Trump's trade tweet doesn't change FX outlook

President Trump's tweet about a possible resolution to the US-China trade conflict has lifted the yuan. But the outlook for emerging markets FX hasn't really changed. It's still too early to call for a material shift in the trade dispute and a strong US jobs report today should reinforce expectations for further Fed rate hikes

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USD: Solid US labour market report to put soft floor under the dollar

Reports that President Trump asked US officials to draft possible terms of a trade deal with China (to be discussed at the G20 Summit at the end of November) further boosted risk sentiment and weighed on the dollar (which has been the key beneficiary from trade war rhetoric over the past few months). While positive, we believe it's still too early to call for a material shift in trade war tensions. In particular, an agreement with respect to intellectual property rights will be hard to achieve. On the data front, our expectations of a very robust October US employment report after a depressed September reading (caused by Hurricane Florence) should act as a soft floor under the current US dollar decline, as it reminds markets that the US economy is in good shape and the Federal Reserve should continue hiking. In particular, payrolls should rise by 200,000, annual wage growth should move up to 3.2%- the fastest rate in nine years - and the unemployment rate may drop to the lowest level since December 1969. The Fed's hawkish stance remains a clear negative for emerging markets FX. Therefore, we may see some modest reversal of recent gains for higher beta EM FX this afternoon.

EUR: Taking clues from the dollar

With EUR/USD currently benefiting from dollar weakness rather than any positive news from the eurozone (markets looked through the above target October eurozone CPI and focused more on the disappointing 3Q GDP this week), a solid US labour market report may bring EUR/USD closer to the 1.1400 level today and prevent the cross breaching above 1.1500.

CAD: Good Canadian labour market report, but the US data matters more

Our economists see the Canadian unemployment rate stable at 5.9%. Possible upward pressure should be noticeable in the full-time employment figures. Yet, the key for USD/CAD will be the US labour market report today. As per above, a solid reading is likely to bring USD/CAD back towards the 1.3100 level.

SEK: Looking for a hint about Dec rate hike in Riksbank Minutes

While last week's Riksbank meeting proved a non-event, the minutes of the October meeting published today may provide some support for the krona if there are indications that the expected rate hike could come as soon as December. Otherwise, the EUR/SEK should be largely driven by the general risk appetite, with yesterday's across-the-board FX risk rally benefiting SEK meaningfully, both against the euro and the Norwegian krone (with lower oil prices leading to NOK's underperformance vs the krona).