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July 2019

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Mizuho Bank, Ltd.

Forex Department

Shinsuke Mitsuishi, Forex Sales, Forex Department

U.S. Dollar – July 2019

Expected Ranges **Against the yen: JPY105.00–109.00**

1. Review of the Previous Month

The dollar/yen pair opened the month trading around 108.35 yen. The dollar was sold when the US Manufacturing ISM Report on Business for May fell below market expectations. Dollar selling then accelerated on swelling expectations for a US rate cut after St. Louis FRB president James Bullard commented that "a downward policy rate adjustment may be warranted soon to help re-center inflation and inflation expectations at target." All this saw the pair dropping to 107.85 yen toward June 4. The US ADP National Employment Report was released on June 5. It fell sharply below expectations, so the pair plunged to 107.81 yen for a time. However, US stock markets then moved firmly and there was growing speculation that the US would not impose punitive tariffs on Mexico, so the pair then moved at the lower-108 yen level. The US employment data for May came in far below expectations on its release on June 7, so the pair dropped to 107.88 yen again.

At the weekend, President Trump said punitive tariffs on Mexican imports would be cancelled indefinitely. As risk aversion eased off, the dollar/yen pair's opening price at the start of the next week was higher than the previous week's closing price. It continued strengthening to hit the previous month's high of 108.80 yen toward June 12. Mass demonstrations against the Chinese government then broke out in Hong Kong. With the US government also blaming Iran for a tanker attack in the Strait of Hormuz, risk aversion intensified and the pair dipped to the lower-108 yen mark.

The June NY Fed Manufacturing Index then dropped sharply below market expectations on its release on June 17, while an earthquake hit Niigata and Yamagata on June 18. The dollar/yen pair had rallied to the upper-108 yen range, but it now fell back to the lower-108 yen level. However, expectations for renewed US/China trade talks then grew in the wake of comments by President Trump, so the pair climbed to the upper-108 yen level once again. The US FOMC met on June 19. It kept policy rates fixed, as expected, though wording about how the FOMC "will be patient" was replaced in the press release with a phrase about how the FOMC "will act as appropriate." This suggested the FOMC might implement a rate cut at subsequent meetings, so the greenback was sold and the pair crashed to the upper-107 yen range. Tensions between the US and Iran then intensified on June 20 after Iran shot down an unmanned US drone. As the markets focused on rising geopolitical risk, the pair hit 107.05 yen toward June 21.

Risk aversion grew stronger on reports that President Trump was planning to hit Iran with new sanctions, so the currency pair fell down to the previous month's low of 106.78 yen on June 25. St. Louis FRB president James Bullard then commented that "I think 50 basis points would be overdone" when

discussing rate cuts. As expectations for a substantial US rate cut waned, the dollar was bought back against the other major currencies, with the dollar/yen pair also pulled higher. News then emerged that US treasury secretary Steven Mnuchin had said a US/China trade agreement was 90% done, while a Hong Kong newspaper reported on a truce in US/China trade frictions. As risk aversion wore off, the greenback was bought back and the pair rose to 108.16 yen, though it dropped back to close in the upper-107 yen range after the Chinese authorities said no agreement had been reached.

2. Outlook for This Month

The dollar/yen pair will probably trade with a heavy topside this month as the greenback continues to be sold against the other major currencies.

Though the FOMC hinted at rate cuts last month, the subsequent press release and press conference gave no clear clues about the timing or size of any rate cut, so from here on market participants will be paying close attention to economic indicators and comments by FRB officials. These indicators and comments will generally lead to speculation about the timing or breadth of rate cuts, with the greenback subsequently swinging up and down against the other major currencies. Under these circumstances, the psychological impact is likely to be huge if the FRB veers in the direction of rate cuts after having remained in hawkish mode until December last year, with deteriorating sentiments then holding down the dollar's topside to a greater extent than the actual situation warrants. The US had previously steered a course toward financial normalization, so it has more room for monetary easing compared to other major regions/nations like Europe and Japan, which have continued to pursue accommodative policies all along. This state of affairs is likely to prompt dollar selling, with the dollar/yen pair's topside likely to be capped by dollar-related factors.

However, the pair will probably be supported by yen selling against the cross yen as stocks rise in tandem with US rate cuts. Nonetheless, the financial markets continued to be plagued by factors that will take time to resolve, such as US/China trade frictions and the risk of a no-deal Brexit. There are also new factors prompting risk aversion, such as rising geopolitical risk on deteriorating relations between the US and Iran. Given all this, even if US and European stocks move bullishly, the yen will remain difficult to sell given its role as the representative refuge currency.

In light of the situation surrounding the dollar/yen pair, it seems the pair will move with a heavy topside in July.

As mentioned above, attention this month will be focused on US economic indicators, particularly employment and inflation indicators, as well as comments by FRB officials. If the employment situation moves firmly or inflation spikes unexpectedly, the FRB's rationale for an early rate cut will weaken, with expectations for such a move shrinking sharply. This scenario would lead to dollar buy backs, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	1 bull	106.00 – 109.50	Bearish on the dollar	15 bears	105.00 – 109.00

* Ranges are central values

Tanaka	Bear	105.00 – 109.00	The main scenario is of the US/China trade dispute dragging on for a prolonged period. The Iran situation also requires monitoring, with the external situation remaining unstable. There is likely to be some adjustment to excessive expectations for an FRB rate cut, though any rally will probably be muted considering the Bank of Japan's limited room for further easing, so the dollar/yen pair is expected to move with a heavy topside.
Tasaka	Bear	105.00 – 109.00	The trend of sliding US interest rates and dollar selling will continue on US/China trade talks and geopolitical risk. However, the markets have completely priced in a July FOMC rate cut, with some investors also expecting a 50bp cut. These moves are a little excessive, so the dollar/yen pair will probably rally at times too.
Oba	Bear	105.50 – 109.00	There remain stubborn concerns about a US recession on US/China trade frictions. With the FRB also hinting about a rate cut within the year, the dollar/yen pair looks set to continue trading with a heavy topside. However, the markets have excessively factored in rate cuts, so the pair could rally at times on comments by FRB officials.
Takamura	Bull	106.00 – 109.50	The US and China are still prepared to hold trade talks. Speculative yen short positions have shrunk sharply, while the markets have excessively priced in a US rate cut. Given these circumstances, it seems the dollar/yen pair has considerable room to rise.
Tanishiki	Bear	105.00 – 109.00	There are concerns that US/China talks could drag on, while deteriorating US/Iran relations present a new risk factor, so sentiments will remain in the doldrums. Japanese/U.S. interest-rate differentials have also shrunk on a clear change of course by the FRB, so it is hard to imagine the dollar/yen pair rising this month.
(Mio) Otani	Bear	106.00 – 109.50	Concerns of an economic recession are rising across the globe on prolonged US/China trade frictions. The yen could weaken if the US and China move closer to reaching a deal, but with expectations rising for several FRB rate cuts from July onwards, the dollar/yen pair will probably continue trading with a heavy topside.
Takeuchi	Bear	105.00 – 109.00	When it comes to gauging the direction of US monetary policy, attention is focused on the extent to which the markets will factor in a rate cut. With US presidential elections also looming into view, there is unlikely to be any significant progress when it comes to US/China frictions. The dollar/yen pair's downside will be supported by buying among Japanese investors, but the yen looks set to climb gently this month.
Kato	Bear	106.00 – 109.00	It is hard to imagine the dollar strengthening given US foreign exchange/trade policy, economic conditions and geopolitical risk. However, the dollar/yen pair's fall be probably be slowed around 105 yen by hearty yen selling by Japanese real-demand investors.
Seki	Bear	104.00 – 109.00	US/China trade talks will probably drag on for a prolonged period as the two sides swing between offense and defense, with tactics shifting from tit-for-tat tariff hikes to non-tariff measures (such as trade and investment restrictions or virtual import embargoes). If growth slows on these frictions and the FRB moves to cut rates, the dollar will be sold on falling interest rates.
Mitsuishi	Bear	105.00 – 109.00	The psychological impact is likely to be huge if the FRB veers in the direction of rate cuts after having remained in hawkish mode until recently, with the dollar/yen pair's topside held down as a result. There remain a number of factors conducive to risk aversion, such as the US/China trade

			dispute, Brexit, and rising geopolitical risk, so the pair is expected to weaken.
Okamoto	Bear	105.00 – 110.00	The US/China battle for supremacy will remain a long-term theme. The immediate factor will be whether the US implements a rate hike in July. There has only be one extra month's worth of data since the last FOMC meeting, with attention likely to be focused on whether this data can justify a rate cut. One tail risk could involve the results of indicators not meeting prior expectations.
Ueno	Bear	105.00 – 109.00	The US economy has reached a crossroads. The dollar/yen pair could rise at times on developments (expectations) regarding US/China trade talks, but it will take some time before a complete agreement is reached. Amid lingering uncertainty about the direction of the US economy, the dollar/yen pair is unlikely to rise this month.
Tamai	Bear	105.50 – 109.00	If the US and China agree to continue talking after the heads of state meeting at the G20 Summit, the dollar/yen pair could rise for a time, but with the markets focusing on a rate cut at the next FOMC meeting, the pair looks set to continue trading with a heavy topside.
Harada	Bear	105.00 – 108.90	As symbolized by the release of the bearish employment data as the start of the month, the US economy is gradually slowing. With the US/China trade dispute also dragging on, the dollar is facing more uncertainty. If the US/China meeting at the G20 Summit produces no results, the greenback is likely to continue moving bearishly.
Moriya	Bear	106.00 – 109.00	The markets have already factored in a rate cut at the July FOMC meeting. Amid lingering concerns about a global economic slowdown, though, market participants will continue to focus on the possibility of more rate cuts going forward. As such, dollar selling looks set to continue too.
Okuma	Bear	105.00 – 109.00	With political speculation preventing both the US and China from reaching a trade agreement, there are concerns the dispute could drag on for a prolonged period. With the Iran situation also up in the air, risk aversion will be prone to flaring up, with the dollar/yen pair trading with a heavy topside. However, the pair's room on the downside could be capped if US stocks move firmly on expectations for declining interest rates.

Suguru Ogasawara, Forex Sales, Forex Department

Euro – July 2019

Expected Ranges **Against the US$: US$1.1150–1.1450**
Against the yen: JPY119.00–124.00

1. Review of the Previous Month

The euro/dollar pair rose slightly in June. The pair opened the month trading at the upper-$1.11 mark on June 3. It then hit a monthly low of $1.1159 for a time, though it rallied to the upper-$1.12 range after St. Louis FRB president James Bullard dropped some hints about rate cuts. The dollar was sold on June 5 when the US ADP National Employment Report for May fell below market expectations, with the pair climbing to the $1.13 range. However, the greenback was then bought on growing expectations that the US would refrain from hitting Mexico with new tariffs, so the pair dropped back to the lower-$1.12 level. The ECB Governing Council kept key policy rates fixed when it met on June 6. The accompanying statement and ECB president Mario Draghi's press conference were not as dovish as expected, though, so the euro was bought and the pair bounced back to the $1.13 range. The dollar was sold on the release of some bearish US employment data for May on June 7, with the pair rising further to hit $1.1348.

