FX Forecasts

Desjardins Economic Studies

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October 17, 2008

The greenback benefits from financial tensions

Highlights

USD
The greenback appears to be overvalued in several respects, but financial tensions caution us not to count on a correction any time soon.

USDCAD
The loonie is hard hit by the decline in energy and non-energy raw materials prices. A new cyclical peak may soon be tested for the USDCAD rate.

EURUSD
The euro is off the rails: the currency appears to be oversold, but more-aggressive-than-expected interest rate cuts by the ECB will push it below US$1.30 by mid-2009.

GBPUSD
The pound sterling continues its retreat.

USDJPY
The yen is benefiting from the panic reigning in the markets.

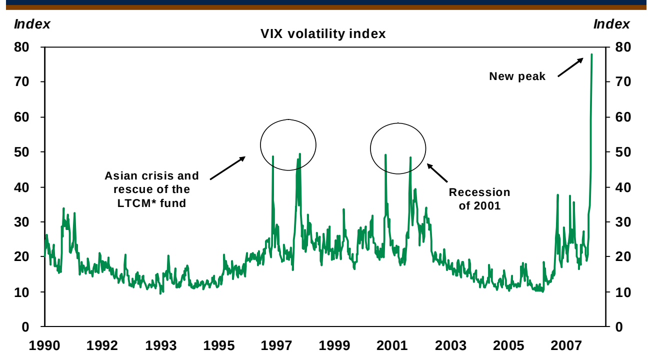
AUDUSD
The Australian dollar has lost all its support; no significant rebound expected before mid-2009.

Contents

Editorial

The financial markets have been shaken by an historic period of turbulence (graph 1). In a wave of panic, investors have jumped ship, driving stock markets down sharply around the globe. The confidence of major market players was severely tested, with the collapse of several banking institutions, the dysfunction of the credit market and the international scope of the crisis pushing the governments of the main industrialized countries to undertake a joint rescue plan. Nothing was left to chance: the G7 countries agreed to use all the tools available to them to support the beleaguered institutions, restore the availability of credit and support global economic growth. After some European banks were nationalized, the market showed its disapproval of the Paulson plan, forcing the Bush administration to inject US$250B in a last-ditch effort to recapitalize commercial banks in the U.S.

Graph 1 – Volatility has never been so high



* Long-Term Capital Management.
Sources: Bloomberg and Desjardins, Economic Studies

Given the international scope of the crisis, the greenback benefited from its safe-haven status, appreciating at a near-vertical rate against all of the main currencies except for the yen (graph 2).

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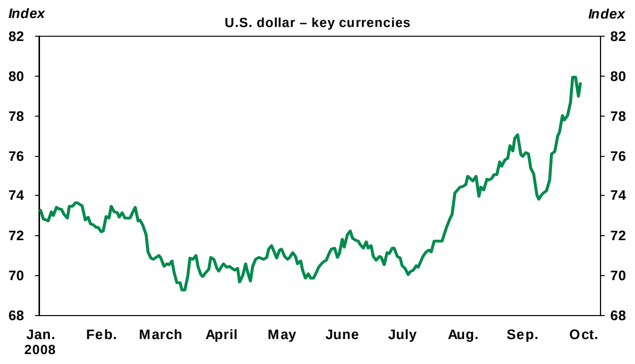
Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

Graph 2 – The intensification of risk is to the greenback's advantage

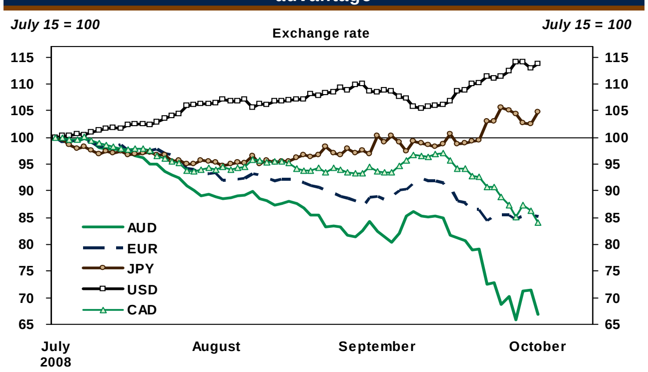


Sources: Datastream and Desjardins, Economic Studies

IS THE GREENBACK OVERVALUED?

We maintain the conclusions drawn in our quarterly forecast of September. In the very short term, the greenback may continue to profit from the financial chaos that is afflicting the planet. But before it starts heading along the path of sustainable growth, it seems clear that a correction is inevitable. This is because the scope of the U.S. dollar's rise against most of the major currencies is beyond all understanding. In the past three months, the euro and the pound sterling have lost nearly 17% of their value. The Canadian dollar seemed to be standing on its own, but then it collapsed, losing over 15% of its value in just three weeks. Only the yen resisted the trend, benefiting from a reversal of carry trade positions due to a reassessment of risk (graph 3).

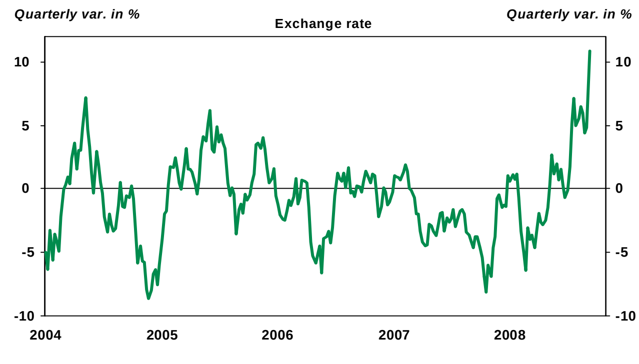
Graph 3 – The intensification of risk is to the greenback's advantage



Sources: Bank of England and Desjardins, Economic Studies

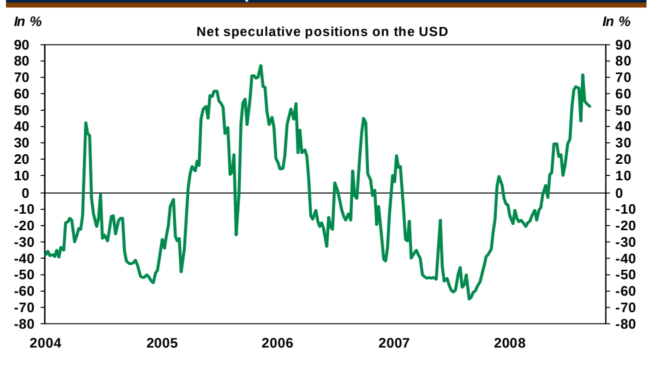
Given recent developments, it would be dangerous to stake too much on a contrarian strategy, but everything is pointing towards a potential decline of the greenback. The net speculative positions on the U.S. dollar index and the momentum have reached levels that are compatible with a correction (graphs 4 and 5).

Graph 4 – The recent upsurge of the greenback...



