



Core Macro Themes

The fiscal and health (vaccine) bridges are well-anchored and will bring alignment for the rest of 2021. Generous fiscal stimulus and significant improvements in health conditions should support an unprecedented rebound in consumer activity in the months to come, particularly in the pandemic-hit service sector. In response, business investment and employment are expected to accelerate significantly over the summer.

The labor market recovery remains incomplete and will need some time before recouping back to pre-pandemic levels. We expect the stronger economy to gradually pull workers back into the workforce as virus fears recede and childcare challenges ease. Therefore, while the labor market remains 7.6 million jobs below pre-COVID-19 levels, it is poised for a robust run this summer as the combination of higher vaccination rates, generous fiscal stimulus and fading labor supply constraints reinvigorate the labor market in the months to come.

Consumption will remain a pillar of economic recovery going forward, supported by improving health, stronger consumer confidence and elevated savings resulting from ample fiscal stimulus. There is a view that goods consumption could cool down slightly in the summer as some of its recent increase reflects future demand that was brought forward during the pandemic. However, as Americans become more confident reengaging in the economy, it is likely that the pickup in services spending will help offset any shortfall in expenditure on goods.

Inflation is sticky across some categories, and the Fed will have a difficult job determining how long “transitory” is. Two uncertainties cloud the outlook: the level at which inflation will peak and the persistence of inflation into 2022. We expect increased inflation stickiness to linger in 2021, but price pressures will peak in summer before softening in the second half of the year. It is worth noting that long-term inflation expectations remain well anchored, providing evidence that the inflationary impulse is not triggering runaway inflation.

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Key Economic Data by Country

Country/Region	Base Interest Rate	Budget Balance (% GDP)	Trade Balance (bn fc)	Current Account Balance (% GDP)	Consumer Price Index (YoY)	Unemployment Rate	GDP (QoQ)	COVID-19 Cases (% Population)	Fully Vaccinated (% Population)
United States	0.25%	(15.64%)	(68.90)	(3.16%)	5.00%	5.80%	6.40%	10.12%	46.08%
Eurozone	0.00%	(7.25%)	9.44	2.38%	1.90%	7.90%	(0.30%)	10.67%	29.98%
U.K.	0.10%	(14.22%)	(0.94)	(3.22%)	2.10%	4.70%	(1.60%)	7.33%	47.74%
Canada	0.25%	(1.70%)	0.59	(0.98%)	3.60%	8.20%	5.64%	3.77%	23.40%
Japan	(0.10%)	(10.06%)	43.12	3.39%	(0.10%)	3.00%	(3.90%)	0.64%	9.23%
Australia	0.10%	(5.17%)	9.68	3.13%	1.10%	5.10%	1.80%	0.12%	4.39%

Source: Johns Hopkins Coronavirus Resource Center

Private Equity / Venture Capital

Private Equity and Venture Capital companies have been increasingly active during the first half of 2021. While 2020 was more focused on follow-on investments globally, the new year has seen a substantial uptick in new investments and funds. Additionally, many profit-taking opportunities have been harvested through select exits. The focus has largely been in Europe, Canada and the U.K. Recent variability in the Canadian dollar, euro and British pound, coupled with compressed short-term interest rate differentials, have prompted many firms to hedge forecasted cash flows via window and outright forward contracts. If volatility concerns and expectations continue to rise, we will likely see a further increase in hedging activity.

Tech/Startup/Innovators

The pace of going global seems to be increasing. Many companies have hired staff in other countries, including a substantial increase in Canada, India, Norway, Sweden, Denmark and Poland. Some domestic and international merger activity has occurred as the tech community continues to further its interconnectivity. Global acquisitions are also on the rise in 2021 with many firms finding value in overseas areas.

Life Science

Many U.S. life science companies, just like tech, will often go global immediately or very early in the buildout of their business. These companies will seek talent and resources for R&D purposes in locations all over the world and may find global success in clinical trials before they are known domestically. Key markets have included Germany, Switzerland, Austria, Netherlands and the U.K. recently, but the growth in Asia and Australia also seems to be picking up.

Global Law Firms

The focus in the law firm space still seems to be further expansion in North America, U.K. and Europe. There is some increased activity in Asia and Australia, but the growth in Canada and the U.K. has outpaced this increase. While many firms have seen substantial growth in the last few years, the projections for global business activity in the second half of 2021 and beyond are expected to increase materially.

Wine and Agribusiness

Many U.S. winery and wine distribution companies have substantially increased sales to other countries including China, Canada, Hong Kong, Singapore and Northern Europe in recent years. Distribution and global supply chain remain a challenge. Barrel and equipment purchases from Europe during 2021 may still prove difficult as well given the ongoing supply chain disruptions. Many of these companies have hedged or are contemplating hedges to place a higher level of certainty around upcoming cash flows, but they are often utilizing hedge products with more flexible timing features.

