

EXCHANGE RATE FORECASTS

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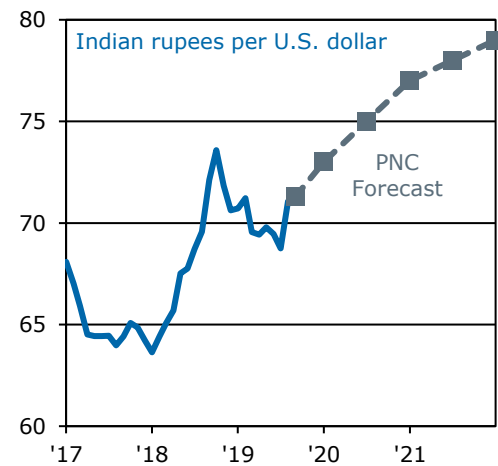
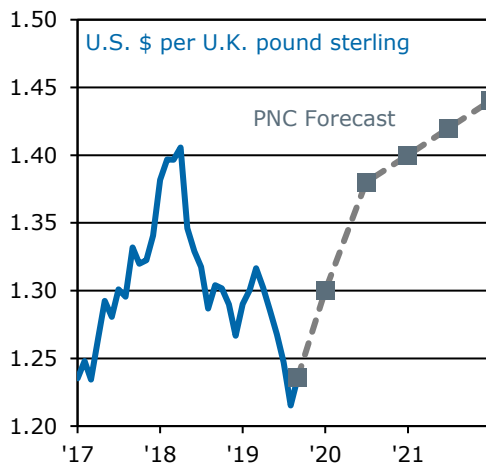
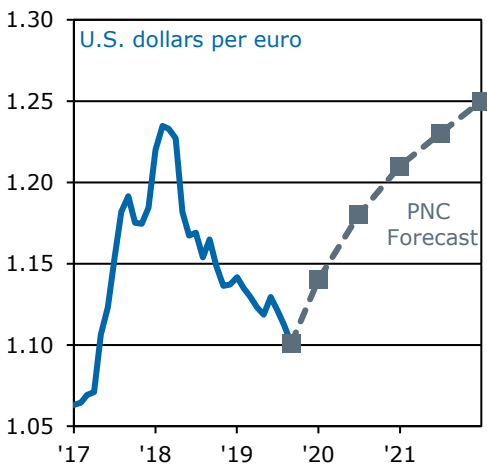
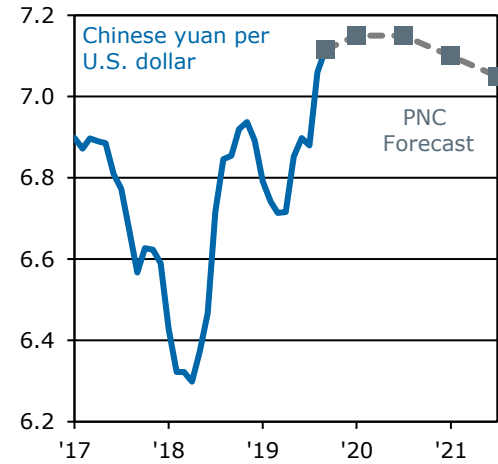
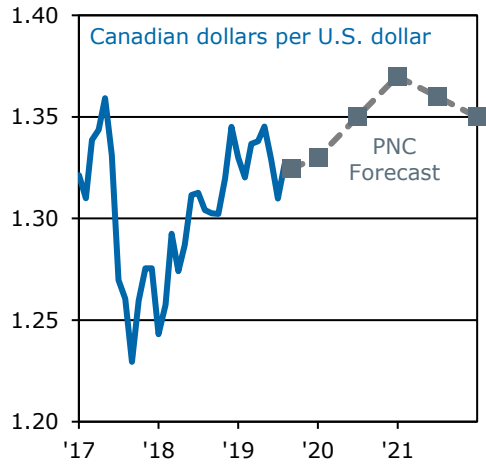
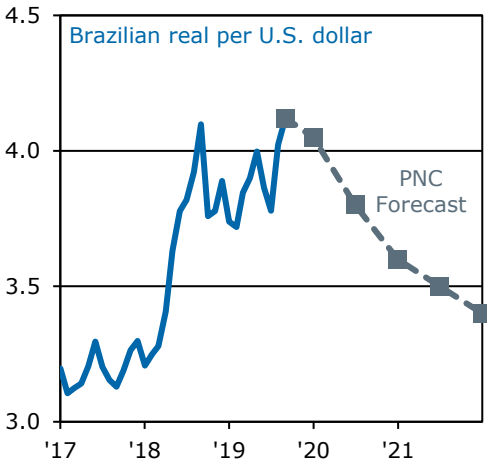
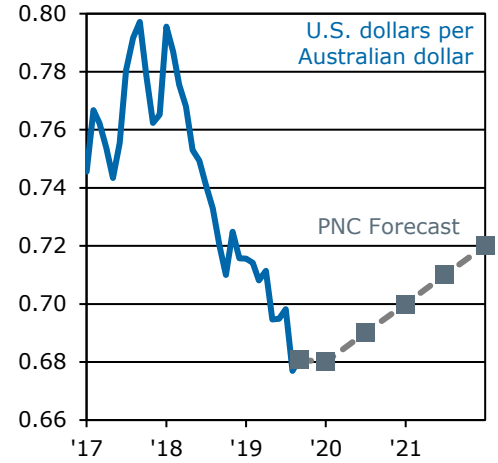
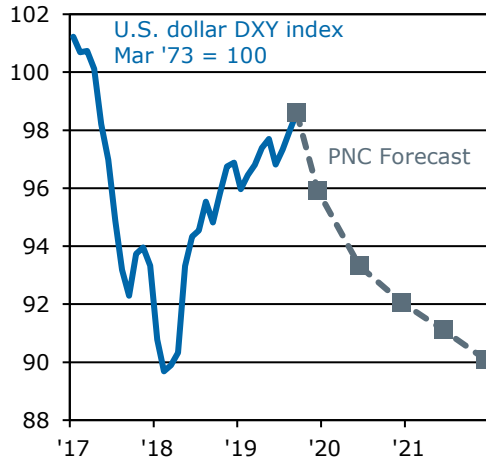
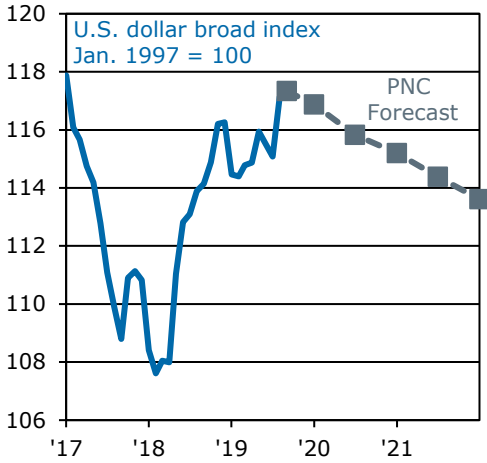
DOLLAR TO DEPRECIATE INTO 2020 AS US GROWTH SLOWS AND FOREIGN ECONOMIES STABILIZE

