

FX FORECASTS

Will the Canadian Dollar Continue to Appreciate?

HIGHLIGHTS

- ▶ The Canadian dollar has been performing better for the last few weeks and is back near the \$0.77 mark. Its rise coincides with renewed optimism on the financial markets, particularly with regard to trade negotiations between China and the United States. Another point in its favour is the difference between monetary policy expectations in the United States and Canada. While the Federal Reserve (Fed) will likely order its third consecutive interest rate cut, the Bank of Canada (BoC) is expected to maintain the status quo. Although a few recent figures have been weaker in Canada, the sustained growth of employment in the last few months is somewhat reassuring, as is the healthier performance of the housing market.
- ▶ It hasn't just been the Canadian dollar that's appreciated against the greenback in the last few weeks. Naturally, safe haven currencies, such as the U.S. dollar and the yen have had a harder time. Moreover, in comparison with other major economies, the potential for monetary easing seems greater in the United States whereas it was the Fed that had increased its key rates the most in previous years. The possibility of a truce in tariff increases, and even a reduction of some tariffs, may also put downward pressure on the greenback in anticipation of a less favourable U.S. trade balance.
- ▶ The pound stood out with a much sharper appreciation than the other major currencies. Boosted by the negotiation of a new Brexit agreement, the pound rose to US\$1.30 over the third week of October. However, the British Parliament was unable to vote on the agreement, which erased some of the pound's gains last week. Further delays and likely drama are now back in the cards for Brexit.
- ▶ The euro also benefitted from the new Brexit agreement, climbing to over US\$1.11. It's now trading at just under that mark as it is still being helped by the renewed optimism on the markets overall. After opting for even lower negative rates in September, the European Central Bank hasn't hinted that it will order further easing measures in the coming months. Relatively speaking, this helps the euro, particularly against the U.S. dollar.

MAIN FACTORS TO WATCH

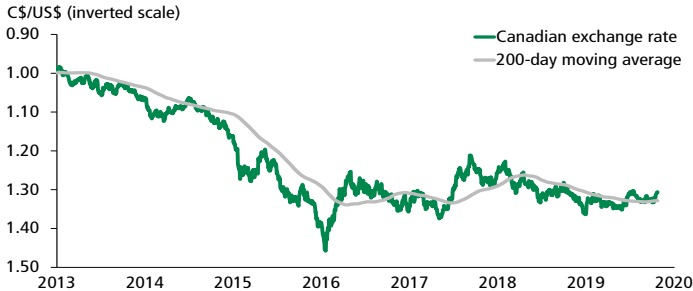
- ▶ A number of recent currency movements could quickly be reversed if concerns resurface, particularly relating to trade tensions between China and the United States. It seems best to tread cautiously when it comes to this issue. In the past year, despite periods of lull, tariffs have continued to escalate. Moreover, a new front has also opened between the United States and the European Union. Against this backdrop, a rebound of the U.S. dollar appears likely by the end of the year, boosted by its role as a safe haven. The Fed's anticipated continued monetary tightening would not be enough to counter this.
- ▶ In this context, the Canadian dollar's recent rise appears to be fragile. We are still calling for it to drop back down around US\$0.75 by the end of the year. That would be similar to the level seen in August and September, when widespread concern had grown on the markets. This forecast does not assume that the BoC will reduce its key rates, although the markets could start to count on that again.

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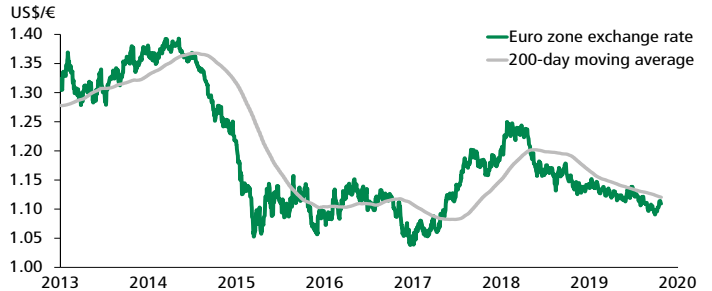
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



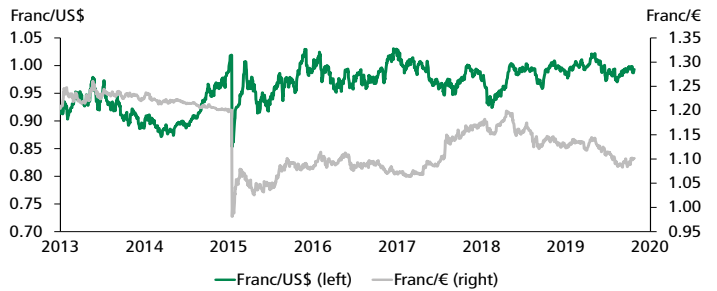
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



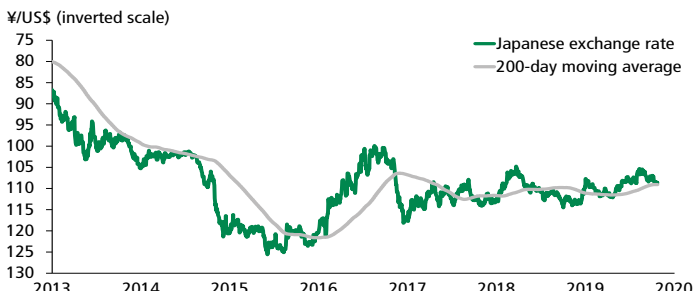
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



