



FX FORECASTS

Markets Kick Off the Year on a Positive Note, Bolstered by Encouraging Inflation Data

HIGHLIGHTS

- ▶ It's been a buoyant start to the year for investors thanks to some good inflation news. That's fuelled some risk appetite and kept the US dollar on the sidelines. We've also seen big fluctuations in US interest rate spreads, benefiting other currencies against the greenback.
 - ▶ News has been particularly positive in Europe, with inflation slowing faster than predicted in a number of countries, mainly driven by a sharp drop in energy prices. Warm winter temperatures have reduced demand for heating. It also means the prospect of energy shortages across Europe is looking far less likely, with natural gas inventory levels remaining high. That's something that had been flagged as a high risk a few months ago, causing the euro and other European currencies to weaken. The euro is now enjoying a rebound, recently surpassing US\$1.07.
 - ▶ Lower energy prices also bode well for inflation in other countries outside of Europe. Additionally, some other commodity prices have started to come down. Slower US wage growth has also been welcomed by investors. Although US job creation remains strong and unemployment keeps falling, there's still hope among investors that the Federal Reserve will be encouraged by slowing wage growth.
- There are other US indicators pointing to an economic slowdown, such as the unexpected drop in the ISM Services PMI, which recently fell below the psychological barrier of 50 percent. Against this backdrop, US bond yields have been trending down recently.
- ▶ Canada was the big winner in December's job creation figures, adding more than 100,000 jobs. Unemployment was also down. Wage growth, on the other hand, was less strong, but that might not be enough to convince the Bank of Canada to ease off its monetary tightening at the end of January. The resilience of the Canadian economy and forecasts of higher interest rates in Canada helped the loonie climb back up to nearly US\$0.75.
 - ▶ One currency that's had an eventful past month has been the yen. The Bank of Japan (BoJ) decided to expand its target range for the 10-year Japanese bond yield, sending Japanese yields up and narrowing the gap with US yields. The yen is currently trading at around ¥130/US\$. The markets are now testing the upper limit of the new target range in anticipation of further announcements to come out of the BoJ's upcoming monetary policy meetings.

MAIN FACTORS TO WATCH

- ▶ Although the inflation news is good, market optimism could soon be dashed by downbeat economic data. The worst of the economic impact of interest rate hikes is still to come. With that in mind, we could see the US dollar rebound against other currencies over the next few months.
- ▶ We expect the Canadian dollar to hit a low of around US\$0.72 before making a longer-lived rebound later in 2023 and in 2024. We also think the euro's recovery to US\$1.07 was too swift. Expect it to return to near parity with the US dollar in the short term.

Jimmy Jean, Vice-President, Chief Economist and Strategist • Hendrix Vachon, Principal Economist

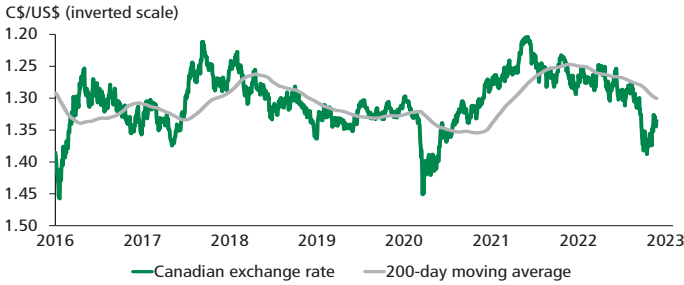
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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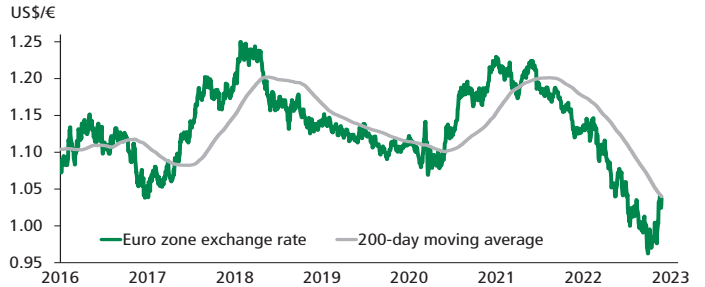
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



