

Mizuho Dealer's Eye

October 2018

U.S. Dollar.....	1	Chinese Yuan	20
Euro	4	Singapore Dollar	23
British Pound.....	7	Thai Baht	26
Australian Dollar	9	Malaysian Ringgit	29
Canadian Dollar	11	Indonesian Rupiah	32
Korean Won	13	Philippine Peso.....	34
New Taiwan Dollar.....	15	Indian Rupee	37
Hong Kong Dollar	17		

Mizuho Bank, Ltd.

Forex Department

U.S. Dollar – October 2018

Expected Ranges

Against the yen: JPY110.00–114.00

1. Review of the Previous Month

The dollar/yen pair fell for a time at the start of the month, though it strengthened late September.

It traded around 111 yen in the first week. After opening the month at the lower-111 yen mark on September 3, it then dipped to the upper-110 yen level, though it soon rallied to the lower-111 yen range as risk aversion waned on rumors that Turkey's central bank would be implementing a rate hike. The pair climbed to the mid-111 yen mark on September 4 after the US Manufacturing ISM Report on Business for August hit its highest level for 14 years. The pair then rose to the upper-111 yen level on September 5. It crashed to the mid-110 yen range on September 6 on news that President Trump was unhappy about trade relations between Japan and the US. This trend spilled over into September 7, with the pair hitting a monthly low of 110.38 yen. It then strengthened to the lower-111 yen level on some strong US employment data for August. The pair appreciated in the second week. After opening the week trading at the lower-111 yen mark on September 10, it then hovered right around 111 yen. It climbed to the mid-111 yen range on September 11 on news that a Japanese company would be purchasing a major US firm. The pair surged to around 112 yen on September 13 as risk aversion eased after Turkey's central bank announced a rate hike. With the US also releasing some healthy economic indicators, the pair's topside hit the lower-112 yen mark on September 14.

This trend continued into the third week. After opening the week at 112 yen on September 17, the pair then moved bearishly. It dipped to the mid-111 yen range on September 18 on reports that the US intended to place further tariffs on \$200 billion worth of Chinese imports. However, the markets reacted warmly to news that the new tariff would be just 10%. As Asian stocks moved firmly, the currency pair rallied to the lower-112 yen level. It temporarily dipped below 112 yen on news that the Chinese government was considering retaliatory tariffs, but it then bounced back to the lower-\$112 yen range. On September 20, news emerged that China was looking into lowering import tariffs. With key US stock markets also hitting record highs, the dollar/yen pair rose to the mid-112 yen level. The risk-on mood continued into September 21 and the pair climbed to the upper-112 yen mark. The pair rose sharply in the latter half of the fourth week. After opening the week at the mid-112 yen level on September 24, the pair then edged up to the upper-112 yen range. The greenback was bought on September 25 too, with the pair rising to around 113 yen. As expected, the FOMC implemented a rate hike when it met on September 26. However, the dot chart hinted at an end to rate hikes, so the pair slipped to the upper-112 yen level. It temporarily rallied to the lower-113 yen level, but with US interest rates sliding, the pair

dipped to the mid-112 yen mark. End-of-term flows took precedent on September 27, so the dollar was bought and the pair climbed to the mid-\$113 yen range. This trend spilled over into September 28, so the pair hitting a yearly high of 113.67 during Tokyo trading time and then continued to trade in the 113 yen range.

2. Outlook for This Month

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

Concerns about emerging-economy currencies intensified after the Turkish crisis broke out in August, with the dollar/yen pair also hit by rising risk aversion. However, Turkey's central bank then hinted at a rate hike, while China's prime minister also ruled out a currency devaluation, so concerns about emerging-economy currencies has eased and risk aversion has steadily waned. At one time, the dollar/yen pair moved firmly in tandem with rising stock prices and interest rates, just like a typical Goldilocks currency. As in the past, though, this 'Goldilocks phase' will probably be short-lived. As expected, the FOMC reached a unanimous decision to institute a 0.25% rate hike when it met last month. Its economic outlook also suggested the FOMC is growing more bullish when it comes to the direction of the US economy. However, this meeting's dot chart included 2021 for the first time, with most members predicting that rates will remain fixed from 2020 onwards. US long-term interest rates had been rising, but this trend seems to have halted now that FOMC members have predicted an end to rate hikes in the future. Given this prediction and the dearth of expectations for an acceleration of rate hikes, it seems only natural that the gap between long-term and short-term interest rates is shrinking. With US interest rates unlikely to steepen, it is hard to imagine the dollar/yen pair climbing on the back of rising US rates.

Under these circumstances, the biggest factor the currency pair will probably be the direction of US/Japan trade talks. President Trump stated that the US/Japan heads of state meeting last month had ended with an agreement to start bilateral trade talks. Although the two sides have already met several times to talk trade, it seems the negotiations have made no progress. When it comes to trade talks, the US and China remain at loggerheads, though the US has essentially reached an agreement with Mexico and it has also signed a revised free trade deal with South Korea. The Trump administration's efforts to forge bilateral treaties are starting to bear fruit, but the willingness of partner countries to accept foreign exchange stipulations may lie behind the success of some negotiations. It seems there is some confusion between South Korea and the US when it comes to the existence of such stipulations, but it is clear the Mexican government has agreed to incorporate a clause about maintaining transparency when it comes to currency policy. It seems likely the US will try to introduce some foreign exchange stipulations into talks with Japan too.

With negotiations likely to be stormy either way, the dollar/yen pair will probably trade with a heavy topside this month on growing concerns about trade frictions between the US and Japan.

Dealers' Market Forecast

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

Bullish on the dollar (4 bulls: 111.00–115.50, Core: 111.00–115.00)

Fujimaki	111.00 – 115.50	The US continues to move down the path of tightening. The economy is also moving strongly. Nonetheless, the Dollar Index suggests the greenback's level is still not that high. As such, there is still a risk the US unit might rise this month. However, the pair is starting to see a slight rise in the number of bullish market participants.
Okamoto	111.00 – 115.00	The US/Japan heads of state meeting ended with a decision to continue trade talks, but the US did not mention foreign exchange policy and for now it seems prepared to tolerate the yen's low level. The situation in the emerging economies is also calming down, so stocks and other risk assets are likely to remain attractive to global investors, with the dollar/yen pair also pushed higher. With the US midterm elections looming next month, though, the pair might move heavily on the topside.
Ueno	111.00 – 115.50	There remain several risk factors, including US/China trade frictions, Brexit, and the Italian fiscal situation. However, the markets are growing less responsive to these long-running themes. It seems the US economy is moving firmly thanks to the government's fiscal stimulus policies, so the dollar will remain conducive to buying.
Okuma	111.00 – 115.00	Despite uncertainty about the trade situation and concerns about the US midterm elections, the US economy continues to move firmly. The markets have essentially factored in another rate hike in December, with the dollar/yen pair also likely to be boosted by the bearishness of the euro (due to Italian political turmoil or uncertainty about the Brexit situation, for example).

Bearish on the dollar (7 bears: 110.00–114.00, Core: 110.00–114.00)

Tauchi	111.00 – 114.00	The FOMC might adopt a more cautious stance regarding a further rate hike in December or next year as it seeks to avoid a stock market crash or an economic slowdown in the run up to the midterm elections in November. Deep-rooted concerns about trade frictions may also flare up again as the US takes a tougher stance when it comes to external trade. As such, the dollar/yen pair is expected to move sluggishly this month.
Kato	111.00 – 114.00	The second half of the fiscal year has begun, but there are doubts about whether the start of the new term will see the same incentives to invest in foreign assets as in regular years. Trade talks between the US and Japan are still ongoing too, so if the yen continues to slide, there will probably be some verbal interventions to curb this trend.
Yamashita	110.00 – 114.00	The emerging-economy currency crisis has calmed down now that the central banks of several emerging countries have lifted interest rates, but the negative impact of US rate hikes will make itself felt from here on. There is also an undeniable sense that US stocks have peaked out. With the trade issue also smoldering away, investors will probably refrain from buying the greenback at highs.
Seki	111.00 – 114.00	With the FOMC meeting out of the way, attention this month will shift from US monetary policy to European political risk and TAG negotiations. Also, if it seems the Democrats will make gains in the US midterms, this could pour cold water on the firm movements of US stocks, with the dollar/yen pair likely to move with a heavy topside.
Mitsubishi	110.00 – 114.00	There is uncertainty about the direction of ongoing US/Japan trade talks, while the situation is also growing more fraught when it comes to the US/China trade dispute. As such, risk aversion is likely to intensify again.
Moriya	110.00 – 114.00	The markets have factored in one more rate hike within the year, with investors now focusing more on when the period of rate hikes will come to an end. Under these circumstances, the dollar is unlikely to be bought on expectations for US rate hikes. President Trump's behavior might also grow more erratic in the run up to the midterm elections, so this might also weigh down the dollar/yen pair's topside.
Tsuruta	110.00 – 114.00	The FOMC signaled an end to rate hikes when it met last month, so market participants are not expecting the pace of rate hikes to pick up going forward. Under these circumstances, it is hard to imagine the dollar/yen pair strengthened on rising interest rates. There are also concerns that the US may demand some foreign exchange stipulations during the ongoing trade talks with Japan. Given all this, it seems the currency pair will move with a heavy topside in October.

Kiyotaka Tauchi, Forex Sales, Forex Department

Euro – October 2018

Expected Ranges

Against the US\$: US\$1.1300–1.1700**Against the yen: JPY128.00–133.00**

1. Review of the Previous Month

The euro/dollar pair swung to and fro in September.

After opening the month trading at the upper-\$1.15 mark, the pair held steady after the Italian deputy prime minister Matteo Salvini said the government would keep the country's fiscal deficit within the EU's set limits. With the US releasing some bullish economic indicators, though, the dollar was bought and the pair moved with a heavy topside. It then hit the \$1.16 level on reports that Germany and the UK were closer to reaching an agreement when it came to Brexit. However, the German government then clarified that its Brexit policy remained unchanged, so the pair's rise was capped. The US employment data turned out to be strong overall. Concerns about worsening US/China trade relations then intensified on comments by President Trump about trade talks between Washington and Beijing. As a result, the pair moved bearishly to hit a monthly low of \$1.1525 on September 10.

