

FX FORECASTS

Bank of Canada Optimism Helps Loonie

HIGHLIGHTS

- ▶ The Canadian dollar is doing better, helped by signs of a lull in the third wave of COVID-19 and investor optimism about the coming months and quarters. The Bank of Canada (BoC) is no exception. Its new economic forecasts suggest greater optimism, and unlike the other major central banks, it has already begun to reduce its asset purchases. The BoC's announcements gave the loonie an additional boost, propelling it to over US\$0.805, its highest point in over three years.
- ▶ The Canadian dollar is not the only currency that has reappreciated against the U.S. dollar. Even larger gains were noted for most European currencies in April and for many emerging country currencies. The greenback is less popular in a context where optimism is more widespread. While the U.S. economy is currently doing better than most other economies, a good part of the gap should quickly disappear once public health measures are lifted on a broader scale. Changes in bond yields also seem to have influenced the U.S. dollar's direction. U.S. bond yields stabilized in the second half of March and decreased slightly in April.
- ▶ The euro gained more than 2.5% during the month of April, climbing back to above US\$1.20. Keep in mind that in March, the epidemiological situation of many European countries was not very encouraging, especially with the vaccination campaign having difficulty taking off. The European Central Bank (ECB) had also announced a temporary increase in its asset purchases. The situation is now more favourable for the euro. The ECB was already sounding more optimistic at its April meeting. In addition, President Christine Lagarde suggested that the €1,850B envelope dedicated to asset purchases until March 2022 might not be fully used.
- ▶ The pound sterling did not do as well as the euro and most European currencies recently. Optimism about the Brexit agreement at the beginning of the year is now giving way to doubts about its long-term application. In particular, tensions have emerged in Northern Ireland. The pound is currently trading at close to 0.87£/€ vs. 0.85£/€ at the beginning of the month.
- ▶ While most emerging country currencies have increased in value recently, the Indian rupee is still under the gun with India deeply impacted by the pandemic. The situation remains precarious in Brazil, although investors have nevertheless regained some hope, allowing the real to regain close to 3% in April.

MAIN FACTORS TO WATCH

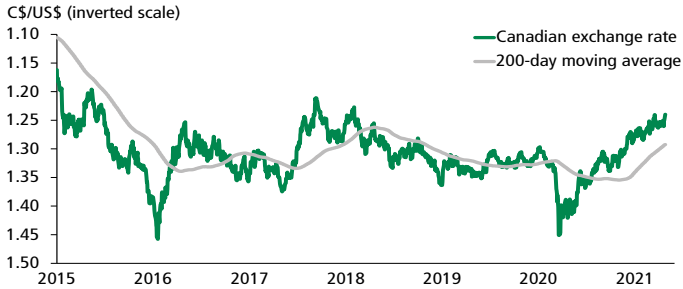
- ▶ The U.S. dollar is expected to continue to depreciate against many currencies in the coming months. It will nevertheless be interesting to follow the Federal Reserve's (Fed) communications. It could soon begin to abandon its prudent bias and initiate a reduction in its asset purchases in the fall, which would slightly help the greenback against multiple currencies. Later in 2022, the U.S. dollar could also benefit from expectations that the Fed will increase its interest rates, when several other central banks will still be far from doing so.
- ▶ The Canadian dollar is now better positioned, for both the short and long term. We expect a first key rate increase in Canada in fall 2022, which is inciting us to revise our forecasts for the Canadian dollar upward also. It could end 2021 at above US\$0.81 and 2022 at close to US\$0.83. This scenario is obviously based on favourable assumptions regarding the evolution of the pandemic.

François Dupuis, Vice-President and Chief Economist • Mathieu D'Anjou, Deputy Chief Economist • Hendrix Vachon, Senior Economist
Desjardins, Economic Studies: 514-281-2336 or 1 866-866-7000, ext. 5552336 • desjardins.economics@desjardins.com • desjardins.com/economics

NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.
IMPORTANT: This document is based on public information and may under no circumstances be used or construed as a commitment by Desjardins Group. While the information provided has been determined on the basis of data obtained from sources that are deemed to be reliable, Desjardins Group in no way warrants that the information is accurate or complete. The document is provided solely for information purposes and does not constitute an offer or solicitation for purchase or sale. Desjardins Group takes no responsibility for the consequences of any decision whatsoever made on the basis of the data contained herein and does not hereby undertake to provide any advice, notably in the area of investment services. The data on prices or margins are provided for information purposes and may be modified at any time, based on such factors as market conditions. The past performances and projections expressed herein are no guarantee of future performance. The opinions and forecasts contained herein are, unless otherwise indicated, those of the document's authors and do not represent the opinions of any other person or the official position of Desjardins Group. Copyright © 2021, Desjardins Group. All rights reserved.

