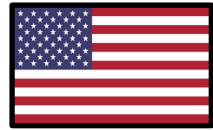


# **PNC Currency Review, February 2025**

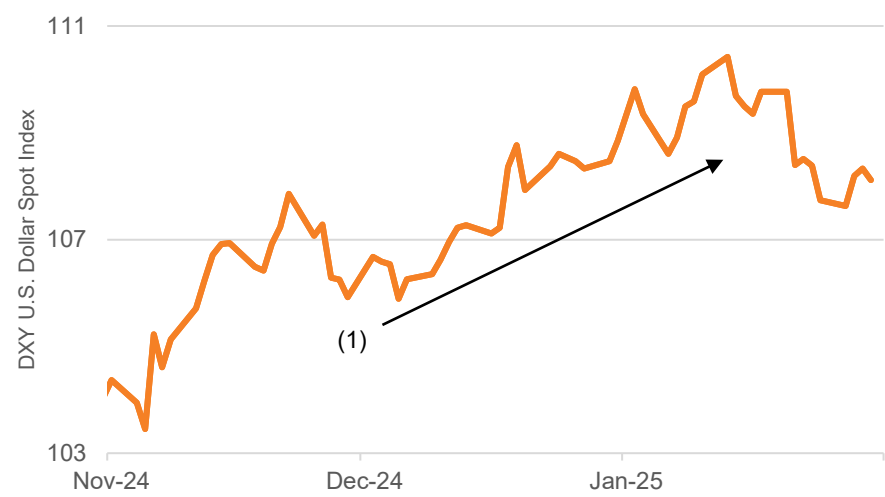
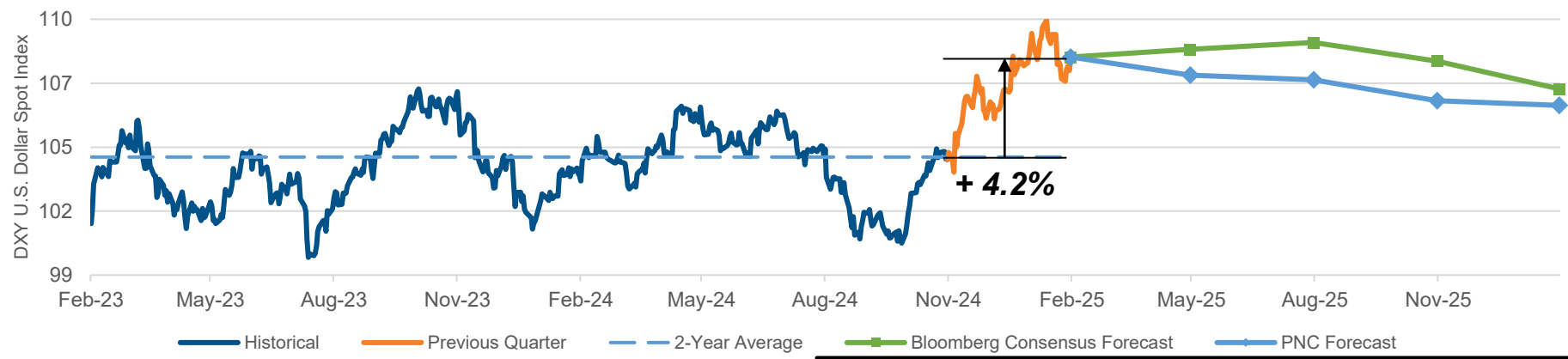
Prior Quarter  
November 2024 – January 2025

# Summary

## DXY Major Currencies Dollar Index



**The US dollar index strengthened 4.2% in the trailing quarter.**



### Previous Quarter Recap

- As expected, the Federal Open Market Committee left the fed funds rate unchanged, in a range between 4.25% and 4.50%, at its policy meeting on January 29.
- Real GDP increased 2.3% at an annualized rate in Q4 2024, a slowdown from 3.1% growth in Q3. Core PCE inflation, headline inflation excluding food and energy, was up by 2.8% from last year, slightly down from November.
- The ISM Manufacturing PMI increased to 50.9 in January 2025, breaking above the expansionary threshold of 50.0 for the first time since September 2022.

### Currency Outlook

- PNC and the consensus anticipate the US dollar will depreciate over the forecast horizon.
- If the US economy surprises to the downside or fewer tariffs are enacted than expected, the dollar could be weaker than forecasted.

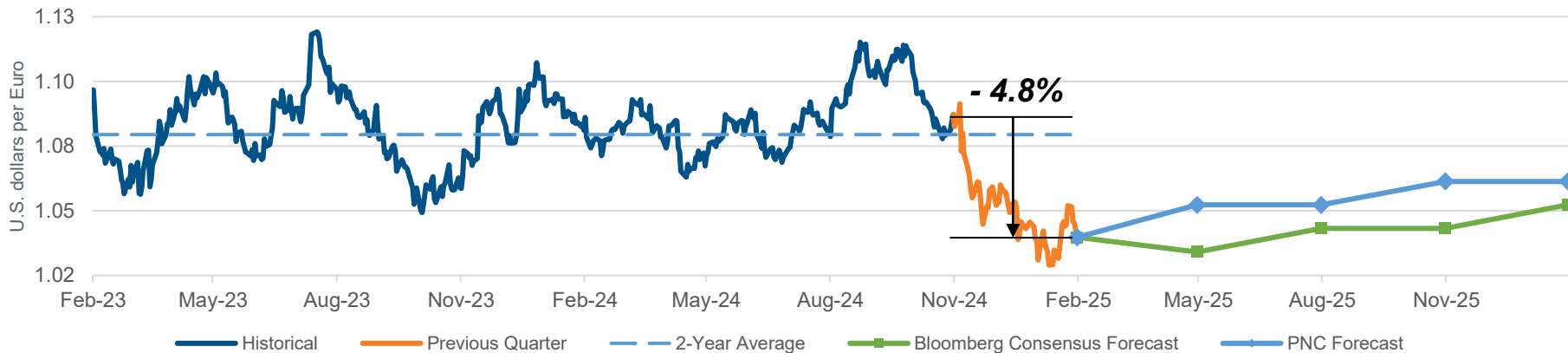
(1) The USD strengthened under expectations of fewer or later fed funds rate cuts in 2025 with strong US economic data, as well as concerns over higher tariffs and inflation under Trump's administration. The US dollar weakened in late January when tariff expectations diminished.