The US dollar appreciated further in the third quarter of 2019 as the trade war intensified, global manufacturing contracted, and most major central banks, including the Federal Reserve, cut interest rates. PNC forecasts that the Fed will make one final 0.25 percentage point cut to the federal funds rate by year-end, lowering the target to a range of 1.50 to 1.75 percent; the fed funds rate will then remain there in the medium term. PNC expects US growth to slow into the first half of 2020, but it should stabilize in the second half of the year. The European Central Bank, Central Bank of Brazil, Reserve Bank of India, and Bank of Mexico also cut interest rates in the third quarter, and the Bank of Japan and Bank of England opened their doors to stimulus in the fourth, offsetting the effect of US rate cuts on exchange rates. In the Eurozone, a deeper and longer than expected German manufacturing slump has weighed on the euro, but growth is likely to stabilize in the first half of 2020; financial markets are forward-looking, so the euro is likely to bottom and start recovering by year-end 2019. The Bank of England has talked down expectations for rate hikes if a Brexit deal is reached, since uncertainty has slowed British growth and cooled the labor market. Even so, the pound sterling will eventually recover against the dollar if the British government continues to prevent Hard Brexit, as seems most likely. The yen is set to stay strong 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 sell foreign assets on bad economic news. Most emerging market currencies depreciated against the US dollar in the third quarter as the US-China trade war escalated, fears grew of another Argentine default, and commodity prices fell. Stalemate and escalation of the trade war seem more likely than compromise as China waits out the US election cycle and impeachment inquiry. China's central bank will probably cut interest rates before year-end 2019 like other major central banks, and allow the yuan to depreciate, to offset the tariffs' effects. Other emerging market currencies will also be relatively weak against the dollar through year-end 2019 in sympathy with a weaker yuan. The Brazilian real depreciated sharply in the third quarter on spillover from Argentina and lower iron ore prices, but will likely recover as pension reform inches forward.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2019

