

EXCHANGE RATE FORECASTS

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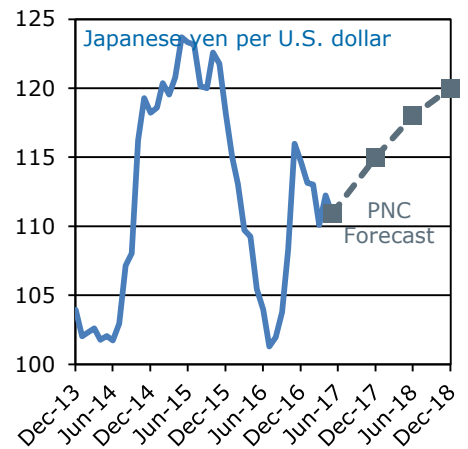
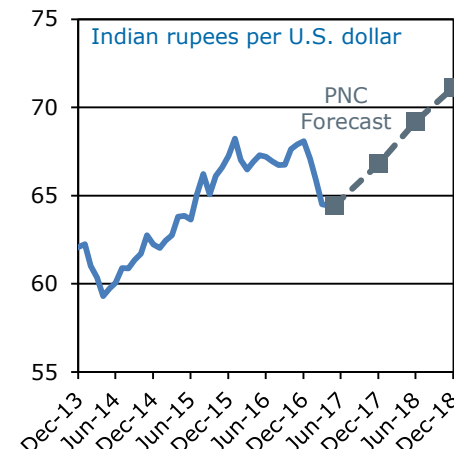
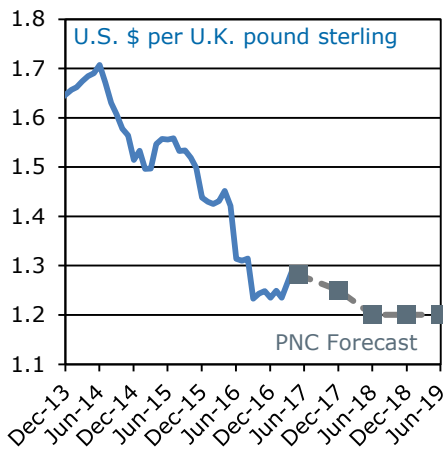
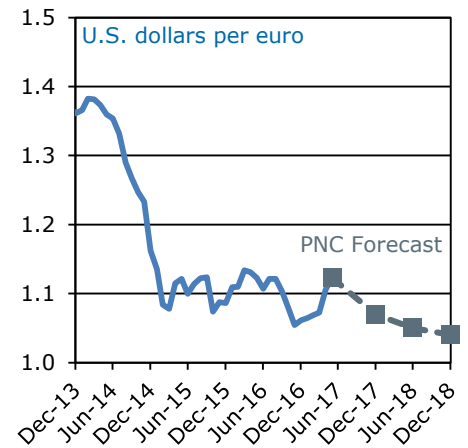
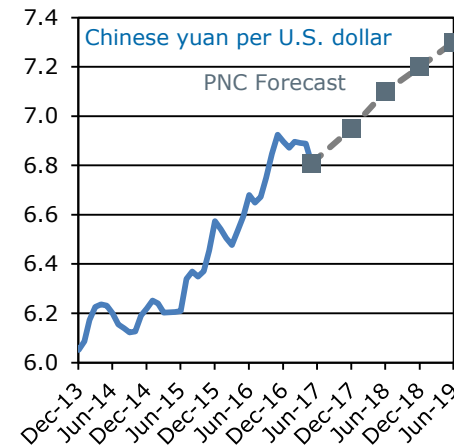
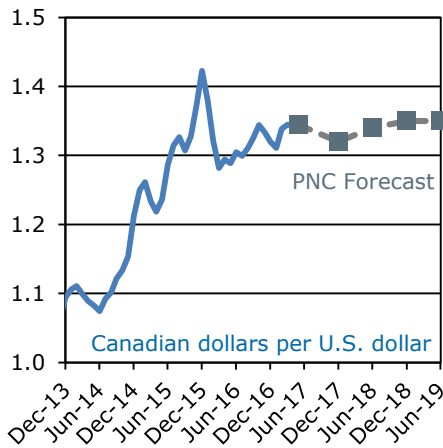
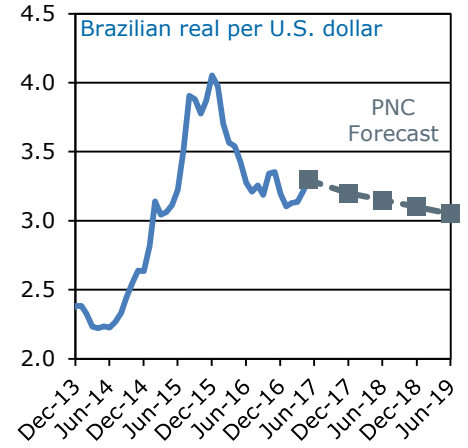
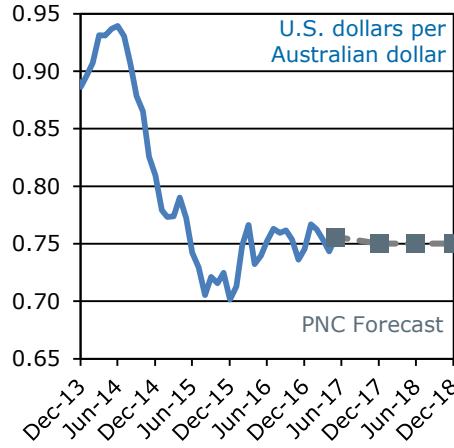
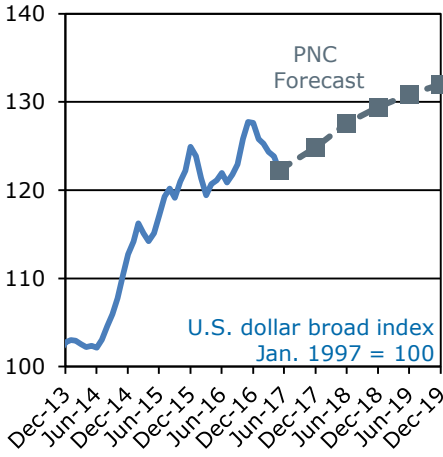
TIGHTENING US JOB MARKET TO PUSH THE DOLLAR STRONGER IN SECOND HALF OF 2017 AND IN 2018-2019

