FX: The dollar struggles to gain any traction

The US jobs report may show solid gains but any positive impact on the dollar is likely to be limited

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USD: The dollar struggling to gain any traction

The January US jobs report should show today solid gains in nonfarm payrolls (170k), with wage growth remaining at 2.5%YoY. Yet, any positive impact on USD should be limited as this is not far away from market expectations while three full Fed funds rate hikes are already priced in for this year. Importantly, and as the dollar's reaction to the Jan FOMC meeting showed, any boost to USD from the domestic data seems to be limited and short-lived, with market participants remaining (a) focused on growth / monetary policy re-pricing opportunities elsewhere; (b) concerned about the veil of the US political uncertainty (ie, the risk of the February government shutdown). While G10 currencies should generally retain support against USD, the sharply rising UST yields (10y UST yield is up by close to 0.40% this year) to which USD seems to be immune (in terms of positive spill-overs into USD) may, if continued, soon pose a risk to currencies with external financing needs. That is one of the reasons (in addition to insufficient policy tightening) why the Turkish lira has not so far meaningfully benefited from the soft USD environment and its attractive carry.

EUR: Back above 1.25 and not much the ECB can do

EUR/USD is back above the 1.2500 level and shook off the FOMC induced higher UST yields rather promptly. As per EUR: Not much the ECB can do, the bar for the ECB to lean against the strong EUR is set very high. Today's US labour market report poses only temporary downside risk to the cross.

JPY: Protectionist premium being built into USD/JPY

Should the recent sharp rise in US Treasuries and global yields weigh on risk appetite and lead to lower equity markets, the Japanese yen looks to be in the sweet spot. Given the likely protectionist premium to be built into USD/JPY and the cross' medium-term overvaluation, we target USD/JPY 100 by year-end.

CZK: CNB unleashing the CZK spot bull market

The Czech koruna rallied strongly yesterday, breaking below the 25.20 level in response to the hawkish central bank EUR/CZK forecast (the Czech National Bank sees EUR/CZK at 24.60 in Q4 2018). We are less aggressive than the CNB in terms of the expected EUR/CZK decline (we look for 24.80 by year-end). This is because we believe rate hikes (not reflected in the CNB forecast) will eventually be needed to bring the cross lower. As this will tighten monetary conditions, the CNB will eventually require a less strong currency as the desired level of monetary condition tightness will be delivered via both hikes and a strong CZK (rather than overly strong CZK only).

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