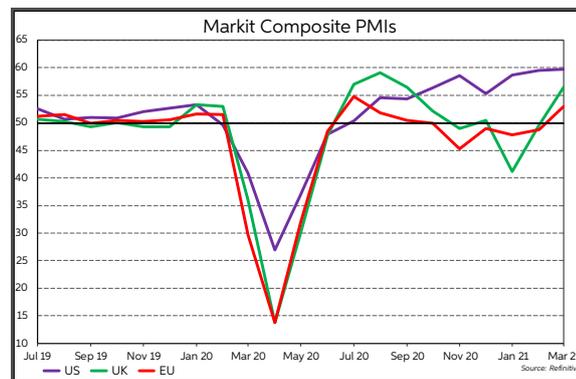


Out of Gas

- The opening quarter of 2021 saw quite a bit of movement on forex markets. Among the majors, both the dollar and sterling strengthened, while the euro and yen lost ground.** To date in April, though, these trends have reversed somewhat, leaving it difficult to call the future direction of the main currency pairs. It was generally expected that having lost ground in 2020, the dollar would continue to move lower in 2021. The currency, though, rallied during the first quarter, helped by a marked rise in long term US interest rates and big upgrades to US growth forecasts for 2021 and 2022. This saw the euro drop back to a low of \$1.17 by end March from \$1.23 in January. The market was also very short the US currency, which helped the dollar recover as these positions were closed out. The yen saw quite a large decline in Q1, with the dollar climbing from ¥103 at the start of 2021 to near ¥111 by end March. Upgrades to global growth forecasts, the roll out of Covid vaccines and improving risk appetite on markets lessened the safe haven appeal of the yen, which was also impacted by rising long term interest rates in other markets.
- Sterling, meanwhile, appreciated steadily during the opening quarter of 2021, most notably versus the euro and yen.** This may have been partially due to the trade deal concluded at end 2020 between the EU and UK which avoided a Hard Brexit. A key factor, though, seems to have been the rapid roll out of Covid vaccines in the UK. Restrictions on activity there should thus be eased significantly over the course of quarter two, allowing for a sharp economic rebound to take root. The improved outlook has seen upgrades to growth forecasts for the UK economy. As a result, markets have moved from, at the start of the year pricing in a move to negative interest rates in the UK, to now expecting that rates there will start to rise from the third quarter of next year. This has seen a marked rise in Gilt yields during Q1. The stronger growth outlook and hardening interest rate expectations propelled sterling higher. EUR/GBP fell steadily from around 90p at the start of the year to 85p by early April. Meantime, cable climbed to a high near \$1.42, before settling down just below the \$1.40 level.
- To date in April, though, the euro has recovered to 87p against sterling and close to the \$1.20 level versus the dollar.** The US currency has also dropped back to below ¥109. A number of factors appear to be at work. The upward pressure on long-term rates has abated recently, with 10 year bond yields in the US and UK dropping back by circa 20bps and 10bps, respectively, from their end March levels. The US and UK also raced ahead in terms of the roll out of Covid vaccinations in Q1, but other countries are now beginning to catch up. Market positioning has also changed. It began the year very short the dollar, but markets have moved to a neutral position on the US currency and are now quite short the yen.
- The correction seen to date in April may herald a period of range trading ahead for the main currency pairs, especially with central banks indicating that official interest rates are likely to remain unchanged for a considerable period of time.** Therefore, we could see the action in EUR\USD contained in the \$1.17-1.23 range through the summer. The market is quite long sterling, so its rally may have run its course. Hence, we may now see EUR\GBP trade in an 86-90p corridor. Positioning data points to scope for the yen to rebound, but interest rate spreads have moved against it this year. Thus, it is likely to find it difficult to recover all the ground lost in Q1. Home on the ranges, then may be in store for currencies, with central banks having taken to the sidelines.
- With central banks off the pitch for now, the ECB policy meeting this week will likely be a non-event for markets.** The central bank is expected to keep monetary policy on hold having announced an increase in the pace of purchases under PEPP in March. However, since then, the weekly data has only shown a slight increase in gross purchases. At the press conference, President Lagarde can expect to face questions on the matter. The message from the ECB, that the economic recovery in the Eurozone has been “delayed and not derailed” will likely be unchanged. Data-wise, the flash PMIs for April are due in the Eurozone. Both indices are expected to be broadly unchanged, with manufacturing at 62.0, continuing to outperform the service sector at 49.1, due to the impact of restrictions on the latter. EC consumer confidence (April) is also forecast to be unchanged.
- In the UK, there is a busy data calendar this week.** Starting with survey data, the manufacturing PMI is expected to remain elevated at 58.8 in April. The services index is forecast to improve to 59.0 from 56.3, as the UK economy gradually re-opens. Indeed, consumer confidence for April is projected to jump to -12 from -16, in part due to the easing of restrictions. Turning to hard data, the consensus is that retail sales picked up by 1.5% in March. Inflation is expected to accelerate in March to 0.7% from 0.4%. However, a slower rise is anticipated for the core rate, which is forecast to print at 1% vs. 0.9% previously. Meanwhile, the unemployment rate (February) is projected to edge up to 5.1% from 5.0%.
- Across the Atlantic, the flash PMI data for April will be the main highlight in the US.** The consensus is for both indices to remain well above the key 50 threshold and to edge higher as the US economy benefits from the rapid pace of its vaccine roll out.



