

July 2, 2015

UPDATE

HIGHLIGHTS

- The U.S. dollar's momentum in May was short lived despite improvements in much economic data for the United States. A lot of attention was paid to the monetary policy meeting on June 16 and 17. The still cautious tone of the Federal Reserve and the fact that it once again revised its key interest rate forecasts downward contributed to reigning in the greenback. There also seems to be more fear among investors on the economic consequences of a too-strong U.S. dollar, thereby limiting its appreciation potential.
- Oil prices returning to around US\$60 a barrel allowed the Canadian dollar to essentially hold steady at US\$0.80 (C\$1.25/\$US) since April. More recently, the Canadian exchange rate was further impacted by movement in the U.S. dollar, by Canadian economic statistics and by the change in expectations on key interest rates. The disappointment of real GDP numbers in the first quarter of the year and in April brought the possibility of the Bank of Canada lowering interest rates again to the front and centre.
- European currencies were up in the spring after being down for several quarters. Inconclusive negotiations with the Greek government did not have a major impact on the euro, which stayed above US\$1.10 for all of June. The pound did better, boosted by a robust British economy, and more recently, by the higher wages, which open the way for future monetary tightening.
- Emerging market currencies did not react as much to higher bond yields as they did in spring 2013. In comparison, the movement in bond yields is not yet as sharp as it was two years ago. In addition, several emerging market currencies have already settled at much lower levels than in 2013, reflecting persistent economic difficulties in these countries.

KEY ELEMENTS TO MONITOR

- While the U.S. dollar's potential for appreciation may appear less today, it could still make gains in the coming months. To do this, U.S. economic data would need to remain good, which will reassure the Federal Reserve and prompt it to start a cycle of monetary firming. We maintain our forecast of an initial increase in key U.S. rates in September.
- Like many currencies, the Canadian dollar should be affected by a re-invigorated U.S. dollar in the short term. Oil prices are another element to be monitored. They have been fairly stable recently, but could still react strongly to changes in supply and demand. One major risk that arose in the spring was a possible agreement on a nuclear Iran, which would have been accompanied by the lifting of economic and commercial sanctions. It now appears less likely that such an agreement will be concluded in the short term, reducing the risk of Iranian oil making a quick return to a market already in a surplus position. Lastly, it will be interesting to monitor the next Canadian economic indicators. The absence of a sufficient rebound in the second quarter could prompt the Bank of Canada to order another decrease in key interest rates, which would accentuate the Canadian dollar's forecasted depreciation.
- Greece should still be in European news, but scenarios involving sharp depreciations of the euro seem unlikely for now. In the short term, the evolution of the euro and the pound will be mainly dictated by the U.S. dollar. The euro should return to around US\$1.05 and the pound to around US\$1.50.

François Dupuis
Vice-President and Chief Economist

Mathieu D'Anjou
Senior Economist

Jimmy Jean
Senior Economist

Hendrix Vachon
Senior Economist

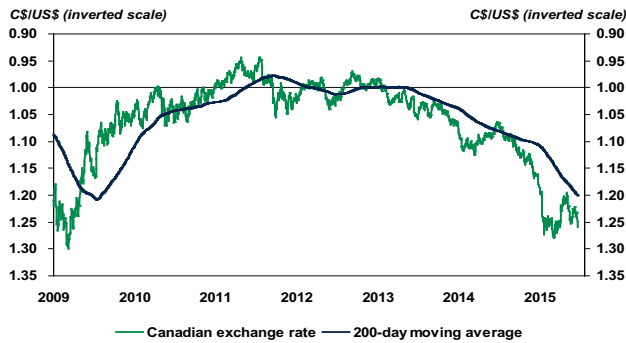
514-281-2336 or 1 866 866-7000, ext. 2336
E-mail: desjardins.economics@desjardins.com

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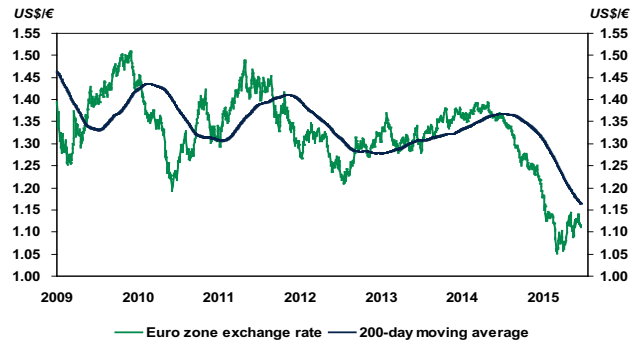
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Canadian dollar and trend



