

The U.S. dollar struggles to regain lasting vitality

HIGHLIGHTS

- A slight uptrend has started to take shape for the U.S. dollar since the spring. Yet, this trend is seriously compromised as the harsh blows to the currency pile up. At the top of the list of the guilty is the sentiment for the Federal Reserve to wait longer before pursuing monetary firming. This sentiment was recently amplified by mixed economic data in the United States. Putting aside employment, which continues to do well, other data, such as real GDP in the second quarter and retail sales for July, were fairly disappointing.
- The Canadian dollar is benefiting from the U.S. dollar's recent weakness, and has appreciated to around US\$0.78 (CAN\$1.28/US\$). The rebound in oil prices after a difficult July is also favourable to the loonie. Nevertheless, not all is rosy, as worries about the Canadian economy heightened recently with the labour market increasingly showing signs of weakness and the volume of exports declining since February.
- The pound has stabilized at around US\$1.30 after sharp depreciation due to the Brits' decision to leave the European Union on June 23. Markets had also anticipated that the Bank of England would take action, which it did in August. The door to other interventions has been left wide open.
- The euro also depreciated the days after the British referendum, but the losses have since been recovered. The common currency now trades at over US\$1.13. The fact that the European Central Bank re-opened the door to new monetary easing for September was not enough to reverse the euro's renewed appreciation.
- The yen is standing up well against the U.S. dollar. The Japanese exchange rate recently fell below 100 ¥/US\$, a level not seen since 2013. The Bank of Japan seems to have problems convincing markets that it can still significantly ease its monetary policy.

MAIN FACTORS TO WATCH

- Our forecasts do not incorporate an interest rate hike in the United States before next year. Initially, this does not argue in favour of short-term appreciation by the U.S. dollar, but we believe that the next economic data will generally be more positive than negative in the United States, which should suffice to raise market expectations for action by the Fed. For now, these expectations are very low, to the point that no rate increase is completely expected by the end of 2017. In addition, an eye must also be kept on other economies and central banks. For example, if the negative effects of *Brexit* are felt even more in the coming months, and several central banks soften their monetary policies, the greenback could benefit.
- The Canadian dollar risks depreciating slightly in the short term against the backdrop of Canadian economic difficulties and the low potential for an increase in oil prices in the fall. Our year-end target is US\$0.77 (CAN\$1.30/US\$). The Canadian dollar could nonetheless make short-term gains against the euro and the yen, assuming that the ECB and the BoJ remain in interventionist mode. For 2017, the loonie could reach the US\$0.80 mark, subject to fears about the Canadian economy dissipating and oil prices surpassing US\$60 per barrel.

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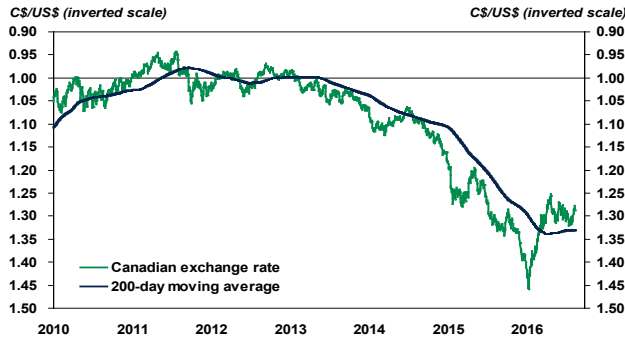
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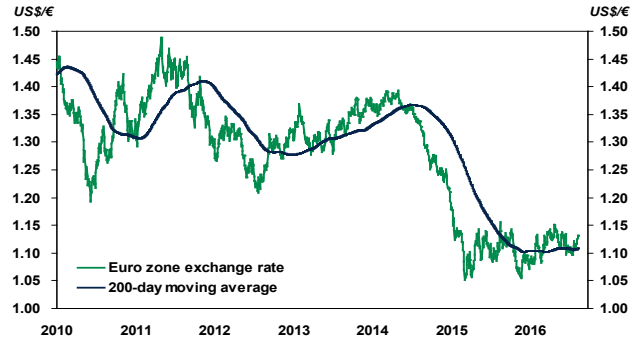
MAIN EXCHANGE RATES