Aviation and Marine

The private aviation sector activity remains robust in sales of new and previously owned aircraft. A majority of the sales are U.S. dollar denominated as the U.S. market accounts for 70% of the activity. The private marine sector remains active, with sales split among U.S. dollars and euros.



U.S. Dollar

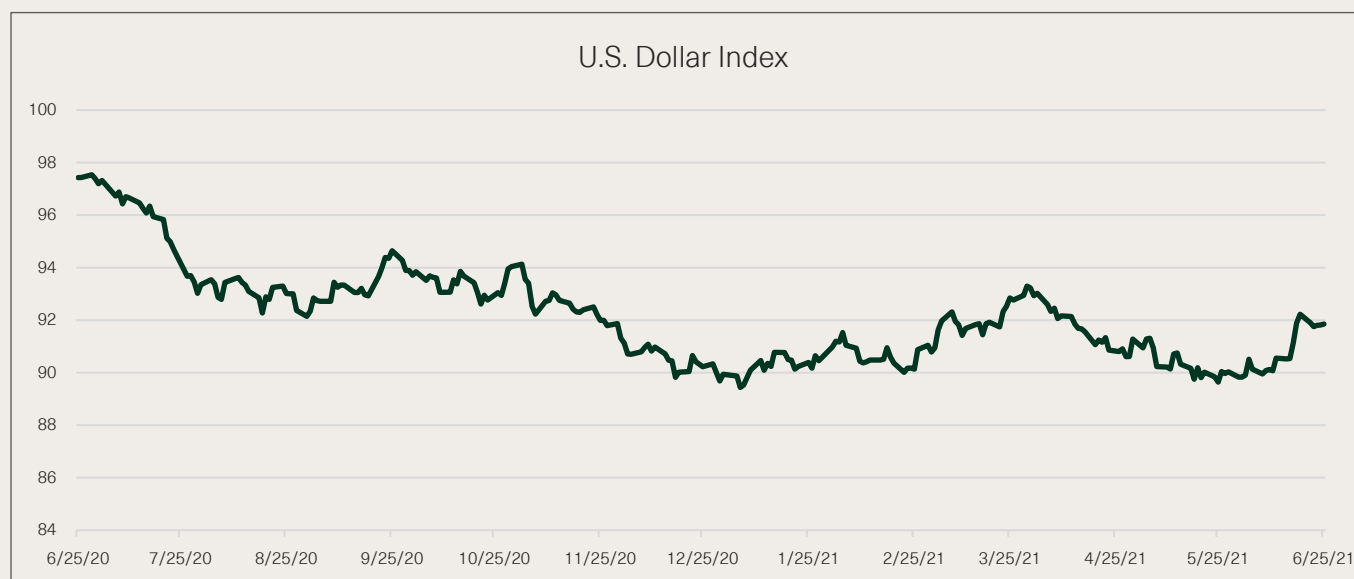
U.S. Dollar: It's time we had a talk (about talking)

It is expected that the opening up of the US economy will result in higher inflation, which will lead to expectations of Fed policy tightening and higher US government yields. In theory, higher yields in the US should translate to US dollar strength. This train of thought drove the dollar index higher in the first quarter of 2021. The start of the second quarter brought a reversal in the trend of US dollar strength as the Fed looked comfortable to discount higher inflation indicators as transitory. This stance was reflected in lower yields, which put the US dollar under pressure. A more hawkish Fed announcement in mid-June has put the US dollar back on the front foot as we head into the third quarter of the year.

Currency Symbol	Currency Name	DXY Weight (%)
EUR	Euro	57.6%
JPY	Japanese Yen	13.6%
GBP	Great British Pound	11.9%
CAD	Canadian Dollar	9.1%
SEK	Swedish Krona	4.2%
CHF	Swiss Franc	3.6%

Key events calendar

Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
United States	7/28/2021	7/29/2021	7/2/2021	7/13/2021	7/2/2021



Source: Bloomberg



EUR/USD

Eurozone: Finding the right balance

The European Central Bank (ECB) has EUR 700 billion remaining of the EUR 1.85 trillion approved for bond purchases under the pandemic emergency purchase program (PEPP). At the current pace of EUR 80 billion per month of purchases, the PEPP should run through March 2022, but this higher pace of purchases may be lowered after Q3 2021. This reduction in pace may offer a slight appeasement for more hawkish ECB officials and nations. However, expectations are for the ECB to lag the Fed in removing monetary stimulus as America's economic recovery and vaccine distribution currently outpace that of Europe. The ECB is being challenged to find the correct balance for its monetary policy that fits the recovery paths of the various member countries. The ECB will need to be nimble in its reaction to a rapidly shifting scenario as member countries emerge from the pandemic at different speeds.

