



FX Outlook May 2021

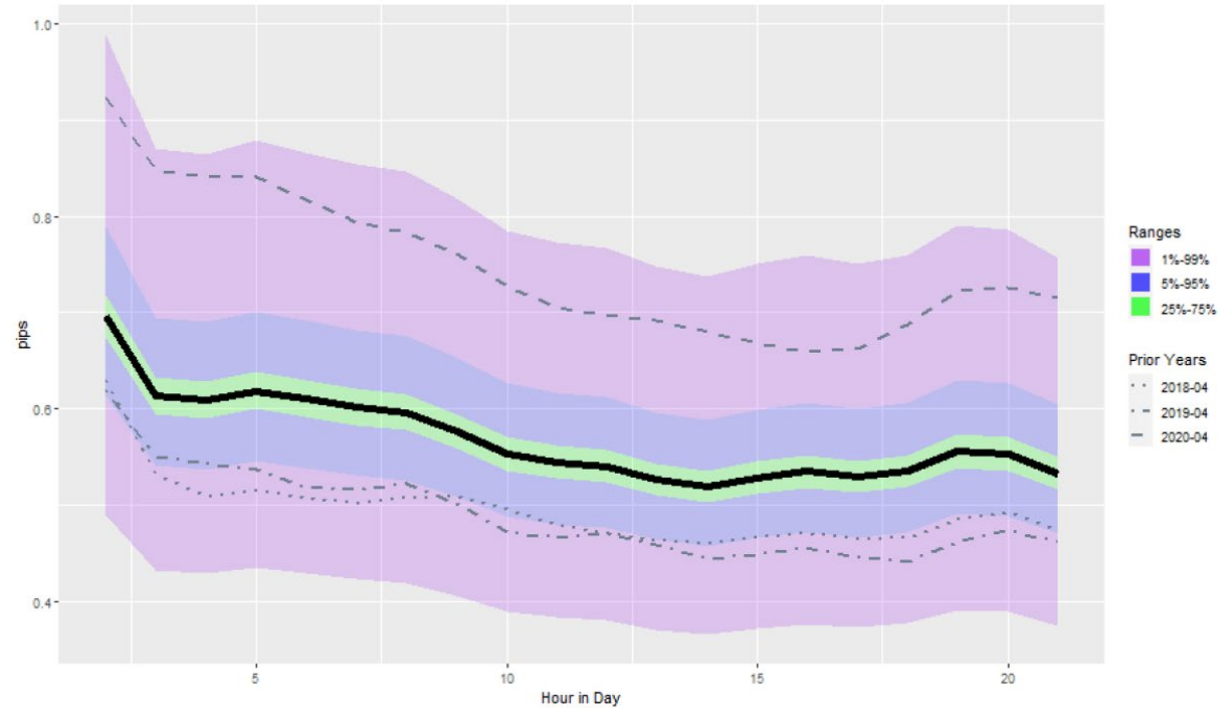
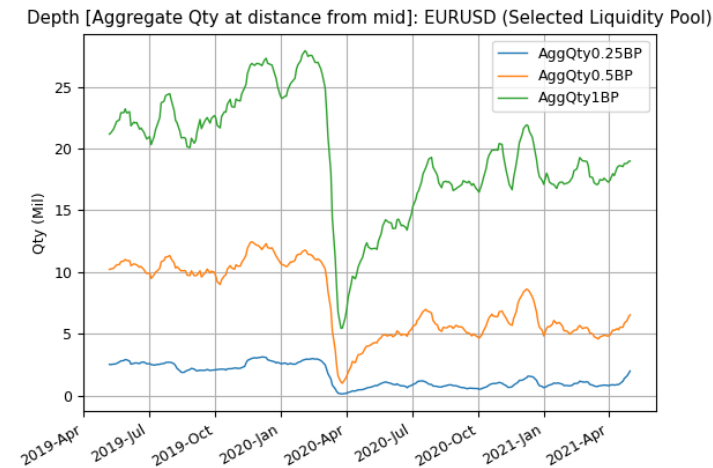
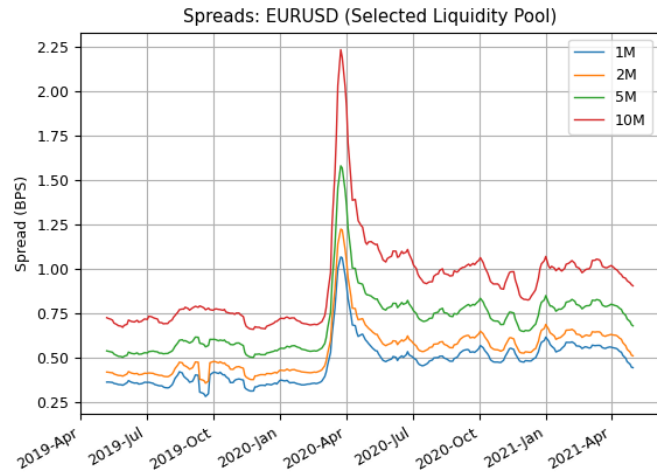
John Juer, Commerzbank AG



