

FX FORECASTS

The Recent Slowdown in Economic Activity Is Having Little Effect on the Main Exchange Rates

HIGHLIGHTS

- ▶ The second wave of COVID-19 has forced several countries to increase health measures that affect the economy. North America and Europe are particularly impacted. That said, investors remain optimistic, which is protecting the financial markets and main exchange rates against new corrections. Faster vaccination rollouts are boosting hopes for an economic rebound in a few months. Investors are also relying on the continuation of very accommodating monetary policies and possible new recovery plans, especially in the United States.
- ▶ Even if no new shock waves hit the main exchange rates, the widespread downtick of the U.S. dollar slowed up in January, however. The Chinese yuan is one of the rare currencies that significantly improved in relation to the greenback in January. It is now trading at under 6.50 yuan/US\$. China's economic activity has surged since the spring, and the pandemic is under greater control in that country. There is also a hope that trade tensions with the United States will ease. The value of the yuan started to drop sharply in mid-2018 when the Trump administration began multiplying protectionist measures against China.
- ▶ The Australian currency is profiting from the economic performance of China. It settled comfortably above US\$0.77 in January. That upswing has brought it back close to parity with the Canadian dollar.
- ▶ The Canadian currency has been hovering around US\$0.79 since the end of December. Most commodity prices remain high, and oil started the new year well, allowing the loonie to surmount declining Canadian economic indicators. The Bank of Canada (BoC) takes note of the loonie's appreciation, which is a downside risk for inflation. The BoC is indicating, however, that its asset purchase program will be adjusted according to the economic rebound expected in the coming quarters.
- ▶ The euro is holding steady at close to US\$1.22. The pound finished 2020 well once an agreement was reached with the European Union about Brexit. It is now trading around US\$1.37 and below £0.89 against the euro. The United Kingdom is still a particular hot spot for COVID-19, and that seems to be limiting the pound's rebound potential.

MAIN FACTORS TO WATCH

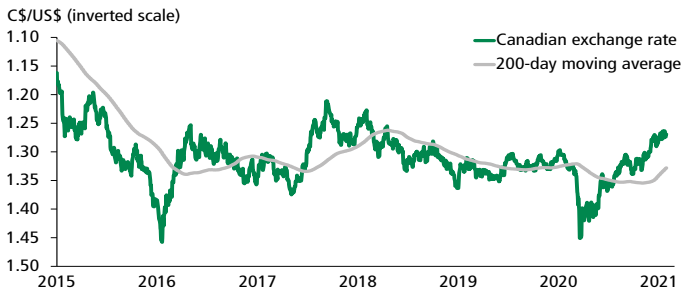
- ▶ Assuming the vaccination rollout speeds up and leads to an effective end to the pandemic, investor optimism should not be too buffeted in the coming months. The economic situation should also improve in the spring as the health measures are relaxed. All that could see several currencies gaining against the U.S. dollar. It appears likely that the Canadian dollar will reach the US\$0.80 mark in 2021.
- ▶ In the very short term, the U.S. dollar may not yield much ground because there is still a lot of uncertainty. We need to bear in mind that the United States could enjoy a more favourable economic situation due to a new stimulus plan coupled with a faster vaccination rollout than most other countries.

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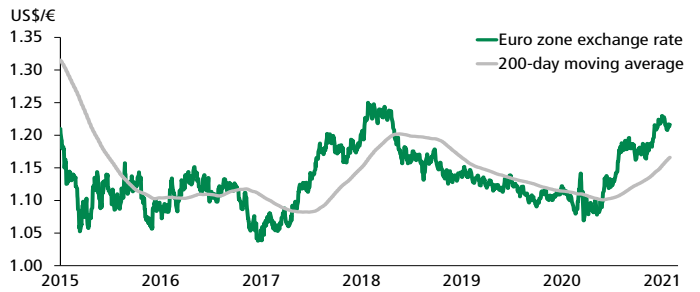
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



