Mizuho Dealer's Eye

August 2018

Mizuho Bank, Ltd.

Forex Department

Tomokazu Moriya, Forex Sales, Forex Department

U.S. Dollar – August 2018

Expected Ranges Against the yen: JPY109.00–113.00

1. Review of the Previous Month

The dollar/yen pair strengthened in July.

After opening the month trading at the upper-110 yen mark on July 2, the pair then topped 111 yen for a time, though this level saw strong appetite for selling, with the pair subsequently dropping back to the upper-110 yen range. It hit a monthly low of 110.27 yen over July 3–4 on concerns about US/China trade frictions. The euro/yen pair rose sharply on July 5 on news that a Japanese firm would be buying the European operations of a U.S. company. The dollar/yen pair was also pulled higher to hit the upper-110 yen mark. The US imposed new tariffs on Chinese imports on July 6, though the reaction of the markets was muted. The US employment data was then released, with the currency pair dipping to the lower-110 yen level on the weak results of the unemployment rate and average hourly wages data.

The pound was then sold and the dollar bought on July 9 on growing uncertainty about the political situation in the UK. With the greenback being bought across the board, the dollar/yen pair climbed to the upper-110 yen range. It then dropped to the upper-110 yen mark on July 10 on news that President Trump was preparing to place further tariffs on Chinese imports. The pair topped 112 yen on July 11 while activating stop losses. It subsequently rose to the upper-112 yen level between July 12–13.

With the Tokyo markets on holiday on July 16, the pair dropped to the lower-112 yen level on news that the US had filed a suit with the World Trade Organization (WTO) regarding the illegitimacy of retaliatory tariffs imposed by China, the EU and Canada, for example. On July 17, the markets reacted warmly after FRB chair Jerome Powell made some positive noises about the US economy, with the pair rising to just below 113 yen. The dollar continued to be bought on July 18, with the pair topping 113 yen, but with China claiming that US tariffs on steel and aluminum infringed WTO rules, the pair dropped back to the upper-112 yen level. The pair hit a monthly high of 113.18 yen on July 19 on the release of some bullish US economic indicators, but the greenback was then sold and the pair crashed to the lower-112 yen mark after President Trump expressed dissatisfaction with FRB rate hikes. With investors adjusting their positions over the weekend, the pair weakened to the lower-111 yen range on July 20.

It then fell to the upper-110 yen mark on July 23 on reports that the Bank of Japan (BOJ) was looking at revising monetary policy, though the greenback was then bought back and the pair rallied to the mid-111 yen level. On July 24, the RMB's fixing rate was set at its lowest level for around a year. The dollar/yen pair was subsequently sold to the lower-111 yen range, though it bounced back to the mid-111 yen level as Shanghai stocks rose on hopes that China's State Council would pursue an active fiscal policy. The yen was bought and the pair dipped to the upper-110 yen range on July 25 on news that the

BOJ was revising its ETF purchase allocation. With yields on long-term yen bonds rising again on July 26, the BOK postponed a yield control operation, so the pair was temporarily pushed down to a monthly low of 110.58 yen. It was then sold to the upper-110 yen mark on July 27 on the US GDP result for April–June, though it bounced back to the lower-111 yen range as US stocks stopped sliding. It traded right around 111 yen on July 30 on the run up to several major events.

On July 31, the BOJ announced it was 'strengthening the framework for continuous powerful monetary easing,' but it kept its target for long-term interest rates unchanged, so the yen was sold.

2. Outlook for This Month:

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

Attention has focused on BOJ monetary policy since the latter half of July. When the BOJ's Monetary Policy Committee (MPC) met over July 30–31, it announced it was 'strengthening the framework for continuous powerful monetary easing,' As well as introducing forward guidance for policy rates, the MPC also said that "yields [interest rates] may move upward and downward to some extent mainly depending on developments in economic activity." Expectations for some kind of policy adjustment had swollen beforehand, so the yen dipped directly after on news that the BOJ's target for long-term interest rates would remain 'around zero percent.' Until now, though, 0.1% had represented the de facto upper limit of the BOJ's target for long-term interest rates, so by adding flexibility to this target, the BOJ has signaled it will be more tolerant of interest rate rises than previously. As such, this yen bearishness will probably be short-lived.

In the US, meanwhile, the FOMC will be meeting on August 1. The FOMC only just implemented a 25bp rate hike when it last met in June, while the median federal fund rate projection of FOMC members was upgraded from three to four times in 2018. As the FRB continues to lift rates, attention has focused on the debate about a neutral rate. However, a glance at economic indicators and comments by FOMC officials released after the June FOMC meeting reveals no new factors capable of dramatically shifting the pace of rate hikes from here on. As such, this month's FOMC meeting will probably not spring any surprises. With the markets factoring in two more rate hikes within the year, dollar buying is unlikely to pick up on expectations for US monetary policy going forward.

Attention should also be paid to news about trade frictions and moves by the Trump administration. Though the US launched its first volley of punitive tariffs against China on July 6, the markets remained composed and they were also put at ease when an agreement was reached at a US/European heads of state meeting. With the US and China still at loggerheads, though, risk aversion could flare up again depending on how things develop. President Trump also made some statements about exchange rate and interest rate levels last month. When the greenback moves bullishly, this will probably lead to speculation that Mr. Trump will make some attempts to curb dollar strength. This is likely to weigh down the dollar/yen pair's topside.

Dealers' Market Forecast

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

Bullish on the dollar (3 bulls: 108.50–115.00, Core: 110.00–115.00)

Fujimaki	110.00 – 114.50	Economic indicators are healthy on the whole and US corporations have also posted strong results. The political situation has also calmed down and there could be another announcement about tax cuts in the run up to the mid-term elections. As for positioning, it seems many investors are cautious about the dollar/yen pair's downside, so the pain could be on the upside.
Okamoto	108.00 – 115.00	The BOJ suddenly announced it was adding flexibility to its YCC program, but it seems this will have no substantial impact on monetary policy. No major events or moves are expected in August, with dollar buying set to continue on global trade frictions. The dollar/yen pair is also expected to move firmly.
Ueno	110.00 – 115.00	Though President Trump criticized FRB rate hikes, the markets are still generally pricing in further hikes. Despite concerns about trade frictions, the US economy and US stocks are moving strongly. With liquidity thin on the ground in August, the dollar/yen pair will probably move firmly.

Bearish on the dollar (7 bears: 107.00–113.00, Core: 108.00–113.00)

Tauchi	108.00 – 113.00	The dollar/yen pair looks set to continue moving bearishly on: President Trump's criticism of FRB rate hikes and his verbal interventions to rein in the dollar's topside; deep-rooted fears about trade frictions and emerging fears about a currency war; and concerns about US/Japanese trade talks.
Kato	108.00 – 112.00	The BOJ's decision probably came when the Japanese government, the Ministry of Finance the BOJ were marching in lockstep ahead of the FFR talks. Japan probably did not want to be accused of easing and currency manipulation, as Europe had been. Either way, with the BOJ steering monetary policy in this way, the dollar/yen pair's downside will probably be tested.
Yamashita	107.00 – 112.00	Economic indicators are pointing to the firmness of the US economy, but with US firms posting mixed results, hi-tech stocks and other US shares are showing signs of weakness. With Japan continuing to pursue monetary easing, it will probably become the focus for President Trump's ire, with the dollar/yen pair set to move with a heavy topside.
Mitsuishi	108.00 – 113.00	When the BOJ's MPC met in July, it decided to keep interest rates very low for the time being. As a result, the yen faced less appreciatory pressure. However, with President Trump criticizing rate hikes and making verbal comments to keep the dollar in check, the dollar/yen pair looks set to continue trading in a range. The yen could be pushed higher if trade frictions between the US and China intensify over August, so caution will be needed.
Moriya	109.00 – 113.00	Though the BOJ left its target for long-term interest rates unchanged, it suggested it would implement monetary policy in a more flexible manner going forward. While yen interest rates are facing growing room on the topside, the markets have already factored in the pace of rate hikes in the US. As such, the dollar/yen pair looks set to move sluggishly.
Tsuruta	109.00 – 113.00	Expectations grew that the BOJ would be more flexible when it came to interest rate targets, but it seems these expectations are now receding, with the yen also facing less appreciatory pressure. However, this is unlikely to push the dollar/yen pair higher. The summer dry season is here and the end of the month could also see renewed concerns about US/China trade frictions, so the currency pair will probably move with a heavy topside within a range.
Okuma	108.00 – 113.00	The US has expressed disgruntlement about its chronic trade deficit with Japan. With US/Japanese trade talks looming, there are growing fears that the US will push Japan to open its markets further. There are also deep-rooted concerns about President Trump's complaints about the dollar's strength and currency manipulation. As such, it is hard to see the greenback being bought this month.

Yusuke Tange, Forex Sales, Forex Department

Euro – August 2018

Expected Ranges **Against the US$: US$1.1550–1.1950**
Against the yen: JPY128.00–133.50

1. Review of the Previous Month

In July the euro/dollar pair moved in a range from the upper-$1.15 mark to the upper-$1.17 level.

The pair opened the month trading at the upper-$1.16 mark on July 2. Germany's major political parties had been squabbling over the issue of immigrants and refugees, but news then emerged that an agreement had been reached. A Japanese firm then announced it was buying the European business of a US company. With the markets also reacting warmly when the Italian finance minister officially denied that Italy would be leaving the eurozone, the pair climbed to $1.17 toward July 5. The greenback was then sold on July 6 on the release of the US employment data for June. On July 9, meanwhile, National Bank of Austria president Ewald Nowotny said negative interest rates would not continue indefinitely. All this saw the pair hitting a monthly high of $1.1790. The German July ZEW Indicator of Economic Sentiment dipped below expectations on July 10 and the dollar was bought on July 11, with the currency pair falling temporarily to $1.1613 toward July 13, though it bounced back to $1.1745 on July 17 on news that Europe and Japan had signed an economic partnership agreement. However, FRB chair Jerome Powell then said the FRB would continue to lift interest rates for the time being. With the US also releasing some bullish economic indicators on July 19, the pair tumbled to a monthly low of $1.1575. The dollar was then sold after President Trump expressed dissatisfaction with FRB rate hikes, with the pair subsequently rallying to $1.1750 toward July 23.

