

## FX FORECASTS

# The greenback retreats despite the interest rate hike

### HIGHLIGHTS

- ▶ The U.S. dollar has been depreciating since the Federal Reserve (Fed) ordered another increase in its key rate on March 15, despite the fact that the prospect of this increase had clearly kept the greenback afloat in the weeks leading up to it. Buy the rumor and sell the news, some may say. The reality is somewhat more complicated, however.
- ▶ The depreciation of the U.S. dollar is partly due to the fact that the Fed offered, as usual, few clues as to how its future monetary firming would play out, which the markets viewed as dovish. The economic slowdown taking shape in the United States for the first quarter also calls for caution. Not to mention the difficulties of Donald Trump, which is taking his time announcing tax cuts, infrastructure spendings and the deregulation promised during his electoral campaign.
- ▶ After falling to US\$1.05, the euro is now trading above US\$1.08. In addition to the weaker U.S. dollar, other elements directly propped up Europe's currency. Concerns about the election of an anti-euro and anti-immigrant party in France and in other euro-zone countries have eased recently. The economic data have generally been good and the European Central Bank (ECB) has upgraded its growth forecasts. With inflation ticking up, speculation is rife that monetary firming could potentially be ordered this year, and thus reduce expectations of diverging monetary policies.
- ▶ The Canadian dollar maintained fairly good momentum until the end of February, shifting between US\$0.76 and US\$0.77. The loonie shed a few cents in early March against the greenback's broader strength, but also due to the still cautious tone by the Bank of Canada. The rebound seen in the loonie since mid-March is limited compared with other currencies. The recent drop in oil prices is another factor that is punishing Canada's currency, which is currently trading at close to US\$0.75.

### MAIN FACTORS TO WATCH

- ▶ The greenback's depreciation is not in line with our scenario of monetary policy divergence. A pause in monetary firming in the United States this June could nevertheless limit the greenback's gains in the short term. That said, the greenback's appreciation could be more sustained and broad-based in the second half of the year, supported mainly by the two interest rate increases anticipated during that period. Further announcements by the Trump administration to support the economy would also boost the U.S. dollar.
- ▶ We continue to call for the loonie to fall in value by the end of the year and through part of next year. In the short term, Canada's currency could benefit from a slight increase in oil prices and the pause anticipated in monetary firming in the U.S. We will have to watch closely for any possible announcements on trade relations with the United States. More U.S. protectionism would deal a blow to Canada's economy and its currency. Our year-end target for Canada's currency is US\$0.72 (C\$1.39/US\$).
- ▶ European currencies could renew with depreciation in the next few months owing to a potential rise in political uncertainties in the region. The start of the Brexit negotiations could especially hinder the pound sterling. Despite the recent rise in inflation, neither the ECB nor the Bank of England is expected to tighten its monetary policy this year.

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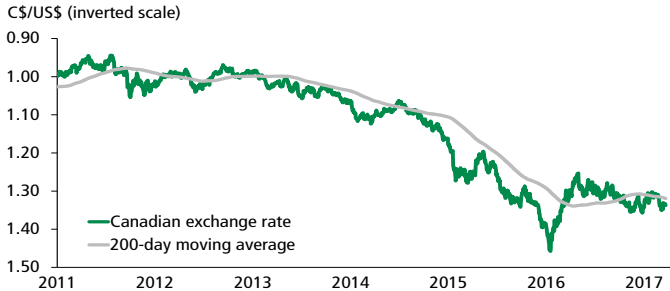
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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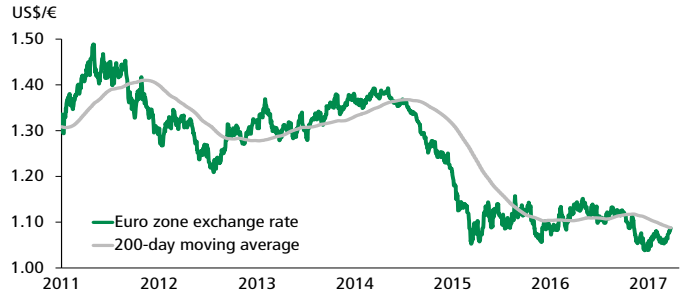
# Main exchange rates

