

PNC Currency Review, June 2024

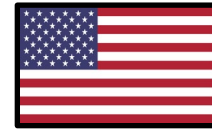
Prior Quarter

March 2024 – May 2024



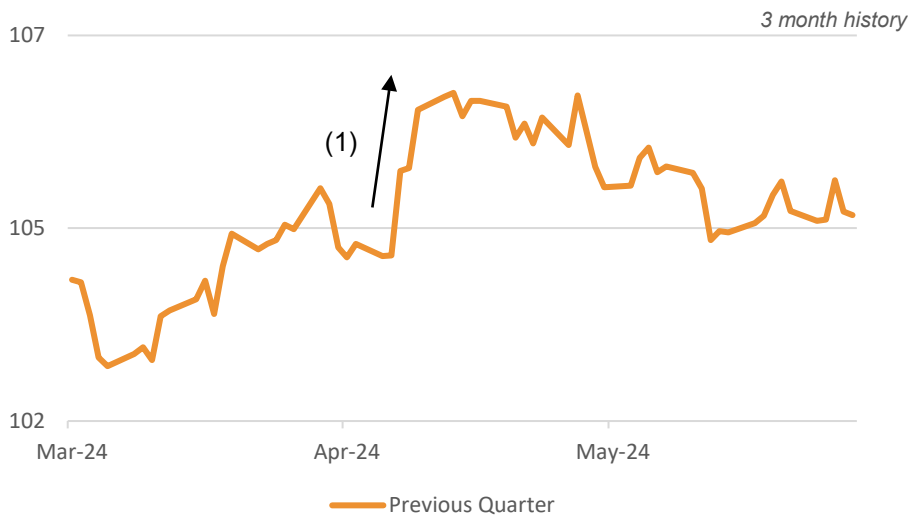
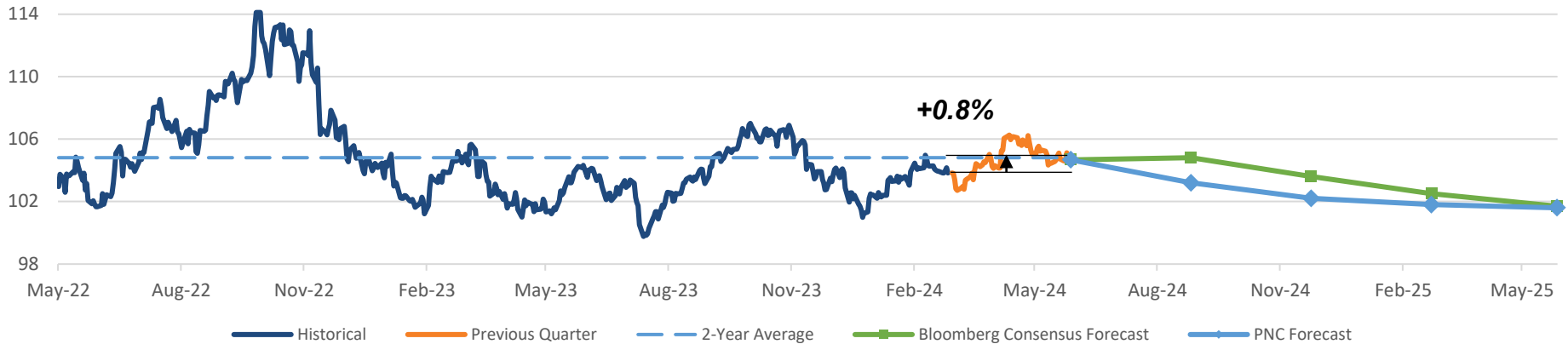
Summary

DXY Major Currencies Dollar Index



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

2 year history : 1 year forecast



(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.
- US CPI inflation came in below consensus expectations in April, sending the dollar lower on May 15. CPI year-over-year (YoY) inflation eased while PCE inflation in May was unchanged from April at 2.7% YoY.
- Real GDP growth in the first quarter was revised slightly lower in the second estimate to 1.3%, from 1.6% in the advance estimate.

