

2 Canadian Stocks to Buy to Benefit From the Strong U.S. Dollar

Description

After enjoying years of near parity, the Canadian dollar has plunged to trade significantly lower to the U.S. dollar, and there seems to be an unanimous agreement between forex experts that the Canadian dollar will remain lower than the greenback for some time.

Isn't this good for Canada?

We hear time and time again that a low Canadian dollar is good for the economy, but as we see the price of many goods increased as the loonie dips, this becomes hard to believe.

In truth, a lower Canadian currency is good for exports, but it can be bad for consumer spending. This means that some companies will benefit from a weaker U.S. dollar while others will struggle.

Who stands to benefit?

For investors looking to make money despite the greenback's strength, there are some Canadian companies that are a great alternative. **Potash Corp./Saskatchewan** (TSX:POT)(NYSE:POT) and **Agnico Eagle Mines Ltd.** ([TSX:AEM](#))([NYSE:AEM](#)) could both see better margins thanks to the high U.S. dollar relative to the Canadian dollar.

Agnico Eagle Mines Ltd.

Agnico Eagle Mines has operations in Canada, Mexico, Finland, and the United States, but about 80% of its assets are located outside of the U.S. This means that the company has a natural hedge against the strong U.S. dollar.

In fact in the company's Q3 2014 results CEO Sean Boyd commented on how this could benefit the company: "If we see further weakness in the gold price, we can anticipate a weaker Canadian dollar and euro, we almost have a natural hedge with a lot of our operations focused in Canada and Europe."

With the company holding top-performing mines in Canada, and with gold being U.S. dollar denominated, cash-costs could go down along with the loonie while the selling price in gold will remain reflective of its U.S. dollar denomination. This is good for Agnico Eagle's margins, and in turn its investors.

Potash Corp./Saskatchewan

Potash Corp. also holds international assets, but a significant amount of its potash is manufactured in Canada. This means a weakening Canadian dollar reduces the company's production costs.

History gives clear evidence of just how large of an impact the CDN/USD ratio has on the company's results. Back in Q1 2003 the company reported diluted EPS of US\$0.06, when the company was surprised by the unexpected appreciation of the Canadian dollar which reduced EPS by US\$0.22

compared to the year-over-year quarter.

Now, with the Canadian dollar dipping significantly compared to the greenback, Potash Corp. is in the opposite position, and could instead report significantly higher EPS.

CATEGORY

1. Investing
2. Metals and Mining Stocks

TICKERS GLOBAL

1. NYSE:AEM (Agnico Eagle Mines Limited)
2. TSX:AEM (Agnico Eagle Mines Limited)

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