EUR/USD settled just below the 1.19 handle as uncorrelated month-end/quarter-end flow swept through the EUR/USD market. Fairly strong data out of the eurozone continues to support the common currency on the crosses. Slowing momentum shown by the MACD indicator suggests EUR/USD may again find support at the 1.1848 double bottom from mid-June.

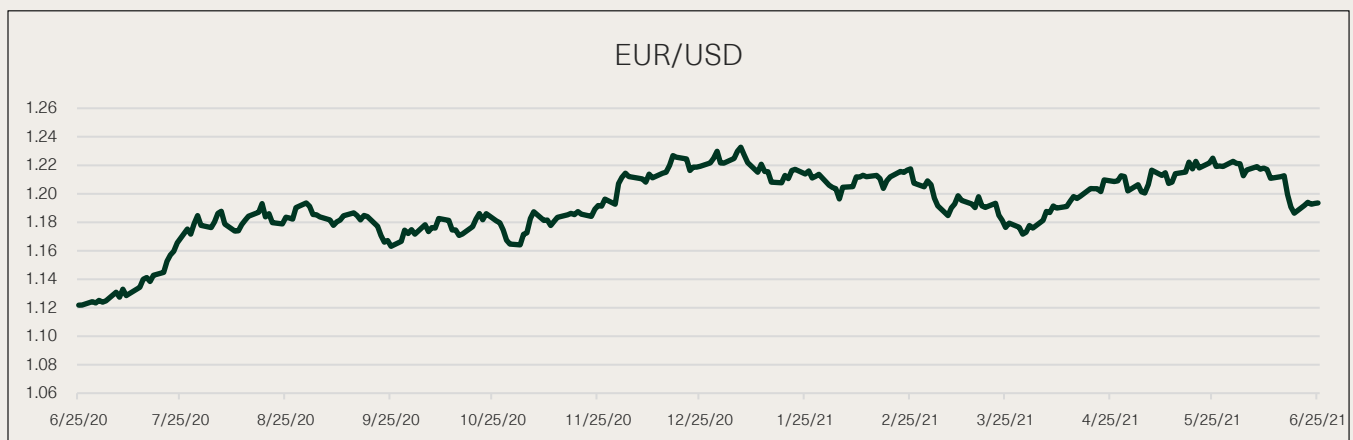
Current temperature

CFTC Trader Commitments (Non-Commercial Contracts)				
Date	Long	Short	Net	Signal
6/22/2021	207,863	118,806	89,057	EUR STRENGTH
Prev Week Chng	(2,953)	26,176	(29,129)	EUR WEAKNESS

1 Month Risk Reversal (EUR Calls vs EUR Puts)				
Date	1M 25D Call	1M 25D Put	1M 25D RR	Signal
6/28/2021	5.204	5.301	(0.097)	EUR WEAKNESS

Key events calendar

Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
Eurozone	7/22/2021	7/30/2021	7/16/2021	7/16/2021	7/1/2021



Source: Bloomberg



GBP/USD

United Kingdom: Playing for extra time

The Bank of England (BOE) is content to maintain current bond buying levels and the base interest rate at 0.10%. The BOE would like to see how the economy reacts to a further delay in the final stage of lockdown easing that was originally planned for June 21 due to the spread of the COVID-19 delta variant. This delay to July 19 could cause further caution among consumers and put a damper on the strong upturn seen in Q2. Delays in a full reopening of the economy should help dampen transitory inflationary price pressures as measured against the BOE's 2% target of annual CPI growth. Longer-term risks to the pound include the specter of Scottish independence referendum talks resurfacing as well as Brexit-related aftershocks with the yet unsettled Northern Irish trade accord.

GBP/USD: Sterling appears to be heading lower, given the path of least resistance. The lows post-FOMC meeting on June 16 at 1.3810 should be the first target for bears who will need to keep a close eye on RSI as the pair approaches textbook oversold levels.

Current temperature

CFTC Trader Commitments (Non-Commercial Contracts)				
Date	Long	Short	Net	Signal
6/22/2021	51,445	33,518	17,927	GBP STRENGTH
Prev Week Chng	(3,758)	10,485	(14,243)	GBP WEAKNESS

1 Month Risk Reversal (GBP Calls vs GBP Puts)				
Date	1M 25D Call	1M 25D Put	1M 25D RR	Signal
6/28/2021	5.810	6.205	(0.395)	GBP WEAKNESS

Key events calendar

Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
United Kingdom	8/5/2021	8/11/2021	7/8/2021	7/13/2021	7/14/2021



Source: Bloomberg



USD/CAD

Canadian Dollar: \$4 billion, \$3 billion, \$2 billion, \$1 billion, liftoff!

