

PNC Currency Review, July 2021

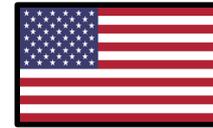
Prior Quarter

April 2021 – June 2021

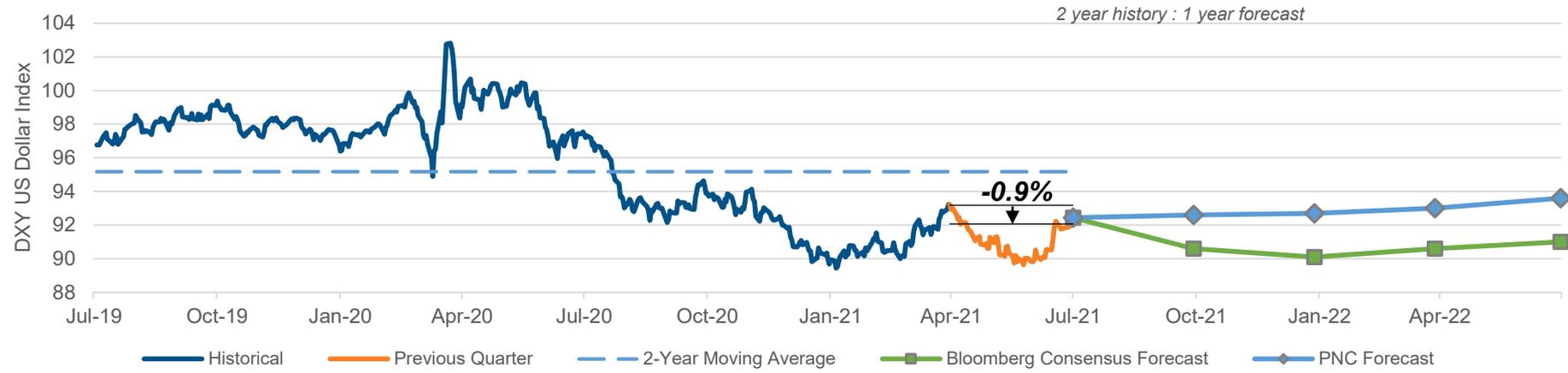


Summary

DXY Major Currencies Dollar Index



The dollar depreciated 0.9% on net in the second quarter of 2021.



Previous Quarter Recap

- The DXY dollar index depreciated through mid-May as vaccinations accelerated outside the U.S. and commodity prices surged, pushing up U.S. inflation expectations and reducing real interest rates (net of expected inflation).
- The DXY then rallied through quarter-end as commodity prices came off the May highs, and the Fed's June dot plot pulled forward the expected date of the first fed funds rate hike.

Currency Outlook

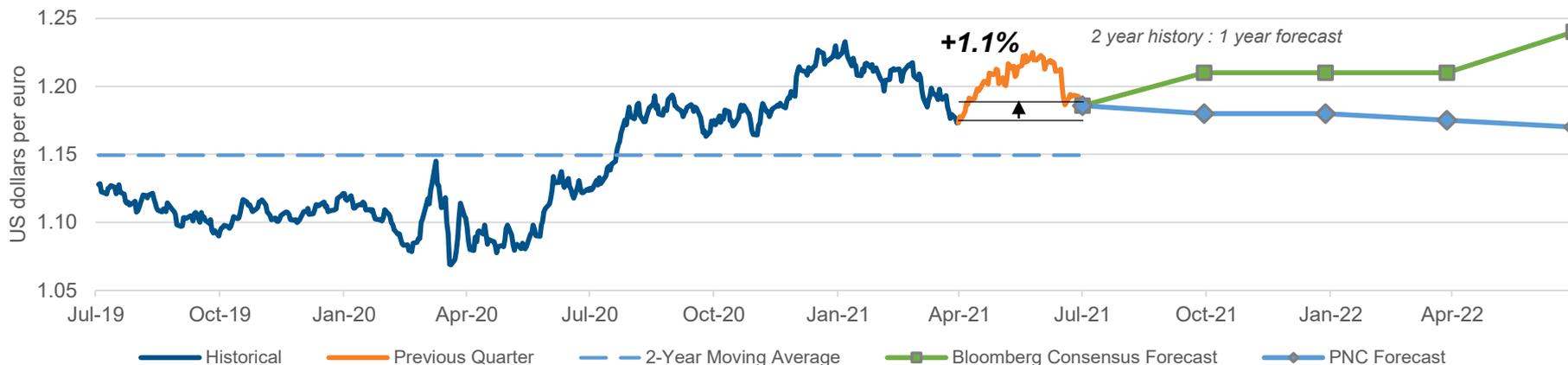
- PNC expects the dollar to appreciate over the forecast horizon and reverse some of 2020's depreciation as the second quarter's commodity prices shock fades, and as the Fed starts to normalize its policy stance. The consensus expects modest depreciation.
- If foreign economies recover faster than expected, the dollar could be weaker than forecast. On the other hand, another major global shock could cause the dollar to be stronger than forecasted.

