

PNC Currency Review, January 2024

Prior Quarter

October 2023 – December 2023



Summary

DXY Major Currencies Dollar Index



The US dollar index depreciated 5.2% in the trailing quarter.



(1) The DXY depreciates as U.S. inflation falls rapidly coupled with market expectations of dovish monetary policy to come

Previous Quarter Recap

- The DXY index weakened in the previous quarter due to a softening U.S. labor market and cooler inflation that supported the apparent end of the Federal Reserve's rate hiking cycle.
- The Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50% on December 13.
- Job growth slowed over the course of 2023. In the three months through December, average monthly job growth was around 165,000, down from above 300,000 at the beginning of the year.

Currency Outlook

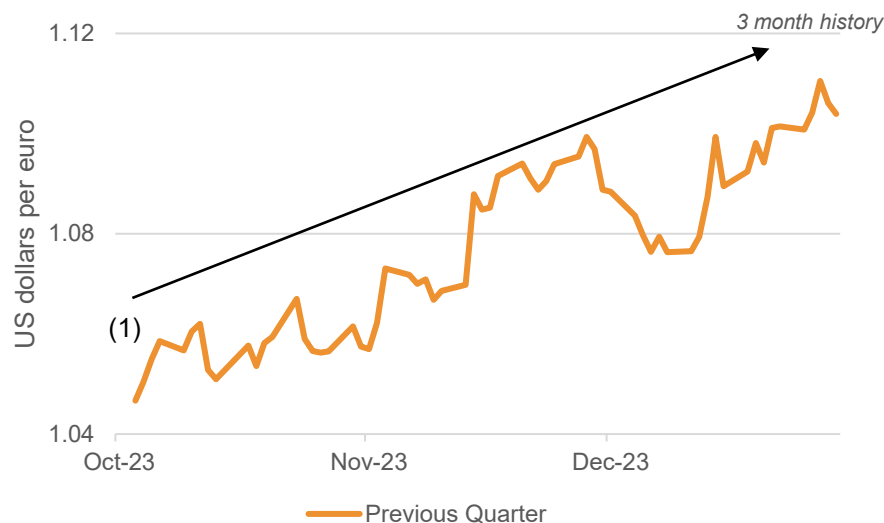
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If the U.S. labor market surprises to the upside or the Fed holds interest rates higher than anticipated, the dollar could be stronger than forecasted.

Currency Update

Euro



The euro strengthened 5.4% in the trailing quarter.



(1) The euro strengthens as eurozone data remains in line with expectations while dollar strength falls

Previous Quarter Recap

- The euro appreciated against the US dollar in the previous quarter due to expectations for an end to the interest rate hiking cycle in the US.
- The European Central Bank (ECB) held its policy rates steady at its meeting on December 14.
- Eurozone inflation in November slowed more than expected, real GDP growth was flat in the third quarter, and the EU trade surplus came in higher than the consensus expectation.

Currency Outlook

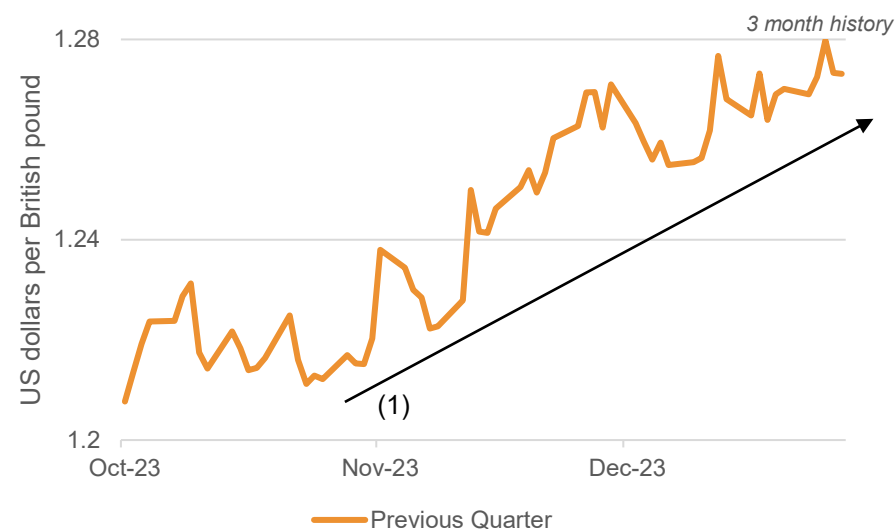
- PNC expects the euro to weaken slightly over the forecast horizon, while the consensus expects the euro to strengthen.
- If Eurozone inflation surprises to the upside or the ECB holds interest rates higher for longer, the euro could be stronger than expected.

