

# **PNC Currency Review, September 2021**

**Prior Quarter**

**June 2021 – August 2021**

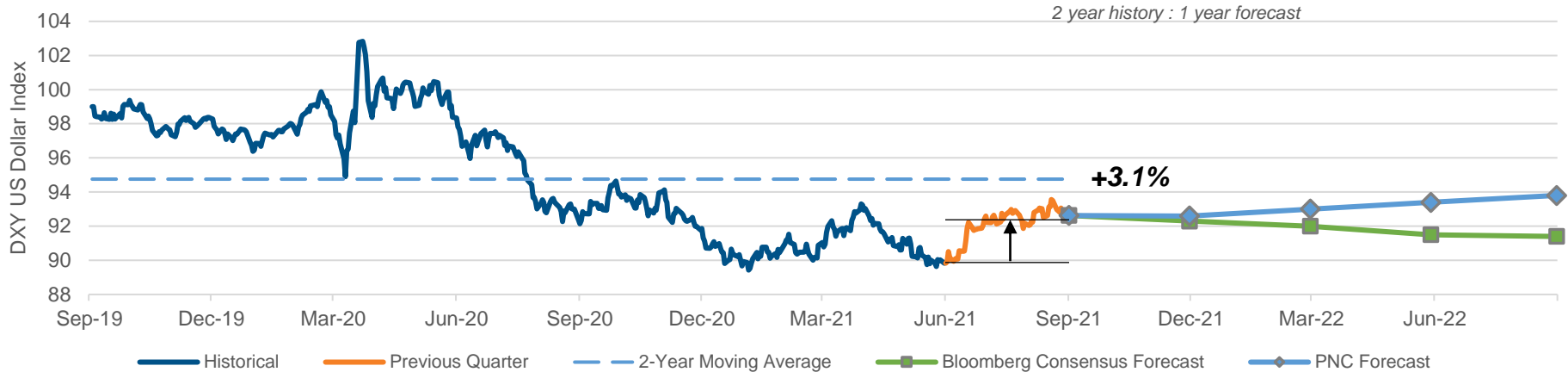


# Summary

## *DXY Major Currencies Dollar Index*



**The dollar appreciated 3.1% on net in the June-to-August quarter of 2021.**



### Previous Quarter Recap

- The DXY dollar index appreciated through mid-August as lumber, iron ore, and copper prices came off the May highs, financial markets anticipated an earlier start to the Fed's rate hikes, and inflation expectations cooled.
- The DXY index pulled back slightly through the end of August as the Delta wave worsened around the world and weighed on the global recovery.

### Currency Outlook

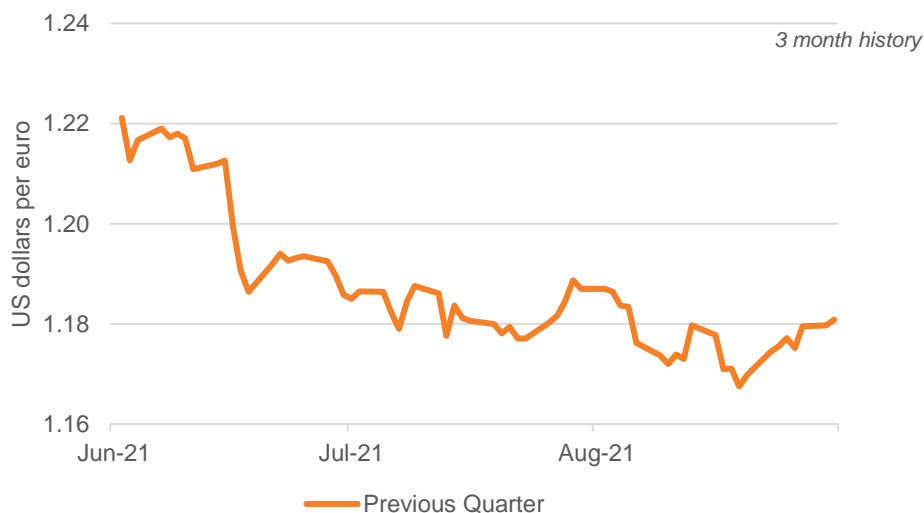
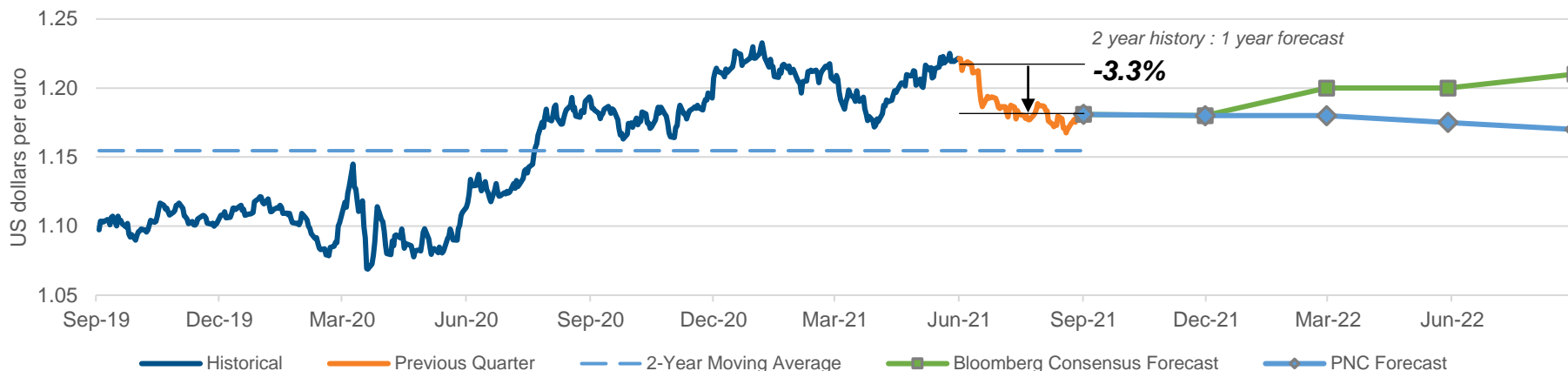
- PNC expects the dollar to continue to strengthen modestly over the forecast horizon and reverse some of 2020's depreciation, as 2021's inflation shock fades, and as the Fed starts to normalize its policy stance. The consensus anticipates a slightly weaker dollar.
- If foreign economies recover faster 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 3.3% on net in the June-to-August quarter of 2021.



### Previous Quarter Recap

- The euro depreciated a net 3.3% in the June-to-August quarter. The currency fell through mid-August as the Fed's June dot plot signaled U.S. policymakers were pulling forward their expectations for when they would hike U.S. rates, in contrast to more dovish interest rate guidance from the ECB in July.
- The euro appreciated in the last 10 days of August as the Delta wave worsened and financial markets tempered expectations for U.S. interest rate hikes.

### Currency Outlook

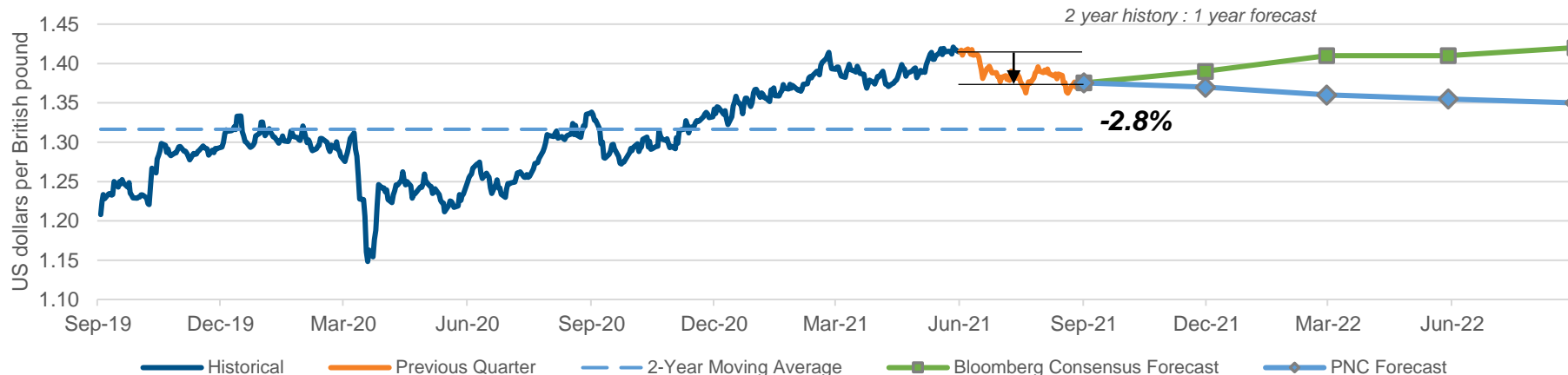
- PNC forecasts for the euro to average near its year-to-date lows over the forecast horizon, while the consensus forecast anticipates some appreciation of the euro.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

