FX Daily: Payroll revision risk

The dollar faces downside risks today as US payrolls should slow and annual benchmark revisions could be significant. That could more than offset some safe-haven flows on the back of souring China sentiment. In the eurozone, we'll watch the ECB's new estimate for the neutral rate. Central banks in CEE maintain a hawkish tone but rates diverge

Recessions often start and end with shifts in unemployment, so keep an eye on next week's US jobs numbers

USD: Annual revisions may be big

The dollar's bearish momentum has eased into today's US jobs release. Most of the tariff shock from last weekend has been absorbed, and markets are also probably reconsidering the optimism on a US-China deal. Beijing's retaliatory tariffs are due to come into effect on Monday, and the chances of a de-escalation before then have decreased. Also helping the dollar were some comments by Treasury Secretary Scott Bessent, who said the strong dollar policy remains in place.

The biggest driver for FX should be US payroll figures for January. The consensus is for a slowdown from 256k to 175k, but our estimate is closer to 160k. A lot of focus will be on annual benchmark revisions. Last year's provisional revisions indicated that, upon cross-referencing with tax data, the Bureau of Labor Statistics had overestimated job creation by approximately one-third. This points to significant issues with their model, and we anticipate substantial adjustments to the monthly payroll numbers.

So, despite some support potentially coming from souring sentiment on China, we have a negative bias on the dollar today. Markets are pricing in 43bp of easing by year-end and there is room for a dovish repricing on the back of softer economic data. A move to 107.0 in DXY is warranted.

Canada also releases January jobs numbers today. The slowdown is expected to be meaningful after December's strong figures, with only 25k increases in hiring expected. Unemployment is seen inching higher to 6.8%. That would probably still argue against immediate additional easing by the Bank of Canada purely on the back of domestic data. More cuts can however come on the back of US tariffs at a later stage, but for now, USD/CAD can stay below 1.44.

Francesco Pesole

EUR: A hawkish r-star?

The European Central Bank will publish its staff revision on the neutral rate today. President Christine Lagarde said last week that r-star is "a range that does not give a guideline or a destination" and Olli Rehn added yesterday that "we should not constrain our freedom of action because of a theoretical concept".

That said, with the next couple of cuts not particularly up for debate, a lot of the action in pricing is focused on the terminal rate. The scope and timing of US tariffs would have a big say, but while markets await Trump's move on the EU, today's report is all markets will get in terms of terminal rate guidance, and we expect a euro reaction.

Based on Rehn's comments and the fact that r-star projections are model-based (i.e. embedding significantly higher inflation than in the past), our best guess is that today's note will show a relatively high rate and send a hawkish signal. When adding downside risks for US payrolls, we favour a new leg higher in EUR/USD to retest the 1.044 Wednesday highs.

Francesco Pesole

CZK: Hawkish cut but with more on the table

Yesterday's Czech National Bank meeting brought several surprises. Ahead of the meeting, data showed that inflation slowed less than expected, dropping to 2.8% year-on-year from 3.0% in December, mainly due to food prices. We won't know the core inflation numbers until next week but the breakdown from the flash report suggests a weak number. However, the CNB did cut rates by 25bp to 3.75%. The central bank also unveiled a new forecast that is more or less in line with our expectations. The GDP outlook was revised down closer to our forecast, EUR/CZK and inflation were revised down, while the rates path is slightly higher this year but lower next year. The press conference was accompanied by the usual hawkish tone, but we found the tone slightly softer compared to previous meetings. The CNB is visibly open to further rate cuts, but we also know that the Board believes it is close to the end of the cutting cycle.

The market remained essentially flat in the rates space however the koruna did rally some, much like the rest of the region. Although we dropped our bearish bias yesterday, EUR/CZK should remain higher in the 25.100-200 range, in our view. Today we will see the CNB meeting with analysts and details of the new forecast, which could tell us more. However, given weaker inflation, we can expect rate cuts to be on the table for the next meeting, which should keep the CZK at current levels.

Frantisek Taborsky

PLN: Nothing new = dovish

The National Bank of Poland's press conference offered little new information compared to previous meetings. However, the lack of new developments suggests a less hawkish stance for the market. Thus the discussion of rate cuts was enough for the market to rally a bit. Although we didn't hear anything new on the timing, the market did raise the pricing of rate cuts with the first move in July and a total of 75bp of cuts this year. This roughly matches our economists' expectations of 50-100bp in the second half of the year.

Rates rallied after the press conference yesterday, but at the same time, FX saw further support. Similar to CEE peers, the zloty saw further gains despite a lower EUR/USD and narrower differential after rates rallied. CEE had a strong week overall, possibly due to the mention of progress on a Ukraine deal from the new US administration. We should know the details next week. However, the simultaneous rally in FX and rates suggests that positive sentiment on this is likely driving the move. EUR/PLN reached new lows yesterday, and as we discussed earlier this week, we don't expect changes anytime soon.

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