Mizuho Dealer’s Eye

June 2018

Mizuho Bank, Ltd.

Forex Department

Masahide Sato, Forex Sales, Forex Department

U.S. Dollar – June 2018

Expected Ranges Against the yen: JPY105.00–111.00

1. Review of the Previous Month

In May, the dollar/yen pair rose as geopolitical risk eased and concerns about US/China trade friction wore off, though the pair then fell as risk aversion intensified on the unstable political situation in Italy.

The pair opened the month trading at the lower-109 yen mark on May 1. It then climbed to the lower-110 yen level toward May 2 as the greenback strengthened across the board. However, it weakened to the upper-108 yen range on May 3 on growing concerns about a US/China trade dispute, with the pair also buffeted by the worse-than-expected result of the April Non-Manufacturing ISM Report on Business. The US employment data was released on May 4. The nonfarm payrolls and average hourly wages figures both fell below market expectations, so the pair dipped to the mid-108 yen mark.

It floated right around 109 yen on May 7, though it then tumbled to the upper-108 yen level on May 8 as the Trump administration formally announced it was pulling out of the Iran nuclear agreement. However, the benchmark 10-year treasury yield topped 3% on May 9, with the pair subsequently strengthening to the lower-110 yen range toward May 10. The US April CPI data was then released, with the overall and core figures both falling below expectations. As a result, the pair plunged to the lower-109 yen mark and it continued moving with a lack of incentives at this level on May 11.

On May 14, U.S. commerce secretary Wilbur Ross said the US would slap tariffs on EU steel and aluminum imports if an agreement was not reached by June 1. As the euro fell, the dollar was bought and the dollar/yen pair climbed to the upper-109 yen level. May 15 saw the release of a better-than-expected NY FRB Manufacturing Index for May. The US April retail sales data was also released at the same time, with the March data being revised upwards. All this saw the pair rising to the mid-110 yen level. With the May Philadelphia FRB Manufacturing Index significantly outperforming expectations on May 17, the pair rose to the lower-111 yen range toward May 18.

News emerged at the weekend that China had promised to increase its imports during trade talks with the US. This saw the pair hitting a monthly high of 111.39 yen on May 21. This level was met with strong selling demand, though, so it then moved with a heavy topside toward May 22. During a meeting with the South Korean leader on May 22, President Trump hinted that he might postpone the heads of state meeting with North Korea. This news saw the pair tumbling to the upper-109 yen mark on May 23. Mr. Trump then said on May 24 that he was considering placing further tariffs on imports of automobile parts. He also announced that talks with Pyongyang had been called off. As a result, the currency pair fell to the upper-108 yen level. It bounced back to the upper-109 yen range on May 25 as short-term investors unwound their short positions in advance of a three-day weekend in the US.

The pair moved with a lack of incentives on May 28 as markets in London and New York closed for a holiday. However, it then dipped to a monthly low of 108.12 yen on May 29 as risk aversion intensified on political instability in Italy. Though it rallied to the lower-109 yen mark for a time on May 30, it then moved with a heavy topside toward May 31.

2. Outlook for This Month:

The dollar/yen pair is expected to trade with a heavy topside in June.

A number of factors supported the dollar in May, with the benchmark 10-year treasury yield rising to the 3% range, for instance, but the pair lost momentum just below the technically-important level of 111 yen and the it then dipped back on a sense of disappointment.

Geopolitical risk and US trade policy will remain key themes this month. The Italian political situation will also require monitoring for its potential impact on risk appetite.

As for geopolitical risk, though the US/North Korea heads of state meeting (scheduled for June 12) was called off, the two sides are still looking for a way to move forward, so it is unclear how things will develop from here on. Even if a meeting is held, the crucial matter will then be whether an agreement can be reached on nuclear disarmament. Either way, market participants should not build up to too much hope for an easing of geopolitical risk.

With regards to US trade policy, optimism is on the rise now that China has promised to increase its imports from the US. However, cabinet-level meetings to discuss Japan/US trade relations could begin this month. If the focus on US trade policy shifts to Japan, this could lead to yen buying, so caution will be needed.

US economic indicators will also require monitoring. Recent indicators have yielded mixed results and it seems the US economy has lost some momentum. Uncertainty about the Trump administration's trade policies might have started to impact corporate investment activity. If more indicators drop below expectations, this will probably push the dollar/yen pair lower.

The FOMC will also be meeting over June 12–13. The consensus is that the FOMC will implement a 0.25% rate hike, but the markets have already priced this in, so the hike itself is unlikely to have much of an impact. Market participants will be watching to see whether the forecast is for four rate hikes in 2018. The outlook for the US economy and inflation will also attract attention. The minutes to the last FOMC meeting were read as dovish and this led to dollar selling. Given the high market expectations, the dollar might be sold if the FOMC meeting is also read as dovish.

Risk assets may also face some steep adjustment depending on how the political situation develops in Italy. This could also act as a factor pushing the yen higher. As such, the currency pair looks set to move with a heavy topside in June.

Dealers' Market Forecast

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

Bullish on the dollar (4 bulls: 106.50–112.00, Core: 107.00–111.75)

Kato	108.00 – 112.00	Risks related to North Korean will gradually ease off, as will risks associated with US/China and US/Japan trade frictions. The Italian political situation remains up in the air, but unlike with Greece, there is no risk of a default. As such, risk appetite will steadily grow stronger.
Fujimaki	106.50 – 111.50	The US economy is moving strongly and the outlook for rate hikes remains unchanged. As such, the dollar/yen pair looks set to move firmly on the whole. However, some new factors will be needed to push the pair above 111 yen.
Okamoto	107.00 – 111.00	There are plenty of risk-off factors, including the US/China trade dispute and the situation in Europe and North Korea. Amid concerns about the direction of the US/North Korea heads of state meeting, the dollar/yen pair could dip for a time on worsening sentiments. However, war is unlikely to break out any time soon, so the pair will probably edge higher on expectations for an FOMC rate hike.
Tsuruta	107.00 – 112.00	The dollar/yen pair is moving with a slightly heavy topside on political uncertainty in Europe, but there does not seem to be any other particularly bearish factors. The first meeting between the leaders of the US and South Korea is scheduled for June, with the FOMC also expected to implement a rate hike. Amid a relative dearth of negative factors, the pair is expected to move firmly to pare back losses.

Bearish on the dollar (6 bears: 104.00–111.00, Core: 105.00–111.00)

Tauchi	106.00 – 111.00	Excessive risk aversion is expected to ease off, but there remain deep-rooted concerns about the Trump administration's protectionist stance. There is also uncertainty about the US/North Korea heads of state meeting, for instance. A further negative factor is the political instability in the south of Europe, with uncertainty growing about the political situation in Italy. Given this, the dollar/yen pair looks set to move with a heavy topside this month.
Yamashita	104.00 – 109.00	Yen buying could be prompted by risk aversion as assets grow more unstable on global political risk. The markets have also factored in US rate hikes to a considerable extent, so the greenback is unlikely to be bought on an FOMC rate hike.
Sato	105.00 – 111.00	The main themes will be geopolitical risk and US trade policy. Even if the leaders of the US and North Korea meet, there are doubts about whether this will lead to an agreement on nuclear disarmament. Attention should also be paid to cabinet-level discussions about Japan/US trade relations. There is also considerable risk that the FOMC will adopt a dovish stance when it comes the outlook for the US economy and rate hikes. As such, the dollar/yen pair will probably move with a heavy topside.
Ueno	105.00 – 110.00	There remain a number of risk factors, including the European political situation, US/China trade frictions, and North Korea. The FOMC looks set to lift rates at a gradual pace, but the markets have already factored this in, so rate hikes are unlikely to push the dollar/yen pair higher.
Moriya	105.00 – 111.00	The FOMC is expected to lift rates this month, but this has already been priced in by the markets. With US interest rates showing signs of cooling, market participants will probably focus on risk factors such as the Italian political situation and US/China trade frictions. As such, the dollar/yen pair is expected to move with a heavy topside.
Okuma	106.00 – 111.00	The US economy remains firm, but risk aversion will probably rise on political instability in Europe, for example. The markets have more-or-less factored in a June FOMC rate hike, so this will only have a minimal impact. The leaders of the US and North Korea will probably end up meeting, but it is unclear how this will develop. This is another reason to expect the dollar/yen pair to move with a heavy topside.

Masashi Sakamoto, Forex Sales, Forex Department

Euro – June 2018

Expected Ranges **Against the US$: US$1.1500–1.1900**
Against the yen: JPY125.00–130.00

1. Review of the Previous Month

The euro/dollar pair fell in May.

It opened the month trading at the upper-$1.20 mark on May 1. It then hit a monthly high of $1.2084, but as the euro-selling trend spilled over from April, it subsequently fell to the upper-$1.19 level. The FOMC's statement was then read as dovish and the US employment data for April fell below market expectations, so the pair rallied for a time. In the latter half of the week, though, the eurozone released some worse-than-expected April CPI data, April PMI data and March retail sales data. As the euro was sold, the pair tumbled to the lower-$1.19 mark. It ended the week trading in the mid-$1.19 range.

The pair opened the week beginning May 7 at the mid-$1.19 level. The German manufacturing orders data for March then fell sharply below expectations, while the February data was also downgraded. This led to a decline in expectations for early policy normalization by the ECB, with the pair breaking below $1.19 as a result. The pair then crashed to the mid-$1.18 mark on May 8 as risk aversion intensified on uncertainty about the Iran nuclear deal. It dipped to the lower-$1.18 level on May 9, though it bounced back to the mid-$1.19 range on May 10 as the greenback was sold on the results of the US CPI data for April. It closed the week trading at $1.1941.

The pair opened the week beginning May 14 at the lower-$1.19 mark. It rose to the upper-$1.19 level after Bank of France governor François Villeroy de Galhau said he expected the ECB to begin lifting rates within quarters, not years. However, the euro was then sold when the Five Star Movement and the League said during coalition talks in Italy that they planned to ask the ECB to forgive Italian debt worth 250 billion euros. With the May Philadelphia FRB Manufacturing Index significantly outperforming expectations on May 17, US interest rates rose and the dollar was bought, with the pair tumbling to $1.1750. It closed the week trading at the upper-$1.17 level.

