FX Daily: Bearish dollar momentum faces key payroll test

The post-FOMC hawkish repricing of Federal Reserve rate expectations is applying pressure on the dollar, although today's US jobs figures will be the real pivotal event for FX. Our call is for a slightly softer than consensus print at 210k, which can keep the dollar soft. In Norway, Norges Bank may have some reasons to turn slightly more hawkish

USD: Payrolls may finally start softening

The post-FOMC bias has been markedly bearish on the dollar, and despite the US payrolls risk event today, markets have continued to squeeze USD long positioning yesterday and overnight. The yen remains a major contributor to the soft dollar momentum. Earlier this week, we noted how USD/JPY was showing the same kind of dynamics around and straight after FX intervention in September 2022, when the pair had steadily ground higher in the period after Japan intervened to support the yen. However, the second round of JPY intervention in one week, deployed after a less hawkish than expected FOMC on Wednesday, has sent markets the message that the Ministry of Finance is less tolerant of a post-intervention depreciation of the yen this time. With the help of a rally in short-term USD swaps, USD/JPY is trading just below 153 this morning, around 4.5% below its 160 peak on Monday.

Today's US payrolls are a huge event for markets, as the details in the jobs report will be a key test to more optimistic bets on Fed rate cuts after Chair Jerome Powell defied the hawkish repricing of the USD curve. Fed funds futures are now again pricing in a rate cut in November, with the September contract showing -20bp and the July one -10bp. The dollar 2-year swap rate is down to 4.80% from 4.95% pre-FOMC, and applying material downside pressure on the dollar.

The consensus for today's April nonfarm payroll print is 240k, and our economist's call is 210k. The unemployment rate is expected to remain at 3.8%. We note that – despite the continued strength in the latest payroll prints – business surveys still point to a substantial slowing in employment. One of those surveys is the ISM, whose services component is also released this afternoon and expected to come in at 52.0, up from 51.4 in March.

Like in previous jobs releases, the discussion around data quality will be central. The payroll survey has continued to give contrasting indications to the household employment data, which has been much weaker since 4Q23. The household survey is thought to be missing a proper adjustment for rising immigration in the US, essentially underestimating the total workforce and showing inaccurately lower unemployment rates. On the other hand, payrolls may be doing some double counting as the number of Americans holding multiple jobs is at a 30-year high and the birth-death adjustment is generally considered to be pumping up the jobs figures. A convergence of any of those series towards the other would be a crucial development in the coming months.

All in all, our 210k call for payrolls means we do not expect today's data to dent the bearish dollar momentum as markets may fully price in a cut in September and keep short-term USD rates capped. CFTC data shows net-speculative positioning on the dollar versus reported G10 currencies was at 24% of open interest, the highest since June 2019, so the room for a further long squeeze in the dollar remains substantial should US data soften over the coming weeks.

Francesco Pesole

EUR: ECB-Fed divergence narrative crumbling

Yesterday, the European Central Bank's Chief Economist Philip Lane said there is no one-dimensional view of Fed-ECB divergence. What we are observing in markets over the past week is actually a convergence of both Fed pricing to the ECB's and a generally more cautious stance of ECB officials on the prospect of a large and quick cutting cycle beyond June. The dollar leg still has the biggest impact on EUR/USD, but the euro appears on more solid ground.

What we must highlight, at the same time, is that the euro has the lowest sensitivity to moves in 2-year USD swap rates across the whole of G10. That has allowed the common currency to outperform most other G10 currencies since the start of the year but is going to stay a laggard if US data endorses a further dovish repricing of Fed expectations.

Today, EUR/USD will be moved primarily by US jobs and ISM services releases. A softer-than-expected payroll print can unlock upside potential for the pair to the 1.0850/1.0870 pre-March-US CPI levels.

Francesco Pesole

NOK: Norges Bank might turn a bit more hawkish

Norway's central bank announces monetary policy this morning, and we see some risks that it will keep tweaking its messaging to the hawkish side. The latest indications from Norges Bank were that rates would be lowered in the autumn, and while Norwegian inflation and GDP were lower than expected last month, the repricing higher in Fed rate expectations in April and a weaker krone have cast clouds on any easing prospects.

On the currency side, daily FX purchases by Norges Bank have been increased by NOK 200m to 550m for the month of May. That remains substantially below the 1bn+ in the second half of last year, but the increase since April can still add some extra pressure in NOK downturns.

A softening of the commitment to cutting rates in October by Norges Bank today could prompt EUR/NOK to enter the US payroll risk event from the 11.70/11.75 area as opposed to the current 11.80, but ultimately the content of the US jobs report should have a substantially greater impact on NOK than domestic monetary policy events.

Francesco Pesole

CEE: The CNB will publish more details of the new forecast

The Czech National Bank yesterday cut rates by 50bp to 5.25% as expected, again sending a hawkish signal that further rate cuts will be cautious. In the new forecast, the central bank sees a stronger economy and at the same time lower inflation. On the other hand, the rate forecast has moved up significantly, with the bank board seeing a neutral rate of more like 3.5%, but in the model and at the end of the forecast (end-2025), the interest rate remains at 3.0%. The front of the curve has been repriced up, while the long end is down. This pushed EUR/CZK briefly below 25.0 for the first time since the February rate cut. In our view, at the moment, rate repricing does not justify such a strong movement in EUR/CZK and we continue to see levels around 25.10, but we will see today's rates opening, which may trigger another leg of movement. Also today, the CNB will publish more details of the new forecast and a meeting with analysts is scheduled, where the technical details of the forecast and probably also the analysis of the neutral rate will be discussed.

April inflation will be published in Turkey this morning. We expect the annual figure to rise to 69.3% in April (with a 2.9% month-on-month reading) vs 68.5% a month ago, below market expectations. Going forward, whether the central bank's unexpected and strong rate hike, large set of macro-prudential measures, and liquidity tightening will be enough to return inflation to its forecast range will be closely followed by the market.

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