Sources: Datastream and Desjardins, Economic Studies

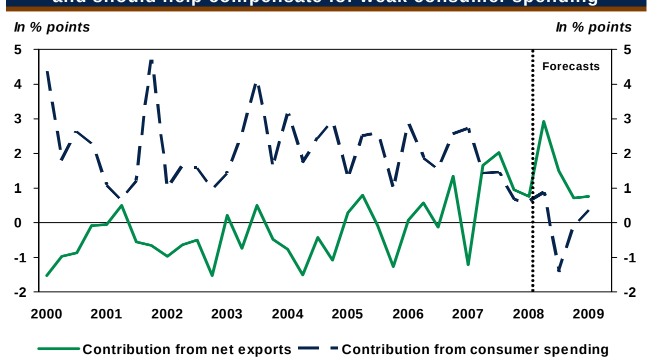
Graph 5 – ...combined with net speculative positions, is compatible with a correction



Sources: Commitment Traders Report and Desjardins, Economic Studies

This would be all to the good; given the drastic tightening of credit conditions, a deteriorating job market and a collapse in real estate and stock market wealth, the American economy still needs a weak currency in order to generate some growth (graph 6).

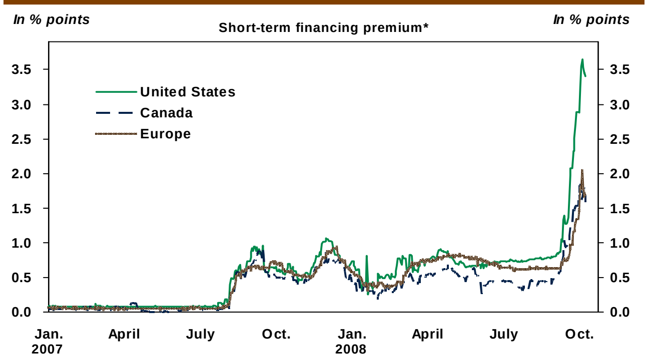
Graph 6 – The contribution from foreign trade is still strong and should help compensate for weak consumer spending



Sources: Bureau of Economic Analysis and Desjardins, Economic Studies

However, the markets will keep focusing their attention on financial stresses. Despite the numerous actions taken to restore confidence, the interbank market has yet to show any significant signs of improvement (graph 7). Therefore, the expected correction in the value of the dollar may take some time to materialize.

Graph 7 – Financing spreads have widened considerably since the beginning of the crisis



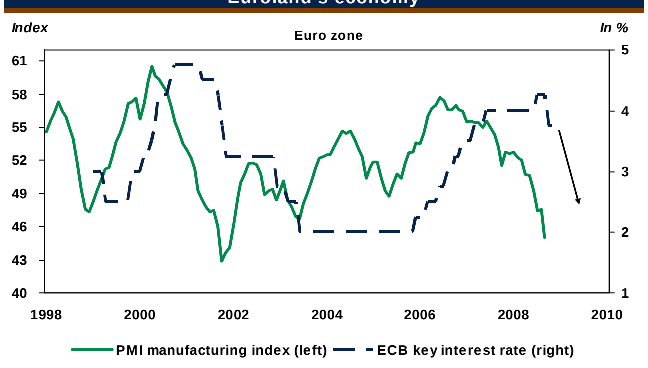
* Three-month spread between the Libor rate and one-day fund swaps
Sources: Bloomberg and Desjardins, Economic Studies

EUROPEAN CURRENCIES WILL BE WEAKER THAN FORECAST IN 2009

The concerted interest rate cut of 50 basis points in the main industrialized economies[1] has limited currency fluctuations; but with the door open to rate cuts, it now seems inevitable that the European currencies will reach lower levels than we originally anticipated.

Risks of a significant economic slowdown are evident, and more aggressive interest rate cuts than had been forecast are increasingly likely, both in the United Kingdom and in the euro zone. Due to concerns about inflation, the European Central Bank is way behind in its monetary easing cycle, and this situation is clearly to the euro's disadvantage (graph 8). Consequently, once the period of financial turmoil—which obviously generates a good deal of irrationality in the market—is over, the fundamental variables that dictate currency trends will most likely gain the upper hand.

Graph 8 – The ECB has a lot of catching up to do to revitalize Euroland's economy



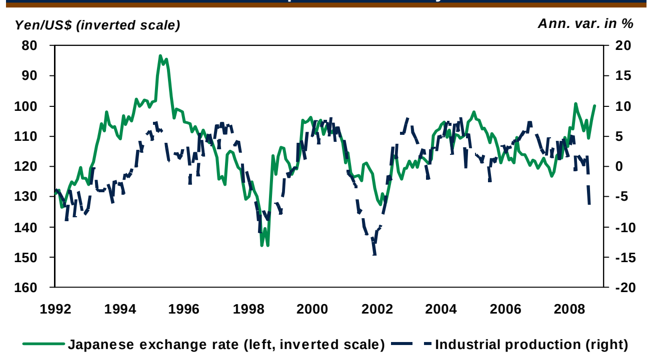
Sources: Datastream and Desjardins, Economic Studies

THE YEN BENEFITS FROM THE CRISIS, AT THE EXPENSE OF THE JAPANESE ECONOMY

The financial tensions have been to the yen's advantage in recent weeks. Due to a reassessment of risk, the Japanese currency has appreciated by nearly 10% against the greenback. Certainly, the conservatism of Japanese banks has enabled them to withstand the repercussions of the financial crisis. However, the yen's current level is not consistent with the fundamental variables.

The economy collapsed in the second quarter, with real GDP tumbling by 3.0%. Consumer confidence is at an historic low, and the nearly 7% drop in industrial production is a clear sign that a weak currency is needed to stimulate economic growth (graph 9).

Graph 9 – The yen's vitality does not reflect the fundamentals of the Japanese economy



Sources: Datastream and Desjardins, Economic Studies

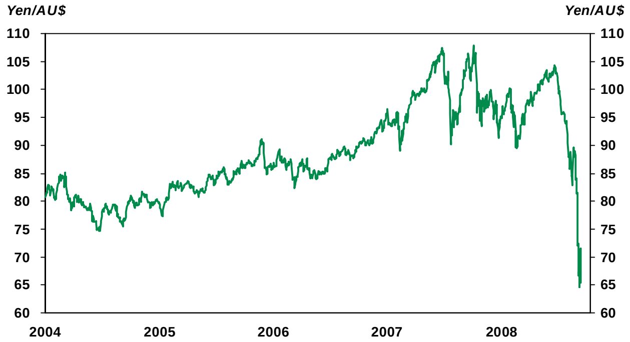
AUSTRALIAN DOLLAR ON A ROUGH RIDE

The market's feelings about risk are even more evident if we compare the yen to the Australian dollar whose cross rate lost nearly 40% of its value during the worst period of the crisis, i.e. between July 15 and October 10 (graph 10).

This largely reflects a real turnaround by Australian monetary authorities to deal with the economic and financial situation. The Reserve Bank of Australia unexpectedly chopped its key interest rate by 100 basis points to 6.0% in October, and further aggressive cuts will probably be ordered in the months to come.

[1] Japan approved the action, but was unable to join in, since its key interest rate is already very low (0.50%).