Italian finance minister Giovanni Tria then spoke about the necessity of keeping the fiscal deficit in check. With the EU's chief Brexit negotiator Michel Barnier also speaking optimistically about the possibility of a Brexit deal, the pair bounced back to the \$1.16 range. Irish prime minister Leo Varadkar then commented that a Brexit agreement would probably be reached within the next few weeks. With news also emerging that the UK and EU would be holding an emergency heads of state meeting aimed at reaching a Brexit agreement, the pair's downside was bolstered and the pair moved firmly. The ECB Governing Council kept monetary policy fixed when it met, but ECB president Mario Draghi gave an upbeat prognosis for the economy, so the pair climbed further to hit the \$1.17 range. It then dropped back to the lower-\$1.16 mark on concerns that Donald Trump would impose further punitive tariffs on Chinese goods, with the pair also hit by news that UK prime minister Theresa May had rejected the EU's revised plan for the post-Brexit border between Ireland and the UK. The pair held steady at this level, though, with the euro then bought on the firm movements of European stocks. ECB president Mario Draghi then gave a hawkish assessment to the European Parliament when he predicted a 'relatively vigorous pick-up in underlying inflation.' This saw the currency pair hitting a monthly high of \$1.1815 on September 24.

However, ECB executive board member Peter Praet then said there was nothing new in Draghi's comments, with the ECB's inflation outlook remaining unchanged. These comments saw the pair moving heavily on the topside and it then fell sharply when the Italian government's fiscal deficit target for 2019 turned out to be significantly worse than expected (2.4% of GDP as opposed to market expectations for a

2.0% deficit). As a result, the pair's gains throughout the month were essentially pared back and the pair closed September trading right around \$1.16.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in October.

The main focus of the markets will be the currency and trade policies of the Trump administration in the run up to the midterm elections in November. Market participants should keep a particularly close eye on the ongoing trade frictions between the US and China, though European political risk will also require closer monitoring.

The new Italian administration has released its budget proposal for the next fiscal year. Despite Italy's huge debt burden, the budget includes several policies that will increase spending, including the introduction of a minimum income for unemployed people. Not only does the budget fail to cut the fiscal debt, it could even exacerbate the situation. Italy will be submitting the budget to the EU for review this month. The EU has been pressing Italy to cut its national debt, so the budget proposal will inevitably deepen tensions between Italy and the EU. If Italy maintains its hardline position, this issue could be brought up at this month's EU heads-of-state meeting. As such, there is a danger the euro could be pushed lower by ongoing concerns about the political situation in Italy.

The Brexit negotiations have also grown more chaotic and they will need to be watched closely this month. There are only six months to go until the UK leaves the EU, but the EU heads-of-state meeting last month once again revealed the differences between the two sides. With UK prime minister Theresa May also saying that negotiations with the EU have stalled, there are growing concerns that the UK might be heading for a 'no-deal Brexit.' The British themselves are also growing more anxious, with opinion polls now suggesting that remainers outnumber Brexit supporters. From here on, the Brexit negotiations will be met with waves of uncertainty and this will also act as a negative factor for the euro.

Under these circumstances, it is only natural to assume the ECB will face many challenges as it moves steadily toward policy normalization. ECB president Mario Draghi has struck an upbeat tone about the economy despite concerns about the future (such as trade frictions or eurozone political risk), but there are no signs of the ECB shifting its policy of maintaining record-low interest rates until next summer at the earliest. As such, an early ECB rate hike seems unlikely and the euro will probably not be pushed higher by expectations for such a move.

Investors will find it hard to actively buy the single currency on the back of all these euro-selling factors, so the euro/dollar pair will probably trade with a heavy topside.

Dealers' Market Forecast

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

Bullish on the euro (1 bull: 1.1500–1.2000, Core: 1.1500–1.2000)

Okamoto	1.1500	Eurozone concerns will gradually ease as Italy's budget proposal passes smoothly and the Turkish crisis calms down. Time is running out for a Brexit deal and there is uncertainty about how things will develop this month. With the US midterm elections looming, though, the dollar will also be a hard currency to buy toward the end of October. Funds are also unlikely to flow to the emerging economies, so the euro may be bought due to a lack of alternatives.
	–	
	1.2000	

Bearish on the euro (10 bears: 1.1300–1.1800, Core: 1.1300–1.1700)

Tauchi	1.1300	The euro/dollar pair will continue to be weighed down by Italy's budget proposal. There are deep-rooted concerns about Italy's increasing public debt, with tensions between Italy and the EU set to deepen. There are also strong concerns about the growing risk of a 'no-deal Brexit.' As such, the euro will be a hard currency to actively buy this month.
	–	
	1.1700	
Kato	1.1300	A comparative analysis of the fundamentals shows the US doing better than the eurozone. Even if the issue of the Italian budget proposal is put to bed, it seems just a matter of time before a new problem raises its head.
	–	
	1.1700	
Yamashita	1.1300	The deadline for Brexit negotiations is drawing closer and the situation is growing more unpredictable. The German economy is also stalling. Under these circumstances, there are concerns about the negative impact of ECB tapering, set to start this month, so investors will refrain from actively buying the euro.
	–	
	1.1600	
Seki	1.1300	Italy will be submitting its budget proposal to the EU this month. UK prime minister Theresa May has already said that negotiations with the EU have stalled, and if the Brexit talks do fall into disarray at this month's EU heads-of-state meeting, the euro will be a hard currency to buy.
	–	
	1.1700	
Mitsubishi	1.1300	When it met in September, the FOMC stated it would continue to hike interest rates. In Europe, though, the ECB is only just starting to move toward an exit. In addition to this divergence in monetary policy, there are also concerns of a 'no-deal Brexit,' while the Turkish crisis is by no means over. As such, the euro/dollar pair will probably trade with a heavy topside this month.
	–	
	1.1800	
Fujimaki	1.1500	The US continues to tighten policy on the back of the strong economy. Nonetheless, the Dollar Index suggests the greenback's level is still not that high. As such, there is still a risk the US unit might rise this month. However, the dollar/yen pair is starting to see a slight rise in the number of bullish market participants.
	–	
	1.1800	
Ueno	1.1300	The eurozone is beset by several risk factors, including Brexit and concerns about Italy's finances. It is difficult to predict how these risks will develop, so the euro is unlikely to be bought this month. With the US economy also moving firmly, the euro/dollar pair will probably move bearishly this month.
	–	
	1.1700	
Moriya	1.1300	Expectations for an early ECB rate hike are unlikely to rise for the time being. At the same time, the FRB looks set to continue lifting interest rates. There remain concerns about lingering political risks in Europe (related to the Italian budget proposal and Brexit, for example). Under these circumstances, investors will find it hard to actively buy the euro.
	–	
	1.1700	
Tsuruta	1.1300	Though the ECB continues to move steadily toward the exit, it will probably not lift rates in the near future. Even though the Italian coalition government has reached an agreement about a budget proposal, this is unlikely to cut Italy's huge public debt, so there will be worries that Italy's fiscal situation could deteriorate. The euro/dollar pair looks set to continue trading with a heavy topside.
	–	
	1.1800	
Okuma	1.1300	Europe faces several uncertain factors, including Italy's fiscal situation and the direction of the Brexit negotiations. The US is steadily lifting interest rates and there are concerns about how this will impact the emerging economies. As such, the euro/dollar pair will probably be weighed down. With the US economy continuing to perform better than any other, the euro/dollar pair looks set to move bearishly.
	–	
	1.1800	

Fumihiko Kanda, Europe Treasury Department

British Pound – October 2018

Expected Ranges	Against the US\$:	US\$1.2700–1.3400
	Against the yen:	JPY143.00–150.00

1. Review of the Previous Month

The GBP/USD pair rose in September. It fell in the first half of the month on concerns about a no-deal Brexit, though it was then bought back as these fears were alleviated.

The pair moved heavily at the start of the month. The UK's Manufacturing PMI for August was released on September 3, with the indicator hitting its lowest level in 25 months. This pointed to Brexit fears in the manufacturing sector. News then emerged that several rebels within the ruling Conservative Party had pledged to oppose any Brexit deal that prime minister Theresa May brought before the UK parliament. As a result, the currency pair fell sharply. It continued to edge lower to hit a monthly low of \$1.2787 during the morning of September 5. However, it suddenly bounced back to the upper-\$1.29 mark in the afternoon on reports that the German government was preparing for all scenarios, including a no-deal Brexit. It then rallied to the \$1.30 range for a time on September 7 on news that the EU's chief Brexit negotiator Michel Barnier was prepared to adopt a flexible stance when it came to resolving the issue of the Ireland border.

The pound was bought back toward mid-September. The UK GDP data for July was released during the morning of September 10, with the data hitting its highest level for around a year, partly thanks to the impact of the World Cup. In the afternoon, meanwhile, Mr. Barnier said it was quite possible that a Brexit deal would be reached within the next 6–8 weeks, with the GBP/USD pair subsequently returning to the \$1.30 range. With the Irish prime minister also stating on September 11 that a deal would be reached within the next few weeks, sterling saw more buying. The pair bounced back to the \$1.31 mark on September 13 on news of progress in talks about the Irish border issue. As expected, the Bank of England's Monetary Policy Committee (MPC) kept monetary policy fixed when in met on the same day, so the impact on the pair was negligible. The pair then rose to \$1.32 on September 19 on an unexpected upswing in the UK CPI data for August. At an informal EU summit on the same day, UK prime minister Theresa May rejected the EU's proposal and told the other leaders that the UK would proceed with negotiations based on her Chequers plan, with the two sides remaining at loggerheads. Nonetheless, the reaction of the currency pair was muted. In fact, the pair hit a monthly high of \$1.3295 on September 20 on the strong result of the UK retail sales figure for August, with the pair also boosted by the bullish movements of the euro. On September 21, though, Mrs. May once again insisted that a no-deal Brexit was preferable to a bad deal. This led to a phase of profit taking, with the pair dropping by around 1.5%.

