

EUR: Mamma Mia, here we go again

The key data release this Friday is US GDP but there are still ramifications from yesterday's ECB meeting that could influence FX markets



⬆ EUR: A benign S&P Italy ratings outcome would help European assets

It was a strange ECB meeting – one where the press conference was dominated by politics in the form of the Italian budget talks and Brexit negotiations (both of which the ECB, much like ourselves, are merely patient observers here). While the ECB's message over QE policy was clear – and there are no obvious plans to U-turn on the formal end-date later this year – two things really stood out to us:

- (1) the reference to idiosyncratic and temporary factors being behind the recent EZ activity slowdown; and
- (2) the repeated references to the December ECB staff projections.

Certainly, if the idiosyncratic factors weighing on the EZ economy turn out to be more systemic, then one could easily see December staff projections potentially being out of sync with a hawkish ECB policy stance. The bottom line is that the ECB pretty much told us to come back in December – where we'll probably have more to say (more from ING [here](#)). On Italy, the key event will be the

S&P ratings decision – our Rates Team say that if S&P mimics Moody's decision from last week and delivers a rating downgrade, spreads could struggle to fall (much) below 300bp. If S&P switches the outlook to 'negative' – which we definitely don't rule out, the 10Y BTP-Bund spread could fall back to 250bp – especially if Rome and Brussels try to find some sort of compromise.

➔ USD: Solid 3Q US GDP print expected – but watch the composition of growth

The key data release today will be 3Q US GDP. ING's James Knightley [writes](#) that another robust GDP report will leave the US firmly on track to hit 3% growth for 2018 – and we look for a 3.6% QoQ annualised rate (the analyst consensus is at 3.3% QoQ). The composition of US growth matters just as much. Still, our team see no real reason to expect a collapse in growth anytime soon with 4Q US GDP likely to be supported by the rebuild/clean-up operations following the recent Hurricanes Florence and Michael.

While the Fed is right to say monetary policy is no longer “accommodative”, we are still some way from it being considered “restrictive”. Therefore we forecast the Fed will continue raising interest rates – starting with another hike in December with three more 25bp moves in 2019. One shouldn't also forget the politics of today's US GDP release; a strong growth print could sway undecided voters ahead of the upcoming midterm elections as President Trump continues to play up his and his party's economic credentials (expect another impromptu White House press conference after the release).

➔ GBP: Fade the move lower as chasing marginal bad Brexit news unattractive

GBP remains in its usual state of flummox as the Brexit impasse continues, with politics at home the biggest stumbling block. Until this is resolved, we expect GBP/USD to trade below 1.30. But as we noted earlier in the week, trading 2 big figures below the 'neutral' sentiment level of 1.30 presents a good opportunity to buy GBP again – if one believes that Brexit will, in fact, be alright on the night.

RUB: Central bank set to wait and see till December as inflation is in check

ING's [Dmitry Dolgin notes](#) that the Bank of Russia is set to keep rates on hold as inflation is in line with the year-end target, the economy isn't overheated – and markets have calmed down in the last six weeks. The December decision is still uncertain as the outcome will depend on volatile factors such as oil price, global emerging market flows, and foreign policy. Our latest [FX TalkING publication](#) has USD/RUB at 65.00-66.00 in 4Q18 – but the risks are that we see a stronger RUB.