

FX Daily: US employment continues on a benign trend?

The focus in FX markets today is on whether US employment continues on its benign downward path and represents the economy coming into 'better balance'. Of interest will be whether December's number gets revised down – marking 11 downward revisions out of 12 last year. We could see the return of a marginally more pro-risk environment



📉 USD: Jobs report in focus

This week's price action in US rates markets is instructive. Despite the Federal Reserve pushing back against prospects of a March cut, interest rates have still come lower. That may be a function of investors watching US regional banks remain under pressure. Or more likely it reflects a conviction call that policy rates are coming lower this year and there is no point fighting this overwhelming trend. This is the reason that the dollar did not build on gains seen early yesterday.

Coming to today, we have the US January jobs report. Consensus is for +185k in jobs gains, while we forecast +200k. However, the Fed seems pretty comfortable that the labour market is coming into better balance and we doubt a +200k number needs to trigger a major repricing of the Fed

easing cycle. Instead, we are interested to see whether December's +216k number is revised down. This would then represent 11 of the last 12 nonfarm payroll (NFP) jobs releases being revised lower and support the Fed's contention that tight US labour markets are a thing of the past.

We typically have a slight negative bias for the dollar on NFP day on the working assumption that investors use NFP-inspired FX liquidity to put money to work outside of the dollar. We also again want to highlight that 9 February could be a big day for FX markets. Annual US CPI benchmark revisions are released today and will confirm whether the late 2023 US disinflation trends are real – or get revised away.

DXY has been trading an exceptionally tight 102.77 to 103.82 range over the last two weeks – but may be due a test of lower levels now.

Chris Turner

⬆️ EUR: Core inflation disappoints

Short-date eurozone interest rates got a lift yesterday from the January CPI numbers where core inflation did not fall as much as expected. Our economists [make a great point](#) that the European Central Bank could be concerned that companies do have the pricing power to avoid margin pressure and will pass higher wage costs onto the consumer. Hence it makes perfect sense for the ECB to wait until June, when it will have the wage data, to cut interest rates.

EUR/USD did not spend too long under 1.08 at all yesterday. If today's US NFP figure is indeed benign, then EUR/USD can knock on the door of 1.0875/0900 again. However, one month EUR/USD realised volatility continues to drift around the lows near 6% and low implied volatilities suggest that investors are not expecting a pick-up in FX volatility anytime soon.

Elsewhere, we were a little surprised at how the Riksbank did a full U-turn from one last hike in early 2024 to not ruling out a cut in the first half of this year. Unlike the Bank Of England, the Riksbank clearly seems more confident of its disinflation trend. This could end up proving a SEK negative over coming months and could favour an extension of this year's GBP/SEK rally – perhaps even to the 13.50 area.

Chris Turner

⬇️ CEE: Busy political scene in the region

A busy week in the region comes to an end after a hawkish National Bank of Hungary surprise on Tuesday, another conflict between the president and the government in Poland on Wednesday and an agreement with Hungary at the EU summit yesterday. However, we can at least take some risk events off the table. Next week we will see central bank meetings in Poland and the Czech Republic and the first January inflation in the CEE region in Hungary. So markets should return to the normal agenda and regain their footing.

Following the EU summit chapter, the market in Hungary has started to price in rate cuts again as expected, and we think that with the inflation print next week the market will fully switch into rate-cutting mode again. Therefore, it is hard for us to be positive on the HUF at these levels as we discussed here earlier. In fact, we prefer PLN here, which seems to have become used to the political noise and has grown more resilient. Moreover, it remains the only currency supported by rates. On both sides, we think the gains have gone too far, but in the case of PLN it is not that hard

to imagine an improving interest rate differential due to falling core rates supporting FX. The same cannot be said in the case of HUF.

Frantisek Taborsky

📌 CZK: Changing our central bank call to a 50bp rate cut

The blackout period for the Czech National Bank (CNB) began yesterday and we will therefore probably not hear anything more. Deputy Governor Jan Frait really moved the market when he said he was open to a larger rate cut, even more than 50bp at the 8 February meeting. We do know that the deputy governor was one of two board members who voted for a rate cut back in November when the CNB left rates unchanged. So the new statements aren't exactly a game changer, but we have confidence that at least two members will push for a 50bp rate cut at next week's meeting. In addition, the board will have a new forecast which we think should show very low inflation of below 3% for the upcoming months. Overall, this leads us to reassess our call from a 25bp to 50bp rate cut next week.

The acceleration of the rate cut is bad news for the CZK. However, we believe positioning has been heavily short here for some time and should not be so damaging. Moreover, the market is already pricing in a large portion of the rate cuts. Therefore, we do not expect significant weakness from this, but of course a short trip above 25.0 EUR/CZK is likely next week.

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