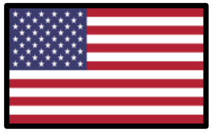
PNC Currency Review, March 2025

Prior Quarter
December 2024 – February 2025

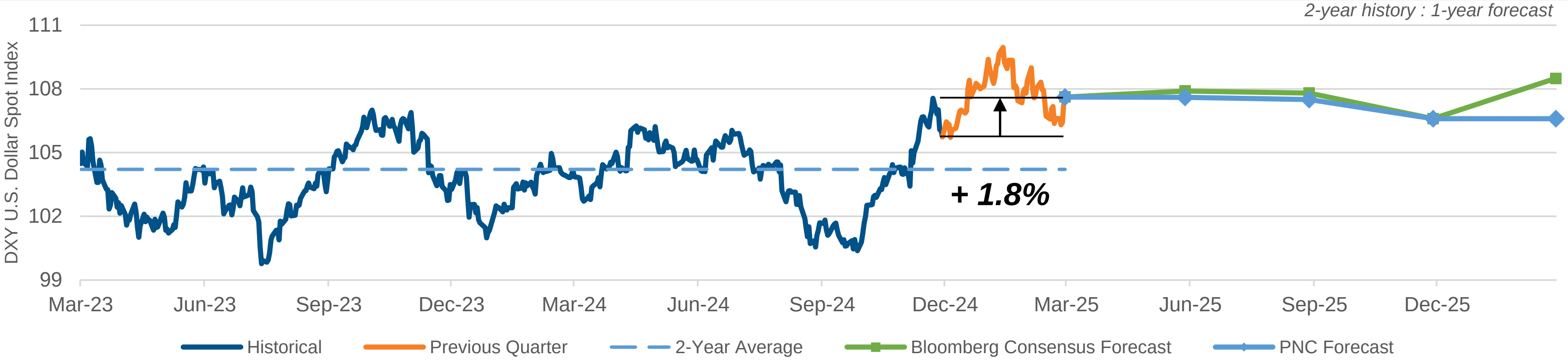
PNC BANK

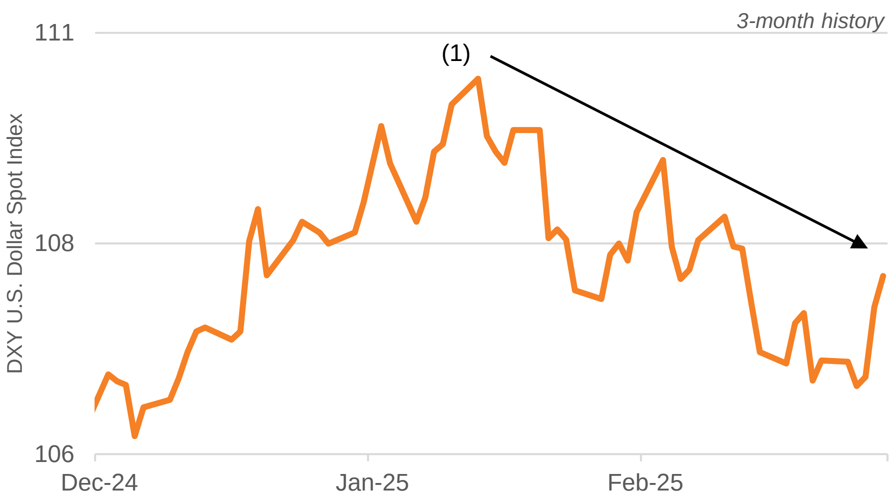
Summary

DXY Major Currencies Dollar Index



The US dollar index strengthened 1.8% in the trailing quarter.





(1) The US dollar weakened in late January when expectations of large and immediate tariffs fell off with Canada, China and Mexico. Weak US economic data has also contributed to the past weakness.

Previous Quarter Recap

- Overall retail sales (including food services) declined in January for the first time since August and were well below the consensus forecast.
- The Conference Board's Consumer Confidence Index dropped 7 points to 98.3 in February. This was just below PNC's forecast of 100.0 and the lowest level since June 2024.
- Initial claims for unemployment insurance fell by 21,000 to 221,000 in the week ending March 1, 2025, reversing the previous week's rise.