	Australia <i>Australian \$</i> <i>USD per AUD</i>	Brazil <i>Real</i> <i>BRL per USD</i>	Canada <i>Canadian \$</i> <i>CAD per USD</i>	China <i>Yuan</i> <i>CNY per USD</i>	Eurozone <i>Euro</i> <i>USD per EUR</i>	United Kingdom <i>Pound Sterling</i> <i>USD per GBP</i>	India <i>Rupee</i> <i>INR per USD</i>	Japan <i>Yen</i> <i>JPY per USD</i>	Korea <i>Won</i> <i>KRW per USD</i>	Mexico <i>Peso</i> <i>MXN per USD</i>	U.S. Broad <i>Dollar Index</i> <i>Jan '97 = 100</i>	DXY <i>Dollar Index</i> <i>Mar '73 = 100</i>
Actual (month-avg)												
Dec-2017	0.77	3.30	1.28	6.59	1.18	1.34	64.2	112.9	1,085	19.2	110.8	93.3
Dec-2018	0.72	3.89	1.35	6.89	1.14	1.27	70.6	112.2	1,122	20.1	116.3	96.9
Jun-2019	0.69	3.86	1.33	6.90	1.13	1.27	69.5	108.1	1,174	19.3	115.5	96.8
Sep-2019	0.68	4.12	1.32	7.11	1.10	1.24	71.3	107.5	1,196	19.6	117.3	98.6
PNC Forecast (month-end)												
Dec-2019	0.68	4.05	1.33	7.15	1.14	1.30	73.0	108.0	1,177	19.4	116.9	95.9
Jun-2020	0.69	3.80	1.35	7.15	1.18	1.38	75.0	108.0	1,156	19.1	115.8	93.3
Dec-2020	0.70	3.60	1.37	7.10	1.21	1.40	77.0	110.0	1,155	18.8	115.2	92.1
Jun-2021	0.71	3.50	1.36	7.05	1.23	1.42	78.0	112.0	1,154	18.6	114.4	91.1
Dec-2021	0.72	3.40	1.35	7.00	1.25	1.45	79.0	114.0	1,151	18.5	113.6	90.1

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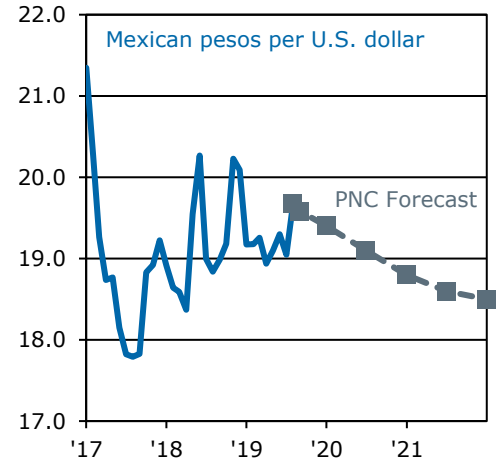
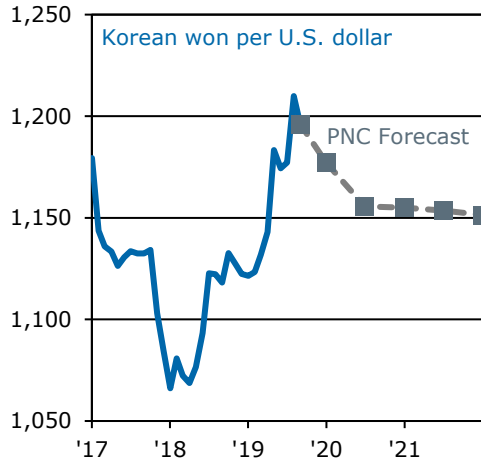
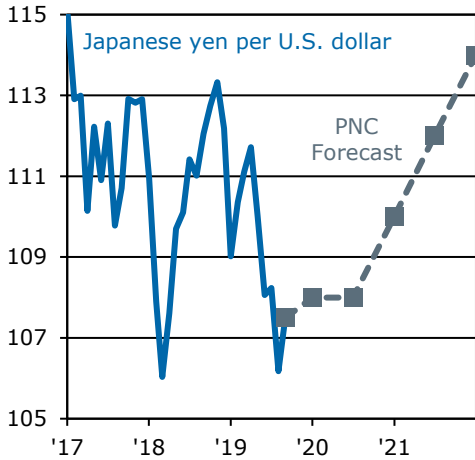


Table and chart sources: Bloomberg, The PNC Financial Services Group.

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