

EUR: The signalled September ECB easing to keep the euro under pressure

Despite the euro's 'buy the rumour sell the fact'-like rebound, we see downside to the euro over coming months. We expect the ECB to announce a packaged deal of easing in September (a 20bp cut and QE among other things). This should keep EUR/USD risks skewed to 1.10 rather than 1.15



Detailed easing to come in September

Buy the rumour sell the fact. This summarises today's euro reaction to the ECB meeting. While the perceived lack of details from President Draghi on the upcoming and signalled easing (no hint at the size of the rate cut or assets under consideration for QE) reduced some pressure on the euro, we still see more ECB generated EUR downside ahead. This is because the interest rate cuts (that may be non-negligible) and QE are coming.

Deeper rates cuts and re-start of QE

- On the rates front, the fact that committees have been tasked to study "mitigating measures, such as the design of a tiered system for reserve remuneration" means there is

scope for large cuts given the likely introduction of the tiering system. This gives the ECB some room for deeper rate cuts and in excess of the 18bp priced in by the market for this year. We expect a full 20bp cut to be delivered in the September ECB meeting (vs 12bp priced in). See [ECB Review](#) for details for what we expect.

- On the QE front, the fact that committees have been tasked to look at “options for the size and composition of potential new net asset purchases” suggests that the new round of QE will be also announced in September. Our economists are looking for around EUR 20bn-30bn per month)

Risks to EUR/USD still skewed to the 1.1000 level

All this means that while the market might have been disappointed by the lack of details today (though in our view the press release got as dovish as it could get without actually implementing a monetary easing), this won't be the case in September as a set of specific unconventional measures will likely be announced and the ECB is expected to deliver a larger cut vs market expectations.

Unless the Fed embarks on more pronounced easing vs what is priced in for this year (more than two and half 25bp cuts vs our call for two 25bp cuts) it is hard to see EUR/USD embarking on a persistent and meaningful uptrend. In our view, risk to EUR/USD has re skewed towards 1.10 rather than 1.15 over the course of summer.