

EXCHANGE RATE FORECASTS

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Dollar Set To Run Out of Breath; Real Will Lose Steam After Big Rally

The dollar’s upward trajectory continued in the first quarter of 2022, appreciating a net 2.8% as measured by the DXY major currencies index. After a flat January, the DXY dollar index strengthened 2% from February 24 to the end of the first quarter as geopolitical risks increased significantly and the Fed signaled a more aggressive interest-rate hiking timeline at its March 16 meeting.

PNC forecasts continued strength in the DXY dollar index in the near term as short-term yields rise and quantitative tightening starts. The dollar will likely lose some momentum in the second half of the year as the Federal Open Market Committee (FOMC) tightens monetary policy less than financial markets are currently pricing in, the euro area economy improves, and the dollar’s safe-haven quality erodes as the situation in Ukraine becomes clearer. Outside the U.S., European economies have borne the brunt of Russia’s invasion of Ukraine, mainly due to their dependence on Russian energy supplies. With a deteriorating regional inflation outlook, the European Central Bank (ECB) announced on March 10 an accelerated timeline for ending its quantitative easing program, limiting the depreciation of the euro. New lockdowns, a weak real estate sector, and a slower-growing global economy will weigh on China’s economy this year despite aggressive easing policies from the Peoples Bank of China (PBoC). The PBoC held the yuan exchange rate in a tight range over the past six months, but further depreciation is expected over 2022.

