

## FX FORECASTS

# Recent Banking Turmoil Has Weakened the US Dollar

### HIGHLIGHTS

- ▶ Fresh concerns about the banking system emerged in recent weeks. It started in the US, dragging down the greenback, then spread to Europe, where trouble at Crédit Suisse forced a takeover by UBS. European currencies tumbled in mid-March at the height of the crisis, but quickly bounced back. The Swiss franc has been more volatile. While the euro is currently trading over US\$1.08, the franc is hovering near 0.92 francs/USD.
- The Federal Reserve moved aggressively to contain the crisis in the US, which appears to have contributed to a weaker dollar. Over the past two weeks, it has injected about US\$350B of liquidity into the market, mainly in the form of loans to financial institutions, reversing several months' worth of quantitative tightening. The Fed's balance sheet now stands at \$8.75 trillion, about where it was in October. In comparison, the European Central Bank has trimmed over €900 billion from its balance sheet since then.
- ▶ Investors have also revised their rate hike expectations for major central banks. The US has seen some of the biggest interest rate moves, narrowing spreads with several countries and sending the greenback lower against a number of other currencies. Nevertheless, the Fed raised interest rates by 25 basis points at its last meeting and left the door open to an additional hike due to stubbornly high inflation. The Fed still hasn't signalled that rate cuts are coming even though financial stress could lead to tighter credit conditions and slow the economy.
- ▶ The Japanese yen remains particularly sensitive to interest rate differentials. The Bank of Japan continues to pursue highly accommodative monetary policy, including capping the yield on Japanese 10-year bonds at 0.5%. Bond yields also fell in Japan in March, but not as sharply as in the US. The yen began the month above 136 yen/USD. It's now trading around 132.
- ▶ The loonie hasn't benefited as much from the US dollar's woes, holding steady at around US\$0.73. The Bank of Canada's rate pause hasn't helped the Canadian dollar, especially against the currencies of countries that aren't done tightening monetary policy. What's more, the price of oil and some other commodities fell earlier this month. But oil prices have rebounded in recent days and market risk appetite has recovered somewhat, sending the loonie a bit higher.

### MAIN FACTORS TO WATCH

- ▶ If we see any more episodes of financial stress in the coming months, volatility could remain high in the financial and currency markets. For now, our baseline scenario doesn't foresee financial stress getting much worse, but we do see growth continuing to slow and a number of countries possibly dipping into a moderate recession. If things play out this way, the US dollar should come out on top by virtue of its safe haven status. Meanwhile the Canadian dollar could fall below US\$0.72 this year, though the outlook is rosier for 2024.

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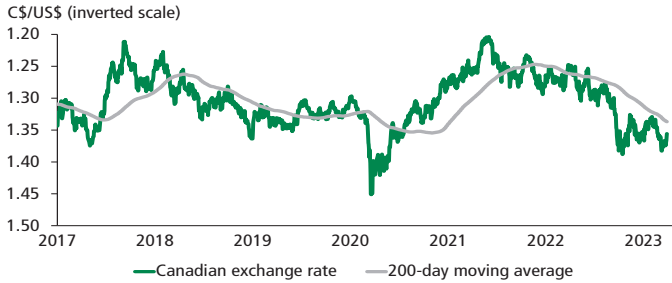
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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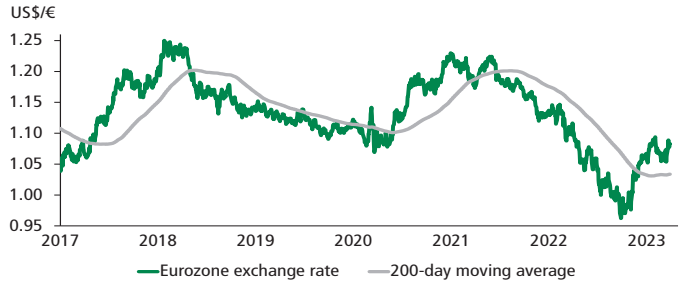
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



