

FX Daily: A payrolls miss will do more damage to the dollar

This week's FX price action has been dominated by two stories: the re-rating of the euro on the back of looser fiscal and tighter monetary policy expectations and the weaker dollar. Today's focus will be on the US currency and whether a soft February jobs report merely adds to fears of a sharper US slowdown



➔ USD: The dollar is fragile

This week's events have added to the appeal of FX as an asset class. We have seen two completely independent stories emerge in the US and Europe, narrowing the wedge between growth, interest rates and currency valuation. Here the new US Administration's highly uncertain tariff policy looks to be damaging confidence and impacting activity. My colleague, James Smith, made a great point this week referring to Brexit; UK investment slumped in the run up to the anti-EU vote given the uncertainty. However, it rebounded strongly even after what was perceived as a bad trade deal was signed. The same can be true of the US, where businesses and consumers just want some certainty and are not getting it so far.

Some softer US data and the year-to-date fall in US equities have seen short-dated US swap rates - so important for dollar pricing - drop 45bp from last month's peak. Markets are now starting to push the terminal rate for the Fed easing cycle under 3.50%. Maybe this has come a little too far, a little too fast, but today's February jobs number should have some say about that. The market looks to be positioned for some soft data. The consensus is for a 160k gain and the unemployment rate to stay low at 4.0%. The Bloomberg whisper number is 120k and ING's James Knightley, is also looking for a softer headline figure and a slight rise in the unemployment rate. Some fear that weather plus changes in government education funding will be a drag on the headline number. However, the impact of the DOGE government job cuts may not emerge for another couple of months.

The dollar is fragile and would be hit by a soft number. However, the DXY has already seen its biggest weekly drop since November 2022 (3.5% versus 4.2%) and current long dollar positioning is probably nowhere near where it was in late 2022 after a two-year dollar rally. 104.00 looks decent support in DXY, but unless we get a big downside miss in today's jobs reports, a little consolidation in the 103.75-104.50 area may be the order of the day. Given this week's events and the fact that DXY is heavily weighted towards European currencies, it seems fair to say that DXY has now topped for the year.

Chris Turner

EUR: Major re-rating is underway

ING's macro and market team have looked through this week's European events [in this article](#). Some of our main conclusions are that:

1. If passed in full, the German infrastructure fund could add 1% p.a. to German growth,
2. The ECB's terminal rate for the easing cycle will be 2.25% not 1.75%,
3. The decline in views of secular stagnation in Europe can see the 10 year EUR swap rate (now 2.70%) head to 3.50% and
4. Looser fiscal and tighter monetary policy in the eurozone have shifted our forecast EUR/USD range to 1.05-1.10 from 1.00-1.05.

In the short term, EUR/USD looks a little overbought and may struggle to get above the 1.0850/75 area. But there now should be good support in the 1.0670/0700 area and investors will now be looking to buy EUR/USD on dips given this week's developments.

If a major re-weighting of the euro is underway, which could be possible depending on the severity of US tariffs in April, then this will be played out against major trading partners. Looking at the weightings of the ECB's trade-weighted euro against 41 trading partners, the biggest weights in the index are USD and CNY at 15%, GBP at 10% and CHF at 6%. Beyond EUR/USD, we also think the market will start to focus on EUR/CNH upside. China has already been the recipient of 20% tariffs this year and more are likely in April. EUR/CNH moving to 8.00 and possibly the 2023 high at 8.12 looks the story for the next couple of months.

Chris Turner

CAD: Eyes on jobs data after tariff relief

The Canadian dollar rallied yesterday on the US announcement that USMCA-compliant products

would be exempt from tariffs until 3 April. Almost all US-Canada-Mexico trade falls under USMCA, even though not all exporters are compliant with the Agreement's rules. Markets had never priced in 25% tariffs as a long-lasting measure, and USD/CAD had already corrected from the highs before yesterday's move.

Today, we'll watch Canadian jobs figures for February ahead of next week's Bank of Canada meeting. Consensus is for a 20k change in employment, and we think we'll need to see a very strong figure to cast doubts on a cut next week.

We believe the downside risks for USD/CAD are limited given the prospect of Canada still being hit by reciprocal tariffs in April. A return to 1.44 in the coming weeks is entirely possible, but today's US payrolls can still add some pressure.

Francesco Pesole

CEE: Mixed drivers for now but FX should be stronger medium-term

The end of the week should bring at least some calm on the local side. This morning saw the release of the final 4Q24 GDP numbers in Romania and inflation expectations in Turkey. Otherwise the focus will once again be on the geopolitical story. The last two days have shown a significant repricing in CEE rates to the upside, following the EUR example. However, the entire region outperformed EUR rates leading to a significant narrowing of the rate differential. Still, we see that the drivers for CEE FX are mixed and the overall picture is blurred. On the one hand, European equities are showing continued positive sentiment and a higher EUR/USD is also positive news for CEE FX. On the other, a narrower rate differential is thus the main risk for CEE FX at the moment along with long positioning, especially in PLN and HUF.

If we only look at rate-implied value in our models, CEE should be weaker across the board with HUF probably the most exposed. However, if we consider the entire driver complex, our models point to some upside for PLN and CZK, while HUF seems fairly priced. Overall, we can be sure to see more volatility in the days ahead and the direction is very much dependent on incoming policy headlines. However, if we can pick a direction, CEE rates will see further repricing to the upside, which should keep CEE FX supported and we could see some gains later on given that at the end of the day German stimulus is a big win for CEE countries.

Frantisek Taborsky

Author

Chris Turner

Global Head of Markets and Regional Head of Research for UK & CEE

chris.turner@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. ("ING") solely for information purposes without regard to any particular user's investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit www.ing.com.