

# Mizuho Dealer's Eye

## April 2019

<b>U.S. Dollar</b> .....	1	<b>Chinese Yuan</b> .....	22
<b>Euro</b> .....	5	<b>Singapore Dollar</b> .....	24
<b>British Pound</b> .....	8	<b>Thai Baht</b> .....	27
<b>Australian Dollar</b> .....	11	<b>Malaysian Ringgit</b> .....	30
<b>Canadian Dollar</b> .....	13	<b>Indonesian Rupiah</b> .....	33
<b>Korean Won</b> .....	15	<b>Philippine Peso</b> .....	36
<b>New Taiwan Dollar</b> .....	17	<b>Indian Rupee</b> .....	39
<b>Hong Kong Dollar</b> .....	19		

Mizuho Bank, Ltd.

Forex Department

## U.S. Dollar – April 2019

**Expected Ranges**

**Against the yen: JPY108.00–112.50**

### 1. Review of the Previous Month

The dollar/yen pair moved firmly on March 1 to temporarily climb to 112 yen. It traded in the 112 yen range on March 4 on reports that a US/China trade deal was drawing closer. However, it then fell to the mid-111 yen level as stocks were sold on the NY Dow Jones. The pair temporarily renewed a yearly high of 112.13 yen on March 5 after the US Non-Manufacturing ISM Report on Business for February beat expectations, though selling for profit taking then saw the pair weakening to 111 yen range. With Chinese stock prices rising on March 6, the pair strengthened to just below 112 yen, though it then fell to the mid-111 yen mark as stock markets weakened after the US trade data for December revealed that exports had dipped. The ECB revised its forward guidance on March 7 and it also announced it would introduce a third targeted long-term refinancing operation (TLTRO) from September (this time with a maturity of two years), with the pair subsequently sliding to 111.48 yen. The pair remained bearish on March 8.

It moved firmly on March 11 after the US retail sales data for January beat expectations. With the pound/dollar pair climbing on March 12, the dollar/yen pair tumbled to the lower-111 yen level. Expectations that a motion ruling out a no-deal Brexit would be voted down then saw the dollar/yen pair sold to the lower-111 yen level on March 13. On March 14, the UK parliament approved a plan to avoid a no-deal Brexit. With concerns about the Brexit issue easing, the pair strengthened. The dollar was then bought on rising US interest rates. On March 15, investors adjusted their positions before the weekend, with the pair dipping slightly.

The yen was sold on March 18 on the firm movements of the Nikkei Average, but with US stocks falling, the pair tumbled to the lower-111 yen mark. Reports emerged on March 19 that US/China trade talks had not make much progress when it came to reaching a deal, with the pair sliding to the lower-111 yen mark as a result. The dollar was bought on March 20, a date when payments are often due, with the pair hitting 111.70 yen for a time. FOMC members then predicted that rates would not be lifted again in 2019. This prognosis was more bearish than expected, with the currently pair subsequently crashing to the 110 yen range. This trend continued into March 21, with the pair temporarily hitting 110.30 yen, though it then rallied to just below 111 yen on bullish indicators, for example. With European economic indicators moving bearishly on March 22, risk aversion rose across the globe, with the pair dipping below 110 yen.

Amid a dearth of noteworthy factors on March 25, the pair moved in a narrow range. The February US Housing Starts data fell below expectations on its release on March 26, with the pair falling for a time, though it rose to the upper-110 yen level after the euro/dollar pair fell. The yen was bought on March 27 as Japanese firms repatriated funds as the end of the fiscal year approached, with the pair dropping back to the lower-110 yen mark, though it rallied to the mid-110 yen level as US interest rates held steady. It then strengthened on March 28 on a growing sense of optimism about US/China trade talks. The US Pending Homes Sales Index for February then fell below expectations. Stock markets had moved firmly, but their gains were now pared back, with the pair subsequently dropping to the mid-110 level. With the weekend approaching, the pair then moved without a sense of direction on March 29.

## 2. Outlook for This Month

The dollar/yen pair topped 112 yen for a time early March on expectations for improved US/China relations, with the pair also bolstered as central banks across the globe shifted in a dovish direction, for example, with stocks and emerging markets also moving firmly. However, with US/China trade talks showing no signs of progress, the pair weakened late March, with the dollar also sold after the FRB predicted that rates would not be lifted in 2019 at the FOMC meeting.

The pair is expected to move with a heavy topside on the whole in April, though it will probably trade in a range, with its room on the downside also capped. The main reason why the pair is expected to move heavily on the topside is because the FRB has given up on hiking rates. When stocks plunged last December, the FRB continued to flood the markets with excess liquidity by swelling its balance sheet beyond what it had originally planned, with FRB members also forecasting rate hikes. With stocks rising, it seemed the dollar/yen pair could be pushed higher if Japanese/US interest-rate differentials widened as rates were lifted at a gentle pace. However, the prospect of further rate hikes receded sharply at the last FOMC meeting, so even if stocks and other risk assets rise from here on, Japanese/US interest-rate differentials are unlikely to widen, so investors will find it hard to actively buy the greenback. This means the pair will be dependent on yen selling, so it is unlikely to rise sharply this month.

Despite persistent hopes, there has not been much concrete progress when it comes to US/China trade talks. If President Trump and Chinese Premier Xi Jinping meet directly and hammer out some kind of agreement, risk assets (stocks and emerging market assets, etc.) could rise sharply. In this scenario, then yen could be sold at a faster pace, with the pair potentially rising above 112 yen.

On the other hand, the reason why the pair's downside is expected to be capped is because the financial markets have already priced in excessive pessimism. The US short-term interest rate markets have deviated sharply from FRB forecasts by factoring in one or more rate cuts in 2019. The markets are unlikely to begin pricing in rate hikes any time soon, but these moves to factor in rate cuts do seem somewhat incongruent with current factors. This suggests falling interest rates have already been factored in to a considerable extent, so the environment will probably not be conducive to any further dollar selling. As such, the pair's downside will also be capped, with the pair likely to trade in range of two

yen either side of 110 yen. With the FRB also adopting a dovish stance, the state of the US real economy will be even more important this month, with market participants paying even more attention to economic indicators and other fundamentals.

## Dealers' Market Forecast

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

Bullish on the dollar (0 bulls)

Bearish on the dollar (10 bears: 106.50–113.00, Core: 107.50–112.00)

Tauchi	107.00 – 112.00	The dollar is being weighed down as the FRB takes a more dovish stance when it comes to economic concerns. Amid lingering uncertainty about political and economic trends, investors will find it hard to actively buy the dollar. There are hopes for progress in US/China trade talks, but President Trump will be in no rush to make a deal, so the situation will still require monitoring this month.
Kato	107.00 – 112.00	Fiscal 2019 will see attempts to push the dollar/yen pair below the floor of its broad trading band between 105–115 yen. This trend will be supported by: US foreign exchange and trade policy; the state of the economy, which seems to be approaching peak, and Japanese/US interest-rate differentials.
Seki	109.00 – 112.00	Amid a dearth of dollar-buying factors, the dollar/yen pair is expected to fall this month. With concerns of a global economic slowdown rising, central banks are inclining in a dovish direction. These moves seem overly-bearish compared to the state of the real economy, but if economic forecasts continue to be downgraded, US stocks will find it hard to remain at highs amid rising risk aversion.
Mitsubishi	108.00 – 113.00	The FOMC struck a dovish tone when it met last month. With US/Japan negotiations also looming in addition to US/China trade talks, the dollar/yen pair looks set to trade with a heavy topside. If risk aversion rises on Brexit and the situation in Turkey, for example, the yen could rise sharply, so caution will be needed.
Fujimaki	108.00 – 112.50	The dollar/yen pair is expected to trade in a range. The likelihood of a rate hike has receded sharply, so investors will find it hard to actively buy the greenback. Interest rates have been adjusted downwards to a considerable extent, so the pair is unlikely to be pulled lower by interest rates from here on. The pair looks set to trade in a range overall with an eye on US/China trade talks.
Okamoto	106.50 – 112.00	US/China trade talks are moving stormily while the US has released some bearish soft and hard economic data. Meanwhile, the FRB has finally called a halt to the normalization process. Amid concerns that the globe is slipping into a recessionary phase, the yen will probably be bought on risk aversion as the price of stocks and other risk assets fall.
Ueno	107.00 – 112.00	With the global economy slowing and no signs of progress seen when it comes to US/China talks and Brexit, risk looks set to continue trending downward. Japan will be embarking on a 10-day holiday at the end of April. With liquidity falling, investors should be on guard against the kind of volatility seen at the start of the year.
Tamai	108.00 – 112.50	US interest rates have fallen sharply since the FOMC adopted a dovish stance when it met in March. As such, the dollar will remain a hard currency to buy. With other currencies also moving bearishly, though, the US continues to release a mix of strong and weak economic indicators, so the dollar will probably be supported in the end, with the pair's room on the downside capped.
Moriya	108.00 – 112.00	Expectations for rate cuts have grown on the dovish results of the March FOMC meeting. Central banks across the world have adopted a dovish stance and this is supporting stock prices. However, with concerns also growing about a global economic slowdown, yen-selling pressure is expected to gradually ease off.
Okuma	107.00 – 112.00	With the FRB clearly adopting a dovish stance, the markets are starting to focus on the possibility of rate cuts within the year, with US long-term interest rates sliding. The US economy is still moving firmly compared to other nations, but with hopes toward US/China trade talks waning, for example, there is a dearth of factors conducive to active dollar buying, so the dollar/yen pair will probably trade with a heavy topside.

Tomokazu Moriya, Forex Sales, Forex Department

## Euro – April 2019

### Expected Ranges

**Against the US\$: US\$1.1100–1.1400****Against the yen: JPY122.00–126.00**

### 1. Review of the Previous Month

The euro/dollar pair rose in March. After opening the month trading at the upper-\$1.13 mark on March 1, it then climbed to the \$1.14 range as the greenback was sold on some weak US economic indicators, though it soon dropped back to \$1.13 range.

