

PNC Currency Review, April 2024

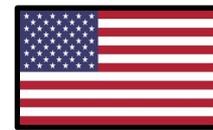
Prior Quarter

January 2024 – March 2024

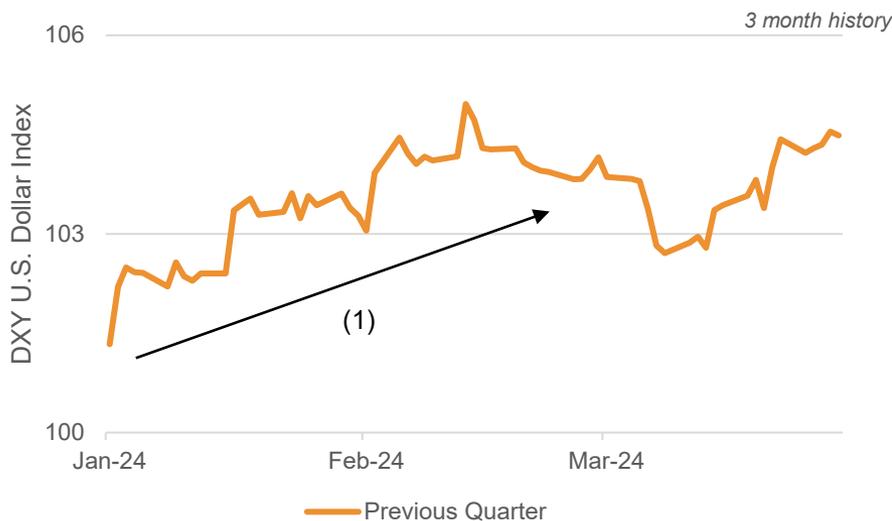
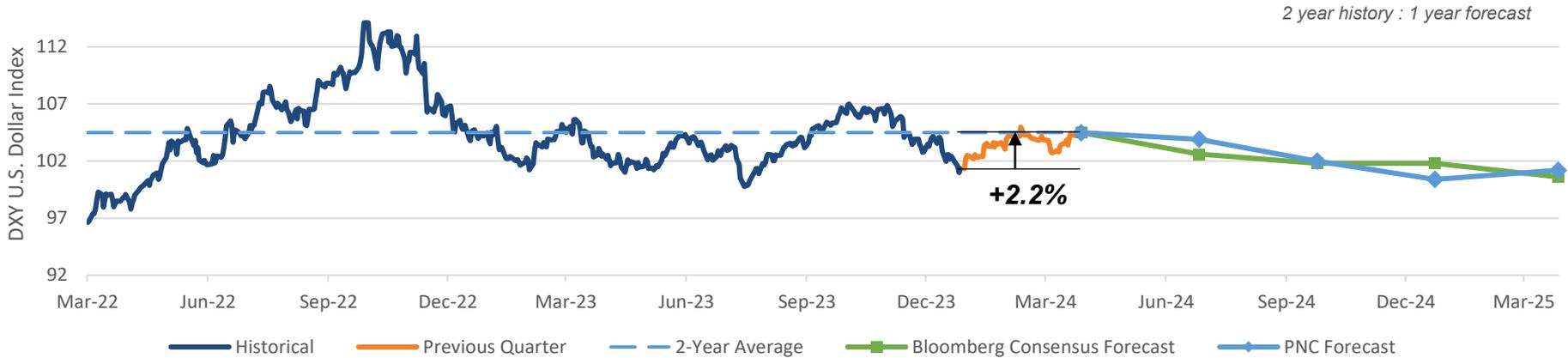


Summary

DXY Major Currencies Dollar Index



The US dollar index strengthened 2.2% in the trailing quarter.



(1) The DXY Index strengthened as expectations for an interest rate cut by the Federal Reserve were delayed as the US economy remained strong.

Previous Quarter Recap

- The February 2024 jobs report came in better than expected. Wage growth was still too hot for the Fed's inflation objective and supported no near-term Fed Funds rate cuts.
- The Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50% on March 20.
- The dot plot from the March FOMC meeting changed the outlook for economic growth in 2024; growth projections were revised up substantially. Growth expectations for 2025 and 2026 were modestly higher.

