

EXCHANGE RATE FORECASTS

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DOLLAR SET TO RISE IN 2018, BUT FOREIGN CURRENCIES WILL CATCH UP BY 2019 AS GLOBAL RECOVERY BROADENS

The dollar looks set to appreciate against most foreign currencies in 2018, but foreign currencies could recover in 2019. The US tax cut creates crosswinds for exchange rates: Faster economic growth could raise interest rates and support a stronger dollar, but larger deficits (tax revenues will fall) could weaken the dollar. In any case, repatriation of foreign earnings is unlikely to affect exchange rates, since many US companies that will repatriate earnings have already converted them to US dollars in their foreign accounts or hedged their value using derivatives. In the Eurozone, medium-term interest rates could rise significantly by late 2018 if they begin to reflect our or consensus forecasts for short-term rate hikes in 2019; if so, the euro could appreciate against the dollar by 2019. By contrast, the pound is likely to weaken in the near term as the costs of Brexit become more tangible, but could eventually surge if the UK reverses its decision to leave the EU. Canadian and Australian dollars could depreciate if global prices of oil and other commodities fall after the Saudi Aramco IPO and as their central banks raise interest rates more slowly than the Federal Reserve's; Canada's high housing prices pose additional downside risk to the Loonie. The premium of US interest rates above Japanese benchmarks will likely rise across all maturities in 2018, a catalyst for yen depreciation. China's government tightened controls on capital outflows in early 2017 to curb yuan depreciation. The yuan is strong relative to currencies of China's non-US trading partners and would depreciate in a free float, but the threat of a trade war has postponed China's transition to a market-determined exchange rate. The Indian rupee is historically strong on a trade-weighted basis and could depreciate in a reversion to mean. Business cycle dynamics favor stronger Brazilian and Mexican currencies, but political tail risks related to NAFTA, elections, and corruption scandals could more than offset them if realized.

