

# EXCHANGE RATE FORECASTS

**Gus Faucher**  
Chief Economist

**Stuart Hoffman**  
Senior Economic Advisor

**William Adams**  
Senior Economist

**Kurt Rankin**  
Economist

**Abbey Omodunbi**  
Economist

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

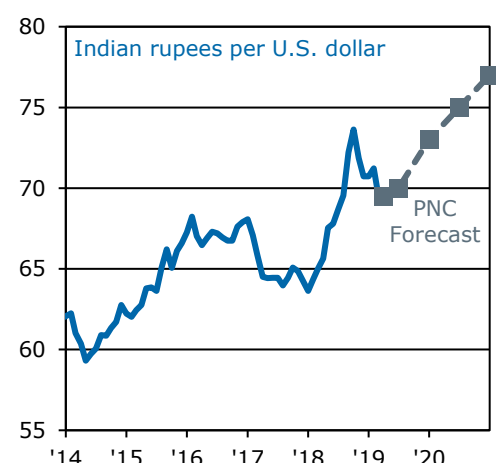
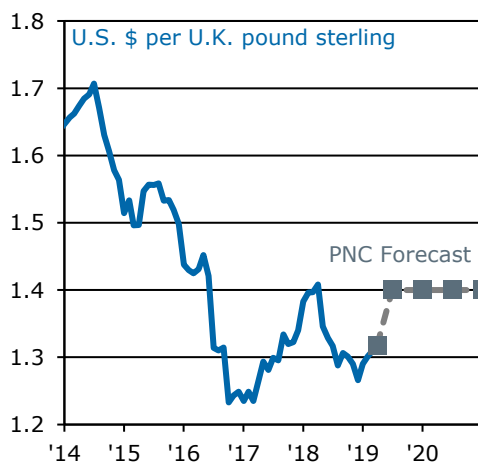
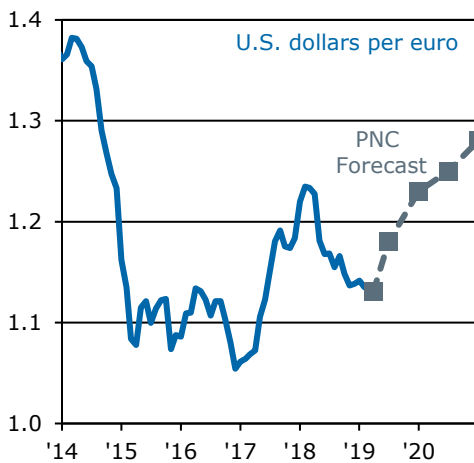
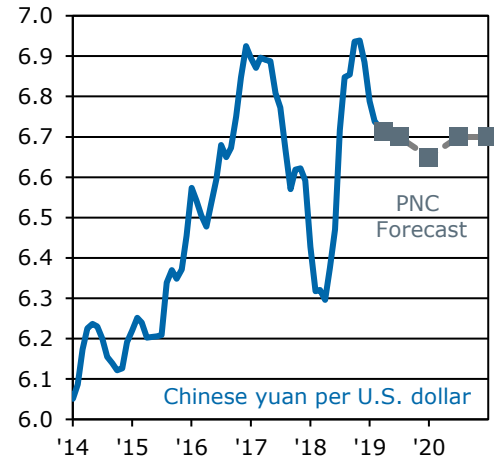
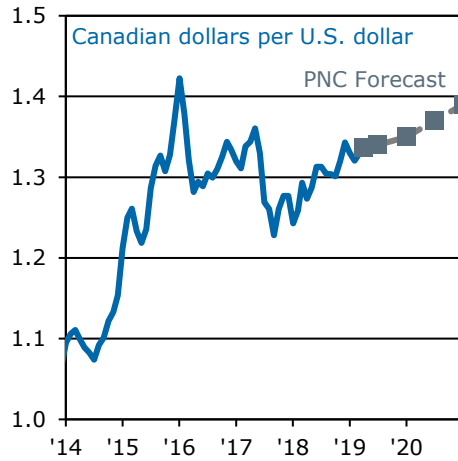
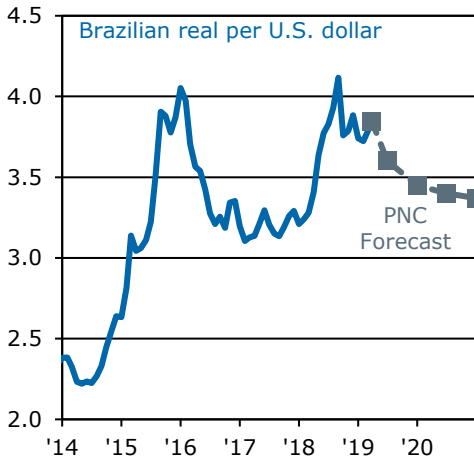
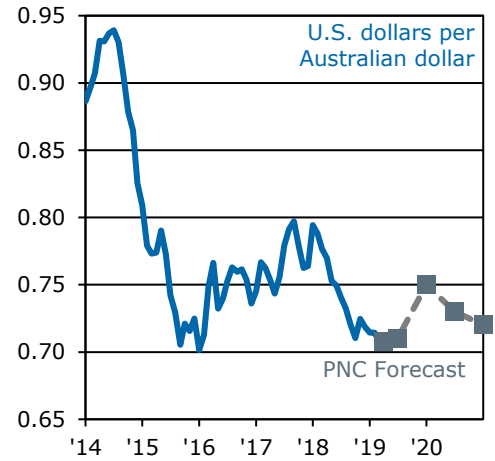
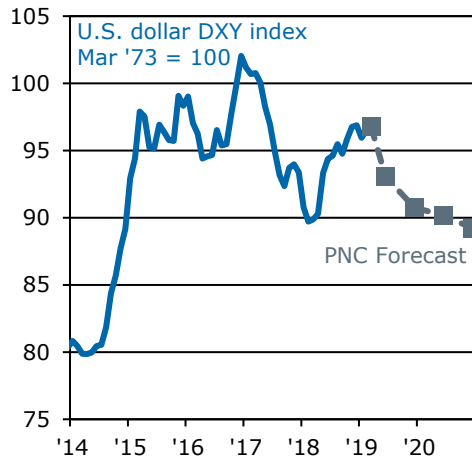
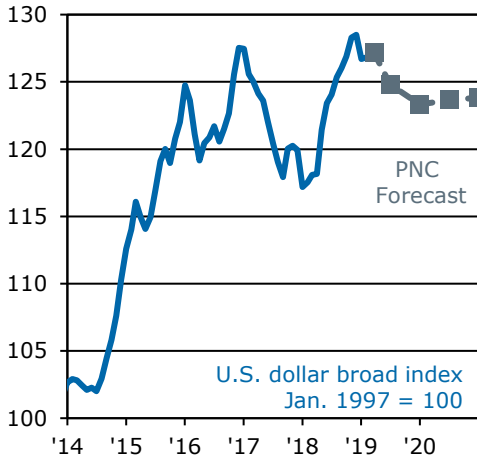
## DOLLAR TO DEPRECIATE AS US GROWTH SLOWS AND FISCAL AND TRADE DEFICITS PERSIST; EM TO REBOUND

