

No major swings in Canada's currency expected in the short term

HIGHLIGHTS

- For the past few months, the Canadian dollar has moved within a tight band at around US\$0.77 (C\$1.30/US\$). Shifts in oil prices between US\$40 and US\$50 have contributed to this stability. The Bank of Canada's adoption of a more cautious tone early in September did not have much impact on the exchange rate. However, the publication of new disappointing data in Canada has increased the possibility of a rate cut, penalizing more the currency.
- The Federal Reserve (Fed) once again opted to maintain the status quo in September and revised its expectations on the future trajectory of its monetary policy—it now anticipates a single rate increase by the end of the year, with two increases expected next year (instead of three). This caution continues to limit any increase in the U.S. dollar. The greenback is also struggling to find any sustainable support in the economic data in the United States, which have been more mitigated of late.
- The euro seems to have found a new comfort zone at around US\$1.12. In July, the European Central Bank (ECB) had opened the door to a possible intervention in September, which did not materialize in the end. The ECB announced instead that it would take the time to analyze its capacity to successfully complete its monetary easing measures. In other words, nothing to justify a drop in the euro. The most recent economic data are still consistent with the continued moderate growth in the euro zone.
- The pound sterling has been more volatile lately. From US\$1.29 in mid-August, the pound shot up to more than US\$1.34 in early September while Britain's economy seems to be keeping only a stiff upper lip in the wake of the referendum in June. However, the pound was unable to sustain its gains, falling back to around US\$1.30. While the Bank of England did not announce any monetary easing measures in September, the door remains wide open for future meetings.
- The yen remains strong, at close to ¥100/US\$. The Bank of Japan (BoJ) sent an odd signal to the markets in September by applying a floor yield to long-term bonds. This could give the impression that the BoJ is pulling back on its past interventions, but, at the same time, it was more firm on its intentions to reach its inflation target of 2%. However, with no concrete actions taken, the market continues to doubt the BoJ's capacity to reach this target.

MAIN FACTORS TO WATCH

- We moved up our forecast for the next rate increase in the United States to December. With little turbulence in the wake of Brexit and the probability that U.S. economic data will improve, this scenario now appears to be the most likely in our view, with the greenback set to end the year stronger than initially expected. Two further rate increases should follow in 2017, which will extend this new momentum over a few quarters.
- As is the case with most currencies, the greenback's rise will penalize the Canadian dollar. However, our scenario also calls for oil prices to rise gradually, ending 2016 at around US\$50 a barrel and close to US\$60 a barrel by the end of 2017. We also expect Canada's economic growth to accelerate while the effects of the federal government's plan to kick-start the economy take hold. All told, the loonie should be able to remain close to current levels in the short term and get back to a slight uptrend later next year.
- The short-term outlooks are tilted to the downside for the euro, pound and yen. Interest rate cuts appear likely in Japan and in the United Kingdom while the European Central Bank should announce that it is extending its asset-buying program.

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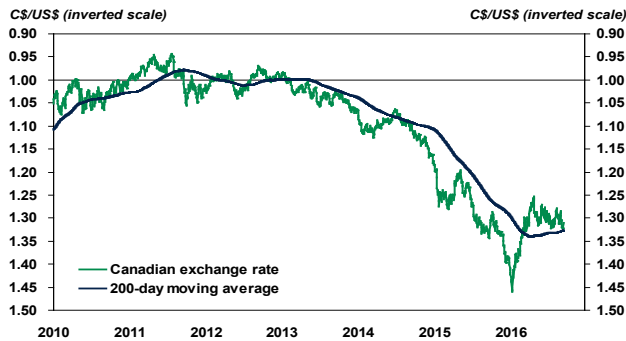
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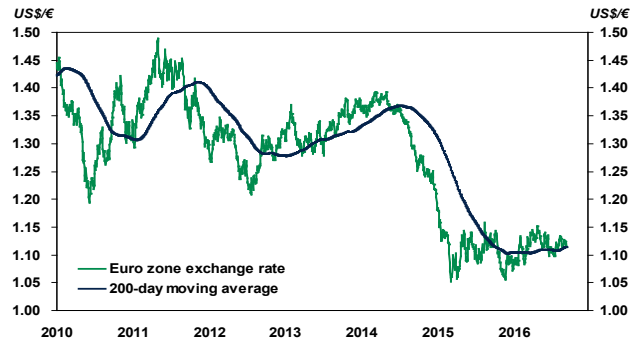
MAIN EXCHANGE RATES

