

FX Daily: It will be hard to talk down the euro

Expect a modest upside risk to EUR/USD, with the pair moving to or above the 1.1850 level today. However, given the leaked reports about the staff forecast yesterday, we think the EUR upside is likely to be limited



⬇️ USD: Taking the back seat

The dollar takes the back seat today with the sole focus on the ECB.

With the ECB unlikely to generate a EUR decline at today's meeting, we look for modest outperformance of European FX vs the dollar. With equity markets stabilising, this also points to a softer day for USD and modestly lower DXY.

⬆️ EUR: Difficult to talk down the euro

The ECB meeting is the key event of the day.

[As per our ECB cribsheet](#), we see a modest upside risk to EUR/USD as (a) the ECB staff projections should not show material downgrades (only a modest downgrade to CPI, but unlikely a revision in the GDP forecast lower); (b) we don't expect President Lagarde to try to forcefully talk down the

euro.

The former was already leaked yesterday, with reports claiming that the ECB staff forecast will show confidence in the eurozone growth recovery. This in turn suggests a lower need for imminent action, with the extension of PEPP unlikely to be communicated in this meeting.

On the latter, President Lagarde may mention that the Council is monitoring the exchange rate closely, but this is likely to fall short of Trichet-like comments about a “brutal” currency appreciation.

All this suggests a modest upside risk to EUR/USD, with the pair moving to or above the 1.1850 level today. However, given the leaked reports about the ECB staff forecast yesterday (and it is now being priced in), the EUR upside should be limited

⬇️ **GBP: Little respite for sterling and more room for further weakness**

GBP bad news continues to pile up, with the EU now reportedly considering legal action against the UK Internal Market Bill, while US House Speaker Nancy Pelosi warned that there will be no US-UK trade deal if the UK government action undermines the Good Friday agreement.

Despite the recent GBP fall and given the prior market complacency, we estimate that only a limited degree of risk premium is priced into the currency (just around 1% in EUR/GBP vs 5% risk premium pricing in late June), allowing for further GBP downside.

EUR/GBP to break the multi-month high of 0.9176 in coming days.

⬆️ **CZK: ECB more important for CZK than Czech inflation**

Czech August CPI should moderate to 3.2%YoY today (from 3.4%) due to weaker food prices. CPI inflation remains meaningfully above the 2% central bank target but any imminent reaction is unlikely.

The central bank stance remains neutral with potential hikes being a story for late 2021, at the earliest. Hence, look for a muted EUR/CZK reaction today, with the koruna likely to get more boost from a less dovish ECB today and EUR/CZK dipping closer to 26.40.

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