


FX Forecasts

The US Dollar Holds Strong as Interest Rate Cuts Are Expected to Be More Gradual in the United States

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Highlights

While some data suggest that the US economy is slowing, it's still faring better than most other advanced economies. According to our [latest forecasts](#) , US GDP growth should come in around 2% in the first quarter and then possibly slow a little more in the second quarter. Meanwhile, many other countries can expect their economies to stagnate with practically zero growth. Inflation also seems to be stickier in the United States than elsewhere. This complicates things for the Federal Reserve, but the central bank has nonetheless left the door open to cutting interest rates in the near future. That said, the pace of rate cuts is expected to be gradual, which is helping to keep the US dollar at historically high levels.

Eurozone inflation is also proving to be more stubborn than expected, falling slightly short of expectations in February. As a result, the euro appreciated in early March, but was unable to maintain its gains. It's currently trading at just over US\$1.08, which is similar to last month. The European Central Bank maintained a relatively cautious tone during its March monetary policy meeting but conceded that it could review its position by June in light of recent data and forecasts.

The pound didn't do much better than the euro in March and is currently trading at around US\$1.26. Even though inflation is running higher in the United Kingdom, the Bank of England is encouraged by recent easing. At its most recent Monetary Policy Committee meeting, no members voted to increase the policy rate, in contrast with two at the previous meeting.

Canada's economy seems to be a little stronger than Europe's, but its situation is more precarious if you exclude the effects of demographic growth. Inflation has continued to edge down recently, even more than expected. Now that a long streak of rate cuts seems more likely in Canada, spreads with US bond yields have widened and the Canadian dollar has remained stuck at around CAN\$1.36/US\$.

We were interested to see how the yen would react to the recent monetary policy pivot in Japan. Despite the country's first interest rate hike since February 2007, the yen depreciated, finishing comfortably above ¥150/\$US. Since investors don't expect to see multiple rate hikes in Japan, rate spreads with the United States continue to weigh heavily on the yen.

The Swiss franc depreciated again after the Swiss National Bank announced a first interest rate cut in March. The decision was justified, however, as the country's inflation rate has been below 2% for a while. The franc is now trading at over 0.90 francs/US\$.

Main Factors to Watch

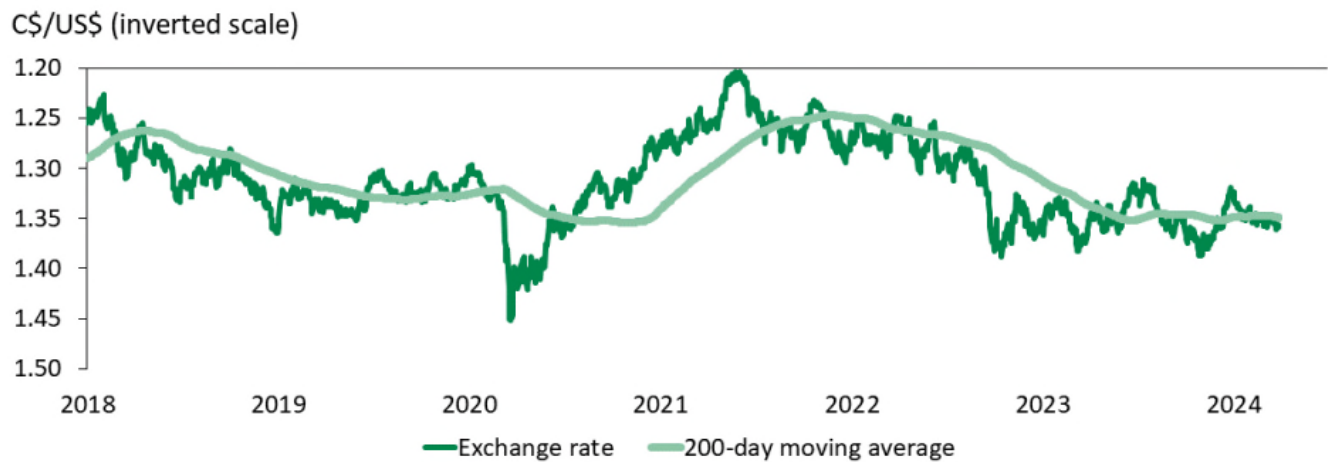
Changing expectations for monetary policy could still influence the currency market over the next few months. Following much speculation about the timing of the first rate cut, investors will likely turn their attention to the pace of upcoming cuts and potential differences in major central bank decisions. Everyone will be watching inflation data closely. For the time being, it looks like the Federal Reserve will cut rates a little more gradually than most other central banks, which should continue to buoy the US dollar. But if the global economy starts to recover, many currencies could make some gains later this year and in 2025.

