Examining canadian dollar to us dollar for five year period

ASSIGN
BUSTER

There has been a revolution in US business practices. Several factors have combined to force significant change to the US economy, and the resultant changes on company production costs/techniques and location has forced a bifurcation of the workforce and the business community. The United States has been drawn into the world economy, and as such must compete globally for sales of its goods and services. So too, the labor force, once the highest paid and most respected in the world, has been forced to compete with lower-cost labor sources worldwide. Add the economic malaise of 2007-2008, and the years 2006-2010 reflect an economic upheaval never seen before, or likely, since. This exercise tracks the exchange rate between the US dollar and the Canadian dollar over that period, and , the author believes, tracks closely the macroeconomic conditions between the two countries during the selected period of 2006-2010. This paper will show that a review of economic history, followed by a review of the exchange rates for the fund, (symbol FXC), will show a close correlation.

2006-2007 saw the end of boom economics for many Americans. Loose credit policies allowed stock and real estate prices to expand rapidly. Real estate speculators would execute options on new condominiums, only to flip those contracts to another purchaser for profit before the property was built. Several forces combined to threaten collapse of the US financial markets, from rogue traders making huge bets that threatened the existence of their companies, to job losses, to remarketed sub prime consumer mortgage debt and devaluation of home prices, often to values below the debts attached to them. Stock markets were threatened with huge losses, so much that stock

trading was suspended in several countries around the world for brief periods. (1)

Also notable in October 2008 was the world currency markets fleeing to the US dollar and Japanese Yen, seeking save haven from currency devaluations elsewhere. (2)

Governments took action to prop up currencies, stabilize security trading, and restore confidence to the markets. These actions did not immediately take hold; in March 2009, the Dow Jones Industrial Average (DJIA), which has long been the benchmark stock market index in the United States, had declined to 6, 469 before beginning to rally, which was quite a drop from 14, 164 on October 9, 2007. (3). The US DJIA did not return to an average exceeding 14, 000 until February 2013. (4)

Canadian economics are closely related to US economic indicators. As the largest single trading partner of the United States, (5) Canadian and US financial matters are heavily reliant upon each other. Since both economies are highly developed, factors such as labor outsourcing from the US to Canada would not be factors in currency fluctuations. Outsourcing from the US to lower cost regions, such as India, would have economic impact, but not in the currency between the US and Canada.

As expected, the five year chart covering the trading ETF between the US and Canadian dollars (FXC) (6) reacted to economic news of the time. The US was undergoing significant domestic growth and output in early 2007, and currency traders buoyed the US dollar relative to other currencies. As the US economic concerns took hold in 2008, other countries like Canada which

were not as severely impacted saw their currencies rise against the dollar. In 2009, as the yen and US dollar were seen as world safe havens, the US dollar strengthened against other currencies, which is also reflected in the chart, attached. As commerce stabilized, the US economy was no longer seen as a safe haven, and the Canadian dollar strengthened against the dollar, to a point where they have been approximately on par since late 2009 to 2010.

The ETF history, as expected, closely mirrors the macroeconomic conditions of the time and between the parties. Currencies appear to be judged based on economic conditions as a whole, rather than specific, micro dealings with a specific company or even industry. When the US was considered a safe haven, the US dollar was buoyed against other currencies as a whole, then reduced in value, likely regressed to the mean, as its domestic economic transition and debt burden again were the major macroeconomic forces impacting the currency.

The economic shifts in the US economy are only partially addressed through this exercise. A comparison of exchange between the US and China, for example, might reflect balance of trade and debt issues, since China currently holds significant investment in US Treasuries (7). However, historically tracking exchange rates between the US and Canada reflected a close correlation between economic conditions of the time, as well as a return to standard after a period of severe economic stress.

References:

(1) Wikipedia, market closures in many countries. Stock Market Crash, http://en. wikipedia. org/wiki/Stock_market_crash, Accessed 4-07-17.

(2) Ibid

(3) Ibid

(4) Google, DJIA historical average chart. Dow Jones Industrial Average, https://www. google. com/search? client= opera&q= djia+average&sourceid= opera&ie= utf-8&oe= utf-8&channel= suggest Accessed 4-07-17.

(5) Wikipedia, hierarchy of the largest trading partners of the United States. List of the largest trading partners of the United States, http://en. wikipedia. org/wiki/List_of_the_largest_trading_partners_of_the_United_States Accessed 4-07-17.

(6) Stock-Encyclopedia. com, historical trading chart for the Canadian-US dollar ETF. The ETF: CurrencyShares Canadian Dollar Trust ETF (FXC) http://etf. stock-encyclopedia. com/FXC. html Accessed 4-07-17.

(7) US TREASURY, Chinese investment in US Treasuries, MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES, http://www. treasury. gov/resource-center/data-chart-center/tic/Documents/mfh. txt Accessed 4-07-17.