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Mizuho Dealer's Eye

December 2018

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Mizuho Bank, Ltd.

Forex Department

Masashi Sakamoto, Forex Sales, Forex Department

U.S. Dollar – December 2018

Expected Ranges **Against the yen: JPY111.00–115.00**

1. Review of the Previous Month

The dollar/yen pair moved firmly on the whole on November.

It opened the month at the lower-113 yen mark in November 1. It then dipped to the mid-112 yen level after the October Manufacturing ISM Report on Business fell below expectations. The US employment data for October was released on November 2 and it significantly outperformed forecasts. As US interest rates rose, the pair rallied to the 113 yen range. It closed the week trading at the lower-113 yen level, with the pair also bolstered when President Trump said the US and China would probably reach an agreement on trade.

The pair opened the following week moving at the lower-113 yen mark on November 5. As voting begin in the mid-term elections on November 7, US long-term interest rates fell and the pair crashed to the upper-112 yen level following news that the Democratic candidate for the lower house election in Virginia had trounced the Republican incumbent. However, the pair then soared back to the upper-113 yen level on reports that the Republicans were putting up a good fight in the lower house elections. The upper and lower houses eventually ended up under the control of different parties, as expected, so the greenback was sold and the pair dipped below 113 yen. The FOMC kept policy rates fixed when it met on November 8. However, the outlook for jobs and consumer spending was upgraded in the accompanying statement, so the pair climbed to the 114 yen range. With investors adjusting their positions at the weekend, the pair dipped to the upper-113 yen mark at the end of the week.

The pair opened the following week moving at the upper-113 yen mark on November 12. With Asian stocks rising, the pair hit a monthly high of 114.21 yen, though it then dipped to the upper-113 yen level as European stocks tumbled. On November 13, China's vice premier resumed trade walks with the US, with the pair bouncing back to the lower-114 yen mark on this news. It floated up and down around 113 yen in the latter half on the week on news about Brexit. The pound then rose on November 16, with the dollar/yen pair also dropping to the mid-112 yen mark on dovish comments by an FRB official. The pair then closed the week trading at the upper-112 yen level.

It opened the following week moving at the upper-112 yen mark on November 19. FRB vice chair Richard Clarida then made some dovish comments. Pessimism about sharper US/China trade frictions also grew when the heads of state failed to agree on a joint declaration at the APEC summit. All this saw the pair dropping to the mid-112 mark. On November 20, the pair hit a monthly low of 112.30 yen. US interest rates bounced back, though, while US stock markets pared back losses, so the pair recovered to the upper-112 yen level. On November 21, the pair was weighed down by media speculation that the FRB would discuss bringing rate hikes to an end from next spring, though it still moved firmly in the

113 yen range. The pair weakened to the mid-112 yen mark on November 23 as the markets reacted badly to the bearish movements of crude oil prices and US stocks, though it closed the week trading at the upper-112 yen level.

The pair opened the following week moving at the upper-112 yen mark on November 26. Hopes for the end-of-year sales season were roused by brisk sales on Black Friday the previous week, so US stocks rose and the pair strengthened to the upper-113 yen mark. It rose to 114 yen on November 28, though it then crashed to the mid-113 yen level after FRB chair Jerome Powell adopted a cautious stance toward monetary tightening during a speech. The pair eventually finished the month trading at the lower-113 yen mark.

2. Outlook for This Month

The dollar/yen pair is expected to move with a heavy topside in December.

Firstly, the US monetary policy outlook will probably be a key factor this month. In a speech on November 28, FRB chair Jerome Powell said the US economy continued to grow firmly. He also commented that "interest rates are still low by historical standards," though they "remain just below…the level that would be neutral for the economy, that is neither speeding up nor slowing down growth."

Mr. Powell had previously said in September that he was uncertain about whether interest rates would need to be above neutral level in 2020 or 2021. He had also predicted in June that interest rates would approach the neutral level from 2019 onwards. All this suggested he had no plans to endlessly lift interest rates. With the end of the year approaching, though, he has now indicated that current interest rates are very close to the right level (the neutral rate). This announcement is crucial for gauging the pace of rate hikes from 2019 onwards. September's dot chart projected one more rate hike in 2018 and three in 2019. The FOMC will be meeting on December 19. It will probably lift rates for the fourth time this year, but the forecast for rate hikes from 2019 onwards could well be downgraded when the dot chart is released at the same time. Not to mention the economy, the employment situation remains healthy in the US, though inflation remains subdued. Crude oil prices have also fallen sharply and this is probably exerting more downward pressure on inflation. Under these circumstances, it seems more likely the FOMC will reduce rather than increase the pace of rate hikes.

The next key factor is likely to be the direction of US/China trade talks. The APEC heads of state failed to adopt a joint declaration when they met in November. This is the first time this is happened since the meetings began in 1993. This was primarily because of harsh recriminations and conflict between the US and China. On November 28, US trade representative Robert Lighthizer said he was looking at raising tariffs on Chinese automobiles to 40%. At the same time, a major US carmaker announced it was suspending production at its US plants while slashing its workforce. It said this move was partly due to the soaring cost of raw materials as a result of higher tariffs on steel and aluminum imports. With the US midterm elections resulting in a divided Congress, though, there are concerns it has now grown harder to implement policy in the US. As such, it is hard to imagine the Trump

administration dropping its hardline diplomatic stance, at least before the year is out. It seems likely that the yen will appreciate on risk aversion, just like it did after the APEC meeting.

Europe also faces several pressing political challenges, including the Italian budget problem and attempts in the UK to form a consensus on Brexit. In the very short term, the dollar/yen pair might start rising on risk appetite, but it is expected to move bearishly with a heavy topside throughout December.

Dealers' Market Forecast

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

Bullish on the dollar (2 bulls: 112.00–115.00, Core: 112.00–115.00)

Mitsuishi	112.00 – 115.00	There are growing expectations that the US will slow the pace of rate hikes, though the US continues to tighten monetary policy. There remain several risk factors, include US/China trade frictions and Brexit, but the dollar and yen both act as refuge currencies, so on the whole the dollar/yen pair looks set to continue moving firmly within a range.
Okuma	112.00 – 115.00	FRB chair Jerome Powell has started to show signs of dovishness and there are growing concerns that rate hikes could be brought to an end. However, the FOMC still looks set to lift rates in December. With US stocks also likely to move firmly on receding expectations for US rate hikes, the dollar/yen pair will probably perform strongly this month.

Bearish on the dollar (8 bears: 111.00–115.00, Core: 111.00–114.50)

Tauchi	111.00 – 114.00	The dollar/yen pair is expected to move bearishly on concerns of a global economic slowdown, intensified trade frictions, and worries that US rates will be lifted at a slower pace. However, the pair's downside will be supported by increased demand for the dollar on fund repatriations following US corporate tax cuts, and the seasonal end-of-year surge in fund-raising activities.
Kato	112.00 – 114.00	The US has started to release some bearish economic indicators. Storm clouds have appeared in FANG stock movements and housing-related indicators, for instance, so December is likely to be a crucial month for gauging US economic trends in 2019.
Seki	111.00 – 114.50	There are deep-rooted concerns in the US about Chinese becoming a manufacturing superpower, so the US is unlikely to ease the pressure when it comes to higher tariffs on Chinese imports. As the trade war drags on, this will lead to a global economic slump. It will also bring US's expansionary phase to an early end while prompting the FRB to curb its normalization process sooner rather than later. As such, the dollar/yen pair's movements will probably be shaped by yen bullishness this month.
Fujimaki	111.00 – 115.00	If US/China relations improve, the dollar/yen pair could strengthen. FRB chair Jerome Powell's only one speech is not enough to determine, but if he continues to make dovish comments and if expectations for rate hikes keep sliding, then the dollar could be sold and the currency pair could swing lower.
Okamoto	111.00 – 115.00	Sentiments could improve if the US decides to delay lifting/strengthening tariffs on Chinese imports. However, some observers are starting to voice concerns about the deteriorating situation outside the US, with skepticism about rate hikes also starting to emerge, so investors will find it hard to continue actively buying the dollar.
Ueno	111.00 – 114.50	High-ranking FRB figures are inclining in a bearish direction. US economic indicators are also not moving that strongly. As such, the dollar/yen pair could weaken at times. However, the markets have not sufficiently factored in rate hikes for the next fiscal year, so even if the FRB shifts policy, the pair is unlikely to fall sharply as a result.
Tamai	111.50 – 114.50	The FOMC is expected to lift rates in December, but the markets have already factored this in, so the reaction will be muted. Dovish comments by FRB figures suggest that the pace of rate hikes could slow in 2019. Under these circumstances, the dollar/yen pair looks set to slide on worrisome external factors like trade frictions and falling crude oil prices.
Moriya	111.00 – 114.50	The FOMC looks set to lift rates this month, though attention will focus on the pace of rate hikes from 2019 onwards. Recent comments by FRB officials have roused speculation that the end of rate hikes could be approaching, depending on economic indicators. Under these circumstances, investors will find it hard to actively buy the greenback, with the dollar/yen pair set to trade with a heavy topside.

Shinsuke Mitsuishi, Forex Sales, Forex Department

Euro – December 2018

Expected Ranges **Against the US$: US$1.1100–1.1600**
Against the yen: JPY126.00–131.00

1. Review of the Previous Month

In November, the euro/dollar pair moved erratically, hitting the $1.15 range before tumbling down to the lower-$1.12 mark.

