

FX FORECASTS

Potentially Less Depreciation than Expected against the US Dollar for the Rest of the Year

HIGHLIGHTS

- ▶ October's renewed market optimism is continuing, helping several currencies rebound against the US dollar. As such, many exchange rates are currently far from the levels we had previously forecast.
- ▶ Inflation and interest rate trends remain key themes in market analyses. However, the news has been better in this regard in recent weeks. Some components of US inflation have begun to slow, increasing the likelihood of a change in the pace of interest rate hikes. Moreover, economic data from the US and other countries has surprised to the upside recently, giving investors hope for the months ahead.
- ▶ Exchange rate momentum is continuing at a healthy pace in Europe. The pound sterling recently moved back above US\$1.20, its highest level since mid-August. Meanwhile, the euro is back at its early-July level, close to US\$1.04. Lower energy prices continue to drive optimism in the region. This should help bring down inflation and give some breathing room to businesses and households that had seen their energy bills rise sharply. Recent economic data has also been somewhat better than expected.
- ▶ Although energy prices have declined, prices of other commodities have rebounded in recent weeks. This is helping to underpin commodity-linked currencies. The Australian and New Zealand dollars have performed well against the US dollar. The situation in China remains a major focus for the currencies of neighbouring countries. Much hope has been placed on an easing of China's zero-COVID policy, but new outbreaks could mean that near-term improvements are ultimately limited.
- ▶ The Canadian dollar appreciated less than its Australian and New Zealand counterparts. Lower oil prices are having a more negative impact on Canadian terms of trade. The Bank of Canada also seems closer to a pause in its tightening cycle. It now appears to be paying more attention to the effects of interest rate hikes on financial stability.
- ▶ Some emerging market currencies—including the Brazilian real—depreciated in November. Brazil's change of government generated some uncertainty, while the central bank's monetary tightening pause in September and October reduced the real's attractiveness against the greenback. However, Brazil's neighbour Argentina is in a much more worrying situation. Inflation there is at 88% and the Argentinian peso has fallen 5% since the end of October.

MAIN FACTORS TO WATCH

- ▶ We continue to believe that the recent wave of market optimism will be short-lived, and that the US dollar will rebound against several currencies. The worst of the economic impact of interest rate hikes is still to come. There's also still considerable uncertainty about future inflation trends and central bank decisions.
- ▶ However, we've raised our end of 2022 forecasts slightly for several foreign exchange rates. We expect them to depreciate further in early 2023. The Canadian dollar should end the year at around US\$0.73.

Jimmy Jean, Vice-President, Chief Economist and Strategist • Hendrix Vachon, Principal Economist

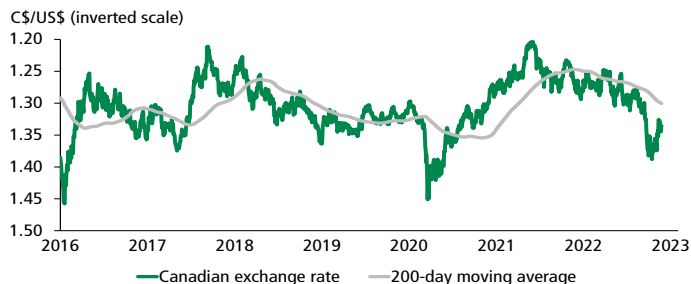
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2022, Desjardins Group. All rights reserved.

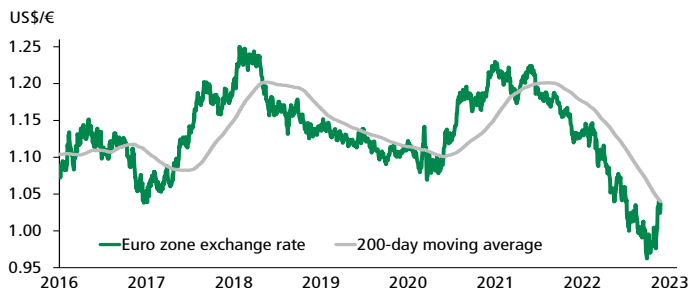
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



