Issue 12 Friday, March 24th, 2017

This week our Canadian Government released its latest Federal Budget to a resounding yawn. This year's budget was very much a "wait and see" budget, as Finance Minister Bill Morneau opted to take a prudent approach in anticipation of the changes to tax and trade policies in the United States.

A few notable highlights included no adjustments to the capital gains tax inclusion rate or dividend tax credit as rumoured possible, with young, growing families receiving an extension of paternity leave EI benefits to 18 months. All were well received, and for a fuller summary of the budget highlights please click here.

Quite possibly, the most exciting news this week was the announcement from MacDonald's that the company will begin selling its Bic Mac, McChicken and McFish sauces in grocery stores later this year. I don't know about you, but definitely something that needs to be tried at a BBQ this summer.

Sticking with the MacDonald's theme, in 1986, The Economist invented the Big Mac Index as a lighthearted guide to whether currencies were trading at their correct values. It is based on the theory of purchasing power parity; the notion that in the long run, exchange rates should move towards a rate that an equal basket of goods is the same price in any two countries. Given that the Big Mac is nearly ubiquitous around the world, it became that "equal basket of goods".

While "burgernomics" was never intended to be a precise gauge of currency misalignment, with the relationship between prices and GDP (Gross Domestic Product) per person being a much better guide to the fair value of any currency, it is certainly more fun. So much so that the Big Mac Index has nearly become a global standard and the subject of more than 20 academic studies around the world.

In keeping with this week's lighthearted commentary, according to the latest Index measure, a Big Mac in Canada costs on average $5.98 CAD, whereas the same Big Mac in the United States costs $5.06 USD. Based on this measure, the appropriate exchange rate should be $1.18, however the current market exchange rate currently sits at $1.33. For those that take their fast food seriously, you would think our Loonie is undervalued by about 11%, but we would rather suggest that the Bic Mac is underpriced by 11% (shudder the thought).

Even though a Big Mac is something you need to have once in a blue moon, we certainly wouldn't be making currency investment decisions based on its price. So, what do we think of the Canadian Dollar? Sorry MacDonald's, we think your index is a little off on this one over the near term. To truly answer that question, one really needs to evaluate Canadian GDP growth and our bond yields relative to other major countries such as the United States.

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Considering that US GDP is outpacing Canadian GDP and that the FOMC has begun raising interest rates south of the border, it is our belief that the Canadian Dollar will actually weaken versus the US Dollar in the near future.

As the negative impact from the energy sector downturn continues to fade, and with fiscal stimulus slowly materializing, headwinds from over-levered households and chronic trade deficits should constrain Canadian GDP growth to slightly below or at the 2% level. With the IMF (International Monetary Fund) forecasting global GDP growth in the 3% to 3.5% range, it is difficult to see the Canadian dollar strengthening in such an environment.

We continue to believe that our North American Strategist, Martin Roberge (among others), is correct in his forecast that the Canadian Dollar could trade to the 70 cent level this year.

Thank you for reading our Market Watch Weekly, and enjoy the weekend with friends and family.

Sincerely,
Dekker Hewett Group

TODAY'S STOCK WATCH

S&P/ TSX Composite	15,459
Dow Jones Indus. Avg.	20,630
S&P 500	2,347
Canadian/US Dollar	\$0.7476
US/Canadian Dollar	\$1.3377
Euro / Canadian	\$1.4452
Gold	\$1251.50
Silver	\$17.75
Copper	\$2.63
Brent Crude Oil	\$50.87
WTI Crude Oil	\$48.01
Natural Gas	\$3.15

*As of 11:45AM on Friday, March 24th

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