

PNC Currency Review, January 2025

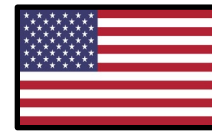
Prior Quarter

October 2024 – December 2024

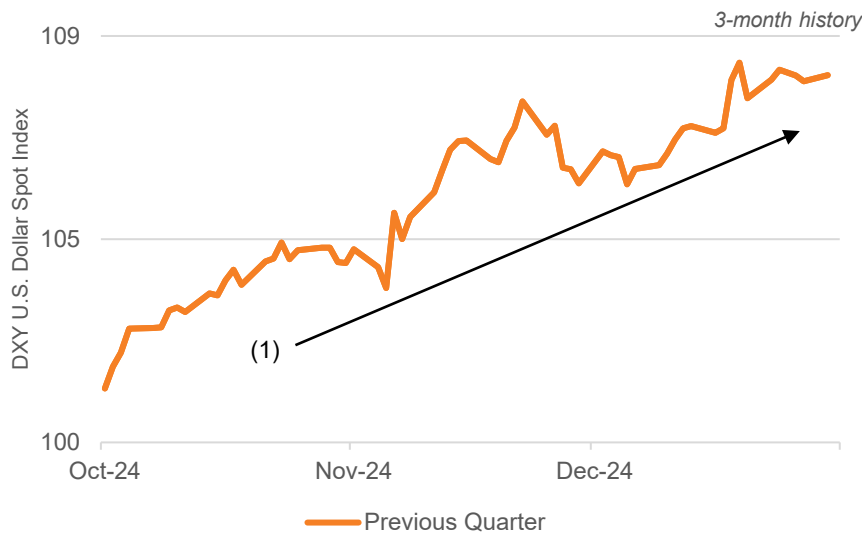
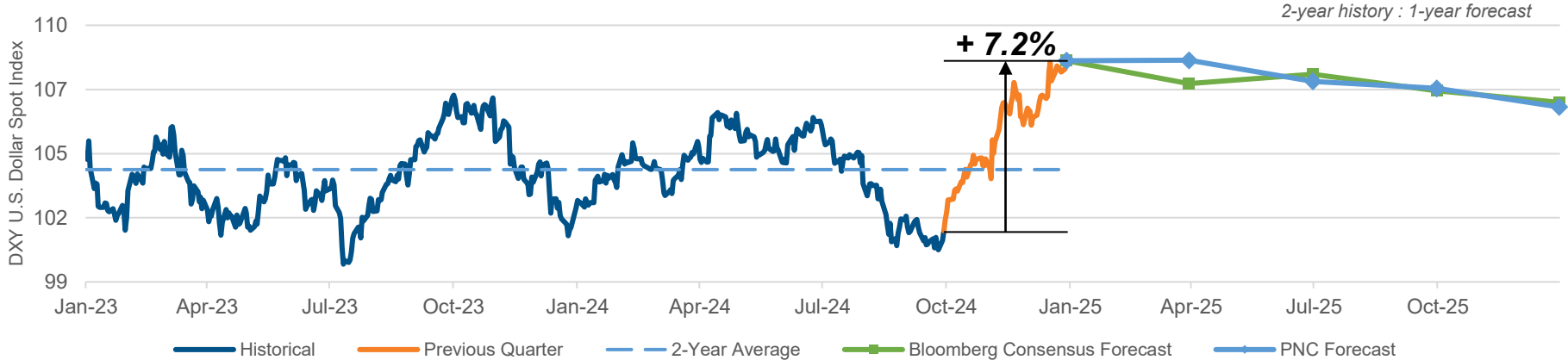


Summary

DXY Major Currencies Dollar Index



The US dollar index strengthened 7.2% in the trailing quarter.



Previous Quarter Recap

- Job growth came in higher than consensus estimates and bounced back in November, following a weak October due to hurricanes and the Boeing strike.
- As expected, the FOMC cut the federal funds rate by 25 basis-points on Dec 18, to a range of 4.25% to 4.50%. The Summary of Economic Projections (SEP), or “dot plot,” shows the median fed funds rate at the end of 2025 was 3.9%, up from 3.4% in the previous projections from mid-September.
- PCE inflation was 0.2% in November, with core PCE inflation of 0.1%. On a year-over-year basis, core PCE inflation remains above the Fed’s 2% objective.

Currency Outlook

- PNC and the consensus anticipate the US dollar will depreciate over the forecast horizon.
- If the US economy surprises to the downside or the Fed cuts more than expected, the dollar could be weaker than forecasted.

