

EXCHANGE RATE FORECASTS

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The Dollar's Recovery From The 2020 Swoon Continues; Supply Chain Turmoil Is The Wildcard For Exchange Rates

The dollar recovered further in the third quarter of 2021 from its 2020 swoon, appreciating a net 1.9% as measured by the DXY major currencies index. Central banks announced plans to wind down crisis-era stimulus programs in September, contributing to the dollar's gain. The Federal Open Market Committee (FOMC) signaled their purchases of government-backed bonds will likely slow late this year and end in mid-2022; FOMC participants also have raised the path they expect the Federal Funds rate to follow in 2022 and 2023.

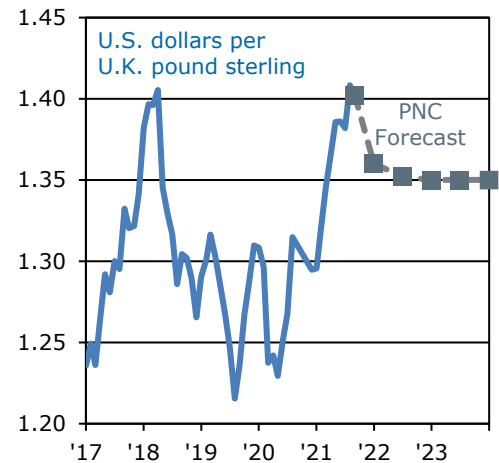
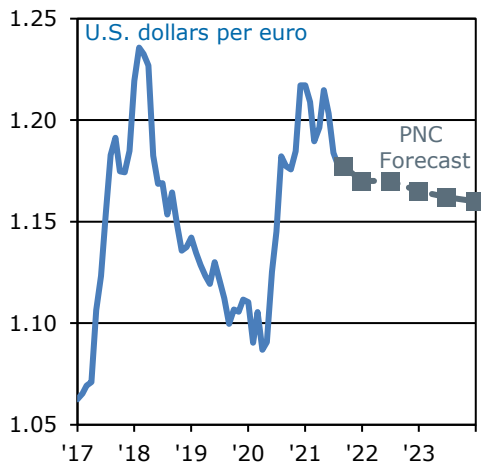
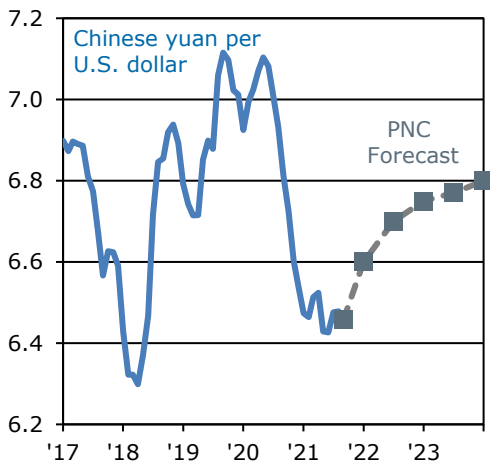
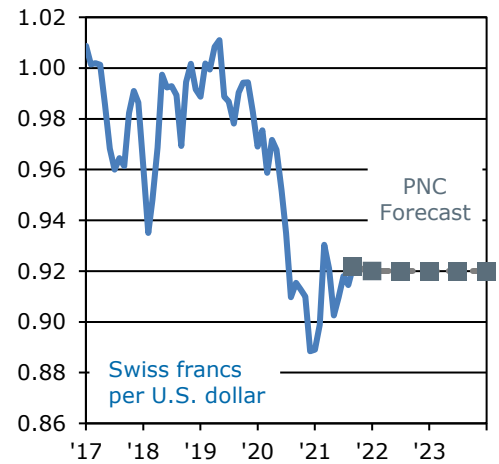
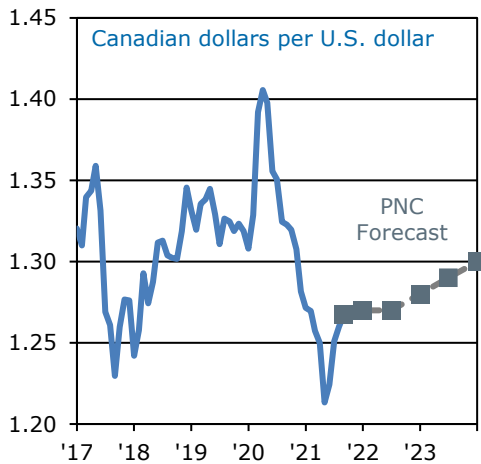
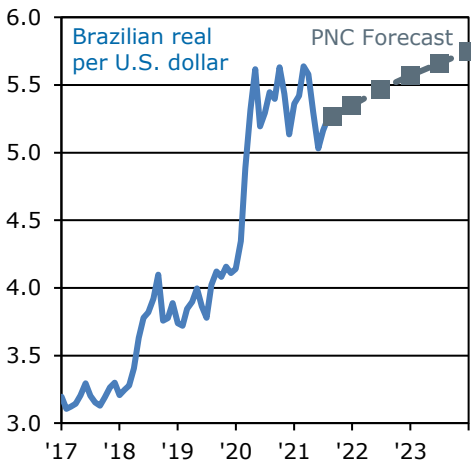
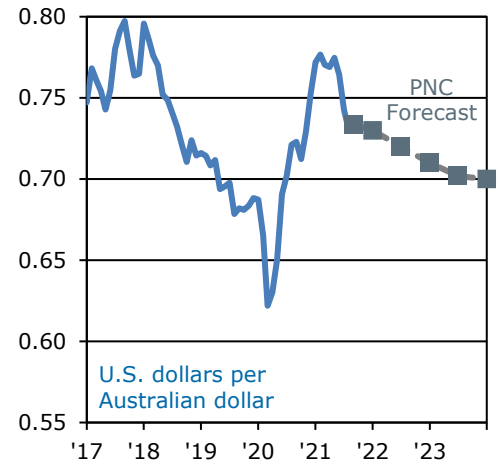
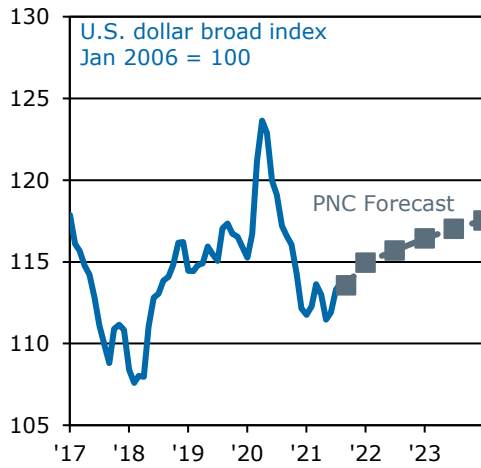
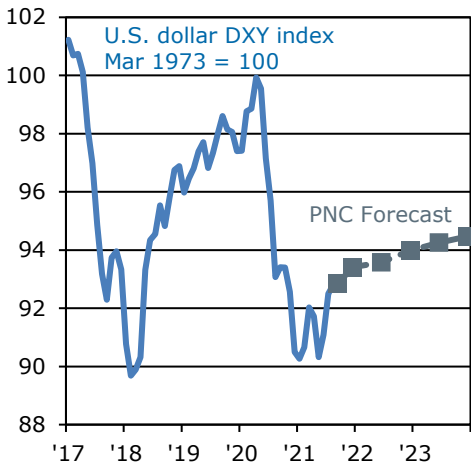
In the fourth quarter the European Central Bank will slow purchases made under their main pandemic-era QE program, and likely end them in the spring of 2022. Despite this, the dollar has strengthened against the euro on prospects for a higher fed funds rate over the next few years. In the UK, a trucker shortage caused widespread gasoline shortages late in the third quarter; Britain is looking for EU guest workers to end the crisis. Pound sterling depreciated on this demonstration of the economic costs of Brexit. China's growth outlook weakened in the third quarter as the Delta variant led the country to reinstate lockdowns, a major property developer missed interest payments on its bonds, and the government limited electricity production to meet emissions reduction goals. The People's Bank of China held the yuan exchange rate in a tight range in the third quarter to prevent broader financial turmoil, but will likely allow it to depreciate into 2022. Currencies closely tied to commodity prices—the Canadian, Australian, and New Zealand dollars as well as the Brazilian real—depreciated in the third quarter as growth slowed in China and the Delta wave weighed on global commodity demand. PNC forecasts for these currencies to be flat to weaker over the forecast horizon.

