

EXCHANGE RATE FORECASTS

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EXCHANGE RATES LOOK SET TO DIVERGE ON MACRO CROSS CURRENTS IN 2018 AND 2019

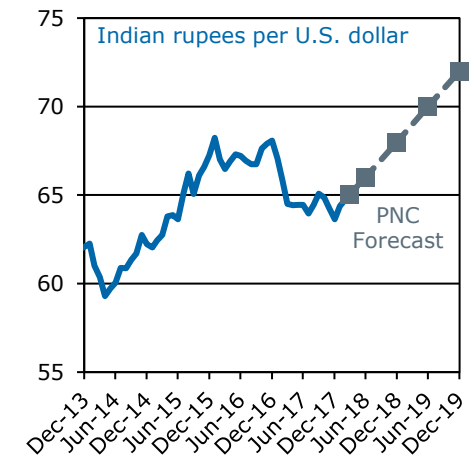
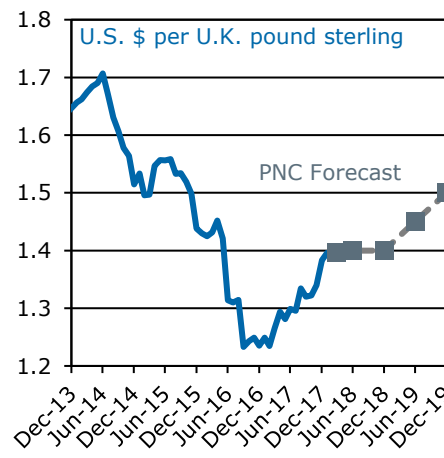
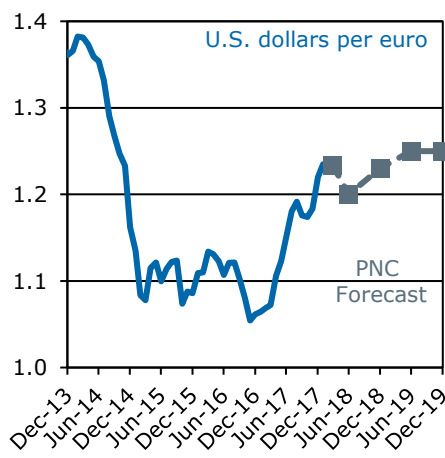
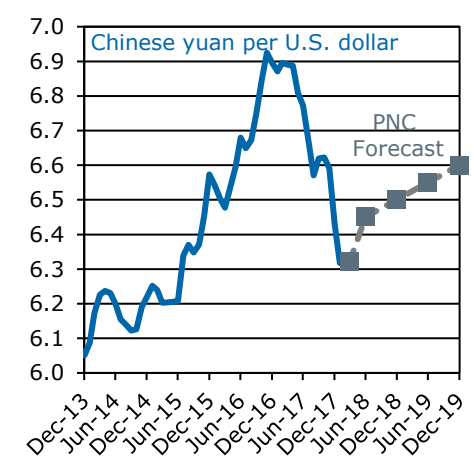
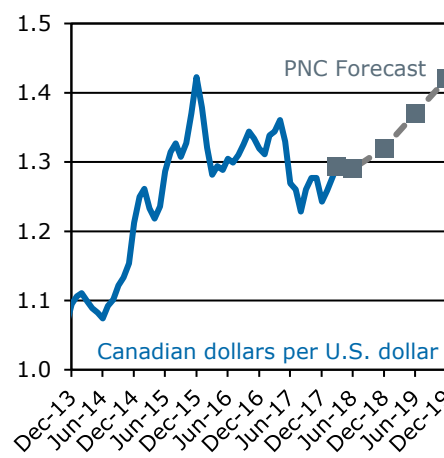
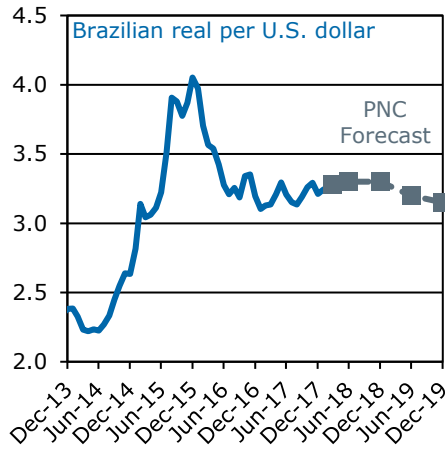
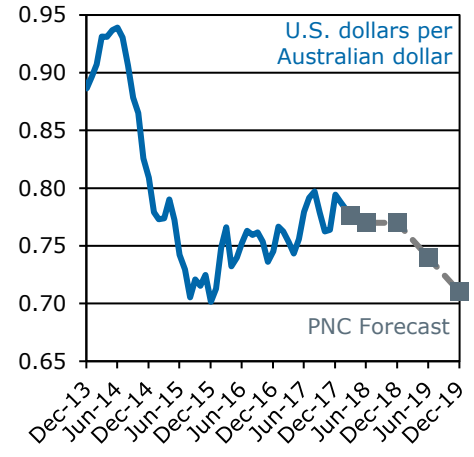
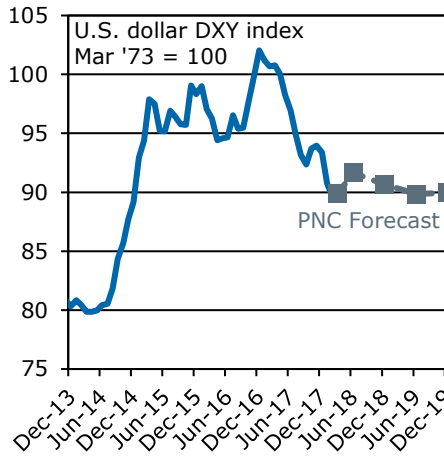
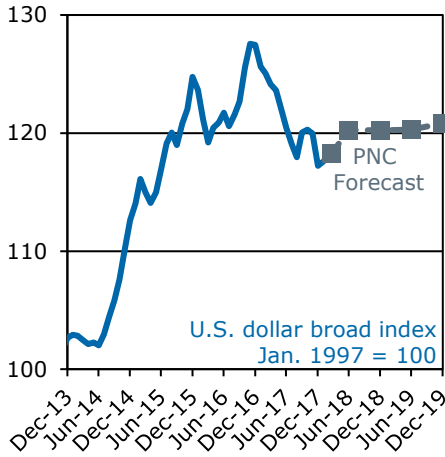
The dollar depreciated against most foreign currencies through early February as foreign investors sold US Treasury and federal agency bonds in anticipation of larger federal deficits. Subsequently, financial markets scaled back expectations for policy interest rate hikes in foreign economies including Canada and the UK, and began anticipating faster hikes from the Federal Reserve. The Fed expects fiscal stimulus to lower the unemployment rate to well below four percent in late 2018 and in 2019. As the US federal government ramps up fiscal stimulus, the Federal Reserve will withdraw monetary stimulus. The dollar will appreciate against several currencies in 2018 as federal funds rate hikes come faster than the futures market anticipates. However, upside risks to interest rates are similar in the Eurozone, where Jens Weidmann, the hawkish head of the German central bank, is frontrunner to assume leadership of the ECB in late 2019. PNC has raised its euro forecast in anticipation of tighter monetary policy after the next ECB president's term begins. The UK is following Brexit's path of least resistance toward a "Brevermind" outcome, which PNC views as positive for the pound sterling. The UK is trying to avoid Brexit's economic costs like lost financial services jobs and exports, and its political costs like turmoil in Northern Ireland. China's policymakers tightened fiscal and monetary policy, a headwind to growth; this is reflected in a depreciation forecast for the Australian and Canadian dollars in 2019. Canada's housing market correction is a further downside risk to the loonie. Mexico's peso and Brazil's real will likely strengthen after each country's elections in July and October, respectively, assuming that political tail risks are not realized. PNC's forecasts also assume no repeal of NAFTA and no escalating trade war. Either contingency would cause the euro, pound sterling, and yen to appreciate against the dollar, and cause other currencies in PNC's forecast coverage to weaken.

