Don’t Fret: Why a Weak Loonie Is Good News for Canada

Description

The loonie continues to be hammered; it has now fallen to a recent record low of US$71 cents for every dollar. The sharp decline in the value of the loonie can be attributed to the collapse in crude, with oil exports making up over a quarter of Canada’s total exports. This has created considerable consternation among investors and analysts alike with regard to the impact it will have on Canada’s economy.

However, despite the problems this may pose, the sharp decline in the value of the loonie stands to deliver considerable benefits for Canada and create opportunities for Canadian investors.

Now what?

There is a clear correlation between the price of oil and the value of loonie because of the prominent position that the energy patch and oil exports hold in Canada’s economy.

You see, oil is Canada’s number one export by value; it provides 27% of all export income. The energy patch generates over 6% of the nation’s total GDP.

Accordingly, the ongoing weakness of the loonie can be directly attributed to the oil crash, which now sees crude trading at an 11-year low. With signs that soft oil prices are here to stay, I expect the loonie to remain weak against the U.S. dollar for some time.

Despite the inflationary pressures this creates because of costlier imports, it is particularly beneficial for Canada’s economy.

It makes Canadian exports far more attractive internationally and acts as tailwind for the beleaguered manufacturing sector, which got left behind in the oil rush when crude was trading at US$90 per barrel or even higher.

In fact, the latest trade data for October 2015 shows that total manufacturing exports, including consumer goods, shot up by a healthy 14% year over year, with the standout performance being motor vehicles and parts. Even the agricultural and forestry industries are benefiting from a weak loonie, with exports from each jumping by an impressive by 8% and 3%, respectively, year over year.

This makes a weak loonie a powerful tailwind for struggling manufacturers such as **Bombardier, Inc.** (TSX:BBD.B) that are dependent on export markets to generate sales. It is also a potent tailwind for food exporters and will certainly benefit **Saputo Inc.** (TSX:SAP), which has a strong U.S. presence that earns 61% of its EBITDA south of the border.

It is also assisting an ailing energy patch that is under considerable pressure. This is because as the loonie falls, Canadian crude exports become cheaper, making them more attractive.

More importantly, it means that costs that are incurred in Canadian dollars fall in proportion to revenues that are earned in U.S. dollars. This gives many Canadian energy companies enviably low breakeven costs per barrel, which will help them to survive the oil crash.

You only need to look at **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG) to see this. The company has breakeven costs of about US$33 per barrel.

So what?

Investors can also benefit from a weak loonie and a strong U.S. dollar by investing in companies that, like Saputo, have a considerable U.S. presence. One opportunity is **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD), which is one of the 10 largest banks in the U.S. and earns a fifth of its profit there. A strong U.S. dollar in proportion to the loonie will give its bottom line a nice bump.

Meanwhile, the growing strength of the U.S. economy, which is fueling the appreciation of the U.S. dollar, also benefits Saputo and Toronto-Dominion. This is because as unemployment falls, as wages rise, and as consumer confidence grows, consumption and demand for credit will increase.

CATEGORY

1. Investing

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1. NYSE:TD (The Toronto-Dominion Bank)
2. NYSE:VRN (Veren)
3. TSX:BBD.B (Bombardier)
4. TSX:SAP (Saputo Inc.)
5. TSX:TD (The Toronto-Dominion Bank)
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