

EXCHANGE RATE FORECASTS

Gus Faucher
Chief Economist

Stuart Hoffman
Senior Economic

Kurt Rankin
Senior Economist

Abbey Omodunbi
Senior Economist

Ershang Liang
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

U.S. Dollar's Weakness Set to Continue As Fed Pauses Hiking Cycle

The DXY dollar index lost some ground in the first quarter of this year as inflation moderated, the Federal Reserve signaled a pause in monetary tightening, stresses emerged in the U.S. banking sector, and debt-ceiling tensions rose. A deteriorating U.S. economy and divergence in monetary policies between the Fed and the European Central Bank (the euro accounts for over 50% of the DXY index) will stay supportive of a weaker dollar through 2023 and 2024.

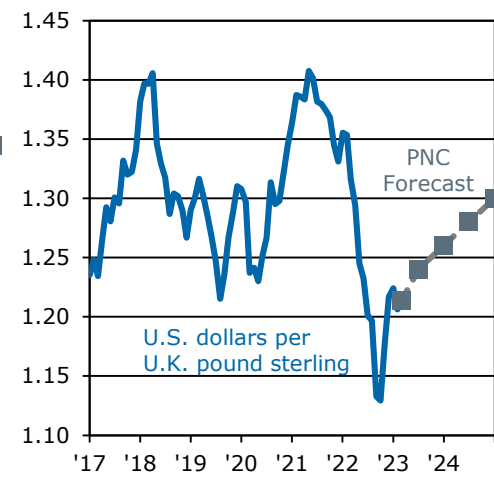
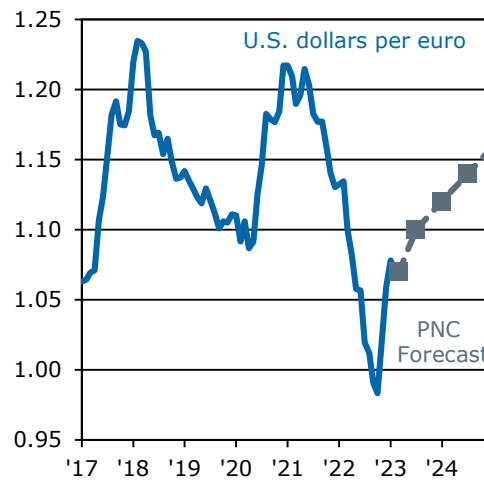
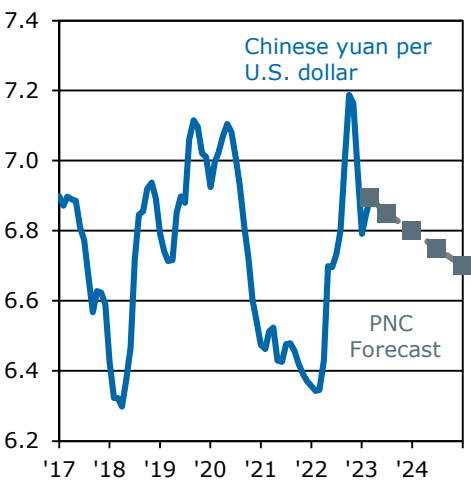
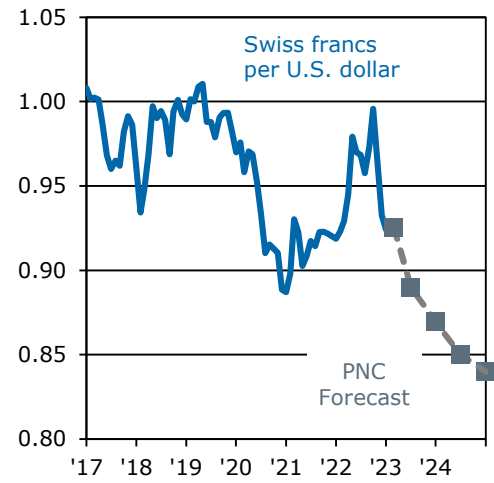
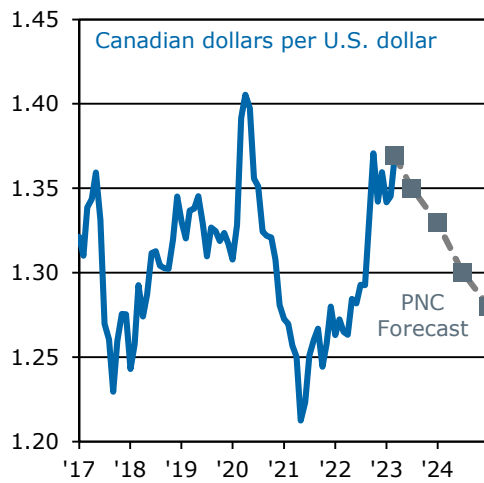
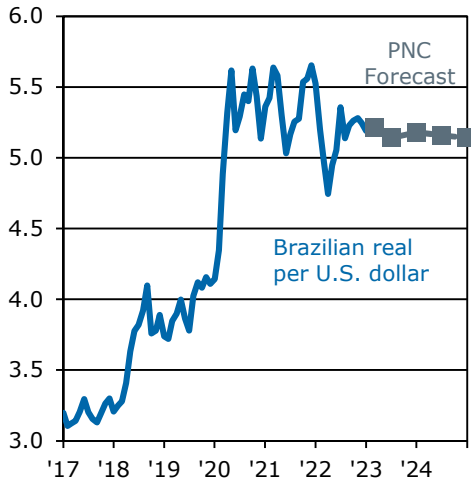
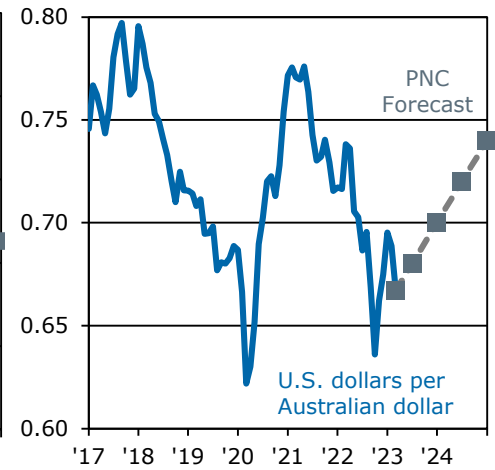
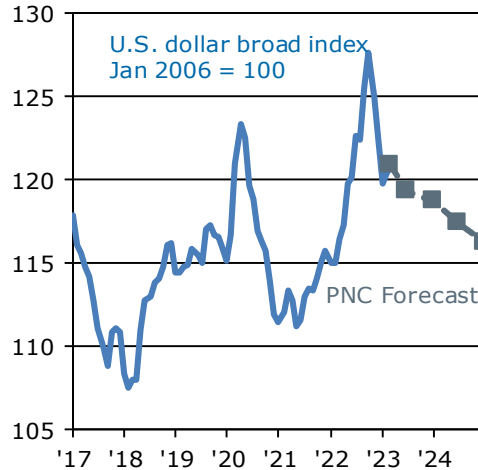
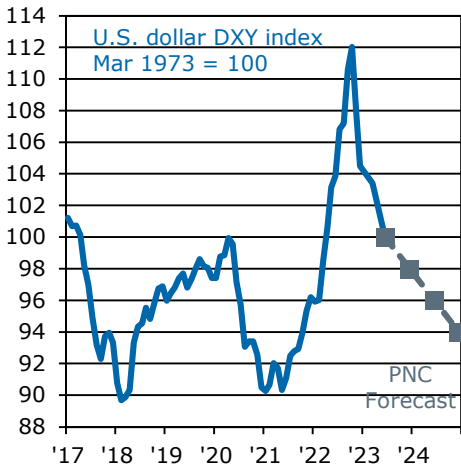
The U.K. economic outlook has improved in recent months thanks to recently announced fiscal policy measures aimed to address the nation's longstanding productivity issues. Slightly better economic fundamentals and expectations for continued tightening by the Bank of England support further pound sterling appreciation against the dollar. The Canadian dollar retreated against the greenback