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Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Derivatives & Forex Department

Hiroshi Seki, Forex Sales, Derivatives & Forex Department

U.S. Dollar – August 2019

Expected Ranges Against the yen: JPY107.50–110.00

1. Review of the Previous Month

An agreement was made at the end of June to re-open US/China trade talks, with the US holding off from hitting China with a fourth round of punitive tariffs. With the markets also reacting well to news that some sanctions had been lifted on Huawei, the dollar/yen pair rose to 108.53 yen at the start of July.

On July 2, the US USTR announced plans to hike tariffs on EU products worth $4 billion, with the pair subsequently dipping below 108.30 yen. The pound/yen pair was then sold on the bearish results of a BOE meeting, with risk aversion also intensifying on news that Russian President Vladimir Putin had held an emergency meeting with his defense minister, so the dollar/yen pair fell below 108 yen to tumble to 107.54 yen toward July 3.

The US employment data for June was released on July 5, after the US came back from a holiday. The nonfarm payrolls figure significantly beat market forecasts, with the dollar/yen pair hitting 108.64 yen as US interest rates climbed higher, with the pair then hitting a monthly high of 108.99 yen on July 10. FRB chair Jerome Powell then made some dovish comments in his testimony to Congress, while the minutes to the FOMC meeting revealed that several members believed there were grounds for forceful rate cuts, so the pair plummeted to the lower-108 yen mark. On July 11, the markets focused on geopolitical risk following news that an Iranian vessel had approached a UK tanker in the Strait of Hormuz, with the pair sliding to 107.86 yen, though it bounced back to the lower-108 yen level on July 15 on the robust results of the Chinese 2Q GDP and June industrial production data.

The pair moved firmly at the lower-108 yen pair on July 16 on some healthy US retail sales data for June. However, interest rates then fell on July 18 on dovish comments by the FRB vice chair Richard Clarida and NY FRB president John C. Williams, so the pair tumbled to a monthly low of 107.21, though it subsequently rallied to the mid-107 yen mark toward July 19 as officials made some soothing noises. A US newspaper then reported that an FRB official had thrown his support behind a 0.25% rate cut at the FOMC meeting at the month's end. As expectations for a 0.50% rate hike declined, the pair rallied to 107.97 yen.

On July 23, meanwhile, the IMF upgraded its projection for US economic growth in its Global Economic Outlook, with the pair then strengthening to the lower-108 yen level. The dollar was sold on July 24 when the US released some worse-than-expected Housing Starts data for June, with the pair tumbling to the upper-107 yen level. As expected, though, the ECB Governing Council kept interest rates fixed when it met on July 25, with the meeting also less dovish then the markets had expected, so

the euro/yen pair rose and the dollar/yen pair was also pulled higher to hit the upper-108 yen range. On July 26, a high-ranking US government official ruled out any intervention in the forex markets for the time being. This saw the dollar/yen pair rising to 108.83 yen.

With concerns about a Hard Brexit also rising before the London Fix on July 29, the euro/pound pair rose and the dollar/yen pair was also dragged up to hit 108.90 yen. The pair rose to 108.95 yen for a time on June 30 on expectations for further monetary easing at the Bank of Japan (BOJ) policy meeting, though the pair then dipped to 108.46 yen when the BOJ kept its forward guidance fixed. It then moved in a narrow range around the mid-108 yen mark in the run up to the FOMC meeting on July 31.

2. Outlook for This Month

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

With the global economy starting to slow, major central banks have begun to turn on the easing taps. The FOMC is expected to start lowering interest rates when it meets on July 31. After the policy committee meeting on July 25, the ECB said it would keep rates at current levels or lower over the first half of 2020 and it also dropped strong hints it would ramp up easing after the summer holidays in order to support the eurozone economy. At the BOJ Monetary Policy Meeting on July 30, it maintained its forward guidance that interest rates would be kept at their current extremely low level until spring 2020 at the earliest. Prior expectations for BOJ easing had been thin on the ground, but then yen was still bought on the discrepancy between the monetary easing stances in Japan and the US (where the markets are expecting rate cuts).

The FOMC is expected to implement a 25bp rate cut at its closely-watched July meeting. The markets have priced in four 25bp cuts up until March 2021, with rate cuts of around 60bp expected in 2019 alone. If rates are cut by 25bp each time, this means the markets are expecting around 2.4 rate cuts in 2019. If moves to price in rate cuts recede after FRB chair Jerome Powell's press conference, this will probably support the dollar/yen pair. Long and short-term rates are inverting when it comes to yields on ten-year US treasuries and FF rates, but this state of affairs will not be changed with a 25bp rate hike. The FOMC will probably retain the phrasing about how the rate cut is an appropriate move when it comes to maintaining economic growth, for example, while also dropping hints about a further rate cut at the next meeting on September 18. The pair had risen to the mid-108 yen mark before the FOMC meeting, so the pair will probably bounce back to the 109 yen range as moves to price in rate hikes wane.

However, as expectations for US rate hikes recede, US stock markets will probably react by sliding. A stock market slide would probably prevent the dollar/yen pair from rising. In particular, long and short-term rates are continuing to invert, an indication perhaps that the US economy is facing a recession. If rate cut fails to eliminate this inversion and the markets adjudge the scale of easing to be insufficient, easing pressure could exert more downward pressure on stock prices. As a result, any dollar appreciation on rising US interest rates will probably be cancelled out risk-evasive yen appreciation on falling stocks. When it comes to gauging the impact on the markets of this monetary easing, it will be necessary to

continue paying close attention to the state of the US economy. The US employment data and the Manufacturing ISM Report on Business will be released at the start of August. The employment situation remains bullish at present, but momentum seems to be slowing when it comes to employment growth, a falling unemployment rate and wage growth, 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	5 bulls	107.00 – 110.00	Bearish on the dollar	11 bears	106.00 – 109.50

* Ranges are central values

Tanaka	Bear	107.00 – 109.50	With no FOMC meeting or any other events on the horizon, the dollar/yen pair will probably move without a sense of direction over the summer dry season. There remain several unstable factors, with a No-deal Brexit still possible and hopes low when it comes to the US/China trade dispute. As central banks across the world pursue monetary easing, the pair's movements are likely to remain subtly balanced.
Tasaka	Bear	107.00 – 110.00	The FRB has indicated it will monitor the international situation and US economic trends while implementing further rate cuts as necessary. Under these circumstances, if the situation regarding US/China trade talks remains uncertain, US interest rates will be kept in check, with the dollar/yen pair set to move with a heavy topside.
Oba	Bull	107.50 – 110.00	Though US/China trade talks have re-opened, it seems unlikely that tensions between the two countries will ease off, with the situation remaining uncertain, so the dollar will be a hard currency to actively buy. However, the US economy is moving firmly at present, so the dollar/yen pair will probably edge higher as excessive expectations for rate hikes are unwound.
Takamura	Bull	107.00 – 110.50	Though the US has shifted back to rate cuts, the economic hard data remains strong, with a recession unlikely any time soon. US financial markets have factored in too much pessimism, while the stock markets remain firm, so the dollar/yen pair looks set to move higher this month.
Tanishiki	Bear	106.00 – 109.50	The dollar will be bought for a time on a sense of relief after the Shanghai and FOMC meetings, but with the markets factoring in more rate hikes within the year, the dollar/yen pair's room on the topside will be capped. President Trump has ramped up his criticisms of the FRB. This is a further reason why expectations for declining interest rates will intensify.
(Mio) Otani	Bear	106.00 – 109.50	There remain deep-rooted expectations for several FRB rate cuts, so the dollar/yen pair is expected to continue trading with a heavy topside. There are also concerns that US/China trade frictions could drag on, with uncertainty also on the rise when it comes to Brexit. These geopolitical risks will also act to push the pair lower.
Takeuchi	Bear	106.00 – 110.00	With the markets expecting the FRB to implement several rate cuts, the dollar will be a hard currency to actively buy. A dramatic improvement in US/China relations also seems unlikely, so the dollar/yen pair will probably slide in the mid- to long-term. The pair's downside will probably be supported by buying by Japanese investors, though its topside looks set to edge lower.
Kato	Bear	105.00 – 109.00	We seem to be seeing an unwinding of moves to normalize interest rates. It is quite significant that the US has altered its monetary policy for the first time in six years. A seasonal anomaly will also probably see moves by Japanese investors to convert funds into yen in August, so the dollar/yen pair will probably drop below its current level to a certain extent.
Seki	Bull	107.50 – 110.00	The markets have factored in four 25bp rate cuts by March 2021. If moves to price in rate hikes wane after the July FOMC meeting, this will probably support the dollar/yen pair. However, there are also concerns that easing pressure could exert more downward pressure on stock prices, so the pair's topside is likely to be capped.

Mitsuishi	Bear	106.00 – 110.00	The US has considerable room for easing compared to other major countries, so expectations for rate cuts will not drop off that easily, with the dollar/yen pair set to move with a heavy topside as a result. There also remain factors prompting risk aversion, such as rising geopolitical risk and the Brexit issue, so the pair's topside will be capped in August.
Okamoto	Bull	106.00 – 110.00	Further FRB rate cuts seem unlikely considering economic indicators, so US interest rates probably do not have much room to fall. With US/China trade frictions dragging on, the pair will probably lack upward momentum once events are out of the way, so it looks set to rise gently toward the month's end in its capacity as a Goldilocks currency.
Ueno	Bear	106.00 – 109.50	The dollar seems to be holding steady as the euro and pound weaken. The dollar/yen pair is also moving firmly as a secondary effect, but with the global easing environment becoming more apparent, comparative demand for the yen looks set to steadily grow.
Tamai	Bear	106.00 – 109.50	US economic indicators have moved firmly recently, but with the markets focusing on FRB rate cuts, the dollar/yen pair looks set to continue moving with a heavy topside. If US/China trade talks drag on with no signs of progress, this could impact the US economy.
Harada	Bear	106.00 – 109.50	With the markets factoring in several more rate hikes going forward, US interest rates will probably trend lower. With JGB yield movements capped, Japanese/U.S. interest-rate differentials will probably shrink. The movements of the dollar/yen pair are growing more correlated with interest rates than stock prices, so the pair also looks set to move bearishly.
Moriya	Bear	106.50 – 109.50	Central banks across the world are cutting rates and shifting into dovish mode. However, the Bank of Japan has been pursuing a 'different dimension of monetary easing' for a while now, so it does not seem to have much room for further easing. With the FRB also expected to implement further rate cuts, the dollar/yen pair looks set to weaken this month.
Okuma	Bull	107.00 – 110.00	Though the FRB has switched to a dovish stance, the US does not seem to be entering recession and stocks are renewing highs, so the economy seems firm. Though unlikely to made any sudden progress, US/China trade talks are still ongoing and this is also likely to support the firmness of the dollar/yen pair.

