

PNC Currency Review, December 2022

Prior Quarter

October 2022 – December 2022

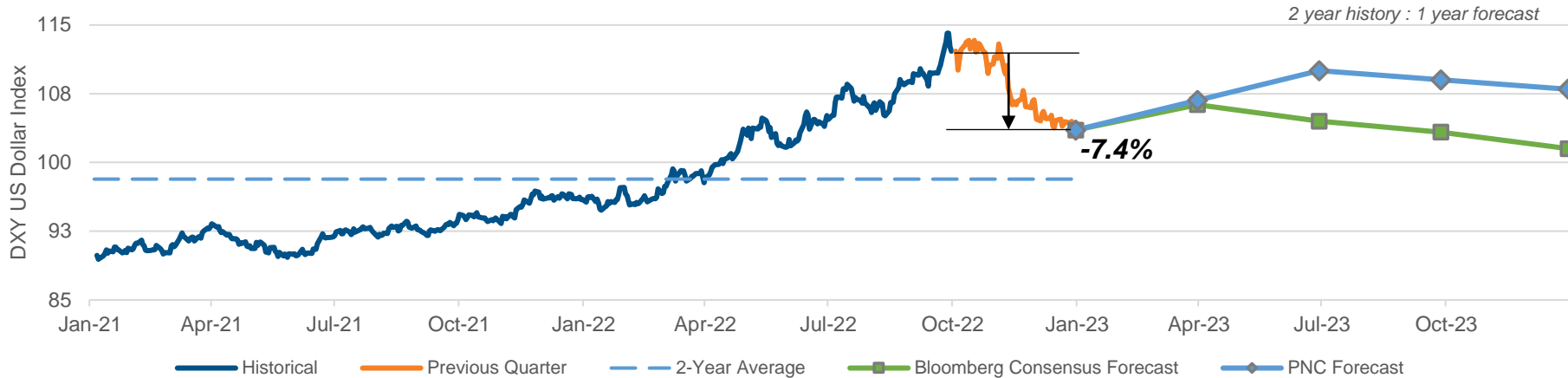


Summary

DXY Major Currencies Dollar Index



The US dollar index fell 7.4% in the trailing quarter.



Previous Quarter Recap

- The DXY dollar index fell 7.4% in the trailing quarter.
- Better-than-expected U.S. inflation data, and the easing of some COVID restrictions in China contributed to the dollar's weakness.
- The FOMC raised the fed funds rate by 50 basis points at its December 13 and 14 meeting.
- The minutes from the Fed meeting in December note that the Fed will raise the funds rate at a slower pace in 2023.

Currency Outlook

- PNC expects the dollar to appreciate while the consensus expects further depreciation of the dollar over the forecast horizon.
- If the Russia-Ukraine crisis worsens, the dollar will likely be stronger than forecasted.

Currency Update

Euro



The euro appreciated 8.9% in the trailing quarter.



Previous Quarter Recap

- The euro appreciated 8.9% in the prior quarter.
- Better-than-expected inflation data, declining energy prices, improved industrial production and solid labor market data contributed to the euro's strength.
- The ECB raised its three key policy rates by 50 basis points on December 15.

Currency Outlook

- PNC expects the euro to be slightly weaker while the consensus expects the euro to be relatively unchanged over the forecast horizon.
- If the Russia-Ukraine crisis escalates or spills over Ukraine's borders, the euro could be weaker than forecasted.

Currency Update

Great British Pound



Pound sterling appreciated 6.7% in the trailing quarter.



Previous Quarter Recap

- Pound sterling appreciated 6.7% in the trailing quarter.
- Softer-than-expected U.S. inflation data, the easing of COVID restrictions in China, and a less hawkish Fed led to dollar weakness against major currencies in the prior quarter.
- The Bank of England raised the Bank Rate by 50 basis points to 3.5% on December 15.