	Interest Rate Forecasts			
	Current	End Q2 2021	End Q3 2021	End Q4 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 Q2 2021	End Q3 2021	End Q4 2021
EUR/USD	1.1986	1.20	1.20	1.21
EUR/GBP	0.8679	0.87	0.88	0.88
EUR/JPY	130.37	130	130	129
GBP/USD	1.3808	1.38	1.36	1.38
USD/JPY	108.77	108	108	107

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time (GMT+1)	Release	Previous	Forecast
This Week:	ECB Speakers:	Lagarde (Fri)		
	BoE Speakers:	Ramsden, Bailey (Wed)		
	Fed Speakers:			
Mon 19th	JPN:	00:01 Trade Balance (March) - Exports	¥217.4bn (-4.5%)	¥490.0bn (+11.6%)
Tue 20th	GER:	07:00 Producer Prices (March)	+0.7% (+1.9%)	+0.5% (+3.2%)
	UK:	07:00 ILO Employment (February) - Unemployment Rate	-147,000 5.0%	5.1%
	UK:	07:00 Average Weekly Earnings (3 months to Feb.) - Ex-Bonus	(+4.8%) (+4.2%)	(+4.8%) (+4.2%)
Wed 21st	UK:	07:00 CPI (March) - Core	+0.1% (+0.4%) +0.0% (+0.9%)	+0.3% (+0.7%) +0.3% (+1.0%)
	UK:	07:00 PPI Output Prices (March) - Input Prices	+0.6% (+0.9%) +0.6% (+2.6%)	+0.3% (+1.7%)
Thurs 22nd	FRA:	07:45 INSEE Business Climate (April)	98	99
	UK:	11:00 CBI Trend Orders (April)	-5	
	EU-19:	12:45 Refi Rate (April) Deposit Rate	+0.00% -0.50%	+0.00% -0.50%
	EU-19:	13:30 ECB Press Conference		
	US:	13:30 Initial Jobless Claims (w/e 12th April)	+576,000	
	US:	15:00 Existing Home Sales (March)	+6.22m / -6.6%	+6.21m / -0.2%
	EU-19:	15:00 Flash Consumer Confidence (April)	-10.8	-10.9
Fri 23rd	UK:	00:01 Gfk Consumer Confidence (April)	-16	-12
	JPN:	00:30 CPI (March) - Core	(-0.4%) (-0.4%)	(-0.1%)
	JPN:	01:30 Flash Jibun Manufacturing PMI (April)	52.7	
	UK:	07:00 Retail Sales (March) - Ex-Fuel	+2.1% (-3.7%) +2.4% (-3.7%)	+1.5% (+4.2%) +1.3%
	FRA:	08:15 Flash Markit Composite PMI (April)	50.0	
	GER:	08:30 Flash Markit Composite PMI (April)	57.3	57.0
	EU-19:	09:00 Flash Markit Composite PMI (April) - Manufacturing / Services	53.2 62.5 / 49.6	52.8 62.0 / 49.1
	UK:	09:30 Flash Markit Composite PMI (April) - Manufacturing / Services	56.4 58.9 / 56.3	58.1 58.8 / 59.0
	US:	14:45 Flash Markit Composite PMI (April) - Manufacturing / Services	59.7 59.1 / 60.4	60.0 / 61.5
	US:	15:00 New Home Sales (March)	+0.78m / -18.2%	+0.88m / +12.8%

◆ 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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