How the U.S.'s Weak Dollar Policy Will Affect Your Canadian Holdings

Description

The U.S. administration has made it extremely clear by now that it is committed to pursuing a "weak dollar" policy as far as the foreign exchange markets are concerned.

The weak dollar policy being pursued by the U.S. and Treasury secretary Steve Mnuchin will see the U.S. depreciate the value of its currency against global peers, including China, the European Union, and Canada.

The basic idea behind this strategy is that a weaker U.S. dollar makes goods and services produced in the U.S. appear cheaper to foreign buyers, which helps to stimulate demands for U.S. exports.

As many of the companies listed on the U.S. exchanges rely on exports to international markets as a large part of their businesses, the weak dollar policy is generally seen as a good thing for the stock market.

This is at least partially the reason for the S&P 500's impressive rise since the start of 2017, when the Trump administration officially took control of the White House.

But while the weak dollar policy may be good for the U.S. markets, there are some less than desirable consequences for Canadians — but some positive impacts, too.

Let's take a look at some of the companies most affected by the U.S. weak dollar policy.

Magna International Inc. (TSX:MG)(NYSE:MGA)

Magna, one of North America's largest auto parts manufacturers, and based with headquarters in Aurora, Ontario, stands to be one of the companies most affected by the U.S. policy.

While the policy is aimed to reduce the price of U.S. exports, it also has the opposite effect of making imports more expensive for Americans.

A large part of Magna's business is exporting manufactured components to the U.S., and a weaker

U.S. dollar will make Magna's products appear more expensive to its American customers, meaning the company may be forced to take discounts on the parts it sells to compete with American counterparts.

This dynamic shapes up as an advantage to Magna's American peers, like, for example, **BorgWarner Inc.**, which is in part why the policy is designed the way it is, but it may not be so great for Magna and other Canadian parts manufacturers like **Martinrea International Inc.**

Nutrien Ltd. (TSX:NTR)(NYSE:NTR)

Nutrien is the name of the newly formed company to arise out of the long-awaited merger between Potash Corp. and Agrium, which officially closed earlier this year.

The new company is the world's largest producer and marketer of fertilizer products and unquestionably a dominant player in the global agri-business industry.

While a weaker U.S. dollar may not be welcome news for exporters like Magna or even **Saputo Inc.**, which exports a lot of its dairy products to the U.S. and Australia, it does bode well for commodity prices.

Commodities, like oil, steel, corn, and potash, tend to move in the opposite direction of the U.S. dollar.

So, while the U.S. dollar declines, corn and soybean prices should be expected to rise, which in turn gives farmers and agri-businesses more capital, allowing them to apply even more fertilizer on next year's crops.

Bottom line

Foreign exchange markets are notoriously difficult to trade profitably.

While it's pretty clear the direction that the U.S. government wants to take the dollar today, that could easily change given a retaliatory response from China or one of its other major trading partners.

That aside, Foolish investors may want to double-check their portfolios to see if they have any holdings that would stand to be disproportionately affected by the latest U.S. policy change.

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