

EXCHANGE RATE FORECASTS

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Dollar's Run Set to End as U.S. Inflation Cools and ECB Begins Tightening Cycle

The U.S. dollar continued its steady rise in the second quarter as the DXY index jumped to a twenty-year high in mid-June. After appreciating 2.7% in the first quarter of this year, the DXY index closed the second quarter with a strong 6.5% gain. Both domestic and global macro factors fueled the dollar's ascent in the first half of this year. A hawkish Fed, the war in Ukraine and a weaker global economic outlook drove the dollar's strength in the first half of 2022.

Looking ahead, the outlook for the dollar is highly dependent on the domestic inflation trajectory, global monetary policy, and the war in Ukraine. PNC forecasts a slightly weaker dollar by June 2024 than in June 2022 as U.S. inflation cools and the European Central Bank (ECB) raises its policy rate for the first time in more than a decade. Also, the normalization of monetary policy in other major economies outside of the U.S. will put downward pressure on the dollar. PNC forecasts a modest recovery of the euro over the next couple of years. With decades-high inflation, energy security issues, and a deteriorating economic outlook, the euro will depreciate further in the near term and then gain positive momentum as the ECB works to reduce interest rate differentials across member states, inflation moderates, and economic fundamentals improve. In the U.K., a weaker domestic economic outlook, increased post-Brexit tensions, political turmoil, and a timid BOE weighed on the British pound in the first half of 2022. PNC forecasts further depreciation of the pound over the forecast horizon.

