

As oil rises, loonie makes quiet gains against greenback The Globe and Mail

The Canadian dollar has been making a stealth rally against the U.S. dollar, rising 6 per cent against the greenback during the past four weeks.

"You are seeing a very good correlation between equities and the Canadian dollar," said Dustin Reid, a foreign exchange strategist and Canadian economist with RBS Global Banking and Markets in Chicago.

The rally under way in equities shows an increased risk appetite in general and that is reflected in the strength in the loonie, Mr. Reid said.

The move in the Canadian dollar also correlates well with the price of oil, which has been stronger, but not with commodities over all as measured by the Commodity Research Bureau. "Commodities, in general, haven't rallied as much as equities have," Mr. Reid said.

"We are at a huge inflection point in terms of macroeconomics as well as in history," Mr. Reid said.

The value of the U.S. dollar could erode over the longer term if investors become concerned that the quantitative easing program of the Federal Reserve Board is too aggressive, Mr. Reid said. The quantitative easing program entails the purchase of U.S. Treasuries in an effort to hold **interest rates** down.

However, if the U.S. **economy** begins to recover sharply, then you could see a renewed rally in the greenback, he said.

Still others think the greenback could be on its way down after a stunning surge as investors from around the world sought refuge in the U.S. dollar and Treasuries in the midst of the credit crisis.

"The U.S. dollar is a safe haven investment in troubled times and when it looks like the **economy** is getting better, it will ease off," said Robert Tebbutt, vice-president of Peregrine Financial Group Canada Inc. "I have been looking for it, but it has taken longer than I expected," he said. "The hot money will look for other areas to invest."

Weakness in the U.S. dollar would also benefit the American **economy** by making its exports even more competitive, Mr. Tebbutt said.

From a technician's point of view, both the euro and loonie have been forming bases against the greenback and seem poised to climb higher, he said. "What the markets are saying is that 'Yes, we think the U.S. dollar has topped. ' "

The rise in the U.S. dollar against the loonie and other currencies can, at least in part, be attributed to the Fed's policies in addition to the return of risk appetite.

"Essentially you have the U.S. printing money faster than Canada's central bank, which hasn't even started," said Michael Gregory, a senior economist with BMO Nesbitt Burns Inc. "The Fed's balance sheet is potentially poised to more than double to as much as \$4.5-trillion (U.S.) from \$2.1-trillion currently, which is already more than double the size it was before the bankruptcy of Lehman Brothers Inc.," he said. "The Fed's asset buying spree and lending frenzy will likely continue as long as the cost and availability of credit remains problematic in the U.S. **economy**."