

PNC Currency Review, March 2024

Prior Quarter

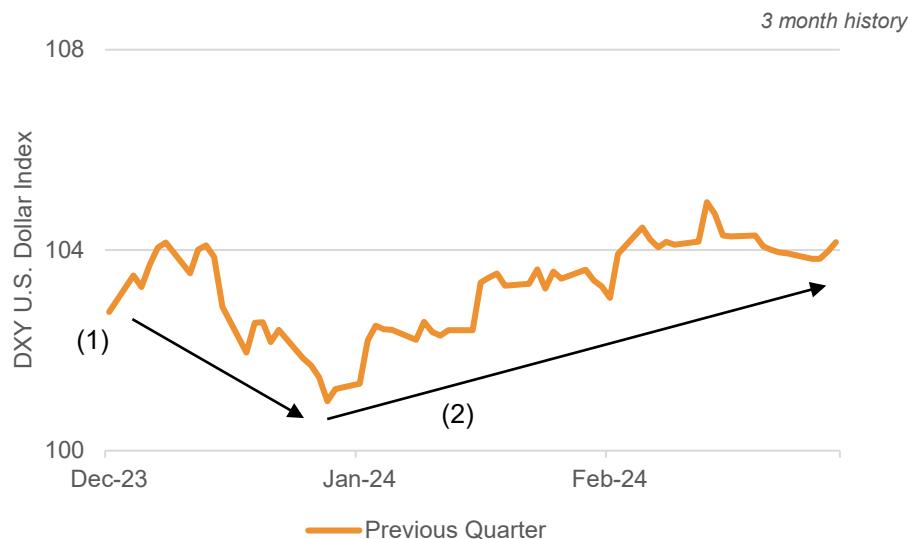
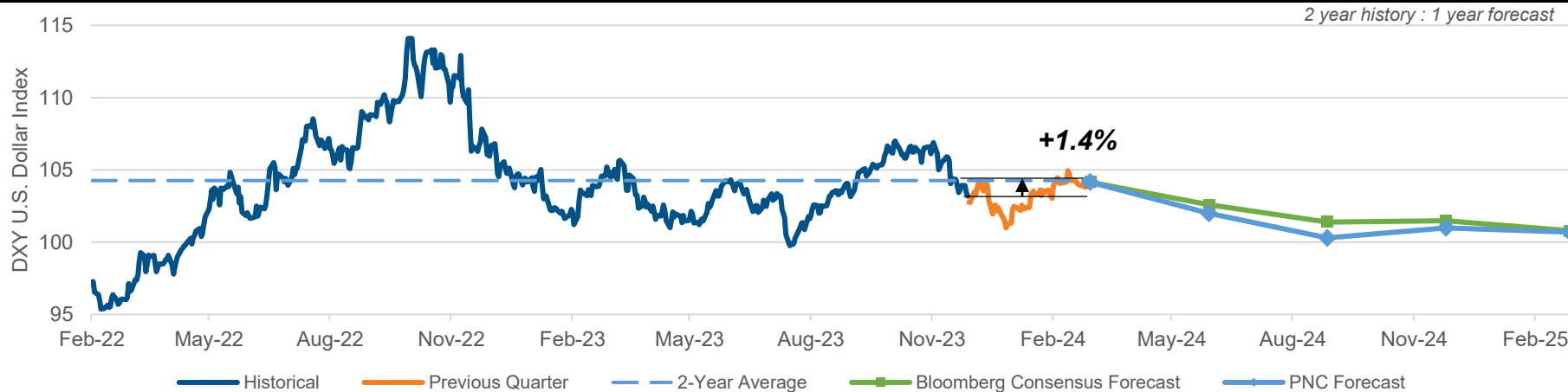
December 2023 – February 2024

Summary

DXY Major Currencies Dollar Index



The U.S. dollar index appreciated 1.4% in the trailing quarter.



- (1) The DXY depreciated as the Fed kept its policy rate unchanged, inflation cooled, and real GDP growth slowed.
- (2) U.S. economic data continued to remain strong and supported no near-term rate cuts.

Previous Quarter Recap

- The contraction in manufacturing eased in January from December, and services business activity continued to expand.
- The January 2024 jobs report came in very strong and better than expectations. Wage growth was still too hot for the Fed's inflation objective and supported no near-term fed funds rate cuts.
- Inflation in January slowed on a year-over-year basis but accelerated month-to-month and remains above the Fed's objective.

