

PNC Currency Review, May 2022

Prior Quarter

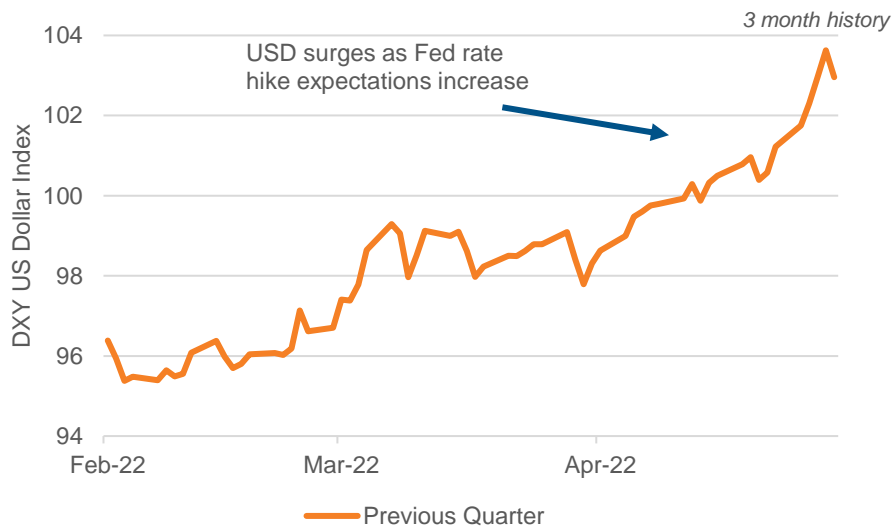
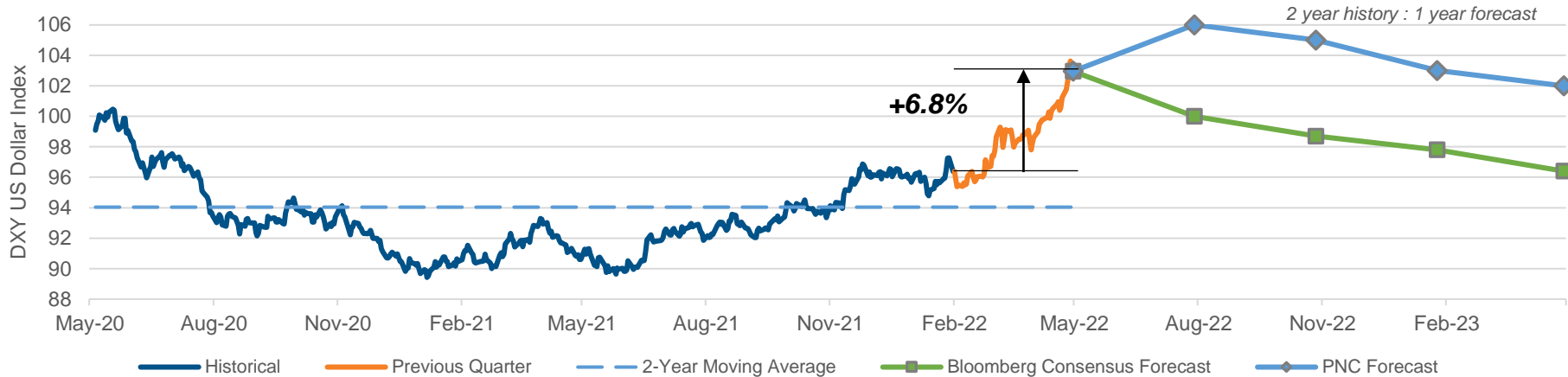
February 2022 – April 2022

Summary

DXY Major Currencies Dollar Index



The US dollar index appreciated 6.8% on net in the trailing quarter.



Previous Quarter Recap

- The DXY dollar index appreciated 6.8% in the trailing quarter, hitting a twenty-year high in April. Expectations for aggressive Fed interest-rate hikes, escalating geopolitical tensions and an ultra-dovish stance by the Bank of Japan, all contributed to the dollar's remarkable gain in the trailing quarter.
- The dollar tends to increase in value in times of market turbulence and the pandemic, Russian-Ukraine crisis and global growth concerns all contributed to a stronger dollar in the trailing quarter.

