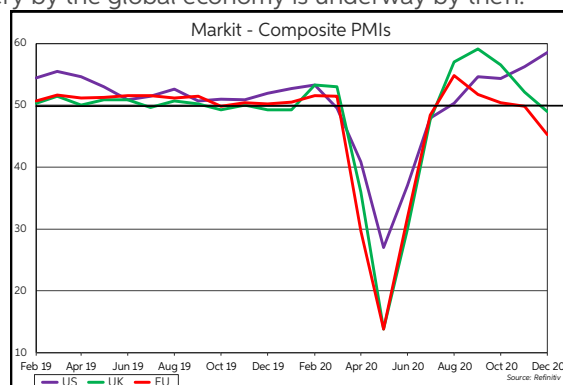


## Euro Biden Its Time

- The dollar lost 12.5% in value against the other major currencies between last spring and early January.** It was a steady move down by the currency as risk appetite returned to markets and safe haven flows unwound, helped by positive news on vaccines in the closing months of last year. The euro was a notable beneficiary of the news on vaccines, climbing above \$1.23 in early 2021 from \$1.165 at the start of November. This is only the second move above \$1.20 by the euro since the ECB introduced negative interest rates in 2014. The previous move occurred at the start of 2018, and saw the EUR/USD rate rise to a high of \$1.25. However, it was not sustained as the dollar regained strength, with the euro dropping back below \$1.20 within a number of months. The euro continued to move lower subsequently, before bottoming out at \$1.07 early last year.
- The dollar has regained some ground over the past week.** Expectations that the incoming Biden administration will deliver a major fiscal stimulus package has raised US yields, which is supporting the currency. The sharp rise in coronavirus cases and deaths is also weighing on risk appetite and helping boost the dollar. The euro has fallen back to \$1.21, raising the question about whether the move above \$1.20 will be sustained. Near term, it is certainly possible that the euro could drop below \$1.20 towards the \$1.18 support level, especially with the market very short the US currency presently.
- The economic outlook, though, suggests that the dollar could come under downward pressure again as the year progresses.** Vaccines for Covid-19 are set to become widely available over the course of 2021. This should lay the foundations for a period of sustained, robust growth by the global economy over the next couple of years, with the US economy no longer an outperformer. Risk appetite should also improve as vaccines are rolled out. This will increase the attractiveness of non-US dollar assets, as well as lessen the appeal of safe-haven currencies like the dollar.
- The dollar was also supported in recent years by significantly higher interest rates in the US than elsewhere, most notably when compared to the negative interest rates prevailing in the Eurozone and Japan.** The latter two have not cut rates over the past year, whereas US rates have been slashed to virtually zero. As a result, the US dollar no longer offers a large interest rate spread vis-à-vis the other main currencies. This new environment for the dollar is likely to last for some time with the Fed indicating that it will be in no hurry to hike rates early in the next economic cycle. However, even if the dollar starts to come under pressure again, it will be a major challenge for the euro to overcome the \$1.25 resistance level, which is the peak rate for EUR/USD over the past six years. As a result, the EUR/USD pair may trade in a \$1.18-1.25 range over the first half of 2021. Later in the year, though, the euro could really test the \$1.25 level if a robust recovery by the global economy is underway by then.
- This week, the ECB will hold its first monetary policy meeting of 2021.** However, the Governing Council is likely to remain on hold, as the central bank provided further accommodative measures in December. Thus, the PEPP will remain at its current envelope of €1.85trn, APP purchases will stay at €20bn a month, and the deposit rate is expected to be unchanged, at – 0.5%. President Lagarde will likely reinforce that the ECB will be ready to provide further support to the economy if required, with new restrictions and lockdowns continuing to depress activity in the early part of 2021
- Data-wise, the Eurozone flash PMIs for January are due.** Throughout Q4, the manufacturing PMI outperformed the services PMI, as tighter restrictions dampened activity in the hospitality and leisure sectors. Manufacturing, on the other hand, was allowed to operate relatively uninterrupted. This trend is expected to continue in January, as newly introduced restrictions disproportionately impact the services sector. The forecast is for the services PMI to fall to 44.8 from 46.4, while the manufacturing PMI is expected to remain in expansion mode, but to edge lower to 55.0 from 55.2. On a national level, the German ZEW and French INSEE surveys for January are also due.
- We get a raft of UK data as well, the highlight of which will also be the January PMIs.** Like in the Eurozone, the services sector is more adversely affected by the third national lockdown. Thus, the services PMI is forecast to fall to 45.3 from 49.4. The manufacturing PMI is expected to move lower to 53.0 from 57.5, as stockpiling ahead of the end year expiry of the Brexit transition period abates. Staying with survey data, consumer confidence (Jan) is projected to fall to –29 from –26, an already subdued level. In terms of hard data, retail sales are forecast to rebound by 1% m/m as restrictions were eased in December. Meanwhile, CPI inflation is expected to rise to 0.5% from 0.3% in December.
- Across the Atlantic, the flash PMIs also feature.** The US PMIs held up well in Q4, averaging 55.7 (manufacturing) and 56.7 (services) respectively. The forecast is for both indices to move lower, but to remain in expansion territory in January. Meanwhile, we will also get a raft of updates on the housing market. Existing home sales, housing starts (both December), and homebuilder sentiment (Jan) are all due for release.



