERS GLOBAL

1. TSX:CFP (Canfor Corporation)
2. TSX:WFG (West Fraser Timber Co. Ltd.)

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