

EXCHANGE RATE FORECASTS

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U.S. Dollar's Reign Set to End in 2023 As U.S. Economy Tips Into Recession

The U.S. dollar's relentless rise continued in the third quarter of 2022 as the DXY index appreciated 7.1%, hitting a new twenty-year high in September. The DXY index measures the value of the U.S. dollar vis-à-vis a basket of six major currencies – the euro, Japanese yen, British pound, Canadian dollar, Swedish Krona and Swiss franc. The Federal Reserve's ultra-hawkish stance, increased soft-haven demand following the Ukraine invasion, and a relatively healthy U.S. economy have driven the dollar's strength in 2022. The dollar will likely peak in the first half of 2023 as the U.S. economy tips into recession and other major central banks continue raising policy rates while the Fed switches gears and telegraphs an end to its tightening cycle.

Pound sterling crashed to an all-time low against the U.S. dollar in late-September after the announcement of large unfunded tax cuts by the former prime minister of the U.K., Liz Truss. Pound sterling then recovered following the cancellation of Truss's economic plan and the announcement of new prime minister Rishi Sunak. Pound sterling will be under pressure and likely weaken in the near term as the U.K.'s economic outlook deteriorates, and the yield premium paid by U.S. assets over U.K. assets increases. The pound sterling should regain some strength in 2023 as the Federal Open Market Committee stops raising the fed funds rate early in the year while the Bank of England (BOE) remains hawkish as it focuses on its only mandate – price stability.

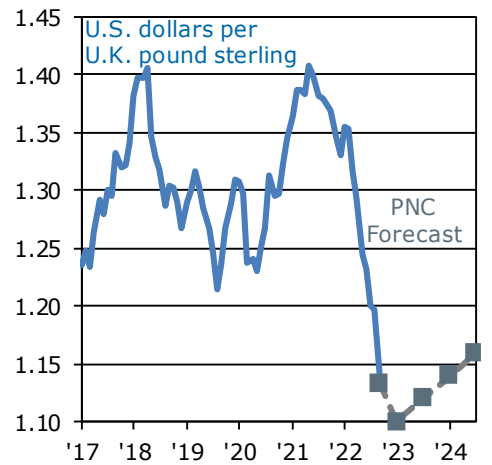
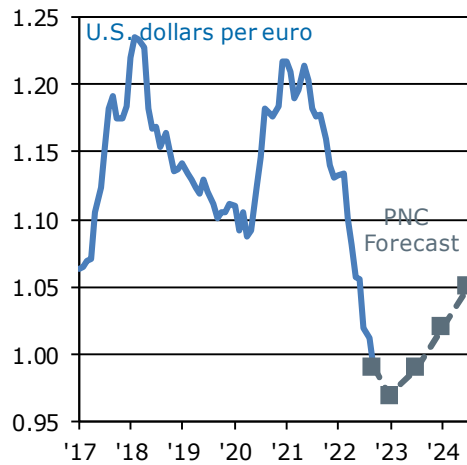
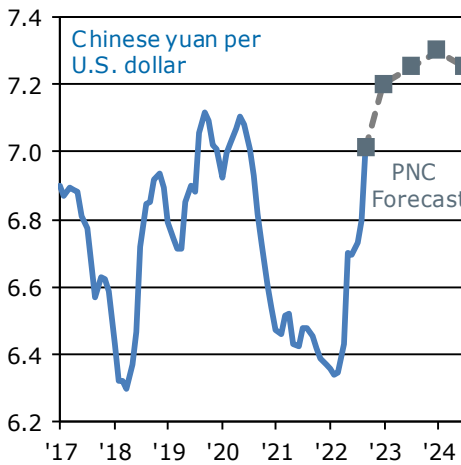
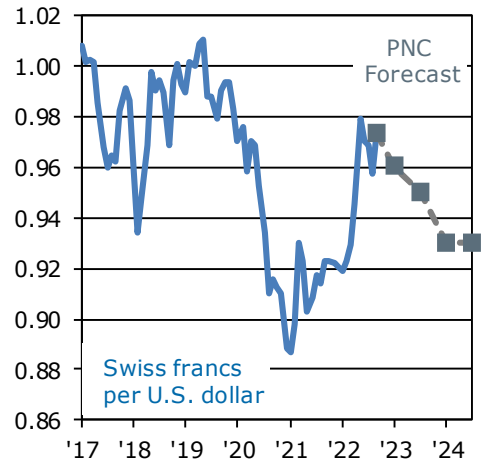
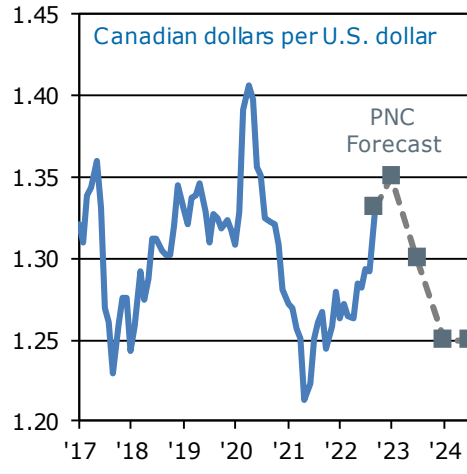
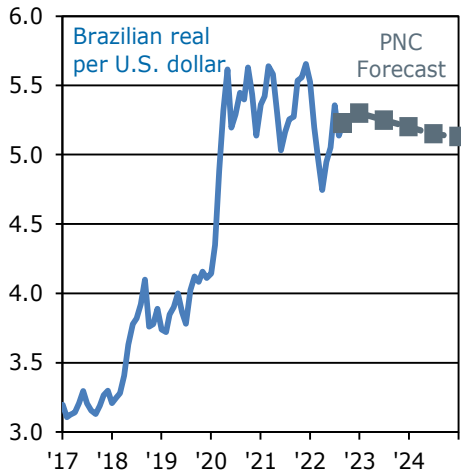
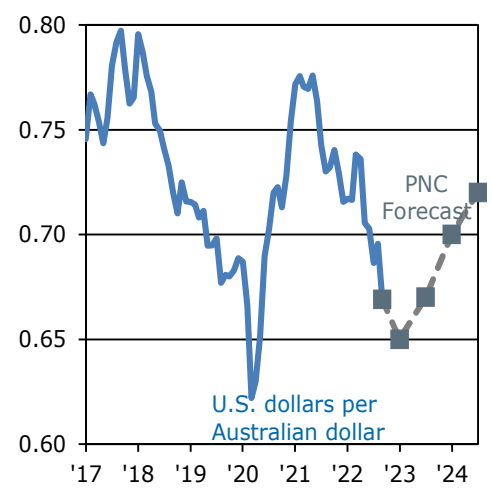
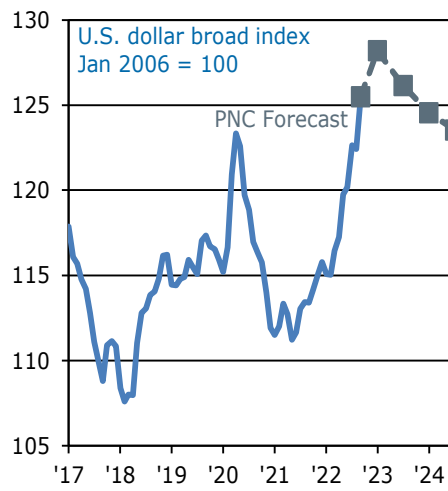
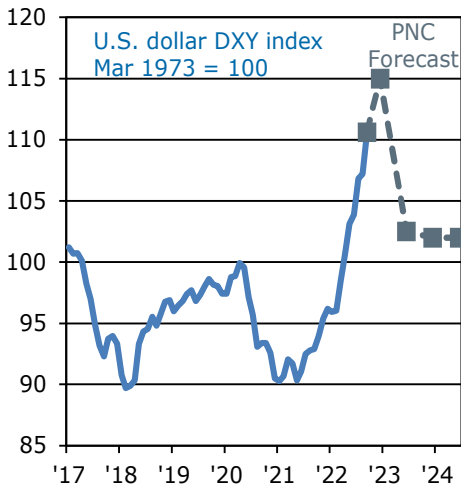
The euro fell below parity with the dollar in the trailing quarter with the region's energy crisis and lower relative interest rates. The euro will likely depreciate further against the dollar in the near term as the energy problems deepen and the Fed remains aggressive in its monetary policy stance. The euro should then return to mid-2022 levels by the end of 2023 as the ECB remains hawkish and growth picks up. A more-slowly growing global economy and the continuation of China's zero-covid policy favor a weaker yuan in 2023. The yen will likely appreciate against the dollar in 2023 as the Fed stops raising rates and global recession risks increase.