It dipped to the mid-$1.16 level on July 24, though it recovered to $1.17 on expectations that a trade war would be avoided after President Trump met with European Commission President Jean-Claude Juncker on July 25. As expected, the ECB Governing Council kept monetary policy fixed when it met on July 26. With ECB president Mario Draghi also making bullish noises about the eurozone economy, the pair rose for a time, though it then weakened to the mid-$1.16 mark when Mr. Draghi said there was no need to revise the ECB's forward guidance. The pair tumbled to $1.1620 on July 27, though it rallied to the $1.17 range on July 30 and continued to move at this level on July 31.

The euro/yen pair rose slightly in July. It opened the month trading at the lower-129 yen mark on July 2. It then hit a monthly low of 128.43 yen, but with the euro/dollar pair moving bullishly, the euro/yen pair also strengthened to the lower-130 yen level toward July 9. With the dollar/yen pair then rising to the 113 yen range, the euro/yen pair appreciated for ten successive business days to hit a monthly high of 131.98 yen on July 17. With the dollar/yen pair then falling, though, the euro/yen pair dropped to 129.75 toward July 24. As mentioned above, the July 26 ECB Governing Council meeting led to euro selling, so the euro/yen pair tumbled to 129.14 yen toward July 27, though it rallied to right around 130 yen on July 30.

When the Bank of Japan's Monetary Policy Committee (MPC) met on July 31, it introduced forward guidance for policy rates while stating that long-term interest rates would be kept at very low levels for the time being. All this saw the euro/yen pair climbing to the mid-130 yen mark.

2. Outlook for This Month:

The euro is expected to move firmly in August.

President Trump met with European Commission President Jean-Claude Juncker on July 25 to discuss trade policy. The EU agreed to import more US soya and liquefied natural gas (LNG), while the two parties also agreed to commence talks aimed at scrapping tariffs on industrial goods (besides automobiles) and resolving the issue of restrictions and tit-for-tat tariffs on imports of steel and aluminum. When the US imposed new tariffs on EU steel and aluminum at the start of June, fears grew about a trade war between the US and EU, though that risk seems to have receded in the wake of the meeting. This agreement was a positive surprise for the markets and the euro will probably be supported by expectations for constructive talks aimed at abolishing tariffs and scrapping non-tariff barriers.

As for the refugee issue, the EU heads of state reached a provisional deal when they met in May. However, when sending refugees back to the countries where they original registered, the agreement of these countries (Italy, etc.) is required, but with populist parties making more strident noises, it seems unlikely these refugees will be accepted. There is also the problem of where to send refugees that have not been registered in any country. There are no signs of these problems being resolved any time soon, with the European Parliament set to debate the issue in autumn. However, even if this remains an issue for the eurozone, it is summer holiday season in many European countries in August, so the problem is unlikely to flare up again this month, with European political risk also unlikely to increase on the rise of populist parties and so on.

Next up is monetary policy. As expected, the ECB Governing Council kept policy unchanged when it met on July 26. In his subsequent press conference, ECB president Mario Draghi said there was no need to revise the ECB's forward guidance, with the euro sliding as a result. However, the results of the meeting were much the same as before, so the impact on the euro will probably be short-lived. Furthermore, though Mr. Draghi commented that eurozone economic indicators had weakened slightly compared to last year, he did express the bullish opinion that recent indicators and surveys were moving stably, so the euro could be pushed up by expectations that the European economy will move firmly.

In conclusion, concerns of a US/EU trade war are fading, while European political tension is unlikely to rise as each country enters summer holiday mode. With ECB president Mario Draghi also predicting that the eurozone economy will enjoy robust, broad growth, the euro is expected to move firmly this month.

Dealers' Market Forecast

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

Bullish on the euro (3 bulls: 1.1500–1.2100, Core: 1.1500–1.1900)

Fujimaki	1.1600 – 1.1900	Europe is starting to release some better-than-expected indicators, with the political situation also regaining composure. The inflation outlook also looks good, with crude oil prices moving firmly, for example. Speculators are also starting to build up long positions again. As such, the euro will probably move firmly overall.
Okamoto	1.1500 – 1.2100	The political situation in Italy has calmed down, but the euro/dollar pair will be weighed down by concerns about a EU/US trade dispute. The EU/US heads of state meeting resulted in an agreement that did not cover automobiles and some agricultural products, with the two parties already disagreeing in several areas, so the pair is unlikely to be bought further and it will probably trade in a range.
Ueno	1.1500 – 1.1900	The US and EU agreed to commence trade talks at the recent bilateral meeting. The US has hinted it will shelve further tariffs while the talks are underway, so it seems the EU has bought some time. The political situation has also cooled down and economic indicators are also moving relatively calmly, so the euro is expected to move sluggishly but firmly.

Bearish on the euro (7 bears: 1.1300–1.1900, Core: 1.1400–1.1800)

Tauchi	1.1300 – 1.1800	EU/US trade frictions seem to have eased following the meeting between President Trump and European Commission President Jean-Claude Juncker, but no agreement was reached on automobile tariffs, so there remain concerns that the trade dispute could intensify. Given also the divergence between US and European monetary policy, it seems the euro/dollar pair will move with a heavy topside this month.
Kato	1.1300 – 1.1800	ECB president Mario Draghi has also recognized that the ECB is a long way from policy normalization. The political situation in the eurozone remains up in the air too, so the euro/dollar pair will gradually grow heavier on the topside.
Yamashita	1.1400 – 1.1800	ECB president Mario Draghi has also spoken about how growth is slowing across the eurozone as a whole, so it is hard to imagine the ECB inclining in a hawkish direction any time soon. The political situation in Germany and Italy has calmed down, but tension continues to bubble away, so the euro look set to move with a heavy topside.
Mitsuishi	1.1300 – 1.1900	The euro/dollar pair's topside will be weighed down by the divergent monetary policy stances of the US and Europe. Political concerns have not been completely swept away in European countries like Germany, Italy and Spain. This will also act as a negative factor for the euro.
Moriya	1.1400 – 1.1800	The July ECB Governing Council meeting was much the same as the previous one, with rate hikes still not expected to commence until summer 2019. The ECB's monetary policy stance is unlikely to change for now. With political risk also continuing to smolder away in Europe, the euro is expected to move heavily on the topside.
Tsuruta	1.1500 – 1.1850	Concerns about trade frictions have eased now the US has agreed not to impose new tariffs on EU imports, but the euro/dollar pair has not broken out of its range. It is also the summer dry season and market participants are not expecting the ECB to accelerate its exit strategy. As such, the pair looks set to continue trading in a range with a heavy topside.
Okuma	1.1400 – 1.1900	Though an agreement was reached to reduce tensions at the high-level EU/US trade talks last month, the trade issue still remains up in the air. Furthermore, though the ECB is unlikely to alter its monetary policy stance until summer 2019, the US continues to forge ahead with rate hikes. The euro/dollar pair is expected to move bearishly on this clear discrepancy.

Fumihiko Kanda, Europe Treasury Department

British Pound – August 2018

Expected Ranges	**Against the US$:**	**US$1.2700–1.3300**
	Against the yen:	**JPY144.00–150.00**

1. Review of the Previous Month

The pair shifted up and down in July, though it essentially ended the month at the same level as it started.

With several business confidence indicators moving firmly at the start of the month and the Bank of England (BOE) also dropping hints about a rate hike, the pound was bought back. Prime minister Theresa May hammered out an agreement to pursue a softer Brexit than initially planned at a special cabinet meeting on July 6. As a result, the Hard Brexiteer David Davis resigned as Brexit secretary on the evening of July 8. With expectations for a Soft Brexit growing stronger in the markets, though, sterling was bought back and the pound/dollar pair hit a monthly high of $1.3363 on July 9. However, the foreign minister Boris Johnson, another Hard Brexiteer, also handed in his resignation on the afternoon of July 9. With the government being rocked by a series of important cabinet resignations, the markets reacted by pushing the pound around 1% lower. On July 12, the government released a 100-page white paper outlining its Brexit policy, as agreed at the aforementioned special cabinet meeting. This contained no surprises, so the market reaction was muted. However, the pound was sold at a faster pace on July 13 on reports that a visiting President Trump had criticized this Brexit policy, though sterling was bought back when Mr. Trump called these reports 'fake news' during a joint press conference with Mrs. May.

The currency pair continued to move heavily over the latter half of July. On July 17, expectations for a BOE rate hike in August increased on the release of some bullish UK employment data for May, with the pound bought for a time. However, the pound/dollar pair then fell back when the greenback was bought after FRB chair Jerome Powell said during his testimony to Congress that the US would continue to lift rates at a gentle pace, despite US/China trade frictions. As the greenback continued to be bought across the world, the brakes were slammed on expectations for an August BOE rate hike following the release of some worse-than-expected UK June CPI data on July 18 and June retail sales data on July 19. Pound selling intensified as a result, with the currency pair dropping below the key $1.30 level to hit a monthly low of $1.2985. However, news then emerged that President Trump had complained about the dollar's strength. There were also concerns that the Bank of Japan (BOJ) might adjust its accommodative policy stance, so dollar buying was unwound on July 20, with the pound/dollar pair rallying to the $1.31 range. The pound was bought back on July 24 on hopes for a Soft Brexit after reports emerged that Theresa May was taking control of the Brexit negotiations. The UK parliament then went on summer break from July 24. During US trading time on July 25, President Trump and European Commission President Jean-Claude Juncker reached an agreement to alleviate trade tensions, so the euro was bought and the pound/dollar pair also bounced back to the $1.32 mark. On July 26, though, news emerged that the EU's chief Brexit negotiator Michel Barnier had ruled out the UK's customs plan. As a result, the pound was sold to the lower-$1.31 mark, with the pair closing the month trading with a heavy topside.