Amid strong selling demand in the run up to the ECB Governing Council meeting, the pair fell to the lower-\$1.13 level on March 4. It dipped to the upper-\$1.12 mark on March 5 on the better-than-expected result of the US Non-Manufacturing ISM Report on Business for February, though this level saw strong buying interest, with the pair then bouncing back to the \$1.13 range. It crashed to the upper-\$1.12 level on March 6 on news that the ECB would be downgrading its growth and inflation forecasts while also implementing a new TLTRO. The ECB Governing Council met on March 7. It announced a new TLTRO and it also revised its forward guidance and said it would not hike rates in 2019. This dovishness saw the pair dropping below \$1.13. The ECB's growth and inflation forecasts were also downgraded sharply, while ECB president Mario Draghi made some dovish comments in his press conference, so the pair plummeted to temporarily hit a monthly low of \$1.1177. The US employment data for February was released on March 8. It fell below market expectations, with the euro/dollar pair subsequently rallying to the mid-\$1.12 mark.

With the UK parliament set to vote on an EU withdrawal bill, the pound/dollar pair rose on expectations for progress, with the euro/dollar pair also pulled slightly higher to hit the mid-\$1.12 level on March 11. On March 12, the dollar was sold on the weak results of the US CPI data for February, with the pair hitting the \$1.13 range for a time. News emerged on March 13 that UK prime minister Theresa May would be seeking a two-month extension to the Brexit deadline. This pound subsequently rose, with the euro/dollar pair also pulled up to the lower-\$1.13 level. Amid no specific news about an extension to the Brexit deadline, the pair dipped to around \$1.1300 on March 14. The greenback was then sold on the bearish results of some US economic indicators, with the pair climbing to the mid-\$1.13 level on March 15.

With the FOMC meeting looming in the middle of the week, the markets were swept with a wait-and-see mood over March 18–19, with the pair floating around \$1.13. The dollar was then sold across the board on March 20 after the FOMC meeting turned out to be more dovish than expected, with the pair soaring to temporarily hit a monthly high of \$1.1448. With the US then releasing a better-than-expected economic indicator on March 21, the dollar was bought and the pair fell to \$1.13 range. France, Germany

and the eurozone as a whole released worse-than-expected Flash Manufacturing PMIs on March 22. This saw the pair falling sharply to hit the upper-\$1.12 level.

Economic concerns eased on March 25 on the better-than-expected result of the German IFO Business Climate Index for March, with the pair rising to the lower-\$1.13 mark, though it then moved sluggishly after a declaration by President Trump about the Golan Heights. The euro was sold and the pound bought on March 26 in the run up to the following day's 'indicative votes' in the UK, with the euro/dollar pair dropping to the upper-\$1.12 mark. It then fell to the lower-\$1.12 level on March 27 after ECB president Mario Draghi said the ECB was prepared to postpone rate hikes for an even longer period if needed. It continued to trade with a heavy topside at the lower-\$1.12 mark on March 28 on some weak German CPI data for March. It continued to move with a heavy topside on March 29 after the UK parliament rejected Mrs. May's withdrawal deal for the third time, with the pair finally closing at the lower-\$1.12 level.

## 2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in April.

The ECB Governing Council is set to meet on April 10. As expected, the ECB Governing Council kept policy rates fixed when it met on March 7, though the ECB revised its forward guidance while announcing the introduction of a third targeted long-term refinancing operation (TLTRO3). The forward guidance had previously mentioned keeping policy rates fixed 'until summer 2019 at the earliest,' though this was now revised to 'the end of 2019 at the earliest.' Market expectations for an ECB rate hike within the year had dropped off sharply, but the ECB surprised the markets by shifting its forward guidance while also announcing the TLTRO3. With staff projections also being revised down sharply, the meeting was more dovish than the markets had expected. ECB president Mario Draghi and other officials have continued to make bearish comments after the meeting, so it seems likely the Governing Council will also adopt a cautious stance toward monetary policy when it meets this month too. The ECB's dovishness looks set to continue acting as a factor holding down the euro/dollar pair's topside.

As for US monetary policy, when the FOMC met last month, its members downgraded their forecasts for the federal funds rate (the dot chart) from two rate hikes in 2019 to zero. This bearish tone was also capped by an announcement that moves to shrink the FRB's balance sheet would come to an end in September. The markets have started to factor in rate cuts, so the dollar will probably be sold at times going forward. If this happens, this could support the euro/dollar pair. Though the ECB and FRB have clearly shifted in a dovish direction, economic indicators in the eurozone have clearly slowed more than those in the US. There are also reports that ECB officials are looking at measures to alleviate the side effects of negative interest rates, so of the two central banks, it is the ECB that looks more likely to swing further in a dovish direction. As such, euro-selling pressure is likely to top dollar-selling pressure.

Furthermore, the UK parliament rejected the EU withdrawal bill for the third time on March 29. This has made a no-deal Brexit on April 12 more likely, so the euro/dollar pair will probably continue to be weighed down by Brexit trends.

## Dealers' Market Forecast

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

### Bullish on the euro (2 bulls: 1.1100–1.1500, Core: 1.1150–1.1450)

Kato	1.1100 – 1.1500	There never were that many investors expecting a rate hike, while the overall eurozone trade balance remains in the black. With political events also cooling off, the euro looks set to trade somewhat firmly against the dollar.
Fujimaki	1.1200 – 1.1400	The euro/dollar pair is expected to trade without a sense of direction. With the eurozone economy continuing to move sluggishly, the ECB is also starting to adopt a dovish stance. However, the pair looks set to move firmly despite confirmation of these various pessimistic trends. There is a risk that the pair could rise as investors unwind their short positions.

### Bearish on the euro (8 bears: 1.0500–1.4000, Core: 1.1100–1.1400)

Tauchi	1.1100 – 1.1500	There are no bright signs when it comes to the political and economic situation in the eurozone. If anything, there is a risk of an economic downswing from here on. With ECB president Mario Draghi also commenting on the slow inflation recovery and the ECB continuing to pursue accommodative monetary policies (including negative interest rates), the euro/dollar pair is expected to move sluggishly this month.
Seki	1.1100 – 1.1400	With the dollar and euro both lacking any buying factors, the euro/dollar pair will probably move without a sense of direction this month. The ECB has switched into dovish mode, while the economy is also slowing on US/China trade frictions. Europe also faces political turmoil in relation to Brexit and so on. All these factors will probably weaken the euro.
Mitsubishi	1.1100 – 1.1400	With the ECB Governing Council set to announce a continuation of easing when it meets this month, the eurozone economic situation will be fraught with downside risk. The euro/dollar pair will also trade with a heavy topside on concerns related to Brexit and the situation in Turkey.
Okamoto	1.0500 – 1.1400	The ECB has called a halt to the normalization process. The eurozone has released several bearish indicators related to the economic situation and so on. Amid a dearth of positive factors, the ECB's dovish stance will probably draw attention to the weakness of the eurozone's fundamentals. Investors will find it hard to actively buy the dollar and the euro, but the euro looks set to move more bearishly on the difference in monetary policy and the Brexit situation.
Ueno	1.1000 – 1.1300	The situation is tumultuous when it comes to the economy and Brexit. If the euro moves bullishly, this will probably be due to a lack of alternatives, though it is hard to see the euro being bought against the dollar or yen at this moment in time. With the euro facing several potential flashpoints, the risk probably lies on the downside.
Tamai	1.1000 – 1.1400	The eurozone prognosis looks shaky given deteriorating economic indicators, the sharp fall in interest rates, and uncertainty about Brexit. The euro will also be weighed down by the ECB's dovish shift. The eurozone economy is unlikely to improve any time soon, with the euro/dollar pair set to move bearishly this month.
Moriya	1.1100 – 1.1400	The ECB Governing Council announced it would postpone rate hikes when it met in March. It will probably shift further in a dovish direction in light of recent weak results. Amid ongoing uncertainty when it comes to Brexit, investors will probably refrain from buying the euro.
Okuma	1.1100 – 1.1450	With several central banks shifting in a dovish direction, risk aversion is growing on rising concerns about a global economic slowdown. Under these circumstances, the European economy will be weighed down by Brexit-related uncertainty and turmoil in Turkey and other emerging economies.



## British Pound – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>US\$1.2500–1.3700</b>
	<b>Against the yen:</b>	<b>JPY136.00–152.00</b>

### 1. Review of the Previous Month

In March, the pound was swayed by headlines related to an extension of the Brexit deadline. On February 26, UK prime minister Theresa May has made three commitments: (1) She would put her Brexit deal to a vote again some time before March 12 (the deal had previously been voted down in January); (2) if her deal was rejected again, parliament would hold a vote on a no-deal Brexit on March 13; (3) If a no-deal Brexit was rejected, parliament would vote on March 14 about whether to extend the Brexit deadline. Mrs. May had consistently said beforehand that the deadline would not be extended. With the prime minister now softening her stance, sterling moved bullishly and the GBP/USD pair opened the month trading at the \$1.32 range on March 1.

The pair then began moving bearishly from the week beginning March 4. On March 5, UK attorney general Geoffrey Cox and the Brexit secretary Stephen Barclay reopened negotiations with the EU in Brussels, though the pound weakened on reports that the talks were not expected to yield any results. The ECB Governing Council sharply downgraded its outlook for the eurozone economy and inflation when it met on March 7. It also revised its forward guidance while announcing the TLTRO3. This was more dovish than the markets had expected, so the euro plummeted and the pound was also pulled lower. This adjustment continued on March 8 as the pound was swayed by external factors, with stocks sliding on China's deteriorating trade balance, for example.