Kazuaki Yamamoto, Forex Sales, Derivatives & Forex Department

Euro – August 2019

Expected Ranges **Against the US$: US$1.0880–1.1330**
Against the yen: JPY118.00–123.00

1. Review of the Previous Month

The euro fell against the dollar and yen last month. The euro/dollar pair temporarily hit a monthly high of $1.1371 soon after trading opened in the first week. The US and China had agreed to re-open trade talks during a heads-of-state meeting the previous weekend, with the US holding off from hitting China with a fourth round of punitive tariffs. The dollar was subsequently bought back across the board, with the pair tumbling to the upper-$1.12 level. After hitting a monthly high of 123.34 yen, the euro/dollar pair was also pulled lower by the euro/dollar pair. News then emerged that the dovish IMF managing director Christine Lagarde would be the next ECB governor. With the benchmark yield on 10-year German government bonds also falling to a historical low, the euro moved heavily. The greenback was also bought across the board on July 5 on the released of some bullish US employment data for June, so the euro/dollar pair fell to $1.1208 for a time. The euro/yen pair also weakened to the mid-121 yen mark.

The dollar underwent a comprehensive slide in the second week and the euro/dollar pair rallied after FRB chair Jerome Powell made some dovish comments in his testimony to Congress on July 10. The pair then hit a weekly high of $1.1285 on July 11, though the dollar was then bought on the bullish results of the US June CPI data, so the pair dropped back below $1.1250. The greenback was then sold on dovish comments by an FOMC official, with the pair rallying to the $1.1270 range. With the euro/dollar pair moving without a sense of direction in the $1.12 range, the euro/yen pair fluctuated in a range from the mid-121 yen mark to the lower-122 yen level.

The euro was sold on July 16 in the third week when the German ZEW Indicator of Economic Sentiment for July fell below expectations. With the US retail sales data for June also moving firmly, the euro/dollar pair tumbled to $1.1212. On July 18, FRB vice chair Richard Clarida said the argument for monetary easing had grown stronger. The dollar was subsequently sold, with the euro/dollar pair soaring to $1.1280. With the ECB Governing Council meeting looming the following week, though, the pair saw some selling to lock in profits, so it returned to the lower-$1.12 range, its level from before its sharp climb. With the dollar sold sharply from the middle of the week, the euro/yen pair also weakened to the upper-120 yen mark.

In the fourth week, the dollar was bought back on July 23, with the dollar/yen pair dropping down to the mid-$1.11 mark as stop losses were activated at $1.12. The pair then fell to the lower-$1.11 level on July 24 on the weak result of the eurozone Markit Manufacturing PMI for July. The euro/dollar pair

moved skittishly on July 25. It temporarily fell to a monthly low of $1.1101 after the ECB Governing Council's statement said policy rates would be kept at or below current levels, though it soared back to $1.1188 after ECB president Mario Draghi said the risk of recession remained low. The euro/yen pair fell to a monthly low of 120.06 yen directly after the ECB Governing Council meeting, though it soared back to 121.38 yen for a time thereafter as short covering intensified in the wake of ECB president Mario Draghi's press conference.

The following week saw position adjustments in the run up to the weekend's FOMC meeting. The euro/dollar pair edged up from the lower-$1.11 mark to the mid-$1.11 level, while the euro/yen pair moving without a sense of direction around 121 yen.

2. Outlook for This Month

The euro is expected to trade with a heavy topside in August.

The ECB Governing Council kept its main refinancing operations (MRO) rate (a key policy rate) at 0.00% when it met last month. It also kept the marginal lending rate (the market ceiling rate) at 0.25% and the deposit facility rate (the market floor rate) at -0.40%. However, it clearly downgraded its forward guidance too. ECB president Mario Draghi did not make any particularly newsworthy comments in his subsequent press conference. This led to some steady 'sell-the-fact' short covering, so in one sense, the meeting led to some atypical erratic trading. Paradoxically, this lack of any noteworthy comments will probably mean that market participants will remain prone to speculation about the next easing move. The policy options on the table include 'a strengthening of forward guidance,' 'deeper negative interest rates,' 'the introduction of a tiered current-account system' and 'recommencing the expanded asset purchasing program (APP).' The euro will be prone to selling on speculation about which of these measures will be introduced. Furthermore, the eurozone has released a number of worse-than-expected major economic indicators these past few months. Amid deep-rooted concerns about a eurozone economic slowdown, investors will find it hard to actively buy the euro. Under these circumstances, the dollar is unlikely to face as much downward pressure as before. In comparison to the eurozone, the US economy is moving firmly, particularly when it comes to employment. Hope are also on the rise after the US and China agreed to re-open talks when they met at the G20 Summit in June. Meanwhile, excessive bond-market expectations for US rate cuts are also easing off. It seems certain that the FRB will introduce a pre-emptive rate cut, so bond markets will probably see some 'sell the fact' movements, just like they did after the last ECB Governing Council meeting. As US treasury yields rise, the euro will probably be sold as the dollar is bought back. Concerns about a Hard Brexit have also risen since Boris Johnson also become prime minister in the UK. As a result, the euro could also be dragged lower by a bearish pound, 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 euro	2 bulls	1.1000 – 1.1350	Bearish on the euro	14 bears	1.0925 – 1.1250

* Ranges are central values

Tanaka	Bear	1.1000 – 1.1300	There are several euro-selling factors, including the divergent economic performance of the US and Europe, concerns of a No-deal Brexit, and the political situation in Spain, so the euro/dollar pair is likely to continue moving bearishly. However, President Trump is not likely to simply acquiesce to a weaker euro, so the pair's room on the downside will be capped.
Tasaka	Bear	1.0900 – 1.1250	With the ECB actively adopting an easing stance, several factors will boost expectations for ECB easing, including the sluggish eurozone economy and political risk in the periphery nations. As such, the euro/dollar pair will probably drop below $1.11 for the first time in two years.
Oba	Bear	1.0950 – 1.1250	At the July ECB Governing Council meeting, ECB president Mario Draghi indicated he was prepared to implement a comprehensive stimulus package in September. If economic activity shows no signs of improvement over the next two months, there will be enough grounds to justify an easing of monetary policy at the next Governing Council meeting, with the euro/dollar pair set to move with a heavy topside as a result.
Takamura	Bear	1.0950 – 1.1200	Eurozone economic indicators are moving weakly, with ECB president Mario Draghi strengthening his dovish stance. The dollar is also unlikely to see any fully-fledged selling, so the euro/dollar pair looks set to continue trading with a heavy topside on the whole.
Tanishiki	Bear	1.1000 – 1.1300	The ECB has adopted a clear easing stance, though it has less room for easing compared to the US, a fact that will support the euro/dollar pair. However, a number of concerns continue to smolder away, including a eurozone economic slowdown, political uncertainty, and a No-deal Brexit. As such, investors will find it hard to actively buy the euro.
(Mio) Otani	Bear	1.0900 – 1.1200	There remain deep-rooted concerns about the direction of the European economy, while the ECB has also dropped hints about monetary easing, so the euro will probably remain bearish this month. The euro will also be pushed down by growing concerns about a No-deal Brexit.
Takeuchi	Bear	1.0900 – 1.1300	With the eurozone economy clearly slowing, the markets will probably factor in further rate cuts. Given the political uncertainty and latent debt issues in southern Europe, it seems there is a shortage of buying factors. However, the euro/dollar pair's fall could ease if the dollar is sold across the board.
Kato	Bear	1.0900 – 1.1300	With the ECB hinting at further easing, the FRB will probably be pressed into action. This will lead to euro selling, with the single currency also set to be pulled lower if the pound continues to face selling pressure, as seems likely.
Seki	Bear	1.0900 – 1.1300	German PMIs and the IFO indicator are moving bearishly and there are concerns about the direction of the eurozone economy. Excessive expectations for US rate cuts will ease off after the July FOMC meeting, with the dollar likely to be bought back. However, the Bank of Japan has even less room for easing than the ECB, so there will be considerable uncertainty when it comes to the euro/yen pair's downside.
Mitsuishi	Bull	1.1000 – 1.1400	The euro will be a hard currency to buy given eurozone economic and political conditions together with the ECB's dovish shift. However, the US has comparatively more room for easing and there are deep-rooted expectations for US rate cuts, so the euro/dollar pair will be supported

			by a bearish dollar.
Okamoto	Bear	1.1000 – 1.1300	ECB president Mario Draghi's comments at the July ECB Governing Council meeting echoed his comments at Sintra in June. With political risk smoldering away in Italy and so on, the euro will be a hard currency to buy, so there were probably be some toing and froing given the FRB's dovish stance. However, further easing is probably needed more in the eurozone, so the euro/dollar pair is likely to be sold.
Ueno	Bear	1.0950 – 1.1250	The ECB has clearly adopted an accommodative stance given the state of negative interest rates. With the Brexit issue and political uncertainty also smoldering away, investors will not be inclined to actively hold onto euros. The euro/dollar pair is likely to continue moving bearishly.
Tamai	Bull	1.1000 – 1.1300	The ECB will probably cut rates when it meets in September, but with the FRB also adopting a dovish stance, the euro/dollar pair is expected to move firmly. Concerns are growing about a No-deal Brexit, though, while eurozone indicators remain bearish, so the pair's topside will be capped.
Harada	Bear	1.0900 – 1.1200	The ECB Governing Council added a rate-cut bias to its forward guidance when it met in July, with the Council also instructing the Eurosystem Committee to discuss policy options. For now, the euro/dollar pair's movements will probably be shaped by speculation about the introduction of further easing in September.
Moriya	Bear	1.0900 – 1.1200	Expectations for further easing at the September ECB Governing Council meeting have risen on the results of the July meeting. The FRB has also entered the rate-cut stage, but there is uncertainty about when it will lower rates, so the euro will probably face the most selling pressure.
Okuma	Bear	1.0950 – 1.1250	In contrast to the FRB's preemptive rate cuts, the ECB is being forced to cut rates in order to deal with an economic slowdown in Europe. In addition to this divergence in European/US monetary policy, the euro/dollar pair will also move bearishly on growing concerns about a No-deal Brexit.