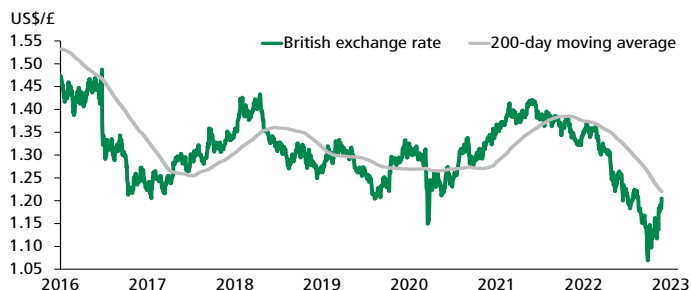
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



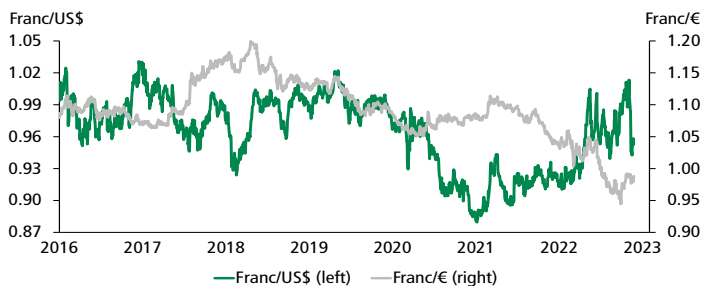
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



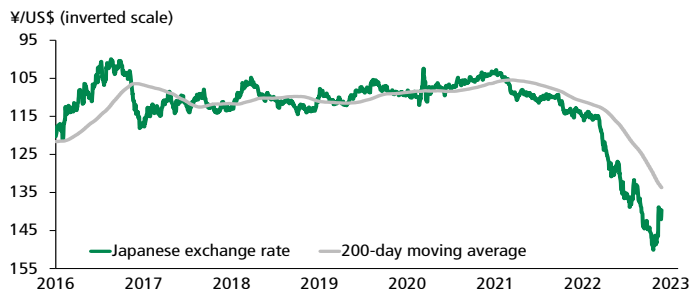
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



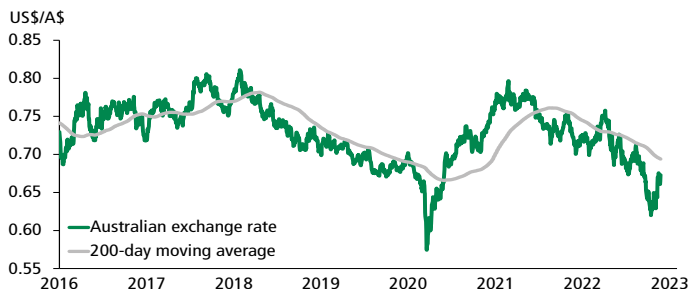
Sources: Datastream and Desjardins, Economic Studies

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	VARIATION (%)				LAST 52 WEEKS		
	Nov. 23	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	164.8395	7.17	20.42	38.57	63.84	164.8395	123.4535	100.6092
Brazil – real	5.3863	3.80	5.83	12.28	-4.80	5.7447	5.2065	4.6100
Canada – (USD/CAD)	1.3380	-2.68	3.28	4.67	5.23	1.3879	1.2937	1.2439
Canada – (CAD/USD)	0.7474	2.75	-3.17	-4.46	-4.97	0.8040	0.7730	0.7205
Mexico – peso	19.3680	-3.06	-3.31	-2.35	-8.99	21.8163	20.2790	19.3075
Asia and South Pacific								
Australia – (AUD/USD)	0.6732	5.55	-2.87	-5.26	-6.86	0.7579	0.6978	0.6197
China – yuan renminbi	7.1605	-1.15	4.76	7.66	12.03	7.3029	6.6645	6.3093
Hong Kong – dollar	7.8185	-0.40	-0.37	-0.39	0.31	7.8501	7.8310	7.7849
India – rupee	81.6330	-1.10	2.22	5.27	9.65	83.0205	77.8565	73.7975
Japan – yen	139.61	-5.45	2.05	9.16	21.24	150.15	129.19	112.78
New Zealand – (NZD/USD)	0.6239	8.50	0.41	-3.58	-10.22	0.6977	0.6387	0.5565
South Korea – won	1,352	-6.11	0.44	6.95	13.62	1,440	1,279	1,174
Europe								
Denmark – krona	7.1540	-5.14	-4.10	2.79	8.21	7.7519	7.0259	6.4961
Eurozone – (EUR/USD)	1.0375	5.90	3.89	-2.76	-7.89	1.1468	1.0617	0.9621
Norway – kroner	9.9389	-5.62	2.35	3.66	11.75	10.8935	9.5198	8.5650
Russia – ruble	60.6250	-1.66	0.79	3.63	-19.20	151.5000	70.8731	53.4500
Sweden – krona	10.4578	-6.53	-1.58	6.62	15.63	11.3655	9.9788	8.9373
Switzerland – Swiss franc	0.9424	-6.25	-2.08	-2.40	1.06	1.0133	0.9534	0.9103
United Kingdom – (GBP/USD)	1.2066	8.06	1.81	-4.04	-9.75	1.3734	1.2494	1.0747

