

## FX FORECASTS

# The Economic Recovery Should Slow, Potentially Giving the Greenback a Bit of Momentum

### HIGHLIGHTS

- ▶ Most currencies continued to appreciate against the U.S. dollar in July. However, gains were more limited in August. The currency fluctuations seen in recent months seem primarily due to changes in investor sentiment regarding the economic recovery. The swift rebound of several economic indicators since May has generated renewed optimism on the markets. Nevertheless, pandemic-related risks remain a stark reality. A number of countries have seen a resurgence of COVID-19 cases recently.
- ▶ Measures taken by the central banks may have also contributed to currency movements. The bias for continued high level of intervention suggests that the economy will continue to be stimulated, which help reassure investors over the longer term. That said, if inflation increases are higher than expected in certain countries, their currencies could be at a disadvantage. Inflation figures in the United States far exceeded forecasts in July, which could set the path for a loss in purchasing power for the greenback compared to other currencies. The Federal Reserve (Fed) also appears more inclined to tolerate higher inflation in the next few years.
- ▶ Several European currencies have outperformed the U.S. dollar since early July. The majority of them have seen gains nearing 5%. The economic rebound is clearly taking hold in Europe, which has reassured investors. However, inflation remains weak, and the central banks generally appear to have less wiggle room than the Fed to step up their intervention measures. This seems to have given European currencies the upper hand. The euro now tends to trade at above US\$1.18, its highest level in over two years. Despite continued uncertainty surrounding Brexit, the pound sterling has risen to close to US\$1.32. In early July, it stood at US\$1.24.
- ▶ The Canadian dollar has gained just under 3% versus the U.S. dollar since early July and has lost a bit of ground against most European currencies. It's currently sitting at approximately US\$0.76 and €0.64. The economic recovery also seems to be well underway in Canada. The comeback in certain commodity prices is another good thing for the loonie. However, the Bank of Canada seems to want to maintain a high degree of intervention over the long term, which could rein in the loonie's gains against other currencies.

### MAIN FACTORS TO WATCH

- ▶ The economic figures for June and July reflect the significant positive impact of a number of public health restrictions being lifted. However, the situation hasn't fully returned to normal, and several industries are still struggling to make up for lost ground. What's more, the risk of a second wave of COVID-19 in the fall still appears realistic without a vaccine or an effective treatment. Under these circumstances, investors could be more cautious in the coming months, which leads us to believe in a rebound of the U.S. dollar.
- ▶ In this scenario, the Canadian dollar should return below the US\$0.75 mark this fall. We expect to see a more sustainable rise later next year.

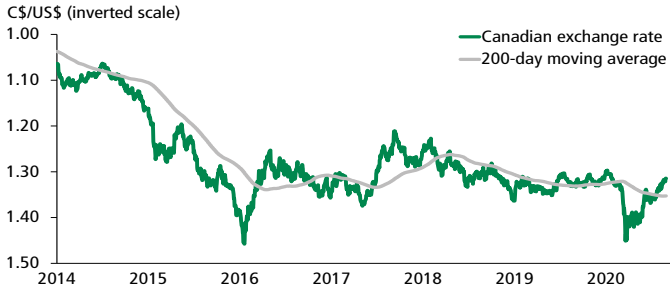
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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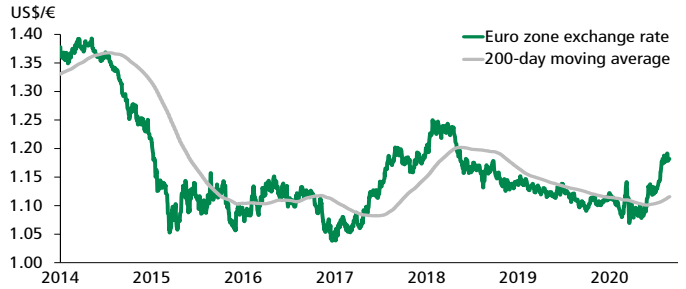
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



