

PNC Currency Review, June 2023

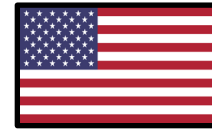
Prior Quarter

March 2023 – May 2023

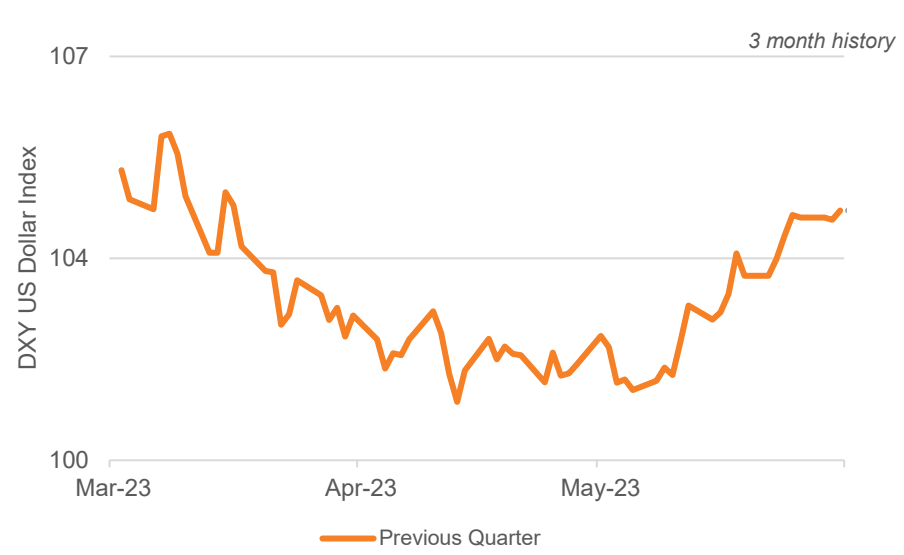
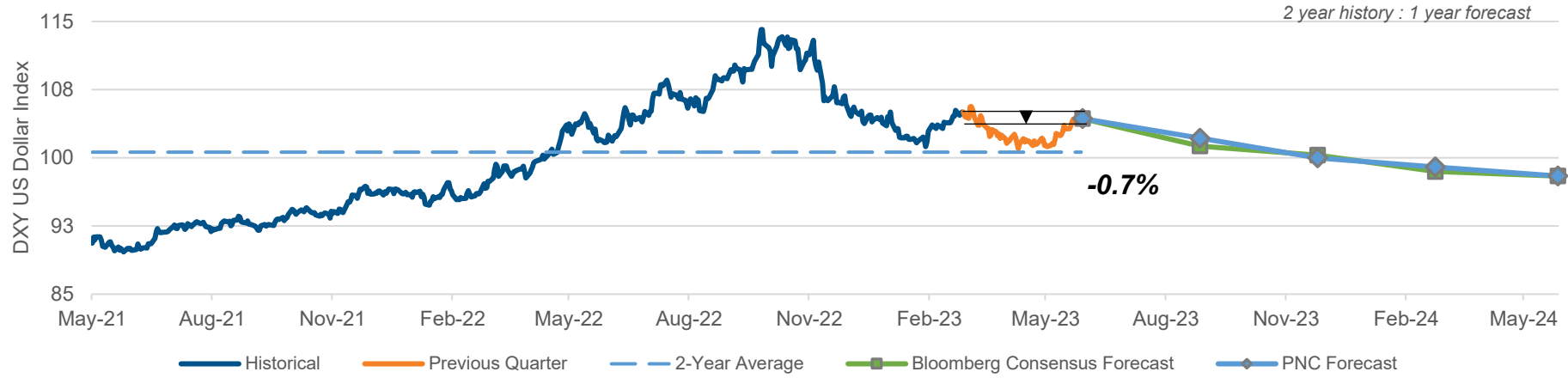


Summary

DXY Major Currencies Dollar Index



The US dollar index fell 0.7% in the trailing quarter.