# Currency Update

## Euro



The Euro weakened 4.8% in the trailing quarter.



### Previous Quarter Recap

- The European Central Bank (ECB) lowered the three key interest rates by 25 basis points, as expected, on January 30.
- Eurozone economic growth stagnated in Q4 2024 after a slow recovery from 2023, with real GDP remaining flat on the quarter according to Eurostat.
- The Composite PMI rose to expansionary territory in January after two months of contractionary readings. Factory activity improved on the month, albeit still contracting.
- Core CPI inflation remained sticky and flat for the fifth straight month in January 2025.

### Currency Outlook

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

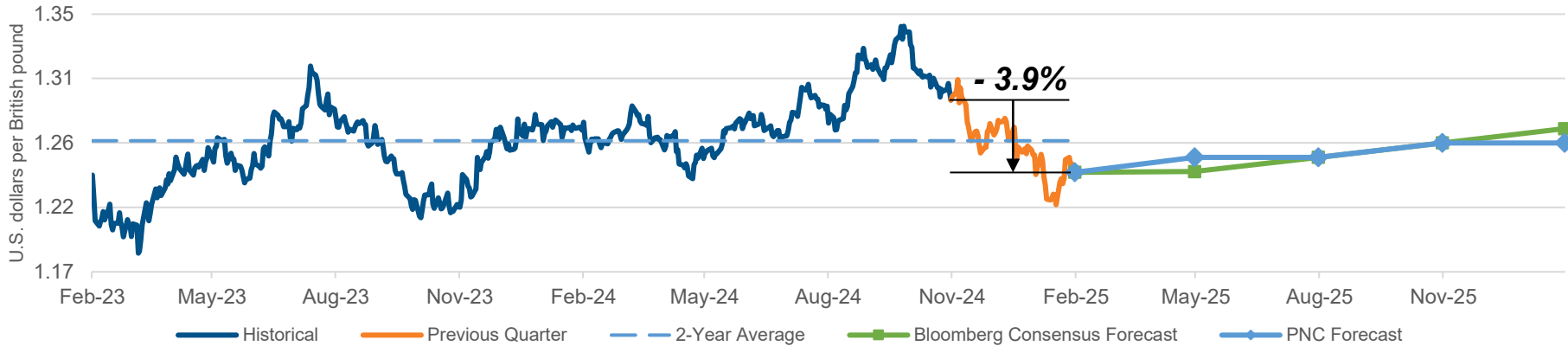
(1) The eurozone's weak economic outlook weighed on the Euro against the US dollar while the US economy grew strongly at the end of 2024. The Euro also experienced volatility in late January with President Trump's tariff plans and the ECB's policy move.

# Currency Update

## Great British Pound



The British pound weakened 3.9% in the trailing quarter.



(1) The UK's current economic weakness along with strong US economic data weighed on the British pound against the US dollar. The British pound reversed somewhat from mid-January after President Trump was inaugurated and gave his tariff plans.

### Previous Quarter Recap

- Topline CPI inflation came in below consensus expectations, advancing 0.3% in December and 2.5% from last year.
- Payrolled employees fell 47,000 in December after falling 32,000 in November. Total real wage growth, benefiting from slowing inflation, picked up in 2023 and early 2024, and rested at 2.4% in December.
- In January 2025, there was an early sign of improvement according to the flash Composite PMI, which increased to 50.6 from 50.4 in December, indicating a slightly faster expansion in business activity in early 2025.