The pair opened the month trading around $1.1310 on November 1. The previous day had seen news that the UK's Brexit secretary Dominic Raab had said in a letter that a Brexit agreement might be reached by November 21. It was also reported on November 2 that President Trump had ordered the drafting of a US/China trade agreement in the run up to the end-of-the-month G20 meeting. All this saw risk aversion easing, with the pair climbing to $1.1456. However, it then crashed to $1.1346 on growing speculation that the EU would announce some sanctions on November 21 when it came to the Italian budget issue. The pound was bought and the euro rallied on November 5 on news that UK Brexit secretary Dominic Raab would not be stepping down. The dollar was then sold across the board on the results of the US mid-term elections on November 7, while the euro was bought on the better-than-expected results of the German industrial production data for September. As a result, the euro/dollar pair rose to a monthly high of $1.1500, with the euro/yen pair also hitting 130.15 yen. However, the dollar was then bought after the FOMC meeting on November 8 on speculation that the US would continue lifting rates. With the EU also indicating that it would adopt a tougher stance with regards to the Italian budget problem, the euro was sold at a faster pace. All this saw the euro/dollar pair falling to $1.1216 on November 13, its lowest level for around 17 months, with the euro/yen pair also plummeting to 127.50 yen. The Italian government then indicated that it would not accept the EU's revised proposal for dealing with Italy's fiscal deficit in 2019. The eurozone also released a number of negative indicators, with German's GDP data for July–September, dipping below expectations, for example. Nonetheless, the euro/dollar pair moved firmly to recover to the mid-$1.13 mark. On November 16, FRB vice chair Richard Clarida said he saw signs of a global economic slowdown. He also added that the FRB should take account of the outlook for the global economy. These dovish comments led to some sharp dollar selling, with the euro/dollar pair soaring up to $1.1472 toward November 20. On the same day, the Spanish prime minister Pedro Sanchez voiced displeasure that a clause about Gibraltar had not been written into the draft Brexit agreement. Sterling subsequently fell and the euro followed suit, with the euro/dollar pair plunging to the upper-$1.13 level. The eurozone then released a worse-than-expected November Services PMI on November 23, with the pair sliding further to hit the lower-$1.13 mark. The pair bounced back to the upper-$1.13 level on November 25 after the 27 EU heads of state reached a conditional Brexit agreement. There were doubts about whether this agreement would pass through the UK parliament, though. With concerns about the Italian fiscal situation also smoldering

away, the euro moved with a heavy topside against the dollar and the yen. On November 28, FRB chair Jerome Powell said that interest rates were moving just below the neutral level. Amid growing speculation that Mr. Powell was growing more cautious about monetary tightening, the greenback was sold across the board, with the euro/dollar pair climbing to $1.1387. The euro/yen pair also strengthened to 129.25 yen before closing the month trading around 129 yen.

2. Outlook for This Month

The euro looks set to trade with a heavy topside against the dollar and yen in December.

The biggest factor this month will probably remain Brexit. The 27 EU heads of state agreed on the conditions for a Brexit deal when they met on November 25, but the markets had already factored such a move to a large extent. The main focus for market participants will be the Brexit vote in the UK parliament, set for December 11. It is extremely uncertain whether the deal will pass through parliament. The EU has also indicated it will not renegotiate the deal, so if the UK parliament rejects the deal, this will lead to soaring concerns about a no-deal Brexit, with the pound and the euro inevitably sliding.

The euro will also be weighed down by the problem of the Italian budget proposal for 2019. When the European Commission met on November 21, it decided it would be appropriate to begin excessive deficit procedures (EDP) with regards to Italy's proposal. European Commission is also expected to recommend the Economic and Financial Affairs Council formally launching disciplinary procedures when they meet at the start of December, so political tensions between the European Commission and Italy look set to swell. There will also be growing concerns that the EU will hit Italy with an unprecedented fine. All this could see turmoil sweeping the financial markets. In particular, the ECB will stop making new bond purchases in December, so soaring yields on Italian government bonds will inevitably lead to rising risk aversion. If this happens, the euro will face more selling pressure.

Market attention will also focus on the ruling CDU party's leadership election in Germany. The current leader and German chancellor Angela Merkel will not be standing when the election is held on December 7. Recent reports suggest a Merkel ally has emerged as the favorite. Mrs. Merkel still has three years to go before she steps down, so for a while the chancellor and the leader of the ruling party will be different people. Though this is not likely to happen immediately, concerns could grow about the potential damage of such an unprecedented situation dragging on for a prolonged period. This could also act as a negative factor for the euro.

As all this shows, the euro is beset by internal and external problems. The euro/dollar pair will be supported by growing speculation about an end to US rate hikes, for example, but it is hard to imagine the single currency being actively bought on its own accord.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.1200–1.1650, Core: 1.1200–1.1575)

Fujimaki	1.1200 – 1.1650	Europe will continue to face geopolitical risks related to Italy and Brexit, for example. Its economic indicators are also moving bearishly. However, there is a growing risk that the dollar could fall. Speculators have piled up short positions, so if some unwinding occurs, this could see the euro/dollar pair unexpectedly climbing.
Okamoto	1.1200 – 1.1500	The euro will be weighed down by the Italian budget issue, but if the UK parliament approves the Brexit deal, the pound and euro will probably be bought. Eurozone economic indicators are moving bearishly, but the greenback will also be sold as expectations for US rate hikes wane, so the euro could be bought for a time when moving at lows.

Bearish on the euro (8 bears: 1.1000–1.1500, Core: 1.1050–1.1500)

Tauchi	1.1000 – 1.1500	There remain concerns about the deep-rooted turmoil regarding Italy's budget proposal. The discord between the Italian government and the European Commission could grow deeper, so market participants are unlikely to actively buy the euro. Germany's ruling coalition is also becoming somewhat of a lame duck administration, with a general election looking more likely. This German political turmoil will also act to weigh down the single currency.
Kato	1.1100 – 1.1500	The pound/dollar pair could be bought back for a time if Brexit negotiations are effectively kicked into the long grass. In this scenario, the euro will also move bearishly against the pound, but it could also be pulled along by sterling to see some buy-backs against the dollar.
Seki	1.1000 – 1.1500	The Italian government and the European Commission are at loggerheads about Italy's budget proposal for the new fiscal year. Germany has also been thrown into turmoil now chancellor Angela Merkel has announced she will step down as party leader. As such, the euro is likely to face selling pressure. The real economy is also showing signs of a slowdown. If the ECB steps back from policy normalization, the euro will continue to trade with a heavy topside.
Mitsuishi	1.1000 – 1.1500	The euro faces a number of issues both internally and externally, including: Brexit; the problem of tit-for-tat EU and US automobile tariffs; the Italian budget issue; and political instability in Germany. The euro/dollar pair will be supported by declining expectations for US rate hikes, but market participants will probably find it hard to actively buy the euro.
Ueno	1.1100 – 1.1500	Excessive tensions seem to be easing at present, but the Italian budget issue and Brexit are still dragging on. There are a number of crucial events lined up, such as the vote in the UK parliament about the Brexit deal, set for mid-December. Either way, economic conditions in the eurozone suggest the euro will be a hard currency to buy.
Tamai	1.1000 – 1.1500	The euro will be weighed down by ongoing tensions between Italy and the EU with regards to the former's budget proposal. Attention will also be focused on whether the Brexit deal gets through the UK parliament. Even if it does, though, a UK economic slowdown seems unavoidable, so the euro could be sold in tandem with a bearish pound.
Moriya	1.1100 – 1.1500	There remain a number of uncertainties, including the Italian budget proposal, Brexit, and the German political situation. The eurozone also continues to release a number of bearish economic indicators. As such, there is a shortage of factors conducive to euro buying.
Okuma	1.1100 – 1.1500	The eurozone economy has undergone a noticeable slowdown. There are also a number of political uncertainties, including Brexit and the looming election for a new leader of the Christian Democratic Union (CDU) in Germany. As such, there is a dearth of euro-buying factors, with the euro/dollar pair expected to move bearishly.

Taihei Yamamoto, Europe Treasury Department

British Pound – December 2018

Expected Ranges	Against the US$:	US$1.2500–1.3500
	Against the yen:	JPY140.00–150.00

1. Review of the Previous Month

The pound/dollar pair moved skittishly in November on the Brexit negotiations.

The pair opened the month at $1.2765. A British newspaper then reported that UK financial institutions could retain access to the EU market after Brexit provided the financial rules in the UK and EU were broadly the same. This led to a growing sense of optimism, with the currency pair moving firmly at the start of the month. On November 1, the Bank of England (BOE) released its policy rate announcement and inflation report. The policy rate was kept at 0.75%, as expected, but the inflation report pointed to potential economic overheating from late 2019 onwards while also hinting that interest rates could be lifted at a faster pace. This saw the pair recording its highest one-day rise since April 2017. It then moved firmly to hit a monthly high of $1.3176 on headlines that the UK Brexit minister would announce a withdrawal agreement before November 21. However, the Democratic Unionist Party (DUP; a party offering outside-cabinet support to the May administration) said it would not support the agreement, while government officials also denied reports that a deal had been reached regarding financial services. The pound/dollar pair began falling as a result. The remainer member of parliament (MP) Jo Johnson then resigned as Minister of State at the Department for Transport and Minister for London. With the government roiled, the pair dropped to $1.2827.

In an extraordinary meeting on November 14, the UK cabinet gave its backing to a 585-page draft withdrawal agreement and a draft political declaration, with the pair then bought back to $1.3072. However, the agreement contained a backstop to ensure border controls were not tightened at the UK/Irish border. As such, it seemed the deal might not get through parliament, so the pair soon dropped back. The UK's Brexit secretary Dominic Raab resigned the following morning. With several Brexiteers, the opposition Labour Party and the SNP also signaling early on that they would not support the deal, the pair renewed a low of $1.2725. It was then reported that hardline Tory Brexiteers and so on were working through the weekend to collect the 48 letters (15% of the Conservative Party's 315 MPs) needed to trigger a no-confidence motion, so the pair moved with a heavy topside, though it was then bought back when rebels failed to reach the 48 target. The new sellers' asking prices indicator was released on November 19. This was down on the previous year for the first time since 2011 (down -0.2% on the same period last year), thus pointing to a housing market slump.