Currency Outlook

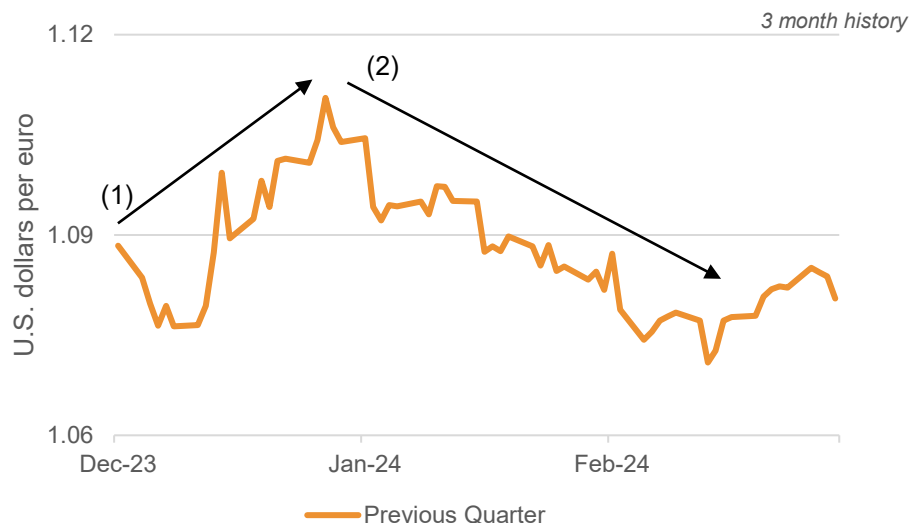
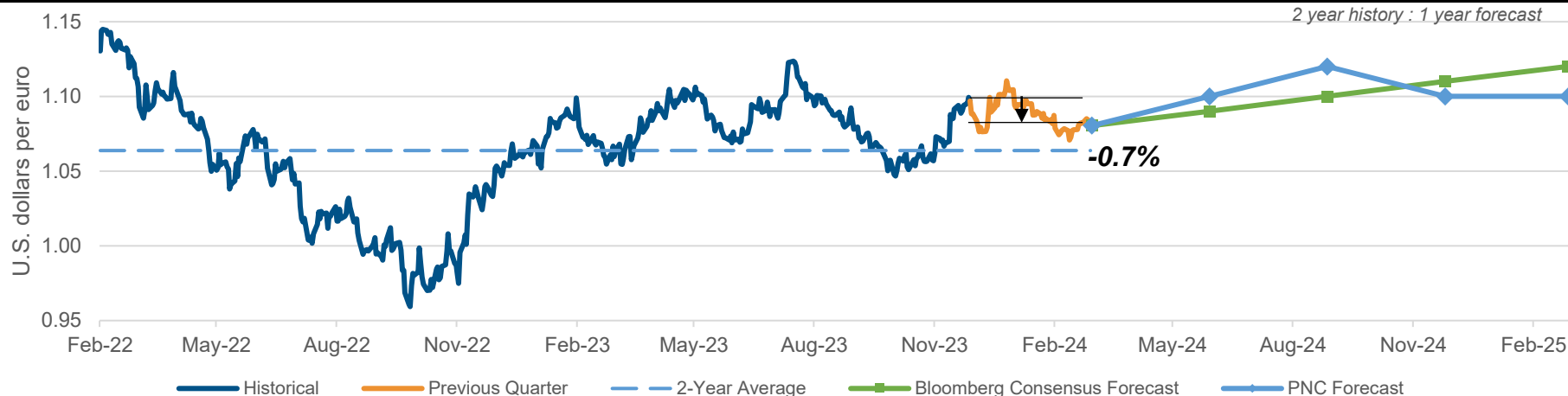
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If inflation surprises to the upside or the Fed holds interest rates higher for longer than anticipated, the dollar could be stronger than forecasted.

Currency Update

Euro



The euro weakened -0.7% in the trailing quarter.



- (1) The euro strengthened as eurozone data remained in line with expectations while dollar strength fell.
- (2) Stronger-than-anticipated U.S. economic data coupled with cooling eurozone inflation created headwinds for the euro.

Previous Quarter Recap

- The euro appreciated against the U.S. dollar in December, before falling in early 2024 with lower domestic inflation and the stronger-than-expected U.S. economy.
- The euro picked up in mid-February in response to the fourth quarter GDP report, showing an improvement in economic growth in the euro area from the weak third quarter.
- US GDP growth remained above-trend in the fourth quarter, with higher-than-expected inflation in January.

Currency Outlook

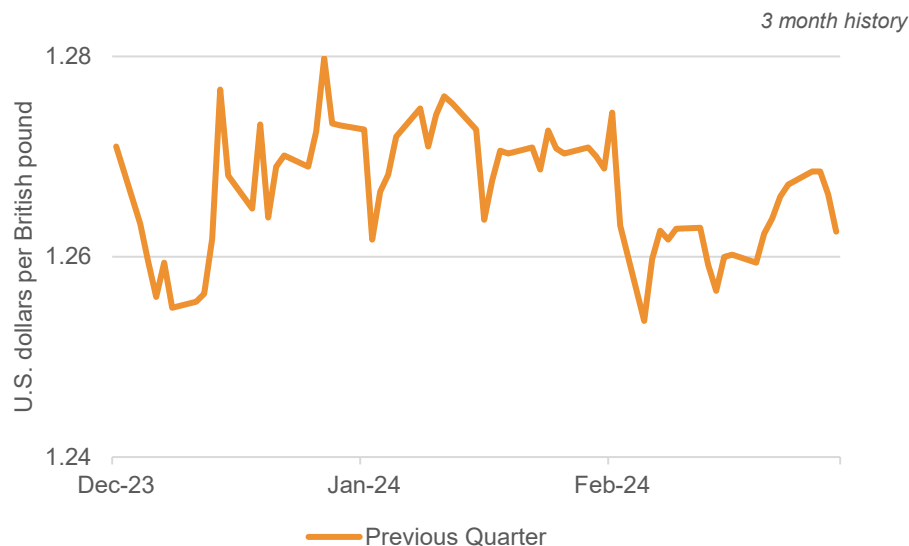
- PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If Eurozone inflation surprises to the upside or the ECB holds interest rates higher for longer, the euro could be stronger than expected.

Currency Update

Great British Pound



Pound sterling depreciated -0.7% in the trailing quarter.



Previous Quarter Recap

- The Bank of England (BoE) kept the bank rate unchanged at its February 1 meeting.
- The British pound remained volatile in the past quarter due to sticky domestic inflation, higher than in the eurozone and in the US, and an improved economic picture entering 2024.
- Business activity in services continued to expand from the previous months and the contraction in manufacturing activity eased.

Currency Outlook

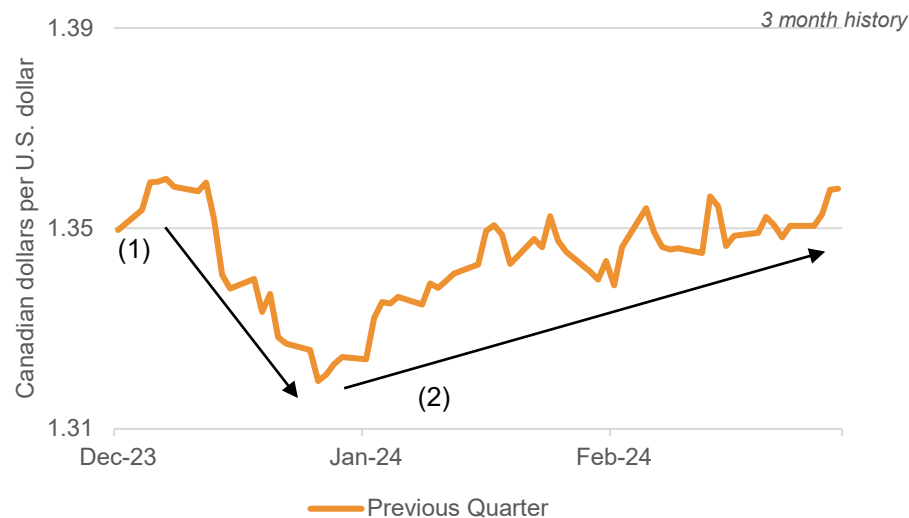
- PNC and the consensus expect the pound to strengthen over the forecast horizon.
- Stickier domestic inflation compared to peers or a sooner-than-expected Fed Funds rate cut would contribute to a stronger pound.

