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ECB to set up October rendez-vous?

ECB Preview: Direction of travel but no details - We think that the ECB will set out a detailed plan to taper its asset purchases in October. However, we expect it to give guidance of the direction of travel at Thursday's press conference. For instance, it could alter its forward guidance on QE, to omit the suggestion that it would increase the pace of asset purchases, while maintaining that it could extend their duration. ECB President Draghi could also signal that the central bank would alter the pace of asset purchases after December, though it would be a gradual process. In addition, he may communicate that the details will follow at the next meeting. Finally, the ECB will likely stick to the forward guidance on interest rates, that they will remain at current levels until well after asset purchases end. One of the reasons for signaling a slow exit is to try and limit future euro strength. The central bank will not want euro strength to go significantly further as it will start to have a more material effect on its already low inflation outlook. It may choose to more explicitly mention further euro strength as a downside risk as it would tighten financial conditions. Although the ECB can dampen the euro via its communication, it would have limited tools to turn the tide in the case of – for instance – a more significant bout of dollar or sterling weakness. For a more detailed preview, see our note [here](#). (Nick Kounis)

Euro Macro: Dip in German factory orders will not last – Germany's factory orders unexpectedly declined in July. They fell by 0.7% mom, following a 0.9% rise in June (revised from 1.0%). As the series is notoriously volatile, we have looked at the 3month-over-3month growth rate to get a better picture of the underlying trends. This growth rate declined to 0.4% in July from 0.8% in June. The detailed data show that the weakness was concentrated in foreign orders for consumer goods, which soared in the spring and have been weak ever since, as payback. In contrast, domestic orders for consumer goods remained strong and grew by 2.1% 3m-o-3m in July. Another sign of strength in the details of the orders data is that both domestic orders and eurozone orders for capital goods continued to expand solidly (domestic + 0.9% 3m-o-3m in July and eurozone + 1.9%), which is in line with our view that fixed investment growth in the eurozone will gather momentum in the coming quarters. Overall, Germany's industrial sector is benefiting from robust growth in the eurozone and the global economy in general, while the impact of the stronger euro will probably not be felt until around the end of this year. Indeed, surveys such as the Ifo business climate for the industrial sector and the manufacturing PMI have been moving higher since the start of this year and are currently all at levels consistent with strong growth in Germany's industrial sector. (Aline Schuiling)

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