Currency Outlook

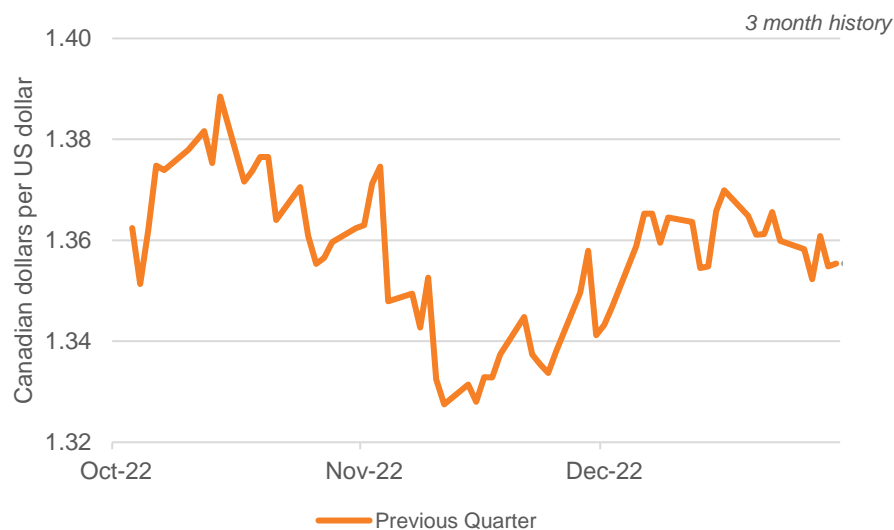
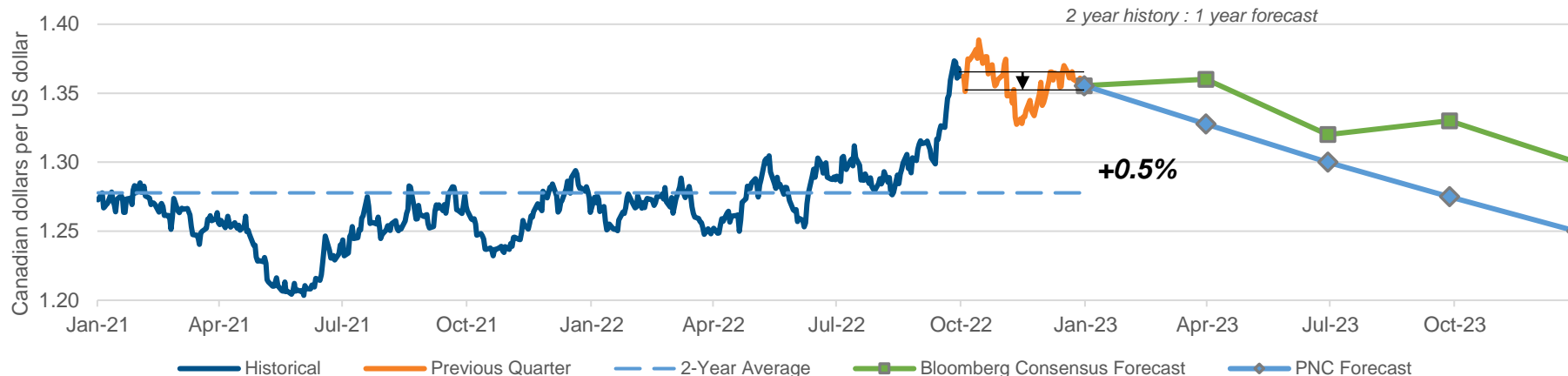
- PNC expects the pound to be slightly weaker while the consensus expects the pound to be relatively unchanged over the forecast horizon.
- If the Russia-Ukraine crisis worsens or the Fed hikes more aggressively than market expectations, the pound sterling would likely be weaker than forecasted.

Currency Update

Canadian Dollar



The Canadian dollar appreciated 0.5% on net in the trailing quarter.



Previous Quarter Recap

- The Canadian dollar strengthened 0.5% in the trailing quarter.
- The Bank of Canada raised its policy rate by 50 basis points to 4.25% at its meeting on December 7. The BOC also signaled that it may not need to raise its policy rate any further in 2023.
- Western Canadian Select, Canada's oil benchmark, was down 23.6% in the trailing quarter.

