

PNC Currency Review, August 2022

Prior Quarter

May 2022 – July 2022

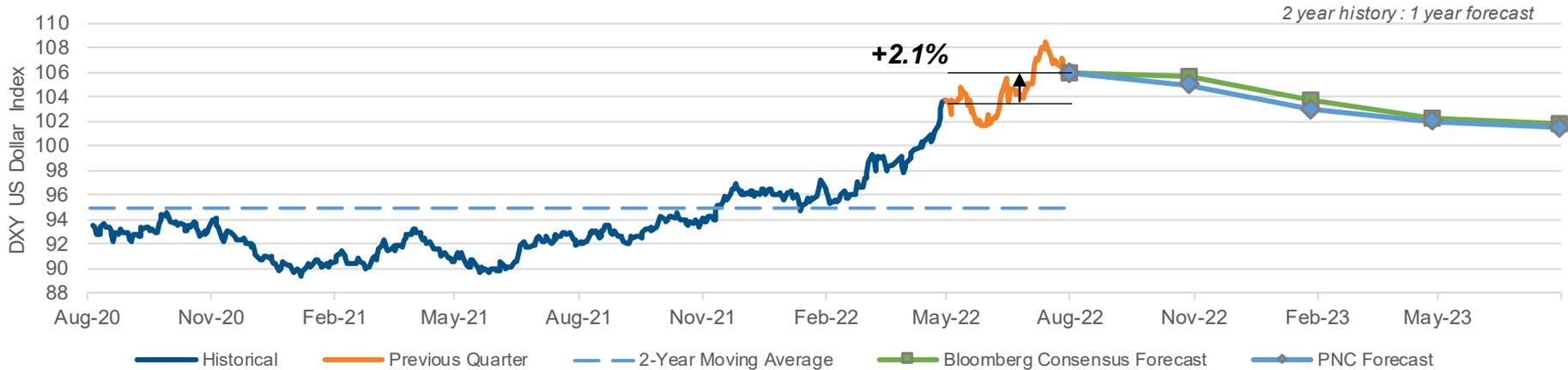


Summary

DXY Major Currencies Dollar Index



The US dollar index reached a new 20-year high in July.



Previous Quarter Recap

- The DXY dollar index appreciated 2.1% in the trailing quarter, hitting a new twenty-year high in July.
- An aggressive rate hike by the Fed, expectations for further hikes, a cloudier global economic outlook, and a negatively surprising inflation release contributed to the dollar's strength.
- The FOMC raised the fed funds rate by 75 basis points for the second straight month at its meeting on July 26-27.

