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## MARKET WISDOM

*Whither the Loonie?*

# TO RALLY — OR NOT?

*Keith Richards*

I'M SURE THAT AT LEAST A FEW readers of The Money Letter travel south to escape the harsh Canadian winter. For the past few years, the challenge to these folks has been the declining loonie. In fact, in 2011 the Canadian dollar traded at \$1.06 – which was a 6 per cent premium over the USD. This, along with the lower southern property prices at the time, provided Canadians with a unique opportunity to buy properties “on the cheap” in their favorite U.S. winter havens.

My how things changed. U.S. property prices in the south have increased dramatically since 2011. Meanwhile, the Canadian dollar

had dropped from that 6 per cent premium vs. the USD to a low point of \$0.69 by January of this year. That \$ 0.37 change made things get mighty expensive for snowbirds who spend a considerable amount of time and money down south.

Alas – some relief came for the falling loonie when the combination of a rally in oil prices and growing confidence in the Canadian economy inspired the Bank of Canada (BOC) to start raising rates. This pushed the loonie back up to a peak of around \$0.83 in late September of this year. Further help for the loonie came from downward pressure on the USD from an overbought position, and from a declining level of confidence in the U.S. president.

The chart (next page) of the loonie that I've been tracking for some time. You will notice that the big trend has been down since 2011. I noted in my blog ([www.valuetrend.ca](http://www.valuetrend.ca)) quite some time ago that I had an initial target

of 0.80-0.81, with a maximum upside of 0.84 for the loonie. That is pretty much what we got, with the loonie reaching a high of \$0.83 in September. Since then, as predicted, the loonie has been moving back into its longer-term dominant downtrend. My current targets for the loonie are a first stop at \$0.78 and possibly into the mid \$0.70's. A revival of the loonie will depend on the strength of the Canadian economy.

Another chart I'd like you to look at is the seasonal chart for the loonie by [equityclock.com](http://equityclock.com). This chart shows you, on a percentage basis, how the Canadian dollar performs relative to the U.S. greenback each month. Note on this chart that even in non-rate-rising years, there are seasonal trends to drive the loonie higher through the summer. The peak often occurs in late September—which occurred right on schedule this year!

The seasonal pattern suggests a bit of chop though the fall into winter before the seasonal decline for the loonie begins in November. While nothing is precise (seasonal patterns are a tendency, not an absolute)—snowbirds may still want to consider that the typical seasonal patterns are for a weakening loonie over the winter. Thus, snowbirds or those converting into USD's may have a short window, to the end of November, to convert their loonies to the greenback, should those seasonal tendencies play out.

Some of you may be looking to convert some loonies into USD's on its recent strength even if you are not a snowbird. Perhaps you are looking at a major purchase in the US- such as real estate, or big



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buy of U.S. stocks. I'm in that situation. I recently converted a significant chunk of Canadian dollars into USD for the building of a U.S. property.

### COULD THE LOONIE EXTEND ITS RALLY?

Not just yet, in my opinion. Beyond the strong technical factors noted above, we still have oil near \$50 (vs \$90 just a few years ago), and we have rising debt in Canada thanks to a spend-happy government. True, we are seeing growth, but there are other pressures such as:

- wildfires in BC that will eventually affect the broad economy
- ongoing trade talks with the U.S. that may result in some unfavourable policies

- higher capital gains taxes on savers/ investors
- arguable business tax and wage policies potentially to be implemented.

It will be hard pressed to see growth in Canada ramping up much more. If there is no growth, the GOC can raise rates only so much. Meanwhile, there is only so far the USD can fall.

Moreover, if the proverbial poop hits the fan in the East (N. Korea)—it's likely that the USD and Euro will be the go-to currencies—not the loonie! So – there are many risks that might slow the upside beyond a few more pennies on the loonie. For this reason, I continue to invest in USD denominated stocks, and remain biased towards converting and holding USD's now, rather than later.

I do hope that some of you in a similar situation as mine have begun or completed your currency conversion by the time you read this article. It is my opinion that the USD will continue to outperform the loonie for the coming year or years. ▼

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