Mizuho Bank

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Mizuho Dealer's Eye

September 2019

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Mizuho Bank, Ltd.

Derivatives & Forex Department

Akio Okamoto, Forex Sales, Derivatives & Forex Department

U.S. Dollar – September 2019

Expected Ranges Against the yen: JPY103.50–109.00

1. Review of the Previous Month

The dollar/yen pair temporarily hit a high of 109.32 yen on August 1, though it then crashed to the lower-107 yen mark when it became clear President Trump was going to hit China with a fourth round of punitive tariff hikes. The pair then tumbled to the upper-106 yen level on August 2 on the weak results of the US employment data for June.

It fell to 105.79 yen for a time on August 5 when the RMB/USD pair topped the key RMB7 mark. It then rallied to the 106 yen range, though its room on the topside was capped. On August 6, the pair temporarily fell to 105.52 yen during the early hours of trading in Tokyo on reports that the US Treasury Department would be labelling China a currency manipulator. However, it then climbed to 107.11 yen while activating stop losses. It then floated around the mid-106 yen mark. It slipped to 105.50 yen on August 7 as several central banks slashed rates and President Trump also called for a rate cut. With US interest rates bouncing back, though, the pair rallied to the lower-106 yen level. The pair moved with a heavy topside on August 8 after President Trump intervened verbally to keep the dollar's rise in check. It moved in the upper-105 yen range on August 9 before closing the week trading at 105.64 yen.

At the weekend, President Trump said a September US/China trade meeting might be called off. With protests in Hong Kong also making waves, the dollar/yen pair fell to 105.05 yen on August 12, its lowest point since January 3. However, short covering saw the pair rebounding to the mid-105 yen range. On August 13, news emerged that the US would be postponing some of the planned tariff hikes on Chinese goods until December 15. As risk aversion waned, the dollar/yen pair soared to 106.98 yen, though it failed to hit the 107 yen range and subsequently dropped back. Liquidity was thin on the ground from August 14 amid the summer dry season. Yields on 2-year and 10-year US treasuries then inverted, while China suggested it might hit the US with retaliatory measures. Nonetheless, the pair continued trading around 106 yen to end the week at this level.

On August 19, the US announced it would be delaying the trade ban on the Chinese electronics giant Huawei for 90 days, with the dollar/yen pair climbing slightly to the upper-106 range, though it then traded at a standstill after the minutes to the FOMC meeting (released August 21) failed to yield any new information. China announced some retaliatory tariff hikes on US goods during overseas trading time on August 23, while FRB chair Jerome Powell warned that the US economy was facing "significant risks." With President Trump also threatening to hit China with countermeasures, risk aversion shot up and the yen was bought, with the dollar/yen pair plummeting from the lower-106 yen mark to the lower-

105 yen level at the end of the week.

The US released details of its countermeasures over the weekend, with the pair then plunging to a low of 104.46 yen on the morning of August 26, though it rallied thereafter. The greenback was then bought back when President Trump said China had expressed a wish to restart trade talks, with the currency pair shooting up to around the mid-106 yen mark while activating stop losses. It was then sold back to around 106 yen. The pair's topside was held down on political uncertainty in Italy and UK prime minister Boris Johnson's plan to prorogue parliament. However, toward the end of the week China hinted it would not be retaliating further against the US, while President Trump also said the two sides planned to meet to iron out their differences, with the pair rallying to the mid-106 yen mark on hopes for progress in US/China trade talks. The pair fell slightly to hit the lower-106 yen level on August 30.

2. Outlook for This Month

The dollar/yen pair is expected to move with a heavy topside in September and it may drop below 105 yen at times.

President Trump has re-ignited US/China trade frictions and we seem to be approaching the point of no return. Chinese goods will be hit with a 15% tariff from September 1 as part of the fourth round of punitive sanctions. US consumer spending has moved firmly until now, but it may start to be impacted by these frictions from here on. Until now, the negative impact of tariff hikes has been somewhat offset by the buoyant impact of the tax cuts instituted at the end of 2017, so economic indicators have weakened at a very slow pace, but the recent round of tit-for-tat tariffs is targeting consumer goods, so it will probably have a faster impact compared to previous rounds. If signs of a slump appear in the hard data (particularly data related to consumer spending) as well as in the sentiment-related soft data, this will probably lead to more risk-averse trading. Given this increasing uncertainty, further FRB rate cuts seem like a done deal.

In his speech at the Jackson Hole Symposium, FRB chair Jerome Powell struck a dovish tone that suggested more rate cuts were on the cards. Opinions seem to be divided, though, with many FOMC members striking a more cautious note by saying they want to monitor the data first. We have had around one month's worth of data since the last FOMC meeting in July. Though the retail sales figure and housing-related indicators have moved bullishly, sentiment-related indicators and the industrial production data have deteriorated, so the economy still seems to be divided between "firm consumer spending (a strong service sector) and weak manufacturing as a result of the trade wars." However, this data does not reflect the fourth round of punitive tariffs, so it is understandable that FOMC members want to confirm the incoming data. President Trump is strongly pushing for rate cuts, though, with market participants also pricing in substantial cuts, so if the FRB does not slash rates, the dollar/yen pair could rally sharply in response to the previous miscommunication. With the external environment moving bearishly, questions remain about whether this is a risk FOMC members will want to take. This

is a narrow pass with a high risk of increased volatility. With some market participants expecting a -50bp rate cut, the FRB would perhaps be wise to implement a -25bp rate cut.

Investors should also pay attention to geopolitical risk in Hong Kong and Argentina as well as political risk in Europe. It seems changes are coming on the global front. The US economy might undergo a clear slowdown without further rate cuts, but it is likely monetary easing will only serve to slow the pace of this slowdown and nothing else. The dollar/yen pair will be driven by the likelihood or the results of any US/China trade talks, but the risk remains on the downside, so the pair will probably dip below 105 yen at times.