2. Outlook for This Month:

The pound/dollar is expected to trade with a heavy topside in August too. There are three points to focus on this month: (1) the BOE Monetary Policy Committee (MPC) meeting on August 2, (2) Brexit trends, and (3) trade frictions.

As for (1), around 80% of market participants are still expecting the BOE to lift policy rates from 0.5% to 0.75%. At the last meeting, MPC member Andrew Haldane joined those voting for a rate hike. With several members subsequently dropping hints about a hike, expectations for such a move have risen substantially. If the BOE does lift rates, the pound could initially be bought for a time, though the markets have already priced in such a move, so it will probably be met by profit taking. Of course, sterling will probably move bearishly if the BOE leaves rates unchanged, so the pound probably faces slightly more downside risk.

With (2), meanwhile, it is hard to imagine the UK making any new moves when it comes to Brexit. However, this is because the UK parliament will be on summer break until September 4. The markets may grow calmer, but a glance at the schedule for Brexit negotiations reveals just how little time remains (the European Commission has set a final deadline for mid-October). Though Theresa May's white paper is slightly inclined toward a Soft Brexit, this marks a shift from the initial Hard Brexit sloganeering, so Mrs. May will have a hard time reconciling opinions within the ruling Conservative Party. It is also hard to imagine the EU simply accepting the UK's proposal and it will take time to make revisions if the EU rejects the UK's demands. The government has been rocked by a series of cabinet resignations, but if all this results in a general election, this will burn up even more time, so a 'no deal' Brexit is starting to look like a more realistic possibility. Under these circumstances, it is hard to imagine the pound being actively bought.

Turning to (3), and there are concerns about the negative impact of trade frictions on the global economy, so events will require monitoring from here on. In the wake of these frictions, the IMF and the European Commission have recently downgraded their outlook for the global economy and the eurozone economy by 0.2%. Depending on how things develop, the current phase of dollar buying could be unwound, with the pound bought back, so caution will be needed.

Kanako Imamura, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – August 2018

Expected Ranges	**Against the US$:**	**US$0.7250–0.7550**
	Against the yen:	**JPY80.00–83.50**

1. Review of the Previous Month

In July, the AUD/USD pair fell to a 2018 low of $0.7311 on concerns about global trade frictions and falling stocks in the US and Europe.

The pair began the month trading around $0.7400. Asian and European stocks then tumbled on growing worries about trade wars after Canada imposed retaliatory tariffs on US imports. As a result, the Australian dollar was sold and the pair dipped to a low of $0.7311. As expected, the board of the Reserve Board of Australia (RBA) kept the cash rate fixed at 1.50%. The accompanying statement mentioned how low interest rates were supporting the economy. It also said that GDP was still expected to grow by a bit above 3% on an average in 2018 and 2019, though the CPI forecast for 2018 was upgraded slightly to 2%. The statement also touched on household spending as a risk factor. On the whole, though, the meeting produced nothing new, so the currency pair moved with a lack of incentives to trade flatly between the mid-$0.73 level and the mid-$0.74 mark.

Mid-July saw market participants waiting for new factors related to trade tariffs. The AUD/USD pair hit a high of $0.7484 for a time, but the Australian unit remained sensitive to news about trade disputes, with the pair dropping to the upper-$0.73 mark when the US published a list of Chinese imports worth $200 billion that would be subject to a 10% tariff (a move announced by President Trump in June). As expected, the US June inflation rate hit +2.7% y-o-y and China's GDP for April–June came in at +6.7%, for example, with the currency pair subsequently trading around $0.7400. The phrase about how "members continued to agree that the next move in the cash rate would more likely be an increase than a decrease" reappeared in the minutes to the RBA board meeting after being scrubbed the last time around, though the reaction of the pair was muted.

Late July saw the pair temporarily tumbling to the lower-$0.73 level after stocks fell in Shanghai, though it didn't renew its early-July low of $0.7311. The pair then rose to the lower-$0.74 level after President Trump grumbled about the impact of the strong dollar on the US economy. The Australian inflation rate (all items) for April–June was released on July 25. At +2.1% y-o-y, the rate was down slightly on the forecast (+2.2%), though core inflation hit +1.9% as expected. This saw the currency pair fluctuating between the lower-$0.74 level and the mid-$0.74 mark. On July 26, reports emerged that President Trump had reached an agreement with the EU to lower trade barriers. As a result, the pair continued trading around $0.7400.

2. Outlook for This Month:

The AUD/USD pair has moved flatly in a range between $0.73–$0.74 for around six weeks now. In August, market participants will be watching to see whether this trend changes.

In particular, the markets will be focusing on: the direction of talks between President Trump and the EU on abolishing tariffs; bearish European and US stock markets; and the movements of the RMB and the Shanghai Composite Index (these have both influenced the Australian dollar recently).

Last month saw the release of the FRB's Summary of Commentary on Current Economic Conditions by Federal Reserve District (the Beige Book). This revealed that manufacturers in all 12 federal districts had voiced worries about tariff measures. Concerns about the impact of protectionism on global economic growth saw stock markets moving unstably in China and the US, for example, with the Australian dollar subsequently moving with a heavy topside. President Trump and the EU reached an agreement late July to hold talks aimed at scrapping tariffs. There have also been reports that the US and China will recommence trade talks. The US mid-term elections are looming in November, so in the upcoming months President Trump may push for policies that alleviate or solve trade frictions. If some policies do emerge, this will push stocks higher. Australia is an exporting nation, so this turn of events could see investors buying the Australian dollar again.

The Australian inflation rate for April–June was also published late July. At around +2%, the rate fell at the lower end of the RBA's target range of 2–3%. In addition to low inflation, the Australian economy is also seeing low wage growth and deteriorating housing market conditions. As a result, market participants are expecting the Australia's policy rate to be kept at 1.50% for at least a year. In this sense, the Australian dollar will be a hard currency to buy.

Since mid-June, the AUS/USD pair has moved in a range. Though it is soon bought back to the upper-$0.73 level whenever it drops to the lower-$0.73 mark, it has not managed to remain in the upper-$0.74 range either. The downside support level will be the pair's 2018 low of $0.7311. The next support line will be December 2016's low of $0.7160, while its upper resistance line will be $0.7495. This key focus this month will be whether the pair can break beyond one of these levels or whether it will continue trading in range.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – August 2018

Expected Ranges	**Against the US$:**	**C$1.2800–1.3200**
	Against the yen:	**JPY82.00–87.00**

1. Review of the Previous Month

Canada's Q2 Business Outlook Survey was released at the end of June and it made a July rate hike look nailed on, so the USD/CAD pair entered July trading at C$1.315. The pair generally moved in a range between C$1.30–C$1.33 throughout July. It hit a monthly high of C$1.325 on July 25 and a monthly low of C$1.2983 on July 31.

The pair's downside gradually edged lower entering July. Canada released some bullish June employment data on July 6, with the pair dipped below C$1.31 as a result. The number of people in work had grown by 32,000, up on the forecast for a rise in the region of 20,000. While the average hourly wages growth figure did not match prior predictions, it still remained high at an annualized +3.5%.

As expected, the Bank of Canada (BOC) implemented a 25bp hike when it met to set the policy rate on July 11. Amid growing concerns about intensifying global trade frictions, some observers had expected the BOC to adopt a dovish stance. In the end, though, the bank's stance was unchanged on the previous meeting. Though it recognised the risk posed by trade disputes, the BOC maintained that it would lift rates at a gradual pace depending on the economic data.

The pair subsequently dipped to a monthly low of C$1.3065, though it was then bought back to C$1.32 on a sense that several major events were now out of the way, with the pair also buoyed when WTI crude oil prices plummeted by over $3 on the same day.

Commodity prices also fell on July 19 as the RMB continued to weaken, with the USD/CAD pair rising close to C$1.33 for a time. Canada's May retail sales data was then released on July 20, though, with the currency pair plunging to around C$1.31 on the extremely strong results. With the three NAFTA nations then making positive noises in the run up to the next round of negotiations, market participants made some modest attempts on the pair's downside from then until the end of the month.

Canada's much-anticipated GDP data for May was released at the month's end. With energy and other sectors moving firmly, the data hit +0.5% m-o-m. With Canada's GDP looking likely to bounce back over the second quarter, the currency pair dipped below the key C$1.30 mark directly after the announcement.

2. Outlook for This Month:

As expected, the BOC lifted rates for the second time this year at its closely-watched policy meeting last month. The bank's stance remained broadly unchanged and it said it would continue to lift rates at a gradual pace, depending on the fundamentals. If the US continues to lift rates as expected, the BOC is also likely to hike rates one more time this year. At this moment in time, this move looks likely when the BOC meets in December or maybe even in October (after the direction of NAFTA negotiations become somewhat clearer during the summer).

August will probably be a slow month given the summer dry season, but the RMB has renewed lows, for example, while attention should also be paid to the movements of the yen now that some kind of monetary policy adjustment (such as the management of long-term interest rates in a more flexible manner) is looking more likely.

The US economy is moving firmly, though the markets have priced this in to a certain extent, so the Canadian dollar still has room for buy-backs. Market activity will pick up again toward autumn, with the USD/CAD pair likely to trade in a range around C$1.28–C$1.32 while keeping an eye on US-led global trade friction.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – August 2018

Expected Ranges	**Against the US$:**	**KRW1,090–1,130**
	Against the yen:	**JPY9.852–10.204 (KRW100)**
		(KRW9.80–10.15)

1. Review of the Previous Month

The USD/KRW pair swung to and fro in July. Amid ongoing concerns about US/China trade frictions, the pair traded with an eye on the movements of other currencies, particularly the RMB.

The pair opened July trading at KRW1114.20. On July 4, the People's Bank of China (PBC) made some comments about stabilizing the RMB's movements. With tit-for-tat tariffs implemented by the US and China also falling within the bounds of market expectations on July 6, the pair dropped to a monthly low of KRW 1109.70 at the start of the next week, on July 9.

