

EXCHANGE RATE FORECASTS

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DOLLAR TO DEPRECIATE AS FED JOINS FOREIGN CENTRAL BANKS IN OPEN-ENDED QUANTITATIVE EASING

The dollar depreciated 1.5 percent measured by the DXY major currencies index in the second quarter of 2020 as the Federal Reserve flooded capital markets with dollar liquidity. The Fed's balance sheet increased by \$1.8 trillion dollars as the central bank implemented an open-ended quantitative easing program and launched emergency programs to lend to businesses, households, state and local governments, and foreign central banks.

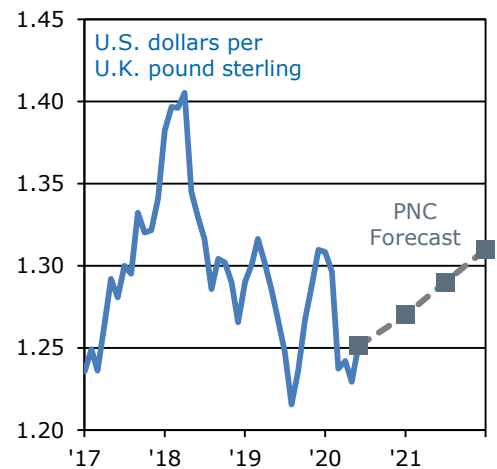
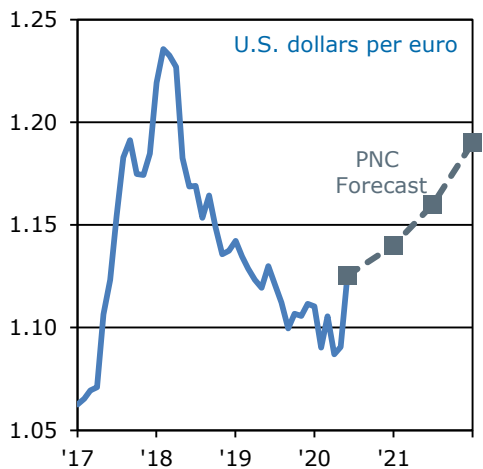
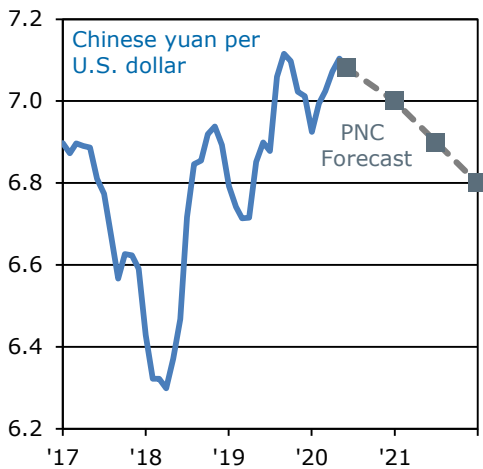
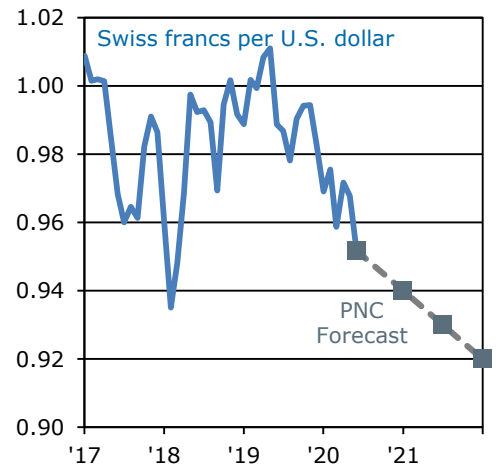
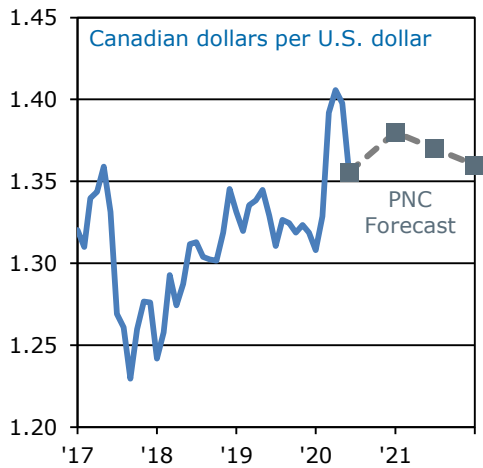
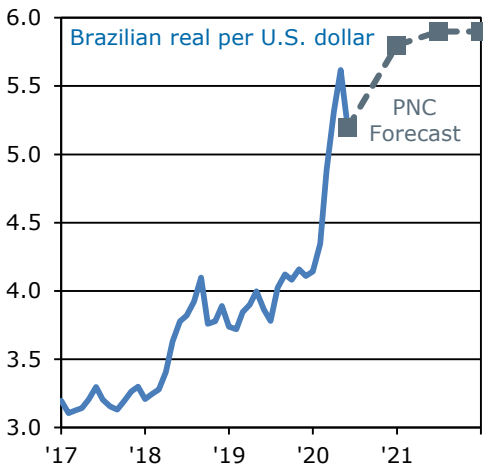
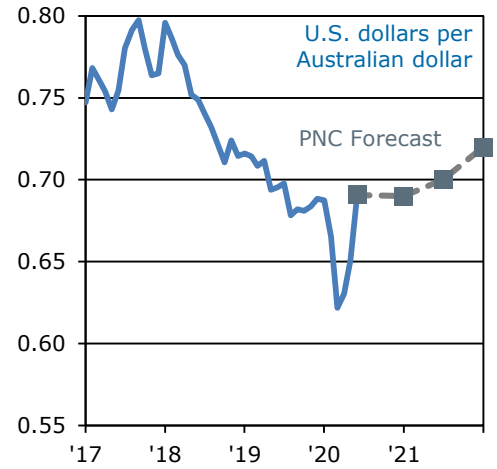
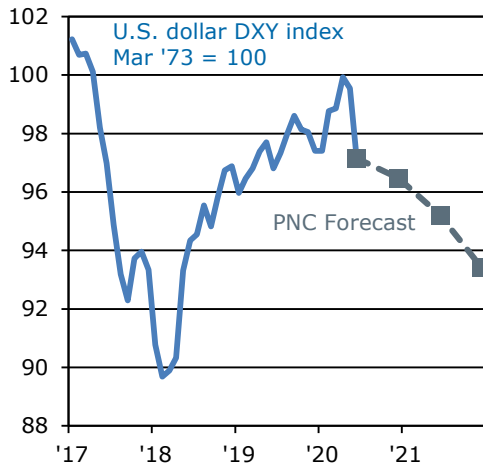
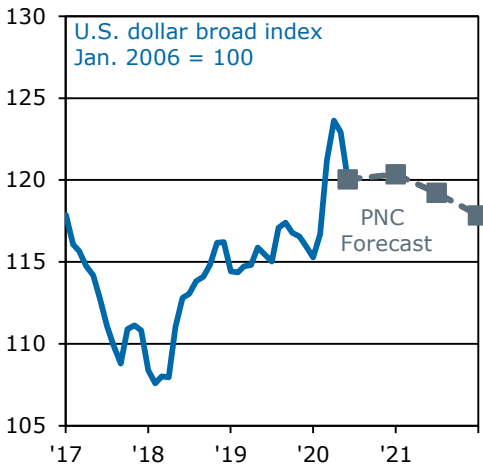
The U.S. monetary and fiscal responses to the coronavirus crisis are among the most aggressive of any major economy; the Fed's monetary stance in particular favors a weaker dollar. At the same time, the U.S. has been slower to contain the pandemic than other developed economies, a macroeconomic headwind that also favors a weaker dollar. Another reason to expect foreign currencies to be stronger (and the dollar weaker) include the resolution of lingering UK-EU trade uncertainties expected in the second half of 2020, a catalyst for a stronger pound sterling. Economic prospects are improving in China, which began recovering from the Viral Recession before the rest of the world; this will boost the yuan and currencies of economies closely linked to China, like those of Australia and New Zealand. Other emerging markets, including India and Mexico, have higher interest rates than in advanced economies and benign inflation, attracting capital inflows that will bolster their currencies. Exceptions to the forecast for broad dollar depreciation are Japan, where the yen typically depreciates as global growth prospects improve; oil producers like Canada, Mexico, and Norway, whose currencies face headwinds from a persistent glut of oil supply that is holding down crude prices; and Brazil, where a botched pandemic response is compounding political and economic fragilities.

