FX: Wage figures matter more than US job numbers

Ahead of the nonfarm payrolls, some market perspective

USD: The 10yr yield and broader USD trajectory

Hurricane-related disruptions to the economy last month means that today's September US labour market report may be a strange one for global markets to digest:

- Naturally, the focus for Fed-sensitive assets such as the shorter-end of the US yield curve and the US dollar will be on the wage data – here our economists are in line with consensus expecting a pretty solid +0.3% MoM. But it is worth putting this 'good' figure into some perspective: it is a rebound after a series of inadequate monthly wage growth releases this year (bar Feb and July). While the recovery will be welcome by the Fed, even the most optimistic members will want to see signs of more than just a 'muddling through' to be convinced of the current rate hike trajectory. Certainly, the longer-end of the US yield curve, and the broader trajectory for the USD, will need to see wage inflation encroaching on 3%

to be convinced that the US economy isn't stuck in 'lowflation' mode.
- The variation around the expectations for today's nonfarm payrolls release is huge given the hurricane factor. We are looking for a print around +110k and while consensus is at +80k, the standard deviation among analysts is 40k (double what it normally is). This suggests that a payrolls surprise may have a subdued impact on markets. While a negative surprise may be chalked down to hurricane effects, and potentially overlooked by markets, we think this may already be in the price of the USD (the Bloomberg Whisper number is +117k).

Our current line of questioning is still 'How far can the dollar correction persist?'. But the combo of a decent wage growth figure and above-consensus payrolls would keep the good news flowing for the USD. Those currencies already in the firing line – namely EUR, GBP & AUD – look particularly vulnerable in this scenario.

EUR: ECB minutes still support the idea of a 'lower for longer' QE tapering

Our eurozone economists believe that of the three tapering possibilities available to the ECB: (1) Fed-style gradual tapering; (2) staircase changes (drop EUR 20bn each quarter) or (3) Lower for longer (drop to EUR25bn or EUR20bn in Jan-18 but kept in place until end-2018) – the ECB would favour option 3. While this may appear as somewhat aggressive relative to the market consensus, it would be coupled with some commitment to keeping interest rates low long after this was over. Getting the message across of a 'dovish taper' is going to be exceptionally difficult.

GBP: From the darling of September... to the dump of October

While the US media will be focusing on the hurricane effects in the data today, it was the 'Harry Kane' effect that provided a bit of joy in the UK media overnight. Still, it wasn't enough to dislodge the top story – which continues to be questions over Theresa May's leadership. While certainly not our base case, a scenario of PM May stepping down – and a Tory Party leadership contest in the near-term – is one that would weigh heavily on GBP. First and foremost it would pose major doubts over a November Bank of England rate hike – which markets are all but pricing in at this stage (75% probability). A dovish BoE re-pricing on its own could see GBP/$ tumble below 1.30, while an increase in GBP's political risk premium could see a move to 1.26-1.27 (EUR/GBP to 0.94). Downside GBP bets are likely to pick up.

English footballer, Harry Kane, scored late to secure Englands World Cup place last night