Currency Outlook

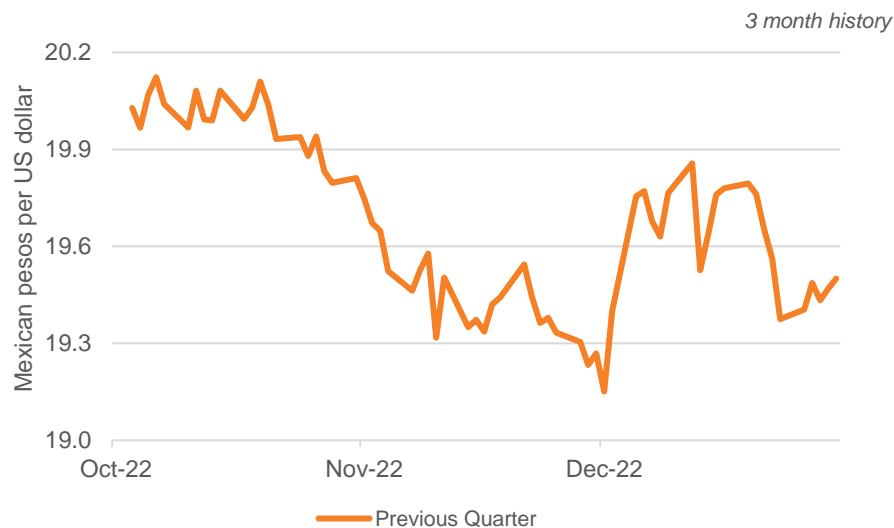
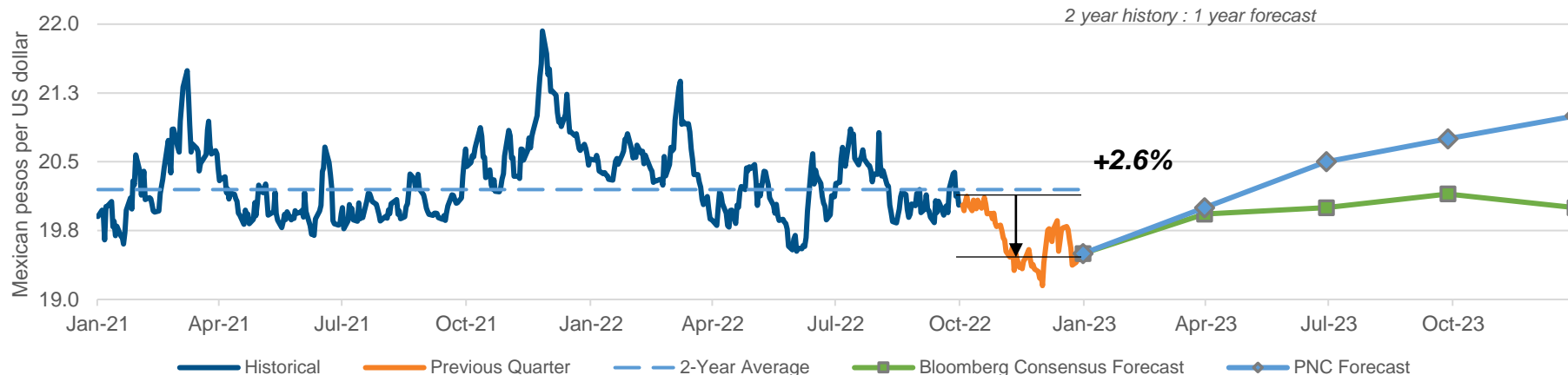
- PNC and the consensus expect an appreciation of the Canadian dollar over the forecast horizon.
- If Canada's economy tips into recession or if inflation persists in the U.S., the Canadian dollar would likely be weaker than forecasted.

Currency Update

Mexican Peso



The Mexican peso strengthened 2.6% in the trailing quarter.



Previous Quarter Recap

- The peso appreciated 2.6% in the trailing quarter thanks to weaker dollar demand.
- The Mexican peso remained resilient relative to the dollar in 2022.
- The Central Bank of Mexico raised its policy rate by 50 basis points on December 15.

