

PNC Currency Review, February 2024

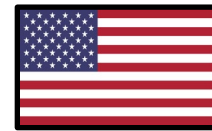
Prior Quarter

November 2023 – January 2024



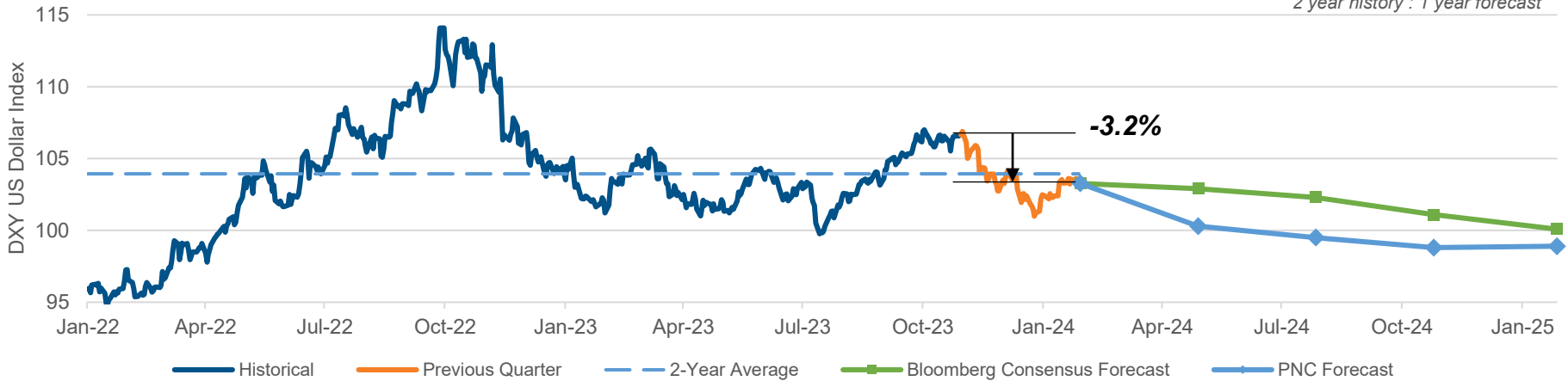
Summary

DXY Major Currencies Dollar Index



The US dollar index depreciated 3.2% in the trailing quarter.

2 year history : 1 year forecast



3 month history



- (1) The DXY depreciated as U.S. inflation fell rapidly while the market anticipated a switch to dovish monetary policy
- (2) US economic data continues to remain strong and supported no near-term cuts.

Previous Quarter Recap

- US Treasury yields rose in January, supported by a solid US economy and expectations for delayed Fed rate cuts.
- The Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50% on January 31.
- The December 2023 jobs report, retail sales, housing starts, fourth quarter preliminary GDP and January 2024 manufacturing conditions came in strong and better than expectations.

Currency Outlook

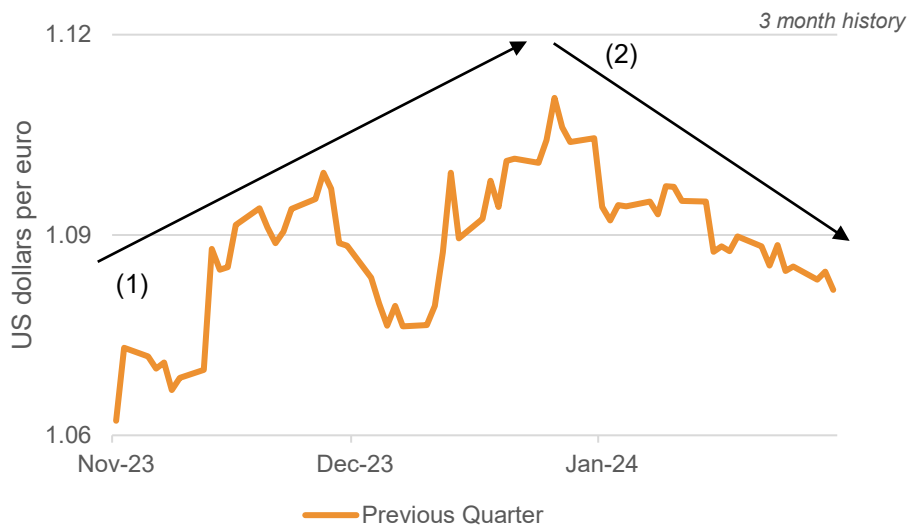
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If inflation surprises to the upside or the Fed holds interest rates longer than anticipated, the dollar could be stronger than forecasted.

Currency Update

Euro



The euro strengthened 1.8% in the trailing quarter.



