

PNC Currency Review, September 2024

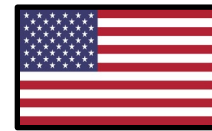
Prior Quarter

June 2024 – August 2024

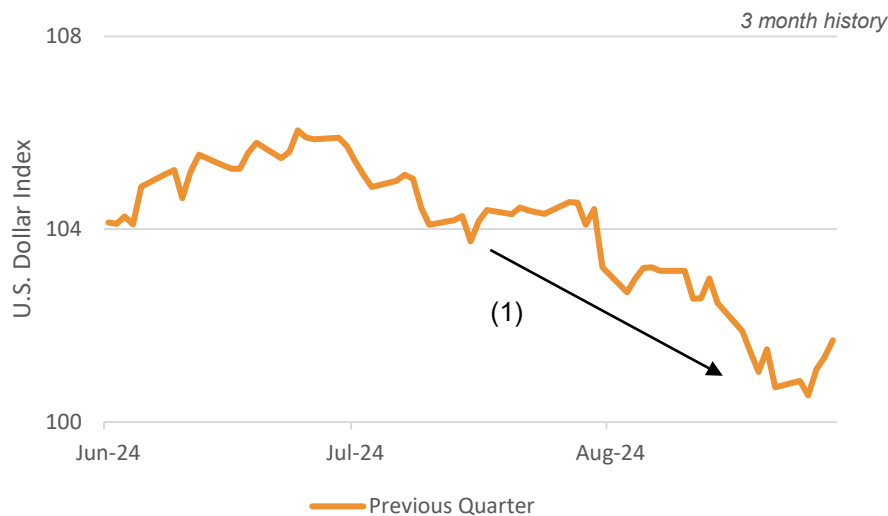
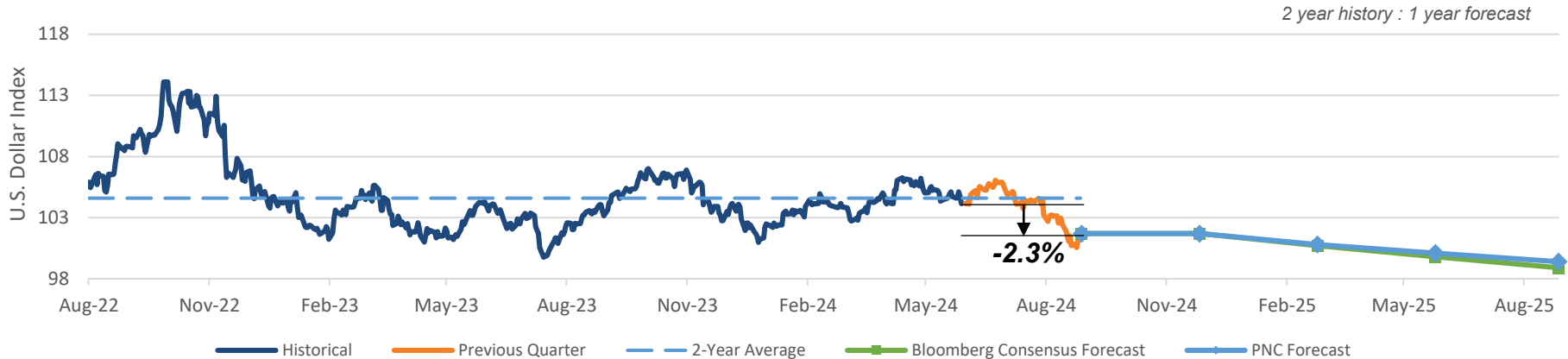


Summary

DXY Major Currencies Dollar Index



The US dollar index weakened 2.3% in the trailing quarter.



(1) US economic data supported a cooling US economy with September as the start of the monetary policy rate cut cycle; the likely number of rate cuts also increased after weak jobs numbers.

Previous Quarter Recap

- The US July jobs report came in much weaker than the consensus on August 2nd. US July CPI inflation came in below consensus expectations on August 14th. Housing starts also came in below consensus on August 16th.
- Preliminary BLS revisions on August 21st indicated total employment in March 2024 was lower by 818,000 compared to the previous estimate.
- In his Jackson Hole speech on August 23rd, Fed Chair Powell called for near-term cuts to the federal funds rate, citing the softening labor market.
- The second estimate of US GDP was revised higher on August 29th.

