

EXCHANGE RATE FORECASTS

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Higher Long-Term U.S. Interest Rates End Dollar's Slide; Diverging Central Bank Policies to Fuel Currency Volatility

The DXY U.S. dollar index hit its first quarter low in early January, just after the Democrats won the Georgia special elections and control of the U.S. Senate. The DXY appreciated about 4% over the rest of the quarter as the \$1.9 trillion stimulus plan and accelerating vaccine distribution raised expectations for U.S. economic growth. U.S. fiscal and monetary policies are highly expansionary, in crisis-fighting mode in 2021. While permanently looser policies would weaken the dollar, 2021's temporary stimulus has raised growth expectations, fueling the dollar's recovery. A stronger U.S. growth outlook raised real long-term interest rates, attracting capital inflows from economies with extremely low or negative rates, and buoying the dollar.

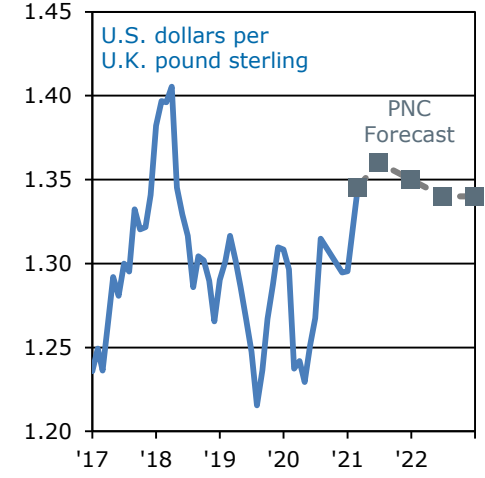
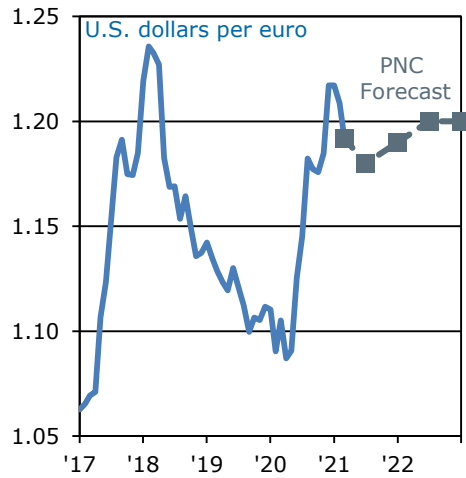
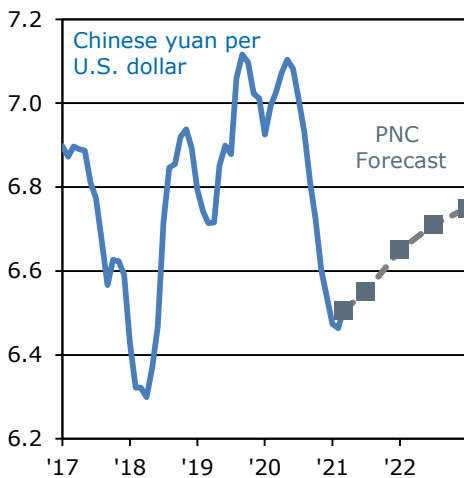
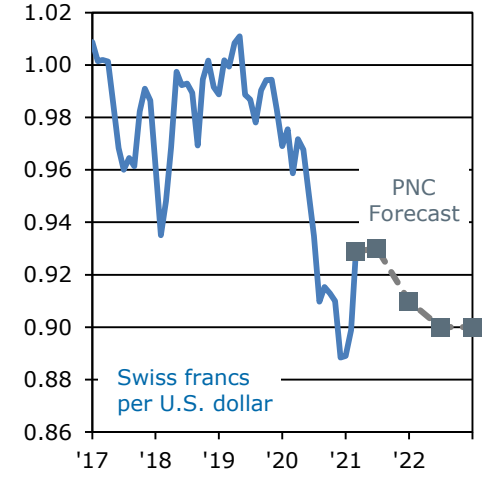
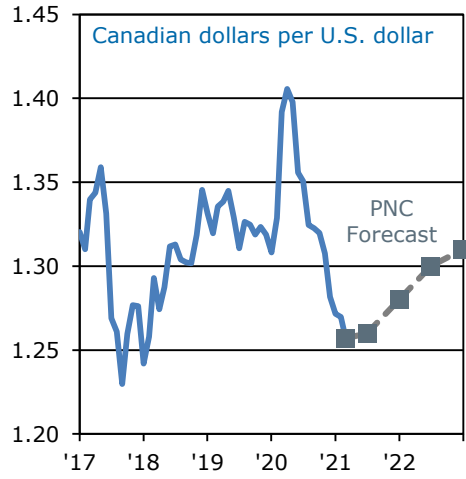
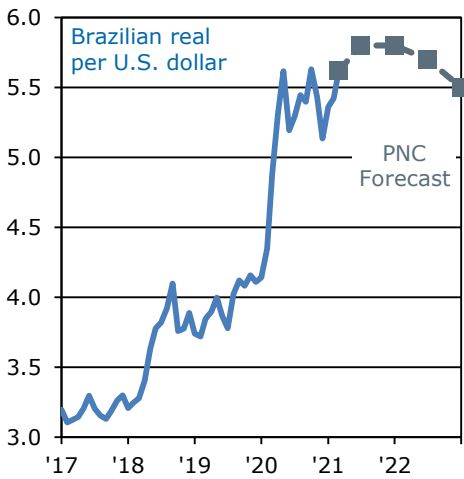
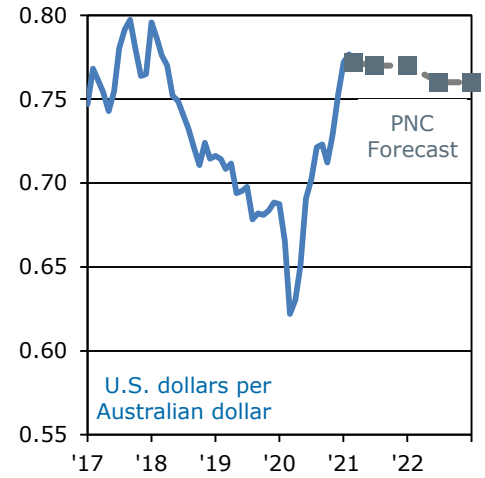
