US dollar: Broad-based support still in place

The US jobs report today should support the case for further Fed tightening this year

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USD: December labour report to keep Fed hikes on the cards

The focus of the day is the US December employment report. As per our NFP Preview, our economists note that although employment growth is slowing (NFP to rise by 165K), this is more to do with a lack of available workers than a drop in demand. The implication is wages will keep rising, supporting confidence and spending. This should eventually allow the Fed to deliver further tightening this year (we look for two hikes) and support the dollar particularly when the market is now pricing in a partial cut by the end of this year. Although the US House of Representatives passed a spending bill to end the current partial government shutdown, President Trump is likely to veto it, meaning that the overhang of the shutdown is to stay. We also note that despite the recent aggressive dovish re-pricing of the Fed outlook, the trade-weighted dollar has remained supported, benefiting from its safe-haven characteristics.

EUR: The euro to look through the fall in eurozone CPI

The December eurozone CPI is expected to dip below the 2% inflation target (to 1.8% year-on-year), yet any negative effect on the euro should be fairly limited given very subdued market pricing already (there isn't even a 10 basis point hike priced in for this year). Hence, and as per our 2019 FX Outlook, the projected EUR/USD upside this year should be primarily driven by a weak US dollar rather than a strong euro.

GBP: Few reasons to turn cheerful

Our modestly above-consensus forecast for UK PMI Services is unlikely to help GBP much today. Sterling is currently chiefly driven by Brexit uncertainty. The rising odds of an Article 50 extension are not necessary a GBP positive given that (a) this means uncertainty is set to remain for longer (b) the reasons for such an extension could include a potential early election. We expect EUR/GBP to continue trading around 0.90, with dips below this level being shallow.

PLN: Bottoming CPI unlikely to affect zloty negatively

Our economists expect Polish December CPI to decelerate to 1.1% from 1.3% previously. Yet this should form a bottom in Polish headline CPI and inflation should accelerate through the first half of the year largely due to base effects and rise above 2% by the middle of 2019. Following the aggressive dovish re-pricing over the past weeks (a trend common around the entire CEE region and globally – the market is now pricing around 10 basis points of NBP hikes over the next two years) the scope for the falling CPI to affect the Polish zloty negatively today is fairly limited.