

## EUR & ECB Cribsheet for September meeting

We see a high bar for the ECB to attempt to forcefully talk down the euro. It is not time yet, while tools to credibly do so seem limited. As it is also too early for a PEPP extension, the EUR should sail through the September ECB meeting. And given the structural USD downtrend, our EUR/USD medium-term outlook remains bullish



Source: Shutterstock

Scenario analysis: How to position for Lagarde's alternatives

	Inflation outlook	Growth outlook	Interest rate, QE & PEPP	Exchange rate comments	EUR/USD
Current stance	Inflation outlook "surrounded by an exceptional degree of uncertainty"	"Activity is expected to rebound in the third quarter"	Depo at 0.50%, QE & PEPP commitments unchanged	No prior reference to the euro	
Very dovish	Inflation projected at 1% in 2022. ECB "highly concerned"	High degree of uncertainty and risks clearly tilted to the downside	Downside risks still present, further depo cuts on cards	EUR strength considered as "brutal"	1.1500
Dovish	Recent data suggest the CPI pick up will take longer	Recent data suggest significant levelling off	No change, but hints at eventual PEPP extension	Stronger euro weighs on growth and CPI outlooks	1.1700
ING Base Case	Downward revision to CPI forecast by 0.2% for 2021 & 22	Downside risks have started to disappear	No change, forward guidance for lower rates for longer	Exchange rate is not a target but ECB monitors closely	1.1850
Hawkish	Risks to the inflation outlook are balanced	Risks to the economic outlook are balanced	No change, current envelope for PEPP more than sufficient	EUR strength having a limited impact on econ / CPI outlooks	1.2000

## All eyes on focus is on the euro comments

Were it not for the strong euro, the September European central bank meeting on Thursday would probably have been a non-event.

Growth outlook hasn't deteriorated versus the last forecast (particularly in light of the prior pessimistic ECB projections) and although the CPI forecast is likely to be revised lower, the monetary policy set up is already very loose (i.e, material asset purchase via QE and PEPP, and deeply negative rates), raising the bar for differentiating and impactful additional easing steps.

[Read Carsten Brzeski's ECB preview for more on inflation forecasts](#)

## Too early for ECB to forcefully talk down the euro...

While the some of ECB Council member's comments showed an uncomfortableness with the recent EUR strength, we think it is too early for the ECB to forcefully talk down the euro this week.

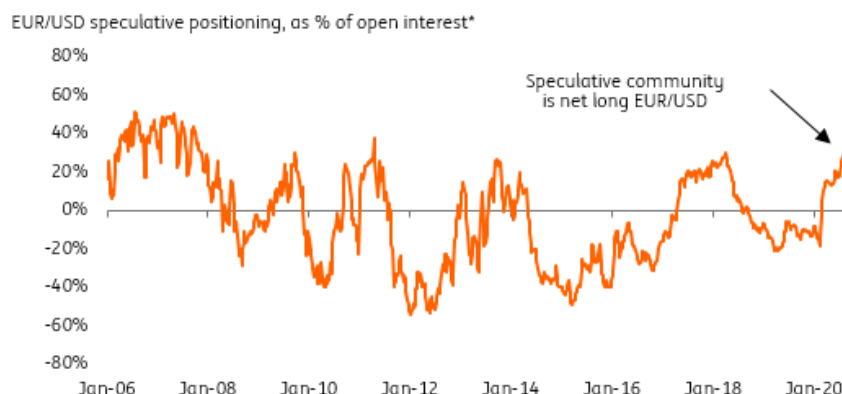
We don't look for Trichet-like comments on a "brutal" EUR appreciation. Rather, President Christine Lagarde may highlight that the central bank monitors the euro closely while reiterating that the exchange rate isn't seen as a target. We also don't expect the ECB to hint at the extension of the PEPP programme beyond 2021 just yet, suggesting that EUR/USD should not be affected much by the meeting.

## ... and if attempted, it will be difficult to talk it down

Although the euro is on the ECB radar, we don't expect potential verbal interventions to be strong enough to send EUR/USD materially and persistently lower as (a) there is not much the ECB can do (i.e, the depo rate is already negative, asset purchases are already large, and while the PEPP extension beyond mid-2021 is a possibility, it is unlikely to come this week and is in fact already expected by the market to eventually come in one of the next ECB meetings) and; (b) the case for a structural USD bear trend remains strong, with the Fed's adoption of the Average Inflation Targeting strengthening the narrative for low US real rates for longer – which should, in our view, be the key driving force behind the USD weakness in quarters to come.

[For all our latest FX markets views, read FX Talking](#)

## Speculative community has built significant net EUR/USD longs



\* As of 1st September 2020 (data are reported with a lag)

Source: ING, CFTC

Into the year-end, the vigilant ECB, the risk surrounding the November US presidential elections and one-way net-long EUR/USD positioning should tame the euro upside.

But as the USD bear trend continues into mid-2021, EUR/USD is likely to push to/above the 1.25 level next year.

### Author

**Carsten Brzeski**

Global Head of Macro

[carsten.brzeski@ing.de](mailto:carsten.brzeski@ing.de)

### 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>.