Dealers' Market Forecast

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

Bullish on the dollar	4 bulls	105.00 – 108.75	Bearish on the dollar	12 bears	104.00 – 107.50

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	104.00 – 107.50	It is hard to predict how US/China trade frictions will develop given how a lot depends on President Trump, but the major focus will probably fall on the US presidential election (= stock prices), so talks look set to continue amid signs of toughness and conciliation. However, the global situation and so on is steadily deteriorating, with the dollar/yen pair also set to move with a heavy topside on expectations for an FRB rate cut.
Tasaka	Bear	104.00 – 107.50	The dollar/yen pair will continue to be swayed by President Trump's behavior. There are a considerable number of risk-off factors, so the pair's downside will be tested on the whole. However, President Trump will want to improve his approval ratings to boost his re-election chances. As such, he could introduce a large economic stimulus package, so caution will be needed.
Oba	Bear	104.50 – 108.00	The dollar/yen pair will be swayed sharply by President Trump's words and deeds, so investors should be on guard against volatile movements. However, with concerns of a global economic slowdown growing on uncertainty regarding US/China trade talks, the FOMC is expected to cut rates this month, with the dollar likely to be sold and the yen bought.
Takamura	Bull	105.00 – 108.50	Speculators will probably shift to net yen long positions as the dollar/yen pair dips below 105 yen. With the US economy moving firmly, further yen buying is unlikely. US/China trade frictions are also unlikely to intensify given the response within the US, with the markets excessively pricing in US rate cuts. The pair is expected to rally this month.
Tanishiki	Bull	105.00 – 108.00	The US/China trade dispute is essentially a battle for supremacy, so it is unlikely to be resolved any time soon. However, there is a sense that market participants were being overly pessimistic at the end of August. Though the dollar/yen pair will move with a heavy topside in the long term, there will probably be some short-term short covering in September.
(Mio) Otani	Bear	104.00 – 107.50	Concerns of an economic recession are rising across the globe on prolonged US/China trade frictions. It seems nailed on the FRB will implement a rate cut in September. In contrast, the Bank of Japan does not have much room for further easing, so the dollar/yen pair looks set to continue trading with a heavy topside.
Takeuchi	Bear	104.00 – 107.50	It is hard to see US/China relations improving right now, so the dollar/yen pair will probably move with a heavy topside. With uncertainty lingering, economic activity looks set to remain in the doldrums and the impact on economic indicators could also become more apparent from here on. Market participants will probably test the pair's downside while making several short-term adjustments.
Kato	Bull	104.00 – 109.00	Many market participants seem overly-pessimistic when it comes to US fundamentals, with the environment ripe for some short covering at some point. Given this excessive bearishness, it seems unlikely the dollar/yen pair will fall that much in September
Seki	Bear	104.00 – 107.00	The dollar/yen pair will be swayed by news related to US/China trade, but expectations for further US rate cuts are steadily rising, with the US economy also slowing. FRB chair Jerome Powell also struck a dovish tone during his Jackson Hole speech, so apart from any adjustive rallies, it is hard to find any yen-selling factors, with the dollar/yen pair set to slide this month.

Mitsuishi	Bear	104.00 – 108.00	The bond markets look set to continue pressing for rate cuts. The dollar/yen pair will also be swayed by US/China trade frictions, the Brexit issue, and rising geopolitical risk. None of these worrisome factors are likely to reach any fundamental resolution this month, with the yen expected to continue facing considerable buying pressure.
Okamoto	Bear	103.50 – 107.50	Though the US/China trade war has taken a breather, the US is expected to implement the planned fourth round of tariff hikes. It seems inevitable that US consumer spending will be hit. Under these circumstances, the FRB will probably have to cut rates. The dollar/yen pair's downside looks set to edge lower amid short covering.
Ueno	Bull	105.00 – 109.00	After implementing more tit-for-tat tariff hikes late August, the US and China have decided to negotiate in September. Things are unlikely to improve any time soon, but both sides will need to monitor the impact of further punitive tariff hikes. Short covering looks set to prevail this month.
Tamai	Bear	104.00 – 107.00	US/China trade frictions have intensified. The two sides are expected to talk in September, but it will take time to reach any resolution. The FRB is also being pushed in a more dovish direction and it will probably implement a rate hike. With several other factors lined up that could hit risk sentiments, the dollar/yen pair looks set to trade with a heavy topside.
Harada	Bear	104.00 – 107.00	Part of the fourth round of punitive tariff hikes on Chinese goods will come into effect in September, with the dollar/yen pair set to continue moving on headlines related to US/China trade frictions. US yields are also inverting and US interest rates continue to trend lower, so the pair is likely to move bearishly on shrinking Japanese/US interest-rate differentials.
Moriya	Bear	104.00 – 107.00	Though opinions are divided within the FRB, it will probably have to implement a rate hike to avoid market turmoil. Amid deep-rooted concerns about the direction of the global economy, the FRB will find it hard to hard to rule out further rate hikes going forward, with the dollar/yen pair set to continue sliding as a result.
Okuma	Bear	104.50 – 107.50	As US/China trade frictions drag on into the long term, a US rate cut looks nailed on in September. With yields also inverting, it is hard to imagine US long-term interest rates rising. Investors will also be focusing on rising geopolitical risk in relation to Iran and the intensifying Hong Kong demonstrations, for example, so the dollar/yen pair looks set to trade with a heavy topside.

Yusuke Tange, Forex Sales, Derivatives & Forex Department

Euro – September 2019

Expected Ranges **Against the US$: US$1.0800–1.1150**
Against the yen: JPY115.00–119.00

1. Review of the Previous Month

In August the euro/dollar pair moved in a range from the lower-$1.10 mark to the mid-$1.12 level. The greenback strengthened on July 31 after FRB chair Jerome Powell said the US was not seeing the start of a long-term rate-cut cycle. This trend continued into August 1, with the currency pair dropping to a monthly low of $1.1027. However, President Trump said the US would hit $300 billion of Chinese imports with a further 10% tariff from September 1. As US interest rates fell , the dollar moved bearishly across the board, with the pair bouncing back to the upper-$1.10 level.

As US interest rates edged lower toward August 6, the euro/dollar pair moved firmly to hit a monthly high of $1.1249. European interest rates then fell on August 7, with the pair dropping back to the upper-$1.11 mark. On August 8, news emerged that the German government was thinking about issuing new bonds and abandoning attempts to balance the budget (this was later denied by the authorities). With President Trump also intervening verbally to keep the dollar's rise in check and Italian deputy prime minister Matteo Salvini calling for a general election, the pair jostled up and down around $1.12. The pair rallied to the lower-$1.12 level on August 9 when President Trump said there were no signs of an agreement when it came to the US/China trade dispute. There were no attempts on the pair's topside, though, and it moved flatly toward August 13.

Germany's 2Q provisional GDP data was released on September 14 and it posted negative growth. Yields on 10-year treasury yields also fell to historical lows on concerns of a recession after yield curves inverted. All this saw the currency pair tumbling to the lower-$1.11 level. On August 15, Bank of Finland governor Olli Rehn expressed the opinion that the ECB Governing Council would announce some new easing measures when it met in September, with the currency pair then dropping to the upper-$1.10 range, though it then rallied to the $1.11 range on news that the German government was considering a fiscal stimulus package.

Italian prime minister Giuseppe Conte then resigned and the minutes to the FOMC meeting were released, with the pair moving bearishly at the upper-$1.10 mark toward August 21. On August 23, China announced new tariffs on US goods. With FRB chair Jerome Powell also speaking at the Jackson Hole Symposium, the pair temporarily dipped to $1.1051. However, the greenback was then sold and the pair rallied to the mid-$1.11 level after President Trump said he would be hiking tariffs on Chinese imports.

On August 26, the dollar was bought on optimism regarding the US/China trade dispute, with the euro/dollar pair slipping to right around $1.11. Germany released its revised 2Q GDP data on August 27, but it remained in negative territories. With ECB vice president Luis de Guindos also commenting that interest rates would remain low for a prolonged period, the pair weakened to the upper-$1.10 level. The greenback was bought on August 29 when China hinted it might not hit the US with retaliatory tariffs, with the pair then tumbling to $1.1042 after Christine Lagarde, a nominee for the next ECB president, commented that the ECB had a wide range of measures at its disposal. The pair then moved at the mid-$1.10 mark on August 30.

2. Outlook for This Month

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

The ECB Governing Council is set to meet on September 12. When it last met, the Council revised its forward guidance, with the accompanying statement also mentioning a system of tiered interest rates. As such, speculation about further easing is likely to rise in the run up to the next meeting. With Bank of Finland governor Olli Rehn suggesting the Council will introduce some new easing measures when it meets in September, it seems likely there will be some kind of monetary policy announcement. Options on the table include strengthening forward guidance, driving interest rates deeper into negative territories, and introducing a system of tiered interest rates, for example, with headlines related to this issue set to increase as the meeting draws closer.

Turning to political risk, and instability in Italy has eased off. August 28 saw the launch of a coalition government comprising the anti-establishment Five Star movement and the center-left Democratic Party, with Italian president Sergio Mattarella instructing former prime minister Giuseppe Conte to form a new administration. Though Mr. Conte was previously forced to resign after the far-right Alliance party submitted a vote of no confidence in his cabinet, the rising likelihood of Conte becoming prime minister again will probably prove a positive factor for Italian politics. There remain a number of risk factors, though. These include staffing at the Ministry of the Interior, the body in charge of immigration policy, with the Five Star Movement also saying a vote will be needed for it to form a coalition government with the Democratic Party. Though approval for the ruling administration stands at just under 60% in Japan and around 45% in the US, it slumps to around 30% in both Germany and France. The Italian political situation will require monitoring from here on. With government approval ratings also moving at lows in several major European countries, it seems the euro/dollar pair will continue to move with a heavy topside on political risk.

As for European fundamentals, German GDP growth rate has fallen into negative territories. GDP growth rate is also approaching zero in France, Italy and Spain, three major eurozone nations. In contrast, GDP growth rate is topping 2.0% in the US. The currency pair's topside will probably be weighed down on by the ongoing weakness of the eurozone economy. Furthermore, though both the FRB and ECB

look set to ease further from here on, it seems market participants have already priced in a September FRB rate cut. As such, there seems more room to price in further easing by the ECB. As outlined above, the euro/dollar pair is expected to move with a heavy topside this month on: expectations for further easing in the run up to the September ECB Governing Council meeting; European political uncertainty; weak fundamentals; and the fact there is more room to price in easing by the ECB than easing by the FRB.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.0800 – 1.1300	Bearish on the euro	15 bears	1.0800 – 1.1200

