Macro Market Insights

BORDER GOLD CORP.
Dealer In Precious Metals

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To suggest that the Canadian Federal Government is pushing a weak dollar policy must then imply that in years past they too were opting for a stronger Canadian dollar. At the least the price of the Canadian dollar would suggest that, but unfortunately its nonsense. The Canadian dollar is and has been subject to the market forces of foreign investors who wish to hold the currency. Given the Great Recession that destabilized the global economy in 2008, Canada was by far the least dirty shirt. The Canadian economy, given the relative strength of the domestic economy as a result of sound fiscal policy, was a haven for capital. And many economists around the world echoed that tune for all the months that the currency traded around par with its US counterpart, particularly giving tribute to the financial system. But probably the most vocal was Bank of Montreal's Douglas Porter who estimated a 15 cent premium in the dollar.

And given the tremendous strength seen in the greenback since May of last year when the US Federal Reserve began to float the idea of altering their monetary stimulus, it's no surprise the shine has come off the Loonie. Perhaps what is a surprise, however, is the drastic pace at which the Loonie has fallen. But at this time, investors don't necessarily need to pay a premium for excellence, like they would have for the stability of the Canadian dollar during periods of uncertainty. Moreover, that is why it's unfortunate to suggest the federal government is operating this weaker dollar policy, just because the price of the Loonie is deteriorating.

There are three simple factors that are contributing to a weaker Canadian dollar:

1. A Dovish Bank of Canada
2. US Dollar Strength
3. A Lagging Canadian Economy

The foremost contributor to the downfall in the Canadian dollar has been the change in policy direction from the Bank of Canada. That essentially occurred during the period when Mark Carney was replaced by Stephen Poloz during a period where the bank began to witness a stalling labour market and downward pressure on the rate of inflation. The fact is that it's the inflation rate the Bank of Canada is concerned with as it ties into the performance of the rest of the economy. Normally, weak inflation indicates an economy that is not expanding.

The strength of the US dollar is as well a major contributor to the weakening Canadian dollar. For starters, the selloffs witnessed in commodity and energy prices (and their strong correlation with the Canadian dollar) as well put downward pressure on the exchange rate. These tie together with the policy of the Fed. Ultimately, as the US Fed begins their period of altering their accommodative policy, and the market perceives it to be tightening their economic stimulus, support comes into the US dollar and US dollar assets.

The final factor impacting the Loonie is the economic data continually revealing the lackluster status of the Canadian economy. In the last week alone, we saw trade numbers that implied the Canadian export sector is showing no growth, and job numbers that illustrated a trending weakness in the labour market. For starters, the trade numbers illustrate that there is slowing demand from foreigners to purchase Canadian goods and services. And the labour market is indicating the private sector is struggling to take over job creation from the public sector, which would have been anticipated at this point in the recovery.

Examining the aforementioned factors alone gives reason for an already beleaguered Canadian dollar. If we wish we can attempt to attribute the story to a political agenda of a central government, but that requires a lot of imagination and omits a period when the Fed stood pat and watched the loonie appreciate only to put a good majority of Canadian manufacturers and exporters in a stranglehold. When investors forget about quality of their assets, there is no premium for excellence, but rest assured that day will return for the Canadian dollar.