However, the US then published a list of Chinese imports worth $200 billion that would be subject to further tariffs. On July 20, meanwhile, the PBC set the RMB's midpoint at a substantially lower level, with the USD/KRW pair hitting a monthly high of KRW1138.90 on the same day.

The greenback then fell in US markets after President Trump criticized the FRB. The dollar subsequently dipped across the globe, particularly against the euro, Canadian dollar and RMB. This came after the US/EU heads of state meeting on July 25 concluded with an agreement to work toward avoiding a trade war. As a result, the pair dipped to KRW1113.40 on July 30 to close the month trading at KRW1118.70.

As expected, the Bank of Korea's Monetary Policy Committee (MPC) left the policy rate fixed when it met on July 12. However, it is worth noting that one member voted for a rate hike. This is because whenever an MPC member breaks ranks and calls for a rate hike, the BOK has a tendency to raise rates when it next meets. In his press conference after the July meeting, the BOK governor suggested the next rate hike would depend on how things developed. At the very least, though, he did seem to be laying the groundwork for such a move. The spread between US and South Korean policy rates continues to widen, so although there is no market consensus, a comparatively high number of market participants are expecting the BOK to implement one rate hike this year. Based on South Korea's fundamentals at the moment, most observers believe there will be one rate hike, but the BOK's policy management will require monitoring from here on.

2. Outlook for This Month:

The USD/KRW pair is expected to weaken in August.

Attention will remain focused on how market sentiments react to US/China trade frictions. However, with the US mid-term elections drawing closer in November, President Trump will also probably want to avoid taking any hardline stance that risks damaging the real economy or corporate activity. China and Europe (the current targets of US moves) will also want to avoid aggravating the situation with the US, so it seems things will gradually start to calm down to a certain extent.

As such, global risk sentiments will probably improve, helped in part by comparatively strong US business results, for example, so the BOK's Monetary Policy Committee (MPC) could implement a rate hike when it meets this month. With some observers predicting that the South Korean economy will slow slightly in the near future, the BOK seems wary about the widening gap between US and South Korean policy rates. Under these circumstances, some voices have called for the BOK to implement a rate hike while it can. Indeed, one member voted for such a move in July and this seems have laid the groundwork, so if trade tensions ease off, momentum for a rake hike could accelerate sharply from mid-August onwards. If so, the won could appreciate, with the USD/KRW pair dropping below KRW 1100 again.

However, this scenario will only happen if risk sentiments improve and the momentum for a rate hike increases. At present, the US tariff hikes are targeted at sectors where South Korea is strong, such as automobiles and steel. South Korea has not been singled out by the US, but these moves will inevitably hit stock prices. The USD/KRW pair's movements have also correlated strongly with those of the RMB in recent times, so these moves are also likely to have a direct and indirect impact on the pair.

Based on the above, the pair's movements will generally be marked by won buying this month, though the situation remains extremely fluid and it could change at any moment, so vigilance is required.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – August 2018

Expected Ranges	**Against the US$:**	**NT$30.20–30.80**
	Against the yen:	**JPY3.59–3.74**

1. Review of the Previous Month

In July, the USD/TWD pair continued to move with a lack of direction around TWD30.5.

The pair opened the month trading at TWD30.510. With the Dollar Index moving bearishly during overseas trading time, the greenback was sold and the Taiwan unit bought. The pair temporarily hit TWD30.400, but with the RMB then weakening, the pair rose to TWD30.639 toward July 3. However, Yi Gang, governor of the People's Bank of China (PBC), then made a verbal intervention to restrain RMB bearishness, so the USD/RMB pair plummeted and the USD/TWD also dropped below TWD30.5. China and the US implemented a round of tit-for-tat tariffs on July 6, but with this negative factor out of the way, stocks moved firmly and overseas funds also flowed into Taiwanese stock markets, so the Taiwan unit was bought and the USD/TWD pair fell to a monthly low of TWD30.305 on July 10.

The greenback then moved firmly, though, while the markets also reacted badly when the US published a list of Chinese imports worth $200 billion that would be subject to further tariffs. As stocks fell, the US dollar was bought and the Taiwan dollar sold. With the US dollar also appreciating against commodity currencies after crude oil prices fell sharply, the USD/TWD pair bounced back to the TWD30.6 range on July 12.

It then moved in a narrow range around TWD30.5. FRB chair Jerome Powell then gave a testimony to the US Senate. Though this contained nothing new, it was also not particularly dovish, so the greenback subsequently strengthened, with the pair's movements marked by US-dollar buying and Taiwan-dollar selling. With the RMB also depreciating and the Taiwan dollar being sold in relation to large-scale dividend payments, on July 20 the currency pair rose to TWD30.7 for the first time since March 2017.

However, President Trump then expressed dissatisfaction with the FRB. He said a strong dollar was not good for the US and that dollar appreciation weakened US competitiveness. He also criticized moves by other countries to guide their currencies lower, saying China, the EU and other nations had driven interest rates lower by manipulating their currencies. This saw the greenback sliding, with the currency pair moving heavily on the topside. Dollar selling by exporters also picked up toward the month's end, so the pair weakened to the mid-TWD30 mark.

2. Outlook for This Month:

The USD/TWD pair is expected to move with a heavy topside in August.

A glance at the Taiwanese economic indicators released in July shows the June export amount rising for the fourth straight month to hit +9.4% y-o-y. The standalone monthly amount stood at $28.2 billion. Though this was slightly down on the previous month, it remained at a high level. Exports to China and Hong Kong (which account for more than 40% of all Taiwan's exports) grew by an impressive +10.1% y-o-y, while exports of electronic parts (a major Taiwanese export item) also moved firmly. The data confirmed that exports remain in a healthy state, despite lingering concerns about US/China trade frictions. At $5.21 billion, Taiwan's trade balance remained substantially in surplus. Taiwan's April CPI figure hit +1.31% y-o-y, down on March's figure of +1.64% y-o-y. The core CPI data (excluding volatile fresh food prices) hit +1.30 y-o-y, up on March's figure of +0.95% y-o-y.

In August, the focus will remain on the movements of overseas investors in Taiwanese stock markets, US trade policy, and the results of economic indicators.

Foreign funds have flowed out of Taiwanese stock markets for six straight months since February. This is one reason for the Taiwan dollar's current bearishness. In July, stocks moved firmly from the second week onwards, with fund outflows down slightly compared to the previous month, but with the US continuing to lift interest rates, the environment remains conducive to outflows, so the situation will require monitoring from August too.

The US placed further tariffs on Chinese imports in July. Attention will now be focused on whether the US widens the scope of the tariffs to include more import items. As for US economic indicators, the housing-related data released in June showed signs of deterioration, so investors will be watching to see whether rate hikes are having a wider negative impact on the economy.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – August 2018

Expected Ranges	**Against the US$:**	**HK$ 7.8400–7.8500**
	Against the yen:	**JPY 13.75–14.30**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

In July, the U.S. dollar/Hong Kong dollar exchange rate fluctuated within a range between HKD 7.8421 and HKD 7.8499. The U.S. dollar remained strong while Hong Kong stock prices and the Chinese yuan continued depreciating. Under such a condition, the Hong Kong dollar remained relatively strong and the U.S. dollar/Hong Kong dollar exchange rate did not reach HKD 7.85—the lower end of the peg system. This means that there has been no serious level of capital outflow from China and Hong Kong even though the Chinese yuan has been depreciating sharply. As the Federal Reserve Board (FRB) maintains its moderate interest rate hike policy, capital reflux from Hong Kong to the U.S. has been gradual, maintaining general stability in the Hong Kong dollar exchange market. The U.S. dollar peg system for the Hong Kong dollar worked efficiently with the sharp depreciation of the Chinese yuan, along with the growing uncertainty in the market. Thus, it is now much less likely for the peg system to be revised or abolished. In addition, the one-year Hong Kong dollar forward point was fluctuated by around –400.

Hong Kong dollar interest rate market in July

As there was no Federal Open Market Committee (FOMC) meeting in the U.S. in July, the Hong Kong dollar interest rate market was mainly impacted by the demand & supply balance in the domestic market. As the U.S. dollar/Hong Kong dollar spot exchange rate did not reach HKD 7.85, the checkable deposit balance of the HKMA remained almost unchanged at HKD 109.6 billion. As the demand to purchase stocks with a large-scale IPO slowed down and as there were no seasonal factors seen at the end of the first half of the year, there were no more factors to lead interest rates to appreciate. As a result, the one-month Hong Kong dollar HIBOR temporarily fell from 2% to 1.62% (widening the spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR to –45 basis points). Thereafter, the rate rose again to approach 1.9% (narrowing the spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR to –20 basis points). On the other hand, the three-month HIBOR and the HIBOR-LIBOR spread remained almost unchanged, at 2% and –20 basis points, respectively. While the three-month HIBOR remains stable, the three-year and five-year IRS interest rates fell to 2.6% and 2.7%, respectively.

Hong Kong stock market in July

In July, the sentiment in the Hong Kong stock market weakened due to the trade friction between the U.S. and China, as well as due to the depreciation of the Chinese yuan. As a result, the benchmark Hang Seng stock index once approached 27,746 for the first time in 10 months. Even though capital outflow through the Stock Connect scheme increased, it has recently been slowing down. As a result of the trade friction and the downturn of economic growth, the Chinese monetary authorities have been easing their fiscal and monetary policies. The Chinese yuan, along with Chinese and Hong Kong stock prices, rallied lightly thereafter with expectations for further economic stimulus measures.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in August

In August, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate between HKD 7.84 and HKD 7.85. Also, it is unlikely that there will be a change made to monetary policy at the next FOMC meeting in the U.S., keeping the Hong Kong dollar exchange market relatively stable. As long as the FRB maintains its policy to slowly raise the interest rate, there will be no surprises at the Jackson Hole Economic Policy Symposium. Under such circumstances, the Hong Kong dollar is expected to remain relatively strong in August even with the depreciation of the Chinese yuan and the persistent concern over the trade friction, given that the pressure for capital outflow from Hong Kong will not dramatically increase.