Part I

EURUSD

Is the FX Market still uncertain relative to pre-pandemic times?



Source: Commerzbank eFX

Following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time.

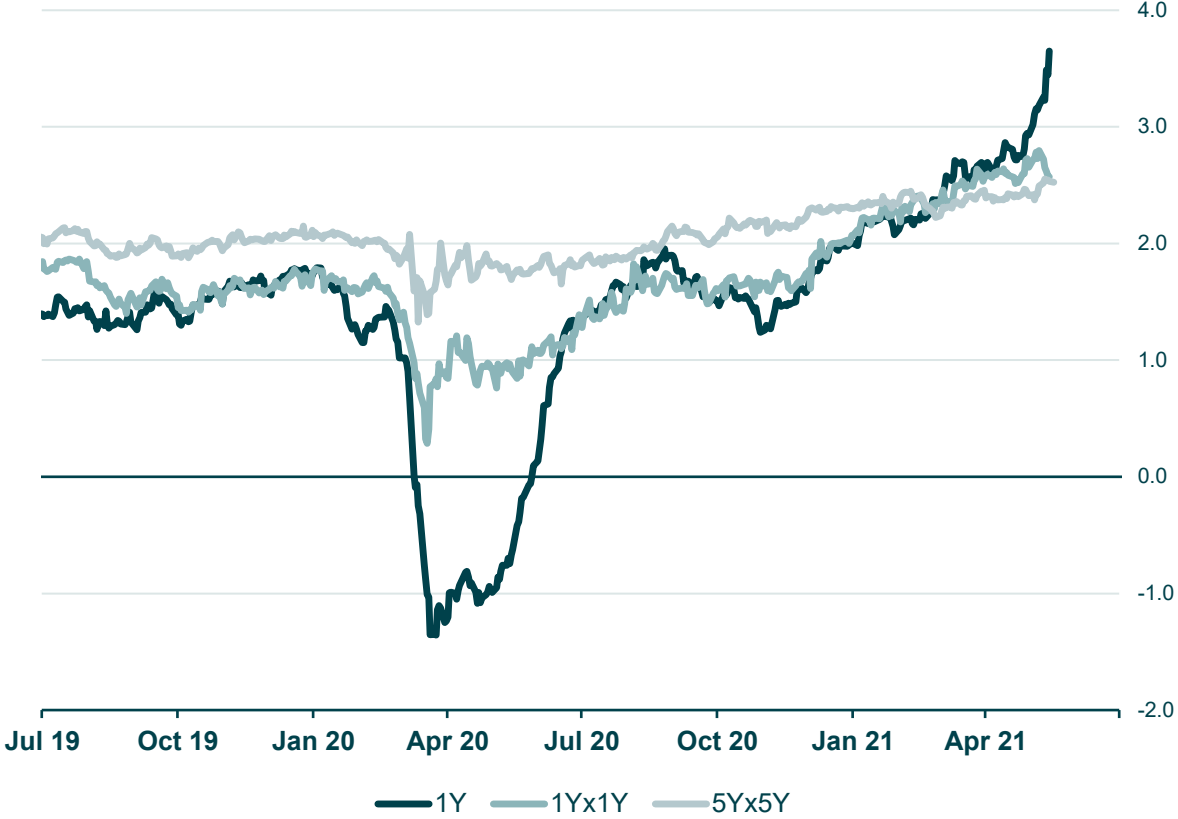
Fed Press Release, Aug. 27th 2020

US inflation has gone up and is expected to go up



Is US inflation positive or negative for the US dollar?

Market-based US inflation expectations
(from inflation swaps, percent)



Sources: Bloomberg, Commerzbank Research

