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# Mizuho Dealer's Eye

## November 2018


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Mizuho Bank, Ltd.

Forex Department

Tomohisa Ueno, Forex Sales, Forex Department

# U.S. Dollar – November 2018

**Expected Ranges** **Against the yen: JPY110.00–115.00**

## 1. Review of the Previous Month

The dollar/yen pair renewed a yearly high at the start of October, though it then dipped on bearish stock movements to temporarily fall to the lower-111 yen mark.

The pair opened the month trading at the upper-113 yen level on October 1. It then rose to the lower-114 yen range after an agreement was reached in the North America Free Trade Agreement (NAFTA) renegotiations. It dipped to the mid-113 yen mark on October 2, though it then bounced back to the upper-113 yen level following optimistic comments by FRB chair Jerome Powell. Risk sentiments improved on October 3 on hopes for progress when it came to the Italian budget issue.

With yields on US treasuries rising, the pair's topside strengthened early on October 4 to hit a high for the year of 114.55 yen. However, the pair then fell back to the mid-113 yen level as US stocks began sliding after the markets reacted badly to rising US interest rates. The US released some mixed September employment data on October 5. The pair hit the 114 yen range directly after the announcement, though it then dropped to the upper-113 yen level on the bearish movements of US equities. With the Tokyo markets on holiday on October 8, the pair fell to the upper-112 yen mark as risk aversion increased on the poor results of a German economic indicator. It then moved with a heavy topside at the lower-113 yen level on October 9 on concerns about the direction of the Chinese economy and lingering fears about the Italian fiscal situation. With US stocks falling sharply on October 10, the pair weakened further to hit the lower 112 yen level. It also moved bearishly on October 11 to temporarily dip below 112 yen.

The pair then dropped to the mid-111 range on October 15 on concerns about growing tensions between the US and Saudi Arabia following the murder of a journalist who had been critical of the Saudi government. However, it climbed back to the lower 112-yen mark on October 16 as US stocks rallied. The minutes to the FOMC meeting were released on October 17 and they revealed that some members had called for interest rates to be hiked above the neutral rate. As US rates climbed, the pair temporarily shot up to the upper-112 yen level. With stocks in the US and Shanghai sliding on October 18, the pair dipped below 112 yen for a time, though it recovered to the mid-112 yen mark on October 19 on hopes for progress when it came to the Italian budget issue and the Brexit negotiations. Chinese stocks surged on October 22 after Chinese president Xi Jinping announced a package of support for private enterprises. As risk appetite increased, the pair climbed to the upper-112 yen level. Chinese stocks dropped back on October 23, though, while the NY Dow Jones hit negative territories on October 24 for the first time since the start of the year. As a result, the pair fell to the lower-112 yen level. The euro was sold and the

dollar bought on October 25 after ECB president Mario Draghi gave a bearish outlook for the European economy, with the dollar/yen pair also bouncing back. With US stocks moving weakly on October 26, though, the pair hit a monthly low of 111.38 yen on October 26. It moved somewhat firmly on October 29 as US and European stocks performed strongly. Risk sentiments improved on October 30 after President Trump said he expected to do a "great deal" with China. The pair continued to move firmly on October 31 to close the month trading at 112.96 yen.

## 2. Outlook for This Month

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

The pair was swayed in large part by stock market movements in the latter half of October. These movements were in turn shaped by further concerns about worsening US/China trade relations and the mood to see the impact of these trade frictions on the real economy. There are signs the situation is starting to hit US companies, with some firms complaining that the imposition of further tariffs on Chinese imports had increased their business costs, for example. Things are no better in China. The economic situation there is worse there than in the US, for instance, with concerns about further US tariff hikes still smoldering away. China's October Manufacturing PMI was released on October 31 and it dipped to its lowest level in 27 months. The Chinese authorities are expected to introduce some stimulus measures, with Chinese president Xi Jinping announcing a package of support for private enterprises, for example. As such, there have been signs recently that Chinese stocks have bottomed out. However, the RMB is moving bearishly against the dollar and yen. This suggests there is still a risk of a Chinese economic slowdown. The leaders of the US and China are expected to talk trade when they meet during the G20 meeting at the end of November. However, reports say the US is prepared to raise tariffs again at the start of December if there is no progress in resolving the trade frictions. US/China trade talks dragged on fruitlessly in the past and they have currently been put on hold. As such, it is hard to imagine the situation improving in the short term.

When it comes to the Italian budget issue, meanwhile, the EU have rejected Italy's budget proposal, saying it represents a deviation from agreed targets "without precedent in the history of the stability pact." Italy's economy continues to grow at a sluggish pace, with the July–September GDP data (released October 30) posting zero growth, for instance. Under these circumstances, Italian prime minister Giuseppe Conte has talked about the necessity for fiscal expansion. The EU has called for Italy to submit a revised budget proposal by mid-November, but Italy is unlikely to make any major policy shifts by this date, so risk aversion looks set to rise again.

In addition to intensifying US/China trade frictions, fears about a Chinese economic slowdown and concerns about the Italian fiscal problem, there is one more pressing issue: Brexit. Given the presence of all these risk factors, none of which seems likely to improve any time soon, it seems unlikely that risk sentiments will improve. The dollar/yen pair will probably move bullishly for a time as the euro is sold and the greenback bought on headlines emanating from Europe, but the pair is likely to move with a heavy topside on the whole.

## Dealers' Market Forecast

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

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

| | | |
|---|---|---|
| Mitsuishi | 111.00 – 115.00 | The dollar/yen pair will move firmly on the divergent monetary policies of the US and Japan. There are a number of market risk factors, including the US mid-term elections and the US/China trade frictions, but the dollar and yen are both being used as refugee currencies, so the pair room on the downside will be capped during phases of risk aversion. |
| Fujimaki | 111.00 – 115.00 | The dollar will probably move firmly on the bullish US economy and expectations for further rate hikes. The dollar/yen pair will also be supported by the weakness of other non-dollar currencies. However, if stocks continue to face correction and something occurs that could put a stop to US rate hikes, the pair could fall sharply. |
| Okamoto | 111.00 – 115.00 | The US economy remains firm, despite the release of some slightly-bearish corporate results. US stocks will also be susceptible to buying after the sharp falls in October. Trade talks with China, Japan, the UK and the EU look set to drag on into the long term, so the situation will remain fraught with uncertainty. As such, dollar assets are unlikely to be sold, with the dollar/yen pair likely to rise overall. |
| Okuma | 111.00 – 115.00 | President Trump has made some optimistic comments with regards to the US/China trade issue. The heads of China and the US will also be meeting to talk trade at the G20 gathering. With hopes for bilateral talks rising, concerns about US/China trade frictions are easing off. The US economy looks set to continue outperforming other countries, with the dollar/yen pair expected to move firmly. |

### Bearish on the dollar (6 bears: 110.00–115.00, Core: 111.00–114.75)

| | | |
|---|---|---|
| Tauchi | 110.00 – 114.00 | If concerns about a global economic slowdown start to impact US economic indicators, this could overshadow the economic achievements of the Trump administration, so President Trump might hold of from cutting taxes again or ramping up trade frictions. However, the dollar/yen pair is expected to move bearishly. |
| Kato | 111.00 – 115.00 | It seems a number of investors still remain behind the curve when it comes to buying the dollar/yen pair, but with President Trump focused strongly on trade issues, the currency authorities will not be wanting the pair to dip below 115 yen. |
| Seki | 110.00 – 114.00 | Market participants are likely to focus on the US/China heads of state meeting at the G20 gathering (scheduled for the end of November), but talks are unlikely to make any progress. The US look set to hit Chinese imports with further tariff hikes, so assets will probably be sold again on risk aversion, just like they were in the latter half of October. With expectations for a US rate hike also fading, the dollar/yen pair will trade with downside risk. |
| Ueno | 111.00 – 115.00 | The heads of the US and China are scheduled to meet in the latter half of November. US/China trade talks dragged on fruitlessly in the past and they have currently been put on hold. As such, the situation is unlikely to improve suddenly over the next few weeks. The dollar/yen pair will probably move bullishly for a time as the euro is sold on negative surprises emanating from Europe, but the pair is likely to trend downwards on the whole. |
| Tamai | 111.00 – 115.00 | The markets are likely to remain in risk-off mode as the impact of US/China trade frictions starts to be felt in both countries. Though US rate hikes could push the greenback higher, there are no other particularly noteworthy factors. The dollar/yen pair is also likely to trade with a heavy topside as President Trump scales back his economic stimulus measures once the US mid-term elections are out of the way. |
| Moriya | 111.00 – 114.50 | The US is likely to remain committed to rate hikes, but there are still concerns about stock movements, so rising US interest rates are unlikely to translate directly into dollar buying. With trade frictions also starting to impact the real economy, risk appetite will probably remain subdued, with the dollar/yen pair trading with a heavy topside. |

Michiyoshi Kato, Forex Sales, Forex Department

# Euro – November 2018

**Expected Ranges** **Against the US$: US$1.1200–1.1700**
**Against the yen: JPY125.00–130.00**

## 1. Review of the Previous Month

The euro/dollar pair fell from $1.16 to $1.13 in October. The euro/yen pair was also sold from 132 yen to 126 yen.

The euro/dollar pair began the month moving somewhat firmly at the $1.16 mark on the bullish movements of European stocks. However, the pair was also buffeted by issues like the Italian budget proposal and news about Brexit and the thorny Irish border issue. The pair was sold early October on conjecture that the EU would reject Italy's deficit plan. It was then bought back on reports that the UK was planning to compromise on the Irish border issue in order to get a Brexit agreement. Fundamentally though, uncertainty remained and the environment continued to be less than positive for the euro. On October 2, Claudio Borghi, head the Budget Committee in the Italian lower house, said he was convinced most of Italy's problems would be solved if it had its own currency. This comment saw the euro/dollar pair dropping close to breaking below $1.15. The euro/yen pair also plummeted the following day, though the euro/dollar pair then surged to around $1.16 on news that the Italian government was committed to reducing its budget deficit to 2% of GDP by 2021. With the European Commission also turning its attention to the clash between the Italian budget and the EU's fiscal rules, Italian government bonds and stocks were sold off on Tuesday October 9, with the pair tumbling to $1.1433.

