

EXCHANGE RATE FORECASTS

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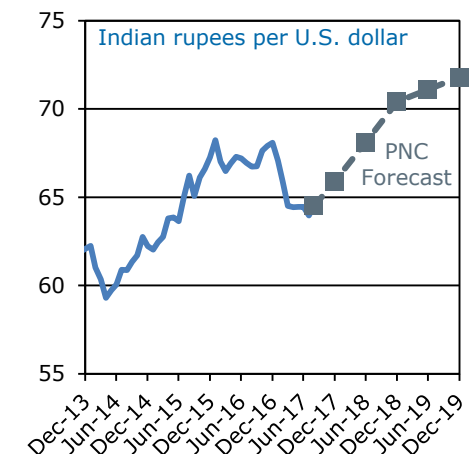
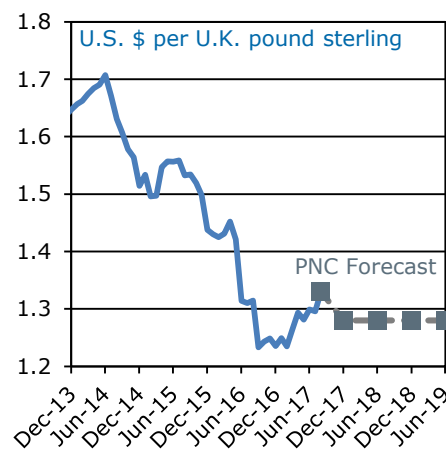
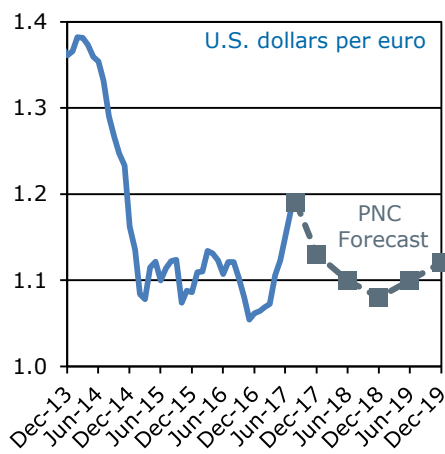
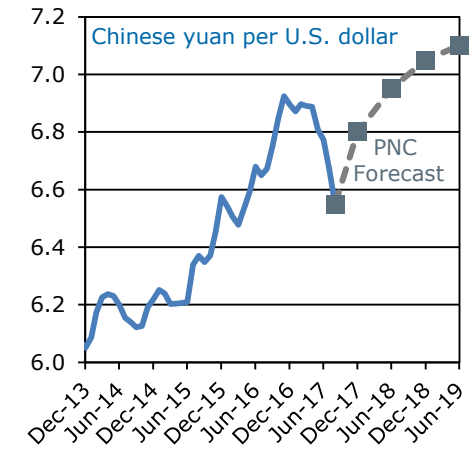
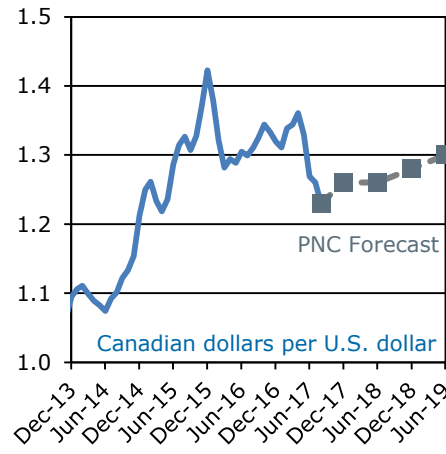
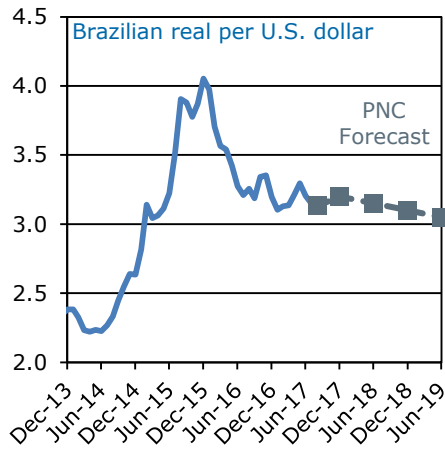
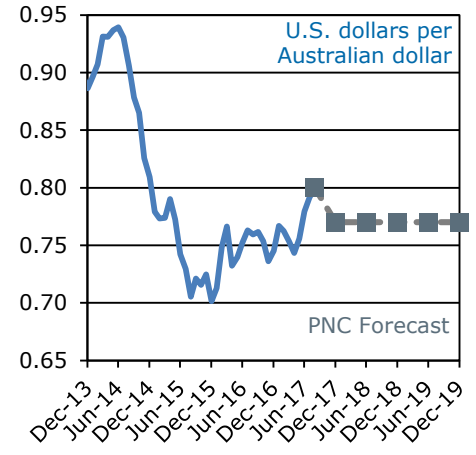
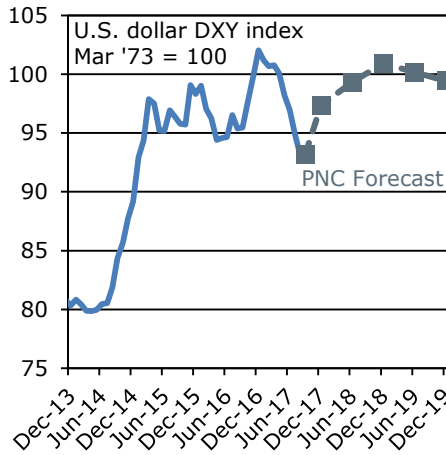
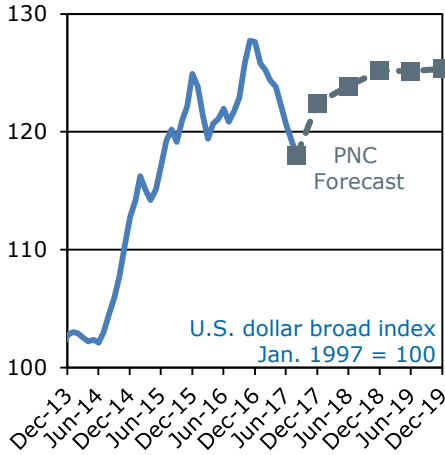
STRONG DOLLAR LIKELY THE TREND FOR 2018, BUT FOREIGN CURRENCIES COULD RECOVER IN 2019