The pair was buffeted by Brexit headlines the following week. On March 11, the pair dipped to a monthly low of \$1.2945 on news that the following day's vote had been downgraded to a provisional vote, though this was later denied by the government. The pair then rallied on hopes for progress in the talks following reports that Mrs. May would be rushing off to hold a top-level meeting with European Commission president Jean-Claude Juncker. The pound then weakened on March 12 after UK attorney general Geoffrey Cox talked about the legal risks associated with the revised withdrawal bill. The withdrawal bill was voted down again, but the markets had factored the votes before March 14, so the impact on the pair was muted. On March 13, the UK government announced plans to eliminate import tariffs in the event of a no-deal Brexit. With parliament also approving a motion to avoid a no-deal Brexit, the pair strengthened to a monthly high of \$1.3380. As expected, parliament also approved the March 14 motion to extend the Brexit deadline. The focus then shifted to the duration of any extension, with the pound moving into wait-and-see mode. At the start of the next week, on March 20, Mrs. May

send a letter to EU president Donald Tusk asking for the deadline to be extended to June 30. However, the pair's downside was tested on the brevity of this extension. The EU summit on March 21 yielded mixed results. In the end, the EU said the deadline could be extended to May 22 provided Mrs. May managed to get her withdrawal deal through parliament. However, it said the deadline would only be extended to April 12 if the deal did not get through parliament. At the start of the next week, on March 25, Mrs. May announced she would be postponing the third vote on her revised bill owing to a lack of support. Parliament then voted to implement a series of indicative votes. This shifted the leading role in the Brexit process from the prime minister to parliament. These indicative votes were penciled in for March 27, though they would not be legally binding. Mrs. May also struck a combative tone and she would not commit to implementing the results of the votes. The currency pair moved firmly on March 26 after some hardline Brexiteers said they might now support Mrs. May's deal, with the pair subsequently closing around \$1.32.

## 2. Outlook for This Month

As with last month, sterling will be swayed by the Brexit negotiations in April.

On March 5, BOE governor Mark Carney commented that the markets had under-estimated rate hikes. Subsequent pound buying was short-lived, though, with the focus then shifting back to the Brexit negotiations. On March 23, meanwhile, one million people gathered in London to call for a second referendum, while a petition calling for Brexit to be scrapped gathered over 5.3 million signatures. As all this reveals, UK citizens are also becoming more concerned about the Brexit issue.

A round of indicative votes will be held on March 27 (this report was written on March 26). These will present several options for the UK parliament to vote on, including a no-deal Brexit, a second referendum, and a withdrawal of Article 50 of the Lisbon Treaty (abandoning Brexit). As mentioned above, though, these votes are not legally binding and the May administration may just choose to ignore them. If uncertainty remains, the markets will not be happy and this will probably weigh the pair down.

At the same time, Mrs. May is looking at putting her withdrawal deal to a third vote. If she gains the support of the Brexiteers and manages to get her deal passed, this would wipe away uncertainty, with investors potentially buying the pound as a result. At this moment in time, though, the government seems some way away from winning the support of the Democratic Unionist Party (DUP) and the hardline Brexiteers in the European Research Group (ERG), so the deal is unlikely to win a majority. On March 25, several headlines reported that Mrs. May had said she would step down if her deal was passed. Uncertainty was also ramped up when several newspapers reported on moves to remove Mrs. May and appoint an interim prime minister. If the withdrawal bill is voted down a third time, the pound will initially move bearishly on speculation about Mrs. May's resignation and a general election. Furthermore, though the May administration plans to hold a vote by March 29, it has also indicated it does not believe it has to hold the vote by this day, so things could drag on into April. If this happens, investors will probably focus on the April 12 deadline once more, with the pound dragged lower as a

result.

Turning to other factors, and interest rates are notably sliding across the globe. With the ECB and FRB continuing to shift in a dovish direction, US 10-year interest rates dipped below 2.4% for the first time since December 2017, while German 10-year interest rates dipped into negative territories for the first time since October 2016. With concerns of a global economic slowdown becoming more conspicuous, the pound could be swayed by external factors, just like it was at the start of March, so caution will be needed.

Naohiko Harada, Sydney Office, Asia &amp; Oceania Treasury Department

## Australian Dollar – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>US\$0.6950–0.7250</b>
	<b>Against the yen:</b>	<b>JPY77.50–80.50</b>

### 1. Review of the Previous Month

In March, the AUD/USD pair jostled up and down around \$0.71. It approached March trading around \$0.71. It then moved with a heavy topside at the upper-\$0.70 mark on March 4 after the Australian business income data for October–December suffered a worse-than-expected slide. The board of the Reserve Bank of Australia (RBA) met on March 5. As expected, it kept the cash rate fixed at 1.50%. The accompanying statement said the Australian economy may have slowed over the second half of 2018. However, it also stuck to its prognosis for real GDP growth of around 3% and an inflation rate of 2% in 2019 on the back of corporate investment and a strong labor market. As such, the impact on the markets was muted. The Australian real GDP data for October–December was released on March 6. This dipped below expectations, with market expectations for a rate cut then swelling and the currency pair plummeting to the lower-\$0.70 mark, its lowest level since January. The pair's downside was tested again and the pair fell to a weekly low of \$0.7003 on March 8 after China's trade data dipped below expectations. Its sojourn at this level was short-lived, though, and it subsequently edged higher toward the latter half of the month.

The NAB Business Conditions Index for February was released on March 12. At +4, the result was down on the +7 result recorded the previous month, with the pair then falling temporarily to \$0.7058, though it moved firmly thereafter. With US interest rates then falling on the bearish results of the US February CPI, the greenback was sold and the currency pair rose to \$0.7092 for a time. During overseas trading time on March 13, the UK parliament approved a motion aimed at avoiding a no-deal Brexit. It now seemed more likely the Brexit deadline would be extended, so sterling moved bullishly, with the AUD/USD pair also climbing to \$0.7098. It then tumbled to \$0.7042 as Chinese economic indicators slowed on the whole, with the pair also buffeted by reports that a US/China heads of state meeting would probably take place in April, though it then moved firmly at the upper-\$0.70 level.

The FOMC struck a more dovish tone than expected when it met on March 20. These greenback was subsequently sold across the board, with the AUD/USD pair rising close to \$0.7150. It was then pushed back to the lower-\$0.71 level. The Australian unemployment rate for February was released on March 21. This is an important indicator for the RBA when it comes to gauging economic trends, with the pair climbing to a monthly high around \$0.7160 on the bullish result. The greenback was then bought back across the board, with the pair sliding to the \$0.70 range. Australian and US interest rates both fell

sharply on March 26. With speculation about US rate cuts also rising, the pair strengthened to the mid-\$0.71 mark. The New Zealand dollar was then sold on March 27 when the Reserve Bank of New Zealand (RBNZ) said its next move would probably be a rate cut. The Australian dollar was also pulled lower, with the AUD/USD pair dropping to around \$0.71.

## 2. Outlook for This Month

The AUD/USD pair is expected to move in a range around \$0.71 in April.

Signs of a slowdown are becoming more apparent when it comes to the housing market and consumer spending, for example, with concerns growing about the direction of the Australian economy. As for monetary policy, the markets have been racing to price in an Australian rate cut from the end of 2018, with the financial markets expecting at least one rate cut this year. Despite these expectations, the currency pair is expected to continue trading without a sense of direction around \$0.70. The March RBA board meeting spoke about an economic slowdown, as did RBA governor Philip Lowe during a speech, but with positive factors like the falling unemployment rate also emerging, Mr. Lowe commented that the probabilities for the cash rate “appear to be more evenly balanced.” In fact, though the Q4 GDP data (released last month) hinted at a slowdown, the unemployment rate has improved slightly, so from here on investors will focus on how the gap between the opinions of the markets and the central bank can be closed.

The AUD/USD pair continues to float along gently in blithe disregard for both rising commodity prices and expectations for Australian rate cuts, but given how the markets have factored in a rate cut, the pair is unlikely to soar even if some positive factors emerge. Expectations for a US rate cut have also risen sharply, so the pair will probably be swayed by further speculation about rate cuts in either the US or Australia. In the medium term, the pair looks set to rise as the greenback faces some adjustment, though it will probably trade in a range overall in April on the back of external factors (such as the direction of US/China trade talks and Brexit) and the release of domestic indicators.

New South Wales held an election last month. This was a precursor to the May federal elections, with the Conservative coalition managing to hold onto power. The Labor Party still looks set to win the federal elections. If this does come to pass, this could impact the economy somewhat, so investors should also pay attention to election-related news this month.

Yasuko Iwata, Canada Office, Global Markets Coordination Department

## Canadian Dollar – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>C\$1.3100–1.3600</b>
	<b>Against the yen:</b>	<b>JPY80.00–86.00</b>

### 1. Review of the Previous Month

With the Canadian 4Q GDP data falling sharply below expectations on its release on March 1, concerns about the Canadian economy grew, with the Canadian dollar sold and the USD/CAD pair swinging from the mid-C\$1.31 mark to the C\$1.33 range at the start of the month.

As expected, the Bank of Canada (BOC) kept the policy rate fixed at 1.75% when it met on March 6. However, a phrase about how “the policy interest rate will need to rise over time into a neutral range” was removed from the accompanying statement. This added to the uncertainty about the timing of the next rate hike, with the BOC appearing to adopt a more dovish stance. The ECB Governing Council sharply downgraded its growth forecast for 2019 when it met on March 7. It also moved in the direction of easing by pushing back the date of any rate hikes while announcing the introduction of a new targeted long-term refinancing operation (TLTRO). The Chinese trade balance for February also showed imports and exports falling by more than expected due to the impact of US/China trade frictions. With the markets growing more concerned about the direction of the global economy, the USD/CAD pair rose to C\$1.3466.

The Canadian February employment data was released mid-March, with the number of people in work rising by more than expected, while crude oil prices (WTI) also rose on hopes regarding US/China trade talks together with reports that OPEC would be extending its program of production cuts until June. The Canadian dollar was bought back and the currency pair dropped to C\$1.3251 for the first time in around three weeks. However, the Canadian dollar’s rise was short-lived owing to the weakness of several housing-related indicators that had previously supported the Canadian economy (such as the February Existing Home Sales figure and the January New Housing Price indicator).