We expect [the key ECB interest rates] to remain at their present or lower levels until we have seen the inflation outlook robustly converge to a level sufficiently close to, but below, 2 per cent within our projection horizon, and such convergence has been consistently reflected in underlying inflation dynamics.

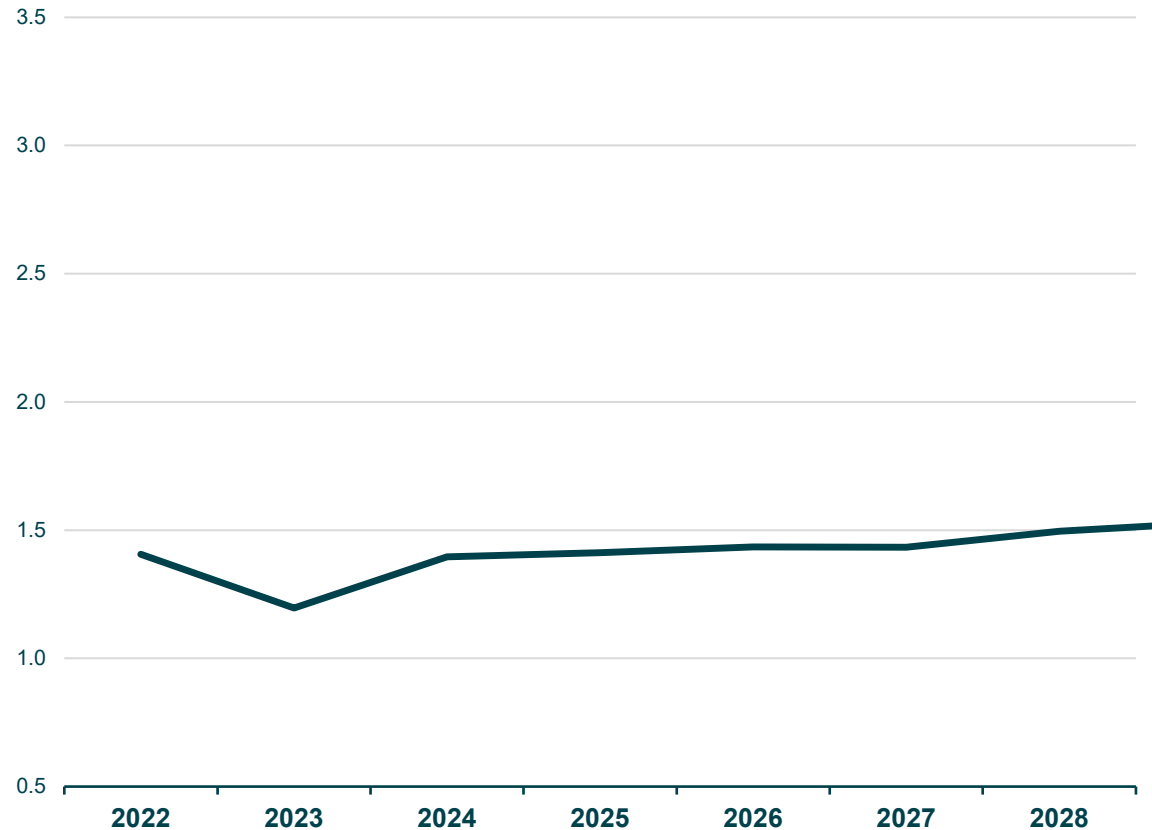
ECB Press Conference, April 22nd 2021

Eurozone inflation expectations are significantly below ECB threshold



How will EUR interest rates and PEPP affect the FX rate?

