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FX

## FX Daily: Dollar rally doesn't require exceptional jobs data

The sell-off in bonds has continued to offer support to the dollar, with DXY touching 110.00 yesterday. Today, we think that a decent US jobs report (we expect 250k) might be enough to cement 75bp September hike expectations and keep the bullish sentiment on the dollar alive. USD/JPY acceleration above 140 may revamp risk of FX interventions



Will today's US jobs data be enough to trigger another bullish dollar reaction?

### 📈 USD: Decent payrolls may be enough to keep supporting the dollar

The ongoing major bond sell-off continues to have a net-positive effect on the dollar, and DXY briefly traded at 110.00 yesterday after another drop in all G10 currencies against the greenback. All considerations on whether the dollar rally is truly overstretched and bound for correction will likely have to wait for today's jobs numbers out of the US.

This is because the current market pricing for the Fed rate path still leaves some room for hawkish re-pricing. A 75bp rate hike in September is not fully in the price (currently 68bp), and despite the recent flattening in the rate expectations curve, further evidence of tightness in the jobs market can encourage speculation about a 4.0%+ peak rate and/or prompt the residual

rate cuts (worth around 35bp) for 2023 to be priced out.

The question now is whether jobs data will be enough to trigger another bullish dollar reaction. Our US economist expects a 250k headline read today: a widely expected slowdown from July's 528k surprise, but with the unemployment rate staying at 3.5%, no slowdown in wage growth and the lack of qualified staff still being the main hindrance to job growth, the overall message for investors may still be broadly encouraging. We suspect that the actual consensus is lower than the 300k indicated by major data providers, as the ADP numbers released earlier this week likely triggered revisions lower in market expectations.

Our suspicion here is that the market may not really need a big surprise to fully price in a 75bp hike in September, and a respectable jobs report may be enough to trigger another leg higher in the dollar today. A break above 110.00 in DXY may unlock further upside for the dollar.

*Francesco Pesole*

### ↓ **EUR: Ready to re-test 0.9900**

The main data release to watch today in the eurozone is PPI figures for July, which should mark a clear acceleration although will likely have limited market implications.

EUR/USD has recovered a bit of ground in overnight trading, likely on the back of the news that Russia should resume gas flows through the Nord Stream pipeline at 20% of capacity on Saturday. It is, however, a quite limited positive reaction by the euro, which likely denotes how markets remain very cautious to price out the risks of a complete cutoff in gas supplies in the coming months.

As per the USD section below, we see the potential for another round of dollar appreciation today after the NFP, which may force a re-test of 0.9900 in EUR/USD before markets close for the weekend.

*Francesco Pesole*

### ↓ **JPY: Getting too weak for comfort?**

USD/JPY pushed above 140 yesterday without much fanfare. Shorter-dated implied option volatilities were still around the 12% area (versus 15%+ a few months ago) suggesting investors have downscaled fears over possible Japanese FX intervention to sell USD/JPY. While we all acknowledge that Japanese authorities would be trying to turn back the tide here (USD/JPY is above 140 for good macro reasons) we should not discount intervention completely.

The last time USD/JPY was above 140 in the late 1990s, the Japanese were intervening. Any sharp near-term move to the 142/143 would probably spark a much sharper verbal protest

from Japanese authorities and put intervention back on the agenda.

*Chris Turner*

### 📌 CEE: US dollar strikes back

Friday's calendar in the region is empty and CEE FX should absorb yesterday's drop in EUR/USD. Additionally, today's US payrolls could come into play and potentially trigger this week's gains correction. As we mentioned [yesterday](#), we see the gains of recent days as overdone, leaving the region vulnerable to global news flow.

We see the Hungarian forint as the most vulnerable at the moment, benefiting from Tuesday's [National Bank of Hungary decision](#) and headlines from the negotiations between the government and the European Commission. However, the gains are mainly driven by positive sentiment and are not underpinned by rising interest rate differentials. At the same time, the forint remains heavily dependent on gas price movements, further complicating the current situation. The same story applies to a lesser extent to the Polish zloty, but it may benefit from Wednesday's market rate hike following surprisingly high inflation. We also see weaker values for the Czech koruna, which is below the Czech National Bank intervention level of 24.60-24.70 EUR/CZK this week. The daily central bank balance sheet data suggests that the CNB basically did not need to intervene the previous week, and the last few days do not suggest central bank activity either. However, if EUR/USD continues to move lower, the CNB can be expected to return to the market.

*Frantisek Taborsky*

### Author

#### **Francesco Pesole**

FX Strategist

[francesco.pesole@ing.com](mailto:francesco.pesole@ing.com)

#### **Chris Turner**

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

[chris.turner@ing.com](mailto:chris.turner@ing.com)

#### **Frantisek Taborsky**

EMEA FX & FI Strategist

[frantisek.taborsky@ing.com](mailto:frantisek.taborsky@ing.com)

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