Sterling was then bought back on September 24 on news that a major US telecommunications firm would be buying a UK counterpart, with the pair moving firmly toward the end of the month.

2. Outlook for This Month

The most important event this month will be the EU summit, set to convene on October 18.

This will be the last formal summit before the alleged deadline for Brexit negotiations in November. At an informal EU summit over September 19–20, UK prime minister Theresa May insisted to other EU leaders that the UK would proceed with negotiations on the basis of her Chequers plan. This stance seems to be partially due to speculation on Mrs. May's behalf that even if she did bring back a proposal from the EU side, this would be subject to a long-drawn-out discussion given the fragility of her own standing within the Conservative Party. However, even if the May administration does reach an agreement with the EU, more rebels from within the Conservative Party have indicated they would oppose any Brexit deal brought before the UK parliament, so even if this month's summit goes well, this will not eradicate market concerns. As such, the pound might be bought during the summit only to crash thereafter.

Clamor for another vote on Brexit is also edging higher, so public opinion will also require monitoring from here on. According to one polling company, each new poll seems to show a slight increase in the number of people calling for a new referendum or for Brexit to be called off. The opposition Labour Party has said it would vote down any bad Brexit or no-deal Brexit and would subsequently support a new referendum that would include staying in the EU as one of the options. Politically speaking, though, a new referendum seems unlikely. It seems more likely that a general election would be called first, but this move would also lead to rising expectations for a new vote. However, not much time remains until Brexit comes into effect on March 29, 2019. As such, a general election would probably lead to pound selling in the short term on the grounds that the election would delay things further and raise the possibility that no deal would be reached before the deadline.

During the Brexit negotiations, the focus has continued to fall on the post-Brexit status of the EU's border with the UK between Ireland and Northern Ireland. It is unclear whether any concrete progress has actually been made when it comes to reaching an agreement on the type of post-deal trade relationship between the two parties, for example. On September 4, the EU's chief Brexit negotiator Michel Barnier indicated a preference for a 'Canada Plus' type of trade deal, but the markets are still unsure what exactly this 'Plus' would entail. A Canada-style deal would involve the application of some EU laws and the free trade in goods, though it would limit the movement of people and would not involve any payment into the EU budget. As such, it resembles Mrs. May's Chequers plan. However, the pound will probably move with a lack of direction until the specific details of the Brexit negotiations become clearer.

Incidentally, the Bank of England's Monetary Policy Committee (MPC) is not scheduled to meet this month.

Naohiko Harada, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – October 2018

Expected Ranges	Against the US\$:	US\$0.7050–0.7450
	Against the yen:	JPY80.00–84.50

1. Review of the Previous Month

In September, the AUS/USD pair fell to a yearly low of \$0.7085 before rebounding to the upper-\$0.72 mark.

The pair approached the month trading in the upper-\$0.71 range. It then moved with a heavy topside on the weak retail sales figure for July (released September 3) and concerns about global trade frictions. As expected, the board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at 1.50% when it met on September 4. This led market participants to cover the short positions they had built up in anticipation of a negative surprise. At +3.4% y-o-y, meanwhile, Australia's GDP figure for April–June (released September 5) was up on the forecast for a rise of +2.9% y-o-y. All this led to several attempts on the pair's topside, though it failed to break above \$0.7250 and continued to trade in a range. The RBA's statement said that "the low level of interest rates is continuing to support the Australian economy...further progress in reducing unemployment and having inflation return to target is expected, although this progress is likely to be gradual...one continuing source of uncertainty is the outlook for household consumption...conditions in the Sydney and Melbourne housing markets have continued to ease." All in all, the statement contained no new factors. The US released some bullish August employment data on September 7. With the markets also reacting badly when President Trump said he was prepared to hit Chinese imports with further tariffs, the currency pair dipped down to around \$0.71.

Concerns about US/China trade frictions intensified mid-September. Chinese stocks fell and the Australian dollar followed suit, with the pair tumbling to a yearly low of \$0.7085 on September 11. The pair then rallied to the \$0.72 range on September 13 after the Australian new jobs data for August topped expectations, but with news emerging that President Trump would be placing new tariffs on Chinese goods worth \$200 billion, concerns about trade frictions continued to smolder away and the pair dropped back to the mid-\$0.71 level. However, the US then announced that the new tariffs would be implemented in stages, so the impact on the markets was muted and the pair was supported at the mid-\$0.71 mark.

With stock prices and interest rates rising across the globe late September, risk appetite increased and the Australian dollar also rose, with the currency pair bought back to around \$0.7300 on September 21. It moved around \$0.7250 thereafter.

2. Outlook for This Month

With global trade frictions showing no signs of being resolved, the AUS/USD pair is likely to continue moving with a heavy topside in October.

China is an important market for Australia when it comes to commodity exports and other forms of trade. As such, the Australian unit will continue to be swayed by concerns about US/China trade frictions. There was a particularly strong correlation between Chinese stocks and the Australian unit in September. The US has taken a hardline stance toward China and this is unlikely to ease off suddenly from October onwards, so the currency pair looks set to continue trading with a heavy topside.

On the domestic front, the minutes to last month's RBA board meeting stated that "[members agreed] there was no strong case for a near-term adjustment in monetary policy...members continued to agree that the next move in the cash rate would more likely be an increase than a decrease [if the economy performed as expected]...the modest depreciation of the Australian dollar was helpful for domestic economic growth." The minutes also revealed that the board had discussed troubles in emerging economies like Turkey and Argentina. Though the minutes mentioned rate hikes, the current economic situation has led to a growing sense in the markets that the Australian cash rate will be kept fixed for one year at least. This is also likely to weigh down the currency pair's topside.

When it comes to the Brexit negotiations, meanwhile, attention will be focused on whether the UK and EU can reach an agreement in October in time to reach a final resolution at the EU heads-of-state meeting in November. The European economy would be roiled if no agreement is reached, with the Australian unit also likely to be pushed lower by risk aversion.

However, the Australian dollar was bought back late September as major stocks rose across the globe and the markets grew more composed. This all came despite an intensification of US/China trade frictions. Furthermore, crude oil prices act as a benchmark for the price of liquefied natural gas (LNG), a major Australian export item. The Australian dollar will be supported by rising stock and crude oil prices, with the unit also bought back as investors unwind their substantial Australian-dollar short positions. Based on the above, the AUD/USD pair looks set to continue moving with a heavy topside in October, though it will probably trade in a range without any sharp drops.

Hiroko Nasu, Canada Office, Global Markets Coordination Department

Canadian Dollar – October 2018

Expected Ranges	Against the US\$:	C\$1.2850–1.3220
	Against the yen:	JPY84.20–87.45

1. Review of the Previous Month

Crude oil prices rose in September after an intensification of trade frictions between the US and China was avoided, with the Canadian dollar also rising slightly.

The USD/CAD pair opened the month trading at C\$1.3165. The US and Canada had failed to reach an early agreement about the NAFTA renegotiation by the August 31 deadline. As such, there was a lot of uncertainty about the direction of the talks when the two sides met again on September 5. Amid increasing US/China trade frictions and growing concerns about the emerging economies, the markets kicked off September in risk-off mode, with the greenback subsequently rising. As expected, the Bank of Canada (BOC) kept its policy rate fixed at 1.50% when it met on September 5. The accompanying statement also featured a dearth of new factors, so the impact on the market was muted.

During the afternoon of September 6, Carolyn Wilkins, senior deputy governor at the BOC, revealed that the bank's Governing Council had "discussed whether the gradual approach to raising rates that we have been taking over the past year remains appropriate." This comment led to rising expectations for an October rate hike, with the Canadian dollar strengthening and the currency pair slipping from C\$1.3225 to the \$1.31 range. On September 11, it was revealed that Canada might be prepared to make concessions when it came to access to its dairy products, one of the US's demands during the NAFTA talks. With President Trump also commenting that the negotiations were going very well, the Canadian dollar rose sharply.

Mid-September saw news that the new US tariff on Chinese goods would be 10%, not 25% as originally expected. It also seemed that talks between the two parties could start again. As a result, the markets grew less concerned about an intensification of trade frictions. Furthermore, with the US asking other nations to suspend imports of crude oil from Iran from November, news then emerged that Saudi Arabia was prepared to tolerate a temporary rise in crude oil prices as a result of tighter supply and demand conditions. Crude oil prices subsequently rose and this supported Canadian-dollar buying.

The Canadian retail sales data for July was released on September 21. As expected, the data hit +0.3% m-o-m, though the figure hit +0.9% m-o-m when the automobile sector was removed from the equation, up on the forecast of +0.6% m-o-m. The August CPI data was also released at the same time. At -0.1% m-o-m and +2.8% y-o-y, the overall data accorded with expectations, with the indicator sliding on the previous month (+0.5% m-o-m and +3.0% y-o-y). At +2.0%, though, the core CPI figure beat the prior

forecast of +1.9%. The markets reacted warmly to these firm results, with the Canadian unit subsequently bought and the currency pair temporarily hitting C\$1.2886.

2. Outlook for This Month

The US and Mexico have reached an agreement about NAFTA. The deadline for the decision about Canada's participation is looming on September 30, but there are still a number of important issues to be discussed. Amid growing concerns that the deadline might be missed, US trade representative Robert Lighthizer announced on September 26 that the talks could continue beyond September 30. As a result, it grew less likely that the US and Mexico would push ahead with a bilateral agreement that excluded Canada. The NAFTA negotiations will probably drag on beyond the end of September and they will require monitoring from here on as a factor impacting the USD/CAD pair.

As expected, the FOMC lifted interest rates for the third time this year when it met on September 26. The projections of FOMC members also remained unchanged at one more hike within the year, three in 2019 and one in 2020. The word 'accommodative' was removed from the subsequent statement, though FRB chair Jerome Powell stated in his press conference that "this change does not signal any change in the likely path of policy; instead, it is a sign that policy is proceeding in line with our expectations." With Mr. Powell also insisting that the US economy would continue to grow firmly, the currency pair topped C\$1.30 to temporarily hit C\$1.3025, though a dearth of any noteworthy factors suggests the pair may move heavily on the topside going forward.