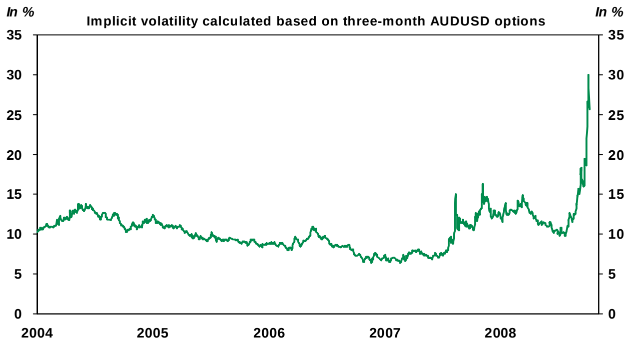
Graph 10 – The yen appreciates, the Australian dollar tumbles



Sources: Bloomberg and Desjardins, Economic Studies

The current weakness of the Australian dollar strikes us as exaggerated, however, and we may see a rally before too long. Clearly, the market's pessimism about this currency has assumed never-before-seen proportions. The speculative positions and the momentum are at an historic low (see page 10 for more details). Furthermore, the implicit volatility, based on options between the greenback and the Australian dollar, has reached the highest level ever recorded (graph 11).

Graph 11 – Implicit volatility on the Australian dollar has reached levels never seen before



Sources: Datastream and Desjardins, Economic Studies

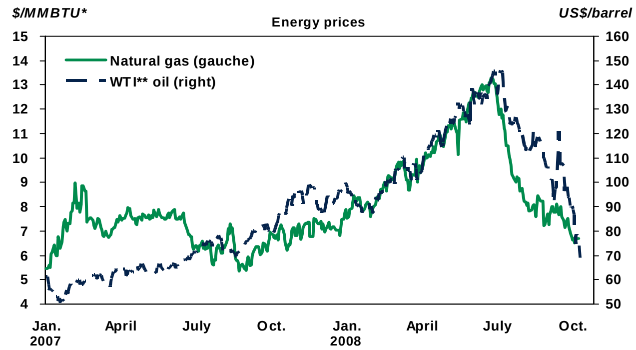
Still, it is too soon yet to count on a sustainable reversal of this recent trend. Apart from the trouble generated by the decline in the domestic real estate market, the gradual spreading of the economic slowdown around the globe will continue to put downward pressure on raw material prices in the months to come.

We are more optimistic for 2009. An economic recovery in the United States, however modest, combined with continued industrialization in the emerging Asian economies, should provide a great opportunity for buying currencies that are linked to commodity prices, particularly the Australian dollar.

CANADIAN DOLLAR IN FREEFALL

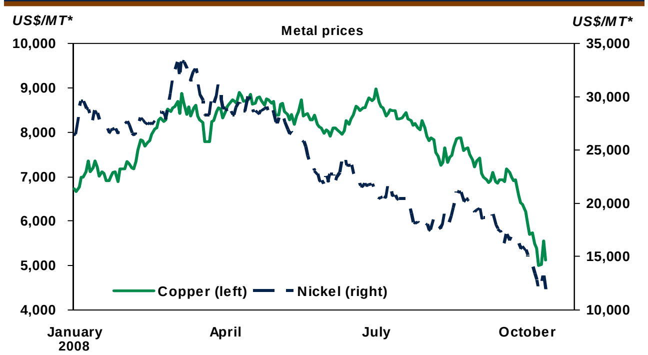
Our short-term position on the loonie has changed substantially in recent weeks. After standing firm for a good portion of the crisis, the Canadian dollar collapsed starting in mid-September. The currency was hard hit by the severe correction in energy and non-energy raw materials prices (graphs 12 and 13). We feel that the retreat in oil prices has pretty much run its course, but unless the financial crisis is resolved soon, tensions in the credit market will continue to exacerbate risks of global recession, along with demand for raw materials.

Graph 12 – The Canadian dollar has been hard hit by the decline in energy prices...



* Million British Thermal Units; ** West Texas Intermediate.
Sources: Datastream and Desjardins, Economic Studies

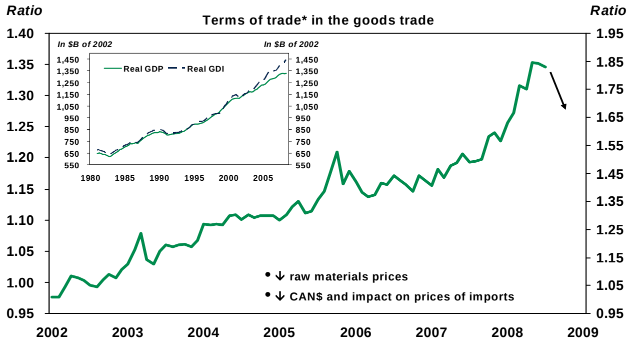
Graph 13 – ...and in metal prices



* Metric ton.
Sources: Datastream and Desjardins, Economic Studies

Meanwhile, the possibility of lower-than-expected oil prices requires us to take into account a reversal of the wealth effects created in recent years (graph 14). Even though we are already among the most pessimistic of the consensus of private-sector forecasters, this factor leads us to anticipate further interest rate cuts by Canadian monetary authorities between now and the beginning of 2009. In these conditions, the loonie may continue to lose ground in the weeks to come, potentially pushing the greenback to a peak of CAN$1.25.

Graph 14 – An imminent reversal in the wealth effect associated with terms of trade



* Ratio of export prices to import prices.
Sources: Statistics Canada and Desjardins, Economic Studies

For the longer term, our optimism remains unshakable, however: the recent correction in the price of oil is merely a temporary dip in an upward trend. Consequently, a gradual return towards parity strikes us as the most likely scenario between now and the end of 2009.

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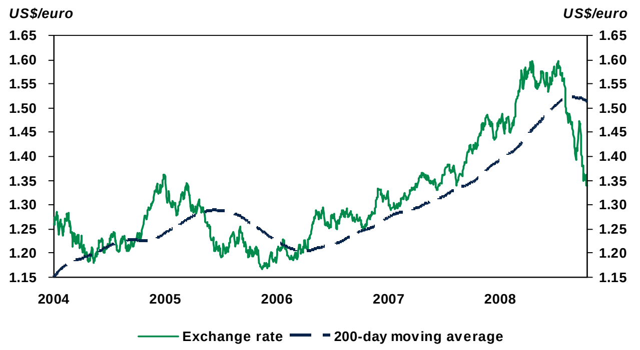
EURO (EUR)

The euro is off the rails!

- The long period of appreciation of the Euroland currency is now clearly over, and its depreciation against the greenback has accelerated in recent weeks. After rising above US$1.47 in mid-September thanks to the collapse of Lehman Brothers, the euro quickly tumbled to around US$1.35 when it was the European financial institutions' turn to be rescued by governments. The complete about-face by the European Central Bank (ECB), which cut its key interest rates by 50 basis points on October 8 in a joint action with five other major central banks, also put downward pressure on the euro.
- Market indicators clearly reflect the intensity of the Euroland currency's recent correction. The euro's current level is more than 10% below its 200-day moving average, and its momentum is at an historic low. Despite a slight rally, speculative positions on the euro remain negative. This currency is thus clearly oversold, and ripe for a technical rebound.
- However, the lack of fundamental support is likely to restrict the scope of a possible rally of the euro and will probably send it back on a downward slope soon thereafter. The deterioration in Euroland economic prospects, which was largely accountable for the euro's decline since it hit a peak of US$1.60, has continued in recent weeks. Given a decline in real GDP in the second quarter, the euro zone is likely to fall into recession, with economic indicators remaining at levels consistent with economic contraction.
- The growing probability of forceful monetary easing is even more bad news for the euro. The extent of the financial crisis has already forced the ECB authorities to change their dogmatic stance despite an inflation rate that remains high (3.6% in September). According to the President of the ECB, the coordinated monetary easing of October 8 "*was justified by the fact that the intensification of the financial crisis had further diminished the upside risks to price stability and that the central banks were considered to have regained control of inflation expectations*". In the current situation, further interest rate cuts appear inevitable, and the key rate, which now stands at 3.75%, could fall below 3% by mid-2009.

