

Mizuho Dealer's Eye

January 2019

U.S. Dollar	1	Chinese Yuan	23
Euro	5	Singapore Dollar	26
British Pound	9	Thai Baht	29
Australian Dollar	12	Malaysian Ringgit	32
Canadian Dollar	14	Indonesian Rupiah	35
Korean Won	16	Philippine Peso	38
New Taiwan Dollar	18	Indian Rupee	41
Hong Kong Dollar	20		

Mizuho Bank, Ltd.

Forex Department

Kazuaki Yamamoto, Forex Sales, Forex Department

U.S. Dollar – January 2019

Expected Ranges

Against the yen: JPY103.50–110.00

1. Review of the Previous Month

The dollar/yen pair weakened last month on bearish stock movements and falling US interest rates.

The pair gapped up at the start of the month after further tariff hikes were put on the back burner following a US/China heads of state meeting. It temporarily hit a monthly high of 113.87 yen. However, it then dipped back below 113 yen on a sense that the two sides had merely kicked the problem into the long grass, with the pair also buffered by sliding US interest rates. On December 6, the pair tumbled to the mid-112 yen mark on growing concerns about deteriorating US/China relations following news about the arrest of Huawei's CFO. A Chinese Commerce Ministry spokesperson then commented that "We are very confident in reaching an agreement with the United States within the next 90 days," with the pair subsequently recovering to the 113 yen range. The US employment data for November was then released on December 7. With the nonfarm payrolls data and the average hourly wages data both dipping below expectations, the dollar was sold and the pair was pushed back to the mid-112 yen level.

The greenback was bought against the pound in the week beginning December 10 following news that the UK government had postponed a parliamentary vote on the draft Brexit agreement, with the dollar/yen pair also bouncing back to the lower-113 yen mark. The pair was also bolstered after President Trump said that US/China negotiations were going well. The greenback strengthened against the euro following the ECB Governing Council meeting on December 13, with the dollar/yen pair also climbing to 113.71 yen.

European and US stocks moved bearishly in the week beginning December 17. During this time, US interest rates fell after Peter Navarro, head of the National Trade Council (NTC), said the FRB should stop hiking rates. The dollar was sold against the yen on bearish stocks and falling US interest rates, with the currency pair sliding to the mid-112 yen level. The pair's topside then fell to 112.19 yen on December 19 after the Nikkei Average dropped below 21,000 yen for the first time in around two months. The Bank of Japan's Monetary Policy Committee (MPC) kept monetary policy unchanged, while the FOMC implemented a 25bp rate hike, as expected. Though the FOMC's statement spoke dovishly about the need to monitor the global situation, it also voiced confidence about the strength of the US economy, saying that the "Committee judges that some further gradual increases in the target range for the federal funds rate [is appropriate]." There had been hopes that the FOMC would tone down its rate-hike stance, but these comments poured cold water on these hopes, with US stocks crashing, US interest rates falling sharply, and the greenback being bought as a result. The pair was temporarily bought back from the lower-112 yen mark to the mid-112 yen level. However, US and Japanese stocks then fell on December

20. With concerns also growing about a US government shutdown, the pair fell to 110.82 yen for a time.

Some government institutions were shut down in the week beginning December 24. With news also emerging that President Trump had discussed firing FRB chair Jerome Powell, the markets slipped into risk-off mode, with the pair dropping to 110.27 yen. The Nikkei Average plummeted to dip below 20,000 yen on December 25, with the pair also tumbling to 110 yen. US stocks then bounced back sharply on the firmness of US consumer spending, with the currency pair also rallying to 111.41 yen on short covering. Amid deep-rooted appetite for sell-backs, though, the pair dropped back to the mid-110 yen mark. Yen buying also intensified on January 31 after China's Manufacturing PMI dropped below the key 50 mark, so the pair temporarily dipped below 110 yen before hitting a monthly low of 109.56 yen to close the year trading at lows.

2. Outlook for This Month

The dollar/yen pair is expected to move bearishly this month.

The pair fell toward the end of 2018 and this trend continued into January. Market participants were thin on the ground at the start of the year, with Japanese investors on holiday. During this time, the pair crashed temporarily from the upper-108 yen mark to 104.10 yen during the early hours of January 3. This seemed to be a so-called flash crash as intermittent stop losses were triggered after: US stock prices plunged sharply after Apple's business results were downgraded; individual investors were forced to cut their losses on margin trades involving the Turkish lira/yen pair and the rand/yen pair; and trigger levels were hit in currency option trades. Half of these losses were pared back and the pair rallied to the upper 107 yen mark on the same day. The pair was then bought back to the mid-108 yen level on January 4, when Japanese investors returned to the fray. With the Japanese authorities refraining from any particular verbal interventions, though, the pair was pushed back to the upper-107 yen mark.

All this wild trading occurred during a period of thin liquidity, so there is an undeniable sense of over-shooting. Nonetheless, the fundamentals surrounding the dollar/yen pair do not seem that healthy. With Japanese and US stocks falling by around 20% from highs, many investors now believe stock prices have entered a downward trend. Other risk assets (crude oil futures and copper futures, etc.) also continue to move bearishly. After peaking in November last year, meanwhile, US long-term interest rates have fallen sharply, with the markets growing more skeptical about the prospect of further US rate hikes. Turmoil has started to break out sporadically in these capital markets on deteriorating economic indicators, with China's Manufacturing PMI dropping below 50, as mentioned above. There are also whispers that the real economy might be slowing. Under these circumstances, there seems to be a dearth of factors capable of improving these worsening risk sentiments, so the main scenario is of the dollar/yen pair falling on deep-rooted demand for the yen (a safe asset). The recent downswing has been quite rapid, so there will probably be some periodic phases of adjustment, though the pair will probably move with a heavy topside as any appreciation is met by selling.

On the technical front, at the end of 2018 the pair's daily chart fell sharply below its 200-day moving average line, so the pair will be prone to selling against this line. Risk scenarios include: faster dollar

buying as the strength of the US economy is confirmed by several better-than-expected economic indicators (such as the employment data or the PMIs); rallying risk assets (stocks, etc.) as market participants factor in a slower pace of US rate hikes after the FRB voices caution about the current slide in the price of these assets; or the announcement of a stimulus package by the Chinese government and the People's Bank of China on strong concerns that the Chinese economy is slowing. Stocks and the currency pair are also likely to be swayed by comments from US and Chinese officials about postponed further tariffs, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar (4 bulls: 106.00–112.00, Core: 106.50–112.00)

Seki	107.00 – 112.00	A flash crash occurred on January 3 as the markets moved erratically with Japanese investors on holiday over the New Year, but with a round of loss cuts out of the way and the dollar/yen pair prone to crashing suddenly, attention seems more focused on the pair's downside. If growing concerns about a global economic slowdown overshadow the bearishness of US economic indicators, the dollar will probably be bought back from the lows it hit at the start of the year.
Mitsuishi	106.00 – 112.00	There are expectations that rate hikes will be brought to close and there are even rumors that the FRB might begin cutting rates in 2019. Under these circumstances, the dollar/yen pair's downside dropped lower, with the pair weighed down by negative factors such as falling stock prices, a US government shutdown, and the US/China trade dispute (an issue recently kicked into the long grass). The pair's fall seems somewhat one-sided given the state of the US real economy compared to other nations, so the pair may enter a phase of adjustment, depending on stock movements.
Fujimaki	106.00 – 112.00	The dollar/yen pair is moving bearishly on a US government shutdown, rocky US/China relations, and weak US economic indicators. Under these circumstances, the pair fell sharply at the start of the month. However, this occurred during thin trading. With the markets also factoring in rate cuts to a considerable extent, there is a sense that the pair's level is too low. As such, the pair is expected to edge back higher.
Okuma	107.00 – 112.00	China's economy is slowing at a faster pace, as evinced by the country's deteriorating economic indicators. Under these circumstances, there is growing speculation that the Xi Jinping administration is in a rush to reach a deal in the trade talks, even if it means making some concessions. The dollar/yen pair will probably be bought back as excessive concerns about US/China frictions wear off.

Bearish on the dollar (5 bears: 104.00–112.00, Core: 105.00–110.00)

Kato	107.00 – 112.00	The dollar/yen pair has dropped clearly below 110 yen and the mid-term chart also seems to be trending downward. Attention in 2019 will remain focused on the US/China trade dispute, the FRB's monetary stance, and Brexit. Bearish forecasts are likely to increase slightly when it comes to the US.
Okamoto	105.00 – 111.00	The soft and hard impacts of the US/China trade dispute are starting to become apparent. Market participants may start to focus in earnest on risks that have previously been treated with a pinch of salt. There is an undeniable sense that US interest rates have fallen too much, so they will probably bounce back for a time. However, the dollar/yen pair will probably edge lower again as economic indicators and US business results are released toward the end of the month.
Ueno	104.00 – 110.00	The dollar/yen pair has bounced back by around four yen from its low at the start of the month (104.10 yen). There are concerns about the business results of US hi-tech firms, for example, with clouds also appearing over US economic indicators, so the markets are starting to factor in a US rate cut within the year. The pair's gains from its lows will probably be pared back from here on.
Tamai	105.00 – 110.00	The impact of the US/China trade dispute is starting to become apparent. Under these circumstances, the risk-off mood looks set to continue, with the dollar remaining a hard currency to buy. It could be said that the dollar/yen pair has fallen too far given how telephone talks, etc. aimed at resolving the US/China trade dispute seem to be going well, but with economic indicators deteriorating in China, the US and Europe, risk aversion will probably remain in place.
Moriya	104.00 – 110.00	The sharp crash at the start of the year seems somewhat excessive, but concerns about a global economic slowdown are edging higher, so it is hard to see risk sentiments suddenly recovering. With the markets factoring in a US rate cut, the dollar/yen pair could trend lower, so caution will be needed.

