

## Hot air: Markets gyrate following comments from ECB, Trump and Trade hopes

Draghi raises prospects of ECB action as the base case for markets, Trump counters with criticisms of currency manipulation. Trade hopes rise on the prospect of "extended meeting". Pre-Fed thoughts...



ECB President, Mari Draghi

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### Draghi delivers punchy message

Draghi will likely be missed when he does step down later this year. His ability to both read markets, and then to deliver what they want to hear, and usually a bit more, has been unrivaled in the ECB's short history. Yesterday, in Sintra, Portugal, Draghi outlined that further stimulus measures would now follow if the economy did not show some signs of improvement. In other words, this is the base expectation. Nothing needs to happen for more stimulus to happen. Rather, something needs to not happen.

As ever, [our Eurozone economists are all over this in a note from yesterday](#). The big question remains what form of additional action this will take. My view, for what it is worth, is that it won't be forward guidance alone. That is far too weak, and actually requires the market to be overly

hawkish (which it isn't) to have any meaningful impact. So further rate cuts, or asset purchases would be the more likely direction of travel. My colleagues also offer some thoughts too on the timing. Of course, this remains somewhat speculative, but they are not ruling out something as early as July.

One other very interesting snippet of the conference, was the hint that the ECB might consider hitting its inflation target "on average", which makes it far more like a price level target. It also means that having been so far below target for so long, monetary policy might not need to be tightened for a very long time following a return, or even overshoot of the target.

Eurozone government bond yields are lower today. I count four offering negative yields on the 10Y government benchmark (Germany, Netherlands, Austria, and Finland). French 10Y Government bond yields are virtually zero. In contrast, in pre-Brexit-Britain, yields are 0.80%.

## Trump unhappy with Draghi

Not everyone is impressed with Mario Draghi. US President Trump isn't and sees this as an unfair attempt to undermine US competitiveness. The EURUSD is a bit weaker at just under 1.12 on the back of the Draghi comments, and might have weakened a bit more but for President Trump's intervention.

Meanwhile, one day ahead of the FOMC meeting, I can't see any tweets exhorting the Fed to cut rates from the US President. Though there is an interesting story doing the rounds on newswires that the White House is considering demoting Jerome Powell. [Here is a link to one of the many articles covering this subject.](#)

It seems a bit unfair to consider what the FOMC will do tomorrow with this existential threat hanging over them, and over Powell in particular. Our US economist team has been looking at this, and [in particular what a down-shift in the dot-plot diagram might mean](#). Their conclusion, this would be pretty negative for the USD, even if, as they suspect, rates were not actually cut this time round.

## Trump, Xi, to hold "extended" talks in Osaka.

The dollar might also be softer on the more positive language emerging on trade, as US President Trump and President Xi agree to hold "extended" talks in Osaka on the Trade conflict. Given recent downbeat comments from the US Trade Representative and the fact that China and the US are still poles apart on some pretty serious issues, we are not getting our hopes up for any meaningful resolution on this. We have been here many times before, as has the market, and so such "good" trade news usually seems to front-run "bad".

## Brexit - if you still care (I do, but it is beginning to bore me)

The UK Conservative Party leadership campaign has eliminated some further candidates overnight, including the former Brexit Minister, Dominic Raab. Boris Johnson remains at the top of the polls, but Rory Stewart, an interesting candidate who has taken the rare step of not letting his comments be dominated by dogma, has pushed up the rankings. Stewart, it has to be said, will be a difficult choice for the rank and file Tory membership, for whom a hard Brexit might well be the preferred option - and hang the consequences.

[I've included a link to the left-of-centre Guardian today](#), though there are heaps of other stories you can read on this. I would regard any sterling strength on the back of Stewart's ascendancy as transient.

## I'm a Libran (no really, I am)

And finally, I don't understand cryptocurrencies, I suspect I will never really feel confident talking about them. But here at ING we are not all dinosaurs like me. Two of my colleagues do understand this stuff and [have written about Facebook's new digital currency, Libra here](#). This is well worth a read if you, like me, regard these near-money substitutes with inherent suspicion.

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