

FX Daily: Payrolls may not be dollar's lifeline

While macro factors continue to point at dollar resilience in our view, markets are fully buying into the Fed's pivot story, and have turned more structurally bearish on the dollar. Today's US payrolls may fall short of triggering an inversion of this trend, and USD downside risks persist. Keep an eye on Canadian numbers too ahead of next week's BoC meeting



⬇️ USD: Payrolls may not offer lifeline to the dollar

With the DXY index correcting by more than 7% since the early November peak, and trading below 105.00 for the first time since July, it is now evident that markets have operated a structural shift towards a bearish dollar narrative. It's also evident that such a shift is primarily due to expectations that the Fed is nearing the end of its tightening cycle. As explained [by our US economist here](#), investors have called Fed Chair Jerome Powell's higher-for-longer "bluff", applying a larger weight on four indicators (CPI, PPI, import prices and yesterday's PCE) that are pointing to abating price pressures. Fed Funds futures show peak rate expectations have dropped below 4.90%, after having priced in 5.25% less than a month ago.

In our view, this radical shift in the market's reaction function is premature, and may not be sustainable if the Fed increases the volume of its rate protest by sounding more stubbornly hawkish and the next inflation readings argue against a rapid descent in inflation. Incidentally, the global macro picture remains challenging – especially in Europe (where colder weather may push gas prices higher) and China – which also points to dollar resilience.

However, we must acknowledge that markets are approaching today's US payrolls with a strong bearish rhetoric on the dollar, and would likely jump on more risk-on (USD-negative) bets unless we see a convincingly strong payroll read. The consensus is centred around 200k, and we forecast 220k, with the unemployment rate staying at 3.7%. Those numbers would be quite respectable and indicate that the jobs market has indeed remained extremely tight, but while it may halt the dollar's trend, it could fail to invert it. All in all, the balance of risks appears slightly tilted to the downside for the dollar today. A contraction in payrolls to 150k could generate a fresh round of large USD selling.

The yen should be exceptionally sensitive to the jobs figures today. The main risk for USD/JPY is that UST 10Y yields fail to find extra support at 3.50%: a further bond rally could force a break below the 134.50 200-d MA and unlock additional downside potential for USD/JPY. Still, markets may struggle to live with sub-3.50% rates for long in the current environment.

Francesco Pesole

EUR: Ignoring some warning signs

EUR/USD moves should only be a function of the market's reaction to US payrolls today. There is a non-negligible risk we explore 1.0600, with the pair not having any clear resistance levels until the 1.0780 6-month highs.

We are, however, getting the feeling that markets are ignoring at least one warning sign for the euro. The recovery in business sentiment in the eurozone has undoubtedly been the result of lower gas prices, which have benefitted from mild weather in Europe. TTF contracts are trading at one-month highs now and may see further upside volatility in the near term as temperatures in northern Europe are expected to fall. A significant recovery in gas prices would likely make the recent rally in EUR/USD unsustainable.

On the domestic side, we'll see PPI numbers in the eurozone today, and hear from ECB president Christine Lagarde again. Yesterday, she sounded quite hawkish, signalling the need to keep inflation expectations anchored and implicitly leaving the door open for a 75bp move in December. Markets currently price in 55bp, and we are calling for a half-point hike.

Francesco Pesole

GBP: Cable nearing the peak?

There are no domestic drivers for the pound today given a light data calendar and no Bank of England speakers. As discussed in the dollar section above, US payrolls may fail to invert the bearish dollar trend and GBP/USD may find a bit more support around 1.2300-1.2350.

However, as for EUR/USD, cable is not factoring in the negative implications of rebounding gas prices and weak economic fundamentals. A return to 1.1500 around the turn of the year seems appropriate in our view.

Francesco Pesole

CAD: Jobs numbers quite key for BoC

Payrolls will also be published in Canada today. We must note the employment series has been rather volatile, with the October figures coming in at a very strong 108k, which was entirely driven by full-time hiring.

The consensus is centred around a very small 10k increase, and there is a high chance we could see a negative read. This would probably keep markets leaning in favour of a 25bp rate hike by the Bank of Canada next week (currently, 30bp are in the price). However, we see room for some upside surprise today in the jobs numbers and see a higher chance of another 50bp by the BoC.

USD/CAD may soon re-test the 1.3290 100-d MA, but would require a more steady rebound in crude prices to keep the bearish momentum going.

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