Hong Kong dollar interest rate market in August

The listing of China Telecom in the Hong Kong stock market is said to be the largest IPO this year (with a scale up to HKD 68 billion), but the popularity of this stock is not likely to be excessive, as it is a defensive security. Therefore, the impact on the liquidity level in the Hong Kong dollar market is expected to be limited, without movement in the Hong Kong dollar interest rate level as well. Also, it is unlikely for the U.S. dollar/Hong Kong dollar spot exchange rate to reach the HKD 7.85 level, and the Hong Kong Monetary Authority (HKMA) checkable deposit balance, recognized as the benchmark to measure the liquidity level in the Hong Kong dollar market, is also not likely to significantly change.

Kei Yano, Treasury Division, MHBK (China)

Chinese Yuan – August 2018

Expected Ranges	**Against the US$:**	**CNY 6.4500–6.9000**
	Against the yen:	**JPY 15.36–17.36**
	Against 100 yen:	**CNY 5.7600–6.5100**

1. Review of the Previous Month

Foreign exchange market

In July, the Chinese yuan depreciated against the U.S. dollar due to concerns over a trade war between the U.S. and China, as was the case in the previous month.

During the first half of the month, the Chinese yuan continued depreciating, due to the concerns over a trade war between the U.S. and China, as well as due to a slowdown of Chinese economic growth as seen in the weak result of the June manufacturing PMI of China. The U.S. dollar/Chinese yuan exchange rate rose rapidly from around CNY 6.62 to approach CNY 6.72. However, this trend was reversed thereafter, as important officials of the People's Bank of China (PBOC) consecutively made comments to give warning to the depreciation of the Chinese yuan, and as a result, the U.S. dollar/Chinese yuan exchange rate fell to the lower-CNY 6.6 level by July 3.

On July 6, the U.S. effectuated customs duties against China, while China also effectuated retaliatory custom duties against the U.S. However, this had already been reflected in the market, and the U.S. dollar/Chinese yuan exchange rate fell to approach CNY 6.60. Yet, on July 10, the U.S. announced a list of items worth USD 200 billion on which additional duty sanctions would be levied against China. In reaction to this, the Chinese yuan started depreciating again, and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.70.

On July 16, the April–June quarter GDP growth rate of China was announced, and the result turned out to be +6.7% year-on-year, recording a slight decrease from the result of the January–March quarter, which was +6.8 year-on-year. This confirmed the impact of the trade issues between the U.S. and China on the actual economy. Furthermore, the U.S. mentioned its plan to continue gradual interest rate hikes, which accelerated the appreciation of the U.S. dollar against the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.8. In the meantime, China's State Administration of Foreign Exchange suggested the reintroduction of counter-cyclical factors. However, this did not slow down the depreciation of the Chinese yuan.

Toward the end of the month, the PBOC conducted a new medium-term lending facility (MLF), while the State Council of the People's Republic of China announced a fiscal policy to encourage the expansion of domestic demand. As a consequence, market participants expected a change in monetary policy toward easing, which led the U.S. dollar/Chinese yuan exchange rate to exceed CNY 6.83. Thus, the Chinese yuan depreciated by approximately 3% within a month.

Interest rate market

On July 5, the deposit reserve requirement ratio was cut (50 basis points), as was announced in July. Furthermore, after the end of the first half of the year, needs to release funds increased, mainly among major Chinese companies. As a result, the capital demand & supply balance loosened significantly and interest rates fell sharply for the entire curve for a succession of days.

Thereafter, funds were supplied through open-market operations, and on July 23, the largest single-operation MLF in history was conducted. The capital liquidity level was thus maintained high and interest rates remained generally low.

2. Outlook for This Month:

Foreign exchange market

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

While the U.S. and the EU agreed on engaging in negotiations to abolish custom duties, there has been no process regarding the trade issues between the U.S. and China. Furthermore, fundamentals have been deteriorating with a decline in China's GDP, which is likely to strengthen the downward pressure on the Chinese yuan.

In China, there has been some easing of policy measures, such as the announcement of a fiscal policy to expand domestic demand. If the Chinese monetary authorities continue making slight changes to the monetary policy toward monetary easing, such as the deposit reserve requirement ratio cut, it is possible for the Chinese yuan interest rates to fall, resulting in narrowing the interest rate differentials between the U.S. and China and accelerating U.S. dollar-buying and Chinese yuan-selling.

On the other hand, as was suggested by China's State Administration of Foreign Exchange, an increasing number of market participants are expecting "counter-cyclical factors" to be reintroduced in order to mitigate the short-term fluctuations in the foreign exchange market. When the Chinese yuan depreciated against the U.S. dollar to lead the exchange rate to approach CNY 6.90 in November 2015, these "counter-cyclical factors" were introduced, which changed the trend to lead the Chinese yuan to start appreciating. Furthermore, in the past, when the Chinese yuan weakens, foreign currency risk reserves have been accumulated. Therefore, market participants should carefully observe the actions to be taken by the Chinese monetary authorities.

Interest rate market

In August, the liquidity level is expected to remain high and interest rates are likely to remain low and stable. Recently, a new MLF was conducted, while a new fiscal policy aims at the expansion of domestic demand, and a plan to revise the existing measures for deleveraging was introduced. Therefore, it is possible for the Chinese monetary authorities to maintain measures of monetary easing, such as a deposit reserve requirement ratio cut, in order to support the economy and maintain the capital liquidity level. As a result, the downward pressure on interest rates is likely to persist. On the other hand, if the actual economy starts strengthening thanks to the fiscal policy, raising stock prices, bond prices may depreciate, leading to the appreciation of the medium- to long-term interest rates. While the trade problems between the U.S. and China persist, it is important to remain cautious about the attitude of the Chinese monetary authorities and the resulting impact on the actual economy.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – August 2018

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.3800**
	Against the yen:	**JPY 79.50–83.00**

1. Review of the Previous Month

In July, the U.S. dollar/Singapore dollar exchange rate fluctuated violently in the range between the lower-SGD 1.35 level and the mid-SGD 1.37 level, following media reports on the trade friction between the U.S. and China, as well as remarks by U.S. President Donald Trump regarding the concerns over the appreciation of the U.S. dollar.

In the first week of the month, before the introduction of the U.S. customs sanctions against China on July 6, market participants sold the Singapore dollar in order to buy the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to approach SGD 1.37 level from the lower-SGD 1.36 level on July 2, while market participants remained cautious about the intensification of the trade friction between the U.S. and China. On July 3, U.S. dollar-buying dominated the market, as the following day was Independence Day, weakening the Singapore dollar and leading the U.S. dollar/Singapore dollar exchange rate to the mid-SGD 1.36 level. On July 4, there were few market participants with few actions, as it was a holiday in the U.S. On July 5, the June employment statistics of the U.S. were released, and the change in the number of non-agricultural employees turned out to be stronger than the market estimate. However, the growth of the average hourly salary turned out to be weaker than the market estimate. Thus, the U.S. dollar weakened and market participants bought the Singapore dollar, leading the U.S. dollar/Singapore dollar exchange rate to reach the upper-SGD 1.35 level from the mid-SGD 1.36 level.

In the second week of the month, in the U.K., Brexit Minister David Davis and Foreign Minister Boris Johnson resigned on July 9. As a result, the outlook for the U.K. exit from the EU became unclear, encouraging market participants to sell the British pound and buy the U.S. dollar. Under such circumstances, the Singapore dollar was sold and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.35 level from the lower-SGD 1.35 level. On July 10, the media reported that U.S. President Donald Trump was preparing a list of items for an additional customs duty against China worth USD 200 million. In reaction to this, the U.S. dollar weakened, and market participants bought the Singapore dollar, leading the U.S. dollar/Singapore dollar exchange rate to reach the mid-SGD 1.35 level. On July 11, the June PPI of the U.S. was announced, and the result exceeded the market estimate, encouraging market participants to buy the U.S. dollar. Under such conditions, the Singapore dollar weakened and the U.S. dollar/Singapore dollar exchange rate shifted from around SGD 1.36 to the mid-SGD 1.36. On July 12, the retail sales of Singapore came in below the market estimate. However, the previous result was also revised upward, and therefore reaction in the market was limited. On July 13, the April–June quarter GDP of Singapore was announced, and the result fell below the market estimate, which led the Singapore dollar to depreciate against the U.S. dollar from the lower-SGD 1.36 level to the upper-SGD 1.36 level.

In the third week of the month, Federal Reserve Board (FRB) Chair Jerome Powell expressed his optimistic view on the U.S. economy on July 17 while also confirming his intention to continue gradual interest rate hikes. In reaction to this, market participants bought the U.S. dollar, and the Singapore dollar depreciated against the U.S. dollar from the lower-SGD 1.36 level to the mid-SGD 1.36 level. On July 18 and 19, the trend of U.S. dollar-buying continued. However, on July 20, U.S. President Donald Trump expressed his dissatisfaction about the interest rate hike plan of the FRB, which led the U.S. dollar to depreciate sharply. As a result, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate shifted from around SGD 1.37 to the lower-SGD 1.36 level.

In the fourth week of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.36 level on July 23, with some impact from the remarks of U.S. President Donald Trump expressing concerns over the appreciation of the U.S. dollar as made at the end of the previous week, along with speculations over a possible policy change by the Bank of Japan. Market participants continued selling the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate once reached the mid-SGD 1.36 level. On July 24 and 25, market participants started selling the U.S. dollar again while buying the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate shifted from the mid-SGD 1.36 level to the upper-1.35 level. Then, on July 26, European Central Bank (ECB) Governor Mario Draghi held a press conference and announced his plan to maintain low interest rates until summer 2019. In reaction to this, the Singapore dollar weakened against the U.S. dollar.