Market-based Eurozone inflation expectations
(Percent year on year, based on inflation swaps)



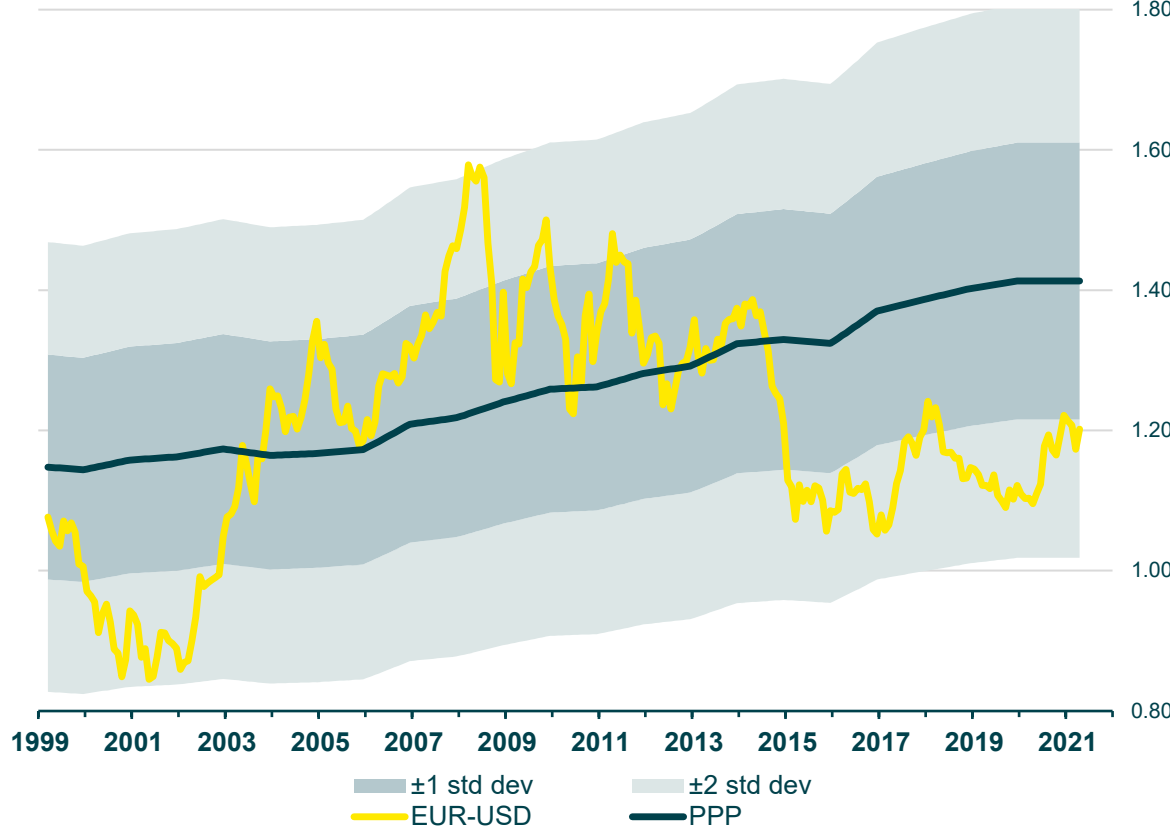
Sources: Bloomberg, Commerzbank Research

Does the difference in long-term US and EU outlook justify current levels of EURUSD?



