The winter of our discontent

Hilberry Hollow Jan 19, 2024 – Source. Steve Hilberry's back porch

We've had cold and snow all this week. While it's assumed a rare thing here on Canada's Big Island, we get these dumps once or twice a year. Snow typically follows a period of high pressure, arctic out-flow with below freezing temperatures pushed inland by large Pacific 'rain train' systems. The initial precipitation starts as snow, turns to mixed snow and freezing rain, followed by plain old rain. The result is messy roads, power outages from downed trees, school closures and mayhem. The snow melts, and it's all forgotten.

FOREX Update - National Bank Jan. 18, 2024

'The Canadian dollar has been under pressure from a combination of a stronger USD, a slowing economy and rising expectations for an easing in monetary policy. Oil prices have also failed to significantly rise despite renewed geopolitical pressure on the global stage. Looking ahead, rate cuts by the Bank of Canada are likely to arrive before the Fed and exacerbate the yield differential with the US. Combined with a risk off appreciation of the USD, we expect the Canadian dollar could reach 1.45 by the midpoint of this year only to recover slightly by year-end.'

https://nbf.bluematrix.com/sellside/EmailDocViewer?encrypt=c488e60d-2144-4b56-bcf7-1e26782aeeae&mime=pdf&co=nbf&id=steven.hilberry@nbc.ca&source=mail

$1.45? Ouch! At this writing the Loonie trades around $1.3460 per USD | $.7430 USD per Loonie. National's call for $1.45 implies another -7.4%. If correct, that decline would enhance US dollar assets (including commodities) in Canadian funds. That benefit would accrue to Canadian's holding US dollar investments, Canadian exporters of raw materials paid in US dollars, and Canadian businesses selling services paid in US dollars (think telemarketers, and web-based industries). A weaker Loonie adds to consumer inflation by driving up the cost of imported finished goods. Given Eastern Canada's reliance on imported gasoline (recall Quebec's denial of access of Western Canada Pipeline) this will add costs to driver's daily commute, increase the cost of oranges and iPhones. A weaker Loonie typically results in higher relative borrowing costs in Canada…eventually.

This begs the question, "Why is the Loonie falling". The attached report doesn't provide this guidance. For perspective here is the Loonie vs the US since 1995

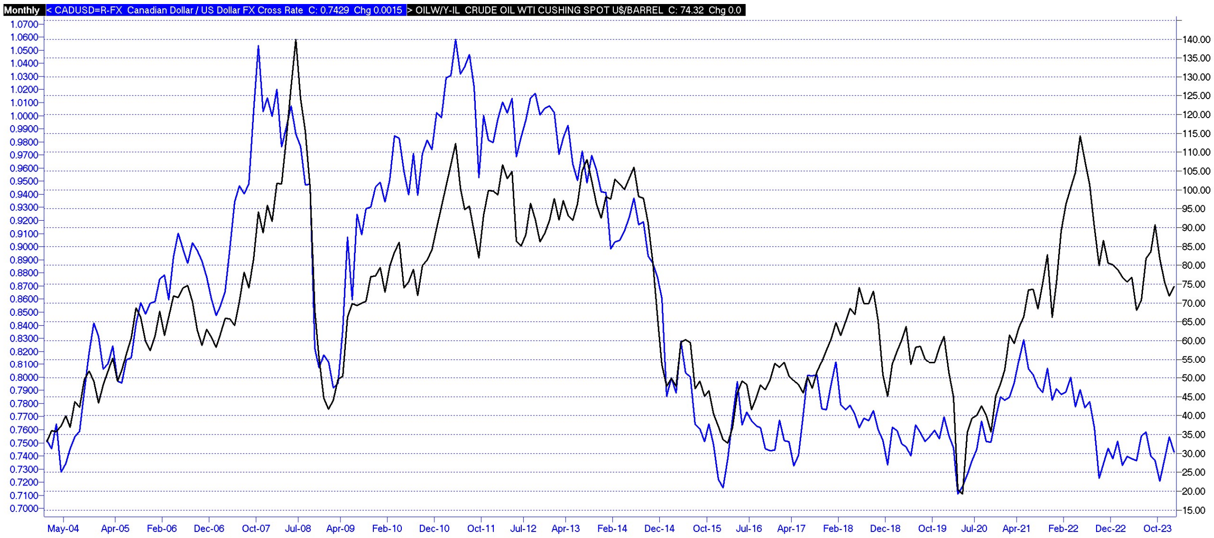
$1 Canadian priced in USD ($0.7430) – 1995-2023, monthly ranges

Source: Refinitiv, NBF, Hilberry

The far left-hand starting date is June/1995 with a FOREX rate of $0.726 cents USD per $CDN. The high price spike is $1.10 US per Loonie in the summer of 2007 followed by another spike to $1.06 in Feb/2011. The subsequent lows bottom at $0.68 Jan/2016 followed by another to $0.68 in March/2020 during the COVID-19 Pandemic panic.

