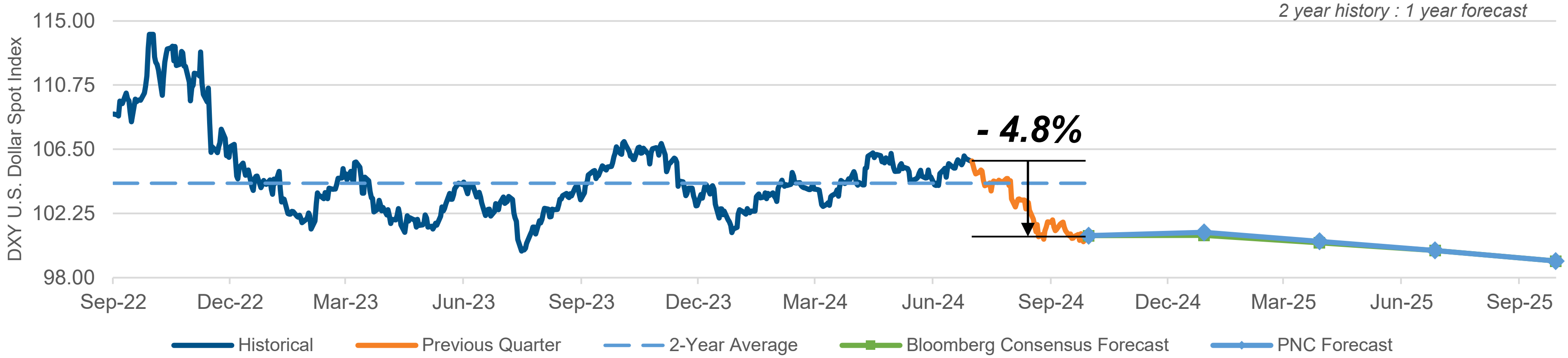
PNC Currency Review, October 2024

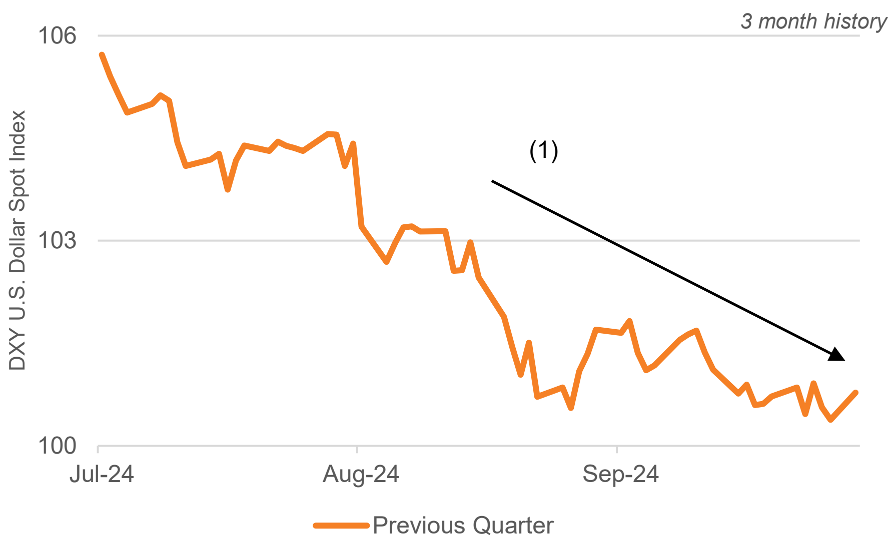
Prior Quarter
July 2024 – September 2024

Summary

DXY Major Currencies Dollar Index

The US dollar index weakened 4.8% in the trailing quarter.





(1) US economic data supported a cooling US economy with more fed funds rate cuts later this year after the bigger-than-expected rate cut in September.

Previous Quarter Recap

- Jobs expanded in August from July; however, there were big downward revisions to job gains in June and July.
- On September 18, the Federal Reserve cut the fed funds rate by 50 bps, a bigger cut than consensus estimates. The dot plot suggests 25-basis point cuts at each of the two remaining FOMC meetings this year (early November and mid-December).
- Headline PCE inflation surprised to the downside; the overall PCE inflation rate was 2.2% in August, down from 2.5% in July.
- Escalated tensions in the Middle East, including Iran launching missiles into Israel on October 1, drove the dollar stronger.

