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Loonie Strength Likely Unsustainable

***e*Research Corporation** is pleased to provide an article by Keith Richards of **VALUETREND**.

In this article, Mr. Richards looks at the recent strength in the Canadian Dollar and reasons that it is likely not sustainable.

The article is reproduced below, beginning on the next page, or you can go directly to it at the following link: **http://www.valuetrend.ca/dont-get-excited-strength-loonie/**

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Thursday, June 15, 2017

Don’t Get Too Excited About The Strength In The Loonie

By: Keith Richards (bio at end)

Let us start out this blog with my concluding statement. That is, the recent rise in the loonie will likely not last for too much longer.

Here is why:

The Big Picture

I think that the chart below tells the story: The loonie is in a dominant down-trend.

During any down-trend, including this one, you get counter–trend movements (i.e. upswings). You would need a pretty significant pop on the loonie to break the current down-trend.

The CDN $ will need to break the last high of $0.76 USD and then take out the last major high of $0.79 USD to qualify for my trend change rule of “a high that takes out the last prior high”.

It would have to stay above that major high, and above the 200-day MA for 3 weeks to tweak my interest. Bottom line- this chart tells us that – at this point – the trend is not your friend if you are long the loonie.

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Near-Term View

Now let us look at the near-term picture. After applying my near-term timing chart, I noted that the loonie is well over its upper Bollinger Band, and is into the over-bought zones on both the RSI (intermediate-term) and stochastics (near-term) momentum indicators. Neither has hooked down. It is inevitable when you get a high reading on these indicators that you will get a near-term pullback sooner rather than later.

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A Range-Bound Price For Oil

Until oil breaks out of its rather contained $42-$55 range, we should not expect too much out of the loonie. As I have noted in past blogs, the relationship is tight. See the chart on the bottom of **this blog**

There is no doubt in my mind that oil will break out eventually—but it may be a few years. Whatever the time it takes, that day is not here yet.

A Risky Strategy

"The danger in the current climate is that we (Canada) focus on wealth distribution and not wealth creation. Both are absolutely critical but, without growth, we will have no wealth created to fairly distribute."

- Rio Tinto CEO Jean-Sebastien Jacques

Canadians and Canadian businesses who/which create the wealth, create the jobs, and thus create GDP are being pressured through higher taxes, changes to the employment act, increasing minimum wage (Ontario), and **increasing public service costs**. This is the essence of Mr. Jacques message, above.

Adding to the debt are unionized corporate bailouts and gifts to Ford, GM, and foreign country "gifts" (Africa and Italy most recently). U.S. government and Boeing have legitimately expressed concerns re the recent Canadian taxpayer funded subsidies to Bombardier.

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Independent Analysis Confirms This View

As Alexandre Laurin, Research Director of ***CD Howe Institute*** said in an interview last year "Trudeau took out the credit card and spent. But is this really affordable? It is endless deficits. It is probably not affordable. Something will have to be done at some point. The minister will have to put his credit card back in his pocket and start paying back. If there is not a huge, surprising growth in the economy…then we will have to pay for this. How are we going to pay for this? Through tax increases and cuts in spending – spending we have become accustomed to. So it is going to be painful".

As I noted in a past blog, ***TD Bank*** has forecast that Ottawa is headed for a $150B deficit over the next 5 years! I have also quoted ***ACG Analytics Research*** and their bearish view on the Canadian markets **here**.

None of these institutes are known to be extremists, nor are they considered overly politically polarized when presenting any countries outlook. I consider them fairly unbiased in their analysis towards our market. So it is worth heeding their words.

It seems that at least one pickup truck driver in Barrie shares a simpler view, but puts his / her concerns out there a little more bluntly:

Given the longer-term trend, the shorter-term technical picture, and the concerns of highly respected independent research firms like CD Howe Institute, TD Bank, and ACG Analytics –I would probably not bet the farm on an on-going rally for the loonie.

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See **About The Author** on the following page.

ABOUT THE AUTHOR

ValueTrend Founder and Owner, Keith Richards, has been in the securities industry since 1990. ValueTrend manages over $100 million through a discretionary investment service for high-net-worth clients.

Keith Richards has been in the securities industry since 1990 and is a highly regarded member of the small, exclusive community of Chartered Market Technicians in Canada. Mr. Richard's articles appear regularly in INVESTORS DIGEST, MONEYLETTER, GLOBE AND MAIL, and the TORONTO STAR newspapers.

His appearances on BNN Television have inspired producers to acknowledge him as **"one of [our] most accurate technical analysts."** Mr. Richard's first book, SMARTBOUNCE: 3 ACTION STEPS TO PORTFOLIO RECOVERY, is available in bookstores and directly through his blog page **www.valuetrend.ca/blog/**. His second book, SIDEWAYS: USING THE POWER OF TECHNICAL ANALYSIS TO PROFIT IN UNCERTAIN TIMES was released in late 2011. He has been critical of the commission-based, follow-the-pack approach to investing – where brokers succeed regardless of performance.

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