

FX: Draghi's Mission Impossible

Markets may see Mario Draghi's mission today – should he wish to accept it – as keeping a lid on EUR/USD below 1.25



Source: Andrej Klizan

USD: The damage is already done from Mnuchin's 'weak dollar' comment

It feels like what we expected to happen to the dollar over the entirety of 2018 has in fact transpired in the first few trading weeks of the year. The latest fuel that has been added to the fire of dollar weakness was US Treasury Secretary Mnuchin's comment that a "weaker dollar is good" for the US. While one could see this as a fairly blasé comment, history may show this as a marked shift in US economic policy. But equally this isn't new news; the administration's desire for a weaker dollar has been embedded in our thinking since last April – when President Trump said in an interview that he felt the US dollar was "too strong". We suspect it is the sheer frankness of Mnuchin's comment and the idea that the Trump administration is happy to employ 'America First' policies – even if it means at the cost of a weak dollar – that has caught markets by surprise. We're scratching our heads for catalysts to see a break in this weak dollar trend.

EUR: Draghi's Mission Impossible = a shallow EUR/USD correction at best

The burning question for FX markets at today's ECB meeting is whether President Draghi will or can talk the euro lower. For the past week, we've argued that in the current environment – there is very little the ECB can do to stem the tide of a stronger EUR (see [here](#) and [here](#) for our rationale). Moreover, in a backdrop of broad dollar weakness against all major currencies – and the EUR trade-weighted index (which matters more for the economy) in fact staying fairly stable within a narrow range since August – there may be little macro-related impetus for the ECB to actively talk the euro lower. Still, markets may see Draghi's mission today – should he wish to accept it – as keeping a lid on EUR/USD below 1.25. In the coming months, we believe this will prove to be a mission that is ultimately impossible. We look for any post-ECB knee-jerk move lower in EUR/USD to be fairly shallow – with the 1.2300/50 area providing support. EUR/GBP vulnerable to break below 0.87.

NOK: Norges Bank staying put and fairly neutral, with NOK unaffected

We look for Norges Bank to remain on hold today ([see our preview](#)), in line with market expectations. Given that no economic and interest rate projections are published during the January meeting, there is a little scope for a fairly neutral statement to drive NOK. We look for EUR/NOK to stay in the 9.60-9.65 area.

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