The Bank of Canada (BOC) has been on the front foot in paring back stimulus and warning of higher rates. The BOC will continue its Quantitative Easing program, but the pace of weekly purchases of government debt is headed from CAD \$4 billion toward a neutral level where new purchases simply replace maturing bonds. Reaching a neutral footing is the first step before the BOC will consider raising the base rate. The July BOC meeting will bring the release of new projections and the potential for another taper as senior officials will have had time to digest economic data throughout June and assess the follow-through effects of the latest round of lockdowns. The potential for continued strength in commodities, notably oil, and a sustainable economic recovery being hinted at by the BOC should continue to support the loonie.

USD/CAD developed a basing pattern at 1.20 after the commodity/reflation trade failed to spark additional strength. The development of a cup and handle pattern suggests a challenge of 1.2450 quickly followed by 1.25/1.26.

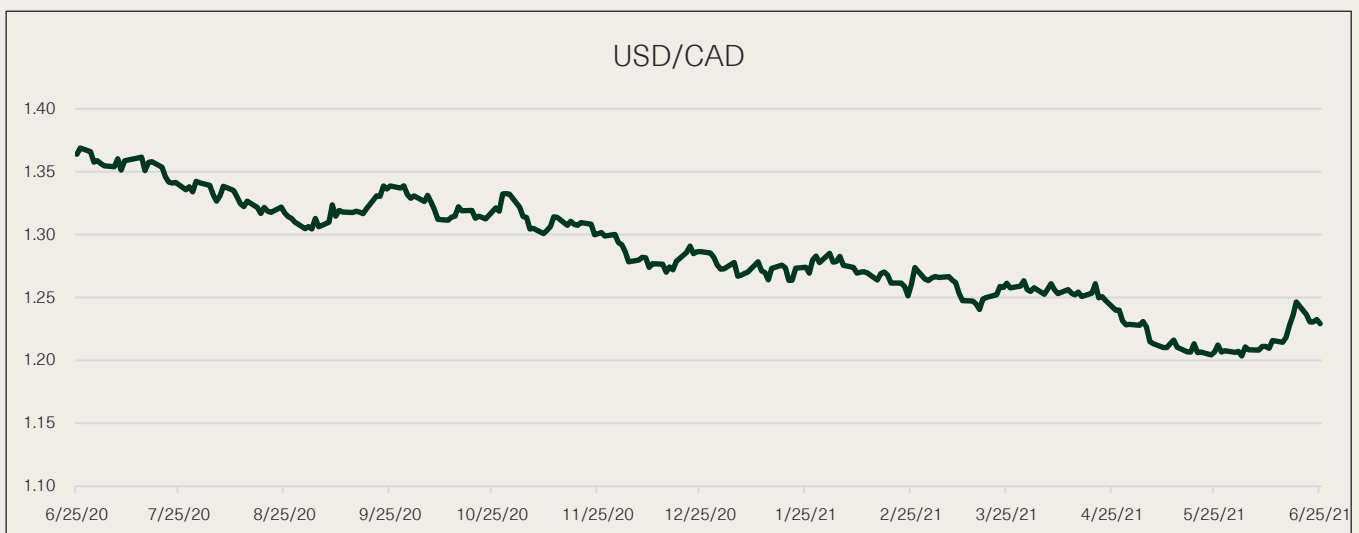
Current temperature

CFTC Trader Commitments (Non-Commercial Contracts)				
Date	Long	Short	Net	Signal
6/22/2021	69,074	25,849	43,225	CAD STRENGTH
Prev Week Chng	(3,997)	(2,968)	(1,029)	CAD WEAKNESS

1 Month Risk Reversal (USD Calls/CAD Puts vs USD Puts/CAD Calls)				
Date	1M 25D Call	1M 25D Put	1M 25D RR	Signal
6/28/2021	6.345	5.825	0.520	CAD WEAKNESS

Key events calendar

Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
Canada	7/14/2021	8/31/2021	7/2/2021	7/28/2021	7/9/2021



Source: Bloomberg



USD/JPY

Japanese Yen: Struggling to get on the podium

Nonexistent inflation and sluggish spending growth have led to a very fragile economic recovery in Japan. Perhaps the summer Olympics will give the Japanese economy a much-needed boost. Continued bullish sentiment in financial markets will also keep pressure on the Yen, which is considered a funding currency as low/negative interest rates encourage borrowing in Yen and investment in other non-Yen denominated higher yielding assets. At the June meeting, the Bank of Japan (BOJ) pushed back the September 2021 expiration of its pandemic lending measures by six months to March 2022. The expectation is that the BOJ will lag other central banks in reducing COVID-19 related stimulus.

USD/JPY continues to find selling pressure after once again testing the top of its medium-term trend channel. Local interest to sell dollars is appearing during the Asia trading session, but IMM positioning data shows the market remains short JPY. 110 will be the first level to watch on the downside, but without a major shock appearing, the pair should remain well contained within the established range.

