

FX FORECASTS

The possibility of a rate hike in March supports the greenback

HIGHLIGHTS

- ▶ The U.S. dollar was back on the growth track after losing some of its sheen against several currencies in January. However, it remains below the levels reached in early 2017.
- ▶ We are still waiting for the economic stimulus measures Donald Trump promised to put forth, which could dampen expectations. Nevertheless, the economic data in the United States remains strong, which increases the likelihood that the Federal Reserve (Fed) will raise its key rates at its March meeting. The upbeat remarks made by some Fed leaders, including Fed Chair Janet Yellen, have also made this scenario more likely, which contributed to the greenback's recent ascent.
- ▶ The threat of rising protectionism in the United States is weighing less on exchange rates, a reflection of the appreciation in Mexico's currency to close to 20 pesos/US\$. Similarly, Donald Trump's reassuring remarks about Canada following his meeting on February 13 with Prime Minister Justin Trudeau lifted the loonie. In the days that followed, Canada's exchange rate reached close to US\$0.77 (C\$1.30/US\$).
- ▶ The rise in oil prices to close to US\$55 a barrel was another favourable development for the loonie. The generally positive economic data in Canada was another source of support. By mid-February, the market had pegged at more than 40% the probability that Canada would increase its key rates by the end of the year. This probability has fallen back to around 20% this past week, driving the loonie closer to US\$0.76.
- ▶ The euro roared back to US\$1.08 at the end of January, but has since retreated closer to US\$1.05. Other than the effect of a rebound in the U.S. dollar, the euro was penalized by speculations surrounding the elections in France and a new wave of uncertainties about the sustainability of Greece's debt. Buoyed by positive data in the United Kingdom and greater clarity on Brexit, the pound has showed more resilience lately, trading at close to US\$1.25.

MAIN FACTORS TO WATCH

- ▶ The recent rise in the greenback's value is consistent with our scenario that calls for a divergence in monetary policies. In fact, we added a third increase in key rates by the Fed to our forecasts for 2017. We believe that the economic data will justify a key rate increase in March, which should intensify the greenback's momentum. The Fed may then opt to take a break for several months to give the Trump administration more time to provide more guidance on its international trade strategy and fiscal policy. The Fed could revisit its monetary firming toward the end of the summer.
- ▶ We are still calling for the loonie to lose some altitude. It could benefit from other slight gains in oil prices, but this will be insufficient to offset the strength of the U.S. dollar and other downward adjustments in Canada's expectations on monetary firming. Our year-end target for the loonie is US\$0.72 (C\$1.39/US\$).
- ▶ Even if the Fed takes a break in the second quarter, Europe's currencies will probably remain under pressure due to the uncertainties hovering over the region. The start of Brexit negotiations could subject the pound to increased volatility.

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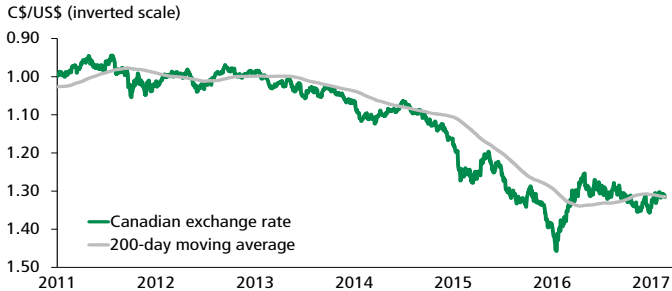
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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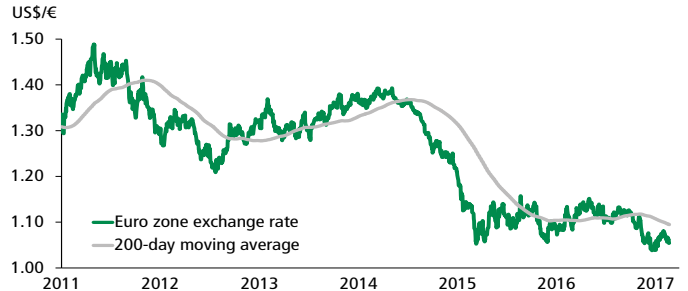
Main exchange rates

