



Why the Loonie Could Plummet at Warp Speed

Description

The coronavirus outbreak is harming everything in its way. It's infected millions of people, forced businesses to close down, and prompted countries to close borders. Global [economies are hurting](#) too, as they contract while unemployment rates shoot up to record highs.

In the U.S. and Canada, the fiscal and monetary stimulus packages are swelling to unprecedented levels. Currency watchers also fear that the U.S. dollar might decline significantly. Across the border, the Canadian "loonie" could also plummet at warp speed.

Startling jobless rate

Things are unfolding fast in the COVID-19 era. The unemployment levels this year reveals the extent of the damage. Based on data from Statistics Canada, the country's average unemployment rate from January 1976 to May 2020 is 7.6%. The record low of 5.4% was reported in May 2019, while the all-time high happened in May 2020.

Although Canada created 290,000 new jobs in May 2020, the jobless rate still rose by 0.7%. The latest reported figure is more than double the unemployment rate before the economic shutdown. As more provinces reopen, the unemployment rate might drop. There's no official jobs report yet for June 2020.

"Loonie" stress

Economists warn of a 35% decline for the U.S. dollar due to the country's increasing deficit and declining savings. Canada is in the same boat. The federal government is [spending billions of dollars](#) to combat the economic impact of COVID-19.

According to the independent parliamentary budget officer, the 2020-21 budget deficit could go beyond \$250 billion. In the 2019-20 fiscal year, the figure was only \$21.77 billion.

The loonie was faring better against the American dollar heading into the July 4th weekend. The currency's future, however, is not rosy. As the nation's debt surges, the economy will weaken, and so will the loonie.

Boon for exporters

Export-related businesses will benefit from currency devaluation. There might be an export wave should the Canadian loonie depreciate. Take hydrogen fuel-cell maker **Ballard Power Systems** ([TSX:BLDP](#))([NASDAQ:BLDP](#)), for example. Business is booming with a strong loonie. Imagine the surge if the domestic currency was weaker

This industrial stock is among the TSX's top performers in 2020. As of July 3, 2020, the shares are trading at \$24.71, representing a 166.3% year-to-date gain. Growth investors are happy with the 529.41% total return over the last three years.

The latest good news is the \$7.7 million deal with Guangdong Synergy Ballard Hydrogen Power in China. Ballard will supply the membrane electrode assemblies (MEA) that facilitate the chemical process to generate clean electricity.

Expect the run-up to continue with the increasing demand for Ballard's fuel cell technology in China and elsewhere in the world. This \$6 billion company will capitalize on the growing interest in green and innovative energy.

Post-pandemic, fuel cell technology will provide power to mass transportation systems while reducing toxic emissions.

Catalysts

The Canadian dollar can maintain strength or drive its value depending on how the economy's recovery would look. Global trade flows and trade relations are catalysts. If the effects of COVID-19 on both are lasting, then the "loonie" will suffer.

CATEGORY

1. Coronavirus
2. Investing

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