

FX FORECASTS

The US Dollar Joins the Fun, Rising on Strong Economic Data and Higher Interest Rates

HIGHLIGHTS

- ▶ The US dollar is known to be a safe haven that appreciates when economic conditions worsen. But it can be influenced by other forces as well, especially interest rate movements. Bond yields have been on the rise recently on blockbuster jobs data and other good economic news, sending the greenback higher. It has gained about 2% against several currencies since the beginning of February.
- ▶ The Canadian dollar has held up fairly well, hovering around US\$0.75. Canada posted its own surprisingly strong economic data recently, including 150,000 jobs added in January. The resilient labour market is casting doubt on the Bank of Canada's ability to pause interest rate hikes. Commodity prices remain historically high and continue to support the loonie. Oil is also faring a bit better.
- ▶ The euro and the pound sterling had a good January, as most of the positive economic news was out of Europe. Both currencies lost momentum in February, however. On the monetary policy front, the Bank of England looks closer to taking a break, but only if inflation falls as expected. The European Central Bank (ECB) remains firmly in tightening mode. It plans to raise rates another 50 basis points at its March meeting, and more rate hikes are expected after that, though they could come at a slower pace. But the ECB's signals didn't keep the euro from falling below US\$1.07 after starting February at US\$1.10.
- ▶ The yen remains particularly sensitive to interest rate spreads between Japan and the United States. Japanese interest rates have moved very little recently, unlike their US counterparts. It's one reason the yen has lost nearly 3% since early February. The Bank of Japan (BoJ) held rates steady after widening the fluctuation range on the 10-year bond yield in December. According to current BoJ estimates, inflation should fall below 2% without any additional intervention, though strong recent wage growth could throw a wrench in that.
- ▶ The Bank of Mexico continues to be one of the most hawkish central banks. It surprised analysts with another 50 basis point rate hike on February 9, bringing its policy rate to 11.0%. The Mexican peso has been one of the few currencies to appreciate against the US dollar since the beginning of the month. The USD/MXN pair is now approaching 18.50 pesos.

MAIN FACTORS TO WATCH

- ▶ We continue to keep a close eye on economic conditions. We aren't seeing many signs of a recession yet, but the delayed effects of interest rate hikes should become more apparent by spring. We expect market risk appetite to fall, favouring the US dollar. Weaker economic conditions and lower risk appetite should be a drag on the loonie. The Canadian dollar could drop to about US\$0.72 by summer before bouncing back in late 2023 and 2024. Our forecast also sees commodity prices falling over the next few quarters.

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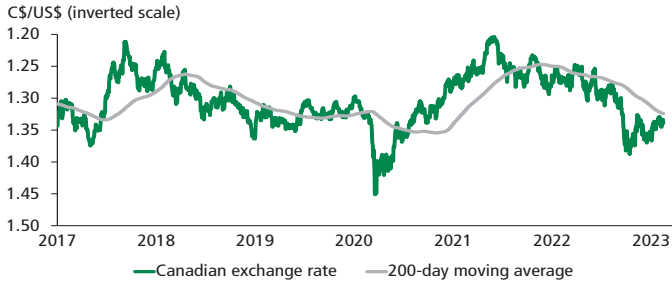
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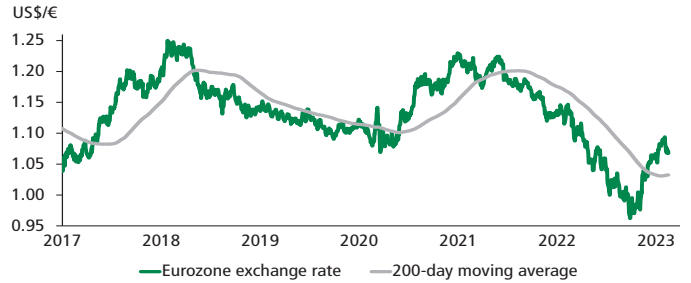
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



