

# EXCHANGE RATE FORECASTS

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## Dollar Set to Recover as Both Fundamental and Technical Factors Support Appreciation

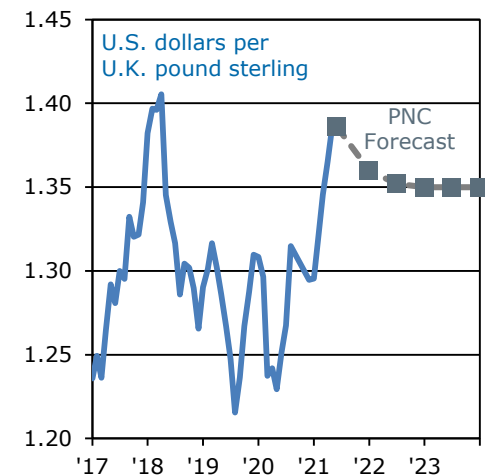
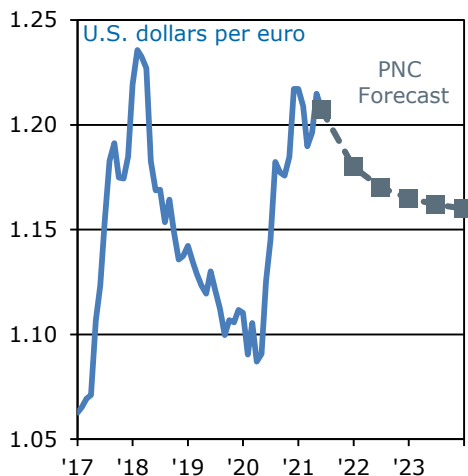
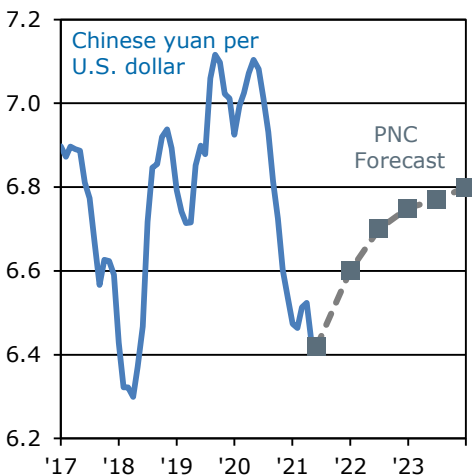
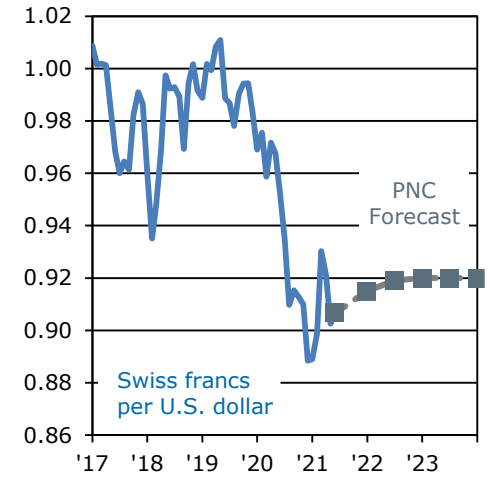
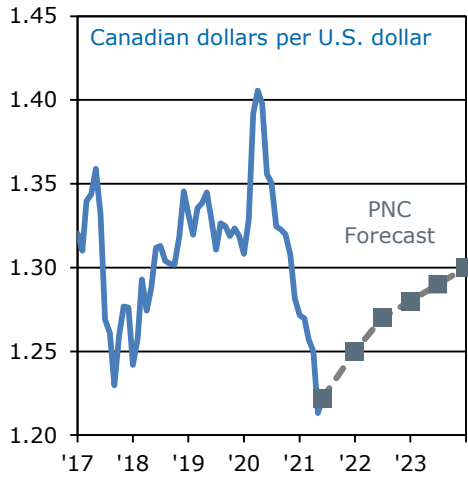
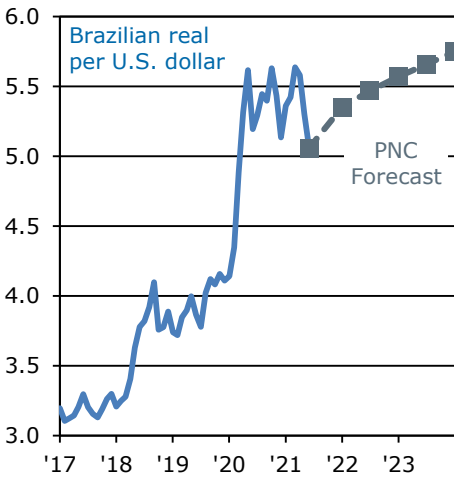
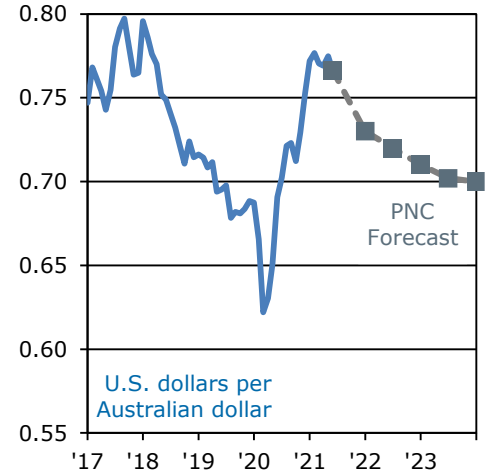
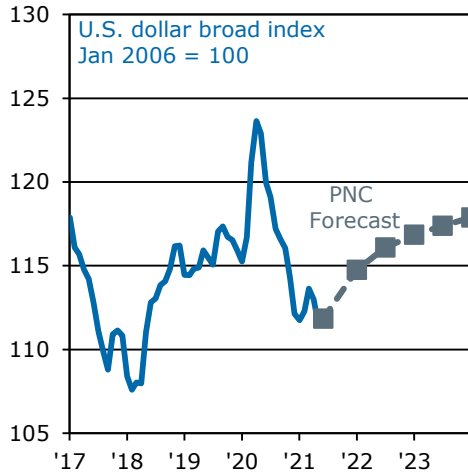
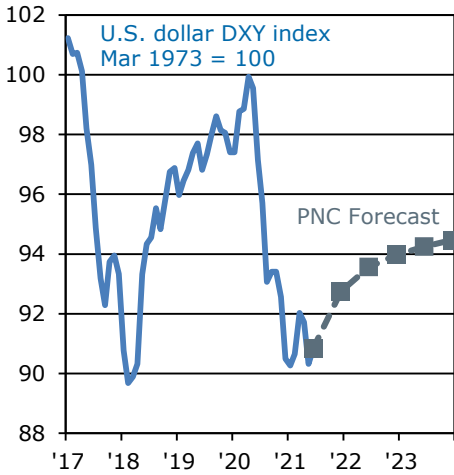
The dollar reached its bottom for the second quarter in mid-May, around when prices of lumber, copper, steel, soy, and other commodities peaked. As those commodity prices began to retreat in the back half of the second quarter, U.S. inflation expectations cooled a bit, raising U.S. real interest rates (nominal rates less inflation expectations) and supporting the dollar's recovery. The Fed is starting to support a dollar recovery too. The June dot plot—forecasts of growth, inflation, and the federal funds rate—showed members of the Federal Open Market Committee have pulled forward their projections for a first federal funds rate hike: A majority now see two 25 basis point hikes in 2023, up from March, when a majority thought hikes should wait until later in the recovery. By contrast, the European Central Bank leaned dovish at its June Governing Council decision, maintaining asset purchases in the third quarter of 2021 at the elevated rate set in the second quarter; they raised purchases in March after the Eurozone's double-dip downturn in the winter months. The DXY dollar index broke above its 50, 100, and 200-day moving averages after the Fed's June decision; this is a technical signal that an uptrend in the dollar could be beginning. The euro will likely depreciate as the Fed normalizes policy before the ECB; pound sterling should be stronger than the euro, but also could depreciate against the dollar in 2022 since the neutral rate for pound sterling is likely to be lower than the dollar's in the 2020s.

China's yuan appreciated into the first half of 2021 as its central bank normalized monetary policy faster than other major economies. Little further change in Chinese monetary policy is likely, so the gradual normalization of U.S. monetary policy will likely translate into a modest depreciation of the yuan. Currencies of commodity-exporting economies Australia, Brazil, Canada, Mexico, New Zealand, and Norway appreciated in the first half of 2021 as commodity prices jumped. These currencies are likely to give back some of this strength in coming quarters, since futures markets point to lower prices for many hard and soft commodities over that time frame. Emerging market currencies are likely to be more volatile in the coming quarters than in the first half of 2021 as the Fed tapers, and as global consumer preferences shift back to services and away from goods, moderating demand for emerging markets' exports of manufactured goods and commodities.

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

			Dec-18	Dec-19	Jun-20	Dec-20	Jun-21		Dec-21	Jun-22	Dec-22	Jun-23	Dec-23
<b>Australian dollar</b>	<i>USD per AUD</i>	<b>Actual,</b>	0.71	0.69	0.69	0.75	0.77	<b>PNC Forecast</b>	0.73	0.72	0.71	0.70	0.70
<b>Brazilian real</b>	<i>BRL per USD</i>	<b>month-avg</b>	3.89	4.11	5.20	5.14	5.06	<b>month-end</b>	5.35	5.47	5.57	5.66	5.75
<b>Canadian dollar</b>	<i>CAD per USD</i>		1.35	1.32	1.36	1.28	1.22		1.25	1.27	1.28	1.29	1.30
<b>Swiss franc</b>	<i>CHF per USD</i>		0.99	0.98	0.95	0.89	0.91		0.92	0.92	0.92	0.92	0.92
<b>Chinese yuan</b>	<i>CNY per USD</i>		6.89	7.01	7.08	6.54	6.42		6.60	6.70	6.75	6.77	6.80
<b>Euro</b>	<i>USD per EUR</i>		1.14	1.11	1.13	1.22	1.21		1.18	1.17	1.17	1.16	1.16
<b>UK pound sterling</b>	<i>USD per GBP</i>		1.27	1.31	1.25	1.29	1.39		1.36	1.35	1.35	1.35	1.35
<b>Indian rupee</b>	<i>INR per USD</i>		70.6	71.2	75.8	73.6	73.4		73.7	74.0	74.2	74.7	75.1
<b>Japanese yen</b>	<i>JPY per USD</i>		112.2	109.1	107.6	103.8	109.9		111.0	111.5	112.0	112.5	113.0
<b>Korean won</b>	<i>KRW per USD</i>		1,122	1,174	1,207	1,094	1,121		1,150	1,160	1,165	1,170	1,170
<b>Mexican peso</b>	<i>MXN per USD</i>		20.1	19.1	22.3	19.9	20.1		21.0	21.3	21.5	21.6	21.7
<b>Nigerian naira</b>	<i>NGN per USD</i>		363	363	460	470	485		505	510	510	515	515
<b>Norwegian krone</b>	<i>NOK per USD</i>		8.6	9.0	9.5	8.7	8.4		8.7	8.8	8.9	9.0	9.1
<b>New Zealand dollar</b>	<i>USD per NZD</i>		0.68	0.66	0.64	0.71	0.71		0.70	0.69	0.68	0.67	0.67
<b>Swedish krona</b>	<i>SEK per USD</i>		9.0	9.4	9.3	8.4	8.4		8.7	8.9	9.0	9.0	9.0
<b>Broad dollar index</b>	<i>Jan '06 = 100</i>		116.2	115.9	120.0	112.1	111.8		114.8	116.1	116.9	117.4	117.9
<b>DXY dollar index</b>	<i>Mar '73 = 100</i>		96.9	97.4	97.1	90.5	90.8		92.7	93.6	94.0	94.2	94.5