A cynic might wonder if the election of the majority Liberal Government in Nov/2015 with their promises to run a deficit – a promise kept – followed by an industrial policy that turned away from hydrocarbon commodity extraction, had an effect. While it's a conveniently simple argument there's more to it. We're updating the Loonie/WTI chart of past Readings.

Loonie in USD (blue) vs. West Texas Intermediate (black) USD – 20 years



Source: Refinitiv, NBF, Hilberry

The 2003-2020 tight correlation of the Loonie to WTI confirms the international currency market's view of Canada as a petro-dollar. From 2003 to 2020, while it's fun, we can't blame Liberal fiscal or industrial policies for the weak Loonie. It was all about oil.

But wait! Note the clear divergence from March/2020 onwards. WTI has soared while the Loonie has weakened. That's new. Is that government policy affect? Maybe.

Joe Biden seeks a second term in this year's Nov 5, 2024 US President election. Mark your calendars! Donald Trump's lopsided win in Iowa, may portend his coronation to lead the GOP against Mr. Biden. Last week we provided links to opinions of why Mr. Trump's leadership could reduce the GOP's chances. History says defeating an incumbent president is hard but not impossible. Of the past 45 presidents who sought re-election (being most of them) only 10 failed to achieve a second term. Recent history is even more supportive of incumbents.

https://www.investopedia.com/financial-edge/0812/5-presidents-who-couldnt-secure-a-second-term.aspx

This coming Tuesday, the GOP primary circus moves on to New Hampshire. Ms. Haley is expected to show improved performance vs. Mr. Trump. If she fails to do so, Mr. Trump appears likely to represent the GOP…again…after having failed the previous attempt at re-election, joining the ranks of the above 10 presidential losers, no matter what he claims.

We believe the odds are closer than they should be. Re-running the loser against an incumbent winner seems a weak re-election strategy. The GOP under Trump is warring with itself. An example being GOP Tommy Tuberville's holding up military appointments and budgets from June to December 2023 in his battle to restrict abortions for military members. While hailed by the religious right, it enraged GOP supporters of the military. GOP Budget Hawkes are also upset with Mr. Trump's lack of financial discipline. Mr. Trump also faces multiple law suites and criminal proceedings. That, and his silly statements on presidential immunity has alienated the right of center/moderate voter and independents. The GOP can ill-afford internecine strife. Mr. Trump should be a walk over. The Democrats think so, hoping he wins the nomination.

On the other hand, Mr Biden has enacted his US brand of industrial policy affecting pocket-book issues like rising gasoline prices alienated middle-class consumers (Canadian politicians take note). The Democrats running up debt following the Republicans kicking of the same can down the same road, has also alienated the left-of-center to center fiscal moderates.

'Budgets And Governing' - First Trust Jan 16, 2024

https://www.ftportfolios.com/Commentary/EconomicResearch/2024/1/16/budgets-and-governing

The re-election of Donald Trump would likely complicate the current Canadian Federal Government's climate-driven industrial policies. Some believe his re-election would aid Canadian oil and gas companies. Given his penchant for punitive action and Mr. Trudeau's recent public musings over the prospect of Mr. Trumps re-election, we could see a frosty view of Canada under a Trump Administration. Note Mr. Biden hasn't been friendly to Canadian energy either. While Mr. Biden has cloaked this resistance in climate terms, he's been following a well-trod path of US protectionism of it's energy complex. Witness the dramatic expansion to record US oil and gas production and exports under his watch.

It's a mess. What do we think?

We believe despite these uncertainties and challenges, a longer-term view of Canada and the Loonie is needed. History says the Loonie rarely trades much below the current levels for long. While the frustration is understandable, dumping Canada and selling the Loonie at current levels in the past has led to disappointment. We suspect we're in the Winter of our Discontent. As every Canadian knows, spring follows. We're staying tilted toward Canada. In the meantime, US stocks continue to make new highs enhancing our US portfolios A moderately weaker Loonie would add some benefit there. We're keeping the US stocks too.

January 19, 2024

Have a Great Weekend

Steve & Anna Hilberry

<u>FOR THE RECORD January 19, 2024</u>

DOW INDUSTRIALS:	37,885
S&P 500:	4,840
S&P/TSX COMP:	20895
WTI:	$73.40
LOONIE IN $USD:	$0.7430 $US

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