

FX FORECASTS

Mostly Tailwinds for the Euro Again in April

HIGHLIGHTS

- ▶ The euro recently rose above US\$1.10, its highest level in a year. The eurozone economy remains surprisingly resilient, especially the service sector. The upcoming Q1 real GDP print will probably show accelerating growth, defying last fall's recession fears. But a stronger economy also means higher inflation. Core price gains still show no real signs of easing, likely prompting the European Central Bank to keep tightening monetary policy until at least June. Interest rate spreads with the US continue to narrow, bolstering the euro, the pound sterling and other European currencies.
- ▶ Monetary policy divergence is still a key driver of exchange rate movements. In the wake of March's US banking turmoil, investors lowered their expectations for future rate hikes by the Federal Reserve (Fed), weakening the greenback against many currencies. For a while, some were even calling for earlier rate cuts. Investors are less concerned now, but are only expecting one more rate hike from the Fed, limiting the potential for a US dollar rebound. In a more positive development for the greenback, the Fed's balance sheet has been shrinking again since late March as the financial system hasn't needed additional liquidity injections.
- ▶ The Canadian dollar strengthened somewhat in late March and early April, helped by rebounding commodity prices and renewed investor risk appetite. But these gains were reversed in recent days. The Canadian dollar has also been held back by monetary policy, with the Bank of Canada (BoC) holding rates steady at its last two meetings. While the BoC is still leaving the door open to further rate increases, they appear unlikely given how much inflation has come down in Canada over the past few months.
- ▶ The yen hasn't moved much since Kazuo Ueda took over at the Bank of Japan (BoJ), but the currency remains especially sensitive to interest rate differentials with the United States. At the time of writing, we're still awaiting the BoJ's first monetary policy decision under its new governor. He has signalled that it's too soon for interest rate hikes, but that things could change if wages and inflation don't move as expected.

MAIN FACTORS TO WATCH

- ▶ Financial markets remain vulnerable to a possible rebound in investor jitters and weaker risk appetite. We still don't know what the fallout will be from the US banking turmoil in March. We're seeing more financing premiums and slower credit growth in the United States, and ongoing monetary tightening in Europe could eventually add to market instability as well. Europe's banking system is not immune to stress, as evidenced by UBS's forced takeover of Credit Suisse in March. The euro's rally may be coming to an end soon.
- ▶ We expect several economies to dip into a moderate recession over the next few quarters. As previous interest rate hikes really start to bite, the US dollar should benefit from its safe haven status. But a weaker global economy will likely also mean lower commodity prices, hurting the Canadian dollar. The loonie could depreciate to about US\$0.72 by fall.

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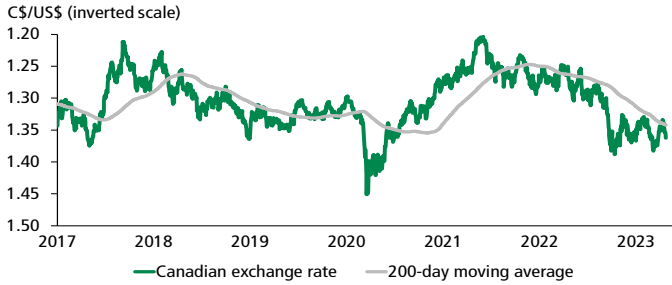
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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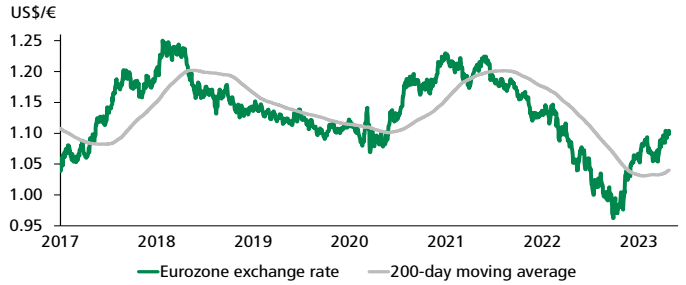
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