- (1) The euro strengthened as eurozone data remained in line with expectations while dollar strength fell
- (2) Stronger-than-anticipated US economic data coupled with cooling eurozone inflation created headwinds for the euro

Previous Quarter Recap

- The euro appreciated against the US dollar before falling to levels last seen in mid-December with lowered domestic inflation and the stronger-than-expected US economy.
- The European Central Bank (ECB) held its policy rates steady at its meeting on January 25.
- Eurozone inflation in December was flat from the previous month (at 2.9%) and fourth quarter advance real GDP was unchanged, after a contraction in the third quarter.

Currency Outlook

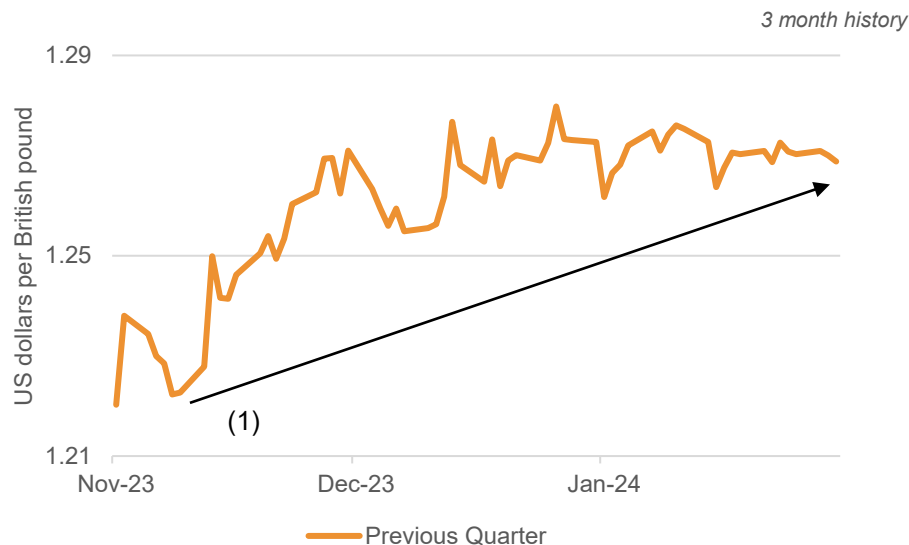
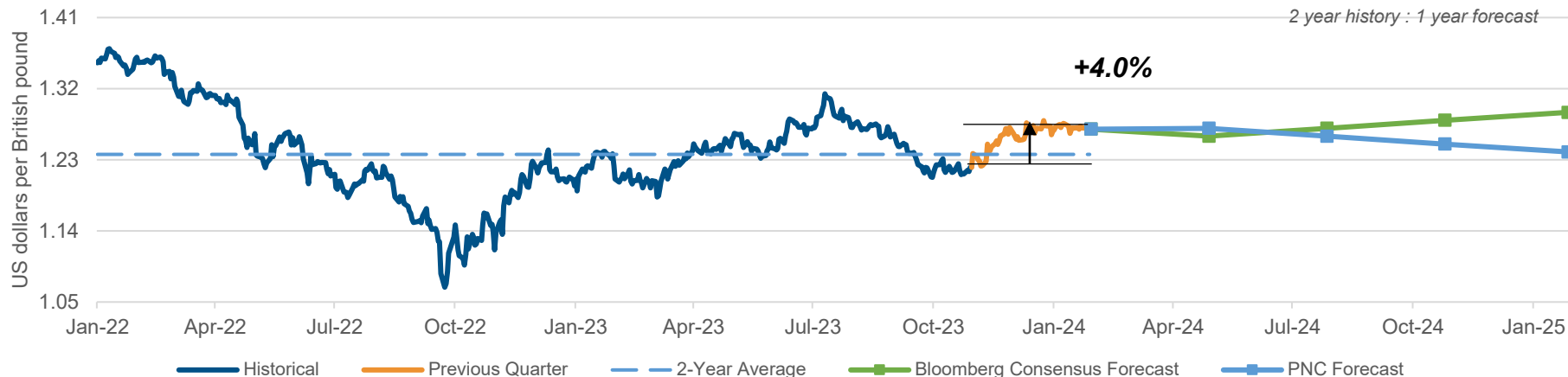
- PNC expects the euro to weaken slightly over the forecast horizon, while the consensus expects the euro to strengthen.
- If Eurozone inflation surprises to the upside or the ECB holds interest rates higher for longer, the euro could be stronger than expected.

Currency Update

Great British Pound



Pound sterling appreciated 4.0% in the trailing quarter.



Previous Quarter Recap

- The British pound appreciated against the U.S. dollar before hovering around 1.26 in the prior quarter due to sticky domestic inflation and an expected delay in Fed Funds rate cuts.
- The Bank of England (BoE) kept the bank rate unchanged at its December 14 meeting.
- Business activities in services continued to expand from the previous two months. December inflation reaccelerated from November and was higher than the consensus expectation.