Currency Outlook

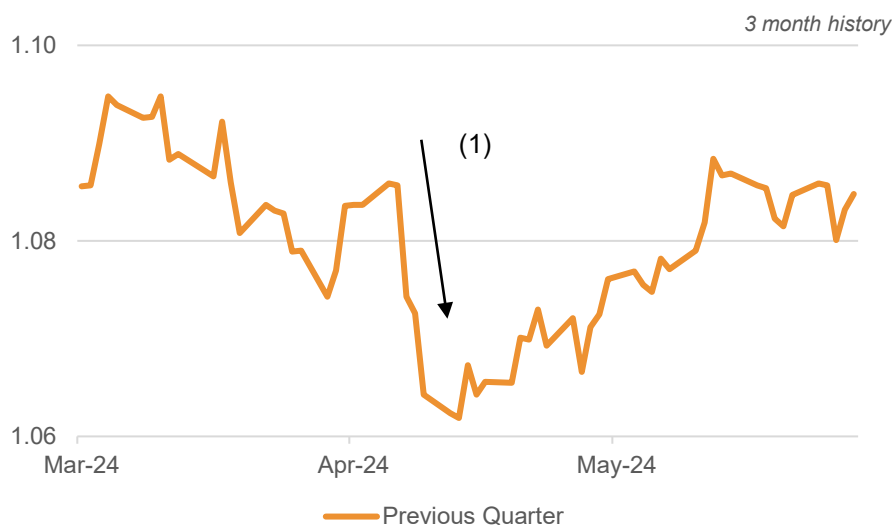
- PNC and the consensus both anticipate that the U.S. dollar will depreciate over the forecast horizon.
- If inflation comes in cooler than expected or the Fed cuts the Fed Funds rate more than anticipated, the dollar could be weaker than forecasted.

Currency Update

Euro



The euro strengthened 0.1% in the trailing quarter.



(1) Higher-than-expected US inflation data, a hawkish Fed, and an expected ECB rate cut in June weighed on the euro.

Previous Quarter Recap

- The European Central Bank (ECB) cut its policy rate by 25 basis points on June 6 to 3.75%.
- Headline year-over-year CPI inflation in the eurozone remained flat in April, and increased in May to 2.6%.
- Real GDP increased in the first quarter after two quarters of contraction. Overall economic activity in the eurozone continued to recover in the second quarter, with the Composite PMI increasing for a fifth consecutive month in May.

