FX Forecasts

Desjardins Economic Studies
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April 20, 2009

When quantitative policy and currency movement make good bedfellows!

Highlights

- Although the decline in risk aversion and slowing demand for T-bills with, do not justify a resurgence of the U.S. dollar back to last January's peak, the economic slump's synchronization means that few currencies can take over from the greenback at this time.
- The 1.00% mark may be a tough psychological threshold to cross for the European Central Bank (ECB). As a result, it is likely that more quantitative measures, perhaps targeting business credit, will be instituted by the summer. This would clearly have the potential to make the euro test the low set early this year.
- Ongoing unwinding of carry trades and repatriation of capital to Japan will keep limiting the damage in the short term, but the economic situation is clearly unfavourable to the yen.
- The probable adoption of a quantitative policy in April could be unfavourable for the loonie in the short term, but consolidation in raw material prices should help keep the USD/CAD pair from engaging in a major test of the last few months' peaks.

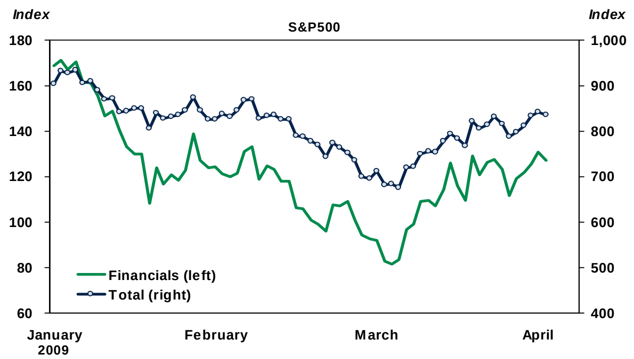
Contents

Editorial 1
Euro 5
British pound 6
Yen 7
Canadian dollar 8
Australian dollar 9
Mexican peso 10
Chinese yuan 10
Technical analysis 11
Tables 13

Editorial

It is hard to say whether the economic and financial situation is improving, or whether it is still deteriorating. Some better-than-expected statistics in the last few months, vigorous action by the Federal Reserve (Fed) and an accounting change have allowed the stock markets to rally (graph 1), but these gains are based on shaky ground and the time does not seem ripe for rejoicing. According to the latest International Monetary Fund (IMF) forecast, the world recession will be severe and long, and the recovery slow: a context unfavourable to a significant rise in profits and a sustainable and marked stock market rebound.

Graph 1 – Is the stock market rally sustainable?



Sources: Datastream and Desjardins, Economic Studies

Among other things, housing starts remain at very low levels and, while low mortgage interest rates are favourable to a stabilization of the housing market, the inventory of unsold homes is still too large and continues to put pressure on prices. U.S. consumers' resilience is also eroding. After a sharp comeback in January, retail sales went back on a down trend, posting a monthly 1.1% decline in March (graph 2 on page 2). This is not really a surprise, as the job market has deteriorated at breakneck speed in the last few months.

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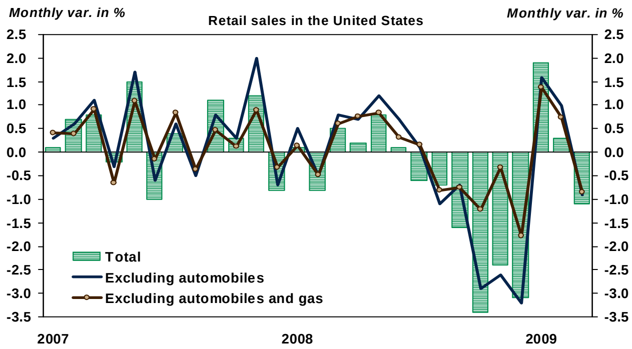
Note to readers: The letters **k**, **M** and **B** are used in texts and tables to refer to thousands, millions and billions respectively.

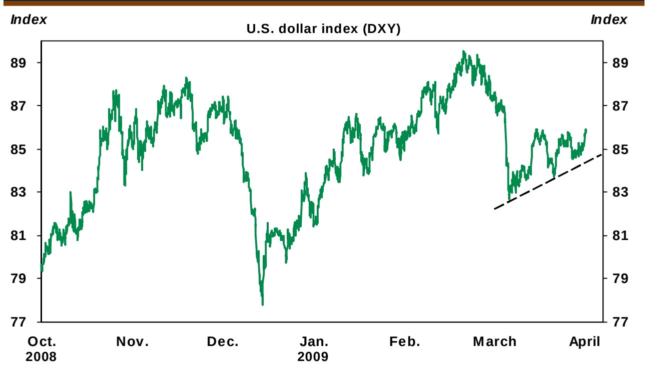
Graph 2 – Retail sales pull back in March



Sources: Census Bureau and Desjardins, Economic Studies

As a result, the greenback correction that followed the news that the Fed was buying up US$300B in Treasuries appears to have been quite exaggerated and, since then, the U.S. dollar has been moving on an up trend (graph 3).

Graph 3 – The U.S. dollar back on an up trend



Sources: Datastream and Desjardins, Economic Studies

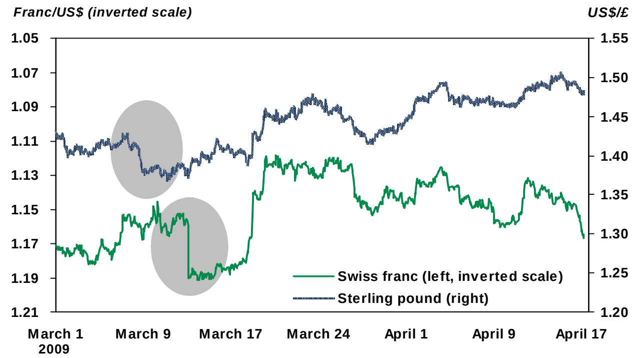
"WORLDWIDE" QUANTITATIVE POLICY

Of course, the adoption of quantitative policy fully justifies a depreciation of the greenback, in that 1) monetizing federal debt by creating banking reserves swells the number of U.S. dollars in the currency markets; and 2) the inflation risks associated with this type of operation play against the currency. However, the current environment is special and we need to ask what happens when most industrialized countries are using quantitative policies.

The first countries to use such policy were the United Kingdom and Switzerland. Due to a sharp downturn in economic activity and strains in the financial markets, the Bank of England (BoE) and Swiss National Bank (SNB) each took their key rates to just 0.50% early this year. However, that did not seem to be enough to check the risk of deflation. Consequently, the BoE undertook other monetary measures designed to increase the money supply and improve credit through a program to buy up £75B (US$110B) in public and private securities, financed by creating bank reserves. For its part, the SNB boosted liquidity substantially through repo operations, by buying Swiss franc bonds issued by private sector borrowers and by buying currency from the exchange market.

The downside impacts on their currencies were immediate, with the pound dropping about 4.5% against the U.S. dollar and the Swiss franc sliding 4%. However, this softness was short-lived, as the losses were fully offset by the greenback's depreciation when the Fed announced its program to buy up Treasuries at its meeting on March 17 and 18 (graph 4).

