

## UOB Investment Insights

# FX Insights

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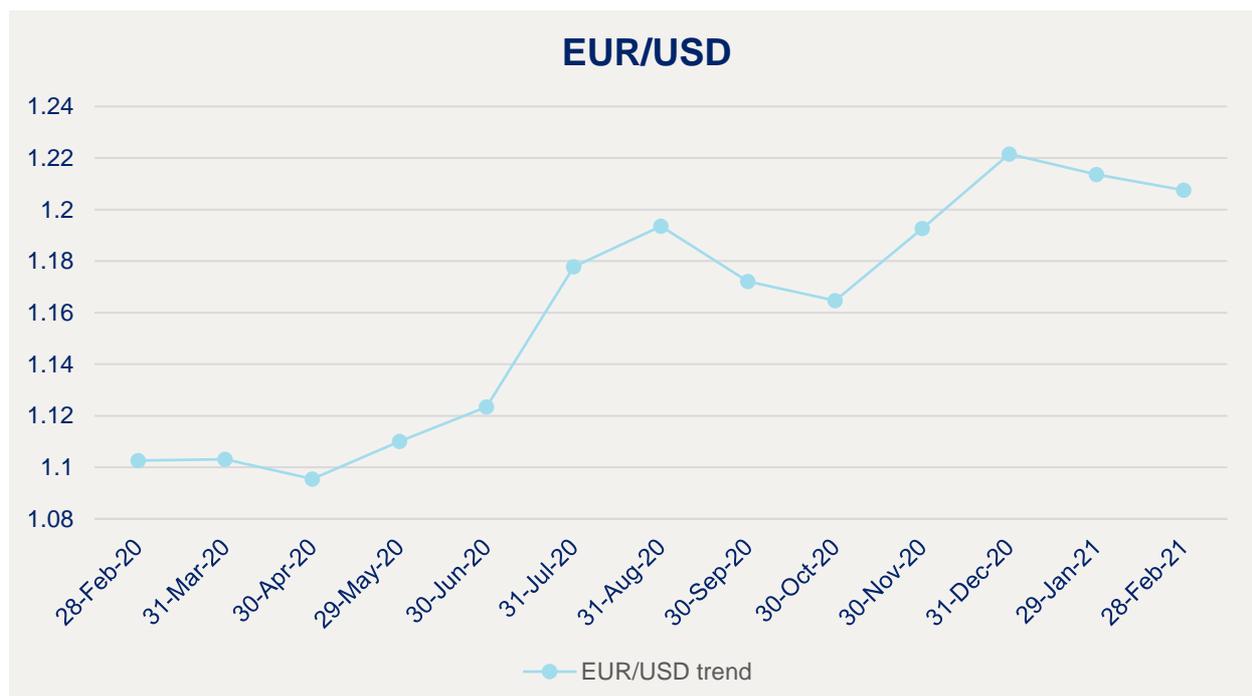
### Still positive on the Euro despite near-term setbacks

- The recent pullback in EUR/USD is partly due to the unwinding of popular trades in the currency pair
- The Euro will benefit from the “Global Reflation Trade”
- We remain positive on the Euro this year, projecting it to reach 1.24 against the USD by end-2021

After gaining close to 9.0% last year, the rally for EUR/USD appears to be levelling off. The Euro – which traded to an almost three-year high of 1.2349 in early January – has since pulled back to about 1.21 as at 22 February 2021. This could be due to the unwinding of popular trades in the currency pair. A resurgence of COVID-19 infections and a slow start to vaccination rollouts also dampened sentiments on the Euro. This is further amplified by the slower economic activity in the first quarter of 2021 as a result of social distancing measures.

Despite these near-term challenges, we keep to our bullish view of EUR/USD this year. EUR/USD is a key beneficiary of the “Global Reflation Trade”. As the pace of vaccination efforts begin to pick up, expectations of a global economic recovery will likely benefit growth-sensitive currencies such as the Euro (EUR). With the EUR now back to a more sustainable level, there looks to be a longer-term uptrend for the currency. All these however, will be at the expense of the US dollar (USD) as it is often regarded as a safe haven currency.

Overall, we forecast EUR/USD to rally further towards 1.24 by end-2021. A key risk to the outlook would be an unexpected bout of risk aversion that may spur demand for the USD instead.



Source: Bloomberg. Data as at 28 February 2021.



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