



## Loonie to fly above parity by summer: CIBC

By SHARON SINGLETON, QMI AGENCY March 10, 2010

The loonie is likely to rise above parity with the U.S. dollar by the summer as higher interest rates, demand for commodities and the perception of Canada as financially solid push up the currency, CIBC World Markets said in a report.

The Canadian dollar is likely to trade at \$1.02 to the greenback by September, before dipping back to 97 cents by year's end, the report said.

CIBC is basing its forecast on the Bank of Canada raising rates in July, six months ahead of a move by the U.S. Federal Reserve.

The report may be good news for any Canadians planning an overseas vacation, but it's unlikely to be welcomed by the country's manufacturing sector, which is still limping its way out of recession. The strong loonie makes Canadian goods more expensive overseas.

"The economy has shown more momentum in the recent quarter and the higher dollar may slow things down," said CIBC Senior Economist Peter Buchanan. "We are also expecting the U.S. economy to downshift in the second half as stimulus spending runs out."

Gross Domestic Product in the U.S. expanded at 5.9% in the fourth quarter, outpacing Canada's 5%. Economists say strong underlying demand from the U.S. will be key to continued growth here.

Scotiabank currency strategist Sacha Tihanyi said Canada's economy is now better able to absorb the impact of a higher loonie than it was a few years ago. The bank expects the loonie to reach parity with the greenback by the end of the second quarter.

On Wednesday, the Canadian dollar hit its highest level in almost five months reaching as high as C\$1.0216 to the U.S. dollar, or 97.89 U.S. cents in morning trading. It retreated later as oil prices eased.

On the upside, the strength in the Canadian currency may help to reduce the impact of inflation, allowing the central bank more leeway in containing rate increases.

"Nobody should be surprised if the Bank of Canada begins hiking rates as soon as its June-end line in the sand has passed," CIBC Chief Economist Avery Shenfeld said, adding he expects rate increases will be implemented at a measured pace.

CIBC cited four other factors apart from interest rates as likely to boost the loonie.

The bank said strong demand for commodities such as oil minerals and fertilizer may boost the currency as exporters repatriate profits.

Inflows of foreign capital into Canada if mergers and acquisitions pick up together with increased carry trade will also boost the dollar, it said. Carry trade is when investors take advantage of lower U.S. rates to borrow the greenback to then invest in currencies with higher yields.

A perception of Canada as fiscally solid may also help the local currency as other governments around the world struggle to control deficits.