2. Outlook for This Month:

In August, the Singapore dollar is forecast to weaken, as the U.S. dollar is expected to remain strong. The key factor that will impact the Singapore dollar exchange market is likely to be changes in risk sentiment facing media reports on the trade friction between the U.S. and China, as has been the case so far.

In the middle of July, the second-quarter GDP of Singapore was announced, showing a strong growth rate, even though it was slightly lower than the market estimate. The strength of the Singapore economy has thus been confirmed. On the other hand, protectionism in the U.S. trade policy has been becoming stronger, and the trade friction between the U.S. and China has been intensified. Under such circumstances, market participants are likely to continue buying the U.S. dollar for a while with risk-averse sentiment and with concerns over negative impact on the global economy. Regarding the trade friction between the U.S. and China, the Trump administration does not seem to be changing its tough stance. Thus, it is possible for U.S. President Donald Trump to introduce additional custom duties on Chinese products worth USD 200 billion, as is currently under consideration, without any progress in the trade negotiations between the U.S. and China. Furthermore, the risk-averse sentiment may further spread, due to the depreciation of the Chinese yuan, which recently reached its lowest level in approximately one year, along with the possible weakening of the stock markets in the U.S., Japan, and China, which have currently been strong. Market participants should therefore remain cautious in August.

At the end of the previous month, U.S. President Donald Trump made a remark to express his concerns over the appreciation of the U.S. dollar and the policy interest rate hikes. In reaction to this, the U.S. dollar-buying trend slowed down temporarily. However, in the second quarter, the U.S. accelerated its economic expansion and price inflation. Thus, it is unlikely for the FRB to slow down its interest rate hikes, and market participants are expected to continue buying the U.S. dollar.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – August 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 renewed its high since the beginning of the year, after which the appreciation continued.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate fluctuated within a narrow range. On July 2, the U.S. dollar/Thai baht exchange market opened trading at THB 33.00. Thereafter, the June Consumer Price Index of Thailand was announced and the result turned out to be +1.38% year-on-year, recording a slowdown from the result of May, which was +1.49% year-on-year. As a result, expectations for an interest rate hike lost momentum, leading the U.S. dollar/Thai baht exchange rate to the lower-THB 33.10. Thereafter, the Chinese yuan continued depreciating sharply due to the trade friction between the U.S. and China, leading the overall Asian currency to also depreciate. Following this trend, the U.S. dollar/Thai baht exchange rate continued rising to reach the upper-THB 33.20 level on July 3. Thereafter, the depreciation of the Chinese yuan slowed down through market interventions and other measures. As a consequence, the appreciation of the U.S. dollar/Thai baht exchange rate also started to slow down gradually. At the end of the week, the U.S. and China both effectuated customs duties, which led market participants to think that there were no more negative factors in the market. As a result, the Chinese yuan started to appreciate. As a result, market participants bought the Thai baht on July 9 after the weekend, and the U.S. dollar/Thai baht exchange rate fell to its monthly low at the mid-THB 33.00 level.

In the middle of the month, the U.S. dollar/Thai baht exchange rate approached its high. On July 10, market participants bought back the U.S. dollar to adjust the trend of the previous day. As a result, the U.S. dollar/Thai baht exchange rate rose to the upper-THB 33.30 level on July 12. However, the media reported that the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark that "it is possible for the central bank of Thailand to intervene in the market in order to manage the Thai baht exchange rate fluctuations" and that "the decline in foreign currency reserves is a result of market interventions," which led the U.S. dollar/Thai baht exchange rate to sharply fall to THB 33.20 level. Then, on July 13, the June trade statistics of China were released, and the trade surplus toward the U.S. recorded its all-time high, which fueled concerns over the trade friction between the U.S. and China, encouraging market participants to sell the Chinese yuan. Following this trend, the U.S. dollar/Thai baht exchange rate also started rising again to reach the upper-THB 33.30 level. However, as market participants were conscious of possible market interventions, the exchange rate did not rise further. On July 17, however, Federal Reserve Bank (FRB) Chair Jerome Powell made an optimistic economic outlook at the congressional testimony, which led the two-year U.S. government bond yield to appreciate to the highest level in 10 years. Following this trend, the U.S. dollar/Thai baht exchange rate started rising again. On July 20, the Thai baht depreciated against the U.S. dollar, as the Chinese yuan depreciated significantly against the U.S. dollar. As a result, the U.S. dollar/Thai baht exchange rate reached its monthly high near THB 33.50.

At the end of the month, the U.S. dollar/Thai baht exchange rate remained low. On July 20, the exchange rate reached its monthly high after which market participants were aware of possible market interventions by the central bank, while the June trade balance recorded a surplus larger than the market estimate, which led the U.S. dollar/Thai baht exchange rate to start falling. Thereafter, the media reported that U.S. President Donald Trump was concerned about two more interest rate hikes before the end of the year, which encouraged market participants to sell the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to fall to the lower-THB 33.30 level. After the weekend, there was constant capital outflow from the bond market on July 23, which led the U.S. dollar/Thai baht exchange rate to climb to the mid-THB 33.40 level. As there was no news regarding the trade friction between the U.S. and China, market participants bought back the U.S. dollar worldwide, keeping the U.S. dollar/Thai baht exchange rate high. Then, on July 24, the base rate for the Chinese yuan was set toward a weaker yuan. As a consequence, the Thai baht depreciated against the U.S. dollar and the exchange rate once reached the upper-THB 33.40 level. However, the exchange rate did not rise further. Waiting for the U.S.-EU summit meeting, market participants maintained a wait-and-see attitude, and the U.S. dollar/Thai baht exchange rate slowly fell below THB 33.30.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange rate is forecast to remain low.

There has still been no progress in the trade friction between the U.S. and China, putting downward pressure on the overall market. It is now impossible for China to introduce new customs duties, thus the Chinese monetary authorities have been leading the Chinese yuan to depreciate, causing a situation similar to competitive devaluation. Currently, the Thai baht is highly correlated to the Chinese yuan. Thus, it is likely for the Thai baht to depreciate when the Chinese yuan depreciates significantly. Market participants should thus remain cautious.

However, when it comes to factors unique to the Thai baht, the appreciation of the U.S. dollar/Thai baht exchange rate is also limited. First of all, according to the weekly data on foreign currency reserves released by the central bank of Thailand, such reserves continued increasing for approximately 1.5 years, along with the appreciation of the Thai baht, which started declining since the middle of April. In July, the governor of the central bank of Thailand, Veerathai Santiprabhob, conducted a verbal intervention by stating that it is possible for the central bank of Thailand to intervene in the market in order to manage the fluctuation of the Thai baht exchange rate, while it is also possible to understand that the amount of foreign currency reserves started to decline as a result of the baht-buying interventions conducted by the central bank. In the times ahead as well, we can expect the central bank to take action when the Thai baht depreciates sharply. However, there does not seem to be a clear defense line, and given that the Thai baht had appreciated significantly since the beginning of the year, the recent depreciation of the Thai baht can be a favorable trend for exporting companies in Thailand. It should therefore be underlined that the central bank is not desperate in slowing down the depreciation of the Thai baht but it is only adjusting the pace of the depreciation. Second of all, the Thai Bond Market Association (TBMA) announced that, regarding the transaction of Thai bonds by foreign investors, in July, there was a net sell on a single-month basis (capital outflow), although the amount was only less than THB 1 billion. This figure is insignificant for the Thai bond market, in which the capital inflow has exceeded THB 100 billion since the beginning of the year. Thus, the situation in Thailand is somewhat different from surrounding countries in which capital outflow has been a serious issue. Even if the risk-averse sentiment persists in the market due to the trade friction between the U.S. and China, it is difficult for the Thai baht to continue depreciating for a long term only because of capital outflow. Finally, in August, the central bank of Thailand is scheduled to hold a monetary policy committee (MPC) meeting on August 8. At the previous MPC meeting held on June 20, the policy interest rate was maintained at the existing level with five favorable votes, with one absence. In the minutes of the meeting, it was confirmed that the central bank would start considering an interest rate hike if the inflation rate and the economic growth have become robust. It has thus been demonstrated that there is some indication of monetary tightening. Even though the opinion of the MPC member who was absent from the meeting is unknown, market participants should remain very careful about the result of voting on August 8. If expectation grows for an interest rate hike, the Thai baht may start appreciating sharply.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2018

Expected Ranges	**Against the US$:**	**MYR 3.9500–4.1000**
	Against the yen:	**JPY 27.10–28.10**
	Against 100 yen:	**MYR 3.5580–3.6950**

1. Review of the Previous Month

Due to the intensification of the trade war between the U.S. and China, the Malaysian ringgit weakened in July, renewing the lowest rate against the U.S. dollar since the beginning of the year.

The U.S. dollar/Malaysian ringgit exchange market opened trading in July at the MYR 4.03 level. On July 3, the Malaysian ringgit renewed its low since the beginning of the year, with the exchange rate exceeding MYR 4.05 to the U.S. dollar, due to concerns over the introduction of an additional customs duty between the U.S. and China scheduled for July 6. Ironically on the same day, the former Prime Minister of Malaysia, Najib Razak, was arrested for alleged bribery (released later). On July 6, both the U.S. and China introduced an additional customs duty worth USD 34 billion on imports from each other. Along with the strength of the U.S. economic indices and the minutes of the slightly hawkish Federal Open Market Committee (FOMC) meeting, the U.S. dollar/Malaysian ringgit exchange rate fluctuated at the MYR 4.04 level.

However, in the June employment statistics of the U.S., market participants reacted negatively to the weakness in the unemployment rate and in the salary increase rate despite the strength in the nonfarm payroll (NFPR). As the crude oil price also remained robust, the Malaysian ringgit was bought back to lead the exchange rate to reach MYR 4.0070 to the U.S. dollar on July 10. However, the U.S. made an announcement to reveal a plan to introduce an additional customs duty worth USD 200 billion against China, which stopped the appreciation of the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate approached MYR 4.05. On July 11, a monetary policy meeting was held for the first time under the new governor of the central bank, Shamsiah Mohd Yunus, and, as had been expected by the majority of market participants, the policy interest rate was maintained at 3.25%. In the statement, the central bank suggested the possibility for the CPI to turn negative in the near future as a result of the measure to set the GST at 0%, as introduced in June.

