

PNC Currency Review, April 2021

Prior Quarter

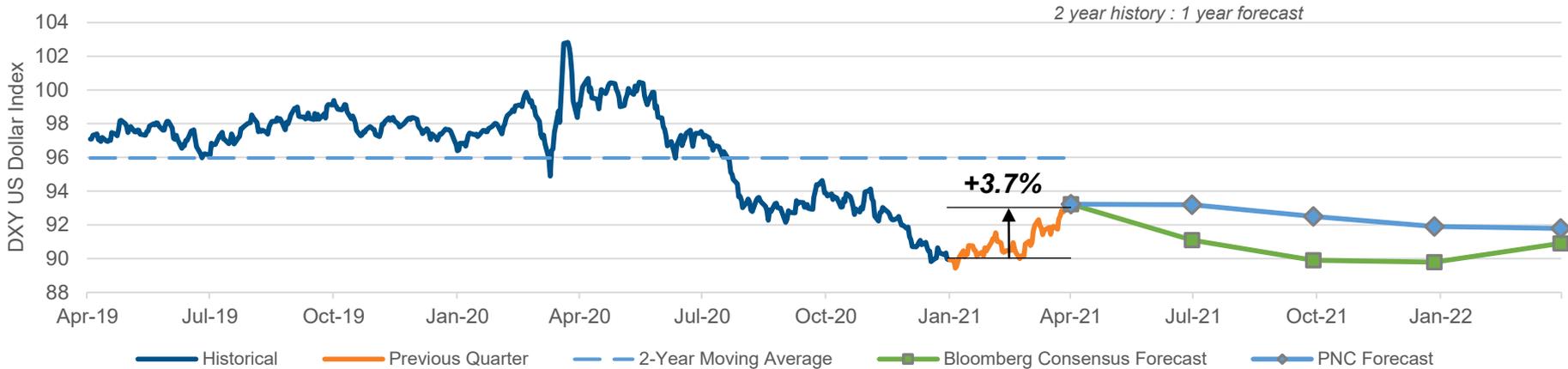
January 2021 – March 2021

Summary

DXY Major Currencies Dollar Index



The dollar appreciated in the first quarter of 2021, supported by rising U.S. long-term interest rates.



Previous Quarter Recap

- The dollar appreciated 3.7% in the first quarter of 2021 as the U.S. and global recovery from the 2020 recession proceeded.
- The dollar's trough for the quarter was in early January. After that, the dollar appreciated as Democrats won control of the U.S. Senate and passed a \$1.9 trillion stimulus plan, and as vaccine distribution accelerated. These developments pushed U.S. long-term interest rates higher, supporting the value of the dollar.

Currency Outlook

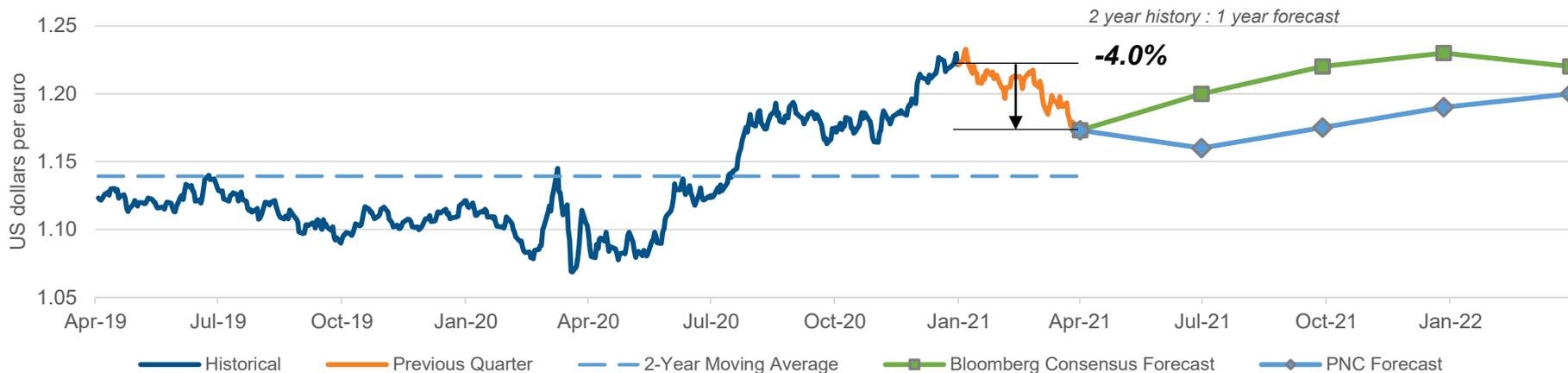
- PNC forecasts for the dollar to be little changed over the forecast horizon; the consensus forecast anticipates further depreciation.
- If the U.S. passes more fiscal stimulus after the Biden plan and the global economy recovers faster than expected, the dollar could be weaker than forecast. On the other hand, another major global shock, either from the pandemic or an unrelated source, could cause the dollar to be stronger than forecasted.

