* 2 Mins Read: In to Payrolls..
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Some thoughts from around the Floor ahead of tomorrow's consequential US Employment Report:

One-liner*: GS at 110k headline, touch below consensus of 126k + three-month average of 155k.* ***Positive side****: Big data measures indicated a solid month of hiring.* ***Negative side****: Employment components of business surveys suggest May was a weak month; and, if there is a month when uncertainty introduced by Tariffs should weigh on job growth, May is a strong candidate, with quantitative measures of policy uncertainty sky-high through most of the survey period.* ***Front-End (Scheffel):*** *Weak print of <50k, with U3 moving up to 4.3%, will shift focus back to July Fed meeting (currently only 7bps of cuts), Z5 to rally 10bps from current pricing (to -65bps from -55bps). Strong print of 150k+, with U3 steady at 4.2%, should lead to Z5 pricing -45bps of cuts; sense of potential asymmetry in receiving July at 7bps - with almost 2 months' worth of data before the meeting, unlikely that contract can price less than 5bps absent a blockbuster payroll print.*

Mixed views on the symmetry of reaction-function *to strong / weak print:* ***Cahill (FX Strategy)*** *sees more follow through in FX/USD from weaker print as the policy-path becomes clearer + more imminent;* ***Trading (Stewart)*** *flagging that short USD positioning has been materially reduced: Small miss likely to be considered the "goldilocks" outcome, higher beta G10 + EMFX currencies perform best; large miss favours EUR and JPY, both local and international selling of USDJPY likely in that scenario, with the market now under-positioned for a more aggressive move lower.* ***FX options (Costello)*** *trading long gamma in to the evebnt. surprising to us that the event vol for this data-point is in-line with the average implied gap that we've seen for NFP's over the last year...*

EM Rates (Dell) *bias that asymmetry skewed to a firm print that brings the 'Fed 2025 hold' narrative back to the forefront, pushes Z5 pricing closer to just 25bp, and puts pressure on residual curve steepening positions. Expects further engagement in carry trades in FX space, and compression of risk-premium in local rates curves (where long SAGBs and HUF 3y remain our favourite expressions).*

Thoughts welcome - Adam

Ronnie Walker (Senior US Economist): *We estimate nonfarm payrolls rose* ***110k in May, a touch below consensus of 126k*** *and somewhat below the three-month average of 155k. On the positive side, the higher frequency hard data generally fared well though softened slightly sequentially in May:* ***big data measures of job gains indicated a solid month of hiring****; measures of layoffs like initial claims ticked higher but remained low; and online measures of job openings continued their only gradual grind lower. On the negative side, the soft data—i.e. the* *employment components of the business surveys—suggest that May was a weak month for job growth. And* ***if there is a month when the uncertainty introduced by the trade war should weigh on job growth, May seems like a strong candidate****: quantitative measures of policy uncertainty remained sky-high through most of the survey period and uncertainty should have a greater impact on employment growth in months where gross hiring is particularly elevated, such as May…*

We aren't expecting much of an outsized impact from government layoffs or immigration policy in this report but could imagine a larger impact in the coming months. On government layoffs, we are penciling in a ***10k decline in federal employment for Friday's report****, but the cumulative decline in federal payrolls would still fall well short of the ~60k announced layoffs and I'd think of the decline as more so coming from the Administration's hiring freeze. That could change in future reports, however, if the judicial order pausing some of the federal workforce mass layoffs were lifted, as the Justice Department requested of the Supreme Court on Monday.*