The pair then underwent a corrective climb mid-October. The pound was bought back on expectations that a Hard Brexit would be avoided, while the greenback was sold on October 10 as the New York Dow Jones began sliding, so the pair was bought back to $1.16 in the middle of the month. However, risk aversion then intensified after US treasury secretary Steven Mnuchin hinted that China might be labelled a currency manipulator when the US released its Report on International Economic and Exchange Rate Policies on October 15. This was the primary reason behind the bearish stock movements. With the movements of the cross yen also marked by yen buying, there was no momentum to push the euro's topside higher. The markets saw renewed attempts on the euro's downside toward the end of the month. The single currency grew heavier on the topside as investors focused again on turmoil related to the Brexit and Italian budget issues. The European Commission rejected Italy's budget proposal and called on Italy to submit a new proposal by November 13, but the Italian side seemed in no mood to compromise and it criticized the Commission. There were also no signs of a resolution when it comes to the issue of the customs border between Ireland and Northern Ireland. On Friday October 26, the euro/dollar pair fell to $1.1336, close to its level that obtained just before President Trump made verbal interventions to curb the

euro's slide last summer ($1.1301). It was adjusted to the $1.14 mark, though it was then sold again toward the month's end to hit $1.1340. With the dollar/yen pair rising again, though, the euro/yen pair was adjusted from the mid-126 yen level on October 26 to 128 yen.

## 2. Outlook for This Month

The month will also see the euro being swayed by the Italian budget issue and Brexit. It goes without saying that the US mid-term elections will also play a major role. Market participants will need to monitor President Trump's behavior in the run to the mid-terms.

The European Commission rejected Italy's budget proposal and called on Italy to submit a new proposal by November 13. However, reports suggest the Italian side is in no mood to compromise, with the Italian government criticizing the Commission. The budget proposed by Italy's populist administration falls within 2.4% of GDP, a figure that concords with the 3% ceiling in the Stability and Growth Pact (SGP). This is not unusual for Italy, so it is understandable why the Italian government might be reluctant to squeeze its deficit down to 2% of GDP. However, the markets have not looked kindly on Italy's stance, with the spread between German and Italian government bonds widening to its highest level in five and half years, for example. Considering how something similar happened after the European debt crisis in 2010, a new Italian crisis might occur if the spread widens further.

As for Brexit, the biggest sticking point at the moment is the Irish border issue. However, there is no signs of this being resolved from here on. The May administration is stuck in a vicious circle. It was once in hock to hardliners in the Conservative Party, but Mrs. May has shifted towards a softer Brexit as she seeks to win support from more moderate Tories, so several hardliners have resigned from the cabinet. However, if Mrs. May now tries to appease them, this would invite opposition from the moderates. In the end, an agreement was not reached in time for the EU heads of state meeting on October 18, a date that was said to mark the deadline for negotiations. It is anyone's guess as to what kind of agreement would be reached by extending the deadline.

Judging from the Italian fiscal issue and Brexit, the euro is unlikely to see substantial buying on the whole. This bank also has strong doubts about whether the ECB will be able to start to lifting rates, as it said it would, so it is hard to imagine the euro undergoing a fully-fledged rise. At the same time, it is also hard to imagine the euro's room on the downside widening as things stand. The euro/dollar pair has dropped to $1.13. This has led to growing concerns, particularly given how this was where the pair stood in August last year, when President Trump verbally intervened to curb the euro's slide. The Dollar Index is also moving close to its level in August last year. Trade talks between the US and Europe are still underway and the markets could soon hear more comments aimed at restraining euro bearishness, so vigilance is required. As such, though the euro/dollar pair is expected to trade with a heavy topside in November, its room on the downside is also unlikely to grow given the concerns outlined above.

## Dealers' Market Forecast

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

### Bullish on the euro (1 bull: 1.1200–1.1700, Core: 1.1200–1.1700)

| | | |
|---|---|---|
| Kato | 1.1200 – 1.1700 | The euro will continue to be weighed down by the Italian fiscal issue and Brexit. However, the euro/dollar pair is now at the same level as it was last year, when President Trump made verbal interventions to curb the euro's slide, so the situation is ripe for some short covering on a presidential tweet or something. |

### Bearish on the euro (9 bears: 1.1000–1.1600, Core: 1.1100–1.1500)

| | | |
|---|---|---|
| Tauchi | 1.1000 – 1.1500 | The euro/dollar pair's topside will remain heavy on the issue of Italy's populist government and the budget deficit. The markets will swing between optimism and pessimism depending on: whether Italy submits a new budget proposal; whether the EU accepts this proposal; and whether the two sides can get on. However, negotiations between the Italian government and the EU look set to drag on, so market participants will find it hard to actively buy the euro. |
| Seki | 1.1100 – 1.1500 | There will be no rate hikes in the eurozone for the time being, with no euro-buying factors expected to emerge on the monetary policy front. Given the chaotic situation regarding Brexit and the negotiations between the Italian government and the EU, the euro is likely to remain a hard currency to actively buy. |
| Mitsuishi | 1.1000 – 1.1500 | There are a number of factors holding down the euro/dollar pair's topside, including: the divergent monetary policies of the US and Europe; the Italian fiscal issue; political turmoil in Germany; uncertainty over the future of Brexit. As such, the pair looks set to move bearishly this month. |
| Fujimaki | 1.1200 – 1.1600 | There is considerable uncertainty when it comes to Italy, Brexit and the German political situation. With the ECB holding off from any rate hikes for now, the euro/dollar pair will not receive any support from monetary policy either, so it will probably trade with a heavy topside. Speculative short positions have steadily piled up, though, so there could be some unexpected buy-backs if some euro-buying factors emerge (such as strong inflation figures). |
| Okamoto | 1.1000 – 1.1500 | The euro faces political risk related to the Italian budget and Brexit, with the eurozone economy also slowing and GDP growth stalling. Though the ECB's outlook remains unchanged, there is clearly no necessity to lift rates any time soon, so there will remain a dearth of factors conducive to euro buying. |
| Ueno | 1.1100 – 1.1500 | There are strong differences of opinion between Italy and the EU when it comes to Italy's budget. Italy is supposed to submit a revised budget by mid-November, but the Italian prime minister Giuseppe Conte is still talking about the necessity for fiscal expansion. As with Brexit, the situation is unlikely to improve any time soon, so the euro looks set to move bearishly. |
| Tamai | 1.1200 – 1.1600 | The euro faces a number of negative factors, including the Italian budget problem, Brexit, and political uncertainty in Germany. As such, the euro/dollar pair is expected to continue moving bearishly. Though a no-deal Brexit is also on the cards, it seems no preparations have been made for such a scenario. |
| Moriya | 1.1100 – 1.1600 | The October ECB Governing Council meeting passed smoothly and expectations for a rate hike are likely to remain subdued. The euro is also likely to remain a hard currency to buy given the Italian budget problem, Brexit, and uncertainty about the political situation in Germany. |
| Okuma | 1.1100 – 1.1500 | German chancellor Angela Merkel has said she will stand down and there are concerns that the EU will stop functioning properly given the recent rise of populism. Europe remains beset by risk factors, including the Italian fiscal issue and the growing possibility that stormy Brexit negotiations could results in a no-deal Brexit. As such, the euro looks set to move bearishly. |

Kyoko Sei, Europe Treasury Department

# British Pound – November 2018

| Expected Ranges | Against the US$: | US$1.2500–1.3200 |
|---|---|---|
| | Against the yen: | JPY141.00–146.00 |

## 1. Review of the Previous Month

In October, the pound/dollar pair fell on Italy's budget problem and concerns that a Brexit agreement might be delayed.

The pound was bought slightly on October 1 on news that the UK government was preparing a compromise plan with regards to the Irish border. However, the UK then released a worse-than-expected September Construction PMI on October 2. With the issue of Italy's budget proposal also making waves, the euro fell and sterling was dragged lower too. The pound was then sold on October 3 after UK prime minister Theresa May commented during the Conservative Party conference that "Britain isn't afraid to leave with no deal if we have to." As a result, the pound/dollar pair hit $1.2924 during Asian trading time on October 4, its lowest level for around a month. The pair then began climbing during European trading time. The Bank of Finland then commented that "financial market expectations concerning the timing of the first interest rate rise are consistent with the [ECB] Governing Council's statements." With European interest rates subsequently rising, the euro and pound were bought and they continued to move firmly on October 5 too. The dollar/yen pair strengthened toward mid-October, albeit with some small dips along the way. The pair weakened on October 8. With no Brexit negotiations penciled in for that week, the pound was sold after the First Minister of Scotland called for EU rules to still be applied in Scotland even after Britain leaves. Sterling then bounced back during overseas trading time, but the euro and the pound then dipped for a time on October 9 as stocks and bonds moved bearishly on the situation in Italy. The dollar was sold during US trading time on comments by President Trump about the pace of FRB rate hikes. The pound/dollar pair rose to $1.315 for the first time in around a month. It continued to climb thereafter to hit a monthly high of $1.3258 on October 12, but the greenback then strengthened after Turkey freed a US pastor from house arrest, so the pair weakened and its gains for the week were pared back. The pair's movements were marked by dollar selling at the start of the following week, on October 15–16, with the pair also rising when the UK wages data for June–August produced a surprising upswing. However, these gains were pared back on October 17 on the bearish result of the UK CPI figure for September. The closely-watched EU heads of state meeting passed without any surprises over October 18–19. Some headlines about the Brexit negotiations emerged during the morning of European trading time, but overall the pound traded with minor fluctuations on a dearth of new factors. The pair then tumbled after a UK tabloid reported that the UK was moving toward a no-deal Brexit. This trend continued toward the end of the month. The UK released a bearish October household indicator on

October 22, with sterling also sold on October 23 in relation to the Italian budget problem. As a result, the pound/dollar pair dipped below $1.30 for the first time since October 4. The EU then rejected Italy's budget proposal, while European stocks fell across the board. With eurozone PMIs also worsening, the pair continued to slide thereafter toward the end of the month.