Currency Outlook

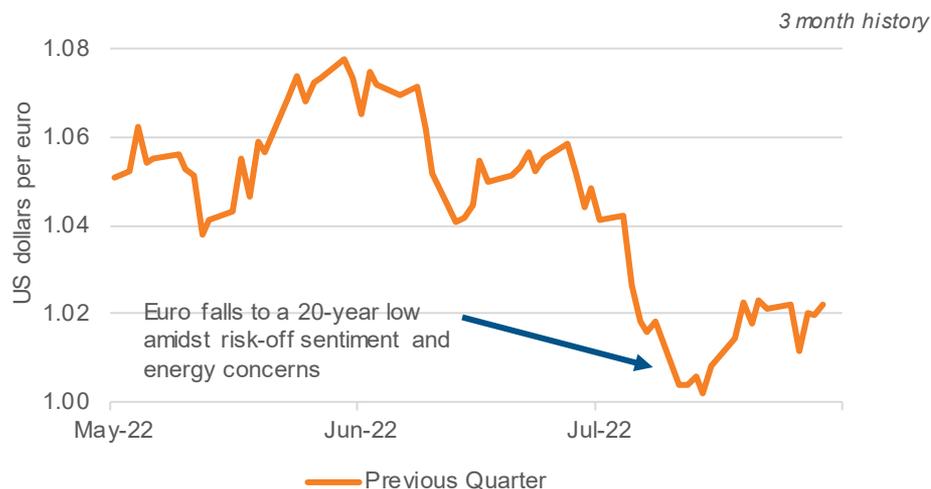
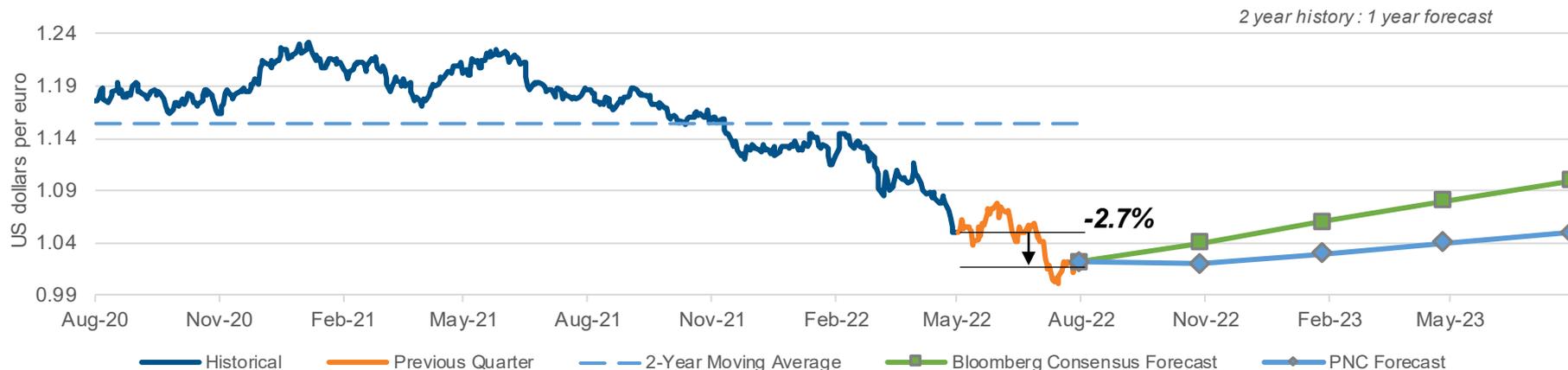
- PNC and the consensus both anticipate a depreciation of the dollar over the forecast horizon.
- If the Russia-Ukraine crisis drags on longer than expected, the dollar will likely be stronger than forecasted.

Currency Update

Euro



The euro depreciated to a twenty-year low against the dollar in July.



Previous Quarter Recap

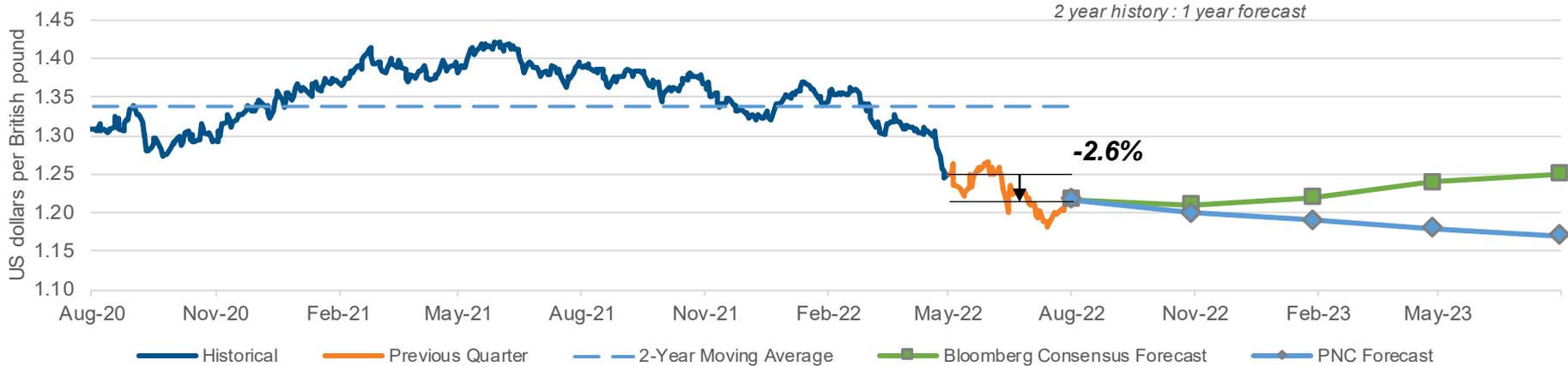
- The euro hit parity with the dollar in mid-July, dropping to the lowest level in twenty years.
- The euro depreciated a net 2.7% in the trailing quarter. Geopolitical tensions, energy security issues, and aggressive monetary policy tightening by the Fed weighed on the euro.
- The ECB raised its three key policy rates by a larger-than-expected 50 basis points on July 21.

