Mizuho Bank

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Mizuho Dealer's Eye

March 2019

Mizuho Bank, Ltd.

Forex Department

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U.S. Dollar – March 2019

Expected Ranges **Against the yen: JPY109.00–112.00**

1. Review of the Previous Month

With the US employment data for January significantly beating market expectations and other US indicators also moving firmly compared to prior forecasts, US interest rates rose and the dollar/yen pair climbed to 109.58 yen on February 1. Market participants were thin on the ground in the week starting February 4 due to the Spring Festival holiday in China. With the Nikkei Average moving firmly and the benchmark yield on US 10-year treasuries bouncing back to 2.70%, the pair rose further to hit 110.16 yen. The durable goods orders data for November was finally released after being delayed due to the government shutdown. This indicator fell below expectations, so the pair also weakened. The US subsequently released some more bearish indicators, while stock prices moved heavily on the topside. Larry Kudlow, director of the US National Economic Council, then commented that the US and China were still some distance from reaching an agreement in trade talks, while President Trump said he had no plans to meet with Chinese premier Xi Jinping before the talks ended. The pair was weighed down as a result and it closed the week trading at the upper-109 yen mark.

It opened the week beginning February 11 trading at the same level. It then strengthened on rising US interest rates and news that a Japanese company would be investing in a US counterpart. Risk sentiments improved on February 12 when President Trump commented that another shutdown would probably be avoided, with the president also hinting that the deadline for the imposition of new tariffs could be pushed back. All this saw the pair moving firmly at the mid-110 yen level. The pair's topside rose to the lower-111 yen mark for a time on February 13, but it dropped back on February 14 when the US retail sales data for December fell sharply below expectations, with the pair then floating at the mid-110 yen level at the week's end.

On February 19, Bank of Japan (BOJ) governor Haruhiko Kuroda said Japan was prepared to consider further easing if necessary, with the pair subsequently rising to the upper-110 yen level for a time. However, the dollar was sold after a party involved in trade talks said the US would demand that China maintain the stability of the RMB, with the pair then dropping slightly to hit the mid-110 yen level. February 20 saw the much-anticipated release of the minutes to the FOMC meeting of January 29–30. These were quite dovish, but the markets had factored this in, with attention focused more on the fact that the FOMC had not clearly hinted at an end to rate hikes. As a result, the dollar was bought back and the pair once again rose to the upper-110 yen mark. The dollar moved bearishly on February 21 on the lackluster results of several US economic indicators. However, the pair was boosted by high hopes towards US/China trade talks, so its slide was halted at the mid-110 yen level. It then floated at this level on February 22 to close the week trading at the upper-110 yen mark.

President Trump then formally announced that the deadline for trade talks would be extended at the start of the next week, on February 25, but the markets had already priced this in, so the impact on the currency pair was muted. The pair continued to move firmly on bullish risk sentiments and it then climbed to a monthly high of 111.24 yen. However, it was then sold back at the 111 yen level. With geopolitical risk also rising on a clash between India and Pakistan, the pair temporarily fell to the lower-110 yen mark on February 27. It climbed to the 111 yen range for a time on February 28 on rising US interest rates and end-of-month dollar buying, but it was then pushed back to close the month trading at the upper-110 yen mark during Tokyo trading time.

2. Outlook for This Month

The dollar/yen pair is expected to trade with a heavy topside in March. The pair moved firmly last month, mainly because risk sentiments improved after the US government shutdown was lifted and the deadline for US/China trade talks was extended. However, there seems to be a dearth of factors capable of pushing the pair higher. In fact, given that the pair has failed to break above its 200-day moving average line (at the lower-111 yen mark) despite the improvement in risk sentiments, it seems market participants should be more on guard against yen bullishness.

Though February saw a number of positive factors, several negative factors are looming in March. First up is the FOMC meeting on March 21. It seems unlikely the FOMC will shift its policy toward 'halting rate hikes' or 'adjusting its balance sheet normalization process.' FRB chair Jerome Powell just went over old ground in speeches he made on February 26 and February 27. This suggests the March FOMC meeting will contain no new factors, with the FOMC's policy stance left unchanged. The US retail sales data for December fell sharply below expectations on its release last month. This is a further reason why the FOMC is unlikely to adopt a hawkish stance. If it continues to strike a dovish tone, US interest rates are unlikely to rise, with the dollar/yen pair subsequently moving heavily. The Brexit deadline is also looming on March 29, though this will probably be pushed back. Even if this does come to pass, there are no clear signs right now as to how the Brexit issue will eventually be resolved. Investors will find it hard to actively take risks amid this uncertainty about the future, so the yen is unlikely to weaken. On February 26, meanwhile, India launched a bombing raid in Kashmir, an area under the de facto control of Pakistan, with Pakistan then shooting down two Indian planes. With tensions between the two nations climbing, market participants are focusing on rising geopolitical risk. This could push the yen higher, so caution will be needed. However, US/China trade talks could prove a factor behind yen bearishness. The US has formally extended the deadline for the talks, with the markets reacting warmly by pushing stocks higher and the yen lower. With President Trump looking to be re-elected next year, he will probably want to avoid any sharp falls in stock prices. As such, there is room for optimism when it comes to the trade talks and this could continue to push the yen lower, so caution will be needed here too.

Dealers' Market Forecast

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

Bullish on the dollar (2 bulls: 108.00–114.00, Core: 108.00–113.50)

Seki	108.00 – 113.00	The dollar/yen pair looks set to move continue moving flatly within a narrow range, though the prognosis remains bullish. The pair will be supported by hopes towards US/China trade talks and the decline of excessive concerns about FRB dovishness. Risk assets will continue to move bullishly, with the pair set to trade firmly.
Fujimaki	108.00 – 114.00	The dollar/yen pair looks set to move firmly. US/China tensions are gradually easing off. With both countries worried about bearish stock prices, they both probably realize that they need to reach a deal. This momentum will also be supported by a dovish FRB. As such, the pair will probably rise on the stable movements of risk assets.

Bearish on the dollar (8 bears: 106.50–113.00, Core: 107.50–112.00)

Tauchi	107.50 – 111.50	As expected, the US has held back from lifting tariffs on Chinese goods for now. With the Department of Commerce also submitting an investigation report, investors should be cautious when it comes to trade talks with Japan and the EU, said to take place in earnest from here on. The US wants to prioritize cutting its deficit with Japan, so it could place tariffs on automobiles, put limits on exports to the US, or introduce foreign exchange stipulations, for example. As such, concerns about trade frictions will mean the pair is unlikely to be actively bought.
Kato	107.00 – 112.00	It is hard to see the US and China reaching an agreement about foreign exchange stipulations during trade talks. If an agreement is reached, this could see the yen falling at a faster pace. This situation is unlikely to be welcomed by the authorities. The pair's core range of 108–113 may need to be adjusted downwards slightly.
Mitsuishi	107.50 – 112.50	The FRB will probably call a halt to its policy of rate hikes and balance sheet reduction. With US/China trade talks cooling off, attention will now shift to US/Japan trade talks. As such, the pair's room on the topside will probably be capped.
Okamoto	106.50 – 113.00	The dollar/yen pair will be supported in the short term by hopes for progress in US/China trade talks, though the economy looks set to continue slowing. Though risk assets will be bolstered by the FRB's dovish stance, it is hard to see the FRB lifting rates again, so any dollar buying will be limited. The pair is expected to trade with a heavy topside in March.
Ueno	108.00 – 112.00	The dollar/yen pair has moved firmly on the strong performance of risk assets, for instance. However, it seems the markets are just enjoying a temporary boost from the decline in expectations for a tighter US monetary policy. The risk of a US economic slowdown looks set to continue climbing, so when it comes to the pair's movements from here on, market participants should remain on guard against downside risk.
Tamai	108.00 – 112.00	The dollar/yen pair looks set to continue trading with a heavy topside. The FOMC is unlikely to lift rates when it meets in March. There will also be discussions about the plan to shrink the balance sheet. Under these circumstances, the dollar will remain a hard currency to buy as the markets focus on the FRB's dovish stance. However, the pair's room on the downside will be capped by hopes for an agreement in US/China trade talks.
Moriya	108.00 – 112.00	With the FRB continuing to adopt a dovish stance, investors will refrain from buying the dollar, so the dollar/yen pair will probably trade with a heavy topside. However, concerns about the US/China trade dispute are easing off. With other central banks also following the FRB by shifting in a dovish direction, the pair is unlikely to face much downward pressure either, so it will probably remain within a narrow range.
Okuma	107.00 – 112.00	With the FRB insisting it will be very patient when it comes to rate hikes, anticipation for dollar bullishness is on the wane. FRB members are more-or-less in agreement that the policy of balance sheet reduction should end before the year is out. With another rate hike in 2019 also looking unlikely, US long-term interest rates will probably remain subdued, with the dollar/yen pair set to continue trading with a heavy topside.

Yuta Kikuchi, Forex Sales, Forex Department

Euro – March 2019

Expected Ranges **Against the US$: US$1.1200–1.1600**
Against the yen: JPY124.00–128.00

1. Review of the Previous Month

The euro/dollar pair moved bearishly in February. It swung to and fro around $1.1460 on February 1 on the release of the US January employment data and comments by Dallas FRB president Robert S. Kaplan.

The pair temporarily hit a weekly high of $1.1460 at the start of the next week, on February 4, though it then dropped to the lower-1.14 mark in the wake of comments by the governor of Italy's central bank at the weekend about downside risk in the economic growth outlook. With concerns smoldering away about the deteriorating fiscal situation in Italy, the pair then fell to around $1.14 after the revised composite eurozone PMI figure for January (released February 5) fell to its lowest level since July 2013. On February 6, a major German carmaker released some worse-than-expected business results, with the pair subsequently dropping below $1.14. With US interest rates rising, the greenback was bought and the pair continued tumbling to hit the upper-$1.13 level. On February 7 it temporarily hit a weekly low of $1.1324 after the European Commission downgraded its economic forecast for the eurozone. It then rallied to the mid-$1.13 mark and continued to move there over February 8.