The pair opened the week beginning May 21 at the upper-$1.17 mark. News then emerged that the Five Star Movement and the League had reached an agreement on policy during talks about forming a coalition, but concerns about the new administration saw yields on Italian government bonds soaring, with the pair falling to the lower-$1.17 mark. This was followed by reports that the eurosceptic Paolo Savona was being considered for the post of Italy's next economy minister. With the May Manufacturing PMIs of the eurozone and Germany then dropping below expectations, the pair tumbled to the upper-$1.16 level. On May 25, several former advisors to the Spanish prime minister Mariano Rajoy were found guilty in a corruption case. At political uncertainty increased in the eurozone, the pair fell to end the week at the mid-$1.16 level.

The pair opened the week beginning May 28 at the mid-$1.16 mark. Attempts to form a coalition government in Italy floundered after the Italian president vetoed the appointment of the eurosceptic Paolo Savona as economy minister. With the political situation in Spain also still up in the air, the euro continued to be sold. News emerged on May 29 that a new election could be held in Italy by the end of July at the earliest. This led to concerns that the eurosceptic faction would gain even more support, so the pair hit a monthly low of $1.1510 to close the month trading at the upper-$1.16 level.

2. Outlook for This Month:

The euro/dollar pair is expected to stage a comeback in June.

The euro was sold last month on lackluster eurozone economic indicators and political uncertainty in Italy and Spain. In addition to the bearish eurozone indicators, Germany also posted a weak manufacturing orders indicator for March and a sluggish manufacturing PMI for May. The ECB had been moving towards policy normalization on the healthy economic situation, but these indicators now threw a spanner in the works. However, the euro slumped during May to renew a low for 2018. Its level now could be read as a factor supporting the economies of Germany and the eurozone as a whole. As such, although May saw the release of several worse-than-expected indicators, the bearish euro will probably lead to improvements in the inflation data and other indicators this month. In his press conference after the April ECB Governing Council meeting, ECB president Mario Draghi barely touched on the euro, apart from a mention that the ECB was monitoring its movements. This shows that the euro's level was not really seen as a factor impacting the eurozone economy in April. The ECB seems to have stepped off the path of policy normalization, but if the economy is boosted by euro bearishness and inflation then accelerates, June may see signs of the ECB moving steadily back along this path.

There is still considerable uncertainty about the political situation in Italy and things are unlikely to improve any time soon this month. The populist Five Star Movement and the right-wing League are trying to put together a coalition government, but the Italian president Sergio Mattarella has vetoed the appointment of the eurosceptic economist Paolo Savona as economy minister. Both parties are now looking for a compromise candidate for economy minister, but if they fail to reach an agreement, reports suggest there could be another general election in July or September. Of course, such a move could once again lead to growing uncertainty about the Italian political situation, but it could also lead to a short-term sense of relief compared to the alternative, namely of the Five Star Movement and the League forming a coalition government and subsequently ramping up government spending while pressing for a change in the EU's fiscal rules. Opinion polls point to growing support for the Five Star Movement and the League, so even if Italy holds a new general election, this is unlikely to lead to any major shifts in the balance of power in Italy's parliament. However, even though the euro/dollar pair will be swayed by opinion polls in the run up to an election, the Italian government will find it hard to take a hardline against the EU, for instance, so factors are unlikely to grow more negative for the currency pair from here on.

Based on the above, the euro is expected to bounce back this month after falling sharply in May (as of May 31).

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.1400–1.2050, Core: 1.1425–1.2025)

Fujimaki	1.1450 – 1.2050	With speculators building up euro long positions, the euro/dollar pair could fall if political uncertainty rises in Italy, for example. However, the pair has also faced some considerable correction, so investors should adopt bullish positions given that the ECB could move towards further tightening as inflation edges upwards.
Okamoto	1.1400 – 1.2000	Political risk is rising in Italy and Spain and it is unlikely to dissipate any time soon. However, the fundamentals remain broadly intact, so provided these two countries do not edge toward leaving the eurozone, risk-evasive movements will probably be capped. Even if Italy does call a new general election, the euro will be conducive to buying after a round of 'selling the fact.'

Bearish on the euro (8 bears: 1.1200–1.1900, Core: 1.1250–1.1825)

Tauchi	1.1300 – 1.1800	The euro/dollar pair will probably trade with a heavy topside on concerns that risk aversion could drag on into the long term on: deteriorating eurozone business confidence; fears that the ECB might slow the pace of monetary tightening on sluggish inflation; and a growing sense that Southern Europe could see another round of parliamentary elections (Spain's prime minister is facing a vote of no confidence, for example, while another Italian general election could become a de facto vote on whether to leave the eurozone).
Kato	1.1300 – 1.1800	Speculation that Italy might default or head towards an exit from the EU are probably overly pessimistic, but political turmoil still looks set to continue for a while, so the euro/dollar pair will probably trade with a heavy topside.
Yamashita	1.1200 – 1.1700	In addition to the political turmoil in Italy, investors should also keep a close eye on political risk related to the corruption scandal involving the ruling party in Spain. Both countries have huge debt burdens, so this uncertainty will lead to further moves away from the euro.
Sato	1.1200 – 1.1900	If political instability in Italy drags on into the long term, the euro is unlikely to be the beneficiary of any dollar selling, so the euro/dollar pair will continue trading with a heavy topside. If rising political risk negatively impacts the financial markets (with yields on Italian government debt rising, for example), this could impact the ECB's movements toward policy normalization. This is another reason why it is hard to foresee any active euro buying.
Ueno	1.1200 – 1.1800	The euro is being driven lower by the situation in Italy. A coalition government might be formed or a new general election called, but uncertainty will remain in place in either case. Political instability is also on the rise in Spain. It is hard to foresee the situation improving any time soon in either country, so the euro/dollar pair is likely to continue trading with a heavy topside.
Moriya	1.1300 – 1.1850	Though eurozone economic indicators have not been unremittingly bad, the euro is unlikely to be bought on hopes regarding ECB monetary policy. Amid ongoing concerns about political risk in Italy and Spain, the euro is likely to be sold this month.
Tsuruta	1.1200 – 1.1900	Italy could see a new general election. Italy's lax finances are more of a worry than the prospect of an exit from the EU. The ECB is looking at when to wind down the APP. If concerns about an Italian fiscal crisis swell, the ECB could push back the end date for the APP. As concerns shift from political instability to fiscal instability, the euro/dollar pair looks set to trade with a heavy topside.
Okuma	1.1300 – 1.1900	With the European economy slowing, political instability is on the rise in Italy and Spain. Market participants will need to monitor the situation in both countries. However, amid waning speculation that the ECB will wind down its huge asset purchasing program in September, the euro/dollar pair is expected to move bearishly this month.

Taihei Yamamoto, Europe Treasury Department

British Pound – June 2018

Expected Ranges	**Against the US$:**	**US$1.2900–1.3500**
	Against the yen:	**JPY145.00–150.00**

1. Review of the Previous Month

In May, a clear difference emerged in the UK and US when it came to business confidence and the hard data.

The GBP/USD pair opened the month at \$1.3766 and it then moved with a heavy topside. While the US manufacturing PMI for April rose to 56.5, as expected, the equivalent UK indicator dipped to 53.9 (forecast: 54.8). At 52.8, the UK services PMI for April also dropped below the forecast for 53.5. All this saw the gap between 10-year UK and US government bond yields widening to its highest level since 1984. The UK held regional elections on May 3. With the ruling Conservative Party opening up a wide lead on the Labour Party, the currency pair fell below \$1.35 for the first time in four months. On May 8, news emerged that executives from a major Japanese pharmaceutical company and the UK-listed firm Shire had reached an agreement for the former to buy the latter. As a result, sterling was bought back and the pair hit \$1.3593. However, the details revealed that the acquisition would be paid for in dollars, so the news was actually greeted by dollar buying, with the currency pair soon bouncing back. The pair then held steady for a while after the UK House of Lords (a chamber filled with anti-Brexiteers) voted again to amend the withdrawal bill to commit the UK to staying in the European Economic Area (EEA). However, President Trump then decided to pull the US out of the Iran nuclear deal and re-impose economic sanctions on Iran. This led to an acceleration of emergency dollar buying. The Dollar Index renewed a 2018 high and the USD/GBP pair tried to push above \$1.35 again. The UK released a worse-than-expected March Industrial Production Index on May 10 (+2.9 y-o-y against the forecast for +3.1% y-o-y). Construction in particular dipped by 4.9%, its steepest fall since 2013. The Bank of England (BOE) Monetary Policy Committee (MPC) announcement was also made on May 10. Ian McCafferty and Michael Saunders had called for the policy rate to be lifted to 0.75%, but the MPC instead voted 7 to 2 to leave things unchanged. The committee also downgraded its GDP outlook for 2018 (from the +1.8% outlook in February to +1.4%), 2019 (from +1.8% to +1.7%) and 2020 (from +1.8% to +1.7%). All this saw the currency pair hitting \$1.3460. Bets on a June rate hike fell to around zero in the OIS market. BOE deputy governor Ben Broadbent had been one of those voting to maintain the status quo, but on May 11 he said during an interview with the BBC that the recent bearishness of UK indicators was due to temporary seasonal factors. This bullish assessment of the economy saw the pound recovering to the \$1.35 mark against the dollar. However, this impact was short-lived and sterling soon dropped back. The UK cabinet met to discuss the customs union on May 15, but a lack of progress saw the USD/GBP pair hitting the \$1.34 range. On May 17, the cabinet reached agreement on a 'backstop' option that would keep the UK in the customs union for a longer period. As a result, the pound rebounded slightly, though the rally was kept in check by the fact the 'backstop' option was only a worst-case measure to be adopted if no agreement was reached on a Brexit treaty. Italian fundraising costs then rose on news that the populist Five Star Movement and the right-wing League had reached an agreement on policy ahead of forming an anti-EU coalition government in Italy. The ECB said this raised a lot of concerns. This pessimistic viewpoint saw the greenback being bought on the growing divergence in US and European monetary policy. On May 22, BOE MPC member Gertjan Vlieghe hinted that rates could be lifted more times than the markets were expecting. The April UK CPI data was then released on May 23, with the data dipping below the forecast (+2.5%) to hit +2.4%. All this saw the pair dropping to a monthly low of $1.3205.