* In comparison with the US dollar, unless otherwise indicated.

Note: Currency table based on previous day's close.

TABLE 2
Currency market: History and forecasts

END OF PERIOD		2021		2022				2023			
		Q3	Q4	Q1	Q2	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
US dollar											
Canadian dollar	USD/CAD	1.2680	1.2636	1.2501	1.2873	1.3828	1.3699	1.3889	1.3889	1.3699	1.3333
Euro	EUR/USD	1.1590	1.1372	1.1127	1.0455	0.9797	1.0000	0.9800	0.9900	1.0200	1.0500
British pound	GBP/USD	1.3484	1.3545	1.3167	1.2145	1.1163	1.1500	1.1200	1.1300	1.1600	1.2000
Swiss franc	USD/CHF	0.9331	0.9130	0.9206	0.9576	0.9842	0.9700	0.9800	0.9900	0.9900	0.9900
Yen	USD/JPY	111.29	115.10	121.68	135.75	144.77	142.00	138.00	130.00	123.00	116.00
Australian dollar	AUD/USD	0.7227	0.7261	0.7481	0.6903	0.6404	0.6500	0.6400	0.6400	0.6600	0.6700
Chinese yuan	USD/CNY	6.4467	6.3561	6.3400	6.6993	7.1160	7.2000	7.3500	7.3500	7.2500	7.1500
Mexican peso	USD/MXN	20.64	20.50	19.87	20.10	20.15	19.75	20.25	20.25	20.00	19.50
Brazilian real	USD/BRL	5.4391	5.5802	4.7375	5.2377	5.4063	5.5000	5.6000	5.5000	5.4000	5.3000
Effective dollar ¹		106.55	107.98	109.17	115.77	123.76	121.70	123.20	121.60	118.50	114.70
Canadian dollar											
US dollar	CAD/USD	0.7886	0.7914	0.7999	0.7768	0.7232	0.7300	0.7200	0.7200	0.7300	0.7500
Euro	EUR/CAD	1.4695	1.4370	1.3909	1.3458	1.3547	1.3699	1.3611	1.3750	1.3973	1.4000
British pound	GBP/CAD	1.7097	1.7115	1.6459	1.5633	1.5436	1.5753	1.5556	1.5694	1.5890	1.6000
Swiss franc	CAD/CHF	0.7359	0.7225	0.7364	0.7439	0.7117	0.7081	0.7056	0.7128	0.7227	0.7425
Yen	CAD/JPY	87.76	91.08	97.33	105.45	104.69	103.66	99.36	93.60	89.79	87.00
Australian dollar	AUD/CAD	0.9164	0.9175	0.9352	0.8885	0.8856	0.8904	0.8889	0.8889	0.9041	0.8933
Chinese yuan	CAD/CNY	5.0841	5.0302	5.0716	5.2044	5.1461	5.2560	5.2920	5.2920	5.2925	5.3625
Mexican peso	CAD/MXN	16.28	16.22	15.89	15.62	14.57	14.42	14.58	14.58	14.60	14.63
Brazilian real	CAD/BRL	4.2895	4.4161	3.7897	4.0689	3.9097	4.0150	4.0320	3.9600	3.9420	3.9750

f: forecasts; ¹ Trade-weighted against major US partners (January 2006 = 100).

Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies