

# EXCHANGE RATE FORECASTS

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## DOLLAR LIKELY TO BOTTOM AND THEN STABILIZE IN 2021 AS GLOBAL RECOVERY ENTERS THE STRAIGHTAWAY

The DXY dollar index took the scenic route to a 7 percent net depreciation over the course of 2020. It revisited its December 2016 high during March's dollar funding crunch, marking a double top in the last five years' trading range, then fell 12 percent through year-end. Both domestic and global factors fueled its drop: U.S. emergency fiscal and monetary policies pushed the dollar lower at the same time that financial markets' optimism about the outlook for global recovery lifted foreign currencies. Near term, macroeconomic fundamentals will stay supportive of a weaker dollar. Monetary and fiscal policies across advanced economies are nursing the recovery along as vaccine distribution boosts expectations for broader-based growth down the line. The dollar looks set to fall all the way to the bottom of its five-year range in the first half of 2021.

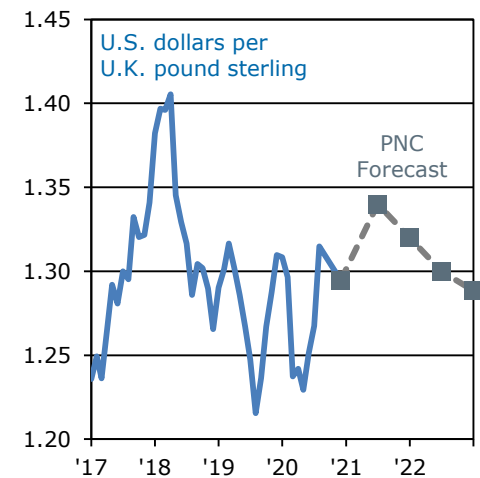
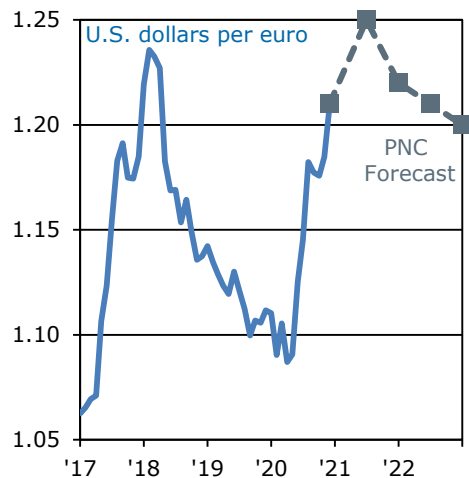
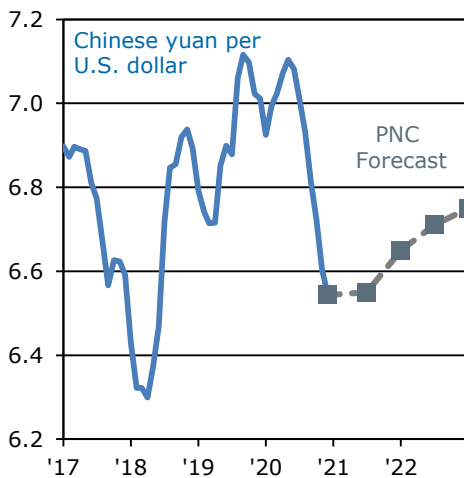