Currency Outlook

- PNC expects the euro to appreciate over the forecast horizon as the ECB raises interest rates aggressively, while the consensus sees a stronger recovery.
- If the Russia-Ukraine crisis escalates or spills over Ukraine's borders, the euro could be weaker than forecasted.



The British pound hit a two-year low against the dollar in July



Previous Quarter Recap

- The pound depreciated to the lowest level since 2020 in mid-July before gaining some strength at the end of the trailing quarter.
- Pound sterling depreciated 2.6% on net in the trailing quarter. Timid Bank of England rate hikes, a challenging domestic political environment, and weaker economic fundamentals contributed to the pound's weakness.

Currency Outlook

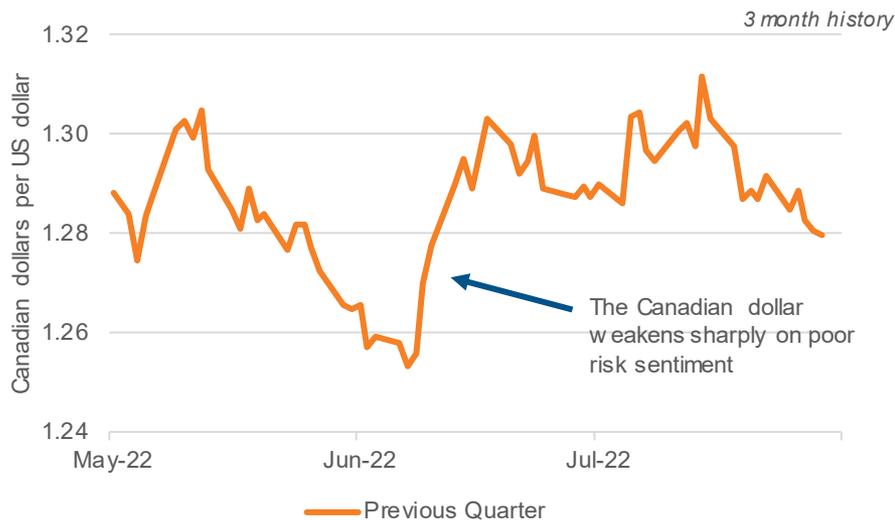
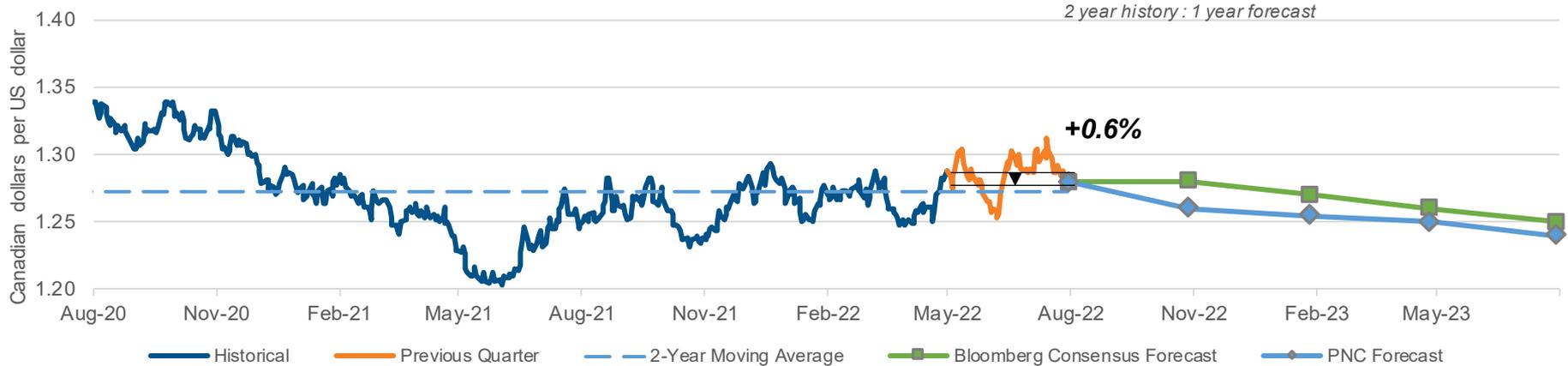
- PNC expects further depreciation of the pound as the Fed continues to normalize U.S. monetary policy; the consensus forecast sees some appreciation.
- If the Russia-Ukraine crisis drags further or the Fed hikes more aggressively than market expectations, the pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar appreciated 0.6% on net in the trailing quarter.