The pair swung up and down mid-February. It opened the next week trading at the lower-$1.13 level on February 11. It then weakened on rising US interest rates. With concerns also growing about impending European Parliament elections and a reshuffle at the ECB, the pair continued falling to hit the upper-$1.12 range. The pair continued to be sold over February 12, though it then bounced back to the $1.13 mark as the euro was bought somewhat on position adjustments when yields rose on government bonds issued by Germany and other European nations. The pair temporarily hit a weekly high of $1.1342 on February 13, though it then fell sharply to the upper-$1.12 level after the eurozone released a worse-than-expected Industrial Production Index for December. It dropped to a weekly low of $1.1248 for a time on February 14, but with the US releasing some weaker-than-expected economic indicators, the pair rallied to the lower-$1.13 level before trading at the upper-$1.12 mark over February 15.

The currency pair rose late February. It staged an independent rally and was bought to the lower-$1.13 range at the start of the next week, on February 18. On February 19, ECB executive board member Peter Praet said the ECB might adjust the timing of rate hikes if the eurozone economy continued to slow. The pair subsequently hit a weekly low of $1.1276, but the dollar was then sold on news related to US/China trade talks, so the pair surged back to the upper-$1.13 mark. On February 20, Spain's foreign minister Josep Borrell commented that a revised Brexit agreement was being "hammered out right now." This saw the pound rising, with the euro/dollar pair also following suit to hit a weekly high of $1.1371. The dollar was the bought and the pair dropped back to the lower-$1.13 level following the release of the minutes to the FOMC meeting. It fell further on February 21 on rising US interest rates. The pair moved at the lower $1.13 level on February 22. Concerns of a no-deal Brexit eased on February 26 on reports that UK prime minister Theresa May was considering extending the Brexit deadline. The pound rose against the dollar, with the euro/dollar pair also climbing to temporarily hit $1.1402. The pair rose to $1.1404 for a time on February 27 after Bundesbank governor Jens Weidmann said the basic scenario going forward would be a normalization of monetary policy. The pair then moved around $1.1375 on February 28.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in March. This is mainly because of concerns that the ECB Governing Council will make a dovish announcement and will also discuss the TLTRO when it meets on March 7, with the pair also likely to be buffeted by uncertainty about Brexit.

Amid growing fears about an economic slowdown in Europe and China, for example, long-term interest rates continued to slide across the globe. With the eurozone economy also showing signs of slowing, the Economic Surprise Index (a record of the divergence between the forecasts and actual results of economic indicators) has dipped sharply into negative territories. The preliminary Markit Manufacturing Purchasing Managers Index (PMI) for the eurozone (released February 21) fell to 49.2, the first time it had dropped below 50 (the key line dividing expansion from contraction) in around five years, since June 2013. The February Markit Manufacturing PMI for Germany (preliminary) also continued to slide to hit 47.6, its lowest level since December 2012. This was due to a sharp fall in new orders and new overseas orders, a fact indicative of strong fears when it comes to Brexit and the imposition of higher tariffs by the US.

The minutes to the ECB Governing Council meeting of January 23–24 were also released on February 21. These struck a dovish tone, with several members talking about the downside risks for eurozone economic growth. In his press conference after the meeting, ECB president Mario Draghi admitted there had been more discussions about the introduction of a targeted long-term refinancing operation (TLTRO). Recent comments by ECB officials have made it clear the ECB is looking into introducing a new TLTRO. ECB Executive Board member Benoît Cœuré, a candidate for the ECB governorship, revealed that a TLTRO was a distinct possibility, with the ECB currently debating the issue, for example, while ECB executive board member Peter Praet also said the ECB Governing Council would be holding consultations about a TLTRO when it met in March. Given concerns about US/China trade frictions, uncertainty about Brexit, and the global economic slowdown, it seems the eurozone economic slump could continue throughout 2019. There is even talk that the ECB Governing Council could downgrade its economic growth outlook again when it meets on March 7. The decision about the TLTRO is one of several reasons why market participants will need to keep a close eye on the impending ECB Governing Council meeting. They should also monitor the performance of eurozone economic indicators released in the run up to the March 7 meeting.

As for Brexit, hopes that no-deal Brexit could be avoided flared up on February 26 on expectations that UK prime minister Theresa May would apply for an extension to the Brexit deadline in the near future. This was the first time Mrs. May had mentioned such an extension, so events will need to be watched closely from here on, though the situation will probably remain fraught with uncertainty for the time being.

Dealers' Market Forecast

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

Bullish on the euro (2 bulls: 1.1200–1.1600, Core: 1.1200–1.1550

Fujimaki	1.1200 – 1.1600	The euro/dollar pair will be swayed by headlines related to Brexit. It is expected to trade in a range between $1.12–1.15 on the whole. However, the markets have already priced in negative factors to a considerable extent, so if there is any movement, it will probably be the euro rising against the dollar.
Okamoto	1.1200 – 1.1500	The prospect of a no-deal Brexit is receding, with the euro and other European currencies growing comparatively easier to buy. The ECB has steered in a more dovish direction. Not only has it ruled out rate hikes, it has also discussed introducing a new TLTRO. This is likely to lead to euro selling, though the euro/dollar pair will probably move firmly as various political risks recede.

Bearish on the euro (8 bears: 1.1100–1.1500, Core: 1.1100–1.1500)

Tauchi	1.1100 – 1.1500	The ECB is cautious when it comes to the economic outlook, with some voices hinting that rate hikes could be pushed back, with the ECB's refinancing policies strengthened again. These movements will continue to attract attention in March. The euro/dollar pair will be weighed down by concerns about a stand-off between the European Commission and Italy's government, with the pair also hit by growing political instability in Spain ahead of a general election. There is likely to be strong pressure for euro sell-backs, with the pair set to trade with downside risk.
Kato	1.1100 – 1.1500	Policy normalization is starting to look like a distant prospect. Though the Brexit deadline will probably be extended, the risk of a no-deal Brexit still remains. If this scenario starts to look more likely, the pound will fall, with the euro/dollar pair also following suit.
Seki	1.1000 – 1.1500	The euro/dollar pair will be supported by ongoing moves away from a no-deal Brexit together with the sense of relief that greets the extension of the Brexit deadline. The Brexit debate will still continue from here on, though. With concerns also growing that the ECB is stepping back from the path of policy normalization, the currency pair is unlikely to undergo a sustained rise.
Mitsuishi	1.1000 – 1.1500	The ECB will probably refrain from lifting rates given the current performance of the eurozone's economy. The eurozone also remained plagued by political instability and the Brexit issue. As such, the euro/dollar pair's room on the topside will probably be capped.
Ueno	1.1200 – 1.1500	It seems certain the Brexit deadline will be extended, with no-one wishing to see a no-deal Brexit. Under these circumstances, the euro is unlikely to be sold sharply. However, expectations for ECB normalization have already fallen to low levels, with economic indicators performing weakly. The euro will probably be sold on the weakness of the eurozone economy.
Tamai	1.1100 – 1.1500	Concerns of an economic slowdown are growing on the release of several bearish economic indicators. The euro will also be weighed down by political instability related to Brexit and deteriorating Franco/Italian relations. The ECB is unlikely to lift interest rates. In fact, it might even introduce a new long-term financing operation. As such, the euro/dollar pair is expected to trade with a heavy topside.
Moriya	1.1100 – 1.1500	The eurozone continues to release weak economic indicators, with expectations for a 2019 rate hike receding sharply. Attention is also likely to fall on the Brexit issue, with the euro/dollar pair set to trade with a heavy topside.
Okuma	1.1000 – 1.1500	The markets have grown more optimistic that a no-deal Brexit can be avoided given that UK prime minister Theresa May has added an extension to the Brexit deadline to the list of possible options. However, the future remains uncertain. With European economic indicators moving bearishly, it is hard to imagine the ECB embarking along the path of policy normalization this year. As such, the euro/dollar pair is expected to move bearishly in March.

Fumihiko Kanda, Europe Treasury Department

British Pound – March 2019

Expected Ranges	Against the US$:	US$1.2500–1.3200
	Against the yen:	JPY138.00–149.00

1. Review of the Previous Month

The pound was sold early February on uncertainty about Brexit, though it was bought back in the latter half of the month on hopes that the Brexit deadline would be extended.

The pound/dollar pair opened the month trading at a monthly high of $1.3113 on the morning of February 1, though sterling was then sold on the worse-than-expected results of the UK Manufacturing PMI for January. A Japanese carmaker announced at the weekend that it had scrapped plans to invest in the UK. This news saw the pair moving with a heavy topside on February 4. The pair recovered to the $1.31 range in the afternoon after the UK authorities announced that imports from the EU would be waved through customs to avoid any logjams in the event of a no-deal Brexit. With the UK Services PMI for January then dropping below expectations on February 5, though, the pair soon fell below the key $1.3 level. The pound continued to be sold despite reports that UK prime minister Theresa May would be holding talks with European Commission President Jean-Claude Juncker on February 7. With UK house prices continuing to fall in January, Mr. Juncker then ruled out any Brexit renegotiation on February 7. The Bank of England (BOE) then kept monetary policy unchanged, though it downgraded its growth outlook, with the pair dipping temporarily below $1.29. However, BOE governor Mark Carney then reiterated during his press conference that interest rates would be lifted even in the event of a no-deal Brexit, so the pair bounced back to $1.29 to cover the short position.