in the prior quarter as global commodity prices fell and the U.S. economy weakened. PNC Economics expects the Canadian dollar to strengthen driven by a strong domestic economy vis-à-vis the U.S. and as China's economy picks up momentum in the second half of the year. Japan's yen is set to depreciate against the dollar by year-end as the Bank of Japan's new governor, Kazuo Ueda, continues the central bank's ultra-easy monetary policies, although increased global economic uncertainties and a prolonged debt-ceiling crisis in the U.S. will provide some near-term upside for the safe-haven yen. With economic prospects improving in China, currencies of countries closely linked to China like Australia and New Zealand should strengthen through 2023 and 2024. Elevated global recession risks will boost safe-haven demand for the Swiss franc.

The U.S. debt limit standoff complicates the outlook. The baseline scenario is that Congress raises the debt limit, but the impact of a U.S. debt default on the dollar is uncertain. It could result in a weaker dollar than forecast if investors turn away from the U.S. But it is possible that a default could boost demand for the dollar, a safe-haven asset along with the yen and the Swiss franc, at the expense of riskier assets. Risks to the outlook are balanced outside of a debt crisis. Sticky inflation or a severe recession in the U.S. (the U.S. dollar usually appreciates during domestic recessions) would likely lead to a stronger dollar than our forecast.