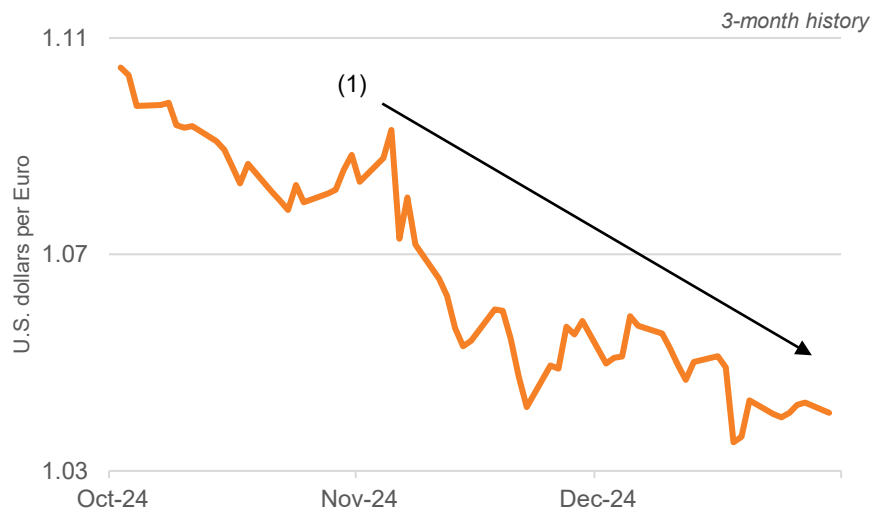
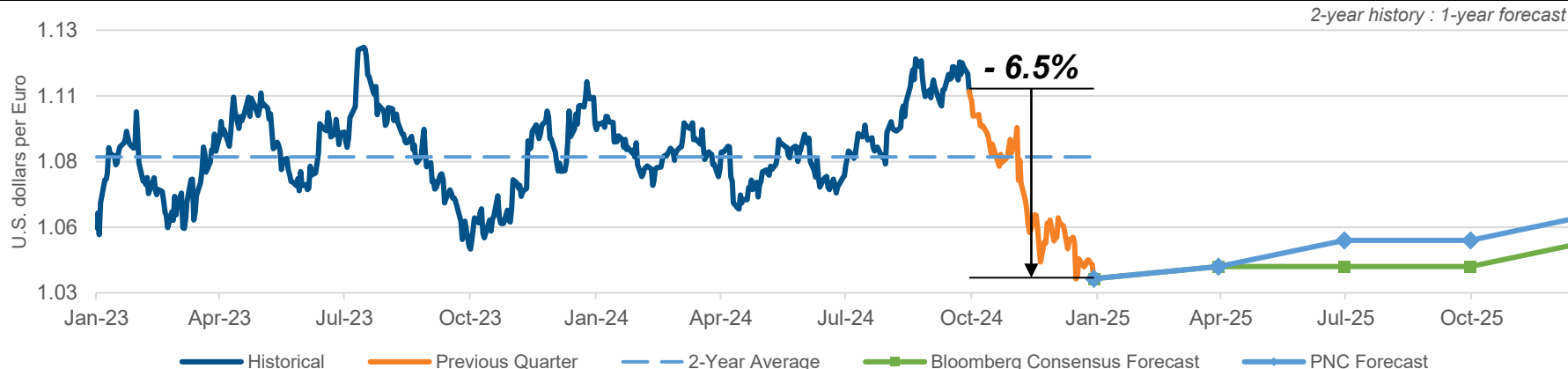
(1) The USD strengthened due to concerns over higher tariffs and inflation under Trump’s administration raised the expectation of fewer interest rate cuts in 2025 and strong US economic data ending 2024.

Currency Update

Euro



The Euro weakened 6.5% in the trailing quarter.



(1) The eurozone's weak economic outlook weighed on the euro against the US dollar while the US economy grew strongly at the end of 2024.

Previous Quarter Recap

- Headline CPI year-over-year (YoY) was 2.2% in December, up from 2% in November. Core CPI YoY remained sticky and was unchanged at 2.7% for three straight months in December.
- Eurozone's manufacturing PMI fell in December from last month to a 12-month low.
- Economic growth in the eurozone remained sluggish in 2024. The European Central Bank cut its main refinancing rate by 25 basis-points (bps) to 3.15% on December 12, the fourth interest rate cut in 2024.

Currency Outlook

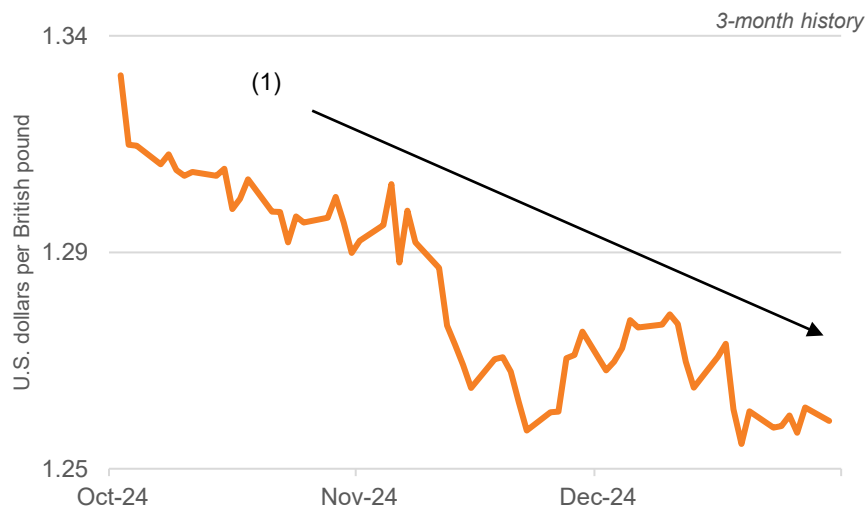
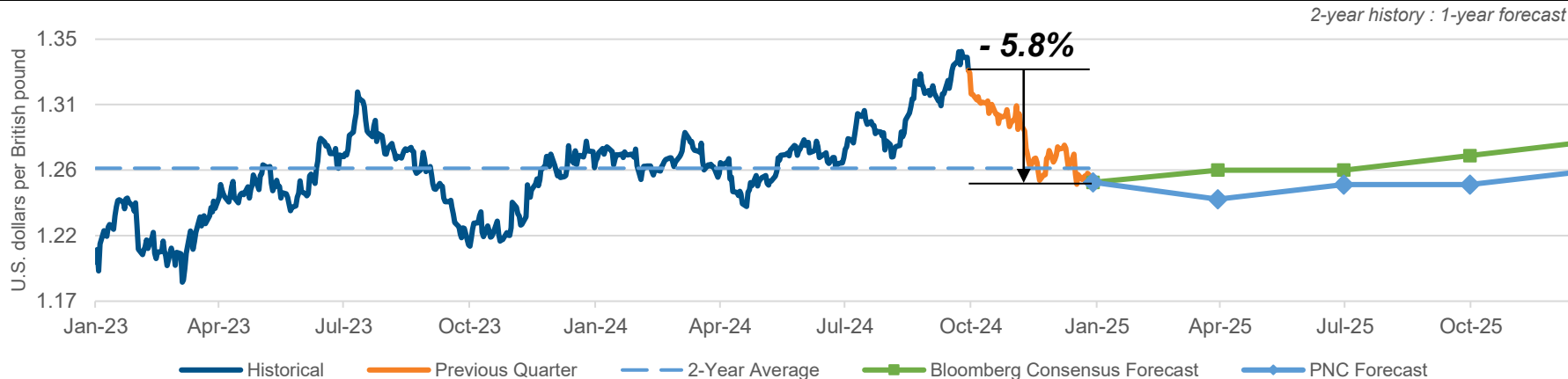
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If the Fed cuts its fed funds rate more than expected, the euro could be stronger than forecasted.