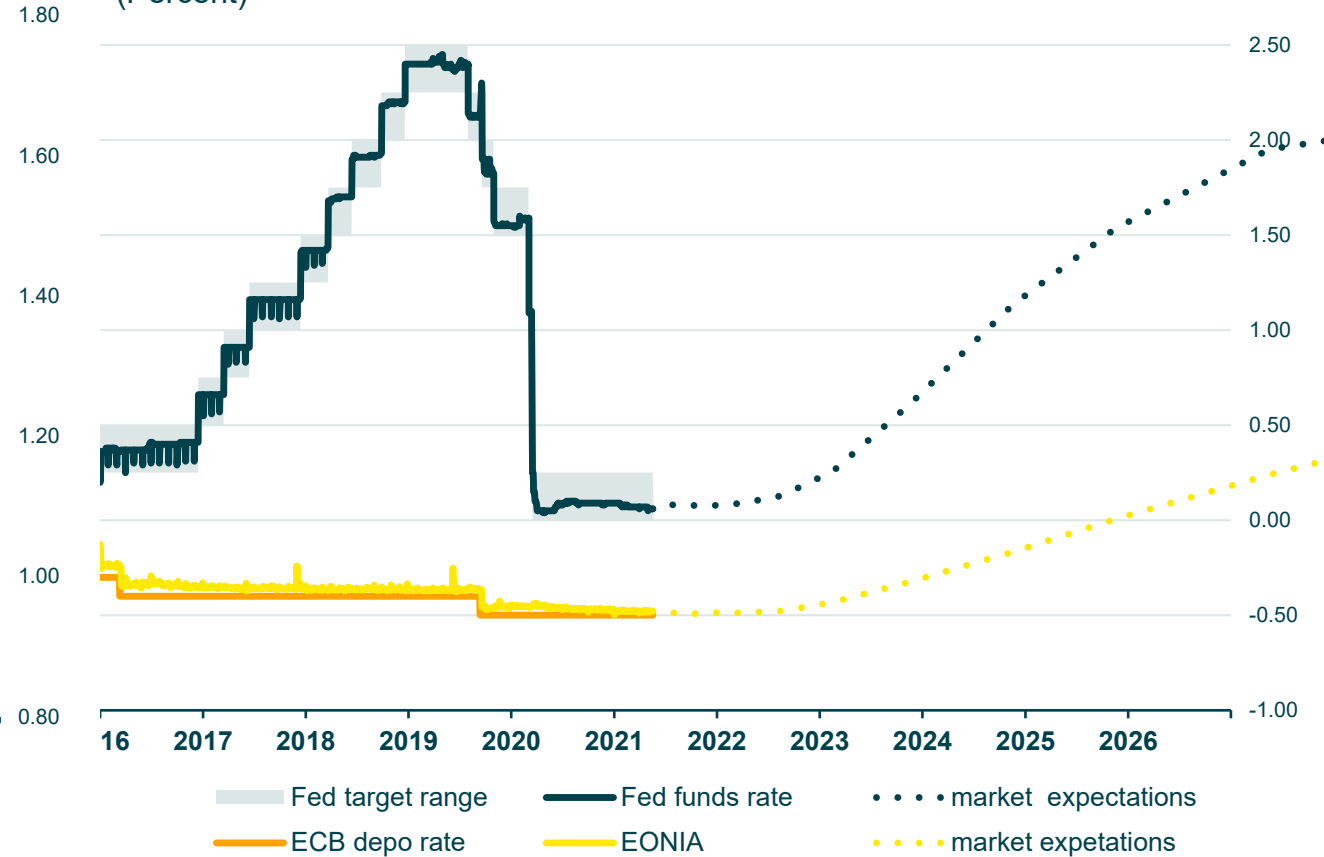
EUR-USD and absolute PPP

(PPP from OECD international price comparison)



Fed funds rate, target corridor & OIS-derived market expectations vs. ECB depo rate, EONIA & OIS-derived market expectations

(Percent)



