



The Loonie Might Plummet: How Can You Take Advantage?

Description

The American greenback and the Canadian loonie are two of the top 10 heavily traded currencies. Canada and the United States are major trading partners. More than 75% of all Canadian exports are U.S.-bound, while 50% of its imports come from across the border.

With this link, Canada's economy and the value of its currency are ultra-sensitive to changes in U.S. [economic performance](#) and the value of the U.S. dollar. The recent weakening of the loonie should benefit Canadian export-oriented companies. Investors can take advantage of this scenario.

Implications of a weak currency

Canada is a major producer of commodities, including oil. The economy will greatly benefit if global flow of trade and capital picks up. But things only got worse with the news that coronavirus cases in the U.S. are rising again. The ensuing negative sentiment lifted the greenback.

The U.S. dollar sentiment dictates the direction of the Canadian dollar. Generally, a weaker loonie stimulates exports and makes imports more expensive. The reverse happens when the domestic currency is strong.

Precious metals and vehicles are among the top Canadian exports. If you want to invest in export-oriented firms, **Barrick Gold** ([TSX:ABX](#))(NYSE:GOLD) and **Magna International** ([TSX:MG](#))([NYSE:MGA](#)) are the top picks.

Golden pick

Barrick Gold is the world's largest gold-producing company. The market capitalization of this Toronto, Canada-based explorer and mine developer is \$58.21 billion. Its main products are gold and copper.

The mine operations and development projects span continents beginning from Canada and as far as Africa and Australia. Barrick operates in the U.S. and South America, too.

Among the top 10 export categories in Canada, gems and precious metals are among the fastest-growing exports. Barrick is also one of the lowest-cost producers.

When the company captures high gold prices, the immediate impact is on the bottom line. During Q1 2020, Barrick's free cash flow increased to \$438 million, while net debt went down by 17% to \$1.85 billion (no maturities falling due until 2033).

The shares are trading at \$32.74 and offering a 0.83% dividend. Year to date, the gain is 36.5%. Barrick is the next best thing to owning physical gold. The company operates a world-class business with a strong global presence.

New launches coming

Shares of Magna are picking up steam, despite reporting dismal Q1 2020 earnings. The total revenues of this \$17.92 billion global automotive components supplier fell by 18.3% year over year. Nearly all business segments did not perform well due to the coronavirus outbreak.

However, the [outlook](#) is looking better, as countries begin relaxing lockdown measures. From a low of \$35.31 on March 23, 2020, Magna is now trading at \$60.03, representing a 70% rally. The auto parts stock was able to trim the losses and is down by only 14% year to date. For the benefit of income investors, the dividend yield is 3.61%.

Management admits the near-term financials are not encouraging. The company is addressing soaring costs and sustaining margins through cost-control efforts. Meanwhile, innovation and technology development is ongoing for growth and future program launches. The dividend yield is 3.61%.

When the auto industry restarts, the demand for crossover and SUVs should return. The program launches, particularly Magna's ADAS technology, are likely to boost business prospects.

Currency parity

The currency parity always skews in favour of the U.S. dollar. However, the Canadian loonie has held its value better against other currencies.

CATEGORY

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2. NYSE:MGA (Magna International Inc.)
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