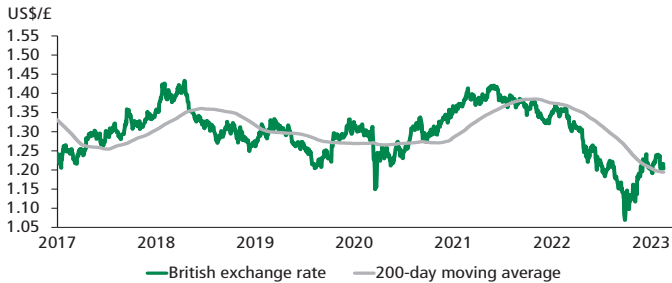
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EURO Exchange rate and trend



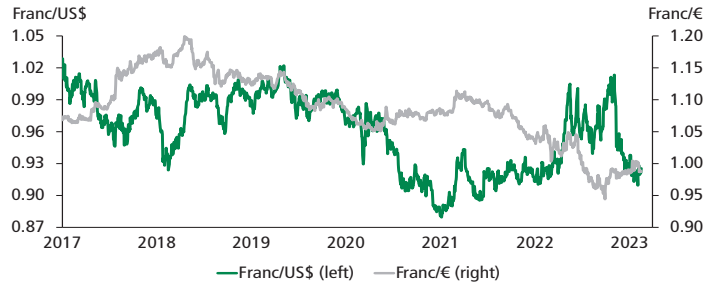
Sources: Datastream and Desjardins Economic Studies

BRITISH POUND Exchange rate and trend



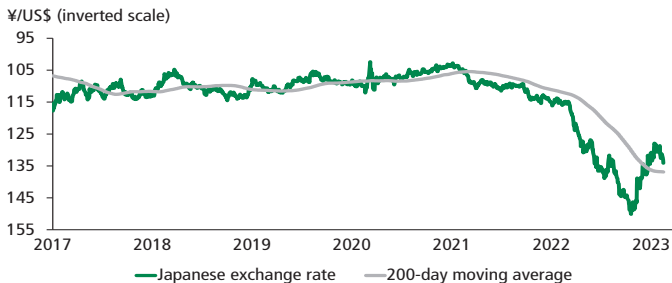
Sources: Datastream and Desjardins Economic Studies

SWISS FRANC Exchange rate



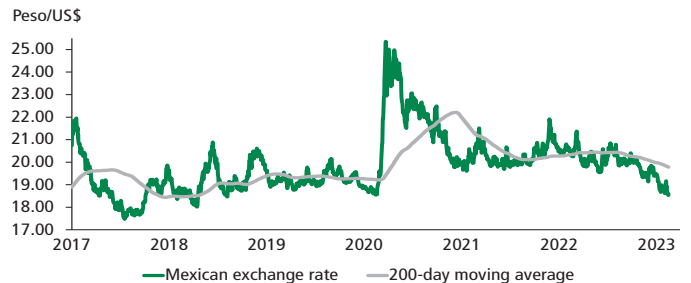
Sources: Datastream and Desjardins Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

MEXICAN PESO Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE		% CHANGE				LAST 52 WEEKS		
	Feb 15	1-month	3-month	6-month	1-year	High	Average	Low	
Americas									
Argentina – peso	192.3751	6.12	18.66	42.93	80.68	192.3751	140.7663	106.4740	
Brazil – real	5.2319	2.73	-1.75	2.76	1.11	5.4854	5.1321	4.6100	
Canada – (USD/CAD)	1.3418	0.15	0.92	3.92	5.15	1.3879	1.3113	1.2439	
Canada – (CAD/USD)	0.7453	-0.15	-0.91	-3.77	-4.90	0.8040	0.7626	0.7205	
Mexico – peso	18.6535	-0.70	-3.74	-6.03	-8.53	21.4460	19.9229	18.5875	
Asia and South Pacific									
Australia – (AUD/USD)	0.6904	-1.05	2.17	-1.70	-3.47	0.7579	0.6909	0.6197	
China – yuan renminbi	6.8530	2.24	-2.72	1.17	8.10	7.3029	6.7845	6.3093	
Hong Kong – dollar	7.8480	0.49	0.37	0.13	0.60	7.8501	7.8349	7.7674	
India – rupee	82.7650	1.82	2.06	4.05	10.09	83.0205	79.5169	74.5240	
Japan – yen	134.13	4.87	-3.71	0.60	15.99	150.15	133.41	114.75	
New Zealand – (NZD/USD)	0.6282	-1.66	1.99	-1.32	-5.41	0.6977	0.6302	0.5565	
South Korea – won	1,282	3.29	-2.69	-1.56	6.86	1,440	1,297	1,192	
Europe									
Denmark – krona	6.9710	1.50	-3.01	-4.77	6.38	7.7519	7.1173	6.5407	
Eurozone – (EUR/USD)	1.0676	-1.42	2.99	4.72	-5.99	1.1369	1.0468	0.9621	
Norway – kroner	10.2155	3.17	2.21	5.16	14.75	10.8935	9.7625	8.5650	
Russia – ruble	74.6000	8.75	22.80	21.50	-1.36	151.5000	69.3159	53.4500	
Sweden – krona	10.4272	0.23	-0.55	0.81	12.30	11.3655	10.2724	9.2533	
Switzerland – Swiss franc	0.9256	-0.08	-2.07	-1.94	-0.12	1.0133	0.9550	0.9097	
United Kingdom – (GBP/USD)	1.2002	-1.74	0.88	-0.65	-11.24	1.3620	1.2203	1.0747	