US/China trade talks continued in the latter half of the month, with the Brexit issue also growing more uncertain and the FRB releasing the results of the FOMC meeting. As expected, the FOMC left policy rates unchanged, though its statement pointed to slowing growth in the US. In the closely-watched dot chart, FOMC members downgraded their projections to zero rate hikes in 2019 and one in 2020, both down on the projections given in December. The dovish shift was more pronounced than expected, with the FOMC also announcing it would stop shrinking its balance sheet in September. Thereafter, the US and Europe both released some worse-than-expected manufacturing indicators, with the markets focusing strongly on a global economic slowdown. Yields on three-month and ten-year US treasuries

inverted on March 22, with yields in Canada and Germany then following suit. The Canadian dollar was sold and the currency pair rose to the C\$1.34 range.

The Canadian GDP data for January was then released at the end of March. The result was stronger than expected, with the Canadian dollar soaring as a result. The pair closed the month trading at C\$1.3350.

## **2. Outlook for This Month**

The FRB has shifted in a dovish direction while the ECB has postponed the timing of rate hikes from this summer to the end of the year, with major central banks moving in an accommodative direction. The Bank of Canada (BOC) is expected to keep policy rates fixed at its monetary policy meeting on April 24 and it will probably continue to run monetary policy with an eye on the economic data.

In particular, with yields inverting at the end of March, investors will be paying even more attention to the major economic indicators released from April onwards to gauge whether the global economy is indeed slowing. If a global slowdown is confirmed, crude oil (WTI) prices will probably dip from their current level of around \$60 and this will probably hit the Canadian economy even harder. The BOC will be releasing its quarterly monetary policy report when it meets on April 24, with attention likely to focus in particular on the BOC's economic outlook.

Other risks still include the Brexit issue and the US/China trade talks (which failed to reach any resolution in March).

As with March, the main scenario for April is of the USD/CAD pair floating around the lower-C\$1.3 mark on the dovish stances of the US and Canadian central banks. However, if the markets grow more concerned about an economic slowdown on the release of some bearish economic indicators, the pair could break above its March high (C\$1.3468) to potentially hit a 2019 high at the lower-C\$1.36 mark.

Yasunori Shimoyama, Seoul Treasury Office

## Korean Won – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>KRW1,100–1,150</b>
	<b>Against the yen:</b>	<b>JPY9.524–10.000 (KRW100) (KRW10.000–10.500)</b>

### 1. Review of the Previous Month

The USD/KRW pair rose in March compared to the end of February.

After opening the month at KRW1126.00, it then hit a monthly low of KRW1124.00 on the same day. The ECB Governing Council met during overseas trading time on March 7. The ECB struck a bearish and dovish tone by downgrading its growth forecast for the eurozone, for example. This led to a rise in risk aversion. This mood also prevailed the following week after the stock value of a major US aircraft manufacturer plummeted after one of its aircraft crashed. News then emerged on March 15 that North Korea was looking again at the moratorium on missile launches and nuclear tests, with the pair subsequently weakening to KRW1139 range on the same day.

Investors adjusted their dollar positions in advance of the March 19–20 FOMC meeting. With the meeting clearly inclining in a dovish direction, the pair dipped to a monthly low of KRW1124.40 in onshore markets on March 21. This level was met with buying on the dip. Concerns about a global economic slowdown then intensified during overseas trading time on March 22 after Germany and the eurozone released weak PMIs. The won was sold on risk aversion, with the pair climbing to KRW1136 range on March 25. It then moved flatly for a time. During overseas trading time on March 27, the markets focused once more on concerns of a global economic slowdown after ECB president Mario Draghi made some dovish comments. With risk aversion sweeping the markets, the won weakened in the NDF market, with the USD/KRW pair hitting a monthly high of KRW1139.50 on March 28. The pair eventually closed the month trading at KRW1135.10.

### 2. Outlook for This Month

The USD/KRW pair looks set to continue trading in a range in April.

With major central banks across the world inclining in a dovish direction, economic indicators are notably deteriorating, with the environment ripe for some risk aversion. Under these circumstances, it seems the USD/KRW pair's downside has edged higher.

The markets will continue to focus on the global economic situation this month. Business activity has slowed on US/China trade frictions and uncertainty about Brexit. This is probably a major factor



behind the recent bearishness of economic indicators. At the time of writing, it is still hard to gauge a sense of direction when it comes to US/China trade talks and the Brexit negotiations. The UK is set to leave the EU on April 12. The EU also seems reluctant to extend this deadline, so it seems some kind of resolution will emerge this month. If the situation resolves itself in a no-deal Brexit or a second referendum, this will push the currency pair sharply in one direction or another. However, if UK prime minister Theresa May manages to get her withdrawal deal accepted by the UK parliament, this could lead to some temporary volatility, but it will also remove one uncertainty from the equation, so composure will gradually return to the markets thereafter.

As for US/China trade relations, April is unlikely to see a heads of state meeting. Though the currency pair will be swayed by a mixture of positive and negative factors, it is hard to foresee the emergence of any factors capable of carving out a sense of direction for the pair.

Turning to monetary policy, and the Bank of Korea's Monetary Policy Committee (MPC) will be meeting on April 18. With the FRB and ECB clearly inclining in a dovish direction, though, the BOK will probably keep policy unchanged, with the meeting causing no waves.

Based on the above, the USD/KRW pair looks set to continue trading in a range overall in April. There are a number of uncertain factors, though, so investors should remain on guard against any sudden fluctuations.

## New Taiwan Dollar – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>NT\$30.70–30.95</b>
	<b>Against the yen:</b>	<b>JPY3.50–3.70</b>

### 1. Review of the Previous Month

The USD/TWD pair moved in a narrow range around the upper-TWD30 mark in March.

It opened the month trading at TWD30.800 on March 4. The greenback had risen during a Taiwanese holiday, so with the US dollar being bought and the Taiwanese dollar sold, the pair strengthened to TWD30.835. The pair's topside was held down for a while as exporters sold the US dollar, but with stocks moving bearishly, the greenback continued to be bought, with the pair moving firmly at the mid-TWD30.8 level. The ECB Governing Council met on March 7. The meeting struck a dovish tone, with the GDP projection of staff members downgraded sharply, for example, so the US dollar rose against the euro and it was also bought in Taiwanese markets on March 8, with the pair climbing to TWD30.897.

With stocks moving heavily on the topside on March 11 and funds flowing out of Taiwanese stock markets at a faster pace, the pair hit a monthly high of TWD30.920. Stocks began to recover from March 12, though, with the pair's topside also held down again as exporters sold the greenback and bought the Taiwan dollar, so the pair then moved in a narrow range around TWD30.8.

In the latter half of March, stocks moved firmly and the Taiwan dollar was bought as exporters sold the US dollar, with the pair subsequently tumbling to TWD30.773 on March 19. At the closely-watched FOMC meeting, members downgraded their rate-hike forecast for 2019 from two times (the projection made in December) to zero times. The FOMC also announced it would shrink its balance sheet at a slower pace in May before calling a halt to the program in September. FRB chair Jerome Powell struck a comprehensively dovish tone in his press conference after the meeting, with the US dollar then weakening. As a result, the pair fell to a monthly low of TWD30.750 in Taiwanese markets on March 21.

During overseas trading time on March 25, risk aversion intensified on worsening European economic indicators. With stock prices plummeting, Taiwanese stocks also moved bearishly and the pair bounced back to TWD30.865 for a time. With more exporters selling the US dollar toward the month's end, though, the pair's topside was held down and the pair continued moving at TWD30.8 range.

### 2. Outlook for This Month

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

A glance at the economic indicators released in March shows the February export amount falling by -8.8% y-o-y. With exports moving sluggishly on uncertainty related to US/China trade talks, growth remained in negative territories for the fourth straight month. The breakdown shows key exports of electronic parts hitting -8.3% y-o-y, with the total figure also pulled down when exports to China and Hong Kong (which account for over 40% of all Taiwan's exports) slumped by -10.4% y-o-y. Taiwan's Statistical Bureau has struck a bearish tone, saying that exports could contract by more than 3% in January–March, down on its original projection for a slide of -2.8% y-o-y. The Central Bank of the Republic of China (Taiwan)'s quarterly Monetary Policy Meeting was held on March 21. Its GDP and CPI forecasts were downgraded to 2.13% and 0.91% respectively. With exports also remaining in the doldrums, the Monetary Policy Meeting adopted a stance that it would continue to pursue an accommodative monetary policy. It also kept the discount rate (the policy rate) fixed at 1.375% for the 11th straight meeting.

Investors will be monitoring the direction of US/China trade talks in April. A cabinet-level meeting will be held in Washington on April 3, with President Trump and Chinese Premier Xi Jinping also set to meet late April, so investors will be looking for signs of an end to the trade war.

Meanwhile, Taiwanese stocks have moved at highs since the turn of the year, so attention will focus on whether this trend will continue. FOMC members downgraded their rate-cut projection when they met in March, with the FOMC also announcing an end to its program of balance-sheet shrinkage. There is now a growing sense that the FRB will call a halt to the process of monetary policy normalization. If the stock markets continue to welcome this dovish shift by the FRB and stocks remain bullish, more overseas funds will probably flow into Taiwanese stock markets, with the Taiwan dollar being pushed up against its US counterpart.

Ken Cheung, Hong Kong Treasury Department

## Hong Kong Dollar – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>HK\$ 7.8300–7.8500</b>
	<b>Against the yen:</b>	<b>JPY 13.75–14.30</b>

### 1. Review of the Previous Month

#### Hong Kong dollar spot exchange market in March

In March, the U.S. dollar/Hong Kong dollar exchange rate reached HKD 7.85—the lower end of the fluctuation band—for the first time since September last year, due to widening interest rate differentials between the U.S. dollar and the Hong Kong dollar. The Hong Kong Monetary Authority (HKMA) carried out market intervention by buying Hong Kong dollars amounting to HKD 12 billion, in order to defend its currency. However, the Federal Reserve Board (FRB) has ended its balance sheet reduction program while giving up interest rate hikes in the second half of this year, and this is keeping the pressure low for capital outflow from the Hong Kong market. It should also be mentioned that there has been persistent optimism in the market regarding the trade negotiations between the U.S. and China, which is helping capital maintenance in emerging markets in Asia, including the Hong Kong market. Also, the Chinese yuan/Hong Kong dollar exchange rate appreciated, as market participants bought the Chinese yuan and sold the Hong Kong dollar, in order to buy Chinese A shares through the Stock Connect scheme. Maintaining a dovish attitude, the FRB weakened its outlook for the appreciation of interest rates in the Hong Kong market. As a result, the one-year Hong Kong dollar forward point fell to -520 points, after which it continued falling to approach -660 points.