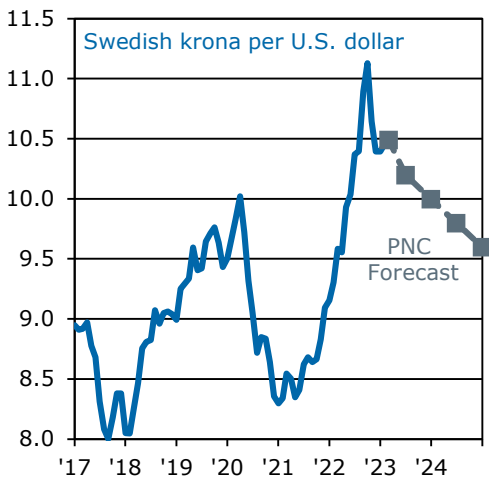
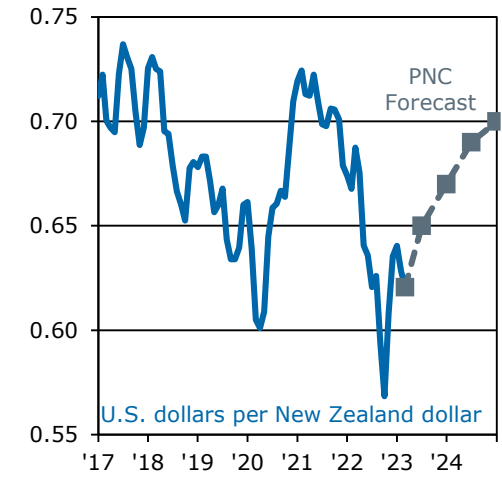
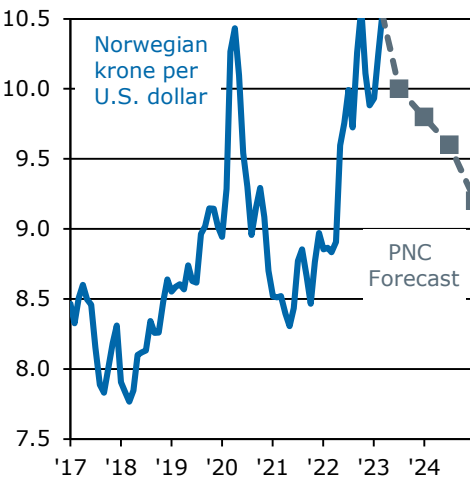
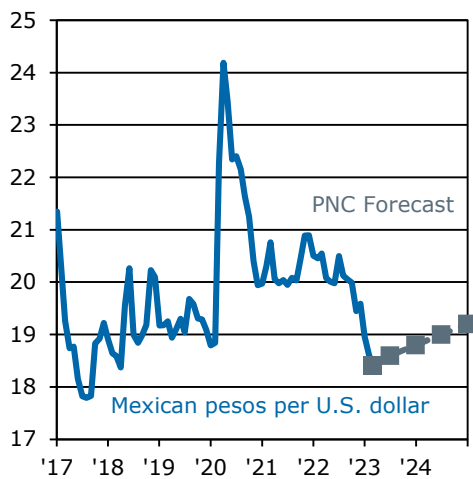
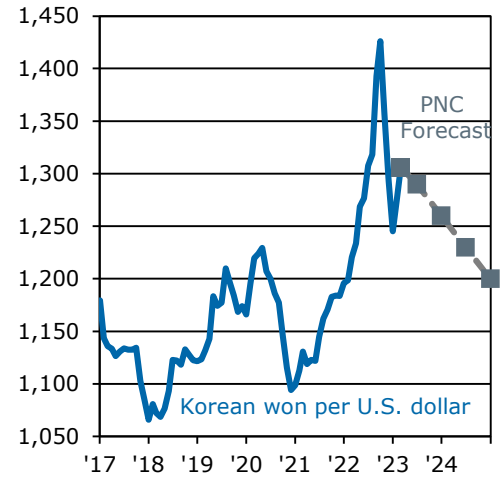
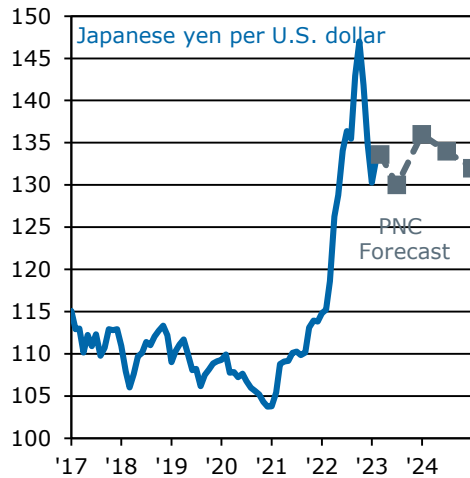
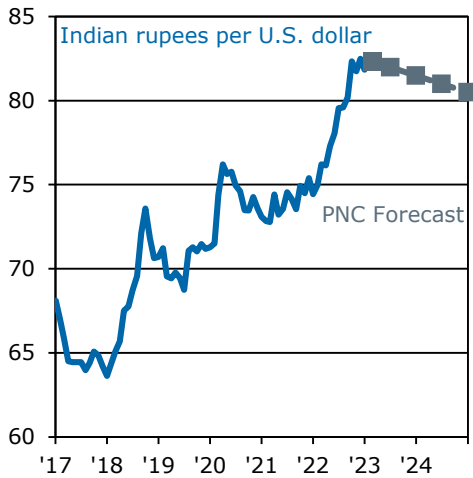
BASELINE EXCHANGE RATE FORECASTS, SECOND QUARTER OF 2023

| | | | Dec-20 | Dec-21 | Jun-22 | Dec-22 | Mar-23 | | Jun-23 | Dec-23 | Jun-24 | Dec-24 |
|---------------------------|--------------------|--------------------------|--------|--------|--------|--------|--------|--------------------------------|--------|--------|--------|--------|
| Australian dollar | <i>USD per AUD</i> | Actual, month-avg | 0.76 | 0.72 | 0.70 | 0.67 | 0.67 | PNC Forecast, month-end | 0.68 | 0.70 | 0.72 | 0.74 |
| Brazilian real | <i>BRL per USD</i> | | 5.03 | 5.65 | 5.05 | 5.23 | 5.25 | | 5.14 | 5.18 | 5.16 | 5.14 |
| Canadian dollar | <i>CAD per USD</i> | | 1.22 | 1.28 | 1.28 | 1.33 | 1.36 | | 1.35 | 1.33 | 1.30 | 1.28 |
| Swiss franc | <i>CHF per USD</i> | | 0.91 | 0.92 | 0.97 | 0.97 | 0.93 | | 0.89 | 0.87 | 0.85 | 0.84 |
| Chinese yuan | <i>CNY per USD</i> | | 6.43 | 6.37 | 6.70 | 7.01 | 6.98 | | 6.85 | 6.80 | 6.75 | 6.70 |
| Euro | <i>USD per EUR</i> | | 1.20 | 1.13 | 1.06 | 0.99 | 1.06 | | 1.10 | 1.12 | 1.14 | 1.16 |
| UK pound sterling | <i>USD per GBP</i> | | 1.40 | 1.33 | 1.23 | 1.13 | 1.22 | | 1.24 | 1.26 | 1.28 | 1.30 |
| Indian rupee | <i>INR per USD</i> | | 73.6 | 75.4 | 78.1 | 80.2 | 82.5 | | 82.0 | 81.5 | 81.0 | 80.5 |
| Japanese yen | <i>JPY per USD</i> | | 110.1 | 113.8 | 134.1 | 143.0 | 134.8 | | 130.0 | 136.0 | 134.0 | 132.0 |
| Korean won | <i>KRW per USD</i> | | 1,122 | 1,184 | 1,276 | 1,393 | 1,293 | | 1,290 | 1,260 | 1,230 | 1,200 |
| Mexican peso | <i>MXN per USD</i> | | 20.0 | 20.9 | 20.0 | 20.1 | 19.6 | | 18.6 | 18.8 | 19.0 | 19.2 |
| Norwegian krone | <i>NOK per USD</i> | | 8.4 | 9.0 | 9.8 | 10.3 | 9.9 | | 10.0 | 9.8 | 9.6 | 9.2 |
| New Zealand dollar | <i>USD per NZD</i> | | 0.71 | 0.68 | 0.64 | 0.59 | 0.64 | | 0.65 | 0.67 | 0.69 | 0.70 |
| Swedish krona | <i>SEK per USD</i> | | 8.4 | 9.1 | 10.0 | 10.9 | 10.4 | | 10.2 | 10.0 | 9.8 | 9.6 |
| Broad dollar index | <i>Jan 06 100</i> | | 111.7 | 115.8 | 120.2 | 125.5 | 122.3 | | 119.4 | 118.8 | 117.4 | 116.2 |
| DXY dollar index | <i>Mar 73 100</i> | | 91.1 | 96.2 | 103.9 | 110.6 | 104.5 | | 100.0 | 98.0 | 96.0 | 94.0 |

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