Currency Update

Canadian Dollar



The Canadian dollar weakened 0.6% in the previous quarter.



- (1) The Canadian dollar strengthened as inflationary pressures returned; oil prices rose as the dollar weakened.
- (2) GDP fell beneath market expectations and inflation cooled, while the unemployment rate dropped.

Previous Quarter Recap

- The Bank of Canada (BoC) kept its benchmark interest rate unchanged at its meeting on January 24. Canada's January inflation came in cooler than the consensus expectation.
- Business and manufacturing activities contracted in January from December, but the pace of contraction has slowed.
- The labor market softened with large job gains concentrated in part-time employment in recent months. Full-time employment continued to drop in January.

Currency Outlook

- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the BoC cuts interest rates sooner than expected or inflation surprises to the downside, the Canadian dollar would likely be weaker than forecasted.

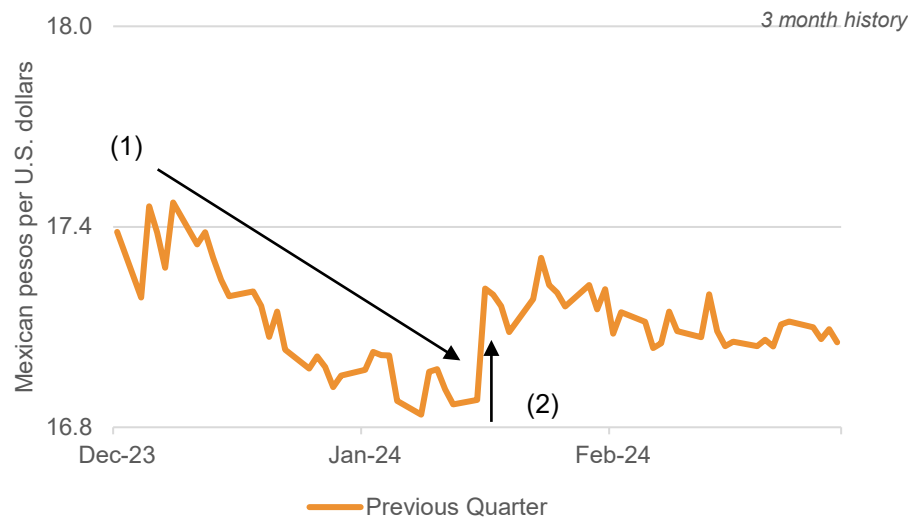
Currency Update

Mexican Peso



The Mexican peso strengthened 1.9% in the trailing quarter.

2 year history : 1 year forecast



- (1) The peso appreciated as inflation and retail sales increased, while the unemployment rate fell in December.
- (2) Industrial output fell year-over-year, and retail sales growth slowed.

Previous Quarter Recap

- The Bank of Mexico kept its overnight target rate unchanged at 11.25% at its meeting on February 8.
- Mexican nominal wage growth in December and retail sales growth in November both slowed year-over-year.
- Capital investment in Mexico remained strong. Fourth quarter final real GDP came in higher than expected. CPI inflation accelerated over the past three months, and on a year-over-year basis in January.

Currency Outlook

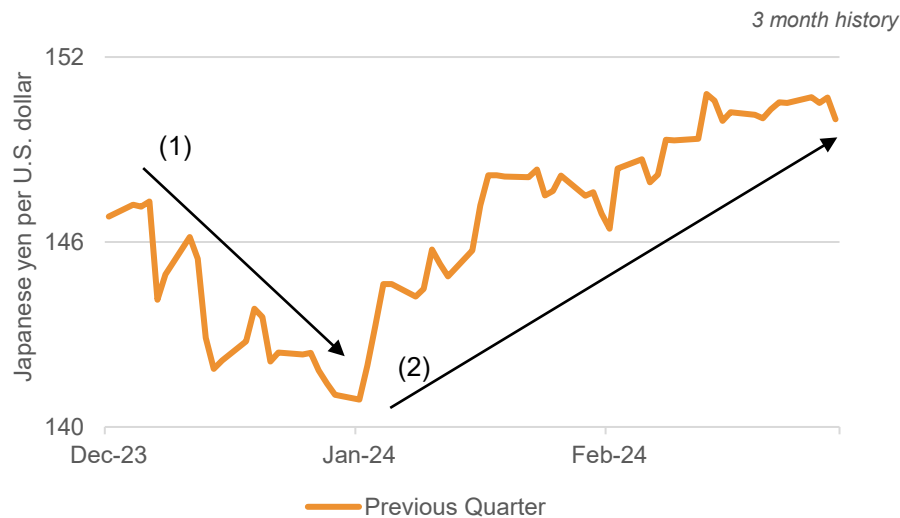
- PNC expects the peso to remain flat, while the consensus expects the peso to weaken slightly over the forecast horizon.
- A sooner-than-expected interest rate cut in the U.S. is an upside risk for the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen depreciated 2.2% in the previous quarter.



