

EXCHANGE RATE FORECASTS

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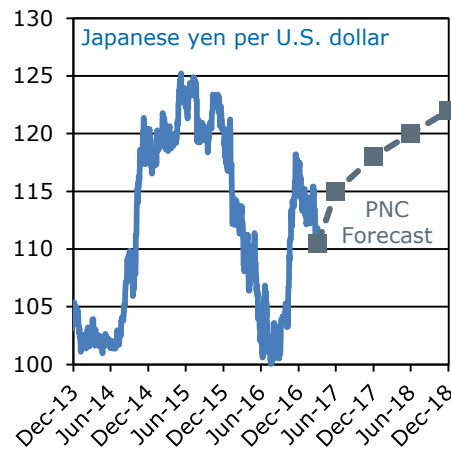
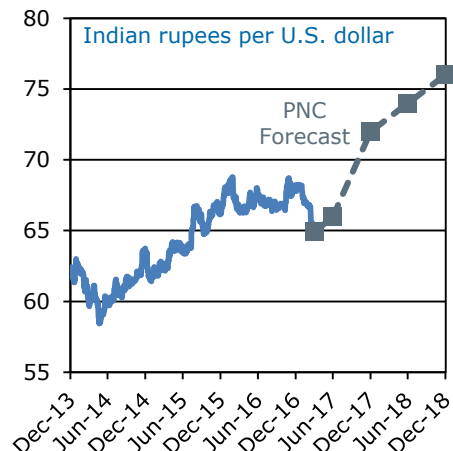
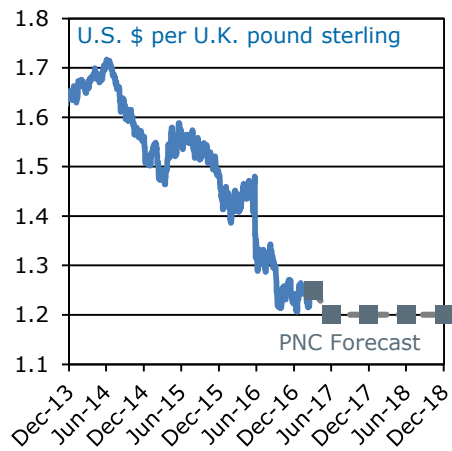
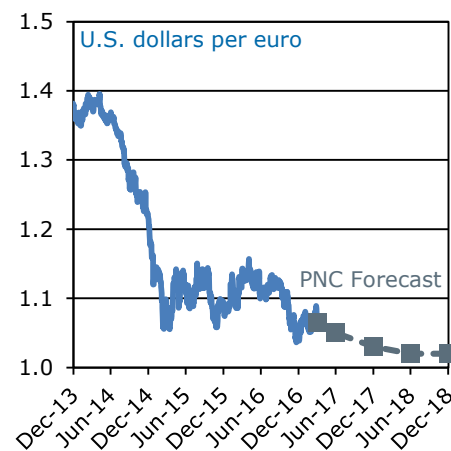
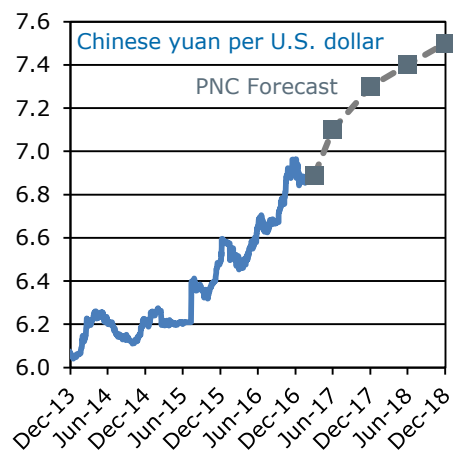
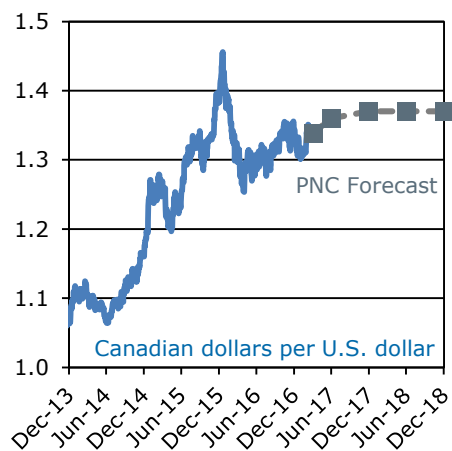
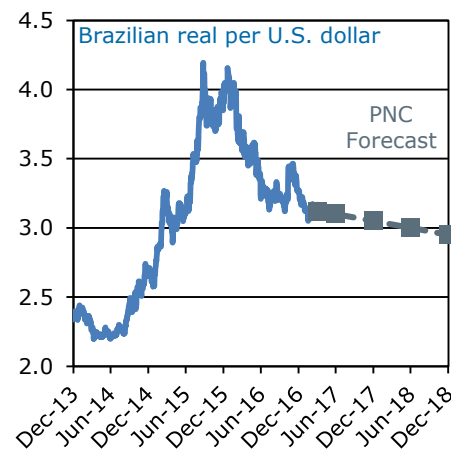
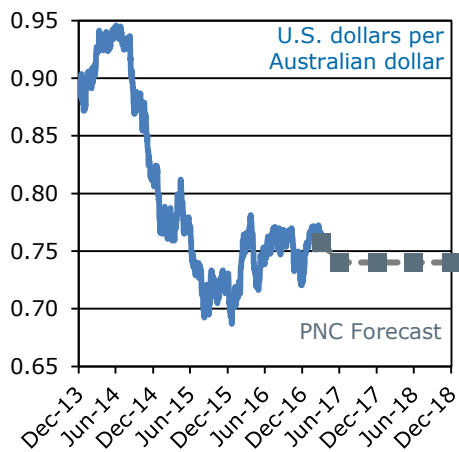
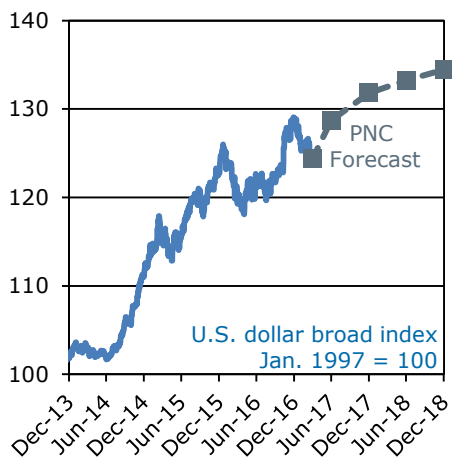
DOLLAR APPRECIATION LOOKS SET TO RESUME AFTER THE FIRST QUARTER'S HEAD-FAKE RETREAT