* Ranges are central values

Dealer	View	Range	Comment
Tanaka	Bear	1.0800 – 1.1200	The risk remains on the downside given the large number of selling factors, including concerns about a European economic slowdown, the divergent economic performance in the US and Europe, expectations for ECB rate cuts, and the growing likelihood of a No-deal Brexit.
Tasaka	Bear	1.0850 – 1.1200	The ECB has adopted an active easing stance. There are a number of factors rousing expectations for further ECB easing, including political risk in the periphery countries and the sluggish eurozone economy. As such, market participants are likely to continue testing the euro/dollar pair's downside this month.
Oba	Bear	1.0900 – 1.1150	ECB Executive Board member Philip R. Lane has said the ECB Governing Council will need to introduce an economic stimulus package when it meets in September. With the incoming ECB president Christine Lagarde also speaking about the necessity for ongoing easing, the euro/dollar pair's topside is likely to be weighed down by speculation about further easing when the ECB Governing Council meets this month.
Takamura	Bear	1.0850 – 1.1150	Germany's final GDP data was down on the previous quarter, with economic indicators deteriorating across the eurozone. As such, expectations are growing for some easing by the ECB in the near future. With the US economy moving firmly, the situation is not ripe for dollar selling either, so the euro/dollar pair will continue to trade with a heavy topside.
Tanishiki	Bear	1.0900 – 1.1150	Leading indicators and other eurozone economic figures are moving weakly, with the ECB adopting an active stance toward easing. As such the euro/dollar pair is expected to fall further this month. The pair will also be sold on various political risks.
(Mio) Otani	Bear	1.0900 – 1.1150	It seems likely the ECB will ramp up its easing measures on concerns about the direction of the European economy. There are also growing fears about a No-deal Brexit, while geopolitical risk is rising on political instability in Italy and so on. As such, the euro/dollar pair will move with a heavy topside as the euro faces downwards pressure.
Takeuchi	Bear	1.0800 – 1.1200	With the European economy slowing further, the ECB is expected to introduce a substantial easing package. The tumultuous political situation in Italy will also make it hard for investors to actively buy the euro. As such, it seems market participants will continue to test the dollar/yen pair's downside.
Kato	Bear	1.0700 – 1.1200	A glance of the ratio of government bond issuances shows Germany still retains the easing card, so the euro will remain susceptible to selling on further easing.
Seki	Bear	1.0700 – 1.1100	With the ECB adopting an active stance to the prospect of further easing, the euro will remain difficult to buy due to negative factors such as concerns about a German recession, Italian political risk, and a Chinese economic slowdown.
Mitsuishi	Bull	1.0800 – 1.1300	The European economy is slowing markedly, with the ECB expected to introduce monetary easing. As such, the euro itself lacks any buying factors. However, with the FRB also set to cut rates, the dollar will also face strong selling pressure, so the euro/dollar pair's room on the downside will be capped.
Okamoto	Bear	1.0800 –	There remains political risk related to Italy and the UK, with the EU economy also slowing in contrast to other economic areas. On the policy front, EU rules are dampening expectations for

		1.1200	fiscal mobilization in each country, with monetary policy also reaching the limits of what it can do to boost the economy. These factors look set to translate directly into euro selling.
Ueno	Bear	1.0800 – 1.1200	The euro/dollar pair is unlikely to move bullishly given the weak European economy, the clear easing direction of ECB policy, and political trends related to Italy and Brexit. The euro/dollar pair's topside will be tested again this month.
Tamai	Bear	1.0850 – 1.1200	The FRB and ECB are both expected to slash rates this month. However, eurozone economic indicators are slowing markedly compared to the US. There are also concerns about the Italian political situation and risks related to Brexit, so the euro/dollar pair looks set to move bearishly.
Harada	Bear	1.0900 – 1.1200	Concerns about a eurozone economic slowdown have grown on the weak results of the German IFO Business Climate Index, for example. With UK prime minister Boris Johnson also moving to prorogue parliament until October, the Brexit situation has grown more uncertain and this has also focused concerns on an economic slump. Under these circumstances, the euro/dollar pair looks set to move bearishly.
Moriya	Bear	1.0800 – 1.1200	Expectations are growing for easing by the FRB and ECB, but economic indicators in the eurozone are moving more bearishly at present, so the euro will probably face more selling pressure. The Brexit situation and Italian political uncertainty will also continue to weigh down the euro/dollar pair's topside.
Okuma	Bear	1.0800 – 1.1200	The Chinese economy is slowing on intensified US/China trade frictions. This is spurring on a slowdown in Germany, the engine of the eurozone economy. While the European economy as a whole is slowing, concerns of a No-deal Brexit are also growing on the decision to prorogue the UK parliament, so the euro/dollar pair will also move bearishly on political uncertainty.

Natsuki Kawada, Europe Treasury Department

British Pound – September 2019

Expected Ranges	Against the US$:	US$1.2000–1.2400
	Against the yen:	JPY126.50–133.00

1. Review of the Previous Month

The pound/dollar pair continued to float at lows in August on strong concerns about a No-deal Brexit.

Fears of a No-deal Brexit increased after Boris Johnson became UK prime minister in July and pledged to leave the EU by October 31. The opposition Labour Party then indicated it would try to block a No-deal Brexit by submitting a motion of no-confidence when parliament returned from recess. This led to the possibility of a snap general election if the motion was passed, with the currency pair floating around the mid-$1.2100 mark on these headlines at the start of August. The preliminary UK 2Q GDP data was released on August 9 and it posted negative growth for the first time in six-and-a-half years, with sterling sold on growing concerns about the direction of the economy.

The pair hit a monthly low of $1.2015 on August 12, though it then rose to $1.2100 when the dollar was sold on growing concerns about the US/China trade dispute. With market participants thin on the ground and the UK parliament in recess, the pair traded in a narrow range with a lack of incentives, though sterling then moved firmly on the better-than-expected results of the UK July CPI data (released August 14) and the July retail sales result (released August 15). The pair climbed to the $1.2150 range on August 16 as the markets reacted warmly to news that opposition Liberal Democrats and the Labour party were working on a concrete plan to avert a No-deal Brexit.

On August 19, UK prime minister Boris Johnson called the Irish prime minister to discuss the backstop for the Irish border, but neither men budged on the issue. Mr. Johnson had also written to EU president Donald Tusk asking for the backstop to be renegotiated, but on August 20 Mr. Tusk said the withdrawal deal was not up for renegotiation. As a result, the pair temporarily dipped below $1.2100. The pound was bought back on August 20 when German chancellor Angela Merkel said the EU would examine practical solutions to the Irish border problem. However, the chancellor's comments were premised on the withdrawal agreement remaining unchanged, so sterling's gains were then pared back. During talks on August 22, Angela Merkel asked Boris Johnson to come up with an alternative to the backstop within 30 days. However, it was pointed out that the 30-day timeframe was just to add a sense of urgency to proceedings and was not a hard-and-fast deadline. With French president Emmanuel Macron also leaving the door open to a backstop alternative during talks with Mr. Johnson, the pound/dollar pair climbed to the $1.2250 range.

