

G10 FX Weekly

ECB pushes euro down

Group Economics
Macro & Financial Markets Research

Georgette Boele, +3120 629 7789
Roy Teo, +65 6597 8616

22 October 2015

- **ECB pushes down the euro**
- **Meanwhile, the US dollar firms ahead of FOMC and Q3 GDP**
- **Canadian dollar slides as GDP downgraded**

Dovish ECB pushes down euro

In ECB's press conference, President Draghi struck a very dovish tone, which pushed down the euro. Draghi signaled strongly that QE will be stepped up in December. Moreover, he said that a deposit rate cut was also being discussed as one of the possibilities. During the press conference EUR/USD dropped from above 1.13 to below 1.12 or more than 1%. Our base case, which we call QE Plus, is that the ECB will both step up and extend its QE programme at the December meeting. This should weigh on the euro while the further pricing out of a Fed rate hike this year should balance the ECB's action. Therefore, our target for EUR/USD for the end of 2015 is 1.12.

US dollar firms ahead of FOMC and Q3 GDP

The US dollar recovered in the past week as FOMC meeting on 28 October and US Q3 GDP on 29 October come into focus. The FOMC is widely expected to keep monetary policy unchanged, though their forward guidance will be crucial for the US dollar's direction. A signal by the FOMC that a rate hike is still on for this year and/or a stronger than expected US GDP reading, will likely support the dollar across the board. However, our base case is that the Fed will delay, which should limit the US dollar's upside.

Canadian dollar slides as BoC downgrades GDP forecast

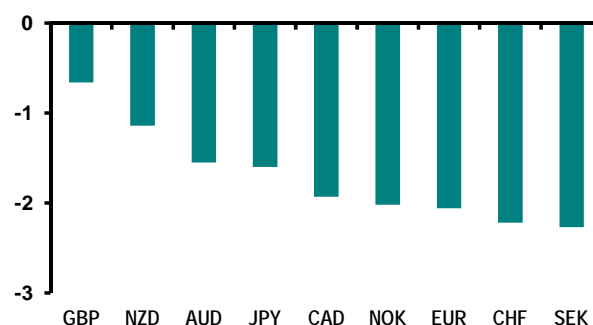
The Canadian dollar (CAD) moved higher after the Liberal party and their leader Trudeau won the general elections and promised to stimulate the economy via infrastructure spending. But lower oil prices and a more dovish Bank of Canada (BoC) weighed on the CAD. However, the BoC signaled that it is unlikely to ease monetary policy rates any time soon as the full effects of 50bp rate cuts earlier this year have not fully filtered through the economy. Hence, we now think that the BoC will keep monetary policy unchanged in 2015 and 2016 (in line with the market), compared to our previous call for a 25bp rate cut this year. Nevertheless, we maintain our view that the CAD will underperform against the US dollar due to growth and monetary policy divergence between the US and Canada.

BoJ to keep QQE unchanged, dovish bias

We expect the Bank of Japan (BoJ) to keep monetary policy unchanged next week on 30 October. This is widely priced in by financial markets given that short term implied volatility in USD/JPY remains low. However, we expect the BoJ to signal that risks to their inflation target of 2% by the second half of 2016 have increased. Hence this would pave the way for an enhancement of BoJ's qualitative and quantitative (QQE) easing program by early 2016. We expect the JPY to decline to 122 and 135 against the US dollar by the end of 2015 and 2016, respectively, as interest rate differentials between the US and Japan widen.

US dollar in favour

In %, with USD as basis



Source: Bloomberg, ABN AMRO Group Economics

ABN AMRO major currency forecasts

	22-Oct	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
EUR/USD	1.1178	1.12	1.10	1.05	1.00	1.00
USD/JPY	120.27	122	126	130	133	135
EUR/JPY	134.43	137	139	137	133	135
GBP/USD	1.5401	1.56	1.55	1.50	1.45	1.47
EUR/GBP	0.7258	0.72	0.71	0.70	0.69	0.68
USD/CHF	0.9713	0.98	1.00	1.07	1.14	1.15
EUR/CHF	1.0856	1.10	1.10	1.12	1.14	1.15
AUD/USD	0.7222	0.70	0.68	0.66	0.64	0.62
NZD/USD	0.6787	0.64	0.62	0.6	0.58	0.58
USD/CAD	1.3110	1.33	1.35	1.37	1.39	1.41
EUR/SEK	9.3897	9.50	9.50	9.50	9.50	9.50
EUR/NOK	9.2294	9.50	9.25	9.00	8.75	8.50
EUR/DKK	7.4594	7.46	7.46	7.46	7.46	7.46

Source: ABN AMRO Group Economics

Find out more about Group Economics at: <https://insights.abnamro.nl/en/>

This document has been prepared by ABN AMRO. It is solely intended to provide financial and general information on economics. The information in this document is strictly proprietary and is being supplied to you solely for your information. It may not (in whole or in part) be reproduced, distributed or passed to a third party or used for any other purposes than stated above. This document is informative in nature and does not constitute an offer of securities to the public, nor a solicitation to make such an offer.

No reliance may be placed for any purposes whatsoever on the information, opinions, forecasts and assumptions contained in the document or on its completeness, accuracy or fairness. No representation or warranty, express or implied, is given by or on behalf of ABN AMRO, or any of its directors, officers, agents, affiliates, group companies, or employees as to the accuracy or completeness of the information contained in this document and no liability is accepted for any loss, arising, directly or indirectly, from any use of such information. The views and opinions expressed herein may be subject to change at any given time and ABN AMRO is under no obligation to update the information contained in this document after the date thereof.

Before investing in any product of ABN AMRO Bank N.V., you should obtain information on various financial and other risks and any possible restrictions that you and your investments activities may encounter under applicable laws and regulations. If, after reading this document, you consider investing in a product, you are advised to discuss such an investment with your relationship manager or personal advisor and check whether the relevant product –considering the risks involved- is appropriate within your investment activities. The value of your investments may fluctuate. Past performance is no guarantee for future returns. ABN AMRO reserves the right to make amendments to this material.

© Copyright 2015 ABN AMRO Bank N.V. and affiliated companies ("ABN AMRO").