

FX Daily: US payrolls even more key after positioning shifts

The dollar has had a bad week even though rates did not move too aggressively against it: we think positioning readjustments have exacerbated the USD decline. Today's payrolls are even more important given Fed Chair Jerome Powell's dovishly-perceived testimony. We are in line with consensus (200k), but many surveys point to a softer read



➔ USD: Payrolls to test post-Powell market reaction to data

This week has so far seen large shifts in FX positioning. The dollar is trading anywhere from 0.5% to 1.5% lower than a week ago against G10 currencies, and the two currencies with the largest net short speculative positions according to CFTC data – the Aussie dollar and Japanese yen – are leading the pack. The two days of testimony by Federal Reserve Chair Powell matched our expectations of defying hawkish bets, but the size of the dollar decline surprised us, and indeed appears to have been exacerbated by position-squaring effects.

The overall message delivered by Powell in this round of Congressional testimony has focused on patience and caution on the inflation outlook. However, Powell has also remained confident about

the disinflation process, despite the recent unsupportive data, and said that the Fed is not far from having the confidence to cut rates. Ultimately, this is the key takeaway from a market that was expecting a more hawkish tone.

Now that markets have been handed a relatively dovish guideline by Powell, the focus turns back to data. We have US payrolls on the calendar today, and this February print is largely expected to mark a return to moderate employment gains following the very strong January figures. Consensus is centred at 200k, in line with our economists' call. However, this number does not really reflect the evidence from other surveys – which point to something closer to 100k – but one that embeds the tendency of jobs data to surprise on the upside and diverge from other indicators. In other words, there are no compelling reasons to exclude that we'll finally see a softer print, but the recent strength in the nonfarm reports warrants a good deal of caution.

The payrolls will determine the direction of FX markets today. Following Powell's testimony, we suspect markets will not be too reluctant to price in more cuts. After all, the Fed funds futures curve has not much changed since the end of last week. Downside risks remain material for the dollar today.

Francesco Pesole

➔ EUR: No real change in the ECB narrative

The euro experienced non-negligible volatility after the European Central Bank announcement yesterday, even though the core of the Bank's communication did not change ([here is our meeting review](#)). The new round of projections sounded quite encouraging from an easing standpoint: inflation was revised marginally lower and projected at 2.0% in 2025, while the growth forecasts were also revised lower. That triggered an initial EUR-negative reaction.

However, President Christine Lagarde reiterated that the ECB is not confident enough about disinflation and that more information will be received in April and especially in June. While this is a nudge to market bets of a June cut (which is also our base case), Lagarde continued to link monetary easing with developments not only in inflation but also wages. That helped the euro recover during the press conference, while the big dollar decline provided a big contribution.

EUR/USD is trading close to the top of the range which is consistent with such a wide short-term rate gap (-125bp in the two-year swap market). That means that it can be vulnerable to near-term corrections, but also that it is starting from a good level should US rates enter a decisive dive.

Today, the eurozone calendar includes speeches by ECB's Gediminas Simkus and Robert Holzmann as well as the final 4Q GDP report. However, US payrolls will determine the direction for EUR/USD: expect some resistance at the key 1.1000 level should the dollar decline further today.

Francesco Pesole

➔ CAD: Loonie still looks at the US more than Canada

Canada also releases jobs figures for February today. Expectations are for a respectable 20k employment print, with the unemployment rate expected to nudge higher from 5.7% to 5.8%.

The implications for the Canadian dollar should not be material unless we see a big surprise in either direction. Both the loonie and Bank of Canada rate expectations have followed very closely

US data dynamics and we think that today's US payrolls should have a bigger say in the short-term direction of USD/CAD. The loonie is an unsurprising laggard in the current environment given its correlation with USD. However, the USD decline was enough to push USD/CAD below 1.35.

We expect this to be a common theme moving forward: a USD decline should see the loonie lag other high-beta/commodity currencies, but can still put gradual pressure on USD/CAD, which we expect to break below 1.30 by 2H24.

Francesco Pesole

➔ CEE: First February inflation print in the region

This morning we received the second estimate of GDP for the fourth quarter of last year in Romania. Also, February inflation was released in Hungary, as the first CEE number for the month. We expect inflation to move from 3.8% to 3.7% year-on-year, slightly below expectations and again well below the December forecast of the National Bank of Hungary (4.4%). However, this should not be a shock to the market given the same surprises in previous months. For the rest of the day, the calendar is empty in the CEE region. Only the Hungarian Prime Minister's meeting with Donald Trump could trigger some headlines.

Hungary's forint remains on the weaker side despite our slightly bullish bias fuelled by the higher interest rate differential. The political turmoil in Hungary around the central bank seems likely to hit the markets more than we expected and the HUF will have to get used to weaker levels a bit longer. So for now we expect EUR/HUF to remain near 396 with upside risk, while market rates point to stronger forint levels.

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