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Mizuho Dealer's Eye

July 2018

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Mizuho Bank, Ltd.

Forex Department

Akio Okamoto, Forex Sales, Forex Department

U.S. Dollar – July 2018

Expected Ranges Against the yen: JPY107.00–112.00

1. Review of the Previous Month

The US and China made no progress when they met to discuss trade over the first weekend of June. With the US also imposing new tariffs on imports of steel and aluminum from the EU and so on, the dollar/yen pair dipped slightly to the lower-109 yen mark on June 4. It topped 110 yen for a time on June 5, though it then moved in the upper-109 yen range. It hit a weekly high of 110.27 yen on June 6 on the bullish movements of US stocks and interest rates. With US interest rates then sliding, the pair traded at the upper-109 yen level on June 7. It fell to a weekly low of 109.20 yen on June 8 amid cautiousness about the weekend's G7 meeting, though it then moved in a range around the mid-109 yen mark.

The G7 meeting revealed a clear divide between the US and the other six nations, with the currency pair subsequently hitting a weekly low of 109.23 yen on June 11, though it soon bounced back to around 110 yen. It climbed to 110.49 yen on June 12 in the run up to the US/North Korea heads of state meeting, though it dipped back amid a lack of concrete moves in the direction of denuclearization. It then rallied to the upper-110 yen range on June 13. The FOMC met on the same day and it instituted a 25bp rate hike, as expected. It also released a hawkish statement while upgrading its projection to four rate hikes in 2018, with the currency pair jumping to 110.85 yen soon after the meeting. However, FRB chair Jerome Powell's press conference was less hawkish than expected, so the pair tumbled to 109.92 yen on June 14. When the ECB Governing Council met, it announced that rate hikes would probably take place from next summer onwards. As a result, the euro was sold across the board, with the dollar/yen pair also rebounding to 110.70 yen for a time. As expected, the Bank of Japan (BOJ) kept monetary policy unchanged when it met on June 15, though it did downgrade its inflation outlook, with the currency pair subsequently hitting a weekly high of 110.90 yen. There were no attempts on the pair's topside, though, so it closed the week trading in the mid-110 yen range.

It then edged down to the lower-110 yen mark on June 18. On June 19, news emerged that President Trump was thinking about slapping an extra 10% tariff (a figure equivalent to $200 billion) on Chinese products. This saw the pair temporarily crashing to a weekly low of 109.55 yen. However, it was bought back to around 110 yen after Peter Navarro, head of the National Trade Council (NTC), once again expressed his desire to sit down and talk with China. The pair rose to the mid-110 yen level on June 20 after FRB chair Jerome Powell made positive noises about rate hikes. It then hit a weekly high of 110.76 on June 21, though it dropped back to the upper-109 yen mark on weak US business confidence. The pair moved with a heavy topside on June 22 to close the week trading in the 109 yen range.

It then hit a weekly low of 109.37 yen on June 25 following news that the US would be placing

investment restrictions on China, though it shot back up to around 110 yen when NTC head Peter Navarro denied these reports. It rallied to the 110 yen range on June 26 after Keven Hasset, chairman of the Council of Economic Advisors (CEA), said the US had a good chance of forcing China and the EU to lower tariffs. The pair fell to the upper-109 yen level on June 27, though it rocketed back to around the mid-110 yen mark on news that the US would deal with restrictions on Chinese investments through pre-existing frameworks. Larry Kudlow, director of the National Economic Council (NEC), then said that President Trump's stance on China had not changed, so the pair was sold back to the lower-110 yen level. It temporarily hit a weekly high of 110.65 yen on June 28, though it then floated close to the mid-110 yen mark. With the end of the quarter looming, the pair temporarily hit a weekly high of 110.94 yen on June 29.

2. Outlook for This Month:

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

The first round of punitive tariffs on Chinese imports (equivalent to around $34 billion) will come into effect on July 6, so there is still a risk that the US and China could descend into a full-on trade war. With the Trump administration also threatening to slap tariffs on cars from the EU, for example, it seems US trade policy will remain a major market theme this month too. In June, the RMB fell to a 6-month low while also recording its biggest monthly slide for around 20 years. With funds also being pulled out of several other emerging economies, the US tariffs are gradually starting to bite.

These withdrawn funds are heading toward dollar assets and this is pushing the greenback higher. This is also emerging as a side effect of the tariffs. The costs of these punitive tit-for-tat tariffs will ultimately impact the behavior of US consumers as the cost of consumer goods rise. A prime example of this is how Harley Davidson is in talks to set up a new manufacturing base in Europe. President Trump expects production to shift to the US, but firms will need to acquire land, make capital investments and secure staff, so this will not happen overnight. As such, is seems the immediate focus will fall on the aforementioned negative factors. This will probably manifest itself initially in business confidence and other soft data. If the impact of the tariffs seems negative enough to negate the positive impact of the US tax cuts, this will probably see risk aversion rising across the globe. Under these circumstances, the dollar/yen pair could drop to the 108-yen range.

Furthermore, just as the political turmoil in Italy calmed down, the German government was rocked by a debate about immigration. Though an agreement on the issue was reached at the EU heads of state meeting at the end of June, this was quite ambiguous and the details will need to be hammered out from here on. Negotiations are likely to be stormy. If a new election in Germany looms into view, the currency pair could be pushed even lower. In Europe, attention will also focus on the Brexit negotiations. As such, though there are not many big events looming this month, there are a lot of factors that could dampen market sentiments, so the risk balance suggests market participants should be wary of the dollar/yen pair sliding.

Dealers' Market Forecast

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

Bullish on the dollar (1 bull: 108.00–114.00, Core: 108.00–114.00)

Name	Range	Comment
Sato	108.00 – 114.00	There is growing uncertainty about US trade policy and other emerging trends. Furthermore, with the central banks of the US and Europe tightening monetary policy, investors continue to repatriate funds from emerging economies. As such, the dollar is expected to move firmly this month.

Bearish on the dollar (10 bears: 107.00–112.00, Core: 107.50–112.00)

Name	Range	Comment
Tauchi	107.00 – 112.00	The tit-for-tat tariff battle between the US and China is intensifying, while Japan is facing more pressure to correct its trade imbalance with the US. Concerns about these trends will make it hard for investors to actively buy the greenback. The third largest US trade deficit is with Japan, so with the Trump administration pursuing protectionism, there are strong concerns that Japan will face even more pressure to correct this trade imbalance.
Kato	108.00 – 112.00	The dollar has been bought on factors related to the end of the quarter and the half year, but this trend is easing off. Furthermore, the dollar/yen pair continues to be swayed by US trade policy. As such, the greenback will remain a difficult currency to buy in July too. The dollar's slide will probably be initiated by stock movements, but on the whole the pair is expected to continue trading in a range.
Yamashita	107.00 – 111.00	With the FRB suggesting it might put a lid on rate hikes after the neutral rate is achieved, the end of US rate hikes is drawing closer. When it comes to trade policy, the Trump administration will want results before the mid-term elections, so it will probably implement more punitive tariffs. As such, the dollar/yen pair will probably trade with a heavy topside on monetary policy and geopolitical risk.
Mitsuishi	108.00 – 112.00	The US is raising tariffs on goods from Europe as well as from China. Concerns about this rising US protectionism will act to hold down the dollar/yen pair's topside.
Fujimaki	108.00 – 112.00	The dollar/yen pair is expected to trade with a heavy topside. Stock movements are starting to cool off, while concerns about trade frictions have spread to encompass Europe as well as China, so storm clouds are gathering. If the ISM data and other indicators dip below market expectations, this could lead to a growing debate that the US economy is peaking out, so market participants should be on guard.
Okamoto	107.00 – 112.00	The punitive US tariffs are also hitting the EU and other nations besides China, so there are concerns about the tariffs hitting the real economy. Funds are already starting to flow from emerging economies. If US stocks and other major-country risk assets also look threatened, the dollar/yen pair will probably dip below its current range. The pair will probably be supported by interest rate differentials, but investors should be wary of downside risk.
Ueno	108.00 – 112.00	US interest rates are expected to rise at a gradual pace, but with the risk of an economic downturn smoldering away, interest rates are unlikely to push the dollar/yen pair higher. Given US/China trade frictions and other risk factors, it seems unlikely there will be many reasons to actively buy the dollar.
Moriya	107.00 – 112.00	Last month's FOMC meeting and BOJ monetary policy meeting once again illuminated the divergence in the monetary policies of the two nations. However, cautiousness about trade friction is more becoming more entrenched than expected. As such, investors will refrain from actively buying the dollar, with the dollar/yen pair set to move with a heavy topside.
Tsuruta	108.00 – 112.00	The FOMC upgraded its dot chart when it met last month. As such, it is hard to imagine the dollar being bought on expectations for earlier rate hikes. With US protectionism coming into clearer focus on the back of US trade policy, it is also hard to imagine the dollar/yen pair rising, with the pair set to move with a heavy topside on the whole.
Okuma	107.00 – 112.00	US protectionism is starting to have a negative impact on its own manufacturing sector as well as the manufacturing sectors of other major countries. As such, concerns about trade frictions will probably continue to weigh down the dollar/yen pair's topside. Furthermore, though the FRB has upgraded its outlook to four rates hikes within 2018, the benchmark 10-year treasury yield is moving sluggishly, with the pair's topside also held down by concerns of a US economic slowdown.

Kazuaki Yamamoto, Forex Sales, Forex Department

Euro – July 2018

Expected Ranges **Against the US$: US$1.1375–1.1775**
Against the yen: JPY125.00–130.50

1. Review of the Previous Month

In June, the euro/dollar pair crashed after the ECB Governing Council meeting and its recovery was sluggish thereafter.