Risks to the economic outlook remain heavily weighted to the downside. The coronavirus crisis has weakened the global economy and made it more vulnerable to further shocks, either from the pandemic or unrelated causes. If another severe shock strikes the global economy, the dollar would likely be quite a bit stronger than in this forecast.

BASELINE EXCHANGE RATE FORECASTS, THIRD QUARTER OF 2020

			Dec-17	Dec-18	Jun-19	Dec-19	Jun-20		Dec-20	Jun-21	Dec-21	
Australian dollar	<i>USD per AUD</i>	Actual,	0.76	0.71	0.70	0.69	0.69	PNC Forecast,	0.69	0.70	0.72	
Brazilian real	<i>BRL per USD</i>	month-avg	3.30	3.89	3.86	4.11	5.20		month-end	5.80	5.90	5.90
Canadian dollar	<i>CAD per USD</i>		1.28	1.35	1.33	1.32	1.36			1.38	1.37	1.36
Swiss franc	<i>CHF per USD</i>		0.99	0.99	0.99	0.98	0.95			0.94	0.93	0.92
Chinese yuan	<i>CNY per USD</i>		6.59	6.89	6.90	7.01	7.08			7.00	6.90	6.80
Euro	<i>USD per EUR</i>		1.18	1.14	1.13	1.11	1.13			1.14	1.16	1.19
UK pound sterling	<i>USD per GBP</i>		1.34	1.27	1.27	1.31	1.25			1.27	1.29	1.31
Indian rupee	<i>INR per USD</i>		64.2	70.6	69.5	71.2	75.8			75.0	74.0	74.0
Japanese yen	<i>JPY per USD</i>		112.9	112.2	108.1	109.1	107.6			108.5	109.0	109.0
Korean won	<i>KRW per USD</i>		1,085	1,122	1,174	1,174	1,207			1,140	1,120	1,100
Mexican peso	<i>MXN per USD</i>		19.2	20.1	19.3	19.1	22.3			23.0	23.0	23.0
Norwegian krone	<i>NOK per USD</i>		8.31	8.64	8.63	9.02	9.54			9.7	9.6	9.5
New Zealand dollar	<i>USD per NZD</i>		0.70	0.68	0.66	0.66	0.64			0.65	0.67	0.68
Swedish krona	<i>SEK per USD</i>		8.38	9.04	9.41	9.43	9.32			9.2	9.1	9.0
Broad dollar index	<i>Jan '06 = 100</i>		110.8	116.2	115.4	116.0	120.0			120.4	119.2	117.9
DXY dollar index	<i>Mar '73 = 100</i>		93.3	96.9	96.8	97.4	97.1			96.5	95.2	93.4

