

FX FORECASTS

The Canadian Dollar is Rising Along with Oil Prices

HIGHLIGHTS

- ▶ The drop in oil prices penalized the Canadian dollar in April and the beginning of May. The currency was worth less than US\$0.73 (over C\$1.37/US\$). The recovery of crude oil prices in the past two weeks or so has lifted it back to US\$0.74 (about C\$1.35/US\$).
- ▶ The loonie was also hurt by fears of a surge in U.S. protectionism at the end of April. Those fears have calmed somewhat, and the Bank of Canada (BoC) did not mention them in its most recent monetary policy statement. Furthermore, the BoC seems to be taking a more optimistic tack. Its statement referred to the Canadian economy's good recent performance and the end of the adjustment period in the oil sector after the shock of 2014–2015.
- ▶ Like several other currencies, the Canadian dollar benefits from the weaker greenback. President Donald Trump's most recent difficulties have fed speculations about possible impeachment proceedings, and this has undermined the confidence of investors who are still hoping the promises of reforms and lower taxes will be kept. Expectations of monetary policy tightening were also revised downwards. Nevertheless, we have observed for about a week a reduction of investor fears and a comeback of tightening expectations.
- ▶ The euro is clearly profiting from the U.S. dollar's problems, and is now worth about US\$1.12. The euro's value also reflects a growing optimism about the European economy. The markets seem to be positioning themselves for a change of tone from the European Central Bank (ECB). The election of pro-euro Emmanuel Macron as President of France has boosted optimism after extreme-right and anti-euro parties captured headlines in Europe for several months.
- ▶ Elsewhere in the world, the Brazilian real has taken another tumble after new corruption scandals rocked the Brazilian political class. The exchange rate has risen to over 3.25 reals/US\$.

MAIN FACTORS TO WATCH

- ▶ In the short term, we should see the Canadian dollar follow the progress of oil prices and the U.S. dollar. The price of crude could rise a bit further, which would help the loonie. On the other hand, the Canadian dollar may suffer if the greenback becomes more valuable. Altogether, the loonie does not seem likely to make a sustainable return to US\$0.75 and over in the next few months. Later in the year, it might profit from higher expectations of monetary tightening in Canada.
- ▶ Continued monetary tightening in the United States should bolster the U.S. dollar in coming months. We believe the Federal Reserve will raise its key interest rates in June and then again in September. The markets are not really expecting the September raise, which leaves room for an adjustment that would favor the U.S. dollar. A strengthening of U.S. economic growth after a difficult start to the year should help. It is also possible that some of Donald Trump's promises will be realized, which the markets would welcome.
- ▶ The depreciation of European currencies could revive in the short term. The region still faces many challenges, including Brexit negotiations and the Greek debt. The markets also seem to overestimate the ECB's ability to reduce its interventions by the end of the year.

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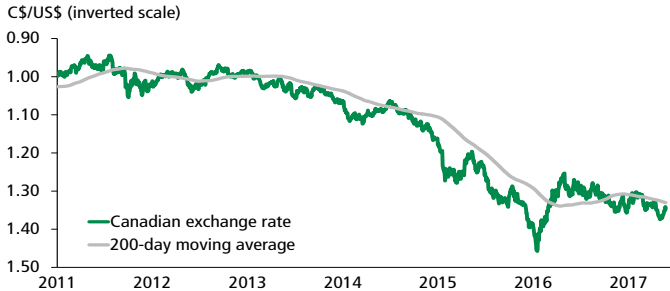
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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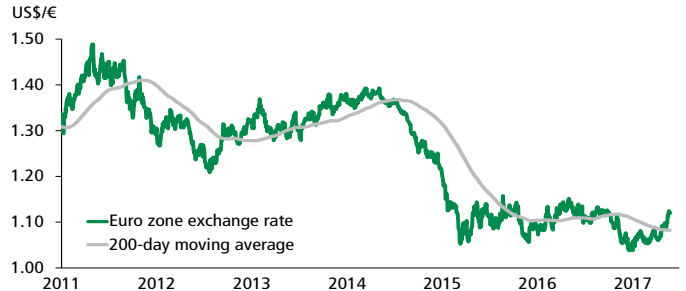
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



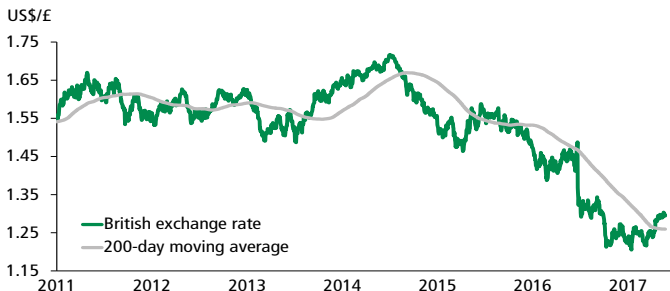
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



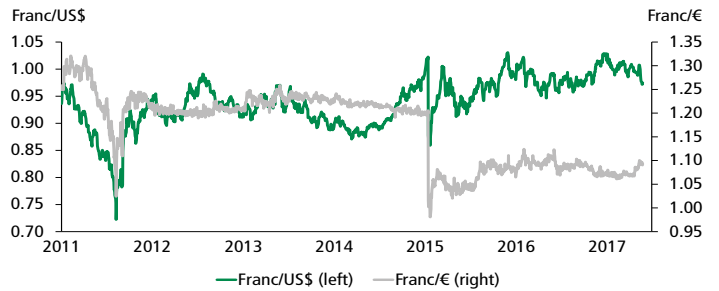
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