#### Hong Kong dollar interest rate market in March

In March, the short-term Hong Kong dollar HIBOR appreciated. The one-month Hong Kong dollar HIBOR rose from the 1.0% observed in early March to 1.8% as a result of the liquidity absorption measures taken by the HKMA after the depreciation of the Hong Kong dollar as well as seasonal factors typical to the end of a quarter. Similarly, the three-month HIBOR rose from the 1.6% seen in early March to approach 1.9%. It should also be pointed out that the checkable deposit balance of the HKMA, which is often used as the index for the liquidity level, fell from the HKD 76.3 billion observed in the previous month to HKD 67.8 billion. On the other hand, the one-month and three-month Hong Kong dollar HIBOR-U.S. dollar LIBOR spreads narrowed from -150 basis points and -100 basis points, respectively, to around -70 basis points. With regard to long-term interest rates, the three-year and five-

year Hong Kong dollar IRS interest rates fell below 2%, following the fall of the U.S. dollar IRS interest rate, after the outcome of the FOMC meeting turned out to be dovish.

### **Hong Kong stock market in March**

The benchmark Hang Seng Index (HSI) reached its high at 29,486 for the first time in nine months, after which it fell to 28,500. The market has already reflected the optimism regarding the trade negotiations between the U.S. and China as well as the economic stimulus plan announced by China. Thus, the stock market in Hong Kong is losing its momentum. On the other hand, concerns are growing over worldwide economic recession, which increased downward risks for the Hong Kong stock market.

## **2. Outlook for This Month**

### **Hong Kong dollar spot exchange market in April**

In April, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate between HKD 7.83 and HKD 7.85. The interest rate differentials between the U.S. and Hong Kong remain wide. While the FRB shifted its attitude even more dovish, the Hong Kong dollar is likely to remain weak against the U.S. dollar, at around HKD 7.85, the lower end of the fluctuation band. Market participants expect that commercial banks will not raise interest rates if the FRB halts its interest rate hikes. In order to change such a market estimate, it would be necessary for the HKMA to independently raise the Hong Kong dollar interest rates by actively absorbing liquidity in the Hong Kong dollar. Furthermore, the risks of capital outflow would remain controlled, as major central banks gave up on monetary tightening and the normalization of the monetary policy. Market participants expect the trade negotiations between the U.S. and China to advance in the times ahead, finding it desirable to maintain funds in the Hong Kong market.

### **Hong Kong dollar interest rate market in April**

Despite the fact that the HKMA absorbed the liquidity in the market, the liquidity level in the Hong Kong dollar remains sufficiently high. It is true that the liquidity buffer for the Hong Kong dollar has been gradually diminishing compared to the time of the first liquidity absorption carried out in April last year. Furthermore, commercial banks in Hong Kong are likely face growing pressure for fund procurement when the checkable deposit balance of the HKMA falls to around HKD 10 billion. From another point of view, the Hong Kong dollar interest rates are expected to start falling in April, as there will be no more seasonal factors typical to the end of a quarter and as there aren't many IPOs happening in the Hong Kong stock market. In the end, even if the FRB temporarily halts its interest rate hikes,

commercial banks in Hong Kong are forecast to maintain the current interest rate levels. For this reason, the increase of upward pressure on the Hong Kong dollar interest rates is likely to be slow this year.

Kazuki Baba, Treasury Division, MHBK (China)

## Chinese Yuan – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>CNY 6.5000–6.9000</b>
	<b>Against the yen:</b>	<b>JPY 15.36–17.08</b>
	<b>Against 100 yen:</b>	<b>CNY 5.8600–6.5100</b>

### 1. Review of the Previous Month

Foreign exchange market

In March, the U.S. dollar/Chinese yuan exchange rate fluctuated at around the CNY 6.70 level, moving in accordance with overseas factors, such as various media reports on the trade negotiations between the U.S. and China as well as the outcome of the monetary policy meetings of the U.S. and European central banks.

At the beginning of the month, the media reported that the trade negotiations between the U.S. and China “are close to agreement,” and this led the Chinese yuan to appreciate against the U.S. dollar, with the U.S. dollar/Chinese yuan exchange rate once reaching the CNY 6.68 level. However, market participants bought back the U.S. dollar while waiting for the European Central Bank (ECB) Governing Council meeting and the release of the U.S. employment statistics. As a consequence, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.71 level. On March 5, the National People’s Congress opened, and the government work report included various government targets and economic measures in 2019. However, as they were within expectations, the impact on the exchange market was limited. Then, on April 7, the ECB Governing Council meeting was held and the economic outlook for the eurozone was revised downward, and there was a decision on a new long-term operation to provide funds, which led the euro to depreciate against the U.S. dollar. Following this trend, the Chinese yuan also depreciated against the U.S. dollar, and the exchange rate reached a level near CNY 6.72.

Thereafter, the U.S. dollar/Chinese yuan pair continued trading at around CNY 6.72 with mixed outcomes in the Chinese economic indices, along with the media report that the summit meeting between the U.S. and China would be postponed until April. However, at the Federal Open Market Committee (FOMC) meeting held on March 20, the outcome turned out to be more dovish than expected in the market, which encouraged market participants to sell the U.S. dollar. Following this trend, the U.S. dollar/Chinese yuan exchange rate also fell to once approach CNY 6.67. However, the U.S. dollar rallied immediately, and the U.S. dollar/Chinese yuan exchange rate also returned to the CNY 6.70 level.

Toward the end of the month, the U.S. dollar/Chinese yuan exchange rate fluctuated at around CNY 6.71, while market participants observed the progress in the trade negotiations between the U.S. and China.

#### Interest rate market

During the first half of the month, open-market operations were postponed successively, tightening the supply & demand balance. Under such circumstances, the market interest rate remained generally stable. Toward the second half of the month, interest rates appreciated due to the fact that the medium-term lending facility (MLF) worth CNY 327 billion matured, tightening the capital demand & supply balance, while demand for fund procurement was growing for the end of the month. As a result, interest rates for short terms appreciated and the three-month SHIBOR rose to approach 2.83.

## 2. Outlook for This Month

#### Foreign exchange market

With regard to the trade frictions between the U.S. and China, negotiations continue for an agreement, which means that the foreign exchange market is unlikely to start moving in a specific direction until the summit meeting occurs between the U.S. and China, and this meeting is to be held in April. However, the number of anticipated interest rate hikes in the U.S. has already been zero, which may lead U.S. interest rates and the U.S. dollar to depreciate. If that happens, upward pressure may strengthen on the Chinese yuan in the U.S. dollar/Chinese yuan exchange market.

However, in Europe, the Brexit issue persists, while major economic indices have also been weak and there has been no sign of economic recovery. If the sense of uncertainty regarding the European economy strengthens in the market in the times ahead, the euro is likely to depreciate against the U.S. dollar, which would keep the Chinese yuan from appreciating against the U.S. dollar. Market participants should therefore remain attentive.

#### Interest rate market

During the latter half of the previous month, upward pressure strengthened on interest rates mainly for short terms. As was confirmed at the National People's Congress as well, the Chinese monetary authorities are likely to continue supplying a high volume of liquidity to the market. While interest rates for fixed terms have been low, interest rates in general are forecast to remain stable.



Shinya Maegawa, Asia &amp; Oceania Treasury Department

## Singapore Dollar – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>SG\$ 1.3400–1.3600</b>
	<b>Against the yen:</b>	<b>JPY 80.00–83.00</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.35 level. Toward the second week of the month, market participants bought back the U.S. dollar. Under such a condition, the Singapore dollar was sold, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.36 level. From the middle to the end of the month, expectations grew for the trade negotiations between the U.S. and China, while the Federal Open Market Committee (FOMC) in the U.S. shifted toward a dovish attitude, which strengthened the currencies of emerging countries. Following this trend, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate once approached mid-SGD 1.34 level. Toward the end of the month, some market participants bought back the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate returned to approach SGD 1.35.

In the first and second weeks of the month, the fourth-quarter GDP of the U.S. turned out to be higher than expected, leading U.S. interest rates to appreciate and strengthening the U.S. dollar. As a consequence, the Singapore dollar gradually depreciated against the U.S. dollar from the lower-SGD 1.35 level to the mid-SGD 1.35 level. Then, on March 7, the European Central Bank (ECB) Governing Council meeting was held, and the interest rate hike was postponed until next year, which led the euro to depreciate sharply. Following this trend, more market participants bought the U.S. dollar, selling the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.36 level.

In the third week of the month, the February employment statistics of the U.S. were released on March 11, which led U.S. interest rates to fall. As a result, the U.S. dollar depreciated, and market participants bought the Singapore dollar. On March 12, market participants continued buying the Singapore dollar based on optimism regarding the trade negotiations between the U.S. and China as well as due to expectations for economic stimulus measures by the Chinese monetary authorities for the purpose of supporting the Chinese economy. Then, on March 13, local time, expectations grew for the revised Brexit bill to be approved by the U.K. Parliament, which led the British pound to appreciate, weakening the U.S. dollar. Under such circumstances, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate once reached the lower-SGD 1.35 level. Then, on March 14, the U.K. Parliament disapproved the revised bill by a wide margin, as a result of which some market participants bought back

the U.S. dollar and sold the Singapore dollar. The U.S. dollar/Singapore dollar exchange rate then reached the mid-SGD 1.35 level.

In the fourth week of the month, the figures for the February non-oil domestic exports (NODX) of Singapore were released on March 18, and the negative growth turned out to be larger than expected in the market. In reaction to this, the Singapore dollar was sold, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.35 level. Thereafter, market participants kept a wait-and-see attitude, waiting for the FOMC meeting scheduled for March 19 and 20. On March 21, U.S. dollar-selling strengthened, as the outcome of the FOMC meeting indicated an attitude that was more dovish than what was expected in the market. Under such a condition, the Singapore dollar was bought, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.34 level. On March 21 and 22, market participants gradually bought back the U.S. dollar and sold the Singapore dollar, leading the exchange rate to approach SGD 1.35 to the U.S. dollar.