Hiroshi Seki, Forex Sales, Forex Department

Euro – January 2019

Expected Ranges

Against the US\$: US\$1.1250–1.1650**Against the yen: JPY121.00–126.00**

1. Review of the Previous Month

The euro/dollar pair moved in a range at the start of the December. After opening the month trading at the lower-\$1.13 mark on December 3, the pair then strengthened on news that Italy was looking at lowering its budget deficit target to 2% of GDP. On December 4, meanwhile, the European Court of Justice ruled that Article 50 of the Lisbon Treaty gave the UK the unilateral right to revoke the “the notification of the intention to withdraw from the EU, until such time as the Withdrawal Agreement is formally concluded.” The pound/dollar pair subsequently rose, with the euro/dollar pair also climbing to the lower-\$1.14 level. However, amid a growing sense that the UK parliament would reject the draft agreement that prime minister Theresa May had reached with the EU, the pound/dollar pair renewed lows for the year, with the euro/dollar pair also dropping back to the lower-\$1.13 mark. The US employment data for November was released on December 7, with the euro/dollar pair rising to \$1.1424 on the worse-than-expected results. Wage growth performed as forecast, though, so with the FOMC looking set to implement a rate hike in December, as expected, the pair was sold back to eventually hit \$1.1380 again. The pair bounced back to \$1.1442 on December 10 on a growing sense that an agreement would be reached regarding Italy’s budget proposal. However, the pound then plummeted after UK PM Theresa May announced she was postponing the parliamentary vote on the draft Brexit agreement originally expected to take place on December 11, with the euro/dollar pair also dropping down to the mid-\$1.13 level.

The pair then slid to a monthly low mid-December before rallying thereafter. The German July ZEW Indicator of Economic Sentiment for December was released on the 11th. It performed better than expected, with the currency pair subsequently rising to around \$1.14. However, concerns about France’s budget deficit then rose after the French president Emmanuel Macron postponed some tax hikes in the face of demonstrations, with the pair plunging to the lower-\$1.13 mark as a result. The pair then moved erratically. It climbed to the upper-\$1.13 range on December 13 after the UK PM Theresa May won a vote of no confidence, but it then plummeted to the lower-\$1.13 level on dovish comments by ECB president Mario Draghi. On December 14, though, it dropped to a monthly low of \$1.1270 after the euro was sold on the weak results of the French and German PMIs for December. It climbed to the \$1.14 range on December 18 as the dollar was sold across the globe, but it then plummeted to the mid-\$1.13 level on December 19 as the greenback was bought in the wake of the FOMC’s announcement.

The pair strengthened towards the end of the month. It hit a monthly high of \$1.1486 on December 20 after Italy reached an agreement with the EU about its budget proposal for 2019. The single currency

was then bought as US stocks fell at a faster pace on concerns of a US government shutdown, though it saw some adjustive selling toward the close of trading on December 21 and it fell to \$1.1374. On December 24, the NY Dow Jones fell to its lowest level since September 2017, with the euro/dollar pair subsequently rising to \$1.1438. With the major markets then entering into holiday mode, trading thinned out, though the pair strengthened to \$1.1454 on December 27 as US interest rates moved at lows. December 28 saw the release of Spain's 3Q GDP data and Germany's CPI figure for December. Both indicators fell below forecasts, with the pair dropping down to \$1.1431 for a time. With trading thin on the ground on December 31, it temporarily slid to \$1.1426. However, the dollar was then sold as the benchmark yield on US 10-year treasuries dipped below 2.7% for the first time since February, so the pair eventually closed 2019 trading at \$1.1468.

2. Outlook for This Month

The euro/dollar pair fell to \$1.1310 at the start of trading on January 3, but it is expected to strengthen toward the end of the month.

The first factor to examine is the economic situation in the eurozone. Indicators continue to show signs of bearishness, with the eurozone Manufacturing PMI (released January 2) falling for the fifth straight month to hit 51.4, for example. ECB staff projections were released last month, with the forecast for real GDP growth hitting +1.7% y-o-y, above the potential growth rate of +1.5%. However, leading indicators in the eurozone and Germany are trending downward on the whole, so the prognosis for the eurozone economy remains bearish, with ECB president Mario Draghi also talking about rising downside risk at his regular press conference after the ECB Governing Council meeting. However, China and the US have also released several weak economic indicators. With concerns about a global economic slowdown growing, the weakness of the eurozone economy may fail to attract any particular attention, so caution will be needed.

At the same time, the euro will be supported by declining concerns about political risk on the eurozone. The German ruling party (the CDU) held an election on December 7 to choose its next leader, with the party secretary Annegret Kramp-Karrenbauer, an ally of Chancellor Angela Merkel, emerging as victor. Mrs. Kramp-Karrenbauer had called for a more conservative immigration policy, so the result gave the ruling party a slight bump in the opinion polls. Furthermore, the euro has been weighed down since the latter half of 2019 by the Italian budget issue, but with Italian prime minister Giuseppe Conte revising Italy's budget proposal and promising to strictly stick to the EU's rules on fiscal discipline, the European Commission also announced it had reached an agreement with Italy over the proposal, so the issue seems to have been resolved on the whole. The issue of France's deficit also rose to the surface in December, but the European Commission has stated it "will tolerate a national budget deficit higher than 3% as a one-time exception" on the grounds that the fiscal situation is different in France and Italy, with the Commission set to make a final assessment of France's budget proposal for 2019 in the second quarter, so this issue looks set to calm down for a time. However, one worrisome factor for the euro will be the UK parliamentary vote on the draft EU withdrawal agreement, set for the week beginning January

14.

Stock markets reacted badly to rising US interest rates in 2018. With this still fresh in the mind, expectations for further FRB rate hikes are likely to wane after the dollar/yen pair crashed at the start of the year. With US interest rates falling, the adjustment to dollar bullishness looks set to continue, with the euro bought as a result. This trend will probably support the firm movements of the euro/dollar pair in January.

Dealers' Market Forecast

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

Bullish on the euro (1 bull: 1.1250–1.1650, Core: 1.1250–1.1650)

Seki	1.1250	The euro was weighed down last year by political risk related to Germany, France and Italy, but this risk is fading away. Expectations for FRB rate hikes also look set to wane after stock markets plummeted at the start of the year. With US interest rates falling, the adjustment to dollar bullishness looks set to continue, with the euro bought as a result.
	–	
	1.1650	

Bearish on the dollar (8 bears: 1.1150–1.1600, Core: 1.1200–1.1600)

Kato	1.1200	The euro/dollar pair is expected to move in a range overall. Depending on trends in the US, the euro could be bought at the start of the year on expectations for dollar bearishness. However, the euro will probably move with a heavy upside on the Brexit issue, with eurozone political risk also continuing to smolder away.
	–	
	1.1600	
Mitsuishi	1.1200	The euro's rise last month was due to the dollar's fall. With the Brexit issue lingering on, the euro faces a number of negative factors, including weak economic indicators and financial uncertainty in Southern Europe. As such, there seems to be a dearth of factors supporting the euro besides dollar bearishness.
	–	
	1.1600	
Fujimaki	1.1200	Geopolitical risk related to Germany, France, Italy and the UK continues to smolder away. Concerns about rising inflation are also fading on falling crude oil prices. With the eurozone also continuing to release several lackluster indicators, despite, the euro's bearishness, it seems the euro/dollar pair will trade with a heavy upside this month.
	–	
	1.1600	
Okamoto	1.1150	Political risk continues to haunt several eurozone countries. The eurozone also continues to release weak indicators related to inflation and business confidence. With expectations for an ECB rate hike also waning, there is a shortage of factors conducive to euro buying. With expectations for US rate hikes also sliding, the euro could be bought at times, but the euro/dollar pair's room on the upside will be capped.
	–	
	1.1550	
Ueno	1.1200	There are a number of political risk factors and there are also clouds growing over the economy. As such, investors will find it hard to actively buy the euro. On an individual basis, though, the dollar is moving bearishly, so the euro/dollar pair is unlikely to make any major movements this month.
	–	
	1.1500	
Tamai	1.1200	With an agreement reached on Italy's budget proposal for 2019, for example, political risk has dropped off slightly. Eurozone indicators continue to move weakly, though. With the Brexit issue also continuing to smolder away, investors will find it hard to actively buy the euro. However, the FOMC looks unlikely to lift rates again, so the euro/dollar pair's room on the downside will probably be capped.
	–	
	1.1600	
Moriya	1.1200	As with last year, market participants will probably focus on eurozone political risk this month, with economic indicators also moving weakly. The euro/dollar pair will probably be supported by growing pressure for dollar selling, but there is also a dearth of factors conducive to euro buying, to the pair's upside will be capped.
	–	
	1.1600	
Okuma	1.1200	The eurozone faces several uncertainties related to Brexit and political instability in each country, for example. With concerns about a global economic slowdown also growing, the dollar and yen will probably be bought as safe currencies during phases of risk aversion. As such, the euro/dollar pair will probably trade with a heavy upside.
	–	
	1.1550	

British Pound – January 2019

Expected Ranges	Against the US\$:	US\$1.2100–1.2800
	Against the yen:	JPY134.00–144.00

1. Review of the Previous Month

The pound/dollar pair moved with a heavy topside in December.

It was swayed at the start of the month by news related to the UK parliamentary vote on the draft EU withdrawal deal. The vote was due to take place on December 11. December 3 saw whispers that the vote might be postponed, but the home secretary Sajid Javid declared that the vote would indeed take place on the 11th. The pair dropped below \$1.27 on speculation that the deal would be voted down. On December 4, the European Court of Justice ruled that the UK could unilaterally cancel withdrawal procedures (Article 50 of the Lisbon Treaty). This buoyed the UK's remain faction, with the pair rising to hit a monthly high of \$1.2840. In the afternoon, though, the UK prime minister's press secretary said the government would not revoke Article 50. A major UK information services company then announced it would axe 3,200 jobs by 2020, a move related to Brexit. All this led to erratic trading, with the pair eventually sold to the lower-\$1.27 mark. The UK housing price data for September–November was released on December 7, with prices falling to their lowest level in six years. Sterling subsequently saw a spate of selling, but the pair's reaction to other economic indicators was generally muted during this time. The pound was sold from the morning of December 10 on speculation that the following day's parliamentary vote would be shelved. In the afternoon, prime minister Theresa May formally announced the vote's postponement. She also failed to announce a new date. Pound selling intensified as a result, with the pound/dollar pair sold to its lowest level since April 2017.

The pair was rocked mid-December by news about a vote of no confidence in Mrs. May. With the December 11 vote cancelled, Mrs. May travelled to the continent for talks with other EU heads of state. During this time, news emerged that rebels in the Conservative Party had gathered enough signatures to trigger a vote of no confidence. Sterling was subsequently sold, with the pair temporarily dropping below \$1.25. On December 12, the Conservative Party's 1922 Committee formally decided to hold a vote of no confidence that evening. The pair was temporarily sold to a monthly low of \$1.2478, but with several cabinet members announcing their support for Mrs. May, the pair was then bought back to the \$1.26 range.

The PM ended up surviving the no-confidence vote, so the pound continued to be bought back on December 13. On the same day, though, an EU summit turned down Mrs. May's request to re-negotiate the draft withdrawal agreement. With several European business confidence indicators for December then dropping below expectations on December 14, the euro moved bearishly and sterling was also sold.

On December 17, Labour Party leader Jeremy Corbyn suggested he would table a motion of no confidence in Theresa May if she did not set a date for a parliamentary vote on the draft withdrawal deal. Mrs. May subsequently said the vote would take place in the week beginning January 14, so the impact on the currency pair was muted.

With Brexit-related headlines cooling off from December 18, the pair moved without a sense of direction. With trading thin on the ground over the Christmas holidays, the pair floated in a range from \$1.26 to around \$1.27.

2. Outlook for This Month

The focus this month will be on the final stages of Brexit.

However, attention is also focusing on the possibility that the deadline for the talks might be extended, a scenario that does seem to be growing more likely. The EU Withdrawal Act was approved by the UK parliament in June 2018. This says parliament must ratify the draft agreement reached between prime minister Theresa May and the EU by January 21, 2019. However, Mrs. May has scheduled the vote for the week beginning January 14 (the UK parliament was on winter break until January 7), so there will be no time left if parliament does indeed reject the draft agreement. With her back to the wall, Mrs. May might be trying to force parliament to choose between the draft plan or a no-deal Brexit, but with the EU refusing to renegotiate the withdrawal deal, everything will depend on the coordination capabilities of Mrs. May, a fact the markets will probably not appreciate. The situation is critical and it seems likely the draft deal will be rejected. Of course, if parliament ratifies the deal, this will lead to an 'orderly Brexit', with the tumultuous situation likely to calm down over the transitional period up to 2020. The pound will probably be bought under this scenario.

Extending the negotiations would mean pushing back the March 29 deadline stipulated when Article 50 of the Lisbon Treaty was invoked, but this would also mean prolonging the uncertainty, so the pound would probably fall under this scenario. However, some observers believe this scenario could also lead to pound buying on a sense that a no-deal Brexit has been avoided for the time being, so an extension will probably be greeted by a mixture of selling and buying. However, uncertainty has already led to a fall in capital investment, for example, so most investors will be expecting the UK economy to be hit if this uncertainty continues.

There is also the ever-present risk that the May administration could collapse. Though Mrs. May overcame a vote of no confidence within her own party, parliament (and the Labour Party in particular) could also table a no-confidence motion. It is also possible that Mrs. May might resign if she loses the parliamentary vote on the draft withdrawal agreement. Under these scenarios, the first thing to happen would be a slide in the value of sterling on expectations for a general election.

However, the pound could move bullishly thereafter depending on the policies of the next administration. Furthermore, there have been growing hopes in some quarters for a second referendum. If this possibility attracts more attention, the pound might be bought back. Also, Mrs. May herself has mentioned that Brexit might not happen if parliament rejects her deal. This possibility is also backed up

by the European Court of Justice's ruling that the UK could unilaterally revoke Article 50 of the Lisbon Treaty, provided the move was based on "a democratic process." It is unclear what this democratic process would entail, but this scenario would also see sterling being bought back.

Incidentally, the Bank of England will not be meeting this month.

Kanao Imamura, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – January 2019

Expected Ranges	Against the US\$:	US\$0.6700–0.7250
	Against the yen:	JPY70.50–78.50

1. Review of the Previous Month

In December, the AUS/USD pair weakened from the \$0.73 range at the start of the month to the \$0.70 range by the end of the month.

The pair opened December trading at the upper-\$0.73 mark. The markets reacted well when the US decided to refrain from hiking tariffs on Chinese imports for 90 days during a US/China heads of state meeting. The pair hit a high of \$0.7394, though its topside was weighed down and it failed to reach \$0.7400. On December 4, the board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at 1.50%, as expected, with the pair moving between the mid-\$0.73 level and the upper-\$0.73 mark. The Australian GDP data for July–September was released on December 5. At +2.8%, the result was down on the forecast for +3.3%, so the pair plummeted to the mid-\$0.72 level. Market participants then tested the \$0.7200 line on December 6 on the worse-than-expected result of the Australian trade surplus for October. With European and US stocks also sliding further, the Australian dollar (a risk asset) weakened and the AUS/USD pair dipped to the upper-\$0.71 level.

The UK parliamentary vote on the draft EU withdrawal bill was postponed mid-December, with the pair trading around \$0.7200 for a while on political uncertainty. Major global stock markets then fell on global trade frictions, UK political uncertainty, and the Italian budget problem, for example. Under these circumstances, the Australian dollar dipped to the mid-\$0.71 level. Amid talk that the UK vote on the draft EU withdrawal bill would be rescheduled for mid-January, the focus of the markets shifted to the following week's FOMC meeting. There were no major movements until this meeting, with the pair moving flatly at the upper-\$0.71 mark. Rumors that the pace of rate hikes would be slowed in 2019 started to emerge directly before the FOMC meeting.

As expected, the FOMC implemented a 25bp rate hike late December. The closely-watched dot chart (the federal fund rate projections of FOMC members) was revised downward, but it was not as dovish as the markets had expected, so the greenback was bought back and the AUS/USD pair was pushed down to the upper-\$0.70 range. With stocks continuing to fall on trade frictions and political uncertainty, the pair traded around \$0.7100. The risk of a partial US government shutdown flared up at the end of December after the Senate failed to ratify the Trump administration's budget proposal. With US stocks falling sharply, the pair dipped to a low of \$0.7017 to close the month trading at lows.

2. Outlook for This Month

The AUS/USD pair plummeted to the lower-\$0.67 mark at the start of January, but it soon rallied to the \$0.71 range. Investors are now watching to see whether the pair can remain above \$0.7000 or whether it will drop below this psychologically-important level again.

President Donald Trump and Chinese Premier Xi Jinping held a telephone conference at the end of 2018, with both parties saying talks aimed at easing trade frictions were going well. Major stock markets fell last year on intensified global trade frictions, so market participants will be watching to see whether this situation can be resolved. The Trump administration has placed a 90-day moratorium on a planned tariff hike on Chinese imports. This is due to expire at the end of February. These developments will impact the movement of major stocks and US dollar trades. If the issue is resolved, the Australian dollar will probably be bought back as stocks rise on risk appetite. However, if trade frictions intensify or the economy slows, the AUS/USD pair's downside will probably be tested as stocks are sold on risk aversion.

With the Brexit deadline looming at the end of March, attention will also be focused on whether the UK parliament ratifies the draft withdrawal agreement. UK Prime Minister Theresa May has said the vote will now be held mid-January, but there is growing political uncertainty regarding whether the plan will be ratified or whether the UK will head toward a no-deal Hard Brexit. A disorderly Brexit would have a huge impact on the financial markets, with the Australian dollar pushed lower by risk aversion.

The board of the Reserve Bank of Australia (RBA) is not scheduled to meet in January. The first meeting of 2019 will take place on Tuesday, February 5. Australia's inflation rate is currently moving under 2%, below the RBA's target range of 2–3%, so most market participants still expect the RBA to keep the cash rate fixed at 1.50%.

Amid thin trading at the start of the year, the AUS/USD pair reacted sensitively to news about an economic slowdown, with the pair plummeting to \$0.6715, its lowest level since March 2009. The pair was soon bought back to the \$0.71 range. Technically speaking, attention will now focus on whether the pair's topside can hit \$0.7210. If stocks move skittishly, the pair could also test \$0.7000 again.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – January 2019

Expected Ranges	Against the US\$:	C\$1.3200–1.3800
	Against the yen:	JPY77.00–83.00

1. Review of the Previous Month

Stocks and other risk assets fell sharply on growing concerns about a global economic slowdown, while crude oil prices also remained on the downward trajectory that began in October, so the USD/CAD pair essentially underwent a one-sided rise in December. The pair traded within a wide range to hit a monthly low of C\$1.3160 on December 3 and a monthly high of C\$1.3661 on December 27.

The US and China reached a provisional agreement not to intensify their trade dispute during a heads of state meeting at the end of November. The markets reacted warmly to this, with the USD/CAD pair dipping to C\$1.316 for a time on December 3, though this represented its low for the month.

As expected, the Bank of Canada (BOC) kept its policy rate fixed at 1.75% when it met on December 5. However, the accompanying statement reiterated that rates would need to be lifted to the neutral rate in order to hit the BOC's inflation target. With crude oil prices falling and the spread between WCS and WTI prices widening, though, the BOC switched tack sharply and adopted a very dovish stance by voicing strong fears about the energy sector. Bets on a BOC rate hike in January 2019 fell sharply from above 80% to around 30%, with the currency pair temporarily hitting C\$1.34 as a result.

Canada's employment data for November was released on December 7. The number of people in work rose by 94,000, up sharply on market expectations for a rise in the region of 10,000, while the unemployment rate also fell to 5.6%. At +1.5%, though, average hourly wages grew at a slower pace than forecast (+1.8%), with this figure also down on the previous month's figure of +1.9%. After dipping to the C\$1.32 range for a time, the pair was steadily bought back thereafter.

As crude oil prices continued to fall, the pair strengthened in a consistent way. At the closely-watched FOMC meeting on December 19, FOMC members downgraded their projections from three to two rate hikes in 2019. This was not as dovish as expected, though, so the markets were left disappointed. With stocks moving bearishly across the globe, the pair continued to be bought. It rose above the key C\$1.35 mark on the same day before hitting a monthly high of C\$1.3650 on December 27.

2. Outlook for This Month

Stocks and other risk assets underwent an excessively one-sided fall in December, so these assets will probably stage an autonomous recovery to a certain extent this month. However, it seems risk assets will continue to move erratically until the FRB changes its current stance (pushed in part by falling stock prices, the FOMC had been expected to shift its stance slightly in December to one that takes more

account of market sentiments). The first thing to monitor will be whether investor buying power recovers somewhat entering the new year.

A lot of attention will focus on a January 4 speech by FRB chair Jerome Powell. From a credibility standpoint, though, Mr. Powell seems unlikely to significantly shift his basic stance.

The BOC will be meeting to set policy rates on January 9. As with December, though, it will probably voice concerns about the energy sector.

Investors will now be monitoring the available data to check the extent of the global economic slowdown. If the data proves as weak as the markets are fearing, asset prices will inevitably fall further.

The only thing capable of shifting the current trend of bearish crude oil prices and so on is the FRB, but now December is out of the way, it seems the market environment will remain unstable for a while. The situation is also likely to remain somewhat uncertain when it comes to Washington. As such, it is hard to see the pair dropping back below C\$1.3 on Canadian-dollar bullishness.

Yasunori Shimoyama, Seoul Treasury Office Treasury Office

Korean Won – January 2019

Expected Ranges	Against the US\$:	KRW1,100–1,140
	Against the yen:	JPY9.479–9.950 (KRW100) (KRW10.050–10.550)

1. Review of the Previous Month

In December, the USD/KRW pair fell compared to the end of the previous month. The pair opened the month trading at KRW1117.50. The US/China heads of state meeting that took place at the G20 summit ended in a composed manner, so the currency pair dipped to a monthly low of KRW1104.90 toward January 4. With concerns about US/China trade tensions dropping off, though, the market focus returned to the US economy and US monetary policy, with yields on long-term US treasuries subsequently plunging. This led to a partial yield-curve inversion, with risk sentiments receding and the won moving bearishly. Thereafter, news emerged on December 6 that an executive from a major Chinese telecommunications firm had been arrested in Canada. The US was also involved in the incident, so this led to renewed fears about US/China trade tensions, with the won falling further as a result.

On December 13, news also emerged that China was relaxing its stance regarding its Made in China 2025 strategy, with risk sentiments subsequently improving. With major stock markets and so on continuing to move erratically, though, the pair hit a monthly high of KRW1133.00 on December 17.

The focus then shifted to the December 19 FOMC meeting. Amid growing expectations that the FOMC would adopt a dovish stance, the pair dipped to the lower-KRW1120 mark. However, the FOMC meeting was not as dovish as the markets had expected, so risk sentiments deteriorated sharply and the won was sold. With the US then undergoing a partial government shutdown in relation to the Mexican border wall issue, stocks moved erratically, with the USD/KRW pair trading firmly.

Risk sentiments improved somewhat toward the end of the month on a buoyant end-of-year sales season in the US. With the won also being bought in relation to end-of-the year real demand, the Korean unit strengthened and the pair closed the month trading at KRW1115.70.

2. Outlook for This Month

The USD/KRW pair is expected to trade firmly in January. The key factor will be whether the current phase of high volatility eases off or continues.

At the time of writing, the US remains under partial government shutdown. The US government remains in a turbulent state, with James Mattis, a figure seen as reining in the excesses of the Trump administration, essentially stepping down as defense secretary, for example. A new Congress will

convene on January 3, following on from last month's mid-term elections. Congress is divided, with President Trump's Republican party maintaining a majority in the Senate and the Democrats controlling the House of Representatives.

With Congress growing more difficult to manage, President Trump will probably try to retain popularity by adopting a more hardline stance when it comes to the FRB's investigation or the US's relations with the EU and China, for example. With US/China trade negotiations steadily moving toward a denouement, a comprehensive range of other risk factors (such as the looming Brexit deadline) essentially remain unresolved, with each issue continuing to be kicked into the long grass.

Under these circumstances, it is hard to imagine risk sentiments improving on the whole. With the various deadlines for talks approaching, the markets will probably grow more tense. Tensions related to the aforementioned partial government shutdown will probably increase from here on, with market participants likely to incline in the direction of risk aversion. If this happens, the USD/KRW pair will move firmly overall to steadily trend higher.

Of course, if the aforementioned risk factors gradually improve or are resolved, the won will be bought, so investors will need to keep a close eye on the situation.

The pair looks set to move firmly overall, though the won could strengthen depending on events, so caution will be needed.

New Taiwan Dollar – January 2019

Expected Ranges	Against the US\$:	NT\$30.50–31.10
	Against the yen:	JPY3.50–3.70

1. Review of the Previous Month

The Taiwan dollar weakened against the US dollar in December.

The USD/TWD pair opened the month trading at TWD30.770. At a US/China heads of state meeting on December 1, the US agreed to postpone a tariff hike in Chinese imports for 90 days. As a result, concerns of intensified trade frictions receded. The Taiwan dollar was bought as the RMB appreciated and overseas funds flowed into Taiwanese stock markets, with the pair subsequently dipping to a monthly low of TWD30.678 on December 4. However, with yield curves inverting when it came to certain durations of US interest rates, investors focused on a potential US economic slowdown. As risk aversion increased on plunging US stocks, the Taiwan dollar began moving bearishly. Risk aversion also intensified when the CFO of Huawei Technologies was arrested. As the greenback continued to be bought, the USD/TWD pair climbed to the TWD30.8 range.

This trend continued into mid-December as stocks moved bearishly, with the pair temporarily hitting a monthly high of TWD30.900, though this level was met with strong appetite for US-dollar selling among exporters, so the pair's topside was capped. Hopes then grew for progress in US/China trade talks after President Trump said the talks between the two sides were going well. The RMB strengthened against the dollar and this also supported Taiwan-dollar buying.

Market participants slipped into wait-and-see mode late December in the run up to the FOMC meeting. In the end, the meeting was not as dovish as some had predicted (the FOMC hiked the target range for the federal funds rate by 25bp, as expected, while the FOMC's projection was downgraded from three to two rate hikes in 2019). The greenback was bought back directly after the meeting, with the currency pair rallying from the TWD30.7 range to the mid-TWD30.8 mark. With exporters selling the greenback again toward the end of the month, though, the pair moved with a heavy topside.

The Bank of Taiwan held its quarterly Monetary Policy Committee (MPC) meeting on December 20. As expected, the discount rate (the policy rate) was left at 1.375% for the tenth time in a row, so the meeting did not really feature as a factor.

2. Outlook for This Month

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

A glance at the economic indicators released in December shows the November export amount falling by -3.4% y-o-y. This was the first time in two years that the figure had dipped into negative

territories (apart from when the figure contracted in February 2018 due to Chinese New Year). The November export orders figure also fell into negative territories at -2.1% y-o-y. Amid a growing sense that the impact of the US/China trade dispute was starting to manifest itself, the overall slide in the export data was due in large part to a -8.0% y-o-y fall in exports to China and Hong Kong (which account for over 40% of all Taiwan's exports). Taiwan's CPI data also dropped to +0.31% y-o-y in November. The data was hit by falling mobile phone charges, with price growth sliding sharply compared to the previous month (+1.17% y-o-y). The core CPI data (excluding volatile fresh food and energy prices) also slowed on the previous month to hit +0.67% y-o-y.

Attention will remain focused on US economic indicators in January. At the December FOMC meeting, members downgraded their projections to two rate hikes in 2019 (down from projections for three hikes made at the meeting in September). However, some investors are expecting the pace of rate hikes to slow even more. If the indicators released this month drop below market expectations, this scenario will attract attention, with the greenback likely to trade with a heavy topside.

Observers will also be keeping an eye on Taiwanese indicators. As mentioned above, export growth was down on the previous year on the impact of US/China trade frictions. With sales of Apple's iPhone falling below forecasts, demand for machinery investment is also moving sluggishly. If this trend continues, funds will probably flow out of Taiwan at a faster pace on bearish stock prices, with the Taiwan dollar subsequently weakening against its US counterpart.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – January 2019

Expected Ranges	Against the US\$:	HK\$ 7.8250–7.8500
	Against the yen:	JPY 13.75–14.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in December

In the first half of December, the Hong Kong dollar appreciated against the U.S. dollar to HKD 7.8013—the highest level in approximately two months—as a result of the fact that short-term, Hong Kong dollar interest rates appreciated sharply based on rising capital demand for the end of the year. At the G20 Summit Meeting, the U.S. and China reached a temporary agreement regarding the trade frictions between each other. Consequently, concerns over capital outflow from Hong Kong were mitigated, and this is considered to be one of the reasons for the appreciation of the Hong Kong dollar. Thereafter, the trend reversed and the Hong Kong dollar depreciated, and the U.S. dollar/Hong Kong dollar exchange rate exceeded the HKD 7.83 level, as market participants expected the interest rate differentials between the U.S. dollar and the Hong Kong dollar to expand. Also, the Federal Reserve Board (FRB) in the U.S. raised the interest rate by 25 basis points at the Federal Open Market Committee (FOMC) meeting, as had been expected. On the other hand, major banks in Hong Kong did not follow this decision and postponed raising the Hong Kong dollar prime rate by 12.5 basis points, which led the Hong Kong dollar to depreciate. The one-year Hong Kong dollar forward point rose to approach –371 points, after which this decreased toward the end of the month to approach –550 points.

Hong Kong dollar interest rate market in December

In December, the Hong Kong dollar HIBOR appreciated significantly for short terms. The one-month Hong Kong dollar HIBOR appreciated for 20 consecutive business days and reached 2.398% for the first time in approximately 10 years. Similarly, the three-month Hong Kong dollar HIBOR rose to reach 2.442% for the first time in approximately 10 years. The spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR narrowed to –10 basis points and –40 basis points from –114 basis points and –70 basis points for one month and three months, respectively. While the Hong Kong dollar HIBOR appreciated significantly, market participants considered this a temporary phenomenon that was due to IPOs and seasonal factors at the end of the year. This is because of the fact that the Hong Kong dollar liquidity level remains high, as is shown by the checkable deposit balance of the Hong Kong Monetary

Authority (HKMA), remaining stable at around HKD 76.4 billion. For long terms, the Hong Kong dollar IRS interest rate fell by about 30 basis points to 2.36% and 2.42% for three years and five years, respectively, as a result of the depreciation of the U.S. dollar interest rates.