At the start of the next week, on February 11, the pair dropped back to the $1.28 range after the UK 4Q GDP data fell below expectations. With a UK parliamentary vote looming, the pair was sold to a monthly low of $1.2773 on February 14 on uncertainty about Brexit. It then traded around $1.28 in the evening after Mrs. May's withdrawal plan was shot down by the UK parliament, as expected. The UK retail sales data for January unexpectedly rose sharply on its release on the morning of February 15. President Trump then commented that trade between the UK and the US could increase, with the currency pair subsequently climbing to the mid-$1.28 mark.

With the US on holiday on February 18, reports emerged that a major Japanese carmaker was considering closing a UK factory in 2022, though the reaction of the markets was muted and the pair climbed to the $1.29 range. With Mrs. May and Jean-Claude Juncker set to meet again on February 20, the pound was bought on a sense of anticipation after the US returned from holiday on February 19. The pound moved firmly on February 20 too and it then strengthened on comments by Spain's foreign minister Josep Borrell that a revised Brexit agreement was being hammered out. Reports after the February 20 meeting suggested the Brexit agreement could be tweaked to avoid a permanent backstop, though no agreement was actually reached. The currency pair continued to be swayed by a mix of positive and negative headlines in the run up to a parliamentary vote on February 27.

Over the weekend, on February 24, it was announced that the parliamentary vote on February 27 would be postponed until March 12. News then emerged that the EU would offer Theresa May a 21-month delay if she could not get her deal through parliament. This saw sterling moving firmly on February 25 too. The pound was bought further toward the end of trading on the same day on reports that the Labour Party had offered conditional support for a second referendum.

2. Outlook for This Month

The pound will probably be bought as Brexit-related trends continue to shape the market.

UK prime minister Theresa May insists the UK will leave the EU as planned on March 29 and she still intends to get the UK parliament to approve the withdrawal deal she reached with the EU last year. However, the plan faces strong opposition when it comes to the backstop for the Irish border, so as things stand, it seems unlikely the deal will pass. Mrs. May is trying to renegotiate the deal with the EU, but the EU has said the deal is not up for renegotiation. Mrs. May planned to revise the wording of the agreement to rule out a permanent backstop, with the deal then put before parliament again on February 27, though it seems likely the vote will instead be pushed back to March 12. It seems Mrs. May is playing a game of brinksmanship by delaying a vote until the last possible moment, until the only choice is between her deal or a no-deal Brexit. Renegotiations with the EU will be key from here on, but Mrs. May's strategy has been criticized harshly both from within and without her party. With the risk of a no-deal Brexit still lingering, the pound will also be weighed down by the risk of cabinet resignations or a party split.

Furthermore, though Mrs. May has ruled it out, the EU is now focusing on an extension to the Brexit deadline. With the European Parliament elections looming in May, several voices has voiced concerns about the timing and it is unclear how long a delay people would be prepared to tolerate. However, there have been reports about a 21-month delay and this issue is likely to attract attention from here on. Attention is also focusing on moves by some UK MPs to pass a bill ruling out a no-deal Brexit, though the impact on the pound will probably be muted.

However, the momentum behind a second referendum could well increase from here on. If this happens, the pound could be pulled higher. News emerged on February 19 that a major Japanese carmaker would be closing a UK factory. The impact on the pound/dollar pair was muted, but the news made huge waves within the UK, with public opinion growing more concerned about the lack of any resolution when it comes to Brexit. A recent opinion poll said two-thirds of voters would prefer to remain in the EU rather than accept the current deal. With Mrs. May refusing to budge and the UK political situation deadlocked, reports suggest a new party might be formed by MPs who have broken away from the ruling and opposition parties. From here on, market participants will need to keep a close eye on the direction of the debate about a second referendum. Though unlikely, a no-deal Brexit could still happen, so this will require constant monitoring too.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – March 2019

Expected Ranges	**Against the US$:**	**US$0.7000–0.7300**
	Against the yen:	**JPY77.50–80.50**

1. Review of the Previous Month

The AUS/USD pair traded between $0.70–$0.72 in February.

It opened the month trading at the mid-$0.72 mark, though it then dropped to the lower-$0.72 level on the worse-than-expected results of the Chinese Caixin Manufacturing Index and Australian building approvals data. The board of the Reserve Bank of Australia (RBA) kept the cash rate fixed at 1.50% when it met on February 5, though its statement was not as dovish as the markets had expected, so the pair climbed to the upper-$0.72 level. On February 6, RBA governor Philip Lowe surprised many during a speech when he said rate cuts were also a possibility alongside rate hikes. This saw the pair sold sharply to around $0.71. The RBA's Quarterly Statement on Monetary Policy was released on February 8 and it talked about economic uncertainty as a result of a housing market slowdown, with the pair then sliding further to hit the mid-$0.70 mark.

It then climbed to around $0.71 mid-February after President Trump made some optimistic comments about US/China trade talks. China released a better-than-expected economic indicator on February 14. The US retail sales data was also released on the same day and it was sharply down on expectations. These results saw the pair moving erratically from the lower-$0.71 mark to the upper-$0.70 level. It then rose to the mid-$0.71 range on February 15 after the governor of the San Francisco FRB said there would be no rate hikes in 2019. The minutes to the RBA board meeting were released on February 19 and they mentioned that both rate hikes and rate cuts were on the table while also stressing the weakness of the housing market. This saw the pair sliding to the lower-$0.71 mark, though it then rose to the upper-$0.71 level on a growing sense of optimism about US/China trade talks.

The Australian employment data was released late February, with the number of full-time workers rising, as expected. The pair subsequently rose to around $0.72, though it then slipped to the mid-$0.71 level after a well-known economist from a major Australian bank said he expected the RBA to cut rates twice (in August and November). The economist also cut his forecast for GDP growth in 2019 and 2020 from 2.6% to 2.2%, with the unemployment rate subsequently set to rise to 5.5% by the end of 2019. News then emerged that the customs authorities at the Chinese port of Dalian would be banning imports of Australian coal (the Chinese government later denied these reports), so the Australian dollar was sold on growing concerns about the negative impact on the Australian economy. The currency pair subsequently dipped a low of $0.7070, though it staged a slight comeback on reports of progress in US/China trade talks and it finally closed the month trading at the $0.7092 level.

2. Outlook for This Month

The AUS/USD pair could swing erratically around the $0.71 mark in March.

Attention will be focused on: uncertainty about the Australian and global economy; the direction of US/China trade talks and Brexit; and further news about a Chinese ban on Australian coal imports.

President Trump said "substantial progress" had been made after US/China trade talks ended on February 24 and he said he would delay the tariff increase on Chinese imports until he had a chance to meet with the Chinese president Xi Jinping. If the trade dispute is resolved, the Australian dollar will probably be bought back, but if the dispute drags on, the Australian unit will probably be sold on risk aversion.

With the Brexit deadline looming at the end of March, meanwhile, the UK's chief negotiator said he would push the EU to attach legal guarantees to the Irish border backstop in order to make the withdrawal agreement more amenable to the UK parliament, but the UK government is still some way away from getting the changes it needs. The House of Commons was due to vote on the withdrawal bill on February 27 but the vote was pushed back to March 12. With a no-deal Brexit looking more likely, investors will be monitoring the impact on the forex markets.

As for Australian monetary policy, market bets on a rate cut by the end of the year rose to 53% after a well-known economist from a major Australian bank said he expected the RBA to cut rates twice (in August and November). Australian economic indicators will continue to attract attention this month. If expectations for an Australian rate cut swell further, this will exert downward pressure on the Australian dollar.

As for the China issue, a spokesperson for the Chinese Foreign Ministry denied reports of a ban on imports of Australian coal during a regular press conference on February 22, but subsequent reports said the Chinese authorities were taking steps to delay imports, with at least one major port banning customs procedures for Australian coal, for example. The Australian dollar could shift significantly depending on the contents of reports released from here on.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – March 2019

Expected Ranges	**Against the US$:**	**C$1.3000–1.3500**
	Against the yen:	**JPY80.00–86.00**

1. Review of the Previous Month

The USD/CAD pair had traded erratically in December and January, but it regained composure in February and moved without much volatility. The pair essentially traded in a range from C$1.31 to C$1.33. It hit a monthly high of C$1.3340 on February 14 and a monthly low of C$1.3069 on February 1.

The pair opened the month trading at the C$1.31 range and it continued floating at this level. However, Bank of Canada (BOC) deputy governor Timothy Lane said in a speech on February 6 that the recent weakness of the Canadian dollar would "help support the economy." The Canadian unit fell as a result, with the currency pair climbing to the C$1.33 range on February 7.

With crude oil prices then rallying and global stocks moving bullishly, the pair edged lower to hit the C$1.31 mark on February 20.

In a speech on February 21, BOC governor Stephen Poloz said that although the direction of monetary policy was data dependent, the BOC was unsure what the next policy move would be. These comments saw the pair rising from C$1.31 to C$1.32.

During cabinet-level US/China trade talks on February 22, China agreed to import US goods worth $1.2 trillion, with the Chinese side commenting that substantial progress had been made. President Trump also made several comments about the trade talks. He said the tariff increase scheduled for March 1 could be pushed back if the talks went well, for example, though he also said he was unsure whether he would reach a final agreement in talks with the Chinese president Xi Jinping. The markets had essentially finished factoring in optimism about the talks, so the pair then dropped back to the C$1.31 range.

At the start of the next week, on February 25, President Trump announced that the March 1 deadline for tariff hikes had been postponed.

FRB chair Jerome Powell testified before Congress over February 26–27. His testimony continued nothing new, though more attention will be drawn to the direction of balance sheet reduction going forward.