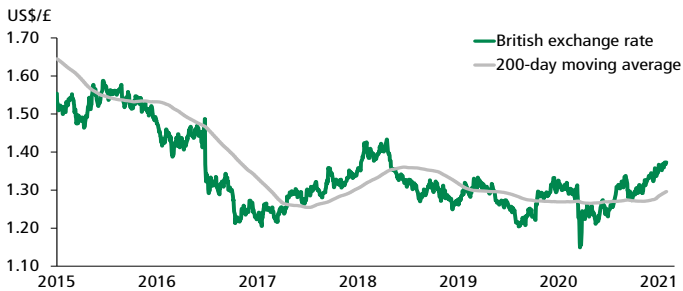
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



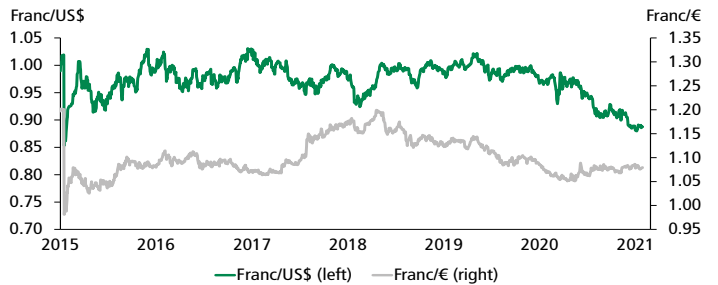
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



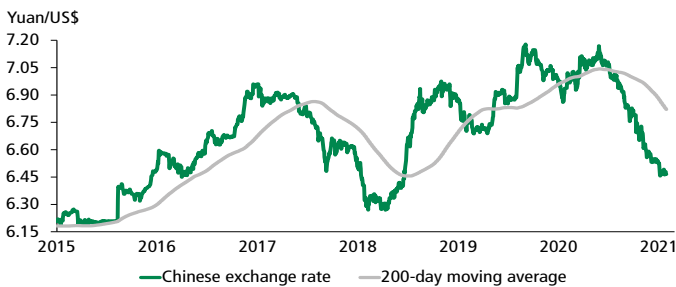
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



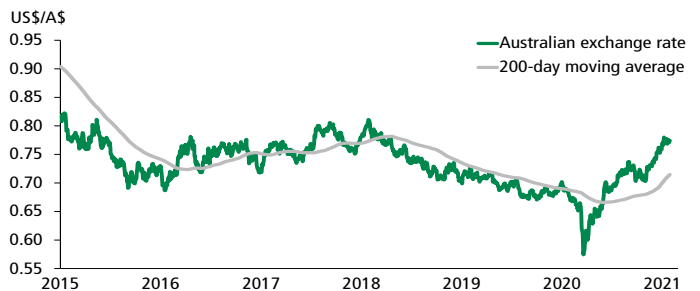
Sources: Datastream and Desjardins, Economic Studies

