

FX FORECASTS

The U.S. Dollar Has Already Adjusted To A Likely Reduction In Asset Purchases By The Federal Reserve

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HIGHLIGHTS

- ▶ The U.S. dollar appreciated against most other currencies after the monetary policy meeting of the Federal Reserve (Fed) on June 16. Although the Fed has given no official details about a forthcoming change in monetary policy, the more optimistic forecasts from its leaders indicate that we should expect an announcement soon. In addition, the Fed Chairman mentioned during his press conference that discussions about a reduction in asset purchases have taken place. These discussions will continue in next meetings. This seems even more likely considering the favourable evolution of several economic data in the United States, including 850,000 jobs added in June.
- ▶ The Mexican peso is one of the rare currencies that have gone up recently. Faced with rising inflation, the Bank of Mexico increased its main policy rate by 25 basis points to 4.25% on June 24.
- ▶ The pandemic-related risk level has gone up in recent weeks, which may also have helped the U.S. dollar. The Delta variant, which originated in India, is spreading fast, especially among the world's many unvaccinated population groups.
- ▶ The United Kingdom is one of the countries affected by a new surge of COVID-19 cases, although the pound does not seem to have been hit any harder than other main currencies. It has dropped about 2.0% since mid-June. The U.K. economy has been on a more even keel for some months, since it was not affected by the third pandemic wave in March and April. The Bank of England also seems willing to reduce its degree of intervention.
- ▶ The euro has been down by about 2.5% since mid-June. The European economy has been harder hit by the third COVID-19 wave. May and June were more encouraging, but new clouds are appearing as COVID-19 cases start to surge again. Also, the vaccination campaign is not uniform across the euro zone. For example, fewer people in France seem to want to get the shots. Add to that the fact that the European Central Bank seems in no hurry to adjust its monetary policy.
- ▶ The Canadian dollar has lost a little more than 2.0% since the Fed meeting, which is similar to the average depreciation of other main currencies. Rising oil prices is providing new support for the loonie. Several metals took a turn for the better after a mid-June correction, but lumber prices are still falling. The Bank of Canada (BoC) has announced nothing new that could have supported the loonie in recent weeks. The BoC has already reduced its asset purchases twice.

MAIN FACTORS TO WATCH

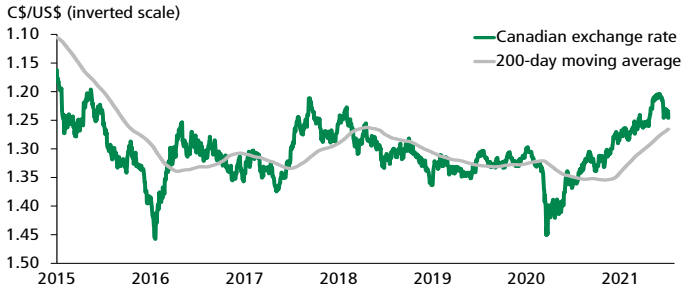
- ▶ We should soon get more details about the U.S. plan to reduce asset purchases and have a better idea of when the key interest rate hike will begin. That said, the effects on the U.S. dollar should be more limited this time, after the investors made major adjustments in June.
- ▶ The Canadian dollar may gain some ground in the following months. We expect the exchange rate to be around US\$0.82 at the end of 2021. That scenario is based on the pandemic petering out and a clear improvement in Canadian economic data after a rather difficult spring.

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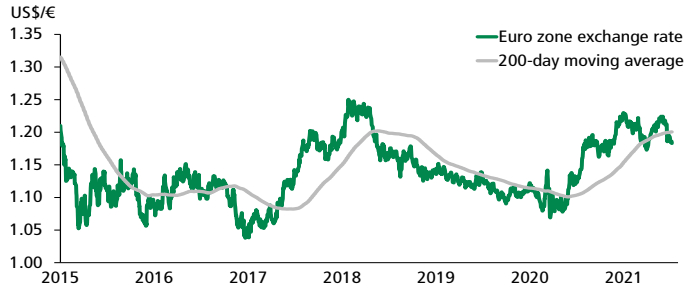
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



