

FX FORECASTS

U.S. Election and the Pandemic Increase Volatility for Exchange Rates

HIGHLIGHTS

- ▶ The currency markets have seen a bit more movement recently, primarily due to speculations regarding the pandemic and the U.S. election. In general, the U.S. dollar has continued its trend of appreciating when worries increase, but the fluctuations have been less dramatic than those seen last spring.
- ▶ Global economic growth is again at risk of slowing down due to the additional public health measures implemented in many countries. The situation in Europe appears to be more problematic, which did more damage to the euro in the last few days. The common currency fell to nearly US\$1.17. The Swiss franc again served as a safe haven, with the EUR/CHF currency pair falling back below 1.07 francs.
- ▶ Brexit negotiations have also added to uncertainty in Europe. With each passing day, the possibility of a no-deal exit for the United Kingdom is growing, which could be more damaging to the British economy. The pound has continued to see considerable movement in the last few weeks and is currently sitting at around US\$1.30.
- ▶ It's difficult to predict the outcome of the U.S. election due to the tight races in certain key states. However, investors appear to be leaning slightly toward a victory for the Democrats, which could lead to a greater increase in public spending, among other things. That could explain the more limited appreciation of the U.S. dollar recently. There's also a possibility of the election results being contested, and even social unrest. This additional risk specific to the United States has put the greenback at a disadvantage compared to other safe-haven currencies. In fact, the yen has performed quite well and is currently at around ¥104/US\$.
- ▶ The Canadian dollar rose to above US\$0.76 in early October, but it wasn't able to hang onto its gains due to the new feared consequences of the pandemic. This could mean a significant slowdown in growth for the Canadian economy in the fourth quarter. Fears have also intensified over certain commodities, such as energy. Currently near US\$0.75, the Canadian dollar is still well below the levels it saw in the spring.

MAIN FACTORS TO WATCH

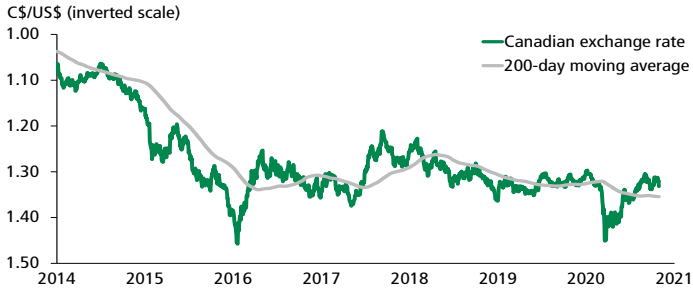
- ▶ As anticipated, we're seeing renewed concern for the fourth quarter. This more favorable context for the U.S. dollar could linger until several countries regain control over the pandemic and a further relaxation of public health measures will be in sight. The impending arrival of a COVID-19 treatment or vaccine could also significantly reduce uncertainty, but their effectiveness and large-scale availability could remain issues for several months. In the shorter term, the U.S. election will likely continue to temporarily generate a bit more volatility on the currency markets.
- ▶ The Canadian dollar is near of our target of US\$0.75 for the end of the year. It would take a much more significant deterioration of the global economic situation to see the Canadian dollar depreciate further, which we don't anticipate for the time being. We expect to see it gradually rise next year, likely starting around the spring, when pandemic-related uncertainty begins to subside in a more lasting manner.

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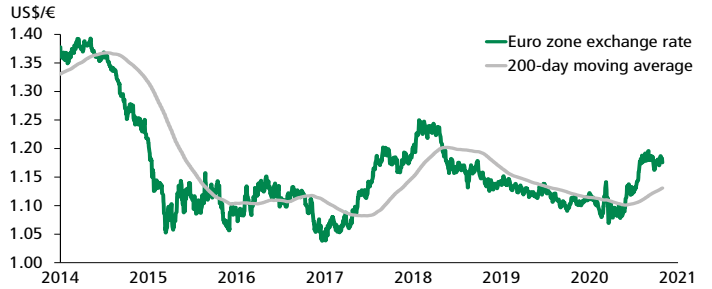
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



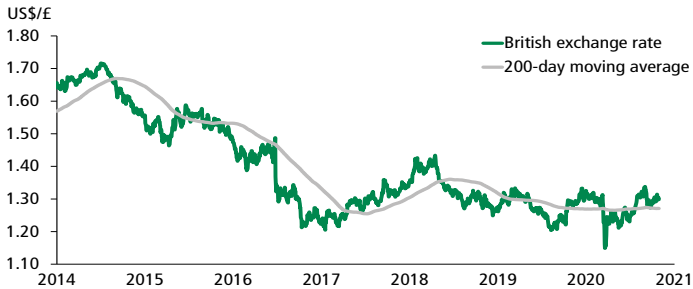
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



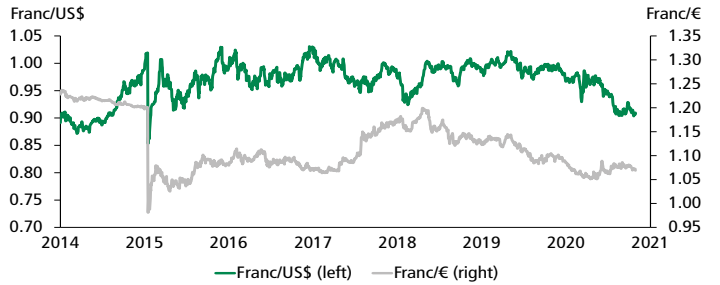
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



