

Donald Trump's election finally stimulated the greenback

HIGHLIGHTS

- Before the November 8 presidential election, the U.S. dollar had tended to depreciate when Donald Trump rose in the polls. It is therefore somewhat surprising that the greenback has surged in the last two weeks.
- Despite the concern raised by the new president-elect, the markets have essentially focused on the tax cuts and deregulation pledged by Donald Trump, which may stimulate the U.S. economy in the near term. Simultaneously, the markets are now expecting more interest rate increases from the Federal Reserve, giving the greenback some support.
- The Mexican peso was especially affected by the political developments in the United States. The U.S. dollar has gained about 10% against Mexico's currency since November 8, taking the MXN/USD pair to around 20.50 pesos. Donald Trump's arrival in the White House could be especially disruptive for Mexico, as Trump wants to renegotiate the North American Free Trade Agreement (NAFTA) and build a wall on the Mexican border.
- Several other emerging nation currencies have posted big declines against the U.S. dollar, such as the Brazilian real, the South African rand, and the Turkish lira. As happened in 2013, the rebound by bond yields is reducing these currencies' appeal, as global capital flows could shift toward safer advanced nations.
- The Canadian dollar was also affected by the general trend, falling against the greenback. The depreciation has been slight, however, at just about 1.0% since November 8. Note that the loonie had already lost ground in previous weeks due to a drop in oil prices and the more dovish signals sent by the Bank of Canada (BoC).
- The euro dropped to US\$1.06. The European Central Bank is expected to announce an extension to its securities purchasing program, increasing the anticipated divergence with U.S. monetary policy. The Bank of Japan could also be more active in the next few months, a situation that is hastening the yen's slide. Japan's exchange rate crossed back above 110 ¥/US\$.

MAIN FACTORS TO WATCH

- Everything seems to be in place for a long climb by the greenback. The U.S. economy's acceleration and monetary policy divergence will be its main support. A lot of uncertainty surrounds this projection, however, as the future U.S. administration's exact game plan is not known. The markets are currently focused on the positive impacts of tax cuts and deregulation, but that could change if those promises are not kept. Also, the rise in the U.S. debt could become a problem, not to mention the risks associated with greater protectionism and a more rigid immigration policy.
- We have downgraded our forecasts for the Canadian dollar. The loonie should end 2016 at around US\$0.73, and end 2017 at around US\$0.70. Widening interest rate spreads will play heavily against the loonie, especially as the BoC should maintain a downside bias. We have also revised our projections for oil prices given the persisting production surplus in this market. Oil prices promise to rise even more slowly than initially forecast, lessening the chance of a loonie rebound.
- A close watch should be kept on emerging nation currencies that are sensitive to interest rate movements. As for the peso, it should consolidate close to current levels until Donald Trump officially takes office in January. Implementation of protectionist measures against Mexico would be a major source of volatility for its currency.

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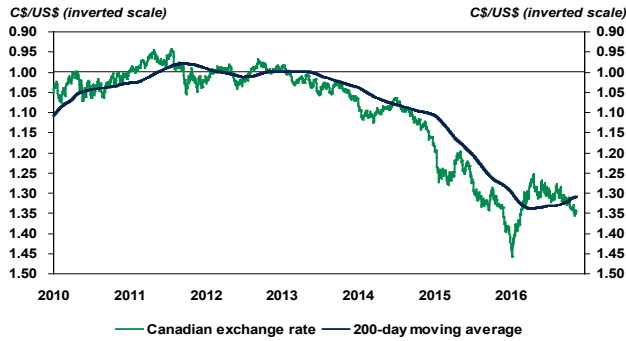
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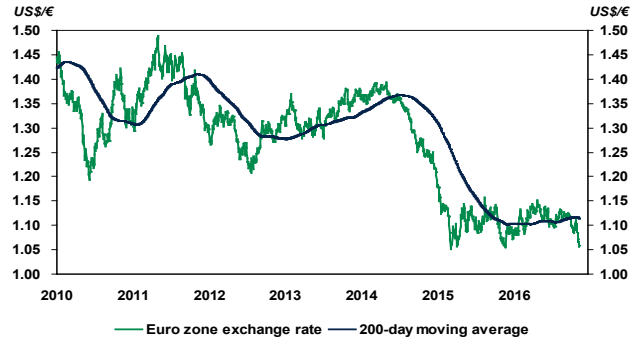
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Canadian dollar and trend



