

PNC Currency Review, September 2022

Prior Quarter

June 2022 – August 2022

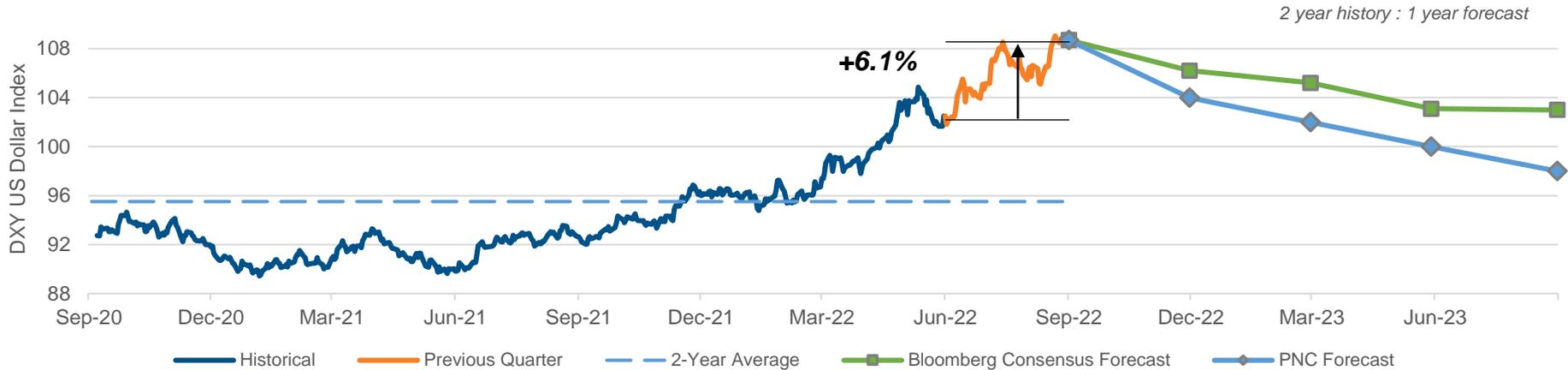


Summary

DXY Major Currencies Dollar Index



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



Previous Quarter Recap

- The DXY dollar index appreciated 6.1% in the trailing quarter, hitting a new twenty-year high in August.
- An aggressive rate hike by the Fed, expectations for further hikes and a gloomier global economic outlook 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 fresh twenty-year low against the dollar in August.



Previous Quarter Recap

- The euro fell below parity with the dollar in late August, dropping to the lowest level in twenty years.
- The euro depreciated a net 5.6% 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 depreciate further in the near term before recovering next year while the consensus anticipate an appreciation.
- 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 a fresh two-year low against the dollar in August.



Previous Quarter Recap

- The pound depreciated to the lowest level since 2020 in late August as economic fundamentals weakened.
- Pound sterling depreciated 6.9% on net in the trailing quarter. Timid Bank of England rate hikes, a challenging domestic political environment, and a weaker global outlook contributed to the pound's weakness.

