



The Loonie Is Going to Tank but These Stocks Will Benefit

Description

The loonie took a dive against the greenback Friday morning as expectations of a rate cut in Canada resurfaced following dismal economic data. As reported by Stats Canada, retail sales in Canada fell .1% versus a consensus .3% gain, while CPI climbed just 1.3% in September—shy of forecasts for an increase of 1.5% year over year.

The releases came in the wake of the Bank of Canada's (BoC) decision to keep interest rates unchanged in Wednesday's quarterly policy report, while slashing GDP forecasts to +1.1% from +1.3%, this year. As the probability of a rate cut in Canada increases, look to some of the following names to guard against the falling Canadian dollar.

Ex. 1: Current implied probability ranges (one standard deviation) for the USD/CAD

prob-3 found or type unknown
Bloomberg Analytics

Ex 2. BoC rate path probabilities

implied prob-2 found or type unknown
Bloomberg Analytics

Agricultural firms

Although grain prices are expected to remain soft in 2016 thanks to oversupply concerns, the weaker loonie should alleviate some of the margin pressure faced by Canada's agricultural firms. One such company to watch for is pulse and staple food processor **AGT Food and Ingredients Inc.** ([TSX:AGT](#)) (formerly Alliance Grain Traders Inc.), which should see a competitive price advantage when exporting to the U.S. markets.

A weakening loonie also means higher revenues for **Ag Growth International Inc.** ([TSX:AFN](#)), which generates the bulk of its sales in the U.S. and has only a marginal amount of its costs in U.S. dollars. As per its second-quarter filings, a 10% increase in the U.S. dollar versus the Canadian dollar would

result in a 10.5% increase in sales as well as a \$5.4 million increase in FX gains.

Manufacturers

Canadian manufacturers across the board will generally benefit from a lower loonie. For example, Ontario-based **Exco Technologies Limited** ([TSX:XTC](#)) recently reported an increase of \$16 million in Q3 sales thanks to a USD/CAD exchange rate that was 10% higher (US\$1.33 versus CAD\$1.21) than the prior year.

Another manufacturer that benefits from a depressed loonie is packaging producer **Winpak Ltd.** ([TSX:WPK](#)), which experiences a \$51 million increase to its bottom line from every 1% gain in the exchange rate.

Finally, **Stella-Jones Inc.** ([TSX:SJ](#)), which supplies lumber products to railroad operators and utility companies, saw a positive impact on the rallying U.S. dollar versus the Canadian dollar. The company reported a \$13.2 million positive impact from currency fluctuations in the second quarter. Moreover, as reported by *Bloomberg*, as the bulk of Stella-Jones's sales are the U.S., its products will be viewed as "cheaper" than the competition, which bodes well for its bottom line.

Financials

Finally, the decoupling of monetary policy between Canada and the United States is very favourable for **Manulife Financial Corp.** ([TSX:MFC](#)) ([NYSE:MFC](#)), which realizes a higher foreign currency translation gain from U.S. revenue sources. Furthermore, Manulife will also see its U.S. margin pressures alleviated once the Fed hikes again in December.

Manulife pays out a steadily growing 3.8% yield, which makes it a good hedge against a low loonie and low interest rate environment.

CATEGORY

1. Investing

POST TAG

1. Editor's Choice

TICKERS GLOBAL

1. NYSE:MFC (Manulife Financial Corporation)
2. TSX:AFN (Ag Growth International)
3. TSX:MFC (Manulife Financial Corporation)
4. TSX:SJ (Stella-Jones Inc.)
5. TSX:XTC (Exco Technologies Limited)

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Date

2025/08/23

Date Created

2016/10/25

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