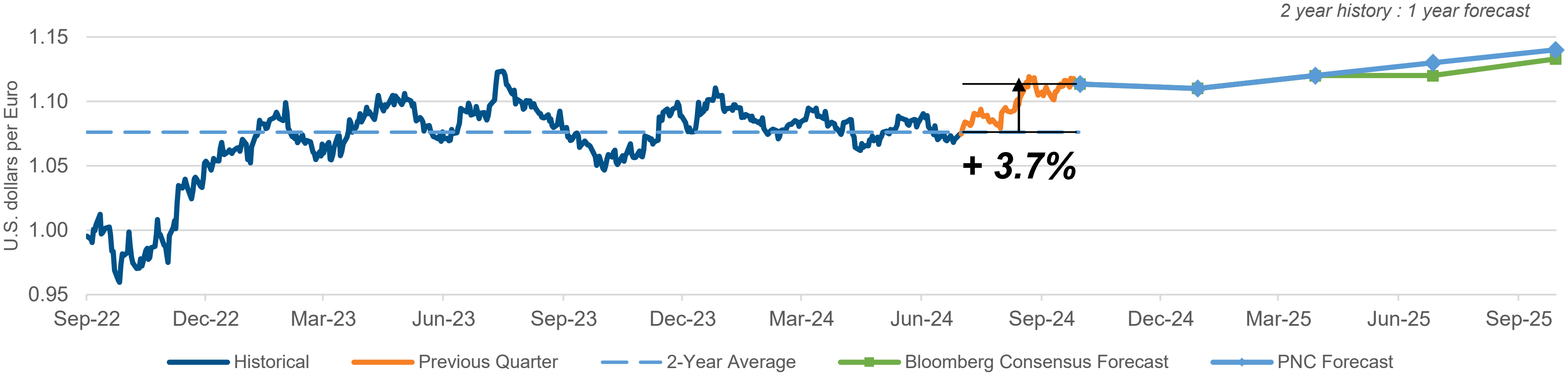
Currency Outlook

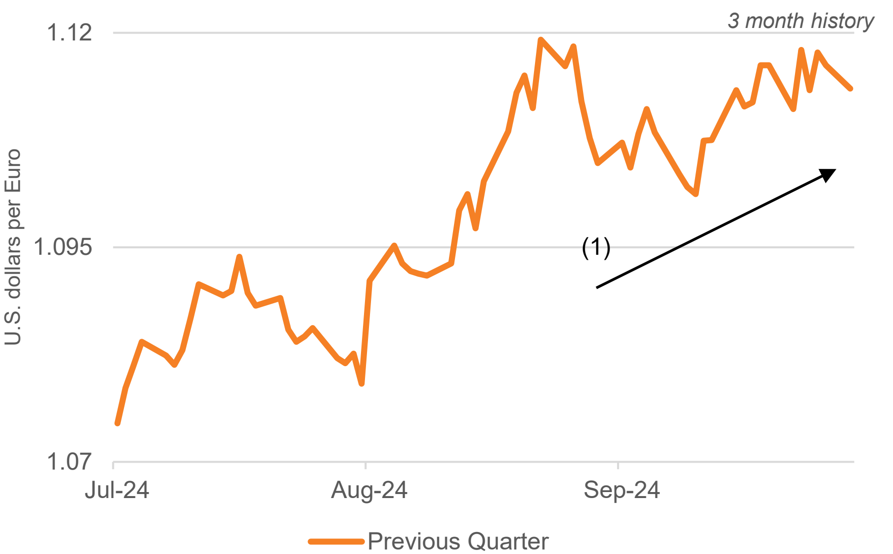
- PNC and the consensus anticipate the US dollar will depreciate over the forecast horizon.
- If US economic growth is stronger than expected, or the Fed cuts its policy rate less than anticipated, the dollar could strengthen more than forecast estimates.

Source: Bloomberg

Currency Update
Euro

The Euro strengthened 3.7% in the trailing quarter.





(1) A bigger than expected fed funds rate cut and expectations of a series of fed funds rate cuts this year have weighed on the US dollar.

Previous Quarter Recap

- Headline CPI inflation in August eased to 2.2% on the month, close to the European Central Bank (ECB)'s objective of 2%.
- Real GDP grew faster in Q2 from Q1 in the eurozone according to the European Commission's final estimate on September 9.
- The ECB lowered its deposit facility rates to 3.5% on September 12.
- Headline CPI inflation in September was below the ECB's 2% inflation objective, increasing the chance of interest rate cuts in October.

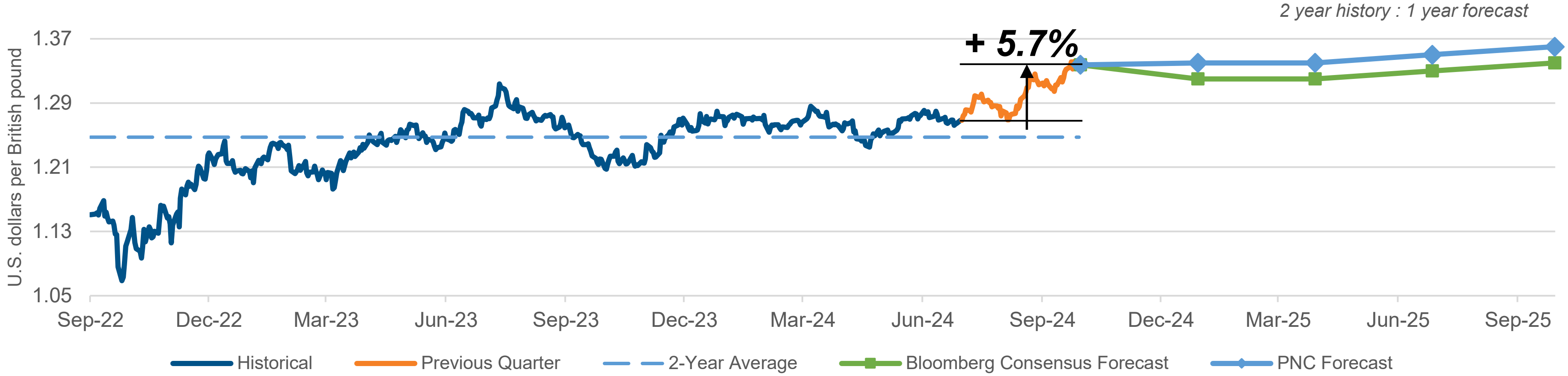
Currency Outlook

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

Source: Bloomberg

Currency Update
Great British Pound

The British pound strengthened 5.7% in the trailing quarter.



(1) A bigger-than-expected fed funds rate cut in the US along with expectations of more rate cuts this year weighed on the US dollar against major currencies.

Previous Quarter Recap

- On September 19, the Bank of England (BOE) kept its policy rate unchanged at 5%.
- UK's headline CPI inflation in August came out very sticky and remained unchanged on September 18.
- Overall economic activity continued to expand in September, with both the manufacturing and services PMIs in expansion territory.