## CANADIAN DOLLAR Exchange rate and trend



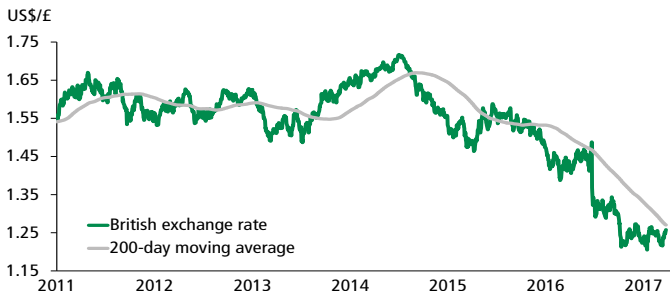
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



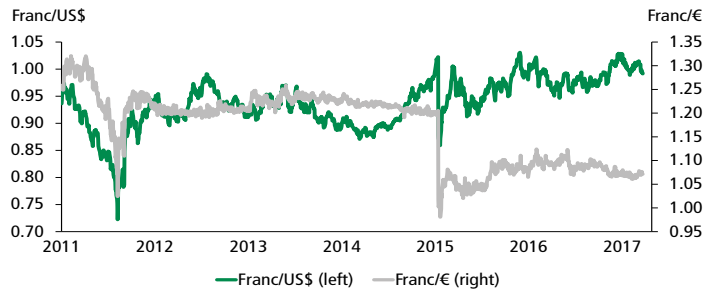
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



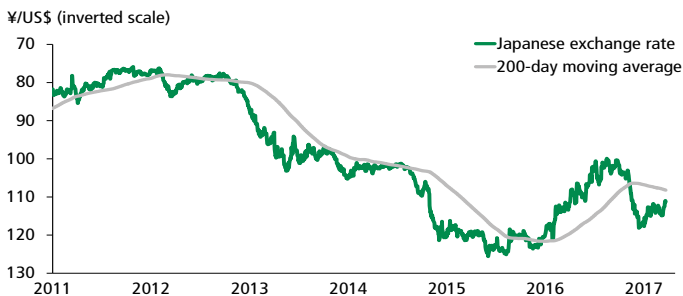
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



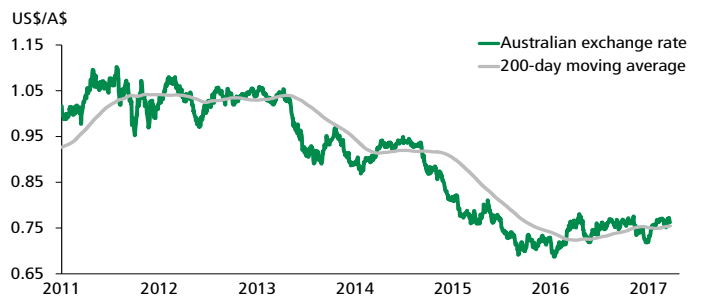
Sources: Datastream and Desjardins, Economic Studies

