



Understanding the Impact FX Markets Could Have on Your Stock Holdings in 2018

Description

This year has proven to be a volatile period for the markets so far, and the foreign exchange (FX) markets have been no different.

Following an extended period that saw central banks around the world employ easy monetary policies to stimulate economic growth, recent actions have indicated that central bankers are starting to take on more “hawkish” policies that will unquestionably have knock-on effects for their respective currencies.

It goes without saying that the current trade negotiations between the U.S. and China in addition to ongoing North American Free Trade Agreement (NAFTA) renegotiations among the U.S., Canada, and Mexico will also carry implications for FX markets.

How does this stand to affect your current stock holdings? Read on to find out.

The euro is starting to come out of its slumber

Following a period of several years that saw the European Union threatened by deflationary pressures, there are indications that the euro has begun to reverse its course, up 3% so far this year with more expected to come on expectations that the ECB will pursue a monetary policy that will normalize interest rates.

The two most actively traded currencies in the world are the U.S. dollar (USD) and the euro.

That means that a stronger euro will almost always lead to a weaker USD, and we also know that a weaker USD almost always leads to stronger prices for commodities and commodity producers.

That would come as welcome news for Canadian energy stocks such as **Crescent Point Energy Corp.** (TSX:CPG)(NYSE:CPG), **Suncor Energy Inc.** ([TSX:SU](#))([NYSE:SU](#)), and **Cenovus Energy Inc.** ([TSX:CVE](#))([NYSE:CVE](#)), as well as metals and mining stocks like **Teck Resources Ltd.** ([TSX:TECK.B](#))([NYSE:TECK](#)) and **Goldcorp Inc.** (TSX:G)(NYSE:GG), [among others](#).

NAFTA renegotiations could have bearish implications for the loonie

U.S. president Donald Trump appears to be hell-bent on renegotiating his country's trade agreements on more favourable terms, and NAFTA is certainly no exception.

A less-than-favourable outcome for Canadian negotiators could mean less exports to the U.S., which could dampen foreign demand for the Canadian dollar.

The most likely result would be a weaker loonie, making Canadian exports appear cheaper to foreign buyers, benefiting auto parts manufacturers like **Magna International Inc.** ([TSX:MG](#))([NYSE:MGA](#)), **Linamar Corporation** ([TSX:LNR](#)), and **Martinrea International Inc.** ([TSX:MRE](#)), in addition to making Canadian assets appear cheaper to foreign buyers.

The red herring: China-U.S. trade negotiations

The big "wild card" in all of this is how things will shake out between the U.S. and China, as the two countries work to renegotiate their own trade agreements.

Earlier in the year, the U.S. announced that it planned to pursue a "[Weak Dollar Policy](#)"; however, more recent reports have suggested that in response to tariffs on Chinese exports, the Chinese government may take steps to intentionally devalue the Chinese yuan (CNY).

There's really no telling which way this one could go, but it's a development certainly worth paying attention to.

A weaker CNY would have implications for commodity prices and exports of Chinese-made consumer electronics; meanwhile, a weaker USD would have its own set of implications for asset prices denominated in USD, in addition to the expected impacts on commodity prices, as discussed above.

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1. Dividend Stocks
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TICKERS GLOBAL

1. NYSE:CVE (Cenovus Energy Inc.)
2. NYSE:MGA (Magna International Inc.)
3. NYSE:SU (Suncor Energy Inc.)
4. NYSE:TECK (Teck Resources Limited)
5. NYSE:VRN (Veren)
6. TSX:CVE (Cenovus Energy Inc.)
7. TSX:LNR (Linamar Corporation)
8. TSX:MG (Magna International Inc.)
9. TSX:MRE (Martinrea International Inc.)
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