

EUR: kicking the bears down the road

The European Central Bank's suggestion that it will ease policy in September wasn't strong enough for euro bears. But the outlook remains very cloudy for the single currency



ECB President Mario Draghi delivers a speech at the European Parliament in Strasbourg back in January

➔ USD: Slowing growth not a worry for USD

Markets have cemented expectations of a 25 basis point cut by the Federal Reserve in the past days, with little spillover effect from the European Central Bank announcement. This has translated into a broadly supported dollar, which is unlikely to lose that support despite 2Q GDP (released today), which is widely expected to fall below 2% on a quarterly basis from 3.1% in 1Q. [As highlighted by our economists](#), this should not constitute a warning signal for the US economy, given that most fundamentals (labour market, above all) remain fairly strong. In turn, we anticipate a broadly limited impact on the market's rate expectations ahead of the FOMC meeting on Wednesday. On the whole, this should result in extended US dollar resilience across the board entering the weekend. Appetite for short positions in AUD/USD may linger after dovish comments by the Reserve Bank of Australia's Philip Lowe on Thursday.

➔ EUR: September may bring 20bp cut and QE

[As it kept rates on hold yesterday](#), the ECB delivered quite a dovish message by hinting that three measures are on their way: a rate cut, a new round of quantitative easing and tiered system for reserve remuneration. The impact on EUR/USD was negative initially, but the EUR rebounded to

end above the pre-meeting level. We believe [the outlook for the common currency remains very clouded](#) given that the ECB may deliver a 20bp rate cut (12bp cuts are priced in) and formally announce quantitative easing. Added to this, there are lacklustre forward looking indicators (PMIs and Ifo dropped in July) that are unlikely to recover if (as we expect) the two main external risks – trade tensions and Brexit uncertainty – don't abate. We don't see much room for a EUR/USD adjustment today, but we remain of the view that the pair is more likely to move towards 1.10 rather than 1.15 through the summer.

⬇️ GBP: All but a “golden age” for the pound

In Boris Johnson's first Prime Minister's Questions yesterday, he retained a very optimistic tone, claiming that this may be the beginning of a new “golden age” for the UK. For the time being though, a Brexit deal still looks extremely complicated, especially after EU's Jean-Claude Juncker was widely reported to have shut the door on new negotiations. In addition, the cabinet reshuffle likely reinforced the perceived probability of two other (sterling-negative) options: no-deal or (more likely) a new general election. We expect GBP/USD to keep correcting towards the 1.240 level today.

➡️ SEK: Rate expectations to stay capped

Swedish Retail Sales for June (0830 GMT) are expected to be 3% higher than May. The SEK rate curve remains stubbornly flat and rate expectations are likely to remain capped after yesterday's dovish ECB message. In turn we do not see EUR/SEK moving below the 200-day moving average (10.4640) in the foreseeable future.

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