The European Commission then rejected Italy's budget proposal on November 21. With news about disciplinary procedures emerging, the pound was also weighed down and the currency pair moved in the $1.27 range. A draft political declaration on Brexit was released on November 22. This referred to

the use of technology to build new customs clearance facilities on the border with Ireland, so the risk of a backstop declined and the pair rocketed to $1.2928. The declaration failed to solve the Gibraltar issue, though, so the pair soon fell back. In the end, EU heads of state formally approved an agreement on the UK's withdrawal and future relations when they met on November 25. This brought an end to the negotiations that had started in March 2017. The markets had already factored this in, though, so the impact was negligible. In fact, the currency pair was sold to $1.2734 when a cabinet source reported that the prime minister's resignation would be needed to placate Brexiteers in the Conservative Party.

2. Outlook for This Month

With the EU heads of state formally approving an agreement on the UK's withdrawal at an extraordinary meeting, the draft agreement will now be debated over five days in the UK House of Commons, with a vote to be held on December 11.

The main sticking point is likely to remain the backstop proposal for the Irish border. Disagreements on this issue will mean the deal is unlikely to pass through parliament. It is now clear that EU rules will only apply to Northern Ireland, so it will even harder now for the government to gain the support of the DUP. At the time of writing, the withdrawal agreement calls for a new trade deal to be signed by 2020. It adds that a backstop will kick in if this deadline is not met, with the UK effectively remaining inside the customs union. Brexiteers are likely to strongly oppose the deal on the grounds of its pro-EU tone, with the agreement also stating that the interim agreement can be extended for a certain period if the UK applies for an extension before July 1, 2020, for example. If the draft agreement is approved, a withdrawal bill will be drawn up and this will have to pass through parliament again. If the draft agreement is defeated, though, the government would have 21 days to prepare an alternative solution. This is hardly any time, so a defeat could lead directly to a no-deal Brexit. Prime minister Theresa May has also caused controversy by stating that a parliamentary rejection could mean no Brexit at all, with no withdrawal also on the table, but there is not much legal basis for Mrs. May's authority on this issue. Mrs. May will need to use all her powers of persuasion to bring this fragile deal to an orderly conclusion, but if the deal is rejected, this could lead to her resignation, a general election, and maybe even a second referendum. According to a British newspaper report on November 21, more than 100 Tory MPS have already said they will reject the deal, so the agreement seems destined for failure. UK opinion polls also suggest over 70% of the public disagree with Mrs. May's Brexit negotiations, so if there is a general election, this could well lead to a change of administration. Mrs. May and the opposition leader Jeremy Corbyn are set to have a TV debate on December 9. This could be a preliminary skirmish to a full-on election. Even if the UK parliament approves the agreement, Ireland, Spain or some other EU nation could still reject it. As such, December will be a crucial month for those UK-based manufacturers considering whether to execute contingency plans, with the pound likely to trade even more erratically as a result.

As for monetary policy, the BOE has examined the potential impact of Brexit on the financial system and the wider economy. It will be compiling the results of this analysis and presenting them to a House

of Commons Treasury Select Committee on November 29. This will provide a strong hint of how monetary policy will be run following the UK withdrawal. In recent comments, the BOE governor has voiced support for the agreement, though he has also insisted the BOE might not cut interest rates in the event of a withdrawal.

Kanako Imamura, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – December 2018

Expected Ranges	**Against the US$:**	**US$0.7100–0.7400**
	Against the yen:	**JPY80.50–84.00**

1. Review of the Previous Month

The AUS/USD pair rallied from the $0.70 range at the start of November to temporarily hit the mid-$0.73 mark.

The pair opened the month trading around $0.7075. Australia's trade surplus for September hit AUD 3.017 billion, up sharply on the forecast for a surplus of AUD 1.700 billion, with the currency pair subsequently climbing to around $0.7130. US stocks then rose on growing market expectations regarding a telephone conference between the US and China heads of state to discuss trade. As a result, the pair rose firmly to hit $0.7210. As expected, the board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at 1.50% when it met on November 6, so the impact on the Australian dollar was negligible and the pair moved flatly at the lower-$0.72 mark. During the closely-watched mid-term elections, the Republican Party retained control of the Senate while the Democrats recaptured the House of Representatives. Though this result was broadly expected, the pair moved skittishly, though it then climbed to $0.7300 as US and European stocks climbed. As expected, the FOMC kept policy rates fixed on November 8, with currency pair trading from the upper-$0.72 mark to around $0.7300.

The pair then tumbled to the mid-$0.71 level mid-November as the markets reacted badly to unstable US stock market falls. As attention focused on a draft UK withdrawal deal, though, the pair moved firmly at $0.7200. On November 15, the Australian new jobs data for October was released. The employment growth surged and the unemployment rate was lower-than-expected 5.0%. This saw the currency pair rising to just below $0.7300. As this trend continued, the pair then strengthened to the lower-$0.73 mark. As a risk currency, though, the Australian dollar was then buffeted by bearish WTI crude oil prices and plunging stock markets in the US and Europe, with the pair subsequently dropping back to the lower-$0.72 level.

Unease about the bearishness of major stock markets saw attempts on the pair's downside late November, though it was supported at $0.7202. The markets slipped into wait-and-see mode in the run up to Thanksgiving Day on November 22. Amid whispers of a global economic slowdown, the currency pair traded in the $0.72 range for a time. On November 28, FRB chair Jerome Powell seemed to adopt a more dovish stance when he commented that US policy rates "remain just below…the level that would be neutral for the economy." The greenback was subsequently sold and the currency pair shot up to the mid-$0.73 level. With a US/China heads of state meeting looming on December 1, the pair then traded at the lower-$0.73 mark.

2. Outlook for This Month

The Australian unit was bought back in November. The question is whether this trend will continue into December.

The US FOMC is scheduled to meet on December 19. Bets on a 0.25% rate hike have already risen to around 80% in the markets, so investors will be focusing more on whether there are any changes to the accompanying statement or the federal funds rate projections of FOMC members (the dot chart). The greenback could be bought or sold depending on the contents of the dot chart, with the Australian dollar also impacted.US rates are expected to be lifted at a gradual pace next year, but we are starting to see divisions of opinion between FOMC members when it comes to how high rates will rise.

The RBA released its quarterly Statement on Monetary Policy last month. This stated that "the Board does not see a strong case to adjust the cash rate in the near term." It also predicted that: GDP growth would hit 3.5% over 2018 and 3.25% in 2019 and 2020; underlying inflation would increase to 1.75% by the end of 2018 and then rise to 2.25% by the end of 2020; the unemployment rate would hit 5.0% at the end of 2019 and then fall to 4.75% by the end of 2020. This reconfirmed market expectations that the cash rate will be kept at 1.50% for the time being.

With US/China heads of state scheduled to meet on December 1, attention will also be focused on the direction of the trade dispute. On December 11, meanwhile, the UK parliament will also be voting whether to approve the draft withdrawal deal agreed with the EU. If these events lead to sharp movements in major stock markets, this could also impact the Australian dollar. As a risk currency, the Australian unit could be sold off if stocks fall, though it could also be supported if stocks rise for risk appetite, so caution will be needed.

Several major Australian economic indicators will be released in the first half of December. These include corporate profit results for July–September (released Monday, December 3), the current account balance for July–September (Tuesday, December 4), the GDP data for July–September (Wednesday, December 5), and the October trade balance and retail sales figures (Thursday, December 6). With Australia faced with high household debt and sluggish household income growth, market participants will be keeping a close eye on the health of the economy.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – December 2018

Expected Ranges	**Against the US$:**	**C$1.2900–1.3300**
	Against the yen:	**JPY83.00–89.00**

1. Review of the Previous Month

With the US mid-term elections looming on November 7, the USD/CAD pair hovered around C$1.31 at the start of November. Its topside was steadily tested thereafter as crude oil prices fell. The pair hit a monthly high of C$1.3318 on November 20 and a monthly low of C$1.3049 on November 2.

Canada released some mixed employment data for October on November 2. The number of people in work increased by 11,000, down on expectations for a rise of 15,000, but the figure for full-time workers jumped above market expectations, while the unemployment rate also fell to 5.8%, so the currency pair weakened for a time. With the average hourly wages figure falling below expectations, though, the data had no significant impact on the pair.

The US midterm elections began on the evening of November 6. As expected, the Republicans retained the Senate while the Democrats gained a majority in the House of Representatives, so the pair's reaction was muted.

However, on November 8 Reuters reported that the US was trying to make some significant changes to the USMCA text agreed at the end of September. With WTI crude oil prices also dipping below the key $60/barrel mark on November 9, the pair climbed to the C$1.32 range.

On November 16, FRB vice chair Richard Clarida said the FRB should take account of the outlook for the global economy when considering rate hikes. These dovish comments saw the greenback tumbling, with the pair sliding to the lower-C$1.31 mark once more.

Crude oil prices continued to fall on November 20, though. With stock markets also tumbling across the globe, the pair rose to C$1.33 for a time.

The Canadian October CPI data was released on November 23. The Canadian GDP figure for July–September was also released at the end of the month, with the result broadly falling in line with expectations. During this time, the Canadian dollar moved bearishly, with the pair trading in a range from C$1.32 to around C$1.33 at the end of the month.

In the end, WTI intermediate crude oil futures temporarily dipped below $50/barrel to hit $49.65/barrel. This represented a 35% drop from the October high of C$76.90 in less than two months.

2. Outlook for This Month

The key point this month will be the movement of crude oil prices. There are two factors to consider when predicting how things will develop. The first is the concern about a global economic slowdown. The other is the strategic production cuts by OPEC and other oil-producing nations.

