



## Can the Canadian dollar's appreciation last?

### HIGHLIGHTS

- The Canadian dollar has been appreciating since the end of January. It recently topped US\$0.78 (C\$1.28/US\$), a point that it had not touched since July 2015. Many factors are contributing to this momentum. Of course one of them is the rally in oil prices, which have surged by around US\$15 a barrel since mid-February. Next, economic statistics have frequently exceeded expectations in recent months, helping to reduce the probability of another interest rate cut by the Bank of Canada. The increase in public spending announced by the federal government has also reduced the need for a more expansionist monetary policy. Lastly, the strength of the Canadian dollar partly reflects the weakness of the U.S. currency.
- The U.S. dollar lost ground in February and March when the markets downgraded their expectations of monetary firming in the United States. The greenback has been more stable since the beginning of April. A tentative rally was even observed recently, with the imminence of a Federal Reserve (Fed) meeting reviving discussions about a possible interest rate hike in June.
- The monetary easing measures that were announced by the European Central Bank (ECB) in March have not depressed the euro. On the contrary, the common currency has appreciated, reaching a six-month peak in April at US\$1.1465. More recently, the tentative rebound by the U.S. dollar and some disappointing economic data pushed the euro back below US\$1.13.
- The pound sterling is mostly affected by the possibility of a Brexit (exit of the United Kingdom from the European Union). It is currently fluctuating around US\$1.41. Its depreciation against the euro is more striking: the EUR/GBP pair recently exceeded £0.80.
- The yen enjoyed a lift at the end of March and beginning of April. The Japanese exchange rate temporarily dipped below ¥108/US\$. However, there would seem to be few fundamentals supporting this trend, which in fact has already started to reverse itself.

### MAIN FACTORS TO WATCH

- The Canadian dollar's appreciation could quickly end if the rebound in oil prices were to reverse, if the economic data were to fall back into disappointing territory, or if the U.S. dollar were to rally. The probability of one or more of these factors occurring strikes us as high, especially a rally by the U.S. dollar or another drop in oil prices. The lack of agreement among the major oil exporting countries to limit production is a step in that direction. We predict that the Canadian dollar could depreciate to around US\$0.74 (C\$1.35/US\$) between now and the end of June.
- It will be interesting to analyze the outcome of the Fed's April meeting. The authorities could be inclined to prepare the markets for an interest rate hike in June; we still consider that scenario to be quite probable. Since the expectations are currently low, an upward adjustment to them would constitute significant support for the greenback.
- The gains that several other currencies have recently made, to the detriment of the U.S. dollar, will be difficult to hold onto. The euro and the yen are likely to depreciate. Even though the ECB and the Bank of Japan will probably stay on the sidelines in the coming months, the prospect of them having to maintain a high degree of monetary easing for a long while to come will contribute to a weakening of these two currencies.
- The pound could rebound after the June 23 referendum if the British voters reject the Brexit. In the event of the opposite outcome, the pound could depreciate sharply. Until then, the currency is likely to remain volatile, unless a clear trend emerges from pools.

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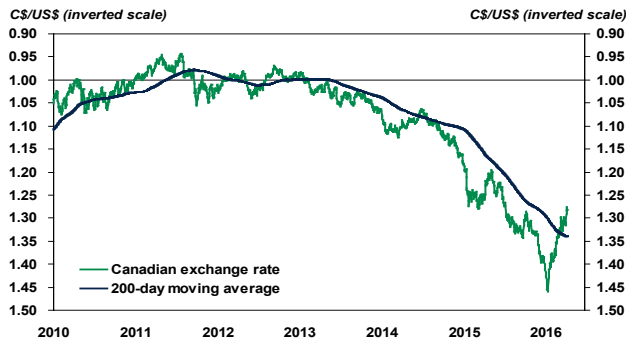
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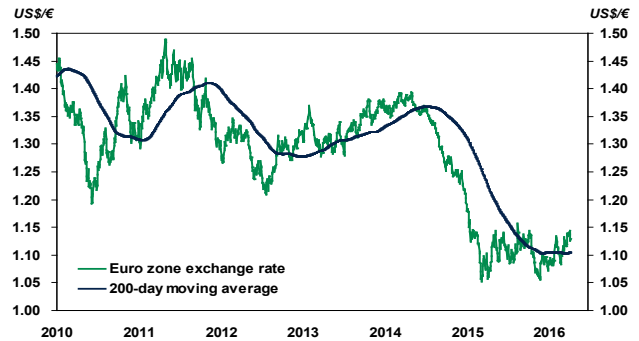
# PRINCIPAUX TAUX DE CHANGE

