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Mizuho Dealer's Eye

April 2018

Mizuho Bank, Ltd.

Forex Department

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U.S. Dollar – April 2018

Expected Ranges **Against the yen: JPY105.00–110.00**

1. Review of the Previous Month

The dollar/yen pair had bounced back to the mid-107 yen mark after FRB chair Jerome Powell voiced confidence about the economic outlook. However, the pair then moved with a heavy topside entering March and it dipped below the crucial 105 yen mark.

The pair moved firmly from the upper-106 yen level to the 107 yen range on March 1 in the wake of Mr. Powell's hawkish testimony to Congress on February 27. However, President Donald Trump then officially announced the imposition of duties on steel and aluminum imports. This led to fears about a global rise in protectionism. Stock markets fell sharply and risk aversion flared up, with the greenback sold and the yen bought. The Nikkei Average had been growing more immune to global trends, but it also reacted sensitively to these risk-off movements and its downward slide intensified. The dollar/yen pair continued falling on March 2 to drop from 105.24 yen toward the key 105 yen mark.

The main theme for the week beginning March 5 was the easing of tensions related to North Korea, with the dollar subsequently bought back. Risk aversion was assuaged by a series of announcements about planned meetings between the North and South Korean heads of state, between President Trump and Japanese prime minister Shinzo Abe, and between President Trump and North Korea's leader Kim Jong Un. The markets were also put at ease by news that Canada and Mexico would be exempted from the U.S. government's tariff barrier. The U.S. employment data was released on March 9. The data was not so bad, so the pair was bought back to the 107 yen range again. With overseas speculators and so on still betting on yen bullishness, though, the dollar's rally doubtlessly led to an accumulation of selling positions.

The pair's movements continued to be shaped by political themes (such as U.S. trade policy) in the week beginning March 12. Following the resignation of Gary Cohn as director of the U.S. National Economic Council, President Trump then dismissed Rex Tillerson from the secretary of state position. Trump replaced his national security advisor H.R. McMaster the following week. With Trump filling these posts with hardliners when it came to China, risk aversion intensified again.

President Trump then announced a large-scale package of tariff levies aimed at China the following week. With China announcing it would retaliate in kind, the possibility of a trade war grew. With Japan also included in the U.S. curbs on steel and aluminum imports, the greenback was sold sharply on risk aversion, with the dollar/yen pair dropping below the crucial 105 yen mark. However, Japanese importers moved swiftly to buy the dollar when the pair hit 104 yen. There was also a growing sense that things would improve when it came to North Korea and the trade frictions between the U.S. and

China. The pair also rallied sharply in the run up to Easter as U.S. and European fund managers moved to rebalance their positions. All this saw the pair bouncing back to 107 yen to end the fiscal year trading at 106.27 yen.

2. Outlook for This Month:

The trend of risk-evasive yen buying on political factors looks set to ease off this month. Though there will be no shift to a new trend, the dollar/yen pair's downside still looks set to grow firmer.

In March, market participants were swept with concerns about a potential trade war between the U.S. and China. Risk-evasive yen buying subsequently intensified, with the dollar/yen pair dipping below the key 105 yen mark. Furthermore, it seems highly likely that speculators built up yen long positions on this yen buying. At the very least, March was likely to see yen buying by Japanese exporters and so on before the end of the fiscal year, with Japanese investors also holding off from any major movements before the fiscal year ended, so it was easy for speculators to enter the market to sell back the dollar. As the new fiscal year looms, though, real-demand yen buying will ease off, with Japanese investors also expected to sell the yen to make new investments. However, market participants will continue to make long-term import exchanges based on the pair's level, so selling by speculators will probably be met by real-demand buying or buying for investments. At the same time, the customs duties imposed by the U.S. and China only amount to around 0.1% of each country's GDP, so a cool-headed assessment suggests a minor exchange of blows is more likely than a full-scale trade war, with the stance adopted by each country starting to appear nothing but bluster. China has been involved in power struggles for thousands of years, with the Chinese authorities quite guileful when it comes to political maneuverings. It seems the U.S. has borrowed a leaf out of China's cunning playbook, with the Trump administration trying to play tough in the run up to the mid-term elections. If so, there is probably no need to worry about the two sides getting embroiled in a game of chicken. However, if the U.S. is serious about confronting China, U.S.-Japanese cooperation will be vital, in which case it is hard to imagine the U.S. subjecting such a key ally to trade levies.

As for the political situation in Japan, the media is swarming around the Moritomo Gakuen scandal. However, the public still voted for the Liberal Democratic Party (LDP) in the last election, despite vague rumblings about the scandal, so even if the Abe administration is rocked by the issue, the Japanese public is unlikely to vote the LDP out. If the LDP does remain in power, Japan's non-conventional monetary easing is unlikely to be wound down any time soon, with Japan likely to remain one or two cycles behind other countries on the whole.

If the situation does change significantly, this will probably involve the U.S. real economy, which looks set for a cyclical slowdown. This scenario would see stocks sliding across the world, with dollar selling intensifying as U.S. interest rates remain subdued. However, global macro-economic fundamentals remain bullish, so a slowdown is unlikely to occur in the immediate future.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the dollar (5 bulls: 104.00–113.00, Core: 104.00–110.00)

Kato	105.00 – 110.00	With Japanese monetary policy unlikely to change, there is a limit to how much cash Japanese investors will spend on JGBs. As such, they will have to open things up to a certain extent and park their funds in foreign bonds.
Sato	104.00 – 110.00	Settlement-related moves to sell foreign currencies will ease off now the new fiscal year has started. Japanese institutional investors are also expected to invest in overseas securities. The dollar/yen pair will also be bolstered by an easing of tensions related to North Korean, with the pair likely to attempt a rally in April.
Fujimaki	104.00 – 113.00	The market continues to move erratically in the wake of the February stock market crash. However, the economy is moving bullishly and the FRB is still tightening policy. The euro is also starting to move bearishly after having previously risen on dollar weakness. As such, the greenback might be bought back this month. Nonetheless, there could be some risk-evasive movements if stocks fall sharply.
Tsuruta	104.00 – 109.00	There are concerns about the growing trade dispute between the U.S. and China. However, things appear to be changing for the better when it comes to North Korea (a factor that helped pushed the dollar/yen pair to its lowest level last year). The leaders of China and North Korea have met, with the leaders of the U.S, Japan and South Korea also set to hold talks. As such, there is a growing sense that tensions related to North Korea will ease off. This will probably support the dollar/yen pair's movements.
Okuma	104.00 – 111.00	When it comes to trade friction between the U.S. and China, talks aimed at easing tensions will probably take place behind the scenes, with concerns about U.S. protectionism likely to ease off to a certain extent. Risk related to North Korea is also waning, with North Korean leader Kim Jong Un making positive noises about de-nuclearization, for instance, so the greenback will probably be bought back on risk appetite.

Bearish on the dollar (6 bears: 102.00–109.00, Core: 103.00–108.00)

Tauchi	103.00 – 108.00	The yen will face less appreciatory pressure as geopolitical risk related to North Korea wanes on a series of upcoming meetings between the leaders of South Korea/North Korea, North Korea/the U.S., and Japan/North Korea, for instance. However, the dollar/yen pair's topside will be capped by deep-rooted pressure for yen appreciation. The pair will continue to be weighed down by concerns related to Japanese/U.S. political uncertainty and the likelihood that the U.S. will keep pushing to correct the U.S./Japanese trade imbalance.
Yamashita	102.00 – 107.00	The U.S. will be releasing its Report on International Economic and Exchange Rate Policies this month. Together with U.S. trade policy, this release could lead to further friction with other countries. As long as there is no major change to Japanese/U.S. monetary policy, foreign exchange trends will be susceptible to geopolitical risk, with the dollar/yen pair's movements likely to be shaped by risk-evasive yen buying.
Yano	103.00 – 108.00	Though more observers believe the U.S. will lift rates four times this year (including the rate hike in March), it seems unlikely the U.S. will be able to lift rates at this pace. Even if the FRB does implement a rate hike, this will be overshadowed by demand for bond buying by investors, with Japanese/U.S. interest-rate differentials not likely to widen much either. The dollar/yen pair is expected to continue moving in a range.
Okamoto	102.50 – 109.00	The markets have finished factoring in FRB rate hikes. Under these circumstances, the dollar will continue to be sold on U.S.-led trade frictions. The U.S. will also be releasing its Report on International Economic and Exchange Rate Policies this month and this will probably throw new kindle on the fire. As such, the dollar/yen pair could fall this month, so caution will be needed.
Nishitani	103.00 – 108.00	Concerns about the U.S./China trade dispute continue to smolder away and there are no signs of this problem being resolved any time soon. Though Japan might not get caught up in this dispute, this risk still remains on the table, so the dollar/yen pair is unlikely to stage a significant rally. The pair looks set to continue trending lower and at times it will probably dip below 105 yen, a crucial level last month.
Moriya	103.00 –	As expected, the FOMC implemented a rate hike when it met last month. Though observers are still expecting the FOMC to continue hiking rates from here on, the situation remains unconducive to any vigorous dollar buying.

	108.00	There is still a lot of uncertainty when it comes to the direction of U.S. trade policy, so the dollar/yen pair will continue to be pushed down at times by risk-evasive yen buying.

Takashi Nishitani, Forex Sales, Forex Department

Euro – April 2018

Expected Ranges **Against the US$: US$1.2100–1.2600**
Against the yen: JPY129.00–134.00

1. Review of the Previous Month

The euro/dollar pair rose in March.

It opened the month trading at $1.2200 on March 1. It then strengthened to the upper-$1.22 level as the dollar moved bearishly across the board when the U.S. introduced new levies on imports and some reports stated the ECB would consider eliminating its easing bias when it met to set policy the following week. The dollar was sold further on March 2 and the pair rose to around $1.2330.