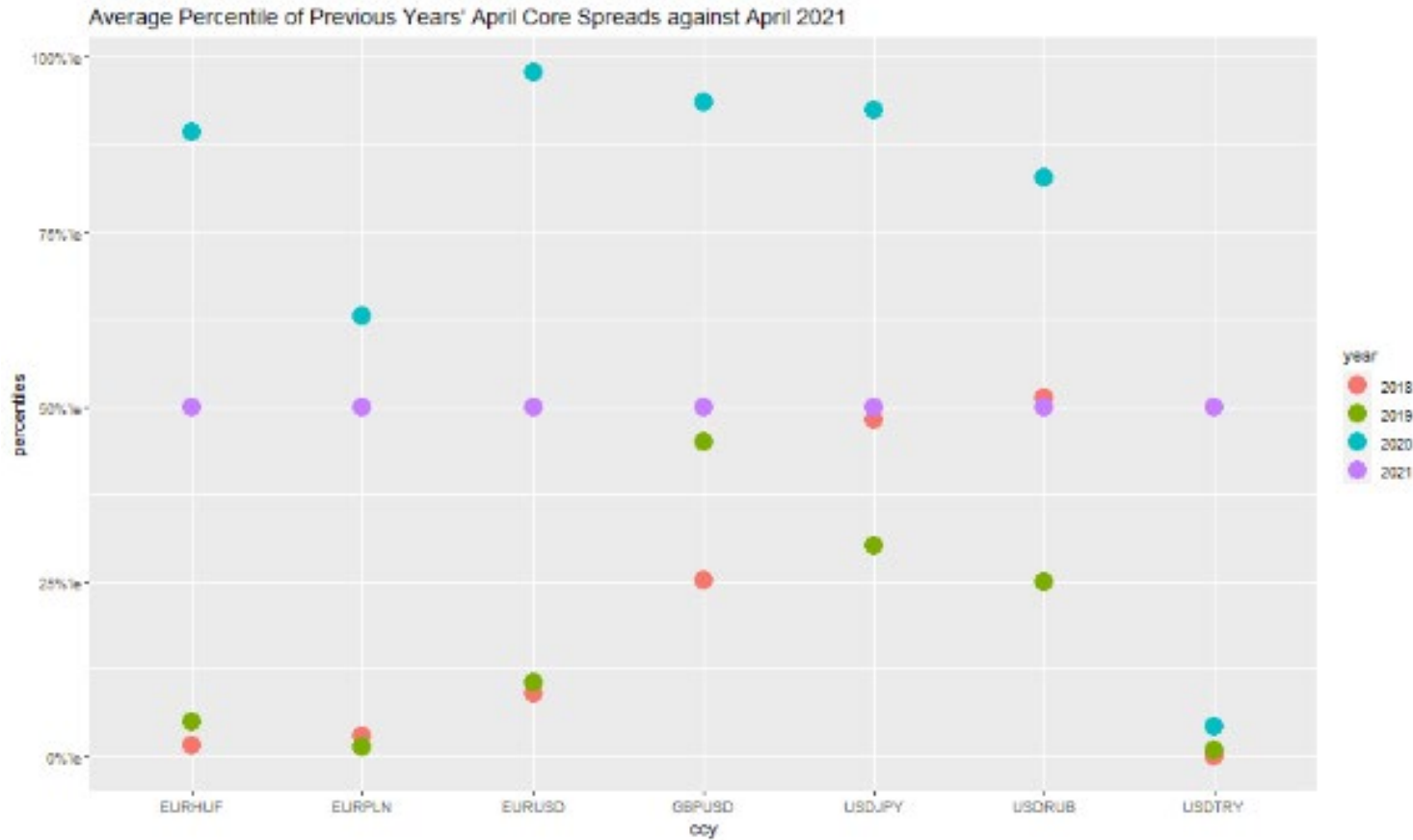
Sources: Bloomberg, Federal Reserve, ECB, Commerzbank Research



