

# EXCHANGE RATE FORECASTS

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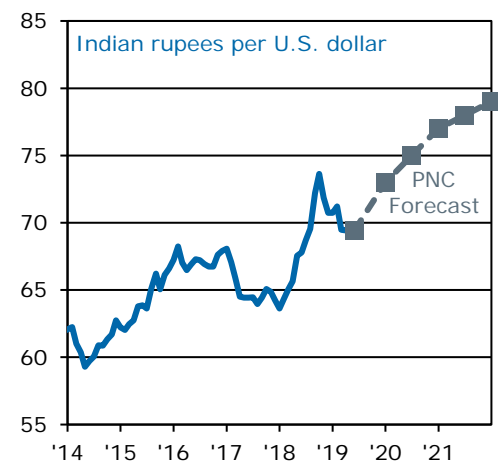
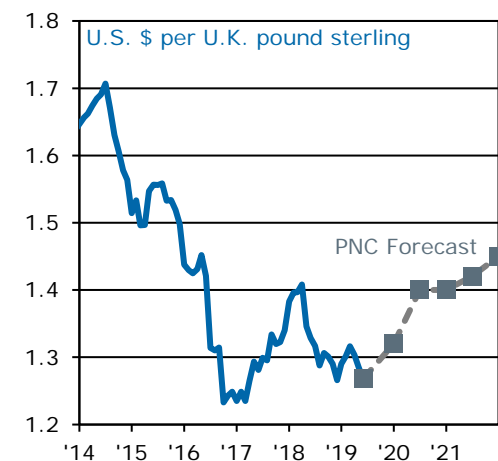
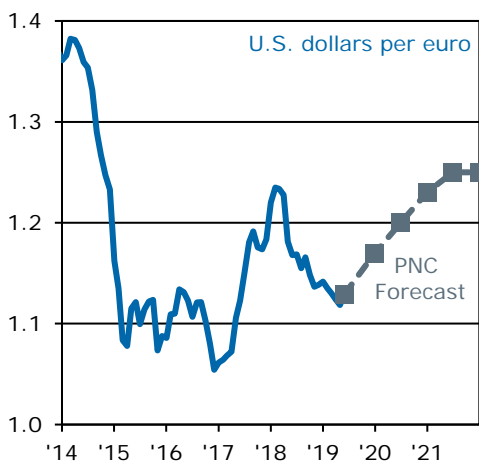
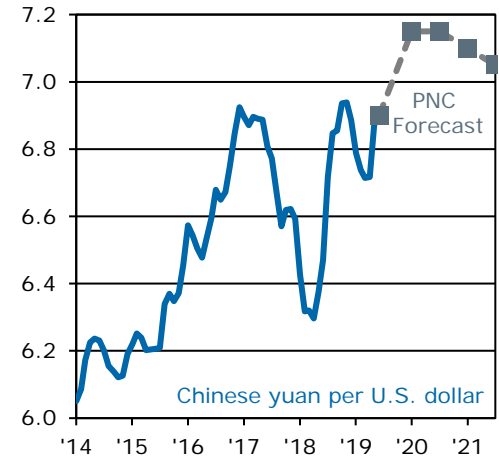
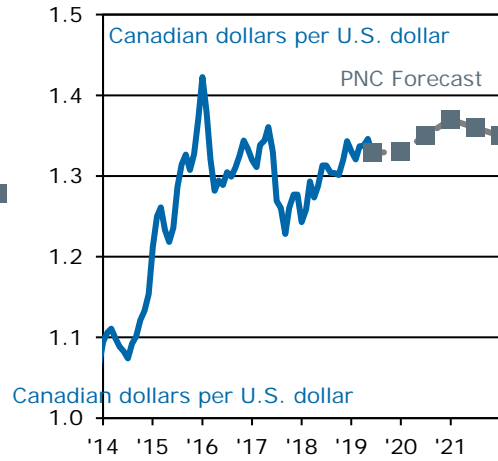
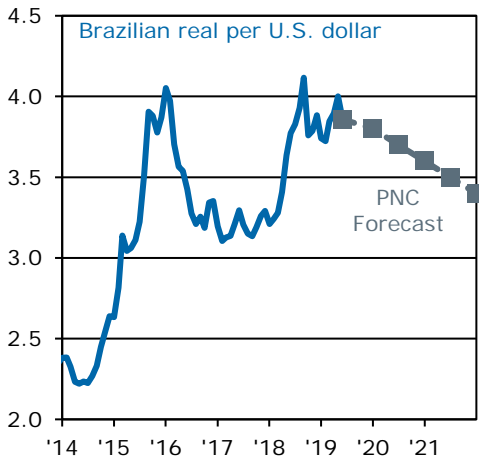
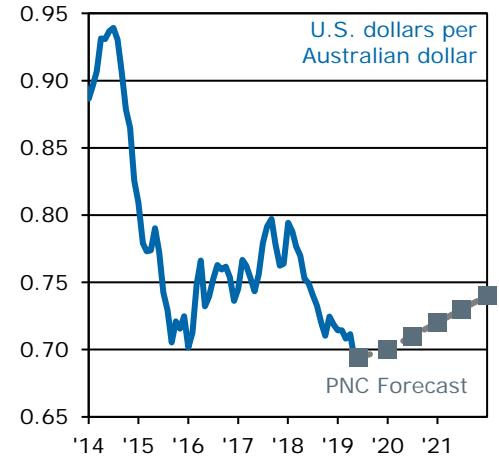
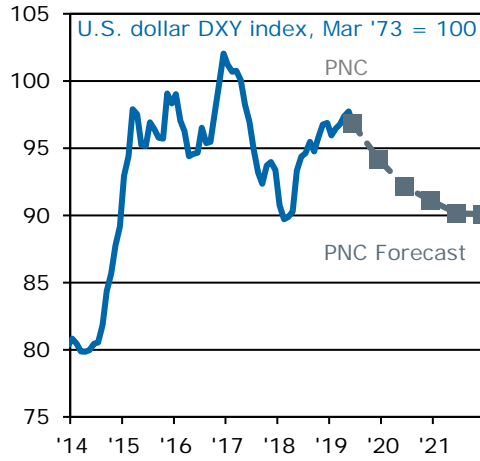
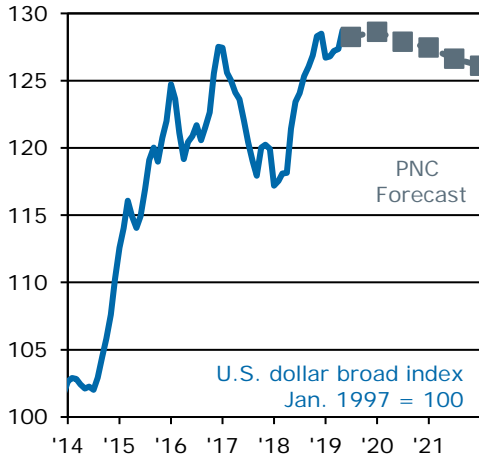
## SYNCHRONIZED GLOBAL MONETARY STIMULUS, TRADE CONFLICT TO KEEP DOLLAR STRONG VS EMERGING MARKET CURRENCIES