Canadian dollar and trend



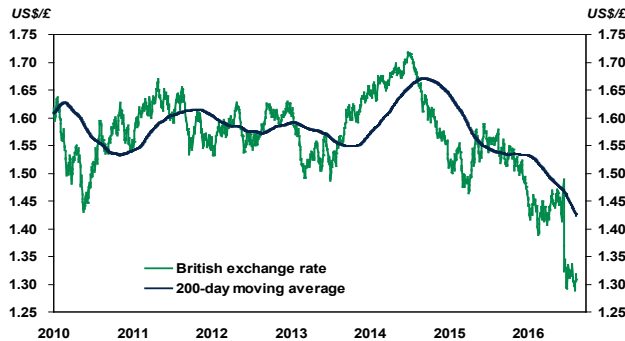
Sources: Datastream and Desjardins, Economic Studies

Euro and trend



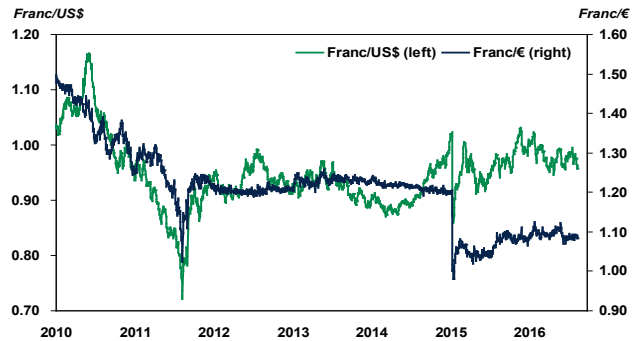
Sources: Datastream and Desjardins, Economic Studies

British pound and trend



Sources: Datastream and Desjardins, Economic Studies

Swiss franc



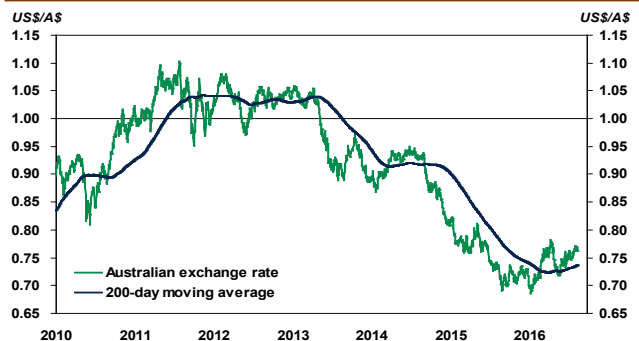
Sources: Datastream and Desjardins, Economic Studies

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		
	August 19	1 month	3 months	6 months	1 year	Higher	Average	Lower	
Americas									
Argentina – peso	14.9575	-2.0144	5.8563	-0.4824	61.7578	15.9350	12.7709	9.2469	
Brazil – real	3.2235	-1.6506	-10.5777	-20.4322	-7.8316	4.2061	3.6895	3.1338	
Canada – dollar	1.2874	-1.1631	-2.0355	-6.9529	-1.9945	1.4637	1.3278	1.2526	
Canada – (CAD/USD)	0.7768	1.1768	2.0778	7.4724	2.0351	0.7983	0.7531	0.6832	
Mexico – peso	18.2340	-1.9000	-1.7419	-0.2906	10.2831	19.1583	17.6623	16.3827	
Asia and South Pacific									
Australia – (AUD/USD)	0.7628	1.6629	5.5418	6.6784	3.8064	0.7814	0.7305	0.6866	
China – yuan renminbi	6.6532	-0.6444	1.6214	2.0046	4.0237	6.7045	6.4993	6.3181	
Hong Kong – dollar	7.7532	-0.0322	-0.1841	-0.2676	-0.0039	7.8194	7.7600	7.7499	
India – rupee	67.1371	-0.0995	-0.4432	-2.0540	3.1141	68.7678	66.7112	64.7031	
Japan – yen	100.2200	-5.5642	-8.8619	-10.9710	-19.0534	123.8100	113.9229	99.8850	
New Zealand – (NZD/USD)	0.7281	3.2329	7.9875	9.7932	10.2883	0.7308	0.6749	0.6260	
South Korea – won	1,118	-1.5895	-6.2301	-9.4698	-5.7238	1,239	1,169	1,092	
Europe									
Denmark – krona	6.5713	-2.6409	-1.0145	-1.9948	-2.0685	7.0620	6.7068	6.4226	
Euro zone – (EUR/USD)	1.1324	2.8424	1.0664	1.9628	2.4331	1.1576	1.1110	1.0561	
Norway – kroner	8.2178	-3.4750	-1.7615	-3.9376	-0.9743	8.9520	8.4413	8.0154	
Russia – ruble	63.8962	0.8563	-4.7746	-17.7945	-3.3011	84.2412	68.0589	61.2945	
Sweden – krona	8.3863	-2.6196	0.3482	-0.6998	-1.5646	8.7558	8.4077	7.9588	
Switzerland – swiss franc	0.9595	-2.5939	-3.0810	-3.2325	-1.2302	1.0299	0.9821	0.9363	
United Kingdom – (GBP/USD)	1.3055	-0.6166	-10.4933	-8.4951	-16.5708	1.5736	1.4499	1.2878	

