

EXCHANGE RATE FORECASTS

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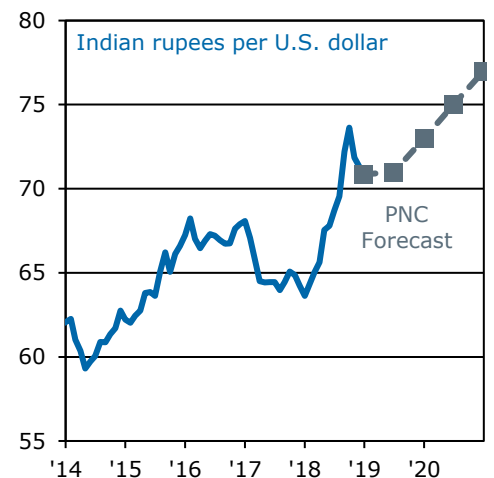
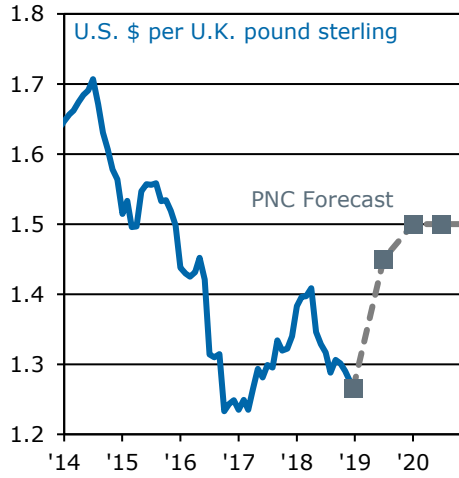
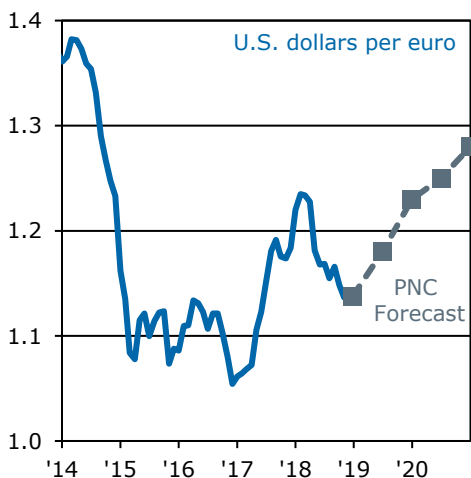
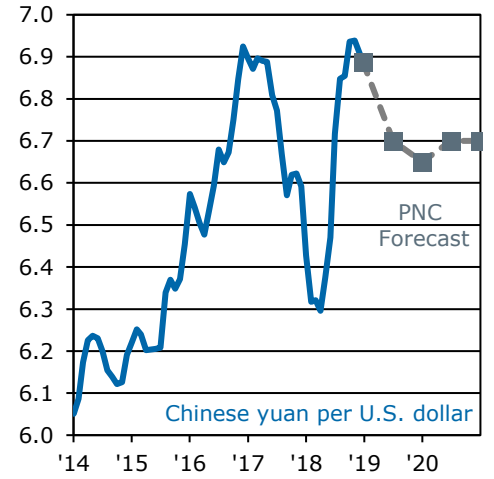
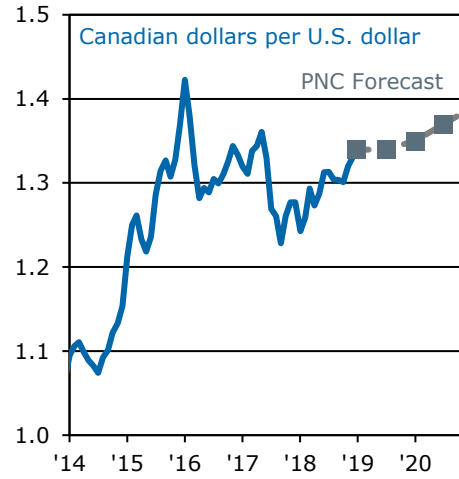
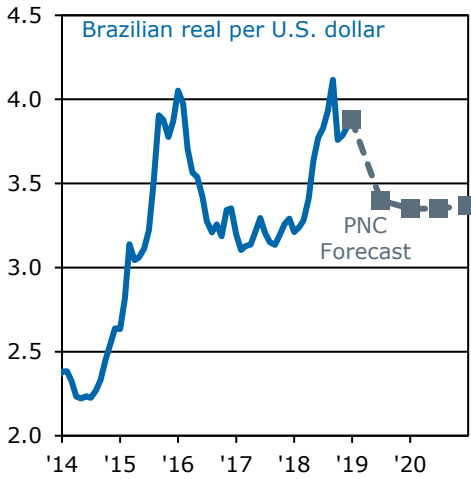
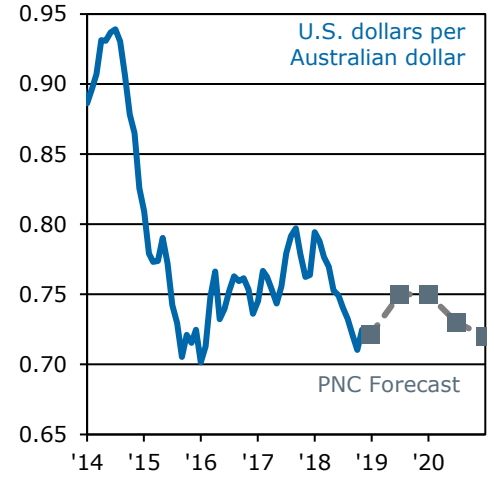
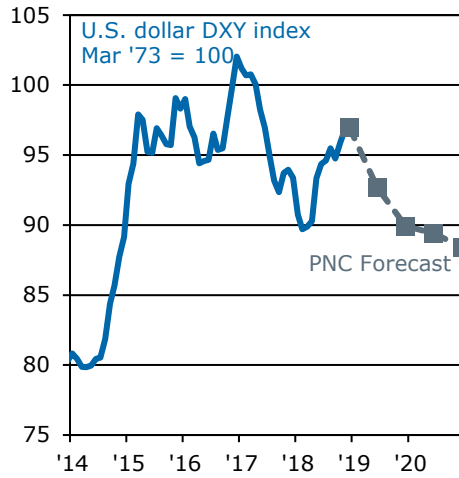
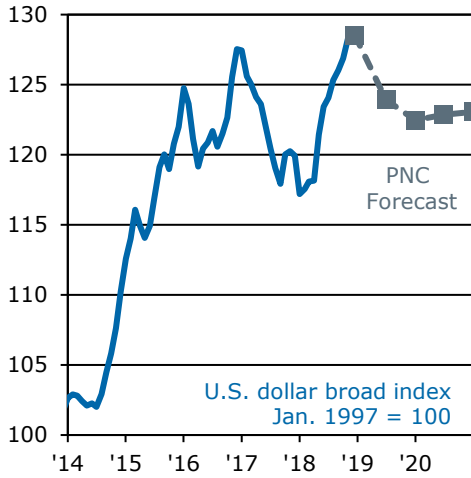
DOLLAR TO DEPRECIATE IN 2019 ON SLOWER US GROWTH, LARGER FISCAL AND TRADE DEFICITS; EM TO REBOUND

