

PNC Currency Review, October 2022

Prior Quarter

July 2022 – September 2022



Summary

DXY Major Currencies Dollar Index



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



Previous Quarter Recap

- The DXY dollar index appreciated 6.6% in the trailing quarter, hitting a new twenty-year high in September.
- An aggressive rate hike by the Fed, expectations for more big hikes, a cloudier global economic outlook, and increased geopolitical risks contributed to the dollar's strength.
- The FOMC raised the fed funds rate by 75 basis points for the third straight time at its meeting on September 20-21.

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 5.9% in the trailing quarter.



Previous Quarter Recap

- The euro hit parity with the dollar in mid-July, dropping to the lowest level in twenty years.
- Geopolitical tensions, energy security issues, and aggressive monetary policy tightening by the Fed weighed on the euro in the trailing quarter.
- The ECB raised its three key policy rates by 75 basis points on September 8.

Currency Outlook

- PNC expects the euro to depreciate in the near term followed by a gradual appreciation over the forecast horizon, while the consensus expects a gradual recovery.
- If the Russia-Ukraine crisis escalates or spills over Ukraine's borders, the euro could be weaker than forecasted.

Currency Update

Great British Pound



The British pound hit an all-time low in September.



Previous Quarter Recap

- The pound depreciated to the lowest level on record in September following the announcement of a “mini-budget” by the U.K. government.
- The pound then gained some positive momentum after the Bank of England restarted its large-scale bond-buying program (QE) and postponed the start date for its bond-selling program (QT).

Currency Outlook

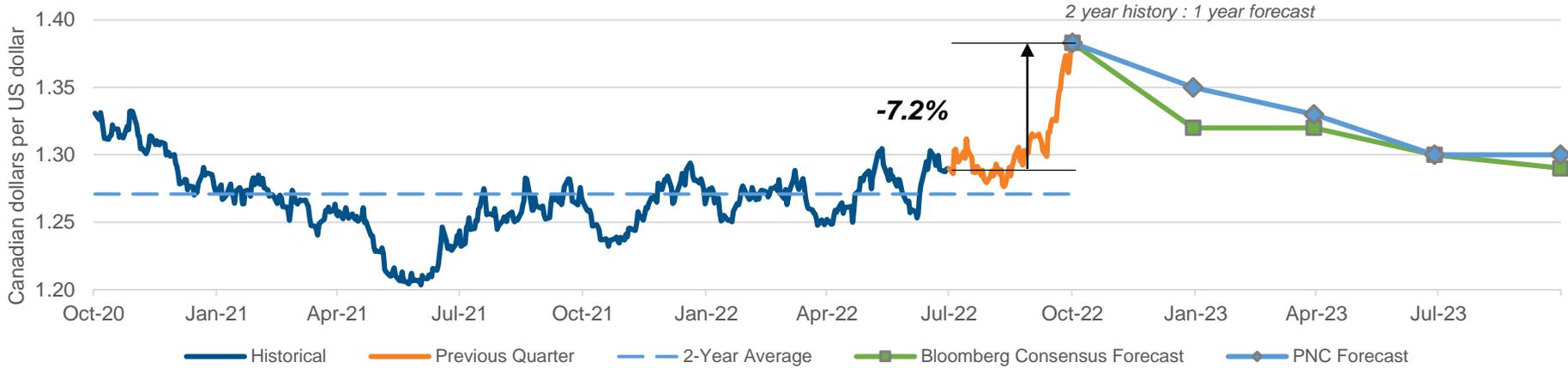
- PNC expects further depreciation of the pound as the Fed continues its hiking cycle; the consensus forecast sees some appreciation.
- If the Russia-Ukraine crisis drags further or the Fed hikes more aggressively than market expectations, the pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar depreciated 7.2% on net in the trailing quarter.



Previous Quarter Recap

- The decline in energy prices in the trailing quarter and an ultra-hawkish Fed weighed on the Canadian dollar.
- 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 75 basis points on September 7.

Currency Outlook

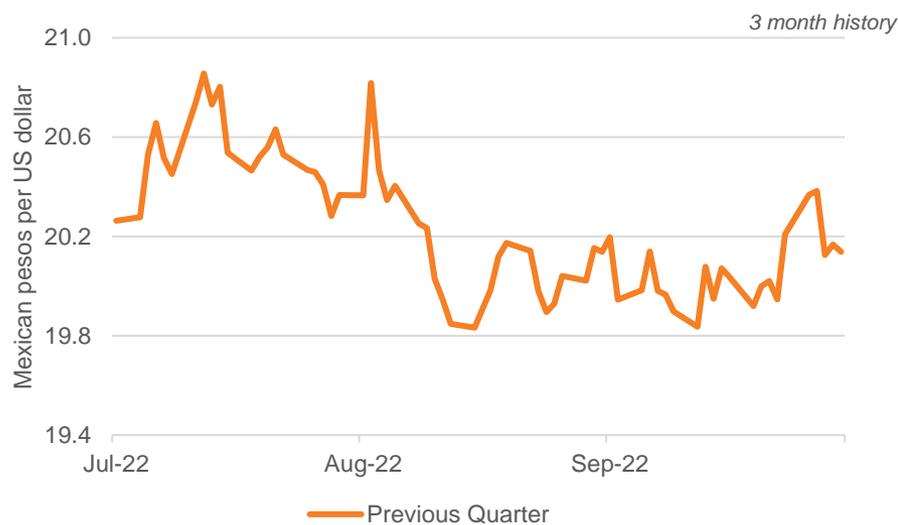
- PNC expects near-term depreciation of the Canadian dollar, followed by an appreciation next year while the consensus anticipate further appreciation of the Canadian dollar over the forecast horizon.
- If the geopolitical crisis escalates, the Canadian dollar could be stronger than expected.

