

FX FORECASTS

Too Early for a Lasting Reversal in the Greenback's Trend

HIGHLIGHTS

- ▶ Financial markets have experienced considerable volatility over the past few weeks, and exchange rates have not been spared. Major movements have been observed, generally benefiting the U.S. dollar, which is capitalizing on its natural appeal in uncertain times.
- ▶ The steepest declines have been recording among emerging country currencies. For example, the Mexican peso has lost about 20% against the U.S. dollar since the last week of February, when the coronavirus crisis began to take on a global scale. The Russian rouble also fell close to 20% over the same period. This is not very surprising considering that Russia is one of the countries hardest hit by the oil price slump.
- ▶ The unfavourable change in oil prices and other commodities has also had a notable effect on some advanced country currencies in recent weeks. Certain currencies even started depreciating earlier, as soon as fears about the Chinese economy surfaced. Of those most affected, the Norwegian krone declined more than 11% since the last week of February, but around 16% since the start of the year. Closely linked to the health of the Chinese economy, the Australian dollar followed suit with a 7% loss in value over the past five weeks, and around 12% since the beginning of the year.
- ▶ The Canadian dollar was more resistant to the first wave of uncertainty early in the year. Its depreciation was more evident in the last week of February and the first three weeks of March. The Canadian exchange rate dropped to below US\$0.69 before stabilizing between US\$0.70 and US\$0.71. Compared to the beginning of the year, this is nonetheless a loss in value of about 8%.
- ▶ The euro's movements have been more unusual. Even though the coronavirus crisis quickly spread to Europe in late February, the common currency appreciated against the greenback at first. This trajectory continued in the first week of March, temporarily sending the euro above the US\$1.14 mark. The euro's appreciation coincided with the reduction in interest rate spreads between Europe and the United States. U.S. bond yields slid further as a result of the increased potential of monetary easing by the Federal Reserve. While the euro has since weakened, it is still higher than it was before the coronavirus crisis worsened, currently sitting near US\$1.10.

MAIN FACTORS TO WATCH

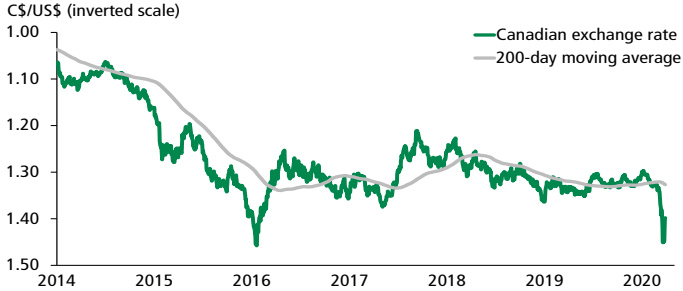
- ▶ Financial markets have had to digest a lot of new information in the past five weeks, such as negative developments in the coronavirus situation, the public health measures adopted by many countries and the various support actions taken, including the rapid easing of monetary policies. April will likely not bring as much new information, which should help reduce financial market volatility, including that of exchange rates.
- ▶ However, April is expected to be marked by serious declines in economic activity around the world. This should continue to fuel the high degree of uncertainty, and the U.S. dollar will likely remain strong against most other currencies in this context. It will probably take until economic activity begins showing signs of recovery for the U.S. dollar to resume its downward trend against many currencies. That could happen by early summer. The Canadian dollar could therefore appreciate again in a few months and end the year around US\$0.74.

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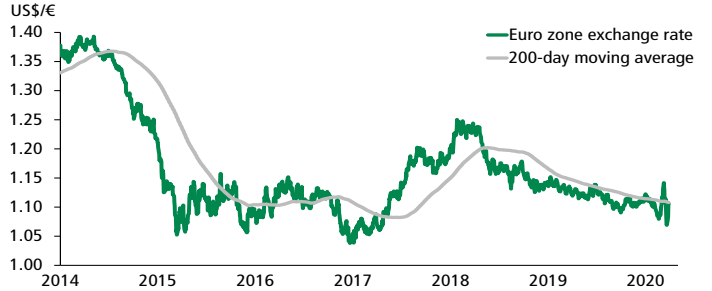
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



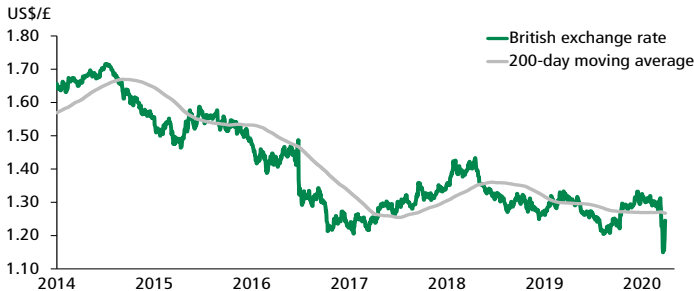
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