At the weekend, neither the center left, the center right nor the populist parties managed to win a majority in the Italian general election. As a result, the pair dropped to $1.2269 at the start of the next week. However, it recovered to the lower-$1.23 level on news that the Social Democratic Party (SPD; Germany's second largest party) had agreed to enter into a grand coalition with the Christian Democratic Union/Christian Social Union (CDU/CSU). The euro remained bullish thereafter, with the pair climbing to $1.2447 on April 7. It rose temporarily to $1.2446 on March 8 after the ECB Governing Council removed a comment about how "we stand ready to increase the asset purchase programme (APP) in terms of size and/or duration" from the statement it released after its meeting. ECB president Mario Draghi's subsequent press conference was read as dovish, though, so the pair plunged to $1.2298. The U.S. released some mixed February employment data on March 9, with the pair moving flatly around $1.23.

The third week saw the pair rising to $1.2360 on March 13, with an eye on sliding U.S. interest rates. Dollar selling then intensified and the pair climbed to the upper-$1.23 mark on the resignation of U.S. secretary of state Rex Tillerson. It then hit the $1.24 level for a time on reports that the U.S. would be strengthening tariffs and investment restrictions aimed at China. However, it plummeted to the mid-$1.23 mark on March 14 after ECB president Mario Draghi voiced concerns that euro bullishness might weigh down inflation. The pair temporarily weakened to $1.2260 toward the latter half of the week.

In the fourth week, on March 19, the pair rose to the mid-$1.23 range on reports that the ECB was not dismissing market forecasts for an end to quantitative easing at the end of 2018 and the start of rate hikes in the middle of 2019. The pair fell for a time toward March 20, but it bounced back to the mid-$1.23 level on March 21 after the greenback was sold on the results of the FOMC meeting. As concerns about U.S./China trade tensions flared up toward the second half of the week, the pair moved in a range from the upper-$1.22 level to the mid-$1.23 mark.

The pair climbed to the mid-$1.24 range in the fifth week after Bundesbank governor Jens Weidmann said the ECB should soon begin normalizing monetary policy. With the dollar then being bought as concerns about a U.S./China trade war eased off, the pair dropped to the upper-$1.23 level. The dollar was bought on end-of-the-month movements in the second half of the week, with the pair dropping to around $1.2300. The pair then closed the month trading at the lower-$1.23 level.

2. Outlook for This Month:

The euro/dollar pair is expected to trade firmly in April.

Since February, it has moved in a range between $1.22–1.25. Though there do not appear to be any factors capable of pushing the pair above $1.25, there also seems to be substantial buying appetite lined up at the $1.22 level. Though the forecast continues to look bullish for the euro in the medium term, there are no signs of the euro climbing further at this moment in time.

A series of important events took place in Europe last month. Though the center-right faction won the most seats in the Italian general election, no party won a majority, so some form of coalition is inevitable. Some observers think the Five Star Movement will form a coalition with the far right. Risk could flare up depending on how coalition talks develop, but things seemed to have calmed down somewhat. Political risk is also on the wane in Germany, thus removing one of the factors weighing down the euro/dollar pair's topside.

Though the ECB Governing Council removed a phrase about expanding its APP when it met last month, its statement still said that QE could be extended beyond September if necessary. With the inflation outlook also being downgraded, it seemed the ECB would continue to pursue an accommodative monetary policy. However, a senior ECB official then made some comments that seemed to lay the groundwork for a rate hike, so it seems the ECB is moving steadily down the path of policy normalization. The ECB will need to inform the markets by June–July as to whether it will extend the APP. If the ECB does manage to wind down the APP, it might then set out a blueprint for rate hikes within the year. The markets are expecting the first rate hike to take place around the middle of 2019. Of course, the ECB will tread carefully until that moment, but the euro looks set to move bullishly overall on deep-rooted expectations for such a move.

The euro could also be bolstered by external factors. Specifically, depending on how U.S. trade policy develops, the dollar might be sold on global concerns about trade disputes. The EU has indicated it is prepared to take retaliatory measures if the U.S. imposes further tariffs. This could lead to euro appreciation, so caution will be needed. Things seems to be easing off at present, but the situation still presents a risk factor and it will require monitoring from here on.

For the reasons stated above, the euro/dollar pair looks set to move firmly this month. However, there are no factors capable of pushing the euro significantly higher, so the pair will probably remain firm while market participants wait for an opportunity to test its topside.

Dealers' Market Forecast

(Note: These opinions do not necessarily agree with the other contents of this report.)

Bullish on the euro (1 bull: 1.2100–1.2600, Core: 1.2100–1.2600)

Nishitani	1.2100 – 1.2600	At present, there are no factors capable of pushing the euro significantly higher. However, the ECB has clearly set its sights on policy normalization, with expectations rising for an end to QE and rate hikes thereafter, so the euro/dollar pair look set to move firmly. Political risk is waning in Europe and this trend will also support the pair.

Bearish on the euro (10 bears: 1.1900–1.2600, Core: 1.2000–1.2500)

Tauchi	1.2000 – 1.2500	The euro/dollar pair is expected to move firmly on expectations for an ECB rate hike and speculation that the ECB's forward guidance will be revised. However, there are several factors weighing down the pair's topside. Relations between Europe and Russia have worsened, for instance, while the Northern League and the Five Star Movement might join forces to launch an anti-EU administration in Italy. As such, the pair looks set to move sluggishly.
Kato	1.1900 – 1.2400	Euro bullishness is starting to cast clouds on the eurozone's economic indicators. It is also impeding attempts to normalize interest rates. As such, the normalization process will probably take more time, with the euro/dollar pair's topside set to grow steadily heavier.
Yamashita	1.2000 – 1.2400	The eurozone economy is slowing on euro bullishness. If the euro rises further, the ECB will probably respond in kind. The Italian political situation is growing more tumultuous and there are also doubts about the grand coalition in Germany. Under these circumstances, there is risk in believing the euro will rise solely on expectations for an ECB rate hike.
Yano	1.2100 – 1.2400	The ECB has not made any hawkish noises recently and it has also downgraded its inflation outlook, so there is unlikely to be any factors conducive to active euro buying. The ECB still seems a long way off from normalizing interest rates. This situation will also put the brakes on any active buying. As such, the euro/dollar pair is expected to continue moving with a heavy topside this month.
Sato	1.1900 – 1.2500	There has been speculation that the ECB will scale back its huge asset purchasing program, but this topic has clearly dropped off as a market theme, so there now seems to be a shortage of factors pushing the euro higher. Accumulated dollar short positions will probably undergo some adjustment, so the euro/dollar pair will probably trade with a heavy topside.
Fujimaki	1.2100 – 1.2600	The ECB has continued to make hawkish comments and speculation is brewing about future rate hikes. Under these circumstances, the euro might be bought this month. However, the eurozone has recently posted some worse-than-expected economic indicators. With inflation also moving sluggishly, accumulated euro long positions could face some adjustment, with the euro sold as a result.
Okamoto	1.1900 – 1.2500	The trend of euro buying on expectations for ECB tapering has now run its course and there is a dearth of factors capable of pushing the euro higher. ECB staff remain on guard against euro bullishness, so the euro/dollar pair looks set to trade heavily on the topside.
Moriya	1.2000 – 1.2500	The ECB is moving steadily toward normalizing policy, but the euro is no longer rising on expectations for policy normalization. With political risk also smoldering away in Italy and Germany, the euro/dollar pair looks set to move sluggishly this month.
Tsuruta	1.2100 – 1.2550	With the ECB moving steadily toward the exit, it is hard to imagine the euro/dollar pair undergoing a one-sided fall, though there is also a dearth of factors capable of pushing the pair higher. Inflationary indicators remain sluggish, with several ECB members voicing caution about euro bullishness. The euro/dollar pair will move with a heavy topside within a range this month.
Okuma	1.1900 – 1.2500	The ECB downgraded its inflation outlook in March and the eurozone has released several bearish economic indicators. Though ECB members have made more hawkish comments, the ECB is probably in no rush to normalize interest rates. With political uncertainty still lingering in Germany and Italy, the euro/dollar pair will probably move with a heavy topside this month.

Taihei Yamamoto, Europe Treasury Department

British Pound – April 2018

Expected Ranges	**Against the US$:**	**US$1.4000–1.4700**
	Against the yen:	**JPY147.00–160.00**

1. Review of the Previous Month

At the start of March, the markets reacted badly to the divergence in the negotiating positions of the UK and the EU, though optimism then grew after a formal agreement was reached on a transition period, so the GBP/USD pair rose sharply.

The pair opened the month at the mid-$1.37 mark. In his testimony to Congress, FRB chair Jerome Powell had provided justification for rate hikes. The EU had then released a draft Brexit treaty, but this was basically a rehash of the agreement released in December, so it was not really regarded as a new factor, with the EU basically ignoring the UK's demands. As a result, the pair then fell to a monthly low of $1.3712 on March 1. The EU also emphasized that the transitional period was not a given, with the EU pouring cold water on UK hopes. The UK parliament then debated the draft treaty, but with prime minister Theresa May saying she could not sign up to the treaty, the markets reacted badly to the growing gulf between the two sides. On March 2, the UK released its vision for post-Brexit relations. This had an air of realism. It ruled out a customs union, for example. It also accepted the oversight of EU agencies in major industries (it accepted a certain role for the ECJ) and said the UK would make appropriate financial contributions to these agencies. Furthermore, it admitted the UK financial sector would lose its passporting rights. The UK then released its PMI for February. At 54.5, the indicator topped forecasts (53.3) to hit its highest level in four months. Saudi Arabia also agreed to purchase fighter jets from the UK, with the two countries striking a trade and investment deal worth around GBP65 billion over a ten-year period. All this led to pound buying. On March 19, the UK and EU reached a broad agreement on a post-Brexit transitional period, with sterling bought further and the currency pair rising to $1.4066. The February UK CPI data was released thereafter and it only rose by +2.7% y-o-y, down on the forecast for a +2.8% y-o-y rise. This was also the lowest level of CPI growth since July 2017. As a result, anticipation for UK rate hikes waned and the pair weakened slightly to $1.3983. However, UK wages grew by +2.8% y-o-y over November–January (forecast: +2.6% y-o-y), with real wages achieving positive growth, so the currency pair then renewed recent highs. Furthermore, Gertjan Vlieghe, a relative dove within the Bank of England's Monetary Policy Committee (MPC), then stated that interest rates should be lifted once or twice a year over the next few years. With news also emerging that a pro-Brexit faction had breached spending rules in the 2016 referendum, the possibility of a re-vote grew more likely. All this saw the pair ending March at a monthly high of $1.4244.