Graph 4 – Negative impacts linked to the implementation of quantitative policies were quickly reversed



Sources: Datastream and Desjardins, Economic Studies

NO CURRENCY CAN TAKE OVER

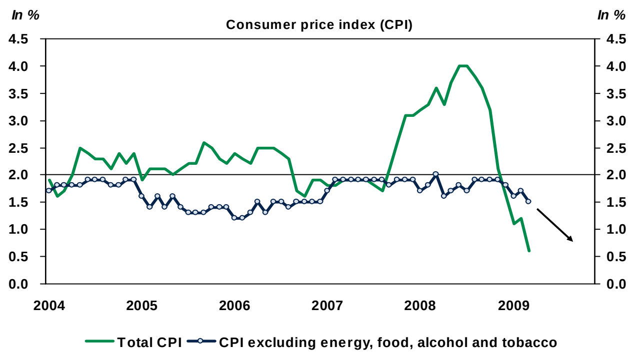
Moreover, the economic slump's synchronization means that few currencies can take over from the greenback at this time. Although the decline in risk aversion (graph 5) and slowing demand for T-bills with, as a result, repatriation of capital to the United States, do not justify a resurgence by the American dollar back to last January's peak, the fact remains that not much is favouring the other major currencies.

Graph 5 – Risk aversion is abating gradually

Sources: Datastream and Desjardins, Economic Studies

The euro zone is especially hard hit. Its real GDP sank by an annualized 6.0% in Q4 of 2008 and everything suggests the contraction will be even steeper in Q1 of 2009. The European Central Bank (ECB) acknowledges that, in the context of a global downturn, pressure on prices will remain contained; however, it does not think that deflation risks will materialize. Yet, at this rate, it seems clear that the Euroland economy's underlying inflation will be on a net down trend until 2010 (graph 6).

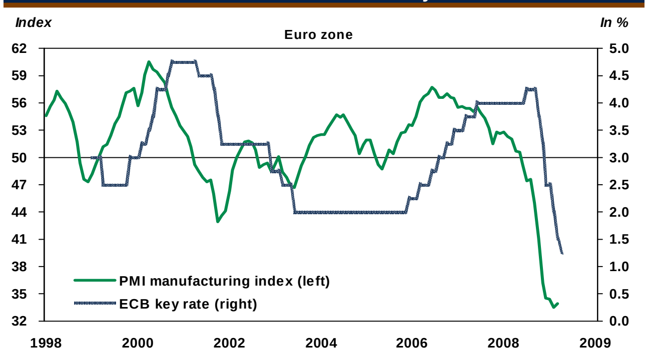
Graph 6 – Deflation risks will become a preoccupation for the ECB



Sources: Datastream and Desjardins, Economic Studies

Under these circumstances, the ECB's work is not done (graph 7). For Euroland's key rate, the 1.00% mark may be a tough psychological threshold to cross and, as a result, it is likely that more quantitative measures, perhaps targeting business credit, will be instituted by the summer. This would clearly have the potential to make the euro test the low set early this year (graph 8).

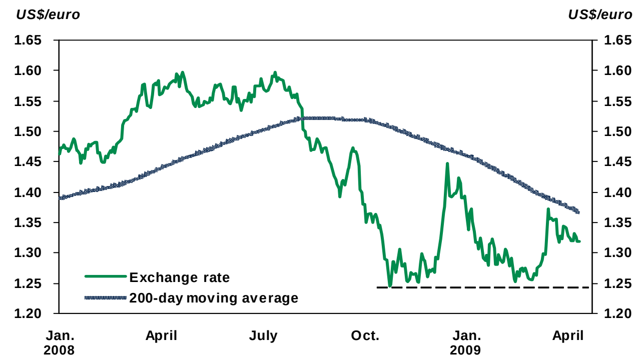
Graph 7 – The ECB still has work to do to kick start the euro zone economy



Sources: Datastream and Desjardins, Economic Studies

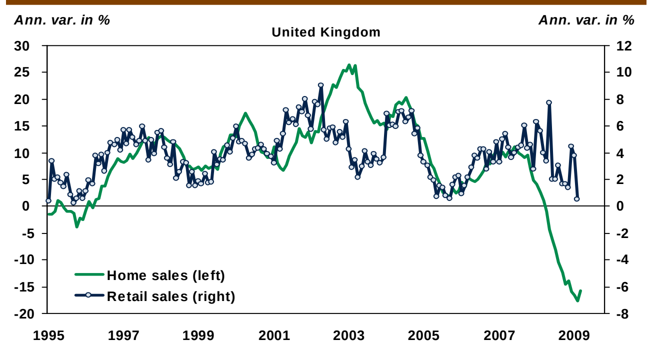
The British pound is at less of a risk, but the pressure is still tilted to the downside. Surely, some home prices indices improved in March and loan and mortgage refinancing applications are up, which is compatible with housing market stabilization. However, consumers finally lost their resilience, with the annual change going from 3.8% in January to just 0.4% in February (graph 9). Under these circumstances, the BoE will have to continue with its efforts to turn around what

Graph 8 – The euro is still at risk



Sources: Datastream and Desjardins, Economic Studies

Graph 9 – Consumer spending remains under pressure



Sources: Datastream and Desjardins, Economic Studies

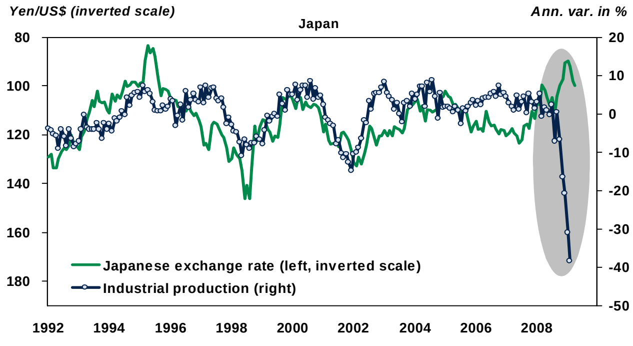
promises to be the worst recession since the last world war, a situation that is not conducive to forthcoming appreciation by the pound.

Japan's structural weakness has already caught up to the yen. The global downturn is pummelling Japan's economy more than the other industrialized nations. Its GDP posted an annualized decline of more than 12% in the last quarter of 2008, and the drastic tumble by exports and production signal that a rebound cannot be hoped for in the first quarter. Ongoing unwinding of carry trades and repatriation of capital to Japan will keep limiting the damage in the short term, but the economic situation is clearly unfavourable to the yen (graph 10 on page 4).

ADOPTING A QUANTITATIVE POLICY COULD SHAKE THE CANADIAN DOLLAR, BUT IT WILL NOT SINK IT

With nominal interest rates closing in on zero and fiscal policies that are going more and more heavily into the red, the downside pressure on inflation created by the intense contraction in economic activity has prompted many of the industrialized economies' major central banks to look to quantitative policies to ease their respective monetary conditions further.

Graph 10 – The yen can't escape the economic reality



Sources: Datastream and Desjardins, Economic Studies

To date, the Bank of Canada (BoC) has not had to make this move—all of the credit policies put forward were financed, initially by selling assets held by the BoC, then by issuing Treasury bills, the funds for which were placed in the government account at the Bank.

