

Loonie at par by summer: economists

Last Updated: Wednesday, March 10, 2010 | 1:44 PM ET [Comments 297](#) [Recommend 134](#)
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Interest rate increases will drive the Canadian dollar back up to parity with its U.S. counterpart by this summer, according to a growing chorus of economists.



The dollar could hit \$1.02 US by September, according to a currency forecast from CIBC World Markets. (Adrian Wyld/Canadian Press)

The latest prediction of parity came Wednesday from CIBC World Markets.

Its forecast is based on the expectation that the Bank of Canada will hike its key lending rate in July, at least six months ahead of the first hike by the U.S. Federal Reserve.

"Indeed, we've already seen the Canadian dollar gain several cents in recent weeks as the market began to firm up expectations" of a July rate hike in Canada, says CIBC chief economist Avery Shenfeld.

The loonie was quoted at 97.48 cents US at the close of trading Wednesday. It's gained almost 3.5 cents against the greenback in the last two weeks.

CIBC's currency outlook sees the loonie rising to \$1.02 US by September before slipping back to 97 cents US by the end of the year.

While the Bank of Canada's early rate hike is one of the main catalysts of the dollar's rise, it isn't the only one, CIBC says.

Rising commodity prices a factor

The investment bank also lists rising demand for commodities as a reason. It sees the dollar benefiting from rising oil, mineral and fertilizer prices as Canadian producers "repatriate profits."

With capital markets bouncing back, the forecast says the loonie also stands to gain because the rest of the world considers Canada to have one of the "friendliest" environments to make foreign acquisitions.

"If the capital markets finally get an appetite for M&A, then Canada could be one of the first places to see the benefit of foreign inflows," says CIBC analyst Zafar Bhatti.

Fears of default by a sovereign nation could also drive the dollar. "Canada is one of the few remaining AAA credits with a healthy outlook and the Canadian dollar could benefit from a switch trade out of weak sovereign names to Canada," Bhatti says.

Other banks see parity looming

CIBC isn't alone in forecasting a summer return to parity for the dollar. Scotiabank and BMO economists have both weighed in on the increasing likelihood of parity.

"With the recently released Q4 Canadian GDP data and a more hawkish sounding Bank of Canada, we feel that the case for [the Canadian and U.S. dollars] to sustainably trade to parity by the end of Q2 has strengthened," Scotiabank said in a foreign exchange note this week.

BMO economists also see parity by the summer. "We look for the loonie to trade through parity by Q3, leading the Bank [of Canada] to hike rates more cautiously," said a report by BMO Capital Markets last week.

The last time the dollar reached parity with the U.S. dollar was in 2007 and 2008, when oil prices surged as high as \$147 US a barrel.

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[Obama Harper](#) wrote:Posted 2010/03/10

at 7:51 PM ETShrinking City

Just read an article that Detroit is leveling all the burned out vacant homes in the city. They are putting in farm land and trees. The city is 139 SQ miles and as much as 1/4 will be leveled.

This is our biggest trading partner?

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[firstthings](#) wrote:Posted 2010/03/10

at 7:49 PM ETSee the funny thing about economists is they don't forecast they say things that have already happened. Indeed the dollar is already almost at par, so chances are it could reach par. It may not, but the chances are good so the economists are make an educated guess. But six months ago when the dollar was under 90 cents they were mute, why? Because back then the really didn't have a clue how high it would go. Boy I would like to have their job !

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[4 Agree 0 Disagree Policy Report abuse](#)[264338327950](#) wrote: Posted 2010/03/10

at 7:43 PM ET when the canadian dollar goes up, the price of oil goes up...

...which pushes the dollar up....

...which pushes oil up...

that could get real scary, real fast. relax. the thing is that our dollar isn't up, really, or at least not significantly. yeah, it'll bounce about a bit, and it's a tad up on the euro as we speak but that could change next week. in fact, if you look at this chart:

<http://ca.finance.yahoo.com/q/bc?s=CADEUR=X&t=5y&l=on&z=m&q=l&c=>

you'll see that we're practically pegged; you're looking at ten cents either way and we're at the peak of the curve.

if i was a foreign investor, i'd be getting ready to sell, sell, sell when it comes to the cad because this is about as high as she gets.

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[3 Agree 1 Disagree Policy Report abuse](#)[fifth essence](#) wrote: Posted 2010/03/10

at 7:39 PM ET are these the same economist that predicted the failed economy? Looks like another pick a slip out of the hat.

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[2 Agree 1 Disagree Policy Report abuse](#)[Philo8](#) wrote: Posted 2010/03/10

at 7:08 PM ET I remember when long before we converted to loonies that our dollar was worth much more than the greenback; it was Canada's golden age when a man could afford to support a family without his wife working, and own his own home in twenty years, with never seeing a college. But back then politicians were real men with ethics, and we still had a semblance of democracy in the country.

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