The US dollar was on average unchanged against US trading partners' currencies in the first half of 2019 as global growth cooled, long-term interest rates fell, and financial markets anticipated monetary stimulus from the Federal Reserve and foreign central banks. PNC's July forecast is for two 0.25 percentage point cuts to the federal funds rate this year, at the July and October Federal Open Market Committee meetings, lowering the target to a range of 1.75 to 2.00 percent; after that the Fed is expected to hold the fed funds rate steady. Financial markets are also pricing in easing measures from the European Central Bank, Bank of Japan, Bank of England, Central Bank of Brazil, Reserve Bank of India, and Bank of Mexico over the next twelve months, offsetting the effect of US rate cuts on exchange rates. In the Eurozone, IMF Managing Director Christine Lagarde's nomination to replace ECB President Mario Draghi could spur a recovery of inflation expectations, which have slid below the central bank's target of below but near 2 percent amid growing financial market fears that a recession could push the Eurozone into deflation. If the Lagarde ECB develops a plan to buy riskier euro assets if needed, better growth and inflation expectations should lift euro long-term interest rates and the euro should appreciate. The pound sterling will eventually recover against the dollar if the UK continues to act to prevent Hard Brexit, as seems most likely. The yen is set to appreciate against the dollar through year-end 2019 as October's value-added tax hike weakens Japan's economy; Japan's currency usually appreciates when its economy weakens since Japanese investors tend to sell foreign investments on bad economic news. China's yuan is likely to depreciate further against the US dollar. The US government believes it holds the upper hand in trade negotiations since trade is a larger share of the economy in China compared to the US, while the Chinese government believes it has the upper hand since the US is holding a presidential election in 2020. Trade barriers will likely stay in place or escalate in coming quarters as the stalemate persists, and China will probably loosen monetary policy in parallel with the Fed and allow the yuan to depreciate to offset the effect of tariffs. Other emerging market currencies will also be relatively weak against the dollar through year-end 2019 in sympathy with a depreciating yuan.