Currency Outlook

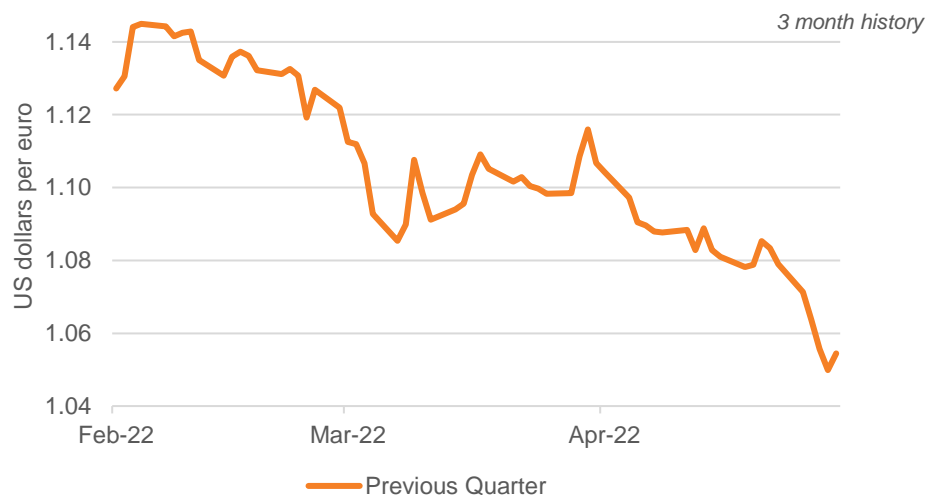
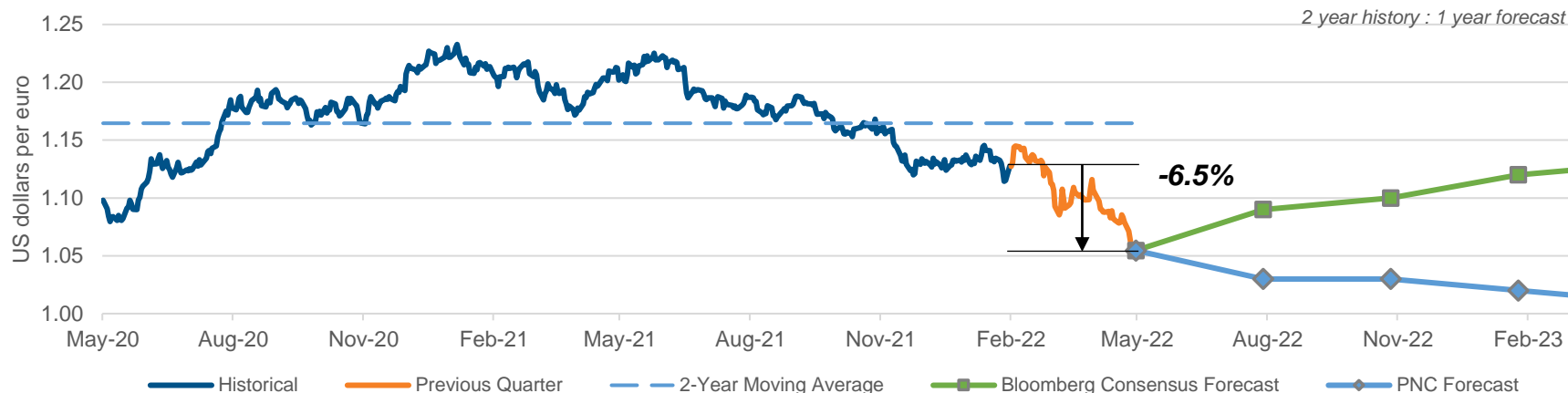
- PNC forecasts for continued but slower appreciation in the short term and a slight depreciation in the second half of 2022; the consensus forecast expects a depreciation of the dollar.
- If the Russia-Ukraine crisis drags on longer than expected, the dollar will likely be stronger than forecasted.

Currency Update

Euro



The euro depreciated 6.5% in the trailing quarter amidst the Russia-Ukraine conflict.



Previous Quarter Recap

- The euro depreciated a net 6.5% in the trailing quarter. Increased geopolitical tensions, energy security issues, and a cloudier economic outlook weighed on the euro. The Ukraine invasion continues to be a big weight on the euro.
- Increased financial market expectations for aggressive Fed interest-rate hikes and quantitative tightening in the near term also contributed to a weaker euro.