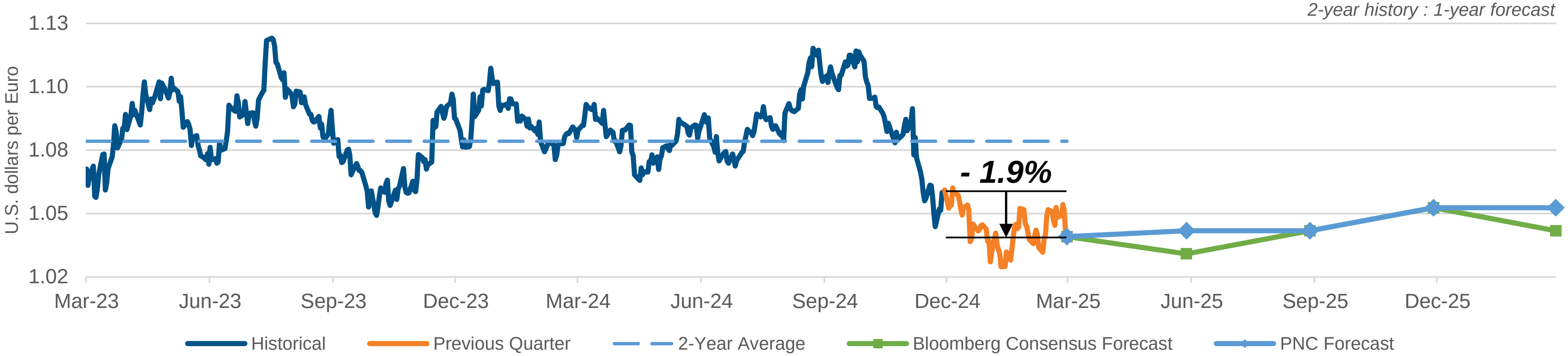
Currency Outlook

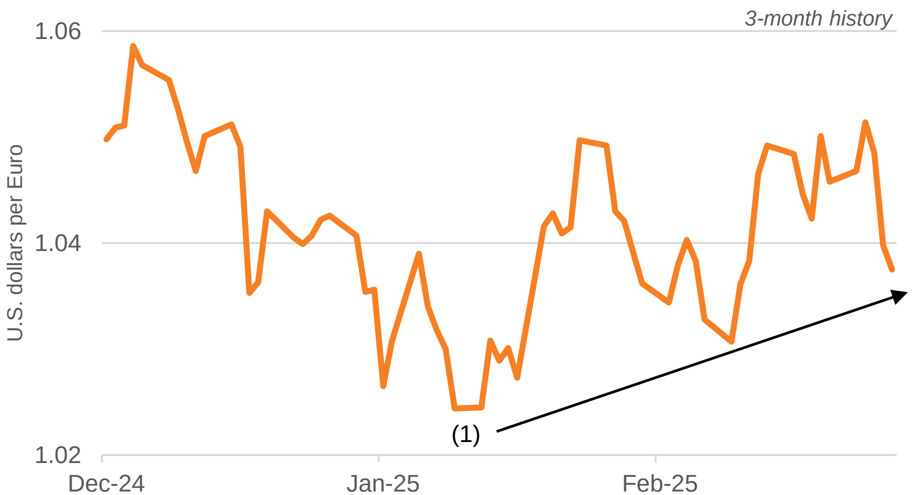
- The consensus anticipates the US dollar will appreciate over the forecast horizon. PNC expects it to depreciate.
- If President Trump is to raise tariffs with the EU over the next few months, the dollar may be stronger than PNC's forecast; however, more rate cuts than expected will weigh on the US dollar.

Currency Update

Euro

The Euro weakened 1.9% in the trailing quarter.





(1) The Euro experienced volatility against the US dollar experienced volatility in the trailing quarter, with President Trump's tariff plan temporarily on pause held off against Canada and Mexico. The trade friction between the US, Canada, and Mexico likely contributed to a stronger Euro.

Previous Quarter Recap

- Core CPI inflation remained sticky and flat for the fifth straight month in January 2025.
- The Consumer Confidence Indicator retreated in late 2024 but improved in February to a four-month high in the eurozone.
- Composite PMI remained above the contractionary threshold for a second consecutive month in February and was unchanged from last month at 50.2, according to a flash PMI report.
- The European Central Bank (ECB) lowered three key interest rates by 25 basis-points as expected on March 6.

Currency Outlook

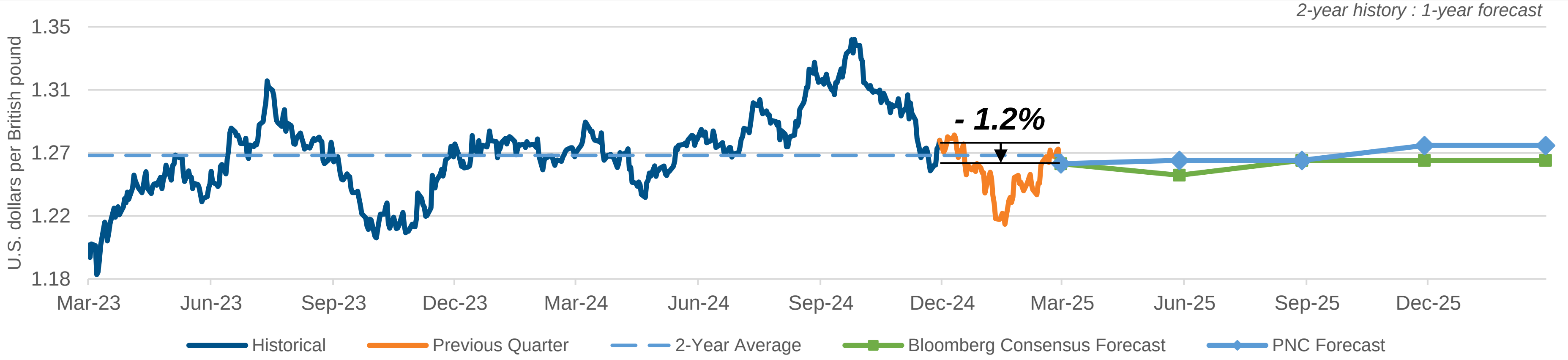
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If President Trump raises tariffs with the EU over the next few months, the Euro will likely be weaker than PNC's forecast.

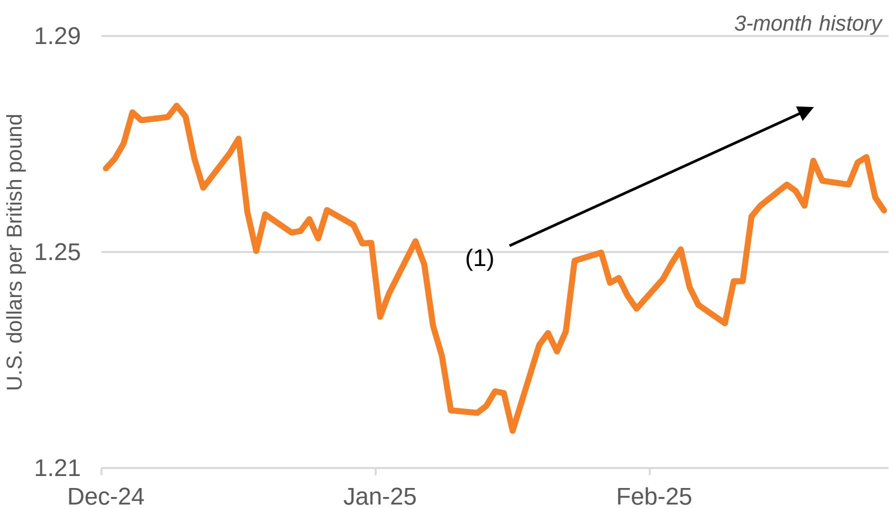
Source: Bloomberg

Currency Update

Great British Pound

The British pound weakened 1.2% in the trailing quarter.





(1) The British pound experienced volatility against the US dollar in the trailing quarter, with President Trump’s tariff plan temporarily held off against Canada and Mexico. The trade war between the US, Canada and Mexico likely contributed to a stronger pound.