Currency Outlook

- PNC expects the pound to depreciate slightly over the forecast horizon, while 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 pound.

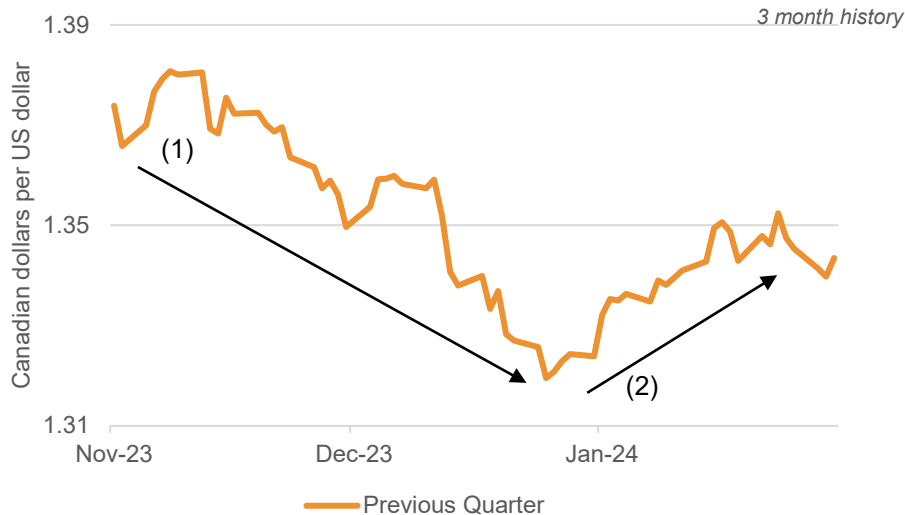
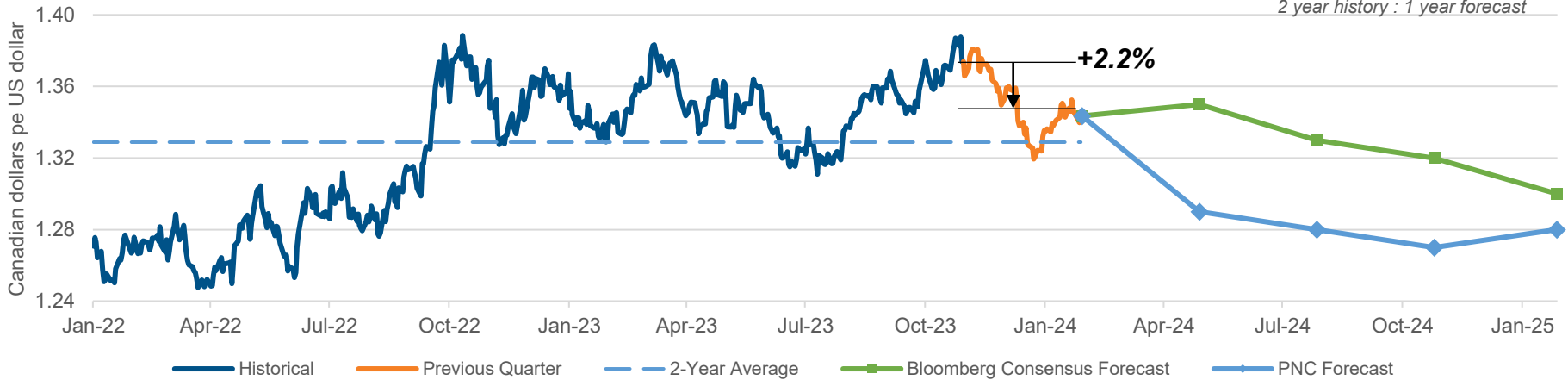
(1) The British pound appreciated after prices ticked upward, despite a fall in retail sales, while inflation crept back into the picture

Currency Update

Canadian Dollar



The Canadian dollar strengthened 2.2% in the previous quarter.



- (1) The Canadian dollar strengthened as inflationary pressures returned; oil prices rose as the dollar weakened
- (2) GDP ticked higher, inflation remained relatively unchanged, the unemployment rate fell, and retail sales came in below market expectations

Previous Quarter Recap

- Released in January, Canada's December manufacturing PMI and November retail sales dropped on the month.
- Canada's December inflation over the past year increased 3.4%, faster than in November and in line with the consensus expectation. The Bank of Canada (BoC) kept its benchmark interest rate unchanged at its meeting on January 24.
- Employment in December rose weakly, while the December unemployment rate was unchanged.

Currency Outlook

- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the BoC cuts interest rates sooner than expected or inflation surprises to the downside, the Canadian dollar would likely be weaker than forecasted.

