Should You Bet on a Low Canadian Dollar in 2018?

Description

In a late September article, I'd discussed if investors should jump into alternative lenders as the Bank of Canada signaled a dovish tone looking forward.

On December 6, the Bank of Canada elected to hold the benchmark interest rate at 1%. Positive employment numbers released in the previous week had some analysts expecting a more hawkish outlook from Governor Stephen Poloz, but this was not the case. Although the Canadian economy has performed beyond expectations in 2017, policy makers still have their eyes on a number of key developments.

Inflation remains below the central banks 2% target. Other concerns included the state of NAFTA negotiations and high Canadian household debt. A number of crucial reports have emerged since the last rate hike in September. A chapter from an OECD report showed that Canada possesses the highest consumer debt of any other developed nation. Recent data also showed that a large portion of Canadians have been financially stretched from recent interest rate hikes, and further moves upward could put many on the brink of financial trouble.

Statistics Canada reported GDP growth of 1.7% in the third quarter. Weaker exports put a drag on a quarter that saw household spending rise 1%. **Bank of Montreal** chief economist Douglas Porter has "circled" the March 2018 Bank of Canada meeting for the next possible interest rate hike.

The statements from the central bank sparked a downward move in the Canadian dollar. Some analysts have projected the dollar to reach $0.75 or lower by early 2018. The United States Federal Reserve is almost certain to hike the benchmark interest rate during its December 12-13 meetings next week. This should put further pressure on the Canadian dollar, as it currently stands at the $0.78 mark.

Stocks to buy and sell if the Canadian dollar continues to plunge

In a November article, I'd covered several stocks to keep an eye on as the loonie was showing signs of continued weakness.

One stock that I focused on was **Air Canada** (TSX:AC)(TSX:AC.B). Air Canada stock has climbed

79.7% in 2017 as of close on December 7. However, the stock is down 14% since reaching an all-time high of $28.70 in early October. Air Canada has posted operating income and revenues in its third-quarter results, as well as posting its busiest quarter, serving a record 14 million passengers. However, lower purchasing power could see Canadian travelers temper travel plans in the coming months.

Canadian Pacific Railway Limited (TSX:CP)(NYSE:CP) has increased 16.8% since the September 6th rate hike. In the second quarter, CP Rail reported headwinds from a higher Canadian dollar. The third quarter saw the company post revenue of $1.6 billion — up 3%. Operating income also grew 5% to $690 million. The stock offers a 1% dividend yield.

Rail and manufacturing stocks should fare well with a lower Canadian dollar especially, as souring NAFTA talks put increased pressure on cross-border manufacturers.

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