

USD: Fed easing priced in

The US jobs report today is unlikely to support the recession-like market pricing of the Fed funds rate, and with easing already priced into the dollar, we don't expect much of a decline



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➔ USD: The crucial jobs report

With markets pricing in two-and-half Fed funds rate cuts by year-end, all eyes will be on the US jobs report today and whether the outcome fuels or defies the very dovish market expectations. While our economists expect jobs growth to slow this time, this is likely to be caused more by supply constraints than by weaker demand, and these shortages are continuing to put upward pressure on wages ([see NFP Preview](#)). Also, the slowdown in the jobs creation is unlikely to be sufficient (we look for 175k NFP) to support recession-like market pricing of the Fed funds path. So this shouldn't cause a further decline in the US dollar given the already significant easing priced in. As per [Fed easing and the dollar: Necessary, but not sufficient](#), despite the collapse in US rates, the USD is holding up reasonably well due to the wide US yield differentials and uncertainty about overseas growth prospects. Given the risks, we expect investors to express a bearish dollar view via USD/JPY. Also expect the Swiss franc to remain in demand.

⬇ EUR: ECB ready to offset possibly dovish Fed

Despite the lack of explicit action, the European Central Bank came as close as possible to a rate

cut ([ECB: Dovish vehemence from Vilnius](#)). This means that if the Federal Reserve starts cutting, the ECB will likely do so as well. Our economists don't rule out an ECB cut at the July meeting (a modest cut of 10 basis points) before a tiering system is introduced in September, with an even larger cut being delivered then if necessary. This suggests that calling for an imminent and pronounced EUR/USD upside break from here may be premature as the ECB is unlikely to stand idle if and when the Fed eases (see [EUR & ECB: Ready to offset the possible dovish Fed](#)).

➔ CAD: expect few surprises from labour data

The Canadian dollar's recent strength will be tested today as investors focus on May labour data. A Bloomberg survey suggests markets are positioned for no change in unemployment and a mild slowdown in wage growth. Overall, our economists expect the Canadian employment outlook to remain broadly constructive, which should contribute to keeping Bank of Canada rate expectations stable for the time being. In the absence of major swings in CAD's main external drivers – trade tensions and oil – USD/CAD will likely stabilise around current levels.

➔ HUF: Peak in CPI inflation and then a decline – the pressure is off the forint

In Hungary, May headline CPI should rise further to 4%. Yet with May inflation likely to mark a peak in prices this year and the expected sharp deceleration in headline prices to 3% by October, the pressure is off for the central bank to act. This is further helped by (a) the short squeeze in the forint, with EUR/HUF falling sharply to 321; and (b) the dovish ECB yesterday which also means less of a need for the NBH to act. Hence, expect a limited negative effect on HUF today.

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