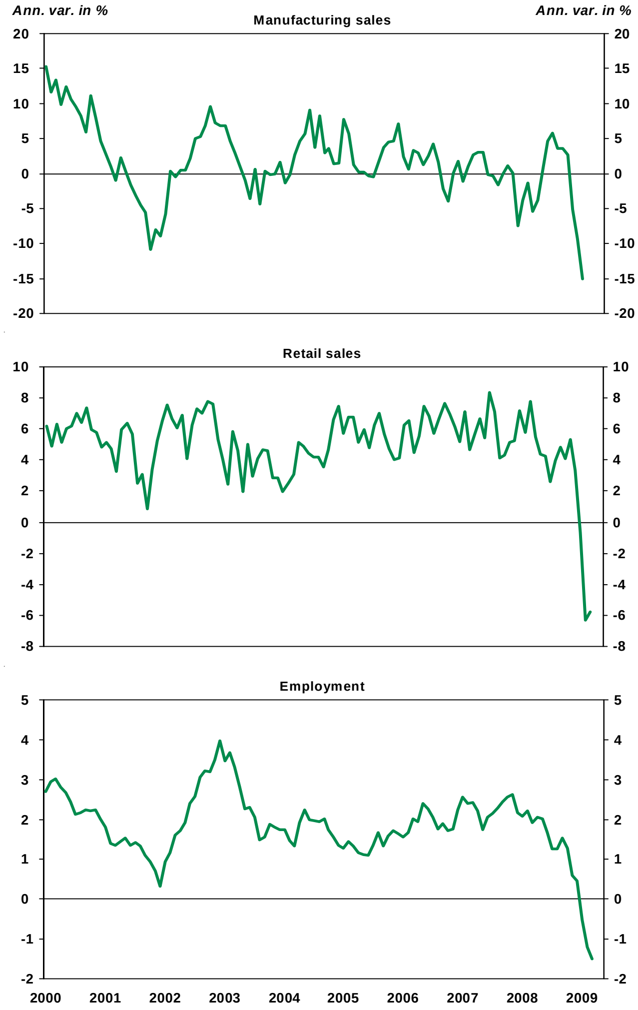
However, the rapidly deteriorating economic situation (graph 11) and expectations of a slow, modest recovery indicate that the BoC's work is not yet done. Among other things, Canada's output gap has widened substantially, showing that pressures on underlying inflation will be broadly contained.

With a key rate of just 0.50%, the BoC is running out of leeway in terms of its traditional instruments. An additional 25 basis point cut and a change in the operating band cannot be ruled out, of course, but what happens next is likely to occur via credit and quantitative easing.

> "Given the low level of the target for the overnight rate, the Bank is refining the approach it would take to provide additional monetary stimulus, if required, through credit and quantitative easing."

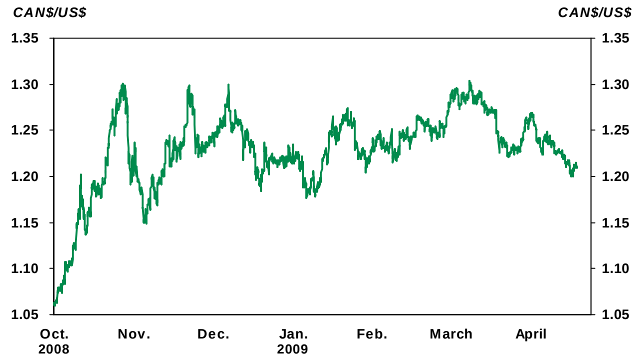
As a result, Canada's dollar will probably be shaken somewhat with the advent of the BoC meeting on April 21. However, judging by the markets' reaction to the currencies of countries that are resorting to this type of policy, any loonie depreciation will probably be temporary. Moreover, the consolidation in raw material prices, especially oil, should help keep the USD/CAD pair from engaging in a major test of the last few months' peaks (graph 12).

Graph 11 – The Canadian economic context is deteriorating rapidly



Sources: Datastream and Desjardins, Economic Studies

Graph 12 – The loonie could get hit in the short term



Sources: Datastream and Desjardins, Economic Studies

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EURO (EUR)

The Federal Reserve's actions have helped the euro, but the European Central Bank is too hesitating

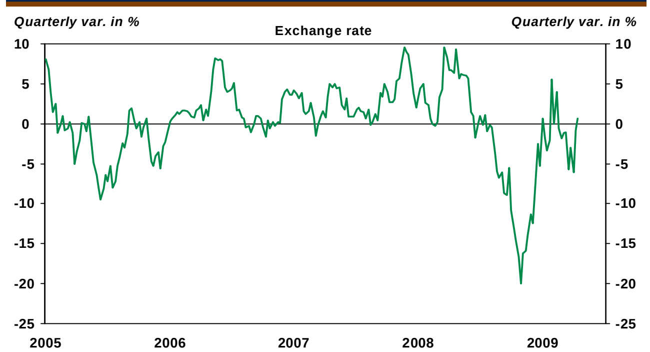
- After having remained generally below US$1.30 since the year began, the euro jumped over US$1.37 in mid-March, on the Federal Reserve's (Fed) decision to start monetizing U.S. government debt. Since then, Euroland's currency has edged down, but is still holding over US$1.30.
- In April, the zone's monetary authorities decided to lower their key rate by just 25 basis points to 1.25%, whereas analysts had been anticipating a more aggressive 50 basis point cut. President Jean-Claude Trichet confirmed that another rate cut was possible on May 7, and that the decision as to whether or not to proceed with unconventional measures would be announced at that meeting. Comments by various European Central Bank (ECB) members suggest that there is some dissension in the Council, which could generate volatile movement of the euro in the next few weeks.
- The euro's rise since mid-February has taken the currency's momentum very close to zero. Moreover, speculative positions are now very slightly positive. Market indicators are therefore not pointing to any major technical movements.
- Euroland's soft economy will continue to be a drag on the euro for the next few months. In contrast to what is being seen elsewhere in the world, the downturn is not showing any signs of slowing down in the euro zone. Confidence indicators reached new lows in March and the drop in retail sales accelerated in February, going to -4.0% compared with the same month in 2008. Growth outlooks are still being slashed; the Organisation for Economic Co-operation and Development (OECD) is now calling for the euro zone's real GDP to contract by 4.1% in 2009. The fears that the ECB's hesitation would hinder the euro zone's economic recovery in comparison with other industrialized nations now seem to be materializing. The annual inflation rate, just 0.6% in March, should go into negative territory this summer and remain very low subsequently.

Forecasts: The economic problems could be a drag on the euro for the next few months and convince the ECB to keep taking action. In our opinion, another 25 basis point key rate cut will be ordered in May and further non-traditional measures, such as buying private sector securities, will be announced. Only a loss of confidence in the American dollar could generate substantial euro appreciation in the next few months. Over the medium range, the euro could, however, benefit from easing financial strains and a generalized decline of the U.S. dollar.