The potential for appreciation seems lower for the Canadian dollar. Inflation has already come down considerably in Canada, and we still believe the Bank of Canada will make several interest rate cuts starting in June. Interest rate spreads will probably hold the loonie back. Commodity prices are

expected to go up, but not enough to sustainably push the Canadian exchange rate below CAN\$1.33/US\$ this year or next.

Main Exchange Rates

Canadian dollar Exchange rate and trend



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Euro

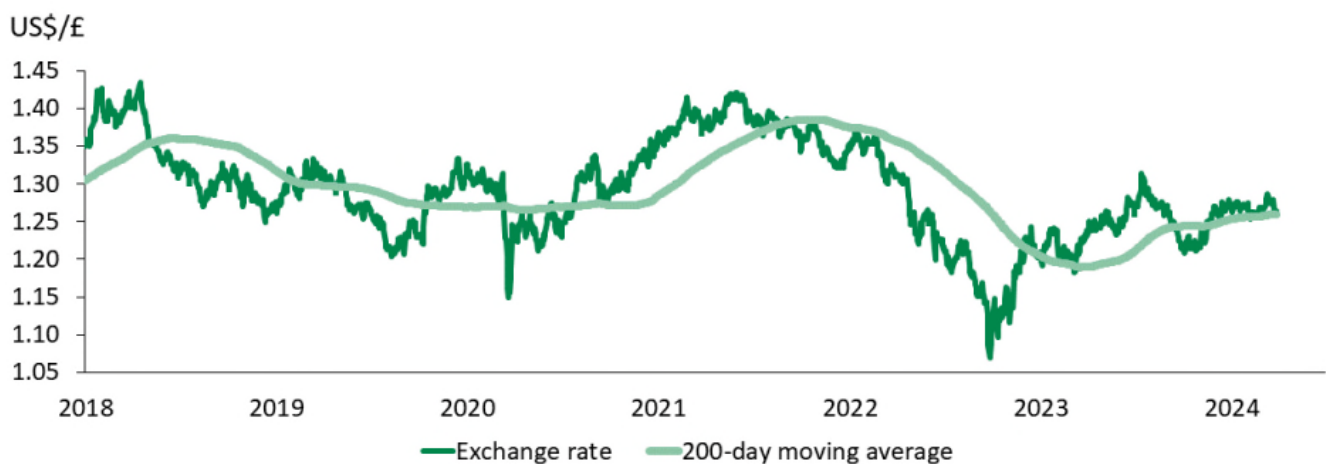
Exchange rate and trend



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British pound

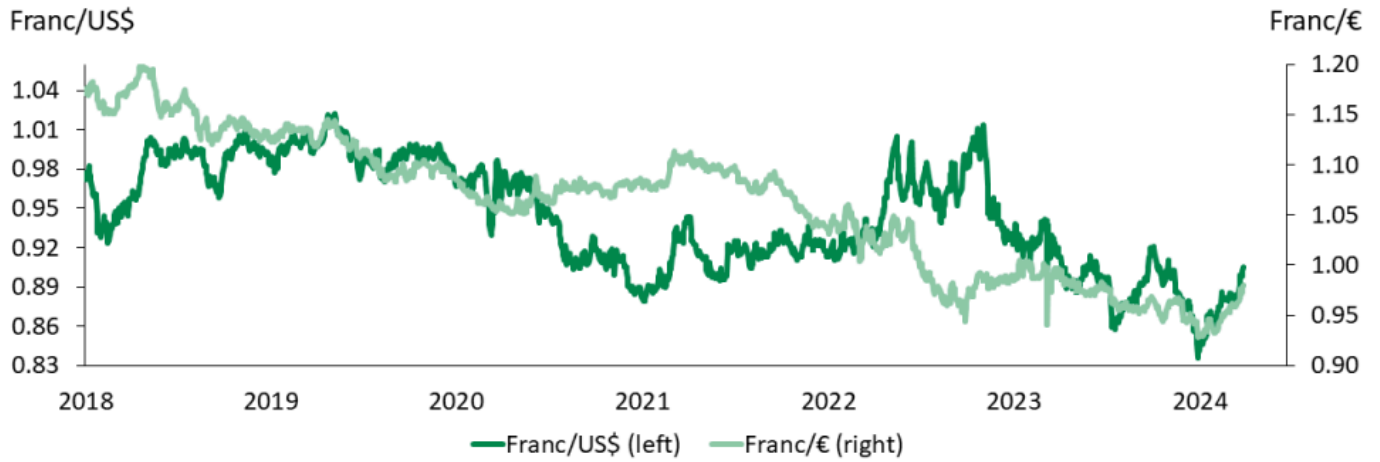
Exchange rate and trend



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Swiss franc

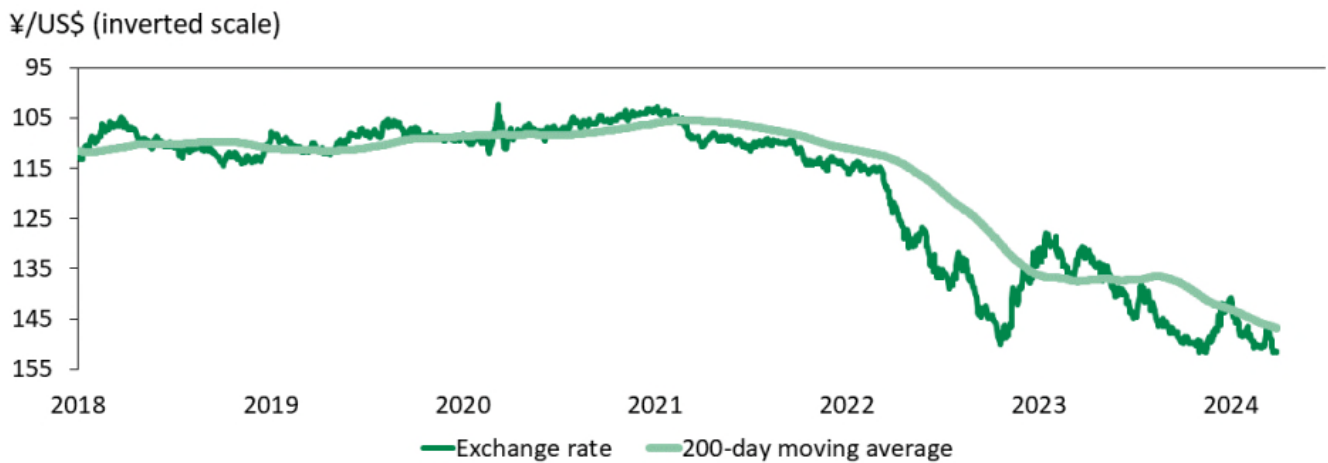
Exchange rate



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Yen

Exchange rate and trend



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Table 1**Yields**

Country – Currency*	Spot price	% change				Last 52 weeks		
	Mar 27	1-month	3-month	6-month	1-year	High	Average	Low
Americas								
Argentina – Peso	857.5080	1.94	6.20	144.98	313.50	857.5080	448.1944	207.3770
