

FX Daily: The ECB's expectation management

With President Lagarde at pains to point out that the vaccine is not a game-changer for ECB economic forecasts, it seems the central bank is trying to avoid repeating the September 2019 experience, where high market expectations ahead of the meeting caused a muted reaction to the rather aggressive measures announced



President-elect of the European Central Bank, Christine Lagarde

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➔ USD: Taking a pause

With a calm day on the global data front ahead, plenty of good news priced in and concerns about rising cases in the US and the impact on the economy over the winter months, risk assets should remain muted today.

But this should be seen as a pause for breath and we look for more upside ahead as the [2021 economic outlook looks benign](#). Coupled with the behind-the-curve Fed, USD rebounds should be short-lived and shallow.

[Read our Global Macro Outlook 2021 released yesterday](#)

➔ EUR: ECB focusing on expectation management

While ECB President Christine Lagarde pointed out yesterday that the vaccine is not a game-changer for ECB economic forecasts (hence more easing needed), at the same time ECB officials have been trying to play down expectations on the size of the new package, emphasising the forward guidance and their willingness to do more rather than the actual 'number' to be announced next month.

The ECB is seemingly trying to avoid repeating the September 2019 experience, where high market expectations ahead of the meeting caused a muted reaction to rather aggressive measures announced (rate cut and restart of QE). With recent comments from officials suggesting the ECB may not exceed already high market expectations (built up after the dovish message from the November meeting), we expect the impact of the new ECB easing measures on the euro to be rather muted, not preventing a EUR/USD rise.

Today, the focus is yet again on the ECB guidance, with President Lagarde speaking at the ECB forum.

➔ GBP: Still in the waiting game

EUR/GBP is set to firmly remain in the 0.89-0.90 range today and for the remainder of the week, with agreement on the UK-EU trade deal needed to push the pair back below the 0.8900 level.

⬇️ CEE FX: The EU budget dispute a short-term negative for HUF and PLN

The dispute between Hungary and Poland on one hand, and the EU on the other over the EU budget, the EU recovery fund and the rule of law clause is weighing on HUF and PLN. We expect an agreement to be eventually reached (likely before the end of the German EU presidency this year), mirroring the experience of past intra-EU disputes being eventually followed by a solution. However, the upcoming days and weeks are likely to be challenging for HUF and PLN, with both currencies to underperform CZK.

In line with recent price action, HUF is to struggle more than PLN given the perceived probability of Poland more likely reaching an agreement than Hungary (though we expect both to eventually do so). While the eventual agreement should translate into a larger one-off recovery in PLN and HUF vs CZK (with larger risk premium priced into the two currencies over recent days), this should be rather one-off, with CZK still outperforming its CEE peers throughout 2021.