Currency Outlook

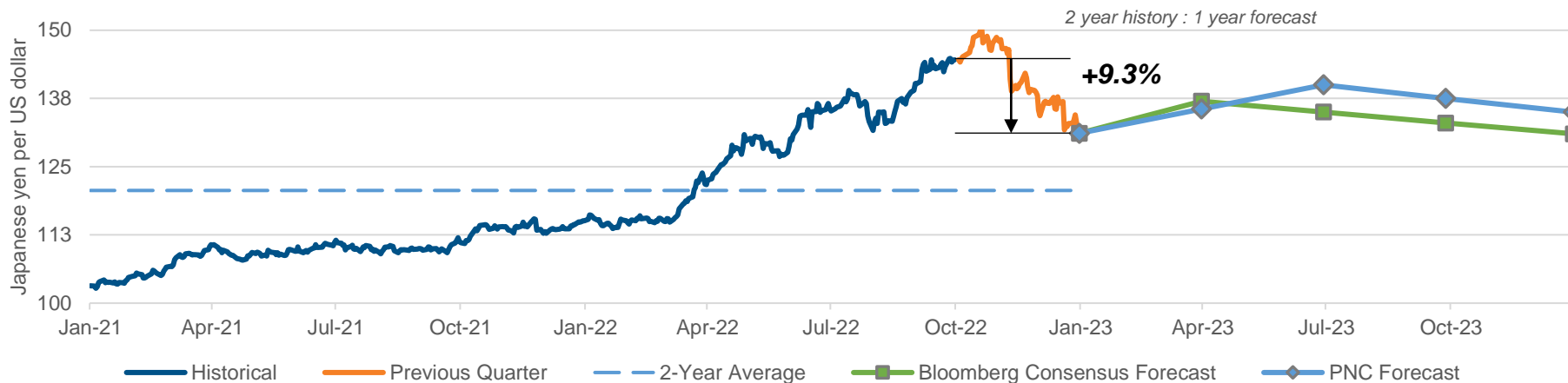
- PNC and the consensus both forecast for the peso to depreciate over the horizon.
- A global recession and bigger-than-expected interest-rate hikes by the Fed are downside risks to the peso.

Currency Update

Japanese Yen



The yen rebounded, appreciating 9.3% in the previous quarter.



Previous Quarter Recap

- After an historic freefall, the Japanese yen finally rebounded this quarter, strengthening 9.3% since October.
- The Bank of Japan announced a change to their monetary policy, bringing the upper bound for 10-year government bonds up to 0.5% from the previous limit of 0.25%.
- The BoJ intervened in markets to end the year, purchasing bonds in order to increase money supply as yields rose sharply following the surprise monetary policy change.

Currency Outlook

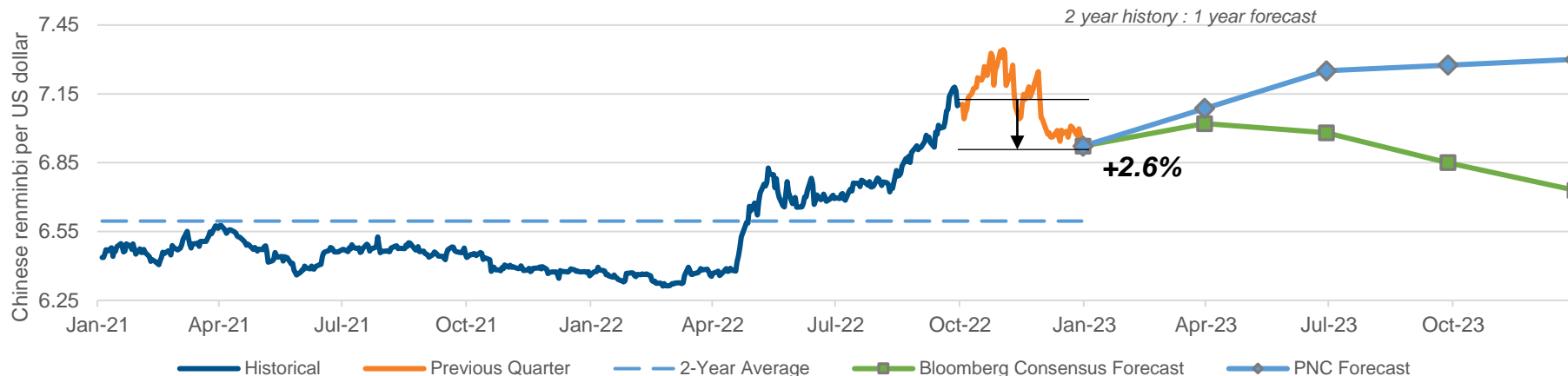
- Both PNC and the consensus expect the yen to remain mostly unchanged.
- If U.S. inflation continues to subside, and the pace of rate hikes slows, the yen could be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi strengthened over the previous quarter as COVID restrictions are lifted.



Previous Quarter Recap

- The renminbi strengthened over the previous quarter, appreciating 2.6% since October.
- China saw mass protests against the government's Covid Zero policy which hampered economic activity.
- Officials responded to social unrest by removing nearly all Covid measures, paving the way for economic reopening, and the renminbi has strengthened from an inflow of funds by foreign investors.

Currency Outlook

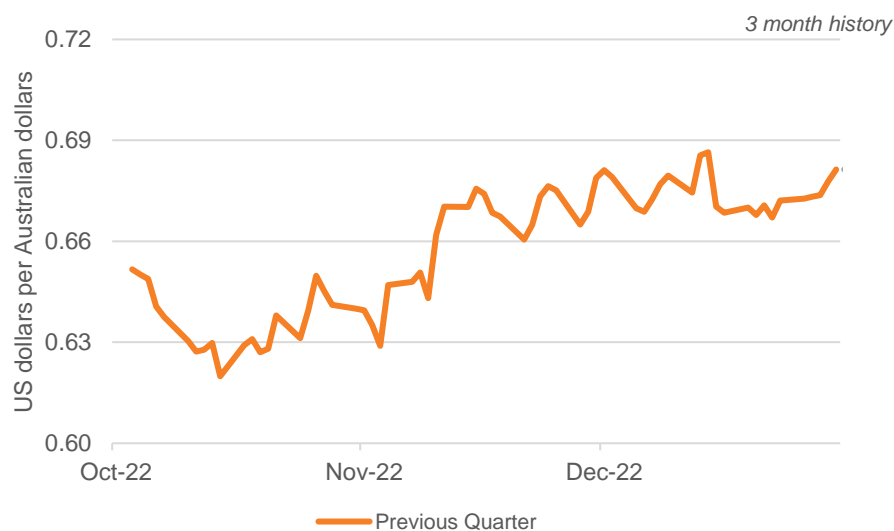
- PNC forecasts the renminbi to weaken while the consensus expects it to strengthen over the forecast horizon.
- The global economic recovery is an upside risk to the renminbi, while the tightening of U.S. monetary policy and any further domestic unrest are downside risks.

Currency Update

Australian Dollar



The Australian dollar strengthened 4.6% over the previous quarter.



Previous Quarter Recap

- The Reserve Bank of Australia ended the year with its third consecutive 25 basis point rate hike, bringing the current rate to 3.1%.
- While the pace of increase slowed to 25 basis points compared to the 50 basis points of previous hikes, RBA officials indicated that hikes will likely need to continue, setting up a path for a stronger AUD.

Currency Outlook

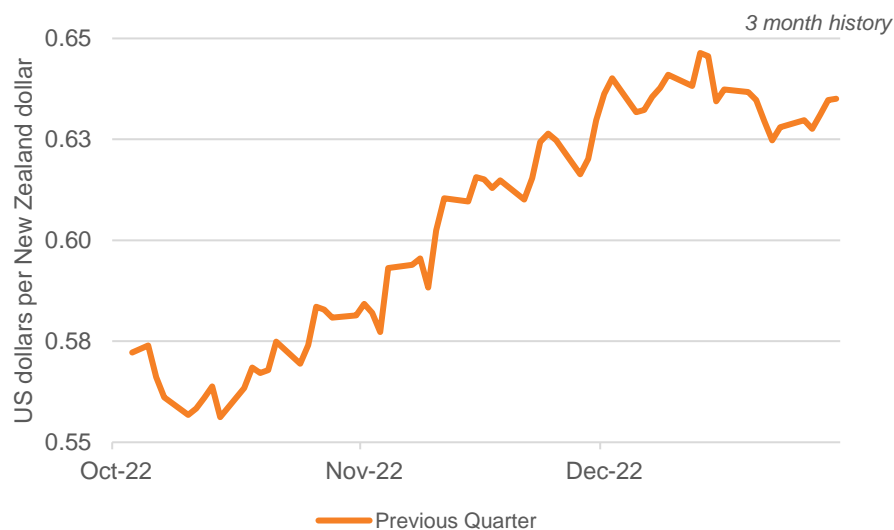
- Both PNC and the consensus anticipate the Australian dollar weakening slightly before strengthening further over the forecast horizon.
- A slower pace of rate hikes from the Fed alongside increased demand from China re-opening could cause the Australian dollar to appreciate more than expected.