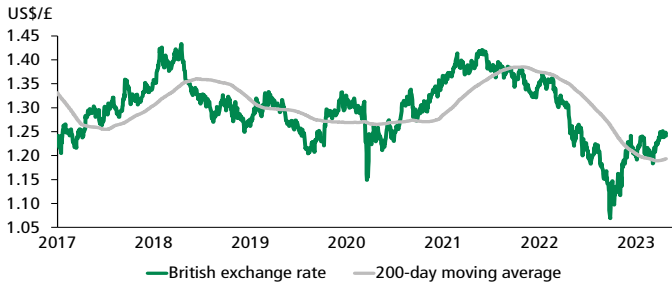
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EURO Exchange rate and trend



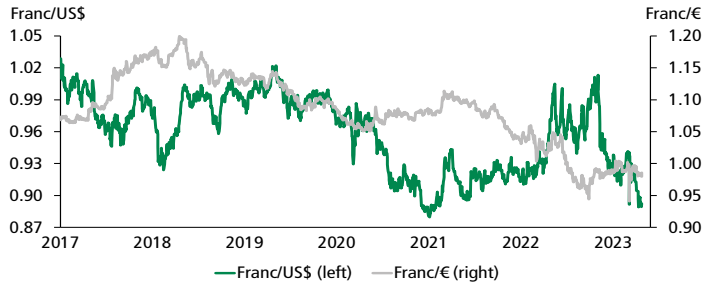
Sources: Datastream and Desjardins Economic Studies

BRITISH POUND Exchange rate and trend



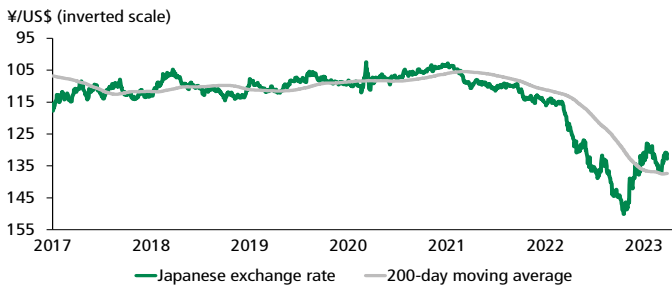
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SWISS FRANC Exchange rate



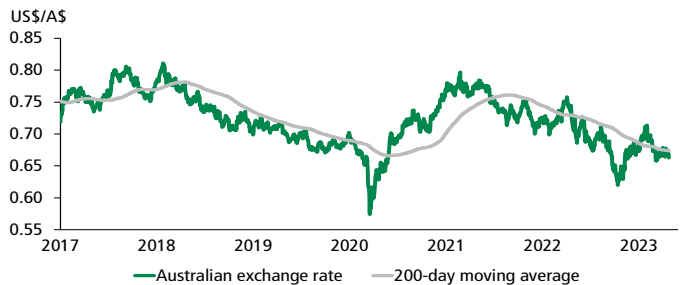
Sources: Datastream and Desjardins Economic Studies

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		% CHANGE				LAST 52 WEEKS		
	Apr 26	1-month	3-month	6-month	1-year	High	Average	Low	
Americas									
Argentina – peso	221.5530	7.72	19.55	42.58	92.92	221.5530	159.0670	114.8443	
Brazil – real	5.0509	-3.75	-0.64	-5.18	1.15	5.4854	5.1750	4.7309	
Canada – (USD/CAD)	1.3625	-0.98	1.92	0.46	6.35	1.3879	1.3291	1.2537	
Canada – (CAD/USD)	0.7340	0.99	-1.88	-0.46	-5.97	0.7977	0.7524	0.7205	
Mexico – peso	18.1255	-2.02	-3.81	-8.77	-11.02	20.9440	19.5355	17.9530	
Asia and South Pacific									
Australia – (AUD/USD)	0.6599	-0.71	-7.25	1.55	-7.36	0.7266	0.6792	0.6197	
China – yuan renminbi	6.9268	0.86	2.10	-3.43	5.65	7.3029	6.8861	6.5566	
Hong Kong – dollar	7.8496	0.00	0.27	0.00	0.05	7.8501	7.8394	7.7674	
India – rupee	81.7600	-0.70	0.39	-0.21	6.62	83.0205	80.7220	76.2825	
Japan – yen	133.67	2.26	2.64	-8.68	5.05	150.15	135.96	126.82	
New Zeland – (NZD/USD)	0.6117	-1.39	-5.74	4.84	-6.82	0.6564	0.6195	0.5565	
South Korea – won	1,336	3.24	8.58	-6.32	6.84	1,440	1,315	1,220	
Europe									
Denmark – krona	6.7499	-2.53	-1.15	-8.51	-3.50	7.7519	7.1466	6.7446	
Eurozone – (EUR/USD)	1.1044	2.61	1.75	9.90	3.69	1.1048	1.0423	0.9621	
Norway – kroner	10.6424	1.77	7.86	3.81	15.00	10.8935	10.0733	9.2466	
Russia – ruble	82.7500	7.29	19.37	34.01	10.81	82.7500	66.1042	53.4500	
Sweden – krona	10.3248	-0.95	0.56	-4.95	4.89	11.3655	10.4470	9.7141	
Switzerland – Swiss franc	0.8905	-3.00	-3.42	-9.83	-7.24	1.0133	0.9523	0.8888	
United Kingdom – (GBP/USD)	1.2469	1.98	0.92	7.45	-1.20	1.2646	1.2019	1.0747	

