

Dancing to Draghi's tunes

It's ECB day today, here are some of my lyrical thoughts



While President Draghi didn't quite deliver the hotly anticipated sequel to his **'whatever it takes'** speech at Jackson Hole last month, today's policy meeting gives him an opportunity to take one of two positions:

1. Shed some light on the future potential policy normalisation options available, or
2. Stay tight-lipped as the Governing Council has yet to come to any meaningful consensus about how best to proceed next.

If the goal is to curb the current market optimism, then the former option – and providing some clarity and reassurances that the exit from unconventional monetary policy will be very gentle – may be the better road to take. Sure, it may cause a knee-jerk move higher in the EUR, but this would quickly fade if – [as our economists suspect](#) – the ECB's tapering options will err on the dovish side of the spectrum.

Conversely, in a market where the general presumption for the EUR in recent months has been **'the only way is up,'** saying nothing – and keeping investors guessing – will do little to temper some of the more hawkish tail risks being priced in. In this scenario, a buy-on-dips strategy for the EUR will remain in place, with market bulls still singing to the tune of **'you say it best when you say nothing at all'.**

Either way, central bankers are quickly learning **'they can't always have what they want'**. With a sizable chunk of the EUR/USD move towards 1.20 a function of US and global politics, the role of the ECB may now be reduced to playing second fiddle - at least in the immediate future.

P.S. There is a third option - one where Mr Draghi says **'there ain't no stopping us now'** when it comes to tapering. This gung-ho approach seems highly unrealistic, though as we've seen with the [Bank of Canada](#) - not all central bankers are averse to a strong currency these days.

Bottom line

The house view is for EUR/USD to break 1.20 today as this seems to be the inevitable direction of travel. However, the extent of the move above here - and whether we can stay there - will depend on the rhetoric of Mario Draghi.

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