It opened the month trading at the mid-US$1.16 mark. On June 6, ECB executive board member Peter Praet commented that "signals showing the convergence of inflation towards our aim have been improving." With Bundesbank governor Jens Weidmann also stating it would be plausible for the ECB to wind down its asset purchasing program (APP) before the end of the year, the pair rose to the upper-$1.17 level. Amid growing expectations that the ECB would scale back its quantitative easing policy in the near future, the pair temporarily hit $1.1840, but with Germany then releasing some worse-than-expected industrial production data for April, the pair was sold back to the lower-$1.17 range amid position adjustments. The euro/yen pair opened the month trading at the lower-127 yen mark and it then moved between the upper-127 yen level and the mid-128 yen mark. The euro was bought and the euro/yen pair's topside temporarily hit 130.26 yen in the wake of the June 6 comments by ECB officials, but with investors adjusting their positions towards the week's end, the pair then dropped back to the 129 yen range.

The euro/dollar pair rose to the lower-$1.18 mark on June 11 after Italy's new finance minister said the new Italian government did not want to leave the eurozone. With the ECB Governing Council looming, though, there were no attempts on the pair's topside and the pair dipped back to the upper-$1.17 level. The pair traded erratically after the FOMC meeting, though it moved without a sense of direction. When the ECB Governing Council met on June 14, it announced it would cease making any new purchases by the end of the year, with the euro/dollar pair temporarily hitting a weekly high of $1.1853. However, the Council also said it would maintain negative interest rates until next summer at the earliest, so the euro was sold across the board and the pair crashed to the mid-$1.15 mark, with the euro also plunging from the 130 yen range to around 128 yen against its Japanese counterpart. The dollar/yen pair was bought on the dip at the start of the following week and it bounced back to the lower-$1.16 level. However, the euro was then sold and the pair fell to the lower-$1.15 range after ECB president Mario Draghi expressed caution about rate hikes.

On June 21, the pair temporarily dropped to $1.1508 for the first time since July 2017 after eurosceptics were appointed to the finance committees of both chambers of the Italian parliament, though it was bought back to the $1.16 range when the Italian finance minister reiterated his commitment to the euro. On June 19, the euro/yen pair dipped to a monthly low of 126.65 yen for a time as risk aversion intensified on concerns about worsening trade relations between the US and China, though it then edged back toward

128 yen.

On June 25, news emerged that German chancellor Angela Merkel's center-right Christian Democratic Union (CDU) had reached an internal accord about the immigration issue, so the euro was bought back and the euro/dollar pair temporarily hit $1.1713, with the euro/yen pair also climbing to 128.84 yen. However, as concerns about US/China trade frictions eased off, the dollar moved bullishly, with the euro/dollar pair weakening to the mid-$1.15 range while activating short-term stop-losses. The markets reacted warmly when the EU heads of state reached a provisional agreement about immigration policy on June 29. As euro short covering intensified, the euro/dollar pair bounced back to the mid-$1.16 level and the euro/yen pair to around 129 yen.

2. Outlook for This Month:

The euro is expected to move bearishly in July.

The EU heads of state reached a provisional agreement on refugees and immigration when it met at the end of June, so uncertainty about the German political situation has eased off somewhat, though on the whole last month's euro-selling factors look set to continue into July. In Europe, Italy's new populist government is pushing up the national debt through its lax fiscal policies, so the euro could be weighed down by speculation that a phase of market turbulence could be ushered in if Italian government bonds fall, for instance. If moves to leave to euro rise up again in Italy, meanwhile, the currency markets will react even more sharply.

Furthermore, if the Trump administration intensifies its protectionist stance in the run up to the US mid-term elections, this will prove a negative factor for the euro. The US has already imposed new tariffs on steel and aluminum imports, but it is also looking at slapping new tariffs on cars too, a move that would place considerable pressure on GDP within the eurozone. European stocks will probably be sold if worsening trade conditions lead to sluggish business results in Europe. If this does happen, the yen will also be bought on risk aversion, with the euro/yen pair setting off a trend for euro selling. When the ECB Governing Council met last month, it also released its staff projections. The outlook for GDP in 2018 was downgraded from the last release in March this year and there were even suggestions that eurozone economic growth was peaking out, as some observers have speculated. In the end, ECB monetary policy might not end up supporting the euro's downside. The ECB meeting also announced an end to the APP, but it said it would continue reinvesting its holdings even after the program comes to a close, which means the ECB's balance sheet will remain the same size. The ECB also indicated that it would keep key interest rates at present levels "at least through the summer of 2019 and in any case for as long as necessary." This comment led to a sharp fall in market expectations for an early rate hike. The Harmonised Index of Consumer Prices (HICP) was upgraded in the aforementioned staff projections, but this was mainly due to rising crude oil prices, with wage inflation remaining subdued.

Amid signs of economic growth peaking out and with wage inflation unlikely to rise, the ECB is unlikely to shift its policy stance in a hawkish direction. With the aforementioned euro-selling factors still in place, the euro's topside is expected to edge lower this month.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.1400–1.1900, Core: 1.1425–1.1875)

Fujimaki	1.1450 – 1.1850	The euro is moving bearishly as expectations for rate hikes wane in the wake of the last ECB Governing Council meeting. However, the euro/dollar pair has not fallen clearly below the key $1.1510 mark. Furthermore, the eurozone is starting to release some fairly-strong indicators, perhaps thanks to the euro's weakness, so the currency pair looks set to move firmly.
Ueno	1.1400 – 1.1900	Though market participants have tried to push the euro/dollar pair below $1.15 on several occasions since late May, its downside has remained firm. A broad sense of direction is emerging when it comes to Italian political uncertainty and the ECB's exit strategy, so the euro is unlikely to fall much further due to these factors. There could also be some short-term attempts to push the pair's topside higher.

Bearish on the euro (8 bears: 1.1200–1.1900, Core: 1.1300–1.1800)

Tauchi	1.1300 – 1.1800	There remain broad differences between major EU nations when it comes to the issue of refugees and immigration. The provisional agreement could fall apart on disagreements between Germany and Italy. With German chancellor Angela Merkel also facing rising discontent at home, risk aversion could intensify on political unease related to refugees and immigration, with the euro expected to move with a heavy topside as a result.
Kato	1.1200 – 1.1800	The political situation in Italy and German still remains up in the air. Furthermore, though the APP will be wound down, it will take some time before rate hikes commence.
Yamashita	1.1300 – 1.1700	Eurozone economic indicators are moving sluggishly and expectations for ECB rate hikes are waning. There are also concerns about the political situation in Italy, while geopolitical risk is also rising on the back of trade frictions with the US, for instance. Under these circumstances, the euro/dollar pair will probably move with a heavy topside.
Sato	1.1300 – 1.1800	The ECB Governing Council decided to wind down the APP when it met last month, though it also said rate hikes would not take place until next September. With expectations waning, position adjustments look set to continue for a while, so the euro is expected to trade with a heavy topside.
Mitsuishi	1.1300 – 1.1800	There is a clear divergence in the monetary policies of the FRB and ECB. There is also political instability in major EU nations like Germany, Italy and Spain. Given this, it seems the euro/dollar pair will move with a heavy topside this month.
Moriya	1.1300 – 1.1800	Hopes for an early rate hike have waned following last month's ECB Governing Council meeting, with the euro becoming a hard currency to buy. With the markets also focusing on European political risk related to Italy and Germany, for instance, the euro/dollar pair looks set to continue moving bearishly this month.
Tsuruta	1.1200 – 1.1800	When the ECB Governing Council met last month, it indicated that rate hikes could commence from next summer at the earliest. As such, it is hard to imagine the euro being bought on expectations for an early rate hike. Furthermore, though political instability is easing off in Italy, market participants will probably focus on European political turmoil related to Germany and so on. With the EU also locked in tough trade negotiations with the US, the euro/dollar pair look set to move bearishly in July.
Okuma	1.1300 – 1.1900	With German and Italian political instability smoldering away, the refugee and immigration issue could prove a tumultuous factor for EU nations from here on too. The bearishness of several recent indicators also points to an economic slowdown. With the ECB also sticking to the easing path for a prolonged period, the euro/dollar pair is expected to move bearishly this month.

Tatsuro Sumi, Europe Treasury Department

British Pound – July 2018

Expected Ranges **Against the US$:** **US$1.2800–1.3400**
Against the yen: **JPY142.00–147.00**

1. Review of the Previous Month

The pound/dollar pair moved firmly in the first half of June, though it then fell as the dollar appreciated on the back of trade disputes.

After deteriorating from spring on the bad weather, business confidence recovered, as evinced by the better-than-expected results of the UK May Manufacturing PMI (54.4 against expectations for 53.5) and the May Services PMI (54.0 against 53.0). This saw the currency pair rising to the $1.34 mark. However, the UK April Industrial Production Index and April Manufacturing Production Index (released June 8) both fell sharply below expectations, so the pair fell from the mid-$1.34 mark to the mid-$1.33 level.

A US/North Korea heads of state meeting passed smoothly on Tuesday, June 12. Furthermore, the UK prime minister shored up her flailing authority when she won a vote on an amendment to the UK Withdrawal Bill, with parliament dismissing a motion to give it a 'meaningful vote' and a de-facto veto on the final bill. All this saw the currency pair moving firmly at the upper-$1.33 level. As expected, the FOMC implemented a 25bp rate hike. It also upgraded its projection to four rate hikes in 2018. As a result, the dollar strengthened and the pound/dollar pair slipped from the mid-$1.33 mark to $1.3308. However, the greenback then fell again on the news that the US government was preparing new tariffs on Chinese imports, so the pair bounced back. With the UK retail sales data for May topping expectations, the pair climbed to the mid-$1.34 level. When the ECB Governing Council met, it decided to bring QE to a close before the year's end, though its forward guidance was more dovish than expected, with the ECB saying policy rates would be kept at current levels until next summer at the earliest. The euro/dollar pair began falling and the pound/dollar pair also dropped sharply as a result. Intermittent selling pushed the pound/dollar pair from $1.3477 to $1.3212.