BASELINE EXCHANGE RATE FORECASTS, SECOND QUARTER OF 2018

	Australia <i>Australian \$</i> USD per AUD	Brazil <i>Real</i> BRL per USD	Canada <i>Canadian \$</i> CAD per USD	China <i>Yuan</i> CNY per USD	Eurozone <i>Euro</i> USD per EUR	United Kingdom <i>Pound Sterling</i> USD per GBP	India <i>Rupee</i> INR per USD	Japan <i>Yen</i> JPY per USD	Korea <i>Won</i> KRW per USD	Mexico <i>Peso</i> MXN per USD	U.S. Broad <i>Dollar Index</i> Jan '97 = 100	DXY <i>Dollar Index</i> Mar '73 = 100
Actual (month-avg)												
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
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	6.59	1.18	1.34	64.2	113.0	1,086	19.2	120.0	93.4
Mar-2018	0.78	3.28	1.29	6.32	1.23	1.40	65.0	106.3	1,057	18.6	118.3	89.9
PNC Forecast (month-end)												
Jun-2018	0.77	3.30	1.29	6.45	1.20	1.40	66.0	108.0	1,095	19.1	120.3	91.6
Dec-2018	0.77	3.30	1.32	6.50	1.23	1.40	68.0	110.0	1,125	18.1	120.2	90.7
Jun-2019	0.74	3.20	1.37	6.55	1.25	1.45	70.0	111.0	1,145	17.5	120.3	89.9
Dec-2019	0.71	3.15	1.42	6.60	1.25	1.50	72.0	112.0	1,165	17.1	120.8	90.0

Note: Monthly average values for March 2018 were calculated using data available as of April 2, 2018.

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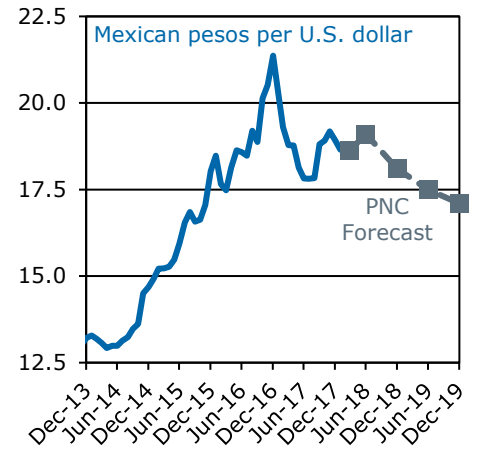
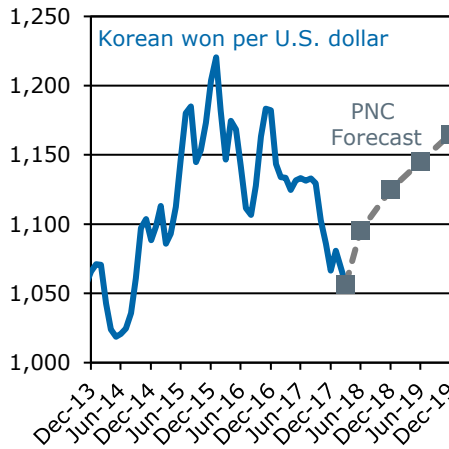
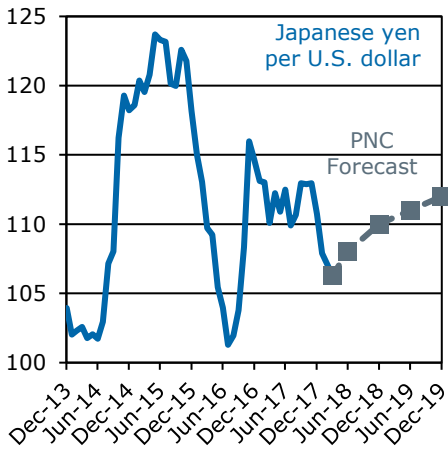


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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