Previous Quarter Recap

- The decline in energy prices in the trailing quarter and a hawkish Fed weighed on the Canadian dollar, but that was more than offset by a hefty hike by the Bank of Canada.
- The Canadian dollar and the U.S. dollar are the two best performing major currencies this year.
- The Bank of Canada raised its policy rate by a full percentage point on July 13.

Currency Outlook

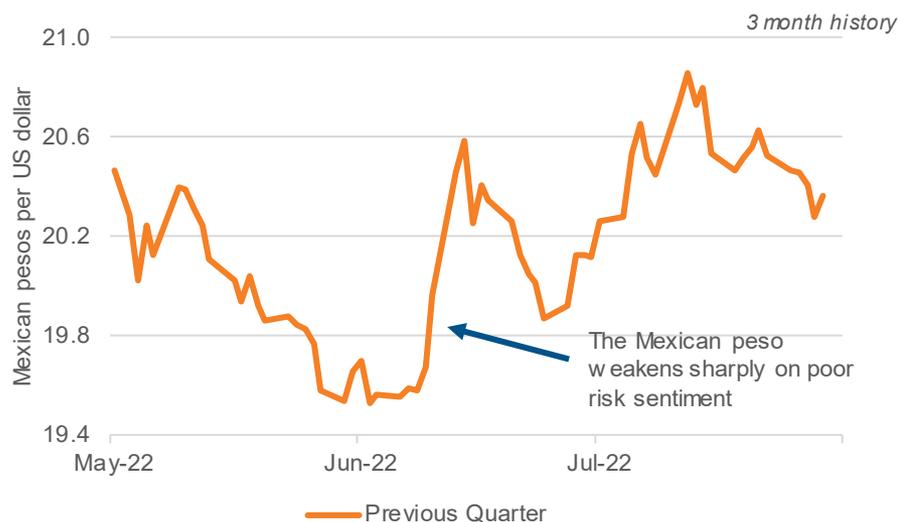
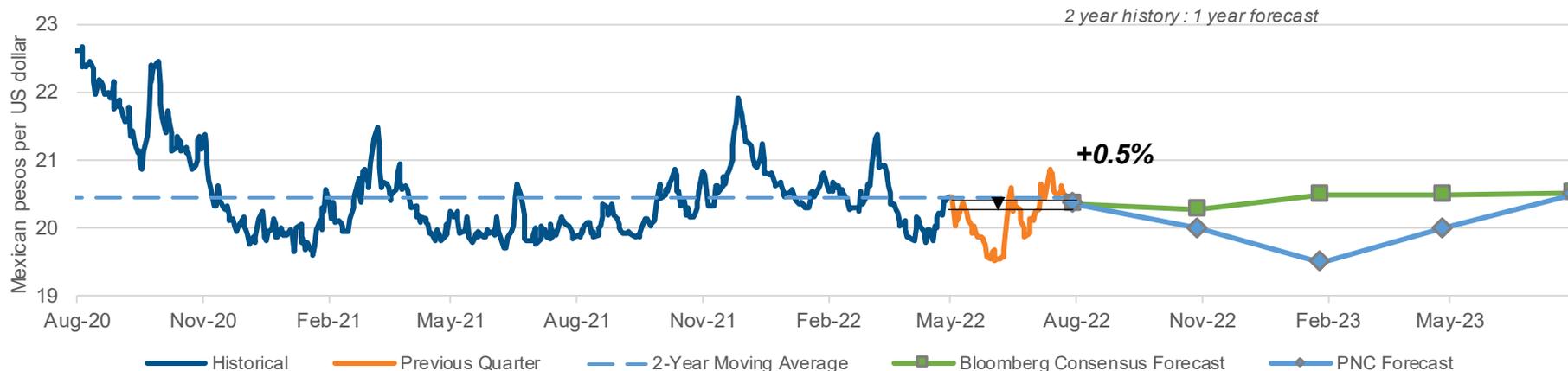
- PNC and the consensus anticipate further appreciation of the Canadian dollar over the forecast horizon.
- If the geopolitical crisis escalates, the Canadian dollar could be stronger than expected.

