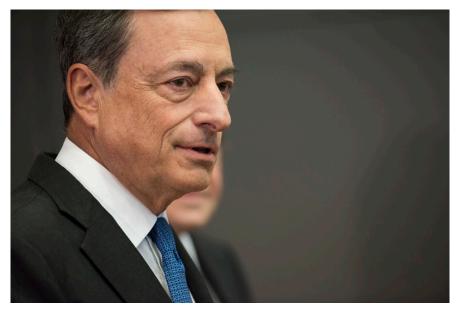


The ECB's scenario analysis dashboard

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



Source: ECB

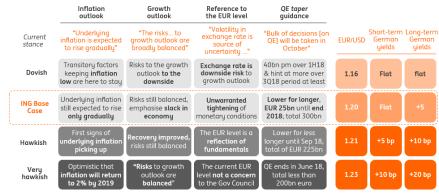
Expect a 'lower for longer' taper

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 <u>ECB</u> <u>Preview</u>, 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 \in 60bn to \in 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



Source: ING

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