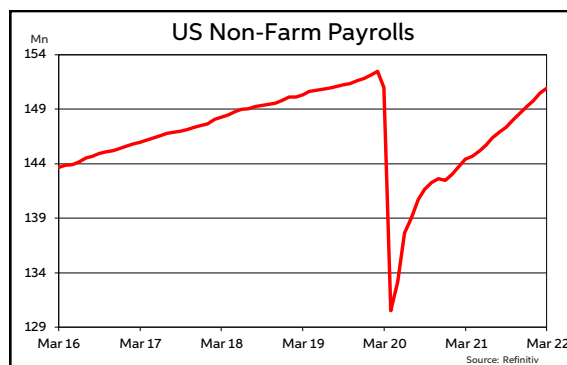


A Perfect Storm

- **The dollar has made large gains in April, surging by nearly 6% in trade-weighted terms against a basket of major currencies.** It has been a perfect storm in forex markets. The Federal Reserve has turned increasingly hawkish on monetary policy, with some FOMC members signalling that a series of 50bps hikes may be needed over the summer to contain inflationary pressures. The dollar has proved very sensitive to interest rates in recent years. It climbed to very high levels ahead of the COVID pandemic as US rates rose well above elsewhere. The dollar then lost 12% against the other major currencies during 2020 as US rates were cut to virtually zero. It has been on a recovering trend since mid-2021, as expectations grew that the Fed would tighten policy and long term Treasury yields rose sharply to circa 3%. The dollar has now more than recovered all the ground lost in 2020.
- **Other factors have also aided the dollar, including its premier safe-haven status as the world's main reserve currency at a time of elevated geo-political risks following the Russian invasion of Ukraine.** Market risk aversion has also increased due to fresh lockdowns in China to contain the latest wave of COVID-19. Surging commodity prices have boosted the demand for dollars further, as commodities are largely traded in the US currency. However, it is the much more hawkish rhetoric of the Fed on monetary policy compared the ECB, BoJ and BoE that would appear to be the primary driver of dollar gains. Markets expect the Fed funds rate to be raised from 0.375% at present to 2.75% by end year.
- **By contrast, other central banks are much more cautious about hiking rates aggressively on concerns it could tip their economies into recession.** Indeed, the BoJ is continuing with large scale QE bond purchases to cap 10 year JGB yields at 0.25%. Meanwhile, official Japanese rates are set to remain unchanged in negative territory. The Bank of England is anticipating a very sharp slowdown in the UK economy, signalling that just some further modest monetary tightening may be appropriate in the coming months. Elsewhere, the ECB is still engaged in QE, with rate hikes to begin later in the summer, which, it is anticipated will see the key deposit rate turn positive in the final quarter, finishing the year at circa 0.375% as per futures contracts.
- **The dollar's rally has taken it to levels not seen in twenty years against the yen, soaring from Y116 in March to above Y130 recently, easily taking out the 2015 peak of Y125.** Meanwhile, the euro has crashed through the key support levels of \$1.08 and \$1.06. It is now likely to test its lowest point of the past twenty years too, of \$1.04, hit at end 2015. If this supports give way, it opens up a move towards parity for the dollar, which was last seen in 2002. The previous time that the euro fell below parity, it spent almost three years there, from 2000-2002. Meanwhile, sterling appears to be returning to the forty year lows of \$1.20-1.25 seen during the period 2016-2020, in the aftermath of the UK referendum vote to leave the EU and all the uncertainty that followed. Overall, given the considerable divergence in interest rates that seems likely to be seen over the next couple of years, and that it is now anticipated the War in Ukraine will be drawn out, the current period of dollar supremacy could last some time.
- **This week, the Fed is expected to proceed with a 50bps rate hike, bringing the Fed funds target range up to 0.75-1%.** A larger 75bps hike has been mentioned, but seems unlikely. The Fed is also expected to announce that quantitative tightening could begin in May, a process which sees the central bank reduce the size of its balance sheet. The minutes from the last Fed meeting in March indicate that assets worth \$95bn per month will be allowed to run-off the balance sheet, roughly double the pace of the last QT programme which peaked at \$50bn per month. Meanwhile, the press conference will garner close attention, as investors look for forward guidance on the size of future rate hikes, as well as the Fed's assessment of the risks to growth and inflation.
- **Elsewhere, the Monetary Policy Committee of the Bank of England will also meet.** It is envisaged the MPC will raise rates by 25bps, bringing Bank rate up to 1%. The latest Monetary Policy Report is also due. The February MPR showed the BoE expected the UK economy to grow by 3.75% this year, with inflation peaking at 7.25% in April, averaging 5.75% for the year. However, growth is likely to be revised lower and inflation higher for 2022. The BoE, which has already started the process of QT may provide guidance on plans for active UK Gilt sales in the coming months also.
- **In terms of data releases, the US labour market report is due.** Chair Powell has described the labour market as being tight to an "unhealthy level". This in part stems from the fact that labour force participation is still 1 percentage point below its pre-pandemic level. Payrolls though, have been increasing at a rapid pace, rising by an average of 550k per month in Q1. The unemployment rate has declined sharply to 3.6%. Tight conditions in the labour market have placed upward pressure on wages, with average earnings 5.6% higher this March than a year ago. The consensus is for payrolls to rise by 395k in April, while the jobless rate is expected to be unchanged at 3.6%. Meanwhile, average earnings growth is forecast to ease slightly to 5.5% YoY. **Elsewhere, in the Eurozone, a busy calendar includes retail sales and unemployment data for March and the EC sentiment indices for April.**