The US job market tightened further in the second quarter of 2017 as the economy added nearly 200,000 nonfarm payroll jobs per month and the unemployment rate held under 4.5 percent. PNC Economics expects job market strength to fuel faster wage growth in the second half of 2017, in 2018, and in 2019, encouraging a faster pace of US policy rate hikes than the fed funds futures market currently anticipates—a catalyst for dollar appreciation. Tax cuts or other stimulus could push interest rates up faster than in our baseline forecast. Abroad, financial markets may overestimate how fast foreign central banks will withdraw stimulus. Markets price in nearly a two-in-three chance of a rate hike from the European Central Bank by June 2018, a foolhardy gamble that the ECB will abandon its forward guidance—that it will keep interest rates at present levels “well beyond the horizon” of when quantitative easing ends, implying no rate hikes until late 2018 or, more likely, 2019. In the UK, Brexit’s headwinds to growth are blowing harder as businesses adjust to reduced economic ties with the EU. The Bank of Japan is far from a taper of stimulus policies. China will likely guide the yuan weaker as the dollar appreciates against currencies of the country’s other trading partners. The Indian rupee’s recent gains leave it overvalued relative to its long-run trend, making a reversal likely. Canadian financial markets are focused on the quantity of jobs created in the first half of 2017 and overlook their lower average wages, which will limit consumer spending and inflation pressures, and slow Bank of Canada interest rate hikes. Mexico’s domestic economic fundamentals weakened in the first half of 2017 as energy price hikes, higher interest rates, and reduced public revenues from oil eroded domestic demand. Brazil’s recovery from 2014-2016’s depression continues despite political uncertainties, a tailwind to the real.

BASELINE EXCHANGE RATE FORECASTS, THIRD 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	0.83	2.64	1.15	6.19	1.23	1.56	62.8	119.3	1,104	14.5	110.4
Dec-2015	0.72	3.87	1.37	6.45	1.09	1.50	66.6	121.8	1,173	17.1	122.2
Jun-2016	0.74	3.42	1.29	6.59	1.12	1.42	67.3	105.4	1,168	18.6	121.1
Dec-2016	0.74	3.35	1.33	6.92	1.05	1.25	67.9	116.0	1,183	20.5	127.7
Jun-2017	0.76	3.30	1.34	6.81	1.12	1.28	64.4	110.9	1,132	18.1	122.3
PNC Forecast											
Dec-2017	0.75	3.20	1.32	6.95	1.07	1.25	66.8	115.0	1,190	18.7	124.9
Jun-2018	0.75	3.15	1.34	7.10	1.05	1.20	69.2	118.0	1,210	19.4	127.6
Dec-2018	0.75	3.10	1.35	7.20	1.04	1.20	71.1	120.0	1,230	20.2	129.4
Jun-2019	0.75	3.05	1.35	7.30	1.03	1.20	72.6	122.0	1,250	21.0	130.8
Dec-2019	0.75	3.00	1.35	7.40	1.03	1.20	74.0	124.0	1,250	21.8	132.0

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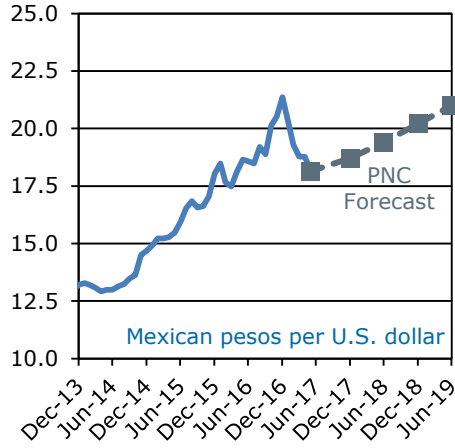
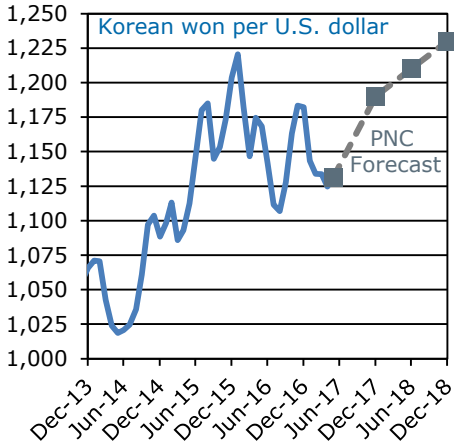


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Banco Central do Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, CEIC, The PNC Financial Services Group.

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