

FX Daily: Slower US jobs narrative gaining traction

The dollar dropped after slightly higher than expected US jobless claims yesterday. This denotes how USD remains exposed to positioning adjustments and possibly that more investors are buying into the slower labour growth narrative. Still, US inflation remains key to unlocking more dollar downside, and rangebound trading remains more likely for now



➔ USD: Some dollar vulnerability

The negative dollar reaction to a modest tick-up in US jobless claims yesterday (231k versus consensus 212k) tells us that: a) markets are probably lacking some sense of direction in the period between payrolls and US CPI; b) the generally overbought dollar remains quite vulnerable to even slightly softer US data releases; c) markets may be buying in more convincingly on the softening US jobs market narrative.

Beyond very short-term adjustments, the key to taking the dollar materially lower remains inflation. Consensus is looking at 0.3% month-on-month core CPI print on Wednesday, which is still too high for the Fed to start cutting rates this summer. Any substantial – and sustainable –

downward trend in the dollar may not be a story for May.

Today's US calendar includes only the University of Michigan surveys. Markets will be watching closely whether the medium and long-term inflation expectations have moved at all from April's 3.0/3.2% levels. On the Fed's side, there are plenty of speakers to keep an eye on. Among those is Neel Kashkari, who recently argued for a higher neutral rate, which would suggest current monetary policy is not as restrictive as perceived.

In other markets, Canada will release its jobs report for April today. Expectations are for a decent 20k print and modest uptick in unemployment from 6.1% to 6.2%. There are, however, downside risks as the Canadian labour market has shown some signs of weakening in recent months. A soft print would endorse a June rate cut by the Bank of Canada, which is currently our base case scenario.

Francesco Pesole

➔ EUR: Eyes on ECB minutes

EUR/USD moved higher yesterday, but the case for a sustainable break above 1.0800/1.0850 is not very strong, at least until US inflation data is released. We think oscillations into the 1.0700/1.0800 range remain more likely for the time being.

Today's highlight for eurozone markets is the latest European Central Bank minutes from its April meeting. It is possible that there will be references to a June rate cut, or at least indications that there is growing consensus to start cutting rates soon. Market pricing for June is, however, already 24bp, so the impact will hardly be huge on FX. It will be more interesting to see whether there are indications on future plans beyond June. This appears to be at the centre of the debate and many policy comments by ECB officials. For now, markets continue to price in 72bp of easing in total by year-end.

Indications minutes that the ECB is generally more upbeat on disinflation may take a toll on the euro, but EUR/USD remains primarily a function of US developments and we retain a neutral short-term bias on the pair.

Francesco Pesole

⬆️ PLN: NBP adding fuel to the zloty

As expected, the National Bank of Poland decided to keep interest rates unchanged yesterday, with the reference rate remaining at 5.75%. The statement did not show anything new. The press release noted the continuation of the economic rebound in the first quarter of 2024, with stronger consumption dynamics accompanied by lower investment growth. It also underlined that wage growth remained strong. However, the key will be today's press conference, which should confirm the NBP's hawkish tone and suggest little chance of rate cuts this year.

PLN has been rising for the last two days with a move into the EUR/PLN 4.280-290 band as we indicated earlier, exhausting the potential from previous days according to our estimates. However, a hawkish press conference could bring some shift higher at the short end of the IRS curve and add some more fuel for EUR/PLN to move closer to 4.280.

Frantisek Taborsky

📌 CEE: Disconnection from rates undermining FX

April inflation in Hungary will be released this morning, and we're expecting a slight increase from 3.6% to 3.7% year-on-year. The National Bank of Hungary expects 3.8%. However, we forecast that this should be the last print before a surge in the coming months, which we believe will lead the NBH to end or pause the cutting cycle in June. EUR/HUF is still trading well below 390, however we still see a big disconnect from rates here (as with the CZK), which we expect to close well above 390 in the near term.

The Czech National Bank will release the minutes from last week's meeting when the board decided to cut rates by 50bp to 5.25%. According to post-meeting statements, a different pace of rate cuts was not considered. The minutes could provide even more detail, but we can expect more hawkish views on the central bank's cautious approach and the risk of inflation returning. We could also hear some hints as to whether the next meeting will already bring a slowdown in the pace of rate cuts. We expect one more 50bp cut at the moment and a slowdown at the next meeting. EUR/CZK moved below 25.00 yesterday, but we still believe the pair cannot separate from rates for a longer period of time and should be higher first before the CZK starts to strengthen later, closer to the end of the CNB cutting cycle.

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