CANADIAN DOLLAR Exchange rate and trend



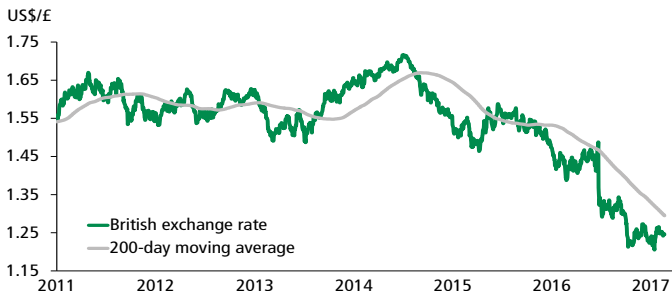
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EURO Exchange rate and trend



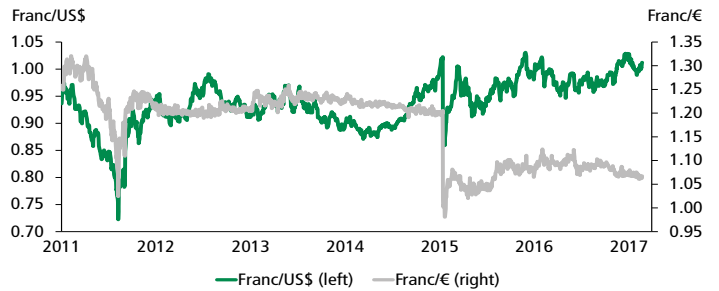
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BRITISH POUND Exchange rate and trend



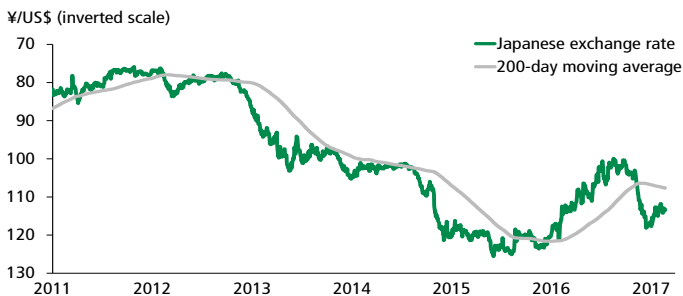
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SWISS FRANC Exchange rate



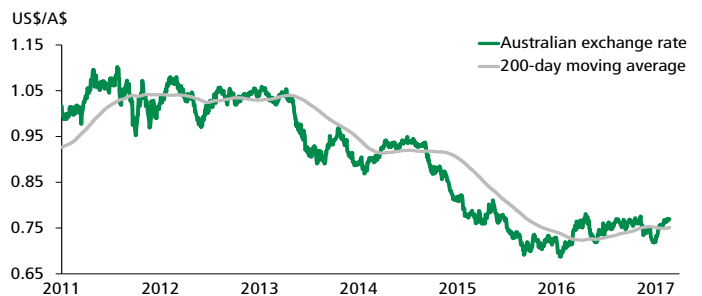
Sources: Datastream and Desjardins, Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

AUSTRALIAN DOLLAR Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Feb. 23	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	15.4825	-2.88	-0.15	4.44	-0.08	16.1075	15.0204	13.7520
Brazil – real	3.0761	-2.83	-9.98	-4.01	-22.66	3.9861	3.3679	3.0614
Canada – (USD/CAD)	1.3194	-0.82	-2.26	2.54	-4.39	1.3800	1.3127	1.2526
Canada – (CAD/USD)	0.7579	0.83	2.31	-2.48	4.60	0.7983	0.7618	0.7246
Mexico – peso	19.8995	-7.07	-4.03	8.84	9.36	21.9550	19.0796	17.1292
Asia and South Pacific								
Australia – (AUD/USD)	0.7703	1.58	4.31	1.15	6.94	0.7814	0.7505	0.7131
China – yuan renminbi	6.8778	0.35	-0.61	3.57	5.37	6.9610	6.6899	6.4490
Hong Kong – dollar	7.7606	0.05	0.05	0.09	-0.09	7.7773	7.7587	7.7527
India – rupee	66.9498	-1.62	-2.67	-0.26	-2.35	68.7835	67.1767	66.1060
Japan – yen	113.30	0.53	0.69	13.02	1.05	118.18	108.41	99.89
New Zealand – (NZD/USD)	0.7190	-0.60	2.51	-1.43	8.23	0.7451	0.7051	0.6591
South Korea – won	1,143	-1.97	-2.85	2.42	-7.18	1,239	1,155	1,090
Europe								
Denmark – krona	7.0393	1.90	-0.15	6.93	3.89	7.1569	6.7583	6.4525
Euro zone – (EUR/USD)	1.0544	-1.89	0.11	-6.87	-4.36	1.1518	1.1017	1.0378
Norway – kroner	8.3666	0.24	-2.87	1.84	-2.81	8.7237	8.3543	7.9816
Russia – ruble	57.8987	-2.58	-10.48	-9.99	-24.08	76.7575	64.4786	57.3156
Sweden – krona	8.9758	1.68	-3.28	7.14	5.71	9.4090	8.6199	7.9588
Switzerland – swiss franc	1.0118	1.31	-0.58	5.26	2.12	1.0312	0.9859	0.9513
United Kingdom – (GBP/USD)	1.2458	-0.27	0.47	-5.54	-11.67	1.4807	1.3266	1.2065

