FX Daily: Payrolls may pause, not alter the dollar recovery

We expect today's US payrolls to be at 110k, below the 138k consensus but, in our view, not low enough to trigger concerns about employment by either investors or the Fed. The dollar's recovery trend could be put on pause today, but may resume soon as US assets can keep benefiting from the more subdued tone on US trade policy. EUR/USD downside risks persist

We won't publish the FX Daily on Monday 5 May due to a UK holiday. We will resume publication on Tuesday 6 May.

USD: Soft, not alarming payrolls

The dollar has gathered some decent momentum into today's US payrolls risk event. The remarkable rebound in US equities since the post-'Liberation Day' turmoil alongside Treasury yields settling lower have signalled that the "sell America" fears have been largely quelled. The dollar recovery mirrors this: the FX confidence crisis is over – it's now a matter of whether there is enough in the data and in US policies to justify a sustained rotation away from the dollar as a reserve asset beyond the short term. This will become clearer in the coming months; for now, the reality is one of a more resilient, less volatile dollar. And considering there is still around a 2.5% risk premium on the dollar (vs EUR), there is more room to recover.

The question today is whether US jobs data can trigger a reversal in the dollar momentum. We think not, even though we are below consensus with our payrolls estimate (ING: 110k, consensus: 137k, whisper number: 120k). The real risks for the dollar may only lie below a 100k print. Anything between that and the 137k consensus may not leave a clear mark on FX. That's because an activity and jobs market decline is already embedded in the value of the USD, so a relapse of intense dollar shorting probably requires evidence of an abrupt rise in joblessness, not simply a gradual employment slowdown. Our call is for the unemployment rate to stay at 4.2%, in line with consensus. This should allow the Federal Reserve to retain a neutral position quite comfortably (despite Trump's complaints) when it meets next week.

DXY is back above 100.0, and in our view, may have a bit further to go as the highly efficient, forward-looking FX market pulls a bit more risk premium from the dollar. A rise to 101.0 would mean the dollar has recouped exactly half of its post-'Liberation Day' losses. In current market conditions, and having shifted from tariff threats to trade deal discussions (even with China, which is currently pondering its openness to talk with the US), such a move in the dollar looks warranted, even if a softish payroll read today may put the dollar recovery on pause.

Francesco Pesole

EUR: Few takeaways from eurozone inflation

The eurozone releases flash inflation estimates for March today. Single countries' CPI prints released throughout this week have not diverged much from consensus, which for the eurozone is looking for a slowdown from 2.2% to 2.1% in the headline rate and a tick-up from 2.4% to 2.5% in the core. Barring major surprises, there are very few implications for European Central Bank pricing, as policymakers have indicated they will be more responsive to activity slowdowns than price fluctuations.

Earlier this week, we thought the euro was losing its shine, and a couple of additional soft EUR/USD sessions have further convinced us that the return to more normal conditions in US asset markets could continue to weigh on the pair. The 1.13 area remains an important one. A decisive break lower may need to wait for markets to digest some soft (but not alarming) US payroll figures today. Still, we believe the risks are skewed to 1.11 rather than 1.15 in the coming weeks.

Francesco Pesole

GBP: EUR/GBP downside risks persist

EUR/GBP has corrected 2.5% from its 11 April peak. This is both a consequence of safe-haven long EUR positions being lifted and some idiosyncratic sterling strength. The latter seems to be related to expectations of an improvement in UK-EU relations.

As our UK Economist James Smith notes, the British government is prioritising a reset in EU economic relations, with the aim of convincing the Office for Budget Responsibility to upgrade its medium-term growth forecasts and unlocking more fiscal headroom. Both sides meet on 19 May, and though talks are initially centred on defence, closer regulatory alignment may emerge over the coming months. Though the economic impact may not be huge, positive headlines over coming weeks might prompt a bit of a hawkish repricing of Bank of England expectations, given there are now three cuts priced over the next four meetings.

When adding that the euro remains most at risk from a rotation back to the dollar, EUR/GBP looks vulnerable. We estimate the near-term fair value for the pair is currently 0.842, and we expect a decisive break below the 0.850 level in the coming days.

Francesco Pesole

CEE: Global relief supports the region

After a one-day holiday, CEE markets are reopening and PMI numbers across the region are on the calendar. As the numbers from Germany have already indicated, we can expect some decline in sentiment, but the situation is probably not as dramatic as previously expected. Core markets saw some improvement in sentiment again after the latest headlines on US trade, and equity markets rallied. This should support stronger CEE FX, especially Hungary's forint. On the other hand, EUR/USD touched the lowest levels since US 'Liberation Day', which could put some pressure on CEE FX for a longer period of time.

Overall though, conditions remain supportive for the region. Our favourite is still the Czech koruna, which should benefit from Wednesday's move up in market rates and help EUR/CZK go below 24.900. On the flip side, after EUR/PLN returned to the 4.280-300 range, we see it as fair value for now, while next week may bring more weakness to the zloty. EUR/HUF continues to strongly follow the DAX, which could bring more gains for the forint today. However, levels below 404 look stretched to us.

Frantisek Taborsky

Author

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

Frantisek Taborsky
EMEA FX & FI Strategist
frantisek.taborsky@ing.com

Chris Turner
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com