# Currency Update

## Great British Pound



**Pound sterling depreciated 2.8% in the June-to-August quarter as UK-EU trade tensions resurfaced.**



### Previous Quarter Recap

- Pound sterling depreciated in June and July as financial markets anticipated an earlier start to the Fed's rate hikes, and as UK-EU tensions over trade across the Irish border resurfaced.
- Pound sterling stabilized and rose in the last ten days of August as the Delta variant spread in the U.S. and U.S. long-term interest rates moved lower.

### Currency Outlook

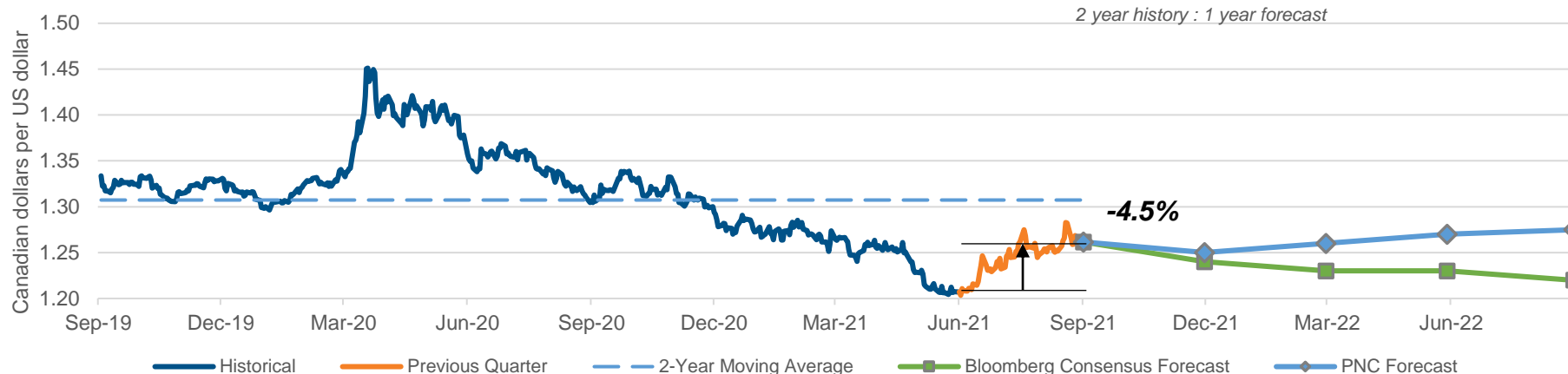
- PNC forecasts for the pound to be modestly lower through the end of 2021 as the Fed begins to normalize U.S. monetary policy; the consensus forecast anticipates modest pound appreciation.
- If there is another major global shock, either from the pandemic, ongoing UK-EU economic frictions, or another cause, pound sterling would likely be weaker than forecasted.

# Currency Update

## Canadian Dollar



The Canadian dollar fell to an eight-month low in August as economic fundamentals deteriorated.



### Previous Quarter Recap

- The Canadian dollar depreciated 4.5% in the June-to-August quarter. After reaching its strongest level since 2015 in June, the Canadian dollar weakened to an eight-month low as economic fundamentals deteriorated.
- The global spread of the Delta variant weighed on the risk-sensitive Canadian dollar. Even after the depreciation of the last quarter, the Canadian dollar is the best performing G10 currency this year.

