

# EXCHANGE RATE FORECASTS

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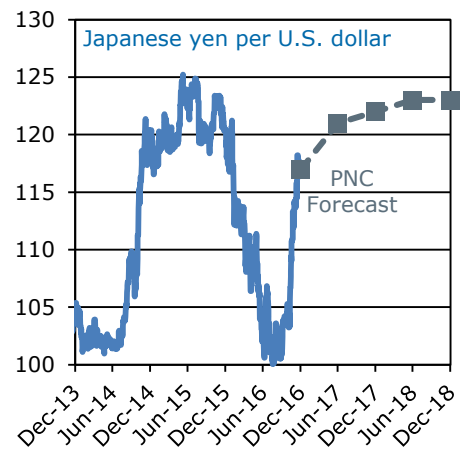
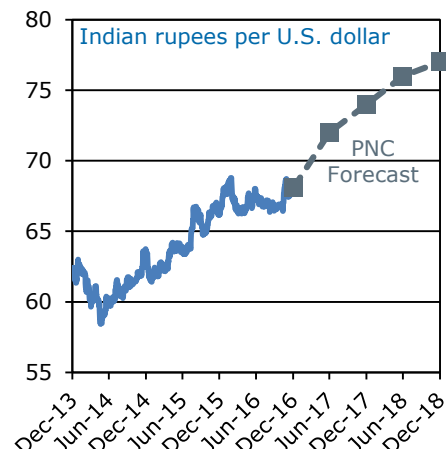
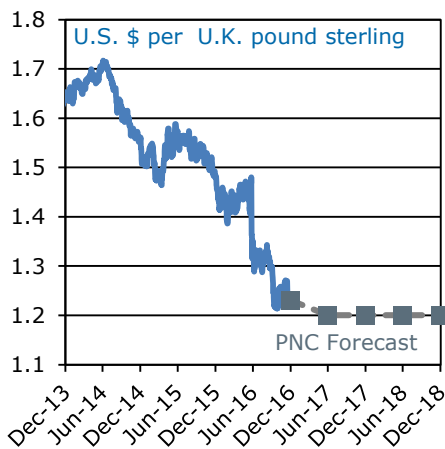
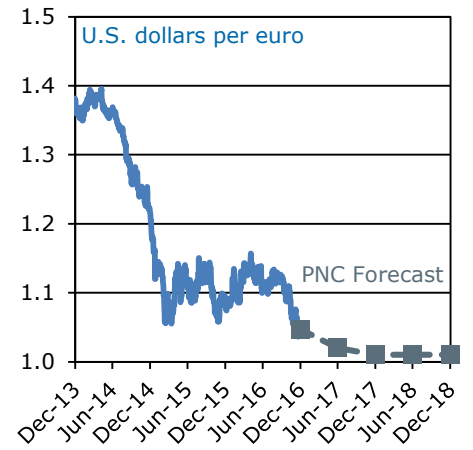
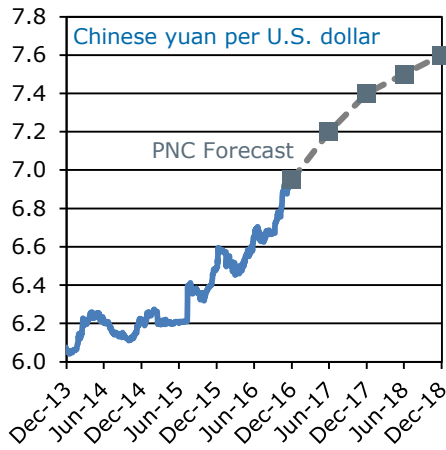
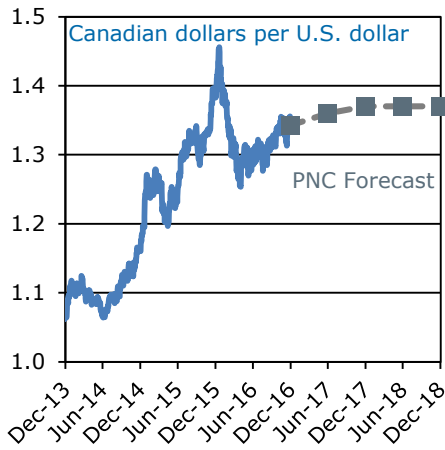
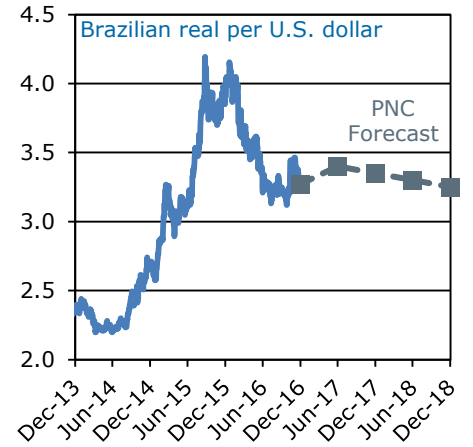
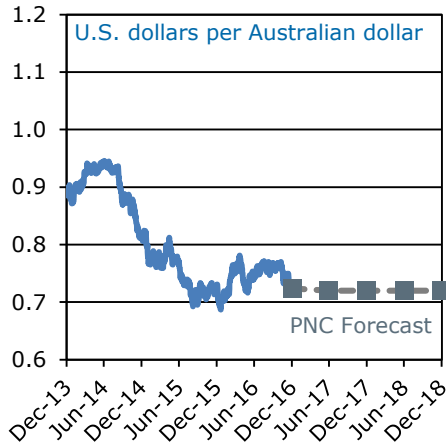
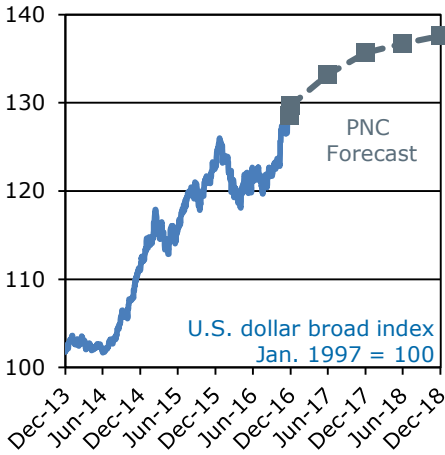
## US FISCAL EXPANSION, TRADE AND MONETARY POLICIES SET TO MAKE A STRONG DOLLAR STRONGER IN 2017-2018

