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.
EXCHANGE RATE FORECASTS

1. U.S. dollar broad index
   Jan. 1997 = 100
   - PNC Forecast

2. U.S. dollar DXY index
   Mar '73 = 100
   - PNC Forecast

3. U.S. dollars per Australian dollar
   - PNC Forecast

4. Brazilian real per U.S. dollar
   - PNC Forecast

5. Canadian dollars per U.S. dollar
   - PNC Forecast

6. Chinese yuan per U.S. dollar
   - PNC Forecast

7. U.S. dollars per euro
   - PNC Forecast

8. U.S. $ per U.K. pound sterling
   - PNC Forecast

9. Indian rupees per U.S. dollar
   - PNC Forecast

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