Currency Outlook

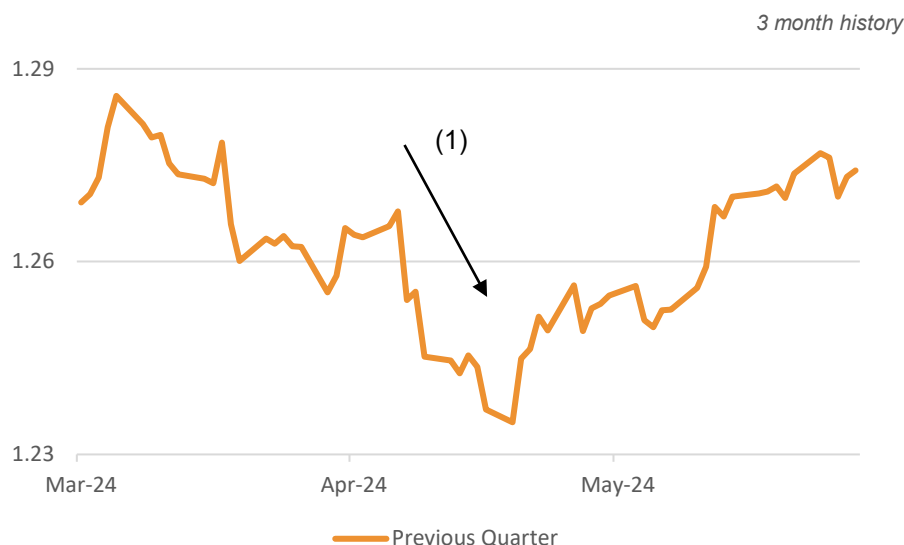
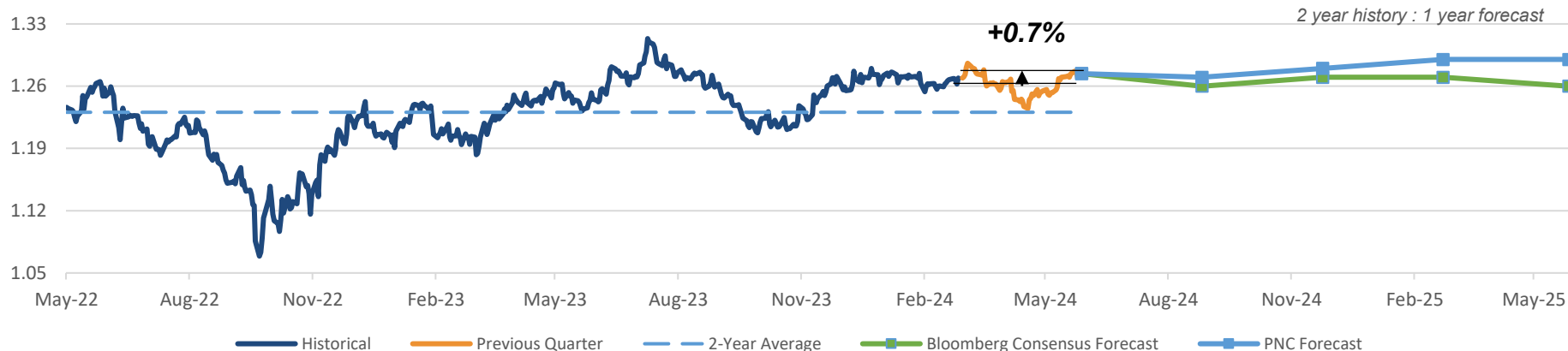
- Both PNC and the consensus expect the euro to strengthen over the forecast horizon.
- If Eurozone inflation surprises to the upside or the ECB keeps its policy rate unchanged, the euro could be stronger than expected.

Currency Update

Great British Pound



The Pound sterling 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 May 9 meeting.
- While UK CPI in April came in hotter than consensus expectations, inflation showed sign of easing to the BoE's 2% inflation objective.
- UK real GDP increased in the first quarter, after two quarters of contraction. Overall economic activity expanded in May with stronger factory and softer services activity, according to the S&P Global UK Composite PMI.