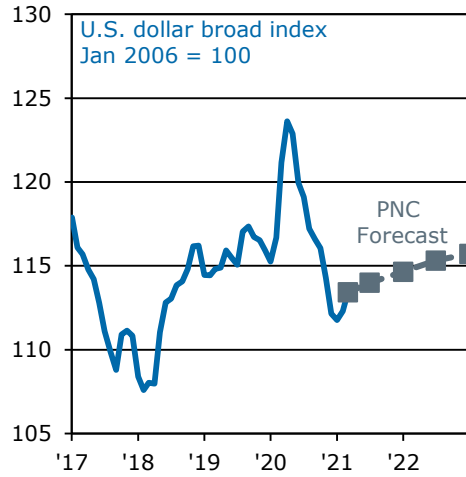
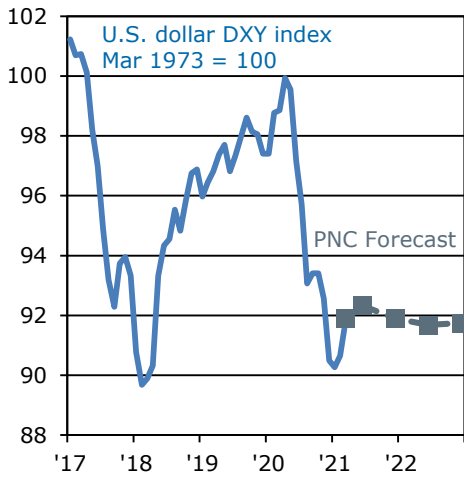
PNC forecasts for the dollar to appreciate modestly against emerging market currencies over the forecast horizon, and be mostly stable against advanced economy currencies. Much of the exchange rate volatility in early 2021 reflected countries' pandemic responses; this driver of currency volatility will be short-lived. The euro depreciated in early 2021 as winter lockdowns caused a contraction in the Eurozone service sector. The EU's recovery prospects will brighten as vaccine distribution picks up, likely translating to a recovery of the euro against the dollar to early 2020 levels by the end of 2021. Pound sterling's story is the opposite—the UK started vaccination quickly, pulling forward its economic recovery and strengthening the pound sterling in early 2021. The pound is likely to give back these gains as the UK's lower potential growth after Brexit (less immigration, fewer workers, higher trade barriers) comes into focus. Similarly, China's yuan appreciated since the pandemic began on an early and effective public health response; this will likely unwind as China's recovery gives way to slower trend growth.