Canadian dollar and trend



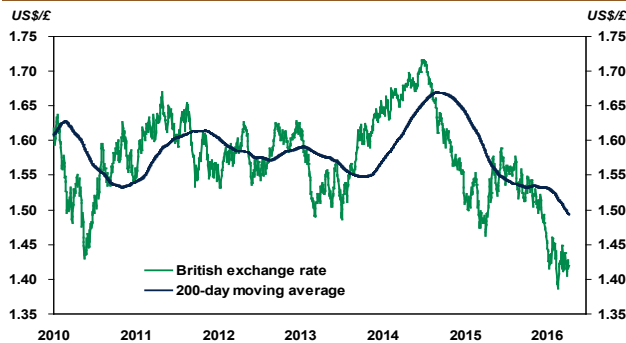
Sources: Datastream and Desjardins, Economic Studies

Euro and trend



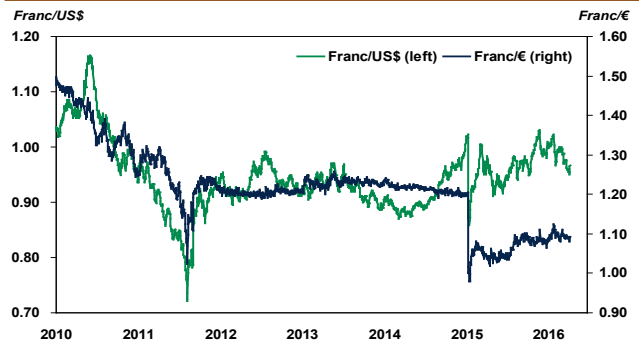
Sources: Datastream and Desjardins, Economic Studies

British pound and trend



Sources: Datastream and Desjardins, Economic Studies

Swiss franc



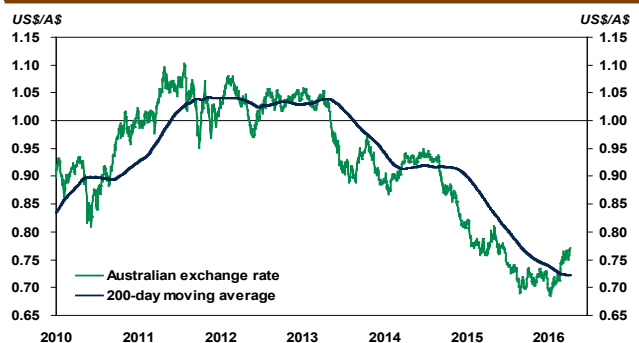
Sources: Datastream and Desjardins, Economic Studies

