

PNC Currency Review, November 2021

Prior Quarter

August 2021 – October 2021

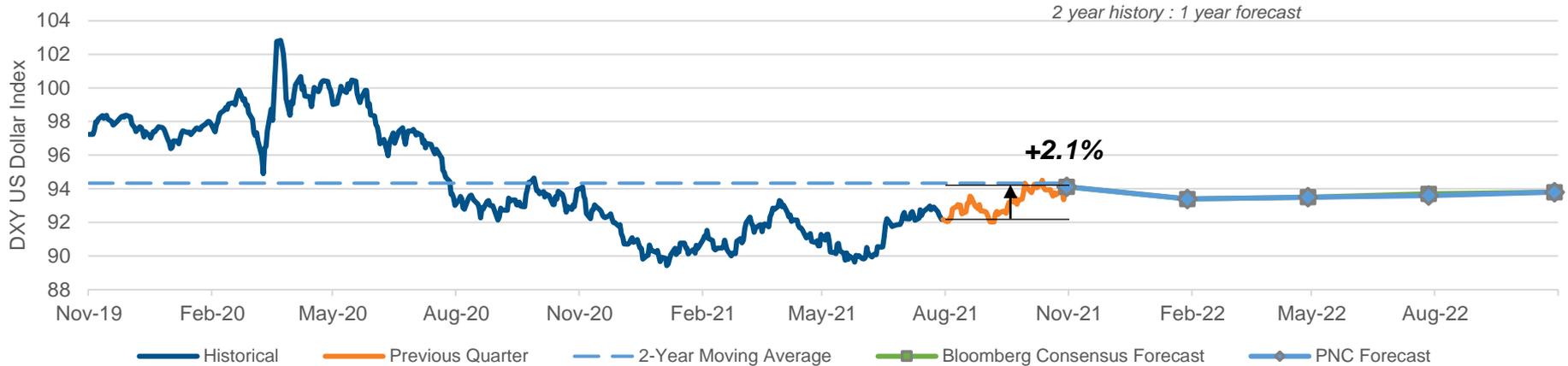


Summary

DXY Major Currencies Dollar Index



The dollar appreciated 2.1% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The DXY dollar index appreciated 2.1% in the August-to-October quarter as the Federal Reserve signaled a taper of its quantitative easing program was near.
- The DXY index pulled back in early September as the global Delta wave worsened, then rose again through quarter-end as cases peaked and began to fall.

Currency Outlook

- The DXY's recent appreciation has already lifted it to PNC's target for its value at the end of 2022; the consensus forecast likewise sees the dollar little changed over the forecast horizon.
- If foreign economies recover faster than expected, the dollar could be weaker than forecasted. On the other hand, another major global shock could cause the dollar to appreciate even more.

Currency Update

Euro



The euro depreciated 2.6% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The euro depreciated a net 2.6% in the August-to-October quarter.
- The Fed signaled throughout the quarter that a taper of its quantitative easing program was nearing, supporting a stronger dollar; the ECB has begun tapering its pandemic-era QE programs but the pre-pandemic programs will continue considerably longer.
- The prospect of higher short-term U.S. interest rates in a few years, in contrast to continued negative euro rates, weighed on the euro.

Currency Outlook

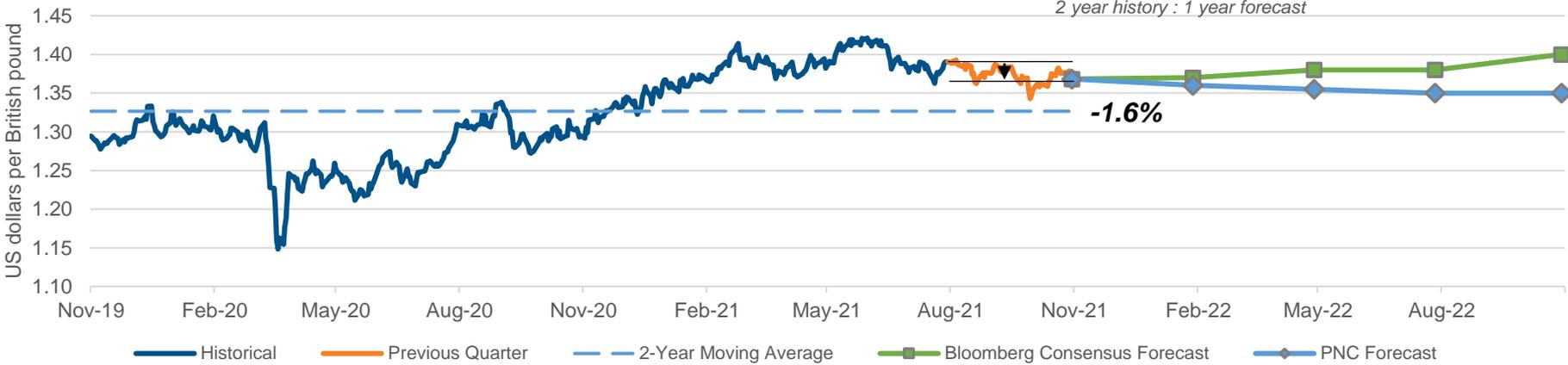
- Both PNC and the consensus forecasts see the euro little changed over the forecast horizon but more likely a bit stronger than weaker.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling depreciated 1.6% in the trailing quarter as the costs of Brexit became more tangible.



