

## FX FORECASTS

# Several Currencies Have Bounced Back against the US Dollar, but Further Turbulence Is Expected

### HIGHLIGHTS

- ▶ There's been a shift in the foreign exchange market of late. Investors seem to have regained some of their risk appetite, helping several currencies rebound against the US dollar. But overall, economic data remains pretty lacklustre. Investors are pinning their hopes on the Federal Reserve and other central banks starting to slow their interest rate hikes to limit the economic damage.
- ▶ In September, uncertainty was rampant in the United Kingdom after an ambitious mini-budget was announced, setting the stage for a surge in government borrowing. UK bond yields rose sharply and the pound sterling plummeted, prompting fears of further inflation. But most of the mini-budget has since been scrapped, and the UK has a new prime minister to boot. In recent weeks, the pound has been one of the top performers and is back above US\$1.15.
- ▶ We've also seen some big currency shifts in mainland Europe. The euro is back above the psychological barrier of US\$1.00. The risk of a major economic crisis has subsided recently as Europe replenished its natural gas stores, sending prices lower. But now that Europe's concerns are easing, the Swiss franc is underperforming as investors are less reliant on its safe haven status. Interest rate spreads have also moved against the franc, while lower inflation in Switzerland will likely mean less monetary tightening than elsewhere in Europe.
- ▶ The yen remains on a downtrend that began several months ago due to divergent US and Japanese monetary policies. The government of Japan is again turning to foreign exchange interventions to prop up the yen, but with limited success. A change in tone about monetary policy from the central bank would have a bigger impact on the exchange rate, especially as inflation continues to edge up in Japan. It's now around 3% excluding food and energy.
- ▶ The Canadian dollar fell to US\$0.72 in mid-October but is now trading above US\$0.73. The Bank of Canada opted to raise interest rates by 50 points this month rather than 75. The news was fairly well received by investors, giving the Canadian dollar an extra boost. The loonie is also benefiting from more positive market sentiment recently and higher prices for oil and some other commodities.

### MAIN FACTORS TO WATCH

- ▶ The markets may be overly optimistic right now. Even if some central banks downsize their interest rate hikes, the fight against inflation is far from over, and its effects on the economy remain highly uncertain. We foresee a short-lived contraction in Canada and the US and more headwinds in Europe. That means further turbulence in the months ahead, which should give the US dollar the upper hand against most currencies. We therefore expect the Canadian dollar to end the year around US\$0.72 before losing a bit more ground in early 2023.

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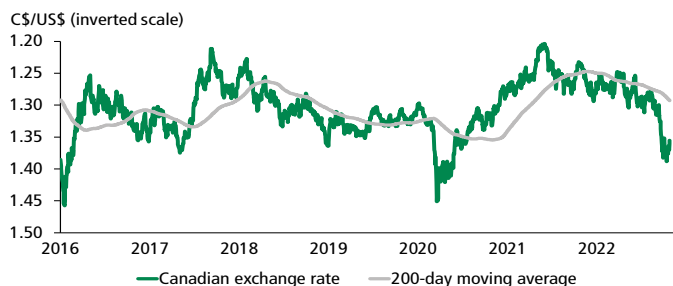
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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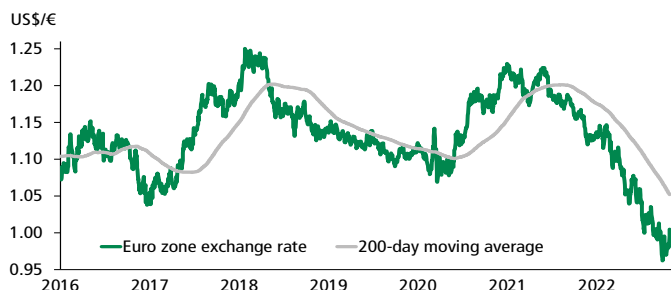
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



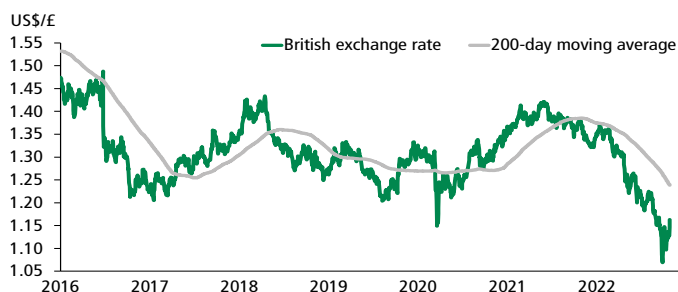
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



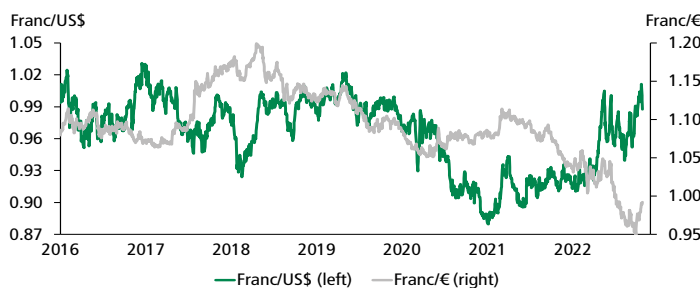
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



