

September 16, 2015

## UPDATE

# The Federal Reserve could shake things up

### HIGHLIGHTS

- The greenback has not shown any broad-based appreciation since spring. The impact of diverging monetary policies has wound down while the Federal Reserve (Fed) has yet to begin monetary firming. Investor expectations on the future direction of key rates in the United States have also been downgraded amid concerns about the emerging countries and the prolonged weakness in oil prices that is lowering inflation expectations.
- The euro and the yen are benefiting the most from the weaker-than-initially-expected divergence in monetary policies. The EUR/USD and USD/JPY are edging closer to US\$1.13 and ¥120/US\$, respectively. The fact that the European Central Bank (ECB) and the Bank of Japan have not announced new measures for several months also supports this situation. The ECB did, however, make a move toward increasing its securities purchases, boosting the issue share limit that it can hold from 25% to 33%.
- Weak commodity prices and deep concerns about the emerging countries continue to penalize several currencies vs. the U.S. dollar, and Brazil's currency has been particularly shaken in recent months.
- Despite new disappointing data in China, the yuan has not suffered any devaluation since August. Of note, China's monetary authorities have reduced their foreign exchange reserves to help stabilize the exchange rate. These reserves had previously been stockpiled to limit the yuan's appreciation.
- The Canadian dollar has been holding slightly above US\$0.75 (below C\$1.33/US\$) since mid-August. The recovery in oil prices to approximately US\$45 per barrel did not translate into any meaningful appreciation for the loonie. The Canadian dollar seems to be guided by the economic data in Canada and expectations on key interest rates.

### KEY ELEMENTS TO MONITOR

- The Fed's meeting slated for September 17 could trigger significant movement on currency markets. Despite the recent disruptions, the Fed could finally initiate monetary firming, which would give the greenback renewed broad-based vigour. While we have built this hypothesis into our forecasts, it remains highly uncertain. That said, even if the Fed decides to maintain the status quo at this meeting, the likelihood that it will order one or two rate increases before the end of the year is still very high.
- The euro and the yen might be somewhat more affected by a rebound in the greenback spurred by the Fed, while the theme of diverging monetary policies would likely roar back. This way, the euro could test its cyclical low—reached in March—and end the year at close to US\$1.05.
- The start of monetary firming in the United States could also affect the currencies of emerging countries by making investments in these countries less attractive. The scope of recent movements in emerging market currencies suggest, however, that this scenario is at least partially priced in. Moreover, the effect could be offset by a gradual reduction in economic concerns about these countries. As for the yuan, we are calling for cosmetic adjustments that would increase the exchange rate to 6.50 yuan/US\$ by the end of the year.
- The Canadian exchange rate would not be spared by renewed vigour of the greenback, and should drop below US\$0.75 (above C\$1.33/US\$) in the short term. Over the longer term, changes in oil prices will be the main element to watch for with respect to the loonie. That said, with oil showing a major production surplus, we cannot be too optimistic for Canada's currency.

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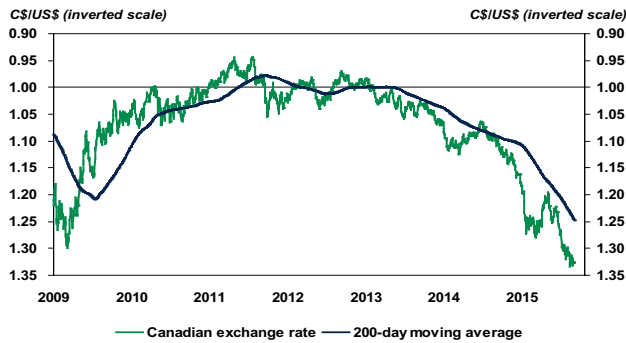
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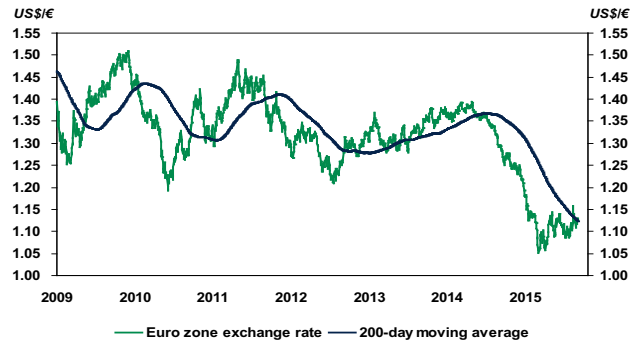
# PRINCIPAUX TAUX DE CHANGE