On June 18, President Trump announced a new 10% tariff on Chinese imports (a figure equivalent to $200 billion), so the dollar was bought on risk aversion and the currency pair slid from the mid-$1.32 level to $1.3151. On Wednesday June 20, the markets reacted warmly when the House of Commons once again rejected an amendment to the UK Withdrawal Bill that included a 'meaningful vote' on a final deal. The pair temporarily rallied to the $1.32 range. However, Italian government bonds then fell sharply when two eurosceptics were picked to head important bodies in the Italian parliament (Alberto Bagnai to head the Finance Committee in the Senate and Claudio Borghi to head the Budget Committee in the lower house) on Thursday June 26. The euro/dollar pair plummeted and the pound/dollar pair followed suit to hit a monthly low of $1.3102. The Monetary Policy Committee (MPC) of the Bank of

England (BOE) then voted to keep its policy rate unchanged. At six votes to three, though, the vote was closer than last time (seven votes to two), with MPC member Andrew Haldane joining those voting for a rate hike. The MPC also decided to begin shrinking its balance sheet when the Bank Rate reached 1.5%, as opposed to 2% previously. As a result, the pair was bought to $1.3315. However, rumors then emerged that the Trump administration would be slapping a 20% tariff on car imports from the EU, with the US also considering hitting Chinese firms with US investment restrictions. Furthermore, Jonathan Haskel, a new member of the BOE's MPC, then talked up the risks of hasty rate hikes. All this saw the currency pair weakening.

2. Outlook for This Month:

The pound/dollar pair is expected to trade with a heavy topside in July. The key themes will probably be (1) Brexit, (2) US protectionism, and (3) the outlook for UK rate hikes.

As for (1), UK prime minister Theresa May will be releasing a white paper on July 7. This was supposed to have been released before the EU heads of state meeting on June 28, but it was delayed by cabinet disagreements about how to handle the Irish border issue. When it comes to this issue, the UK has proposed a backstop arrangement for when the interim agreement comes to an end. This would involve the UK remaining in the customs union in the year through to the end of 2021. However, the proposal would see the whole of the UK remaining in the customs union, so the EU's chief Brexit negotiator Michel Barnier has dismissed the idea. The two parties are trying to reach a final agreement on a Brexit deal by the EU heads of state meeting on October 18, but the current uncertainty is hitting business, with a major French aircraft manufacturer and a large German car company hinting they might pull out of the UK, for instance. The May administration is running out of time and it remains in a tight spot, so unless it announces some policies to break out of this difficult impasse, the pound is likely to continue trending downward.

As for (2), the EU has retaliated in kind against US tariffs on steel and aluminum exports. On July 6, meanwhile, the US and China will be implementing tit-for-tat tariffs worth $34 billion apiece. President Trump's approval ratings have been climbing steadily since the end of 2017, so he is unlikely to change policy. Though the Trump administration limited itself to verbal interventions last year, this month will see finally see the commencement of real punitive tariffs. The situation is fraught with risk and global trade could be hit if things get worse from here on. The markets have reacted to the US moves by buying the dollar on expectations that the US tariffs will cut its trade deficit, so the pound/dollar pair is expected to move somewhat bearishly going forward.

Turning to (3), and the BOE's MPC will be meeting on August 2, with votes likely to be divided again, depending on the results of economic indicators. In June, a rate hike was only voted down by six votes to three (as opposed to seven votes to two at the previous meeting). If UK business confidence improves, expectations for a UK rate hike will probably increase. However, the hawkish Ian McCafferty will be stepping down in August to be replaced by Jonathan Haskel. Mr. Haskel had talked about the risks of hasty rate hike, so the MPC is expected to adopt a slightly dovish stance, with the pound sliding

as a result.

Kanako Imamura, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – July 2018

Expected Ranges	**Against the US$:**	**US$0.7250–0.7650**
	Against the yen:	**JPY79.50–83.50**

1. Review of the Previous Month

The Australian dollar's downside was tested in June on expectations for more US rate hikes in 2018 as well as a deterioration in global trade relations, with the AUD/USD pair falling to a 2018 low of $0.7323.

The pair opened the month trading at the upper-$0.75 mark on June 1. The greenback was then bought at the US May unemployment rate fell to an 18-year low of 3.8%, with the pair dropping back to the lower-$0.75 level. However, it climbed to the mid-$0.76 range on June 4 after Australia posted some better-than-expected retail sales data for April. As expected, the board of the Reserve Board of Australia kept the cash rate fixed at 1.50% when it met on June 5. The accompanying statement also contained nothing new, so the impact on the currency pair was muted. Australia released its GDP data for January–March on June 6. At +3.1% y-o-y, the data result beat expectations, so the Australian dollar was bought and the pair rose to a monthly high of $0.7677. The G7 meeting saw sharp disagreements between the US and the other six nations when it came to trade policy. With a US/North Korea heads of state meeting also producing a written agreement, the pair traded around $0.7600.

The focus of the markets then shifted to the Federal Open Market Committee (FOMC) meeting on June 13. As expected, the FOMC lifted the target range for the federal funds rate by 25bp, to 1.75%–2%. It also upgraded its projection from three to four rate hikes within 2018. The greenback was bought as a result, with the currency pair crashing to the upper-$0.74 mark. It then moved around $0.75 on June 14 on the mixed results of the Australian employment data. President Trump then stepped up his trade dispute with China with the imposition of a 25% tariff (equivalent to $50 billion) on Chinese imports and China took a strong stance against it, with stocks subsequently falling on concerns about a trade war. As a risk asset, the Australian dollar was also hit, with the AUD/USD pair falling to the lower-$0.74 level.

News then emerged on June 18 that the Trump administration would impose further tariffs worth $200 billion on Chinese imports. This saw the currency pair dipping below $0.7400 to hit the mid-$0.73 mark on June 21. The Australian dollar was then bought on a sense it was now at a good level, with the pair rallying to the lower-$0.74 level, but with US and European stocks continuing to move erratically, the pair dropped to $0.7323 on June 27, its lowest level for around a year. Crude oil prices then rose on speculation that OPEC and major non-OPEC oil-producing nations would agree to increase output by less than expected when they met. This saw the currency pair trading around $0.7400.

2. Outlook for This Month:

The AUD/USD pair will continue to move with a heavy topside in July on concerns about trade frictions.

The US is escalating its trade dispute with several major nations and the EU. This is putting pressure on global stock markets, with uncertainty rising and the Dow Jones index moving below its start-of-the-year level late June. Some economists have even raised concerns about a global economic slowdown. President Trump has adopted a hardline stance when it comes to tariffs. The Australian dollar is very sensitive to global trade disputes, so it is likely to face further downward pressure as a result. Stocks will also be impacted by the unclear direction of the trade dispute, with the Australian dollar also likely to be swayed by stock movements.

The focus of the markets has shifted to the accelerated pace of US rate hikes and global trade friction. As such, it seems the recovery of coal and iron ore prices will fall by the wayside for now as a factor impacting the Australian dollar. When it comes to the pace of US rate hikes, market participants will be awaiting the results of the US inflation data, set for release on July 12. Last month, the inflation rate came in at a strong +2.8% y-o-y. Recently, FRB members have started to talk about a shift away from monetary easing to a more neutral stance. Attention should be paid to similar comments from here on.

When it comes to the outlook for Australian interest rates, 90% of market participants believe the cash rate will be kept at 1.50% in December this year, with around 50% expecting the first rate hike to occur from August 2019 onwards. The RBA has set the inflation target range at 2–3%, with the rate currently moving at +1.9 y-o-y. July 25 will see the quarterly release of the Australian inflation rate. The minutes to last month's RBA board meeting contained a phrase about how "further progress…in reducing unemployment and returning inflation to the target was expected, although this progress was likely to be gradual," with the minutes adding that "inflation remained low and was likely to remain so for some time…however, a gradual pick-up in inflation to be above 2 per cent was still expected." With the rate currently moving close to 2%, though, the markets will be watching the July 25 release closely to see whether the rate has moved to within the RBA's target range.

Yasuko Iwata, Canada Office, Global Markets Coordination Department

Canadian Dollar – July 2018

Expected Ranges	Against the US$:	C$1.2550–1.3550
	Against the yen:	JPY82.00–89.00

1. Review of the Previous Month

President Trump had previously held back from imposing tariffs on goods from Canada, Mexico and the EU, but with the North America Free Trade Agreement (NAFTA) discussions and other trade talks showing no signs of progress, he announced the imposition of tariffs on steel and aluminum imports from June 1. With Canada also releasing some worse-than-expected Q1 GDP data on May 31, the Canadian dollar was sold and the USD/CAD pair entered June trading at C$1.2958.

After a period of political turmoil, Italy saw the launch of a new administration at the start of June. With a US/North Korea heads of state meeting also taking place as planned, market concerns eased off for a time. The euro was also bought and the greenback sold on speculation that the ECB Governing Council would announce an end to its asset purchasing program (APP) when it met in June. The Canadian unit was also bought, with the USD/CAD pair temporarily dipping to C$1.2859.

However, the Brazilian real and stocks then plunged on rising US treasury yields and a bullish US dollar. Canadian prime minister Justin Trudeau also had a spat with President Trump at the G7 meeting in Canada. Furthermore, with a meeting of the Organization of Petroleum Exporting Countries (OPEC) looming, crude oil prices fell on speculation that OPEC members and non-members would reach an agreement to shift from production cuts to production increases. As such, the markets remained in risk-off mode on the whole, with the USD/CAD pair continuing to move between C$1.2900 and $1.3000.

The FOMC implemented a rate hike when it met on June 13, but the markets had already priced this in. Comments by FRB chair Jerome Powell also suggested that the stance of the US financial authorities was not so hawkish. As a result, though the greenback rose directly after the FOMC meeting, its sojourn above C$1.3000 was short-lived.