Currency Update

Great British Pound



The British pound weakened 5.8% in the trailing quarter.



(1) The UK's current economic weakness along with strong US economic data weighed on the British pound against the US dollar.

Previous Quarter Recap

- On December 19, the Bank of England (BOE) kept its policy rate unchanged at 4.75% after cutting 25 basis-points from 5% in November. Headline CPI inflation reaccelerated to 2.6% in November, which could've factored into the BOE holding rates steady in December.
- Real GDP growth in Q3 came in below the consensus estimate but rose to 0.9% on a year-over-year basis from 0.7% in Q2.
- UK's manufacturing PMI fell over the past four months and into December, the last three months of which have been in contractionary levels.

Currency Outlook

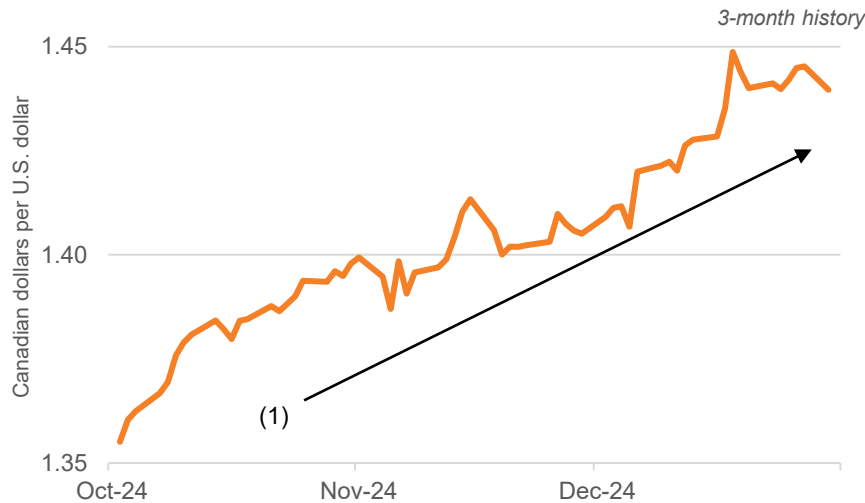
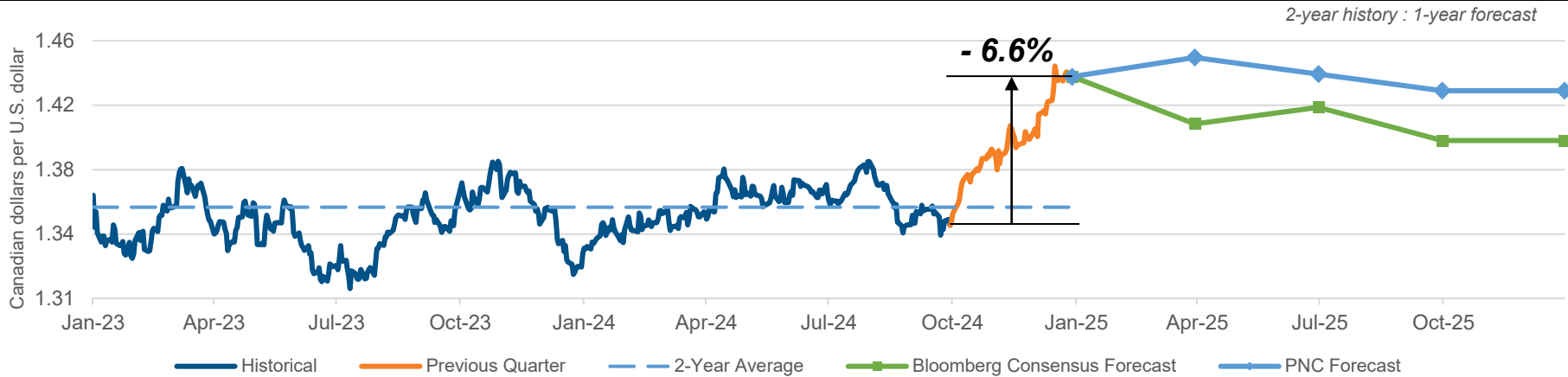
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- A weaker-than-anticipated US economy or faster-than-expected fed funds rate cuts could contribute to a stronger pound.

Currency Update

Canadian Dollar



The Canadian dollar weakened 6.6% in the previous quarter.