Previous Quarter Recap

- The DXY index fell slightly in the prior quarter February as economic growth weakened, inflation cooled and the labor market slackened.
- The DXY index rallied at the end of the quarter as debt-ceiling tensions rose and inflation data surprised to the upside.
- The Federal Reserve raised the fed funds rate by 25 basis points to a range of 5.00% to 5.25% as expected at its meeting on May 2-3.

Currency Outlook

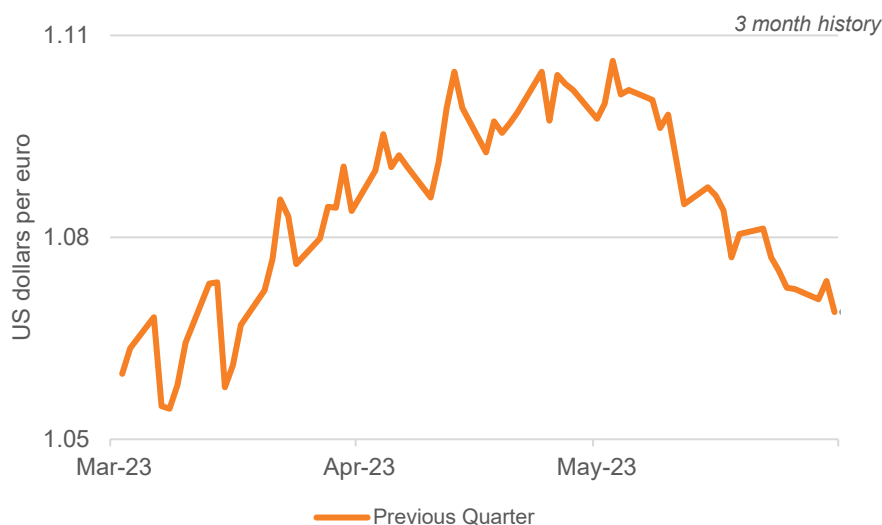
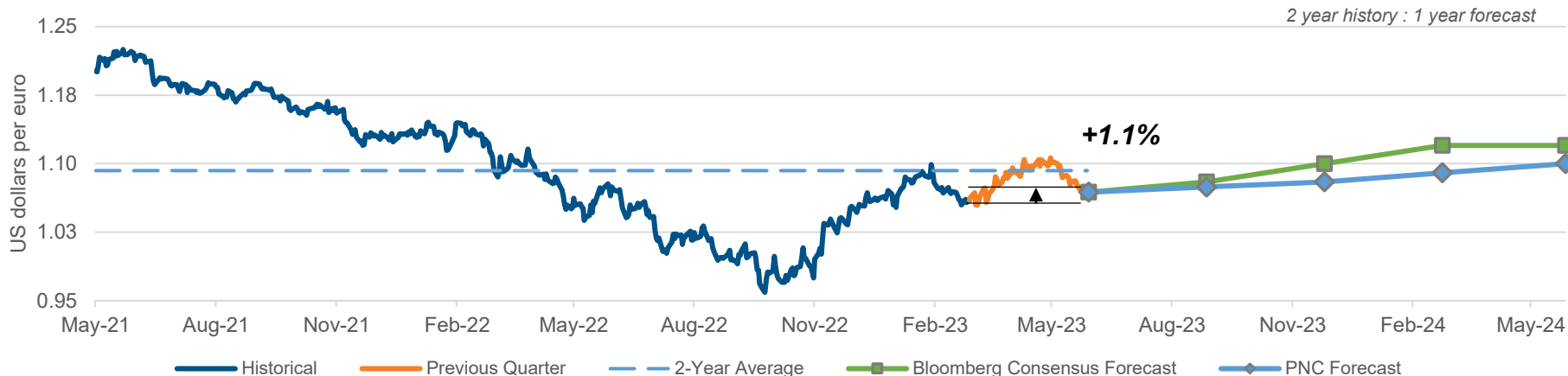
- PNC and the consensus both anticipate the U.S. dollar to depreciate slightly over the forecast horizon.
- If inflation surprises to the upside and the Fed raises the fed funds rate higher than expected, the dollar could be stronger than forecasted.

