

## FX FORECASTS



# The Loonie Might Have Difficulty Exceeding US\$0.80

### HIGHLIGHTS

- ▶ The Canadian dollar has risen considerably against the U.S. dollar in the past two months. It briefly crossed the psychological barrier of US\$0.80 (C\$1.25/US\$) at the end of July.
- ▶ The main cause of the loonie's recent rise was heightened expectations of monetary tightening in Canada in response to improved economic data and a more hawkish tone from the Bank of Canada (BoC). When the first key interest rate hike since September 2010 was announced in July, the currency appreciated in value. The return of oil prices to almost US\$50 a barrel also helped, as did the difficulties facing the U.S. dollar.
- ▶ In recent months the greenback has lost ground against many other currencies. Even though several economic indicators remain encouraging for the U.S. economy, there are doubts as to the ability of the Federal Reserve (Fed) to continue raising key rates while inflation remains low. That is in contrast to other countries, where expectations of monetary tightening have gone up. The U.S. dollar also seems to be hampered by the Trump administration's difficulty to deliver on its promises, particularly with regard to economic stimuli and lower taxes. The upcoming debt ceiling deadline in the United States is also cause for concern.
- ▶ The euro has been one of the best performing currencies since the spring. The improved European economy and the more optimistic tone from the European Central Bank (ECB) could soon lead to a reduction of monetary easing measures. The ECB could announce in September that it will be gradually reducing its asset purchases starting in January 2018.

### MAIN FACTORS TO WATCH

- ▶ The Canadian dollar's potential rise now seems limited. Expectations of monetary tightening could still increase, but that could also happen in the United States and wipe out the effect on the loonie. A significant rise in oil prices could also boost the Canadian dollar, but that seems unlikely right now as oil production is exceeding demand. We expect that the Canadian exchange rate will end the year at around US\$0.79 (C\$1.27/US\$). That would take into account a new Canadian key rate hike in October.
- ▶ The Fed should continue with monetary tightening despite current anxieties in the United States. We foresee a new U.S. key rate hike in December, which should force the market to review its expectations and also bolster the greenback. Raising the debt ceiling should remove uncertainty, and the Trump administration may even announce lower taxes between now and the end of the year.
- ▶ The euro's rise seems more and more exaggerated, especially since it is relying heavily on the weak greenback and the upcoming reduction of ECB asset purchases. The ECB should in fact remain very active to support the economy. Its balance sheet will continue to grow in 2018, although not as fast, and the negative interest rate policy should be maintained.

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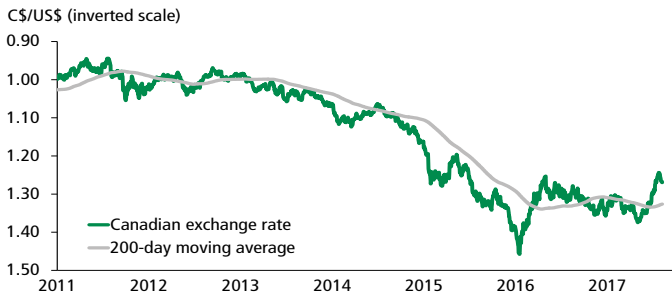
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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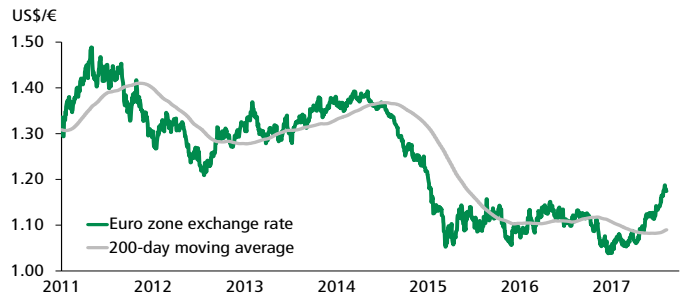
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



