

FX FORECASTS

U.S. Dollar Hit by Expected Key Rate Drop

HIGHLIGHTS

- ▶ The U.S. dollar fell against several currencies in June due, in large part, to the anticipated key rate decrease in the United States. In recent years, the more restrictive U.S. monetary policy diverged from that of several other countries, thereby helping the greenback. Now the opposite is happening as a cycle of monetary easing is expected to begin soon in the United States.
- ▶ The trade tensions are also affecting the U.S. currency. The threat of an escalated trade war that would have dire consequences for the global economy contributed to the greenback's rise in past months. Recently, renewed hope of an agreement between China and the United States during the G20 summit, or a second truce that would delay new tariffs being imposed, helped depreciate the greenback. The geopolitical tensions between Iran and the United States also hurt the U.S. currency in recent weeks.
- ▶ Taking advantage of the weak U.S. dollar, the Canadian dollar is once again sitting at US\$0.76. There are fewer expectations of key interest rate cuts in Canada as inflation is hovering closer to its target and the labour market remains strong. In addition, there is still hope for the ratification of the Canada–United States–Mexico Agreement (CUSMA). This would seriously quell any uncertainty on the part of Canadian businesses. The higher volatility in oil prices noted recently has not been reflected significantly in the Canadian exchange rate movements.
- ▶ The euro is fluctuating above US\$1.13. Even though the European Central Bank (ECB) had raised its level of prudence, the common currency managed to appreciate against the U.S. dollar recently. This is likely the result of the euro zone's limited leeway in terms of monetary policy easing compared to the United States. It's important to remember that the rate applied on ECB deposits has been sitting in negative territory for the last five years.
- ▶ The uncertainty surrounding Brexit has curtailed the pound's rise, which is struggling to remain above US\$1.27. The yen's recent appreciation has also been limited, although the currency had appreciated in the last few months due to the increased demand for safe-haven currencies. At around 3% since the beginning of June, the increase in the Swiss franc was greater. It also moved higher against the euro to nearly 1.10 franc/€, its lowest exchange rate in almost two years. This shows a certain reaction on the part of the markets in response to the ECB's more dovish tone.

MAIN FACTORS TO WATCH

- ▶ Likely bouts of uncertainty would limit the chances that the greenback will continuously be losing ground in the coming months. There may be more disappointment in store in the trade negotiations between China and the United States, not to mention the possibility that the Trump administration may again threaten to hit Mexico with tariffs, and even Europe for that matter. In any case, the U.S. dollar may appreciate. However, changes in monetary policy should remain detrimental to the U.S. currency. We forecast key rates will first drop in July, then once again in September.
- ▶ The Canadian dollar could still appreciate slightly in the coming months. For now, we don't anticipate key rates to drop in Canada in 2019 or 2020. The Canadian dollar could see moments of weakness due to likely renewed bouts of uncertainty about the global economy and trade tensions.

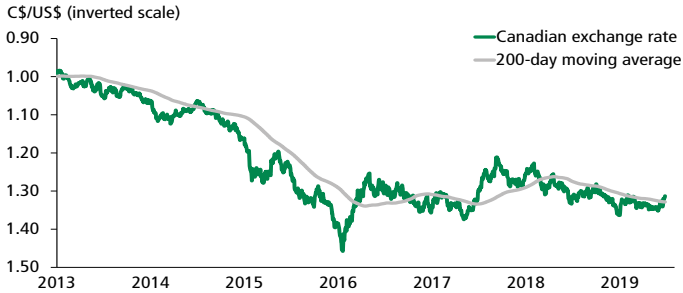
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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

IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2019, Desjardins Group. All rights reserved.