- (1) The Japanese yen appreciated against the U.S. dollar as U.S. Treasury yields dropped.
- (2) The BoJ decided to maintain its negative interest rate environment for longer than expected

Previous Quarter Recap

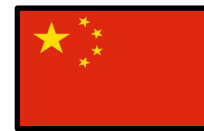
- The Bank of Japan (BoJ) left its negative interest rate policy unchanged on January 22.
- Both headline and core inflation in Japan continued to cool in January and December, delaying expectations for a monetary policy pivot.
- Japan's economy contracted in the fourth quarter of 2023 from the previous quarter. Drags on economic growth were across the board except net trade.

Currency Outlook

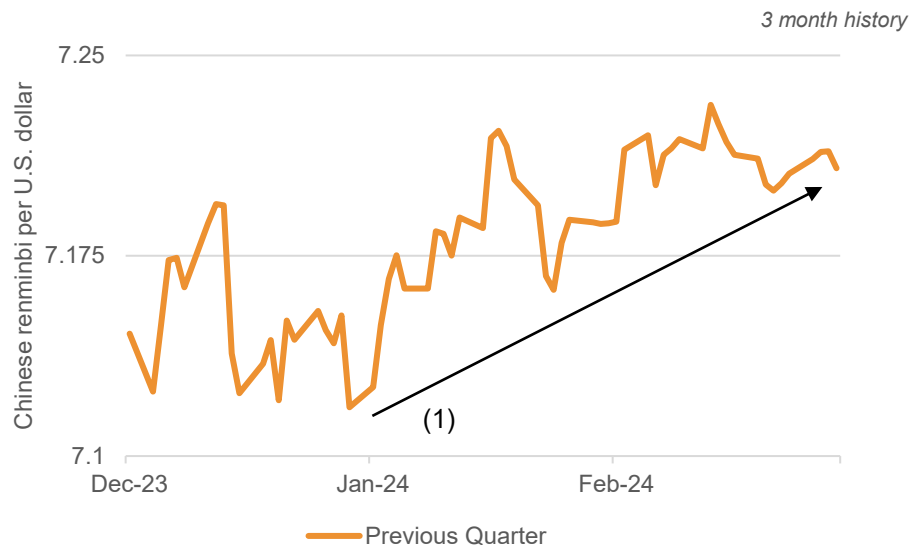
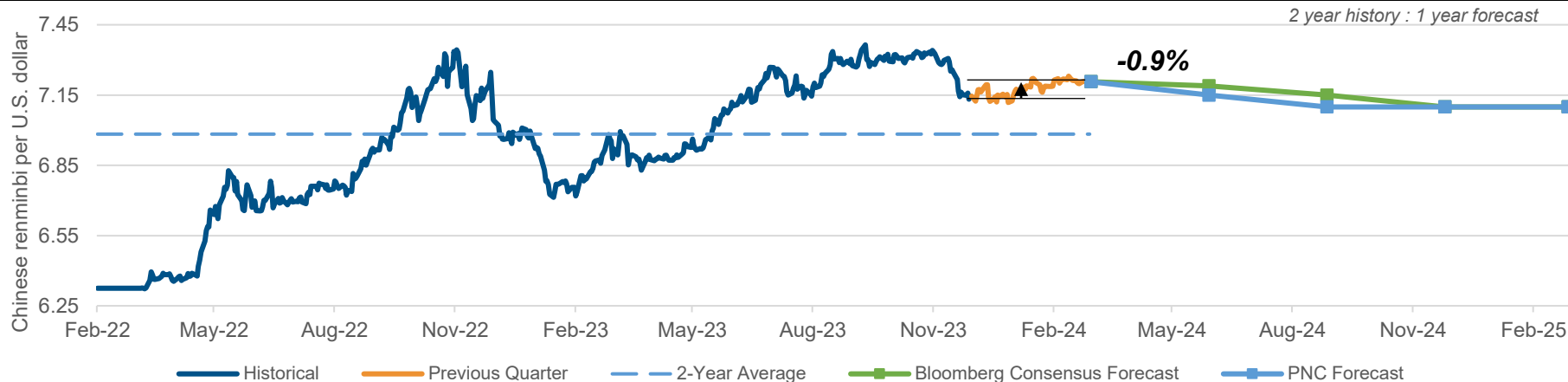
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If Japan's inflation supports a BoJ policy shift away from negative rates sooner than expected, or the Fed cuts the fed funds rate more than expected, the Japanese yen could be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened 0.9% in the last quarter.



