

## FX FORECASTS

# The Canadian Dollar Slides Back Down to Around US\$0.75

### HIGHLIGHTS

- ▶ The Canadian dollar had done well in October, especially in the second half. The situation shifted after the last Bank of Canada monetary policy meeting, however. Despite a message that had changed little from earlier meetings, the markets have been foreseeing a greater possibility of a key rate cut. This possibility had likely been understated in previous weeks. The unfavourable change in interest rate spreads with the United States quickly brought the loonie back down to around US\$0.76. The decline then continued due to renewed fears tied to trade tensions between the United States and China. The likelihood of these two economic giants reaching a major agreement appears to be lower than a few weeks ago. The Canadian exchange rate is back to close to US\$0.75 (C\$1.33/US\$).
- ▶ The resurgence of trade fears in November did not, however, result in a marked and widespread rebound in the U.S. currency. The DXY effective U.S. dollar exchange rate index remains below the levels reached at the end of the summer. The fact that the Fed is not signalling further rate cuts in the coming months does not appear to be helping the greenback either. Nonetheless, the door to other interventions is not completely shut. A deterioration in the economic outlook could be a trigger.
- ▶ The euro has managed to stay above US\$1.10. There is less of a chance that the European Central Bank (ECB) will significantly reduce its key rates over the next few months, which may help the common currency. This would not, however, be the result of higher economic performance in the euro zone, but rather much narrower leeway for the ECB. Some economic data were better than expected recently in the euro zone, but we still have a long way to go. Although Germany narrowly avoided slipping into a recession in the third quarter, the outlook is still negative for many countries in the region, as suggested by PMI indices, among others.
- ▶ The pound sterling saw a sharp increase in October, as a no-deal Brexit was averted. An election is now scheduled for December 12 in the United Kingdom. Many scenarios could emerge from this election, but the markets appear to be ruling out any extreme ones for the time being, which is helping the pound hang on to its gains. The fact remains that the currency is facing other headwinds that have brought it closer to US\$1.28. Economic data are still mixed, and the Bank of England seems more open to easing its monetary policy in early 2020.

### MAIN FACTORS TO WATCH

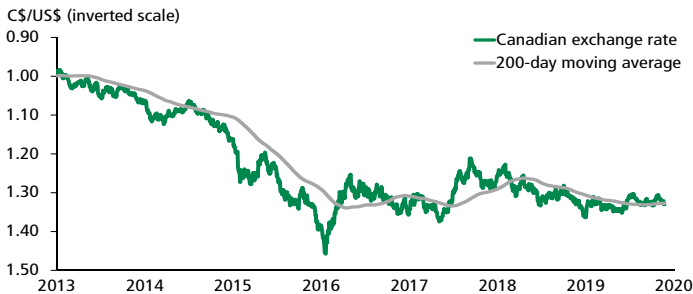
- ▶ Concerns could still rise in the coming weeks due to the apparent difficulties that China and the United States are having in reaching an agreement. In the event of a deadlock, new tariffs will likely be imposed on many other Chinese goods imported into the United States, with China probably taking retaliatory measures. Given this context, the U.S. dollar could make more significant gains, buoyed by increased demand for safe-haven.
- ▶ The Canadian dollar should end the year at US\$0.75. This forecast is based on continued international concerns in the short term, which should also feed expectations of an interest rate cut in Canada. There may also be disappointments with Canadian economic figures in the short term. The loonie might stay weak into the first quarter of next year. A slight rebound is then anticipated alongside some renewed optimism and an improvement in economic data.

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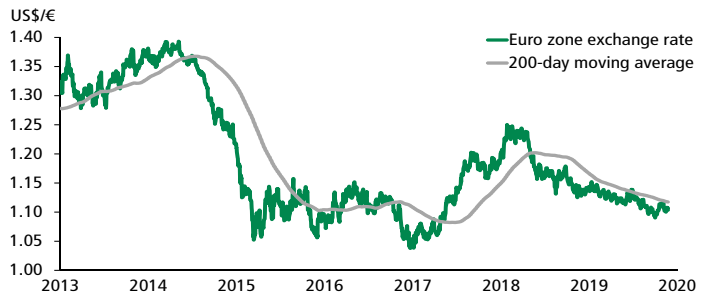
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



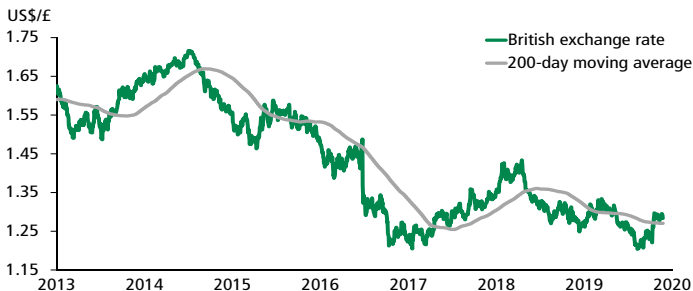
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