On August 26, though, Mr. Johnson said he would opt for a No-deal Brexit if no progress was made

with the backstop issue. However, the pair edged higher to hit a monthly high of $1.2310 on August 27 after the Labour Party said it work with other parties and would take any measures necessary to block a No-deal Brexit. On August 28, though, Mr. Johnson asked Queen Elizabeth II for permission to shut parliament from mid-September to October 14 in order to block plans to thwart the government's Brexit plan. Permission was duly granted and concerns about a No-deal Brexit intensified, with the currency pair falling to move around $1.2200.

2. Outlook for This Month

The pound/dollar pair will continue to be swayed by Brexit trends this month. It is expected to move at lows as investors find it hard to actively buy the pound. The pair will also be buffeted by headlines after the UK parliament returns from recess on September 3. In particular, with the Brexit deadline approaching, the scene is set for a battle between prime minister Boris Johnson, who is prepared to countenance a No-deal Brexit, and the Labour Party and others opposed to such a scenario, with attention also focused on the status of negotiations with the EU about the Irish border.

The Labour Party continues to search for a way to avoid a No-deal Brexit. It is examining the idea of calling a vote of no-confidence in the Johnson administration and then forming a temporary government of national unity. This would be led by Labour leader Jeremy Corbyn and would include cabinet seats for the Liberal Democrats. This suggests the Labour Party is prepared to put up a strong fight when parliament returns on September 3.

If the no-confidence motion is passed with a majority of votes in the House of Commons, a new government will have to be formed within 14 days. Mr. Corbyn has said he is prepared to take any steps to prevent a No-deal Brexit, but the Liberal Democrats and some Conservative MPS are opposed to the idea of installing Mr. Corbyn as temporary prime minister, so there are high hurdles in the way of forming a temporary administration. As such, Labour and other opposition MPs have said they will try passing a bill that forces Mr. Johnson to seek an extension to the Brexit deadline. However, the prime minister has said he is prepared to continue negotiating about the withdrawal agreement right up to the Brexit deadline and he has declared he will take Britain out of the EU without a deal if an agreement is not reached by that time. He has already received permission from Queen Elizabeth II to suspend parliament from the week beginning September 9 to October 14 in order to stop parliament from blocking his Brexit plan.

As a result, parliament now has less time to discuss Brexit before the end of October. If the Labour Party and so on move toward passing legislation or forming a cabinet of national unity at the start of September, this will support the pound. However, if no progress is seen, this will lead to uncertainty about what will happen until parliament returns from suspension right before the Brexit deadline, with sterling likely to move bearishly on rising concerns about a No-deal Brexit. Furthermore, Mr. Johnson wants to scrap the backstop. The EU has said it could examine any UK proposals on this issue, but it

has also indicated any proposal needs to be consistent with the withdrawal agreement, with the pound likely to be swayed by these negotiations going forward.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – September 2019

Expected Ranges	**Against the US$:**	**US$0.6600–0.6900**
	Against the yen:	**JPY70.00–73.00**

1. Review of the Previous Month

In August the AUD/USD pair jostled up and down around the upper-$0.67 mark.

The month began with President Trump tweeting about a fourth round of tariff hikes on Chinese goods (a 10% hike on $300 billion of Chinese imports, effective from September 1). As risk aversion grew, stocks weakened, bonds strengthened, and the currency pair fell sharply. The RMB then plummeted on August 5 on news about further US tariff hikes on Chinese imports. Though the RMB/USD pair dropped to the RMB7 defensive line, the Chinese authorities did not intervene. Observers read this tolerance of a weak RMB as a retaliatory measure against the tariff hikes. Amid headlines of a currency war, stocks fell sharply and the Australian dollar (a risk currency) also fell. The board of the RBA kept interest rates fixed when it met on August 6. This was as expected, so the impact on the Australian dollar was muted. On August 7, the RBNZ surprised the markets by announcing a 50bp rate cut, with the New Zealand dollar subsequently crashing. The AUD/USD pair was also dragged down to record a 10-year low of $0.6678, though it then rallied to the upper-$0.67 range.

Fears of an Argentine default flared up on August 12 on predictions that the incumbent president Mauricio Macri would lose heavily to a populist candidate in Argentina's presidential primary, with the AUD/USD pair sliding to the mid-$0.67 level on risk evasion. August 13 saw an announcement that tariff hikes would be postponed until December for some of the good targeted by the fourth round of punitive tariffs. This news led to an increase in risk appetite, with the pair also bought for a time to the lower-$0.68 mark, though it was then sold back to the mid-$0.67 level on August 14. The Australian employment data for July was released on August 15. The unemployment rate stood at 5.2%, as expected, but the net change in employment figure moved bullishly, with the number of full-time workers also increasing sharply, so the data was read as positive. As a result, the currency pair rose to the upper-$0.67 mark after the announcement.

Australia and the US released some bearish PMIs on August 22, with the pair dropping to the mid-0.67 level. On August 24, after the Jackson Hole Symposium was over and NY markets had closed, President Trump announced that tariffs had been hiked on Chinese goods. This led to fears of worsening US/China frictions. On August 26, the pair opened the week trading below its previous close in Sydney markets as a result of risk aversion. It then slumped temporarily to $0.6690. The AUD/JPY pen also fell below 70 yen for the first time since 2009. After hitting a low, though, the AUD/USD pair was then

bought back to its opening level. President Trump then made some optimistic noises about trade talks during European/US trading time. As risk appetite increased, the pair returned again to the upper-$0.67 level. On August 27, RBA deputy governor Guy Debelle said a weak Australian dollar was a good thing in terms of economic growth and inflation. The Australian dollar was sold as a result, with the currency pair dropping to the mid-$0.67 level.