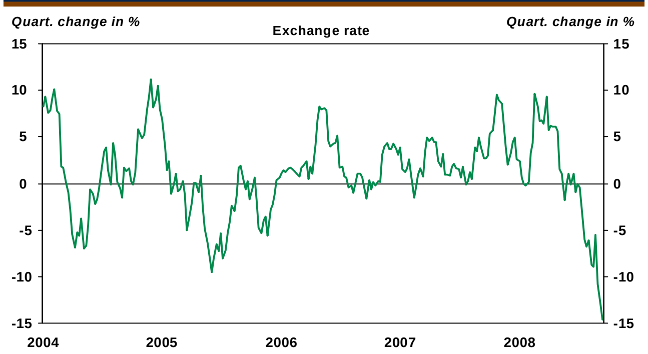
Forecasts: The sharp plunge of the euro should now give way to some consolidation, possibly a slight rebound, in the short term. The medium-term trend will remain negative, however, since future interest rate cuts will work to the euro's disadvantage; it should fall below US$1.30 in the first half of 2009. A rally above US$1.40 would present an attractive opportunity for selling euros.

Euro and trend



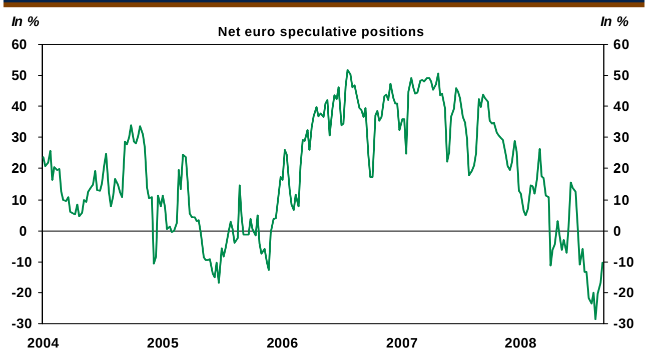
Sources: Datastream and Desjardins, Economic Studies

Euro: momentum



Sources: Datastream and Desjardins, Economic Studies

Euro: net speculative positions



Sources: Chicago Mercantile Exchange and Desjardins, Economic Studies

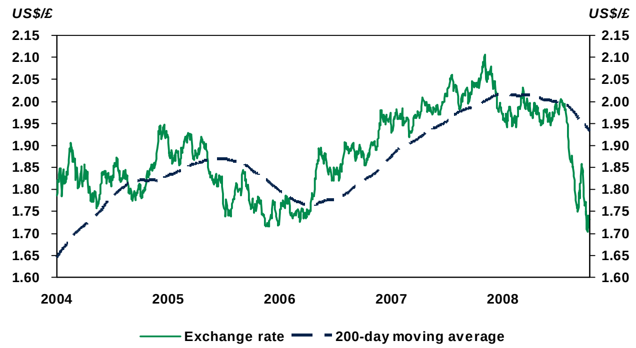
BRITISH POUND (GBP)

The pound continues its retreat

- Just like the euro, the pound sterling has depreciated sharply against the U.S. dollar in recent weeks. Britain's large financial sector has been severely affected by the credit crisis, and this is amplifying the already serious economic troubles buffeting the U.K. The opening of a new period of monetary easing sooner than expected also weighed on the pound and helped to push it briefly below US$1.68 during the session of October 10; this is its lowest level in nearly five years. Since then, decisive action by the British government to support the banks has pushed the pound back up to nearly US$1.75. Since the beginning of September, the pound has appreciated slightly against the euro, with the EURGBP rate falling from 0.81 to 0.78.
- Market indicators are showing that, for now, the pound's correction is well advanced. Speculative positions and momentum are reaching extremely negative levels, which normally should herald a technical rebound of the British currency. The negative variation between the British exchange rate and its 200-day moving average has also grown. It remains to be seen whether these technical factors will be sufficient to offset the deterioration in the pound's fundamentals.
- As far as the British economy is concerned, storm clouds are gathering. The latest statistics show a further retreat in industrial production and deterioration in the job market. British households also find themselves in bad shape, with credit conditions continuing to tighten and the real estate market pursuing its correction. A recession now seems inevitable in light of the recent worsening of the financial crisis. Fortunately, the extraordinary measures that were recently announced to recapitalize British banks should prevent a collapse of that sector, which is so vital for the United Kingdom.
- In the current climate, the Bank of England (BoE) is not very concerned about the very high inflation rate, which reached 5.2% in September. The correction in commodity prices and the economic turmoil confirm that inflationary pressures will dissipate in the next few quarters. Therefore, the BoE will be able to focus its efforts on limiting the scope of the economic slowdown; this should mean several more cuts in the key interest rate. The relative variation in interest rates over time should put downward pressure on the pound sterling.

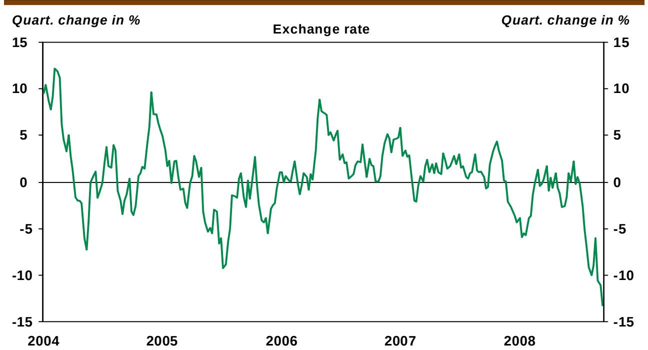
Forecasts: Hard times will continue for the British economy. This will force the BoE to aggressively ease its monetary policy. Therefore, the pound's depreciation against the greenback should carry on in the medium term, and any rally above US$1.77 would be a good opportunity to take short positions on this currency.

British pound and trend



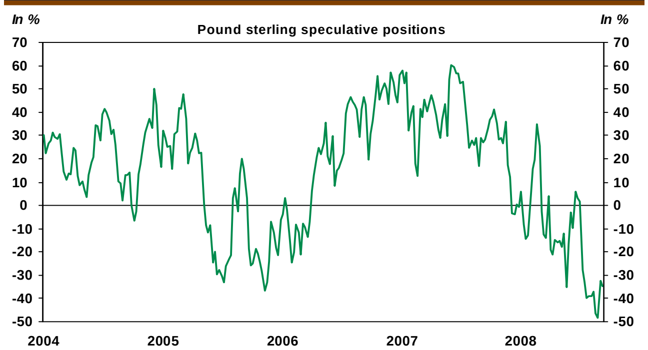
Sources: Datastream and Desjardins, Economic Studies