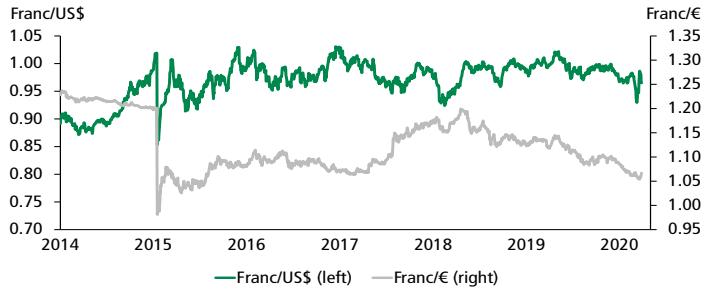
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



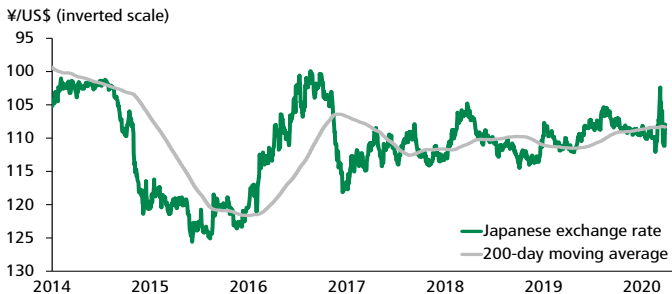
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



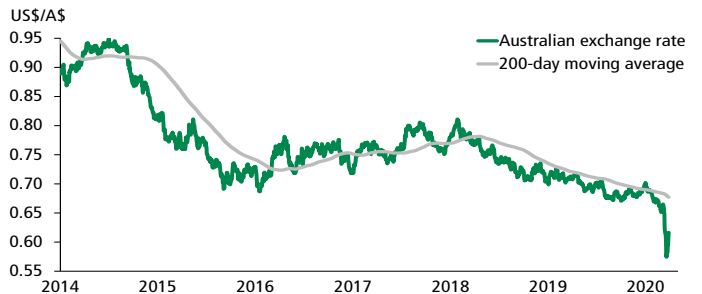
Sources: Datastream and Desjardins, Economic Studies

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 | | |
|-------------------------------|------------|---------------|-----------|-----------|---------|---------------|---------|---------|
| | March 30 | -1 month | -3 months | -6 months | -1 year | Higher | Average | Lower |
| Americas | | | | | | | | |
| Argentina – peso | 64.4620 | 3.63 | 7.64 | 11.92 | 48.50 | 64.4620 | 53.7292 | 41.3657 |
| Brazil – real | 5.1478 | 14.10 | 27.98 | 23.58 | 32.28 | 5.1502 | 4.1102 | 3.7382 |
| Canada – (USD/CAD) | 1.4165 | 5.52 | 8.49 | 6.99 | 6.03 | 1.4539 | 1.3303 | 1.2968 |
| Canada – (CAD/USD) | 0.7060 | -5.23 | -7.82 | -6.53 | -5.69 | 0.7712 | 0.7517 | 0.6878 |
| Mexico – peso | 24.2185 | 22.34 | 28.40 | 22.66 | 24.85 | 25.1420 | 19.4390 | 18.5605 |
| Asia and South Pacific | | | | | | | | |
| Australia – (AUD/USD) | 0.6170 | -5.22 | -11.79 | -8.57 | -13.06 | 0.7179 | 0.6814 | 0.5742 |
| China – yuan renminbi | 7.1003 | 1.55 | 1.63 | -0.67 | 5.78 | 7.1789 | 6.9648 | 6.6882 |
| Hong Kong – dollar | 7.7550 | -0.51 | -0.42 | -1.07 | -1.21 | 7.8499 | 7.8168 | 7.7519 |
| India – rupee | 75.4100 | 3.96 | 5.73 | 6.74 | 9.00 | 76.3785 | 70.8815 | 68.4100 |
| Japan – yen | 107.83 | -0.24 | -0.96 | -0.24 | -2.73 | 112.19 | 108.76 | 102.36 |
| New Zealand – (NZD/USD) | 0.6015 | -3.81 | -10.58 | -3.96 | -11.60 | 0.6806 | 0.6474 | 0.5673 |
| South Korea – won | 1,224 | 0.82 | 5.88 | 2.36 | 7.87 | 1,286 | 1,182 | 1,133 |
| Europe | | | | | | | | |
| Denmark – krona | 6.7592 | -0.25 | 1.32 | -1.32 | 1.57 | 6.9901 | 6.7204 | 6.5273 |
| Euro zone – (EUR/USD) | 1.1030 | 0.41 | -1.55 | 1.17 | -1.77 | 1.1419 | 1.1113 | 1.0689 |
| Norway – kroner | 10.5489 | 12.26 | 19.68 | 15.99 | 22.32 | 11.7547 | 9.0212 | 8.4804 |
| Russia – ruble | 79.7375 | 18.66 | 28.63 | 22.90 | 21.37 | 80.2825 | 64.9022 | 60.9575 |
| Sweden – krona | 10.0337 | 4.56 | 7.32 | 1.94 | 7.94 | 10.3899 | 9.5784 | 9.2481 |
| Switzerland – swiss franc | 0.9599 | -0.84 | -0.96 | -3.74 | -3.62 | 1.0221 | 0.9868 | 0.9297 |
| United Kingdom – (GBP/USD) | 1.2413 | -2.82 | -5.35 | 0.73 | -4.74 | 1.3345 | 1.2716 | 1.1491 |

