# FX Daily: Watching for new USD/JPY highs on solid US payrolls

We expect a 470k employment increase in US payrolls today, which should cement expectations around a November Fed tapering and late 2022 tightening, and ultimately keep US yields and the dollar supported. JPY may once again emerge as the key loser, and wee see USD/JPY breaking above 2019 highs. CAD may strengthen on more good jobs figures in Canada.

Source: Shutterstock

## USD: Staying bid on solid payrolls, especially against low-yielders

Global equities are heading to the end of the week in a generally better mood than when they started it. A good session across Western markets yesterday is helping most Asian indices to trade in the green this morning – including China's stock market, which reopened after a week-long holiday. Normally, better sentiment would warrant a weaker dollar across the board, but markets seem reasonably reluctant to let go of long dollar as US yields continue to rise.

Concerns about the US debt ceiling appeared the key hurdle for another leg higher in back-end yields. Yesterday's Senate approval of a short-term debt ceiling increase bill (until 3 December) dealt another hit to the fragile US bond market, with 10Y yields now close to the 1.60% level last seen in early June.

Today, all focus will be on the US jobs report released at 1330 BST. Our expectations are for a 470k rise in employment (consensus is around 500k), which should be enough to endorse market expectations around a November tapering announcement and late-2022 rate hike, in our view. Ultimately, a solid number should give little reason to turn any less bearish on the longer end of the curve.

In FX, this may well translate into general support for the dollar and another bad day for the yen, the worst performing G10 currency so far. USD/JPY is now very close to some key historical highs: the late September one (112.08), the February 2020 one (112.23) and the April 2019 (112.40). A break above such technical levels could see the USD/JPY rally gather even more steam today. In the rest of G10, commodity currencies and especially those on the good side of the energy story (NOK, CAD, AUD) should be less hit by any dollar strength compared to the low-yielding segment, largely in line with the moves seen in the past few days.

## EUR: Any hawkish tilt by Lagarde seems unlikely today

The downward trend in EUR/USD paused around the 1.1550 level amid a broad stabilisation in the FX market ahead of today's US payrolls. We are inclined to think we could see another leg lower in the pair today as USD finds fresh support after the jobs data, although the 1.1500 support may hold before the weekend.

The eurozone calendar will offer no euro-specific drivers today, although some focus will be on ECB President Christine Lagarde joining her predecessor Mario Draghi and Treasury Secretary Janet Yellen at an event in Italy today. The question markets want answered is the usual one: is the ECB getting more concerned about inflation? But we doubt we'll hear anything different from Lagarde compared to the recent ECB speaker's unconcerned/dovish tone. Only yesterday, Chief Economist Philip Lane said there is "very solid evidence" to believe the current spike in prices will not last. This is likely keeping EUR/USD mostly a dollar story.

## GBP: Still supported by hawkish pricing

The central theme in markets is how central bankers react to expectations of higher inflation. In the UK, markets are clearly taking the view that the BoE will be forced to act much sooner than hinted at by policymakers, with the OIS curve showing 7bp of tightening priced in for the November meeting and 24bp for the February meeting. Yesterday, some comments by the new BoE Chief Economist Huw Pill fell on the hawkish side of the spectrum as he expressed the view that higher prices will have a more persistent nature than previously thought.

We continue to think rate expectations in the UK have run too far and probably underestimated the potential headwinds to the British economy in the coming months, but markets will likely need to see some data to start pricing out imminent BoE tightening. We'll have jobs data in the UK next week: up until then, GBP may stay by and large supported, especially against the EUR.

## CAD: Jobs data to endorse good momentum

CAD has recently found some support from the rise in global energy prices, but focus today will shift back to domestic drivers as Canada's September jobs data are released at the same time as the US ones. A tight labour market has been a key factor keeping BoC rate expectations supported, and we think today's data should leave policymakers of track to taper again this month and in December, formally concluding QE by year-end. Markets will also keep a close eye on wage growth numbers, where a meaningful increase could support inflation expectations and leave room for some speculation that the first rate hike will come before the currently projected 2H22.

We expect CAD to emerge as a key outperformer today, especially if US payrolls prove strong enough to cement market's pricing on the Fed without causing a rush to price in earlier Fed tightening which could hurt equities and global risk sentiment in the process, therefore keeping most dollar gains confined in the low-yielders segment today. USD/CAD could test the 1.2500 support today.

## Author

**Francesco Pesole**
FX Strategist
francesco.pesole@ing.com

**Chris Turner**
Global Head of Markets and Regional Head of Research for UK & CEE
chris.turner@ing.com