2. Outlook for This Month:

European/US interest-rate differentials have widened and the environment has grown more conducive to one-sided dollar appreciation, as evinced by a comment by the US treasury secretary that a strong dollar is good for the US economy. As such, sterling will probably be sold against the greenback this month. The prime minister of Spain is expected to face a vote of no confidence on June 1. With Italy also facing the risk of another general election in autumn, funds will probably flood back to dollar on concerns about Europe's debt problems flaring up again.

The UK government's Brexit dilemma also grew starker in May. When it comes to trade with the EU, the British government has put forward two plans. Plan A would involves signing a comprehensive free trade agreement and customs deal with the EU, while Plan B would simply involve minimal border checks. Last month, the government also proposed a 'customs backstop' option that combined the two plans, but 60 members of the Conservative Party opposed Prime Minster Theresa May's Brexit proposal, with the idea suffering a quick setback. These 60 MPs are more than the 48 Conservative MPs (15% of all Tory MPs) needed to trigger a confidence vote in the prime minister, so Mrs. May's proposal seems virtually dead in the water. The government also held a cabinet meeting to discuss a customs agreement on May 2. This revealed a clear split, with the cabinet voting down Mrs. May's proposal by six votes to five. The power balance in the cabinet has probably deteriorated following the resignation of the pro-EU home secretary Amber Rudd following an immigration scandal. With the compromise plan voted down, only two sharp options remain on the table: membership of the customs union or no deal at all. However, neither of these options are likely to gain domestic approval. If the government pursues membership of the customs union, hardliners in the Conservative Party will probably force Mrs. May to step down, while a Hard Brexit would probably be voted down by the UK parliament (particularly the House of Lords). Realistically, the government's only hope of survival is to extend the interim agreement (currently running until the end of 2020) and kick the debate into the long grass.

It is rumored that the EU's chief negotiators will be putting forward their conclusions about the Irish border this month, so June looks set to be a crucial month when it comes to talks about the customs union. Reports suggest Tory MPs have been told they must attend the House of Commons in the first half of June. Many see this as a signal that parliament will be deliberating over a major proposal. The UK government is expected to release a more-detailed white paper over 100 pages long before an EU heads of state meeting on June 28. If no agreement is reached, there is a real risk the UK could run out of time. Some insiders say the EU expected the Brexit talks to drag on until 2023 at the earliest, so hopes for an agreement are not high.

The BOE's Monetary Policy Committee (MPC) will meet on June 21. Though it depends on the results of economic indicators, votes are expected to be split again. UK economic indicators were hit by the spring weather last month, but with the weather improving in May, business confidence could bounce back, with expectations for a UK rate hike potentially rising again.

Miki Yamaguchi, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – June 2018

Expected Ranges	**Against the US$:**	**US$0.7350–0.7650**
	Against the yen:	**JPY80.50–84.50**

1. Review of the Previous Month

The AUS/USD pair hit a 2018 low of $0.7413 in May, though it bounced back to the upper-$0.75 mark in the latter half of the month.

The pair opened the month trading at the lower-$0.75 level on May 1. As expected, the board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at a record low 1.5%. With the FOMC meeting the next day, though, the pair dipped below $0.75 as the greenback was bought on growing speculation that wording about faster rate hikes would be inserted into the FOMC's statement. The FOMC's statement was released during the early hours of May 2, Sydney trading time, and it contained no such wording, so US-dollar buying eased off and the currency pair rallied to the $0.75 range. Australia's March trade balance and building approvals data were released on May 3. Both beat market expectations, so the pair moved firmly at the lower-$0.75 mark. The RBA then released its Quarterly Statement on Monetary Policy on May 4. The core inflation rate forecast for mid-2018 was upgraded slightly from 1.75% to 2.00%, with the pair also edging up to the mid-$0.75 level. The Australian March retail sales figure was released on May 8. The markets were expecting the figure to rise by +0.2% m-o-m, but it was actually unchanged on the previous month, so the currency pair slid to the $0.74 range. The same day also saw the release of the Australian federal government's budget proposal for 2018/19. This was broadly in line with expectations, so the impact on the currency pair was negligible. However, President Trump then announced the US was pulling out of the Iran nuclear deal during overseas trading time. As geopolitical risk intensified, the Australian dollar's status as a risk currency saw it plunging to the lower-$0.74 mark against the greenback. With crude oil prices rising on the increased geopolitical risk, inflation concerns grew and the benchmark US 10-year treasury yield topped 3%. US-dollar buying accelerated and the AUS/USD pair hit a 2018 low of $0.7413.

The US CPI data for April was released on May 10. It fell below market expectations, so the greenback was sold and the currency pair surged back to the $0.75 range. It then floated at this level. US treasury yields climbed on May 15 after the US retail sales figure for April rose firmly, so the greenback was bought and the pair dropped back to the $0.74 level. The Australian Wage Price Index for January–March then dipped below expectations, but the Australian April employment data beat market expectations, so the currency pair continued to move around $0.75 on these mixed results.

On May 21, the US and China called a ceasefire in their trade dispute, so risk-on movements increased and the pair rose to the upper-$0.75 mark. The pair then hit a monthly high of $0.7605 on May 22. Australian-dollar buying was short-lived, though, with the pair ending the month trading at the $0.75

mark.

2. Outlook for This Month:

The AUS/USD pair is expected to move bearishly in June.

Crude oil prices rose in May on tensions in the Middle East and so on. With inflationary concerns rising, the benchmark US 10-year treasury yield hit 3.11% for the first time in seven years. With the Dollar Index also hitting its highest level for around six months on rising US interest rates, the AUS/USD pair fell to a 2018 low of $0.7413. It also seems nailed on that the FOMC will implement a +25bp rate hike in June. US interest rates have fallen for a time on events in Italy, but they are likely to continue climbing on the rate hike and so on. The greenback is also likely to remain bullish in tandem with rising US interest rates (the Australian dollar will probably be susceptible to selling).

World markets were also shaken by the situation in Europe last month. The euro fell against the greenback and the yields of Italian and Spanish government bonds soared. Populist politicians and euro-scepticism rose to the fore as a result of the Italian political crisis, with the euro once again facing strong concerns about its future. All this bears close resemblance to the European crisis (the Greek debt crisis) of 2011–12. The Italian president Sergio Mattarella has prevented the formation of a eurosceptic coalition government comprised of the Five Star Movement and the League, so another general election is looking more likely. With the Spanish prime minister also facing growing calls to step down, concerns are bubbling away that both Italy and Spain might face general elections. There is a risk this crisis could impact global financial markets. The Australian dollar is a risk currency, so it will probably be pushed lower by risk-off movements.

The Australian Wage Price Index for January–March was up +2.1% y-o-y and +0.5% q-o-q. The RBA expects wages to continue growing sluggishly by around 2% for the time being, so expectations for an early Australian rate hike are unlikely to swell. As such, it is hard to find any factors capable of pushing the Australian unit higher. Based on the above, it seems the AUS/USD pair will move with a heavy topside this month.

Australian indicators and events to watch out for in June include: the April retail sales data (released June 4), the RBA board meeting (June 5), the GDP data for January–March (June 6), the April trade balance (June 7), the April building approvals data (June 12), the May employment data (June 14), and the minutes to the RBA meeting (June 19).

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – June 2018

Expected Ranges	**Against the US$:**	**C$1.2400–1.3100**
	Against the yen:	**JPY82.00–88.00**

1. Review of the Previous Month

The USD/CAD pair began May trading at C$1.2843. It generally moved in a range between C$1.28–1.30 thereafter. It hit a monthly high of C$1.3047 on May 29 and a monthly low of C$1.2730 on May 11.

In the first half of May, the pair was mainly swayed by crude oil price movements. On May 8, the US pulled out of a nuclear deal involving the US, Europe and Iran. President Trump also announced that economic sanctions would be re-imposed on Iran. This news saw intermediate crude oil futures temporarily dipping below $70 on 'sell the fact' movements, with the currency pair also rising to C$1.2998. However, prices recovered to the $70 mark on May 9–10, so the pair then dropped back to the C$1.27 range.

It continued to move in a range between C$1.28–1.29 mid-May. However, the greenback was bought and the Canadian dollar sold on May 23 after the US said a scheduled meeting between the US and North Korea would now not take place. On May 25, Saudi Arabia said OPEC would gradually start to increase oil production in the latter half of 2018. With Russia (a non-OPEC nation) also agreeing with this sentiment, crude oil prices crashed and the currency pair approached C$1.30. A wave of global risk aversion was then prompted by political turmoil in Italy, with the USD/CAD pair temporarily rising to C$1.3047 on May 29.

The Bank of Canada (BOC) then met to set the policy rate on May 30. As expected, the rate itself was kept at 1.25%, but the word 'cautious' (with regards to the outlook for future rate hikes) was removed from the accompanying statement, so the meeting itself was read as hawkish, with the currency pair falling sharply from the C$1.30 level to the C$1.28 mark. Following the meeting, a July rate hike now seemed a near certainty.

Canada's Q1 GDP data was then released on May 31. At an annualized +1.3%, the result was down sharply on expectations for a rise of +1.8%. As the Canadian unit moved bearishly again, the previous day's sharp losses were more-or-less pared back, with the pair closing the month at the upper-C$1.29 mark.

2. Outlook for This Month:

Though Canada posted an unexpected Q1 GDP result last month, the Canadian economy continues to grow steadily. Together with the current bullishness of crude oil prices, this suggests the BOC will continue to lift interest rates at a gradual pace. As with last month, the BOC looks likely to implement a rate hike in July and perhaps in October too.

There will be a shift in speculation among market participants if crude oil prices tops $70. Headlines and moves by OPEC/non-OPEC nations to cut production will require monitoring, but prices are unlikely to plummet and they will probably support the Canadian dollar to a certain extent.

