

## Currencies adjust to the ambient anxiety

### HIGHLIGHTS

- The U.S. dollar has lost some of its appeal in the last few weeks. Since mid-July, the main factor driving the greenback up had been the expected divergence between U.S. monetary policy and the policies of the other major central banks. However, investors' recent fears about the global economy and even the U.S. economy have resulted in a drop in monetary firming expectations in the United States. Yet, the greenback is far from wiping out its prior gains as it is simultaneously benefiting from stronger demand for safe-haven.
- The Canadian dollar capitalized on the greenback's recent weakness, settling in at around US\$0.72 (C\$1.39/US\$). The Bank of Canada's reassuring tone at January's meeting also gave the loonie a hand by moderating expectations of monetary easing. The loonie's recent trend has thus differed from the trend for oil prices, which relapsed. We can, however, assume that the Canadian dollar would be stronger now if oil prices had held above US\$30 a barrel.
- The Bank of Japan surprised markets at the end of January when it adopted a negative interest rate on some deposits. It thus joins a number of European central banks that have already taken this step. The yen fell after the announcement, but quickly rose again due to the worldwide anxiety. The yen is clearly playing its safe-haven role, benefiting from fears over emerging nations in Asia, among other things. The Japanese exchange rate fell to around ¥112/US\$, a level not seen since October 2014.
- Although the European Central Bank has practically promised to take further action in March, the euro's recent trend has been upward against the backdrop of a weak U.S. dollar. It has not risen as much as the yen, however. A resurgence of fear about Europe's financial system is limiting the euro's momentum.
- Some emerging currencies remain under pressure despite the greenback's slide. The Mexican peso stands out, crossing the 19 peso/US\$ mark. China's yuan was revalued on February 15; it is currently around 6.51 yuan/US\$.

### MAIN FACTORS TO WATCH

- In some ways, the current anxiety in the markets seems overdone; a more optimistic wind could quickly settle in. We expect the U.S. economy to keep growing; this will prompt the Federal Reserve to raise its key rates again in 2016, probably twice. This scenario argues for a comeback by the U.S. dollar in coming quarters.
- The gains some currencies have recently made against the greenback will be hard to hang onto. The euro and yen should start to trend down again, particularly as additional monetary easing is expected in Europe and Japan to combat the risk of deflation.
- The loonie may slide below US\$0.70 in the near term if the U.S. dollar rises as anticipated, and if oil prices stay close to US\$30/barrel. The surplus in the oil market is still too big to trigger a new uptrend by prices, but the situation should change in the second half of the year. This scenario would allow the Canadian dollar to rise to around US\$0.73 (C\$1.37/US\$) by the end of 2016.

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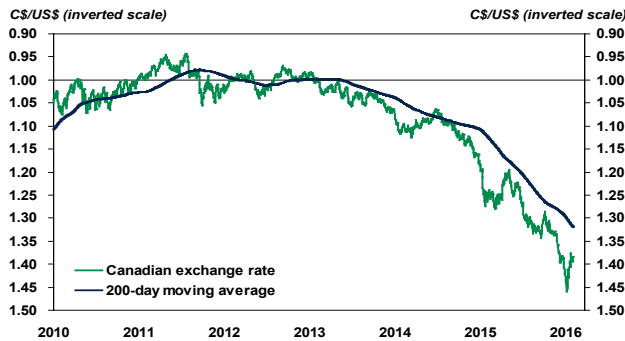
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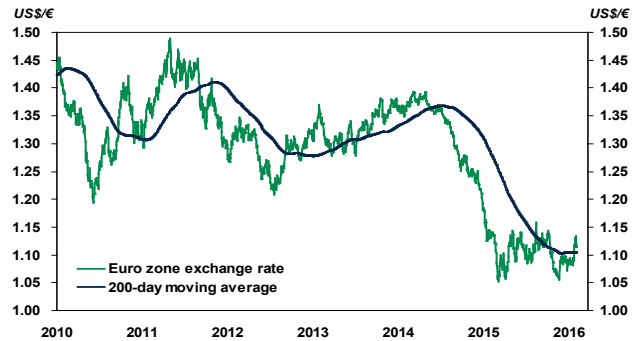
# PRINCIPAUX TAUX DE CHANGE