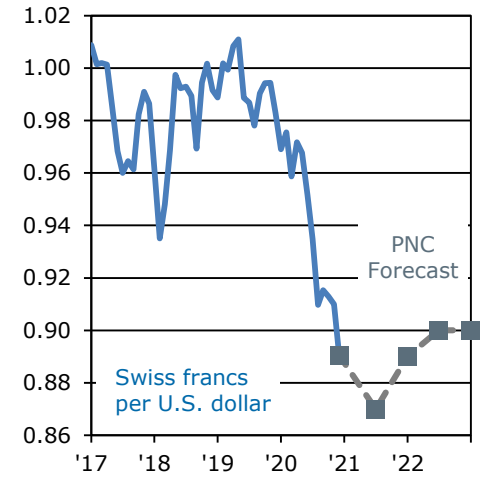
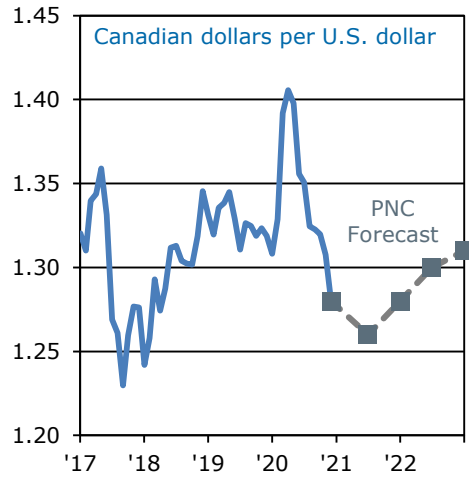
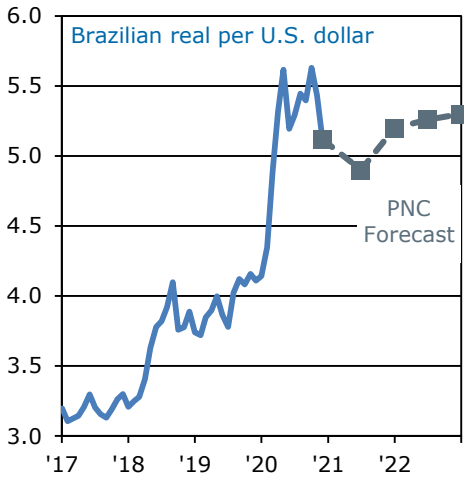
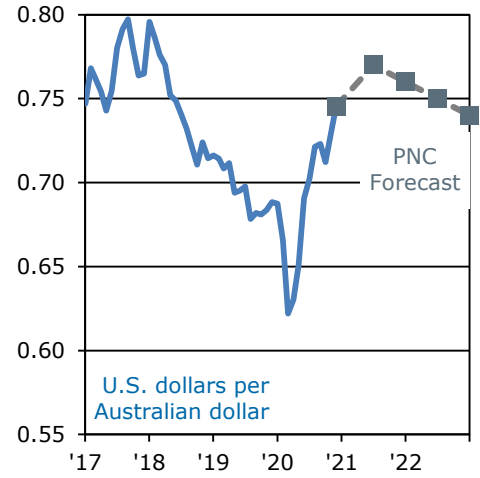
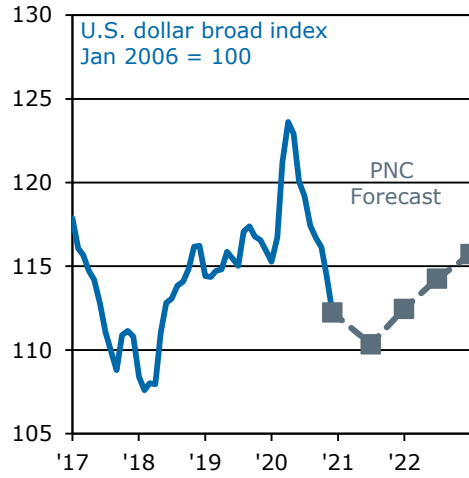
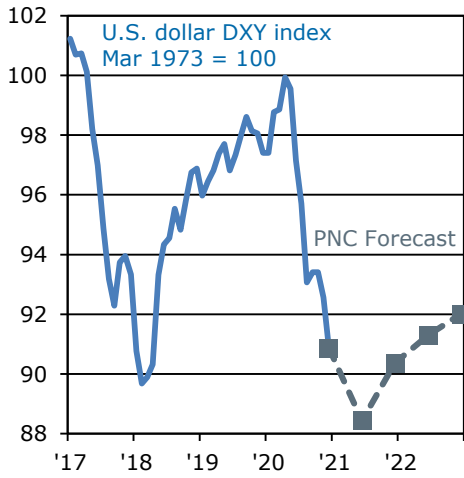
After that, forward-looking financial markets will likely look past the initial post-crisis economic rebound and search for new macroeconomic themes. In the U.S., fiscal deficits will shrink as 2020's unprecedented fiscal aid gives way to a more normal fiscal stance; financial markets' expectations for U.S. inflation, which rose through year-end 2020 as the growth outlook improved, could move back lower as the U.S. regains jobs in hospitality and other lower-wage sectors, slowing wage growth. The euro is likely to peak vis-à-vis the dollar in early 2021 and then return to late-2020 levels by year-end as the currency area's persistently low growth, near-zero inflation, and negative interest rates weigh on the euro, as they did before 2020. In the U.K., pound sterling's appreciation on Brexit's resolution will likely reverse by year-end 2021 as markets refocus on the U.K.'s domestic economic and political challenges.