Currency Update

Mexican Peso



The Mexican peso strengthened 0.6% in the trailing quarter.



Previous Quarter Recap

- The peso appreciated 0.6% in the trailing quarter thanks to tight domestic fiscal policy, aggressive monetary policy by the Bank of Mexico and positive economic data.
- The Mexican peso has remained resilient versus the dollar this year.
- The Central Bank of Mexico raised its policy rate by 75 basis points on September 29.

Currency Outlook

- PNC and the consensus forecast for the peso to remain relatively unchanged over the forecast horizon.
- A global recession and bigger-than-expected interest-rate hikes by the Fed are downside risks to the peso.

Currency Update

Japanese Yen



The yen continued to plummet in the third quarter, reaching a 30-year low.



Previous Quarter Recap

- The yen dropped 7.1% in the trailing quarter, reaching its weakest level in 30 years. The yen has fallen 25% 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 above 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 continues to fuel the yen's depreciation.

Currency Outlook

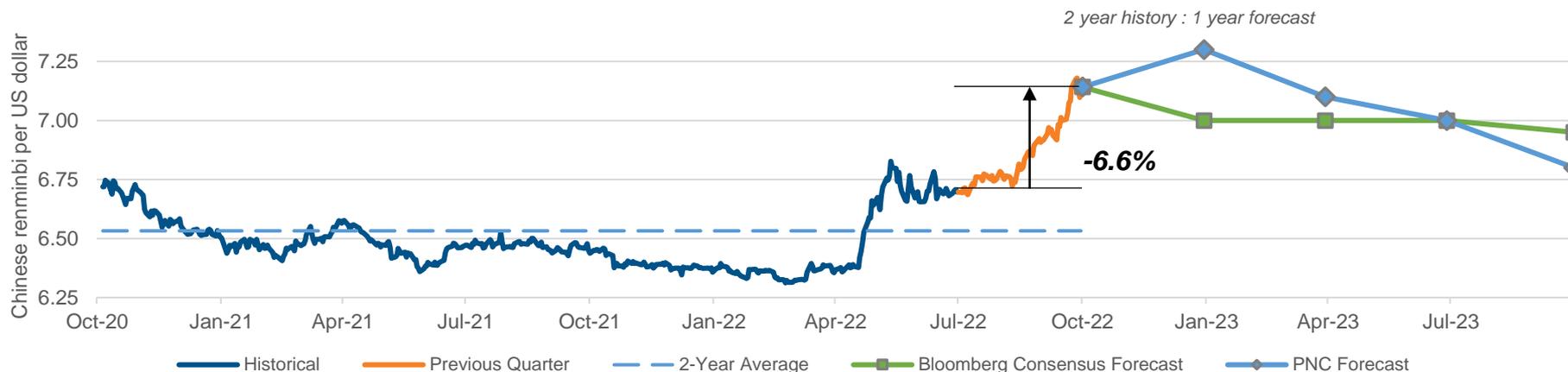
- PNC forecasts the yen to remain largely unchanged while the consensus forecast expects some appreciation.
- If U.S. inflation stays elevated for longer than forecasted, U.S. interest rates will likely surprise to the upside and the yen will be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened sharply in the last quarter amidst continued economic woes in China.



Previous Quarter Recap

- The renminbi continued to weaken over the past quarter, bringing its total year-to-date losses to 10.8%.
- Covid lockdowns and a housing market downturn continue to weigh on the Chinese economy.
- China's central bank intervened in the FX market this month, signaling its willingness to step in to stem the weakening of the currency.

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 fell 6.1% in the third quarter, with much of the depreciation seen in September.



Previous Quarter Recap

- The Australian dollar continued to weaken over the past quarter, reaching a 28-month low in September.
- The Australian dollar rose early in the year as surging commodity prices supported the currency; the Australian dollar has since reversed course as slowing economic growth in China and broad US dollar strength due to the Federal Reserve's monetary policy has weighed on the currency.

Currency Outlook

- PNC expects the Australian dollar to continue to depreciate over the forecast horizon while the consensus forecasts a recovery.
- 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 9.6% on net.



Previous Quarter Recap

- The New Zealand dollar continued to weaken in the past quarter, plummeting in September to finish the quarter 9.6% lower.
- The New Zealand dollar rose throughout Q1 as surging commodity prices supported the currency; the New Zealand dollar has since reversed course as slowing economic growth in China, broad risk-off sentiment in the market, and a strong US dollar have weighed on the currency.

Currency Outlook

- PNC expects the New Zealand dollar to continue to depreciate over the forecast horizon while the consensus forecasts a recovery.
- 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 2.9% and reaching a new all-time low.



Previous Quarter Recap

- The rupee continued to depreciate over the past quarter, falling 2.9% 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.
- Although oil prices did fall, they still sit at relatively high levels which pressured the rupee in the past quarter as India is a net-importer of oil.

Currency Outlook

- PNC expects the Indian rupee to depreciate further in the coming quarters while the consensus forecasts little net change.
- 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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