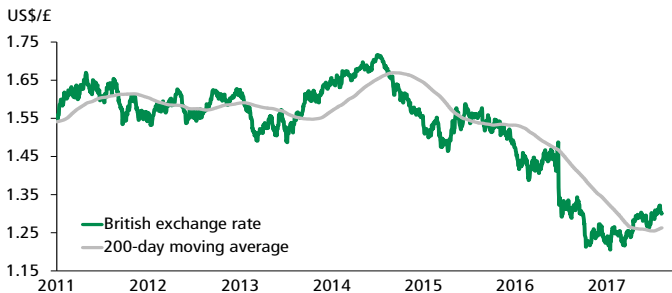
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



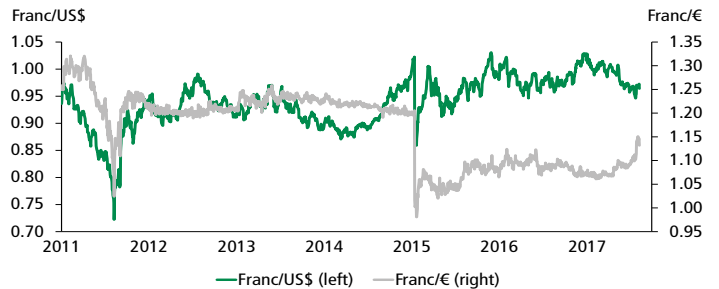
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



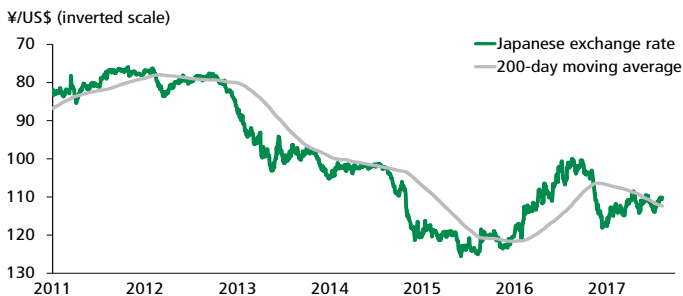
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



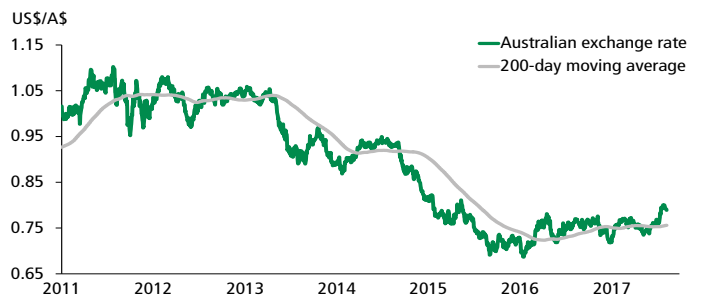
Sources: Datastream and Desjardins, Economic Studies

## 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		
	August 10	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	17.8025	4.81	14.47	14.84	20.67	17.8025	15.7045	14.6325
Brazil – real	3.1426	-3.67	-0.57	0.84	0.18	3.4888	3.2175	3.0614
Canada – (USD/CAD)	1.2710	-1.29	-6.93	-2.79	-2.61	1.3732	1.3226	1.2424
Canada – (CAD/USD)	0.7868	1.31	7.44	2.87	2.68	0.8049	0.7561	0.7283
Mexico – peso	17.9619	-0.03	-5.19	-11.80	-2.17	21.9550	19.2775	17.5037
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.7888	3.70	7.05	2.77	2.41	0.8006	0.7569	0.7177
China – yuan renminbi	6.6739	-1.91	-3.32	-2.97	0.54	6.9610	6.8208	6.6254
Hong Kong – dollar	7.8154	0.03	0.37	0.74	0.76	7.8234	7.7711	7.7531
India – rupee	63.8600	-0.95	-1.17	-4.48	-4.35	68.7835	66.1464	63.6350
Japan – yen	110.09	-3.47	-3.68	-2.76	8.69	118.18	110.03	99.89
New Zeland – (NZD/USD)	0.7338	0.87	5.71	1.92	1.82	0.7522	0.7147	0.6849
South Korea – won	1,135	-1.24	-0.05	-1.34	3.62	1,211	1,140	1,090
<b>Europe</b>								
Denmark – krona	6.3265	-3.00	-7.58	-9.48	-4.95	7.1569	6.7942	6.2667
Euro zone – (EUR/USD)	1.1742	3.10	8.03	10.53	5.19	1.1879	1.0959	1.0378
Norway – kroner	7.9565	-4.46	-7.71	-4.89	-3.77	8.7237	8.3769	7.8641
Russia – ruble	60.0862	-0.30	4.34	2.81	-6.93	66.2862	60.3905	55.9181
Sweden – krona	8.1767	-3.01	-8.36	-8.36	-3.44	9.4090	8.7932	8.0682
Switzerland – swiss franc	0.9659	-0.09	-4.21	-3.88	-1.13	1.0312	0.9894	0.9460
United Kingdom – (GBP/USD)	1.2991	1.00	0.32	4.09	-0.16	1.3430	1.2672	1.2065

