

Week Ahead

Focus: US dollar weakening, Eurozone in severe recession in Q2

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Dollar per Swiss Franc



Source: Market data providers, Erste Group Research

What is moving the dollar?

The dollar has recently fallen significantly against the euro and has also lost ground against a number of other currencies. We believe that these movements were triggered by US-specific developments, such as the sharp rise in COVID-19 infections, the disagreement in the US Congress over another fiscal package and, most recently, President Trump's deliberations on postponing the presidential election.

But the matter is not quite clear. It could also be a continuation of the movement that has been going on for weeks, based on an easing of the global situation. After the low point of sentiment in March and April, the markets regained confidence and the dollar lost its function as a safe haven. We see an indication of what is driving the currency markets in the exchange rate of the US dollar against the Swiss franc. The CHFUSD currency pair usually shows little movement, as both currencies are driven by similar factors, such as the search for safe havens. The CHFUSD has remained in a narrow range of 0.98-1.08 during the last five years. The range for the EURCHF over the same period was much wider at 1.04-1.20. In the current environment, the US dollar has also weakened significantly against the Swiss franc, reaching levels last seen more than five years ago. We take this as an indication that the current movements are specifically related to events in the US.

Why is it important to clarify the causes when all lead to a weaker dollar? The argument is justified, but it makes a difference for the outlook. If it is the diminishing need for a safe haven, then if the situation eases in the areas mentioned above, the dollar would have to fall further, as the need for a safe haven would be even less. But if it is the events in the US, then when the situation improves, the dollar would have to strengthen again, at least temporarily. In general, we expect the EURUSD to react to the changing events in the coming months. It is very difficult to predict how these events will turn out, but the environment suggests to us a volatile sideways movement of the EURUSD rather than a sustained trend towards a strengthening of the euro.

The most likely scenario for us is that the US Congress will agree on a new fiscal package, as there is no alternative to this, especially in an election, year when the increased unemployment benefits expire at the end of July. There is also no alternative to finally succeeding in stabilizing the infection figures. Finally, the political pressure in the US should also be so great that considerations to postpone the presidential elections will not prevail.

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Note: Past performance is not necessarily indicative of future results

EZ – 2Q GDP data provides first indications

As expected, the strict containment measures in the context of the coronavirus pandemic have led to a historic drop in GDP. The GDP decline

in the Eurozone in 2Q by -12.1% compared to 1Q was stronger than we expected, but was within the consensus range. At the country level, GDP flash estimates brought some surprises. While the GDP declines in Germany (-10.1% q/q) and Spain (-18.5% q/q) were stronger than the consensus had expected, France and Italy exceeded expectations with -13.8% q/q and -12.4% q/q, respectively.

This time, the GDP flash estimates are subject to greater uncertainty than usual and could therefore be subject to greater revision requirements. Some of the estimates were published earlier than usual, which required a higher degree of estimates in the models (due to e.g. missing data, uncertainties/changes in data collection). We will therefore await the final GDP estimates for 2Q as well as the publication of GDP components in the second half of August, as the latter are relevant for a better assessment of the recovery path in 3Q and 4Q. Consequently, we will revise our GDP forecast for this year at the end of August/beginning of September, rather than now.

Economic calendar

Ctry	Date	Time	Release	Period	Consens	Prior
Eurozone						
EA	3-Aug	10:00	PMI Index	Jul F		51.1 Index
DE	3-Aug	9:55	PMI Index	Jul F		50.0 Index
FR	3-Aug	9:50	PMI Index	Jul F		52.0 Index
IT	3-Aug	9:45	PMI Index	Jul		47.5 Index
USA						
	3-Aug	16:00	PMI Index	Jul	53.5 Index	52.6 Index
	5-Aug	14:15	ADP Employment	Jul	1515.3 Tsd	2368.6 Tsd
	7-Aug	14:30	Wages y/y	Jul	4.4%	5.0%
	7-Aug	14:30	Unempl. Rate	Jul	10.4%	11.1%
	7-Aug	14:30	Chg. Non-Farm Payrolls	Jul	1537.0 Tsd	4800.0 Tsd
China						
	3-Aug	3:45	PMI Index	Jul	51.2 Index	51.2 Index

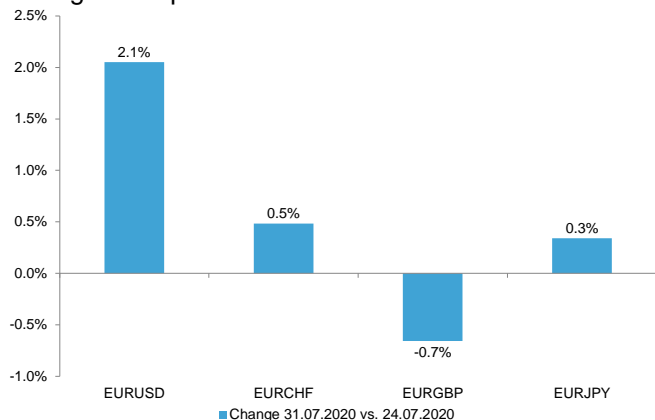
Central bank events

	Date	Time	Event
ECB			No monetary policy relevant events
Fed			No monetary policy relevant events