It then moved without a sense of direction over June 10–11. On June 12, President Trump said he was considering using sanctions to block the construction of the Nord Stream 2 pipeline, which would ship natural gas from Russia to Europe. Germany is supporting the project, so this raised concerns about a deterioration in US/German relations, with the pair subsequently dipping back to the upper-$1.12 mark. The greenback was bought on June 14 on some strong US retail sales data for May, with the pair tumbling further to hit $1.1203. The greenback was then sold on June 17 when the June NY Fed Manufacturing Index fell sharply below expectations. The pair moved bullishly to hit the mid-$1.12 range, though it edged lower thereafter.

On June 18, ECB president Mario Draghi commented that further easing remained part of the policy tools. With the German ZEW Indicator of Economic Sentiment for June also deteriorating, the pair fell to $1.1181. The dollar weakened across the board on June 19 on the dovish contents of the FOMC meeting, with the euro/dollar pair also strengthening to the $1.13 range toward June 20. The French and German Manufacturing PMIs for June were released during European trading time on June 21. Both beat expectations, with the pair subsequently breaking above its 200-day moving average line (around $1.1350) to hit $1.1378. The pair continued rising thereafter to hit a monthly high of $1.1412 on June 25. Amid a dearth of any noteworthy factors, the pair's previous-day low of $1.1344 served as a short-term support line on June 26. With the markets in wait-and-see mode ahead of the weekend's G20 Summit, the pair moved with a lack of incentive around the upper-$1.13 mark toward June 28.

2. Outlook for This Month

The euro/dollar pair is expected to move with a heavy topside in July.

The markets are being swayed sharply by the economic and financial situation in the US. Market volatility will probably be pushed higher by US-related factors, including US/China trade frictions, geopolitical risk in the Middle East, concerns about a US recession (prompted by the released of several weak economic indicators), and growing expectations for a FOMC rate cut. The euro/dollar pair was pushed sharply higher by dollar selling in the wake of the FOMC meeting on June 19, but rather than reflecting the strength of the eurozone economy, this was probably because the euro is seen by investors as a place to park money when they sell the greenback. The ECB had been looking at the best time to hike policy rates, but with ECB president Mario Draghi commenting that further easing remains part of the policy tools, it seems likely the ECB has clearly shifted its monetary policy stance. Furthermore, Bundesbank governor Jens Weidmann (a critic of the ECB's bond-buying program) gave his support to ECB monetary policy. With even a hawk like Mr. Weidmann making dovish comments, it appears that almost all the members of the ECB Governing Council have grown more concerned about the direction of the European economy. The risk of a no-deal Brexit also remains on the table and it seems British firms and financial institutions are once again making preparations for a hard Brexit. The date for leaving has been extended to the end of October, but it seems likely the post of prime minister will next be filled by Boris Johnson, a proponent of a hard Brexit, with this issue also likely to weigh down the euro/dollar pair's topside.

On the political front, though the approval ratings of President Trump and Japanese prime minister Shinzo Abe are moving stably, those of German chancellor Angela Merkel and French president Emmanuel Macron have fallen sharply, so the euro is also likely to be sold on political factors. There are reports that President Trump is also considering using sanctions to block the construction of a pipeline that would ship natural gas from Russia to Europe. Germany is supporting the project, so this has raised concerns about a deterioration in US/German relations.

The eurozone economy is moving sluggishly and the ECB has shifted monetary policy in the direction of further easing. With the European political situation also rocky compared to the US and Japan, it seems investors will steer clear of the euro in July, so the euro/dollar pair will probably trade with a heavy topside.

Dealers' Market Forecast

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

Bullish on the euro	12 bulls	1.1250 – 1.1550	Bearish on the euro	4 bears	1.1125 – 1.1450

* Ranges are central values

Tanaka	Bull	1.1200 – 1.1600	Investors will be monitoring the movements of the Swiss franc and gold on the situation in Iran. The euro's current bullishness seems to be due mainly to technical factors, namely investors secretly building up shorts (including cross shorts) on the aforementioned factor and on expectations for an FRB rate cut. This flow looks set to continue, though the pace may slow as no new selling factors emerge on the economic or political front.
Tasaka	Bull	1.1250 – 1.1600	With the European economy deteriorating and the ECB adopting a dovish stance, there is a dearth of factors conducive to euro buying. However, the dollar faces downward pressure on speculation about US rate cuts, so the euro/dollar pair will probably undergo a gentle climb this month.
Oba	Bull	1.1250 – 1.1550	There is confusion about who will be selected to fill major EU posts. If it seems a French person will be chosen as European Commission president, this will increase the likelihood of the hawkish Bundesbank governor Jens Weidmann becoming the next ECB governor, with the euro facing more appreciatory pressures as a result. The euro/dollar pair will also be supported by the relative weakness of the greenback.
Takamura	Bear	1.1150 – 1.1450	The weakness of eurozone economic indicators is growing more pronounced, with ECB president Mario Draghi also hinting about further easing. The euro/dollar pair's rally in the latter half of June was mainly due to short-term dollar position adjustments, with the pair likely to continue moving with a heavy topside on the whole.
Tanishiki	Bear	1.1150 – 1.1450	The trend of euro buying on falling US interest rates has probably come to an end. The ECB is considering further rate cuts, while it seems a hardline Brexiteer will be chosen as the next UK prime minister. Under these circumstances, the euro/dollar pair is unlikely to move bullishly.
(Mio) Otani	Bull	1.1200 – 1.1500	There remain concerns about the direction of the European economy and political risk related to fears of a no-deal Brexit, for example. However, there is growing speculation that the FRB will slash rates several times from July onwards, so the euro/dollar pair looks set to continue moving firmly.
Takeuchi	Bear	1.1100 – 1.1500	The eurozone economic slowdown is becoming more pronounced, with Germany also showing signs of stalling. The markets are also pricing in further rate cuts. The southern European debt problem continues to smolder away too, while the political situation is growing more uncertain, so the euro/dollar pair's topside will be capped this month. With the dollar moving bearishly, the pair's slide will probably occur at a gentle pace.
Kato	Bull	1.1300 – 1.1600	There have been reports that a US pharmaceutical company will be involved in this year's biggest M&A. With speculation also growing about US rate cuts, investors are feeling relaxed about buying the euro. However, there remain several risks related to political events, so the euro/dollar pair is unlikely to breach its January high.
Seki	Bull	1.1250 – 1.1500	German exports are stalling and there are concerns this could become a long term trend owing to the slowdown in China and other emerging economies. However, the ECB does not have much room to ease compared to the FRB, so although euro appreciatory pressure against the dollar may ease off, it is unlikely to be eliminated.
Mitsuishi	Bull	1.1300 –	A glance at the eurozone situation (an economic slowdown, Italy's fiscal problems and Brexit, for example) suggests the euro possesses no bullish factors of its own, though the euro/dollar pair

		1.1600	is expected to rise as the greenback weakens on rate cuts in the US.
Okamoto	Bull	1.1200 – 1.1600	Speculation is also growing about further ECB easing, though it is hard to imagine deeper negative interest rates leading to economic growth. There is a sense that the trend of deteriorating indicators has also bottomed out too. With the FRB also shifting clearly in a dovish direction, the euro will probably be bought back against the dollar.
Ueno	Bear	1.1100 – 1.1450	The markets are rushing to price in US rate cuts. As such, the euro is moving bullishly against the dollar, though this momentum is expected to gradually slow from here on. The European economy is in a worse shape than the US economy, while there are still lingering concerns about Brexit and so on. As such, the euro/dollar pair will probably grow more bearish going forward.
Tamai	Bull	1.1250 – 1.1500	The eurozone continues to post weak economic indicators, with the ECB adopting a dovish stance. However, the dollar is facing more selling pressure owing to the FRB's dovish stance. With speculation growing that the FOMC will cut rates when it meets in July, the euro/dollar pair looks set to move firmly this month.
Harada	Bull	1.1300 – 1.1550	Europe faces a number of political risks (Brexit, etc.), with the economy also slowing, so there is considerable uncertainty about the direction of the euro. However, it also seems the FRB's next move will be a rate cut, so the euro will be an easy currency to buy, comparatively speaking.
Moriya	Bull	1.1250 – 1.1500	The eurozone continues to post weak economic indicators. It also faces a number of lingering political risks, including Brexit. However, it seems the FRB will finally start cutting rates this month, so the euro/dollar pair will probably be boosted as the greenback faces more selling pressure.
Okuma	Bull	1.1200 – 1.1550	Europe faces political instability and an economic slowdown. There are also doubts about whether a no-deal Brexit can be avoided. As such, there is a dearth of euro-buying factors. However, the dollar will be sold as US long-term interest rates slide on FRB rate cuts, so the euro will be comparatively easy to buy against its US counterpart.

Wataru Kitahara, Europe Treasury Department

British Pound – July 2019

Expected Ranges	Against the US$:	US$1.2000–1.3000
	Against the yen:	JPY134.00–144.00

1. Review of the Previous Month

The GBP/USD pair fell sharply mid-June on European monetary policy and economic indicators, though it swung to and fro on the whole.

The pair opened the month trading at $1.2640. On June 3, the UK Manufacturing PMI for May dipped below 50 for the first time since July 2016, directly after the Brexit referendum, though the market reaction was muted. The pair edged higher on June 4 as the dollar moved with a heavy topside on speculation about US rate cuts after FRB chair Jerome Powell said the FRB would take appropriate measures to keep the economy growing. The US released a sluggish US ADP National Employment Report for May on June 5 and some bearish US employment data for May on June 7. This pushed the dollar lower, with the currency pair climbing higher to hit the mid-$1.27 range.

It dropped back on June 10 after the UK released some worse-than-expected industrial production and manufacturing production data for April. However, it soon rallied on June 11 after the UK employment data for February–April revealed that the wages and jobs figures had both topped market expectations. On June 12, the UK House of Commons voted on a Labour Party motion to give MPs controls of the Commons agenda for just one day. The move was aimed at preventing a no-deal Brexit, so the pound fell when the motion was dismissed by 309 votes to 298. On June 14, Boris Johnson, a former UK foreign minister and the leading candidate to be the next UK prime minister, said he would be willing to suspend parliament to force a no-deal Brexit through. The greenback also rose after the US retail sales data for May pointed to the firmness of consumer spending. All this saw the pair tumbling below $1.26.

