

FX Daily: Solid US labour data, muted reaction in risk

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📉 USD: Solid labour market report but muted impact on risk assets

All eyes are on the June US labour market report today. With all states experiencing some form of reopening in June, we should see another sizeable pick-up in employment.

Our economists expect non-farm payrolls to rise by around 3.5 million. Still, even if the US labour market shows solid hiring/ surprises on the upside, the bullish spill-over into risk assets should be muted given the recent rise in Covid-19 cases in the US, the reintroduction of restrictive measures and the subsequent uncertainty about the pace of the recovery of the US economy.

Hence, the possible rally in pro-cyclical currencies in response to the improving US data (the mix of a recovering US economy but a dovish Fed would normally be positive for higher beta currencies and negative for the dollar) is likely to be modest.

➔ EUR: Modest upward bias

EUR/USD to remain in the broad 1.12-1.13 trading range with a modest upward bias today should the US employment report surprise on the upside.

⬆️ GBP: Short-lived correction

GBP is rebounding from what we see as oversold levels EUR/GBP breached 0.91 earlier in the week.

We see the sterling strength as a short-term correction but not a start of a bullish trend. The outlook of the UK-EU trade negotiations remains highly uncertain while most other G10 currencies offer more appealing investment characteristics (for example, even after the recent GBP decline, the currency is not as appealing as SEK or NOK on a valuation basis). We expect GBP yet again to turn into a G10 underperformer this summer (as was the case in June as well as in the second quarter)

➔ CEE FX: HUF to outperform PLN

In the CEE space, we look for near-term HUF outperformance vs PLN.

We see the market reaction to the cautious June NBH cut as exaggerated and expect HUF to rebound from oversold levels as the NBH only delivers a muted and cautious easing.

In contrast, we continue to see PLN as the least attractive currency in the CEE as the NBP has morphed into the most dovish central bank in the region. HUF's suppressed sensitivity to risk sentiment (vs PLN) also means HUF is set to outperform PLN during times of risk-off. We expect PLN/HUF to fall below the 78.0 level in coming days.