

FX FORECASTS

The Loonie Struggles to Capitalize on Some Favourable Tailwinds

HIGHLIGHTS

- ▶ Since the end of February, the Canadian dollar has held steady between US\$0.74 and US\$0.75. Yet some factors argue for a higher value; Canada is experiencing strong economic growth and the Bank of Canada (BoC) adopted a more neutral tone after its monetary policy meeting on April 12. The probability of another key interest rate cut now appears very weak, meaning that monetary firming may become the focus of more attention.
- ▶ The renewed weakness of the greenback is another element that should have helped the loonie take flight. The U.S. dollar is struggling to sustainably take advantage of monetary firming expectations in the United States. While these expectations are indeed very volatile, they have recently dimmed on the less robust data on the U.S. economy and Donald Trump's difficulties in delivering the promised reforms to boost growth.
- ▶ The euro is clearly benefitting from the struggling U.S. dollar, edging close to US\$1.09 recently. The euro's appreciation also collided with the change in tone by the European Central Bank (ECB) in March, which upgraded its economic growth and inflation forecasts. The first-round results of the French presidential elections were another factor that boosted the euro. The markets are betting that Emmanuel Macron, the pro-European candidate, will win the second round.
- ▶ The pound got a major boost on April 18 after it was announced that a snap election in the United Kingdom would be held in June. This was viewed as a positive turn for a smooth Brexit, perhaps even shelving the entire project should the Conservatives be defeated. The polls give the Tories a comfortable advance, but things could change in the next couple of months. The Bank of England's ambiguity on the future direction of its monetary policy also helped the pound.

MAIN FACTORS TO WATCH

- ▶ The Canadian dollar could appreciate slightly in the very short term, especially if the U.S. dollar continues to retreat and if investors revise their expectations upward on monetary firming in Canada. That said, we believe that the BoC will wait until spring 2018 before announcing a rate increase. We are moving up our previous forecast by a few months. However, this will not be enough to prevent interest rate spreads between the United States and Canada from widening significantly. Our year-end target for the Canadian exchange rate has been raised by one cent, to US\$0.73 (C\$1.37/US\$).
- ▶ The greenback's weakness should not extend beyond this spring. Our scenario calls for two other interest rate increases in the second half of the year. These increases would be preceded by improved economic data in the United States after the drop in the pace of growth recorded in the first quarter. Further announcements by the Trump administration to support the economy would also have a positive effect on the greenback. A more protectionist stance would have the same impact—possibly more penalizing for the Mexican peso, and even the Canadian dollar.
- ▶ European currencies could once again depreciate in the next few months, spurred by the possible resurgence of political uncertainties in the region. The Brexit negotiations could especially hinder the pound. The markets also seem to be overestimating the likelihood that the ECB will reduce its interventions by the end of the year.

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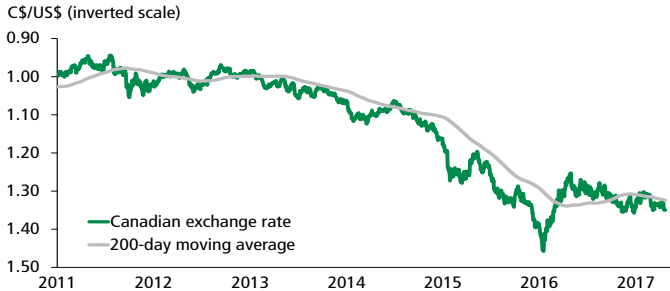
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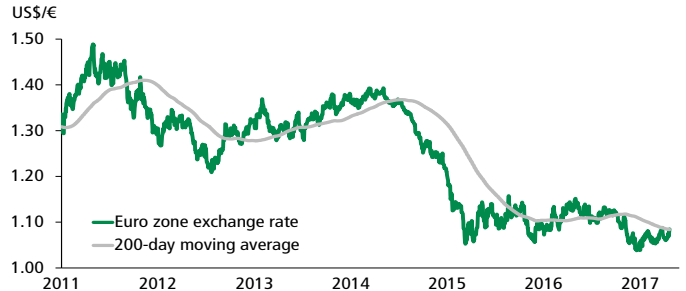
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



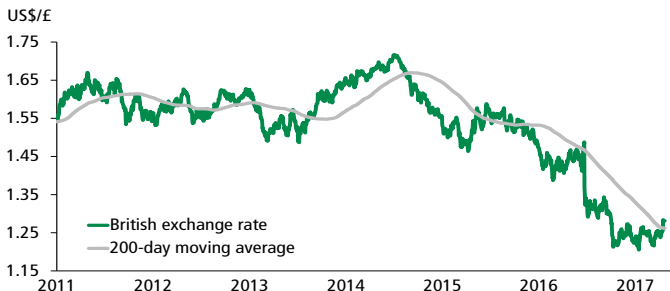
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



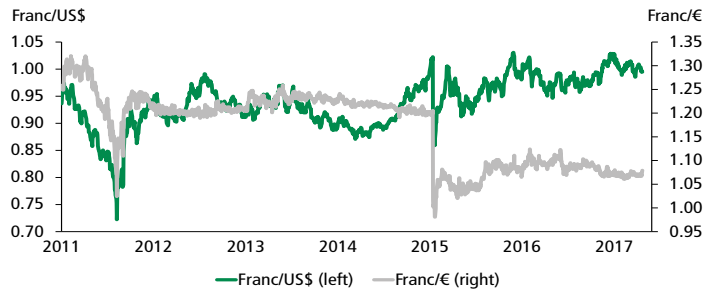
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



