

## Renewed vigour of the U.S. dollar as the markets are starting to believe in an interest rate hike in June

### HIGHLIGHTS

- The release of the minutes of the last Federal Reserve (Fed) meeting support the scenario of an interest rate hike in the United States on June 15. Most Fed leaders appear to favour this outcome, which remains conditional to the good performance of the U.S. economy. The latest statistics in this regard are quite reassuring. All these factors are contributing to the renewed vigour of the U.S. dollar, which has appreciated against most other currencies.
- The Canadian dollar started May by breaking the threshold of US\$0.80 (C\$1.25/\$US), but the trend quickly reversed despite a new rise in oil prices. The release of a few disappointing statistics for the Canadian economy, in particular the international trade numbers for March, marked a change of course. Afterwards, the depreciation of the loonie was mainly fuelled by uncertainty about the forest fires in Alberta. Lastly, the appreciation of the U.S. dollar also played a role, especially since it seems to have reined in the increase in oil prices.
- The appreciation of the U.S. dollar against the euro is quite clear. The euro went above US\$1.15 in early May, but is now worth about US\$1.12. There is nothing new in terms of European monetary policy since the series of measures announced in March. The economy is continuing to grow at a moderate pace and inflation fell back into negative territory in April.
- The pound recently bounced back against the U.S. dollar, making it an exceptional case. The currency continues to be greatly influenced by the June 23 referendum on the United Kingdom leaving the European Union (Brexit). After a few polls giving the Brexit camp an advantage, new polls are instead suggesting the reverse, which resulted in the pound gaining US\$1.46. The progression against the euro is steeper, with the EUR/GBP pair reaching £0.77 recently.
- For other currencies, it should be noted that the increased probability of an interest rate hike in the United States has boosted the volatility of many emerging market currencies. After appreciating considerably over the past few months, the yen lost a bit of ground. Lastly, the Australian dollar was hurt by the surprise interest rate cut by the Reserve Bank of Australia at the beginning of the month.

### MAIN FACTORS TO WATCH

- Our forecasts call for an interest rate hike in the United States in June, and another one by year-end. The U.S. dollar should have an advantage against most other currencies. Although the greenback has already started appreciating, there is still room for other gains, as the markets are not yet fully convinced of future key rate hikes and could therefore be taken off guard. Until the June 15 meeting, the U.S. dollar will probably be very sensitive to U.S. economic data, and will appreciate if these data strengthen the monetary firming scenario.
- The Canadian dollar is likely to depreciate again in the short term. The economic data should be more mixed in the second quarter after generally good results in the first. The advance in oil prices should take a break after the increase of the past few months. Changes in the U.S. dollar will also influence the Canadian exchange rate. Our forecast for the end of June is US\$0.75 (C\$1.33/\$US). The loonie could appreciate slightly thereafter. The gains against the euro and the yen could be larger.

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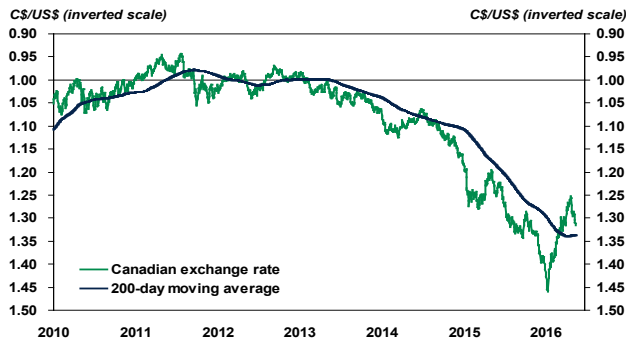
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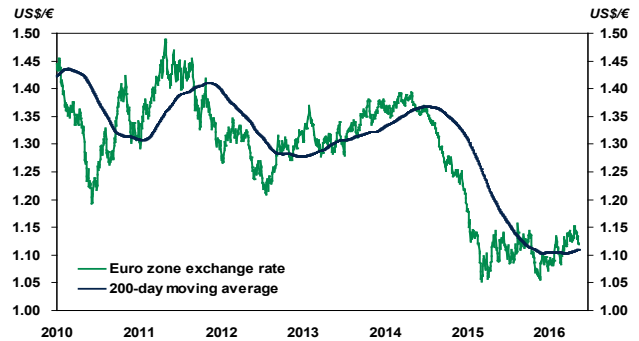
# PRINCIPAUX TAUX DE CHANGE