The trend of pound bearishness continued into the following week, with the GBP/USD pair falling sharply to drop below its end-of-May low of $1.2560 on June 17. It then weakened to hit a monthly low of $1.2507 on June 18. The euro also weakened on the same day after ECB president Mario Draghi hinted at more easing with a comment about how further rate hikes remained an option. Sterling was bought back during this time. The pound was also supported when Boris Johnson softened his tone slightly with regards to leaving the EU by the October 31 deadline. The dollar weakened on June 19 after FRB chair Jerome Powell and 50% of FOMC members said they expected a rate cut within the year, so the GBP/USD pair rocketed back to the mid-$1.26 level. As expected the Bank of England (BOE) Monetary Policy Committee (MPC) kept policy rates fixed when it met on June 20. MPC members Michael Saunders and Andrew Haldane had recently dropped hints about an early rate hike,

but they also voted to maintain the status quo now, with the decision passing by a unanimous 9 votes to 0. This was a slightly unexpected result, but the impact on the pound was negligible. The fifth round of voting for the next Tory leader was also held on the same day. As expected, Boris Johnson and the foreign minister Jeremy Hunt were selected to go through to the final vote in July. The euro was bought on June 21 on an improved European PMI for June. Though sterling moved bearishly for a time, the currency pair then bounced back to the mid-$1.27 mark when the greenback weakened after FRB vice chair Richard Clarida suggested the possibility of further easing had increased.

The post-FOMC trend of dollar selling eased off on June 25. Dollar buying was then supported when St. Louis FRB president James Bullard expressed doubts about the possibility of a 50bp rate cut in July. All this saw the GBP/USD pair dropping back. On June 26, BOE governor Mark Carney said further stimulus might be needed in the event of a no-deal Brexit, but the market reaction was muted and the pair closed around $1.27.

2. Outlook for This Month

The GBP/USD pair will trade with a heavy topside in July and it may see attempts on its downside.

As for UK-related factors, attention will focus on the vote for the next leader of the Conservative Party. At the moment, though, the pair is being swayed sharply by European and US monetary policy and economic indicators. Provided the US employment data and other major US/European indicators do not fall sharply, the ECB Governing Council will probably keep monetary policy fixed when it meets on July 25, with the FOMC likely to implement a 25bp rate cut when it meets on July 31. ECB president Mario Draghi is scheduled to step down in October, but on June 18 he talked about further easing, so expectations are now growing for such a move at the July or September ECB Governing Council meeting. However, the ECB only has limited room for further easing, so it is examining a wide range of options, including a recommencement of QE, rate cuts, tiering (of central bank deposit rates) or an 'operation twist.' Until the FRB implements a rate cut, though, the ECB will probably try to buy time by tweaking its forward guidance, for example.

Across the pond, meanwhile, US short-term interest-rate markets have thoroughly priced in a 25bp preemptive rate cut at the July FOMC meeting. Some observers even think the FOMC will implement a 50bp cut in order to maximize the impact of easing. Given the low absolute levels of policy rates, the FOMC is expected to skillfully buy time to monitor future developments (just as it did last month) by limiting itself to a 25bp rate cut. Based on these scenarios, the dollar and euro will probably face pressure for buy-backs as excessively-dovish expectations drop off, so the pound looks set to trade heavily. The June US employment data will be released on July 5, but July 4 is Independence Day, so market participants will probably be thin on the ground. As with July 2013, there could be some unexpected price movements, so caution will be needed.

As outlined previously, the final vote for Tory leader will involve former foreign minister Boris Johnson and current foreign minister Jeremy Hunt. Both candidates have said they will try to reach an agreement with the EU that does not include the backstop plan. Mr. Johnson is the current favorite,

though doubts about his character have grown after police were called to his house on June 21 following an argument between Mr. Johnson and his partner. Some opinion polls also show Mr. Hunt commanding more support among ordinary voters. There will be a TV debate on July 9, with the final vote taking place on July 22, the next party leader unveiled on July 23, the new prime minister facing his first PMQs on July 24, and parliament expected to adjourn for summer vacation on June 26. The opposition could table a vote of no-confidence if the new administration pushes for a no-deal Brexit, though it will have to submit this motion by July 25. Some Tory MPs will probably rebel, so if the motion is passed, this will lead to a general election. If this happens, this will raise the possibility of the pound climbing if soft Brexiteers or remainers assume power. As such, the GBP/USD pair could undergo a volatile climb, so caution will be needed.

Naohiko Harada, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – June 2019

Expected Ranges	**Against the US$:**	**US$0.6850–0.7150**
	Against the yen:	**JPY74.00–77.00**

1. Review of the Previous Month

In June, the AUD/USD pair jostled up and down around $0.69.

The Australian dollar began the month trading at the lower-$0.69 mark and the lower-75 yen level against its US and Japanese counterparts. The US then shelved plans to hit Australia with tariffs, while a Chinese indicator beat market expectations, so the AUD/USD pair climbed to the mid-$0.69 range. It was then bought to the upper-$0.69 level on speculation about an early US rate cut. The board of the Reserve Bank of Australia (RBA) met on June 4. As expected, it lowered the cash rate by 25bp to 1.25%, though the accompanying statement did not mention further rate cuts, so the pair temporarily strengthened to $0.6993. The Australian dollar was then sold for a time after RBA governor Philip Lowe said it was not unreasonable to expect further rate cuts, though the pair then climbed to the lower-$0.70 mark on dovish comments by FRB chair Jerome Powell. The Australian Q1 GDP (q-o-q) was released on June 5 and it dipped below market expectations, so the pair weakened. However, this dip was short-lived and the pair then climbed back to the lower-$0.70 level. The greenback was sold on June 7 on the results of the US employment data for May, with the pair temporarily climbing to the $0.7022 level.

The US dollar was bought-back across the board on June 10 on news that the US had shelved plans to hit Mexico with new tariffs at the weekend, so the currency pair dipped to the mid-$0.69 level. On June 12, RBA assistant governor Luci Ellis said the unemployment rate would have to fall to 4.5% to rouse inflation. As a result, the pair fell to around $0.6920 during overseas trading time. The highly-anticipated Australian May unemployment rate was released on June 13. It came in at 5.2%, unchanged on the previous month, with the pair falling to around $0.69 on this worse-than-expected result.

The minutes to the June RBA board meeting were released on June 18 and they confirmed that the RBA would be steering in the direction of rate cuts in future. With the Australian Q1 House Price Index also dipping below market expectations, the pair slipped to the $0.6832 level for a time. However, hopes for a recommencement of US/China trade talks flared up again during overseas trading time after President Trump said he planned to meet Chinese premier Xi Jinping at the G20 Summit, so the pair bounced back sharply to hit the upper-$0.68 level. As broadly expected, the FOMC kept policy rates fixed at its closely-watched meeting on June 19, though it did hint at rate cuts, so the pair soared back to the $0.69 range.

The greenback continued to tumble on June 20 in the wake of the dovish FOMC meeting. With US interest rates also falling, the AUD/USD pair edged up to around $0.6930. It then hovered around the

lower-$0.69 mark on concerns about geopolitical risk in the Middle East, though it rose to the upper-$0.69 level on June 24 as interest rates climbed on a comment by RBA governor Philip Lowe about how further easing would only have a limited impact.

2. Outlook for This Month

In July, the AUD/USD pair will probably seek opportunities for a rally.

The RBA had kept the cash rate fixed for three years, but in June it lowered the rate by 25bp to 1.25%. The first half of June saw several dovish comments, with RBA governor Philip Lowe saying it was not unreasonable to expect further rate cuts, for example, while RBA assistant governor Luci Ellis said the unemployment rate would have to fall to 4.5% to rouse inflation. As a result, the markets factored in at least two rate cuts over the year ahead. In the latter half of June, though, Mr. Lowe commented that further easing would only have a limited impact, thus signaling his belief that the monetary policy impact of any economic stimulus would be muted. This suggests the RBA has also slipped into wait-and-see mode when it comes to the pace of any rate cuts. Though market bets already put the possibility of a July rate cut at around 80%, comments by RBA officials have cast doubts on this scenario and there is a sense that market participants have acted a little too hastily to factor in continuous rate cuts.

As for economic indicators, the Australian unemployment rate has attracted a lot of attention given how the RBA uses it as an important gauge of where the economy is heading. In May, the rate moved flatly on the previous month at 5.2%. The number of new jobs rose at a faster pace than expected, with the labor participation rate also rising and the number of full-time and part-time workers increasing. As such, the data was not that bad. However, the increase in the number of people in work was mainly due to the federal general election in May, so the data was interpreted as bearish on the whole. The Australian retail sales figure for April and Q1 GDP data also showed no signs of improvement, so from here on, market participants will be monitoring the extent to which the real economy is boosted by the June rate cut and the conservative coalition victory in the general election.

The Australian dollar had previously faced ongoing downward pressure from expectations for Australian rate cuts together with the global economic slowdown (particularly when the focus fell on the Chinese economy). However, the markets have already priced in two or more Australian rate cuts, so even if the RBA does cut rates again, the Australian unit it unlikely to fall sharply. Furthermore, expectations for US rate cuts have risen sharply, so the AUD/USD pair will also be supported by some correction to the trend of US-dollar bullishness. Risk factors include the ongoing US/China trade dispute and geopolitical risk related to the Middle East. Unexpected tariff hikes or growing uncertainty in the Middle East will act as negative factors for the Australian dollar, so caution will be needed.

Reiko Kanemoto, Canada Office, Global Markets Coordination Department

Canadian Dollar – July 2019

Expected Ranges	Against the US$:	C$1.3000–1.3500
	Against the yen:	JPY79.00–85.00

1. Review of the Previous Month

After opening the month trading at C$1.3534, the USD/CAD pair traded in a wide range compared to the previous month. On the whole it moved between C$1.3250–1.3450. It hit a monthly high of C$1.3535 on June 3 and a monthly low of C$1.3151 on June 20.

On June 3, the US dollar fell against the other major currencies. At 52.1, the US Manufacturing ISM Report on Business for May fell below market expectations (53.0) to hit its lowest level since October 2016. The greenback was also sold when St. Louis FRB president James Bullard talked about the possibility of a rate cut in the near future. As a result, the pair fell to close trading at C$1.3438. On June 4, FRB chair Jerome Powell said the FRB would take appropriate measures to keep the economy growing, thus signaling his willingness to cut rates if necessary. This led to a decline in risk evasion, with the greenback weakening against the other major currencies. This saw the USD/CAD pair also tumbling further to temporarily hit C$1.3382.

The Canadian employment data for May was released on June 7. The number of people in work had grown by 27,700, up on the market forecast for a rise of 5,000, with the unemployment rate also dipping to 5.4%, its lowest level since records began. In contrast, the US employment data for May saw nonfarm payrolls increasing by just 75,000, sharply below forecasts for a rise in the region of 175,000, with the nonfarm payrolls data for the previous two months also revised downward and the average hourly wages figure also down on expectations. The Canadian dollar surged on these results, with the USD/CAD pair temporarily dipping to a 7-week low of C$1.3262. At the weekend, President Trump said a new 5% tariff on Mexican imports would be cancelled indefinitely, with market fears subsequently easing. The Canadian dollar was subsequently bought at a faster pace and the currency began June 10 trading at C$1.3249.

