FX Daily: Payrolls may add fuel to the dollar recovery

We expect today's US payrolls to decelerate from the August figure but to come in at around 200-250k, with the unemployment rate holding at 3.7%. This may be enough to let markets drift further away from any Fed-pivot rhetoric and keep the dollar supported. Jobs data will be published in Canada too, but the implications for the BoC policy should be limited

USD: Staying bid on payrolls

The dollar rebound has gained further steam into today's nonfarm payrolls risk event. Along with a generalised narrative that continues to favour the dollar (a hawkish Fed, lack of alternatives to USD, choppy risk environment), the risks of an escalation in the US-OPEC+ stand-off on oil prices may have added to the market's concerns about elevated inflation and the need for aggressive tightening by global central banks.

Today's focus will obviously be on the US, as investors will look for any hint that the jobs market is starting to turn. We think it's too early for that, and our economists are in line with consensus in expecting the unemployment rate to stay at 3.7% with payrolls slowing but staying above 200k (consensus 250k). We think the dollar rally in the past two sessions was simply a reversal of the previous correction, and not necessarily linked to rising expectations around a very strong jobs report today.

We therefore see more room for USD appreciation today after the payrolls release as markets drift further away from Fed-pivot speculation. DXY could find its way back into the 113.00-114.00 region.

Francesco Pesole

EUR: Downtrend has further to go

The ECB minutes failed to materially stir the market's rate expectations yesterday, and the OIS curve continues to indicate a 75bp rate hike is cementing as a consensus view for investors. After industrial production figures (which dropped more than expected) in Germany were released this morning, there are no major data releases to watch in the eurozone today, and we would expect little deviation from the current hawkish rhetoric by the two scheduled ECB speakers: Mario Centeno and Philip Lane.

EUR/USD has broken back below 0.9800 as the USD recovery added pressure. Today, as we see upside risks for the dollar after the payrolls release, another leg lower in EUR/USD is our base case. We currently expect the downtrend in the pair will extend to the 0.95-0.96 area in the very near term, and to the 0.90-0.94 area by year-end.

Francesco Pesole

Elsewhere in Poland, National Bank of Poland governor Adam Glapinski yesterday announced a pause in the hiking cycle, following the Czech National Bank and National Bank of Hungary. He did not rule out further rate hikes, but the next decision will depend on the central bank's new macroeconomic forecast. Our Warsaw team expects further rate hikes later this year, but also in early 2023. For now, however, the main thing to watch will be the zloty, which is coming under increasing pressure with yesterday's move above 4.85 EUR/PLN. Moreover, global developments are not playing in favour of the CEE region either. EUR/USD is lower for the second day in a row and today's US payrolls may add to the pressure. Overall, the zloty is likely to test the 4.90 level, the weakest since March.

Frantisek Taborsky

GBP: Looking unsustainable above 1.10

While moving largely in line with other European currencies, the pound continues to show a higher beta to risk sentiment compared to only a few weeks ago. This is likely a legacy of the late-September meltdown that is there to stay.

We still deem the pound's current levels as unsustainable given the fragility in the bond market and the UK's deteriorated fiscal and current account position. A return to sub-1.10 levels in Cable is a question of when rather than if, in our view, and today's US payrolls may favour a more rapid descent.

The UK calendar is empty today, but markets will remain aware of any comments by government officials. Yesterday, Chancellor Kwasi Kwarteng held (emergency?) talks with UK lenders to help ease the strains in the mortgage market. A potentially fast acceleration in the UK housing market correction has surely become a more relevant theme for the government, and likely another downside risk for the pound.

Francesco Pesole

CAD: BoC to stay hawkish despite jobs jitter

Bank of Canada's governor Tiff Macklem delivered some quite hawkish remarks yesterday as he claimed the Bank is not ready for a more finely balanced policy, that there is still plenty to be done to curb inflation given lingering excess demand and largely accepting the prospect of a quite hard landing for the economy.

The comments were likely aimed at curbing any speculation that the recent not-so-good data flow in Canada may warrant a less aggressive stance by the BoC on tightening. Like many other central banks now, the BoC is stirring away from any dovish turn given the risk of losing control of inflation expectations.

In this sense, yesterday's comments may have worked as a "hedge" against another potential job data disappointment today. After three consecutive negative payroll figures, the consensus is centred around a 20k increase for September, with the unemployment rate staying at 5.4%.

We expect the US payrolls impact on USD to be larger than Canada's jobs data impact on CAD, and see USD/CAD upside risks today even if Canada's figures come in positive. A re-test of the 1.3830 highs in USD/CAD is a material risk over the coming weeks.

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