

EXCHANGE RATE FORECASTS

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STILL SOME ROOM FOR FURTHER DOLLAR DEPRECIATION AFTER THIRD QUARTER DROP

The DXY dollar index fell 3.5 percent in the third quarter of 2020 as U.S. and global economies began to recover from the Viral Recession, and as the Fed announced a new monetary policy strategy that promises to keep short-term interest rates near zero for years. The dollar actually depreciated a larger 5.4 percent from the quarter's open through the end of August, then partially rebounded as financial markets marked down the likelihood of additional U.S. fiscal stimulus, a second wave of coronavirus struck the E.U., the ECB pushed back against the euro's appreciation, and renewed Brexit uncertainty weighed on the pound sterling.

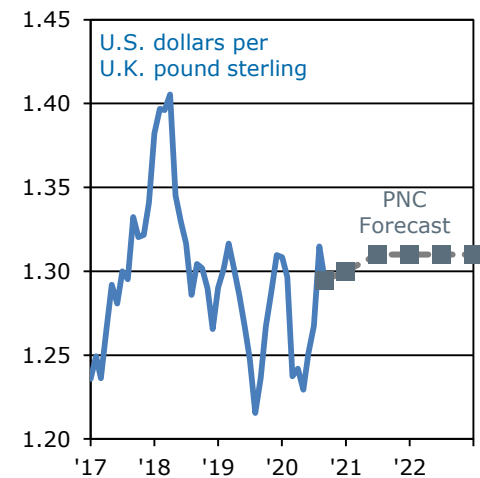
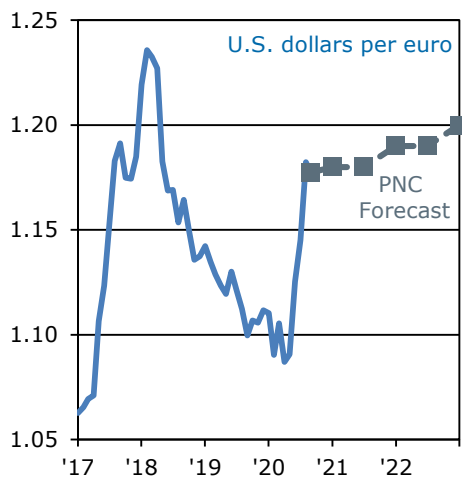
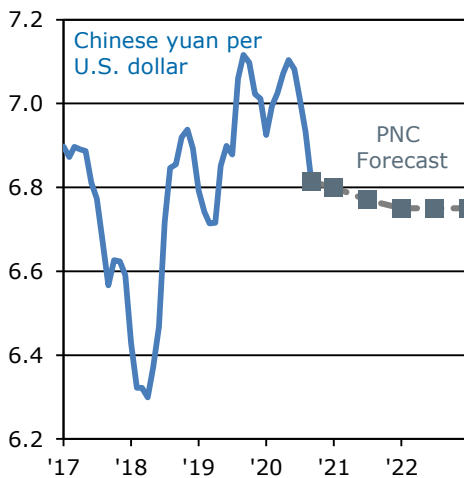
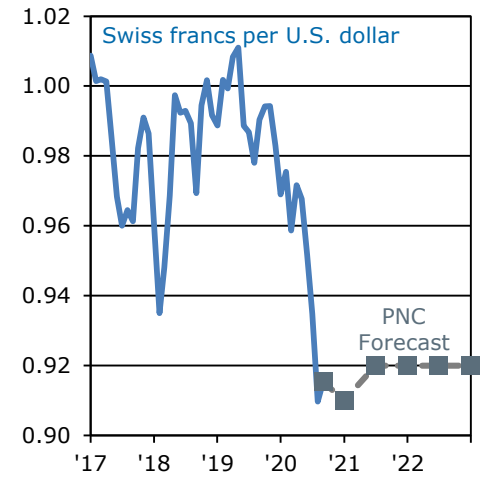
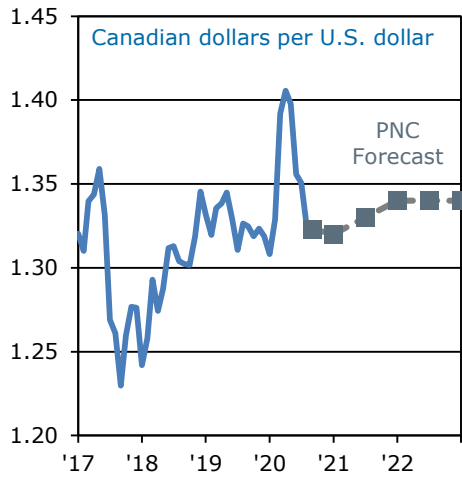
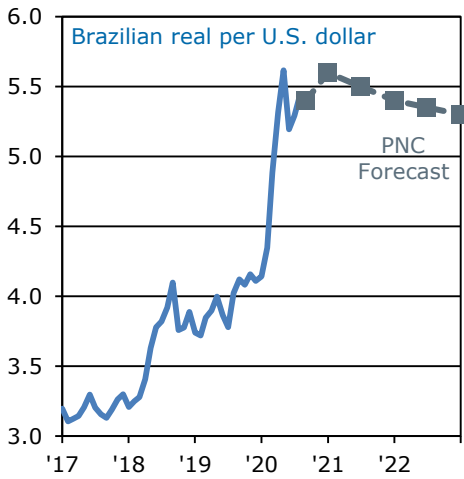
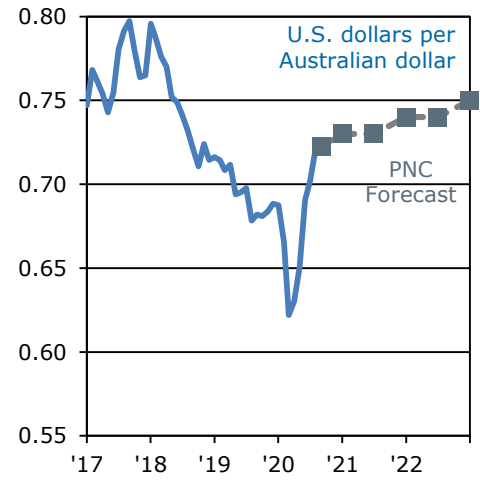
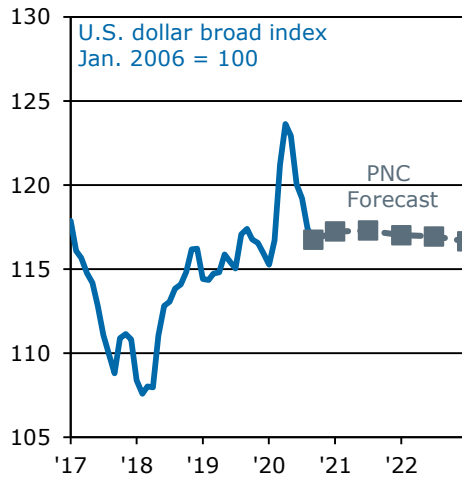
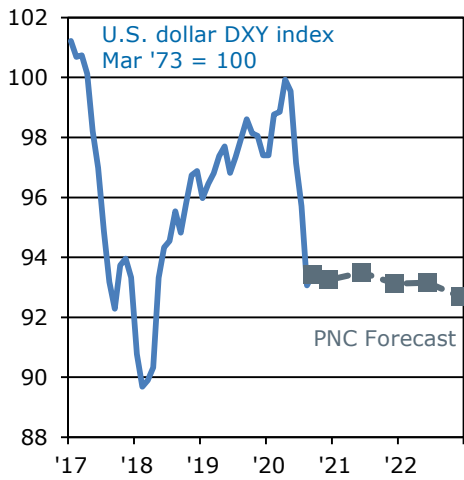
Looking forward, PNC forecasts mostly offsetting changes in exchange rates over the forecast horizon, leaving the dollar only slightly weaker by the end of 2022 than in September 2020, as measured by the DXY major currencies index. The broad dollar index, which measures the dollar's value relative to currencies of U.S. trading partners in both developing and developed economies, is forecasted to be basically unchanged. PNC forecasts further modest euro appreciation in 2021 and 2022; ECB President Christine Lagarde's attempt to build consensus among the ECB's leadership behind a less aggressive pursuit of the ECB's inflation target compared to the Federal Reserve's favors a stronger euro. China's recovery continues to outpace those of most other countries, pointing to further incremental appreciation of the yuan in 2021. Currencies of commodity-exporting economies have recovered as global energy prices have stabilized, and are likely to post further modest gains as the pandemic comes further under control, global air travel picks up, and prices of energy and other commodities rise. The Canadian dollar is likely to be an exception among commodity currencies since the Bank of Canada will likely raise interest rates more slowly than financial markets expect. Most emerging market central banks signaled late in the third quarter that an end to their policy rate cut cycles was at hand. As the global recovery proceeds, spillover from near-zero and negative interest rates in advanced economies will fuel capital flows to emerging markets and support the values of their currencies.