Hong Kong stock market in December

The benchmark Hang Seng Index rallied in December, thanks to the fact that the trade frictions between the U.S. and China reached a temporary ceasefire at the G20 Summit Meeting. However, stock prices depreciated again thereafter, and the Hang Seng Index fell to the 25,500-point level. Then, the November economic indices of China were released and their weak figures strengthened concerns over the outlook of the Chinese economy—this is one of the reasons for the deterioration of investor sentiment in the stock market. There was little positive influence from the fact that the Hong Kong dollar prime rate was maintained at the existing level.

2. Outlook for This Month

Hong Kong dollar spot exchange market in January

In January, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.825 and HKD 7.850. While the FRB decided to raise the interest rate, the Hong Kong dollar prime rate was maintained at the existing level, which widened the interest rate differentials between the U.S. and Hong Kong, which is likely to put some weight on the Hong Kong dollar exchange market. The normalization process in the Hong Kong dollar interest rate market may not advance until the U.S. dollar/Hong Kong dollar spot exchange rate reaches the HKD 7.85 level. Even though there was a positive factor at play, such as a ceasefire in the trade frictions between the U.S. and China, stock prices have been falling and real estate prices have been in an adjustment phase. Thus, pressure for capital outflow from Hong Kong has continued to be strengthened. There are also concerns over the trade negotiations between the U.S. and China, for which the deadline is March 1, and this is yet another factor that can accelerate capital outflow. The U.S. dollar peg system, however, is likely to remain as-is for the time being, as there has been no desirable alternative, while there are risks of unexpected fluctuation in the market in the case of any change to the system.

Hong Kong dollar interest rate market in January

In January, the Hong Kong dollar short-term interest rates are forecast to depreciate, as demand for fund procurement will decline compared to the end of the year. The checkable deposit balance of the HKMA has still been high, at HKD 76.4 billion, which means that commercial banks in Hong Kong are currently

not facing a necessity to raise interest rates. The Hong Kong dollar IRS interest rates have been following the movement of the U.S. dollar IRS interest rates, and therefore, the downward pressure on interest rates has strengthened after the downward revision on the U.S. interest rate hikes by the FRB. However, demand for loans denominated in Hong Kong dollars has still been high, and the loan-deposit ratio has reached as high as 85.3%—the highest in seven years. Therefore, from the viewpoint of fundamentals, it can be said that the Hong Kong dollar interest rates are likely to rise in the times ahead. For the medium to long term, the Hong Kong dollar interest rates are expected to continue rising under the U.S. dollar peg system, as the interest rate hikes continue in the U.S.

Kazuki Baba, Treasury Division, MHBK (China)

Chinese Yuan – January 2019

Expected Ranges	Against the US\$:	CNY 6.6500–7.0500
	Against the yen:	JPY 14.89–16.84
	Against 100 yen:	CNY 5.9400–6.7200

1. Review of the Previous Month

Foreign exchange market

In December, the U.S. dollar/Chinese yuan exchange market remained unforeseeable even though the cautious feeling toward the trade frictions between the U.S. and China was somewhat mitigated.

At the beginning of the month, in the dialogue between the U.S. and China during the G20 Summit Meeting, there was some progress in the trade frictions between these two countries, such as in their agreement to correct the trade imbalance, along with the 90-day postponement of the introduction of an additional customs duty by the U.S. on the condition of structural reforms. As a result, the Chinese yuan continued appreciating against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate temporarily reached the lower-CNY 6.83 level for the first time since the middle of September 2018. Thereafter, market participants grew skeptical about the possibility of solving the trade problem frictions the short period of 90 days, while the media reported the arrest of the CFO of Huawei Technologies Co. Ltd., fueling concerns over trade frictions between the U.S. and China once again. As a consequence, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 6.88 level, after which the exchange rate fluctuated within the narrow range between CNY 6.88 and CNY 6.90, waiting for the opening of the Central Economic Work Conference scheduled for December 21. At said conference, it was decided to significantly cut taxes while also cutting administrative expenses, as part of fiscal policy. It was also announced that the liquidity level will be maintained high, as part of monetary policy. As the outcome of the conference was generally as had been expected in the market, there was little impact on the exchange market. However, toward the end of the month, there was large-scale Chinese yuan-buying, while the liquidity level was declining, and this led the Chinese yuan to appreciate and the U.S. dollar/Chinese yuan exchange rate to temporarily fall below CNY 6.86.

Interest rate market

In December as well, the liquidity level in the market remained high, thanks to the effect of the capital

provided by the People's Bank of China (PBOC). However, interest rates appreciated toward the end of the year.

At the beginning of the month, demand for fund procurement was limited among market participants, and thus capital interest rates generally remained flat. However, capital demand started to gradually increase toward the end of the year, and interest rates for specific terms, particularly the one-month interest rate, started to appreciate. The liquidity level in the market remained high. Furthermore, on December 19, the PBOC announced the introduction of a targeted medium-term lending facility (TMLF)—a new method to provide funds. The TMLF will provide loans to small- to medium-sized enterprises and will make it possible to procure funds for a longer term with a lower interest rate than the existing medium-term lending facility (MLF). As there were no detailed conditions announced, the impact on the capital market was limited.

2. Outlook for This Month

Foreign exchange market

The trade frictions between the U.S. and China have persisted, and the outcome of the trade negotiations between the U.S. and China that are to end at the end of February remains unforeseeable. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate is likely to fluctuate following the climate related to the trade negotiations. It should also be mentioned that, in December 2018, various economic indices turned out to be weakening in China, thus if such indices continue to weaken in January 2019, the downward pressure on the Chinese yuan may temporarily strengthen further due to concerns over an economic downturn in China.

However, Federal Reserve Board (FRB) officials, including FRB Chair Jerome Powell, are currently weakening their stance regarding interest rate hikes, and it is likely that the situation of interest rate hike increases in the U.S. will gradually approach an end. Furthermore, to be added in are the effects of various fiscal and monetary measures, along with strengthened regulations in China. Thus, from a long-term perspective, the downward pressure on the Chinese yuan is expected to gradually weaken, and the Chinese yuan is likely to start slowly appreciating toward later in the year.

Interest rate market

There has been no modification to the moderate policy of the Chinese monetary authorities, and the liquidity level in the market and the interest rate level are forecast to remain stable. Therefore, in the medium- to long-term perspective, interest rates are expected to remain low.

On the other hand, there will be demand for fund procurement for preparations in the runup to the Chinese New Year. In the short-term perspective, market participants should therefore remain attentive of the sudden appearance of upward pressure on interest rates, along with the attitude of the Chinese monetary authorities regarding fund supply.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – January 2019

Expected Ranges	Against the US\$:	SG\$ 1.3500–1.3800
	Against the yen:	JPY 77.50–82.00

1. Review of the Previous Month

In December, the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range between the mid-SGD 1.36 level and the mid-SGD 1.37 level.

In the second week of the month, the Singapore dollar remained generally strong on December 3 and 4. As a result of dialogue at the G20 Summit Meeting, the U.S. and China reached an agreement such that they would negotiate on structural reforms within 90 days. The U.S. decided to postpone the introduction of the additional customs duty scheduled for January 2019, as a result of which the Chinese yuan appreciated against the U.S. dollar to its highest rate in one month. Following this trend, the U.S. dollar/Singapore dollar exchange rate temporarily reached the lower-SGD 1.36 level. On December 5, the market was closed in the U.S., and there were few actions in the market. On December 6, an executive of a major Chinese telecommunication company was arrested in Canada, which impacted the market, and the Singapore dollar remained weak.

In the third week of the month, the Singapore dollar weakened on December 10 because of the weakening of the November trade statistics of China that had been released at the end of the previous week. On December 12, the October retail sales of Singapore turned out to be weaker than expected in the market. However, the reaction in the market was limited. On the other hand, the CNY central parity rate was set toward a stronger Chinese yuan, which encouraged market participants to buy back the Chinese yuan. Following this trend, the Singapore dollar rallied as well. On December 13, the media reported that China would weaken its promotion of the “Made in China 2025” strategy. Consequently, market participants expected the trade frictions between the U.S. and China to be mitigated, leading the Singapore dollar to appreciate.

In the fourth week of the month, the figure for non-oil domestic exports (NODX) was released on December 17, and the result turned out to be weaker than estimated in the market. However, the reaction in the market was limited. On the other hand, market participants sold the U.S. dollar, anticipating dovish contents in the forthcoming Federal Open Market Committee (FOMC) meeting. Under such circumstances, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar

exchange rate fell below SGD 1.37 from the mid-SGD 1.37 level. On December 20, the policy interest rate was raised by 25 basis points at the FOMC meeting, while the interest rate outlook for 2019 by the FOMC members (dot plot) was revised downward from three interest rate hikes to two interest rate hikes in 2019. As this had generally been anticipated, there was little impact on the Singapore dollar exchange market.

In the fifth week of the month, the number of market participants was limited due to the Christmas holidays. Under such a condition, U.S. dollar-selling remained dominant due to the closure of governmental organizations in the U.S., along with media reports regarding the possible dismissal of Federal Reserve Board (FRB) Chair Jerome Powell. The Singapore dollar thus gradually appreciated against the U.S. dollar to the lower-SGD 1.37 level from the mid-SGD 1.37 level. In addition, the November industrial production figure of Singapore was released on December 26, and it was stronger than the market estimate. As a result, the U.S. dollar/Singapore dollar exchange rate temporarily appreciated to approach SGD 1.37 level. Toward the end of the week, U.S. dollar-selling increased again, and the Singapore dollar continued appreciating further from the SGD 1.37 level.

2. Outlook for This Month

In January, the U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate within a narrow range. After the Christmas holidays, market participants have been selling the U.S. dollar, and thus the Singapore dollar is appreciating against the U.S. dollar. Even though this trend may continue for a while into the beginning of the year, once the stock market stabilizes, the market sentiment would improve, encouraging market participants to gradually buy back the U.S. dollar, leading the U.S. dollar to strengthen again.