Previous Quarter Recap

- The Bank of Canada (BOC) lowered its overnight target rate by 50 basis-points to 3.25% on December 11. Canadian inflation came in below consensus estimates, increasing 1.9% year-over-year (YoY) in November, down from 2% in October, and falling below the BoC's 2% inflation objective.
- Real GDP in October came in stronger than consensus estimates and grew 1.9% YoY, up from 1.7% in September.
- The Canadian manufacturing PMI expanded for a fifth straight month and remained at expansionary levels for the fourth straight month in December.

Currency Outlook

- Both PNC and the consensus expect the Canadian dollar to strengthen over the forecast horizon.
- If the BOC cuts interest rates less than expected, or US inflation is lower than expected, the Canadian dollar could be stronger than forecasted.

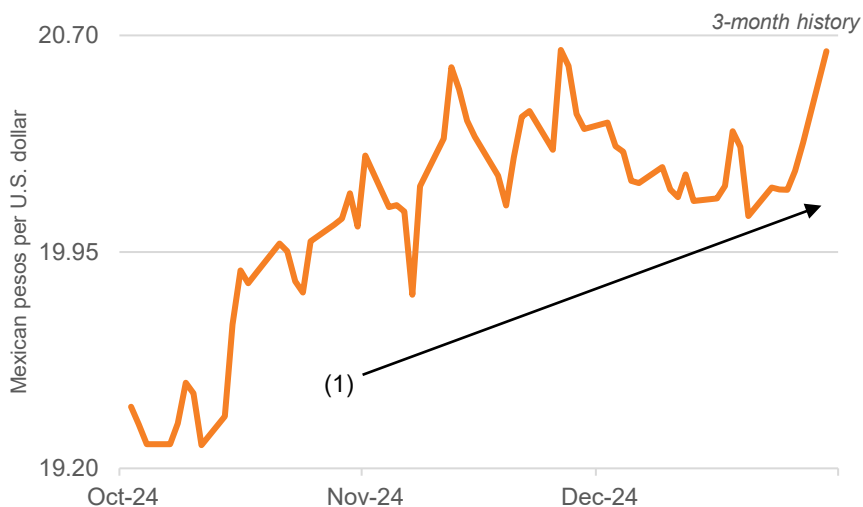
(1) Canada's cooling inflation at the BOC's 2% objective, strong US economic data, and possible trade policy shifts under President-elect Trump in the US contributed to a weaker Canadian dollar.

Currency Update

Mexican Peso



The Mexican peso weakened 6.2% in the trailing quarter.



Previous Quarter Recap

- Mexico's central bank cut its overnight interbank target rate by 25 basis-points to 10% on December 19. The Government Board expects more cuts with more disinflation coming in the next quarters. Headline biweekly CPI inflation eased marginally to 4.44% in mid-December, down from 4.5% in October.
- Mexico's manufacturing PMI fell and remained at contractionary levels for the sixth consecutive month in December.
- Retail sales and industrial production in Mexico came in below the consensus and fell on the month in October.

Currency Outlook

- Both PNC and the consensus expect the Mexican peso to strengthen slightly over the forecast horizon.
- Fewer fed funds rate cuts hold downside potential for the Mexican peso, while fewer-than-expected US trade measures with Mexico hold upside potential.

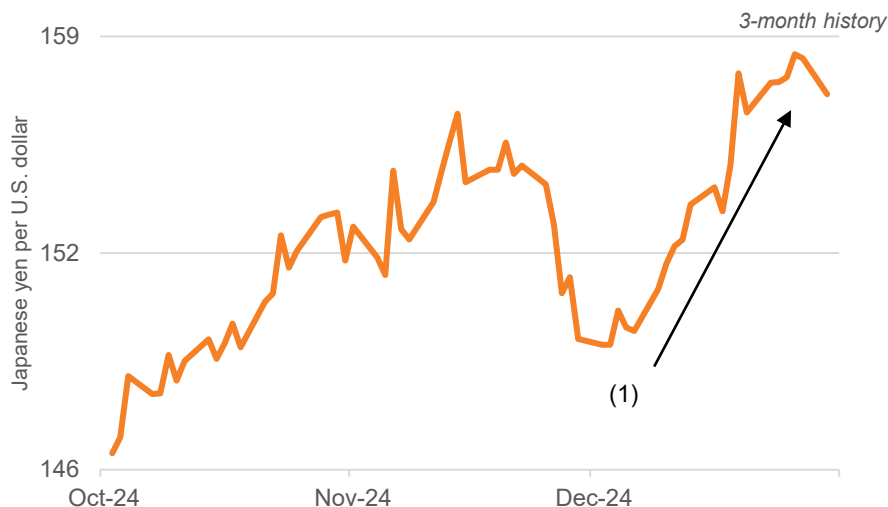
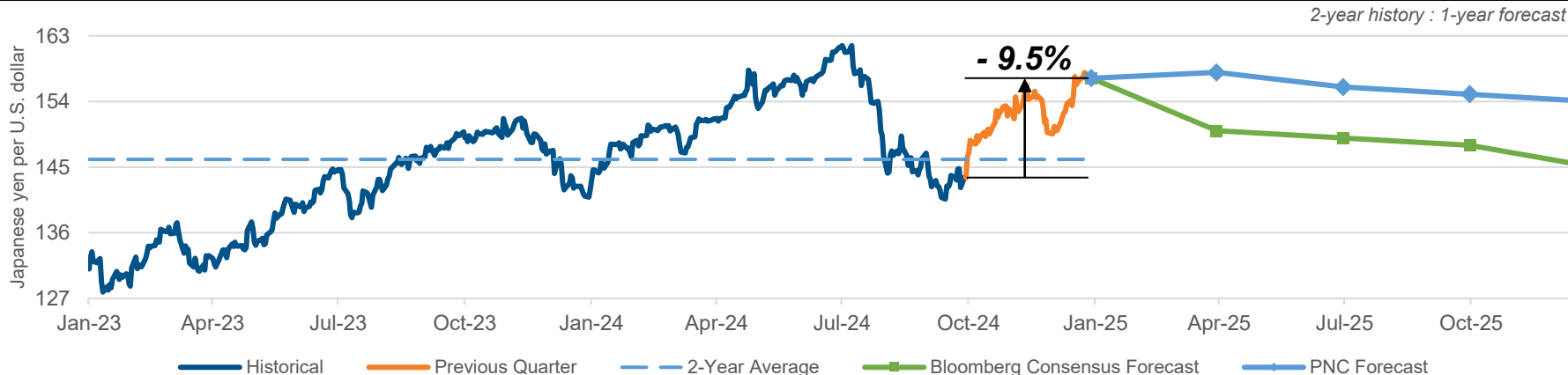
(1) Peso volatility continues following the US presidential election coupled with possible trade measures against the Mexico from the US under President-elect Trump.

Currency Update

Japanese Yen



The Japanese yen weakened 9.5% in the previous quarter.



(1) The yen weakened as the dovish stance of the BOJ along with strong US economic data and uncertainties around US trade measures favored the dollar in the past month.

Previous Quarter Recap

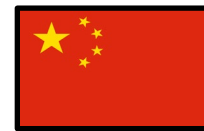
- The Bank of Japan (BOJ) kept its policy interest rate steady again at 0.25% on December 18. High uncertainties around the new US administration and wage growth in the beginning of 2025 have pushed back the BOJ's rate hike decision.
- The latest Tokyo CPI inflation came in above the consensus expectation, rising to 3% year-over-year (YoY) driven by fresh food and energy prices. Core CPI YoY fell to 1.8% in December from 1.9% in November.
- Both manufacturing and services activity improved, and the composite PMI rose to the expansionary territory for the second consecutive month in December.

Currency Outlook

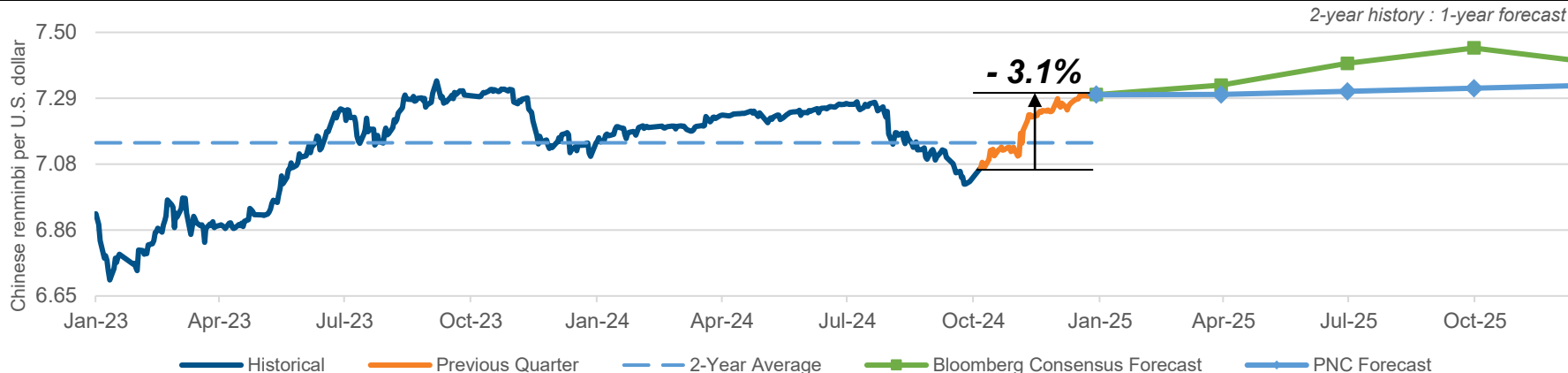
- PNC and the consensus expect the yen to strengthen over the forecast horizon.
- The yen could be stronger than forecasted if the Fed cuts more or the BOJ raises policy rates more than expected in 2025.

Currency Update

Chinese Renminbi



The Chinese renminbi weakened 3.1% in the last quarter.



Previous Quarter Recap

- Chinese exports increased in November while imports fell. The trade surplus was firmly up from the same time last year.
- China's headline CPI inflation grew a weak 0.2% in November, falling from 0.3% in October amid little improvement in consumer demand. Retail sales grew weakly at 3% year-over-year in November after multiple loan prime rate cuts made by the People's Bank of China (PBOC) in 2024.
- The NBS manufacturing PMI fell slightly from 50.3 to 50.1 in December, while non-manufacturing PMI jumped to 52.2.

Currency Outlook

- Both the consensus and PNC expect the renminbi to weaken over the forecast horizon, albeit to varying degrees.
- If weakness in the domestic economy persists and growth is much slower than expected, the Chinese renminbi could be weaker than PNC's forecast.

(1) Better-than-expected US economic data, weaker domestic economic growth, trade measures uncertainties with the US, and fewer fed funds rate cuts all favored the dollar in the past quarter.

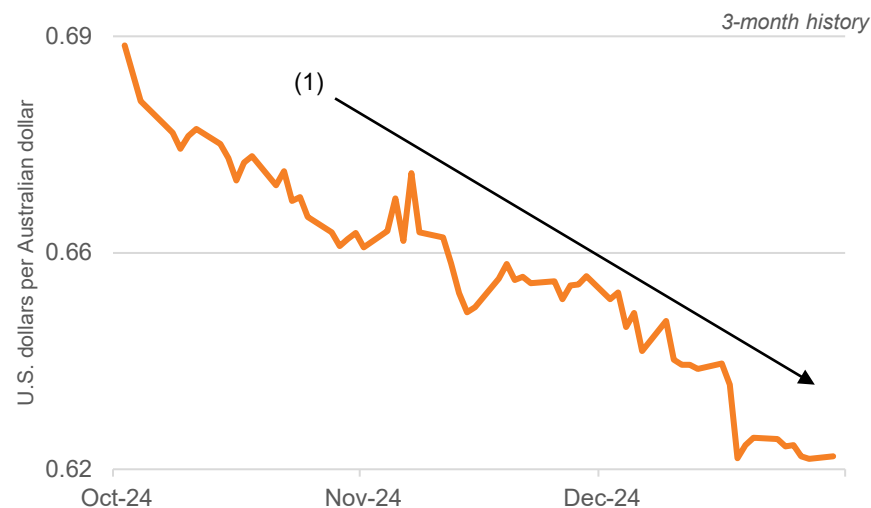
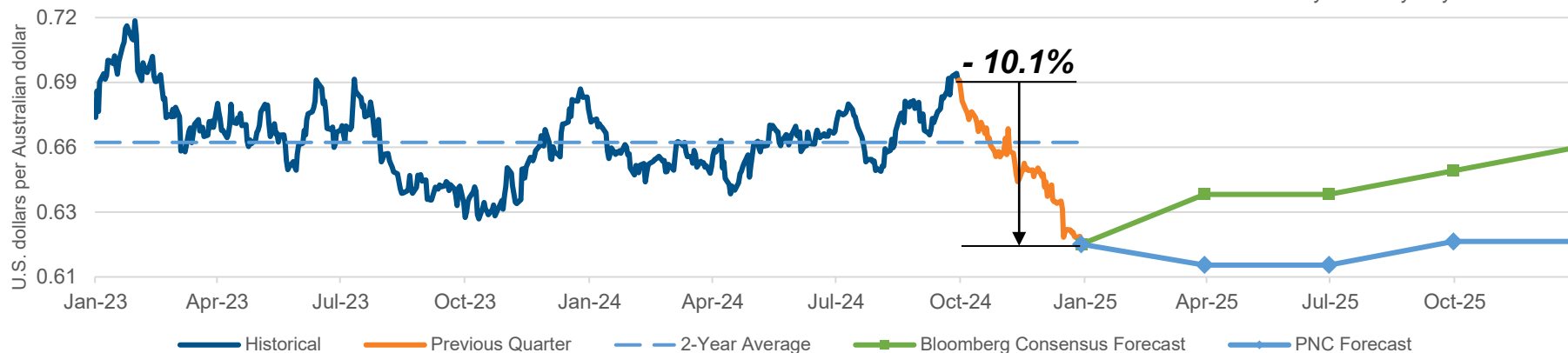
Currency Update

Australian Dollar



The Australian dollar weakened 10.1% in the last quarter.

2-year history : 1-year forecast



(1) The Australian dollar weakened in the past quarter following better-than-expected US economic data, a slowing Chinese economy and fewer expected fed funds rate cuts in 2025

Previous Quarter Recap

- Australia's manufacturing PMI fell lower in December, and manufacturing activity ended 2024 in firm contraction. The services PMI remained in an expansionary level on the month.
- The labor market remained resilient ending 2024. There were above long-run average job gains in November which were higher than the consensus. Unemployment rate also fell on the month.
- Real GDP came in weaker than the consensus and grew 0.8% year-over-year in Q3, slowing from 1% in Q2 2024.

Currency Outlook

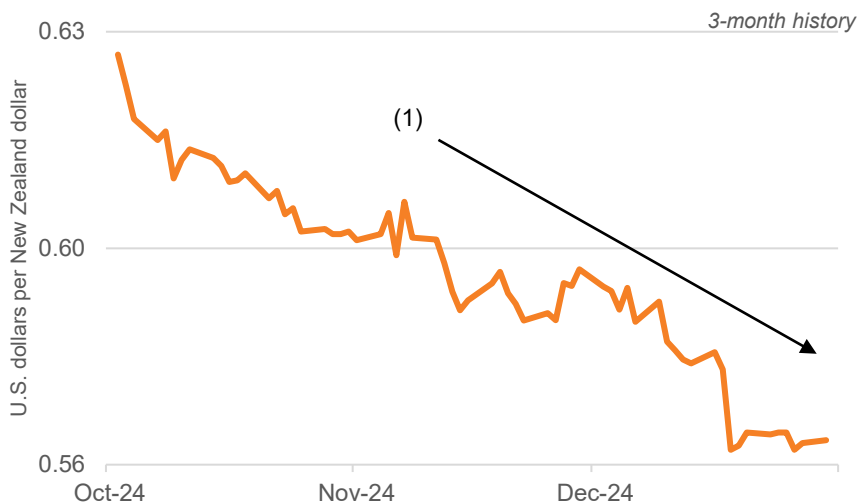
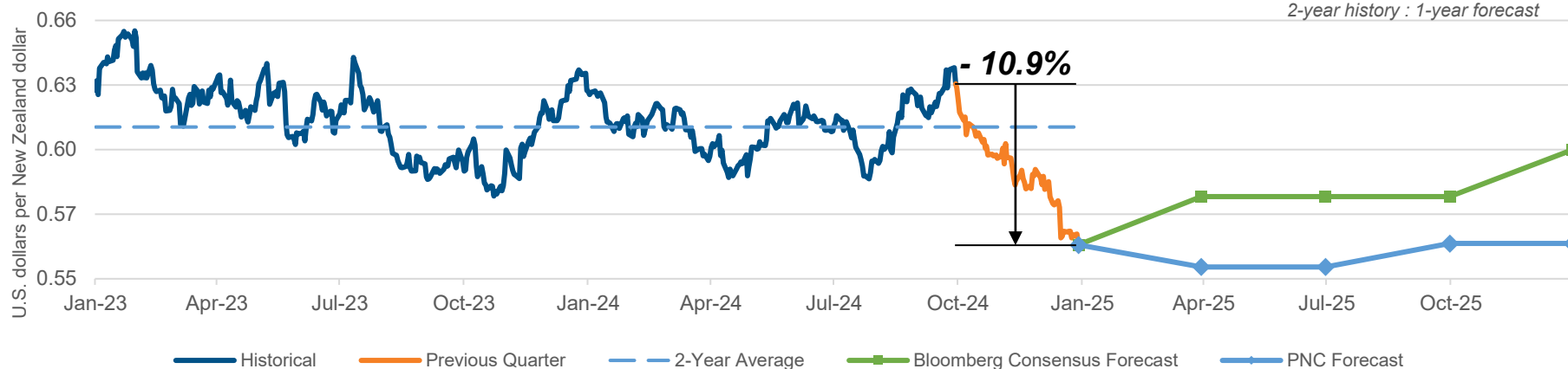
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- The Australian dollar could be stronger than PNC's forecast if the Fed cuts more than twice in 2025 or the Chinese economy grows faster than expected.

