MIZUHO

Mizuho Bank

One MIZUHO

Mizuho Dealer's Eye

February 2019

U.S. Dollar 1
Euro 5
British Pound 9
Australian Dollar 11
Canadian Dollar 13
Korean Won 15
New Taiwan Dollar 17
Hong Kong Dollar 19
Chinese Yuan 22
Singapore Dollar 25
Thai Baht 28
Malaysian Ringgit 31
Indonesian Rupiah 34
Philippine Peso 36
Indian Rupee 39

Mizuho Bank, Ltd.

Forex Department

Yusuke Tange, Forex Sales, Forex Department

U.S. Dollar – February 2019

Expected Ranges **Against the yen: JPY107.50–111.50**

1. Review of the Previous Month

After opening the month trading at the upper-109 yen mark on January 2, the dollar/yen pair then moved to the upper-108 yen mark with a heavy topside as Asian stocks moved bearishly after China's Manufacturing PMI for December dropped below 50 (the line dividing expansion from contraction). The pair edged lower on January 3 as concerns about an economic slowdown grew after a major US telecommunications company downgraded its sales results. Amid declining liquidity, the pair plunged to a monthly low of 104.10 yen while activating stop losses. After a round of yen-buying, though, the pair rallied to the upper-107 yen level. Japan came back from the New Year holidays on January 4. During this time, the pair climbed to the mid-108 yen mark as the markets reacted warmly when: the US employment data for December beat expectations; and FRB chair Jerome Powell adopted a dovish stance regarding policy management. On January 7, US commerce secretary Wilbur Ross made some positive noises about US/China trade talks. This saw the pair moving firmly to climb to 109.09 yen toward January 8. On January 9, an FRB official commented that interest rates were approaching the neutral rate, with the FRB able to be patient. These dovish remarks led to dollar selling, with the pair sliding back to 107.77 yen toward January 10. It rallied to the mid-108 yen level on January 11 and it fluctuated gently around this level toward January 14. The dollar was bought at times on January 15, a date when payments are often due. It then rose to the 109 yen range on January 16 after UK prime minister Theresa May won a no-confidence vote. News emerged on January 17 that the US was considering easing some tariffs on Chinese goods in order to calm the markets, while January 18 also saw reports that China was aiming to reduce its trade surplus against the US to zero by 2024. As US stocks rose, the pair climbed to 109.89 yen. The IMF then downgraded its outlook for the global economy. With the US December Existing Home Sales indicator also dipping below forecasts, the pair tumbled to 109.14 yen. The Bank of Japan (BOJ) kept monetary policy fixed when its Monetary Policy Committee (MPC) met on January 23. This was in line with expectations, though, so the impact on the currency pair was muted. US interest rates then rose on the warm reaction to news that the US Senate would adopt a draft bill aimed at ending the US government shutdown, with the pair then hitting a monthly high of 110.00 yen. It soon dropped back to the mid-109 yen level, but with President Trump signing a temporary budget deal on January 25, the pair bounced back to 109.95 yen on forecasts that the government shutdown would be ended. US interest rates then fell on January 28 on reports that the

FRB was looking into revising plans to shrink its balance sheet, with the pair subsequently dropping to 109.17 yen. As expected, the FOMC kept policy rates fixed when it met on January 30. In the accompanying statement, though, the FRB said it was preparing to adjust the details of its balance sheet normalization program. With FRB chair Jerome Powell also adopting a dovish stance during his press conference, the pair crashed to the 108.81 level. The pair moved around 109 yen on January 31 to close the month trading at 108.86 yen.

2. Outlook for This Month

The dollar/yen pair is expected to move firmly this month. A number of risk factors are looming late February, though, so the pair is unlikely to rise sharply. The pair crashed on January 3, but the impact on the markets seemed negligible. A glance at the pair's movements from January 4 onwards reveals no particular moves to push the pair's downside back to its level at the time of the crash. In fact, the pair's downside has grown firmer. Most observers believe the markets witnessed an algorithm-led crash amid thin liquidity at 7 a.m. Tokyo trading time. As such, the crash will probably not be a major factor to consider when gauging how things will develop from here on. The Republicans and Democrats reached an agreement to end the government shutdown when President Trump signed a temporary budget lasting until February 15. There were concerns that Mr. Trump's chances of re-election in 2020 would be harmed if the shutdown dragged on. Whitehouse estimates also warned that 0.13% would be shaved off quarterly GDP growth every week that the shutdown continued. As such, the end of the shutdown is likely to prove a positive factor for the markets. Though there is a danger another shutdown might occur after this temporary budget comes to an end on February 15, the dollar/yen pair will probably move firmly for now on a sense of relief. In a dovish statement released on January 30, the FOMC said it was preparing to adjust the details of its balance sheet normalization program, with the FOMC also removing wording about "further gradual increases in the target range for the federal funds rate" and how "risks to the economic outlook are roughly balanced." With FRB chair Jerome Powell also adopting a dovish stance during his press conference, speculation grew about a temporary halt to rate hikes. This saw the dollar moving bearishly across the board. The dollar/yen pair will probably be pushed lower as US interest rates slide on the FOMC's dovish stance. However, US stocks will be boosted if the FRB stops shrinking its balance sheet, so the pair will probably be supported by speculation that the expansionary phase could continue for a prolonged period. As such, it seems unlikely that the results of the FOMC meeting will end up pushing the pair down sharply. However, the pair will probably move heavily around 110 yen as Japanese exporters sell the dollar and buy the yen, so the pair is unlikely to rise sharply in the short term. A number of risk factors are also looming late February. The temporary budget will expire on February 15 and there is a growing risk the US could face another shutdown. Furthermore, though the US has held off from raising tariffs on Chinese imports, this grace period also expires at the end of February. The Spring Festival holiday will be taking place in China early February, so the

dollar/yen pair looks set to continue moving firmly on a dearth of headlines related to US/China trade talks, but with the aforementioned risk factors looming late February, the pair's downside could be tested, 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 (2 bulls: 106.00–112.00, Core: 106.50–112.00)

Name	Range	Comment
Seki	106.00 – 112.00	The FF futures market has yet to price in 2019 rate hikes, so dollar bearishness after the FOMC meeting will probably be capped. If expectations for an economic slowdown in the eurozone and across the world outweigh concerns about bearish US economic indicators, stocks and risk assets could rise. As such, the dollar/yen pair is expected to move firmly this month too.
Fujimaki	107.00 – 112.00	There is a strong sense that the FRB wants to push stocks higher, as does President Trump. This probably applies to China too. As such, a lack of rate hikes will make the dollar a hard currency to buy. However, the interest rate markets have already factored this in. If risk assets rise, this will probably push the dollar/yen pair higher.

Bearish on the dollar (8 bears: 106.00–113.00, Core: 106.00–111.00)

Name	Range	Comment
Tauchi	106.00 – 111.00	Talks are underway to correct imbalances in US/China trade. The markets could move erratically until the end of February, when the talks are due to end, so the dollar/yen pair is expected to move sluggishly. However, President Trump has recently indicated he is more concerned with ensuring the stability of the US economy and equities, so he will probably soften his stance and seek to avoid an all-out confrontation. As such, the pair's room on the downside will probably be capped.
Kato	106.00 – 112.00	There are signs that US real estate prices are peaking out, while plunging inflationary expectations also suggest the normalization process is coming to an end. As such, the dollar/yen pair looks set to steadily grow heavier on the topside.
Mitsuishi	107.00 – 112.00	There are signs the FOMC will stop lifting rate hikes for the time being, so the dollar/yen pair's topside will probably grow heavier as the greenback weakens against other major currencies. There is still a risk the US government could face another shutdown, while the situation remains uncertain when it comes to US/China trade talks and Brexit, for instance. As such, the yen could surge higher, so caution will be needed.
Okamoto	106.50 – 113.00	With the FOMC slamming the brakes on rate hikes and with concerns growing about a global economic slowdown, the markets have slipped into wait-and-see mode. There are a number of risk-off factors, including Brexit, the US budget, and US/China trade frictions. None of these seem close to resolution, so even if the yen slides for a time on dollar buying, this trend will probably be short-lived.
Ueno	106.00 – 111.00	Attention is still unlikely to focus on the dollar/yen pair, so there will probably not be any major movements. However, there are growing concerns about an economic downswing in the US, Europe and China. It seems a downswing will become more apparent, and market participants will probably move to factor this in. Any moves will probably occur when risk rises, with the dollar/yen pair swinging downward.
Tamai	106.00 – 111.00	The FRB has adopted a dovish stance, so a March rate hike seems unlikely. Under these circumstances, the dollar is likely to remain a hard currency to buy. However, the markets have already factored in an FRB monetary policy shift. There are also concerns about an economic slowdown in regions like Europe and China. As such, the dollar/yen pair's room on the downside will probably be capped.
Moriya	106.00 – 110.50	The FOMC meeting in January turned out to be more dovish than expected and there are signs rate hikes could be halted. The FRB's dovish stance could support stock prices, so the dollar/yen pair is unlikely to fall sharply. However, the pair is expected to edge lower as dollar selling outweighs yen selling.
Okuma	106.00 – 111.00	The FRB has hinted it might stop lifting rates, so US long-term interest rates have fallen and the dollar's upward momentum has eased off. Even if US/China trade talks go well, the Chinese economy seems to be clearly slowing, so market participants are unlikely to slip into risk-on mode. As such, the dollar/yen pair's downside will probably drop lower.

Akio Okamoto, Forex Sales, Forex Department

Euro – February 2019

Expected Ranges **Against the US$: US$1.1300–1.1600**
Against the yen: JPY123.00–126.00

1. Review of the Previous Month

The euro/dollar pair climbed to $1.1497 at the start of 2019 trading on January 2 after the euro was bought. This came despite rising concerns after China's Manufacturing PMI dropped below the key 50 mark. However, the pair then dropped back to $1.1325 on some bearish European economic data. The dollar/yen pair and the euro/yen pair fell sharply on January 3 after a major US telecommunications firm downgraded its 4Q sales results. The euro/dollar pair also fell to $1.1310, though it rallied to $1.1411 on the weak results of the US Manufacturing ISM Report on Business. The greenback was bought and the pair dipped to the mid-$1.13 mark on January 4 on some bullish US employment data, though it dropped back to close the week at $1.1397 after FRB chair Jerome Powell said the FRB was prepared to shift its balance sheet policy.

