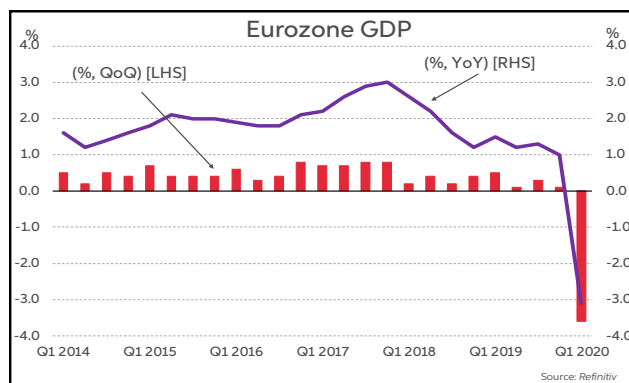


## Summer Bounce for EUR/USD

- A notable feature of currency markets in recent days has been the moves in the EUR/USD currency pair.** It has moved above the \$1.15 level for this first time since late 2018, trading to a 21-month high of \$1.1626 at one stage during the week. The EUR/USD rate had been mostly confined to a narrow \$1.07-1.15 corridor since the autumn of 2018. However, over the last number of months, EUR/USD has been trading higher, towards the upper end of this range, before breaching it this week. It has gained around 3% so far this month.
- A key factor in these moves has been a general weakening of the dollar across the board.** This softening trend for the currency has occurred amid an ongoing improvement in investor sentiment and therefore reduced safe haven demand for the dollar. When Covid-19 related risk aversion on markets was at its height back in the second half of March, the dollar saw strong demand, benefitting from a flight to safety, with EUR/USD falling to a low of \$1.064 and the dollar index reaching a year-to-date high of 102.8. Since then, with equity markets registering gains of between 30-40%, the dollar index has fallen by around 7.5%. The move higher in EUR/USD has also been helped by a firming in the euro. The euro has been supported by developments in relation to an EU recovery fund. EU leaders agreed on Monday on a €750bn fund for the region, including €390bn in grants, as well as sharing the financing burden of the fund through debt mutualisation. The agreement is both politically and economically significant for both the EU and Eurozone.
- Looking ahead, it is challenging to call the next move in EUR/USD. This is because of the heightened uncertainty and unpredictability attached to how the Covid-19 pandemic evolves and the impact this will have on the global economy and financial markets.** In the near term, it is worth noting that market positioning on the dollar is at stretched short levels, which may offer some support to the currency. Meanwhile, a return to heightened risk aversion, potentially prompted by new concerns over the economic outlook, would likely result in a flight into the dollar. In such a scenario, EUR/USD would be expected to weaken from its current levels, giving up much of its recent gains. Another factor to bear in mind is monetary policy/interest rate differentials. Money market rates in the Eurozone are expected to remain in negative territory well into the second half of this decade, thereby acting as a headwind for the euro. On the other hand, if a sustained strong global recovery started to take hold over the coming months, EUR/USD could maintain its upward momentum. Although, a move above \$1.20 would be difficult, as the pair has not been above this level since 2014, except for a brief period in the first half of 2018.
- This week, the Fed's July FOMC is unlikely to be a source of direction for EUR/USD as no further changes to policy expected.** We anticipate Chair Powell will continue to emphasise that rates will remain lower for longer, but will push back against any suggestion that the Fed may cut again. Powell will also reaffirm the Fed's commitment to its asset purchase programme. Markets will look to Powell's press conference for an update on the FOMC's outlook for the US economy, and in particular how it has been impacted by the resurgence in Covid cases in parts of the US.
- Data-wise, Q2 readings of GDP for a number of advanced economies will be looked to for evidence of the extent of the impact severe lockdowns implemented in April had on activity in the quarter.** In the US, the forecast is for output to have plunged by 35% in annualised terms. However, activity will bounce back strongly in Q3, partially reflecting the easing of restrictions and the impact of base effects, though Covid related developments in the South and West are clouding the outlook somewhat. **In the Eurozone, the severe restrictions implemented in the region are expected to see output plummet by 12% on a quarter-on-quarter basis.** Although, this will likely mask significant regional differences. The French, Italian and Spanish economies are projected to have contracted by 15.6%, 15% and 16.0%, respectively. In contrast, a 9% fall is pencilled in for Germany. However, the outlook for the third quarter is more encouraging, reflecting the relatively successful 're-opening' process in the bloc. This should be reflected in the EC sentiment indices for July, with the headline index projected to have remained on its upward trend. On a national level, the German Ifo is also anticipated to have continued to move off its recent lows in the month.
- In addition to the above, the preliminary reading of Eurozone HICP for July is due.** The cut in VAT rates in Germany implemented at the beginning of the month is likely to see both the headline and the core rates of inflation moderate to 0.2% and 0.7%, respectively. Eurozone unemployment looks to have edged only slightly higher in June, from 7.4% to 7.7%, reflecting the success of furloughing schemes in preventing mass lay-offs. Although, there are significant concerns that the jobless rate will spike higher when these schemes are eventually unwound. **Finally, there is little out of interest in the UK this week.**