The strong dollar looks set to become even stronger, supported by the transformed outlooks for U.S. fiscal, trade, and monetary policies. A large fiscal expansion is set to boost aggregate demand in the latter half of 2017 and 2018: Tax cuts on repatriated foreign corporate earnings, domestic corporate profits, and personal income, as well as increased infrastructure spending, will raise U.S. aggregate demand and real GDP growth. With OPEC's November 2016 supply cut supporting oil prices and a tightening U.S. job market supporting wages, U.S. inflation will likely rise, pushing long-term interest rates higher, and helping the dollar to strengthen against trading partners' currencies. The specific changes in store for U.S. trade policies are still anyone's guess, but their net effect can be expected to discourage imports, offshoring, and sourcing of manufactured goods through NAFTA – all negatives for the Mexico peso and Canadian dollar, and conversely positive for a stronger U.S. dollar. Changes to U.S. trade policy could weigh on currencies of other export-dependent emerging markets like India and Brazil as well. More expansionary U.S. fiscal policy will create room for a withdrawal of monetary stimulus: The Federal Reserve looks set to raise interest rates faster in 2017 and 2018 than in 2016. Overseas, the European Central Bank, Bank of England, and Bank of Japan are poised to maintain highly expansionary monetary stances in 2017, likely fueling additional weakness of the euro, pound sterling, and yen, respectively, relative to the dollar. The yuan's managed depreciation in 2016 will likely continue in 2017 and 2018, but an unexpected free float and sudden devaluation is still China's most immediate tail risk to the global outlook (a larger risk than a "hard landing" or financial crisis, we believe).

### BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2017

	<b>Australia</b> <i>Australian \$</i> <i>USD per AUD</i>	<b>Brazil</b> <i>Real</i> <i>BRL per USD</i>	<b>Canada</b> <i>Canadian \$</i> <i>CAD per USD</i>	<b>China</b> <i>Yuan</i> <i>CNY per USD</i>	<b>Eurozone</b> <i>Euro</i> <i>USD per EUR</i>	<b>United Kingdom</b> <i>Pound Sterling</i> <i>USD per GBP</i>	<b>India</b> <i>Rupee</i> <i>INR per USD</i>	<b>Japan</b> <i>Yen</i> <i>JPY per USD</i>	<b>Korea</b> <i>Won</i> <i>KRW per USD</i>	<b>Mexico</b> <i>Peso</i> <i>MXN per USD</i>	<b>U.S. Broad Dollar Index</b> <i>Jan '97 = 100</i>
<b>Actual</b> (month-end)											
Dec-2014	0.82	2.66	1.16	6.21	1.21	1.56	63.3	119.8	1,099	14.8	111.3
Jun-2015	0.77	3.10	1.25	6.20	1.12	1.57	63.8	122.3	1,116	15.7	115.5
Dec-2015	0.73	3.90	1.38	6.49	1.09	1.48	66.3	120.4	1,173	17.2	122.8
Jun-2016	0.74	3.21	1.29	6.65	1.11	1.34	67.6	102.7	1,152	18.3	121.6
Dec-2016	0.72	3.26	1.34	6.95	1.05	1.23	68.0	116.9	1,208	20.7	129.7
<b>PNC Forecast</b>											
Jun-2017	0.72	3.40	1.36	7.20	1.02	1.20	72.0	121.0	1,225	21.0	133.2
Dec-2017	0.72	3.35	1.37	7.40	1.01	1.20	74.0	122.0	1,240	22.0	135.6
Jun-2018	0.72	3.30	1.37	7.50	1.01	1.20	76.0	123.0	1,250	22.5	136.7
Dec-2018	0.72	3.25	1.37	7.60	1.01	1.20	77.0	123.0	1,250	23.0	137.6

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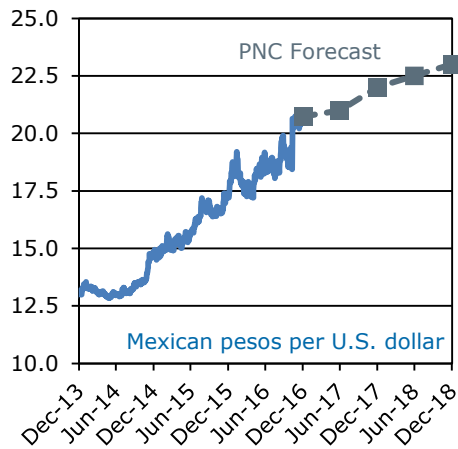
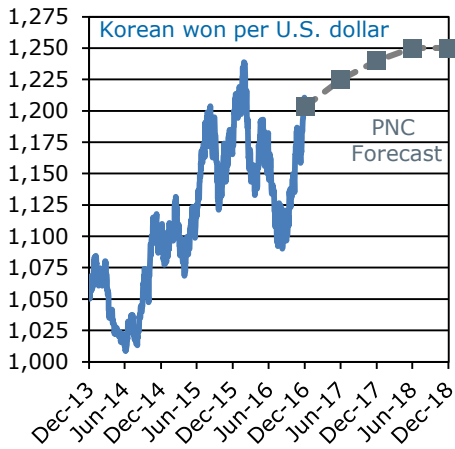


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Banco Central do Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, CEIC, The PNC Financial Services Group.

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