* 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	2016		2017				2018				
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3129	1.3433	1.3333	1.3423	1.3699	1.3889	1.3889	1.4085	1.4085	1.3889
Euro	EUR/USD	1.1238	1.0547	1.0500	1.0400	1.0300	1.0200	1.0200	1.0100	1.0000	1.0100
British pound	GBP/USD	1.2990	1.2357	1.2400	1.2100	1.1700	1.1500	1.1400	1.1200	1.1000	1.1000
Swiss franc	USD/CHF	0.9684	1.0160	1.0100	1.0200	1.0300	1.0400	1.0400	1.0500	1.0500	1.0500
Yen	USD/JPY	101.35	116.90	116.00	117.00	120.00	122.00	122.00	124.00	125.00	125.00
Australian dollar	AUD/USD	0.7664	0.7216	0.7500	0.7500	0.7300	0.7200	0.7200	0.7100	0.7100	0.7200
Chinese yuan	USD/CNY	6.6716	6.9450	6.9500	7.0000	7.1000	7.1500	7.1500	7.2000	7.2500	7.2500
Mexican peso	USD/MXN	19.38	20.73	20.50	21.00	22.00	23.00	23.00	23.50	24.00	24.00
Brazilian real	USD/BRL	3.2459	3.2588	3.1000	3.1500	3.2500	3.3500	3.3500	3.4000	3.4500	3.4000
Effective dollar ¹		90.01	95.76	95.60	96.50	98.20	99.40	99.60	101.20	101.60	100.80
Canadian dollar											
U.S. dollar	CAD/USD	0.7617	0.7445	0.7500	0.7450	0.7300	0.7200	0.7200	0.7100	0.7100	0.7200
Euro	EUR/CAD	1.4754	1.4168	1.4000	1.3960	1.4110	1.4167	1.4167	1.4225	1.4085	1.4028
British pound	GBP/CAD	1.7055	1.6598	1.6533	1.6242	1.6027	1.5972	1.5833	1.5775	1.5493	1.5278
Swiss franc	CAD/CHF	0.7376	0.7564	0.7575	0.7599	0.7519	0.7488	0.7488	0.7455	0.7455	0.7560
Yen	CAD/JPY	77.19	87.02	87.00	87.17	87.60	87.84	87.84	88.04	88.75	90.00
Australian dollar	AUD/CAD	1.0062	0.9693	1.0000	1.0067	1.0000	1.0000	1.0000	1.0000	1.0000	1.0000
Chinese yuan	CAD/CNY	5.0816	5.1703	5.2125	5.2150	5.1830	5.1480	5.1480	5.1120	5.1475	5.2200
Mexican peso	CAD/MXN	14.77	15.43	15.38	15.65	16.06	16.56	16.56	16.69	17.04	17.28
Brazilian real	CAD/BRL	2.4723	2.4261	2.3250	2.3468	2.3725	2.4120	2.4120	2.4140	2.4495	2.4480

f: forecasts; ¹ Trade-weighted against major U.S. partners (1973 = 100).
 Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies