

EUR & ECB: No hurdle for further EUR gains

The bar was set high and the ECB did not over-deliver. With the strong bearish USD dynamics in place, the trend in EUR/USD is up. We target 1.25 in 2021, with strong upside risks to 1.30. This also means an upbeat outlook for European FX, be it in the G10 and Emerging Markets world. We like SEK, NOK and CZK against USD



No surprised delivered

The bar for a dovish surprise from the December ECB meeting was set rather high and the announced mix of measures was not enough to breach it. The top-up in the Pandemic Emergency Programme Programme by EUR500bn was expected, more Targeted Longer-Term Refinancing Operations was the market's base case and with the ECB not deciding to increase monthly buying under the Asset Purchase Programme (this remains at EUR20bn per month or cutting the depo rate), this was simply not enough. See our [ECB Review](#) for more details and the list of measures announced today.

As we argued in our [ECB Cribsheet](#), there was a degree of similarity between today's meeting and the ECB meeting in September 2019. In both instances, expectations were high going into the meetings and in both instances, the ECB did not manage to exceed these expectations despite the

easing measures announced. Hence, the uptick in EUR/USD seen after the policy announcement is justified in our view

As for the exchange rate, there was no strong verbal intervention against the level of the euro ("very careful monitoring" of the exchange rate is not sufficient to send the currency lower). The fact that EUR/USD is modestly up says it all.

More upside to EUR/USD and European FX

In sum, the ECB did not over-deliver and the new set of measures is not strong enough to outweigh the strong bearish USD dynamics in place (and to be in place next year as the front-end US real rate remains deeply negative) and there is more upside to EUR/USD. We target 1.25 in 2021, with strong upside risks to 1.30.

This also means an upbeat outlook for European FX, be it in the G10 and EM world. SEK and NOK should be the two best-performing G10 currencies next year, benefiting from the EUR/USD overlay as well as the favourable environment for cyclical FX. CEE FX vs USD should also do well – for the similar reasons as NOK and SEK – with a strong preference for CZK (due to the domestic monetary policy considerations). Please see our [2021 FX Outlook: Back on track](#) for more details.