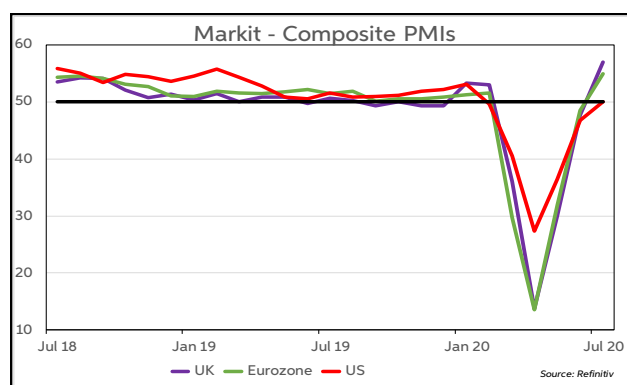


Some Life Left in the Old Buck Yet

- There has been a fair bit of debate recently about whether the US dollar has entered a long-term secular decline now that the Fed has cut rates to effectively zero.** It lost about 7.5% over the summer against the other major currencies on a trade-weighted basis. In reality, though, this has just seen the US currency return to 2018 levels. Indeed, it is still comfortably above the trading levels evident in the earlier part of that year. The bigger picture is that the dollar appreciated very sharply over the second half of 2014 and early part of 2015 and has remained at these elevated levels over the past five years.
- What has been remarkable is its very narrow trading ranges against the other major currencies over this period** – the EUR/USD rate has been largely confined to a \$1.05-1.20 band since end 2014, the yen has generally traded in a ¥105-115 range since the end of 2016, while the Canadian dollar has remained largely in a CAD1.25-1.40 corridor over the past five years – this followed a near 50% appreciation by the US currency against its Canadian counterpart between 2013 and early 2016. Even against a volatile sterling, \$1.20-1.40 has contained nearly all the action on cable since the sharp fall of the UK currency in the aftermath of the June 2016 Brexit referendum.
- Meanwhile, although they have regained some ground in recent months, emerging market currencies remain well down on their levels of a year ago against the dollar.** Indeed, the dollar is about 6.5% higher in trade weighted terms against these currencies than at the start of 2020. Falling commodity prices, weakness in trade flows and a flight to quality as a result of the Covid-19 pandemic has seen emerging market currencies lose considerable ground against the major currencies in 2020. It is important to bear this in mind when talking about the value of the dollar. In overall trade-weighted terms, the US currency has climbed to even higher levels this year.
- Nevertheless, it is fair to point out that the dollar has lost ground over the summer.** Currency movements can be difficult to explain. The US economy has outperformed to date in the COVID-19 pandemic, with a smaller decline in H1 2020 GDP than in Europe, largely due to the fact that the lockdowns in the US were of shorter duration and not as prevalent. However, markets may be becoming concerned that the resurgence of the virus in the third quarter in the US and continuing marked rise in the number of deaths, especially compared to Europe, may impede the economy's recovery and prompt even more fiscal and monetary easing. The extensive dollar swaps lines put in place by the Fed with other central banks may also be contributing to the recent weakening of the currency. The large US rate cuts have not helped either. The upcoming US Presidential elections could also be adding to uncertainty around the dollar, with a significant regime change quite possible in Washington next year.
- For now, though, it is too early to conclude that the dollar has entered a secular decline.** Indeed, renewed volatility in markets could see the gains made by numerous currencies against the dollar over the summer quickly unwind. A key exchange rate is against the euro. The \$1.20 and then \$1.25 levels are formidable obstacles for the single currency to overcome as they are strong technical support points for the US currency. It may be that the major currency pairs continue to trade within well-defined ranges, certainly until the world economy shakes off the yolk of the Covid-19 pandemic and we have a clearer picture of what the political and policy landscape will look like in the US in the coming years.
- This week, the US schedule includes the flash PMIs for August.** The consensus is for the composite index to have moved higher again in the month. However, it will likely hold at a lower level than in the Eurozone and the UK, reflecting the impact of the re-imposition of some Covid-19 related restrictions. An update on the housing market will also be provided in the form of the August reading of the homebuilder sentiment and housing starts for July. On the monetary policy front, the minutes from the Fed's July meeting are set for release, but are unlikely to offer many new insights.
- The highlights of the Eurozone calendar are also the PMIs for August.** The forecast for the composite PMI is 54.7, which would be a good reading and little changed from July's level. The question is whether this momentum can be maintained in the coming months, particularly given the rise in Covid infections in parts of the region. **In the UK, it is envisaged that the composite PMI will hold at 57.0 in August, indicative of an ongoing recovery in economic activity.** In terms of hard data releases in the UK, attention will be focused on the July reading of retail sales. They are forecast to have risen by a further 2% in the month, leaving them flat on a year-on-year basis. Meantime, headline CPI is projected to have remained at 0.6% in July, while the core rate looks to have edged down to 1.3% from 1.4%. **Elsewhere, the first estimate of GDP for the second quarter is due in Japan.** The impact of the Covid-19 crisis is expected to see output contract by a record 27.2% on an annualised basis.