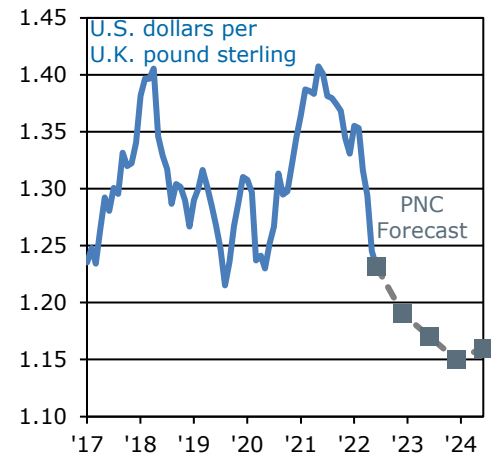
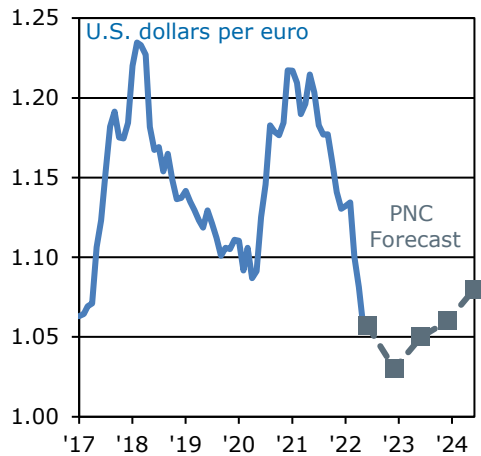
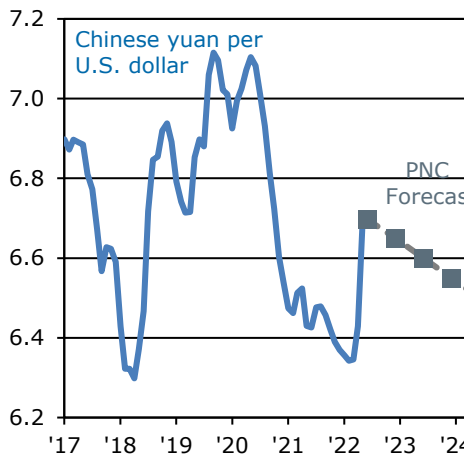
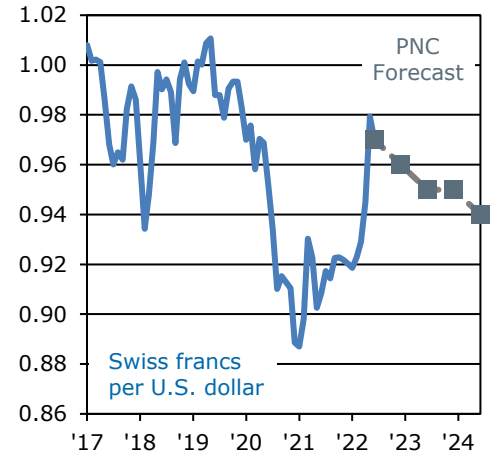
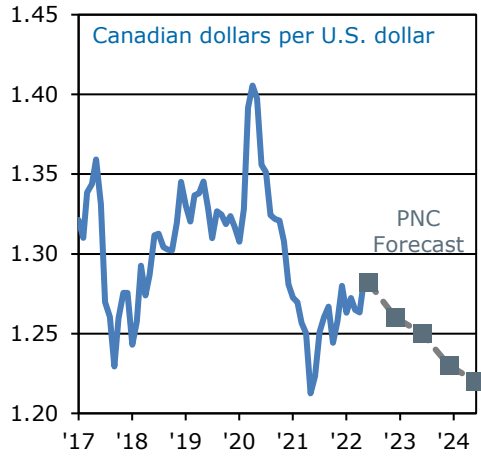
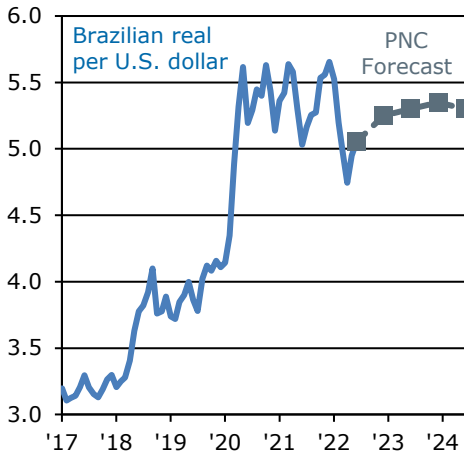
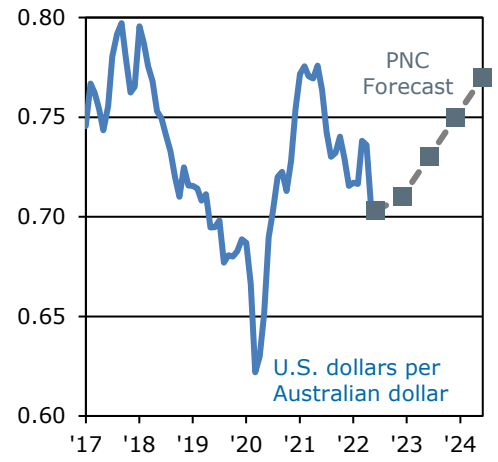
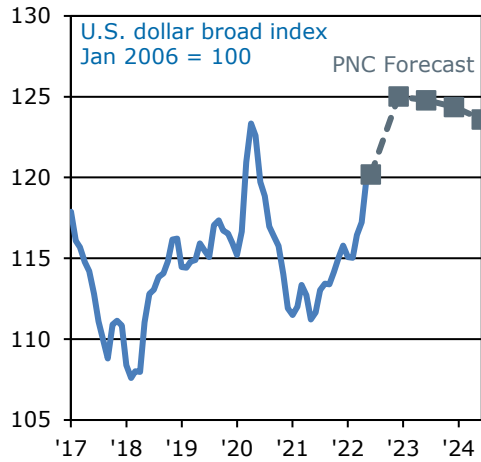
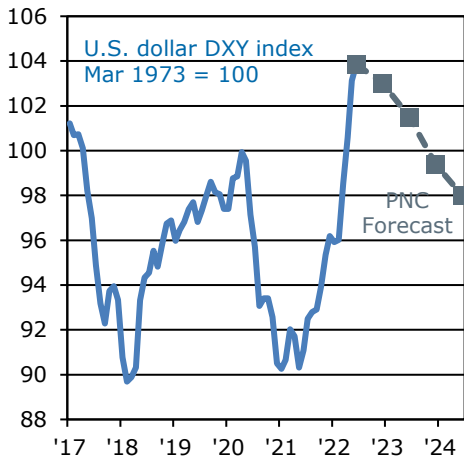
The Australian and New Zealand dollars remained under pressure in the second quarter in large part due to a hawkish Fed, continued weakness in the Chinese economy, and a deteriorating global economic outlook. Both currencies are forecast to appreciate. After dropping to a multi-decade low against the dollar in June as the BoJ maintained an ultra-dovish stance in contrast to the Fed's hawkish positioning, PNC forecasts a stronger yen over the forecast horizon.

Risks to the forecast are tilted to the upside. If the Ukraine crisis escalates, high inflation becomes sticky, or global recession risks increase, the U.S. dollar would be stronger than forecast.

BASELINE EXCHANGE RATE FORECASTS, THIRD QUARTER OF 2022

			Jun-20	Dec-20	Jun-21	Dec-21	Jun-22		Dec-22	Jun-23	Dec-23	Jun-24
Australian dollar	<i>USD per AUD</i>	Actual, month-avg	0.69	0.75	0.76	0.72	0.70	PNC Forecast, month-end	0.71	0.73	0.75	0.77
Brazilian real	<i>BRL per USD</i>		5.19	5.14	5.03	5.65	5.05		5.25	5.30	5.35	5.30
Canadian dollar	<i>CAD per USD</i>		1.36	1.28	1.22	1.28	1.28		1.26	1.25	1.23	1.22
Swiss franc	<i>CHF per USD</i>		0.95	0.89	0.91	0.92	0.97		0.96	0.95	0.95	0.94
Chinese yuan	<i>CNY per USD</i>		7.08	6.54	6.43	6.37	6.70		6.65	6.60	6.55	6.50
Euro	<i>USD per EUR</i>		1.13	1.22	1.20	1.13	1.06		1.03	1.05	1.06	1.08
UK pound sterling	<i>USD per GBP</i>		1.25	1.29	1.39	1.37	1.23		1.19	1.17	1.15	1.16
Indian rupee	<i>INR per USD</i>		75.8	73.6	73.6	75.4	78.1		79.0	77.6	76.4	75.0
Japanese yen	<i>JPY per USD</i>		107.6	103.8	110.1	113.8	134.1		132.5	130.0	129.4	128.0
Korean won	<i>KRW per USD</i>		1,207	1,094	1,122	1,184	1,276		1,255	1,235	1,230	1,225
Mexican peso	<i>MXN per USD</i>		22.3	19.9	20.0	20.9	20.0		19.5	20.5	21.0	21.5
Nigerian naira	<i>NGN per USD</i>		460	470	485	485	595		600	610	625	630
Norwegian krone	<i>NOK per USD</i>		9.5	8.7	8.4	9.0	9.8		9.6	9.5	9.4	9.2
New Zealand dollar	<i>USD per NZD</i>		0.64	0.71	0.71	0.68	0.64		0.62	0.64	0.66	0.68
Swedish krona	<i>SEK per USD</i>		9.3	8.4	8.4	9.1	10.0		9.7	9.5	9.4	9.3
Broad dollar index	<i>Jan '06 = 100</i>		119.7	111.9	111.7	115.8	120.2		125.0	124.8	124.4	123.6
DXY dollar index	<i>Mar '73 = 100</i>		97.1	90.5	91.1	96.2	103.9		103.0	101.5	99.4	98.0

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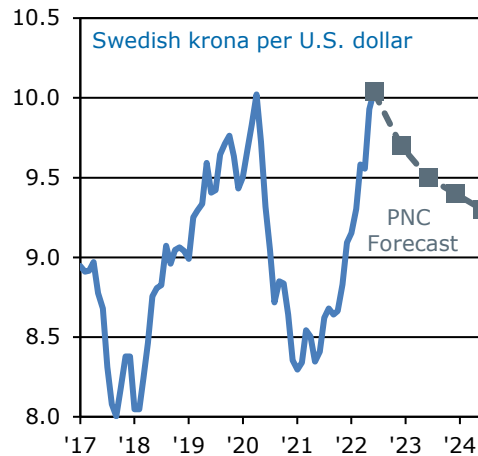
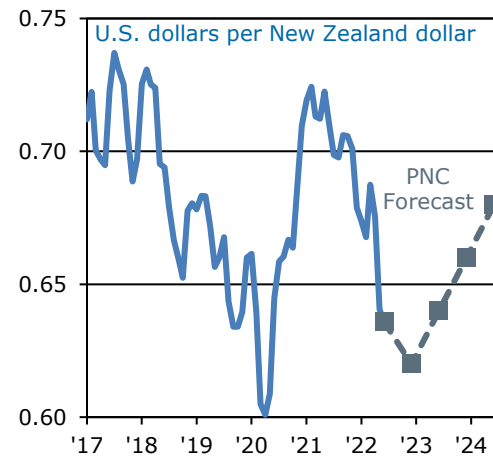
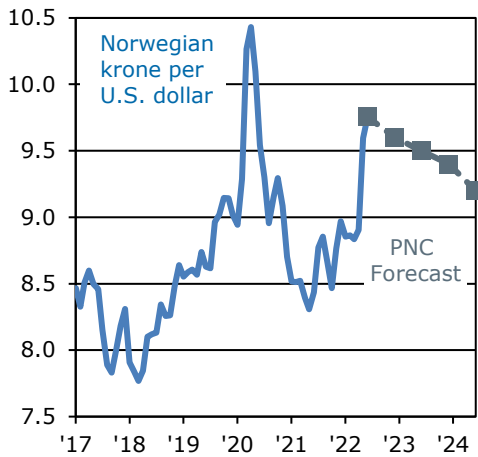
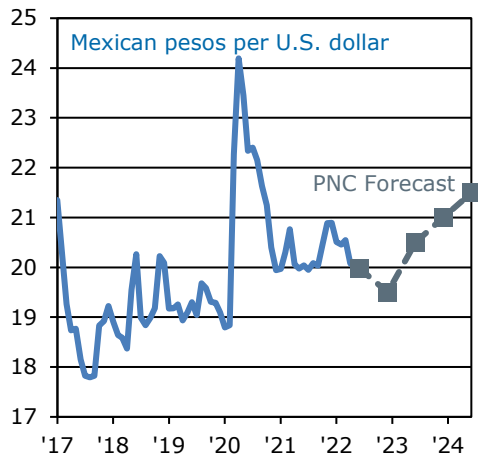
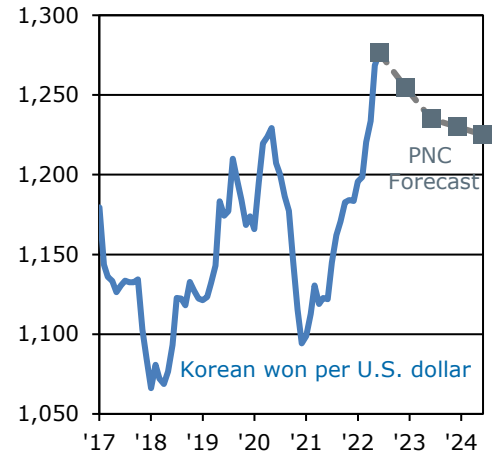
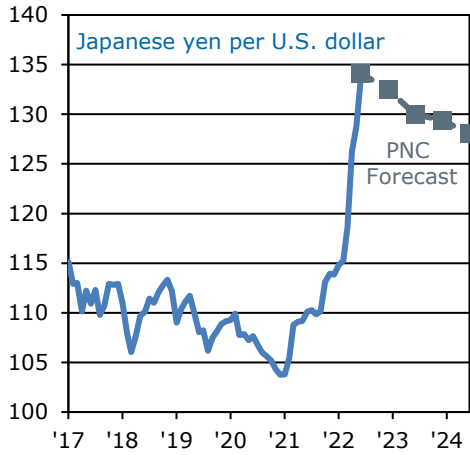
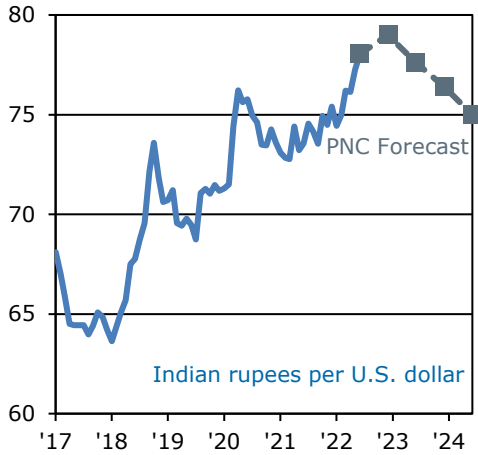


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

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

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