Currency Update

New Zealand Dollar



The New Zealand dollar rebounded over the past quarter, appreciating 10.9% on net.



Previous Quarter Recap

- The New Zealand dollar initially plummeted to begin the quarter but then rebounded sharply in November to finish the quarter 10.9% stronger.
- The New Zealand economy grew stronger than expected in the third quarter of last year.
- Finance Minister Grant Robertson forecasts a recession in the second quarter of this year.

Currency Outlook

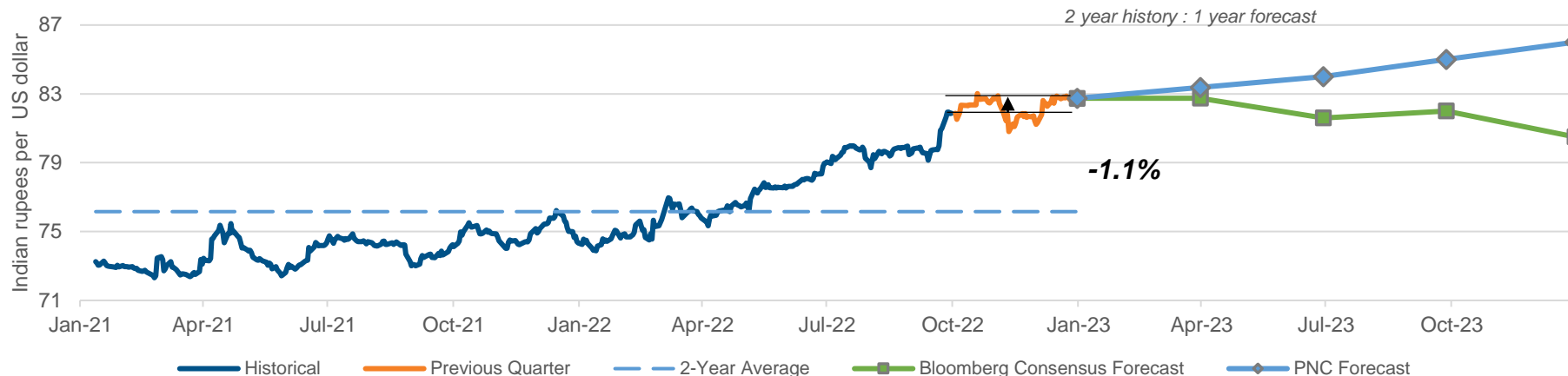
- PNC forecasts that the New Zealand dollar will appreciate over the forecast horizon, while the consensus sees weakness followed by slight appreciation.
- The Reserve Bank of New Zealand predicts that their cash rate will peak at 5.5% in 2023.

Currency Update

Indian Rupee



The Indian rupee continued to fall in the past quarter, depreciating 1.1% and reaching a new all-time low.



Previous Quarter Recap

- The Indian rupee continued to depreciate further over the past quarter, falling 1.1% and setting another new all-time low amidst broad risk-off sentiment in the financial markets.
- Indian officials announced that they would sell 300 billion rupees of bonds on December 30th, looking to restrict money supply.
- The Reserve Bank of India remains committed to reducing inflation, which moderated but is still above the 2-6% tolerance range, creating potential for further hikes.

Currency Outlook

- PNC expects the Indian rupee to depreciate further in the coming quarters while the consensus forecasts a slight appreciation.
- If the Federal Reserve slows the pace of rate hikes the rupee could be stronger than anticipated.

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