A US rate hike looks more-or-less certain this month. In June, the FOMC will probably upgrade is forecast from one to two more rate hikes within the year, so the USD/CAD pair will probably continue trading in a range between C$1.24–1.31. Last month saw attempts to reduce the risks emanating from Europe. These attempts will require monitoring this month too. Another uncertain factor from a more mid-term perspective will be the economic impact of moves by the Trump administration to impose high tariffs on imports of steel and aluminum from Canada.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – June 2018

Expected Ranges	**Against the US$:**	**KRW1,040–1,090**
	Against the yen:	**JPY9.90–10.64 (KRW100)**
		(KRW9.40–10.10)

1. Review of the Previous Month

In May, the USD/KRW pair floated in a range from the mid-KRW1060 mark to the mid-KRW1080 level. The key factors were the direction of US/North Korea talks and rising yields on long-term US treasuries due to bullish crude oil prices and so on.

The pair opened the month trading at KRW1073.00. The pair was relatively composed at the start of May, but it then rose to KRW1082 on May 9 as risk sentiments deteriorated following the announcement by the US on May 8 that it was pulling out of the Iran nuclear deal. Yields on long-term US treasuries subsequently stopped rising, though. With the US also releasing some bearish economic indicators, the pair fell to a monthly low of KRW1064.90 on May 14.

However, US long-term treasury yields then rose on bullish crude oil prices, etc. North Korea then caused ructions with the US and South Korea, with Pyongyang suddenly cancelling high level talks scheduled to take place between North and South Korea on May 16, for example. All this saw the currency pair trending upward to hit a monthly high of KRW1086.60 on May 21.

On May 24, President Trump announced he was calling off the US/North Korea heads of state meeting (scheduled for June 12) in the face of North Korean provocations toward the US and South Korea. This led to concerns that the talks might not take place. Mr. Trump's position was not too hardline, though, and when the leaders of North and South Korea met on May 26 without any prior announcement, the US/North Korea talks began to look more likely, so the markets regained composure. Crude oil prices plunged after Saudi Arabia hinted it might scale back production cuts. With US long-term treasury yields also following suit, the USD/KRW pair's topside was held down and it moved flatly again.

The Bank of Korea's Monetary Policy Committee (MPC) met on May 24. With US/South Korean interest-rate differentials already inverting and the gap likely to widen going forward, some members called for a rate hike, but there were also concerns about the impact this would have on economy, so opinions within the MPC seemed to be split. The markets have grown sceptical about whether rates will be lifted in July, as previously thought.

Risk sentiments ebbed and flowed toward the month's end on the political situation in Italy, with the currency pair also dipping up and down, but optimism generally prevailed in the end, with the pair closing the month at KRW1077.70.

2. Outlook for This Month:

The USD/KRW pair is expected to move with a heavy topside in June. The key point will be whether a meeting between the US and North Korea takes place as well as what kind of agreements the two parties will announce if they do meet.

President Trump had declared that the meeting would not take place, but at this moment in time it seems the sides will end up meeting on June 12 as originally planned. With North Korea's economy hit by economic sanctions and so on, Pyongyang probably wants the talks to go ahead and be a success. It probably hopes these talks will lead to security guarantees and the removal of sanctions. With mid-term elections looming in the US in September, the Trump administration will also be hoping for successful talks. Based on this, on the whole it seems likely that the talks will take place. The next problem is the interpretation of 'denuclearization' and whether any common ground can be found in this area. The US has no incentives to settle for some half-baked deal (such a deal would probably prove a negative factor for the mid-term elections), so North Korea will probably end up compromising in some way. As such, the USD/KRW pair will probably dip slightly after the meeting.

Crude oil prices will also require monitoring. US long-term treasury yields rose sharply for a time last month. This was probably because expected inflation rates soared on bullish crude oil prices. This trend was prompted by US sanctions on Iran and Venezuela, but crude oil prices and US long-tern treasury yields both fell sharply late May when Saudi Arabia hinted it might scale back production cuts. OPEC is also wary of bullish prices revitalizing the US shale industry. As such, it seems crude oil prices will soon hit a ceiling. As US long-term treasury yields face less upward pressure, this will place commensurate pressure of the USD/KRW pair's topside.

However, the won could be sold sharply if a risk-off mood sweeps the globe (particularly in relation to the US/South Korea heads of state talks). Furthermore, if European political instability or trade frictions between the US, China and Europe grow more pronounced, this could see stocks moving bearishly and the won falling on risk aversion, so caution will be needed.

Based on the above, June will probably see won buying on the whole, though various trends will require monitoring.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – June 2018

Expected Ranges	**Against the US$:**	**NT$29.70–30.20**
	Against the yen:	**JPY3.57–3.75**

1. Review of the Previous Month

In May, the USD/TWD pair's movements were marked by US-dollar bullishness and Taiwan-dollar bearishness.

The pair opened the month at TWD29.670. The greenback then rose and the Taiwan dollar fell as US interest rates rose and overseas funds continued to leave Taiwan stock markets. This saw the currency pair rising to the TWD29.8 mark on May 3. However, US interest rates then fell on concerns about a US/China trade dispute, with the pair also sliding to the TWD29.7 level.

The US employment data for April was released on May 4. Nonfarm payrolls had risen by +164,000 m-o-m (market forecast: +193,000) and average hourly wages had climbed by +2.6% (market forecast: +2.7%). The nonfarm payrolls data dipped below expectations, but this was partly due to bad weather and it seemed unlikely this result would shift the FRB's position on rate hikes, so the impact on the currency pair at the start of the week was negligible.

The greenback was then bought again on rising US interest rates, with the pair bouncing back to TWD29.967 on May 10. At +2.1% y-o-y, though, the April US core CPI data was down on market expectations, so the US dollar stopped rising and its gains were pared back. The Taiwan dollar was also supported by overseas funds flowing in Taiwanese stock markets, with the currency pair weakening to TWD29.705.

The greenback was bought at a faster pace in the latter half of May as the benchmark US 10-year treasury yield topped 3%, with the pair subsequently climbing to the TWD29.9 mark. In a joint declaration after a trade meeting between the US and China on May 19, China said it would increase its imports of US goods and services while working to reduce its trade surplus with the US. On May 20, meanwhile, US treasury secretary Steven Mnuchin said a trade war had been put 'on hold.' As a result, concerns of a US/China trade war dropped off sharply and this also support US-dollar buying.

The pair then tried to recover to the TWD30 mark for the first time since December 2017, but with more exporters selling the greenback during its bullish phase, the pair's topside was held down.

2. Outlook for This Month:

The USD/TWD pair is expected to trade with a heavy topside in June.

A glance at the economic indicators released in May shows Taiwan's export amount rising by +10.0% y-o-y in April. This was the second straight month of positive growth following on from the record monthly figure recorded in March. Exports of electronic parts (a key Taiwanese export item) to

China and Hong Kong (which account for over 40% of Taiwan's exports) grew at a faster pace, with the data confirming the firmness of Taiwanese exports. At +$4.15 billion, Taiwan's trade surplus remained at a high level. Furthermore, Taiwan's March CPI result hit +1.98% y-o-y. With energy bills and food prices rising, the CPI posted positive growth for the sixth month in a row, but there were no signs of inflation increasing sharply and the situation remained comparatively stable. The core CPI data (excluding volatile fresh food prices) also hit +1.30% y-o-y.

US interest rates and the movement of overseas funds in Taiwanese stock markets will require monitoring in June too.

The benchmark US 10-year treasury yield just about topped 3% in May, with US interest rates and the movements of the dollar moving in concert again. Expectations for faster inflation have grown on rising crude oil prices. If interest rates rise further, the USD/TWD could hit the TWD30 mark for a time, but if the US and global economies find it hard to cope with rising interest rates, then rates will probably be dampened as equities dip. As such, there is no guarantee that the greenback will remain bullish, so caution will be needed.

Meanwhile, overseas funds have continued to drain out of Taiwanese stock markets since February. Stocks are also moving heavily on the topside, so if this trend continues, it will probably bolster the currency pair's movements, as it did in May.

The Bank of Taiwan will be holding its quarterly Monetary Policy Committee (MPC) meeting in June. It is expected to leave the policy rate fixed at 1.375%, so the impact on the USD/TWD pair will probably be muted.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – June 2018

Expected Ranges	**Against the US$:**	**HK$ 7.8400–7.8500**
	Against the yen:	**JPY 13.50–14.10**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

In May, the U.S. dollar/Hong Kong dollar exchange rate remained at around HKD 7.85, the lower end of the trading band under the U.S. dollar peg system, as market participants bought the U.S. dollar and sold the Hong Kong dollar as a carry trade with widening interest rate differentials between Hong Kong and the U.S. In order to maintain the peg system, the Hong Kong Monetary Authority (HKMA) carried out market intervention by buying the Hong Kong dollar. As a result, the checkable deposit balance of the HKMA decreased to as low as HKD 109.5 billion (a decrease of HKD 20 billion from the previous month). Furthermore, the Hong Kong dollar was also prevented from appreciation, as market participants were selling Hong Kong stocks and buying Chinese A stocks. At the end of May, the Hong Kong dollar appreciated against the U.S. dollar and the exchange rate momentarily reached HKD 7.8428, due to dividend payments. However, this did not last long. The overall trend in the market remains unchanged, with widening interest rate differentials between Hong Kong and the U.S., along with capital outflow from the Hong Kong market. The one-year U.S. dollar/Hong Kong dollar forward point remained at around –450.

Hong Kong dollar interest rate market in May

As a result of the intervention in the foreign exchange market by the HKMA, the liquidity level for the Hong Kong dollar declined further, and the checkable deposit balance of the HKMA approached HKD 100 billion—the psychological turning point. However, banks in Hong Kong keep their liquidity level high, which is making it difficult for short-term interest rates to be higher. The one-month Hong Kong dollar HIBOR declined from the 1.3% seen at the end of April to approach 1.0%, while the three-month Hong Kong dollar HIBOR rose from 1.59% to 1.75%. As a consequence, the spread between the one-month Hong Kong dollar HIBOR and the one-month U.S. dollar LIBOR widened to approach –100 basis points, while the spread between three-month HIBOR and the three-month LIBOR narrowed to –60 basis points. There was no significant change in the IRS curve of the Hong Kong dollar.