2. Outlook for This Month

The USD/CAD pair's movements in March will essentially be unchanged from the previous month. Expectations that the FRB will refrain from hiking rates have grown since: a January 4 panel discussion involving FRB chair Jerome Powell, the January 30 FOMC meeting, and comments by FRB officials. There is also a sense that the BOC will refrain from hiking rates too. From here on, more attention will probably focus on the FRB's balance sheet reduction policy and how big the balance sheet will be when the policy is wound down.

Composure has also returned to the credit and stock markets, with WTI crude oil prices also bouncing back to $57/barrel. It remains hard to predict how the US/China trade spat will develop, but both parties seemed to have stepped back substantially from any further escalation.

There is an ongoing risk that some indicators could reveal that the slowdown in western Canada is significantly worse than expected. As with last month, though, with both the US and Canada shifting monetary policy in a dovish direction, the pair looks set to float around the lower-$1.3 mark.

Yasunori Shimoyama, Seoul Treasury Office Treasury Office

Korean Won – March 2019

Expected Ranges	**Against the US$:**	**KRW1,100–1,140**
	Against the yen:	**JPY9.662–10.050 (KRW100)**
		(KRW9.950–10.350)

1. Review of the Previous Month

The USD/KRW pair rose in February compared to the end of January. It opened the month trading at KRW1112.20. It then hit a monthly low of KRW1110.90 during the same day. With the New Year holiday looming the following week, though, the won was gradually sold on position adjustments.

South Korea was on New Year holiday over February 4–6, with the pair trading at KRW1120.00 when trading opened again on February 7. Sentiments then worsened during overseas trading time after President Trump said he had no plans to meet with Chinese president Xi Jinping before the deadline for US/China trade talks. The euro was also sold against the dollar after the European Commission significantly downgraded its eurozone growth outlook for fiscal 2019. The dollar was subsequently bought across the board, with the USD/KRW pair also rising.

The pair fluctuated gently ahead of US/China trade talks over February 14–15, but market uncertainty increased during overseas trading time on February 14 after President Trump declared a national emergency, with the pair then hitting a monthly high of KRW1128.90 on February 15. It then moved flatly again, though news then emerged during overseas trading time on February 19 that the US would be asking China to stabilize the RMB during trade talks scheduled for February 21. The RMB was pulled higher on February 20 and the Korean won was also bought.

During the early hours of February 25, President Trump announced that the March 1 deadline for the imposition of new tariffs would be postponed. The RMB was subsequently bought and the won followed suit. The pair traded from the mid- to upper-KRW1110 mark over February 26–27 on hopes regarding a US/North Korea heads-of-state meeting together with end-of-the-month won buying. The aforementioned meeting took place over February 27–28. During the start of onshore trading on February 28, news emerged that the results of the meeting would be delayed. This worried the markets and the won was sold sharply, with the pair closing the day trading at KRW1124.70. When the Bank of Korea (BOK) Monetary Policy Board met on the same day, it kept the policy rate fixed, as expected. In his press conference after the meeting, the BOK governor reiterated that the time was not right to discuss rate cuts, though there was nothing particularly newsworthy besides this.

2. Outlook for This Month

The USD/KRW pair is expected to continue trading in a range in March.

The US/North Korea heads-of-state meeting at the end of February failed to reach an agreement on lifting sanctions, for example, and there was no joint declaration either. With President Trump rushing to score some victory in order to maintain or boost his approval ratings, it was thought the meeting would yield some results, though things did not turn out as most observers had expected.

With this event out of the way, the pair will probably be swayed in March by: US/China trade talks; reports about the Trump/Russia investigation, which is set to conclude soon; and the results of the Chinese National People's Congress, which will be held from March 5. Despite all these factors, the pair is expected to trade in a range on the whole.

The US was set to lift tariffs on Chinese imports from March 2. Though this deadline has been extended, the situation will still require monitoring from here on. President Trump will be wanting to announce some results after meeting with Chinese president Xi Jinping, but no dates for the meeting have been set as of the time of writing. Risk sentiments will be swayed by even the slightest move by President Trump, with the currency pair set to swing up and down. The Chinese National People's Congress will be held from March 5. The pair could be buffeted if the meeting discusses economic stimulus measures or relations with the US, so market participants will need to monitor events.

It seems special counsel Robert Mueller will soon present the US attorney general with the results of his investigation into possible collusion between President Trump and Russia. With Mr. Trump's former lawyer recently testifying to Congress that he regretted helping to conceal his former boss's actions, for example, things are not looking good for the president. If the report does slam the president, this could lead to dollar selling, so caution will be needed. For now, though, investors will just need to watch how things develop.

With the deadline for Brexit is also looming, it looks like March will be an eventful month. Provided no decisive news emerges, the pair is expected to continue trading in a range, though market participants should keep a clear-headed eye on developments.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – March 2019

Expected Ranges	**Against the US$:**	**NT$30.60–30.95**
	Against the yen:	**JPY3.48–3.70**

1. Review of the Previous Month

In February the USD/TWD pair traded in a narrow range around TWD30.8.

The pair opened the month trading at TWD30.750 on February 1.With the Spring Festival holiday looming the following day, the pair moved sluggishly with a lack of direction.

During the holiday, concerns about a slowdown in the eurozone rose, with the greenback subsequently strengthening. As a result, the US dollar was bought and the Taiwan dollar sold when Taiwan came back from holiday on February 11. The USD/TWD pair temporarily rose to the mid-TWD30.8 mark, though its topside was held down at this level by strong appetite for dollar selling among exporters. With the March 1 deadline for trade talks looming, the US and China held a series of undersecretary-level and cabinet-level meetings, with market participants slipping into wait-and-see mode as they monitored how events would develop. During this time, the currency pair remained deadlocked at the lower-TWD30.8 level.

With the US/China trade talks failing to produce any concrete results, the pair continued to trade in a narrow range in the latter half of the month. Overseas funds then flowed into Taiwan on firm stock movements, so the Taiwan dollar was bought for a time and the pair dropped to the TWD30.7 range, though it soon returned to its original level.

On February 25, President Trump announced that the deadline for the next tariff hike would be pushed back. He said any such move would now wait until he had met the Chinese president Xi Jinping. The markets reacted warmly. As stocks rose, the greenback was sold and the Taiwan dollar bought, with the currency pair weakening to TWD30.778. With exporters also selling the US dollar in greater volumes towards the month's end, the pair then moved with a heavy topside.

2. Outlook for This Month

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

A glance at the economic indicators released in February shows the January export amount dipping by -0.3 % y-o-y to record negative growth for the third straight month. The breakdown shows exports of electronic parts (a key Taiwanese product) hitting +0.8% y-o-y, an improvement on December's figure of -9.9% y-o-y, though plastic and rubber products plunged by -13.1% y-o-y, with exports of chemicals also falling sharply by -12.3% y-o-y. At -7.5% y-o-y, exports to China and Hong Kong (which account for over 40% of all Taiwan's exports) continued to contract on the US/China trade dispute. This pulled overall growth down sharply. Taiwan's January CPI data hit +0.20% y-o-y. The cost of food rose, though overall growth slowed on the falling cost of clothes and communication expenses. At +0.53% y-o-y, the core CPI data (excluding volatile fresh food and energy prices) was essentially unchanged on the previous month (+0.51% y-o-y).

Following a series of undersecretary-level and cabinet-level meetings in February, President Trump announced he would postpone the next tariff hike on Chinese imports. This led to a growing sense of optimism about US/China trade talks. March will probably see the first US/China heads-of-state meeting since December last year, so markets participants will be watching to see whether a deal will be reached.

Attention will remain focused on monetary policy in March too. The US FOMC will be meeting over March 20–21. A rate hike seems unlikely at present, with the focus shifting to the federal fund rate projections of FOMC members, released after the meeting. With the FRB adopting a dovish stance, attention will focus on how far the projections will be downgraded from the last time around. The Central Bank of the Republic of China will also be holding its quarterly Monetary Policy Meeting on March 21. With the economy and inflation slowing, it seems the Monetary Policy Meeting will keep the discount rate (the policy rate) fixed at 1.375%, so the impact on the currency pair will probably be muted.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – March 2019

Expected Ranges	**Against the US$:**	**HK$ 7.8300–7.8500**
	Against the yen:	**JPY 13.75–14.30**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar exchange rate gradually fell and reached HKD 7.8494, only 6 pips above the lower band of the fluctuation band, as the interest rate differential grew wider between the U.S. dollar and the Hong Kong dollar. In particular, the one-year Hong Kong dollar forward point reached the level of –600 to –700 points for the first time in 10 years, reflecting interest rate differentials that have significantly grew wide. Fewer market participants were expecting the Hong Kong dollar interest rate to be raised further under the peg system between the U.S. dollar and the Hong Kong dollar, given the shift of the Federal Reserve Board (FRB) to a dovish attitude, as well as its patience regarding monetary policy. As the trade negotiations between the U.S. and China advanced, and as the FRB turned more dovish, funds flew into the Hong Kong market, which led the Hong Kong stock market and real estate market to recover robustly. This capital inflow into the Hong Kong market may have kept the Hong Kong dollar from depreciating against the U.S. dollar to the HKD 7.85 level in February. It should also be mentioned that the Hong Kong Monetary Authority (HKMA), the equivalent of the central bank of Hong Kong, announced that its governor, Norman Chan, would resign in October. However, there was little reaction to this news story in the market.

