

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	EUR/USD	Short-term German yields	Long-term German yields
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"			
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

Author

Carsten Brzeski

Global Head of Macro

carsten.brzeski@ing.de

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>.