Ignore the Headlines: What the Loonie Is Saying About NAFTA Talks and What it Means for Your Investments

Description

Despite ongoing negotiations heading into the weekend, trade officials from Canada and the United States have yet to reach a deal on the revised North American Free Trade Agreement (NAFTA).

Some are speculating that a deal could take place as soon as this weekend; however, in the absence of more information from both sides, it might help to take a minute to try and understand what clues the foreign exchange (FX) have been revealing in recent trading sessions.

Following a slide that the saw the Canadian dollar, affectionately referred to by Canadians as the loonie, lose close to 6% of its value since the start of the year, the Canadian dollar has begun to rally in more recent trading and is up just shy of 2.5% from its low on September 5.

That should be an encouraging sign for Canadians that talks between Canada and the U.S. appear to be making progress.

Why's that?

Simply put, a breakdown in talks between the United States and Canada where the two parties couldn't come to an agreement would be bad for both nations.

But that outcome would arguably be worse for Canadians if only because the Canadian economy is less than a 10th the size of the U.S, giving us Canucks less bargaining power with our southern neighbours when it comes time to dig in and play hardball.

But the fact that the loonie has gained in recent trading suggests that progress between the two sides is being made, which would unquestionably be a "win-win" scenario for everyone involved.

Among the most affected by the ongoing negotiations are Canadian steel companies and auto manufacturers.

It's been pretty clear up to this point that President Trump and his administration are very intent on revitalizing America's manufacturing sector and bringing jobs back to the U.S.

That agenda starts with the auto sector, which employed a little more than two million Americans as of last year.

If the U.S. — through tariffs, quotas, or otherwise — is successful in creating incentives for auto manufacturers to increase the size of their investments south of the border, it could spell bad news for Canadian-based manufacturers, including **Magna International**, **Linamar**, **Martinrea**, and others.

Those companies could be forced to change their strategies, including potentially reducing the size of their workforce, relocating headquarters or finding new ways to stay competitive with their U.S. competitors.

However, one company that might stand to benefit from a new trade deal is **AutoCanada** (TSX:ACQ).

If part of the Trump agenda is to stimulate U.S. auto exports in the Canadian market, AutoCanada, which runs one of the country's leading auto dealership networks, could end up seeing its costs to acquire inventory slashed.

That would be more than welcome news for the beleaguered auto dealer, which has seen the value of its stock price fall by more than 40% this year, even after experiencing a 30% spike in August last month.

Bottom line

There will inevitably be those who will come away as winners of any forthcoming trade deal as well as those who will consider themselves the losers.

But at least for now, the FX markets appear to be suggesting the expected outcome from the ongoing trade negotiations should end up being a mostly positive one for most Canadian investors.

At least compared to where we were a month ago…

Stay smart. Stay hungry. Stay Foolish.

CATEGORY

1. Dividend Stocks
2. Investing

TICKERS GLOBAL

1. TSX:ACQ (AutoCanada Inc.)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise
4. Yahoo CA

Category

1. Dividend Stocks
2. Investing

Date
2025/07/22
Date Created
2018/09/21
Author
jphillips