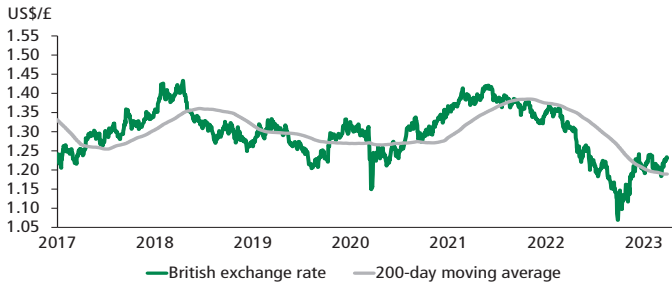
Sources: Datastream and Desjardins Economic Studies

## EURO Exchange rate and trend



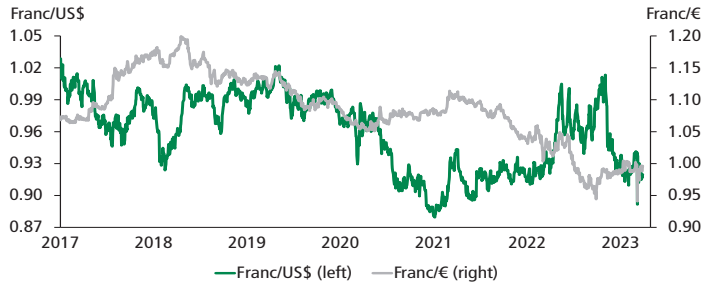
Sources: Datastream and Desjardins Economic Studies

## BRITISH POUND Exchange rate and trend



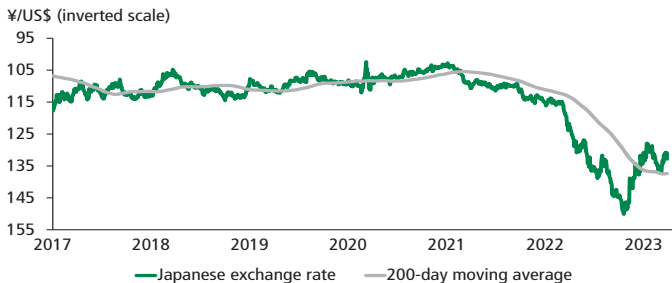
Sources: Datastream and Desjardins Economic Studies

## SWISS FRANC Exchange rate



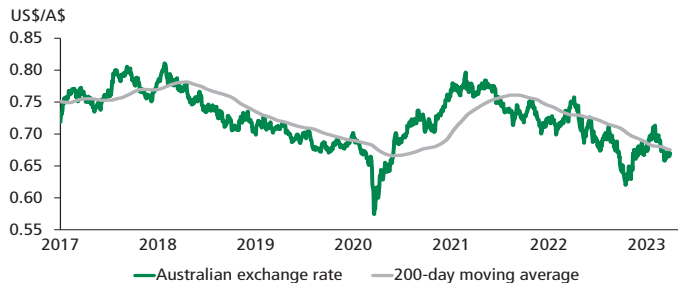
Sources: Datastream and Desjardins Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

