



US Jobs Data smashes estimates

Market Report 06/02 /23 - By Sam Balla-Muir

USD

The highlight of the week under review was the performance of the US Dollar in the face of two high-impact new releases; the Fed's rate decision and the Non-Farm Payrolls report. In a tale of contrasting fortunes, the US Dollar weakened sharply after the Federal Reserve raised interest rates by just 25 bps, fulfilling market expectations. Consumer confidence and private sector jobs data were weaker than expected, putting the greenback in a defensive mode heading into the Fed's announcement.

In a complete reversal of the weak ADP Employment Change report, Non-Farm Payrolls came in at red-hot numbers. US employers in the public sector (ex. Agriculture) hired 517,000 persons in January, more than the 260K hired in December and much higher than the 193,000 analysts had predicted.

The result was a huge morale booster for the greenback, enabling it to post its best daily performance since 23 September 2022. It also helped the US Dollar to end the week higher, as traders began to reverse bets of a sub-5.00 Fed Funds Rate after March's meeting. Some traders had even bet on a potential rate cut later in the year if recessionary pressures began to squeeze the economy. But with the strong jobs report, the Fed still has room to negotiate towards an end-point that will take rates above 5.00%.

GBP

A stronger dollar and a rate decision that met expectations in terms of the scale of the hike and the voting pattern meant that the Pound's fantastic run to the north has halted. An overdue correction in the GBP/USD saw the Pound losing by the most against the greenback since its 4.91% fall on 19 September 2022.

However, the Pound looks set to be the star currency to trade this week, as the Monetary Policy Report Hearings kick off this Thursday before the UK Parliament. On Friday, traders will see if the expected contraction of the UK economy by 0.3% would take root. With several news items due for release from the US, there will be great opportunities to trade any divergent fundamentals on the GBP/USD.

EUR

Any earlier gains the Euro posted versus the US Dollar earlier in the week were eroded by the latter's performance in the last two trading days of the week, as a strong NFP report caused a resurgence in the US Dollar, leading to a lower close. This was despite the expected 50 bps rate hike by the European Central Bank. Friday's lower close takes the EUR/USD lower towards the 17 January lows. Any dip below this level continues the overdue corrective move that will see the pair potentially retesting lows seen at the start of the year.

With Eurozone inflation expected to hit 8.5% on an annualised basis when data is released later this month, aggressive action is needed by the ECB if its 2.0% inflation target is to be met. ECB President Christine Lagarde doubled down on this resolve in the ECB Press Conference that followed the rate decision, indicating that "significant hikes" were needed in all reasonable scenarios.

What does this mean? The strong NFP numbers have clouded the scenario on the EUR/USD. If this report had come out weak, it would have pushed the rate divergence between the US and Europe squarely in the Euro's favour. But with recent USD strength that follows expectations that the Fed will keep on hiking well above a 5.00% end-point, the pair may have to rely on technical plays and other fundamentals before clarity on the medium-term direction of the pair can be reached.

There is no major news item out of the Eurozone this week.

The Week Ahead

This week, price action on the US Dollar will be dominated by Fed speak, as several officials of the US Federal Reserve make speeches at different events, potentially referencing events of last week. Fed Chair Jerome Powell will speak at a moderated discussion at Washington DC's Economic Club event on Tuesday. FOMC voting member and New York Fed Reserve President John Williams will discuss the economic outlook in an interview at the CFO Network Summit, organised by the Wall Street Journal. Fed Reserve Governor Christopher Wallace and Philadelphia Fed President Patrick Harker also speak at two separate events. The University of Michigan's Consumer Sentiment survey results will hit the newswires on Friday.

The Eurozone does not have any major news of high impact. However, traders must keep an eye on the German Preliminary CPI and the Eurozone inflation numbers. These will set the tone for the rate expectations for the European Central Bank. The EUR/USD will be subject to this metric, and other USD-related news lined up for the week.

Action on the Pound kicks off properly in mid-week trading as the monetary policy report testimony by the Bank of England Governor Andrew Bailey is held before the UK Parliament. The mid-week timing of this event will allow the GBP/USD to continue responding to the Non-Farm Payrolls numbers on Monday and Tuesday, especially as the Asian zone digests and reacts to the numbers. The momentum heading into the new week lies with the greenback, not just as a result of the news but also technically, where the correction on the EUR/USD and GBP/USD may continue.

Last Week's Changes In Exchange Rates

Exchange Rate %- change on week

\$ per £ - 2.93

\$ per € - 0.70

€ per £ - 2.20

Key Events

Date	Market	Time (GMT)	Release/Event	Period	Previous	Analysts' Expectation
Tue. 7th	US	17.00	Fed Chair Powell Speaks	Feb. -	-	
Weds. 8th	UK	09.45	Monetary Policy Report Hearings		Feb. -	-
Fri. 10th	UK	19.00	GDP M/M	Jan. 0.1%	-0.3%	