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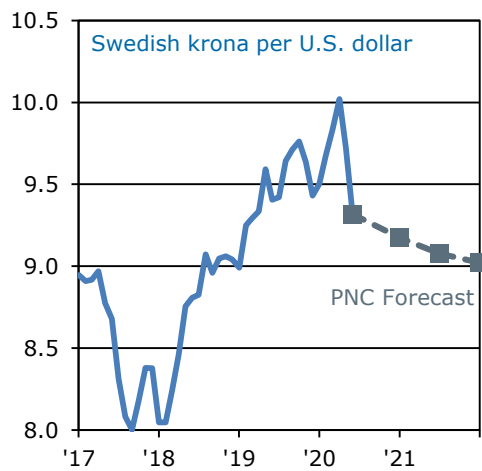
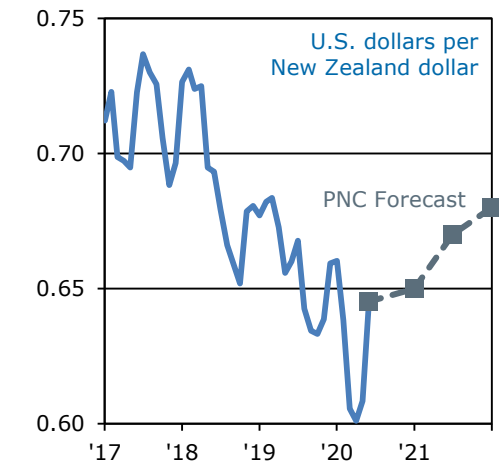
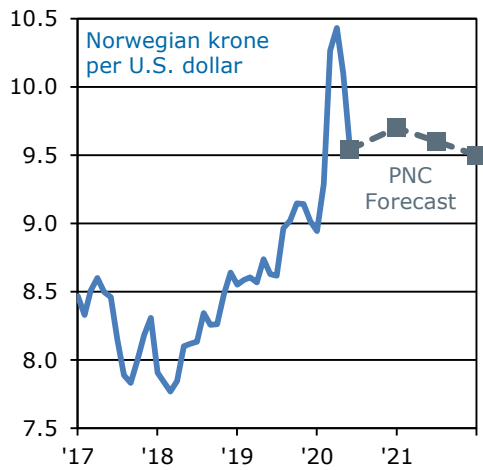
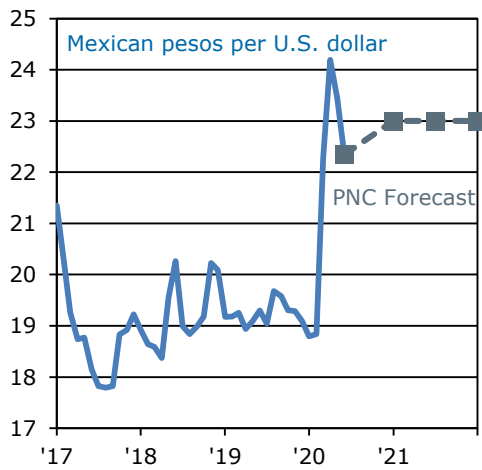
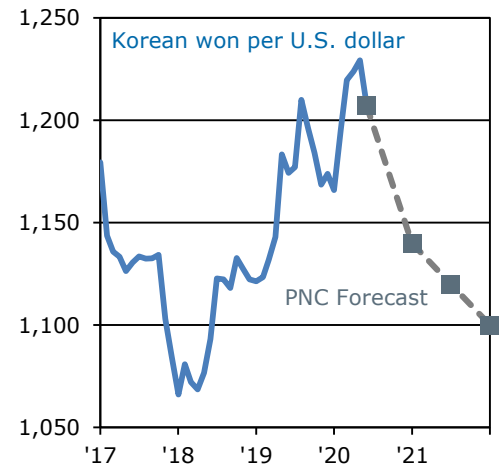
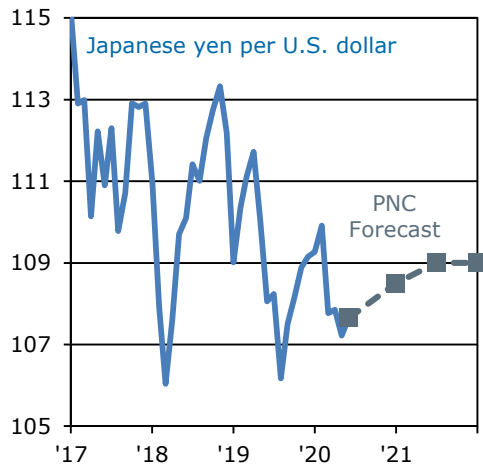
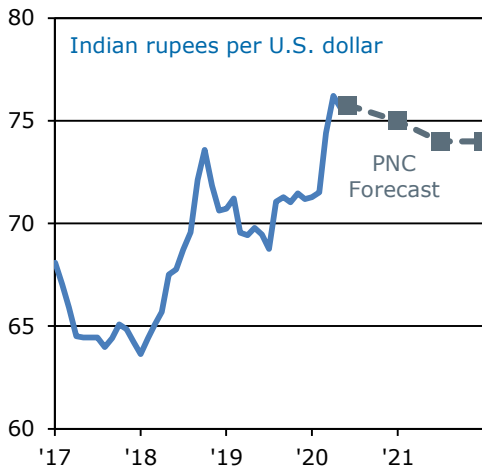


Table and chart sources: Bloomberg, The PNC Financial Services Group.

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