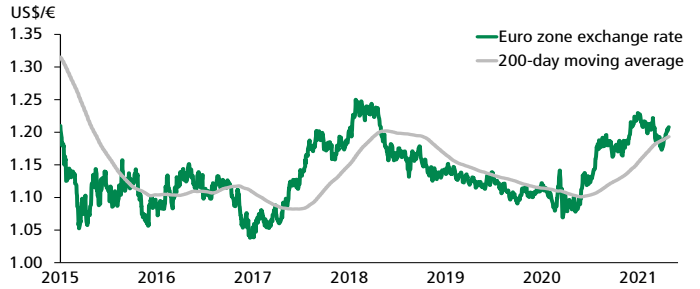
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



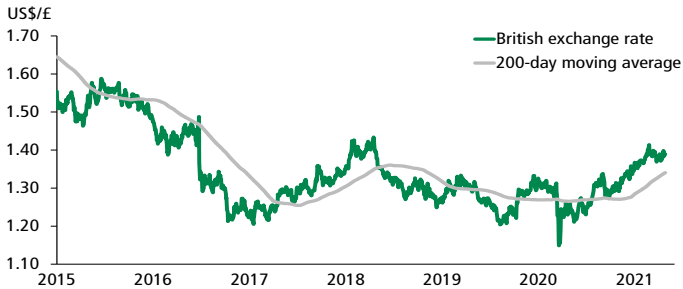
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



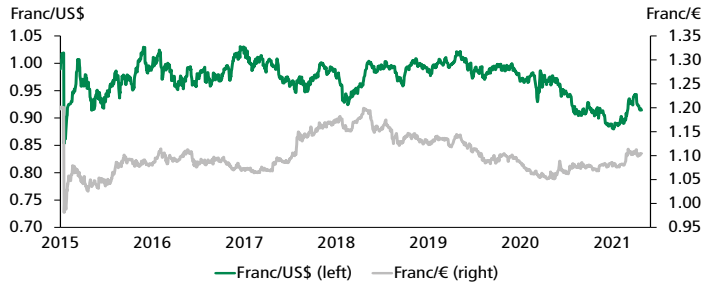
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



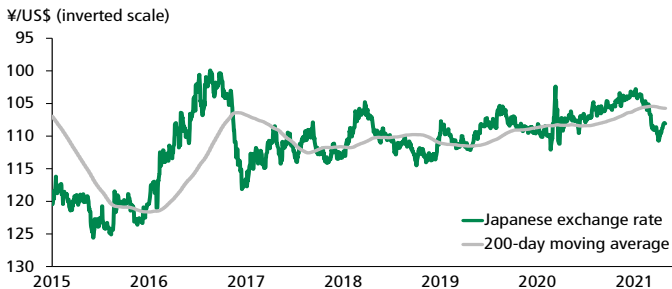
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



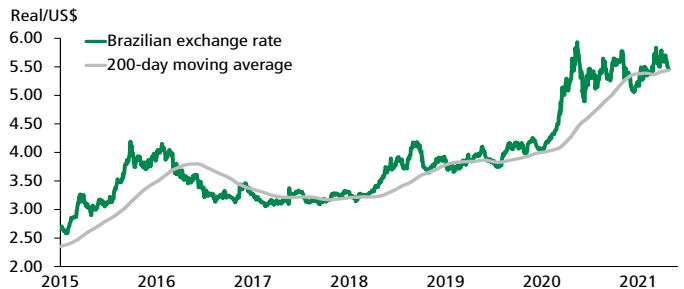
Sources: Datastream and Desjardins, Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

