

## FX update

- A stronger-than-expected first half of the year prompts us to upgrade our Canadian GDP growth forecast for 2017 to 2.9%. Solid growth is being complemented by a healthy labour market, the latter creating jobs in numbers not seen in 7 years. That, coupled with the housing wealth effect — consumer credit growth is surging thanks in part to home equity lines of credit — is boosting consumption. We have also raised our call for 2018 growth from 2.0% to 2.5% to reflect provincial fiscal stimulus in British Columbia but also in Ontario and Quebec ahead of elections in the latter two provinces. The improving outlook and growing financial stability risks associated with housing and household debt arguably take precedence over the problem of low inflation, and hence warrant tighter monetary policy from the Bank of Canada.
- In light of the slightly more bullish call on Canada, we now expect the Bank of Canada's overnight rate to end 2018 at 1.75%, 25 basis points higher than in our previous forecasts. As such, we are a bit more optimistic about the Canadian dollar, now expecting USDCAD to trade in the 1.20-1.30 range over the next 12 months.
- We have also raised our targets for the euro to reflect an improved economic outlook on the old continent. So, the trade-weighted US dollar is likely to remain under pressure for a while longer. But the greenback could find renewed strength in 2018 if, as we expect, the Fed surprises markets with a couple of interest rate hikes next year.

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### NBF Currency Outlook\*

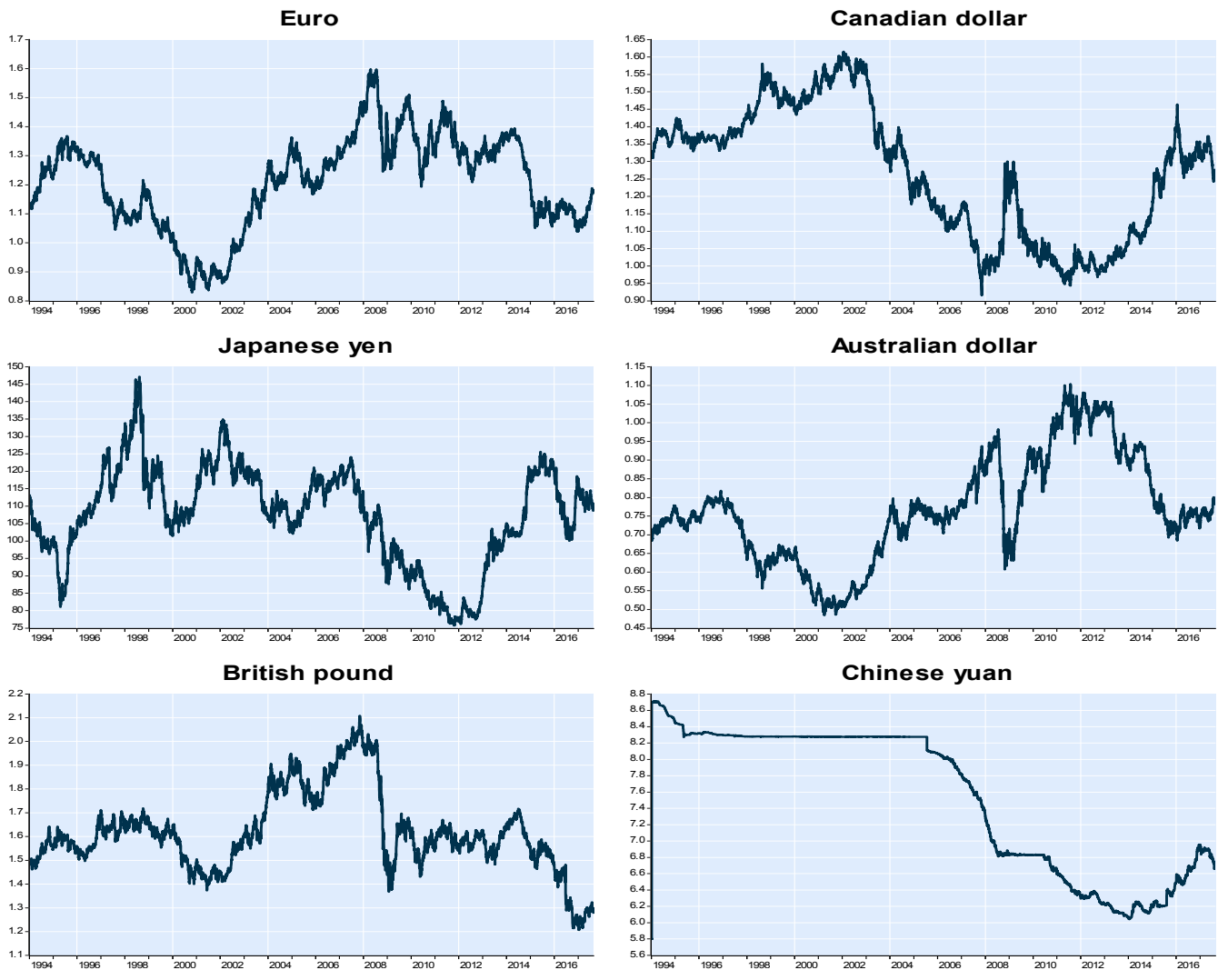
	Current 24-Aug-17	2017Q4	2018Q1	2018Q2	2018Q3	2018Q4
USDCAD	1.25	1.22	1.24	1.27	1.29	1.31
<i>US cents per CAD</i>	<i>0.80</i>	<i>0.82</i>	<i>0.81</i>	<i>0.79</i>	<i>0.78</i>	<i>0.77</i>
EURUSD	1.18	1.21	1.19	1.17	1.14	1.12
USDJPY	109	115	114	112	110	108
AUDUSD	0.79	0.80	0.78	0.77	0.75	0.74
GBPUSD	1.28	1.28	1.25	1.23	1.21	1.20
USDCNY	6.66	6.62	6.64	6.66	6.68	6.70
USDMXN	17.70	17.50	18.00	18.20	18.50	18.70

\* forecasts for end of period

Source: NBF Economics and Strategy

# Forex

## Annex



NBF Economics and Strategy (data via Datastream)

<b>Canadian dollar*</b>						
	<b>Current</b>	<b>2017Q4</b>	<b>2018Q1</b>	<b>2018Q2</b>	<b>2018Q3</b>	<b>2018Q4</b>
	<b>24-Aug-17</b>					
USDCAD	1.25	1.22	1.24	1.27	1.29	1.31
EURCAD	1.48	1.48	1.48	1.48	1.47	1.46
CADJPY	87	94	92	88	85	83
AUDCAD	0.99	0.98	0.97	0.97	0.97	0.97
GBPCAD	1.60	1.56	1.55	1.56	1.56	1.57
CADCNY	5.33	5.43	5.35	5.26	5.18	5.13
CADMXN	14.16	14.35	14.49	14.38	14.34	14.31

\* forecasts for end of period  
Source: NBF Economics and Strategy

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