Currency Update

Great British Pound



Pound sterling appreciated 5.3% in the trailing quarter.



(1) The British pound appreciates after home prices fall slightly after continuous monthly increase, retail sales increase, while inflation begins to cool

Previous Quarter Recap

- The British pound appreciated against the U.S. dollar in the prior quarter due to expectations for an end to the interest rate hiking cycle in the US.
- The Bank of England (BoE) kept the bank rate unchanged at its December 14 meeting.
- Third quarter preliminary UK GDP growth came out better than expected, October and November inflation eased more than the consensus expectation, and the November manufacturing PMI rose on the month.

Currency Outlook

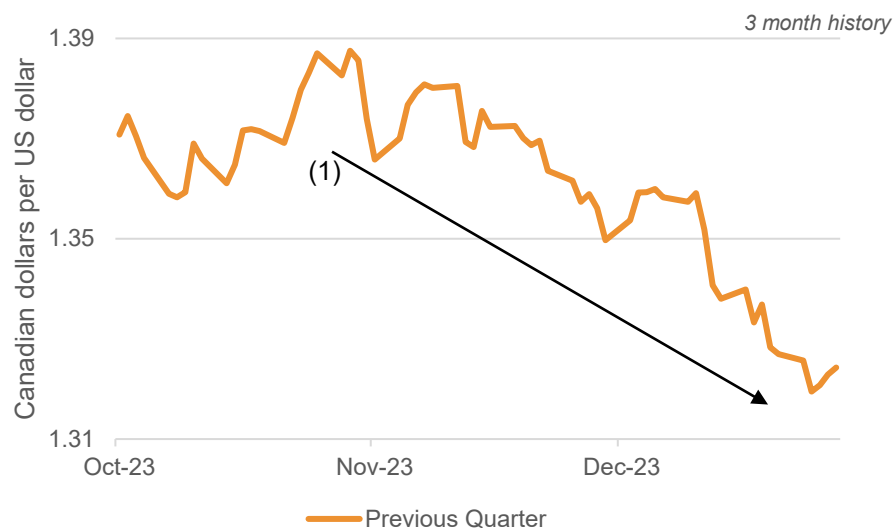
- PNC expects the pound to depreciate slightly over the forecast horizon, while the consensus expects the pound to strengthen slightly.
- A stronger-than-expected European economy or a sooner-than-expected Fed Funds rate cut would contribute to a stronger pound.

Currency Update

Canadian Dollar



The Canadian dollar strengthened 3.2% in the previous quarter.



(1) The Canadian dollar strengthens as inflationary pressures return, while oil prices rise as the dollar weakens

Previous Quarter Recap

- The Bank of Canada (BoC) kept its benchmark interest rate unchanged at its meeting on December 6.
- Canadian manufacturing PMI rose in October, September GDP growth was slower than expected, the November unemployment rate was unchanged, and inflation eased in October and was steady in November.
- Canada's international trade surplus increased in September and October – both were higher than consensus expectations.

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 4.0% in the trailing quarter.

2 year history : 1 year forecast



(1) The peso appreciates as inflation remains elevated, GDP growth increases, and the unemployment rate falls

Previous Quarter Recap

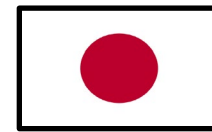
- The Mexican peso depreciated over the past quarter due to an easing US labor market and slowing inflation that supported an end to the Fed's hiking cycle.
- Mexico's economy remained resilient: its real GDP growth was higher than the consensus expectation in the third quarter, the trade balance expanded, and the unemployment rate dropped in November.
- The Bank of Mexico (BdeM) kept its overnight target rate unchanged at 11.25% at its meeting on December 14.