Canadian dollar and trend



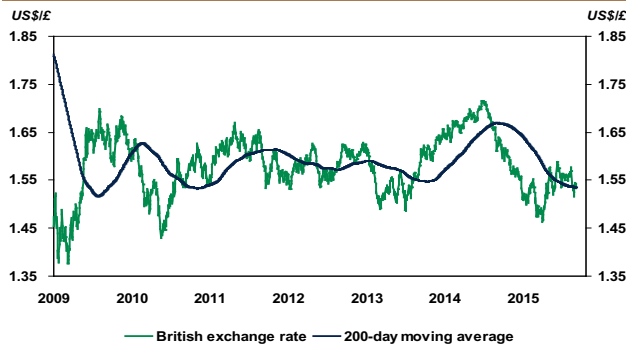
Sources: Datastream and Desjardins, Economic Studies

Euro and trend



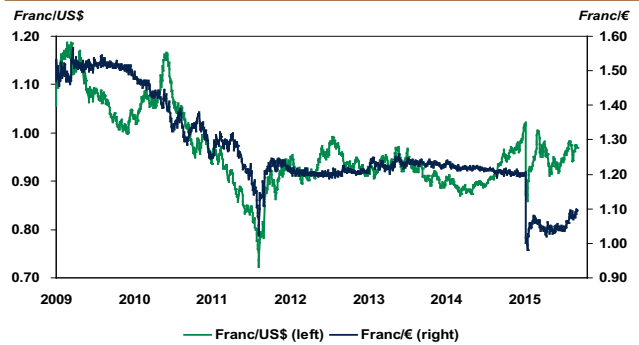
Sources: Datastream and Desjardins, Economic Studies

British pound and trend



Sources: Datastream and Desjardins, Economic Studies

Swiss franc



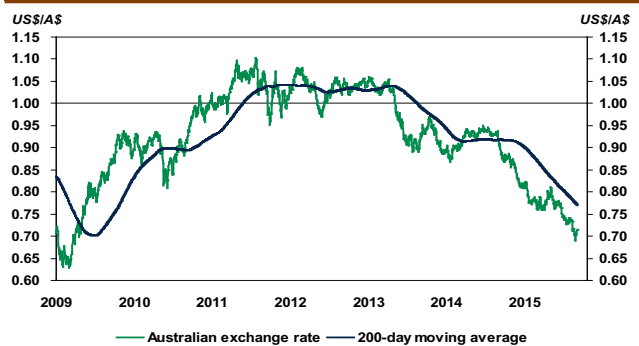
Sources: Datastream and Desjardins, Economic Studies

