FX Daily: NFP miss helps dollar bears

Friday's soft US jobs report lends weight to the Fed's patient stance and softens the key risk to the dollar bear trend - namely the risk of early removal of accommodative monetary policy by the Fed. Surging commodity prices, however, keep the market very much focused on inflationary risks and should continue to see demand for commodity currencies

USD: Wednesday's CPI and Treasury auctions are this week's hurdles to the dollar bear trend

Whether it was the competition given by generous unemployment benefits or trouble with seasonal adjustments, the greatest takeaway from Friday's soft US jobs report for the FX market was that it bought more time for the Fed to be patient in withdrawing loose policy. A few months ago it looked like the Fed would have to talk tapering at the 16 June FOMC meeting, but that position now looks less certain. This comes at a time when commodity prices continue to surge (iron ore up another 9% overnight) and the market's conviction on higher prices is growing. We saw this in the market reaction after Friday's nonfarm payrolls report. Inflation expectations derived through the 10-year inflation-indexed US Treasury rose to a new high for the year, while US Treasury yields just about ended flat on the day. In short, the market is more convinced of higher prices, but less convinced the Fed is going to do anything about it. This has seen US 10 year real interest rates move 13bp deeper into negative territory in May and should be negative for the dollar. The biggest risk to this story this week comes from Wednesday's release of April CPI (expected to jump to 3.6/3.7% YoY) and 3, 10 and 30 year Treasury auctions Tuesday-Thursday. Assuming these can pass without doing too much damage to the US bond market, the dollar should continue its run lower through May. Commodity FX and those currencies most exposed to a recovering global business cycle should continue to perform well and the February low of 89.68 should be the next stop for the DXY. Please see our G10 FX Week Ahead for a full overview of the week.

EUR: More focus on 10 June ECB meeting

EUR/USD took advantage of the soft NFP reading on Friday and has the potential to move towards 1.2245 and possibly 1.2290 this week. Growing in focus is the 10 June European Central Bank rate meeting, where ECB Chief Economist Philip Lane has today said that the ECB's Pandemic Emergency Purchase Programme could be adjusted - either increased or decreased. Given progress on the vaccines, improving confidence and better activity data, it looks unlikely the market is too concerned by an increase in PEPP purchases, but an ECB 'taper' could give the EUR a nudge higher amidst a constructive global environment for the euro. Also today we have already seen Norwegian April CPI today - fractionally lower than consensus. However, this looks unlikely to alter Norges Bank's position of being the first G10 central bank to hike rates later this year and USD/NOK should be in a position to retest the low of the year at 8.15 shortly.

GBP: $1.42 here we come

Cable finally broke through 1.40 in Asia and deservedly so. We doubt the move can be attributed to the local or Scottish election results - these were reasonably well known and, with the Greens, the Scottish SNP will have a majority for pushing for another referendum. Instead, we read the move as more of a legacy as the market is moving towards the Bank of England's bullish set of UK forecasts and now greater confidence in the soft dollar environment. We doubt Wednesday's release of 1Q21 GDP can do too much damage to GBP and instead expect cable to grind its way towards 1.4200/4250. Favourable re-positioning towards UK equities should help here.

PLN: Even the doves feel the heat

Friday's press conference from the National Bank of Poland (NBP) proved quite revealing. The very dovish NBP felt the need to elaborate on its exit strategy from QE. Our team read the press conference as meaning: i) the NBP would start tapering earlier than expected in 2H21 and ii) would start hiking earlier than expected in 1H22. At the same time, suggestions were made that the NBP's conditionality would be softened on helping the Polish banks with the CHF mortgage challenges. Both the tapering and CHF mortgage developments are being read as a PLN positive by our local team. A positive EUR/USD environment suggests EUR/PLN could make a run at 4.52. And Friday's press conference from the NBP also undermines the NBP's FX intervention campaign. It is hard to justify selling your currency when one is preparing to remove monetary accommodation.

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