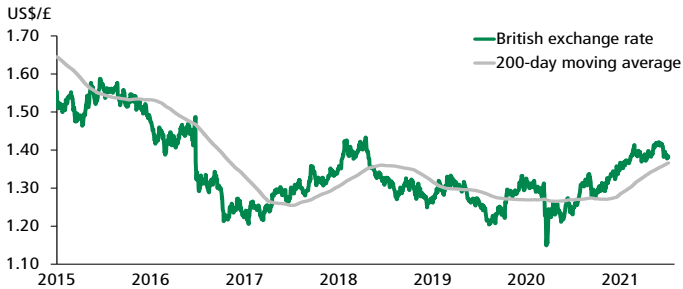
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



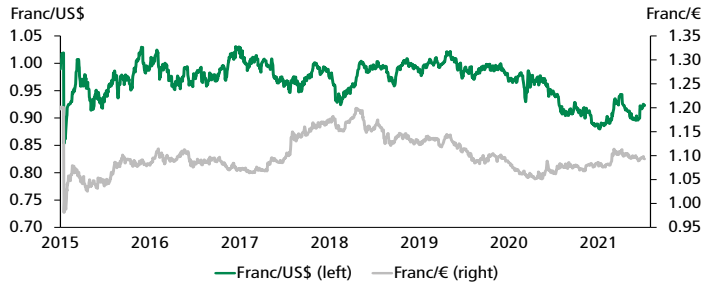
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



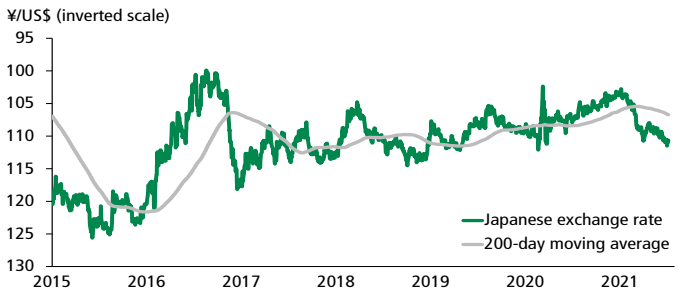
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



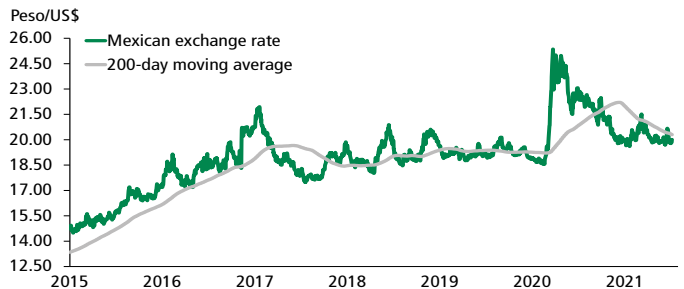
Sources: Datastream and Desjardins, Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