On Rates…

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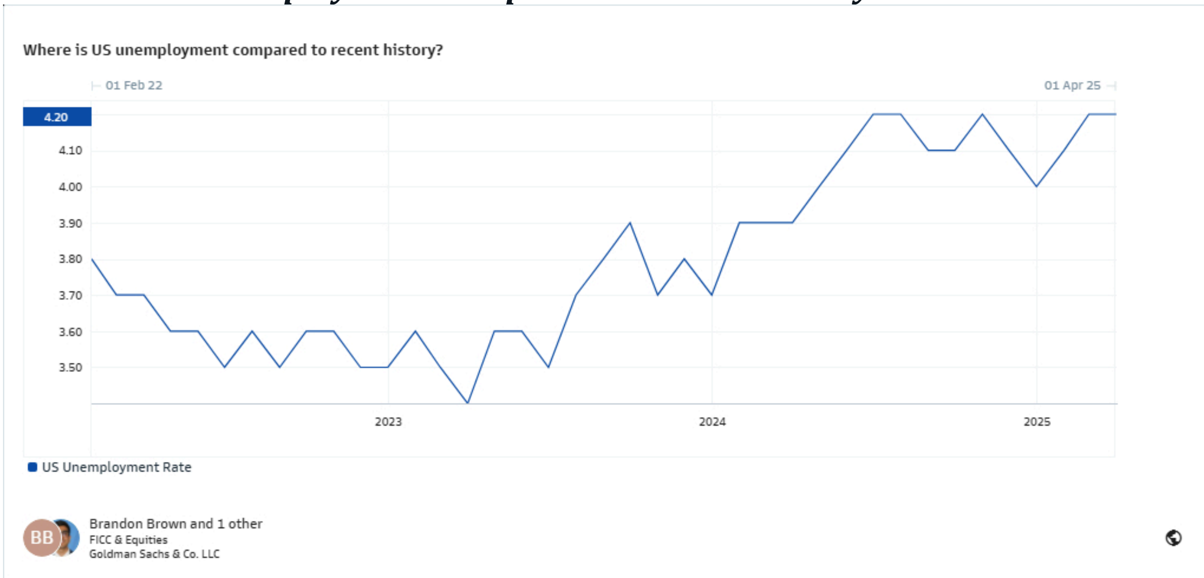
Jan Scheffel (Co-Head of Short Term Macro Trading): *A weak print of sub 50k, with unemployment rate going up to 4.3% will shift the markets focus back to the July meeting, which currently only has 7bps of cuts priced and should see* ***Z5 rally 10bps from current pricing*** *(-65bps from -55bps). A strong print over 150k with unemployment staying at 4.2% should lead to a retrace of the rally we have seen over the last week with* ***year end pricing going to -45bps from current level of -55bps****. We like the* ***asymmetry of being received July meeting at -7bps****, given the fact that we still have almost 2 months' worth of data until the meeting and* ***don't think that we can price less than 5bps*** *unless we have a blockbuster payroll print.*

The Fed has made clear that for now they can afford to be patient in assessing the impact of tariffs and trade policy on the economic and inflation outlook for the US economy. Given that the situation around trade policy remains fluid, the announcement over the weekend of an increase of tariffs on steel and aluminium from 25-50% being the latest reminder, and the additional uncertainty introduced by the court ruling, means that ***near term data will be noisy and the timeline for getting more meaningful data could well slip further into the second half of the year****. As a result, the Fed will likely continue to be on hold for an extended period, unless we see meaningful weakness in the labour market, which would put the employment part of the Fed mandate into bigger focus.*

The market will therefore have particularly high focus on this Friday's NFP report, to check for any deterioration in the labour market, especially following last week's rise in continuing claims to a multi-year high. Whilst the hurdle for the Fed shifting *greater focus to the employment mandate remains high, a print below 100k on payrolls with a tick up in the unemployment rate to 4.3% would still lead to a reassessment of the balance of risks by the market and* ***put much larger focus on claims data over the coming weeks****."*

Where is US Unemployment Compared to Recent History?



Source: [Marquee MarketView]()

On Market Reaction in FX…

Mike Cahill (Senior FX Strategist): *□ expect we would see* ***more market follow through from a weak print than a strong one****. People still expect activity to slow over time and would see a clearer policy picture from a weak print. That said, there is more debate about the Dollar direction than there has been for some time, so risks seem less asymmetric than the last few. Even as the broad Dollar has continued to depreciate, DXY has mostly tread water since the 21st of April. But while the shift has been slow, there has been a clear slowdown in the hard data, and if payrolls prints in line with consensus, that would still be a* ***downshift from the ~175k pace of not too long ago****.*

Alan Stewart (Head of EMEA EM Trading and Head of EMEA G10 Spot Trading) *The frequency of tariff related headlines in the last two weeks has reduced some of the focus on US hard data just as it has started to drift weaker whilst last week's month end FX flows provided an additional, but likely temporary, demand for USD that has interrupted our expectation for prolonged dollar weakness. The net effect is that* ***short USD positioning in the "DXY implementations" of EUR, JPY and CHF have all been reduced****. Overall we remain committed to our expectation of further USD weakness but expect that its focus with flip flop between DXY (EUR, JPY, CHF) versus TWI (AUD, GBP & EMFX) as the market vacillates between risk negative and risk positive implementations.*