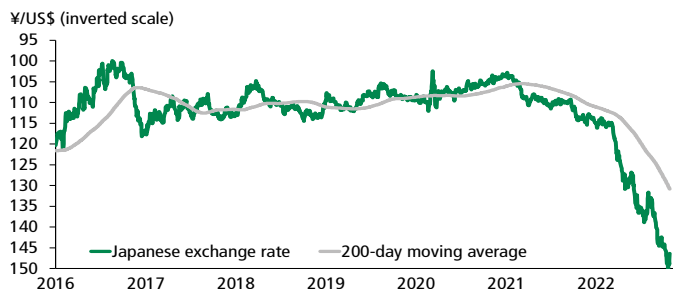
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



Sources: Datastream and Desjardins, Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

## CHINESE YUAN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

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

COUNTRY – CURRENCY*	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	October 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	155.3845	6.46	18.96	35.30	56.14	155.3845	118.8591	99.5134
Brazil – real	5.3267	-0.56	-0.50	6.67	-4.46	5.7447	5.2287	4.6100
Canada – (USD/CAD)	1.3562	-0.90	5.34	5.85	9.54	1.3879	1.2862	1.2335
Canada – (CAD/USD)	0.7374	0.91	-5.07	-5.53	-8.71	0.8107	0.7775	0.7205
Mexico – peso	19.8675	-2.31	-2.72	-2.47	-1.55	21.8163	20.3580	19.4890
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6498	0.64	-6.36	-8.78	-13.36	0.7579	0.7043	0.6197
China – yuan renminbi	7.1730	0.55	6.06	9.40	12.38	7.2694	6.6035	6.3093
Hong Kong – dollar	7.8496	0.00	0.00	0.05	0.95	7.8501	7.8271	7.7757
India – rupee	81.9285	0.37	2.59	6.84	9.32	83.0205	77.3015	73.7975
Japan – yen	146.37	1.11	6.89	15.04	28.22	150.15	126.92	112.78
New Zealand – (NZD/USD)	0.5834	3.48	-6.43	-11.13	-18.69	0.7201	0.6469	0.5565
South Korea – won	1,426	-0.34	9.08	14.04	22.17	1,440	1,264	1,168
<b>Europe</b>								
Denmark – krona	7.3775	-4.67	0.27	5.47	15.01	7.7519	6.9591	6.3683
Eurozone – (EUR/USD)	1.0049	4.15	-0.84	-5.65	-13.33	1.1677	1.0721	0.9621
Norway – kroner	10.2515	-5.18	3.43	10.78	22.73	10.8935	9.3968	8.3332
Russia – ruble	61.7500	7.16	2.15	-17.31	-11.29	151.5000	71.6831	53.4500
Sweden – krona	10.8621	-4.29	5.22	10.35	26.09	11.3655	9.8212	8.5171
Switzerland – Swiss franc	0.9875	-0.35	2.62	2.87	7.31	1.0053	0.9493	0.9103
United Kingdom – (GBP/USD)	1.1604	7.53	-3.68	-8.05	-15.86	1.3799	1.2639	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
<b>US dollar</b>											
Canadian dollar	USD/CAD	1.2680	1.2636	1.2501	1.2873	1.3828	1.3889	1.4085	1.3889	1.3699	1.3514
Euro	EUR/USD	1.1590	1.1372	1.1127	1.0455	0.9797	0.9700	0.9700	0.9900	1.0100	1.0300
British pound	GBP/USD	1.3484	1.3545	1.3167	1.2145	1.1163	1.1100	1.1000	1.1200	1.1400	1.1700
Swiss franc	USD/CHF	0.9331	0.9130	0.9206	0.9576	0.9842	1.0000	0.9900	0.9900	0.9900	1.0000
Yen	USD/JPY	111.29	115.10	121.68	135.75	144.77	140.00	132.00	126.00	120.00	115.00
Australian dollar	AUD/USD	0.7227	0.7261	0.7481	0.6903	0.6404	0.6400	0.6300	0.6400	0.6600	0.6700
Chinese yuan	USD/CNY	6.4467	6.3561	6.3400	6.6993	7.1160	7.3000	7.4000	7.4000	7.2500	7.2000
Mexican peso	USD/MXN	20.64	20.50	19.87	20.10	20.15	20.50	20.75	20.50	20.25	20.00
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 <sup>1</sup>		106.55	107.98	109.17	115.77	123.76	124.10	123.90	121.20	118.70	116.30
<b>Canadian dollar</b>											
US dollar	CAD/USD	0.7886	0.7914	0.7999	0.7768	0.7232	0.7200	0.7100	0.7200	0.7300	0.7400
Euro	EUR/CAD	1.4695	1.4370	1.3909	1.3458	1.3547	1.3472	1.3662	1.3750	1.3836	1.3919
British pound	GBP/CAD	1.7097	1.7115	1.6459	1.5633	1.5436	1.5417	1.5493	1.5556	1.5616	1.5811
Swiss franc	CAD/CHF	0.7359	0.7225	0.7364	0.7439	0.7117	0.7200	0.7029	0.7128	0.7227	0.7400
Yen	CAD/JPY	87.76	91.08	97.33	105.45	104.69	100.80	93.72	90.72	87.60	85.10
Australian dollar	AUD/CAD	0.9164	0.9175	0.9352	0.8885	0.8856	0.8889	0.8873	0.8889	0.9041	0.9054
Chinese yuan	CAD/CNY	5.0841	5.0302	5.0716	5.2044	5.1461	5.2560	5.2540	5.3280	5.2925	5.3280
Mexican peso	CAD/MXN	16.28	16.22	15.89	15.62	14.57	14.76	14.73	14.76	14.78	14.80
Brazilian real	CAD/BRL	4.2895	4.4161	3.7897	4.0689	3.9097	3.9600	3.9760	3.9600	3.9420	3.9220

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