Currency Outlook

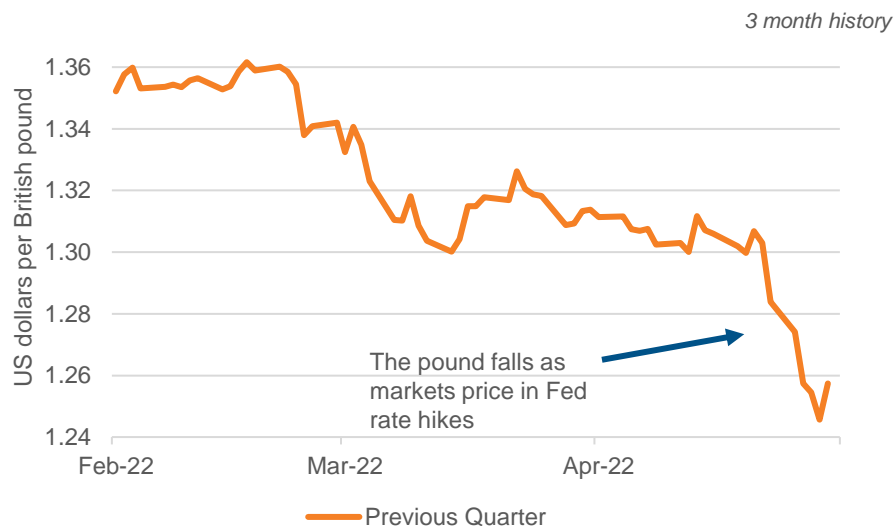
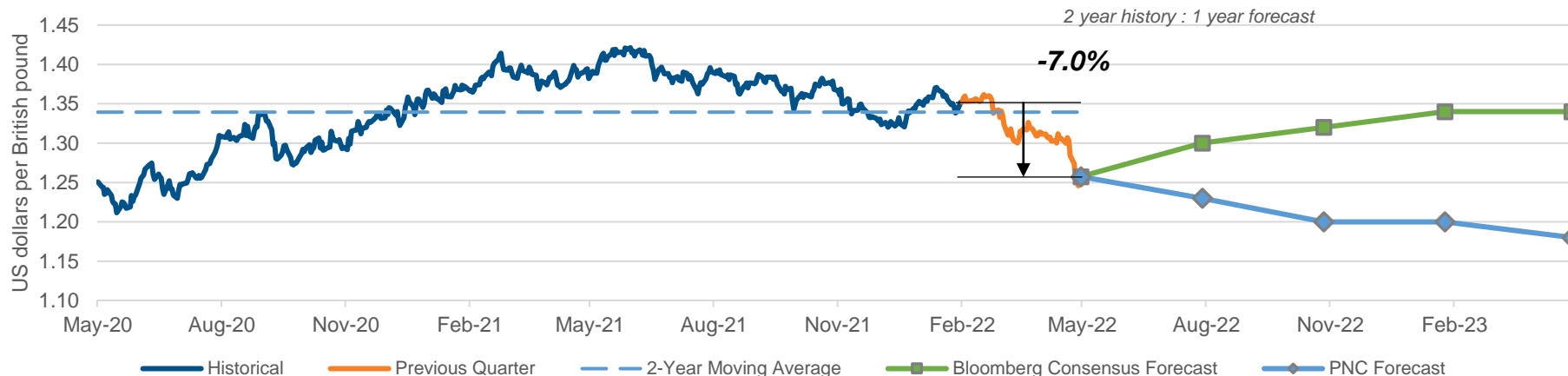
- PNC forecasts for the euro to continue to depreciate over the forecast horizon, while the consensus sees a modest recovery.
- If the Russia-Ukraine crisis escalates or spills over Ukraine's borders, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling depreciated 7.0% in the trailing quarter.



Previous Quarter Recap

- Pound sterling depreciated 7.0% on net in the trailing quarter. Weak domestic economic fundamentals and increased geopolitical risks contributed to the pound's weakness.
- Increased expectations for the Fed to hike short-term interest rates aggressively and start quantitative tightening in the near term weighed on the pound.

