

# **PNC Currency Review, July 2024**

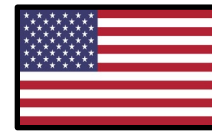
**Prior Quarter**

**April 2024 – June 2024**



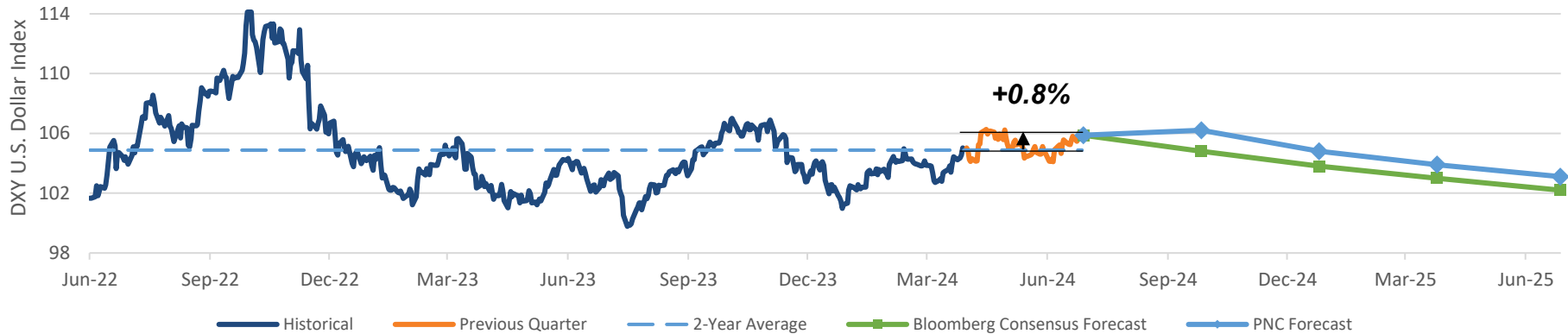
# Summary

## DXY Major Currencies Dollar Index

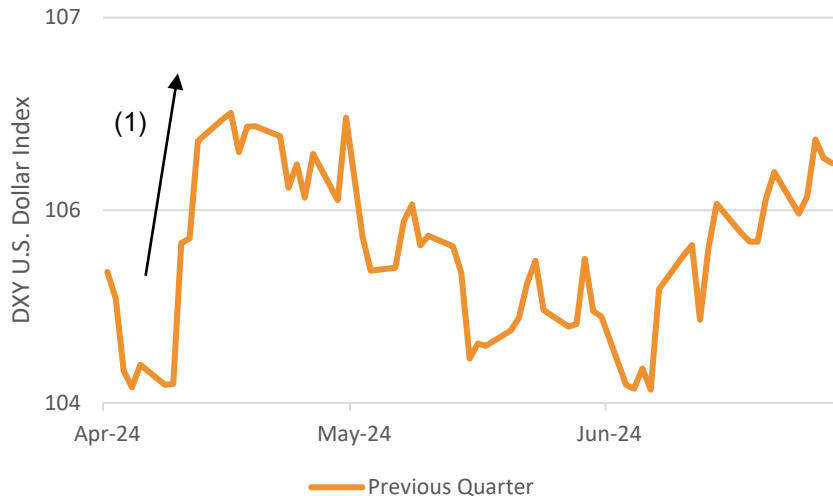


**The US dollar index strengthened 0.8% in the trailing quarter.**

2 year history : 1 year forecast



3 month history



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

### Previous Quarter Recap

- US CPI inflation came in below consensus expectations in April, sending the dollar lower on May 15.
- The May jobs report, released on June 6, was another strong one, with job growth near the average for 2023 and a reacceleration in wage growth from April.
- The Federal Reserve kept the Fed Funds rate in a range between 5.25% and 5.50% on June 12. The dot plot showed a median of one 25 basis point rate cut this year, compared to a median of three cuts in the previous dot plot.

### 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 be weaker than forecasted.

# Currency Update

Euro



The euro weakened 0.3% in the trailing quarter.



(1) A stronger-than-expected GDP report on April 30 and cooler-than-expected US CPI inflation on May 15 sent the euro stronger against the US dollar.