As for the former, with the US continuing to lift rates, the FRB has pointed to signs of a slowdown. It is too early to factor the potential threat of a recession into crude oil prices. There are signs of bearishness when it comes to US indicators related to sentiments, though consumer spending remains firm.

Investors will be watching for an FRB policy shift. This could happen at the December FOMC meeting, but right now it is hard to imagine the FRB making any significant changes to its interest rate and economic outlook for 2019. Market participants will also need to monitor the impact of sliding crude oil prices and widening WCS spreads on the Canadian economy, but the economy and inflation both look set to continue performing moderately for now. Bank of Canada (BOC) monetary policy is also likely to follow suit, so perhaps it will implement another rate hike when it next meets in January, as currently expected.

Investors may need to shift their stances sharply depending on the results of the US/China heads of state talks at the end of November. The talks are unlikely to lead to any major resolution to the trade dispute, though, so investors will probably need to continue keeping a close watch on the bilateral negotiations. However, President Trump will also want to avoid any excessive dollar appreciation, so in the end the two parties will probably search for some suitable common ground.

As for the second factor, though OPEC and Russia continue to face pressure from the US, they will probably put together some policy related to production cuts, depending on the movement of crude oil prices. The first thing to monitor will be the results of the OPEC meeting on December 6. The US continues to boost production to meet real demand, so prices are not expected to rise sharply, but the one-sided slide to $50/barrel could perhaps be a reflection of excessive pessimism when it comes to the global economic outlook.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – December 2018

Expected Ranges	**Against the US$:**	**KRW1,090–1,140**
	Against the yen:	**JPY9.852–10.309 (KRW100)**
		(KRW9.700–10.150)

1. Review of the Previous Month

In November, the USD/KRW pair fell compared to the end of October. The pair opened the month at KRW1140.50 and it then hit a monthly high of KRW1141.80 on the same day. During overseas trading time on November 1 (and Asian trading time on November 2), news emerged that President Trump was looking at embarking on fully-fledged talks with China. This saw the currency pair dipping to around KRW1120 on November 2. Of particular note was a report that Trump had called for the preparation of a draft trade agreement with China (Trump later denied this report, though he gave mixed signals, with the president also calling for improved relations with China, for example).

Attention the following week was focused on the US mid-term elections on November 6. The currency pair fluctuated slightly as the results emerged during Asian trading time on November 7. In the end, the results were broadly in line with expectations, with the Republicans retaining controlling of the Senate while the Democrats regained the House of Representatives. The lack of surprises and the removal of one major uncertain factor saw the markets inclining in the direction of risk appetite, with the pair subsequently falling to a monthly low of KRW1116.40 on November 8. The FOMC kept policy rates fixed when it met on November 8.

The pair then climbed in the week beginning November 12. With several companies releasing their settlement results, US stocks fell sharply on concerns about a slide in demand for Apple iPhones, for instance, and this pushed the pair higher. It then rose to KRW1140.40 on November 13, close to a monthly high. Composure gradually returned to the markets thereafter. During overseas trading time on November 16, though, FRB vice chair Richard Clarida said US policy rates were approaching the neutral level. He added that the FRB should also take account of the stalling global economy when considering rate hikes. As a result, yields on US treasuries fell and the greenback was sold, with the USD/KRW pair also sliding. The pair fluctuated gently on the whole the following week in the run up to the US Thanksgiving holiday on November 22.

The Bank of Korea's Monetary Policy Committee (MPC) met on November 30 and it implemented a 25bp rate hike for the first time in a year. The markets had started to price in the move a few days previously, so the won was actually sold after the announcement on moves to lock in profits. In his press conference after the meeting, the BOK governor raised concerns about widening US/South Korean interest-rate differentials. This led to speculation about further rate hikes in 2019, so the won saw some buying. The pair eventually closed the month trading at KRW1121.20.

2. Outlook for This Month

The USD/KRW pair is expected to move with a heavy topside in December. The key factors will be real-demand end-of-the-year won buying and several issues that could sway risk sentiments (such as US/China trade frictions).

At its closely-watched meeting last month, the BOK MPC implemented a 25bp rate hike for the first time in a year. In his press conference after the meeting, the BOK governor raised concerns about widening US/South Korean interest-rate differentials. This seemed to leave the door open for further rate hikes in 2019. However, the momentum for FRB rate hikes clearly seems to have weakened, so market participants are likely to slip into wait-and-see mode when it comes speculation about monetary policy.

Under these circumstances, the key factors this month will be real-demand end-of-the-year won buying and the impact of several crucial issues (such as US/China trade frictions) on risk sentiments. The USD/KRW pair fell in December 2017. This time last year, the markets were also swept by expectations for a new BOK rate hike, so it is hard to determine exactly why the pair fell last December, but the won certainly seemed to appreciate on end-of-year real-demand buying. The same thing is likely to occur this year, to the USD/KRW pair's topside is expected to grow slightly heavier toward the end of the month.

However, upmost attention should be paid to the US/China heads of state meeting, scheduled for December 1 (the details are unclear at the time of writing), and US tariff policy from 2019 onward, for example. If this meeting leads to deteriorating risk sentiments, this will result in won selling.

The pair will be susceptible to real-demand flows in December, with the USD/KRW pair likely to trade with a heavy topside on the whole, but the won could weaken if risk sentiments worsen on US/China trade frictions and so on, so caution will be needed.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – December 2018

Expected Ranges	Against the US$:	NT$30.50–31.10
	Against the yen:	JPY3.58–3.74

1. Review of the Previous Month

The Taiwan dollar strengthened against the US dollar in November.

The USD/TWD pair opened the month trading at TWD30.940. Overseas funds then flowed into Taiwan at a faster pace on the firm movements of Taiwanese stocks. The RMB also climbed on reports that President Trump has ordered the drafting of a trade agreement with China in preparation for the G20 meeting at the end of the month. All this saw the pair falling to a monthly low of TWD30.646 on November 2.

The markets then slipped into wait-and-see mode ahead of the US mid-term elections. During this time, the pair continued trading without a sense of direction around TWD30.7. When the results starting to pour in on November 7, the greenback was bought at the start of the day on reports that the Republicans had done well, though these gains were pared back when it seemed likely the Democrats would gain a majority in the House of Representatives. In the end, the Republicans maintained control of the Senate and the Democrats won control of the House of Representatives. These results were in line with prior opinion polls, so the impact on the currency pair was muted.

Mid-November saw Italy clashing with the EU over its budget proposal for fiscal 2019. With concerns also growing about the Brexit negotiations, the greenback strengthened against the euro. The USD/TWD was also pulled along to hit the TWD30.9 range.

The Taiwan dollar weakened for a time late November as overseas funds flowed out of Taiwanese stock markets. However, the pair's topside was capped during this time by dollar-selling demand among exporters. Taiwan held local elections on November 24. These were seen as a preliminary skirmish for 2020's general election, so they attracted considerable attention. In the end, the ruling Democratic Progressive Party (DPP) suffered heavy losses, with President Tsai Ing-wen subsequently resigning as party head. This led to forecasts that the DPP would struggle in the next presidential election. However, opinion polls had suggested beforehand that the DPP faced a tough battle, so the impact on the currency pair was negligible.

2. Outlook for This Month

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

A glance at the economic indicators released in November shows October's export amount growing by +7.3% y-o-y, with growth up on the previous month (+2.6% y-o-y). This marked the eighth successive month of positive growth (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 24 months in a row). The amount stood at TWD29.57 billion on a monthly basis, the third highest level on record. Key exports of electronic products moved firmly at +6.0% y-o-y, with the overall figure also pulled up by processed metals (+12.5% y-o-y) and chemical products (+18.1% y-o-y). Exports to China and Hong Kong (which account for 40% of all Taiwan's exports) grew firmly at +10.0% y-o-y. October's CPI figure hit +1.17% y-o-y. The data was impacted by falling mobile phone bills, with price growth down on September's figure of +1.72% y-o-y. The core CPI data (excluding fresh food and energy prices) hit +0.72% y-o-y, down on September's +1.20% y-o-y.

Attention will remain focused on US monetary policy in December. In November, FRB chair Jerome Powell and FRB vice chair Richard Clarida continued to make dovish comments about a potential economic slowdown, with speculation growing that the FRB might adjust its rate hike policy. Under these circumstances, observers will be monitoring the FOMC's statement and rate hike projections this month for signs of any shift.

Furthermore, once the US/China heads of state meeting at the start of December is out of the way, market participants will be watching to see if any progress is made in talks aimed at solving the trade dispute. If there are no signs of progress, the US will level a 25% tariff on Chinese imports worth $200 billion from 2019. This would lead to growing concerns about a Chinese economic slowdown, with the RMB also facing depreciatory pressure. Under this scenario, the Taiwan dollar would also likely face more selling pressure.

The Bank of Taiwan will be holding its quarterly Monetary Policy Committee (MPC) meeting this month. However, there have been no substantial changes in the economic indicators released since the last meeting in September, so this month's meeting is also likely to hold off from hiking rates, with the discount rate kept at 1.375% for the tenth successive time. As such, the meeting probably won't become a major factor for the USD/TWD pair.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – December 2018

Expected Ranges	Against the US$:	HK$ 7.8100–7.8500
	Against the yen:	JPY 14.00–14.70

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

In November, the Hong Kong dollar appreciated sharply against the U.S. dollar, despite the fact that the interest rate differentials between the Hong Kong dollar and the U.S. dollar widened, and the Hong Kong dollar/U.S. dollar exchange rate fell below HKD 7.83. This is probably because of the mitigation of concerns over capital outflow from the Asian region (including Hong Kong), which resulted from the recent, less-hawkish attitude of the Federal Reserve Board (FRB) in the U.S. Furthermore, there are growing expectations for a trade agreement between the U.S. and China, stabilizing the Hong Kong stock market and the Chinese yuan market. This is also considered to be a factor for the amelioration of investor sentiment. With regard to economic indices, the September retail sales and the third-quarter GDP turned out to be weak, which is raising concerns over a slowdown in the economic growth of Hong Kong. While it is also worrying that real estate prices are falling, the October unemployment ratio has remained low, at 2.8%. In addition, the Hong Kong dollar one-year forward point fell temporarily to –552 points for the first time in approximately seven months, after which it has been fluctuating, as of this writing, at around –500 points.

