

# **PNC Currency Review, January 2022**

**Prior Quarter**

**October 2021 – December 2021**



# Summary

## DXY Major Currencies Dollar Index



The dollar appreciated 1.5% on net in the fourth quarter of 2021.



### Previous Quarter Recap

- The DXY dollar index appreciated 2% in October and November. The Fed reduced (“tapered”) purchases of government-backed securities as expected in November, then further accelerated the taper in December as inflation stayed high.
- The DXY edged lower in December (a typical ‘buy the rumor, sell the fact’ move by the foreign exchange market) but still rose 1.5% on net for the quarter.

### Currency Outlook

- PNC forecasts for continued but slower appreciation of the dollar over the forecast horizon; the consensus forecast expects broadly similar trends.
- If the pandemic recedes as a global health concern in 2022, the dollar will likely be weaker than forecast.

# Currency Update

## Euro



The euro depreciated 2.0% on net in the fourth quarter of 2021.



### Previous Quarter Recap

- The euro depreciated a net 2.0% in the fourth quarter of 2021. The Fed began tapering its QE program in the quarter and warned they could raise rates earlier than expected if inflation stayed high, supporting a stronger dollar. The ECB is tapering its pandemic-era QE programs, but their pre-pandemic programs will continue considerably longer.
- The prospect of higher short-term U.S. interest rates this year, in contrast to continued negative euro rates, is weighing on the euro.

### Currency Outlook

- PNC forecasts for the euro to continue to depreciate over the forecast horizon, while the consensus sees a modest recovery.
- 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 edged down 0.1% in the trailing quarter as the costs of Brexit became more tangible.**



### Previous Quarter Recap

- Pound sterling edged down 0.1% in the fourth quarter as U.K.-E.U. tensions over trade across the Irish border resurfaced, shortages of immigrant labor caused gasoline shortages, and natural gas prices spiked ahead of the winter heating season.
- The Fed signaled in the fourth quarter that they could raise rates faster than expected if U.S. inflation persists at high levels in 2022, contributing to a stronger dollar and weaker pound sterling.

### Currency Outlook

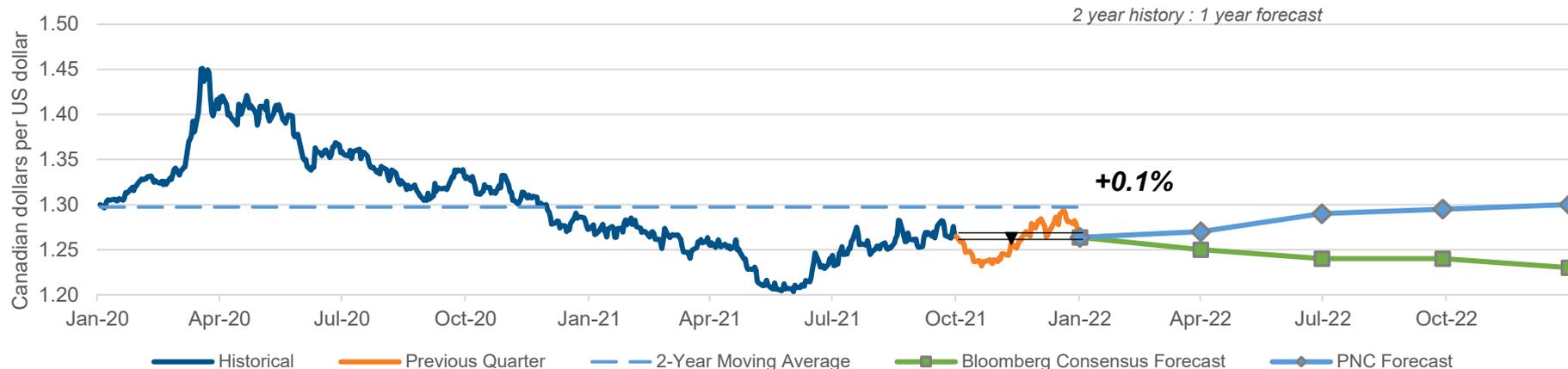
- PNC forecasts for the pound to continue to depreciate as the Fed begins to normalize U.S. monetary policy; the consensus forecast anticipates little net change.
- If there is another major global shock, either from the pandemic, U.K.-E.U. economic frictions, a British energy crisis, or other causes, pound sterling would likely be weaker than forecasted.

# Currency Update

## Canadian Dollar



**The Canadian dollar was flat on net in the fourth quarter of 2021.**



### Previous Quarter Recap

- The Canadian dollar depreciated to a one-year low in mid-December amid the discovery of the Omicron variant, a hawkish turn by the Fed and a dimmer oil demand outlook; the Canadian dollar then recovered some ground at the end of December as risk appetite improved.
- The FOMC announced in December that it will accelerate the pace of reduction of asset purchases in January; this is bullish for the U.S. dollar.

