

## FX Daily: Dollar late to the party

Treasuries are hitting key levels on big US data surprises, but the dollar is not finding real support. The dollar may be mirroring some lingering reluctance to align with the dot plot's two hikes, but market conditions point to a stronger greenback in the near term, barring a substantial downside surprise in payrolls today. Watch jobs numbers in Canada too



Today's US non-farm payrolls figures are expected to show that unemployment in the US has ticked lower to 3.6%

### 📈 USD: Surprisingly soft

The large and unexpected jump to almost 500k in ADP private payroll numbers yesterday left clear marks across asset classes. Despite some recovery later in the session, US equities took a hit, and European ones closed with a nearly 3.0% loss. Treasuries are now trading around the two key benchmarks: 5.0% for the 2Y and 4.0% for the 10Y after a disastrous session for bonds.

This would appear to be the perfect recipe for a substantial dollar rally, which hasn't materialised however, and we are observing instead some dollar selling this morning. Indeed, the dollar had already moved in advance of yesterday's release as the minutes had offered clear hawkish hints on Wednesday. Incidentally, markets still appear unconvinced to fully price in two rate hikes by the Fed despite the strong ADP (which arguably aren't hard data, and have been misleading at times) and ISM services figures. The Fed funds curve has not shifted particularly higher, with the peak rate still seen at 36bp from here, so 14bp short of dot plot projections. In a way, the dollar might still be

mirroring that lingering market pricing-dot plot gap.

At the same time, the market backdrop does seem to point at dollar strength at this juncture, as we doubt this morning's mild USD correction will have legs unless US payrolls released later today move in the direction of ADP figures and surprise on the downside. The consensus for the headline jobs number is 230k, but may be higher after the strong ADP read. Unemployment is also expected to tick lower to 3.6% and some focus will, as usual, fall on wage growth.

Barring major disappointments, it should not take much to keep the Fed's hawkish narrative going, and markets should have room to keep inching closer to the pricing in two rate hikes. The path for a more supported dollar in the near term appears to be the most obvious one, in our view, and a return above 104.00 in DXY in the coming days looks likely.

*Francesco Pesole*

## ⬇ EUR: Not worth chasing it higher for now

EUR/USD was meant to be primarily a dollar story in the latter part of this week and the pair is finding some support due to the soft-ish USD momentum, despite strong US data. As highlighted above, we see a dollar comeback as likely, so we would be reluctant to chase a EUR/USD much beyond 1.0900. The current set of market conditions would suggest 1.0750/1.0800 to be a more appropriate trading range.

The eurozone calendar remains uninspiring from a data standpoint but there are some ECB speakers to monitor today. President Christine Lagarde will participate in a panel although it is unclear whether she will discuss monetary policy, and we'll also hear from Guindos, Stournaras and Nagel.

In the UK, the Bank of England published a survey of corporate pricing plans yesterday, which included some encouraging news for lower inflation. Our UK economist discusses [in this article](#) how Bank of England members – and markets – are losing confidence in these forward-looking indicators and at least two more 25bp hikes are on the cards. Still, the inflation picture should improve later this year, which means some pricing out of BoE rate expectations can come hitting the pound down the road. For now, it remains hard to see a sustained GBP downtrend.

*Francesco Pesole*

## ➡ CAD: Jobs numbers in focus ahead of BoC meeting

Jobs figures will be released in Canada too this afternoon, in what will be the last major data release before next Wednesday's Bank of Canada meeting. Back in May, jobs figures surprised on the downside, with a 17k drop in hiring, adding doubts to whether the Bank of Canada (BoC) would deliver a back-to-back rate hike in July.

Today, the consensus is expecting a robust headline number (20k), despite a marginal tick-up in unemployment to 5.3%. We are still inclined to think a print-around consensus should be enough to convince the BoC to hike next week, which is around 60% priced in, suggesting some upside risks for CAD (mostly in the crosses, given our view for a USD rebound in the near term).

*Francesco Pesole*

## CEE: Negative global sentiment drivers sell-off in region

This morning, Romanian GDP for the second quarter posted a slight upside revision. June inflation in Hungary showed a drop from 21.5% to 20.1% year-on-year, in line with market expectations. Later today we will see May data from industry, construction and foreign trade in the Czech Republic. The PMIs suggest a further decline in industrial production, which is also the market's expectation. On the political side, the Hungarian parliament will today vote on next year's budget. S&P's rating review of Hungary will also be published after the close of trading today. The agency downgraded the rating in January to BBB- and so we cannot expect any changes this time.

The highlight of today, however, is likely to be Governor Adam Glapinski's press conference following yesterday's decision by the National Bank of Poland to leave rates unchanged. We expect the tone to be more dovish than a month ago. It is possible that Glapinski will prepare the ground for interest rate cuts after the summer. We maintain our view that rate cuts are possible after the holidays, i.e. in September and October.

CEE FX took another hit yesterday coming from the negative sentiment in global markets, which seems to be the main driver of the current sell-off at the moment. The market opening indicates an improvement in sentiment and so we can expect some gains in the region finally. However, the focus today will be on US payroll data, which will likely decide the next direction. At the moment we don't see too much negative news coming from the local story to justify the current FX weakness. Thus, we see an opportunity to unwind the heavy long positioning, especially in PLN and HUF ahead of a later recovery which we believe will come due to still high carry in the region.

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