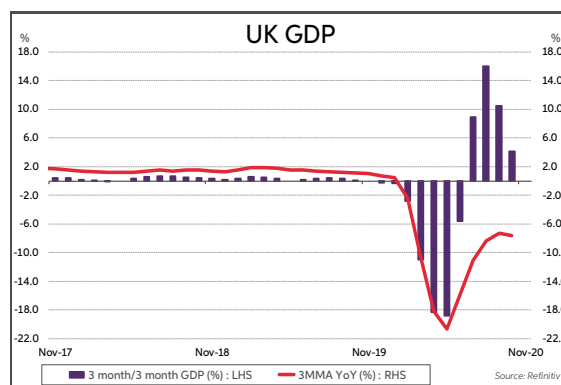


## Euro Needs a Shot Too

- There were two significant moves on forex markets in the past couple of days, with the euro dropping back below 88p versus sterling and \$1.20 against the dollar.** Strangely, the moves were probably more about the UK and US currencies than the euro. There is growing optimism that the rapid roll-out of Covid vaccines in the UK will allow restrictions on activity to be eased considerably in the months ahead, leading to a sharp rebound in activity. Ten million people in the UK have already been vaccinated, or 15% of the population, which is well ahead of elsewhere. A relatively upbeat Bank of England February Monetary Policy Report sees GDP growth in the UK picking up to 5% in 2021 and 7.25% in 2022, following the estimated 10% fall in output last year.
- Furthermore, the BoE is not sounding as dovish on monetary policy, especially on bringing rates any lower. Thus, markets are no longer pricing in a move to negative interest rates in the UK.** Sterling did not show much initial reaction to the EU-UK trade deal concluded at Christmas. Although, it has been moving steadily higher against most currencies over the past month. EUR/GBP fell below the 88p level in the aftermath of the BoE meeting yesterday, for the first time since last May. However, there is strong support for EUR/GBP in the 86-87p range which could make it difficult for sterling to make large additional gains against the single currency.
- Meanwhile, the dollar has performed strongly over the past month having weakened significantly during the second half of last year. It has risen by over 2% against the other major currencies since early January.** We had highlighted that the dollar could well bounce in early 2021, with the euro dropping back below \$1.20, as the market was very short the US currency coming into the new year. A rise in long term US yields to 10-month highs has also been supportive of the currency, as have recent, better-than-expected data on the US economy. Having dipped below \$1.20, the euro seems likely to move lower in the near term, given the market is still short the US currency. There is considerable support for the single currency, though, at between \$1.16 and \$1.18, so its downside may be fairly limited from here.
- The slow roll-out of Covid vaccines in the Eurozone is proving a headwind for the single currency, as it is seen as acting as a headwind to an economic recovery in the region.** However, with more vaccines expected to come on stream in the months ahead, the vaccination programme in the EU should gather pace as the year progresses. More broadly speaking, the IMF sees the recovery in the global economy picking up momentum during 2021 and in 2022 as vaccines become more widely available. This should boost risk appetite in financial markets and lessen the appeal of safe-haven currencies like the dollar. Thus, while recent dollar strength may be sustained in the near-term, the currency could come under downward pressure again if a sustained, robust global economic recovery takes root later in the year. For sterling, there are also medium term risks as the downside consequences of Brexit become more apparent for the economy.
- It is a quiet week everywhere on the data front. The highlight will be the first estimate of UK GDP for Q4.** The UK economy rebounded strongly by 16% in Q3, following an unprecedented contraction of 18.8% in Q2. GDP also fell by 3% in Q1. This left output about 9% below its pre-Covid level in Q3. The monthly GDP estimates so far in Q4 suggest that the economic recovery may have stalled in the final three months of the year. The monthly GDP estimate for October, was up just 0.6% m/m. Meanwhile, a second national lockdown saw GDP fall by 2.6% in November, although, it almost certainly rose in December when restrictions were eased. The forecast is for GDP to rise by 1.0% in December and thus, 0.5% in Q4 overall. However, this would mean that output fell by circa 8% in 2020. A third national lockdown early in 2021 will also likely see output fall again in Q1 of this year.
- In the US, CPI Inflation for January will feature.** Overall, CPI inflation was subdued and relatively stable during the second half of 2020. Core CPI inflation has printed at either 1.6% or 1.7% YoY since July, while the headline rate has only been slightly more volatile, between 1-1.4% over the same period. Weak demand for services, and earlier declines in oil prices have been holding inflation down, although, these effects should reverse throughout the year, as the economic recovery gathers momentum. Nonetheless, the forecast is for the headline rate to edge higher to just 1.5% from 1.4% in January. The core rate is expected to move lower to 1.5% from 1.6%. In terms of survey data, the NFIB Business Optimism (a measure of small business sentiment) is also due. Meanwhile, the Michigan measure of consumer sentiment is forecast to rise to 80.6 from 79 in February, although this remains a very subdued level.
- There are no major Eurozone data releases this week.** Of the limited national releases of note, German, French and Italian industrial output for December will feature.