The dollar appreciated through the end of 2018 as trade war fears and slower global growth fueled a flight to quality in global capital markets. In 2019, PNC expects the dollar to reverse last year's trend and depreciate against most foreign currencies. Fears about the global economy are overdone; US domestic dynamics favor a weaker dollar; and the Trump administration has signaled a desire to soothe trade tensions. On the domestic front, US real GDP growth will peak in year-over-year terms in mid-2019 as higher interest rates dampen spending and the boost from fiscal stimulus fades. Tax cuts and higher government spending are still increasing the fiscal deficit, though, and this fuels a larger trade deficit—the link between fiscal and trade deficits is so well established that economists call them “twin deficits.” A larger US trade deficit favors a weaker dollar. In the UK, “Brevermind,” essentially the status quo of EU membership possibly called by a new name, looks like Brexit's most likely outcome. This favors faster British policy interest rate hikes than financial markets are anticipating, and substantial appreciation of the pound sterling. The announcement of the next ECB president, probably in spring 2019, could fuel expectations of faster policy interest rate hikes and euro appreciation. Brevermind would also provide some support to the euro. Emerging market currencies are likely to recover in 2019 as well. China began cutting interest rates and supporting credit growth in the third quarter of 2018. Its policymakers will respond to recent weaker growth by throttling up policies to support growth, a boost to the yuan. Latin American political uncertainty is diminishing after Mexico and Brazil's 2018 elections. Lower global oil prices create room for emerging markets to run less tight monetary policies, fueling higher prices of local currency bonds, inflows of foreign capital, and appreciating emerging market currencies. After depreciating as expected in 2018, the Canadian dollar could recover somewhat in 2019. The Bank of Canada will probably raise interest rates by as much as the Federal Reserve this year, since Canada's labor market is historically tight. But both the Canadian and Australian dollars should weaken by 2020 as real estate activity holds back growth in both economies.

