

# **PNC Currency Review, May 2021**

**Prior Quarter**

**February 2021 – April 2021**

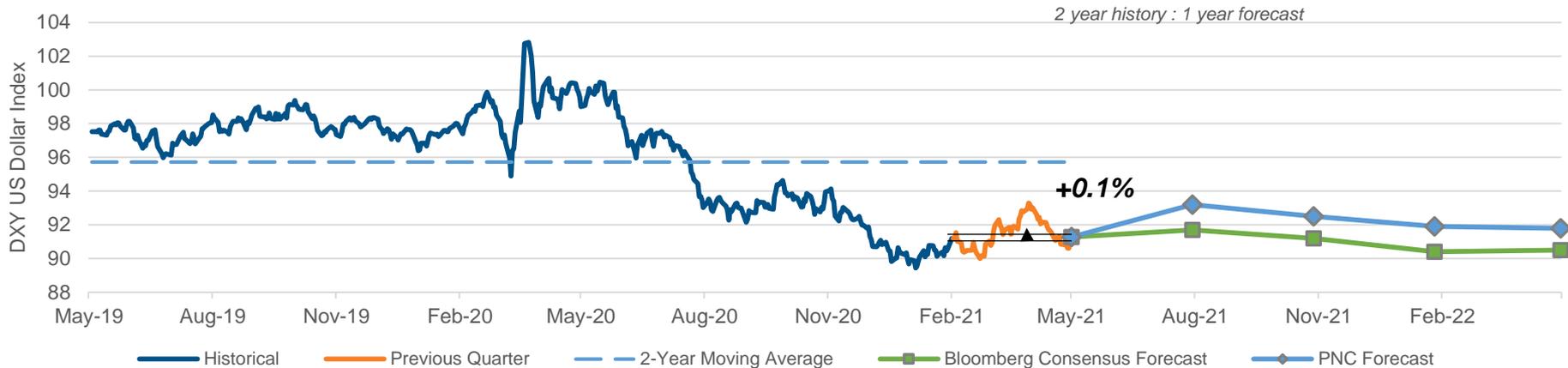


# Summary

## DXY Major Currencies Dollar Index



**The dollar was little changed in the February-to-April quarter as the economic recovery proceeded.**



### Previous Quarter Recap

- The DXY dollar index edged up 0.1% in the February-to-April quarter. It appreciated 2.5% in February and March as US vaccinations outpaced those in most foreign developed countries.
- The dollar gave back most of those gains in April as foreign vaccination campaigns ramped up. The dollar's retreat in April also reflected financial markets "buying the rumor and selling the fact" of the U.S. infrastructure plan announced in late March.

### Currency Outlook

- PNC and the consensus forecast anticipate smaller net changes in the dollar in 2021 and 2022 than in 2020.
- If the U.S. passes more fiscal stimulus 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 changed little on net in the February-to-April quarter despite the ECB increasing QE.



### Previous Quarter Recap

- The euro edged down 0.2% in the February-to-April quarter.
- It touched the highest levels since the first half of 2018 in January, then depreciated through the end of March as the European Central Bank increased asset purchases (quantitative easing) while vaccination in the U.S. outpaced the EU. The euro then recovered in April as the EU vaccination program accelerated.