Currency Outlook

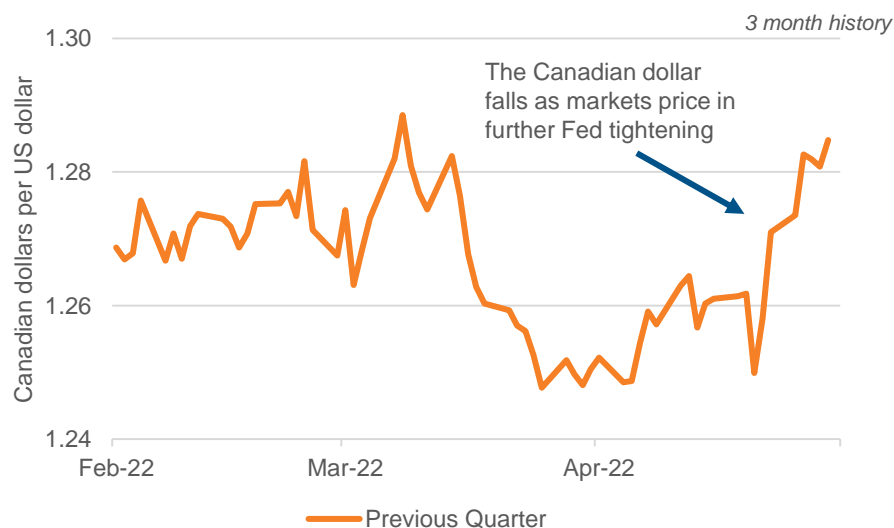
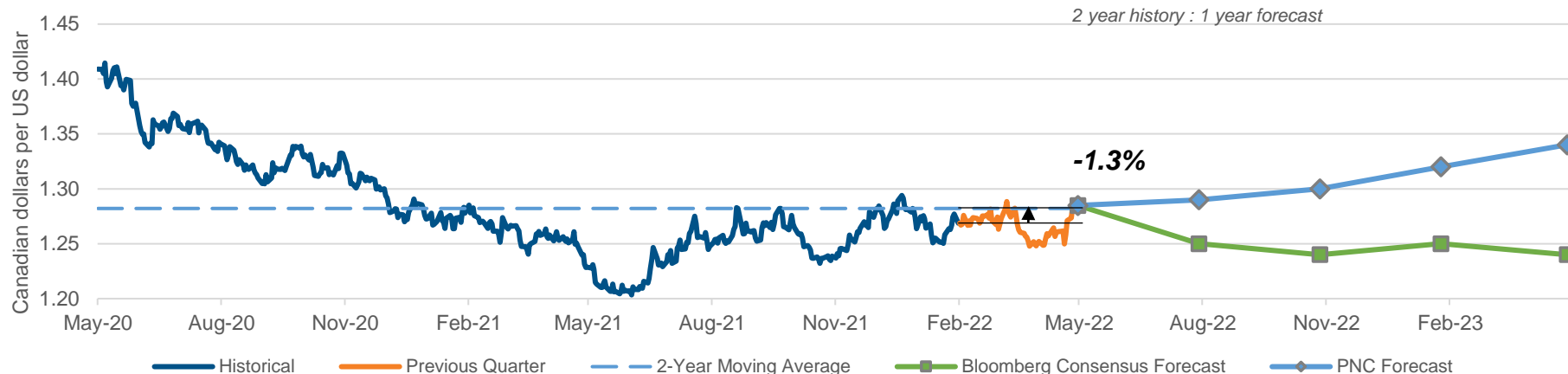
- PNC forecasts for the pound to continue to depreciate as the Fed begins to normalize U.S. monetary policy; the consensus forecast sees some appreciation.
- If the Russia-Ukraine crisis drags further or the Fed hikes more aggressively than market expectations, the pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar depreciated 1.3% on net in the trailing quarter.



Previous Quarter Recap

- The Canadian dollar weakened against the dollar in the trailing quarter. The U.S. dollar's broad-based strength in the trailing quarter contributed to the Canadian's dollar weakness despite the surge in global commodity prices.
- Increased expectations for the Fed to hike short-term interest rates aggressively and start quantitative tightening in the near term weighed on the Canadian dollar

Currency Outlook

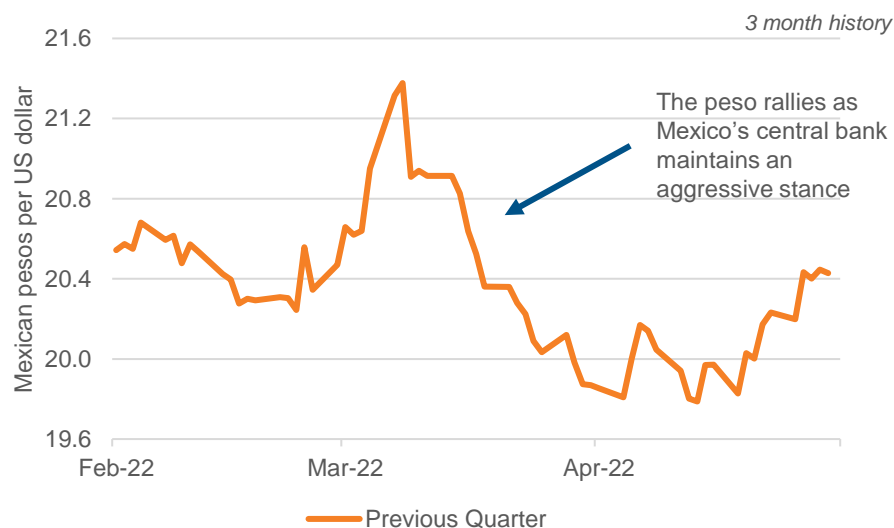
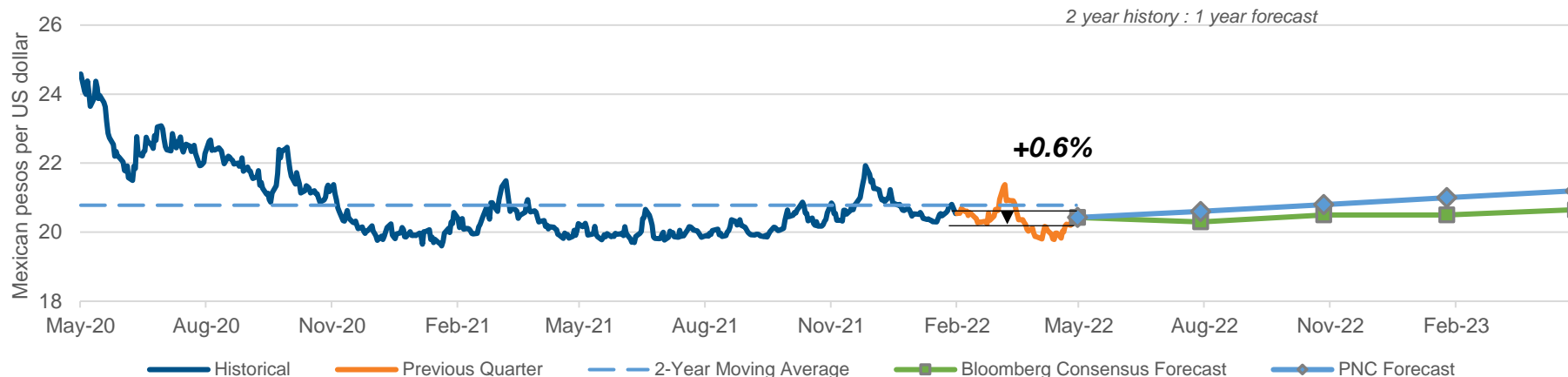
- PNC expects the Canadian dollar to depreciate further as commodity prices stabilize and the Fed hikes aggressively; the consensus forecast anticipates modest appreciation.
- If the geopolitical crisis causes further disruptions to Russia's energy exports, the Canadian dollar could be stronger than expected.

