

PNC Currency Review, October 2021

Prior Quarter

July 2021 – September 2021

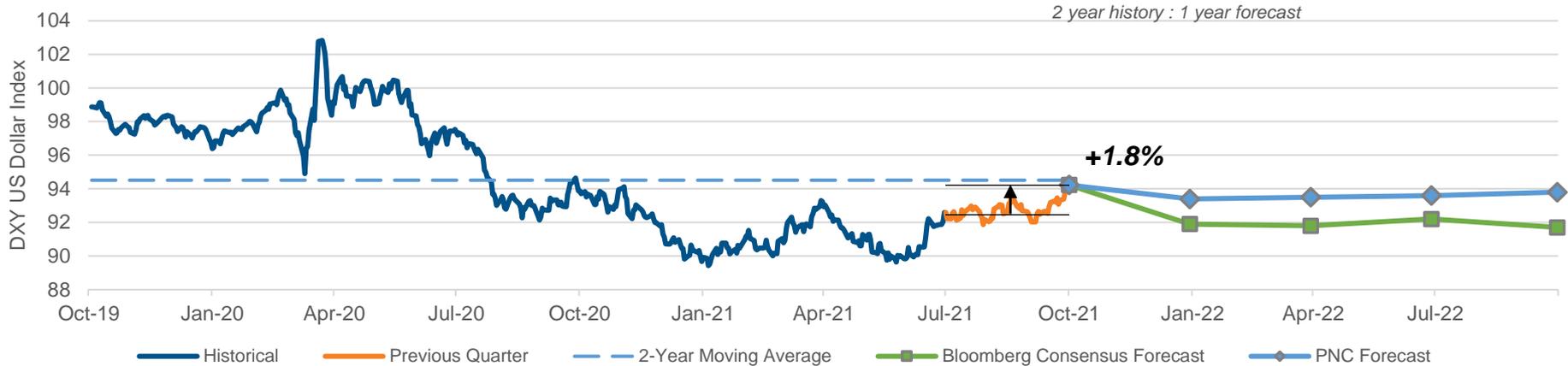


Summary

DXY Major Currencies Dollar Index



The dollar appreciated 1.8% on net in the third quarter of 2021.



Previous Quarter Recap

- The DXY dollar index appreciated through mid-August as lumber, iron ore, and copper prices came off the May highs, financial markets anticipated an earlier start to the Fed's rate hikes, and inflation expectations cooled.
- The DXY index pulled back in early September as the global Delta wave worsened, then rose again through month-end as the Fed signaled a taper of its quantitative easing program was near.

Currency Outlook

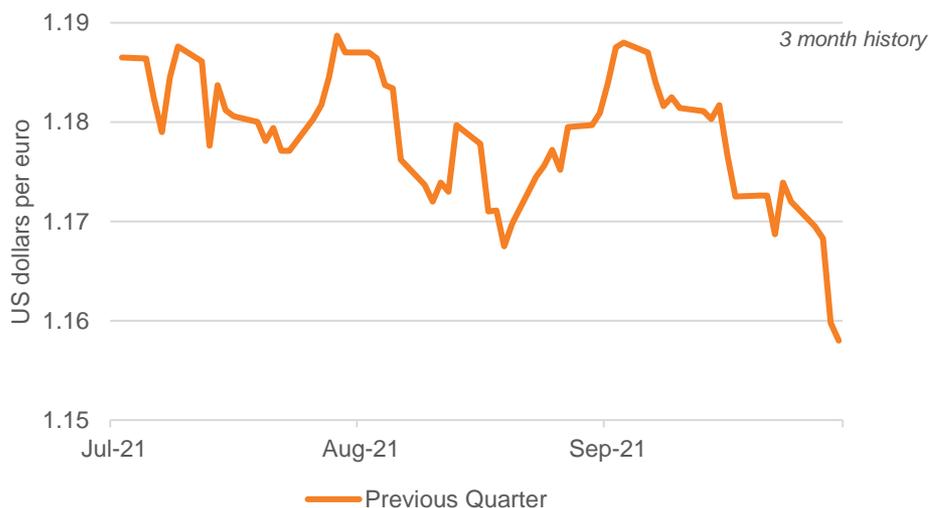
- PNC expects the dollar to be flat to stronger over the forecast horizon and further reverse some of 2020's depreciation; the consensus forecast sees the dollar slightly weaker.
- If foreign economies recover faster than expected, the dollar could be weaker than forecasted. On the other hand, another major global shock could cause the dollar to appreciate even more.

