

## FX FORECASTS

# Markets Regain Optimism to the Detriment of the U.S. Dollar

### HIGHLIGHTS

- ▶ The U.S. dollar has been tending to depreciate against many currencies since mid-May. This is in keeping with the rise in optimism on the financial markets and the drop in demand for safe havens.
- ▶ Still, the U.S. currency did manage to hold its own better against some of the Asian currencies. In April, the pandemic generally seemed to be under greater control in this region of the world compared to the United States and Europe. In recent weeks, however, markets have seemed to be encouraged by the reduction in new cases of COVID-19 reported in the West and by the easing of the lockdown. As a result, some currencies, such as the Korean won, Japanese yen and Taiwan dollar, are losing their advantage as the pandemic evolves.
- ▶ The worsening political and trade tensions between China and the United States have also worked in favour of the greenback against some of the Asian currencies, especially the yuan. The Chinese exchange rate returned to around 7.15 yuan/US\$. This is about the same rate seen last fall when the trade tensions between the two superpowers were running especially high.
- ▶ Like most of the major currencies, the Canadian dollar appreciated in relation to the U.S. dollar, recently hitting nearly US\$0.74. This is a net improvement over the US\$0.69 low reached in March. Currencies like the Canadian dollar that are linked to commodities tend to depreciate sharply during times of upheaval but rebound quickly when optimism returns. Nonetheless, the loonie remains below pre-pandemic levels.
- ▶ The euro is now worth more than US\$1.11, a two-month high. In May, several economic indicators bounced back in Europe after plunging in March and April. The European Central Bank is also prepared to continue to intervene massively to support the economy even through the German Constitutional Court asked it to review its asset purchase program. As for fiscal policy, the European Commission proposed a plan of €750B in support of the economic recovery. The euro also appreciated against the Swiss franc. The EUR/CHF pair is now hovering around 1.07 francs.
- ▶ The situation in the United Kingdom remains a little less certain as the Brexit file, among others, has resurfaced. This didn't prevent the pound from regaining some of the ground it lost recently against the U.S. dollar. However, the British currency tends to depreciate against the euro. The EUR/GBP pair neared £0.90 in recent weeks.

### MAIN FACTORS TO WATCH

- ▶ The easing of the lockdown in several countries seems to be working, and the global economy is showing signs of life. The situation is therefore becoming less than favourable for the U.S. dollar. However, it will probably take a few months before we will be able to assess the strength and sustainability of the economic recovery. Any disappointment could stop the rise of optimism on the markets and help the greenback. In addition, the worsening political and trade tensions between China and the United States will have to be closely monitored.
- ▶ The Canadian dollar appreciated faster than we had initially anticipated. The forecasts were revised up, but we still believe that the loonie should end the second quarter below US\$0.73. There's still a lot of ground to cover before economic activity returns to pre-pandemic levels. Cautious optimism seems appropriate.

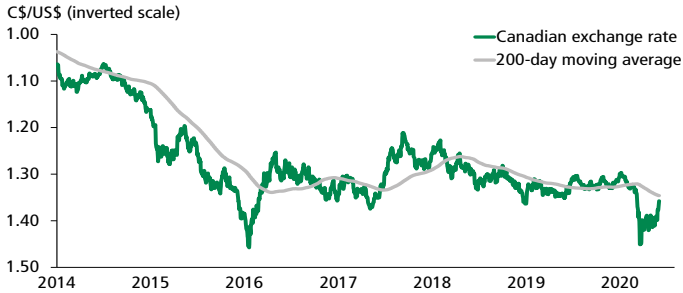
François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hendrix Vachon, Senior Economist  
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • [desjardins.economics@desjardins.com](mailto:desjardins.economics@desjardins.com) • [desjardins.com/economics](https://desjardins.com/economics)