2. Outlook for This Month:

A curious seasonal anomaly means the pound is susceptible to appreciatory pressure in April. A glance at the pound index shows sterling rising every April for the past ten years. This month is likely to be no exception. A number of thorny issues still need to be tackled when it comes to Brexit, with the Irish border problem kicked into the long grass, for instance, but with a formal agreement about a transitional period reached at an EU summit, the risk of a no-deal scenario has faded and the atmosphere is ripe for optimism. Furthermore, with the pro-Brexit camp having breached rules during the referendum, there is a growing sense that Brexit might be avoided altogether. This will also push the pound higher. In the wake of the attempted assassination of a former Russian spy, the UK has taken a tough line toward Moscow by imposing sanctions and other retaliatory measures. These moves have actually led to pound buying. If prime minister Theresa May's fortunes are revived by adopting a strong foreign policy, some observers think Mrs. May might use this stance to shore up her political base. Perhaps we are already in a febrile atmosphere where any factor leads to pound buying.

As for Brexit negotiations, the European Parliament has set a final deadline of October. Trade negotiations will need to commence soon if things are to be wrapped up in time. However, the UK has more-or-less accepted all the EU's proposals on the major issues so far, so as with the principles already adopted, it seems likely the situation will settle around a free-trade agreement (FTA) based around those signed between the EU and other nations like Canada. Mrs. May has no room to move when it comes to negotiation with the EU, so the main issue she faces is how to handle things domestically. The heads of the Scottish and Welsh governments have both voiced opposition to the Brexit plan. In Northern Ireland, the head of the Democratic Unionist Party (DUP) has also attacked the draft Brexit treaty, saying it undermined Northern Ireland's constitutional position. As such, there is a risk the DUP could end its outside-cabinet support for the government, with a general election then being called. One English bookmaker has said there is a 58% chance the UK will get a new prime minister before the UK leaves the EU in March 2019.

Miki Yamaguchi, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – April 2018

Expected Ranges	**Against the US$:**	**US$0.7550–0.7850**
	Against the yen:	**JPY79.00–83.50**

1. Review of the Previous Month

The AUS/USD pair temporarily hit a 2018 low of $0.7643 in March.

The pair began the month trading at the mid-$0.77 mark on March 1. The Australian Private New Capital Expenditure indicator fell by 0.2% q-o-q over October–December. This was down sharply on market expectations for a rise in the region of +1% q-o-q, with the currency pair subsequently sliding to the lower-$0.77 level. However, with President Trump announcing restrictions on steel and aluminum imports during overseas trading time, risk aversion intensified and U.S. treasuries were bought as a safe haven. As treasury yields fell, the greenback was sold and the currency pair rallied to the mid-$0.77 level. It then moved flatly at the $0.77 mark. The board of the Reserve Bank of Australia (RBA) kept policy rates fixed for the 17th time in a row when it met on March 6. The same day also saw expectations that the U.S. would relax its plan to impose import tariffs on steel and aluminum. With hopes for an easing of tensions between the U.S. and North Korea also rising on comments by President Trump, risk appetite increased and the Australian dollar was bought as a risk currency, with the AUS/USD pair rising to the mid-$0.78 level. The Australian GDP data for October–December was up 0.4% q-o-q and 2.4% y-o-y. This was down on the previous quarter (+0.7% q-o-q and +2.9% y-o-y), but the previous quarter's data was upgraded at the same time, so the impact on the markets was muted. The U.S. February employment data was then released on March 9. At +313,000 m-o-m, the nonfarm payrolls data was up sharply on the forecast for +205,000 m-o-m. With stocks then rising on risk appetite, the currency pair followed suit to hit the $0.78 range. U.S. secretary of state Rex Tillerson was then fired. With the U.S. retail sales data for February also falling substantially below expectations, the greenback was sold and the pair hit a March high of $0.7917.

On March 15, the new National Economic Council director Larry Kudlow said that President Trump supported a strong dollar. This comment saw the greenback moving bullishly across the board. As a result, the AUS/USD pair dropped back to the $0.78 range. The pair continued tumbling to the $0.77 range on March 16 on the bullish results of the U.S. February Industrial Production Index and the March Michigan Consumer Sentiment Index. It then hit a monthly low at the upper-$0.76 mark on March 21, just before the FOMC meeting. As expected, the FOMC implemented a +25bp rate hike at its closely-watched meeting, However, FOMC members stuck to their projection (the dot chart) for three rate hikes in 2018. Investors had been expecting rates to be hiked at a faster pace, so the U.S. dollar was subsequently sold on this news, with the currency pair shooting back to the upper-$0.77 level. However, these movements were short-lived and the pair soon returned to the lower-$0.77 mark.

The U.S. final GDP figure for October–December 2017 was then revised upwards. With hopes also growing for an easing of tensions between Washington and Pyongyang, the greenback was bought and the pair fell to a 2018 low of $0.7643.

2. Outlook for This Month:

In April, the AUS/USD pair is expected to float in a range around $0.76–0.78. A lot will depend on the direction of U.S. foreign exchange and trade policy.

In March, President Trump announced further tariffs on imports of steel and aluminum. He also hit China with a further $60 billion worth of tariffs on the grounds of intellectual property theft. In January, U.S. treasury secretary Steven Mnuchin also made verbal interventions to drive the greenback lower, so it seems the U.S. is becoming more protectionist. Though China has yet to announce its response, there are growing expectations that it will retaliate by selling off its U.S. treasuries, for instance. The markets will be studying the moves of the U.S. and China from here on. During this time, market participants should also pay attention to the U.S. Report on International Economic and Exchange Rate Policies, set for release this month.

As for monetary policy, the RBA board will meet on April 3, with the FOMC next meeting on May 1–2. The last RBA statement stated that "the unemployment rate declined and inflation increased a little. The accommodative setting of monetary policy has played a role here." As such, the RBA will probably keep policy rates unchanged for now. The FOMC implemented a +25bp rate hike last month as anticipated. In the dot chart, though, FOMC members stuck to their prognosis for three rate hikes within 2018, with the next hike likely to take place in June at the earliest. With Australia and the U.S. both keeping things unchanged in April, monetary policy will only have a limited impact on the AUS/USD pair's movements.

On the technical side, one support line for the pair will probably be around $0.76, a line connected to the pair's lows of 2016 and 2017. At the same time, the 200-day long-term moving average is moving around $0.78, so this will also act as a resistance line. Furthermore, the pair has moved around the lower range of the 'cloud' in the monthly Ichimoku Kinkyo Hyo trading chart (around $0.7750) these past three months, so it is hard to discern a trend. As such, the pair is expected to float in a range around $0.76–0.78 in April.

Key Australian events and indicators to watch out for in April include the RBA board meeting (April 3), the building approvals data and retail sales data (released April 4), the trade balance (April 5), the housing loan approvals figure (April 12), the minutes to the RBA board meeting (April 17), the employment data (April 19), the CPI data (April 24), and the PPI (April 27).

Hiroko Nasu, Canada Office, Global Markets Coordination Department

Canadian Dollar – April 2018

Expected Ranges	**Against the US$:**	**C$1.2630–1.3345**
	Against the yen:	**JPY80.50–85.00**

1. Review of the Previous Month

The USD/CAD pair opened March trading at C$1.2857.

The Canadian 4Q GDP data was released on March 2. At an annualized +1.7%, the result was down on the forecast for +2.0%. The 3Q GDP figure was also revised down from 1.7% to 1.5%, thus signaling a complete end to the period of breakneck growth that occurred from mid-2016 to mid-2017. Amid growing expectations that Canadian economic growth would slow to around 2% going forward, the Canadian dollar was sold on the same day and the currency pair rose to C$1.2916.

As expected, the Bank of Canada (BOC) kept its policy rate fixed at 1.25% when it met on March 7. In the statement released on the same day, the BOC did not rule out a future rate hikes, but it did express caution about the outlook for the Canadian economy in the wake of the NAFTA renegotiations and U.S. protectionism, so the statement was dovish on the whole. The Canadian dollar was sold as a result, with the pair temporarily climbing to the C$1.300 mark on the same day. However, the Trump administration then announced that Canada and Mexico would be exempt from tariffs on steel and aluminum exports. The Canadian unit was bought back on a sense of relief, with the pair closing the day at C$1.2912.

The February employment data was released on March 9. The number of full-time workers fell by 39,300 in Canada, worse than the forecast for a rise in the region of 21,000, with total job gains numbering 15,400. At 5.8%, Canada's unemployment rate was down 0.1% on the previous month, but this was due to a fall in the number of job applicants. At +313,000, though, the U.S. nonfarm payrolls figure was up sharply on expectations, though the closely-watched average hourly wages figure was down on January on both a m-o-m and y-o-y basis. As a result, the greenback was sold directly after and the currency pair fell to C$1.2812.