Brazil – Real	4.9768	0.65	3.14	-1.04	-4.91	5.2336	4.9387	4.7216
Canada – USD/CAD	1.3589	0.51	2.89	0.53	-0.81	1.3883	1.3487	1.3113
Canada – CAD/USD	0.7359	-0.51	-2.81	-0.52	0.82	0.7626	0.7415	0.7203
Mexico – Peso	16.5305	-3.05	-2.36	-6.42	-10.13	18.3940	17.3474	16.5305
Asia and South Pacific								
Australia – AUD/USD	0.6534	-0.14	-4.56	2.86	-1.74	0.6889	0.6579	0.6292
China – Yuan renminbi	7.2273	0.41	1.21	-1.15	4.97	7.3440	7.1629	6.8683
Hong Kong – Dollar	1,349	1.34	4.21	-0.05	3.63	1,363	1,319	1,260
India – Rupee	7.8240	0.00	0.18	0.04	-0.33	7.8500	7.8248	7.7913
Japan – Yen	83.3215	0.50	0.06	0.14	1.36	83.5870	82.7658	81.6750
New Zealand – NZD/USD	151.33	0.54	6.69	1.13	15.02	151.73	144.30	130.88
South Korea – Won	0.6005	-2.68	-5.28	1.38	-3.08	0.6393	0.6100	0.5803
Europe								
Denmark – Krona	6.8868	0.19	2.59	-2.98	-0.20	7.1254	6.8724	6.6300
Eurozone – EUR/USD	10.7796	2.36	6.66	0.13	2.98	11.2233	10.6284	9.9603
Norway – Kroner	1.2630	-0.43	-1.24	4.07	2.90	1.3119	1.2563	1.2079
Russia – Ruble	92.5000	0.76	1.01	-4.39	20.48	101.3000	89.6991	76.1000
Sweden – Krona	10.6113	2.93	6.75	-4.12	2.26	11.1888	10.5935	9.9405
Switzerland – Swiss franc	0.9057	3.00	7.07	-1.54	-1.19	0.9212	0.8863	0.8364
United Kingdom – GBP/USD	1.0821	-0.25	-2.56	2.94	0.36	1.1243	1.0846	1.0476