On June 13, crude oil prices soared and the pair fell slightly on news that two tankers (including a Japanese-related tanker) had been attacked in the Strait of Hormuz. The US blamed Iran for these attacks on June 14. As US criticism of Iran intensified, risk aversion increased and the greenback was bought, with the currency pair trading around C$1.34 until the FOMC meeting. As expected, the FOMC kept policy rates fixed at its closely-watched meeting on June 19, though its accompanying statement did hint at rate cuts, with the FRB appearing to incline further in a dovish direction compared to the previous FOMC meeting. As such, the US dollar was sold soon after and the USD/CAD pair dipped to close trading at C$1.3280. This trend continued into June 20. With crude oil prices also soaring, the pair hit

the C$1.31 range for the first time since March 1. The Canadian dollar was bought on June 21 too. The Canadian retail sales data for April was then released. The overall figure and the figure minus automobile sales were both weaker than expected, with the data sharply down on the previous month. The Canadian dollar was sold as a result, but the USD/CAD pair's topside remained subdued as crude oil prices moved bullishly on tensions involving Iran, with the pair continuing to trade in a range from the upper-C$1.31 mark to the lower-C$1.32 level as of June 24.

2. Outlook for This Month

The first thing to focus on going forward are the results of the US/China heads-of-state meeting, scheduled for the G20 Summit taking place in Osaka over June 28–29. The main talking point will be whether President Trump places further tariffs on $300 billion of Chinese imports. There are high hopes regarding the meeting, but it is still unclear whether the talks will lead to an easing or a heightening of tensions, so comments by US and Chinese officials will require monitoring from here on.

The Bank of Canada (BOC) will be holding its Monetary Policy Meeting on July 10. The FRB kept policy rates fixed in June, as expected. The ECB has talked about the possibility of rate cuts, but it will probably not cut rates until September at the earliest. All this suggests the BOC will also keep policy rates fixed in July, with the BOC continuing to steer monetary policy with an eye on the economic data.

In a speech on June 25, FRB chair Jerome Powell commented that "many FOMC participants judge that the case for somewhat more accommodative policy has strengthened. But we are also mindful that monetary policy should not overreact to any individual data point or short-term swing in sentiment." The markets are already focusing on the possibility of a 50bp rate cut at the July FOMC meeting, so Mr. Powell's comment was probably aimed at reining in these excessive market expectations for easing.

The BOC will probably keep its own policy rates fixed in July, but with major central banks around the world shifting in an accommodative direction, from here on attention will focus on comments by BOC officials regarding rate cuts. At the last meeting, the BOC said it expected economic growth to recover in the second quarter. Canada released a number of better-than-expected economic indicators in June, while the employment data performed well in both May and June, so economic conditions probably do not warrant a rate cut at present. If the economic data remains bullish in July, the Canadian dollar will probably face appreciatory pressure.

Other risks include the tensions between the US and Iran. The markets believe things will not get too bad, but with the US and Iran making several provocative moves in the latter half of June, market participants are inclining in the direction of risk aversion. These tensions are also pushing crude oil prices higher, with the Canadian dollar being bought at a faster pace. Given the global shift to monetary easing and this rising geopolitical risk, the Canadian dollar looks set to continue moving bullishly for the time being.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – July 2019

Expected Ranges	Against the US$:	KRW1,140–1,190
	Against the yen:	JPY9.091–9.615 (KRW100) (KRW10.400–11.000)

1. Review of the Previous Month

The USD/KRW pair fell in June.

After opening the month trading at KRW1190.00, the pair then hit a monthly high of KRW1190.90 on the same day. Since May, the BOK officials and so on had verbally intervened when the pair approached KRW1200. This partly explains why the start of June saw moves by speculators to unwind their dollar long positions. With the FOMC meeting looming mid-June, there was a general lack of market movement. On June 12, BOK governor Lee Ju-yeol commented that the BOK would "respond appropriately according to the changing economic situation." This focused attention on rate cuts, though the impact on the currency pair was muted.

During overseas trading time on June 18, news emerged that China and the US would be holding a heads-of-state meeting at the G20 Summit, with sentiments improving sharply as a result. Dollar selling then accelerated after the much-anticipated June 19 FOMC meeting turned out to be more dovish than expected. With investors in wait-and-see mode ahead of the G20 meeting, the pair then moved with a lack of incentive to close at KRW1154.70.

Incidentally, the much-anticipated US/China heads-of-state meeting at the G20 Summit ended with the US making some concessions to China (by agreeing to recommence trade talks, postponing a fourth round of punitive tariff hikes, and easing sanctions on major Chinese telecommunications company, for example). Furthermore, at a hastily-arranged US/North Korea heads-of-state meeting on June 30, both sides reached an agreement to recommence and accelerate talks aimed at denuclearization.

2. Outlook for This Month

The USD/KRW pair is expected to strengthen in July.

The dollar and the won rose in June on hopes regarding the US/China heads-of-state meeting together with the dovish stance of the FOMC, for example, with the USD/KRW pair falling sharply.

Though no concrete agreement was reached at the closely-watched US/China heads-of-state meeting at the G20 Summit at the end of June, the two sides did agree to restart talks. The US seemed to make some concessions to China, by easing sanctions on a major Chinese telecommunications company and postponing a further round of punitive tariffs, for example. As such, this will probably be seen as a factor capable of rousing risk sentiments again. These sentiments will also be calmed by news that the US and

North Korea will be recommencing talks. However, with a US presidential election looming next year and with a battle for supremacy underway when it comes to 5G, for instance, risk sentiments could deteriorate swiftly on comments by President Trump and so on, with the currency pair then rising sharply, so caution will be needed.

Furthermore, FOMC monetary policy will probably rival US/China trade frictions when it comes to attracting the attention of the markets. At present, it looks certain that the FOMC will cut rates when it meets over July 30–31. The markets have already priced in a 60% chance of three rates hikes (totaling 75bp) by the year's end, with some observers even suggesting the FOMC will institute a 50bp rate cut in July. However, there is a strong sense that these expectations are somewhat excessive, with FOMC officials likely to step up moves to rein in these expectations ahead of the July meeting. In fact, even St. Louis FRB president James Bullard, perhaps the most dovish FRB member, has said a 50bp rate cut would not be warranted in July. As such, it seems the dollar will trend slightly higher in July on a correction to these excessive expectations regarding rate cuts.

Additionally, market participants are also focusing on the possibility of the BOK cutting rates in tandem with the stance of the FOMC. The BOK generally follows in the FOMC's footsteps on the whole. It is a little hard to gauge whether the BOK will implement a rate hike when it meets on July 18, but the markets have already priced in one rate cut, so the key point will probably be the likelihood of more rate cuts going forward. If the BOK does hint at multiple rate cuts, the won will probably start moving bearishly.

When US/Iran tensions are also added to the mix, the USD/KRW pair will probably strengthen on the whole in July. However, if US/China trade frictions suddenly improve, the won could appreciate sharply, so market participants should remain on guard against both appreciatory and depreciatory movements.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – July 2019

Expected Ranges	**Against the US$:**	**NT$30.60–31.50**
	Against the yen:	**JPY3.35–3.55**

1. Review of the Previous Month

The USD/TWD pair weakened in June.

The pair opened the month trading at TWD31.600. At the weekend, President Trump has announced the imposition of a 5% tariff on Mexican imports. As US interest rates fell sharply, the US dollar was sold and the Taiwan dollar bought, with the pair dipping to the TWD31.4 range. St. Louis FRB president James Bullard then suggested a rate cut could be warranted in the near future. This led to growing expectations for an FRB rate cut, so US interest rates continued to fall. As a result, the USD/TWD pair tumbled to TWD31.342 toward June 5.

The greenback was then bought and the Taiwan dollar sold on the bearish movements of the RMB, though the currency pair's topside was held down by bullish stock movements. With more market participants also slipping into wait-and-see mode ahead of the FOMC meeting, the pair moved in a range around the mid-TWD31 mark towards mid-June.

During overseas trading time on June 18, President Trump announced he had had a very good telephone conversation with the Chinese premier Xi Jinping. This led to growing hopes regarding US/China trade talks, with foreign funds subsequently flooding into Taiwanese stock markets on June 19. The Taiwan dollar was subsequently bought and the USD/TWD pair dropped to the TWD31.3 mark. Though the FOMC kept policy rates fixed at its closely-watched meeting, it dropped hints about future rate cuts while also downgrading its economic outlook, so the US dollar weakened after the meeting. The USD/TWD pair also fell to hit a low of TWD31 on June 21. Foreign funds continued to flow into Taiwanese stock markets, while more exporters sold the US dollar, so the pair continued to move with a heavy topside toward the end of the month.

Incidentally, the Central Bank of the Republic of China (Taiwan) held its quarterly Monetary Policy Meeting on June 20, though it kept the discount rate (the policy rate) fixed at 1.375%, so the meeting did not attract much market attention.

2. Outlook for This Month

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

A glance at the economic indicators released in June shows the May export amount falling by -4.8% y-o-y. Exports to China and Hong Kong (which account for around 40% of all Taiwan's exports) slumped by -6.9% y-o-y on intensified US/China trade frictions. This was the primary reason for the

bad result, with exports posting negative growth for the seventh month in a row. Exports of IT/telecommunication products grew by over 20% on increased exports to the US, but exports of metal products and chemicals contracted, with the overall export amount shrinking. The overall CPI data for May was up +0.94% y-o-y and the core CPI data (excluding volatile fresh food prices) was up +0.62% y-o-y, with the data suggesting inflation is continuing to rise at a gentle pace. At $464.4 billion, Taiwan's foreign currency reserves in May were down on the previous month. The BOT said this was because it had intervened in the markets in May to deal with sharp foreign exchange fluctuations (the Taiwan dollar fell sharply).

Attention in July will remain focused on US/China trade talks and FRB monetary policy. As for the former, in the latter half of June, President Trump announced he had had a very good telephone conversation with the Chinese premier Xi Jinping, while US treasury secretary Steven Mnuchin also said a US/China trade deal was 90% done, so hopes for progress have risen sharply. A lot depends on the results of the heads-of-state meeting at the G20 Summit, but if the two sides move closer to reaching an agreement, as the markets are hoping, the RMB will be bought in the forex markets, with the USD/TWD pair's movements also likely to be shaped by Taiwan-dollar bullishness.

As for FRB monetary policy, attention will be focused on whether the FOMC implements a rate cut when it meets in July. Stock markets are moving firmly on expectations for a rate cut, but if the FRB slips further into dovish mode going forward, this could see even more foreign funds flowing into Taiwan, with the Taiwan dollar facing more appreciatory pressure against its US counterpart.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – July 2019

Expected Ranges	Against the US$:	HK$ 7.7800–7.8400
	Against the yen:	JPY 13.50–14.10

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

In June, market participants actively sold the U.S. dollar, as the Federal Reserve Board (FRB) changed its monetary policy and implied the possibility of an interest rate cut, bringing the U.S. dollar/Hong Kong dollar exchange rate to HKD 7.8025—the highest since the beginning of the year. At the same time, the liquidity level of the Hong Kong dollar fell and the interest rate differentials between the Hong Kong dollar and the U.S. dollar became positive. As a result, market participants hastily unwound long positions (in U.S. dollars) and short positions (in Hong Kong dollars) that they were being kept for carry trades, leading the Hong Kong dollar to appreciate. Furthermore, the one-year Hong Kong dollar forward point rose to –20 points, the highest in approximately two years and six months, as a result of the narrowing interest rate differentials between the Hong Kong dollar and the U.S. dollar. On the other hand, a large-scale demonstration was also in occurrence, temporarily increasing political risks and pressure for capital outflow and reducing investors' assets denominated in Hong Kong dollars. Demand for the Hong Kong dollar thus declined temporarily.

