

## Draghi Seen Putting a Lid on Euro as Traders Test Pain Threshold

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- September meeting crucial for hints on next policy steps
- UBS says Draghi 'needs his talent' to stop currency's rally

The chances of verbal intervention from European Central Bank President Mario Draghi against the euro's appreciation increased after the currency climbed to its strongest level in more than two years versus the dollar, according to foreign-exchange strategists.

The currency, which broke above the psychological \$1.20 level for the first time since January 2015 on Tuesday, may see some profit taking in the near term, but banks have no doubts its trajectory remains bullish going forward, triggering an unwelcome tightening of financial conditions in the euro region.

"The question is now what the European Central Bank will do in September to calm down the market," Thomas Flury, global head of currency strategy at UBS Group AG, said in a phone interview. "Draghi really needs his talent to stop the move in euro-dollar."



The euro has gained more than 14 percent versus the dollar this year amid speculation the ECB will outline its intent to scale back its extraordinary package of quantitative-easing measures in the autumn. The ECB's next policy announcement is due on Sept. 7.

Here is a selection of analysts' views heading into the meeting:

### UniCredit SpA

- The ECB may make some references to the exchange rate that could effect -- lessen or even halt for the next few months -- the pace of appreciation, but a meaningful reversal remains unlikely, London-based strategist Vasileios Gkionakis said in emailed comments

- Sees upside risks to forecasts of 1.20 and 1.25 for euro-dollar by the end of this year and the next, respectively

### **Credit Agricole SA**

- In the coming days, the key question for the currency markets will be what is Draghi's euro-pain threshold, London-based strategist Valentin Marinov said in a note to clients
- The sharp euro appreciation in recent months may have pushed the currency very close to, if not above, that threshold and the combination of persistent currency appreciation and oil-price deflation could pose significant downside risks to the euro-zone inflation outlook in the next 6-12 months
- Further euro gains in the near term could increase the risk of a very vague and noncommittal communication, or even an outright delay of any quantitative-easing taper announcement on Sept. 7
  - Profit-taking could push euro somewhat lower more broadly going into the ECB September meeting

### **UBS**

- The market might continue to test the ECB's patience and try to follow up on the current rally heading into the September meeting, Flury said in a phone interview
- Draghi needs support and coordination from all members of the Governing Council before he can say some remarkable comments to halt the euro's rally
- Buying euros, even at this level, should be a profitable investment over the next 1-2 years. Still, over the next 1-2 months, it might be tricky to chase the currency higher, given that the ECB's is targeting inflation

### **Danske Bank A/S**

- The pace of EUR appreciation should pose a rising problem for the ECB and we wouldn't be surprised to hear Draghi mention this at the September meet, putting a lid on the pair in the near term, chief currency analyst, Christin Tuxen, said in emailed comments

### **ING Groep NV**

- The ECB's preference will be for a cautious tapering, with a very gradual withdrawal of some monetary stimulus that ideally doesn't cause any tightening of financial conditions, economists said in a note to clients
- Given the growing likelihood of the dovish form of QE tapering, the bank sees a more fundamentally justified and persistent euro upside to be a story of mid-2018 onward, strategist Petr Krpata wrote in a separate note

### **Societe Generale SA**

- Although the euro broke to new highs after Draghi's speech, we still believe euro appreciation will be slower from here on and recommend option structures that benefit from this, strategists say in a note