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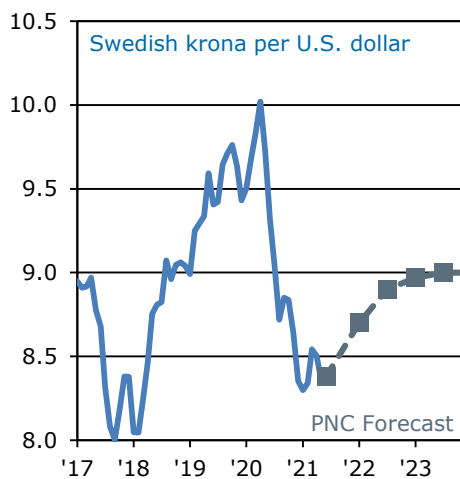
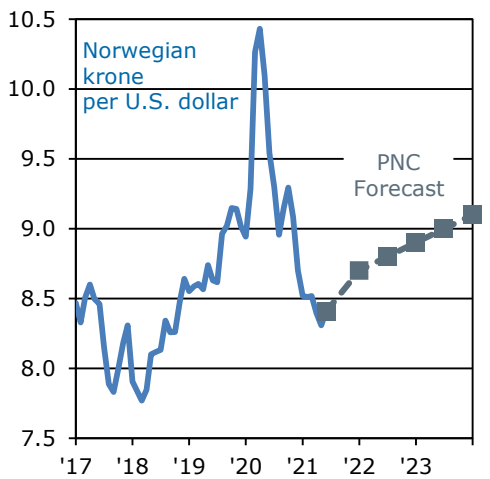
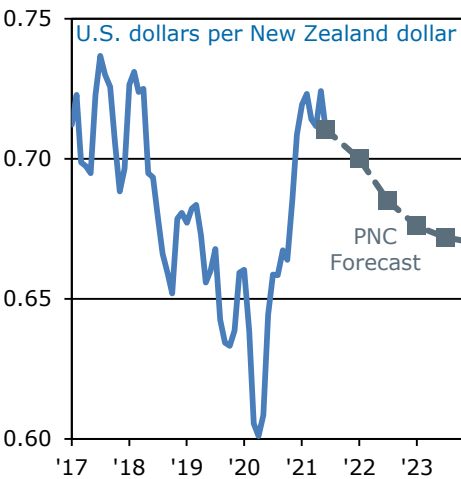
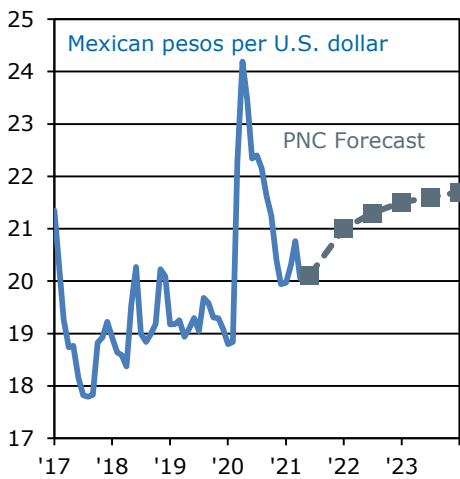
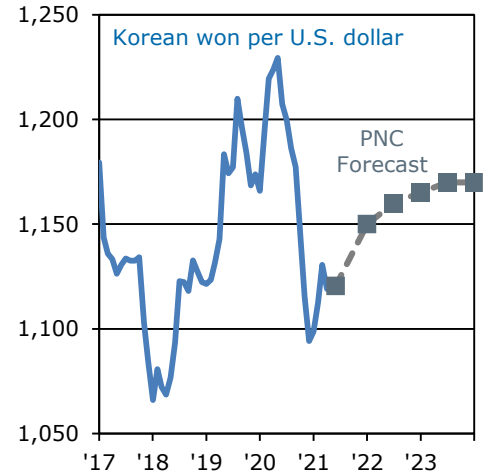
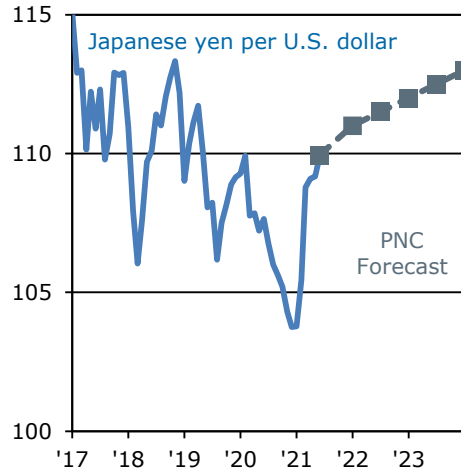
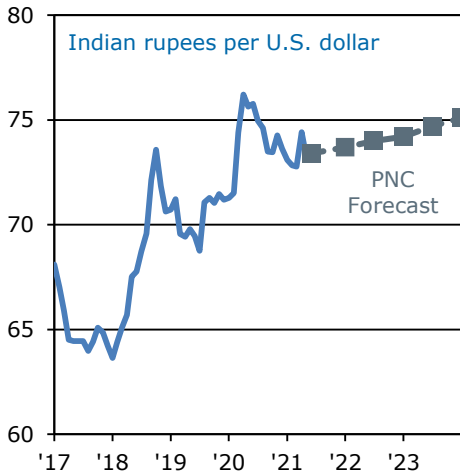


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

Note: Nigerian naira historical and forecasted exchange rates are of the informal market rate.

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