**Canadian dollar and trend**



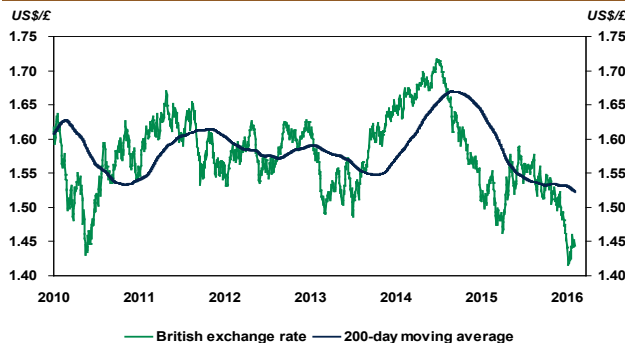
Sources: Datastream and Desjardins, Economic Studies

**Euro and trend**



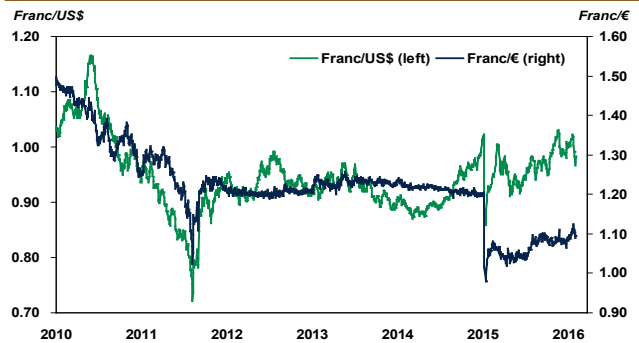
Sources: Datastream and Desjardins, Economic Studies

**British pound and trend**



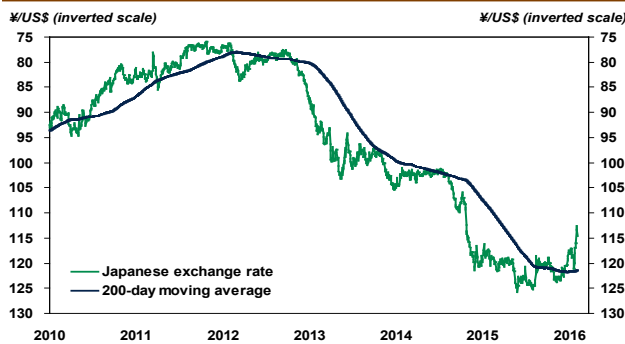
Sources: Datastream and Desjardins, Economic Studies

**Swiss franc**



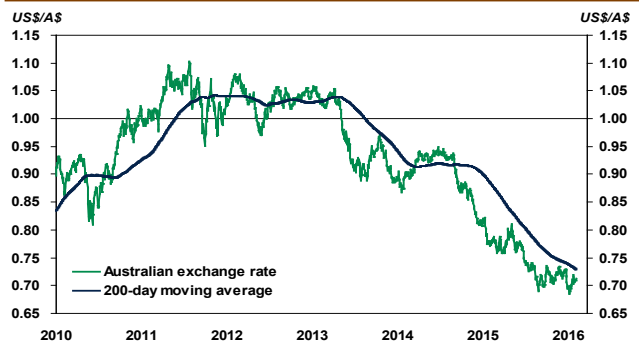
Sources: Datastream and Desjardins, Economic Studies