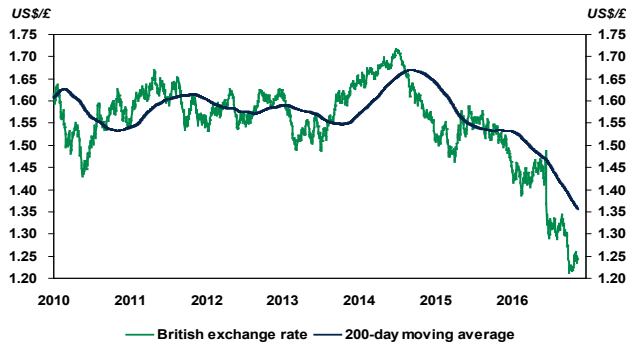
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Euro and trend



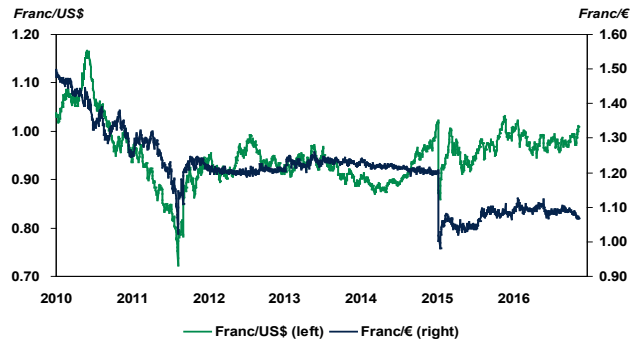
Sources: Datastream and Desjardins, Economic Studies

British pound and trend



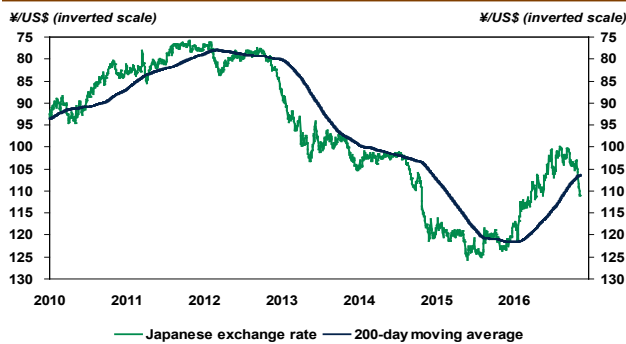
Sources: Datastream and Desjardins, Economic Studies

Swiss franc



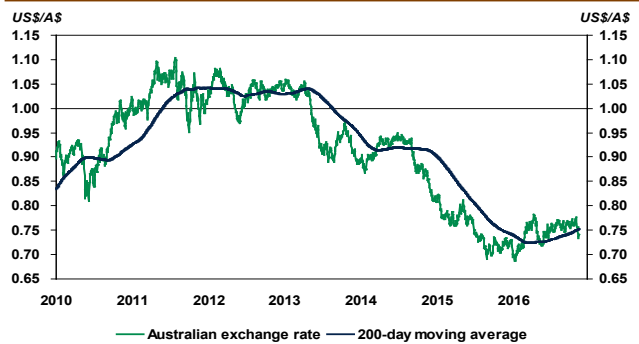
Sources: Datastream and Desjardins, Economic Studies

