

## FX FORECASTS

# New Momentum for the U.S. Dollar

### HIGHLIGHTS

- ▶ The U.S. dollar cued up strong gains against several currencies in the past two weeks. This new momentum began in tandem with the release of the latest U.S. inflation figures. These numbers proved stronger than expected and encouraged many investors to bet on a faster tapering of asset purchases by the Federal Reserve (Fed) and earlier interest rate hikes. Jerome Powell's appointment for a second term as Fed Chair appears to bolster this scenario for investors. His main competitor for the job, Lael Brainard, was seen as a bit more dovish.
- ▶ U.S. economic data has also been more encouraging of late. At the same time, uncertainty has grown in other parts of the world, particularly in Europe, where COVID-19 cases are once again on the rise, even forcing some countries back into lockdown. The euro is currently trading near US\$1.12 versus an average of about US\$1.16 in October. The euro also remains at a disadvantage from a monetary policy standpoint. There are no signs the European Central Bank plans to raise interest rates next year.
- ▶ The yen is also being hit by the low probability of interest rate hikes. Inflation remains significantly lower in Japan. That being said, the yen is a currency that is sensitive to investor risk appetite. It fares better in times of greater uncertainty, which likely helped break its fall against the U.S. dollar in November.
- ▶ In contrast to the euro, the pound sterling can count on improved monetary policy expectations. The Bank of England has signalled it may begin increasing interest rates in coming months. Despite that, the pound has depreciated sharply in recent weeks. Having risen to over US\$1.38 in October, it now sits at just under US\$1.34. The United Kingdom continues to be plagued by economic difficulties and, like many other European countries, high COVID-19 case numbers.
- ▶ The Canadian dollar is another currency helped by favourable monetary policy expectations, but it has also depreciated recently. The drop in oil prices may explain part of the recent decline in the loonie, currently below US\$0.79, compared with US\$0.81 a few weeks earlier. Uncertainty also ratcheted up in Canada on more disappointing economic data. In addition, flooding in British Columbia stands to curb Canadian economic performance in the fourth quarter.

### MAIN FACTORS TO WATCH

- ▶ Monetary policy developments are expected to continue having a significant impact on currencies. It remains to be seen whether the Fed will manage to significantly accelerate the tapering of asset purchases, which would pave the way for an earlier rise in interest rates. The appreciation in the U.S. dollar may have been too swift. An easing of risks in the coming months, particularly on the pandemic front, may also drag the greenback lower. However, with low vaccination rates, the United States remains at risk of a new wave of infections.
- ▶ A bit more difficulty than initially expected may be ahead for the Canadian dollar in the very short term. However, we remain fairly optimistic about Canada's economic growth prospects for next year. It seems more likely the Bank of Canada will start raising interest rates ahead of the Fed, which should give the loonie a temporary updraft in the first and second quarter of 2022.

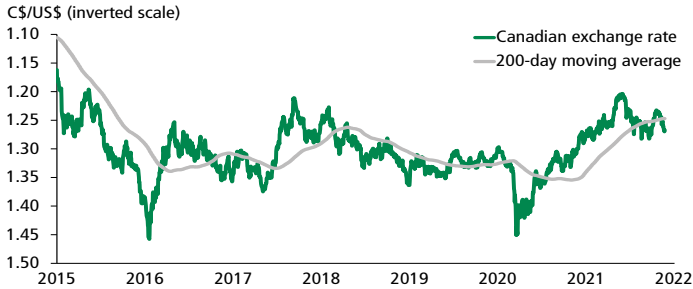
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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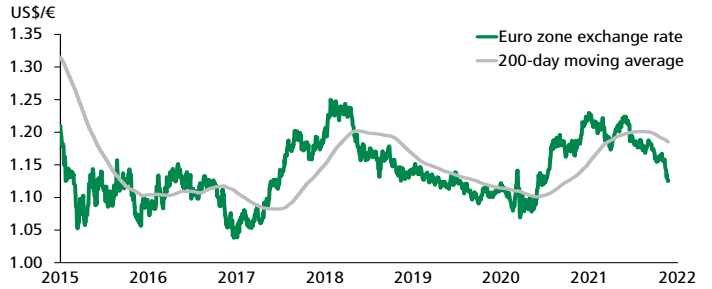
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