Hong Kong dollar interest rate market in November

After the prime rate was raised by 12.5 basis points in September, there was no factor to influence the market, such as capital demand at the end of a quarter period or IPOs. Under such circumstances, the overnight Hong Kong dollar HIBOR fell to approach 1%. Along with the growing sense of uncertainty over the global economy, the demand for capital loans is also declining, which is another reason for the depreciation of the Hong Kong dollar interest rates. The one-month Hong Kong dollar HIBOR once fell below 1% at 0.99%, after which the rate approached 1.1% again. On the other hand, the three-month Hong Kong dollar HIBOR remained stable at around 2%. The spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR widened to –120 basis points and –70 basis points, respectively, for one month and three months, respectively. For longer terms as well, the Hong Kong dollar IRS interest rate has fallen to 2.7% and 2.8% for three years and five years, respectively, as the hawkish attitude of the FRB in the U.S. has weakened. The balance of HKMA checkable deposits, which is recognized as an index for

measuring liquidity levels in the Hong Kong dollar market, remained almost unchanged, at around HKD 76.4 billion, as there was no foreign exchange market intervention, with a Hong Kong dollar/U.S. dollar spot exchange rate that remained below the HKD 7.85 level.

Hong Kong stock market in November

The benchmark Hang Seng stock index, which was recording negative growth for six consecutive months on a monthly basis, rallied to the 26,000-point level in November, thanks to the mitigation of tensions between the U.S. and China, as well as the stabilization of the Chinese yuan market. Investor sentiment was improved with expectations for advancement in trade negotiations between the U.S. and China at the G20 summit meeting. Moreover, the Chinese government has expressed its intention to take more fiscal actions in the times ahead so as to reduce downward risks in the Chinese economy, which is also considered to be a factor for the improvement of the situation. It should also be mentioned, as another factor to support the sentiment in the stock market, that there is now less expectation for interest rate hikes in Hong Kong.

2. Outlook for This Month

Hong Kong dollar spot exchange market in December

In December, the Hong Kong dollar/U.S. dollar exchange rate is forecast to fluctuate between HKD 7.81 and HKD 7.85. While the interest rate differentials between the U.S. and Hong Kong have been widening, the cautious sentiment in the market due to the hawkish attitude of the FRB in the U.S. has been mitigated regarding the topic of interest rate hikes. As a result, the pressure for capital outflow from the Hong Kong dollar market has been weakened. Capital outflow has also been slowing down, thanks to the fact that the outlook for the slowdown in economic growth in China has bottomed out, with loosening tensions regarding the trade frictions between the U.S. and China. However, once the interest rate differentials widen between the U.S. and China, it is likely that market participants will be encouraged to build carry positions through U.S.-dollar long positions and Hong Kong-dollar short positions. Thus, the spot exchange rate of the U.S. dollar/Hong Kong dollar is not likely to fall significantly further. From a long-term perspective, it is possible for the pressure for capital outflow from Hong Kong to strengthen further under the U.S. dollar/Hong Kong dollar peg system, given the slowdown in economic growth in Hong Kong, the adjustment in real estate prices, and the uncertain outlook for the Hong Kong stock market. The one-year, Hong Kong-dollar forward point is expected to rally with growing capital demand for the approaching end of the year.

Hong Kong dollar interest rate market in December

Thanks to capital demand for the end of the year, the Hong Kong-dollar interest rates are forecast to rally in December. Given the recent depreciation of the Hong Kong-dollar interest rates and the high liquidity level, it is increasingly unlikely for the prime rate in Hong Kong to be cut following the interest rate hike in the U.S. expected for December. However, the interest rate in Hong Kong is still forecast to be raised by 12.5 basis points in order to maintain the expectation level for interest rate hikes in Hong Kong while preventing serious capital outflow, as the U.S. continues to raise the interest rate at a moderate pace.

So Ouchi, Treasury Division, MHBK (China)

Chinese Yuan – December 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 November, the Chinese yuan exchange market was impacted by the trade frictions between the U.S. and China as well as by headlines regarding the situation in Europe and the depreciation of crude oil prices.

At the beginning of the month, U.S. President Donald Trump made a remark in a Twitter post that he had a telephone meeting with Chinese President Xi Jinping, and this raised expectations for the mitigation of the trade frictions between the U.S. and China. Furthermore, the media reported that the U.K. and the EU had reached an agreement regarding the financial services sector, sweeping away the sense of uncertainty over the Brexit process. As a result, the Chinese yuan appreciated against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.87 level for the first time since September. Thereafter, the China International Import Expo was held in China, and the mid-term elections were concluded without any problems. As a consequence, the U.S. dollar strengthened gradually. Furthermore, the media reported that a special Cabinet meeting on the topic of the Brexit process had been cancelled in the U.K., which accelerated the appreciation of the U.S. dollar. Thus, the U.S. dollar/Chinese yuan exchange rate rose to once reach CNY 6.9703, approaching the latest high.

Toward the middle of the month, the appreciation of the Chinese yuan accelerated again as a result of the depreciation of the U.S. dollar based on the depreciation of the crude oil price as well as due to a headline reporting the reopening of trade negotiations between the U.S. and China. In addition, the Chinese yuan appreciated against the U.S. dollar to the CNY 6.94 level. Thereafter, there was little movement in the market, as market participants were waiting for the G20 summit meeting and the U.S.-China dialogue scheduled for November 30 and December 1. The U.S. dollar/Chinese yuan exchange rate thus continued fluctuating at the mid-CNY 6.9 level.

Interest rate market

The liquidity level in the market remained high, due to the continued fund supply operation conducted by

the People's Bank of China (PBOC) in October, etc.

Since November, the PBOC continued postponing its operation to supply funds for consecutive days, while it was a time for companies to pay taxes. As a result, the liquidity level in the market somewhat tightened at times. However, in general, the liquidity level remained high.

The overnight interest rates remained volatile, waiting for the actions to be taken by the Chinese monetary authorities. Even though the interest rates for terms that go beyond the end of the year have been slowly rising, the demand & supply balance in the overall market has been stable.

2. Outlook for This Month

Foreign exchange market

Market participants should pay attention to the outcome of the G20 summit meeting and the U.S.-China summit dialogue. According to media reports, Vice Premier of China Liu He and U.S. Secretary of Treasury Steve Mnuchin had resumed trade negotiations prior to the U.S.-China summit dialogue, as a result of which China proposed a list of compromises to the U.S. in order to cancel out the trade deficit being experienced by the U.S. As of this writing (November 27, 2018), the U.S.-China summit dialogue is expected to offer an opportunity for constructive discussion toward the resolution of the trade frictions. However, on November 26, local time, U.S. President Donald Trump expressed a severe stance regarding the U.S. trade policy toward China, and the situation has been remaining tense.

If the outcome of the U.S.-China summit dialogue turns out to be something that can mitigate the trade frictions between the two countries, the Chinese yuan is likely to strengthen. On the other hand, in December, the Federal Open Market Committee (FOMC) in the U.S. is expected to raise the interest rate for the last time this year, while U.S. dollar-buying is expected to increase for the purpose of repatriation. Thus, the U.S. dollar/Chinese yuan exchange rate is forecast to rise gradually.

If the U.S.-China summit dialogue fails to reach an agreement at a certain level toward the resolution of the trade frictions, this would strengthen the downward pressure on the Chinese yuan. Through the interest rate hike and repatriation, it is likely for the Chinese yuan to weaken against the U.S. dollar. Market participants should pay attention to the movement of the exchange rate at around CNY 6.9780—the recent high—before reaching CNY 7 to the U.S. dollar—the psychological turning point.

Interest rate market

The interest rates are forecast to remain low and stable.

There has been no change in the policy of monetary easing by the Chinese monetary authorities, and the liquidity levels in the market and the interest rate levels are expected to remain stable.

As there will already be increasing fund procurement demand for the end of the year, market participants should remain cautious about any sudden upward pressure on interest rates, as well as the attitude of the Chinese monetary authorities regarding fund supply operations.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – December 2018

Expected Ranges	Against the US$:	SG$ 1.3650–1.3900
	Against the yen:	JPY 81.00–83.50

1. Review of the Previous Month

In November, the U.S. dollar/Singapore dollar exchange rate rose from the lower-SGD 1.37 level to the mid-SGD 1.38 level. However, in the end, the exchange rate returned to the level at market opening.

In the first week of the month, the overall Asian currencies strengthened positively, reacting to the plan to expand investment in infrastructure in China announced on November 1 and 2. Under such a condition, market participants also bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate shifted from the mid-SGD 1.38 level to the lower-SGD 1.37 level.

In the second week of the month, the Singapore dollar weakened on November 5 in reaction to the strengthening observed at the end of the previous week. The exchange rate fluctuated violently on November 7 with speculation about the outcome of the mid-term elections in the U.S. On November 8 and 9, the mid-term elections in the U.S. concluded without any problem, while the Federal Open Market Committee (FOMC) decided to maintain the policy interest rate at the existing level with the continued implication for an interest rate hike in December, which is almost as had been expected in the market. As a consequence, market participants bought the U.S. dollar more actively, encouraging Singapore dollar-selling, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.37 level.