The pair opened the next week trading at the upper-$1.13 level on January 7. With the euro/yen pair also rising sharply, the euro/dollar pair's topside hit $1.1483, though it continued to float around $1.1450 thereafter. A regional FRB governor commented on the possibility of rate cuts on January 9, with the dollar also sold on the dovish contents of the FOMC minutes. As a result, the pair temporarily surged to $1.1560 while activating stop losses. The pair hit $1.1570 on January 10, though it was then sold back to right around $1.15. The US CPI data was released on January 11, with the data falling in line with market expectations. There was some selling on position adjustments, with the currency pair sliding gently to close the week trading at $1.1470.

It continued to trade in a range from the mid-$1.14 mark to the upper-$1.14 level, though it fell to the upper-$1.13 range on January 15 after the euro was sold on some dovish comments by ECB president Mario Draghi. However, the UK House of Commons then voted down prime minister Theresa May's Brexit deal by a record margin. The pound was bought back and the euro/dollar pair also rallied to the lower-$1.14 level. The pair slipped to the upper-$1.13 mark for a time on January 16, though it bounced back to the $1.14 after the euro was bought against the yen. It then moved in a range from the mid-$1.13 level to the lower-$1.14 mark on hopes regarding economic indicators and US/China trade talks. It eventually closed the week trading at the upper-$1.13 level.

The pair opened the week beginning January 21 at the mid-$1.13 mark. The UK government's proposal for an alternative Brexit agreement contained nothing new, so the impact on the markets was negligible. The pair remained deadlocked at the upper-$1.13 mark. The pound then rose on speculation

that a no-deal Brexit was becoming less likely, with the euro/dollar pair also pulled up to $1.1394. However, it then dropped back to the lower-$1.13 range on January 24 on the dovish contents of ECB president Mario Draghi's press conference. The dollar was then bought back on comments by Larry Kudlow, director of the US National Economic Council, with the pair hitting a monthly low of $1.1289. It rallied to the lower-$1.13 mark on January 25 and then recovered to the $1.1400 range amid short covering. President Trump then signed off on a temporary budget, though the reaction was muted and the pair ended the week trading at $1.1405.

It then traded at a standstill at the lower-$1.14 level on January 28 in the run up to some major events. The UK House of Commons approved the alternative Brexit proposal on January 29, though the reaction of the euro was capped. The euro/dollar pair continued to trade in the $1.14 range, though the greenback then fell across the board after the FOMC held off from lifting rates on January 30 while adopting a cautious stance with regards to its balance sheet policy and so on. The pair rallied to the $1.15 range to trade around $1.1500 on January 31.

2. Outlook for This Month

The euro/dollar pair is expected to trade without a sense of direction in February.

When the FOMC met on January 30, it kicked the prospect of further rate hikes into the long grass while adopting a wait-and-see stance with regards to its balance sheet policy and so on. With the January ECB Governing Council meeting also downgrading its risk balance, it seems the global economy is peaking out. European political risk (related to the Italian budget and the German political situation) has receded, but the fundamentals suggest an economic recession is looming. This slowdown could be due to special factors, including declining automobile production in Germany on tougher emissions standards, for example, and a service-industry slump in France as shops and business closed as a result of the 'yellow vest' protests. The impact of these factors looks set to wane from here on.

However, eurozone export growth to Turkey and other emerging economies continues to slide, for example, while exports to China have also plummeted recently. Given the weakness of external demand, it seems the trade sector will continue to act as a drag on the economy. Though there are no signs of a resolution to the trade disputes involving the US and China, for instance, but it does seem likely the US will hold off from hiking tariffs on March 1, so risk sentiments could improve in the short term. Nonetheless, it is growing more likely that ECB will postpone its planned summer rate hike, so there is unlikely to be any factors conducive to aggressive euro buying.

However, US interest rates are being pushed down by speculation that the FRB is drawing closer to ending its normalization process. The spat about the US border wall has also raised concerns about a US government shutdown and the budget ceiling. As such, there are few factors conducive to dollar buying either. Under these circumstances, it seems likely the euro/dollar pair will move flatly around the $1.14 range. The pair will probably be swayed by political risk related to Brexit, US/China trade talks and the

US budget. If these events pass smoothly (or if they are kicked into the long grass), the euro could be bought for a time on a sense of relief, though this trend would probably be short-lived.

Dealers' Market Forecast

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

Bullish on the euro (1 bull: 1.1300–1.1650, Core: 1.1300–1.1650

Dealer	Range	Comment
Fujimaki	1.1300 – 1.1650	The euro/dollar pair looks set to trade in a range overall, though the euro will probably grow firmer while pricing in pessimistic factors. There is likely to be some euro short covering when the dollar is sold, so the pair could undergo an unexpected rise.

Bearish on the euro (9 bears: 1.1200–1.1600, Core: 1.1200–1.1600)

Dealer	Range	Comment
Tauchi	1.1200 – 1.1600	There are concerns about deteriorating eurozone economic sentiments and an economic downswing. There are also growing fears about slowing inflation. Under these circumstances, the euro will be a hard currency to buy, so the euro/dollar pair looks set to move sluggishly. French president Emmanuel Macron could face a vote of no confidence, while the Social Democratic Party could pull out of Germany's coalition government. These lingering political risks are a further reason why the pair's topside looks set to grow heavier.
Kato	1.1200 – 1.1600	It is hard to see the British giving up on Brexit. The repercussions of this could eventually have a negative impact on the eurozone to a certain extent. Political risk also continues to smolder away in the eurozone, with the euro/dollar pair set to trade with a heavy topside on restrained real-demand buying of the euro.
Seki	1.1250 – 1.1600	The markets have factored in a dovish shift by the FRB, so selling factors are apparent given the eurozone's clear economic slowdown. The UK and EU are likely to remain at loggerheads as they seek to avoid a no-deal Brexit, so the euro/dollar pair is unlikely to rise this month.
Mitsuishi	1.1250 – 1.1600	The eurozone economy is slowing and the eurozone continues to face political risk (Brexit, etc.), so the euro/dollar pair looks set to trade with a heavy topside. However, there are also growing expectations that the FRB could put rate hikes on the back burner, so with the dollar also facing several negative factors, the pair's room on the downside will probably be capped.
Okamoto	1.1300 – 1.1600	The ECB and FRB have both switched into wait-and-see mode as the global economy slows. Any moves will probably occur on the political front, but Brexit and the US/China trade dispute will not be solved overnight and there is unlikely to be any game-changing events. With rate hikes also being kicked into the long grass, the euro faces a dearth of buying factors, so the euro/dollar pair will probably weaken slightly.
Ueno	1.1200 – 1.1600	There are growing concerns about an economic slowing in the US, Europe and China, for example, so the euro is unlikely to make any significant movements against the other major currencies. However, the eurozone also faces its own problems (such as internal political uncertainty and Brexit), so it hard to imagine the euro moving comparatively bullishly. Market participants should remain on guard against euro downside risk.
Tamai	1.1200 – 1.1600	With the Brexit deadline looming, the EU and UK are likely to face stormy negotiations over the Brexit agreement, with the euro probably weighed down as a result. Europe's economic indicators have also deteriorated noticeably, while ECB president Mario Draghi has voiced concerns about an economic downswing. As such, the ECB is unlikely to lift rates this year, with the euro set to trade with a heavy topside.
Moriya	1.1200 – 1.1600	With eurozone economic indicators performing weakly, expectations for an ECB rate hike have dipped sharply. It remains hard to gauge how the Brexit issue will develop from here on. As such, the euro/dollar pair is expected to trade with a heavy topside.
Okuma	1.1250 – 1.1600	With the European economy noticeably slowing, the ECB has clearly shifted to a dovish stance and it is now thinking about easing again not so long after bringing QE to a close. With monetary normalization being put on the back burner, the eurozone also faces several uncertain factors, including the recommencement of Brexit negotiations. As such, the euro/dollar pair looks set to move bearishly this month.

Taihei Yamamoto, Europe Treasury Department

British Pound – February 2019

Expected Ranges	Against the US$:	US$1.2100–1.3300
	Against the yen:	JPY130.00–146.00

1. Review of the Previous Month

After the UK prime minister's Brexit proposal was voted down in January, uncertainty fell and hopes rose that Brexit might even be avoided, so the pound/dollar pair moved firmly throughout the month.

After opening the month trading at $1.2752, the pair temporarily plunged to $1.2409 after a flash crash occurred over the first three days of the year, though the pair soon bounced back. With Brexit looming and political uncertainty bubbling away, UK economic sentiments deteriorated. The UK December Construction PMI fell for the first time in three months to hit 52.8, down on expectations for 52.9 (November: 53.4). Commercial construction also recorded its slowest growth in seven months, so the impact of Brexit was noticeable. With UK consumption sliding too, the UK service sector posted its lowest 4Q growth in two years, while the y-o-y growth rate of consumer credit dipped to 7.1% in November, its lowest level since March 2015. Brexit also cast shadows over direct investment, with a major Japanese manufacturer deciding to freeze plans to build a nuclear power station. Surprisingly, though many indicators and headlines hinted at a slowing economy, the pound moved firmly.