Previous Quarter Recap

- Pound sterling depreciated in the August-to-October quarter as UK-EU 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 also signaled in the third quarter that a taper of its quantitative easing program was getting nearer, further contributing to a stronger dollar and weaker pound sterling.

Currency Outlook

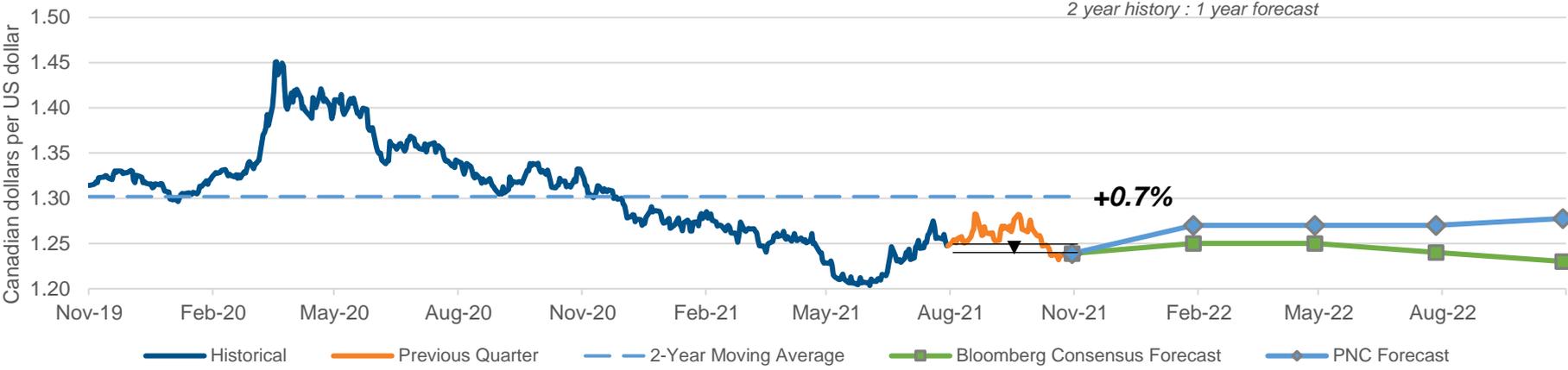
- PNC forecasts for the pound to hold at its now-lower level as the Fed begins to normalize U.S. monetary policy; the consensus forecast anticipates modest pound appreciation.
- If there is another major global shock, either from the pandemic, UK-EU economic frictions, a British energy crisis, or other causes, pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar appreciated 0.7% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The price of Western Canada Select crude oil, Canada’s top export, hit a seven-year high in October, which contributed to the quarter’s slight appreciation of the Canadian dollar.
- The Bank of Canada ended its quantitative easing program and pulled forward when they expect to start raising the policy rate at their October 27 meeting. After its appreciation in the prior quarter, the Canadian dollar is the best performing G10 currency this year.

Currency Outlook

- PNC expects the Canadian dollar to depreciate modestly over the forecast horizon as the Fed begins to taper its QE program; the consensus forecast anticipates some appreciation.
- If the Bank of Canada increases its policy rate faster than financial markets anticipate or the Fed delays its taper, the Canadian dollar is likely to be stronger than forecasted.

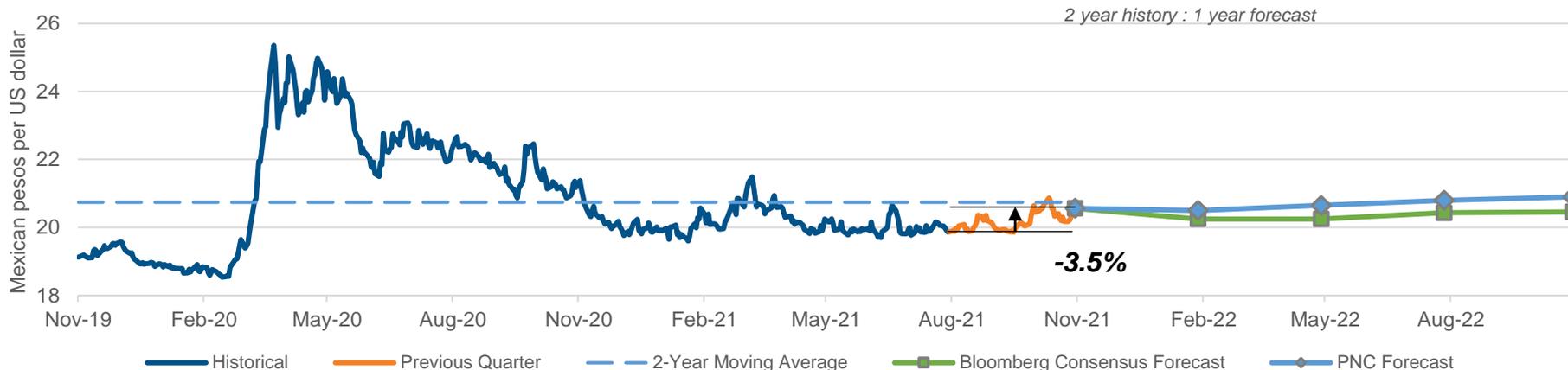
Source: Bloomberg

Currency Update

Mexican Peso



The peso depreciated 3.5% in the August-to-October quarter of 2021.