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

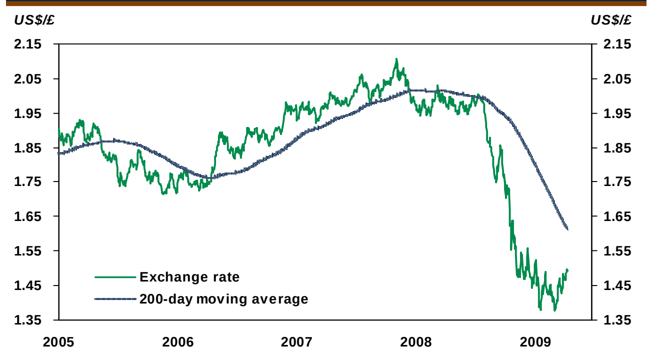
BRITISH POUND (GBP)

The pound is stabilizing despite the Bank of England's quantitative policy

- The pound sterling has performed fairly well in the last few weeks and seems to be stabilizing after its spectacular nosedive in the second half of 2008. March got off to a bad start, when the pound fell back below US$1.40 following the Bank of England's (BoE) decision to start monetizing British government debt. The Federal Reserve's (Fed) adoption of a similar measure, however, made the pound rebound to close to US$1.45 in mid-March. Unlike the euro, the pound has held onto its gains and even recently neared US$1.50 thanks to some encouraging economic indicators and investors' renewed appetite for risk.
- The pound's recent gains have taken the currency's momentum very close to zero. However, the currency's better performance is not due to speculators, who still have very negative net speculative positions. Closing speculative positions could potentially favour appreciation of the pound.
- The BoE has taken an aggressive approach to help get Britain's economy out of recession. The key rate was lowered to 0.50% in March and, for technical reasons, should not go any lower. The BoE also announced a £75B (US$110B) quantitative easing program designed to increase the money supply by buying up private and British government securities. In early April, £26B of the program had already been used. The BoE's work is thus well underway, although the quantitative easing program's scope could potentially be increased if deflation risks do not resolve.
- One favourable development for the pound is that the BoE and British government actions seem to have a positive impact on the economy. Credit conditions did not tighten as much in Q1 of 2009 and financing is now expected to relax this spring. Moreover, the latest economic data are starting to show some encouraging stabilization in the housing market. Loan and mortgage refinancing applications are up and some home price indexes rose in March.

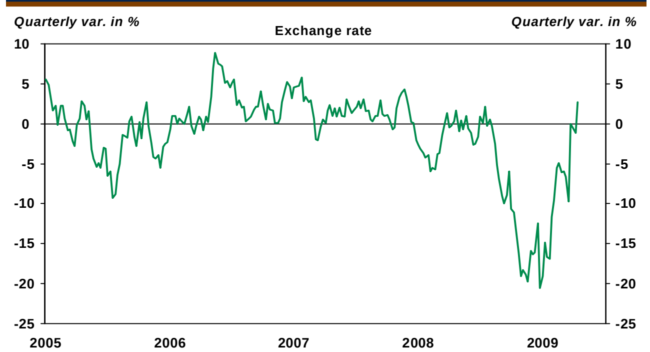
Forecasts: Despite some encouraging signs, the British economy is still facing very serious problems. British authorities will therefore keep the very expansionary policies in place even though year-over-year inflation is still fairly high in February, at 3.2%. Failing another wave of panic in the banking sector, the pound should keep oscillating around US$1.45 for the next few months. After that, progressively easing financial strains should allow the pound to rise against most other currencies.

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

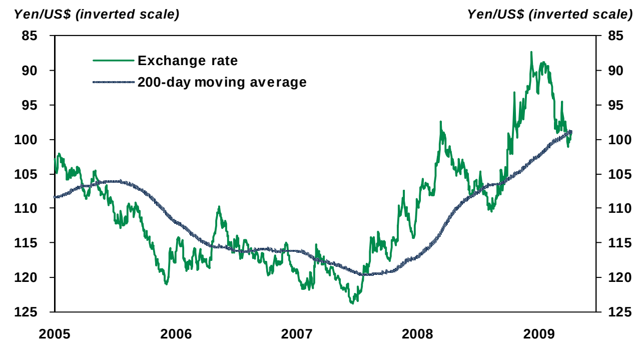
YEN (JPY)

The soft economy catches up to the yen

- Japan's exchange rate crossed back over the 100 yen/US$ mark at the beginning of April for the first time in five months. It also reached a cyclical peak of 101.45 yen/US$ on April 4. The unwinding of carry trades and repatriation of the profits to Japan, which until very recently had been driving the currency up, now no longer seem to be able to offset the weak economic statistics.
- On a market basis, the momentum is sharply downward; net short speculative positions are compatible with a yen correction. However, the rapid deterioration in the Japanese economy's fundamental variables suggests that any appreciation based on technical factors would be temporary.
- The drop in global demand and the yen's past appreciation are slamming Japan's economy. On an annualized basis, its real GDP contracted 12.1% in the fourth quarter of 2008. The results for the first quarter of 2009 also promise to be very disappointing, based on average monthly pullbacks in industrial output of almost 10% in January and February. Although the yen has depreciated recently, a Japanese economic recovery seems unthinkable unless the global economy rebounds. A few days ago, Japan's government announced a US$150B stimulus plan that should give growth more than a little support but, all in all, there is reason to worry about its longer range consequences for the country's high debt load.
- The economic slump and drop in commodity prices have put Japan back on the path to deflation. The Bank of Japan (BoJ) should keep its key interest rates close to 0% for a long time. To ease the financial strains and help the economy, it is also relying on extending credit to business by buying up commercial paper and corporate bonds. Unlike the quantitative policy adopted during the precious deflation period, no specific target as to the surplus liquidity to inject into the markets has been set.

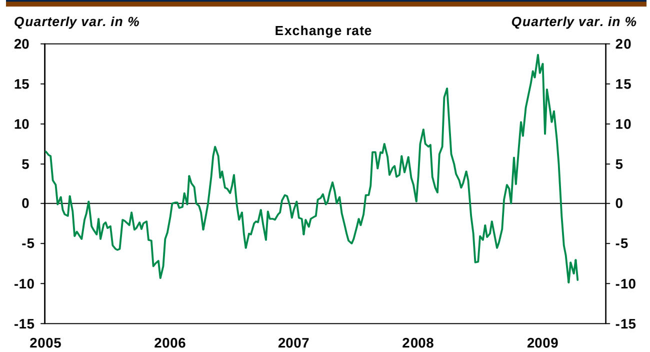
Forecasts: The impact of unwinding carry trades and repatriating profits has faded, allowing the yen's value to better reflect Japan's economic weakness and ultra-expansionary monetary policy. The currency could still stabilize close to current levels before depreciating further.