Previous Quarter Recap

- Topline CPI inflation came in slightly stronger than the consensus, contracting 0.1% on the month but still up 3% from a year ago in January.
- UK’s Flash PMI came in below the consensus, falling to 46.4 in February, a deeper reach in contractionary territory. This is the lowest Manufacturing PMI in over a year, signaling a further cut in manufacturing production in early 2025.
- January’s retail sales came in stronger than expected and grew 1.7% on the month after contracting for the fourth consecutive month in December.

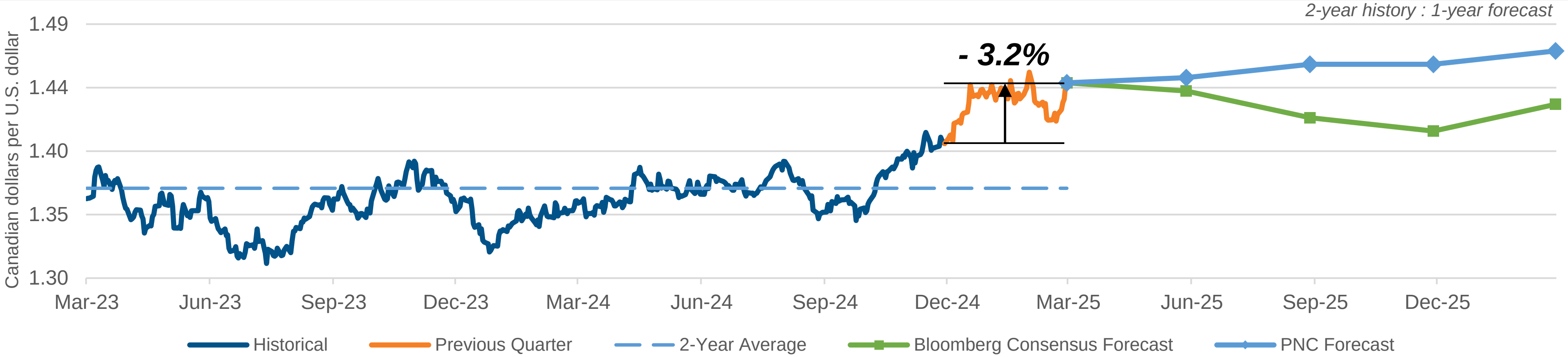
Currency Outlook

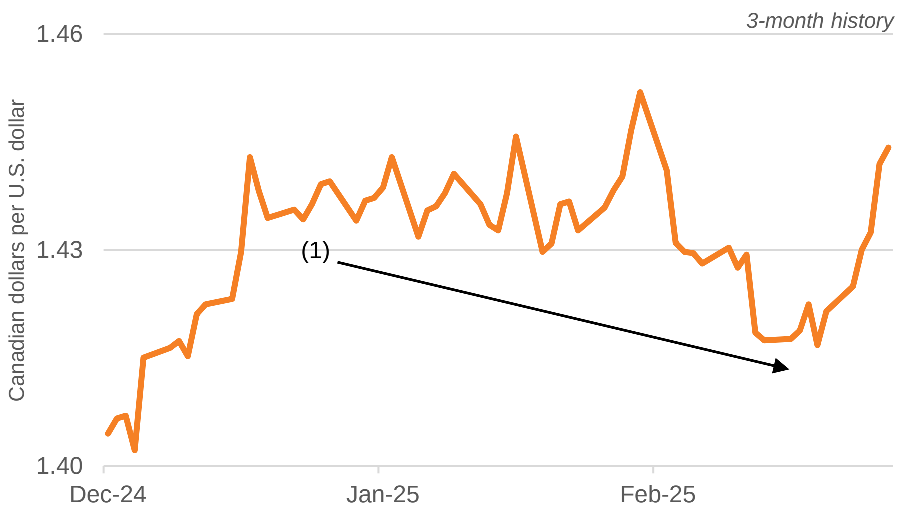
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- A sooner-than-expected tariff with the EU or the UK will likely contribute to a weaker pound/stronger US dollar.

Currency Update

Canadian Dollar

The Canadian dollar weakened 3.2% in the previous quarter.





(1) The Canadian dollar appreciated with a temporary halt on tariffs from President Trump.

Previous Quarter Recap

- Headline CPI inflation increased to 1.9% in January from 1.8% in December, remaining within the Bank of Canada's inflation target range.
- Seasonally adjusted retail sales came in stronger than the consensus in December, growing 2.5% on the month and 3.9% over the past year.
- Q4 real GDP came in much stronger than the consensus and grew 2.6% annualized, above the Q3 growth rate.
- The Manufacturing PMI took a dip in February after an increase in Q4.

