

FX FORECASTS

Greenback Recharges on the Increase in Uncertainty

HIGHLIGHTS

- ▶ As we expected, the U.S. dollar ended up rebounding against most other currencies. Given the increasingly uncertain context, investors are once more preferring safe-haven securities like the U.S. dollar. The COVID-19 pandemic is surging again in several countries, triggering the reapplication of public health measures that hobble the economy. Moreover, although numerous economic statistics improved sharply at the end of last spring and early this summer, they are already losing steam, further intensifying investor caution.
- ▶ Nonetheless, the U.S. dollar remains well below the levels seen earlier last spring. The DXY U.S. dollar effective exchange rate index was then above 100. It is now around 94. At its lowest, it was close to 92 in August. This is consistent with the fact that the anxiety level is much lower than it was at the start of the pandemic. There are still some positive points to consider, such as the fact that a number of COVID-19 vaccine candidates are in or close to the final phase of testing. The central banks are also helping soothe the markets, signalling that they will maintain their ultra-stimulating policies for a long time.
- ▶ The euro had neared US\$1.20 a few times in August before losing some ground in September, a level unmatched since spring 2018. Now close to US\$1.17, the euro remains fairly strong based on its movement in the last two years. Yet Europe's economic situation is not really better than the situation in the United States. However, the common currency seems to be benefiting from the fact that the European Central Bank seems less able to further ease its monetary policy. Inflation is also weaker in the euro zone which, over the long run, tends to increase the value of a currency against others where inflation is higher. The Federal Reserve is also signalling that it could tolerate more inflation to foster employment in the coming years.
- ▶ The Canadian dollar, for its part, temporarily dropped below the psychological threshold of US\$0.75. At the start of September, it was close to US\$0.77, a peak that dates back to January. The recent loonie's depreciation against the U.S. dollar is similar to that of other currencies, such as the euro. The Canadian dollar held fairly close to €0.64 in September. This is still well below the €0.68–€0.69 seen at the start of the year.
- ▶ The pound sterling got a little more attention recently as the Brexit issue is back in the news. The pound's value fluctuated in tandem with progress on the negotiations with the rest of Europe; the negotiations should normally yield a final agreement in October. The pound was close to US\$1.34 in August, only to fall to nearly US\$1.27; it then climbed around US\$1.29 in the last few days.

MAIN FACTORS TO WATCH

- ▶ Uncertainty could remain higher all this fall than it was last summer. In this context, the U.S. dollar should continue to have an advantage over most currencies. However, further gains could be fairly small failing a sharp erosion in the economic situation and signs that the pandemic could worsen considerably in terms of duration and magnitude.
- ▶ In this scenario, the Canadian dollar should end the year below the US\$0.75 mark. It should rise again during the next year.

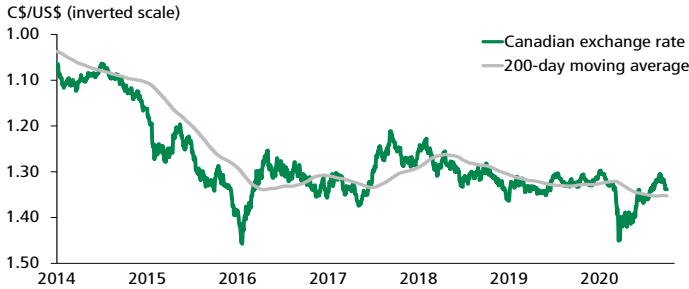
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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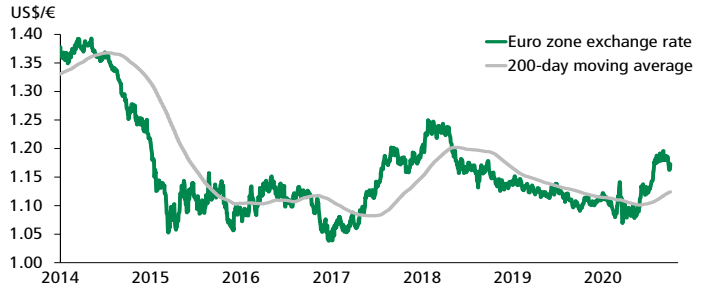
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