In the third week of the month, the U.S. dollar remained strong on November 12, just as it was before. While the Chinese yuan continued depreciating, the Singapore dollar also weakened. On November 13, the media reported that U.S. Secretary of Treasury Steve Mnuchin and Chinese Vice Premier Liu He had a telephone meeting. Market participants positively reacted to the news of the resumed dialogue between the U.S. and China and started to buy back Asian currencies, including the Singapore dollar. Then, on November 14, the U.K. and the EU reached a draft Brexit agreement, to which the British pound positively reacted and appreciated against the U.S. dollar. Under such circumstances, the Singapore dollar also appreciated against the U.S. dollar, and the exchange rate rose to the mid-SGD 1.37 level. On November 16, Federal Reserve Board (FRB) Vice Chair Richard Clarida made a remark to underline that the there was evidence of a global economic slowdown, in reaction to which market participants sold the U.S. dollar even more actively. As a result, the Singapore dollar appreciated against the U.S. dollar and the exchange rate reached the lower-SGD 1.37 level.

In the fourth week of the month, the sense of uncertainty over the global economy grew in the market on November 20 and 21 due to the depreciation of stock prices in the U.S. Under such circumstances, the overall Asian currencies, including the Singapore dollar, weakened. Then, on November 23, the October CPI of Singapore was announced, but the result turned out to be almost as had been expected in the market. The impact on the market was therefore minimal.

In the fifth week of the month, market participants started buying the U.S. dollar more actively due to the appreciation of U.S. stock prices. Under such a condition, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.37 level, after which the exchange rate continued fluctuating within a narrow range.

2. Outlook for This Month

In December, the U.S. dollar is likely to strengthen against European currencies due to growing concerns over issues related to Europe, even though the Monetary Authority of Singapore (MAS) is to continue its policy to lead the Singapore dollar to appreciate. At the FOMC meeting in December, the outlook for forthcoming interest rates remained unchanged, which is likely to lead the U.S. dollar to strengthen. The Singapore dollar is thus forecast to weaken in December.

In the economic indices of Singapore announced last month, non-petroleum exports and industrial production turned out to be strong, demonstrating the robustness of the Singapore economy. The MAS is expected to maintain its policy to lead the Singapore dollar to appreciate, as was announced in October.

On the other hand, it seems that concerns are growing even further regarding issues in Europe. The British government and the EU have finally reached a Brexit withdrawal agreement. However, there is now an "internal battle" in the mix, which forms the next step for the government under Theresa May to convince Parliament based on said withdrawal agreement. A "Brexit without an agreement" remains a risk factor that should be taken into consideration as a realistic matter. Therefore, in December, the U.S. dollar is likely to strengthen against European currencies, as a result of which the U.S. dollar is expected to appreciate on relative terms.

Market participants should also pay attention to the next FOMC meeting (scheduled for December 19), as well as to the outlook for future interest rate hikes. Based on the precondition that the normalization process by the FRB will continue at a moderate rate, the interest rate hike in December has already been almost entirely reflected in the market. In the previous month, FRB Vice Chair Richard Clarida voiced a pessimistic viewpoint, saying that the U.S. monetary authorities should take global economic growth into

consideration, and this led interest rates to fall significantly. However, it is unlikely for the current monetary policy to change for a while with the determination to raise the neutral interest rate to 3%, without being impacted by the turbulence in the stock market. As there is no significant change in the plan for interest rate hikes, support for the appreciation of the U.S. dollar is expected to continue in the times ahead.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – December 2018

Expected Ranges	Against the US$:	THB 32.50–33.50
	Against the yen:	JPY 3.35–3.48

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.90 on November 1. The October Consumer Price Index of Thailand turned out to be lower than expected in the market, at 1.23% year-on-year. However, once concerns over the trade frictions between the U.S. and China were somewhat mitigated, the Thai baht appreciated against the U.S. dollar and the U.S. dollar/Thai baht exchange rate fell to approach THB 32.80 toward the following day. On November 5, after the weekend, the October Consumer Confidence Index turned out to record a fall from the 82.3 observed in the previous month to 81.3, which led the U.S. dollar/Thai baht exchange rate to approach THB 33,00. On November 6 and 7, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at the THB 32.90 level, waiting for the announcement of the outcome of the mid-term elections in the U.S. Even though the outcome turned out to be as expected, there were concerns over the situation in which different parties control the Upper House and the Lower House. As a result, market participants started selling the U.S. dollar, which led the U.S. dollar/Thai baht exchange rate to fall and approach THB 32.80. However, thereafter, U.S. stock prices appreciated due to the sense of relief in the market after certain important events. Furthermore, at the FOMC meeting in the U.S., evaluations regarding employment and personal consumption were raised, which was seen as somewhat hawkish in the market, encouraging market participants to buy the U.S. dollar. As a consequence, the U.S. dollar/Thai baht exchange rate recovered to the THB 33.00 level toward November 9.

After the weekend on November 12, although being a holiday in the U.S., the U.S. dollar/Thai baht exchange rate once rose to the mid-THB 33.10 level, based on the trend carried over from the previous week. However, the U.S. dollar/Thai baht exchange market started to fluctuate in a sensitive manner thereafter, waiting for the Monetary Policy Committee (MPC) meeting at the central bank of Thailand scheduled for November 14. The market flow then led the U.S. dollar/Thai baht exchange rate to fall to the lower-THB 32.90 level. On November 14, at the MPC meeting, which attracted substantial attention in the market, the policy interest rate was maintained at 1.5% based on voting results of four to three, as had been expected in the market. While expectations grew for an interest rate hike at the next MPC meeting, the statement did not emphatically touch on economic growth and inflation in Thailand (to the degree reported previously), and this reversed the trend, and then the U.S. dollar/Thai baht exchange rate returned to the THB 33 level. However, expectations for interest rate hikes in the U.S. in the coming fiscal year

were weakened due to volatility in the stock market, which led the U.S. dollar/Thai baht exchange rate to approach its low. As a result, on November 16, the U.S. dollar/Thai baht exchange rate fell to approach THB 32.80. However, on November 19, the GDP of Thailand for the July–September 2018 quarter was announced, and the result turned out to be weak, at +3.3% year-on-year (while the estimate was +4.2% year-on-year). In reaction to this, the U.S. dollar/Thai baht exchange rate rallied, returning again to the mid-THB 32.9 level and then to the upper-THB 32.9 level.

On November 22, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark to emphasize that there was no need to maintain extremely low interest rates. However, the impact of this statement was minimal in the market. On November 23, the Chinese yuan depreciated, following which the U.S. dollar/Thai baht exchange rate once rose to the upper-THB 33 level. However, after the weekend, the crude oil price rallied on November 26, leading stock prices to appreciate as well. As a result, there was downward pressure on the U.S. dollar/Thai baht exchange rate, which fell and slowly approached THB 33. Thereafter, the U.S. dollar/Thai baht pair continued trading at around THB 33. However, on November 28, Federal Reserve Board (FRB) Chair Jerome Powell expressed his view that the policy interest rate had been "slightly lower" than the neutral range. This encouraged market participants to sell the U.S. dollar, and the U.S. dollar/Thai baht exchange rate rapidly fell below THB 32.90. Thereafter, the exchange rate once recovered to THB 32.90, although trade statistics were released at the end of the month, demonstrating a recovery in exports. Furthermore, there was demand at the end of the month. As a result, the Thai baht appreciated against the U.S. dollar and the exchange rate fell below THB 32.90 to the U.S. dollar.

2. Outlook for This Month

In December, at the MPC meeting scheduled for the 19th, the most-important issue is thought to be whether the policy interest rate will be raised for the first time in approximately three years and eight months. In November, the GDP of Thailand for the July–September quarter was released, and the result turned out to be +3.3% year-on-year—significantly falling below the estimate (4.2% year-on-year), which raised views that questioned an interest rate hike in December. It was explained that this result was mainly due to the decline in external demand (exports) and that it is a temporary situation. Thus, the expected annual GDP growth outlook has been kept unchanged. To support this view, the Thailand export figures of October, announced at the end of November, recorded a significant recovery, at +8.4% year-on-year, demonstrating the strength of the Thai economy.

However, it should also be mentioned that there has been a slowdown in the outlook for interest rate hikes in the U.S. On November 28, FRB Chair Jerome Powell also shared his view that the policy interest rate has been "slightly below" the neutral range, which weakened the expectation for interest rate hikes in the

next fiscal year, encouraging market participants to sell the U.S. dollar. Thus, in the times ahead, the Thai baht is forecast to appreciate against the U.S. dollar. However, as a result of the fact that the expectations for policy interest rate hikes in the U.S. have weakened, the monetary policy is likely to be shifted toward monetary easing compared to the previous policy, by not excessively raising the interest rate. This can be seen as a positive factor for the economy in the next fiscal year. If the monetary policy works well and the economy can continue expanding, this can be a factor for the appreciation of the U.S. dollar from a long-term perspective. However, as was discussed above, the Thai baht is expected to strengthen against the U.S. dollar in December.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2018

Expected Ranges	Against the US$:	MYR 4.1500–4.2500
	Against the yen:	JPY 26.50–27.20
	Against 100 yen:	MYR 3.6800–3.7750

1. Review of the Previous Month

In November, the U.S. dollar/Malaysian ringgit exchange rate fluctuated between MYR 4.15 and MYR 4.20, reacting to various events related to the trade frictions between the U.S. and China, as well as the mid-term election in the U.S.

