

FX FORECASTS

The U.S. Dollar Should End the Year on the Rise against a Backdrop of Continuing Concern over the Global Economy

HIGHLIGHTS

- ▶ The U.S. dollar edged down in September following more encouraging signals about the trade negotiations between China and the United States. The greenback then stabilized, although the concern looming over the global economy remains high. There is no guarantee that trade tariffs will stop escalating before the end of the year, much less that existing tariffs will be eliminated. Moreover, several countries are now threatened by recession. In this context, demand for safe haven securities remains strong, which plays in the greenback's favour.
- ▶ The Canadian dollar rose to around US\$0.76 at the start of September but was unable to hang onto its gains. However, it could be worth more now, given its historical relationship with the spread in interest rates between Canada and the United States. Its relationship with commodity prices also suggests that it could appreciate. It thus seems that the global economic uncertainty is having a major downside impact on the loonie. Of course, Canada's economy remains vulnerable to contagion from the problems in global trade. There is also a risk that business investment will remain weak for some time. The Bank of Canada (BoC) says that it is monitoring these risks and has not ruled out a cut to its key interest rates if needed.
- ▶ The euro depreciated sharply in August and has largely remained near of US\$1.10 in recent weeks. The European Central Bank's decision to cut the rate on its deposit facility to -0.50% and relaunch asset buying to the tune of a monthly €20B did not have much impact on the common currency. These measures had been expected.
- ▶ The pound sterling has climbed to around US\$1.25 and posted a better performance than most other currencies in September. This is mainly because there is less risk of a no-deal Brexit.
- ▶ The main factor of note for emerging economies is that the Chinese exchange rate fell to around 7.10 yuan/US\$ after hitting a more than ten-year peak in early September. The yuan's appreciation is consistent with the easing of tensions between China and the United States.

MAIN FACTORS TO WATCH

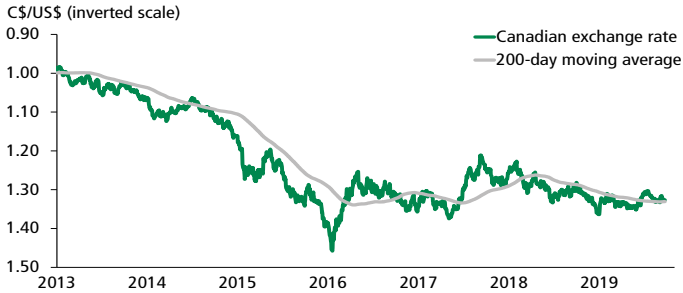
- ▶ Developments in the negotiations between China and the United States should have a major influence on the currencies in the coming months. Our base scenario calls for concern to remain high, with the likely implementation of further trade tariffs. The economic difficulties in many countries should also continue to fuel concern. This suggests that the U.S. dollar will appreciate slightly against several currencies by year's end. The greenback should therefore stay on the uptrend seen in past months. The trend seems more likely to turn around next year, when the positive impacts of monetary easing measures will be more apparent.
- ▶ In this context, the Canadian dollar should weaken slightly in the near term and could then appreciate in 2020. However, we cannot rule out steeper depreciation by the end of this year as a result of increased risks to the Canadian economy and a stronger likelihood of BoC intervention. For now, our forecast for the Canadian dollar is based on a continuation of the status quo regarding Canadian monetary policy, with the Federal Reserve being expected to announce another key interest rate cut in the near future.

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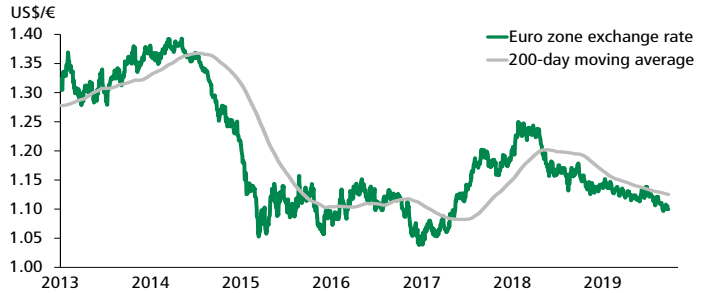
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