Fumihiko Kanda, Europe Treasury Department

British Pound – August 2019

Expected Ranges	Against the US$:	US$1.2000–1.2500
	Against the yen:	JPY129.50–135.00

1. Review of the Previous Month

The pound kept falling last month on concerns about a No-deal Brexit.

The pound/dollar pair kicked off July trading at a monthly high of $1.2708 on July 1, though it was then sold when the June Manufacturing PMI hit its lowest level in six years. It fell below $1.26 on July 2 after BOE governor Mark Carney said trade tensions had increased the downside risks to the economy. Sterling was sold on July 5 after former foreign minister Boris Johnson said he would accelerate preparation for a No-deal Brexit. The dollar was bought in the afternoon on the better-than-expected results of the US nonfarm payrolls data for June, with the currency pair subsequently falling below $1.25. On July 9, the dollar was bought and the pair temporarily fell close to a yearly low in advance of FRB chair Jerome Powell's testimony to Congress the following day. The UK opposition Labour Party then called on the next prime minister to hold another referendum on Brexit, a referendum in which Labour would support Remain, though the impact on the currency pair was muted. A televised debate between foreign secretary Jeremy Hunt and Mr. Johnson was held that evening, but Mr. Hunt failed to chip away at his rival's lead. On July 10, the House of Commons approved a motion preventing the government from suspending parliament around the end of October. This would make it harder for the new government to force through a No-deal Brexit by proroguing parliament, so the pound was bought back slightly. The dollar was sold and the pair rallied to the $1.25 range in the afternoon after FRB chair Jerome Powell hinted at rate cuts in his testimony to Congress. The greenback remained bearish until the weekend, with the pair bought back to the upper-$1.25 mark. In a debate on July 15, both candidates to be the next prime minister said they could not accept the backstop plan for the Irish border, as agreed by prime minister Theresa May and the EU. As a result, the pound was sold on July 16 on concerns about a No-deal Brexit. On July 18, sterling was bought on a reported comment by the EU's chief Brexit negotiator Michel Barnier that he was prepared to formulate an alternative plan for the Irish border (though this was inconsistent with later comments by Mr. Barnier, so its veracity is unclear). The dollar was then sold and the pair rallied to the $1.25 range after two FRB governors dropped hints about a 0.50% rate cut. Sterling then edged lower. The pair jostled up and down slightly when Boris Johnson was confirmed as the next UK prime minister on July 23 before finally hitting the mid-$1.24 level. Pound buy-backs continued on July 24 in the run up to Mr. Johnson's formal assumption of office, with the pair trading around $1.25. Mr. Johnson then made his first statement as PM to the House of

Commons on July 25. This led to rising concerns about a No-deal Brexit. Amid a lack of any noteworthy factors at the weekend, the pound/dollar pair was sold to the $1.23 range. Sterling was sold on July 29 on the weekend news that the Johnson administration's actions were premised on a No-deal Brexit. The pair renewed a yearly low and then tumbled to a monthly low of $1.2120 on July 30.

2. Outlook for This Month

Brexit trends will remain the main focus this month. The pound/dollar pair looks set to continue sliding on the whole.

The UK parliament will be on summer vacation until September 3, so there is unlikely to be any major movements within the UK. However, there could be some behind-the-scenes negotiations with the EU or some moves toward a vote of no-confidence in the cabinet. The new European Commission president Ursula von der Leyen and German chancellor Angela Merkel have both said they would consider extending the Brexit deadline, with the EU adopting a positive stance to the possibility of an extension. Also of note is a comment by the UK's de facto deputy prime minister David Lidington on July 18 that the EU had offered to put Brexit on ice for five years. If this did come to pass, it would benefit the EU given that it would continue to receive contributions from the UK during this time, so it seems natural that some on the EU side would be thinking this way.

However, this would be nothing more than an uncertain postponement, with the Brexit issue likely to continue eating away at the UK economy. For example, the UK Statistics Authority announced on July 17 that house prices in London had fallen by 4.4% year-on-year in May, the steepest fall in around ten years. This reveals that investors are steering clear of London, with the capital's status as a global financial center slipping. People will be looking to the new PM Boris Johnson to break out of this bind, but it is not realistic to expect him to hammer out a deal with the EU and achieve a breakthrough in the UK parliament before the end of October. The EU has stubbornly refused to renegotiate the Brexit agreement (including the backstop plan for the Irish border). In return, Mr. Johnson has said he will refuse to pay the GBP39 billion settlement payment to the EU until Mrs. May's proposal is scrapped and a new alternative hammered out. However, the UK's new cabinet is filled with Hard Brexiteers and is being positioned as a 'war cabinet,' so it seems the UK government is planning for a No-deal Brexit. This will naturally be met with parliamentary opposition and we could end up with a vote of no-confidence in the cabinet, but with parliament in recess, there will probably not be any sudden developments in August, with these issues set to come into play from September onwards. Several moderates from the previous cabinet could also revolt, so a vote of no-confidence could indeed come to pass. Under this scenario, the pound could be bought on expectations for a general election or a new referendum. Incidentally, British bookmakers put the odds of a general election in 2019 at around 58%.

The Bank of England's Monetary Policy Committee (MPC) will be meeting on August 1 and is expected to maintain the status quo. BOE governor Mark Carney and others had previously struck a bullish tone, but with other central banks adopting more dovish stances, they have also softened their

tone, so with the risk of a No-deal Brexit rising, attention will focus on comments by the governor and so on.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – August 2019

Expected Ranges	Against the US$:	US$0.6750–0.7050
	Against the yen:	JPY73.50–76.50

1. Review of the Previous Month

In July, the AUD/USD pair jostled up and down around $0.70.

The end-of-June G20 had yielded positive results, so the Australian dollar soared and it began July trading at the lower-$0.70 mark against the greenback and the upper-75 yen mark against the yen. The AUS/USD pair dropped back to the mid-$0.69 level on July 1 as stocks stopped rising and China released some bearish indicators. On July 2, the RBA implemented a 25bp rate cut. The new wording in its accompanying statement was adjudged to be hawkish, so the Australian dollar was bought and the currency pair climbed to the upper-$0.69 level. The US released several worse-than-expected indicators on July 3, including the ADP employment data. As US interest rates fell, the greenback weakened against other currencies, with the AUD/USD pair also rising to the lower-$0.70 range. The US then released some better-than-expected employment data for June on July 5, so the greenback was bought and the pair tumbled to the upper-$0.69 mark. With FRB chair Jerome Powell set to testify before the US Congress on July 10, the US dollar was bought back on July 9, with the pair sliding to the lower-$0.69 level.

Australia's July Survey of Consumer Sentiment was released on July 10. It fell to its lowest level in around two years, so the currency pair was temporarily sold to $0.6911, its lowest point since June. FRB chair Jerome Powell then hinted at easing in his testimony to Congress, so the pair bounced back to the mid-$0.69 level. With US stock markets renewing highs on successive days, the pair was also supported when China released some slightly-bullish 2Q GDP data on July 15, so it rose to the mid-$0.70 level. On July 16, the markets focused on the strong results of the US retail sales data for June. As US interest rates climbed, the greenback was bought and the currency pair dropped to the lower-$0.70 level. The US dollar was sold sharply on July 18 after the NY FRB president hinted at rate cuts during a speech, with the pair climbing to the upper-$0.70 range. On July 19, the NY FRB made an announcement that seemed designed to pour cold water on the market expectations that had arisen in the wake of the previous day's speech. The greenback was bought back as a result, with the pair dropping to the mid-$0.70 level.

News emerged on July 23 that the US and China were preparing to restart trade talks. Concerns about a Hard Brexit also flared when Boris Johnson won the race to be the next UK prime minister. As such, the US dollar was bought and the pair fell to the $0.7000 area. Australia released a worse-than-expected

July PMI on July 24. A major Australian bank than said it expected the RBA to accelerate rate cuts. All this saw the pair sold to the upper-$0.69 mark. In a speech on July 25, RBA governor Philip Lowe once again struck a dovish tone when he said it was appropriate to expect interest rates to remain low for a prolonged period, with the governor adding that further easing would be implemented as necessary. As Australian interest rates fell, the pair weakened to the mid-$0.69 mark. The Australian Q2 CPI data was released on July 31. The q-o-q and y-o-y results were better than expected, so the Australian dollar was bought. The FOMC then implemented a 25bp rate cut, as expected, but FRB chair Jerome Powell's accompanying statement was hawkish, so the greenback was bought and the pair temporarily dipped to a June low of $0.6832 before closing the month trading around $0.6840.

2. Outlook for This Month

The AUS/USD pair is expected to move with a heavy topside in August.

At the start of July, the Australian parliament approved a coalition plan to cut income tax by a total of AUD 158 billion. The first stage of this plan will probably be an instant tax cut of up to AUD 1,080 for earners with annual salaries of between AUD 48,000–90,000. The federal government is also expected to launch a UAD 100 billion infrastructure plan as part of a series of fiscal policies aimed at boosting the economy.

As for monetary policy, the RBA board cut interest rates for the second straight month in July, with the cash rate now standing at 1.00%. The phrase about how the RBA would "adjust monetary policy to support sustainable growth in the economy and the achievement of the inflation target" was retained from the previous statement, though the phrase newly contained the wording " if needed," a change read by the markets as hawkish. With RBA governor Philip Lowe also saying the RBA would be monitoring the impact of this spate of rate cuts, expectations for another rate cut eased off at the start of last month. Mr. Lowe then struck a dovish tone late July when he said it would appropriate to expect interest rates to remain low for a prolonged period while adding that further easing would be implemented as necessary. Expectations for rate cuts subsequently flared up again, with the markets now pricing in around two rate cuts for the year ahead.