	Interest Rate Forecasts			
	Current	End Q3 2020	End Q4 2020	End Q1 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 2020	End Q4 2020	End Q1 2020
EUR/USD	1.1606	1.15	1.16	1.16
EUR/GBP	0.9098	0.91	0.88	0.88
EUR/JPY	122.96	123	125	126
GBP/USD	1.2758	1.26	1.32	1.32
USD/JPY	105.93	107	108	109

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast	
<b>This Week:</b>					
<b>Mon 27th</b>	<b>GER:</b>	09.00	Ifo Business Climate (July)	86.2	89.3
	<b>EU-19:</b>	09.00	M3 Money Annual Growth (June)	(+8.9%)	(+9.3%)
	<b>US:</b>	13.30	Durable Goods Orders (June)	(+15.7%)	(+6.5%)
<b>Tue 28th</b>	<b>UK:</b>	11.00	CBI Distributive Trades (July)	-37	-26
	<b>IRL:</b>	<b>11.00</b>	<b>Retail Sales (June)</b>	<b>+29.5% (-26.6%)</b>	<b>+15.0% (-15.8%)</b>
	<b>US:</b>	14.00	Case Shiller House Prices (May)	(+4.0%)	
	<b>US:</b>	15.00	Conference Board Consumer Confidence (July)	98.1	94.8
<b>Wed 29th</b>	<b>UK:</b>	09.30	BoE Mortgage Approvals (June)	9,273	35,000
	<b>US:</b>	19.00	Fed Interest Rate Announcement	0.00-0.25%	0.00-0.25%
	<b>US:</b>	19.30	Fed Press Conference		
<b>Thurs 30th</b>	<b>GER:</b>	08.55	Unemployment (July)	6.4%	6.5%
	<b>ITA:</b>	09.00	Unemployment (June)	7.8%	8.5%
	<b>GER:</b>	09.00	GDP (Q2: Flash Estimate)	-2.2%	-9.0%
	<b>EU-19:</b>	10.00	Business Climate (July)	-2.26	
	<b>EU-19:</b>	10.00	Economic Sentiment Index (July)	75.7	81.5
			- Industrial / Services / Consumer	-21.7/-35.6/-15.0	-17.2/-22.9/-15.0
	<b>EU-19:</b>	10.00	Unemployment (June)	7.4%	7.7%
	<b>GER:</b>	13.00	Flash HICP (July)	(+0.8%)	(+0.4%)
	<b>US:</b>	13.30	Initial Jobless Claims (w/e 25th July)	1,416,000	1,400,000
	<b>US:</b>	13.30	GDP (Q2: Advance Reading)	-5.0% s.a.a.r.	-35.0%
<b>Fri 31st</b>	<b>JPN:</b>	00.30	Unemployment / Jobs: Applicants (June)	2.9% / 1.20	3.1% / 1.16
	<b>JPN:</b>	00.50	Industrial Output (June)	-8.9%	+1.2%
	<b>CHINA:</b>	02.00	NBS Manufacturing PMI (July)	50.9	51.0
			- Non-Manufacturing	54.4	
	<b>FRA:</b>	06.30	GDP (Q2: Flash Estimate)	-5.3%	-15.6%
	<b>GER:</b>	07.00	Retail Sales (June)	+13.9%	-3.5%
	<b>FRA:</b>	07.45	Consumer Spending (June)	+36.6%	
	<b>FRA:</b>	07.45	Flash HICP (July)	(+0.2%)	(+0.2%)
	<b>SPA:</b>	08.00	GDP (Q2: Flash Estimate)	-5.2%	-16.0%
	<b>ITA:</b>	09.00	GDP (Q2: Flash Estimate)	-5.3%	-15.0%
	<b>ITA:</b>	10.00	Flash HICP (July)	(-0.4%)	(-0.3%)
	<b>EU-19:</b>	10.00	Flash HICP (July)	(+0.3%)	(+0.2%)
			- Core	(+1.1%)	(+0.7%)
	<b>EU-19:</b>	10.00	GDP (Q2: Flash Estimate)	-3.6%	-12.0%
	<b>US:</b>	13.30	Personal Income / Consumption (June)	-4.2% / +8.2%	-0.2% / +5.0%
			- Core PCE Prices	(+1.0%)	(+1.0%)
	<b>US:</b>	15.00	Final Michigan Consumer Sentiment (July)	73.2	72.8

◆ 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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