Currency Update

New Zealand Dollar



The New Zealand dollar weakened 10.9% last quarter.



Previous Quarter Recap

- The Reserve Bank of New Zealand cut its cash rate by 50 basis-points (bps) to 4.25% on November 26 after cutting 50 bps in October. Headline inflation slowed to 2.5% in Q3 from 4% in Q2, but health and housing prices still grew strongly in Q3 2024.
- New Zealand real GDP contracted for two consecutive quarters in Q3 and fell 1.5% year-over-year (YoY). Both goods producing and services industries contracted quarterly and YoY.
- Manufacturing PMI remained in contractionary levels for the whole year and fell to 45.5 in November.

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 is higher than expected, the New Zealand dollar could be stronger than forecasted.

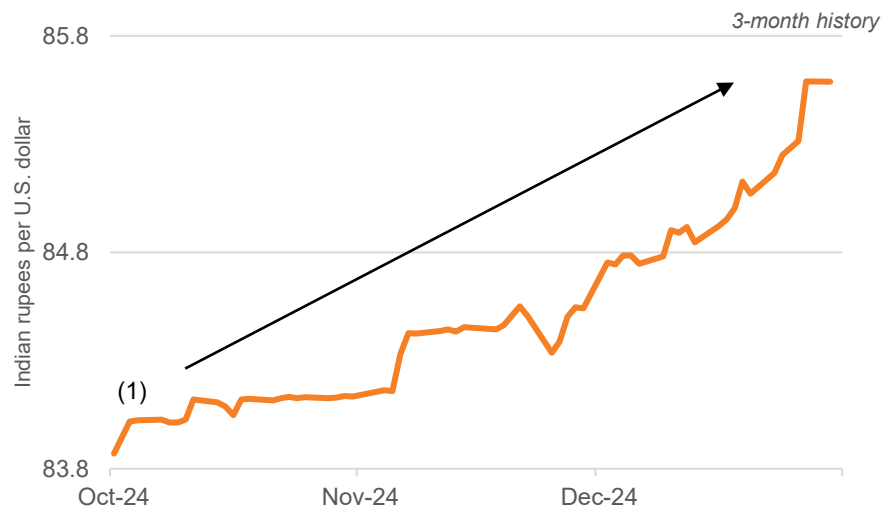
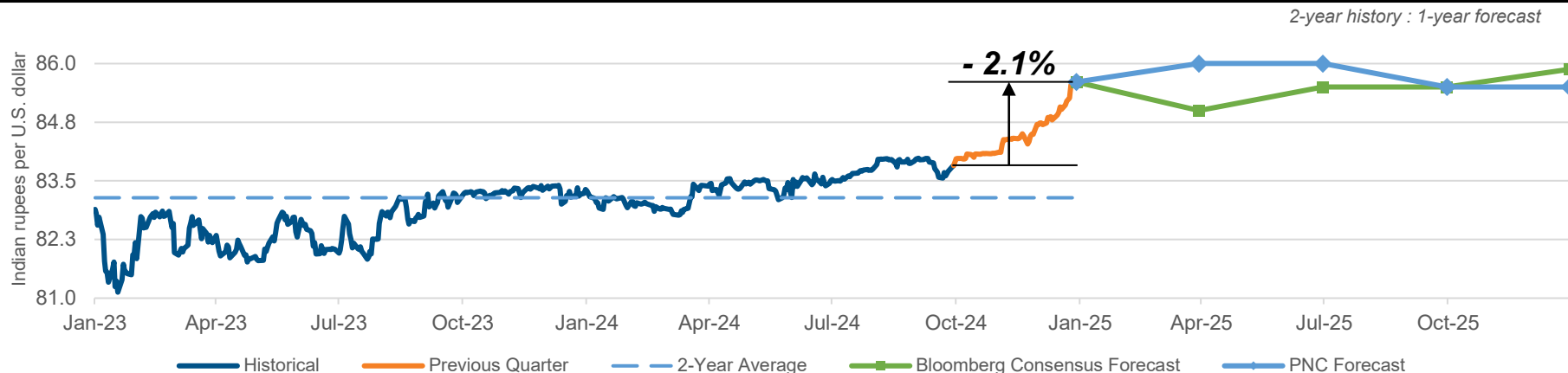
(1) Broad dollar strength stemming from strong US economic data, continued weakness in the Chinese economy, and fewer expected fed funds rate cuts weighed on the New Zealand dollar.

Currency Update

Indian Rupee



The Indian rupee weakened 2.1% in the past quarter.



Previous Quarter Recap

- India's CPI inflation slowed to 5.5% in November as the consensus expected. The headline inflation reaccelerated from 3.6% in July.
- The manufacturing PMI fell slightly by 0.1 to 56.4 in December but remained in expansionary territory, while services activity expanded faster in December to 59.3.
- The Reserve Bank of India lowered its Cash Reserve Ratio by 50 bps to 4% on December 8 to boost liquidity that will help maintain the rupee's stability in the foreign exchange market.

Currency Outlook

- Both PNC and the consensus expect the rupee to remain rangebound over the forecast horizon.
- If India's economic growth and inflation surprise to the upside, the rupee could be stronger than forecasts.

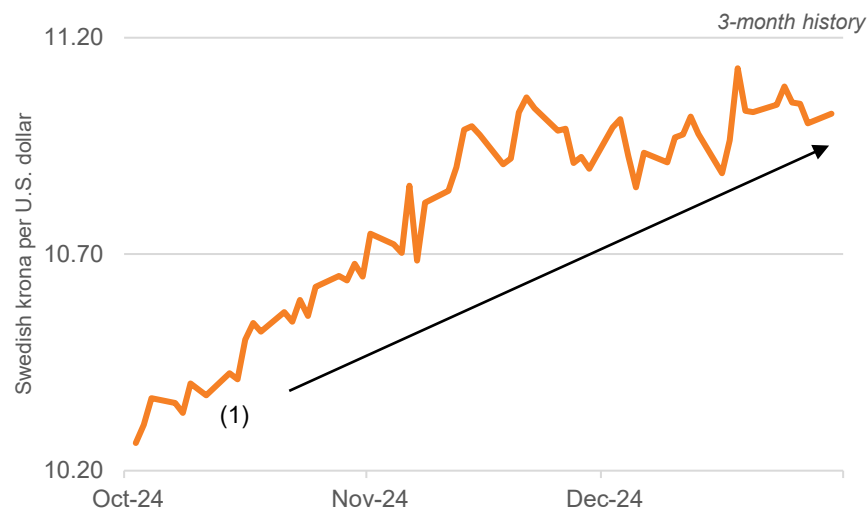
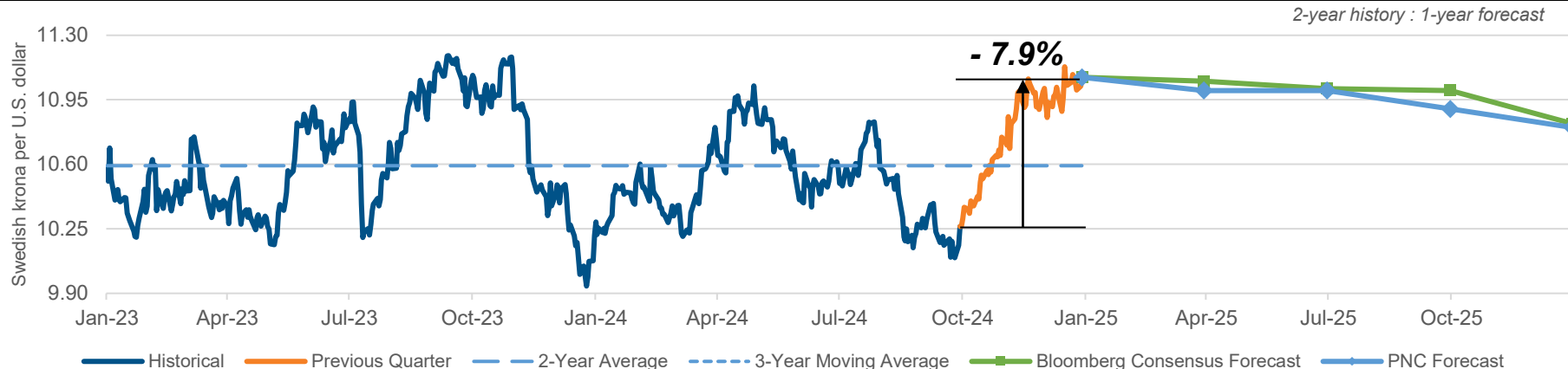
(1) Broad dollar strength stemming from strong US economic data and possible trade measures following the US presidential election have weighed on the Indian rupee.

Currency Update

Swedish Krona



The Swedish krona weakened 7.9% in the last quarter.



(1) The Swedish krona weakened in November as weak domestic economic data and the better-than-expected US economy supported fewer fed funds rate cuts and dollar strength.

Previous Quarter Recap

- The Riksbank cut its repo rate by 25 basis-points to 2.5% on December 19. According to the monetary policy update, the Executive Board looks to cut again in the first half of 2025 if the outlook remains unchanged, but acknowledged great inflation and economic uncertainties both internally and abroad.
- Sweden's headline inflation remained unchanged at 1.6% in November.
- Swedish manufacturing PMI came in below the consensus and fell in December. Despite the monthly retreat on the month, its manufacturing activity continued to expand for a fifth consecutive month.

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, the krona could be stronger than expected.

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