Currency Outlook

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

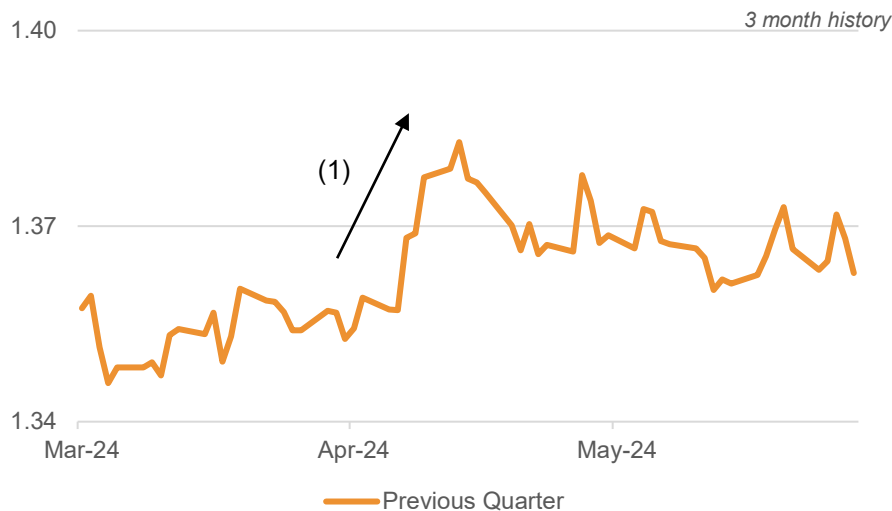
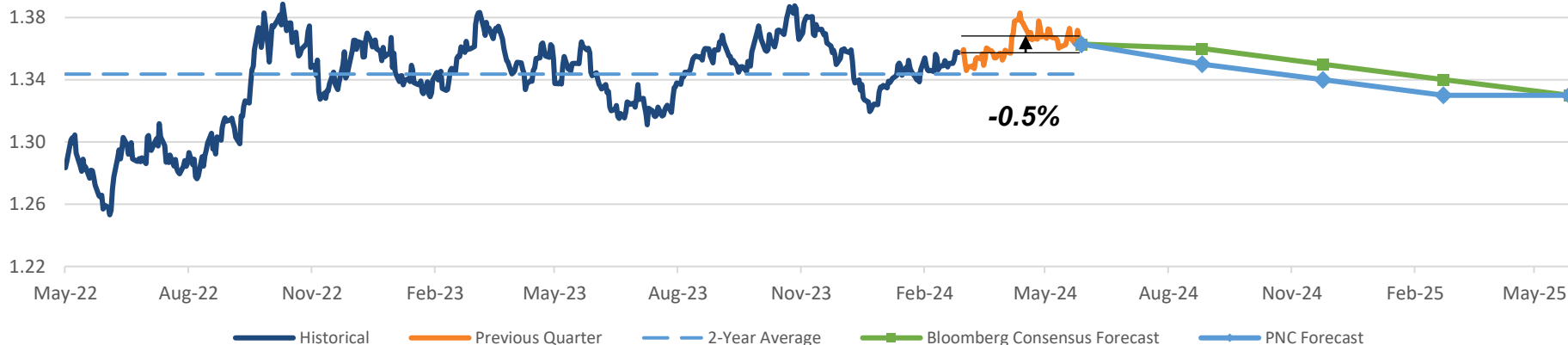
Currency Update

Canadian Dollar



The Canadian dollar weakened 0.5% in the previous quarter.

2 year history : 1 year forecast



(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%. Canadian inflation eased to 2.7% in April after rebounding in March, according to the CPI report released on May 21.
- Manufacturing activity continued to contract in May, at an accelerating pace from April, according to the S&P Global Canada Manufacturing PMI.
- Real GDP grew 0.6% year-over-year in March, lower than consensus estimates.

