

FX FORECASTS

Many Currencies Are Reappreciating against the U.S. Dollar

HIGHLIGHTS

- ▶ While COVID-19 cases remain high in many countries, a new wave of optimism has been sweeping across the financial markets since the announcement of effective vaccines. Countries are now fine-tuning their population vaccination plans, with some even slated to begin vaccinations in December. We are starting to see the light at the end of the pandemic tunnel!
- ▶ On foreign exchange markets, investor optimism is translating into weaker demand for the U.S. dollar, usually considered a safe-haven currency. The U.S. dollar is also continuing to be buffeted by the Federal Reserve's signalling that monetary policy will remain highly accommodative for a long time. The pandemic that is currently pounding the United States harder is another unfavourable factor, as new restrictive health measures for the economy could be required in the short term. In comparison, some European countries are already announcing plans to lift lockdown measures in response to the deceleration of new COVID-19 cases.
- ▶ The yen, which is also considered a safe-haven currency, hardly budged against the U.S. dollar recently. The Japanese exchange rate is hovering near ¥104/US\$, although the yen depreciated against several other currencies.
- ▶ The euro is now above US\$1.21, its highest level in two and a half years. The other European currencies are also doing quite well. The pound came back up to US\$1.35 recently. It nevertheless slid back to around US\$1.33 because of the increasing risk that there is no post-Brexit agreement between the United Kingdom and the European Union. The Swiss franc, often considered a safe haven for Europe, lost ground against the euro, but appreciated against the U.S. dollar. The Swiss currency has been at a peak since 2015, at 0.89 francs/\$US.
- ▶ The Canadian dollar exceeded US\$0.78. It is also the highest level for the loonie in two and a half years, despite the still unfavourable evolution of the pandemic in Canada and the recent introduction of new health restrictions. The latest economic figures were nevertheless encouraging, especially employment, which was stronger than expected in November. The prices of several commodities also increased, supporting the loonie. It is also worth noting the Bank of Canada's decision to reduce its bond purchases from C\$5B to C\$4B a week, the first step toward reducing the level of monetary stimulus.

MAIN FACTORS TO WATCH

- ▶ Recent developments are inciting us to change our exchange rate forecasts. Assuming that the vaccination campaign is successful and that the economic outlook improves significantly, beginning next summer, it is difficult not to imagine more gains for many currencies against the U.S. dollar. It now appears more likely that the Canadian dollar will reach the US\$0.80 mark by late 2021. Gains against the euro—which should also continue to appreciate—should be lower. We expect the loonie to return near €0.65.
- ▶ That said, the forecast climb should not advance in a straight line. Due to the current economic difficulties and the still-raging pandemic, it appears likely that several currencies will pull back over the coming months. We also need to consider that the United States will probably not continually be the epicentre of the pandemic in the coming months, especially since vaccination could be faster there. The greenback could take advantage of this during the first quarter of 2021.

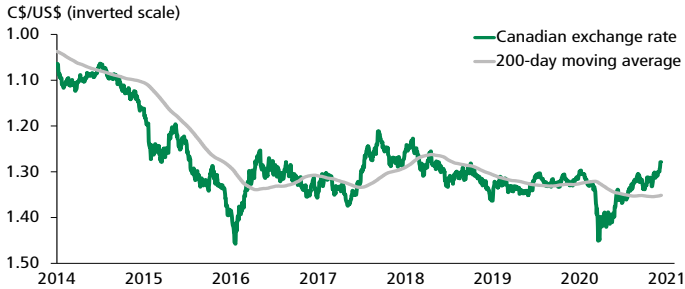
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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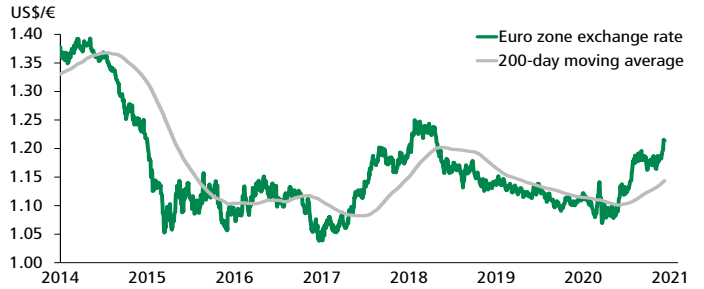
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