British pound: momentum



Sources: Datastream and Desjardins, Economic Studies

British pound: net speculative positions



Sources: Chicago Mercantile Exchange and Desjardins, Economic Studies

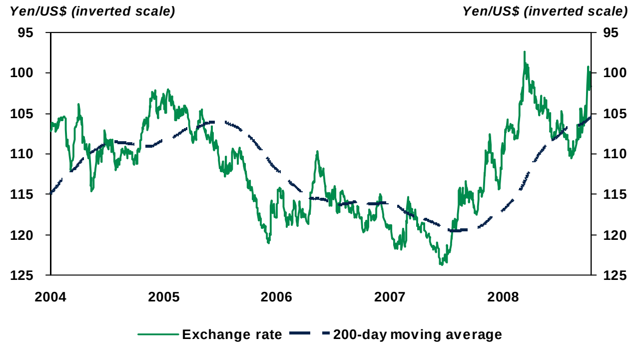
YEN (JPY)

The yen benefits from the panic reigning over the markets

- The downward trend based on negative economic data for Japan has come to an end, due to a reassessment of risk on the financial markets linked to an intensification of the financial crisis. In just a few weeks, the exchange rate has moved from a cyclical peak of 110.67 yen/US$ to a cyclical low of 97.93 yen/US$. Announcements made at the beginning of the week to contain the crisis have relieved tensions in the markets, bringing the exchange rate to around 102 yen.
- On a market basis, net speculative positions are at levels compatible with a correction in the short term, but the momentum is sending less urgent signals. Given that the markets are still nervous about the outcome of the financial crisis, the likelihood of the yen correcting itself substantially in the next few weeks is pretty small. Many carry trade positions are reversed when risk is high, which gives support to the Japanese currency.
- Once some calm returns to the markets, the yen should revert to values more consistent with the weakness of the Japanese economy. The decline in oil and commodity prices has breathed a bit of life into it, but its foreign trade sector, the main driver of growth, is now being severely tested by the economic slowdown that is looming over many countries. In August, industrial production recorded an annual decline of 6.9%, strengthening the theory of a recession. In September, household confidence stayed at a historically low level, and the number of business bankruptcies was 34% higher than a year earlier. As if that were not enough, economic growth for the second quarter was revised downwards to -3% at an annualized rate.
- Not much is expected in the way of new developments in Japanese monetary policy. The key interest rate should stay fixed at 0.5% for several months to come. The Bank of Japan did not participate in the concerted rate cut orchestrated by the other major central banks. To do otherwise would probably not have done Japan any good. As far as inflation is concerned, falling oil and commodity prices and the weakness of the economy will curb price increases. Therefore, inflation is not a concern for the monetary authorities; they are more preoccupied with the economy and with tensions in the financial markets. The status quo in Japan, combined with rate cuts in other parts of the world, may give some support to the Japanese currency.

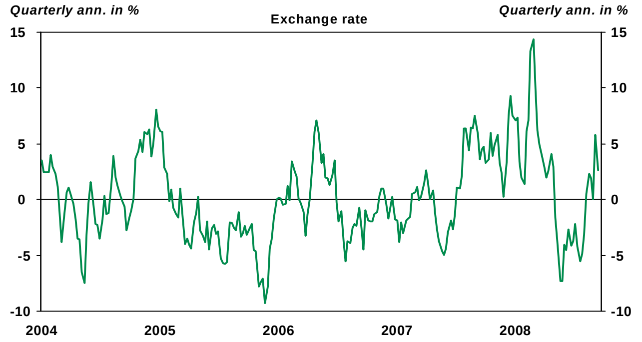
Forecasts: The yen will do well for as long as the markets remain nervous. Mind you, it is difficult to predict when things will calm down. At that point, the yen should depreciate, reflecting the weakness of the Japanese economy. We recommend waiting before selling yen.

Yen and trend



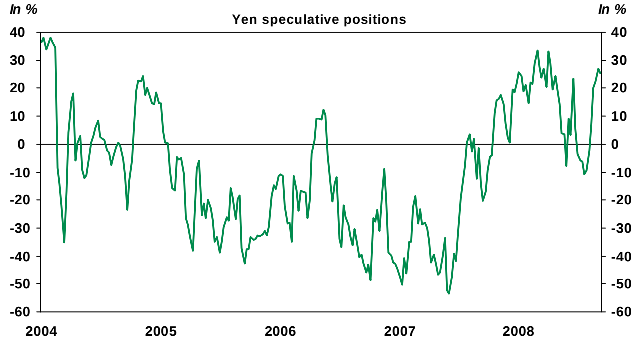
Sources: Datastream and Desjardins, Economic Studies

Yen: momentum



Sources: Datastream and Desjardins, Economic Studies

Yen: net speculative positions



Sources: Bloomberg and Desjardins, Economic Studies

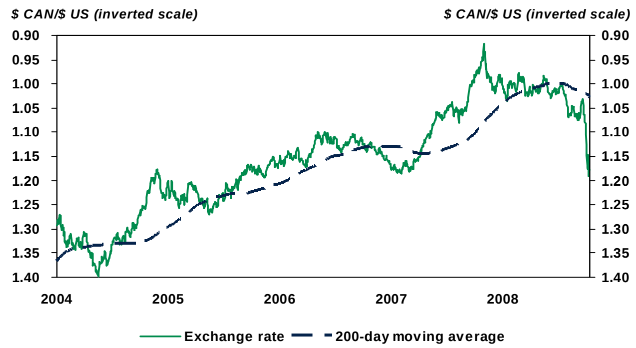
CANADIAN DOLLAR (CAD)

Loonie in freefall

- The loonie has been hammered by recent developments, both the financial tensions and the repercussions on the global economy. Already settled on a downward course, the loonie suffered more intense pressure in the last three weeks, pushing the greenback to a peak of CAN$1.2124 on October 10.
- On a market basis, the recent correction pushed the Canadian dollar sufficiently below its long-term trend, to levels that, in recent years, have been compatible with a rally by the currency. However, the fundamental conditions that would justify a significant appreciation of the loonie are not there yet. Furthermore, although the momentum is extremely weak, this merely reflects the stability that the Canadian dollar enjoyed when the crisis began; consequently, the pessimism reigning in the market does not seem to be serious enough to generate contrarian investment opportunities.
- For the short term, the loonie is facing downside risks. Darkening clouds over prospects of economic growth in Canada due to the exacerbation of financial tensions, risks of global recession and collapsing global demand for raw materials continue to work to the currency's disadvantage in the months to come. First of all, there is no sign of a rebound, or even of stabilization, in oil prices in the short term. Secondly, we now believe that the Bank of Canada will have to ease its monetary policy more than the markets are expecting, in order to limit the risk of recession in this country.
- In the general election of October 14, Stephen Harper's Conservative party was re-elected. Although the party gained some seats, especially in Ontario, it still has a minority position, and this government will probably have little impact on the loonie in the months to come.
- In the longer term, oil prices are expected to head back up. In a situation of limited supply, a gradual acceleration of economic activity should encourage market players to once again focus their attention on the structural changes that have been affecting global demand in the past few years, i.e. the rapid industrialization of China and India. Therefore, expectations of oil prices returning to over US$100 per barrel by the end of 2009 should enable the loonie to gradually move back towards parity.