Currency Outlook

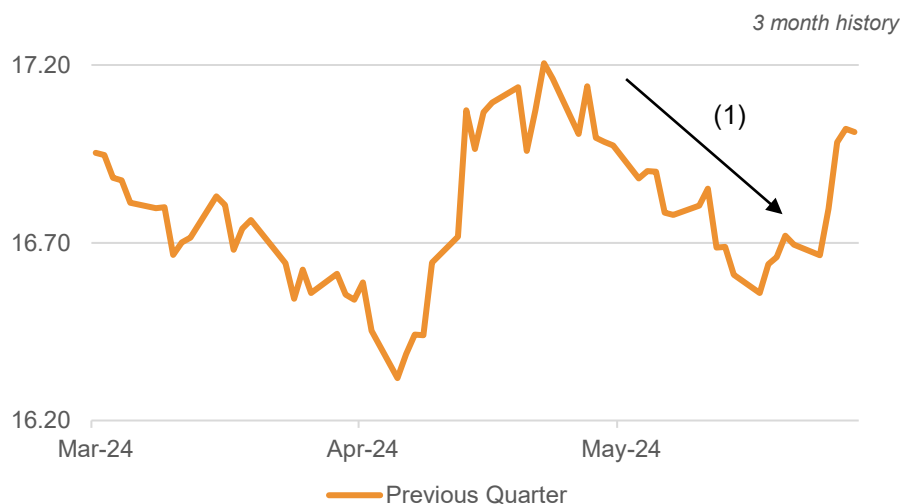
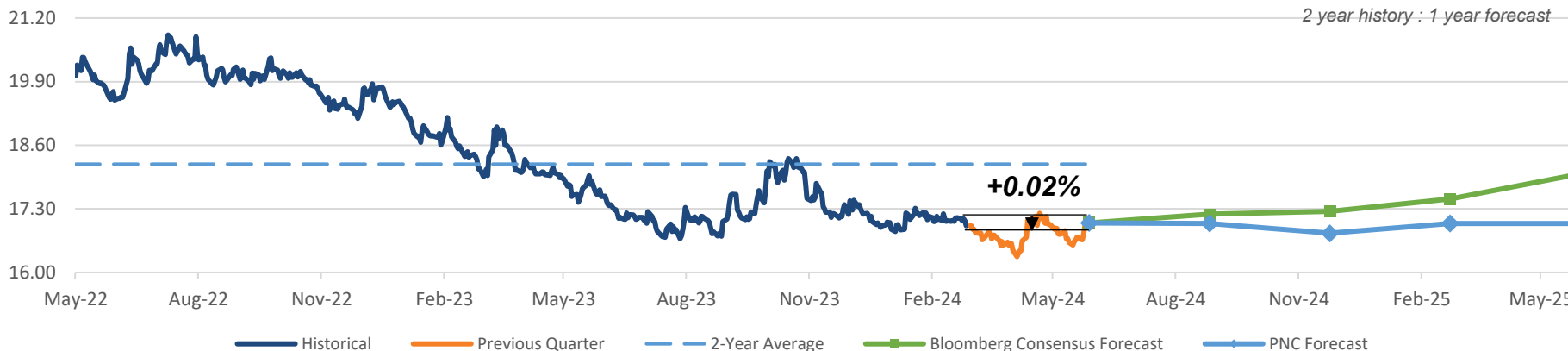
- Both PNC and the consensus expect the Canadian dollar to appreciate over the forecast horizon.
- If the Fed cuts interest rates more than expected or U.S. inflation surprises to the downside, the Canadian dollar would likely be stronger than forecasted.

Currency Update

Mexican Peso



The Mexican peso strengthened 0.02% in the trailing quarter.



Previous Quarter Recap

- The Bank of Mexico kept its overnight target rate unchanged on May 9, after lowering it by 25 bps to 11% at its meeting on March 21.
- Mexico's growth in nominal wages remained strong in April despite easing over the last year. The unemployment rate was also up slightly in April from the historic low in March.
- Mexican CPI inflation came in above the consensus estimate in early May and increased on a year-over-year basis in the previous two weeks.

Currency Outlook

- PNC expects the peso to remain relatively flat over the forecast horizon, while the consensus expects some weakening.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso.

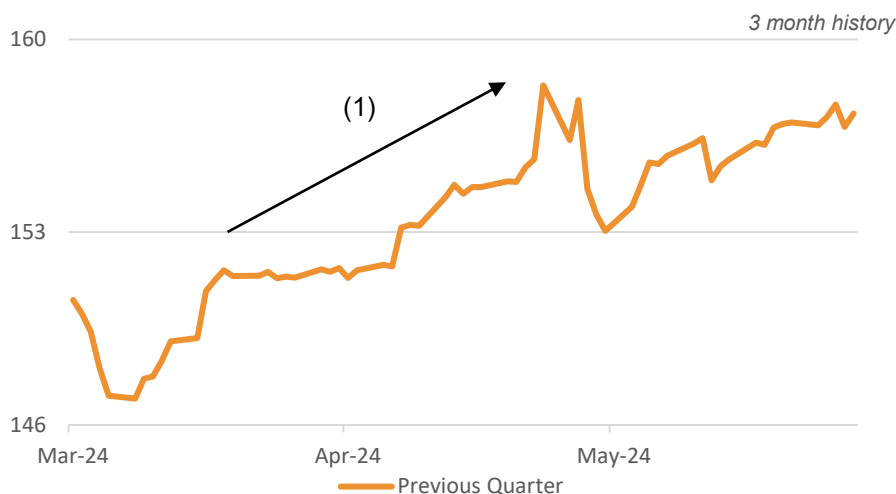
(1) Following the May 1 FOMC meeting, the dollar and the treasury yields dropped; hotter-than-expected Mexican inflation and strong economic data in Mexico supported the Mexican peso.

Currency Update

Japanese Yen



The Japanese yen weakened 4.8% 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

- On April 26, the Bank of Japan (BoJ) kept its target rate unchanged, sending the yen to its lowest level since 1992.
- Worse than consensus expectations, Japan's real GDP contracted 0.5% in Q1 2024, signaling no near-term rate hikes.
- Japan's national CPI inflation eased in the last three months since February. The inflation rate in April was down to 2.5% from 2.7% year-over-year. Core inflation, excluding food and energy, was down to the BoJ's 2% inflation objective in April.

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

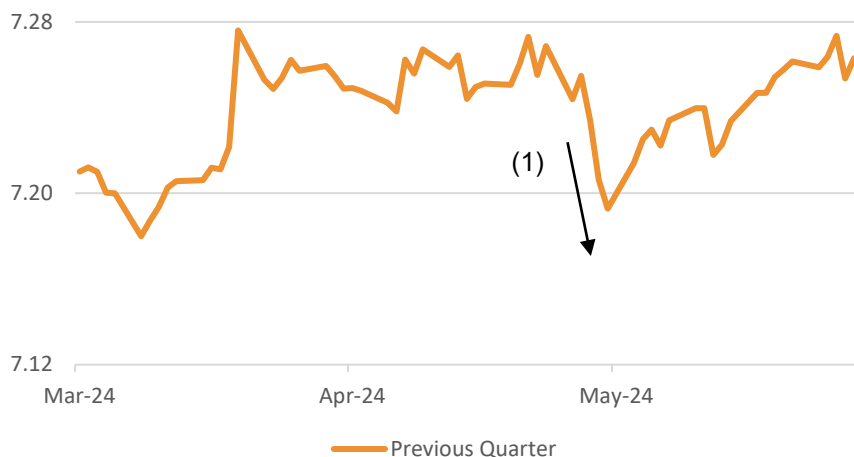
Chinese Renminbi



The Chinese renminbi weakened 0.72% in the last quarter.



3 month history



(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, and its dwindling pace indicated the need for Chinese governmental support.

Previous Quarter Recap

- China's NBS Manufacturing PMI fell into contractionary territory again in May after expanding in April. Domestic demand remained weak with fewer new orders on the month. Retail sales also grew weakly in April.
- China's CPI inflation came in slightly better than consensus expectations but remained very low in April. PPI dropped further on the month and over the past year.
- The real estate sector continued to contract in April; investments and sales of residential property dropped year-over-year.

Currency Outlook

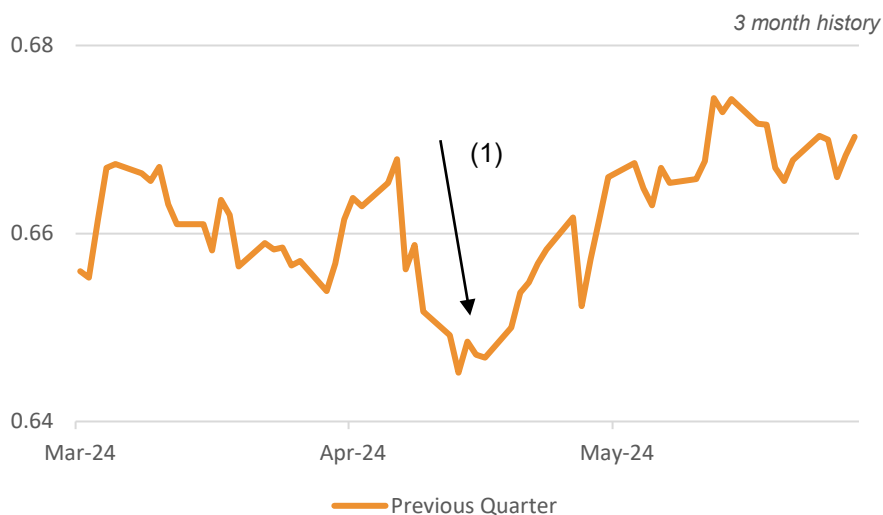
- Both PNC and the consensus expect the renminbi to appreciate against the US dollar over the forecast horizon.
- If weakness in the domestic economy persists and growth is worse than expected, the Chinese renminbi could be weaker than forecasted.

Currency Update

Australian Dollar



The Australian dollar strengthened 1.9% 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 May 7.
- Australia's Q1 hourly wage cost came in cooler and below consensus expectations, as full-time employment in Australia contracted in April. Australia's labor market remains tight with a near historic-low unemployment rate despite the increase in the unemployment rate on the month.
- Headline CPI inflation in Australia came in hotter than consensus expectations and increased from the previous month.

Currency Outlook

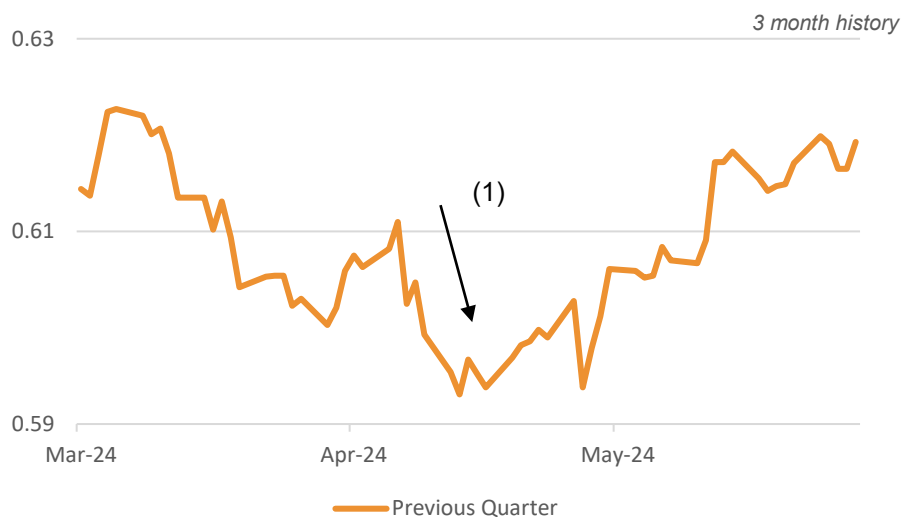
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the Fed Funds rate more than markets are currently pricing in, the Australian dollar could be stronger than PNC's forecast.

Currency Update

New Zealand Dollar



The New Zealand dollar strengthened 0.6% last quarter.



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

Previous Quarter Recap

- The Reserve Bank of New Zealand held its cash rate steady at 5.5% on May 21.
- New Zealand's trade surplus dropped in April, with exports picking up entering 2024 and the trade deficit turning into a surplus in March.
- The Reserve Bank of New Zealand (RBNZ) Manufacturing PMI showed manufacturing activity contracted in April. Real retail sales increased in Q1 2024 after contracting for two years.