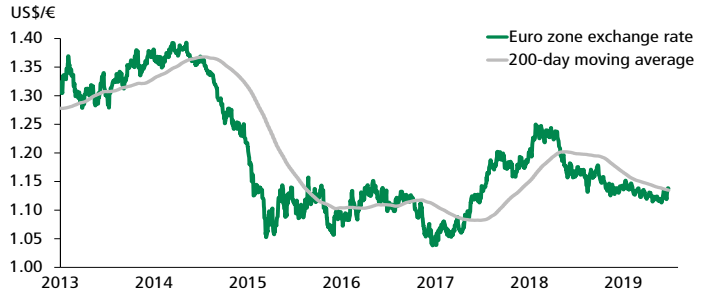
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



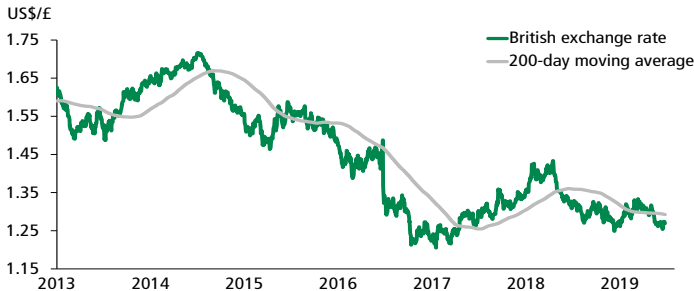
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



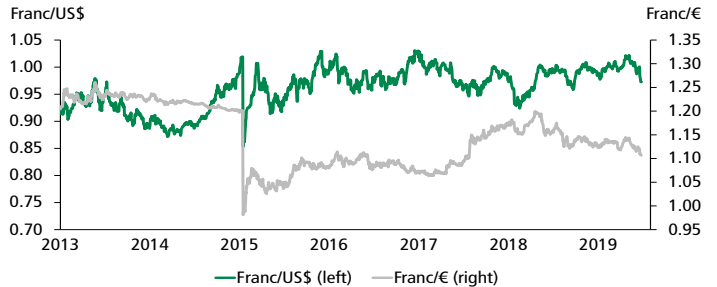
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



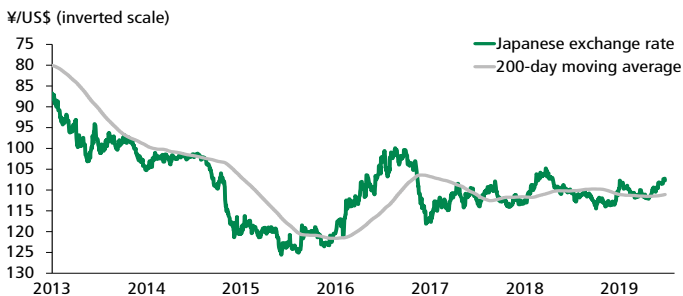
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



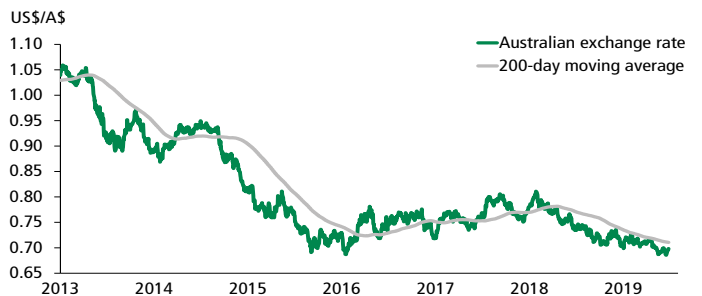
Sources: Datastream and Desjardins, Economic Studies