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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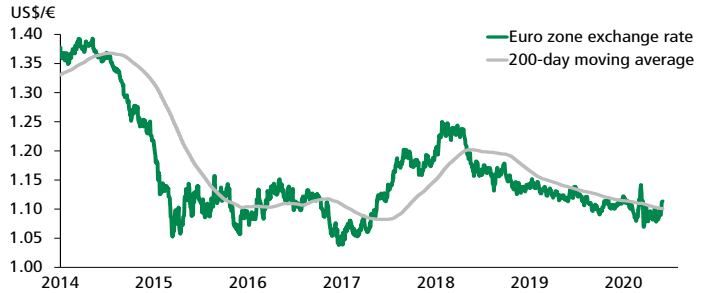
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



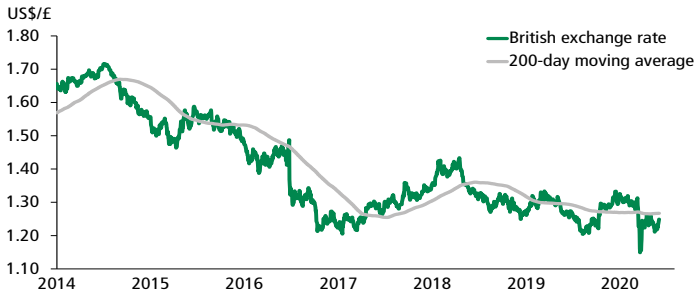
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



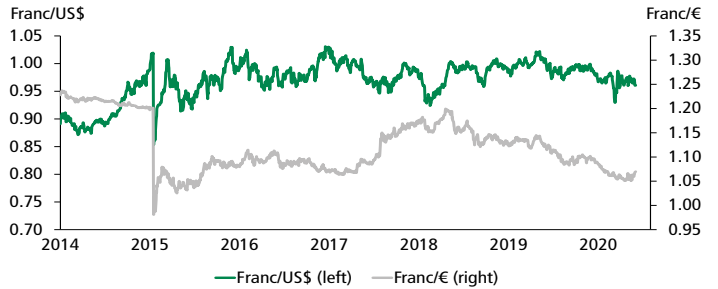
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



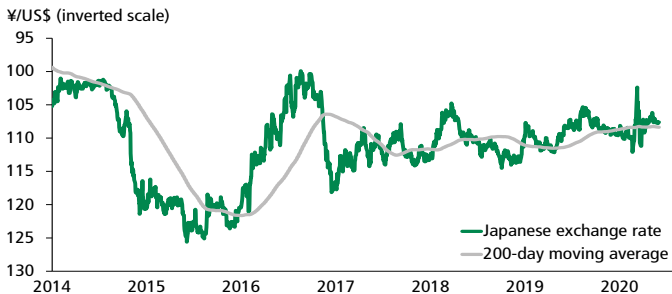
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



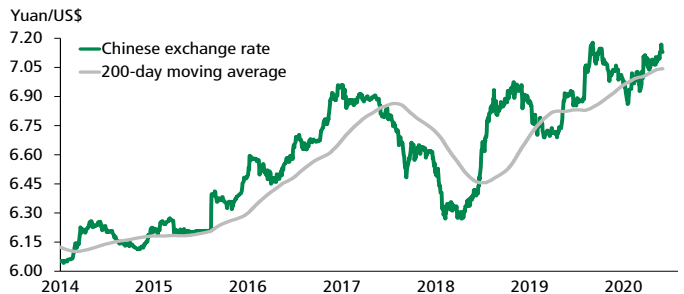
Sources: Datastream and Desjardins, Economic Studies