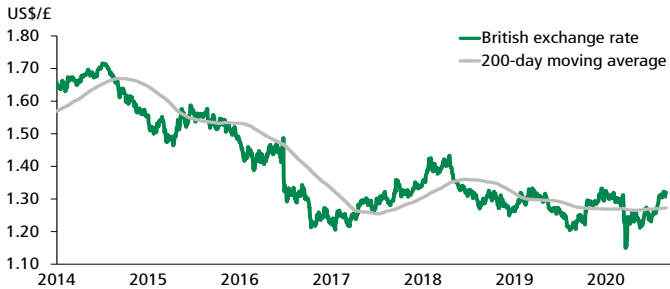
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



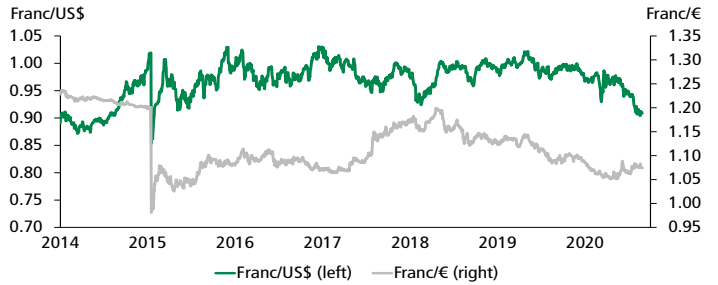
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



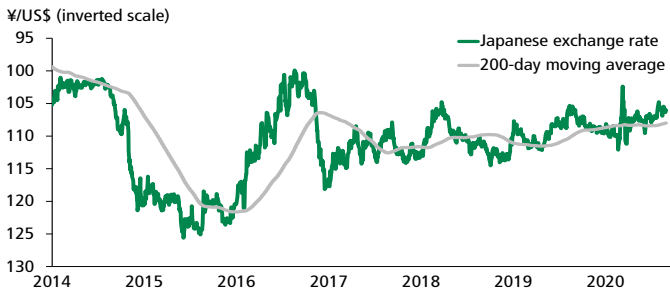
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



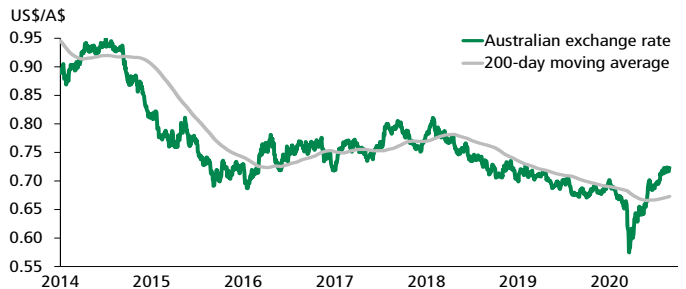
Sources: Datastream and Desjardins, Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

