

# **PNC Currency Review, May 2024**

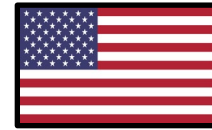
**Prior Quarter**

**February 2024 – April 2024**

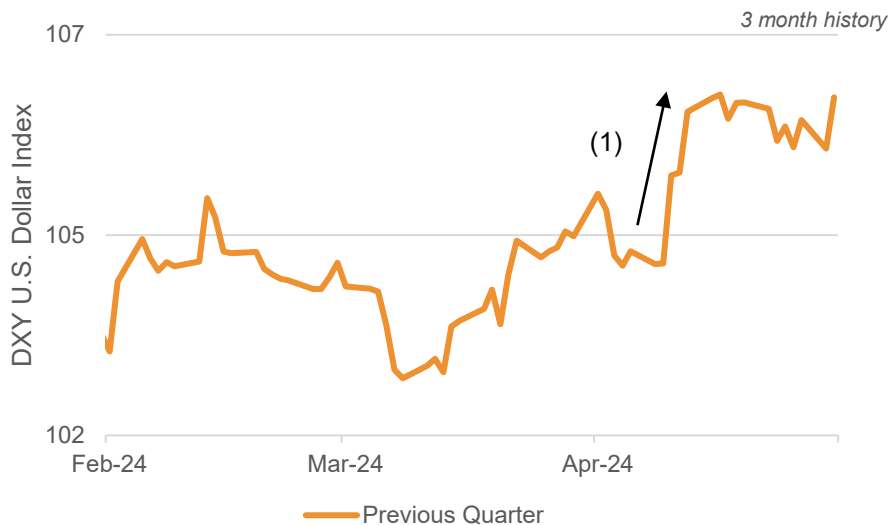
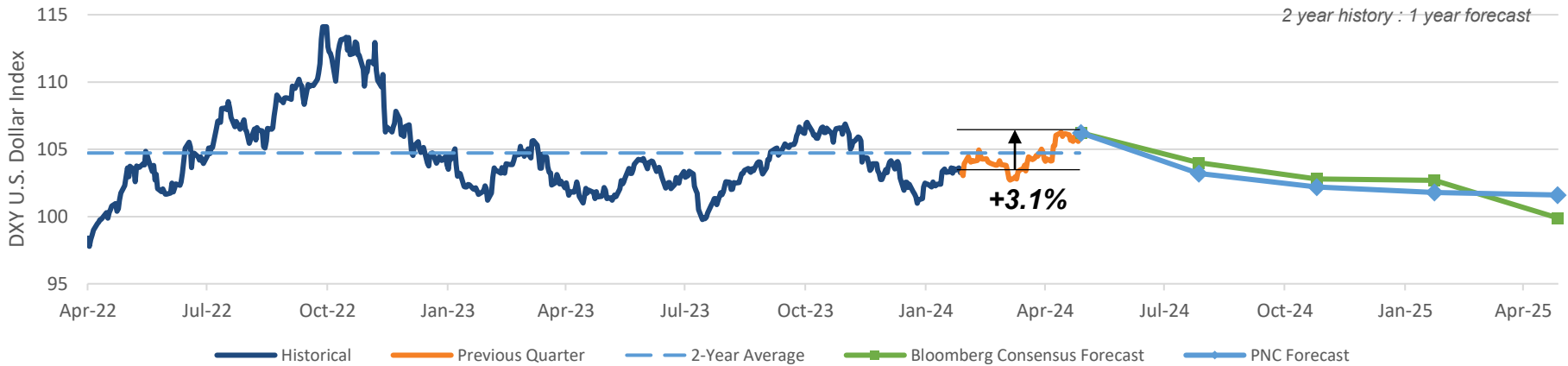


# Summary

## DXY Major Currencies Dollar Index



**The US dollar index strengthened 3.1% in the trailing quarter.**



(1) US inflation came in hotter than expected and supported no near-term interest rate cut by the Fed.

### Previous Quarter Recap

- The Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50% on May 1. The FOMC also announced plans to slow the pace of quantitative tightening.
- Overall PCE inflation picked back up in the first quarter; however, core PCE inflation was unchanged year-over-year in March, and down from December and January. Core inflation is gradually slowing to the Federal Reserve's 2% objective.
- According to the advance first quarter GDP report, economic growth slowed to a more sustainable pace in the first quarter.