Currency Outlook

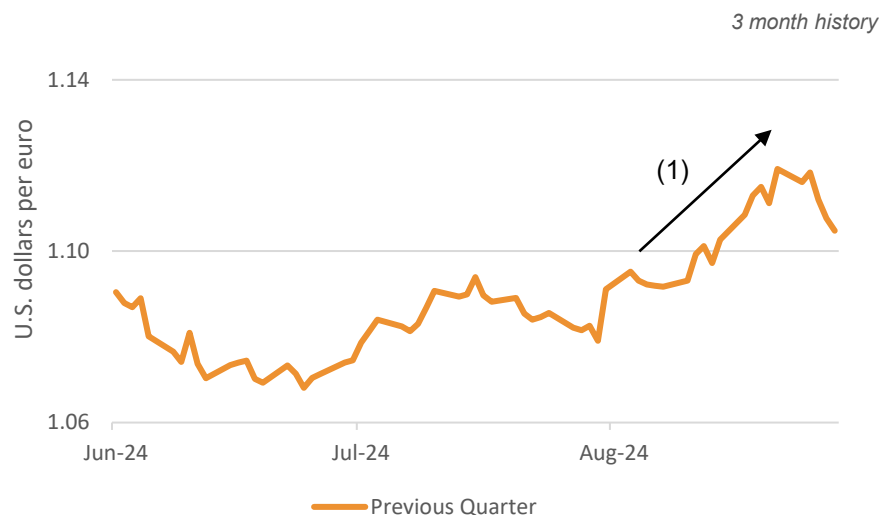
- PNC and the consensus both anticipate that the US dollar will depreciate over the forecast horizon.
- If US economic growth slows more than expected, or the Fed cuts its policy rate more than anticipated, the dollar could weaken more than forecast estimates.

Currency Update

Euro



The euro strengthened 1.3% in the trailing quarter.



(1) A US September interest rate cut is firmly on the table along with additional cuts this year, after the July jobs report and Jerome Powell's speech at the Jackson Hole. Following, the dollar retreated against broad-based currencies.

Previous Quarter Recap

- The European Commission's latest business and consumer surveys show economic sentiment improved in August with employment expectations up noticeably.
- Services activities expanded faster in August, and manufacturing activities improved according to the S&P Global Eurozone PMI release.
- July's unemployment rate fell to historic lows and came in below consensus estimates on August 30th.

Currency Outlook

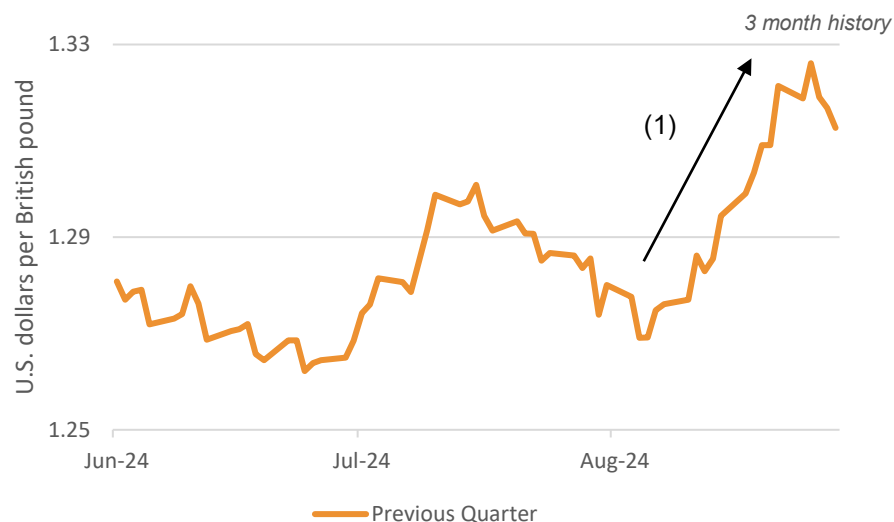
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If the European Central Bank (ECB) loosens monetary policy less than forecasted, the euro could be stronger than expected.

Currency Update

Great British Pound



The British pound strengthened 2.5% in the trailing quarter.



(1) Faster- and larger- than-expected fed funds rate cuts and a more cautious approach by the BOE signaled after its meeting on August 1st have favored the pound.

Previous Quarter Recap

- On August 1st, the Bank of England (BOE) cut its policy rate by 25 basis points to 5%.
- UK real GDP expanded faster in Q2 2024 and was in line with consensus expectations. Retail sales grew at a modest pace in July after falling in June. The total trade deficit narrowed in July with a jump in the services surplus.
- Overall economic activity expanded faster in August, with both manufacturing and services PMIs rising solidly after mid-2024.