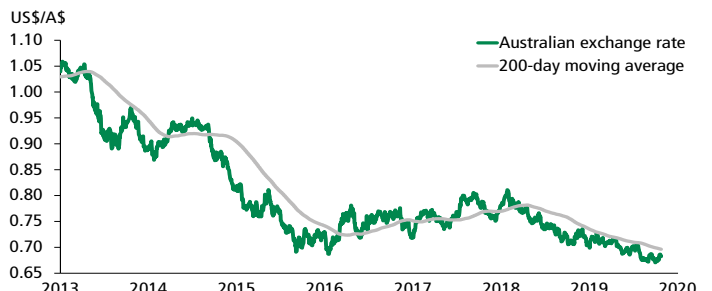
Sources: Datastream and Desjardins, Economic Studies

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		
	Oct. 25	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	59.9853	5.20	39.06	29.91	63.03	59.9853	44.1460	35.5125
Brazil – real	4.0191	-3.81	6.24	1.61	8.70	4.1785	3.8905	3.6428
Canada – (USD/CAD)	1.3065	-1.59	-0.52	-3.17	-0.20	1.3658	1.3289	1.3032
Canada – (CAD/USD)	0.7654	1.62	0.52	3.28	0.20	0.7674	0.7525	0.7322
Mexico – peso	19.0980	-2.29	0.32	0.13	-1.72	20.5537	19.4218	18.7725
Asia and South Pacific								
Australia – (AUD/USD)	0.6823	1.07	-1.87	-2.74	-3.64	0.7358	0.7010	0.6704
China – yuan renminbi	7.0654	-0.93	2.81	4.78	1.68	7.1789	6.8914	6.6872
Hong Kong – dollar	7.8375	-0.02	0.27	-0.08	-0.04	7.8501	7.8367	7.7867
India – rupee	70.8200	-0.24	2.58	0.93	-3.29	73.9600	70.4459	68.4100
Japan – yen	108.66	0.82	0.02	-2.66	-3.34	114.07	109.72	105.31
New Zealand – (NZD/USD)	0.6349	1.21	-4.72	-4.17	-2.70	0.6929	0.6636	0.6246
South Korea – won	1,173	-2.16	-0.72	1.07	3.08	1,222	1,158	1,105
Europe								
Denmark – krona	6.7421	-1.17	0.66	0.52	2.78	6.8498	6.6388	6.4686
Euro zone – (EUR/USD)	1.1091	1.21	-0.60	-0.48	-2.54	1.1521	1.1247	1.0902
Norway – kroner	9.1952	1.52	6.00	6.05	10.21	9.1952	8.7006	8.3432
Russia – ruble	63.7550	-0.91	1.10	-1.46	-2.89	69.5800	65.3386	62.6762
Sweden – krona	9.6839	-0.74	2.46	1.51	6.26	9.9588	9.3692	8.8539
Switzerland – swiss franc	0.9935	0.44	0.36	-2.64	-0.80	1.0221	0.9954	0.9700
United Kingdom – (GBP/USD)	1.2836	3.69	2.72	-0.55	0.17	1.3336	1.2732	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	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.2906	1.3638	1.3346	1.3092	1.3241	1.3333	1.3333	1.3158	1.2987	1.3158
Euro	EUR/USD	1.1615	1.1431	1.1228	1.1388	1.0902	1.0900	1.0800	1.0900	1.1000	1.0900
British pound	GBP/USD	1.3041	1.2736	1.3031	1.2727	1.2323	1.2600	1.2400	1.2500	1.2700	1.2500
Swiss franc	USD/CHF	0.9768	0.9837	0.9961	0.9751	0.9974	0.9900	1.0000	1.0000	0.9900	0.9900
Yen	USD/JPY	113.70	109.58	110.86	107.90	108.08	106.00	105.00	106.00	107.00	106.00
Australian dollar	AUD/USD	0.7230	0.7052	0.7097	0.7021	0.6748	0.6700	0.6700	0.6800	0.6900	0.6800
Chinese yuan	USD/CNY	6.8689	6.8785	6.7121	6.8668	7.1484	7.2000	7.2500	7.2000	7.1000	7.2000
Mexican peso	USD/MXN	18.72	19.65	19.43	19.22	19.73	19.75	20.00	19.50	19.00	19.50
Brazilian real	USD/BRL	4.0036	3.8745	3.8964	3.8319	4.1641	4.2000	4.3000	4.1000	4.0000	4.1000
Effective dollar ¹		107.71	109.88	110.07	108.74	111.63	111.20	111.80	110.90	110.00	110.90
Canadian dollar											
U.S. dollar	CAD/USD	0.7748	0.7333	0.7493	0.7638	0.7552	0.7500	0.7500	0.7600	0.7700	0.7600
Euro	EUR/CAD	1.4990	1.5590	1.4986	1.4909	1.4435	1.4533	1.4400	1.4342	1.4286	1.4342
British pound	GBP/CAD	1.6830	1.7369	1.7391	1.6662	1.6317	1.6800	1.6533	1.6447	1.6494	1.6447
Swiss franc	CAD/CHF	0.7569	0.7213	0.7464	0.7448	0.7533	0.7425	0.7500	0.7600	0.7623	0.7524
Yen	CAD/JPY	88.09	80.35	83.06	82.41	81.63	79.50	78.75	80.56	82.39	80.56
Australian dollar	AUD/CAD	0.9332	0.9617	0.9471	0.9191	0.8935	0.8933	0.8933	0.8947	0.8961	0.8947
Chinese yuan	CAD/CNY	5.3222	5.0438	5.0293	5.2450	5.3986	5.4000	5.4375	5.4720	5.4670	5.4720
Mexican peso	CAD/MXN	14.50	14.41	14.56	14.68	14.90	14.81	15.00	14.82	14.63	14.82
Brazilian real	CAD/BRL	3.1021	2.8411	2.9195	2.9269	3.1449	3.1500	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