The dollar was little changed in the first quarter of 2019 amid an overhang of uncertainty about trade policy, Brexit, and slowing global growth. During the rest of 2019, PNC expects the dollar to depreciate against most foreign currencies. Fears about the global economy are overdone; Brexit’s risks to global growth are receding; US domestic dynamics favor a weaker dollar; and the Trump administration has signaled a desire to soothe trade tensions. On the domestic front, US real GDP growth slowed sharply in early 2019 due to the government shutdown, but will pick up and average around its recovery-to-date trend for the full year. Long-term interest rates have fallen considerably since the fourth quarter of 2018, buoying activity in credit-dependent industries like housing. Unchanged from PNC’s prior forecast, the growing fiscal deficit continues to fuel a growing trade deficit—the link between the two is so well established that economists call them the “twin deficits.” A larger US trade deficit favors a weaker dollar. In the UK, Parliament has extended the Brexit negotiation, a tangible step toward Brexit’s reversal, or at least a relatively close post-Brexit relationship with the EU, like customs union membership. The pound will appreciate as Brexit uncertainty abates, even though recent survey data point to a possible British recession in 2019. The announcement of the next ECB president in May could fuel expectations of faster policy interest rate hikes and euro appreciation. The yen will likely appreciate against the dollar as Tokyo-based investors sell foreign currencies in anticipation of a weaker Japanese economy after the October tax hike. Emerging market (EM) currencies also are likely to appreciate in 2019. China’s policymakers have responded to recent weaker growth and rising unemployment with incremental stimulus; a trade truce with the US would support the yuan. Central banks in India, Mexico, and Brazil will likely cut interest rates in 2019, fueling higher prices of local currency bonds in their jurisdictions that will attract inflows of foreign capital; this will more than offset lower policy interest rates to support their currencies’ appreciation. The Australian dollar will appreciate in 2019 in sympathy with EM currencies, but it and the Canadian dollar will weaken in 2020 as housing restrains growth in both economies.

