

# EXCHANGE RATE FORECASTS

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## Further Dollar Appreciation Expected in 2022 After a Big Jump in Late 2021 as the Fed Began to Rein in Stimulus

The DXY dollar index appreciated a large 2% in October and November as surprises jolted the global economy. The Fed reduced (“tapered”) purchases of government-backed securities as expected in November, and then further accelerated the taper in December as inflation stayed high. The DXY edged lower in December (a typical ‘buy the rumor, sell the fact’ foreign exchange market move) but still rose 1.5% on net in the quarter.

The other big surprise in the fourth quarter was that the outlook for foreign growth in the first half of 2022 worsened, especially for China, the Eurozone, and the U.K. In China, the housing downturn will weaken economic growth through at least mid-2022, and electricity rationing after October’s surge in coal prices will slow industrial production during the winter heating season. The Eurozone likewise faces energy shortages in the winter with Russia holding back natural gas supply, which will weigh on industrial production. Some Eurozone countries are reimposing restrictions on activity as coronavirus cases hit new pandemic-to-date highs and the Omicron variant spreads. The euro, pound sterling, and yuan are likely to depreciate over the forecast horizon as a result. The yuan has the most room to fall since China’s central bank prevented depreciation in 2021 to bolster sentiment toward Chinese capital markets.