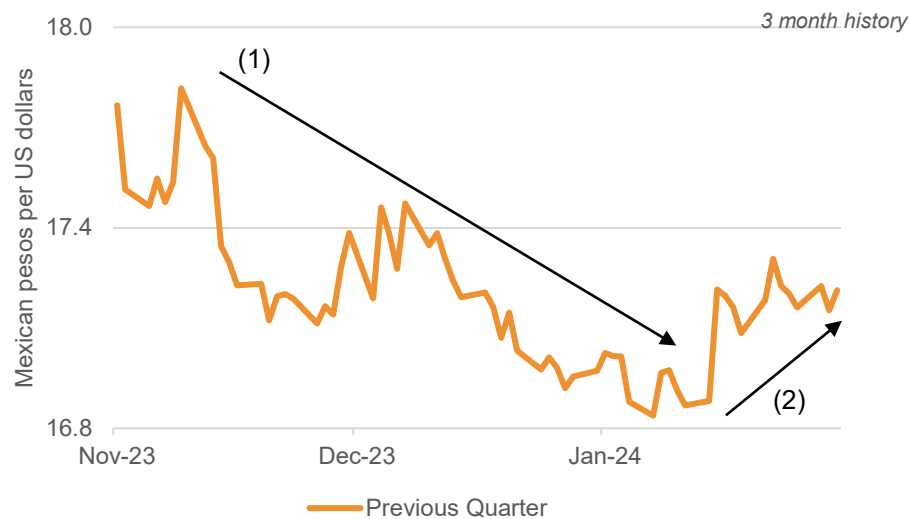
Currency Update

Mexican Peso



The Mexican peso strengthened 3.1% in the trailing quarter.

2 year history : 1 year forecast



Previous Quarter Recap

- The Bank of Mexico kept its overnight target rate unchanged at 11.25% at its meeting on December 14.
- December CPI rose and accelerated from the previous two months while core inflation slowed.
- Mexico's manufacturing PMI narrowed (but was still in expansion), the unemployment rate dropped in December, and fourth quarter preliminary real GDP over the past year came in lower than expected.

Currency Outlook

- PNC expects the peso to remain flat, while the consensus expects the peso to weaken slightly over the forecast horizon.
- A sooner-than-expected interest rate cut in the U.S. is an upside potential for the Mexican peso.

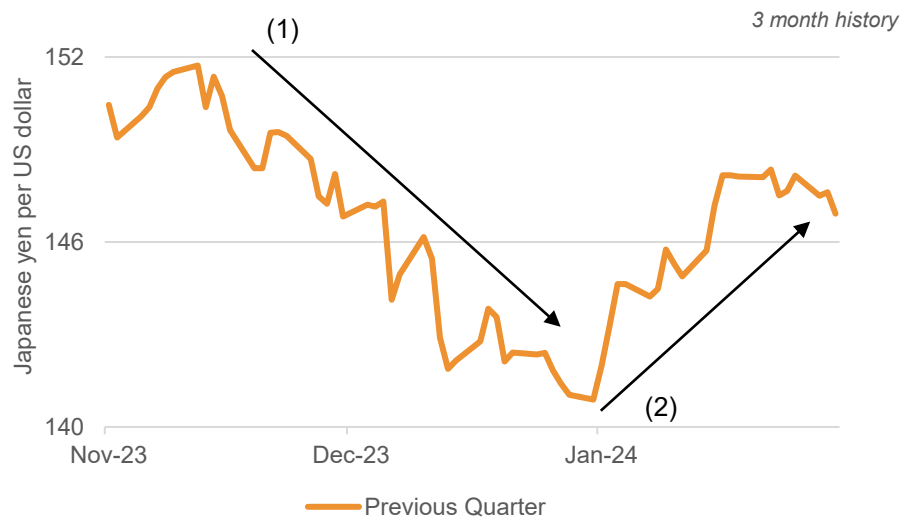
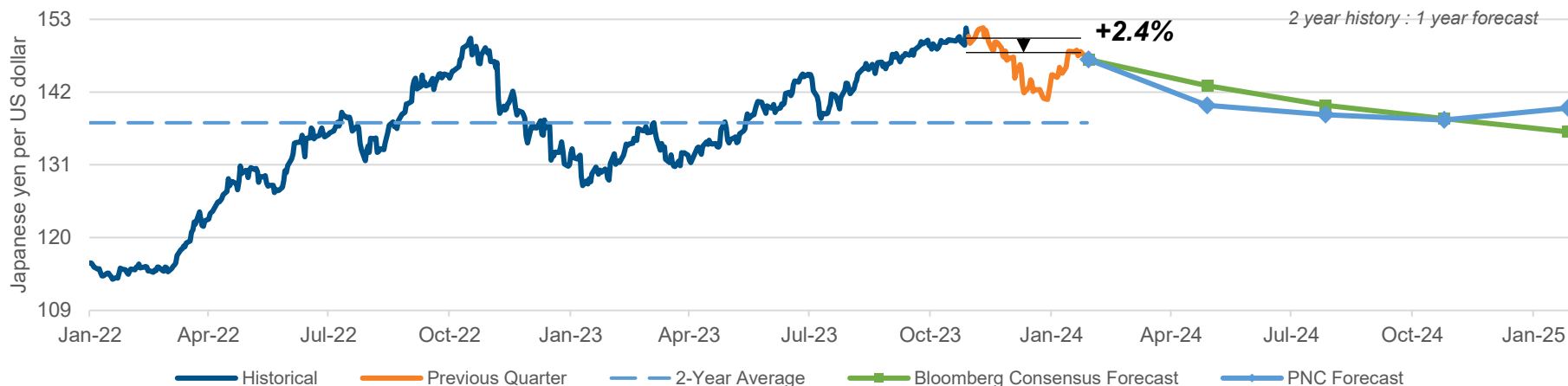
- (1) The peso appreciated as inflation and retail sales increased, while the unemployment rate fell in December
- (2) The struggling Chinese economy has broadly impacted emerging market currencies, amidst continued dollar strength