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

	<b>Australia</b> <i>Australian \$</i> <i>USD per AUD</i>	<b>Brazil</b> <i>Real</i> <i>BRL per USD</i>	<b>Canada</b> <i>Canadian \$</i> <i>CAD per USD</i>	<b>China</b> <i>Yuan</i> <i>CNY per USD</i>	<b>Eurozone</b> <i>Euro</i> <i>USD per EUR</i>	<b>United Kingdom</b> <i>Pound Sterling</i> <i>USD per GBP</i>	<b>India</b> <i>Rupee</i> <i>INR per USD</i>	<b>Japan</b> <i>Yen</i> <i>JPY per USD</i>	<b>Korea</b> <i>Won</i> <i>KRW per USD</i>	<b>Mexico</b> <i>Peso</i> <i>MXN per USD</i>	<b>U.S. Broad</b> <i>Dollar Index</i> <i>Jan '97 = 100</i>	<b>DXY</b> <i>Dollar Index</i> <i>Mar '73 = 100</i>
<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
Mar-2019	0.71	3.84	1.34	6.71	1.13	1.32	69.5	111.2	1,132	19.2	127.2	96.8
<b>PNC Forecast</b> (month-end)												
Jun-2019	0.71	3.60	1.34	6.70	1.18	1.40	70.0	108.0	1,120	18.5	124.8	93.1
Dec-2019	0.75	3.45	1.35	6.65	1.23	1.40	73.0	108.0	1,120	18.0	123.3	90.7
Jun-2020	0.73	3.40	1.37	6.70	1.25	1.40	75.0	110.0	1,125	17.7	123.7	90.2
Dec-2020	0.72	3.37	1.39	6.70	1.28	1.40	77.0	112.0	1,130	17.7	123.8	89.2

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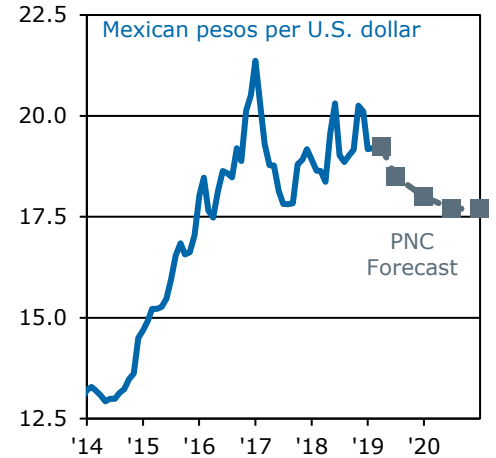
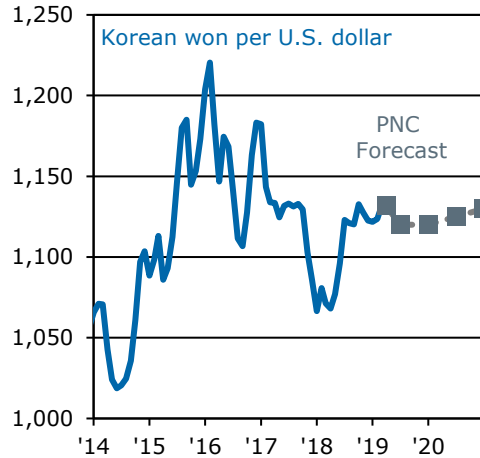
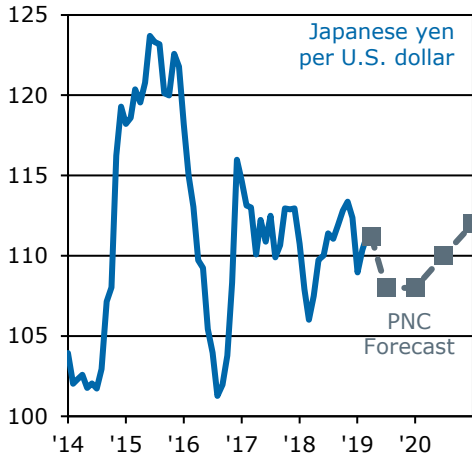


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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