	Interest Rate Forecasts			
	Current	End Q3	End Q4	End Q1
		2020	2020	2021
Fed Funds	0.125	0.125	0.125	0.125
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.10	0.10	0.10	0.10
BoJ OCR	-0.10	-0.10	-0.10	-0.10

Current Rates Reuters, Forecasts AIB's ERU

	Exchange Rate Forecasts (Mid-Point of Range)			
	Current	End Q3	End Q4	End Q1
		2020	2020	2021
EUR/USD	1.1834	1.18	1.18	1.18
EUR/GBP	0.9020	0.91	0.88	0.88
EUR/JPY	126.05	125	126	126
GBP/USD	1.3117	1.30	1.34	1.34
USD/JPY	106.50	106	107	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	de Guindos (Tuesdsy)		
	Fed Speakers:	Daly (Thursday)		
Mon 17th	JPN: 00:50	GDP (Q2: First Reading)	-7.1% s.a.a.r.	-27.2%
	US: 13:30	NY Fed / Empire State Index (August)	17.2	15.0
	US: 15:00	NAHB Homebuilder Sentiment (August)	72	73
Tue 18th	IRL: 11:00	Residential Property Prices (June)	-0.1% (+0.3%)	+0.0% (+0.2)
	US: 13:30	Housing Starts (July)	1.186m/+17.3%	1.232m/+3.9%
		- Building Permits	1.258m/+3.5%	1.320m/+4.9%
Wed 19th	JPN: 00:50	Trade Balance (July)	-¥268.8bn	-¥77.6bn
		- Exports	-26.2%	-21.0%
	UK: 07:00	CPI (July)	(+0.6%)	(+0.6%)
		- Core (Ex-Food & Energy)	(+1.4%)	(+1.3%)
	UK: 07:00	PPI Output (July)	(-0.8%)	(-0.9%)
		- Input	(-6.4%)	(-6.1%)
	EU-19: 10:00	Final HICP (July)	(+0.4%)	(+0.4%)
		- Ex-Food & Energy	(+1.3%)	(+1.3%)
	US: 19:00	Minutes from July Fed Meeting Published		
Thurs 20th	GER: 07:00	PPI (July)	(-1.8%)	(-1.9%)
	UK: 11:00	CBI Industrial Orders (August)	-46	
	EU-19: 12:30	ECB Account from July Governing Council Meeting Published		
	US: 13:30	Initial Jobless Claims (w/e 15th August)	963,000	
	US: 13:30	Philly Fed Index	24.1	21.0
Fri 21st	UK: 00:01	Gfk Consumer Confidence (August)	-27	-25
	JPN: 00:30	CPI (July)	(+0.1%)	
	JPN: 01:30	Flash Jibun Bank Manufacturing PMI (August)	45.2	
	UK: 07:00	Retail Sales (July)	-1.6% (+13.9%)	+2.0% (+0.0%)
	UK: 07:00	PSNB Ex-Interventions (July)	£35.53bn	£28.00bn
	FRA: 08:15	Flash Markit Composite PMI (August)	57.3	
	GER: 08:30	Flash Markit Composite PMI (August)	55.3	56.1
	EU-19: 09:00	Flash Markit Composite PMI (August)	54.9	54.7
		- Manufacturing / Services	51.8 / 54.7	53.1 / 54.2
	UK: 09:30	Flash CIPS / Markit Composite PMI (August)	57.0	57.0
		- Manufacturing / Services	53.3 / 56.5	53.6 / 57.0
	US: 14:45	Flash Markit Composite PMI (August)	50.3	
		- Manufacturing / Services	50.9 / 50.0	51.8 / 51.0
	EU-19: 15:00	Flash Consumer Confidence	-15.0	-14.7
	US: 15:00	Existing Home Sales (July)	4.72m / +20.7%	5.40m / +14.4%

◆ Month-on-month changes (year-on-year shown in brackets)

All forecasts AIB ERU, historical data in the Economic Diary derived from publicly available sources

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