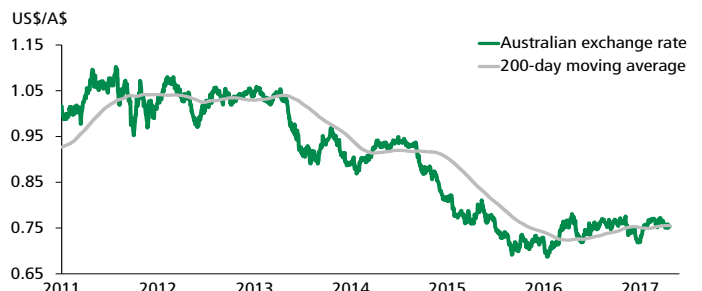
Sources: Datastream and Desjardins, Economic Studies

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		
	April 21	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	15.3745	-1.78	-3.05	1.48	6.92	16.1075	15.1183	13.7520
Brazil – real	3.1485	2.08	-1.32	-0.41	-10.79	3.6155	3.2746	3.0614
Canada – (USD/CAD)	1.3516	1.48	1.38	1.38	6.35	1.3576	1.3154	1.2526
Canada – (CAD/USD)	0.7399	-1.45	-1.36	-1.36	-5.97	0.7983	0.7602	0.7366
Mexico – peso	18.8361	-1.38	-13.33	0.99	8.17	21.9550	19.3175	17.1292
Asia and South Pacific								
Australia – (AUD/USD)	0.7543	-1.92	-0.17	-0.85	-2.52	0.7762	0.7520	0.7177
China – yuan renminbi	6.8859	-0.02	0.14	1.76	6.23	6.9610	6.7537	6.4741
Hong Kong – dollar	7.7752	0.12	0.23	0.22	0.22	7.7752	7.7599	7.7531
India – rupee	64.6500	-1.06	-5.03	-3.40	-2.77	68.7835	66.9374	64.2700
Japan – yen	109.09	-2.36	-4.83	5.06	-0.34	118.18	108.40	99.89
New Zeland – (NZD/USD)	0.7033	-0.13	-1.90	-1.88	1.74	0.7451	0.7093	0.6695
South Korea – won	1,134	1.25	-2.99	-0.05	0.12	1,211	1,148	1,090
Europe								
Denmark – krona	6.9333	0.78	-0.29	1.46	5.17	7.1569	6.8081	6.4525
Euro zone – (EUR/USD)	1.0688	-1.13	0.09	-1.68	-5.33	1.1518	1.0935	1.0378
Norway – kroner	8.6709	2.41	3.08	5.13	5.66	8.7237	8.3713	7.9816
Russia – ruble	56.4813	-1.71	-5.65	-9.62	-14.38	67.5237	62.4578	55.9488
Sweden – krona	9.0055	2.38	1.33	0.96	10.61	9.4090	8.7285	7.9588
Switzerland – swiss franc	0.9988	0.53	-0.65	0.32	2.68	1.0312	0.9902	0.9529
United Kingdom – (GBP/USD)	1.2777	2.38	3.70	4.76	-10.89	1.4807	1.2981	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	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3129	1.3433	1.3313	1.3423	1.3699	1.3699	1.3514	1.3333	1.3333	1.3158
Euro	EUR/USD	1.1238	1.0547	1.0696	1.0700	1.0500	1.0300	1.0300	1.0200	1.0300	1.0400
British pound	GBP/USD	1.2990	1.2357	1.2505	1.2400	1.2100	1.1900	1.1800	1.1600	1.1500	1.1500
Swiss franc	USD/CHF	0.9684	1.0160	1.0001	1.0000	1.0100	1.0300	1.0300	1.0400	1.0400	1.0300
Yen	USD/JPY	101.35	116.90	111.40	112.00	116.00	120.00	120.00	122.00	123.00	124.00
Australian dollar	AUD/USD	0.7664	0.7216	0.7628	0.7500	0.7400	0.7300	0.7300	0.7200	0.7300	0.7400
Chinese yuan	USD/CNY	6.6716	6.9450	6.8871	6.9200	7.0000	7.1000	7.1000	7.1500	7.2000	7.1500
Mexican peso	USD/MXN	19.38	20.73	18.72	19.00	19.50	20.00	20.00	20.50	21.00	20.50
Brazilian real	USD/BRL	3.2459	3.2588	3.1681	3.2000	3.2500	3.3000	3.3000	3.3500	3.4000	3.4000
Effective dollar ¹		90.01	95.76	94.01	94.50	96.50	98.00	97.80	98.30	98.10	97.50
Canadian dollar											
U.S. dollar	CAD/USD	0.7617	0.7445	0.7511	0.7450	0.7300	0.7300	0.7400	0.7500	0.7500	0.7600
Euro	EUR/CAD	1.4754	1.4168	1.4239	1.4362	1.4384	1.4110	1.3919	1.3600	1.3733	1.3684
British pound	GBP/CAD	1.7055	1.6598	1.6647	1.6644	1.6575	1.6301	1.5946	1.5467	1.5333	1.5132
Swiss franc	CAD/CHF	0.7376	0.7564	0.7512	0.7450	0.7373	0.7519	0.7622	0.7800	0.7800	0.7828
Yen	CAD/JPY	77.19	87.02	83.67	83.44	84.68	87.60	88.80	91.50	92.25	94.24
Australian dollar	AUD/CAD	1.0062	0.9693	1.0156	1.0067	1.0137	1.0000	0.9865	0.9600	0.9733	0.9737
Chinese yuan	CAD/CNY	5.0816	5.1703	5.1732	5.1554	5.1100	5.1830	5.2540	5.3625	5.4000	5.4340
Mexican peso	CAD/MXN	14.77	15.43	14.07	14.16	14.24	14.60	14.80	15.38	15.75	15.58
Brazilian real	CAD/BRL	2.4723	2.4261	2.3797	2.3840	2.3725	2.4090	2.4420	2.5125	2.5500	2.5840

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