Currency Update

Japanese Yen



The Japanese yen appreciated 2.4% in the previous quarter.



- (1) The Japanese yen appreciated against the US dollar as US Treasury yields dropped.
- (2) The BoJ decided to maintain its negative interest rate environment for longer-than-expected

Previous Quarter Recap

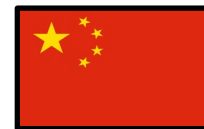
- US Treasury yields rose in January supported by a strong US economy and delayed Fed rate cutting expectations.
- The Bank of Japan (BoJ) left its negative interest rate policy unchanged on January 22.
- Japanese inflation continued to slow in December, delaying expectations for a monetary policy pivot.

Currency Outlook

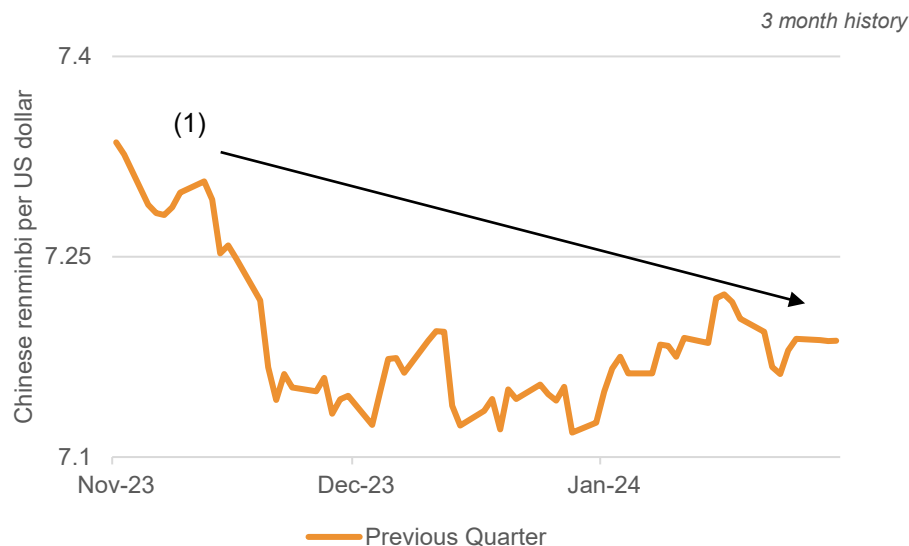
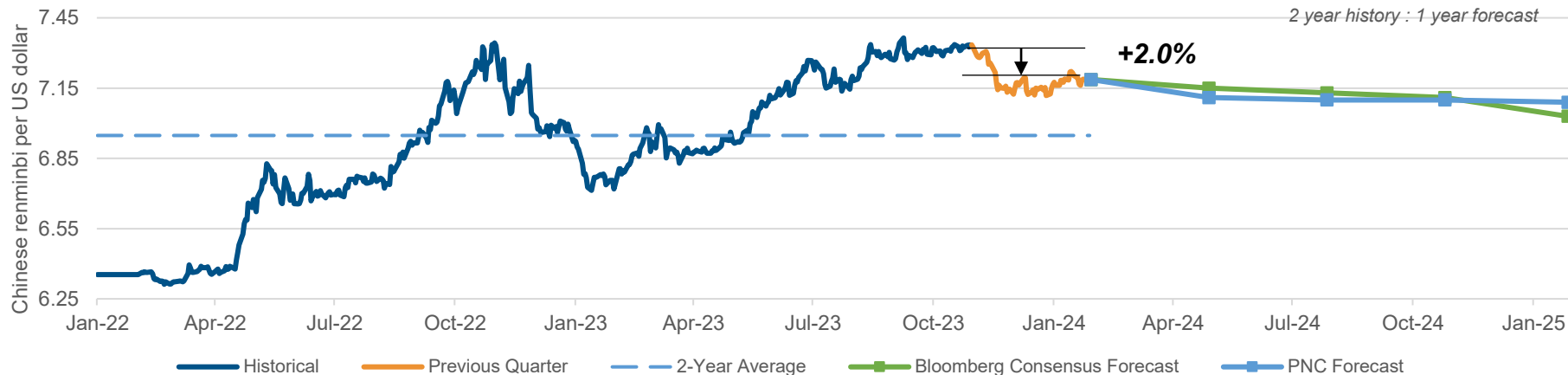
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If markets price in a delayed BoJ policy shift away from negative rates or the Fed cuts the Fed Funds rate later than expected, the Japanese yen could be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi strengthened 2.0% in the last quarter.