BOC governor Stephen Poloz gave a dovish speech on March 13. With Canada also releasing some bearish housing data and manufacturing sales data over March 15–16, the Canadian dollar was sold. At the start of the next week, on March 19, the USD/CAD pair hit C$1.3125, its highest point since June 2017. The pair did not stay in the C$1.30 range for long, though. It fell to $1.2891 on March 21 on news that the U.S. had dropped some of the conditions it wanted applied to cars made in Canada and Mexico as part of the NAFTA renegotiations. The Canadian February CPI data was released on March 23 and this significantly outperformed prior expectations, so the Canadian dollar shot up and the currency pair fell to C$1.2824.

The U.S. 4Q final GDP data was then released. At +2.9% y-o-y, the figure was up sharply on prior forecasts. The greenback was bought as a result, with the pair moving at the lower-C$1.290 as of March 28.

2. Outlook for This Month:

Though the Canadian economy seemed to slow over March, inflation rose and crude oil prices also moved strongly. Uncertainty about the NAFTA renegotiations then eased somewhat over the latter half of the month. Expectations for a rate hike could increase depending on the monthly GDP result (released March 29), so the Canadian dollar might appreciate slightly.

One major friction point in the NAFTA renegotiations had been the U.S. insistence that 50% of the parts and materials of cars assembled in Canada and Mexico should be the ones made in the U.S., but this condition was dropped on March 21. As such, hopes grew that a compromise would be reached in the troublesome NAFTA talks, with the Canadian dollar pushed up sharply as a result. With the U.S. looking to wrap up the NAFTA negotiations by May 1, the eighth round of talks will be kicking up in Washington D.C. this month. The Canadian unit will also continue to be bolstered by crude oil prices (WTI), which have recently moved stably around $60–65/barrel.

The Canadian January GDP data will be released on March 29. The figure is expected to move flatly at +0.10% m-o-m, but if the data is stronger than expected, the Canadian dollar will face appreciatory pressure as expectations for a rate hike swell.

There are still concerns about a U.S./China trade war, though, and there is lingering uncertainty about how U.S. protectionism will impact the global economy. As such, the markets will be susceptible to risk aversion and there could be risks emanating from the U.S., so caution will be needed.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – April 2018

Expected Ranges	**Against the US$:**	**KRW1,050–1,100**
	Against the yen:	**JPY9.50–10.20 (KRW100)**
		(KRW9.80–10.53)

1. Review of the Previous Month

The USD/KRW pair moved flatly overall in March. Risk sentiments eased at the start of the month on news about talks between North and South Korea and between Washington and Pyongyang, with early movements also impacted by the dovish FOMC meeting at the end of February and concerns about a U.S./China trade war.

After opening at KRW1080.50, the pair then hit a monthly high of KRW1083.80 on the same day. The pair then jostled up and down on news about U.S. trade policy. During overseas trading time on March 6, news emerged that North and South Korea would be holding talks. On the morning of March 9, meanwhile, it was reported that the U.S. and North Korea would also hold a head of states meeting. All this led to won buying.

In the following week, the markets focused on negative political news in the U.S., such as the dismissal of secretary of state Rex Tillerson, with the won sold and the dollar bought for a time. While swinging back and forth, the pair then hit a monthly low (won high) of KRW1062.70 on March 14.

This level was met with a sense of cautiousness, though, so the pair gradually strengthened again. The dollar was sold on March 22 on the dovish contents of the FOMC meeting, released during overseas trading time the previous day. During overseas trading time on March 22, though, news emerged that President Trump had signed a presidential decree to increase tariffs on imports of Chinese goods and aluminum, etc. This led to sharp deterioration in risk sentiments. As U.S. stock markets plummeted, the won was sold in the NDF market. As a result, the won also sharply down on the onshore market at the start of trading on March 23. However, amid signs that tensions between the U.S. and China were easing off, the won was supported by end-of-quarter real-demand buying, with the currency pair subsequently sliding to close at KRW1063.50.

2. Outlook for This Month:

The USD/KRW pair is expected to rise slightly this month. This key point right now is the movement of risk sentiments. It seems there are too many major factors in play at present, with the pair set to move erratically on various movements and results. One major factor is the North Korean issue, with talks penciled in between North and South Korea and also between Washington and Pyongyang. Another major factor is the issue of U.S. trade policy and the threat of a trade war between the U.S. and China.

Turning to the former, and the heads of state of North and South Korea will be meeting on April 27, with a U.S./North Korea heads of state meeting also scheduled to take place sometime in May. The main event will be the meeting between President Trump and North Korean leader Kim Jong Un, but attention will also focus on the talks between Seoul and Pyongyang for what they reveal about North Korea's stance. As reported in various sources, meanwhile, there has been frequent contact between Seoul/Pyongyang and Washington/Pyongyang. If the details of these overtures are leaked, this will probably impact the markets. North Korea is likely to adopt a reconciliatory stance in the run up to the heads of state meeting with the U.S. next month, so if some news related to North Korea does emerge this month, it will probably lead to some won buying (however, if it seems a deal will be struck that only benefits the U.S., with negative consequences for Japan and South Korea, this will inevitably lead to some won selling).

Next up is U.S. trade policy. This factor could upset global stock markets, so it will require monitoring. Generally speaking, global stock markets have moved bullishly until now. This may solely be due to speculators building up their stock long positions. If it seems the U.S. and China will impose high tariffs on each other, stock markets could fall sharply, as they did last month. If this trend seems connected to risk aversion, it will invite some won selling.

From here on, a lot will depend on the contents of news reports and which reports the markets end up focusing on. With the North Korean issue, though, the main event (the U.S./North Korean heads of state meeting) will not be taking place until May, so the biggest negative event this month will probably be trade policy.

The Bank of Korea (BOK) will also be meeting on April 12. With the FOMC unexpectedly striking a dovish tone last month, though, it seems to be growing less important for the BOK to track the FOMC's movements. Inflation in South Korea is moving somewhat sluggishly and the won's current level seems somewhat too high. With the FOMC also striking a dovish tone, on the whole there is no reason why the BOK should rush into hiking rates.

Based on the above, the USD/KRW pair is expected to rise slightly this month.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – April 2018

Expected Ranges	**Against the US$:**	**NT$28.90–29.40**
	Against the yen:	**JPY3.55–3.70**

1. Review of the Previous Month

The USD/TWD pair weakened in March.

In his testimony to the U.S. Congress, FRB chair Jerome Powell stated that the economic outlook had grown more bullish since the December FOMC meeting. This hawkish stance pushed the greenback higher, with the currency pair opening the month at TWD29.329, slightly up on February's closing figure of TWD29.230. However, concerns about a U.S./China trade war then increased after President Trump slapped high tariffs on imports of steel and aluminum. The U.S. dollar weakened and the currency pair moved with a heavy topside to slide to the lower-TWD29.2 mark.

With Gary Cohn resigning as director of the U.S. National Economic Council, concerns about U.S. protectionism grew stronger toward mid-March, so the pair moved heavily on the topside. With Taiwanese stocks also moving firmly and more overseas funds flooding into Taiwan's stock markets, the pair dropped below TWD29.2.

The markets then slipped into wait-and-see mode ahead of the March 20–21 FOMC meeting, with the pair continuing to float in a range around the upper-TWD29.1 level. As expected, the FOMC hiked the target range for the federal funds rate by 25 bp. However, members maintained that there would be three rate hikes in 2018, with the rate only expected to rise from 2.75% to 2.875% in the long run. The greenback subsequently fell after the meeting. As the U.S. dollar was sold and the Taiwan dollar bought in Taiwanese markets on March 22, the pair temporarily fell to a low of TWD29.068.

President Trump then announced a new set of sanctions on China for intellectual property theft. These centered around a further 25% tariff (equivalent to $60 billion) on Chinese imports. As concerns about a U.S./China trade war flared up again, stocks tumbled and overseas funds flowed out of Taiwanese stock markets, with the USD/TWD paring back its post-FOMC losses to rally to TWD29.1. However, it then moved with a heavy topside toward the end of the month as the U.S. dollar was sold by exporters.

2. Outlook for This Month:

The USD/TWD pair's movements in April will continue to be marked by Taiwan-dollar bullishness.

A glance at the economic indicators released in March shows Taiwan's exports dipping by -1.20% y-o-y in February, the first contraction since September 2016. There were fewer business days in February due to the Chinese New Year holidays. The same holidays had also occurred in January the previous year, so this also had a substantial impact on the comparable data. However, the accumulated export data for January–February was up sharply on the precious year, with exports continuing to move strongly. Taiwan's trade surplus hit $2.92 billion in February, up on the previous month's figure of $2.42 billion. At +2.19% y-o-y, meanwhile, the February CPI data was figure was also up on January's +0.89% y-o-y. The Chinese New Year holidays saw a substantial increase on spending on vacations, with the data also pushed up by the rising price of petroleum products. The Central Bank of the Republic of China (Taiwan) held its quarterly monetary policy meeting on March 22. This was the first meeting with Yang Chin-long at the helm, so it attracted a lot of attention. As expected, the discount rate was kept at 1.375%, so the impact on the currency pair was muted.

The focus will remain on U.S./China trade policy in April.

Concerns about a U.S./China trade war flared up in March after President Trump slapped high tariffs on imports of steel and aluminum. This situation looks set to rumble on for a while, but U.S. treasury secretary Steven Mnuchin has said there is no danger of a trade war and the U.S. is not looking for one. It is also likely that more countries will be exempted from these protectionist measures. As such, the issue is unlikely to lead to a global economic downturn.