The environment surrounding the FRB has dramatically changed since December. Even though the FRB decided to raise the interest rate in December, the dot plot for showing the outlook for future interest rate hikes was unavoidably revised downward for all periods included in the estimate. Furthermore, U.S. stock prices recorded year-on-year negative growth for the first time in three years, while housing-related indices clearly indicated that the market has peaked out. As the normalization process of the FRB is being revised, the U.S. dollar interest rates and the U.S. dollar, which had previously been high, are weakening as an unavoidable outcome.

Furthermore, as the provisional budget bill has not yet been approved in the U.S., some federal agencies remain closed, leading stock prices in the U.S. to fall significantly. This rapidly fueled pessimism in the market. It seems that U.S. President Donald Trump invited the congressional leaders of both the Republican and Democratic parties to the White House to explain the situation, after which market participants are expecting a compromise on the U.S. provisional budget bill. However, the situation

remains tense.

Market participants should thus remain attentive regarding headlines related to expected compromise on the provisional budget bill in the U.S. Congress, the trade frictions between the U.S. and China, and the Brexit negotiations. The market is likely to be impacted by investor sentiment to take or avert risks.

On the other hand, the preliminary figure for the GDP of Singapore for the October–December quarter was announced on January 2, and the result turned out to be +1.6% year-on-year, whereas the market estimate was +3.7 year-on-year, showing economic slowdown. The service sector, which had been growing so far, recorded a decline, while the manufacturing sector also recorded negative growth from the previous quarter. As concerns are growing over a worldwide economic slowdown, market participants should carefully observe the economic indices of Singapore as well.

Takeshi Hashi, Bangkok Treasury Office

Thai Baht – January 2019

Expected Ranges	Against the US\$:	THB 31.50–32.80
	Against the yen:	JPY 3.25–3.40

1. Review of the Previous Month

In December, the U.S. dollar/Thai baht exchange rate fell at the end of the month.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.85 on December 3. Then, the November Consumer Price Index of Thailand was announced by the Ministry of Commerce, and the result turned out to be +0.94% year-on-year, recording a slight fall from the previous month. However, the reaction in the Thai baht exchange market was limited. On December 4, U.S. interest rates fell, resulting in an inversed yield curve for some terms, fueling a sense of uncertainty over the economic outlook in the U.S. As a consequence, U.S. dollar-selling accelerated, and the U.S. dollar/Thai baht exchange rate fell to approach THB 32.65. On December 5, the market was closed in Thailand, as it was a holiday, and the U.S. dollar/Thai baht exchange rate rose to approach THB 32.75. On December 6, the Chinese yuan depreciation continued due to the growing sense of uncertainty over the trade negotiations between the U.S. and China, and following this trend, the U.S. dollar/Thai baht exchange rate rose to approach THB 32.90. Then, on December 7, the U.S. employment statistics were released, and the figures turned out to be weak, which led the U.S. dollar/Thai baht exchange rate to fall slightly. However, on December 10, market participants bought the U.S. dollar, and the exchange rate reached the monthly high at around THB 32.90.

In the middle of the month, the Thai government, run by the country's military, announced that it would lift its ban on political movements that had been in place for four and half years. However, the impact of this in the Thai baht exchange market was limited. On December 12, expectations grew for progress in the trade negotiations between the U.S. and China, although the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range. On December 13, Shanghai stock prices appreciated significantly, encouraging market participants to buy the Chinese yuan. As a result, the U.S. dollar/Thai baht exchange rate fell to approach THB 32.65. On December 14, Chinese economic indices turned out to be weak, leading the U.S. dollar/Thai baht exchange rate to rally to a level near THB 32.85. On December 17 and 18, market participants maintained a wait-and-see attitude in anticipation for the Federal Open Market Committee (FOMC) meeting and the monetary policy committee (MPC) meeting at the central bank of Thailand, resulting in minor fluctuation in the U.S. dollar/Thai baht exchange rate at around THB 32.80.

On December 19, the MPC decided to raise the interest rate for the first time since August 2011. However, as this had already been expected in the market, the impact on the market was limited. Furthermore, the FOMC decided to raise the interest rate for the fourth time in 2018 at its meeting held on the same day. Thereafter, Federal Reserve Board (FRB) Chair Jerome Powell made a slightly hawkish remark, which encouraged market participants to buy the U.S. dollar, and the U.S. dollar/Thai baht exchange rate rose to approach THB 32.75.

At the end of the month, U.S. dollar-selling increased on December 20, and the U.S. dollar/Thai baht exchange rate fell to approach THB 32.60. On December 24, stock prices fell sharply in the U.S. However, the impact of this on the U.S. dollar/Thai baht exchange market was limited, and the exchange rate continued fluctuating within a narrow range at around THB 32.55. Then, on December 25, there were few market participants, due to that day being Christmas, and the exchange rate continued fluctuating within a narrow range. On December 26 as well, market participants maintained a wait-and-see attitude. On December 27, the People's Bank of China (PBOC) added a sentence to its foreign exchange market report detailing the seeking of stability in the foreign exchange market. This led the Chinese yuan to appreciate, following which the U.S. dollar/Thai baht exchange rate fell to approach THB 32.50. On December 28, along with the same trend as the previous day, the Chinese yuan appreciated even further based on expectation for a tax cut in China. In reaction to this, the U.S. dollar/Thai baht exchange rate fell further below the THB 32.50 mark, which had been regarded as the support line, approaching THB 32.40. However, market participants bought back the U.S. dollar thereafter, and the U.S. dollar/Thai baht exchange rate rallied to approach THB 32.55. December 31 was a holiday in Thailand, and the market was closed, but the downward pressure strengthened abroad and the U.S. dollar/Thai baht exchange rate reached its monthly low at around THB 32.33. Monthly trading closed at this level.

2. Outlook for This Month

In January, the U.S. dollar/Thai baht exchange rate is forecast to fall.

The GDP growth rate in Thailand for 2018 is expected to exceed 4% year-on-year. The expansion of trade and rigorous growth in domestic consumption led to the improvement of fundamentals, and the MPC raised the interest rate in December for the first time since 2011. However, economic indices in December reflected some impact of the trade frictions between the U.S. and China. The trade statistics released on December 28 suggested that the decline in exports was not a temporary one. Furthermore, the Consumer Price Index, released on January 2, turned out to be 0.36% year-on-year, which is significantly lower than the market estimate of 0.94%. Thus, despite the decision to raise the interest rate, negative factors have persisted, slowing down the growth of the Thai economy. However, there is no monetary policy committee meeting scheduled in Thailand for January, and it will be some time before the next monetary policy

committee meeting, scheduled for February 20. Thus, it seems that the monetary policy committee made a good decision to raise the interest rate in December as a pre-emptive action, as there would have been limited means to balance the monetary measures in the U.S. if the U.S. started to gear toward interest rate cuts and monetary easing. The governor of the central bank of Thailand, Veerathai Santiprabhob, does not wish to repeatedly raise the interest rate, maintaining an attitude to make decisions based on economic data. Thus, the majority of market participants also expect the impact of the interest rate hike in December to be limited.

In order to foresee trends in the Thai baht exchange market in January, it would be important to continue observing the economic indices of Thailand. However, given the external environment, it is difficult to expect strong figures. Yet, it should be pointed out that stock prices and long-term interest rates are falling in the U.S. even more significantly than in Thailand. Therefore, it can be said that the U.S. dollar is more likely to weaken in relative terms, and the Thai baht is likely to have an advantage over the U.S. dollar. With regard to the Chinese yuan, which is highly correlated to the Thai baht, the depreciation of the Chinese yuan is slowing down, thanks to the optimistic view that the trade frictions between the U.S. and China would not intensify further. This is also expected to lead the U.S. dollar/Thai baht exchange rate to fall in the times ahead. It should also be mentioned that a general election is provisionally scheduled in Thailand for February 24. While expectations are growing for the return of a democratic government, baht-buying may increase, mainly by foreign market participants. From the point of view of seasonality, the U.S. dollar/Thai baht exchange rate tends to fall in January, based on the trend of the past four years. The fluctuation band of the U.S. dollar/Thai baht exchange rate was narrow between THB 32.20 and THB 33.40 in the second half of 2018. However, the U.S. dollar/Thai baht exchange rate is currently almost falling below the lower end of the above fluctuation band, which suggests the possibility for the exchange rate to fall further if there is a large-scale action in the market. Based on the above factors, the U.S. dollar/Thai baht exchange rate is generally forecast to fall in January.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – January 2019

Expected Ranges	Against the US\$:	MYR 4.1000–4.1500
	Against the yen:	JPY 25.30–26.70
	Against 100 yen:	MYR 3.7450–3.9500

1. Review of the Previous Month

In December, the Malaysian ringgit appreciated toward the end of the year and the U.S. dollar/Malaysian ringgit exchange rate fluctuated within the range between MYR 4.13 and MYR 4.19.

In the last week of November, the Malaysian ringgit reached its lowest rate against the U.S. dollar since the beginning of the year, at MYR 4.2025. At the beginning of December, a G20 Summit Meeting was held in Argentina, and the media reported on the temporary ceasefire in the trade frictions between the U.S. and China, mitigating the tension surrounding the issue, along with an agreement on a reduction of oil production made between Saudi Arabia and Russia at the OPEC+ meeting. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.1480 on December 4 for the first time since October 8. However, on the same day, the U.S. government bond yield curve was inversed, fueling concerns over a slowdown in the U.S. economy. On December 5, the trade statistics were released, and thanks to the recovery in exports to China, the October exports recorded year-on-year growth of 17.7%, while also recording the all-time high. However, as the U.S. stock market weakened, the Malaysian ringgit did not continue appreciating rapidly and the U.S. dollar/Malaysian ringgit exchange rate returned to the MYR 4.16 level.

