



## Stocks to Buy if the Canadian Dollar Continues to Strengthen in 2018

### Description

Some currency forecasters are predicting a brighter [outlook for the Canadian dollar](#) in 2018. That's a very positive news for some Canadian stocks. First, let's find out what lies ahead for the loonie.

At the time of writing, the Canadian dollar has strengthened to a two-month high against its U.S. counterpart, trading at \$1.2591 — its highest level since October 20.

As we draw closer to 2018, there are many positive catalysts for the Canadian dollar that might fuel further gains. Canada's strengthening economy and signs that Canadian inflation has started to accelerate are the most significant ones.

Canadian prices jumped above the Bank of Canada's 2% target in November, signaling that strong consumer spending has begun to exert pressure on prices. After the release of November data, the Canadian currency surged 0.9%. If the inflation continues to pick up, it will force the Bank of Canada to act fast on raising interest rates — a move which will be very positive for the currency.

### U.S. rate differential

The value of a currency is very much a function of the rate differential between economies. As the Canadian economy rolls ahead on full steam, investors are seeing a less rate divergence between the U.S. and Canada.

The Bank of Canada moved from the sidelines after it raised interest rates in July for the first time in seven years, followed by another hike in September. Future traders are pricing in three more hikes in 2018, which is more than what they are expecting from the Fed.

Besides tightening monetary policy, stronger energy markets will also play a crucial role in boosting the value of loonie. Oil prices were trading near the highest level in two-and-a-half years in the last week of 2017.

### Which stocks will benefit from a rising loonie?

The rising loonie presents some buying opportunities for equity investors. Retailers and airline stocks, such as **Dollarama Inc.** ([TSX:DOL](#)), and **Air Canada** ([TSX:AC](#))([TSX:AC.B](#)), are likely to benefit from a strong currency, as their imports become cheaper, and as Canadian travelers find their overseas trips more affordable.

**Canadian National Railway Company** ([TSX:CNR](#))([NYSE:CNI](#)) and **Algonquin Power & Utilities Corp.** ([TSX:AQN](#))([NYSE:AQN](#)), however, will be on the losing side of the equation.

For CN Rail, every one-cent change in the Canadian dollar affects net income by approximately \$30 million, because a large portion of its revenues and expenses are denominated in U.S. dollars.

A stronger Canadian dollar will also hurt Algonquin stock. The Canadian utility declares its dividends in U.S. dollars, which means less income for those who need to convert their income back into the local currency.

### Investor takeaway

There is no guarantee that this bullish case for the Canadian dollar will materialize, but investors should keep an eye on the future economic releases from Canada, and adjust their portfolios if they think interest rate hikes are coming.

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2. NYSE:CNI (Canadian National Railway Company)
3. TSX:AC (Air Canada)
4. TSX:AQN (Algonquin Power & Utilities Corp.)
5. TSX:CNR (Canadian National Railway Company)
6. TSX:DOL (Dollarama Inc.)

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