**Canadian dollar and trend**



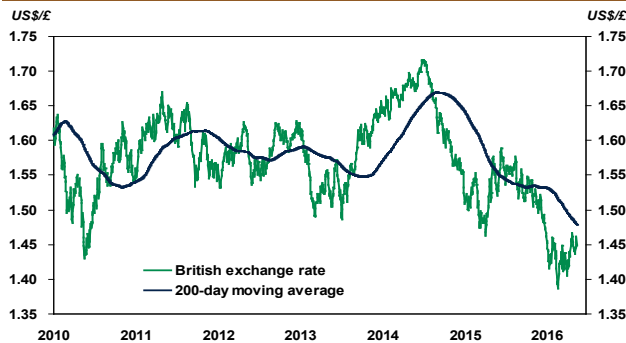
Sources: Datastream and Desjardins, Economic Studies

**Euro and trend**



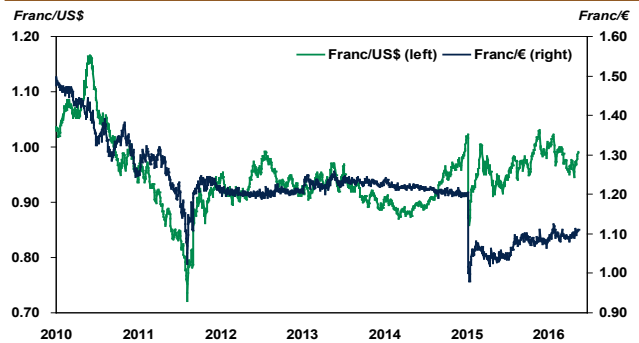
Sources: Datastream and Desjardins, Economic Studies

**British pound and trend**



Sources: Datastream and Desjardins, Economic Studies

**Swiss franc**



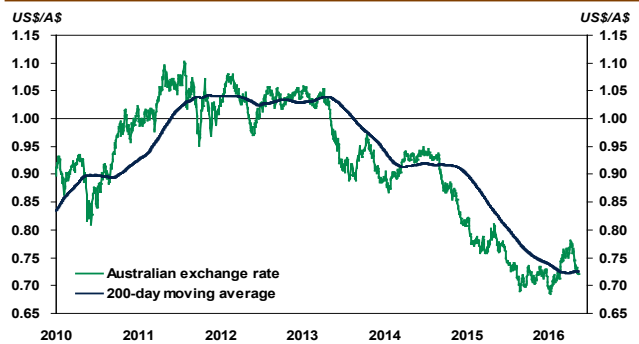
Sources: Datastream and Desjardins, Economic Studies