2. Outlook for This Month

The AUD/USD pair will have its downside tested in September.

Risk aversion intensified and the pair fell sharply after President Trump announced he had hiked tariffs on Chinese goods after the Jackson Hole Symposium. However, the pair proved surprisingly resilient and it did not drop below $0.6678, the low it hit after the RBNZ cut rates sharply on August 7. It was then swayed by news emanating from China and the US. With uncertainty still lingering with regards to US/China trade frictions, for now the Australian dollar (a risk currency) will probably be buffeted by headlines related to the international political situation,

In his testimony at the August RBA board meeting, RBA governor Philip Lowe said there were signs the Australian economy may have reached a "gentle turning point." This prognosis was made on the back of falling interest rates, tax cuts, Australian-dollar weakness, stabilizing housing markets, an improved investment forecast in the commodities sector, and ongoing infrastructure investment. Based on this, the RBA is expecting Australian GDP to accelerate slightly in the fourth quarter. If this does seem likely, the Australian dollar will probably face upwards pressure over the latter half of the year. However, RBA deputy governor Guy Debelle said the floor for the country's benchmark cash rate was probably around 0–0.5%. He added that the RBA would consider unconventional monetary options if the rate was lowered to this level. From here on, the AUD/USD pair's topside will probably grow heavier as quantitative easing becomes a more realistic prospect.

The pair has already fallen to its lowest level since 2016, but with Australia's expected inflation rate also sliding, the gap between US and Australian real interest rates is narrowing, so if composure returns to the markets at some point, the pair is expected to move firmly on the downside.

Reiko Kanemoto, Canada Office, Global Markets Coordination Department

Canadian Dollar – September 2019

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

1. Review of the Previous Month

The USD/CAD pair opened August trading at C$1.3191. On the whole it moved in a narrow range between C$1.3220–1.3320. It hit a monthly high of C$1.3345 on August 7 and a monthly low of C$1.3178 on August 5.

The Canadian international trade balance for June was released on August 2. The balance was C$0.14 billion in the black as opposed to forecasts for a C$0.3 billion deficit, though exports fell by -5.1% m-o-m and imports by -4.3% m-o-m.

On August 7, the central banks of New Zealand, India and Thailand all implemented rate cuts. With US/China trade frictions intensifying, there were concerns that demand for crude oil would slump. With the US Energy Information Administration's weekly crude oil inventories data also posting an unexpected rise in crude oil inventories, crude oil prices (WTI) fell to $51.09/barrel and the USD/CAD pair also rose to a monthly high of C$1.3345. News emerged on August 8 that Saudi Arabia was in talks with other oil-producing nations about stabilizing crude oil prices. This saw crude oil prices rising by over $1, with the currency pair then closing at C$1.3227.

Canada's employment data for July was released on August 9. The economy had shed 24,200 jobs, down sharply on forecasts for 15,000 new jobs, with the unemployment rate also rising from 5.5% in June to 5.7%. The Canadian dollar plummeted directly after the announcement, but there was a growing sense that OPEC would cut production to support prices, so crude oil prices rose and the USD/CAD pair fell to C$1.32.

No Canadian economic data was released on August 13, but the US core CPI figure for July beat expectations, so the greenback strengthened against other major currencies. However, concerns about trade frictions then eased off when the US announced it was postponing some of its new tariff hikes on Chinese goods. As crude oil prices soared, the currency pair temporarily hit C$1.3185. Yield curves inverted in the US on August 14, with long-term and short-term yields also inverting in Canada on August 15. This led to expectations that the Bank of Canada (BOC) would face more pressure to cut rates, so the Canadian dollar was sold and the USD/CAD pair rose to the lower-C$1.33 mark.

At a speech at the annual symposium organized by the Kansas City FRB on August 23, FRB chair Jerome Powell said the forecast for the US economy was bullish, though he added that uncertainty about trade policy was acting as a drag on US and global economic growth. After the speech, market bets on

a 25bp rate cut at the September FOMC meeting rose to around 90%. On August 26, President Trump announced plans to restart trade talks with China. The Canadian dollar was subsequently bought and the currency pair dipped to the lower-C$1.32 level. However, the Office of the United States Trade Representative then signed off on a plan to lift the tariff on $300 billion of Chinese imports from 10% to 15%, effective from September, with the pair then trading around C$1.33 as of August 28.

2. Outlook for This Month

The Bank of Canada (BOC) will meet to set policy rates on September 4, with an FOMC meeting also scheduled for September 18.

Central banks across the world have noticeably shifted in an accommodative direction in the wake of the FRB's rate cut at the end of July. In August, the central banks of New Zealand, Thailand, India, The Philippines and Mexico all slashed policy rates. There are also growing concerns about intensified US/China trade frictions, deteriorating European economic indicators, and a worldwide economic slump. As such, anticipation for lower interest rates is swelling further, with long-term interest rates sliding and yields inverting in global bond markets.

However, Canada has recently released several buoyant economic indicators. In particular, the July CPI figure was up +2.0% y-o-y, thus remaining within the bounds of the BOC's inflation target, so the BOC is unlikely to cut rates when it meets in September. If expectations for wider rate cuts rise in the run up to the FOMC meeting, the Canadian dollar will probably strengthen, with the USD/CAD pair dropping to around C$1.31. However, if crude oil prices dip below $50/barrel and continue falling on the US/China trade/currency wars and headlines related to the situation in the Middle East, then the pair could rise to around C$1.35.

The Canadian economy could also be pushed lower by a global economic slowdown, while yields have also inverted in Canada, thus signaling an impending recession. The markets currently put the odds of a rate cut at the October BOC meeting at around 65%, but these expectations may grow even stronger depending on the movements of economic indicators and crude oil prices in September.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – September 2019

Expected Ranges	**Against the US$:**	**KRW1,180–1,230**
	Against the yen:	**JPY8.547–9.091 (KRW100)**
		(KRW11.000–11.700)

1. Review of the Previous Month

The USD/KRW pair rose in August.

