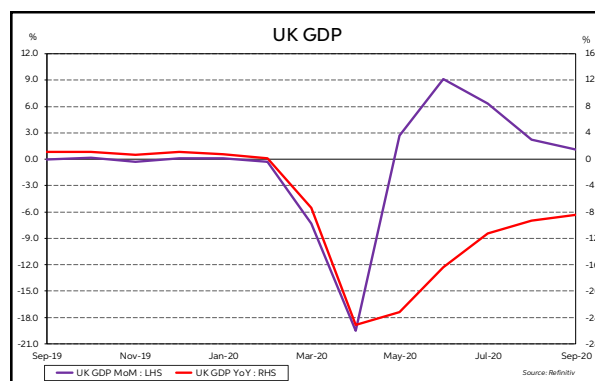


## Double-Jab Downs the Dollar

- **This was a significant week in forex markets, with the key EUR/USD rate rising above the \$1.20 resistance level for only the second time since 2014.** The dollar has been moving steadily lower in trade-weighted terms since it reached lofty heights back in March when the growing Covid-19 pandemic triggered carnage in financial markets and a stampede into the safe-haven US currency. The dollar, though, has lost 11.5% against the other major currencies since the spring. However, it has been a gradual move down as risk appetite returned to markets and safe haven flows unwound. The dollar is down by 6.5% in the second half of the year. Its decline picked up pace over the past month, falling by over 3% against the other majors as positive vaccine news broke. The euro has been a notable beneficiary, climbing to above \$1.21 from \$1.165 at the start of November.
- **The previous move above \$1.20 by the dollar occurred at the start of 2017 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, before bottoming out at \$1.07 earlier this year. On this occasion, though, the general decline of the dollar and move by the euro above \$1.20 may well be sustained. The economic and policy landscape is changing, a double jab that is weakening the dollar. Vaccines for Covid-19 are now expected to become widely available over the course of 2021, laying the basis for a period of sustained, robust, broad-based growth by the global economy over the next couple of years, with the US economy no longer an outperformer. This is likely to add to recent moves out of US dollar assets.
- **In recent years, as well as a relatively strong US economy, the dollar was also supported by significantly higher interest rates in the US than elsewhere,** most notably when compared to the negative interest rates in the Eurozone and Japan. The latter two have not seen rates cut this 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 major currencies. Furthermore, the Fed has recalibrated its monetary policy framework allowing for official US interest rates to be maintained at very low levels as the economy recovers, provided inflation remains under control. Thus, the dollar's interest rate advantage does not look like returning anytime soon. A further headwind for the dollar may be if the US continues to run a large fiscal deficit under a Biden Presidency. Traditionally, this would weigh on a currency, especially in an economy with low rates and a sizeable external current account deficit, like the US.
- **Having breached resistance at \$1.20 and risen to near \$1.22, the peak reached during the past six years of \$1.25 is the next major test for the euro.** This is likely to be very challenging to overcome, so the EUR/USD pair may settle down in a new trading range of \$1.18-1.25 in the months ahead. The dollar, though, despite losing considerable ground since the spring remains at quite elevated levels and thus could continue to decline. Much will depend on the strength and durability of the recovery in global activity that is expected to take root during 2021. For the first time in many years, one can make the case that what we have seen in recent months could be the start of a long term decline in the US currency.
- **This week, the ECB will hold its December policy meeting with further easing expected.** Indeed, ECB President Lagarde has already stated that the ECB will recalibrate its monetary policy instruments. This is expected to include an increase in PEPP by €500bn to extend the programme until the end of 2021, while purchases under the less flexible APP are projected to increase to €40bn a month from €20bn. Changes to the TLTRO programme have been hinted also. The ECB will publish updated staff macroeconomic forecasts as well, with the focus on the strength of the rebound expected over 2021-23. An increase in the tiering facility for banks to lower the burden of increased savings on their balance sheets may also be announced. A number of speeches and interviews given by Governing Council members recently continue to highlight that additional fiscal stimulus is also needed to support the economy. Thus, the EU Leaders Summit Thursday-Friday will also be closely watched for signs of progress in implementing the NGEU recovery fund.
- **Staying with the Eurozone, the revised reading of Q3 GDP is expected to remain unchanged at +12.6% q/q.** Eurozone Q3 employment data are also due. On a national level, industrial output for October in Germany, France and Italy will be released. Meanwhile, the December print of the German ZEW is forecast to rise to 44 from a low level of 39 despite tighter Covid restrictions having been introduced and extended into the new year. **In the US, the November print of CPI is forecast to fall to 1.1% from 1.2%,** while the core rate is expected to slip to 1.5% from 1.6%. On the demand side, the flash estimate of the Michigan consumer sentiment index is expected to fall in December to 76.0 from 76.9, an already subdued level.
- **In the UK, the October reading of GDP will feature.** The forecast is for output to have increased by 0.5% m/m as new restrictions slowed the economic recovery. Industrial output data are also due for the month.



