

FX FORECASTS

Easing of Trade Tensions Has a Positive Impact on the Canadian Dollar

HIGHLIGHTS

- ▶ A number of currencies gained ground against the U.S. dollar at the end of the year. The announcement of a partial agreement between China and the United States marked a truce in the escalation of trade tariffs and reduced the likelihood of a deterioration in the global economy in the short term. Demand for safe-haven declined and the U.S. dollar had been abandoned by investors that were more willing to take risks.
- ▶ Nevertheless, the U.S. dollar has bounced back since the beginning of 2020. Geopolitical tensions with Iran have been at the forefront, making investors temporarily more cautious. A number of other risks also remain in place, dampening optimism.
- ▶ The loonie is now around US\$0.765 after temporarily rising above US\$0.770. The easing of trade tensions is a very positive factor for a small, open economy like Canada's. Progress on the final ratification of the new free trade agreement with the United States and Mexico is also encouraging for Canadian businesses, which may then find themselves in a more predictable business environment.
- ▶ The recent fluctuations in oil prices have not had much effect on Canadian exchange rates. As for interest rates, the Governor of the Bank of Canada (BoC), Stephen Poloz, expressed continued concern about some aspects of the economy in a recent speech. Therefore, the door still seems to be open to a potential reduction in key rates in Canada, but there would likely need to be a much more pronounced deterioration in the Canadian economy for that to happen.
- ▶ The euro and the pound have experienced more difficulties since the beginning of the year. The euro returned to US\$1.11 after temporarily reaching US\$1.12, while the pound is back to US\$1.30 after rising above US\$1.32 a few times in December. The European economic situation still seems very uncertain. Following the 2019 slowdown, it is still not clear that a sustainable rebound could take place in the coming months. Some progress has been made on the Brexit issue, but a future agreement between the United Kingdom and the rest of Europe still has to be negotiated, which may not be an easy matter.
- ▶ Among emerging currencies, the Chinese yuan has now settled comfortably below 7.00 yuan/US\$, reflecting the easing of tensions between China and the United States. December's partial agreement also includes the end of exchange rate manipulations by the Chinese authorities.

MAIN FACTORS TO WATCH

- ▶ U.S. economic growth should speed up due to the trade truce with China as well as the delayed effects of the interest rate reductions of 2019. That will help maintain a level of optimism which should be detrimental to the U.S. dollar. However, it may be more difficult for several European currencies to make gains in the coming quarters, due to more specific risks in that region.
- ▶ The Canadian dollar could appreciate slightly in the coming months. It seems likely to us that it will rise above US\$0.77 again. That is based on the assumption that the easing of trade tensions and improved Canadian economic figures will have a favourable effect. We do not expect the BoC to lower interest rates in 2020. We nevertheless remain cautious about the end of the year, since some risks could return or become worse. It will be important to keep a close watch on whether the trade truce between China and the United States can hold.

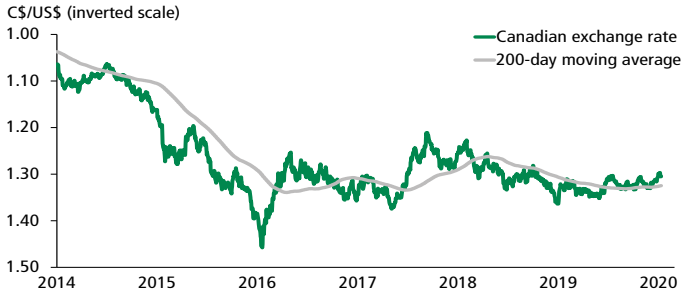
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

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 © 2020, Desjardins Group. All rights reserved.