Canadian dollar and trend



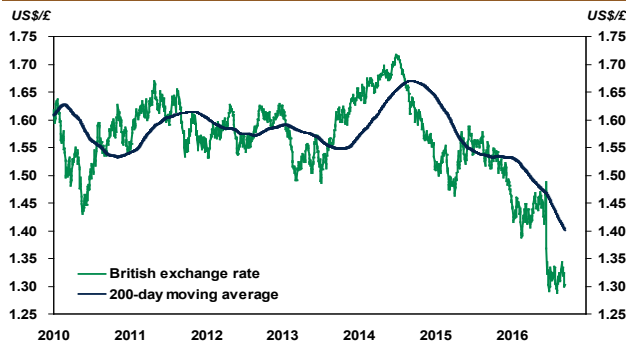
Sources: Datastream and Desjardins, Economic Studies

Euro and trend



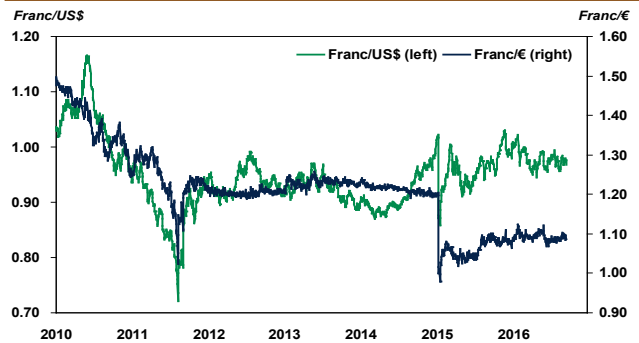
Sources: Datastream and Desjardins, Economic Studies

British pound and trend



Sources: Datastream and Desjardins, Economic Studies

Swiss franc



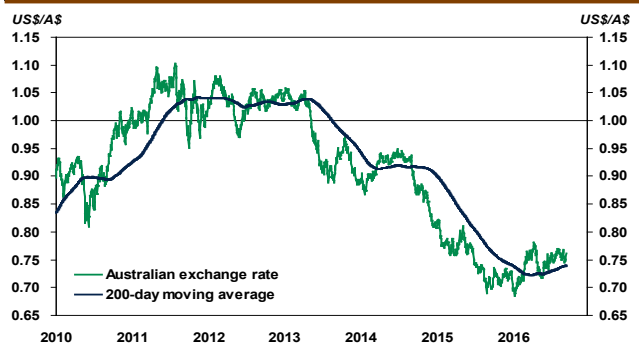
Sources: Datastream and Desjardins, Economic Studies