## 2. Outlook for This Month

In November, the pound/dollar pair will probably trade in a range between $1.25–$1.32.

The Bank of England (BOE) will be meeting on November 1, but it is expected to keep rates fixed. The main theme will remain the Brexit negotiations. The original plan was for the two parties to reach an agreement in October, with EU heads of state signing off on this during an extraordinary meeting in November. In the end, though, EU heads of state failed to reach an agreement in October. The heads of state are set to hold an extraordinary meeting in November, depending on the status of Brexit negotiations, but some insiders suggest this meeting could be postponed. The EU's chief Brexit negotiator Michel Barnier has said December will be the final deadline for a Brexit deal, with more observers now believing the final deadline will be pushed back to the EU heads of state meeting over December 13–14. With the deadline for a deal now effectively pushed back, the pound will probably continue to be swayed in large part by headlines related to the Brexit negotiations. The main thing standing in the way of a deal is the Irish border problem, so investors should pay particular attention to news related to this issue. Discussions will mainly focus on how to manage immigration to Northern Ireland or how to fix physical barriers (customs checks and so on). Technological and economic restrictions suggest the UK is unlikely to come up with any short-term solutions when it comes to customs procedures. Furthermore, the EU is pushing the UK to guarantee that it will not impose any of the aforementioned physical barriers. At the same time, the UK is calling for the issue to be put on the back burner for a fixed period, so it is hard to see the two sides finding any common ground. The UK's Brexit Minister has hinted the UK is prepared to be flexible in this area, but he has not filled in the details. Ireland's state broadcaster has also reported that the EU had proposed to Mrs. May that the whole of the UK remains in a customs union, not just Northern Ireland. This option would be the simplest solution to the Irish border issue. However, Mrs. May has already met with strong opposition from hardliners in her own party, so if she did go for this option, she would probably face a vote of no confidence. It remains difficult to be optimistic, but the two sides could probably reach an agreement on the UK remaining in the customs union for a fixed term. It will be hard to discern a sense of direction for the pound until this issue is fully resolved, but the pound/dollar pair will probably trade with a heavy topside this month.

Kanako Imamura, Sydney Office, Asia & Oceania Treasury Department

# Australian Dollar – November 2018

| **Expected Ranges** | **Against the US$:** | **US$0.6900–0.7250** |
|---|---|---|
| | **Against the yen:** | **JPY78.00–82.50** |

## 1. Review of the Previous Month

In October, the AUS/USD pair's downside was tested again, with the pair dropping below $0.70.

The pair opened the month trading at the lower-$0.72 level. As expected, the board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at 1.50% when it met on October 2, with the pair trading around $0.7200. The RBA's statement said that "GDP growth is expected to be a little above 3 per cent in both 2018 and 2019…wages growth can be expected to pick up gradually from current low rates." It also singled out household consumption as an uncertain factor. As such, the content was roughly the same as the previous statement, so the impact on the currency pair was negligible. The greenback was then bought and the pair weakened to the lower-$0.71 mark after Jerome Powell spoke about the "remarkably positive outlook" for the US economy, with the FRB chair also saying it would be appropriate to continue lifting interest rates in stages to ensure that the low employment rate didn't lead to rising inflation. The markets then slipped into risk-off mode on uncertainty about Brexit and the Italian budget proposal. The AUS/USD pair tumbled to the mid-$0.70 level and it then moved flatly in a range between the mid-$0.70 mark and the lower-$0.71 mark.

Stocks rose mid-October on the release of some bullish US economic indicators. With the market mood improving and risk appetite increasing, the Australian unit was bought back, though the pair failed to rally to $0.72 and its climb was capped at $0.7160. The markets were then swept with uncertainty on the back of stormy Brexit negotiations and speculation that Italy's proposed budget would significantly breach EU rules. As a result, the currency pair continued to trade at 2018 lows between $0.70 and $0.71. The Australian employment data for September was released on October 18. It revealed that the unemployment rate had improved to 5.0% on a fall in the labor participation rate, so the pair's topside was tested, though it failed to break out of the mid-$0.71 range.

On October 20, a by-election was held following the resignation of the former Australian prime minister. The ruling Liberal–National Coalition lost the seat and its lower house majority. This saw the pair trading at the upper-$0.70 mark. With risk aversion then intensifying on a global stock market slide, the pair fell to $0.7021 to renew a low for the year. It subsequently recovered to the lower-$0.71 level as US stocks rallied. The Australian inflation data for July–September was released on October 31, though, with inflation rate sliding from 2.1% to 1.9% y-o-y, so the pair traded at the upper-$0.70 level.

## 2. Outlook for This Month

In November, investors will be watching to see whether AUS/USD pair breaks below or is supported at the psychologically-important $0.7000 mark.

The statement release after last month's RBA board meeting contained nothing new, but the markets are worried that the domestic consumption outlook will grow tighter, with sluggish average wages data also leading to concerns that the inflation rate will be pushed down by low labor costs. As such, there is an increasing sense in the markets that Australian interest rates will be kept fixed until 2019, with a growing number of investors even predicting that rates will remain unchanged until 2020. The RBA will be releasing its Quarterly Statement on Monetary Policy on November 9 and this will also attract attention.

The US has released a number of bullish economic indicators recently, so some FRB members have called for phased rate hikes, despite concerns about bearish global stock markets. The markets are still expecting the fourth rate hike this year to be implemented at the December FOMC meeting, with the FOMC expected to keep the federal funds rate fixed when it meets on November 8, so the November meeting will probably have minimal impact on the AUS/USD pair.

The US will hold mid-term elections on November 6. When it comes to gauging the direction of economic policy from here on, the markets will be watching to see whether the Republicans or the Democrats can obtain a majority in the upper and lower houses. If the Republicans win a majority, President Trump's tariff policies will likely remain in place, with trade frictions and so on set to continue.

A glance at the monthly charts shows the Australian dollar trading close to the lower limit of its monthly Bollinger Bands for the last three months, with the Australian unit being pushed lower by risk aversion as a result of several risk factors (including tariff-related trade frictions and bearish stocks). On the technical side, investors will be watching to see whether the AUS/USD pair breaks below $0.7021 (its 2018 low) or $0.7000 (a psychologically-important line). If it does drop below $0.7000, the next target will be its $0.6827 low from January 2016. RBA statements in the first half of 2018 stated how the Australian dollar "remains in the range it has been in for the past couple of years," but the unit is now approaching the lower limit of the range. If the pair does break below $0.7000, it will probably face buying appetite on a sense that it is now at a good price, so it is expected to move skittishly and erratically when it trades below this level.

Yasuko Iwata, Canada Office, Global Markets Coordination Department

# Canadian Dollar – November 2018

| Expected Ranges | Against the US$: | C$1.2730–1.3300 |
|---|---|---|
| | Against the yen: | JPY83.60–89.20 |

## 1. Review of the Previous Month

Canada suddenly announced it had reached a deal in the North America Free Trade Agreement (NAFTA) renegotiations on the evening of September 30, the deadline for the talks. Canada will now participate in the United States-Mexico-Canada Agreement (USMCA), which will replace NAFTA. The Canadian dollar had been weighed down by uncertainty about the NAFTA renegotiations, but it now rose sharply, with the USD/CAD pair kicking off October by rising to C$1.2783. It then climbed from the C$1.28 range to C$1.2900 at the start of the month as crude oil futures (WTI) topped $75/barrel for the first time in around four years on supply concerns and a slowdown in US drilling.

However, the benchmark yield on 10-year US treasuries then climbed to 3.22% for the first time in around seven years and five months. With the markets also focusing on rising US/China tensions and concerns of a Chinese economic slowdown, the Dow Jones fell by more than $800 on October 10. The Canadian dollar was sold and the currency pair climbed to C$1.3072 and then continued trading in the C$1.30 range.

The Bank of Canada (BOC) then released its Business Outlook Survey on October 15. Though this was based on polling conducted during the NAFTA renegotiations, it revealed that business leaders were optimistic about the direction of the economy. It now seemed certain that the BOC would hike rates again when it met on October 24, so the Canadian dollar was bought back to the lower-C$1.29 mark against the greenback.

The minutes to the September FOMC meeting then revealed that a majority of members supported the idea of temporarily lifting interest rates above the neutral rate. On October 18, meanwhile, stocks in Shanghai fell sharply to renew 2018 lows. With WTI prices also falling on rising crude oil inventories, the pair topped C$1.31 on the worse-than-expected results of Canada's August retail sales figure and September CPI result. With a BOC rate hike looking nailed on, though, the Canadian unit was not sold further.

As expected, the BOC lifted its policy rate from 1.50% to 1.75% on October 24. The accompanying statement also dropped the wording about a "gradual approach" and it introduced a hawkish phrase about how "the policy interest rate will need to rise to a neutral stance (2.5%~3.5%) to achieve the inflation target." As a result, the currency pair plummeted to the upper-C$1.29 mark. However, stocks continued to move erratically across the globe, so Canadian-dollar buying was short-lived, with the pair moving between C$1.30–C$1.31 on a number of intractable problems, including US/China tensions,

Brexit, the Italian fiscal deficit, and claims that Saudi Arabia had murdered a journalist. Canada released some better-than-expected GDP data for August at the end of the month, but WTI prices then plummeted on rising US crude oil inventories. As a result, the Canadian dollar was sold to C$1.3170 against its US counterpart.

