

FX Daily: US jobs market update threatens the dollar

Today's FX market focus is squarely on the June US jobs report. Does a consensus +110k release provide cover for Fed Chair Powell to continue resisting pressure to cut rates? Or will a weak number put a July rate cut squarely on the table? We think it's too early to say that we've reached 'peak bearishness' on the dollar – but the jobs data will set the tone



US jobs data still poses a threat to the dollar

➔ USD: Too early to say we've reached 'peak bearishness' on the dollar

We were asked by a journalist yesterday whether we felt the FX market had reached 'peak bearishness' on the dollar. After some consideration, we said no. While forecasters are overwhelmingly bearish on the dollar now – and we are bearish on a multi-quarter basis too – one possible shoe still to drop is the possibility of early Fed rate cuts. At ING, we're not in that camp, but today's US jobs data will have a major say in that story. Chair Powell, leading the camp for the Fed to keep rates on hold, argues that sticky inflation and a solid labour market mean that the policy rate should be kept mildly restrictive at 4.25-4.50% for the time being. Clearly, any downside

surprise in the jobs report would weaken his position and allow the market to push on with pricing a rate cut at the July meeting. Currently, the market attaches a 26% probability to that outcome.

In terms of the jobs report, consensus expects a +106k number. The Bloomberg 'Whisper' number is now at +97k and has been edging lower, especially after yesterday's ADP private sector payrolls release saw the first decline in payrolls since March 2023. On the unemployment rate, jobs growth failing to keep pace with the labour force expansion is expected to see the unemployment rate nudge up to 4.3% from 4.2% – still very low. For reference, USD/JPY quickly fell 0.5% intra-day on the negative ADP release.

Barring a negative NFP release today or a big rise in the unemployment rate, we'd expect the dollar to continue consolidating ahead of tomorrow's 4 July US public holiday. The dollar does face further threats next week, however, when the 9 July deadline for trade deals passes and President Trump could start threatening 50% tariffs again for recalcitrant trading partners.

Expect DXY to continue finding support in the 96.35/50 area, and we slightly favour consolidation over a long weekend. Any big miss in NFP could trigger sub-96 levels, however.

Chris Turner

➔ EUR: ECB starting to express some concern over euro strength

The *Financial Times* is running a story today on ECB officials questioning whether the [euro has strengthened too much](#). The macro arguments here would be that with the trade-weighted euro now rising at a 4% YoY rate, lower import prices could see the eurozone CPI undershooting its 2% target. The ECB's response here would have to be earlier and larger rate cuts, given that unilateral intervention to sell EUR/USD is politically unacceptable and would not work. These macro concerns over euro strength are at odds with the view that Europe should be taking advantage of this 'global euro' moment – and we'd back the latter story here, where global portfolio re-allocated to the eurozone can only be a good thing for private sector borrowing costs.

As above, NFP is the big story today, although we will have the release of the June ECB meeting minutes – these are released at 1330CET. Recall there was one dissenter in the decision to cut rates by 25bp to 2.00%.

EUR/USD remains well bid and it seems foolish to try and pick a top. There really is not much resistance until the 1.1900/1910 area, which could be seen at a stretch if NFP were negative, for example. Barring that, the default position is probably a 1.1750-1.1820 trading range ahead of more trade-related volatility next week. For reference, the FX options market also prices a 70 pip range for EUR/USD today as well.

Chris Turner

➔ GBP: Political noise takes its toll

We had a surprisingly [large sell-off in sterling](#) yesterday after markets bought into the view that the fiscally responsible Chancellor, Rachel Reeves, could be forced to resign. In retrospect, perhaps PM Keir Starmer merely misjudged the mood of the House of Commons (and the markets) by not backing her straight away (he has now).

Clearly, the UK has some significant fiscal challenges which will come to the fore ahead of November's budget. Before then, however, and assuming there is no surprise exit from Reeves, the focus will be on upcoming Labour government policy. Were the government to cave into the left wing of the party again and remove the two-child benefit cap, investors would rightly think that power had ebbed away from the Starmer-Reeves axis, and gilts would be under more pressure.

For today, sterling is recovering a little and will take its cue from gilts. Any further suggestions from the Bank of England that it could slow its £100bn per year quantitative tightening/gilt sales programme – the decision to be taken in September – could help gilts and sterling. EUR/GBP could sink into a 0.8600-0.8650 range as it awaits further developments.

Chris Turner

📌 CEE: National Bank of Poland surprises market with rate cut

The National Bank of Poland decided to [surprise the market again](#) and cut rates yesterday by 25bp to 5.00%. Although [the rate cut discussion was expected](#), most of the market, including us, assumed that the central bank would wait for further data and cut rates only in September. It seems that the new forecast showing lower inflation by about 0.9pp this year, compared to the March version, and the government's decision to keep electricity prices frozen were sufficient reasons to cut rates now. It is still unclear whether this marks the beginning of a rate-cutting cycle or is just another adjustment.

Today's press conference by Governor Adam Glapinski should provide more details, but we believe that the data will continue to surprise on the dovish side, which makes us bearish on PLN, suggesting the start of the cutting cycle. Just yesterday's jump in market rates suggests levels around 4.290 EUR/PLN. Of course, the next driver will be today's press conference, but if this is the beginning of a cutting cycle, we will see more pressure on PLN.

Elsewhere, Turkey will release June inflation today, which should be key for the July meeting. We expect the month-on-month rate to be unchanged at 1.5%. This should lead headline inflation only slightly from 35.4% to 35.3% and should be enough to restart the Central Bank of Turkey's cutting cycle at the July meeting. The market has shifted expectations significantly to the dovish side in recent weeks, more in line with our forecast. Still, today's inflation should be another positive signal for bonds and rates, while USD/TRY remains safely on an upside trend, where we do not expect any changes until at least the end of the summer, when the central bank will ensure a smooth restart of the cutting cycle.

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