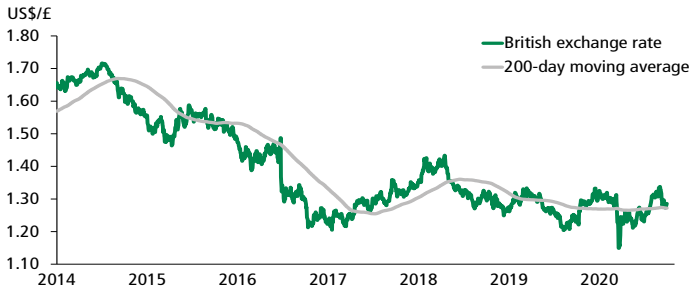
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



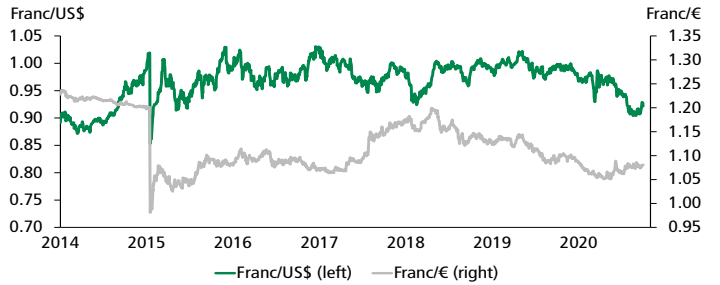
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



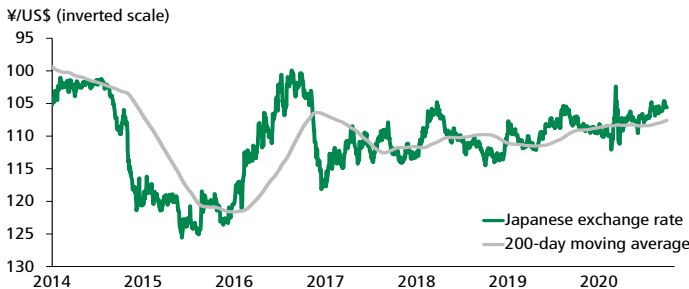
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



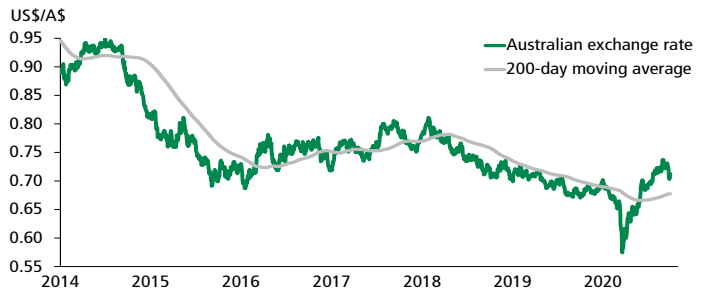
Sources: Datastream and Desjardins, Economic Studies