At the beginning of the month, the Malaysian ringgit reached MYR 4.1860 to the U.S. dollar on November 1 for the first time in a year, due to the fact that the crude oil (North Sea Brent) price fell below USD 75 per barrel, along with the cautious feeling in the market related to the budget plan. However, U.S. President Donald Trump made a remark that he was discussing the conclusion of the trade agreement with Chinese President Xi Jinping, and the media reported on November 2, the following day, that President Trump instructed U.S. government officials to start drawing up a trade agreement between the U.S. and China. In reaction to this news, the Malaysian ringgit rallied to MYR 4.1600 to the U.S. dollar, following the appreciation of the crude oil price. On November 2, the governmental budget plan for FY 2019 was also released, with the largest fiscal deficit in the past five years for the end of 2018 and with heavy governmental debt taken over from the previous government. Ratings agencies gave certain acknowledgment regarding the fiscal transparency of the new government while also giving warning to the level of governmental debt, as well as the high dependency on the revenues related to petroleum oil. However, market participants remained calm, and the release of the budget plan did not significantly impact the domestic foreign exchange market. On November 6, the votes were counted for the U.S. mid-term elections, and the Republican Party gained a majority of votes in the Senate, as had been expected. However, the Democratic Party gained a majority of votes in the House of Representatives. As market participants feared that the trade frictions could be intensified if the Republican Party controls the House of Representatives, this result strengthened risk-taking sentiment in the capital market. Following this trend, the Malaysian ringgit also rallied to MYR 4.1540 to the U.S. dollar on November 8, and this turned out to be the monthly high for the Malaysian ringgit in November. On the evening of the same day, the Federal Open Market Committee (FOMC) in the U.S. decided to maintain the policy interest rate at the existing level, as had been expected in the market. However, the Federal Reserve Board (FRB) showed a positive attitude concerning additional interest rate hikes, which led the U.S. interest rates and the U.S. dollar to appreciate. The crude oil price continued falling thereafter, following which the Malaysian ringgit

depreciated to approach MYR 4.18 to the U.S. dollar.

In the middle of the month, the media reported that U.S. President Donald Trump had asked the Organisation of the Petroleum Exporting Countries (OPEC) not to reduce oil production, which led the Brent oil price to depreciate sharply on November 13 to temporarily fall below USD 65. As market participants remembered that the governmental budget plan for FY 2019 demonstrated high dependency on revenues related to crude oil, this fueled concerns over the revenues of oil- and gas-related companies, as well as governmental revenues. As a result, the Malaysian ringgit renewed its low at MYR 4.1970 to the U.S. dollar on November 15. Then, on November 16, the third-quarter GDP was announced, and the result turned out to be +4.4% year-on-year—slightly weaker than the estimate (+4.6% year-on-year).

At the end of the month, the remark by FRB Vice Chair Richard Clarida, in which he related that it would be necessary to take global economic growth into consideration when deciding the monetary policy, caused a depreciation of the U.S. dollar. However, the Brent oil price continued falling and the Malaysian ringgit remained weak. On November 21, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.2000. Thereafter, the U.S. dollar/Malaysian ringgit pair continued trading at the MYR 4.19 level. However, on November 27, the Brent oil price once fell below USD 60, which led the Malaysian ringgit to renew its low at MYR 4.2025 to the U.S. dollar on November 28. As of the evening of the same day, the U.S. dollar/Malaysian ringgit pair was trading at MYR 4.19–MYR 4.20.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate between MYR 4.15 and MYR 4.25.

The new government of Malaysia passed a governmental budget plan for FY 2019 without any problem, and this plan gathered substantial attention from foreign investors and ratings agencies. However, it is likely to take more time for the new government to normalize the fiscal situation in dealing with the accumulated fiscal deficit. Furthermore, there are also concerns over capital outflow from emerging countries. Under such circumstances, it would not be until next year that foreign-investor capital would really come back to Malaysia. Thus, the Malaysian ringgit is expected to remain weak in the near future.

In the governmental budget plan, revenues are to be increased, while expenditures are being controlled via: the increase in the casino tax, the sales of governmental assets, and the revision of infrastructure business. In particular, the GDP growth rate is to be supported by introducing stimuli to personal consumption, focusing on the low-income classes. This is based on the concept of the "redistribution of wealth," which Prime Minister Mahathir bin Mohamad has long been underlining. The fiscal deficit as a

percentage of GDP for 2018 was revised to be –3.7%, accepting the growth of the deficit from the plan announced by the previous government (–2.8%), which exhibits the assertive fiscal policy of the new government. It thus seems that the bottom line is to improve substantial government debt as a percentage of GDP from the 80% observed in 2017 to 72% in 2019, which would also show a commitment to ratings agencies. The new tax, which was previously a source of concern, turned out not to have significant impact on consumer behavior. There is therefore a sense of relief in the market. The reaction among ratings agencies has also been moderate, and it seems now less likely for the country's rating to be downgraded within a short period. Then, on November 16, the third-quarter GDP was announced and the result was slightly weaker than the estimate, due to the decline in the supply of LNG and palm oil. However, this is likely to recover from the fourth quarter to next year, along with a recovery in net exports.

On the other hand, concerns persist related to the trade frictions between the U.S. and China, as well as the risks of capital outflow from emerging countries. On November 8, the Malaysian central bank held a monetary policy meeting and decided to maintain the policy interest rate at the existing level. However, the central bank expressed its recognition of the situation by mentioning "risks of capital outflow from emerging countries along with the normalization of the monetary policy by certain developed countries" in the first paragraph of its statement released thereafter. Malaysia is considered to be at a preferable position among Asian countries with a high chance of maintaining its current account surplus in the times ahead. However, in the budget plan, the government has introduced an import service tax concerning the balance in the services sector, which is in deficit. It seems that the introduction of the new tax is a means to support tax income, as well as to slow down the expansion of the deficit in the services sector.

In any case, fiscal normalization is likely to take some time, and capital is not likely to come back to Malaysia until next year.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2018

Expected Ranges	Against the US$:	IDR 14,200–15,500
	Against 100 rupiah:	JPY 0.71–0.80
	Against the yen:	IDR 125.00–141.00

1. Review of the Previous Month

In November, the U.S. dollar/Indonesian rupiah exchange rate recorded a fall, fluctuating between the range of IDR 14,450–IDR 15,200.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 15,180. The U.S. dollar/Indonesian rupiah exchange rate started falling from the beginning of the month, as the crude oil price depreciated while the heads of state of both the U.S. and China expressed their optimistic view concerning the resolution of trade frictions, and this mitigated the risk-averse sentiment in the market. Thereafter, the result of the mid-term elections in the U.S. turned out to be as had been expected in the market, sweeping away a sense of market uncertainty. This also accelerated the fall of the U.S. dollar/Indonesian rupiah exchange rate, which once reached IDR 14,450 on November 8.

In the meantime, the October Consumer Price Index of Indonesia was announced on November 1, and the result turned out to be +3.16% year-on-year. On November 5, the July–September quarter GDP of Indonesia was announced to be +5.17% year-on-year. These figures had generally been anticipated in the market and thus had little market impact. It should also be mentioned that the October amount of foreign currency reserves in Indonesia was announced on November 7, turning out to be USD 115.2 billion—recording positive growth from the previous month for the first time in nine months.

However, on November 9, the July–September quarter current account balance was announced, and the result turned out to be a deficit of USD 8.8 billion, expanding the deficit from the previous quarter. In reaction to this, the U.S. dollar/Indonesian rupiah exchange rate started to rise, once approaching IDR 14,930 on November 13.

On November 15, the October trade balance was released, and the result turned out to be USD –1.8 billion, a larger deficit than expected in the market. However, on the same day, the central bank of Indonesia held a regular meeting and unexpectedly decided to raise the policy interest rate. As a result, capital inflow from foreign investors accelerated again, and the U.S. dollar/Indonesian rupiah exchange rate fell again to approach IDR 14,450 on November 26.

In the meantime, the balance of Indonesian government bond holdings by foreign investors reached its all-time high at IDR 889 trillion (as of November 21).

As of November 26, 2018, the U.S. dollar/Indonesian rupiah pair has been trading at IDR 14,470 (based on the closing rate).

2. Outlook for This Month

In December, new securities investments by foreign investors are expected, thanks to the depreciation of the crude oil price as well as the mitigation of the tensions between the U.S. and China. However, Indonesian rupiah-buying seems to have overheated, and it is possible for overseas investors to adjust positions before the Christmas holidays. Thus, after fluctuating in both directions, the U.S. dollar/Indonesian rupiah exchange rate is forecast to rise slightly toward the end of the year.

The depreciation of the crude oil price is a positive factor for Indonesia, which is a net importer of petroleum oil-related products. However, the prices of exports from Indonesia have not been very strong either, making it difficult to rapidly reduce the current account deficit—which is one of the fundamental problems in Indonesia.

It should also be mentioned that the 10-year Indonesian government bond yield, which rose to approach 9% in October, fell below 8% in November due to a rigorous investment appetite among foreign investors. As this depreciation of the government bond yield has been too rapid and too extreme, after completing their purchase, foreign investors may adjust positions toward the end of the year before the Christmas holidays, which would reverse the trend and lead the U.S. dollar/Indonesian rupiah exchange rate to start rising.

Furthermore, there will also be market participants selling the Indonesian rupiah and buying the U.S. dollar based on actual demand (in terms of current account balance), as well as those selling Indonesian rupiah in order to comply with the quarterly hedge restrictions. Thus, the U.S. dollar/Indonesian rupiah exchange rate is expected to appreciate and approach IDR 15,000.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – December 2018

Expected Ranges	**Against the US$:**	**PHP 52.00–54.00**
	Against the yen:	**JPY 2.10–2.18**

1. Review of the Previous Month

In November, the U.S. dollar/Philippine peso exchange market opened trading at PHP 53.27 on November 5, as the market was closed on November 1 and 2 for national holidays in the Philippines. The Philippine peso appreciated from the closing rate observed before the consecutive holidays (PHP 53.535 to the U.S. dollar).

The Philippine peso appreciated mainly because of the expectation for the mitigation of the trade frictions between the U.S. and China, the media reports on the progress of Brexit negotiations, and the October employment statistics of the U.S. announced on November 2 with figures stronger than the market estimate, all of which improved the market sentiment.