On July 13, the U.S. semi-annual monetary policy report was released, confirming an optimistic view on the U.S. economy held by the Federal Reserve Board (FRB) members. On the other hand, there was no reference to the trade friction between the U.S. and China, which kept the Malaysian ringgit weak during the second half of the month. The, on July 17, FRB Chair Jerome Powell expressed his optimistic attitude toward the U.S. economy at the congressional testimony, which led the U.S. dollar/Malaysian ringgit exchange rate to exceed MYR 4.06. On July 18, the June Consumer Price Index (CPI) was released, and the result turned out to be +0.8% year-on-year, falling below the estimate by 0.5%, confirming the possibility for the inflation rate to turn negative, as mentioned by the central bank. The U.S. dollar depreciated due to U.S. President Donald Trump's criticism of China and the EU because of purported currency manipulation, leading the U.S. dollar/Malaysian ringgit exchange rate to fall below MYR 4.05 on July 23. However, this did not last long, and on July 24, the Chinese yuan renewed its low again. As some market participants were buying the U.S. dollar toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.0720—the lowest rate for the Malaysian ringgit—in the morning of July 27.

2. Outlook for This Month:

In August, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 3.9500 and MYR 4.1000. As a result of the intensification of the trade friction between the U.S. and China, the Chinese yuan continues to depreciate, which is a factor to weaken the Malaysian ringgit. On the other hand, it is also important to observe the progress in measures to improve the primary balance under the new Malaysian government.

With regard to the trade friction between the U.S. and China, there has been no progress in the situation as of the end of July. Furthermore, U.S. President Donald Trump criticized the EU and China because of purported currency manipulation while also expressing disagreement with the FRB's plan for interest rate hikes, which suggest a possibility for the trade war to develop into a currency war. There is no question that the fluctuation of the Chinese yuan exchange rate impacts the Malaysian ringgit exchange market, as China is Malaysia's largest trade partner. Furthermore, Malaysia's economic growth is most likely to be negatively impacted if the trade friction lasts for a long period, as has been feared by Finance Minister Lim Guan Eng. Therefore, the current situation is generally negative for the Malaysian ringgit. However, in the past, downward pressure on the U.S. dollar has been strengthened by the U.S. government many times when mid-term elections occur in the U.S., particularly under a Republican administration. Thus, if the depreciation of the Chinese yuan slows down due to the political landscape, market sentiment in the Malaysian ringgit exchange market may also change in the times ahead.

It should also be mentioned that, in the middle of August, the new government under Prime Minister Mahathir bin Mohamad will celebrate its 100th day anniversary after inauguration. At the end of May, after the change of government, the situation of the governmental debt was gradually revealed, as a result of which, at the beginning of June, the Ministry of Finance announced its decision to virtually freeze some promises to be fulfilled within 100 days, such as the subsidy on small car fuel, while at the same time announcing a revision in the primary balance for 2018 as a precondition. At the beginning of July, the investigation into the 1MDB scandal accelerated, and the former Prime Minister, Najib Razak, was arrested. Under such circumstances, it seems that the new government has been working on the revision of various projects that Malaysia (under its former government) and China had agreed on, such as the East Coast Railway Link, as well as government debt, which was recently newly revealed, concerning the partnership between the public and private sectors. The former finance minister and the current chair of the Witenagemot, Daim Zainuddin, visited China in July, and, in August, the Prime Minister is scheduled to visit China. While capital outflow from foreign investors in the Malaysia bond market continued in June, it is important to continue observing whether there will be factors to recover trust.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2018

Expected Ranges	**Against the US$:**	**IDR 14,000–14,700**
	Against 100 rupiah:	**JPY 0.75–0.80**
	Against the yen:	**IDR 125.00–133.00**

1. Review of the Previous Month

In July, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within a range between IDR 14,250 and IDR 14,565. Remaining high, the exchange rate once appreciated to approach MYR 14,565 to the U.S. dollar for the first time since October 2015.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,250. On July 2, the June Consumer Price Index was released, and the result was within the range expected in the market. Reaction to this result was thus limited. However, thanks to capital outflow from foreign investors, the Indonesian rupiah appreciated against the U.S. dollar to the IDR 14,400 level.

Furthermore, on July 6, the June figure for foreign currency reserves was also announced, and the outcome turned out to be USD 119.8 billion (with a decrease of USD 3.1 billion from the previous month), revealing a decline for the fifth consecutive month due to the foreign exchange market interventions (selling the U.S. dollar and buying the Indonesian rupiah), for the purpose of stabilizing the Indonesian rupiah market. On July 16, the June trade balance was released, recording a surplus for the first time in three months. However, the majority of market participants saw this as a result of seasonal factors around the Lebaran holidays. The impact on the market was thus limited. The U.S. dollar/Indonesian rupiah exchange rate remained high, fluctuating at around IDR 14,000.

On July 18 and 19, the central bank of Indonesia held its regular meeting and announced its decision to maintain the interest rate at the current level for the first time in three months. In reaction to this, the U.S. dollar/Indonesian rupiah exchange rate appreciated in the offshore market, where some market participants were expecting an interest rate hike. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate in the onshore market also appreciated to approach IDR 14,475. On July 25, bond yields appreciated globally, and the 10-year U.S. government bond reached its highest level in five weeks, which accelerated the appreciation of the U.S. dollar/Indonesian rupiah exchange rate. The exchange rate thus temporarily reached IDR 14,565 against the U.S. dollar—the highest since October 2015.

Even though the exchange rate fell on some occasions thereafter, the U.S. dollar/Indonesian rupiah pair was being traded at around IDR 14,430 (as of 16:00 Tokyo time, July 27).

2. Outlook for This Month:

In August, the Indonesia rupiah is forecast to remain weak due to the pressure to sell the Indonesia rupiah and buy the U.S. dollar based on actual demand (in terms of current account balance), as has been the case so far.

Since the end of April, the outflow of foreign investor capital led the U.S. dollar/Indonesian rupiah exchange rate to appreciate sharply. However, the outflow has been controlled for the moment, thanks to the effect of the interest rate hikes of a total of 1%, as conducted by the central bank of Indonesia in May and June. (The holding balance of Indonesia's government bonds by foreign investors was IDR 835 trillion as of July 25, while it was IDR 830 trillion as of the end of June.)

Yet, the U.S. dollar/Indonesian rupiah exchange rate has been high, partly because there is still strong pressure to sell the Indonesian rupiah based on actual demand (due to a deficit in the current account balance).

In August, (1) the second-quarter GDP and (2) the second-quarter current account balance are scheduled be out on August 6 and 10, respectively, in addition to regular monthly economic indices.

With regard to (1), it should be reminded that in May, when the first-quarter GDP was released, Indonesian rupiah-selling was accelerated due to concerns over an economic slowdown. Furthermore, with regard to (2), the deficit in the current account balance is expected to increase, as the second-quarter trade balance turned out to be a deficit. It is therefore important to carefully observe actions taken by foreign investors.

Given the above conditions, it is possible for the U.S. dollar/Indonesian rupiah exchange rate to approach the IDR 14,700 level that was recorded in September 2015, depending on actions taken by foreign investors based on the deterioration of the economic indices, while there will be persistent pressure to sell the Indonesian rupiah based on actual demand, as has been the case so far.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – August 2018

Expected Ranges	**Against the US$:**	**PHP 52.80–54.00**
	Against the yen:	**JPY 2.07–2.15**

1. Review of the Previous Month

On July 2, the U.S. dollar/Philippine peso exchange market opened trading at PHP 53.40. At the beginning of the month, market participants in the U.S. dollar/Philippine peso exchange market (onshore interbank market) were adjusting their short positions in the Philippine peso before important events (i.e., the release of the June Consumer Price Index of the Philippines scheduled for July 5 and the June employment statistics of the U.S. scheduled on July 6). The Philippine peso was thus bought back, and the U.S. dollar/Philippine peso exchange rate once reached PHP 53.28 to the U.S. dollar—the highest rate for the Philippine peso in two weeks.

The June Consumer Price Index of the Philippines turned out to be +5.2% year-on-year, recording an unexpected acceleration. However, reaction in the U.S. dollar/Philippine peso exchange market was limited. The Philippine peso slightly depreciated against the U.S. dollar, due to the devaluation of the Philippine peso, which resulted from inflation, not due to the Philippine peso-buying, speculating that the Philippine peso interest rates will rise in the times ahead.

The June employment statistics of the U.S. revealed that the change in the number of non-agricultural employees exceeded the estimated level, while the result from the previous month was also revised upward. However, the average hourly salary did not record such growth, as was expected in the market, while the unemployment rate increased from the 3.8% seen in the previous month, to 4%. As the increase in salary was only a moderate one, expectation for inflation (expectation for the U.S. interest rates to be raised in the times ahead) has somewhat lost its momentum. Based on the figures in the employment statistics, the U.S. dollar/Philippine peso exchange market opened trading on July 9 at PHP 53.35.

On July 10, the May trade balance of the Philippine peso was released, confirming the expansion of the deficit, encouraging market participants to sell the Philippine peso. Thereafter, the risk-averse sentiment increased due to the trade friction caused by the Trump administration. As a result, the U.S. dollar/Philippine peso reached PHP 53.51—the highest rate for the U.S. dollar against the Philippine peso in 12.5 years, as of the closing of weekly trading on July 13.

On July 16, the May OFR (Overseas Filipino Workers) remittances in the Philippines turned out to be USD 2.47 billion, with an increase of +6.9% year-on-year, also recording an increase from the previous month and exceeding the market estimate. As a result, pressure to buy back the Philippine peso strengthened, and on July 17, the U.S. dollar/Philippine peso pair was temporarily traded at PHP 53.38. However, after the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell, market participants started buying the U.S. dollar.

