

FX FORECASTS

The Greenback Capitalizes on Coronavirus Concerns

HIGHLIGHTS

- ▶ The U.S. dollar has resumed its bullish trend in recent weeks. Concerns about the coronavirus are supporting the demand for safe-haven assets, and the U.S. dollar is reaping the benefit. The fact that the U.S. economy appears to be in better shape than most other major economies is also helping the greenback.
- ▶ The current context is very difficult for the currencies of emerging countries. The Chinese yuan is under pressure, but the Chinese authorities seem to want to limit its depreciation, however. It will be interesting to see how foreign exchange reserves will have changed in February. The Chinese exchange rate had moved back above 7 yuan/US\$ in early February and then rallied slightly against the U.S. dollar. More recently, the yuan lost some ground and is now worth less than it was at the beginning of the month.
- ▶ The yen is another currency that has been deeply impacted by concerns about the coronavirus. This currency tends to appreciate when global uncertainty increases, but this time Japan's currency is falling now that the focus is on Asia. It is currently trading at over ¥111/US\$. The deterioration of Japan's economy has also had an adverse effect on the yen. A sharp drop in real GDP was recorded in the fourth quarter of 2019. The Bank of Japan also seems to be more open to the idea of easing its monetary policy.
- ▶ The euro was worth US\$1.11 at the end of January and is now trading at close to US\$1.08. This marks an almost three-year low. The region's persistent economic difficulties have made it easy for investors to drop the currency in recent weeks. Recently, however, more encouraging indicators have been released for the manufacturing sector. That said, the coronavirus has also entered the region, which does not help the euro to recover.
- ▶ The pound did better than the euro, while the economic indicators from Britain were generally more encouraging. Investors are also anticipating the positive impact of the stimulus measures that are expected to be announced in Boris Johnson's next government budget. In Europe, the Swiss franc is also doing well and is now trading at around 1.06 franc/€. The franc nonetheless lost some ground against the U.S. dollar in February.
- ▶ The Canadian dollar hovered at close to US\$0.77 at the beginning of the year and fell to US\$0.75 in early February. It then strengthened somewhat, which may seem surprising in a context where the Canadian economy continues to send mixed signals and the rail blockades has been increasing the level of short-term risk. That said, rising prices for some commodities, including gold, appear to have had a positive impact for the loonie.

MAIN FACTORS TO WATCH

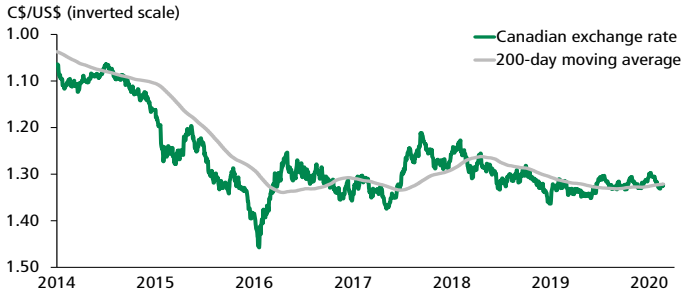
- ▶ The spread of the coronavirus continues to be closely monitored. Short-term negative effects have already been factored into our economic forecasts. However, it remains likely that the situation will return gradually to normal sometime this spring. This would come with a lessening of concerns, which would benefit a number of currencies against the U.S. dollar.
- ▶ A drop in the level of risk at the international level could help the loonie climb back to almost US\$0.77 within a few months. This forecast also assumes that Canada's economy improves after a more difficult transition at the end of 2019. The Bank of Canada would not have to intervene in this scenario.