### Currency Outlook

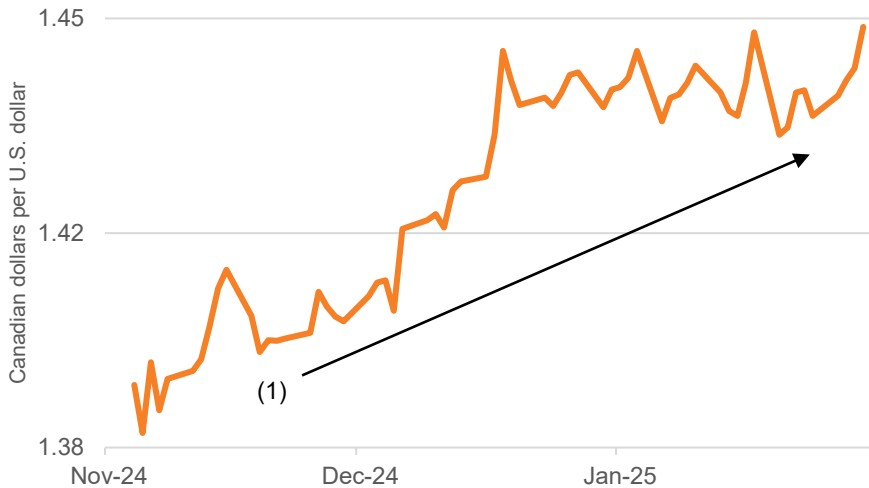
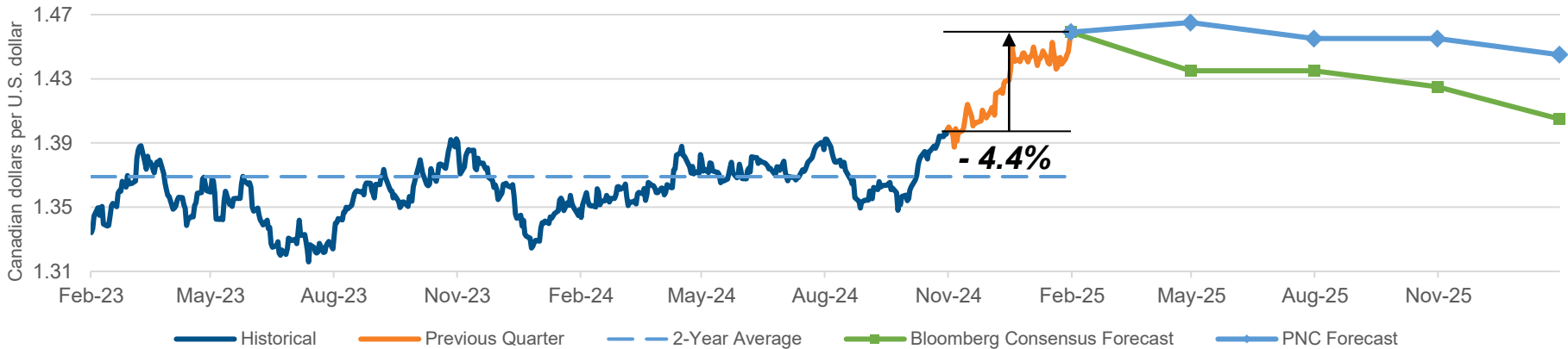
- Both PNC and the consensus expect the pound to strengthen over the forecast horizon.
- A weaker-than-anticipated US economy or faster-than-expected UK economic recovery could contribute to a stronger pound.

# Currency Update

## Canadian Dollar



The Canadian dollar weakened 4.4% in the previous quarter.



(1) Canada's cooling inflation at the BOC's 2% objective, strong US economic data, and threats of 25% US tariffs contributed to a weaker Canadian dollar. Tariff concerns were a main driver of the depreciating Canadian dollar through January.

### Previous Quarter Recap

- Core inflation fell 0.1% on the month and grew a comfortable 2.1% in December, within the Bank of Canada's inflation target range. Canada's headline inflation has been below or around 2% for five months since August 2023.
- The Bank of Canada lowered its target for the overnight rate by 25 basis points from 3.25% to 3% on January 29.
- Real GDP fell below the consensus expectation and contracted 0.2% in November. On a year-ago basis, real GDP grew 1.8%.
- Canada's Composite PMI improved in January 2025 but remained in contractionary territory.

### Currency Outlook

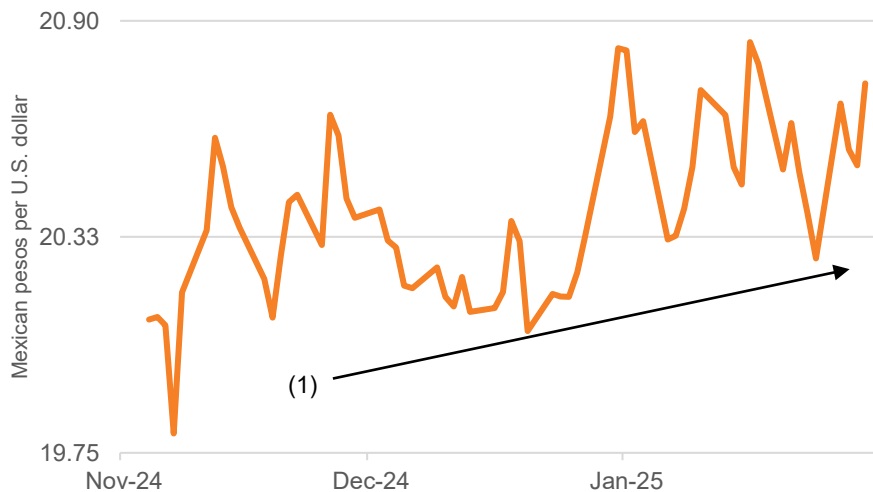
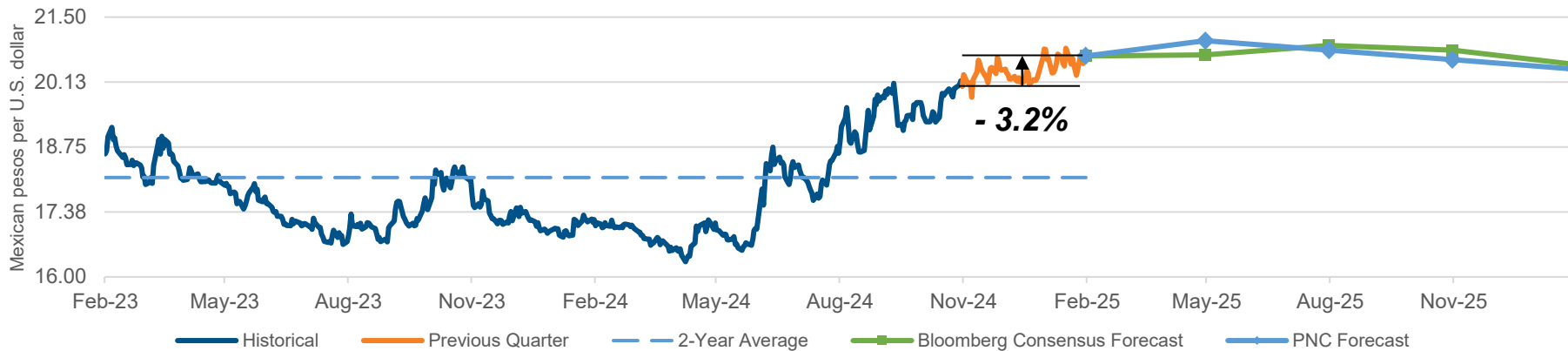
- Both PNC and the consensus expect the Canadian dollar to strengthen over the forecast horizon.
- The Canadian dollar could be stronger than PNC's forecast with fewer or no tariffs from the US.