Currency Update

Euro



The euro appreciated a net 1.1% in the second quarter, but dipped at quarter-end.



Previous Quarter Recap

- The euro appreciated a net 1.1% in the trailing quarter. It rose in April and May as vaccinations accelerated in the EU.
- The euro fell in the back half of the quarter. The ECB kept its monetary stance unchanged at their June decision, while the Fed's June dot plot signaled policymakers were pulling forward their expectations for when they would hike U.S. rates.

Currency Outlook

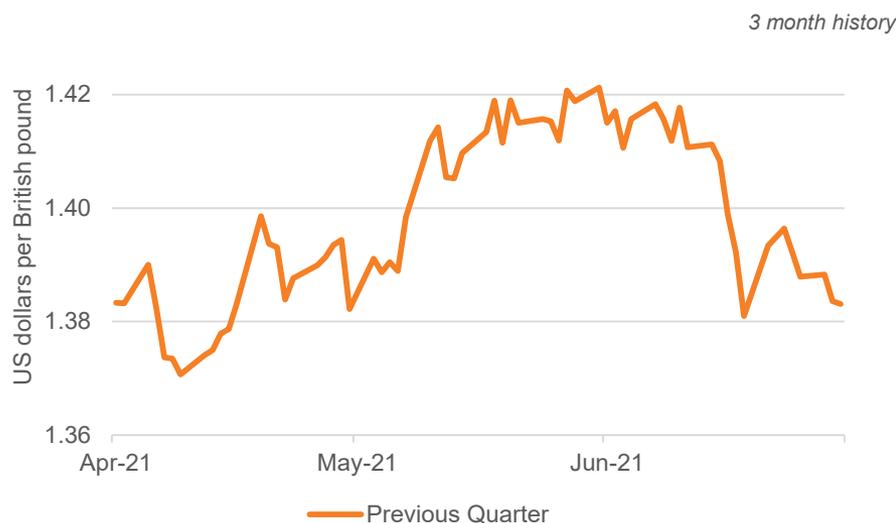
- PNC forecasts for the euro to depreciate over the forecast horizon, while the consensus forecast anticipates euro appreciation.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling appreciated in the April-to-June quarter as the UK distributed vaccines.



Previous Quarter Recap

- Pound sterling appreciated 0.3% in the April-to-June quarter and reached its strongest level since the first half of 2018 as the UK's economic recovery regained steam.
- The UK inoculated half of its adult population by mid-March and half of all Britons by mid-April, boosting prospects for the recovery of its service sector. This supported British real interest rates and added 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 UK's medium-term growth prospects; the consensus forecasts little net 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 reached a six-year high in early June but cooled after as the Fed got more hawkish.