**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		
	May 23	1 month	3 months	6 months	1 year	Higher	Average	Lower	
<b>Americas</b>									
Argentina – peso	13.9950	-3.2994	-9.6805	44.7117	56.0218	15.9350	11.4629	8.9699	
Brazil – real	3.5732	-0.6327	-10.1590	-3.8364	16.6017	4.2061	3.6646	3.0576	
Canada – dollar	1.3157	4.0161	-4.6594	-1.5158	7.0894	1.4637	1.3208	1.2197	
Canada – (CAD/USD)	0.7601	-3.8611	4.8871	1.5391	-6.6201	0.8199	0.7571	0.6832	
Mexico – peso	18.4482	5.8039	1.3832	11.5338	20.7156	19.1583	16.9900	15.2465	
<b>Asia and South Pacific</b>									
Australia – (AUD/USD)	0.7224	-6.2773	0.2853	0.4045	-7.7401	0.7830	0.7317	0.6866	
China – yuan renminbi	6.5557	0.8422	0.4382	2.6052	5.7815	6.5965	6.4012	6.1974	
Hong Kong – dollar	7.7680	0.1457	0.0013	0.2303	0.2090	7.8194	7.7583	7.7499	
India – rupee	67.4094	1.1238	-1.6797	1.5271	6.1729	68.7678	65.9201	63.2640	
Japan – yen	109.2350	-2.2855	-2.5688	-11.0790	-10.1279	125.6250	118.5677	106.3650	
New Zeland – (NZD/USD)	0.6764	-1.3054	1.8126	3.7268	-7.5211	0.7314	0.6685	0.6260	
South Korea – won	1,183	3.4816	-3.9111	2.1149	8.5176	1,239	1,166	1,090	
<b>Europe</b>									
Denmark – krona	6.6280	-0.0166	-2.1770	-5.5060	-2.1076	7.0620	6.7239	6.4226	
Euro zone – (EUR/USD)	1.1199	-0.3648	1.5919	5.4715	1.5966	1.1576	1.1091	1.0561	
Norway – kroner	8.3501	1.2925	-3.0068	-3.5111	9.2224	8.9520	8.3533	7.6437	
Russia – ruble	67.0506	1.4094	-12.0791	2.2541	34.3835	84.2412	66.2120	49.8950	
Sweden – krona	8.3425	2.3042	-1.7489	-4.3061	-0.5685	8.7666	8.4115	7.9588	
Switzerland – swiss franc	0.9920	1.5042	0.1262	-2.7405	5.2188	1.0299	0.9759	0.9177	
United Kingdom – (GBP/USD)	1.4463	0.3539	2.5454	-4.4274	-6.7054	1.5884	1.4964	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	1.3333	1.3158	1.2987	1.3158	1.2821	1.2658	1.2346
Euro (EUR/USD)	1.1162	1.0863	1.1395	1.1000	1.0800	1.0700	1.0700	1.0900	1.1000	1.1100
British pound (GBP/USD)	1.5148	1.4739	1.4373	1.4500	1.4500	1.4800	1.5000	1.5300	1.5300	1.5500
Swiss franc (USD/CHF)	0.9734	0.9903	0.9631	1.0000	1.0100	1.0200	1.0200	1.0100	1.0000	1.0000
Yen (USD/JPY)	119.87	120.32	112.58	112.00	116.00	121.00	123.00	124.00	125.00	125.00
Australian dollar (AUD/USD)	0.7020	0.7280	0.7658	0.7100	0.7200	0.7200	0.7400	0.7500	0.7600	0.7700
Chinese yuan (USD/CNY)	6.3571	6.4937	6.4490	6.6000	6.6000	6.6500	6.6500	6.6000	6.5800	6.5500
Mexican peso (USD/MXN)	16.92	17.18	17.28	19.00	18.20	18.50	18.20	17.75	17.40	17.00
Brazilian real (USD/BRL)	3.9725	3.9045	3.5586	3.8000	3.7000	3.9000	3.7000	3.6000	3.5000	3.5000
Effective dollar* (1973 = 100)	92.26	94.46	89.84	92.10	93.00	93.40	93.90	92.70	91.60	90.60
<b>Canadian dollar</b>										
American dollar (CAD/USD)	0.7510	0.7225	0.7689	0.7500	0.7600	0.7700	0.7600	0.7800	0.7900	0.8100
Euro (EUR/CAD)	1.4863	1.5035	1.4820	1.4667	1.4211	1.3896	1.4079	1.3974	1.3924	1.3704
British pound (GBP/CAD)	2.0169	2.0400	1.8693	1.9333	1.9079	1.9221	1.9737	1.9615	1.9367	1.9136
Swiss franc (CAD/CHF)	0.7311	0.7155	0.7405	0.7500	0.7676	0.7854	0.7752	0.7878	0.7900	0.8100
Yen (CAD/JPY)	90.02	86.93	86.56	84.00	88.16	93.17	93.48	96.72	98.75	101.25
Australian dollar (AUD/CAD)	0.9346	1.0076	0.9960	0.9467	0.9474	0.9351	0.9737	0.9615	0.9620	0.9506
Chinese yuan (CAD/CNY)	4.7744	4.6918	4.9587	4.9500	5.0160	5.1205	5.0540	5.1480	5.1982	5.3055
Mexican peso (CAD/MXN)	12.71	12.41	13.29	14.25	13.83	14.25	13.83	13.85	13.75	13.77
Brazilian real (CAD/BRL)	2.9835	2.8211	2.7362	2.8500	2.8120	3.0030	2.8120	2.8080	2.7650	2.8350

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

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