

FX Daily: US jobs report should not damage the dollar

The dollar goes into today's US jobs report around 2% off its highs of the year. We doubt a softish headline jobs number will do too much damage to the dollar, given that average earnings should stay firm and next week should see another near 9% YoY US CPI print. Elsewhere, expect a large rate hike in Romania today, but RON may struggle to hold recent gains



Jobs data will also be released in Canada today. Unlike the US, last month's figures were a bit grim

➔ USD: Expect dollar to stay bid into next week's July CPI

G3 FX volatility is steady at lower levels as we move deep into the summer months. A half-decent US earnings season has seen a modest improvement in investor sentiment and investors start to nibble at carry trades. In the EM space, it has generally been a good week for sovereign credits with Turkey's hard currency bonds enjoying some strong gains. Latin FX, where some of the highest carry in the world can be found, is also enjoying a modest recovery. Implied yields through the 3m FX forwards of 13% in Brazil and 9.5% in Mexico are quite tempting if you think markets can settle into a quiet August.

On that subject, the pricing of the Fed tightening cycle looks quite settled for the end of this year in

the 3.25-3.50% region. And this week's pushback from the Fed may limit the downside for easing expectations next year. Feeding into this story should be today's release of the July NFP data. Our team sees a slight downside risk to the consensus of a 250k increase. But unless average hourly earnings fall sharply (expected at 0.3% MoM, 4.9% YoY) it seems far too early to conclude that the Fed's battle against inflation is over. And another 9% YoY US CPI release next week will prevent that too.

All together this should keep the dollar bid near the highs. Over the last year, the dollar has very modestly risen in the aftermath of NFP releases. Those in FX markets looking for carry opportunities will probably turn to the euro or yen for funding currencies – where the prospects for both seem soft. DXY should stay bid within a 106-107 range.

Jobs data will also be released in Canada today. Unlike the US, last month's figures (for June) were a bit grim, with employment declining by 43k, but we expect a decent headline reading today (consensus is centred around +15k), with an unemployment rate that might actually stay below 5.0%. This may offer some support to CAD, although a decisive break below 1.2800 may not be on the cards as USD may also stay bid after the NFP release. We doubt today's numbers will derail the Bank of Canada tightening plan, although a more incremental approach after the big 100bp hike last month appears warranted: we expect 50bp in September.

➔ EUR: Forecast profile revised lower

Yesterday we revised our [multi-year EUR/USD profile lower](#). We have been bearish on EUR/USD this year, but clearly not bearish enough. And our prior forecast of 1.08 for year-end was starting to portray us as 'bullish' – which looks untenable barring some major shift in European politics that can reverse the massive negative income shock of higher energy prices. The latest news from Gazprom is that three other turbines (in Russia) may also require maintenance. There seems little hope of a pick-up in Russian gas supply to Europe anytime soon.

Barring a big miss in the US NFP numbers today, and a much softer than expected average hourly earnings number, we suspect that EUR/USD will struggle to break the 1.0280/10300 area today.

We were wrong with our call on sterling yesterday, where EUR/GBP rose 0.5/0.8% as the [Bank of England delivered the grim news](#) that the UK economy would contract for seven consecutive quarters from 4Q22. But the BoE policy rate could well be moving to 2.25% in September and a 150bp spread over the ECB policy rate should prove some insulation for sterling – at least against the beleaguered euro.

➔ RON: National Bank of Romania to close the rate gap with CEE

Today we have a National Bank of Romania (NBR) policy meeting including rate decisions and the presentation of a new forecast. [Valentin Tataru in Bucharest expects](#) another 100bp rate hike to 5.75%, which still marks the lowest rate in the CEE region. The inflation forecast should show a higher trajectory again, but the changes should not be significant. Our call is in line with the surveys, yet markets are recently demanding more and more monetary tightening. After the last meeting in July, the spread between the NBR key rate and 3M Robor dropped from 270bp to 170bp. Today, however, the spread is a record 320bp. This reflects both the persistent lack of liquidity in the money market and growing expectations of NBR rate hikes. Aside from August, the

central bank has two other policy meetings: in October and November. Today's rate hike should be the last big hike, in our view, and the next meeting should already bring smaller steps leading the terminal rate to 6.50% at the end of this year.

Despite all this, the FX market remains untouched. For the leu, the 4.95 EUR/RON line remains impenetrable, fully under central bank control. Although the leu has managed to get a bit lower in recent days, the fundamentals do not suggest much reason for appreciation – quite the opposite. On the weaker side, however, the NBR is waiting to prevent any RON depreciation that would threaten inflationary pressures in the economy with the largest FX pass-through in CEE. And we think nothing will change in the NBR's FX strategy until at least the end of this year.

➔ CZK: The koruna is key to Czech National Bank monetary policy

The Czech National Bank (CNB) [left interest rates unchanged yesterday](#), in line with our expectations. The new forecast brought an upward revision to GDP growth for this year and a downward revision for next year. More interesting, however, is the central bank's view on inflation. It should peak at 20.0% YoY in the coming months while remaining above 9% on average next year. Under these conditions, the CNB's new forecast sees rates peaking at the current 7% level and even implies a rate cut as early as 4Q. In our view, however, the key issue is the koruna and the depreciation pressures.

As long as the CNB keeps the koruna under control, we believe further rate hikes are not in play. Thus, the main question is where the pain threshold of the new board for the rising cost of FX interventions is. This is very difficult to gauge at the moment given that we have heard little from the new board so far, but our best guess is above the CNB's 30% FX reserve level, which is far from the current 12% level (according to [our calculations](#)). Thus, we expect the koruna to remain at current levels of 24.50-24.70 EUR/CZK and the key will be global developments, which could trigger a sell-off in EM currencies if risks materialise. This would imply too painful a cost for the CNB in terms of the loss of FX reserves.

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