Currency Update

Mexican Peso



The Mexican peso strengthened 0.5% in the trailing quarter.



Previous Quarter Recap

- The peso appreciated 0.5% in the trailing quarter thanks to tight domestic fiscal policy, aggressive monetary policy and positive economic data.
- GDP grew at a stronger pace than expected in the second quarter of this year.
- The Central Bank of Mexico raised its policy rate by 75 basis points on June 23.

Currency Outlook

- PNC and the consensus forecast for the peso to remain relative unchanged over the forecast horizon.
- PNC forecasts for the Federal Reserve to raise interest rates aggressively in the next two years; this, as well as Mexico's domestic economic challenges, are downside risks to the peso.

Currency Update

Japanese Yen



The yen reached its weakest point since 1998 in July, then recovered slightly to end the quarter.



Previous Quarter Recap

- The yen dropped 2.4% in the trailing quarter, reaching its weakest level in 24 years. The yen has fallen 15% this year as aggressive positioning from the Federal Reserve has highlighted the divergence in monetary policy between the Fed and the Bank of Japan.
- Although inflation in Japan has ticked up near 2%, the Bank of Japan is still 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 during the quarter.

Currency Outlook

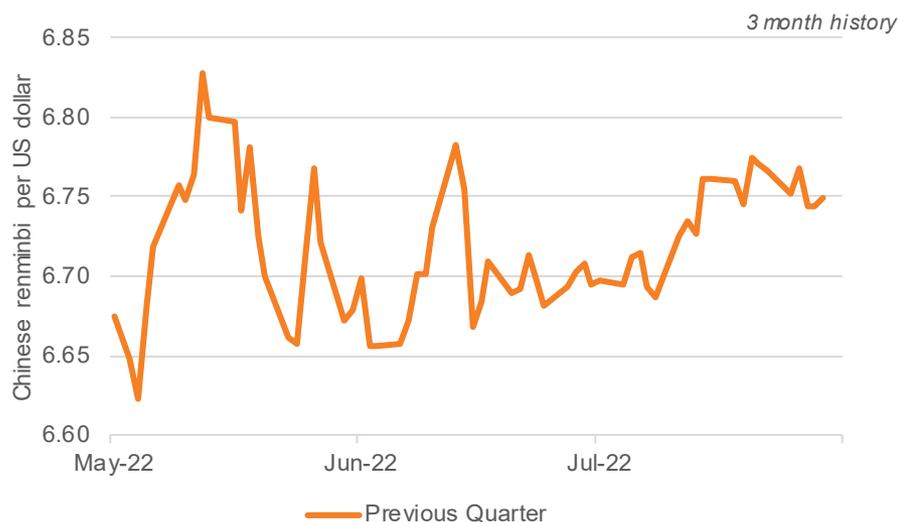
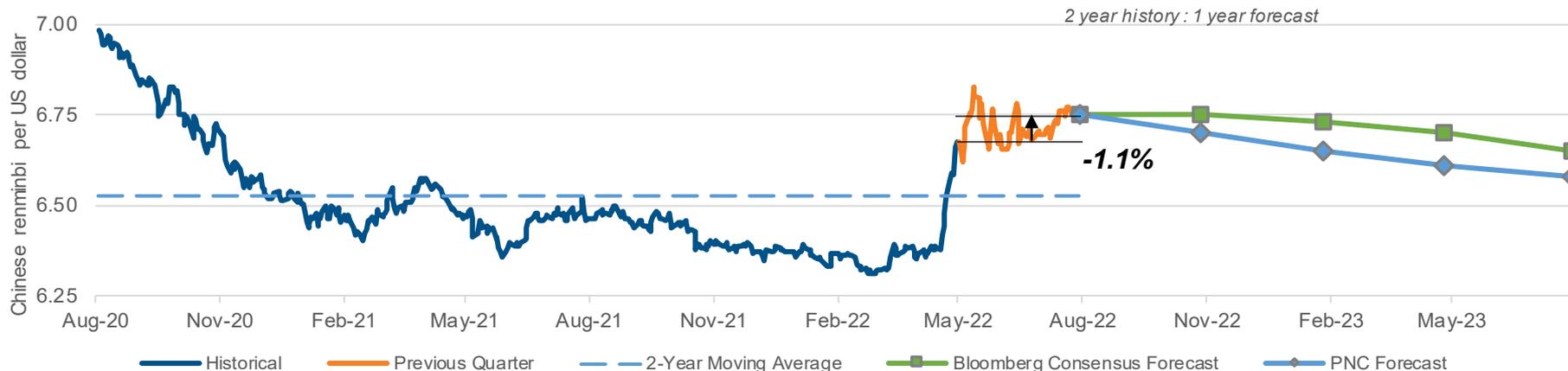
- PNC and the consensus forecast expect the yen to recover modestly in the coming quarters.
- If the U.S. recovery proceeds faster or U.S. inflation stays high for longer than forecasted, U.S. interest rates will likely surprise to the upside and the yen be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened in the last quarter as Covid lockdowns weighed on the Chinese economy.



