

## The ECB Dashboard: The meaning of summer

For today's meeting, some ECB veterans might long for the good old days when the bank's summer meeting was held in the form of a teleconference. With little news, ECB President Mario Draghi will simply reiterate the main message of the June meeting

### The June ECB scenario analysis

Scenario analysis: How to position for Draghi's alternatives

|                | Inflation outlook                                    | Growth outlook  | Forward rate guidance   | QE taper guidance                                     |         |               |              |
|----------------|--|---|---|---|---------|---------------|--------------|
| Current stance | "Underlying inflation is expected to pick up"        | "The risks... to the growth outlook are broadly balanced" | Rates to remain "at present levels at least through the summer of 2019" | QE reduced after September and ended in December 2018 |         |               |              |
| Dovish         | Uncertainty around the inflation outlook increasing  | Downside risks stemming from trade wars                   | Rates can remain unchanged well past the summer                         | Uncertain if the pace of monthly purchases is reduced | EUR/USD | 2-year Schatz | 10-year Bund |
| ING Base Case  | Inflation to increase gradually over the medium term | Risks remain broadly balanced                             | Summer means July and August  | Commitment to reduce QE to 15bn pm as signalled       | 1.15    | -5 bp         | -10bp        |
| Hawkish        | Even greater confidence of CPI converging to target  | Recovery improved, risks still balanced                   | June/July deposit hike cannot be ruled out                              | Hints that QE taper is not set in stone               | 1.17    | +0 bp         | +5 bp        |
| Very hawkish   | Upside risks to the inflation outlook                | Risks to growth outlook are to the "upside"               | Balance of risks point to hike before the summer                        | QE can end abruptly before the end of the year        | 1.19    | +5 bp         | +10 bp       |
|                |  |   |   |   | 1.22    | +10 bp        | +15 bp       |

### Cementing the message from the June meeting

With little substantial change to the economy, the ECB could definitely take it easy at Thursday's meeting. The main focus, in our view, will be on cementing the message from June, giving market participants no reason to doubt the bank's determination.

It was then the ECB announced it expects interest rates to remain unchanged "at least through the summer of 2019". To some, this statement suggests that a first rate hike could come as early as July 2019. To others, it suggests a hike would not come before 21 September. In our view, however, EU aficionados know the official European summer break always ends in the last week of August, opening the window for a first hike in September 2019.

If the recovery is derailed on the back of increased trade tensions or there is no increase in underlying inflation, the bank's efforts to end QE will be compromised. Nevertheless, it's obvious that the broad majority of ECB members seems determined to end QE, though as quietly as possible, and would like to return to interest rates as the main policy tool.

## FX: EUR/USD sailing through the non-event

We look for a very modest reaction in EUR/USD on Thursday with the cross staying around the 1.17 level. The ECB meeting is like to be a non-event with Draghi reiterating the message of the June meeting. Although the market seems to be pricing the ECB for a dovish perfection (only one full 10bp depo hike by the end of the next year vs our call for 40bp), we don't expect Draghi to provide a catalyst for a more hawkish re-pricing.

The recent material correction in EUR/USD speculative positioning from heavily long three months ago to close to neutral currently points to a more limited downside to the undervalued EUR/USD

## EUR speculative positioning

EUR/USD speculative positioning, as % of open interest\*



\* As of 17th July 2018 (data are reported with a lag)

## Bond markets: Watch the curve when QE-twist hopes fade

Merely affirming last month's message would, on the face of it, have little impact on rates. However, the long-end of the yield curve received an additional push lower over the past few weeks from speculation about the ECB discussing "QE-twist", (i.e. skewing reinvestments into longer maturity bonds). We think these hopes are likely to be disappointed this time around. This should steepen the curve as the short-end remains protected by the rates forward guidance. Amid ongoing trade tensions and lingering political risks in Europe, any increase in yields is likely to be limited as investors favour the safety of core bonds.

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