### Currency Outlook

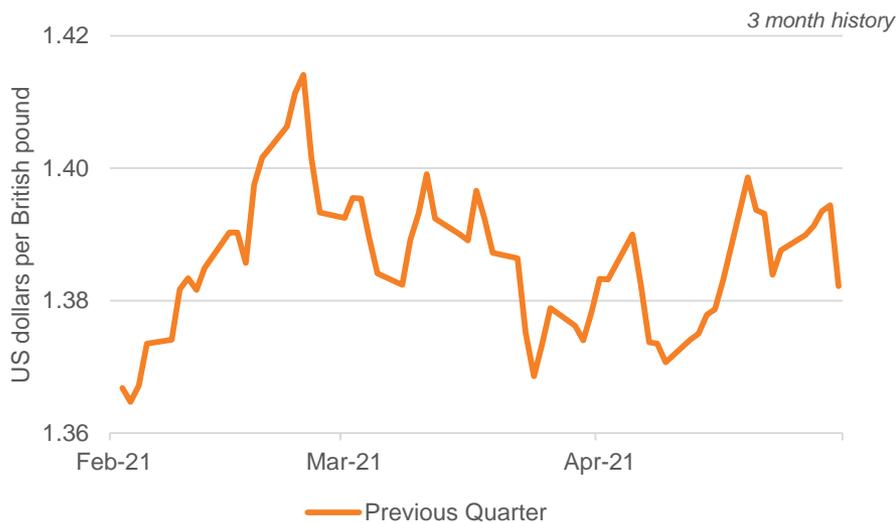
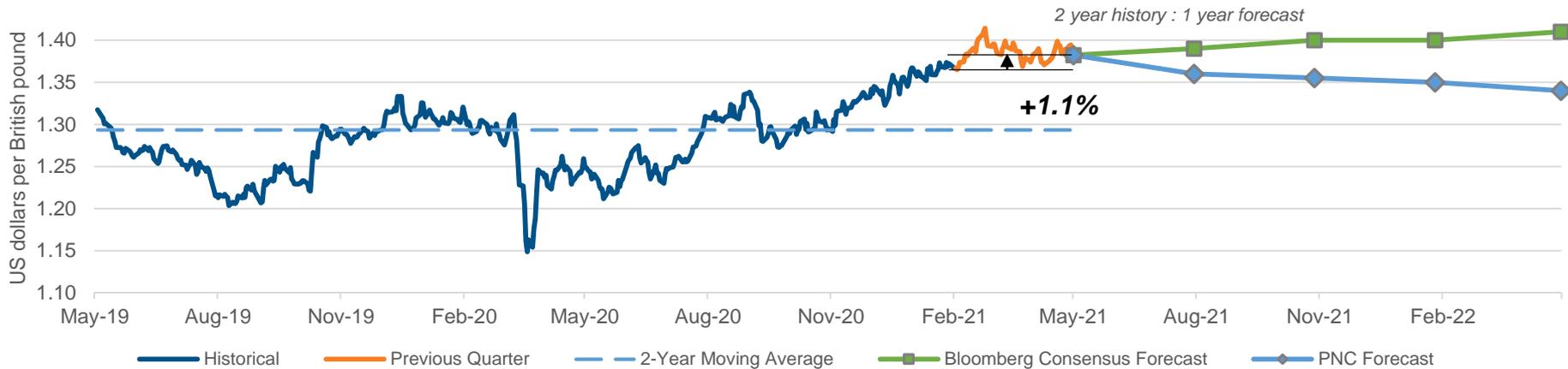
- PNC forecasts for the euro to continue to fluctuate in 2021 but to stay within its recent range; the consensus forecast likewise anticipates little trend change in 2021 or 2022.
- If there is another major global shock, either from the pandemic or an unrelated cause, the euro could be weaker than forecasted.

# Currency Update

## Great British Pound



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



### Previous Quarter Recap

- Pound sterling appreciated 1.1% in the February-to-April quarter and reached the strongest 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, boosting prospects for the recovery of the UK's service sector. This supported British real interest rates and added impetus for pound sterling's appreciation.

### Currency Outlook

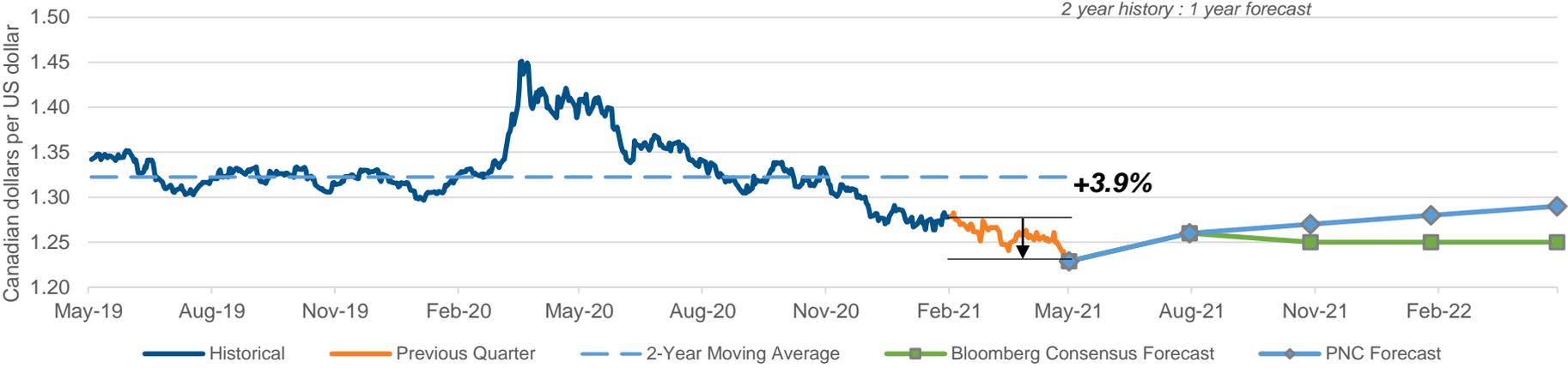
- PNC forecasts a weaker pound by the end of 2021 as markets' focus shifts from the immediate recovery to the U.K.'s medium-term growth prospects; the consensus forecasts modest further gains.
- If there is another major global shock, either from the pandemic, ongoing UK-EU economic frictions, or another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