### Currency Outlook

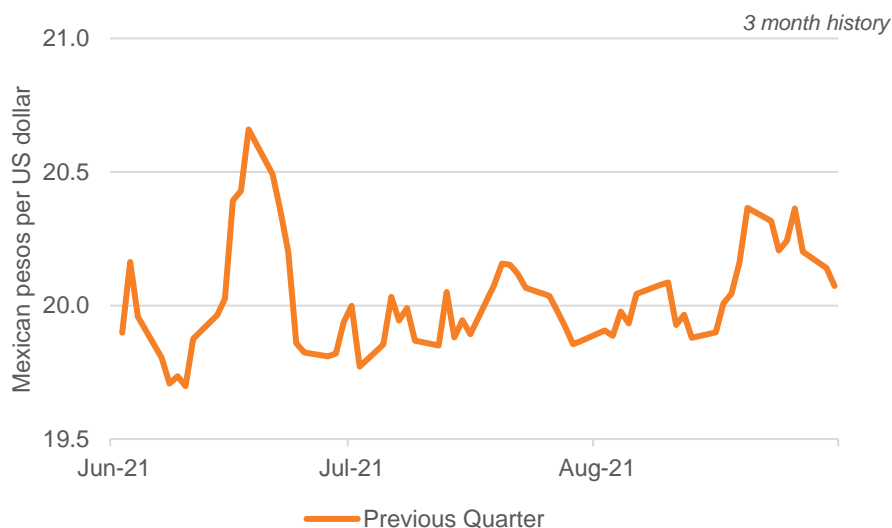
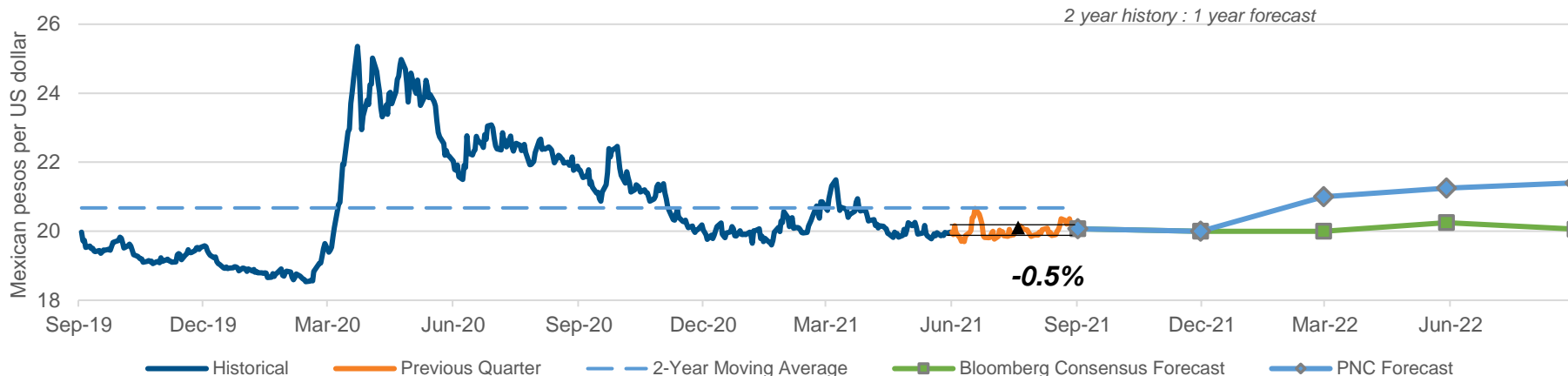
- PNC expects the Canadian dollar to depreciate modestly over the forecast horizon as the Fed begins to taper its QE program; the consensus forecast anticipates some appreciation.
- If the Bank of Canada tapers faster than financial markets anticipate, the Canadian dollar is likely to be stronger than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

# Currency Update

## Mexican Peso



The peso depreciated a slight 0.5% in the June-to-August quarter of 2021.



### Previous Quarter Recap

- The Mexican peso was volatile in the June-to-August quarter, but depreciated just 0.5% on net.
- The peso briefly spiked to more than 20.5 per U.S. dollar the week of the June Fed decision, which showed Federal Open Market Committee members were pulling forward their plans for raising U.S. interest rates. The peso recovered within a few days as markets realized they had overreacted.