Risks to the global economic outlook are skewed to the downside, with the pandemic's course the most important risk as the Northern Hemisphere's winter nears. If another shock strikes the global economy, either from the pandemic or another source, the dollar would likely be substantially stronger than in this forecast.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2020

			Dec-17	Dec-18	Dec-19	Jun-20	Sep-20		Dec-20	Jun-21	Dec-21	Jun-22	Dec-22
Australian dollar	<i>USD per AUD</i>	Actual,	0.76	0.71	0.69	0.69	0.72	PNC Forecast,	0.73	0.73	0.74	0.74	0.75
Brazilian real	<i>BRL per USD</i>	month-avg	3.30	3.89	4.11	5.20	5.40	month-end	5.60	5.50	5.40	5.35	5.30
Canadian dollar	<i>CAD per USD</i>		1.28	1.35	1.32	1.36	1.32		1.32	1.33	1.34	1.34	1.34
Swiss franc	<i>CHF per USD</i>		0.99	0.99	0.98	0.95	0.92		0.91	0.92	0.92	0.92	0.92
Chinese yuan	<i>CNY per USD</i>		6.59	6.89	7.01	7.08	6.81		6.80	6.77	6.75	6.75	6.75
Euro	<i>USD per EUR</i>		1.18	1.14	1.11	1.13	1.18		1.18	1.18	1.19	1.19	1.20
UK pound sterling	<i>USD per GBP</i>		1.34	1.27	1.31	1.25	1.29		1.30	1.31	1.31	1.31	1.31
Indian rupee	<i>INR per USD</i>		64.2	70.6	71.2	75.8	73.5		73.7	73.9	74.0	74.1	74.2
Japanese yen	<i>JPY per USD</i>		112.9	112.2	109.1	107.6	105.6		106.0	108.0	108.5	108.7	108.9
Korean won	<i>KRW per USD</i>		1,085	1,122	1,174	1,207	1,177		1,182	1,195	1,198	1,200	1,202
Mexican peso	<i>MXN per USD</i>		19.2	20.1	19.1	22.3	21.6		22.3	22.1	21.9	21.8	21.7
Norwegian krone	<i>NOK per USD</i>		8.31	8.64	9.02	9.54	9.16		9.1	9.2	9.2	9.2	9.2
New Zealand dollar	<i>USD per NZD</i>		0.70	0.68	0.66	0.64	0.67		0.67	0.68	0.68	0.69	0.69
Swedish krona	<i>SEK per USD</i>		8.38	9.04	9.43	9.32	8.85		8.8	8.8	8.7	8.7	8.7
Broad dollar index	<i>Jan '06 = 100</i>		110.8	116.2	116.0	120.0	116.7		117.2	117.3	117.0	116.9	116.7
DXY dollar index	<i>Mar '73 = 100</i>		93.3	96.9	97.4	97.1	93.4		93.3	93.5	93.1	93.2	92.7