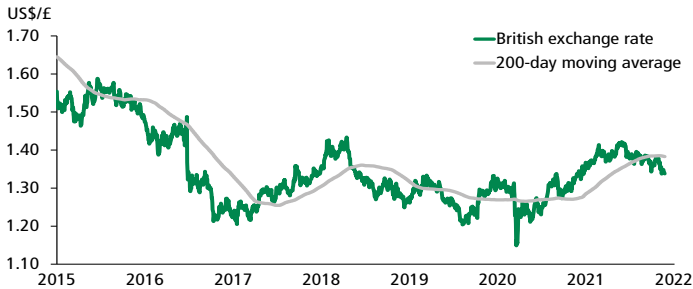
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



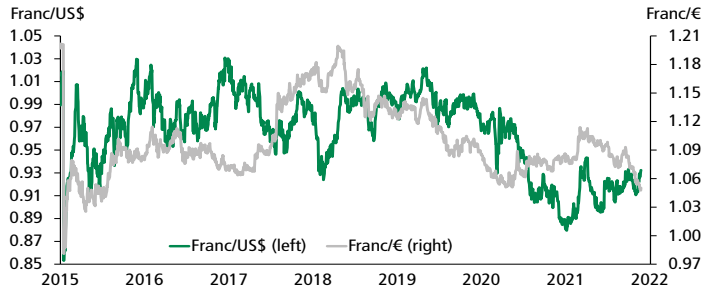
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



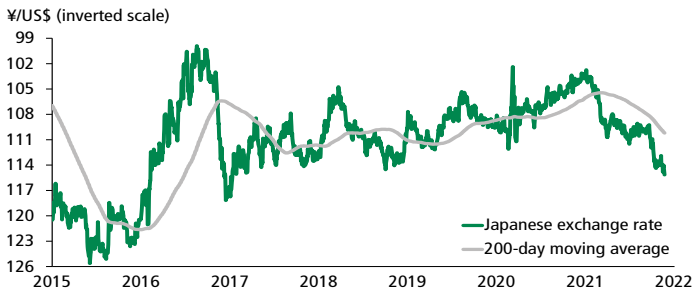
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



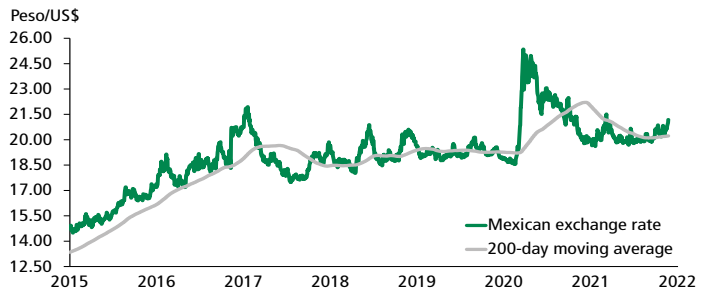
Sources: Datastream and Desjardins, Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