This trend shifted when the ECB Governing Council met on June 14, with the euro being sold and the US dollar bought when the ECB's forward guidance unexpectedly said policy rates would be kept fixed until next summer at the earliest. With the Trump administration also formally announcing tariffs on Chinese imports equivalent to around $50 billion, the Canadian dollar fell and the USD/CAD pair jumped to the C$1.31 range.

This trend continued into the latter half of the month. President Trump then criticized Canada on several occasions in relation to NAFTA. With India as well as on China and the EU imposing punitive tariffs on the US, concerns about a global trade war intensified. Canada then released its April retail sales data and its May CPI figure on June 22, with both indicators dropping sharply below expectations. As a result, market bets for a rate hike at the July 11 Bank of Canada (BOC) meeting dropped from

above 60% to 51%. This saw the USD/CAD pair topping $1.33 for the first time in around a year to hit $1.3382.

2. Outlook for This Month:

In July, attention will focus on (1) the Bank of Canada Monetary Policy Committee (MPC) meeting on July 11, and (2) the direction of trade disputes with the US.

The BOC struck a more hawkish tone than expected when it met at the end of May, with the word 'cautious' removed from its statement at long last, for example, so it seemed likely the bank would implement a 0.25% rate hike in July. However, Canada recently released several bearish economic indicators in June, including the May employment data (with the number of jobs falling by 7,500), the April retail sales data (down -1.2%) and the May CPI figure (core CPI: +1.9% y-o-y).

When it comes to the trade issue, there are currently no signs of progress in the NAFTA renegotiations. In response to the imposition of tariffs on steel and aluminum imports, from July 1 Canada will impose a 10–25% tariff on a wide range of imports from the US.

Given these bearish indicators and the uncertainty about the trade dispute, a lot of attention was focused on a speech that BOC governor Stephen Poloz gave on June 27. However, Mr. Poloz gave no new clues about monetary policy and he continued to insist that rate hikes would depend on economic data. Canada then released some better-than-expected April GDP data on June 29. The same day also saw the release of the BOC's Business Outlook Survey, which revealed that optimism among corporate executives had risen to its highest level since 2011 (though it must be remembered that the survey took place in May, before the trade dispute intensified). In the wake of Mr. Poloz's speech, the GDP data and results of the Business Outlook Survey, market bets on a July rate hike surged to 85% by June 29, with the Canadian unit also soaring to hit the lower-C$1.31 mark against the greenback.

If the BOC does implement a rate hike in July, the Canadian dollar will be bought back, with the USD/CAD pair probably dropping to the C$1.27 range. However, this is unlikely to lead to any active Canadian-dollar buying as long as the trade dispute with the US remains unresolved.

The July 11 BOC meeting will also see the quarterly release of the Monetary Policy Report. When it comes to gauging the direction of rate policy, it will be interesting to read what the BOC says about the impact of the US trade dispute on the Canadian economy.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – July 2018

Expected Ranges	Against the US$:	KRW1,090–1,130
	Against the yen:	JPY9.80–10.10 (KRW100)
		(KRW9.90–10.20)

1. Review of the Previous Month

The USD/KRW pair rose sharply last month. The results of the US/North Korea heads of state meeting were as expected or fell slightly below expectations, with the Korean won also hit by trade frictions between the US/China and the US/EU, for instance, as well as by declining expectations for a Bank of Korea (BOK) rate hike.

The pair opened June trading at KRW1079.5. The won was then bought and the pair dropped to a monthly low of KRW1066.6 on June 7 as optimism grew in relation to the June 12 US/North Korea heads of state meeting.

In the end, the mood was good at the historical meeting, but the joint statement released after contained no mention of 'complete, verifiable, irreversible denuclearization (CVID),' wording that had been sought by Japan, the US and South Korea. In fact, with its mention of security guarantees for North Korea, the statement was read as being slightly more favorable to Pyongyang. As a result, the won was gradually sold thereafter. When the pair hit the lower-KRW1090 mark for the first time since February, it then soared higher as more speculators adjusted their positions.

As concerns about a trade war between the US/China and the US/EU deepened, risk aversion swept the markets, with won selling also propelled by declining expectations for a rate hike by the BOK. The South Korean economy is starting to show signs of weakness, while the BOK seems slightly concerned that US/South Korean policy-rate differentials have already inverted. There is also growing speculation that the US will also slow the pace of rate hikes on concerns about trade frictions. Given the state of the South Korean economy, this led some observers to believe the BOK would also lift rates at a slower pace.

As a result, the pair rose to a monthly high of KRW1124.2 on June 28 to close the month trading at KRW1114.5.

2. Outlook for This Month:

The USD/KRW pair is expected to fall slightly this month.

Its rise last month was due to several factors, but it was one-sided and steep in nature. Some of the factors have already been priced in to a certain extent, including the results of the US/North Korea heads of state meeting and BOK monetary policy. As such, the currency pair will probably be swayed by trade frictions between the US/China and the US/EU on the whole.

A glance at the trade issue suggests the problem is basically the fault of the Trump administration. On the pretext of national security, President Trump has slapped new tariffs on goods from various countries and regions. However, this has naturally led to retaliatory tariffs that seem to be targeted at Republican strongholds. Some companies have also announced they will be shifting production outside the US as result of these tariffs, so the spat is starting to produce results contrary to Mr. Trump's goal of boosting domestic employment. Sluggish/bearish stock movements are also probably due in part to the trade dispute. Furthermore, it will grow harder to ignore the potential impact of the dispute on the mid-term elections looming in November.

If it were not for President Trump's provocative actions, China and the EU would not be taking a tougher, harder line, so in light of the aforementioned factors, the main scenario is likely to be one of Mr. Trump adopting a more conciliatory stance, with the USD/KRW pair also edging down on real-demand won buying.

However, if tensions increase, won selling will accelerate, so market participants need to keep a close eye on the direction of the US/China and US/EU disputes. Furthermore, nothing much has happened since the US/North Korea heads of state meeting, with officials in charge on the North Korean side yet to release any public statement about further negotiations, for example. It seems the markets have lost interest in the topic for now, but if some factors emerge that could exacerbate the situation, this will probably lead to won selling. Crude oil prices are also starting to move in relation to the Iran issue and so on. The US seems more resilient than South Korea when it comes to cost-push inflation, so rising crude oil prices are also likely to push the USD/KRW pair higher.

Based on the above, it seems the currency pair will trend lower overall in July, though there are many factors to consider and investors should remain on guard.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – July 2018

Expected Ranges	**Against the US$:**	**NT$30.00–30.80**
	Against the yen:	**JPY3.55–3.72**

1. Review of the Previous Month

The US dollar strengthened and the Taiwan dollar weakened in June.

The USD/TWD pair opened the month trading at TWD29.980. Taiwanese stocks then moved firmly on the bullishness of overseas stock markets, with the Taiwan dollar bought as foreign funds flowed into Taiwan. The pair then fell to TWD29.864 during overseas trading time on the impending release of the US employment data for May. In the end, nonfarm payrolls increased by 223,000 (market forecast: +190,000), while average hourly wages grew by +2.7% y-o-y (forecast: +2.6% y-o-y). These bullish results saw Taiwanese stocks rising sharply at the start of the next week, on June 4. The Taiwan dollar continued to move firmly on fund inflows, with the USD/TWD pair slipping to TWD29.648 toward June 7.

However, stocks then fell on selling for profit taking, with overseas funds leaving Taiwan on a net basis. With the greenback also moving firmly, the currency pair's movements were shaped by US-dollar buying. June 12 saw a heads of state meeting between the US and North Korea. This was followed by several monetary policy meetings in the US, Europe and Japan. These events all passed smoothly, with the greenback subsequently rising at a faster pace. On June 15, the currency pair bounced back to the TWD30 range for the first time in around two weeks.

In the latter half of June, the Trump administration announced it was imposing a 25% tariff on Chinese imports (equivalent to around $50 billion) as punishment for intellectual copyright infringements. With China then announcing retaliatory tariffs on US agricultural products and so on, fears of a trade war increased and stocks fell. Taiwan saw faster fund outflows and the Taiwan dollar was sold, with the USD/TWD pair hitting TWD30.3 on June 21, its highest level since October 2017. The Bank of Taiwan (BOT) held its quarterly monetary policy meeting on June 21. However, the discount rate was kept at 1.375%, so the impact on the currency pair was muted.

More exporters sold the US dollar toward the end of the month, but stocks continued to fall and funds continued to leave Taiwan on concerns about US trade policy. This trend supported US-dollar buying, with the currency pair hitting the TWD30.4 level.

2. Outlook for This Month:

The USD/TWD pair is expected to move firmly in July.

A glance at the economic indicators released in June shows the April export amount rising for the sixth straight month to hit +14.2% y-o-y. At $29.1 billion, the standalone monthly figure was close to

the record high recorded in March. Exports to China and Hong Kong (which account for 40% of all Taiwan's exports) grew at a fast clip. Exports of electronic parts (a major Taiwanese export item) also moved firmly, with the data confirming the ongoing strength of Taiwanese exports. The trade surplus also remained at a high level at $4.41 billion. As +1.64% y-o-y, meanwhile, March's CPI data was down on the February's figure of +2.00 y-o-y. The core CPI data (excluding volatile fresh food prices) hit +0.95 y-o-y, also down on February's figure of +1.32% y-o-y.

In July, the focus will remain on the movements of overseas funds in Taiwanese stock markets together with the direction of US trade policy.

As for the former, funds have continued to flow out of Taiwan since February and this is one reason why the Taiwan dollar is now moving bearishly. A torrent of funds once again left Taiwan from the third week on June onwards. If this trend continues in July, the Taiwan dollar will remain bearish.

