

## They Must Be Loonie!

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

In this article, Mr. Richards outlines possible scenarios for the near-term movement in the Canadian Dollar.

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/they-must-be-loonie/>

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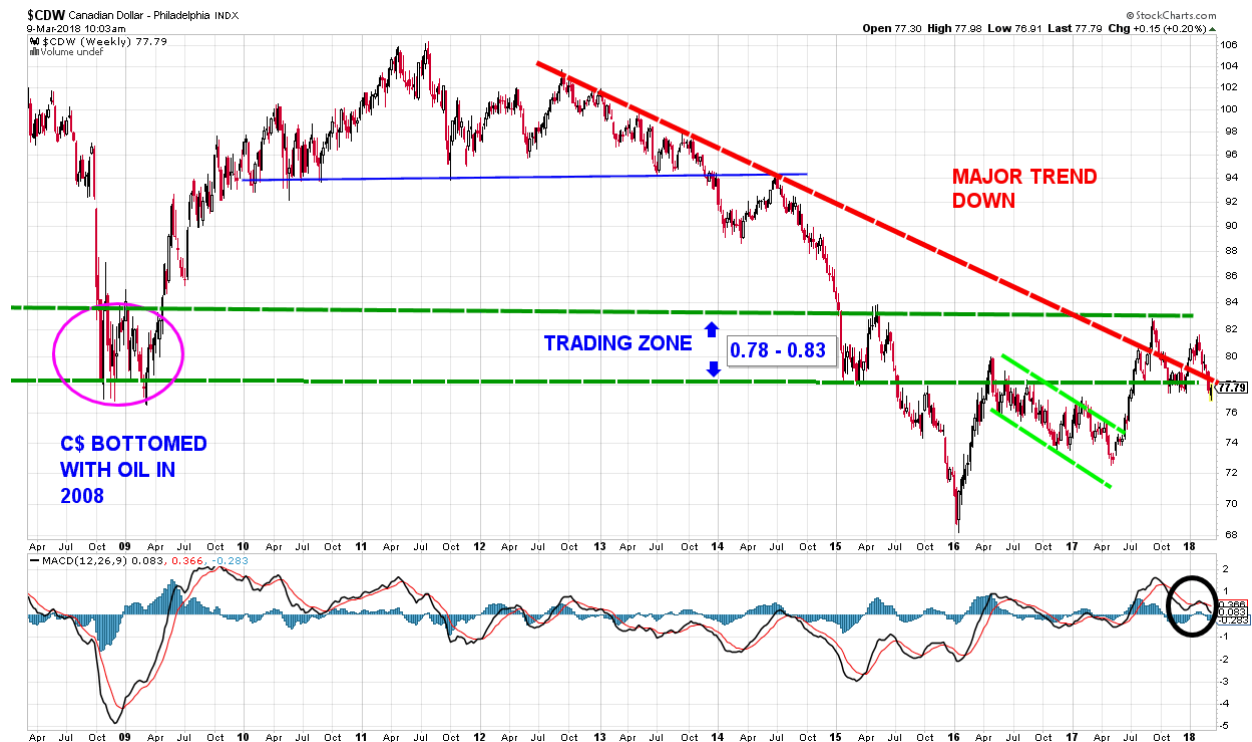
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Monday, March 12, 2018

## They Must Be Loonie!

By: Keith Richards (bio at end)

The chart below, which I have posted on this blog before, shows you a trading zone that the loonie gets stuck in every once in a while. Take a look at the adherence of that trading zone by the loonie after the 2008/2009 crash, again in 2015, and again since July of last year.



It likes to reside in the \$0.77/78 (ish) area at the low end, and go up to \$0.83 (ish) area at the high end. If that zone breaks (up or down) then the loonie tends to move aggressively in the direction of the break-out. Right now, it is flirting with \$0.77-0.78, which is right at the bottom of the trading range. If that holds, we can expect a move back up to the low \$0.80s. If it breaks down below \$0.77, look for \$0.74 or so.