**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		
	Feb. 15	1 month	3 months	6 months	1 year	Higher	Average	Lower	
<b>Americas</b>									
Argentina – peso	14.8050	10.6961	53.9926	60.2186	70.5645	14.8050	9.9089	8.6800	
Brazil – real	3.9902	-1.4802	4.5308	15.0745	41.6177	4.2061	3.4992	2.8176	
Canada – dollar	1.3829	-4.5323	3.6153	5.8115	11.0678	1.4637	1.3020	1.1961	
Canada – (CAD/USD)	0.7231	4.7474	-3.4892	-5.4923	-9.9649	0.8361	0.7681	0.6832	
Mexico – peso	18.8379	3.5519	12.6743	15.1320	26.6775	19.1583	16.2992	14.7870	
<b>Asia and South Pacific</b>									
Australia – (AUD/USD)	0.7138	3.9081	0.0892	-3.1621	-8.1159	0.8113	0.7397	0.6866	
China – yuan renminbi	6.4962	-1.3478	1.9204	1.6326	4.1000	6.5965	6.3263	6.1935	
Hong Kong – dollar	7.7842	-0.1136	0.4251	0.3649	0.3629	7.8194	7.7564	7.7499	
India – rupee	68.1315	0.5266	3.1378	4.6109	9.7553	68.4708	64.7848	61.6589	
Japan – yen	114.5750	-2.1270	-6.5800	-7.8349	-3.5199	125.6250	120.9375	112.4250	
New Zealand – (NZD/USD)	0.6648	2.8121	1.5291	1.6487	-10.8363	0.7718	0.6858	0.6260	
South Korea – won	1,208	-0.3793	3.8022	2.8828	10.1431	1,219	1,145	1,069	
<b>Europe</b>									
Denmark – krona	6.6911	-2.1683	-3.5844	-0.4034	2.4718	7.1086	6.7671	6.4226	
Euro zone – (EUR/USD)	1.1145	1.7577	3.8485	0.3016	-2.2626	1.1576	1.1026	1.0522	
Norway – kroner	8.6222	-2.3732	-0.6293	4.6765	13.6100	8.9520	8.2009	7.3096	
Russia – ruble	77.3912	-0.4134	15.7923	19.6701	22.5224	84.2412	62.7988	49.0402	
Sweden – krona	8.4868	-1.1726	-2.4001	-0.2375	0.8874	8.8229	8.4727	8.1096	
Switzerland – swiss franc	0.9883	-1.0463	-1.9495	1.1721	6.1889	1.0299	0.9707	0.9137	
United Kingdom – (GBP/USD)	1.4449	0.9749	-4.8909	-7.4348	-6.1420	1.5884	1.5188	1.4136	

\* 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	2015		2016				2017			
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
<b>American dollar</b>										
Canadian dollar (USD/CAD)	1.3315	1.3841	1.4286	1.4085	1.3889	1.3699	1.3699	1.3514	1.3333	1.2987
Euro (EUR/USD)	1.1162	1.0863	1.0900	1.0600	1.0500	1.0400	1.0500	1.0700	1.0900	1.1000
British pound (GBP/USD)	1.5148	1.4739	1.4300	1.4400	1.4600	1.4800	1.5000	1.5200	1.5300	1.5500
Swiss franc (USD/CHF)	0.9734	0.9903	1.0000	1.0200	1.0300	1.0400	1.0300	1.0200	1.0100	1.0000
Yen (USD/JPY)	119.87	120.32	118.00	122.00	125.00	125.00	126.00	127.00	128.00	126.00
Australian dollar (AUD/USD)	0.7020	0.7280	0.6900	0.6900	0.7000	0.7200	0.7400	0.7500	0.7500	0.7600
Chinese yuan (USD/CNY)	6.3571	6.4937	6.5500	6.6500	6.6500	6.7000	6.6500	6.6000	6.5800	6.5500
Mexican peso (USD/MXN)	16.92	17.18	18.50	18.00	17.30	17.30	16.80	16.50	16.25	16.00
Brazilian real (USD/BRL)	3.9725	3.9045	4.0000	3.9000	4.0000	3.8000	3.7000	3.6000	3.5000	3.5000
Effective dollar* (1973 = 100)	92.26	94.46	95.10	96.50	96.70	96.60	96.10	95.00	94.00	92.50
<b>Canadian dollar</b>										
American dollar (CAD/USD)	0.7510	0.7225	0.7000	0.7100	0.7200	0.7300	0.7300	0.7400	0.7500	0.7700
Euro (EUR/CAD)	1.4863	1.5035	1.5571	1.4930	1.4583	1.4247	1.4384	1.4459	1.4533	1.4286
British pound (GBP/CAD)	2.0169	2.0400	2.0429	2.0282	2.0278	2.0274	2.0548	2.0541	2.0400	2.0130
Swiss franc (CAD/CHF)	0.7311	0.7155	0.7000	0.7242	0.7416	0.7592	0.7519	0.7548	0.7575	0.7700
Yen (CAD/JPY)	90.02	86.93	82.60	86.62	90.00	91.25	91.98	93.98	96.00	97.02
Australian dollar (AUD/CAD)	0.9346	1.0076	0.9857	0.9718	0.9722	0.9863	1.0137	1.0135	1.0000	0.9870
Chinese yuan (CAD/CNY)	4.7744	4.6918	4.5850	4.7215	4.7880	4.8910	4.8545	4.8840	4.9350	5.0435
Mexican peso (CAD/MXN)	12.71	12.41	12.95	12.78	12.46	12.63	12.26	12.21	12.19	12.32
Brazilian real (CAD/BRL)	2.9835	2.8211	2.8000	2.7690	2.8800	2.7740	2.7010	2.6640	2.6250	2.6950

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

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