Labour data gives time-limited free pass to AUD

The averted risk of another slump in employment lifted the AUD overnight. However, a look beyond the headline figure flags a less flourishing picture, so the risks of the Reserve Bank of Australia easing and AUD weakness remains vivid

More hiring, but mostly part-time

The usual employment dilemma that AUD investors face each month yielded a positive result this time around: employment rose 39.9k in November, up from -24.8k in October and beating the consensus 15.0k increase. The unemployment rate inched lower to 5.2% (from 5.3%) while the participation rate was flat at 66.0%. After the release, AUD rose across the board.

Looking beyond the encouraging headline numbers, though, the labour picture appears less flourishing: the rise in employment was almost entirely due to part-time hiring (35.7k) while full-time employment only rose by 4.2k. This likely suggests that, while the labour outlook has not deteriorated further, it remains mixed and likely unable to justify any hawkish tilt in the central bank stance.

RBA easing prospects still in place

In the past few weeks, markets have turned increasingly in favour of another round of RBA easing in the early months of 2020. The reinforced notion that the Australian government has no interest in answering Governor's Lowe's calls for fiscal stimulus, some disappointing GDP data and inflation (1.7%) still below the target band (2-3%) raised the suspicion that more is needed by the Sydney-based bank.

Today's data failed to further endorse markets easing expectations, but equally failed to rule out an early-2020 cut. The OIS curve is still showing a 60% implied probability of the RBA cutting rates in one of the first three meetings next year (4th February, 3rd March, 7th April).

Indeed, with markets torn around easing prospects, the slew of data in the next five weeks (before the February meeting) will tell us a lot about what direction the RBA will take, especially considering that the external environment seems to have stabilised after the phase-one US-China deal. The table below highlights the key data to monitor.

Date	Release	Impact on AUD/ Rate expectations
07 Jan	ANZ Job Advertisements (Dec)	Low
08 Jan	Building Approvals (Nov)	Low
10 Jan	**Retail Sales (Nov)**	**Medium**
16 Jan	Home Loans (Nov)	Low
23 Jan	**Employment data (Dec)**	**High**
29 Jan	**CPI (4Q)**	**High**
03 Feb	ANZ Job Advertisements (Jan)	Low
04 Feb	**RBA Rate Announcement**	

Source: Bloomberg, ING

AUD: Risks skewed to the downside in 1Q20

After benefitting from the supported trade-related risk sentiment, any additional bullish run in AUD is inevitably bound to be challenged by the risk of more RBA easing. In line with what's highlighted above, expect AUD moves in January to be mostly "data-dependent" given that the US-China trade story seems to have hit the pause button for now.

We suspect that some material improvement in the data (employment and inflation) will be needed to convince the markets that no more RBA easing is on the cards, so the balance of risk for the AUD appears to be tilted to the downside in Q1.

In particular, we see any AUD weakness to materialise more evidently versus the NZD, rather than the USD. The New Zealand dollar continues to have a more attractive rate environment (thanks to a less dovish central bank) and we see more downside potential for AUD/NZD in the short term.

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