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 |          |  |
|-------------------------------|------------|-------------------------|----------|----------|---------|----------|---------------|----------|--|
|                               | April 15   | 1 month                 | 3 months | 6 months | 1 year  | Higher   | Average       | Lower    |  |
| <b>Americas</b>               |            |                         |          |          |         |          |               |          |  |
| Argentina – peso              | 14.2900    | -1.9890                 | 6.8455   | 50.6939  | 61.2767 | 15.9350  | 10.9290       | 8.8606   |  |
| Brazil – real                 | 3.5290     | -5.3887                 | -12.8663 | -8.5905  | 14.9642 | 4.2061   | 3.6110        | 2.9095   |  |
| Canada – dollar               | 1.2875     | -3.6375                 | -11.1149 | -0.0892  | 3.7386  | 1.4637   | 1.3137        | 1.1961   |  |
| Canada – (CAD/USD)            | 0.7767     | 3.7748                  | 12.5049  | 0.0893   | -3.6039 | 0.8361   | 0.7612        | 0.6832   |  |
| Mexico – peso                 | 17.5676    | -2.0209                 | -3.4307  | 6.9031   | 14.0930 | 19.1583  | 16.7370       | 15.0210  |  |
| <b>Asia and South Pacific</b> |            |                         |          |          |         |          |               |          |  |
| Australia – (AUD/USD)         | 0.7723     | 3.5721                  | 12.4310  | 5.3910   | 0.5561  | 0.8113   | 0.7356        | 0.6866   |  |
| China – yuan renminbi         | 6.4756     | -0.5979                 | -1.6606  | 2.0382   | 4.3568  | 6.5965   | 6.3708        | 6.1935   |  |
| Hong Kong – dollar            | 7.7557     | -0.0696                 | -0.4793  | 0.0735   | 0.0458  | 7.8194   | 7.7574        | 7.7499   |  |
| India – rupee                 | 66.6605    | -1.0558                 | -1.6438  | 2.9048   | 6.8962  | 68.7678  | 65.5886       | 62.3172  |  |
| Japan – yen                   | 108.7650   | -3.9051                 | -7.0901  | -8.5163  | -8.7159 | 125.6250 | 119.6271      | 107.9450 |  |
| New Zeland – (NZD/USD)        | 0.6922     | 4.8453                  | 7.0464   | 1.0244   | -8.8254 | 0.7718   | 0.6746        | 0.6260   |  |
| South Korea – won             | 1,146      | -3.4984                 | -5.4839  | 1.4068   | 4.4947  | 1,239    | 1,158         | 1,069    |  |
| <b>Europe</b>                 |            |                         |          |          |         |          |               |          |  |
| Denmark – krona               | 6.5944     | -1.7623                 | -3.5822  | 0.6149   | -5.6636 | 7.0620   | 6.7419        | 6.4226   |  |
| Euro zone – (EUR/USD)         | 1.1297     | 1.6694                  | 3.1546   | -0.7817  | 6.4897  | 1.1576   | 1.1063        | 1.0561   |  |
| Norway – kroner               | 8.2525     | -3.4490                 | -6.5593  | 1.8978   | 5.5550  | 8.9520   | 8.2929        | 7.3096   |  |
| Russia – ruble                | 66.6225    | -6.1985                 | -14.2705 | 7.0693   | 31.8144 | 84.2412  | 64.6856       | 49.0402  |  |
| Sweden – krona                | 8.1343     | -2.1779                 | -5.2774  | -1.2300  | -6.7766 | 8.7666   | 8.4377        | 8.0814   |  |
| Switzerland – swiss franc     | 0.9667     | -1.8928                 | -3.2140  | 1.7045   | -0.6475 | 1.0299   | 0.9725        | 0.9137   |  |
| United Kingdom – (GBP/USD)    | 1.4178     | 0.0918                  | -0.9190  | -8.3045  | -3.9790 | 1.5884   | 1.5047        | 1.3863   |  |