However, if China takes some decisive action and a trade war looks more likely, stocks will slide across the globe, with overseas funds flowing out of Taiwanese stock markets too. This trend would probably bolster the USD/TWD pair.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – April 2018

Expected Ranges	**Against the US$:**	**HK$ 7.8300–7.8500**
	Against the yen:	**JPY 13.10–13.80**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

In March, the Hong Kong dollar depreciated against the U.S. dollar to the HKD 7.8494 level for the first time since the introduction of the U.S. dollar peg system in 2005 (to accept the floating exchange rate between HKD 7.75 and HKD 7.85), as the interest rate differentials between the U.S. dollar and the Hong Kong dollar continued widening as a result of the decision to raise the U.S. policy interest rate made by the Federal Reserve Board (FRB) at the Federal Open Market Committee (FOMC) meeting. Under such a circumstance, the Hong Kong Monetary Authority (HKMA) suggested the possibility to postpone the additional issuance of short-term exchange fund bills in order to keep the U.S. dollar/Hong Kong dollar exchange rate from exceeding HKD 7.85. Under such conditions, market participants are concerned about a falling liquidity level in the Hong Kong dollar market, leading the one-year U.S. dollar/Hong Kong dollar forward rate to rise from –600 points to –500 points.

Hong Kong dollar interest rate market in March

The Hong Kong dollar depreciated against the U.S. dollar to approach the HKD 7.85 level, and market participants are concerned about a falling liquidity level in the Hong Kong dollar market in the times ahead. As a result, the one-month and three-month HIBOR in Hong Kong rose to approach 1.0% and 1.19%, respectively. On the other hand, after the interest rate hike by the FRB at the FOMC meeting in the U.S., financial institutions in Hong Kong do not feel urgency in raising the interest rate level. The interest rate differentials between the U.S. dollar and the Hong Kong dollar thus continue widening. The current account balance of the HKMA—the index used to measure the liquidity level in the interbank market—remained high, almost flat from the previous month, at approximately HKD 180 billion.

Hong Kong stock market in March

The benchmark Hang Seng Index fell to the 30,000 level, as concerns were growing regarding the outbreak of a trade war between the U.S. and China. While the trade volume between the Chinese and

Hong Kong stock markets through the Shanghai-Hong Kong Stock Connect system has been falling, the interest rate differentials between Hong Kong and the U.S. have been widening. As a result, market participants are also concerned about capital outflow from Hong Kong.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in April

In April, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.7830 and HKD 7.850. As the liquidity level in the Hong Kong dollar market has been high, interest rate appreciation in Hong Kong has not caught up with the pace of interest rate appreciation in the U.S. As a result, the interest rate differentials between Hong Kong and the U.S. have been widening, and the Hong Kong dollar depreciated against the U.S. dollar, leading the exchange rate to approach HKD 7.85 level for the first time since the introduction of the U.S. dollar peg system. On the other hand, the depreciation of the Hong Kong dollar did not continue to exceed the HKD 7.85 level, temporarily slowing down thereafter. However, the FRB is still expected to continue raising the interest rate at a moderate pace, which is causing the widening interest rate differentials between the U.S. dollar and the Hong Kong dollar. As a consequence, there have still been a large number of market participants that sell the Hong Kong dollar against the U.S. dollar, and it is possible for the U.S. dollar/Hong Kong dollar exchange rate to approach the HKD 7.85 level again. Even though the HKMA hinted that there will be no additional issuance of short-term exchange fund bills until the pressure to sell the Hong Kong dollar weakens, the decision to additionally issue exchange fund bills could rapidly strengthen the upward pressure on the Hong Kong dollar. Market participants continue paying attention to the possibility of a trade war between China and the U.S., and this is expected to remain a key issue in the times ahead.

Hong Kong dollar interest rate market in April

While the Hong Kong dollar continues depreciating against the U.S. dollar, in general, the Hong Kong dollar interest rates, especially those for short terms, are forecast to gradually appreciate, as concerns over the future fall of the liquidity level in the Hong Kong dollar market will have been reflected in the market. Furthermore, it should also be mentioned that the gap between the U.S. dollar interest rates and the Hong Kong dollar interest rates has widened to a considerable extent. Therefore, the Hong Kong dollar interest rates for the medium and long terms are likely to gradually follow the rise of the U.S. dollar interest rates, while the FRB is expected to continue gradually raising the policy interest rate.

Kazuki Baba, Treasury Division, MHBK (China)

Chinese Yuan – April 2018

Expected Ranges	**Against the US$:**	**CNY 6.2000–6.6000**
	Against the yen:	**JPY 15.61–17.74**
	Against 100 yen:	**CNY 5.6400–6.4100**

1. Review of the Previous Month

Foreign exchange market

In March, the U.S. dollar/Chinese yuan exchange rate remained flat for a while. However, in the last week of the month, the Chinese yuan appreciated significantly against the U.S. dollar.

In overseas markets, risk-averse sentiment was growing in the market due to the mounting concerns over a trade conflict caused by the media report on the imposition of customs duties on steel and aluminum by the U.S. Under such a condition, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around CNY 6.34, waiting for the opening of the 13th National People's Congress (NPC). On March 5, the NPC came to a close. The GDP growth target rate was announced to be around +6.5% year-on-year—the same level as in the previous year. On the other hand, the part "or more if possible," which was included last year, was deleted. The personnel placement in each government institution was also announced at this occasion, but in general, the contents of the announcement had been more or less expected. The impact on the U.S. dollar/Chinese yuan exchange market was therefore limited. Thereafter, U.S. dollar transactions in overseas markets were limited, as other key events such as the Federal Open Market Committee (FOMC) meeting were approaching. Following this trend, the U.S. dollar/Chinese yuan exchange rate remained almost flat within the range from CNY 6.32 to CNY 6.34. At the FOMC meeting held on March 21, the interest rate was raised, as had been anticipated. In reaction to this, the People's Bank of China (PBOC) also raised the short-term interest rate by 5 basis points. However, as this had already been expected in the market, the impact on the exchange rate was minimal. Then, on March 22, U.S. President Donald Trump signed a presidential decree to impose customs duties on Chinese products, while China announced a mutual custom plan in response, fueling fears of a trade war. As a result, the Japanese yen appreciated against the U.S. dollar. However, in the U.S. dollar/Chinese yuan exchange market, the exchange rate remained flat, at around CNY 6.32. In the last week of March, the U.S. dollar/Chinese yuan exchange rate dropped sharply, with U.S. dollar-selling transactions. The U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.30 level, which accelerated the appreciation of the Chinese yuan further. As a consequence, the Chinese yuan continued appreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate fell below CNY 6.25—the highest level for the Chinese yuan since August 2015. Toward the end of the month, an increasing number of market participants bought back the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate returned to the CNY 6.28 level.

Interest rate market

At the beginning of March, Chinese yuan interest rates, the terms of which end within the same month, depreciated, as the liquidity level in the market rose as a result of a fund release by a major Chinese bank. On the other hand, interest rates for more than one month that go beyond the end of March increased as a result of vigorous capital demand. Thereafter, the liquidity level in the market was kept high with funds supplied through open-market operations as well as an increase of MLF loans. Under such circumstances, interest rates that mature by the end of the month remained stable. On the other hand, interest rates for more than one month that go beyond the end of March continued rising as capital demand remained vigorous. In the second half of the month, the appreciation of the interest rates that go beyond the end of March slowed down, while major Chinese banks released funds into the market. As a result, interest rates fell slightly for the entire curve. In reaction to the interest rate hike in the U.S. announced on March 21, the PBOC also raised the operation interest rate by 5 basis points through capital supply based on reverse repo. However, the impact of this on the capital market was limited.

2. Outlook for This Month:

Foreign exchange market

In April, the U.S. dollar/Chinese yuan exchange market is expected to continue following factors in overseas markets, such as the growing fear of a trade war.

At the National People's Congress, which was recently held, the growth target rate and the current measures of monetary tightening were maintained, as they were in the previous year, without any significant change. Therefore, it is difficult to see a drastic change caused by a factor related to the Chinese yuan in the U.S. dollar/Chinese yuan exchange market in April. However, on the other hand, the overseas exchange market has been fluctuating by following media reports related to the trade war. As the U.S. dollar/Chinese yuan exchange market is likely to be impacted by the trend of the U.S. dollar in overseas markets, it will be necessary for market participants to continue keeping up with the news on how the trade policy will be agreed on between China and the U.S. Also, on April 17, the January–March quarter GDP of China is scheduled to be released. While economic conditions have been strong in China, the result will show the current economic situation in relation to +6.5%, the growth target rate for 2018. In the medium-term perspective, the Chinese yuan is forecast to start gradually depreciating against the U.S. dollar, while the exchange rate is remaining at a stable level, due to concerns over a slowdown in economic growth resulting from measures of monetary tightening.

Interest rate market

While the liquidity level in the market has recently been kept high, it is difficult to expect violent fluctuation in interest rates. However, it should also be warned that an increase is easily possible in the medium-term upward pressure on interest rates, based on strengthened monetary surveillance by the Chinese monetary authorities as well as on strengthened regulations for the purpose of deleveraging.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – April 2018

Expected Ranges	**Against the US$:**	**SG$ 1.2950–1.3200**
	Against the yen:	**JPY 79.50–81.50**

1. Review of the Previous Month

In March, the U.S. dollar/Singapore dollar exchange rate fluctuated in both directions, following factors related to the U.S. However, the exchange market did not move into any specific direction, and in the end, the exchange rate remained at the same level at the opening and closing of monthly trading.

At the beginning of the month, Federal Reserve Board (FRB) Chair Jerome Powell gave a hawkish congressional testimony, based on which market participants bought the U.S. dollar and sold the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.32 level on March 1. However, in the end, this was the monthly low for the Singapore dollar in March. In the evening of the same day, U.S. President Donald Trump announced his plan to impose importing duties on steel and aluminum, in reaction to which the U.S. dollar weakened generally against other currencies. As a consequence, on March 2, the Singapore dollar continued appreciating against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.31 level.

