

US jobs data to support risk assets

Today's US jobs report should underscore the current Goldilocks environment for risk assets



Source: iStock

📌 USD: Solid US labour market report + dovish Fed = support for risk assets

Following the Fed's market-friendly cautious stance, the focus turns to the US January employment report today. Although our economists are [modestly below consensus on nonfarm payrolls](#) (as they expect the government shutdown to take a toll) the decline in the unemployment rate and solid average hourly earnings (at 3.2% year-on-year) should underscore the current Goldilocks environment for risk assets. That is, solid US data and a non-reacting Fed. This should translate into further support for emerging market high yielders (as per below, our top pick is the Turkish lira with the respectable c.22% implied yield). The expected uptick in the ISM Manufacturing today should also help the current risk-friendly sentiment, with the US dollar to continue softening against high yielding FX. Non-negative news from the ongoing US-China trade negotiations and the prospect of a Trump-Xi summit should be also seen as supportive for risk assets.

📌 EUR: Failing to meaningfully benefit from USD weakness

Upside for the euro in the current soft USD environment proved to be rather limited and today's eurozone data suggests that no change in that trend is likely. While headline CPI should remain

unchanged at 1.0%, our economists look for a below-consensus outcome for core CPI (1.2% vs 1.4%). This, in turn, suggests that the prospect of any ECB policy normalisation is even more distant. The low-yielding euro currently seems one of the good funding currencies in the current risk rally. EUR/USD to converge towards the 1.1400 level.

➔ **GBP: Manufacturing PMI to yet again reflect Brexit uncertainty**

We see modest downside risk to the UK January Manufacturing PMI as businesses are getting more wary about the lack of progress on Brexit. Still, and as has been the case over recent months, the actual UK data should have a limited impact on sterling, with the currency being chiefly driven by Brexit outlook.

⬆️ **TRY: To benefit from risk friendly environment and credible CBT**

Both external and domestic backdrops favour the Turkish lira in our view. The cautious Fed is a game changer for the risk environment and should lead to outperformance of emerging market FX high yielders such as the lira which benefits from the highest nominal carry (and second highest risk-adjusted carry) in the EM space. In addition, TRY remains the cheapest currency in the EM FX space and, very importantly, the Central Bank of Turkey shows no signs of complacency. This argues for a tactically constructive view on the lira, with the currency becoming an outperformer in terms of the expected absolute return (carry and spot).

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