\* 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     | Q1     | Q2f    | Q3f    | Q4f    | Q1f    | Q2f    | Q3f    | Q4f    |
| <b>American dollar</b>         |        |        |        |        |        |        |        |        |        |        |
| Canadian dollar (USD/CAD)      | 1.3315 | 1.3841 | 1.3006 | 1.3514 | 1.3514 | 1.3333 | 1.3333 | 1.3158 | 1.2987 | 1.2658 |
| Euro (EUR/USD)                 | 1.1162 | 1.0863 | 1.1395 | 1.0900 | 1.0800 | 1.0600 | 1.0600 | 1.0900 | 1.1000 | 1.1100 |
| British pound (GBP/USD)        | 1.5148 | 1.4739 | 1.4373 | 1.4200 | 1.4400 | 1.4600 | 1.4900 | 1.5300 | 1.5300 | 1.5500 |
| Swiss franc (USD/CHF)          | 0.9734 | 0.9903 | 0.9631 | 1.0000 | 1.0000 | 1.0200 | 1.0300 | 1.0100 | 1.0000 | 0.9900 |
| Yen (USD/JPY)                  | 119.87 | 120.32 | 112.58 | 113.00 | 118.00 | 121.00 | 123.00 | 124.00 | 125.00 | 125.00 |
| Australian dollar (AUD/USD)    | 0.7020 | 0.7280 | 0.7658 | 0.7300 | 0.7100 | 0.7200 | 0.7400 | 0.7500 | 0.7500 | 0.7600 |
| Chinese yuan (USD/CNY)         | 6.3571 | 6.4937 | 6.4490 | 6.5500 | 6.6000 | 6.6500 | 6.6500 | 6.6000 | 6.5800 | 6.5500 |
| Mexican peso (USD/MXN)         | 16.92  | 17.18  | 17.28  | 18.00  | 17.30  | 17.50  | 16.90  | 16.60  | 16.30  | 16.00  |
| Brazilian real (USD/BRL)       | 3.9725 | 3.9045 | 3.5586 | 3.9000 | 3.7000 | 3.9000 | 3.7000 | 3.6000 | 3.5000 | 3.5000 |
| Effective dollar* (1973 = 100) | 92.26  | 94.46  | 89.84  | 93.00  | 94.30  | 94.60  | 94.60  | 93.20  | 92.50  | 91.40  |
| <b>Canadian dollar</b>         |        |        |        |        |        |        |        |        |        |        |
| American dollar (CAD/USD)      | 0.7510 | 0.7225 | 0.7689 | 0.7400 | 0.7400 | 0.7500 | 0.7500 | 0.7600 | 0.7700 | 0.7900 |
| Euro (EUR/CAD)                 | 1.4863 | 1.5035 | 1.4820 | 1.4730 | 1.4595 | 1.4133 | 1.4133 | 1.4342 | 1.4286 | 1.4051 |
| British pound (GBP/CAD)        | 2.0169 | 2.0400 | 1.8693 | 1.9189 | 1.9459 | 1.9467 | 1.9867 | 2.0132 | 1.9870 | 1.9620 |
| Swiss franc (CAD/CHF)          | 0.7311 | 0.7155 | 0.7405 | 0.7400 | 0.7400 | 0.7650 | 0.7725 | 0.7676 | 0.7700 | 0.7821 |
| Yen (CAD/JPY)                  | 90.02  | 86.93  | 86.56  | 83.62  | 87.32  | 90.75  | 92.25  | 94.24  | 96.25  | 98.75  |
| Australian dollar (AUD/CAD)    | 0.9346 | 1.0076 | 0.9960 | 0.9865 | 0.9595 | 0.9600 | 0.9867 | 0.9868 | 0.9740 | 0.9620 |
| Chinese yuan (CAD/CNY)         | 4.7744 | 4.6918 | 4.9587 | 4.8470 | 4.8840 | 4.9875 | 4.9875 | 5.0160 | 5.0666 | 5.1745 |
| Mexican peso (CAD/MXN)         | 12.71  | 12.41  | 13.29  | 13.32  | 12.80  | 13.13  | 12.68  | 12.62  | 12.55  | 12.64  |
| Brazilian real (CAD/BRL)       | 2.9835 | 2.8211 | 2.7362 | 2.8860 | 2.7380 | 2.9250 | 2.7750 | 2.7360 | 2.6950 | 2.7650 |

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

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