Source: Market Data Provider, ECB, Federal Reserve, Erste Group Research

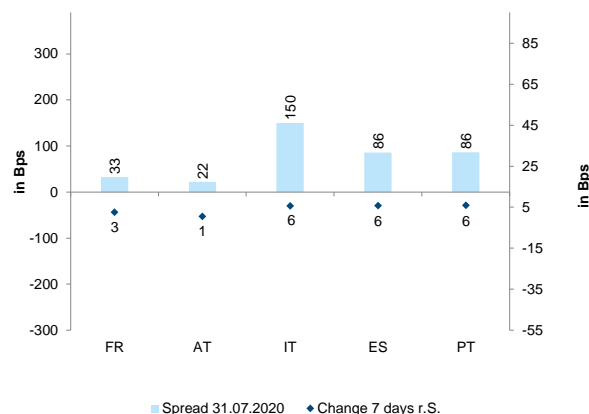
Forex and government bond markets

Exchange rates EUR: USD, CHF, GBP and JPY Changes compared to last week



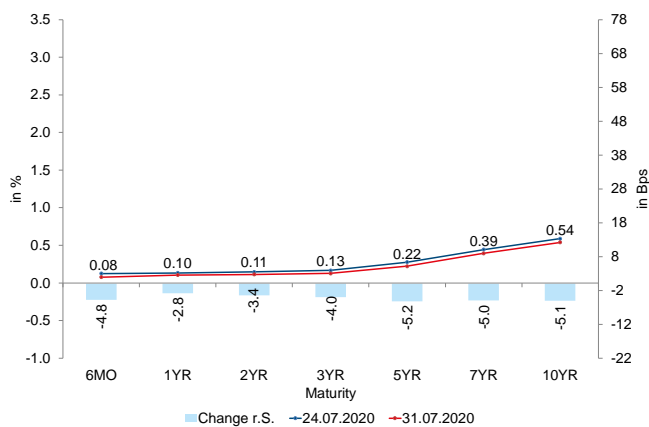
Source: Market Data Provider, Erste Group Research

Eurozone spreads vs. Germany 10Y government bonds



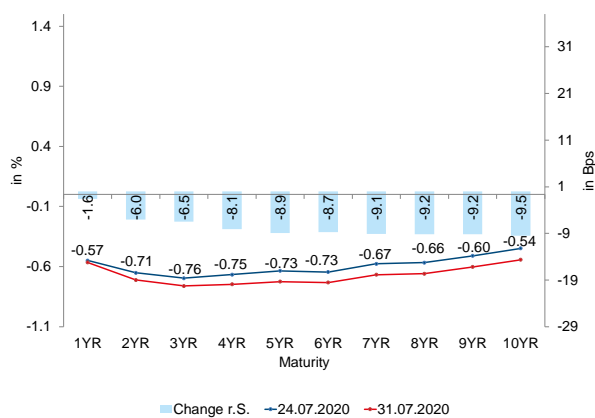
Source: Market Data Provider, Erste Group Research

US Treasuries yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

DE Bund yield curve Changes compared to last week



Source: Market Data Provider, Erste Group Research

Forecasts¹

GDP	2018	2019	2020	2021
Eurozone	1.9	1.2	-7.1	5.4
US	2.9	2.3	-5.5	5.4

Inflation	2018	2019	2020	2021
Eurozone	1.7	1.2	0.4	1.2
US	2.4	1.8	1.0	1.5

Interest rates	current	Sep.20	Dec.20	Mar.21	Jun.21
ECB MRR	0.00	0.00	0.00	0.00	0.00
3M Euribor	-0.46	-0.45	-0.45	-0.45	-0.45
Germany Govt. 10Y	-0.54	-0.40	-0.20	-0.10	0.00
Swap 10Y	-0.25	-0.10	0.10	0.20	0.30

Interest rates	current	Sep.20	Dec.20	Mar.21	Jun.21
Fed Funds Target Rate*	0.10	0.13	0.13	0.13	0.13
3M Libor	0.26	0.40	0.40	0.40	0.40
US Govt. 10Y	0.54	0.80	1.00	1.10	1.20
EURUSD	1.19	1.16 ↑	1.18 ↑	1.18 ↑	1.20 ↑

*Mid of target range

*In case of changes to our forecasts compared to the previous issue, arrows show the direction of the change.
 Source: Market Data Provider, Erste Group Research*

¹ Note: In accordance with regulations, we are obliged to issue the following statement:
 Forecasts are not a reliable indicator of future performance.

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