BOC governor Stephen Poloz's closely-watched speech on September 27 failed to reveal anything particularly new about the policy outlook, so the impact on the currency pair was limited. The Canadian GDP data for July was released on September 28. At +0.2% m-o-m and +2.4% y-o-y, the data beat the prior forecast (+0.1% and +2.2%) on both a m-o-m and y-o-y basis, thanks in large part to the strong performance of Canada's manufacturing sector in July (+1.2%). After the announcement, bets on a rate hike at the October 24 BOC meeting rose to 90%, so the Canadian dollar was bought and the USD/CAD pair dipped below C\$1.30 to trade at C\$1.2920.

Korean Won – October 2018

Expected Ranges	Against the US\$:	KRW1,090–1,140
	Against the yen:	JPY9.950–10.363 (KRW100) (KRW9.650–10.050)

1. Review of the Previous Month

The USD/KRW pair swung to and fro at the start of September. Though it rose on US/China trade tensions, it could not break out of its range and it moved heavily on the topside. With risk sentiments then improving, it dipped to hit a monthly low on the last day of September.

The pair opened September trading at KRW1116.00. With the September 6 deadline looming for the submission of public comments about the new US tariffs on Chinese imports, risk aversion increased on expectations that the tariffs would come into force soon after the deadline expired. This mood saw the pair climbing to a monthly high of KRW1130.70 on September 11. Amid a dearth of any concrete factors, though, the pair did not climb higher.

News emerged during overseas trading time on September 12 that the US had approached China about restarting trade talks. Turkey's central bank then implemented a larger-than-expected rate hike during overseas trading time on September 13. As risk sentiments improved, the pair dropped to the KRW1116 range on September 14. The won was also supported as yields on South Korean government debt rose when prime minister Lee Nak-yeon said on September 13 that he agreed it was time to seriously consider lifting policy rates.

In the week beginning September 17, the currency pair was swayed by news about US tariffs on Chinese goods. With concerns rising about the invocation of these tariffs, the pair rose to just under KRW1130 on September 17. It then hit the KRW1130 range again on the morning of September 18 on the official announcement of new tariffs on \$200 billion worth of Chinese imports. However, the US said these tariffs would be phased in, so the announcement was not met by a rise in risk aversion but rather by a market-wide rise in risk appetite, with speculators closing out their positions on a sense that a troublesome factor was now out of the way, for example.

The won rose further in the week beginning September 24 as the UN General Assembly meeting confirmed that North Korean situation had at least stabilized and not deteriorated again. The USD/KRW pair hit a monthly low of KRW1107.60 on September 28 before closing the month at KRW1109.30.

2. Outlook for This Month

The USD/KRW pair is expected to trade firmly in October. With the US midterm elections looming in November, reports say President Trump's Republican Party could lose its majorities, especially in the lower house, so there is a real possibility Mr. Trump will get more aggressive on the foreign policy front as he tries to shore up support back home.

The currency pair has traded in a range between KRW1100–1140 these past few months. Considering its level at the end of September, the first factor to monitor this month will be whether the pair will break below KRW1100. Risk sentiments have calmed down, relatively speaking. If this trend continues, the pair could well dip under KRW1100 at the start of the month.

With the US midterms looming in November, though, it is hard to imagine this risk-on mood continuing throughout October. There have been several scandals recently involving people close to the Trump administration, so President Trump may take a more aggressive foreign policy stance as he seeks to divert the attention of the American people. US and Japanese stock markets are moving at highs, but if some events in a major market lead to a decline in risk sentiments, this trend could spread across the globe. Some within the US administration are looking for ways to reopen trade talks with China, but China has rebuffed these overtures and it is hard to predict where things will go from here. It is hard to see the US parking the China issue on the shelf for over one month, but it is also hard to imagine Mr. Trump making some concessions just before the midterms, so it appears the situation will get worse somehow. Furthermore, if it seems the Republicans will lose seats during the elections, this will lead to concerns about policy management after the election or fears that President Trump might take a more hardline stance. This would then lead to a deterioration in risk sentiments.

If Mr. Trump pivots toward North Korea and tries to carve out some policy successes there, this will probably lead to won buying, but overall it seems likely that risk aversion will intensify.

The Bank of Korea's Monetary Policy Committee (MPC) will be meeting on October 18. There is a growing sense that this meeting will raise the possibility of a rate hike at the next meeting in November. The markets have already factored this in to a considerable extent, so it is hard to imagine it leading to further won buying. In fact, if the meeting does not drop strong hints about a November rate hike, the won could face selling pressure, so caution will be needed.

In light of the above, it seems the USD/KRW pair will move firmly this month.

New Taiwan Dollar – October 2018

Expected Ranges	Against the US\$:	NT\$30.50–31.00
	Against the yen:	JPY3.57–3.73

1. Review of the Previous Month

The USD/TWD pair weakened in September.

The pair opened the month trading at TWD30.780. With the greenback moving with a heavy topside, it was then sold and the Taiwan dollar bought, with the pair tumbling to TWD30.688. With the RMB moving bearishly and the greenback starting to rally, though, the pair's losses since the start of the month were pared back and it edged back up to the TWD30.8 range. The US employment data for August was then released. Nonfarm payrolls rose by 201,000 m-o-m (forecast: +190,000 m-o-m), while average hourly wages grew by +2.9% y-o-y (forecast: +2.7% y-o-y). The US dollar was bought on these bullish results, though it was then sold by exporters, so the currency pair's topside was weighed down and it moved heavily at the mid-TWD30.8 mark.

On September 12, the Wall Street Journal reported that the US had asked China to reopen trade talks within the next few weeks. The RMB subsequently rose, as did commodity currencies like the Australian dollar, with the Taiwan dollar also rising against its US counterpart. On September 14, the USD/TWD pair temporarily hit a low of TWD30.722.

In the latter half of the month, the pair rose to TWD30.830 as the greenback was bought again on fears that the US would impose further tariffs on Chinese imports. In the morning of September 18, the US did announce that it would be placing new tariffs on Chinese goods worth \$200 billion. However, the tariff was set at 10% for 2018, less than the feared 25%, so the RMB was bought back and the USD/TWD pair's movements were suddenly marked by Taiwan-dollar buying. Stocks then rose on a growing sense of optimism about the impact of the new tariffs on the economy. With overseas funds also flowing into Taiwan, the currency pair fell to the TWD30.6 level.

Stocks continued to move firmly toward the end of the month. With exporters also selling the greenback at the month's end, the pair moved with a heavy topside.

2. Outlook for This Month

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

A glance at the indicators released in September shows August's export amount hitting +1.9% y-o-y, down on the previous figure of +4.7% y-o-y, though the data remained in positive territories for the

sixth month in a row (the data had temporarily fallen into negative territories in February on the impact of the Spring Festival holidays, but when this month is removed from the equation, growth has been positive for 22 months in a row). Exports of electronic parts (Taiwan's main export item) and exports to China (Taiwan's main export destination) grew by +1.3% y-o-y and +3.0% y-o-y, respectively. Growth in September 2017 was quite strong, so there are concerns the growth rate might dip this September too, though it seems exports remain firm. Imports of crude oil continued to increase (+34.3% y-o-y), so the trade surplus only hit \$4.52 billion. At +1.53% y-o-y, August's CPI figure grew at a slower pace compared to July. This was partly because the prices of domestic holidays were slashed through sales. The core CPI data (excluding volatile fresh food prices) hit +1.36% y-o-y, also down on July's figure of +1.50% y-o-y.

Attention will remain focused on the direction of US/China trade talks in October.

In September the US announced it would be imposing further tariffs on \$200 billion of Chinese imports, though the rate was set at 10%, lower than the feared 25% (it will rise to 25% from January 2019), so the USD/RMB pair fell and the markets were swept with an optimistic sense that the negative economic impact of the new tariffs would be quite small. As a result, stocks continued to move bullishly and substantial overseas funds flowed into Taiwanese equities, with the USD/TWD pair dipping from a monthly high of TWD30.840 on September 11 to temporarily hit TWD30.625. Planned trade talks between the US and China were called off last month, but there are hopes the two sides can hold a heads-of-state meeting at the G20 summit in November. If it does seem that talks will go ahead, the US dollar will continue to be bought.

However, the US is planning to impose further tariffs on Chinese imports worth \$267 billion. If this does come to pass, it will be harder to take an optimistic view about the impact on the economy. In this scenario, the greenback will probably be bought again and the Taiwan dollar sold as the RMB moves bearishly once more, so caution will be needed.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – October 2018

Expected Ranges	Against the US\$:	HK\$ 7.8000–7.8400
	Against the yen:	JPY 13.90–14.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

The Hong Kong dollar remained weak, as was the case previously, even though the U.S. dollar/Hong Kong dollar exchange rate did not touch the HKD 7.85 level—the lower end of the fluctuation band under the peg system. However, on September 21 before the Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Hong Kong dollar exchange rate suddenly fell to the HKD 7.793 level (as a result of the sharp appreciation of the Hong Kong dollar). This seems to be a result of the fact that market participants expected the prime rate of the Hong Kong dollar to be raised following the interest rate hike at the FOMC, which was seen as being certain. As the interest rate differentials between the U.S. dollar and the Hong Kong dollar were narrowing down, market participants unwound Hong Kong dollar short positions in carry trades that had been accumulating, leading to a large number of stop-loss orders. As a consequence, the U.S. dollar/Hong Kong dollar spot exchange rate fell sharply. It should also be mentioned that concerns over trade frictions between the U.S. and China have been somewhat mitigated, after the announcement by the U.S. regarding the additional customs tariffs against China (which was 10% until the end of the year, lower than the expected 25%), while the trends in the Hong Kong stock market have recently been reversed. These factors are also considered to be preventing capital outflow from the Hong Kong dollar market, contributing to the sharp appreciation of the Hong Kong dollar. The one-year Hong Kong dollar forward points rose to approach -276 for the first time in approximately 10 months, as market participants expected the Hong Kong dollar interest rates to rise in the times ahead.

