FX Daily: Rare positive news on US jobs

Jobless claims dropped back sharply yesterday, a rare positive development for the US jobs market and the dollar. But we still think the greenback is due to give up its post-Fed gains in the near term. Meanwhile, the Bank of Japan surprised with a hawkish vote split as it held rates unchanged today, raising the chances of an October hike and JPY outperformance

US jobless claims have dropped sharply

USD: Jobless claim rebound helping the dollar

The dollar was given a helping hand yesterday by some positive data surprises, which prevented it, in our view, from giving up post-Fed gains. Jobless claims dropped back to 231k in the week ending 13 September, signalling the previous week's spike to 264k might have been a fluke. Continuing claims – a measure of the difficulty of entering the jobs market – dropped to 1920k versus a 1950k consensus expectation, and last week's figures were revised lower from 1939k to 1927k.

This was rare positive news on the jobs market, and one that justifies the dollar's staying bid for now. However, our call remains that the Fed will cut again in October as payrolls keep pointing to broad labour market deterioration and inflation fails to rise enough to deviate from what the Dot Plot is signalling (two more cuts this year). We think markets will also keep using the Dot Plot as the anchor for rate expectations, which should keep the bar quite high for a major hawkish repricing and sustained dollar support.

Today's big event is the phone call between US President Trump and China's President Xi Jinping, scheduled for 9AM ET/3PM CEST. The topic will be a framework agreement to shift TikTok US's control from Chinese to US ownership, but we can expect some discussion on trade, and there are some expectations that this may lead to an in-person meeting. Direct communication has often led to positive headlines on trade relationships, which should be mainly visible in China proxies AUD and NZD in the G10.

We still think the dollar is trading too much on the strong side after the Fed meeting and expect some pullback in the coming days. Cheaper funding costs should contribute to fuel hedging demand for the USD and prevent larger appreciative trends.

The data calendar is light today, but expect dovish comments by Fed Governor Stephen Miran (who voted for a 50bp cut this week) alongside comments by Mary Daly.

Francesco Pesole

EUR: Spillover from France remains limited

We are sticking to our call for EUR/USD to climb back to the 1.1850 handle in the coming days. Yesterday morning's rally in the pair shows momentum remains tilted to the bullish side, but also that the US jobs market data continues to have an outsized impact on USD crosses.

One week after France's debt downgrading, we can conclude that the euro spillover has been very contained, despite the OAT-Bund 10y having remained quite wide (currently 80bp). Their latest political news isn't very encouraging, as the new prime minister is facing harsh union opposition to his fiscal plans, and negotiations with the Socialists – who are believed to hold the key to passing the budget – have not yielded good results so far.

The risk of further widening in the OAT-Bund spreads remains tangible, but what matters most for the euro is the rate of change in those adjustments, and so far we are not expecting a material FX spillover.

Our analysis of yesterday's central bank events in Europe can be found here: Bank of England, Norges Bank.

Francesco Pesole

JPY: Hawkish BoJ surprise

The Bank of Japan held rates unchanged this morning, but two dissenters voted for a rate hike, which is being read as a hawkish signal amid an otherwise unchanged guidance. The other surprise was the decision to start offloading ETF holdings at a pace of around $4.2bn by market value per year. Considering a total market value of ETF holdings of around $505bn in March, this is a rather slow pace, and we would not place too much emphasis on the decision.

What matters most for the yen is the hawkish vote split. We have been calling for a rate hike in October, and the dissenters' vote makes us more confident in that view. Markets remain cautious with pricing, with around 14bp embedded in the OIS curve for the October meeting and 19bp by year-end.

According to our model, the near-term fair value of USD/JPY is currently at 145.7, meaning the pair is overvalued even before counting in any hawkish repricing. Our 1M and 3M calls are 145 and 140 for USD/JPY, as discussed here.

Francesco Pesole

PLN: Another rating review, another test for the currency

Yesterday's labour market data in Poland surprised on the downside, while the PLN has been weakening against the EUR for the fourth consecutive day. On the other hand, comments from the National Bank of Poland (NBP) in recent days have been rather hawkish, indicating that the market is pricing in too many rate cuts. The rates market thus seems confused, and compared to CEE peers, we can see basically negligible movements in recent days.

Our economists recently revised the NBP path forecast to one rate cut in November and two more next year, with a 3.75% terminal rate in 2027. This would indicate that the market is too dovish at the moment and the PLN can expect some support from the rates market. However, today's focus will be on Moody's rating review after the close of trading, where we can expect at least a downgrade in the rating outlook, given that Moody's is one notch higher than other agencies, and we have already seen a previous downgrade in the rating outlook from Fitch, following the worse-than-expected budget draft for next year.

We may therefore see short-term pressure on the weaker PLN, while in the medium term the currency may see some support from the central bank if it fulfils its comments of only one rate cut this year.

Frantisek Taborsky

Author

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

Francesco Pesole
FX Strategist
francesco.pesole@ing.com

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