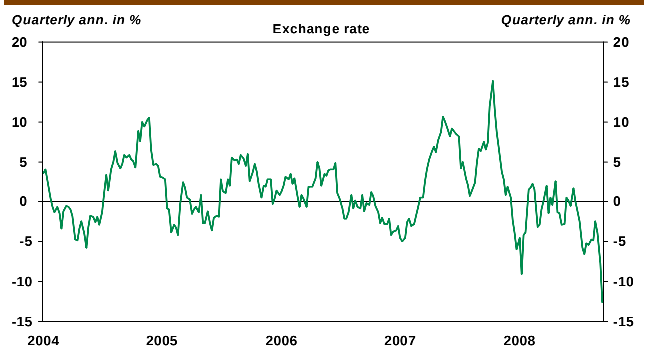
Forecasts: In the short term, what happens to the Canadian dollar will depend on the impact of the slowdown in the U.S. on the Canadian economy, the demand for raw materials, expectations concerning interest rates and market perceptions about a lasting rebound of the greenback. In our view, the pressure is still on the downside, and the greenback could reach a cyclical peak of CAN$1.25 by the end of the year. For the longer term, we remain optimistic and continue to suggest buying the loonie to capitalize on its weakness.

Canadian dollar and trend



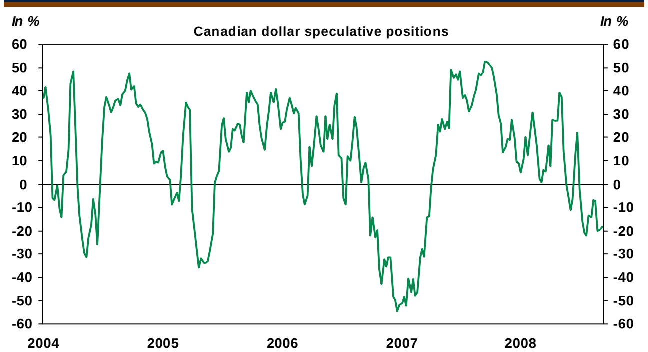
Sources: Datastream and Desjardins, Economic Studies

Canadian dollar: momentum



Sources: Datastream and Desjardins, Economic Studies

Canadian dollar: net speculative positions



Sources: Chicago Mercantile Exchange and Desjardins, Economic Studies

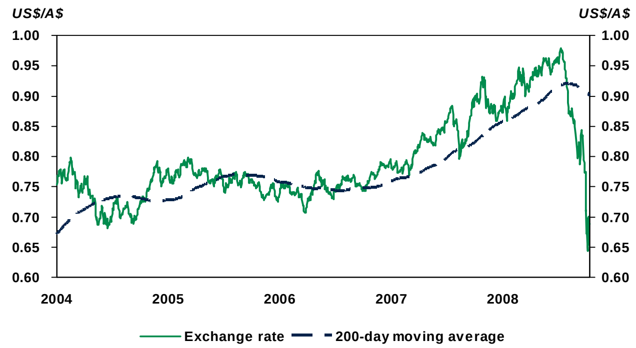
AUSTRALIAN DOLLAR (AUD)

The Australian dollar loses all its support

- The Australian dollar recorded a spectacular plunge in recent weeks, falling from US$0.9849 on July 15 to a cyclical low of US$0.6330 on October 10. This drop of 35.7% is attributable to the loss of all support for the Australian dollar, at the same time: raw material prices have retreated sharply, the central bank has initiated interest rate cuts, the economy is showing signs of weakness and the attraction of high-yield currencies is diminished due to a reassessment of risk.
- Yet, based on market indicators, this depreciation of the dollar seems exaggerated. The momentum is reaching historically low levels that are compatible with a correction in the exchange rate, as well as net speculative positions. But the current situation is not favourable to a rebound. The markets are very nervous, and many carry trade positions are reversed, which works further against the Australian dollar. A significant correction is improbable, as long as risk levels remain high.
- The reassessment of risk is not the only factor behind the tribulations of the Australian dollar. In August, the central bank began adopting a more dovish tone, which took concrete form in an initial interest rate cut of 25 basis points in September. Then, in October, due to the worsening of the financial crisis and economic risks, the monetary authorities decided on a second rate cut, much more forceful, of 100 basis points, bringing the key rate to 6%. Further rate cuts are in the offing in Australia despite high inflation (4.5% in the second quarter). The authorities estimate that inflation may diminish faster in 2009 than was formerly thought.
- Australia's economic data are not very rosy these days. Real GDP rose by a mere 0.3% in the second quarter, the weakest growth since the fourth quarter of 2004. Consumer spending reported its first drop since 1993. In August, the decline in mortgage and business loans continued, with monthly changes of -2.2% and -5.0% respectively. The worsening of the financial crisis is aggravating the situation still further. Besides tightening credit conditions, the crisis is debilitating the global economy, reducing demand for the raw materials that Australia exports. The drop in commodity prices is also affecting Australians' income and causing terms of trade to deteriorate. The job market, although stagnant, seems to be withstanding the storm so far.

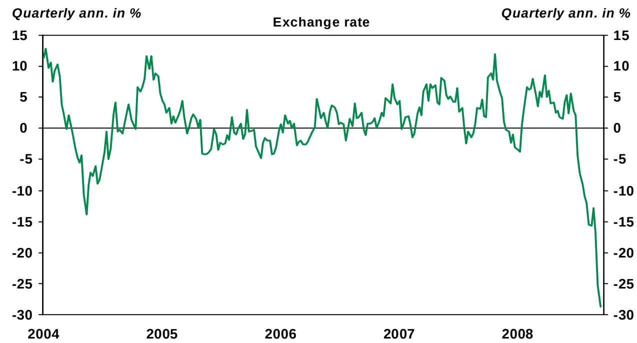
Forecasts: The Australian dollar is bereft of support, but in the short term it could benefit from reduced tension in the financial markets. Prospects for the longer term are still attractive if we are prepared to bank on an upsurge in commodity prices.

Australian dollar and trend



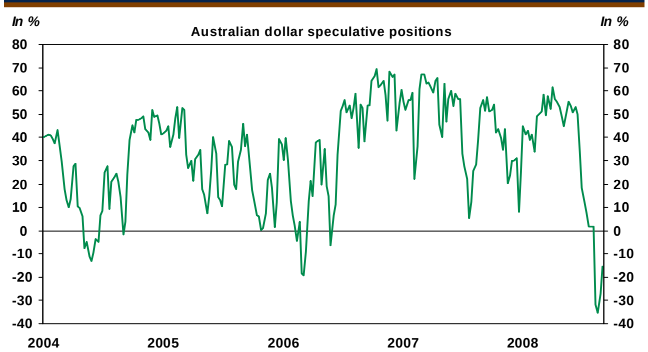
Sources: Datastream and Desjardins, Economic Studies

Australian dollar: momentum



Sources: Datastream and Desjardins, Economic Studies

Australian dollar: net speculative positions

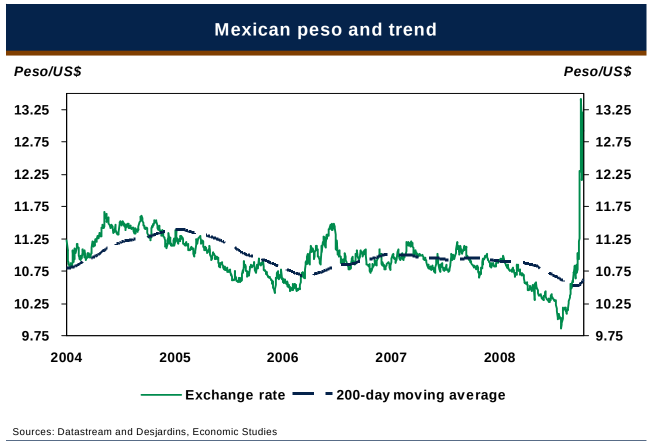


Sources: Datastream and Desjardins, Economic Studies

MEXICAN PESO (MXN)