In the fifth week of the month, the February CPI figure of Singapore was announced on March 25, and the outcome turned out to be lower than expected in the market. Furthermore, stock prices, which had been falling due to concerns over a slowdown in the global economy, started to rally in various countries. As a consequence, risk sentiment improved in the market, and the Singapore dollar remained stable at the lower-SGD 1.35 level to the U.S. dollar.

## **2. Outlook for This Month**

In April, the U.S. dollar/Singapore dollar exchange rate is forecast to fluctuate within a narrow range at around the SGD 1.35 level. With regard to domestic factors in Singapore, market participants should look out for announcements on monetary policy by the Monetary Authority of Singapore (MAS), which will be holding a meeting this month. On the other hand, with regard to overseas factors, it should be pointed out that the sense of uncertainty over the Brexit negotiations in the U.K. and the concerns for a slowdown in the global economy are growing. In the U.S., the interest rate outlook for 2019 was revised downward from twice to none by the FOMC at its meeting held last month. In addition, balance sheet reduction is to be slowed down from May and halted in September, showing an attitude more dovish than anticipated. In reaction to this, U.S. interest rates have been rapidly falling. While the Federal Reserve Board (FRB) remains dovish, it is possible for the pressure to buy the U.S. dollar to weaken at some point. Furthermore, the ministerial-level trade negotiations between the U.S. and China were resumed on March 28, which is also attracting substantial attention in the market. While the above factors are cancelling each other out, the Singapore dollar exchange market is not likely to move into any direction in the times ahead.

In April, the most-important factor would be the biannual revision on the monetary policy by the MAS. In April last year, the MAS shifted its monetary policy from neutral to monetary tightening for the first

time in two years, starting again to lead the Singapore dollar to appreciate on a nominal effective exchange rate basis. In October last year, the MAS carried out further monetary tightening, accelerating the pace, to lead the Singapore dollar to appreciate in the nominal effective exchange rate (NEER). Opinions in the market are divided with regard to whether the MAS will further accelerate the operation for the appreciation of the Singapore dollar at a meeting to be held this month. Also, the February CPI of Singapore announced on March 25 turned out to be lower than the market estimate, demonstrating stability in prices. Given such a situation, it is likely for the MAS to postpone additional monetary tightening this time. Furthermore, while concerns are growing over a slowdown in the global economy, it is unlikely for major central banks to shift their monetary policy toward monetary easing. In any case, market participants should remain attentive of how the MAS will explain the current situation and the future growth outlook.

## Thai Baht – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>THB 30.50–32.00</b>
	<b>Against the yen:</b>	<b>JPY 3.45–3.55</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Thai baht exchange rate did not move into any direction.

At the beginning of the month, the U.S. dollar/Thai baht exchange market started trading at the upper-SGD 31.50 level. A U.S. dollar-buying trend continued from the previous day, and the Chinese yuan depreciated further, which led the U.S. dollar/Thai baht exchange rate to approach THB 31.80. On the same day, the February Consumer Price Index of Thailand was announced, and the result turned out to be +0.73% year-on-year (whereas the estimate was +0.59%). However, the impact of this result on the market was limited. On March 4, the Thai baht continued weakening, as was the case in the previous week. Under such circumstances, the U.S. dollar/Thai baht exchange rate once approached THB 31.90. On March 5, the appreciation of the U.S./Thai baht exchange rate slowed down before reaching THB 32.00. As the increase in bond purchase by overseas investors turned out to be the largest since February 20, the U.S. dollar/Thai baht exchange rate fell to THB 31.75. On March 6, the Chinese yuan depreciated sharply, and following this, the Thai baht also depreciated against the U.S. dollar and the exchange rate rose again to approach THB 31.90. Then, on March 7, the Constitutional Court ordered the dissolution of the Thai Raksa Chart Party, and this led the U.S. dollar/Thai baht exchange rate to reach its monthly high at around THB 31.95. However, the exchange rate fell rapidly to approach THB 31.80 due to profit-taking activities in the market. On March 8, one of the Monetary Policy Committee (MPC) members, Kanit Sangsubhan, made a remark that it would be unlikely for the interest rate to be raised in March. However, the impact of this on the Thai baht exchange rate was limited. Then, on March 12, the February Consumer Confidence Index of Thailand was released, and the result turned out to be higher than the previous month, for the second consecutive month. The U.S. dollar/Thai baht exchange rate thus fell to the lower-THB 31.60 level toward March 13. On March 14, the U.S. dollar/Thai baht exchange rate rose to approach THB 31.80. However, there was no sign of movement thereafter, and with the weakness of the U.S. dollar and with the MPC meeting and the general election approaching, the exchange rate continued fluctuating within a narrow range at around THB 31.70 to the U.S. dollar. Then, on March 20, the outcome of the MPC meeting was announced, revealing dovish contents, in reaction to which the U.S. dollar/Thai baht exchange rate rose sharply to approach THB 31.80. On March 22, the U.S. dollar/Thai baht exchange market opened trading at around THB 31.70. As a general election in Thailand was scheduled for the weekend, the Thai

baht depreciated slightly, and the U.S. dollar/Thai baht exchange market closed at around THB 31.75. In the following week, the Thai baht appreciated from the market opening on March 25. Regarding the general election in Thailand carried out during the previous weekend, the media reported that the pro-military party, the Palang Pracharath Party, had gained significantly more votes than anticipated, while the pro-Thaksin Party, the Pheu Thai Party (“For Thais Party”), was not able to gain a large number of seats. Thus, market participants expected the existing Prime Minister Prayuth Chan-o-cha to remain in office. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell to its monthly low at around THB 31.50. On March 26, the following day, downward pressure strengthened following the trend observed in the previous day, and the U.S. dollar/Thai baht exchange rate remained stable at the mid-THB 31.50 level. However, immediately after market opening, local time, the trend was reversed and the U.S. dollar/Thai baht exchange rate returned to approach THB 31.65. On March 27, the media reported that the “For Thais Party” and the Phak Anakhot Mai Party (“Future Forward Party”) opposed the military government and formed an anti-military group, in order to obtain a majority of votes. As a result, political risks heightened, and the Thai baht depreciated. As the Chinese yuan was also weakening, the U.S. dollar/Thai baht exchange rate rose to approach THB 31.90. Then, on March 28, market participants were conscious of the political risks, and the exchange rate rose to approach its monthly high. However, the appreciation of the exchange rate slowed down thereafter and returned to approach THB 31.80. On March 29, the February trade statistics were released, and imports turned out to be significantly lower than expected. As market participants were buying the Chinese yuan with growing expectations for progress in the trade negotiations between the U.S. and China, the U.S. dollar/Thai baht exchange rate fell to approach THB 31.70, and monthly trading closed.

## 2. Outlook for This Month

In April, the U.S. dollar/Thai baht exchange rate is not likely to move into any direction.

On March 24, a general election was carried out in Thailand, and it turned out that the pro-military party, the Palang Pracharath Party, gained a large number of votes, fueling expectation for the existing Prime Minister Prayuth Chan-o-cha to remain in office. As the general election was carried out smoothly this time without any large riot, such as was seen for the closure of an airport, the Thai baht appreciated on March 25 after the weekend. However, on the following day, the media reported that several anti-military parties would unite to gain a majority of votes, raising political risks in Thailand, leading the U.S. dollar/Thai baht exchange rate to rally to approach THB 32.00. Even though the trend in the foreign exchange rate does not solely depend on the outcome of the election in Thailand, after the general election, the sense of uncertainty persisted, mainly among overseas investors, regarding complicated political risks in Thailand. The future trend is therefore difficult to foresee. In terms of chart analysis as well, the U.S. dollar/Thai baht exchange rate has entered a daily Ichimoku Kinko Hyo cloud, without passing the thick cloud either upward or downward. One of the triggers to get out of such a situation would be a significant

move in the domestic economic indices in Thailand. However, the economic indices that were recently released have been weak, and thus it would be necessary for market participants to remain attentive to the figures in the times ahead. Furthermore, as Thailand has its Thai New Year Songkran holidays in April, and as, overall, Thailand would be in a festive mood before and after this period, economic activities are likely to slow down slightly during this time. Under such circumstances, the U.S. dollar/Thai baht exchange market is likely to fluctuate following overseas factors—above all, those related to the U.S. and the U.S. dollar. At the Federal Open Market Committee (FOMC) meeting held on March 19 and 20, the expected number of interest rate hikes for FY2019 was revised from twice to none, which encouraged market participants to sell the U.S. dollar after the FOMC meeting. While U.S. interest rates fell, the central banks of various countries turned more dovish, which led European bond interest rates to also fall significantly. Thus, interest rates fell globally. As U.S. interest rates form an inverted yield curve, concerns are growing over a recession, thus also weakening the stock market. Thus, risk sentiment may deteriorate in the times ahead. With regard to the trade negotiations between the U.S. and China as well, the market was once in a wait-and-see mood, but at the end of March, the Chinese yuan started depreciating again, which is also likely to attract substantial attention in the market. There are many other factors impacting each other, such as the Brexit negotiations, with their slow progress, forming a complex market environment. Considering the above factors, while there are few domestic factors after the general election, the Thai baht exchange market in April is likely to fluctuate following overseas factors, mainly those related to the U.S. dollar, and the U.S. dollar/Thai baht exchange rate is forecast not to move into any direction.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

## Malaysian Ringgit – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>MYR 4.0100–4.0800</b>
	<b>Against the yen:</b>	<b>JPY 26.90–27.50</b>
	<b>Against 100 yen</b>	<b>MYR 3.6350–3.7200</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Malaysian ringgit exchange rate remained stable within a range between MYR 4.05 and MYR 4.10, with confirmed capital inflow from abroad, even though there was persistent uncertainty over the trade frictions between the U.S. and China as well as the Brexit negotiations.