Currency Outlook

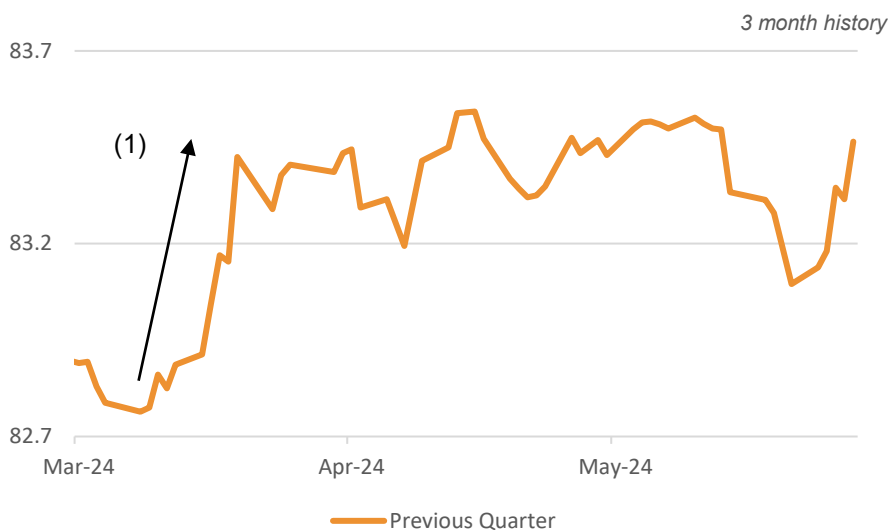
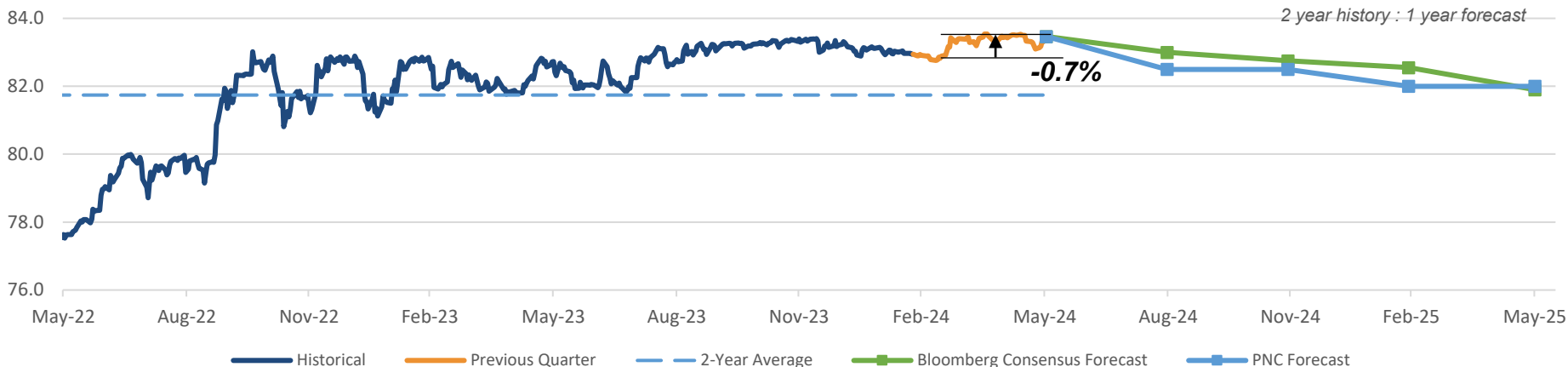
- PNC and the consensus both expect the New Zealand dollar to appreciate over the forecast horizon.
- If the Fed cuts its policy interest rate less than expected or inflation in New Zealand remains higher than expected, the New Zealand dollar would likely be stronger than forecasted.

Currency Update

Indian Rupee



The Indian rupee weakened 0.7% 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 April came in above consensus estimates and dropped to 4.83% on the month from 4.85% in March.
- The HSBC India PMI shows overall business activity expanded in May, with the pace increasing on the month.
- Real GDP in Q1 2024 grew stronger than consensus expectations at 7.8% year-over-year.

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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