### Currency Outlook

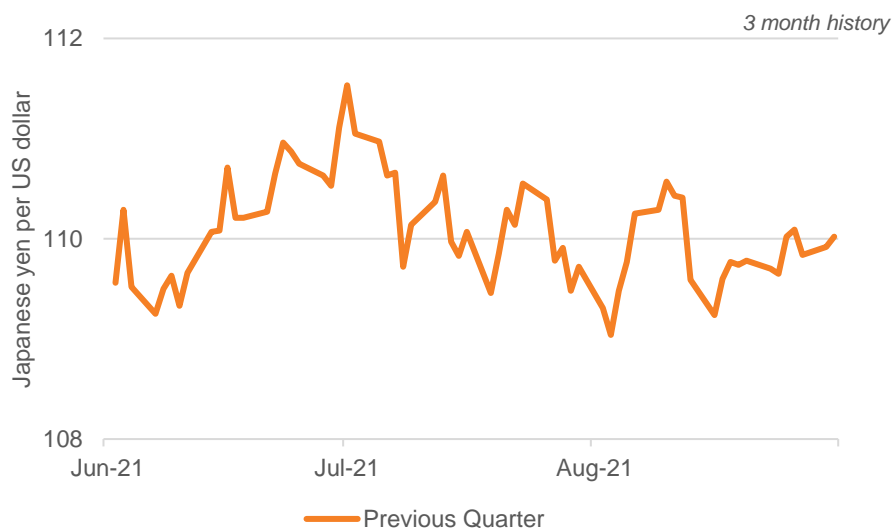
- PNC forecasts for the peso to depreciate over the next few quarters while the consensus forecast is for the peso to be little changed.
- PNC forecasts for the Federal Reserve to begin tapering its quantitative easing program in late 2021; this, as well as Mexico's domestic economic challenges, are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

# Currency Update

## Japanese Yen



The yen depreciated in the June-to-August quarter as the Delta variant spread in Japan.



### Previous Quarter Recap

- The yen depreciated 0.5% in the June-to-August quarter of 2021.
- The yen reached its high for the year on the day of the Georgia run-off elections in January, then depreciated as the U.S.'s fiscal stimulus and faster vaccination drive lifted U.S. long-term interest rates. In the last few months, the spread of the Delta variant in Japan and headwinds from renewed restrictions on activity have hindered the country's economy and weighed on the yen.

### Currency Outlook

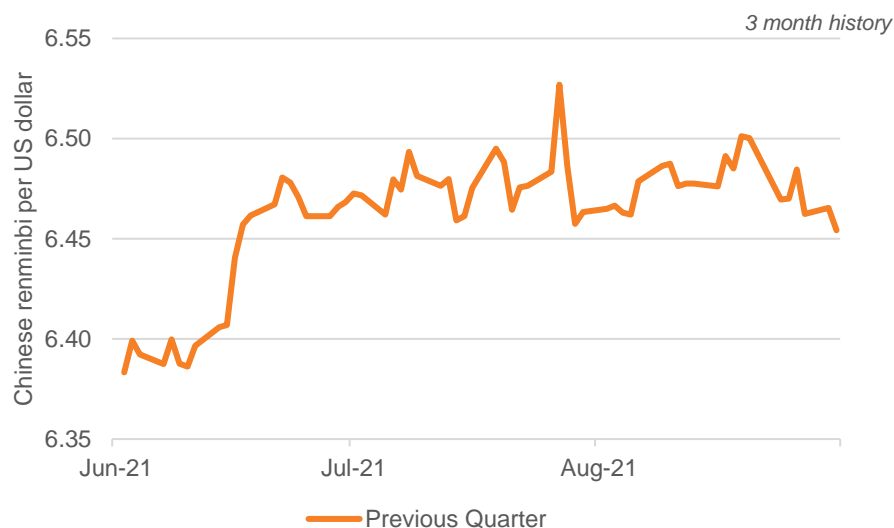
- PNC and the consensus forecast both expect the yen to depreciate modestly in coming quarters.
- If there is another major global shock, either from the pandemic or an unrelated cause, the yen is likely to be stronger than forecasted.