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

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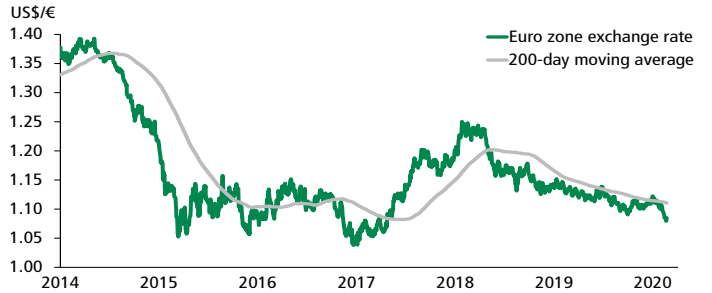
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



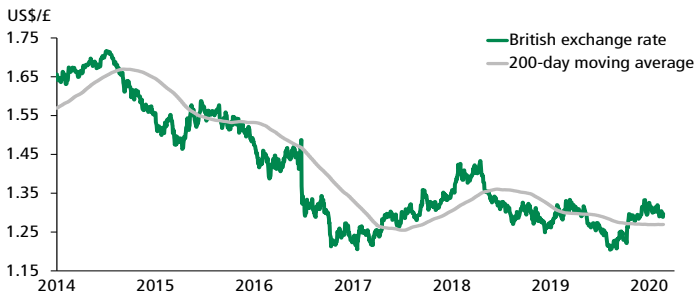
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



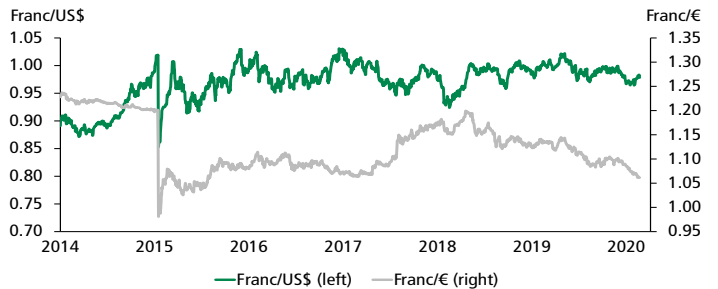
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



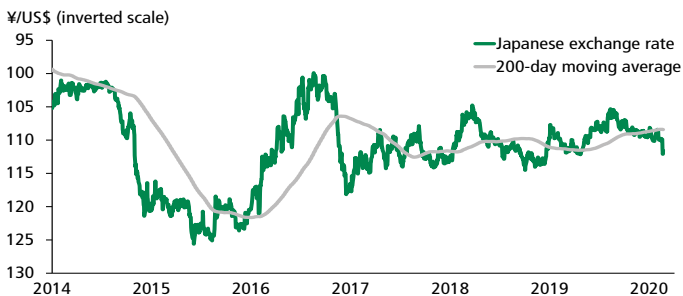
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



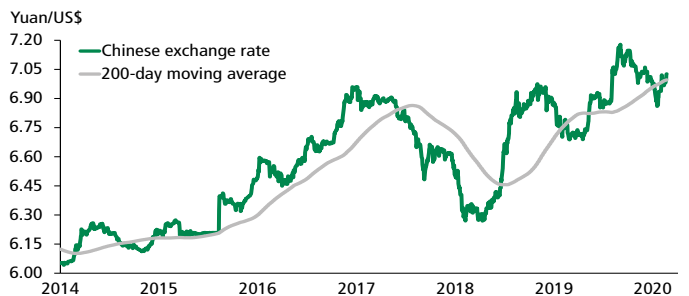
Sources: Datastream and Desjardins, Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

