

FX Daily: Dialling back phase

The US payrolls release will drive all of today's trading across markets. Further evidence of US labour market weakness could help the dollar below key levels. On the other hand, a hawkish ECB supports a stronger euro and today's repricing can only further narrow the interest rate differential



📌 USD: At key level ahead of payroll data determining next path

With the payrolls data in the US calendar, we all know what today is going to be about. Our team is looking for a softer figure at +150k, which if seen should prove a modest negative for the dollar. The unemployment rate, which ticked up to 3.9%, is expected to hold steady there while wage numbers should remain subdued at sub 4% year-on-year. As always, the payrolls are a bit of a lottery, but the last few days of labour market numbers confirm that we are on an easing labour market trajectory.

While the median estimate for payrolls is +185k, there is a slight preference seen for a rather weak number if anything. On the other hand, markets have already priced in roughly 10bp of additional rate cuts this week with a total of 48bp for this year. Of course, there is room for more rate cuts to price in, but after the move in the last two weeks it will be significantly more difficult

unless the payrolls numbers surprise significantly to the downside.

We are bearish on the US dollar this week. However, so far it is bravely resisting further weakness. DXY has touched 104.0 for the moment, which seems like a key level for now. Today's payrolls could potentially be a trigger on the way down, but the move in recent weeks is already so impressive that we'll need a real reason to go down that route.

Frantisek Taborsky

EUR: Hawkish ECB drives euro to retest local highs

The European Central Bank cut interest rates by 25bp yesterday, bringing the deposit rate down to 3.75%. This did not come as a surprise and was indeed one of the best-telegraphed moves in monetary policy history, so the main question was whether the ECB would give any forward guidance on what is next. Of course, the situation can't be that simple. On the one hand we have the first rate cut, while on the other we have the increase in the ECB's inflation forecast. So, yesterday's rate cut does not necessarily mean more rate cuts in the future.

ECB President Christine Lagarde explicitly stated that the central bank was not precommitting to any particular path for rates, clearly refraining from giving any forward guidance. Lagarde's comments during the press conference – which pointed to a still-needed level of restriction, high data dependency and the fact that one member of the Governing Council was against yesterday's rate cut decision – suggested that the ECB has indeed not yet decided on any next steps.

Markets see the ECB as hawkish, and we found market rates higher across the curve after the meeting yesterday. Today, we are likely to see reverberations of yesterday's decision and more comments from the ECB that are likely to confirm the hawkish bias of officials. Putting this together, yesterday's narrowing of interest rate differentials against the USD already indicates a higher EUR/USD touching 1.090, and we could potentially see more in this direction if US data confirms a weaker labour market.

Frantisek Taborsky

PLN: Zero chance of rate cut this year

National Bank of Poland Governor Adam Glapiński sent out a hawkish signal again yesterday as expected, but he managed to raise the hawkish bar up another notch. Although inflation has been surprising to the downside in recent months and the risk of high inflation at the end of this year has diminished significantly, the NBP has maintained the steady message that we will not see rate cuts this year. That is our forecast as well, and we may not see a rate cut until 2025 when inflation turns back towards target.

As we mentioned in previous days, we still see value in the PLN. While conditions globally are favourable for the entire region, the PLN is the only currency that has the backing of the central bank, which is fighting hard against market expectations of pricing rate cuts. Prior to yesterday's press conference, the market was pricing in roughly 40bp rate cuts for this year. By the end of trading, it was down to 28bp and we are likely to see further paying flow today at the short end of the curve.

We think this will differentiate PLN within the CEE region, which is being driven by a weaker US dollar and risk-on sentiment. Additionally, we think the heavy long positioning from previous

weeks has eased following the sell-off and the PLN has a clearer path to stronger levels. EUR/PLN touched 4.280, taking it to the levels we mentioned earlier. However, the spike in rates quickly shifts the potential in our view and 4.260-270 EUR/PLN should be the next stop.

Frantisek Taborsky

CEE: Hawkish ECB adds fuel to the region

Today's calendar is rather light compared to a few busy days in the CEE region as of late. This morning, we could see details of first quarter GDP in Romania and industrial production in Hungary for April. Also worth mentioning are the European Parliament elections, which start today in some countries and will continue this weekend. In most countries within the region, this will be a way for the ruling parties to test their position ahead of the upcoming general or presidential elections.

CEE markets gained further ground yesterday as we expected, and today should be no different. A hawkish ECB and a stronger euro add to the positive risk-on sentiment in the emerging markets universe and the region should benefit further. However, unlike the PLN, the CZK and HUF cannot benefit from rising market rates and on the contrary, yesterday the interest rate differential tightened following the hawkish ECB. While we are also bullish here in general, unlike the PLN, we expect only short-term gains and prefer a more cautious approach.

Frantisek Taborsky

Author

Frantisek Taborsky

EMEA FX & FI Strategist

frantisek.taborsky@ing.com

Francesco Pesole

FX Strategist

francesco.pesole@ing.com

Chris Turner

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

chris.turner@ing.com

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