Currency Outlook

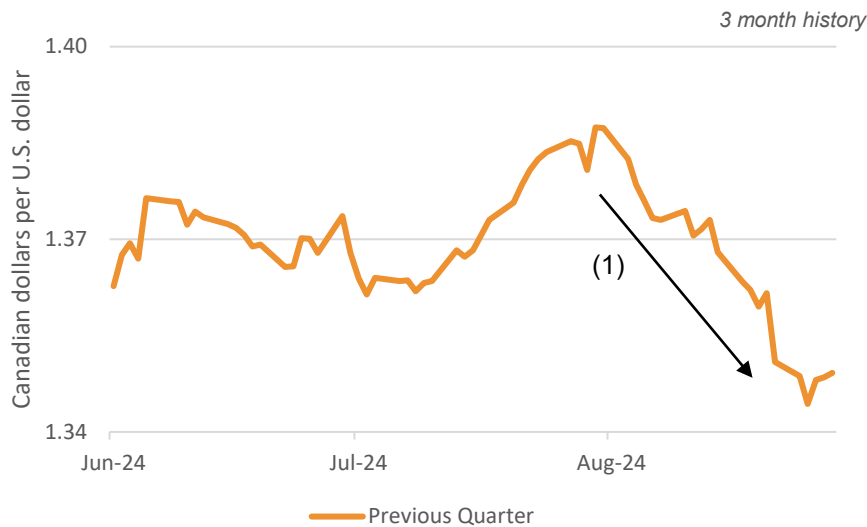
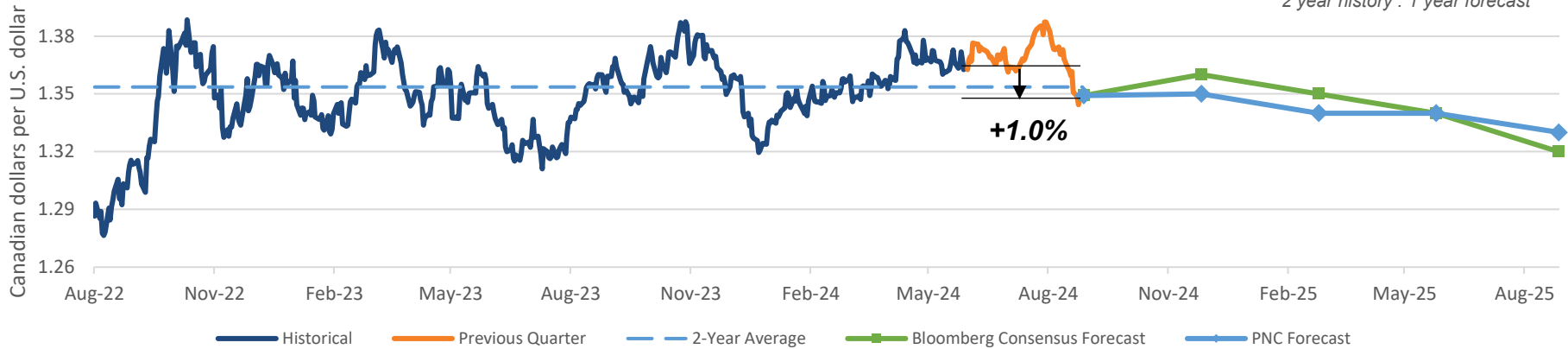
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- Stronger-than-anticipated European/domestic economies coupled with lowered expectations toward monetary easing would contribute to a stronger pound.

Currency Update

Canadian Dollar



The Canadian dollar strengthened 1.0% in the previous quarter.



(1) The Canadian dollar was supported in August by both the broad USD weakness as investors become wary of US economic conditions, as well as rising oil prices to start the month of August.

Previous Quarter Recap

- Canadian inflation, excluding mortgage interest payments, fell to 1.8% in July, down from 1.9% in June. Both months' inflation fell below Bank of Canada (BOC) inflation objectives.
- Real GDP increased 2.1% annualized in Q2, above consensus expectations and the BOC's forecasts.
- The BOC lowered its overnight target rate by another 25 bps on September 4th to 4.25%.

Currency Outlook

- Both PNC and the consensus expect the Canadian dollar to strengthen over the forecast horizon.
- If the Fed cuts interest rates more than expected, or US inflation surprises to the downside, the Canadian dollar would likely be stronger than forecasted.

Currency Update

Mexican Peso



The Mexican peso weakened 11.5% in the trailing quarter.



(1) Amidst broad USD weakness ahead of potential interest rate cuts by the Federal Reserve, fears over diminishing returns saw investors leave the Mexican peso to repay debts held in lower interest rate environments, unwinding the carry trade.

Previous Quarter Recap

- On August 8th, the Bank of Mexico cut its overnight target rate by 25 basis points to 10.75%.
- Mexican CPI inflation came in above the consensus estimate in early August and increased at its fastest pace over the past year. Core inflation, however, continued to ease from a year ago.
- Mexican industrial production growth lost momentum entering 2024 but picked up slightly in mid-2024. However, the S&P Global Mexico Manufacturing PMI fell in August.
- The global carry trade unwind saw many investors sell out of their MXN positions, weakening the peso.