On November 6, the October Consumer Price Index of the Philippines was announced, and the result turned out to be +6.7% year-on-year, remaining flat from the previous month. The month-on-month rate (after seasonal adjustment) turned out to be +0.3%, declining from the +0.8% observed in the previous month. As inflation concerns were mitigated, the Philippine peso appreciated against the U.S. dollar.

On November 7, the U.S. dollar/Philippine peso exchange rate fluctuated according to the initial results of voting in the mid-term elections in the U.S. However, it became increasingly evident that the Republican Party would win the majority in the Senate while the Democratic Party would win the majority in the House of Representatives. As most market participants had expected this result, the sense of uncertainty in the market was swept away, and market participates started selling the U.S. dollar in the foreign exchange market. Meanwhile, in the U.S. dollar/Philippine peso exchange market, the Philippine peso-buying trend continued from the middle of October, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 53 mark. On November 8, market participants adjusted positions (i.e., the buyback of the Philippine peso) for the end of the year, while there was also large-scale Philippine peso-buying based on actual demand. As a consequence, the U.S. dollar/Philippine peso once traded at PHP 52.485—the highest rate for the Philippine peso in five months.

However, on November 9, market participants started buying the U.S. dollar after the Federal Open Market Committee (FOMC) meeting, and the U.S. dollar/Philippine peso exchange rate returned to PHP 52.96

before the end of the week. After the weekend, the U.S. dollar/Philippine peso exchange rate recovered to the PHP 53 level on November 12. Thereafter, expectations grew for the central bank of the Philippines to raise the policy interest rate at the monetary policy meeting scheduled for November 16, leading the U.S. dollar/Philippine peso exchange rate to fall below PHP 53 again.

As had been expected, the central bank of the Philippines decided to raise the policy interest rate by 0.25% and revised its inflation outlook downward. This confirmed the mitigation of inflation concerns in the Philippines, encouraging market participants to buy the Philippine peso. Then, on November 22, the U.S. dollar/Philippine peso pair once traded at PHP 52.20—the highest rate for the Philippine peso in six months.

Toward the end of the month, the risk of a trade war became heightened before the summit dialogue between the U.S. and China. As a result, some market participants bought back the U.S. dollar, and the U.S. dollar/Philippine peso pair has been trading at the mid-PHP 52 level (as of 5 p.m. on November 28).

2. Outlook for This Month

As has been discussed above, the monetary policy committee at the central bank of the Philippines decided to raise the representative policy interest rate—the overnight loan interest rate—to 4.75% last month. This means that the policy interest rate was raised for the fifth consecutive month since May and that the policy interest rate reached its highest level in 9.5 years.

At the press conference, the central bank maintained a hawkish attitude, indicating the possibility of additional interest rate hikes, according to necessity. On the other hand, the inflation outlook for 2019 was revised downward from 4.3% to 3.5%. As the crude oil price recently depreciated, the inflation risks seem to have been mitigated.

On November 13, the Philippine stock price index renewed its low since the beginning of the year and remained low thereafter. However, the index recovered to the 7,000-point level despite the interest rate hike by the central bank of the Philippines.

Foreign investors may find it interesting to invest in the Philippine stock market as a result of the depreciation of the Philippine peso observed since the beginning of the year, as well as due to the depreciation of stock prices. This may lead to Philippine peso-buying. Given the seasonal factors, there may be capital inflow in the New Year.

Global risk-averse factors, such as the trade frictions between the U.S. and China, have certainly seen their

impact on the market become weakened. In the times ahead, market participants should remain attentive regarding new risk-averse factors and the return of previous risk-averse factors.

With regard to position adjustment at the end of the year, the Philippine peso appreciated at around the same time last year. Given the recent fluctuation of the exchange rate, the Philippine peso was expected to appreciate against the U.S. dollar to around PHP 52.50. Looking at the current exchange rate, it is possible that the position adjustment has already been completed. However, expectations are slightly weakened regarding the appreciation of the U.S. interest rates in the times ahead. Thus, it is possible for the U.S. dollar to depreciate further (i.e., to fall below PHP 52).

There has been a series of factors to lead the Philippine peso to appreciate. However, the situation remains unchanged such that market participants should not expect the Philippine peso to continue appreciating.

The Philippine's GDP growth rate for the third quarter turned out to be 6.1% year-on-year, declining from the previous month, which recorded growth of 6.2%. The sum of the September trade balance of the Philippines and the Overseas Filipino Workers (OFW) remittances amounted to –USD 1.69 billion, with an increase in the negative figure from the previous month's result (–USD 1.04 billion). In terms of the balance, peso-selling remains dominant. Thus, the market is expected to reflect negative factors for the Philippine peso, confirming the strength of the U.S. dollar (as of 5 p.m. on November 28).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – December 2018

Expected Ranges	Against the US$:	INR 68.00–73.50
	Against the yen:	JPY 1.55–1.65

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate fell in November.

In November, the U.S. dollar/Indian rupee exchange market opened trading at INR 73.89. Trading opened with a high exchange rate, and this turned out to be the monthly high. The crude oil price hit a ceiling after reaching mid-USD 76 for WTI (USD 86 for Brent) at the beginning of October and continued falling in November. In reaction to this, in the Indian monetary markets, both the Indian rupee and Indian stock prices appreciated. On November 2, the U.S. dollar/Indian rupee exchange rate fell to INR 72.50.

On November 12, the October Consumer Price Index of India was announced, and the growth rate turned out to be lower than expected. In reaction to this, interest rates fell in India. However, in the foreign exchange market, this did not have significant impact, and the exchange rate followed the depreciation of the crude oil price, which depreciated significantly on November 13 and 20. As a consequence, the U.S. dollar/Indian rupee exchange rate fell rapidly to below the INR 72.00 mark on November 13 and the INR 71.00 mark on November 20. The exchange rate fell further to the monthly low at INR 70.31 level.

Thereafter, there were headlines that reported on some progress in the trade negotiations between the U.S. and China, while the crude oil price depreciated further toward the end of the month, which led the U.S. dollar/Indian rupee exchange rate to fall, to once reach the lower-INR 70 level.

In the meantime, the SENSEX index recovered from the significant depreciation observed in October, thanks to the depreciation of the crude oil price, the appreciation of the Indian rupee, and the depreciation of the Indian interest rates. As risk sentiment has also been improved, the U.S. dollar/Indian rupee pair is currently trading at around INR 70.60 as of the writing of this article on November 28.

The Indian rupee/Japanese yen exchange rate rose in November.

In November, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.527 level, and on the same day, the exchange rate reached JPY 1.524, which turned out to be the monthly low. As was discussed above, the Indian rupee was strengthening against the U.S. dollar, while the Japanese yen was

weakening against the U.S. dollar to the JPY 114 level because of the outcome of the mid-term elections in the U.S., as well as due to strong U.S. economic indices. As a result, the Indian rupee/Japanese yen exchange rate recovered to JPY 1.58 in the middle of the month. In the second half of the month, there were some risk factors, such as the remark by a U.S. Federal Reserve Board (FRB) official expressing concerns over the global economy, the Asia-Pacific Economic Cooperation (APEC) forum's failure to adopt a joint declaration, and the adjustment in the U.S. stock market. Under such circumstances, the U.S. dollar/Japanese yen exchange rate returned to the JPY 112 level. However, the appreciation of the Japanese yen in the U.S. dollar/Japanese yen exchange market was not as significant as the appreciation of the Indian rupee in the U.S. dollar/Indian rupee exchange market. As a result, the India rupee further appreciated against the Japanese yen. As of the writing of this article on November 28, the Indian rupee/Japanese yen exchange rate reached its monthly high at JPY 1.61.

2. Outlook for This Month

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

Since the second half of April, the overall Asian currencies depreciated against the U.S. dollar when interest rates appreciated in the U.S., leading funds to flow out of the Asian region. However, there has been a difference among different currencies in terms of the way in which the currency is sold. Among those Asian currencies, the Indian rupee depreciated the most against the U.S. dollar. While another Asian currency index fell by 6% between the beginning of the year and the end of October, the Indian rupee depreciated against the U.S. dollar by more than 10% within the same period. This is a surprising fall, given the fact that, in the meantime, the Indian government bond yield rose to its highest level since 2014 for 10-year bonds and since 2015 for two-year bonds, while the GDP for the April–June quarter also recorded a high growth rate, at +8.2% year-on-year.

There are various reasons for market participants to sell the Indian rupee, one of which is the current account deficit. When market participants need to sell Asian currencies, the Indian rupee is an easy target because of India's current account deficit. Indeed, the non-resident investment balance in India is a net sales of USD 15.5 billion in total for the April–October period this year.

India is the third-largest crude oil importer in the world, and more than 85% of domestic demand is dependent on imports. The appreciation of the crude oil price thus leads to the deterioration of the current account balance through the trade deficit, creating reverse correlation between the crude oil price and the Indian rupee exchange rate against the U.S. dollar (appreciation of the crude oil = depreciation of the Indian rupee). The appreciation of crude oil started to slow down in October, and the crude oil price started to depreciate in November, recording a fall of about 35% from its high. This is due to the fact that the Joint

Ministerial Monitoring Committee announced its plan to shift its policy, as well as due to the fact that U.S. President Donald Trump made a remark to imply his plan to lead the crude oil price to fall, while demand decreased alongside trade negotiations between the U.S. and China. The forthcoming important events include the Organisation of the Petroleum Exporting Countries (OPEC) general meeting and the G20 summit meeting where the issues, as mentioned here, will be discussed. As the U.S. dollar/Indian rupee exchange rate has been volatile, following the movement of the crude oil price, the U.S. dollar/Indian rupee exchange rate is likely to remain low, having witnessed the depreciation of the crude oil price by more than 30%.

This report was prepared based on economic data as of December 3, 2018.

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