Hong Kong dollar interest rate market in February

In February, there were neither seasonal factors nor large-scale IPOs, and thus the Hong Kong dollar interest rates fell significantly. The one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR fell below the U.S. dollar LIBOR, reaching 0.95% and 1.60%, respectively. The spread between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR grew even wider to –150 basis points for the one-month rates and –110 basis points for the three-month rates. While the liquidity level for the Hong Kong dollar remains high, there would be almost no reason for commercial banks in Hong Kong to raise interest rates if the FRB ends its phase of interest rate hikes for the foreseeable future. Furthermore, as the FRB implied the possibility of ending its measures of monetary tightening, funds remained in the Hong Kong market. The inter-bank fund procurement interest rate, the index for the fund procurement cost, fell for the first time in a year, from 0.89% to 0.83%. The Hong Kong dollar IRS interest rates remained almost flat at 2.10% and 2.20% for three years and five years, respectively.

Hong Kong stock market in February

In February, the benchmark Hang Seng Index (HSI) rose significantly to 28,500, thanks to the optimistic view about the trade negotiations between the U.S. and China. There was a historically high fund inflow into the Chinese A stock market through the Stock Connect scheme. As a result, the robustness of Chinese A stocks pushed up the Chinese stock prices that are listed in the Hong Kong market. Furthermore, the 5G-telecommunications sector grew rapidly, thanks to the support by the Chinese government.

2. Outlook for This Month

Hong Kong dollar spot exchange market in March

In March, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.83 and HKD 7.85. Given that the interest rate differentials continue to grow wider between the U.S. and Hong Kong, it is possible for the Hong Kong dollar to immediately touch the lower end of the fluctuation band at HKD 7.85 to the U.S. dollar. In such a case, the peg system between the U.S. dollar and the Hong Kong dollar will be maintained through market interventions by the HKMA. As the frictions between the U.S. and China were mitigated, it is unlikely for funds to rapidly flow out of the Hong Kong market or for the liquidity level to fall. Therefore, the checkable deposit balance of the HKMA is likely to decrease only to a certain degree, even after the Hong Kong dollar depreciates against the U.S. dollar to the HKD 7.85 level.

Hong Kong dollar interest rate market in March

As the FRB implied a temporary halt of its interest rate hikes, the Hong Kong dollar interest rates are forecast to remain low in March. Under the peg system between the U.S. dollar and the Hong Kong dollar, the pressure to raise the Hong Kong dollar interest rates caused by the monetary tightening by the FRB has significantly weakened. It should also be mentioned that the FRB has revised its balance sheet, which led to capital inflow into the Hong Kong market. However, it is too early to conclude that the appreciation of the Hong Kong dollar interest rates has ended, as there are risks for the Hong Kong dollar interest rates to rise, mainly due to the fall of the liquidity level as a result of market interventions taken to protect the Hong Kong dollar. For the moment, however, risks of capital outflow have been mitigated, thanks to the improved relations between the U.S. and China. Thus, it is unlikely for the liquidity level to fall or for the

Hong Kong dollar interest rates to rise due to frictions between the U.S. and China. In general, the fund procurement cost for the Hong Kong dollar has been controlled, and even if the checkable deposit balance of the HKMA decreases, it is not likely for the HKMS to cut the Hong Kong dollar prime rate.

So Ouchi, Treasury Division, MHBK (China)

Chinese Yuan – March 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 February, the U.S. dollar/Chinese yuan exchange market was highly volatile due to: the sense of uncertainty about the trade negotiations between the U.S. and China, for which the deadline was set for March 1; issues related to the exit of the U.K. from the European Union (Brexit); and the future of European politics, as well as the budget issues in the U.S.

After the holidays of the Chinese New Year (February 4–8), European currencies depreciated as the fiscal situation in Italy deteriorated, while the sense of uncertainty was mounting over Brexit strategies. On the other hand, in the U.S., it seemed possible to avoid another government shutdown, which led the U.S. dollar to appreciate. As a result, the U.S. dollar/Chinese yuan exchange rate rose to temporarily reach the upper-CNY 6.79 level.

Thereafter, the media reported that the U.S. had requested China to maintain the stability of the Chinese yuan exchange market and had intention to include the stability of the Chinese yuan exchange market in the trade agreement between the U.S. and China. In reaction to this, the Chinese yuan appreciated against the U.S. dollar. As market participants were increasingly hopeful for the progress in the trade negotiations between the U.S. and China, the appreciation of the Chinese yuan accelerated further, and the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.67 level for the first time since July 2018.

Toward the second half of the month, U.S. President Donald Trump officially extended the deadline for the trade negotiations and the imposition of the customs duty increase, which kept the Chinese yuan robust, and the U.S. dollar/Chinese yuan exchange rate remained below CNY 6.70.

Interest rate market

There was no excessive demand for fund procurement, and the interest rates remained stable, as a result of the deposit reserve requirement ratio cut carried out in the previous month, as well as the sufficient capital supply from the People's Bank of China (PBOC). After the holidays of the Chinese New Year, the interest rate level remains stable and the market liquidity level remains high. Toward the second half of the month, the capital demand & supply balance tightened slightly due to the tax increase and fund absorption through open-market operations carried out for several consecutive days. As a consequence, the overnight SHIBOR rose to 2.605%. On the other hand, interest rates for longer terms remained low and stable.

2. Outlook for This Month

Foreign exchange market

With regard to the trade negotiations between the U.S. and China, there have been positive headlines such as the extension of the deadline for the negotiations and the imposition of the customs duty increase. The upward pressure is likely to strengthen on the Chinese yuan in March.

On the other hand, with regard to Europe, the Brexit issues have not yet been resolved, and if the possibility for the U.K. to leave the EU without an agreement increases, it is possible for the depreciation of European currencies to lead the U.S. dollar to strengthen, resulting in the depreciation of the Chinese yuan against the U.S. dollar. It is therefore important for market participants to remain cautious about headlines related to Europe.

Interest rate market

Since the end of the previous month, the upward pressure has been strengthening on interest rates—the overnight interest rate, in particular. However, the Chinese monetary authorities maintained its moderate monetary policy. Interest rates for other terms have been low, and they are expected to remain stable from a short-term perspective.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – March 2019

Expected Ranges	**Against the US$:**	**SG$ 1.3400–1.3600**
	Against the yen:	**JPY 80.50–83.50**

1. Review of the Previous Month

In February, the U.S. dollar/Singapore dollar exchange market opened at the mid-SGD 1.34 level, after which market participants started buying back the U.S. dollar and selling the Singapore dollar toward the middle of the month, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.36 level. Toward the end of the month, expectations were mounting toward the trade negotiations between the U.S. and China, strengthening the currencies of emerging countries. Following this trend, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate approached SGD 1.35.

In the first and second weeks of the month, the U.S. interest rates continued appreciating as a result of the fact that the U.S. employment statistics were released on February 1 and because the results exceeded the market estimate, which encouraged market participants to buy back the U.S. dollar. Market participants thus sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level. On February 4, after the weekend, there were less market participants due to the Chinese New Year, and the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range at the lower-SGD 1.35 level. On February 7 and 8, the sense of uncertainty grew over Brexit negotiations, while the European Commission revised the economic outlook for the eurozone downward. Furthermore, France announced its decision to pull out its ambassador in Italy in order to protest against "repeated criticisms and provocations." Under such circumstances, the euro and the British pound depreciated, which kept the U.S. dollar strong. As a result, the Singapore dollar weakened against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate remained at the upper-SGD 1.35 level.

In the third week of the month, the U.S. dollar interest rates appreciated with expectation for progress in the budget negotiations in the U.S., while European currencies were weakening. As a consequence, the U.S. dollar strengthened and market participants sold the Singapore dollar, and this led the U.S. dollar/Singapore dollar exchange rate to reach the lower-SGD 1.36 level. On February 12, the December retail sales of Singapore were announced, recording negative growth, as was the case in the previous month. However, there was limited reaction in the market. U.S. President Donald Trump mentioned the possibility to postpone the deadline of the imposition of the additional customs duties against China, fueling risk-taking sentiment in the market. Under such conditions, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.35 level. From February 13, market participants bought back the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fluctuated within a limited range at the upper-SGD 1.35 level.

In the fourth week of the month, while there were few market actions, as it was a national holiday in the U.S., the January non-oil domestic exports (NODX) numbers were announced. The negative growth of the results was more significant than the market estimate, in reaction to which market participants sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.35 level. On February 19, the media reported that the U.S. had requested the stability of the Chinese yuan exchange market in the trade negotiations between the U.S. and China. As a result, market participants bought the Chinese yuan and sold the U.S. dollar. Following this trend, market participants also bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.35 level. On February 20 and after, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the same level.

In the fifth week of the month, the U.S. extended the deadline for the imposition of the customs duty against China. Positively reacting to this news, risk-taking sentiment grew in the overall market and the Singapore dollar strengthened against the U.S. dollar to a level around SGD 1.35.

2. Outlook for This Month

In March, the U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate within a narrow range. There are factors that can strengthen the U.S. dollar through the depreciation of other currencies, such as the sense of uncertainty over Brexit negotiations as well as the downward revision of the economic outlook by the European Commission and the deterioration of the relationship between France and Italy. On the other hand, there are also factors to encourage market participants to buy Asian currencies, including the Singapore dollar, and to sell the U.S. dollar, such as the improvement of risk sentiment, thanks to expectation for progress in the trade negotiations between the U.S. and China. Thus, it is likely for both factors to cancel out each other.

In the U.S., the Federal Open Market Committee (FOMC) meeting was scheduled for March, and market participants were waiting to see the attitude of the FOMC regarding interest rate hikes. In the minutes of the FOMC meeting released in the month previous, it turned out to be that downside risks strengthened and that almost all the committee members wished to end the balance sheet reduction, while there was still some possibility for interest rate hikes in 2019, which was not as dovish as expected. If the Federal Reserve Board (FRB) slows down the normalization process of its monetary policy involving not only the policy interest rate but also the revision of the balance sheet policy, it would be a positive factor for Asian countries, including Singapore, by mitigating the pressure of capital outflow.