	Interest Rate Forecasts			
	Current	End Q1	End Q2	End Q3
		2021	2021	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 Q1	End Q2	End Q3
		2021	2021	2021
EUR/USD	1.2092	1.24	1.25	1.26
EUR/GBP	0.8898	0.90	0.90	0.90
EUR/JPY	125.57	128	128	127
GBP/USD	1.3587	1.38	1.39	1.40
USD/JPY	103.85	103	102	101

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>				
	<b>ECB Speakers:</b>			
	<b>BoE Speakers:</b>	Haldane (Tuesday); <b>Bailey</b> (Wednesday)		
	<b>Fed Speakers:</b>			
<b>Mon 18th</b>				
	<b>US:</b>	<b>Martin Luther King Day (Market Holiday)</b>		
	<b>CHINA:</b> 02:00	Industrial Output ( December)	(+7.0%)	(+6.9%)
	<b>CHINA:</b> 02:00	Retail Sales (December)	(+5.0%)	(+5.5%)
	<b>CHINA:</b> 02:00	GDP (Q4)	+2.7% (+4.9%)	+3.2% (+6.1%)
	<b>ITA:</b> 09:00	Final HICP (December)	+0.2% (-0.3%)	+0.2% (-0.3%)
<b>Tue 19th</b>				
	<b>GER:</b> 07:00	Final HICP (December)	+0.6% (-0.7%)	+0.6% (-0.7%)
	<b>GER:</b> 10:00	ZEW Economic Sentiment (January)	55	60.0
	<b>IRL:</b> <b>11:00</b>	<b>Residential Property Prices (November)</b>	<b>+0.5% (-0.4%)</b>	<b>-0.1% (-0.3%)</b>
<b>Wed 20th</b>				
	<b>GER:</b> 07:00	Producer Prices (December)	+0.2% (-0.5%)	+0.3% (-0.3%)
	<b>UK:</b> 07:00	CPI Inflation (December)	-0.1% (+0.3%)	+0.3% (+0.5%)
		- Core	-0.1% (+1.1%)	+0.3% (+1.3%)
	<b>UK:</b> 07:00	PPI Output Prices (December)	+0.2% (-0.8%)	+0.3% (-0.6%)
		- Input Prices	+0.2% (-0.5%)	
	<b>EU-19:</b> 10:00	Final HICP (December)	+0.3% (-0.3%)	+0.3% (-0.3%)
		- Core	-0.4% (+0.2%)	+0.4% (+0.2%)
	<b>US:</b> 15:00	NAHB Housing Sentiment (January)	86	86
	<b>JPN:</b> 23:50	Trade Balance (December)	¥366.1bn	¥942.8bn
		- Exports	(-4.2%)	(+2.4%)
	<b>US:</b>	US Presidential Inauguration		
<b>Thurs 21st</b>				
	<b>FRA:</b> 07:45	INSEE Business Climate (January)	93	
	<b>US:</b> 09:00	Philly Fed Manufacturing Index (January)	11.1	12.0
	<b>EU-19:</b> 12:45	ECB Refi Rate Announcement (January)	+0.00%	+0.00%
		- Deposit Rate	-0.50%	-0.50%
	<b>EU-19:</b> 13:30	ECB Press Conference		
	<b>US:</b> 13:30	Housing Starts (December)	+1.55m / +1.2%	+1.56m / +0.9%
		- Building Permits	+1.64m / +5.9%	+1.61m / -1.5%
	<b>US:</b> 13:30	Initial jobless Claims (w/e 4th January)	+965,000	+860,000
	<b>JPN:</b> 23:30	CPI Inflation (December)	(-0.9%)	(-1.1%)
		- Core	(-0.9%)	(-1.1%)
	<b>UK:</b> 23:30	BoJ Rate Decision (January)	-0.1%	-0.1%
<b>Fri 22nd</b>				
	<b>UK:</b> 00:01	Gfk Consumer Confidence (January)	-26	-29
	<b>JPN:</b> 00:30	Flash Jibun Manufacturing PMI (January)	50.0	
	<b>UK:</b> 07:00	Retail Sales (December)	-3.8% (+2.4%)	+1.0% (+4.0%)
		- Core	-2.6% (+5.6%)	+0.3% (+6.5%)
	<b>FRA:</b> 08:15	Flash Composite PMI (January)	49.5	
	<b>GER:</b> 08:30	Flash Composite PMI (January)	52.0	50.4
	<b>EU-19:</b> 09:00	Flash Manufacturing PMI (January)	55.2	55.0
		- Services	46.4	44.8
	<b>UK:</b> 09:30	Flash Manufacturing PMI (January)	57.5	53.0
		- Services	49.4	45.3
	<b>US:</b> 14:45	Flash Manufacturing PMI (January)	57.1	56.5
		- Services	54.8	54.0
	<b>US:</b> 15:00	Existing Home Sales (December)	+6.69m / -2.5%	+6.53m / -2.4%

◆ 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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