

# EXCHANGE RATE FORECASTS

**Gus Faucher**  
Chief Economist

**Stuart Hoffman**  
Senior Economic Advisor

**William Adams**  
Senior Economist

**Kurt Rankin**  
Economist

THE PNC FINANCIAL SERVICES GROUP | The Tower at PNC Plaza | 300 Fifth Avenue | Pittsburgh, PA 15222-2401

## EXCHANGE RATES STILL SET TO DIVERGE ON MACRO CROSS CURRENTS IN 2018 AND 2019

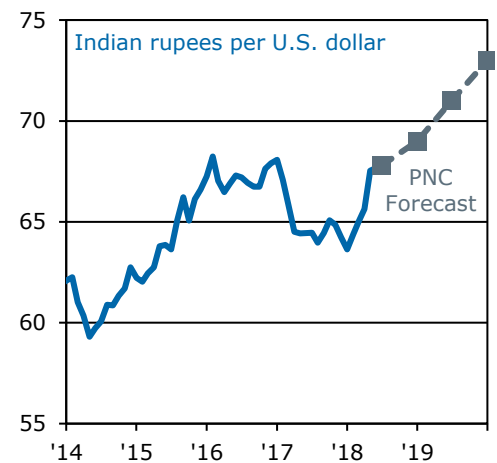
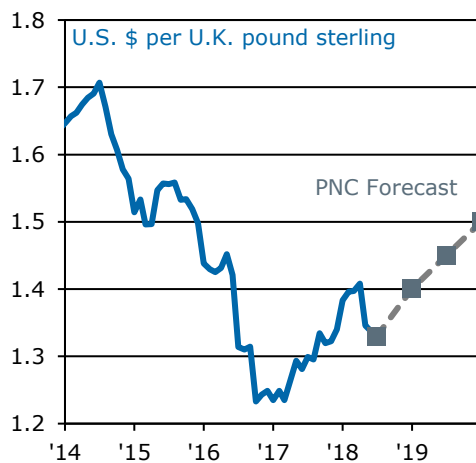
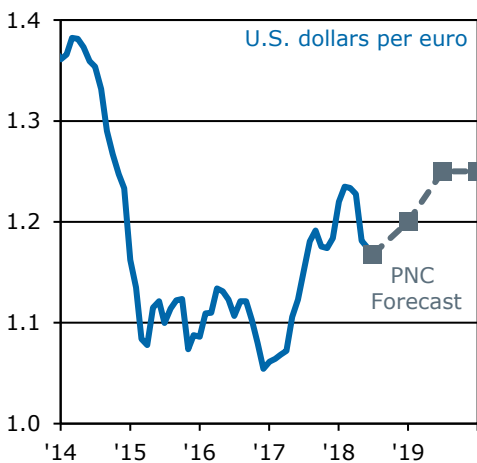
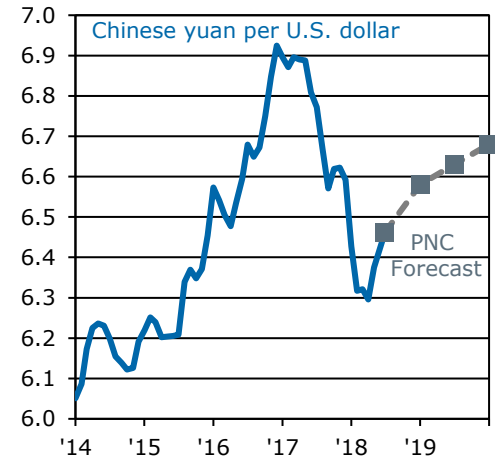
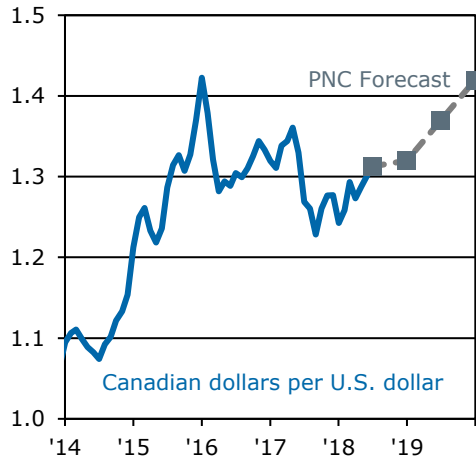
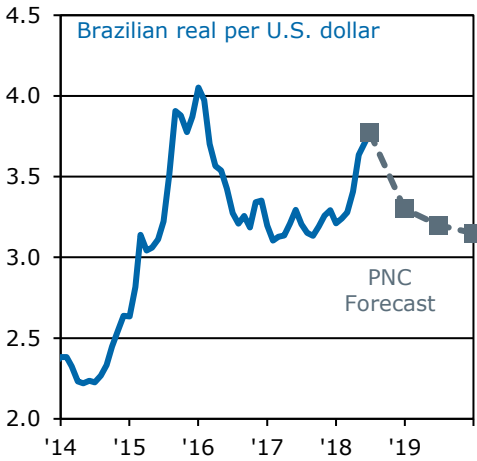
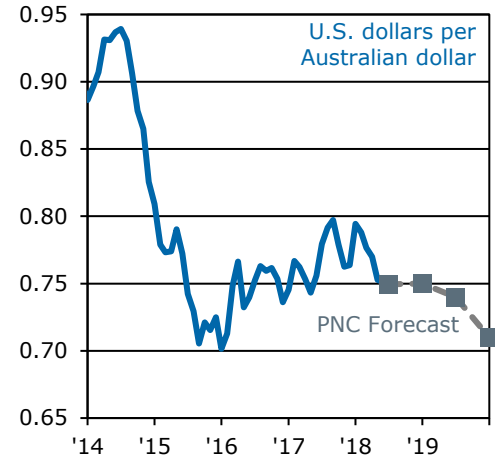
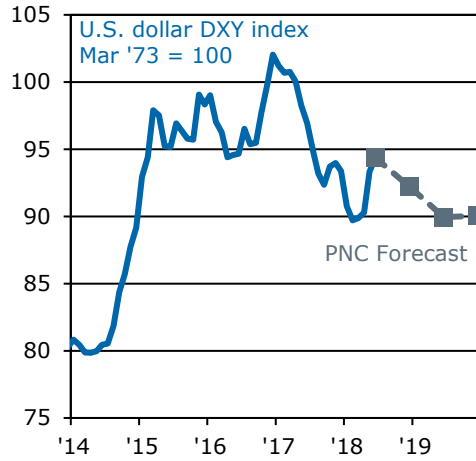
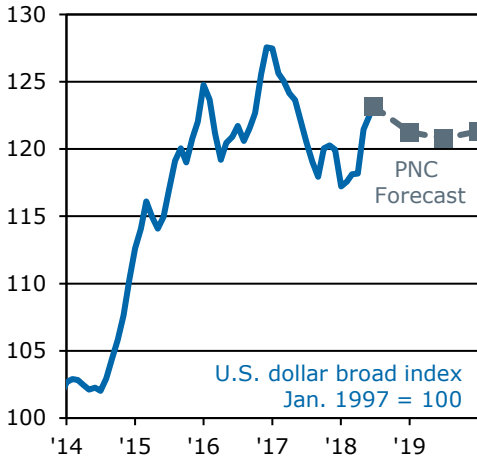
As anticipated in our prior round of forecasts, the US dollar appreciated into mid-2018 as financial markets prepared for a faster pace of US interest rate hikes in coming quarters and pared expectations for rate hikes in foreign economies. The dollar's appreciation accelerated at the end of the second quarter as financial markets braced for US tariffs on Chinese imports scheduled to become effective July 6 and the Trump administration floated tariffs on other imports. After "buying the rumor" of US tariffs at the close of the second quarter, we expect financial markets to "sell the fact" early in the third quarter, with tariffs likely to be less onerous than feared, and for the dollar to depreciate modestly. In the rest of the second half of 2018 and into 2019, we expect the focus of financial market sentiment to alternate between tighter US monetary conditions, favoring a stronger dollar, and rising fiscal/trade deficits, which favor a weaker dollar. Overseas, we expect the euro to appreciate against the dollar as financial markets prepare for less dovish ECB leadership after Mario Draghi's October 2019 retirement. In the UK, large businesses are likely to be at least somewhat successful in pressuring the government to water down or reverse Brexit, supporting a stronger pound. China's and India's currencies weakened in the second quarter as both the price of oil (which is denominated in dollars) and US interest rates rose, reducing these emerging market commodity importers' trade balances, and making foreign borrowing more expensive. Both of these trends are likely to persist and contribute to ongoing weakness of the yuan and rupee. By contrast, the currencies of commodity producers Brazil and Mexico should start to recover by late 2018 as political uncertainty related to both country's presidential elections resolves. Canada's exchange rate has begun to reflect downside risks to the loonie posed by the country's housing market correction. PNC's forecasts assume trade frictions but no repeal of NAFTA and no escalating trade war. Either contingency would cause the euro, pound sterling, and yen to appreciate more than in our baseline forecast, and for other currencies to be weaker.

