

FX FORECASTS

The U.S. Dollar Has Regained Strength

HIGHLIGHTS

- ▶ The U.S. dollar rose against several currencies this summer. This rise appears to have received a boost from, among other things, more encouraging economic data out of the United States. Although the Federal Reserve had announced a drop in interest rates in July, the fact that it proved less determined in repeating this move in the coming months also gave the greenback a leg up against many other currencies. Moreover, the return to greater volatility on the financial markets, together with the fears linked to the trade tensions, supported the U.S. dollar, which continues to serve as a safe haven for many investors.
- ▶ The yen and the Swiss franc are other currencies often valued in times of uncertainty and increased market volatility. They managed to outperform the U.S. dollar in July and early August. At its peak, the Japanese exchange rate neared ¥105/US\$, while the Swiss exchange rate dipped under 0.97 franc/US\$. More recently, the franc lost some ground against the greenback as pressure began to mount on the Swiss National Bank to counteract the excessive rise in the franc's value compared with the euro. The EUR/CHF pair is currently hovering under the psychological barrier of 1.10 francs.
- ▶ The Canadian dollar is not known for serving as a safe-haven currency. On the contrary, as happened lately, periods of extreme upheaval are generally marked by a drop in commodity prices and increased harm to the Canadian currency. In July, the Bank of Canada (BoC) did not indicate whether it would soon order a reduction in interest rates. However, it is concerned about the rise in some risks, like the trade tensions, and their impact on global trade and investment. Losing steam, the Canadian dollar is currently trading near US\$0.75.
- ▶ The chances of a difficult Brexit having increased with the arrival of Boris Johnson as Prime Minister, the value of the pound declined significantly. It is now worth about US\$1.22, its lowest level since January 2017. At US\$1.11, the euro has also been penalized by what is happening in the United Kingdom, but the expectations with respect to the imminent decisions by the European Central Bank are having an even greater impact. In this regard, we appear to be heading towards a new round of asset purchases and lower interest rates in September.
- ▶ China has caused its share of volatility on the currency market. In response to the United States' threat of new tariffs, the Chinese currency was devalued. The exchange rate is now fluctuating above the psychological barrier of 7.00 yuan/US\$. This has revived fears of a currency war that could add to the rise in trade tensions.

MAIN FACTORS TO WATCH

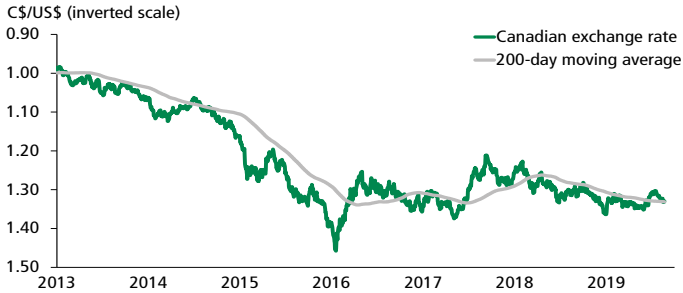
- ▶ The markets may have to stay on their toes in the short term. The G7 summit from August 24 to 26, among other things, could be the scene of new differences of opinion with the U.S. President. Nevertheless, a new lull may take hold in the coming months, all the more so because the measures announced by the central banks should bring some relief to the global economy. In this context, the U.S. dollar could lose some ground against several currencies by the end of the year.
- ▶ The Canadian dollar risks sitting near US\$0.75 in the short term. However, a further depreciation can't be discounted should uncertainty and the likelihood of the BoC intervening increase. That being said, a slight appreciation by the end of the year and in 2020 is well within the realm of the possible.

