Mme. Lagarde's First Test?

ECB President-designate Christine Lagarde is an experienced multi-national diplomat, well-respected among her peers around the world.

Although she doesn't have central banking experience, she was French finance minister for 4 years on the eve of the Eurozone crisis and most recently had been the Managing Director of the IMF for 8 years until she resigned today. It could be argued that the ECB's President will need to be as much of a deal-maker as a monetary policy specialist.

Although the day featured promising news on the Italians' budget situation, slowing growth and accounting realities could come back to bite Italian PM's Salvini's rosy outlook and combative rhetoric. Anti-Euro (and indeed Anti-European Union) sentiment in Italy is still strong and any standoff between Rome and Brussels will necessarily bring the Frankfort-based central bank into the picture.

Should the bond market begin to doubt Italy's sustainability, the Euro would also likely become entangled.

Today's chart shows the tight correlation between the BTP-bund spread and the Euro during the most recent budget standoff. While Italian debt recently has rallied along with the rest of the global bond market, renewed stress cannot be ruled out, and the ECB's new President will probably quite be busy during that period and forced call on her years of European political experience.

BTP-bund spread and EURUSD
BTP-bund spread vs EUR

SOURCE: Bloomberg; data as of 1 July 2019

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