This does give us an interesting set up into Friday's employment report. Firstly, distilling the report into the aspects that are most likely to stir any reaction from the FOMC, we would ***focus more on UER than on the headline NFP given the volatility*** *(and inaccuracy / subsequent revisions) in the latter. Secondly, whilst the first order reaction should be simple (miss = USD weaker, beat = USD stronger), the scale of the variance to expectations should have a material impact on which currencies perform the most, with a* ***small miss likely to be considered the "goldilocks" outcome that sees the higher beta G10 and EMFX currencies perform best****, whilst a large miss favours EUR and JPY, whilst a small or a large beat likely hits EUR and JPY the hardest.*

Our slight bias is towards a weaker report based on other recent low prints in hard data, and overlaying that with a belief that there is such a clear asymmetry to FED reaction function and market pricing towards lower yields, makes us ***comfortable retaining core USD shorts against EUR and selective EM high yielders****. But we concede that whilst the medium term USD trajectory continues to appear weaker, we do require a persistent drip feeding of catalysts to retain the momentum that allows such a view to self-sustain, and that in the absence of weaker hard data, there is a slight absence of these currently.*

Simon Costello (G10 FX Options Trading) *We are positioned* ***long gamma in JPY & EUR over NFP with the event priced at ~55bps breakeven****. We expect moves in USD funders to outperform that of the high beta USD complex; a weak number will not be received well by risk markets and visa/versa.*

This week's data should command a heightened degree of attention; the market has been waiting for "hard data" with a sample set that is cleanly post Liberation Day. This print will give some signal as to whether the weakness we had seen in the soft data translated into the economy. The potential for a growth slow-down and labour market weakness caused by policy uncertainty remains the main pillar in which to price further cuts this year given obvious inflation risks ahead...

In this context, it is surprising to us that the market is pricing the ***event vol for this print inline with the average implied gap that we've seen for NFP's over the last year...****The distribution is locally symmetric given positioning is short USD FX & in steepeners. It is still possible to further price out cuts for this year. However, in the tails there is a heavy left skew over a large miss. A rise in the UE rate to 4.4 coupled with a negative headline would see the largest moves.*

Luke Molyneux (G10 Spot Trading) *With the soft data providing ambiguous signals, all eyes on hard data out of the US later this week to potentially provide the next leg of the lower USD trade. The reduction seen over the past two weeks in short dollar positioning we see as a* ***positive for our medium term dollar downside view****. USDJPY the area that has seen the largest reduction in overall short USD positioning over that time and that's* ***where we look for the more aggressive***

moves on Friday to a downside surprise in employment data*. After holding the levels above at 145.75-146.00 - the downtrend still intact - we now look for a break below the key 139.50-140.00 area to accelerate the move lower in the coming weeks. Expect to see both local and international selling through there with the market now under positioned for a more aggressive move lower.*

On EM Rates..

Keith Dell (Head of EMEA EM Rates Trading): *It feels like the market is gunning for a soft print on Friday given the* ***post Liberation day peak tariff uncertainty and taking a lean from the claims data last week****. The trading mindset however continues to be one of fading, and a soft patch for May will likely be shrugged off as outdated given more recent confidence data suggests a pick up in momentum.*

The asymmetry here seems skewed to a firm print which will bring the ***Fed 2025 hold narrative back to the forefront****, and push the front end US 2025 pricing closer to just 25bp, putting pressure on residual curve steepening positions. The USD weaker theme however feels so heavily engrained in the minds of investors that any USD bid will likely be leant into and reversed, and this should prevent any heavy fall out in the EM spectrum. Eurozone inflation and the highly anticipated ECB rate cut should also* ***give comfort to CEE rates where correlations to US rates have already been falling****.*

Overall, this suggests all roads lead to ***further engagement in carry trades in FX space****, and compression of risk-premium in local rates curves where long SAGBs and HUF 3y remain our favourite expressions. We will also be closely watching the Polish rate decision for any further dovish pivot given the softening inflation outlook.*

Thoughts welcome

Adam