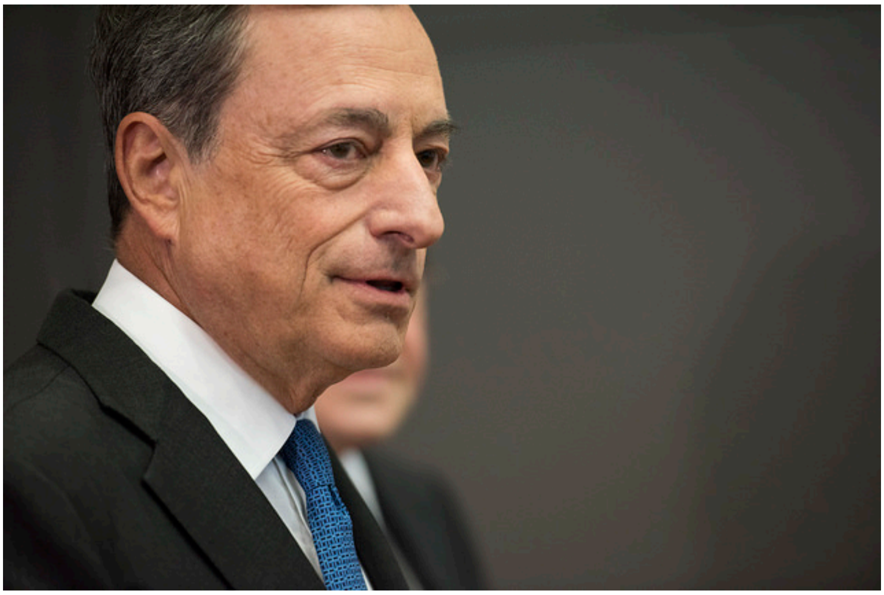
The ECB’s scenario analysis dashboard

If the ECB does this, the markets might do that...



Source: ECB

Expect a 'lower for longer' taper

Ideally, the ECB would like to announce tapering as noiselessly as possible, limiting any upward movement of interest rates and the euro to a bare minimum. So as we noted in our ECB Preview, we expect the ECB to announce a ‘lower for longer’ tapering (as in December 2016), reducing the monthly QE purchases to €25bn and extending them until the end of 2018 at its next meeting on 26 October. In addition, we expect Draghi to emphasise ‘sequencing’, ie, the fact the ECB will not raise interest rates before the end of QE.

Expect a one-off move in EUR/USD followed by range trading

We look for a knee-jerk reaction in EUR/USD higher, potentially testing the 1.20 level in response to the expected cut in QE from €60bn to €25bn per month. Yet the lower for longer QE anchoring the scale of Bund sell-off and Italian elections in early 2018, suggest only ‘one-off’ EUR/USD upside. We look for the cross to range-trade in coming months and only spike higher in 2Q18 once Italian election risk passes.

Scenario analysis: How to position for Draghi's alternatives

	Inflation outlook	Growth outlook	Reference to the EUR level	*QE taper* guidance			
Current stance	"Underlying inflation is expected to rise gradually"	"The risks… to growth outlook are broadly balanced"	"Volatility in exchange rate is source of uncertainty …"	"Bulk of decisions [on QE] will be taken in October"	EUR/USD	Short-term German yields	Long-term German yields
Dovish	Transitory factors keeping **inflation low** are here to stay	Risks to the growth outlook **to the downside**	**Exchange rate is downside risk** to growth outlook	40bn pm over 1H18 & hint at more over 3Q18 period at least	**1.16**	**Flat**	**flat**
ING Base Case	Underlying inflation still expected to rise **only gradually**	Risks still balanced, emphasise **slack in economy**	**Unwarranted tightening** of monetary conditions	**Lower for longer, EUR 25bn** until **end 2018**; total 300bn	**1.20**	**Flat**	**+5**
Hawkish	First signs of **underlying inflation picking up**	**Recovery improved,** risks still balanced	The EUR level is a **reflection of fundamentals**	Lower for *less* longer until Sep 18, total of EUR 225bn	**1.21**	**+5 bp**	**+10 bp**
Very hawkish	Optimistic that **inflation will return to 2% by 2019**	"**Risks** to growth outlook are **balanced**"	The current EUR level **not a concern** to the Gov Council	QE ends in June 18, total less than 200bn euro	**1.23**	**+10 bp**	**+20 bp**

Source: ING

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