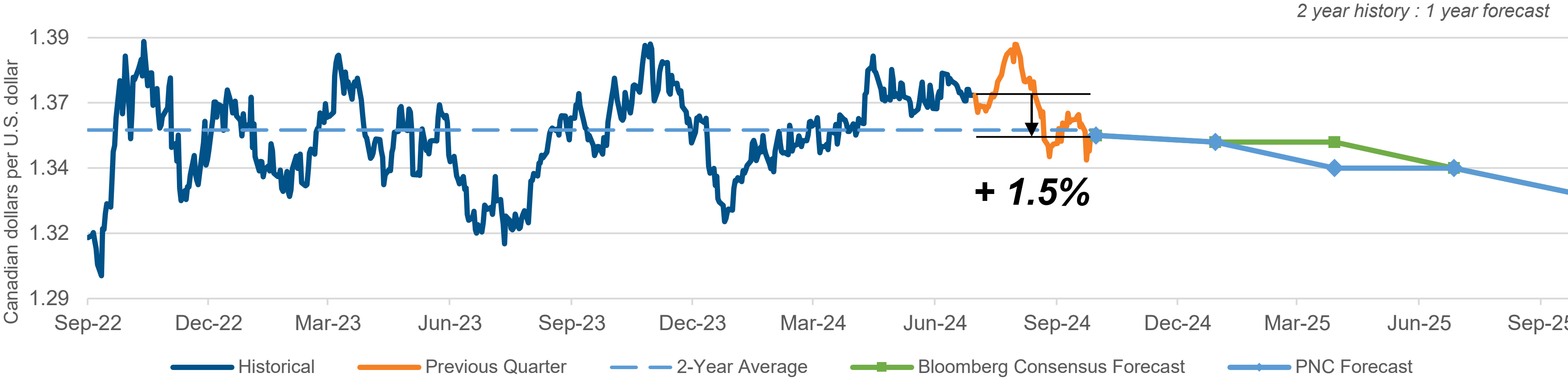
Currency Outlook

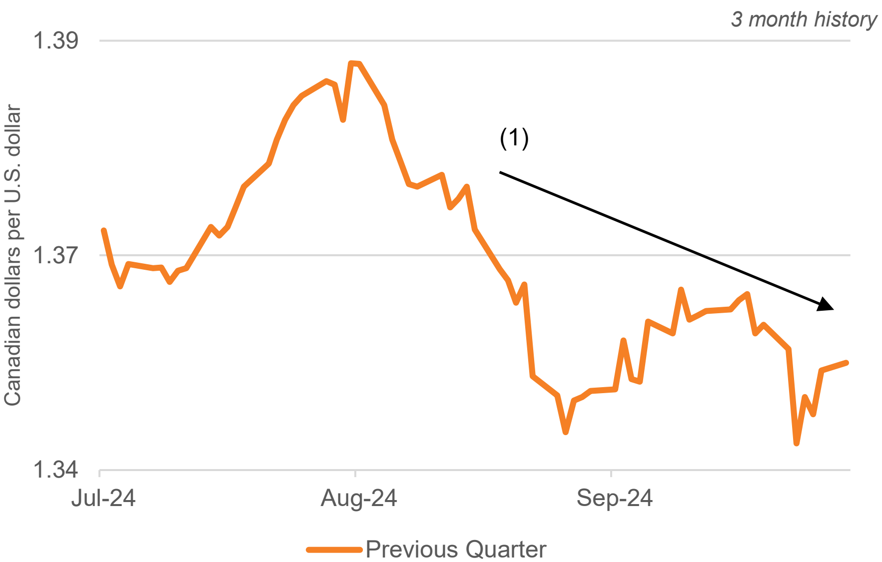
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- Weaker-than-anticipated European/domestic economies coupled with more expectations toward monetary easing could contribute to a weaker pound.

Source: Bloomberg

Currency Update
Canadian Dollar

The Canadian dollar strengthened 1.5% in the previous quarter.





(1) The Canadian dollar was supported in September by both the broad USD weakness, as investors become wary of US economic conditions, and Canada's improved domestic economic data.

Previous Quarter Recap

- The Bank of Canada (BOC) lowered its overnight target rate by another 25 bps on September 4th to 4.25%.
- Canadian inflation fell to 2% in August, down from 2.5% in July.
- Real GDP in July came in stronger than consensus estimates and increased 1.5% year-over-year.
- The manufacturing PMI rose to expansionary levels in September for the first time in over 16 months.

Currency Outlook

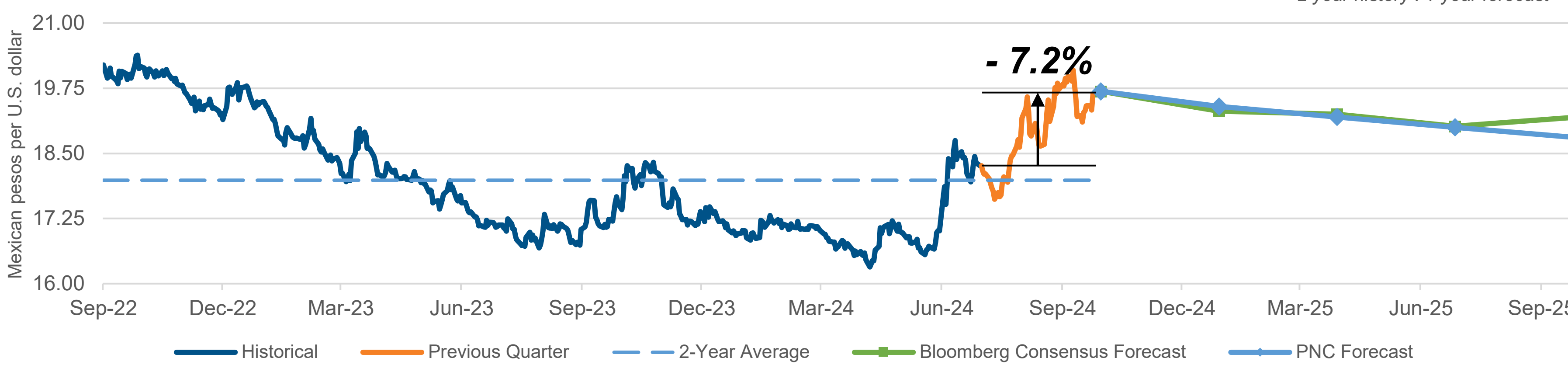
- Both PNC and the consensus expect the Canadian dollar to strengthen over the forecast horizon.
- If the BOC cuts interest rates more than expected, or US inflation surprises to the upside, the Canadian dollar could be weaker than forecasted.