* 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 | 1.4286 | 1.4085 | 1.3793 | 1.3514 | 1.3423 | 1.3333 | 1.3333 | 1.3158 |
| Euro | EUR/USD | 1.0902 | 1.1225 | 1.1000 | 1.0900 | 1.0900 | 1.1000 | 1.1100 | 1.1100 | 1.1200 | 1.1300 |
| British pound | GBP/USD | 1.2323 | 1.3248 | 1.2400 | 1.2500 | 1.2600 | 1.2500 | 1.2500 | 1.2500 | 1.2700 | 1.3000 |
| Swiss franc | USD/CHF | 0.9974 | 0.9667 | 0.9650 | 0.9700 | 0.9800 | 0.9800 | 0.9700 | 0.9800 | 0.9800 | 0.9700 |
| Yen | USD/JPY | 108.08 | 108.63 | 108.00 | 109.00 | 110.00 | 111.00 | 111.00 | 112.00 | 112.00 | 113.00 |
| Australian dollar | AUD/USD | 0.6748 | 0.7022 | 0.6100 | 0.6300 | 0.6500 | 0.6600 | 0.6700 | 0.6800 | 0.6800 | 0.6900 |
| Chinese yuan | USD/CNY | 7.1484 | 6.9632 | 7.1000 | 7.0000 | 6.9500 | 6.9500 | 6.9000 | 6.8500 | 6.8500 | 6.8000 |
| Mexican peso | USD/MXN | 19.73 | 18.93 | 23.75 | 22.00 | 20.00 | 19.50 | 19.25 | 19.00 | 18.75 | 18.50 |
| Brazilian real | USD/BRL | 4.1641 | 4.0304 | 5.2000 | 4.8000 | 4.4000 | 4.2000 | 4.1000 | 4.1000 | 4.0000 | 4.0000 |
| Effective dollar ¹ | | 111.69 | 108.58 | 113.70 | 113.80 | 113.10 | 112.20 | 111.50 | 111.40 | 110.80 | 109.50 |
| Canadian dollar | | | | | | | | | | | |
| U.S. dollar | CAD/USD | 0.7552 | 0.7699 | 0.7000 | 0.7100 | 0.7250 | 0.7400 | 0.7450 | 0.7500 | 0.7500 | 0.7600 |
| Euro | EUR/CAD | 1.4435 | 1.4579 | 1.5714 | 1.5352 | 1.5034 | 1.4865 | 1.4899 | 1.4800 | 1.4933 | 1.4868 |
| British pound | GBP/CAD | 1.6317 | 1.7206 | 1.7714 | 1.7606 | 1.7379 | 1.6892 | 1.6779 | 1.6667 | 1.6933 | 1.7105 |
| Swiss franc | CAD/CHF | 0.7533 | 0.7443 | 0.6755 | 0.6887 | 0.7105 | 0.7252 | 0.7227 | 0.7350 | 0.7350 | 0.7372 |
| Yen | CAD/JPY | 81.63 | 83.63 | 75.60 | 77.39 | 79.75 | 82.14 | 82.70 | 84.00 | 84.00 | 85.88 |
| Australian dollar | AUD/CAD | 0.8935 | 0.9120 | 0.8714 | 0.8873 | 0.8966 | 0.8919 | 0.8993 | 0.9067 | 0.9067 | 0.9079 |
| Chinese yuan | CAD/CNY | 5.3986 | 5.3613 | 4.9700 | 4.9700 | 5.0388 | 5.1430 | 5.1405 | 5.1375 | 5.1375 | 5.1680 |
| Mexican peso | CAD/MXN | 14.90 | 14.58 | 16.63 | 15.62 | 14.50 | 14.43 | 14.34 | 14.25 | 14.06 | 14.06 |
| Brazilian real | CAD/BRL | 3.1449 | 3.1032 | 3.6400 | 3.4080 | 3.1900 | 3.1080 | 3.0545 | 3.0750 | 3.0000 | 3.0400 |

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