* In comparison with the US dollar, unless otherwise indicated.
 Note: Currency table based on the previous day's close.

TABLE 2
Currency market: History and forecasts

END OF PERIOD	2022		2023				2024				
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
US dollar											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3605	1.3889	1.3889	1.3514	1.3158	1.2821	1.2500	1.2658
Euro	EUR/USD	0.9797	1.0673	1.0600	1.0500	1.0600	1.0900	1.1100	1.1300	1.1400	1.1500
British pound	GBP/USD	1.1163	1.2029	1.2000	1.1800	1.2000	1.2300	1.2500	1.2800	1.3000	1.3200
Swiss franc	USD/CHF	0.9842	0.9227	0.9200	0.9300	0.9300	0.9400	0.9500	0.9600	0.9600	0.9600
Yen	USD/JPY	144.77	131.13	128.00	125.00	123.00	118.00	115.00	113.00	111.00	110.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6800	0.6700	0.6800	0.6900	0.7000	0.7100	0.7100	0.7000
Chinese yuan	USD/CNY	7.1160	6.8986	6.9000	7.1000	7.0500	7.0000	6.9500	6.9500	6.9000	6.9000
Mexican peso	USD/MXN	20.15	19.49	19.00	20.00	19.50	19.00	18.50	18.25	18.00	18.00
Brazilian real	USD/BRL	5.4063	5.2174	5.3000	5.5000	5.4000	5.2000	5.0000	5.0000	4.9000	4.9000
Effective dollar ¹		123.76	115.79	116.00	117.10	116.10	113.00	110.70	108.60	107.00	106.70
Canadian dollar											
US dollar	CAD/USD	0.7232	0.7380	0.7350	0.7200	0.7200	0.7400	0.7600	0.7800	0.8000	0.7900
Euro	EUR/CAD	1.3547	1.4462	1.4422	1.4583	1.4722	1.4730	1.4605	1.4487	1.4250	1.4557
British pound	GBP/CAD	1.5436	1.6300	1.6327	1.6389	1.6667	1.6622	1.6447	1.6410	1.6250	1.6709
Swiss franc	CAD/CHF	0.7117	0.6809	0.6762	0.6696	0.6696	0.6956	0.7220	0.7488	0.7680	0.7584
Yen	CAD/JPY	104.69	96.76	94.08	90.00	88.56	87.32	87.40	88.14	88.80	86.90
Australian dollar	AUD/CAD	0.8856	0.9233	0.9252	0.9306	0.9444	0.9324	0.9211	0.9103	0.8875	0.8861
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0715	5.1120	5.0760	5.1800	5.2820	5.4210	5.5200	5.4510
Mexican peso	CAD/MXN	14.57	14.38	13.97	14.40	14.04	14.06	14.06	14.24	14.40	14.22
Brazilian real	CAD/BRL	3.9097	3.8502	3.8955	3.9600	3.8880	3.8480	3.8000	3.9000	3.9200	3.8710

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