

FX Daily: Yen bulls turn to US payrolls

The big yen rally has been exacerbated by positioning factors, but markets may keep speculating on a BoJ December hike unless Japanese officials protest against hawkish bets before the meeting. A bigger upside risk for USD/JPY is today's US payrolls, which could paint a still resilient jobs market picture, and help the dollar



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USD: Payrolls may ruin the party for the yen

The exceptional rally in the yen remains the biggest story in FX at the moment. The size of the drop in USD/JPY and the volatile intraday price-action are a clear consequence of the heavy short positioning on the yen into this round of hawkish speculation on Japanese rates. USD/JPY net longs amounted to 42% of open interest on 28 November, as per the latest CFTC data.

Despite technical factors such as positioning having exacerbated the yen moves, we'd be careful to call for a peak in the JPY rally just yet. First, because there is likely a lot more bearish JPY positioning to be scaled back by speculators, second – and most importantly – because markets may not have many incentives to unwind bets on a December BoJ hike unless Japanese or central bank officials step in to tame the speculation before the meeting.

Our view remains that the BoJ would prefer to exit negative rates policy at either the January or April meeting, when the Outlook Report accompanies the policy decision and Governor Kazuo Ueda can use an upside revision in inflation to justify a rate hike. Incidentally, [the final release of 3Q GDP in Japan](#) signalled a worse economic contraction (-0.7% QoQ) than previously estimated.

We'll be looking at USD/JPY closely today not only to gauge how much markets continue to speculate on BoJ tightening but also in relation to US risk events. The US jobs figures for November are a key turning point for markets' ongoing speculation on Federal Reserve easing in 2024. The payrolls' consensus number is 183k, but soft JOLTS job openings and ADP payrolls (despite the latter having no predictive power for official figures) suggest markets may be positioned for a weaker reading. Our economics team forecasts 180k, and we suspect the US jobs market may still prove a bit more resilient than expected – triggering some unwinding of dovish Fed bets and supporting the dollar. The US calendar also includes the December University of Michigan surveys; markets will mostly be moved by the inflation expectations numbers, which are expected to have declined.

All in all, we see some upside risks for the dollar today. The high sensitivity of USD/JPY to US rates means that US payrolls could trigger a rebound in the pair. That said, the ongoing bullish momentum in the yen on the back of hawkish domestic bets means sellers of USD/JPY may re-emerge around the 145.0 area.

Francesco Pesole

📉 EUR: New leg lower?

EUR/USD rebounded yesterday afternoon thanks to a broad-based dollar decline but remains a laggard in the G10 space. This morning, the pair is again under pressure and back below the 1.0800 gauge, despite some pro-cyclical currencies advancing.

There are two points to make about the current EUR bearish momentum. First, the key driver – the dovish European Central Bank rate repricing – may have run most of its course. Markets are currently pricing in a 75% probability of a rate cut in March, and around 135bp of total easing in the next 12 months, and given no strong dovish shift in the ECB's stance just yet, investors may feel uncomfortable with more dovish expectations than this.

The second point is that – while rate expectations might have bottomed – the short-term EUR-USD rate differential argues for a lower exchange rate. What has likely prevented a further EUR/USD drop has been resilient risk sentiment. Today's US payrolls are a key event for the pair, as they might weigh on risk assets and favour a EUR/USD downward convergence to its depressed rate spreads.

With the eurozone calendar offering no catalysts and the ECB in a quiet period ahead of next week's meeting ([here is our market preview](#)), EUR/USD could eye the 1.070 support in the coming days if US payrolls don't disappoint.

Francesco Pesole

⬇️ GBP: EUR/GBP to stay capped

The only event to monitor in the UK today is the release of the Bank of England inflation attitudes survey. As discussed by our economics team in the [BoE preview](#), we expect Governor Andrew Bailey to push back against rate cut expectations at next week's policy meeting, which should favour sterling's performance in the crosses.

There is still limited scope for an immediate rebound in EUR/GBP, given the euro's bearish momentum may linger into the ECB announcement. In line with our dollar view, we see downside risks for cable, which may ease back below the 1.2500 gravity line in the coming days.

Francesco Pesole

➡️ CEE: Another inflation drop in Hungary

Consumer inflation in Hungary for November was published this morning. The fresh numbers showed a drop from 9.9% to 7.9 % year-on-year, slightly lower than the market expected. The National Bank of Hungary had expected 8.9% in its last forecast in September, so the deviation from the forecast has widened further. The inflation path looks good for the NBH but for now, it seems insufficient to accelerate the pace of rate cuts from the current 75bp per month, in our view.

Otherwise, today's calendar is essentially empty in the CEE region. Later today, we will see the state budget result for November. And after trading, S&P will publish a rating review of Hungary. We do not expect any changes. But S&P has the lowest rating for Hungary among the three major agencies so it will be interesting to see some signs of improvement in the commentary given the economic and inflation developments in recent months.

EUR/HUF has been gradually moving up over the last few days and touched 382 yesterday, following a strong decline in market rates. The IRS market has seen a massive rally in recent weeks. In the last two weeks alone, the 2y rate has fallen by roughly 80bp. So the terminal rate for this cutting cycle has quickly moved to roughly 5.25%, which should already be an indicator for the market to stop the next rally. We think these are the conditions for EUR/HUF to stabilise and we could also see some upward correction in rates given the length and one-sidedness of the current rally, which would support the forint.

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