On the other hand, the confirmed figure of the GDP of Singapore for the fourth quarter was released last month, and the figure was revised downward from the preliminary figure announced in January, from +2.2% to +1.9% year-on-year and from +1.6% to +1.4% from the previous quarter. This suggests that the trade frictions and the worldwide decline in demand started to affect the figures. Even though the economic growth rate for 2018 tuned out to be 3.2%, exceeding the 3% mark for the second consecutive year, there is possible negative impact on the NODX. It should be mentioned as a source of concern that the January NODX was –10.1%, with a widening negative growth rate. Under the current condition, there is no change in the monetary policy of the Monetary Authority of Singapore (MAS), which continues to lead the Singapore dollar to appreciate in the medium-to-long term. However, concerns are growing globally over an economic slowdown, and market participants should remain careful about the economic conditions of Singapore.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – March 2019

Expected Ranges	**Against the US$:**	**THB 30.80–32.30**
	Against the yen:	**JPY 3.47–3.59**

1. Review of the Previous Month

The January Consumer Price Index of Thailand was released on February 1, and the result turned out to be 0.27% year-on-year, falling further from the 0.36% year-on-year observed in December. However, as the decrease had already been expected in the market, there was little reaction. Thereafter, the U.S. economic indices, such as the January employment statistics of the U.S. and the January ISM Manufacturing Report on Business of the U.S., turned out to be strong, as a result of which the U.S. dollar/Thai baht exchange rate recovered to the THB 31.30 level. After the weekend, the same trend remained in the market on February 4, and the U.S. dollar/Thai baht exchange rate remained stable at around THB 31.30, with the appreciation of U.S. interest rates, stock prices, and the U.S. dollar. However, transactions became scarce, due to the holidays of the Chinese New Year, and the Thai baht appreciated gradually against the U.S. dollar. On February 6, the Monetary Policy Committee (MPC) meeting was held at the central bank of Thailand, and the policy interest rate was maintained at 1.75%, with majority votes of 4 against 2 (with one absent member). As two committee members were in favor of an interest rate hike, the Thai baht continued appreciating slowly against the U.S. dollar, and the U.S. dollar/Thai baht exchange rate fell to the mid-THB 31.20 level. On February 8, it was announced that the pro-Thaksin Thai Raksa Chart Party would send Princess Ubolratana as a candidate for the general election of the lower house. As a result, political concerns led the U.S. dollar/Thai baht exchange rate to rise sharply to once approach THB 31.60. However, King Maha Vajiralongkorn expressed disagreement with the political participation of the princess, and the nomination was withdrawn in the end, which slowed down the appreciation of the U.S. dollar/Thai baht exchange rate, which returned to the THB 31.40 level. In the following week, the Chinese yuan appreciated on February 12 with growing expectation for the trade negotiations between the U.S. and China. Following this trend, market participants also bought the Thai baht, and the U.S. dollar/Thai baht exchange rate fell to approach THB 31.30. On February 13, risk sentiment improved in the market, and the U.S. dollar/Thai baht exchange market remained stable. After falling below THB 31.20, the U.S. dollar/Thai baht exchange rate rallied to approach THB 31.30 thereafter. The U.S. dollar/Thai baht exchange rate continued rising slowly toward February 15 and reached a level near THB 31.25. After the weekend, there were very few market actions on February 18, as the following day was a national holiday, and the exchange rate did not move significantly. On February 19, local time, market participants started selling the U.S. dollar and buying the currencies of emerging countries, and in reaction to this, the U.S. dollar/Thai baht exchange rate reached the THB 32.20 mark—the psychological turning point. On February 20, market participants continued buying the Thai baht from the morning, probably based on actual demand, and the gradual depreciation continued. Furthermore, the minutes of the MPC meeting at the central bank of Thailand held on February 6 were released on the same day. As the minutes included the expression "The movement of the Thai baht was in line with those of emerging markets and regional currencies," this was considered to be an acceptance of a strong Thai baht, leading the U.S. dollar/Thai baht exchange rate to fall once to the lowest level since October 2013. On February 21, the following day, the exchange rate started to rise to the mid-THB 31.20 level toward trading hours abroad, with mounting expectation for progress in the trade negotiations between the U.S. and China. On February 22, the following day, the January exports of Thailand (customs base) were released, recording negative year-on-year growth, revealing the fact that the trade deficit increased, which led the U.S. dollar/Thai baht exchange rate to rise further and once approach THB 31.30. In the following week, the appreciation of the exchange rate slowed down on February 25, and the U.S. dollar/Thai baht exchange rate continued fluctuating at around THB 31.30. On February 27, the Constitutional Court of Thailand announced that it would make a decision regarding whether or not to order the pro-Thaksin Thai Raksa Chart Party to be dissolved, in the afternoon of March 7. This fueled caution against political risks, and the U.S. dollar/Thai baht exchange rate was pushed up to approach THB 31.40. On the following day, this trend continued, and the U.S. dollar/Thai baht exchange rate reached to around THB 31.50.

2. Outlook for This Month

Since February 21, there has been a change in the trend of the appreciation of the Thai baht, and the U.S. dollar/Thai baht exchange rate has started rising. However, market participants should remain careful, as it is not certain if this trend will continue in the times ahead. The Thai baht seems to be depreciating mainly because there has been a slowdown in the current economic conditions of Thailand, the trade statistics in particular, while there have been persistent political risks as the general election is being scheduled. On the other hand, there are also external factors, such as the outcome of the trade negotiations between the U.S. and China, as well as the outcome of Brexit negotiations, which also seem to be leading the Thai baht to depreciate. However, it seems that market participants are selling the Thai baht only temporarily until the general election, as the Thai baht had appreciated against the U.S. dollar since the beginning of the year more than any other currency in Southeast Asia and already needed to be sold. If this is indeed to be the case, the U.S. dollar/Thai baht exchange rate may rise to a level around THB 31.75, which is the middle point between THB 32.50, the U.S. dollar/Thai baht exchange rate seen at the beginning of the year, and THB 31.00, the lowest rate temporarily seen before it started to rally. Thereafter, the Thai baht may weaken further if the political risks become more evident before the general election, scheduled for March 24. On the other hand, if the general election ends without any confusion, the Thai baht may start to appreciate slowly. In any case, it is important for market participants to look out for the decision to be made on March

7 by the Constitutional Court of Thailand. For the Thai baht, which has remained relatively strong among the currencies of Southeast Asian countries over the past two or three years, the forthcoming political event is said to be the most-serious risk. The U.S. dollar/Thai baht exchange rate is thus likely to see a large movement, either upward or downward, in March. Market participants should remain cautious regarding political headlines.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – March 2019

Expected Ranges	**Against the US$:**	**MYR 4.0300–4.1000**
	Against the yen:	**JPY 26.70–27.50**
	Against 100 yen:	**MYR 3.6400–3.7500**

1. Review of the Previous Month

In February, the U.S. dollar/Malaysian ringgit exchange rate appreciated and approached the MYR 4.06 level, as a result of the stability in the emerging market based on the dovish monetary policy in the U.S. as well as on the expectation over the resolution to the trade frictions between the U.S. and China.

Market participants expected the trade agreement between the U.S. and China to advance before the holidays of the Chinese New Year, as the deadline for the negotiations was March 1. Furthermore, the Federal Open Market Committee (FOMC) statement in the U.S. repeated the remarks made by Federal Reserve Board (FRB) Chair Jerome Powell by emphasizing that the FOMC would patiently engage in adjusting the future interest rate. As of the end of January, the Malaysian ringgit appreciated against the U.S. dollar to MYR 4.0850. During the holidays of the Chinese New Year, the January employment statistics of the U.S. turned out to be strong, while the monetary policy meeting was held in Thailand and India, confirming that the dovish monetary policy of the U.S. gave a sense of security to emerging countries. After the holidays of the Chinese New Year, the Malaysian ringgit appreciated against the U.S. dollar to MYR 4.0700, reflecting the change in the market sentiment observed during the holidays. Then, on February 8, the 10-year Malaysian government bond yield fell below 4.00% for the first time since April 2018, leading to speculation about a return of foreign investors' funds. Under such circumstances, the Malaysian ringgit reached its highest rate against the U.S. dollar in half a year at MYR 4.0650.

In the middle of the month, an optimistic view was spreading in the market about the agreement in the trade renegotiations between officials from the U.S. and China, before the deadline of March 1. Under such a condition, the Malaysian ringgit renewed its highest rate against the U.S. dollar since July last year, at MYR 4.0610. However, there were sources of concerns in the market, such as the repeating issue of the partial closure of governmental agencies in the U.S. as a result of the failure in congressional discussion on immigration policy as well as the possible recession implied by the downward revision of the economic growth rate of the euro zone. As a result, the trend changed, and the Malaysian ringgit depreciated against the U.S. dollar to the MYR 4.08 level. Thereafter, U.S. President Donald Trump made a remark to confirm there had been progress in the trade negotiations and that the closure of the government agencies was avoided. As a consequence, the Malaysian ringgit approached MYR 4.06 to the U.S. dollar again but the exchange rate did not fall below the MYR 4.06 mark. Then, on February 14, the GDP of Malaysia was announced, and the result turned out to be +4.7% for both the fourth quarter and for FY2018. Even though this result is slightly below the government outlook at the time of the announcement of the government budget plan, it is slightly above the market estimate. However, some market participants looked at the negative growth from the growth rate of 2017 (+5.9%). In the end, the Malaysian ringgit depreciated against the U.S. dollar to the MYR 4.0930 toward February 15.