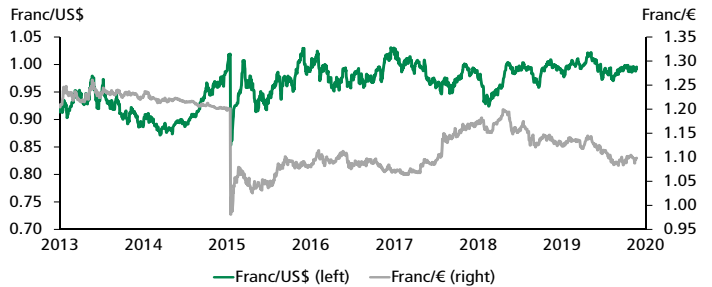
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



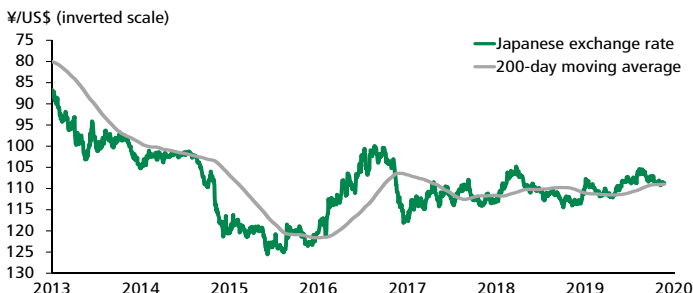
Sources: Datastream and Desjardins, Economic Studies

## 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		
	Nov. 22	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	59.8000	1.92	8.55	33.99	64.47	59.9853	45.9460	36.3600
Brazil – real	4.1825	2.44	3.27	4.09	9.68	4.2141	3.9185	3.6428
Canada – (USD/CAD)	1.3289	1.51	-0.10	-0.89	0.56	1.3658	1.3292	1.3032
Canada – (CAD/USD)	0.7525	-1.49	0.10	0.90	-0.56	0.7674	0.7523	0.7322
Mexico – peso	19.3905	1.56	-1.77	2.21	-4.39	20.5537	19.3560	18.7725
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6787	-1.02	0.44	-1.39	-6.45	0.7358	0.6983	0.6704
China – yuan renminbi	7.0400	-0.52	-0.62	1.93	1.56	7.1789	6.8979	6.6872
Hong Kong – dollar	7.8253	-0.22	-0.19	-0.31	-0.07	7.8501	7.8364	7.7867
India – rupee	71.7920	1.39	-0.19	3.08	1.56	72.5200	70.3486	68.4100
Japan – yen	108.66	0.16	2.09	-1.54	-3.80	113.78	109.39	105.31
New Zealand – (NZD/USD)	0.6409	0.05	0.70	-1.32	-5.94	0.6929	0.6612	0.6246
South Korea – won	1,179	0.77	-2.36	-1.18	4.41	1,222	1,160	1,105
<b>Europe</b>								
Denmark – krona	6.7806	0.97	0.76	1.25	3.62	6.8498	6.6529	6.4686
Euro zone – (EUR/USD)	1.1034	-0.88	-0.42	-1.08	-3.27	1.1521	1.1224	1.0902
Norway – kroner	9.1624	0.16	2.04	4.62	7.38	9.2276	8.7558	8.4258
Russia – ruble	63.8025	0.28	-2.94	-0.79	-2.69	69.5800	65.1526	62.6762
Sweden – krona	9.6276	-0.24	-0.52	-0.04	6.49	9.9588	9.4134	8.8539
Switzerland – swiss franc	0.9958	0.72	1.20	-1.33	0.12	1.0221	0.9946	0.9700
United Kingdom – (GBP/USD)	1.2831	-0.59	4.72	1.35	-0.35	1.3336	1.2730	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	
<b>U.S. dollar</b>											
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	1.0900	1.1000	1.1100	1.0900
British pound	GBP/USD	1.3041	1.2736	1.3031	1.2727	1.2323	1.2700	1.2600	1.2700	1.2800	1.2600
Swiss franc	USD/CHF	0.9768	0.9837	0.9961	0.9751	0.9974	1.0000	0.9900	1.0000	0.9900	1.0000
Yen	USD/JPY	113.70	109.58	110.86	107.90	108.08	107.00	106.00	108.00	108.00	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	7.1500	7.2500	7.2000	7.1000	7.2000
Mexican peso	USD/MXN	18.72	19.65	19.43	19.22	19.73	19.50	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 <sup>1</sup>		107.71	109.88	110.07	108.74	111.63	111.70	111.70	111.00	110.00	111.20
<b>Canadian dollar</b>											
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	1.4533	1.4474	1.4416	1.4342
British pound	GBP/CAD	1.6830	1.7369	1.7391	1.6662	1.6317	1.6933	1.6800	1.6711	1.6623	1.6579
Swiss franc	CAD/CHF	0.7569	0.7213	0.7464	0.7448	0.7533	0.7500	0.7425	0.7600	0.7623	0.7600
Yen	CAD/JPY	88.09	80.35	83.06	82.41	81.63	80.25	79.50	82.08	83.16	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	5.3625	5.4375	5.4720	5.4670	5.4720
Mexican peso	CAD/MXN	14.50	14.41	14.56	14.68	14.90	14.63	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; <sup>1</sup> Trade-weighted against major U.S. partners (1973 = 100).  
 Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies