

EXCHANGE RATE FORECASTS

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DOLLAR SET TO DEPRECIATE INTO 2019 AS US FISCAL AND TRADE DEFICITS INCREASE

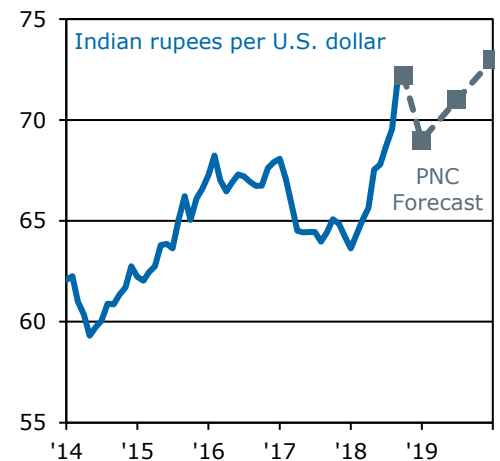
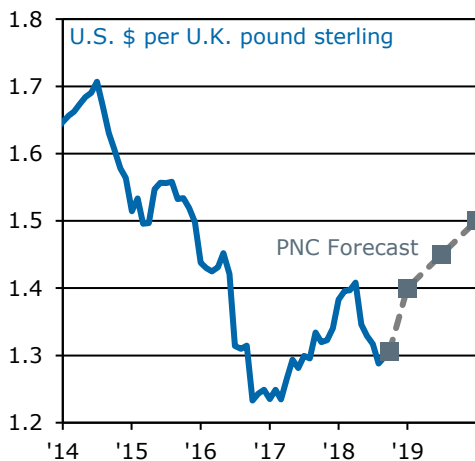
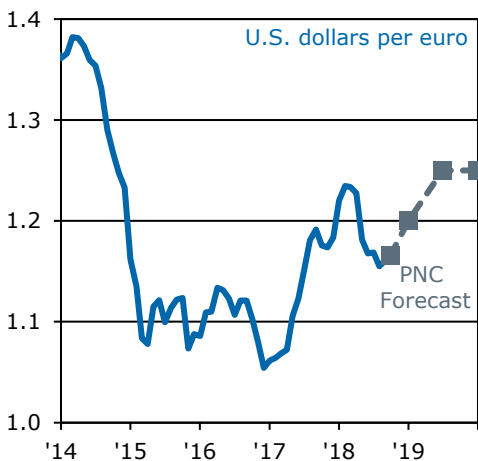
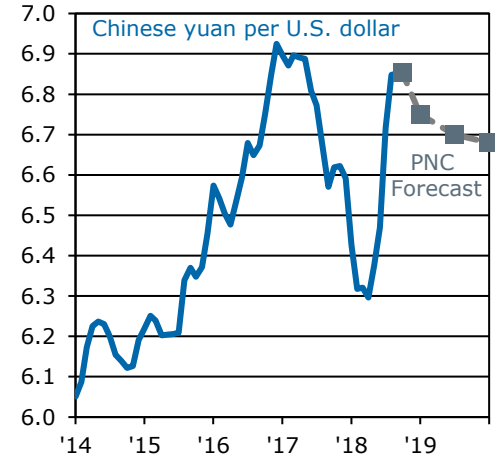
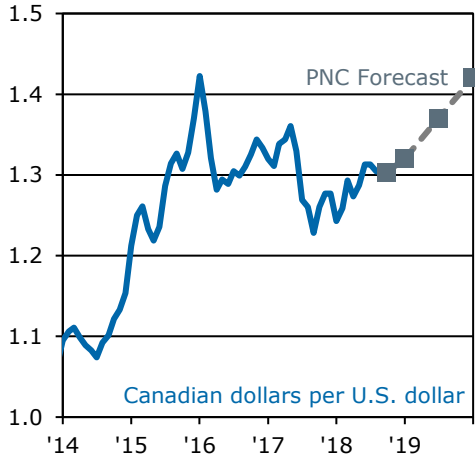
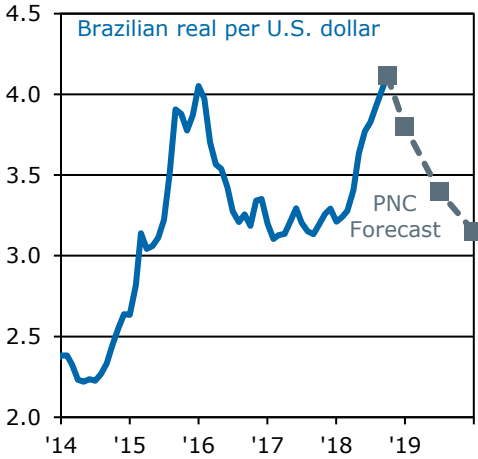
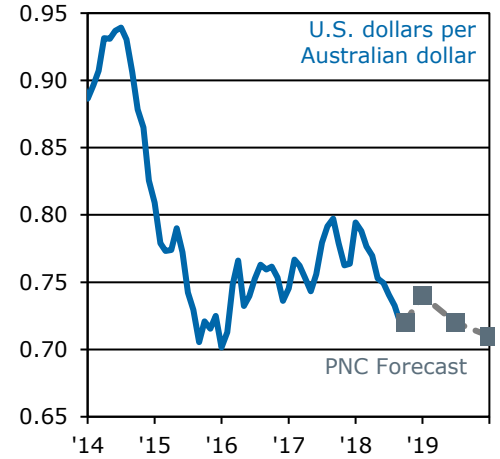
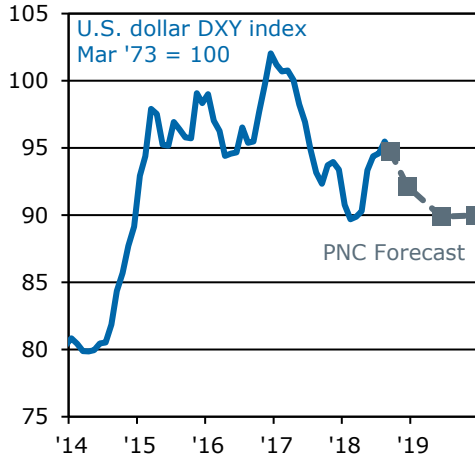
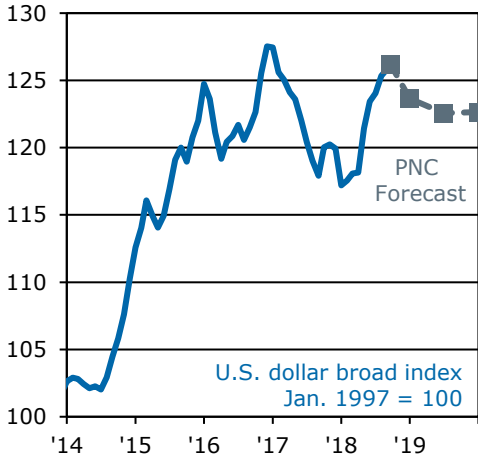
The dollar appreciated in the third quarter of 2018 as the Trump administration escalated tariffs on Chinese imports, China's government retaliated, and capital flowed out of emerging markets. The dollar is set to reverse these gains and depreciate against most foreign currencies in the fourth quarter of 2018 and into 2019. US domestic dynamics now favor a weaker dollar. Tax cuts and higher government spending are increasing the fiscal deficit, which in turn is fueling a larger trade deficit—the link between the fiscal and trade deficits is so well established that economists call them the “twin deficits.” And a larger trade deficit favors a weaker dollar. Economic momentum does as well: US economic growth should peak in year-over-year terms in mid-2019 as fiscal stimulus fades and higher interest rates dampen spending, so forward-looking financial markets will soon begin to anticipate that change in momentum. In the euro area, the European Central Bank is withdrawing monetary stimulus; by the spring of 2019 European leaders will choose the next ECB president, who is likely to be less dovish than Mario Draghi. These developments favor euro appreciation. In the UK “Brexit,” essentially the status quo of EU membership possibly called by a new name, still looks like Brexit's most likely outcome, one which favors faster Bank of England rate hikes and appreciation of the pound sterling. Emerging market currencies are set to strengthen as well. China began cutting interest rates and supporting credit growth in the third quarter, which should reduce fears of a hard landing there and in other emerging markets by year-end. Latin American political uncertainty will diminish as Mexican and Brazilian elections, in July and October 2018 respectively, shrink in the rearview mirror. Slowing inflation in both economies will allow their central banks to cut interest rates, in turn fueling higher prices of local currency bonds and inflows of foreign capital, a further catalyst for stronger emerging market currencies. The Canadian and Australian dollars are exceptions; they will depreciate as their central banks move more slowly than the Federal Reserve to withdraw monetary stimulus. China's transition to more consumption-oriented and less resource-intensive growth will weaken the terms of trade of these commodity-exporting economies, and their high household debts will hamper domestically-driven growth.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2018

	Australia <i>Australian \$</i>	Brazil <i>Real</i>	Canada <i>Canadian \$</i>	China <i>Yuan</i>	Eurozone <i>Euro</i>	United Kingdom <i>Pound Sterling</i>	India <i>Rupee</i>	Japan <i>Yen</i>	Korea <i>Won</i>	Mexico <i>Peso</i>	U.S. Broad <i>Dollar Index</i>	DXY <i>Dollar Index</i>
	<i>USD per AUD</i>	<i>BRL per USD</i>	<i>CAD per USD</i>	<i>CNY per USD</i>	<i>USD per EUR</i>	<i>USD per GBP</i>	<i>INR per USD</i>	<i>JPY per USD</i>	<i>KRW per USD</i>	<i>MXN per USD</i>	<i>Jan '97 = 100</i>	<i>Mar '73 = 100</i>
Actual (month-avg)												
Dec-2015	0.72	3.87	1.37	6.45	1.09	1.50	66.6	121.8	1,173	17.1	122.0	98.3
Dec-2016	0.74	3.35	1.33	6.92	1.05	1.25	67.9	116.0	1,183	20.5	127.5	102.0
Jun-2017	0.76	3.30	1.33	6.81	1.12	1.28	64.4	110.9	1,132	18.1	122.0	96.9
Dec-2017	0.76	3.29	1.28	6.59	1.18	1.34	64.2	113.0	1,086	19.2	119.9	93.4
Sep-2018	0.72	4.12	1.30	6.85	1.17	1.31	72.2	111.9	1,120	19.0	126.2	94.7
PNC Forecast (month-end)												
Dec-2018	0.74	3.80	1.32	6.75	1.20	1.40	69.0	110.0	1,125	18.1	123.6	92.1
Jun-2019	0.72	3.40	1.37	6.70	1.25	1.45	71.0	111.0	1,145	17.5	122.6	89.9
Dec-2019	0.71	3.15	1.42	6.68	1.25	1.50	73.0	112.0	1,165	17.1	122.6	90.0

Note: Monthly average values for September 2018 were calculated using data available as of September 28, 2018.

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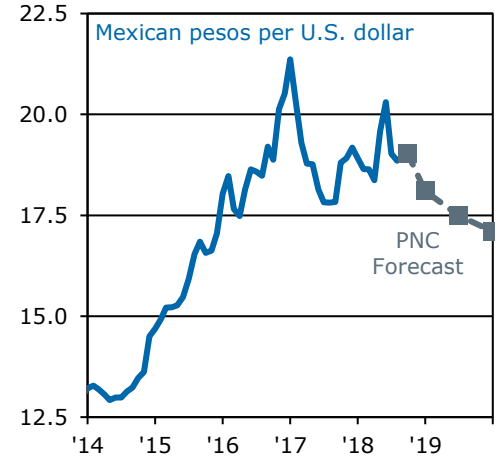
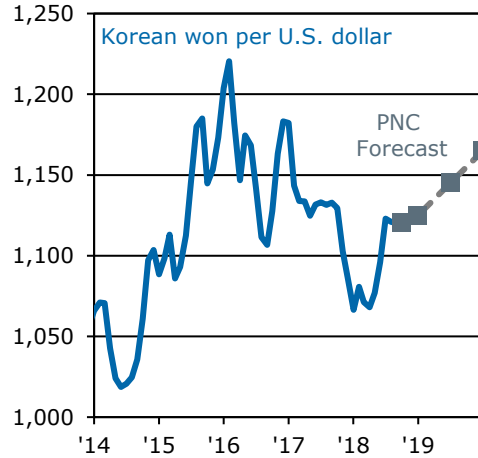
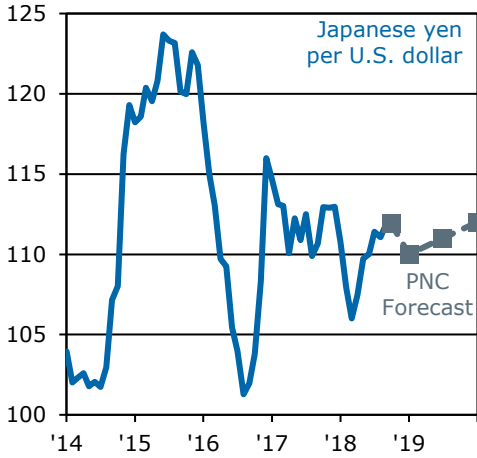


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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