

# FX FORECASTS



## The Euro Takes a Beating

### HIGHLIGHTS

- ▶ The euro recently fell to parity with the US dollar for the first time since late 2002. It's underperforming for a number of reasons. First, the greenback remains strong against most currencies because it's a safe haven in uncertain times. Second, the European Central Bank (ECB) is lagging behind with its monetary tightening. Third, recession seems more likely in Europe due to increasing natural gas supply issues and other effects of the war in Ukraine. Finally, there's concern about the ECB's upcoming rate hikes and how they could affect some eurozone countries. Analysts are keeping an especially close eye on Italy, where Prime Minister Mario Draghi recently lost the support of the Five-Star Movement, ratcheting up the political uncertainty.
- ▶ The Japanese yen is also at levels not seen in years. It hasn't traded around ¥140/US\$ since 1998. Like today, there was a stark difference between US and Japanese monetary policy back then. There was also economic uncertainty surrounding the financial crisis in some emerging Asian markets. The Bank of Japan is currently in no rush to raise interest rates as it faces significantly lower inflation. Inflation there recently crept above the 2% target, however.
- ▶ The Canadian dollar has stabilized around US\$0.77 in the past few weeks. The latest commodity price movements have had less of an impact on the currency pair. Canada's real estate market is slowing sharply, but doesn't seem to be affecting the loonie too much for now. There's also been some positive data on the Canadian economy of late, including May's big trade surplus. Investors continue to expect more interest rate hikes in Canada, and many Canadian bond yields are still higher than their American counterparts.
- ▶ Meanwhile economic uncertainty and rising interest rates in the US have prompted a little more movement in emerging market currencies. The Mexican peso is back up around 20.50 peso/US\$, while the Chinese yuan is trading at about 6.75 yuan/US\$. Commodity-sensitive emerging markets are at a greater risk of currency depreciation, however. The Brazilian real depreciated from around 4.80 real/US\$ at the beginning of June to about 5.40 real/US\$ recently.

### MAIN FACTORS TO WATCH

- ▶ We still think investor risk appetite will remain soft over the coming quarters, continuing to support the US dollar. We'll be watching the euro for renewed sovereign debt tensions. Though the ECB has a plan in place to minimize borrowing cost differences across the eurozone, it may prove less effective in the face of monetary tightening and weak risk appetite.
- ▶ With economic trouble on the horizon, expect the Canadian dollar to resume its downtrend soon. We think there's about a 50/50 chance of a recession in Canada next year. Because the real estate sector is so vulnerable, the Bank of Canada will likely slow its rate hikes come fall. We see the loonie bottoming out at US\$0.73 by the middle of next year.

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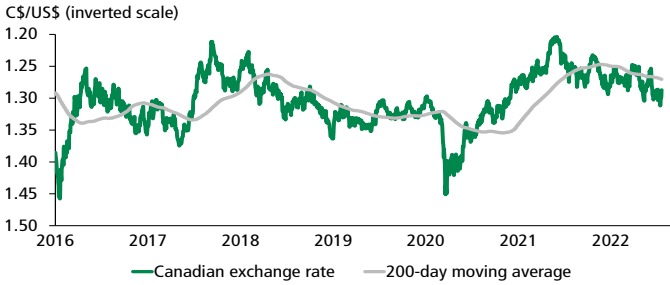
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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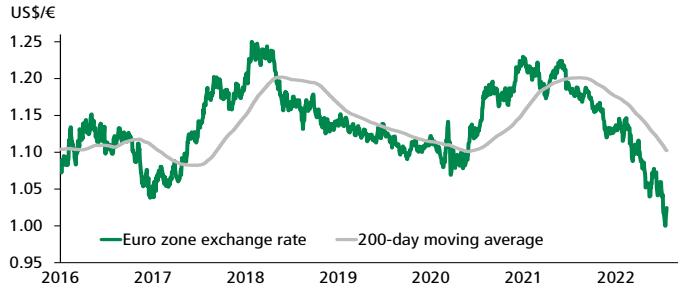
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