Hong Kong dollar interest rate market in June

In June, the liquidity level in the Hong Kong dollar market declined due to the fact that the checkable deposit balance of the Hong Kong Monetary Authority (HKMA) turned out to be low, at HKD 54.3 billion, along with other reasons such as seasonal factors particular to the end of quarter periods, applications for initial public offerings, and growing political risks after the large-scale demonstration mentioned above. This raised interest rates—those for short terms, in particular. While the FRB is about to enter a phase of making interest rate cuts, the above factors remained dominant, albeit for a short period, in the Hong Kong dollar interest rate market. The liquidity level thus remained low, leading short-term Hong Kong dollar interest rates to rise. The one-year HIBOR rose to 2.63% and the three-month HIBOR rose to 2.556%, both of which were at their highest level in approximately 10 years. Moreover, the interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR have remained positive since the middle of June, making it impossible for investors to gain profit by buying the U.S. dollar and selling the

Hong Kong dollar. It should also be underlined that many banks in Hong Kong raised the three-month fixed-term deposit interest rate to around 2%. This confirmed the decline of the liquidity level in the Hong Kong dollar market, and the outlook for the Hong Kong dollar interest rate before the end of the year was revised upward. It should also be added that short-term Hong Kong dollar interest rates and long-term interest rates have been falling, as a consequence of the significant fall of U.S. dollar interest rates.

Hong Kong stock market in June

The benchmark Hang Seng Index (HSI) rallied to around 28,000 from 26,671—the lowest in approximately five months—as a result of the optimism garnered for the expectation for the FRB to cut the interest rate, along with the growing optimism in the market regarding the possibility of trade negotiations between the U.S. and China being resumed at the G20 Summit Meeting. Even though concerns over political risks grew temporarily due to the large-scale demonstration, this only had temporary impact on the market.

2. Outlook for This Month

Hong Kong dollar spot exchange market in July

In July, the U.S. dollar/Hong Kong dollar exchange rate is forecast to remain unchanged at around HKD 7.78–7.84. As the interest rate differentials between the Hong Kong dollar and the U.S. dollar became positive, it is expected that carry trades to buy the U.S. dollar and sell the Hong Kong dollar will decrease in the times ahead. Therefore, it is possible for market participants to buy back the Hong Kong dollar, leading the Hong Kong dollar to temporarily appreciate against the U.S. dollar to the HKD 7.80 level. However, because of the U.S. dollar peg system, it is likely for the Hong Kong dollar to depreciate following the depreciation of the U.S. dollar if the FRB cuts the interest rate. Thus, once the temporary factors lose their effect, market participants are expected to start selling back the Hong Kong dollar at the HKD 7.80 level if the interest rate differentials fall between the Hong Kong dollar and the U.S. dollar. It should also be mentioned that there are various factors to keep the Hong Kong dollar weak, such as the growing risks of capital outflow caused by uncertainty over political outlook, such as the large-scale demonstration, risks related to the trade war (although this would largely depend on the outcome of the summit dialogue at the G20 Summit Meeting), and drastic revisions on excessively growing assets denominated in the Hong Kong dollar.

Hong Kong dollar interest rate market in July

In July, the Hong Kong dollar interest rates are forecast to remain steady after the second-quarter period

due to approaching initial public offerings and competition with virtual banks. It is possible for the Hong Kong dollar interest rates to rise significantly, as the checkable deposit balance of the HKMA is currently low, while political risks are growing and the liquidity level is declining. If the Hong Kong dollar interest rates rise, investors sensitive to the market trends would start selling the accumulating long positions on assets denominated in the Hong Kong dollar, strengthening pressure for capital outflow. It should be pointed out, however, that, under the U.S. dollar peg system, the Hong Kong dollar is likely to follow the fall of the U.S. interest rates in the medium term when the U.S. starts cutting its policy interest rate, putting the brakes on the rise of Hong Kong dollar interest rates.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – July 2019

Expected Ranges	**Against the US$:**	**CNY 6.7000–7.0000**
	Against the yen:	**JPY 14.86–16.27**
	Against 100 yen:	**CNY 6.1500–6.7300**

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate fell in June.

In June, the U.S. dollar/Chinese yuan exchange market started trading at the CNY 6.92 level. At the beginning of the month, Governor of the People's Bank of China (PBOC) Yi Gang made a remark on June 7 to emphasize that there was no specific level for the Chinese yuan exchange rate to be kept at, while the onshore market was closed. Market participants saw this as a factor to lead the Chinese yuan to depreciate against the U.S. dollar beyond the CNY 7 level. The offshore U.S. dollar/Chinese yuan (CNH) exchange rate rose as a consequence. After the opening of the onshore market, the U.S. dollar/Chinese yuan (CNY) exchange rate rose and once reached the CNY 6.93 level, following the offshore exchange rate. Then, on June 10, the May figure of the foreign currency reserves of China was announced, unexpectedly recording positive growth, and this supported the trend. However, the PBOC continued setting the central parity rate toward a strong Chinese yuan while announcing on June 11 that it would issue bills denominated in Chinese yuan in the Hong Kong market. These factors slowed down the depreciation of the Chinese yuan, and the U.S. dollar/Chinese yuan exchange rate did not rise further.

There was no progress in the trade negotiations between the U.S. and China after the middle of the month. Under such a condition, the U.S. dollar/Chinese yuan exchange rate continued hovering around the CNY 6.92 level, waiting for the June Federal Open Market Committee (FOMC) meeting. However, on June 18, a telephone conversation was had between U.S. President Donald Trump and Chinese President Xi Jinping, and it was announced by U.S. President Donald Trump that there would be a summit dialogue between the U.S. and China during the G20 Summit Meeting. In reaction to this, the U.S. dollar/Chinese yuan exchange rate started to fall, following the offshore Chinese yuan exchange rate, which had started falling in advance. On June 19, the FOMC released a statement in which the word "patience" was left out regarding the assessment of its policy interest rate (as compared with previous assessments), fueling expectations for an interest rate cut during the next FOMC meeting scheduled for July. As a result, the U.S. dollar depreciated generally, following which the fall of the U.S. dollar/Chinese yuan exchange rate accelerated. Thereafter, the U.S. dollar/Chinese yuan exchange rate

momentarily reached the CNY 6.83 level on June 21. However, some market participants bought the U.S. dollar against the Chinese yuan at this level, bringing the U.S. dollar/Chinese yuan exchange rate rapidly back to the upper-CNY 6.86 level. Trading closed in the third week of the month at this level.

In the last week of the month, geopolitical risks increased as a result of the news that Iran shot down a U.S. military drone in the previous week. Thus, market participants sold the U.S. dollar against other major currencies. However, while waiting for the G20 Summit Meeting and the summit dialogue between the U.S. and China, there was a sense of uncertainty in the market, which maintained stability in the U.S. dollar/Chinese yuan exchange market. Then, on June 26, the U.S. dollar/Chinese yuan exchange rate temporarily recovered to the lower-CNY 6.89 level. As of the time of when this report was written, the U.S. dollar/Chinese yuan pair was trading at the CNY 6.87 level.

2. Outlook for This Month

It is not very likely that the U.S. dollar/Chinese yuan exchange rate will move significantly in the aftermath of the G20 Summit Meeting and the subsequent summit dialogue between the U.S. and China. Thus, the Chinese yuan is forecast to remain weak in July.

In June, the distance between the U.S. and China regarding the trade negotiations remained significant. However, on June 18, U.S. President Donald Trump and Chinese President Xi Jinping held a telephone meeting, and, as of the time of when this review was written, the summit dialogue between the U.S. and China was scheduled for June 29. However, there is little time left before the scheduled summit dialogue, and it is likely to be a short meeting. Thus, it is unlikely to be an event to fundamentally and dramatically change the relationship between these two countries.

At the moment, there are mixed headlines, among which some are fueling market expectations and fueling market concerns. On June 21, the U.S. added five Chinese institutions to its blacklist, which already contained Huawei. On the other hand, the media reported thereafter that China was considering adding U.S. company FedEx to its blacklist. However, there was also a media report on June 25 about the possibility for the U.S. to postpone the introduction of the fourth additional customs duty on Chinese products worth USD 300 billion. Thus, under the current condition, the sense of uncertainty regarding the outlook of the trade negotiations remains strong. Even if there were to be some sort of agreement made at the summit dialogue between the U.S. and China, it is unlikely that we would see a fundamental change in the situation. Thus, the reaction in the market is expected to be short-term based and limited, without significantly changing the trend in the market.

In terms of the U.S. dollar/Chinese yuan exchange market, the exchange rate may fall temporarily if there

is an optimistic headline regarding any progress in the trade negotiations between the U.S. and China after the summit dialogue between these two countries. However, this would only be a limited reaction. As a sense of uncertainty for the future outlook persists, the downward pressure on the Chinese yuan is expected to remain in the market in July. Furthermore, even though the FOMC meeting is scheduled for the end of July, an interest rate cut at the July meeting has already been completely reflected in the interest rates of the Fed Funds Futures market, against the backdrop of an FOMC statement released after the June meeting, containing dovish contents. Therefore, even if no dramatic progress is made in the trade negotiations between the U.S. and China, and even if the interest rate is cut by 25 basis points as is anticipated in the market, the impact of the depreciation of the U.S. dollar would only be limited to the Chinese yuan exchange market.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – July 2019

Expected Ranges	Against the US$:	SG$ 1.3450–1.3700
	Against the yen:	JPY 78.00–81.00

1. Review of the Previous Month

In June, market participants sold the U.S. dollar and bought the Singapore dollar, as expectations were growing for an interest rate cut in the U.S. The trend was reversed, however, after the sharp depreciation of the Singapore dollar observed in May, and the buyback of the Singapore dollar led the U.S. dollar/Singapore dollar exchange rate to reach the lower-SGD 1.35 level from the upper-SGD 1.37 level.

In the first and second weeks, Asian stock prices generally declined. However, the Singapore dollar gradually appreciated, thanks to the fall of U.S. interest rates. Speaking of which, expectations were being fueled for interest rate cuts in the U.S, as President of the Federal Reserve Bank in St. Louis James Bullard shared his view that interest rate cuts might be "justified soon." As a consequence, market participants started actively selling the U.S. dollar and buying the Singapore dollar. In addition, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that he would take appropriate measures against the risks that resulted from the global trade war, and this remark was viewed as a suggested possibility of an interest rate cut in the U.S. before the end of the year, encouraging market participants to buy the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.36 level.