On the following week, the Singapore dollar appreciated during the first part of the week, even though in the second half of the week, the Singapore dollar weakened again. On March 7, the media reported the resignation of the chief economic advisor to U.S. President Donald Trump, Gary Cohn, which accelerated U.S. dollar-selling. Following this trend, market participants were encouraged to buy the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.31 level. However, thereafter, the Singapore dollar depreciated slightly as a result of the position adjustment before the announcement of the employment statistics of the U.S. Then, on March 9, the employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to see the most-significant increase in one year and seven months. On the other hand, the growth rate of the average hourly salary showed a slowdown. Therefore, U.S. dollar-buying was limited, and weekly trading closed at the upper-SGD 1.31 level to the U.S. dollar.

In the following week, the Singapore dollar continued appreciating during the first part. On March 13, Secretary of State Rex Tillerson was fired. Having witnessed a series of resignations of key officials in the Trump administration, market participants became increasingly uncertain, selling the U.S. dollar in an accelerated manner. As a result, on March 14, the Singapore dollar continued appreciating against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.30 level. However, there was a considerable number of market participants taking profits at that level, and the U.S. dollar/Singapore dollar exchange rate returned to the upper-SGD 1.31 level during the second half of the week. Also, on March 16, the February industrial production of the U.S. recorded its all-time high, while other U.S. economic indices all recorded better-than-expected results, which also encouraged market participants to sell the Singapore dollar.

In the week commencing on March 19, market participants were mainly maintaining a wait-and-see attitude, waiting for the Federal Open Market Committee (FOMC) meeting scheduled for the middle of the week. In the first part of the week, the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range, at the upper-SGD 1.31 level. At the FOMC meeting, the FOMC members maintained their outlook regarding the number of interest rate hikes before the end of 2018 at three. As a result, market participants that were expecting four interest rate hikes were disappointed and sold the U.S. dollar, weakening the U.S. dollar. Following this trend, the Singapore dollar also strengthened against the U.S. dollar to the lower-SGD 1.31 level. Then, on March 22, the media reported that U.S. President Donald Trump would carry out trade sanctions against China due its violation of intellectual property rights. In response to this, concerns grew in the market regarding possible trade friction, and the U.S. dollar depreciated against other major currencies. However, at the same time, stock prices fell sharply in the U.S. and an increasing number of market participants took actions to avert risks related to the currencies of emerging countries. As a result, the Singapore dollar also depreciated slightly against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.31 level. On March 23, stock indices all fell sharply at a global level, including the ST Index. However, the U.S. dollar continued depreciating against other major currencies. As a result, the U.S. dollar/Singapore dollar exchange rate did not move into any direction, fluctuating within a narrow range at the AGD 1.31 level, with the impact of both the depreciation of the U.S. dollar and the risk-averse activities.

On the following week, the stock market stabilized to some extent, which led the Singapore dollar to strengthen against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.30 level again.

2. Outlook for This Month:

In April, the Singapore dollar is likely to remain strong against the U.S. dollar, reacting to the monetary policy announced by the Monetary Authority of Singapore (MAS).

The most-important event in April will be the biannual revision on the monetary policy by the MAS. In

April 2016, the MAS stopped its operation to lead the Singapore dollar to appreciate on a Nominal Effective Exchange Rate (NEER) basis, shifting to a neutral stance and leading the Singapore dollar to neither appreciate nor depreciate. An increasing number of market participants expect the MAS to resume its operation to lead the Singapore dollar to appreciate at this occasion, as the U.S. has been raising the interest rate while the inflation rate has been moderately rising in Singapore. Furthermore, the budget bill for FY2018 was released at the end of February, revealing a deficit in terms of fundamental balance as a result of expanded expenditures. Therefore, many expect the MAS to balance its policy through a mixed approach by prioritizing economic stimulus measures over fiscal normalization in terms of fiscal policy, while taking measures of monetary tightening in terms of monetary policy.

Under such circumstances, the Singapore dollar is likely to strengthen toward the second week of April in which the MAS is scheduled to announce its policy, approaching the Singapore dollar's high observed in January this year for the first time in more than three years. However, for the Singapore dollar to appreciate enough to lead the U.S. dollar/Singapore dollar exchange rate to fall below the psychological turning point at SGD 1.30, it would be necessary for market participants to have a stabilized general outlook for the depreciation of the U.S. dollar. For this to happen, there may not be sufficient factors at this moment. If market participants actively buy the Singapore dollar in advance by reflecting the market expectation for the MAS to resume its operation to lead the Singapore dollar to appreciate, the Singapore dollar may start depreciating after the actual announcement, due to profit-taking activities.

Other key events scheduled in April include the release of the preliminary result of the January–March quarter GDP of Singapore, scheduled for around the second week of the month, and the European Central Bank (ECB) monetary policy committee meeting, scheduled for April 26.

Hiroshi Seki, Bangkok Treasury Office

Thai Baht – April 2018

Expected Ranges	**Against the US$:**	**THB 30.40–32.10**
	Against the yen:	**JPY 3.35–3.45**

1. Review of the Previous Month

U.S. dollar-selling dominated the U.S. dollar/Thai baht exchange market, based on growing fears of a trade war between the U.S. and China.

On April 1, the U.S. dollar/Thai baht exchange market opened trading at THB 31.60. However, on the same day, local time, in New York, U.S. President Donald Trump made a statement that he would impose import duties of 25% on steel and 10% on aluminum, which fueled fears of a trade war, leading the U.S. dollar/Thai baht exchange rate to fall to reach THB 31.49. Thereafter, the February Consumer Price Index (CPI) was announced, and the result was significantly lower than expected in the market. In reaction to this, the U.S. dollar/Thai baht exchange rate rallied to reach THB 31.50, after which the exchange rate fell to THB 31.41, with pressure to sell the U.S. dollar. On March 6, the media reported that Gary Cohn of the National Economic Council would resign if the import duties are to be imposed, which encouraged market participants to continue selling the U.S. dollar, and then the U.S. dollar/Thai baht exchange rate fell to THB 31.27. On March 8, the European Central Bank (ECB) monetary policy committee meeting was held, and the policy interest rate was maintained at the existing level, as had been expected. However, in the statement, the phrase "the QE will be expanded if necessary" was deleted, which fueled expectation for tapering in the market. Then, on March 9, the following day, the February employment statistics of the U.S. were released, and the number of non-agricultural employees recorded a year-on-year increase of 313,000, which was significantly larger than expected. However, the unemployment rate and the growth rate of the average salary both turned out to be weaker than expected in the market, which encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate fell to THB 31.30. Then, on March 14, Secretary of State Rex Tillerson under the Trump administration was fired from his post. Furthermore, it was announced that the Under Secretary of State would also resign. In reaction to this, the sense of uncertainty over the trade policy of the U.S. increased in the market, and the U.S. dollar/Thai baht exchange rate reached its monthly low at THB 31.09.

On March 15, the following day, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark to give warning regarding the appreciation of the Thai baht, stating that the central bank would be able to control the violent fluctuations in the market. Partly based on this, the U.S. dollar/Thai baht exchange rate rose to reach THB 31.21 on the same day, local time. On March 19, local time, U.S. stock prices fell sharply due to the leakage of personal information by a major SNS company in the U.S. In response to this, U.S. stock prices fell significantly on March 20, the following day, and following this trend, U.S. dollar-selling continued dominating the U.S. dollar/Thai baht exchange market. At the Federal Open Market Committee (FOMC) meeting held on March 22, the interest rate was raised. However, Federal Reserve Board (FRB) Chair Jerome Powell showed a dovish attitude, which kept the U.S. dollar/Thai baht exchange rate from appreciating. Then, on March 23, a U.S. newspaper reported that the U.S. was planning to file a complaint against China at the World Trade Organization (WTO), fueling fears of a trade war and leading U.S. stock prices to fall. Following this, the U.S. dollar/Thai baht exchange rate fell to reach THB 31.17. On March 27, overseas investors continued investing in the Thai bond market, and the U.S. dollar/Thai baht exchange rate hovered around at the THB 31.12 level. Then, on March 28, the Monetary Policy Committee (MPC) held a meeting at the central bank of Thailand and decided to maintain the policy interest rate at 1.50%. It was revealed that one committee member supported an interest rate hike of 25 basis points, which fueled expectation in the market for a future interest rate hike in Thailand. As a result, the Thai baht appreciated against the U.S. dollar and the exchange rate fell below THB 31.20.

2. Outlook for This Month:

The appreciation of the U.S. dollar/Thai baht exchange rate is forecast to remain limited.

In the joint statement at the G20 meeting for finance ministers and central bank governors, the principle of "continuing to fight against protectionism" in the Hamburg summit's declaration of July last year was confirmed once again. However, there was no outcome regarding any action to slow down the protectionist measures taken by the U.S. As Managing Director of the IMF Christine Lagarde has warned by stating, "a trade war would damage the growth of global economy, and custom duties would cause a significant impact on the countries involved," concerns are growing over negative impact on the U.S. itself as well. Furthermore, the director of the National Economic Council, Gary Cohn, resigned from his post, immediately after which the Secretary of State Rex Tillerson, who was seen to have opposed to U.S. President Donald Trump regarding the issues related to Iran, was fired. Moreover, there have been rumors that National Security Adviser H.R. McMaster may also be fired soon. It can thus be said that a sense of uncertainty over the U.S. political administration has been rapidly growing. If market participants are aware of the worst-case scenario of a trade war, the pressure to sell the U.S. dollar may increase to a great extent.

On the other hand, at the MPC meeting, the policy interest rate was maintained at the existing level.