(1) Chinese economy experienced continued deflation, the PPI fell, and retail sales came in below market expectations.

Previous Quarter Recap

- The People's Bank of China (PBOC) lowered the cash reserve ratio in January and cut the 5-year loan prime rate by 25 bps to 3.95% on February 20.
- The contraction in FDI over the past year worsened in January 2024.
- Deflationary pressures in the Chinese economy continued in early 2024, indicating weak domestic consumption to start the year.

Currency Outlook

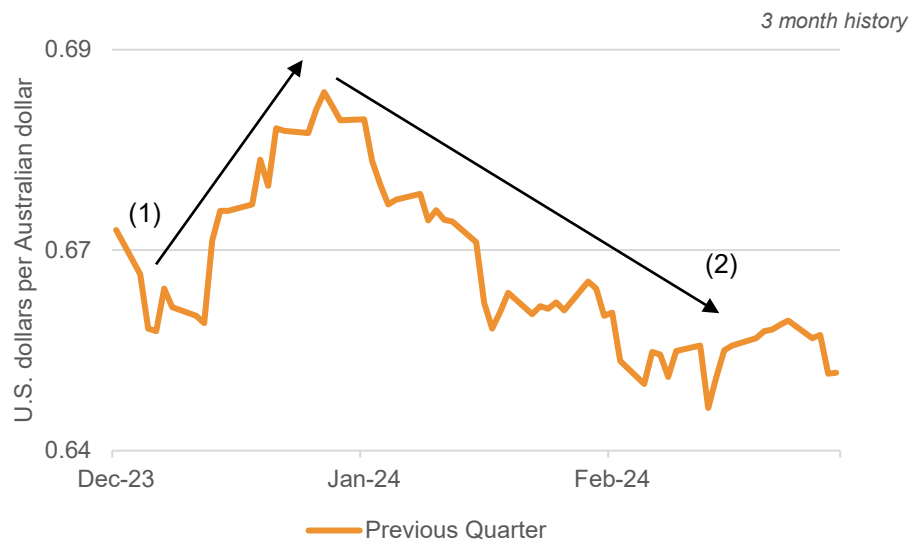
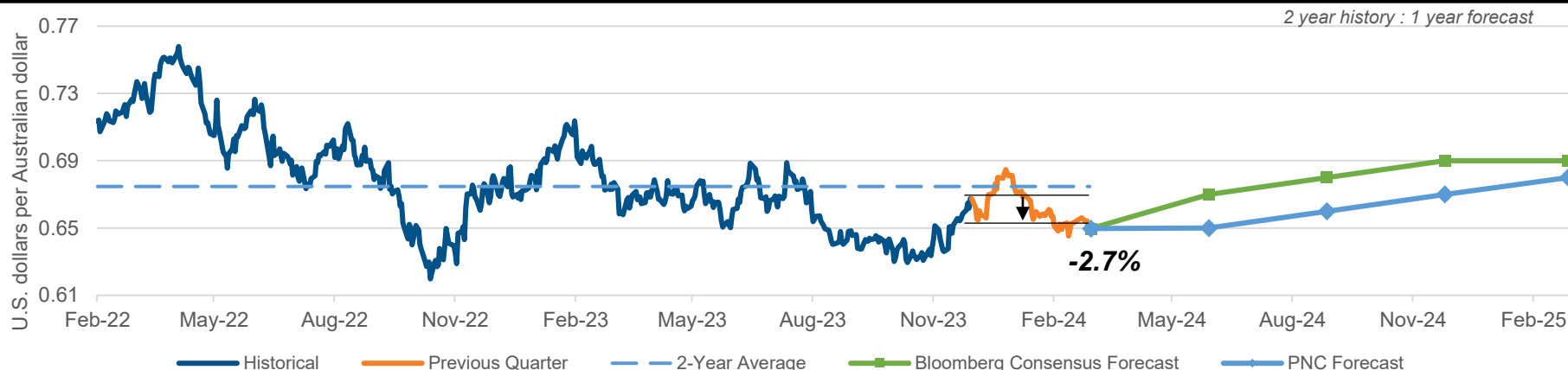
- Both PNC and the consensus expect the renminbi to appreciate against the U.S. dollar over the forecast horizon.
- If weak domestic demand persists and the property sector remains subdued in 2024, the Chinese renminbi could be weaker than forecasted.