(1) Despite growing market fears in China, the Chinese yuan appreciated following the active purchasing of renminbi by state-owned banks and bond market activity

Previous Quarter Recap

- Exports in December 2023 rose 2.3% from last year, and real GDP grew 5.2% in 2023 – near the central government’s growth target set for the year under stimulus measures.
- Retail sales grew 7.4% in December on a year-over-year basis, slower than the consensus expectation but, at a faster rate than in the third quarter.
- The Chinese economy was deflationary over the past three months, signaling weaker consumption growth entering 2024.

Currency Outlook

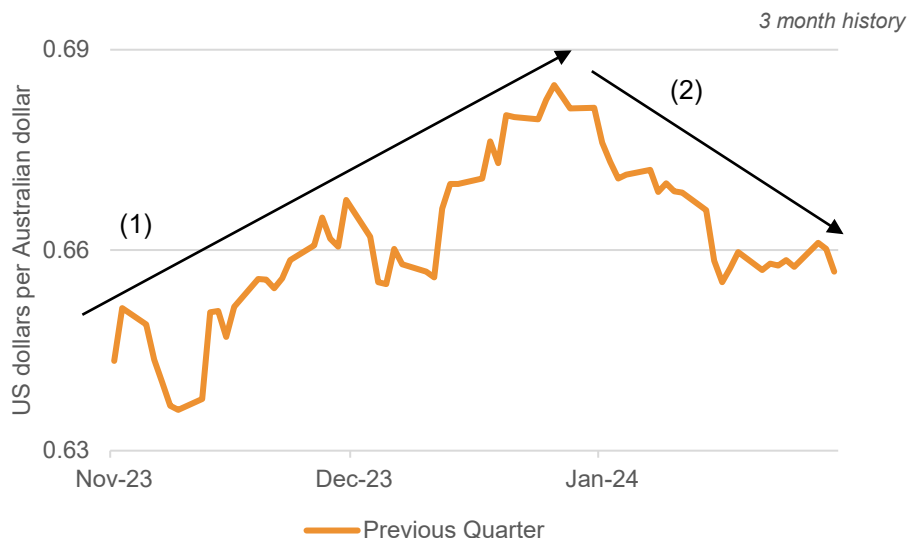
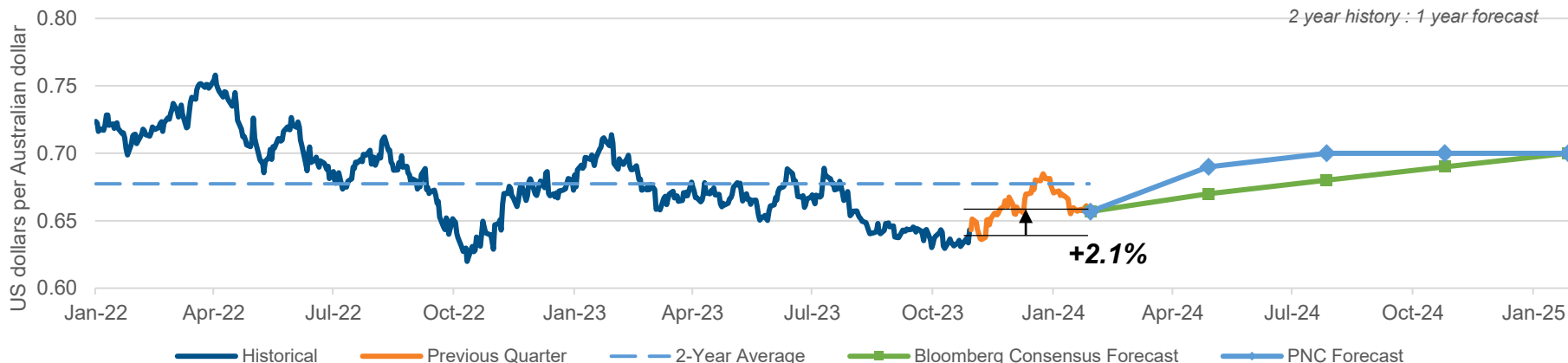
- Both PNC and the consensus expect the renminbi to appreciate against the US dollar over the forecast horizon.
- If weak domestic demand persists and the property sector remains subdued in 2024, the Chinese renminbi could be weaker than forecasted.