In the third week of the month, market participants bought the U.S. dollar as the U.S. decided not to introduce an additional customs duty against Mexico on June 10. Under such a context, the U.S. dollar/Singapore dollar exchange rate remained at the upper-SGD 1.36 level. On June 12, the April retail sales of Singapore turned out to be weaker than the market estimate, as a result of which the Singapore dollar remained weak against the U.S. dollar at the upper-SGD 1.36 level. Then, on June 14, a tanker with Japan-related cargo was attacked in the Strait of Hormuz near Iran, and this increased risk-averse sentiment in the market, with market participants selling the Singapore dollar. The U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.37 level.

In the fourth week of the month, the U.S. dollar/Singapore dollar exchange rate fluctuated only minorly, waiting for the Federal Open Market Committee (FOMC) meeting scheduled for June 18 and 19. On June 19, concerns over the trade frictions between the U.S. and China were mitigated, while the FOMC suggested the possibility of an interest rate cut before the end of the year. In response to this, market

participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the mid-SGD 1.35 level. From June 20 onward, the dovish attitude of the FRB supported Asian currencies, and market participants continued buying the Singapore dollar, keeping the U.S. dollar/Singapore dollar exchange rate at the mid-SGD 1.35 level.

In the fifth week of the month, the May CPI of Singapore was announced on June 24, and the result turned out to be +0.9% year-on-year, exceeding the market estimate, immediately after which market participants bought the Singapore dollar. Thereafter, the U.S. dollar/Singapore dollar exchange rate fluctuated only minorly at the SGD 1.35 level without any new factors, in waiting for the G20 Summit Meeting and the summit dialogue between the U.S. and Chine scheduled at the end of the week.

2. Outlook for This Month

In July, U.S. dollar-selling and Singapore dollar-buying are expected to increase gradually as expectations are growing for an interest rate cut in the U.S., in waiting for the FOMC meeting scheduled at the end of the month. In the market, an interest rate cut in July has already been reflected, and stock prices, which particularly strongly reflect the market sentiment, have been rising with expectation for an interest rate cut. As risk sentiment is improving in the market, the Singapore dollar is likely to remain steady in July. However, market participants should remain cautious about the trade frictions between the U.S. and China, as well as other risk factors such as a possible military confrontation between the U.S. and Iran.

Since May, optimism surrounding the trade negotiations between the U.S. and China declined, and the problem is now likely to persist for a long time. After the G20 Summit Meeting, the possibility for the fourth additional customs duty to be immediately imposed has decreased for the moment. However, a sense of uncertainty caused by concerns over the trade frictions between these two countries remains a factor for risk aversion in the market. Furthermore, the U.S. imposed additional sanctions against Iran, and the relationship between these two countries has been deteriorating with persistent risks of military confrontation. When market participants are taking action based on being highly aware of the above factors, it is possible for U.S. dollar-buying and Singapore dollar-selling to increase.

It should also be mentioned that the foreign exchange policy report was released by the U.S. Treasury Department at the end of May and did not nominate any country as a currency manipulator, as was the case in the previous report. However, the number of countries on the watchlist increased from six to nine. In the watchlist, familiar cases such as China, Japan, Korea, and Germany were evident, while India and Switzerland were removed. In exchange, Singapore, Ireland, Italy, Vietnam, and Malaysia were newly added to the list. For now, the reaction in the market to this news has been limited. However, if the U.S.

strengthens protectionist pressure on newly added countries, it is possible for the currencies of those countries to face downward pressure. In response to the above situation with the foreign exchange policy report, the Monetary Authority of Singapore (MAS) made a remark that the MAS does not and cannot use the foreign exchange rate to secure an advantage in exports or current account surplus, denying taking part in currency manipulation for the purpose of export competition.

With regard to the fundamentals, the results of the survey of economists carried out by the MAS were released in June, and the annual GDP outlook for 2019 fell to +2.1% year-on-year (it was +2.5% in March). The global economy is expected to peak out, while production in the manufacturing industry is expected to remain sluggish. Thus, market participants should remain careful also about the fundamentals.

Takeshi Hashi, Bangkok Treasury Office

Thai Baht – July 2019

Expected Ranges	Against the US$:	THB 30.00–31.30
	Against the yen:	JPY 3.43–3.52

1. Review of the Previous Month

In June, the U.S. dollar/Thai baht exchange market opened training at around THB 31.50 on June 3. While it was a holiday in Thailand, the downtrend from the end of the previous week remained in the market. During overseas trading hours, President of the Federal Reserve Bank in St. Louis James Bullard made a dovish remark, which fueled expectation for an interest rate cut in the U.S. In reaction, the U.S. dollar/Thai baht exchange rate fell to approach THB 31.30. Then, on June 4, the May Consumer Price Index of Thailand was announced, and the result was +1.15% year-on-year, recording a positive growth rate for the 23rd consecutive month. However, the impact of this in the exchange market was limited. On June 5, the U.S. dollar/Thai baht exchange rate rose to approach its monthly high at THB 31.50. However, this did not last. On June 6, expectations for an interest rate cut in the U.S. grew in the market as a result of the significant slowdown in the increase in employment from the 271,000 observed in the previous month to the 27,000 revealed in the May ADP U.S. employment report released on the previous day. Consequently, the U.S. dollar/Thai baht exchange rate fell to approach THB 31.30 in the morning of June 7. After the weekend, the U.S. dollar/Thai baht exchange rate once returned to THB 31.40 on June 10 from the latest low at the THB 31.20 level. However, the exchange rate fell gradually again thereafter, partially because of the May employment statistics of the U.S. that turned out to be generally weak. Then, on June 13, the Federation of Thai Industries (FTI) announced the number of automobiles manufactured in May, with this number recording negative growth for the first time in eight months, at –6.1% year-on-year. However, the impact in the market was limited. In addition, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 31.10 level toward June 14, as capital inflow from foreign investors into the Thai bond market increased in June. Then, on June 18, U.S. President Donald Trump made a remark that he had had a very good telephone meeting with Chinese President Xi Jinping and that he would take time to have a longer dialogue with him at the G20 Summit Meeting. This fueled expectations for the trade negotiations between the U.S. and China to resume, as a result of which the U.S. dollar/Thai baht exchange rate rose to approach THB 31.40. Also, on June 19, the outcome of the Federal Open Market Committee (FOMC) meeting turned out to be more dovish than expected, which led the U.S. interest rates to fall significantly, following which the U.S. dollar also depreciated. Then, on June 20, capital inflow from overseas investors continued, and the U.S. dollar/Thai baht exchange rate fell below the psychological turning point at THB 31.00, reaching THB 30.90. From June 21 to 24 June, the U.S. dollar remained weak while market participants abstained

from active transactions, in waiting for the G20 Summit Meeting over the weekend. Under such circumstances, the overall Asian currencies, emerging currencies, and the currencies of resource-rich nations all strengthened. Following this trend, the Thai baht also appreciated, and the U.S. dollar/Thai baht exchange rate fell at a faster rate and reached THB 30.65. Then, in the morning of June 25, the U.S. dollar/Thai baht exchange rate renewed its low since the beginning of the year, temporarily approaching THB 30.60. However, the May industrial production of Thailand was announced thereafter, and the result turned out to be –3.99% year-on-year, while the trend was reversed with some market participants buying the U.S. dollar on dips, leading the U.S. dollar/Thai baht exchange rate to rise to approach THB 30.80. On June 26, President of the Federal Reserve Bank in St. Louis James Bullard, who maintains a generally dovish attitude, expressed hesitation regarding an interest rate cut of 0.50% before the end of the year, and this encouraged market participants to buy back the U.S. dollar, leading the U.S. dollar/Thai baht exchange rate to continue rising to approach THB 30.85. Thereafter, the Monetary Policy Committee of the central bank of Thailand decided to maintain its policy interest rate at the existing 1.75%, while the central bank of Thailand did not suggest any possibility of an interest rate cut. As a result, the Thai baht started to appreciate again thereafter, and the U.S. dollar/Thai baht exchange rate fell to approach THB 30.70.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is expected to remain low in July.

In June, the U.S. dollar/Thai baht exchange rate renewed its low since the beginning of the year, while also reaching its lowest level in approximately six years. It is a little mysterious that market participants continue buying the Thai baht while the Thai economic indices show weak figures. However, as the U.S., the economic giant, has been shifting its monetary policy, it is difficult to go against the trend. It has already been six years since the so-called "Bernanke Shock" in 2013. Since then, the U.S. has been reducing its growing balance sheet over the past six years, raising the interest rate nine times. However, it cannot be denied that there will be risks in continued further monetary tightening. It has been more than 10 years since the 2008 global financial crisis, triggered by the collapse of Lehman Brothers. Even though there is no sign of another financial crisis, which is said to happen every 10 years, market participants would hope to prepare for any possible financial crisis in the future. At the moment, key issues in the market include (1) possibility of interest rate cuts in the U.S. and (2) progress in the trade negotiations between the U.S. and China. In terms of the former, having seen the outcome of the FOMC meeting in June, it seems that an interest rate cut has been reflected in the market to a certain extent. In terms of the latter, as of the time of when this review was written, market participants were waiting to see progress in the negotiations with a mixture of hope and fear, not knowing when the U.S. and China will stop imposing additional customs duties on each other.

With regard to the domestic environment in Thailand, the central bank of Thailand held a Monetary Policy Committee meeting on June 26 and decided to maintain its policy interest rate at 1.75%. Given the weak figures in the trade statistics and economic indices, it seemed possible for the interest rate to be cut before the end of the year. However, the central bank of Thailand did not hint at an interest rate cut. The U.S. dollar/Thai baht exchange rate renewed its low since the beginning of the year, while the Thai baht continued appreciating. It is expected that the appetite to invest in Thailand will remain particularly strong among overseas investors in the times ahead, as key political events in Thailand are now over and as long-term Thai government bond yields have been above those of the U.S. From the point of view of chart analysis, there has been no clear support line, which means that the U.S. dollar/Thai baht exchange rate is likely to fall further. Thus, unless the pessimism grows excessively at the G20 Summit Meeting, the U.S. dollar/Thai baht exchange rate is likely to remain low for a little while longer.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – July 2019

Expected Ranges	**Against the US$:**	**MYR 4.1000–4.1800**
	Against the yen:	**JPY 25.57–26.25**
	Against 100 yen:	**MYR 3.8100–3.9100**

1. Review of the Previous Month

In June, the U.S. dollar/Malaysian ringgit exchange rate fell below the lowest rate for the Malaysian ringgit observed since the beginning of the year (MYR 4.2000), following the trend of the depreciation of the U.S. dollar based on the U.S. employment statistics and the Federal Open Market Committee (FOMC) meeting.