Yields on Australian government bonds dipped further at the end of July on these rising expectations for further rate cuts, with yields on all maturities renewing historical lows. However, Australian stock markets have hit record highs on anticipation for prolonged low interest rates and the buoyant impact of tax cuts. In July, expectations for a 50bp US rate cut swept the forex markets, though the greenback then strengthened toward the month's end as these expectations wore off. The Australian dollar was also sold sharply toward late July in the wake of dovish comments by RBA governor Philip Lowe. Speculation about US rate cuts then receded at the end of the month following hawkish comments by FRB chair Jerome Powell at the FOMC meeting. All this saw the AUS/USD pair dropping to lows at the month's end. The pair is probably facing some short-term downward pressure on position unwinding as expectations for US rate cuts wane. Once the FOMC meeting is over, attention will shift to next week's

RBA board meeting. However, it is hard to imagine the RBA rushing to cut rates again given the FOMC's hawkish stance and the signs of an upswing when it comes to the Australian CPI data and Chinese indicators. The pair will probably be swayed by speculation about US and Australian rate cuts for the time being.

Reiko Kanemoto, Canada Office, Global Markets Coordination Department

Canadian Dollar – August 2019

Expected Ranges	Against the US$:	C$1.3000–1.3400
	Against the yen:	JPY80.00–85.00

1. Review of the Previous Month

The USD/CAD pair opened July trading at C$1.3093. On the whole it moved in a narrow range between C$1.3050–1.3150. It hit a monthly high of C$1.3215 on July 31 and a monthly low of C$1.3016 on July 19.

The Canadian dollar was bought on July 3 when Canada's trade balance for May significantly outperformed expectations. Exports expanded for the third straight month, up +4.6% m-o-m and $53.1 billion. At $762 million, Canada's trade balance was also in the black for the first time since December 2016.

Canada's June employment data was released on July 5, with net employment unexpectedly falling by 2,200 people. On the other hand, the June US employment data saw a larger-than-expected increase in the number of jobs in the nonfarm and private sectors, with the previous month's average hourly wages data also revised upwards. The Canadian dollar plummeted as a result, with the currency pair temporarily hitting C$1.3137.

The draft of FRB chair Jerome Powell's testimony to Congress was released at 8:30 am on July 10. Mr. Powell hinted at rate cuts at the end-of-July FOMC meeting, so the greenback fell against other major currencies and the USD/CAD pair also dropped to C$1.3070 for a time. At 10:00 am, the Bank of Canada (BOC) announced policy rates had been kept at 1.75%, as expected. The accompanying statement emphasized risks related to a global economic slowdown and the impact of trade frictions (particularly between the US and China) on the global and Canadian economies. Though the statement avoided mention of interest rate policy, it was still read as being more dovish than expected, so the Canadian dollar weakened and the pair hit C$1.3142. The minutes to the June FOMC meeting were released that afternoon, though, and they revealed how a number of members had called for an early rate cut. This led to rising expectations for a 25bp rate cut at the end-of-July meeting, with some observers even expecting a 50bp cut. The US dollar was subsequently sold again, with the pair closing the day trading at C$1.3081.

The Canadian May retail sales data was released on July 19. It was down -0.1% on the previous month, with the data excluding car sales also down -0.3%. Both these figures were worse than expected, so the Canadian dollar fell sharply directly after the result. The Canadian May wholesale sales data was released on July 22 and this also dipped by -1.8% m-o-m, down sharply on market expectations for a

rise of +0.5% m-o-m. As a result, the Canadian dollar trended downward from July 22, with the currency pair trading around C$1.3150 as of July 29. Yields on 2-year Canadian government bonds also fell below 1.50%, with the spread with US 2-year treasuries increasing compared to the first half of July.

2. Outlook for This Month

The Bank of Canada (BOC) kept policy rates fixed at 1.75% when it met on July 10, with the BOC keeping rates fixed for six straight meetings, dating back to October 2018. Canada's 2Q growth rate forecast was upgraded from 1.3% to 2.3% on buoyant exports of crude oil, with the impact of the bad weather in Q1 also easing off. Furthermore, the Canadian GDP forecast for 2019 was upgraded from +0.1% as of April to +1.3%, though the projection for 2020 was downgraded from +2.1% to +1.9%.

Canada's economic indicators (exports and manufacturing sales, etc.) moved comparatively strongly up until mid-July, though the retail sales data and wholesale sales data then dipped below expectations, with the Canadian dollar weakening late July. In August, attention will be focused on economic indicators in the run up to September's BOC policy meeting. If Canada continues to release worse-than-expected data, the Canadian dollar will be sold and this will probably impact the next policy rate decision.

Furthermore, the BOC also pinpointed trade frictions as a major risk, so attention will also remain focused on US/China relations. The Canadian export data has moved bullishly in recent times, so the Canadian economy would be hit hard by trade frictions or a global economic slowdown. If Canada releases some positive economic data, the Canadian dollar will be bought for a time, but in general the USD/CAD pair is expected to continue trading around $1.31. In contrast, if Canada continues to release negative economic data, the pair could hit the lower-C$1.33 mark.

At 2:00 pm on July 31, the FRB announced a 25bp rate cut. This was expected, but this move is likely to promote further easing moves across the globe. The accompanying statement said the FRB was expecting stable growth when it came the economy, employment and inflation, but there remain doubts about this prognosis. The statement also said the FRB would monitor the economic data and steer policy appropriately to ensure sustainable growth. In also hinted that the FRB could cut rates again if needed. The USD/CAD pair temporarily rose to C$1.3215 after the announcement before trading around C$1.32 thereafter. The US dollar could be sold in August is some comments emerge that point to further rate cuts, with the currency pair potentially dropping below C$1.31.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – August 2019

Expected Ranges	Against the US$:	KRW1,160–1,210
	Against the yen:	JPY8.929–9.434 (KRW100)
		(KRW10.600–11.200)

1. Review of the Previous Month

The USD/KRW pair rose in July.

After opening the month at KRW1150.50, the pair then hit a monthly low of KRW1148.90 on the same day. A US/China heads-of-state meeting and a US/North Korea heads-of-state meeting were held over June 29–30. These were seen as fairly productive, so risk sentiments improved thereafter. However, Japan then announced that it was tightening restrictions on exports of semiconductor materials to South Korea. As sentiments and stock prices moves bearishly, the won faced selling pressure. With the US also releasing some bullish employment data for May, the currency pair rose to the KRW1180 range toward the week beginning July 8.

Attention was focused on FRB chair Jerome Powell's testimony to Congress on July 10, though the dovish tone of his speech failed to rein in slightly excessive expectations for rate cuts, so the greenback was sold as yields on US treasuries dipped, with the USD/KRW pair dipping to KRW1170.30, though it received strong support around the KRW1170 level.

Attention turned to the Bank of Korea (BOK) meeting on July 18, with the BOK eventually deciding to implement a 25bp rate cut. It seemed the BOK had not managed to form a consensus, with the currency pair subsequently rising to KRW1184.50 for a time. However, the won was then bought when BOK governor Lee Ju-yeol failed to drop any clear hints about further rate hikes at his press conference. The greenback was sold for a time when FRB vice chair Richard Clarida and NY FRB president John C. Williams made some slightly dovish comments about US rate hikes, though the pair was supported at the KRW1170 level in the end.

A major South Korean IT company released some lackluster business results on July 25. During overseas trading time on the same day, meanwhile, the results of the ECB Governing Council meeting were released, with these turning out to be more dovish than expected. As a result, the USD/KRW pair faced upwards pressure and it hit a monthly high of KRW1186.20 on July 26. The markets then moved with a lack of incentives in the run up to the end-of-July FOMC meeting, with the pair closing the month trading at KRW1183.10.

2. Outlook for This Month

The USD/KRW pair is expected to move firmly in August.

With several central banks implementing rate cuts, investors will need to monitor the markets while paying attention to global fundamentals, central bank movements, and risk factors such as US/China trade frictions and US/Iran tensions, for example.

Under these circumstances, the FOMC implemented a 25bp rate cut when it met at the end of July while also deciding to halt its B/S reduction program from August 1 (as opposed to the end of September, as originally planned). In his closely-watched testimony to Congress, FRB chair Jerome Powell said the US had not entered a long-term rate-cut cycle, though he also said he could not rule out another rate cut, with a couple of things requiring monitoring from here on. It seems Mr. Powell is calling for the FRB to take a flexible approach while monitoring economic indicators and the direction/impact of US/China trade frictions. Long-term interest rates have fallen in the wake of the decision to accelerate the ending of the B/S reduction program, but the situation in the US and the rest of the world is not yet bad enough to cause an inversion of 10-year and 2-year treasury yields, so the dollar could be supported if US treasury yields rise from here on.

The BOK actually implemented a 25bp rate cut on July 18, before the FOMC meeting. However, the South Korean economy could face headwinds due to conditions in the semiconductor market as well as the decision by Japan to tighten restrictions on exports of semiconductor materials to South Korea. South Korea will also be holding parliamentary elections in April next year, so expectations could grow for further rate hikes.

Furthermore, it is quite difficult to see any end to tensions between the US/China and the US/Iran, so risk sentiments are unlikely to improve significantly.

Of course, there remain a lot of uncertainties and there could be a sudden swing in sentiments, for example. As such, the currency pair might jostle up and down, so caution will be needed. In light of the above, though, it seems the pair will continue trading at highs on the whole.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – August 2019

Expected Ranges	**Against the US$:**	**NT$30.90–31.30**
	Against the yen:	**JPY3.40–3.55**

1. Review of the Previous Month

In July, the USD/TWD pair's movements were marked by some dollar bullishness and Taiwan-dollar bearishness.

It opened the month trading at TWD31.010 on July 1. At a heads-of-state meeting held at the end of June, the US and China had agreed to re-open trade talks, with the US holding off from hitting China with new tariff hikes while allowing US firms to sell goods to Huawei Technologies. As a result, stocks rose and the currency pair fell below TWD31. Stocks stopped climbing after a round of buying, though, with more foreign funds flowing out of Taiwan, so the pair bounced back to the TWD31.1 range toward July 3.

The US employment data for June was released during overseas trading time at the previous weekend, with nonfarm payrolls climbing by +224,000 m-o-m, up on expectations for a rise of +160,000 m-o-m. On July 8, this result led to a slight decline in expectations for a rate cut at the July FOMC meeting. The greenback was bought, with the USD/TWD pair climbing to TWD31.205 toward July 9. FRB chair Jerome Powell then testified before the US Congress on July 10 and he seemed to hint at a rate cut of the July FOMC meeting. As US interest rates fell sharply, the greenback was sold and the Taiwan dollar bought, with the pair tumbling to TWD31 for a time.

The US dollar remained bearish entering the latter half of the month following dovish comments by Chicago FRB president Charles Evans and Richmond FRB president Tom Barkin, so the greenback was sold and the Taiwan dollar bought. As stocks moved weakly, the pair rallied to TWD31.127 for a time on July 18, though US-dollar selling was short-lived. The South Korean won then hit highs after the Bank of Korea implemented a rate cut, so the USD/TWD pair's topside was held down, with the pair then moving without a sense of direction.

Amid a dearth of noteworthy factors, the pair moved with a lack of incentives in a narrow range around TWD31.1 in advance of the ECB Governing Council meeting and the end of month FOMC meeting. When the ECB Governing Council met on July 25, it revised its forward guidance to hint at rate cuts, but this was broadly as expected, so the impact was minimal and the currency pair continued trading in a range.

2. Outlook for This Month

The USD/TWD pair is expected to trade in a range round TWD31.1 in August.

A glance at the economic indicators released in July shows the June export amount rising by +0.5% y-o-y to record the first positive growth in eight months, dating back to October 2018. Exports to China and Hong Kong (which account for around 40% of all Taiwan's exports) remained sluggish, falling by -3.8% y-o-y on US/China trade frictions. However, exports of IT and telecommunication products to the US rose by +18.5% and this pulled the overall figure higher. The overall CPI data for May was up +0.86% y-o-y and the core CPI data (excluding volatile fresh food prices) up +0.49% y-o-y, with both figures slowing slightly on the previous month. At $467 billion, Taiwan's foreign currency reserves renewed a record high in June. The Taiwan dollar rose in June in sharp contrast to the substantial slide seen in May. This suggests Taiwan's foreign currency reserves may have been boosted by an intervention by the Central Bank of the Republic of China (Taiwan).

Attention will remain focused on US monetary policy in August. The FOMC cut rates in July and there are growing expectations that the target range for the federal funds rate (the US policy rate) will be lowered further, so the US dollar looks set to continue trading with a heavy topside. Taiwanese stock markets are also moving firmly at present. This could lead to a further influx of foreign funds into Taiwan, a trend that would support US-dollar selling and Taiwan-dollar buying.

However, the ECB Governing Council hinted at a recommencement of easing when it met in July. Fears of a No-deal Brexit also rose when the hardline Brexiteer Boris Johnson became the new UK prime minister. As such, the greenback will probably strengthen against the euro and this is likely to support the USD/TWD pair.

As such, the pair will be swayed by factors promoting both US-dollar bullishness and US-dollar bearishness. The pair has remained deadlocked in a narrow range since late June. It looks set to continue trading in a range with no sense of direction in August.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – August 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 July

In July, the U.S. dollar/Hong Kong dollar exchange rate rallied from HKD 7.7827—the lowest in 26 months—to HKD 7.8293, after which the rate stabilized at the HKD 7.81 level. The Hong Kong dollar spot exchange rate fluctuated, mainly following the interest rate differentials between the Hong Kong dollar and the U.S. dollar. The U.S. dollar interest rates rallied a little, as expectation for the interest rate cut by the Federal Open Market Committee (FOMC) anticipated at the end of July weakened slightly from 50 basis points—the original estimate. On the other hand, the Hong Kong dollar interest rates fell, as a large-scale IPO scheduled in the Hong Kong stock exchange had been cancelled. However, there was no significant capital outflow from the Hong Kong market despite growing social uncertainty exemplified by the continued large-scale protests. It should also be mentioned that the one-year Hong Kong dollar forward point remained generally stable at around –100 points, while short-term forward points saw positive figures past several days. In addition, the media reported that current Deputy Governor of the HKMA Eddie Yue would take the post of governor after Norman Chan, from October. However, as media participants expected that the existing monetary policy would be maintained, there was little impact on the Hong Kong dollar exchange market.

Hong Kong dollar interest rate market in July

In July, market participants expected the liquidity level to be low before a large-scale IPO, which led the one-month HIBOR to reach 2.994% for the first time after the financial crisis in 2008. Thereafter, the above-mentioned IPO was cancelled and the HIBOR fell to approach 2.00%, recording violent fluctuations. Similarly, the three-month HIBOR reached 2.656%—the highest level in approximately 10 years. However, the three-month HIBOR also saw significant fluctuations and is sitting at around 2.30% at the time of this writing. The interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR narrowed from +63 basis points to –30 basis points for the one-month rates, and from +34 basis points to 0 basis points for the three-month rates in the middle of July. In terms of medium- to long-term interest rates, the three-year and five-year fixed rates remained generally stable, at around 1.80%,

with a large gap from the three-month HIBOR, which remains high as a result of the fact that the checkable deposit balance of the HKMA has been low, at HKD 54.4 billion.

Hong Kong stock market in July

The Hang Seng Index (HSI) rallied to the 29,000 level, thanks to global expectations for monetary easing as well as the mitigation of the trade frictions between the U.S. and China as seen at the G20 Summit Meeting held at the end of June. However, social uncertainty grew due to persistent large-scale protests, worsening risk sentiment in the market. As a consequence, there was a decline in the retail sales sector and the real estate sector, and this all kept stock prices from rising further.

2. Outlook for This Month

Hong Kong dollar spot exchange market in August

In August, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.78 and HKD 7.84. Given the probable interest rate cut by the Federal Reserve Board (FRB) and the current situation in commercial banks in Hong Kong, the interest rate differentials between the Hong Kong dollar and the U.S. dollar are likely to continue supporting the Hong Kong dollar, remaining an important factor.

However, social uncertainty has been growing, as part of large-scale protests that eventually turned into rioting. Under such circumstances, there are concerns for pressure for capital outflow from Hong Kong to strengthen in the times ahead. While long-term forward points are rising, there are risks for the spot exchange rate to fall along with capital outflow, for which market participants should remain attentive. Furthermore, given the fact that the economic growth outlook in Hong Kong has been worsening due to the tensions between the U.S. and China, as well as growing social uncertainty, market participants may refrain from accumulating too many assets denominated in Hong Kong dollars.

Hong Kong dollar interest rate market in August

In August, the Hong Kong dollar interest rates are forecast to remain at the current level, even if the FRB decides to cut the interest rate for the first time in approximately 10 years. The checkable deposit balance of the HKMA has been low, at HKD 54.4 billion, while there are other factors such as IPOs and political uncertainty. Thus, short-term interest rates are likely to continue fluctuating violently. However, there are likely to be less seasonal factors in August. Thus, from a long-term point of view, the Hong Kong dollar interest rates are likely to gradually stabilize under the U.S. dollar peg system and will follow the fall of U.S. dollar interest rates.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – August 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

Foreign exchange market

In July, the U.S. dollar/Chinese yuan exchange rate fluctuated generally at the upper-CNY 6.8 level.

In July, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.80 level. At the end of June, the U.S. and China held a summit meeting, and the U.S. postponed its imposition of a sanctions tariff against China, while also announcing its decision to mitigate the sanctions against Huawei, a major Chinese telecommunications device company. As a result, market participants bought the Chinese yuan at the beginning of the month, leading the Chinese yuan to appreciate against the U.S. dollar. The U.S. dollar/Chinese yuan exchange rate once fell below CNY 6.84. However, market participants started selling the Chinese yuan thereafter as Chinese economic indices turned out to be weak, while Chinese Premier Li Keqiang made remarks about monetary easing. Thus, the U.S. dollar/Chinese yuan exchange rate rallied rapidly to approach the CNY 6.88 level. Thereafter, the market saw little movement, waiting for the announcement of important indices such as the U.S. employment statistics. Once the U.S. employment statistics, which had been gathering significant attention in the market, turned out to be stronger than the market estimate, market participants temporarily bought the U.S. dollar. However, the U.S. dollar/Chinese yuan exchange rate remained flat, at around CNY 6.88, before the Federal Reserve Board (FRB) Chair Jerome Powell's congressional testimony on July 10. At the U.S. congressional testimony, Powell made a remark observing the stability of the economy while admitting that there was room for preemptive measures, which encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell to approach CNY 6.86. However, after a while, the exchange rate rallied to approach CNY 6.87 to the U.S. dollar.

Thereafter, on July 15, the April-June quarter GDP and other important economic indices of China were announced, and the figures turned out to be relatively strong. However, the impact on the Chinese yuan exchange market was limited. The U.S. dollar/Chinese yuan exchange rate continued fluctuating at around CNY 6.88 until the second half of the month.

On July 29, U.S. President Donald Trump made a remark that China might postpone the trade agreement until the presidential election in 2020, while trade negotiations between the U.S. and China were scheduled for the end of the month. As a result, the U.S. dollar/Chinese yuan exchange rate exceeded the latest fluctuation range and reached the middle-CNY 6.89 level. Thereafter, the exchange rate returned to the CNY 6.88 level, with sales for profit-taking.

Interest rate market

During the first half of the month, the capital market was eased further, as there was not as much demand for fund procurement at the end of the first half of the year, while the liquidity level remained high. The overnight SHIBOR was at its lowest level since 2009. Thereafter, there was continued fund absorption through open-market operations, which led the overnight SHIBOR to rise intermittently, demonstrating violent fluctuations in the market. Interest rates for fixed terms remained relatively stable.

The medium-term lending facility (MLF) worth CNY 502 billion that matured on July 23 was rolled over at almost the same value, combining the MLF of CNY 200 billion (one-year rate at 3.30%) and the TMLF of CNY 297.7 billion (one-year rate at 3.15%).

2. Outlook for This Month

Foreign exchange market

A direct meeting between high officials of the U.S. and China was scheduled for the end of July for the first time after the summit dialogue between the U.S. and China at the time of the G20 Summit Meeting held at the end of June. However, it does not seem that any remarkable progress has been made. While the trade frictions persist between the U.S. and China, it is likely for the pressure to sell U.S. dollar to remain in the market with the interest rate cut by the U.S. Furthermore, Chinese economic indices have currently been recovering, thanks to various fiscal and monetary measures, which is likely to support the Chinese yuan. The U.S. dollar/Chinese yuan exchange rate is therefore forecast to remain low in August.

Interest rate market

The liquidity level in the capital market is likely to remain high, as the People's Bank of China (PBOC) is expected to carry out capital supply operations when necessary. In the previous month, there was a virtual interest rate cut, as the MLF was partly switched to the TMLF. While there are concerns for some financial institutions in fund procurement, the PBOC is expected to continue carrying out monetary easing through measures to provide liquidity, as well as switching to the TMLF. Market participants should thus keep an

eye out for actions by the PBOC.

