

FX FORECASTS

After a Good June for Several Currencies, the Situation Could Quickly Deteriorate

HIGHLIGHTS

- ▶ Several central banks—including the Bank of Canada (BoC)—have raised interest rates recently, and we likely haven't seen the last of the hikes. The BoC ended its pause in June and indicated that further increases were possible. Canada's economy remains robust and inflation isn't declining fast enough. For the first time since September 2022, the Canadian exchange rate fell below C\$1.32/US\$ (around US\$0.76). However, momentum has eased since the end of June due to a rebounding US dollar.
- ▶ Although the Federal Reserve (Fed) left interest rates unchanged in June, it telegraphed that further hikes are increasingly likely. A spike in real GDP in the first quarter helped reinforce the idea of a resilient US economy that could fuel too much inflationary pressure. The labour market also remains strong. The manufacturing sector is less rosy, but this weakness is largely offset by better service sector data. US bond yields have surged in recent weeks, pushing interest rate spreads with several countries into a more favourable spot for the US dollar.
- ▶ More interest rate hikes are also expected in Europe, but this support for European currencies erodes when the US increases its own rates. Economic data is also generally less encouraging in Europe. Eurozone real GDP contracted slightly in the fourth quarter of 2022 and the first quarter of 2023. The pound sterling is holding close to US\$1.28, its highest since April 2022. The Bank of England's 50 basis point rate hike in June surprised many analysts.
- ▶ Asian currencies are in a more difficult position. The yen continues to suffer from widening interest rate spreads with the US. The Bank of Japan still hasn't begun tightening monetary policy despite rising inflation. At around 145/US\$, the yen is back close to last fall's level, when foreign exchange interventions were needed to support it. Hobbled by disappointing economic data in China, the yuan is barely doing any better. In contrast to other central banks, the People's Bank of China announced a 0.1% cut to some interest rates it manages in June.

MAIN FACTORS TO WATCH

- ▶ A further rebound by the US dollar is still likely. Support could come from a favourable interest rate trend or increased economic uncertainty and a loss of risk appetite. We expect the economy to deteriorate in several countries over the summer and fall. A more favourable economic environment in 2024, with interest rates falling, would be more conducive to the US dollar depreciating against several currencies.
- ▶ The Canadian dollar is expected to end the year around C\$1.37/US\$ (US\$0.73), assuming the Bank of Canada only raises rates once more. We don't expect much support from commodity prices, although oil could always come as a surprise due to supply constraints. In the longer term, the loonie should benefit from an improving global economic environment and greater demand for commodities.

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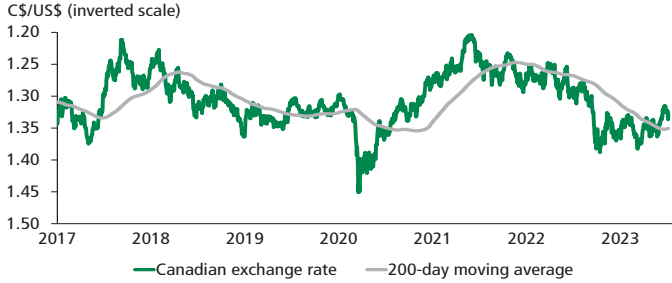
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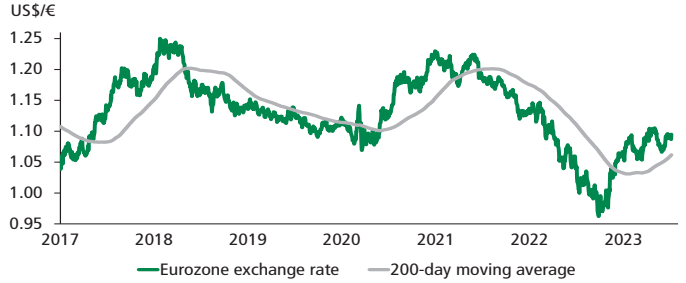
Main Exchange Rates