Hong Kong dollar interest rate market in September

As market participants were certain that the Federal Reserve Board (FRB) would raise the interest rate in the U.S. in September, the raise of the prime rate in Hong Kong has also gradually been reflected in the market. While Hong Kong is about to enter a phase of interest rate hikes for the first time in 12 years, short- and medium-term interest rates rose significantly to exceed 2%. Furthermore, there were also seasonal factors at the end of a quarter, as well as fund procurement demand for IPOs, contributing to the appreciation of Hong Kong dollar interest rates. Under such a context, the spread between the Hong Kong

dollar HIBOR and the U.S. dollar LIBOR narrowed to reach par and -20 basis points for one month and three months, respectively. With regard to long-term rates as well, the curve remained flat, while the interest rate swap (IRS) rate increased to reach approximately 3.0% and 3.1% for three years and five years, respectively. The checkable deposit balance of the Hong Kong Monetary Authority (HKMA), used for the measurement of the liquidity level in the Hong Kong dollar market, remained almost flat at around HKD 76.3 billion, as no market interventions were seen.

Hong Kong stock market in September

The benchmark Hang Seng Index fell to reach 26,220 for the first time in 14 months, after which it rallied to approach the 27,500 level, positively reacting to the fact that the rate of the additional customs tariffs (on Chinese imports worth a total of USD 200 billion in import value) introduced by the U.S. against China are initially to be 10% until the end of the year, lower than the expected 25%. As concerns over the trade frictions between the U.S. and China were mitigated temporarily, the pressure for capital outflow weakened and the Chinese and Hong Kong stock prices rallied significantly.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

In October, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate between HKD 7.80 and HKD 7.84. The sharp appreciation of the Hong Kong dollar was a result of the short positions that accumulated to an excessive level, and market participants saw this as a type of overreaction. Therefore, the U.S. dollar/Hong Kong dollar exchange rate is expected to fall gradually to approach HKD 7.83 level. On the other hand, the Hong Kong dollar interest rates have recently been appreciating. Thus, it will take some time for the U.S. dollar/Hong Kong dollar exchange rate to reach the HKD 7.85 level—the lower end of the fluctuation band. Furthermore, the mitigation of immediate concerns over the trade frictions between the U.S. and China as well as the rally of the Hong Kong stock prices would also support the Hong Kong dollar in the times ahead. The one-year Hong Kong dollar forward point level is likely to continue rising, as the Hong Kong interest rate market is entering a phase of appreciation.

Hong Kong dollar interest rate market in October

The upward pressure on Hong Kong dollar interest rates is forecast to remain strong, as the Hong Kong interest rate market is entering a phase of appreciation. In October, after the end of the quarter, the appreciation of the short-term interest rates in Hong Kong is likely to slow down to a certain extent. However, as capital demand for the Hong Kong dollar is growing, the interest rates are not likely to fall to a great extent. The pressure for capital outflow has decreased, thanks to the rally of the U.S. dollar/Hong

Kong dollar spot exchange rate as well as the narrowing of the spread between the Hong Kong dollar and the U.S. dollar interest rates. Therefore, interest rates are likely to appreciate. On the other hand, as the checkable deposit balance of the HKMA has been high at HKD 76.3 billion, it is not necessary for banks in Hong Kong to actively raise interest rates.

Kei Yano, Treasury Division, MHBK (China)

Chinese Yuan – October 2018

Expected Ranges	Against the US\$:	CNY 6.5000–7.0000
	Against the yen:	JPY 15.00–16.92
	Against 100 yen:	CNY 5.9100–6.6700

1. Review of the Previous Month

Foreign exchange market

In September, the Chinese yuan continued depreciating against the U.S. dollar, due to the concerns over the trade frictions between the U.S. and China, as had been the case previously.

During the first half of the month, market participants bought back the currencies of emerging countries with expectations for the central bank of Turkey to raise interest rates. In reaction to this, the Chinese yuan temporarily appreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate once fell below the CNY 6.81 level. However, thereafter, the U.S. dollar/Chinese yuan exchange rate did not move in any direction, as some important events were approaching, such as the period for public comments on the customs tariffs of the U.S. against China (on Chinese imports worth a total of USD 200 billion in import value) ending on September 6 and the release of the August employment statistics of the U.S. scheduled for September 7. As a result, the U.S. dollar/Chinese yuan exchange rate continued hovering between CNY 6.83 and CNY 6.84. Then, on September 7, the August employment statistics of the U.S. were released, revealing the fact that the increase rate of the hourly wage recorded its highest figure since 2009, while U.S. President Donald Trump once again commented that the U.S. was ready to slap China with more customs tariffs (on Chinese imports worth a total of USD 267 billion in import value). As a consequence, the U.S. dollar/Chinese yuan exchange rate rose to exceed CNY 6.87 on September 11. Thereafter, the exchange rate fell again and fluctuated at the mid-CNY 6.8 level due to the media coverage on the resuming of trade negotiations between the U.S. and China.

In the second half of the month, the U.S. made an announcement on September 17 that it would slap China with customs tariffs on Chinese imports worth a total of USD 200 billion in import value, from September 24. However, the rate for the customs tariffs for the rest of the year turned out to be low, at 10% instead of the 25% originally expected. Furthermore, the retaliatory tariffs introduced by China also turned out to be within the expected level, and there were no more factors to influence the market. As a result, market participants started buying back stocks globally. Under such a context, the Chinese yuan appreciated

against the U.S. dollar. It should also be mentioned that there has been a media report that China is planning to cut import tariffs in October, mitigating trade-related concerns to some extent, which led the U.S. dollar/Chinese yuan exchange rate to fall below CNY 6.84. On September 22, the media reported that the U.S.–China ministerial meeting had been cancelled, and the two countries both introduced new customs tariffs on September 24. As a result, after the mid-autumn festival, the Chinese yuan depreciated again against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate exceeded CNY 6.87. However, the U.S. dollar/Chinese yuan exchange rate has not been moving in any direction thereafter, as National Day of the People's Republic of China is approaching.

Interest rate market

During the first half of the month, the overnight interest rate temporarily appreciated sharply. However, interest rates for other periods remained low and stable. As a result of the rollover of medium-term lending facility (MLF) loans and open-market operations, the liquidity level in the capital market was kept high. On the other hand, in the afternoon of September 5, it seems that the People's Bank of China (PBOC) absorbed funds through repo transactions even though this was not publicly announced. This suggests that the PBOC has been attempting to flatten the curve in order to control leverage transactions by financial institutions. As the fund procurement demand increased toward National Day of the People's Republic of China, short-term interest rates temporarily appreciated to a limited extent. However, the liquidity level was kept high and remained generally stable.

2. Outlook for This Month

Foreign exchange market

In October, the Chinese yuan is forecast to gradually depreciate against the U.S. dollar.

Since August, the Chinese monetary authorities have been taking a series of measures to control the depreciation of the Chinese yuan, while Premier of China Li Keqiang underlined in his speech at the World Economic Forum's Annual Meeting of the New Champions in Tianjin that the Chinese yuan would not be devaluated just to promote exports. It is thus unlikely for the Chinese monetary authorities to accept the excessive depreciation of the Chinese yuan that would lead the U.S. dollar/Chinese yuan exchange rate to exceed CNY 7.0.

On the other hand, however, it is also difficult to expect the Chinese yuan to start appreciating in October. With regard to the trade negotiations between the U.S. and China, the two countries are unlikely to soften their attitudes as the mid-term elections in November approach in the U.S. The problem is thus likely to persist for the long term. On the contrary, U.S. President Donald Trump has announced his plan to levy a

retaliatory tariff of 25% on all other imports from China if China introduces a retaliatory tariff for the customs tariffs (on Chinese imports worth a total of USD 200 billion in import value) already levied against China. Therefore, it is possible for the situation to deteriorate in the times ahead. With regard to monetary policy, market participants are expecting the deposit reserve requirement ratio to be cut further from the point of view of economic support and fund supply, showing a clear trend of monetary easing. The downward pressure on the Chinese yuan is therefore expected to strengthen. Furthermore, China plans to cut import customs for a wide range of articles. For this reason, the Chinese yuan is expected to continue depreciating albeit slowly, as the U.S. maintains its plan to raise the interest rate at a gradual pace.

As was the case in September, it is also possible for the U.S. dollar/Chinese yuan exchange market to be impacted by media reports related to the trade frictions between the U.S. and China. Market participants should therefore remain cautious in the times ahead.

Interest rate market

In October, interest rates are forecast to remain low as a result of the easing policy, as has been the case so far.

After the National Day of the People's Republic of China, the growth of fund procurement demand is likely to slow down, while the Chinese monetary authorities may take measures of monetary easing, such as a cut of the deposit reserve requirement ratio, in order to support the economy and to maintain the liquidity level. The downward pressure on interest rates is therefore likely to persist.

On the other hand, if the actual economy strengthens as a result of the fiscal policy, leading stock prices to appreciate, bond prices are likely to fall and lead medium- and long-term interest rates to appreciate. While the trade frictions between the U.S. and China persist, market participants should remain careful about the attitude of the Chinese monetary authorities and the impact on the actual economy.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – October 2018

Expected Ranges	Against the US\$:	SG\$ 1.3550–1.3800
	Against the yen:	JPY 80.00–84.00

1. Review of the Previous Month

In September, the U.S. dollar/Singapore dollar fluctuated violently in both directions within the wide range between the lower-SGD 1.36 level and the lower-SGD 1.38 level, with media reports on the trade frictions between the U.S. and China, as well as growing concerns over the possibility that the next target for trade revisions after China will be Japan.

In the first week of the month, market participants started selling Asian currencies due to concerns over the confusion related to emerging countries and international trade frictions. Under such a context, market participants sold the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.38 level toward the middle of the week. In the second half of the week, the U.S. dollar weakened, which weakened the pressure to sell Asian currencies. However, concerns persisted over the impact of the crisis in emerging countries, while concerns persisted over the additional customs tariffs by the U.S. against China. As a result, the Singapore dollar did not appreciate against the U.S. dollar further than the mid-SGD 1.37 level.