* 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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
American dollar										
Canadian dollar (USD/CAD)	1.3315	1.3841	1.3006	1.2925	1.3158	1.2987	1.3158	1.2903	1.2658	1.2500
Euro (EUR/USD)	1.1162	1.0863	1.1395	1.1110	1.1000	1.0900	1.0800	1.0900	1.1200	1.1200
British pound (GBP/USD)	1.5148	1.4739	1.4373	1.3368	1.3000	1.2900	1.2800	1.3100	1.3600	1.3900
Swiss franc (USD/CHF)	0.9734	0.9903	0.9631	0.9793	0.9800	0.9900	1.0000	1.0000	0.9800	0.9800
Yen (USD/JPY)	119.87	120.32	112.58	103.29	104.00	111.00	118.00	120.00	120.00	122.00
Australian dollar (AUD/USD)	0.7020	0.7280	0.7658	0.7450	0.7500	0.7400	0.7200	0.7300	0.7500	0.7500
Chinese yuan (USD/CNY)	6.3571	6.4937	6.4490	6.6481	6.6500	6.6800	6.7200	6.7000	6.6600	6.7000
Mexican peso (USD/MXN)	16.92	17.18	17.28	18.28	18.30	18.50	18.75	18.25	17.75	18.00
Brazilian real (USD/BRL)	3.9725	3.9045	3.5586	3.2095	3.3000	3.4500	3.7000	3.6000	3.4000	3.5000
Effective dollar* (1973 = 100)	92.26	94.46	89.84	90.64	91.40	92.40	94.10	93.20	91.30	91.00
Canadian dollar										
American dollar (CAD/USD)	0.7510	0.7225	0.7689	0.7737	0.7600	0.7700	0.7600	0.7750	0.7900	0.8000
Euro (EUR/CAD)	1.4863	1.5035	1.4820	1.4359	1.4474	1.4156	1.4211	1.4065	1.4177	1.4000
British pound (GBP/CAD)	2.0169	2.0400	1.8693	1.7278	1.7105	1.6753	1.6842	1.6903	1.7215	1.7375
Swiss franc (CAD/CHF)	0.7311	0.7155	0.7405	0.7577	0.7448	0.7623	0.7600	0.7750	0.7742	0.7840
Yen (CAD/JPY)	90.02	86.93	86.56	79.91	79.04	85.47	89.68	93.00	94.80	97.60
Australian dollar (AUD/CAD)	0.9346	1.0076	0.9960	0.9629	0.9868	0.9610	0.9474	0.9419	0.9494	0.9375
Chinese yuan (CAD/CNY)	4.7744	4.6918	4.9587	5.1436	5.0540	5.1436	5.1072	5.1925	5.2614	5.3600
Mexican peso (CAD/MXN)	12.71	12.41	13.29	14.14	13.91	14.25	14.25	14.14	14.02	14.40
Brazilian real (CAD/BRL)	2.9835	2.8211	2.7362	2.4832	2.5080	2.6565	2.8120	2.7900	2.6860	2.8000

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

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