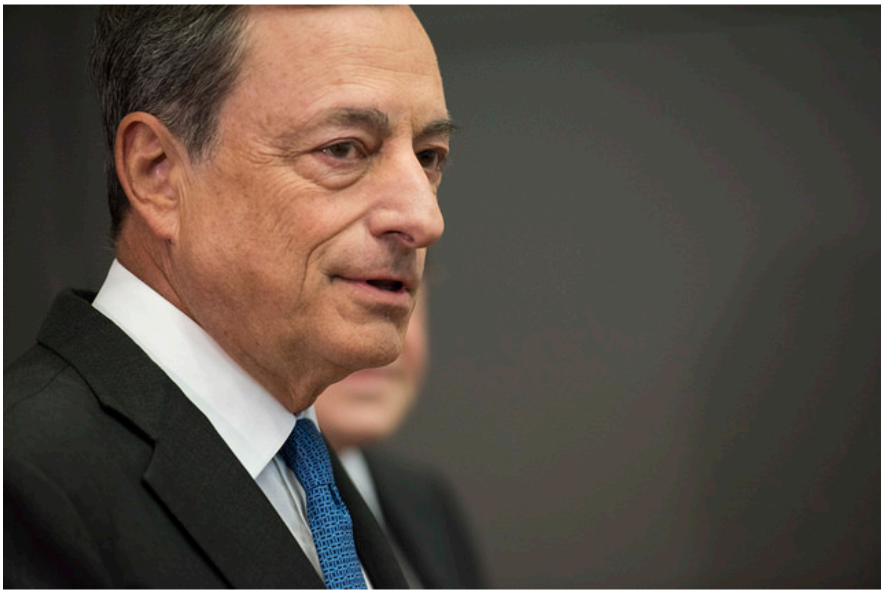
EUR: Tall order for another dovish Draghi knockback

Investors head into the ECB meeting today with very low expectations. We think this favours a higher euro



Source: ECB

EUR: Bulls will be hoping that Draghi says it best when he says nothing at all

It's clear that investors are going into the April ECB meeting today with very low expectations – which suggests the risk-reward favours a higher Euro. As we laid out in our ECB Crib Sheet – only a scenario in which President Mario Draghi ratchets up the downside risks to the economic outlook would warrant a further dovish repricing of ECB policy expectations. The flatter Eurozone OIS curve and lower EUR risk-reversals since March suggest that markets have already been aptly adjusting to the softer EZ data outturns – and so any acknowledgement of the latter by the ECB should not be 'new news' for investors. The hawkish tail risk is that Draghi expresses a willingness to look through the recent softening of leading EZ economic indicators – with the intention of pressing on with policy normalisation plans (the first step being a 2018 end to QE). This would rekindle some of the more bullish EUR spirits – sending EUR/USD back above 1.2200/50.

USD: Patiently waiting for something to flip the weak dollar switch back on

Global FX markets are currently straddling one of two worlds – either the US dollar weakens against all other currencies or the US dollar strengthens against all other currencies. The lack of a middle ground – and synchronised nature of currency movements – should be enough to tell us that exchange rates are, by and large, being driven by a set of (US-related) common factors. Though we would argue that current USD strength is nothing more than a squeeze in crowded short positions, let's entertain the idea that there has been a sudden reappraisal of the bearish dynamics that have weighed on the USD in recent months. In our view, this requires investors making sweeping changes to two broad assumptions:

1. The synchronised global growth story and the RoW playing catch-up to a late-cycle US economy
2. The nature of US trade and foreign policy risks

What the White House does next remains unpredictable but it's clear that some of the global animal spirits that were in place at the turn of the year have dissipated – with Trumpian trade and geopolitical uncertainty oddly having a greater dampening effect on business confidence outside of the US. Therefore, for currency markets to recouple with the idea of a weaker USD in the short-term, we will need to see some evidence that the strong growth story in places like Europe and Asia is not completely lost. Equally, we wouldn't rule out a pick-up in US political uncertainty that reaffirms the idea that USD assets should be trading with a risk premium. Either way, it's worth remembering these are just cyclical factors which are subject to short-term fluctuations. Bigger US budget and current account deficits mean that the textbook case for a weaker dollar remains in place. We just need something to flip this weak USD switch back on.

SEK: Even more dovish Riksbank would see EUR/SEK at new highs above 10.50

ING's Jonas Goltermann believes the key question at today's Riksbank meeting is what the central bank makes of recent SEK weakness. One may be inclined to start questioning the textbook case of whether a weaker currency does provide a reflationary impulse – or whether at this stage a weaker currency is symbolic of something more ominous in the economy. With 16bp of tightening by year-end priced into the OIS curve, and a more dovish Riskbank message likely today, the risks are that markets lower their conviction over a 4Q18 rate hike – leading to a knee-jerk move lower in the krona (with EUR/SEK looking to breach 10.50).