BRAZILIAN REAL Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	April 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	93.2717	1.55	7.16	19.21	40.41	93.2717	79.1704	66.4300
Brazil – real	5.4541	-4.61	1.92	-2.89	-4.12	5.9236	5.4294	4.8940
Canada – (USD/CAD)	1.2390	-1.52	-2.49	-6.24	-12.04	1.4134	1.3118	1.2390
Canada – (CAD/USD)	0.8071	1.54	2.55	6.65	13.69	0.8071	0.7623	0.7075
Mexico – peso	19.8318	-3.64	-0.94	-5.39	-20.21	24.8548	21.3070	19.5880
Asia and South Pacific								
Australia – (AUD/USD)	0.7800	2.15	0.73	9.50	22.12	0.7968	0.7265	0.6387
China – yuan renminbi	6.4855	-0.86	0.31	-3.38	-8.42	7.1697	6.7424	6.4278
Hong Kong – dollar	7.7603	-0.11	0.11	0.13	0.13	7.7850	7.7540	7.7496
India – rupee	74.7565	2.95	2.53	1.06	-1.98	76.4000	74.1205	72.3800
Japan – yen	108.10	-1.42	4.32	3.11	0.54	110.73	106.12	102.74
New Zealand – (NZD/USD)	0.7236	3.47	-0.03	8.35	20.20	0.7435	0.6769	0.5933
South Korea – won	1,113	-1.43	0.60	-1.29	-9.90	1,244	1,153	1,082
Europe								
Denmark – krona	6.1533	-2.42	0.58	-2.34	-10.70	6.9116	6.3475	6.0350
Euro zone – (EUR/USD)	1.2083	2.42	-0.69	2.24	11.75	1.2301	1.1740	1.0778
Norway – kroner	8.2941	-3.25	-2.99	-10.26	-21.91	10.6215	9.0380	8.2929
Russia – ruble	74.7907	-1.34	-0.46	-1.85	0.33	80.7600	74.2630	68.3550
Sweden – krona	8.3798	-2.98	0.96	-4.16	-16.68	10.0579	8.7887	8.1660
Switzerland – swiss franc	0.9141	-2.75	3.00	0.74	-6.14	0.9778	0.9203	0.8794
United Kingdom – (GBP/USD)	1.3893	0.73	1.10	6.68	12.60	1.4133	1.3177	1.2125

* 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	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
U.S. dollar											
Canadian dollar	USD/CAD	1.3321	1.2734	1.2560	1.2346	1.2270	1.2346	1.2346	1.2270	1.2195	1.2121
Euro	EUR/USD	1.1727	1.2236	1.1753	1.2100	1.2200	1.2200	1.2200	1.2100	1.2000	1.1900
British pound	GBP/USD	1.2928	1.3670	1.3797	1.3900	1.4100	1.4200	1.4300	1.4300	1.4400	1.4400
Swiss franc	USD/CHF	0.9186	0.8808	0.9410	0.9200	0.9200	0.9300	0.9300	0.9400	0.9500	0.9600
Yen	USD/JPY	105.47	103.26	110.72	109.00	110.00	110.00	111.00	111.00	111.00	112.00
Australian dollar	AUD/USD	0.7163	0.7695	0.7598	0.7800	0.7900	0.7900	0.7900	0.7900	0.7900	0.8000
Chinese yuan	USD/CNY	6.7908	6.5267	6.5527	6.4500	6.3500	6.3500	6.3000	6.2500	6.2500	6.3000
Mexican peso	USD/MXN	22.11	19.89	20.44	19.75	19.25	19.25	19.00	19.00	19.25	19.50
Brazilian real	USD/BRL	5.6404	5.1964	5.6970	5.5000	5.3000	5.3000	5.2000	5.1000	5.1000	5.3000
Effective dollar ¹		107.08	102.59	105.22	102.90	102.40	102.50	102.60	102.80	103.00	103.20
Canadian dollar											
U.S. dollar	CAD/USD	0.7507	0.7853	0.7962	0.8100	0.8150	0.8100	0.8100	0.8150	0.8200	0.8250
Euro	EUR/CAD	1.5621	1.5580	1.4762	1.4938	1.4969	1.5062	1.5062	1.4847	1.4634	1.4424
British pound	GBP/CAD	1.7221	1.7406	1.7329	1.7160	1.7301	1.7531	1.7654	1.7546	1.7561	1.7455
Swiss franc	CAD/CHF	0.6896	0.6917	0.7492	0.7452	0.7498	0.7533	0.7533	0.7661	0.7790	0.7920
Yen	CAD/JPY	79.17	81.09	88.15	88.29	89.65	89.10	89.91	90.47	91.02	92.40
Australian dollar	AUD/CAD	0.9542	0.9798	0.9543	0.9630	0.9693	0.9753	0.9753	0.9693	0.9634	0.9697
Chinese yuan	CAD/CNY	5.0978	5.1256	5.2171	5.2245	5.1753	5.1435	5.1030	5.0938	5.1250	5.1975
Mexican peso	CAD/MXN	16.60	15.62	16.27	16.00	15.69	15.59	15.39	15.49	15.79	16.09
Brazilian real	CAD/BRL	4.2342	4.0809	4.5358	4.4550	4.3195	4.2930	4.2120	4.1565	4.1820	4.3725

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