The US dollar strengthened at the end of September after depreciating against most major currencies in the spring and summer of 2017. The US monetary policy outlook drove the change: The Federal Reserve announced on September 20 that in October it would begin reducing the size of its balance sheet, and signaled that policymakers expect to raise the federal funds target in December. Fed policymakers believe they are at or close to achieving their mandate for maximum employment and that inflation is likely to rise toward their goal; as such, PNC Economics forecasts that US short-term interest rates will rise faster in 2018 than federal funds futures markets anticipate, a catalyst for further dollar recovery in late 2017 and in 2018. In 2019, the dollar's appreciation will slow as the potential for upside surprises from US interest rates diminishes. Abroad, we expect the Bank of Canada and Bank of England to withdraw monetary stimulus at a similar pace to the Federal Reserve in 2018, then at a slower pace than the Fed in 2019: the Bank of Canada could slow rate hikes as Canada's housing weakness deepens, and the Bank of England could do so as the costs of Brexit become more tangible. The European Central Bank will taper its quantitative easing program in 2018, but probably hold off until the second quarter of 2019 or later for a policy rate hike; benchmark Eurozone interest rates will likely still be negative when ECB President Mario Draghi leaves office in October 2019. Global oil prices are likely to stabilize or rise as Saudi Arabia limits OPEC oil supply ahead of their state oil company's IPO in late 2018. Stable to rising oil prices will be supportive of commodity-exporting emerging markets like Brazil and Mexico, whose relatively weak currencies have room to appreciate, and a headwind to commodity-importing emerging markets like China and India, whose relatively strong currencies have room to depreciate.