Previous Quarter Recap

- After plummeting in late April, the renminbi continued to weaken over the past quarter, bringing its total year-to-date losses to 6.5%.
- China's "zero-Covid" policy has led to further lockdowns in the country, which is negatively impacting China's economic growth.
- China's central bank is taking a hands-off approach to the depreciating currency, as a weaker renminbi can help offset lower growth.

Currency Outlook

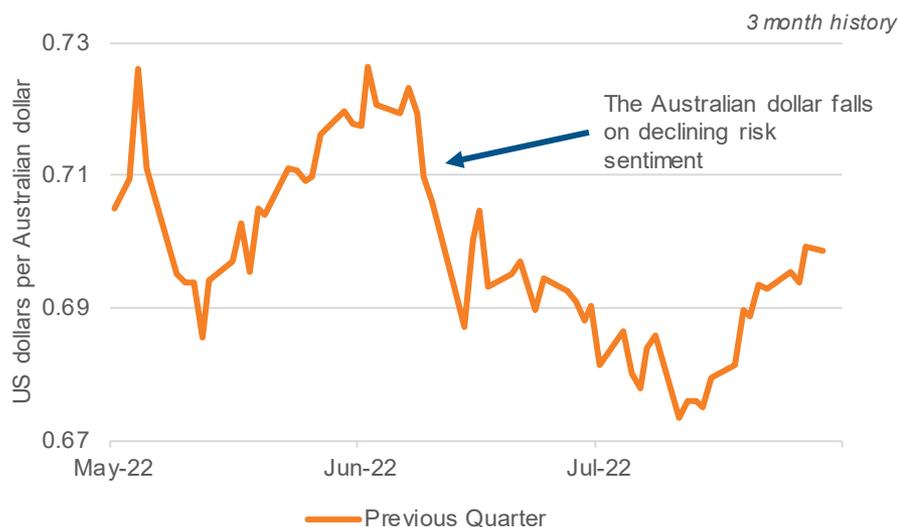
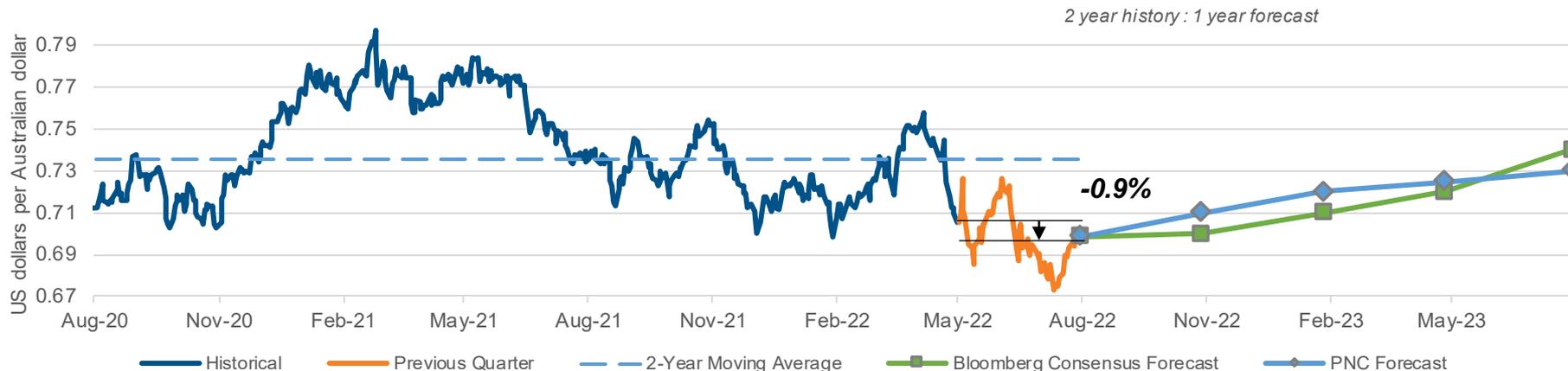
- PNC and the consensus forecast for the renminbi to modestly appreciate over the forecast horizon.
- The global economic recovery is an upside risk to the renminbi, while the tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside risks.