## 2. Outlook for This Month

The Bank of Canada (BOC) has adopted a hawkish stance and this has raised the possibility of rate hikes at future BOC meetings. The BOC continues to insist that any decision will depend on the available data. With a number of Canadian economic indicators dropping below expectations in October, market participants will need to pay even more attention to major indicators released in the run up to the next BOC meeting on December 5 (the September employment data beat expectations, but this was mainly due to an increase in part-time jobs, with the data not that strong on the whole). At the moment (October 29), there is a 44% chance of a rate hike in December and 76% chance for a rate hike in January. The BOC has positioned US/China tensions as the number one risk, so investors will need to monitor US/Chinese relations in order to gauge the likelihood of a rate hike.

The US will be holding mid-term elections at the start of November and the USD/CAD pair could swing sharply depending on the results.

The biggest immediate risk factor for the Canadian dollar is the volatility of global stock markets. As long as stocks continue to move erratically, the Canadian dollar will remain a hard currency to buy. As such, the USD/CAD pair is expected to continue trading around C$1.300. However, if Canadian economic indicators move firmly, the US mid-terms pass smoothly, and US/China relations improve, then the likelihood of a December rate hike will increase and the pair might plunge to the C$1.27 range.

Yasunori Shimoyama, Seoul Treasury Office

# Korean Won – November 2018

| Expected Ranges | Against the US$: | KRW1,110–1,150 |
|---|---|---|
| | Against the yen: | JPY9.747–10.204 (KRW100) |
| | | (KRW9.800–10.260) |

## 1. Review of the Previous Month

In October, the USD/KRW pair broke slightly above its range from the previous month to the trade at relatively high levels, with the new pair also renewing a high for 2018, for example.

It opened the month trading at KRW1110.00. The greenback was bought on October 3 after yields on long-term US treasuries rose on hawkish comments by FRB chair Jerome Powell. With US stock markets then plummeting on October 10, the pair broke through the key KRW1140 mark to rise to a 2018 high of KRW1144.70. It then dipped back to KRW1122 on October 17 as composure returned to the markets. The pair was subsequently swayed by the movements of key US economic indicators, for example. The Bank of Korea (BOK) lowered its GDP forecast for 2018 when it met on October 18, with the pair then rising to KRW1135. Thereafter, market sentiments swung to and fro on several factors, including the death of a Saudi Arabian journalist and the mixed settlement results of US firms. During this time, the pair moved from the upper-KRW1120 mark to the lower-KRW1140 mark. The won was sold at the end of the month on concerns about the settlement results of a major South Korean company. In the end, though, the pair was unable to renew monthly highs and it closed October trading at KRW1139.60.

As expected, the BOK kept policy rates fixed when it met on October 18. Beforehand, it seemed a relatively-large number of market participants were expecting the BOK to drop some hawkish signals about a rate hike at the November meeting, but this did not really happen in the end. If fact, the meeting struck a somewhat dovish tone, with the BOK downgrading its 2018 GDP forecast from 2.9% to 2.7%.

## 2. Outlook for This Month

The USD/KRW pair's topside is expected to grow steadily heavier in November. One uncertain factor will be removed once the US mid-terms are out of the way, for example, while the BOK might even implement its first rate hike in a year when it meets at the end of the month.

Since last month, the markets have been roiled slightly by surging US long-term treasury yields, mixed US business results, and the death of a Saudi journalist, for example. Risk aversion will probably take precedent until the US mid-term elections on November 6.

However, one major factor of uncertainty will be removed when the elections are out of the way. Most observers are expecting the Republicans to lose control of the lower house. Even if this does

happen, though, there could be some risk-on movements as investors move to liquidate their positions. If the election broadly falls in line with expectations, then depending on how President Trump reacts thereafter, attention will probably shift to the possibility of a rate hike at the November BOK meeting. At the moment, investors are focusing on the likelihood of a rate hike in November or January. The 3-month NCD rate is used as a benchmark rate. This also rose from 1.65% to 1.70% in October after previously remaining unchanged for a year. However, the BOK downgraded its 2018 GDP forecast from 2.9% to 2.7% when it met in October. The South Korean GDP (preliminary) data for July–September was released on October 25 and this also dropped below market expectations to hit +2.0% y-o-y, down sharply on the +2.8% figure recorded over the previous two quarters. The CPI data has also consistently failed to hit the BOK's target of 2.0%. As such, the BOK's true feeling is probably that there is no pressing economic necessity to lift interest rates. However, it is likely the BOK will also probably want to ensure the spread between US and South Korean interest rates does not grow too wide. If expectations for a rate hike swell toward the end of the month, this will probably push the won higher. Based on this, the USD/KRW pair's topside is expected to grow steadily heavier in November.

Of course, if President Trump ramps up the pressure on China, Europe and Japan in the wake of the US mid-term elections, this could lead to falling stock prices, with the won sold on risk aversion. Furthermore, if it seems more likely that the BOK will refrain from lifting rates, this will also lead to won selling, so caution will be needed.

Yuji Miura, Taipei Treasury Office

# New Taiwan Dollar – November 2018

| Expected Ranges | Against the US$: | NT$30.50–31.30 |
|---|---|---|
| | Against the yen: | JPY3.55–3.73 |

## 1. Review of the Previous Month

The Taiwan dollar weakened against the US dollar in October.

The USD/TWD pair opened the month trading at TWD30.543 on October 1. Amid a relative dearth of new factors, the pair then traded without a sense of direction around TWD30.5. However, risk aversion then intensified on growing concerns about the Italian budget proposal. As overseas funds fled Taiwan's stock markets at a faster pace, the pair rose to the upper-TWD30.6 mark toward October 3. Furthermore, the US September ADP employment data and the September Manufacturing ISM Report on Business both topped market expectations, so US interest rates surged and the currency pair's movements were marked by an acceleration of US-dollar buying and Taiwan-dollar selling. As a result, the pair hit the TWD30.8 range on October 5.

As foreign funds continued to flow out of Taiwanese stock markets, the greenback was bought and the Taiwan dollar sold. The NY Dow Jones then plunged by over 3% on October 10. As a result, more than TWD30 billion of foreign funds flowed out of Taiwanese markets on October 11, with the USD/TWD pair then rising to the TWD31 range for the first time since March 2017. Taiwanese stocks bounced back on October 12, so the pair's gains were pared back and it dropped down to around TWD30.8. Foreign funds continued to flow out of Taiwan, though, so the pair remained firm.

The minutes to the FOMC meeting (of September 25–26) were read as hawkish on their release on October 17, with the greenback facing buying pressure. Concerns about Italy's budget proposal were also joined by fears that relations between the US and Saudi Arabia might worsen following the murder of a Saudi journalist in Turkey. US stocks tumbled as a result, with Taiwanese stocks also following suit. This saw the USD/TWD pair hitting the TWD31 mark again on October 19.

With stocks moving unstably toward the end of the month, the greenback continued to be bought and the Taiwan dollar sold. However, exporters sold the US dollar when the pair rose to around TWD31, so the pair's topside was capped.

## 2. Outlook for This Month

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

A glance at the Taiwanese indicators released in October shows September's export amount hitting +2.6% y-o-y (up from +1.9% y-o-y in August), with the data remaining in positive territories for the seventh 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 23 months in a row).The export amount hit $29.62 billion, the second highest monthly amount after March this year. Key exports of electronic products dipped by -0.5% y-o-y, but the data was pulled up by bullish growth when it came to metal products (+8.6% y-o-y) and chemicals (+18.3% y-o-y). Exports to China and Hong Kong (which account for 40% of all Taiwan's exports) grew firmly at +1.9% y-o-y. Crude oil imports continued to increase (+43.0% y-o-y), so the trade surplus came in at just $4.33 billion. At +1.72% y-o-y, CPI growth in September was up on August's figure of +1.54% y-o-y. This was mainly due to the rising crude oil and food prices. The core CPI data (excluding fresh food and energy prices) hit +1.20% y-o-y, down on August's +1.36% y-o-y.

Price movements will continue to attract attention in November too. As risk aversion rose in October on unstable stock movements, foreign funds flooded out of Taiwanese stock markets at the fastest monthly pace since August 2011 (when stock prices had fallen after a US-treasury rating downgrade). This led to US-dollar appreciation and Taiwan-dollar depreciation, so investors will be watching to see whether this trend continues in November.

On November 24, meanwhile, nationwide local elections will be held in 22 administrative districts across Taiwan. This is Taiwan's set of second nationwide local elections, with the first taking place in 2014. The impact on the currency markets will probably by muted, as it was in 2014, but these will act as a dry run for the general election in January 2020, so the results will be watched closely. The Democratic Progressive Party (winners of the last general election in 2016) will be squaring off against the Kuomintang (the opposition and Taiwan's second largest party). The Democratic Progressive Party has low approval ratings, but a shortage of staff and so on has meant the Kuomintang have been unable to boost its approval ratings.

Ken Cheung, Hong Kong Treasury Department

# Hong Kong Dollar – November 2018

| Expected Ranges | Against the US$: | HK$ 7.8250–7.8500 |
|---|---|---|
| | Against the yen: | JPY 13.90–14.40 |

## 1. Review of the Previous Month

**Hong Kong dollar spot exchange market in October**

In October, the Hong Kong dollar depreciated as a result of the fact that market participants expect the interest rate differentials between the U.S. and Hong Kong to continue widening, due to when commercial banks in Hong Kong raised the prime rate to a lesser degree than expected after the interest rate hike by the Federal Open Market Committee (FOMC) in the U.S. in September. Thus, the majority of the appreciation of the Hong Kong dollar observed in September was cancelled out in October. The U.S. dollar/Hong Kong dollar spot exchange rate returned to around HKD 7.84 as of this writing. Also, the Hong Kong dollar remains weak due to continued capital outflow from Hong Kong that has resulted from the appreciation of U.S. government bond yields and the weakness of the Hong Kong stock market, as well as due to changes in the real estate market. It should also be mentioned that the Chinese yuan has been depreciating but that the Chinese monetary authorities continue to see the situation as being within a controllable range, and thus, this is not significantly affecting the monetary market in Hong Kong for now. The one-year Hong Kong dollar forward points continued fluctuating at around –400 points.