\* 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	2016		2017				2018				
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.3129	1.3433	1.3313	1.2965	1.2500	1.2658	1.2821	1.2579	1.2658	1.2346
Euro	EUR/USD	1.1238	1.0547	1.0696	1.1406	1.1700	1.1400	1.1400	1.1500	1.1600	1.1800
British pound	GBP/USD	1.2990	1.2357	1.2505	1.2990	1.3000	1.2700	1.2600	1.2500	1.2500	1.2500
Swiss franc	USD/CHF	0.9684	1.0160	1.0001	0.9586	0.9700	0.9800	0.9800	0.9700	0.9700	0.9700
Yen	USD/JPY	101.35	116.90	111.40	112.38	112.00	115.00	117.00	118.00	119.00	120.00
Australian dollar	AUD/USD	0.7664	0.7216	0.7628	0.7691	0.7900	0.7800	0.7800	0.7900	0.7900	0.8000
Chinese yuan	USD/CNY	6.6716	6.9450	6.8871	6.7809	6.7000	6.7500	6.8000	6.7500	6.8000	6.8500
Mexican peso	USD/MXN	19.38	20.73	18.72	18.13	18.00	18.25	18.50	18.25	18.50	18.75
Brazilian real	USD/BRL	3.2459	3.2588	3.1681	3.3079	3.1500	3.2500	3.3000	3.2000	3.3000	3.3500
Effective dollar <sup>1</sup>		90.01	95.76	94.01	90.54	88.60	90.50	91.10	90.50	90.40	89.30
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7617	0.7445	0.7511	0.7713	0.8000	0.7900	0.7800	0.7950	0.7900	0.8100
Euro	EUR/CAD	1.4754	1.4168	1.4239	1.4787	1.4625	1.4430	1.4615	1.4465	1.4684	1.4568
British pound	GBP/CAD	1.7055	1.6598	1.6647	1.6840	1.6250	1.6076	1.6154	1.5723	1.5823	1.5432
Swiss franc	CAD/CHF	0.7376	0.7564	0.7512	0.7394	0.7760	0.7742	0.7644	0.7712	0.7663	0.7857
Yen	CAD/JPY	77.19	87.02	83.67	86.68	89.60	90.85	91.26	93.81	94.01	97.20
Australian dollar	AUD/CAD	1.0062	0.9693	1.0156	0.9970	0.9875	0.9873	1.0000	0.9937	1.0000	0.9877
Chinese yuan	CAD/CNY	5.0816	5.1703	5.1732	5.2304	5.3600	5.3325	5.3040	5.3663	5.3720	5.5485
Mexican peso	CAD/MXN	14.77	15.43	14.07	13.98	14.40	14.42	14.43	14.51	14.62	15.19
Brazilian real	CAD/BRL	2.4723	2.4261	2.3797	2.5515	2.5200	2.5675	2.5740	2.5440	2.6070	2.7135

f: forecasts; <sup>1</sup> Trade-weighted against major U.S. partners (1973 = 100).  
 Sources: Datastream, Federal Reserve Board and Desjardins, Economic Studies