

MONEY & MARKETS

TIP SHEET

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Seven reasons why the loonie may fall

British Columbia-based money manager Wilfred Hahn sees at least seven reasons why the Canadian dollar's rise against the greenback may finally come to an end.

"The run-up in the [Canadian] dollar has all of the classic hallmarks of an unsustainable - - we would even say maniacal -- top," warns Mr. Hahn of Hahn Investment Stewards & Co. Inc.

While he says that short-term currency predictions are a tough call, he is advising Canadian investors to swap some of their cash into U.S. dollars on the strength of these warning signals.

- The 40-per-cent or so runup in the Canadian dollar since the lows of 2002 is unprecedented in degree and rapidity.
- Canada has one of the highest dependencies upon trade of goods and services of any major, high-income country, yet financial market participants and politicians rarely sound the alarm about the impact of a high loonie on trade.
- The Canada-U.S. trade relationship is one of the largest in the world, accounting for a total flow of goods in excess of \$450-billion.

Given the size of that relationship, huge currency swings are "suicidal," in Mr. Hahn's opinion.

- Canada's economy is one of the most currency-sensitive in the world and also one of the thinnest traders in global exchange markets. As a small-fry currency, it takes very little capital from the rest of the world to move it. "When the Canadian dollar finally turns, the trend can snowball."

- Mr. Hahn's proprietary currency valuation measure, which he bases on classical currency theory and has found to be a trusty guide in the past, puts the loonie in a "high-risk" zone against the greenback.

- Canadian interest rates -- short and long term -- are below those in the United States. So "hot money" chasing yield can be ruled out as the support behind the loonie. Therefore, Mr. Hahn concludes the support must now be coming from "mania money."

- Economists and investment professionals remain bullish on the loonie -- in droves no less. "Who's left to put in the last marginal trade for a dollar top?" he wonders.

So where should the Canadian dollar trade? About 72 cents (U.S.) would be a good level, Mr. Hahn speculates, though anywhere up to 76 cents would likely be fair. While he doesn't know when or if that will happen, Mr. Hahn sees a much greater probability that the loonie will fall to that range rather than climb to parity with the U.S. currency.