Currency Update

Australian Dollar



The Australian dollar had a volatile quarter but finished just 0.9% weaker on net.



Previous Quarter Recap

- The Australian dollar continued to weaken over the past quarter, reaching a two-year low in early July before recovering to end the quarter down 0.9%.
- The Australian dollar rose early in the year as surging commodity prices supported the currency; the Australian dollar then reversed course as slowing economic growth in China weighed on currencies in the region.

Currency Outlook

- PNC and the consensus both anticipate the Australian dollar to appreciate over the forecast horizon.
- If the Fed raises interest rates faster than markets anticipate, or Australian-Sino relations worsen, the Australian dollar is likely to be weaker than forecasted.

Currency Update

New Zealand Dollar



The New Zealand dollar continued to fall over the past quarter, depreciating 2.4% on net.



Previous Quarter Recap

- The New Zealand dollar continued to weaken over the past quarter, reaching a two-year low in early July before recovering to end the quarter down 2.4%.
- The New Zealand dollar rose throughout Q1 as surging commodity prices supported the currency; the New Zealand dollar then reversed course as slowing economic growth in China and broad risk-off sentiment weighed on the currency.

Currency Outlook

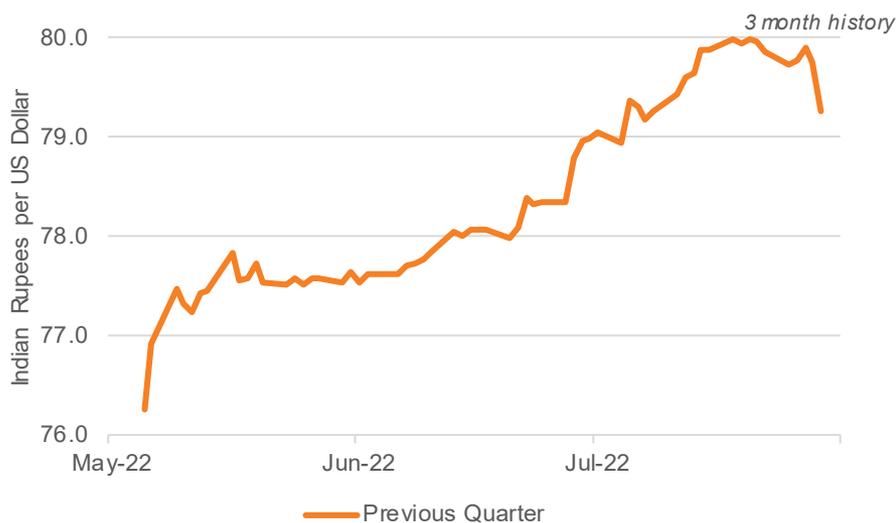
- PNC and the consensus both anticipate the New Zealand dollar to recover slightly over the forecast horizon.
- If China's economic growth slows further, or the Fed raises interest rates faster than markets anticipate, the New Zealand dollar is likely to be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee continued to fall in the past quarter, depreciating 3.6% and reaching a new all-time low.



Previous Quarter Recap

- The rupee continued to depreciate over the past quarter, falling 3.6% and setting a new all-time low amidst broad risk-off sentiment in the financial markets.
- The cloudy economic outlook for China, India's largest trading partner, contributed to a weaker rupee in the past quarter.
- High oil prices also pressured the rupee in the past quarter as India is a net-importer of oil.

Currency Outlook

- PNC and the consensus forecast both expect little net change in the rupee in the coming quarters.
- If Chinese economic data weakens, oil prices remain elevated, or the Fed raises interest rates faster than markets anticipate, the Indian rupee is likely to be weaker than forecasted.

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