## 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		
	Nov. 23	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	100.6092	1.22	3.28	6.72	25.29	100.6092	93.0313	80.3001
Brazil – real	5.6581	-1.21	5.26	6.53	4.35	5.8099	5.3473	4.9279
Canada – (USD/CAD)	1.2716	2.93	0.24	5.52	-2.87	1.3091	1.2547	1.2019
Canada – (CAD/USD)	0.7864	-2.84	-0.24	-5.23	2.95	0.8320	0.7970	0.7639
Mexico – peso	21.2815	5.57	4.47	6.71	5.89	21.4515	20.1769	19.5880
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.7228	-3.17	0.26	-6.53	-0.80	0.7968	0.7544	0.7135
China – yuan renminbi	6.3919	0.11	-1.38	-0.66	-2.95	6.5915	6.4701	6.3684
Hong Kong – dollar	7.7944	0.27	0.02	0.39	0.55	7.7944	7.7677	7.7508
India – rupee	74.4470	-0.74	0.42	2.22	0.25	75.4875	73.7672	72.3800
Japan – yen	115.15	1.47	4.97	5.68	10.13	115.15	108.75	102.74
New Zealand – (NZD/USD)	0.6949	-2.88	0.83	-3.11	0.38	0.7435	0.7100	0.6827
South Korea – won	1,190	1.08	1.36	5.57	7.15	1,199	1,135	1,082
<b>Europe</b>								
Denmark – krona	6.6110	3.48	4.41	8.29	5.13	6.6189	6.2438	6.0350
Euro zone – (EUR/USD)	1.1264	-3.29	-4.06	-7.59	-4.70	1.2301	1.1917	1.1247
Norway – kroner	8.8937	6.43	-0.23	6.05	-1.64	9.0422	8.5735	8.1837
Russia – ruble	75.0288	6.60	1.22	2.15	-1.88	77.3976	73.7535	69.6107
Sweden – krona	9.0443	5.61	3.74	8.69	4.79	9.0443	8.5083	8.1660
Switzerland – swiss franc	0.9326	1.81	2.12	3.82	2.07	0.9433	0.9111	0.8794
United Kingdom – (GBP/USD)	1.3369	-2.93	-2.55	-5.59	0.56	1.4215	1.3767	1.3211

\* 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	Q3	Q4f	Q1f	Q2f	Q3f	Q4f	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.3321	1.2734	1.2560	1.2396	1.2680	1.2579	1.2346	1.2195	1.2270	1.2346
Euro	EUR/USD	1.1727	1.2236	1.1753	1.1859	1.1590	1.1300	1.1200	1.1200	1.1400	1.1600
British pound	GBP/USD	1.2928	1.3670	1.3797	1.3815	1.3484	1.3500	1.3600	1.3700	1.3700	1.3800
Swiss franc	USD/CHF	0.9186	0.8808	0.9410	0.9242	0.9331	0.9400	0.9500	0.9600	0.9500	0.9400
Yen	USD/JPY	105.47	103.26	110.72	111.11	111.29	115.00	115.00	116.00	117.00	117.00
Australian dollar	AUD/USD	0.7163	0.7695	0.7598	0.7499	0.7227	0.7300	0.7500	0.7600	0.7600	0.7700
Chinese yuan	USD/CNY	6.7908	6.5267	6.5527	6.4572	6.4467	6.4000	6.4000	6.4000	6.4500	6.5000
Mexican peso	USD/MXN	22.11	19.89	20.44	19.95	20.64	21.00	20.00	20.50	21.00	21.50
Brazilian real	USD/BRL	5.6404	5.1964	5.6970	5.0019	5.4391	5.5000	5.3000	5.5000	5.7000	5.8000
Effective dollar <sup>1</sup>		107.08	102.59	105.22	104.44	106.55	107.80	107.60	107.30	106.70	105.90
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7507	0.7853	0.7962	0.8067	0.7886	0.7950	0.8100	0.8200	0.8150	0.8100
Euro	EUR/CAD	1.5621	1.5580	1.4762	1.4700	1.4695	1.4214	1.3827	1.3659	1.3988	1.4321
British pound	GBP/CAD	1.7221	1.7406	1.7329	1.7124	1.7097	1.6981	1.6790	1.6707	1.6810	1.7037
Swiss franc	CAD/CHF	0.6896	0.6917	0.7492	0.7456	0.7359	0.7473	0.7695	0.7872	0.7743	0.7614
Yen	CAD/JPY	79.17	81.09	88.15	89.63	87.76	91.43	93.15	95.12	95.36	94.77
Australian dollar	AUD/CAD	0.9542	0.9798	0.9543	0.9296	0.9164	0.9182	0.9259	0.9268	0.9325	0.9506
Chinese yuan	CAD/CNY	5.0978	5.1256	5.2171	5.2091	5.0841	5.0880	5.1840	5.2480	5.2568	5.2650
Mexican peso	CAD/MXN	16.60	15.62	16.27	16.09	16.28	16.70	16.20	16.81	17.12	17.42
Brazilian real	CAD/BRL	4.2342	4.0809	4.5358	4.0351	4.2895	4.3725	4.2930	4.5100	4.6455	4.6980

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