

ECB Cribsheet: No fireworks just yet

As the ECB officials already adjusted market expectations for the ECB meeting tomorrow and no tapering is expected, the impact on EUR/USD should be limited. On balance, risks are skewed to modestly higher EUR/USD as expectations are low and communication missteps cannot be ruled out. But expect generally unaffected EUR/USD

Scenario analysis: How to position for Lagarde's alternatives

| | Inflation outlook | Growth outlook | Interest rate, QE & PEPP | Exchange rate comments | EUR/USD |
|-------------------------|--|---|--|--|---------|
| Current stance | "Underlying price pressures ... to remain subdued overall" | "Medium-term risks remain more balanced" | Depo at 0.50%, PEPP at €1,850bn until March 2022 & APP at €20bn pm | The GC monitors developments in the exchange rate | |
| Dovish | ECB is "highly concerned" about too low 2022 inflation | High degree of uncertainty and risks clearly tilted to the downside | No change and GC signaling no tapering this year | The level of EUR to force the ECB to adjust policy instruments | 1.2000 |
| ING Base Case (neutral) | Recent data suggest a return to low core inflation in 2022 | Recovery will gain momentum over summer but high uncertainty | No change. Taper discussion avoided and front-loading more conditional | No change | 1.2200 |
| Hawkish | "Somewhat higher inflation this year on back of one-off factors" | "Economic recovery in H2 could be stronger than anticipated" | End of front-loading and GC discussed tapering | No change | 1.2300 |
| Very hawkish | Vigilant about possible second round effects | Recent data confirm that medium-term risks are tilted to upside | Decision to taper PEPP from Q3 onwards | Exchange rate no longer warrants monitoring | 1.2400 |

Source: ING

Limited impact on EUR

We expect the ECB to avoid any tapering talk, but given that this has already been communicated by ECB officials (see the [ECB Preview](#) for more details), this should not come as a surprise to markets and in turn, should have a limited impact on EUR.

Given the expectations of no change in guidance on asset purchases, the balance of risks is modestly skewed to a higher EUR, should the press conference not reiterate the tapering on hold message strongly enough or deliver some communication missteps.

Given the expectations of no change in guidance, the balance of risks is modestly skewed to a higher EUR

While not our base case, the probability of this outcome is in our view higher than of an even more

dovish message vs the current already cautious market expectations. Hence the balance of risks is skewed to modestly higher EUR/USD, even if our base case is for a largely unaffected EUR/USD after the meeting.

As an aside, we note that comments from Banque de France Governor, Villeroy de Galhau, in late May did coincidentally put a top in EUR/USD at 1.2250. He said the ECB would be at least as patient as the Fed. We read this as an expression of EUR/USD sensitivity from the ECB and it will be interesting to see whether these comments re-appear in some form. Typically, central bankers would be reluctant to discuss the policy of their central banking peers at a high-profile rate meeting. And remarks of relative monetary policy settings could be frowned upon in Washington as a quasi means of verbal intervention.

The constructive outlook for EUR/USD remains intact

Beyond the June ECB meeting, we retain our constructive view on EUR/USD and target the 1.25 level this summer.

The upcoming improvement in Eurozone data and the growth outlook should help limit the US and Eurozone growth wedge. With the Fed remaining cautious and presiding over deeply negative US front-end real rates, the subsequent soft USD environment should help facilitate higher EUR/USD.

Also, with the global economy showing signs of more synchronised recovery, the EUR should benefit more given the openness of its economy

Authors

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.