Currency Update

Australian Dollar



The Australian dollar weakened 2.7% in the last quarter.



- (1) Cooler U.S. inflation supported expectations for an end to the Federal Reserve's rate hiking cycle.
- (2) Australian inflation slowed and retail sales fell as the unemployment rate ticked higher.

Previous Quarter Recap

- The Reserve Bank of Australia kept its cash target rate at 4.35% on February 5.
- January employment rose weakly, after unexpectedly experiencing the largest decline of the past several years in December 2023.
- Although still elevated at 3.4%, CPI inflation in December and January came in much cooler than the consensus expectation and was down from above 4%.

Currency Outlook

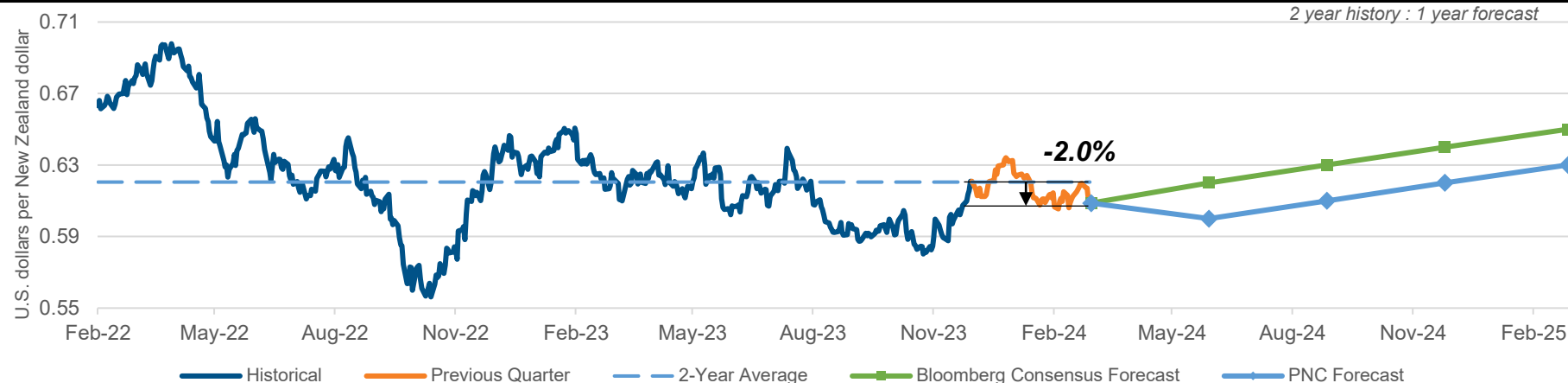
- PNC and the consensus both anticipate the Australian dollar to strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in or the Chinese economy recovers more quickly, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 2.0% last quarter.



(1) The New Zealand dollar depreciated as CPI data remained in line with the market consensus, while home sales increased.

Previous Quarter Recap

- The New Zealand dollar depreciated in the past quarter with a strong U.S. economy and a deflationary Chinese economy in early 2024.
- New Zealand inflation in the fourth quarter slowed from the third quarter, and over the past year.
- The Reserve Bank of New Zealand held its cash rate steady at its meeting on February 27.