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		
	Sep. 30	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	76.1730	2.95	8.12	18.17	32.26	76.1730	65.4169	57.5950
Brazil – real	5.6365	3.35	2.65	9.49	35.32	5.9236	4.8286	3.9769
Canada – (USD/CAD)	1.3358	1.93	-1.93	-5.70	0.89	1.4539	1.3454	1.2968
Canada – (CAD/USD)	0.7486	-1.90	1.97	6.05	-0.88	0.7712	0.7433	0.6878
Mexico – peso	22.0757	1.01	-4.46	-8.85	11.81	25.1420	21.1605	18.5605
Asia and South Pacific								
Australia – (AUD/USD)	0.7163	-2.77	3.76	16.09	6.14	0.7376	0.6773	0.5742
China – yuan renminbi	6.7908	-1.09	-3.89	-4.36	-5.00	7.1697	7.0074	6.7548
Hong Kong – dollar	7.7500	-0.01	-0.01	-0.06	-1.13	7.8456	7.7747	7.7496
India – rupee	73.5700	0.62	-2.61	-2.44	4.14	76.9750	73.4579	70.5700
Japan – yen	105.47	0.10	-2.29	-2.19	-2.42	112.13	107.84	102.36
New Zealand – (NZD/USD)	0.6614	-1.91	2.48	9.96	5.61	0.6772	0.6391	0.5673
South Korea – won	1,170	-1.26	-2.77	-4.48	-2.23	1,286	1,194	1,156
Europe								
Denmark – krona	6.3520	1.62	-4.25	-6.02	-7.27	6.9901	6.6666	6.2360
Euro zone – (EUR/USD)	1.1727	-1.44	4.41	6.32	7.56	1.1964	1.1200	1.0689
Norway – kroner	9.3315	6.07	-3.04	-11.54	2.60	11.7547	9.4344	8.7214
Russia – ruble	77.6013	4.43	8.91	-2.68	19.60	80.2825	69.1791	60.9575
Sweden – krona	8.9559	3.78	-3.91	-10.74	-9.01	10.3899	9.4590	8.6298
Switzerland – swiss franc	0.9188	1.62	-3.04	-4.28	-7.86	0.9994	0.9605	0.9005
United Kingdom – (GBP/USD)	1.2928	-3.02	4.63	4.15	4.91	1.3448	1.2752	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	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3241	1.2988	1.4062	1.3576	1.3321	1.3514	1.3333	1.3158	1.3072	1.2987
Euro	EUR/USD	1.0902	1.1225	1.0973	1.1232	1.1727	1.1600	1.1700	1.1800	1.1900	1.2000
British pound	GBP/USD	1.2323	1.3248	1.2400	1.2356	1.2928	1.2700	1.2800	1.3000	1.3200	1.3400
Swiss franc	USD/CHF	0.9974	0.9667	0.9672	0.9476	0.9186	0.9100	0.9100	0.9200	0.9200	0.9200
Yen	USD/JPY	108.08	108.63	107.55	107.94	105.47	105.00	106.00	107.00	109.00	110.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6136	0.6903	0.7163	0.7000	0.7100	0.7200	0.7300	0.7300
Chinese yuan	USD/CNY	7.1484	6.9632	7.0825	7.0655	6.7908	6.9000	6.9000	6.8500	6.8000	6.7500
Mexican peso	USD/MXN	19.73	18.93	23.72	23.00	22.11	23.00	22.00	20.00	19.00	18.50
Brazilian real	USD/BRL	4.1641	4.0304	5.1984	5.4757	5.6404	5.7000	5.5000	5.3000	5.1000	5.0000
Effective dollar ¹		111.69	108.58	113.13	110.69	107.80	108.40	107.60	106.70	106.10	105.50
Canadian dollar											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7112	0.7366	0.7507	0.7400	0.7500	0.7600	0.7650	0.7700
Euro	EUR/CAD	1.4435	1.4579	1.5429	1.5248	1.5621	1.5676	1.5600	1.5526	1.5556	1.5584
British pound	GBP/CAD	1.6317	1.7206	1.7436	1.6775	1.7221	1.7162	1.7067	1.7105	1.7255	1.7403
Swiss franc	CAD/CHF	0.7533	0.7443	0.6878	0.6980	0.6896	0.6734	0.6825	0.6992	0.7038	0.7084
Yen	CAD/JPY	81.63	83.63	76.48	79.50	79.17	77.70	79.50	81.32	83.39	84.70
Australian dollar	AUD/CAD	0.8935	0.9120	0.8628	0.9372	0.9542	0.9459	0.9467	0.9474	0.9542	0.9481
Chinese yuan	CAD/CNY	5.3986	5.3613	5.0368	5.2044	5.0978	5.1060	5.1750	5.2060	5.2020	5.1975
Mexican peso	CAD/MXN	14.90	14.58	16.87	16.94	16.60	17.02	16.50	15.20	14.54	14.25
Brazilian real	CAD/BRL	3.1449	3.1032	3.6969	4.0334	4.2342	4.2180	4.1250	4.0280	3.9015	3.8500

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