



The Canadian Dollar Is FLYING high!

Description

The Canadian dollar has been making some big gains against the U.S. dollar. It ended April up 2.3% against the U.S. dollar, following a year of strong gains. A little over a year ago, the Canadian dollar was worth just US\$0.67. Today, it is quickly rocketing toward parity. In this article I'll explore some possible reasons why this is happening. We can start by looking at the situation south of the border.

Unprecedented U.S. stimulus

One reason that has been cited to explain [CAD's strong performance](#) is unprecedented U.S. stimulus. The U.S. recently passed a \$1.8 trillion stimulus package that flooded consumer markets with money. Increases in the money supply tend to decrease the value of a currency. So it's no surprise that the U.S. dollar is losing ground. Its supply is at a record high.

With that said, this one factor doesn't quite explain why the *Canadian* dollar is gaining against the U.S. dollar. You'd expect the average currency to gain ground against the U.S. dollar, given that the U.S. has been printing and spending piles of money. But Canada has been doing the same thing. In 2020/2021, Canada's [deficit was about \\$354 billion](#)—the highest on record. Total spending was about \$650 billion.

The U.S. spent \$6.55 trillion in the same period. So the U.S. spent \$20,000 per capita and Canada spent \$17,000. The U.S. did spend a little more on a per capita basis, but not by much. So U.S. fiscal stimulus on its own is probably inadequate to explain the rising Canadian dollar. It may have played a role, but it wouldn't have been that big.

Rising oil prices

Another factor that could explain the rising Canadian dollar is oil prices. The Canadian dollar is generally highly correlated with oil prices. Canada earns the majority of its U.S. dollars by selling oil to the States. These are transactions where U.S. customers are paying for Canadian oil, bringing more U.S. dollars into Canadian hands. The end result is that the supply of U.S. increases in Canada, which

decreases its value. This is particularly the case when oil prices are high in terms of U.S. dollars.

Lately, the price of oil has been rising, with West Texas Intermediate (WTI) sitting at about \$64 as of this writing. With such prices, the Canadian dollar tends to strengthen, which is exactly what we're seeing now.

A stock to profit from the rising Canadian dollar

If you're looking for a stock to profit off the current strength in the Canadian dollar, you could consider an energy stock like **Suncor Energy Inc** ([TSX:SU](#))([NYSE:SU](#)). This company profits from the loonie's strength in several ways:

1. It makes most of its sales in Canada, so it doesn't depend too much on U.S. dollar income.
2. What exports it does make to the U.S. are oil & gas exports, which are increasing in value even with the U.S. dollar depreciating.
3. It can take advantage of the strong Canadian dollar to make U.S. acquisitions more cheaply than it could before.

For most Canadian exporters, a strong loonie is bad news. The stronger the Canadian dollar, the less sense it makes for Americans to buy anything made in Canada. With energy companies, it's a bit different. A strong loonie tends to be correlated with strong oil prices, which are unambiguously good news for companies like Suncor. So, buying SU could be a good way to play the ever-strengthening Canadian dollar.

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