Risks to the global economic outlook are skewed to the downside. If the Ukraine crisis escalates or if U.S. inflation remains sticky, the dollar would likely be stronger than in this forecast.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2022

			Dec-20	Jun-21	Dec-21	Jun-22	Sep-22		Dec-22	Jun-23	Dec-23	Jun-24	Dec-24
Australian dollar	<i>USD per AUD</i>	Actual, month-avg	0.75	0.76	0.72	0.70	0.67	PNC Forecast, month-end	0.65	0.67	0.70	0.72	0.74
Brazilian real	<i>BRL per USD</i>		5.14	5.03	5.65	5.05	5.23		5.30	5.25	5.20	5.15	5.13
Canadian dollar	<i>CAD per USD</i>		1.28	1.22	1.28	1.28	1.33		1.35	1.30	1.25	1.25	1.23
Swiss franc	<i>CHF per USD</i>		0.89	0.91	0.92	0.97	0.97		0.96	0.95	0.93	0.93	0.95
Chinese yuan	<i>CNY per USD</i>		6.54	6.43	6.37	6.70	7.01		7.20	7.25	7.30	7.25	7.25
Euro	<i>USD per EUR</i>		1.22	1.20	1.13	1.06	0.99		0.97	1.00	1.03	1.05	1.08
UK pound sterling	<i>USD per GBP</i>		1.34	1.40	1.33	1.23	1.13		1.10	1.12	1.14	1.16	1.18
Indian rupee	<i>INR per USD</i>		73.6	73.6	75.4	78.1	80.2		82.0	84.0	86.0	84.0	82.0
Japanese yen	<i>JPY per USD</i>		103.8	110.1	113.8	134.1	143.0		145.0	140.0	135.0	130.0	130.0
Korean won	<i>KRW per USD</i>		1,094	1,122	1,184	1,276	1,393		1,450	1,425	1,400	1,375	1,350
Mexican peso	<i>MXN per USD</i>		19.9	20.0	20.9	20.0	20.1		20.5	20.5	21.0	21.5	21.0
Norwegian krone	<i>NOK per USD</i>		8.7	8.4	9.0	9.8	10.3		10.5	10.0	9.8	9.6	9.4
New Zealand dollar	<i>USD per NZD</i>		0.71	0.71	0.68	0.64	0.59		0.62	0.64	0.66	0.68	0.70
Swedish krona	<i>SEK per USD</i>		8.4	8.4	9.1	10.0	10.9		11.5	11.0	10.5	10.0	9.5
Broad dollar index	<i>Jan '06 = 100</i>		111.9	111.7	115.8	120.2	125.5		128.2	126.2	124.5	123.6	123.7
DXY dollar index	<i>Mar '73 = 100</i>	90.5	91.1	96.2	103.9	110.6	115.0	110.0	108.0	105.0	105.0		