Toward the middle of the month, market participants grew pessimistic regarding the difficulty being seen in the attempts by the U.S. and China to, amid trade frictions, reach a trade agreement during the 30 days of their mutual ceasefire, and such pessimism weakened the U.S. stock market once again. Even though the OPEC member countries and Russia reached an agreement to reduce their oil production by 1.2 million barrels per day, this did not keep the crude oil price from falling. In the meantime, British Prime Minister Theresa May decided to postpone Parliamentary voting on the Brexit, which further strengthened the risk-averse sentiment in the market. As a consequence, the Malaysian ringgit depreciated, leading the U.S. dollar/Malaysian ringgit exchange rate to reach the MYR 4.18 level on December 11. On December 13, the European Central Bank (ECB) held a monetary policy meeting and decided to end quantitative easing by the end of the year, as had been anticipated in the market, confirming the outlook that the policy interest rate would be maintained at the existing level until summer 2019. In reaction to this, the euro depreciated

and the Malaysian ringgit reached its low at MYR 4.1900 against the U.S. dollar on December 17.

However, China started importing soybeans from the U.S. again, and the media reported on the three-month grace period for customs duties on imported cars, stopping the depreciation of the Malaysian ringgit. Due to the depreciation of U.S. stock prices, market participants expected the Federal Reserve Board (FRB) to revise its plan for interest rates in 2019, and this led the U.S. dollar to depreciate. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate also reached the MYR 4.17 level. On December 19, the FRB decided to raise the interest rate by 25 basis points for the fourth time this year. Furthermore, the FRB dot plot indicated two interest rate hikes in 2019, which was not as dovish as anticipated, accelerating the depreciation of stock prices. In reaction to this, the Malaysian ringgit depreciated at first, leading the U.S. dollar/Malaysian ringgit to approach MYR 4.19, after which the exchange rate returned to approach MYR 4.18 to the U.S. dollar before Christmas.

There was limited reaction to the depreciation of global stock prices on December 24. However, the People's Bank of China (PBOC) announced a statement to emphasize the stabilization of the Chinese yuan on December 27. As U.S. President Donald Trump made a remark to express confidence regarding the trade agreement between the U.S. and China, the Malaysian ringgit rallied on December 31 and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.1330—the monthly high and the level at which yearly trading closed.

2. Outlook for This Month

In January, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the MYR 4.11–4.15 level.

After the Federal Open Market Committee (FOMC) meeting in December, risk assets such as stocks and crude oil continue depreciating. In the statement of the FOMC, the phrase “focus on the global economy and monetary situation” was added, expressing the attention to the risks of capital outflow from emerging countries. However, in the press interview of the FRB Chair, the FRB's plan to reduce the balance sheet by USD 50 billion every month was confirmed, which led market participants to anticipate the tightening of liquidity in U.S. dollars. The media reported a series of cancellations and closures of funds, and the capital market in the U.S. collapsed on the day of Christmas Eve.

The growing dependency of the Malaysian government budget on income from crude oil attracted attention at the time of the release of the budget bill at the beginning of November. Since then, the price of North Sea Brent crude fell rapidly from USD 75 to USD 50. Just before the Christmas holidays, Finance Minister Lim Guan Eng referred to the possibility of recalculating the governmental budget bill if the

crude oil price falls below USD 50, which unexpectedly became a very possible scenario.

As was mentioned in the review last month, it is clear that the central bank has been highly cautious, referring to the “risk of capital outflow from emerging markets along with the normalization of the monetary policy in major countries” in the first paragraph of the statement after the recent monetary policy meeting. On December 5, the October trade statistics were released, revealing an unexpectedly large trade surplus, thanks to recovery in transactions with China. However, in terms of investors’ capital flow, an inflow of foreign investors’ capital worth MYR 8 billion was observed in October, whereas this turned into an outflow of MYR 5 billion again in November. The situation of overall capital flow is thus still not very optimistic.

As the global decline of risk tolerance is likely to become a negative factor for Malaysia as well, it is likely for the Malaysian monetary authorities to continue avoiding the extreme depreciation of the Malaysian ringgit. On the other hand, it is expected to take some time for foreign capital to start really returning to assets in the Malaysian ringgit. Furthermore, from the point of view of the trade balance, the current exchange rate seems relatively advantageous toward maintaining the current level of trade surplus. Therefore, the Malaysian ringgit is forecast to remain at the current exchange level in January.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – January 2019

Expected Ranges	Against the US\$:	IDR 14,100–14,900
	Against 100 rupiah:	JPY 0.70–0.78
	Against the yen:	IDR 128.00–142.00

1. Review of the Previous Month

The U.S. dollar/Indonesian rupiah exchange rate rose in December, fluctuating within the range between IDR 14,215 and IDR 14,650.

In the middle of the previous month, the central bank of Indonesia unexpectedly decided to raise the interest rate, while market participants bought the Indonesian rupiah in reaction to the remark by Federal Reserve Board (FRB) Chair Jerome Powell at the end of the previous month (to emphasize that the current policy interest rate of the U.S. has been just below the broad range of FRB officials' estimates of a level that would be neutral for the economy). As a result, the Indonesian rupiah continued appreciating, after depreciating to IDR 14,300 at the end of November, and the U.S. dollar/Indonesian rupiah exchange market opened trading in December at around IDR 14,250.

In the dialogue between the U.S. and China held on December 1 during the G20 Summit Meeting, the U.S. decided to postpone by up to 90 days the introduction of an additional customs duty against China that had originally been scheduled for January 2019. In response to this, overall emerging currencies started to appreciate on December 3 after the weekend. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate also fell to approach IDR 14,215. However, on the same day, President of Indonesia Joko Widodo made a remark to accept the appreciation of the U.S. dollar, while a pessimistic view regarding the trade negotiations between the U.S. and China was spreading in the market. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate started to rise and temporarily reached IDR 14,650 on December 11.

In the meantime, the November Consumer Price Index of Indonesia was released on December 3, and the result turned out to be +3.23% year-on-year, while the November foreign currency reserves of Indonesia announced on December 7 turned out to be USD 117.2 billion, recording positive growth for the second consecutive month.

Thereafter, the November trade balance of Indonesia was released on December 17 and the result turned out to be a deficit of USD 2.05 billion, which led the U.S. dollar/Indonesian rupiah exchange rate to appreciate for a while. However, due to the depreciation of the crude oil price as well as the cautious feeling in the market against market interventions by the Indonesian monetary authorities, the exchange rate fell to approach IDR 14,300 against the U.S. dollar on December 19.

On December 20, the central bank of Indonesia held a monetary policy meeting, and, as had been anticipated in the market, the interest rate was maintained at the existing level, and this had little impact in the exchange market.

Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate rose to approach IDR14,650 as a result of the demand to buy U.S. dollars as related to a hedge restriction at the end of the year. However, on December 31 just before market closing, there was an intervention to buy the Indonesian rupiah, and this seemed to be an end-of-year action taken by the central bank of Indonesia. Thus, the U.S. dollar/Indonesian rupiah exchange market closed trading at around IDR 14,390.

2. Outlook for This Month

In January, the Indonesian rupiah is forecast to strengthen as a result of capital inflow from overseas investors seen at the beginning of the year.

At the end of the year, telephone dialogue was held between U.S. President Donald Trump and Chinese President Xi Jinping in which President Trump made a forward-looking remark regarding a solution to the trade frictions between the two countries. Furthermore, the Chinese media reported on amicable relations between the heads of these two countries on the occasion of the 40th anniversary of diplomatic relations between the U.S. and China. While these events improved market sentiment at the beginning of the year, in the early morning of January 3, Apple Inc. in the U.S. revised its corporate performance downward due to a slowdown in the Chinese economy, which led the Japanese yen, as a safe asset, to appreciate significantly. Thus, the U.S. dollar/Indonesian rupiah exchange market saw both risk-taking and risk-averse sentiment at the beginning of the month.

On the other hand, in terms of domestic factors in Indonesia, foreign investor holdings of the Indonesian rupiah reached the IDR 900 trillion mark on November 30, after which there has been no significant movement, and the figure remains at a stalemate.

This year, the U.S. dollar/Indonesian rupiah exchange rate is forecast to continue rising, due to the pressure to sell the Indonesian rupiah based on the persistent current balance deficit of Indonesia. However, every

year, foreign investors tend to buy the Indonesian rupiah at the beginning of the year. Meanwhile, at the Federal Open Market Committee (FOMC) meeting held in the U.S. in December, the policy interest rate outlook (dot plot) by FRB members was revised downward from three interest rate hikes to two, and this may temporarily support the Indonesian rupiah in the times ahead.

Previously, the U.S. dollar/Indonesian rupiah exchange rate fell and stabilized after rising sharply in 2015, thanks to strong support factors such as the tax exemption program introduced in 2016 (a temporary program in which taxpayers that had not correctly claimed their income may receive a tax cut by making a voluntary claim) as well as the decision by S&P, a large ratings agency, which gave an investment-grade rating to Indonesia in 2017. However, there were no such factors this year, making it unlikely for the U.S. dollar/Indonesian rupiah exchange rate to fall significantly.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – January 2019

Expected Ranges	Against the US\$:	PHP 52.00–53.80
	Against the yen:	JPY 2.06–2.085

1. Review of the Previous Month

In December, the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.35.

Risk-averse sentiment was mitigated, thanks to the dovish remark made by Federal Reserve Board (FRB) Chair Jerome Powell as well as due to the fact that the introduction of an additional customs duty by the U.S., directed at China, was postponed as a result of dialogue between the two countries at the G20 Summit Meeting. Market participants bought back the Philippine peso. However, the U.S. dollar/Philippine peso exchange rate did not fall further than the PHP 52.275 observed at the beginning of the month on December 3, turning out to be the monthly low.

Thereafter, the trend in the market was reversed. U.S. stock prices fell sharply, and the 10-year U.S. government bond yield fell below the 3% mark, while interest rate differentials were inversed between long-term rates and short-term rates in the U.S. bond market. As a result, risk-averse sentiment strengthened in the market.

Furthermore, on December 5, the November Consumer Price Index of the Philippines was announced, and the result turned out to be a rise of 6.0% year-on-year. Meanwhile, the growth rate fell from the 6.7% observed in the previous month, recording negative growth from the month previous for the first time in 1.5 years. In recent trends, the Philippine peso appreciated when concerns over inflation were mitigated. However, this time, the Philippine peso weakened as market participants speculated a pause in interest rate hikes. As a consequence, the U.S. dollar/Philippine peso exchange rate approached the PHP 53 level.

