#1 MEILLEUR PRÉVISIONNISTE GLOBAL – CANADA
FOCUS ECONOMICS
ANALYST FORECAST AWARDS
2022
#1 BEST OVERALL FORECASTER – CANADA

FX FORECASTS

No Slump in Sight for the Greenback This Fall

HIGHLIGHTS

- Although the US dollar lost a bit of ground between mid-July and mid-August, it quickly resumed its uptrend, with the DXY index of the US effective exchange rate recently hitting a new 20-year high. The main drivers behind the greenback's strength are its role as a safe haven currency and the intensity of US monetary tightening. Increased expectations of US interest rate hikes were fuelled by remarks made by central bankers at the annual Jackson Hole symposium, including the chair of the Federal Reserve.
- European currencies have come under particular pressure in recent weeks. The euro slipped below parity with the US dollar and the pound sterling is trading at around US$1.16. In light of the energy crisis brought on by sanctions on Russia, a recession seems much more likely in Europe. Natural gas and electricity prices have soared, even forcing some businesses to reduce or consider reducing output. Inflation has shot up in many European counties, without yet peaking as it has in the States. This puts added pressure on Europe's central banks to pick up the pace of monetary tightening, which could exacerbate the economic downturn over the next few quarters.
- Higher US bond yields have coincided with a return of the US dollar/Japanese yen exchange rate near the ¥140 mark, a psychological barrier not crossed since August 1999. The Bank of Japan is holding firm on its ultra-accommodative monetary policy, with a 0.25% cap on 10-year Japanese government bond yields. This means that any uptick in US bond yields will increase the interest rate differential between the two countries and make the yen less attractive. That said, the Bank of Japan could very well change its tune. Inflation excluding food and energy has not yet surpassed 2% in Japan, but it's on the rise.
- The Canadian dollar—now trading at under US$0.77—hasn't escaped the strength of its US counterpart, although it hasn't depreciated as much as other major currencies. Support from commodity prices is starting to dissipate due to the growing threat of a global recession. The Canadian economy is also looking at a sharp slowdown in its real estate market.
- As for emerging market currencies, the Chinese yuan has weakened at an accelerated pace over the past few weeks. China's economy is still grappling with the risk of shutdowns associated with its commitment to a zero-COVID policy. Other challenges include a real estate slowdown and a major drought affecting crops and hydropower generation.

MAIN FACTORS TO WATCH

- Investor risk appetite is expected to remain soft over the next few quarters, which will continue to bolster the US dollar. We'll be keeping a particularly close eye on European currencies over the coming months, given the increasing likelihood of a recession on the horizon in many of the continent's countries.
- We're now forecasting a mild recession for Canada in early 2023 as the housing market correction continues. This should drag the loonie even lower over the next few quarters, with it bottoming out at US$0.73. This forecast also assumes that there won't be a further escalation of prices for most commodities.

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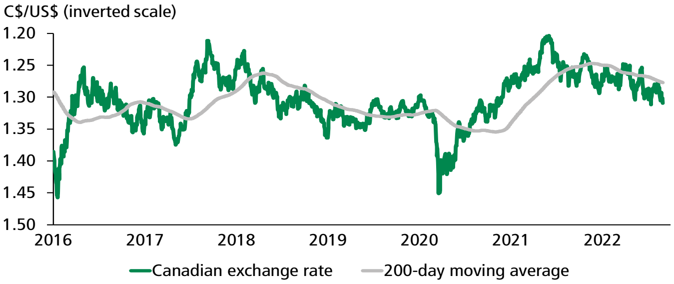
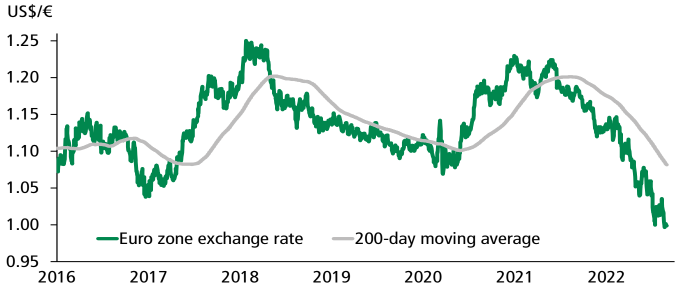
Main Exchange Rates