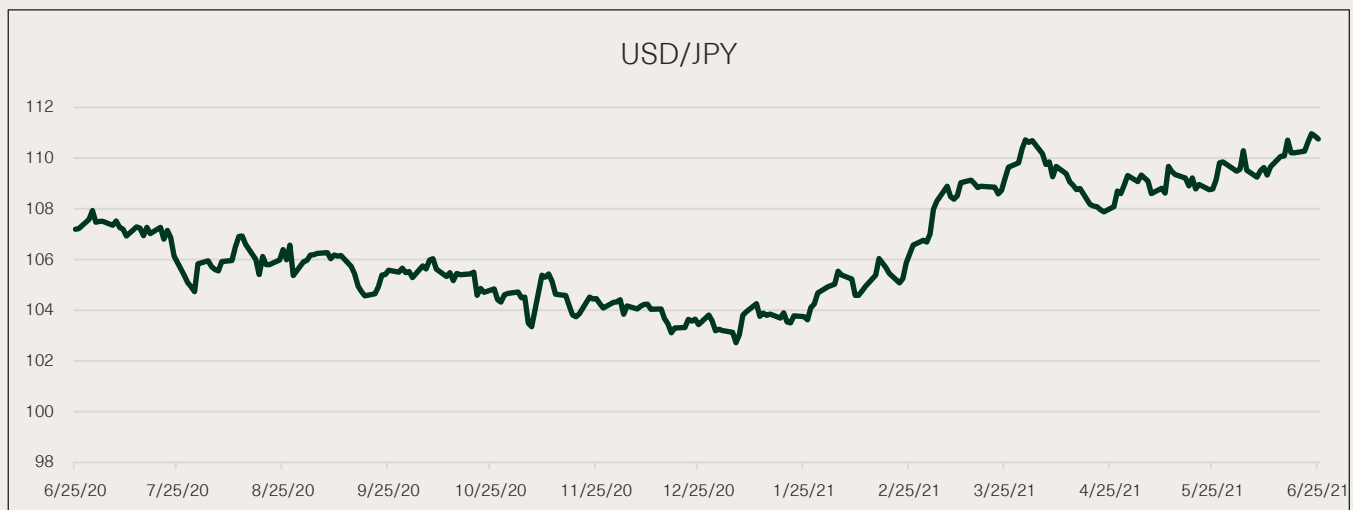
Current temperature

CFTC Trader Commitments (Non-Commercial Contracts)				
Date	Long	Short	Net	Signal
6/22/2021	34,118	87,980	(53,862)	JPY WEAKNESS
Prev Week Chng	11,144	18,156	(7,012)	JPY WEAKNESS

1 Month Risk Reversal (USD Calls/JPY Puts vs USD Puts/JPY Calls)				
Date	1M 25D Call	1M 25D Put	1M 25D RR	Signal
6/28/2021	5.190	5.260	(0.070)	JPY STRENGTH

Key events calendar

Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
Japan	7/16/2021	8/15/2021	7/20/2021	7/19/2021	7/29/2021



Source: Bloomberg



AUD/USD

Australian dollar: First across the line?

The Reserve Bank of Australia (RBA) has noted that the pace of recovery has been faster than previously expected and that the trajectory of the domestic economy could shift from recovery to expansion. Australia has joined a select few countries (China, Chile, Romania, South Korea and Lithuania) whose economies have fully recovered from the COVID-19 recession. The Australian economy is now slightly larger than it was in December of 2019, supported by surging commodity prices and the tempering of trade tensions with top trade partner China. Although positive momentum for employment and economic recovery have been observed locally, the RBA has stated that it will remain highly accommodative until its inflation target of 2-3% is sustainably achieved. Evidence is building that the RBA may begin tapering their bond purchases at the July 6 meeting, but the lingering goal of meeting its inflation target may prove challenging.

AUD/USD breaks out of a period of consolidation that provided little inspiration for tactical positioning. Noncommercial CFTC CME data on futures positions shows the market short Aussie in the biggest way since summer 2020. The pain trade will be a rally back above the 200 Day-Simple Moving Average at 0.7517. Renewed lockdowns due to the delta variant are impacting the Antipodean currencies generally.