# Currency Update

## Chinese Renminbi



The renminbi depreciated in the June-to-August quarter of 2021 amid volatile Chinese equity markets.



### Previous Quarter Recap

- The renminbi depreciated 1.1% in the June-to-August quarter of 2021. The renminbi gained through early June as higher commodity prices caused the U.S. dollar to weaken.
- The renminbi then depreciated over the course of the quarter as commodity prices came off of their highs, the Fed's June dot plot pulled forward the expected date of the first fed funds rate hike, Chinese stock prices fell, and China reimposed restrictions on activity to contain the Delta variant.

### 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.

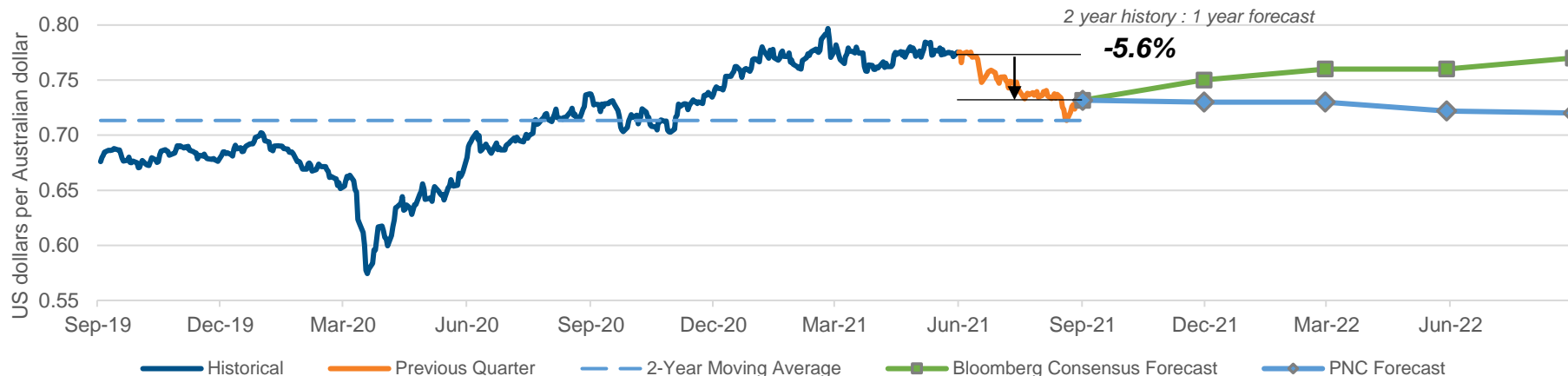


# Currency Update

## Australian Dollar



**The Australian dollar depreciated in the trailing quarter amid a cloudier Chinese economic outlook.**



### Previous Quarter Recap

- The Australian dollar depreciated 5.6% in the trailing quarter amid a new coronavirus outbreak, new lockdown measures and falling iron ore prices. A cloudier Chinese economic outlook also weighed on the Australian dollar which weakened in August to a nine-month low.
- Weak domestic economic data in the trailing quarter also weighed on the Australian dollar.

### Currency Outlook

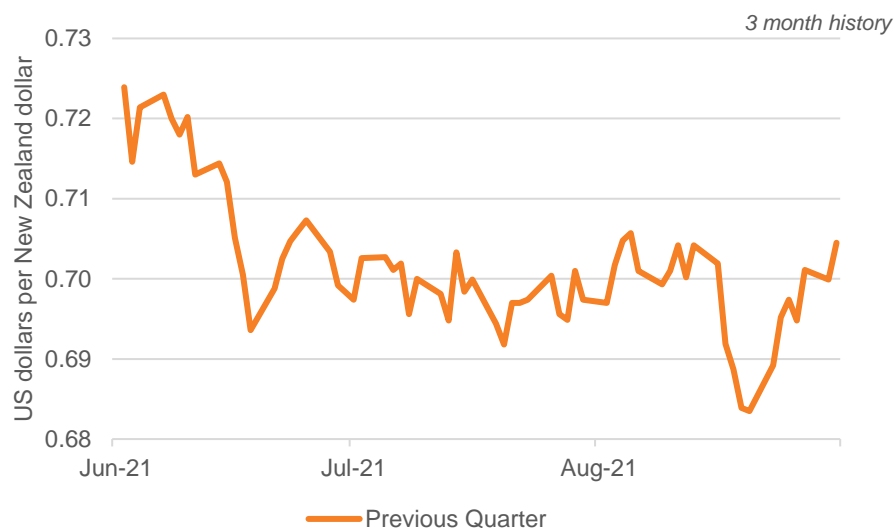
- PNC anticipates little net change in the Australian dollar over the next few quarters, while the consensus forecast expects a slight appreciation of the currency.
- If Australia's economic fundamentals deteriorate or China's economy weakens in the near term, the Australian dollar is likely to be weaker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