As for US trade policy, talks are underway aimed at averting the imposition of tariffs on goods from China, set to start from July 6. Attention will focus on the direction of these talks. Some overseas firms have downgraded their business results because of these policies. If this impacts more firms from here on, more funds will flow out of Taiwanese stock markets and this could prompt US-dollar buying, so caution will be needed.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – July 2018

Expected Ranges	Against the US$:	HK$ 7.8400–7.8500
	Against the yen:	JPY 13.60–14.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

In June, the Hong Kong dollar appreciated against the U.S. dollar from the HKD 7.85 level (the lower end of the trading band within the peg system) to the HKD 7.845 level, despite the fact that the Federal Reserve Board (FRB) raised the interest rate, as had been expected, because of Hong Kong dollar-buying as a result of the narrowing interest rate differentials between Hong Kong and the U.S., as well as due to a large-scale IPO. There were some negative events, such as the hawkish policy by the FRB, the deterioration of market sentiment in the Chinese yuan market, and the Hong Kong dollar sell-off. However, there was no significant capital outflow from the Hong Kong dollar market. The one-year Hong Kong dollar forward point rose to approach –335 points for the first time in six months.

Hong Kong dollar interest rate market in June

The FRB raised the interest rate by 25 basis points. However, as the liquidity level remained high in the Hong Kong dollar market, banks in Hong Kong did not raise the prime rate. As the U.S. dollar/Hong Kong dollar spot exchange rate remained toward a slightly stronger Hong Kong dollar than the HKD 7.85 level, the lower end of the trading band, the balance of checkable deposits at the Hong Kong Monetary Authority (also referred to as the HKMA, an equivalent to a central bank) remained at around HKD 109.6 billion.

Interest rates, mainly those for short terms, continued appreciating, and the one-month Hong Kong dollar HIBOR rose sharply to approach 2.03% for the first time in approximately 10 years as a result of an IPO and growing capital demand at the end of the first half of the year. On the other hand, the three-month Hong Kong dollar HIBOR appreciated only to a level slightly above 2%. The spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR narrowed almost to –20 basis points, both for the one-month and three-month rates. While fund procurement costs in Hong Kong dollars is rising, the deposit interest rate also appreciated. Along with the appreciation of the three-month Hong Kong dollar HIBOR, the three-year and five-year IRS interest rates also appreciated to 2.7% and 2.8%, respectively.

Hong Kong stock market in June

Due to concerns about a trade war between the U.S. and China, the stock market was severely impacted both in Hong Kong and China. The benchmark Hang Seng Index fell below its lowest level since the beginning of the year, approaching 29,000. Market participants particularly sold export-related stocks due to a trade problem, while real estate stocks also remained weak due to the appreciation of the Hong Kong dollar interest rates. The value of the capital outflow from the Hong Kong stock market through Shanghai-Hong Kong Stock Connect was sitting at CNY 360 billion, strengthening downward pressure on Hong Kong stocks.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in July

In July, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate between HKD 7.84 and HKD 7.85. The increase in demand for the Hong Kong dollar is likely to slow down after a large-scale IPO, as well as due to dividend payments, and the Hong Kong dollar may depreciate against the U.S. dollar toward the HKD 7.85 level. While concerns over trade friction between the U.S. and China are growing, Hong Kong stocks have been weakening, which can lead to capital outflow from the Hong Kong dollar market. The supporting factors for the Hong Kong dollar include the narrowing interest rate differentials between Hong Kong and the U.S. and refuge funds flowing into Hong Kong from other emerging countries in Asia.

Hong Kong dollar interest rate market in July

While the one-month Hong Kong dollar HIBOR is rising sharply, it is only a matter of time for the prime rate to be raised. Deposit interest rates are already on a rise, demonstrating rising demand for Hong Kong dollar funds at banks. It is true that the liquidity level has been high in the Hong Kong dollar market, and the checkable deposit balance of the HKMA is more than HKD 100 billion. However, as the fund procurement cost is currently increasing, banks in Hong Kong have been losing the power to maintain the current interest rate level.

It would be interesting to observe the trends in the Hong Kong interest rate market after the IPO and the increase in capital demand for seasonal reasons. If the Hong Kong dollar interest rates remain high, it would not be possible to say that the situation involves temporarily appreciating interest rates, making it more likely for banks to raise the prime rate. As long as the Hong Kong dollar market is in the U.S. dollar

peg system, it is unavoidable that the principle of interest rate hikes by the FRB leads to the appreciation of the Hong Kong dollar interest rates. It is thus considered that Hong Kong banks are facing the necessity to raise the prime rate for the first time.

Kei Yano, Treasury Division, MHBK (China)

Chinese Yuan – July 2018

Expected Ranges	Against the US$:	CNY 6.3000–6.7500
	Against the yen:	JPY 15.56–17.62
	Against 100 yen:	CNY 5.6800–6.4300

1. Review of the Previous Month

Foreign exchange market

In June, the Chinese yuan continued depreciating against the U.S. dollar, due to concerns over a trade war between the U.S. and China.

During the first half of the month, in Italy, the sense of political uncertainty was mitigated as a result of the establishment of the coalition government. As market participants bought back the euro, the Chinese yuan appreciated against the U.S. dollar. Furthermore, the media reported on the lifting of the sanctions against a major communications appliance company in China, which fueled expectations for advancement in trade negotiation between the U.S. and China. As a consequence, the U.S. dollar/Chinese yuan exchange rate fell from the approx. CNY 6.41 observed at the end of the previous month to a level below CNY 6.39. Thereafter, the U.S. dollar/Chinese yuan pair continued trading within a narrow range at around CNY 6.40, waiting for key events scheduled for the middle of the month.

At the European Central Bank (ECB) Committee meeting held on June 14, gathering substantial market attention, the end of the asset purchase program was announced and will occur by the end of the year, while the next interest rate hike was announced to occur after summer 2019. As these decisions were more dovish than expected in the market, market participants sold the euro. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose to the mid-CNY 6.41 level. Furthermore, on June 15, the U.S. announced customs duties amounting to USD 50 billion for products coming from China. In reply this decision, China expressed its intention to introduce retaliatory customs duties on the same day, fueling concerns over a trade war once again. After the Dragon Boat Festival holidays, market participants started selling the Chinese yuan. Then, on June 20, the People's Bank of China (PBOC) set the central parity rate toward a significantly stronger Chinese yuan, which had not been expected in the market, in order to slow down the depreciation of the Chinese yuan. As a result, the Chinese yuan temporarily strengthened against the U.S. dollar. However, this trend did not last long, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.50 level. Furthermore, the PBOC cut the deposit requirement ratio in order to supply

liquidity in the market, while controlling leverage. This accelerated the depreciation of the Chinese yuan, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.60 level.

Interest rate market

During the first half of the month, the interest rates that were to mature before the end of the month fell because of the high liquidity level in the market. At the maturity of the medium-term lending facility (MLF) worth CNY 259.5 billion, it was possible for the deposit requirement ratio to be cut. However, in the end, the MLF was increased.

On June 13, the interest rate was raised in the U.S. At the time of the two recent interest rate hikes in the U.S., the PBOC carried out an open-market operation while raising the MLF interest rate (5 basis points), thus market participants were carefully observing the actions of the PBOC. However, there was no interest rate hike this time.

After the middle of the month, upward pressure persisted on the interest rates for terms that go beyond the end of June. On June 19, there was a new MLF operation, keeping the interest rates for terms that mature before the end of the month stable and low. However, those for terms that go beyond the end of June continued to rise slowly.

Toward the end of the month, the deposit requirement ratio was raised on June 24, while the increase in capital demand for the end of June slowed down. As a result, the appreciation of the fixed-term interest rates also slowed down.

2. Outlook for This Month:

Foreign exchange market

In July, the Chinese yuan is likely to continue depreciating against the U.S. dollar.

The Chinese yuan has been depreciating against the U.S. dollar due to the trade friction between the U.S. and China. On the other hand, the PBOC is unlikely to accept the excessive depreciation of the Chinese yuan such as that observed at the time of the "China Shock." The depreciation of the Chinese yuan is therefore forecast to be slow.

With regard to the trade friction between the U.S. and China, the first customs duties announced by the U.S. are to be effective on July 6, and market participants are looking out for any development regarding

the issue before this date. Furthermore, the U.S. has recently been considering limiting the ability of Chinese companies to invest in U.S. companies, suggesting that the trade friction between the U.S. and China may advance to the next level, meaning, limits on investment and not just an exchange of retaliatory customs duties. In November, there will be the mid-term election in the U.S., and if there is no sign of falling support for U.S. President Donald Trumps based on his current trade policy, it will be unlikely for the current trade policy to be blocked in the times ahead, leading the trade issues to last longer. In addition, there will be significant impact on the actual economy through import inflation based on the customs duties. Meanwhile, political concerns are growing again in the market regarding the opposition within the coalition government in Germany, which makes it possible for the euro to depreciate in the times ahead. As the trend in the Chinese yuan market is highly correlated to the trend in the euro market, market participants should therefore be attentive.

On the other hand, if there is any advancement regarding trade issues, market participants may unwind U.S. dollar long positions, which may lead the Chinese yuan to start appreciating against the U.S. dollar. Thus, it important to continue carefully observing media reports related to the trade problem between the U.S. and China, as well as the reaction of the PBOC.

Interest rate market

In July, market participants should remain attentive to the actions taken by the Chinese monetary authorities to control the impact of the trade issues between the U.S. and China on the interest rate market.

While the increase of capital demand slowed down after dividend payments by companies, the liquidity level remains high and interest rates are expected to remain stable and low. On the other hand, the Chinese monetary authorities have recently cut the deposit requirement ratio, and it is possible for them to take further action to control the impact of the trade issues between the U.S. and China, regarding which market participants should remain careful.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – July 2018

Expected Ranges	Against the US$:	SG$ 1.3450–1.3700
	Against the yen:	JPY 79.50–82.00

1. Review of the Previous Month

In June, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the mid-SGD 1.33 level until the middle of the month. However, after the European Central Bank (ECB) Committee meeting held on June 14, U.S. dollar-buying increased sharply, mainly against the euro. As a result, the Singapore dollar weakened against the U.S. dollar and the U.S. dollar/Singapore dollar exchange rate approached SGD 1.36.