Currency Outlook

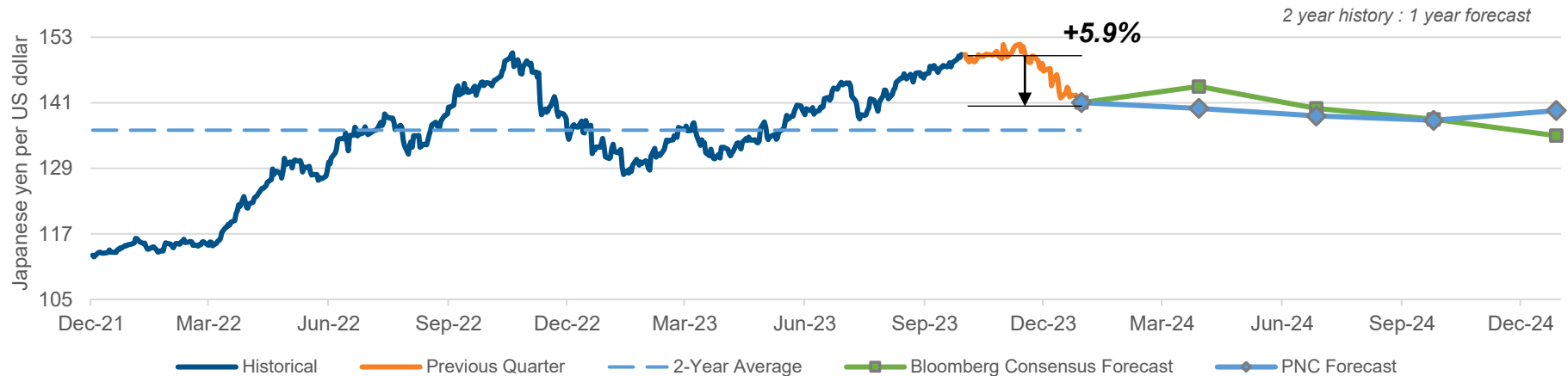
- PNC expects the peso to remain flat, while the consensus expects the peso to weaken slightly over the forecast horizon.
- A sooner-than-expected interest rate cut in the U.S. is an upside potential for the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen appreciated 5.9% in the previous quarter.



(1) The Japanese yen appreciates as inflation begins to cool, speculations of the end to a negative interest rate environment and the resurgence of the US Treasury market

Previous Quarter Recap

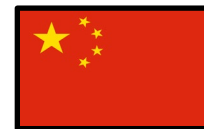
- The Japanese yen appreciated against US dollar in the previous quarter as US inflation eased and the labor market continued to soften, signaling a possible end to the US tightening cycle.
- Japanese inflation fell more than expected in October and November, while real GDP contracted in the third quarter.
- The BoJ held its negative interest rate policy unchanged on December 18.

Currency Outlook

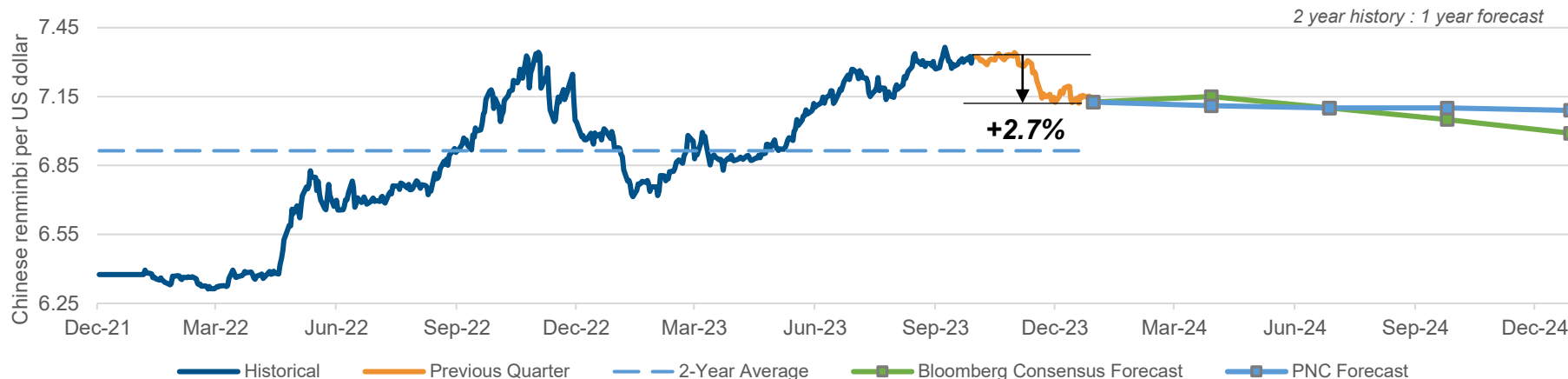
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If markets price in a delayed BoJ policy shift away from negative rates or the Fed cuts the fed funds rate later than expected, the Japanese yen could be weaker than forecasted.

Currency Update

Chinese Renminbi



The renminbi strengthened 2.7% in the last quarter.



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

Previous Quarter Recap

- China's economy experienced continued deflation the past three months, signaling weaker domestic consumption after the National Day Holiday in the week of October 1.
- Retail sales grew faster in October and November, while exports shifted from contraction to expansion in November.
- Contraction in property sector investment deepened in October and November, and the decline in FDI foreign capital also picked up.

Currency Outlook

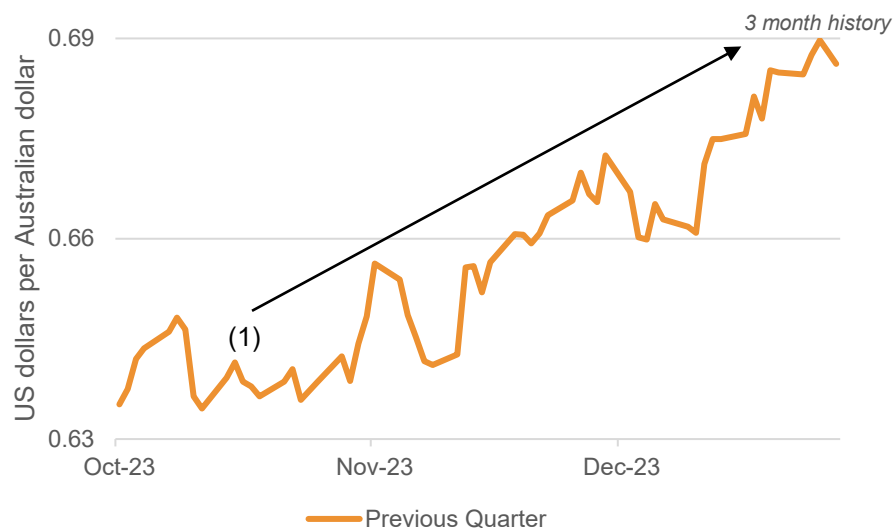
- Both PNC and the consensus expect the renminbi to appreciate against the US dollar over the forecast horizon.
- If weak domestic demand persists and the property sector remains subdued in 2024, the Chinese renminbi could be weaker than forecasted.

Currency Update

Australian Dollar



The Australian dollar strengthened 7.1% in the last quarter.



(1) The Australian dollar strengthens growth in GDP figures and a rise in oil prices

Previous Quarter Recap

- The Australian dollar strengthened against the US dollar in the previous quarter as markets began to price in potential interest rate cuts by the US in 2024.
- The Reserve Bank of Australia (RBA) raised its cash target rate to 4.35% from 4.10% on November 8 while the Fed held its policy interest rate steady on November 1.
- Australia's trade surplus on goods expanded to an eight-month high in November, and its employment change in November was higher than the consensus expectation.

Currency Outlook

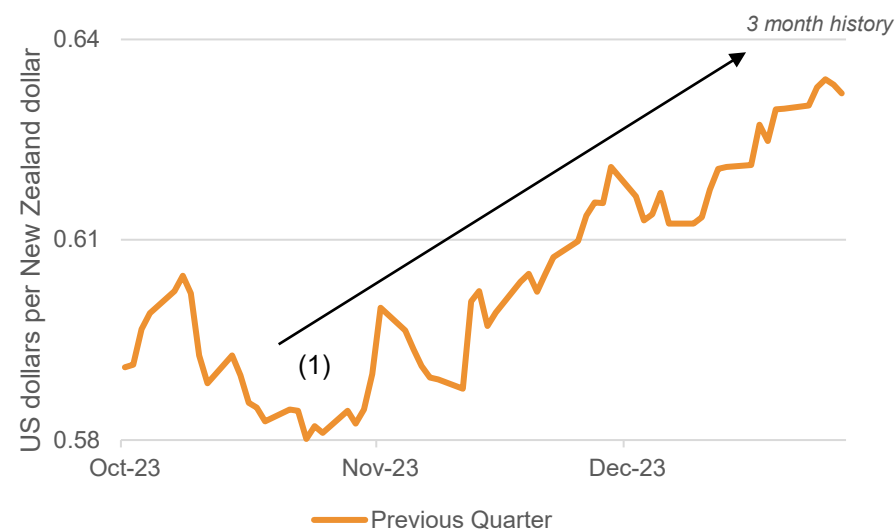
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in or the Chinese economy recovers more quickly, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar appreciated 6.3% last quarter.



