

# **PNC Currency Review, February 2023**

**Prior Quarter**

**December 2022 – February 2023**

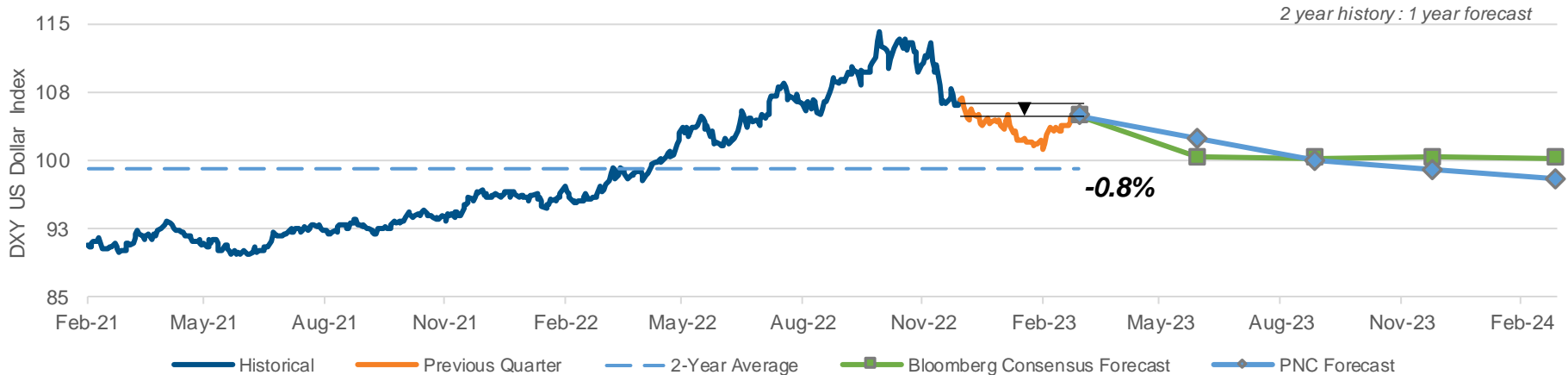


# Summary

## DXY Major Currencies Dollar Index



The US dollar index fell 0.8% in the trailing quarter.



### Previous Quarter Recap

- The DXY index weakened in December and January thanks to encouraging December inflation numbers.
- The DXY rebounded in February after a string of strong U.S. economic data releases.
- The Federal Reserve raised the fed funds rate by 25 basis points at its February meeting.

### Currency Outlook

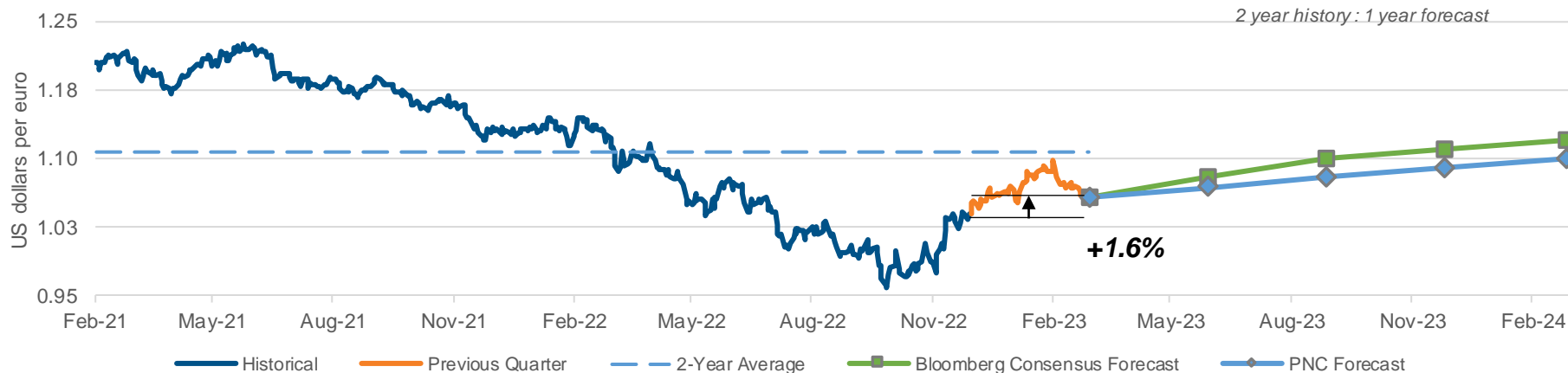
- PNC and the consensus both anticipate the U.S. dollar to depreciate slightly over the forecast horizon
- If inflation surprises to the upside and the Fed raises the fed funds rate higher than expected, the dollar will likely be stronger than forecasted.