MEXICAN PESO Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE	VARIATION (%)				LAST 52 WEEKS		
	July 6	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	95.9200	1.12	3.94	12.97	35.45	95.9200	84.2608	70.8168
Brazil – real	5.1951	2.56	-7.47	-2.64	-2.00	5.8099	5.3814	4.9279
Canada – (USD/CAD)	1.2484	3.27	-0.51	-1.70	-7.76	1.3617	1.2813	1.2019
Canada – (CAD/USD)	0.8011	-3.16	0.52	1.73	8.41	0.8320	0.7805	0.7344
Mexico – peso	19.9940	0.23	-0.81	1.19	-10.20	22.8035	20.7215	19.5880
Asia and South Pacific								
Australia – (AUD/USD)	0.7497	-3.11	-2.17	-3.91	7.53	0.7968	0.7468	0.6941
China – yuan renminbi	6.4792	1.31	-0.92	0.25	-7.69	7.0188	6.6148	6.3684
Hong Kong – dollar	7.7667	0.13	-0.13	0.17	0.21	7.7850	7.7564	7.7497
India – rupee	74.5910	2.36	1.50	1.99	-0.06	75.4385	73.7081	72.3800
Japan – yen	110.62	1.01	0.78	7.34	3.03	111.52	106.57	102.74
New Zealand – (NZD/USD)	0.7012	-2.80	-0.65	-3.83	6.97	0.7435	0.6951	0.6527
South Korea – won	1,130	1.19	0.90	4.06	-5.52	1,206	1,135	1,082
Europe								
Denmark – krona	6.2890	2.90	0.44	4.21	-4.55	6.6089	6.2354	6.0350
Euro zone – (EUR/USD)	1.1830	-2.74	-0.08	-3.67	4.53	1.2301	1.1936	1.1286
Norway – kroner	8.7024	4.68	2.55	3.46	-7.41	9.5740	8.7522	8.1837
Russia – ruble	74.4625	2.17	-3.65	0.75	4.17	80.7600	74.6624	70.5850
Sweden – krona	8.5969	3.93	-0.21	5.28	-7.07	9.2645	8.5649	8.1660
Switzerland – swiss franc	0.9237	2.70	-1.01	4.79	-1.71	0.9438	0.9099	0.8794
United Kingdom – (GBP/USD)	1.3810	-2.56	-0.38	1.91	10.39	1.4215	1.3489	1.2510

* 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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f
U.S. dollar										
Canadian dollar	USD/CAD	1.3321	1.2734	1.2560	1.2396	1.2270	1.2195	1.2195	1.2121	1.2048
Euro	EUR/USD	1.1727	1.2236	1.1753	1.1859	1.1900	1.2000	1.2100	1.2000	1.1900
British pound	GBP/USD	1.2928	1.3670	1.3797	1.3815	1.3900	1.4000	1.4100	1.4100	1.4200
Swiss franc	USD/CHF	0.9186	0.8808	0.9410	0.9242	0.9300	0.9300	0.9300	0.9400	0.9500
Yen	USD/JPY	105.47	103.26	110.72	111.11	110.00	110.00	111.00	111.00	111.00
Australian dollar	AUD/USD	0.7163	0.7695	0.7598	0.7499	0.7600	0.7600	0.7700	0.7700	0.7800
Chinese yuan	USD/CNY	6.7908	6.5267	6.5527	6.4572	6.4000	6.4000	6.3500	6.3000	6.3000
Mexican peso	USD/MXN	22.11	19.89	20.44	19.95	19.75	19.50	19.50	19.50	19.75
Brazilian real	USD/BRL	5.6404	5.1964	5.6970	5.0019	5.0000	5.0000	5.0000	5.1000	5.2000
Effective dollar ¹		107.08	102.59	105.22	104.44	104.10	103.50	103.30	103.60	103.80
Canadian dollar										
U.S. dollar	CAD/USD	0.7507	0.7853	0.7962	0.8067	0.8150	0.8200	0.8200	0.8200	0.8250
Euro	EUR/CAD	1.5621	1.5580	1.4762	1.4700	1.4601	1.4634	1.4756	1.4634	1.4424
British pound	GBP/CAD	1.7221	1.7406	1.7329	1.7124	1.7055	1.7073	1.7195	1.7195	1.7212
Swiss franc	CAD/CHF	0.6896	0.6917	0.7492	0.7456	0.7580	0.7626	0.7626	0.7708	0.7838
Yen	CAD/JPY	79.17	81.09	88.15	89.63	89.65	90.20	91.02	91.02	91.58
Australian dollar	AUD/CAD	0.9542	0.9798	0.9543	0.9296	0.9325	0.9268	0.9390	0.9390	0.9455
Chinese yuan	CAD/CNY	5.0978	5.1256	5.2171	5.2091	5.2160	5.2480	5.2070	5.1660	5.1975
Mexican peso	CAD/MXN	16.60	15.62	16.27	16.09	16.10	15.99	15.99	15.99	16.09
Brazilian real	CAD/BRL	4.2342	4.0809	4.5358	4.0351	4.0750	4.1000	4.1000	4.1820	4.2900

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