The most straightforward risk to the outlook is another wave of coronavirus slowing the global recovery this winter, likely resulting in a stronger dollar. Supply chain problems and inflation could also spur exchange rate volatility, but the direction is unpredictable. These issues weighed on the U.S. dollar in April and May of 2021, then the same problems made pound sterling depreciate and the dollar strengthen in the third quarter. Similar swings are likely in the fourth quarter as supply chain turmoil flares up in different countries.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2021

			Dec-19	Jun-20	Dec-20	Jun-21	Sep-21		Dec-21	Jun-22	Dec-22	Jun-23	Dec-23
Australian dollar	<i>USD per AUD</i>	Actual, month-avg	0.69	0.69	0.75	0.76	0.73	PNC Forecast, month-end	0.73	0.72	0.71	0.70	0.70
Brazilian real	<i>BRL per USD</i>		4.11	5.20	5.14	5.03	5.27		5.35	5.47	5.57	5.66	5.75
Canadian dollar	<i>CAD per USD</i>	1.32	1.36	1.28	1.22	1.27	1.27	1.27	1.27	1.28	1.29	1.30	
Swiss franc	<i>CHF per USD</i>	0.98	0.95	0.89	0.91	0.92	0.92	0.92	0.92	0.92	0.92	0.92	
Chinese yuan	<i>CNY per USD</i>	7.01	7.08	6.54	6.43	6.46	6.46	6.60	6.70	6.75	6.77	6.80	
Euro	<i>USD per EUR</i>	1.11	1.13	1.22	1.20	1.18	1.18	1.17	1.17	1.17	1.16	1.16	
UK pound sterling	<i>USD per GBP</i>	1.31	1.25	1.29	1.39	1.40	1.40	1.36	1.35	1.35	1.35	1.35	
Indian rupee	<i>INR per USD</i>	71.2	75.8	73.6	73.6	73.5	73.5	73.7	74.0	74.2	74.7	75.1	
Japanese yen	<i>JPY per USD</i>	109.1	107.6	103.8	110.1	110.1	110.1	111.0	111.5	112.0	112.5	113.0	
Korean won	<i>KRW per USD</i>	1,174	1,207	1,094	1,122	1,171	1,171	1,170	1,170	1,170	1,170	1,170	
Mexican peso	<i>MXN per USD</i>	19.1	22.3	19.9	20.0	20.0	20.0	20.5	20.8	21.0	21.2	21.3	
Nigerian naira	<i>NGN per USD</i>	363	460	470	485	556	556	575	600	610	625	630	
Norwegian krone	<i>NOK per USD</i>	9.0	9.5	8.7	8.4	8.7	8.7	8.7	8.8	8.9	9.0	9.1	
New Zealand dollar	<i>USD per NZD</i>	0.66	0.64	0.71	0.71	0.71	0.71	0.70	0.69	0.68	0.67	0.67	
Swedish krona	<i>SEK per USD</i>	9.4	9.3	8.4	8.4	8.6	8.6	8.7	8.9	9.0	9.0	9.0	
Broad dollar index	<i>Jan '06 = 100</i>	115.9	120.0	112.1	111.9	113.7	113.7	115.0	115.7	116.4	117.0	117.5	
DXY dollar index	<i>Mar '73 = 100</i>	97.4	97.1	90.5	91.1	92.9	92.9	93.4	93.6	94.0	94.3	94.5	

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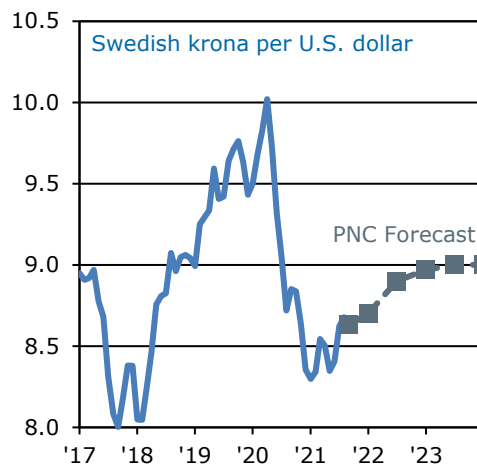
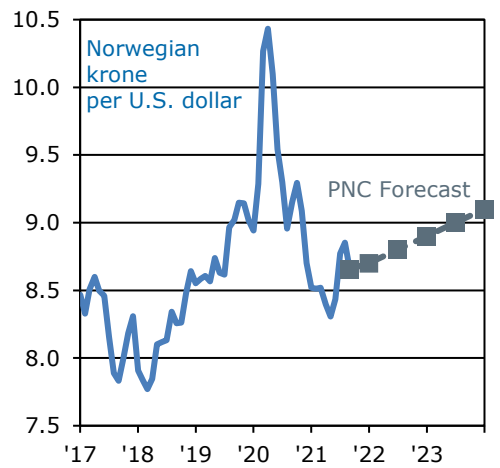
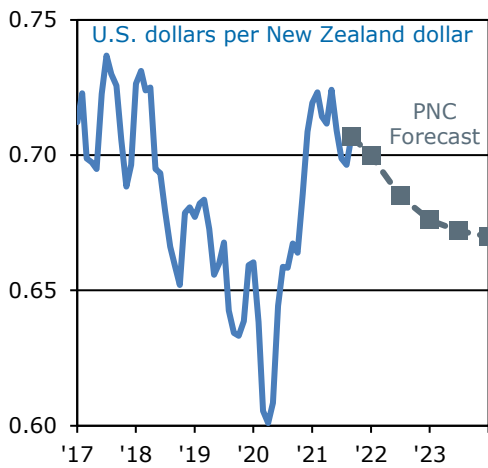
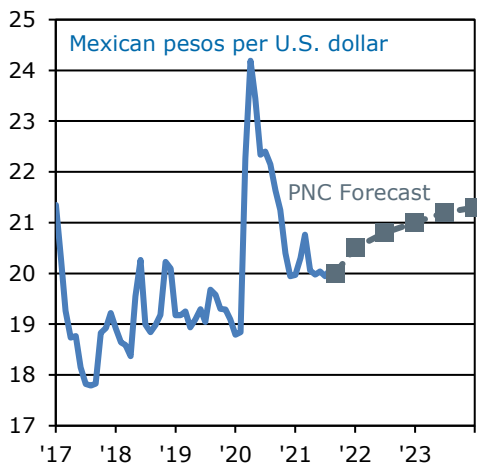
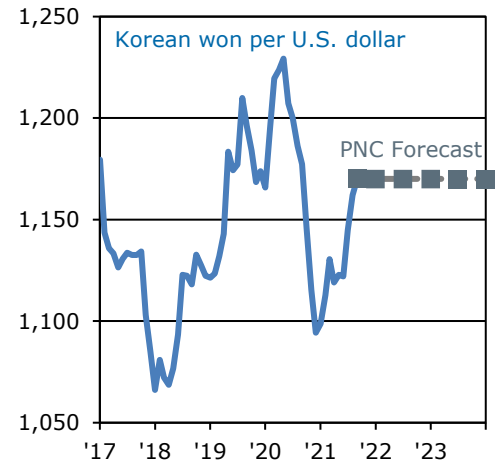
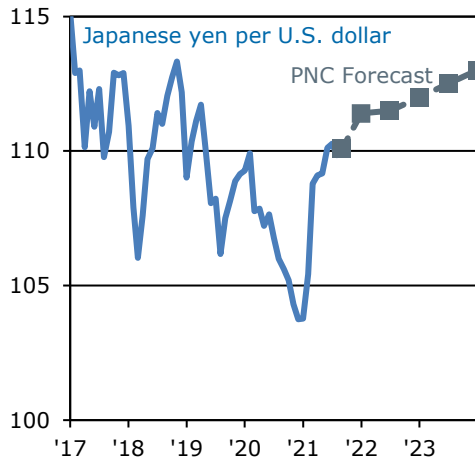
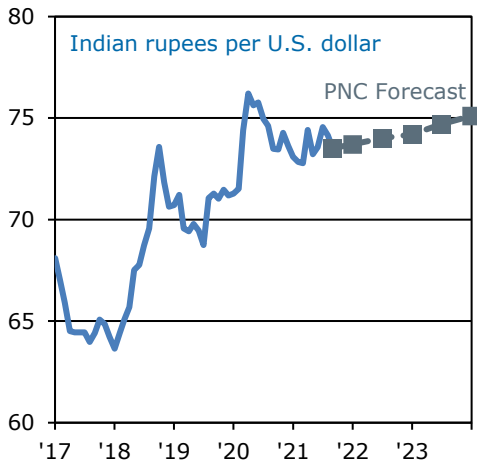


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

Note: Nigerian naira historical and forecasted exchange rates are of the informal market rate.

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