

FX Daily: Three scenarios for payrolls and the dollar today

If payrolls fall below 100k today and unemployment surprisingly creeps higher, then we see a 50bp Fed cut in September becoming the market's base case, which would result in big USD losses. Anything closer to the consensus 165k and a stable unemployment print would make 25bp more likely on the margin, and any USD weakness may fade quickly



📉 USD: Binary event today

We rarely take cues from the ADP report for US payrolls expectations since the correlation between the two is unarguably weak. But yesterday's ADP's 99k print was the weakest since the reopening of the economy in 2021, as small businesses shed staff in August while medium and large businesses were hiring at a very modest pace. The ISM Services report was steady and in line with consensus at 51.5, but the employment sub-index dropped more than expected to 50.2. The news for the jobs market was not all grim, though; there was a surprising contraction in continuing claims from 1860k to 1838k in the week ending 24 August.

Looking at the soft dollar performance over the past couple of sessions, negative job market data

has clearly had greater resonance in FX. So even if the consensus figure for payrolls is 165k, markets may be positioned for a lower figure. Ultimately, the question markets need answered today is: what figures would prompt a 50bp Fed cut in September? We identify three broad scenarios:

1. **Payrolls below 100k, unemployment up to 4.4% (consensus is 4.2%):** 50bp September cut becomes the base case, and the dollar dives
2. **Payrolls softer than consensus, but above 100k, unemployment unchanged at 4.3% or up to 4.4%:** markets will be left guessing on the size of the September cut. Dollar weaker on the release, but may well bounce back shortly if unemployment hasn't ticked higher.
3. **Payrolls at or above consensus, unemployment declines:** 25bp cut in September, room for hawkish repricing in the USD OIS curve, which currently prices in 175bp of cuts over the next five meetings. Ample room for a USD rebound.

Our US Economist's estimate is 125k, with unemployment up to 4.4%. If we are right, markets may get to the 18 September Fed announcement pricing in somewhere around 35bp-40bp, which should keep the dollar capped until the binary rate cut event unfolds. Our forecast remains a 50bp cut this month, but admit it is a close call.

Expect payroll-driven USD weakness to favour both low-yielding and pro-cyclical currencies today. But beyond the very near-term impact, JPY, CHF and – to a lesser extent – EUR seem more palatable in an intermittently unstable environment for risk assets as US recession fears creep up.

Francesco Pesole

EUR: Barnier can prove to be to a EUR-positive over time

The news of the week in the eurozone is that French President Macron has appointed a prime minister: former Brexit Chief Negotiator [Michel Barnier](#). The euro and French bond spreads didn't really react to the news, which is understandable given broad expectations for a moderate figure in the PM role and recent very muted sensitivity to EU political developments (the German election surprise was a case in point).

Barnier's appointment can be a EUR-positive on the margin ahead of an intense EU budget season over the next couple of months. The fact that a candidate was finally picked is a signal that the more fringe parties in the French Parliament are opening up to dialogue. Ultimately though, the euro will react to facts more than expectations on the alarming French fiscal situation, and we are not ready to pencil it in as a EUR/USD bullish factor before more clarity on budget negotiations – and each party's priorities – emerges.

For now, EUR trading remains a strict function of US macro developments. In line with our scenario analysis discussed above, the range of potential swings in EUR/USD is wide today. If our '125k payrolls, 4.4% unemployment' call is right, EUR/USD can take a decisive leap back to the upper half of 1.11-1.12, which can be the prevailing range into the 18 September FOMC.

The eurozone calendar will hardly move the euro today. There are no expected revisions in 2Q GDP/employment final figures, and either way, those are backward-looking indicators that should not influence the ECB's path to a likely 25bp rate cut next week.

Francesco Pesole

➔ CAD: Watch for more jobs weakness

We spoke a lot about Canada this week, as the Bank of Canada delivered a widely expected [25bp rate cut](#) on Wednesday. The BoC event did not move markets significantly, and the USD/CAD dive shortly after the announcement was instead mostly due to soft US JOLT figures.

Today, Canada releases jobs figures at the same time as the US. The consensus for headline Canadian payrolls is 25k, in line with the last few months. The fact that consensus has not adjusted lower following two negative prints tells us it is not a really reliable benchmark for expectations.

Incidentally, looking at the unemployment figure is likely more informative at this stage. We expect, in line with consensus, an increase from 6.4% to 6.5%. Remember, this was 5.7% in January, and another tick higher would endorse market pricing for more back-to-back Bank of Canada cuts.

The US payrolls can have a larger impact on USD/CAD than Canadian payrolls. However, we remain of the view that the pairs look increasingly cheap as they approach the 1.345 mark. Ultimately, the Canadian dollar should underperform most other high-beta peers if soft US macro news comes through.

Francesco Pesole

➔ CEE: Rates rally outperforming core markets

Closing out the week, the CEE region offers a busy calendar with industrial production data in Hungary and the Czech Republic this morning. Also, earlier we saw a GDP breakdown in Romania. And in Hungary, PM and finance minister speakers are scheduled. However, trading should be more about yesterday's headlines. Yesterday, the governor of the National Bank of Poland revised forward guidance in a dovish direction, suggesting a rate cut in the middle of next year or when inflation is heading towards the target. Still, the Governor tried to stress the hawkish arguments, but the change in dovish direction was clear.

However, the market is already on the dovish side and although at the start of the conference it appeared the market would start more rate cuts, yesterday's trading remained almost unchanged while CEE peers ended rates significantly lower under pressure from core markets. The first rate cut thus remains priced in for December this year, but with such a shift in rhetoric and core market conditions, the market has struggled to move PLN rates down too. Objectively, our economists leave the forecast unchanged - first rate cut in 2Q25 and a total of 100bps next year, which is also where the Governor's tone shifts.

EUR/PLN ended higher yesterday following a dovish tone but still near the upper end of our 4.270-280 range, and although rates may move lower again and push PLN weaker, we would rather expect it to remain near current levels. On the other hand, after yesterday's move in rates, we are turning tactically bearish on HUF and CZK, where rates outperformed the core markets yesterday for the first time in a while, leading to a significant deterioration in the rate differential.

In the case of EUR/HUF, we have been pointing to a reversal soon within our 390-400 range for some time and with more headlines from NBH and the government in recent days, we believe now is the right time to see EUR/HUF higher with 394.5 as the first stop. In the case of EUR/CZK, we were expecting a move below 25.00, but it looks like we will have to wait a bit longer for the CNB

meeting at the end of September, which could be an opportunity, but after yesterday's rate move we see the first move up above 25.10.

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