After virtually all central banks flooded capital markets with liquidity in 2020, countries' monetary policies are diverging: The European Central Bank and Bank of Mexico eased policy in the first quarter of 2021, while the Bank of Japan and Central Bank of Brazil tightened. PNC forecasts for the Federal Reserve to begin tapering its QE program in early 2022. Diverging monetary policies will likely fuel high exchange rate volatility over the forecast horizon. This edition of exchange rate forecasts adds coverage of the Nigerian naira.

BASELINE EXCHANGE RATE FORECASTS, SECOND QUARTER OF 2021

			Dec-18	Dec-19	Jun-20	Dec-20	Mar-21		Jun-21	Dec-21	Jun-22	Dec-22
Australian dollar	<i>USD per AUD</i>	Actual,	0.71	0.69	0.69	0.75	0.77	PNC Forecast	0.77	0.77	0.76	0.76
Brazilian real	<i>BRL per USD</i>	month-avg	3.89	4.11	5.20	5.14	5.64	month-end	5.80	5.80	5.70	5.50
Canadian dollar	<i>CAD per USD</i>		1.35	1.32	1.36	1.28	1.26		1.26	1.28	1.30	1.31
Swiss franc	<i>CHF per USD</i>		0.99	0.98	0.95	0.89	0.93		0.93	0.91	0.90	0.90
Chinese yuan	<i>CNY per USD</i>		6.89	7.01	7.08	6.54	6.51		6.55	6.65	6.71	6.75
Euro	<i>USD per EUR</i>		1.14	1.11	1.13	1.22	1.19		1.18	1.19	1.20	1.20
UK pound sterling	<i>USD per GBP</i>		1.27	1.31	1.25	1.29	1.35		1.36	1.35	1.34	1.34
Indian rupee	<i>INR per USD</i>		70.6	71.2	75.8	73.6	72.8		73.2	73.7	74.0	74.2
Japanese yen	<i>JPY per USD</i>		112.2	109.1	107.6	103.8	108.8		109.0	108.0	108.0	108.0
Korean won	<i>KRW per USD</i>		1,122	1,174	1,207	1,094	1,131		1,130	1,120	1,115	1,110
Mexican peso	<i>MXN per USD</i>		20.1	19.1	22.3	19.9	20.8		21.0	21.3	21.7	22.0
Nigerian naira	<i>NGN per USD</i>		363	363	460	470	485		480	475	473	470
Norwegian krone	<i>NOK per USD</i>		8.64	9.02	9.54	8.70	8.52		8.70	8.90	9.00	9.10
New Zealand dollar	<i>USD per NZD</i>		0.68	0.66	0.64	0.71	0.71		0.7	0.7	0.7	0.7
Swedish krona	<i>SEK per USD</i>		9.0	9.4	9.3	8.4	8.5		8.5	8.5	8.6	8.6
Broad dollar index	<i>Jan '06 = 100</i>		116.2	115.9	120.0	112.1	113.6		114.0	114.7	115.3	115.7
DXY dollar index	<i>Mar '73 = 100</i>		96.9	97.4	97.1	90.5	92.0		92.3	91.9	91.7	91.7