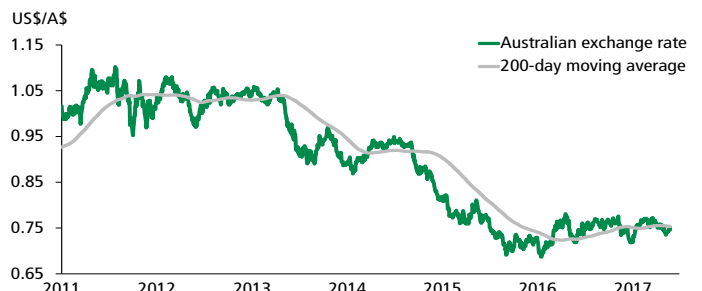
Sources: Datastream and Desjardins, Economic Studies

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		
	May 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	16.0899	4.23	4.26	3.71	13.75	16.1075	15.2438	13.7520
Brazil – real	3.2846	3.24	5.98	-3.90	-8.34	3.6155	3.2434	3.0614
Canada – (USD/CAD)	1.3440	-0.87	2.61	-0.54	3.53	1.3732	1.3226	1.2687
Canada – (CAD/USD)	0.7441	0.88	-2.54	0.55	-3.41	0.7882	0.7561	0.7283
Mexico – peso	18.4095	-3.19	-6.99	-10.88	-0.32	21.9550	19.4048	18.0057
Asia and South Pacific								
Australia – (AUD/USD)	0.7454	-0.27	-2.86	0.13	3.16	0.7762	0.7521	0.7177
China – yuan renminbi	6.8689	-0.35	0.00	-0.74	4.76	6.9610	6.7888	6.5541
Hong Kong – dollar	7.7914	0.14	0.39	0.45	0.32	7.7937	7.7619	7.7531
India – rupee	64.5550	0.66	-3.14	-5.78	-3.54	68.7835	66.7191	64.0450
Japan – yen	111.84	0.70	-0.32	-1.10	1.89	118.18	108.69	99.89
New Zeland – (NZD/USD)	0.7023	1.91	-2.51	-0.28	4.19	0.7451	0.7101	0.6695
South Korea – won	1,116	-0.77	-1.33	-5.18	-5.41	1,211	1,144	1,090
Europe								
Denmark – krona	6.6381	-2.71	-5.71	-5.48	-0.08	7.1569	6.8264	6.5270
Euro zone – (EUR/USD)	1.1213	3.09	6.09	5.74	0.25	1.1394	1.0903	1.0378
Norway – kroner	8.3985	-2.17	0.27	-2.10	1.45	8.7237	8.4017	7.9816
Russia – ruble	56.3350	-0.93	-3.67	-13.17	-14.32	67.5237	61.6508	55.9181
Sweden – krona	8.6867	-0.88	-3.90	-6.01	4.87	9.4090	8.7858	8.1105
Switzerland – swiss franc	0.9722	-2.26	-3.42	-4.05	-1.77	1.0312	0.9917	0.9567
United Kingdom – (GBP/USD)	1.2945	0.70	3.62	3.97	-11.81	1.4807	1.2837	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	1.3793	1.3514	1.3514	1.3333	1.3333	1.3158
Euro	EUR/USD	1.1238	1.0547	1.0696	1.1100	1.0700	1.0600	1.0600	1.0700	1.0800	1.1000
British pound	GBP/USD	1.2990	1.2357	1.2505	1.2900	1.2500	1.2400	1.2300	1.2300	1.2400	1.2500
Swiss franc	USD/CHF	0.9684	1.0160	1.0001	0.9800	1.0100	1.0100	1.0100	1.0000	1.0000	0.9900
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	0.7400	0.7300	0.7300	0.7300	0.7400	0.7400	0.7500
Chinese yuan	USD/CNY	6.6716	6.9450	6.8871	6.9000	6.9500	7.0000	7.0500	7.0500	7.1000	7.1000
Mexican peso	USD/MXN	19.38	20.73	18.72	18.80	19.50	19.50	20.00	19.50	19.75	20.00
Brazilian real	USD/BRL	3.2459	3.2588	3.1681	3.2500	3.4000	3.3000	3.3500	3.3500	3.4000	3.4000
Effective dollar ¹		90.01	95.76	94.01	92.60	95.60	96.00	96.10	95.50	95.20	94.10
Canadian dollar											
U.S. dollar	CAD/USD	0.7617	0.7445	0.7511	0.7450	0.7250	0.7400	0.7400	0.7500	0.7500	0.7600
Euro	EUR/CAD	1.4754	1.4168	1.4239	1.4899	1.4759	1.4324	1.4324	1.4267	1.4400	1.4474
British pound	GBP/CAD	1.7055	1.6598	1.6647	1.7315	1.7241	1.6757	1.6622	1.6400	1.6533	1.6447
Swiss franc	CAD/CHF	0.7376	0.7564	0.7512	0.7301	0.7323	0.7474	0.7474	0.7500	0.7500	0.7524
Yen	CAD/JPY	77.19	87.02	83.67	83.44	84.10	88.80	88.80	91.50	92.25	94.24
Australian dollar	AUD/CAD	1.0062	0.9693	1.0156	0.9933	1.0069	0.9865	0.9865	0.9867	0.9867	0.9868
Chinese yuan	CAD/CNY	5.0816	5.1703	5.1732	5.1405	5.0388	5.1800	5.2170	5.2875	5.3250	5.3960
Mexican peso	CAD/MXN	14.77	15.43	14.07	14.01	14.14	14.43	14.80	14.63	14.81	15.20
Brazilian real	CAD/BRL	2.4723	2.4261	2.3797	2.4213	2.4650	2.4420	2.4790	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