CANADIAN DOLLAR Exchange rate and trend



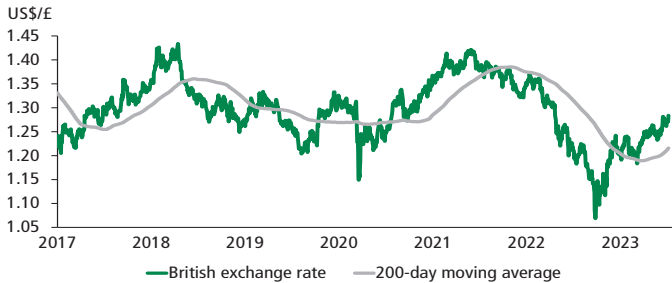
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EURO Exchange rate and trend



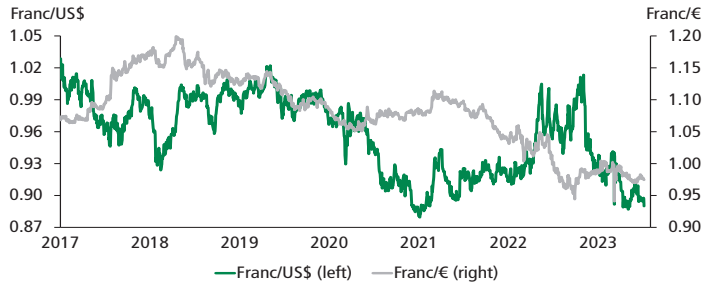
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BRITISH POUND Exchange rate and trend



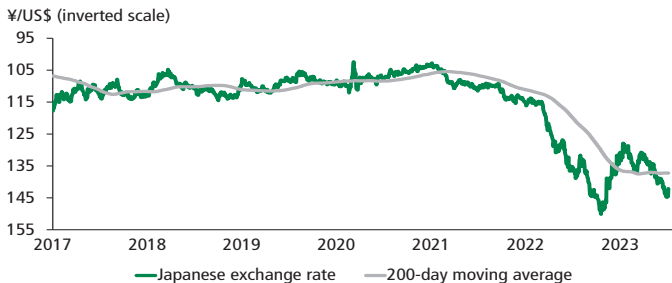
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SWISS FRANC Exchange rate



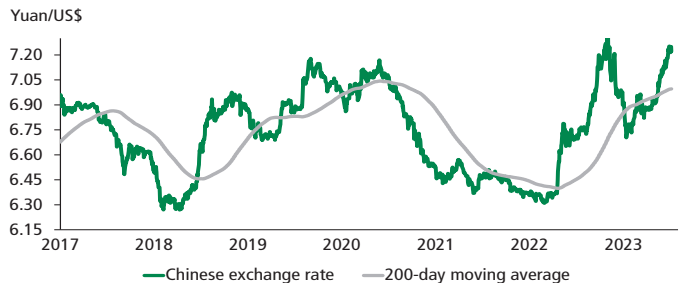
Sources: Datastream and Desjardins Economic Studies