In the second week of the month, there was no particular advancement in the trade negotiations between the U.S. and China on June 4 and 5, while more concerns over the deterioration of trade relations were anticipated as expressed by EU officials. As a consequence, the currencies of emerging countries, including the Singapore dollar, all remained weak. On June 6, the governor of Deutsche Bundesbank (Germany's central bank), Jens Weidmann, made a remark that it is appropriate for the expanded asset purchasing program (APP) to end before the end of the year, in reaction to which market participants sold the U.S. dollar mainly against the euro. As a result, the Singapore dollar appreciated against the U.S. dollar and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.33. On June 7, however, the Singapore dollar depreciated against the U.S. dollar to the mid-SGD 1.33 level due to the sharp appreciation of U.S. interest rates.

In the third week of the month, the first U.S.–North Korea summit meeting was held for the first time in history on June 12, and U.S. President Donald Trump and Chairman of the Workers' Party of Korea Kim Jong-un signed a joint declaration. However, the declaration did not include any specific plan for denuclearization, and the market sentiment did not improve significantly. The exchange rates for the currencies of emerging countries thus remained within a narrow range. Then, on June 13, the Federal Open Market Committee (FOMC) raised the policy interest rate by 25 basis points, as had been expected in the market, while revealing that FOMC members predict two more interest rate hikes before the end of the year. In reaction to this, U.S. dollar-buying dominated the market and the Singapore dollar weakened against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.33 level. On June 14, monetary policy meetings were held at major central banks, including the ECB Committee meeting, and it was announced that the asset purchasing program would be ended before the end of the

year. On the other hand, it was also predicted that the policy interest rate would be kept at the existing level at least by the end of the summer 2019. This cautious attitude regarding interest rate hikes encouraged market participants to buy the U.S. dollar against the euro, leading the currencies of emerging countries to significantly depreciate. Following this trend, the Singapore dollar also depreciated sharply against the U.S. dollar from the mid-SGD 1.33 level to the mid-SGD 1.34 level.

In the fourth week of the month, concerns grew over the trade friction between the U.S. and China, and most of the currencies of emerging countries depreciated, including the Singapore dollar. On June 19, U.S. President Donald Trump announced his plan to levy additional customs duties on various products from China, amounting to USD 200 billion in duties, against which China showed a retaliatory attitude. Thus, concerns over the trade frictions grew further, fueling risk-averse sentiment in the market. Under such circumstances, all currencies of emerging countries depreciated against the U.S. dollar. The Singapore dollar also weakened against the U.S. dollar, from the lower-SGD 1.35 level to the lower-SGD 1.36 level.

In the fifth week of the month, the Organization of the Petroleum Exporting Countries (OPEC) held its regular meeting, and the production increase remained within the extent expected in the market, leading the crude oil price to sharply appreciate. As a result, it seemed that the risk sentiment improved temporarily. However, on June 24, the People's Bank of China (PBOC) announced its decision to cut the deposit requirement ratio by 0.5%, which fueled concerns regarding trade friction between the U.S. and China. Under such circumstances, the U.S. long-term interest rates fell and the currencies of emerging countries weakened. Following this trend, the Singapore dollar weakened against the U.S. dollar to the mid-SGD 1.36 level.

2. Outlook for This Month:

The trade friction between the U.S. and China seemed mitigated, but concerns grew again in the market. The Singapore dollar market in July is thus expected to follow the risk sentiment related to the trade friction between the U.S. and China.

The ECB monetary committee meeting was held on June 14, and the extended asset purchasing program (APP) was announced to be cut from EUR 30 billion monthly to EUR 15 billion monthly and will end before the end of the year. On the other hand, it was also announced that the policy interest rate would be maintained at the current level (negative interest rate) for as long as possible after summer 2019, which accelerated euro-selling, leading the U.S. dollar to appreciate. As a consequence, the currencies of emerging markets depreciated significantly, including the Singapore dollar. From this point onward, the U.S. dollar has been strong against the euro while the currencies of emerging countries remain weak.

U.S. President Donald Trump revealed his intention to levy additional customs duties on products imported from China, amounting to USD 200 billion in duties, in reaction to which China may devaluate its currency. On June 24, the PBOC announced its decision to cut the deposit requirement ratio by 0.5%, fueling more concerns over the trade friction. The key moment in the trade friction issue between the U.S. and China is seen to be July 6, when the U.S. customs duties against China will become effective. China and the EU have expressed plans to take retaliatory actions against the protectionism of the U.S., and therefore market participants should remain careful about the reactions of each country.

Hiroshi Seki, Bangkok Treasury Office

Thai Baht – July 2018

Expected Ranges	**Against the US$:**	**THB 32.50–33.50**
	Against the yen:	**JPY 3.30–3.40**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rose to the THB 33 level.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate remained low. In June, the U.S. dollar/Thai baht exchange market opened trading at THB 32.05. As the May CPI was announced to be strong at 1.49% (whereas the market estimate was 1.30%), market participants bought the Thai baht. As a result, the U.S. dollar/Thai baht exchange rate fell below THB 32.00. However, the U.S. employment statistics were announced thereafter with strong figures, which encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate started fluctuating at around THB 32 again. On June 6, the Thai baht appreciated, thanks to capital inflow into the Thai bond market from foreign investors. As a result, the U.S. dollar/Thai baht exchange rate fell to temporarily reach THB 31.86—the monthly low.

In the middle of the month, the U.S. dollar/Thai baht exchange rate appreciated due to risk-averse sentiment in the market. On June 12, the outcome of the summit meeting between the U.S. and North Korea was announced. However, there was no specific plan for denuclearization in the joint declaration signed by U.S. President Donald Trump and the Chairman of the Workers' Party Kim Jong-un, keeping the contents rather general. However, after the important event, the U.S. dollar/Thai baht exchange rate moderately appreciated to the THB 32.10 level, with a sense of relief in the market. While the impact of a hawkish Federal Open Market Committee (FOMC) statement had little impact on the market, the dovish outcome of the European Central Bank (ECB) Committee meeting encouraged market participants to sell the euro against the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate rose to the THB 32.20 level. On June 15, concerns grew regarding the trade friction between the U.S. and China, and risk-averse sentiment strengthened in the market. As a consequence, the currencies of emerging markets were sold and the U.S. dollar/Thai baht exchange rate rose to THB 32.69. In the following week, U.S. dollar-buying continued, and the U.S. dollar/Thai baht exchange rate reached THB 32.85 on June 19.

At the end of the month, the U.S. dollar/Thai baht exchange rate continued appreciating. On June 20, the central bank of Thailand held a monetary policy meeting, and the interest rate was maintained at the

existing level, as had been expected in the market, resulting in only minor impact on the foreign exchange market. However, on the same day local time, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that there is strong reason to slowly raise the interest rate, which encouraged market participants to continue buying the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate exceeded THB 33 on June 21. The governor of the central bank of Thailand, Veerathai Santiprabhob, stated as part of a speech that there is no necessity to hurry up in raising the interest rate, as inflation is controlled. Furthermore, after the Organization of the Petroleum Exporting Countries (OPEC) general meeting, the crude oil price started to appreciate, which was another supporting factor for U.S. dollar-buying. Then, on June 29, the U.S. dollar/Thai baht exchange rate rose to temporarily reach THB 33.22—the monthly high. However, Thai baht-buying became dominant thereafter, as exporting companies were selling the U.S. dollar and the central bank of Thailand released economic indices confirming strong exports of Thailand. Thus, as of 3 p.m. on June 29, the U.S. dollar/Thai baht was trading at around THB 33.15.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange rate is forecast to remain stable at the THB 33 level.

In June, the market reacted directly to the characteristics of the outcome of monetary policy meetings held by various central banks. At the FOMC meeting, the policy interest rate was raised by 25 basis points and the median rate of the Federal Fund interest rate at the end of 2019 was estimated to be 3.1%, which is an optimistic estimate that exceeds the neutral interest rate. On the other hand, the ECB decided to maintain its policy interest rate at the existing level. The GDP outlook for FY2018 was revised downward, while the current exchange rate was promised to be in use until summer 2019. This dovish decision was surprising, as the ECB generally does not show forward guidance, encouraging market participants to sell the euro and buy the U.S. dollar.

On the other hand, the central bank of Thailand held a Monetary Policy Committee (MPC) meeting on June 20 and decided to maintain the policy interest rate at the existing level (1.50% annually), as had been expected in the market. At this meeting, out of six policy committee members, five supported the decision to maintain the policy interest rate, while one committee members insisted on raising the policy interest rate by 0.25%. The statement released after the MPC meeting pointed out that the Thai economy has been expanding, alongside the recovery of the global economy, and is steadily growing, thanks to the export industry and tourism industry. At this meeting, the future outlooks for the growth rate and the inflation rate were revised upward for 2018 to 4.4% (the previous rate was 4.1%) and 1.1% (the previous rate was 1.0%), respectively. Thus, if the economy remains strong in the times ahead, it is more likely for the interest rate to be raised before the end of the year. Also, the consumer price index is to be released on July 2. The previous result of the consumer price index was 1.49%, gradually approaching the median

level of the target range set out by the central bank of Thailand, which is 1.00%–4.00%. The governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark that there is no need to hurry up and raise the interest rate, showing an attitude different from surrounding countries in Asia that continue raising interest rates. However, the crude oil price has currently recovered to the USD 70 level, and in the times ahead, this is likely to directly impact the appreciation of the inflation rate in Thailand. Given the example of the central bank of the Philippines, which successively raised its interest rate due to the appreciation of the inflation rate, it would not be surprising if the central bank of Thailand changes its attitude regarding its monetary policy. Therefore, from a medium- to long-term point of view, the Thai baht is expected to start appreciating again. However, even with the optimistic outcome of the MPC meeting, the U.S. dollar/Thai baht exchange rate remained high, and market participants continue selling the currencies of emerging countries. For the reasons above, the U.S. dollar/Thai baht exchange rate is forecast to remain stable at the THB 33 level in July.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – July 2018

Expected Ranges	Against the US$:	MYR 3.9500–4.1000
	Against the yen:	JPY 26.70–27.70
	Against 100 yen:	MYR 3.6100–3.7450

1. Review of the Previous Month

In June, risk-averse sentiment grew in the market due to the trade war between the U.S. and China, and the Malaysian ringgit depreciated against the U.S. dollar, leading the U.S. dollar/Malaysian ringgit exchange rate to exceed MYR 4.00 for the first time since January this year.