Previous Quarter Recap

- The Canadian dollar appreciated 1.3% in the April-to-June quarter, reaching the strongest level since 2015 in June, thanks to a faster than expected economic recovery, rising crude oil prices and the hawkish stance from the Bank of Canada
- The Canadian dollar appreciated 3.8% from April 21, when the Bank of Canada announced that they would taper their QE program, to early June. The Canadian dollar then lost some ground as the FOMC moved up its timeline for rate hikes.

Currency Outlook

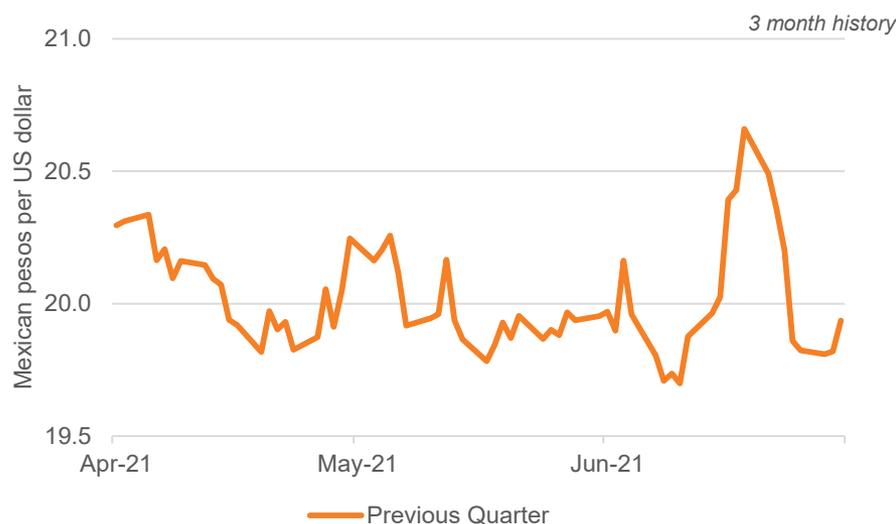
- PNC expects the Canadian dollar to lose some momentum over the forecast horizon as flexible oil producers raise output in response to higher oil prices. The consensus forecast calls for the Canadian dollar to hold mostly unchanged over the next year.
- If the BOC tapers faster than financial markets anticipate, the Canadian dollar is likely to be stronger than forecasted.

Currency Update

Mexican Peso



The peso appreciated in the April-to-June quarter of 2021 as the global recovery advanced.



Previous Quarter Recap

- The Mexican peso appreciated 2.4% in the April-to-June quarter of 2021.
- The peso depreciated through early March as long-term interest rates rose in advanced economies and financial markets were generally more volatile than earlier in the recovery. These drivers of peso weakness faded in April and May, and the peso recovered to finish the quarter stronger.

Currency Outlook

- PNC forecasts for the peso 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 yen depreciated in the April-to-June quarter as U.S. long-term risk-free interest rates rose.



Previous Quarter Recap

- The yen depreciated 0.4% in the April-to-June quarter of 2021. It reached its high for the year on the day of the Georgia run-off elections, then depreciated sharply as U.S. fiscal stimulus and faster vaccine distribution pushed U.S. long-term interest rates higher.
- The pandemic worsened in Japan in April and May, which also weighed on the yen.

Currency Outlook

- PNC and the consensus forecast both expect the yen to see little net change 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 in the second quarter of 2021 as the global recovery proceeded.



Previous Quarter Recap

- The renminbi appreciated 1.5% in the second quarter of 2021 as both the Chinese and global economies continued to recover from the global downturn.
- The renminbi appreciated in April and May as higher commodity prices caused the U.S. dollar to weaken. Then it depreciated through quarter-end as commodity prices came off of their highs and the Fed's June dot plot pulled forward the expected date of the first fed funds rate hike.

Currency Outlook

- PNC forecasts for the renminbi to depreciate modestly 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 edged lower in the second quarter amid slower Chinese economic growth.