In December the yuan appreciated against the dollar to its strongest since mid-2018 in anticipation of more predictable U.S.-China economic relations under the Biden administration; after the new administration's honeymoon ends, persistent tensions over trade and human rights are likely to weigh on the yuan. Other emerging market currencies are also likely to appreciate in early 2021 in sympathy with the yuan, then weaken by late 2021. If the global economic recovery is stronger than expected, the dollar is likely to be weaker than forecast.

### BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2021

			Dec-17	Dec-18	Dec-19	Jun-20	Dec-20		Jun-21	Dec-21	Jun-22	Dec-22
<b>Australian dollar</b>	<i>USD per AUD</i>	<b>Actual, month-avg</b>	0.76	0.71	0.69	0.69	0.75	<b>PNC Forecast, month-end</b>	0.77	0.76	0.75	0.74
<b>Brazilian real</b>	<i>BRL per USD</i>		3.30	3.89	4.11	5.20	5.14		4.90	5.20	5.26	5.30
<b>Canadian dollar</b>	<i>CAD per USD</i>		1.28	1.35	1.32	1.36	1.28		1.26	1.28	1.30	1.31
<b>Swiss franc</b>	<i>CHF per USD</i>		0.99	0.99	0.98	0.95	0.89		0.87	0.89	0.90	0.90
<b>Chinese yuan</b>	<i>CNY per USD</i>		6.59	6.89	7.01	7.08	6.54		6.55	6.65	6.71	6.75
<b>Euro</b>	<i>USD per EUR</i>		1.18	1.14	1.11	1.13	1.22		1.25	1.22	1.21	1.20
<b>UK pound sterling</b>	<i>USD per GBP</i>		1.34	1.27	1.31	1.25	1.29		1.34	1.32	1.30	1.29
<b>Indian rupee</b>	<i>INR per USD</i>		64.2	70.6	71.2	75.8	73.6		73.2	73.7	74.0	74.2
<b>Japanese yen</b>	<i>JPY per USD</i>		112.9	112.2	109.1	107.6	103.8		103.2	105.5	106.6	107.2
<b>Korean won</b>	<i>KRW per USD</i>		1,085	1,122	1,174	1,207	1,094		1,070	1,090	1,100	1,110
<b>Mexican peso</b>	<i>MXN per USD</i>		19.2	20.1	19.1	22.3	19.9		19.6	20.0	21.0	22.0
<b>Norwegian krone</b>	<i>NOK per USD</i>		8.31	8.64	9.02	9.54	8.70		8.7	8.9	9.0	9.1
<b>New Zealand dollar</b>	<i>USD per NZD</i>		0.70	0.68	0.66	0.64	0.71		0.73	0.72	0.71	0.71
<b>Swedish krona</b>	<i>SEK per USD</i>		8.38	9.04	9.43	9.32	8.35		8.3	8.4	8.5	8.6
<b>Broad dollar index</b>	<i>Jan '06 = 100</i>		110.8	116.2	116.0	120.0	112.3		110.5	112.7	114.5	115.9
<b>DXY dollar index</b>	<i>Mar '73 = 100</i>		93.3	96.9	97.4	97.1	90.5		88.5	90.4	91.3	92.0

