

## EUR & ECB: Details, details, details

Details matter for the euro, particularly when the open-ended QE may not be as open-ended as it seems and not strong enough to imminently turn around the eurozone economy. Look for structurally suppressed EUR vs USD as EZ growth remains subdued and ECB easing is in place. EUR/USD to move into a 1.05-1.10 range in 4Q19



Italian Prime Minister,  
Mario Draghi

### An afternoon of EUR swings

The devil is indeed in the detail. While EUR sold off after the ECB announced the easing package (see [ECB Review](#) for the details), the press conference delivered a reality check. Although the QE is open-ended, the ECB did not discuss changing the limits on asset purchases. Without a change to the limits on purchases, our rates team suggests that the ECB can do QE of EUR 20bn pm for just over a year. That's why the EUR/USD is back above the 1.1000 level as the open-endedness is not fully set in stone.

### Looking ahead: No bright euro prospects

Importantly, the lack of an immediate big bang monetary stimulus vs market expectations (i.e. "only" a 10bp cut and "only" QE EUR 20bn pm) means more limited odds of a turn-around in the EZ economic and inflation outlook. While the ECB delivered a persistency of the easing package (via its open-endedness) the lack of imminence (i.e. no big bang easing package to cause the

market to upgrade eurozone growth and inflation expectations) suggests a structurally suppressed EUR vs USD as EZ growth will remain subdued and ECB easing will remain in place.

On the USD side, [despite the slowdown in activity](#), price pressures do remain solid (as per August US core CPI today and August wage data last week) which make it difficult for the Fed to signal a pronounced and aggressive easing cycle. As long as the Fed sticks to its non-committal, piecemeal approach to cutting, USD will struggle to weaken vs EUR given the already meaningful easing priced in.

## EUR/USD to move into a 1.05-1.10 range

Hence, as discussed in [EUR/USD: Lower for longer as dollar is king](#), we see the upside to EUR/USD as limited. Today's EUR/USD reversal won't have legs in our view (though it is justified purely based on the insufficient ECB easing package announced today) and we expect the cross to move into a EUR/USD 1.05-1.10 range for the rest of the year.

## Not very bright prospects for European FX

A not strong enough ECB easing package that can turn around eurozone economic prospects doesn't suggest a particularly rosy outlook for European activity currencies tied to EZ growth. This underscores our negative view on CEE FX but also suggests more weakness to come for NOK and SEK. With EUR/USD expected to settle in the 1.05-1.10 area for the remainder of the year, European currencies should remain on the back foot vs the dollar.