

FX FORECASTS

The U.S. Dollar Rebound Could Run Out of Steam Quickly

HIGHLIGHTS

- ▶ The U.S. dollar has done fairly well in recent weeks. The adoption of a new economic stimulus plan has magnified the already optimistic expectations for the U.S. economy's growth. Rising bond yields also seem to be helping the greenback, especially against currencies whose yields are not advancing as quickly as they are in the United States.
- ▶ The inflation concerns do not seem to be negative on the U.S. dollar. That said, expected inflation remains reasonable. The scenarios are not such that the United States would post an inflation rate several percentage points above the average for the other major economies. The Federal Reserve (Fed) has still substantial credibility with investors as to its ability to control inflation over the coming years.
- ▶ The Canadian dollar was one of the few currencies to rise against the U.S. dollar in recent weeks. It has crossed the psychological threshold of US\$0.80. Canadian bond yields have tracked the movement by U.S. yields fairly well. The solid performance by commodities, particularly oil, also seems to have helped the loonie.
- ▶ The euro fell back below US\$1.19 recently. This is a substantial drop given that the common currency had held quite close to US\$1.22 over the three previous months. The economic numbers are less stellar in Europe than in the United States. Several European countries also announced new lockdown measures recently in response to a rebound in COVID-19 cases. Moreover, the European Central Bank is working more actively to curb the rise by bond yields, temporarily increasing the pace of its purchases.
- ▶ The pound sterling rose against the euro in January and February, but seems to have plateaued at around €0.86/£. After the optimism generated by reaching a Brexit agreement, investors seem to be realizing that everything is not rosy between the United Kingdom and the European Union. Also in Europe, the Swiss franc is clearly taking a hit from investors' growing risk appetite. The same thing has happened to the Japanese yen.
- ▶ In several emerging countries, currencies remain very sensitive to the evolution of U.S. interest rates. It is always harder for emerging nations to attract foreign capital when interest rates go up in the United States. China is less sensitive to the influx of foreign capital, but does not want to see the yuan appreciate too much against the other major emerging nation currencies. A weaker yuan could still become a source of conflict in a context in which the Chinese economy and exports are doing well.

MAIN FACTORS TO WATCH

- ▶ The U.S. dollar has gotten some help from a number of factors recently, but the effect should fade over the next few months. The U.S. economy should do well in the short term, but several other countries will be following in its wake soon. We also expect growth by U.S. bond yields to moderate. In 2022, it will probably become more obvious that the Fed will be getting ready to raise its key rates, and the U.S. dollar could benefit.
- ▶ Unlike the other currencies, the Canadian dollar's appreciation potential seems more limited for the next few quarters. The movement forecast for Canadian interest rates and commodity prices does not suggest the loonie will be able to go much above US\$0.81. In the short term, the spike in COVID-19 cases in some parts of Canada could hurt the currency.

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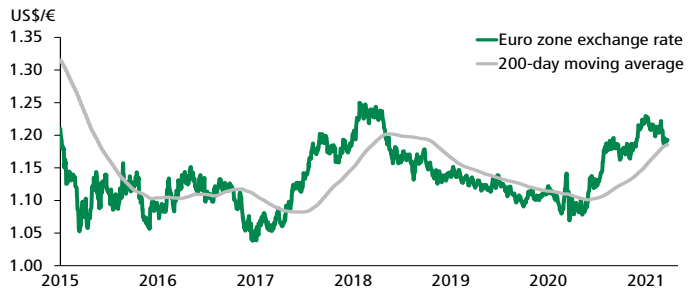
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