# Currency Update

## Euro



The euro appreciated 1.6% in the trailing quarter.



### Previous Quarter Recap

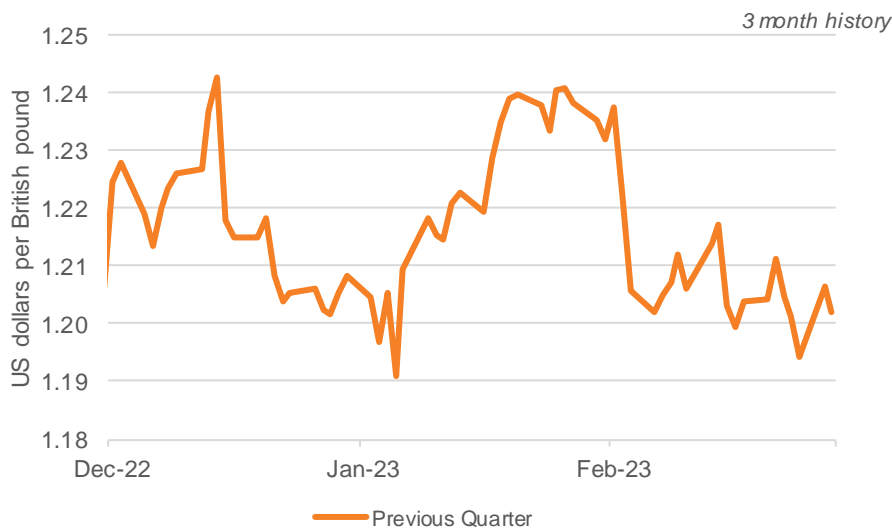
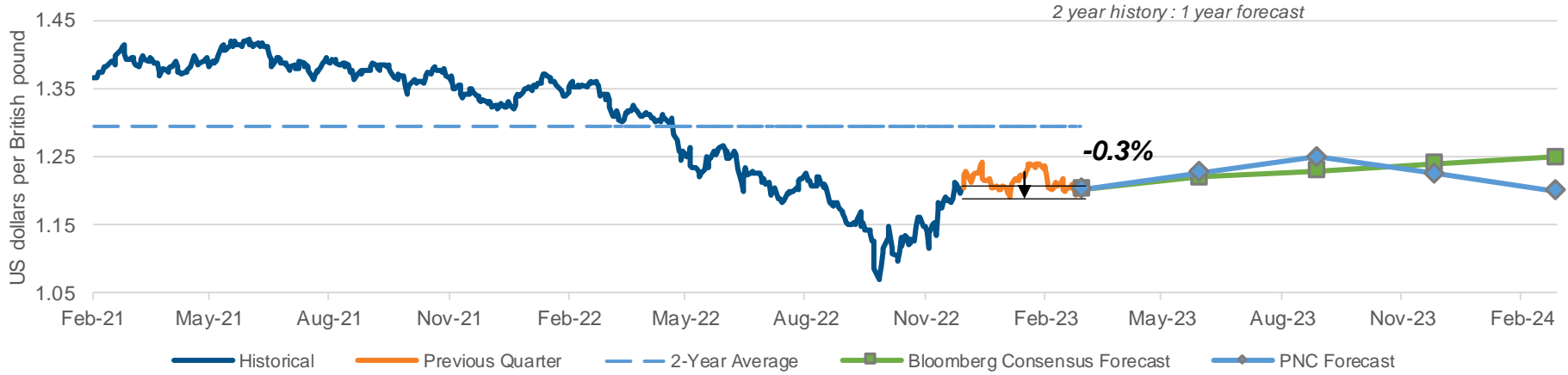
- Better-than-expected eurozone inflation data combined with an improved eurozone economic outlook contributed to the euro's strength in December and January.
- Strong U.S. economic data (non-farm payrolls, retail sales and inflation) drove the euro's weakness in February.
- The ECB raised its three main policy rates by 50 basis points in February.