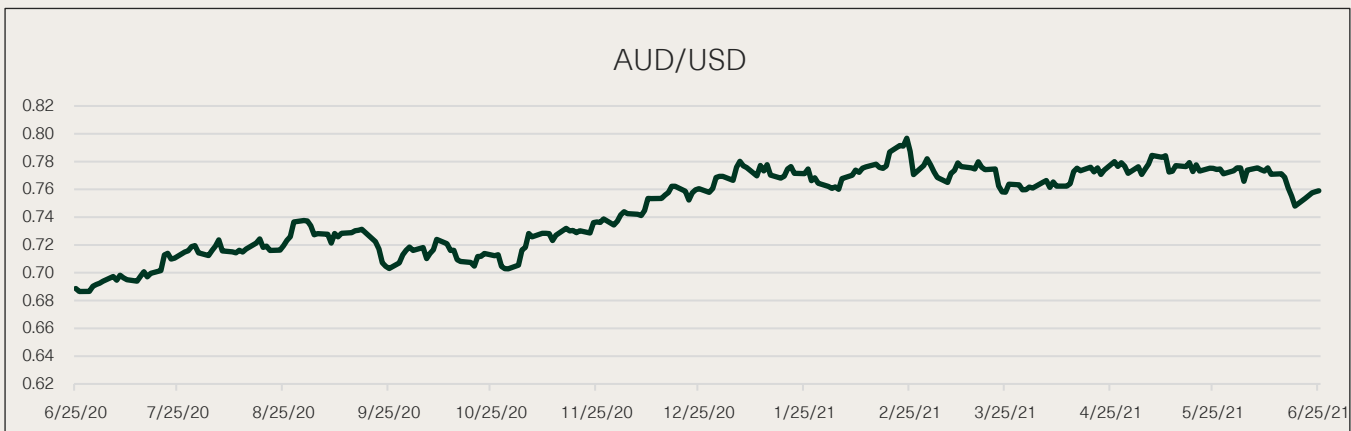
Current temperature

CFTC Trader Commitments (Noncommercial Contracts)				
Date	Long	Short	Net	Signal
6/22/2021	56,133	73,708	(17,575)	AUD WEAKNESS
Prev Week Chng	15,994	15,689	305	AUD STRENGTH

1 Month Risk Reversal (AUD Calls vs AUD Puts)				
Date	1M 25D Call	1M 25D Put	1M 25D RR	Signal
6/28/2021	7.852	8.657	(0.805)	AUD WEAKNESS

Key events calendar

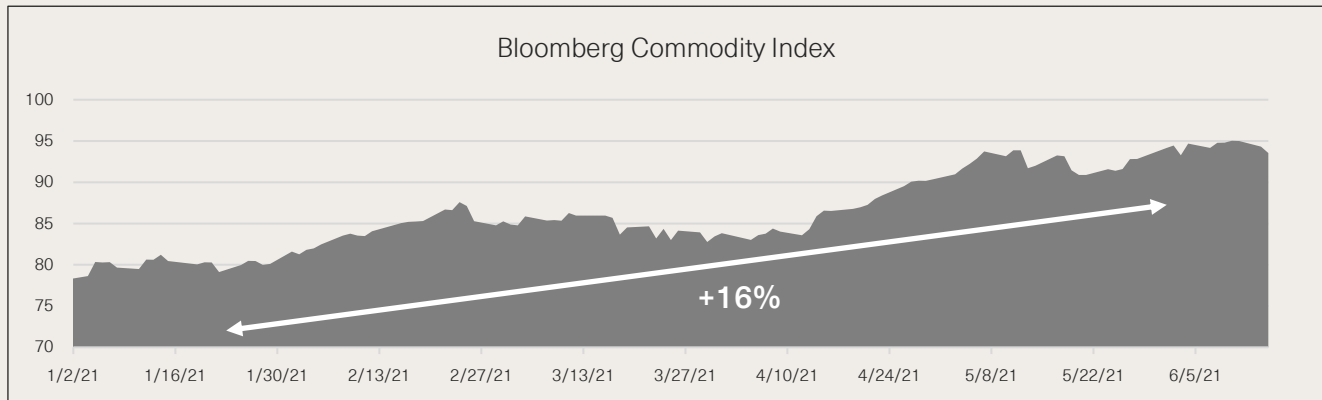
Country	Central Bank Meeting	GDP	Trade Balance	Consumer Price Index	Employment Data
Australia	7/5/2021	8/31/2021	8/4/2021	7/27/2021	7/14/2021



