Canada-China Tensions Spell Big Trouble for Canada Goose Holdings Inc. (TSX:GOOS) Stock

Description

Canada Goose (TSX:GOOS)(NYSE:GOOS) stock fell 6.35% on December 13. Shares have plunged 12.5% over the past week.

Canada Goose has been caught in the crossfire of an unfolding diplomatic crisis between China and Canada. This began after Canadian authorities arrested Meng Wanzhou, the chief financial officer of Chinese telecom giant Huawei Technologies. Meng is also the daughter of Huawei founder and current head, Ren Zhengfei.

The move further complicated the prospects for the 90-day trade "truce" that was recently reached between the United States and China. Meng is sought by the United States for two charges of fraud relating to Huawei's alleged breaching of U.S. sanctions against Iran. The move has darkened the China-Canada relationship. Anti-China hawks have also called for Canada to bar Huawei from playing a role in the development of Canada's 5G network. The United States has threatened to scale back on intelligence sharing with Canada if it allows Huawei to play a significant role.

Chinese state-run newspaper *Global Times* publicized talks of a boycott of Canada Goose jackets. If such a boycott were to catch on, this could prove a heavy blow to Canada Goose's ambitions in China. Earlier this month, I'd discussed why Canada Goose's push into China was one of the reasons to be bullish on the stock going forward.

Liu Ying, a research fellow at Renmin University of China's Chongyang Institute for Financial Studies, laid out this position in the report. "Canada, as a sovereign state, should not have followed the wrong step of the U.S. by illegally arresting Meng Wanzhou, the aim of which is to wage a war in the high technology sector by containing China," Liu said. "Canada has gone too far in the Huawei case and chosen to be bound with the U.S. On the other hand, it wants the Chinese market, which is expected to become the largest consumption market this year."

In my review of the USMCA in October, I wrote: "The USMCA secures North America as a U.S.-led economic bloc, which will be in a better position to wage trade wars against China and other economic rivals." The arrest of Meng demonstrates that Canada is fully in tow with the U.S. in its trade war drive against China. It is worth noting that the drive to curb China's growth is a bipartisan position in U.S. ruling circles, so this hostile policy is unlikely to shift with changing administrations.

Unfortunately, Canada Goose may see its growth strategy in China become collateral damage in a geopolitical struggle that is only intensifying. The Chinese market currently makes up 10% of Canada Goose's global sales. In a report this week, *Bloomberg* analysts dismissed the notion that Chinese buyers, most of them young, would be swayed by a boycott.

This assessment may be a touch optimistic, especially considering Canada Goose is already competing with parka imitations in China. Investors should be cheering for a quick resolution in the Meng controversy. Otherwise, Canada Goose may be forced to reorient its growth strategy going forward.

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