After opening the month at KRW1188.00, the pair then hit a monthly low of KRW1186.10 on the same day. President Trump then announced during overseas trading time that the US would hit China with a fourth round of tariff hikes, effective from September. On August 2, sentiments deteriorated after Japan removed South Korea from its 'white list' of countries receiving preferential trade treatment, with the USD/KRW pair topping the key KRW1200 mark in the NDF market during overseas trading time on the same day.

The pair opened August 5 trading above this key level in onshore markets too. With the RMB/USD pair also breaching the RMB7 barrier, the USD/KRW pair then climbed to the KRW1218 range on the same day. With the US and China exchanging tit-for-tat blows and the US labelling China a currency manipulator on the morning of August 6, the pair then climbed to hit a monthly high of KRW1223.00.

It then floated at highs, though sentiments improved slightly during overseas trading time on August 13 after President Trump announced that tariff hikes on some of the goods targeted by the fourth round of punitive hikes would be postponed until December 15 to avoid any negative impact on the end-of-year US sales season.

In the week beginning August 19, attention seemed to shift to FRB chair Jerome Powell's speech at the Jackson Hole Symposium on August 23. This led to some position adjustments, for example, with the USD/KRW pair temporarily dropping below KRW1200 on August 21. The won was sold for a time on the evening of August 22 on news that South Korea was terminating the Japan/South Korea General Security of Military Information Agreement (GSOMIA).

Jerome Powell's closely-watched speech on August 23 was read as being comparatively dovish. During overseas trading time on the same day, though, China announced some retaliatory measures in response to the fourth round of punitive US tariff hikes. With the US also threatening to strike back, sentiments deteriorated sharply and the currency pair rose to the KRW1220 level again on August 26. It then fluctuated gently to close at KRW1211.20.

The Bank of Korea (BOK) kept policy rates fixed when it met on August 30. However, the meeting struck a dovish tone, with two members called for rate cuts, for example.

2. Outlook for This Month

The USD/KRW pair is expected to float at highs in September.

On the whole, it seems the pair will continue to be swayed by risk sentiments. With sentiments deteriorating sharply from the start of August, the pair appears to have settled at the KRW1200 mark. China is also allowing the RMB/USD pair to move in a range above the key RMB7 level. With China appearing to shift its stance towards the US, it is hard to imagine caution easing off. However, things could change in the blink of an eye, with the US and China both expressing an interest in restarting trade talks, for instance.

Under these circumstances, when the BOK Monetary Policy Board met at the end of August, it decided to keep policy rates fixed, though it did strike a dovish impression, with two members called for a rate cut, for example. There will probably be another rate cut within the year. Nonetheless, the USD/KRW pair’s level seems quite high compared to recent years. We could see the emergence of concerns about capital outflows, so it is hard to imagine Seoul tolerating a further slide in the won’s value.

The US also looks set to cut rates again within the year, but a glance at US economic indicators suggests the markets have been a little too hasty to price in such a move. Depending on the circumstances, yields on long-term US treasuries could undergo a steady rise.

Risks related to the US and China are unlikely to be completely eradicated, so sentiments are likely to remain in the doldrums overall. There are also concerns about deteriorating South Korean fundamentals, a potential BOK rate cut, and a potential rebound when it comes to yields on long-term US treasuries. As such, the USD/KRW pair looks set to continue moving at highs. As mentioned at the start, though, the pair will probably be swayed by sentiments and it could move higher or lower, so market participants should be extremely cautious.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – September 2019

Expected Ranges	Against the US$:	NT$31.10–31.70
	Against the yen:	JPY3.32–3.45

1. Review of the Previous Month

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

The pair opened the month trading at TWD31.170 on August 1. At its closely-watched meeting on July 31, the FOMC had implemented a 25bp rate hike while also deciding to end its balance sheet reduction program two months earlier than planned. However, FRB chair Jerome Powell said the US was not seeing the start of a long-term rate-cut cycle. This was less dovish than the markets had expected, so the greenback moved firmly. Risk aversion then intensified on August 2 after President Trump announced some new tariff hikes on Chinese imports. The RMB weakened and the Taiwan dollar also followed suit, with the USD/TWD pair climbing to the TWD31.3 mark. With the RMB/USD pair then topping the key RMB7 mark, the Taiwan dollar continued to depreciate, with the USD/TWD pair then hitting a monthly high of TWD31.740 on August 6.

As expected, the People's Bank of China then set the central parity rate of the RMB/USD pair at a higher rate than expected, so the RMB stopped sliding. With Taiwanese exporters also selling the greenback, the USD/TWD pair moved with a heavy topside. Its gains from the start of the month were pared back and the pair weakened to the TWD31.3 mark. Risk sentiments improved on August 14 after the US announced it would postpone some of the new tariff hikes on Chinese goods, so the pair temporarily plummeted to TWD31.235.

The Taiwan dollar was bought toward August 16 on bullish stock movements. However, the US Department of Commerce announced it would extend its extraordinary measure allowing Huawei Technologies to trade with some US companies. US interest rates also rallied on hawkish comments by Boston FRB President Eric S. Rosengren. As a result, Taiwan-dollar buying was short-lived and the currency pair moved firmly. Market participants then slipped into wait-and-see mode ahead of the release of the minutes to the July FOMC meeting and the Jackson Hole Symposium, so the pair moved in a range around TWD31.4. With the RMB sliding and overseas funds continuing to flow out of Taiwanese stocks, the Taiwan dollar weakened for a time, but exporters then sold the greenback, so the pair's topside was held down.

2. Outlook for This Month

The USD/TWD pair is expected to trade in a range around the lower-TWD31 mark in September.