Currency Update

Euro



The euro depreciated 2.3% on net in the third quarter of 2021.



Previous Quarter Recap

- The euro depreciated a net 2.3% in the third quarter.
- The ECB announced a dovish resolution of its strategic review in July, while the Fed signaled throughout the quarter that a taper of its quantitative easing program was nearing.
- The prospect of higher short-term U.S. interest rates in a few years, in contrast to continued negative euro rates, weighed on the euro.

Currency Outlook

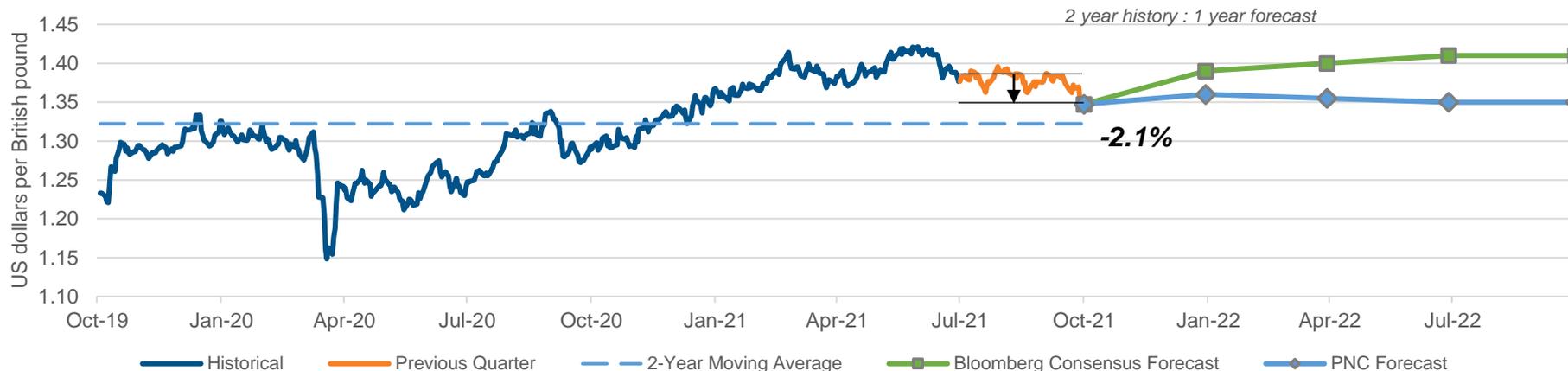
- PNC forecasts for the euro to average near its year-to-date lows over the forecast horizon, while the consensus forecast anticipates some appreciation of the euro.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling depreciated 2.1% in the third quarter as the costs of Brexit became more tangible.



Previous Quarter Recap

- Pound sterling depreciated in the third quarter as UK-EU tensions over trade across the Irish border resurfaced and as a shortage of blue-collar job seekers caused supply chain disruptions and gasoline shortages across much of the UK.
- The Fed also signaled in the third quarter that a taper of its quantitative easing program was getting nearer, further contributing to a stronger dollar and weaker pound sterling.