### Currency Outlook

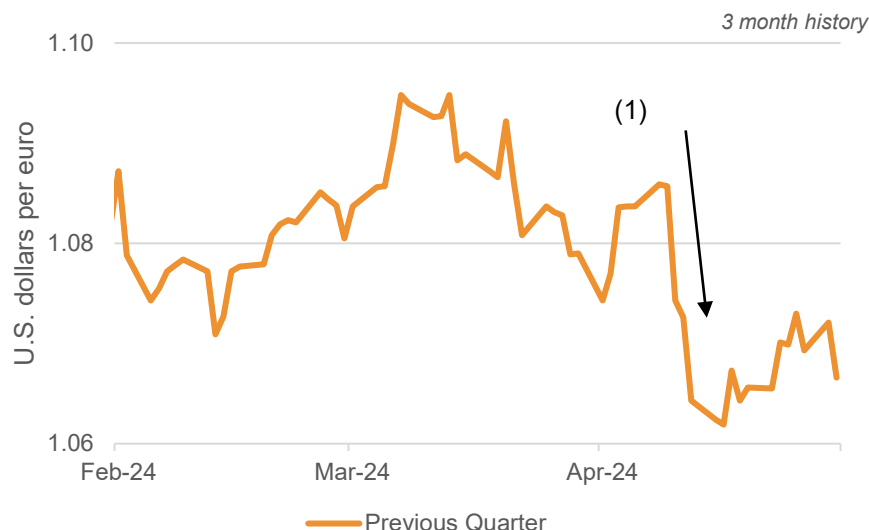
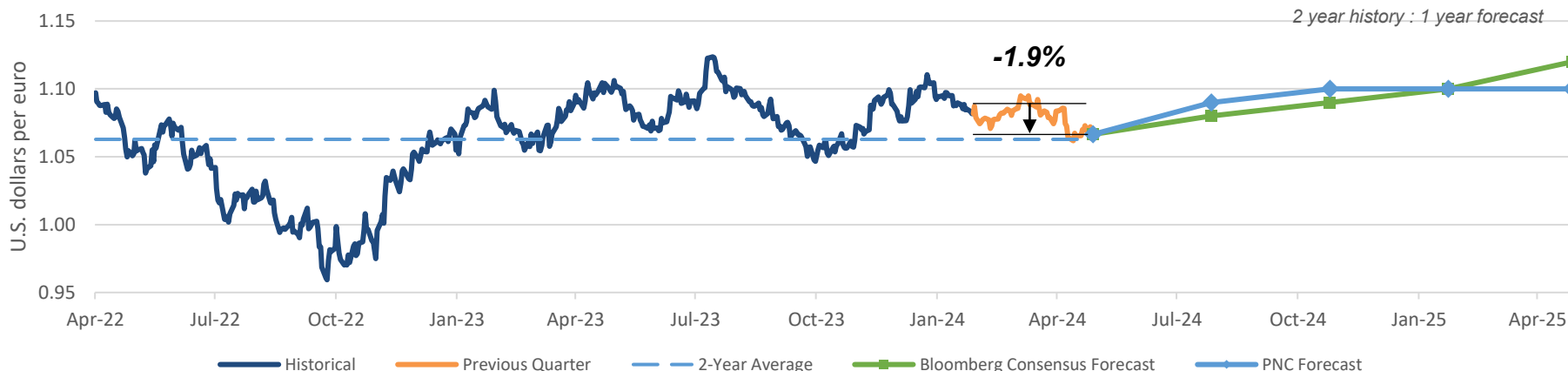
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If inflation comes in cooler than expected or the Fed cuts the Fed Funds rate more than anticipated, the dollar could be weaker than forecasted.

# Currency Update

## Euro



**The euro weakened 1.9% in the trailing quarter.**



(1) Higher-than-expected US inflation data, a hawkish Fed, and an expectation of the ECB cutting interest rates in June weighed on the euro.

### Previous Quarter Recap

- Hotter-than-anticipated U.S. inflation data delayed expectations for a near-term Fed Funds rate cut and supported a stronger dollar/weaker euro.
- The European Central Bank (ECB) held its policy rates steady at its meeting on April 11.
- Following two consecutive quarters of contraction in the second half of 2023, the advance GDP report for the first quarter showed economic growth in the eurozone was above the consensus.

### Currency Outlook

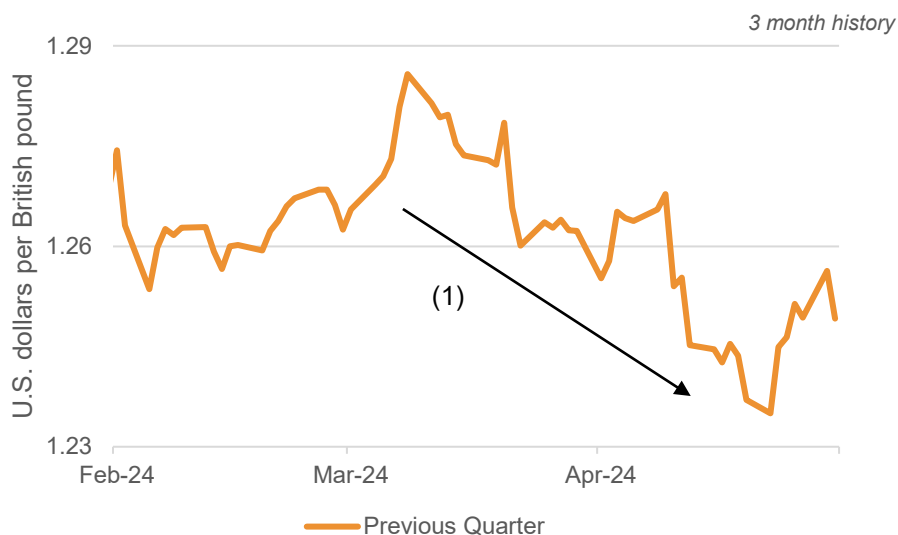
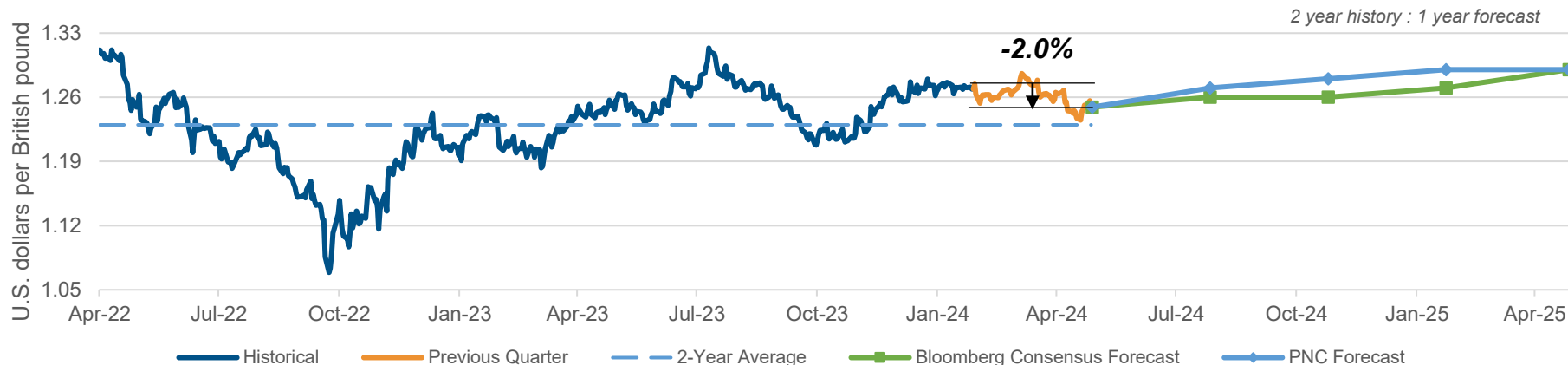
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If Eurozone inflation surprises to the upside or the ECB holds interest rates higher for longer, the euro could be stronger than expected.

# Currency Update

## Great British Pound



**Pound sterling weakened 2.0% in the trailing quarter.**



(1) Hotter-than-expected US inflation, a hawkish Fed, and weak UK economic data weighed on the pound.

### Previous Quarter Recap

- The Bank of England kept the bank rate unchanged at 5.25% during its March 21 meeting.
- While US CPI in March came in hotter than consensus expectations, inflation in the UK showed sign of easing in March to BoE's 2% inflation objective.
- The S&P Global UK PMI showed overall economic activity expanded more quickly in April. Manufacturing contracted on the month, but business activity growth accelerated.

### Currency Outlook

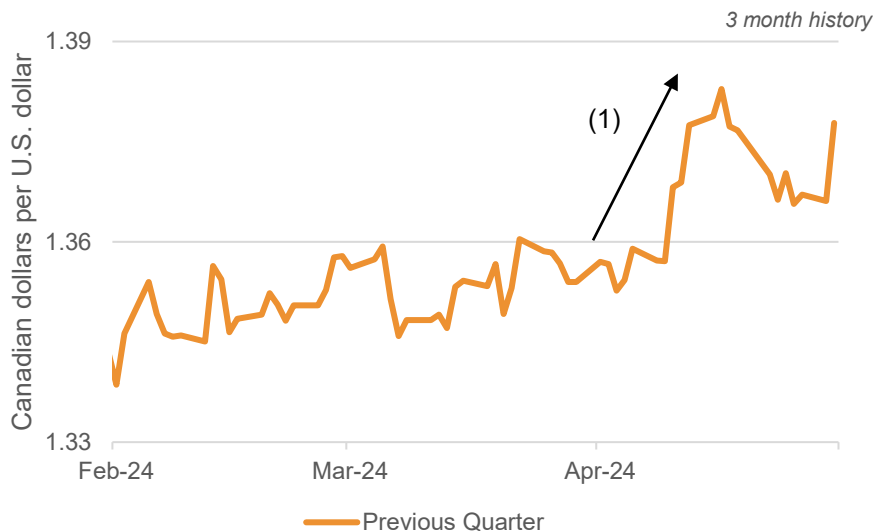
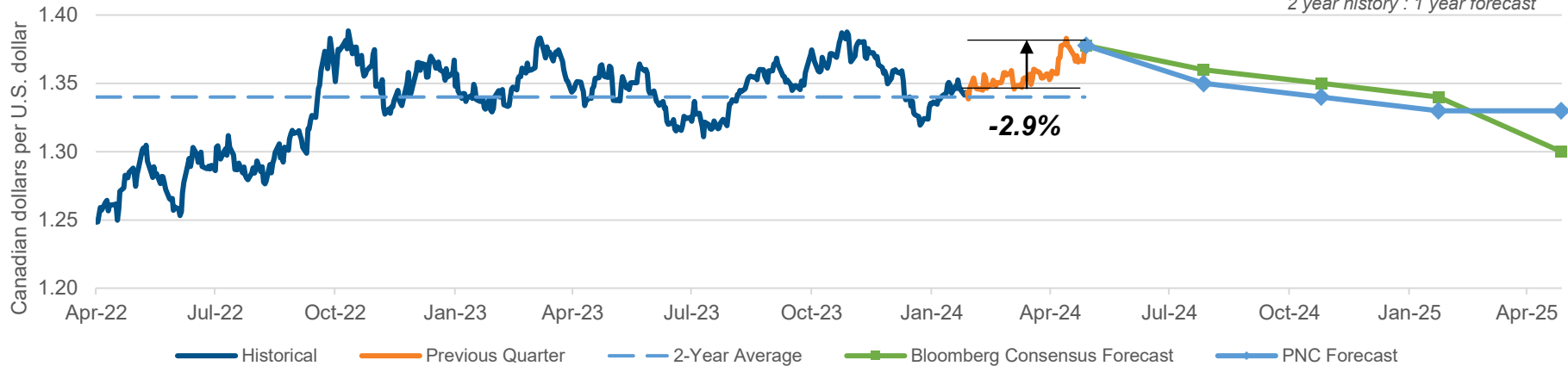
- Both PNC and the consensus expect the pound to strengthen slightly over the forecast horizon.
- A stronger-than-expected European or domestic economy and a later-than-expected interest rate cut would contribute to a stronger pound.

# Currency Update

## Canadian Dollar



**The Canadian dollar weakened 2.9% in the previous quarter.**



(1) US inflation came in hotter than expected, supporting a more restrictive interest rate policy this year.

### Previous Quarter Recap

- The Bank of Canada kept its benchmark interest rate unchanged at 5.00% at its meeting on April 10.
- Canadian inflation rebounded in March from February, according to the CPI report released on April 16.
- Real GDP grew 0.8% year-over-year in February, lower than consensus estimates. Retail sales dropped on the month. Manufacturing continued to contract in April but the pace of such slowed from February.