Currency Update

Euro



The euro appreciated 1.1% in the trailing quarter.



Previous Quarter Recap

- An improved eurozone economic outlook contributed to the euro's strength in the prior quarter.
- Disappointing economic data (weak first-quarter GDP growth) and tighter lending conditions suggest that the ECB will be cautious in raising its policy rates going forward.
- The European Central Bank raised its three main policy rates by 25 basis points at its May 4 meeting.

Currency Outlook

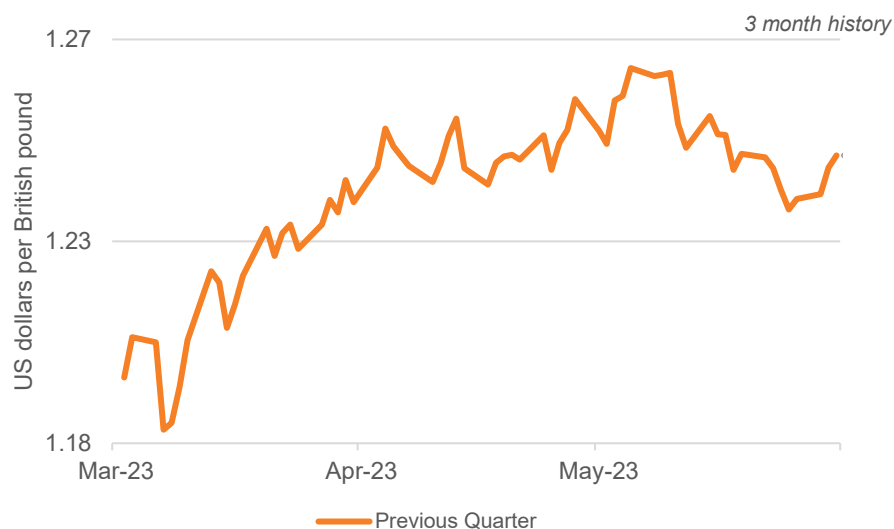
- PNC and the consensus expect the euro to strengthen slightly over the forecast horizon.
- If inflation surprises to the upside, the ECB will raise its policy rate higher than expected, which will increase demand for the euro.

Currency Update

Great British Pound



Pound sterling appreciated 3.5% in the trailing quarter.



Previous Quarter Recap

- The first estimate from the Office for National Statistics showed that the U.K. economy grew slightly in the first quarter of this year.
- Strong economic data from the prior quarter point to the Bank of England (BoE) continuing its hiking cycle on June 22.
- The BoE raised the Bank Rate by 25 basis points to 4.50% as expected at its May 11 meeting.