## The C\$ and Oil

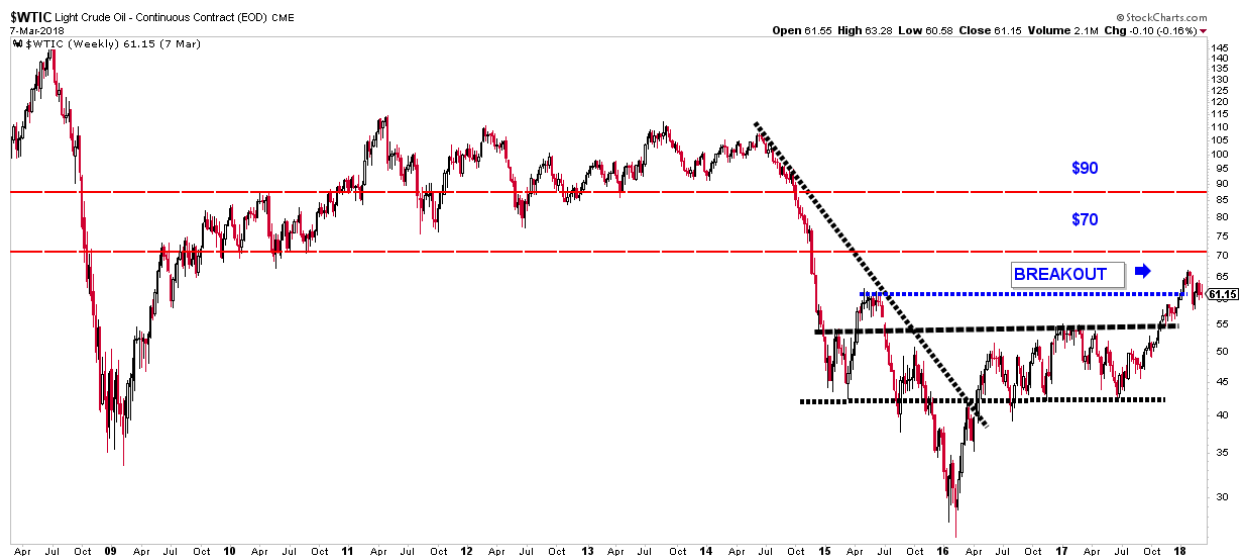
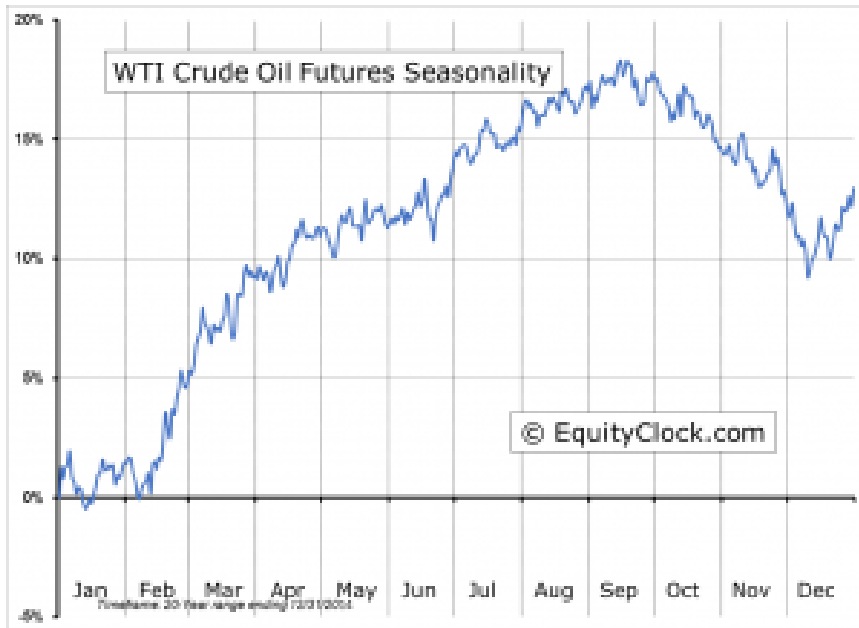
Approximately 14% of Canada's GDP comes directly or indirectly from the energy industry. This means oil/gas exploration and production. Add to that other industries affected by the industry, like Canadian banks (loaners), the transport industries (rail, pipeline, etc.) and distribution. It is a huge part of the Canadian economy. Thus, the C\$ is influenced by the price of oil. Seasonally, oil tends to do well from this time of the year until the spring. That usually helps the loonie. It may again this year.

Against that is the anti-business policies of Canada's left wing governments (provincially, federally). Carbon taxes, corporate tax pressure, and new employment law makes new investment difficult. For example, the biggest oil company in Canada, Suncor, [recently announced](#) that government pressures have forced them to sideline new investments/projects for the foreseeable future. This means that, despite a potentially rising price of oil, our major producers are not going to invest in as many projects, and our economy may be isolated from what is usually a Canada-positive development (rising energy prices). So...that can translate into a lower loonie.

## Factors for – and against – the Loonie

- For: The chart says the loonie could bounce from current levels by about 5-8%. That is good for the loonie.
- For: The pricing on oil often rises between February and early summer (increased usage in the summer creates stockpiling by producers pushing oil up into the spring). Normally, this is positive to the loonie given our exposure to oil as an economy (aka the famed "petro-loonie" nickname). Hence, the positive seasonality for the loonie that coincides with the oil seasonality chart below.





- For: The oil chart itself is positive – above.
- Against: The Canadian energy business is not on a level playing field with the other oil-producing countries – given government policy (see the Suncor article link above). Rising oil prices may not help our currency as much as it normally would. Further, our Canadian oil is of lower quality than WTIC, and fetches a lower price, which can leave a little less spread for the Canadian industry vs. WTIC.

## Strategy

I am in need of U.S. dollars as I look to build a house in the USA in the coming year or two. Perhaps some of you are in similar need of making a decision surrounding the conversion of a larger chunk of CDN dollars into US dollars.

What I did was convert/ buy about 20% of my desired position into USDs a couple of months ago at a bit over \$0.80. If the loonie can maintain its trading range (per the chart), you should see it get into the low \$0.80s again.

If I were just now considering a conversion, I would take my chances and hold out until the spring. Yes, the loonie might break support – that is the risk we take by not converting today. Seasonal and oil chart patterns offer some hope for the loonie – despite unfavorable Federal and Provincial policies.

The seasonal factors may help us see a few pennies to the upside in the near-term. Should the loonie get anywhere above \$0.80, consider converting capital to USDs. I will convert more if/as/when we see a move to or over \$0.80. If not, I would expect a freefall back to the low \$0.70s.

The longer-term outlook, with Canada's rising deficits and unfriendly business environment, will likely cause a break in the loonie into the low \$0.70s at some point in the near future.

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## 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/](http://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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