# Currency Update

## Mexican Peso



**The Mexican peso weakened 3.2% in the trailing quarter.**



### Previous Quarter Recap

- Mexico's CPI inflation came in close to the consensus expectation and grew 0.38% in December, a slower pace from November and October. On a year-ago basis, headline inflation eased to 4.2% in December, the slowest pace in three years.
- Real GDP contracted 0.6% in Q4, below the consensus forecast.
- Manufacturing PMI showed factory activity contracting at a faster pace in January 2025.
- The Central Bank of Mexico cut the policy rate by 25 basis points to 10% from 10.25%.

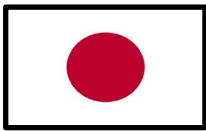
### Currency Outlook

- Both PNC and the consensus expect the Mexican peso to strengthen slightly over the forecast horizon.
- Fewer-than-expected US trade measures with Mexico or stronger growth hold upside potential for the Mexican peso.

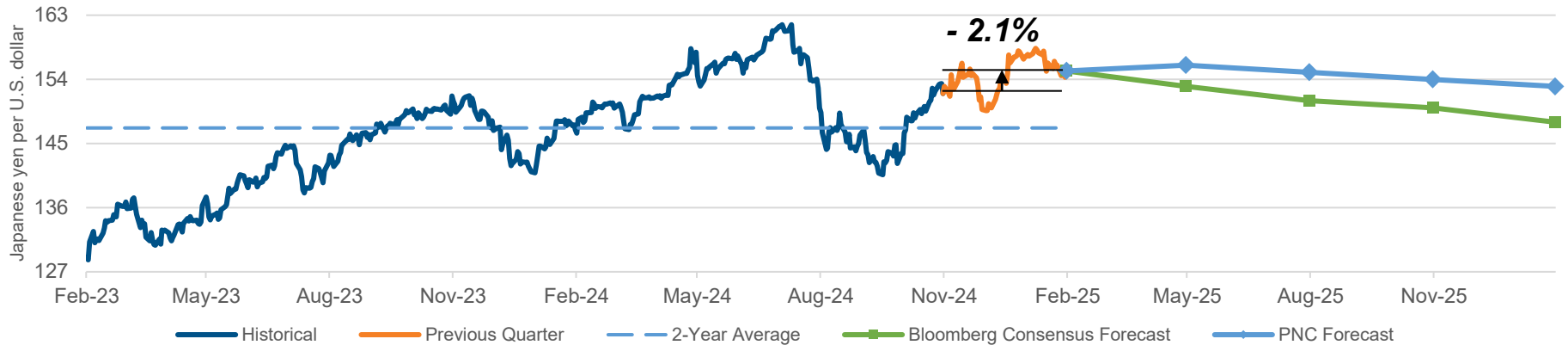
(1) Peso weakened in the trailing quarter under strong US economic growth, weak domestic economic performance, and considerations of 25% tariffs with the US under President Trump's second term.

# Currency Update

## Japanese Yen



The Japanese yen weakened 2.1% in the previous quarter.



(1) The yen strengthened as inflation continued to heat up in Japan, and expectations of interest rate hikes from the BOJ favored the yen over the US dollar.

### Previous Quarter Recap

- The Bank of Japan (BOJ) raised its uncollateralized overnight call rate by 25 basis points from 0.25% to 0.50% on January 24.
- Japan's Consumer Price Index (CPI) came in hotter than the consensus expectation, rising 0.6% monthly and 3.6% from a year-ago in December. Excluding the seasonal and volatile fresh food and energy prices, core inflation was flat on the month and up 2.4% year-over-year.
- The seasonally adjusted nominal international trade deficit narrowed to ¥33.0 billion in December 2024, the lowest level in three years.