Hong Kong stock market in May

In May, the stock price in Hong Kong remained low. The benchmark Hang Seng Index once appreciated to reach 31,539 points, after which it returned to approach 30,000 points. While the introduction of China A stocks into the MSCI index was approaching, there were some market participants who bought Chinese stocks while selling Hong Kong stocks. As a result, the capital flow of the Shanghai-Hong Kong Stock Connect investment channel changed from net inflow to net outflow. While funds are flowing into the U.S. due to weakness in the emerging market, the risk appetite seems to be declining.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in June

In June, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.84 and 7.85. As interest rate differentials between the U.S. and Hong Kong have been widening, the Hong Kong dollar is expected to depreciate against the U.S. dollar again to bring the exchange rate close to the lower end of the trading band at HKD 7.85. An interest rate hike in the U.S. in June is almost certain, which is also likely to accelerate the capital outflow from the Hong Kong dollar market. News related to the Federal Open Market Committee (FOMC) and to IPOs, along with the dividend payment, can also cause confusion in the Hong Kong dollar market. Furthermore, the appreciation of the Hong Kong dollar interest rates that resulted from the decline of the checkable deposit balance of the HKMA can be a factor to cause fluctuations in the Hong Kong interest rate market. In general, however, the capital outflow is currently moderate and constant, and the Hong Kong dollar market is forecast to remain stable in June.

Hong Kong dollar interest rate market in June

The checkable deposit balance of the HKMA has decreased to approach HKD 100 billion, which caused a tightening of the liquidity level along with an increase in the upward pressure on interest rates. Thus, it is possible for the prime rate in Hong Kong to be raised in June. The three-month Hong Kong dollar HIBOR has been constantly rising, and the one-month Hong Kong dollar HIBOR is also expected to start rising as the liquidity level continues to fall. The interest rate in the U.S. will almost certainly be raised in June, which may result in the further widening of the interest rate differentials along with capital outflow from Hong Kong. It should also be mentioned that there is an IPO scheduled for the end of June or the beginning of July, attracting significant attention among market participants, which may lead short-term interest rates and the U.S. dollar/Hong Kong dollar forward rate to appreciate.

Kei Yano, Treasury Division, MHBK (China)

Chinese Yuan – June 2018

Expected Ranges	**Against the US$:**	**CNY 6.2000–6.5500**
	Against the yen:	**JPY 16.03–17.90**
	Against 100 yen:	**CNY 5.5800–6.2400**

1. Review of the Previous Month

Foreign exchange market

In May, the Chinese yuan continued depreciating against the U.S. dollar, as the situation remained uncertain regarding the trade negotiations between the U.S. and China, in addition to the scheduled summit meeting between the U.S. and North Korea.

During the first half of the month, the U.S. dollar continued appreciating, thanks to the strong figures in the U.S. economic indices that were announced at the end of the previous month. As a consequence, the U.S. dollar/Chinese yuan exchange rate rose from CNY 6.34 to approach CNY 6.36 after Labor Day. However, the Federal Open Market Committee (FOMC) meeting was held on May 3, and the outcome turned out to be generally dovish, with the intention to continue moderate interest rate hikes, which led to a slowdown in the U.S. dollar-buying observed so far. The U.S. dollar/Chinese yuan exchange rate therefore returned to the level observed at the beginning of the month. Thereafter, there were deteriorated figures in economic indices, such as the April Purchasing Managers' Index (PMI) in the eurozone, confirming a slowdown in the eurozone economy. As the crude oil price was also appreciating as a result of the withdrawal of the U.S. from the Iran nuclear deal, the pressure to sell the euro and buy the U.S. dollar strengthened further. Following the appreciation of the euro/U.S. dollar exchange rate, the U.S. dollar/Chinese yuan exchange rate started appreciating again. The Chinese yuan appreciated against the U.S. dollar to lead the exchange rate to once exceed CNY 6.38.

In the middle of the month, market participants bought back the euro, while the April CPI of the U.S. turned out to be weaker than expected in the market. As a result, market participants sold the U.S. dollar, and therefore the U.S. dollar/Chinese yuan exchange rate rapidly fell below CNY 6.35. However, the U.S. economic indices were released thereafter with strong figures, which led the U.S. 10-year government bond yield to exceed 3%. In response to this, market participants started buying the U.S. dollar again and the U.S. dollar/Chines yuan exchange rate once approached CNY 6.38.

On May 17 and 18, the U.S. and China held trade negotiations, and a joint statement was released on May 19. As a result, a trade war was averted for the moment. This led to a positive reaction in the market, and the U.S. dollar started appreciating. As a consequence, the U.S. dollar/Chinese yuan exchange rate exceeded CNY 6.39 in the second half of the month. However, at this level, some market participants sold the U.S. dollar to take profit, causing the U.S. dollar to depreciate. The U.S. dollar/Chinese yuan exchange rate thus continued fluctuating in both directions. Thereafter, U.S. President Donald Trump announced that the summit meeting between the U.S. and North Korea would be cancelled, which led the U.S. dollar/Chinese yuan exchange rate to depreciate, however immediately after that the media reported that the summit meeting could be held as scheduled depending on the situation, which reversed the trend in the market. In the end, the U.S. dollar appreciated against the Chinese yuan and the exchange rate exceeded CNY 6.40.

Interest rate market

The interest rate market in May remained stable, with a high liquidity level. On the other hand, interest rates for terms that go beyond the end of June saw a rise. After seeing the appreciation at the end of April for the overnight interest rates and for interest rates with terms of less than one month before the end of the month and before Labor Day, capital demand slowed down in the first half of the month. In the capital market, interest rates, particularly the overnight interest rate, started to fall. The liquidity level in the capital market remained high for a while, and the market remained stable. In the middle of the month, the overnight interest rate appreciated sharply, as the supply through the medium-term lending facility (MLF) saw a decline, although it was covered through open-market operations that supplied an amount larger than the decline in the MLF, leading the appreciation of the interest rates to slow down. Needs to procure funds gradually increased for terms that go beyond May. Toward the end of the month, the increase of needs to procure funds for the end of May slowed down, but market participants started seeing needs to procure funds toward the end of June, bringing the interest rates for terms that go beyond the end of June to gradually appreciate.

2. Outlook for This Month:

Foreign exchange market

In June, the Chinese yuan is forecast to continue depreciating against the U.S. dollar, as has been the case so far.

While the situation remains uncertain regarding the future of the trade negotiations between the U.S. and China, along with the possibility of holding the summit meeting between the U.S. and North Korea, in

Europe, Italy faces an issue related to the establishment of a coalition government, while in Spain political uncertainty is growing with the possibility of a vote of no confidence against Prime Minister Mariano Rajoy. Under such circumstances, it is likely for market participants to continue buying the U.S. dollar.

With regard to trade negotiations between the U.S. and China, there was no detailed agreement. However, China has accepted to "significantly increase" the purchase of U.S. goods and services, and thus the worst-case scenario of a trade war was averted. Furthermore, the custom duties on automobiles were also reduced in order to redeem the promise. However, this had already been declared by Chinese President Xi Jinping at the Boao Forum for Asia, held in April, and thus was no surprise. On the other hand, regarding the issue related to intellectual property rights, the two countries have not yet reached an agreement, and therefore risks remain in the market. There is also a sense of uncertainty regarding the summit meeting between the U.S. and North Korea scheduled for June 12, which may affect the relationship between the U.S. and China, prolonging the trade negotiation. As a final agreement is yet to be reached, market participants should remain attentive for media reports related to trade negotiations between the U.S. and China.

Interest rate market

In June, upward pressure is likely to strengthen in the interest rate market because of the tightening balance between capital supply & demand related to corporate dividend payments along with the capital release reduction by major banks at the end of the quarter. Furthermore, market participants should remain attentive about operations carried out by the People's Bank of China (PBOC), given that the overnight interest rate increased when the capital supply through the MLF was reduced in May. It is also possible for upward pressure to strengthen in the interest rate market in the medium-to-long term if the Chinese monetary authorities decide to reinforce the financial supervision, regarding which market participants should also remain cautious.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – June 2018

Expected Ranges	**Against the US$:**	**SG$ 1.3300–1.3500**
	Against the yen:	**JPY 81.00–83.50**

1. Review of the Previous Month

In May, the Singapore dollar remained generally weak against the U.S. dollar as long-term interest rates remained high in the U.S., while the overall Asian currencies remained weak.

In the first week of the month, the U.S. dollar/Singapore dollar exchange market opened at the lower-SGD 1.32 level. As May 1 was a national holiday in Singapore, the following day, there were few market participants and the media reported that U.S. President Donald Trump had decided to postpone a decision on imposing tariffs on steel and aluminum, mitigating concerns over growing protectionism in the U.S. As a result, the U.S. dollar started to appreciate gradually. As a consequence, with some stop-loss orders, the Singapore dollar reached its low against the U.S. dollar at the SGD 1.33 level for the first time in two months. Then, on May 2, the Purchasing Managers' Index (PMI) was announced, but the reaction in the market was limited, as the result turned out to be as expected in the market. In the second half of the week, the sense of uncertainty grew before the trade negotiations between the U.S. and China, and market participants sold the U.S. dollar mainly against the Chinese yuan. As a consequence, the Singapore dollar appreciated against the U.S. dollar again with some stop-loss orders. Furthermore, market participants were concerned with geopolitical risks regarding the media report on the deployment of missiles by China. Under such circumstances, market participants continued buying the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate fell below SGD 1.33.

In the second week of the month, the U.S. withdrew from the Iran nuclear deal, which strengthened risk-averse sentiment in the market and weakened the overall Asian currencies. Furthermore, a group of opposition parties won the general election in Malaysia, which led the Malaysian ringgit to sharply depreciate. This worked as a psychological trigger on the Singapore dollar market, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.34 level. Thereafter, market participants mainly bought back the Singapore dollar. However, on May 11, the retail sales figures of Singapore were announced with numbers significantly weaker than expected in the market, which led the Singapore dollar to start depreciating again.