### Currency Outlook

- PNC and the consensus both anticipate euro appreciation over the forecast horizon.
- If the Russia-Ukraine crisis escalates or spills over Ukraine's borders, the euro could be weaker than forecasted.



**Pound sterling depreciated 0.3% in the trailing quarter.**



### Previous Quarter Recap

- Soft domestic economic data, a weak economic outlook and increased political risks weighed on the pound sterling in the trailing quarter.
- Prime Minister Rishi Sunak struck a deal with the EU over Northern Ireland in February.
- The BOE raised the Bank Rate by 50 basis points to 4.00% at its meeting on February 2.

### Currency Outlook

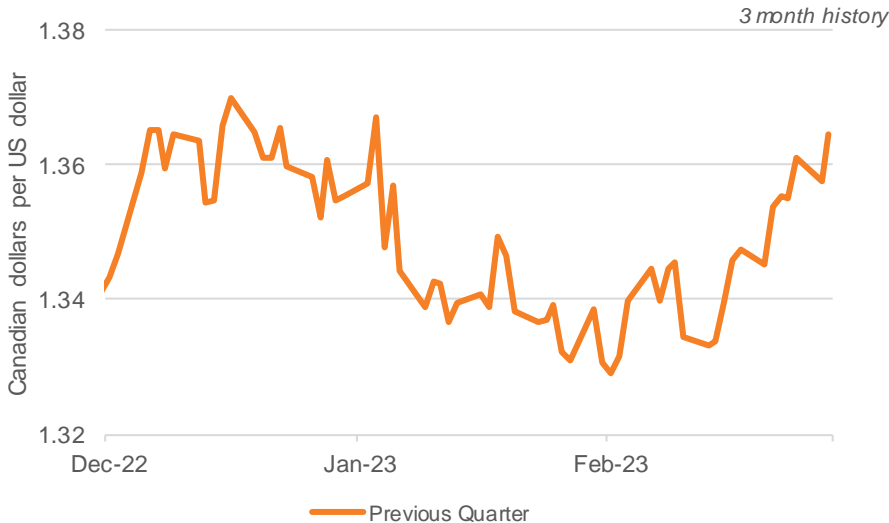
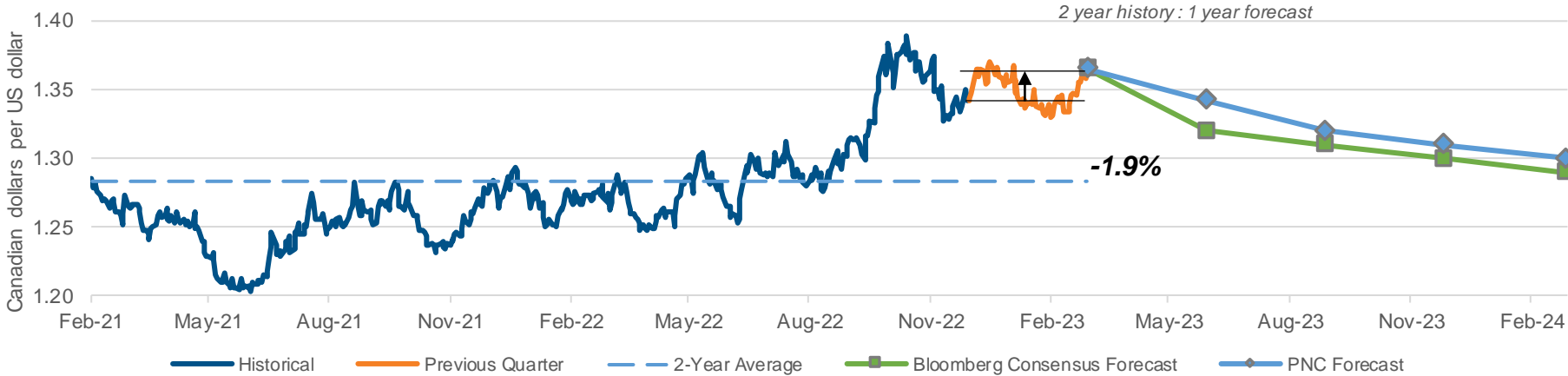
- PNC expects the pound sterling to be unchanged while the consensus expects a slight appreciation, over the forecast horizon.
- If the Russia-Ukraine crisis escalates or the Fed hikes more aggressively than markets expect, the pound sterling would likely be weaker than forecasted.