* In comparison with the US dollar, unless otherwise indicated.

NOTE: Currency table based on the previous day's close.

Table 2
History and Forecast

End of period	2023		2024				2025				
	Q3	Q4	Q1f	Q2f	Q3f	Q4f	Q1f	Q2f	Q3f	Q4f	
US dollar											
Canadian dollar	USD/CAD	1.3578	1.3248	1.3605	1.3514	1.3333	1.3423	1.3514	1.3514	1.3423	1.3333
Euro	EUR/USD	1.0588	1.1047	1.0800	1.0800	1.1000	1.1100	1.1200	1.1200	1.1300	1.1300
British pound	GBP/USD	1.2206	1.2748	1.2600	1.2700	1.3000	1.3000	1.3100	1.3200	1.3400	1.3500
Swiss franc	USD/CHF	0.9147	0.8415	0.9000	0.9000	0.9000	0.9100	0.9100	0.9200	0.9200	0.9200
Yen	USD/JPY	149.38	141.07	151.00	145.00	140.00	136.00	133.00	130.00	128.00	127.00
Australian dollar	AUD/USD	0.6435	0.6811	0.6500	0.6500	0.6700	0.6800	0.6900	0.6900	0.6900	0.6900
Chinese yuan	USD/CNY	7.3015	7.0999	7.2500	7.3000	7.2500	7.2000	7.1500	7.1000	7.1000	7.1000
Mexican peso	USD/MXN	17.42	16.97	16.60	17.00	16.80	16.70	16.50	16.25	16.00	16.00
Brazilian real	USD/BRL	5.0073	4.8410	5.0000	5.1000	5.0000	4.9000	4.8000	4.7000	4.6000	4.6000
Effective dollar ¹		117.92	112.81	116.60	115.60	113.30	112.60	111.90	111.40	110.40	110.00
Canadian dollar											
US dollar	CAD/USD	0.7365	0.7549	0.7350	0.7400	0.7500	0.7450	0.7400	0.7400	0.7450	0.7500
Euro	EUR/CAD	1.4375	1.4634	1.4694	1.4595	1.4667	1.4899	1.5135	1.5135	1.5168	1.5067
British pound	GBP/CAD	1.6572	1.6888	1.7143	1.7162	1.7333	1.7450	1.7703	1.7838	1.7987	1.8000
Swiss franc	CAD/CHF	0.6737	0.6352	0.6615	0.6660	0.6750	0.6780	0.6734	0.6808	0.6854	0.6900
Yen	CAD/JPY	110.02	106.48	110.99	107.30	105.00	101.32	98.42	96.20	95.36	95.25
Australian dollar	AUD/CAD	0.8737	0.9023	0.8844	0.8784	0.8933	0.9128	0.9324	0.9324	0.9262	0.9200
Chinese yuan	CAD/CNY	5.3776	5.3594	5.3288	5.4020	5.4375	5.3640	5.2910	5.2540	5.2895	5.3250
Mexican peso	CAD/MXN	12.83	12.81	12.20	12.58	12.60	12.44	12.21	12.03	11.92	12.00
Brazilian real	CAD/BRL	3.6879	3.6543	3.6750	3.7740	3.7500	3.6505	3.5520	3.4780	3.4270	3.4500

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