* In comparison with the US dollar, unless otherwise indicated.
 Note: Currency table based on the previous day's close.

TABLE 2
Currency market: History and forecasts

END OF PERIOD	2022		2023				2024				
	Q3	Q4	Q1	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
US dollar											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3516	1.3793	1.3889	1.3699	1.3333	1.2821	1.2500	1.2658
Euro	EUR/USD	0.9797	1.0673	1.0865	1.0800	1.0600	1.0800	1.1000	1.1300	1.1500	1.1600
British pound	GBP/USD	1.1163	1.2029	1.2365	1.2200	1.1900	1.2100	1.2400	1.2800	1.3100	1.3300
Swiss franc	USD/CHF	0.9842	0.9227	0.9132	0.9100	0.9200	0.9300	0.9400	0.9500	0.9600	0.9500
Yen	USD/JPY	144.77	131.13	132.81	128.00	124.00	120.00	115.00	113.00	111.00	110.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6686	0.6500	0.6500	0.6600	0.6800	0.6900	0.7000	0.7000
Chinese yuan	USD/CNY	7.1160	6.8986	6.8690	6.9500	7.0000	6.9500	6.9000	6.8500	6.8000	6.8000
Mexican peso	USD/MXN	20.15	19.49	18.02	18.50	19.00	18.75	18.50	18.00	17.75	17.75
Brazilian real	USD/BRL	5.4063	5.2174	5.0801	5.2000	5.4000	5.3000	5.1000	5.0000	4.9000	4.9000
Effective dollar ¹		123.76	115.79	114.69	115.30	116.40	114.30	111.60	108.60	106.50	106.10
Canadian dollar											
US dollar	CAD/USD	0.7232	0.7380	0.7399	0.7250	0.7200	0.7300	0.7500	0.7800	0.8000	0.7900
Euro	EUR/CAD	1.3547	1.4462	1.4684	1.4897	1.4722	1.4795	1.4667	1.4487	1.4375	1.4684
British pound	GBP/CAD	1.5436	1.6300	1.6712	1.6828	1.6528	1.6575	1.6533	1.6410	1.6375	1.6835
Swiss franc	CAD/CHF	0.7117	0.6809	0.6756	0.6598	0.6624	0.6789	0.7050	0.7410	0.7680	0.7505
Yen	CAD/JPY	104.69	96.76	98.26	92.80	89.28	87.60	86.25	88.14	88.80	86.90
Australian dollar	AUD/CAD	0.8856	0.9233	0.9037	0.8966	0.9028	0.9041	0.9067	0.8846	0.8750	0.8861
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0821	5.0388	5.0400	5.0735	5.1750	5.3430	5.4400	5.3720
Mexican peso	CAD/MXN	14.57	14.38	13.33	13.41	13.68	13.69	13.88	14.04	14.20	14.02
Brazilian real	CAD/BRL	3.9097	3.8502	3.7586	3.7700	3.8880	3.8690	3.8250	3.9000	3.9200	3.8710

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