Currency Outlook

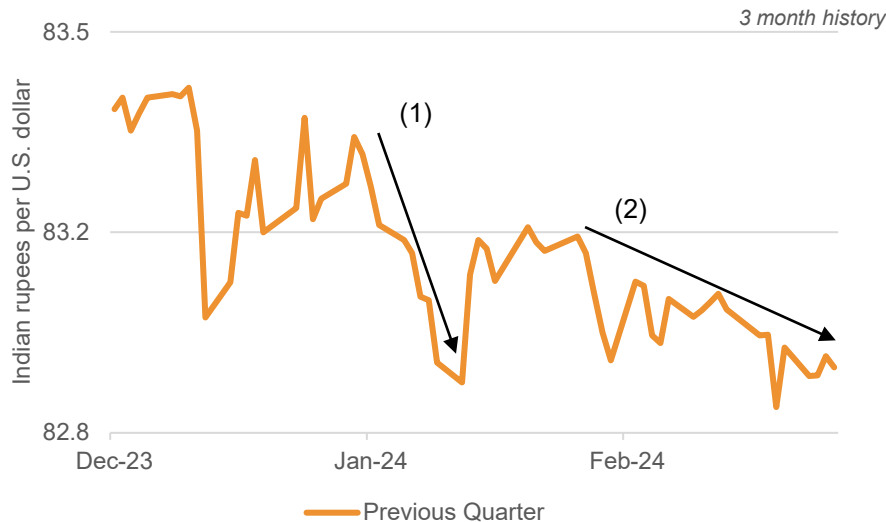
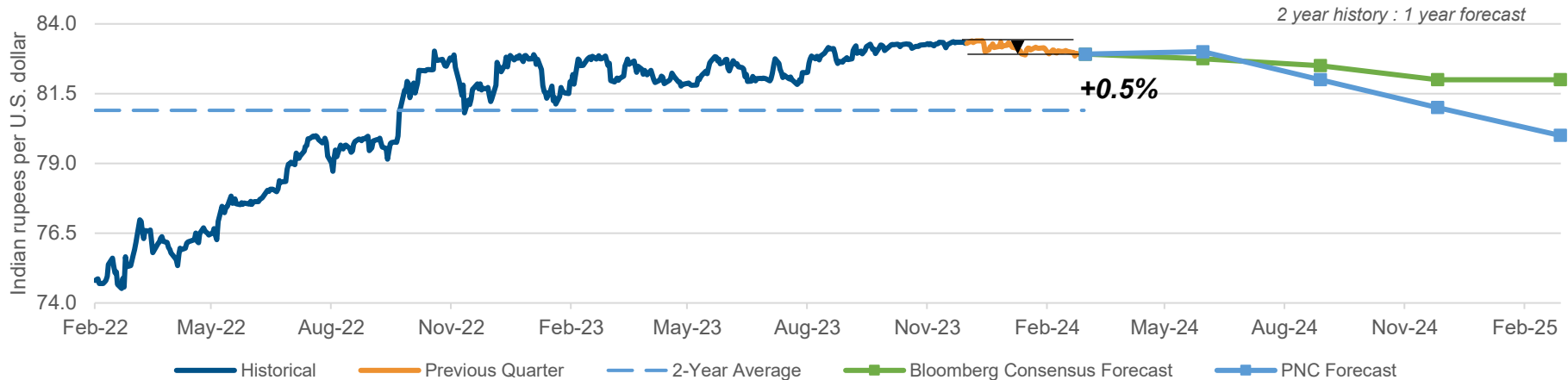
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy interest rate sooner than expected, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee strengthened 0.5% in the past quarter.



- (1) The Indian rupee strengthened following continued inflationary pressures, while exports increased.
- (2) Inflation exceeded market expectations for January as GDP growth continued.

Previous Quarter Recap

- The Reserve Bank of India (RBOI) kept its repo rate unchanged on February 7.
- Indian inflation in January slowed from the previous month but came in hotter than the consensus expectation.
- Real GDP grew faster in the fourth quarter of 2023 accelerated on a year-over-year basis and came in stronger than the consensus expectation.

Currency Outlook

- PNC and the consensus both expect the rupee to strengthen slightly over the forecast horizon.
- If the Fed cuts the fed funds rate sooner than markets are currently pricing in, the rupee could be stronger than expected.

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