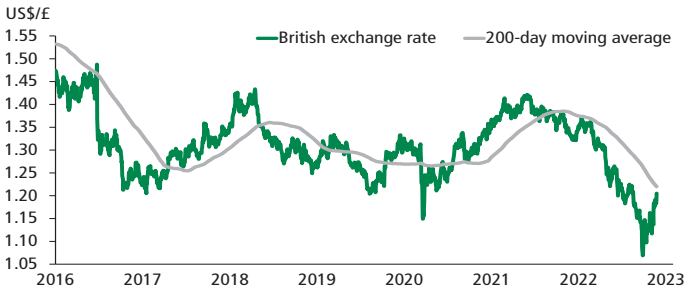
Sources: Datastream and Desjardins, Economic Studies

EURO Exchange rate and trend



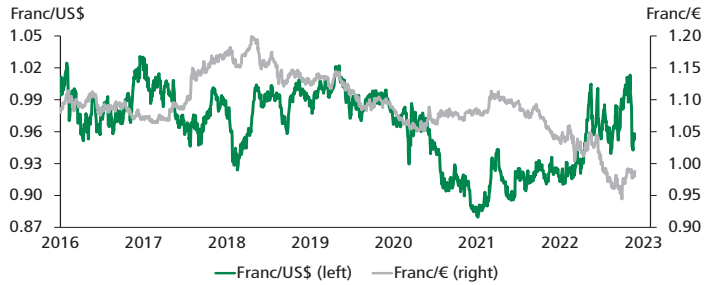
Sources: Datastream and Desjardins, Economic Studies

BRITISH POUND Exchange rate and trend



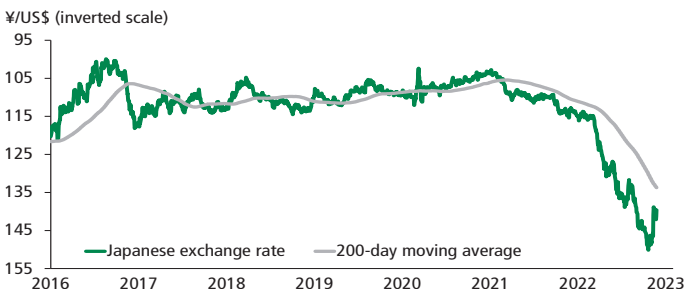
Sources: Datastream and Desjardins, Economic Studies

SWISS FRANC Exchange rate



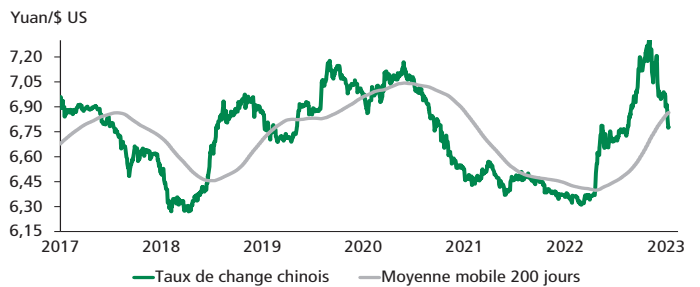
Sources: Datastream and Desjardins, Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