The most eye-catching event in January was the UK parliamentary vote on prime minister Theresa May's Brexit deal. This took place on January 15, with the deal rejected by 432 votes to 202, a record defeat for the government. However, this did not lead to swelling risk aversion, so it seems the markets reacted warmly to this on the grounds that 'no deal is better than a bad deal.' On January 16, the opposition Labour Party submitted a no-confidence motion, but this was defeated, as expected, so it did not cause any waves. The May administration then announced it would hold a parliamentary vote on an alternative plan on January 29 (the so-called 'Plan B'). Given the scale of the original plan's defeat, though, it was hard to imagine the new proposal getting passed with just some minor tweaks, so the announcement was met with little reaction. However, on January 23 the Labour Party announced it might support a revised Plan B. On January 24, a major UK tabloid reported that the Democratic Unionist Party (DUP) would also support the deal if a time limit was placed on the Northern Irish backstop. As hopes grew that a no-deal Brexit would be avoided, the pound/dollar pair moved firmly to hit $1.3218 for the first time since October 2018. The leader of the Labour Party also hinted he could swing his support behind a second referendum. This seemed to pave the way for a cancellation of Brexit if Plan B was also rejected and the decision was put back to the British people. As a result, it became harder to sell the pound.

2. Outlook for This Month

With only eight weeks left until the Brexit deadline and in the face of January 29 vote on the Brexit Plan B, Queen Elizabeth II sent a message to warring politicians, urging them to seek common ground. As this reveals, the political situation is still extremely tumultuous and there are still no signs the deadline can be broken. With reports emerging that the DUP has unofficially agreed to support Mrs. May's withdrawal deal, the next vote looks set to be a close thing. Mrs. May only commands a small majority in parliament, though, so if some Tory MPs rebel, the deal will be voted down. As such, this writer remains pessimistic about the future. Furthermore, attention is focused on the fact that if proposed revisions by ruling and opposition party MPs are approved, the current Brexit deadline (March 29) will be extended. The amendments already receive wide-ranging support from MPs of all parties, so if the speaker of the House of Commons selects them for a vote, they will probably be approved. EU officials have indicated they are prepared to extend the Brexit deadline and they are debating how this could happen. The deadline could be extended from anything up to a few weeks to a year, but the European Parliament will need to hold elections if the UK has not left the EU by July 2, so an extension of around three months seems likely. Most market participants believe an extension is unavoidable, so the pound will continue to be bought back. The pound/yen pair has achieved the 100-day line and attention is now focused on the 200-day line at the lower-145 mark. However, this writer believes the risk of a no-deal Brexit is higher than the markets realize, so it would be advisable to sell the pound when it hits highs.

In the UK, moves are underway via radio and social media to prepare the public for a disorderly Brexit, with UK opinion polls suggesting many members of the public believe a no-deal Brexit is inevitable. A January poll of Tory voters revealed that 64% of them supported a no-deal Brexit, with only 29% supporting Mrs. May and only 15% supporting remain. A poll covering all voters also revealed that only 18% of respondents supported Mrs. May's proposal, the lowest figure since polling began in 2016. All these polls suggest the UK pubic is open to the idea of a no-deal Brexit.

As for the US, stocks have reacted well when a temporary budget was passed, thus enabling the government to re-open again for the time being. A glance at stock movements after precious shutdowns ended suggests stocks will probably move firmly for at least several months. This will probably act to support dollar buying in February.

Kanako Imamura, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – February 2019

Expected Ranges	**Against the US$:**	**US$0.7000–0.7400**
	Against the yen:	**JPY77.00–80.00**

1. Review of the Previous Month

The AUD/USD pair plummeted to $0.6715 for a time on January 3, though it traded in a range between $0.70 and $0.72 thereafter.

It opened the month trading at the mid-$0.70 mark. It then dipped to the upper-$0.69 level on concerns about trade frictions after China's Caixin manufacturing indicator dipped below forecasts. Amid thin trading during a Tokyo holiday on January 3, concerns of a global economic slowdown intensified and the pair temporarily crashed to a low of $0.6715 while activating stop losses, though it soon shot back to the upper-$0.69 mark and then returned to trading around $0.70. With the markets moving skittishly on volatile movements, US and European stocks rallied. FRB chair Jerome Powell then made a dovish comment about flexible monetary policy. The greenback was subsequently sold, with the pair climbing to the lower-$0.71 level. The minutes to the December FOMC meeting were released on January 9. This contained a statement about how "many participants expressed the view that…the Committee could afford to be patient about further policy firming." With the FOMC adopting a cautious stance toward rate hikes, the greenback was sold and the pair strengthened to the upper-$0.71 level.

Australia's November retail sales data was released mid-January. The result was slightly better than expected, so the pair climbed to the lower-$0.72 mark. The UK House of Commons then rejected a draft EU withdrawal agreement, but the markets were expecting this, so it did not have much of an impact, with the pair continuing to trade around $0.72. With numerous FRB officials making dovish comments about US rate hikes, the pair traded in a range between the upper-$0.71 level and the lower-$0.72 mark.

China released some mixed economic data late January. The impact on the currency pair was negligible and it moved around the upper-$0.71 mark. The International Monetary Fund (IMF) then downgraded its outlook for global growth (2019: +3.5%). As concerns grew about a global economic slowdown, the pair moved with a heavy topside to dip to the upper-$0.70 level. This level saw appetite for Australian-dollar buying, so the pair rallied to the $0.71 range. Australia's CPI data for October–December was released on January 30. At +1.8% y-o-y, the data was up on expectations, so the pair rose close to $0.72. The FOMC's statement was released on the same day. It revealed that the FOMC had adopted a wait-and-see stance regarding rate hikes. The greenback was sold as a result, with the pair rising to the upper-$0.72 level.

2. Outlook for This Month

The AUD/USD pair is expected to trade in a range around $0.71–$0.73 in February.

The greenback was sold last month after the FOMC indicated it would be patient when it came to rate hikes, so the pair's topside has edged higher. There remain several uncertain factors, though, including the global trade issue, the direction of Brexit, and concerns about a global economic slowdown. The Australian dollar is easily swayed by the movements of the global economy, so the currency pair is facing downward pressure.

The deadline for US/China trade talks is looming at the end of February, so the talks are attracting a lot of attention. If the trade dispute is resolved, this will boost the economy, with the Australian unit likely to be bought back as a result. However, if the talks fall into disarray and the US ends up placing further tariffs on Chinese goods, the Australian dollar will probably be sold on risk aversion.

With the Brexit deadline looming at the end of March, the UK parliament rejected the EU withdrawal bill mid-January. The UK could face a hard Brexit depending on how the negotiations progress. This would have a huge impact on the financial markets, so the issue will attract a lot of attention.

When it comes to Australian monetary policy, there has been a shift in market trends. Market participants are expecting the cash rate to be kept at 1.50% for the time being. Indeed, with Australian house prices falling and the global economy expected to slow, around 20% of investors are actually expecting a 0.25% rate cut in June, with this figure rising to 50% when it comes to a 0.25% cut in November. The markets are moving very skittishly on these concerns about the Australian/global economic slowdown, so investors will be watching Australian indicators as they try to gauge the direction of monetary policy. If expectations for an Australian rate cut grow, the Australian dollar will face more downward pressure.

Market participants could try pushing the AUD/USD pair up to $0.7394 in February, its highest point over the past six months. Attention will also be focused on whether the pair is tested at its $0.7055 support line.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – February 2019

Expected Ranges	Against the US$:	C$1.3000–1.3500
	Against the yen:	JPY80.00–85.00

1. Review of the Previous Month

December had seen some one-sided risk-off movements. January saw an unwinding of these movements, with the USD/CAD pair also falling sharply from the start of the month to pare back its December gains. As with December, the pair moved in a wide range, from a monthly high of C$1.3663 (January 2) to a monthly low of C$1.3119 (January 30).

December had seen a shortage of buyers within a mood of risk aversion. Investor risk appetite gradually recovered in January, with crude oil prices also bouncing back from a temporary low of $42/barrel in December to hit $45/barrel at the start of January. This trend bolstered the Canadian unit. The currency pair saw some sharp unwinding and it hit C$1.35 on January 2, C$1.34 on January 3, C$1.33 on January 4 and C$1.32 on January 7.

During a panel discussion on January 4, FRB chair Jerome Powell signaled a shift from the FOMC's stance in the previous month. He commented that there was no preset path for policy, with the FRB prepared to adjust policy quickly if needed. He also noted that the FRB had recently postponed rate hikes for around a year after financial conditions grew tighter in 2016. All this clearly suggested the FRB was prepared to adjust the pace of rate hikes this year. This provided a spur to risk-off unwinding.

As expected, the Bank of Canada (BOC) kept policy rates fixed at 1.75% when it met to set monetary policy on January 9. The accompanying statement also remained dovish, with no major changes from December. With the economy slowing from October 2018 on falling oil prices, the BOC indicated there was no need to rush into normalizing monetary policy. This was broadly as expected, but the currency pair rose temporarily to C$1.31 on expectations that risk sentiments would improve farther on the dovish contents of the meeting.

When the FOMC met on January 30, it said it would adjust its balance sheet policy in a flexible manner in accordance with economic and financial market trends. The accompanying statement added the word 'patient' to a phrase about monetary policy adjustment. The extremely bearish contents of the meeting pushed the greenback lower, with the USD/CAD pair hitting a monthly low of C$1.3119.

2. Outlook for This Month

The markets had expected the FRB to adopt a dovish stance in December. It finally did so in January.

This led to an unwinding of the excessive risk aversion that had built up at the end of 2018. Though it has taken six weeks longer than expected, the FRB has clearly shifted in a dovish direction, so as with the BOC, it seems unlikely to lift rates for the time being. If crude oil and other global stock markets regain composure and economic indicators perform reasonably well, the FRB may look at recommencing rate hikes, though if this scenario does not come to pass, rate are unlikely to be lifted.

Though the unwinding of excessive risk aversion is cooling off, central banks across the world have adopted a positive stance towards risk assets. Though indicators are expected to move sluggishly, market participants have factored this in to a certain extent. When it comes to US/China trade frictions, the 3-month tariff grace period is set to end on March 1. The markets will probably focus nervously on this issue as the deadline looms, but pessimism is also likely to be restrained, with sentiments swinging to and fro.