BASELINE EXCHANGE RATE FORECASTS, FIRST QUARTER OF 2019

	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-2016	0.74	3.35	1.33	6.92	1.05	1.25	67.9	116.0	1,183	20.5	127.5	102.0
Dec-2017	0.76	3.29	1.28	6.59	1.18	1.34	64.2	113.0	1,086	19.2	119.9	93.4
Jun-2018	0.75	3.77	1.31	6.47	1.17	1.33	67.8	110.0	1,096	20.3	123.4	94.4
Dec-2018	0.72	3.88	1.34	6.89	1.14	1.27	70.9	112.6	1,123	20.2	128.5	97.0
PNC Forecast (month-end)												
Jun-2019	0.75	3.40	1.34	6.70	1.18	1.45	71.0	108.0	1,120	18.5	123.9	92.6
Dec-2019	0.75	3.35	1.35	6.65	1.23	1.50	73.0	108.0	1,120	18.0	122.5	89.9
Jun-2020	0.73	3.35	1.37	6.70	1.25	1.50	75.0	110.0	1,125	17.7	122.9	89.4
Dec-2020	0.72	3.37	1.39	6.70	1.28	1.50	77.0	112.0	1,130	17.7	123.1	88.4

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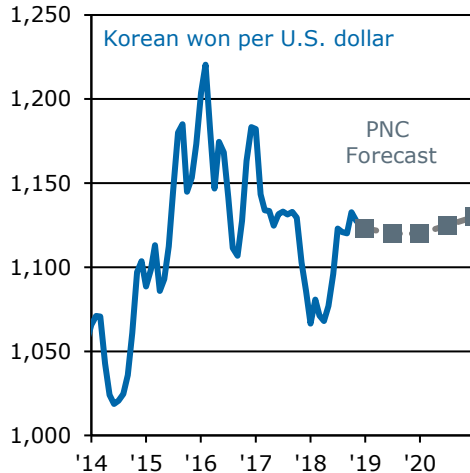
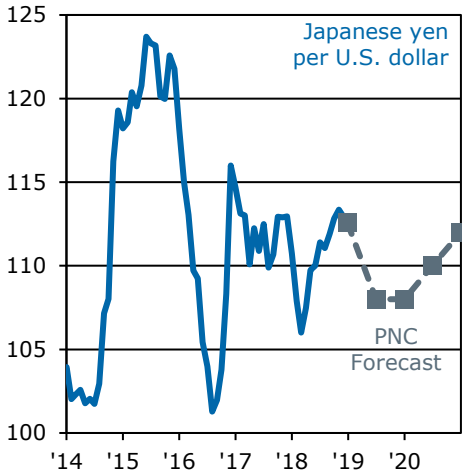


Table and chart sources: Reserve Bank of Australia, Bank of Canada, China Foreign Exchange Trading Center, Central Bank of Brasil, Bank of Japan, European Central Bank, Reserve Bank of India, Bank of Korea, Bank of England, Federal Reserve, CEIC, The PNC Financial Services Group.

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