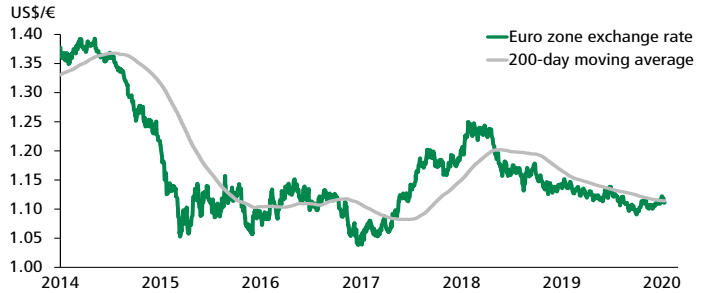
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



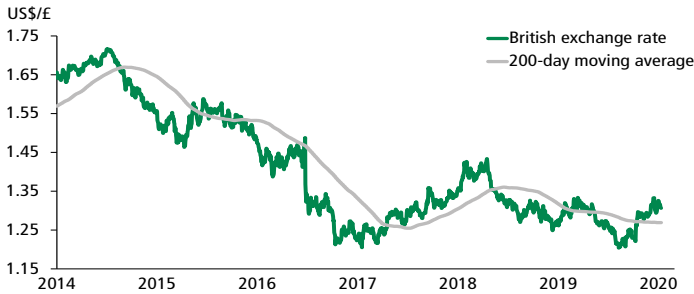
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



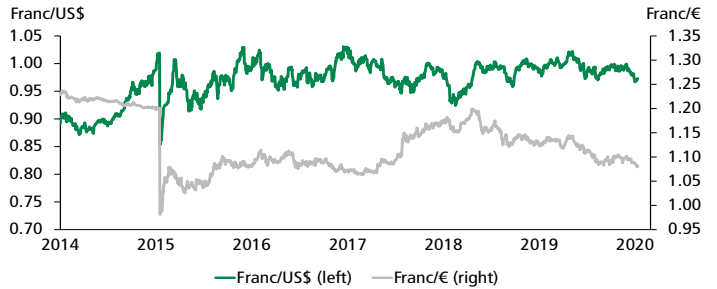
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



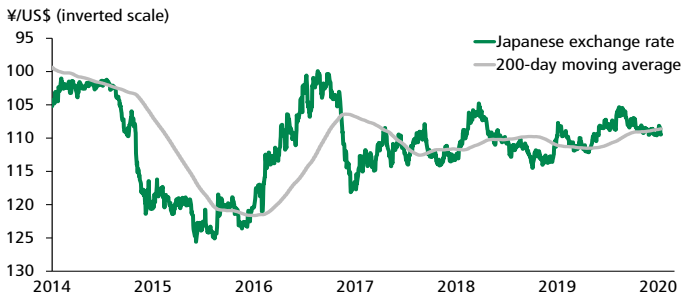
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



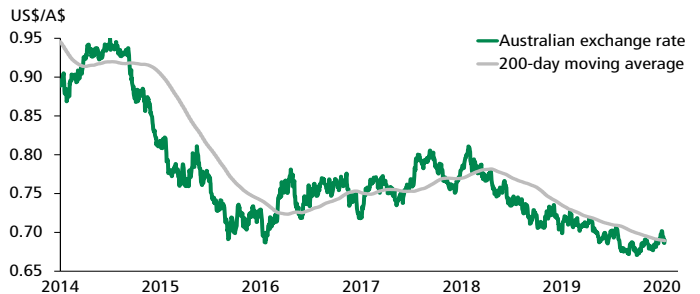
Sources: Datastream and Desjardins, Economic Studies

