

US jobs report will add to emerging market woes

A strong nonfarm payroll today will further embolden the White House in its trade fight with China and put more pressure on emerging markets



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USD: Jobs report to maintain Washington salvo

What should be another solid US jobs report today will embolden the White House in its policy of squeezing trade concessions out of China. US-China trade relations are now the key focal point for global financial markets and with China ceding no ground right now, the US will presumably look at raising the proposed tariff rate on the next \$200 billion worth of Chinese imports to 25% from 10%. As we highlighted yesterday, USD/CNH is the key axis here and one school of thought could see Washington encouraging a move to 7.00, raising fears of capital outflows from China and inflicting more pain on Beijing. A firmer dollar, a weaker Renminbi and a weaker Asia FX/commodity complex look like the conviction call near term. Additionally, were we to see some emerging market contagion from challenges in Turkey, the Institute of International Finance highlights the likes of South Africa, Colombia and Egypt are at risk of heavy outflows in light of the large inflows these countries witnessed between 2015 and 2017. The US dollar index looks ready for a big test of the year's highs at 95.50/65.

EUR: The return of Italian risk

As noted yesterday, a firmer dollar and no response from the European Central Bank leaves EUR/USD vulnerable. Euro weakness is also being compounded by a renewed focus on Italy, where budget discussions take place in Rome today and the BTP market remains nervous – especially since the European Affairs Minister Paolo Savona is present (his views had concerned investors earlier this year). EUR/USD looks vulnerable near term and a break of 1.1575 suggests a heavy test of 1.1500/10.

GBP: That's all the good news, folks

The pound sold off quickly after the 25 basis point Bank of England rate hike yesterday, which could well have been the last piece of good GBP news before Brexit returns to dominate. GBP/USD now risks 1.28/29 – here's Viraj Patel's [opinion piece](#) on GBP near term.

TRY: Challenges remain

All eyes today are on the July release of Turkish CPI, expected to rise to 16.3% year-on-year, although there is a slight chance of a positive surprise on food prices which rose sharply in June on the back of supply problems. The highest levels in inflation since 2003 are eroding real interest rates just at a time when emerging market currencies are under broad-based pressure from high US rates/strong dollar. We'll also hear from President Recep Erdogan at 1430 CET on his 100-day plan. Expect this to focus more on infrastructure projects and intentions to stabilise financial markets – but it looks too early for concrete measures to be taken given that policymakers are still in discussions on these subjects and a medium-term plan is in the making. Given what should be a strong nonfarm payroll today, expect emerging market currencies and the Turkish lira to stay pressured.

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