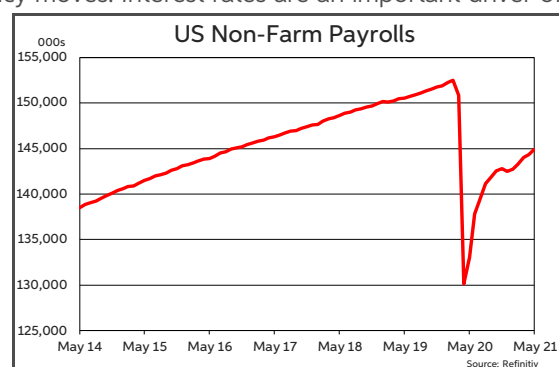


A Penny For Your Thoughts

- **The main currency pairs have been confined to remarkably tight trading ranges in recent times.** Virtually all the movement in the key euro-dollar exchange rate has been in the \$1.17-1.23 corridor over the past year. Following a bounce at the start of 2021 in the aftermath of the Brexit trade deal, sterling has traded within a very tight 85-87p band against the euro since mid-February. The yen came under pressure at the start of the year, but ¥108-111 has contained all the action against the dollar since March. Other key currencies like the Swiss franc, Aussie dollar and Chinese yuan have also been confined to narrow ranges. It is unusual to see a broad group of currencies stuck in such tight ranges for a prolonged period of time. One reason for this has been a more stable US dollar this year.
- **The dollar lost considerable ground over the final three quarters of last year as its big interest rate advantage over other currencies was eroded when the Fed slashed rates to virtually zero.** The general expectation at the start of this year was that, with rates hikes off the agenda for a number of years, the US currency could lose more ground in 2021. However, with big upgrades to growth and inflation forecasts everywhere, but especially for the US, the dollar has stabilised. It has also benefitted from the rapid roll out of vaccines in the US, which is well ahead of other economies in terms of emerging from the 2020 recession. This has all seen the markets bring forward the timing of US rates hikes into 2022, and to also price in greater Fed tightening. US rates are now seen as rising to circa 2% by end 2026. The view during the second half of last year was that US rates would rise to only 1% by then. Long term US interest rates have also risen this year reflecting the firming of futures contracts, again helping the dollar.
- **Calling movements in currency markets is difficult enough at the best of times, but even more so when there is no clear direction evident.** The motto in forex markets that 'the trend is your friend' is not much help at present. Similar factors are at work across currency markets. All the main economies are in the midst of emerging from the Covid-19 pandemic. A strong rebound in activity is underway virtually everywhere, governments are providing additional fiscal supports in most developed countries, while the main central banks are all saying that there will be no early tightening of monetary policy. Rates are very much on hold everywhere despite a marked pick-up in inflation, which central banks believe will be temporary. It is not surprising then, that currency markets are struggling for direction.
- **We have been of the view for some time that range trading would be in store on forex markets in 2021.** However, at some stage this will break down and we will get significant currency moves. Interest rates are an important driver of forex markets, and their stability has been key to the recent narrow trading ranges. Rate hikes are quiet possible in the US and UK next year, while Eurozone rates look set to stay on hold and deeply negative. Widening interest rate differentials should be supportive of the dollar and sterling. Market positioning is quite short the dollar also. Meantime, we find it hard to think of what could drive the euro higher. Indeed, Germany and France are facing potentially difficult elections this year and next, which may weigh on the euro. Thus, while range trading looks set to remain the order of the day in the near term, longer term, the balance of risk points to upside potential for the dollar and sterling.
- **This week, the June US labour market report is due.** The labour market recovery has slowed in recent months, with payrolls rising by 837k so far in Q2, about half of the 1.6m expected. Chair Powell highlighted a number of reasons for the recent slowdown in the pace of hiring, such as the drastic fall in the number of temporary unemployed people, lingering fears of contracting Covid, additional childcare pressures, and enhanced unemployment supports. Nonetheless, the forecast is for payrolls to rise by 675k in June. However, this would still leave payrolls circa 7m below their pre-pandemic level. The unemployment rate is set to move lower to 5.6% from 5.8%. Meantime, in terms of survey data, consumer confidence (June) is projected to move higher, while the non-manufacturing ISM is expected to be little changed and remain elevated, above 60.
- **Survey data feature heavily in the Eurozone as well.** Both the EC services and industrial sentiment measures are projected to rise, as economic conditions continue to improve across the bloc. Meanwhile, headline HICP inflation is forecast to edge lower to 1.9% in June from 2.0% in May. The consensus is that the ex-food & energy reading will be unchanged at 0.9%, as underlying price pressures remain weak. Elsewhere, the Eurozone unemployment rate for May is anticipated to hold steady at 8.0%. **In the UK, the second reading of GDP is set to confirm the economy contracted by 1.5% in Q1. Strong house price data for June are also expected.**