The Mexican peso reaps the benefit of interest rate hikes

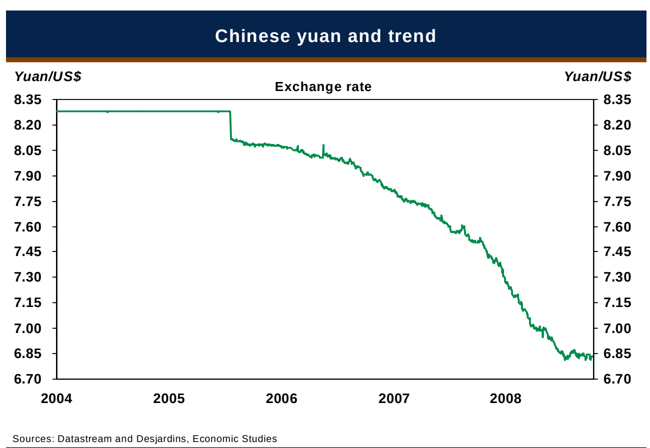
- The exacerbation of financial tensions has had a devastating effect on the Mexican peso in recent weeks. After hovering around 10.5 pesos/US$ on average throughout the crisis, the peso suddenly depreciated, pushing the USDMXN rate to a peak of 14.31 pesos on October 8. Since then, volatility has been extreme, but the Mexican currency has managed to regain some ground, returning to nearly 12.5 pesos/US$. This is partly attributable to the sale of US$8.9B in reserves by the Bank of Mexico to support its currency.
- Financial risks and the flight to safe havens should continue to put downward pressure on the peso in the months to come. In the longer term, the considerable spread between Mexican and American interest rates should allow the peso to gradually appreciate.



CHINESE YUAN (CNY)

The yuan appreciates, but not as much as expected

- The aggravation of the financial crisis, the worldwide economic slowdown, and the rebound of the U.S. dollar have all curtailed the appreciation of the yuan. Since July, the exchange rate has fluctuated within a range of 6.80 yuan/US$ and 6.88 yuan/US$. The Chinese currency did manage to make some gains against other currencies, however, including the euro and the pound sterling.
- Despite international pressures, China remains cautious with respect to its exchange rate policy, particularly in these times of uncertainty. The recession that is materializing in the United States is bad news for Chinese exporters, who would probably be less than pleased to see the yuan continue appreciating against the greenback. Moreover, China does not seem to be spared by the financial crisis. The authorities have been obliged to lower interest rates, as well as the ratio of required reserves. A drop in the inflation rate certainly made this decision easier.
- The current period of stability for the yuan may last a bit longer. However, in the longer term, the currency should appreciate against the dollar, since the key macroeconomic imbalances and international pressures remain intact.



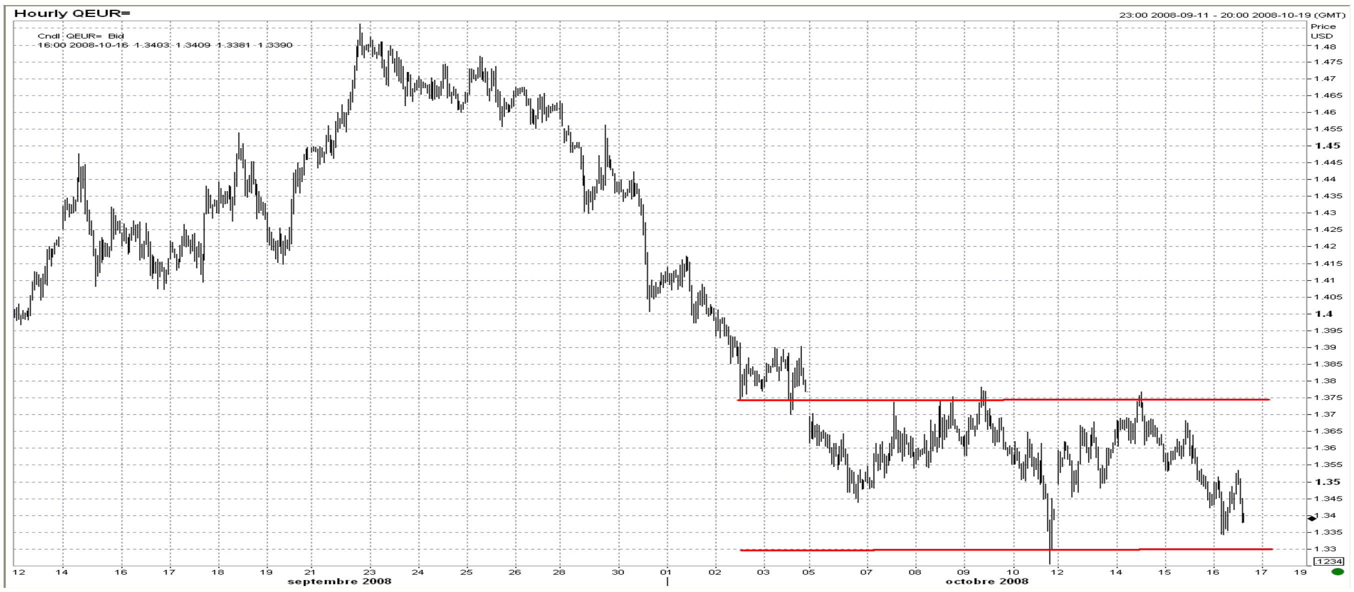
TECHNICAL ANALYSIS

USD/CAD

Buyers will be in control as long as the pair trades above its upward trend, which started at the end of September. However, a break in this trend is expected; this would complete a downward correction from 1.2135. The next supports in the medium term are 1.1175/1.0810.

EUR/USD

The pair is consolidating between 1.3300 and 1.3745 and a break through either of these levels will provide a clearer picture of future directions for the fourth quarter. The momentum is not there, and the long-term trend remains downwards with the next target at 1.2865.



USD/JPY

Thanks to the tumultuous financial markets, the YEN is one of the few currencies that are faring better than the USD. This downward trend (USD/JPY) is not over yet, and the next downward movement could be abrupt, taking the pair below 90. In the next month, it should reach 96.50, the recent low of March 2008.

GBP/USD

This pair has reached the target of 1.72 that we had suggested back in August. We maintain a negative opinion for the pair in the long term, but a rally above 1.80 during the fall is our scenario for the short term.