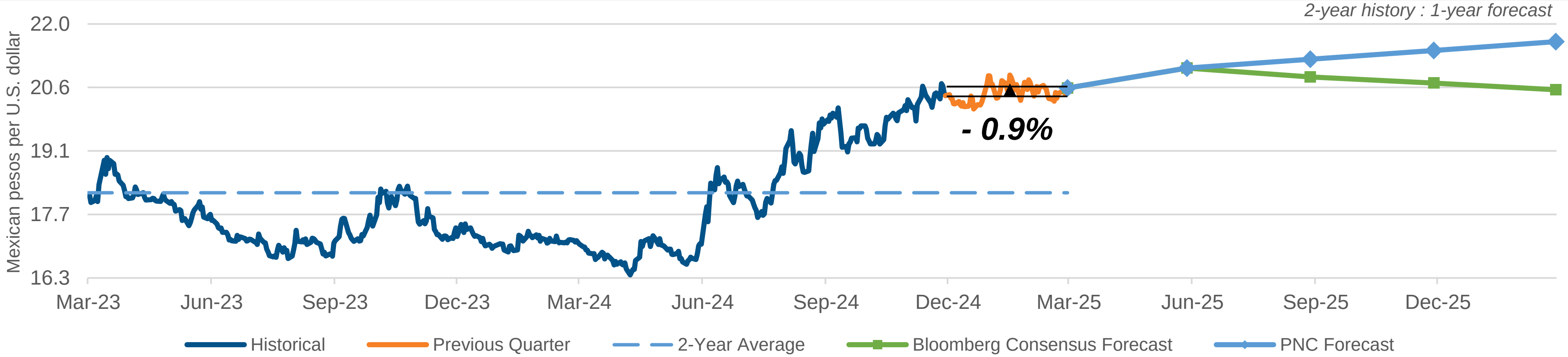
Currency Outlook

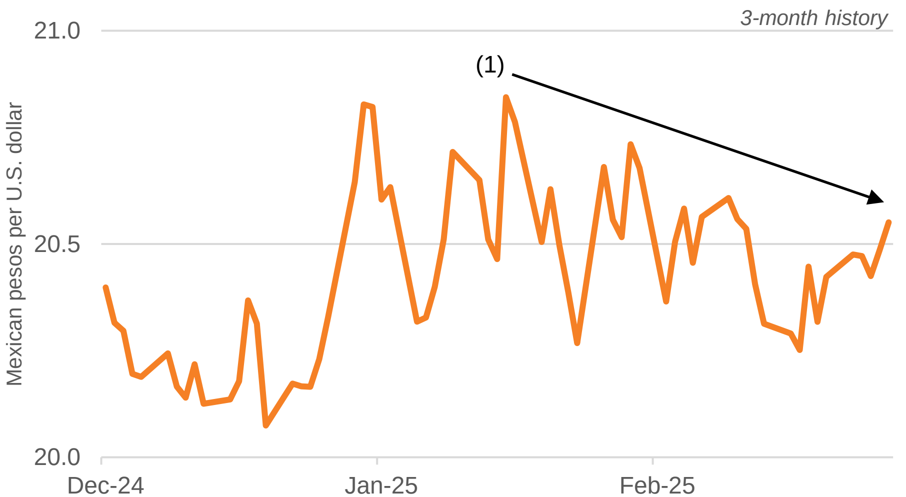
- The consensus expects the Canadian dollar to strengthen over the forecast horizon. PNC expects it to depreciate under tariffs.
- The Canadian dollar could be stronger than PNC's forecast with fewer or no tariffs from the US.

Currency Update

Mexican Peso

The Mexican peso weakened 0.9% in the trailing quarter.





(1) The peso strengthened in the trailing quarter under a temporary reprieve from 25% tariffs with the US from President Trump.

Previous Quarter Recap

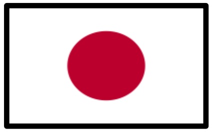
- Industrial production continued to trend down ending 2024, falling 1.4% monthly after the seasonal adjustment. The Manufacturing PMI also showed factory activity contracting at a faster pace in February 2025.
- Real GDP contracted 0.6% in Q4 according to the final estimate. The Central Bank of Mexico cut the policy rate by 50 basis-points to 9.5% from 10% on February 6. This cut was larger than decisions made in the previous meetings.
- Mexico’s CPI inflation continued to cool off and grew 0.3% in January, a slower pace from December and November.

Currency Outlook

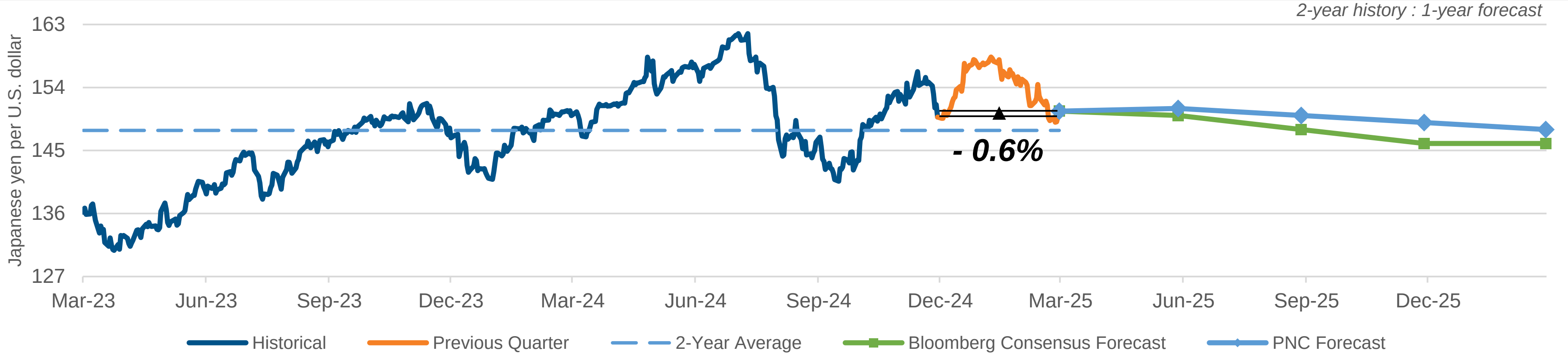
- The consensus expects the Mexican peso to strengthen over the forecast horizon. PNC expects tariffs to depreciate the peso.
- The Mexican peso could be stronger than PNC’s forecast with fewer or from the US.

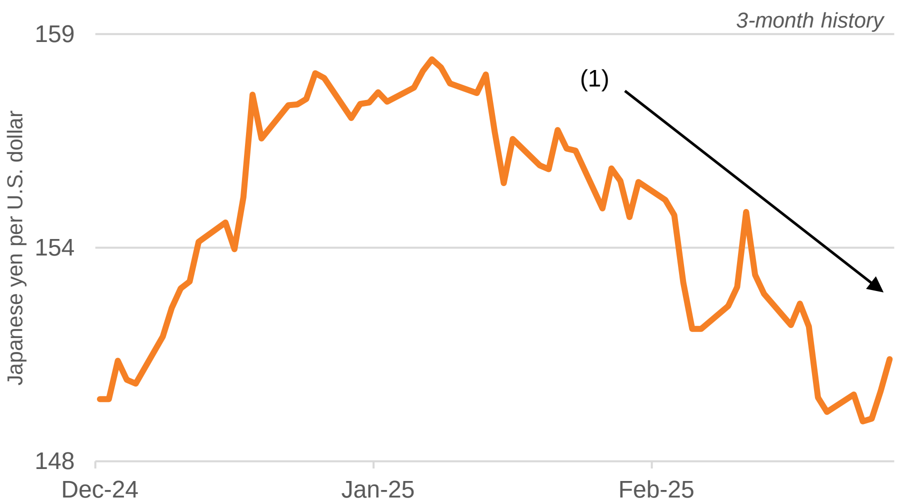
Currency Update

Japanese Yen



The Japanese yen weakened 0.6% in the previous quarter.