CHINESE YUAN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	Feb. 21	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	61.8355	2.90	3.51	12.42	55.39	61.8355	51.5179	38.7450
Brazil – real	4.3814	4.27	3.99	8.64	16.50	4.3930	4.0140	3.7329
Canada – (USD/CAD)	1.3224	1.22	-0.41	-0.44	0.31	1.3527	1.3252	1.2968
Canada – (CAD/USD)	0.7562	-1.20	0.41	0.45	-0.31	0.7712	0.7546	0.7393
Mexico – peso	18.9330	1.17	-2.35	-4.01	-1.61	20.1112	19.1885	18.5605
Asia and South Pacific								
Australia – (AUD/USD)	0.6628	-3.17	-2.33	-2.26	-6.53	0.7189	0.6901	0.6616
China – yuan renminbi	7.0271	1.76	-0.03	-0.51	4.57	7.1789	6.9343	6.6872
Hong Kong – dollar	7.7874	0.22	-0.42	-0.72	-0.76	7.8501	7.8247	7.7624
India – rupee	71.8800	1.00	0.18	0.62	1.00	72.1700	70.4691	68.4100
Japan – yen	111.59	1.56	2.71	4.65	0.79	112.19	109.06	105.31
New Zealand – (NZD/USD)	0.6347	-3.80	-0.88	-0.89	-6.68	0.6907	0.6550	0.6246
South Korea – won	1,209	3.61	2.63	0.56	7.46	1,222	1,173	1,119
Europe								
Denmark – krona	6.8861	2.14	1.91	2.39	4.61	6.9241	6.7030	6.5386
Euro zone – (EUR/USD)	1.0852	-2.22	-2.02	-2.18	-4.37	1.1389	1.1143	1.0793
Norway – kroner	9.2818	3.20	1.49	3.76	7.61	9.3296	8.8734	8.4563
Russia – ruble	64.2201	3.84	0.80	-2.55	-1.86	67.0012	64.1573	60.9575
Sweden – krona	9.7139	1.95	0.91	0.93	3.63	9.9588	9.5275	9.1394
Switzerland – swiss franc	0.9785	1.11	-1.30	-0.26	-2.12	1.0221	0.9906	0.9642
United Kingdom – (GBP/USD)	1.2959	-0.77	0.27	6.83	-0.82	1.3345	1.2786	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	1.3245	1.3072	1.2987	1.3158	1.3333	1.3333	1.3245	1.3158
Euro	EUR/USD	1.0902	1.1225	1.0800	1.1000	1.1100	1.0900	1.0800	1.0900	1.1000	1.1100
British pound	GBP/USD	1.2323	1.3248	1.2900	1.3000	1.2900	1.2800	1.2600	1.2700	1.2800	1.3000
Swiss franc	USD/CHF	0.9974	0.9667	0.9800	0.9700	0.9700	0.9800	0.9800	0.9800	0.9700	0.9700
Yen	USD/JPY	108.08	108.63	111.00	110.00	110.00	108.00	107.00	108.00	108.00	109.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6600	0.6700	0.6900	0.6800	0.6700	0.6800	0.6900	0.6900
Chinese yuan	USD/CNY	7.1484	6.9632	7.0500	6.9500	6.8500	6.9000	6.9500	6.9500	6.9000	6.8500
Mexican peso	USD/MXN	19.73	18.93	19.00	18.50	18.50	18.75	19.25	19.00	18.75	18.50
Brazilian real	USD/BRL	4.1641	4.0304	4.3000	4.2000	4.1000	4.2000	4.3000	4.3000	4.2000	4.1000
Effective dollar ¹		111.69	108.58	112.00	110.40	109.80	111.00	112.00	111.60	110.70	110.00
Canadian dollar											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7550	0.7650	0.7700	0.7600	0.7500	0.7500	0.7550	0.7600
Euro	EUR/CAD	1.4435	1.4579	1.4305	1.4379	1.4416	1.4342	1.4400	1.4533	1.4570	1.4605
British pound	GBP/CAD	1.6317	1.7206	1.7086	1.6993	1.6753	1.6842	1.6800	1.6933	1.6954	1.7105
Swiss franc	CAD/CHF	0.7533	0.7443	0.7399	0.7421	0.7469	0.7448	0.7350	0.7350	0.7324	0.7372
Yen	CAD/JPY	81.63	83.63	83.81	84.15	84.70	82.08	80.25	81.00	81.54	82.84
Australian dollar	AUD/CAD	0.8935	0.9120	0.8742	0.8758	0.8961	0.8947	0.8933	0.9067	0.9139	0.9079
Chinese yuan	CAD/CNY	5.3986	5.3613	5.3228	5.3168	5.2745	5.2440	5.2125	5.2125	5.2095	5.2060
Mexican peso	CAD/MXN	14.90	14.58	14.35	14.15	14.25	14.25	14.44	14.25	14.16	14.06
Brazilian real	CAD/BRL	3.1449	3.1032	3.2465	3.2130	3.1570	3.1920	3.2250	3.2250	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