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		
	Jan. 13	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	59.8950	0.13	3.17	43.80	61.59	59.9858	48.9798	37.0250
Brazil – real	4.1389	0.79	0.75	10.47	11.48	4.2667	3.9552	3.6428
Canada – (USD/CAD)	1.3053	-1.10	-1.09	0.04	-1.53	1.3527	1.3258	1.2968
Canada – (CAD/USD)	0.7661	1.11	1.10	-0.04	1.56	0.7712	0.7543	0.7393
Mexico – peso	18.8370	-1.18	-2.49	-1.09	-1.39	20.1112	19.2322	18.7725
Asia and South Pacific								
Australia – (AUD/USD)	0.6904	0.40	1.69	-1.63	-4.29	0.7276	0.6945	0.6704
China – yuan renminbi	6.8938	-1.37	-2.74	0.19	1.93	7.1789	6.9129	6.6872
Hong Kong – dollar	7.7708	-0.37	-0.93	-0.69	-0.88	7.8501	7.8331	7.7663
India – rupee	70.7100	-0.12	-0.30	3.14	0.44	72.1700	70.4503	68.4100
Japan – yen	109.94	0.52	1.41	1.89	1.28	112.19	109.04	105.31
New Zealand – (NZD/USD)	0.6631	0.48	4.62	-0.91	-2.95	0.6917	0.6584	0.6246
South Korea – won	1,156	-1.37	-2.75	-1.96	3.56	1,222	1,167	1,113
Europe								
Denmark – krona	6.7118	-0.13	-0.82	1.32	3.11	6.8498	6.6762	6.5027
Euro zone – (EUR/USD)	1.1134	-0.02	0.89	-1.05	-2.99	1.1478	1.1186	1.0902
Norway – kroner	8.8968	-1.50	-2.01	4.27	4.23	9.2276	8.8085	8.4258
Russia – ruble	61.2850	-2.56	-4.39	-2.97	-8.47	67.1457	64.5100	60.9575
Sweden – krona	9.4650	0.72	-3.46	0.92	6.00	9.9588	9.4729	8.9292
Switzerland – swiss franc	0.9709	-1.22	-2.75	-1.46	-1.22	1.0221	0.9933	0.9684
United Kingdom – (GBP/USD)	1.2978	-2.75	2.31	3.32	1.21	1.3345	1.2781	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	2019		2020				2021				
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3241	1.2988	1.3072	1.2987	1.2987	1.3158	1.3333	1.3333	1.3245	1.3158
Euro	EUR/USD	1.0902	1.1225	1.1100	1.1200	1.1100	1.1000	1.0800	1.0900	1.1000	1.1100
British pound	GBP/USD	1.2323	1.3248	1.2900	1.3000	1.2900	1.2800	1.2500	1.2600	1.2800	1.3000
Swiss franc	USD/CHF	0.9974	0.9667	0.9700	0.9800	0.9800	0.9800	0.9900	0.9900	0.9900	0.9800
Yen	USD/JPY	108.08	108.63	110.00	111.00	110.00	108.00	106.00	106.00	108.00	109.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6900	0.7000	0.7000	0.6900	0.6800	0.6800	0.6900	0.6900
Chinese yuan	USD/CNY	7.1484	6.9632	6.8500	6.8000	6.8000	6.9000	6.9500	7.0000	6.9500	6.9500
Mexican peso	USD/MXN	19.73	18.93	18.50	18.50	18.75	19.00	19.50	19.50	19.25	18.75
Brazilian real	USD/BRL	4.1641	4.0304	4.1000	4.1000	4.2000	4.3000	4.3000	4.2000	4.2000	4.1000
Effective dollar ¹		111.69	108.58	109.90	109.40	109.70	110.50	111.90	111.40	110.70	110.00
Canadian dollar											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7650	0.7700	0.7700	0.7600	0.7500	0.7500	0.7550	0.7600
Euro	EUR/CAD	1.4435	1.4579	1.4510	1.4545	1.4416	1.4474	1.4400	1.4533	1.4570	1.4605
British pound	GBP/CAD	1.6317	1.7206	1.6863	1.6883	1.6753	1.6842	1.6667	1.6800	1.6954	1.7105
Swiss franc	CAD/CHF	0.7533	0.7443	0.7421	0.7546	0.7546	0.7448	0.7425	0.7425	0.7475	0.7448
Yen	CAD/JPY	81.63	83.63	84.15	85.47	84.70	82.08	79.50	79.50	81.54	82.84
Australian dollar	AUD/CAD	0.8935	0.9120	0.9020	0.9091	0.9091	0.9079	0.9067	0.9067	0.9139	0.9079
Chinese yuan	CAD/CNY	5.3986	5.3613	5.2403	5.2360	5.2360	5.2440	5.2125	5.2500	5.2473	5.2820
Mexican peso	CAD/MXN	14.90	14.58	14.15	14.25	14.44	14.44	14.63	14.63	14.53	14.25
Brazilian real	CAD/BRL	3.1449	3.1032	3.1365	3.1570	3.2340	3.2680	3.2250	3.1500	3.1710	3.1160

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