**Hong Kong dollar interest rate market in October**

The prime rate was raised for the first time in 12 years (+12.5 basis points), and Hong Kong finally entered a phase of interest rate hikes. However, the range of the hike was smaller than in the U.S. (+25 basis points). Furthermore, there were no more seasonal factors, such as capital demand at the end of the quarter, nor were there any more IPOs. As a result, the one-month and three-month HIBOR fell to approach 1.5% (whereas it was 2.23% at the end of the previous month) and 2.1% (whereas it was 2.28% at the end of the previous month), respectively. Following this trend, the spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR widened to –80 basis points and –40 basis points, respectively. On the other hand, with regard to long-term rates, the three-year and five-year Hong Kong dollar IRS interest rate continued fluctuating within a narrow range at around 2.8% and 2.9%, respectively. This is a reflection of the fact that market participants expect that Hong Kong dollar interest rates will eventually follow the trend of U.S. dollar interest rates in the medium-to-long term, under the U.S. dollar peg system. The

checkable deposit balance of the Hong Kong Monetary Authority (HKMA) that is used as a means to judge the liquidity level in Hong Kong dollars remained at around HKD 76.3 billion without any significant change, as the HKMA did not carry out any foreign exchange market intervention.

**Hong Kong stock market in October**

The benchmark Hang Seng Index fell to the level of 24,653 points in October—the lowest level in 17 months—due to the significant depreciation of Chinese stock prices and the adjustment observed in U.S. stock prices. The market sentiment further worsened because of concerns over the trade frictions between the U.S. and China, as well as because of the appreciation of U.S. interest rates. In particular, the real estate and banking sectors have underperformed, negatively reacting to the slowdown in the Hong Kong economy and the appreciation of the Hong Kong dollar interest rates. The Hong Kong stock market has been remained weak also because of capital outflow from Hong Kong via the Shanghai-Hong Kong Stock Connect investment channel.

## 2. Outlook for This Month

**Hong Kong dollar spot exchange market in November**

In November, the U.S. dollar/Hong Kong dollar exchange rate is forecast to remain within the range between HKD 7.82 and HKD 7.85. The pace of the interest rate hikes by banks in Hong Kong is slow, and therefore, the interest rate differentials between the U.S. dollar and Hong Kong dollar are likely to continue widening. In order for the Hong Kong interest rates to rise significantly, it would be necessary for the Hong Kong monetary authorities to take measures to absorb liquidity. The Hong Kong dollar is expected to again approach the HKD 7.85 level—the lower end of the fluctuation band under the U.S. dollar peg system—within several months. The Hong Kong dollar has been weak also due to the weakness of the Hong Kong stock market and due to concerns that the real estate market may have peaked out. The one-year Hong Kong dollar forward points are forecast to increase given the possible depreciation of the U.S. dollar/Hong Kong dollar spot exchange rate.

**Hong Kong dollar interest rate market in November**

The adjustment to the Hong Kong dollar interest rates as a result of the prime rate raise that was smaller than expected seems to have more or less finished. Given that the checkable deposit balance of the HKMA remains high, at HKD 76.3 billion, it is currently difficult to expect the interest rates to appreciate significantly. The prime rate will almost certainly be raised after the interest rate hike in the U.S. in December, but it is likely to only be raised by +12.5 basis points again, making it likely for the interest

rate differentials between the Hong Kong dollar and the U.S. dollar to continue widening. IPO activities, which are a major factor for the appreciation of Hong Kong dollar interest rate, are likely to be minimal until the adjustment of stock prices has ended.

Kei Yano, Treasury Division, MHBK (China)

# Chinese Yuan – November 2018

| Expected Ranges | Against the US$: | CNY 6.6500–7.0500 |
|---|---|---|
| | Against the yen: | JPY 15.32–17.29 |
| | Against 100 yen: | CNY 5.7800–6.5300 |

## 1. Review of the Previous Month

**Foreign exchange market**

In October, the Chinese yuan continued depreciating against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.96.

During the holidays of the National Day of the People's Republic of China, the economic indices of the U.S. turned out to be strong, while Federal Reserve Board (FRB) Chair Jerome Powell supported the continuation of gradual interest rate hikes in his speech. In reaction to this, the pressure to buy the U.S. dollar strengthened and the Chinese yuan depreciated against the U.S. dollar in the offshore market. Furthermore, on October 7, the People's Bank of China (PBOC) announced its decision to cut the deposit reserve requirement ratio. As a result, on October 8, after the holidays, the onshore U.S. dollar/Chinese yuan market opened trading with a Chinese yuan weaker than at the end of the previous month. Thereafter, toward the middle of the month, the U.S. dollar/Chinese yuan exchange rate remained flat at around CNY 6.92. When the media reported that the U.S. proposed a summit dialogue between the U.S. and China in order to mitigate trade-related problems, this led the U.S. dollar/Chinese yuan exchange rate to temporarily fall below CNY 6.90. However, the exchange rate returned to the original level immediately after.

On October 18, the minutes of the Federal Open Market Committee (FOMC) meeting were released and the U.S. dollar interest rates appreciated as a result. Market participants thus bought the U.S. dollar again. Furthermore, U.S. stock prices depreciated, negatively reacting to the appreciation of the U.S. interest rates, which also led the Shanghai Stock Exchange Composite Index to also fall below 2,500, and the depreciation accelerated. As a consequence, the Chinese yuan also weakened, and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.94. Thereafter, the July–September-quarter GDP of China was announced, falling below the market estimate. This once caused the Chinese yuan to weaken. However, the monetary authorities carried out a series of verbal interventions, which reversed the trend, and the Chinese yuan started to appreciate.

In the second half of the month, market participants sold the euro due to political uncertainty related to the Brexit and the budget bill in Italy. Under such a condition, the Chinese yuan also continued depreciating. Furthermore, on October 25, Governor of the European Central Bank (ECB) Mario Draghi expressed his plan not to focus too much on the recent economic slowdown in the euro zone at a press conference after the ECB Committee meeting, which fueled a feeling of unease in the market. As a result, the euro-selling accelerated and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.96. Thereafter, the Chinese yuan appreciated against the U.S. dollar as a result of the verbal intervention by Deputy Governor of the PBOC Pan Gongsheng. However, toward the end of the month, the downward pressure on the Chinese yuan strengthened again and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.9666—the lowest rate for the Chinese yuan after the periods of financial crisis in China. The U.S. dollar/Chinese yuan exchange market thus remained very volatile.

**Interest rate market**

In October, the interest rates, particularly those for short terms, remained low, as demand for funds started to decline after the end of the quarter and after the National Day of the People's Republic of China. During the first half of the month, the PBOC decided to cut the deposit reserve requirement ratio. CNY 450 billion out of CNY 1.2 trillion, the reduced required reserves, was used for the repayment of the medium-term lending facility (MLF), and CNY 750 billion was used to raise the liquidity level of the capital market. As the monetary easing continued and the capital supply & demand balance was tightened as a result of corporate tax payment, the overnight interest rates once appreciated. However, toward the end of the month, there was a fund supply operation every day, increasing capital release by major Chinese companies. As a consequence, the overnight interest rates once fell significantly. On the other hand, interest rates for longer periods that go beyond the end of the year appreciated slightly.

## 2. Outlook for This Month

**Foreign exchange market**

In November, the Chinese yuan continued depreciating slowly against the U.S. dollar.

While market participants are aware of the economic downturn in China, the Chinese monetary authorities are taking measures to support the economic level, which is likely to strengthen the downward pressure on the Chinese yuan interest rates. On the other hand, it is seen as certain that the U.S. will continue gradually raising interest rates. Thus, as a result of the different monetary plans in the U.S. and China, the interest rate differentials between the U.S. and China are expected to narrow, leading the Chinese yuan to depreciate against the U.S. dollar.

Even though the U.S. mid-term elections are scheduled for November 6, there is also a summit dialogue between the U.S. and China scheduled for the end of November. Therefore, it is unlikely for the U.S. to change its attitude toward China after the mid-term election. Until the summit dialogue between the U.S. and China, it is also unlikely to see any advancement related to the trade frictions between the U.S. and China. Thus, it is not likely for the trend to reverse or for the Chinese yuan to start appreciating based on any advancement related to said trade frictions between the U.S. and China. The U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.9666—the lowest rate after the periods of financial crisis in China—and market participants are now looking at the CNY 7.0 mark. At the moment, the Chinese monetary authorities are continuing to carry out a series of verbal interventions, and market participants should remain cautious about the actions to be taken by the Chinese monetary authorities.

**Interest rate market**

In November, the measures of monetary easing are likely to continue and the interest rates are expected to remain low.

It is possible for the Chinese monetary authorities to take further measures of monetary easing in order to support the economic level and maintain the liquidity level, and this would make it likely for the downward pressure on interest rates to persist. The interest rates for periods that go beyond the end of the year may appreciate if market participants are aware of the fund procurement demand. It is thus important to remain cautious.

It is also possible for the interest rates for medium-to-long terms to start appreciating if the real economy strengthens thank to fiscal measures, leading to stock price appreciation. While the trade frictions between the U.S. and China persist, market participants should remain careful about the attitude of the Chinese monetary authorities, along with any impact on the real economy.