## Previous Quarter Recap

- The European Central Bank (ECB) cut its three key interest rates by 25 basis points each on June 6.
- Eurozone headline and core year-over-year CPI inflation accelerated in May, according to the CPI report on June 18.
- Economic activity in June expanded at a slower pace according to the Eurozone HCOB Composite PMI, which had increased for five consecutive months before reversing. Manufacturing activity contracted at a faster pace on the month.

## Currency Outlook

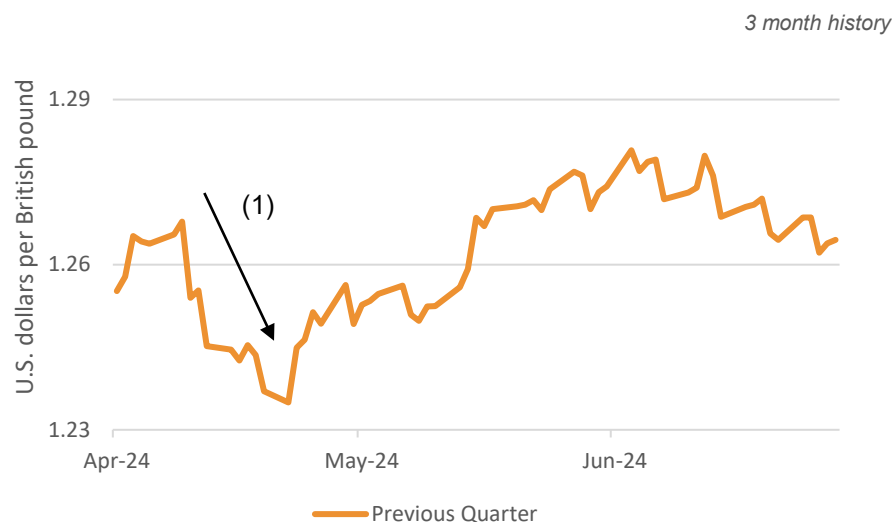
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If the ECB cuts its three key rates less than market expectations, the euro could be stronger than expected.

# Currency Update

## Great British Pound



The British pound strengthened 0.7% in the trailing quarter.



(1) Higher-than-expected US inflation data and a hawkish Fed weighed on the pound.

### Previous Quarter Recap

- The Bank of England kept the bank rate unchanged at 5.25% during its June 20 meeting.
- Retail sales grew at the strongest year-over-year pace in 2024 in May. Overall economic activity expanded in June, but at a softer pace for factory and services activities, according to the June S&P Global UK PMI on June 21.
- The final estimate of Q1 GDP growth came in stronger than the consensus expectation on June 28.

### Currency Outlook

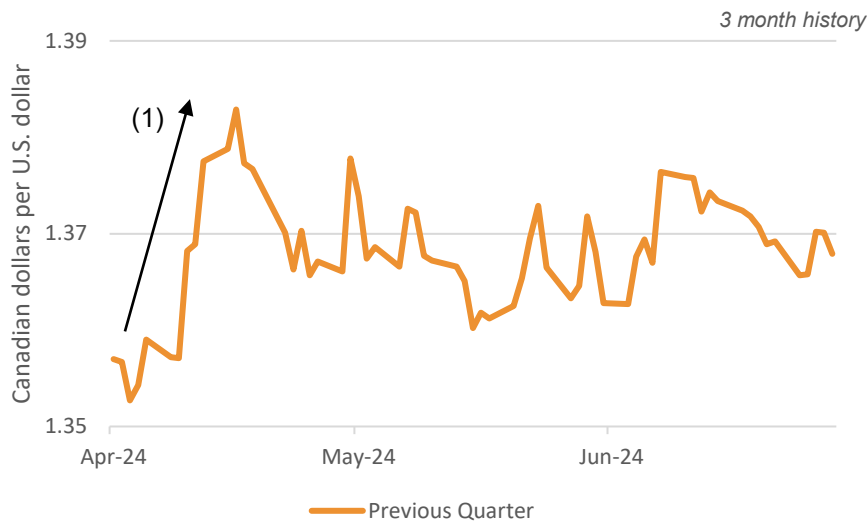
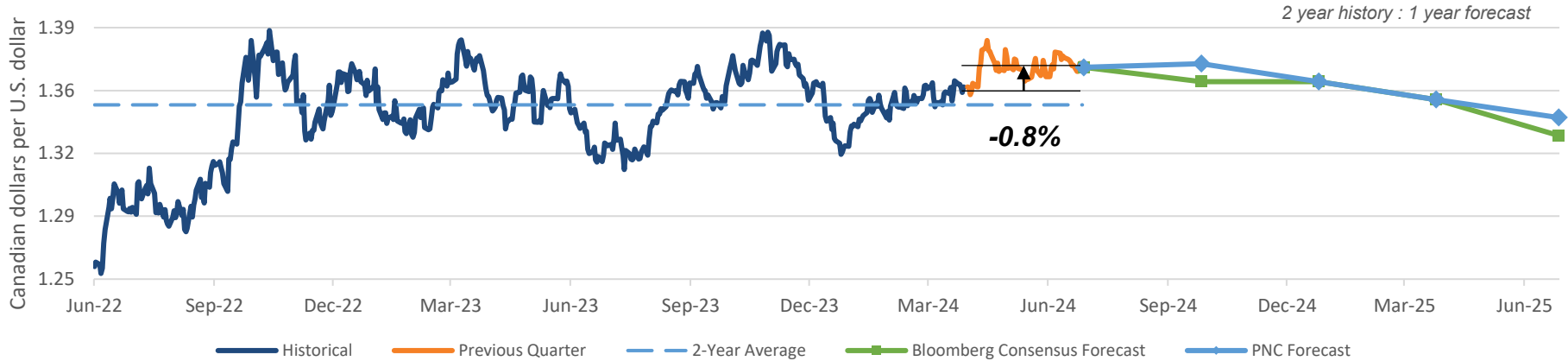
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- Stronger-than-expected European or domestic economies and less monetary easing than expected would contribute to a stronger pound.

# Currency Update

## Canadian Dollar



**The Canadian dollar weakened 0.8% 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 cut its policy rate by 25 basis points on June 5 to 4.75%. Manufacturing activity continued to contract in May, at a faster pace from April, according to the S&P Global Canada Manufacturing PMI.
- Canadian inflation reaccelerated somewhat in May, according to the CPI report released on June 25.
- Real GDP came in at 1.1% year-over-year in April (released on June 28), a faster pace on the month and in line with consensus estimates.

### Currency Outlook

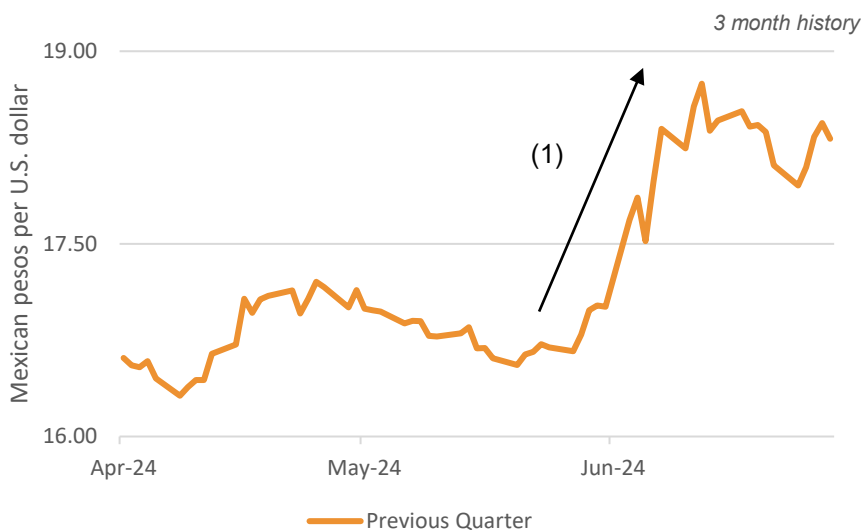
- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the Fed cuts interest rates more than expected or US inflation surprises to the downside, the Canadian dollar would likely be stronger than forecasted.

# Currency Update

## Mexican Peso



The Mexican peso weakened 10.3% in the trailing quarter.



(1) Uncertainties over Mexico's policy reforms after the general election in June sent the Mexican peso to a year-to-date low.

### Previous Quarter Recap

- Mexico's unemployment rate rose slightly in April and May from the historic low in March 2024. Retail sales came in stronger than the consensus expectation.
- Mexican CPI inflation came in above the consensus estimate in early May and increased on a year-over-year basis from the previous two weeks.
- The Bank of Mexico kept its overnight target rate unchanged on June 27 as CPI inflation in May came in higher than expected in Mexico.

### Currency Outlook

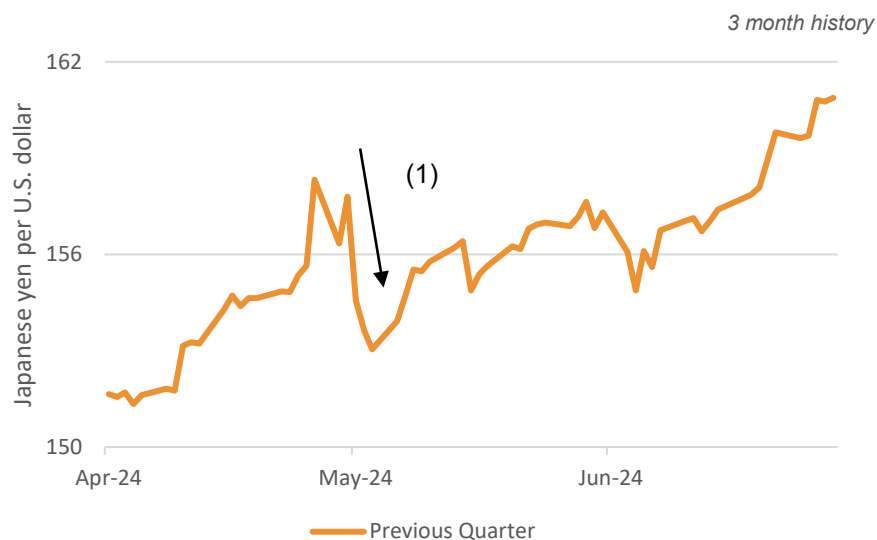
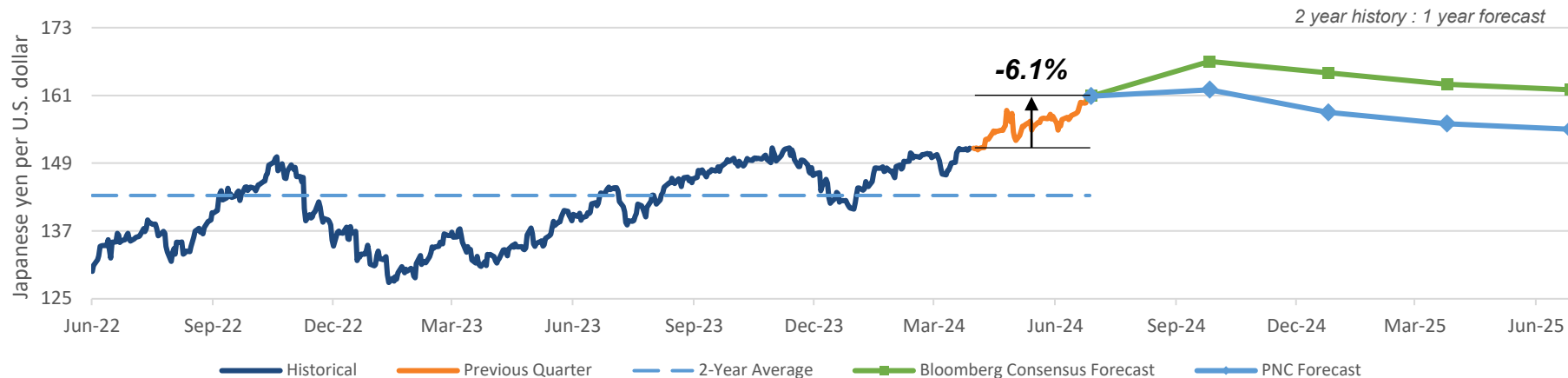
- Both PNC and the consensus expect some strengthening in the Mexican peso over the forecast horizon.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso.

# Currency Update

## Japanese Yen



The Japanese yen weakened 6.1% in the previous quarter.



(1) The Bank of Japan intervened to strengthen the yen after reaching key resistance levels in late April, the weakest levels over the past three decades.

### Previous Quarter Recap

- On April 26, the Bank of Japan kept its target rate unchanged after ending its negative interest rate policy in March. The shift in policy sent the yen to its weakest level since 1992.
- Japan's real GDP contracted in Q1 2024, while its national CPI inflation bounced back higher in May.
- Japan's services activity contracted in June according to the Jibun Bank PMI; the composite index was at a six-month low and on the threshold of economic contraction.

### Currency Outlook

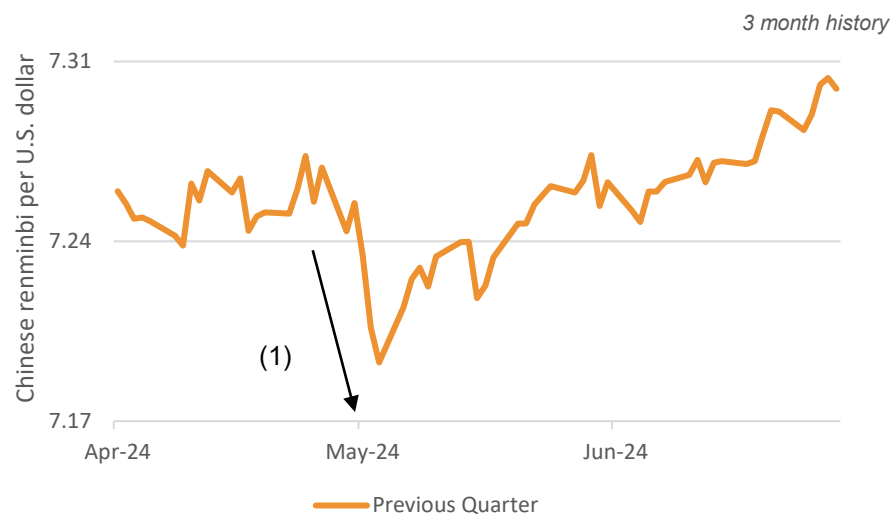
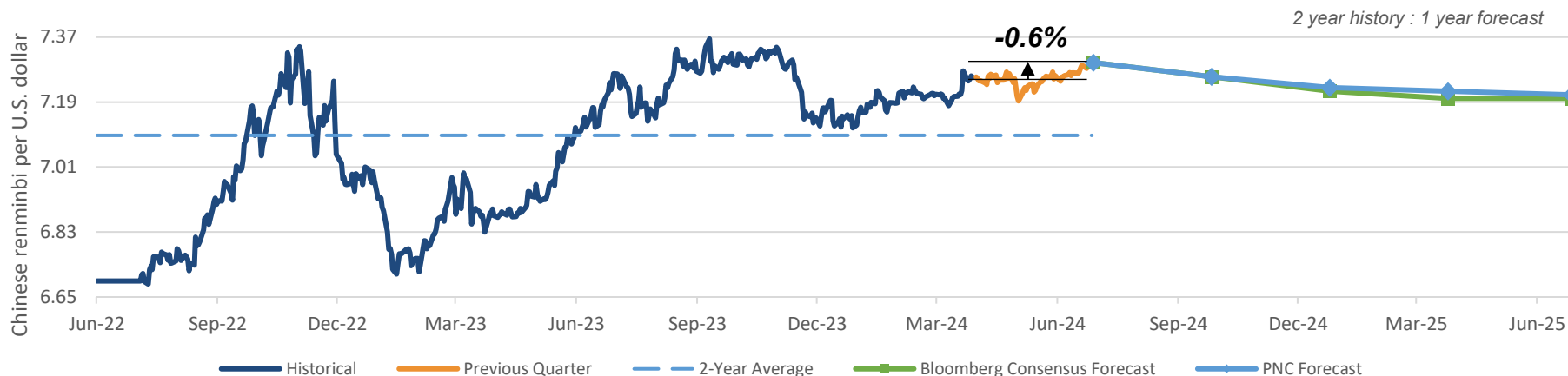
- PNC expects the yen to appreciate over the forecast horizon, while the consensus expects the yen to depreciate slightly before strengthening over the forecast horizon.
- The Japanese yen could be stronger than forecasted if the Fed cuts interest rates more than consensus expectations.

# Currency Update

## Chinese Renminbi



The Chinese renminbi weakened 0.6% in the last quarter.



(1) Following the May 1 FOMC meeting, the dollar and Treasury yields dropped. China's NBS Manufacturing PMI pointed to growth in factory activity in April, but its dwindling pace indicated the need for Chinese governmental support.

### Previous Quarter Recap

- China's retail sales grew stronger in May from April, supported by the Labor Day Holiday in early May.
- Foreign direct investment dropped at the fastest pace in May, with property investments down year-over-year.
- Expansions in services and construction activity slowed in June, according to China's NBS PMI. Momentum in industrial profits has been fading in 2024. May proved to be the slowest growth for China's industrial total profits this year.

### 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.

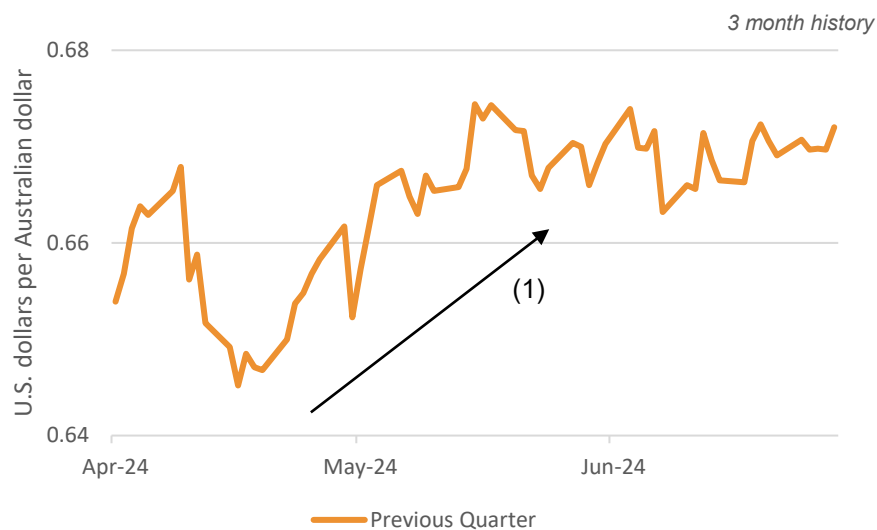
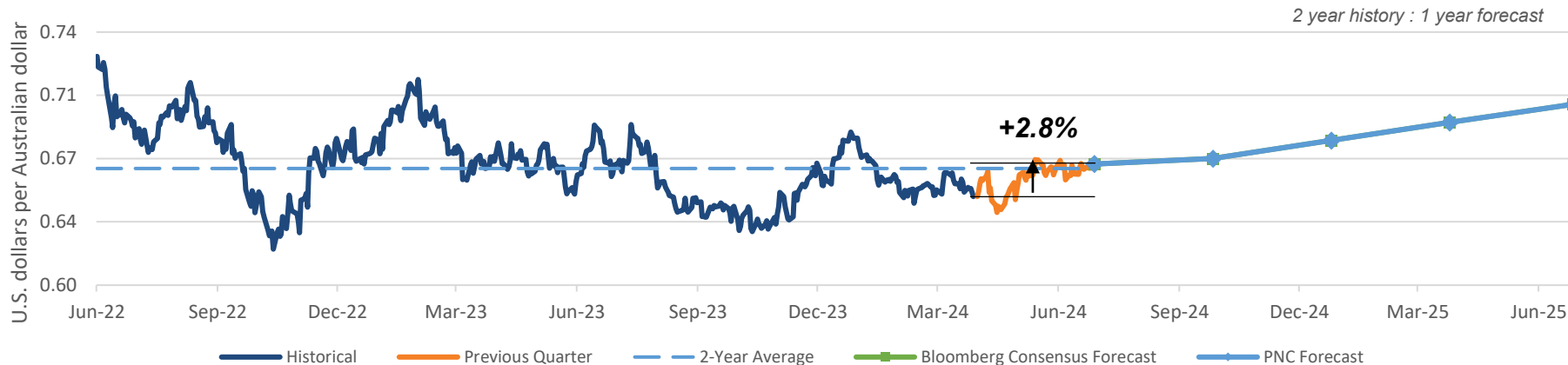


# Currency Update

## Australian Dollar



The Australian dollar strengthened 2.8% in the last quarter.



(1) Worse-than-expected US economic data along with strong economic reports in Australia in May sent the Australian dollar higher on the month.

### Previous Quarter Recap

- Australian Q1 real GDP growth came in at the slowest pace over the past three years. There were solid gains in full-time employment in May after a drop in April. The unemployment rate also edged lower in May after rising in April.
- The Reserve Bank of Australia kept its cash target rate steady at 4.35% on June 18.
- Headline CPI inflation in Australia reaccelerated to 4% in May.

### Currency Outlook

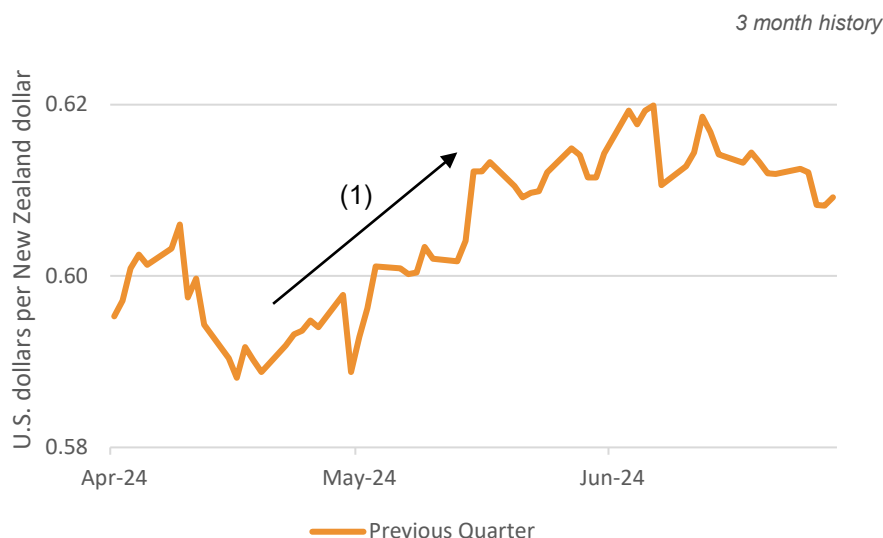
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the Fed Funds rate more than markets are currently pricing in, the Australian dollar could be stronger than PNC's forecast.

# Currency Update

## New Zealand Dollar



The New Zealand dollar strengthened 2.3% last quarter.



(1) Worse-than-expected US economic data along with strong economic reports in New Zealand in May sent the New Zealand dollar higher on the month.

### Previous Quarter Recap

- The Reserve Bank of New Zealand held its cash rate steady at 5.5% on May 21.
- The BNZ Manufacturing PMI showed manufacturing activity contracted in May at a faster pace than the previous reading.
- Q1 real GDP growth accelerated from the second half of 2023, ending what appeared to be a mild recession. The trade balance turned positive in the spring after dipping in the past two years.

### Currency Outlook

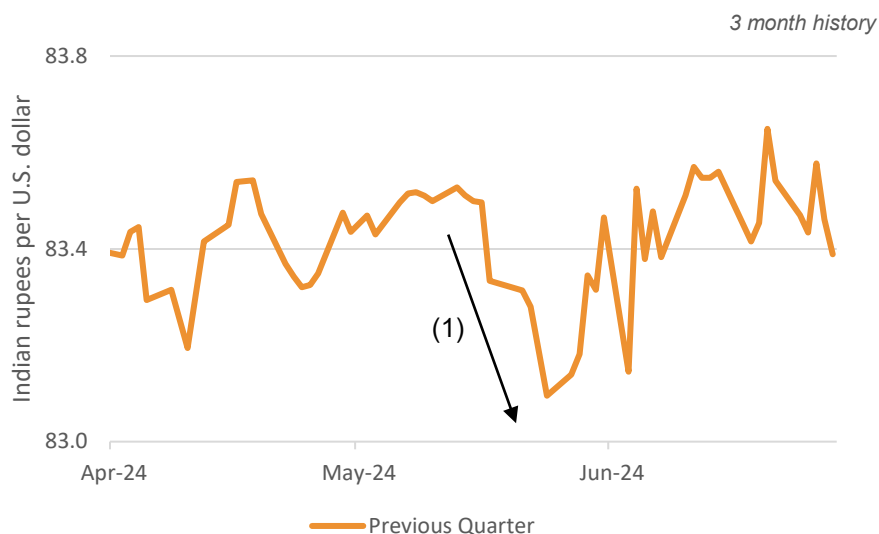
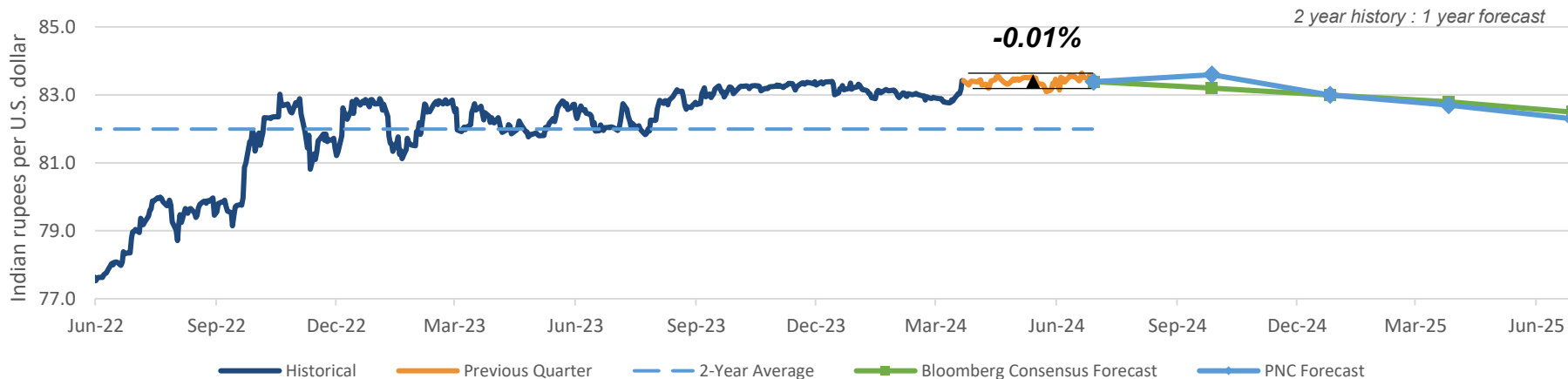
- PNC and the consensus both expect the New Zealand dollar to appreciate over the forecast horizon.
- If the Fed cuts its policy interest rate more than expected or inflation in New Zealand remains higher than expected, the New Zealand dollar would likely be stronger than forecasted.

# Currency Update

## Indian Rupee



The Indian rupee weakened 0.01% in the past quarter.



(1) Dollar demand was strong amid volatility during the election in India; the RBI likely intervened in preparation for strong dollar buying.

### Previous Quarter Recap

- Real GDP in Q1 2024 grew stronger than consensus expectations at 7.8% year-over-year.
- The Reserve Bank of India (RBI) kept its policy rates unchanged on June 7. India's CPI in May came in below consensus estimates and has continued to cool off over the past several months.
- The HSBC India PMI shows overall business activity expanded in June. The pace in both manufacturing and services activity picked up slightly.

### 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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