At the end of the month, the media reported on February that the U.S. requested China to stabilize the Chinese yuan exchange market, which is seen to be a measure to keep China from canceling out the customs duty increase through the exchange rate. Under such circumstances, the Malaysian ringgit appreciated against the U.S. dollar, following the appreciation of the Chinese yuan. The appreciation of the Malaysian ringgit was also supported by the fact that the FRB confirmed its attitude not to hurry in raising interest rate hikes in the minutes of the FOMC meeting released at the end of January. However, the Malaysian ringgit did not appreciate against the U.S. dollar higher than MYR 4.0650. On February 22, the January Consumer Price Index was announced, and the result turned out to be –0.7% year-on-year, obviously reflecting the fact that the gasoline price was cut by more than 10%. The CPI recorded a negative figure for the first time since 2009 after the financial crisis, but the central bank immediately released a comment to emphasize that it is not a sign of disinflation. Furthermore, it also turned out that the amount of foreign currency reserves has been rising since the beginning of the year, suggesting that the central bank is not actively intervening in the market. Under such conditions, the U.S. dollar/Malaysian ringgit pair has been trading at the MYR 4.07 level as of February 26.

2. Outlook for This Month

In March, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.03 and MYR 4.10.

The deadline for the trade negotiations between the U.S. and China was scheduled for March 1, and the Brexit was scheduled for March 29, which are both attracting substantial attention in the market. Thus, news stories related to the two issues are likely to lead the U.S. dollar/Malaysian ringgit exchange rate to fluctuate. For the former, there are currently more-optimistic views with the unlikely scenario of a hard landing. Thus, this is likely to be a positive factor for the Malaysian ringgit. On the other hand, for the latter, there are multiple possible scenarios, including that of a hard landing. While there is unimaginable impact from the Brexit on the real local economy, there will at least be undeniable psychological impact in Malaysia, as Malaysia has a relatively profound link with the U.K., the former colonial power, due to the fact that the government pension fund owns real estate in the U.K.

On the other hand, the monetary policy in the U.S. has turned dovish, which has been a source of relief for emerging countries, in general. In terms of foreign capital flow, some see that there has been increased capital inflow through direct investment from industrial corporations, including those in Japan, since February. Furthermore, in terms of investment in Malaysian bonds, there was a net outflow of foreign investors' funds for the third consecutive month in January, while, in February, 10-year Malaysian government bonds have been bought with a yield clearly below 4.00%, demonstrating the return of foreign inventors.

With regard to the domestic situation in Malaysia, the crude oil price (North Sea Brent), which approached USD 50 at the end of last year, has been urgently moving to USD 67, returning to the range estimated in the government budget for this fiscal year. Furthermore, the tax income of last year turned out to be as had been anticipated, which recovered trust in the government budget, in which the high dependency on crude oil had been a target for criticism.

On February 22, Fitch announced its rating of Malaysian, foreign currency-denominated long-term sovereign bonds as A- and the outlook as "stable." The budget plan for 2019 was highly evaluated for its transparent fiscal policy and for the improvement in management. Domestic market participants seem to agree that the domestic fundamentals have entered an improvement phrase, unlike some security companies' reviews and Japanese media report based on such reviews that refer to the downgrading of the sovereign rating due to the insufficient fiscal policy of the Malaysian government. However, it is unlikely for the Malaysian monetary authorities to hurry with the appreciation of the Malaysian ringgit. Thus, the Malaysian ringgit is expected to gradually appreciate in the times ahead.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2019

Expected Ranges	**Against the US$:**	**IDR 13,950–14,500**
	Against 100 rupiah:	**JPY 0.75–0.80**
	Against the yen:	**IDR 125.00–133.00**

1. Review of the Previous Month

In February, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within the range between IDR 13,890 and IDR 14,155. In general, the Indonesian rupiah remained robust against the U.S. dollar.

In the statement released after the Federal Open Market Committee (FOMC) meeting held in the U.S. on January 29 and 30, the phrase "some additional interest rate hikes are seen appropriate" was deleted, showing that the Federal Reserve Board (FRB) strengthened its dovish attitude, leading the Indonesian rupiah to strengthen against the U.S. dollar. Following this trend, the U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 13,940 in February.

On February 1, the January Consumer Price Index of Indonesia was released, and the result tuned out to be +2.82% year-on-year, almost as had been expected. Thus, the reaction in the market was limited. However, based on the above reason, foreign capital continued to flow into Indonesia, and on February 6, the U.S. dollar/Indonesian rupiah exchange rate approached IDR 13,890 and recorded the monthly low. On the same day, the fourth-quarter GDP of Indonesia was also announced, revealing the result above the market estimate (result: +5.18% year-on-year; estimate: +5.10% year-on-year), which also accelerated the appreciation of the Indonesian rupiah.

However, on February 8, U.S. President Donald Trump announced that there would be no plan to have a meeting with Chinese President Xi Jinping before the deadline for the trade negotiations between the U.S. and China (March 1), which slightly increased risk-averse sentiment in the market. As a result, the U.S. dollar/Indonesian rupiah exchange rate rallied (i.e., the depreciation of the Indonesian rupiah). Then, on February 15, the exchange rate reached the monthly high at IDR 14,155 to the U.S. dollar. In the meantime, the fourth-quarter current account balance of Indonesia was announced, revealing an increased deficit (third quarter: –USD 8.6 billion; fourth quarter: –USD 9.1 billion). The January trade balance of Indonesia was also announced, and the result turned out to be a big deficit (December: –USD 1.0 billion; January: –USD 1.1 billion) due to the impact from the economic slowdown of China and the fall of export item prices, regardless of the depreciation trend of the crude oil price, which was also a factor to encourage market participants to sell the Indonesian rupiah.

Thereafter, there were importing companies buying the U.S. dollar toward the end of the month, while there were also foreign investors buying the Indonesian rupiah, creating a balance between the sell and buy, keeping the exchange rate at around IDR 14,100 to the U.S. dollar. However, on February 20, U.S. President Donald Trump mentioned the possibility to extend the deadline for the trade negotiations between the U.S. and China scheduled for March 1, and this fueled risk-taking sentiment in the market. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate fell, and the U.S. dollar/Indonesian rupiah pair has been trading at around IDR 14,015 (as of February 25).

At the monetary policy meeting held at the central bank of Indonesia on February 21, the policy interest rate was maintained at the exiting level, as had been anticipated in the market. Thus, the reaction in the market was limited.

2. Outlook for This Month

In March, the U.S. dollar/Indonesian rupiah exchange rate is expected to mainly fluctuate within the range between IDR 14,000 and IDR 14,300, without clearly moving into any direction.

In February, it had been expected that the Indonesian rupiah would weaken slightly against the U.S. dollar, while the exchange rate would not clearly move into any direction. However, against the expectation, the Indonesian rupiah turned out to strengthen against the U.S. dollar.

Furthermore, the economic indices of Indonesia that attracted substantial attention in the market turned out to show mixed results. (While the GDP turned out to be better than expected, the current account balance turned out to be worse than expected.) Thus, against the expectation, they did not encourage market participants to sell the Indonesian rupiah. On the contrary, the dovish attitude of the FRB in the U.S. and the expectation for the trade negotiations between the U.S. and China led to capital inflow from foreign investors. (The Indonesian government bond holdings of foreign investors were IDR 909 trillion at the end of 2018 and rose to IDR 932 trillion as of February 18.)

The dovish attitude of the FRB in the U.S. encouraged market participants to buy the currencies of emerging countries. However, it is questionable if this trend will last throughout the year. The reasons for this forecast include: (1) the Chinese economy has started to slow down, (2) the trade deficit of Indonesia remains high, and (3) if the economy starts to slow down worldwide, risk-averse sentiment would grow in the market and capital inflow from foreign investors would stop or there might be capital outflow in the worst-case scenario.

For the above reasons, the U.S. dollar/Indonesian rupiah exchange rate is forecast to move into both directions in the short term, reacting to the monetary policy of the FRB in the U.S. as well as the outcome of the trade negotiations between the U.S and China. However, the Indonesian rupiah is still expected to weaken throughout the year.

The presidential election in Indonesia scheduled for April 17 is fast approaching, and market participants should also attentive of the outcome.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – March 2019

Expected Ranges	**Against the US$:**	**PHP 51.50–53.00**
	Against the yen:	**JPY 2.10–2.140**

1. Review of the Previous Month

In February, the U.S. dollar/Philippine peso exchange rate approached the low for the U.S. dollar many times. However, the U.S. dollar maintained its robust support line (PHP 52 to the U.S. dollar).

In February, the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.13. The January employment statistics of the U.S. confirmed the strength of the employment environment of the U.S., encouraging market participants to buy the U.S. dollar in the foreign exchange market.

In reaction to this, the U.S. dollar strengthened, and the U.S. dollar/Philippine peso exchange rate once reached PHP 52.45 on February 4. However, the monetary policy of the U.S. changed (the interest rate hikes ended), and this kept the U.S. dollar from appreciating. On February 5, which was a national holiday, the January Consumer Price Index of the Philippines was announced, and the result turned out to be 4.4% year-on-year, showing a slowdown from 5.1%, which was the result of the previous month, and from 4.5%, which was the market estimate. Furthermore, on February 7, the central bank of the Philippines held a monetary policy committee meeting, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. However, the inflation outlook, which had been gathering substantial attention in the market, was revised downward from the level of the previous meeting to 3.07% for 2019 (while the previous outlook was 3.18%) and 2.98% for 2020 (while the previous outlook was 3.04%).

As a result, market participants felt more security in buying the Philippine peso, as there were no more excessive concerns over inflation, and on February 11, the U.S. dollar/Philippine peso exchange rate temporarily fell below the PHP 52 mark during trading hours.