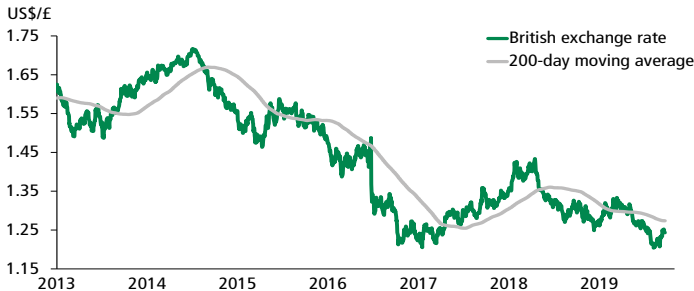
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



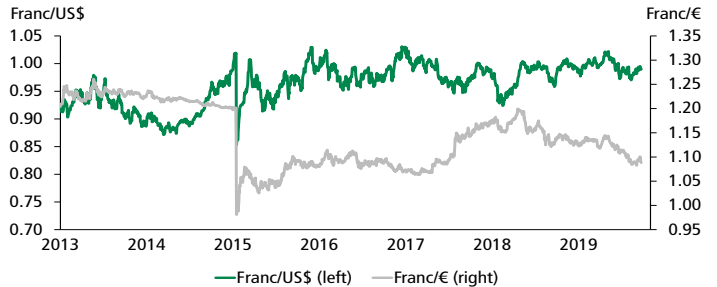
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



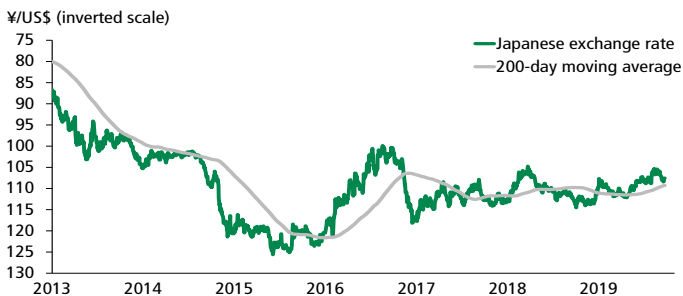
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



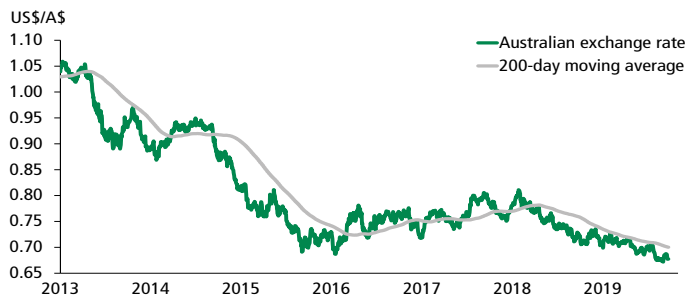
Sources: Datastream and Desjardins, Economic Studies