Yen and trend



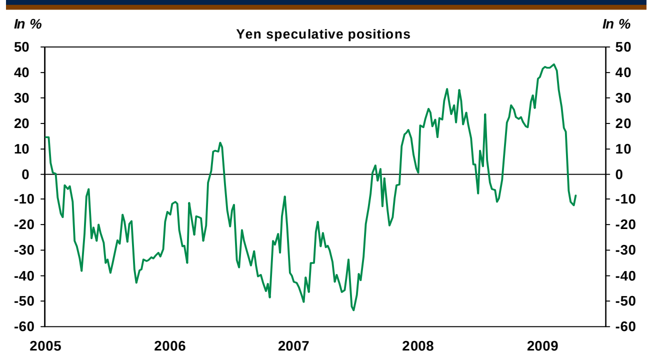
Sources: Datastream and Desjardins, Economic Studies

Yen: momentum



Sources: Datastream and Desjardins, Economic Studies

Yen: net speculative positions



Sources: Bloomberg and Desjardins, Economic Studies

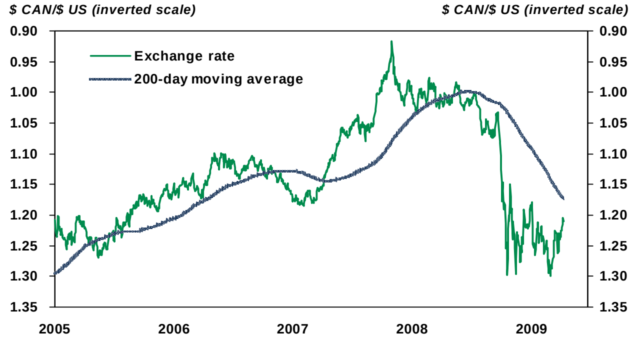
CANADIAN DOLLAR (CAD)

Poised to adopt quantitative policy

- The Canadian dollar has delivered an exemplary performance in the last few weeks. The USD/CAD pair went from a peak of C$1.3065 on March 9 to almost C$1.20 recently, the loonie gaining 8.5% in just over a month. This partially reflects the greenback's spontaneous correction in mid-March and, in particular, the gradual rise in oil prices from a recent low at US$33.55 a barrel on February 12 to over US$50 lately.
- On a market basis, the momentum suggests the loonie will stabilize. However, short speculative positions are still growing and could trigger a short-term correction of the loonie as it closes in on a resistance level. However, prudence is still in order, as investor pessimism is nearing levels that have previously been compatible with sustained appreciation of the Canadian dollar.
- Due to the rapid deterioration in the global and Canadian economic context, and with no inflation pressure, the Bank of Canada (BoC) unsurprisingly lowered its key rate by 50 basis points, taking it to a historic low of just 0.50% on March 3. It simultaneously announced that rates would stay low for a long time: "the overnight rate can be expected to remain at this level or lower at least until there are clear signs that excess supply in the economy is being taken up."
- Here, our estimates for Canada's economic growth are compatible with a substantial increase in the output gap, which could be around 6% at the end of 2009. Moreover, our scenario of a tepid recovery means that the gap may be difficult to close in the coming years. The surplus supply will keep downside pressure on prices and, although we are not anticipating any ex-energy deflation, there is a risk that the inflation target (2%) may not be met over the medium range.
- Under the circumstances, our monetary indicators show that the BoC will have to adopt a quantitative policy as soon as possible. Clearly, at 0.50%, the BoC has very little leeway for traditional monetary policy. Although we cannot rule out the possibility that it will lower rates to 0.25% or change its operating band, the Bank is already looking at less conventional avenues.

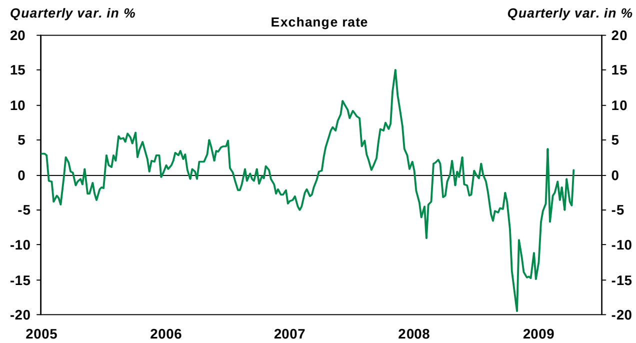
Forecasts: In the short term, the Canadian dollar is at risk. Adopting a quantitative policy could temporarily make the USD/CAD pair approach C$1.30. Consolidating commodity prices should allow it to avoid the worst but, due to the widespread economic downturn, we must remain cautious.

Canadian dollar and trend



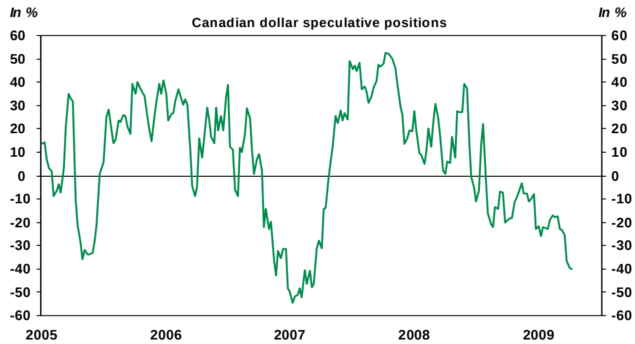
Sources: Datastream and Desjardins, Economic Studies

Canadian dollar: momentum



Sources: Datastream and Desjardins, Economic Studies

Canadian dollar: net speculative positions



Sources: Chicago Mercantile Exchange and Desjardins, Economic Studies

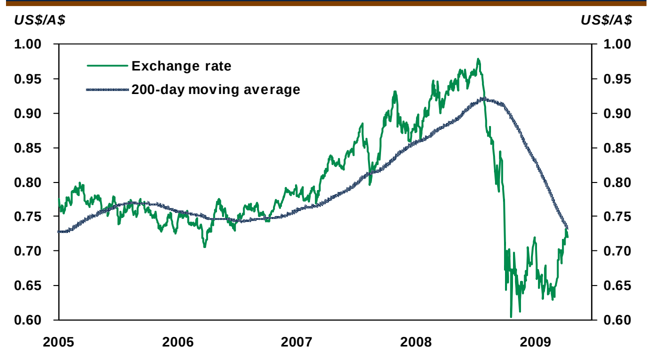
AUSTRALIAN DOLLAR (AUD)

The rebound would unlikely go much further for now

- The Australian dollar reached a six-month peak on April 13, at US$0.7326. We can say that it has come a long way given that it was just over US$0.60 at the end of October 2008, when the financial crisis was at its peak and commodity prices were still collapsing. There are many reasons for the rebound. Resource prices have stabilized, risk aversion is fading slowly and the trend for the American dollar has been primarily downward against the other currencies in recent weeks. The fact that Australia's economy has not slumped as much in the crisis and does not need monetary policy that is as relaxed as in other industrialized economies provides additional support.
- On a market basis, the momentum is very strong, attesting to the speed at which the currency has appreciated, but net speculative positions do not indicate that it is overvalued. The Australian dollar's rebound is essentially based on improvement by its fundamentals (commodity prices); unless the fundamentals change, there is little risk of a correction.
- Australia's real GDP fell 0.5% in the fourth quarter of 2008. The economy is being hurt by the drop in global demand for commodities. The drop in consumer and business confidence, and the sharp declines in wealth and credit, are also a drag. The employment market is deteriorating: the jobless rate went to 5.7% in March from 4% the year before. Although the situation is not as dramatic as it is elsewhere, Australia's government has instituted economic support measures totally over A$50B (about 4% of GDP), which will speed up the recovery.
- Inflation is more of a problem in Australia, where an annual inflation rate of 3.7% was recorded in Q4 of 2008; it seems less and less necessary to move ahead with monetary easing. Monetary authorities stayed on the sidelines in March, but opted to lower the main key interest rate by another 25 basis points in April, taking it to 3%. Australia's higher interest rates are helping its currency, which had already been quite prized in carry trades before the financial crisis exploded.

