

FX FORECASTS

A Resurgence in COVID-19 Cases Dampens Optimism, but Does Not Really Benefit the U.S. Dollar

HIGHLIGHTS

- ▶ Investor sentiment was behind much of the movements in the U.S. dollar in recent months. Periods of appreciation of the greenback have mostly matched those times when uncertainty was palpable on the financial markets. Conversely, the U.S. currency tended to depreciate whenever concerns diminished, particularly in late May and early June, when easing of the lockdown led to a significant improvement in a number of economic indicators around the world.
- ▶ More recently, concerns slightly increased as a result of the resurgence in COVID-19 cases. The U.S. dollar appears to be benefiting less from this situation. On the one hand, the resurgence in cases is hitting a number of states particularly hard, posing a more serious risk for the U.S. economy. On the other hand, investors still seem fairly confident about the strength of the global economic recovery, as evidenced by the main stock indexes, which have retained the bulk of their gains from previous weeks.
- ▶ Europe has not been spared from the rebound in COVID-19 cases, but the situation seems to be more under control and, above all, outbreaks seem to be more localized than in the United States. In recent weeks, many indicators have shown that the European economy was bouncing back nicely, especially in the manufacturing sector. The euro has edged up above US\$1.13 a few times since the beginning of July.
- ▶ The pound appreciated more than the euro recently, returning to US\$1.26. The reopening of the British economy had not been in step with most other European countries, but is now well underway with pubs getting back to business, among others. Brexit has not been as much of a headline maker in recent weeks. The EUR/GBP pair dipped back below £0.90.
- ▶ The Canadian dollar is looking somewhat more stable. It has essentially held at around US\$0.735 since mid-June. Canadian economic data also show that the recovery began in spring as lockdown measures started to be lifted. The latest housing data have been particularly strong. The job market also surprised on the upside, but it looks like it will nonetheless take quite some time for it to fully recover, like in all other parts of the world.
- ▶ Most emerging currencies have continued to appreciate over the past few weeks. The Chinese exchange rate dropped back below the 7 yuan/US\$ mark. Trade tensions between China and the United States have been less of a focus of late.

MAIN FACTORS TO WATCH

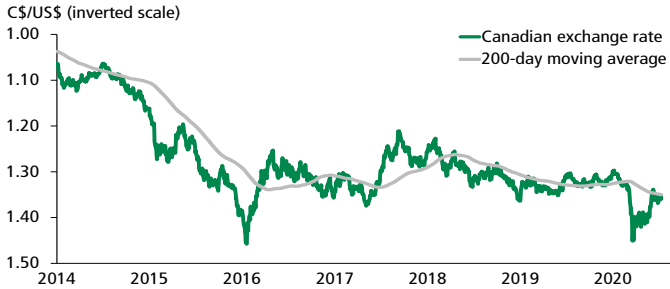
- ▶ There was a risk that lifting lockdowns would lead to a resurgence in COVID-19 cases. We will have to keep an eye on these new outbreaks in the coming weeks to see if many countries will be forced back under lockdown. Such a scenario would not be without consequences for the global economy. The U.S. dollar could then appreciate significantly. For the time being, we remain relatively optimistic about what happens next and expects few changes in the major exchange rates in the short term.
- ▶ The forecasts for the Canadian dollar have changed little since our last publication. We revised year-end target up slightly to US\$0.735. The economic improvement needs to be more sustained than expected and the risks, especially in relation to the pandemic, need to decrease significantly more for us to see a sharper appreciation coming.

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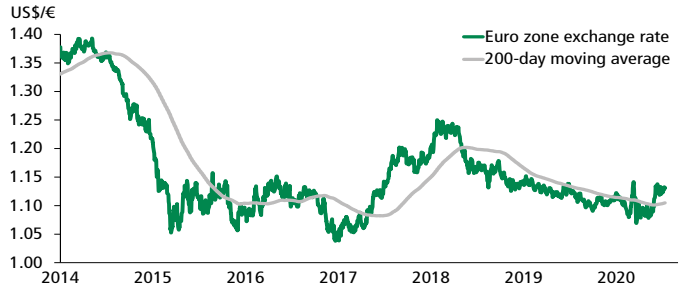
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



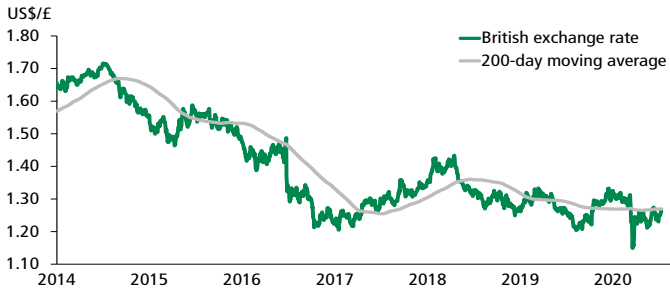
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