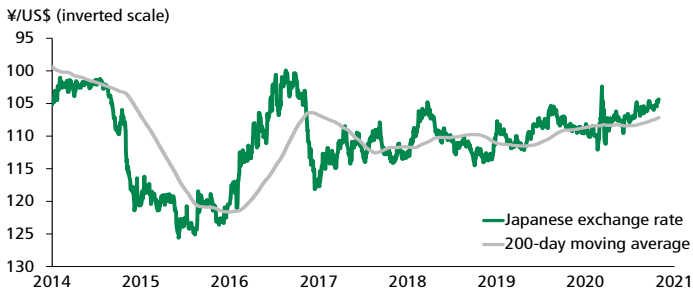
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



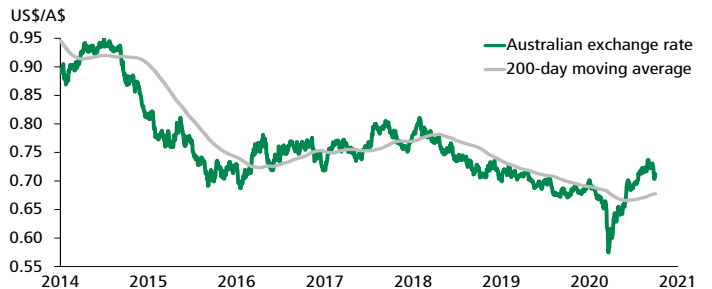
Sources: Datastream and Desjardins, Economic Studies

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		
	Oct. 28	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	78.3205	2.98	8.58	17.53	32.14	78.3205	66.8773	59.2692
Brazil – real	5.7416	2.54	10.99	2.77	44.36	5.9236	4.9423	3.9769
Canada – (USD/CAD)	1.3321	-0.53	-0.57	-4.84	1.96	1.4539	1.3453	1.2968
Canada – (CAD/USD)	0.7507	0.54	0.57	5.09	-1.92	0.7712	0.7433	0.6878
Mexico – peso	21.1600	-5.99	-3.57	-13.51	11.10	25.1420	21.3036	18.5605
Asia and South Pacific								
Australia – (AUD/USD)	0.7045	-0.37	-1.58	8.54	3.02	0.7376	0.6798	0.5742
China – yuan renminbi	6.7290	-1.22	-3.88	-4.95	-4.79	7.1697	6.9788	6.6511
Hong Kong – dollar	7.7502	0.00	0.00	0.00	-1.14	7.8401	7.7676	7.7496
India – rupee	74.1900	0.58	-0.96	-2.46	4.87	76.9750	73.6434	70.5700
Japan – yen	104.32	-1.13	-0.74	-2.40	-4.26	112.13	107.63	102.36
New Zealand – (NZD/USD)	0.6638	1.29	-0.35	9.61	4.55	0.6772	0.6414	0.5673
South Korea – won	1,131	-3.66	-5.55	-7.72	-3.43	1,286	1,191	1,126
Europe								
Denmark – krona	6.3374	-0.70	-0.24	-8.04	-5.84	6.9901	6.6324	6.2360
Euro zone – (EUR/USD)	1.1752	0.91	0.20	8.49	5.94	1.1964	1.1257	1.0689
Norway – kroner	9.3695	-1.21	2.75	-9.94	1.60	11.7547	9.4442	8.7214
Russia – ruble	78.7287	-0.55	8.48	6.01	23.57	80.2825	70.1686	60.9575
Sweden – krona	8.8485	-2.13	0.88	-10.62	-8.81	10.3899	9.3859	8.6298
Switzerland – swiss franc	0.9097	-1.91	-0.83	-6.70	-8.67	0.9994	0.9542	0.9005
United Kingdom – (GBP/USD)	1.2996	1.20	0.40	4.49	1.08	1.3448	1.2783	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	1.3333	1.3333	1.3158	1.3072	1.2987
Euro	EUR/USD	1.0902	1.1225	1.0973	1.1232	1.1727	1.1700	1.1700	1.1800	1.1900	1.2000
British pound	GBP/USD	1.2323	1.3248	1.2400	1.2356	1.2928	1.2900	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	104.00	105.00	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	6.7000	6.8000	6.7500	6.7000	6.6500
Mexican peso	USD/MXN	19.73	18.93	23.72	23.00	22.11	22.00	21.50	20.00	19.00	18.50
Brazilian real	USD/BRL	4.1641	4.0304	5.1984	5.4757	5.6404	5.8000	5.6000	5.3000	5.1000	5.0000
Effective dollar ¹		111.69	108.58	113.13	110.69	107.08	107.40	107.40	106.70	106.10	105.50
Canadian dollar											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7112	0.7366	0.7507	0.7500	0.7500	0.7600	0.7650	0.7700
Euro	EUR/CAD	1.4435	1.4579	1.5429	1.5248	1.5621	1.5600	1.5600	1.5526	1.5556	1.5584
British pound	GBP/CAD	1.6317	1.7206	1.7436	1.6775	1.7221	1.7200	1.7067	1.7105	1.7255	1.7403
Swiss franc	CAD/CHF	0.7533	0.7443	0.6878	0.6980	0.6896	0.6825	0.6825	0.6992	0.7038	0.7084
Yen	CAD/JPY	81.63	83.63	76.48	79.50	79.17	78.00	78.75	81.32	83.39	84.70
Australian dollar	AUD/CAD	0.8935	0.9120	0.8628	0.9372	0.9542	0.9333	0.9467	0.9474	0.9542	0.9481
Chinese yuan	CAD/CNY	5.3986	5.3613	5.0368	5.2044	5.0978	5.0250	5.1000	5.1300	5.1255	5.1205
Mexican peso	CAD/MXN	14.90	14.58	16.87	16.94	16.60	16.50	16.13	15.20	14.54	14.25
Brazilian real	CAD/BRL	3.1449	3.1032	3.6969	4.0334	4.2342	4.3500	4.2000	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