Currency Outlook

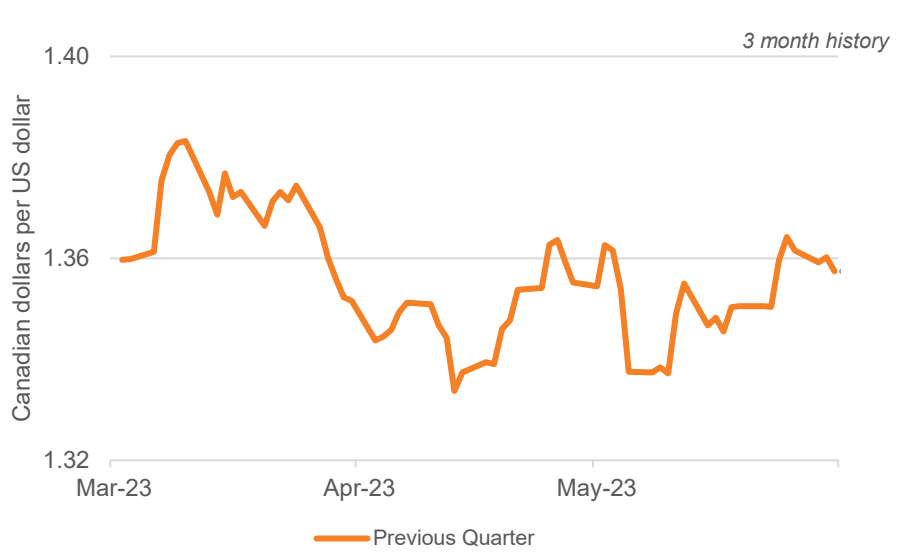
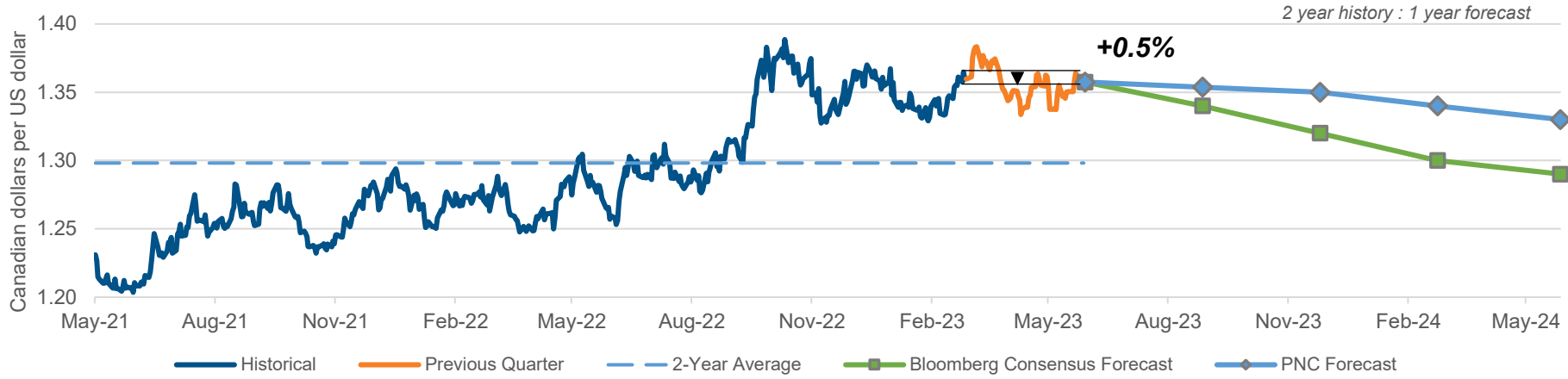
- PNC and the consensus expect the pound sterling to be relatively stable over the forecast horizon.
- Persistent inflation could lead to the BoE raising the Bank Rate higher than expected; the pound sterling would be stronger than our forecast in this scenario.

Currency Update

Canadian Dollar



The Canadian dollar strengthened 0.5% in the previous quarter.



Previous Quarter Recap

- The Bank of Canada (BoC) kept its policy rate unchanged as expected at its April 12 meeting.
- The Canadian dollar gained ground in the prior quarter after first-quarter GDP growth came in stronger than expected.
- The BoC kept its policy rate unchanged as expected at its meeting on April 12.

Currency Outlook

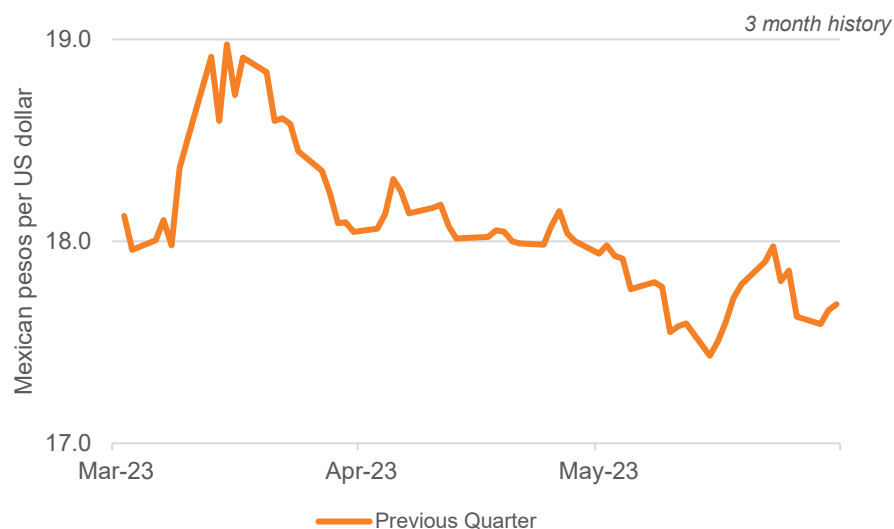
- PNC and the consensus both expect an appreciation of the Canadian dollar over the forecast horizon.
- If Canada's economy tips into recession or if inflation persists in the U.S., the Canadian dollar would likely be weaker than forecasted.

Currency Update

Mexican Peso



The Mexican peso strengthened 3.4% in the trailing quarter.



Previous Quarter Recap

- Better-than-expected U.S. economic data, elevated domestic interest rates and increased remittances drove the peso's strength last quarter.
- The Bank of Mexico kept its benchmark interest rate unchanged at its meeting on May 18.
- The increase in nearshoring for U.S. firms is positive for the peso.

Currency Outlook

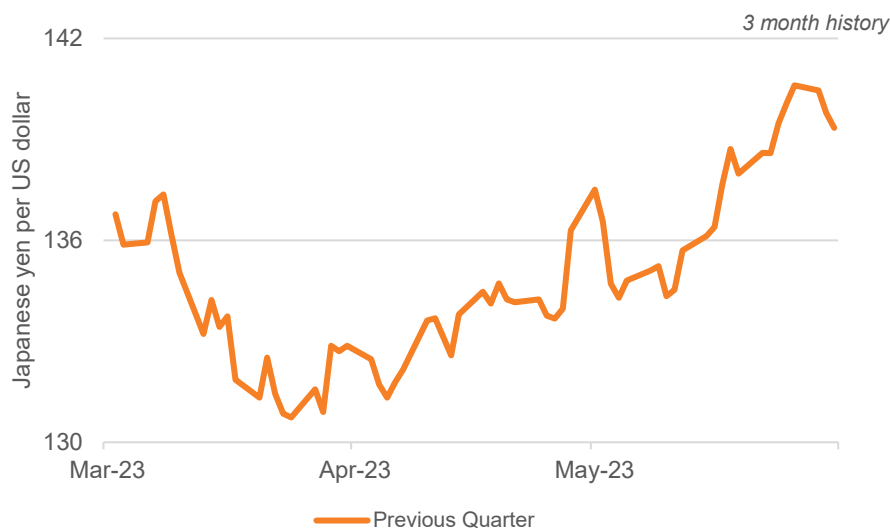
- PNC and the consensus both forecast for the peso to depreciate over the forecast horizon.
- A global recession and larger-than-expected interest-rate hikes by the Federal Reserve are downside risks to the peso.

Currency Update

Japanese Yen



The Japanese yen depreciated 2.3% in the previous quarter.



Previous Quarter Recap

- The yen slumped against the dollar in the prior quarter as the Bank of Japan (BoJ) maintained its accommodative policies while the FOMC continued its hiking cycle.
- China's economic recovery has been weaker than expected contributing to the yen's depreciation.
- Decade-high core inflation readings in Japan increased expectations for a BoJ policy change in the near future.

Currency Outlook

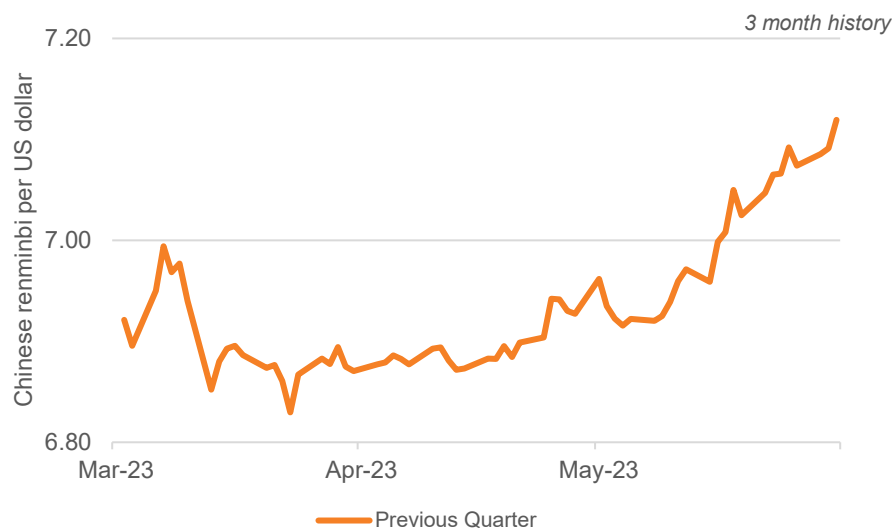
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If the Fed cuts the fed funds rate earlier than markets are currently pricing, the yen would likely be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened 2.5% in the last quarter.



Previous Quarter Recap

- The renminbi weakened in the prior quarter as elevated inflation, high interest rates and increased geopolitical tensions weighed on global trade.
- Factory activity contracted in China in May as a weak global economy continues to weigh on China's industrial sector.
- China's economic recovery has slowed in recent months and low business confidence has resulted in increased capital outflow from China.

Currency Outlook

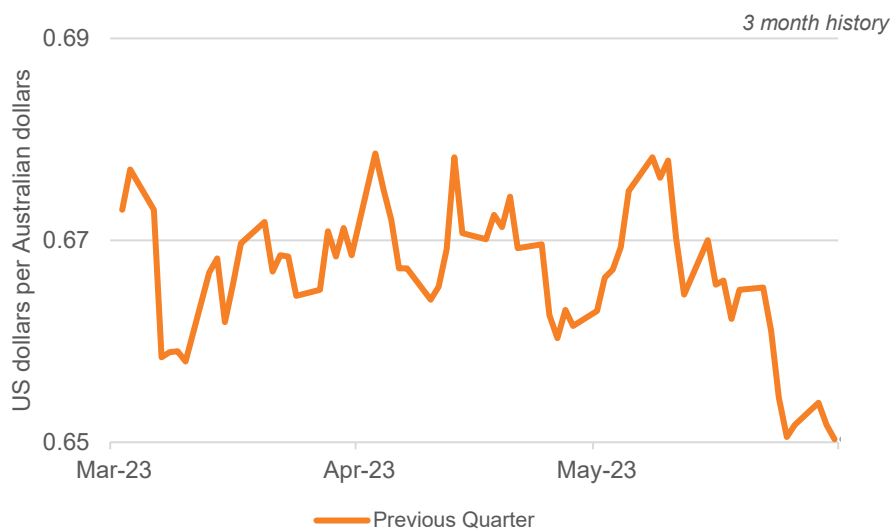
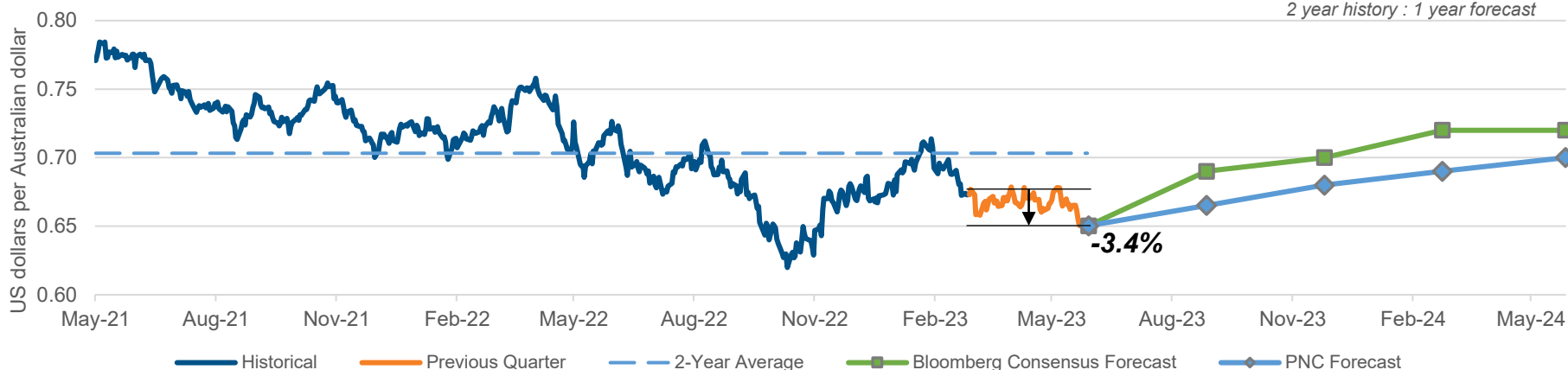
- PNC and the consensus both expect the renminbi to appreciate over the forecast horizon.
- If the Fed cuts the fed funds rate earlier than markets are currently pricing, the renminbi could be stronger than our forecast.

Currency Update

Australian Dollar



The Australian dollar weakened 3.4% in the last quarter.



Previous Quarter Recap

- The Australian dollar slumped in the prior quarter largely due to softer-than-expected Chinese economic data and a deteriorating Chinese economic outlook.
- The RBA unexpectedly raised its cash target rate by 25 basis points to 3.85% at its meeting on May 2.
- High inflation and rising interest rates continue to weigh on the Australian economy.

Currency Outlook

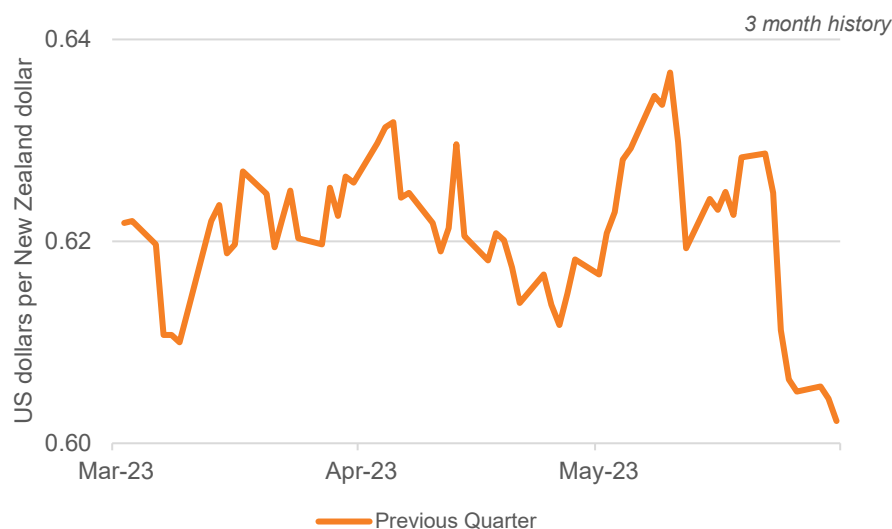
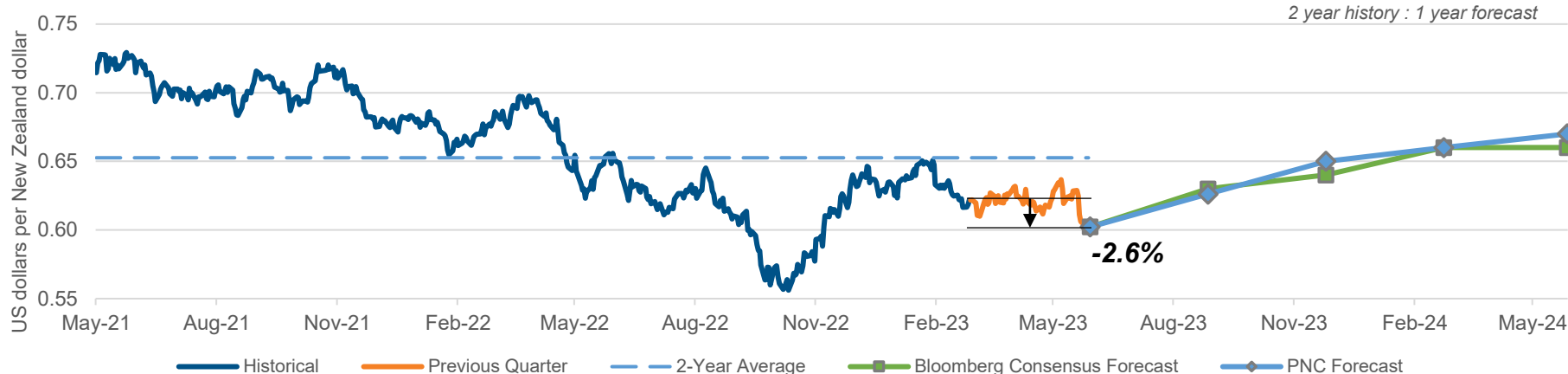
- PNC and the consensus both anticipate the Australian dollar to strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate earlier than markets are currently pricing, the Australian dollar could be stronger than our forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 2.6% last quarter.



Previous Quarter Recap

- The New Zealand dollar weakened in the prior quarter as high inflation and elevated interest rates weighed on global trade.
- The Reserve Bank of New Zealand (RBNZ) raised its official cash rate by 25 basis points to 5.50% at its meeting on May 23.
- Softer-than-expected Chinese economic data from the prior quarter also contributed to the New Zealand dollar's weakness.

Currency Outlook

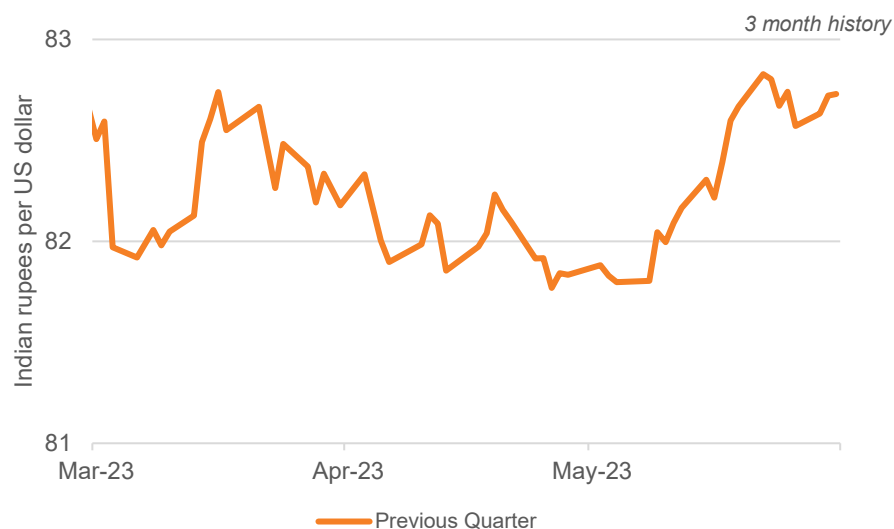
- PNC and the consensus both expect the New Zealand dollar to appreciate over the forecast horizon.
- If the Fed raises the fed funds rate higher than market expectations, the New Zealand dollar would likely be weaker than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 0.3% in the past quarter.



Previous Quarter Recap

- The Reserve Bank of India (RBI) kept its policy rate unchanged at 6.50% at its meeting on April 6.
- The Indian rupee appreciated in April thanks to positive domestic economic data but lost ground toward the end of the prior quarter as global economic growth slowed.
- Domestic economic growth surprised to the upside in the prior quarter but that was offset by a weakening Chinese economy.

Currency Outlook

- PNC and the consensus both expect the rupee to strengthen slightly over the forecast horizon.
- If the Fed cuts the fed funds rate earlier than markets are currently pricing, the rupee would likely be stronger than anticipated.

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