	Interest Rate Forecasts			
	Current	End Q4	End Q1	End Q2
		2020	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 Q4	End Q1	End Q2
		2020	2021	2021
EUR/USD	1.2168	1.23	1.24	1.25
EUR/GBP	0.8995	0.88	0.88	0.89
EUR/JPY	126.50	127	127	128
GBP/USD	1.3528	1.40	1.41	1.40
USD/JPY	103.94	103	102	102
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time (GMT+1)		Release	Previous	Forecast
<b>This Week:</b>	<b>ECB Speakers: Lagarde</b> (Friday) <b>BoE Speakers:</b> <b>Fed Speakers:</b> <b>EU-27:</b> EU Leader's Summit (Thursday/Friday)				
<b>Mon 7th</b>	<b>GER:</b>	07:00	Industrial Output (October)	+1.6% (-7.2%)	+1.5% (-4.9%)
	<b>UK:</b>	08:30	Halifax House Prices (November)	+0.3% (+7.5%)	
	<b>EU-19:</b>	09:30	EU Sentix Index (December)	-10.0	-13.0
	<b>US:</b>	20:00	Consumer Credit (October)	\$16.2bn	\$17.0bn
	<b>JPN:</b>	23:30	All Household Spending (October)	+3.8% (-10.2%)	+1.0% (+2.5%)
	<b>JPN:</b>	23:50	Current Account (October)	¥1.66trn	¥2.13trn
	<b>JPN:</b>	23:50	GDP (Q3 Final Reading )	+5.0% (-10.1%)	+5.0% (-6.0%)
	<b>CHINA:</b>	23:50	Trade Balance (November) - Exports	+\$58.44bn (+11.4%)	+\$53.50bn (+12.0%)
<b>Tue 8th</b>	<b>JPN:</b>	05:00	Economy Watchers Poll (November)	54.5	
	<b>GER:</b>	10:00	ZEW Economic Sentiment (December)	39.0	44.0
	<b>EU-19:</b>	10:00	Employment (Q3 Final Reading)	+0.9% (-2.0%)	
	<b>EU-19:</b>	10:00	GDP (Q3 Revised Reading)	+12.6% (-4.4%)	+12.6% (-4.4%)
	<b>US:</b>	11:00	NFIB Business Optimism (November)	104.0	
	<b>JPN:</b>	23:50	Core Machinery Orders (October)	-4.4% (-11.5%)	+2.8% (-11.3%)
<b>Wed 9th</b>	<b>CHINA:</b>	01:30	CPI (November)	-0.3% (+0.5%)	-0.2% (+0.0%)
	<b>CHINA:</b>	01:30	PPI (November)	(-2.1%)	(-1.8%)
	<b>GER:</b>	07:00	Trade Balance (October) - Exports	+€17.8bn +2.3%	+€17.8bn +1.0%
	<b>GER:</b>	07:00	Current Account (October)	+€26.3bn	
<b>Thurs 10th</b>	<b>UK:</b>	00:01	RICS Housing Survey (November)	68	
	<b>UK:</b>	07:00	GDP (October)	+1.1% (-8.4%)	+0.4% (-8.2%)
	<b>UK:</b>	07:00	Industrial Output (October) - Manufacturing	+0.5% (-6.3%) +0.2% (-7.9%)	+0.2% (-6.6%) +0.2% (-8.5%)
	<b>UK:</b>	07:00	Goods Trade Balance (October) - Non-EU	-£9.35bn -£1.65bn	-£9.2bn
	<b>FRA:</b>	07:45	Industrial Output (October)	+1.4%	+0.4%
	<b>IRL:</b>	<b>11:00</b>	<b>CPI (November)</b>	<b>-0.6% (-1.5%)</b>	<b>+0.0% (-1.4%)</b>
	<b>EU-19:</b>	12:45	ECB Refi Rate Announcement - Deposit Rate	0.00% -0.50%	0.00% -.50%
	<b>EU-19:</b>	13:30	ECB Press Conference		
	<b>US:</b>	13:30	CPI (November) - Core	+0.0% (+1.2%) +0.0 (+1.6%)	+0.1% (+1.1%) +0.1% (+1.5%)
	<b>US:</b>	13:30	Initial Jobless Claims (w/e 30th November)	+712,000	
<b>Fri 11th</b>	<b>GER:</b>	07:00	Final HICP (November)	-1.0% (-0.7%)	-1.0% (-0.7%)
	<b>ITA:</b>	09:00	Industrial Output (October)	-5.6%	+1.0%
	<b>US:</b>	13:30	PPI (November)	+0.3% (+0.5%)	+0.1% (+0.8%)
	<b>US:</b>	13:30	Preli. Michigan Consumer Sentiment (Dec.)	76.9	76.0

♦ 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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