In February, the U.S. dollar/Malaysian ringgit exchange rate almost fell below the MYR 4.06 level several times, after which the trend was reversed, and the Malaysian ringgit depreciated against the U.S. dollar at the beginning of March due to risk factors related to a slowdown in global economic growth. On March 5 at the National People's Congress, the GDP growth rate target for FY2019 was set out at 6.0–6.5%, the lowest level since 2009. On the same day, the central bank of Malaysia decided to maintain the policy interest rate (OPR) at 3.25%, while expressions regarding concerns over the trade frictions and weak commodity prices were included in the statement. On March 6, the following day, the trade deficit of the U.S. for 2018 was announced, and the figure turned out to be the highest in 10 years. Furthermore, the European Central Bank (ECB) decided to postpone the interest rate hike until 2020 due to the downward revision on the eurozone growth rate outlook for 2019. Even though market participants temporarily bought the Malaysian ringgit for a short moment when the February employment statistics of the U.S. were released with weak figures, the above factors of uncertainty eventually led the Malaysian ringgit to reach its monthly low against the U.S. dollar on March 8 at MYR 4.0970.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate hovered around at the MYR 4.08–4.09 level, following the issues related to Brexit discussed at the U.K. Parliament for three consecutive days. In the petroleum oil market, the media reported that Saudi Arabia had suggested extending the reduced production plan until the end of the year, which strengthened the market. Then, the Brent crude oil price appreciated to USD 68, recording the highest price since November last year. However, the possibility persisted for a hard landing for Brexit, and this led the Malaysian ringgit to depreciate again to momentarily reach the low at MYR 4.0970 on March 15.

Toward the end of the month, there was disagreement between the U.S. and China regarding the policy

measures related to intellectual property rights, which cast a shadow on the expectations in the market for a compromise in trade negotiations. Even under such circumstances, the media reported that the Malaysian Investment Development Authority announced the approved amount of foreign direct investment in 2018, with a remarkable increase for the manufacturing industry. Furthermore, the media also reported that there was net capital inflow by foreign investment in the Malaysian bond market in February for the first time in four months. In response to this, the Malaysian ringgit rallied and the exchange rate approached MYR 4.07 to the U.S. dollar. Then, on March 20, the Federal Open Market Committee (FOMC) meeting was held in the U.S., and the outcome turned out to be more dovish than expected in the market. Moreover, there were some market participants buying the Malaysian ringgit at the end of the quarter period. Under such a context, the Malaysian ringgit appreciated against the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.06 mark on March 21, the following day, which was the support line in February, rapidly reaching MYR 4.0550—the highest level since August last year. As of March 28, the U.S. dollar/Malaysian ringgit has been trading at the MYR 4.07 level.

## **2. Outlook for This Month**

In April, the Malaysian ringgit is forecast to strengthen due to the slowdown in the appreciation of the U.S. dollar as well as due to the improvement in capital flow.

There have been persistent factors of uncertainty, however, such as the trade negotiations between the U.S. and China, of which the agreement date was postponed until April, as well as the outcome of the Brexit negotiations, with a “reverse checkmate” from the European Union. However, the capital flow, which was not recovering as rapidly as the domestic growth rate or the level of business confidence, started to improve, supporting the Malaysian ringgit. Also, the monetary policy of the U.S. turned more dovish than expected in the market, which may fuel concerns over a slowdown in the global economy, despite being a positive factor for emerging markets.

First of all, in January again, net exports recorded a surplus more significant than expected in the market. The crude oil price (North Sea Brent) was at USD 67 at the time of this writing, remaining within the range estimated in the government budget bill for this fiscal year, and this is another positive factor. The amount of foreign reserves at the central bank, which is announced twice per month, has also been steadily increasing since the beginning of the year, leading an increasing number of market participants to believe that there have been no market interventions based on Malaysian ringgit-buying.

Secondly, the Malaysian Investment Development Authority announced the approved amount of foreign direct investment for 2018 on March 14, and, above all, the figure for the manufacturing industry recorded 270% growth. In particular, it was confirmed that the figure for the second half of the year was already twice as large as the annual figure of the previous year. Furthermore, in this figure, the amount for new



investment, excluding that renewed, recorded more than 500% growth year-on-year, demonstrating the recovery in trust from abroad since the change in the government in May.

Furthermore, the 10-year Malaysian government bond yield fell below 4% in February in the domestic bond market, and this turned the net capital flow from overseas investors into an inflow for the first time in four months. As the bond yield fell below 3.8% for the first time since November 2016 on March 21, it seems that the trend of inflow continues in March. It should also be mentioned that in the stock market as well, there has been significant inflow from foreign investors in March.

On March 27, the central bank of Malaysia revised the growth rate outlook for 2019 downward from 4.9% (outlook in November 2018) to 4.3–4.9%. At the same time, the central bank of Malaysia also announced its decision to partly deregulate foreign currency restrictions. Even though factors in uncertainty persist in overseas markets, it can be said that factors in the domestic environment are ready to lead the Malaysian ringgit to start slowly appreciating.

Ryosuke Kawai, Asia &amp; Oceania Treasury Department

## Indonesian Rupiah – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>IDR 13,900–14,500</b>
	<b>Against 100 rupiah:</b>	<b>JPY 0.75–0.80</b>
	<b>Against the yen:</b>	<b>IDR 125.00–133.00</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Indonesian rupiah exchange rate fluctuated within a range between IDR 14,090 and IDR 14,340. The exchange rate rose during the month, but the monthly trading closed at the level observed at the beginning of the month.

The U.S. dollar/Indonesian rupiah exchange market opened trading at around IDR 14,100 and continued fluctuating at the same level at the beginning of the month. On March 1, the February Consumer Price Index of Indonesia was announced, and the result turned out to be +2.57% year-on-year, falling below the estimate. However, the reaction in the market was limited. However, after the national holiday in Indonesia, the February trade statistics of China were released on March 8 with figures significantly weaker than expected in the market, leading Asian currencies to depreciate. Following this trend, market participants also sold the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate rose to approach IDR 14,340. On the same day, the February amount of foreign currency reserves was also announced to be USD 123 billion, revealing an increase of USD 3.2 billion from the previous month.

Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating between IDR 14,200 and IDR 14,300. Then, on March 15, the February trade balance was announced, and the figure turned to a surplus for the first time in five months.

On March 21, the U.S. dollar/Indonesian rupiah exchange market opened at around IDR 14,100 with a gap from the closing rate of the previous day, as the interest rate hike outlook for this year was revised downward to none at the Federal Open Market Committee (FOMC) meeting held on the previous day, confirming a dovish attitude by the Federal Reserve Board (FRB). The interest rate then fell to once approach IDR 14,090 to the U.S. dollar.

At the monetary policy meeting held on the same day at the central bank of Indonesia, the policy interest rate was maintained at the existing level, as had been anticipated in the market.

As of this writing on March 22, the U.S dollar/Indonesian rupiah pair has been trading at around IDR 14,165 (on a closing-rate basis).

## 2. Outlook for This Month

In April, the U.S. dollar/Indonesian rupiah exchange rate is forecast to mainly fluctuate between IDR 14,000 and IDR 14,300, while the Indonesian rupiah is likely to start appreciating against the U.S. dollar.

At the FOMC meeting held last month, the FRB underlined its dovish attitude, which makes it difficult to foresee trends in the U.S. dollar/Indonesian rupiah exchange rate.

In the Indonesian rupiah exchange market, there is an actual demand rule for transactions. Thus, it can be said that the Indonesian rupiah would appreciate or remain stable if there is capital inflow based on security investment more significant than the constant current account deficit (a factor for the depreciation of the Indonesian rupiah), while the depreciation of the Indonesian rupiah would accelerate if there is capital outflow.

First of all, in terms of the current account balance, the trade balance in particular turned into a surplus in February for the first time in five months. More specifically, this is due to the fact that the import of petroleum oil-related products decreased following the depreciation of the crude oil price that started in the fourth quarter in 2018. Thus, the situation remains unchanged, with weak exports, mainly caused by a slowdown in the Chinese economy.

On the other hand, with regard to security investment, the stock market has been strong since the fourth quarter in 2018, while the total value of Indonesian government bonds held by foreign investors was IDR 954 trillion as of March 20 (with an increase of IDR 12 trillion compared to the end of February). The 10-year Indonesian government bond yield has fallen to approach 7.6% (as of March 22), demonstrating vigorous investment appetite among foreign investors.

The dovish attitude of the FRB was confirmed this time, and from a short-term perspective, it is possible for capital inflow from foreign investors to increase. However, it is unlikely for such a trend to last throughout the year. This is based on the fact (1) that a slowdown in the Chinese economy has been confirmed, (2) that the trade balance of Indonesia remains unstable, and (3) that if a slowdown in the global economy has been confirmed, capital inflow from foreign investors would stop due to risk-averse sentiment, in the worst-case scenario leading to capital outflow.

For the above reasons, from a short-term perspective, the Indonesian rupiah is forecast to strengthen against the U.S. dollar thanks to the dovish attitude of the FRB, while the Indonesian rupiah is still expected

to weaken by the end of the year.

A presidential election is scheduled for April 17 in Indonesia. While the media predicts a close competition, it is most likely for Joko Widodo to be re-elected. It should be warned, however, that the Indonesian rupiah is likely to depreciate amid political uncertainty if he loses the election.

Yoichi Hinoue, Manila Office, Asia &amp; Oceania Treasury Department

## Philippine Peso – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>PHP 52.00–53.30</b>
	<b>Against the yen:</b>	<b>JPY 2.06–2.120</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.86, falling below the PHP 52 level (on a closing-rate basis), at which the exchange rate had remained since December 21 last year, as optimism dominated the market regarding the trade frictions between the U.S. and China.

On March 4, the U.S. dollar/Philippine peso once traded at PHP 51.68. On the other hand, it is also true that the mitigated situation for the trade frictions between the U.S. and China is no longer a fresh factor in the market, and the U.S. dollar did not depreciate further, making this level the monthly high for the Philippine peso.