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		
	Sep. 25	1 month	3 months	6 months	1 year	Higher	Average	Lower	
Americas									
Argentina – peso	15.1488	1.7719	3.3163	4.4597	61.1038	15.9350	13.3119	9.3732	
Brazil – real	3.2270	-0.2951	-4.2249	-12.8758	-18.3412	4.2061	3.6427	3.1338	
Canada – dollar	1.3129	1.5469	1.7318	-1.0588	-1.5559	1.4637	1.3261	1.2526	
Canada – (CAD/USD)	0.7617	-1.5233	-1.7023	1.0702	1.5805	0.7983	0.7541	0.6832	
Mexico – peso	19.7143	6.9079	4.5932	11.8650	16.4131	19.8525	17.8636	16.3827	
Asia and South Pacific									
Australia – (AUD/USD)	0.7620	0.0381	2.1071	1.5050	8.5007	0.7814	0.7348	0.6866	
China – yuan renminbi	6.6695	0.1532	0.7196	2.3550	4.6344	6.7045	6.5270	6.3181	
Hong Kong – dollar	7.7565	0.0135	-0.0631	-0.0161	0.0761	7.8194	7.7605	7.7500	
India – rupee	66.7067	-0.4618	-1.7354	-0.1833	0.8114	68.7678	66.7778	64.7031	
Japan – yen	100.9950	0.4675	-1.2081	-10.6792	-16.2423	123.6350	112.1598	99.8850	
New Zeland – (NZD/USD)	0.7242	-0.8111	1.5135	8.3134	13.3971	0.7451	0.6834	0.6274	
South Korea – won	1,103	-1.1964	-6.4885	-5.4743	-7.7174	1,239	1,162	1,090	
Europe									
Denmark – krona	6.6408	0.6220	-0.8066	-0.5019	-0.3601	7.0620	6.7085	6.4525	
Euro zone – (EUR/USD)	1.1219	-0.5541	0.9356	0.5016	0.4116	1.1518	1.1108	1.0561	
Norway – kroner	8.1131	-1.2903	-3.4063	-4.2442	-4.7456	8.9520	8.4425	8.0154	
Russia – ruble	63.7531	-1.4882	-1.7463	-8.0208	-2.8242	84.2412	67.8124	61.2945	
Sweden – krona	8.5418	1.6010	0.9311	2.8624	1.5793	8.7558	8.4193	7.9588	
Switzerland – swiss franc	0.9710	0.3358	0.3825	-0.5836	-0.6243	1.0299	0.9827	0.9505	
United Kingdom – (GBP/USD)	1.2960	-1.7549	-4.8877	-8.3775	-14.6048	1.5480	1.4283	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	1.3245	1.3245	1.3158	1.2987	1.2821
Euro (EUR/USD)	1.1162	1.0863	1.1395	1.1110	1.1200	1.0900	1.0900	1.0800	1.0900	1.1000
British pound (GBP/USD)	1.5148	1.4739	1.4373	1.3368	1.3000	1.2800	1.2800	1.2800	1.3100	1.3300
Swiss franc (USD/CHF)	0.9734	0.9903	0.9631	0.9793	0.9700	0.9900	1.0000	1.0000	1.0000	1.0000
Yen (USD/JPY)	119.87	120.32	112.58	103.29	101.00	108.00	112.00	117.00	118.00	120.00
Australian dollar (AUD/USD)	0.7020	0.7280	0.7658	0.7450	0.7600	0.7300	0.7300	0.7300	0.7400	0.7500
Chinese yuan (USD/CNY)	6.3571	6.4937	6.4490	6.6481	6.6700	6.7100	6.7000	6.7200	6.6900	6.7000
Mexican peso (USD/MXN)	16.92	17.18	17.28	18.28	19.75	20.50	19.25	19.50	18.50	19.00
Brazilian real (USD/BRL)	3.9725	3.9045	3.5586	3.2095	3.2500	3.5000	3.5000	3.6000	3.4000	3.5000
Effective dollar* (1973 = 100)	92.26	94.46	89.84	90.64	90.20	92.60	93.10	93.90	93.10	92.50
Canadian dollar										
American dollar (CAD/USD)	0.7510	0.7225	0.7689	0.7737	0.7600	0.7550	0.7550	0.7600	0.7700	0.7800
Euro (EUR/CAD)	1.4863	1.5035	1.4820	1.4359	1.4737	1.4437	1.4437	1.4211	1.4156	1.4103
British pound (GBP/CAD)	2.0169	2.0400	1.8693	1.7278	1.7105	1.6954	1.6954	1.6842	1.7013	1.7051
Swiss franc (CAD/CHF)	0.7311	0.7155	0.7405	0.7577	0.7372	0.7475	0.7550	0.7600	0.7700	0.7800
Yen (CAD/JPY)	90.02	86.93	86.56	79.91	76.76	81.54	84.56	88.92	90.86	93.60
Australian dollar (AUD/CAD)	0.9346	1.0076	0.9960	0.9629	1.0000	0.9669	0.9669	0.9605	0.9610	0.9615
Chinese yuan (CAD/CNY)	4.7744	4.6918	4.9587	5.1436	5.0692	5.0661	5.0585	5.1072	5.1513	5.2260
Mexican peso (CAD/MXN)	12.71	12.41	13.29	14.14	15.01	15.48	14.53	14.82	14.25	14.82
Brazilian real (CAD/BRL)	2.9835	2.8211	2.7362	2.4832	2.4700	2.6425	2.6425	2.7360	2.6180	2.7300

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

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