On December 7, the November employment statistics of the U.S. were released, but the reaction was limited in the U.S. dollar/Philippine peso exchange market. Then, on December 13, the central bank of the Philippines held a monetary policy committee meeting, and the policy interest rate was maintained at the existing level—as had been anticipated in the market. As a result, market participants sold the Philippine peso, along with U.S. stocks, due to the sense of uncertainty over the economic outlook in the U.S. Thus, risk-averse sentiment in the market strengthened.

On December 17, the U.S. dollar/Philippine peso exchange rate reached the PHP 53 level. After the Federal Open Market Committee (FOMC) meeting held on December 19, the risk-averse sentiment remained in the market, and the U.S. dollar reached its monthly high against the Philippine peso on December 20, temporarily reaching PHP 53.25 for the first time in five weeks.

Thereafter, market participants adjusted positions before the Christmas holidays and before the end of 2018/beginning of 2019, while the depreciation of U.S. stock prices calmed. As a result, market sentiment was improved and market participants bought back the Philippine peso, leading the U.S. dollar/Philippine peso exchange rate to reach PHP 52.58 before yearly trading closed.

2. Outlook for This Month

In December, the central bank decided at its monetary policy committee meeting to stop interest rate hikes in order to maintain a wait-and-see attitude, while the inflation rate remains stable even though the level is still high.

It should also be mentioned that the inflation outlook was revised downward from 3.5% to 3.18% for 2019 and from 3.3% to 3.04% for 2020.

It seems that inflation in the Philippines has stabilized for now, thanks to the depreciation of the crude oil price. The pressure to sell the Philippine peso based on its depreciation is also weakening at the moment.

Looking back, since the beginning of 2018, the Philippine peso weakened against the U.S. dollar, and even though market participants bought back some Philippine pesos at the end of 2018, the Philippine peso depreciated against the U.S. dollar by PHP 2.6 from the beginning of 2018. Looking further back, the Philippine peso continued weakening by PHP 2.3 in 2015, by PHP 2.7 in 2016, and by PHP 0.2 in 2017.

In 2019, it is important to observe what will happen regarding the twin deficits in the Philippine economy. Under the current government, imports have been increasing, which makes it likely for the trade deficit to expand, strengthening pressure to sell the Philippine peso.

With regard to the trade frictions between the U.S. and China, there have been positive media reports, and it seems that market participants are no longer keen on following this issue as they used to be. Needless to say, what remains a source of concern is the stance of the FRB regarding its monetary policy based on the sense of uncertainty regarding the U.S. economy. While many market participants expect interest rate hikes to end soon, it is important to foresee whether this will encourage market participants to sell or buy the Philippine peso.

If the interest rates hit a ceiling, it would encourage market participants to sell the U.S. dollar and buy Asian currencies. However, if the interest rate hikes are to be ended due to a downturn of the U.S. economy, leading to the significant depreciation of U.S. stock prices, this may lead to the depreciation of global stock prices and could strengthen risk-averse sentiment in the market.

As there are both positive and negative factors at play, the U.S. dollar/Philippine peso exchange rate is unlikely to move in any certain direction, with both simple U.S. dollar-selling and U.S. dollar-buying occurring based on risk-averse sentiment. As there is no reason for market participants to continue actively buying the Philippine peso, at the moment it is likely for the Philippine peso to gradually depreciate this year, albeit not as significantly as in 2018.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – January 2019

Expected Ranges	Against the US\$:	INR 67.50–73.00
	Against the yen:	JPY 1.45–1.62

1. Review of the Previous Month

In December, the U.S. dollar/Indian rupee exchange market closed at the same level as the market opening.

The U.S. dollar/Indian rupee exchange market opened trading in December at INR 69.87. At the beginning of the month, there was little movement in the exchange market, as there were OPEC and Reserve Bank of India (RBI) meetings scheduled. However, at the end of November, as it seemed that the crude oil price had stopped falling, the U.S. dollar/Indian rupee exchange rate started to rise, recovering to the INR 71 level. Thereafter, the current ruling party lost the State Assembly election, and Governor of the RBI Urjit Patel unexpectedly announced his resignation. In response to these events, the U.S. dollar/Indian rupee exchange rate reached its monthly high at INR 72.44 on December 11. However, in the second half of the month, concerns grew over the future crude oil demand due to the weakening economic indices of various countries. In addition, the Energy Information Administration (EIA) confirmed the increased production of crude oil in its monthly report, which triggered the rapid depreciation of the crude oil price. Following this trend, the U.S. dollar/Indian rupee exchange rate also started to fall. Under such circumstances, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the outlook for the number of interest rate hikes in 2019 was revised downward from three to two, while the estimated growth rate was also revised downward from 2.5% to 2.3%. In reaction to this, the U.S. dollar depreciated. On December 20, the U.S. dollar depreciated to its monthly low against the Indian rupee at the INR 69.66 level.

Thereafter, in the U.S., Congress faced difficulties regarding the plan to construct a wall at the Mexican border, resulting in the closure of some governmental agencies, which then resulted in the selling of U.S. stocks amid an extremely low number of market participants. Stock prices fell to their lowest level in 13 months, while U.S. government bond yields reached their lowest level in 11 months. Under such conditions, in the foreign exchange market, many market participants sold the U.S. dollar, keeping the U.S. dollar/Indian rupee exchange rate low, at around INR 70.

In December, there was an important negative factor: the resignation of the governor of the RBI—the central bank of India. As a result, the Indian rupee depreciated toward the middle of the month. However,

the depreciation of the Indian rupee was cancelled off thereafter via the depreciation of the U.S. dollar. Thus, in the end, the U.S. dollar/Indian rupee exchange rate in December once rose and returned to roughly the same level as at market opening for that month—at INR 69.76. Yearly trading for 2018 closed at this level.

The Indian rupee/Japanese yen exchange rate fell in December.

In December, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.622 level. The Indian rupee/Japanese yen exchange rate reached its monthly high at JPY 1.635 on the first business day of the month. While the U.S. dollar/Japanese yen exchange rate continued fluctuating at around JPY 113 without moving in any certain direction, the U.S. dollar/Indian rupee exchange rate started rising, as was discussed above. On December 11, the U.S. dollar/Indian rupee exchange rate reached INR 72.44 at which moment the Indian rupee was sold, and the Indian rupee/Japanese yen exchange rate also reached its monthly low at JPY 1.562. Thereafter, the crude oil price fell significantly, leading the U.S. dollar/Indian rupee exchange rate to fall (i.e., the appreciation of the Indian rupee), and as a result, the Indian rupee/Japanese yen exchange rate temporarily recovered to the JPY 1.6 level. However, after the FOMC meeting in the U.S., the U.S. dollar/Japanese yen exchange rate also depreciated to a certain degree (i.e., the appreciation of the Japanese yen). As both the Indian rupee and the Japanese yen appreciated against the U.S. dollar, the Indian rupee/Japanese yen exchange rate did not move in any certain direction, fluctuating at around the JPY 1.58 level until the end of the month. In the end, yearly trading closed at JPY 1.577. The Indian rupee thus gradually depreciated against the Japanese yen in December.

2. Outlook for This Month

In January, the U.S. dollar/Indian rupee exchange rate is forecast not to move in any certain direction

As was discussed above, the FOMC decided in December to revise downward the number of anticipated interest rate hikes and the outlook for the growth rate. U.S. stock prices fell by approximately 15% from the high range observed in September, and yearly trading closed at that level. Similarly, the 10-year U.S. bond yield fell by 45 basis points from the highest rate observed in September. Generally speaking, this makes it difficult for market participants to buy the U.S. dollar. Furthermore, it is important to point out that the currencies of emerging countries were sold in 2018 based on the anticipation of interest rate hikes by the Federal Reserve Board (FRB). Now that such a precondition is no longer certain, a trend opposite to 2018 is possible in the times ahead.

In addition, the crude oil price fell by nearly 45% from its high, and this attracted substantial attention in the market in 2018. As there have been a number of negative factors at play, such as the trade frictions

between the U.S. and China, issues related to Russia and OPEC, and increased production of shale oil, it is becoming difficult to consider such as support factors for the depreciation of the Indian rupee. However, now is not the time to be optimistic about the Indian rupee simply because market participants are no longer buying the U.S. dollar. There are two major problems on the Indian side as well. One is the political situation. This year, a general election is scheduled in India. Previously, the defeat of the BJP (the ruling party) was an extremely unlikely risk scenario. However, since the failure of coalition negotiations in Karnataka State in May last year, the situation has changed, and last month, the BJP lost in three states that are considered to be major states. BJP saw overwhelming victory in the election in 2014, taking control of the government for the first time in 10 years. However, the party is in the current predicament because of its rapid introduction of political measures to put weight on voters, in tandem with uncertainty about the effects of its economic policy.

The second problem is the resignation of the governor of the RBI. It is widely known that there has been friction between the government and the central bank. The RBI carried out two interest rate hikes in 2018, after which the stance for the monetary policy was shifted toward tightening in October, while the policy interest rate was maintained at the existing level. On the other hand, the government was concerned about non-bank institutions and asked the central bank to supply liquidity, which resulted in opposition between the central bank and the government. In the middle of December, the RBI released the minutes of its monetary policy meeting, and according to the contents, the majority of the RBI members referred to the risk of price inflation. Thus, it seems extreme to expect an interest rate cut. However, it would be reasonable to say that an interest rate hike has become a difficult option.

Market participants are also concerned with the anticipated downturn of the Chinese economy. If such concerns grow further, market participants would sell the overall Asian currencies to avert risk. Following this trend, it would be difficult for the Indian rupee to appreciate against the U.S. dollar.

Even though it is now difficult for market participants to buy the U.S. dollar, there are also a number of negative factors at play against the Indian rupee. The U.S. dollar/Indian rupee exchange rate is therefore forecast not to move in any certain direction.

This report was prepared based on economic data as of January 7, 2019.

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