CANADIAN DOLLAR
Exchange rate and trend



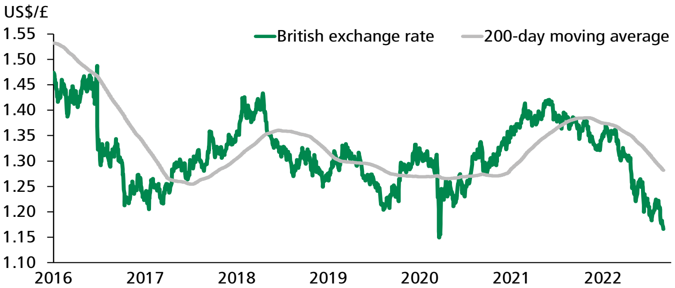
Sources: Datastream and Desjardins, Economic Studies

EURO
Exchange rate and trend



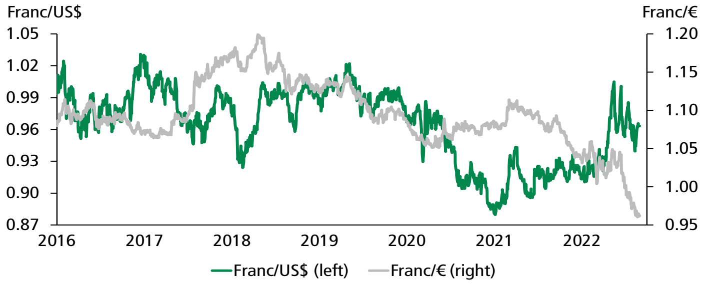
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND
Exchange rate and trend



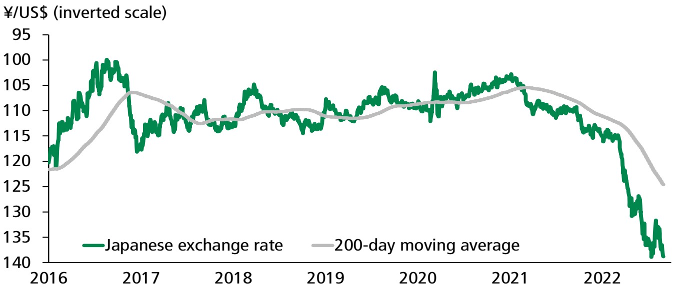
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC
Exchange rate



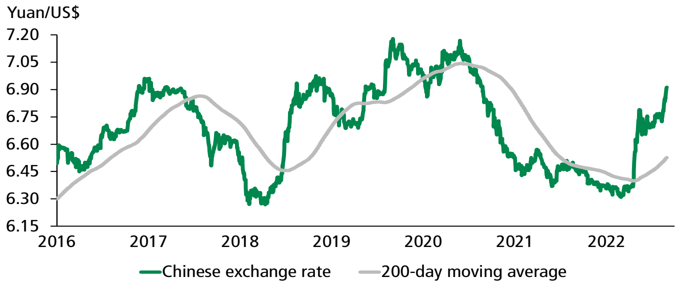
Sources: Datastream and Desjardins, Economic Studies

YEN
Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

CHINESE YUAN
Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE August 30	VARIATION (%) -1 month	-3 months	-6 months	-1 year	LAST 52 WEEKS Higher	Average	Lower
Americas								
Argentina – peso	138.5702	5.60	15.46	28.38	41.82	138.5702	111.3021	97.7051
Brazil – real	5.0651	-2.56	6.91	-2.75	-2.30	5.7447	5.2498	4.6100
Canada – (USD/CAD)	1.3098	2.22	3.48	3.16	4.04	1.3158	1.2718	1.2320
Canada – (CAD/USD)	0.7635	-2.17	-3.36	-3.07	-3.89	0.8117	0.7863	0.7600
Mexico – peso	20.1225	-1.17	3.25	-3.15	-0.04	21.8163	20.3874	19.4890
Asia and South Pacific								
Australia – (AUD/USD)	0.6852	-1.92	-4.80	-6.10	-6.09	0.7579	0.7177	0.6733
China – yuan renminbi	6.9119	2.49	3.77	9.35	6.89	6.9119	6.5034	6.3093
Hong Kong – dollar	7.8487	-0.02	0.00	0.46	0.80	7.8501	7.8163	7.7709
India – rupee	79.6825	0.42	2.74	5.35	8.71	80.0150	76.2099	72.9510
Japan – yen	138.80	4.20	8.81	20.16	26.27	138.92	121.68	109.23
New Zeland – (NZD/USD)	0.6129	-2.57	-6.52	-9.68	-12.44	0.7204	0.6671	0.6112
South Korea – won	1,347	3.66	8.72	11.65	15.41	1,350	1,228	1,156
Europe								
Denmark – krona	7.4273	2.03	7.61	11.03	17.83	7.4805	6.7751	6.2599
Euro zone – (EUR/USD)	0.9989	-2.04	-7.34	-9.75	-15.34	1.1881	1.1008	0.9967
Norway – kroner	9.8125	1.40	4.26	10.83	13.19	10.2535	9.1119	8.3075
Russia – ruble	61.0263	-4.08	-5.61	-45.14	-17.01	151.5000	73.4594	53.4500
Sweden – krona	10.6846	5.23	9.59	10.40	23.86	10.7122	9.4550	8.5171
Switzerland – swiss franc	0.9759	2.46	1.91	5.73	6.53	1.0048	0.9398	0.9103
United Kingdom – (GBP/USD)	1.1631	-4.42	-8.02	-12.64	-15.46	1.3872	1.3015	1.1631