Shinya Maegawa, Asia & Oceania Treasury Department

# Singapore Dollar – November 2018

| **Expected Ranges** | **Against the US$:** | **SG$ 1.3600–1.3900** |
|---|---|---|
| | **Against the yen:** | **JPY 80.00–82.50** |

## 1. Review of the Previous Month

In October, the U.S. dollar/Singapore dollar exchange rate fluctuated violently within a range between the lower-SGD 1.37 level and the upper-SGD 1.38 level as a result of the change in the risk sentiment in the market that resulted from worldwide stock price depreciation.

In the first week of the month, the Singapore dollar remained weak, as was the case with other Asian currencies. While risk sentiment was strengthened in the market, thanks to the agreement regarding re-negotiations for the North American Free Trade Agreement (NAFTA) between the U.S. and Canada, there was also a down factor in the U.S. dollar-buying motivated by the U.S. dollar interest rate, which rose from the lower-3% level to 3.23% and remained high thereafter. It should also be mentioned that the September ADP employment statistics turned out to be stronger than expected, which fueled expectations for the U.S. employment statistics of the U.S., scheduled to be out at the end of the first week. Under such circumstances, market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate rose from the upper-SGD 1.36 level to the lower-SGD 1.38 level.

In the second week of the month, the People's Bank of China (PBOC) announced its decision to cut the deposit reserve requirement ratio by 1% on October 7, which led the Chinese yuan to depreciate significantly. Following the depreciation of the Chinese yuan, the Singapore dollar also depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.38 level. On October 9, the Chinese yuan rallied, motivating market participants to buy the Singapore dollar. In the second half of the week, U.S. stock prices fell sharply and U.S. interest rates fell, which encouraged market participants to sell the U.S. dollar and buy the Singapore dollar. Then, on October 12, the Monetary Authority of Singapore (MAS) announced its regular monetary policy revision report, deciding to carry out monetary tightening for the second time this year. Immediately after this announcement by the MAS, market participants bought the Singapore dollar.

In the third week of the month, geopolitical risks heightened due to the concerns over the trade frictions between the U.S. and China as well as the disappearance of a Saudi Arabian journalist, and these situations weakened the U.S. dollar on October 15. Under such circumstances, the Singapore dollar remained strong

toward the middle of the week, and the U.S. dollar/Singapore dollar reached the mid-SGD 1.37. Toward the second half of the week, the minutes of the FOMC meeting pointed to the possibility for the policy interest rate to be raised to a level above the neutral interest rate. In reaction to this, the overall Asian currencies weakened. Following this trend, market participants sold the Singapore dollar as well, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.38 level.

In the fourth week of the month, the September CPI of Singapore was announced on October 23, and the result turned out to be almost at the same level as the market estimate. Thus, the impact of this on the Singapore dollar exchange market was minimal. In the second half of the week, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range.

## 2. Outlook for This Month

In November, the Singapore dollar is forecast to weaken against the U.S. dollar, as market participants are likely to continue buying the U.S. dollar, being aware of issues such as the negotiations related to the Brexit, concerns over fiscal issues in Italy, and the geopolitical risks related to Saudi Arabia.

In the previous month, the MAS carried out a regular biannual revision of its monetary policy. Following its decision taken in April to resume the policy to lead the Singapore dollar to appreciate for the first time in two years, the MAS announced its decision to accelerate the pace to adjust the nominal effective exchange rate (NEER) of the Singapore dollar toward a stronger Singapore dollar. The median and width of the policy fluctuation band were maintained at the existing levels.

At the same time, the third-quarter GDP of Singapore was also announced, and the preliminary figure for the third-quarter GSP turned out to be +4.7% from the previous quarter and +2.6% year-on-year, making it possible to achieve the expected annual range for 2018 of +2.5%–3.5%. Even though the manufacturing sector seems show some signs that it has peaked out, the monetary services sector, the wholesale sector, and the retail sector remain strong, maintaining the outlook for a strong economic growth rate in Singapore.

It should also be mentioned that the outlook for the annual core CPI for 2018 was raised to +1.5%–2.0% (while it was previously +1.0%–2.0%). While the core inflation rate for 2019 is likely to rise in the short term to +1.5%–2.5%, it is expected to stabilize thereafter at a level slightly below 2%. This is a slightly hawkish outlook, showing the optimistic attitude of the MAS.

On the other hand, there is also a sense of uncertainty in the market related to concerns over the lack of consensus in the Brexit, along with the budget issues in Italy. It is also important to note that when stock prices depreciate in the major stock markets around the world, risk-averse sentiment may strengthen in

fear of negative impact of the intensification of the trade frictions between the U.S. and China on the real economy, encouraging market participants to buy the U.S. dollar further.

Yuki Inoue, Bangkok Treasury Office

# Thai Baht – November 2018

| Expected Ranges | Against the US$: | THB 32.50–33.50 |
| --- | --- | --- |
| | Against the yen: | JPY 3.40–3.50 |

## 1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate appreciated in October.

At the beginning of the month, the trend was reversed and the U.S. dollar/Thai baht exchange rate rallied, and the U.S. dollar/Thai baht exchange market opened trading at the THB 32.30 level in October. On October 1, the August Consumer Price Index was announced, and the result turned out to be slightly above the market estimate, at +1.33% year-on-year. In reaction to this, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 33.20—the monthly low. Then, on October 3, the minutes of the monetary policy committee (MPC) meeting held at the central bank of Thailand on September 19 were released. However, there was nothing new in the contents, and the reaction in the market was minimal. On the same day during trading hours overseas, the U.S. interest rates appreciated sharply as a result of the announcement of U.S. economic indices. This encouraged market participants to buy the U.S. dollar, and following this trend the U.S. dollar/Thai baht exchange rate also rose to the THB 32.50 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued appreciating following the appreciation of the U.S. interest rates. On October 8, the Chinese yuan depreciated in the Chinese market after the National Day of the People's Republic of China. As the Thai baht market is highly correlated to the Chinese yuan market, the Thai baht also depreciated, and the U.S. dollar/Thai baht exchange rate rose to the THB 33.00 level. However, on October 9, U.S. President Donald Trump expressed his dissatisfaction related to the interest rate hikes by the Federal Reserve Board (FRB), which slowed down the appreciation of the U.S. dollar interest rates, also slowing down the appreciation of the U.S. dollar/Thai baht exchange rate.

In the middle of the month, the U.S. dollar/Thai baht exchange rate depreciated sharply. On October 10, during trading hours overseas, U.S. stock prices fell sharply, strengthening the risk-averse sentiment in the market. However, the impact of this on the U.S. dollar/Thai baht exchange market was limited, and the exchange rate remained at around THB 33.00 to the U.S. dollar. On October 11, the following day, Asian stock prices all fell sharply. Despite this, the U.S. dollar/Thai baht exchange rate remained stable at the upper-THB 32 level from the beginning. However, when one media outlet reported that a Thai electricity company's acquisition plan of its competitor was rejected, the trend was reversed, as market participants expected the unwinding of the previous U.S. dollar-buying hedges. As a consequence, the U.S. dollar/Thai

baht exchange rate fell sharply to the THB 32.70 level. On October 12, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark that there was no urgent necessity to raise the interest rate. However, there was little reaction in the market before the consecutive holidays. After the holiday on October 15, the market opened again on October 16, and the risk sentiment in the market improved, thanks to the recovery of the stock market in the U.S. As a result, the U.S. dollar/Thai baht exchange rate approached its low, once falling below THB 32.50. Thereafter, on October 18, the Shanghai Stock Exchange Composite Index renewed its low since the beginning of the year, in reaction to which risk-averse sentiment strengthened in the market and the U.S. dollar/Thai baht exchange rate rallied slightly to the THB 32.60 level. However, at this level the Chinese monetary authorities carried out verbal interventions on October 19, leading Shanghai stocks to rally. Following this trend, the U.S. dollar/Thai baht exchange rate did not rally further.

At the end of the month, the U.S. dollar/Thai baht exchange rate appreciated again. On October 22, the Ministry of Commerce released the September customs-based value of exports, which turned out to be a negative figure for the first time in 19 months. However, the impact of this on the market was limited. During the trading hours of overseas markets, the Chinese yuan depreciated, which led the U.S. dollar/Thai baht exchange rate to appreciate significantly. Thereafter, the stock market remained unstable worldwide. Under such a circumstance, the U.S. dollar/Thai baht exchange rate continued appreciating slowly, reaching the THB 33.00 level. While the U.S. dollar/Chinese yuan exchange rate continued rising to approach CNY 7.00, an important turning point, the U.S. dollar/Thai baht exchange rate rose to the THB 33.30 level toward October 30.

## 2. Outlook for This Month

In November, the U.S. dollar/Thai baht exchange rate is forecast to remain low.

In October, the Thai baht ended up depreciating against the U.S. dollar, following the appreciation of the U.S. interest rates as well as the depreciation of the Chinese yuan.

In forecasting the Thai baht exchange market in November, the monetary policy committee (MPC) meeting scheduled for November 14 would be an important event. At the previous MPC meeting held on September 19, the number of members that supported an interest rate hike increased from one to two, leading market participants to expect an early interest rate hike. It is easy to recall that the Thai baht appreciated on that occasion. Thereafter, the governor of the central bank of Thailand, Veerathai Santiprabhob, continues repeatedly affirming that there is no urgent need for the central bank to raise the interest rate. However, other officials at the central bank also commented that an interest rate hike of 25–50 basis points would not severely impact the Thai economy, remaining within an absorbable range. Thus,

it seems that the central bank has been slowly preparing for an interest rate hike. Furthermore, on October 4, the central bank announced its decision to strengthen regulations related to housing. The regulation limits loans on housing at more than THB 10 million to 80% of the asset value, while also making it a requirement to make a down payment equivalent of 20% or more of the asset value. The central bank explains that this measure would prevent household debts and bad debts from growing further. On October 3, the previous day, the minutes of the MPC meeting had also been released, revealing that a large part of the meeting was used to discuss concerns over real estate bubbles. From this point of view as well, the central bank seems to have growing concerns over the real estate sector and is starting to take measures of monetary tightening.