Currency Outlook

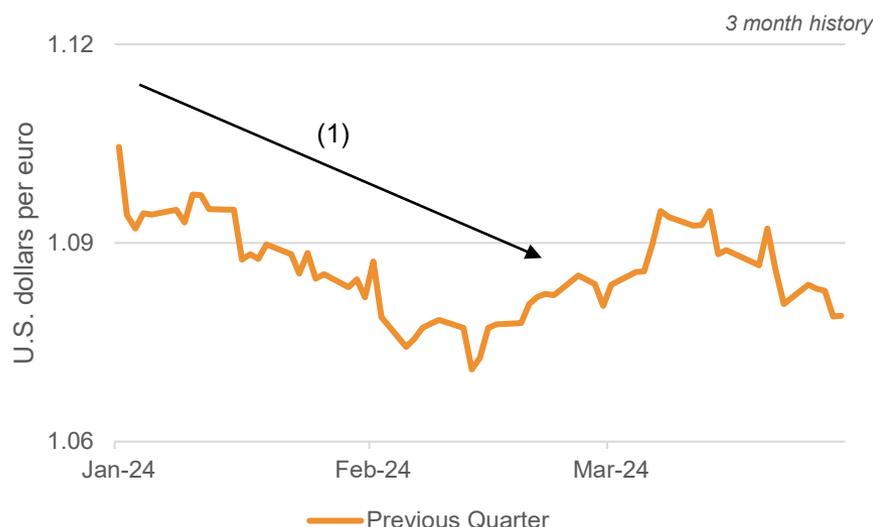
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If U.S. job gains come in stronger than expected or the Fed holds interest rates higher for longer than anticipated, the dollar could be stronger than forecasted.

Currency Update

Euro



The euro weakened 2.3% in the trailing quarter.



(1) The euro weakened amid belief that the European Central Bank would cut interest rates before other major central banks.

Previous Quarter Recap

- Stronger-than-anticipated U.S. jobs data delayed expectations for a near-term Fed Funds rate cut, supporting a stronger dollar and a weaker euro.
- The European Central Bank (ECB) held its policy rates steady at its meeting on March 7.
- Real GDP in the fourth quarter was flat, after contracting 0.1% in the third quarter. Inflation continued to cool off in February, with core inflation down to 3.1% but above ECB's inflation objective.

Currency Outlook

- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- 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 weakened 0.8% in the trailing quarter.



(1) The British pound strengthened slightly ahead of the release of the Spring Budget in the UK, but these gains were short-lived.

Previous Quarter Recap

- Stronger-than-expected US jobs data supported delayed interest rates cut, while the British pound depreciated in the past quarter by a small 0.8% supported by an improved domestic economic picture entering 2024.
- The Bank of England (BoE) kept the bank rate unchanged at 5.25% its March 21 meeting.
- Inflation in February came in cooler than consensus expectations. Real GDP in the fourth quarter contracted 0.2% over the past year after contracting in the third quarter of 2023.

Currency Outlook

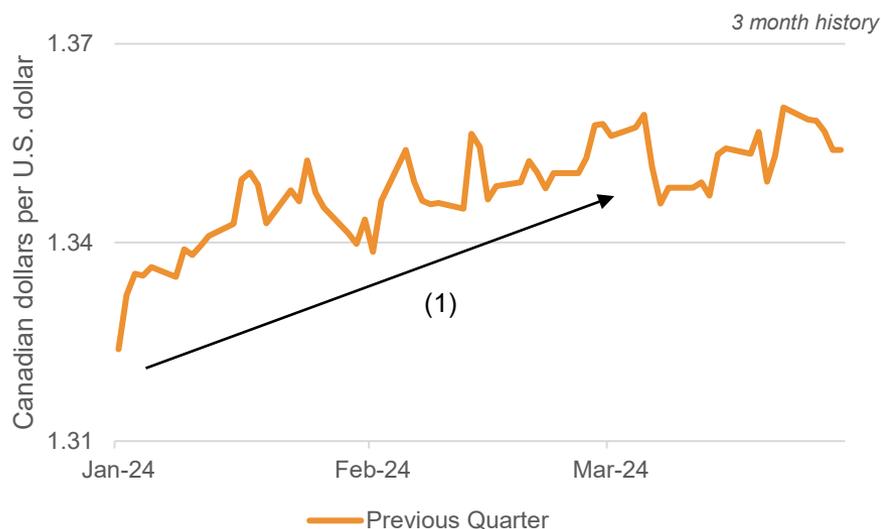
- Both PNC and the consensus expect the pound to strengthen slightly over the forecast horizon.
- A stronger-than-expected European economy or a sooner-than-expected Fed Funds rate cut would contribute to a stronger pound.