	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	1.2020	1.18	1.21	1.24
EUR/GBP	0.8757	0.86	0.87	0.89
EUR/JPY	126.85	126	127	128
GBP/USD	1.3721	1.37	1.39	1.39
USD/JPY	105.53	107	105	103
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers:</b>	Lane (Tue); Panetta (Wed); <b>Lagarde</b> (Wed); de Guindos (Thu)		
	<b>BoE Speakers:</b>	<b>Bailey</b> (Wed)		
	<b>Fed Speakers:</b>	Mester (Mon); Bullard (Tue); <b>Powell</b> (Wed); Williams (Fri)		
<b>Mon 8th</b>	<b>JPN:</b>	05:00 Economy Watchers Poll (January)	35.5	
	<b>GER:</b>	07:00 Industrial Output (December)	+0.9%	+0.3%
	<b>EU-19:</b>	09:30 EU Sentix (February)	1.3	
<b>Tue 9th</b>	<b>UK:</b>	00:01 BRC Retail Sales (January)	(+4.8%)	
	<b>GER:</b>	07:00 Trade Balance (December)	+€16.4bn	+€16bn
		- Exports	+2.2%	-1.3%
	<b>ITA:</b>	09:00 Industrial Output (December)	-1.4%	+0.2%
	<b>US:</b>	09:00 NFIB Business Optimism (January)	95.9	
<b>Wed 10th</b>	<b>CHINA:</b>	01:30 CPI Inflation (January)	+0.7% (+0.2%)	+1.1% (-0.1%)
	<b>GER:</b>	07:00 Final CPI Inflation (January)	+0.8% (+1.0%)	+0.8% (+1.0%)
	<b>GER:</b>	07:00 Final HICP (January)	+1.4% (+1.6%)	+1.4% (+1.6%)
	<b>UK:</b>	07:00 Goods Trade Balance (December)	-£16.01bn	
		- non-EU	-£8.01bn	
	<b>FRA:</b>	07:45 Industrial Output (December)	-0.9%	+0.2%
	<b>US:</b>	13:30 CPI Inflation (January)	+0.4% (+1.4%)	+0.3% (+1.5%)
		- Core	+0.1% (+1.6%)	+0.2% (+1.5%)
<b>Thurs 11th</b>	<b>UK:</b>	00:01 RICS Housing Survey (January)	65	
	<b>US:</b>	13:30 Initial Jobless Claims (w/e 25th January)	+779,000	+775,000
<b>Fri 12th</b>	<b>UK:</b>	07:00 GDP (Q4)	+16% (-8.6%)	+0.5% (-8.1%)
		- Month-on-Month (December)	-2.6% (-8.9%)	+1.0% (-7.9%)
	<b>UK:</b>	07:00 Industrial Output (December)	-0.1% (-4.7%)	+0.5% (-3.8%)
		- Manufacturing	+0.7% (-3.8%)	
	<b>SPA:</b>	08:00 Final HICP (January)	-0.3% (+0.6%)	-0.3% (+0.6%)
	<b>IRL:</b>	<b>11:00 Residential Property Price Index (December)</b>	<b>+0.4% (+0.2%)</b>	<b>+0.5% (+0.8%)</b>
	<b>US:</b>	15:00 Prelim. Michigan Consumer Sentiment (Feb.)	79.0	80.6

◆ 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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