The Canadian province of Alberta has cut oil production by 0.325 mbd, though it will ease up on these production cuts in February and March. There is a risk that the economic slowdown in Western Canada could prove larger than expected, but overall the USD/CAD pair is expected to float around the lower-C$1.3 mark.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – February 2019

Expected Ranges	Against the US$:	KRW1,090–1,140
	Against the yen:	JPY9.524–10.000 (KRW100)
		(KRW10.000–10.500)

1. Review of the Previous Month

The USD/KRW pair floated in a comparatively narrow range in January before falling toward the end of the month. The pair opened the month trading at KRW1115.00. That day was relatively quiet, but the pair then rose to a monthly high of KRW1130.10 on January 3 when: risk sentiments deteriorated after a major US IT company announced weak results; the markets suffered a yen-related flash crash; and the won weakened on the sluggish results of China's Caixin Manufacturing PMI (released the previous day). The pair then moved flatly over January 7–8 on hopes regarding US/China trade talks. However, the won was then sold to the KRW1125 mark on January 8 on reports about a major South Korean IT firm's weak 4Q results. The minutes to the December FOMC meeting were released on January 10. The dovish contents led to dollar selling, with the pair slipping to KRW1115.

China's trade data for December was released on January 14, with imports and exports both down on the previous year, so the pair then climbed to KRW1123. News emerged on January 15 that China would be introducing a fiscal stimulus package that included huge tax cuts. China then announced on January 18 that it was aiming to reduce its trade surplus against the US to zero by 2024. However, these factors were not powerful enough to shift the pair's trend.

China released its weakest 4Q GDP data in 28 years on January 21. During overseas trading time on the same day, the IMF released its outlook for the global economy, with the forecast for growth in 2019 and 2020 downgraded on concerns about US/China trade frictions and so on. The markets reacted badly, with the pair rising to a monthly high of KRW1131.50 toward January 22. The partial US government shutdown was then ended on January 25, albeit only until February 15. News also emerged that the FRB's balance sheet reduction might be smaller than previously thought. As risk sentiments improved, the dollar was sold and the currency pair dropped temporarily below KRW1115 toward January 28. The FOMC shifted sharply in a dovish direction when it met on January 30, with the pair then falling to a monthly low of KRW1108.60 on January 31 before closing at KRW1112.70.

2. Outlook for This Month

The USD/KRW pair is expected to trade in a range overall with a slightly heavy topside in February.

The key factors will remain much the same as before, namely US/China trade frictions, the US budget problem, and US monetary policy. As for US/China frictions, China has announced various concessions, with the impact felt in the movements of the RMB and other Asian currencies. However, this is a major issue and is unlikely to be solved overnight, so it seems the reaction of the markets is growing slightly less pronounced. President Trump hailed the US/China trade talks over January 30–31 a success and he said he would meet directly with Chinese president Xi Jinping to resolve the issue. He also said the March 1 deadline for talks could be extended. Though the talks were an important stepping stone, they had no decisive impact, so the impact in the short-term is likely to be somewhat minimal. This issue is starting to impact business results and the economic indicators of various countries, so it will require monitoring, but the markets seem to be regaining composure.

As for the US budget issue, it seems the impact of the divided Congress is truly making itself felt. Though the shutdown was suspended until February 15, President Trump continues to insist that the budget allocates funds to build a wall on the border with Mexico, so there is substantial risk of the government shutting down again. The FOMC also inclined clearly in a dovish direction when it met in January. Under these circumstances, the dollar will probably be susceptible to selling in February.

Based on the above, it seems like the USD/KRW pair's topside will be held down by dollar-selling factors on the whole in February, but with risk sentiments also moving unstably, the pair is unlikely to undergo a one-sided slide. US/China trade talks will continue to require attention. With a US/China heads of state meeting also scheduled at the end of the month, market participants should be on guard against erratic movements. Overall, though, the pair will probably trade in a range with a slightly heavy topside.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – February 2019

Expected Ranges	Against the US$:	NT$30.50–31.10
	Against the yen:	JPY3.45–3.65

1. Review of the Previous Month

The USD/TWD pair's movements in January were marked by dollar bullishness and Taiwan-dollar bearishness.

After opening the month trading at TWD30.735 on January 2, the Taiwan dollar was bought as the greenback was sold in higher volumes by exporters. This saw the pair hitting a monthly low of TWD30.635. With risk aversion then intensifying on bearish stock movements, though, investors stopped buying the Taiwan dollar, with the currency pair then bouncing back. As overseas funds continued to flow out of Taiwanese stocks, the pair surged to a high of TWD30.903 toward January 3.

However, news then emerged that the US and China would be holding high level trade talks over January 7–8. With the US also posting some better-than-expected employment data for December and FRB chair Jerome Powell hinting that rates could be lifted at a slower pace, risk aversion waned, with the Taiwan dollar strengthening again to hit the mid-TWD30.7 mark against the greenback in tandem with bullish stock movements.

The dollar moved firmly toward mid-January, with the pair's downside steadily climbing and the pair edging higher. On January 15, UK prime minister's Brexit withdrawal plan was roundly defeated in parliament following opposition from the Democratic Unionist Party (which is propping up with government from outside the cabinet) and from hardline leavers in the Conservative Party. This was as expected, so the result did not really impact the markets, with the dollar continuing to be bought thereafter. However, there was deep-rooted appetite for dollar selling by exporters during phases of dollar strength/Taiwan-dollar weakness, so the pair's topside was capped and the pace of the greenback's appreciation was kept in check.

Late January saw the pair hitting the TWD30.9 mark on January 22 for the first time in around three weeks. With exporters selling the dollar and overseas funds flowing into Taiwanese stocks, though, the pair moved with a heavy topside and it weakened toward the end of the month.

2. Outlook for This Month

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

A glance at the economic indicators released in January shows December's export amount falling by 3.0% y-o-y, the first time the figure had contracted for two straight months since June 2016. The figure for 2018 as a whole stood at +5.9%, with the amount hitting record highs. Nonetheless, the data has clearly slowed on the intensified US/China trade dispute and sluggish sales of new smartphones, for example. A breakdown reveals that slowing growth in December was due in large part to a 9.9% y-o-y slide when it came to electronic parts (a key Taiwanese industry) and a 9.9% y-o-y drop in exports to China and Hong Kong (which account for over 40% of all Taiwan's exports). December's CPI data also dipped by 0.05% y-o-y. This was due to the falling cost of food and communication expenses, with the data falling into negative territories for the first time in 14 months. The core CPI data (excluding volatile fresh food and energy prices) also slowed on the previous month to hit +0.52% y-o-y.

Investors will be watching to see if any progress is made in US/China trade talks in February. In the summit talks held in December last year, the US decided to hold off from lifting tariffs on $200 billion of Chinese goods for 90 days. This grace period will soon come to an end, though, so attention will focus on whether a new agreement can be signed before the period expires. There is a growing sense of optimism about the future, with the RMB strengthening against the dollar from December. However, if there are no signs of progress in the run up to the deadline, the RMB could slide against its US counterpart, with the Taiwan dollar also dragged lower, so caution will be needed.

Attention will also remain focused on Taiwanese economic indicators. As mentioned above, exports slowed in the latter half of 2018, with exports recently contracting for two months in a row. If this trend continues, bearish stock movements will see overseas funds flowing out of Taiwan at a faster pace, with the currency pair's movements likely to be marked by dollar bullishness and Taiwan-dollar bearishness.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – February 2019

Expected Ranges	**Against the US$:**	**HK$ 7.8300–7.8500**
	Against the yen:	**JPY 13.70–14.10**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

In January, the Hong Kong dollar depreciated gradually against the U.S. dollar from the HKD 7.83 level observed in the previous month to the HKD 78.847 level for the first time in 2.5 months. Thereafter, the U.S. dollar/Hong Kong dollar exchange rate remained at around HKD 7.85—the lower end of the fluctuation band. Even though the Hong Kong dollar prime rate started to be raised in September, the interest rate hikes thereafter have been extremely slow, and this widened the interest rate differentials between the U.S. dollar and the Hong Kong dollar. As a result, market participants preferred carry trades to sell the Hong Kong dollar and buy the U.S. dollar. As there was also capital outflow from Hong Kong, the Hong Kong dollar depreciated against the U.S. dollar. With the widening interest rate differentials between the U.S. dollar and the Hong Kong dollar, the one-year Hong Kong dollar forward point fell to –600 points for the first time in nine months. Although market participants anticipated a halt in interest rate hikes by the Federal Reserve Board (FRB), it did not impact the capital maintenance in the Hong Kong market. Yet, the economic outlook in China and Hong Kong has deteriorated, alongside the trade frictions between the U.S. and China.

Hong Kong dollar interest rate market in January

In January, commercial banks did not follow the interest rate hike by the FRB, while there is anticipation for the FRB to halt interest rate hikes. As a result, market participants now have less expectation for the appreciation of the Hong Kong dollar interest rates. The one-month and three-month Hong Kong dollar HIBOR fell, after the end of growing demand to procure the Hong Kong dollar seen at the end of the year, to 1.2% and 1.8%, from 2.2% and 2.3%, respectively. As the Hong Kong dollar interest rates fell significantly, the interest rate differentials between the U.S. dollar and the Hong Kong dollar widened and the one-month and three-month interest rate differentials changed significantly from 110 basis points and 50 basis points to –130 basis points and –100 basis points, respectively. The liquidity level in the Hong Kong dollar market has been stable, and the checkable deposit balance of the Hong Kong Monetary Authority (HKMA) remained unchanged at HKD 76.4 billion. For long-term interest rates, the three-year

and five-year Hong Kong dollar IRS interest rates remained almost unchanged, at 2.2% and 2.3%, respectively. Despite the fact that the Hong Kong stock market has been recovering, IPOs remained quiet in January 2019, keeping the liquidity level unchanged.