The broad-dollar index depreciated more than 3 percent in the first quarter as markets had second thoughts as to whether the reflationary economic policies discussed during the 2016 electoral campaign would become reality. While economic policy has so far changed little, it still seems likely that the Republican-controlled executive and legislative branches will eventually enact some mix of tax cuts, infrastructure spending with "buy American" conditions, and tariffs on imports in the next few quarters. These policies will add to US inflationary pressures, keeping the Federal Reserve on track to raise interest rates faster in 2017 and 2018 than in 2016 and 2015. The euro and yen strengthened in early 2017 on speculation that the European Central Bank and Bank of Japan could raise their interest rate targets relatively soon, despite current aggressive quantitative easing programs; inflation data for both economies suggest rate hikes are farther away than financial markets assume, and that the euro and yen are likely to resume weakening against the dollar. Similarly, fundamentals provide at best shaky support for currencies of commodity-exporting economies: US crude production is now up 9 percent from its July 2016 trough, and petroleum inventories are within 3 percent of all-time highs; abundant petroleum supply suggests limited upside for commodity prices and commodity-linked currencies like the Canadian dollar, Australian dollar, and Brazilian real. PNC's Mexican peso forecast takes the proposed NAFTA renegotiation at face value and assumes US-Mexico trade relations will become less close, and the peso consequently weaker. China's capital outflows slowed in early 2017 on tighter capital controls, supporting PNC's forecast for a continued managed depreciation of the yuan in 2017-2018; a freely-floating and subsequently weaker yuan is a key tail risk to the outlook.

BASELINE EXCHANGE RATE FORECASTS, SECOND QUARTER OF 2017

| | 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 Dollar Index <i>Jan '97 = 100</i> |
|------------------------------|--|--|---|---|--|--|--|--|--|--|--|
| Actual (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 |
| 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 | 117.1 | 1,208 | 20.6 | 128.2 |
| Mar-2017 | 0.76 | 3.17 | 1.33 | 6.89 | 1.07 | 1.25 | 64.8 | 111.8 | 1,118 | 18.7 | 124.1 |
| PNC Forecast | | | | | | | | | | | |
| Jun-2017 | 0.74 | 3.10 | 1.36 | 7.10 | 1.05 | 1.20 | 66.0 | 115.0 | 1,180 | 20.5 | 128.7 |
| Dec-2017 | 0.74 | 3.05 | 1.37 | 7.30 | 1.03 | 1.20 | 72.0 | 118.0 | 1,210 | 21.5 | 131.8 |
| Jun-2018 | 0.74 | 3.00 | 1.37 | 7.40 | 1.02 | 1.20 | 74.0 | 120.0 | 1,230 | 22.0 | 133.2 |
| Dec-2018 | 0.74 | 2.95 | 1.37 | 7.50 | 1.02 | 1.20 | 76.0 | 122.0 | 1,250 | 22.5 | 134.4 |

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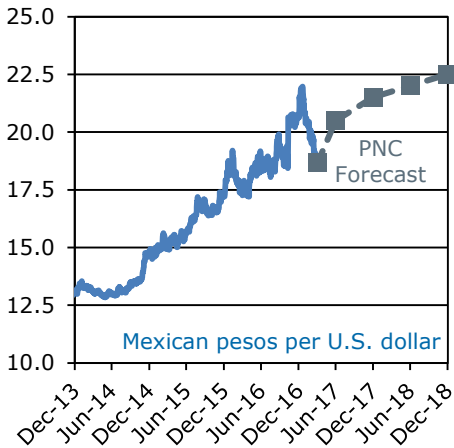
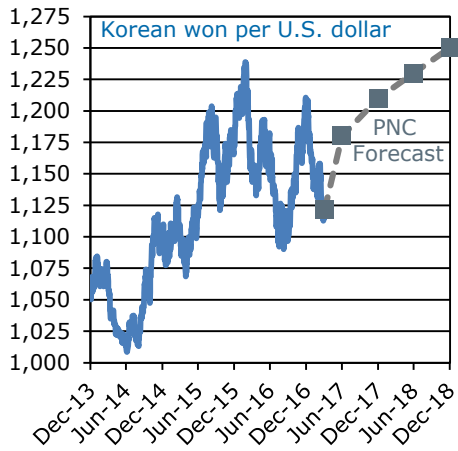


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Banco Central do Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, CEIC, The PNC Financial Services Group.

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