

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.

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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

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