# Currency Update

## New Zealand Dollar



The New Zealand dollar depreciated in the trailing quarter as China's economic recovery slowed.



### Previous Quarter Recap

- The New Zealand dollar depreciated 2.9% in the trailing quarter.
- 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 and the Reserve Bank of New Zealand surprisingly left interest rates unchanged at the August meeting.

### Currency Outlook

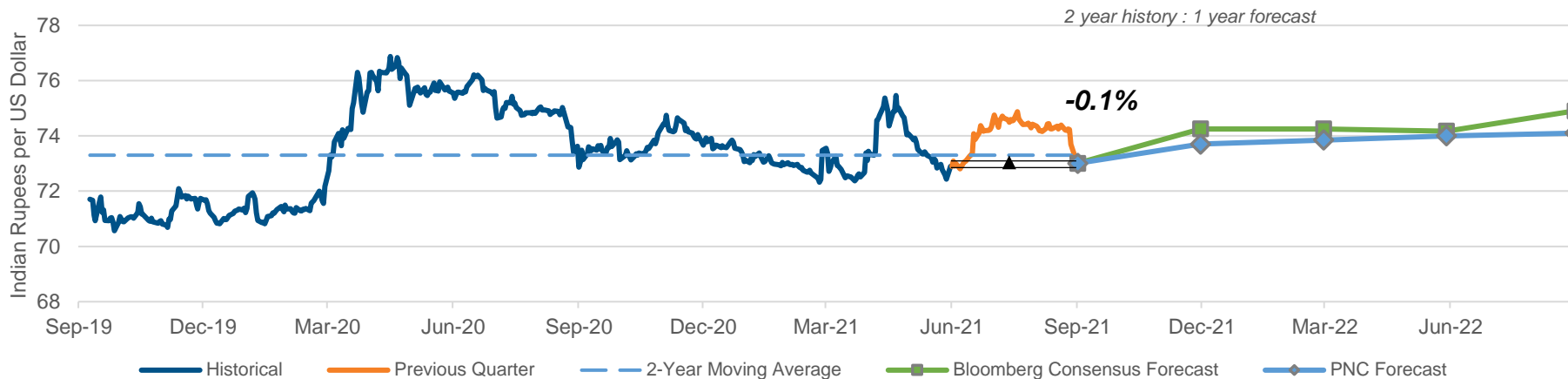
- PNC forecasts little net change in the New Zealand dollar over the next few quarters, while the consensus forecast anticipates some appreciation.
- If the vaccine rollout proceeds faster than expected, commodity prices move higher, or New Zealand's central bank lifts off quicker than markets anticipate, the New Zealand dollar is likely to be stronger than forecasted.

# Currency Update

## Indian Rupee



The Indian rupee ended the trailing quarter on a flat note despite strong equity inflows.



### Previous Quarter Recap

- The Indian rupee was roughly flat on net in the trailing quarter. The rupee fell in June and July but gained positive momentum in August amid strong equity inflows. A cautious and dovish speech by Chair Powell at the Jackson Hole monetary policy conference also supported the rupee in late August.
- The global spread of the Delta variant and China's slowing economy both weighed on the rupee in the trailing quarter.

### Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to depreciate modestly 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 a recession, the Indian rupee is likely to be weaker than forecasted.

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