Currency Update

Australian Dollar



The Australian dollar strengthened 2.1% in the last quarter.



Previous Quarter Recap

- December employment unexpectedly dropped 65,100 after rising for four months, the largest employment dip in over two years. Full-time employment dropped 106,600 on the month, last seen in the COVID-19 pandemic.
- The Reserve Bank of Australia kept its cash target rate at 4.35% on December 4 after raising it from 4.10% on November 8.
- Fourth quarter CPI dropped to 4.1% year-over-year, lower than the consensus expectation.

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 more than markets are currently pricing in or the Chinese economy recovers more quickly, the Australian dollar could be stronger than PNC's forecast.

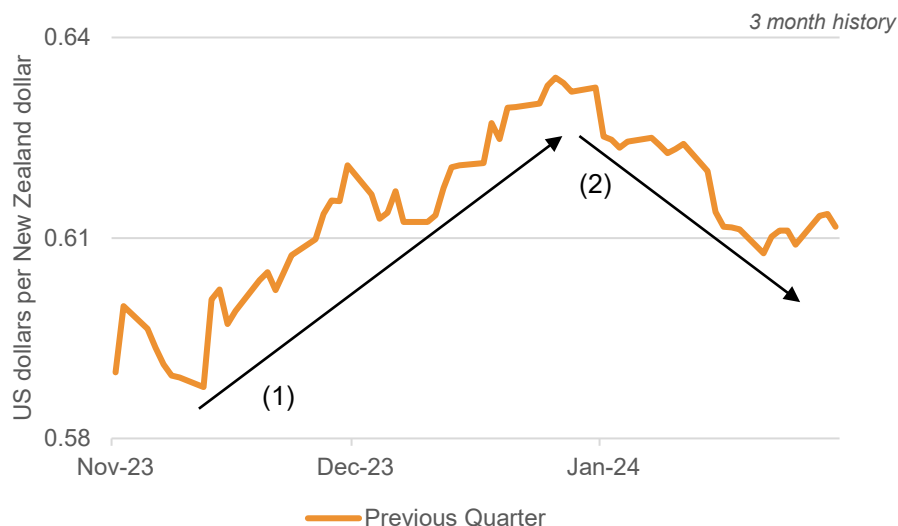
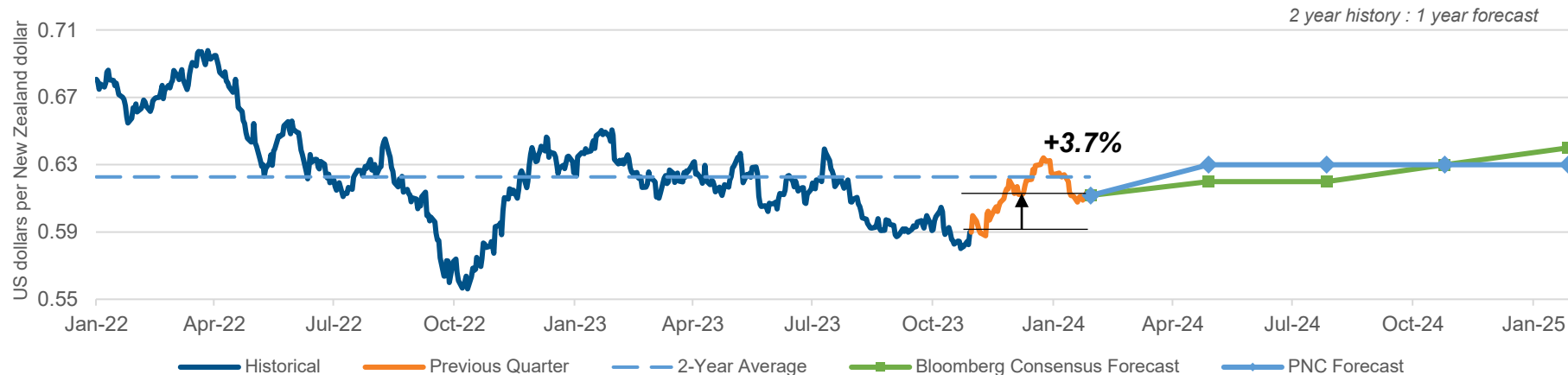
- (1) A softening US labor market at the end of 2023 and cooler U.S. inflation supported the apparent end of the Federal Reserve's rate hiking cycle
- (2) Australian inflation slowed while the December unemployment rate remained at 3.9%

Currency Update

New Zealand Dollar



The New Zealand dollar appreciated 3.7% last quarter.