	Interest Rate Forecasts			
	Current	End Q3 2021	End Q4 2021	End Q1 2022
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 2021	End Q4 2021	End Q1 2022
EUR/USD	1.1962	1.20	1.19	1.18
EUR/GBP	0.8595	0.86	0.86	0.85
EUR/JPY	132.33	132	131	131
GBP/USD	1.3916	1.40	1.38	1.39
USD/JPY	110.62	110	110	111

Current Rates Reuters, Forecasts AIB's ERU

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Panetta, de Guindos, (Mon); Lagarde (Tue); Lagarde (Thu); Lagarde (Fri)		
	BoE Speakers:		Haldane (Mon); Hauser (Tue); Haldane (Wed); Bailey (Thu)		
	Fed Speakers:		Williams (Mon); Barkin (Tue)		
Mon 28th	IRL:	11:00	Retail Sales (May)	+7.4% (+90.1%)	+10.0% (+67.0%)
Tue 29th	JPN:	00:30	Jobs/Applicants Ratio (May)	1.09	1.08
	JPN:	00:30	Unemployment Rate (May)	2.8%	2.9%
	JPN:	00:50	Retail Sales (May)	(+12.0%)	(+7.9%)
	UK:	07:00	Nationwide House Prices (June)	+1.8% (+10.9%)	+0.7% (+13.7%)
	UK:	09:45	Consumer Credit (May)	-£0.38bn	+£0.33bn
	UK:	09:45	Mortgage Approvals (May)	+86,921	+85,340
	EU-19:	10:00	EC Economic Sentiment (June)	114.5	116.5
			- Consumer / Industrial / Services	-3.3 / 11.5 / 11.3	-3.3 / 13.0 / 16.0
	GER:	13:00	Flash HICP (June)	+0.3% (+2.4%)	+0.4% (+2.1%)
	US:	14:00	Case-Shiller (April)	+1.6% (+13.3%)	
	US:	15:00	Consumer Confidence (June)	117.2	118.8
Wed 30th	JPN:	00:50	Industrial Output (May)	+2.9% (+15.9%)	-2.4%
	UK:	07:00	Q1 GDP (Second Reading)	-1.5% (-6.1%)	-1.5% (-6.1%)
	FRA:	07:45	Consumer Spending (May)	-8.3%	
	FRA:	07:45	Flash HICP (June)	+0.3% (+1.8%)	+0.2% (+1.8%)
	FRA:	07:45	Producer Prices (May)	-0.3% (+7.3%)	
	GER:	08:55	Unemployment Rate (June)	6.0%	5.9%
	ITA:	10:00	Flash HICP (June)	-0.1% (+1.2%)	+0.2% (+1.4%)
	EU-19:	10:00	Flash HICP (June)	(+2.0%)	(+1.9%)
			- Ex-Food & Energy	(+0.9%)	(+0.9%)
	US:	15:00	Pending Home Sales (May)	-4.4%	+0.0%
Thu 1st	IRL:	01:01	AIB Manufacturing PMI (June)	64.1	
	JPN:	01:30	Jibun Manufacturing PMI (June)	51.5	51.5
	CHINA:	02:45	Final Caixin Manufacturing PMI (June)	52.0	51.8
	GER:	07:00	Retail Sales (May)	-5.5% (+4.4%)	+5.0% (+0.0%)
	ITA:	08:45	Unemployment Rate (May)	10.7%	
	EU-19:	09:00	Final Manufacturing PMI (June)	63.1	63.1
	UK:	09:30	Final Manufacturing PMI (June)	64.2	64.2
	EU-19:	10:00	Unemployment Rate (May)	8.0%	8.0%
	US:	13:30	Initial Jobless Claims (w/e 21st June)	+411,000	
	US:	14:45	Final Manufacturing PMI (June)	62.6	62.6
	US:	15:00	Manufacturing ISM (June)	61.2	61.5
Fri 2nd	EU-19:	10:00	Producer Prices (May)	+1.0% (+7.6%)	1.2% (+9.5%)
	US:	13:30	Non-Farm Payrolls (June)	+559,000	+675,000
			- Unemployment Rate	5.8%	5.6%
			- Average Earnings	+0.5% (+2.0%)	+0.4% (+3.2%)
	US:	13:30	International Trade (May)	-\$68.9Bn	-\$70.8bn
	IRL:	16:30	Exchequer Returns (June)	June'20: -€5.3bn	-€5.0 bn

♦ Month-on-month changes (year-on-year shown in brackets)

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