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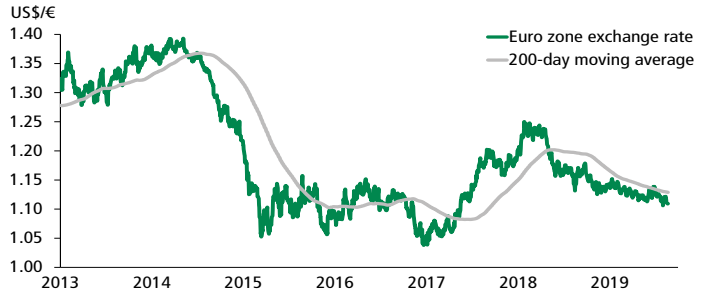
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



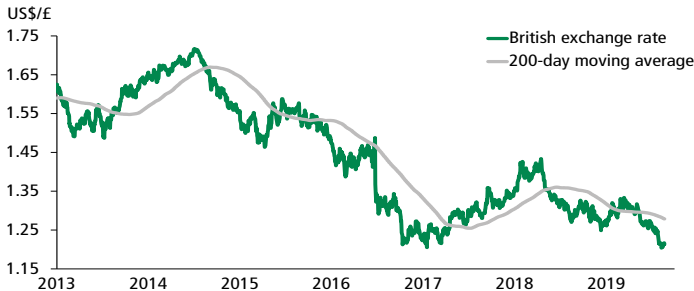
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



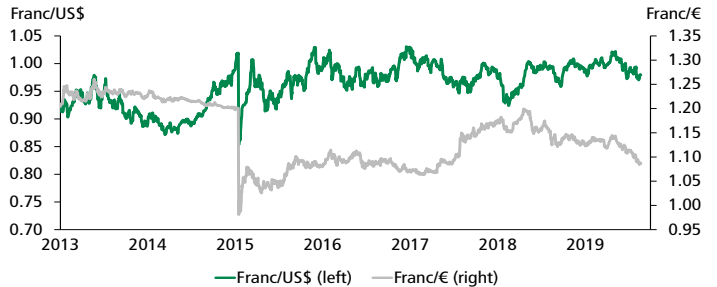
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



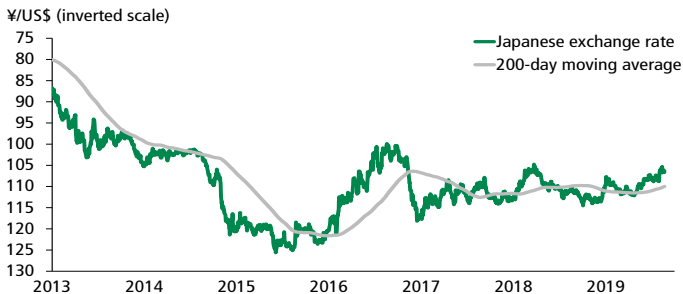
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



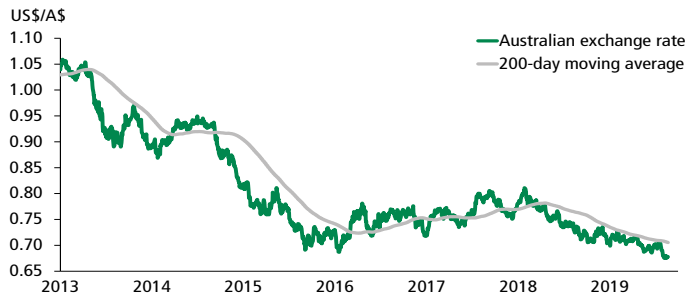
Sources: Datastream and Desjardins, Economic Studies