	Interest Rate Forecasts			
	Current	End Q2	End Q3	End Q4
		2022	2022	2022
Fed Funds	0.375	1.375	1.875	2.375
ECB Deposit	-0.50	-0.50	0.00	0.25
BoE Repo	0.75	1.25	1.75	1.75
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	End Q3	End Q4
		2022	2022	2022
EUR/USD	1.0519	1.04	1.05	1.06
EUR/GBP	0.8395	0.84	0.85	0.86
EUR/JPY	136.80	138	142	143
GBP/USD	1.2529	1.24	1.24	1.23
USD/JPY	130.01	133	135	135
Current Rates Reuters, Forecasts AIB's ERU				

Date	UK & Irish Time		Release	Previous	Forecast
This Week:	ECB Speakers:		Lagarde , Panetta (Tue); Lane (Thu)		
	BoE Speakers:		Mann, Pill, Tenreyro (Fri)		
	Fed Speakers:		Williams, Bostic (Fri)		
Mon 2nd	IRL/UK:		May Bank Holiday Week (Market Holiday)		
	GER:	07:00	Retail Sales (March)	+0.3% (+7.0%)	+0.3% (-2.4%)
	EU-19:	09:00	Final S&P Manufacturing PMI (April)	55.3	55.3
	ITA:	09:00	Unemployment Rate (March)	8.5%	8.4%
	EU-19:	10:00	EC Economic Sentiment (April)	108.5	108.0
			- Consumer / Industrial / Services	-16.9 / 10.4 / 14.4	-16.9 / 9.5 / 14.2
	US:	14:45	Final S&P Manufacturing PMI (April)	59.7	59.7
	US:	15:00	Manufacturing ISM (April)	57.1	57.8
Tue 3rd	IRL:	01:01	AIB Manufacturing PMI (April)	59.4	
	GER:	08:55	Unemployment Rate (April)	5.0%	5.0%
	UK:	09:30	Final S&P / CIPS Manufacturing PMI (April)	55.3	55.3
	EU-19:	10:00	Producer Prices (March)	+1.1% (+31.4%)	+4.9%(+36.3%)
	EU-19:	10:00	Unemployment Rate (March)	6.8%	6.7%
	US:	15:00	Factory Orders (March)	-0.5%	+1.1%
	US:	15:00	JOLTS Job Openings (March)	11.3m	
Wed 4th	GER:	07:00	Trade Balance (March)	+€11.5bn	+€9.5bn
			- Exports	+6.4%	-1.8%
	ITA:	08:45	S&P Composite PMI (April)	52.1	
	FRA:	08:50	Final S&P Composite PMI (April)	57.5	57.5
	GER:	08:55	Final S&P Composite PMI (April)	54.5	54.5
	EU-19:	09:00	Final S&P Composite PMI (April)	55.8	55.8
			- Final S&P Services PMI	57.7	57.7
	UK:	09:30	Mortgage Approvals (March)	+70,993	+70,750
	EU-19:	10:00	Retail Sales (March)	+0.3% (+5.0%)	+0.0% (+1.1%)
	US:	13:15	ADP National Employment (April)	+455,000	+370,000
	US:	13:30	International Trade (March)	-\$89.2bn	-\$86.9bn
	EU-19:	14:45	Final S&P Composite PMI (April)	55.1	55.1
			- Final S&P Services PMI	54.7	54.7
	US:	15:00	Non-Manufacturing ISM (April)	58.3	59.5
	IRL:	16:30	Exchequer Returns (April)	Apr'21; -€7.7bn	-€2.5bn
	US:	19:00	Fed Funds Target Range	0.25-0.50%	0.75-1.0%
	US:	19:30	Fed Press Conference		
Thu 5th	IRL:	01:01	AIB Services PMI (April)	63.4	
	FRA:	07:45	Industrial Output (March)	-0.9%	+0.0%
	UK:	09:30	Final S&P / CIPS Composite PMI (April)	57.6	57.6
			- Final S&P Services PMI	58.3	58.3
	IRL:	11:00	Unemployment Rate (April)	5.5%	6.5%
	UK:	12:00	BoE Bank Rate	0.75%	1.0%
	UK:	12:45	BoE Press Conference		
	US:	13:30	Initial Jobless Claims (w/e 25th April)	+180,000	+185,000
Fri 6th	GER:	07:00	Industrial Output (March)	+0.2% (+3.0%)	-0.8% (+0.0%)
	ITA:	09:00	Retail Sales (March)	+0.7% (+4.3%)	
	US:	13:30	Non-Farm Payrolls (April)	+431,000	+395,000
			- Unemployment Rate	3.6%	3.6%
			- Average Earnings	+0.4% (+5.6%)	+0.4% (+5.5%)

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

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