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FX

FX Daily: Deteriorating jobs market to smooth dollar decline

Unofficial jobs reports (ADP, JOLTS, Challenger) have all pointed to a deterioration in line with rising Fed concerns. The focus for today's jobs report will be split between the headline August payrolls print, revisions and unemployment. We see mostly downside risks for the dollar (which already looks expensive) as bets on three Fed cuts can increase



The jobs data isn't weak enough to force the Fed to backtrack from recent hawkishness and cut rates in December

↓ USD: Room to fall today

We mostly see downside risks for the dollar today as the US releases jobs numbers for August. The first reason is that, according to our short-term valuation models, the dollar is already expensive against the G10 at current USD swap rate levels. Second, while a big payroll miss today should prompt a repricing to three Federal Reserve rate cuts by year-end (60bp priced in for now), a big upside surprise may be treated with much more caution, as markets might start to doubt the credibility of data under the new leadership at the Bureau of Labor Statistics.

Beyond the headline payroll figure (consensus 75k), it will be the two-month revisions that attract greater attention alongside increased focus on the unemployment rate

(consensus 4.3%), where any higher-than-consensus prints should have a magnified negative impact on the dollar. The reasoning is that while payrolls have slowed, that might be due to labour shortages rather than layoffs, which would instead be captured by a rise in unemployment. Fed Chair Jerome Powell himself tried to keep the focus on the jobless rate rather than payrolls before Jackson Hole.

Yesterday's ADP payrolls, which have proved to be a more reliable indicator of official payrolls after July's revisions, showed hiring was halved to 54k in August, below consensus. Earlier, Challenger reported the weakest hiring for August on record (since 2009) and the highest layoffs figure on record, excluding the 2020 pandemic. It all seems to point to a further deterioration in the jobs market, and the dollar's resilience relative to rates in the past week means – in our view- there is a good chance of retesting the 1 September 97.55 lows in DXY.

Francesco Pesole

↑ **EUR: Monday's vote in France shouldn't rock the euro**

Bloomberg's latest poll of European Central Bank forecasters shows expectations have turned markedly more hawkish. Consensus has cemented around the cutting cycle ending at over 2%, and expectations for rate hikes in the second half of next year have risen. Markets have continued to price out rate cuts, with only 8bp left in the December contract. So far, data has vindicated this view, but [our economists think](#) the debate on another cut may be more heated than expected, which means ECB meetings and subsequent off-meeting communication carry some downside risks for the euro.

However, for EUR/USD, it's still almost all about the Fed and US data, and we expect a return above 1.170 based on the dollar view discussed above. French politics – alongside any developments in Ukraine – remains the other important theme for the euro in the coming days. Expectations are for the French parliament to vote down Prime Minister Francois Bayrou on Monday, with a realistic scenario afterwards for President Emmanuel Macron choosing a new centrist or centre-right prime minister to deliver a watered-down fiscal consolidation package. Political uncertainty is set to remain elevated through this process, but we aren't sure that's enough to trigger any uncontrolled OAT swings and, by extension, significant pressure on the euro as the no-confidence outcome appears largely priced in. More on this [here](#).

Francesco Pesole

→ **CAD: Jobs data in focus today**

Canada releases August jobs data at the same time as the US today. Expectations are for a 5k rise in employment after the 40k contraction in July. Given the volatility of payrolls figures, more focus is on the unemployment rate, which at 6.9% is already well above the 2018-2019 levels but is expected to climb to 7.0%, with risks skewed to an even higher figure in our view.

While markets have brought forward expectations for the next cut to October, we think the probability of a move in September (15bp) is underpriced and we could see a dovish rerating after today's jobs numbers. Inflation slowed further below target to 1.7% in July, and core measures remain at a tolerable 3.0%.

We continue to expect CAD to be a laggard in the G10 space, although USD weakness should still keep USD/CAD capped to the 1.38 area in our view.

Francesco Pesole

📌 CEE: More room for rate cuts in Poland

Today, we have several economic data releases from Romania, Hungary, and the Czech Republic. However, this should not change the picture too much, and attention will mainly be focused on the US jobs data.

If anything, attention should still be focused on the National Bank of Poland and [yesterday's conclusions](#) from the press conference. Despite a hawkish start, Governor Adam Glapinski ultimately admitted that the central bank's next decision will essentially depend on the administrative decision on whether energy prices will be frozen from October or not. Given that we expect the government to pass the necessary legislation in September, we see the door open for another rate cut in October.

Possible interviews today with other MPC members may offer insights into the reaction function, which could help us read the reaction function here. Although the priced terminal rate of 3.75% seems low enough, the upward movement in rates in recent days suggests that a dovish press conference could bring receivers back into play and frontload rate cuts. Therefore, we no longer see room for EUR/PLN to go below 4.250 after yesterday's press conference. On the contrary, the interest rate differential now suggests a range of 4.260-270.

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