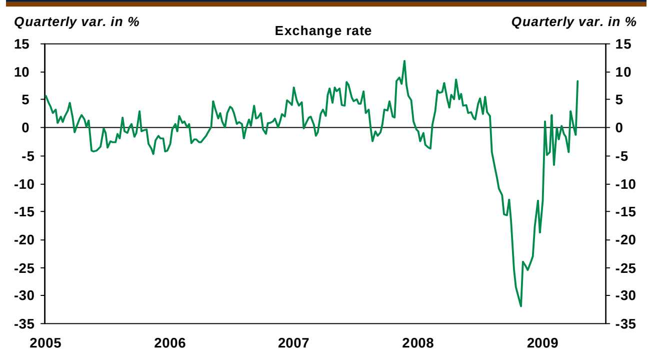
Forecasts: A number of factors are involved in the Australian dollar's rebound. It will still be difficult for it to keep going in this direction in the next few months due to the strong greenback and the small likelihood of seeing commodity prices come up quickly.

Australian dollar and trend



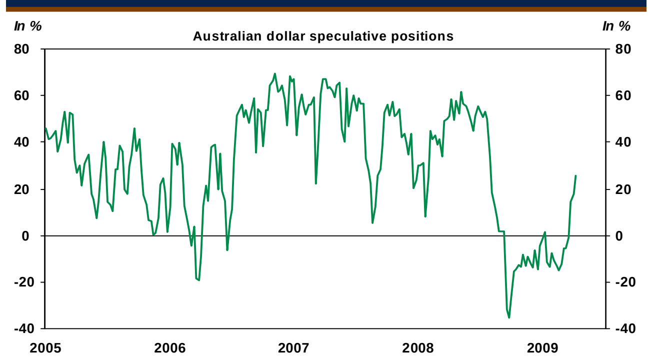
Sources: Datastream and Desjardins, Economic Studies

Australian dollar: momentum



Sources: Datastream and Desjardins, Economic Studies

Australian dollar: net speculative positions



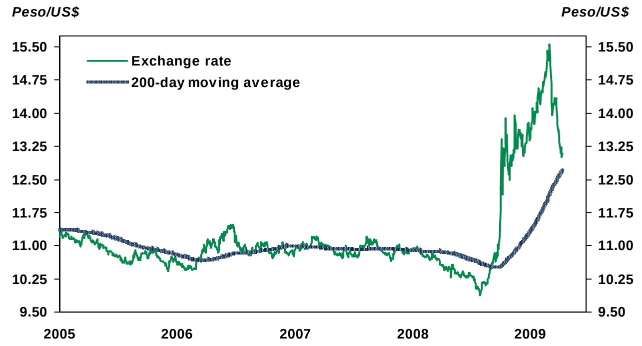
Sources: Datastream and Desjardins, Economic Studies

MEXICAN PESO (MXN)

The peso's strong correction looks unsustainable

- The peso posted an unprecedented rebound in the last few weeks. The USD/MXN went from a high of 15.58 pesos on March 9 to almost 13 pesos in mid-April, for a gain of 19.75% for Mexico's currency.
- In part, this reflects the emerging market rally that has been going on for over a month, in conjunction with the stabilization of the world financial system and the impacts of Chinese demand for raw materials.
- The recent rebound calls for prudence. The American downturn is far from being resolved and its impacts on Mexico's economy will continue to be felt into the second half of 2009. Among other things, it could lead to other rate cuts by the Bank of Mexico, a situation that would play against the peso.

Mexican peso and trend



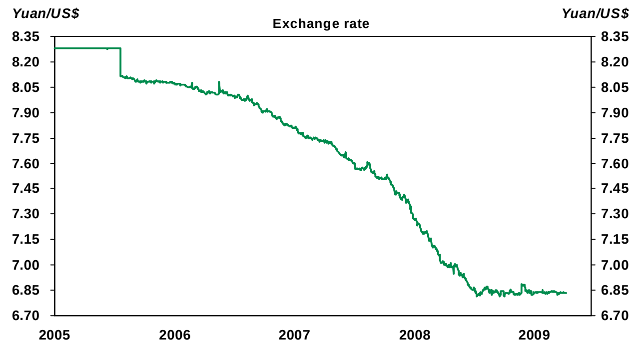
Sources: Datastream and Desjardins, Economic Studies

CHINESE YUAN (CNY)

No change in sight until the end of 2009

- Chinese policy on the yuan has been steady since last summer due to the tough economic and financial context. Continuing to revalue the currency could further sap the Middle Kingdom's manufacturing sector, whose health primarily relies on foreign demand.
- The annual variation in real GDP stood at 6.1% at the first quarter of 2009, the worst performance since 1999. The most radical change involves export growth. In terms of annual variation, exports were down 25.7% in February 2009, whereas they had been up 21% in August of 2008. Interest rate cuts and an almost US$600B stimulus plan to support the economy have been announced. These measures were needed, as deflation is also looming over China. Its inflation rate went into negative territory in February, at -1.6%.
- Unless the global economy recovers, the exchange rate will be kept at around 6.85 yuan/US$ until the end of the year, ignoring the pressure being exerted by the international community. However, the American dollar's appreciation will result in a proportional movement against the other currencies by the yuan.