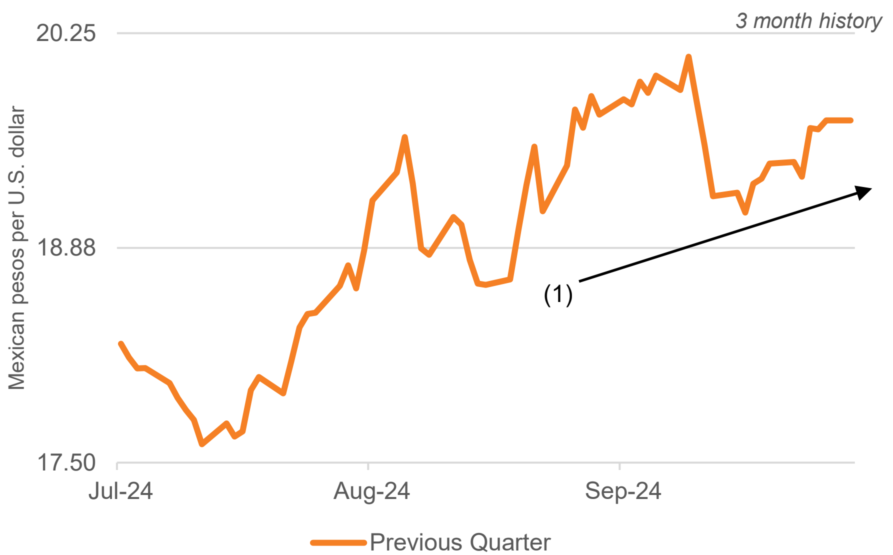
Source: Bloomberg

Currency Update

Mexican Peso

The Mexican peso weakened 7.2% in the trailing quarter.





(1) The global carry trade unwind saw many investors sell out of their MXN positions, weakening the peso.

Previous Quarter Recap

- Mexican CPI inflation came in below the consensus estimate in early September. On September 26, the Bank of Mexico cut its overnight target rate by 25 basis points to 10.5%.
- Retail sales came in better than consensus estimates and grew 0.7% in July, while retail sales dropped 0.6% from a year ago.
- Peso volatility continues as a result of Claudia Sheinbaum's appointment as Mexico's president, and her proposed policy reform.
- Mexico's manufacturing PMI fell to a two-year low in September.

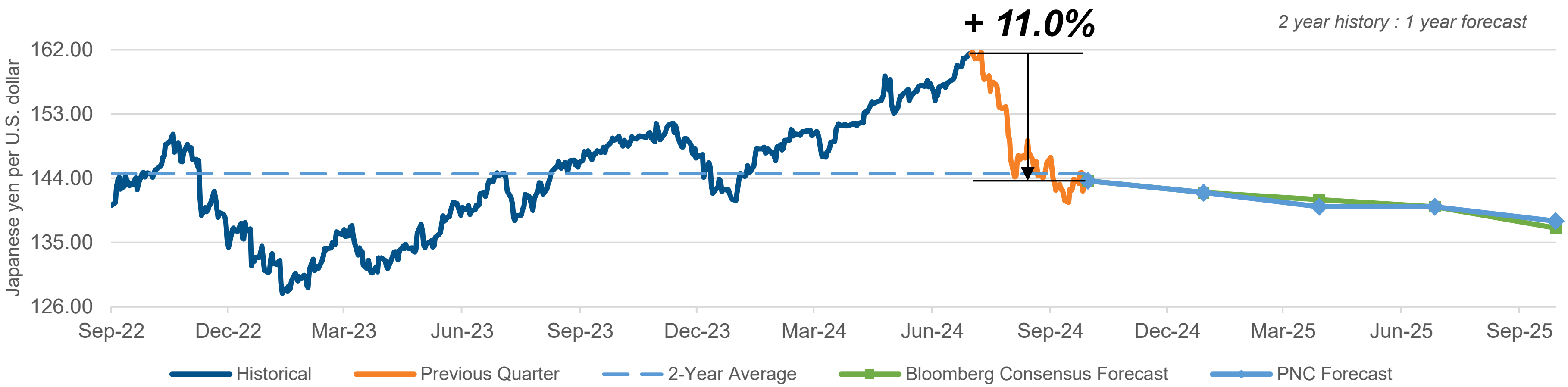
Currency Outlook

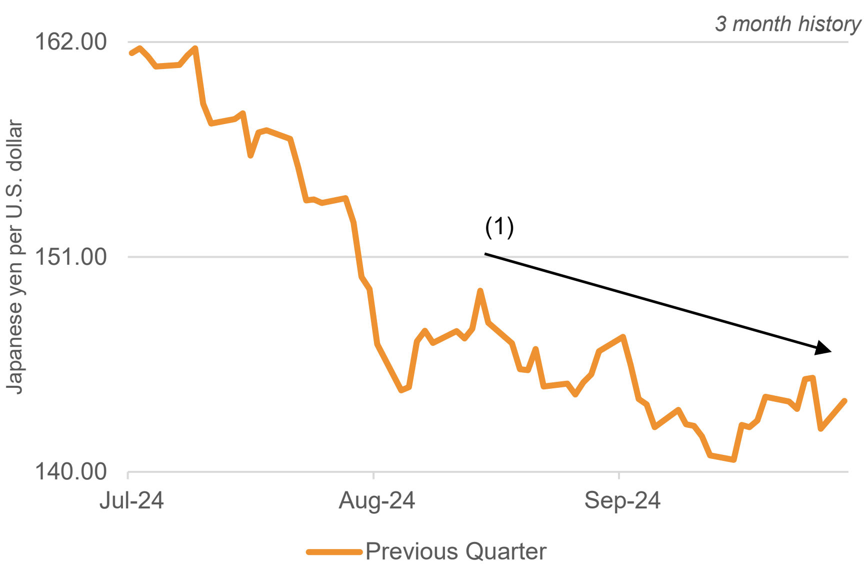
- Both PNC and the consensus expect some strengthening in the Mexican peso over the forecast horizon.
- More interest rate cuts than expected by the Federal Reserve hold upside potential for the Mexican peso. However, prolonged political uncertainties could weaken the Mexican peso.