Currency Outlook

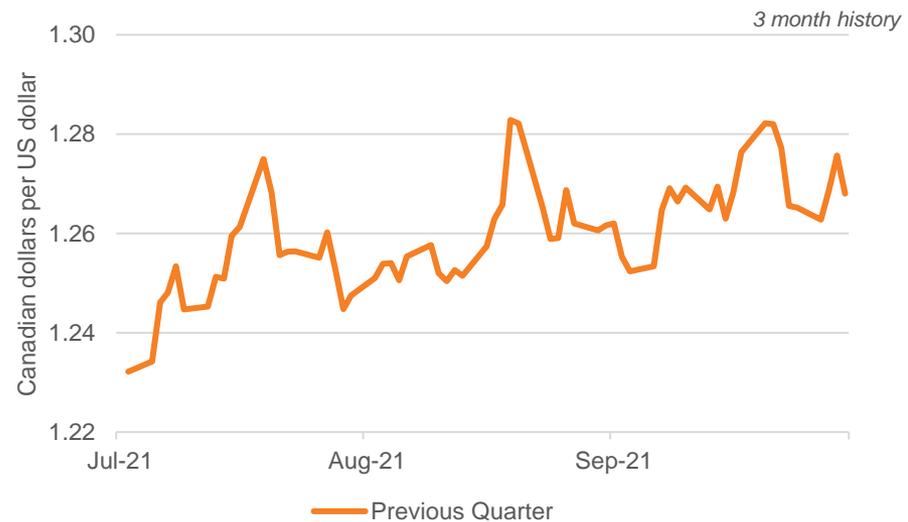
- PNC forecasts for the pound to hold at its now-lower level as the Fed begins to normalize U.S. monetary policy; the consensus forecast anticipates modest pound appreciation.
- If there is another major global shock, either from the pandemic, UK-EU economic frictions, a British energy crisis, or other causes, pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar depreciated in the third quarter as economic fundamentals deteriorated.



Previous Quarter Recap

- The Canadian dollar depreciated 2.0% in the July-to-September quarter. Soft domestic economic conditions, an uptick in coronavirus cases, and political uncertainty weighed on the Canadian dollar.
- Financial market expectations for the Fed to start tapering its QE program later this year also were negative for the Canadian dollar. Even after the depreciation of the last quarter, the Canadian dollar is the best performing G10 currency this year.

Currency Outlook

- PNC expects the Canadian dollar to depreciate modestly over the forecast horizon as the Fed begins to taper its QE program; the consensus forecast anticipates some appreciation.
- If the Bank of Canada tapers faster than financial markets anticipate or the Fed delays its taper, the Canadian dollar is likely to be stronger than forecasted.

