



Things Are Looking Brighter for NAFTA Ahead of the Next Round of Negotiations

Description

A recent report from the American news site *Axios* detailed a potential “softening” of President Trump’s position on NAFTA. Canadian officials entered 2018 with a greater degree of pessimism than at any point during the negotiations. **Royal Bank of Canada** CEO Dave McKay suggested that the chances of NAFTA being scuttled were rising [earlier this month](#).

However, the new report suggests that Trump and his administration may be shifting gears. According to sources close to Trump, he has started to take the potential financial fallout “more seriously,” as Republican senators and members of his own cabinet have applied pressure. One of the key factors for Trump is the possibility that the stock market run in the U.S., which has become a source of personal pride for the president, could be interrupted if NAFTA is terminated.

In addition to this, scrapping NAFTA could harm farmers and the agricultural industry in the U.S. Trump has drawn a large pool of support from these communities, and senators have argued he would be playing a dangerous political game to put them in harm’s way.

Trump opined on NAFTA in a speech to farmers in Nashville this month. “On NAFTA, I’m working very hard to get a better deal for our country and for our farmers,” he said. “It’s not the easiest negotiation, but we’re going to make it fair for you people again.” Trump also told the *Wall Street Journal* that he “would rather be able to negotiate [NAFTA].”

Representatives from Mexico and Canada have believed from the onset that the Trump administration wanted to maintain the threat of terminating NAFTA to strengthen their negotiation position. No administration official has acknowledged an internal “softening” on NAFTA.

Much of this reorientation could stem from Trump’s dismissal of his former chief strategist Steve Bannon. Bannon was notorious for his “economic nationalist” and hardline protectionist rhetoric. He was fired in August 2017 and has been completely alienated from pro-Trump circles in recent weeks after giving his take to a scathing tell-all book that detailed the opening months of the Trump White House.

Linamar Corporation ([TSX:LNR](#)) has seen its stock drop 8.2% over a three-month span as of close

on January 18. [The U.S. side made demands](#) in 2017 that laid out a 50% U.S. content requirement for the auto sector. Linamar has less than 30% of its assets in the U.S., but its corporate leadership has remained confident that the U.S. demands will not be entertained by Mexico or Canada.

Compare Linamar to **Canadian Pacific Railway Limited** ([TSX:CP](#))([NYSE:CP](#)). CP Rail CEO Keith Creel recently said that the scuttling of NAFTA would have a limited impact on the company. Creel conceded that 30% of its business is cross-border, most of which is in agricultural products. CP Rail released its fourth-quarter 2017 results on January 18 and reported a 5% increase in revenue from \$1.64 billion to \$1.71 billion.

Reporting will likely continue to be sparse on internal thinking on NAFTA, as the White House aims to weed out leaks going forward. However, recent comments are an indication that the U.S. might not be so eager to terminate the decades-old agreement.

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