- (1) The New Zealand dollar appreciated as home sales increased despite less-than-expected GDP readings
- (2) The New Zealand dollar retreated as inflation softened while the US economy remained strong, increasing inflation concerns.

Previous Quarter Recap

- As expected, fourth quarter CPI in New Zealand slowed from the previous quarter and over the past year.
- The Reserve Bank of New Zealand held its cash rate steady at its meeting on November 28.
- A strong US economy and a deflationary Chinese economy entering 2024 drove the New Zealand dollar lower.

Currency Outlook

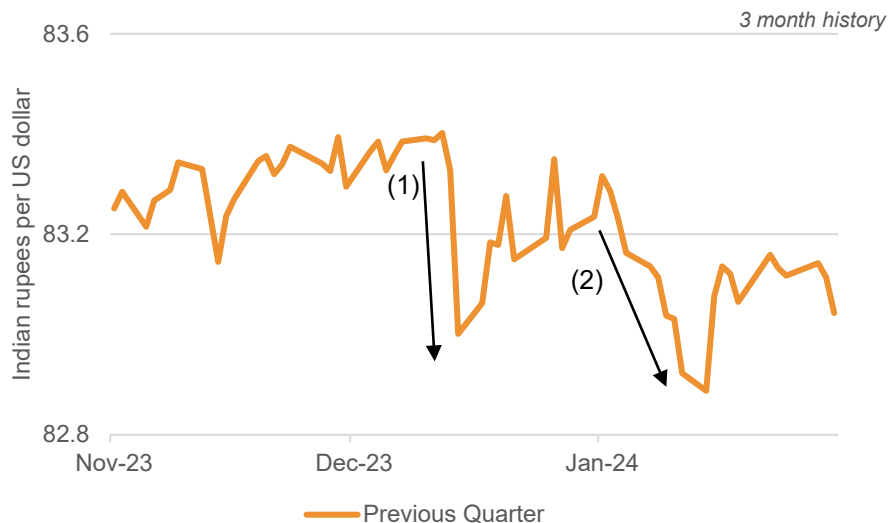
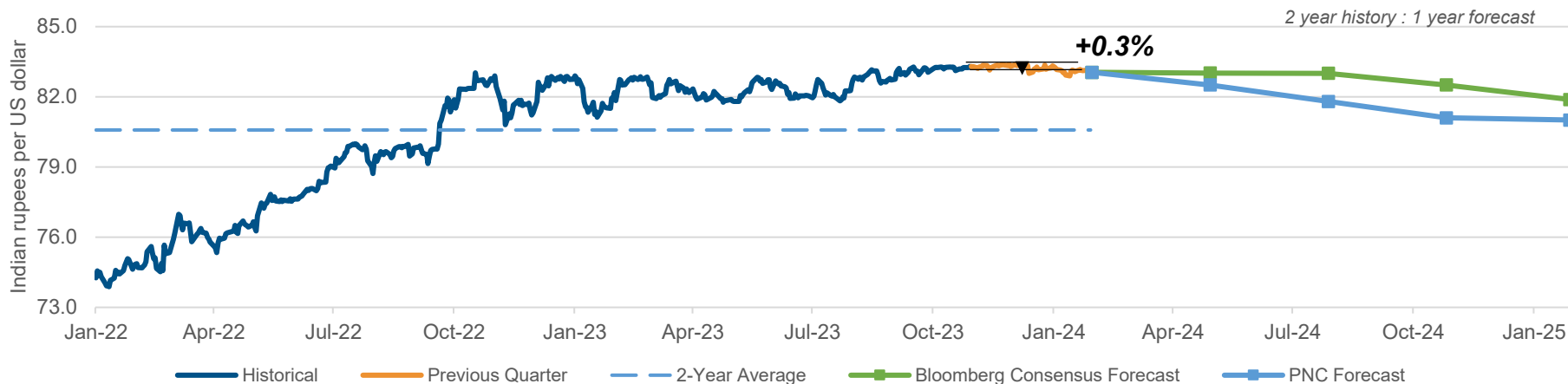
- PNC and the consensus both expect the New Zealand dollar to remain near flat over the forecast horizon.
- If the Fed cuts its policy interest rate sooner than expected, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee strengthened 0.3% in the past quarter.



- (1) India's retail inflation reaccelerated after slowing in the past three months, and trade deficit narrowed in November, both lower than the consensus expectation.
- (2) PMI Composite rose in December, suggesting faster expansion in India's private sector

Previous Quarter Recap

- The Reserve Bank of India (RBI) kept its repo rate unchanged on December 7.
- Domestic inflation over the past year continued to grow at a faster rate in December from the previous two months.
- December exports rose from last year as the services and manufacturing sectors were expanding at a faster rate in December 2023 and January 2024.

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

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