

ECONOMY

Attacks increasing over spilt milk?



Photo: G7 Canada

Think Strategically: The Road to Success Is Always Under Construction

Impact of Trump's G7, North Korea Meetings Playing Out on World Stage; Regional Bank Stocks Receiving Investor Attention

BY FRANCISCO RODRÍGUEZ-CASTRO
frc@birlingcapital.com

G7, markets bracing

It is often said “the road to success is always under construction.” After the mostly disruptive G7 meeting, which ended with an unprecedented number of tweets from U.S. President Donald Trump, and directed very personally at Canadian Prime Minister Justin Trudeau, mostly over Canadian milk, the jury is still out over what was accomplished.

To understand all angles in play, a deeper look on the subject is in order.

During the summit, Trump singled out charges that Canadian dairy tariffs, which he mentioned again and again throughout Friday's session,

were imposing a 270 percent tariff on dairy products. Trump said: “People can't charge us 270 percent, and we charge them nothing. That doesn't work anymore,” Trump said during a news conference at the summit.

With a little fact checking, the answer is both “yes” and “no.” While Canada does charge a 270 percent tariff on some dairy imports, it has a two-prong system—one within the import quota and the other for surplus supply. Canada has a method to alleviate any surplus, and it is within this dairy-products surplus that the 270 percent shows up. All dairy that falls within the quota is charged a 7.5 percent tariff, while milk over quota has a tariff of 241 percent and over-quota dairy products is 270 percent, and duties can rise to up to 314 percent.

The numbers in 2017 show U.S. producers exported about \$227 million in dairy products to Canada last year, and Canadian producers sold \$114 million in dairy products to the U.S., which creates a trade surplus for the U.S.

Is this issue significant enough to personally attack the prime minister of Canada and sacrifice a longstanding trade partner and next-door neighbor? Probably not, but the North American Free Trade Agreement (Nafta) is worth some attention, and President Trump wants to make the dairy-tariff quota about Nafta, even though it is not covered by the accord.

The Trump administration is learning

it is “easier said than done” when dealing with the world's trade system. Tariff increases on trade have created a smorgasbord of new developments, and most are quite disruptive. While it is too early to predict the outcome of the administration's trade policy, at least for the short term, many industries should expect to continue to feel the pain from the trade policy, for the short term. The G7 meetings, which included many of our top allies, was quite an eye-opener.

All this geopolitical news has had an impact on the markets. The Dow Jones Industrial Average began the week of June 11 by closing at 25,322.3, up 0.2 percent, the S&P 500 Index closed at 2,786.29, up 0.26 percent, and the Nasdaq was at 7,656.92, up 0.73 percent. Investors are reacting positively to the possibility of an initial accord between the U.S. and North Korea, with much more to come on this issue.

U.S.-North Korea summit

The first news coming from Singapore, as the U.S.-North Korea summit was ending, is that both leaders were effusively claiming the creation of a new U.S.-Democratic People's Republic of Korea (DPRK) relation that would bring peace to the Korean peninsula. The summit included the signing of an agreement that details the following:

- The United States and the DPRK committed to establishing new

U.S.-DPRK relations, following the desires of the people from the two countries for peace and prosperity.

- The United States and the DPRK will join efforts to build a lasting, stable and peaceful regime on the Korean Peninsula.
- A reaffirmation of the April 27, 2018, Panmunjom Declaration, in which the DPRK committed to working toward complete denuclearization of the Korean Peninsula.
- The United States and the DPRK committed to recovering POW/MIA remains, including the immediate repatriation of those already identified.

There have been several comments of support, most notably from former Ambassador to Singapore, Kirk Wagar, an Obama appointee who expressed his support of the historic summit.

Price of gasoline, consumer impact

By now, most people have taken note of rising gas prices after a more than 45 cent per gallon spike at the pump, compared with the same period last year. With gas prices rising and most people in Puerto Rico having to use a car for transportation, this increase is inelastic since it has little influence on actual demand, with most Puerto Ricans having to absorb the increase.

The impact of the price increase will be felt most during the summer break that is just beginning for most families.

The Final Word: Watch regional banks

The banking sector mostly fell out of consideration during the financial crisis, while the real-estate markets collapsed and worsening economic conditions caused banks to close or merge.

However, regional bank stocks have now been receiving much investor attention due to the benefits of rising interest rates, the tax overhaul and recent easing of regulation. The Economic Growth, Regulatory Relief & Consumer Protection Act contains provisions related to capital, mortgage lending and data collection, with most targeted at banks deemed too small to present a severe risk to the U.S. financial system.

Interest-rate hikes and relaxed banking regulations will create momentum in bank stocks in the months ahead, generating increased opportunities for most investors. Since banks with assets of \$50 billion to \$250 billion are now partially exempt from some provisions of the Dodd-Frank banking regulations, the biggest beneficiaries will be small and midsize lenders, as fewer regulations translate into reduced fixed costs.

With interest rates moving higher, key business segments, such as mortgages, are showing increased strength.

“The road to success is always under construction” and, very much like any stock portfolio, must always be under review. This sector is poised to reward investors with a focus on the mid to longer term.

Regional Bank Stock

Bank	Ticker
Bank United	BKU
Comerica Inc.	CMA
Emclair Financial Corp	EMCF
FirstBank Puerto Rico	FBP
First Busey Corp.	BUSE
MainSource Financial Group	MSFG
Oriental Bancorp	OFG
Popular Inc.	BPOP
Sierra Bancorp	BSRR
Synovus Financial Corp.	SNV
Umpqua Holdings	UMPQ
Zions Bancorp	ZION

Francisco Rodríguez-Castro, president & CEO of Birling Capital, has more than 25 years of experience working with government, and multinational and public companies.