As political uncertainty in Italy and Spain was mitigated and as the Malaysian national debt outlook for 2018 released by the Ministry of Finance virtually froze the policy promises of the new government until fiscal stability is achieved, Malaysian governmental bonds started to rally. Under such a condition, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 3.98 level. On June 4, market participants continued buying the Malaysian ringgit, and the exchange rate reached MYR 3.9670 against the U.S. dollar, which turned out to be the monthly high in the end. Concerns over the trade frictions between the U.S. and other countries grew as the media reported on the U.S. intention from the end of the previous month to raise customs duties against the EU, Canada, and Mexico. As a result, the Malaysian ringgit weakened, while the U.S. April trade deficit and the decrease in foreign currency reserves at the Malaysian central bank also contributed to the acceleration of the depreciation of the Malaysian ringgit. As the currencies of emerging countries, starting from Brazil, were also depreciating, the Malaysian ringgit followed this trend and continued depreciating against the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate reached the upper-MYR 3.98 level on June 8, falling below its lowest level observed at the end of the previous month.

At the G7 summit meeting, the U.S. insisted on raising customs duties, which fueled concerns over a trade war since June 11. Under such a circumstance, the Malaysian ringgit also weakened against the U.S. dollar to the MYR 3.99 level. On June 12, there was little reaction to the agreement on denuclearization at the U.S.-North Korea summit meeting. On June 13, the April CPI of the U.S. turned out to be strong, and the Malaysian ringgit weakened further against the U.S. dollar and the exchange rate reached MYR 3.9999. The Federal Reserve Board (FRB) increased its estimated number of interest rate hikes before the end of the year, which encouraged market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate also recovered to the lower-MYR 3.98 level. However, the

currencies of emerging countries all remained weak, due to the situation regarding the announcement by U.S. President Donald Trump on the raising of customs duties against China and the subsequent retaliatory action taken by China. Under such a condition, the U.S. dollar/Malaysian ringgit exchange rate finally exceeded the MYR 4.00 mark, which had been the psychological turning point. As the Chinese yuan, the currency of the largest trade partner for Malaysia, also depreciated sharply, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.0170 on June 21—the lowest rate for the Malaysian ringgit since April 4 this year.

However, on June 22, an official announcement was made, indicating that the former deputy governor of the Malaysian central bank, Nor Shamsiah Mohd Yunus, will be the next governor of the central bank, after the designation of the current governor, Muhammad Ibrahim, who had announced his resignation on June 6, after being involved in a suspected land purchase at an unjustified price related to the 1MDB governmental investment fund. Nor Shamsiah Mohd Yunus was previously in charge of the investigation of the 1MDB scandal, and it is said that former central bank governor Zeti Akhtar Aziz thought that she was the most appropriate candidate. Furthermore, on the same day, Prime Minister Mahathir Mohamad suddenly made a verbal intervention insisting that the fair value for the Malaysian ringgit is MYR 3.80 and that this has not changed from the peg level after the Asian currency crisis. As a result, the Malaysian ringgit rallied, and the U.S. dollar/Malaysian ringgit once fell below MYR 4.00. However, market participants continued selling the currencies of emerging currencies, due to concerns over trade frictions, while some also bought the U.S. dollar toward the end of the first half of the year. Thus, on June 29, the U.S. dollar/Malaysian ringgit exchange rate renewed the lowest rate for the Malaysian ringgit at MYR 4.0460, and trading closed at the MYR 4.03 level.

2. Outlook for This Month:

In July, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate between the MYR 3.95 level and the upper-MYR 4.00 level. The downward pressure on the Malaysian ringgit is expected to persist, due to concerns related to trade frictions, while the 100-day plan is likely to be finalized to deal with governmental debt due in the middle of August. It is important to see whether the depreciation of the Malaysian ringgit will slow down with recovered trust from abroad, while market participants should also pay attention to the competence of the new governor of the central bank who will take office at the beginning of the month.

In the Malaysian bond market, which saw an outflow of foreign capital worth MYR 13 billion within the month of May for the first time since March last year, the 10-year government bond yield has been stable since the announcement of the governmental debt outlook on June 1. However, as concerns over the trade war continued to grow throughout the month of June, the Malaysian ringgit weakened, as was the case

with other emerging currencies. As there is an external factor related to the Chinese yuan, it seems inevitable for market participants to continue selling the Malaysian ringgit in the immediate future.

On the other hand, in terms of local factors, July will be an important moment for the Malaysian ringgit in predicting the future trends. First of all, with regard to the issue of governmental debts, the Ministry of Finance made an announcement on June 1, along with a revised outlook for the fiscal deficit for 2018 (a target of under 2.8% against the nominal GDP was adhered to), stating that part of the 100-day public promise under the new government, including the introduction of the subsidy for small vehicles as well as an accumulative pension scheme for full-time housewives, would be virtually frozen until fiscal conditions have been normalized in the next fiscal year or after, as the expansion of governmental debt has gradually been revealed since establishment of the new government. Even though there has been no major ratings company that revised the rating for Malaysia after the change of government, Moody's released a report on June 13 stating that the fiscal policy of the Malaysian government would be extremely important in judging the sovereign rating. Furthermore, the investigation of the fraud scandal of 1MDB has been advancing, and therefore it may be easier in the times ahead to understand the overall structure of governmental debt related to China, which used to be a factor of uncertainty for foreign investors. It is expected that in July the government will take additional action before the 100th day in the middle of August.

Secondly, with regard to monetary policy, the next monetary policy meeting scheduled for July 11 will be the first one for the new governor of the central bank, Nor Shamsiah Mohd Yunus. On the same day, the June CPI is also scheduled out be out, and the outcome is expected to record a significant decline as a result of the abolishment of the GST. However, the policy interest rate is expected to be maintained at the existing level. In addition, market participants should also carefully observe the attitude of the new governor regarding the foreign currency restrictions that were strengthened under the former governor.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – July 2018

Expected Ranges	**Against the US$:**	**IDR 13,900–14,600**
	Against 100 rupiah:	**JPY 0.76–0.79**
	Against the yen:	**IDR 126.00–132.00**

1. Review of the Previous Month

In June, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within the range between IDR 13,830 and IDR 14,415. In the first half of the month, the U.S. dollar/Indonesian rupiah fluctuated at around IDR 13,900 before and after the Lebaran holidays (festivities after the fasting period), after which the exchange rate started to rise in the second half of the month.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,850. On June 4, the April Consumer Price Index of Indonesia was released, but the result was within the range estimated in the market, resulting in only minor impact on the market. In the end, trading closed on June 8 at around IDR 13,925, and the Lebaran holidays started. On the same day, the May amount of foreign currency reserves was released after market closing. The result turned out to be USD 122.9 billion (a decrease of USD 2 billion from the previous month), recording a decline for the fourth consecutive month, due to the foreign exchange market interventions to stabilize the Indonesian rupiah market (selling the U.S. dollar and buying the Indonesian rupiah).

During the Lebaran holidays, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the interest rate was raised by 0.25%, as had been expected. Furthermore, the median line of the estimate in the dot chart turned out to be consisting of two more interest rate hikes before the end of the year, while the economic outlook was also revised upward. As a result, the U.S. dollar/Indonesian rupiah exchange rate rose in the offshore market. Following this trend, the onshore U.S. dollar/Indonesian rupiah exchange rate exceeded IDR 14,000 immediately after the reopening of the market on June 21.

On June 25, the May trade balance was released, recording a deficit for the second consecutive month, and the deficit turned out to be larger than the market estimate. As a result, the U.S. dollar/Indonesian rupiah exchange rate continued appreciating. Thereafter, market participants bought the U.S. dollar based on the demand from importing companies toward the end of the month, while other market participants sold the Indonesian rupiah based on concerns over the trade friction between the U.S. and China. Thus, in the morning of June 29, the U.S. dollar/Indonesian rupiah exchange rate rose to approach IDR 14,415—

the highest rate since October 2015. However, in the afternoon of the same day, the central bank of Indonesia held a regular meeting and announced its decision to raise the interest rate by +0.50% (the market estimate was +0.25%), which reversed the trend, and the exchange rate started to fall. In the end, the U.S. dollar/Indonesian rupiah exchange market closed trading at around IDR 14,330.

The Jakarta Stock Exchange Composite Index was at 5,799.24 by the time of market closing, with a decline of 3.3% from the end of the previous month.

2. Outlook for This Month:

In July, the Indonesian rupiah is forecast to remain weak, due to pressure to buy the U.S. dollar based on actual demand (in terms of current balance), while foreign investors are likely to sell the Indonesian rupiah to avert risks based on concerns regarding the trade friction between the U.S. and China.

Since the end of April, foreign investor capital outflow caused a sharp appreciation of the U.S. dollar/Indonesian rupiah exchange rate. Thanks to the two interest rate hikes carried out by the central bank of Indonesia in May, the appreciation of the exchange rate slowed down thereafter. However, due to concerns over the trade friction between the U.S. and China, the exchange rate started to rise again.

Furthermore, the May trade balance turned out to record a deficit for the second consecutive month, with the deficit being larger than expected due to the appreciation of the crude oil price. Thus, pressure to sell the Indonesian rupiah based on actual demand is also increasing.