Currency Outlook

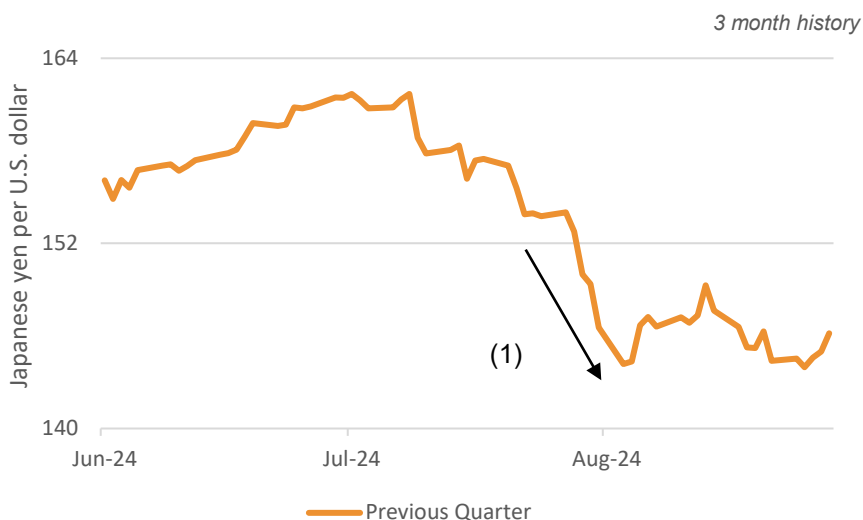
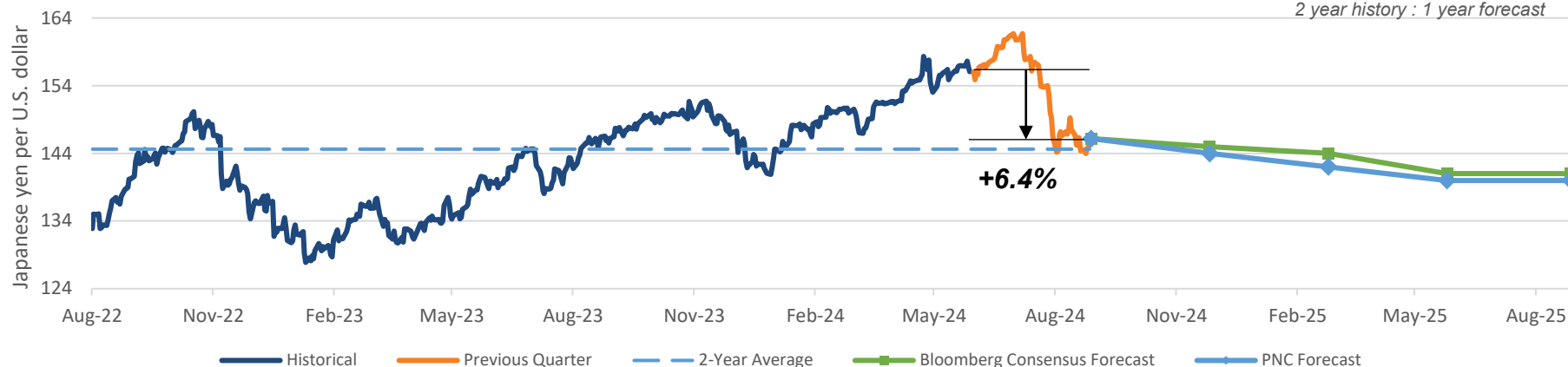
- Both PNC and the consensus expect some strengthening in the Mexican peso over the forecast horizon.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso. However, prolonged political uncertainties could weaken the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen strengthened 6.4% in the previous quarter.



(1) The Bank of Japan took a more hawkish stance, raising its policy rate 15 bps to 0.25% at its July 30th meeting. This move, accompanied by expected Fed rate cut, led many investors to buy JPY to pay off potential debts denominated in JPY, initiating the unwind of the carry trade.

Previous Quarter Recap

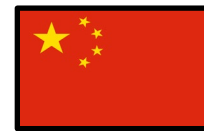
- Real GDP was stronger than estimates and expanded in Q2 after contracting in Q1 2024. Retail sales continued to expand at a solid pace in mid-2024.
- Tokyo CPI inflation was higher than consensus estimates on August 29th, accelerated to 2.6% in August, the strongest pace since late 2023.
- Japan's services activity expanded faster in August according to the Jibun Bank PMI; the composite index increased on the month after rebounding from a six-month low in July.
- The yen strengthened as the global carry trade unwind saw investors buy back into their JPY positions.