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		
	August 21	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	55.0050	29.77	23.05	38.22	83.63	58.5006	40.4900	29.9550
Brazil – real	4.0328	7.76	-0.76	7.23	1.03	4.1838	3.8667	3.6428
Canada – (USD/CAD)	1.3283	1.58	-0.96	0.76	1.80	1.3658	1.3248	1.2822
Canada – (CAD/USD)	0.7528	-1.55	0.97	-0.75	-1.77	0.7799	0.7548	0.7322
Mexico – peso	19.7231	3.73	3.74	2.50	4.54	20.5537	19.3229	18.6450
Asia and South Pacific								
Australia – (AUD/USD)	0.6781	-3.72	-1.49	-4.37	-8.00	0.7371	0.7083	0.6748
China – yuan renminbi	7.0632	2.63	2.33	5.11	3.15	7.0632	6.8478	6.6872
Hong Kong – dollar	7.8439	0.44	-0.07	-0.04	-0.07	7.8501	7.8366	7.7867
India – rupee	71.4395	3.75	2.58	0.39	2.26	74.3400	70.6421	68.4100
Japan – yen	106.63	-1.01	-3.51	-3.69	-3.34	114.54	110.56	105.31
New Zealand – (NZD/USD)	0.6404	-5.32	-1.61	-5.84	-4.30	0.6929	0.6683	0.6404
South Korea – won	1,202	2.38	0.70	6.87	7.48	1,222	1,145	1,105
Europe								
Denmark – krona	6.7256	1.11	0.49	2.17	4.32	6.7420	6.5785	6.3330
Euro zone – (EUR/USD)	1.1093	-1.15	-0.79	-2.24	-3.69	1.1789	1.1349	1.1058
Norway – kroner	8.9457	4.36	2.12	3.71	6.44	9.0204	8.5561	8.1111
Russia – ruble	65.9038	4.63	2.28	0.71	-2.24	70.3413	65.7130	62.6762
Sweden – krona	9.6245	2.57	-0.27	2.68	5.83	9.6879	9.2377	8.7734
Switzerland – swiss franc	0.9810	-0.13	-2.82	-1.87	-0.78	1.0221	0.9933	0.9579
United Kingdom – (GBP/USD)	1.2131	-2.99	-5.11	-7.16	-5.71	1.3336	1.2841	1.2070

* 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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.2906	1.3638	1.3346	1.3092	1.3333	1.3245	1.3158	1.3072	1.3072	1.2987
Euro	EUR/USD	1.1615	1.1431	1.1228	1.1388	1.1100	1.1200	1.1200	1.1300	1.1300	1.1400
British pound	GBP/USD	1.3041	1.2736	1.3031	1.2727	1.2200	1.2300	1.2400	1.2600	1.2700	1.2800
Swiss franc	USD/CHF	0.9768	0.9837	0.9961	0.9751	0.9700	0.9800	0.9800	0.9800	0.9900	0.9800
Yen	USD/JPY	113.70	109.58	110.86	107.90	105.00	106.00	107.00	109.00	110.00	110.00
Australian dollar	AUD/USD	0.7230	0.7052	0.7097	0.7021	0.6800	0.6900	0.6900	0.7000	0.7000	0.7100
Chinese yuan	USD/CNY	6.8689	6.8785	6.7121	6.8668	7.0500	7.0500	7.0000	6.9500	6.9000	6.8500
Mexican peso	USD/MXN	18.72	19.65	19.43	19.22	19.75	19.50	19.25	19.25	19.00	18.75
Brazilian real	USD/BRL	4.0036	3.8745	3.8964	3.8319	4.1000	4.0000	3.9000	3.9000	3.8000	3.7000
Effective dollar ¹		107.71	109.88	110.07	108.74	110.50	110.10	109.80	109.20	109.20	108.50
Canadian dollar											
U.S. dollar	CAD/USD	0.7748	0.7333	0.7493	0.7638	0.7500	0.7550	0.7600	0.7650	0.7650	0.7700
Euro	EUR/CAD	1.4990	1.5590	1.4986	1.4909	1.4800	1.4834	1.4737	1.4771	1.4771	1.4805
British pound	GBP/CAD	1.6830	1.7369	1.7391	1.6662	1.6267	1.6291	1.6316	1.6471	1.6601	1.6623
Swiss franc	CAD/CHF	0.7569	0.7213	0.7464	0.7448	0.7275	0.7399	0.7448	0.7497	0.7574	0.7546
Yen	CAD/JPY	88.09	80.35	83.06	82.41	78.75	80.03	81.32	83.39	84.15	84.70
Australian dollar	AUD/CAD	0.9332	0.9617	0.9471	0.9191	0.9067	0.9139	0.9079	0.9150	0.9150	0.9221
Chinese yuan	CAD/CNY	5.3222	5.0438	5.0293	5.2450	5.2875	5.3228	5.3200	5.3168	5.2785	5.2745
Mexican peso	CAD/MXN	14.50	14.41	14.56	14.68	14.81	14.72	14.63	14.73	14.54	14.44
Brazilian real	CAD/BRL	3.1021	2.8411	2.9195	2.9269	3.0750	3.0200	2.9640	2.9835	2.9070	2.8490

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