

FX Daily: ECB keeping the euro safe

The European Central Bank's expected €500 billion top up to its pandemic asset purchases today should have a further stabilising effect on the euro



Source: Shutterstock

📈 USD: Pausing for breath

Following its material broad-based decline in recent days, the US dollar's fall stalled overnight. The deflation trade and US Treasury yield curve steepening has been the key driver of FX markets over the past days and weeks, leading to a weaker USD and an impressive rebound in cyclical currencies (both in the G10 and emerging markets space). For now, FX markets seem to be pausing for breath but the weaker USD story still remains a key theme for the rest of the year.

➡ EUR: The ECB's PEPP top up to have a further stabilising effect

The major focus of the European Central Bank meeting today is on the extension of the Pandemic Emergency Purchase Programme asset purchases. As per our [ECB Crib Sheet](#), the expected €500 billion top up to the PEPP should have a further stabilising effect on the euro, keeping the currency's risk premium in check (the latest larger-than-expected [German fiscal stimulus](#) is also beneficial for EUR). But as this is largely expected, one should not expect much beyond the

stabilising effect for now, particularly when EUR/USD trades modestly overvalued on a short-term basis. The short-term overvaluation may temper any meaningful EUR/USD upside even if the ECB surprises with a more forceful PEPP response (ie, €750bn expansion vs €500bn expected). Any meaningful EUR/USD gains would likely stem more from a USD bear trend (our base case for 2H20) rather than further ECB risk premia containing measures (as EUR risk premia has been already suppressed and more from the ECB is already expected). EUR/USD to stay below 1.1300 today.

↓ GBP: Few reasons to be cheerful

The limited prospects for progress of the UK-EU trade negotiations talks (UK Government spokesperson James Slack dashed hopes for a compromise on fishing and level playing field issues) continue to weigh on GBP with EUR/GBP now around the 0.8950 level. With the dollar decline / risk rally pausing, GBP is yet again in a vulnerable position. Given stable or higher EUR/USD prospects, long EUR/GBP remains a better vehicle to position for GBP idiosyncratic negatives than short GBP/USD.

➔ JPY: Suffering from the UST yield curve steepening

While the USD has been experiencing a broad-based decline, the only G10 currency which lagged the weak dollar was the Japanese yen. As per [The FX road to recovery](#), JPY ranks as the most vulnerable G10 currency to the steepening of the UST yield curve within our FX recovery scorecard. Over time, we still look for a lower USD/JPY as the dollar's lost yield advantage (at the front end of the curve) weighs on the cross. But for now UST yield curve steepening dominates.

Authors

Chris Turner

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

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@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 <http://www.ing.com>.