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		
	Sep. 24	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	56.9620	2.96	33.51	35.62	52.47	59.1180	42.3490	35.5125
Brazil – real	4.1723	2.71	9.18	7.17	2.83	4.1782	3.8663	3.6428
Canada – (USD/CAD)	1.3262	-0.17	0.42	-1.07	2.56	1.3658	1.3268	1.2822
Canada – (CAD/USD)	0.7541	0.17	-0.42	1.08	-2.50	0.7799	0.7537	0.7322
Mexico – peso	19.4420	-1.79	1.25	1.47	3.16	20.5537	19.3830	18.6655
Asia and South Pacific								
Australia – (AUD/USD)	0.6802	0.67	-2.30	-3.98	-6.22	0.7358	0.7042	0.6716
China – yuan renminbi	7.1164	0.29	3.48	5.93	3.78	7.1789	6.8733	6.6872
Hong Kong – dollar	7.8402	-0.04	0.38	-0.09	0.35	7.8501	7.8358	7.7867
India – rupee	70.9706	-0.76	2.45	2.60	-2.34	74.3400	70.6559	68.4100
Japan – yen	107.07	1.57	-0.21	-2.60	-5.09	114.54	110.15	105.31
New Zealand – (NZD/USD)	0.6324	-1.25	-4.46	-8.04	-4.85	0.6929	0.6658	0.6259
South Korea – won	1,196	-1.23	3.39	5.80	7.22	1,222	1,152	1,105
Europe								
Denmark – krona	6.7748	1.24	3.43	2.59	6.70	6.7967	6.6107	6.3392
Euro zone – (EUR/USD)	1.0997	-1.00	-3.45	-2.53	-6.72	1.1789	1.1294	1.0963
Norway – kroner	9.0067	0.54	6.21	5.27	10.62	9.1189	8.6199	8.1111
Russia – ruble	63.8569	-2.73	1.56	-1.35	-2.99	69.5800	65.4646	62.6762
Sweden – krona	9.6663	0.62	4.17	4.19	9.85	9.8289	9.2984	8.7992
Switzerland – swiss franc	0.9881	0.71	1.66	-0.58	2.92	1.0221	0.9948	0.9601
United Kingdom – (GBP/USD)	1.2477	1.65	-1.95	-5.62	-5.05	1.3336	1.2779	1.2063

* 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	1.3245	1.3333	1.3333	1.3158	1.2987	1.3158
Euro	EUR/USD	1.1615	1.1431	1.1228	1.1388	1.1000	1.0900	1.0800	1.0900	1.1000	1.0900
British pound	GBP/USD	1.3041	1.2736	1.3031	1.2727	1.2500	1.2400	1.2300	1.2400	1.2600	1.2500
Swiss franc	USD/CHF	0.9768	0.9837	0.9961	0.9751	0.9900	0.9900	1.0000	1.0000	0.9900	0.9900
Yen	USD/JPY	113.70	109.58	110.86	107.90	107.00	106.00	105.00	106.00	107.00	106.00
Australian dollar	AUD/USD	0.7230	0.7052	0.7097	0.7021	0.6900	0.6800	0.6700	0.6800	0.6900	0.6800
Chinese yuan	USD/CNY	6.8689	6.8785	6.7121	6.8668	7.2000	7.2500	7.3000	7.2500	7.2000	7.2000
Mexican peso	USD/MXN	18.72	19.65	19.43	19.22	19.75	20.00	20.25	19.75	19.50	19.75
Brazilian real	USD/BRL	4.0036	3.8745	3.8964	3.8319	4.0000	4.1000	4.3000	4.1000	4.0000	4.1000
Effective dollar ¹		107.71	109.88	110.07	108.74	110.60	111.30	111.80	111.00	110.00	110.80
Canadian dollar											
U.S. dollar	CAD/USD	0.7748	0.7333	0.7493	0.7638	0.7550	0.7500	0.7500	0.7600	0.7700	0.7600
Euro	EUR/CAD	1.4990	1.5590	1.4986	1.4909	1.4570	1.4533	1.4400	1.4342	1.4286	1.4342
British pound	GBP/CAD	1.6830	1.7369	1.7391	1.6662	1.6556	1.6533	1.6400	1.6316	1.6364	1.6447
Swiss franc	CAD/CHF	0.7569	0.7213	0.7464	0.7448	0.7475	0.7425	0.7500	0.7600	0.7623	0.7524
Yen	CAD/JPY	88.09	80.35	83.06	82.41	80.79	79.50	78.75	80.56	82.39	80.56
Australian dollar	AUD/CAD	0.9332	0.9617	0.9471	0.9191	0.9139	0.9067	0.8933	0.8947	0.8961	0.8947
Chinese yuan	CAD/CNY	5.3222	5.0438	5.0293	5.2450	5.4360	5.4375	5.4750	5.5100	5.5440	5.4720
Mexican peso	CAD/MXN	14.50	14.41	14.56	14.68	14.91	15.00	15.19	15.01	15.02	15.01
Brazilian real	CAD/BRL	3.1021	2.8411	2.9195	2.9269	3.0200	3.0750	3.2250	3.1160	3.0800	3.1160

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