Hong Kong stock market in January

As the attitude of the FRB turned dovish, risk-taking sentiment grew in the market globally. In reaction to this, the benchmark Hang Seng Index recovered from 24,897 to exceed 27,000. While concerns are growing over the economic downturn in China, the Chinese monetary authorities decided to strengthen the fiscal stimulus measures and the People's Bank of China (PBOC) introduced an additional measure of monetary easing by cutting the deposit reserve requirement ratio (RRR). As expectations for the fiscal stimulus measures are mounting, the recovery in the Hang Seng Index accelerated.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.825 and HKD 7.8500. As a result of the widening interest rate differentials between the U.S. dollar and the Hong Kong dollar, the U.S. dollar/Hong Kong dollar exchange rate is likely to remain around HKD 7.85—the lower end of the fluctuation band. If the U.S. dollar peg system is maintained for the Hong Kong dollar exchange rate and if the liquidity supply in Hong Kong dollar is discontinued, it would be more likely for the HKMA to intervene in the Hong Kong dollar exchange market. Despite the halt in the interest rate hikes by the FRB, the interest rate hikes for the Hong Kong dollar have been significantly slower than those for the U.S. dollar. Under the peg system, the Hong Kong dollar interest rates are likely to be normalized through the depreciation of the Hong Kong dollar. Furthermore, concerns are growing over a slowdown in the economic growth in China and Hong Kong, along with the negative effects of the trade negotiations between the U.S. and China. As a result, the pressure for capital outflow from the Hong Kong market has been strengthening.

Hong Kong dollar interest rate market in February

While there is now less expectation for the Hong Kong dollar interest rate hikes, it does not mean that the possibility for an interest rate hike has been completely swept away. As the U.S. dollar/Hong Kong dollar exchange rate has been hovering around the HKD 7.85 level, it is possible for the HKMA to intervene in the market and introduce measures to absorb liquidity in the near future. In particular, the checkable

deposit balance of the HKMA has decreased significantly from HKD 179.8 billion to HKD 76.4 billion—the lowest level since the U.S. dollar/Hong Kong dollar exchange rate moved from HKD 7.75 to HKD 7.85. In other words, commercial banks in Hong Kong have lost the capital buffer to maintain the prime rate with the weakening Hong Kong dollar, facing the upward pressure on fund procurement cost. Indeed, the inter-bank fund procurement interest rate announced by the HKMA—as the index for the average fund procurement cost for commercial banks—has continued rising from the 0.37% observed in February 2018 to 0.89% in December 2018. The Hong Kong prime rate was raised in September, but this occurred after the appreciation of the inter-bank fund procurement interest rate. Thus, the appreciation of the inter-bank fund procurement interest rate as a result of the depreciation of the Hong Kong dollar is likely to strengthen upward pressure on the Hong Kong dollar prime rate in the times ahead. In other words, it is more likely now that the Hong Kong dollar prime rate will be raised at timing different from U.S. monetary policy.

Kei Yano, Treasury Division, MHBK (China)

Chinese Yuan – February 2019

Expected Ranges	**Against the US$:**	**CNY 6.6000–7.0000**
	Against the yen:	**JPY 15.00–16.82**
	Against 100 yen:	**CNY 5.9500–6.6700**

1. Review of the Previous Month

Foreign exchange market

In January, the Chinese yuan appreciated against the U.S. dollar, with expectations for progress in the trade negotiations between the U.S. and China.

At the beginning of the month, the Chinese yuan depreciated against the U.S. dollar and the U.S. dollar/Chinese yuan exchange rate once exceeded CNY 6.88, as the euro depreciated against the U.S. dollar due to the deterioration of the economic indices in Europe, while the manufacturing PMI of China was announced at the end of last year and the outcome turned out to be below 50. Thereafter, Apple Inc., in the U.S., revised its business performance downward, leading asset values to fall worldwide. Under such a context, market participants sold the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate retuned to the mid-CNY 6.86 level. On January 4, the People's Bank of China (PBOC) announced its decision to cut the deposit reserve requirement ratio. As a result, risk-taking sentiment strengthened in the market, while Federal Reserve Board (FRB) Chair Jerome Powell made a dovish remark, leading the U.S. dollar/Chinese yuan exchange rate to fall to approach CNY 6.85. At the vice minister-level negotiations between the U.S. and China, there has been a certain degree of progress regarding the trade frictions between the U.S. and China, such as in the increased purchase of U.S. agricultural and energy products by China. Furthermore, a number of officials from the U.S. monetary authorities expressed a cautious sentiment regarding additional interest rate hikes. As a consequence, the Chinese yuan appreciated against the U.S. dollar to the CNY 6.74 level.

On January 21, the International Monetary Fund (IMF) world economic outlook was released, and the estimated growth rate was revised downward, increasing risk-averse sentiment in the market, with U.S. dollar-buying temporarily dominating the market, leading the U.S. dollar/Chinese yuan exchange rate to exceed CNY 6.81. Thereafter, the October–December quarter GDP of China was released and the result turned out to be +6.4%. As this was the anticipated level, the impact on the exchange market was limited.

In the second half of the month, concerns were mitigated over the possibility that Brexit negotiations would result in no agreement, leading the U.S. dollar to weaken against the British pound and the euro. Furthermore, expectations were growing over progress in the trade negotiations between the U.S. and China, as well as over the end of the closure of U.S. governmental agencies. As a result, Shanghai stock prices appreciated and the Chinese yuan appreciated against the U.S. dollar to the CNY 6.73 level.

Interest rate market

As a result of the deposit reserve requirement ratio cut and the fund supply by the PBOC, the liquidity level was maintained high while the money interest rate remained low and stable.

As a result of the announcement of the deposit reserve requirement ratio cut on January 4, the supply & demand balance in the capital market was significantly eased. While the overnight interest rate and interest rates for short terms depreciated, when the rate fell below the capital supply operation rate the trend was reversed. Thereafter, short-term interest rates continued fluctuating as a result of the impact of the tax increase. For periods that go beyond the Chinese New Year, the easing trend continued and interest rates remained low and stable, even though an increase in capital demand was anticipated.

2. Outlook for This Month

Foreign exchange market

There has been progress in the trade negotiations between the U.S. and China, such as the discussion on the expanded purchase of agricultural and energy products. Toward the deadline for the trade negotiations between the U.S. and China at the end of February, the Chinese yuan is likely to appreciate gradually. Furthermore, the U.S. has been cautious about additional interest rate hikes, which is also expected to lead the U.S. dollar to depreciate. On the other hand, with regard to the trade negotiations between the U.S. and China, there are still challenges to be faced, such as the approval for forced technological transfer as well as the protection of intellectual property rights. Therefore, if the negotiations fail before the deadline at the end of February or if an additional customs duty is introduced, the Chinese yuan may depreciate in the times ahead. It should also be mentioned that there has been no agreement regarding Brexit, raising the possibility of a no-deal situation and leading the euro and the British pound to depreciate, which may also lead the Chinese yuan to weaken as well. During the first half of February, there is also the Chinese New Year, and thus market participants should remain cautious about the U.S. dollar/Chinese yuan exchange market opening after the Chinese New Year holidays with a gap in the exchange rate.

Interest rate market

Demand to procure funds is expected to slow down after the Chinese New Year. Furthermore, as the Chinese monetary authorities maintain the policy of monetary easing, the liquidity level in the market is likely to remain high while the interest rate level is forecast to remain low and stable. On the other hand, from a long-term perspective, interest rates may start rising if market sentiment improves thanks to the resolution to the trade frictions between the U.S. and China, as well as to the effect of the economic stimulus measures that are currently being taken. On this point, market participants should remain attentive.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – February 2019

Expected Ranges	Against the US$:	SG$ 1.3400–1.3750
	Against the yen:	JPY 79.00–82.00

1. Review of the Previous Month

In January, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range between the lower-SGD 1.35 level and the mid-SGD 1.36 level.

In the first week of the month, the Ministry of Trade and Industry announced the October–December quarter GDP of Singapore (preliminary figure) on January 2, and the result turned out to be +1.6% from the previous quarter and +2.2% year-on-year, falling below the market estimates, which were +3.6% from the previous quarter and +2.5% year-on-year, demonstrating a slowdown in the Singapore economy at the end of 2018. It is considered that worldwide trade frictions and the appreciation of interest rates impacted the economy, as Singapore is dependent on exports. In reaction to this, the Singapore dollar temporarily depreciated against the U.S. dollar to the upper-SGD 1.36 level. On January 3 and 4, the currencies of emerging countries including the Singapore dollar rallied significantly through the flash crash. The U.S. dollar/Singapore dollar exchange rate fell below SGD 1.36.

On the second week of the month, the Singapore dollar appreciated further against the U.S. dollar from January 7. The Federal Reserve Board (FRB) Chair Jerome Powell indicated that he was ready to make adjustment to the balance sheet policy in his speech on January 5, while expectations were growing for the economic stimulus measures in China, as well as for progress in the trade negotiations between the U.S. and China, all leading the Chinese yuan to appreciate significantly. Following this trend, the Singapore dollar also appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level.

In the third week of the month, the December trade statistics of China were released on January 14, revealing figures weaker than the market estimate, while market participants were concerned over a slowdown in the Chinese economy as a result of the trade frictions between the U.S. and China. As a consequence, the Singapore dollar weakened against the U.S. dollar. On January 15, vice governor of the People's Bank of China (PBOC) Zhu Hexin expressed his confidence in maintaining the stability of the foreign exchange market via the deposit reserve requirement ratio cut, and this encouraged market participants to buy back overall Asian currencies, including Singapore dollar. On January 16 and after,

risk-taking sentiment weakened in the market due to the uncertainty over Brexit, along with concerns over the world economy, both of which kept the U.S. dollar/Singapore dollar exchange rate fluctuating within a narrow range.

In the fourth week of the month, the U.S. dollar strengthened on January 21 and 22, encouraging market participants to sell the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.36 level. Market participants focused on the media report that China presented to the U.S. its plan to clear the trade surplus against the U.S. within six years. From January 23 toward the end of the week, the media reported that the bill was approved to end the closure of U.S. governmental agencies, which led U.S. dollar-buying to dominate the market.

