Canada’s Loonie Could Plummet: Get Ready for a 60-Cent Dollar

Description

The federal government of Canada has been rolling out financial assistance packages to nearly everyone affected by the COVID-19 pandemic. Families, entrepreneurs, corporations, and provinces are receiving economic support while lockdowns are in place.

However, economist David Rosenberg from Rosenberg Research & Associates is warning that by backstopping everyone, the country’s currency will depreciate sharply. Aside from the loonie depreciating, a credit downgrade is possible.

Calamitous consequences

The total debt of Canada’s economy is already 350% Gross Domestic Product (GDP), which is staggering by any measure. Among G7 countries, Canada and Germany have the highest ratings.

According to Rosenberg, Canada is bound to lose its Triple-A rating status with the way the government has been dipping into its financial resources. A series of downgrades might be forthcoming, and it would be a stroke of luck if the country gets an AA rating.

Rosenberg further said the loonie dropping to US$0.60 is already conservative. As of this writing, one Canadian dollar equals US$0.70. Canada’s AAA rating is at stake due to the impact of the oil crisis on heavily indebted provinces. The loonie is breaking down as a result.

The bond purchases of the Bank of Canada to fund federal spending are unprecedented. Investor confidence in the loonie might wane as Canada undergoes a slow recovery in the aftermath of the health crisis.

Export-related stock choice

About 50% of the top 10 export-related companies in Canada are large petroleum industry conglomerates. **Enbridge** and **Suncor Energy** are the top two, but the energy sector is among the weakest at this time.

If you were to invest in a Canadian exporter, the best bet is **Barrick Gold** (TSX:ABX)(NYSE:GOLD). This $67.33 billion company is one of the largest, if not the largest, gold mining companies in the world. The company should benefit greatly if the loonie depreciates.

Barrick is staving off the novel coronavirus-induced market volatility. Year to date, this gold stock is handily outperforming the TSX (+57.4% versus -14.3%). After falling to $21.69 on March 13, 2020, during the initial shock of the market selloff, Barrick rebounded strong and zoomed to its current price of $37.87.

With gold prices rising in the wake of the pandemic, the yellow metal as well as gold stocks are becoming safe havens for investors. The Q1 2020 earnings results of Barrick should already reflect the positive outlook this year.

The company will be presenting the data today. Preliminary results indicate that Barrick will be reporting revenue growth of 31.2% year over year for the quarter.

Rough seas

Canada will be sailing rough seas because of strong pressure on various fronts. But an interesting consequence of the slumping energy sector is the inflation rate falling to its lowest last March since 2015. But based on a consensus of forecasters, the second quarter of 2020 won't be pretty.

The country will experience a significant economic downturn. The projection is a 23% annualized decline of the economy, which is more than twice the worst quarter from 2008 to 2009. Rough seas are ahead.

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