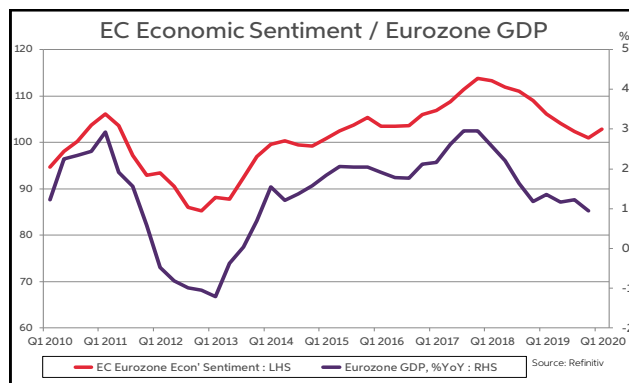


Duracell Dollar

- The dollar retains the upper hand on forex markets, with the currency hitting three years highs on a trade-weighted basis in recent days.** It made gains this week against the euro, sterling, yen and other key currencies, boosted by further strong data on the US economy. The US stock market has also hit new all-time highs in recent days. Rather oddly though, markets have ramped up their expectations for further Fed policy loosening in recent times. Fed futures contracts are now fully discounting two further 25bps cuts in the next year or so, which would take the funds rate down to 1.125%. This has been reflected in the US bond market, with ten year Treasury yields down 35bps year-to-date, a much bigger fall in yield than in other government bond markets. We are struggling to rationalise these moves in interest rate markets in the light of the recent strong US data and clear signals from the Fed that policy is very much on hold at present. Indeed, the belief of FOMC policymakers is that the next move in interest rates will be upwards, although not until 2021.
- Much market attention has been on the euro, which has slipped to three year lows against the high-flying dollar, below the \$1.08 level.** The euro-dollar rate was confined to just a six cent corridor of \$1.09-1.15 for the whole of 2019, but with an underlying trend of the euro edging lower for most of the year. The euro moved within a \$1.12-1.15 band in H1 and then \$1.09-1.12 in H2 2019. It is hard to make a case for a recovery by the euro other than that it has fallen to low levels. It is expected that economic growth will remain weak in the Eurozone, with money market rates staying negative into the second half of this decade, thereby continuing to act as an on-going headwind for the single currency. Meanwhile, the dollar only seems likely to weaken significantly if it becomes apparent that the US economy is heading towards recession and the Fed has to cut rates a lot further. The US November elections could, though, also pose a risk to the currency if they result in a marked change to the political landscape in Washington.
- There is a lot of strong technical support for the euro in the \$1.06-1.08 region.** The currency spent a considerable amount of time trading around this level in 2015-16. Indeed, the euro has only traded below the \$1.05 level for any length of time during the period 2000-2002. Meanwhile, the market has become quite long the dollar again, suggesting its scope for large gains may be limited from here. Thus, we don't see the recent move downwards in the EUR/USD rate as the start of a sharp slide by the single currency. Instead, we think that the euro is moving down to trade in a slightly lower trading range of \$1.06-1.09 in the coming months.
- Turning to the week ahead, there is an uninspiring look to the macro data schedule.** One of the few highlights is the release of the EC Sentiment indices for February in the Eurozone. Having risen for three consecutive months, the headline index is projected to have declined to 102.5 from 102.8. However, it should be noted that last week's better than expected PMI data, as well as the recovery in the consumer confidence index, do pose some upside risk to this forecast.
- On a national level, there are a number of releases due in the Eurozone too.** Of particular interest will be the February print of the German Ifo. The Eurozone's largest economy had a weak finish to 2019, though it is notable that the PMIs for the region have been solid at the beginning of this year. The consensus is for the Ifo to have edged slightly lower in February. Business confidence indices will also feature in France and Italy. Meanwhile, ahead of the Eurozone level data, we will get flash HICP figures from Germany, France and Italy. Inflation is projected to have remained at a relatively subdued level in each country.
- In the US, the focus will also be on price developments, with the January reading of core-PCE due for release.** Base effects are expected to see the Fed's preferred measure of inflation pick up from 1.6% to 1.8%, a 5-month high. The same release will also provide updated consumption figures. The control measure of the retail sales report for January suggests that consumption growth may have moderated in the month, though the market forecast is for it have held at 0.3% in month-on-month terms. If the data do disappoint, given elevated confidence levels and the strength of the labour market, any softness in consumer spending is likely to prove short-lived. On the output side of the economy, durable goods orders for January will be looked to for an early insight into how the manufacturing sector is performing at the start of 2020. A weak set of figures is expected, given the impact of the coronavirus, as well as the Boeing production shutdown.
- Finally, there is little out of interest in the UK this week.** Indeed, the only items on the diary are the February prints of the CBI distributive trades survey and GfK consumer confidence, releases that are unlikely to attract much attention.