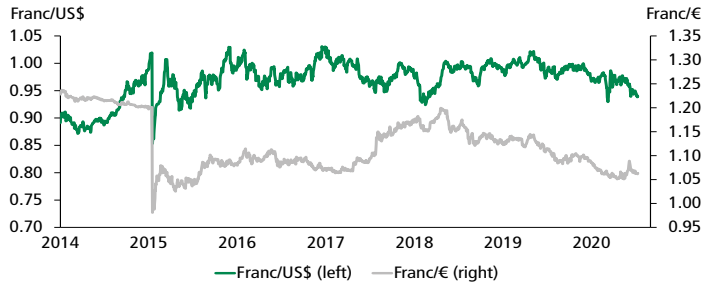
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



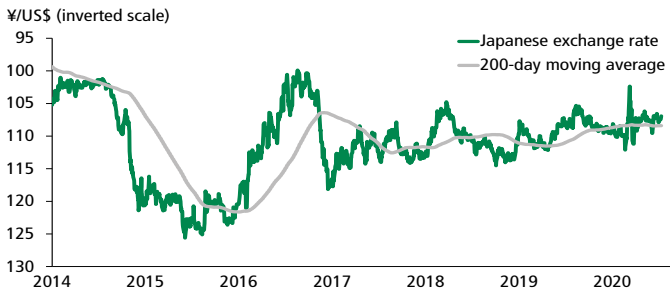
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



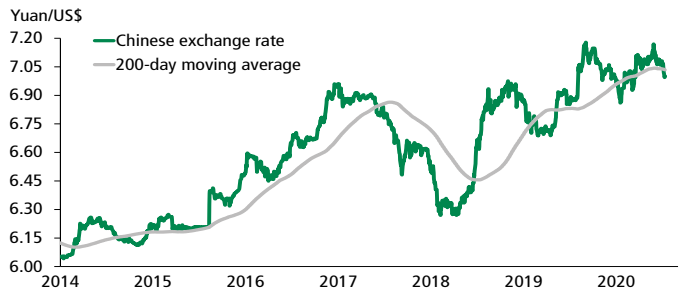
Sources: Datastream and Desjardins, Economic Studies