Shinya Maegawa, Asia & Oceania Treasury Department

Singapore Dollar – August 2019

Expected Ranges	Against the US$:	SG$ 1.3550–1.3850
	Against the yen:	JPY 78.50–81.00

1. Review of the Previous Month

In July, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range from the beginning to the middle of the month. At the end of the month, market participants gradually sold the Singapore dollar and bought the U.S. dollar, as less of them were expecting U.S. interest rates to be cut by 50 basis points at the Federal Open Market Committee (FOMC) meeting in July.

In the first week of the month, the U.S. and China agreed to resume the trade negotiations that have been halted since May at the summit dialogue held on June 29. As the U.S. announced its plan to loosen the ban on imports from Huawei, a major Chinese telecommunications device company, the risk sentiment in the market was significantly improved. While market participants were mainly buying back the U.S. dollar, the U.S. dollar/Singapore dollar exchange rate rose from the lower-SGD 1.35 level to the mid-SGD 1.35 level, after which the rate hovered at around this level.

In the second week of the month, expectations diminished for a large-scale interest rate cut by the Federal Reserve Board (FRB), as the June employment statistics of the U.S. released at the end of the previous week on July 5 turned out to be strong. As market participants bought back the U.S. dollar, the Singapore dollar depreciated from July 8 to July 9. On July 10, market participants were waiting for the congressional testimony by FRB Chair Jerome Powell, and he confirmed that he would take necessary actions in order to deal with the impact on economic expansion caused by the trade frictions and a slowdown in the global economy. Many market participants saw this as a sign of preparation or an interest rate cut at the July FOMC meeting, which encouraged them to sell the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to rise to the upper-SGD 1.35 level. Then, on July 12, the second-quarter GDP of Singapore turned out to be significantly below the market estimate, recording its lowest level in 10 years, encouraging market participants to sell the Singapore dollar and leading the U.S. dollar/Singapore dollar exchange rate to approach SGD 1.36.

In the third week of the month, the second-quarter GDP of China was announced on July 15, and the result was almost at the same level as the market estimate. Also, the June industrial production of China and the June retail sales of China turned out to be strong, significantly exceeding the market estimate, which fueled

risk-taking sentiment in the market and strengthened the Singapore dollar. On July 16, the June retail sales of the U.S. turned out to be strong, and this mitigated concerns over a slowdown in the U.S. economy. As a result, market participants bought back the U.S. dollar, weakening the Singapore dollar. On July 17, the June figure for the non-oil domestic exports (NODX) of Singapore was announced with a figure significantly lower than the market estimate. This was a decline for the fourth consecutive month, demonstrating a weakness in exports. In response to this, market participants sold the Singapore dollar. Then, on July 18, Vice Chairman of the FRB Richard Clarida made a dovish remark, which triggered a fall in U.S. interest rates and encouraged market participants to sell the U.S. dollar. As a result, the Singapore dollar temporarily appreciated sharply.

2. Outlook for This Month

In August, the Singapore dollar is forecast to weaken against the U.S. dollar.

Based on the outcome of the FOMC meeting held at the end of June, there has been a slowdown in the fall of U.S. long-term interest rates, which had been falling rapidly. The figures of the U.S. economic indices have recently been robust, limiting the possibility for further interest rate cuts. It is thus probable that the attention of the market will shift from "interest rate cuts in the U.S." to the "trade frictions between the U.S. and China."

In terms of the fundamentals, the preliminary figure for the second-quarter GDP of Singapore was announced in July, and the result was +0.1% year-on-year, significantly falling below the market estimate, which was +1.1%, recording its lowest level in 10 years. There has also been a sharp fall from the result of the first quarter, which was +1.1%, confirming the negative impact of the weakness of the manufacturing industry. The production of electronic devices, which had been leading the Singapore economy for the past two years, recorded a decline for the seventh consecutive month in June. Furthermore, June exports recorded negative growth of 17.3% year-on-year—the largest decline recorded in more than three years. Many expect the Ministry of Trade and Industry of Singapore (MTI) to review the annual GDP outlook downward to +0.5-1.5% year-on-year. In the times ahead, the growth rate is expected to fall, and export are likely to continue weakening for a while, as the U.S. economy is also likely to slow down while the trade frictions between the U.S. and China have been intensifying.

Given the weak preliminary figure for the second-quarter GDP, the Monetary Authority of Singapore (MAS) may carry out monetary easing by revising the monetary policy at the next meeting, scheduled for October. Furthermore, an increasing number of economists expect the width of the policy fluctuation band for the Singapore dollar nominal effective exchange rate (NEER) to be cut from 1.0% to 0.5%. As more market participants expect a slowdown in the policy to lead the Singapore dollar to appreciate, the Singapore dollar is likely to continue weakening for a while.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – August 2019

Expected Ranges	**Against the US$:**	**THB 30.50–31.20**
	Against the yen:	**JPY 3.45–3.55**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rallied slightly.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate rallied just before reaching the THB 30.50 mark. On July 1, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 30.60 level. However, as the U.S. and China had agreed to resume trade negotiations at the summit dialogue between the two countries held at the end of the previous week, risk-taking sentiment strengthened at the beginning of the week. As a result, the U.S. dollar/Thai baht exchange rate temporarily fell to the lower-THB 30.50 level. However, before reaching the THB 30.50 mark, the U.S. dollar/Thai baht exchange rate rallied, returning to the upper-THB 30.60 level, as the U.S. dollar interest rates rose slightly. Thereafter, there were more market participants buying the Thai baht along with capital inflow from overseas investors, while U.S. interest rates continued falling. Thus, the U.S. dollar/Thai baht exchange rate continued falling gradually. Then, on July 5, the June employment statistics of the U.S. were announced, and the number of non-agricultural employees turned out to be significantly above the market estimate, with an increase of 224,000 from the previous month. As a result, less market participants expected an interest rate cut of 50 basis points at the Federal Open Market Committee (FOMC) meeting scheduled in the U.S. for the end of the month. U.S. dollar-buying thus increased rapidly, and the U.S. dollar/Thai baht exchange rate rose sharply to the lower-THB 30.80 level. In the following week, the U.S. dollar/Thai baht exchange rate remained stable at the lower-THB 30.80 level after July 8, as the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark to indicate that he was ready to take action to slow down the appreciation of the Thai baht and avoid risks by adjusting the policy interest rate, fueling expectations in the market for the central bank to take action against the appreciation of the Thai baht, while market participants were waiting for the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell.

In the middle of the month, the U.S. dollar/Thai baht exchange rate rose after the announcement of the central bank about the strengthened regulations in the foreign exchange market. On July 10, FRB Chair Jerome Powell made a remark at the congressional testimony that there would be no change to the FRB outlook even with the strong figures in the employment statistics released in the previous week, which led

the U.S. dollar to depreciate sharply. Following this trend, the U.S. dollar/Thai baht exchange rate fell to reach the upper-THB 3050 level again on July 11. Thereafter, on July 12, the central bank of Thailand announced strengthened regulations in the foreign exchange market (lowering the upper limit of Thai-baht holding in Thailand for non-residents), which led the U.S. dollar/Thai baht exchange rate to rapidly rise to temporarily approach THB 31. In the following week commencing on July 15, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range between THB 30.80 and THB 30.90, as market participants remained conscious of the regulations strengthened by the central bank. Then, on July 18, President of the Federal Reserve Bank of New York John Williams made a dovish remark, leading the U.S. dollar to depreciate sharply. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to the mid-THB 30.70 level toward July 19. However, the Federal Reserve Bank of New York later corrected its statement. Thus, the impact on the market was limited, and the U.S. dollar/Thai baht exchange rate returned to the THB 30.80 level again.

At the end of the month, the U.S. dollar/Thai baht exchange rate remained stable. On July 22, the Ministry of Commerce of Thailand announced the June customs-based trade values, and the export value recorded negative year-on-year growth of 2.15%, while the import value recorded negative year-on-year growth of 9.44%. However, the impact of this significant decline on the market was limited. On the same day, the regulations in the foreign exchange market announced by the central bank of Thailand took effect. However, there was no particular confusion in the market. On the other hand, there has been a net outflow of overseas investor capital, mainly in the bond market, since the announcement of the strengthened regulations on July 12, which is supporting the U.S. dollar/Thai baht exchange rate. Thus, the exchange rate has been remaining stable at around THB 30.80–30.90 to the U.S. dollar.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is likely to fall only to a limited extent, as market participants are aware of the measure taken by the central bank to control the appreciation of the Thai baht.

Since June, the appreciation of the Thai baht has been accelerating with vigorous capital inflow into the Thai bond and stock markets, as market participants expect the FRB to cut interest rates. At the beginning of July, the U.S. dollar/Thai baht exchange rate fell to approach THB 30.50, renewing the lowest level since June 2013. However, the exchange rate rallied just before reaching THB 30.50, an important turning point, and it has now returned to the upper-THB 30 level as a result of the measures taken by the central bank of Thailand to control the appreciation of the Thai baht.

Since the end of June, the central bank of Thailand has been intermittently taking measures to limit speculative capital inflow from foreign investors. One of such measures is to cut the issuance value of short-term bonds, while the other is to strengthen the regulations in the foreign exchange market that were

announced on July 12. The regulations were strengthened in largely two ways: (1) the upper limit of the account balance in the Thai baht (NRBA and NRBS) held by non-residents in Thailand was cut from THB 300 million per person to THB 200 million per person and (2) the requirement will be expanded for non-residents of Thailand to report holdings of debt securities issuances in Thailand as of July 22. This shows the attitude of the central bank of Thailand to rigidly fight against speculative capital inflow. It is unlikely for the central bank to carry out an extreme measure, such as the so-called "30% capital rule" (the obligatory trust of 30% to the central bank at the time of purchase of the Thai baht in another currency) that the central bank took from December 2006 to 2008 to control the appreciation of Thai baht. It is yet extremely probably for the central bank to take secondary and tertiary measures if the Thai baht continues to appreciate despite the action taken this time.

