2 Stocks to Buy as the Canadian Dollar Soars in 2020

Description

The loonie has been picking up traction relative to the U.S. dollar over the past few weeks, thanks in part to steadily rising oil prices (the West Texas Intermediate benchmark price is now above US$61) and a Bank of Canada (BoC) that's reluctant to follow the U.S. Federal Reserve with interest rate cuts.

With some pundits seeing stronger commodity prices sustained in 2020, the recent signs of strength exhibited by the Canadian dollar may prove to be just the beginning. For many Canadians, the favourable currency moves relative to the greenback are a long time coming.

As the BoC looks to further divorce itself from the U.S. Federal Reserve with regards to the trajectory of interest rates (the BoC now seems more likely to hike rates than the Fed in 2020), a US$0.80 loonie could be in the cards given the inflationary pressures. Static U.S. interest rates (or maybe more cuts) alongside potential Canadian inflation-combating rate hikes and recovering commodity prices are a perfect formula for a surging loonie.

Although I'm not a fan of currency speculation, I do think many Canadians are unprepared for a sudden surge in the loonie. So, if you find that you're overweight in U.S. stocks or Canadian stocks with substantial exposure to the U.S. market, as many Canadians may be, you may want to consider buying the following TSX stocks either to better profit from a stronger loonie or to hedge your U.S.-weighted bets over the year ahead.

Air Canada

The weak loonie caused many Canadians to postpone their foreign vacation plans and opt for domestic travel to avoid the pain that comes with swapping Canadian dollars for another currency at a less favourable rate. Should the loonie make a move above US$0.80 in the new year, I suspect many of the Canadians who've postponed foreign travels will be taking to the skies.

Such a phenomenon means that **Air Canada** (TSX:AC)(TSX:AC.B) could see another leg to its already impressive multi-year rally that was the result of significant operational improvements and efficiency-driving initiatives. While seat sizes have shrunk over the years, Canadians are still enticed by the value proposition, which will not only make the airline more recession-resilient but also a more significant upside mover during cyclical upswings.

The Canadian economy may be facing sluggish growth in 2020, but favourable currency moves could more than offset the modest consumer sentiment and send Air Canada stock soaring much higher.

Dollarama

I've been a harsh critic of **Dollarama** (TSX:DOL) ever since I urged investors to ditch the stock just months before its price got slashed in half.

While Dollarama has since recovered some of the ground lost since the big 2018 crash, many of the problems I initially outlined are still haunting the Canadian discount retailer. Most notably, gross margins were facing a bit of pressure due to intensifying competition and a ridiculously low loonie.

Dollarama was more than willing to take the hit on gross margins to keep its value proposition (and reputation) alive and well with Canadian consumers, opting to use currency hedges instead.

While not raising the prices of goods significantly to account for unfavourable currency moves may have been a slight headwind for Dollarama (they could have easily upped prices) while the loonie was weak, it could turn into a brilliant move over the long haul as currency headwinds turn into tailwinds.

I'm not a fan of the valuation of Dollarama at these levels (25.6 times trailing earnings). Nonetheless, the firm will be a significant beneficiary of a stronger loonie given the vast majority of its sales are in Canadian dollars.

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