## AUSTRALIAN DOLLAR Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

**TABLE 1**  
**Currency market: Yields**

COUNTRY – CURRENCY*	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	Mar 29	1-month	3-month	6-month	1-year	High	Average	Low
<b>Americas</b>								
Argentina – peso	208.2391	5.39	17.82	41.56	87.94	208.2391	151.2755	110.8000
Brazil – real	5.1474	-0.90	-2.00	-4.75	8.40	5.4854	5.1505	4.6100
Canada – (USD/CAD)	1.3586	-0.13	0.13	-0.94	8.51	1.3879	1.3221	1.2439
Canada – (CAD/USD)	0.7361	0.13	-0.13	0.95	-7.84	0.8040	0.7564	0.7205
Mexico – peso	18.1165	-0.11	-6.23	-10.36	-9.39	20.9440	19.6793	17.9530
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6684	-1.14	-1.40	2.83	-11.04	0.7579	0.6844	0.6197
China – yuan renminbi	6.8871	0.26	-1.10	-3.34	8.22	7.3029	6.8484	6.3400
Hong Kong – dollar	7.8499	0.00	0.69	0.00	0.29	7.8501	7.8385	7.7674
India – rupee	82.2055	-0.28	-0.70	0.88	8.64	83.0205	80.2686	75.4510
Japan – yen	132.86	-2.44	-0.12	-8.03	8.14	150.15	135.35	121.68
New Zealand – (NZD/USD)	0.6225	-0.51	-1.95	8.73	-10.24	0.6977	0.6238	0.5565
South Korea – won	1,303	-1.56	3.02	-9.47	6.79	1,440	1,308	1,210
<b>Europe</b>								
Denmark – krona	6.8686	-1.52	-1.52	-9.33	2.38	7.7519	7.1484	6.6653
Eurozone – (EUR/USD)	1.0831	1.49	1.54	10.90	-2.45	1.1165	1.0419	0.9621
Norway – kroner	10.4050	0.29	5.25	-2.77	20.03	10.8935	9.9449	8.5650
Russia – ruble	77.2500	2.88	5.10	32.28	-11.71	87.5000	66.1769	53.4500
Sweden – krona	10.3917	-0.42	-0.69	-6.82	11.50	11.3655	10.3798	9.2533
Switzerland – Swiss franc	0.9195	-2.12	-0.43	-6.27	-1.28	1.0133	0.9551	0.9097
United Kingdom – (GBP/USD)	1.2311	2.53	2.13	11.56	-6.28	1.3174	1.2065	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	
<b>US dollar</b>											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3605	1.3889	1.3986	1.3699	1.3333	1.2821	1.2500	1.2658
Euro	EUR/USD	0.9797	1.0673	1.0800	1.0600	1.0500	1.0800	1.1200	1.1400	1.1500	1.1500
British pound	GBP/USD	1.1163	1.2029	1.2300	1.1900	1.1800	1.2100	1.2500	1.2800	1.3000	1.3200
Swiss franc	USD/CHF	0.9842	0.9227	0.9200	0.9200	0.9300	0.9400	0.9500	0.9600	0.9600	0.9600
Yen	USD/JPY	144.77	131.13	132.00	128.00	124.00	120.00	115.00	113.00	111.00	110.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6700	0.6600	0.6500	0.6700	0.6900	0.7100	0.7100	0.7000
Chinese yuan	USD/CNY	7.1160	6.8986	6.8500	7.0000	7.0500	7.0000	6.9000	6.8500	6.8000	6.8000
Mexican peso	USD/MXN	20.15	19.49	18.25	19.00	19.25	19.00	18.50	18.00	17.75	17.75
Brazilian real	USD/BRL	5.4063	5.2174	5.2000	5.5000	5.6000	5.4000	5.2000	5.0000	4.9000	4.9000
Effective dollar <sup>1</sup>		123.76	115.79	115.50	116.80	117.20	114.30	110.70	108.10	106.50	106.50
<b>Canadian dollar</b>											
US dollar	CAD/USD	0.7232	0.7380	0.7350	0.7200	0.7150	0.7300	0.7500	0.7800	0.8000	0.7900
Euro	EUR/CAD	1.3547	1.4462	1.4694	1.4722	1.4685	1.4795	1.4933	1.4615	1.4375	1.4557
British pound	GBP/CAD	1.5436	1.6300	1.6735	1.6528	1.6503	1.6575	1.6667	1.6410	1.6250	1.6709
Swiss franc	CAD/CHF	0.7117	0.6809	0.6762	0.6624	0.6650	0.6862	0.7125	0.7488	0.7680	0.7584
Yen	CAD/JPY	104.69	96.76	97.02	92.16	88.66	87.60	86.25	88.14	88.80	86.90
Australian dollar	AUD/CAD	0.8856	0.9233	0.9116	0.9167	0.9091	0.9178	0.9200	0.9103	0.8875	0.8861
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0348	5.0400	5.0408	5.1100	5.1750	5.3430	5.4400	5.3720
Mexican peso	CAD/MXN	14.57	14.38	13.41	13.68	13.76	13.87	13.88	14.04	14.20	14.02
Brazilian real	CAD/BRL	3.9097	3.8502	3.8220	3.9600	4.0040	3.9420	3.9000	3.9000	3.9200	3.8710

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