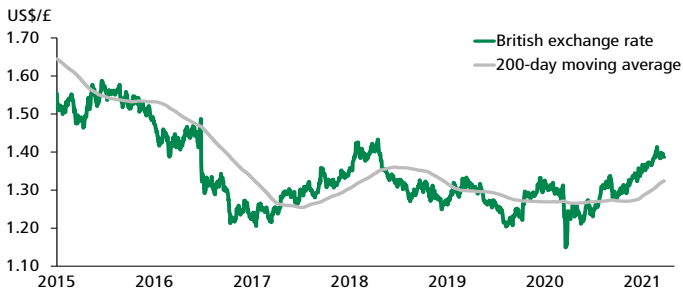
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EURO Exchange rate and trend



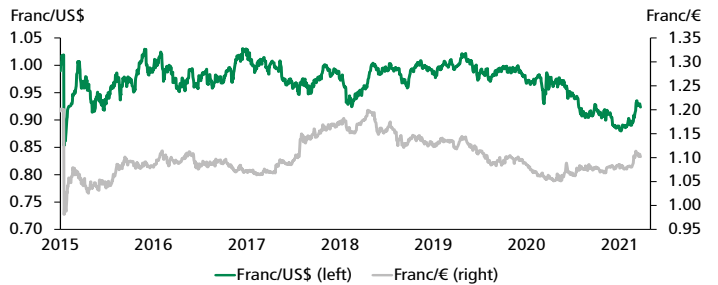
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



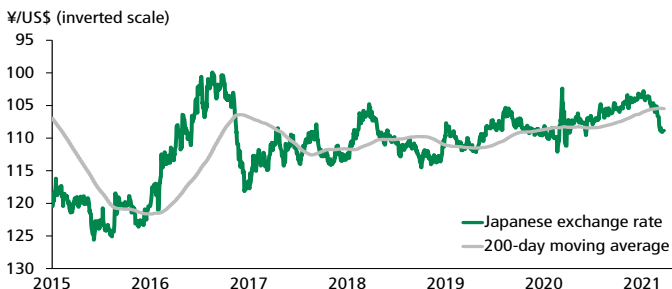
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



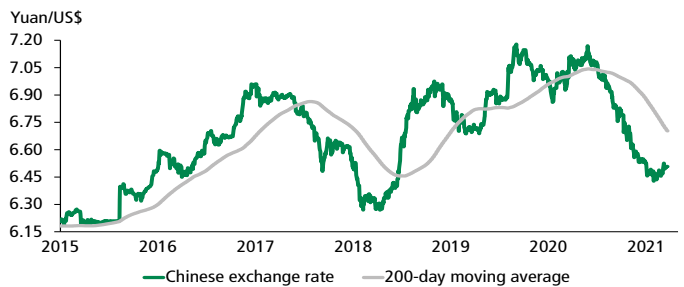
Sources: Datastream and Desjardins, Economic Studies