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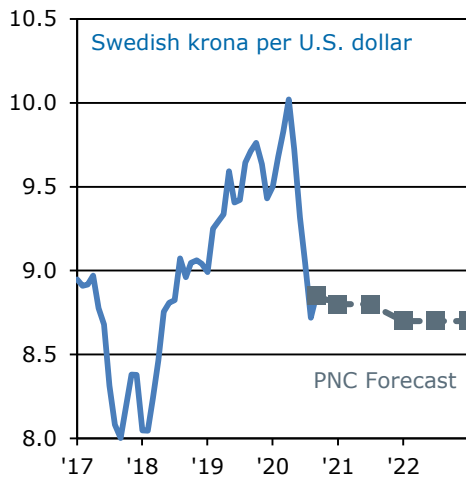
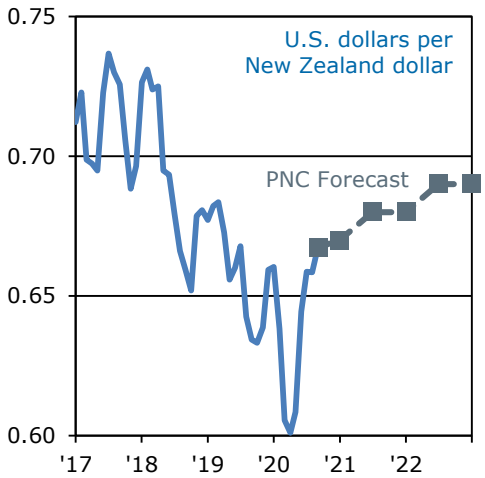
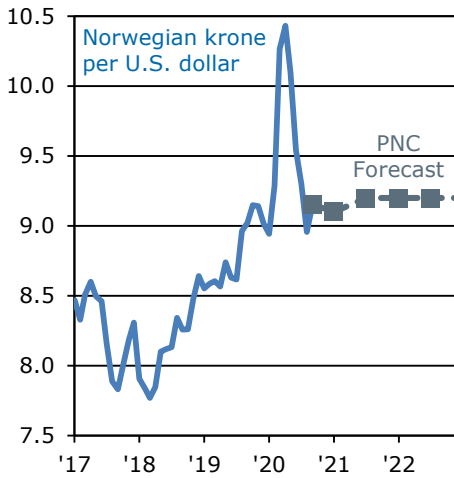
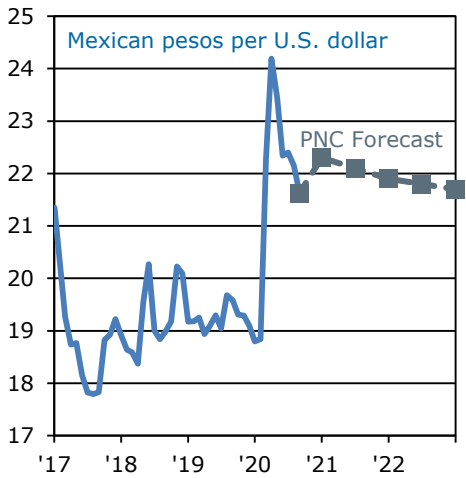
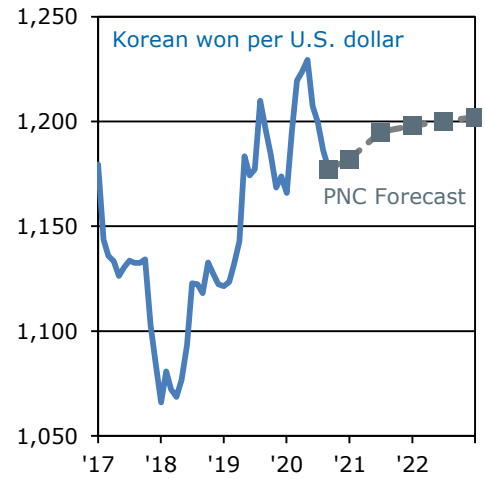
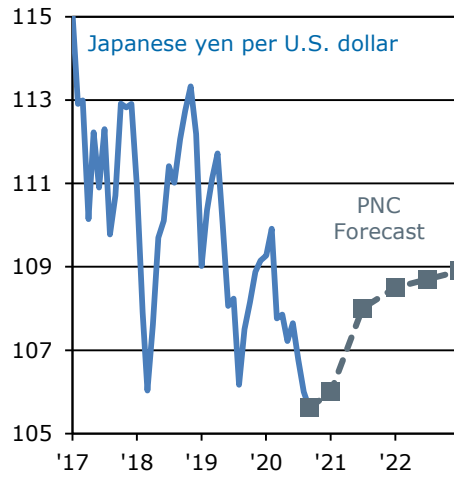
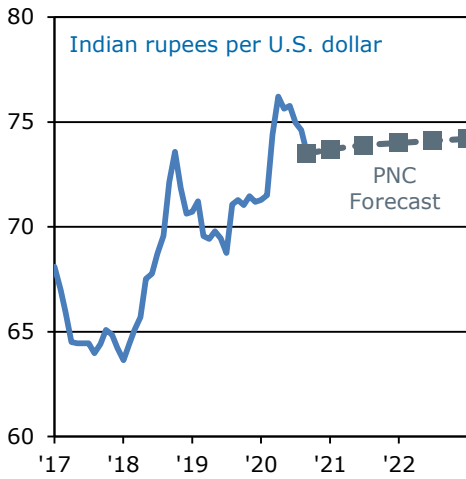


Table and chart sources: Bloomberg, The PNC Financial Services Group.

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