On the other hand, with regard to interest rate cuts, which can be considered to be a means to slow down the appreciation of the Thai baht, the central bank seems to be cautious. At the previous monetary policy meeting held on June 26, the policy interest rate was maintained at the existing level of 1.75% as a unanimous decision. In the minutes of the meeting released on July 10, the central bank expressed concerns over the persistent uncertainty in the monetary system, such as the expansion of the household debt balance, while admitting a slowdown in the Thai economy. Thus, it is not likely for interest rates to be cut in the near future. Various countries, including the FRB, have been cutting interest rates, and therefore it is not certain if an interest rate cut would immediately lead to the depreciation of the Thai baht. Under such circumstances, it seems that the central bank wants to keep the choice to cut interest rates on its plate for later.

It is almost certain that the appreciation of the Thai baht has been accelerating based on capital inflow from foreign investors. However, it is difficult to expect market participants to sell the Thai baht so actively in the times ahead, as there has been a significant amount of current account surplus, while the economy has been steadily growing, albeit slightly more slowly than before, and political conditions have been stable. It should however be added that an increasing number of market participants are expecting the central bank to take action when the appreciation of the Thai baht accelerates, which made it somewhat harder for the U.S. dollar/Thai baht exchange rate to fall further. Therefore, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate within a narrow range at the upper-THB 30 level in August.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2019

Expected Ranges	**Against the US$:**	**MYR 4.0600–4.1450**
	Against the yen:	**JPY 26.00–26.70**
	Against 100 yen:	**MYR 3.7500–3.8500**

1. Review of the Previous Month

In July, the U.S. dollar/Malaysian ringgit exchange rate fell gradually, with remarks by Federal Reserve Board (FRB) officials that fueled expectation for an interest rate cut in the U.S.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate fell from the MYR 4.14 level to MYR 4.12, as a result of the agreement at the summit dialogue held at the end of June between the U.S. and China to resume trade negotiations, as well as the decision by the U.S. to partly mitigate its sanctions against Huawei, a major Chinese telecommunications device company. However, the May trade surplus turned out to be MYR 9.1 billion, with a decline from April. In particular, exports to China recorded negative growth of 2.2% year-on-year, suggesting a decrease in demand that resulted from the trade frictions between the U.S. and China. Exports of crude oil and petroleum oil products also declined about 20% year-on-year, while the Brent crude oil price remains below USD 65 per barrel. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate was pushed back to the MYR 4.13 level. Then, on July 5, the June number of non-agricultural employees in the U.S. was announced, and the result turned out to be an increase of 241,000, significantly exceeding the market estimate (an increase of 116,000), which offset the expectations for an interest rate cut of 50 basis points at the Federal Open Market Committee (FOMC) meeting in the U.S. scheduled for the end of the month. Thus, the U.S. dollar/Malaysian ringgit exchange rate returned to MYR 4.1450, which turned out to be the monthly high, in the end.

At the previous meeting held in May, the central bank decided to preemptively cut the interest rate by 25 basis points. On July 10, at the monetary policy meeting, the central bank decided to maintain the overnight policy interest rate (OPR) at 3.00%. In the statement, the central bank pointed to the uncertainty regarding the trade frictions as well as the persistent weakness in the commodities market as risk factors, while demonstrating confidence in terms of the growth rate supported by domestic demand, which has been consistently high. On the other hand, in the U.S., FRB Chair Jerome Powell made a remark at the House of Representatives congressional testimony that the monetary policy would not be impacted by the strength of the June employment statistics, which accelerated the depreciation of the U.S. dollar.

In the middle of the month, the June industrial production index and retail sales of China turned out to be stronger than expected, which somewhat mitigated concerns over a slowdown of the global economy. Under such a circumstance, on July 18, President of the Federal Reserve Bank of New York John Williams made a remark such that now is no time for the FRB to "keep your powder dry" (i.e., to leave potential economic problems as they, as they will eventually become real problems)." This warning worked efficiently, and the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.1060 for the first time since the middle of April.

At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate fluctuated within a narrower range, as market participants were waiting for the outcome of the FOMC meeting in the U.S. Under such a condition, the expectation for a significant interest rate cut was somewhat mitigated by the U.S. economic indices that turned out to be stronger than expected, such as the second-quarter GDP and personal consumption. The U.S. dollar/Malaysian ringgit exchange rate also rallied to a limited extent, reaching the MYR 4.12 level in the last week of the month.

2. Outlook for This Month

In August, the U.S. dollar/Malaysian ringgit exchange rate is expected to fluctuate within a range between MYR 4.06 and MYR 4.13. The interest rate cut in the U.S. is expected to vitalize the emerging market, while expectation for capital inflow from foreign investors are likely to support the Malaysian ringgit exchange market.

Since the U.S. has confirmed its intention to carry out monetary easing, the policy interest rate has been cut in some Asian countries to prepare for the anticipated interest rate cut in the U.S. The currencies of emerging countries have also re-established stability, thanks to expectation for the recovery of fundamentals. The central bank of Malaysia decided to preemptively cut the interest rate at its meeting held in May, while at the recent meeting held on July 9, the policy interest rate was maintained at the existing level. As Malaysia did not raise interest rates even when the U.S. was raising interest rates followed by surrounding Asian countries, it is likely that Malaysia will maintain its existing policy interest rate until the end of the year, creating a clear contrast to the U.S. interest rates.

The Malaysian government reported on fiscal policy and governmental debt levels for 2018 at its national parliament meeting on July 17. Based on this, various ratings agencies, such as Fitch Ratings, evaluated positively the government's efforts to normalize its fiscal policy, confirming the sovereign rating of A–. Even though the domestic stock market has currently been weak, foreign investor capital flow turned out to be positive in the bond market in June, maintaining a good level in July. While the problem related to the FTSE index persists, stability is likely to be maintained.

Furthermore, the Malaysian government announced that it would release its governmental budget plan for 2020 on October 11. While the finance minister has articulated that he would not introduce a new tax, there has been confidence in achieving the fiscal deficit target as a percentage of GDP for FY2019, at –3.4%, whereas it would be difficult to achieve the target for FY2020, at –3.0%. Foreign direct investment is also expected to increase—the approved amount of which has been accumulating—if the Malaysian government manages to enhance incentives for foreign companies to enter the Malaysian market.

The Malaysian government has so far publicly announced the names of some electronics- and electric appliance-related companies in the U.S. and a paper-related manufacturing company in China that are planning to enter the Malaysian market. It is thus possible for direct inflow from those foreign companies to increase pressure to buy the Malaysian ringgit in the times ahead, for which market participants should remain attentive.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2019

Expected Ranges	**Against the US$:**	**IDR 13,900–14,300**
	Against 100 rupiah:	**JPY 0.76–0.79**
	Against the yen:	**IDR 126.58–131.57**

1. Review of the Previous Month

In July, the Indonesian rupiah remained strong, and the U.S. dollar/Indonesian rupiah exchange rate once fell below IDR 13,900.

On July 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,000 level. On the same day, the June CPI of Indonesia was announced, recording growth of 3.28% year-on-year. While concerns persist over the trade frictions between the U.S. and China, the Indonesian rupiah depreciated against the U.S. dollar at the beginning of the month to the mid-IDR 14,100 level—the monthly low for the Indonesian rupiah. However, the Indonesian rupiah strengthened and stabilized thereafter at the lower-IDR 14,100 level, as the amount of foreign currency reserves of the country as of the end of June was announced on July 5, recording an increase of USD 3.5 billion from the previous month. The June employment statistics of the U.S. were also released on the same day with strong figures. However, the Indonesian rupiah depreciated against the U.S. dollar only to a limited extent on July 8 in the following week.

Although the exchange rate did not move into any direction for a while, the U.S. dollar/Indonesian rupiah exchange rate fell to approach IDR 14,000 in the middle of the week on July 12, as President of Indonesia Joko Widodo made a remark to suggest that he was considering to cut the corporate tax rate in order to revitalize investment from abroad. On July 15, in the following week, capital inflow from foreign investors continued to increase, and the Indonesian rupiah appreciated further, leading the U.S. dollar/Indonesian rupiah exchange rate to once fall below IDR 13,900. The U.S. dollar/Indonesian rupiah exchange rate later occasionally rallied to approach the INR 14,000 level as the fall of interest rates in the U.S. was adjusted to some extent. However, the Indonesian rupiah did not lose stability, and the central bank of Indonesia held its regular meeting on July 18 and decided to cut the seven-day reverse repo rate—the policy interest rate of Indonesia—by 0.25% to 5.75%, as had been anticipated in the market. This was the first interest rate cut since September 2017. Yet, the depreciation of the Indonesian rupiah was limited, as the market had already reflected this decision. On the contrary, the Indonesian rupiah strengthened on July 19, the following day, and the U.S. dollar/Indonesian rupiah exchange rate fell below IDR 13,900 again, thanks

to capital inflow into the Indonesian stock market based on the interest rate cut as well as on the depreciation of the crude oil price.

At the end of the month, the U.S. dollar/Indonesian rupiah exchange rate rallied to the IDR 14,000 level, as the accumulated capital inflow into Indonesia was adjusted while domestic importing companies in Indonesia bought the U.S. dollar and sold the Indonesian rupiah based on actual demand toward the end of the month. While market participants were waiting for the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S., the U.S. dollar/Indonesian rupiah pair continued trading at the lower-IDR 14,000 level until the end of the month (as of July 31, based on the closing rate).

2. Outlook for This Month

In August, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain high (the Indonesian rupiah is forecast to remain weak).

The general understanding of the domestic environment surrounding the Indonesian rupiah remains unchanged. After Indonesia's April trade balance announcement, which revealed a significant amount of trade deficit, there was a modest trade surplus for May and June. This was a result of the fact that the weakness of exports was offset by a decline in imports. Exports of resources to China, such as coal and palm oil, are expected to remain weak in the times ahead. It has thus been difficult for the trade surplus to cover the balance on income, which continues to record a significant deficit. Given that the current account balance is likely to remain consistently negative in the times ahead, the Indonesian rupiah is expected to start depreciating.

It should also be mentioned that expectations for interest rate cuts in the U.S. have so far been supporting capital inflow into emerging countries. However, excessive expectations are likely to be adjusted. Even though the FOMC decided to cut interest rates at its meeting held at the end of July, Federal Reserve Board (FRB) Chair Jerome Powell underlined that such was a preemptive interest rate cut. Market participants need to remain attentive to see how many more times interest rates will be cut and whether or not the U.S. will enter a phase of interest rate cuts. In any case, given the outcome of the FOMC meeting held at the end of July, it seems difficult for the market structure of Indonesia to remain the same in August as it in June and July, in which capital inflow from foreign investors supported the Indonesian rupiah.

