

## The euro sell-off after the ECB: All a bit much?

EUR/USD has sold off hard on the announcement that the ECB 'anticipates' ending QE in December this year and keep rates unchanged at least through the summer of 2019. This has come as a disappointment to the rates market, which had priced close to 10bp of ECB rate hikes by June 2019. The EUR sell-off feels a bit much, though

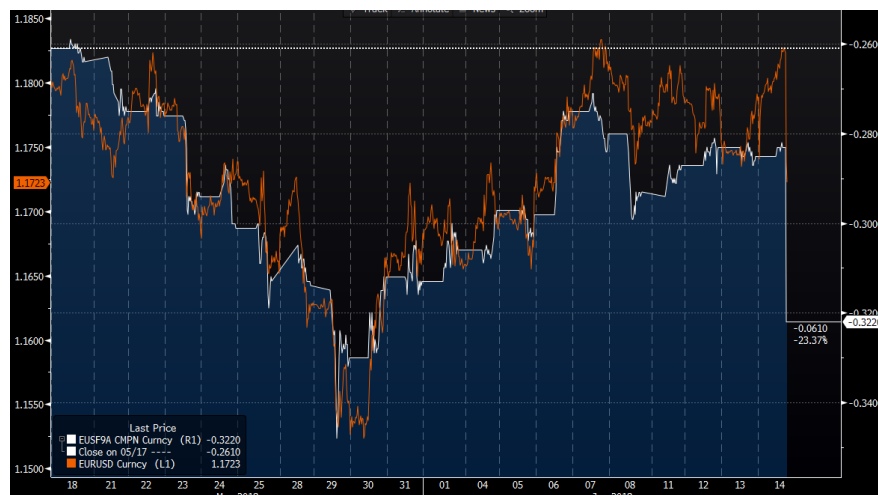


### Will the end of QE be the bigger priority?

While the forward rate guidance should see US:EU policy divergence continue for another twelve months, this story looks largely priced in and it feels like the euro sell-off is a bit of an over-reaction. Of course, the ECB has to manage the exit from QE very carefully – which they're doing through aggressive forward guidance. But we tend to think that, over time, the announcement of the end of QE will emerge as a bigger story – and that in the last quarter of this year and 1Q19 the short end of the EUR curve can start to narrow the spread with its US counterpart. EUR/USD should be pushing back above 1.20, possibly to the 1.25 area by that time. Helping this story should be the return of portfolio flows – particularly long-term debt portfolio flows – to the Eurozone. These were sent off-shore by the ECB's QE programme starting in 2015 and the anticipation of their return should support the EUR over the coming 1-2 years. In general, we see the lower end of

EUR/USD trading range in the 1.15/16 area this summer.

## EUR/USD v June 2019 pricing for EONIA



Source: Bloomberg. Note: EUR/USD 30 minute intraday (orange); EZ OIS contract for June 2019 ECB meeting (white line)

### Author

**Chris Turner**

Global Head of Markets and Regional Head of Research for UK & CEE

[chris.turner@ing.com](mailto:chris.turner@ing.com)

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).