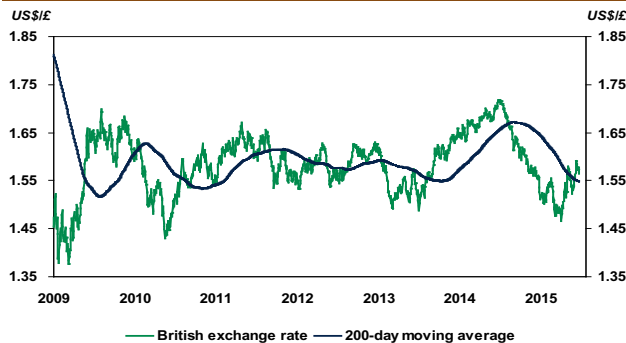
Sources: Datastream and Desjardins, Economic Studies

Euro and trend



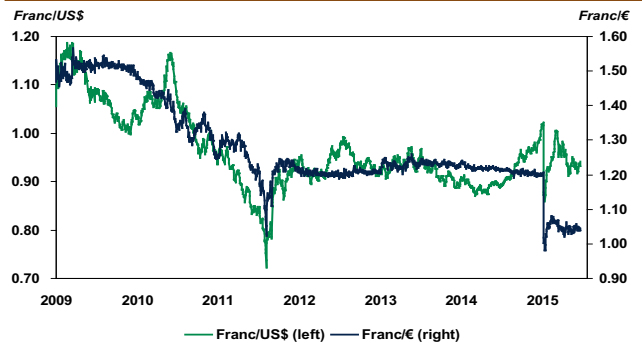
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British pound and trend



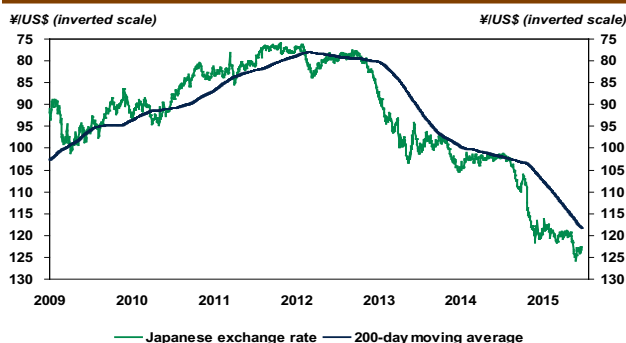
Sources: Datastream and Desjardins, Economic Studies

Swiss franc



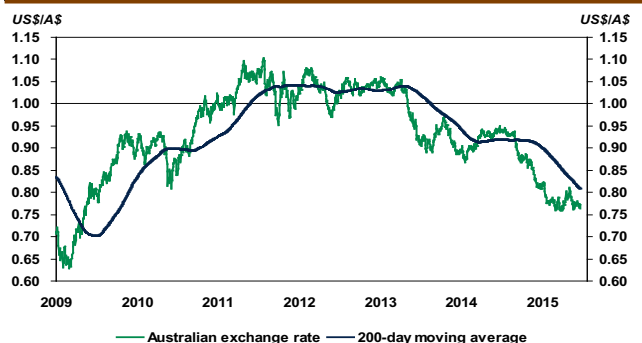
Sources: Datastream and Desjardins, Economic Studies