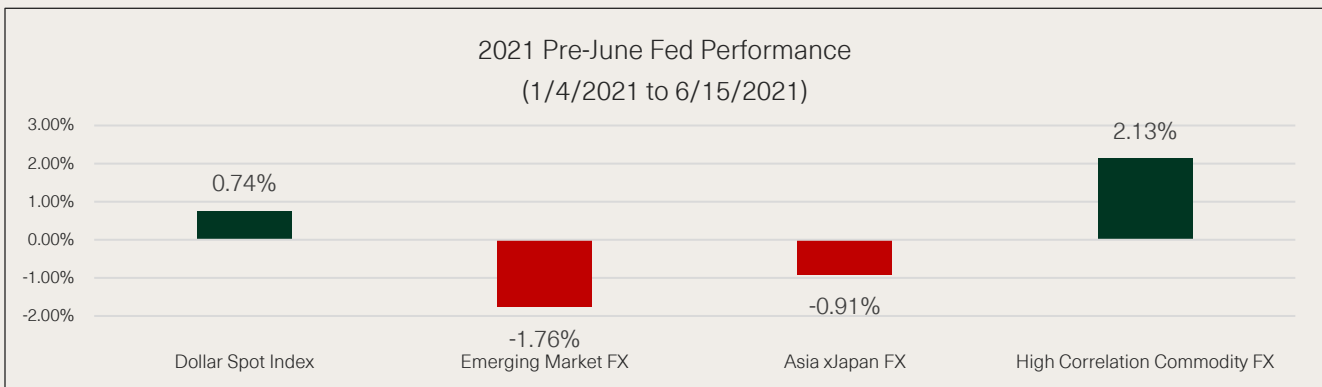
Source: Bloomberg

Deeper Dive

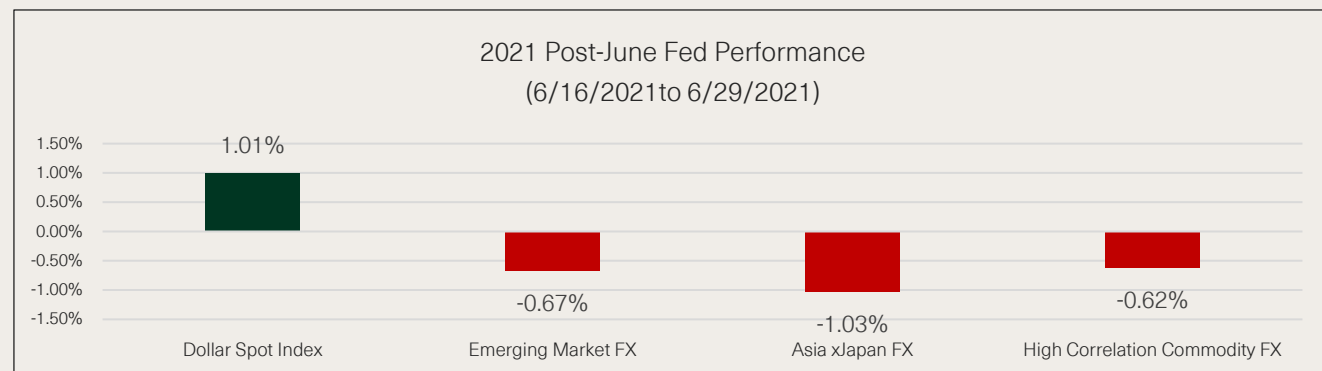
In the 6 months leading up to the Fed meeting, the Bloomberg Commodity Index rose 16%, bolstered by the prevalent “reflation” trade thesis.



Currencies tied to commodity levels, given their country’s dependency on commodity exports, outperformed other segments of the FX market. A basket of these commodity-linked currencies was up over 2%.

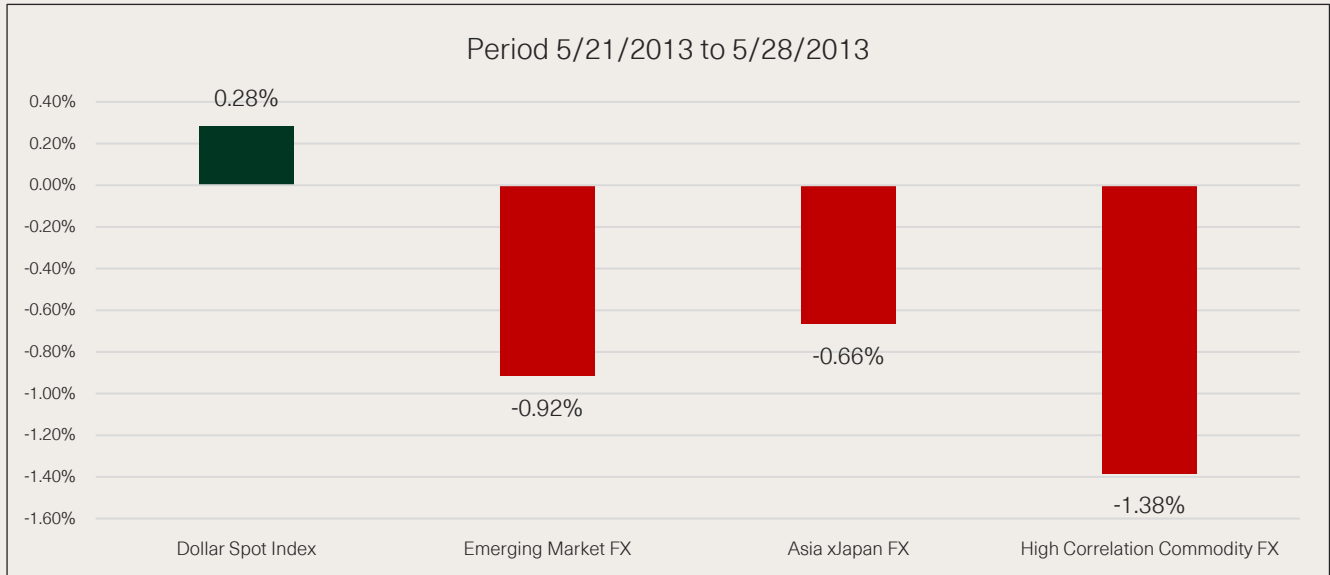


Immediately following the Fed meeting, the trade reversed. The Federal Reserve’s dot plot showed rates rising at a quicker pace than the market anticipated and called transitory inflation into question. As a result, the greenback rallied against its major peers and reflation trade benefactors struggled.