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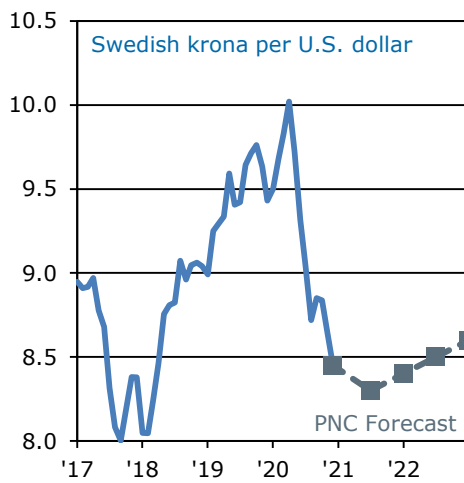
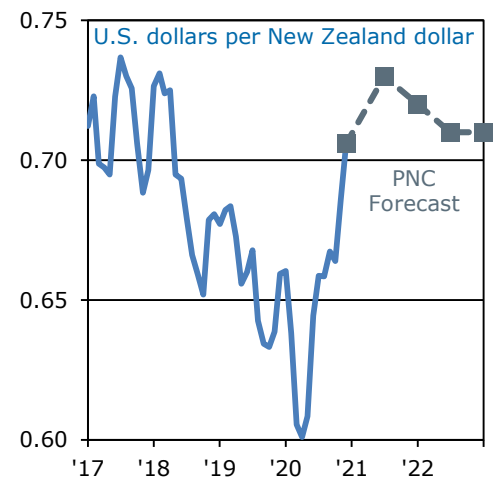
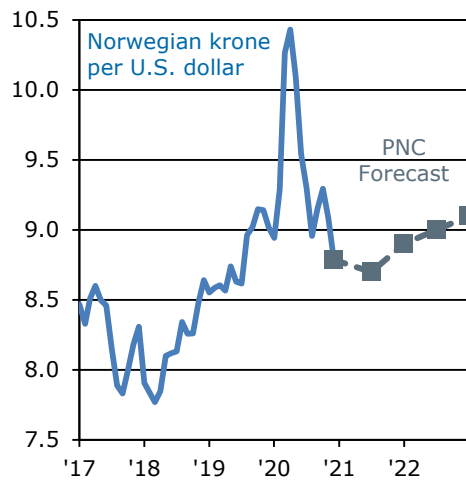
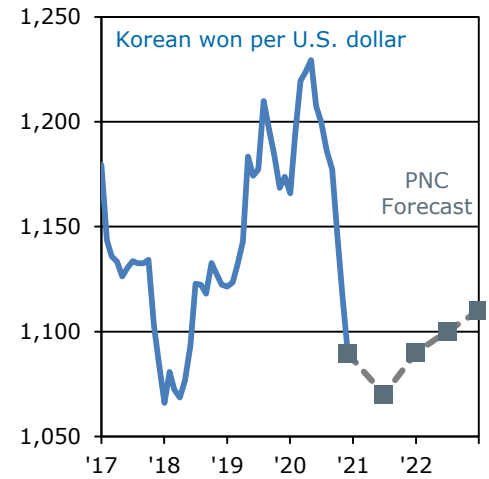
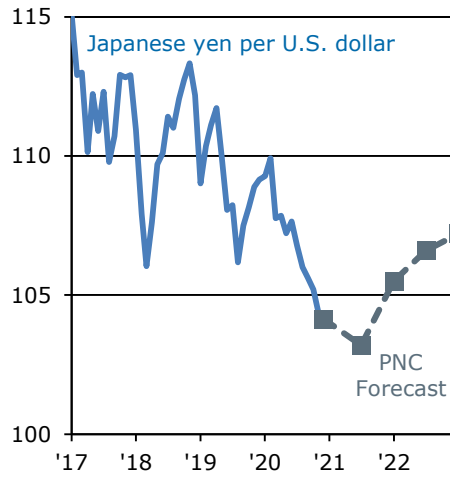
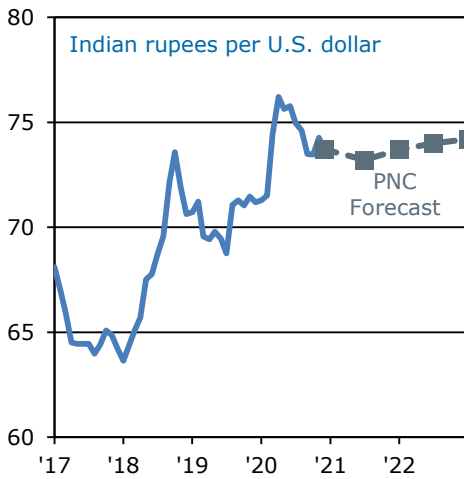


Table and chart sources: Bloomberg, The PNC Financial Services Group.

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