Currency Update

Canadian Dollar



The Canadian dollar weakened 2.3% in the previous quarter.



(1) The Canadian dollar weakened at the end of January amid broad US dollar strength and declining oil prices.

Previous Quarter Recap

- Both manufacturing and business activities in Canada continued to contract in February but have improved from previous months.
- The Bank of Canada (BoC) kept its benchmark interest rate unchanged at 5.00% at its meeting on March 6.
- The yearly growth of permanent worker's hourly wage slowed to 4.9% in February from 5.3% in January. Total inflation was 2.8% in February, down from 2.9% in January.

Currency Outlook

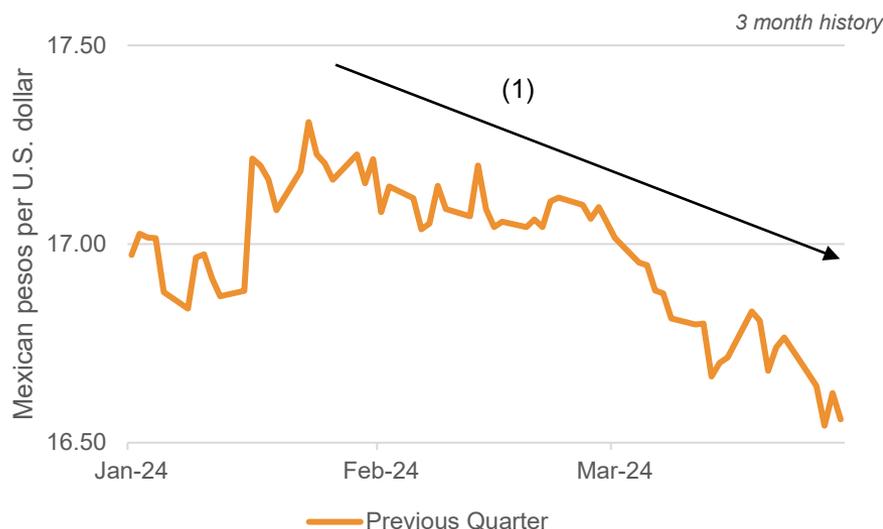
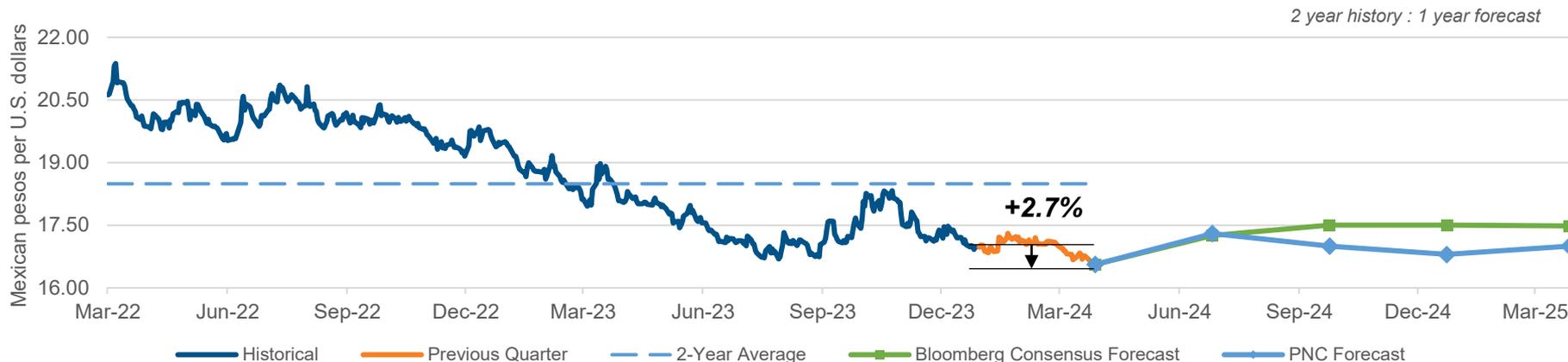
- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the Fed cuts interest rates less than expected or U.S. inflation surprises to the upside, the Canadian dollar would likely be weaker than forecasted.

Currency Update

Mexican Peso



The Mexican peso strengthened 2.7% in the trailing quarter.



(1) The Mexican peso strengthened versus the US dollar as the peso remained a favored carry currency thanks to Mexico's high interest rates.

Previous Quarter Recap

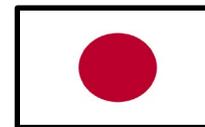
- Headline inflation eased to 4.4% in February from 4.9% in January. Manufacturing activity expanded more quickly in February than January. On a year-ago basis, industrial output growth accelerated in January after being flat in December.
- January retail sales came in worse than consensus expectations and dropped from the previous year. Growth in private consumption slowed in December on a year-ago basis.
- The Bank of Mexico (BdeM) lowered its overnight target rate by 25 bps to 11% at its meeting on March 21.

Currency Outlook

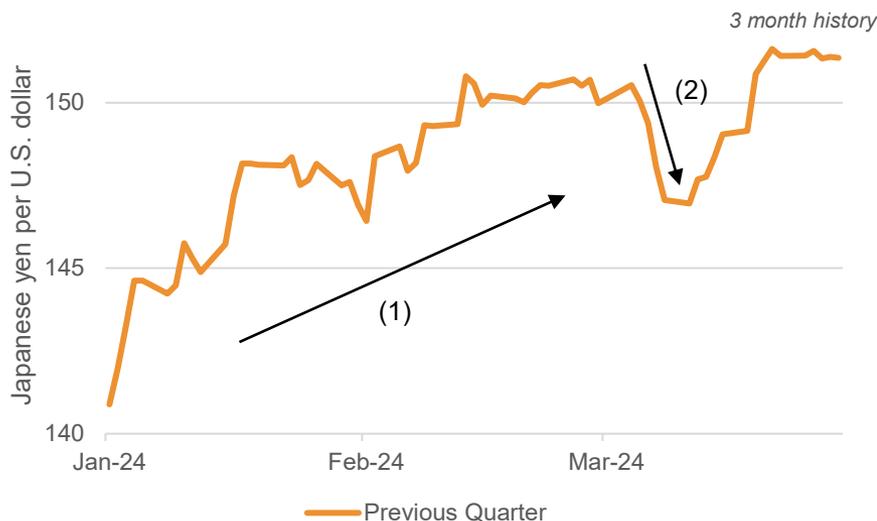
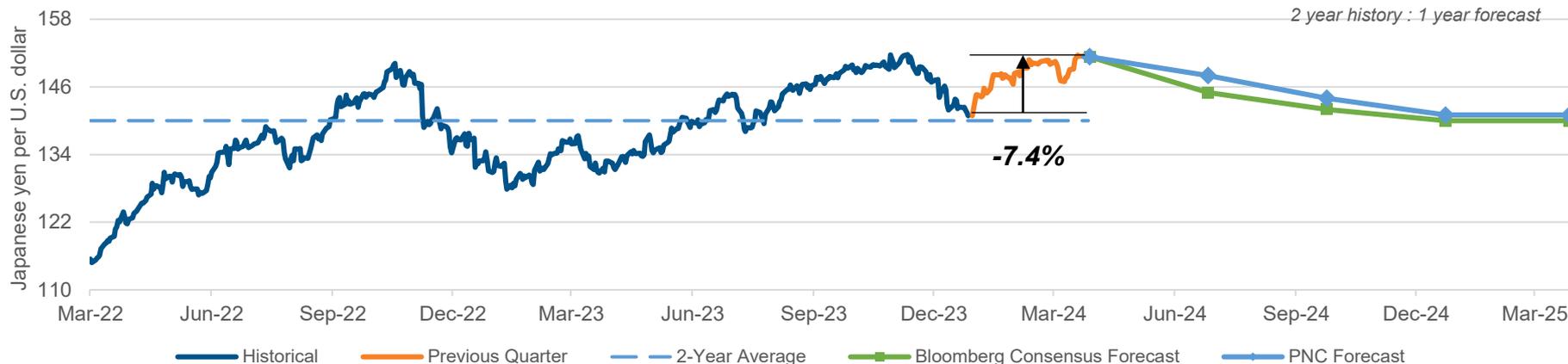
- PNC and the consensus expect the peso to weaken over the forecast horizon.
- A sooner-than-expected interest rate cut in the U.S. holds upside potential for the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen weakened 7.4% in the previous quarter.



- (1) The Japanese yen weakened as the Bank of Japan (BoJ) remained dovish at the start of the year, keeping rates steady at their January meeting.
- (2) The yen strengthened ahead of the BoJ's decision to end their negative interest rates.

Previous Quarter Recap

- The Japanese yen depreciated against US dollar in the previous quarter ahead of the interest rate hike made by the Bank of Japan (BoJ) on March 19. This marked the end of the BoJ's negative interest rate and yield curve control policies, which had been in place since 2016.
- High interest rates in the US, supported by strong US jobs data, placed pressure on the yen.
- Inflation in February, which came out on March 4, jumped to 2.6%, reversing the cooling inflation trend over last three months.

Currency Outlook

- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If BoJ is to leave policy more restrictive in 2024, the Japanese yen could be stronger than forecasted.

Currency Update

Chinese Renminbi



The renminbi weakened 1.5% in the last quarter.



Previous Quarter Recap

- China's Consumer Price Index (CPI) ended a six-month deflation streak and rose 0.7% in February 2024 from one year earlier, but goods consumption was still weak.
- Prices of consumables continued to contract in February. Growth in retail sales continued to slow in February.
- PBoC kept the one-year medium-term lending facility (MLF) rate unchanged at 2.5% on March 14. PBoC kept both one year and five-year loan prime rate (LPR) unchanged on March 19.

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.

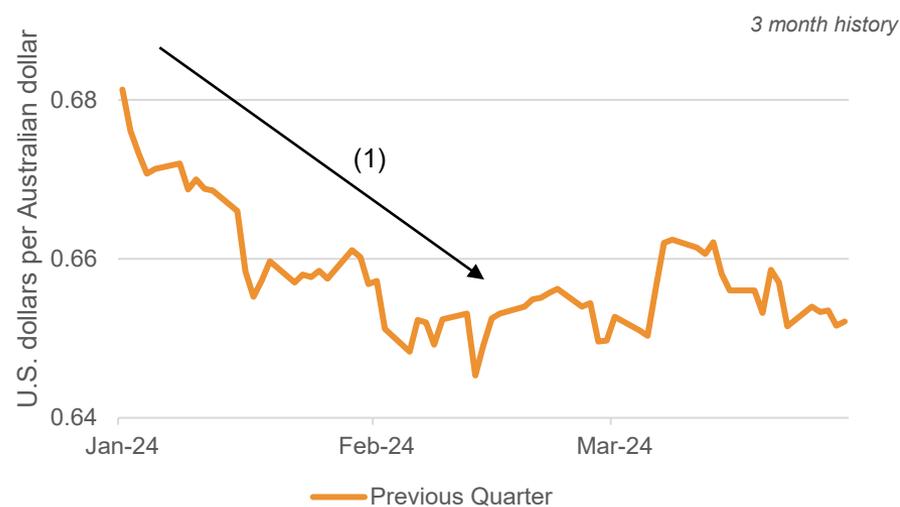
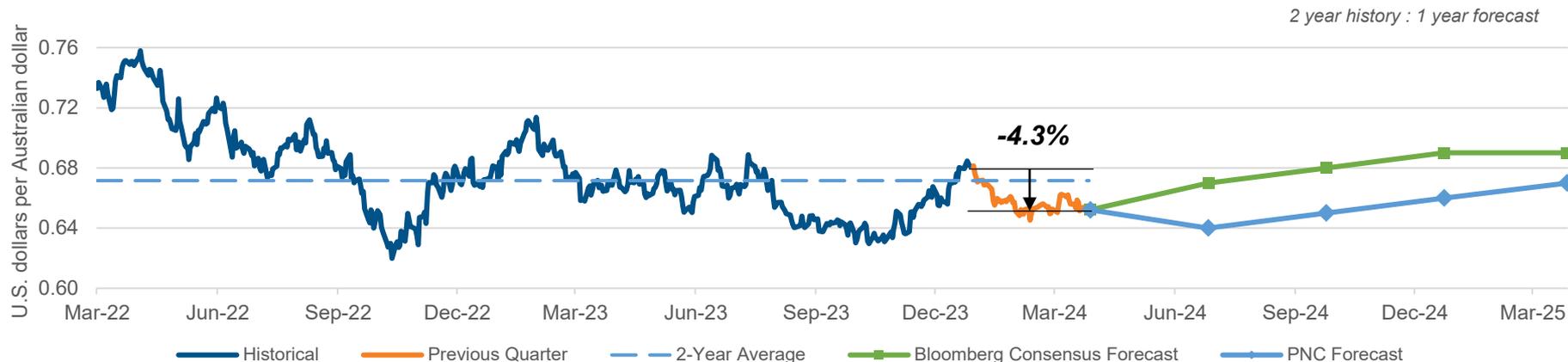
(1) The renminbi weakened against the US dollar after the People's Bank of China set a weaker-than-expected fix against the USD.