(1) The New Zealand dollar appreciates as home sales increase and despite less-than-expected GDP readings

Previous Quarter Recap

- The New Zealand dollar appreciated in the prior quarter due to expectations of an end to an interest rate hiking cycle in the US.
- The Reserve Bank of New Zealand (RBNZ) held its cash rate steady at its meeting on November 28.
- A recovering Chinese economy contributed to a stronger New Zealand dollar.

Currency Outlook

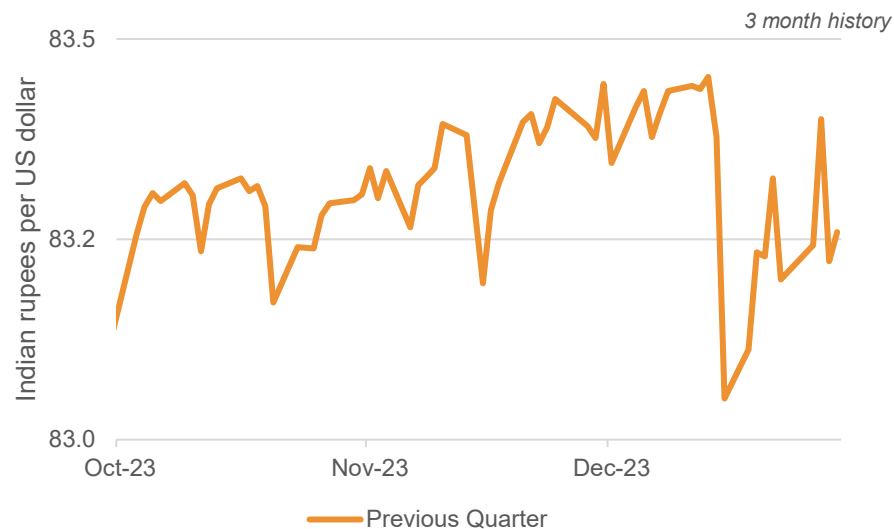
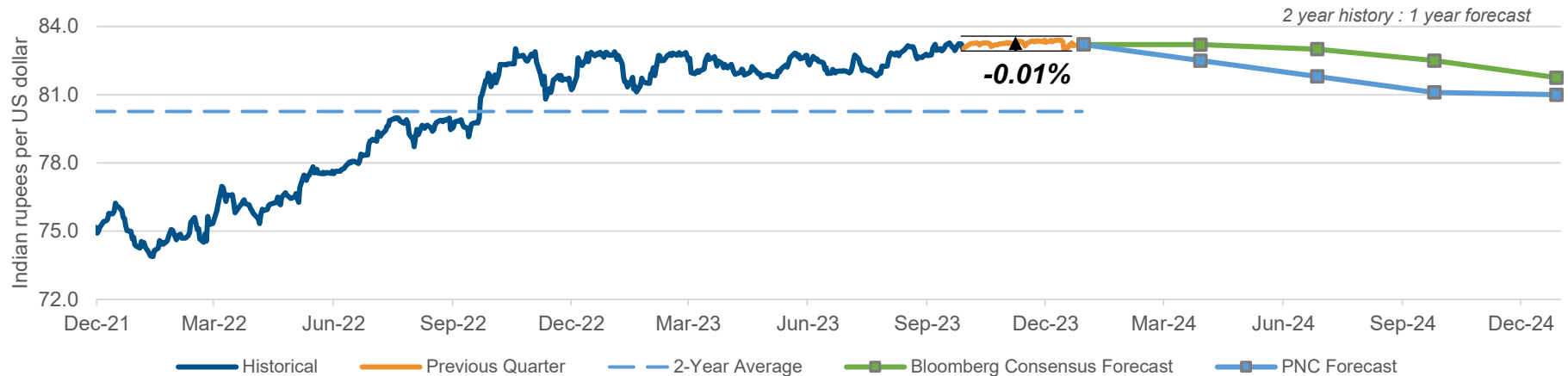
- PNC and the consensus both expect the New Zealand dollar to remain near flat over the forecast horizon.
- If the Fed cuts its policy interest rate sooner than expected, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 0.01% in the past quarter.



Previous Quarter Recap

- The Indian rupee remained rangebound in the prior quarter as domestic economic conditions weakened while the US labor market softened.
- The Reserve Bank of India (RBI) kept its repo rate unchanged on December 7, and inflation in India rose to 5.55% after easing in previous three months.
- India's trade deficit rose to an all-time high in October, before falling in November.

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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