Previous Quarter Recap

- The Mexican peso depreciated 3.5% in the August-to-October quarter as the Federal Reserve pulled forward plans to taper their quantitative easing program and raise U.S. interest rates.
- The Bank of Mexico made two 0.25 percentage point policy rate hikes in the third quarter to limit the peso's depreciation.

Currency Outlook

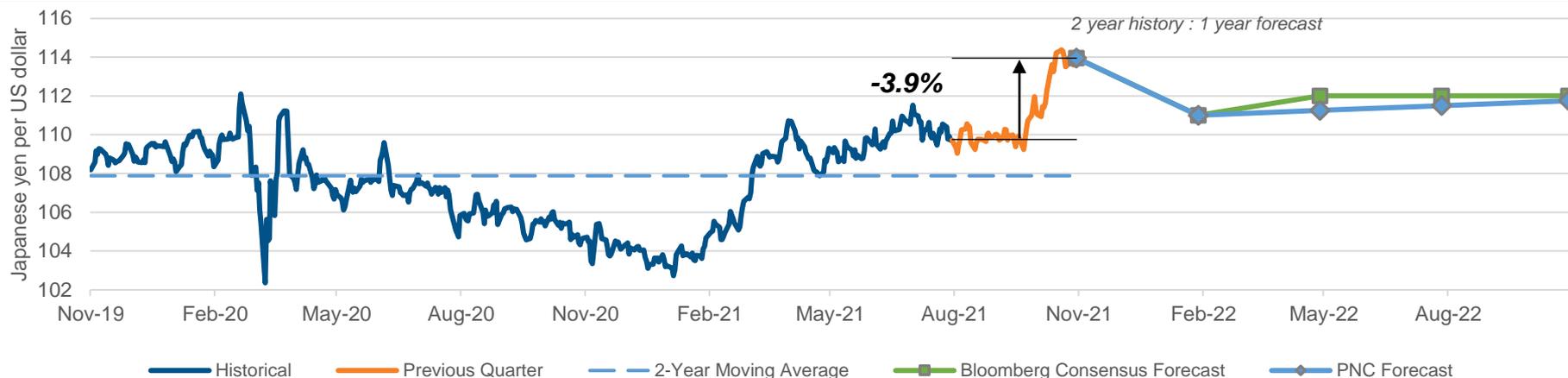
- PNC forecasts for the peso to hold its new weaker level over the next few quarters while the consensus forecast is for the peso to be flat to slightly stronger.
- PNC forecasts for the Federal Reserve to begin tapering its quantitative easing program in late 2021; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The yen was little changed on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The yen dropped a sharp 3.9% in the August-to-October quarter of 2021. It was little changed through late September, then plunged as the Fed signaled that they are likely to begin tapering their quantitative easing program in late 2021.
- Inflation in Japan was still near zero in October, 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 in the quarter.

Currency Outlook

- PNC and the consensus forecast both expect the yen to appreciate 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 0.9% in the August-to-October quarter of 2021.



Previous Quarter Recap

- The renminbi appreciated 0.9% in the August-to-October quarter.
- China's economy faced several negative shocks in the quarter: Lockdowns to fight the Delta wave; regulations that hurt Chinese tech company profitability; a housing downturn; and electrical power shortages.
- China's central bank 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 somewhat less depreciation.
- 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 appreciated 2.4% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- Higher commodity prices, relaxation of restrictions in Australia and improved global economic activity supported the Australian dollar.
- Prices of key exports, coal and liquefied natural gas (LNG), surged 49.2% and 38.6%, respectively, in the prior quarter.
- The RBA made a surprise unannounced decision to end its QE program in late October.

Currency Outlook

- PNC anticipates a slight depreciation of the Australian dollar 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 economic conditions deteriorate in Australia, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar appreciated 2.6% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The New Zealand dollar weakened briefly to 68 U.S. cents per New Zealand dollar, a nine-month low, in August, as the government announced new lockdown measures.
- Weak Chinese manufacturing activity weighed on the New Zealand dollar but this was more than offset by the Reserve Bank of New Zealand's decision to raise its policy rate at the October 5 meeting.

Currency Outlook

- PNC forecasts a slight depreciation of the New Zealand dollar 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 0.7% on net in the August-to-October quarter of 2021.



Previous Quarter Recap

- The rupee fell in October to the lowest level since June 2020 as energy prices surged; India is a net importer of oil.
- Financial market expectations for the Fed to start tapering its QE program in November, and increased bets on an early initial interest rate hike in the U.S., also weighed on the rupee.
- Softer manufacturing data from China, India's largest trading partner, also 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, oil prices rise further, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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