In the second week of the month, the current deficit of the Indian rupee market (INR) turned out to be at the highest level in the past five years on September 10. In negatively reacting to this, market participants sold the Indian rupee and the U.S. dollar/Indian rupee exchange rate exceeded INR 72 and reached upper-INR 72. While Asian currencies remained weak, the Singapore dollar depreciated further against the U.S. dollar and the exchange rate approached the SGD 1.38 level. On September 12, the media reported that U.S. Secretary of the Treasury Steven Mnuchin proposed to China that the trade negotiations be resumed, which encouraged market participants to sell the U.S. dollar. As a consequence, market participants bought the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate approached the SGD 1.37 level.

In the third week of the month, the Indian rupee depreciated significantly on September 17. As a result, the overall Asian currencies weakened, including the Singapore dollar. On September 18, U.S. President Donald Trump announced that additional customs tariffs against China (on Chinese imports worth a total of USD 200 billion in import value) would be introduced in a staggered fashion, with a 10% rate beginning on September 24. In reaction to this, market participants started selling Asian currencies, including the

Singapore dollar. However, Chinese stock prices appreciated thereafter, while the stock market also remained strong worldwide, which led market participants to buy back Asian currencies. On September 19, Premier of China Li Keqiang made a remark that he would not devalue the Chinese yuan to promote exports. In positively reacting to this, Asian currencies appreciated slightly. On September 20, Asian currencies strengthened and stabilized, as risk sentiment improved and concerns over the trade frictions between the U.S. and China were somewhat mitigated for the time being.

In the fourth week of the month, market participants maintained a wait-and-see attitude on September 24 and 25, waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. as well as the General Assembly of the United Nations. Under such a circumstance, the overall Asian currencies, including the Singapore dollar, remained stable.

2. Outlook for This Month

In October, the Singapore dollar is forecast to remain stable, as the currencies of emerging countries have been strong thanks to the monetary policy announced by the Monetary Authority of Singapore (MAS), as well as the growing risk-taking sentiment in the market.

In October, the most-important event will be the biannual revision of the monetary policy at the MAS. In April, the MAS shifted its neutral stance to monetary tightening for the first time in two years, resuming the measure to lead the Singapore dollar to appreciate in terms of the nominal effective rate. Thereafter, the trade frictions between the U.S. and China intensified, while risk-averse sentiment strengthened after the Turkish lira crisis, leading the U.S. dollar to strengthen globally. Following this trend, the Singapore dollar continued depreciating. From this point of view as well, the MAS may start leading the Singapore dollar to appreciate gradually in the times ahead.

It should also be mentioned that the third-quarter GDP of Singapore is scheduled to be out at the same time, which has been also attracting substantial attention in the market. Compared to the strong result of the first half of the year, which turned out to be +4.2%, the second half of the year is likely to see a slowdown to +3–3.5%. However the growth rate is expected to remain high, still exceeding +3.0%—the potential for growth identified by the MAS.

On the other hand, U.S. President Donald Trump plans to improve the trade deficit significantly in order to raise the approval rate toward the mid-term elections scheduled for November 6 in the U.S. This may strengthen protectionist attitudes in the U.S. With regard to the trade frictions between the U.S. and China, there has still been a large gap between the two countries without any significant progress. Furthermore, there is another risk factor in that Japan could become the next target. Therefore, as a result of the intensification of the trade frictions, market participants may buy the U.S. dollar in order to avert risks,

and this should be kept in mind.

Thai Baht – October 2018

Expected Ranges	Against the US\$:	THB 31.50–33.30
	Against the yen:	JPY 3.42–3.52

1. Review of the Previous Month

In September, the U.S. dollar/Thai baht exchange rate remained strong during the first half of the month, while the rate depreciated in the second half of the month.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.80 on September 3. The August Consumer Price Index of Thailand (year-on-year) turned out to be +1.62%, exceeding the market estimate. As a result, market participants expected the interest rate to be raised, leading the U.S. dollar/Thai baht exchange rate to fall and approach THB 32.70. On September 4, the August Consumer Confidence Index of Thailand turned out to be at its highest level since 2013, at 83.2, leading the Thai baht to continue appreciating against the U.S. dollar. However, interest rates appreciated in the U.S. thereafter, strengthening pressure to buy the U.S. dollar. As a result, the depreciation of emerging currencies accelerated. Following this trend, market participants sold the Thai baht as well, and the U.S. dollar/Thai baht exchange rate rose to approach THB 32.80. On September 6, the currencies of neighboring countries such as the Indian rupee and the Indonesian rupiah renewed their lowest rate. However, the Thai baht exchange market remained stable. Then, on September 7, the August employment statistics of the U.S. were released, revealing relatively strong figures. As a consequence, the U.S. dollar/Thai baht exchange rate rose to approach THB 32.80, albeit to a limited extent.

In the middle of the month, the U.S. dollar/Thai baht exchange rate reached the upper-THB 32.80 level, hitting the monthly high, while market participants continued buying the U.S. dollar. However, some market participants speculated that the central bank of Thailand would raise the interest rate at its monetary policy committee (MPC) meeting scheduled for September 19, which led the U.S. dollar/Thai baht exchange rate to fall gradually to the lower-THB 32.80 level. On September 12, Finance Minister of Thailand Apisak Tantivorawong made a remark that there is still no need for the central bank of Thailand to raise the interest rate. However, the reaction in the market to this remark was limited. Thereafter, U.S. dollar-selling became dominant in the market due to weak figures in the U.S. economic indices, and the U.S. dollar/Thai baht exchange rate fell to approach THB 32.70. On September 13, the media reported that trade negotiations between the U.S. and China would be resumed, strengthening overall Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 32.50 level

toward September 14. However, the news headlines reported that U.S. President Donald Trump would slap China with customs tariffs (on Chinese imports worth a total of USD 200 billion in import value), in reaction to which risk-averse sentiment strengthened in the market and the U.S. dollar/Thai baht exchange rate rallied to approach THB 32.70 again. On September 17, concerns persisted over the trade frictions between the U.S. and China. However, it turned out that the additional customs tariffs of the U.S. against China would only occur at the rate of 10% until the end of the year, therefore somewhat mitigating concerns over the trade negotiations between the U.S. and China. As a result, the U.S. dollar/Thai baht exchange rate fell to approach THB 32.50 while the Chinese yuan continued appreciating.

In the second half of the month, the central bank decided to maintain the policy interest rate at 1.50% as a result of the MPC meeting, which attracted substantial attention in the market. However, the number of committee members that voted for an interest rate hike increased from one at the previous meeting to two, which raised expectations for an interest rate. As a result, the U.S. dollar/Thai baht exchange rate reached its monthly low at the lower-THB 32.30 level. On September 21, the Thai SET Index recorded positive growth for four consecutive business days, showing the strength of the Thai baht. However on the same day, local time, concerns grew over the “hard Brexit,” leading the U.S. dollar/Thai baht exchange rate to rise to approach THB 32.45. From September 24 toward September 26, the exchange rate did not move significantly, waiting for the Federal Open Market Committee (FOMC) meeting. At said meeting, the interest rate was raised, as had been expected in the market, thus without any surprise. Therefore, the reaction was minimal in the U.S. dollar/Thai baht exchange market. On September 27, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at around THB 32.45.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to fall in October.

The important points in foreseeing the trends in the Thai baht exchange market in October regard whether economic indices will turn out to be strong so as to support an interest rate hike by the central bank of Thailand. On September 19, the monetary policy committee of Thailand decided to maintain the policy interest rate at the current level, as had been expected in the market. However, the number of the committee members that voted for the interest rate hike increased from one to two, which fueled expectations for an interest rate hike in the times ahead, which is keeping the U.S. dollar/Thai baht exchange rate from appreciating. Before the announcement of this decision, there were some market participants, mainly those in the offshore market, who expected three committee members to support an interest rate hike. Thus, it seems to be a rather dovish result that only two members supported an interest rate hike. However, immediately after the announcement of this decision, the U.S. dollar/Thai baht exchange rate fell, which suggests that a large number of participants in the onshore market expect an interest rate hike to be still too early and that expectations for an interest rate hike are not sufficiently strong. At the FOMC meeting

held in September, the interest rate was raised, as had been expected in the market. While it is now likely for the interest rate to be raised in December before the end of the year and three more times in 2019, market participants should remain even more careful about the attitude of the central bank of Thailand regarding a possible interest rate hike. In terms of economic conditions in Thailand, economic indices remain strong as far as shown by those already announced. For example, the August Consumer Price Index recorded year-on-year growth of +1.62%, exceeding 1.5%—the policy interest rate. Thus, the September Consumer Price Index scheduled to be out on October 1 is likely to attract even more significant attention in the market. While the interest rate is being raised steadily in the U.S., the crude oil price continues to appreciate, strengthening inflation pressure in neighboring countries in Asia with a current account deficit, such as India and Indonesia. Under such circumstances, interest rates are expected to continue rising globally in October. With regard to fundamentals, the Thai baht has factors that can attract market participants. However, there are also some possible situations in which the Thai baht would depreciate against the U.S. dollar, including (1) if the trade negotiations between the U.S. and China do not make progress, leading the Chinese yuan to depreciate, following which the Thai baht is also likely to depreciate and (2) if the euro and the British pound continue to depreciate against the U.S. dollar due to concerns over the “hard Brexit,” as well as the fiscal problems in Italy, also leading the Thai baht to weaken.

Both negotiations seem to be at a stalemate at the moment, and it is difficult to expect new factors to be visible in October. In October, there is no monetary policy meeting scheduled in major countries, making market participants more attentive to the actual economy. Thus, if the strength of the Thai economy is confirmed through strong figures in economic indices, market participants are likely to buy the Thai baht. The U.S. dollar/Thai baht is therefore forecast to fall in October.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2018

Expected Ranges	Against the US\$:	MYR 4.1000–4.2000
	Against the yen:	JPY 26.70–27.70
	Against 100 yen:	MYR 3.6100–3.7500

1. Review of the Previous Month

In September, the Malaysian ringgit recorded its lowest rate against the U.S. dollar since the beginning of the year at MYR 4.1510 in the middle of the month. Toward the end of the month, short-term risk tolerance level improved and the Malaysian ringgit rallied to some extent.