## 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		
	August 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	73.8557	2.73	8.18	18.93	33.54	73.8557	63.6696	55.3040
Brazil – real	5.5584	6.93	3.74	26.65	34.14	5.9236	4.7064	3.9769
Canada – (USD/CAD)	1.3142	-1.95	-4.80	-1.21	-1.11	1.4539	1.3458	1.2968
Canada – (CAD/USD)	0.7609	1.99	5.04	1.22	1.12	0.7712	0.7431	0.6878
Mexico – peso	21.9275	-1.99	-1.44	14.59	10.13	25.1420	20.9676	18.5605
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.7233	1.81	8.73	10.53	6.76	0.7243	0.6734	0.5742
China – yuan renminbi	6.8860	-1.87	-3.49	-1.94	-3.71	7.1789	7.0363	6.8598
Hong Kong – dollar	7.7504	-0.02	-0.03	-0.55	-1.21	7.8475	7.7829	7.7496
India – rupee	74.2220	-0.72	-1.64	3.69	3.05	76.9750	73.2626	70.5086
Japan – yen	105.99	-0.14	-1.45	-4.02	-0.14	112.13	107.99	102.36
New Zealand – (NZD/USD)	0.6621	-0.38	6.82	5.18	3.53	0.6738	0.6361	0.5673
South Korea – won	1,187	-1.22	-3.85	-2.48	-2.55	1,286	1,196	1,156
<b>Europe</b>								
Denmark – krona	6.2916	-1.46	-7.36	-8.39	-6.33	6.9901	6.7105	6.2407
Euro zone – (EUR/USD)	1.1818	1.66	7.58	8.76	6.33	1.1921	1.1127	1.0689
Norway – kroner	8.8850	-3.01	-10.18	-5.47	-1.30	11.7547	9.4257	8.7804
Russia – ruble	75.6025	5.41	7.02	16.02	14.43	80.2825	68.1629	60.9575
Sweden – krona	8.7199	-1.40	-9.35	-10.44	-9.88	10.3899	9.5431	8.6489
Switzerland – swiss franc	0.9085	-1.58	-6.12	-7.06	-7.12	0.9994	0.9676	0.9038
United Kingdom – (GBP/USD)	1.3192	3.16	6.74	2.13	7.93	1.3345	1.2688	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	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.3241	1.2988	1.4062	1.3576	1.3333	1.3514	1.3333	1.3158	1.3158	1.3158
Euro	EUR/USD	1.0902	1.1225	1.0973	1.1232	1.1700	1.1500	1.1700	1.1900	1.1800	1.1800
British pound	GBP/USD	1.2323	1.3248	1.2400	1.2356	1.3100	1.2800	1.3000	1.3100	1.3200	1.3300
Swiss franc	USD/CHF	0.9974	0.9667	0.9672	0.9476	0.9100	0.9100	0.9100	0.9200	0.9300	0.9300
Yen	USD/JPY	108.08	108.63	107.55	107.94	107.00	106.00	107.00	108.00	109.00	110.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6136	0.6903	0.7100	0.6900	0.7000	0.7100	0.7100	0.7200
Chinese yuan	USD/CNY	7.1484	6.9632	7.0825	7.0655	6.9000	7.0000	6.9500	6.9000	6.8500	6.8000
Mexican peso	USD/MXN	19.73	18.93	23.72	23.00	22.00	23.00	21.00	19.00	18.75	18.50
Brazilian real	USD/BRL	4.1641	4.0304	5.1984	5.4757	5.4000	5.6000	5.4000	5.1000	4.9000	4.6000
Effective dollar <sup>1</sup>		111.69	108.58	113.13	110.69	106.50	108.80	107.50	106.50	106.80	106.80
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7112	0.7366	0.7500	0.7400	0.7500	0.7600	0.7600	0.7600
Euro	EUR/CAD	1.4435	1.4579	1.5429	1.5248	1.5600	1.5541	1.5600	1.5658	1.5526	1.5526
British pound	GBP/CAD	1.6317	1.7206	1.7436	1.6775	1.7467	1.7297	1.7333	1.7237	1.7368	1.7500
Swiss franc	CAD/CHF	0.7533	0.7443	0.6878	0.6980	0.6825	0.6734	0.6825	0.6992	0.7068	0.7068
Yen	CAD/JPY	81.63	83.63	76.48	79.50	80.25	78.44	80.25	82.08	82.84	83.60
Australian dollar	AUD/CAD	0.8935	0.9120	0.8628	0.9372	0.9467	0.9324	0.9333	0.9342	0.9342	0.9474
Chinese yuan	CAD/CNY	5.3986	5.3613	5.0368	5.2044	5.1750	5.1800	5.2125	5.2440	5.2060	5.1680
Mexican peso	CAD/MXN	14.90	14.58	16.87	16.94	16.50	17.02	15.75	14.44	14.25	14.06
Brazilian real	CAD/BRL	3.1449	3.1032	3.6969	4.0334	4.0500	4.1440	4.0500	3.8760	3.7240	3.4960

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