On the other hand, the central bank of Indonesia decided to cut interest rates in July for the first time in approximately two years. The central bank suggested a possibility of further interest rate cuts, leaving room for interest rates to be cut again. However, it will largely depend on interest rate cuts in the U.S. as well as on the stability of the Indonesian rupiah. At least, there will not be an interest rate cut made to cause the acceleration of the depreciation of the Indonesian rupiah.

The Indonesian rupiah exchange market is not likely to remain strong, given the possibility for declining expectations for interest rate cuts in the U.S., a slowdown in emerging currency-buying by foreign investors, persistent concerns over the political situation in the Middle East, and the outlook for the trade frictions between the U.S. and China. Therefore, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain high in August.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – August 2019

Expected Ranges	**Against the US$:**	**PHP 50.20–51.50**
	Against the yen:	**JPY 2.125–2.145**

1. Review of the Previous Month

In July, the U.S. dollar/Philippine peso exchange market (onshore) opened trading at PHP 51.23 to the U.S. dollar.

The Philippine peso appreciated, thanks to the improvement of market sentiment after the summit dialogue between the U.S. and China as well as between the U.S. and North Korea, held at the end of June. On July 1, the closing exchange rate was PHP 51.05 to the U.S. dollar—the highest rate for the Philippine peso since January 26 last year.

As market participants expected U.S. interest rates to fall in the times ahead, the U.S. dollar/Philippine peso exchange rate once reached PHP 51 on July 2. However, market participants were also cautious of market interventions by the central bank of the Philippines, and this kept the exchange rate from falling below the PHP 51 level. Thereafter, some market participants bought back the U.S. dollar before the release of the June employment statistics of the U.S. scheduled for July 5. As a result, the U.S. dollar/Philippine peso exchange rate continued hovering at the lower-PHP 51 level.

After the release of the U.S. employment statistics, less market participants expected U.S. interest rates to fall in the times ahead. On July 10, the U.S. dollar was bought back to lead the exchange rate to once reach PHP 51.48 to the U.S. dollar (which turned out to be the monthly high in July for the U.S. dollar).

However, the May trade balance of the Philippines announced by the National Statistics Authority turned out to be a deficit of USD 3.28 billion, recording an improvement from USD 3.47 billion, the figure recorded in the previous month, as well as USD 3.74—the market estimate. This result confirmed the weakness of the U.S. dollar. Thus, once expectations grew for interest rate cuts by the Federal Open Market Committee (FOMC) based on the congressional testimony by Federal Reserve Board (FRB) Chair Jerome Powell, the trend was reversed from the U.S. dollar-buying that was observed after the release of the U.S. employment statistics.

On July 15, economic indices of China were released with strong figures, while in the Philippines, the

May OFW remittances turned out to be USD 2.61 billion with a year-on-year increase of 5.7%, exceeding the market estimate (USD 2.54 billion) as well as the result of the previous month (USD 2.44 billion). The OFW remittances also recorded positive year-on-year growth for the ninth consecutive month, and this caught the attention of market participants. Thus, on July 16, the U.S. dollar/Philippine peso exchange rate fell below the PHP 51 level, which was a psychological turning point, reaching PHP 50.88 to the U.S. dollar.

Thereafter, buying and selling co-existed in the market, following the mixed outlook for U.S. interest rates. Before the FOMC meeting, the U.S. dollar/Philippine peso exchange rate once returned to the PHP 51 level. As of 10:00 a.m. of July 31, when this report was being written, the U.S. dollar/Philippine peso pair has been trading at the PHP 50.80–50.90 level.

2. Outlook for This Month

After the excessive expectations for interest rate cuts in the U.S. dropped off, it seems that the U.S. dollar generally remained weak, not appreciating to a great extent in the U.S. dollar/Philippine peso exchange market from the middle to the end of July. In August, market participants will remain attentive to the outlook for interest rate cuts in the U.S.

While market sentiment regarding the global economy remains negative, the U.S. dollar was expected to appreciate against the Philippine peso, due to growing risk-averse sentiment based on concerns over the outlook of the real economy. However, there has been a global trend of monetary easing, and the monetary authorities of various countries have been supporting the economy—and this is keeping stock prices from falling. If the situation remains as such, the Philippine peso is likely to remain strong.

The June Consumer Price Index of the Philippine turned out to be 2.7% year-on-year, slowing down from 2.8%, the market estimate, and 3.2%, the result of the previous month—recording the lowest growth rate in a year and 10 months. The governor of the central bank of the Philippines, Benjamin Estoista Diokno, mentioned the possibility for the inflation rate to fall below 2% in the third quarter in 2019.

Even though a large number of market participants expect the monetary policy of the Philippines to gear toward monetary easing, officials involved in monetary policy-making have been making cautious remarks regarding a policy interest rate cut in the Philippines at the monetary policy committee meeting scheduled for August 8.* If the monetary policy is maintained, it is likely to lead the Philippine peso to appreciate.

* Even if the policy interest rate is maintained at the existing level, it is still possible for the central bank to carry out monetary easing by changing the reserve requirement ratio for financial institutions.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – August 2019

Expected Ranges	**Against the US$:**	**INR 67.00–71.00**
	Against the yen:	**JPY 1.55–1.61**

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee fluctuated within a narrow range

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 68.93. In the first week of the month, there was large-scale Indian rupee-buying related to a case of corporate acquisition, while the media reported that the Indian government was considering issuing foreign bonds. These factors led the U.S. dollar/Indian rupee exchange rate to fall. Furthermore, the crude oil price started to rally, which was a factor to sell the Indian rupee. Thereafter, the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell, attracting significant attention in the market, was held confirming once again an interest rate cut of 0.25%. In reaction to this, U.S. government bond yields started to fall, leading the U.S. dollar/Indian rupee exchange rate to reach INR 68.27—the monthly low.

Thereafter, the U.S. price index turned out to be stronger than expected, which encouraged market participants to buy back the U.S. dollar. In addition, the retail sales of the U.S. were also announced with a strong figure after the closing of the Indian rupee market on July 16. As a result, more funds flew into the U.S. dollar market. Following this trend, the U.S. dollar/Indian rupee exchange rate also recovered to INR 69.

On July 26, the U.S. dollar/Indian rupee exchange rate reached its monthly high at INR 69.14 upon opening. However, the Prime Minister's Office (PMO) released a negative comment against the above-mentioned issuance of foreign bonds by the Indian government, the plan of which was announced together with the budget bill. While the finance minister denied the remarks later on, this impacted the U.S. dollar/Indian rupee exchange rate. As of July 30, when this review was being written, the U.S. dollar/Indian rupee pair has been trading at the INR 68.84 level. The U.S. dollar/Indian rupee exchange rate fluctuated only by 87 pysa throughout the month of July.

The Indian rupee/Japanese yen exchange rate rose in July.

In July, the Indian rupee/Japanese yen exchange market opened at the JPY 1.567 level. The U.S.

dollar/Japanese yen exchange rate, which was at the mid-JPY 107 level at the beginning of the month, rose to approach JPY 109 as a result of strong figures in the U.S. employment statistics. Following the depreciation of the Japanese yen, the Indian rupee/Japanese yen exchange rate rose to reach its monthly high, at JPY 1.59. However, thereafter, FRB Chair Jerome Powell made a comment during the congressional testimony that the outlook (of an interest rate cut) would not change even with strong figures in employment statistics. As a consequence, the U.S. dollar/Japanese yen exchange rate fell sharply. Furthermore, the media reported that the U.S. shot down an Iranian drone, and this encouraged market participants to actively buy the Japanese yen. As a result, the U.S. dollar/Japanese yen exchange rate rapidly fell to the lower-JPY 107 level. Following this event, the Japanese yen appreciated against the Indian rupee as well, and the Indian rupee/Japanese yen exchange rate reached its monthly low, at JPY 1.556.

2. Outlook for This Month

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

This month, the central bank of India is scheduled to hold a Monetary Policy Committee (MPC) meeting. An interest rate cut of 0.25% has already been reflected in the market, and thus market participants are more interested in the future policy interest rate outlook. More precisely, the monetary policy stance of India was shifted from "neutral" (raising, maintaining, or cutting the interest rate) to "accommodative" (maintaining or cutting the interest rate) at the MPC meeting held in June. Market participants are interested in whether the stance will be shifted back to "neutral" again in the times ahead.

The policy interest rate in India has been cut three times already since the beginning of the year. The interest rate cut anticipated in August would thus be the fourth interest rate cut, resulting in a total interest rate cut of 1.00%. On the other hand, housing prices in the household sector and the factory-operating ratio in the corporate sector have been strengthening. The price level in India has been gradually rising, and the central bank of India estimates the annual GDP growth rate to be 7.00%. Therefore, logically speaking, the fourth interest rate cut would be the last one. However, in December last year, the now-former governor of the central bank of India, Urjit Patel, resigned, while the deputy governor, Viral Acharya, who was against the interest rate cut at the meetings held in February and April, also resigned, at the end of June. While there is no official announcement on these events, market participants consider this a result of friction against the Indian government. Given this situation, it is not impossible for the interest rate to be cut for a fifth time, amid any strong pressure by the government. As is the case in the U.S., the "autonomy of the central bank" is questioned in India.

There is also an issue regarding the issuance of government bonds denominated in foreign currencies, as an issue that has been impacting the foreign exchange market. Regarding this, no details have been

announced. However, the market consensus is "without a currency hedge," and this will be a factor to lead the Indian rupee to appreciate, as foreign currencies obtained through bond issuance would be converted to the Indian rupee. As was discussed above, the PMO expressed a negative opinion against this plan, which was later on denied by the finance minister. The Indian rupee exchange market reacted to these events first via the depreciation of the Indian rupee and later via the appreciation of the Indian rupee. However, the PMO has not even announced the reason why it was against the plan to issue bonds in foreign currencies, and this makes it difficult to foresee the situation.

In general, it has been difficult to foresee future trends in the Indian rupee exchange market, as the market is increasingly influenced by the outlook for policy interest rate hikes as well as by remarks made by the ruling party of the government—rather than figures in the fundamentals.

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