### BASELINE EXCHANGE RATE FORECASTS, THIRD QUARTER OF 2018

	<b>Australia</b> <i>Australian \$</i> USD per AUD	<b>Brazil</b> <i>Real</i> BRL per USD	<b>Canada</b> <i>Canadian \$</i> CAD per USD	<b>China</b> <i>Yuan</i> CNY per USD	<b>Eurozone</b> <i>Euro</i> USD per EUR	<b>United Kingdom</b> <i>Pound Sterling</i> USD per GBP	<b>India</b> <i>Rupee</i> INR per USD	<b>Japan</b> <i>Yen</i> JPY per USD	<b>Korea</b> <i>Won</i> KRW per USD	<b>Mexico</b> <i>Peso</i> MXN per USD	<b>U.S. Broad</b> <i>Dollar Index</i> Jan '97 = 100	<b>DXY</b> <i>Dollar Index</i> Mar '73 = 100
<b>Actual</b> (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	127.6	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	120.0	93.4
Jun-2018	0.75	3.77	1.31	6.46	1.17	1.33	67.8	110.0	1,096	20.3	123.2	94.4
<b>PNC Forecast</b> (month-end)												
Dec-2018	0.75	3.30	1.32	6.58	1.20	1.40	69.0	110.0	1,125	18.1	121.3	92.2
Jun-2019	0.74	3.20	1.37	6.63	1.25	1.45	71.0	111.0	1,145	17.5	120.8	89.9
Dec-2019	0.71	3.15	1.42	6.68	1.25	1.50	73.0	112.0	1,165	17.1	121.3	90.0

Note: Monthly average values for June 2018 were calculated using data available as of June 29, 2018.

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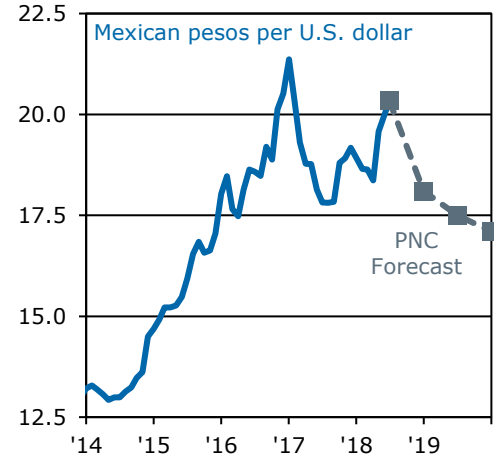
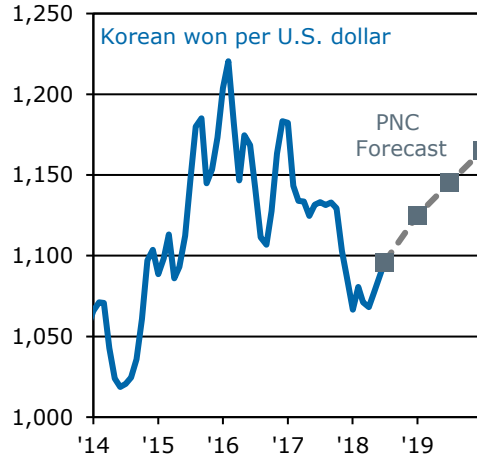
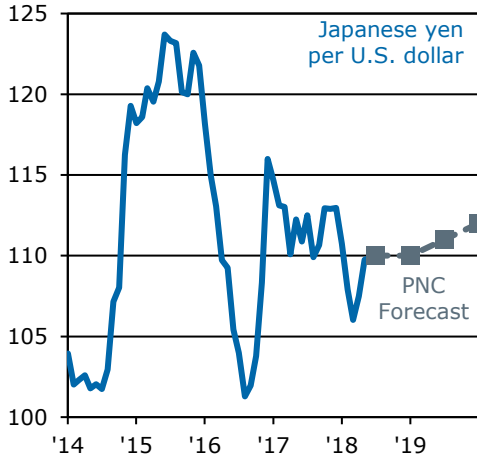


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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