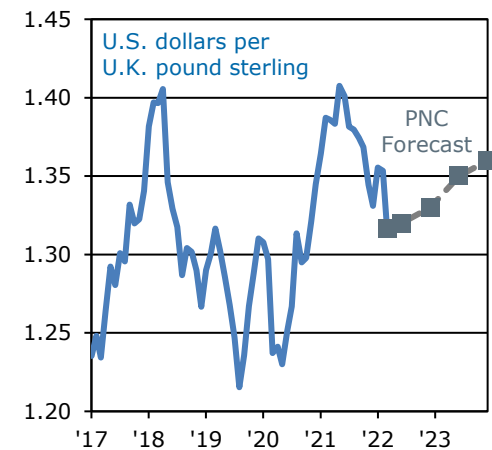
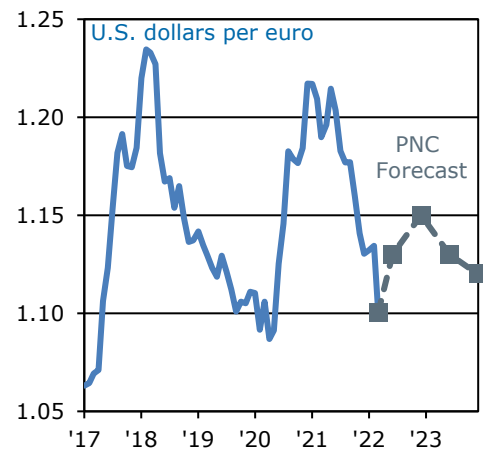
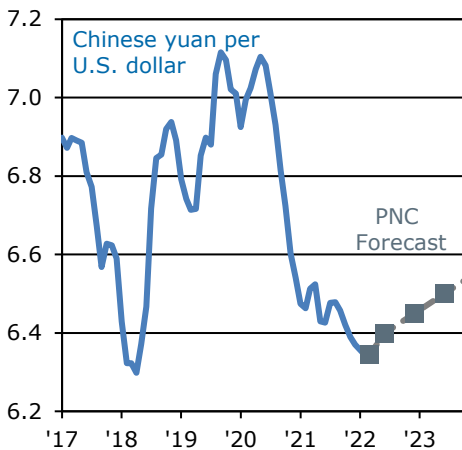
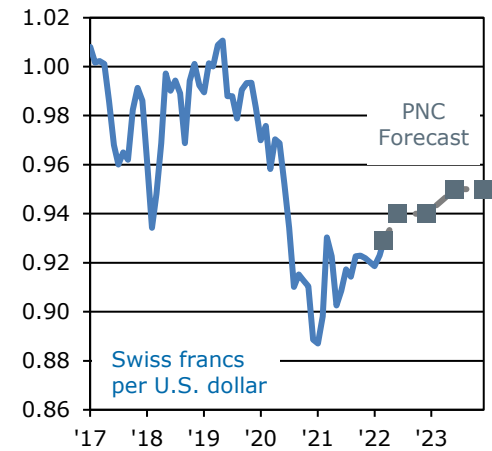
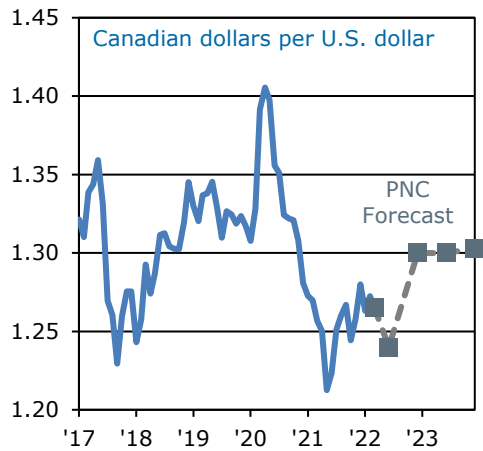
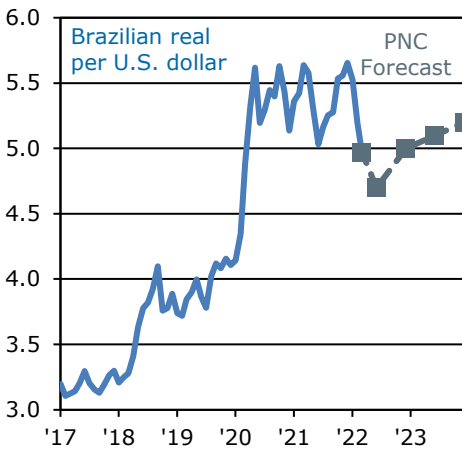
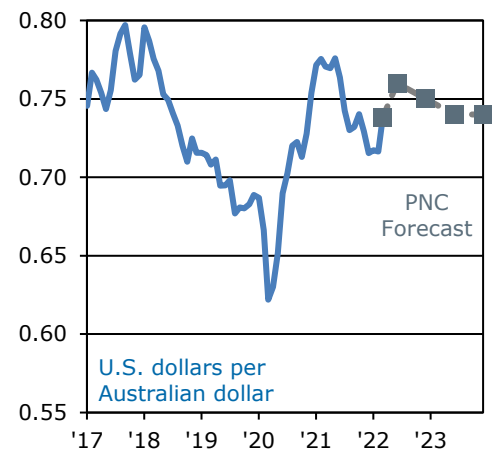
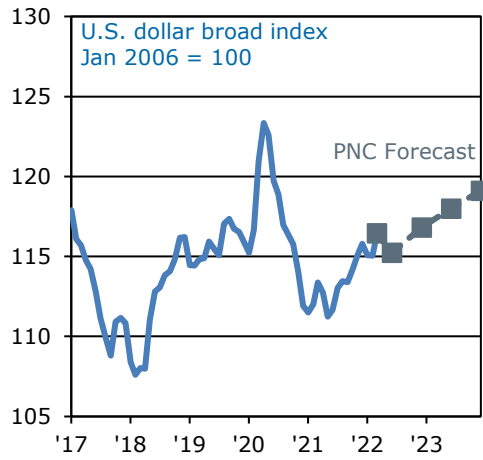
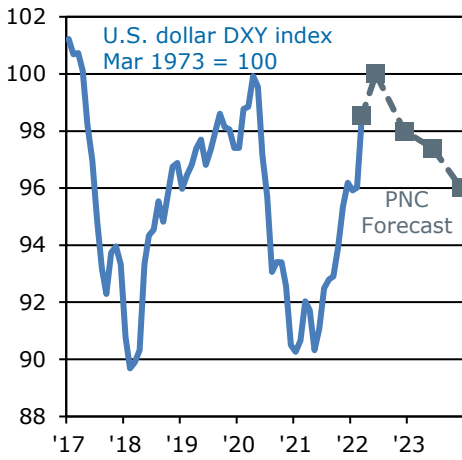
Currencies of commodity-exporting economies like Australia, Norway, Canada, and New Zealand have benefited from the surge in commodity prices in the first quarter, but they should stabilize as the FOMC tightens monetary policy and global commodity supply improves. Latin American currencies have been on a tear this year, with the Brazilian real appreciating a net 18% in the first quarter, boosted by higher commodity prices and a hawkish central bank. PNC forecasts a depreciation in the real over the forecast horizon.

Risks to the U.S. dollar outlook are to the upside. If the Russia-Ukraine crisis escalates or the FOMC raises the fed funds rate more than current market expectations, the DXY dollar index will be stronger than forecast.

BASELINE EXCHANGE RATE FORECASTS, SECOND QUARTER OF 2022

			Jun-20	Dec-20	Jun-21	Dec-21	Mar-22		Jun-22	Dec-22	Jun-23	Dec-23
Australian dollar	<i>USD per AUD</i>	Actual, month-avg	0.69	0.75	0.76	0.72	0.72	PNC Forecast, month-end	0.76	0.75	0.74	0.74
Brazilian real	<i>BRL per USD</i>		5.19	5.14	5.03	5.65	4.97		4.70	5.00	5.10	5.20
Canadian dollar	<i>CAD per USD</i>		1.36	1.28	1.22	1.28	1.26		1.24	1.30	1.30	1.30
Swiss franc	<i>CHF per USD</i>		0.95	0.89	0.91	0.92	0.93		0.94	0.94	0.95	0.95
Chinese yuan	<i>CNY per USD</i>		7.08	6.54	6.43	6.37	6.35		6.40	6.45	6.50	6.55
Euro	<i>USD per EUR</i>		1.13	1.22	1.20	1.13	1.10		1.13	1.15	1.13	1.12
UK pound sterling	<i>USD per GBP</i>		1.25	1.29	1.39	1.37	1.32		1.32	1.33	1.35	1.36
Indian rupee	<i>INR per USD</i>		75.8	73.6	73.6	75.4	76.2		75.4	76.0	76.4	76.8
Japanese yen	<i>JPY per USD</i>		107.6	103.8	110.1	113.8	118.6		117.0	119.0	121.0	124.0
Korean won	<i>KRW per USD</i>		1,207	1,094	1,122	1,184	1,220		1,225	1,230	1,235	1,240
Mexican peso	<i>MXN per USD</i>		22.3	19.9	20.0	20.9	20.5		20.0	20.5	21.0	21.5
Nigerian naira	<i>NGN per USD</i>		460	470	485	485	580		600	610	625	630
Norwegian krone	<i>NOK per USD</i>		9.5	8.7	8.4	9.0	8.8		8.6	8.4	8.2	8.2
New Zealand dollar	<i>USD per NZD</i>		0.64	0.71	0.71	0.68	0.69		0.70	0.69	0.68	0.68
Swedish krona	<i>SEK per USD</i>		9.3	8.4	8.4	9.1	9.6		9.4	9.2	9.3	9.3
Broad dollar index	<i>Jan '06 = 100</i>	119.7	111.9	111.7	115.8	116.4	115.2	116.8	118.0	119.1		
DXY dollar index	<i>Mar '73 = 100</i>	97.1	90.5	91.1	96.2	98.5	100.0	98.0	97.4	96.0		

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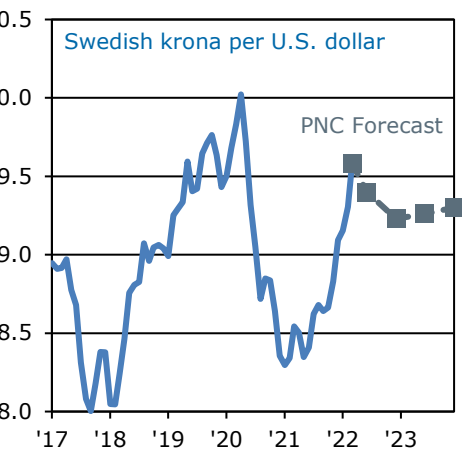
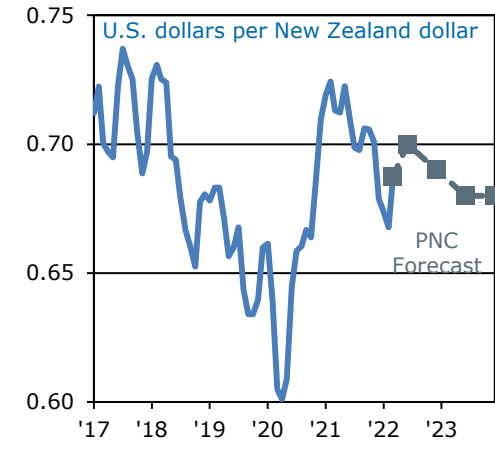
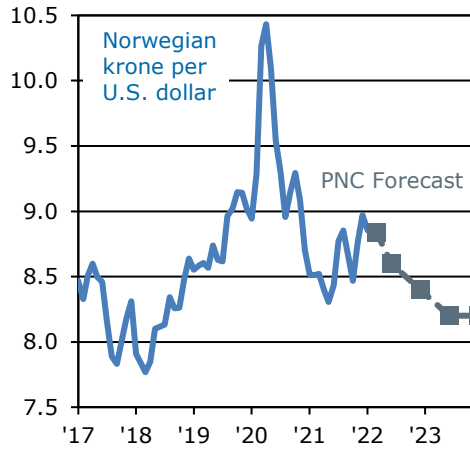
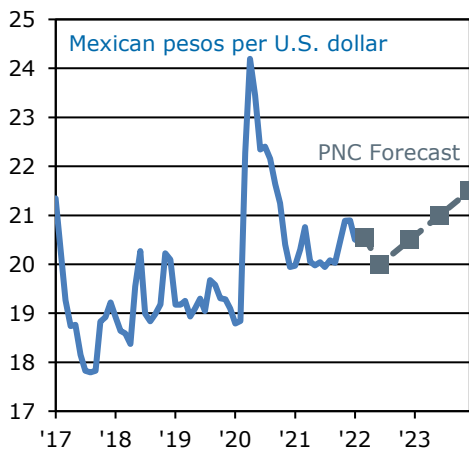
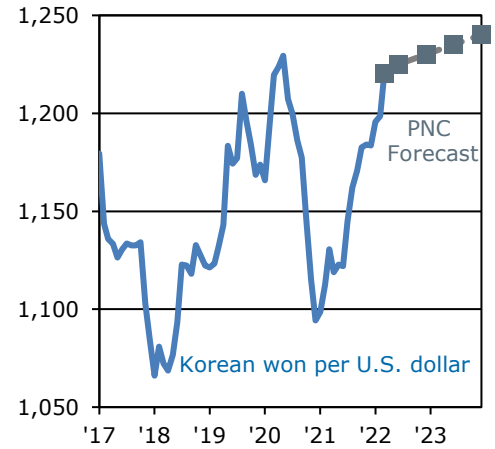
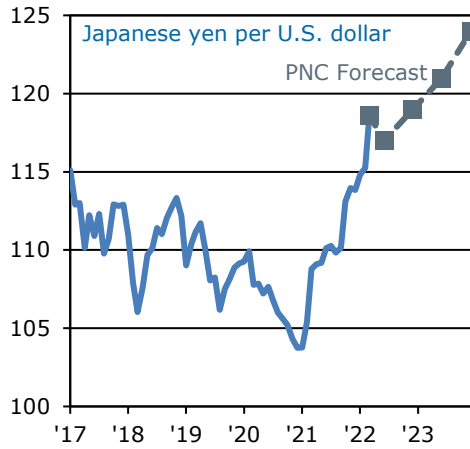
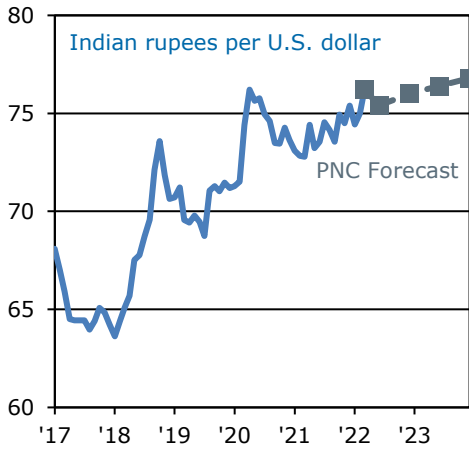


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

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

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