	Interest Rate Forecasts			
	Current	End Q1 2020	End Q2 2020	End Q3 2020
Fed Funds	1.625	1.625	1.625	1.625
ECB Deposit	-0.50	-0.50	-0.50	-0.50
BoE Repo	0.75	0.75	0.75	0.75
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 Q1 2020	End Q2 2020	End Q3 2020
EUR/USD	1.0810	1.08	1.09	1.10
EUR/GBP	0.8356	0.83	0.85	0.87
EUR/JPY	120.97	119	120	121
GBP/USD	1.2936	1.30	1.28	1.26
USD/JPY	111.87	110	110	110

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT)	Release	Previous	Forecast
This Week:	BoE Speakers:	Haldane (Monday); Cunliffe (Thursday); Haldane (Friday)		
	ECB Speakers:	Panetta (Wednesday); de Guindos, Lane, Panetta, Schnabel (Thursday)		
	Fed Speakers:	Mester (Monday); Kaplan (Tuesday); Kaplan, Kashkari (Wednesday); Evans, Mester (Thursday); Bullard (Friday)		
Mon 24th	GER:	07.00 Ifo Business Climate (February)	95.9	95.1
Tue 25th	GER:	07.00 GDP (Q4: Second Reading)	+0.0% (+0.3%)	+0.0% (+0.3%)
	FRA:	07.45 INSEE Business Climate (February)	100	99
	UK:	11.00 CBI Distributive Trades (February)	0	
	US:	14.00 Case-Shiller House Prices (December)	+0.5% (+2.6%)	+0.5% (+2.8%)
	US:	15.00 Conference Board Consumer Confidence (Feb)	131.6	132.0
Wed 26th	FRA:	07.45 Consumer Confidence (February)	104	103
	US:	15.00 New Home Sales (January)	-0.4% / 0.694m	+1.6% / 0.705m
Thurs 27th	ITA:	09.00 ISTAT Business Confidence (February)	99.9	99.5
	EU-19:	09.00 M3 Money Supply (January)	(+5.0%)	(+5.3%)
	EU-19:	10.00 Business Climate (February)	-0.23	
	EU-19:	10.00 Economic Sentiment Index (February)	102.8	102.5
		- Industrial / Services / Consumer	-7.3 / 11.0 / -6.6	-7.5 / 11.2 / -6.6
	US:	13.30 Durable Goods Orders (January)	(+2.4%)	(-1.5%)
	US:	13.30 GDP (Q4: Second Reading)	+2.1% s.a.a.r.	+2.1%
	US:	13.30 Initial Jobless Claims (w/e 17th February)	210,000	212,000
	US:	15.00 Pending Home Sales (January)	-4.9% / 103.2	+2.0% / 105.3
	JPN:	23.50 Industrial Output (January)	+1.2%	+0.2%
	JPN:	23.50 Unemployment / Jobs: Applicants (January)	2.2% / 1.57	2.2% / 1.57
Fri 28th	UK:	00.01 Gfk Consumer Confidence (February)	-9	-8
	FRA:	07.45 Consumer Spending (January)	-0.3%	-0.2%
	FRA:	07.45 GDP (Q4: Second Reading)	-0.1% (+0.8%)	-0.1% (+0.8%)
	FRA:	07.45 Preliminary HICP (February)	(+1.7%)	(+1.6%)
	GER:	08.55 Unemployment (February)	5.0%	5.0%
	ITA:	10.00 Preliminary HICP (February)	(+0.4%)	(+0.4%)
	IRL:	11.00 Retail Sales (January)	+3.6% (+5.8%)	-1.0% (+6.0%)
	GER:	13.00 Preliminary HICP (February)	(+1.6%)	(+1.5%)
	US:	13.30 Personal Income / Consumption (January)	+0.2% / +0.3%	+0.3% / +0.3%
		- Core PCE Prices	(+1.6%)	(+1.8%)
	US:	13.30 Advance Goods Trade Balance (January)	-\$68.67bn	
	US:	15.00 Final Michigan Consumer Sentiment (February)	100.9	100.9

◆ 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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