### BASELINE EXCHANGE RATE FORECASTS, THIRD QUARTER OF 2019

	Australia Australian \$ USD per AUD	Brazil Real BRL per USD	Canada Canadian \$ CAD per USD	China Yuan CNY per USD	Eurozone Euro USD per EUR	United Kingdom Pound Sterling USD per GBP	India Rupee INR per USD	Japan Yen JPY per USD	Korea Won KRW per USD	Mexico Peso MXN per USD	U.S. Broad Dollar Index Jan '97 = 100	DXY Dollar Index Mar '73 = 100
<b>Actual</b> (month-avg)												
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
Jun-2018	0.75	3.77	1.31	6.47	1.17	1.33	67.8	110.0	1,096	20.3	123.4	94.4
Dec-2018	0.72	3.88	1.34	6.89	1.14	1.27	70.7	112.4	1,123	20.1	128.5	96.9
Jun-2019	0.69	3.86	1.33	6.90	1.13	1.27	69.4	108.1	1,174	19.3	128.3	96.8
<b>PNC Forecast</b> (month-end)												
Dec-2019	0.71	3.80	1.33	7.15	1.17	1.32	73.0	108.0	1,177	19.1	128.6	94.2
Jun-2020	0.71	3.70	1.35	7.15	1.20	1.40	75.0	108.0	1,156	18.9	127.9	92.1
Dec-2020	0.72	3.60	1.37	7.10	1.23	1.40	77.0	110.0	1,155	18.7	127.5	91.1
Jun-2021	0.73	3.50	1.36	7.05	1.25	1.42	78.0	112.0	1,154	18.6	126.6	90.2
Dec-2021	0.74	3.40	1.35	7.00	1.25	1.45	79.0	114.0	1,151	18.5	126.1	90.1

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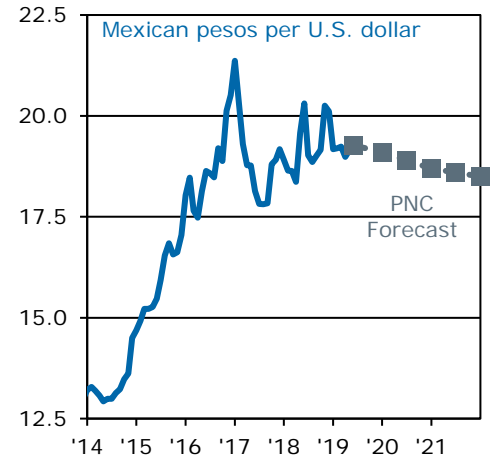
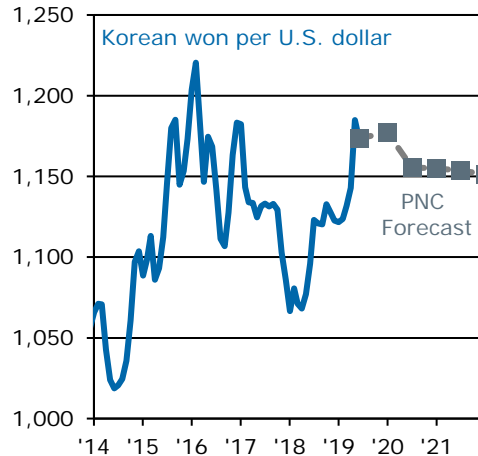
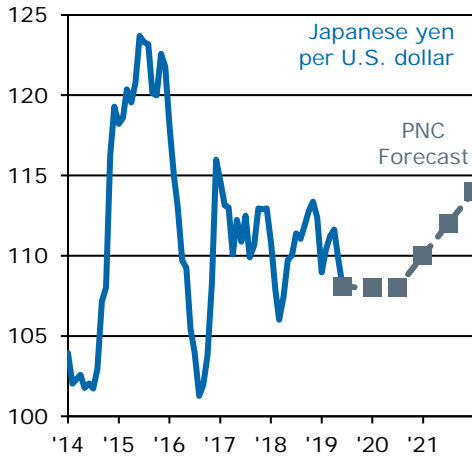


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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