Currency Update

Australian Dollar



The Australian dollar weakened 4.3% in the last quarter.



(1) The Australian dollar declined amid a less hawkish Reserve Bank of Australia as inflation eased.

Previous Quarter Recap

- Real GDP grew 1.5% in the last quarter of 2023, slowing from previous quarters and the last two years.
- The Reserve Bank of Australia (RBA) kept its cash target rate at 4.35% on March 18.
- February inflation in Australia came in flat from the previous two months, at 3.4%. Australia's labor market improved in February with the unemployment rate dropping below 4% - the strongest employment gains since late 2021.

Currency Outlook

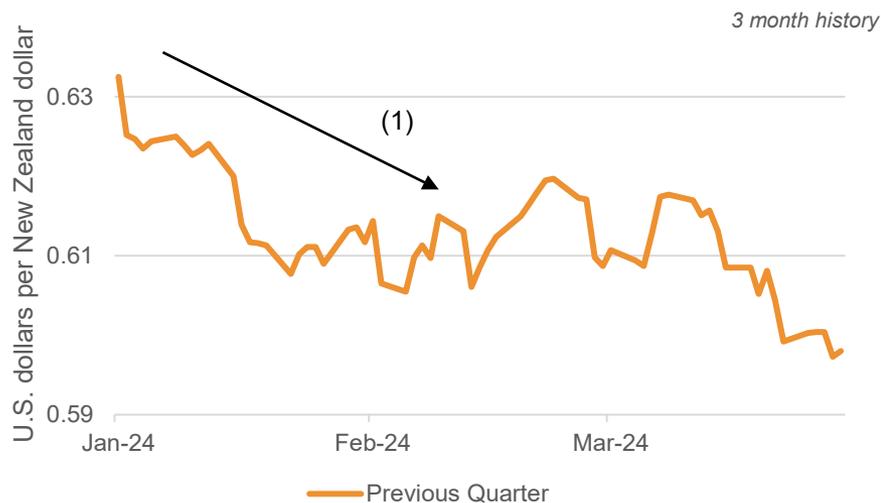
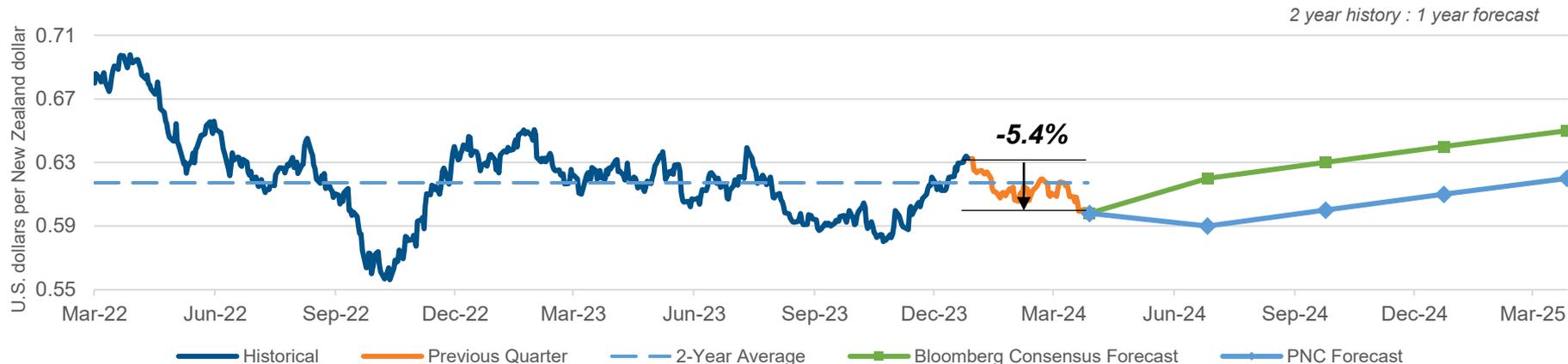
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the Fed Funds rate more than markets are currently pricing in or if the Chinese economy recovers more quickly, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar weakened 5.4% last quarter.



Previous Quarter Recap

- The Reserve Bank of New Zealand (RBNZ) held its cash rate steady at 5.5% on February 27.
- New Zealand's exports picked up entering 2024, with the February trade deficit the narrowest in the last eight months.
- New Zealand's real GDP contracted in the fourth quarter of 2023 and came in below consensus expectations.

Currency Outlook

- PNC and the consensus both expect the New Zealand dollar to appreciate 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.

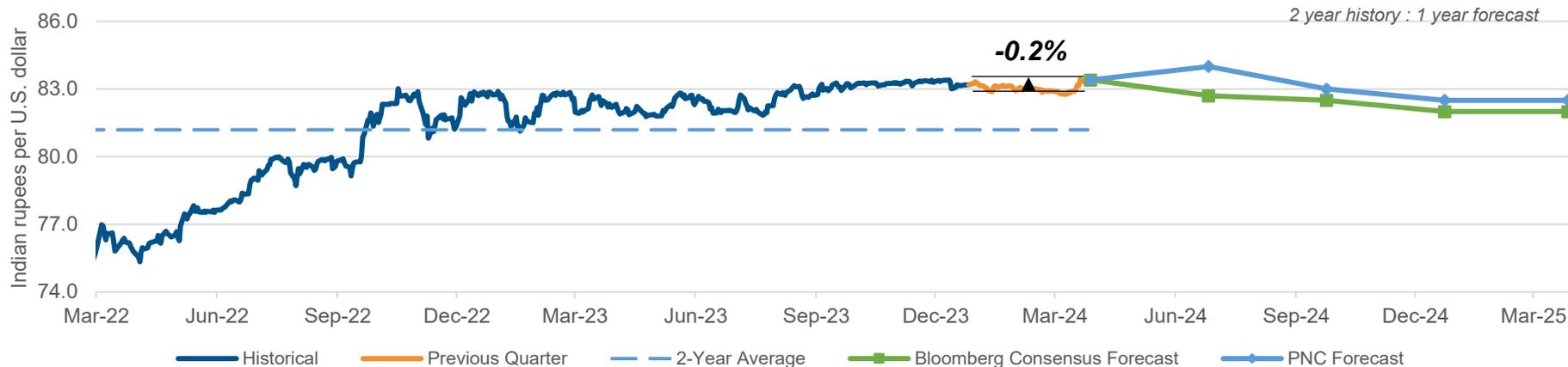
(1) The New Zealand dollar declined as inflation in January was reported lower than the previous reading, increasing expectations for a more dovish Reserve Bank of New Zealand

Currency Update

Indian Rupee



The Indian rupee weakened 0.2% in the past quarter.



(1) The Indian rupee weakened as pressures from an also weakening Chinese renminbi weighed on the currency.

Previous Quarter Recap

- The Reserve Bank of India (RBI) kept its repo rate unchanged on February 7, and inflation in India came in higher than consensus expectations at 5.1% in February.
- India's trade deficit has narrowed in recent months after rising to an all-time high in October.
- The PBoC set the daily reference rate weaker-than-expected on March 21, triggering a broad weakening in Asian currencies.

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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