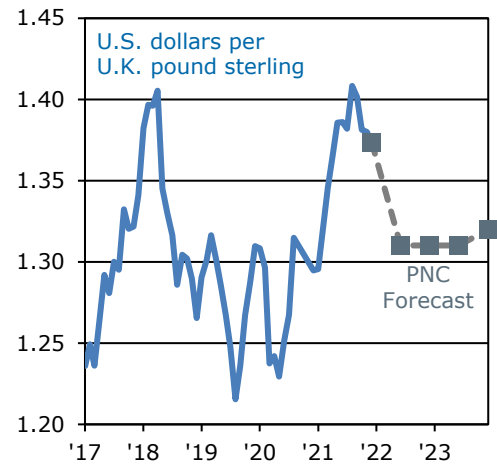
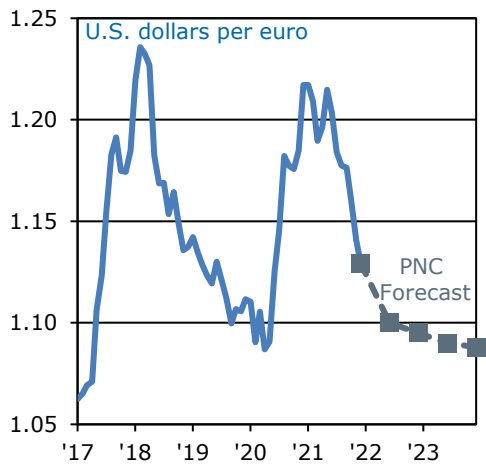
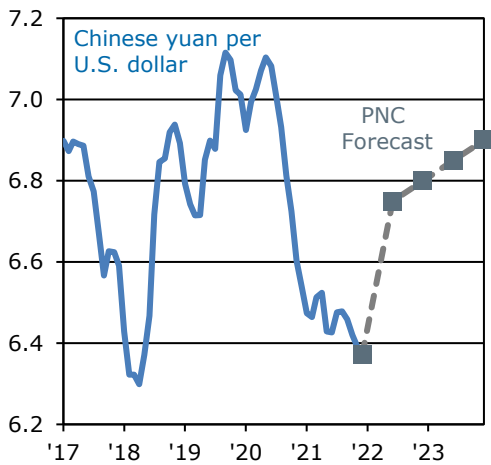
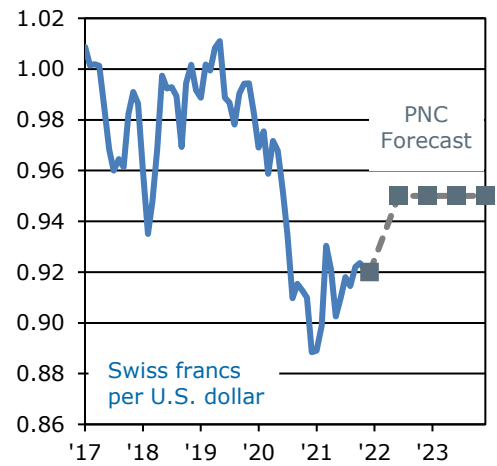
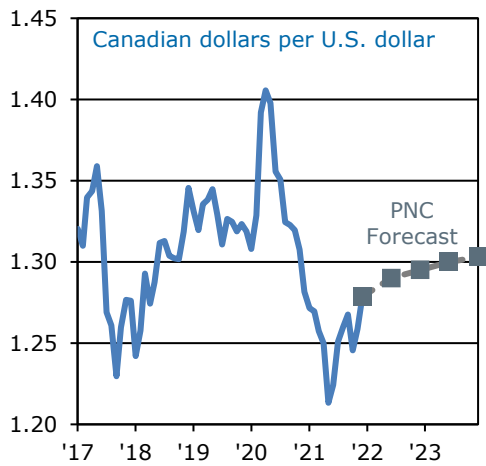
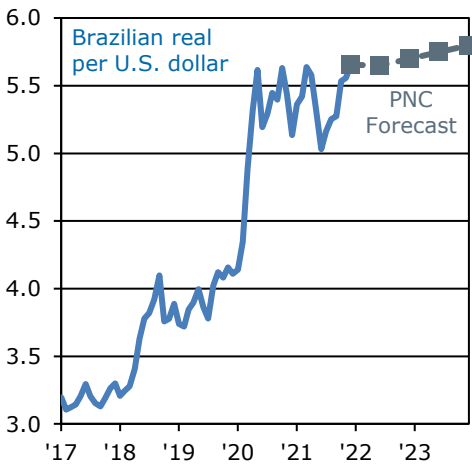
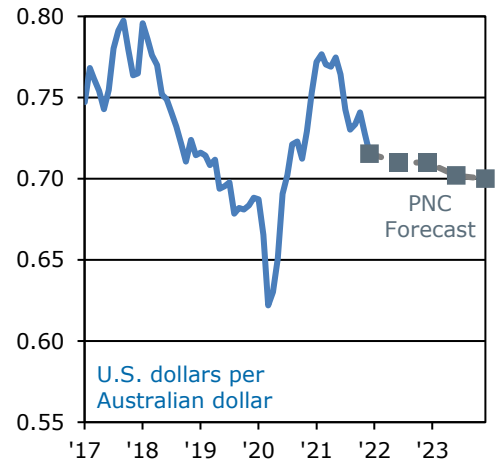
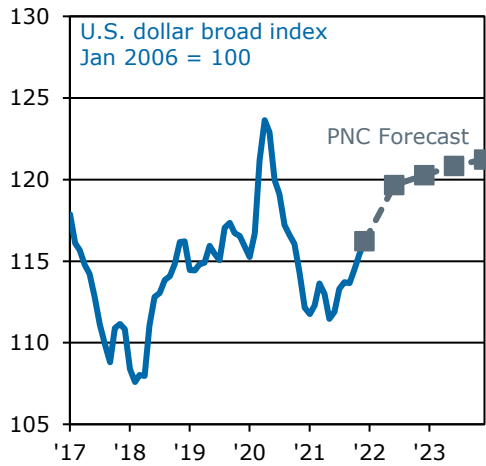
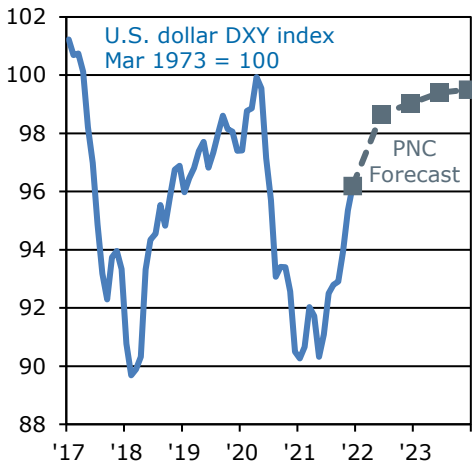
Political risk is back for Latin American currencies. Mexico’s president surprised markets by appointing a relatively unknown loyalist with thin monetary policy credentials to lead the Bank of Mexico; in Brazil, anxiety about the October 2022 general election is reawakening concerns about fiscal health. Both the peso and real depreciated as a result in the fourth quarter of 2021. The Canadian, Australian, and New Zealand dollars hit four-month highs in October as coal and natural gas prices surged, then pulled back as the global growth outlook softened and Omicron variant headlines pulled oil prices lower. These currencies will likely continue to depreciate modestly in 2022 and 2023 as the Fed withdraws monetary stimulus and global commodity supply catches up with the V-shaped rebound in demand, stabilizing prices.

Risks to these forecasts are balanced. If Omicron seriously hinders the global recovery, the U.S. dollar will likely be stronger than forecast. On the other hand, if vaccines remain effective and U.S. inflation slows in the first half of 2022, the Fed could slow the withdrawal of stimulus, causing the dollar to depreciate.

### BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2022

			Dec-19	Jun-20	Dec-20	Jun-21	Dec-21		Jun-22	Dec-22	Jun-23	Dec-23
<b>Australian dollar</b>	<i>USD per AUD</i>	<b>Actual,</b>	0.69	0.69	0.75	0.76	0.72	<b>PNC Forecast,</b>	0.71	0.71	0.70	0.70
<b>Brazilian real</b>	<i>BRL per USD</i>	<b>month-avg</b>	4.11	5.20	5.14	5.03	5.65		<b>month-end</b>	5.65	5.70	5.75
<b>Canadian dollar</b>	<i>CAD per USD</i>		1.32	1.36	1.28	1.22	1.28		1.29	1.30	1.30	1.30
<b>Swiss franc</b>	<i>CHF per USD</i>		0.98	0.95	0.89	0.91	0.92		0.95	0.95	0.95	0.95
<b>Chinese yuan</b>	<i>CNY per USD</i>		7.01	7.08	6.54	6.43	6.37		6.75	6.80	6.85	6.90
<b>Euro</b>	<i>USD per EUR</i>		1.11	1.13	1.22	1.20	1.13		1.10	1.10	1.09	1.09
<b>UK pound sterling</b>	<i>USD per GBP</i>		1.31	1.25	1.29	1.39	1.37		1.31	1.31	1.31	1.32
<b>Indian rupee</b>	<i>INR per USD</i>		71.2	75.8	73.6	73.6	75.4		74.8	75.1	75.5	75.8
<b>Japanese yen</b>	<i>JPY per USD</i>		109.1	107.6	103.8	110.1	113.8		115.5	116.0	116.5	117.0
<b>Korean won</b>	<i>KRW per USD</i>		1,174	1,207	1,094	1,122	1,184		1,200	1,203	1,205	1,206
<b>Mexican peso</b>	<i>MXN per USD</i>		19.1	22.3	19.9	20.0	20.9		21.9	22.1	22.2	22.3
<b>Nigerian naira</b>	<i>NGN per USD</i>		363	460	470	485	556		600	610	625	630
<b>Norwegian krone</b>	<i>NOK per USD</i>		9.0	9.5	8.7	8.4	9.0		9.0	9.0	9.0	9.1
<b>New Zealand dollar</b>	<i>USD per NZD</i>		0.66	0.64	0.71	0.71	0.68		0.68	0.68	0.67	0.67
<b>Swedish krona</b>	<i>SEK per USD</i>		9.4	9.3	8.4	8.4	9.1		9.2	9.2	9.3	9.3
<b>Broad dollar index</b>	<i>Jan '06 = 100</i>		115.9	120.0	112.1	111.9	116.2		119.7	120.3	120.8	121.2
<b>DXY dollar index</b>	<i>Mar '73 = 100</i>		97.4	97.1	90.5	91.1	96.2		98.7	99.0	99.4	99.5

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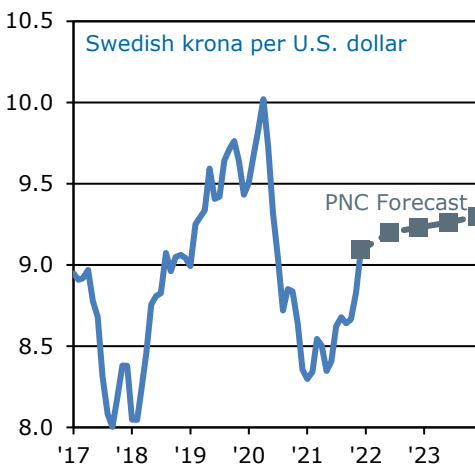
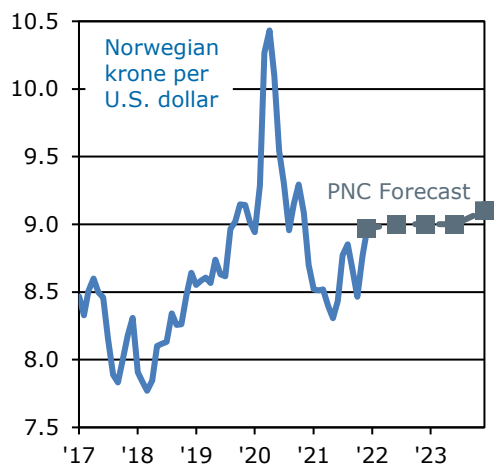
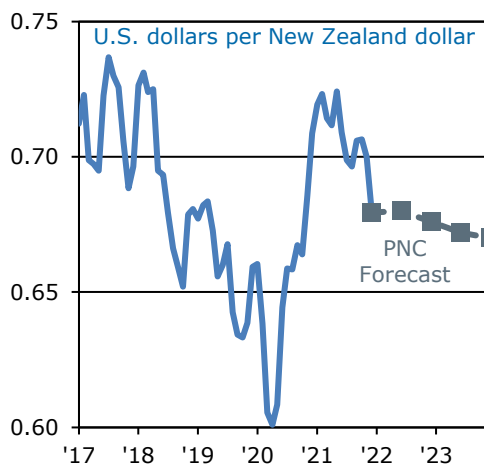
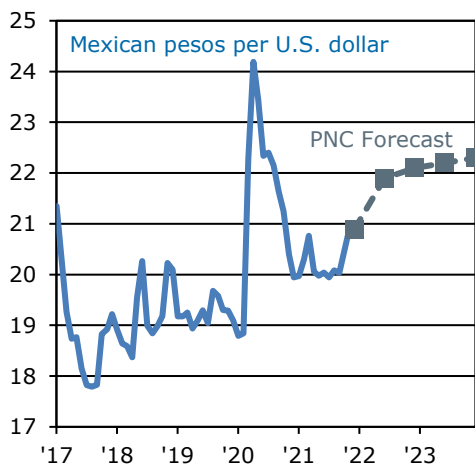
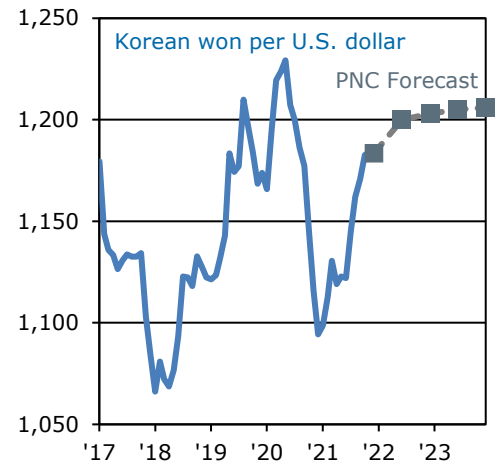
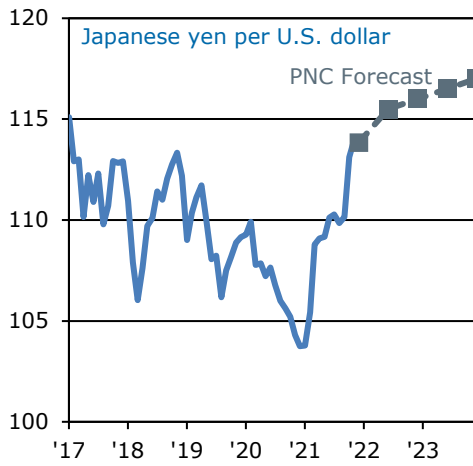
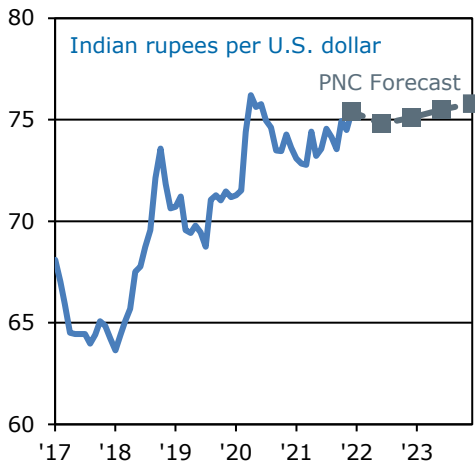


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

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

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