3 Top Stocks for a Weaker Canadian Dollar

Description

The Canadian dollar has been trending downward this summer. After reaching a high of US$0.83 in May and June, it began to slide. Today the Canadian dollar is worth just US$0.8. That's actually still pretty strong going by the last five years. There were periods in 2020 when the Canadian dollar was worth just US$0.68. After that low, the Canadian dollar rallied before resuming its downward slide.

Several reasons have been given to explain the weakness in the Canadian dollar. A recent slump in the price of oil is one (CDN is correlated with oil), increases in "safe haven demand" for USD is another.

Differences in monetary policy don't seem to be the culprit. Canada's central bank lending rate and 10-year bond yields are nearly the same as those of the U.S., the increase in the money stock are similar as well. So it looks like we've got the CAD falling on lower oil prices and higher demand for U.S. dollars.

Given this, it's natural to wonder where to invest. You've probably heard that Canadian businesses make more money off exports when the Canadian dollar is weak. But in fact, there's much more to this story than just exports. In this article, I'll explore three stocks that make money off a weak Canadian dollar.

Alimentation Couche-Tard

Alimentation Couche-Tard (TSX:ATD.A)(TSX:ATD.B) is a Canadian gas station and convenience store company that operates over 9,000 Circle K stores in the U.S. and nearly 3,000 gas stations in Europe. It's a Canadian company, but its U.S. operations are actually larger than its operations on its home turf. The lower the Canadian dollar goes, the more money ATD.B makes off its U.S./European gas stations and convenience stores.

In its most recent quarter, ATD.B achieved a 10.6% increase in diluted EPS, partially because of favourable currency exchange impacts. So this is definitely one company that makes more money in CAD terms when the U.S. dollar is weak.

The Toronto-Dominion Bank

The **Toronto-Dominion Bank** (TSX:TD)(NYSE:TD) is a Canadian bank involved in U.S. retail and brokerage operations. About a third of its revenue comes from the United States. The lower the Canadian dollar goes, the higher TD's income is in Canadian dollar terms.

The effect is intensified whenever the U.S. retail bank or brokerage service reports higher than expected income. TD is widely perceived as one of Canada's best banks because of its huge and growing U.S. presence. In the current quarter, it should get a boost from the lower Canadian dollar Forex rates that have been observed recently.

The Canadian National Railway

The **Canadian National Railway** (TSX:CNR)(NYSE:CNI) is a Canadian rail transportation company. It is perhaps the company on this list that makes the most money off a weaker Canadian dollar. Not only does its on-paper CAD revenue increase with a weak loonie, it actually makes more sales. A weak Canadian dollar actively increases demand for Canadian goods.

That can result in more goods being transported across the Canada-U.S. border–which increases CN's revenue. For ATD.B and TD, the currency exchange impact of a weaker loonie is mostly a technicality, but CNR can make money off a weak loonie in PPP terms. So, this is one "weak Canadian dollar" play worth considering.

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2. NYSE:TD (The Toronto-Dominion Bank)
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