In the fifth week of the month, expectations grew for progress in the trade negotiations between the U.S. and China scheduled for the weekend. On the other hand, market participants sold the U.S. dollar before the FOMC meeting scheduled for January 30, anticipating the balance sheet reduction program to be ended by the FRB earlier than originally planned. As a result, the Singapore dollar appreciated against the U.S. dollar and the exchange rate reached the lower-SGD 1.35 level.

2. Outlook for This Month

In February, the Singapore dollar is expected to remain stable. The FRB is likely to slow down the normalization process of the monetary policy or to revise the pace of the balance sheet reduction program with caution against the possibility for the risk balance to shift to the downside. Under such circumstances, the U.S. dollar is likely to lose its strength, leading the Singapore dollar to stabilize in the times ahead.

With regard to interest rate hikes in the U.S., President of the Federal Reserve Bank of Kansas City Esther George, who is seen as being the most hawkish among the FOMC members, mentioned a halt in the normalization process in her speech made on January 15, showing her cautious attitude toward the additional interest hike. In addition, FRB Chair Jerome Powell indicated that he was ready to make adjustment to the balance sheet policy if necessary, giving substantial consideration to downside risks in the economy while inflation is being controlled. The slowdown in the normalization process of the monetary policy by the FRB is involving not only the policy interest rate but also the balance sheet policy, which is likely to mitigate the pressure for capital outflow from emerging countries, including the Singapore dollar.

On the other hand, the preliminary figure for the fourth-quarter GDP of Singapore announced last month turned out to be +1.6% from the previous quarter, while the market estimate was +3.6% from the previous quarter, and this confirmed an economic slowdown in the October–December quarter. The service

industry, which had so far been growing, faced a turndown, while the manufacturing industry recorded a negative growth rate from the previous quarter. Furthermore, there has been an impact on non-oil domestic exports, which turned toward negative growth for the first time in eight months, at –2.8% year-on-year in November. The negative figure grew even further in the December result, with –8.5% year-on-year. Even though there has been no change in the monetary policy of the MAS, which continues leading the Singapore dollar to appreciate in the medium-to-long term, concerns are growing over the worldwide economic downturn, and market participants should remain attentive regarding the economic outlook in Singapore.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – February 2019

Expected Ranges	Against the US$:	THB 30.80–32.00
	Against the yen:	JPY 3.40–3.60

1. Review of the Previous Month

The U.S dollar/Thai baht exchange rate continued falling significantly throughout the month.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate fell below the THB 32 mark. On January 2, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.40. On the same day, the December Consumer Price Index (CPI) was released, and the result turned out to be +0.36% year-on-year, significantly falling below +0.94%—the market estimate. However, the market reacted to this event to a limited degree. The U.S. dollar continued depreciating since the second half of December, and the U.S. dollar/Thai baht exchange rate also remained low. In the morning of January 3, a major U.S. telecommunications company announced an estimated decrease in income, which led the U.S. dollar/Japanese yen exchange rate to fall sharply. Following this trend, the U.S. dollar/Thai baht exchange rate also fell below THB 32.10. While the liquidity level remained low, the exchange rate fluctuated violently following the capital flow. However, after January 4, once market participants started to gradually return to the market and once an optimistic view spread throughout the market regarding the trade negotiations between the U.S. and China, the Chinese yuan was lead to appreciate. As a result, the U.S. dollar/Thai baht exchange rate fell below THB 32.00. On January 9, local time, the minutes of the Federal Open Market Committee (FOMC) meeting (held on December 18 and 19) were released, and the contents of such turned out to be more dovish than the FOMC statement. Furthermore, a number of Federal Reserve Board (FRB) officials had made dovish remarks before the release of the minutes, and this led U.S. dollar-selling to dominate the market, and then the U.S. dollar/Thai baht exchange rate continued falling to reach the lower-THB 31.90 level.

In the middle of the month, the U.S. dollar/Thai baht exchange rate continued falling. From January 10 to January 11, stock prices appreciated with speculations for the interest rate hikes to be postponed, raising risk-taking sentiment in the market. Furthermore, market participants bought the Chinese yuan with growing optimism over the trade negotiations between the U.S. and China. As a result, the Thai baht, highly correlated to the Chinese yuan, was also bought, and the U.S. dollar/Thai baht exchange rate fell below THB 31.90. However after the weekend, the December trade statistics of China were released on January 14, and both imports and exports turned out to record negative year-on-year growth, fueling the

sense of uncertainty over the economic outlook in China. As a result, the trend was reversed and the Chinese yuan depreciated, bringing the U.S. dollar/Thai baht exchange rate back to the upper-THB 31.90 level. Thereafter, on January 15, officials of the Chinese monetary authorities mentioned an increase in the fiscal expenditures and a tax cut, which fueled expectations and encouraged market participants to buy the Chinese yuan. As a consequence, toward January 16, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 31.60 level. On January 17, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.70. While there was no significant event, the exchange rate remained low after falling below the recent low on the previous day. However, some market participants bought back the U.S. dollar, thanks to the robustness of the U.S. stock market, and thus the U.S. dollar/Thai baht exchange rate started to appreciate gradually after hitting bottom at THB 31.60.

At the end of the month, the U.S. dollar/Thai baht exchange rate fell below THB 31.50. On January 21, the Ministry of Commerce released the December trade statistics, and exports recorded negative year-on-year growth for the second consecutive month. On January 23, the central bank released a statement regarding the foreign exchange market, sending a message to companies that foreign exchange risks should be controlled. While speculations were mounting for market interventions by the central bank, the U.S. dollar/Thai baht exchange rate fell below the THB 31.50 mark. Then, on January 30, the FOMC statement turned out to be dovish, and this encouraged market participants to sell the U.S. dollar further, bringing the U.S. dollar/Thai baht exchange rate to the lower-THB 31.20.

2. Outlook for This Month

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

In January, the U.S. dollar/Thai baht exchange rate continued falling throughout the month. The Thai baht appreciated by more than 4% on the single-month basis, which is the highest performance among Asian currencies. Since last month, there have been many factors to lead the Thai baht to appreciate and the U.S. dollar to depreciate, such as the decision by the central bank of Thailand to raise the interest rate for the first time in seven years and four months as well as the dovish attitude of the FRB and the optimistic view on the trade negotiations between the U.S. and China. As long as there is no significant change in the above factors, the Thai baht is forecast to continue appreciating in the times ahead.

According to the December customs-based trade statistics announced by the Ministry of Commerce, exports recorded negative year-on-year growth for the second consecutive month at –1.72%. The annual export performance for 2018 turned out to be 6.7% year-on-year, not reaching 8.0%, the target set out by the Ministry of Commerce. Even though the performance of the first half of the year was positive, at +11.3%, exports to China declined significantly in the second half of the year, recording year-on-year

growth of +2.5%, pushing down the annual result. The current appreciation of the Thai baht also caused damage for many exporting companies, and it is likely to continue causing negative result in export in the times ahead. Many companies are considering shifting their production sites from China to Thailand due to the trade frictions between the U.S. and China, and this is a positive factor for Thailand itself. However, as a result of a slowdown in the Chinese economy, the worldwide economy may also face a turndown, which is also likely to cause a slowdown in the Thai economy. Thus, market participants must remain relatively cautious about the economic outlook in Thailand for this year as well. It is ironic that market participants are buying the Thai baht while the economic outlook is not at all positive. However, given that funds are returning to emerging countries in Asia due to speculation for the FRB to discontinue interest rate hikes, it is no wonder that market participants tend to buy the Thai baht with consistent current account surplus and stable economic growth.

On February 6, the central bank of Thailand is to hold its Monetary Policy Committee (MPC) meeting for the first time since the decision to raise the interest rate. As the central bank has clarified that there would be no intermittent interest rate hikes, it is extremely unlikely for an additional interest rate hike to be announced this time. However, the interest rate was raised in December "in order to create leeway to change the monetary policy," which makes it likely for the central bank of Thailand to raise the interest rate again before the end of the year. Thus, in order to know the timing of the next interest rate hike, market participants should look out for the voting results as well as the central bank statement.

The correlation between the Thai baht and the Chinese yuan has been strengthening. If there is progress in the trade negotiations between the U.S. and China before March 1, which is the end of the grace period before the raising of customs duties toward China, the Chinese yuan is expected to appreciate. This can therefore be a factor to lead the Thai baht to appreciate as well. Even though the central bank of Thailand has released a comment regarding the foreign exchange market, it seems difficult for the central bank of Thailand to carry out large-scale foreign exchange market interventions, as Thailand has a trade surplus toward the U.S. It may thus be a matter of time before the U.S. dollar/Thai baht exchange rate falls below the THB 31 level—the lowest rate observed last year.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – February 2019

Expected Ranges	**Against the US$:**	**MYR 4.0700–4.1400**
	Against the yen:	**JPY 26.40–27.00**
	Against 100 yen:	**MYR 3.7050–3.7900**

1. Review of the Previous Month

In January, the U.S. dollar/Malaysian ringgit exchange rate fluctuated between the MYR 4.09 level and the MYR 4.14 level. The Malaysian ringgit reached its high at MYR 4.0920 for the first time since August.

The U.S. dollar/Malaysian ringgit exchange market opened trading in the year with concerns over a slowdown in the world economy. First of all, in China, the December Purchasing Managers' Index in the manufacturing industry fell below the 50-point mark for the first time in 19 months. Subsequently, Apple Inc., in the U.S., announced a downward revision for its business performance outlook for the first time in the past 15 years due to the slowdown in the Chinese economy. Furthermore, in the U.S., the December ISM Manufacturing Report on Business recorded significant negative growth from the previous month for the first time since October 2008. As a result, stock prices fell in the U.S. and in Asia. The Malaysian ringgit, which closed trading at MYR 4.1330 to the U.S. dollar at the end of 2018, recorded its monthly low at MYR 4.1490 to the U.S. dollar on January 3.