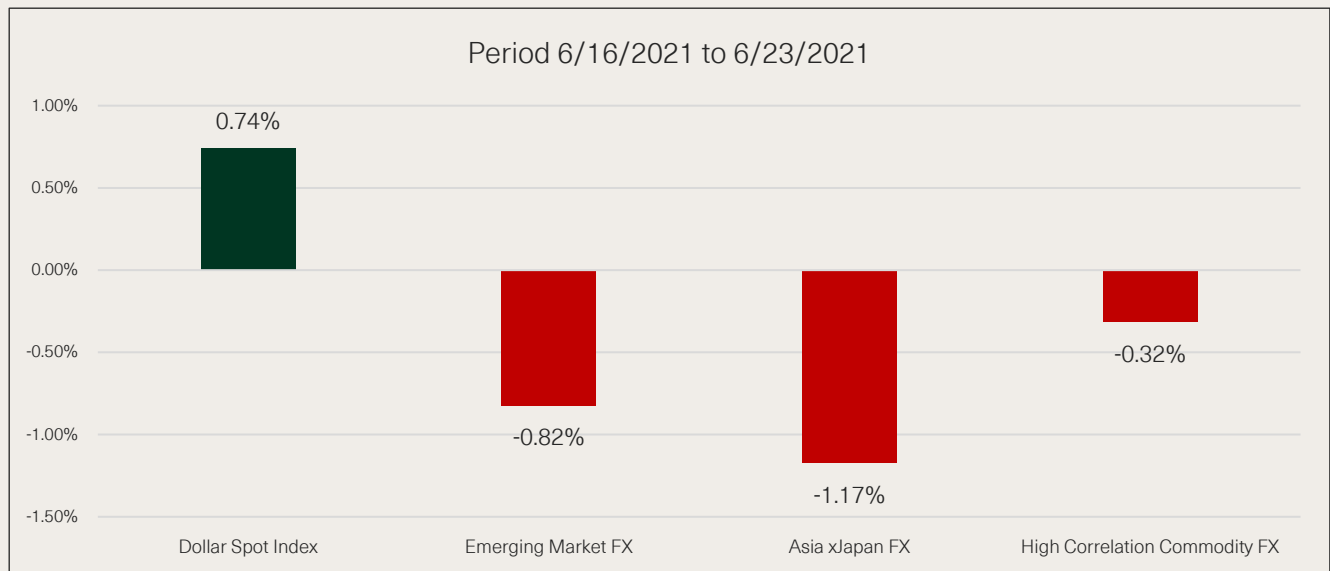


Source: Bloomberg

The 2021 June Federal Reserve pivot brings back memories of the 2013 taper tantrum. In the week after investors learned that the Federal Reserve was slowly putting the brakes on its quantitative easing program, treasury yields spiked, the dollar rallied and risk assets suffered. Data from the week after the respective 2013 Federal Reserve meeting as follows:



After the June 2021 Federal Reserve meeting, we are seeing similar sector performance, with EM and Asia FX leading losses and the dollar outperforming along with other developed market FX.



Source: Bloomberg

Definitions

U.S. Dollar Spot Index — EUR (57.6%), JPY (13.6%), GBP (11.9%), CAD (9.1%), SEK (4.2%), CHF (3.6%)

Emerging Market FX — Equally weighted: ARS, BGN, BRL, CLP, CNY, COP, CZK, HKD, HUF, IDR, INR, KRW, MXN, MYR, PEN, PHP, PLN, RON, RUB, SGD, THB, TRY, TWD, ZAR

Asia xJapan — Equally weighted: CNH, CNY, HKD, IDR, INR, KRW, MYR, PHP, SGD, THB, TWD

High Correlation Commodity FX — Equally weighted: AUD, BRL, CAD, NOK, NZD, RUB, SEK, SGD, TWD, ZAR

Sources

2021 Outlook: firstrepublic.com/-/media/frb/documents/pdfs/pwm/2021-outlook.pdf

Week in Review: firstrepublic.com/engage/week-in-review?gnav=globalheader;privatewealthmanagement-week-in-review

FX Specific Market Updates: firstrepublic.com/-/media/frb/documents/pdfs/fx/daily-fx-commentary.pdf

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