Currency Outlook

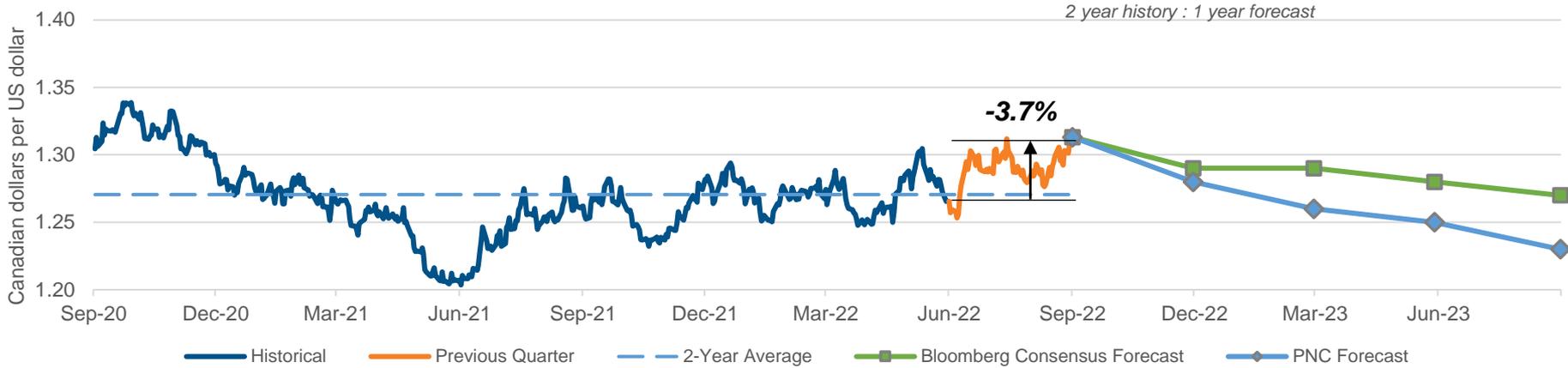
- PNC expects further depreciation of the pound as the Fed continues to normalize U.S. monetary policy; the consensus forecast sees some appreciation.
- If the Russia-Ukraine crisis drags further or the Fed hikes more aggressively than market expectations, the pound sterling would likely be weaker than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

Currency Update

Canadian Dollar



The Canadian dollar depreciated 3.7% 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.
- The Canadian dollar and the U.S. dollar are the two top-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 weaker than expected.

Source: Bloomberg

Currency Update

Mexican Peso



The Mexican peso depreciated 2.2% in the trailing quarter.



Previous Quarter Recap

- The peso depreciated 2.2% in the trailing quarter due to weaker domestic economic fundamentals and a hawkish Fed.
- The Bank of Mexico cut its growth forecast for 2023 in a report released in August.
- The Bank of Mexico raised its policy rate by 75 basis points on August 11.

Currency Outlook

- PNC and the consensus forecast a slight depreciation of the peso 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 Japanese yen continued its sharp downtrend over the past quarter.



Previous Quarter Recap

- The yen dropped 7.5% in the trailing quarter, reaching its weakest level since 1998. The yen has fallen 27% over the last year as aggressive positioning from the Federal Reserve has highlighted the divergence in monetary policy between the Fed and the Bank of Japan.
- Bank of Japan Governor Haruhiko Kuroda has indicated that the central bank will continue monetary easing, claiming that “halting the yen’s decline would take a substantial rate increase, which would end up seriously hurting the economy.”

Currency Outlook

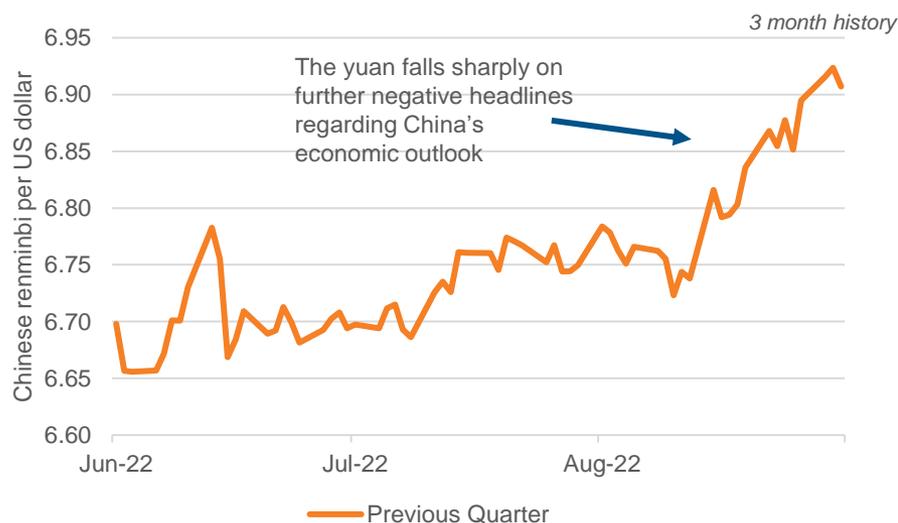
- PNC and the consensus forecast expect the yen to recover modestly in the coming quarters.
- If U.S. rates stay elevated for longer than expected, or if the Fed hikes by more than expected, the yen could weaken ever further than forecasted.

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, with the mid-to-late August's nosedive bringing its total year-to-date losses to 8.7%.
- China's "zero-Covid" policy has led to further lockdowns in the country, the most recent of which is in the "megacity" of Chengdu. The city houses 20.9 million people, making it the fourth largest city in China, and it accounts for over 1.7% of the country's GDP.

Currency Outlook

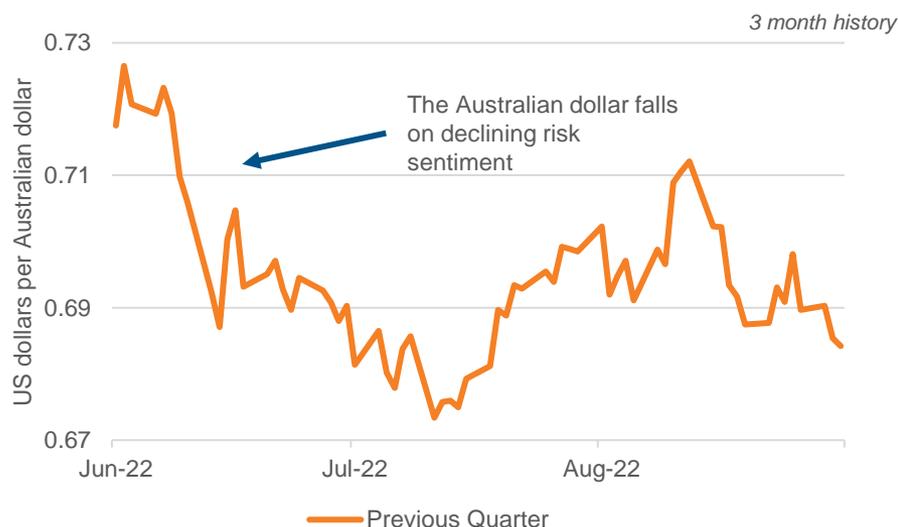
- PNC anticipates little change in the renminbi over the forecast horizon while the consensus forecast a slight appreciation.
- The global economic recovery is an upside risk to the renminbi, while the tightening of U.S. monetary policy and potential trade or geopolitical tensions are downside risks.

Currency Update

Australian Dollar



The Australian dollar had a volatile quarter, finishing 4.9% weaker on net.



Previous Quarter Recap

- The Australian dollar continued to weaken over the past quarter, reaching a two-year low in early July. The return of risk sentiment in late July / early August saw it strengthen before weakening again towards the end of the quarter.
- China's slowing economic growth and COVID lockdowns weighed on the Australian dollar, and risk off sentiment continues to push the currency lower.

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 6.0% 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 through early August and reaching new lows at the end of the quarter.
- The New Zealand dollar has traded alongside the Australian dollar, and COVID lockdowns in China and broad risk-off sentiment continued to weigh on the currency.

Currency Outlook

- PNC and the consensus both anticipate the New Zealand dollar to recover over the forecast horizon.
- If China's economic growth slows further or sees more lockdowns, 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 2.6% and reaching a new all-time low.



Previous Quarter Recap

- The rupee continued to depreciate over the past quarter, falling 2.6% and setting a new all-time low amidst broad risk-off sentiment in the financial markets.
- Lockdowns and a slowing economy in China, India's largest trading partner, contributed to a weaker rupee in the past quarter.
- The recent fall in oil prices are benefitting the country after India, a net importer of oil, was hurt by soaring oil prices.

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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