

FX Daily: Waiting for payrolls to jump back into the dollar?

We expect a consensus read in US payrolls today (175k), and suspect that could be enough to put the dollar back on a short-term appreciation path as markets consolidate higher-for-longer Fed expectations. Canadian jobs figures may tilt market pricing towards another BoC rate hike, but watch for data volatility



USD: Consensus payrolls may be enough to send the dollar higher

The pause in the bond selloff is granting some room for recovery for most currencies against the dollar. Today's US payrolls are, however, the big event of the week and a strong read could easily put markets back on a bearish track and reignite aggressive dollar buying.

Our economist projects a 175k read, in line with consensus and only slightly changed from August's 187k. The unemployment rate is expected to edge lower from 3.8% to 3.7% and average hourly earnings to stabilise around 4.3%. If we are right with our estimations, the report should all but confirm that the US labour market remains tight and give no reasons to doubt the Federal Reserve's lower for longer narrative.

Remember that the initial cool-off in the bond selloff and the dollar correction on Wednesday was helped by soft ADP private payrolls – which, however, have no historical correlation with official payrolls. There is a decent chance that markets are positioned for a modestly sub-consensus read in jobs figures today, and even a consensus figure could send the dollar higher across the board.

Our rates team continues to point at 5.0% as a plausible target for 10-year treasuries, and the lingering gap between the Fed dot plot and current rate expectations for 2023 and 2024 means that a return in USD 2-year swap rates to levels above 5.0% is also a clear risk in the very short-term. The dollar is expensive to sell, and we feel a wobbling bond market can continue to support it for now.

DXY may well return above 107.00 as early as today, or early next week.

Francesco Pesole

↓ EUR: Contained mis-valuation

EUR/USD has found some support on the back of the softer dollar environment, although the euro continues to lack a strong domestic which is contributing to capping the upside.

We currently estimate EUR/USD's fair value at 1.0650, meaning that the pair is around 1% undervalued to its market drivers, below its 1.5 standard deviation and does not suggest an imminent upward correction.

EUR/USD can slip back below 1.0500 even in the event of a consensus read in US payrolls today, in light of what was discussed in the dollar section above. The eurozone calendar remains rather quiet data-wise, and European Central Bank (ECB) speakers are failing to have an impact on markets. Villeroy sounded dovish yesterday, saying he hopes hikes are over, and we'll hear from Klaas Knot, Bostjan Vasle, Boris Vujcic and Peter Kazimir today.

In other EUR crosses, we saw EUR/SEK decline again yesterday after a spike to 11.66. The divergence between NOK and SEK is a mirror of the Riksbank's role in the FX market that has been propelling SEK. The Riksbank will publish the details of the first week (25-29 September) of FX hedging operations on 13 October.

Francesco Pesole

↓ GBP: 1.20 remains a real possibility

During a period of scarcity of market-moving data releases in the UK, yesterday's [Bank of England Decision Maker Panel survey](#) offered a few interesting highlights. Inflation expectations (current, 1-year and 3-year ahead) declined, while wage growth for the year ahead remained at 5.1%. On the jobs supply front, the proportion of firms finding it "much harder" to recruit is at 20%, down from a peak of 65% in the summer of 2022.

We think the survey can modestly help our call for a BoE hold in November, although mostly for what that may suggest about ongoing price dynamics rather than how highly regarded the Decision Makers Panel Survey is at the MPC.

EUR/GBP may keep struggling to find any real sense of direction, while GBP/USD looks vulnerable to a dollar rebound. It is too early to rule out a move to 1.2000.

Francesco Pesole

➔ CAD: Key jobs figures to steer rate expectations

As it often happens, Canadian jobs figures will be released at the same time as the US ones, and the USD/CAD reaction will depend on a mix of the two prints.

This September jobs report is a rather important one for the Bank of Canada (BoC) and for market rate expectations. Since the August BoC meeting, the data narrative has turned more hawkish with stronger than expected employment and wage figures for August, a bigger than projected rebound in headline and core inflation, and then some acceptable GDP figures for July.

The past four months have seen an alternance of very strong (60k and 40k in June and August) and very weak readings (-17k and -6k in May and July). Today, the consensus is expecting a quite strong 20k increase, with wage growth staying above 5.0% and unemployment only inching marginally higher from 5.5% to 5.6%.

We think that a jobs report matching consensus would be enough to keep market expectations for more BoC tightening alive. However, data volatility is an issue in Canada, and the chances of a negative read are relatively high. The CAD OIS curve is currently pricing in a 30% probability of a hike in October and 50% in December.

USD/CAD has rallied on the back of USD strength and the spike in US treasury yields: this is an unwelcoming environment for the high-beta loonie, especially now that oil prices are no longer offering a solid floor. Unlike previous instances, USD/CAD isn't overvalued at current levels, and we would favour any CAD strength on the back of good domestic data against other pro-cyclical currencies as opposed to the USD.

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