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		
	June 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	42.7156	-5.14	0.61	11.04	57.55	46.1751	37.7876	27.1125
Brazil – real	3.8464	-4.83	-0.79	-1.94	1.91	4.1838	3.8620	3.6428
Canada – (USD/CAD)	1.3141	-2.38	-1.87	-3.41	-1.28	1.3658	1.3241	1.2822
Canada – (CAD/USD)	0.7610	2.44	1.91	3.53	1.30	0.7799	0.7552	0.7322
Mexico – peso	19.1505	0.31	0.21	-3.61	-3.36	20.5537	19.2876	18.4363
Asia and South Pacific								
Australia – (AUD/USD)	0.6985	0.88	-2.10	-1.17	-5.53	0.7467	0.7155	0.6853
China – yuan renminbi	6.8801	-0.29	2.45	-0.08	4.57	6.9757	6.8204	6.5793
Hong Kong – dollar	7.8082	-0.52	-0.52	-0.26	-0.52	7.8501	7.8404	7.8036
India – rupee	69.2450	-0.19	0.36	-1.18	1.28	74.3400	70.5309	68.3500
Japan – yen	107.79	-1.39	-2.58	-3.21	-2.07	114.54	111.13	107.19
New Zealand – (NZD/USD)	0.6680	1.94	-3.29	-0.75	-2.65	0.6929	0.6706	0.6444
South Korea – won	1,157	-2.66	2.05	2.79	3.76	1,196	1,135	1,105
Europe								
Denmark – krona	6.5657	-1.48	-0.92	-0.17	2.63	6.7099	6.5407	6.3330
Euro zone – (EUR/USD)	1.1377	1.54	0.85	-0.27	-2.48	1.1789	1.1413	1.1127
Norway – kroner	8.4954	-2.20	-0.59	-3.10	4.52	8.7936	8.4752	8.0167
Russia – ruble	63.0006	-2.42	-2.13	-8.77	-0.31	70.3413	65.6578	61.8137
Sweden – krona	9.2622	-2.92	0.19	1.75	4.27	9.6642	9.1493	8.7233
Switzerland – swiss franc	0.9754	-2.66	-1.87	-1.43	-1.50	1.0221	0.9950	0.9579
United Kingdom – (GBP/USD)	1.2678	-0.11	-4.05	0.04	-4.20	1.3336	1.2949	1.2525

* 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	2018		2019				2020				
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.2906	1.3638	1.3346	1.3158	1.3072	1.3158	1.3072	1.2987	1.2987	1.3072
Euro	EUR/USD	1.1615	1.1431	1.1228	1.1300	1.1400	1.1400	1.1500	1.1600	1.1700	1.1700
British pound	GBP/USD	1.3041	1.2736	1.3031	1.2700	1.2800	1.3000	1.3200	1.3300	1.3400	1.3500
Swiss franc	USD/CHF	0.9768	0.9837	0.9961	0.9800	0.9700	0.9800	0.9800	0.9800	0.9800	0.9800
Yen	USD/JPY	113.70	109.58	110.86	108.00	109.00	110.00	111.00	112.00	111.00	110.00
Australian dollar	AUD/USD	0.7230	0.7052	0.7097	0.6900	0.6900	0.7000	0.7100	0.7100	0.7200	0.7200
Chinese yuan	USD/CNY	6.8689	6.8785	6.7121	6.9000	6.9500	6.9000	6.9000	6.9000	6.8500	6.8500
Mexican peso	USD/MXN	18.72	19.65	19.43	19.10	19.25	19.00	18.75	18.50	18.50	18.75
Brazilian real	USD/BRL	4.0036	3.8745	3.8964	3.8000	3.9000	3.8000	3.7000	3.6000	3.6000	3.7000
Effective dollar ¹		105.82	107.95	108.14	107.50	106.90	107.00	106.40	105.80	105.10	105.10
Canadian dollar											
U.S. dollar	CAD/USD	0.7748	0.7333	0.7493	0.7600	0.7650	0.7600	0.7650	0.7700	0.7700	0.7650
Euro	EUR/CAD	1.4990	1.5590	1.4986	1.4868	1.4902	1.5000	1.5033	1.5065	1.5195	1.5294
British pound	GBP/CAD	1.6830	1.7369	1.7391	1.6711	1.6732	1.7105	1.7255	1.7273	1.7403	1.7647
Swiss franc	CAD/CHF	0.7569	0.7213	0.7464	0.7448	0.7421	0.7448	0.7497	0.7546	0.7546	0.7497
Yen	CAD/JPY	88.09	80.35	83.06	82.08	83.39	83.60	84.92	86.24	85.47	84.15
Australian dollar	AUD/CAD	0.9332	0.9617	0.9471	0.9079	0.9020	0.9211	0.9281	0.9221	0.9351	0.9412
Chinese yuan	CAD/CNY	5.3222	5.0438	5.0293	5.2440	5.3168	5.2440	5.2785	5.3130	5.2745	5.2403
Mexican peso	CAD/MXN	14.50	14.41	14.56	14.52	14.73	14.44	14.34	14.25	14.25	14.34
Brazilian real	CAD/BRL	3.1021	2.8411	2.9195	2.8880	2.9835	2.8880	2.8305	2.7720	2.7720	2.8305

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