Currency Update

Mexican Peso



The Mexican peso edged up 0.6% in the trailing quarter.



Previous Quarter Recap

- The peso edged up 0.6% in the trailing quarter. The peso appreciated in the trailing quarter thanks to two 50-basis point hikes by the Bank of Mexico. The Bank of Mexico raised its policy rate by 50 basis points on February 10 and March 24.
- Solid economic data and the surge in energy prices in the trailing quarter also supported the peso.

Currency Outlook

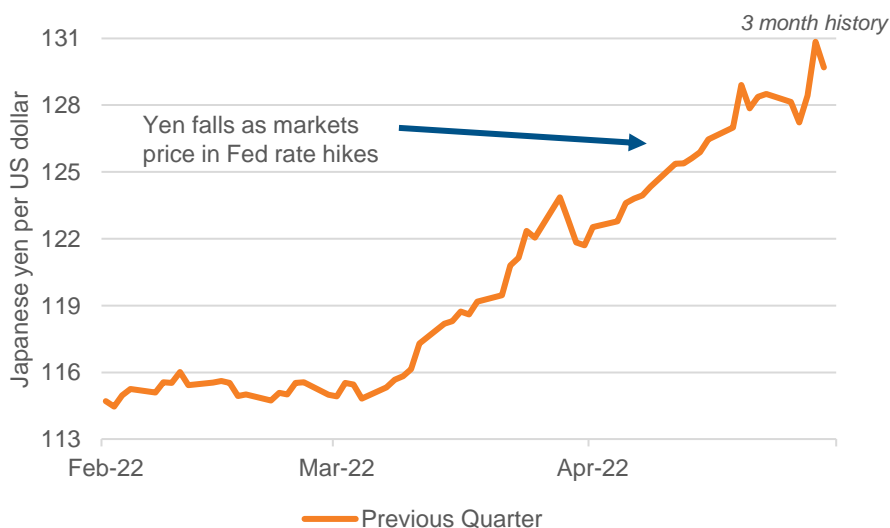
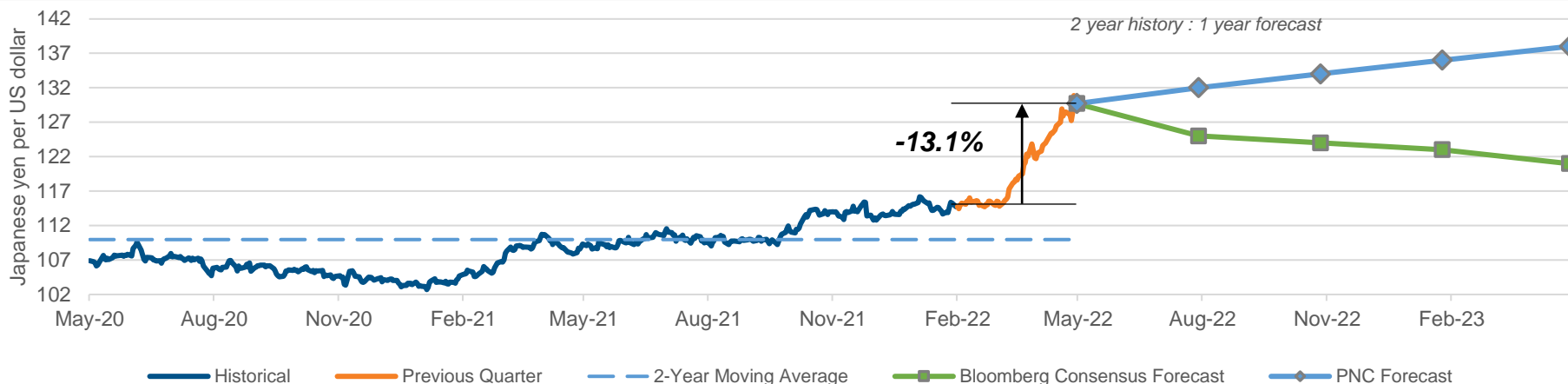
- PNC forecasts for the peso to depreciate over the next few quarters; the consensus forecast is for somewhat less depreciation.
- PNC forecasts for the Federal Reserve to raise interest rates aggressively in the next two years; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The yen plummeted in the last quarter, reaching a 20-year low.



Previous Quarter Recap

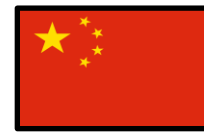
- The yen dropped 13.1% in the trailing quarter to its weakest level in 20 years. Most of the depreciation was seen in April as aggressive positioning from the Federal Reserve highlighted the divergence in monetary policy between the Fed and the Bank of Japan.
- Inflation in Japan is still close to zero, 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

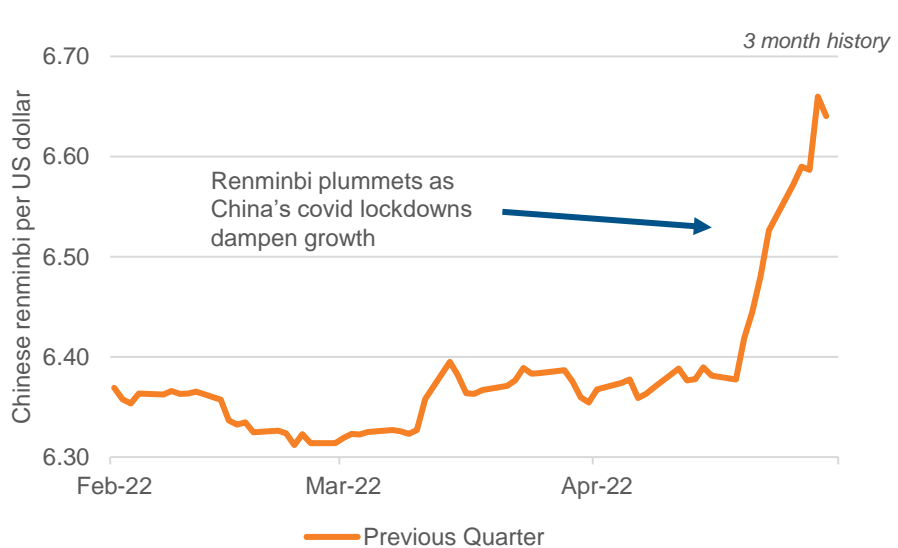
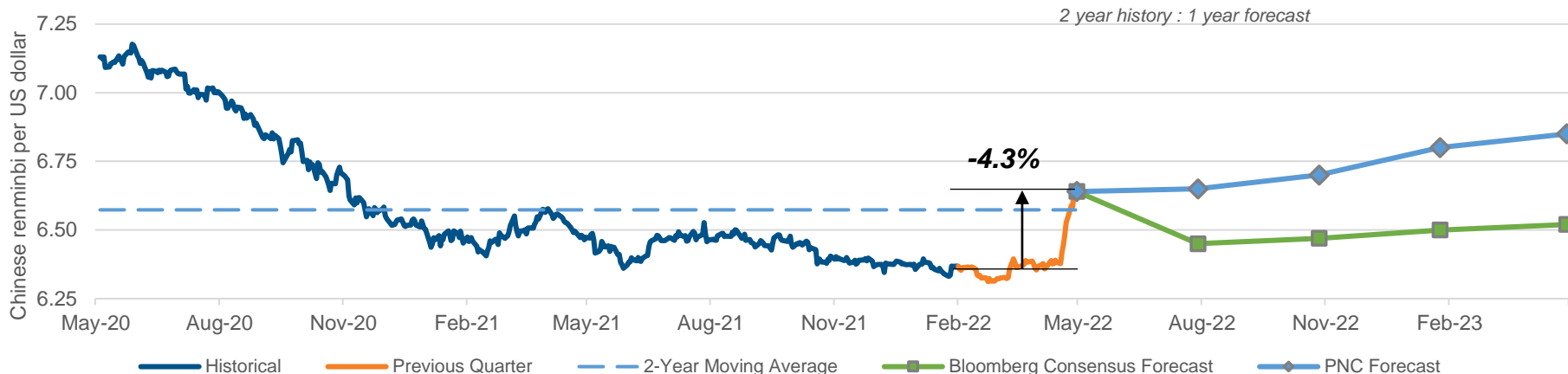
- PNC expects the yen to continue to depreciate in the coming quarters, while the consensus anticipates some appreciation.
- If the U.S. recovery proceeds faster or U.S. inflation stays high for longer than forecasted, U.S. interest rates will likely surprise to the upside and the yen be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi fell sharply late in the last quarter as Covid lockdowns weighed on the Chinese economy.



Previous Quarter Recap

- The renminbi traded steady for most of the past quarter before depreciating sharply in late April, falling 4.3% on net in the last three months.
- China's "zero-Covid" policy has led to further lockdowns in the country, which is negatively impacting China's economic growth.
- China's central bank is taking a hands-off approach to the depreciating currency, as a weaker renminbi can help offset lower growth.

Currency Outlook

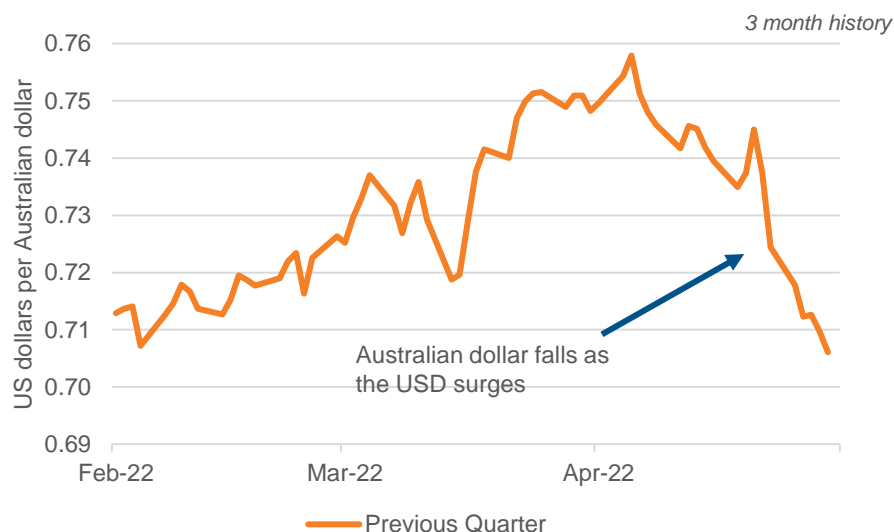
- PNC forecasts for the renminbi to modestly depreciate over the forecast horizon; the consensus anticipates a slight appreciation.
- The global economic recovery is an upside risk to the renminbi, while the tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside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

Currency Update

Australian Dollar



The Australian depreciated 1% on net in the trailing quarter.



Previous Quarter Recap

- After appreciating to a ten-month high in early April, the Australian dollar then fell sharply to finish the quarter down 1.0%.
- The Australian dollar rose throughout March as surging commodity prices supported the currency; the Australian dollar then reversed course in April as slowing economic growth in China weighed on currencies in the region.

Currency Outlook

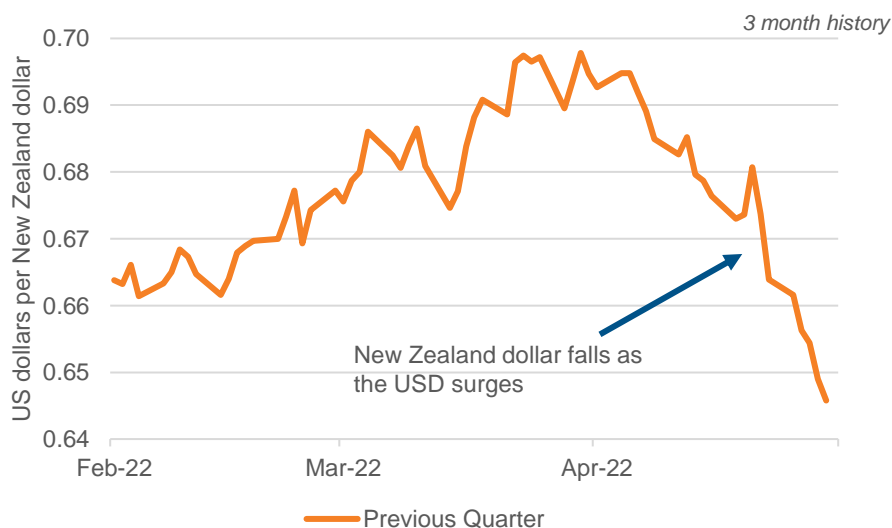
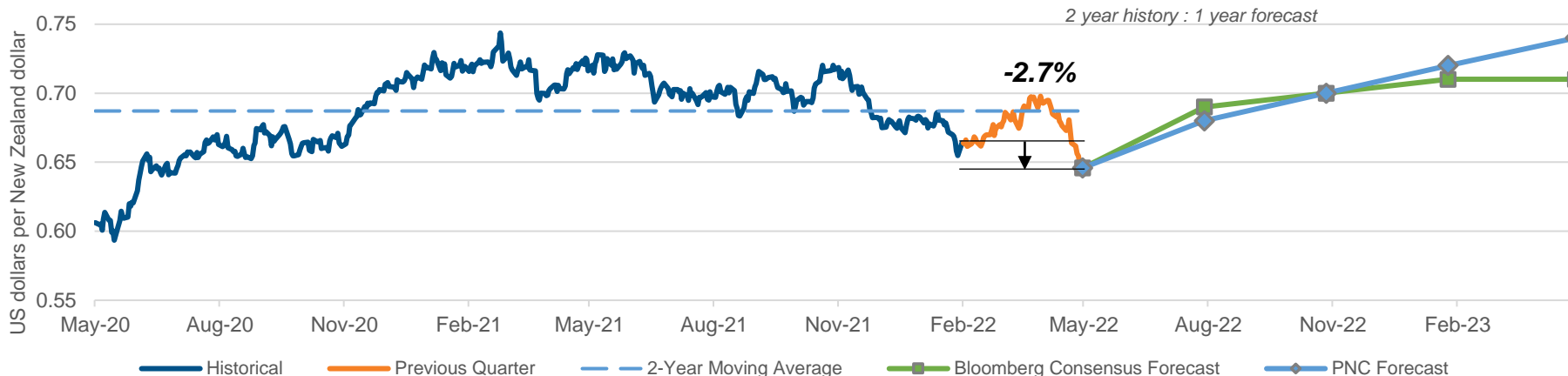
- PNC and the consensus both anticipate the Australian dollar to appreciate over the forecast horizon.
- If the Fed raises interest rates faster than markets anticipate, or Australian-Sino relations worsen, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 2.7% on net in the trailing quarter.



Previous Quarter Recap

- After appreciating through February and March, the New Zealand dollar then fell sharply to finish the quarter down 2.7%.
- The New Zealand dollar rose throughout March as surging commodity prices supported the currency; the New Zealand dollar then reversed course in April as slowing economic growth in China weighed on currencies in the region.

Currency Outlook

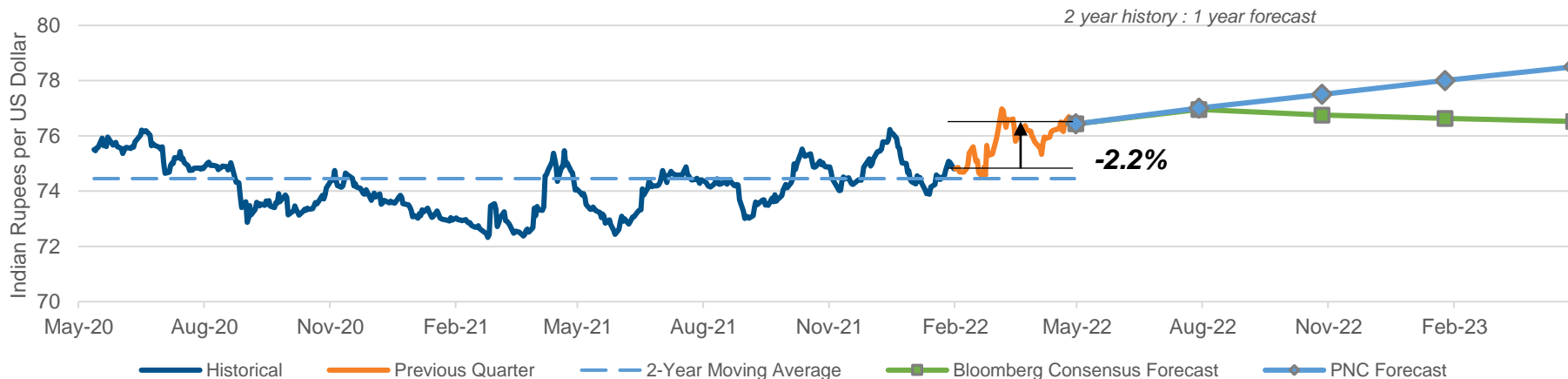
- PNC and the consensus both anticipate the New Zealand dollar to appreciate over the forecast horizon.
- If China's economic growth slows further, or the Fed raises interest rates faster than markets anticipate, the New Zealand dollar is likely to be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee depreciated 2.2% in the prior quarter amidst risk-off sentiment in the market.



Previous Quarter Recap

- The rupee depreciated 2.2% on net in the trailing three months, touching near an all-time low amidst broad risk-off sentiment in the financial markets.
- The cloudy economic outlook for China, India's largest trading partner, contributed to a weaker rupee in the past quarter.
- Risk-off sentiment in the market stemming from Russia/Ukraine tensions also pressured the rupee.

Currency Outlook

- PNC expects a slight depreciation of the Indian rupee in the coming quarters, while the consensus anticipates little net change.
- If Chinese economic data weakens, oil prices remain elevated, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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Revision 01.02.2020

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