YEN Exchange rate and trend



Sources: Datastream and Desjardins Economic Studies

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		
	Jul 7	1-month	3-month	6-month	1-year	High	Average	Low
Americas								
Argentina – peso	260.9768	7.03	23.54	45.60	106.19	260.9768	183.0231	126.5695
Brazil – real	4.8668	-1.12	-3.79	-7.31	-8.81	5.4854	5.1526	4.7696
Canada – (USD/CAD)	1.3298	-0.45	-1.31	-1.35	2.45	1.3879	1.3401	1.2745
Canada – (CAD/USD)	0.7520	0.45	1.32	1.37	-2.40	0.7846	0.7462	0.7205
Mexico – peso	17.1183	-1.48	-6.16	-10.63	-16.99	20.9440	19.0168	17.0110
Asia and South Pacific								
Australia – (AUD/USD)	0.6690	0.58	0.32	-2.71	-2.16	0.7136	0.6724	0.6197
China – yuan renminbi	7.2212	1.29	5.11	5.60	7.75	7.3029	6.9644	6.6953
Hong Kong – dollar	7.8272	-0.19	-0.29	0.27	-0.26	7.8501	7.8366	7.7674
India – rupee	82.6150	0.13	0.89	0.41	4.34	83.0205	81.6162	78.6045
Japan – yen	142.09	1.40	7.52	7.57	4.47	150.15	137.55	127.90
New Zealand – (NZD/USD)	0.6218	3.00	-0.45	-2.08	0.66	0.6506	0.6157	0.5565
South Korea – won	1,305	0.10	-1.07	2.87	0.40	1,440	1,323	1,220
Europe								
Denmark – krona	6.7925	-2.45	-0.58	-2.80	-7.25	7.7519	7.1080	6.7348
Eurozone – (EUR/USD)	1.0950	2.26	0.24	3.27	7.66	1.1053	1.0485	0.9621
Norway – kroner	10.6261	-3.68	1.25	6.26	5.31	11.1864	10.2927	9.5176
Russia – ruble	91.3800	11.81	12.50	25.74	42.67	91.3800	70.1323	55.5000
Sweden – krona	10.8208	-0.75	3.33	2.84	2.73	11.3655	10.5708	10.0531
Switzerland – Swiss franc	0.8901	-1.95	-1.57	-4.41	-8.52	1.0133	0.9375	0.8869
United Kingdom – (GBP/USD)	1.2824	2.91	3.12	6.45	6.87	1.2824	1.2059	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	
US dollar											
Canadian dollar	USD/CAD	1.3828	1.3551	1.3516	1.3238	1.3514	1.3699	1.3333	1.2987	1.2821	1.2821
Euro	EUR/USD	0.9797	1.0673	1.0865	1.0910	1.0700	1.0600	1.0800	1.1100	1.1200	1.1300
British pound	GBP/USD	1.1163	1.2029	1.2365	1.2714	1.2600	1.2400	1.2700	1.2900	1.3100	1.3200
Swiss franc	USD/CHF	0.9842	0.9227	0.9132	0.8946	0.9200	0.9200	0.9400	0.9500	0.9600	0.9600
Yen	USD/JPY	144.77	131.13	132.81	144.34	135.00	130.00	125.00	120.00	117.00	115.00
Australian dollar	AUD/USD	0.6404	0.6814	0.6686	0.6667	0.6600	0.6500	0.6700	0.6800	0.6900	0.6900
Chinese yuan	USD/CNY	7.1160	6.8986	6.8690	7.2523	7.3500	7.4000	7.3000	7.2000	7.1000	7.0000
Mexican peso	USD/MXN	20.15	19.49	18.02	17.13	17.75	18.50	18.50	18.00	17.75	17.50
Brazilian real	USD/BRL	5.4063	5.2174	5.0801	4.8189	5.0000	5.2000	5.1000	5.0000	4.9000	4.8000
Effective dollar ¹		123.8	115.8	114.7	114.5	115.2	115.8	113.1	110.2	108.8	108.1
Canadian dollar											
US dollar	CAD/USD	0.7232	0.7380	0.7399	0.7554	0.7400	0.7300	0.7500	0.7700	0.7800	0.7800
Euro	EUR/CAD	1.3547	1.4462	1.4684	1.4443	1.4459	1.4521	1.4400	1.4416	1.4359	1.4487
British pound	GBP/CAD	1.5436	1.6300	1.6712	1.6830	1.7027	1.6986	1.6933	1.6753	1.6795	1.6923
Swiss franc	CAD/CHF	0.7117	0.6809	0.6756	0.6758	0.6808	0.6716	0.7050	0.7315	0.7488	0.7488
Yen	CAD/JPY	104.69	96.76	98.26	109.03	99.90	94.90	93.75	92.40	91.26	89.70
Australian dollar	AUD/CAD	0.8856	0.9233	0.9037	0.8826	0.8919	0.8904	0.8933	0.8831	0.8846	0.8846
Chinese yuan	CAD/CNY	5.1461	5.0908	5.0821	5.4784	5.4390	5.4020	5.4750	5.5440	5.5380	5.4600
Mexican peso	CAD/MXN	14.57	14.38	13.33	12.94	13.14	13.51	13.88	13.86	13.85	13.65
Brazilian real	CAD/BRL	3.9097	3.8502	3.7586	3.6402	3.7000	3.7960	3.8250	3.8500	3.8220	3.7440

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