On January 4, the December employment statistics of the U.S. were released, and the figures turned out to be significantly higher than expected, which certainly fueled expectation for an additional interest rate hike in the U.S. However, on the same day, Federal Reserve Board (FRB) Chair Jerome Powell and former FRB Chair Janet Yellen both made dovish comments, which calmed the mounting expectations. The U.S. dollar/Malaysian ringgit exchange market opened at the MYR 4.11 level on January 7 with a gap from the closing rate of the previous day. In the minutes of the Federal Open Market Committee (FOMC) meeting held in December, it was revealed that there were opposing opinions by some board members behind the committee's unanimous decision. As optimistic sentiment was also growing regarding the trade frictions between the U.S. and China, the Malaysian ringgit reached its monthly high against the U.S. dollar at MYR 4.0920 on January 10.

However, in the December trade statistics of China, both imports and exports turned out to be weaker than expected, once again confirming the impact of the trade frictions. Along with the dramatic shift in the

Brexit deal, the trend was reversed and the Malaysian ringgit depreciated against the U.S. dollar to the MYR 4.11 level. Then, on January 21, the GDP growth rate of China for 2018 was announced, and the result turned out to be the lowest in the past 10 years, which led the IMF to also announce its decision to revise the world growth rate downward for 2019. Furthermore, the media reported that the U.S. refused an offer from Chinese vice ministers to visit the U.S. for the purpose of trade negotiations, which led the Malaysian ringgit to depreciate further to the MYR 4.14 level. On January 24, the December CPI of Malaysia was announced, and the figure remained low. Based on the stable growth outlook, the central bank of Malaysia decided to maintain its policy interest rate (OPR) at 3.25%. Under such circumstances, the Malaysian ringgit depreciated again and recorded its low at MYR 4.1460 to the U.S. dollar.

However, market participants reacted to the remark made by U.S. governmental advisor Kevin Hassett such that he was confident in achieving a trade agreement between the U.S. and China before the deadline of March 1. As a consequence, the Malaysian ringgit rallied significantly on January 28, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.1060. As of January 29, the U.S. dollar/Malaysian ringgit pair has been trading at the MYR 4.1100 level.

2. Outlook for This Month

In February, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.07 and MYR 4.14.

As is the case with China, there are many holidays related to the Chinese New Year in the first week of February in Malaysia. Market participants are expecting this period to mark a turning point in the persistent trade frictions between the U.S. and China, resulting in putting downward pressure on emerging markets since June last year when the frictions started. As was discussed above, the December PMI and the GDP growth rate of China reflected the impact of the trade frictions, which have continued in the past six months. First of all, an imbalance in imports and exports between two major countries doesn't make minor frictions possible, let alone a trade war. Both countries would want to avoid the situation in which the future economic indices of China cause further deterioration in the market sentiment not only in China but also in overall emerging countries. It is thus expected that the trade frictions will end by prioritizing the situation in China.

Furthermore, the debates over the border wall in the U.S., which have been another factor to fuel risk-averse sentiment in the market, are calming down after the resolution by Congress regarding the temporary spending bill and after the media reported the temporary end of the shutdown of some governmental agencies. If the fall of the support rate of U.S. President Donald Trump put a brake on the persistent hawkish attitude, risk-taking sentiment may grow in February, as the FRB is also showing a dovish attitude.

On the other hand, it has been a positive factor for Malaysia that the crude oil price (North Sea Brent), which almost fell to below USD 50 at the end of last year, rallied to exceed USD 60. This price seems not yet at the level expected in the revenue plan in the governmental budget plan for this fiscal year, which was highly dependent on the revenue related to crude oil. However, given that the tax revenue in 2018 was also high, it is currently not very likely for the outlook to dramatically change. Until the end of last year, foreign investors' capital was mainly flowing out from both the stock and bond markets in Malaysia. However, there have been some signs of capital inflow into the stock market since the beginning of the year.

In the statement released on January 24 after the monetary policy meeting, there has been a warning that the actual impact of the trade frictions on world trade and investment could be starting to become visible. As the statement also mentions risks for measures of monetary tightening and high volatility in the monetary market to slow down growth, such mentions are far from optimistic. However, the domestic economy was positively evaluated. The fundamentals surrounding the Malaysian ringgit are likely to continue improving gradually in the times ahead, and thus the Malaysian ringgit is expected to be slightly stronger in February compared to the fluctuation range observed in January.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2019

Expected Ranges	Against the US$:	IDR 13,950–14,600
	Against 100 rupiah:	JPY 0.74–0.80
	Against the yen:	IDR 125.00–135.00

1. Review of the Previous Month

In January, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within a range between IDR 14,000 and IDR 14,495, generally falling toward the end of the month.

At the beginning of the year, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,420. On January 2, the December Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +3.13% year-on-year, which was within the expected range, not impacting the exchange market significantly.

The U.S. dollar/Indonesian rupiah exchange rate thereafter reached temporarily its monthly high at IDR 14,495, after which the media reported that the U.S. and China would start trade negotiations. In reaction to this, concerns over the trade war were mitigated, and on January 8, there was capital inflow from foreign investors, increasing Indonesian rupiah-buying. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate fell to temporarily approach IDR 14,000 on January 8. On the same day, the December figure for the foreign currency reserves in Indonesia was also announced, recording positive growth for the third consecutive month, which also improved the sentiment of foreign investors.

However, when the U.S. dollar/Indonesian rupiah exchange rate approached IDR 14,000, there was also cautious sentiment toward market interventions by the central bank to slow down the excessive appreciation of the Indonesian rupiah (through the Indonesian rupiah-selling by the central bank). Thus, the U.S. dollar/Indonesian rupiah pair continued trading at the lower-IDR 14,000 level thereafter.

In the middle of the month, the December trade statistics of China were released on January 15 and the figures turned out to be weak. In reaction to this, risk-averse sentiment grew in the market, and the U.S. dollar/Indonesian rupiah exchange rate thus appreciated. On the same day, the December trade balance of Indonesia was also announced, revealing the persistent trade deficit, which further encouraged market participants to sell the Indonesian rupiah. As a result, the trend was reversed and the U.S. dollar/Indonesian

rupiah exchange rate rose to approach IDR 14,205.

On January 17, the central bank of Indonesia held a monetary policy meeting, and, as had been expected in the market, the policy interest rate was maintained at the existing level. The impact of this decision on the exchange market was minimal.

In the second half of the month, foreign investors continued buying the Indonesian rupiah, while importing companies bought the U.S. dollar (and sold the Indonesian rupiah) due to demand at the end of the month, which cancelled out each other, and the U.S. dollar/Indonesian rupiah traded at the IDR 14,100 level (based on the closing rate on January 29).

2. Outlook for This Month

In February, the U.S. dollar/Indonesian rupiah exchange rate is forecast to fluctuate mainly within the range between IDR 14,100 and IDR 14,500.

In January, the Indonesian rupiah strengthened, as there was capital inflow from foreign investors, as had been expected. On the other hand, market participants remained cautious about market interventions by the central bank when the exchange rate approached IDR 14,000 against the U.S. dollar, which kept the exchange rate from falling further.

With regard to overseas factors, market participants need to remain attentive about the impact of the trade frictions between the U.S. and China as well as the monetary policy outlook in the U.S. With regard to domestic factors, on the other hand, in addition to monthly economic indices, the October–December quarter GDP of Indonesia is scheduled to be out on February 6, while the current account balance is to be out on February 8.

If the domestic growth rate in Indonesia turns out to be slowing down or if the current account deficit turns out to be larger due to the growing trade deficit that has already been announced, the sentiment of foreign investors may deteriorate, which remains a concern.

For these reasons, as foreign investors are likely to have less demand to buy the Indonesian rupiah in February, the U.S. dollar/Indonesian rupiah exchange rate is forecast to be slightly higher than in January.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – February 2019

Expected Ranges	Against the US$:	PHP 52.00–53.50
	Against the yen:	JPY 2.04–2.100

1. Review of the Previous Month

At the beginning of the year, the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.50.

At the end of last year and at the beginning of this year, U.S. President Donald Trump made positive comments regarding the end of the trade frictions between the U.S. and China, while the Chinese media reported on the friendly relations between the heads of the two countries. As a result, the market sentiment was improved and the Philippine peso strengthened slightly when trading opened this year, compared to PHP 50.58 observed at the end of last year.

On January 4, the December CPI of the Philippines was announced and the result turned out to be 5.1%, falling below 5.6%, the market estimate, mitigating concerns over inflation, which also supported the Philippine peso.

The December employment statistics of the U.S. confirmed the strength of the employment market in the U.S. However, Federal Reserve Board (FRB) Chair Jerome Powell made a comment that he was ready to take a flexible monetary policy, which was seen as dovish in the market. As a result, less market participants expected the U.S. interest rates to be higher in the times ahead, selling the U.S. dollar in the foreign exchange market.

Furthermore, expectations for economic stimulus measures were mounting, thanks to the deposit reserve requirement ratio cut and the tax cut, while the media reported positive news about the trade frictions between the U.S. and China. Thus, Asian currencies strengthened. On January 10, the November trade statistics of the Philippines were released, and the trade deficit turned out to be USD 3.91 billion, lower than USD 4.08 billion—the all-time high recorded in the month previous—and this figure was also lower than the market estimate. As a result, it became easier for market participants to buy the Philippine peso, and the U.S. dollar/Philippine peso exchange market closed on January 11 at PHP 52.14.

After the weekend, the December trade statistics of China turned out to be weak on January 14, fueling

concerns over the downturn in the Chinese economy and shaking the Asian market. However, the Philippine peso remained robust, and the Philippine stock price index rose against the current conditions, recovering to the 8,000-point level. Then, on the following day, the Chinese monetary authorities introduced economic stimulus measures, which were seen positively in the market, and the concerns from the previous day were mitigated. Consequently, the Philippine peso reached its highest rate against the U.S. dollar in eight months, at PHP 52.03.