# Currency Update

## Canadian Dollar



The Canadian dollar depreciated 1.9% on net in the trailing quarter.



### Previous Quarter Recap

- The Canadian dollar depreciated 1.9% in the trailing quarter.
- The Bank of Canada (BoC) raised its policy rate by 25 basis points to 4.50% at its January 25 meeting.
- The BoC signaled a pause in tightening but noted that it is prepared to increase the policy rate further if needed to return inflation to the 2% target.

### 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.

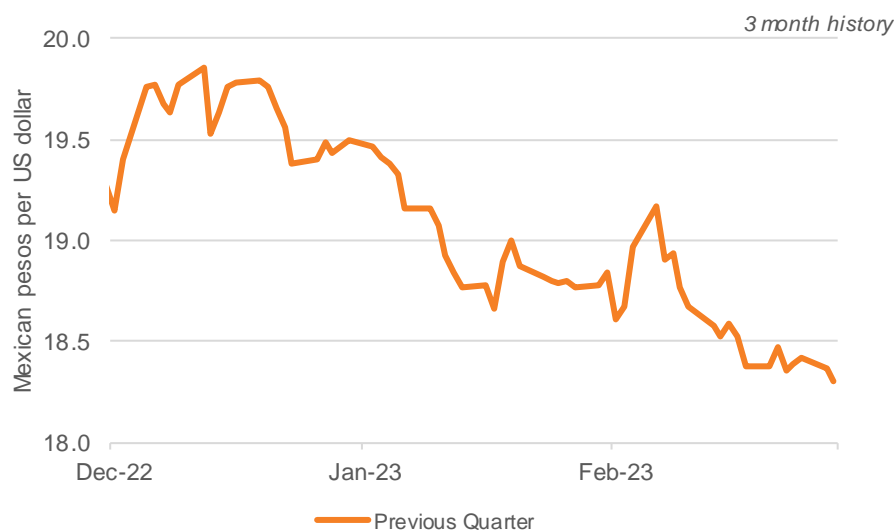
# Currency Update

## Mexican Peso



**The Mexican peso strengthened 5.5% in the trailing quarter.**

2 year history : 1 year forecast



### Previous Quarter Recap

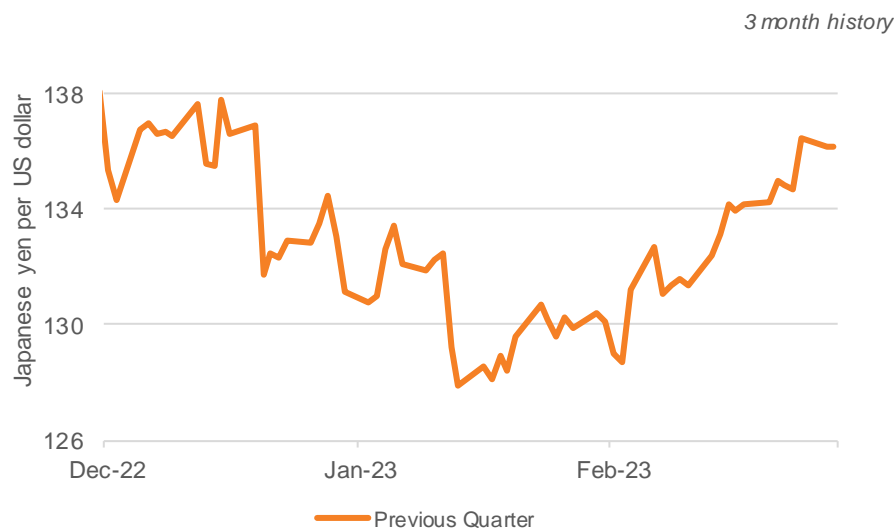
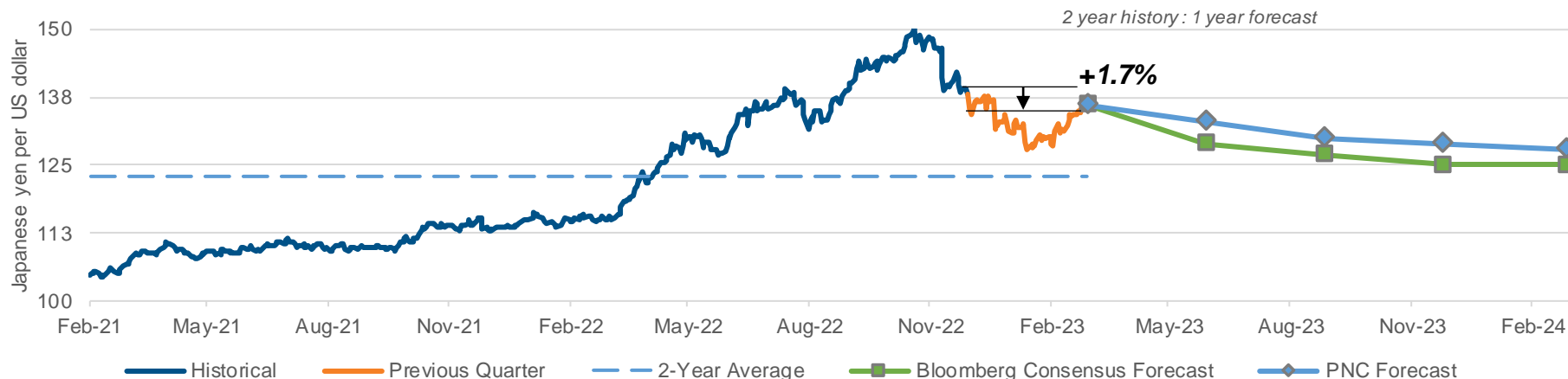
- Better-than-expected U.S. economic data in early 2023 and a very hawkish Bank of Mexico drove the peso's strength last quarter.
- China's reopening also contributed to the peso's strength in the trailing quarter.
- The shift in global supply chains continues to benefit Mexico's economy and support peso demand.

### Currency Outlook

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



**The Japanese yen appreciated 1.7% in the previous quarter.**



### Previous Quarter Recap

- The Japanese yen strengthened slightly by 1.7% over the previous quarter.
- The Bank of Japan last met on January 17<sup>th</sup> and left its policy rate unchanged. It will meet again on March 10<sup>th</sup>, which will mark Haruhiko Kuroda's final meeting as Governor.
- Kazuo Ueda was nominated to take over Kuroda's role.

### Currency Outlook

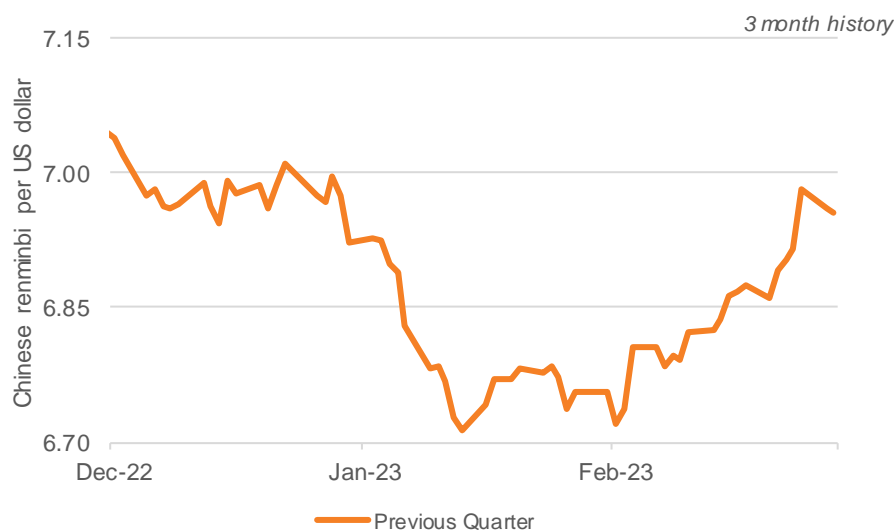
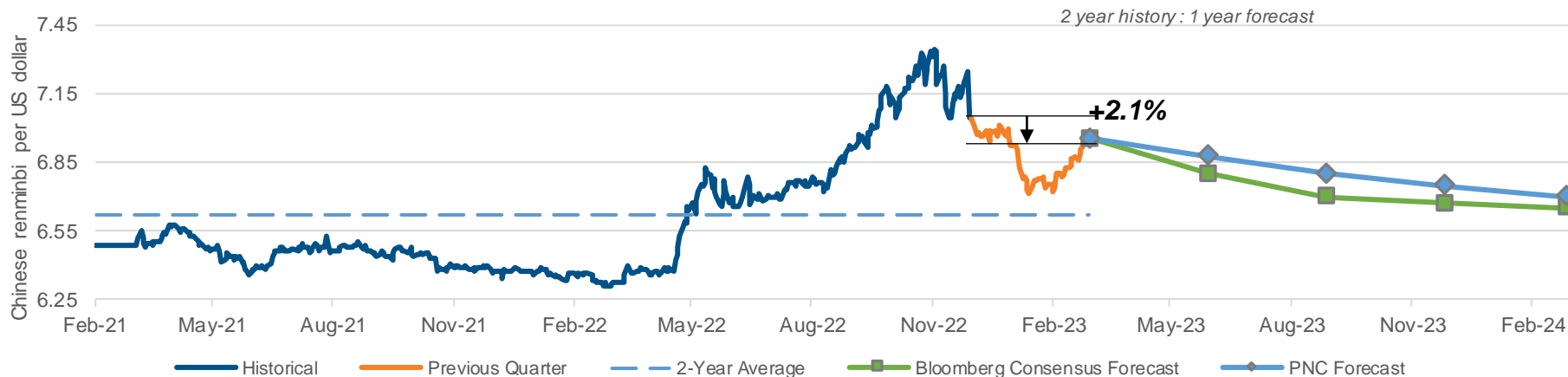
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If U.S. inflation continues to subside, and the pace of rate hikes slows, the yen could be stronger than forecasted.

# Currency Update

## Chinese Renminbi



The renminbi strengthened 2.1% in the last quarter.



### Previous Quarter Recap

- The renminbi pulled back after strengthening significantly, ending the quarter up 2.1%.
- China's February manufacturing PMI reached its highest level since 2012.
- The People's Bank of China injected 632 billion renminbi into the economy in February to avoid a liquidity squeeze, marking the largest injection in a single day on record for the bank.

### Currency Outlook

- PNC and the consensus both predict a slight appreciation over the forecast horizon.
- If the Fed continues to hike rates, the renminbi could be weaker than anticipated.

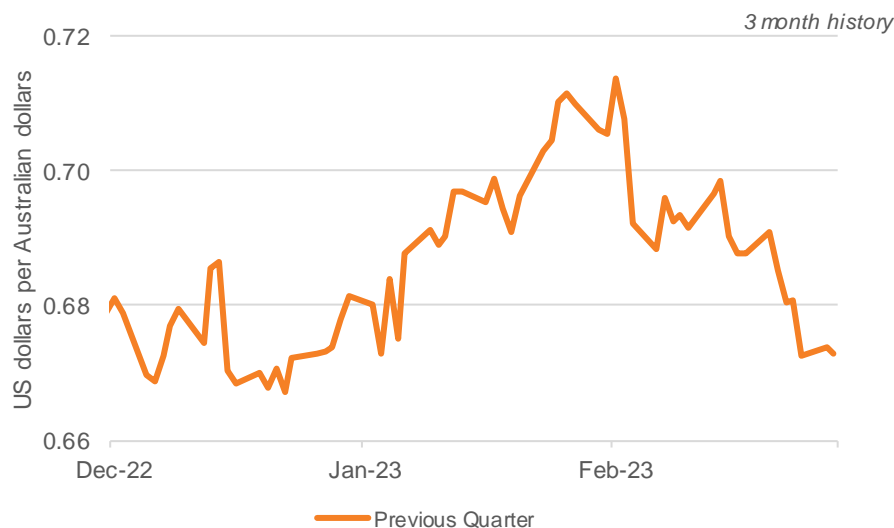
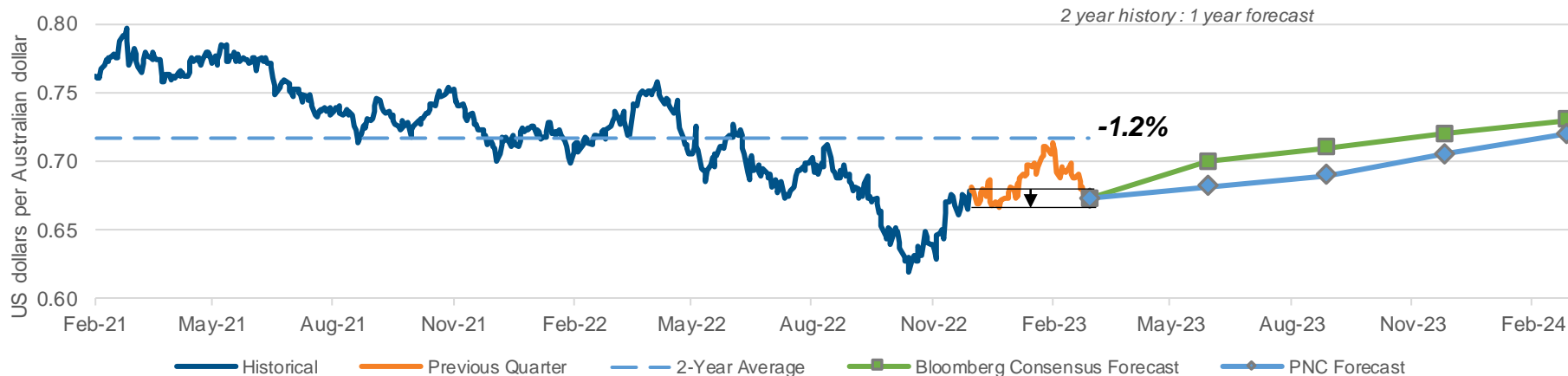


# Currency Update

## Australian Dollar



**The Australian dollar weakened 1.2% in the last quarter.**



### Previous Quarter Recap

- The Australian dollar ended the quarter 1.2% weaker despite showing some strength initially.
- The Reserve Bank of Australia meets on March 7<sup>th</sup> and markets are pricing in a 76% chance of a 25 bps rate hike.
- Australian banks are working with the RBA on a digital currency program.

### Currency Outlook

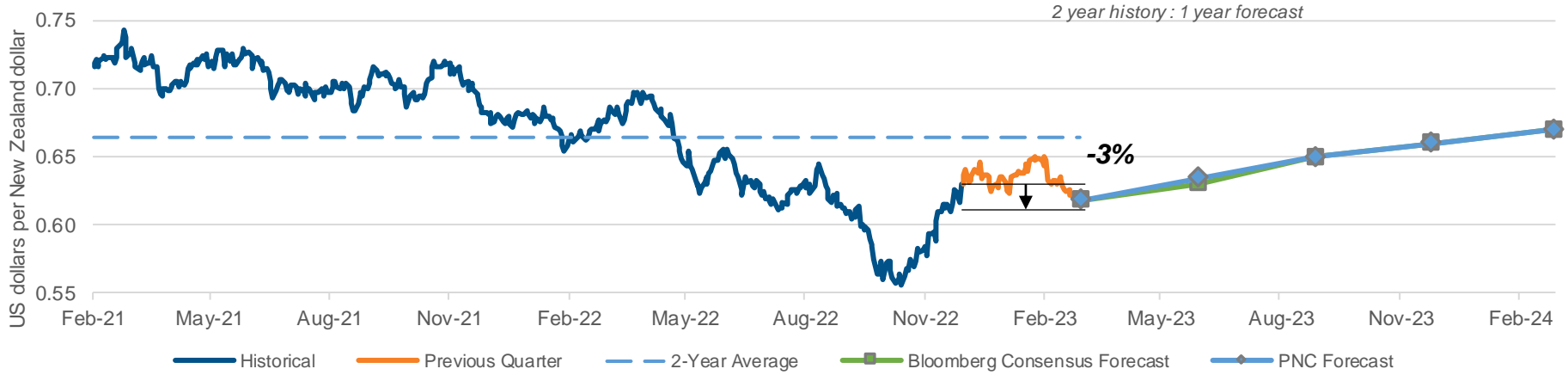
- PNC and the consensus both anticipate a slight depreciation followed by some strengthening over the forecast horizon.
- If the Fed raises interest rates faster than markets anticipate, the Australian dollar is likely to be weaker than forecasted.

# Currency Update

## New Zealand Dollar



The New Zealand dollar depreciated 3% last quarter.



### Previous Quarter Recap

- The New Zealand dollar weakened 3% last quarter after a strong rebound from its mid-October lows.
- The Reserve Bank of New Zealand raised its policy rate by 50 bps to 4.75% in February.
- Inflation on a quarter-over-quarter basis slowed in the fourth quarter of 2022.

### Currency Outlook

- PNC and the consensus both expects the New Zealand dollar to appreciate over the forecast horizon.
- The Royal Bank of New Zealand predicts that their cash rate will peak at 5.5% in 2023.

# Currency Update

## Indian Rupee



**The Indian rupee weakened slightly in the past quarter, depreciating 1.9%**



### Previous Quarter Recap

- The Indian rupee weakened by 1.9% over the previous quarter.
- A heatwave across India is threatening crops and increasing fears of food inflation.
- Financial markets are increasingly pricing an end to the Reserve Bank of India's hiking cycle, causing India's yield curve to reach the flattest it has been in six years.

### Currency Outlook

- PNC and the consensus both expect the rupee to strengthen slightly over the forecast horizon.
- If the Federal Reserve slows the pace of rate hikes the rupee could be stronger than anticipated.

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