



The U.S. Broaches Chapter 19 at NAFTA Negotiations: Should You Sell Lumber Stocks?

Description

As the first week of NAFTA negotiations wrapped up, representatives from the United States dropped a bomb and made a formal demand that Chapter 19 dispute resolutions be scrapped. It came in a week wherein the U.S. delegation appeared to strike a moderate tone, shying away from making formal presentations on rules of origin for auto manufacturing. This demand should raise eyebrows, as it is one of the key stipulations identified by Canada that could prompt the country to walk away if it were removed.

Negotiations are expected to recommence in Mexico City from September 1 to 5. This will give the Canadian delegation almost two weeks to stew over this latest demand. Reports indicate that U.S. leadership wants talks to conclude by the end of the year. The Trump administration is hungry for victories after a recent failure to restructure healthcare, and the Republican Party no doubt has its eyes on the midterm elections in November 2018.

Lumber stocks are on shaky ground

The stock price of **West Fraser Timber Co. Ltd.** (TSX:WFT) has fallen 3.8% month over month as of the close on August 21. In spite of positive second-quarter earnings released on July 20, the share price has been the victim of downward pressure ahead of the renegotiations as well as general weakness in the Canadian stock market. The company reported record sales and earnings were up 49% from Q2 2016.

Shares of **Canfor Corporation** (TSX:CFP) dropped 1.1% on August 21. The company released its second-quarter results on July 26 which were also incredibly positive. The stock hit a 52-week high of \$21.82 in early August before succumbing to investor concerns. It is now hovering around pre-earnings levels.

Interfor Corp. (TSX:IFP) has seen its stock drop 5.2% over the course of the past week as of August 21. The company announced its second-quarter results on August 3 and saw net earnings increase from Q2 2016 to \$24.5 million, or \$0.35 per share. The results gave the stock a quick bounce that was

short-lived.

The United States is turning to competitors for softwood lumber

Imports of Russian and German softwood lumber to the United States increased 42% and a shocking 900%, respectively; Canadian shipments were down 1%. The United States startled the industry by slapping import taxes averaging 26.75% as punishment for “unfair subsidies” on the part of Canada. Imports from Sweden and Romania also saw tremendous gains. The German advantage is particularly interesting, as the Trump administration has taken aim at Germany for its trade practices and surplus with the U.S.

Whatever one may think of the strategic considerations behind these moves, it is clear that the United States is willing to assert itself early on. Time will tell if axing Chapter 19 is a sticking point for the U.S. delegation or merely a show of strength early in negotiations.

CATEGORY

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2. TSX:WFG (West Fraser Timber Co. Ltd.)

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