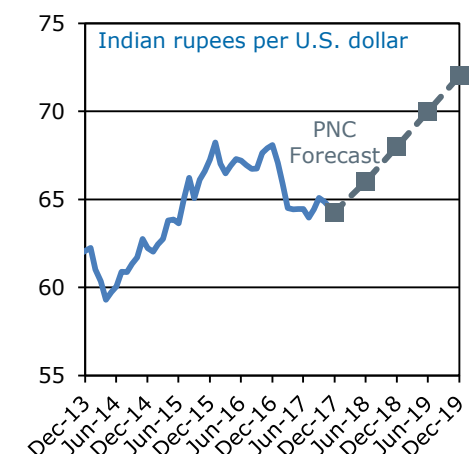
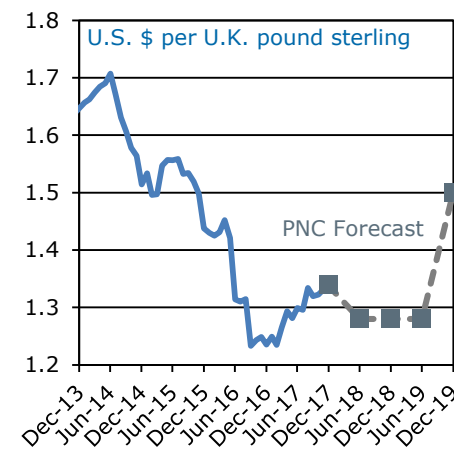
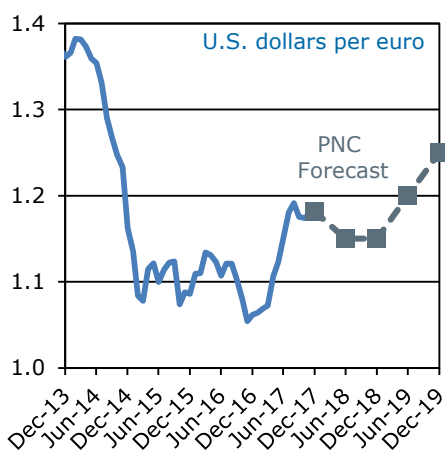
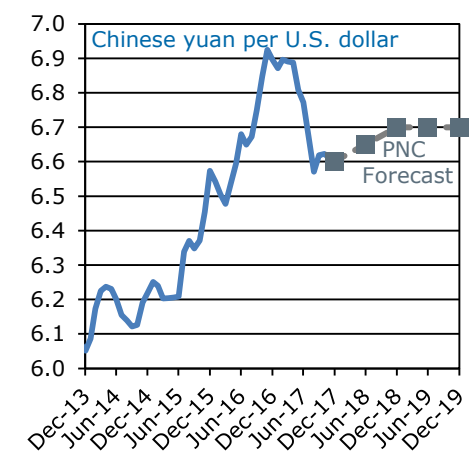
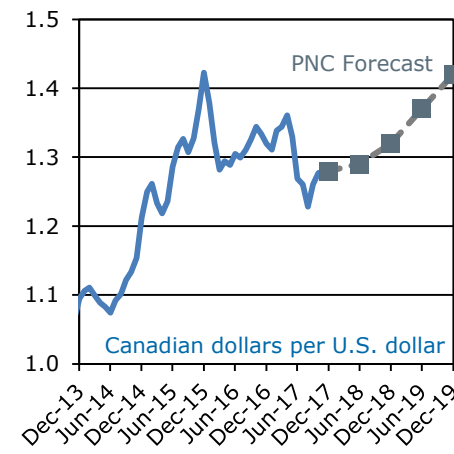
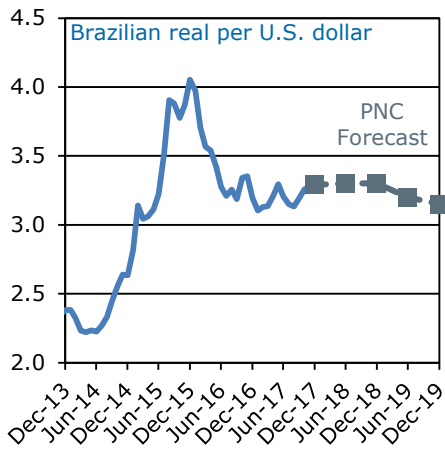
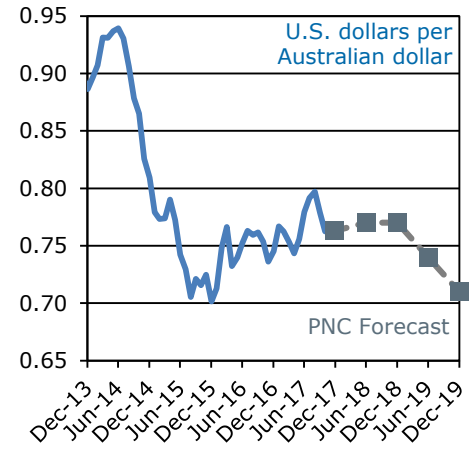
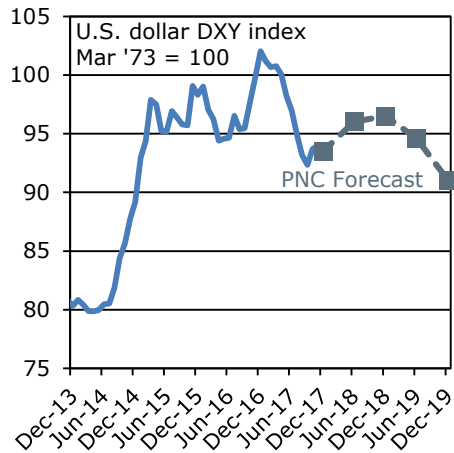
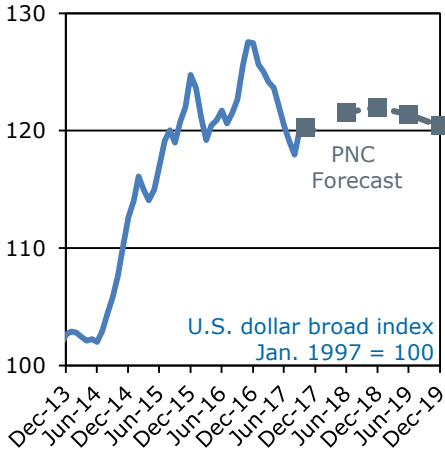
BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2018