Chinese yuan and trend

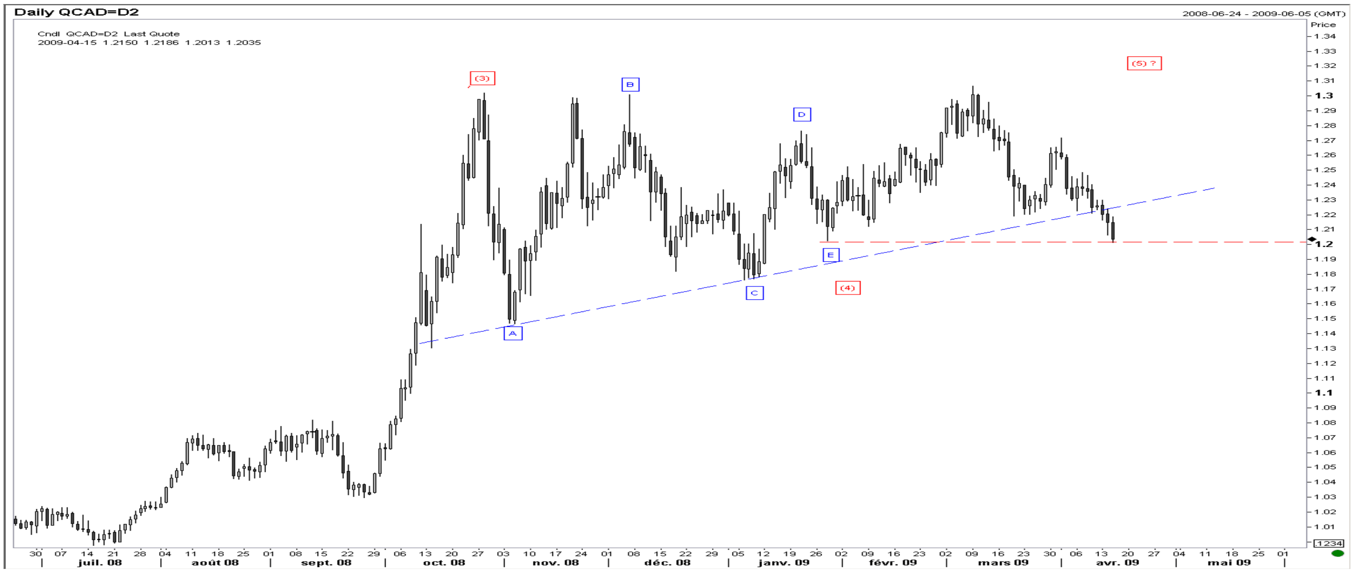


Sources: Datastream and Desjardins, Economic Studies

TECHNICAL ANALYSIS

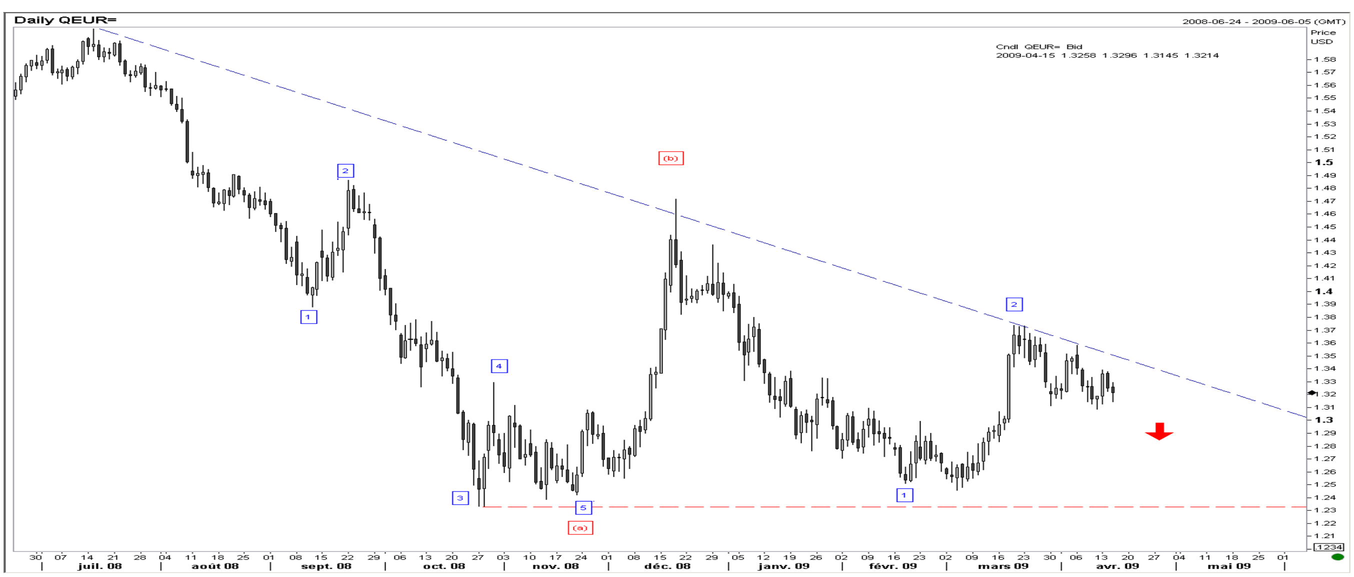
USD/CAD

The pair recently broke an upward trend line (blue line) that had been in place since October 2008. Despite everything, there will be an upward bias as long as the pair trades above the support level at 1.2000/1.2025 (red line). Confidence is not very strong, however.



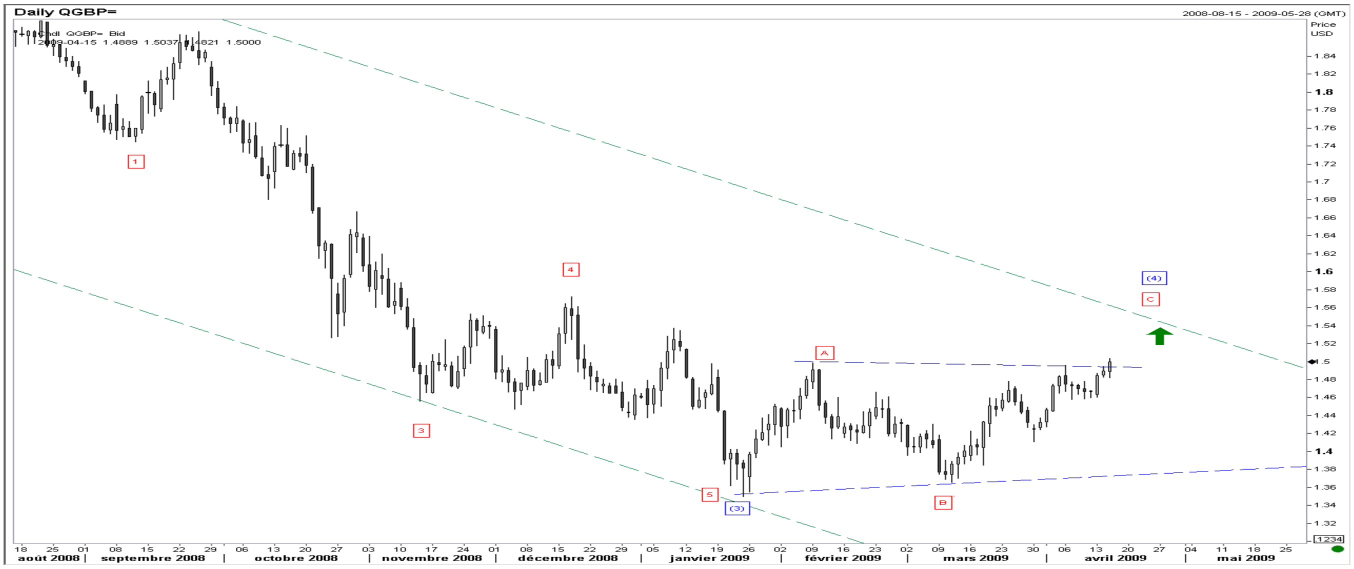
EUR/USD

The pair is still setting lower lows and lower highs, confirming that the trend remains downward. There is no reason to change our downward opinion on the pair, as long as it stays under 1.35, the resistance defined by the descending line (blue line). The EUR/USD should sink below 1.23 before the fall, closing in on 1.1631, its 2005 low.



GBP/USD

The pound sterling's upward correction against the greenback is not over; it could continue to rise until 1.57/1.60. Once the rally is over, the pair will return to its long-term down trend.



USD/JPY

A negative divergence between the USD/JPY and momentum prompts us to take a more negative approach to the pair. For now, the 200-day moving average and a 50% Fibo retracement, both at 98.89, are limiting the damage. However, a break below 97.50 would make us more confident in this scenario. A swing back over 101.75 would invalidate this negative opinion.