Currency Update

Euro



The euro depreciated in the first quarter of 2021 as the ECB accelerated asset purchases.



Previous Quarter Recap

- The euro depreciated 4.0% in the first quarter of 2021.
- The euro touched the highest levels since the first half of 2018 around the Georgia special election, then depreciated through quarter-end as the European Central Bank accelerated asset purchases (a.k.a. quantitative easing) to slow the rise of euro long-term interest rates and lean against the appreciation of the euro.

Currency Outlook

- PNC forecasts for the euro to recover to early 2021 levels over the rest of 2021 as vaccine distribution catches up in the EU and the economy reopens; the consensus forecast anticipates even more euro appreciation in 2022.
- 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 appreciated in the first quarter of 2021 as Brexit ended and the UK distributed vaccines.



Previous Quarter Recap

- Pound sterling appreciated 0.8% in the first quarter of 2021 and reached the strongest since the first half of 2018 as the UK and EU implemented a post-Brexit trade deal.
- The UK inoculated half of its adult population by mid-March, boosting prospects for the recovery of the UK's service sector. This supported UK real interest rates and added further impetus for pound sterling's appreciation.

Currency Outlook

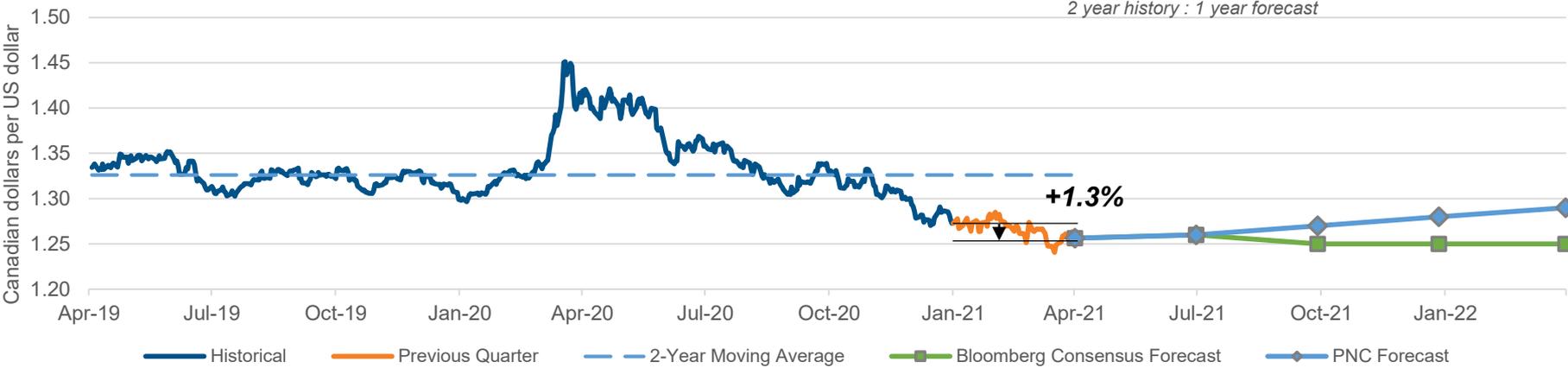
- PNC forecasts a weaker pound by the end of 2021 as markets' focus shifts from the immediate recovery to the U.K.'s medium-term growth prospects; the consensus forecast is for little change.
- If there is another major global shock, either from the pandemic, ongoing UK-EU economic frictions, or another cause, pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar appreciated in the first quarter thanks to rising crude oil prices.



Previous Quarter Recap

- The Canadian dollar appreciated 1.3% in the first quarter of 2021, reaching the strongest level since 2017 in March, thanks to positive news about vaccines and rising crude oil prices. The Canadian dollar was the best performing G10 currency in the first quarter.
- The Canadian dollar is strongly correlated with the price of crude oil; the price of a barrel of Western Canadian Select reached the highest level since 2019 in March 2021.

Currency Outlook

- Both PNC and the consensus forecast for the Canadian dollar to hold mostly unchanged over the next year.
- If there's an acceleration in vaccine distribution, the BOC reduces its QE program earlier than anticipated, and OPEC+ agree to production cuts, the Canadian dollar is likely to be stronger than forecasted.

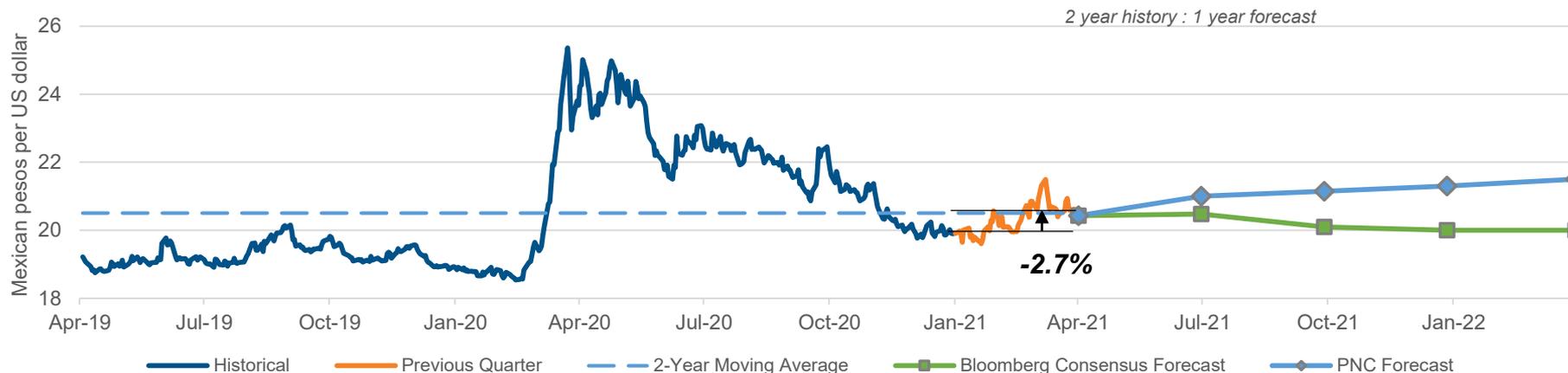
Source: Bloomberg

Currency Update

Mexican Peso



The peso depreciated in the first quarter of 2021 as U.S. long-term interest rates rose.



Previous Quarter Recap

- The Mexican peso depreciated 2.7% in the first quarter of 2021 and finished the quarter near its trailing two-year average.
- Long-term interest rates rose in advanced economies and financial markets were generally more volatile than earlier in the recovery. These developments sapped demand for riskier emerging market currencies including the peso.

Currency Outlook

- PNC forecasts for the peso to continue to depreciate over the next few quarters while the consensus forecast is for the peso to be little changed.
- PNC forecasts for the Federal Reserve to begin tapering its quantitative easing program in early 2022; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The Japanese yen depreciated sharply in the first quarter of 2021 as U.S. risk-free interest rates rose.



Previous Quarter Recap

- The yen dropped a large 7.3% in the first quarter of 2021.
- The yen reached its high for the quarter on the day of the Georgia run-off elections, then depreciated sharply as the \$1.9 trillion U.S. stimulus plan and faster vaccine distribution pushed U.S. long-term interest rates higher.
- The re-imposition of a state of emergency in Japan in the winter months also weighed on the value of the yen.

Currency Outlook

- PNC forecasts for the yen to hold its new weaker level against the dollar, while the consensus forecasts for the yen to recover.
- If there is another major global shock, either from the pandemic or an unrelated cause, the yen would likely be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened in the back half of the first quarter of 2021 as U.S. long-term interest rates rose.



Previous Quarter Recap

- The renminbi depreciated 1.0% in the first quarter of 2021 as China's economy continued to recover from the recession and global financial conditions improved.
- The renminbi touched its strongest level since mid-2018 in February in anticipation of more predictable U.S.-China trade relations, then depreciated through quarter end as U.S. long-term interest rates rose and a Chinese banking regulator voiced concerns about stock valuations, sending Chinese indices lower.

Currency Outlook

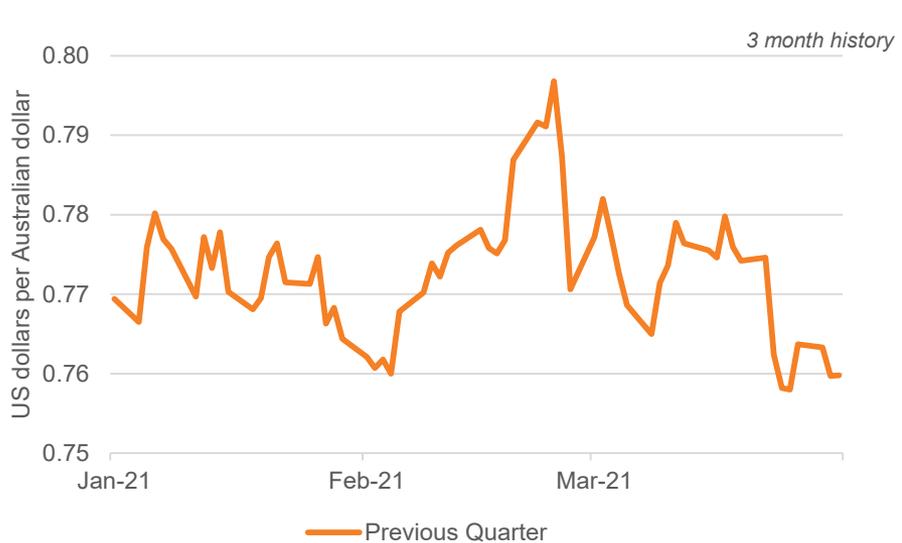
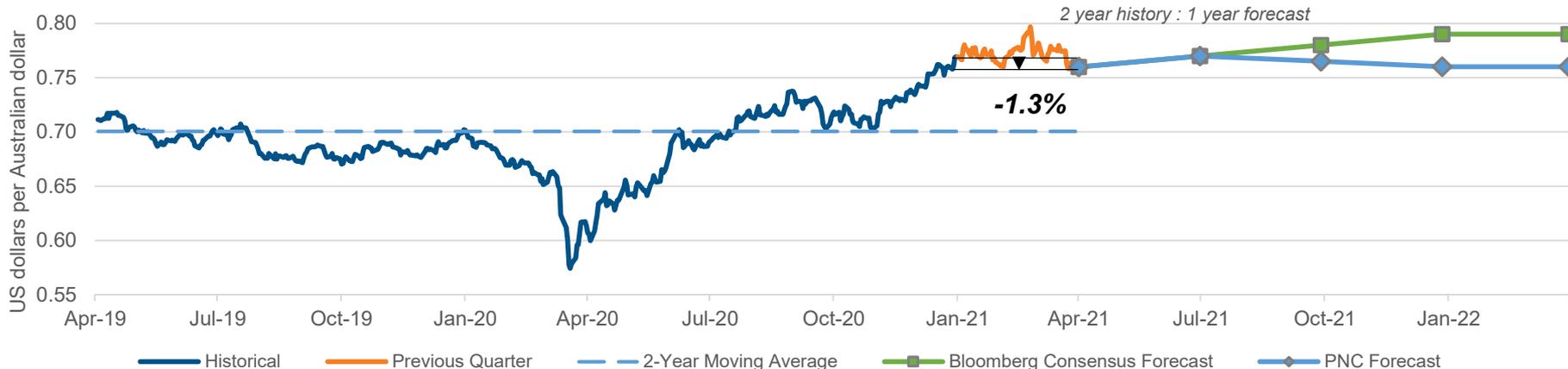
- PNC forecasts for the renminbi to depreciate modestly in 2021, while the consensus forecast anticipates renminbi appreciation.
- The global economic recovery is an upside risk to the renminbi, while the eventual tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside risks.

Currency Update

Australian Dollar



The Australian dollar touched the highest level in three years, then dipped at the end of the first quarter.



Previous Quarter Recap

- The Australian dollar reached the highest level since 2017 in the first quarter of 2021 but still fell 1.3% on net in the quarter.
- The Australian dollar reached its intra-quarter high on February 24, supported by rising commodity prices and the strong Chinese economic recovery. After that, higher U.S. long-term interest rates and spillovers from Australia's new property tax laws contributed to a decline through the end of the quarter.

Currency Outlook

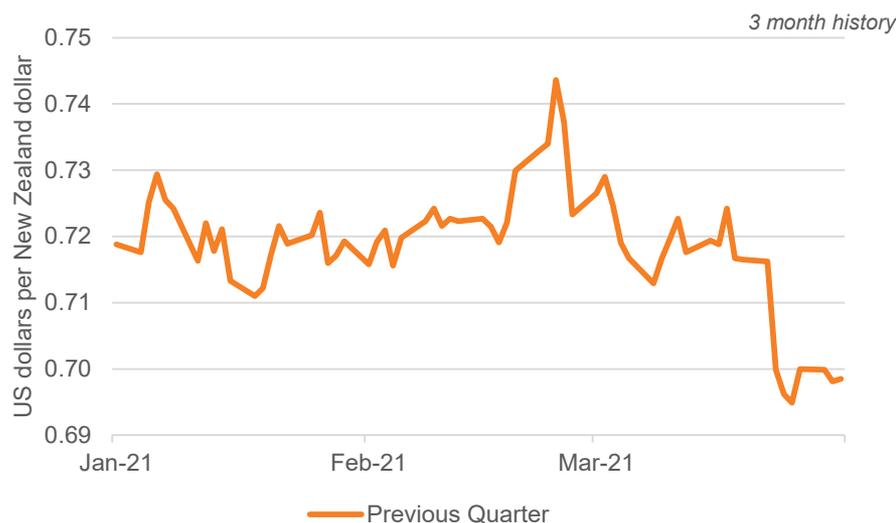
- Both PNC and the consensus forecast anticipate little net change for the Australian dollar over the next few quarters.
- If the pandemic again worsens, Australia's economic fundamentals deteriorate due to the recent expiry of the pandemic-related wage subsidy, or the global economy re-enters a recession, the Australian dollar would likely be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar weakened as the government implemented new laws to cool the housing market



Previous Quarter Recap

- The New Zealand dollar depreciated 2.8% in the first quarter of 2021 after reaching the strongest level since mid-2017 in February.
- The New Zealand dollar depreciated toward the end of the quarter after the government announced in March that tax incentives for homebuyers would be phased out to cool the hot housing market.

Currency Outlook

- PNC and the consensus forecast both anticipate for the New Zealand dollar to be mostly unchanged over the next few quarters.
- If the pandemic persists, vaccines take longer than expected to distribute, commodity prices move lower, or New Zealand's central bank uses regulatory tools to cool the housing market, the New Zealand dollar is likely to be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee was little changed in the quarter on net as U.S. long-term interest rates rose.



Previous Quarter Recap

- The Indian rupee rose a scant 0.1% in the first quarter of 2021.
- The rupee reached the strongest level since the pandemic started on February 24 as the Indian and global economies recovered. The following week, the rupee sold off sharply as U.S. long-term interest rates rose and investors shied away from riskier emerging market currencies. India's rising coronavirus cases and slow vaccine rollout, as well as higher oil prices, were additional headwinds to the rupee.

Currency Outlook

- PNC forecasts for the rupee to be slightly weaker over the forecast horizon; the consensus forecast anticipates appreciation.
- If the pandemic persists, vaccines take longer than expected to distribute, domestic economic data disappoint, oil prices rise further, or the global economy re-enters a recession, the Indian rupee is likely to be weaker than forecasted.

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