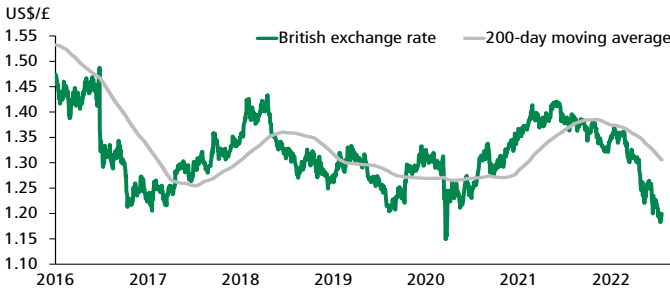
Sources: Datastream and Desjardins, Economic Studies

## EURO Exchange rate and trend



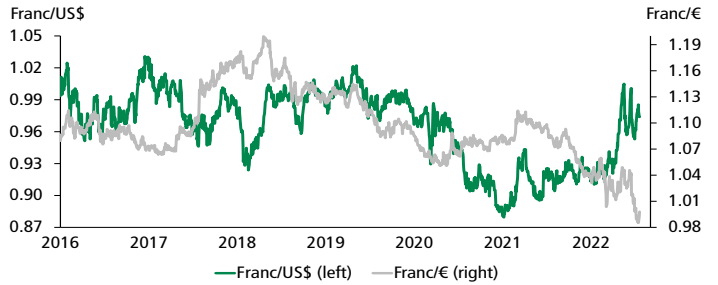
Sources: Datastream and Desjardins, Economic Studies

## BRITISH POUND Exchange rate and trend



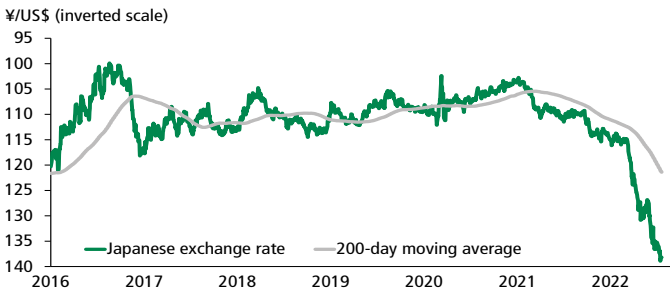
Sources: Datastream and Desjardins, Economic Studies

## SWISS FRANC Exchange rate



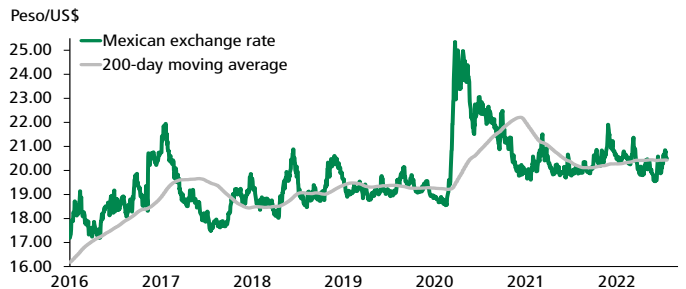
Sources: Datastream and Desjardins, Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins, Economic Studies

## 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		
	July 19	-1 month	-3 months	-6 months	-1 year	Higher	Average	Lower
<b>Americas</b>								
Argentina – peso	129.1150	5.09	13.47	23.86	34.06	129.1150	107.0766	96.3084
Brazil – real	5.3918	5.09	15.19	-1.51	3.55	5.7447	5.2537	4.6100
Canada – (USD/CAD)	1.2892	-1.38	2.10	3.01	0.88	1.3158	1.2684	1.2320
Canada – (CAD/USD)	0.7757	1.40	-2.06	-2.92	-0.88	0.8117	0.7884	0.7600
Mexico – peso	20.4125	-0.62	1.85	-0.27	2.16	21.8163	20.3690	19.4890
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6899	-0.53	-6.40	-4.33	-6.07	0.7579	0.7219	0.6733
China – yuan renminbi	6.7445	0.41	5.49	6.30	3.91	6.7890	6.4682	6.3093
Hong Kong – dollar	7.8500	0.00	0.10	0.77	1.02	7.8501	7.8086	7.7692
India – rupee	79.8650	2.45	4.47	7.27	6.69	80.0150	75.6047	72.9510
Japan – yen	138.20	2.39	7.20	20.87	26.26	138.92	118.75	109.06
New Zealand – (NZD/USD)	0.6225	-1.43	-7.60	-8.30	-10.37	0.7204	0.6755	0.6112
South Korea – won	1,313	2.03	6.20	10.21	14.44	1,326	1,210	1,142
<b>Europe</b>								
Denmark – krona	7.2783	2.70	5.54	10.92	15.47	7.4288	6.6581	6.2563
Euro zone – (EUR/USD)	1.0248	-2.01	-5.00	-9.67	-13.20	1.1885	1.1195	0.9997
Norway – kroner	9.9204	-0.80	12.28	12.95	10.88	10.2535	9.0114	8.3075
Russia – ruble	56.3500	-0.70	-30.11	-26.35	-24.46	151.5000	74.9762	53.4500
Sweden – krona	10.2316	0.56	7.29	12.25	17.78	10.6390	9.2649	8.5171
Switzerland – swiss franc	0.9685	-0.38	2.02	5.70	5.48	1.0048	0.9348	0.9042
United Kingdom – (GBP/USD)	1.2033	-1.22	-7.38	-11.71	-11.98	1.3976	1.3219	1.1784

\* 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	2021		2022				2023				
	Q3	Q4	Q1	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
<b>U.S. dollar</b>											
Canadian dollar	USD/CAD	1.2680	1.2636	1.2501	1.2873	1.3158	1.3333	1.3514	1.3699	1.3514	1.3514
Euro	EUR/USD	1.1590	1.1372	1.1127	1.0455	1.0200	1.0000	0.9900	1.0000	1.0200	1.0500
British pound	GBP/USD	1.3484	1.3545	1.3167	1.2145	1.2000	1.1800	1.1700	1.1700	1.1900	1.2100
Swiss franc	USD/CHF	0.9331	0.9130	0.9206	0.9576	0.9700	0.9800	0.9800	0.9800	0.9900	0.9900
Yen	USD/JPY	111.29	115.10	121.68	135.75	139.00	136.00	130.00	125.00	120.00	115.00
Australian dollar	AUD/USD	0.7227	0.7261	0.7481	0.6903	0.6900	0.6800	0.6700	0.6700	0.6800	0.6900
Chinese yuan	USD/CNY	6.4467	6.3561	6.3400	6.6993	6.7500	6.8000	6.8500	6.8500	6.7500	6.7000
Mexican peso	USD/MXN	20.64	20.50	19.87	20.10	20.50	21.00	21.50	21.50	21.00	20.50
Brazilian real	USD/BRL	5.4391	5.5802	4.7375	5.2377	5.4000	5.6000	5.7000	5.7000	5.5000	5.3000
Effective dollar <sup>1</sup>		106.55	107.98	109.17	115.77	118.30	119.60	120.00	119.30	117.00	114.80
<b>Canadian dollar</b>											
U.S. dollar	CAD/USD	0.7886	0.7914	0.7999	0.7768	0.7600	0.7500	0.7400	0.7300	0.7400	0.7400
Euro	EUR/CAD	1.4695	1.4370	1.3909	1.3458	1.3421	1.3333	1.3378	1.3699	1.3784	1.4189
British pound	GBP/CAD	1.7097	1.7115	1.6459	1.5633	1.5789	1.5733	1.5811	1.6027	1.6081	1.6351
Swiss franc	CAD/CHF	0.7359	0.7225	0.7364	0.7439	0.7372	0.7350	0.7252	0.7154	0.7326	0.7326
Yen	CAD/JPY	87.76	91.08	97.33	105.45	105.64	102.00	96.20	91.25	88.80	85.10
Australian dollar	AUD/CAD	0.9164	0.9175	0.9352	0.8885	0.9079	0.9067	0.9054	0.9178	0.9189	0.9324
Chinese yuan	CAD/CNY	5.0841	5.0302	5.0716	5.2044	5.1300	5.1000	5.0690	5.0005	4.9950	4.9580
Mexican peso	CAD/MXN	16.28	16.22	15.89	15.62	15.58	15.75	15.91	15.70	15.54	15.17
Brazilian real	CAD/BRL	4.2895	4.4161	3.7897	4.0689	4.1040	4.2000	4.2180	4.1610	4.0700	3.9220

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