Currency Outlook

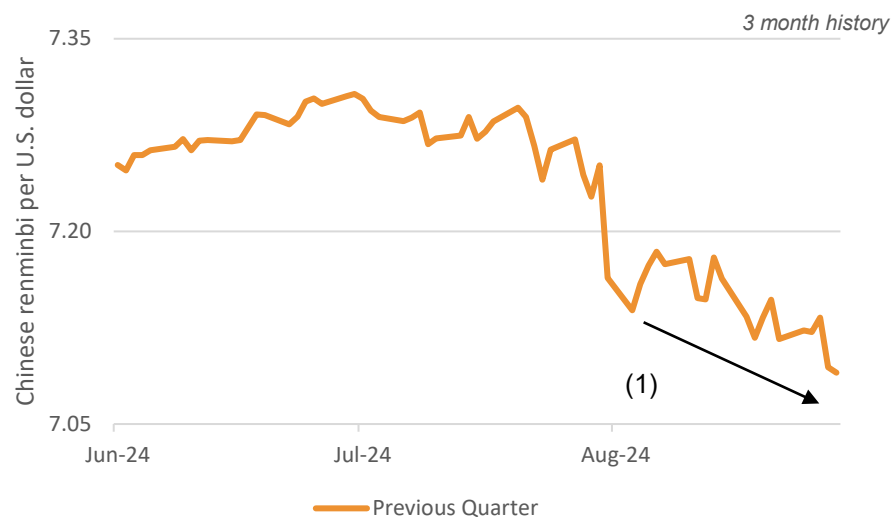
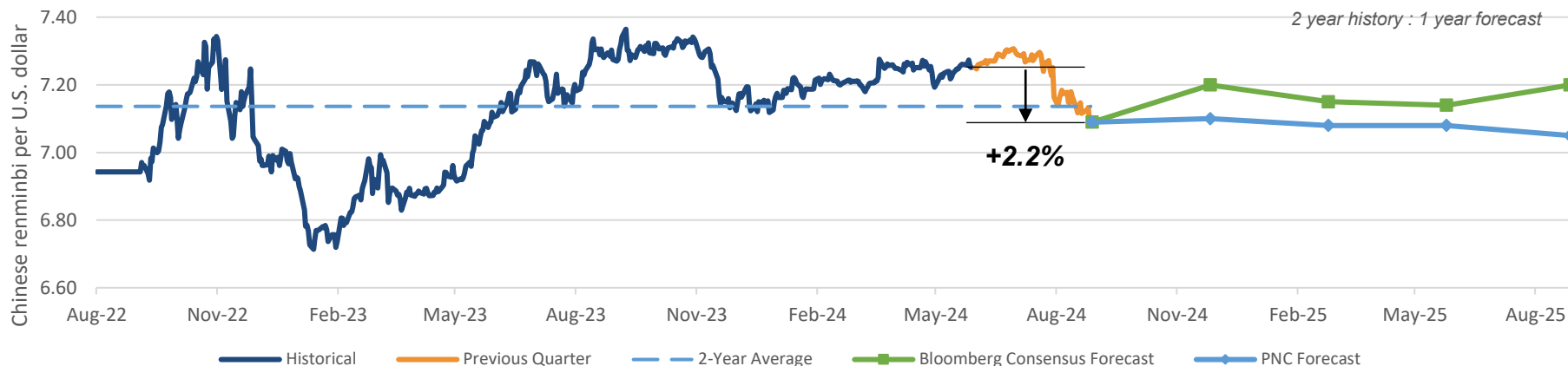
- PNC and the consensus expect the yen to strengthen over the forecast horizon.
- The yen could be stronger than forecasted if the fed cuts rates more than expected or the Bank of Japan becomes more hawkish.

Currency Update

Chinese Renminbi



The Chinese renminbi strengthened 2.2% in the last quarter.



(1) A US September interest rate cut is firmly on the table along with additional cuts this year, after the July jobs report and Jerome Powell's speech at the Jackson Hole. Following, the dollar retreated against broad-based currencies.

Previous Quarter Recap

- The People's Bank of China (PBOC) unexpectedly cut its one-year medium-term lending facility (MLF) rate by 20 bps on July 24th to boost the economy. CPI in July was up only 0.5% from last year.
- NBS Manufacturing PMI dropped and has remained below the expansionary threshold for four consecutive months. There was, however, an improvement in non-manufacturing activity.
- Industrial profits were up 4.1% on a YoY basis in July, a slightly faster pace than last month.

Currency Outlook

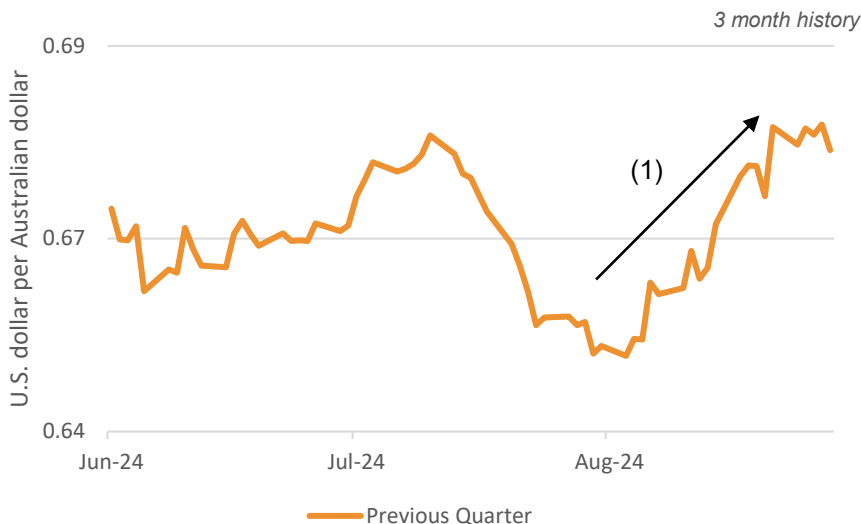
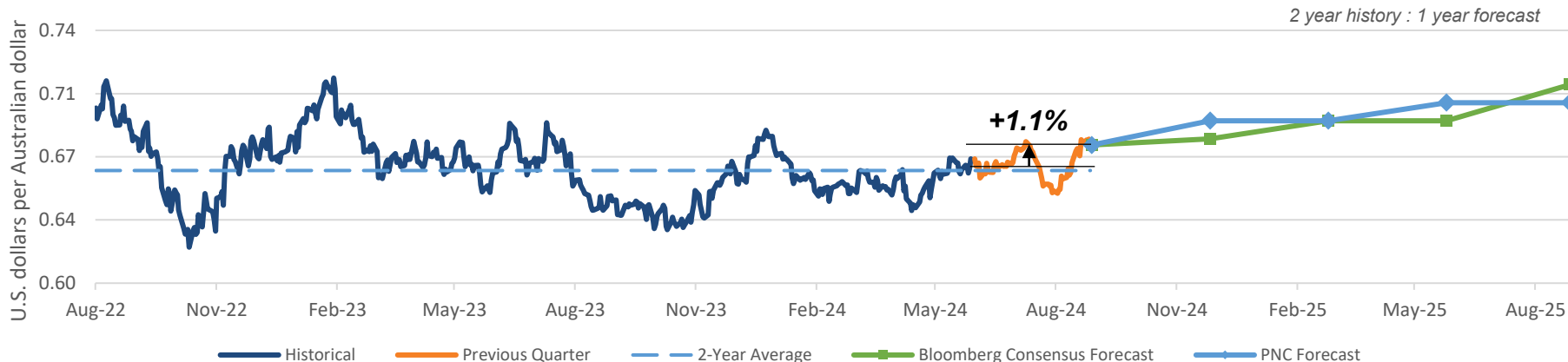
- The consensus expects the renminbi to weaken, while PNC expects it to strengthen slightly over the forecast horizon.
- If weakness in the domestic economy persists and growth is worse than expected, the Chinese renminbi could be weaker than PNC's forecast.

Currency Update

Australian Dollar



The Australian dollar strengthened 1.1% in the last quarter.



(1) The global carry trade unwind and expectations for interest rate cuts by the Federal Reserve contributed to a stronger Australian dollar. Sticky inflation in Australia further contributed to expectations of higher-for-longer interest rates.

Previous Quarter Recap

- On August 6th, the Reserve Bank of Australia kept its cash target rate steady at 4.35%.
- Australia's Q2 GDP was in line with consensus estimates on September 3rd. Economic growth slowed into mid-2024. July's CPI came in at 3.5% YoY, slowing from June but still up from January 2024.
- Australia's services activity expanded faster in August according to the Judo Bank PMI while manufacturing activity continued to contract on the month.

Currency Outlook

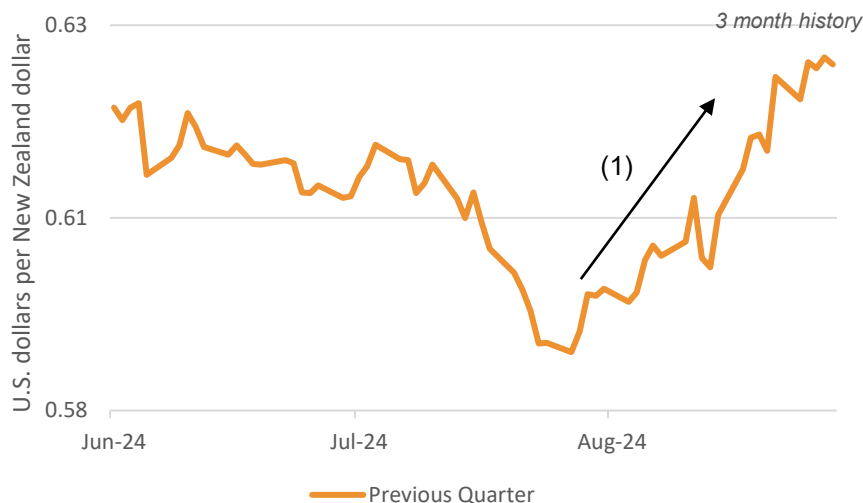
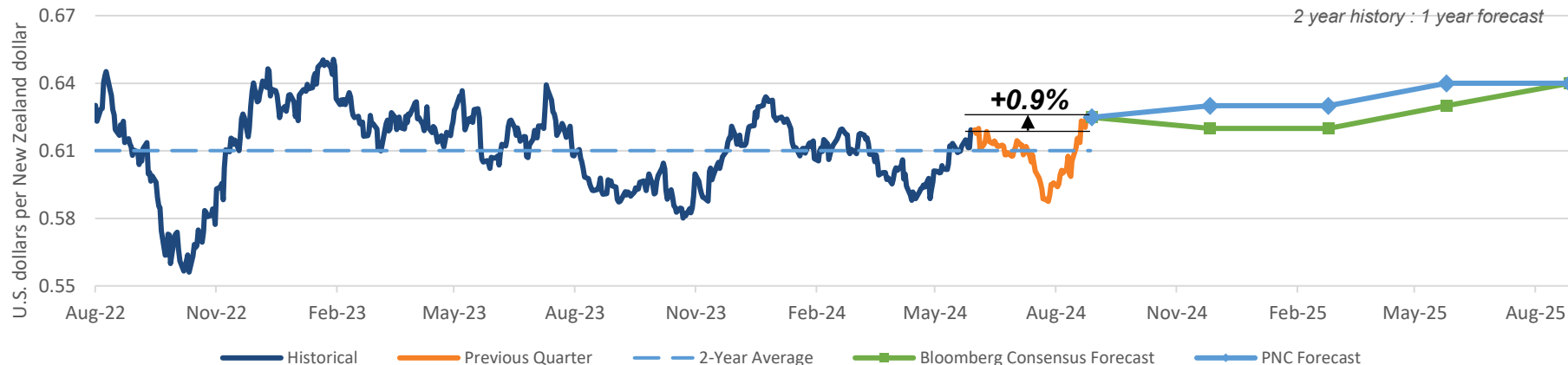
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar strengthened 0.9% last quarter.



(1) Firm US rate cut expectations weighed on the US Dollar against a broad range of currencies in August.

Previous Quarter Recap

- The Reserve Bank of New Zealand (RBNZ) cut its cash rate by 25 basis points to 5.25% on August 13th.
- Retail sales contracted, the unemployment rate climbed, and producer prices increased faster in Q2. The two-year inflation expectation was lowered to 2% in Q3.
- New Zealand's manufacturing activity improved in July, although it was still contracting according to Bank of New Zealand PMI data.

Currency Outlook

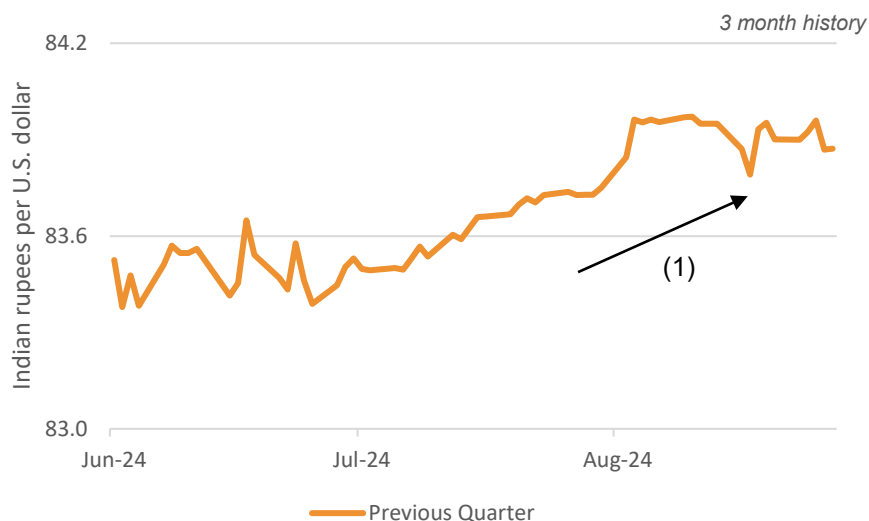
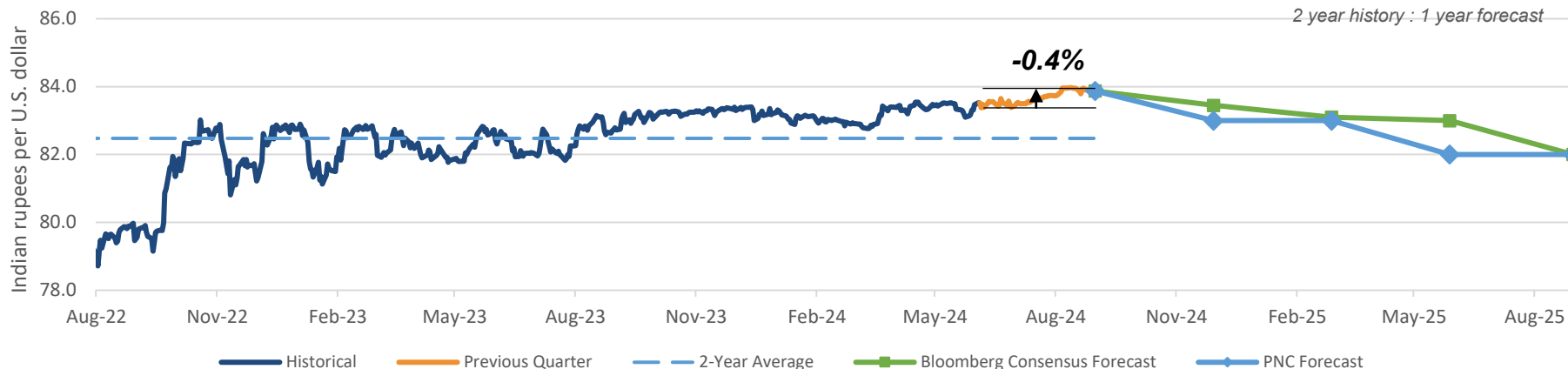
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy rate more than anticipated, or inflation in New Zealand remains elevated, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 0.4% in the past quarter.