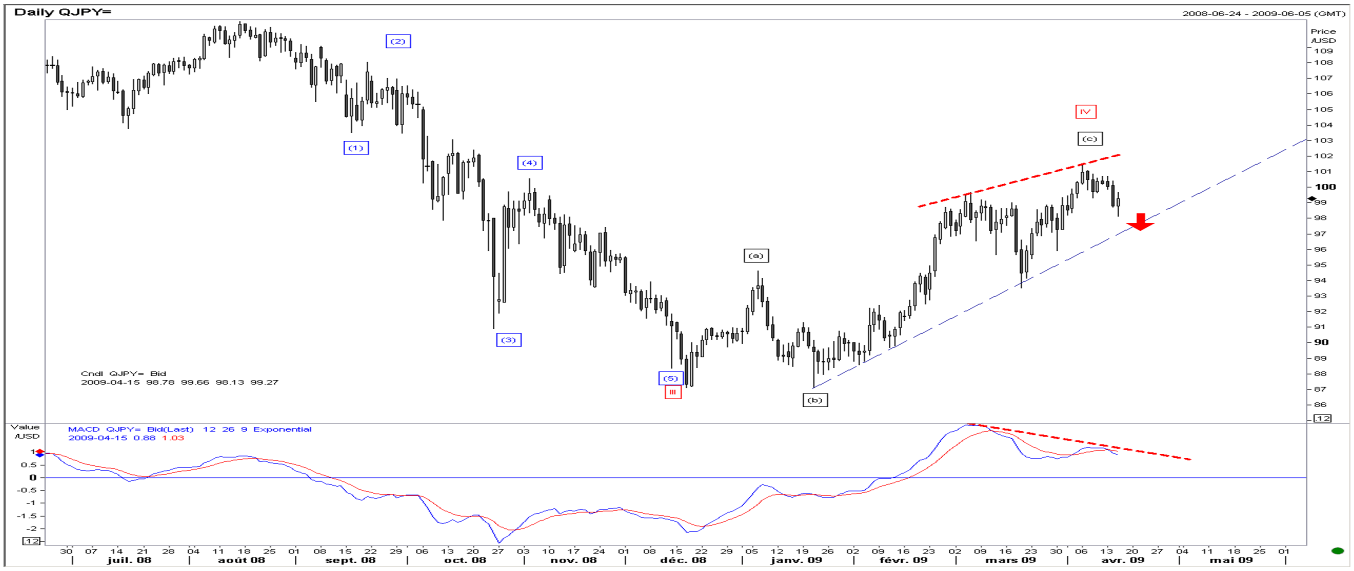


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Table 1
Currency market

Country – Currency*	Spot price Apr. 19	Percentage return since: 1 month	3 months	6 months	1 year	Last 52 weeks: Higher	Average	Lower
North America								
Canada – dollar	1.2155	-1.41	-3.10	2.94	20.24	1.3001	1.1367	0.9831
Canada – (CAD/USD)	0.8227	1.43	3.20	-2.86	-16.83	1.0172	0.8797	0.7692
Mexico – peso	13.2020	-6.14	-5.72	3.28	26.37	15.3835	12.1668	9.9169
South America								
Argentina – peso	3.6813	0.69	6.51	14.73	16.08	3.7185	3.2850	3.0130
Brazil – real	2.1912	-2.70	-6.05	3.07	31.52	2.5935	2.0021	1.5590
Asia								
China – yuan renminbi	6.8336	0.12	-0.04	-0.02	-2.31	7.0110	6.8617	6.8119
South Korea – won	1,331.75	-4.67	-2.26	-0.21	33.09	1,570.65	1,230.64	990.75
Hong Kong – dollar	7.7504	-0.02	-0.11	-0.06	-0.56	7.8146	7.7746	7.7500
India – rupee	49.7905	-0.94	2.44	2.21	25.24	51.9835	46.3843	39.7555
Japan – yen	99.14	4.86	9.47	-2.46	-4.38	110.54	100.40	87.36
Europe								
Denmark – krona	5.7125	4.71	0.15	2.86	20.93	5.9827	5.3165	4.6644
Euro zone – (EUR/USD)	6.6945	5.62	-4.26	1.59	32.76	7.2360	6.1058	4.9583
Norway – kroner	1.4804	1.48	1.94	-14.20	-25.87	2.0069	1.6945	1.3669
Russia – ruble	33.4685	0.62	0.87	27.20	42.20	36.3638	27.7704	23.1169
Sweden – krona	8.4505	6.04	1.59	14.00	41.83	9.3156	7.2241	5.8368
Switzerland – swiss franc	1.1652	4.18	3.01	2.78	13.64	1.2247	1.1085	1.0048
United Kingdom – (GBP/USD)	1.3044	-4.99	-0.82	-3.03	-17.08	1.5979	1.4113	1.2449
South Pacific								
Australia – (AUD/USD)	0.7219	4.97	8.38	4.56	-22.72	0.9786	0.7629	0.6036
New Zeland – (NZD/USD)	0.5679	1.98	6.01	-7.31	-28.19	0.7976	0.6256	0.4924

* 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		2008 Q3	2008 Q4	2009 Q1	2009 Q2f	2009 Q3f	2009 Q4f	2010 Q1f	2010 Q2f	2010 Q3f	2010 Q4f
American dollar											
Canadian dollar	(USD/CAD)	1.0630	1.2189	1.2630	1.2500	1.1628	1.1364	1.1111	1.0870	1.0526	1.0000
Euro	(EUR/USD)	1.4047	1.3901	1.3277	1.2600	1.2800	1.3000	1.3250	1.3580	1.3910	1.4240
British pound	(GBP/USD)	1.7825	1.4378	1.4334	1.4500	1.5500	1.6000	1.6500	1.7000	1.7500	1.8000
Yen	(USD/JPY)	106.00	90.74	98.91	100.00	102.00	105.00	105.00	105.00	100.00	98.00
Australian dollar	(AUD/USD)	0.7700	0.6500	0.6910	0.7200	0.7500	0.7800	0.8000	0.8400	0.8700	0.9000
Mexican peso	(USD/MXN)	10.80	12.50	14.17	12.00	11.50	11.00	11.00	11.00	11.00	11.00
Chinese yuan	(USD/CNY)	6.82	6.82	6.83	6.80	6.70	6.60	6.40	6.25	6.00	6.00
Effective dollar*	(73 = 100)	76.13	79.41	83.23	81.00	79.00	77.00	77.00	75.00	73.00	72.00
Canadian dollar											
American dollar	(CAD/USD)	0.9407	0.8204	0.7918	0.8000	0.8600	0.8800	0.9000	0.9200	0.9500	1.0000
Euro	(EUR/CAD)	1.4931	1.6943	1.6769	1.5750	1.4884	1.4773	1.4722	1.4761	1.4642	1.4240
British pound	(GBP/CAD)	1.8947	1.7525	1.8103	1.8125	1.8023	1.8182	1.8333	1.8478	1.8421	1.8000
Yen	(CAD/JPY)	99.71	74.44	78.31	80.00	87.72	92.40	94.50	96.60	95.00	98.00
Australian dollar	(AUD/CAD)	0.8185	0.7923	0.8727	0.9000	0.8721	0.8864	0.8889	0.9130	0.9158	0.9000
Mexican peso	(CAD/MXN)	10.16	10.26	11.22	9.60	9.89	9.68	9.90	10.12	10.45	11.00
Chinese yuan	(CAD/CNY)	6.42	5.60	5.41	5.44	5.76	5.81	5.76	5.75	5.70	6.00

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