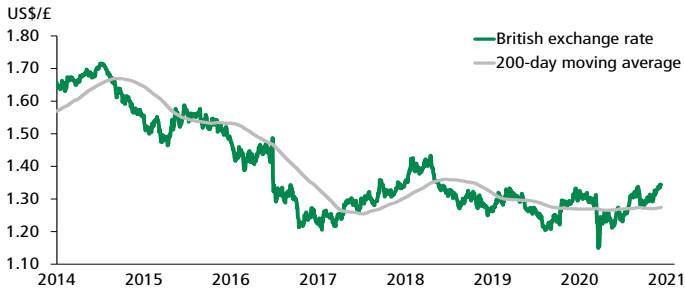
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



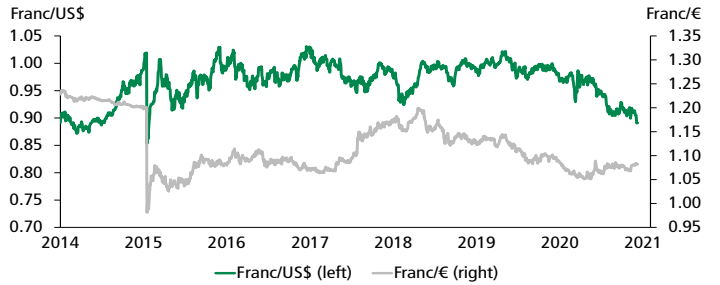
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



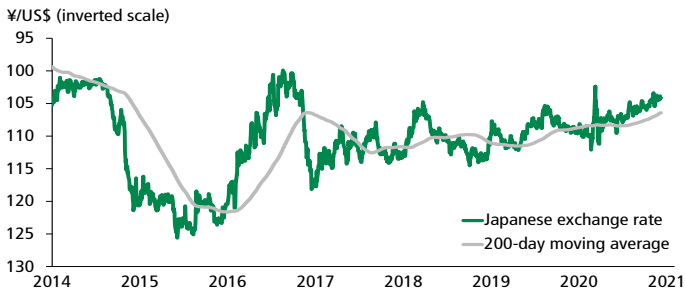
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



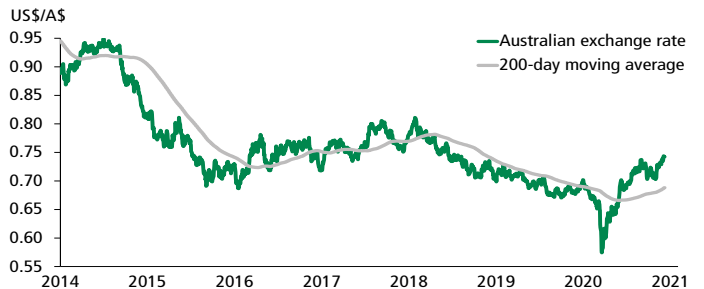
Sources: Datastream and Desjardins, Economic Studies