However, this time, there were split opinions among the participants for the first time in 22 meetings, and the decision was taken based on the majority rule of six to one. One committee member supported an interest rate hike, pointing to the risk of maintaining a low interest rate for a long time. It was seen as a surprise that one committee member supported an interest rate hike of 25 basis points, which led interest rates to rise by approximately 5 basis points, especially among those for short terms. In the statement released after the meeting, the central bank of Thailand pointed to the fact that the Thai economy has been growing steadily based on strong exports, along with domestic demand moderately recovering. Many committee members explain that the decision was taken based on the assumption that the current monetary easing policy would allow economic growth to continue, raising the inflation rate to the target level set out by the central bank. It should also be mentioned that the committee member who supported an interest rate hike this time claimed that the continued monetary easing would force households and companies to estimate potential changes in their fiscal conditions to the minimal level, while an interest rate hike of 25 basis points would not slow down economic growth. Furthermore, the economic outlook was also announced at the same time, and the GDP growth rate and the export growth rate for 2018 were both revised upward to 4.1% year-on-year and 7.0% year-on-year, respectively. The Thai economy has been growing steadily, supported by exports, and there have been a constant structural current surplus and capital inflow from overseas investors into the Thai bond market. Given that the number of foreign tourists is likely to increase in April as the traditional New Year festival in Thailand, Songkran, is approaching, the pressure to buy the Thai baht is likely to remain strong for the times ahead. Therefore, the U.S. dollar/Thai baht exchange rate is expected to remain low for a while.

Teruhiko Yamada, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – April 2018

Expected Ranges	**Against the US$:**	**MYR 3.8500–3.9300**
	Against the yen:	**JPY 25.97–27.54**
	Against 100 yen:	**MYR 3.6300–3.8500**

1. Review of the Previous Month

In March, the U.S. dollar/Malaysian ringgit exchange rate remained at a stalemate at around MYR 3.9.

In March, the U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR 3.92 level. While the pressure to sell the Malaysian ringgit was growing due to the fact that U.S. Federal Reserve Board (FRB) Chair Jerome Powell gave a hawkish congressional testimony on February 27, local time, market participants sold the Malaysian ringgit to lead the U.S. dollar/Malaysian ringgit exchange rate to reach MYR 3.9310 on March 1. However, on the same day, local time, U.S. President Donald Trump also made a comment that he would impose customs duties on steel and aluminum, which fueled fears of growing protectionism, encouraging market participants to sell the U.S. dollar. As a result, the Malaysian ringgit was bought back, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 3.8895 on March 5. However, few market participants bought the Malaysian ringgit when the exchange rate was below MYR 3.90 to the U.S. dollar, bringing the exchange rate to the MYR 3.90 level. On March 7, the policy interest rate was maintained at the existing level at the monetary policy meeting, as had been expected in the market. There was thus little reaction in the market to this decision, and in the end, the weekly trading closed at the lower-MYR 3.91 level before the announcement of the February employment statistics of the U.S. scheduled for the evening of March 9.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at the mid-MYR 3.90 level, remaining almost flat from the previous week, as the figures in the February employment statistics of the U.S. turned out to be mixed. Thereafter, the exchange continued fluctuating in a moderate manner. Even after the media report on March 14, local time, on the removal of Secretary of State Rex Tillerson from his post, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around MYR 3.90. However, on March 16, the media reported that the White House was planning to fire National Security Advisor H.R. McMaster as well. In negatively reacting to this, market participants sold the Malaysian ringgit to some extent in order to avert risks. In the end, weekly trading closed at the lower-MYR 3.92 level.

In the second half of the month, market participants maintained a wait-and-see attitude, as the Federal Open Market Committee (FOMC) meeting was scheduled for March 21, local time, in the U.S. As a result, the U.S. dollar/Malaysian ringgit exchange rate was at a stalemate at the MYR 3.91 level. At the FOMC meeting, the FF interest rate was raised, as had been expected in the market, and the growth rate outlook for 2018 and 2019 was revised upward, also raising the long-term interest rate outlook. However, thereafter, FRB Chair Jerome Powell made the remark, "if the interest rate is raised too slowly, there would be economic risks," also pointing to trade issues as a risk. In negatively reacting to this, market participants sold the U.S. dollar. Following this trend, the Malaysian ringgit was bought back to some extent on March 22. However, on March 22, local time, the media reported that the U.S. would take the Section 301 Trade Action against China, while reporting that, in return, China would take retaliatory measures against the U.S., which fueled fears of a trade war, and the U.S. stock prices depreciated significantly. In response to this, the Malaysian ringgit weakened slightly on March 23. In the end, weekly trading closed at the upper-MYR 3.91 level.

It should also be mentioned that, on March 26, market participants bought the Chinese yuan, following which the Malaysian ringgit was also bought, and the U.S. dollar/Malaysian ringgit exchange rate reached the mid-MYR 3.89 level.

2. Outlook for This Month:

In April, the U.S. dollar/Malaysian ringgit exchange rate is forecast to have no particular trend.

As the global depreciation of stock prices was observed in February, the U.S. dollar/Malaysian ringgit exchange rate has been fluctuating within a narrow range at around MYR 3.9.

With regard to domestic economic indices, the GDP level remains high. However, the Consumer Price Index has been depreciating significantly, even if it is considered to be a result of crude oil price fluctuation. It is therefore not easy to expect the interest rate to be raised additionally, and the exchange market is likely to continue reacting more sensitively to overseas factors in April.

In particular, it is important to note that the U.S. trade policy related to the trade friction between the U.S. and China and the U.S. foreign exchange report are scheduled to be out in April. Depending on the outcome of such events, it is possible for the Malaysian ringgit exchange market to see a radical change in trends.

In general, the pressure to buy the Malaysian ringgit is expected to remain strong, but market participants should remain cautious about various key events.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – April 2018

Expected Ranges	**Against the US$:**	**IDR 13,500–13,900**
	Against 100 rupiah:	**JPY 0.75–0.80**
	Against the yen:	**IDR 125.00–134.00**

1. Review of the Previous Month

In March, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between IDR 13,720 and IDR 13,805, remaining high from the upper-IDR 13,700 level to the lower-IDR 13,800 level.

The U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,780. The Indonesian rupiah remained weak, as was the case at the end of the previous month, and the U.S. dollar/Indonesian rupiah exchange rate reached once IDR 13,805, the monthly high. However, the exchange rate did not rise further from the IDR 13,800 level, as there were speculations regarding central bank interventions. On the same day, the February Consumer Price Index (CPI) of Indonesia was announced, and the result was almost as had been expected in the market, at +3.18% year-on-year. Thus, reaction to this announcement was limited.

Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the upper-IDR 13,700 level. On March 7, the February amount of foreign currency reserves in Indonesia was released, revealing a decrease of USD 3.9 billion from the previous month. This confirmed the fact that the central bank used foreign currency reserves in order to intervene in the foreign exchange market and to stabilize the Indonesian rupiah exchange market.

Furthermore, the February trade balance of Indonesia was released on March 15 with a deficit of USD 116 million, recording a deficit for the third consecutive month.

At the Federal Open Market Committee (FOMC) meeting in the U.S., which gathered substantial attention in the market, the interest rate was raised, as had been expected. However, the contents of the press interview of new Federal Reserve Board (FRB) Chair Jerome Powell were seen as relatively dovish by market participants. Therefore, there was no confusion after the FOMC meeting, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range.

Toward the second half of the month, risk-averse sentiment grew in the market due to concerns over a trade war between the U.S. and China. As a result, the U.S. dollar/Indonesian rupiah exchange rate rose to reach IDR 13,795 on March 23. In the end, as of March 23, the U.S. dollar/Indonesian rupiah pair has been trading at around IDR 13,780 (based on the closing rate).

On the other hand, in the Japanese yen/Indonesian rupiah exchange market, the Japanese yen has been appreciating against the Indonesian rupiah to reach IDR 131 for the first time since September 2016.

On March 22, the central bank of Indonesia held its regular meeting, and the policy interest rate was maintained at the existing level for the sixth consecutive month, as had been anticipated in the market.

2. Outlook for This Month:

In April, there is no positive factor for the Indonesian rupiah, and therefore the U.S. dollar/Indonesian rupiah exchange rate is expected to remain high at the upper-IDR 13,700, as was the case in the previous month.

The overseas investors' holding of Indonesian government bonds declined slightly from the IDR 848 trillion recorded at the end of February to the IDR 843 trillion recorded on March 22. It seems that securities investment from abroad has slowed down.

In terms of domestic factors, the trade balance recorded a deficit for the third consecutive month. The foreign currency reserves also declined slightly, while risk-averse sentiment is growing in overseas markets due to concerns over a trade war between the U.S. and China. There has thus been no positive factor.

The trade deficit seen in consecutive months has been creating a trend of Indonesian rupiah-selling as a flow based on actual demand, with the future expansion of the current deficit, while it can also impact the psychology of overseas investors, discouraging them from investing in Indonesia.

The amount of foreign currency reserves is expected to decline, as it is considered that foreign currencies were used for the foreign exchange market intervention to stabilize the Indonesian rupiah market in March, as was the case in February. However, the absolute level of foreign currency reserves remains still considerably high, making it unlikely to see a sharp fall.

It should also be added that the monetary policy of the central bank of Indonesia is likely to be maintained at the existing level for the seventh consecutive month in April, given the instability in the foreign exchange market.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – April 2018

Expected Ranges	**Against the US$:**	**PHP 51.90–53.00**
	Against the yen:	**JPY 1.98–2.05**

1. Review of the Previous Month

In March, the U.S. dollar/Philippine peso exchange market (onshore market) opened trading at PHP 52.07.

It seemed as if the U.S. dollar/Philippine peso exchange rate would become stable at the PHP 52 level, based on the hawkish remark in a congressional testimony made by Federal Reserve Board (FRB) Chair Jerome Powell, along with the February ISM Manufacturing Report on Business of the U.S., which turned out to be significantly stronger than expected in the market.

However, the remark made by FRB Chair Jerome Powell at the U.S. Senate Banking Committee public hearing was seen as rather dovish compared to that at the congressional testimony, while the Philippine peso had been rapidly depreciating against the U.S. dollar since the beginning of the year, fueling speculations for interventions by the monetary authorities. As a result, market participants started buying back the Philippine peso.