YUAN CHINOIS Taux de change et tendance



Sources : Datastream et Desjardins, Études économiques

TABLE 1
Currency market: Yields

COUNTRY – CURRENCY*	SPOT PRICE		% CHANGE				LAST 52 WEEKS		
	Jan 10	1-month	3-month	6-month	1-year	High	Average	Low	
Americas									
Argentina – peso	180.4200	6.22	20.93	42.33	74.33	180.4200	132.6795	103.4932	
Brazil – real	5.2265	0.01	0.34	-1.13	-8.00	5.6810	5.1574	4.6100	
Canada – (USD/CAD)	1.3438	-1.44	-2.29	3.82	6.00	1.3879	1.3038	1.2439	
Canada – (CAD/USD)	0.7442	1.46	2.34	-3.68	-5.66	0.8040	0.7670	0.7205	
Mexico – peso	19.1228	-3.54	-4.27	-6.31	-6.62	21.4460	20.0913	19.1228	
Asia and South Pacific									
Australia – (AUD/USD)	0.6888	1.35	9.26	0.44	-3.94	0.7579	0.6925	0.6197	
China – yuan renminbi	6.7785	-2.59	-5.26	1.24	6.31	7.3029	6.7427	6.3093	
Hong Kong – dollar	7.8085	0.29	-0.53	-0.51	0.17	7.8501	7.8307	7.7674	
India – rupee	81.6295	-0.96	-0.92	2.95	10.27	83.0205	78.7946	73.7975	
Japan – yen	132.27	-3.16	-9.22	-2.81	14.80	150.15	131.86	113.70	
New Zealand – (NZD/USD)	0.6372	-0.57	14.47	2.88	-5.71	0.6977	0.6329	0.5565	
South Korea – won	1,245	-4.36	-11.88	-4.29	3.79	1,440	1,293	1,187	
Europe									
Denmark – krona	6.9296	-1.88	-9.60	-5.13	5.50	7.7519	7.0853	6.4961	
Eurozone – (EUR/USD)	1.0728	1.78	10.57	5.45	-5.23	1.1468	1.0522	0.9621	
Norway – kroner	9.9835	0.05	-6.59	-0.95	12.65	10.8935	9.6449	8.5650	
Russia – ruble	69.5763	11.10	10.22	10.18	-7.59	151.5000	69.9196	53.4500	
Sweden – krona	10.4124	0.75	-7.96	-1.05	14.30	11.3655	10.1530	8.9373	
Switzerland – Swiss franc	0.9230	-1.06	-7.70	-5.46	-0.29	1.0133	0.9550	0.9103	
United Kingdom – (GBP/USD)	1.2147	-1.19	9.95	1.01	-10.43	1.3734	1.2335	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	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
US dollar											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3889	1.3889	1.3699	1.3514	1.3158	1.2821	1.2658	1.2658
Euro	EUR/USD	0.9797	1.0673	1.0200	1.0300	1.0500	1.0700	1.1000	1.1200	1.1400	1.1500
British pound	GBP/USD	1.1163	1.2029	1.1700	1.1700	1.1900	1.2200	1.2500	1.2800	1.3000	1.3200
Swiss franc	USD/CHF	0.9842	0.9227	0.9500	0.9500	0.9500	0.9600	0.9700	0.9700	0.9600	0.9600
Yen	USD/JPY	144.77	131.13	130.00	127.00	122.00	118.00	115.00	113.00	111.00	110.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6600	0.6600	0.6700	0.6800	0.6900	0.7000	0.7000	0.7000
Chinese yuan	USD/CNY	7.1160	6.8986	7.0000	7.2000	7.1500	7.1000	7.0000	6.9500	6.9000	6.9000
Mexican peso	USD/MXN	20.15	19.49	20.25	20.25	20.00	19.50	19.00	18.75	18.50	18.50
Brazilian real	USD/BRL	5.4063	5.2174	5.5000	5.5000	5.4000	5.2000	5.1000	5.0000	4.9000	4.9000
Effective dollar ¹		123.76	115.79	120.20	118.80	116.30	114.00	111.20	109.00	107.30	106.00
Canadian dollar											
US dollar	CAD/USD	0.7232	0.7380	0.7200	0.7200	0.7300	0.7400	0.7600	0.7800	0.7900	0.7900
Euro	EUR/CAD	1.3547	1.4462	1.4167	1.4306	1.4384	1.4459	1.4474	1.4359	1.4430	1.4557
British pound	GBP/CAD	1.5436	1.6300	1.6250	1.6250	1.6301	1.6486	1.6447	1.6410	1.6456	1.6709
Swiss franc	CAD/CHF	0.7117	0.6809	0.6840	0.6840	0.6935	0.7104	0.7372	0.7566	0.7584	0.7584
Yen	CAD/JPY	104.69	96.76	93.60	91.44	89.06	87.32	87.40	88.14	87.69	86.90
Australian dollar	AUD/CAD	0.8856	0.9233	0.9167	0.9167	0.9178	0.9189	0.9079	0.8974	0.8861	0.8861
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0400	5.1840	5.2195	5.2540	5.3200	5.4210	5.4510	5.4510
Mexican peso	CAD/MXN	14.57	14.38	14.58	14.58	14.60	14.43	14.44	14.63	14.62	14.62
Brazilian real	CAD/BRL	3.9097	3.8502	3.9600	3.9600	3.9420	3.8480	3.8760	3.9000	3.8710	3.8710

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