	Australia <i>Australian \$</i> <i>USD per AUD</i>	Brazil <i>Real</i> <i>BRL per USD</i>	Canada <i>Canadian \$</i> <i>CAD per USD</i>	China <i>Yuan</i> <i>CNY per USD</i>	Eurozone <i>Euro</i> <i>USD per EUR</i>	United Kingdom <i>Pound Sterling</i> <i>USD per GBP</i>	India <i>Rupee</i> <i>INR per USD</i>	Japan <i>Yen</i> <i>JPY per USD</i>	Korea <i>Won</i> <i>KRW per USD</i>	Mexico <i>Peso</i> <i>MXN per USD</i>	U.S. Broad <i>Dollar Index</i> <i>Jan '97 = 100</i>	DXY <i>Dollar Index</i> <i>Mar '73 = 100</i>
Actual (month-avg)												
Dec-2014	0.83	2.64	1.15	6.19	1.23	1.56	62.8	119.3	1,104	14.5	110.3	89.2
Dec-2015	0.72	3.87	1.37	6.45	1.09	1.50	66.6	121.8	1,173	17.1	122.0	98.3
Jun-2016	0.74	3.42	1.29	6.59	1.12	1.42	67.3	105.4	1,168	18.6	120.9	94.7
Dec-2016	0.74	3.35	1.33	6.92	1.05	1.25	67.9	116.0	1,183	20.5	127.6	102.0
Jun-2017	0.76	3.30	1.33	6.81	1.12	1.28	64.4	110.9	1,132	18.1	122.0	96.9
Dec-2017	0.76	3.29	1.28	6.60	1.18	1.34	64.2	113.0	1,086	19.1	120.0	93.4
PNC Forecast (month-end)												
Jun-2018	0.77	3.30	1.29	6.65	1.15	1.28	66.0	115.0	1,105	19.1	121.6	96.1
Dec-2018	0.77	3.30	1.32	6.70	1.15	1.28	68.0	117.0	1,125	18.1	122.0	96.6
Jun-2019	0.74	3.20	1.37	6.70	1.20	1.28	70.0	119.0	1,145	17.5	121.5	94.6
Dec-2019	0.71	3.15	1.42	6.70	1.25	1.50	72.0	121.0	1,165	17.1	120.7	91.1

Note: Monthly average values for December 2017 were calculated using data available as of December 29, 2017.



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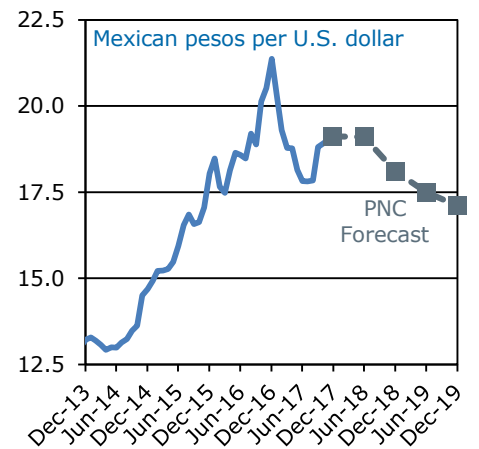
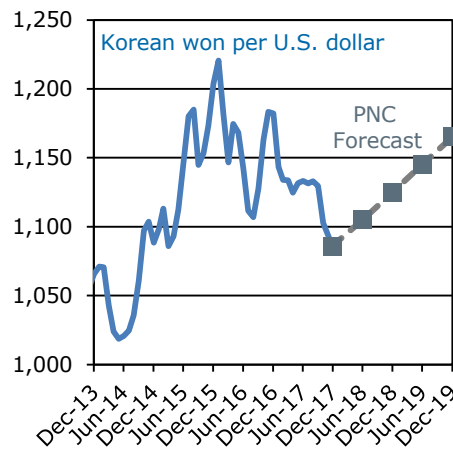
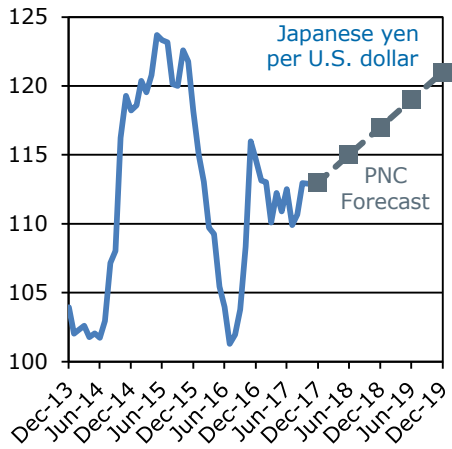


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Banco Central do Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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