2 Surprising Stocks Impacted by China's Yuan Devaluation

Description

China has finally done it. The Middle Kingdom retaliated to the Trump Administration's aggressive trade war with its most potent weapon — the Renminbi. This week, the Chinese currency known as the yuan dipped to its lowest level against the dollar since the great financial crisis a decade ago.

Investors should note that the currency is tightly controlled by China's government, and the devaluation is intended to make Chinese goods and services more price competitive for foreign buyers. This offsets the impact of U.S. tariffs on imports from the country.

Experts believe this could be just the start of something much bigger. China's currency has never dipped below US$7, but it could soon breach that level. The U.S. government could be compelled to respond with more tariffs and harsher restrictions.

As the trade war escalates, Canada is caught in the middle. The U.S. and China are the nation's two largest trading partners. As such, the ongoing tensions will inevitably have an impact on our economy and businesses. Here are some of the stocks that could see an immediate impact from China's latest move.

Canada Goose

Canada Goose Holdings (TSX:GOOS)(NYSE:GOOS) is a luxury brand with magnificent margins and relentless demand across the world. However, luxury brands have come to rely heavily on the Chinese market in recent years as the nation prospered.

Wealthy and middle-class Chinese citizens buy nearly one-third of all luxury goods across the world now. Major brands simply cannot ignore it. This is why Canada Goose launched its first store in Beijing this year and plans to expand its network further.

However, the long queues outside these stores won't matter if the cash in the till is depreciating in value. Even if Goose can ramp up sales and open more stores, the revenue generated in China must eventually be converted to Canadian dollars. This could have a serious impact on the company's bottom line and somewhat inflated stock price.

At the time of writing, Canada Goose was down 4.2% for the day.

Dollarama

My Fool colleague Will Ashworth recently pointed out that China was Canadian retailer **Dollarama's** (TSX:DOL) best friend. According to his research, more than half of the goods on Dollarama's shelves (55%) are imported from China. Like any other importer, Dollarama pays for these goods in yuan and sells them in Canadian dollars.

The spread between the two currencies is likely to have a positive impact on Dollarama's bottom line, not just in this quarter but for the foreseeable future.

There's another reason for Dollarama investors to smile. The company operates stores and branches across the United States as well. While the U.S. has applied tariffs to imports from China, Dollarama can circumvent these tariffs through its logistics network. This makes its stores more competitive than its U.S. rivals.

This is probably the reason why Dollarama's stock has remained flat, even as the broader market has collapsed this month as a result of the trade war escalation.

Bottom line

The ongoing U.S.-China trade war could lead to further devaluations in the Chinese yuan. This could have negative consequences for exporters, like Canada Goose, and positive impacts for importers, like Dollarama.

CATEGORY

1. Investing
2. Stocks for Beginners

TICKERS GLOBAL

1. NYSE:GOOS (Canada Goose)
2. TSX:DOL (Dollarama Inc.)
3. TSX:GOOS (Canada Goose)

PARTNER-FEEDS

1. Msn
2. Newscred
3. Sharewise

4. Yahoo CA

Category

1. Investing
2. Stocks for Beginners

Date
2025/07/07
Date Created
2019/08/06
Author
vraisinghani