

## FX Daily: JOLTS could hit the dollar today

The dollar is starting to show signs of weakness. Today's US JOLTS job openings data could determine whether recent dollar losses are just idle range-trading or the start of an important new trend. We certainly see downside risks to the dollar today. Elsewhere, we'll be focusing on Czech wage data and the continued fall out from elections in Mexico



### 📉 USD: Weaker job openings could cement the dollar break out

A frequent refrain from Federal Reserve Chairman Jerome Powell is that the US labour market is moving into better balance. And that supports the disinflation process. One of the most frequently cited data series in support of the disinflation process is the US JOLTS job openings data. The April data is released today. Speaking to ING's Chief International Economist James Knightley about this data last night, he pointed out three key areas of today's release. The first is lower job openings that will reflect falling demand for labour. Here, James says that Indeed job vacancy postings point to a sub-consensus 8250k reading today (consensus 8350k).

Secondly, we'll receive an update on the 'Quits Rate'. Remember this figure had surged through the pandemic as tight labour markets prompted staff to quit jobs in search of higher pay. This piece of data is seen to have a good lead on wage inflation. James is looking for the quit rate to fall to 2% today from a peak of 3% over previous years. That should signal further easing of wage pressures. And finally, there is the important metric of the 'job vacancy rate'. This is a piece of data

on which the Fed's Christopher Waller has been especially focused, and feels best represents excess labour demand. This had been above 7% in 2022 and has now dropped to 5.1%. Waller believes that when this rate hits 4.5%, excess labour demand has been worked off and the unemployment rate can start to rise. A further drop in the job vacancy rate today would then set the scene for a rise in the unemployment rate this summer. Recall the US unemployment rate is now 3.9%. We favour a scenario where this rises to 4.2% by September, prompting the Fed to cut.

If the JOLTS data does indeed come out in line with the above, we think there is a chance for a decent move lower in the DXY. Yesterday's [soft ISM](#) data saw the DXY break lower from this year's well-defined dollar bull trend and the softer JOLTS data – giving a firm nod to the disinflation process – could send DXY towards the 103.15/20 area today. This could be the start of a multi-week dollar bear trend.

*Chris Turner*

## EUR: A shot at 1.10?

The FX options market does not seem particularly excited about this move higher in EUR/USD. One month implied volatility is hanging around the very low 5.5% area, while the one month risk reversal – the price for a euro call over an equivalent euro put option – has barely budged from the modest bias to hold euro puts. Yet, having said all of that, EUR/USD has edged above 1.09 with little fanfare and US data today could be the catalyst for a further advance to 1.0945 and then the March high at 1.0980. A move to test 1.10 may be a bridge too far ahead of Thursday's European Central Bank meeting and Friday's US jobs report, but we are happy to have a bullish bias this week.

The eurozone data calendar is light today and we may be left to focus on developments in the Swedish krona. This had a good rally yesterday on the back of a stronger manufacturing PMI reading and the softer dollar environment. Today sees a speech from Riksbank First Deputy Governor Anna Breman. The market will be interested in any Riksbank thoughts on another rate cut. The market attaches a 24% probability to the next cut later this month and 82% to the next cut coming in August. Any more dovish commentary could see the krona handing back some of yesterday's gains.

*Chris Turner*

## CEE: Czech wages to show room for June rate cut

After a quiet day yesterday in the CEE region, the focus today is on Hungary and the Czech Republic. First quarter GDP numbers for Hungary were released this morning, confirming a 1.1% year-on-year recovery. Later this morning, we will also see first quarter wage growth in the Czech Republic, a key number for the Czech National Bank ahead of its June meeting. We're expecting real growth of 3.7% YoY, positive for the first time since late 2021. The CNB is looking for 4.2% in its forecast. However, Friday's GDP data has already indicated that we can expect a rather low number.

Early trading yesterday indicated further weakness, but the entire CEE region (as elsewhere in emerging markets) turned around, erased losses and ended roughly unchanged. A weaker US dollar of course helped save the day. On the other hand, lower core rates triggered a new wave of rates receiving in the CEE space, which may weigh on FX with a delay. So, the picture has not

changed too much in the region. The main focus today will be on Czech wages, which could tell us more about the June CNB meeting. Markets are fully pricing in 25bp rate cut and there is not much room for 50bp. However, it is still possible that some hawkish board members may mention a pause in the headlines if inflation or wages overshoot to the upside.

*Frantisek Taborsky*

## ➔ **MXN: Investors remain cautious**

The Mexican peso sold off 4% yesterday and investors have not been as quick to jump back into long positions as one might have thought. The catalyst here was the Morena party's stunning win in the weekend elections to such an extent that it could secure a supermajority in Congress and allow the party to push ahead with some of its more controversial constitutional reforms. These involve giving greater power to the military, greater support to state pensions and electoral reforms which would raise questions of independence. Mexico's sovereign CDS rose 7bp yesterday to 102bp.

Interestingly, the peso has not found any support in early Europe today on the back of the news that the current Finance Minister would be staying on. We suspect the peso's performance owes a lot to positioning, where it has been the darling of the world's carry trade strategy for several years now. The threat to investors is that when the new Congress sits down at the start of September, those constitutional reforms could be on the agenda.

Today, the market will be hanging on news as to whether Morena has indeed secured the supermajority in the Senate. Failure to do so could provide the peso with some support. Yet until we receive clarity on the policy agenda for the new Congress, we suspect investors will be reluctant to chase USD/MXN sub 17.00 again. And given very crowded positioning, it's impossible to rule out this correction extending in what seems like thin markets to the 18.30/18.50 area.

*Chris Turner*

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