For the conditions discussed above, the Indonesian rupiah is forecast to remain weak in July, with the central bank of Indonesia attempting to cancel the outflow of foreign investor capital, as well as U.S. dollar-buying and Indonesian rupiah selling in the market, based on actual demand (mainly from importing companies).

It should also be mentioned as a call for caution that it is possible for the Indonesian rupiah to depreciate further against the U.S. dollar if the risk-averse sentiment grows further in the market, for example, due to the intensification of trade friction between the U.S. and China, leading emerging currencies to weaken against the U.S. dollar.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – July 2018

Expected Ranges	**Against the US$:**	**PHP 53.20–54.20**
	Against the yen:	**JPY 2.00–2.07**

1. Review of the Previous Month

In June, the U.S. dollar/Philippine peso exchange market (onshore inter-bank) opened trading at PHP 52.56. On June 1, the May employment statistics of the U.S. were released after onshore trading hours, which made it certain for the U.S. Federal Open Market Committee (FOMC) to raise the U.S. dollar interest rate at the meeting on June 13. As a result, some anticipated that market participants would start buying the U.S. dollar and selling the Philippine peso. However, the market sentiment improved, as the political risks in Europe that were heightened in the previous week were mitigated, while the media reported that at the U.S.-North Korea summit meeting would be held on June 12.

The U.S. dollar thus weakened and market participants started buying back the Philippine peso. On June 6, the U.S. dollar/Philippine peso pair once traded at PHP 52.32.

However, it remained unchanged that there were few factors to encourage market participants to buy the Philippine peso. On the contrary, we witnessed strong demand for the U.S. dollar as a safe asset, due to the cautious feeling regarding the intensification of trade frictions.

Another factor to encourage market participants to sell the Philippine peso was the May Consumer Price Index of the Philippines, announced on June 5. The outcome was +4.6% year-on-year, recording an increase from the previous month's result (+4.5% year-on-year). However, it was not as high as the market estimate (+4.9% year-on-year).

Furthermore, the May amount of foreign currency reserves of the Philippines was announced on June 7, recording a decline of USD 1 billion from the previous month at its lowest level in three years. The April trade balance of the Philippines was also announced on June 8, revealing a deficit of USD 3.6 billion. This result showed an expansion of the deficit compared to the market estimate (a deficit of USD 2.8 billion) and compared to the result of the previous month (a deficit of USD 2.6 billion).

While market participants are aware of the possibility for the Philippine monetary authorities to intervene in the market in order to control the excessive depreciation of the Philippine peso before reaching the PHP

53 mark, the appetite to buy the U.S. dollar did not weaken. As a result, the U.S. dollar/Philippine peso exchange rate rose to the PHP 53 level on June 13.

On June 18, the April amount of Overseas Filipino Workers (OFW) remittances turned out to be USD 2.35 billion, exceeding the market estimate (USD 2.28 billion) but remaining almost at the same level as the previous month. On a year-on-year basis, the remittances recorded their largest increase of 12.7% since November 2016, in which an increase of 18.5% was recorded. However, this did not encourage market participants to buy back the Philippine peso.

On June 20, the central bank of the Philippines announced its decision to raise the policy interest rate (0.25%). However, the Philippine peso appreciated only to a limited extent as a result of this.

At the end of the month, there was an operation to sell the U.S. dollar that seemed to be an intervention by the Philippine monetary authorities, and, as a result, the U.S. dollar weakened. The U.S. dollar/Philippine peso exchange rate was approaching the lowest rate for the Philippine peso against the U.S. dollar in 12 years (PHP 53.50 to the U.S. dollar) (as of June 27).

2. Outlook for This Month:

As was mentioned above, the central bank of the Philippines raised their policy interest rate for the second consecutive month.

The interest rate was raised because of the fact that the inflation ratio exceeded 4%, which is the upper end of the target range set out by the central bank, for the third consecutive month, while the economy remains robust.

With regard to future monetary policy, the inflation outlook was revised downward by 0.1% for both 2018 and 2019 (4.5% and 3.3%, respectively), while there was a remark to suggest the possibility of an additional interest rate hike.

Even though it is possible for the central bank of the Philippines to raise the interest rate once or twice before the end of the year, it is uncertain whether this will be a factor to encourage market participants to buy the Philippine peso.

It seems reasonable to say that concerns over the trade friction triggered by remarks by U.S. President Donald Trump will persist in the market, while market participants expect the U.S. dollar interest rates to be higher in the times ahead, which leads the U.S. dollar to remain as a desired currency.

There has also been capital outflow from emerging markets as a result of the appreciation of the U.S. dollar, and the Philippine peso market is not an exception with strong pressure for market participants to sell the Philippine peso.

The Philippine stock price index temporarily fell below the 7,000 mark, recording negative growth for six consecutive month since January, in which the index reached its all-time high.

Foreign investors continue incessantly selling Philippine stocks, and the data on stock transactions by foreign investors shows that the accumulated net buying from 2017 has been totally cancelled out, now becoming net selling.

There may also be some market participants that will buy back the Philippine peso based on the fact that the depreciation of the Philippine peso has been too sharp, while the central bank of the Philippines may intervene in the market. However, such buybacks would not be fundamental ones. While market participants are conscious of possible market interventions, keeping the appreciation of the U.S. dollar from accelerating, given the current market conditions, the effect of market interventions are likely to be limited (as of June 27).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – July 2018

Expected Ranges	**Against the US$:**	**INR 64.90–69.70**
	Against the yen:	**JPY 1.58–1.66**

1. Review of the Previous Month

In June, the U.S. dollar/Indian rupee exchange rate rose moderately.

The U.S. dollar/Indian rupee exchange market opened trading at the INR 67.40 level in June. The U.S. dollar/Indian rupee exchange rate remained at the lower-INR 67 level thereafter, as the appreciation of the U.S. dollar/Indian rupee exchange rate had slowed down, as the crude oil price was hitting a ceiling at the end of the previous month. On June 6, the Reserve Bank of India (the central bank of India, also known as the RBI) held its Monetary Policy Committee (MPC) meeting and made a decision to raise the interest rate by 0.25%. In reaction to this, the U.S. dollar/Indian rupee exchange rate reached the INR 66.89 level—the lowest rate this month. However, the interest rate hike itself had been expected by market participants, even though it had not been expected to occur so early, and therefore, on the following day, the exchange rate returned to the level observed before the announcement of the interest rate hike.

In the second week of the month, the U.S. dollar/Indian rupee exchange rate remained stable, fluctuating at around the mid-INR 67 level, waiting for the outcome of the U.S.-North Korea summit meeting. However, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the number of expected interest rate hikes in 2018 was revised to four, which encouraged market participants to buy the U.S. dollar and sell the currencies of emerging countries. Following this trend, the U.S. dollar/Indian rupee exchange rate also rose sharply to the INR 68 level. In the third week of the month, the media reported the intensification of trade frictions between the U.S. and China, strengthening risk-averse sentiment in the market. As a consequence, the U.S. dollar/Indian rupee exchange rate reached its monthly high at the INR 68.38 level.

Thereafter, the interest rate did not rise further, and, as of June 22 when this article was being written, the U.S. dollar/Indian rupee pair was trading at the INR 67.80 level.

In June, the Indian rupee/Japanese yen exchange rate did not move into any direction.

In June, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.615 level. As has

been discussed above, the MPC decided to raise the interest rate on June 6, which led the exchange rate to reach its monthly high at JPY 1.648. However, some market participants grew cautious about the G7 summit meeting, fueling risk-averse sentiment and encouraging market participants to buy the Japanese yen. Thus the Indian rupee/Japanese yen exchange rate was immediately pushed back to JPY 1.61. Thereafter, the U.S. dollar/Japanese yen exchange rate reached JPY 110.90 based on the U.S.-China meeting. Following this trend, the Indian rupee/Japanese yen exchange rate was also kept from falling further. However, toward the end of the third week of the month, market participants preferred to buy the Japanese yen, being conscious of the trade friction between the U.S. and China. As a result, the Indian rupee/Japanese yen exchange rate reached its monthly low at JPY 1.605 on June 19. As of June 22, when this article was being written, the Indian rupee/Japanese yen pair was trading at around JPY 1.62.

2. Outlook for This Month:

In July, the U.S. dollar/Indian rupee exchange rate is unlikely to move into any direction.

At the MPC meeting held in June, the interest rate was raised (from 6.00% to 6.25%), which had not been expected by market participants. The voting result was also surprising, as it turned out that the MPC members unanimously decided to raise the interest rate without any opposition vote. However, market participants had been expecting an interest rate hike this year, and the policy management stance was kept at "neutral" with the possibility of future interest rate hikes being "data dependent." Thus, the appreciation of the Indian rupee as a reaction to this news lasted only for a short period.

On the other hand, the MPC pointed out that upward risks persist for prices, setting the price outlook for the second half of 2018 at 4.7% (in the previous announcement, it was 4.4%). Prices are likely to be higher compared to the previous year because of the appreciation of the crude oil price and the depreciation of the Indian rupee. In addition, the Core Consumer Price Index, which excludes the trends of fuel prices, has recently also been on the rise, showing the fundamental strength of prices in India. As we just discussed, future interest rate hikes have been announced to be "data dependent." However, the GDP outlook for FY2018 was set to reach 7.4%. If this becomes a reality, it would not be difficult to raise the interest rate due to the appreciation of price levels.

Our bank expects another interest rate hike (to 6.50%) before the end of this year.

While this can be a factor for the appreciation of the Indian rupee, there have recently been various factors for the depreciation of the Indian rupee, including the trend of the crude oil price, trade negotiations in the U.S., the announcement by the European Central Bank on the discontinuation of the asset purchasing program, the possibility of an interest rate hike implied by the central bank of the U.K., and other impacts

from decisions that will affect emerging countries as taken by central banks in developed countries. Under such circumstances, the U.S. dollar/Indian rupee exchange rate is not likely to move into any direction in July.

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

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