Previous Quarter Recap

- The Australian dollar depreciated 1.5% in the trailing quarter amid rising coronavirus cases, new lockdown measures, slower Chinese economic growth and a less dovish Fed. A dovish stance by the Reserve Bank of Australia at its June meeting also contributed to the Australian dollar's weakness.
- The Australian dollar appreciated 3% from April 1 to mid-May but has lost momentum following its advance.

Currency Outlook

- PNC anticipates little net change in the Australian dollar over the next few quarters, while the consensus forecast expects a slight appreciation of the currency.
- If Australia's economic fundamentals deteriorate in the near term or Australia-China relations become more strained, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar edged lower in the past quarter as China's economic recovery slowed.



Previous Quarter Recap

- The New Zealand dollar edged down 0.7% in the trailing quarter, reaching its lowest level since November 2020 in June. A slow global vaccine rollout also contributed to the New Zealand dollar's weakness.
- The New Zealand dollar appreciated 3.6% from April 1 to May 31, but has lost ground since as coronavirus cases increased, China's recovery slowed, and the Fed got less dovish.

Currency Outlook

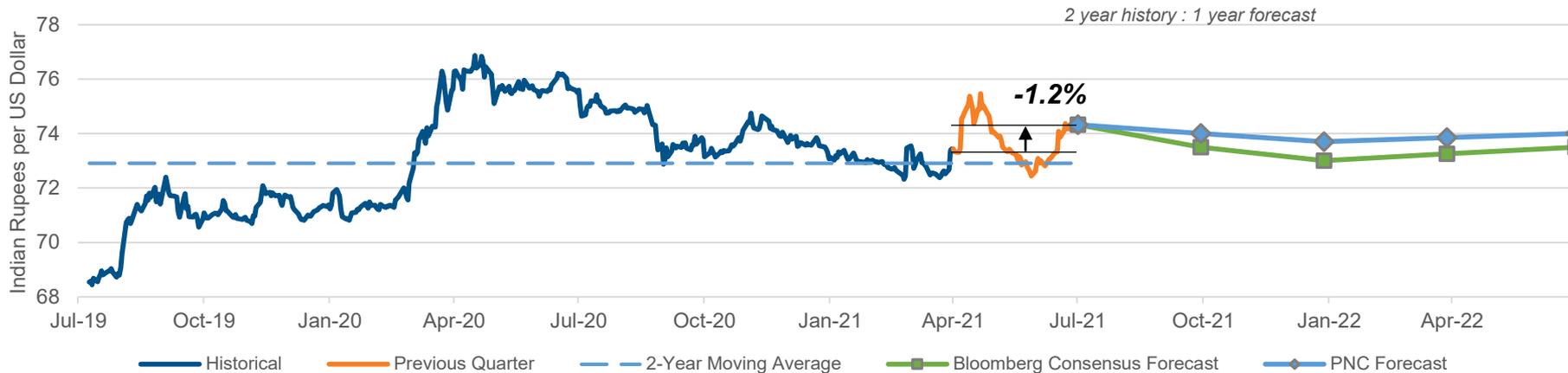
- PNC forecasts a slight depreciation of the New Zealand dollar over the next few quarters, while the consensus forecast anticipates a slight appreciation.
- If the vaccine rollout process is quicker than expected, commodity prices move higher, or New Zealand's central bank lifts off quicker than markets expect, the New Zealand dollar is likely to be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee depreciated in the trailing quarter as crude oil prices rose.



Previous Quarter Recap

- The Indian rupee depreciated 1.2% on net in the trailing quarter. The rupee appreciated 1.0% from April 1 to May 28 as economic fundamentals improved, but lost steam as the Reserve Bank of India lowered its economic growth forecast at its June 4 meeting, crude oil prices rose (India is a net importer of crude oil) and the Fed got less dovish.
- The Reserve Bank of India also expanded its bond-buying program at its June meeting contributing to a weaker rupee.

Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to appreciate slightly over the next few quarters.
- If the pandemic persists, vaccines take longer than expected to distribute, oil prices rise further, or the global economy re-enters recession, the Indian rupee is likely to be weaker than forecasted.

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