### Currency Outlook

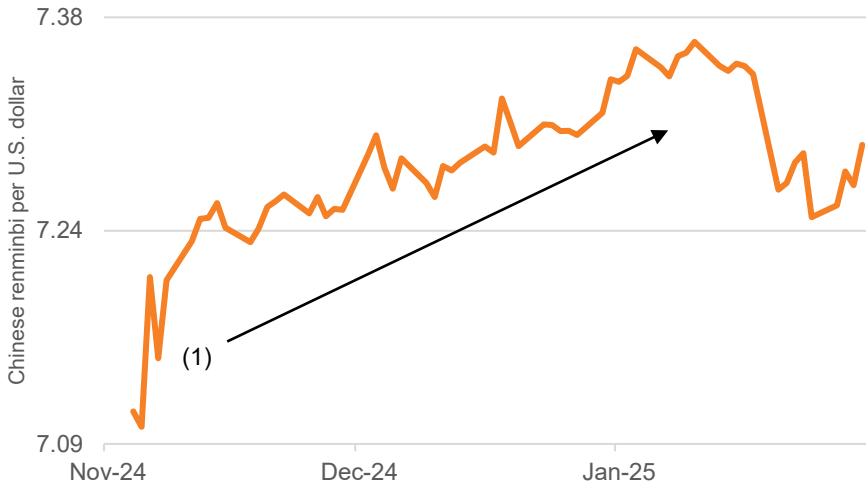
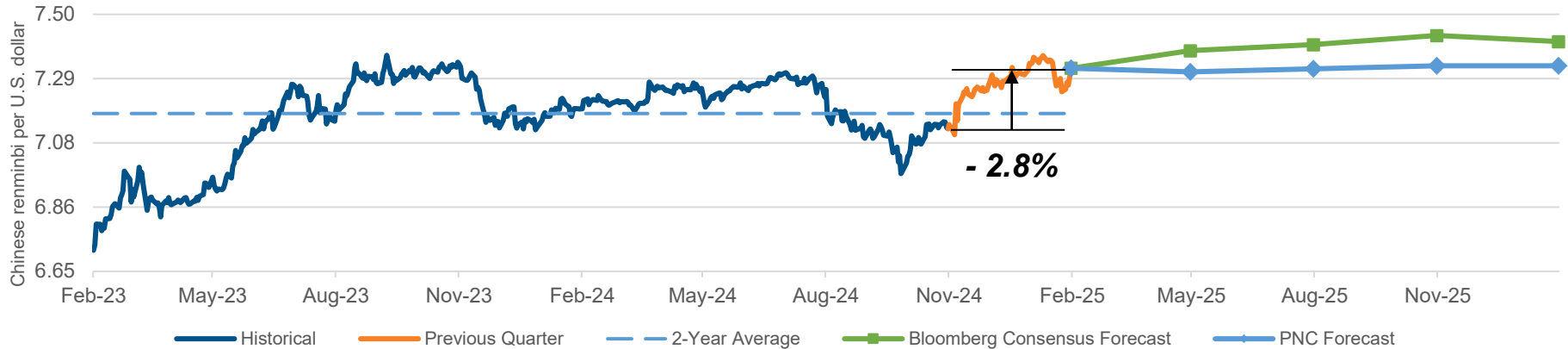
- PNC and the consensus expect the yen to strengthen over the forecast horizon.
- The yen could be stronger than forecasted if the Fed cuts more or the BOJ raises policy rates more than expected in 2025.

# Currency Update

## Chinese Renminbi



The Chinese renminbi weakened 2.8% in the last quarter.



### Previous Quarter Recap

- Headline CPI inflation remained flat in December from last month. Over the past year, CPI inflation was up 0.1%, slowing from 0.2% in November and offset by retreats from non-core food and energy prices.
- Industrial profits grew 11% in December on a year-ago basis, reversing the year-over-year contractions in the previous three months.
- The National Bureau of Statistics PMI fell to contractionary territory in January 2025 after expanding for the three months ending 2024.

### Currency Outlook

- Both the consensus and PNC expect the renminbi to weaken over the forecast horizon, albeit to varying degrees.
- If economic weakness persists under support measures, the Chinese renminbi could be weaker than PNC's forecast.

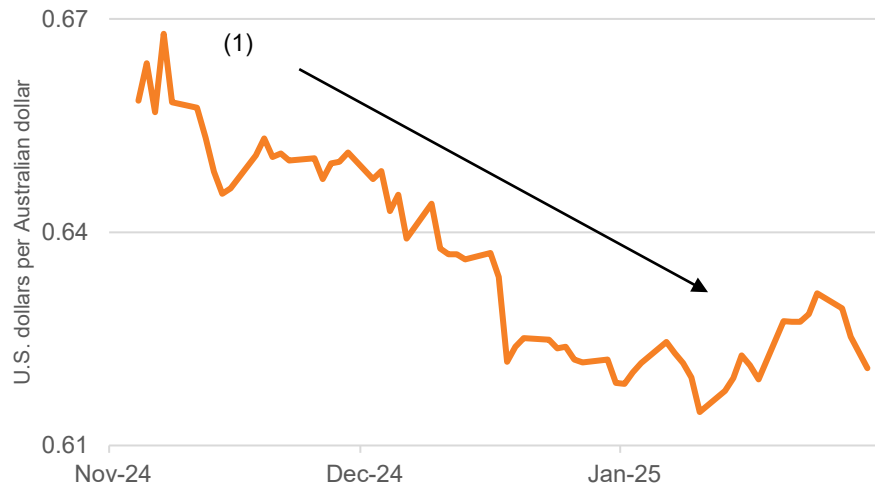
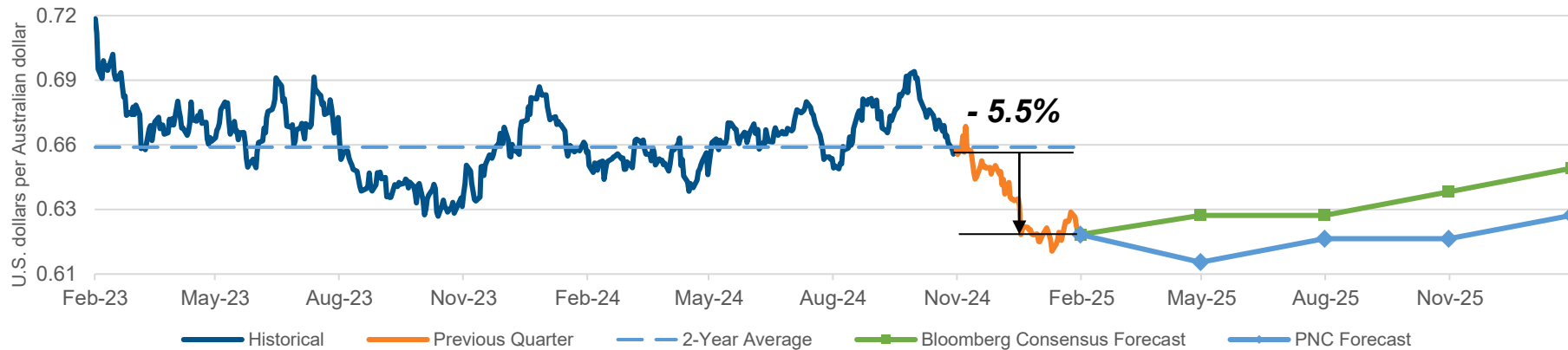


# Currency Update

## Australian Dollar



The Australian dollar weakened 5.5% in the last quarter.



### Previous Quarter Recap

- Australia's CPI inflation came in cooler than the consensus expectation in Q4, growing 0.2% and 2.4% over the past year.
- The labor market remained resilient ending 2024. There were above long-run average job gains in December which were higher than the consensus. The unemployment rate remained steady at 4% on the month.
- Business activity expanded faster in Australia in January, with the S&P Composite PMI rising to 51.1 from 50.2. Services activity expanded faster while factory activity also jumped to expansionary territory.

### Currency Outlook

- PNC and the consensus both anticipate the Australian dollar will strengthen over the forecast horizon.
- The Australian dollar could be stronger than PNC's forecast if the Fed cuts more than expected in 2025.

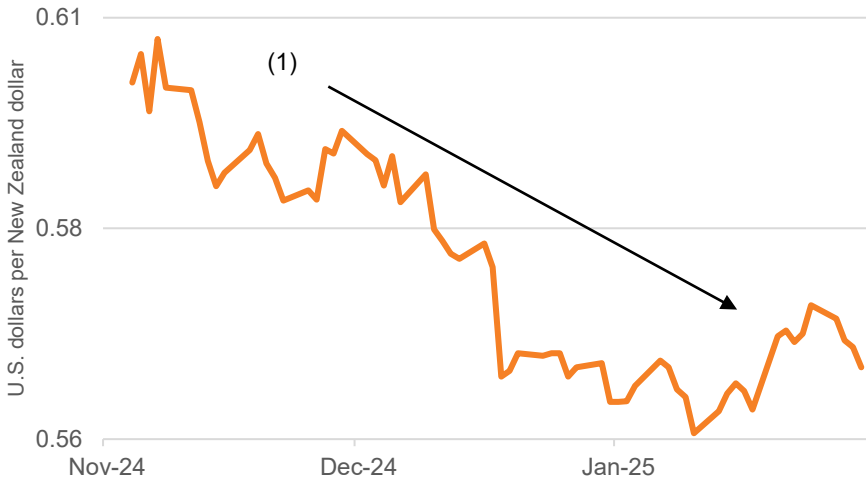
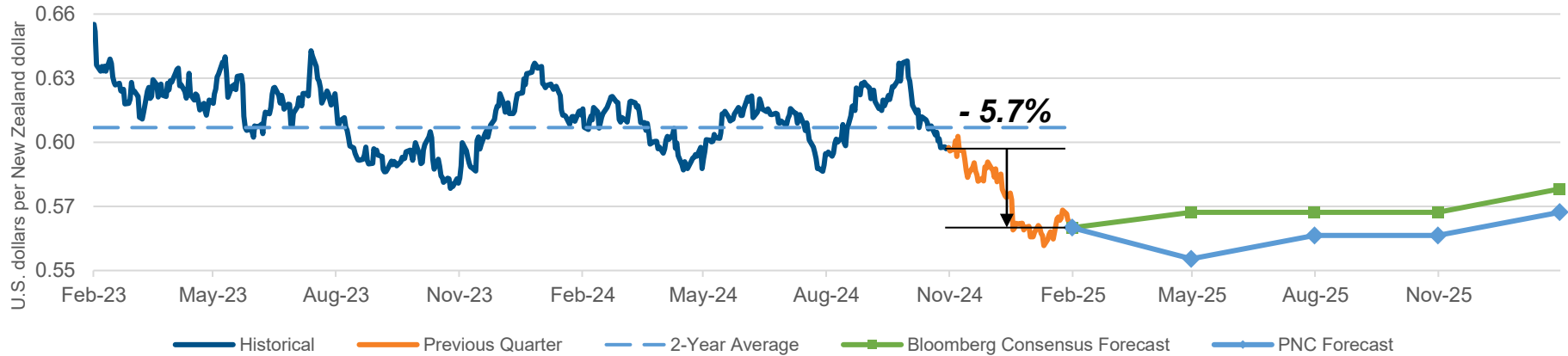
(1) The Australian dollar weakened in the past quarter following better-than-expected US economic data, a slowing Chinese economy and fewer expected fed funds rate cuts in 2025.

# Currency Update

## New Zealand Dollar



The New Zealand dollar weakened 5.7% in the last quarter.



(1) Broad dollar strength stemming from strong US economic data and a recession in New Zealand weighed on the New Zealand dollar.

### Previous Quarter Recap

- New Zealand's CPI inflation grew 0.5% in Q4 and 2.2% from a year ago.
- The Bank of New Zealand Manufacturing PMI improved in December 2024 but remained at contractionary levels for the whole year.
- The labor market softened in the second half of 2024. Q4 employment fell 0.1% and was down 1.1% from last year. The unemployment rate in Q4 increased to the highest level of the past four years. Private sector hourly average earnings rose 1.3% in Q4, picking up from early 2024.

### Currency Outlook

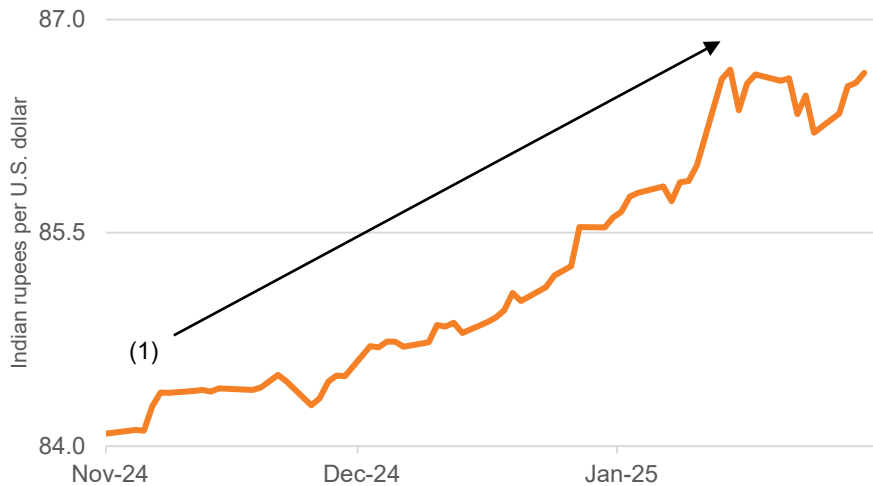
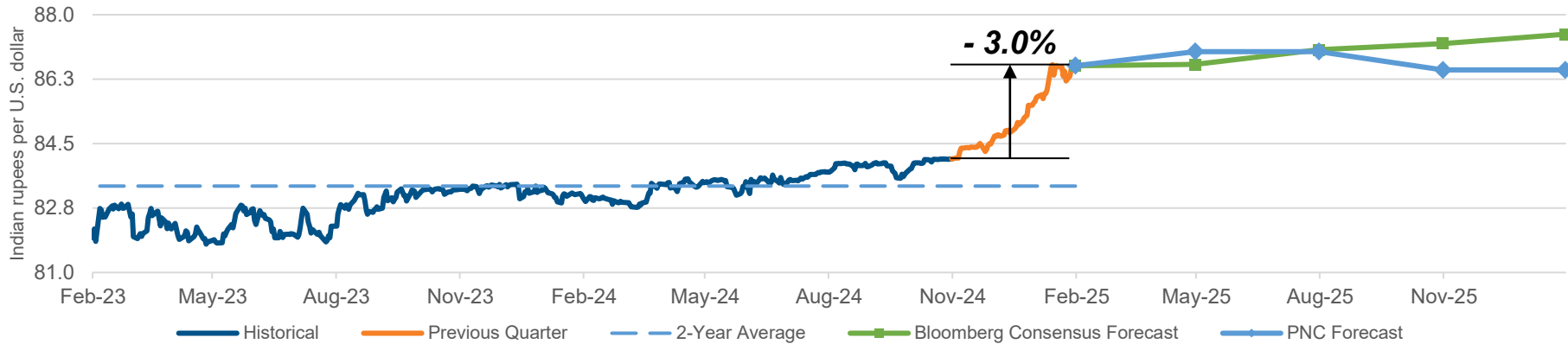
- PNC and the consensus both expect the New Zealand dollar to strengthen over the forecast horizon.
- If the Fed cuts its policy rate more than anticipated, the New Zealand dollar could be stronger than forecasted.

# Currency Update

## Indian Rupee



The Indian rupee weakened 3.0% in the past quarter.



(1) Broad dollar strength stemming from strong US economic data and expectations of policy rate cuts from the Reserve Bank of India have weighed on the Indian rupee.

### Previous Quarter Recap

- India's CPI inflation came in slightly cooler than the consensus and grew 5.2% in December, slowing from 5.5% in November.
- Factory activity in India expanded faster with the manufacturing PMI rising to 57.7 in January. Business services activity continued to expand but at a slower pace; services PMI was down to 56.5 from 59.3.
- India's nominal exports were down from last year by 1%, narrowing from -5% in November. Exports were down from the peak in in early 2022 but remained elevated from pre-pandemic levels.

### Currency Outlook

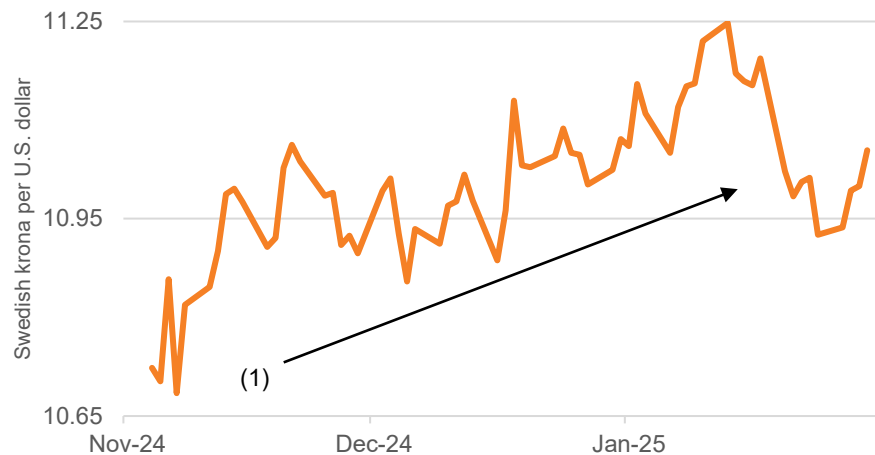
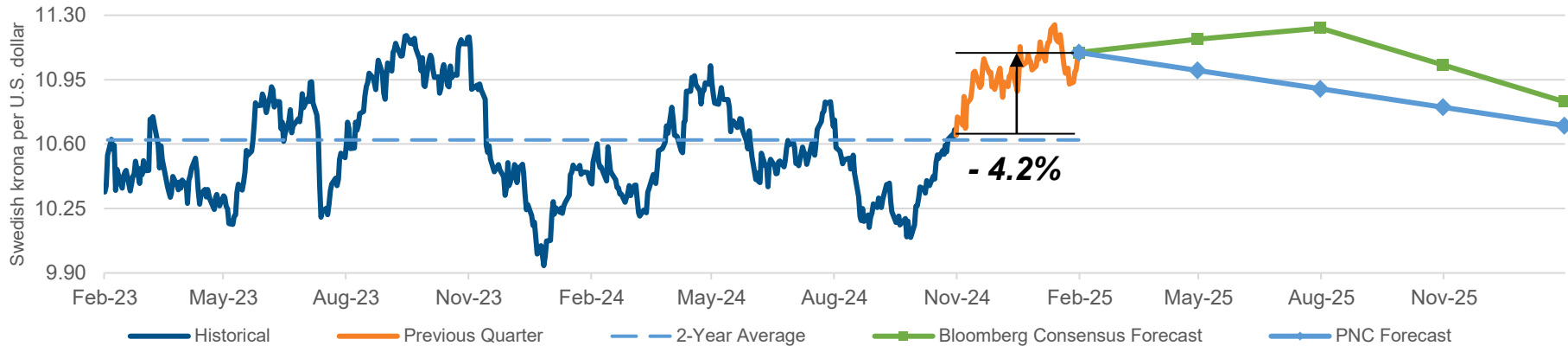
- The consensus expects the rupee to depreciate while PNC expects it to remain rangebound.
- If the US economy surprises to the downside, the rupee could be stronger than forecasted.

# Currency Update

## Swedish Krona



The Swedish krona weakened 4.2% in the last quarter.



### Previous Quarter Recap

- The seasonally and working day adjusted real consumer spending continued to trend up in November, growing 1.1% on the month.
- The Riksbank cut the repo rate by 25 basis points from 2.5% to 2.25% on January 29. Sweden's core year-over-year CPI (the consumer price index with a fixed interest rate) inflation, total inflation excluding the energy component, was 2% in December.
- Economic activity recovered slowly while inflation was generally under control at the end of 2024. Sweden's Composite PMI jumped to an expansionary level in January 2025.

### 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 more than PNC expects, the krona could be stronger than projected.

(1) The Swedish krona weakened in November due to expectations of policy rate cuts at Riksbank and the better-than-expected US economy. It strengthened in late January, as expectations of large and broad US tariffs declined.

# PNC FX Rate Forecasts

## Historic Rates vs. Forecasts

	Australia Australian \$ USD per AUD	Brazil Real BRL per USD	Canada Canadian \$ CAD per USD	Switzerland Swiss franc CHF per USD	China Yuan CNY per USD	Eurozone Euro USD per EUR	United Kingdom Pound Sterling USD per GBP	India Rupee INR per USD	Japan Yen JPY per USD	Korea Won KRW per USD	Mexico Peso MXN per USD	Norway Krone NOK per USD	New Zealand Dollar USD per NZD	Sweden Krona SEK per USD	U.S. Broad Dollar Index Jan '06 = 100	DXY Dollar Index Mar '73 = 100
<b>Actual</b> (month-end)																
Apr-2023	0.66	4.99	1.36	0.89	6.91	1.10	1.26	81.8	136.3	1,339	18.0	10.7	0.62	10.3	119.4	101.7
Apr-2024	0.65	5.19	1.38	0.92	7.24	1.07	1.25	83.4	157.8	1,382	17.1	11.1	0.59	11.0	123.3	106.2
Jul-2024	0.65	5.65	1.38	0.88	7.23	1.08	1.29	83.7	150.0	1,330	18.6	10.9	0.60	10.7	123.9	104.1
Oct-2024	0.66	5.79	1.39	0.86	7.12	1.09	1.29	84.1	152.0	1,377	20.0	11.0	0.60	10.6	125.0	104.0
Jan-2025	0.62	5.84	1.45	0.91	7.24	1.04	1.24	86.6	154.8	1,431	20.6	11.3	0.57	11.0	127.7	108.2
<b>PNC Forecast</b> (month-end)																
Mar-2025	0.61	6.0	1.46	0.90	7.30	1.04	1.24	87.0	158	1470	21.0	11.5	0.55	11.0	128.9	108.5
Jun-2025	0.61	6.0	1.46	0.90	7.31	1.05	1.25	87.0	156	1460	21.0	11.4	0.55	11.0	128.5	107.6
Sep-2025	0.62	6.1	1.45	0.89	7.32	1.05	1.25	87.0	155	1450	20.8	11.3	0.56	10.9	128.1	107.4
Dec-2025	0.62	6.1	1.45	0.89	7.33	1.06	1.26	86.5	154	1440	20.6	11.2	0.56	10.8	127.5	106.5
Mar-2026	0.63	6.1	1.44	0.89	7.33	1.06	1.26	86.5	153	1440	20.4	11.1	0.57	10.7	127.1	106.3

Source: PNC Economics, Bloomberg

# Swap Dealer Activities Standard Disclaimer

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