

Euro Climbs as Draghi Cites Autumn Decision on Bond Purchases

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By Stefania Spezzati

(Bloomberg) -- The euro rallied to the highest in almost two years after President Mario Draghi said the European Central Bank would take a decision in the autumn on any change in its language on bond purchases.

The common currency broke through \$1.16 after Draghi said at a press conference that the euro's recent re-pricing has received "some attention" without specifically saying he was concerned about its strength. Bonds rose, led by Italy, which has been a key beneficiary of the bank's asset-buying.

"Draghi had a chance to talk the euro down and he didn't,"

Athanasios Vamvakidis, a strategist at Bank of America Merrill Lynch, said in emailed comments.

The euro advanced 1 percent to \$1.1635 as of 4:00 p.m. in London, after reaching \$1.1658, the highest since August 2015.

The currency has advanced more than 10 percent this year, partly on speculation that a tapering of bond purchases is drawing closer.

The euro earlier declined as the Governing Council repeated that it expects borrowing costs to stay at present levels for an extended period of time and that it is prepared to increase the size or duration of the asset-purchase program should the economy take a turn for the worse.

Spanish and Italian bonds outperformed, with yields falling around seven basis points, as they won a summer respite from any ECB discussion on curbing bond-buying. The ECB has favored buying Italian securities in recent months as it combats a shortage in the euro region's sovereign debt.

"Draghi seemed to try and downplay the anticipation for September and suggested they may try to drag this decision out,"

Richard Kelly, Toronto-Dominion's head of global strategy in London, said in emailed comments. "He also made pretty clear that there is little appetite for any significant tapering at this stage."

The ECB maintained its deposit rate at minus 0.4 percent, kept the main refinancing rate at zero and retained its commitment to buy 60 billion euros (\$69 billion) of debt a month until at least the end of the year.

* The cautious, yet not overly dovish statement, was enough to keep the euro bid as the tapering is coming, despite Draghi doing his best to keep his options open and not pre-committing to any dates for an announcement, ING analyst Petr Krpata said in e-mailed comments

** Expects an overshoot of its 1.15 target in coming months, with the next level to watch being 1.1700, he added

* Draghi stated that the message delivered in his Sintra speech and in the June meeting “were not very different”, Barclays strategist Philippe Gudin wrote in a client note. This implies some “downplaying the hawkish interpretation that some made of his Sintra speech”

** Expect changes to bond-buying program to be discussed in autumn, before an extension into 2018 at a pace of 35-40 billion euros per month for the first half of the year, then scaling down to 15-20 billion per month in the second half, he adds

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