In the third week of the month, the May figure for the business confidence index announced by the Federal

Reserve Bank of New York turned out to be strong, and U.S. interest rates appreciated sharply. Following this trend, the U.S. dollar/Singapore dollar exchange rate appreciated from the mid-SGD 1.33 level to the mid-SGD 1.34 level. Furthermore, because of the uncertainty regarding the establishment of a collation government in Italy, the euro/U.S. dollar exchange rate fell to the lowest level in approximately five months. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the lower-SGD 1.34 level thereafter, as market participants continued buying U.S. dollar.

In the fourth week of the month, the U.S. long-term interest rates appreciated, following which the overall Asian currencies weakened. Under such circumstances, the U.S. dollar/Singapore dollar exchange market opened at the lower-SGD 1.34 level and once reached the upper-SGD 1.34 level. Thereafter, a pessimistic view spread in the market regarding the possibility for the summit meeting between the U.S. and North Korea to be held and the depreciation of the Nikkei 225 Futures average accelerated. As a result, the risk-taking attitude in the market weakened and market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.34 level with some stop-loss orders. Then, on May 23, the CPI was announced and growth slowed to 0.1% year-on-year, which was also seen positively.

2. Outlook for This Month:

In June, the Singapore dollar is forecast to depreciate slightly against the U.S. dollar, with the continued depreciation of the overall Asian currencies resulting from the appreciation of the long-term interest rates in the U.S.

In April, the Monetary Authority of Singapore (MAS) changed its monetary policy from neutral, which had been maintained since April 2016, to tightening, announcing that it would resume operations to lead the Singapore dollar to appreciate. In response to this, the Singapore dollar depreciated against the U.S. dollar. The U.S. dollar/Singapore dollar nominal effective exchange rate (S$NEER) remained with a slightly stronger Singapore dollar in comparison to the center of the fluctuation band set out by the MAS. However, as the U.S. dollar continued gradually appreciating against the Singapore dollar, the nominal effective exchange rate was pushed toward the center of the fluctuation band. On the other hand, with regard to the fundamentals, economic indices show that the Singapore economy remains generally strong, which makes it unlikely for market participants to start actively selling the Singapore dollar.

While the crude oil prices remain high at around USD 70, inflation pressure is likely to strengthen, while long-term interest rates in the U.S. are also supporting the appreciation of the U.S. dollar. Furthermore, risks of capital outflow from Asia persist due to the long-term interest rates in the U.S., which remain high. Under such circumstances, the Singapore dollar market is expected to follow overseas factors in June.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – June 2018

Expected Ranges	**Against the US$:**	**THB 31.50–32.70**
	Against the yen:	**JPY 3.35–3.45**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fluctuated at a higher level around THB 32 in May.

On May 1, the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 31.50 level. The April Consumer Price Index of Thailand was released, and the result turned out to be 1.07%—the highest figure in 13 months. However, May 1was a national holiday in Thailand, and the impact on the exchange market was limited. Risk-taking sentiment strengthened in the market as concerns were mitigated regarding a possible trade war between the U.S. and China, while geopolitical risks related to North Korea were also mitigated. As a result, upward pressure on the U.S. dollar strengthened, and the U.S. dollar/Thai baht exchange rate approached THB 31.70 during overseas trading hours. On May 3, the U.S. dollar/Thai baht exchange rate once fell to approach THB 31.60. However, on May 4, the following day, market participants sold the overall currencies of emerging nations, and the U.S. dollar/Thai baht exchange rate rose to approach THB 31.80. The trend continued in the following week, and the exchange rate rose to the THB 31.80 level on May 7. The appreciation of the U.S. dollar/Thai baht exchange rate continued intermittently thereafter following the appreciation of the U.S. interest rates. As a result, the exchange rate reached the THB 31.90 level on May 8 and THB 32.10 to the U.S. dollar on May 9.

On May 10, the result of the general election in Malaysia turned out to be a surprise, which led the overall Asian currencies to depreciate. Following this trend, the U.S. dollar/Thai baht exchange rate also once approached THB 32.20. However, the April CPI of the U.S. turned out to be weaker than expected, weakening expectations for interest rate hikes in the U.S. to accelerate. As a consequence, the U.S. dollar weakened and the U.S. dollar/Thai baht exchange rate fell below THB 32. On the following day, the U.S. dollar remained weak, as market participants took actions for the purpose of taking profit, and the U.S. dollar/Thai baht exchange rate reached the THB 31.80 level. In the following week, the exchange rate once fell below THB 31.80 on May 14 with some investment from abroad. However, the U.S. dollar appreciated against the euro thereafter, which led the U.S. dollar/Thai exchange rate to also appreciate to approach THB 31.90. On May 15, upward pressure on the U.S. dollar remained in the market, and when the U.S. 10-year government bond yield reached 3.09%, the U.S. dollar/Thai baht exchange rate also started appreciating sharply and once approached THB 32.20. On May 16, the following day, market participants maintained a wait-and-see attitude before the monetary policy committee (MPC) meeting at the central bank of Thailand. Under such a condition, the U.S. dollar/Thai baht exchange rate fell once to approach THB 32.00. At the MPC meeting, which gathered substantial attention in the market, the policy interest rate was unanimously kept at the existing level (1.5%). In reaction to this, the U.S. dollar/Thai baht exchange rate rose to approach THB 32.10. However, as figures in the U.S. economic indices turned out to be sluggish, the exchange rate fell again to approach THB 32 against the U.S. dollar. On May 17, the following day, the U.S. dollar/Thai baht exchange rate fell again temporarily to the mid-THB 31.90 level. However, the exchange rate did not fall further. The exchange rate rose intermittently thereafter toward the weekend and approached THB 32.20 again. Then, on May 21, the first-quarter GDP of Thailand was announced, and the result turned out to be 4.8%, significantly higher than 4.0%—the expected level. Furthermore, the annual outlook was revised upward to 4.2–4.7%, showing an optimistic view. In reaction to this, the Thai baht appreciated on May 22 and the U.S. dollar/Thai baht exchange rate once fell below THB 32. On May 23, risk-averse sentiment grew in the market due to the mounting uncertainty over the summit meeting between the U.S. and North Korea, leading the U.S. dollar/Thai baht exchange rate to return to the THB 32.10 level. Then, on May 25, the Ministry of Finance of Thailand raised its GDP outlook for 2018 to 4.5% (previously 4.2%), which led the U.S. dollar/Thai baht exchange rate to start falling, reaching a level below THB 31.90. In the following week, risk-averse sentiment grew again in the market on May 28, due to political uncertainty in Europe, and the U.S. dollar/Thai baht exchange rate rose to the lower-THB 32.10 level toward May 30. However, excessive risk-averse sentiment was corrected during overseas trading hours, and the U.S. dollar/Thai baht exchange rate fell to approach THB 32 again.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange rate is likely to continue fluctuating at the THB 32 level due to upward pressure on the U.S. dollar.

In May, the trend of the appreciation of the Thai baht that had persisted for a year was reversed, and the Thai baht continued depreciating against the U.S. dollar throughout the month. In the second half of the month, the U.S. dollar/Thai baht pair continued trading at around THB 32. It seems that market participants have started to buy back the U.S. dollar, which had been sold throughout almost the entire market. In particular, the appreciation of U.S. government bond yields marks a big difference from last fiscal year in which the appreciation of short-term interest rates that resulted from the interest rate hike by the Federal Open Market Committee (FOMC) did not lead to the appreciation of long-term interest rates. It is also important to remain cautious about the geopolitical risks related to North Korea. Even though it is uncertain whether the summit meeting between the U.S. and North Korea will be held on June 12 as scheduled, the situation can be evaluated positively on the point that the situation is being improved on, moving toward a solution involving peaceful action instead of military power. The sense of uncertainty over the political situation in Europe caused by the political uncertainty in Italy would work positively for the U.S. dollar and could encourage market participants to buy the U.S. dollar. On the other hand, with regard to the Thai baht exchange market, it seems that conditions are being prepared to raise the policy interest rate, as the first-quarter GDP turned out to be 4.8%, which is significantly higher than the 4.0% that was expected in the market, showing the strength of the Thai economy, while the CPI was released at the end of the previous month, showing recovery to the 1% level at 1.07%. Under such circumstances, Thai government bond yields have been increasing as if these circumstances were leading the policy interest rate to follow. As both the U.S. dollar and the Thai baht have been appreciating, it is likely to be difficult for the U.S. dollar/Thai baht exchange rate to start moving into a specific direction. While there are factors of uncertainty, such as political instability and possible flooding, these issues are unlikely to become a reality under the current conditions. Therefore, the U.S. dollar/Thai baht exchange rate is forecast to continue fluctuating around THB 32 in June.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – June 2018

Expected Ranges	**Against the US$:**	**MYR 3.9000–4.0250**
	Against the yen:	**JPY 26.80–27.90**
	Against 100 yen:	**MYR 3.5800– 3.7300**

1. Review of the Previous Month

In May, the Malaysian ringgit remained weak throughout the month, while market participants remained attentive about the change of government after the general election and the financial policy and public debt under such new government.

On May 2, the U.S. dollar/Malaysian ringgit exchange market opened trading at MYR 3.93, after which market participants bought the Malaysian ringgit and the exchange rate once reached MYR 3.9255. However, this level turned out to be the monthly high for the Malaysian ringgit in the end. Overseas investors continued withdrawing from ringgit assets due to the sense of uncertainty over the general election, along with expectation for the U.S. interest rate hikes to accelerate as a result of the strong ADP statistics in the U.S. Under such a condition, market participants reacted little to the news when the March trade balance of Malaysia was announced on May 4 with a surplus significantly larger than expected. The U.S. dollar/Malaysian ringgit exchange rate continued rising to the MYR 3.94 level, and on May 8, the day before the day of voting, the market closed at MYR 3.9500 against the U.S. dollar.