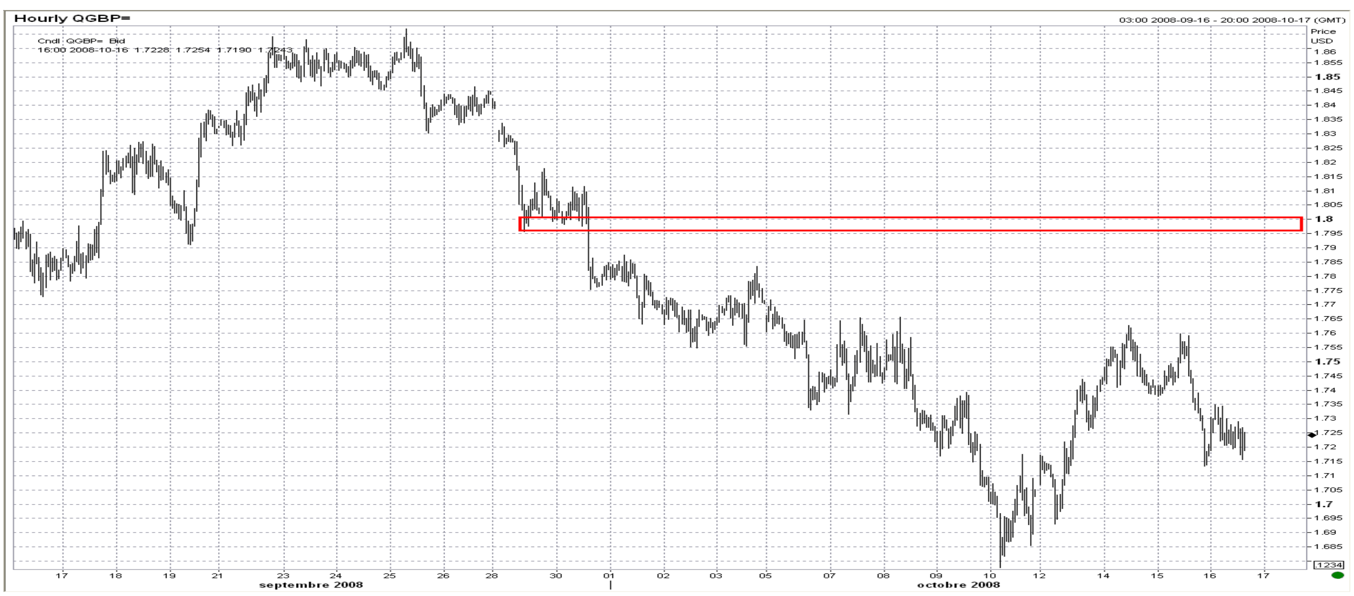


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Table 1
Currency market

Country – Currency*	*Spot price* October 16	*Percentage return since* 1 month	3 months	6 months	1 year	*Last 52 weeks* Higher	Average	Lower
North America								
Canada – dollar	1.1888	10.84	18.32	18.46	21.37	1.1888	1.0156	0.9161
Canada – (CADUSD)	0.8412	-9.78	-15.48	-15.58	-17.61	1.0916	0.9846	0.8412
Mexico – peso	13.1050	22.16	27.78	25.34	20.84	13.1050	10.6642	9.9169
South America								
Argentina – peso	3.2038	3.48	5.87	1.30	1.26	3.2713	3.1183	3.0130
Brazil – real	2.2243	21.50	39.29	33.08	21.87	2.3805	1.7273	1.5590
Asia								
China – yuan renminbi	6.8349	-0.22	0.34	-2.26	-9.10	7.5190	7.0708	6.8119
South Korea – won	1,373.45	18.45	36.07	38.81	49.70	1,395.00	1,006.71	900.70
Hong Kong – dollar	7.7583	-0.25	-0.54	-0.46	0.02	7.8146	7.7924	7.7507
India – rupee	48.6905	3.96	13.06	22.22	24.08	48.6905	41.4947	39.0755
Japan – yen	101.69	-3.66	-3.26	-0.10	-13.00	116.89	107.04	97.39
Europe								
Denmark – krona	5.5276	4.47	17.23	18.12	5.12	5.5521	4.9780	4.6644
Euro zone – (EURUSD)	6.5050	10.55	27.54	30.98	20.25	6.5888	5.3405	4.9583
Norway – kroner	1.7230	-2.89	-13.69	-12.80	-15.20	2.1082	1.9582	1.7021
Russia – ruble	26.3518	2.84	13.29	12.83	5.63	26.3518	24.2618	23.1169
Sweden – krona	7.4143	8.49	23.28	25.93	14.83	7.5041	6.2821	5.8368
Switzerland – swiss franc	1.1309	0.74	11.26	13.24	-4.44	1.1835	1.0787	0.9860
United Kingdom – (GBPUSD)	1.3405	-5.07	-15.27	-15.96	-5.31	1.5979	1.5003	1.3405
South Pacific								
Australia – (AUDUSD)	0.6893	-13.37	-29.25	-26.63	-22.52	0.9786	0.8936	0.6437
New Zeland – (NZDUSD)	0.6175	-6.03	-19.94	-22.11	-17.47	0.8175	0.7510	0.5951

* In comparison w ith the U.S. dollar, unless otherw ise indicated.
Note: Currency table base on previous day closure.

Table 2
Currency market: history and forecasts

End of period		*2007* Q3	Q4	*2008* Q1	Q2	Q3f	Q4f	*2009* Q1f	Q2f	Q3f	Q4f
American dollar											
Canadian dollar	(USDCAD)	0.9944	0.9979	1.0259	1.0309	1.0630	1.2500	1.2195	1.1364	1.0638	1.0000
Euro	(EURUSD)	1.4222	1.4620	1.5846	1.5755	1.4047	1.3200	1.2800	1.2500	1.2200	1.2200
British pound	(GBPUSD)	2.0471	1.9865	1.9833	1.9936	1.7825	1.6800	1.6500	1.6200	1.6000	1.6000
Yen	(USDJPY)	114.80	111.69	99.91	106.09	106.00	105.00	106.00	104.00	102.00	100.00
Australian dollar	(AUDUSD)	0.8885	0.8755	0.9137	0.9582	0.7700	0.6500	0.6700	0.7200	0.7500	0.8000
Mexican peso	(USDMXN)	10.94	10.92	10.64	10.31	10.80	12.50	12.20	12.00	11.50	11.00
Chinese yuan	(USDCNY)	7.51	7.31	7.01	6.86	6.80	6.80	6.54	6.40	6.25	6.00
Effective dollar*	(73 = 100)	74.38	70.27	70.31	70.96	75.00	80.00	82.00	82.00	82.00	81.00
Canadian dollar											
American dollar	(CADUSD)	1.0056	1.0021	0.9748	0.9700	0.9407	0.8000	0.8200	0.8800	0.9400	1.0000
Euro	(EURCAD)	1.4143	1.4589	1.6256	1.6243	1.4931	1.6500	1.5610	1.4205	1.2979	1.2200
British pound	(GBPCAD)	2.0357	1.9823	2.0346	2.0553	1.8947	2.1000	2.0122	1.8409	1.7021	1.6000
Yen	(CADJPY)	115.44	111.92	97.39	102.90	99.71	84.00	86.92	91.52	95.88	100.00
Australian dollar	(AUDCAD)	0.8836	0.8737	0.9373	0.9879	0.8185	0.8125	0.8171	0.8182	0.7979	0.8000
Mexican peso	(CADMXN)	11.00	10.94	10.37	10.00	10.16	10.00	10.00	10.56	10.81	11.00
Chinese yuan	(CADCNY)	7.5521	7.3254	6.8333	6.6497	6.3970	5.4400	5.3628	5.6320	5.8750	6.0000

f: forecasts; * Trade-w eighted against major U.S. partners.
Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies