

## FX FORECASTS

# Growing Concern about China Is Putting Pressure on Commodity Currencies

### HIGHLIGHTS

- ▶ Risk aversion came roaring back this month amid disappointing data out of China. Commodity prices and commodity currencies have been the hardest hit. China's currency is also under pressure—especially following recent interest rate cuts—and is trading at about 7.30 yuan/USD.
- ▶ The Russian ruble tumbled on China's troubles, briefly trading above 100 rubles/USD. To break its fall, the Bank of Russia raised interest rates by 3.5% on August 15 to 12%. As for other commodity currencies, the South African rand has lost about 6% since the start of the month, and both the Australian and New Zealand dollars are down more than 4%. Losses were a bit more muted for the Chilean and Brazilian currencies, while the Canadian dollar held its own among commodity currencies, declining by 3%.
- ▶ But Canada's recent economic data has been disappointing. After a strong start to the year, economic growth appears to be slowing. This could have weighed on the Canadian dollar further, but the loonie continued to be buoyed by high oil prices in the first half of August. Moreover, investors haven't completely ruled out another interest rate hike from the Bank of Canada. Canadian inflation surprised to the upside in July and might well again in August.
- ▶ Meanwhile US economic data remained fairly strong, keeping the greenback attractive. The US debt downgrade hasn't hurt the dollar; in fact, it has had the opposite effect. Some economic data out of Europe also remains strong, limiting currency depreciation in the region. And the odds of additional interest rate hikes remain higher in Europe.
- ▶ The Bank of Japan (BoJ) ended its strict yield curve control in late July. Though the 10-year JGB yield is now allowed to exceed the 0.50% cap set by the BoJ, that wasn't enough to lift the yen, which is currently trading at 145 yen/USD. US bond yields continue to rise, widening spreads against Japan.

### MAIN FACTORS TO WATCH

- ▶ Risk aversion will likely remain elevated over the coming quarters, especially as economic data is expected to worsen in several countries. The US dollar should therefore remain strong in the near term. But the greenback's rise will probably be limited by an imminent US bond yield inversion.
- ▶ The loonie is currently trading close to 1.36 CAD/USD (0.735 USD) and could lose a bit more ground against the US dollar by the end of the year. Oil prices are expected to drop further as it becomes more clear that supply will be sufficient to meet demand. The loonie should take off later in 2024 so long as the global economy recovers and commodity prices move higher.

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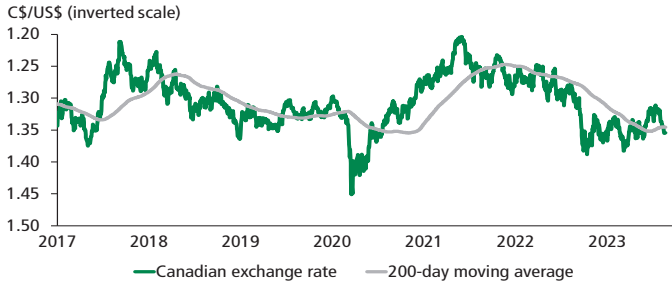
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NOTE TO READERS: The letters k, M and B are used in texts and tables to refer to thousands, millions and billions respectively.

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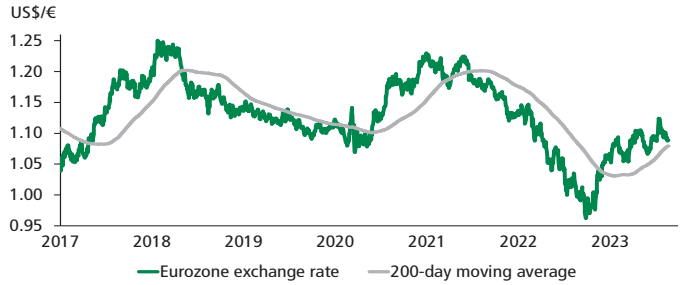
# Main Exchange Rates

## CANADIAN DOLLAR Exchange rate and trend



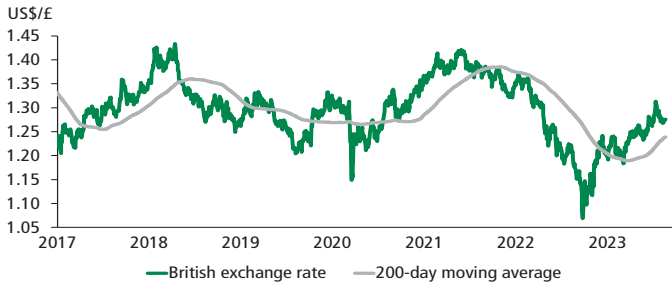
Sources: Datastream and Desjardins Economic Studies

## EURO Exchange rate and trend



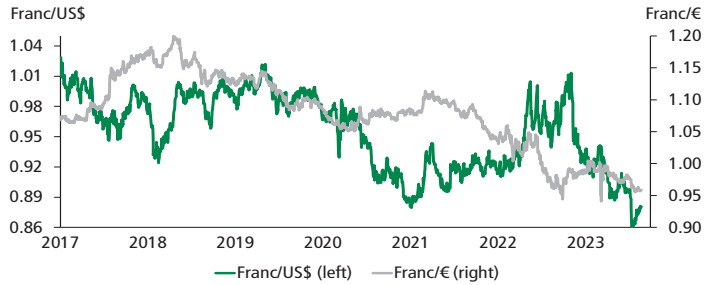
Sources: Datastream and Desjardins Economic Studies

## BRITISH POUND Exchange rate and trend



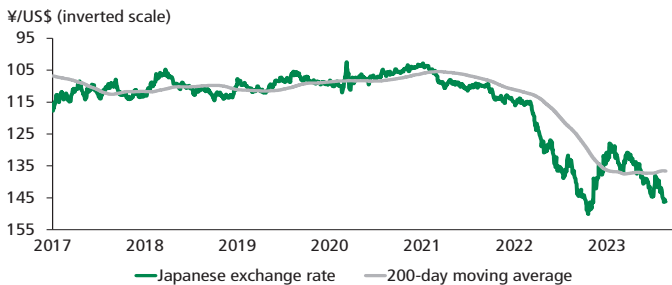
Sources: Datastream and Desjardins Economic Studies

## SWISS FRANC Exchange rate



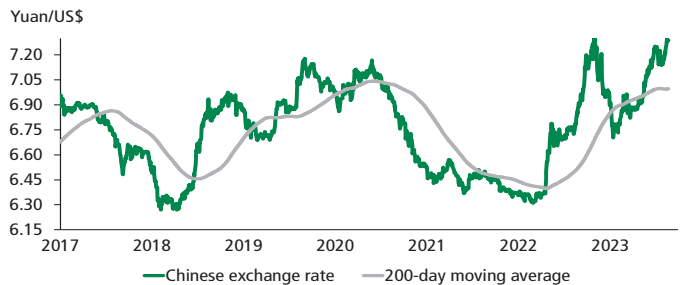
Sources: Datastream and Desjardins Economic Studies

## YEN Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

## CHINESE YUAN Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

**TABLE 1**  
**Currency market: Yields**

COUNTRY – CURRENCY*	SPOT PRICE	% CHANGE				LAST 52 WEEKS		
	Aug 22	1-month	3-month	6-month	1-year	High	Average	Low
<b>Americas</b>								
Argentina – peso	350.0339	29.93	49.35	79.51	155.99	350.0339	202.4210	136.7355
Brazil – real	4.9295	3.24	-0.71	-4.77	-4.97	5.4632	5.1011	4.7216
Canada – (USD/CAD)	1.3554	2.62	0.29	0.10	3.91	1.3879	1.3453	1.2927
Canada – (CAD/USD)	0.7378	-2.55	-0.29	-0.10	-3.76	0.7736	0.7434	0.7205
Mexico – peso	16.9045	-0.20	-5.47	-7.89	-16.21	20.3370	18.5977	16.6405
<b>Asia and South Pacific</b>								
Australia – (AUD/USD)	0.6422	-4.55	-3.49	-5.62	-6.61	0.7136	0.6688	0.6197
China – yuan renminbi	7.2943	1.48	3.67	5.83	6.51	7.3029	7.0198	6.7030
Hong Kong – dollar	7.8371	0.26	0.11	-0.12	-0.12	7.8501	7.8328	7.7674
India – rupee	83.0450	1.29	0.24	0.25	3.99	83.2395	81.9783	79.3550
Japan – yen	145.89	2.88	5.26	8.13	6.11	150.15	138.37	127.90
New Zealand – (NZD/USD)	0.5945	-3.63	-5.44	-4.41	-3.61	0.6506	0.6141	0.5565
South Korea – won	1,336	4.06	1.31	2.35	-0.27	1,440	1,321	1,220
<b>Europe</b>								
Denmark – krona	6.8715	2.60	-0.23	-2.12	-8.14	7.7519	7.0404	6.6300
Eurozone – (EUR/USD)	1.0851	-2.37	0.48	2.09	8.87	1.1243	1.0588	0.9621
Norway – kroner	10.6128	5.33	-2.56	2.46	7.92	11.1864	10.3422	9.6608
Russia – ruble	94.4750	3.99	17.95	24.88	57.79	101.3000	74.1568	57.3750
Sweden – krona	10.9315	5.23	3.50	4.88	2.05	11.3655	10.6050	10.1615
Switzerland – Swiss franc	0.8801	1.63	-2.11	-5.35	-8.63	1.0133	0.9265	0.8577
United Kingdom – (GBP/USD)	1.2733	-0.88	2.52	5.52	7.99	1.3119	1.2155	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	Q2	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
<b>US dollar</b>											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3516	1.3238	1.3514	1.3699	1.3514	1.3158	1.2987	1.2987
Euro	EUR/USD	0.9797	1.0673	1.0865	1.0910	1.0800	1.0700	1.0900	1.1200	1.1300	1.1400
British pound	GBP/USD	1.1163	1.2029	1.2365	1.2714	1.2600	1.2600	1.2800	1.3300	1.3400	1.3500
Swiss franc	USD/CHF	0.9842	0.9227	0.9132	0.8946	0.8900	0.9000	0.9000	0.9100	0.9200	0.9400
Yen	USD/JPY	144.77	131.13	132.81	144.34	140.00	135.00	127.00	120.00	117.00	115.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6686	0.6667	0.6400	0.6400	0.6500	0.6700	0.6800	0.6800
Chinese yuan	USD/CNY	7.1160	6.8986	6.8690	7.2523	7.3500	7.4000	7.3500	7.2500	7.2000	7.1500
Mexican peso	USD/MXN	20.15	19.49	18.02	17.13	17.20	18.00	18.50	18.25	18.25	18.00
Brazilian real	USD/BRL	5.4063	5.2174	5.0801	4.8189	5.0000	5.2000	5.2000	5.1000	5.0000	4.9000
Effective dollar <sup>1</sup>		123.8	115.8	114.7	114.5	115.3	115.6	113.2	109.7	108.5	107.8
<b>Canadian dollar</b>											
US dollar	CAD/USD	0.7232	0.7380	0.7399	0.7554	0.7400	0.7300	0.7400	0.7600	0.7700	0.7700
Euro	EUR/CAD	1.3547	1.4462	1.4684	1.4443	1.4595	1.4658	1.4730	1.4737	1.4675	1.4805
British pound	GBP/CAD	1.5436	1.6300	1.6712	1.6830	1.7027	1.7260	1.7297	1.7500	1.7403	1.7532
Swiss franc	CAD/CHF	0.7117	0.6809	0.6756	0.6758	0.6586	0.6570	0.6660	0.6916	0.7084	0.7238
Yen	CAD/JPY	104.69	96.76	98.26	109.03	103.60	98.55	93.98	91.20	90.09	88.55
Australian dollar	AUD/CAD	0.8856	0.9233	0.9037	0.8826	0.8649	0.8767	0.8784	0.8816	0.8831	0.8831
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0821	5.4784	5.4390	5.4020	5.4390	5.5100	5.5440	5.5055
Mexican peso	CAD/MXN	14.57	14.38	13.33	12.94	12.73	13.14	13.69	13.87	14.05	13.86
Brazilian real	CAD/BRL	3.9097	3.8502	3.7586	3.6402	3.7000	3.7960	3.8480	3.8760	3.8500	3.7730

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