What the USMCA Trade Deal Means for Investors

Description

In case you've been living under a rock for a week, there's a new trade agreement between the U.S., Canada and Mexico. And the USMCA deal, as it's been called, is not going over well with many Canadians.

While Trudeau has taken to Twitter to emphasize that USMCA will benefit Canadian workers, the response on the ground has been mixed, with dairy farmers in particular bemoaning the implications for their industry.

As for investors?

The picture may or may not be rosy, depending on which sectors you invest in. Broadly, the agreement has a negative effect on Canada's ability to make trade deals with certain foreign countries. As signing such a deal would require opting out of the agreement, it means that the federal government effectively has to choose between the U.S. and China. This new stipulation may hinder Canadian companies in industries like wood pulp, oilseeds and sawmills *(all of which export goods to Asia)*.

Dairy to take a big hit

One industry that is expected to take a big hit is dairy farming. Almost as soon as the USMCA deal was announced, the Dairy Farmers of Canada released a statement saying that it will have a "dramatic impact" on the sector. In particular, the statement said that the deal will hinder exports and give American dairy producers more access to the Canadian market.

The statement about exports may refer to the non-market economy clause, which inhibits USMCA members from making deals with foreign countries. This clause could harm Canadian producers' ability to export dairy products to markets outside North America.

Saputo Inc (TSX:SAP)

One company that could be affected by the USMCA is Saputo. Best known for its cheese, Saputo is deeply involved in the dairy industry and produces a number of other dairy products, including milk and cream. Saputo has had a rough year thus far in 2018, with its stock down about 9% year to date.

The company's financials are mixed, with revenue up but earnings down a whopping 37% year over year. The company blamed its earnings miss on higher costs, exchange rates and lower prices.

Interestingly, the USMCA deal may actually *benefit* Saputo rather than harming it. Among the deal's stipulations are clauses that eliminate a domestic milk class and give American producers more access to the Canadian market. That latter clause could lower Saputo's costs by giving it access to American milk producers, who charge less than Canadian producers (mainly because of tariffs).

This would put Saputo squarely at odds with the domestic dairy farmers who supply its main ingredient. However, it would improve the company's profit picture significantly, as high costs were one of the reasons cited for its Q4 earnings miss. With USMCA a done deal, it appears that Saputo is more or less in support of it. Investors will thus have to decide whether to back the company or "vote with their wallet" and stay out.

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