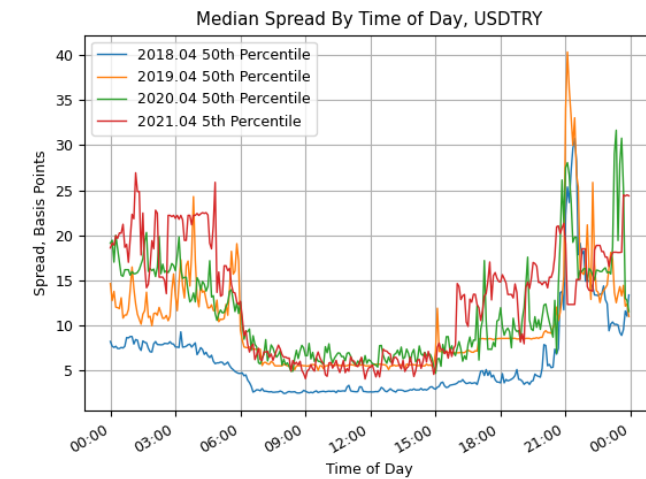
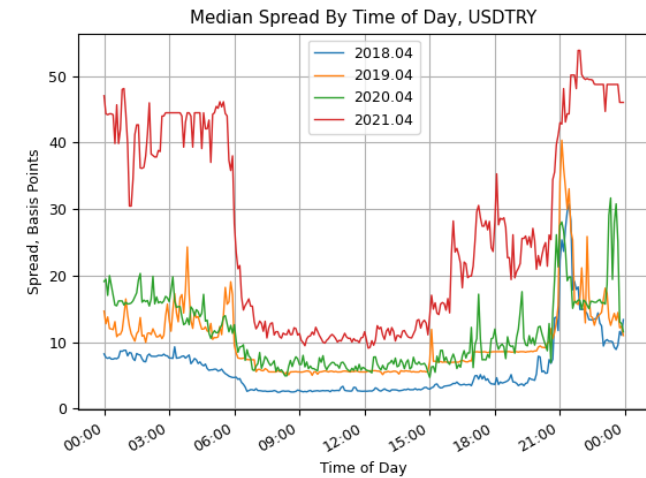
Part II

EMEA

Is the FX Market still uncertain relative to pre-pandemic times?