(1) The unwinding of global carry trade and rising oil prices contributed to the rupees weakening in early August.

Previous Quarter Recap

- The Reserve Bank of India (RBI) held the repo rate steady at 6.5% for the ninth straight meeting on August 8th.
- India's headline CPI inflation in July came in below consensus estimates on August 12th, easing to 3.5% after rising in June. Headline inflation also fell within the range of RBI's inflation target.
- HSBC India PMI showed overall business activity continued to expand at a fast pace in August, with a pickup for services. However, they reported a slowdown in manufacturing.

Currency Outlook

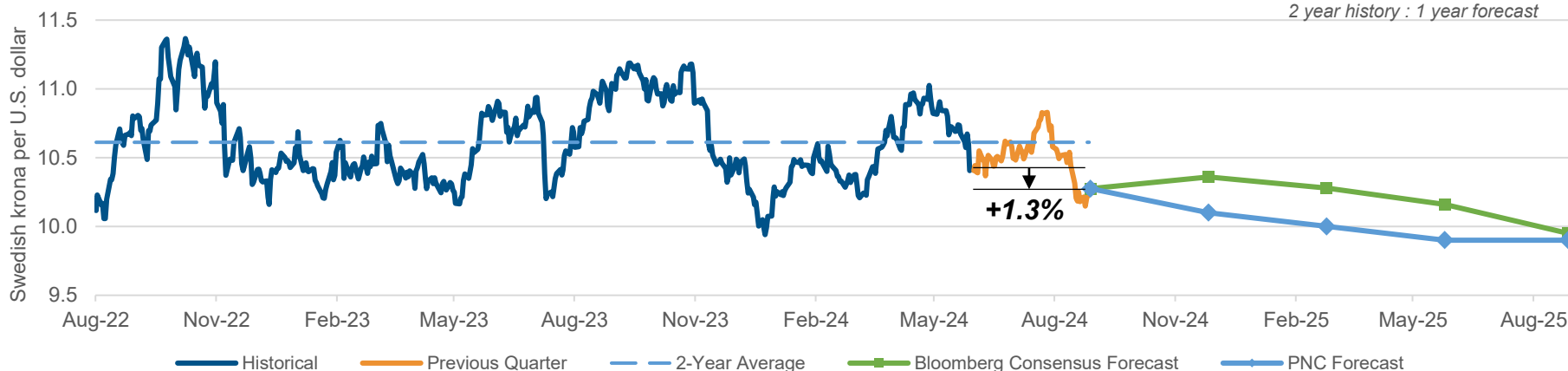
- PNC and the consensus expect the rupee to strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in, or Indian inflation surprises to the upside, the rupee could be stronger than expected.

Currency Update

Swedish krona



The Swedish krona strengthened 1.3% in the past quarter.



(1) Firm Fed rate cut expectations and better-than-expected economic conditions favored the Swedish krona in August.

Previous Quarter Recap

- Headline inflation was 2.6% in July, unchanged from last month. Riksbank cut its repo rate by 25 bps to 3.5% on August 20th, the first cut since May.
- Real GDP came in slightly better than consensus estimates on August 29th. The working day adjusted real GDP expanded both quarterly and over the past year.
- Sweden's manufacturing activities in August bounced back into expansionary territory after the temporary contraction in July. Manufacturing PMI came in stronger than consensus estimates on September 2nd.

Currency Outlook

- PNC and the consensus both expect the Swedish krona to strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate more than markets are currently pricing in, or inflation surprises to the upside, the krona could be stronger than expected.

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