At the end of May, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.2000 for the first time since November last year, renewing the highest exchange rate observed since the beginning of the year, as the media reported that China was considering restricting its exporting of rare earth metals to the U.S., while the U.S. imposed an import duty of 5% against Mexico. From the beginning of June, however, the trend was reversed, and the exchange rate fell as expectation grew for an interest rate cut in the U.S. On June 7, the number of non-agricultural employees in the U.S. for May was announced, and the result (+75,000) turned out to be significantly lower than expected (+175,000). Furthermore, the figures announced in the past two months were also revised downward. The probability of an interest rate cut in July, which had been reflected in the market at approximately 50% in the futures market before this announcement, rose rapidly to approximately 86%, in reaction to which the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.15 level.

In the middle of the month, U.S. President Donald Trump requested the presence of Chinese President Xi Jinping at the G20 Summit Meeting in Osaka in order to discuss the trade frictions between their countries, while also making a remark to give Mexico warning about its illegal immigrants, which fueled cautious feelings in the market. Under such circumstances, the North Sea Brent crude oil price temporarily fell below USD 60 due to the accumulated stock of crude oil in the U.S., while the attack on a tanker in the Persian Gulf also strengthened downward pressure on the Malaysian ringgit. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate rallied on June 18 to reach MYR 4.1840.

On June 19, the FOMC statement was released, and in the dot plot, eight committee members out of 17 suggested an interest rate cut before the end of 2019, while the Fed Fund target rate was maintained at the existing level. Moreover, seven committee members even forecast an interest rate cut of 0.50%. The term

"patience," which was used for future changes to the policy interest rate in previous statement, was removed, and the interest rate futures entirely reflected an interest rate cut in July. Once the dovish attitude of the FRB was confirmed in the market, the U.S. dollar/Malaysian ringgit exchange rate fell below MYR 4.15 on June 20. Furthermore, the media reported that U.S. President Donald Trump and Chinese President Xi Jinping would hold dialogue during the G20 Summit Meeting, and this fueled expectation for the possibility to avoid the imposition of additional customs duties. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to MYR 4.1450 on June 21 for the first time since May 6.

At the end of the month, geopolitical risks grew regarding the relationship between the U.S. and Iran. While the North Sea Brent crude oil price rallied to approach USD 65, the U.S. dollar/Malaysian ringgit exchange rate renewed its low at MYR 4.1380 on June 25. Thereafter, President of the Federal Reserve Bank of St. Louis James Bullard took a dovish view and denied that an interest rate cut of 0.50% would occur in July, and this led the U.S. dollar to rally. As of June 27, the U.S. dollar/Malaysian ringgit pair was trading at the MYR 4.15 level.

2. Outlook for This Month

In July, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate between the range of MYR 4.10 and MYR 4.18. On one hand, the dovish attitude of the U.S. monetary policy is likely to keep the U.S. dollar from appreciating. On the other hand, however, the uncertainty about the trade frictions between the U.S. and China and the concerns over the outflow of overseas investors' funds from the Malaysian securities market may strengthen downward pressure on the Malaysian ringgit.

In the past two months, the U.S. dollar/Malaysian ringgit exchange rate had been on an uptrend, due to concerns over the possibility for the FTSE Russell World Government Bond Index to remove the Malaysian government bond observed in the middle of April, as well as the rupture in the trade negotiations between the U.S. and China in May. However, the weakening of the Malaysian ringgit slowed down in June, as the U.S. dollar depreciated due to growing expectation for an interest rate cut in the U.S. From the point of view of chart analysis, the monthly high at the end of May (MYR 4.2000) did not exceed, in the end, the monthly high recorded in November last year (MYR 4.2025), forming a double top. If expectations continued growing worldwide for an interest rate cut toward the FOMC meeting scheduled for the end of July, supporting the global stock market, market participants are most likely to buy the Malaysian ringgit, as risk-taking sentiment is expected to grow in the market while the U.S. dollar exchange rate is to be adjusted.

However, the base flow of foreign investors' funds into the Malaysian bond market recorded –MYR 4 billion in May, falling negative for the second consecutive month, even though the negative margin was

narrowed slightly from the –MYR 10 billion recorded in April. It seems that funds are flowing into the bond market, as is the case with the stock market, thanks to the fall of U.S. interest rates as well as the expectation for the depreciation of the U.S. dollar, leading the 10-year government bond yield to fall. Yet, the cautious feeling persists among foreign investors about the removal of Malaysian government bonds from the FTSE Russell World Government Bond Index. Furthermore, expectations in the market for an agreement to be made in the negotiations between the U.S. and China after the G20 Summit Meeting have already declined. If the additional customs duty of 25% is imposed, there would be important impact on the Chinese economic environment—the largest export destination of primary products and intermediate goods. Also, geopolitical risks between the U.S. and Iran suddenly increased, which is also a negative factor for the Malaysian ringgit, even though this may lead the crude oil price to rise in the times ahead.

It should also be added that foreign direct investment in Malaysia, which was also discussed in the review last month, recorded an all-time high on a quarter basis for the first-quarter result, at MYR 21.7 billion—the figure announced by the Malaysian Investment Development Authority in May. The amount approved for investment in the first quarter also recorded steady growth of +73%, at MYR 29.3 billion. In particular, the figures by country demonstrate the significance of the investment approved in the U.S. Would the intensification of the trade frictions between the U.S. and China observed in May turn out to be an advantage for Malaysia, encouraging foreign investment to offset the slowdown in the domestic investment? Market participants should remain attentive of the outcome of the summit dialogue between the U.S. and China at the G20 Summit Meeting.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – July 2019

Expected Ranges	Against the US$:	IDR 13,900–14,300
	Against 100 rupiah:	JPY 0.74–0.77
	Against the yen:	IDR 129.87–135.14

1. Review of the Previous Month

In June, the Indonesian rupiah remained stable, and the U.S. dollar/Indonesian rupiah exchange rate fluctuated within the range between IDR 14,090 and IDR 14,350.

The U.S. dollar/Indonesian rupiah exchange market opened trading on June 10 after the Lebaran holidays. At the end of the previous month, a ratings agency upgraded the rating of Indonesia from BBB– to BBB, which led the Indonesian rupiah to appreciate. The trading started at around IDR 14,200 to the U.S. dollar. On the same day, the May Consumer Price Index of Indonesia was announced, and the result recorded positive growth for the first time in a year, at +3.32% year-on-year. However, the Indonesian rupiah remained steady, as the CPI remained within the target range set out by the central bank while food prices appreciated during the month of Ramadan (the fasting period).

While concerns persist over the trade war between the U.S. and China, a tanker was attacked in the gulf of Oman on June 14, which led the Indonesian rupiah to depreciate against the U.S. dollar to the IDR 14,300 level. In the following week, the Indonesian rupiah depreciated to approach IDR 14,350 to the U.S. dollar, the monthly high, on June 17. On June 19, expectations grew once again for an agreement in the trade negotiations between the U.S. and China, which allowed the Indonesian rupiah to rally to the IDR 14,200 level. On June 20, the following day, expectations for an interest rate cut in the U.S. grew further, having seen the outcome of the Federal Open Market Committee (FOMC) meeting. As a consequence, the Indonesian rupiah continued appreciating against the U.S. dollar to the USD 14,100 level. On the same day, the central bank of Indonesia held a regular meeting and decided to maintain its policy interest rate at the existing level. However, the bank deposit requirement ratio was cut by 0.5% in order to raise the liquidity level, maintaining the possibility for an interest rate cut at a future central bank meeting. Thus, the outcome of the meeting was a dovish one. On June 21, the following day, there was continued vigorous capital inflow from foreign investors and the Indonesian rupiah remained steady, temporarily reaching its monthly high at a level below IDR 14,100 to the U.S dollar.

In the last week of the month, the May trade balance of Indonesia was announced on June 24, revealing a

significant decline in both imports and exports. However, despite the weakness of the figures, there turned out to be a trade surplus, albeit small, and the impact on the foreign exchange market was limited. Even though there were also negative factors for the Indonesian rupiah, such as the rally of the crude oil price as a result of the worsened situation in the Middle East, the Indonesian rupiah remained stable, and, as of June 27 when this review was written, the U.S. dollar/Indonesian rupiah pair was trading at the IDR 14,100 level, on a closing-rate basis).

2. Outlook for This Month

In July, the Indonesian rupiah is forecast to remain steady against the U.S. dollar.

The domestic environment surrounding the Indonesian rupiah remains unchanged in terms of general perception. The April trade balance of Indonesia was revised and is no longer the largest trade deficit observed. However, it is still the case that there was a significant trade deficit. Even though there was a small trade surplus in the May trade balance, it only means that the weak exports figure was offset by a decline in imports. Thus, the weakness in the trade balance is likely to remain a negative factor for the Indonesian rupiah in the times ahead. While the balance of income has been significantly negative, the trade balance is far from covering the weakness of the balance of income. Thus, the current account deficit is expected to remain in the coming month, and, given this situation, it is difficult to expect the Indonesian rupiah to appreciate from a long-term perspective.

However, the external environment has been dramatically changing. At the end of July, the U.S. will almost certainly cut its policy interest rate. Under such a circumstance, it is likely that capital inflow into emerging countries will continue for a while, which is a positive factor for the Indonesian rupiah. In addition, the upgrading of Indonesia's rating, as a surprise observed at the end of May, is also supporting the Indonesian rupiah.

Under such conditions, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark after the monetary policy meeting held last month that an interest rate cut is a matter of timing and scale. Thus, in Indonesia as well, an interest rate cut is becoming the consensus of market participants. The Indonesian exchange market is however maintaining stability.

It should also be mentioned that concerns are growing regarding the situation in the Middle East and that this situation is leading the crude oil price to rally. This is a negative factor for the currencies of countries that import crude oil. It is therefore possible for the rise of the crude oil price to slow down the appreciation of the Indonesian rupiah. However, when the crude oil price appreciated in June, the Indonesian rupiah remained robust. Expectations for an interest rate cut in the U.S. are therefore likely to continue supporting

the Indonesian rupiah in the times ahead, unless the situation in the Middle East changes drastically.

While not all factors are positive for the Indonesian rupiah, expectation for an interest rate cut in the U.S. is growing, and the Indonesian rupiah is likely to remain robust in July.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – July 2019

Expected Ranges	**Against the US$:**	**PHP 50.50–52.50**
	Against the yen:	**JPY 2.08–2.11**

1. Review of the Previous Month

In June, the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.15, at almost the same rate as the closing rate observed at the end of May (PHP 52.16 to the U.S. dollar).

On May 30, U.S. President Donald Trump announced the imposition of an additional customs duty against Mexico, and this is expected to fuel risk-averse sentiment in the market. However, market participants sold the U.S. dollar globally in the foreign exchange market, anticipating an interest rate cut. Following this trend, Asian currencies started to appreciate gradually.

The U.S. dollar/Philippine peso exchange rate also fell below the PHP 52 mark.

Thereafter, officials of the U.S. monetary authorities made dovish remarks, while the May ADP employment statistics of the U.S. turned out to be significantly weaker than the market estimate. As a consequence, Asian currencies strengthened against the U.S. dollar. On June 6, the U.S. dollar/Philippine peso exchange market closed trading at PHP 51.74 on a closing-rate basis—the highest rate for the Philippine peso since April 15.

