

EXCHANGE RATE FORECASTS

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Dollar Set to Lose More Ground As Fed Slows Monetary Tightening

The U.S. dollar appreciated 8% in 2022, as measured by the DXY index, hitting a twenty-year high in September 2022 before losing some steam at the end of the year. The U.S. dollar lost some ground in late 2022 due to lower U.S. inflation, a less hawkish Fed, and an improved eurozone economic outlook. In 2023, PNC Economics expects the U.S. dollar to depreciate, reverting to around late-2021 levels, as the Fed pauses its interest-rate hikes, U.S. inflation moderates, and China's economy rebounds. After raising the fed funds rate from essentially zero in early 2022 to a range between 4.25% and 4.50% by year-end 2022, PNC Economics expects the FOMC to slow its pace of interest-rate hikes early this year and lift the fed funds rate to a terminal range of 4.75 to 5.00% by March. PNC Economics then expects the Fed to keep the funds rate in this range through most of 2023, until a sustained slowing in inflation and a slowing labor market lead to a rate cut at the end of the year.

In contrast to the Fed, the Bank of England (BoE) and the European Central Bank (ECB) will likely maintain their hawkish stances past the first quarter of this year. This will provide some near-term support for the euro and the British pound, but domestic economic challenges and post-Brexit frictions favor a weaker pound by year-end. A milder-than-expected winter, lower energy prices and China's reopening have significantly improved the eurozone's outlook in the past month. The improved outlook worsens the inflation-growth trade-off and could lead to the ECB raising its policy rates higher than futures markets anticipate.

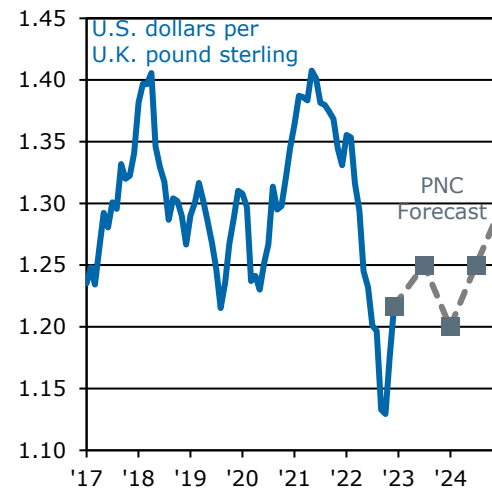
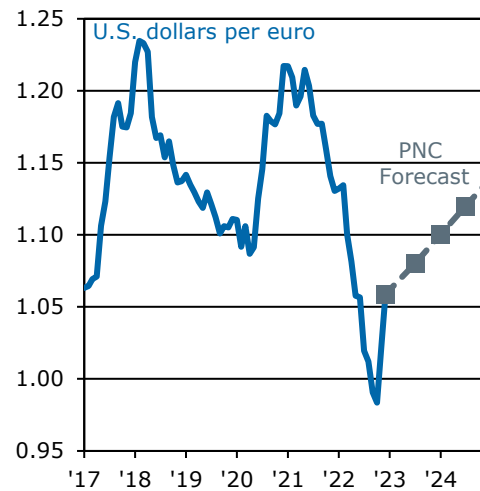
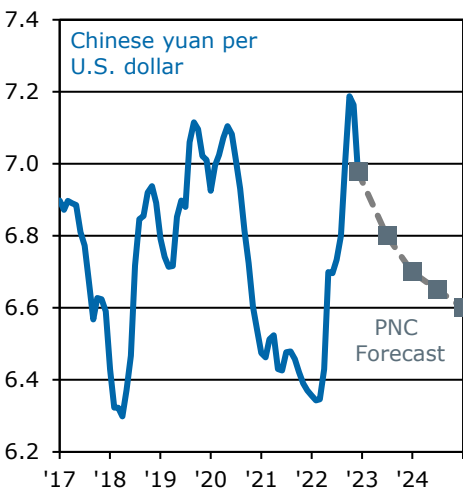
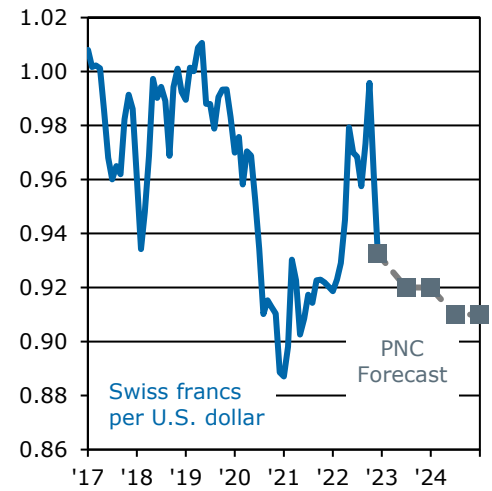
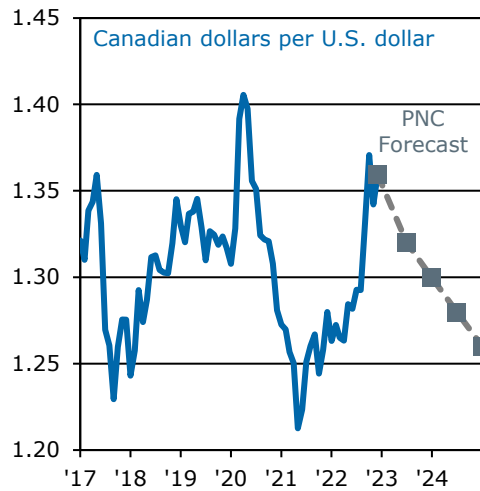
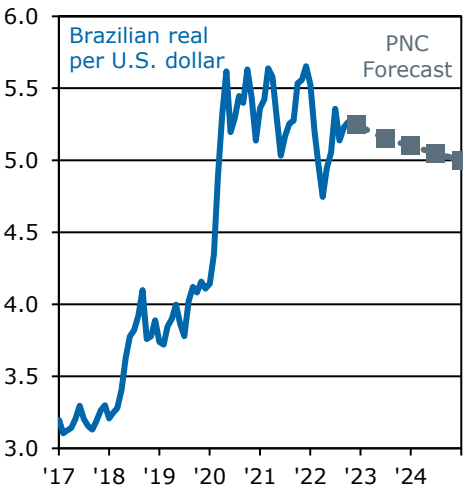
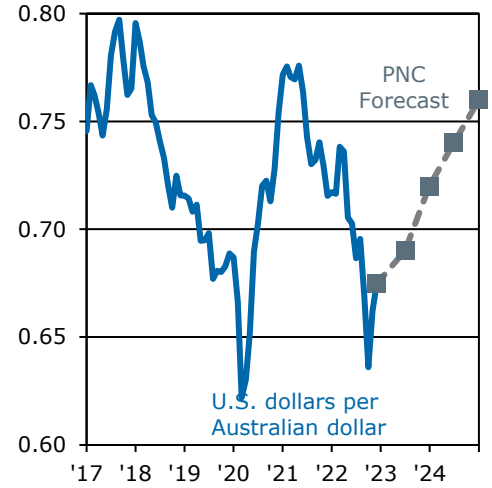
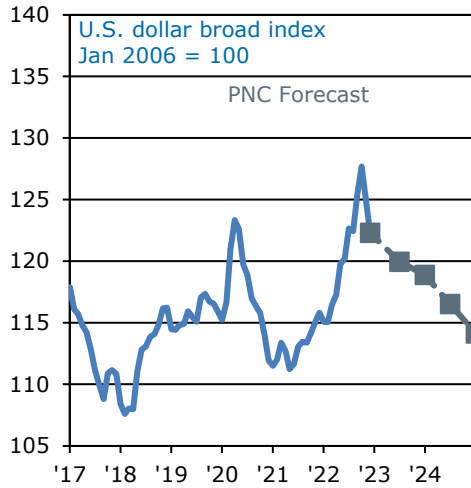
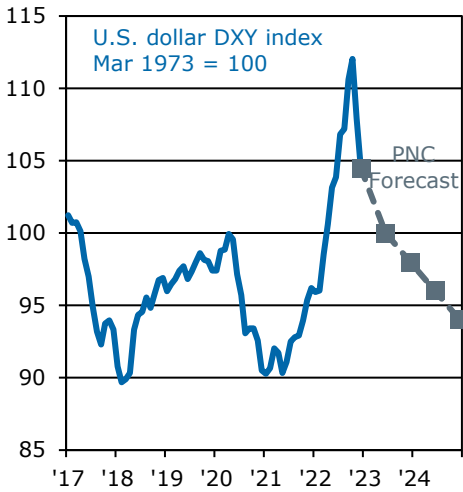
Monetary policy divergence between the Bank of Japan and the Federal Reserve was the primary driver of the yen's depreciation against the dollar in 2022. PNC Economics expects yen strength against the dollar this year as the yield premium paid by U.S. assets over Japanese assets narrows and global trade picks up. China's reopening and a slightly improved global economic outlook will support for the yuan. The renewed Chinese optimism is also reflected in the forecast for the Australian and New Zealand dollars. Improved demand for commodities and a stronger domestic economic outlook will support the Canadian dollar.