There were also market participants that sold the U.S. dollar out of fear of a trade war between the U.S. and China, which led the U.S. dollar to approach its low. However, demand to buy the U.S. dollar remained robust, due to concerns over the growth in risk-averse sentiment, based on the trade friction. Furthermore, on March 6, the February Consumer Price Index (CPI) of the Philippines was released, and the result turned out to be 3.9%. As a result, expectations weakened for an interest rate hike at the monetary policy committee meeting of the central bank of the Philippines scheduled for March 22. As a consequence, market participants were encouraged to sell the Philippine peso.

The February employment statistics of the U.S. were released on March 9, after which the U.S. dollar/Philippine peso exchange rate fell below PHP 52 again based on the trend to buy Asian currencies. However, the U.S. dollar/Philippine peso recovered to the PHP 52 level immediately until the middle of the month. On Friday, March 16, there was a situation in which U.S. dollar-buying was encouraged. However, the U.S. dollar/Philippine peso exchange rate did not rise further, as market participants were also aware of the possibility of market interventions by the monetary authorities.

It seems that market participants refrained from active transactions waiting for important events that were approaching (the Federal Open Market Committee [FOMC] meeting and the monetary policy committee meeting of the central bank of the Philippines).

After the FOMC meeting, market participants bought Asian currencies, having confirmed that the interest rate hikes are not happening at a rate faster than expected. However, the impact of this on the U.S. dollar/Philippine peso exchange market was limited.

After the trading hours of the onshore market on March 22, the central bank of the Philippines announced its decision to maintain the policy interest rate at the existing level. The inflation outlook was announced to be 3.9% for 2018 and 3.1% for 2019, remaining within the inflation target range of 2 to 4% set out by the central bank.

In addition to the differences in monetary policies in the U.S. and the Philippines, there has been confusion related to the trade policy of the U.S. In negatively reaction to this, the U.S. dollar/Philippine peso exchange rate renewed its recent high based on the closing rate on March 23. Trading closed at PHP 52.39, the lowest rate for the Philippine peso in 12 years. As of 3 p.m. on March 28, there were some market participants buying back the Philippine peso before the consecutive holidays, and the U.S. dollar/Philippine peso pair was trading at around the PHP 52.20–PHP 52.30 level.

2. Outlook for This Month:

In addition to the factors to encourage market participants to sell the Philippine peso as discussed above, it must also be pointed out that the current account balance of the Philippines recorded a deficit of USD 2.52 billion in 2017. This amount is more than double the deficit recorded in 2016. On March 15, the January amount of Overseas Filipino Workers (OFW) remittances was announced, recording a year-on-year increase of 9.7%. While this result itself is a factor to encourage market participants to buy the Philippine peso, market evaluation is that this would not be able to cancel off the trade deficit that is likely to continue expanding.

Thus, in the times ahead, it is possible for the U.S. dollar/Philippine peso exchange market to stop reacting to the factor for Philippine peso-buying.

Last month, at the monetary policy committee meeting of the central bank of the Philippines, the policy interest rate was maintained at the existing level for the 28th consecutive time since September 2014. It is the 15th consecutive time since the introduction of the new system, the "Interest Rate Corridor (IRC)," in June 2016.

The central bank of the Philippines sees that inflation can be mitigated through the adjustment of the minimum wage and the fares of public transport. Furthermore, the central bank also analyzes that the inflation rate can be lowered in the times ahead through a policy to change the restriction on the volume of rice imports to a system of tonnage tax. On the other hand, the central bank continued referring to the fact that the Philippines is at a stage to observe changes in prices.

The Philippine Stock Exchange index (PSEi) recorded a significant fall, seeing a drastic change from its all-time high observed at the end of January. The index fell below the 8,000-point mark, remaining in the lowest range observed for the first time since September last year. The weekly transactions on Philippine stocks by overseas investors show a significant level of sell on balance for the eight consecutive weeks.

Even though the trade friction between the U.S. and China has been slightly mitigated, the market sentiment is likely to remain negative. Furthermore, concerns over the political administration in the U.S. are persistent.

Under such circumstances, it is extremely difficult for investors to actively take risks. As a result, market participants will likely to prefer the U.S. dollar as a safe asset, leading the U.S. dollar to appreciate against the Philippine peso again.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – April 2018

Expected Ranges	**Against the US$:**	**INR 64.00–65.50**
	Against the yen:	**JPY 1.60–1.65**

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range in March.

In March, the U.S. dollar/Indian rupee exchange market opened trading at the INR 65.25 level. On March 1, the exchange rate momentarily exceeded INR 65.27, which turned out to be the monthly high. On Friday, March 2, the exchange rate remained high until the closing of the market, as it was a local holiday.

In the second week of the month, the U.S. dollar/Indian rupee exchange market was impacted by the customs policy in the U.S. At the beginning of the week, there was downward pressure on the U.S. dollar, leading the U.S. dollar/Indian rupee exchange rate to fall as well. In the end, U.S. President Donald Trump signed a document regarding the introduction of import customs duties of 25% on steel and 10% on aluminum. However, the media reported that the duties would not be applied to the two countries related to NAFTA, i.e., Mexico and Canada, and there might be other countries that may also be exempted depending on negotiations in the times ahead. Having seen these headlines, market participants were relieved and bought back the U.S. dollar.

In the third week of the month, the U.S. dollar/Indian rupee exchange rate depreciated moderately from the beginning of the week based on the employment statistics of the U.S., released at the end of the previous week after market closing. However, on March 14, the Reserve Bank of India (the central bank of India, also referred to as the "RBI") announced the restriction of loan guarantees and the issuance of credit notes as fraud-prevention measures, which encouraged market participants to buy the U.S. dollar. Following this trend, the U.S. dollar/Indian rupee exchange rate also appreciated. However, thereafter, the U.S. filed a complaint against India at the World Trade Organization (WTO) for having raised the competitiveness of its own products in an unjustifiable manner through excessive subsidies. As a consequence, the U.S. dollar/Indian rupee exchange rate started to depreciate. On March 15, the U.S. dollar/Indian rupee exchange rate reached its monthly low at PHP 64.805.

In the fourth week of the month, the U.S. dollar/Indian rupee exchange rate rose to the INR 65.20 level due to the uncertainty over political conditions in the U.S. However, the appreciation was stopped by a flow that seemed to be an intervention by the RBI. The exchange rate therefore did not rise further.

As there were factors for buying and selling both in the U.S. and India, the U.S. dollar/Indian rupee exchange rate did not move into any direction, generally fluctuating within a narrow range between INR 64.90 and INR 65.20 throughout the month.

At the end of March, the Indian rupee/Japanese yen exchange rate returned to the level seen at the beginning of the month.

The Indian rupee/Japanese yen exchange market opened trading in March at the JPY 1.63 level. Based on the issue related to import duties on metals as discussed above, the U.S. dollar/Japanese yen exchange rate rapidly reached the lower-JPY 105 level. Following this trend, the Indian rupee/Japanese yen exchange rate also fell sharply to JPY 1.62. Thereafter, the media reported that Mexico and Canada would be exempt from the customs duties, in reaction to which the U.S. dollar/Japanese yen exchange rate approached the mid-JPY 107 level. At the same time, the Indian rupee/Japanese yen exchange rate also reached its monthly high exceeding JPY 1.65.

However, it should also be mentioned that there was a scandal in Japan regarding official paperwork for the Moritomo Gakuen scandal, while in the U.S., key officials were being fired continuously at the White House. As a result, the Japanese yen continued appreciating and the U.S. dollar/Japanese yen exchange rate reached the JPY 104 level for the first time in approximately one year and four months. Following this trend, the Indian rupee/Japanese yen pair has been trading at around JPY 1.61 as of March 23.

2. Outlook for This Month:

The U.S. dollar/Indian rupee exchange rate is forecast to remain low in April.

In March, the Federal Open Market Committee (FOMC) decided to raise the interest rate in the U.S., while the growth rate and inflation outlook was revised upward, also raising the estimated number of interest rate hikes in 2019. However, there was no significant reaction in the market, leading the U.S. dollar and interest rates to depreciate. Many point to the fact that the press interview by the Federal Reserve Board (FRB) Chair did not contain any new information. However, there must be a more-serious reason regarding why the U.S. dollar depreciated despite the fact that the FOMC meeting saw many important decisions made. All the factors to encourage U.S. dollar-buying had no effect in the market. On the other hand, the trade war fears and the uncertainty over the political administration in the

U.S. are likely to remain influential themes in the market for a while. Even though the U.S. dollar is forecast to weaken in general, market participants are often encouraged to sell emerging currencies when risk-averse sentiment grows, which can be a factor to lead the U.S. dollar/Indian rupee exchange rate to rise.

In India, the economic indices remain strong. The October–December quarter GDP turned out to be 7.2%, exceeding the estimate. The manufacturing PMI turned out to be 52.1, while the Consumer Price Index turned out to be 4.4%. Furthermore, the current account balance also recorded a deficit smaller than expected, while there were concerns over the expanding trade deficit. In particular, the manufacturing PMI recorded the June–September average of 50.1, the previous quarter average of 52.5, and exceeding 52 for the second consecutive month. Thus, based on these indices, the local manufacturing industry has been strong. Furthermore, inflation has been confirmed through the fact that the core CPI turned out to be 5.0%, the same level as the previous month, although the headline CPI has seen a slight decline compared to the previous month.

As has been discussed above, market participants should remain cautious about risk-averse sentiment in the market caused by U.S.-related factors. However, the Indian rupee is generally forecast to strengthen in April.

It should be additionally mentioned that the U.S. dollar/Japanese yen exchange rate can depreciate further and that the appreciation of the Japanese yen may impact the Indian rupee/Japanese yen exchange market.

This report was prepared based on economic data as of April 2, 2018.