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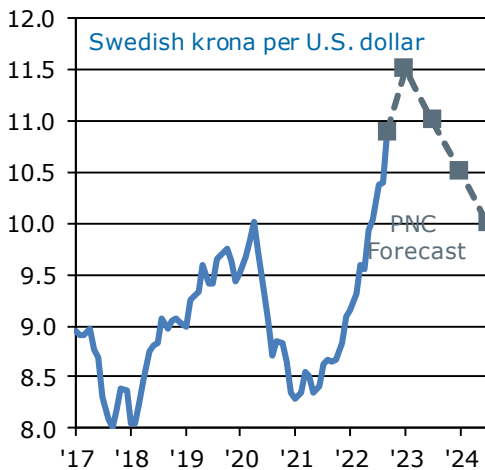
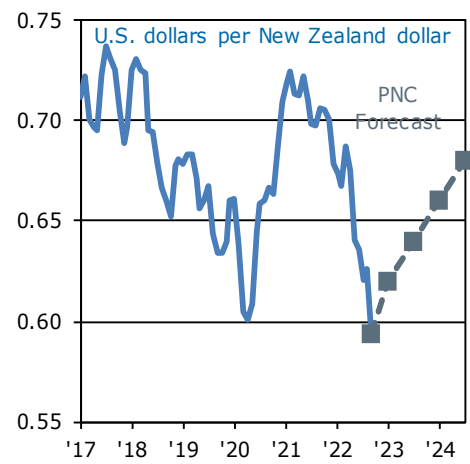
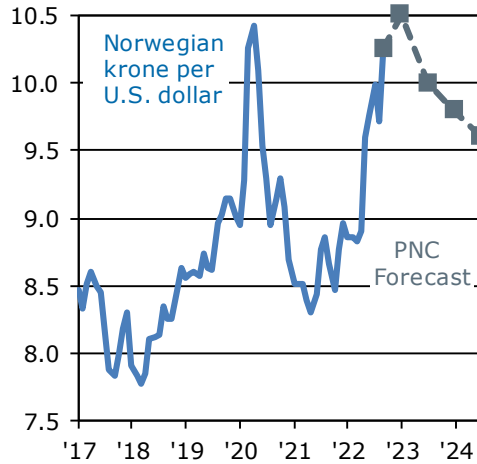
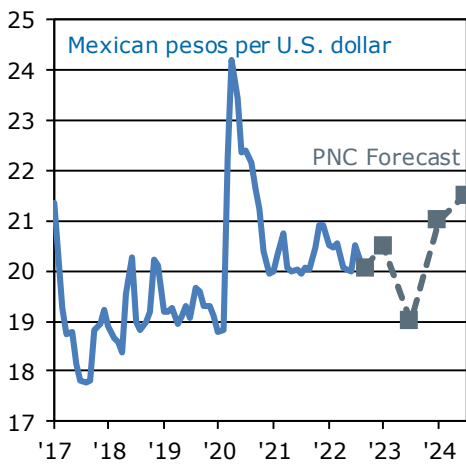
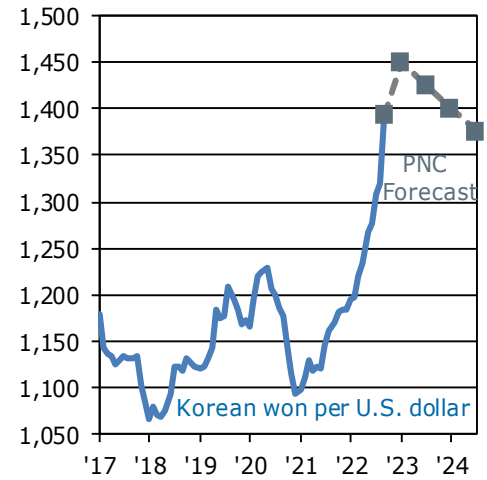
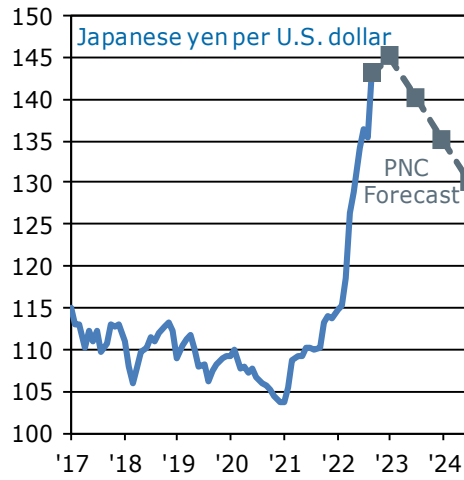
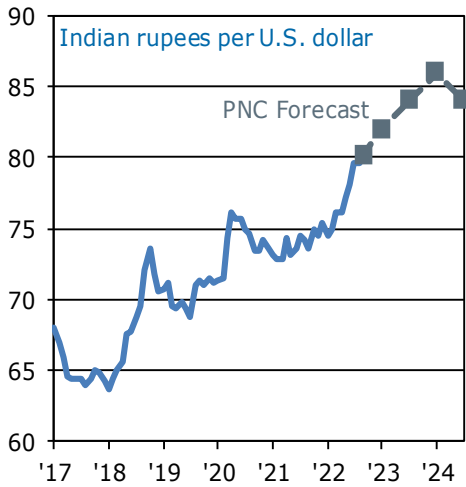


Table and chart sources: Bloomberg and The PNC Financial Services Group.

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