How Currency Is Working Against Canada's Energy and Mining Firms

Description

Over the past two years the Canadian dollar has declined by just over 21% relative to the U.S. dollar, and that's providing some much-needed relief to our struggling commodity producers.

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Or has it? If you look closer, you'll notice that other commodity-based currencies have declined by even more, putting Canadian companies at a disadvantage. We take a look at three examples below.

1. Uranium

Canada's largest uranium producer is **Cameco Corporation** (TSX:CCO)(NYSE:CCJ), and the miner seems to get a boost from the weak Canadian dollar, since most of its production comes from Canada and uranium is priced in U.S. dollars.

But here's the problem with this argument: Kazakhstan is the world's largest uranium-producing country, accounting for 41% of total output in 2014. And the Kazakhstani currency, the tenge, has fallen by over 50% relative to U.S. dollars in the last two years. It's no secret why: metals and oil still account for over 70% of the country's exports.

2. Potash

Potash Corporation of Saskatchewan Inc. (TSX:POT)(NYSE:POT) is facing some major currency headwinds, a fact that the company doesn't deny.

The company's two biggest competitors come from Russia and Belarus. And their currencies have each declined by over 50% relative to the U.S. dollar over the past two years.

Again, the reasons are fairly obvious. Russia's currency has suffered from the fall in commodity prices as well as from Western sanctions against the country. Meanwhile, Belarus has a number of problems, including an overreliance on commodities and on Russia. Making matters worse, its economy has been badly mismanaged by Alexander Lukashenko, who is widely regarded as "Europe's last dictator."

3. Oil

It's a common belief that the falling loonie is helping Canada's energy producers. For example, the low Canadian dollar is cited by **Canadian Natural Resources Limited** (TSX:CNQ)(NYSE:CNQ) as one of three factors that offset its income decline in Q3.

But once again, currency is not our friend. Other oil-producing nations, including those in the Middle East, rely much more on oil than we do. Many of them (such as Venezuela) have become somewhat unstable, which further weakens their currencies. But even when looking at a stable oil-producing country such as Norway, its currency has declined by 30% relative to the U.S. dollar in the last two years.

Making matters worse for these companies, they hedge much of their U.S. dollar exposure. Many others have debt denominated in U.S. dollars. So the gains from a weak loonie aren't quite felt right away.

Thus, when you hear a Canadian commodity producer talk about the benefits of a low loonie, don't be tricked.

CATEGORY

1. Energy Stocks
2. Investing
3. Metals and Mining Stocks

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TICKERS GLOBAL

1. NYSE:CCJ (Cameco Corporation)
2. NYSE:CNQ (Canadian Natural Resources)
3. TSX:CCO (Cameco Corporation)
4. TSX:CNQ (Canadian Natural Resources Limited)

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