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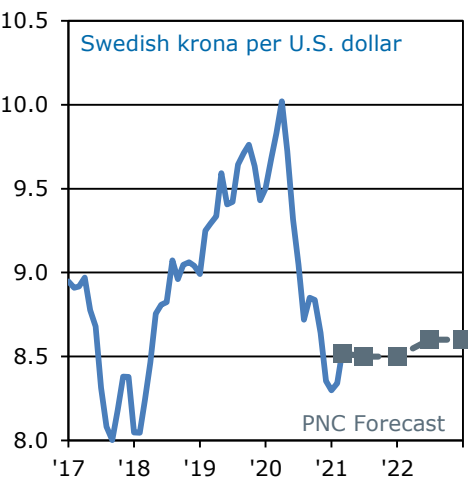
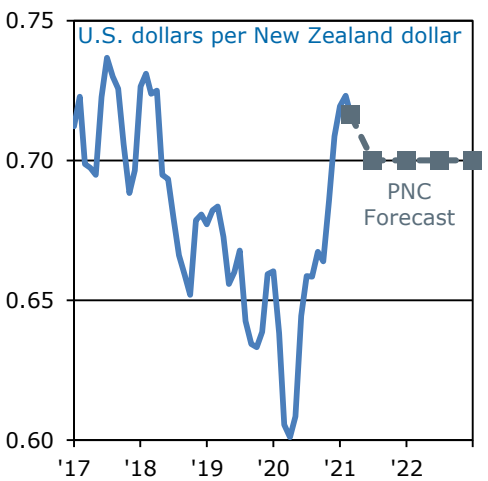
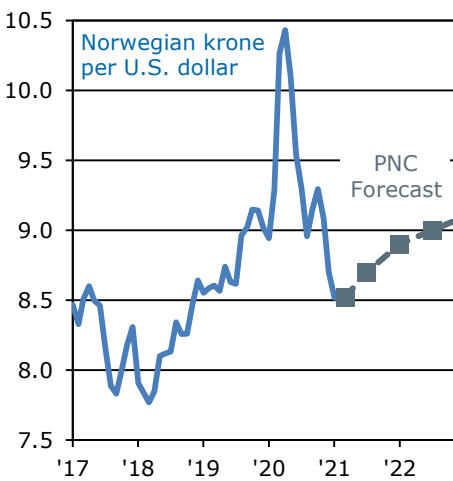
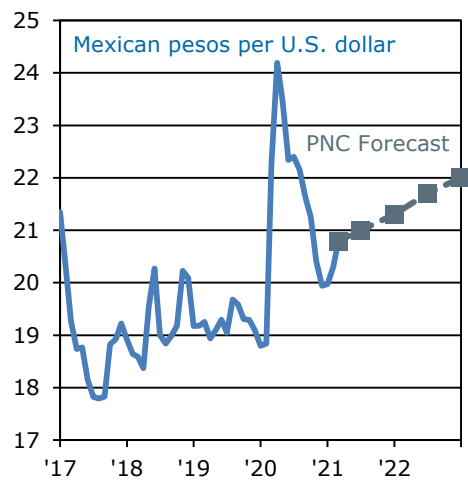
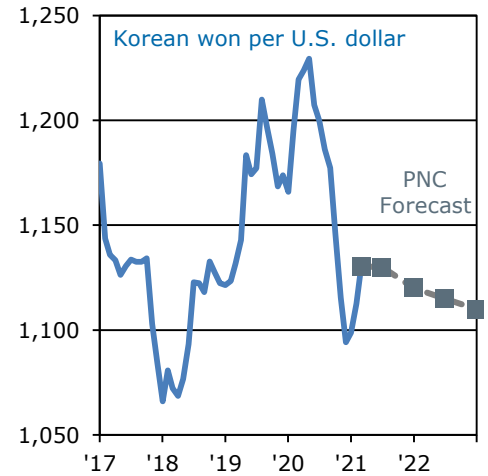
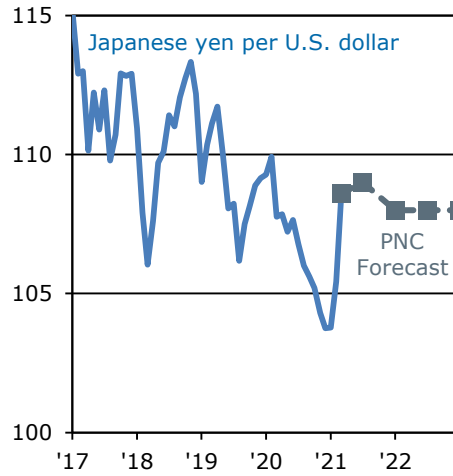
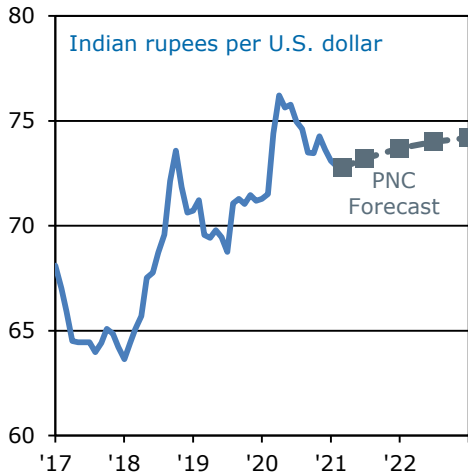


Table and chart sources: Bloomberg, abokiFX, The PNC Financial Services Group.

Note: Nigerian naira historical and forecasted exchange rates are of the informal market rate.

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