## 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		
	June 1	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	68.6250	3.28	10.32	14.52	53.09	68.6250	57.6265	41.6508
Brazil – real	5.3633	-2.20	18.88	26.84	37.01	5.9236	4.3704	3.7382
Canada – (USD/CAD)	1.3620	-3.25	1.46	2.54	0.75	1.4539	1.3405	1.2968
Canada – (CAD/USD)	0.7342	3.36	-1.44	-2.48	-0.74	0.7712	0.7460	0.6878
Mexico – peso	21.9650	-11.06	10.95	12.61	12.00	25.1420	20.2543	18.5605
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6798	5.91	4.43	0.49	-2.05	0.7076	0.6706	0.5742
China – yuan renminbi	7.1278	0.93	1.94	1.36	3.23	7.1789	7.0173	6.8517
Hong Kong – dollar	7.7511	-0.02	-0.56	-0.99	-1.12	7.8475	7.8006	7.7500
India – rupee	75.5050	-0.32	4.09	5.23	8.52	76.9750	71.9673	68.4100
Japan – yen	107.59	0.60	-0.46	-1.76	-0.63	112.13	108.18	102.36
New Zealand – (NZD/USD)	0.6293	3.86	0.64	-2.01	-3.72	0.6783	0.6371	0.5673
South Korea – won	1,225	0.53	0.86	3.71	2.86	1,286	1,193	1,155
<b>Europe</b>								
Denmark – krona	6.6962	-1.46	-1.18	-1.25	0.15	6.9901	6.7521	6.5273
Euro zone – (EUR/USD)	1.1138	1.17	1.39	1.01	-0.05	1.1419	1.1059	1.0689
Norway – kroner	9.6113	-6.68	2.29	4.25	9.77	11.7547	9.2961	8.4804
Russia – ruble	69.4288	-8.21	3.32	8.03	6.58	80.2825	66.4716	60.9575
Sweden – krona	9.3661	-4.82	-2.40	-2.15	-1.37	10.3899	9.6471	9.2622
Switzerland – swiss franc	0.9605	0.10	-0.77	-3.89	-4.51	1.0059	0.9800	0.9297
United Kingdom – (GBP/USD)	1.2483	-0.47	-2.27	-3.49	-0.96	1.3345	1.2616	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	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.3241	1.2988	1.4062	1.3793	1.3699	1.3699	1.3605	1.3423	1.3333	1.3333
Euro	EUR/USD	1.0902	1.1225	1.0973	1.1000	1.1100	1.1100	1.1100	1.1200	1.1300	1.1300
British pound	GBP/USD	1.2323	1.3248	1.2400	1.2300	1.2400	1.2300	1.2400	1.2500	1.2600	1.2800
Swiss franc	USD/CHF	0.9974	0.9667	0.9672	0.9600	0.9600	0.9600	0.9600	0.9600	0.9700	0.9700
Yen	USD/JPY	108.08	108.63	107.55	107.00	108.00	108.00	109.00	110.00	111.00	111.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6136	0.6600	0.6700	0.6700	0.6700	0.6800	0.6900	0.6900
Chinese yuan	USD/CNY	7.1484	6.9632	7.0825	7.1500	7.1500	7.1000	7.0000	6.9500	6.9000	6.9000
Mexican peso	USD/MXN	19.73	18.93	23.72	23.00	21.00	21.00	20.00	19.00	18.75	18.50
Brazilian real	USD/BRL	4.1641	4.0304	5.1984	5.5000	5.3000	5.0000	4.7000	4.5000	4.3000	4.2000
Effective dollar <sup>1</sup>		111.69	108.58	113.13	112.60	111.80	112.00	111.80	110.90	110.30	110.00
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7112	0.7250	0.7300	0.7300	0.7350	0.7450	0.7500	0.7500
Euro	EUR/CAD	1.4435	1.4579	1.5429	1.5172	1.5205	1.5205	1.5102	1.5034	1.5067	1.5067
British pound	GBP/CAD	1.6317	1.7206	1.7436	1.6966	1.6986	1.6849	1.6871	1.6779	1.6800	1.7067
Swiss franc	CAD/CHF	0.7533	0.7443	0.6878	0.6960	0.7008	0.7008	0.7056	0.7152	0.7275	0.7275
Yen	CAD/JPY	81.63	83.63	76.48	77.58	78.84	78.84	80.12	81.95	83.25	83.25
Australian dollar	AUD/CAD	0.8935	0.9120	0.8628	0.9103	0.9178	0.9178	0.9116	0.9128	0.9200	0.9200
Chinese yuan	CAD/CNY	5.3986	5.3613	5.0368	5.1838	5.2195	5.1830	5.1450	5.1778	5.1750	5.1750
Mexican peso	CAD/MXN	14.90	14.58	16.87	16.68	15.33	15.33	14.70	14.16	14.06	13.88
Brazilian real	CAD/BRL	3.1449	3.1032	3.6969	3.9875	3.8690	3.6500	3.4545	3.3525	3.2250	3.1500

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