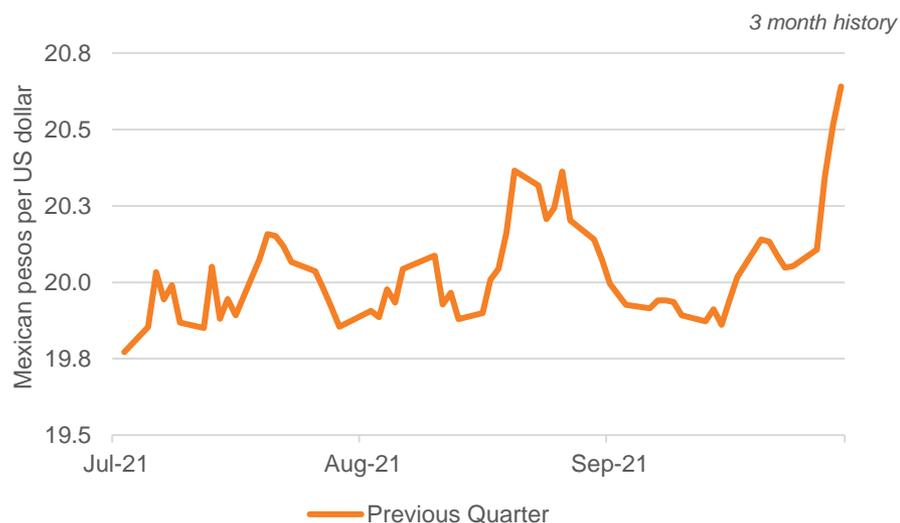
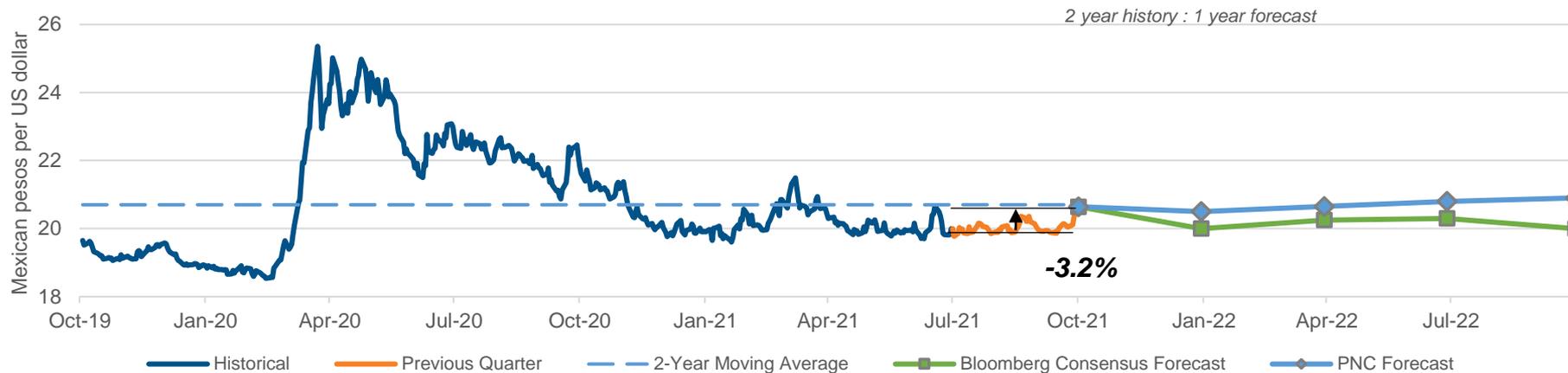
Source: Bloomberg

Currency Update

Mexican Peso



The peso depreciated 3.2% in the third quarter of 2021.



Previous Quarter Recap

- The Mexican peso was stable in much of the third quarter, then dropped sharply at quarter end to finish 3.2% weaker on net.
- The Federal Reserve pulled forward their plans to taper the U.S. quantitative easing program and raise U.S. interest rates in the third quarter, contributing to the weaker peso. The Bank of Mexico made two 0.25 percentage point policy rate hikes in the third quarter to limit the peso's depreciation.

Currency Outlook

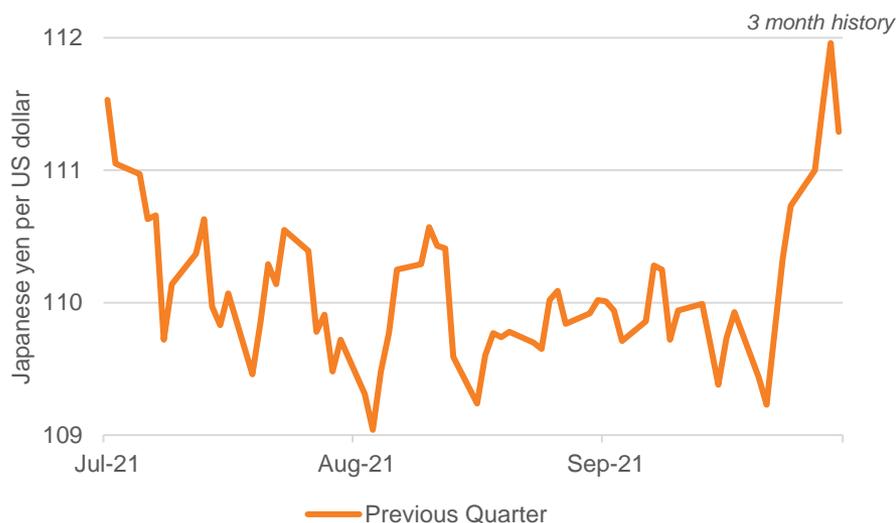
- PNC forecasts for the peso to depreciate modestly over the next few quarters while the consensus forecast is for the peso to be flat to slightly stronger.
- PNC forecasts for the Federal Reserve to begin tapering its quantitative easing program in late 2021; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The yen was little changed on net in the third quarter of 2021.