### Currency Outlook

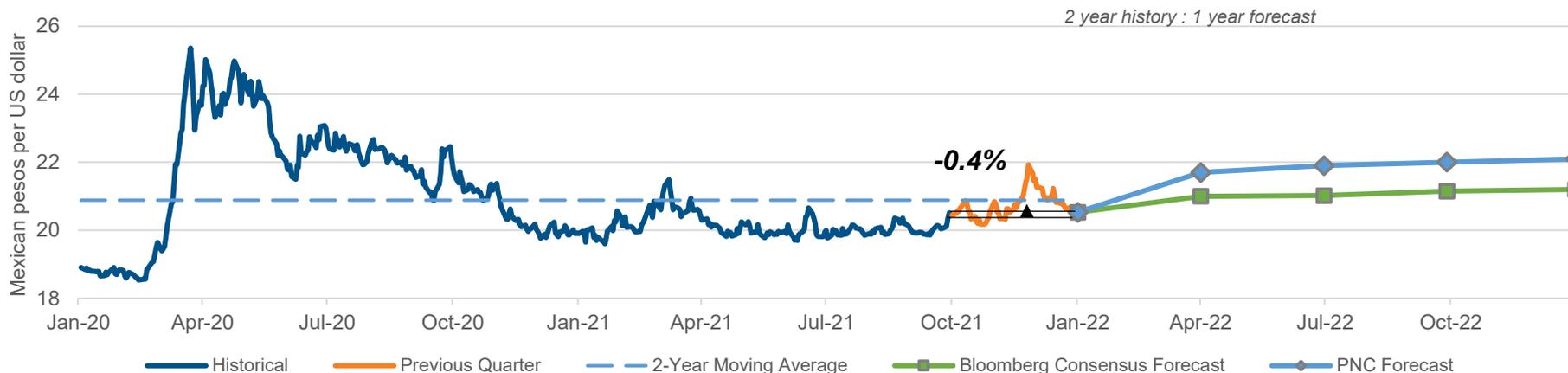
- PNC expects the Canadian dollar to depreciate modestly over the forecast horizon as the Fed tapers and oil demand cools; the consensus forecast anticipates some appreciation.
- If the Bank of Canada increases its policy rate faster than financial markets anticipate, the Canadian dollar is likely to be stronger than forecasted.

# Currency Update

## Mexican Peso



The peso fell a net 0.4% in the fourth quarter and touched its year-to-date low during the quarter.



### Previous Quarter Recap

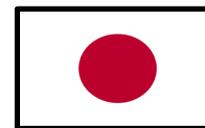
- The peso plunged to a year-to-date low in November when Mexico's President surprised markets by appointing a relatively unknown loyalist with thin monetary policy credentials to lead the Bank of Mexico.
- The peso largely recovered through quarter-end, supported by a larger-than-expected 0.5 percentage point rate hike by the Bank of Mexico in December.

### Currency Outlook

- PNC forecasts for the peso to depreciate over the next few quarters; the consensus forecast is for somewhat less depreciation.
- PNC forecasts for the Federal Reserve to begin raising interest rates in the second half of 2022; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

# Currency Update

## Japanese Yen



The yen plunged 3.6% in the fourth quarter of 2021 to the weakest since 2017.



### Previous Quarter Recap

- The yen dropped 3.6% in the fourth quarter of 2021 to the weakest since 2017. It plunged in the first half of October as the Fed signaled that they were about to begin tapering their quantitative easing program, which they did in November.
- Inflation in Japan was still near zero in November, making the Bank of Japan unlikely to taper its quantitative easing program in 2022 or 2023. The divergence between U.S. and Japanese monetary policy fueled the yen's depreciation during the quarter.

### Currency Outlook

- PNC and the consensus forecast both expect the yen to depreciate modestly in coming quarters.
- If the U.S. recovery proceeds faster than forecast or U.S. inflation stays high longer than forecast, U.S. interest rates will likely surprise to the upside and the yen be weaker than forecasted.

# Currency Update

## Chinese Renminbi



The renminbi appreciated 1.2% in the fourth quarter of 2021 to the strongest since 2018.



### Previous Quarter Recap

- The renminbi appreciated 1.2% in the fourth quarter. China's economy faced several negative shocks in the quarter: Lockdowns to fight the Delta and Omicron waves; regulations that hurt the profitability of Chinese tech and tutoring companies; a housing downturn; and electrical power rationing.
- China's central bank cut the benchmark lending rate 0.05% in December, but limited exchange rate fluctuations during the quarter to prevent renminbi depreciation from further worsening sentiment toward Chinese capital markets.

### Currency Outlook

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

# Currency Update

## Australian Dollar



The Australian dollar was little changed on net in the fourth quarter of 2021.



### Previous Quarter Recap

- The Australian dollar depreciated to a seventeen-month low in early December amid Omicron fears, a hawkish move by the Fed, and a cloudier global economic outlook. The Australian dollar then recovered some ground after China's central bank loosened monetary policy.
- China is a large importer of Australian commodities and an expanding Chinese economy is positive for the Australian dollar.

### Currency Outlook

- PNC anticipates the Australian dollar to stay relatively unchanged over the next few quarters, while the consensus forecast expects some appreciation of the currency.
- If the Fed raises interest rates faster than markets anticipate, or Australian-Sino relations worsen, the Australian dollar is likely to be weaker than forecasted.

# Currency Update

## New Zealand Dollar



The New Zealand dollar depreciated 1.8% on net in the fourth quarter of 2021.



### Previous Quarter Recap

- The New Zealand dollar depreciated to a thirteen-month low in December amid a hawkish move by the Fed and Omicron concerns.
- Slowing Chinese economic activity also weighed on the New Zealand dollar in the prior quarter; China is New Zealand's largest trading partner.

### Currency Outlook

- PNC anticipates for the New Zealand dollar to remain relatively unchanged over the next few quarters, while the consensus forecast anticipates some appreciation.
- If China's economic growth slows further, or the Fed raises interest rates faster than markets anticipate, the New Zealand dollar is likely to be weaker than forecasted.

# Currency Update

## Indian Rupee



The Indian rupee depreciated 0.3% on net in the fourth quarter of 2021.



### Previous Quarter Recap

- The rupee depreciated in December to the lowest level since April 2020 amid Omicron fears, a worsening trade balance, and an accommodative stance by the Reserve Bank of India (RBI).
- The RBI held the reverse repurchase rate steady at 4.0% when policymakers met on December 7.
- Slowing economic activity in China, India's largest trading partner, further contributed to a weaker rupee.

### Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to hold mostly steady over the next few quarters.
- If Chinese economic data continue to disappoint, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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