However, the Brexit negotiations entered their final phase, and market participants started to prefer safe assets, while also adjusting positions as the U.S. dollar/Philippine peso exchange rate approached PHP 52. As a result, U.S. dollar-buying and Philippine peso-selling increased rapidly.

On January 22, the fourth-quarter GDP of China turned out to be weak, while the IMF revised its world economic outlook downward, which led the U.S. dollar/Philippine peso exchange rate to temporarily reach the PHP 53 level. However, as less market participants expected the U.S. interest rates to be higher in the times ahead, U.S. dollar-buying did not last either. As a result, the U.S. dollar/Philippine peso exchange rate hovered around at the mid-PHP 52 level without moving into any direction (as of 6 p.m. on January 29).

2. Outlook for This Month

In terms of fund investment, it seems there has been increased capital inflow into emerging countries. As the U.S. monetary authorities have been shifting their monetary policy, market participants are likely to buy Asian currencies.

The Philippine stock price index recovered to the 8,000-point level in the middle of January and remains robust. On January 18, the central bank of the Philippines announced the December overall international balance of payments of the Philippines, which turned out to be USD 2.44 billion—the highest figure in six years on a single-month basis. It confirms the strength of the Philippine peso seen at the end of last year. On the other hand, it is important to point out that market participants should take seasonal factors into consideration.

As was discussed above, the November trade deficit of the Philippines turned out to be smaller than that observed in the previous month. However, the OFW (overseas Filipino workers) remittances amounted to USD 2.33 billion, recording a decline from USD 2.47 billion observed in October, even though there was an increase of 2.8% year-on-year. The net balance of foreign currencies remains highly negative, which is likely to be a persistent factor to weaken the Philippine peso in the market.

On January 24, the Philippine Statistics Authority announced the fourth-quarter GDP of the Philippines, which turned out to be 6.1%, and the GDP growth rate in 2018, which turned out to be 6.2%. The figure was far from 7%—the target rate set out by the government—due to the slowdown in consumption caused by inflation pressure as well as the decline in exports.

This result is the worst in the past three years (6.1% in 2014, 6.1% in 2015, 6.9% in 2016, and 6.7% in 2017). While it can be positively evaluated that the fourth-quarter GDP recorded an increase of 0.1 percentage points from the 6% observed in the previous quarter, the figure itself is likely to be a factor to sell the Philippine peso.

There has not been a clear trend in the U.S. dollar/Philippine peso exchange market. Market participants should remain attentive about the changing impact of the trade frictions between the U.S. and China on the U.S. dollar/Philippine peso exchange market. Thus far, when a sense of uncertainty grows in the market, risk-averse sentiment also grows, and when there are less concerns, market participants buy the Philippine peso with improved market sentiment. However, the improvement in the market sentiment also means the appreciation of the U.S. stock prices and the U.S interest rates. If market participants react positively to this, U.S. dollar-buying may increase in the overall foreign exchange market, inevitably leading to Philippine peso-selling.

Therefore, the Philippine peso is likely to depreciate slowly, while there is no clear trend in the market (as of 6 p.m. on January 29).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – February 2019

Expected Ranges	Against the US$:	INR 68.00–73.50
	Against the yen:	JPY 1.45–1.62

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate appreciated in January.

At the beginning of the year, the U.S. dollar/Indian rupee exchange market opened trading at INR 69.72. During the first part of the month, there were negative news stories on topics such as the weak Chinese economic indices and the downward revision by a major U.S. IT company regarding the company's business performance, and these stories were not received well in a market already hit with low liquidity, causing fluctuation in the U.S. dollar/Indian rupee exchange market. However, in the end of the first week of January, local time, FRB Chair Jerome Powell made a remark that he was concerned with market risk and ready to take flexile monetary measures, as a result of which less market participants expected interest rate hikes in the U.S. in the times ahead, thereby selling the U.S. dollar. Following this trend, after the weekend, the Indian rupee appreciated against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate reached its monthly low at INR 69.67 on Monday. However, the exchange rate did not fall significantly below the 200-day moving average (at the INR 69.70 level), which had not been broken downward for nearly a year. When the crude oil price appreciated thereafter, the Indian rupee depreciated.

Even though it was a phase in which the U.S. dollar weakened against Asian currencies, the U.S. dollar/Indian rupee exchange rate followed the appreciation of the crude oil price and rose to reach the upper-INR 70 level. Thereafter, the ruling party of the Indian government made a remark that the expansive fiscal policy would be supported, which fueled concerns over fiscal deterioration, encouraging market participants to sell the Indian rupee. On January 21, the WTI price exceeded USD 54 (USD 63 for Brent), and at this point, the U.S. dollar/Indian rupee exchange rate reached its monthly high at INR 71.52 and remained high thereafter. On January 25, the U.S. dollar/Indian rupee exchange market closed at INR 71.17.

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

At the beginning of the year, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.57 level. On the first business day of the year, the exchange rate reached JPY 1.584, which was the

monthly high. As was discussed above, there were some risk events at the beginning of the month, and the U.S. dollar/Japanese yen exchange rate fell sharply from the upper-JPY 108 level to JPY 104.10, involving some stop-loss orders. Following the appreciation of the Japanese yen against the U.S. dollar, the Indian rupee/Japanese yen exchange rate also fell sharply to temporarily reach JPY 1.497 for the first time since 2016. Thereafter, the U.S. Secretary of Commerce made a positive remark regarding the trade negotiations between the U.S. and China, which led the U.S. dollar/Japanese yen exchange rate to rally. Following this trend, the Indian rupee/Japanese yen exchange rate also returned to approach JPY 1.56. However, the presidents of several Federal Reserve Banks made pessimistic remarks, which slowed down the appreciation of the U.S. dollar/Japanese yen exchange rate.

Toward the second half of the month, a no-confidence vote was rejected in the U.K., while there were some positive factors related to the trade negotiations between the U.S. and China, positively reacting to which the Japanese yen depreciated against the U.S. dollar and the exchange rate reached the upper-JPY 109 level. However, market participants also sold the Indian rupee due to the depreciation of the crude oil price as well as due to fiscal deterioration. As a result, the Indian rupee/Japanese yen exchange rate did not move into any direction, hovering around the JPY 1.53 level. The Indian rupee/Japanese yen exchange market closed on January 25 at JPY 1.539.

2. Outlook for This Month

In February, the U.S. dollar/Indian rupee exchange rate remains stable.

During the first half of January, FRB officials made a series of dovish comments, as a result of which less market participants expected a policy interest rate hike in the U.S. in the times ahead, leading to the depreciation of the U.S. dollar and the appreciation of Asian currencies. As the market is starting to reflect the fact that the U.S. will not raise the policy interest rate, the trend observed last year is most likely to be reversed, leading the U.S. dollar to depreciate and currencies with high interest rates to appreciate. This trend is not likely to change at least before the end of the coming month.

However, in terms of the Indian rupee, the appreciation of the crude oil price has been a more-influential factor, and as a result, the Indian rupee depreciated in January. The OPEC countries decided to continue reduced production in January and after, while the media reported the possibility for the U.S. to introduce economic sanctions against Venezuela, which would likely lead to a decrease in supply. On the other hand, some market participants also expect a decline in demand due to the concerns over an economic slowdown in various countries such as China. Thus, both supply and demand are likely to tighten in the times ahead, which is an explanation for the recent appreciation of the crude oil price.

With regard to the crude oil supply, in particular, it is difficult to foresee the situation in the times ahead, as such is highly political. However, if the crude oil price remains high in February, it would be a negative factor for the Indian rupee.

With regard to domestic factors in India, as was mentioned in the review in the previous month, an election is scheduled in April–May this year, and fiscal expenditures are likely to expand. Indeed, the Indian government bond yields appreciated sharply in January as a result of the rumor that additional government bonds would be issued. Furthermore, the ruling party of the Indian government made a remark that the target fiscal deficit at 3.3% as a percentage of GDP is not necessarily to be achieved.

It should also be mentioned that the Consumer Price Index of India has fallen to the lowest level in 18 months due to deflation in food prices. Thus, an increasing number of market participants expect the Reserve Bank of India (RBI) to change its policy stance, which is currently "calibrated tightening," to "neutral" at the monetary policy meeting scheduled in February.

It is not possible to be optimistic about the U.S. dollar, with the growing uncertainty about the policy interest rate hike. However, from a short-term perspective, there are more factors that can weaken the Indian rupee, and therefore, the U.S. dollar/Indian rupee exchange rate is not likely to fall in the coming month.

This report was prepared based on economic data as of February 1, 2019.

These materials and the content of any related presentation are confidential and proprietary and may not be passed on to any third party and are provided for informational purposes only. Assumptions have been made in the preparation of these materials and any such presentation and Mizuho Bank, Ltd. ("Mizuho") does not guarantee completeness or accuracy of, and no reliance should be placed on, the contents of these materials or such presentation. Nothing in these materials or any related presentation constitutes an offer to buy or sell or trade and the terms of any transaction which may be finally agreed will be contained in the legal documentation for any such transaction, with such transaction being priced at market rates at the relevant time (the rates herein or in any related presentation being purely illustrative). (As a general rule you will not have a right to terminate early any transaction entered into – if you wish to do so, losses may be incurred by you.) These materials and any related presentation should not be considered an assertion by Mizuho of suitability for you of any transaction, scheme or product herein or therein. Mizuho has no duty to advise you on such suitability, nor to update these materials or contents of any related presentation. You must determine in your own judgment the potential risks involved in the transactions outlined herein or in any related presentation (taking professional financial, legal and tax and other advice) and whether or not you will enter into any transaction that may arise from these materials or related presentation. Nothing herein or in any related presentation should be construed as providing any projection, prediction or guarantee of performance or any financial, legal, tax, accounting or other advice. Mizuho shall have no liability for any losses you may incur as a result of relying on the information herein or in any related presentation. MHBK provides this information for free. Please request for cancellation of subscription if you do not want to receive free-of-charge information from MHBK.