The opposition parties won at the 14th general election for which votes were counted on May 9. In response to this, in the early morning of May 10, it was announced that May 10 and 11, the following two days, would be public holidays, as had been declared by the representative Mahathir Mohamad. As a result, there were suddenly five consecutive holidays in Malaysia. On the other hand, in the offshore NDF market, as had been a source of concern, the Malaysian ringgit depreciated rapidly and the one-month rate fell to once reach the 4.13 level, while Malaysia stocks also fell on May 10, as a result of the victory of the opposition parties. However, toward May 11, it was confirmed that Mahathir Mohamad had been appointed to be the new prime minister, and an advisory board was formed immediately, consisting of big names in the financial world, such as the former minister of finance serving as the chair, along with the head of Shangri-La Group, the former governor of the central bank, the former CEO of a petroleum oil company, and others. Even though May 10 was a holiday, a monetary policy committee meeting was held, and the OPR was maintained at the existing level, as had been expected. The statement confirmed that the domestic economic outlook remains positive even amid the environment after the election. It is seen that the new government decided to make May 10 and 11 national holidays in order to control confusion in the offshore market, expected after the election, as well as to temporarily halt large interbank transactions in order to carry out investigations into the alleged case of slush fund usage by the former government. Such well-prepared actions by the new government impressed specialists in the market. Under such circumstances, the NDF also rallied to a level around 4.01. On May 11 during overseas trading hours, Fitch Ratings Inc. decided to maintain Malaysia's sovereign rating at A- while confirming the country's outlook as "stable."

On May 14, which was the first business day after the election, the U.S. dollar/Malaysian ringgit exchange market opened with a large gap from the previous business day's closing rate, with the Malaysian ringgit depreciating to reach MYR 3.9870 against the U.S. dollar. However, the Malaysian ringgit rallied in the afternoon to a level below the closing rate of the previous business day (MYR 3.9430). However, thereafter, the Malaysian ringgit weakened as a result of the appreciation of the U.S. dollar, and in the evening of May 16, the Ministry of Finance announced all of a sudden that the consumption tax (GST) rate would be zero from June 1, while there was no reference to the reinstatement of the sales tax (SST) that was included in the manifesto of the new ruling party. This caused a sense of uncertainty in the market regarding the financial policy, leading the U.S. dollar/Malaysian ringgit exchange rate to fall to reach MYR 3.9690. Toward the last week of the month, the minister of finance announced that the public debt was more than MYR 1 trillion, regarding the inspection of 1Malaysia Development Berhad (1MDB). Under such circumstance, the U.S. dollar/Malaysian ringgit exchange rate reached its monthly low at MYR 3.9880 against the U.S. dollar as of May 25.

2. Outlook for This Month:

In June, the U.S. dollar/Malaysian ringgit exchange rate is expected to fluctuate in accordance with the fiscal policy by the new government. It is expected that the new government and the central bank will prioritize the stability of the domestic market. Therefore, as long as there is no negative information related to the primary balance, it is unlikely for the Malaysian ringgit to depreciate against the U.S. dollar further from the MYR 4.00 level.

The two important points in the fiscal policy by the new government are: 1) Capital sources that can replace the GST (a consumption tax that is currently at 6%), the rate of which the government has already announced to bring to zero from June (at this moment, it has not yet been abolished); and 2) principles in dealing with public debt, which was announced to exceed MYR 1 trillion, including the existing federal government debt that is included in the voluntary target to be kept at 55% of the GDP or less, the guarantee obligations for 1MDB, etc., with its alleged slush fund usage, and the lease debt related to public-private partnership.

With regard to the first point, according to the public promise of the new ruling party, the government will reinstate the SST (a sales and service tax that can be set up to 10%) that was replaced by the GST in March 2015. However, the total revenue from the GST was MYR 44 billion last year, while the actual revenue from the SST in its last year was MYR 17 billion. Therefore, even though it is not a confirmed plan, if the SST is reinstated with the same conditions as before, it would not be able to cover what is missing from the abolishment of the GST even with expected economic growth. However, former governor of the central bank Zeti Akhtar Aziz, who is a member of the advisory board, made a remark that good conditions were present. Indeed, the current crude oil price has been significantly higher (around USD 79) than the hypothetical figure used to calculate the revenue in the government budget for 2018 announced in October last year (Brent Crude: USD 52). Therefore, some expect that approximately MYR 20 billion per year would be added to the revenue as a result of the difference made by the actual crude oil price. Thus, the figure is not necessarily unrealistic given the abolition of the plan to build a high-speed railway between Kuala Lumpur and Singapore as was already announced, along with the revision of the east-coast rail line that would cost as much as MYR 60 billion.

With regard to public debt, there was some confusion in information last week in Japan. Among the classifications listed above, the figure for guarantee debt was already announced in the past. However, the figure was not included in the figure to be compared to the GDP. As was announced on the website of Malaysia's Ministry of Finance on May 25, the total of all the classifications of debt was calculated to be MYR 1 trillion (80.3% of the GDP). As is also explained on the site, there was no significant change before and after the election and no ratings agency revised their rating or outlook downward. Market participants are thus likely to keep watching the market in a calm manner.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – June 2018

Expected Ranges	**Against the US$:**	**IDR 13,800–14,200**
	Against 100 rupiah:	**JPY 0.76–0.80**
	Against the yen:	**IDR 125.00–131.00**

1. Review of the Previous Month

In May, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within a range between IDR 13,915 and IDR 14,215—recording the lowest figure for the Indonesian rupiah in approximately 2.5 years.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,915. On May 2, the April Consumer Price Index (CPI) of Indonesia was released, but the result was within the range anticipated in the market and there was thus little reaction to this news in the market. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate remained just before IDR 14,000. On May 7, the January–March 2018 quarter GDP of Indonesia was released and the result turned out to be lower than expected in the market, at +5.06% year-on-year (whereas the forecast was +5.19% year-on-year and the previous result was +5.19% year-on-year). Furthermore on May 8, the April figure of foreign currency reserves of Indonesia was announced to be USD 124.9 billion, with a decline of USD 1.1 billion from the previous month, which was the third consecutive decline. In reaction to this, there were U.S. dollar-buying and Indonesian rupiah-selling related to securities. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate rose to approach IDR 14,090.

On May 11, market participants bought overall Asian currencies. Following this trend, market participants also bought the Indonesian rupiah, and the exchange rate fell once to approach IDR 13,945. However, market participants did not continue buying the Indonesian rupiah. After trading hours on May 11, the January–March current account balance of Indonesia was announced with a deficit of approximately USD 5.5 billion, while the April trade balance was announced on May 15 with a deficit of USD 1.6 billion, against the expectations of the market. This reversed the trend in the market. Furthermore, on May 17, the central bank of Indonesia announced its decision to raise its policy interest rate by +0.25% for the first time in approximately 3.5 years. However, market participants saw this decision to be insufficient, and on May 23, the Indonesian rupiah depreciated against the U.S. dollar to temporarily approach IDR 14,215 for the first time in approximately 2.5 years.

Thereafter, on May 24, the new governor of the central bank, Perry Warjiyo, announced his three principles for the maintenance of economic stability: 1) the full use of monetary policy, 2) strengthened coordination with the government, and 3) prioritized execution of the measures for stability in the foreign exchange market. At the same time, it was also announced that there would be an extraordinary meeting on May 30, which raised expectations for an additional interest rate hike for the purpose of the defense of the currency. As a result, market participants bought the Indonesian rupiah on May 28, and the U.S. dollar/Indonesian rupiah exchange rate fell to temporarily approach IDR 13,970. Then, on May 30, the central bank announced its decision to raise the interest rate by 0.25%—the second interest rate hike in the month. In the end, the U.S. dollar/Indonesian rupiah exchange rate, which had been around IDR 14,000, fell to approach IDR 13,990, at which level monthly trading closed (as of market close on May 30).

In the meantime, the Jakarta Stock Exchange Composite Index fell once to approach 5,716.65 on May 8, after which it rallied to approach 6,011.06, with trading closing thereafter.

2. Outlook for This Month:

In June, the U.S. dollar/Indonesian rupiah exchange rate is forecast to fluctuate at around IDR 14,000, as the outflow of overseas investors' capital is likely to slow down, even though the pressure to sell the Indonesian rupiah is expected to remain strong.

In May, downward pressure on the Indonesian rupiah continued strengthening due to the appreciation of U.S. interest rates as an external factor, with weak economic indices as a domestic factor. As a result, the U.S. dollar/Indonesian rupiah reached its high at around IDR 14,215 for the first time in 2.5 years.

In the meantime, the total holdings of Indonesian government bonds by overseas investors declined by IDR 16 trillion (equivalent to USD 1.1 billion) as of May 28.

However, toward the end of the month, the appreciation of U.S. interest rates slowed down, while the central bank of Indonesia announced its decision to raise the interest rate hike by 0.25% for the second time in June (a total of 0.50%) at an extraordinary meeting. This showed the efforts of the central bank to stabilize the Indonesian rupiah market, which led the U.S. dollar/Indonesian rupiah exchange rate to start falling.

Even though Indonesian rupiah-selling persists in the market in terms of current account balance, as was discussed above, the appreciation of the U.S. dollar interest rates has slowed down, while market participants are applauding the measures taken by the central bank of Indonesia to defend the currency. Therefore, the U.S. dollar/Indonesian rupiah exchange rate is expected to fluctuate at around IDR 14,000 for now.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – June 2018

Expected Ranges	**Against the US$:**	**PHP 52.10–53.20**
	Against the yen:	**JPY 2.02–2.09**

1. Review of the Previous Month

In May, the U.S. dollar/Philippine peso exchange market (onshore interbank market) opened trading at PHP 51.85.

Standard & Poor's, a credit ratings agency, revised the outlook for the Philippines from stable to positive on April 30. However, in reaction to this, the Philippine peso appreciated only to a limited degree.

In the U.S., President Donald Trump decided to postpone the decision on imposing tariffs on steel and aluminum by one month, keeping the U.S. dollar interest rates at the high level recently observed. As a result, there was strong appetite to buy the U.S. dollar before the Federal Open Market Committee (FMOC) meeting, leading the U.S. dollar/Philippine peso exchange rate to rise to approach PHP 52.