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		
	Mar. 22	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	91.5645	2.38	10.00	21.04	43.59	91.5645	76.5563	63.6846
Brazil – real	5.5309	0.63	7.48	1.86	10.57	5.9236	5.3893	4.8940
Canada – (USD/CAD)	1.2529	-0.69	-3.11	-6.04	-12.72	1.4539	1.3269	1.2437
Canada – (CAD/USD)	0.7982	0.70	3.21	6.43	14.57	0.8041	0.7536	0.6878
Mexico – peso	20.5960	-0.72	2.56	-4.31	-14.30	25.1420	21.6794	19.5880
Asia and South Pacific								
Australia – (AUD/USD)	0.7746	-2.17	2.98	8.02	33.57	0.7968	0.7110	0.5799
China – yuan renminbi	6.5078	0.67	-0.54	-4.01	-8.29	7.1697	6.7942	6.4278
Hong Kong – dollar	7.7660	0.16	0.17	0.21	0.11	7.7690	7.7523	7.7496
India – rupee	72.3800	-0.10	-2.00	-1.55	-4.00	76.9750	74.3127	72.3800
Japan – yen	108.85	3.59	5.02	3.74	-1.78	111.23	106.05	102.74
New Zealand – (NZD/USD)	0.7163	-2.26	1.70	7.97	25.44	0.7435	0.6655	0.5710
South Korea – won	1,128	1.61	1.88	-3.15	-9.56	1,266	1,163	1,082
Europe								
Denmark – krona	6.2316	1.87	1.89	-1.95	-10.75	6.9820	6.4051	6.0350
Euro zone – (EUR/USD)	1.1932	-1.69	-1.94	1.93	11.63	1.2301	1.1644	1.0689
Norway – kroner	8.5080	0.17	-2.69	-8.92	-27.62	11.7547	9.2392	8.3805
Russia – ruble	75.0663	0.94	-0.60	-1.47	-5.77	80.7600	74.2807	68.3550
Sweden – krona	8.5096	2.82	1.91	-4.51	-18.04	10.3827	8.9320	8.1660
Switzerland – swiss franc	0.9234	2.94	3.83	0.42	-6.37	0.9862	0.9243	0.8794
United Kingdom – (GBP/USD)	1.3854	-1.40	4.03	8.88	17.97	1.4133	1.3031	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	2020		2021				2022				
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3321	1.2734	1.2500	1.2422	1.2346	1.2346	1.2346	1.2346	1.2422	1.2500
Euro	EUR/USD	1.1727	1.2236	1.1900	1.2000	1.2100	1.2200	1.2200	1.2100	1.2000	1.1900
British pound	GBP/USD	1.2928	1.3670	1.3900	1.4100	1.4200	1.4300	1.4300	1.4300	1.4400	1.4400
Swiss franc	USD/CHF	0.9186	0.8808	0.9200	0.9300	0.9200	0.9200	0.9200	0.9300	0.9300	0.9400
Yen	USD/JPY	105.47	103.26	109.00	109.00	110.00	110.00	110.00	110.00	111.00	111.00
Australian dollar	AUD/USD	0.7163	0.7695	0.7700	0.7800	0.7900	0.7900	0.7900	0.7900	0.7900	0.7800
Chinese yuan	USD/CNY	6.7908	6.5267	6.5000	6.4000	6.3000	6.2500	6.2500	6.2500	6.3000	6.4000
Mexican peso	USD/MXN	22.11	19.89	20.75	20.50	20.00	19.50	19.25	19.00	19.25	19.50
Brazilian real	USD/BRL	5.6404	5.1964	5.6000	5.5000	5.4000	5.3000	5.2000	5.1000	5.1000	5.3000
Effective dollar ¹		107.08	102.59	104.10	103.60	102.80	102.40	102.40	102.80	103.30	103.90
Canadian dollar											
U.S. dollar	CAD/USD	0.7507	0.7853	0.8000	0.8050	0.8100	0.8100	0.8100	0.8100	0.8050	0.8000
Euro	EUR/CAD	1.5621	1.5580	1.4875	1.4907	1.4938	1.5062	1.5062	1.4938	1.4907	1.4875
British pound	GBP/CAD	1.7221	1.7406	1.7375	1.7516	1.7531	1.7654	1.7654	1.7654	1.7888	1.8000
Swiss franc	CAD/CHF	0.6896	0.6917	0.7360	0.7487	0.7452	0.7452	0.7452	0.7533	0.7487	0.7520
Yen	CAD/JPY	79.17	81.09	87.20	87.75	89.10	89.10	89.10	89.10	89.36	88.80
Australian dollar	AUD/CAD	0.9542	0.9798	0.9625	0.9689	0.9753	0.9753	0.9753	0.9753	0.9814	0.9750
Chinese yuan	CAD/CNY	5.0978	5.1256	5.2000	5.1520	5.1030	5.0625	5.0625	5.0625	5.0715	5.1200
Mexican peso	CAD/MXN	16.60	15.62	16.60	16.50	16.20	15.80	15.59	15.39	15.50	15.60
Brazilian real	CAD/BRL	4.2342	4.0809	4.4800	4.4275	4.3740	4.2930	4.2120	4.1310	4.1055	4.2400

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