Source: Bloomberg

Currency Update
Japanese Yen

The Japanese yen strengthened 11.0% in the previous quarter.





(1) The yen strengthened as the global carry trade unwind saw investors buy back into their JPY positions.

Previous Quarter Recap

- National and Tokyo CPI inflation jumped in August at one of the strongest paces since late 2023.
- Japan's economy expanded in Q2 after contracting in Q1 2024. Retail sales continued to expand at a solid pace in mid-2024 and came in better than consensus estimates on September 29.
- Japan's jobless rate came in below consensus estimates and dropped in August, remaining well below its long-run average.
- Remarks from Japan's new prime minister Shigeru Ishiba hinted no near-term rate hike from the Bank of Japan on October 2.

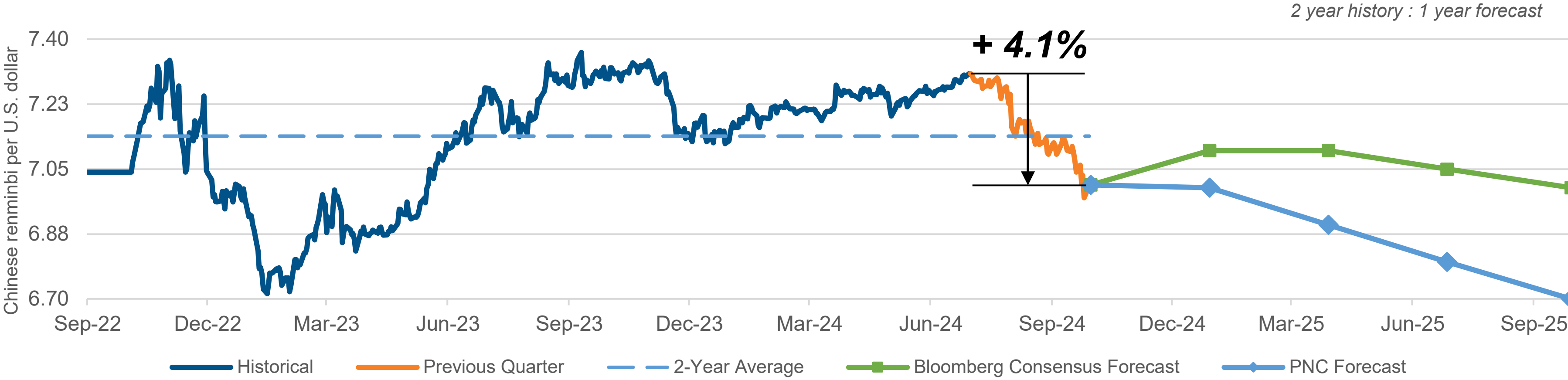
Currency Outlook

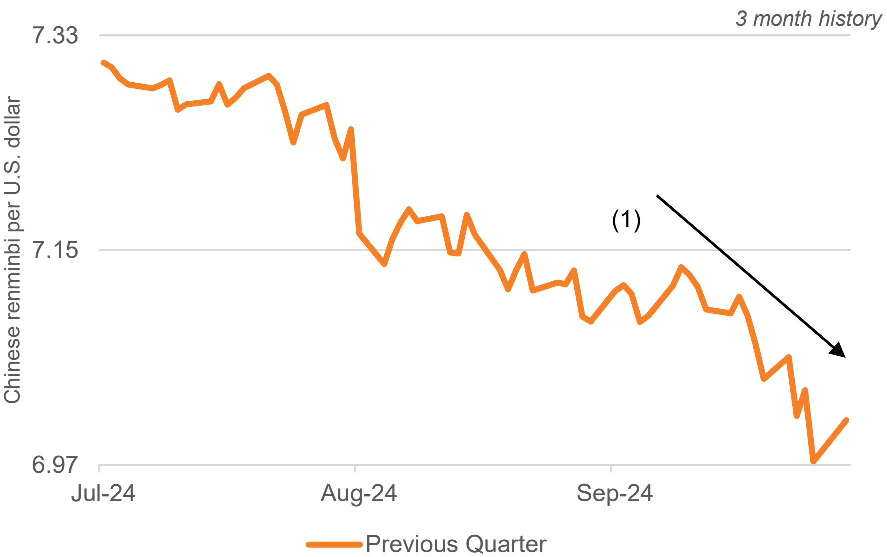
- PNC and the consensus expect the yen to strengthen over the forecast horizon.
- The yen could be stronger than forecasted if the Bank of Japan continues to hike rates or the Fed cuts more than expected.

Source: Bloomberg

Currency Update
Chinese Renminbi

The Chinese renminbi strengthened 4.1% in the last quarter.





(1) An eye-catching stimulus package came to China in September from both the PBOC and Chinese government in an effort to combat persistent economic slowdown.

Previous Quarter Recap

- The People's Bank of China (PBOC) cut multiple interest rates and lowered its reserve requirement ratio to combat economic slowdown.
- The PBOC plans to lower interest rates on outstanding mortgages of homeowners; they also plan to ease downpayment requirements for second-home buyers.
- To combat declining population, China is gradually increasing retirement ages for the working class over a 15-year period.