The FOMC meeting did not turn out to be more hawkish than before. As a result, the U.S. dollar was kept from appreciating further in the foreign exchange market and U.S. interest rates declined. Following this trend, the U.S. dollar/Philippine peso exchange rate hovered at a level just before reaching PHP 52.

On May 4, the April Consumer Price Index of the Philippines (with 2012 as the base year) was released and the result showed acceleration at +4.5% year-on-year, compared to +4.3% year-on-year observed in the previous month. In reaction to this, market participants expected an interest rate hike at the monetary policy committee meeting at the central bank of the Philippines scheduled for May 10, leading market participants to buy back the Philippine peso. As a result, the Philippine peso appreciated to reach its highest level against the U.S. dollar at PHP 51.55 (the monthly low for the exchange rate) for the first time in three months.

Thereafter, the April employment statistics of the U.S. were released on May 4, and given these figures, market participants unanimously expected that the pace of interest rate hikes by the Federal Reserve Board (FRB) would remain unchanged. As a result, the U.S. dollar/Philippine peso exchange rate remained stable at PHP 51.70–51.80.

Also, the U.S. declared its withdrawal from the Iran nuclear agreement, raising concerns in the market over geopolitical risks. As a result, market participants started buying the U.S. dollar as a safe asset. As a result, on May 9, the U.S. dollar/Philippine peso exchange rate once recovered to the PHP 52 level.

On May 10, the monetary policy committee at the central bank of the Philippines held a meeting and decided to raise the policy interest rate by 25 basis points (0.25%). The policy interest rate was changed for the first time in three years and eight months since September 2014 (even though the policy interest rate was changed in May 2016, but this was a change in the system, and there was virtually no change in the policy interest rate itself).

On the other hand, market participants started selling the Philippine peso again, as the interest rate hike was only increased by 25 basis points. Also, the U.S. dollar/Philippine peso exchange rate steadily recovered to the PHP 52 level. Toward the end of the month, a sense of uncertainty grew regarding the summit meeting between the U.S. and North Korea, which again led market participants to buy the U.S. dollar as a safe asset. The central bank of the Philippine cut the deposit requirement ratio, which also worked as a factor to encourage market participants to sell the Philippine peso. As a result, on May 25, the U.S. dollar reached its highest level against the Philippine peso at PHP 52.705 for the first time in 12 years (the closing rate on May 29 was PHP 52.64 to the U.S. dollar).

2. Outlook for This Month:

As was discussed above, on May 10, the central bank of the Philippines raised the overnight deposit interest rate (ODF) from 2.50% to 2.74%, the overnight borrowing interest rate (RRP) from 3.0% to 3.25%, and the overnight lending interest rate (OLF) from 3.50% to 3.75%.

While prices are rising as a result of the enactment of the tax reform law at the beginning of the year, the Consumer Price Index (CPI) for this year is expected to be higher than the target range of 2–4%, and this was the reason for the interest rate hike.

The central bank also revised its inflation outlook for 2018 from 3.9% to 4.6%, while also raising the inflation outlook for 2019 from 3.1% to 3.4%.

Even though inflation pressure is likely to weaken next year, it is possible for public transportation fares, public utilities prices, and salaries to increase in the times ahead, and this was reflected in the revision.

An interest rate hike can lead to risks of a reduction in domestic demand, which is a leading wheel of the Philippine economy. However, domestic demand remains vigorous, and therefore it is considered that economic growth would not be interrupted by a certain interest rate hike level.

With regard to future possible interest rate hikes, the interest rate may be raised by 0.25% again before the end of this year.

With regard to the latest economic indices of the Philippines, the March trade balance saw a decline in the deficit, while the first-quarter GDP growth rate in 2018 turned out to be +6.8% year-on-year, recording a slight acceleration from the previous quarter (+6.5% year-on-year). Also, the OFW (Overseas Filipino Workers) remittances in March turned out to be USD 2.36 billion, with an increase from the USD 2.27 billion recorded last month. This can be an important factor to slow down the depreciation of the Philippine peso with market anticipation for a higher interest rate in the times ahead.

The balance between external debt and foreign currency reserves in the Philippines remains healthy, which makes it unlikely for the Philippine peso to start depreciating in a surprising manner.

Furthermore, it should also be mentioned that, at the current exchange rate level (PHP 52.50–52.70 to the U.S. dollar), market participants are extremely sensitive about any excessive actions of the Philippine monetary authorities to protect the Philippine peso from depreciating.

Even though the U.S. dollar/Philippine peso exchange rate is unlikely to rise further, there are still concerns over a growing current account deficit. Overseas investors are selling Philippine stocks on balance for the 17th consecutive week as of May 25, based on an overview of the entire market. Market participants should therefore remain attentive regarding the risks of the depreciation of the Philippine peso.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – June 2018

Expected Ranges	**Against the US$:**	**INR 65.00–70.00**
	Against the yen:	**JPY 1.57–1.67**

1. Review of the Previous Month

In May, the U.S. dollar/Indian rupee exchange rate appreciated, after which the level was adjusted toward the end of the month.

In May, the U.S. dollar/Indian rupee exchange market opened trading at the INR 66.68 level. Market participants were buying bonds, thanks to deregulations for overseas investors regarding transactions involving domestic corporate and government bonds. In the foreign exchange market, market participants were mainly buying the U.S. dollar, after which rupee-buying increased following the increase in the purchase of bonds as discussed above. As a consequence, the U.S. dollar/Indian rupee exchange rate reached its monthly low at INR 66.55 on May 3.

In the second week of the month, the media reported that the U.S. had reinforced its economic sanctions on Iran, which led market participants to anticipate a decrease in crude oil supply. Thus, the appreciation of the crude oil price and the U.S. interest rates led the U.S. dollar/Indian rupee exchange rate to reach the INR 67 level. In the third week of the month, there was an election in Karnataka, and even though the central ruling party ranked first, it failed to gain a majority of votes, which encouraged market participants to sell the Indian rupee. As the U.S. 10-year government bond yield also reached 3.1%, the U.S. dollar/Indian rupee exchange rate exceeded INR 68.

In the fourth week of the month, the crude oil price appreciated further, with the West Texas Intermediate (WTI) approaching the USD 73 level. Under such circumstances, the U.S. dollar/Indian rupee reached the INR 68.42 level on May 23 for the first time in 18 months. However, the media reported toward the weekend that Saudi Arabia had started revising its framework for a coordinated supply cut, which corrected the level of the crude oil price. While other emerging countries reacted to this news in different manners, market participants rapidly bought back the Indian rupee. As of May 28, the U.S. dollar/Indian rupee exchange rate was sitting at the INR 67.40 level.

The Indian rupee/Japanese yen exchange rate depreciated in May.

In May, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.64 level. On May 2, the exchange rate approached JPY 1.65, which turned out to be the monthly high. Thereafter, the U.S. dollar appreciated, following which the Japanese yen depreciated as well. However, the depreciation of the Indian rupee was more significant than the depreciation of the Japanese yen, and therefore, in the Indian rupee/Japanese yen exchange market, the Indian rupee depreciated against the Japanese yen. In the middle of the month, the Indian rupee/Japanese yen exchange rate continued fluctuating in both directions. However, once U.S. President Donald Trump announced his decision to postpone the summit meeting between the U.S. and North Korea, concerns over the deterioration of the situation grew in the market. There were also concerns over the situation in emerging countries, as the central bank of Turkey had decided to urgently raise the interest rate. As a consequence, market participants actively bought the Japanese yen in order to avert risks, leading the U.S. dollar/Japanese yen exchange rate, which was sitting at the mid-JPY 111 level, to fall sharply to the lower-JPY 109 level. Following this trend, the Indian rupee/Japanese yen exchange rate also fell, and on May 24, the exchange rate fell below the JPY 1.6 mark, reaching the JPY 1.595 level.

However, as was discussed above, the crude oil price was adjusted, which encouraged market participants to buy the Indian rupee as well. In the end, as of May 28, the Indian rupee/Japanese yen exchange rate was fluctuating at the JPY 1.62 level.

2. Outlook for This Month:

In June, the Indian rupee exchange market is expected to follow trends in the crude oil market.

The Indian rupee market has recently been influenced by trends in the crude oil market. Globally, India is third regarding petroleum oil imports, and it is said that 85% of the country's domestic demand is dependent on imports. Even if the same amount is to be imported in the times ahead, the necessary actions of selling the Indian rupee and buying foreign currencies would increase if the oil price increases. Thus, when the oil price once increased almost by 12% from the beginning of the year to May, Indian rupee-selling based on actual demand increased accordingly. Furthermore, speculators also joined the trend based on the appreciation of the oil price, which led the Indian rupee to depreciate significantly. At the same time, the appreciation of the crude oil price can also be associated with price inflation in the U.S. as a result of the "cost push effect," leading to the appreciation of U.S. government bond yields resulting in the appreciation of the U.S. dollar.

While there were multiple factors to impact the U.S. dollar/Indian rupee exchange market, it seems that both the appreciation of the U.S. dollar and the depreciation of the Indian rupee, which resulted in the exchange rate being at mid-INR 68 to the U.S. dollar last month, are related to the appreciation of the crude oil price.

Recently, Saudi Arabia and Russia have implied an exit from the existing coordinated supply cut. Under such a condition, a general OPEC meeting is scheduled for June 22. Toward this event, the Indian rupee exchange market is likely to continue following the trends in the crude oil market.

With regard to domestic factors, the April Consumer Price Index (CPI) turned out to be higher than the estimate, at +4.6% year-on-year. It should also be mentioned that the April Core CPI was +5.8% year-on-year, which would suggest demand-pull inflation, if evaluated fairly. Furthermore, given the depreciation of the Indian rupee and the appreciation of the crude oil price, prices are likely to appreciate further in the times ahead, which can lead to a policy interest rate hike in India.

There are some negative domestic factors, such as the issues related to the fraudulent loan scandal of Punjab National Bank (PNB) and the uncertainty over domestic elections scheduled in the times ahead. However, the manufacturing business sentiment has been strong, while the growth rate outlook by the central bank has also been high, and thus domestic factors are more likely to support the Indian rupee exchange market.

This report was prepared based on economic data as of June 1, 2018.