* In comparison with the U.S. dollar, unless otherwise indicated.
Note: Currency table base on previous day closure.

TABLE 2
Currency market: History and forecasts

END OF PERIOD		2021 Q3	2021 Q4	2022 Q1	2022 Q2	2022 Q3f	2022 Q4f	2023 Q1f	2023 Q2f	2023 Q3f	2023 Q4f
U.S. dollar											
Canadian dollar	USD/CAD	1.2680	1.2636	1.2501	1.2873	1.3072	1.3333	1.3514	1.3699	1.3514	1.3514
Euro	EUR/USD	1.1590	1.1372	1.1127	1.0455	0.9900	0.9800	0.9800	1.0000	1.0200	1.0500
British pound	GBP/USD	1.3484	1.3545	1.3167	1.2145	1.1700	1.1600	1.1500	1.1600	1.1800	1.2100
Swiss franc	USD/CHF	0.9331	0.9130	0.9206	0.9576	0.9700	0.9700	0.9700	0.9700	0.9800	0.9900
Yen	USD/JPY	111.29	115.10	121.68	135.75	139.00	135.00	129.00	125.00	120.00	115.00
Australian dollar	AUD/USD	0.7227	0.7261	0.7481	0.6903	0.6900	0.6800	0.6700	0.6700	0.6800	0.6900
Chinese yuan	USD/CNY	6.4467	6.3561	6.3400	6.6993	6.9500	7.0000	7.1000	7.1000	7.0000	6.9000
Mexican peso	USD/MXN	20.64	20.50	19.87	20.10	20.50	20.75	21.25	21.00	20.50	20.25
Brazilian real	USD/BRL	5.4391	5.5802	4.7375	5.2377	5.2000	5.4000	5.5000	5.5000	5.4000	5.3000
Effective dollar[1]		106.55	107.98	109.17	115.77	120.00	120.80	120.70	119.50	117.20	114.80
Canadian dollar											
U.S. dollar	CAD/USD	0.7886	0.7914	0.7999	0.7768	0.7650	0.7500	0.7400	0.7300	0.7400	0.7400
Euro	EUR/CAD	1.4695	1.4370	1.3909	1.3458	1.2941	1.3067	1.3243	1.3699	1.3784	1.4189
British pound	GBP/CAD	1.7097	1.7115	1.6459	1.5633	1.5294	1.5467	1.5541	1.5890	1.5946	1.6351
Swiss franc	CAD/CHF	0.7359	0.7225	0.7364	0.7439	0.7421	0.7275	0.7178	0.7081	0.7252	0.7326
Yen	CAD/JPY	87.76	91.08	97.33	105.45	106.34	101.25	95.46	91.25	88.80	85.10
Australian dollar	AUD/CAD	0.9164	0.9175	0.9352	0.8885	0.9020	0.9067	0.9054	0.9178	0.9189	0.9324
Chinese yuan	CAD/CNY	5.0841	5.0302	5.0716	5.2044	5.3168	5.2500	5.2540	5.1830	5.1800	5.1060
Mexican peso	CAD/MXN	16.28	16.22	15.89	15.62	15.68	15.56	15.73	15.33	15.17	14.99
Brazilian real	CAD/BRL	4.2895	4.4161	3.7897	4.0689	3.9780	4.0500	4.0700	4.0150	3.9960	3.9220

f: forecasts; [1] Trade-weighted against major U.S. partners (January 2006 = 100).
Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies