

PNC Currency Review, October 2023

Prior Quarter

July 2023 – September 2023

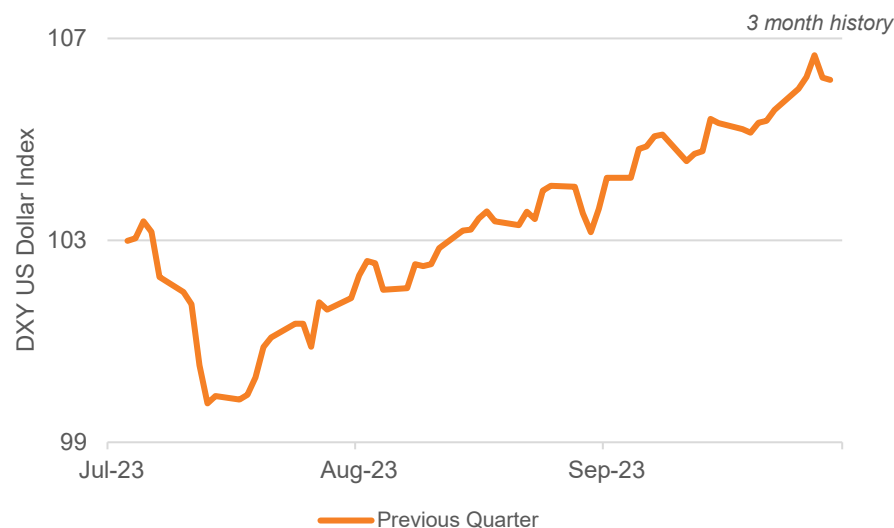
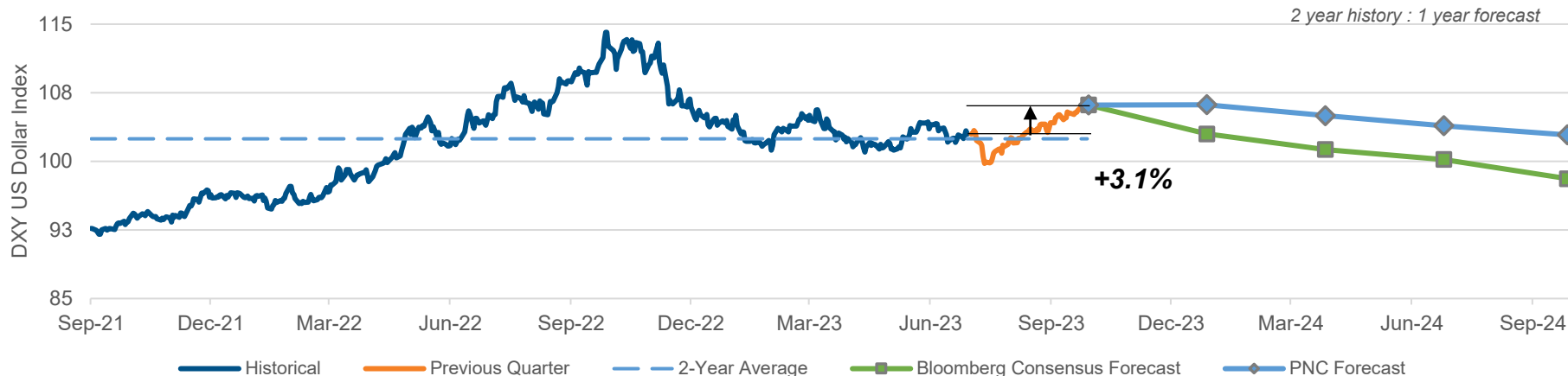


Summary

DXY Major Currencies Dollar Index



The US dollar index strengthened 3.1% in the trailing quarter.



Previous Quarter Recap

- The DXY index strengthened in the previous quarter due to a hawkish Fed outlook by the end of 2023 and in 2024.
- The Federal Reserve kept the fed funds rate in a range between 5.25% and 5.50%, but the dot plot median signals another rate hike by end of 2023.
- PNC forecasts a mild recession starting in March 2024, and the outlook for U.S. economy is still bullish compared to its major trade partners.

Currency Outlook

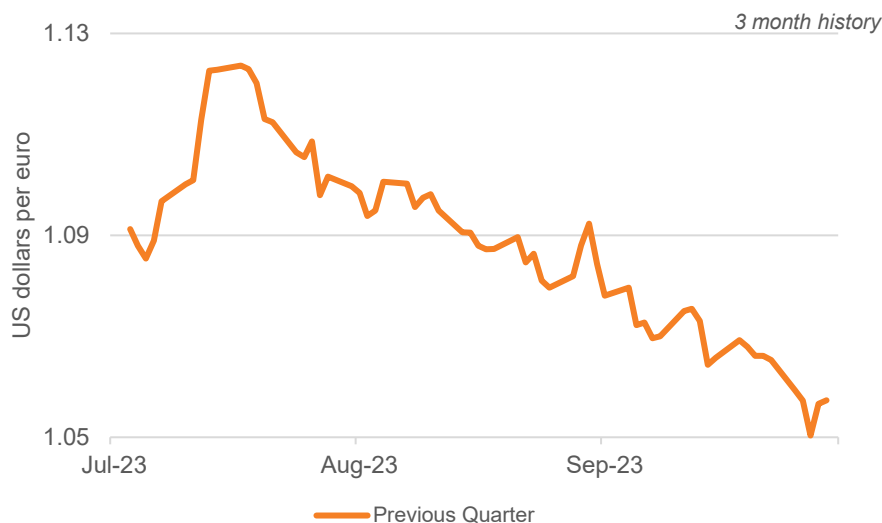
- PNC and the consensus both anticipate that the U.S. dollar will appreciate over the forecast horizon.
- If the U.S. labor market surprises to the negative side or the Fed cuts interest rates more quickly and sooner than anticipated, the dollar could be weaker than forecasted.

Currency Update

Euro



The euro depreciated 3.1% in the trailing quarter.



Previous Quarter Recap

- The euro depreciated in the previous quarter due to a strong U.S. economy and a hawkish Fed stance on interest rate policy.
- The European Central Bank (ECB) raised its three main policy rates by 25 basis points each at its Sept 14 meeting.
- U.S. Treasury yields rose across the board in the past quarter and weighed on the euro against the U.S. dollar.

Currency Outlook

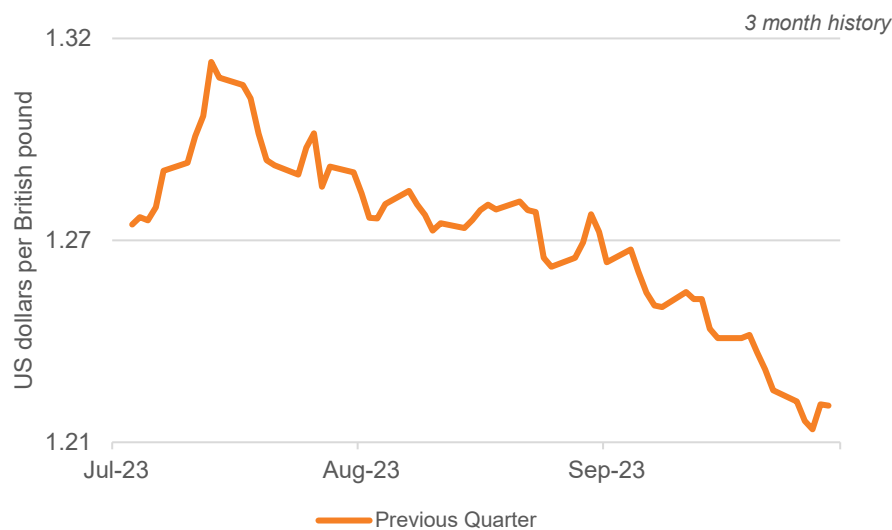
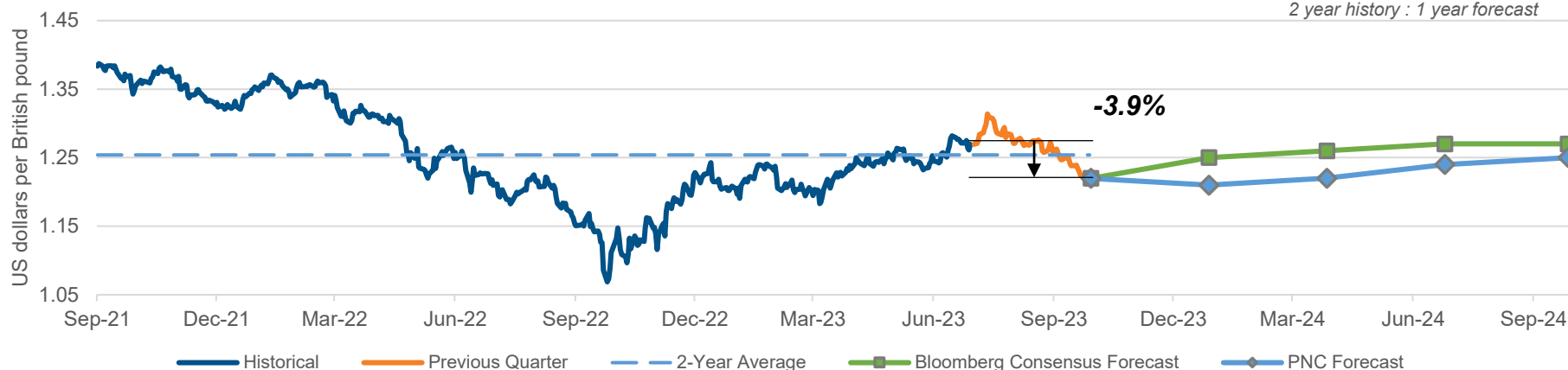
- PNC and the consensus expect the euro to strengthen slightly over the forecast horizon.
- If Eurozone inflation surprises to the upside or the ECB holds interest rates higher for longer, the euro could be stronger than expected.

Currency Update

Great British Pound



Pound sterling depreciated 3.9% in the trailing quarter.



Previous Quarter Recap

- The British pound depreciated against the U.S. dollar in the prior quarter with a pessimistic domestic economic outlook and a hawkish Fed outlook on U.S. monetary policy.
- The Bank of England (BoE) kept the bank rate unchanged at its Sept 21 meeting.
- The composite PMI dropped in Sept, the fifth straight decline, and has been in contraction for two straight months.

Currency Outlook

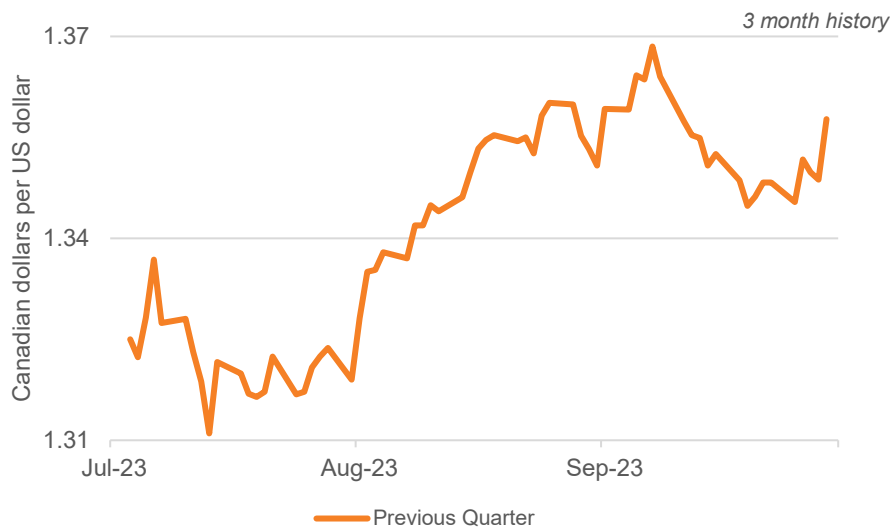
- PNC and the consensus expects the pound to strengthen slightly.
- A stronger-than-expected European economy or a sooner-than-expected fed funds rate cut would contribute to a stronger British pound.

Currency Update

Canadian Dollar



The Canadian dollar weakened 2.5% in the previous quarter.



Previous Quarter Recap

- The Bank of Canada (BoC) kept its policy rate unchanged at its meeting on Sept 6.
- The manufacturing PMI dropped in Sept, the third straight decline, and has been in contraction since April.
- In the latest real GDP release, the Canadian economy was flat from June to July, lower than the consensus expectation.

Currency Outlook

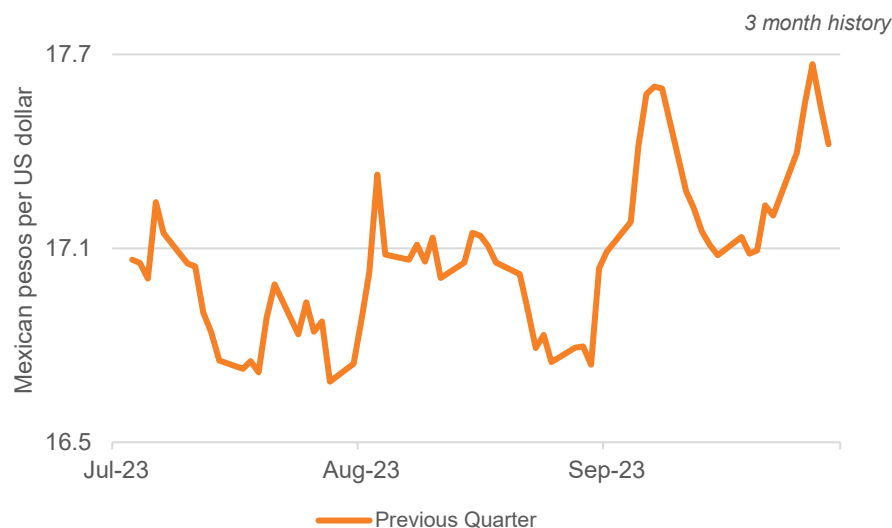
- PNC and the consensus both expect appreciation in the Canadian dollar over the forecast horizon.
- If Canada's economy tips into recession or if inflation persists in the U.S., the Canadian dollar would likely be weaker than forecasted.

Currency Update

Mexican Peso



The Mexican peso weakened 1.7% in the trailing quarter.



Previous Quarter Recap

- The Bank of Mexico (BdeM) kept its overnight target rate unchanged at 11.25% at its meeting on Sept 28.
- Nearshoring in Mexico brought investment and growth opportunities while the peso remained resilient over the past quarter.
- Rising U.S. Treasury yields in the past quarter contributed to a weaker peso.

Currency Outlook

- PNC expects the peso to remain flat while the consensus forecast is for the peso to strengthen slightly over the forecast horizon.
- A higher-for-longer interest rate policy in the U.S. is a downside risk for the peso.

Currency Update

Japanese Yen



The Japanese yen depreciated 3.4% in the previous quarter.



Previous Quarter Recap

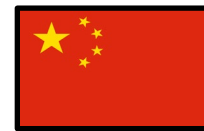
- The Japanese yen depreciated in the previous quarter due to rising U.S. Treasury yields.
- Aug Inflation came in stronger than the consensus expectation.
- The Bank of Japan's (BoJ) ultra-loose policy and a hawkish Fed weighed on the Japanese yen in the previous quarter.

Currency Outlook

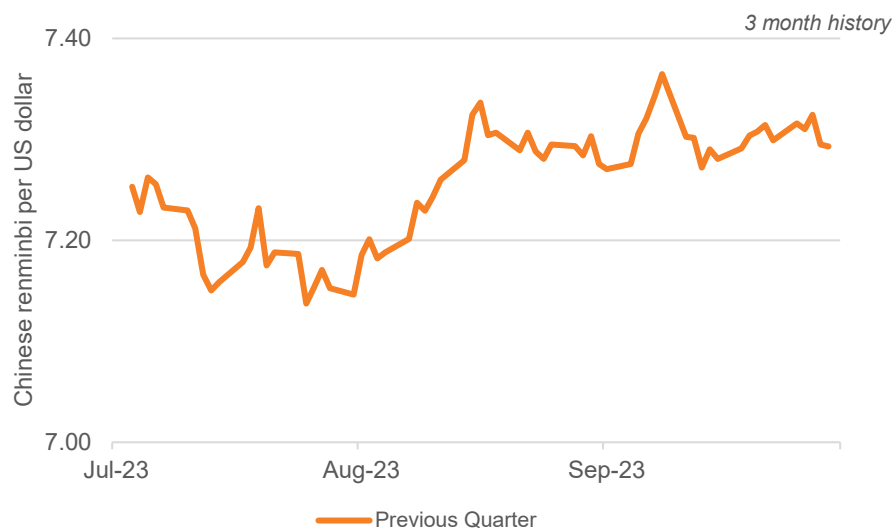
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If Japanese Treasury yields increase more than expected or the Fed cuts interest rates sooner than the market is currently pricing in, the yen would be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened 0.3% in the last quarter.



Previous Quarter Recap

- The renminbi depreciated in the prior quarter because of a weak domestic demand, increased geopolitical tensions, and an investment outflow from China.
- The People's Bank of China (PBoC) cut its required reserve ratio on Sept 14 after cutting its loan prime rate on August 21.
- A slower-growing global economy also put downward pressure on the renminbi in the prior quarter.

Currency Outlook

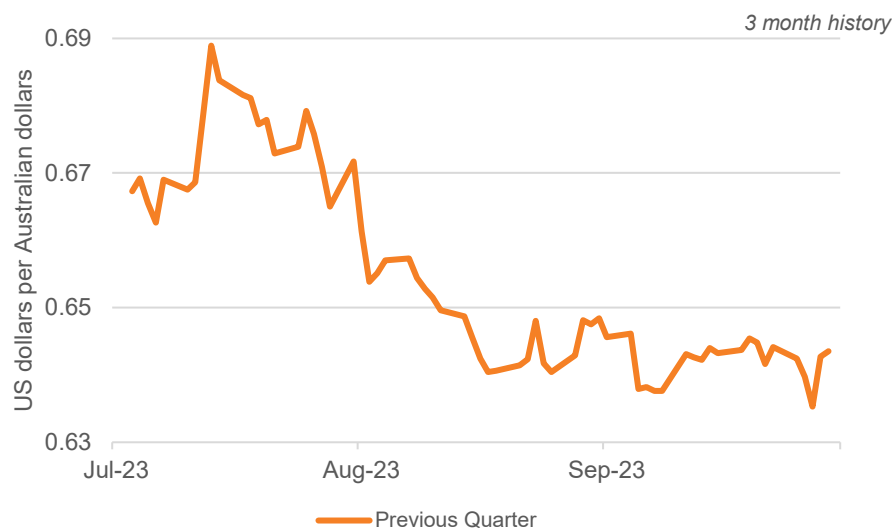
- Both PNC and the consensus expect the renminbi to appreciate against the U.S. dollar over the forecast horizon.
- If the Chinese labor market strengthens or consumer sentiment picks up, the renminbi could be stronger than forecasted.

Currency Update

Australian Dollar



The Australian dollar weakened 3.3% in the last quarter.



Previous Quarter Recap

- The Australian dollar depreciated against the U.S. dollar in the previous quarter due to higher U.S. treasury yields.
- The Reserve Bank of Australia (RBA) kept its cash target rate unchanged at 4.1% at its meeting on Sept 5.
- A stronger U.S. economic outlook from the Fed in Sept and a continued drop in Chinese imports from Australia in August weighed on the Australian dollar.