It should also be mentioned, however, that the central bank of Thailand explains that the possibility of an interest rate would "depend on data," and the latest figures show some weakness. The September Consumer Price Index turned out to be +1.33% year-on-year, slowing down from the result of the previous month, at +1.62%. Moreover, the September trade statistics that were released at the end of the month recorded a negative year-on-year growth in exports for the first time in two years. This seems to be due to the negative impact of the trade frictions between the U.S. and China as well as the fact that a large number of Chinese tourists became victims in a boat capsizing incident in Phuket in July, which reduced tourism demand from China and fueled concerns over the downturn of the country's strong tourism industry.

Some market participants expect the central bank to raise the interest rate in November. However, it is more likely for the central bank to raise the interest rate in December, through an increase of the votes to support an interest rate hike from two to three (the interest rate remains unchanged with four to three votes) in November. If market participants become conscious that an interest rate hike is approaching, the U.S. dollar/Thai baht exchange rate is not likely to appreciate significantly.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

# Malaysian Ringgit – November 2018

| **Expected Ranges** | **Against the US$:** | **MYR 4.1000–4.2000** |
|---|---|---|
| | **Against the yen:** | **JPY 26.50–27.10** |
| | **Against 100 yen:** | **MYR 3.6900–3.7750** |

## 1. Review of the Previous Month

In October, it was seen that the risk-averse sentiment in the market has not been mitigated since the outbreak of the trade frictions between the U.S. and China. While foreign investor funds continued flowing out from Malaysian domestic assets, the Malaysian ringgit continued depreciating against the U.S. dollar from the upper-MYR 4.13 level, observed at the beginning of the month, to reach MYR 4.1770 at the end of the month for the first time in approximately one year.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at around MYR 4.1400. Expectations were growing in the market for an additional interest rate hike as a result of an agreement on the alliance among Canada, Mexico, and the U.S. (USMCR), as well as the optimistic remark on the U.S. economy made by FRB officials, including FRB Chair Jerome Powell. Under such a context, the People's Bank of China (PBOC) announced its decision to raise the deposit reserve requirement ratio by 100 basis points on October 7, after the holidays of the National Day of the People's Republic of China. Following the trend in the Chinese yuan exchange market, the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.15 level on October 8, regardless of the September employment statistics of the U.S. turning out to be weaker than expected. Thereafter, U.S. stock prices fell sharply, which impacted Asian markets. As a consequence, the Malaysian ringgit recorded its low on October 11 at MYR 4.1595 to the U.S. dollar.

Due to the September CPI of the U.S. that turned out to be weaker than expected, the U.S. interest rates fell, after which the U.S. and Asian stock prices rallied. On October 16, the media reported that the governor of the central bank of Malaysia, Nor Shamsiah Mohd Yunus, said to the *Financial Times* that the central bank is considering a capital restriction as an option. Under such circumstances, the Malaysian ringgit rallied against the U.S. dollar and the U.S. dollar/Malaysian ringgit exchange rate once reached MYR 4.1490. However, the minutes of the Federal Open Market Committee (FOMC) meeting were released in the evening of the same day, revealing that many Federal Reserve Bank (FRB) members see it necessary to raise the neutral rate of interest. In reaction to this, U.S. bond yields jumped up, leading the

Malaysian ringgit to renew its low again on October 19 at MYR 4.1620 against the U.S. dollar.

In the second half of the month, the Malaysian ringgit remained low due to the depreciation of the euro, which resulted from the concerns over the Brexit and the fiscal situation in Italy. Under such a context, the Minister of Energy, Industry and Mineral Resources of Saudi Arabia made a remark on October 23 that OPEC member countries would increase the production of crude oil as much as possible, which led the Brent oil price to fall sharply from USD 80 to USD 76. The market sentiment was further worsened due to the incident of a Saudi journalist, Jamal Khashoggi, killed in Turkey, which caused stock prices in the U.S. to fall sharply. The Nasdaq stock price fell by 4.43% on October 24, the largest daily fall since August 2011. On October 25, the following day, the Asian stock market followed this trend, and the U.S. dollar/Malaysian ringgit exchange rate exceeded MYR 4.17 to the U.S. dollar.

Domestic market participants have been sensitive about trade frictions, global growth, geopolitical risks, and corporate accounting. As of the market closing of October 26, the Malaysian ringgit renewed its lowest rate since the beginning of the year at MYR 4.1770 to the U.S. dollar, a level seen for the first time in approximately a year.

## 2. Outlook for This Month

In November, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.10 and MYR 4.20. The governmental budget bill for 2019 is to be released near the beginning of the month, on November 2, which will be the most-important factor. Both rating agencies and overseas investors have been waiting to see how the new government under Prime Minister Mahathir bin Mohamad will reduce the MYR 1 trillion in government debt, which that has been a problem since the change of the government in May, while also responding to the demand to introduce economic stimulus measures, which could be contradictory to the former.

It has been almost half a year since the historic change of government that took place on May 9. In the meantime, the new government was busy trying to correctly understand the fiscal situation and revise the policy measures accordingly. Thus, the government must have been obliged to make many decisions that had not been expected before the election. On June 1, the Minister of Finance announced its decision to revise the 100-day plan. However, in August, at the end of the 100 days, the report made by the Council of Eminent Persons remained closed to the public. Thus, the new government will announce its budget bill, while rating agencies and foreign investors carefully observe the situation.

Prior to the announcement of the budget plan, the new government has already implied its attitude to control the development budget in order to introduce the new tax scheme and protect the general budget.

The new tax scheme would probably target online business, according to some speculations. Market participants are waiting to see how the tax will be levied and how it will impact private consumption, which accounts for as much as 50% of the GDP of Malaysia. Market participants should also remain attentive to see if the budget plan for the new fiscal year would maintain the normalization process in terms of the target fiscal deficit as a percentage of GDP (2.8%).

In the Malaysian bond market, there was net capital inflow from foreign investors in July. However, there has been net capital outflow in August and September. In the stock market as well, there was net capital outflow for three consecutive months since May, in which the election took place, after which the inflow and the outflow has been cancelled out in the latest two months. Foreign investors seem to remain cautious, waiting for the announcement of the budget plan. Under such circumstances, the supply & demand balance tightened for the U.S. dollar in the Malaysian domestic market. As a result, the market interest rates have been high compared to those in the offshore market.

If investors positively evaluate the budget plan announced by the government, expectations would grow for the funds of foreign investors to come back. However, given the environment in the domestic market, the capital comeback would be a slow one even if the Malaysian ringgit is positively evaluated again in the market.

Ryosuke Kawai, Asia & Oceania Treasury Department

# Indonesian Rupiah – November 2018

| **Expected Ranges** | **Against the US$:** | **IDR 14,700–15,500** |
|---|---|---|
| | **Against 100 rupiah:** | **JPY 0.71–0.79** |
| | **Against the yen:** | **IDR 127.00–141.00** |

## 1. Review of the Previous Month

In October, the U.S dollar/Indonesian rupiah exchange rate fluctuated within the range between IDR 14,880 and IDR 15,270, exceeding the IDR 15,000 level for the first time in 20 years after the 1997 Asian financial crisis.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,880, after which the exchange rate exceeded the IDR 15,000 level on October 2 for the first time in 20 years since said 1997 Asian financial crisis, due to the risk-averse sentiment in the market and due to the concerns over the growing current account deficit of Indonesia caused by the appreciation of the crude oil price.

On October 1, the September Consumer Price Index of Indonesia was announced, and the result turned out to be +2.88% year-on-year—lower than the market estimate. On October 5, the September figure for the foreign currency reserves of Indonesia was announced to be USD 114.9 billion (with a decline of USD 3 billion from the previous month), recording negative growth for the eighth consecutive month.

Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued rising toward the middle of the month, once reaching IDR 15,270 on October 11.

On October 15, the September trade balance of Indonesia was released, revealing profit for the first time in three months (the result was +USD 230 million, while the estimate was –USD 500 million), in reaction to which the pressure to sell the Indonesian rupiah weakened. The trend was reversed, and the U.S. dollar/Indonesian rupiah exchange rate fell and remained at around IDR 15,200.

On October 23, the central bank of Indonesia decided to maintain the policy interest rate at the existing level, as had been expected in the market. The reaction to this was limited in the market.

As of October 26, 2018, the U.S. dollar/Indonesian rupiah pair was trading at around IDR 15,215 (based on the closing rate).

## 2. Outlook for This Month

In November, market participants are expected to continue selling the Indonesian rupiah and buying the U.S. dollar based on actual demand (in terms of the current account balance). As the sentiment of investors would worsen as a result of the worsening figures of the July–September-quarter GDP and the current account balance of Indonesia, which are to be announced this month, the Indonesian ringgit is forecast to remain weak, trading against the U.S. dollar mainly at the IDR 14,800–IDR 15,000 level.

In the recent months, the activities of foreign investors in the Indonesian bond market have been at a halt, and in terms of statistics, there has been no significant capital outflow.

However, in November, in addition to the announcement of monthly economic indices, there will be the announcement of the July–September-quarter GDP of Indonesia as well as the July–September-quarter current account balance of Indonesia, scheduled for November 5 and November 11, respectively. Both indices are expected to worsen from the previous results, and thus it is important to remain careful about the possibility for investors to sell the Indonesian rupiah as a result of the worsening of market sentiment.