On February 12, the December trade balance of the Philippines was announced, revealing a deficit of USD 3.75 billion. The amount of deficit was reduced for the second consecutive month and was lower than the market estimate (deficit of USD 4.06 billion). On February 13, the U.S. dollar/Philippine peso exchange rate once reached PHP 51.90—the highest rate for the Philippine peso since May last year.

On the other hand, there was a large number of market participants encouraged to buy the U.S. dollar at this level. This seems to be U.S. dollar-buying based on the rally of the U.S. dollar interest rates, as well as on risk-averse sentiment based on the sense of uncertainty over the trade negotiations between the U.S. and China.

On February 15, market participants continued buying back the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate once reached PHP 52.50.

In the week commencing on February 18, the trade negotiations between the U.S. and China continued, and thus Chinese stock prices remained robust, improving the market sentiment. The media reported that the U.S. requested the stability of the Chinese yuan exchange market, and this encouraged market participants to buy the Chinese yuan, creating a trend to buy Asian currencies in general.

On February 20, local time, the minutes of the Federal Open Market Committee (FOMC) meeting were released, and some market participants were troubled by the fact that there was no certainty regarding ending interest rate hikes. However, the trade negotiations between the U.S. and China remained as a positive factor, and the Chinese yuan continued to appreciate. Following this trend, the Philippine peso also appreciated against the U.S. dollar. The U.S. dollar/Philippine peso pair is currently trading at the PHP 52 level, approaching the low for the U.S. dollar (as of 6 p.m. on February 26).

2. Outlook for This Month

As was discussed above, the U.S. dollar/Philippine peso exchange rate approached the low of the U.S. dollar in February. However, the exchange rate never fell below the PHP 52 level in terms of the closing rate for daytime trading.

The exchange rate tends to start moving fast once touching a turning point, all the more because the exchange rate hovered around at this level for a long time. Since December 21, the U.S. dollar/Philippine peso pair continued trading at the PHP 52 level on a closing-rate basis, and the exchange rate fell below the PHP 52 mark on February 11, 13, 21, and 26. However, in terms of the closing rate, the exchange rate recovered to the PHP 52 level.

This is mainly because of the fact that market participants can be motivated to buy or sell the U.S. dollar both based on the trade frictions between the U.S. and China, which have been gathering the most attention in the market, and concomitant media reports related to the global economy.

It should also be mentioned that transactions are active in the foreign exchange market but that many market participants are only engaged in short-term trading. In addition, market participants are also aware of the actions taken by the Philippine monetary authorities (U.S. dollar-buying).

From a short-term perspective, there are factors to encourage market participants to buy the Philippine peso.
(1) There has been no more inflation pressure for the Philippine peso.
(2) The trade deficit of the Philippines declined for the second consecutive month, and the December import recorded negative year-on-year growth of 9.4%. This is the first negative year-on-year growth recorded since July 2017.
(3) Furthermore, on February 15, the December figure of Overseas Filipino Workers (OFWs) remittances turned out to be larger than the market estimate. In terms of value, this turned out to be USD 2.849 billion (while the previous month result was USD 2.326 billion), and, in terms of year-on-year growth, this turned out to be 3.9% (while the previous month's result was 2.8%).

As the market sentiment has been positive, market participants should remain careful to see whether the U.S. dollar/Philippine peso exchange rate falls below the PHP 52 mark. If the exchange rate falls clearly below this level (if the exchange rate falls below PHP 52 at the closing of the day trading), it is likely for the Philippine peso to start appreciating, moving out of a stalemate.

However, this is not a likely scenario, as risk-averse sentiment is likely to grow in the market (encouraging market participants to buy the U.S. dollar) immediately when there is a sense of uncertainty in the external environment (as of 6 p.m. on February 26).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – March 2019

Expected Ranges	**Against the US$:**	**INR 69.00–74.00**
	Against the yen:	**JPY 1.49–1.61**

1. Review of the Previous Month

In February, the U.S. dollar/Indian rupee exchange rate did not move into any direction.

The U.S. dollar/Indian rupee exchange market opened trading at INR 71.165 in February. At the beginning of the month, a change in the number of non-agricultural employees was announced, and the result turned out to be significantly better than expected. In reaction to this, market participants bought the U.S. dollar, selling the overall Asian currencies. Furthermore, the crude oil price appreciated to almost reach USD 64 (Brent), which encouraged market participant to sell the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange rate reached INR 71.80—the monthly high.

Thereafter, on February 7, the central bank of India held a monetary policy meeting and announced its unexpected decision to cut the policy interest rate. In general, an interest rate cut causes the depreciation of the currency. However this time, the interest rate cut led to the appreciation of stock prices, which fueled expectation for capital inflow from foreign investors, and the Indian rupee appreciated in the foreign exchange market. Even though this was a phase in which the U.S. interest rates were rising while market participants were selling the overall Asian currencies, market participants continued buying the Indian rupee against the U.S. dollar. Consequently, the U.S. dollar/Indian rupee exchange rate fell to INR 70.47, the monthly low, on February 13.

However, importers took actions at that level, while Organization of the Petroleum Exporting Countries (OPEC) confirmed in its monthly report of January that there was some effect of the coordinated reduction in oil output, which led the crude oil price to rise further, also encouraging market participants to sell the Indian rupee. Thereafter, the media reported that the U.S. had requested China to stabilize the Chinese yuan exchange market, which weakened Asian currencies on a relative basis. Following this trend, the U.S. dollar/Indian rupee exchange rate returned to the mid-INR 71 level. Then, on February 22, the U.S. dollar/Indian rupee exchange market closed trading at INR 71.14. It turned out that, after fluctuating in both directions, the U.S. dollar/Indian rupee returned to the level observed at the beginning of the month, in the end.

In February, the Indian rupee/Japanese yen exchange rate rose.

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.53 level in February. On February 1, the Indian rupee/Japanese yen exchange rate reached JPY 1.525, which turned out to be the monthly low. In the first week of the month, the Indian rupee/Japanese yen exchange rate reached a stalemate at the JPY 1.53 level. However, on February 11 and after, the U.S. dollar/Japanese yen exchange rate exceeded the high since the beginning of the year, with expectation for progress in the trade negotiations between the U.S. and China, along with the headline reporting that a Japanese company would invest in a U.S. technology company. As a result, the Japanese yen weakened against the U.S. dollar to the JPY 111 level for the first time since December last year. As was already discussed, the Indian rupee was appreciating against the U.S. dollar in the meantime. Therefore, the Indian rupee/Japanese yen exchange rate rose to JPY 1.572—the monthly high.

The appreciation of the U.S. dollar/Japanese yen exchange rate started to slow down further from the JPY 111 level. On the other hand, there were reasons for which market participants find it harder to buy the U.S. dollar, such as the media report that the U.S. President might extend the deadline for the trade negotiations with China by 60 days, while also signing a declaration of a state of emergency. As a result, the appreciation of the U.S. dollar/Japanese yen exchange rate also slowed down, and the Indian rupee weakened against the U.S. dollar, leading the U.S. dollar/Indian rupee exchange rate to exceed INR 71. Thus, the Indian rupee/Japanese yen exchange rate once fell below JPY 1.55. On February 22, the Indian rupee/Japanese yen exchange market closed trading at the JPY 1.556 level.

2. Outlook for This Month

In March, the U.S. dollar/Indian rupee exchange rate is expected not to move into any direction.

On February 20, the minutes of the January Federal Open Market Committee (FOMC) meeting in the U.S. were released, revealing the fact that the participating committee members almost unanimously decided to end the balance sheet reduction before the end of the year. At the press interview after the FOMC meeting held in December last year, Federal Reserve Board (FRB) Chair Jerome Powell described that the balance sheet reduction is on "automatic pilot," meaning that the attitude of the FOMC has changed over a short period. Even though there was no explanation with regard to important points such as the reason and background for ending the balance sheet reduction, it is considered that the FOMC was warned by the depreciation of stock prices observed at the end of last year, or that U.S. President Donald Trump was warned by the situation and put some pressure on the FOMC. With regard to the central banks in Asia, on the other hand, the monetary policy has been shifted toward easing, unlike last year in which many Asian countries raised the policy interest rate to deal with the depreciation of their currencies. In India, as was discussed above, the policy interest rate was cut, and the governor of the central bank of India explained that he was considering monetary easing. In Korea, Thailand, Taiwan, and Malaysia, the inflation rate has been below 1%. It thus seems to be a moment for monetary easing in the overall Asian countries. As market participants are expecting the U.S. and emerging countries to take measures of monetary easing (or taking measures of easing monetary tightening), there has been positive impact on the stock market, and risk-taking sentiment has strengthened in the market, supporting Asian currencies.

In India, the central bank made a decision to cut the policy interest rate last month. As a short-term reaction, risk-taking sentiment strengthened in the market, leading stock prices to appreciate. As a result, the Indian rupee appreciated, based in capital inflow. Last year, the annual transactions by non-residents in India in the Indian stock and bond markets turned out to be a net sell of more than USD 11 billion. When there is investment from outside of India, there is naturally also Indian rupee-selling and rupee-buying. As foreign investors collected a large amount of capital from India last year, it would not be surprising if they reinvest in India this year.

However, market participants should not remain too optimistic about the Indian rupee. As the general election is scheduled, there have been subsidies for agricultural households as well as the exemption of income tax for low-income households, and these are likely to lead to an increase in fiscal deficit. It would certainly bring negative impacts on the foreign exchange market. Furthermore, there has been growing tension between India and Pakistan in relation to the terrorist attack in the Kashmir region that killed more than 40 people, and this is also a negative factor for the Indian rupee.

There are also numerous external factors such as the crude oil price, which has been rallying this year, as well as the trade negotiations between the U.S. and China for which the deadline before the imposition of an additional customs duty is scheduled for March. Thus, the U.S. dollar/Indian rupee exchange rate is forecast not to move into any direction.