Currency Outlook

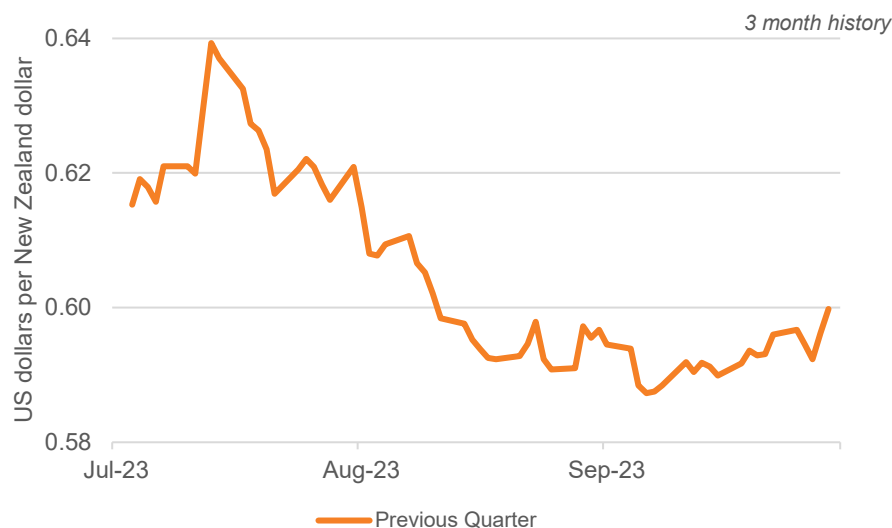
- PNC and the consensus both anticipate the Australian dollar strengthening over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in or the Chinese economy recovers more quickly, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar depreciated 2.2% last quarter.



Previous Quarter Recap

- The New Zealand dollar depreciated in the prior quarter due to contractionary manufacturing and service sectors and weak Chinese demand.
- The Fed kept the fed funds unchanged in Sept but signaled an additional rate hike by the end of 2023 with a stronger U.S. economic outlook.
- A greater slowdown in global demand weighed on New Zealand's exports.

Currency Outlook

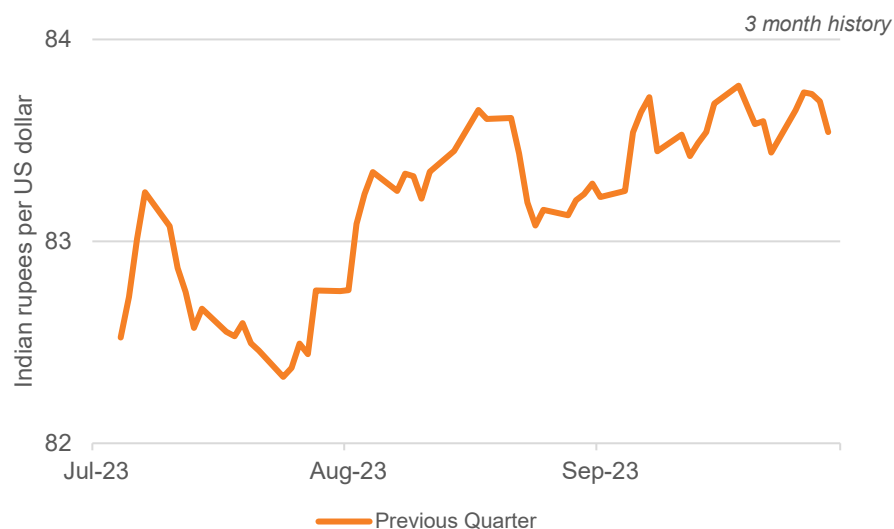
- PNC and the consensus both expect the New Zealand dollar to appreciate over the forecast horizon.
- If the Reserve Bank of New Zealand (RBNZ) raises its cash rate higher than markets are currently pricing in, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 1.3% in the past quarter.



Previous Quarter Recap

- The Indian rupee weakened in the prior quarter as higher U.S. Treasury yields have weighed the rupee.
- Indian exports rose in August while global recession risks have increased.
- August inflation in India came in better than the consensus expectation, although it still higher than the Reserve Bank of India (RBI)'s upper bound at 6%.

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 sooner markets are currently pricing in, the rupee could be stronger than expected.

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