

## EUR: The ever-cautious ECB

It's possible that ECB staff economic projections will be cut sufficiently for policymakers to signal a new round of cheap bank loans. This will likely keep euro upside in check



Source: ECB

### ⬇️ USD: Only modest downside to the trade-weighted dollar today

With the light US data calendar today and no news expected on the US-China trade negotiations front, the FX market direction should be set by the ECB meeting today (see below). The cautious ECB tone should be marginally positive for emerging markets FX vs the US dollar, while the lack of EUR/USD upside suggests that European G10 FX is likely to underperform its dollar block developed market peers today. Direction-wise, we see scope for modest downside to the trade-weighted dollar today.

### ➡️ EUR: Cautious ECB, but market expectations are already high

It's possible that ECB staff economic projections may be cut sufficiently for policymakers to signal a new round of targeted longer-term refinancing operations (TLTROs- likely to be introduced in 2Q). But with market expectations already high following [widely-reported rumours](#) yesterday, the downside to the euro may not be pronounced in response to the announcement/signalling. That

said, any downward revisions to economic forecasts would suggest that ECB rate hikes remain a very distant possibility, in turn keeping euro upside in check. Coupled with the currently strong US dollar environment and the likely solid US wage data tomorrow, we continue to target EUR/USD 1.1200 over one- and three-month time horizons. See [ECB's Dashboard](#) for scenario analysis. In Serbia, our economists expect the [National Bank of Serbia to keep rates unchanged](#) today as core inflation has been well behaved, averaging 1.0% for the year and confirming a benign inflationary environment.

## ➔ GBP: No imminent tangible progress

With no tangible progress coming from the Brexit negotiations, the scope for any upside to sterling is fairly limited today. Even a dovish surprise from the ECB is unlikely to lead to meaningfully lower EUR/GBP in our view, as the key driver of the cross remains Brexit risk. EUR/GBP to stay above 0.8550 today.

## ➔ MXN: Lowest CPI since 2016 to bring Banxico closer to rate cuts

Our economists expect the February Mexico CPI to drop to the lowest level since 2016 today and hit the upper band of the 2-4% inflation target range, amid persistent weakness in economic activity. This should strengthen the case for policy easing. Coupled with the slowing economy, we expect Banxico to start easing no later than 3Q19 (with the risk of a cut at the June meeting) and deliver total easing of 175 basis points by end-2020 (vs 70 basis points of cuts currently priced in). [See Mexico: Setting the stage for rate cuts for details](#). With the Mexico-US interest rate differential being at historically elevated levels and the market already pricing close to three cuts by end 2020, today's fall in CPI is unlikely to have an overly negative effect on the Mexican peso, in our view.