On the other hand, Philippine peso-buying continued only for a limited period, allowing U.S. dollar buybacks to dominate the market thereafter before the release of the May employment statistics of the U.S. Thus, the U.S. dollar/Philippine peso exchange rate recovered to the PHP 52 level (at PHP 52.04) at the market closing of June 7. After the release of the employment statistics of the U.S., the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.05 on June 10. As the May trade statistics of China had turned out to be weak, Asian currencies depreciated against the U.S. dollar. On the other hand, the majority of market participants expected the U.S. interest rates to rise in the times ahead, while the imposition of the additional customs duty against Mexico was avoided. As a result, risk-averse sentiment in the market was mitigated. Furthermore, the April trade balance of the Philippines was announced, revealing a trade deficit of USD 3.14 billion, which is less significant than the deficit estimated in the market (USD 3.92 billion). In positively responding to this result, some market participants sold the U.S. dollar and bought the Philippine peso. In the end, the U.S. dollar/Philippine peso exchange rate

continued hovering at around the PHP 52 level throughout the month.

After its meeting, the Federal Open Market Committee (FOMC) suggested the possibility of an interest rate cut in the U.S. before the end of the year, which led the U.S. dollar/Philippine peso exchange rate fell to the PHP 51.40–51.50 level.

Moreover, expectations grew for a summit meeting between the U.S. and China at the occasion of the G20 Summit Meeting, and this ameliorated the market sentiment. As a result, on June 28, the Philippine peso was traded against the U.S. dollar at PHP 51.17—its highest rate since February last year. Before the G20 Summit Meeting, the appreciation of the Philippine peso was possible to be adjusted to some extent. However, the U.S. dollar remains low. As of 11 a.m. on June 28, the U.S. dollar/Philippine peso pair was trading at the PHP 51.20 level.

2. Outlook for This Month

In June, the April amount of Overseas Filipino Workers (OFW) remittances was announced to be USD 2.44 billion, not reaching the previous month's figure of USD 2.51 billion and the market estimate of USD 2.46 billion. If geopolitical risks in the Middle East heighten further in the times ahead, the amount of OFW remittances would not increase. On the other hand, with regard to the trade balance, as was discussed above, the April trade balance of the Philippines turned out to be a deficit of USD 3.14 billion, falling below the market estimate (a deficit of USD 3.92 billion), to which market participants reacted positively. However, it is difficult to expect exports to expand in the times ahead, based on the demand for semiconductors and electronic parts as estimated from the semiconductor cycle, as well as based on the trade frictions between the U.S. and China, while imports are likely to increase in the times ahead, as the national budget bill was approved for this fiscal year. Thus, the Philippine peso is forecast to continue weakening, following the cashflow.

Stock transactions by foreign investors have currently been balanced between buying and selling. However, there is no more momentum in buying that was observed since the end of last year. Thus, the Philippine peso is forecast to continue weakening given the sense of uncertainty in the global economy, along with geographical risks.

Factors for the appreciation of the Philippine peso include diminishing inflation risk. The central bank of the Philippines decided on June 20 to maintain its policy interest rate at 4.50%. The governor of the central bank of the Philippines, Benjamin Diokno, made a remark that it was possible to control inflation, while the domestic economy is expected to continue growing steadily, making it legitimate to maintain the current monetary policy. Controlling inflation means to keep the inflation rate within the inflation target,

at 2–4%, as set out by the central bank. The central bank revised its inflation outlook downward to 2.7% for 2019 (while the previous outlook was 2.9%) and to 3% for 2020 (while the previous outlook was 3.1%).

However, it seems that the monetary policy is likely to move toward easing in the times ahead. It is possible for the central bank to cut the deposit reserve requirement ratio while maintaining its policy interest rate at the current level. Measures of monetary easing may lead the Philippine peso to depreciate. In addition, market participants should be aware of the remark made last month by the governor of the central bank of the Philippines, Benjamin Diokno. In responding to a question by a journalist regarding the current level of the U.S. dollar/Philippine peso exchange rate (at the lower-PHP 52 level), he affirmed that there were sufficient reserves in U.S. dollars. From this statement, it is predicted that he will take firm measures against any excessive depreciation of the Philippine peso. It should also be mentioned that the central bank of the Philippines expects the U.S. dollar/Philippine peso exchange rate to be at PHP 52 for this year and PHP 51.50 for next year. This shows a Philippine peso slightly stronger than the current exchange rate (as of 11 a.m. on June 28).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – July 2019

Expected Ranges	Against the US$:	INR 67.50–72.50
	Against the yen:	JPY 1.49–1.57

1. Review of the Previous Month

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

In June, the U.S. dollar/Indian rupee exchange market opened trading at INR 69.60. As the first-quarter GDP of India had been announced at the end of the previous month, revealing a weak figure, more market participants expected monetary easing in the times ahead and started buying bonds. Interest rates continued falling, to which the Indian stock market reacted positively and the SENSEX Index renewed its all-time high. In the foreign exchange market, the focus of market participants was more on rising stock prices rather than falling interest rates, thus buying the Indian rupee. The U.S. dollar/Indian rupee exchange rate reached INR 69.02 on June 4, which turned out to be the monthly low in June. However, the exchange rate did not fall further thereafter, as market participants were waiting for the monetary policy meeting at the central bank. At the central bank meeting, the policy interest rate was cut (from 6.00% to 5.75%). However, this had already been reflected in the market, and there was little impact on the exchange rate, fluctuating only within a narrow range of 20–30 paise. Thereafter, the crude oil price rose, weakening the Indian rupee. As a consequence, the U.S. dollar/Indian rupee exchange rate rose to the upper-INR 69 level. The Chinese yuan rallied thereafter against the U.S. dollar to offset the depreciation, and this temporarily supported the Indian rupee. However, The U.S. dollar/Indian rupee exchange rate rose again, having witnessed the weak CPI as well as the fall of stock prices. On June 17, the exchange rate reached its monthly high in June at INR 69.73.

Toward the end of the month, the statement of the Federal Open Market Committee (FOMC) was released in the U.S., revealing pessimistic contents. As a consequence, market participants expected the interest rate to be cut, selling the U.S. dollar in the process, which strengthened the overall Asian currencies. As of June 27 when this review was being written, the U.S. dollar/Indian rupee pair was trading at the INR 69.20–69.30 level.

In June, the Indian rupee/Japanese yen exchange rate fell gradually.

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.557 level. In the first week

of the month, there were few factors in the market and the exchange market did not move significantly. The Indian rupee/Japanese yen pair continued trading within a narrow range between JPY 1.56 and JPY 1.565. However, on June 7, the U.S. employment statistics were released with disappointing figures, and this fueled risk-averse sentiment in the market and encouraged market participants to buy the Japanese yen. Thus, the U.S. dollar/Japanese yen exchange rate fell below the JPY 108 level, following which the Indian rupee/Japanese yen exchange rate also fell to the JPY 1.55 level. Thereafter, there was progress in the trade negotiations between the U.S. and Mexico during the weekend, and this led the U.S. dollar/Japanese yen exchange rate to return to the mid-JPY 108 level after the weekend. Consequently, the Indian rupee/Japanese yen exchange rate also rallied.

The U.S. dollar/Japanese yen exchange rate reached a stalemate thereafter at around JPY 108.20–108.40. Following the rise of the U.S. dollar/Indian rupee exchange rate discussed above, the Indian rupee also weakened against the Japanese yen. After the FOMC meeting in the U.S., the U.S. dollar/Japanese yen exchange rate fell well below JPY 107, which led the Japanese yen to appreciate rapidly against the Indian rupee as well, and the exchange rate reached its monthly low in June at the JPY 1.5350 level. Thereafter, the media reported that there would be a dialogue meeting between U.S. President Donald Trump and Chinese President Xi Jinping at the time of the G20 Summit Meeting scheduled for the end of the month. In response to this news, the U.S. dollar/Japanese yen exchange rate recovered to the JPY 108 level again. As of June 27 when this review was being written, the Indian rupee/Japanese yen pair was trading at the JPY 1.5550–1.5600 level—the same level as at the beginning of the month.

2. Outlook for This Month

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

There had been many important events in India, including the general election on May 23, the announcement of the weaker-than-expected GDP of India on May 31, and the announcement of an interest rate cut by the central bank of India (for details of the general election, please see the review from last month). The January-March quarter GDP turned out to be weaker than estimated. In November last year when the trend of the depreciation of the Indian rupee was reversed, exports started to struggle, while capital investment recorded a significant decline, which caused the slowdown of the GDP. It is understandable in terms of the timing that market participants stayed away from investment before the results of the election were out, given that the optimistic feeling about the re-election of the BJP was not so certain after the local election. As the GDP turned out to be weak, expectations for an interest rate cut were already growing before the monetary policy meeting of the central bank. Thus, the impact of the actual interest rate cut had only minor impact on the foreign exchange market.

However, the central bank of India revised its monetary policy to "moderate" at its meeting (it was "neutral" before), implying further interest rate cuts despite the fact that the interest rate had already been cut three times since the beginning of the year. In response to this, government bond yields fell rapidly. In general, this sort of situation would encourage market participants to sell the Indian rupee. However, the monetary easing positively impacted the stock market, leading stock prices to rise. As stock and bond prices had been rising, market participants expected domestic securities investment to increase in the times ahead, and this encouraged market participants to buy the Indian rupee and occasionally supported the Indian rupee exchange market as well.

The next important domestic event is the announcement of the budget, scheduled for July 5. The main interest of the people is in economic stimulus measures such as agricultural support and investment in infrastructure. While some market participants are also simply waiting for economic stimulus measures, they should remain cautious, as the deterioration of the fiscal deficit can be a reason particularly for foreign investors to sell the Indian rupee. This would be key in keeping a balance between economic measures (i.e., an increase in expenditures) and a reduction of the fiscal deficit.

With regard to external factors, market participants should be aware of the trade negotiations between the U.S. and China, as well as the shift of the U.S. central bank toward interest rate cuts. Along with this change, the U.S. 10-year government bond yield, which had been above 3.2% in November last year, is moving toward well below 2% for the first time since 2016. Under such circumstances, it is predictable that investors would be of the mind not to want to buy the U.S. dollar. While the Japanese yen is likely to appreciate as a result, it should also be mentioned that market participants would consider investing in currencies with a high interest rate (although this of course depends on the progress of the trade negotiations between the U.S. and China as well as on the trends in the Chinese yuan market). In addition, market participants should also remain cautious about the trends in the crude oil price, having witnessed some changes in the situation in the Middle East, such as in the news that Iran shot down a U.S. military drone. It is possible for the fall of Indian interest rates to lead to the depreciation of the Indian rupee. However, U.S. interest rates are also falling at the same time, which makes it rather easier for the U.S. dollar to depreciate. As investment capital is likely to continue flowing into India, it is possible for the U.S. dollar/Indian rupee exchange rate to fluctuate in both directions, not moving into any single direction.

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