On March 5, the Philippine peso depreciated sharply. The February Consumer Price Index turned out to be +3.8% year-on-year, falling below +4% year-on-year—the market estimate. Furthermore, Benjamin Diokno was nominated as the next governor of the central bank of the Philippines. These two factors led to the depreciation. As incoming central bank governor Benjamin Diokno focuses more on economic growth, dovish speculation dominated the market regarding the monetary policy of the Philippines in the times ahead. As a consequence, the U.S. dollar/Philippine peso exchange rate rose to the PHP 52 level.

On March 8, local time, the February employment statistics of the U.S. were released, leading U.S. interest rates to fall. In the foreign exchange market, market participants sold the U.S. dollar. As a result, the overall Asian currencies strengthened after the weekend. The mitigated sense of uncertainty related to the Brexit negotiations in the U.K. also supported Asian currencies. However, the Philippine peso depreciated again significantly against the U.S. dollar.

This is due to the fact that new central bank governor Benjamin Diokno made a remark that the deposit reserve requirement ratio would be gradually raised for private financial institutions to the reserve at the central bank in accordance to the total amount of deposits. As this would mean that Philippine peso liquidity would be provided in the market, market participants were encouraged to sell the Philippine peso. As a consequence, the U.S. dollar/Philippine peso pair once traded at PHP 52.95—the lowest rate for the Philippine peso since the middle of January.

Thereafter, the Federal Open Market Committee (FOMC) meeting was held on March 20, confirming the dovish attitude of the Federal Reserve Board (FRB) regarding the monetary policy for the U.S. dollar. At the monetary policy meeting of the central bank of the Philippines held on March 21, the deposit reserve requirement ratio cut, which had been anticipated in the market, was postponed. The trend was thus reversed, and the Philippine peso appreciated sharply on March 22. Weekly trading then closed at PHP 52.32.

In the last week of March, the U.S. dollar strengthened slightly. On March 22, local time, the interest rates for long-term and short-term U.S. bonds were inverted due to concerns over a slowdown in the global economy, while the New York Dow Jones Industrial Average fell by approximately USD 460, which encouraged market participants to buy the U.S. dollar as a safe asset. As of March 27, the U.S. dollar/Philippine peso pair has been trading at the PHP 52.50–52.60 level.

## **2. Outlook for This Month**

In March, the Philippine peso once depreciated against the U.S. dollar by more than 2.1% at the beginning of the month. In April, the U.S. dollar/Philippine peso exchange market is likely to remain sensitive to actions taken by the Philippine monetary authorities, in fear of a slowdown in the depreciation of the Philippine peso as well as excessive fluctuations of the exchange rate. While the U.S. clearly expresses its plan to stop interest rate hikes, the U.S. dollar is not likely to appreciate significantly in terms of the trends of U.S. interest rates.

However, there are also persistent concerns over the depreciation of the Philippine peso against the U.S. dollar. In terms of the fundamentals, it is clear that economic growth in China is losing momentum, while the global economy is slowing down. Risks are growing every day toward global trade downturn triggered by the trade frictions between the U.S. and China.

The central bank of the Philippines decided at its monetary policy meeting held on March 21 to maintain the overnight reverse repurchase (RRP) facility, the overnight lending facility (OLF), and the overnight deposit facility at 4.75%, 5.25%, and 4.25% respectively.

It was the third consecutive time that the above rates were maintained at the existing level, and the deputy governor of the central bank, Diwa Guinigundo, made remarks at the press conference, stating: “the policy interest rate is to be modified mainly to control prices, and the current interest rate level is appropriate” and “inflation has been controlled, and the inflation rate is likely to be within the target range set out by the government between 2.0–4.0% both this year and next year.”

Furthermore, he explained his view that the Philippine peso exchange rate is unlikely to fluctuate significantly, as the FRB is likely to maintain the policy interest rate at the existing level for the time being.

The latest inflation outlook by the central bank is 3% for both 2019 and 2020. Even though the mitigation of concerns over inflation had thus far been seen as a factor to lead the Philippine peso to appreciate, market participants anticipate monetary easing in the times ahead, and therefore, downward pressure on the Philippine peso is forecast to persist in the market.

The market has already reflected optimism regarding the trade negotiations between the U.S. and China and regarding the Brexit negotiations. Thus, if there is any negative media report on these issues, the market could react more significantly. It is likely for risk-averse sentiment to strengthen in the market (as of March 27).

Junya Tagawa, India Office, Asia &amp; Oceania Treasury Department

## Indian Rupee – April 2019

<b>Expected Ranges</b>	<b>Against the US\$:</b>	<b>INR 67.50–72.50</b>
	<b>Against the yen:</b>	<b>JPY 1.57–1.65</b>

### 1. Review of the Previous Month

In March, the U.S. dollar/Indian rupee exchange rate continued appreciating.

In March, the U.S. dollar/Indian rupee exchange market opened trading at INR 70.85, and the central bank of India made modifications to its regulations related to government and local municipal bonds for foreign investors. Furthermore, expectations were growing for the government under Prime Minister Narendra Modi, and capital inflow from foreign investors continued into the stock market with the speculation that the policy interest rate would be cut during the April meeting. Under such circumstances, some expected large-scale Indian rupee-buying related to company acquisition. For these reasons, the Indian rupee strengthened. On March 5, the U.S. dollar/Indian rupee exchange rate reached its lowest level in two months. Thereafter, the exchange rate fell significantly below the 200-day moving average line, which was not crossed since February last year. On March 8, the U.S. dollar/Indian rupee exchange rate fell below INR 70.00. Subsequently, the February CPI of the U.S. was announced, and the result turned out to be lower than expected in the market, encouraging market participants to sell the U.S. dollar. Moreover, the media reported that the U.K. Prime Minister would ask for an extension for the deadline for Brexit negotiations by two months, which fueled risk-taking sentiment. Following this trend, market participants bought the Indian rupee as well.

Thereafter, the February trade balance of India was released, and the deficit turned out to be significantly less than expected in the market, which encouraged market participants to buy the Indian rupee further. The U.S. dollar/Indian rupee exchange rate fell to INR 68.35 for the first time since August 1 last year. However, thereafter, some market participants bought back the U.S. dollar and sold the Indian rupee in order to take profit, while other market participants bought the U.S. dollar based on actual demand, which led the exchange rate to rally once. Trading closed at INR 68.83 on March 20. Even though there was no significant fluctuation on a single-day basis, downward pressure persisted from the beginning of the month, and the U.S. dollar/Indian rupee exchange rate gradually fell.

In March, the Indian rupee/Japanese yen exchange rate rose to a higher level.



The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.57 level. The opening rate observed on March 1 turned out to be the monthly low, in the end. Even though the U.S. dollar/Japanese yen exchange rate once reached the JPY 112 level, the appreciation of the exchange rate slowed down significantly at this level, pushing back the interest rate to the JPY 111 level. As there was no decisive factor with both strong and weak figures in the economic indices in the U.S., and with unstable situations related to the Brexit issues in the U.K., the U.S. dollar/Japanese yen exchange rate reached a stalemate at JPY 111–112.

While there was no significant fluctuation in the U.S. dollar/Japanese yen exchange market, the U.S. dollar/Indian rupee exchange rate continued falling, as was discussed above. Following this trend, in the Indian rupee/Japanese yen exchange market, the Indian rupee appreciated against the Japanese yen. On March 18, on which the U.S. dollar/Indian rupee exchange rate reached the low, the Indian rupee/Japanese yen exchange rate reached its monthly high at JPY 1.629. Trading closed at the JPY 1.62 level.

## 2. Outlook for This Month

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

Capital inflow is particularly high from the investment funds of non-residents. In the combination of the stock and bond markets, there was net buying worth USD 4.192 billion by March 19. The volume is the largest since June 2017. When foreign investors buy Indian stocks or bonds, it is necessary for them to buy the Indian rupee and sell foreign currencies, which is one of the factors for the appreciation of the Indian rupee.

It should also be mentioned that the central bank of India plans to hold a monetary policy meeting in April (the day of the announcement is April 4). As was mentioned in this article last month, the actions taken by the central bank can be seen as a political campaign before the election rather than a reflection of the real Indian economy. While housing prices and the capacity utilization ratio appreciate, a growing number of market participants expect an interest rate to be cut. From the point of view of the overall foreign exchange market, an interest rate cut is a factor for the depreciation of the country's own currency. However, in India, there has currently been no economic slowdown, and thus an interest rate cut is associated with the appreciation of stock prices, leading to capital inflow from foreign investors and causing the appreciation of the Indian rupee.

With regard to actual demand, a European company acquired a major Indian company to which the *Insolvency and Bankruptcy Code, 2016* was applied. There has been a rumor that this European company has been buying a large amount of Indian rupees, in order to procure funds for the acquisition.

In terms of factors in the U.S., a Federal Open Market Committee (FOMC) meeting was held on March 20 and the statement started with the phrase “the growth in economic activities has slowed down,” while the interest rate hike outlook for 2019 was revised downward from twice to none. In reaction to this, the U.S. dollar depreciated and U.S. interest rates fell to their lowest level in a year. Given that the fundamental factor for the depreciation of Asian currencies (including the Indian rupee) observed last year was the appreciation of U.S. interest rates, it would be natural for the capital flow to have somewhat recovered from last year, from the U.S. to emerging countries.

Regarding the persistent issues related to the Brexit, it is likely for the U.K. to extend the exit deadline, for more preparations. Thus, it seems unlikely for the Brexit to be a factor for risk-averse sentiment this month.

For the above reasons, the U.S. dollar/Indian rupee exchange rate is more likely to fall in April. However, the exchange rate has already fallen by nearly 9% from the INR 74.48 observed in October last year to the INR 68.35 observed in March. The central bank of India is now likely to intervene in the market by buying the U.S. dollar in order to keep the exchange rate from fluctuating violently. Thus, the fall of the U.S. dollar/Indian rupee exchange rate may be cancelled out. Thus, it would be more appropriate to say that the U.S. dollar/Indian rupee exchange rate is expected to remain at the existing level without rising further in April, rather than falling.

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

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