

EUR: Will Draghi deliver?

We expect a significant easing package from the European Central Bank today. But if Draghi doesn't deliver, the EUR/USD could move to the 1.1250 level



ECB President Mario Draghi delivers a speech at the European Parliament in Strasbourg back in January

⬇️ USD: Don't get carried away on the tariff delay

President Trump's decision to delay the rise in extra tariffs on China by two weeks is positive for risk assets today, but in our view, this doesn't suggest a change in the US administration's stance. If anything, it underscores the very low predictability of the US's negotiating policy (and its impact on asset prices). Our trade team [doesn't expect a resolution of the trade conflict this year](#). On the data front, headline August US CPI should remain below 2% but core prices should rise (ING forecast 2.4% year-on-year). Coupled with solid wage data last week, this makes it difficult for the Federal Reserve to signal an aggressive easing cycle next week.

⬆️ EUR: The big question of delivering

As per our [ECB Dashboard](#), we think the risks to EUR/USD lie to the upside going into today's European Central Bank meeting. Our economists look for a 20 basis point deposit rate cut, a small tiering system, a re-pricing of Targeted Longer-Term Refinancing Operations and the restarting of quantitative easing (EUR30 billion per month). However, there is a risk that the bank will underdeliver, or even delay bond purchases following comments from some ECB Governing Council members. Should this happen, we look for EUR/USD to move to the 1.1250 level as this would

materially disappoint markets. In our base of QE EUR30bn per month, we see EUR/USD fairly unaffected, with possible modest upside caused by a potential spike in the 10-year bund yield and curve steepening. But even if the ECB disappoints, EUR/USD upside should be short-lived as disappointing monetary stimulus would likely increase market concerns about the eurozone's economic outlook and lead to a further deterioration in growth and inflation expectations. We expect the [EUR/USD to move into a 1.05-1.10 range](#) for the rest of the year.

➔ GBP: Limited spillover from the ECB

Compared to other European currencies, sterling should be the least sensitive to ECB-induced volatility. Among higher beta European FX, it exerts the lowest correlation with risk, 10-year Bund and EUR/USD. This is because, at this point, the overarching driver of GBP is Brexit uncertainty and today should be a fairly quiet day on this front. Although a Scottish court ruled that the suspension of UK Parliament was unlawful, the decision now goes to the UK Supreme Court.

⬆️ TRY: CBT bracing itself for further cuts

As per [CBT Preview](#), our economists expect the Central Bank of Turkey to cut its policy rate by 175bp today (and another 100bp in October). This follows a faster-than-expected recovery in the CPI outlook and an improvement in inflation expectations. A continuation of the easing cycle is also supported by improving external financial conditions. With the consensus looking for a 275bp cut, a less dovish CBT would translate into strength for the Turkish lira. Yet, given the somewhat better risk environment currently, we wouldn't rule out the possibility of a larger cut today.

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