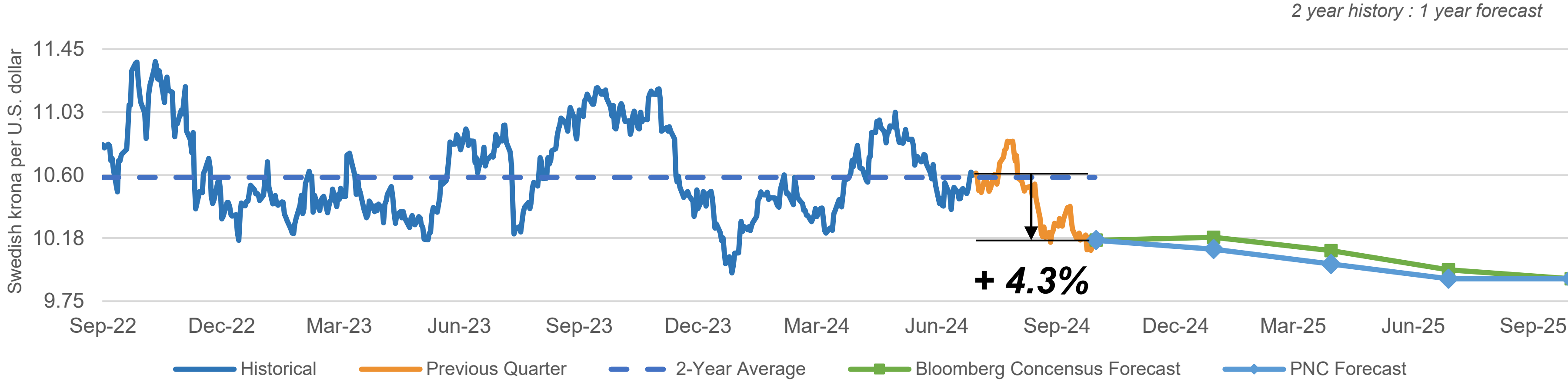
Currency Outlook

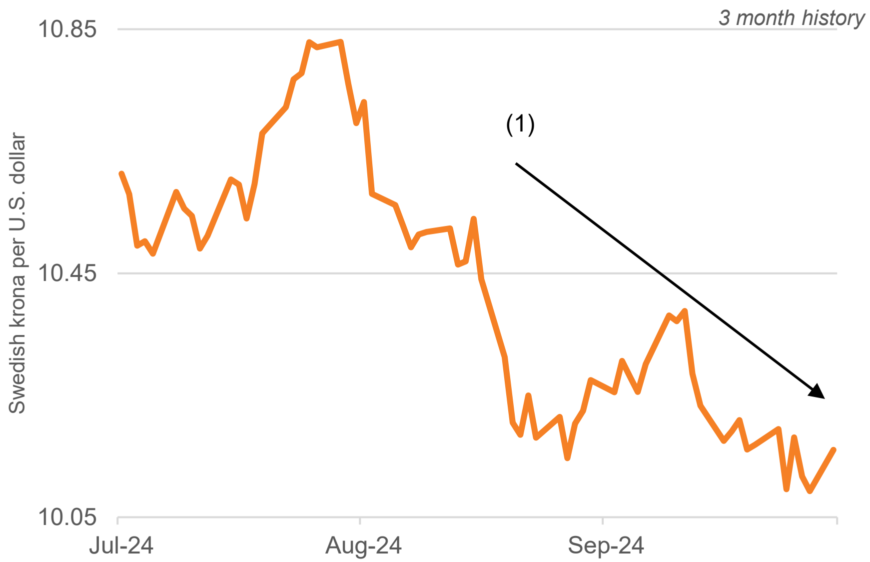
- The consensus expects the renminbi to weaken, while PNC expects it to strengthen over the forecast horizon.
- If weakness in the domestic economy persists and growth is worse than expected, the Chinese renminbi could be weaker than PNC's forecast.

Source: Bloomberg

Currency Update
Swedish Krona

The Swedish krona strengthened 4.3% in the last quarter.





(1) A bigger-than-expected fed funds rate cut in the US along with expectations of more rate cuts this year weighed on the US dollar against major currencies.

Previous Quarter Recap

- Sweden's headline inflation in August surprised to the downside and fell to 1.9% on September 12.
- Sweden's unemployment rate was up to 7.9% in August from 7.7% in July.
- Riksbank cut its repo rate by 25 bps to 3.25% on September 25.
- Sweden's manufacturing activities in September continued to expand but services activities fell to contractionary levels after expanding for three consecutive months.

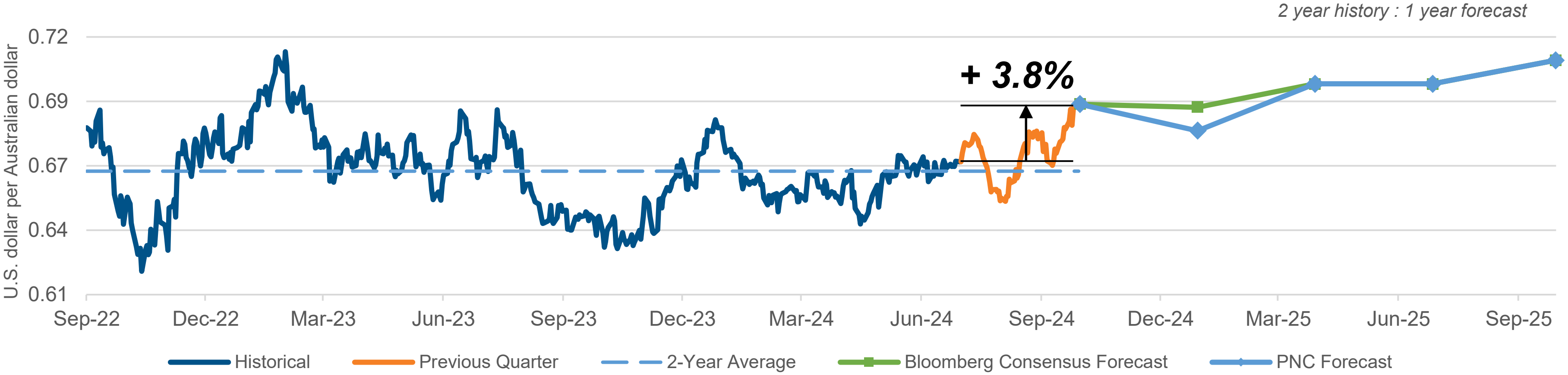
Currency Outlook

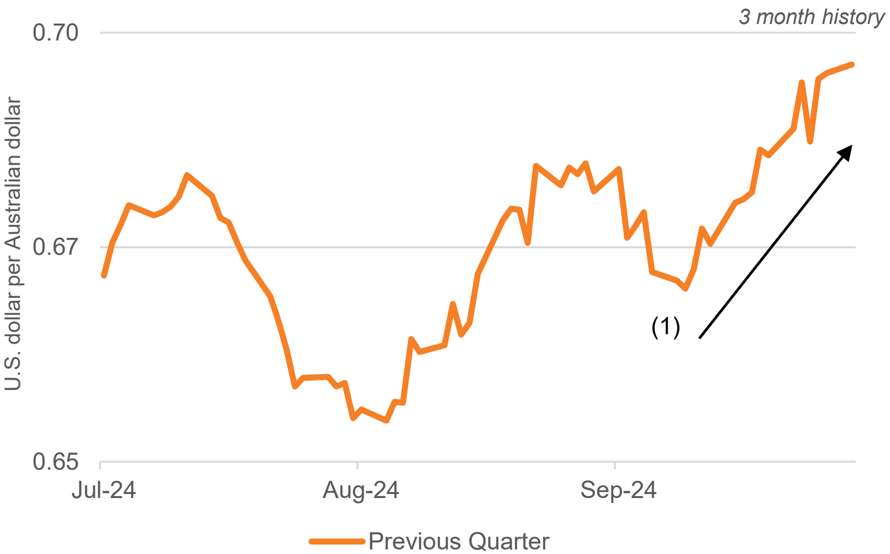
- PNC and the consensus both expect the Swedish krona to strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate less than markets are currently pricing in, the krona could be weaker than expected.

Source: Bloomberg

Currency Update
Australian Dollar

The Australian dollar strengthened 3.8% in the last quarter.





(1) As the largest trading partner to China, the Australian dollar gained strength in response to the huge economic stimulus package in China in September.

Previous Quarter Recap

- Australia's Q2 GDP was in line with consensus estimates but economic growth slowed into mid-2024. August's CPI came in at 2.7% year-over-year, slowing from July but remained well above the RBA's inflation objective.
- Australia's services activity expanded in September according to the Judo Bank PMI while manufacturing PMI came in at a three-year low.
- On September 24, the Reserve Bank of Australia kept its cash target rate steady at 4.35%.

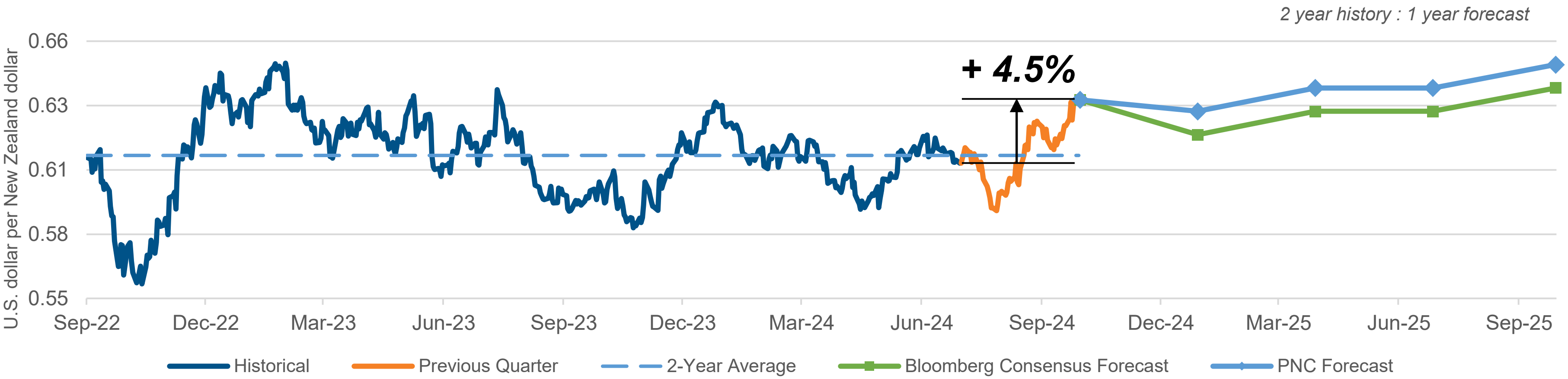
Currency Outlook

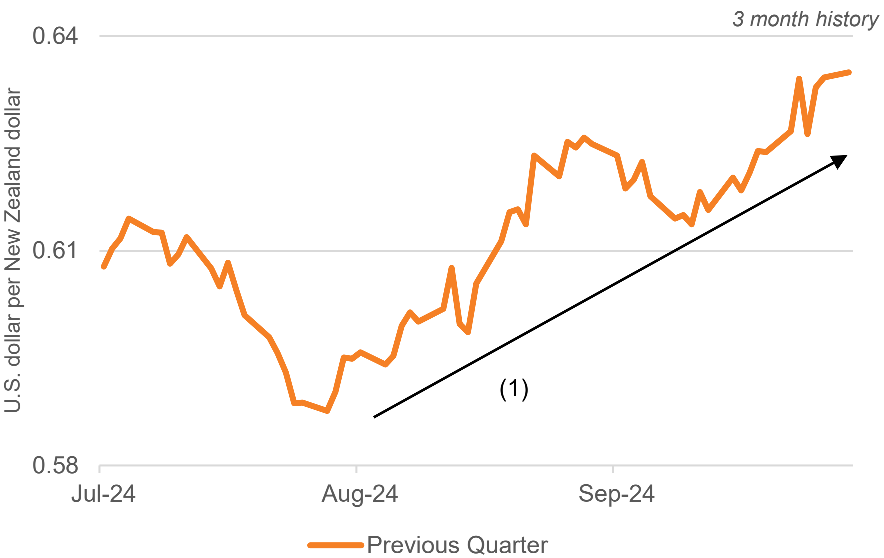
- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- If the Fed cuts the fed funds rate less than markets are currently pricing in, the Australian dollar could be weaker than PNC's forecast.

Source: Bloomberg

Currency Update
New Zealand Dollar

The New Zealand dollar strengthened 4.5% last quarter.





(1) Broad dollar weakness stemming from a big fed funds rate cut, stronger stimulus out of China, and better-than-expected economic data in New Zealand supported the New Zealand dollar.

Previous Quarter Recap

- The Reserve Bank of New Zealand (RBNZ) cut its cash rate by 25 basis points to 5.25% on August 13th.
- New Zealand's manufacturing activity continued to improve in August, although it was still contracting according to Bank of New Zealand PMI data. Consumer confidence also improved in September.
- Real GDP came out slightly better than consensus estimates on September 18, however, it contracted 0.2% in Q2 and 0.5% year-over-year.

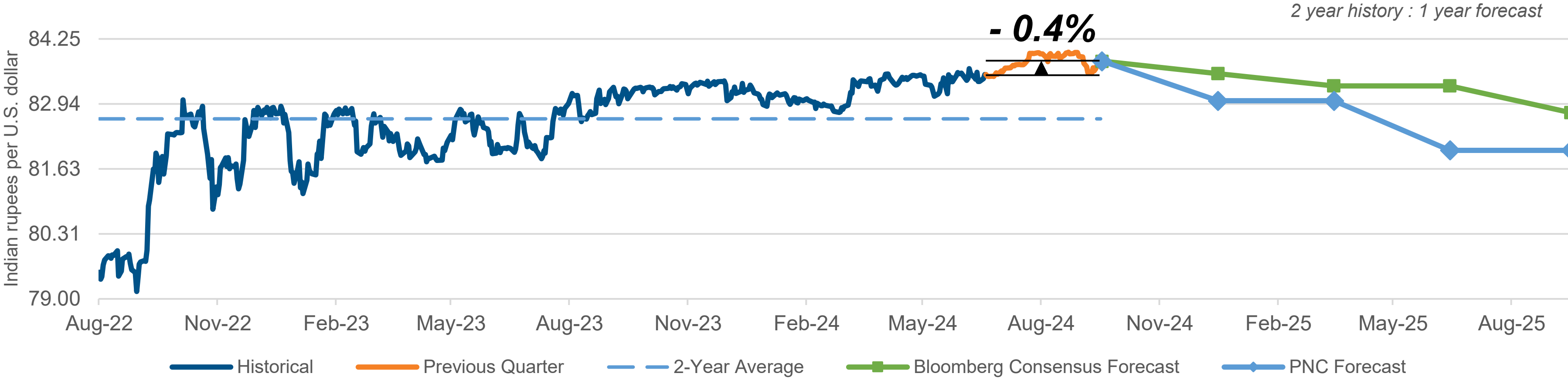
Currency Outlook

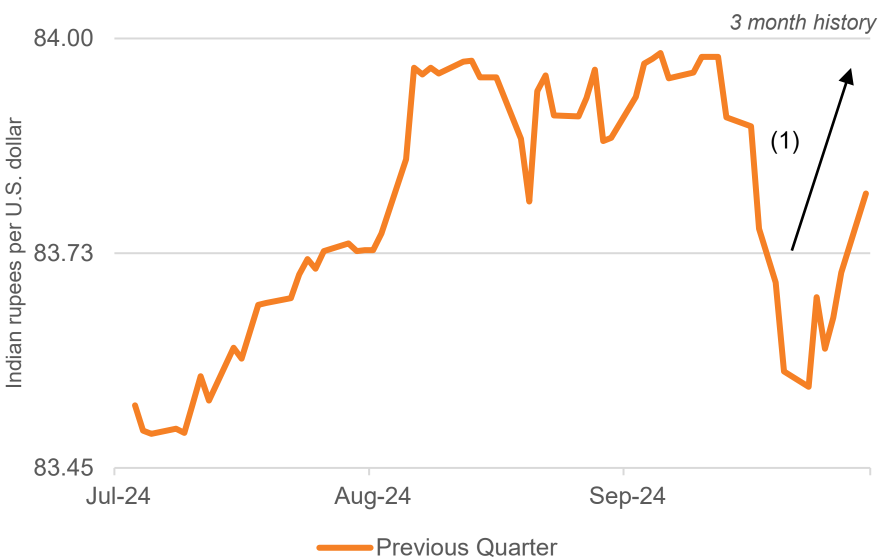
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy rate less than anticipated, or inflation in New Zealand surprises to the downside, the New Zealand dollar could be weaker than forecasted.

Source: Bloomberg

Currency Update
Indian Rupee

The Indian rupee weakened 0.4% in the past quarter.





(1) Slower economic growth and inflation falling to RBI's goal range hinted at interest rate cuts ahead of the RBI's meeting on October 9.

Previous Quarter Recap

- The Reserve Bank of India (RBI) held the repo rate steady at 6.5% for the ninth straight meeting on August 8th.
- India's headline CPI inflation in August came in above consensus estimates, rising to 3.65% after easing in July.
- India's trade deficit in August broadened with a hike in imports and a small increase in exports.
- The HSBC India PMI showed overall business activity continued to expand in September, albeit at a slower pace.

Currency Outlook

- PNC and the consensus expect the rupee to strengthen over the forecast horizon.
- If Indian economic growth and inflation surprise to the downside, the rupee could be weaker than expected.

Source: Bloomberg

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