U.S. President Donald Trump expressed his dissatisfaction with the FRB and stated that a strong U.S. dollar would put the U.S. in a disadvantageous situation. However, this did not have much impact on the U.S. dollar/Philippine peso exchange market. Supported by persistent demand to buy the U.S. dollar, the U.S. dollar/Philippine peso exchange rate reached its latest high at PHP 53.55 on July 20. (The exchange rate reached this level also on June 27 and July 12.)

While market participants seemed to continue buying the U.S. dollar, they were also aware of the intention of the Philippine monetary authorities to control the depreciation of the Philippine peso, which kept the U.S. dollar/Philippine peso exchange rate from rising further.

At the G20 Summit Meeting, there was no sign of compromise expressed by the U.S. concerning trade frictions, which encouraged market participants to sell the U.S. dollar against other major currencies. As a result, the Philippine peso remained stable, with U.S. dollar-buying due to the risk-averse sentiment in the market (a trend to prefer safe assets), cancelling out both factors of U.S. dollar-selling and U.S. dollar-buying.

On July 25, U.S. President Donald Trump and President of the European Commission Jean-Claude Juncker had a meeting and agreed to avoid friction in trade, which encouraged market participants to buy back the Philippine peso, while there were also actions by importing companies to buy the U.S. dollar at the end of the month. As a result, the U.S. dollar/Philippine peso exchange rate reached PHP 53.285—the highest rate for the Philippine peso in approximately one month—and then weekly trading closed on July 27.

2. Outlook for This Month:

As was discussed above, the June Consumer Price Index of the Philippines turned out to be +5.2% year-on-year with unexpected acceleration, significantly exceeding 4%—the upper end of the inflation target set out by the central bank of the Philippines. Said central bank is scheduled to hold a monetary policy meeting on August 9, and an interest rate hike is expected as a market consensus. The interest rate is expected to be raised by 0.25%–0.5%, which may fuel speculations that the central bank of the Philippines may take a measure to lead the Philippine peso to depreciate, in fear of negative impact of the depreciation of the Philippine peso on the acceleration of inflation.

On July 6, the central bank of the Philippines released the country's June foreign currency reserves, which turned out to be USD 77.7 billion, with a decrease by approximately 2% from the previous month—reaching the lowest level in seven years. Foreign currency reserves decreased based on market interventions to slow down the depreciation of the Philippine peso, which is a factor to weaken the Philippine peso, as this would deteriorate the indices that measure the economic health of the country. Yet, according to the International Monetary Fund (IMF), the Philippine economy is healthier than other Asian countries. If the central bank of the Philippines continues (can continue) intervening in the foreign exchange market in the times ahead, the U.S. dollar is not likely to appreciate much against the Philippine peso.

In May, the OFW remittances recorded a steadily increase. However, the net amount of the monthly OFW remittances and the trade deficit turned out to be USD 1.23 billion in May, remaining at the same level as in the previous month. This means that the Philippine peso was sold based on actual demand. Furthermore, the 10-year U.S. government bond yield is again approaching the 3% level, fueling concerns over a market condition in which the U.S. dollar is favored in the market as a result of the appreciation of U.S. interest rates.

Yet, the U.S. dollar/Philippine peso exchange rate has been kept low, fluctuating between PHP 53.30 and PHP 53.50 for about 1.5 months, due to caution against market interventions by the central bank of the Philippines. As the situation has been stagnant for a while, the market may start moving soon. It should also be reminded that market participants may buy back the Philippine peso more actively than expected, as the U.S. dollar remains low.

U.S. President Donald Trump is likely to continue expressing his dissatisfaction about the appreciation of the U.S. interest rates as well as the strong U.S. dollar. It would thus not be surprising if market participants that accumulated U.S. dollar long positions start adjusting their positions.

Furthermore, it should be mentioned that the stock prices and currencies of emerging countries have been depreciating since the beginning of this year, and now some market participants have started to see it more interesting to invest in those cheap markets. Indeed, foreign investors had net bought Philippine stocks as a trend of the week of July 23–27 for the first time in six months.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – August 2018

Expected Ranges	**Against the US$:**	**INR 66.90–70.50**
	Against the yen:	**JPY 1.59–1.65**

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee exchange rate remained flat.

On June 28, the U.S. dollar/Indian rupee exchange rate recorded its all-time high at INR 69.09, after which the U.S. dollar/Indian rupee exchange market opened trading in July at the INR 68.49 level. At the beginning of the month, the crude oil price appreciated, while the trade friction between the U.S. and China intensified, with the U.S. preventing Chinese communications companies from entering its market and introducing an additional customs duty against China. In negatively reacting to such a situation, the currencies of emerging countries depreciated, and the U.S. dollar/Indian rupee pair continued trading high at around INR 68.70.

In the second week of the month, the June employment statistics of the U.S. were released, and the unemployment ratio and the average hourly salary turned out to be weaker than the expected levels, which encouraged market participants to sell the U.S. dollar. Furthermore, the June Consumer Price Index of India was also released, and the result turned out to be 5.0%, while the crude oil price (WTI), which remained high just before, at USD 75, returned to around USD 67. As a result, market participants started buying the Indian rupee out of a feeling of relief, which led the U.S. dollar/Indian rupee exchange rate to reach the monthly low at INR 68.27 on July 17.

However, the crude oil price did not fall further from the above level thereafter. Furthermore, China led the Chinese yuan to weaken against the U.S. dollar to the lowest level in a year, which encouraged market participants to sell the overall Asian currencies. Under such circumstances, in the U.S., the Federal Reserve Board (FRB) Chair made an optimistic remark regarding the economy at a congressional testimony session, which encouraged market participants to buy the U.S. dollar and sell the Indian rupee. The U.S. dollar/Indian rupee exchange rate thus again renewed its all-time high, which was recorded in the previous month, reaching INR 69.12 on July 20.

Thereafter, toward the end of the month, the U.S. dollar/Indian rupee exchange rate did not rise further. Some foreign investors bought Indian stocks that have been strong, also encouraging market participants to buy the Indian rupee. Under such circumstances, the U.S. dollar/Indian rupee pair has been trading at around INR 68.68 as of July 27 when this review is being written. The U.S. dollar/Indian rupee exchange market remained fairly stable, fluctuating only by 85 paisa throughout the month of July.

In July, the Indian rupee/Japanese yen exchange rate once appreciated and returned to the level seen at the beginning of the month.

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.62 level in July. At the beginning of the month, market participants bought the Japanese yen in order to avert risks, having seen the difficult trade negotiations between the U.S. and China. The U.S. dollar/Japanese yen exchange rate reached the mid-JPY 110 level, following which the Japanese yen continued appreciating against the Indian rupee, and the Indian rupee/Japanese yen exchange rate reached its monthly low, approaching JPY 1.602.

However, thereafter, the U.S. dollar/Japanese yen exchange rate exceeded JPY 113, based on the congressional testimony discussed above, as well as based on the strong figures in the U.S. economic indices released during the second half of the month. At the same time, the Indian rupee/Japanese yen exchange rate also reached its monthly high at JPY 1.651.

Toward the end of the month, U.S. President Donald Trump made a remark to give warning against policy interest rate hikes. In reaction to this, the trend was reserved and the U.S. dollar/Japanese yen exchange rate fell below the JPY 111 level. Following this trend, the Indian rupee/Japanese yen exchange rate also fell to the JPY 1.61 level. On July 27, when this review is being written, the Indian rupee/Japanese yen pair has been trading at around JPY 1.618. As the U.S. dollar/Indian rupee exchange market did not move significantly in July, trends in the U.S. dollar/Japanese yen exchange market significantly impacted the Indian rupee/Japanese yen exchange market.

2. Outlook for This Month:

In August, the U.S. dollar/Indian rupee exchange rate is forecast to remain low.

Actions taken by U.S. President Donald Trump have been impacting market trends. The first element is the trade negotiations. Currently, President Trump has been attempting to decrease the trade surplus to the U.S. in other countries, by restricting the total amount of imports and by levying additional customs duties (i.e., a trade war). On the other hand, in July, China seems to be taking retaliatory action not by adding customs duties against the U.S. but by weakening its own currency. In other words, even if the U.S. levies an additional customs duty of 5% against China, if the Chinese yuan is weakened by 5%, the amount lost by the additional customs duty can be cancelled out. President Trump has been strongly criticizing such a measure, which makes it possible for the current situation to develop into a currency war.

The second element is the fact that President Trump made a remark that the interest rate hikes by the FRB are not favorable. It can be understood that he wanted to give warning against the possible appreciation of the U.S. dollar caused by interest rate hikes. However, from a broader point of view, he seems to support the stock market and domestic industries, so as to prepare for the mid-term elections scheduled for November. In either case, it should be underlined that actions by President Trump have led to the depreciation of the U.S. dollar in the exchange market.

When it comes to India, the June manufacturing PMI turned out to be 53.1 (the first-quarter average was 51.9), confirming the continued strength of the domestic manufacturing industry. The Consumer Price Index also remains strong at 5.0%, exceeding the target set out by the Reserve Bank of India (India's central bank, also referred to as the RBI) for the eighth consecutive month, fueling expectations for an interest rate hike. Based on the strong accounting results from the first quarter, the SENSEX Index renewed its all-time high, demonstrating the strength of the Indian economy.

It should also be reminded that the U.S. dollar/Indian rupee exchange rate renewed its all-time high for two consecutive months in May and June. Even after reaching its turning point, this trend has not changed, and the exchange rate remains high. Under such a context, it is possible for the RBI to intervene in the foreign exchange market by buying the Indian rupee.

Even though market participants should always remain careful about the crude oil price, the U.S. dollar/Indian rupee exchange rate is likely to hit a ceiling at the INR 70 level with downside risks.