## 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		
	March 27	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	15.5975	0.79	0.55	2.16	7.55	16.1075	15.0532	13.7520
Brazil – real	3.1153	0.14	-4.95	-3.99	-15.89	3.7039	3.3105	3.0614
Canada – (USD/CAD)	1.3374	2.08	-1.32	0.88	0.78	1.3576	1.3125	1.2526
Canada – (CAD/USD)	0.7477	-2.04	1.34	-0.87	-0.78	0.7983	0.7619	0.7366
Mexico – peso	18.8541	-4.74	-8.97	-3.61	6.98	21.9550	19.2244	17.1292
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.7622	-0.67	6.07	-0.59	1.52	0.7814	0.7525	0.7177
China – yuan renminbi	6.8837	0.19	-0.99	3.20	5.64	6.9610	6.7224	6.4490
Hong Kong – dollar	7.7664	0.06	0.09	0.15	0.11	7.7714	7.7587	7.7531
India – rupee	65.4250	-1.91	-3.75	-1.51	-2.10	68.7835	67.0705	65.3445
Japan – yen	111.35	-1.21	-5.18	10.85	-1.53	118.18	108.42	99.89
New Zealand – (NZD/USD)	0.7029	-2.28	2.02	-3.72	5.13	0.7451	0.7081	0.6686
South Korea – won	1,123	-0.98	-7.05	2.37	-3.75	1,211	1,149	1,090
<b>Europe</b>								
Denmark – krona	6.8884	-1.89	-3.12	3.67	3.21	7.1569	6.7786	6.4525
Euro zone – (EUR/USD)	1.0805	1.82	3.32	-3.50	-3.21	1.1518	1.0983	1.0378
Norway – kroner	8.4961	1.51	-2.32	4.68	0.28	8.7237	8.3489	7.9816
Russia – ruble	57.1300	-1.57	-5.93	-10.78	-17.58	69.3126	63.2903	57.1300
Sweden – krona	8.8144	-2.74	-4.48	2.52	6.15	9.4090	8.6658	7.9588
Switzerland – swiss franc	0.9912	-1.43	-3.64	1.95	1.49	1.0312	0.9873	0.9513
United Kingdom – (GBP/USD)	1.2491	0.18	1.90	-3.81	-11.70	1.4807	1.3109	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	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.3129	1.3433	1.3333	1.3423	1.3699	1.3889	1.3889	1.4085	1.3889	1.3699
Euro	EUR/USD	1.1238	1.0547	1.0800	1.0600	1.0400	1.0200	1.0200	1.0100	1.0200	1.0400
British pound	GBP/USD	1.2990	1.2357	1.2400	1.2100	1.1800	1.1600	1.1500	1.1400	1.1300	1.1300
Swiss franc	USD/CHF	0.9684	1.0160	0.9900	1.0000	1.0200	1.0400	1.0400	1.0500	1.0500	1.0300
Yen	USD/JPY	101.35	116.90	112.00	114.00	117.00	120.00	120.00	122.00	123.00	124.00
Australian dollar	AUD/USD	0.7664	0.7216	0.7600	0.7500	0.7400	0.7300	0.7300	0.7200	0.7300	0.7400
Chinese yuan	USD/CNY	6.6716	6.9450	6.9000	6.9200	7.0000	7.1000	7.1000	7.1500	7.2000	7.2000
Mexican peso	USD/MXN	19.38	20.73	19.00	19.25	20.00	21.00	21.00	21.50	22.00	22.00
Brazilian real	USD/BRL	3.2459	3.2588	3.1500	3.2000	3.2500	3.3500	3.3500	3.4000	3.4500	3.4000
Effective dollar <sup>1</sup>		90.01	95.76	93.80	95.20	97.30	99.10	99.20	100.30	99.70	98.80
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7617	0.7445	0.7500	0.7450	0.7300	0.7200	0.7200	0.7100	0.7200	0.7300
Euro	EUR/CAD	1.4754	1.4168	1.4400	1.4228	1.4247	1.4167	1.4167	1.4225	1.4167	1.4247
British pound	GBP/CAD	1.7055	1.6598	1.6533	1.6242	1.6164	1.6111	1.5972	1.6056	1.5694	1.5479
Swiss franc	CAD/CHF	0.7376	0.7564	0.7425	0.7450	0.7446	0.7488	0.7488	0.7455	0.7560	0.7519
Yen	CAD/JPY	77.19	87.02	84.00	84.93	85.41	86.40	86.40	86.62	88.56	90.52
Australian dollar	AUD/CAD	1.0062	0.9693	1.0133	1.0067	1.0137	1.0139	1.0139	1.0141	1.0139	1.0137
Chinese yuan	CAD/CNY	5.0816	5.1703	5.1750	5.1554	5.1100	5.1120	5.1120	5.0765	5.1840	5.2560
Mexican peso	CAD/MXN	14.77	15.43	14.25	14.34	14.60	15.12	15.12	15.27	15.84	16.06
Brazilian real	CAD/BRL	2.4723	2.4261	2.3625	2.3840	2.3725	2.4120	2.4120	2.4140	2.4840	2.4820

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