# Currency Update

## Canadian Dollar



**The Canadian dollar appreciated in the February-to-April quarter thanks to rising crude oil prices.**



### Previous Quarter Recap

- The Canadian dollar appreciated 3.9% in the February-to-April quarter, reaching the strongest level since 2018, thanks to a faster than expected economic recovery, rising crude oil prices, the Bank of Canada’s tapering its quantitative easing program, and an improved outlook for the Canadian economy.
- The Canadian dollar appreciated 2.6% from when the Bank of Canada announced that they would taper their QE program on April 21 and the end of April.

### 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 quicker than financial markets anticipate, the Canadian dollar is likely to be stronger than forecasted.

Source: Bloomberg

# Currency Update

## Mexican Peso



The peso depreciated in the February-to-April quarter of 2021 as the global recovery advanced.



### Previous Quarter Recap

- The Mexican peso depreciated 0.5% in the February-to-April 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 into April, and the peso recovered to finish the quarter only modestly weaker.

### 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 yen depreciated in the February-to-April quarter as U.S. long-term risk-free interest rates rose.



### Previous Quarter Recap

- The yen depreciated 4.1% in the February-to-April 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. Japan's re-imposition of a state of emergency in the winter months also weighed on the value of the yen.
- The yen recovered from some of these losses in April as the rise in U.S. interest rates slowed.

### Currency Outlook

- PNC and the consensus forecast both expect for the yen to reverse some of its recent depreciation 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 was little changed in the February-to-April quarter as the global recovery proceeded.



### Previous Quarter Recap

- The renminbi edged down 0.2% in the February-to-April quarter of 2021 as both the Chinese and global economies continued to recover from the recession.
- 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 little 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 strengthened in the trailing quarter thanks to rising commodity prices.



### Previous Quarter Recap

- The Australian dollar touched 79 Aussie cents per U.S. dollar in the February-to-April quarter, the strongest level since 2018, and gained 1.4% on net in the quarter.
- The Australian dollar reached its intra-quarter high on February 24, supported by rising commodity prices and the solid Chinese economic recovery. After that, the Australian dollar lost some steam as Chinese officials signaled they would slow credit growth.

### Currency Outlook

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

# Currency Update

## New Zealand Dollar



The NZ dollar dipped as higher commodity prices were more than offset by higher U.S. treasury yields.



### Previous Quarter Recap

- The New Zealand dollar dipped 0.4% in the February-to-April quarter after reaching the strongest level since 2017 in February.
- The New Zealand dollar was supported by rising commodity prices, and an overall improvement in risk sentiment in the trailing quarter; but these tailwinds were more than offset by rising U.S. Treasury yields, and the New Zealand government announcing they would phase out tax incentives for homebuyers.

### 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 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 depreciated in the quarter as the domestic economic outlook became more uncertain.**



### Previous Quarter Recap

- The Indian rupee depreciated 1.5% in the February-to-April quarter. In late February, the rupee reached the strongest level since the pandemic began as the Indian and global economies recovered.
- The rupee then depreciated sharply in March and April as the pandemic worsened in India, the domestic economic outlook weakened, oil prices rose, and the Reserve Bank of India launched a new quantitative easing program.

### Currency Outlook

- PNC and the consensus forecast both anticipate for the Indian rupee to recover somewhat over the next few quarters.
- 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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