BASELINE EXCHANGE RATE FORECASTS, FOURTH QUARTER OF 2017

	Australia <i>Australian \$</i>	Brazil <i>Real</i>	Canada <i>Canadian \$</i>	China <i>Yuan</i>	Eurozone <i>Euro</i>	United Kingdom <i>Pound Sterling</i>	India <i>Rupee</i>	Japan <i>Yen</i>	Korea <i>Won</i>	Mexico <i>Peso</i>	U.S. Broad <i>Dollar Index</i>	DXY <i>Dollar Index</i>
	<i>USD per AUD</i>	<i>BRL per USD</i>	<i>CAD per USD</i>	<i>CNY per USD</i>	<i>USD per EUR</i>	<i>USD per GBP</i>	<i>INR per USD</i>	<i>JPY per USD</i>	<i>KRW per USD</i>	<i>MXN per USD</i>	<i>Jan '97 = 100</i>	<i>Mar '73 = 100</i>
Actual (month-end)												
Dec-2014	0.83	2.64	1.15	6.19	1.23	1.56	62.8	119.3	1,104	14.5	110.4	89.2
Dec-2015	0.72	3.87	1.37	6.45	1.09	1.50	66.6	121.8	1,173	17.1	122.2	98.3
Jun-2016	0.74	3.42	1.29	6.59	1.12	1.42	67.3	105.4	1,168	18.6	121.1	94.7
Dec-2016	0.74	3.35	1.33	6.92	1.05	1.25	67.9	116.0	1,183	20.5	127.7	102.0
Jun-2017	0.76	3.30	1.33	6.81	1.12	1.28	64.4	110.9	1,132	18.1	122.3	96.9
Sep-2017	0.80	3.13	1.23	6.55	1.19	1.33	64.5	111.0	1,130	17.7	118.0	93.2
PNC Forecast												
Dec-2017	0.77	3.20	1.23	6.80	1.13	1.28	65.9	113.5	1,160	18.7	121.9	97.1
Jun-2018	0.77	3.15	1.23	6.95	1.10	1.28	68.1	116.0	1,180	18.4	123.3	99.1
Dec-2018	0.77	3.10	1.25	7.05	1.08	1.28	70.4	118.0	1,190	18.1	124.6	100.7
Jun-2019	0.77	3.05	1.28	7.10	1.10	1.28	71.1	120.0	1,200	17.8	124.7	100.0
Dec-2019	0.77	3.00	1.31	7.20	1.12	1.28	71.8	122.0	1,220	17.5	125.1	99.4

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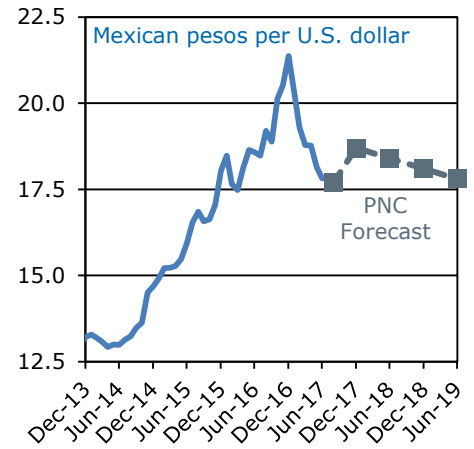
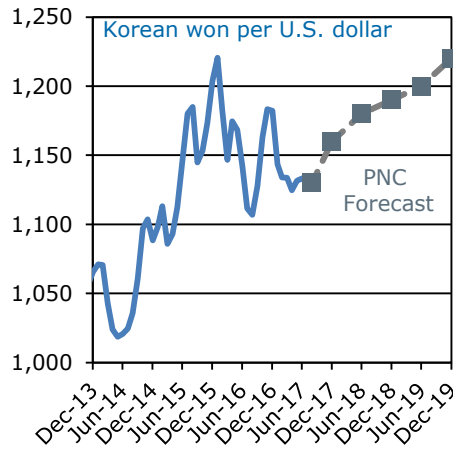
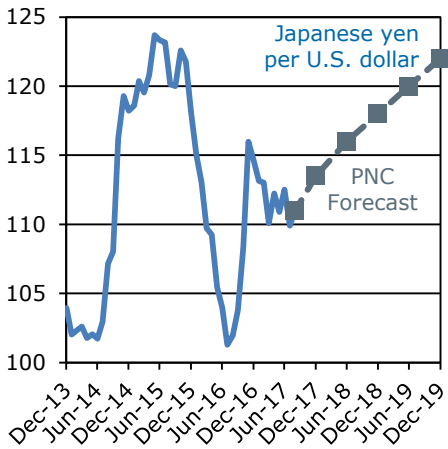


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Banco Central do Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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