Previous Quarter Recap

- The yen appreciated a slight 0.2% in the third quarter of 2021.
- The yen appreciated through early August as the Delta variant spread and weighed on financial sentiment; the yen is a risk-off currency and tends to strengthen when market sentiment weakens. The yen then depreciated through quarter-end as the Fed signaled that they are likely to begin tapering their quantitative easing program in late 2021.

Currency Outlook

- PNC and the consensus forecast both expect the yen to depreciate modestly in coming quarters.
- If there is another major global shock, either from the pandemic or an unrelated cause, the yen is likely to be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi appreciated 0.4% in the third quarter of 2021.



Previous Quarter Recap

- The renminbi appreciated 0.4% in the third quarter of 2021.
- China's economy faced several negative shocks in the third quarter: Lockdowns to fight the Delta wave; regulations that hurt Chinese tech company profitability; and the financial distress of a large real estate developer.
- China's central bank limited exchange rate fluctuations during the quarter to prevent renminbi depreciation that could have worsened sentiment toward Chinese capital markets.

Currency Outlook

- PNC forecasts for the renminbi to depreciate over the forecast horizon, while the consensus anticipates little net change.
- The global economic recovery is an upside risk to the renminbi, while the eventual tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside risks.

Currency Update

Australian Dollar



The Australian dollar depreciated to the lowest level since last November in the third quarter.



Previous Quarter Recap

- The Australian dollar depreciated 3.3% in the third quarter. A new coronavirus outbreak, renewed lockdowns, lower iron ore prices, and expectations for the Fed to taper its QE program weighed on the Australian dollar. The RBA extended the timeline to taper its QE program in September, also negative for the Australian dollar.
- Slower economic growth in China in the third quarter was another negative for the Australian dollar.

Currency Outlook

- PNC anticipates a slight depreciation of the Australian dollar over the next few quarters, while the consensus forecast expects some appreciation of the currency.
- If Australia's economy weakens or macroprudential restrictions on the housing market are implemented, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 1.1% on net in the third quarter of 2021.



Previous Quarter Recap

- The New Zealand dollar depreciated 1.1% in the third quarter.
- The New Zealand dollar weakened briefly to 68 U.S. cents per New Zealand dollar, a nine-month low, in August, as the government announced new lockdown measures and the Reserve Bank of New Zealand surprisingly left interest rates unchanged at the August meeting instead of hiking. The more hawkish tone from the Fed also weighed on the New Zealand dollar.

Currency Outlook

- PNC forecasts a slight depreciation of the New Zealand dollar over the next few quarters, while the consensus forecast anticipates some appreciation.
- If caseloads increase and new lockdown measures are announced, or the Fed tapers faster than markets anticipate, the New Zealand dollar is likely to be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee appreciated 1.2% on net in the third quarter of 2021.



Previous Quarter Recap

- The Indian rupee appreciated 1.2% on net in the third quarter. The rupee fell in June and July, then gained positive momentum in August amid strong equity inflows. The rupee then retreated and gave up some gains in September as many emerging market central banks raised interest rates and markets priced expectations for the Fed to begin tapering late this year.
- The global spread of the Delta variant and China's slowing economy both weighed on the rupee in the third quarter.

Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to hold mostly steady over the next few quarters.
- If the pandemic persists, vaccines take longer than expected to distribute, oil prices rise further, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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