(1) The yen strengthened as inflation continued to heat up in Japan, while expectations of interest rate hikes from the BOJ favored the yen over the US dollar.

Previous Quarter Recap

- Monthly average cash earnings jumped at the end of 2024 from the previous year, growing 4.8% in December 2024 and the fastest wage growth since 1995.
- The CPI continued to rise rapidly in January, jumping 4% year-over-year, up from 3.6% in December 2024. There has been a rapid increase in Japan's overall price level during the past three months.
- Real GDP grew at a solid pace in Q4 2024, rising 2.8% annualized. This pace was much better than the consensus expectation of 1.1% and accelerated from 1.7% in Q3 2024.

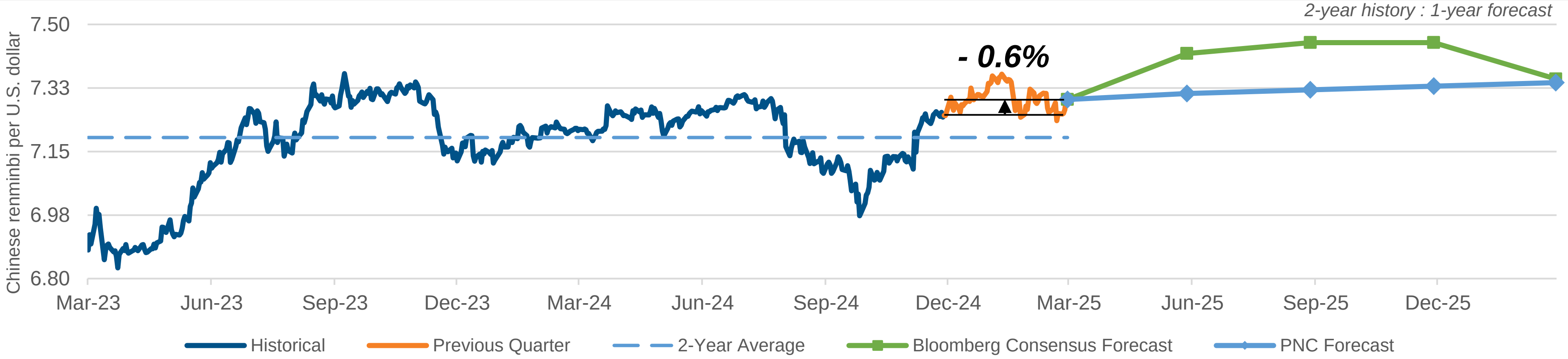
Currency Outlook

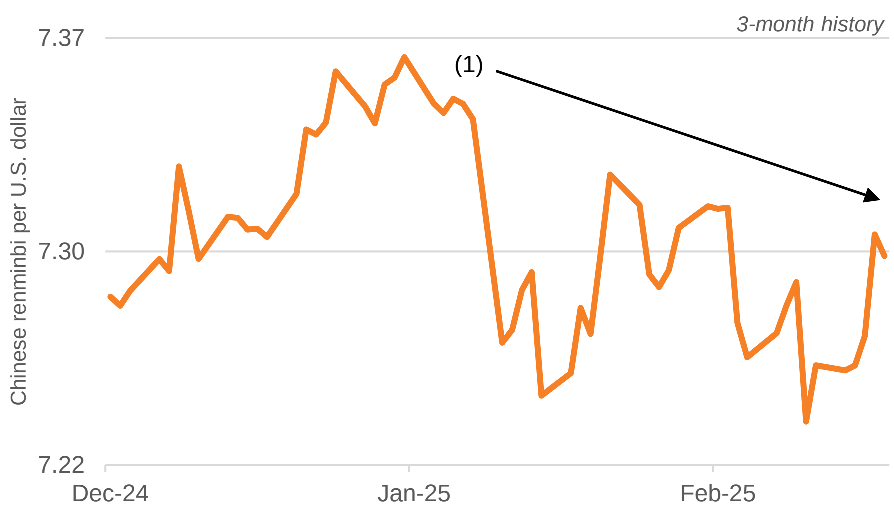
- PNC and the consensus expect the yen to strengthen over the forecast horizon.
- The yen could be stronger than forecasted if the Fed cuts or the BOJ raises policy rates more than expected in 2025.

Currency Update

Chinese Renminbi

The Chinese renminbi weakened 0.6% in the last quarter.





(1) Weaker domestic economic growth expected ahead and less-than-expected tariff measures from the US contributed to volatility in the Chinese renminbi.

Previous Quarter Recap

- Headline CPI inflation came in slightly higher than the consensus in January, up 0.5% on a year-ago basis. Core inflation increased for a fourth consecutive month in January to 0.6% year-over-year.
- Foreign direct investment in China was down 13.4% in January 2025 from last year.
- The National Bureau of Statistics' Manufacturing PMI rose to expansionary territory in February 2025 after contracting in January. Factory activity expanded on the month. Services activity expanded at a slightly faster pace in January.

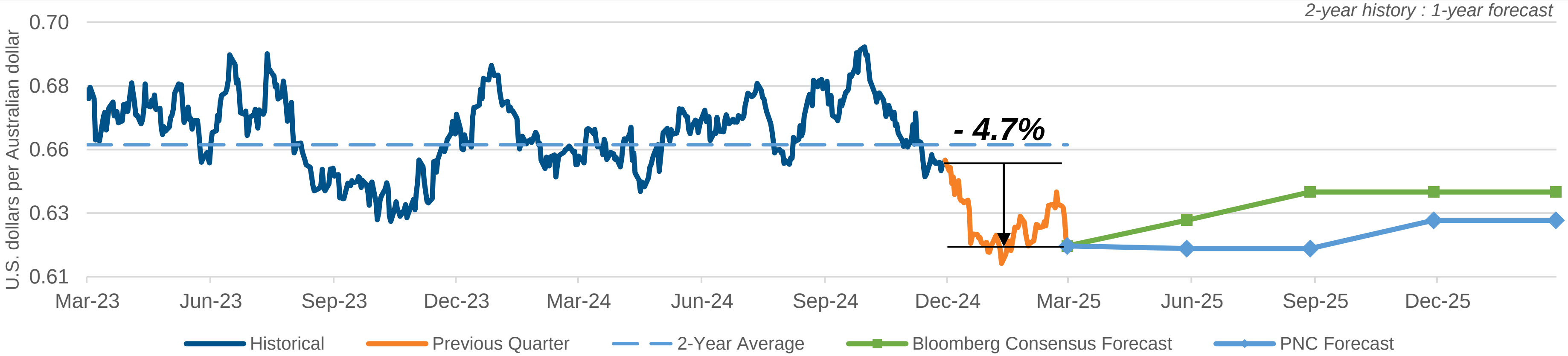
Currency Outlook

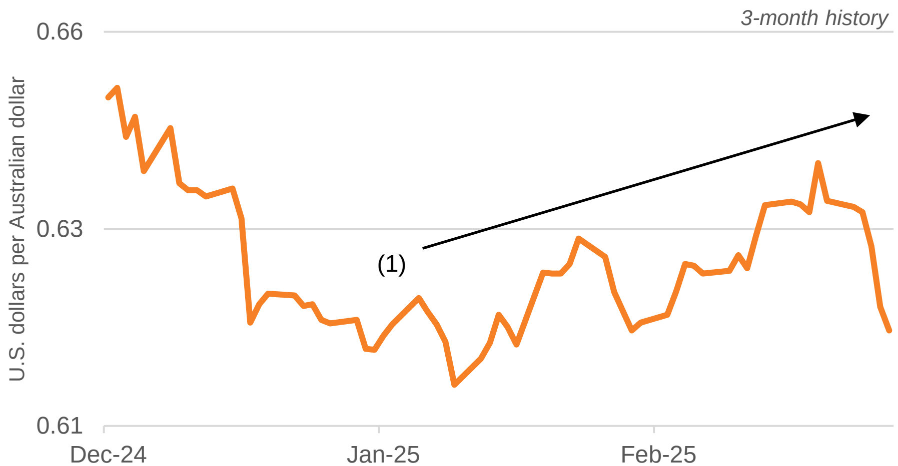
- Both the consensus and PNC expect the renminbi to weaken over the forecast horizon, albeit to varying degrees.
- If economic weakness persists amid support measures and tariffs, the Chinese renminbi could be weaker than PNC's forecast.

Currency Update

Australian Dollar

The Australian dollar weakened 4.7% in the last quarter.





(1) The Australian dollar strengthened in the past quarter following less-than-expected tariff measures between the US and China.

Previous Quarter Recap

- The Reserve Bank of Australia lowered the cash rate target from 4.35% to 4.1% on February 18. This move marked the first cash rate target cut in the current monetary policy easing cycle, as well as the first cut since late 2020.
- The trimmed mean CPI grew 2.7% year-over-year in December 2024, falling within the RBA's consumer inflation target range of 2% to 3% for the first time since 2022.
- Australia's labor market remained tight with a low unemployment rate in January. Job gains were still above the long-term average since 2005.

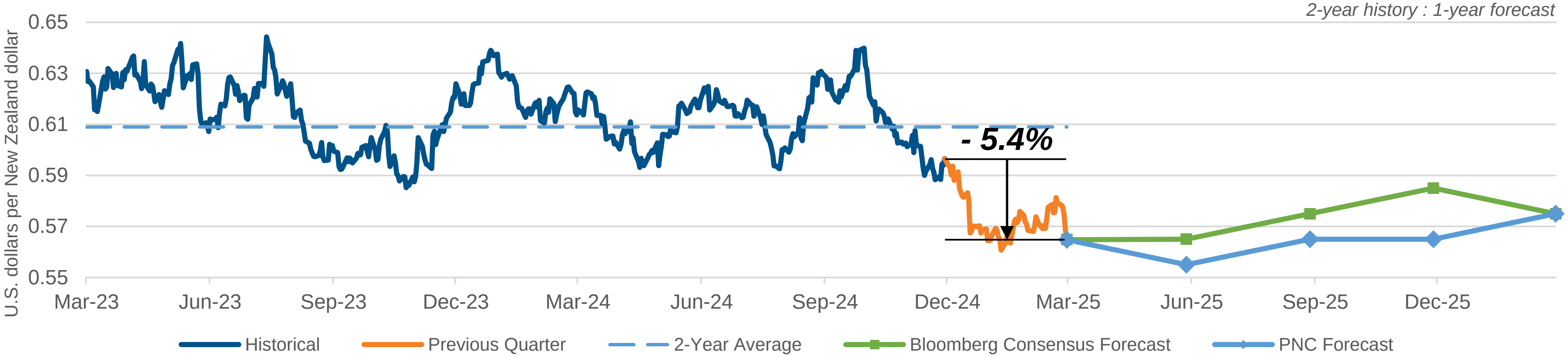
Currency Outlook

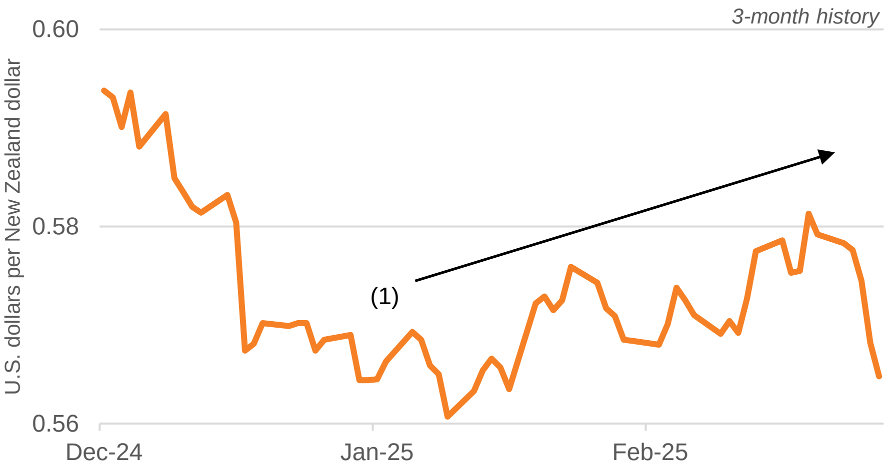
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- The Australian dollar could be stronger than PNC's forecast if the Fed cuts more than expected in 2025.

Currency Update

New Zealand Dollar

The New Zealand dollar weakened 5.4% in the last quarter.





(1) President Trump's tariff talks have contributed to volatility in the New Zealand dollar in the trailing quarter. An escalation of trade frictions between the US and other countries has also favored the New Zealand dollar.

Previous Quarter Recap

- The Reserve Bank of New Zealand reduced its Cash Rate by 50 basis-points from 4.25% to 3.75% on February 18.
- The Manufacturing PMI in January rose to the highest level in over two years to 51.4 according to Business New Zealand. This is also the first time since February 2023 that it jumped to expansionary territory, albeit still below its long-run average.
- Retail sales excluding inflation increased 0.9% in Q4, picking up from Q3 and Q2. New Zealand's exports fell in January to a three-month low while imports increased 1.5%, leading to a trade deficit in January and reversing a surplus in December.

Currency Outlook

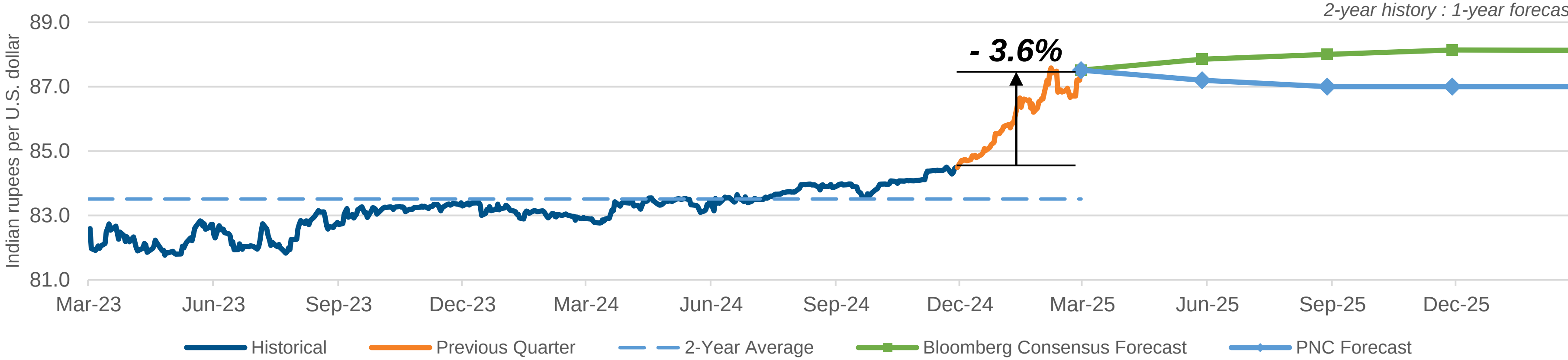
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy rate more than anticipated, the New Zealand dollar could be stronger than forecasted.

Currency Update

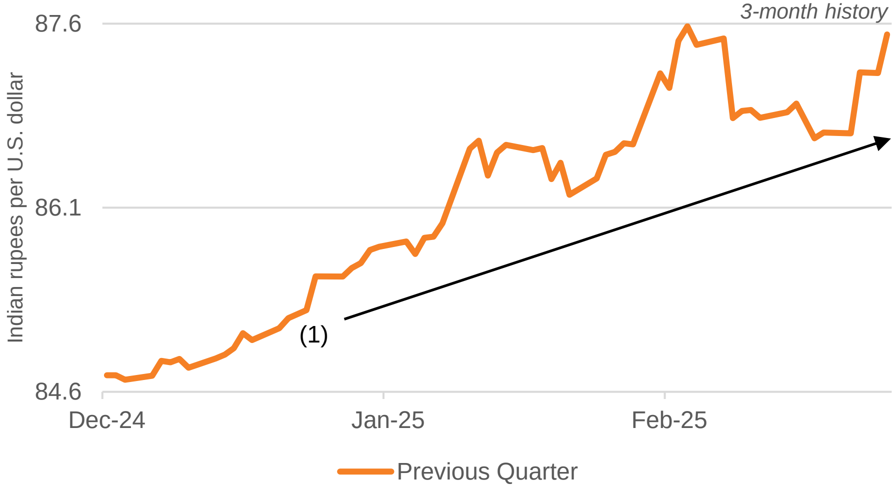
Indian Rupee

The Indian rupee weakened 3.6% in the past quarter.

2-year history : 1-year forecast



3-month history



(1) Broad dollar strength stemming from policy rate cuts from the Reserve Bank of India have weighed on the Indian rupee.

Previous Quarter Recap

- CPI inflation continued to slow in early 2025 and came in weaker than the consensus expected. The Reserve Bank of India cut the policy rate to 6.25% from 6.5% on February 6 as inflation has moved steadily closer to its target of 4% over the past several months.
- The overall PMI fell to a one-year low in January 2025 but has quickly bounced back upon a sharp improvement in services output in February. Factory output continued to increase but at a slower pace on the month.
- Real GDP came in as expected and expanded 6.2% in Q4.