As a result of the trade frictions between the U.S. and China as well as the risk-averse sentiment caused by the events in Turkey and Argentina, the Malaysian ringgit had recorded its lowest rate against the U.S. dollar since the beginning of the year, at MYR 4.1110 as of the end of August. At the beginning of September, U.S. dollar remained strong and the Malaysian ringgit renewed again its lowest rate against the U.S. since the beginning of the year, despite the fact that the July trade balance saw a significant growth in trade profit, from the MYR 6.0 billion observed in the previous month to MYR 8.3 billion. This trend was further supported by the fact that the crude oil price depreciated even though oil production was discontinued in southern coastal regions in the U.S. On the other hand, in the U.S., the short-term interest rate appreciated and the August ISM Manufacturing Report on Business turned out to be strong (61.3, the highest in the past 14 years), which strengthened the U.S. dollar. Under such a context, the Malaysian ringgit depreciated against the U.S. dollar to MYR 4.1485 on September 6.

In the following week after the release of the August employment statistics of the U.S., recorded their highest growth in the average hourly wage since 2009, the U.S. dollar/Malaysian ringgit exchange rate finally exceeded MYR 4.15, recording the lowest rate for the Malaysian ringgit since the beginning of the year on September 12 after the four consecutive local holidays. However, the August Consumer Price Index of the U.S. turned out to be weaker than expected, leading the U.S. dollar index to fall, which slowed down the depreciation of the Malaysian ringgit.

On September 17, the U.S. made an announcement on the introduction of additional customs tariffs against China for the third time. However, as the Chinese monetary authorities announced their plans to increase investment into toll roads and bridges as a measure to mitigate the negative impact from trade frictions

between the U.S. and China, the reaction to this news in the market was limited. It seems that the exchange of retaliatory tariffs between the U.S. and China had already been reflected in the market. Thereafter, the U.S. bond yields appreciated. Stock prices also appreciated worldwide, temporarily raising the risk tolerance level. As a result, the Kuala Lumpur Composite Index also started to rise and the U.S. dollar/Malaysian ringgit exchange rate returned to MYR 4.1280 on September 21. Weekly trading closed at this level.

During the weekend, the media reported the cancellation of trade negotiations between the U.S. and China. At that timing, demand for the U.S. dollar increased, as it was the end of the quarter, pushing the U.S. dollar/Malaysian ringgit exchange rate back to the MYR 4.13 level on September 24. On September 25, there was a Malaysian government bond auction. However, the result was not surprising, involving mostly domestic members, and it had no impact on the foreign exchange market. While paying attention to the Federal Open Market Committee (FOMC) meeting, the U.S. dollar/Malaysian ringgit exchange rate remains at the MYR 4.1350 level as of September 26.

2. Outlook for This Month

In October, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate in the range of MYR 4.10 and MYR 4.20. Even though the risk tolerance level is temporarily high at the moment, concerns persist surrounding the trade frictions between the U.S. and China. Furthermore, the government is scheduled to announce the governmental budget bill for FY2019 on November 2, and therefore investors are likely to maintain a wait-and-see attitude before this announcement. Therefore, funds are likely to return to Malaysia after this event.

Since June, risk-averse sentiment in the market has been growing due to the trade frictions between the U.S. and China, leading the Malaysian ringgit to depreciate. Market participants should not underestimate the impact on the Asian stock market that would appear in many countries at different times. However, the situation is temporarily calming down for the moment. Toward the end of the year, domestic investors are paying attention rather to the above-mentioned governmental budget bill for the next fiscal year, to be out on November 2. The most-important question regards whether the new government in Malaysia would be able to re-establish large-scale projects while maintaining a good relationship with China and to keep its public promises, such as the introduction of economic stimulus measures, while keeping a healthy primary balance.

As was mentioned in the article for September, Fitch, a ratings agency, on August 14 announced its decision to maintain the sovereign rating of Malaysia (-A) and outlook at "Stable." However, on September 6, S&P, another ratings agency, released a report in which it mentioned the risk for the sovereign rating of Malaysia to be downgraded if the austerity policy based on a decrease in government

revenue causes a contradiction to expectations for growth.

It is not possible to know if the following was a reaction to this, but Finance Minister of Malaysia Lim Guan Eng raised eight points* to exemplify his positive outlook on politics and economy at an investment forum held in Hong Kong on September 17.

* The eight points include: sustainable development, the diversification of the service and industrial products sector, a healthy labor market, a surplus in the current account balance, flexibility in the Malaysian ringgit exchange market, net assets in foreign currencies in the private sector, a low inflation rate, and direct investment needs for Malaysia from manufacturers in both the U.S. and China as a result of the trade frictions between the two countries.

It should also be mentioned that Moody's, another ratings agency, released its outlook on September 19 in which it was forecast that the economic growth of Malaysia will likely remain at a healthy level until the end of the year.

It is clear that the new government is highly conscious of attention from overseas investors and ratings agencies. The question is whether the government will be able to live up to their expectations.

Ryosuke Kawai, PT. Bank Mizuho Indonesia

Indonesian Rupiah – October 2018

Expected Ranges	Against the US\$:	IDR 14,700–15,100
	Against 100 rupiah:	JPY 0.74–0.77
	Against the yen:	IDR 130.00–136.00

1. Review of the Previous Month

In September, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within the range of IDR 14,735 and IDR 14,940. Due to the confusion in the emerging market and the growing concerns over an international trade war, the Indonesian rupiah recorded its low for the first time in 20 years since the Asian currency crisis.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,735. With the confusion in the emerging market and growing concerns over an international trade war, the U.S. dollar/Malaysian ringgit exchange rate started rising immediately after the month's market opening, exceeding the 14,730 recorded in September 2015 and significantly tightening the flow of U.S. dollar-selling and Indonesian rupiah-buying in the foreign exchange market. On September 4, the U.S. dollar/Indonesian dollar exchange rate rose to reach IDR 14,940, renewing the low for the Indonesian rupiah for the first time in 20 years since the Asian currency crisis. In the meantime, both Indonesian stocks and bonds were sold as well, realizing the situation of triple depreciation. Then, on September 3, the August Consumer Price Index of Indonesia was released and the result turned out to be +3.20% year-on-year—as had been expected in the market. On September 7, the August amount of foreign currency reserves of Indonesia was announced, revealing a decrease for the seventh consecutive month, at USD 117.9 billion (a decrease of USD 400 million from the previous month).

Thereafter, when the U.S. dollar/Malaysian ringgit exchange rate approached the IDR 15,000 level, market participants had speculations about market interventions by the central bank of Indonesia, which reversed the trends in the market, and the U.S. dollar/Indonesian rupiah pair continued trading at the IDR 14,800 level. However, on September 17, the August trade balance of Indonesia was released, revealing a deficit greater than expected in the market (the result was –USD 1.02 billion while the estimate was –USD 670 million). In response to this, the U.S. dollar/Indonesian rupiah exchange rate rose to reach the IDR 14,900 level again.

On September 27, a Federal Open Market Committee meeting was held in the U.S., and the interest rate

was raised by 0.25%, revealing that the majority of FRB members support the plan to raise the interest rate once more before the end of the year and three times next year. On the following day, the central bank of Indonesia decided to raise the interest rate by 0.25% for the fifth time this year. However, this did not strengthen the Indonesian rupiah. The U.S. dollar/Indonesian rupiah pair has been trading at around IDR 14,920 (based on the closing rate of September 27, 2018).

2. Outlook for This Month

In the coming month, the U.S. dollar/Indonesian rupiah exchange rate is forecast to fluctuate mainly within the range between IDR 14,800 and IDR 15,000 with the continued flow of Indonesian rupiah-selling and U.S. dollar-buying based on actual demand (in terms of current account balance).

Having seen the persistent deficit in the current account balance, the Indonesian government has announced various measures to reduce the deficit, such as (1) a raise of pre-paid income tax, (2) an obligatory blend of biodiesel by 20% in light fuel oil, and (3) an obligatory conversion of 50% of the exports into the Indonesian rupiah by commodity-exporting companies within six months. However, there are doubts about the efficiency of the measures, and thus market participants are generally skeptical.

It should also be mentioned that the central bank of Indonesia held its regular meeting on September 27 and announced that it will introduce a new regulation to enable NDF transactions in the domestic NDF market. (Currently, the access to the overseas NDF market is not permitted for domestic banks in Indonesia.) The objective of this measure is to mitigate the downward pressure on the Indonesian rupiah based on the NDF market. However, the efficiency of this measure is also unknown.

For the above reasons, the downward pressure on the Indonesian rupiah is likely to persist from the point of view of the current account balance. Furthermore, it is very possible for the U.S. dollar/Indonesian rupiah exchange rate to exceed IDR 15,000 toward the end of the year, although market participants are highly conscious of this level being a defense line.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – October 2018

Expected Ranges	Against the US\$:	PHP 53.30–55.00
	Against the yen:	JPY 2.04–2.15

1. Review of the Previous Month

In September, the U.S. dollar/Philippine peso exchange market opened trading at PHP 53.53, while market participants were selling the currencies of emerging countries due to persistent concerns over international trade frictions.

On September 5, the August Consumer Price Index of the Philippines was released and the result turned out to be +6.4% year-on-year, exceeding the +5.7% year-on-year observed in the previous month as well as +5.9%—the market estimate. In negatively reacting to the accelerating inflation, the pressure to sell the Philippine peso strengthened, and on September 6, the U.S. dollar/Philippine peso exchange rate exceeded the level maintained in the last 2.5 months (PHP 53.55 to the U.S. dollar) when cautious feelings about market intervention weakened in the market. This led to the sharp depreciation of the Philippine peso against the U.S. dollar. On September 7, the U.S. dollar/Philippine peso pair traded temporarily at PHP 53.975—the highest level for the U.S. dollar against the Philippine peso since December 2005. Thereafter, some market participants bought back the Philippine peso, waiting for the release of the August employment statistics of the U.S., adjusting positions toward the end of the week while growing more cautious about market interventions. As a result, weekly trading closed at PHP 53.73.