CHINESE YUAN 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		
	Jan. 26	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
Americas								
Argentina – peso	87.0366	4.51	11.24	21.06	44.82	87.0366	72.3889	60.1005
Brazil – real	5.3511	2.80	-4.73	2.95	27.93	5.9236	5.2331	4.1829
Canada – (USD/CAD)	1.2706	-1.06	-3.85	-5.20	-3.30	1.4539	1.3388	1.2620
Canada – (CAD/USD)	0.7870	1.07	4.00	5.49	3.41	0.7924	0.7470	0.6878
Mexico – peso	20.0205	0.82	-4.48	-10.52	6.30	25.1420	21.5554	18.5605
Asia and South Pacific								
Australia – (AUD/USD)	0.7744	1.90	8.72	9.00	13.40	0.7802	0.6936	0.5742
China – yuan renminbi	6.4652	-1.17	-3.68	-7.86	-6.80	7.1697	6.8703	6.4561
Hong Kong – dollar	7.7520	-0.01	0.03	0.01	-0.26	7.7951	7.7547	7.7496
India – rupee	72.9150	-0.87	-1.43	-2.47	2.22	76.9750	74.2374	71.1150
Japan – yen	103.62	0.12	-1.16	-2.37	-5.18	112.13	106.38	102.36
New Zeland – (NZD/USD)	0.7238	1.61	8.38	8.91	9.55	0.7291	0.6526	0.5673
South Korea – won	1,107	0.32	-1.88	-7.90	-5.32	1,286	1,175	1,082
Europe								
Denmark – krona	6.1180	0.32	-2.90	-4.18	-9.74	6.9901	6.4972	6.0350
Euro zone – (EUR/USD)	1.2167	-0.14	2.95	4.66	10.35	1.2301	1.1488	1.0689
Norway – kroner	8.5501	-0.78	-7.49	-6.66	-5.49	11.7547	9.3851	8.4088
Russia – ruble	75.1344	1.53	-1.39	4.76	21.24	80.7600	73.1374	61.9725
Sweden – krona	8.3003	0.45	-5.07	-6.15	-13.25	10.3899	9.1234	8.1660
Switzerland – swiss franc	0.8875	-0.40	-2.19	-3.86	-8.59	0.9862	0.9331	0.8794
United Kingdom – (GBP/USD)	1.3742	1.52	5.52	7.46	5.16	1.3742	1.2877	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	1.2739	1.2658	1.2500	1.2500	1.2422	1.2346	1.2346	1.2500
Euro	EUR/USD	1.1727	1.2236	1.2100	1.2300	1.2400	1.2400	1.2400	1.2500	1.2400	1.2300
British pound	GBP/USD	1.2928	1.3670	1.3700	1.3900	1.4100	1.4100	1.4200	1.4200	1.4200	1.4200
Swiss franc	USD/CHF	0.9186	0.8808	0.8900	0.8900	0.9000	0.9000	0.9000	0.9000	0.9000	0.9000
Yen	USD/JPY	105.47	103.26	104.00	105.00	106.00	107.00	108.00	109.00	110.00	110.00
Australian dollar	AUD/USD	0.7163	0.7695	0.7700	0.7800	0.7800	0.7800	0.7900	0.7900	0.7900	0.7900
Chinese yuan	USD/CNY	6.7908	6.5267	6.4500	6.4000	6.3000	6.2500	6.2500	6.2500	6.2000	6.2000
Mexican peso	USD/MXN	22.11	19.89	20.00	19.50	19.00	18.50	18.25	18.00	18.00	18.00
Brazilian real	USD/BRL	5.6404	5.1964	5.4000	5.2000	5.0000	4.8000	4.8000	4.7000	4.6000	4.6000
Effective dollar ¹		107.08	102.59	103.20	102.20	101.50	101.50	101.40	101.20	101.50	102.20
Canadian dollar											
U.S. dollar	CAD/USD	0.7507	0.7853	0.7850	0.7900	0.8000	0.8000	0.8050	0.8100	0.8100	0.8000
Euro	EUR/CAD	1.5621	1.5580	1.5414	1.5570	1.5500	1.5500	1.5404	1.5432	1.5309	1.5375
British pound	GBP/CAD	1.7221	1.7406	1.7452	1.7595	1.7625	1.7625	1.7640	1.7531	1.7531	1.7750
Swiss franc	CAD/CHF	0.6896	0.6917	0.6987	0.7031	0.7200	0.7200	0.7245	0.7290	0.7290	0.7200
Yen	CAD/JPY	79.17	81.09	81.64	82.95	84.80	85.60	86.94	88.29	89.10	88.00
Australian dollar	AUD/CAD	0.9542	0.9798	0.9809	0.9873	0.9750	0.9750	0.9814	0.9753	0.9753	0.9875
Chinese yuan	CAD/CNY	5.0978	5.1256	5.0633	5.0560	5.0400	5.0000	5.0313	5.0625	5.0220	4.9600
Mexican peso	CAD/MXN	16.60	15.62	15.70	15.41	15.20	14.80	14.69	14.58	14.58	14.40
Brazilian real	CAD/BRL	4.2342	4.0809	4.2390	4.1080	4.0000	3.8400	3.8640	3.8070	3.7260	3.6800

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