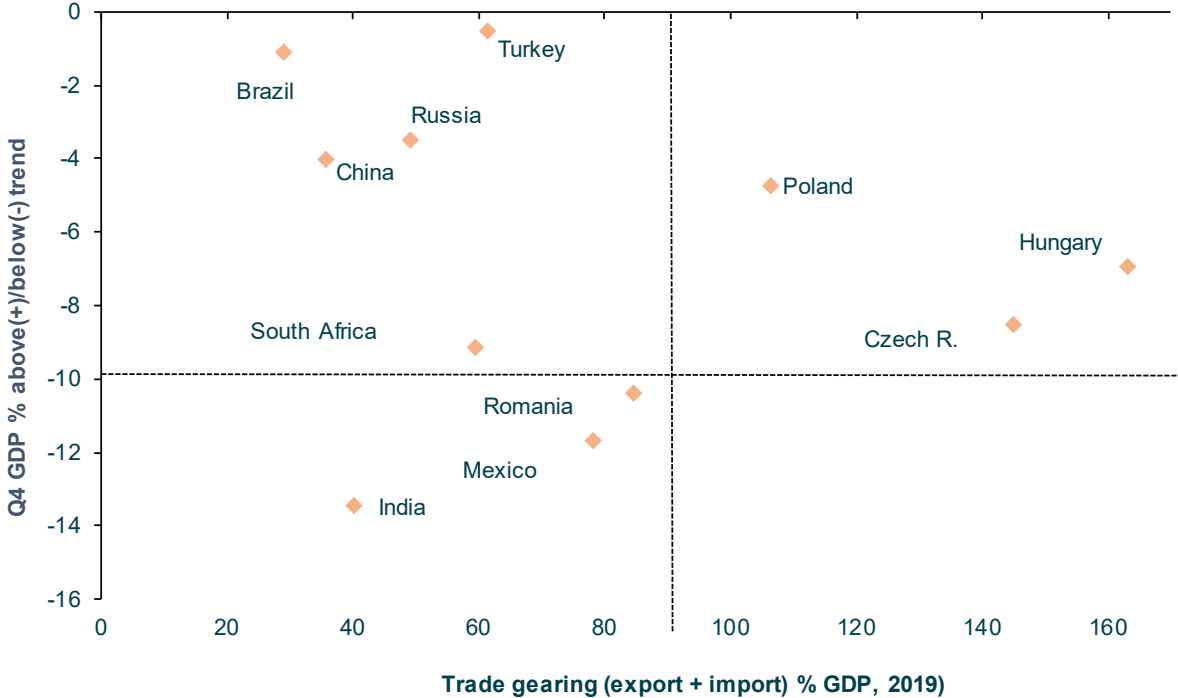
Source: Commerzbank eFX



Fundamental drivers of EM FX

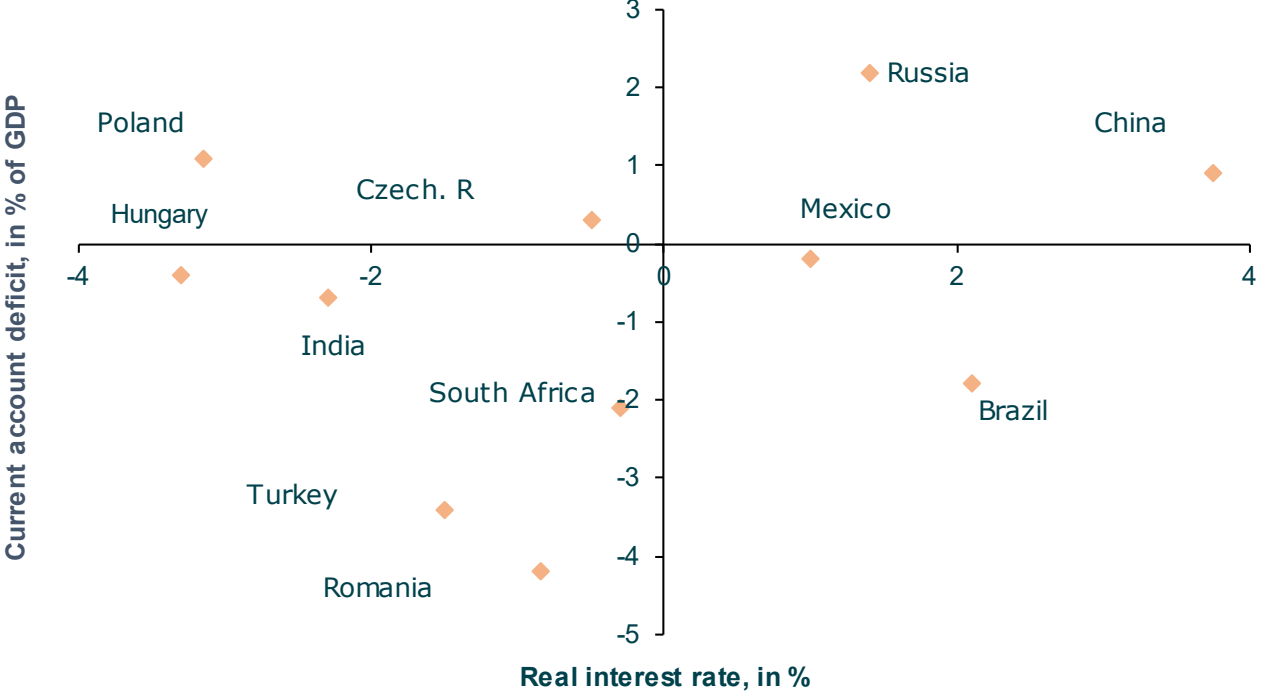


Potential for growth rebound after pandemic



Source: Global Insight, Commerzbank Research

Longer term exchange rate drivers: 2x2 current-account vs. real interest rate



Source: Bloomberg, Commerzbank Research



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