Canadian Dollar Slide Is Good for These Top Dividend Stocks

Description

The Bank of Canada did not like a sudden jump in the value of Canadian dollar.

So, it did what a central bank suppose to do to dampen the expectations. In its October 25th policy statement, the central bank noted the currency's strength and other risks to the economy and decided to move to the sidelines after two consecutive interest rate hikes this summer.

Governor Stephen Poloz left the benchmark overnight rate at 1%, signaling the policy makers will remain "cautious" when considering future hikes.

The reaction in the currency market was immediate with the loonie, sliding to a three-month low and trading around $0.78 to the U.S. dollar, as investors trimmed expectations of a rate hike in January.

A rate increase is now fully priced in by March with the other in September. Before the announcement, investors had been fully pricing in the next rate hike in January.

Why is a strong Canadian dollar a concern?

The central bank's concerns regarding the Canadian dollar highlight the fragile recovery of Canadian exports and uncertain outcome from the negotiations on the North American Free Trade Agreement (NAFTA) as we enter 2018.

As the central bank takes a cautious approach, and as the risk of a strong Canadian dollar diminishes, investors have got a good opportunity to revisit some of the top dividend stocks, which have a strong co-relation with the exchange rate.

Canadian National Railway Company (TSX:CNR)(NYSE:CNI), **Algonquin Power & Utilities Corp.** (TSX:AQN)(NYSE:AQN), and Canadian exporters such as **West Fraser Timber Co. Ltd.** (TSX:WFT) are on my radar screen. These companies are certain to benefit if the dollar reverses its direction from here and continues to weaken.

For CN Rail stock, a weakening Canadian dollar is a big relief because a large portion of its revenues and expenses is denominated in U.S. dollars.

According to CN Rail, about 17% of its sales were linked to U.S. domestic traffic last year, and an additional 34% involved trans-border traffic. Due to this large exposure to the U.S. dollar, CN Rail estimates that every one-cent change in the Canadian dollar would affect net income by approximately $30 million.

Investors in the Ontario-based Algonquin Power should also cheer a pause in the monetary tightening, because the utility declares its dividends in U.S. dollars. A strong loonie means less income for those who need to convert their income back into the local currency.

Utility stocks also suffered as the Bank of Canada hiked interest rates, as this move raised their borrowing costs for growth projects.

The bottom line

If you were on the sidelines waiting to get a good entry point to add these dividend stocks in your income portfolio, a weakening dollar might provide you a window to make the move. Keep an eye on the loonie's move.

CATEGORY

1. Dividend Stocks
2. Energy Stocks
3. Investing

TICKERS GLOBAL

1. NYSE:AQN (Algonquin Power & Utilities Corp.)
2. NYSE:CNI (Canadian National Railway Company)
3. TSX:AQN (Algonquin Power & Utilities Corp.)
4. TSX:CNR (Canadian National Railway Company)
5. TSX:WFG (West Fraser Timber Co. Ltd.)

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