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		
	Sep. 15	1 month	3 months	6 months	1 year	Higher	Average	Lower	
<b>Americas</b>									
Argentina – peso	9.3625	1.3197	3.5916	6.5816	11.3914	9.3625	8.8078	8.4050	
Brazil – real	3.8625	11.3917	24.5952	18.4564	64.7592	3.8890	2.9395	2.3382	
Canada – dollar	1.3269	1.5265	7.5635	3.6359	19.9196	1.3306	1.2186	1.0942	
Canada – (CAD/USD)	0.7537	-1.5036	-7.0317	-3.5083	-16.6108	0.9140	0.8206	0.7516	
Mexico – peso	16.7737	2.5164	8.6101	8.2351	26.7761	17.1099	14.9933	13.1796	
<b>Asia and South Pacific</b>									
Australia – (AUD/USD)	0.7142	-3.1103	-8.0310	-6.4848	-20.8863	0.9095	0.7909	0.6908	
China – yuan renminbi	6.3700	-0.3411	2.5930	1.7653	3.7121	6.4129	6.2128	6.1112	
Hong Kong – dollar	7.7503	-0.0728	-0.0348	-0.1996	-0.0116	7.7708	7.7540	7.7500	
India – rupee	66.4470	2.0245	3.6862	5.3320	8.7423	66.8855	62.9227	60.7400	
Japan – yen	120.4400	-3.1171	-2.4145	-0.7867	12.3770	125.6250	118.7797	105.9250	
New Zealand – (NZD/USD)	0.6356	-2.8219	-9.2030	-13.4295	-22.2702	0.8201	0.7330	0.6260	
South Korea – won	1,186	1.0433	6.1843	5.1258	14.3015	1,204	1,108	1,035	
<b>Europe</b>									
Denmark – krona	6.6213	-1.4424	0.1710	-6.8551	15.1010	7.1086	6.4699	5.7458	
Euro zone – (EUR/USD)	1.1275	1.4761	0.1911	7.1615	-12.8570	1.2960	1.1560	1.0522	
Norway – kroner	8.1952	-0.5075	5.7118	-0.2046	28.1962	8.3798	7.5686	6.3238	
Russia – ruble	66.9510	3.5263	22.8222	8.5633	74.3237	72.4500	55.4907	38.1995	
Sweden – krona	8.3119	-2.2940	1.8647	-4.6347	16.8117	8.8229	8.1104	7.0867	
Switzerland – swiss franc	0.9734	-0.3532	4.0903	-3.1635	4.0457	1.0194	0.9550	0.8533	
United Kingdom – (GBP/USD)	1.5359	-1.6016	-1.1965	4.1147	-5.3928	1.6389	1.5494	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
<b>American dollar</b>										
Canadian dollar (USD/CAD)	1.1199	1.1621	1.2688	1.2493	1.3333	1.3514	1.3333	1.3333	1.3158	1.2987
Euro (EUR/USD)	1.2632	1.2101	1.0740	1.1142	1.0900	1.0600	1.0700	1.0800	1.0800	1.1000
British pound (GBP/USD)	1.6212	1.5593	1.4845	1.5727	1.5200	1.5200	1.5400	1.5600	1.5500	1.5700
Swiss franc (USD/CHF)	0.9534	0.9894	0.9744	0.9314	0.9900	1.0300	1.0200	1.0200	1.0200	1.0000
Yen (USD/JPY)	109.66	119.70	120.14	122.50	122.00	125.00	126.00	127.00	128.00	128.00
Australian dollar (AUD/USD)	0.8746	0.8170	0.7607	0.7709	0.7000	0.7000	0.7200	0.7300	0.7400	0.7500
Chinese yuan (USD/CNY)	6.1385	6.2061	6.1995	6.2010	6.4000	6.5000	6.5000	6.5000	6.4500	6.4000
Mexican peso (USD/MXN)	13.43	14.75	15.26	15.74	17.00	16.85	16.60	16.25	15.90	15.50
Brazilian real (USD/BRL)	2.4507	2.6559	3.2077	3.1022	4.0000	4.0000	3.8000	3.6000	3.5000	3.4000
Effective dollar* (1973 = 100)	81.30	85.13	92.06	89.94	93.30	95.20	94.40	94.10	93.80	92.60
<b>Canadian dollar</b>										
American dollar (CAD/USD)	0.8929	0.8605	0.7882	0.8004	0.7500	0.7400	0.7500	0.7500	0.7600	0.7700
Euro (EUR/CAD)	1.4147	1.4061	1.3626	1.3920	1.4533	1.4324	1.4267	1.4400	1.4211	1.4286
British pound (GBP/CAD)	1.8155	1.8119	1.8835	1.9648	2.0267	2.0541	2.0533	2.0800	2.0395	2.0390
Swiss franc (CAD/CHF)	0.8513	0.8514	0.7680	0.7455	0.7425	0.7622	0.7650	0.7650	0.7752	0.7700
Yen (CAD/JPY)	97.91	103.00	94.69	98.05	91.50	92.50	94.50	95.25	97.28	98.56
Australian dollar (AUD/CAD)	0.9795	0.9494	0.9651	0.9630	0.9333	0.9459	0.9600	0.9733	0.9737	0.9740
Chinese yuan (CAD/CNY)	5.4813	5.3406	4.8863	4.9636	4.8000	4.8100	4.8750	4.8750	4.9020	4.9280
Mexican peso (CAD/MXN)	11.99	12.69	12.03	12.60	12.75	12.47	12.45	12.19	12.08	11.94
Brazilian real (CAD/BRL)	2.1883	2.2855	2.5282	2.4832	3.0000	2.9600	2.8500	2.7000	2.6600	2.6180

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

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