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 | | |
|-------------------------------|------------|---------------|-----------|-----------|---------|---------------|---------|---------|
| | July 10 | -1 month | -3 months | -6 months | -1 year | Higher | Average | Lower |
| Americas | | | | | | | | |
| Argentina – peso | 70.8896 | 2.36 | 8.95 | 18.68 | 68.89 | 70.9359 | 60.4963 | 41.6508 |
| Brazil – real | 5.3434 | 8.94 | 5.71 | 31.27 | 41.55 | 5.9236 | 4.5198 | 3.7382 |
| Canada – (USD/CAD) | 1.3586 | 1.16 | -2.65 | 4.10 | 3.58 | 1.4539 | 1.3438 | 1.2968 |
| Canada – (CAD/USD) | 0.7361 | -1.15 | 2.73 | -3.93 | -3.46 | 0.7712 | 0.7442 | 0.6878 |
| Mexico – peso | 22.5430 | 2.53 | -3.85 | 20.07 | 17.01 | 25.1420 | 20.5996 | 18.5605 |
| Asia and South Pacific | | | | | | | | |
| Australia – (AUD/USD) | 0.6950 | -0.69 | 9.48 | 0.67 | -0.14 | 0.7076 | 0.6703 | 0.5742 |
| China – yuan renminbi | 7.0019 | -0.84 | -0.49 | 1.19 | 1.88 | 7.1789 | 7.0359 | 6.8598 |
| Hong Kong – dollar | 7.7526 | 0.03 | 0.00 | -0.18 | -0.84 | 7.8475 | 7.7929 | 7.7496 |
| India – rupee | 75.1950 | -0.58 | -0.90 | 5.97 | 9.90 | 76.9750 | 72.6503 | 68.4100 |
| Japan – yen | 106.91 | -0.19 | -1.45 | -2.35 | -1.44 | 112.13 | 108.12 | 102.36 |
| New Zealand – (NZD/USD) | 0.6581 | 0.62 | 7.99 | -0.76 | -1.00 | 0.6783 | 0.6358 | 0.5673 |
| South Korea – won | 1,204 | 1.12 | -1.24 | 3.72 | 1.95 | 1,286 | 1,197 | 1,156 |
| Europe | | | | | | | | |
| Denmark – krona | 6.5916 | 0.56 | -3.44 | -1.91 | -0.64 | 6.9901 | 6.7511 | 6.5273 |
| Euro zone – (EUR/USD) | 1.1319 | -0.30 | 3.47 | 1.84 | 0.60 | 1.1419 | 1.1059 | 1.0689 |
| Norway – kroner | 9.4269 | 1.58 | -7.57 | 6.09 | 9.87 | 11.7547 | 9.3907 | 8.5324 |
| Russia – ruble | 70.7351 | 2.68 | -3.50 | 16.04 | 11.77 | 80.2825 | 67.1071 | 60.9575 |
| Sweden – krona | 9.1997 | 0.20 | -7.43 | -3.17 | -2.35 | 10.3899 | 9.6341 | 9.1811 |
| Switzerland – swiss franc | 0.9393 | -0.66 | -2.75 | -3.49 | -5.14 | 0.9994 | 0.9756 | 0.9297 |
| United Kingdom – (GBP/USD) | 1.2661 | -0.74 | 1.54 | -3.06 | 1.33 | 1.3345 | 1.2604 | 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 | Q2 | Q3f | Q4f | Q1f | Q2f | Q3f | Q4f | |
| U.S. dollar | | | | | | | | | | | |
| Canadian dollar | USD/CAD | 1.3241 | 1.2988 | 1.4062 | 1.3576 | 1.3699 | 1.3605 | 1.3514 | 1.3423 | 1.3333 | 1.3333 |
| Euro | EUR/USD | 1.0902 | 1.1225 | 1.0973 | 1.1232 | 1.1200 | 1.1200 | 1.1300 | 1.1300 | 1.1300 | 1.1400 |
| British pound | GBP/USD | 1.2323 | 1.3248 | 1.2400 | 1.2356 | 1.2500 | 1.2400 | 1.2500 | 1.2600 | 1.2700 | 1.2800 |
| Swiss franc | USD/CHF | 0.9974 | 0.9667 | 0.9672 | 0.9476 | 0.9500 | 0.9500 | 0.9500 | 0.9600 | 0.9600 | 0.9600 |
| Yen | USD/JPY | 108.08 | 108.63 | 107.55 | 107.94 | 107.00 | 107.00 | 108.00 | 109.00 | 109.00 | 110.00 |
| Australian dollar | AUD/USD | 0.6748 | 0.7022 | 0.6136 | 0.6903 | 0.6800 | 0.6800 | 0.6800 | 0.6900 | 0.6900 | 0.7000 |
| Chinese yuan | USD/CNY | 7.1484 | 6.9632 | 7.0825 | 7.0655 | 7.0500 | 7.1000 | 7.1000 | 7.0500 | 7.0500 | 7.0000 |
| Mexican peso | USD/MXN | 19.73 | 18.93 | 23.72 | 23.00 | 22.00 | 22.00 | 20.00 | 19.00 | 18.75 | 18.50 |
| Brazilian real | USD/BRL | 4.1641 | 4.0304 | 5.1984 | 5.4757 | 5.2000 | 5.2000 | 5.0000 | 4.7000 | 4.5000 | 4.5000 |
| Effective dollar ¹ | | 111.69 | 108.58 | 113.13 | 110.69 | 111.10 | 111.00 | 110.40 | 110.20 | 109.80 | 109.40 |
| Canadian dollar | | | | | | | | | | | |
| U.S. dollar | CAD/USD | 0.7552 | 0.7699 | 0.7112 | 0.7366 | 0.7300 | 0.7350 | 0.7400 | 0.7450 | 0.7500 | 0.7500 |
| Euro | EUR/CAD | 1.4435 | 1.4579 | 1.5429 | 1.5248 | 1.5342 | 1.5238 | 1.5270 | 1.5168 | 1.5067 | 1.5200 |
| British pound | GBP/CAD | 1.6317 | 1.7206 | 1.7436 | 1.6775 | 1.7123 | 1.6871 | 1.6892 | 1.6913 | 1.6933 | 1.7067 |
| Swiss franc | CAD/CHF | 0.7533 | 0.7443 | 0.6878 | 0.6980 | 0.6935 | 0.6983 | 0.7030 | 0.7152 | 0.7200 | 0.7200 |
| Yen | CAD/JPY | 81.63 | 83.63 | 76.48 | 79.50 | 78.11 | 78.65 | 79.92 | 81.21 | 81.75 | 82.50 |
| Australian dollar | AUD/CAD | 0.8935 | 0.9120 | 0.8628 | 0.9372 | 0.9315 | 0.9252 | 0.9189 | 0.9262 | 0.9200 | 0.9333 |
| Chinese yuan | CAD/CNY | 5.3986 | 5.3613 | 5.0368 | 5.2044 | 5.1465 | 5.2185 | 5.2540 | 5.2523 | 5.2875 | 5.2500 |
| Mexican peso | CAD/MXN | 14.90 | 14.58 | 16.87 | 16.94 | 16.06 | 16.17 | 14.80 | 14.16 | 14.06 | 13.88 |
| Brazilian real | CAD/BRL | 3.1449 | 3.1032 | 3.6969 | 4.0334 | 3.7960 | 3.8220 | 3.7000 | 3.5015 | 3.3750 | 3.3750 |

f: forecasts; ¹ Trade-weighted against major U.S. partners (2006 = 100).
 Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies