

PNC Currency Review, February 2021

Prior Quarter

November 2020 – January, 2021

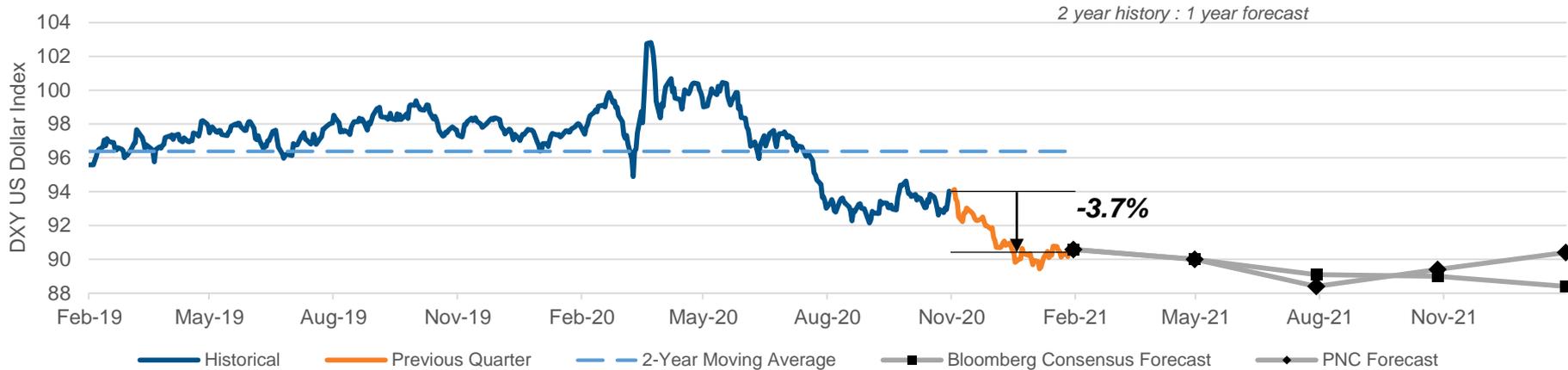


Summary

DXY Major Currencies Dollar Index



The dollar depreciated in the November-to-January quarter as political and pandemic risks receded.



Previous Quarter Recap

- The dollar fell 3.7 percent in the November-to-January quarter as the U.S. and global recovery from the Viral Recession proceeded.
- The dollar's peak for the quarter was just ahead of the U.S. election. After that, the dollar weakened through early January as U.S. political uncertainty abated and vaccine distribution began, then strengthened slightly through the end of January as several major world economies re-imposed lockdowns.

Currency Outlook

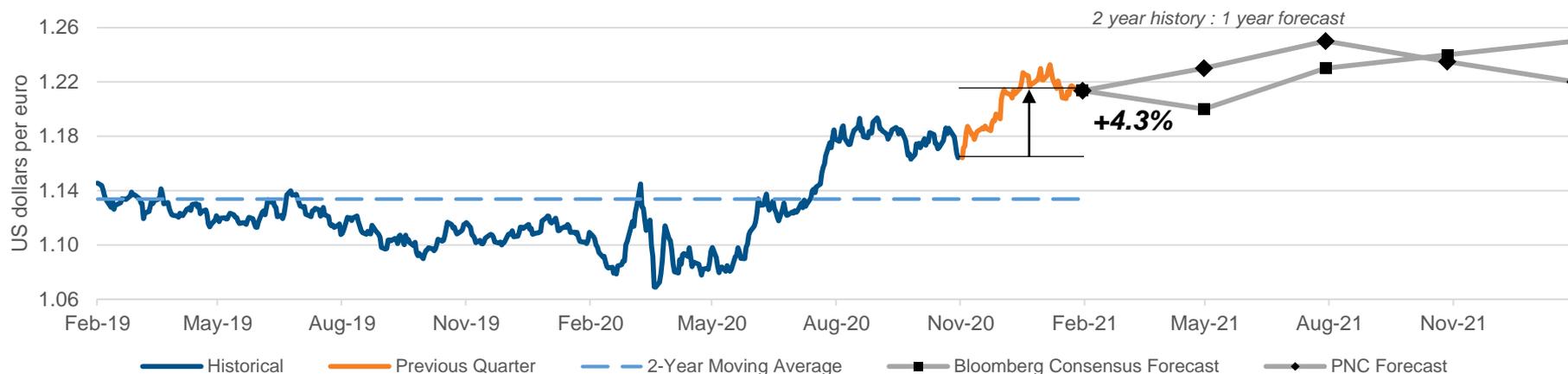
- PNC and the consensus forecast anticipate for the dollar to be little changed over the forecast horizon.
- If the U.S. passes more fiscal stimulus in 2021 or the economy recovers faster than expected, the dollar could be weaker than forecast. On the other hand, another major global shock, either from the pandemic or an unrelated source, could cause the dollar to be stronger than forecasted.

Currency Update

Euro



The euro appreciated in the November-to-January quarter as vaccines began to be distributed globally.



Previous Quarter Recap

- The euro appreciated 4.3 percent in the November-to-January quarter and touched the highest levels since the first half of 2018.
- The euro depreciated modestly in late January as European Central Bank policymakers warned that they could make euro interest rates even more negative if the euro continues to appreciate.

Currency Outlook

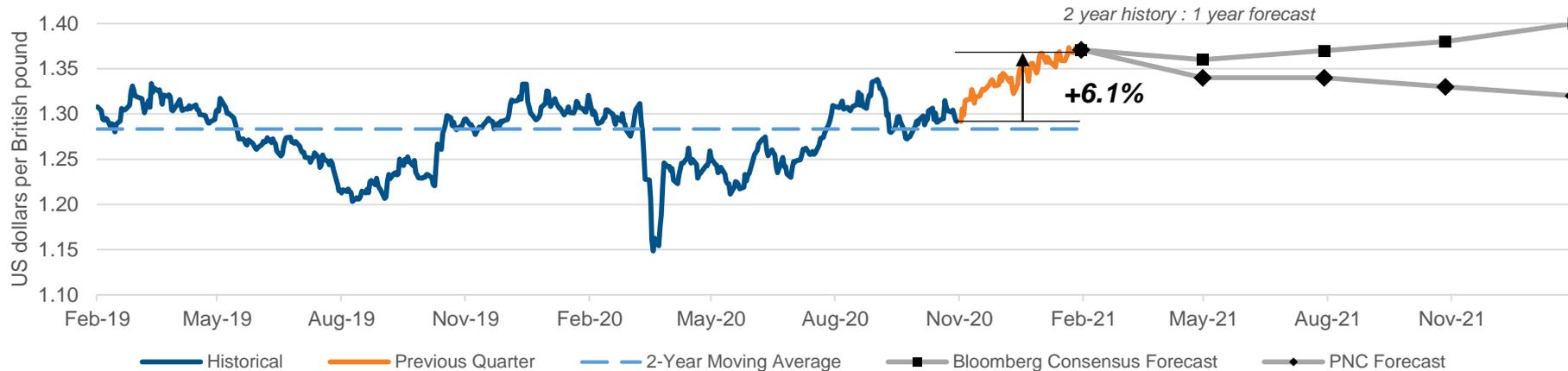
- PNC forecasts for the euro to peak vis-à-vis the dollar around mid-2021 as base effects cause a near-term peak in U.S. inflation, then for the euro to return to late-2020 levels by year-end 2021 as the currency area's persistently low growth, near-zero inflation, and negative interest rates weigh on the euro, as they did before 2020.
- 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 November-to-January quarter as Brexit finally resolved.



Previous Quarter Recap

- Pound sterling appreciated 6.1 percent in the November-to-January quarter to the strongest since the first half of 2018 as the UK and EU implemented a post-Brexit trade deal.
- U.S. real interest rates also fell in the quarter as optimism about the U.S. recovery lifted U.S. growth and inflation expectations. With the Federal Reserve holding down interest rates, higher U.S. inflation expectations translated into lower real interest rates, pushing the dollar weaker and pound sterling stronger.

Currency Outlook

- PNC forecasts a slightly weaker pound by the end of 2021 as markets' focus shifts to the U.K.'s weak medium-term growth prospects; the consensus forecast is for some further appreciation.
- If there is another major global shock, either from the pandemic, UK-EU relations, or another cause, pound sterling would likely be weaker than forecasted.



The Canadian dollar hit the highest in nearly three years as oil demand and risk sentiment improved.



Previous Quarter Recap

- The Canadian dollar appreciated 3.3 percent in the November-to-January quarter, reaching the highest since the first half of 2018, thanks to positive news about vaccines, rising crude oil prices, and a broad-based increase in prices of risky financial assets.
- The Canadian economy is recovering faster than the U.S. economy, which also has contributed to the appreciation of the Canadian dollar.

Currency Outlook

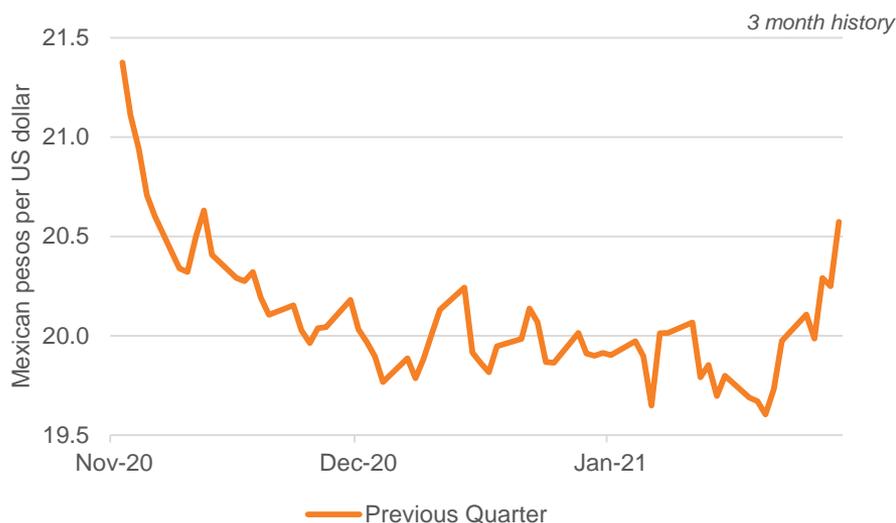
- Both PNC and the consensus forecast for the Canadian dollar to hold mostly unchanged over the next year.
- If a coronavirus vaccine becomes widely available and is distributed sooner than expected, petroleum demand rebounds, and OPEC+ agree to production cuts, the Canadian dollar is likely to be stronger than forecasted.

Currency Update

Mexican Peso



The peso appreciated in the November-to-January quarter on positive vaccine and economic news.



Previous Quarter Recap

- The Mexican peso appreciated 4.6 percent in the November-to-January quarter and finished the quarter near its trailing two-year average.
- The peso appreciated 9 percent through mid January as the global recovery proceeded, then depreciated through the end of January as stock market volatility increased, making investors less willing to hold riskier currencies like the peso.

Currency Outlook

- Both PNC and the consensus forecast for the peso to be little changed over the next few quarters.
- However, PNC sees risks skewed toward renewed peso depreciation. Mexico's poor pandemic response, oil-dependent economy, and unpredictable economic policies create more downside risk than the upside risk from a recovering global economy and buoyant financial conditions.

Currency Update

Japanese Yen



The Japanese yen was little changed in the November-to-January quarter.



Previous Quarter Recap

- The yen was little changed in the November-to-January quarter, appreciating a slight 0.1 percent as the recovery proceeded, equity indices hit record highs, and U.S. real interest rates fell.
- The yen reached the strongest since March 2020 in early January, then depreciated through the end of January after governments in Japan and several other countries imposed lockdowns, causing the U.S. dollar to strengthen and the yen to depreciate.

Currency Outlook

- PNC forecasts for the yen to appreciate somewhat through mid-2021, then depreciate modestly through the end of the year. The consensus forecast anticipates little change on net.
- 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 appreciated as China's economy continued to recover from the Viral Recession.



Previous Quarter Recap

- The renminbi appreciated 3.6 percent in the November-to-January quarter 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 late January in anticipation of more predictable U.S. trade policies after the Presidential transition and a global economic recovery that benefits China and other emerging markets.

Currency Outlook

- PNC and consensus both forecast for the renminbi to be mostly unchanged in 2021, implying forecasters think markets have already priced in the "good news" of better U.S.-China relations.
- If relations between China and the U.S. remain strained after the Presidential transition, the renminbi may be weaker than forecast.

Currency Update

Australian Dollar



The Australian dollar touched the highest in nearly three years in the November-to-January quarter.



Previous Quarter Recap

- The Australian dollar appreciated 8.3 percent in the November-to-January quarter to the highest level in just under 3 years.
- The Australian dollar's peak in the trailing quarter was January 6. After that it dipped slightly through the end of January as many countries re-imposed lockdowns and other pandemic restrictions, which will weigh on the global recovery in the near term.

Currency Outlook

- PNC forecasts for the Australian dollar to be little changed over the next few quarters, while consensus forecasts some additional appreciation.
- If the pandemic persists or worsens, domestic economic fundamentals deteriorate, China's recovery weakens, 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 appreciated to a nearly three-year high in the November-to-January quarter.



Previous Quarter Recap

- The New Zealand dollar appreciated 8.5 percent in the November-to-January quarter to the strongest level since mid-2018.
- The New Zealand dollar typically tracks closely with global growth expectations, which improved in the quarter as vaccine distribution began. Also, New Zealand and China signed a trade deal in January which could raise New Zealand's exports over time.

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 or worsens, vaccines take longer than expected to distribute, vaccination rates are lower than expected, or the global economy re-enters a recession, the New Zealand dollar is likely to be weaker than forecasted.

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