### Currency Outlook

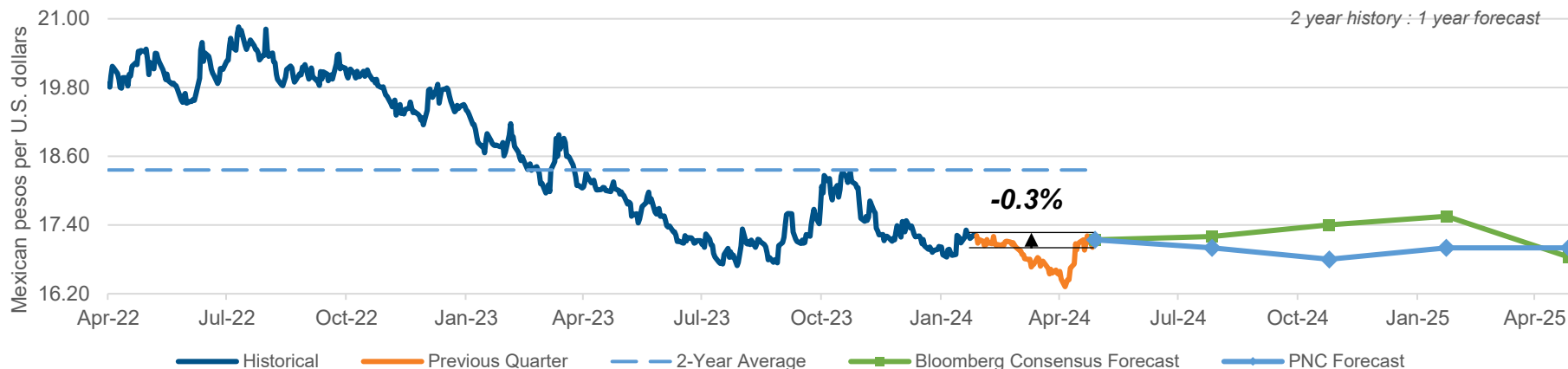
- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the Fed cuts interest rates more than expected or U.S. inflation surprises to the downside, the Canadian dollar would likely be stronger than forecasted.

# Currency Update

## Mexican Peso



**The Mexican peso weakened 0.3% in the trailing quarter.**



(1) Robust US economic data, Middle East tensions, and a hawkish Fed weighed on the Mexican peso.

### Previous Quarter Recap

- The Bank of Mexico lowered its overnight target rate by 25 bps to 11% at its meeting on March 21.
- Mexican inflation in March, released on April 9, came in below consensus estimates. U.S. inflation rebounded in March, delaying expectations on Fed Funds rate cut, and the number of expected U.S. rate cuts in 2024 fell.
- Real GDP grew 1.6% over the past year, below consensus estimates. Real GDP growth was at the slowest pace since the second quarter of 2021.

### Currency Outlook

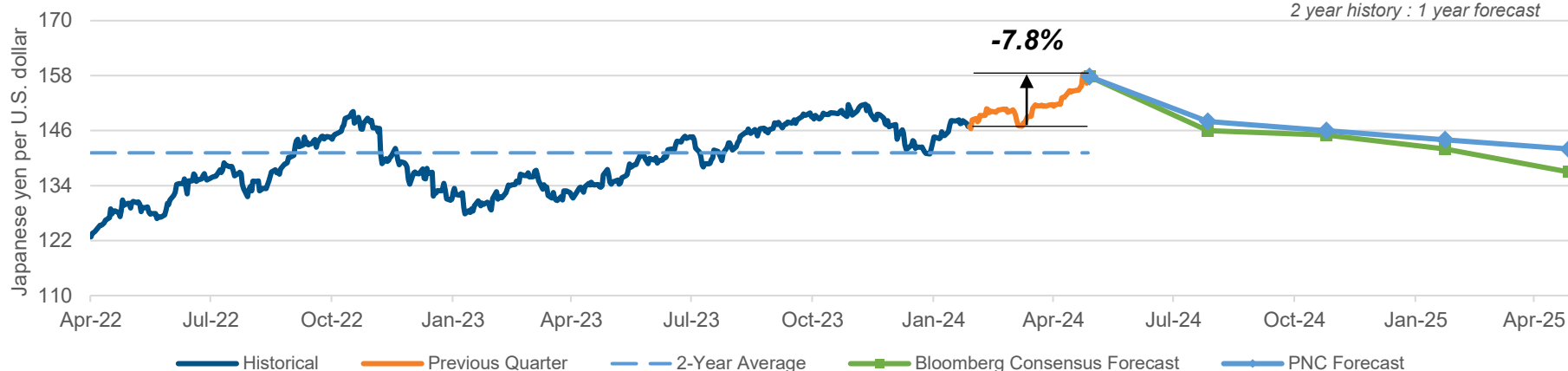
- PNC expects the peso to weaken slightly over the forecast horizon, while the consensus expects some initial peso strength.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso.

# Currency Update

## Japanese Yen



The Japanese yen weakened 7.8% in the previous quarter.



(1) Hotter-than-expected US inflation, a hawkish Fed and a dovish BoJ weighed on yen's value.

### Previous Quarter Recap

- Over the previous quarter, and ahead of the Bank of Japan's (BoJ) interest rate hike on March 19, the Japanese yen depreciated against the US dollar. The BoJ's decision marked the end of negative interest rates, and yield curve control policies, which had been in place since 2016.
- Higher interest rates in the US, supported by hot US inflation data, placed pressure on the yen.
- On April 26 the Bank of Japan kept its target rate unchanged, sending the yen to its lowest level since 1992.

### Currency Outlook

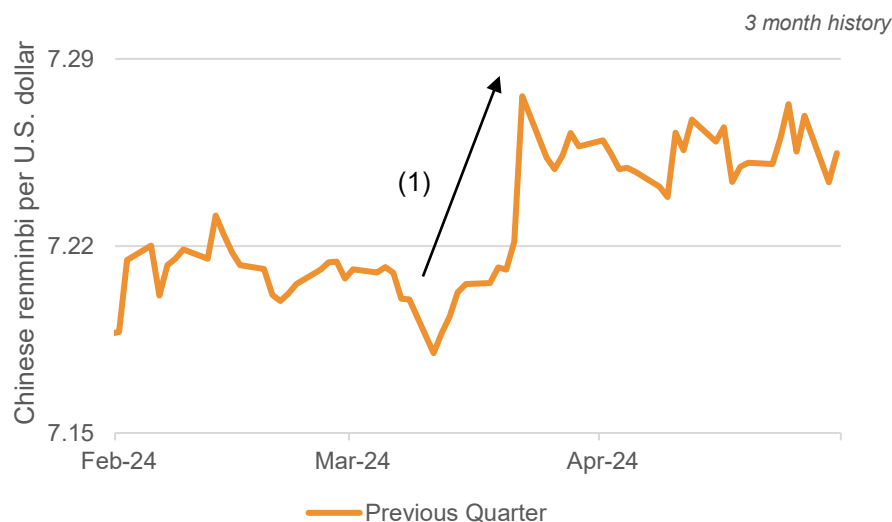
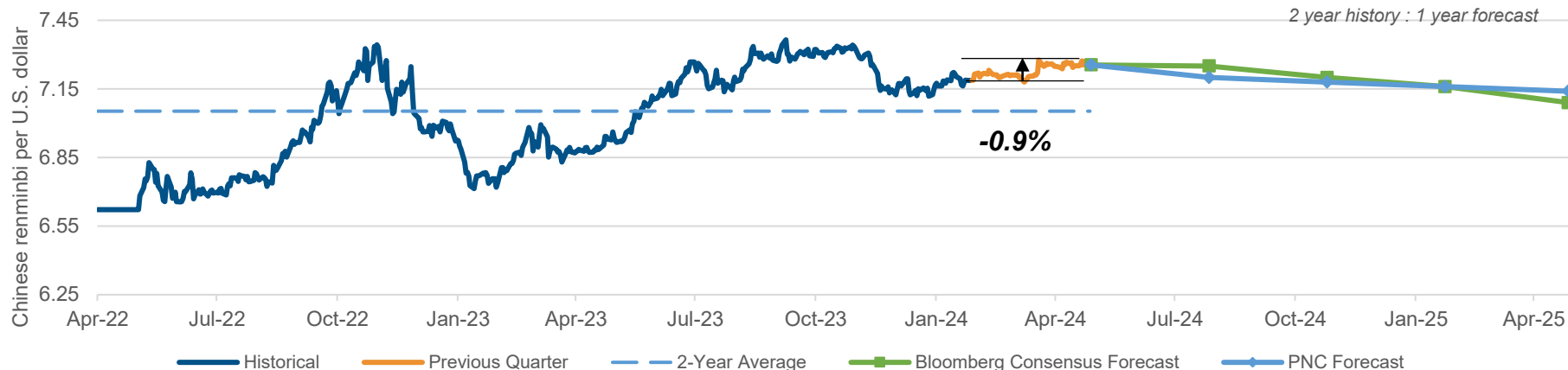
- Both PNC and the consensus expect the yen to appreciate over the forecast horizon.
- If the BoJ leaves policy more restrictive in 2024, the Japanese yen could be stronger than forecasted.

# Currency Update

## Chinese Renminbi



The renminbi weakened 0.9% in the last quarter.



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

### Previous Quarter Recap

- The People's Bank of China kept the one-year medium-term lending facility rate unchanged at 2.5% on March 14. It kept both one-year and five-year loan prime rates unchanged on March 19.
- China's National Bureau of Statistics PMI came in above the expansionary threshold in April, but the expansion slowed from the previous month.
- Real GDP grew 5.3% in the first quarter of 2024 in China, faster than in the previous two quarters but still below the pre-pandemic growth trend.

### Currency Outlook

- Both PNC and the consensus expect the renminbi to appreciate against the US dollar over the forecast horizon.
- If weakness in the domestic economy persists and growth is worse than expected, the Chinese renminbi could be weaker than forecasted.

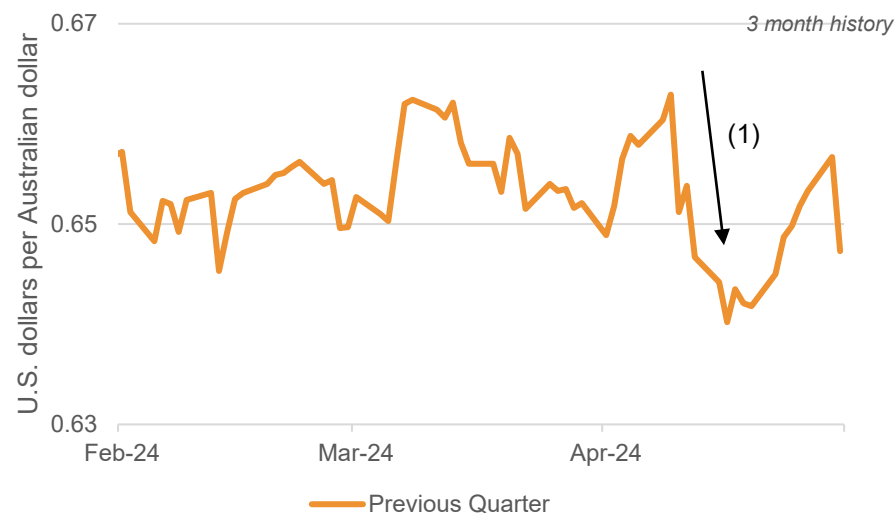


# Currency Update

## Australian Dollar



The Australian dollar weakened 1.5% in the last quarter.



(1) Hot US inflation data, Middle East tensions, and a hawkish Fed weighed on the Australian dollar.

### Previous Quarter Recap

- The Reserve Bank of Australia kept its cash target rate steady at 4.35% on March 18.
- Australia's Q1 CPI came in above estimates, yet eased YoY to 3.6%. Retail sales grew a weak 0.8% in March from one year earlier.
- Exports in February dropped while imports increased. Australia's labor market remains tight with a near historic-low unemployment rate and above-trend full-time employment gains in March.

### Currency Outlook

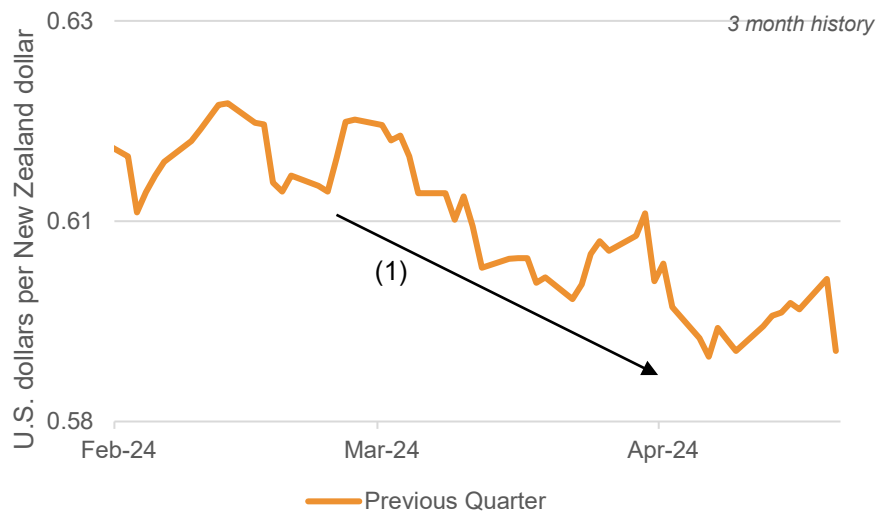
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the Fed Funds rate more than markets are currently pricing in, the Australian dollar could be stronger than PNC's forecast.

# Currency Update

## New Zealand Dollar



**The New Zealand dollar weakened 4.2% last quarter.**



(1) New Zealand's headline inflation remained sticky and flat in the first quarter of 2024, and poor economic data weighed on the New Zealand dollar

### Previous Quarter Recap

- The Reserve Bank of New Zealand held its cash rate steady at 5.5% on April 9, while Q1 2024 CPI slowed to 4% from the previous quarter.
- Real GDP contracted in Q4 2023. The unemployment rate ticked up to 4.3% in Q1 2024. The Bank of New Zealand (BNZ) Manufacturing PMI shows manufacturing activity contracted at a faster pace in March 2024 from the previous month.
- New Zealand's exports picked up entering 2024, with the trade deficit turning into a surplus in March.

### Currency Outlook

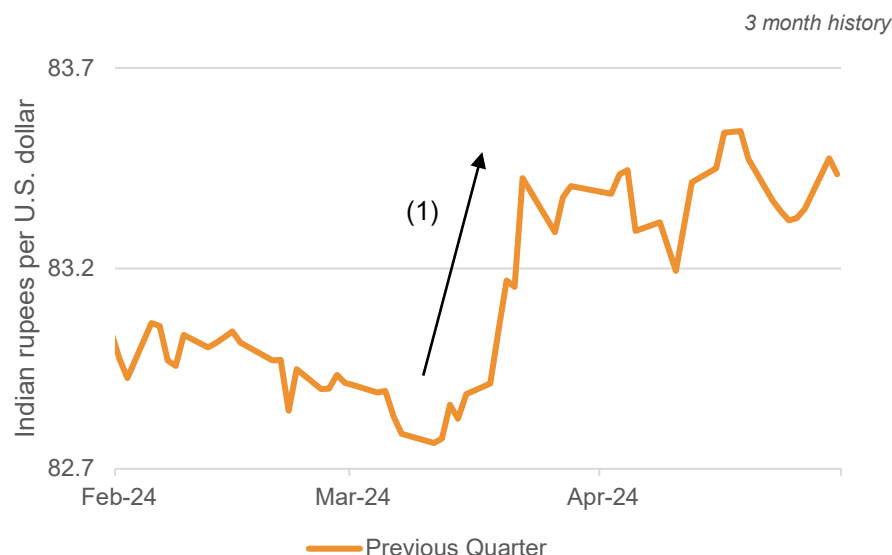
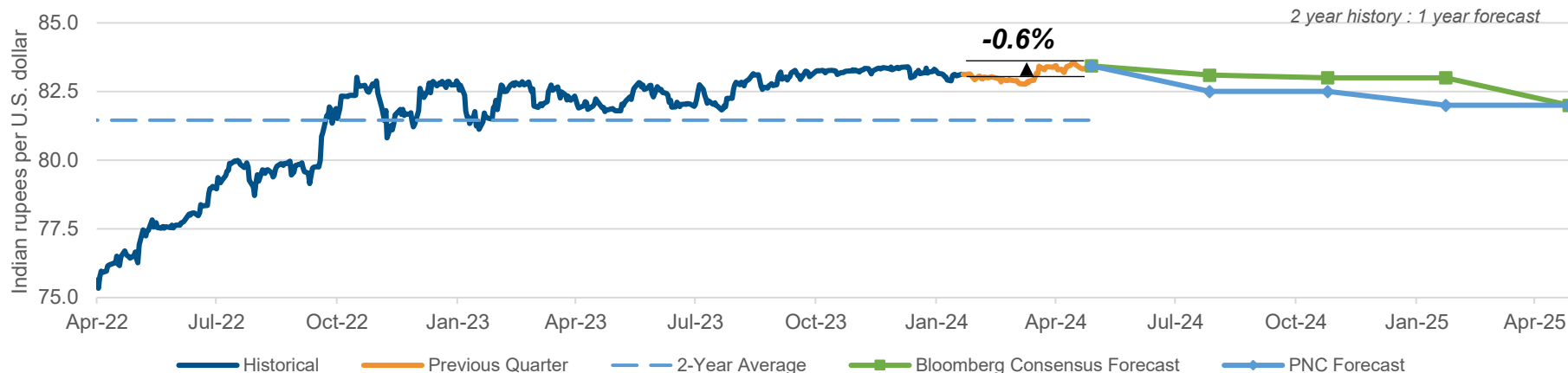
- PNC and the consensus both expect the New Zealand dollar to appreciate over the forecast horizon.
- If the Fed cuts its policy interest rate less than expected or inflation in New Zealand remains higher than expected, the New Zealand dollar would likely be stronger than forecasted.

# Currency Update

## Indian Rupee



The Indian rupee weakened 0.6% 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 kept its repo rate unchanged on April 5. India's CPI in March came in below consensus estimates and dropped to 4.85% on the month.
- The HSBC India PMI shows Indian manufacturing and business activities expanded again in April from last month.
- India's nominal trade deficit narrowed in March 2024 and was down from the peak in October 2023.

### 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 more than markets are currently pricing in, the rupee could be stronger than expected.

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