FX: Wage growth? What wage growth....

The US jobs report today is unlikely to jolt the dollar

USD: Decoupling from data another sign of lost investment currency status

The rules of the game for trading the US jobs report are set to change in 2018. As a general rule of thumb when assessing US data over the coming year, one should really be looking for any evidence that would cause a reassessment of the Fed's current structural view of the economy – which in turn could warrant a potential change to the central bank's future expected policy path. In the case of the US jobs report, investors looking for the Fed to deliver three or four hikes in 2018 should get used to the idea that the pace of job gains will slow over the coming year in a tight labour market. In an ideal Phillips curve world, confirmation of a tight labour market would be met with higher wage inflation. The latter holds the key to US bond markets in 2018; while Fed hawks – and those that believe the Phillips curve isn't flat but just dormant – may be willing to tolerate some slowdown in the pace of jobs gains in the near-term, the absence of a material and sustained pick-up in wage growth would, in our view, seriously question the Fed's doggedness to stick to old theories that have little evidential basis.

170K

Expected gain in nonfarm payrolls

ING estimate for December

2.5%

Expected rise in average hourly earnings

ING estimate year-on-year

Jobs report unlikely to jolt markets

This data is unlikely to jolt markets – although above-consensus job gains and limited inflationary signs would be a goldilocks outcome for risky assets. Moreover, we note that the dollar has decoupled from positive US data surprises in recent months– an added sign that it has lost its status as an investment currency, with negative structural factors and political risks playing a greater driving role. The latter two forces are set to persist over 2018 and therefore fading any post-NFP dollar rally remains our preferred tact. Look for the Dollar Index to stabilise in the 91.50-92.50 range.

EUR: Consolidation in order in the absence of any positive Eurozone inflation shock

Ahead of today's US jobs report, the Dec flash EZ CPI data release will dominate EUR/USD price action. Markets are looking for the headline figure to tick lower to 1.4% year-over-year. However, given that this is largely noise around oil-price base effects, the real emphasis will be on core inflation – and how quickly we can get back above the 1.0% YoY mark. Our economists aren't looking for any shocking positive inflation surprises in 1Q18 – and gently rising inflationary pressures could be one factor that helps keep EUR/USD contained around the 1.20 level. Yet, as we've noted previously, a move up towards 1.25 is only a matter of time – and certainly our EUR/USD forecast of 1.30 by end-2018 is looking less like an outlier by the day. For now, we expect EUR/USD to stay this side of the 1.2167 resistance level (50% retrace of Jun 2014 to Mar 2017 move lower) – especially given the lack of EZ inflation surprises and looming Italian election risks in 1Q18.

RON: Romania's central bank to stay on hold next week, but set to signal February hike

As ING's Ciprian Dascalu notes, Romania's central bank might wait for more evidence of the impact of its recent massive tightening via liquidity management at the next meeting on 8 January. This was the message from the bank governor after the last meeting, but in the meantime inflation has surprised to the upside, increasing the risk of near-term rate hikes. On the FX front, we don't see NBR moving to free floating but rather adjust its EUR/RON comfort range higher to 4.60-4.70.