FX Daily: Dollar awaits incoming US payrolls data

The week culminates in today's November NFP jobs report. Given expectations of a bounce back after last month's weather and strike-hit figure of +12k, the market now probably sees less than 200k as a bad number and above 300k as a good number. The data will determine whether one-way positioning long the dollar gets tested or adds to conviction on the $ rally

USD: NFP sub-200k or above 300k determines $ direction

The market is sitting long on the dollar after two months of a Trump-powered rally. Investors like the dollar story into 2025, but the question is whether they have to suffer a position-led shake-out first. Today represents a risk to those positions in the form of the November jobs report.

The feeling is that weather and Boeing strikes knocked about 110k off last month's number (which saw nonfarm payrolls rise just +12k), which leads consensus to around 220k today. That suggests a number below 200k today will be read as weak, and it will probably take a number over 300k to seriously question whether the Federal Reserve will not cut rates on 18 December. We think the Fed currently is minded to cut. Focus will also be on the unemployment rate, where a rise back to 4.2% slightly favours a Fed cut, while no change at 4.1% would support the dollar on the view that the central bank may well skip a cut in December after all.

The bounce in the euro yesterday has sent DXY back below 106. We have a strong preference that the dollar rallies into next year and suspect that DXY does not sustain a break below 105.60/70 even if NFP comes in on the soft side. Indeed, investors often use post-NFP liquidity to take strategic positions and we would have any weakness today present an opportunity to buy dollars.

Chris Turner

EUR: Temporary recovery

EUR/USD enjoyed a modest bounce yesterday after bond markets concluded that they had priced enough of a risk premium into French markets. The OAT-BUND sovereign spread narrowed back into levels seen a couple of weeks ago. In reality, French risk had not hit the euro too much, and equally we do not see the need for EUR/USD to rally too far on news that Marine Le Pen is not seeking the ousting of President Emmanuel Macron. However, political uncertainty will be unwelcome and French growth will still disappoint.

On the eurozone calendar today is the final release of third quarter GDP, which surprised at 0.4% quarter-on-quarter. Market pricing has very much now shifted towards just a 25bp rate cut from the European Central Bank next Thursday and short-dated rate spreads have turned a little more EUR/USD supportive.

Today's NFP will determine how far EUR/USD needs to rally. Undoubtedly there will be quite a few protective EUR/USD buy stops above 1.06 now for those running short positions. Yet, we suspect any corrective spike may fizzle in the 1.0630/0660 area and continue to see downside risks to our year-end target at 1.05.

Chris Turner

PLN: The most hawkish conference of year

While we expected something of a hawkish tone from the National Bank of Poland, Governor Adam Glapiński once again managed to surprise the markets big time. The main conclusion from the press conference is that, according to the Monetary Policy Council, extending the energy price freeze next year would result in an unfreezing in the fourth quarter of 2025, introducing a later inflation risk. This postpones the return of inflation to the central bank's target by six months compared to the baseline scenario in the NBP's November projection, delaying the start of its easing cycle. Discussions about rate cuts will now begin in the fourth quarter of 2025 rather than in March once the regulatory decisions regarding energy prices after their unfreezing are better understood.

Our economists were expecting the first rate cut in May and 100bp in 2025, significantly less than market pricing ahead of the press conference – but even this scenario now seems optimistic. At the same time, the global story is moving in a dovish direction, which will make it difficult for the NBP to resist rate cuts for very long amid easing from other central banks.

For now, however, the market reaction to this hawkish shift is more important – and although we expected some tactical gains in the zloty yesterday, this NBP message may make them more permanent. Pricing of the first cut has moved to mid-year with 100bp overall next year, which may come under pressure today again. The jump in the rate differential suggests levels at 4.260 EUR/PLN, a key level this year. We are likely to see it tested today.

Frantisek Taborsky

CEE: FX should remain supported unless US jobs data hits

Elsewhere in the CEE region, we saw the final GDP numbers in Romania for the third quarter confirmed at 1.1% year-on-year this morning. Industrial production numbers in Hungary will also be released. Later this morning, we will also see retail sales in the Czech Republic. The Hungarian debt agency will present the debt financing plan for next year. And later today, after trading hours, Fitch Ratings will also publish a review of Hungary. Moody's downgraded the rating outlook last Friday to negative and Fitch has held a negative outlook since last January. We believe it will remain unchanged today – but after Moody's decision, the risk is clearly on the negative side.

In line with our expectations, the Czech koruna and Polish zloty saw another rally yesterday and our levels were reached in both cases. Given recent central bank communication, it seems that the gains may be more permanent in nature than we previously expected. EUR/USD eased pressure on weaker CEE FX while rate differentials widened significantly this week. EUR/HUF has also seen some reversal in the last two days. Moreover, December seasonality is favourable for CEE currencies in general, especially CZK and PLN, which is partly also due to EUR/USD seasonality. However, today will be mainly driven by US jobs data and the USD channel. Apart from this uncertainty, CEE FX should remain supported.

Frantisek Taborsky

Author

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Francesco Pesole
FX Strategist
francesco.pesole@ing.com