

Taking Stock with Steele

Your Monthly Newsletter

The purpose of this newsletter is to share insights and expertise. Our goal is to ensure that our clients are well-informed of changes affecting local business decisions and our investment recommendations.

We believe Knowledge Pays and we want our knowledge to help pay for you.

WHAT IS DRIVING THE CANADIAN DOLLAR? HAS THE DOLLAR DECOUPLED FROM OIL?

Traditionally, rising oil prices result in the Canadian dollar rising relative to the U.S. dollar. A simple exercise to determine just how much the Canadian dollar could be expected to move in reaction to oil price appreciation is to make a not so bold assumption that the Canadian dollar would reach parity if oil prices reached US\$100. While this assumption is not scientific, it does provide a rough expected correlation based on past relative trading levels. **If we use this as a benchmark, we could expect the Canadian dollar to rise by 0.28% for every 1% rise in oil prices.** Using this benchmark, one would expect the Canadian dollar to increase by 4.2% in response to a 15% rise in oil prices for the two days after OPEC's announcement on November 30. So why, following OPEC's decision to cut production by 1.2 million barrels of oil per day was the Canadian dollar up only 1%?

The Canadian dollar's lack of movement can be mostly attributed to rising interest rate expectations in the U.S. relative to Canada. President-elect Trump's platform is expected to be more inflationary than the current administration and Trump's cabinet has spoken openly about running sizeable budget deficits to fund this inflationary agenda. As a result, interest rate expectations have risen substantially since the election on November 8. If/when U.S. interest rates are higher than Canadian interest rates, the U.S. dollar is more attractive to own than the Canadian dollar. If U.S. interest rate expectations rise but Canadian interest rate expectations do not rise as much, the Canadian dollar should depreciate relative to the U.S. dollar.

While Canadian interest rate expectations can be affected by changes in oil prices and oil price expectations as rising oil prices should result in higher Canadian economic activity and inflation, if recent market action is any guide, **it may take a substantial rally in oil prices to have a meaningfully positive impact on the Canadian dollar.** There is some logic in the market's reaction to the recent oil rally as relatively moderate changes in oil prices are unlikely to have a significant impact on economic activity and inflation and while moderate changes in oil prices could signal the beginning of an oil price paradigm shift, **currency investors will likely remain skeptical until energy sector related economic activity begins to rebound in a meaningful way.**

The days since the November 30 OPEC meeting have been telling with respect to the Canadian dollar. As a result of recent market action, **we believe the Canadian dollar's value will be driven mostly by changes in U.S. interest rate expectations and that oil prices are currently playing second fiddle.** That said, a major sustained move in oil prices could cause a recoupling and push the Canadian dollar higher, in line with past correlations.

Current Rates & Data

Govt of Canada

| | |
|---------|-------|
| 90 day | 0.47% |
| 1 year | 0.60% |
| 2 year | 0.74% |
| 5 year | 1.07% |
| 10 year | 1.70% |
| 30 year | 2.34% |

U.S. Treasury

| | |
|---------|-------|
| 90 day | 0.52% |
| 1 year | 0.84% |
| 2 year | 1.13% |
| 5 year | 1.87% |
| 10 year | 2.44% |
| 30 year | 3.12% |

Canada Prime Rate

2.70%

U.S. Prime Rate

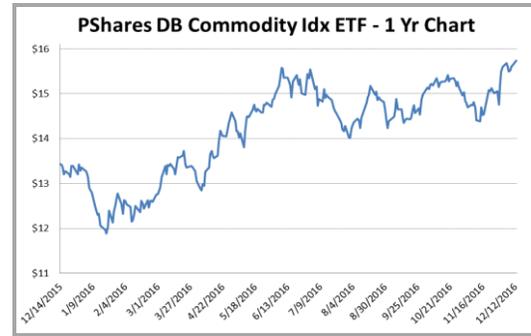
3.50%

Exchange Rates

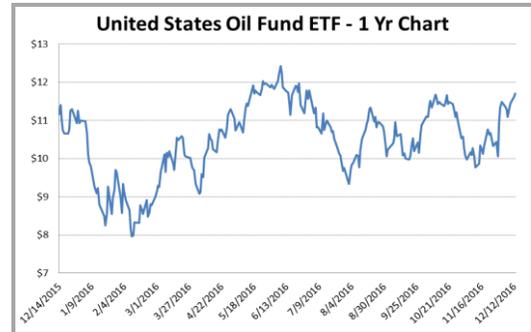
| | |
|---------|-------|
| CAD/USD | 0.762 |
| USD/EUR | 1.064 |
| JPY/USD | 115.3 |

ECONOMIC TIDBITS GOLDMAN, AND OTHERS, GO LONG COMMODITIES & OPEC, AND OTHERS, AGREE TO CUT

- As a result of improving Chinese economic and industrial data and Donald Trump's infrastructure plans, several investment banks and research companies boosted their outlook for commodities. In late November, Goldman Sachs recommended that investors go overweight commodities for the first time in four years. Coal, iron ore and oil prices are up considerably year-to-date.



- On November 30, OPEC agreed to cut production by 1.2 million barrels per day, beyond expectations. On December 12, eleven non-OPEC nations led by Russia and Mexico, agreed to cut production as well. Although there is always the concern that nations will cheat and produce more than agreed, such broad agreement aids confidence. Oil jumped ~15% after the OPEC deal and ~5% after the latter deal.



MY LIFE MATTERS OUR WORK WITH WATERLOO REGION SUICIDE PREVENTION COUNCIL

We thought we would give you an update on our work with the Waterloo Region Suicide Prevention Council. In the summer of 2016, our employees cut and bagged the materials to make 60,000 of the 100,000 ribbons that were distributed across Canada for World Suicide Prevention Day on September 10, 2016. These ribbons were distributed from Cranbrook, British Columbia to Corner Brook, Newfoundland and as far north as Iqaluit, Nunavut. This is the first year where there was a standardized ribbon made to commemorate World Suicide Prevention Day.

We attended World Suicide Prevention Day at Wilfrid Laurier University in September. It was amazing to see the amount of resources available in our community to support residents who are struggling with mental health issues. These ceremonies were live streamed across the country.

In the fall, our attention turned to the Jacob Ranton Memorial Basketball Tournament which is now in its second year. It was held this past weekend and we applaud the work of Doug and Sandra Ranton. Doug and Sandra's honesty and openness about suicide and their personal experience is commendable. Despite being a fairly new event, the tournament has achieved great success in both raising awareness and fundraising.

Tana Nash is the director of the Waterloo Suicide Prevention Council. She has worked very hard on this important cause to fundraise and introduce many important initiatives for our community. Our team at Steele Wealth Management has contributed our time and dollars to help increase awareness and open discussion about suicide and mental health.

JEANNINE'S TIP O' THE MONTH YEAR END TAX TIPS

Offsetting Capital Gains – crystalize some losses to offset gains. Trades must be placed by December 23rd for Canadian markets and December 27 for U.S. markets.

Charitable Donations – must be made by year end. Donating securities that have unrealized capital gains can be tax-efficient.

RESP Contributions – must be made by year end. If the beneficiary turned 17 in 2016, this is the last eligible year for the grant.

This newsletter has been brought to you by Steele Wealth Management

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