Yen and trend



Sources: Datastream and Desjardins, Economic Studies

Australian dollar and trend



Sources: Datastream and Desjardins, Economic Studies

Table 1
Currency market

Country – Currency*	Spot price	Percentage return since					Last 52 weeks		
	July 1	1 month	3 months	6 months	1 year	Higher	Average	Lower	
Americas									
Argentina – peso	9.0920	1.0722	3.0664	7.4133	11.7812	9.0920	8.6107	8.1338	
Brazil – real	3.1174	-1.9192	-1.1557	17.2748	41.4621	3.2926	2.6899	2.2037	
Canada – dollar	1.2544	0.0080	-0.7752	8.3013	17.6956	1.2803	1.1731	1.0632	
Canada – (CAD/USD)	0.7972	-0.0080	0.7813	-7.6650	-15.0351	0.9406	0.8524	0.7811	
Mexico – peso	15.7715	1.8699	4.2210	6.9998	21.6092	15.7715	14.3170	12.9285	
Asia and South Pacific									
Australia – (AUD/USD)	0.7644	0.5083	0.5848	-6.5777	-19.5192	0.9498	0.8319	0.7590	
China – yuan renminbi	6.2015	0.0315	0.0484	-0.0749	0.0234	6.2744	6.1878	6.1112	
Hong Kong – dollar	7.7525	-0.0438	-0.0006	-0.0193	0.0303	7.7708	7.7537	7.7500	
India – rupee	63.5500	-0.0689	2.2666	0.3078	5.8109	64.1657	62.0339	59.6925	
Japan – yen	123.1750	-1.2863	2.8472	2.8258	21.3248	125.6250	114.7466	101.1750	
New Zeland – (NZD/USD)	0.6735	-5.2061	-9.6242	-13.6517	-23.2489	0.8821	0.7745	0.6735	
South Korea – won	1,118	0.6620	1.3697	1.6740	10.4680	1,132	1,077	1,008	
Europe									
Denmark – krona	6.7499	-1.1134	-2.7490	9.6965	23.8400	7.1086	6.2354	5.4505	
Euro zone – (EUR/USD)	1.1102	1.8767	3.1976	-8.2517	-18.8420	1.3679	1.2025	1.0522	
Norway – kroner	7.9351	-0.2865	-1.2236	6.4614	28.7183	8.3125	7.1590	6.1339	
Russia – ruble	55.5440	4.2101	-3.6029	-7.4267	61.7885	72.4500	49.9241	33.9621	
Sweden – krona	8.3824	-2.2780	-3.2670	7.5632	25.2787	8.8229	7.7786	6.6910	
Switzerland – swiss franc	0.9444	-0.1797	-2.3776	-4.9615	6.4416	1.0194	0.9435	0.8533	
United Kingdom – (GBP/USD)	1.5633	2.7812	5.5181	0.2565	-8.7819	1.7170	1.5755	1.4642	

* 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	2014		2015				2016			
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
American dollar										
Canadian dollar (USD/CAD)	1.1199	1.1621	1.2688	1.2493	1.2821	1.2658	1.2500	1.2346	1.2195	1.1905
Euro (EUR/USD)	1.2632	1.2101	1.0740	1.1142	1.0500	1.0600	1.0700	1.0900	1.1100	1.1400
British pound (GBP/USD)	1.6212	1.5593	1.4845	1.5727	1.5000	1.5100	1.5200	1.5500	1.5600	1.5600
Swiss franc (USD/CHF)	0.9534	0.9894	0.9744	0.9314	0.9900	0.9900	0.9900	0.9800	0.9700	0.9600
Yen (USD/JPY)	109.66	119.70	120.14	122.50	124.00	125.00	126.00	127.00	128.00	127.00
Australian dollar (AUD/USD)	0.8746	0.8170	0.7607	0.7709	0.7400	0.7500	0.7600	0.7800	0.7900	0.8000
Chinese yuan (USD/CNY)	6.1385	6.2061	6.1995	6.2010	6.2000	6.2000	6.1800	6.1500	6.1500	6.1300
Mexican peso (USD/MXN)	13.43	14.75	15.26	15.74	15.70	15.10	14.80	14.50	14.30	14.20
Brazilian real (USD/BRL)	2.4507	2.6559	3.2077	3.1022	3.3000	3.2500	3.2000	3.1000	3.0000	2.9500
Effective dollar* (1973 = 100)	81.30	85.13	92.06	89.93	93.70	93.10	92.50	91.30	90.30	88.60
Canadian dollar										
American dollar (CAD/USD)	0.8929	0.8605	0.7882	0.8004	0.7800	0.7900	0.8000	0.8100	0.8200	0.8400
Euro (EUR/CAD)	1.4147	1.4061	1.3626	1.3920	1.3462	1.3418	1.3375	1.3457	1.3537	1.3571
British pound (GBP/CAD)	1.8155	1.8119	1.8835	1.9648	1.9231	1.9114	1.9000	1.9136	1.9024	1.8571
Swiss franc (CAD/CHF)	0.8513	0.8514	0.7680	0.7455	0.7722	0.7821	0.7920	0.7938	0.7954	0.8064
Yen (CAD/JPY)	97.91	103.00	94.69	98.05	96.72	98.75	100.80	102.87	104.96	106.68
Australian dollar (AUD/CAD)	0.9795	0.9494	0.9651	0.9630	0.9487	0.9494	0.9500	0.9630	0.9634	0.9524
Chinese yuan (CAD/CNY)	5.4813	5.3406	4.8863	4.9636	4.8360	4.8980	4.9440	4.9815	5.0430	5.1492
Mexican peso (CAD/MXN)	11.99	12.69	12.03	12.60	12.25	11.93	11.84	11.75	11.73	11.93
Brazilian real (CAD/BRL)	2.1883	2.2855	2.5282	2.4832	2.5740	2.5675	2.5600	2.5110	2.4600	2.4780

f: forecasts; * Trade-weighted against major U.S. partners.

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