

FX Daily: Dollar may remain offered ahead of US payrolls

The soft dollar environment may continue in the run-up to tomorrow's US payrolls, as markets are becoming more doubtful about the Fed announcing tapering in September. EUR/USD may stay supported along with AUD and NZD (as they appear unreactive to China's weak data for now). CAD, instead, may still be held back by a mix of worsening idiosyncratic factors



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⬇️ USD: Struggling to recover

The soft dollar environment was further fuelled yesterday by weaker-than-expected US ADP payroll, which raises concerns that tomorrow's official jobs figures won't be strong enough to convince the Fed to announce tapering in September (and start in November). Given the predominance of jobs figures in recent Fed communication, the Fed rate expectations found no support from the above-consensus ISM manufacturing numbers.

With this in mind and no market-moving data in the US today, we see a greater likelihood of the dollar staying generally offered today rather than showing signs of recovery. Markets will keep an

eye on potential comments by Fed's Raphael Bostic and Mary Daly on the day, although they participate in non-policy-related panels.

In G10, the AUD and NZD dollar have been the major beneficiaries of the current soft dollar environment, largely overlooking lots of bad data that incidentally failed to put pressure on CNY or hinder the rebound in Asian EM currencies. Despite yesterday's jump in AUD - which was helped by good but outdated 2Q GDP data and possibly some short-squeezing - we continue to see NZD (which is backed by an imminent tightening cycle) as a likely outperformed given that we expect markets to take advantage of stable sentiment to seek attractive carry.

The other commodity currencies, including CAD and NOK, have struggled to enter any steady upward trend this week, with yesterday's OPEC+ decision to stick with their planned 400k bbl per day output hike in October also curbing gains as oil prices edged lower.

⬆️ **EUR: Finally, some EUR-specific bullish sentiment emerging**

Thanks to some hawkish ECB voices becoming louder as inflation rose again in August, the euro has started to show some idiosyncratic support. All this is likely driving speculation that we may at least see some opposition to the very dovish policy line as the ECB meets next week.

With USD that may stay broadly offered into tomorrow's NFP, EUR/USD may approach the late July 1.1890 highs today. If payrolls eventually come on the soft side, a break above 1.1900 may well be on the cards.

Elsewhere in Europe, we'll watch Riksbank's Governor Stefan Ingves speech on monetary policy. However, the risk of any hawkish tilt in the currently very cautious stance seems unlikely, and the SEK rate profile is set to remain unattractive for longer.

➡️ **GBP: Not much room for an extended drop in sterling**

Some EUR-specific strength has pushed EUR/GBP all the way to the 0.8600 resistance. A break above that level could see the pair staying supported for a bit longer, but currently we do not see a strong case for GBP weakness and therefore for an extended rally in the pair.

➡️ **CAD: Markets starting to question BoC tightening plans**

This week, the Canadian dollar has lagged in the pro-cyclical segment, with USD/CAD still struggling to stage a decisive move below 1.2600 despite a generally weaker dollar. As mentioned in the USD section above, yesterday's OPEC+ decision to keep hiking output in October sent some shockwaves into the oil market and added to the loonie's choppy environment.

However, domestic factors appear to be weighing on CAD at the moment. A surprising contraction in 2Q activity has likely prompted some reassessment of the Bank of Canada rate expectations. Next week's BoC meeting should see policymakers pause before the more critical October meeting, and it will probably be up to jobs data released later next week to tell us more about possible policy direction.

There is also the possibility that CAD is discounting some political risk as incumbent PM Trudeau's Liberal party has lost some consensus in opinion polls, which raises the risk of them falling short of a parliament majority at the 20 September elections.

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