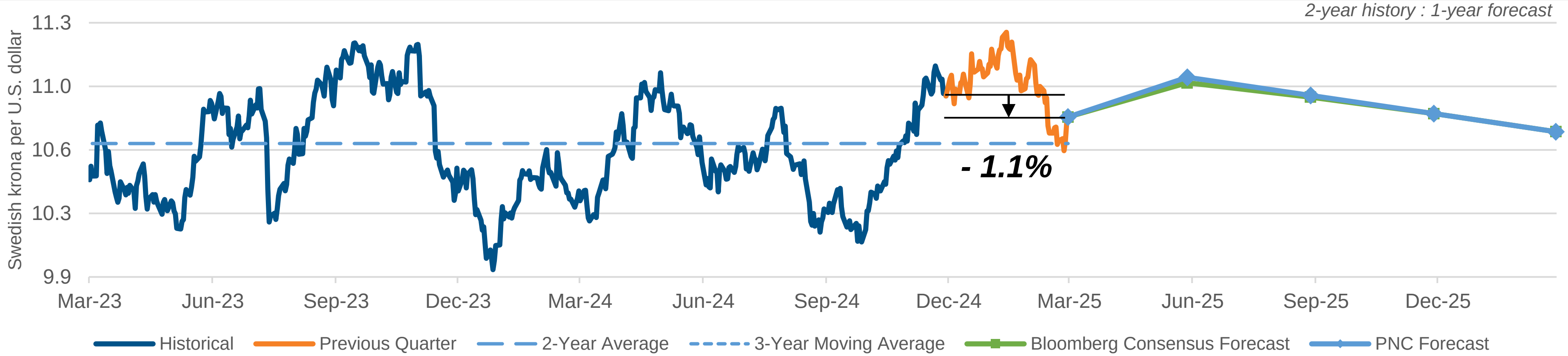
Currency Outlook

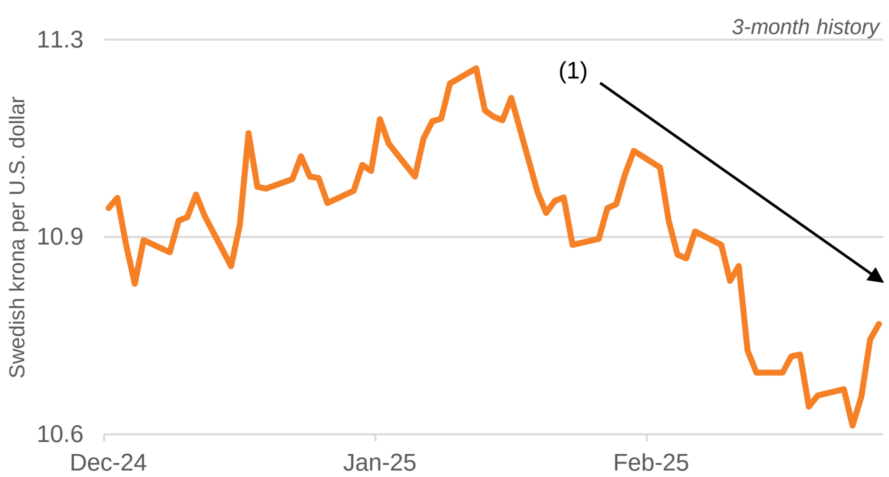
- The consensus expects the rupee to depreciate while PNC expects it to appreciate slightly.
- If the Fed cuts the fed funds rate more than PNC expects, the rupee could be stronger than forecasted.

Currency Update

Swedish Krona

The Swedish krona strengthened 1.1% in the last quarter.





(1) Weaker-than-expected US economic data and a stronger than expected domestic economy favored the Swedish krona under trade frictions between the US and other countries.

Previous Quarter Recap

- Sweden's real GDP came in much better than the consensus and grew 0.8% in Q4 and 2.3% over the past year.
- Sweden's core year-over-year CPIF (the consumer price index with a fixed interest rate) inflation, total inflation excluding the energy component, was 2.7% in January, a jump from 2% in December.
- Consumer confidence was strong in Q4 but fell to an eight-month low in February.
- Factory activity expanded at a faster pace in February with the manufacturing PMI up to 53.5.

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 PNC expects, the krona could be stronger than projected.

PNC FX Rate Forecasts

Historic Rates vs. Forecasts

	Australia	Brazil	Canada	Switzerland	China	Eurozone	United Kingdom	India	Japan	Korea	Mexico	Norway	New Zealand	Sweden	U.S. Broad Dollar Index	DXY Dollar Index
	Australian $	*Real*	*Canadian $*	*Swiss franc*	*Yuan*	*Euro*	*Pound Sterling*	*Rupee*	*Yen*	*Won*	*Peso*	*Krone*	*Dollar*	*Krona*		
	USD per AUD	*BRL per USD*	*CAD per USD*	*CHF per USD*	*CNY per USD*	*USD per EUR*	*USD per GBP*	*INR per USD*	*JPY per USD*	*KRW per USD*	*MXN per USD*	*NOK per USD*	*USD per NZD*	*SEK per USD*	*Jan '06 = 100*	*Mar '73 = 100*
Actual (month-end)																
May-23	0.65	5.1	1.36	0.91	7.11	1.07	1.24	82.7	139.3	1326	17.7	11.1	0.60	10.9	121.2	104.3
May-24	0.67	5.3	1.36	0.90	7.24	1.08	1.27	83.5	157.3	1385	17.0	10.5	0.61	10.5	122.5	104.7
Aug-24	0.68	5.6	1.35	0.85	7.09	1.10	1.31	83.9	146.2	1336	19.7	10.6	0.62	10.3	122.6	101.7
Nov-24	0.65	6.0	1.40	0.88	7.25	1.06	1.27	84.5	149.8	1397	20.4	11.0	0.59	10.9	126.8	105.7
Feb-25	0.62	5.9	1.45	0.90	7.28	1.04	1.26	87.5	150.6	1460	20.6	11.3	0.56	10.8	128.5	107.6
PNC Forecast (month-end)																
Mar-25	0.61	6.0	1.45	0.90	7.30	1.04	1.25	87.4	152.0	1470	20.8	11.4	0.55	11.0	129.2	108.1
Jun-25	0.62	6.0	1.45	0.90	7.31	1.04	1.26	87.2	151.0	1460	21.0	11.3	0.55	11.0	129.0	107.6
Sep-25	0.62	6.1	1.46	0.89	7.32	1.04	1.26	87.0	150.0	1450	21.2	11.2	0.56	10.9	129.3	107.5
Dec-25	0.63	6.1	1.46	0.89	7.33	1.05	1.27	87.0	149.0	1440	21.4	11.1	0.56	10.8	129.1	106.6
Mar-26	0.63	6.1	1.47	0.89	7.34	1.05	1.27	87.0	148.0	1440	21.6	11.0	0.57	10.7	129.4	106.6

Source: PNC Economics, Bloomberg

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