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		
	Nov. 22	1 month	3 months	6 months	1 year	Higher	Average	Lower	
Americas									
Argentina – peso	15.4065	1.6931	3.2694	9.2815	59.4504	15.9350	14.2260	9.6623	
Brazil – real	3.3565	6.1664	4.4094	-5.2653	-9.7182	4.1608	3.5427	3.1186	
Canada – dollar	1.3418	0.6451	3.8867	2.1896	0.6602	1.4637	1.3283	1.2526	
Canada – (CAD/USD)	0.7453	-0.6409	-3.7412	-2.1426	-0.6558	0.7983	0.7529	0.6832	
Mexico – peso	20.4910	9.8596	12.0906	11.3672	24.0958	21.2033	18.2954	16.4721	
Asia and South Pacific									
Australia – (AUD/USD)	0.7402	-2.7017	-2.8349	2.4907	2.2280	0.7814	0.7421	0.6866	
China – yuan renminbi	6.8900	1.8222	3.5981	5.2069	7.9092	6.8928	6.5911	6.3850	
Hong Kong – dollar	7.7558	-0.0316	0.0342	-0.1680	0.0710	7.8194	7.7615	7.7501	
India – rupee	68.3955	2.1965	1.7757	1.4645	3.5387	68.7678	67.0106	65.9471	
Japan – yen	111.1250	7.0208	10.7540	0.8852	-9.5883	123.3750	109.5621	99.8850	
New Zealand – (NZD/USD)	0.7063	-1.4621	-2.8464	4.3156	7.5505	0.7451	0.6928	0.6410	
South Korea – won	1,176	3.6345	4.4026	-1.1721	1.9017	1,239	1,159	1,090	
Europe									
Denmark – krona	7.0016	2.4599	6.5044	5.6718	-0.0913	7.0620	6.7142	6.4525	
Euro zone – (EUR/USD)	1.0590	-2.5849	-6.5273	-5.5561	-0.7498	1.1518	1.1093	1.0561	
Norway – kroner	8.5208	3.3062	3.8375	2.2979	-1.2985	8.9520	8.4126	7.9816	
Russia – ruble	63.9937	2.4064	-0.8435	-4.2189	-1.3500	84.2412	67.7140	61.9969	
Sweden – krona	9.2167	3.3309	10.0541	10.8536	5.6906	9.2638	8.4886	7.9588	
Switzerland – swiss franc	1.0127	1.7176	5.3143	2.0508	-0.3934	1.0299	0.9836	0.9513	
United Kingdom – (GBP/USD)	1.2425	1.8777	-5.5169	-14.3959	-18.3774	1.5223	1.3830	1.2131	

* 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	Q3	Q4f	Q1f	Q2f	Q3f	Q4f
American dollar										
Canadian dollar (USD/CAD)	1.3315	1.3841	1.3006	1.2925	1.3129	1.3699	1.3699	1.3889	1.4085	1.4286
Euro (EUR/USD)	1.1162	1.0863	1.1395	1.1110	1.1238	1.0600	1.0600	1.0400	1.0300	1.0200
British pound (GBP/USD)	1.5148	1.4739	1.4373	1.3368	1.2990	1.2300	1.2100	1.1700	1.1500	1.1300
Swiss franc (USD/CHF)	0.9734	0.9903	0.9631	0.9793	0.9684	1.0100	1.0200	1.0300	1.0400	1.0500
Yen (USD/JPY)	119.87	120.32	112.58	103.29	101.35	111.00	113.00	115.00	117.00	120.00
Australian dollar (AUD/USD)	0.7020	0.7280	0.7658	0.7450	0.7664	0.7300	0.7300	0.7200	0.7200	0.7200
Chinese yuan (USD/CNY)	6.3571	6.4937	6.4490	6.6481	6.6716	6.9000	6.9500	7.0000	7.0500	7.1500
Mexican peso (USD/MXN)	16.92	17.18	17.28	18.28	19.38	20.50	21.00	21.00	21.50	22.00
Brazilian real (USD/BRL)	3.9725	3.9045	3.5586	3.2095	3.2459	3.4500	3.5500	3.7000	3.7000	3.8000
Effective dollar* (1973 = 100)	92.26	94.46	89.84	90.64	90.01	95.40	95.80	97.60	98.90	100.30
Canadian dollar										
American dollar (CAD/USD)	0.7510	0.7225	0.7689	0.7737	0.7617	0.7300	0.7300	0.7200	0.7100	0.7000
Euro (EUR/CAD)	1.4863	1.5035	1.4820	1.4359	1.4754	1.4521	1.4521	1.4444	1.4507	1.4571
British pound (GBP/CAD)	2.0169	2.0400	1.8693	1.7278	1.7055	1.6849	1.6575	1.6250	1.6197	1.6143
Swiss franc (CAD/CHF)	0.7311	0.7155	0.7405	0.7577	0.7376	0.7373	0.7446	0.7416	0.7384	0.7350
Yen (CAD/JPY)	90.02	86.93	86.56	79.91	77.19	81.03	82.49	82.80	83.07	84.00
Australian dollar (AUD/CAD)	0.9346	1.0076	0.9960	0.9629	1.0062	1.0000	1.0000	1.0000	1.0141	1.0286
Chinese yuan (CAD/CNY)	4.7744	4.6918	4.9587	5.1436	5.0816	5.0370	5.0735	5.0400	5.0055	5.0050
Mexican peso (CAD/MXN)	12.71	12.41	13.29	14.14	14.77	14.97	15.33	15.12	15.27	15.40
Brazilian real (CAD/BRL)	2.9835	2.8211	2.7362	2.4832	2.4723	2.5185	2.5915	2.6640	2.6270	2.6600

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

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