# FX Daily: Today's NFP to set the tone for June

Today's US NFP data will be a key determinant of the market mood for June. A sub consensus figure will allow investors to search out recovery stories as they did in May. A stronger-than-consensus figure squarely puts the focus on the FOMC meeting on 16 June, probably sending the dollar higher against the high beta commodity bloc

Source: Pexels

## USD: Bracing for NFP

It is a big day for global financial markets with the release of the US NFP jobs report for May. A month ago, the sub consensus release for April set the trading tone for May. That encouraged stability in US Treasury yields and a rally in BRL and ZAR (on the commodity surge), a rally in CEE FX (on Hungarian and Polish central banks turning less dovish) and a rally in north Asian FX (equity flows returning to China and a sense that PBOC might want a firmer Renminbi).

After yesterday's strong ADP employment release, consensus for today's NFP is probably for a 700-800,000 increase in jobs in May. Our US team sees downside risks to that number as employers continue to struggle to find workers. James Knightley discusses those challenges here.

Such an outcome would support the position of the doves on the FOMC that the Fed still needed to be patient and would not be rushed into a decision on tapering at the FOMC meeting on 16 June. This scenario should continue to see the dollar gently offered across the board.

Given recent benign market conditions, the larger FX reaction today probably comes on a strong NFP number. Additionally, in the background, there is a sense that Biden may be making progress on his infrastructure plan by backing away from the US corporate tax rate increase to 28% - in order to appease Republicans. (As an aside, swapping expected federal revenues from a tax hike for efficiency gains in tax collection might not be greeted well by debt markets one day.)

As our debt strategy team notes, a stronger NFP number is probably felt at the policy-sensitive 5 year part of the US Treasury curve. Here a bearish flattening of the 5-30 year US curve probably sees the dollar rally the most against the G10 commodity bloc (NOK, AUD in particular) and ZAR and MXN in the EM space - this according to daily correlations over the last three months.

After breaking out of a two-month bear trend, DXY risks look skewed to the upside today and DXY could push up to 91.05/10 on a strong NFP.

Elsewhere today, Canada will also see the release of May jobs numbers. Consensus is for another negative read (-25k) as containment measures remained strict in May, but we think the balance of risks is skewed towards a positive surprise. The result could be some support to CAD ahead of next week's BoC policy meeting, although we expect no more tapering announcements at least until July.

## EUR: Supported on dips

EUR/USD has succumbed to dollar strength after yesterday's better than expected US ADP and ISM numbers. A dip to 1.2050 looks to be the risk today should the NFP surprise on the upside. However, next Thursday's ECB meeting should be interesting and continued dovishness from the ECB might conversely be good for the EUR as it encourages more unhedged equity flows into the region.

Elsewhere in Europe, Russia hit the headlines yesterday with an announcement that the National Wealth Fund would scale down its dollar holdings to zero. Whilst we think that has little immediate market implication, it does serve as a reminder of the secular trend to break free from dollar exposure - after Trump's administration demonstrated the long arm of the US Treasury when it comes to sanctions.

## GBP: So far, so good

Yesterday's positive revision in the UK final composite PMI for May could not help Cable succumbing to dollar strength. As above, any dollar strength on a strong NFP could knock Cable back down to the 1.4000/4020 area - where support may hold.

We doubt the decision on 14 June whether to fully open up the UK economy will have a material impact on the GBP outlook. We feel there is good momentum behind the economy right now - enough to support the BoE's reasonably bullish set of forecasts and probably maintain expectations that the BoE could tighten before the Fed in 2H22.

## MXN: Mexicans go to the polls on Sunday

Mexicans go to the polls on Sunday to vote in mid-term parliamentary elections. All 500 seats in the chamber of deputies are up for grabs and the expectation is that mid-term blues typically see incumbents lose market share.

Here President Obrador's (AMLO's) Morena party, together with three coalition members, currently has a 334 seat super-majority. There is some speculation that this could surprisingly be maintained. Given a big swing to the left in Latin American politics (Sunday also sees a Presidential run-off in Peru with a leftist candidate in the lead), a strong showing of AMLO's party could spark some fears of an even more populist agenda.

Yet those fears of populism when AMLO was elected three years ago have been overcome and Mexican assets have performed pretty well despite AMLO avoiding the debt-financed fiscal support path taken by many others in 2020.

With foreign ownership of the local MBONO market relatively low at 20% (versus 31% December 2018), we suspect that any sell-off in the MXN on NFP, Mexican politics, Peruvian politics, is relatively short-lived. And strong balance of payments support from remittances back to Mexico (running at $4bn per month) should keep the MXN in demand. We would expect fresh selling interest to emerge should USD/MXN trade to the 20.35/45 area.

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