A resilient U.S. economy and/or sticky inflation would likely result in a stronger U.S. dollar. If China's economy rebounds more strongly than expected, the dollar is likely to be weaker than forecast.

BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2023

| | | | 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, | 0.76 | 0.72 | 0.70 | 0.67 | 0.67 | PNC Forecast, | 0.69 | 0.72 | 0.74 | 0.76 |
| Brazilian real | <i>BRL per USD</i> | month-avg | 5.03 | 5.65 | 5.05 | 5.23 | 5.25 | month-end | 5.15 | 5.10 | 5.05 | 5.00 |
| Canadian dollar | <i>CAD per USD</i> | | 1.22 | 1.28 | 1.28 | 1.33 | 1.36 | | 1.32 | 1.30 | 1.28 | 1.26 |
| Swiss franc | <i>CHF per USD</i> | | 0.91 | 0.92 | 0.97 | 0.97 | 0.93 | | 0.92 | 0.92 | 0.91 | 0.91 |
| Chinese yuan | <i>CNY per USD</i> | | 6.43 | 6.37 | 6.70 | 7.01 | 6.98 | | 6.80 | 6.70 | 6.65 | 6.60 |
| Euro | <i>USD per EUR</i> | | 1.20 | 1.13 | 1.06 | 0.99 | 1.06 | | 1.08 | 1.10 | 1.12 | 1.14 |
| UK pound sterling | <i>USD per GBP</i> | | 1.40 | 1.33 | 1.23 | 1.13 | 1.22 | | 1.25 | 1.20 | 1.25 | 1.30 |
| Indian rupee | <i>INR per USD</i> | | 73.6 | 75.4 | 78.1 | 80.2 | 82.5 | | 80.0 | 79.5 | 79.0 | 78.0 |
| Japanese yen | <i>JPY per USD</i> | | 110.1 | 113.8 | 134.1 | 143.0 | 134.8 | | 130.0 | 128.0 | 126.0 | 124.0 |
| Korean won | <i>KRW per USD</i> | | 1,122 | 1,184 | 1,276 | 1,393 | 1,293 | | 1,275 | 1,250 | 1,225 | 1,200 |
| Mexican peso | <i>MXN per USD</i> | | 20.0 | 20.9 | 20.0 | 20.1 | 19.6 | | 19.8 | 20.0 | 19.0 | 18.0 |
| Norwegian krone | <i>NOK per USD</i> | | 8.4 | 9.0 | 9.8 | 10.3 | 9.9 | | 9.8 | 9.6 | 9.4 | 9.2 |
| New Zealand dollar | <i>USD per NZD</i> | | 0.71 | 0.68 | 0.64 | 0.59 | 0.64 | | 0.65 | 0.67 | 0.69 | 0.70 |
| Swedish krona | <i>SEK per USD</i> | | 8.4 | 9.1 | 10.0 | 10.9 | 10.4 | | 10.2 | 10.0 | 9.8 | 9.6 |
| Broad dollar index | <i>Jan '06 = 100</i> | | 111.7 | 115.8 | 120.2 | 125.5 | 122.3 | | 120.0 | 118.9 | 116.5 | 114.1 |
| DXY dollar index | <i>Mar '73 = 100</i> | | 91.1 | 96.2 | 103.9 | 110.6 | 104.5 | | 100.0 | 98.0 | 96.0 | 94.0 |

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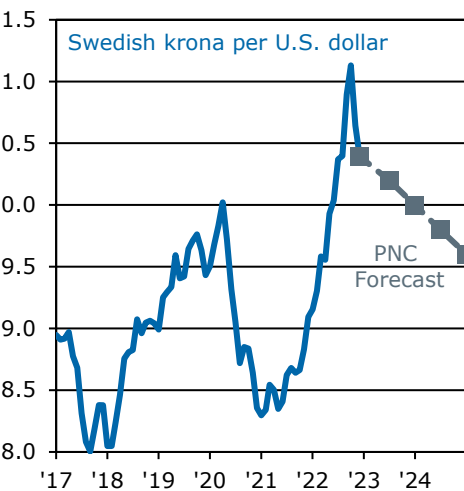
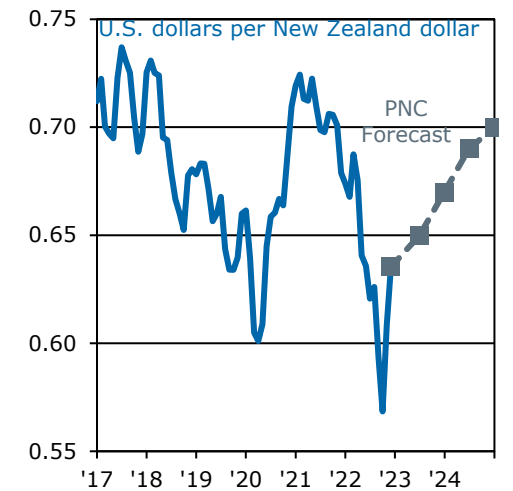
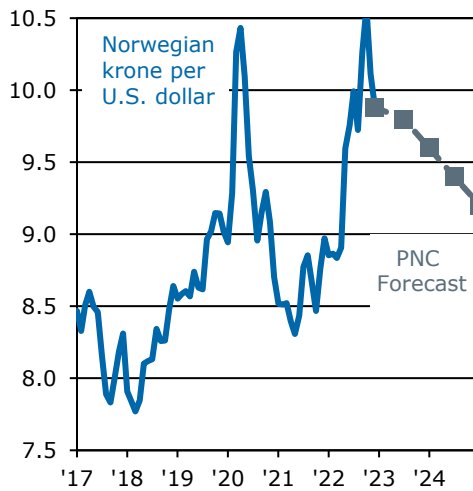
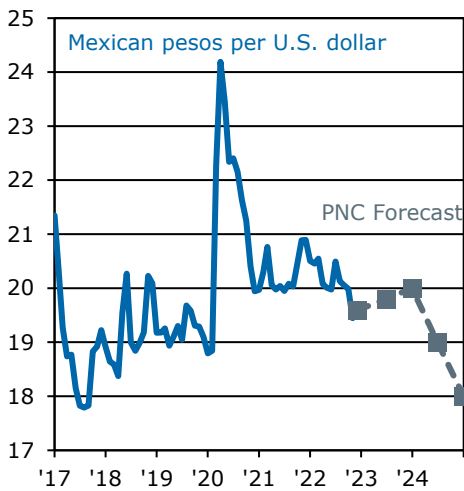
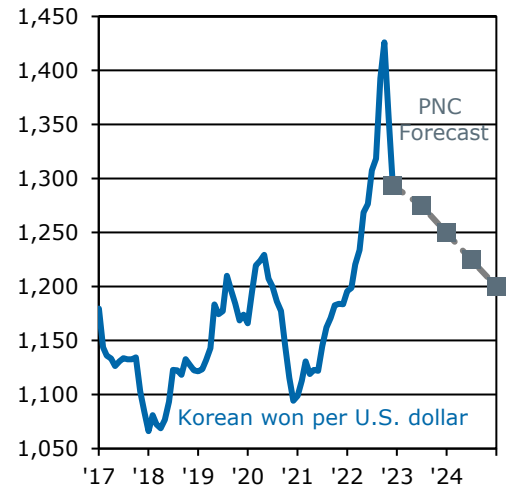
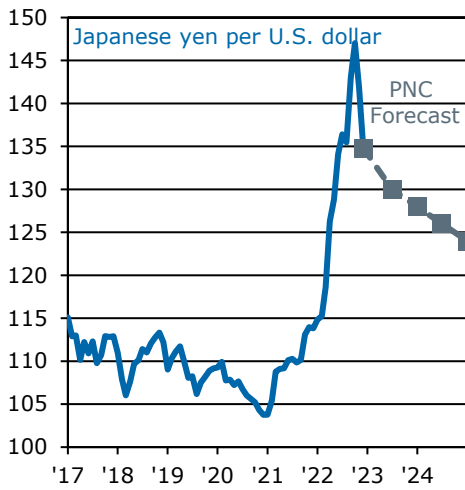
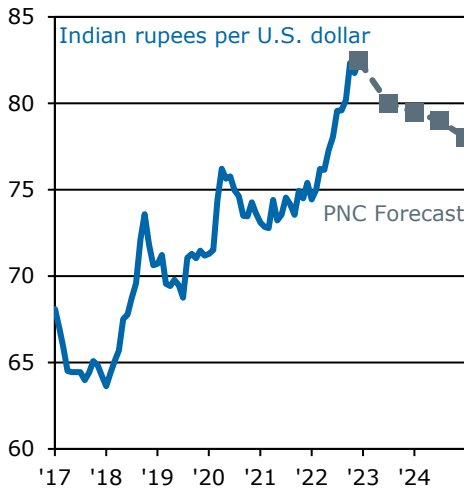


Table and chart sources: Bloomberg and The PNC Financial Services Group.

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