On September 10, the U.S. dollar/Philippine peso exchange market opened trading at PHP 53.79. This was due to the fact that (1) market participants bought the U.S. dollar after the August employment statistics of the U.S. were released, while (2) the pressure to buy the U.S. dollar strengthened with growing risk-averse sentiment based on the concerns over the currencies of emerging countries.

On September 11, the Philippines Statistics Authority announced the July trade balance of the Philippines, which turned out to be a deficit of USD 3.55 billion. As the deficit grew from the previous month (–USD 3.19 billion), the market reacted negatively and sold the Philippine peso. It seems that there were also large-scale transactions to buy the U.S. dollar based on actual demand. As a result, the U.S. dollar/Philippine peso exchange rate reached the PHP 54 mark on September 12.

Thereafter, the central bank of Turkey raised the interest rate higher than expected in the market, which

fueled expectation for a slowdown in the depreciation of the currencies of emerging countries. On September 17, the July overseas Filipino workers (OFW) remittances reached USD 2.4 billion, recording an increase of 5.2% year-on-year, and on September 18, U.S. President Donald Trump decided to introduced additional customs tariffs on imports from China, while also cutting the tariffs' proposal from the initially planned 25% to 10% until the end of the year. Furthermore, on September 19, Chinese Premier Li Keqiang made a remark to confirm that the Chinese yuan would not be devaluated only to promote exports. For these reasons, overall Asian currencies strengthened, encouraging market participants to buy back the Philippine peso as well. As a result, the U.S. dollar/Philippine peso exchange rate hovered around the PHP 54 level.

Toward the end of the month, market participants bought the U.S. dollar as a safe asset with the persistent concerns over the trade frictions between the U.S. and China. As a consequence, the U.S. dollar/Philippine peso has been trading at the PHP 54.20-PHP 54.30 level—the lowest level for the Philippine peso against the U.S. dollar since November 2005 (as of September 26).

2. Outlook for This Month

As was discussed above, the figure for the July OFW remittances was seen as a factor to weaken the pressure to sell the Philippine peso. However, it did not impact the market significantly.

Indeed, adding the July trade deficit of the Philippines and the OFW remittances, the net balance would be –USD 1.15 billion, showing an increase in the negative figure. It can thus be said that the monthly trade deficit has not been covered by OFW remittances.

With regard to the trade frictions between the U.S. and China, market participants expect the trade negotiations between the U.S. and China to be resumed. However, there is little hope for resuming the negotiations in the near term.

The Philippine stock price index has seen increasing pressure to sell since the beginning of the year, and it seemed that the index hit the bottom in the middle of June. However, with growing concerns for inflation, market participants expect the Philippine peso interest rates to be higher in the times ahead, which led the stock prices to continue falling in September. There has been no particular point where the depreciation can be stopped, and the stock price index once recorded a fall of more than 9% from the rate observed at the end of August.

With regard to the weekly Philippine stock transactions by overseas investors as well, there has been a significant amount of net selling since September, although the pressure to sell had been easing since the end of July. Under such circumstances, it can be said that there has been no change in the down trend in

the Philippine peso market.

The monetary policy committee meeting at the central bank of the Philippine is scheduled for September 27, and the interest rate is expected to be raised by 50 basis points, although the time in which this article is being written it has not been announced yet. Even though an interest rate hike can be a measure to defend the currency, it should also be mentioned that there are not many market participants that want to buy the Philippine peso at this point, due to the growing concerns over accelerating inflation.

Market participants should rather pay attention to whether the central bank of the Philippines will introduce measures to slow down the depreciation of the Philippine peso.

Also, it should be kept in mind that if there is an efficient measure, market participants may actively buy back the Philippine peso by unwinding the U.S.-dollar buy positions that accumulated in the past.

The reality is finally approaching the forecast published at the beginning of the year: "It is possible for the U.S. dollar/Philippine peso exchange rate to momentarily reach PHP 55." While based on the fundamentals the Philippine peso is likely to depreciate against the U.S. dollar, given the moves of the Philippine monetary authorities, the U.S. dollar/Philippine peso exchange market is likely to be rather volatile. It should not be forgotten that, after the announcement of the August Consumer Price Index, which significantly exceeded market estimate, the overnight Philippine peso interest rate rose to approach 9% (as of September 26).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – October 2018

Expected Ranges	Against the US\$:	INR 69.60–73.90
	Against the yen:	JPY 1.47–1.61

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate renewed its all-time high again in September.

The U.S. dollar/Indian rupee exchange market opened trading in September at INR 70.78, after which the exchange rate reached INR 70.72 on September 3, which turned out to be the monthly low. Thereafter, the WTI crude oil price exceeded USD 71 (79 for Brent), fueling concerns over the deterioration of the trade balance. Following this trend, market participants sold the Indian rupee, and the U.S. dollar/Indian rupee exchange rate almost reached INR 72, at which point there was an action that seemed to be a foreign exchange market intervention by the Reserve Bank of India (RBI; the central bank of India), and the exchange rate did not rise further. However, on Monday, September 10, the U.S. dollar/Indian rupee exchange market opened at a level above INR 72 with a gap from the closing rate of the previous week due to the strong employment statistics in the U.S. as well as the persistent concerns over the trade negotiations. The exchange rate continued rising and reached INR 72.92 against the U.S. dollar in the middle of the week. However, the media reported that Prime Minister Narendra Modi would review the economic conditions during the weekend, and this fueled expectations among market participants about new measures to slow down the depreciation of the Indian rupee. There was also an announcement on an import cut as well as deregulation on foreign currency loans by local companies. As a consequence, the U.S. dollar/Indian rupee exchange rate fell sharply to approach INR 71.50.

However, when the U.S. dollar weakened, there were also market participants that bought the U.S. dollar based on actual demand in the domestic market. As a result, market participants started selling the Indian rupee again at the beginning of the third week of the month when the crude oil price appreciated again. Then, on September 18, the U.S. dollar/Indian rupee exchange rate renewed its all-time high at INR 72.96. However, with regard to the trade negotiations between the U.S. and China, risk-averse sentiment decreased in the market, as the U.S. decided to introduce additional customs tariffs at a lower rate than expected, while Chinese Premier Li Keqiang made remarks to confirm that he would not lead the Chinese yuan to depreciate to promote exports and that he would continue carefully carrying out monetary policy in the times ahead. As a result, market participants bought back overall Asian currencies. Following this trend, the U.S. dollar/Indian rupee exchange rate also started falling, once almost reaching INR 71.75.

Then, on September 21, the U.S. dollar/Indian rupee exchange market closed trading at the INR 72.20 level.

In September, the Indian rupee/Japanese yen exchange rate fell once and returned to the level of the beginning of the month.

The Indian rupee/Japanese yen exchange market opened trading in September at JPY 1.565. As was discussed above, at the beginning of the month, the Indian rupee depreciated against the U.S. dollar. Furthermore, the media reported that U.S. President Donald Trump was dissatisfied with the trade relations between the U.S. and Japan. In reaction to this, the Japanese yen appreciated against the U.S. dollar to the lower-JPY 110 level, while the U.S. dollar/Indian rupee exchange rate exceeded INR 72. Under such circumstances, the Indian rupee/Japanese yen exchange rate also reached JPY 1.527, the monthly low, on September 10.

Thereafter, however, there was some progress in the negotiations related to Britain's exit from the European Union, while the central bank of Turkey raised the interest rate. These headlines led market participants to take risks, and the U.S. dollar/Japanese yen exchange rate continued rising straight to reach the mid-JPY 112 level. In the meantime, the U.S. dollar/Indian rupee exchange rate was kept from rising further, after approaching INR 73. As a consequence, the Japanese yen depreciated against the Indian rupee as well, the Indian rupee/Japanese yen exchange rate rose to reach JPY 1.57. The Indian rupee/Japanese yen exchange market then closed trading at the JPY 1.56 level on September 21.

2. Outlook for This Month

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

The Indian government took certain measures in the middle of September, such as to restrict imports that are not essential while promoting exports, to carry out deregulation on foreign currency loans for the manufacturing industry, and to cut taxes on bonds denominated in Indian rupees and issued abroad. Furthermore, the media also report that the RBI is reviewing the possibility to directly sell the U.S. dollar to crude oil importers without being involved in the foreign exchange market. Even though the Indian government used to express its attitude such that it does not see the depreciation of the Indian rupee as a problem, it seems to have started taking some measures to tackle the continued depreciation of the Indian rupee. There is also some more room for the RBI to conduct intermittent market interventions through Indian rupee-buying with a large amount of foreign currency reserves. Thus, expectations are growing also for a policy interest rate hike as a means to protect the Indian rupee.

In the U.S., the media reported on trade negotiations with China and Canada. Even though the negotiations

have not yet been concluded as of this writing, they seem to have reached a stalemate. Thus, the situation is starting to change from that seen up to August, in which every event encouraged market participants to sell the currencies of emerging countries. With regard to the U.S. interest rates as well, even though the 10-year government bond yield has exceeded 3% again, there are no more factors to cause interest rates to rise. Even with the high bond yield, market participants are not actively selling the currencies of emerging countries, as was seen in April and May. Furthermore, with regard to the Federal Open Market Committee (FOMC), the interest rate hike in September has already reflected in the market by more than 90%, while the interest rate hike in December has also been reflected in the market by approximately 80%. Therefore, it is difficult for market participants to buy the U.S. dollar based on a motivation related to the interest rate hikes.

Given that the Indian government is starting to control the depreciation of the Indian rupee, while there are fewer factors in the U.S. to lead the currencies of emerging countries to weaken or the U.S. dollar to appreciate, the depreciation of the Indian rupee is forecast to slow down in October.

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

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