

Dovish Draghi puts euro at risk

After a stream of soft eurozone data, the ECB will likely take on a more dovish tone today. Here's what that means for the euro



Source: Andrej Klizan

➔ USD: Supported for a while yet

We see modest upside to the trade-weighted dollar today mainly stemming from anticipated softness in the European FX segment (vs USD) in response to a likely dovish tone from the European Central Bank. With the US government shutdown continuing, economic data is not being released, which is keeping the dollar insulated from domestic drivers for now.

⬇ EUR: Dovish hints

The main focus of the day is the ECB meeting. While no imminent change in the ECB's stance is expected, we expect President Mario Draghi to be moderately dovish given the long stream of soft eurozone data. This contrasts with the rather optimistic ECB staff forecast from the December meeting (we see the 2019 growth forecast of 1.7% year-on-year as too optimistic). As per our [ECB Preview](#), the ECB may signal its willingness to conduct new longer-term liquidity operations (for example, by announcing that the Council has tasked the relevant committees to look into ways to tackle possible liquidity shortages and to investigate the impact from the negative deposit rate on banks). We thus look for modest downside to EUR/USD, with the cross likely testing the 1.1310 level. In the central and eastern European space, a signal from a Czech National Bank board

member yesterday that the bank is likely to keep rates on hold at the February meeting suggests fairly limited upside to the overbought koruna, with EUR/CZK likely staying above 25.70.

GBP: Trend is your friend

Sterling continues to push ahead in response to the decreasing odds of an imminent hard Brexit scenario, as MP Yvette Cooper's proposal to extend Article 50 in the case of no agreement on the deal in Parliament, gains traction. This is likely to keep sterling supported ahead of the vote next Tuesday, with EUR/GBP likely moving below 0.8700 (particularly if President Draghi sends a dovish message today).

NOK: NB to point towards a March rate hike

Although widely expected to stay on hold today, the Norges Bank is likely to keep its forward rate guidance for an upcoming hike in March unchanged. As per our [Norges Bank preview](#), growing doubts about the global hiking cycle are likely to be offset by solid domestic momentum and a weaker Norwegian krone (vs the central bank's own forecast). With the market only pricing in a 20% probability of a March hike, today's NB message should be positive for the currency, with EUR/NOK likely testing the 9.70 horizontal support level.