It should also be mentioned that, as an overseas factor, the U.S. mid-term elections are scheduled for November 6, the result of which we should carefully observe.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

# Philippine Peso – November 2018

| Expected Ranges | Against the US$: | PHP 53.00–54.50 |
|---|---|---|
| | Against the yen: | JPY 2.05–2.10 |

## 1. Review of the Previous Month

In October, the U.S dollar/Philippine peso exchange market (onshore interbank market) opened trading at PHP 54.03 to the U.S. dollar. Due to the fiscal problems in Italy, market participants bought the U.S. dollar as a safe asset. Furthermore, Federal Reserve Board (FRB) Chair Jerome Powell made an optimistic remark regarding the U.S. economy, and U.S. economic indices turned out to be strong. As a result, U.S. interest rates appreciated sharply. In reaction to this, the U.S. dollar renewed its latest high against the Philippine peso, trading at PHP 54.41 on October 4. However, the U.S. dollar did not appreciate further, and this turned out to be the monthly high for the U.S. dollar in October.

On October 5, the September Consumer Price Index of the Philippines was released, and the result turned out to be +6.7% year-on-year, recording positive growth for the ninth consecutive month. However the figure was below +6.8% year-on-year—the median of the market estimate or the 7% level year-on-year expected by some market participants. Thus, the growing concerns for inflation were somewhat mitigated, encouraging market participants to buy back the Philippine peso. As a consequence, the U.S. dollar/Philippine peso exchange rate hovered around at the lower-PHP 54 level.

On October 5, the September employment statistics of the U.S. were released. In reaction to this, the 10-year U.S. bond yield reached the 3.2% level for the first time in seven years. However, this encouraged market participants to buy the U.S. dollar only to a limited extent. While market participants were cautious about the market intervention by the central bank of the Philippines, U.S. President Donald Trump made a remark that there was no need to hurry and raise the interest rate, which kept the U.S. dollar/Philippine peso exchange rate from rising further.

On October 16, the U.S. dollar/Philippine peso exchange rate fell below the PHP 54 mark for the first time in one month. This is thanks to the fact that market participants started buying Asian currencies and selling the U.S. dollar in the foreign exchange market, after Turkey released a U.S. pastor that was in prison for a crime related to terrorism, while U.S. Secretary of the Treasury Steven Mnuchin expressed his intention to ask Japan for a foreign exchange provision, in order to prevent any manipulation on the Japan side to

lead the Japanese yen to depreciate.

Even though the U.S. dollar/Philippine peso exchange rate once recovered to the PHP 54 level after the release of the minutes of the Federal Open Market Committee (FOMC) meeting in the U.S., there was, intermittently, large-scale U.S. dollar-selling that seemed to be based on actual demand. As a result, on October 29, the U.S. dollar/Philippine peso exchange rate reached PHP 53.56, the highest rate for the Philippine peso in approximately eight weeks, at which level the day's trading closed (as of 6 p.m. of October 29).

## 2. Outlook for This Month

The August trade balance of the Philippines turned out to be a deficit of USD 3.51 billion, with a slight decrease from the deficit of USD 3.54 billion observed from last month, along with a slight decrease compared to the market estimate. The August amount of Overseas Filipino Workers (OFW) remittances was announced to be USD 2.48 billion, exceeding USD 2.4 billion—the result of the previous month.

As a result, the net figure turned out to be –USD 1.03 billion after balancing with trade profit, which is attracting attention in the market. The size of the deficit thus shrunk from the –USD 1.14 billion observed in July. This could be said to be a factor in softening the pressure to sell the Philippine peso.

Recently, the U.S. dollar/Philippine peso exchange market does not see Philippine peso-selling very often, even at the moment of risk-averse sentiment. The strength of the Philippine peso was also confirmed at times of the sharp depreciation of U.S. stock prices, which occurred several times last month. This is based on the fact that, while certain factors are losing their impact, such as the trade frictions between the U.S. and China and geopolitical risks in the Middle East, market participants are expected to buy back the Philippine peso (such as in the increase of OFW remittances or in the adjustment of positions) toward the end of the year, as was the case in the previous year.

Furthermore, it seems that the Philippine monetary authorities have created an optimal timing for market participants that were waiting for the right moment to buy back the Philippine peso, as said authorities announced that concerns over inflation in the Philippines had been mitigated (i.e., the assistant of the deputy governor of the central bank of the Philippines commented that the inflation rate had peaked out in the third quarter) (although we would have to wait for actual data). Once concerns over inflation were mitigated, the Philippine peso interest rates fell to the level observed in early September. The one-month Philippine peso implied interest rate, which is traded on the foreign exchange market, has been on a decline after peaking out at the beginning of October. It is now uncertain if the monetary policy committee of the central bank of the Philippines will raise the interest rates at its meeting scheduled for November 15.

From a short-term perspective, it is not surprising if market participants continue to buy back the Philippine peso further. However, the appreciation of the Philippine peso at this point should be considered to be within the range of adjustment based on several factors, such as twin deficits, the August amount of OFW remittances (which turned out to record negative year-on-year growth, at –0.9%), and the persistent net selling of Philippine stocks by foreign investors (as of 6 p.m. on October 29).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

# Indian Rupee – November 2018

| **Expected Ranges** | **Against the US$:** | **INR 70.60–75.00** |
|---|---|---|
| | **Against the yen:** | **JPY 1.45–1.60** |

## 1. Review of the Previous Month

In October, the U.S. dollar/Indian rupee exchange rate appreciated once, after which the exchange rate came back to the original level.

In October, the U.S. dollar/Indian rupee exchange market opened trading at the INR 72.66 level. On October 1, the WTI crude oil price exceeded USD 75 for the first time in roughly four years during the overseas trading hours after the market closing in India. In reaction to this, in the morning of October 3, after holidays in India, the U.S. dollar/Indian rupee exchange market opened trading exceeding INR 3 for the first time, which is a higher level than the closing rate of the previous business day. On October 5, the result of the Reserve Bank of India (RBI) meeting was announced, detailing that the RBI took the decision to maintain the policy interest rate at the existing level. As market participants were generally expecting an interest rate hike, they started selling the Indian rupee with disappointment. As a consequence, the U.S. dollar/Indian rupee exchange rate reached the INR 74 level. Furthermore, the media reported that the governmental officials were concerned over the possibility for the fiscal deficit of India to grow further, which, on October 11, led the U.S. dollar/Indian rupee exchange rate to reach INR 74.48—the highest rate in October. However, during the day time of the same day, the media reported that the government is considering measures to close the gap in the current account balance, which led the U.S. dollar/Indian rupee exchange rate to fall sharply. As the crude oil price fell as well, the U.S. dollar/Indian rupee exchange rate continued falling on the following day, recording a decline of INR 1 from the highest rate. Even though the exchange rate was once supported at the INR 73.50 level, the exchange rate remained generally low. On October 15, the trade balance of India was announced, and the deficit turned out to be much smaller than the estimate, which led market participants to sell the U.S. dollar/Indian rupee pair, and the exchange rate approached INR 73.19. However, the exchange rate did not fall further, and trading closed on October 25 at the INR 73.27 level.

**The Indian rupee/Japanese yen exchange rate fell in October.**
The Indian rupee/Japanese yen exchange market opened trading at INR 1.569. On the following day, the exchange rate reached JPY 1.563, which turned out to be the monthly high. As was discussed above, the

U.S. dollar/Indian rupee exchange rate appreciated, following which the Indian rupee/Japanese yen exchange rate fell as well. In the second week of the month, U.S. Secretary of the Treasury Steven Mnuchin made a comment that it was possible to identify China as a currency manipulator. Furthermore, the New York Dow Jones Industrial Average fell sharply by more than USD 800, while the U.S. economic indices turned out to be weak. As a result of this, risk-averse sentiment grew in the market, and the Japanese yen started to appropriate as a means to avert risks. Once the U.S. dollar/Japanese yen exchange rate approached the lower-JPY 112 level, the Indian rupee/Japanese yen exchange rate fell sharply to reach JPY 1.505—the monthly low. Thereafter, the Indian rupee rallied against the U.S. dollar. However, the U.S. dollar/Japanese yen exchange rate did not return to the original level. Thus, in the end, the Indian rupee/Japanese yen exchange market closed trading at the JPY 1.53 level on October 25.

## 2. Outlook for This Month

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

Despite the expectations of market participants, the RBI decided to postpone an interest rate hike at its meeting in October. Out of the central bank committee members, five members voted for maintaining the policy interest rate, while one member voted for an interest rate hike, thus concluding to maintain the exiting interest rate based on a five-to-one vote. What gathered most attention was the policy management stance that was changed from "neutral" to "calibrated tightening." Until now, the policy was "neutral," making it possible for the interest rate to be raised, maintained, or cut, depending on economic indices. However, this time, the central bank seems to have sent a message to the market that it reduced the possibilities from three to two: an interest rate hike or maintaining the existing interest rate level. As one of the three options, an interest rate cut was eliminated, and there were then two options left, and it can be said that the meeting itself was a hawkish one. Yet, the Indian rupee depreciated thereafter, as there was too much expectation for an interest rate hike in the market.

The governor of the central bank of India emphasized at the press conference that the central bank was responsible for inflation (for keeping it between 5% +/–2%) but not for the exchange rate. However, given that the central bank changed its attitude toward monetary tightening while revising the price and growth outlook downward, the central bank may have been conscious of the depreciation of the Indian rupee.

It should also be mentioned that the government made comments to give warning to the depreciation of the Indian rupee in October, as was the case in September, as mentioned above. The U.S. dollar/Indian rupee exchange rate was thus kept from rising further.

While market participants should remain attentive about factors such as the appreciation of the crude oil price, the fiscal issues in Italy, and the Brexit, the U.S. dollar/Indian rupee exchange rate is likely to fall

and remain low, as it is currently seen as being high.

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