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		
	Dec. 4	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	81.6647	3.33	9.71	18.54	36.34	81.6647	68.9656	59.7335
Brazil – real	5.1712	-8.80	-2.32	1.53	23.36	5.9236	5.0742	4.0224
Canada – (USD/CAD)	1.2805	-2.51	-2.39	-5.05	-3.23	1.4539	1.3436	1.2805
Canada – (CAD/USD)	0.7810	2.58	2.44	5.32	3.34	0.7810	0.7443	0.6878
Mexico – peso	19.7830	-6.23	-8.36	-9.04	1.62	25.1420	21.4173	18.5605
Asia and South Pacific								
Australia – (AUD/USD)	0.7424	3.44	1.95	6.93	8.38	0.7439	0.6841	0.5742
China – yuan renminbi	6.5316	-1.83	-4.54	-8.14	-7.35	7.1697	6.9351	6.5316
Hong Kong – dollar	7.7509	-0.06	0.00	0.01	-1.00	7.8294	7.7597	7.7496
India – rupee	73.7757	-0.80	0.66	-2.23	3.22	76.9750	73.9243	70.5700
Japan – yen	104.16	-0.34	-1.97	-4.56	-4.33	112.13	107.17	102.36
New Zeland – (NZD/USD)	0.7048	5.26	4.84	9.04	7.94	0.7078	0.6460	0.5673
South Korea – won	1,082	-4.87	-9.03	-11.19	-9.38	1,286	1,185	1,082
Europe								
Denmark – krona	6.1392	-3.32	-2.32	-6.65	-8.97	6.9901	6.5833	6.1303
Euro zone – (EUR/USD)	1.2142	3.70	2.92	7.03	9.51	1.2160	1.1339	1.0689
Norway – kroner	8.7998	-5.58	-1.31	-5.96	-4.08	11.7547	9.4349	8.7214
Russia – ruble	73.9063	-5.43	-2.10	6.88	15.69	80.7600	71.4857	60.9575
Sweden – krona	8.4575	-3.75	-3.25	-8.02	-11.09	10.3899	9.2829	8.4271
Switzerland – swiss franc	0.8910	-2.30	-2.66	-6.90	-9.90	0.9911	0.9456	0.8905
United Kingdom – (GBP/USD)	1.3473	3.73	2.01	6.86	2.78	1.3499	1.2817	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	1.2903	1.2987	1.2821	1.2658	1.2500
Euro	EUR/USD	1.0902	1.1225	1.0973	1.1232	1.1727	1.2100	1.2100	1.2300	1.2400	1.2400
British pound	GBP/USD	1.2323	1.3248	1.2400	1.2356	1.2928	1.3200	1.3300	1.3500	1.3700	1.3800
Swiss franc	USD/CHF	0.9974	0.9667	0.9672	0.9476	0.9186	0.8900	0.8900	0.8900	0.9000	0.9000
Yen	USD/JPY	108.08	108.63	107.55	107.94	105.47	104.00	104.00	106.00	107.00	108.00
Australian dollar	AUD/USD	0.6748	0.7022	0.6136	0.6903	0.7163	0.7400	0.7300	0.7400	0.7500	0.7600
Chinese yuan	USD/CNY	7.1484	6.9632	7.0825	7.0655	6.7908	6.5500	6.6000	6.5500	6.5000	6.5000
Mexican peso	USD/MXN	19.73	18.93	23.72	23.00	22.11	20.00	20.00	19.50	19.00	18.50
Brazilian real	USD/BRL	4.1641	4.0304	5.1984	5.4757	5.6404	5.1000	5.4000	5.0000	4.9000	4.8000
Effective dollar ¹		111.69	108.58	113.13	110.69	107.08	104.30	104.40	103.30	102.60	102.20
Canadian dollar											
U.S. dollar	CAD/USD	0.7552	0.7699	0.7112	0.7366	0.7507	0.7750	0.7700	0.7800	0.7900	0.8000
Euro	EUR/CAD	1.4435	1.4579	1.5429	1.5248	1.5621	1.5613	1.5714	1.5769	1.5696	1.5500
British pound	GBP/CAD	1.6317	1.7206	1.7436	1.6775	1.7221	1.7032	1.7273	1.7308	1.7342	1.7250
Swiss franc	CAD/CHF	0.7533	0.7443	0.6878	0.6980	0.6896	0.6898	0.6853	0.6942	0.7110	0.7200
Yen	CAD/JPY	81.63	83.63	76.48	79.50	79.17	80.60	80.08	82.68	84.53	86.40
Australian dollar	AUD/CAD	0.8935	0.9120	0.8628	0.9372	0.9542	0.9548	0.9481	0.9487	0.9494	0.9500
Chinese yuan	CAD/CNY	5.3986	5.3613	5.0368	5.2044	5.0978	5.0763	5.0820	5.1090	5.1350	5.2000
Mexican peso	CAD/MXN	14.90	14.58	16.87	16.94	16.60	15.50	15.40	15.21	15.01	14.80
Brazilian real	CAD/BRL	3.1449	3.1032	3.6969	4.0334	4.2342	3.9525	4.1580	3.9000	3.8710	3.8400

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