A glance at the economic indicators released in August shows the July export amount falling by -0.5% y-o-y. This was the first time in eight months that growth had slowed after accelerating the previous month, with the data dipping into negative territories once again. Key exports of electronic parts grew by +1.8% y-o-y, with exports of IT and telecommunication products to the US also soaring by +25.7%. However, with concerns of a global economic slowdown growing on US/China trade frictions, for example, other export items moved sluggishly and this pulled the overall data down. The overall CPI data for July was up +0.40% y-o-y and the core CPI data (excluding volatile fresh food prices) up +0.34% y-o-y, with both figures slowing on the previous month. The main reason behind this sluggish inflation is the falling price of fuel and communications, with inflation continuing to slide since May.

The central banks of Japan, the US and the eurozone will all be meeting in September to set policy rates. In particular, bets on a further US rate cut are rising in the interest rate futures market. Investors will be monitoring whether the FOMC slashes rates (as it did in July) and they will also be studying the federal funds rate projections of FOMC members (released after the meeting) to gauge how many rate cuts are expected going forward. The Central Bank of the Republic of China (Taiwan) will also be holding its quarterly Monetary Policy Meeting on September 19. Market participants are only making limited moves to price in a rate cut, but with many other central banks moving along a dovish path, the BOT's movements will attract attention.

Investors should also continue monitoring trends related to US/China trade frictions. Cabinet-level US/China trade talks could take place this month, so attention will focus on whether such a meeting takes place and whether any progress in made in these bilateral negotiations.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – September 2019

Expected Ranges	Against the US$:	HK$ 7.8200–7.8500
	Against the yen:	JPY 13.20–13.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

In August, the Hong Kong dollar depreciated against the U.S. dollar to the HKD 7.84–7.85 level due to social uncertainty caused by the ongoing protests. In particular, market participants should pay attention to the fact that the forward point rose at the same time as the depreciation of the Hong Kong dollar in the spot exchange market, showing an initial sign of capital outflow. The one-year Hong Kong dollar forward point reached +180 for the first time in 32 months, and the level of premium was maintained almost throughout the month of August. Based on this, it can be said that the Hong Kong dollar interest rates remain stable and high, even after the interest rate was cut in the U.S. by the Federal Reserve Board (FRB) under the U.S. dollar peg, widening the reserve gap between the Hong Kong dollar and the U.S. dollar interest rate differentials. However, it should also be added that excessively significant interest rate differentials can strengthen concerns over capital outflow, which kept the Hong Kong dollar from depreciating further in the spot exchange rate. Furthermore, due to the trade frictions between the U.S. and China, both countries announced their decisions to raise their retaliatory tariffs, which depreciated the Chinese yuan, leading the U.S. dollar/Chinese yuan exchange rate to exceed the psychological turning point at CNY 7.0. As a consequence, market sentiment worsened, keeping investors away from vigorous investment in Asian emerging markets, including Hong Kong. Also, Hong Kong's economic growth outlook is expected to show a slow down due to the growing social uncertainty that has resulted from risks in the trade frictions between the U.S. and China and the city's large-scale protests. In order to support economic growth, the Hong Kong government has announced a plan to take an economic stimulus measure worth HKD 19.1 billion, targeting companies and individuals (estimated to raise the GDP by approximately 0.3%).

Hong Kong dollar interest rate market in August

The Hong Kong dollar interest rates have currently been on a rise, and the one-month and three-month HIBOR rose to approach 2.0% and 2.3%, respectively. The interest rate differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR widened to almost 20 basis points for the three-month

rates while falling into the negative range for the one-month rates. This implies that the short-term liquidity level has been relatively high, as an IPO was postponed. It should also be mentioned that the Hong Kong Monetary Authority (HKMA) checkable deposit balance, which is an index that shows the liquidity level of the Hong Kong dollar, remained stable, at HKD 54.5 billion. However, in terms of long-term interest rates, downward pressure on yield curves strengthened globally, pushing down the three-year and five-year Hong Kong dollar interest rate swap rates.

Hong Kong stock market in August

The appreciation of the benchmark Hang Seng Index (HIS) slowed down in August, falling to 25,000 points due to retaliatory tariffs announced by the U.S. and China as well as due to the social unrest in Hong Kong. In particular, stock prices fell significantly in the retail, tourism, and real estate sectors due to the ongoing large-scale protests. The sentiments of investors worsened because of the fact that the Chinese yuan depreciated to exceed the psychological turning point at HKD 7.0, while risks of an economic downturn continued growing due to the inverted yield curve in the U.S. dollar interest rates.

2. Outlook for This Month

Hong Kong dollar spot exchange market in September

In September, the U.S. dollar/Hong Kong dollar exchange rate is expected to fluctuate at the HKD 7.82–7.85 level. It is likely for the U.S. dollar/Hong Kong dollar spot exchange rate to fall to the HKD 7.85 level while the social unrest persists. Investors are increasingly cautious about political risks, in addition to the outlook for a downturn in the Hong Kong economy. If the Chinese government is to intervene in the social unrest in Hong Kong, the trust in the "one country two systems" principle would be questioned, strengthening pressure for capital outflow from Hong Kong. However, the monetary base of the Hong Kong dollar has been thoroughly supported by the foreign exchange fund, and thus the U.S. dollar peg is likely to continue. It is unlikely for the U.S. dollar peg to be discontinued in the times ahead, as that would harm global trust in Hong Kong as an international monetary hub and would risk the stability of the Hong Kong dollar.

However, it is possible for the downward pressure on the Hong Kong dollar to strengthen, if market participants see signals for capital outflow from Hong Kong with: the depreciation of the Hong Kong dollar in the spot exchange market; expectations for the Hong Kong dollar forward rate to be higher in the future; and adjustments to assets in the Hong Kong dollar. It should also be added that the one-year Hong Kong dollar forward rate has exceeded HKD 7.85, but this will not be a reason to question the trust in the U.S. dollar peg system—it will show the appropriate level, given the interest rate differentials between the

Hong Kong dollar and U.S. dollar as well as the Hong Kong dollar spot exchange rate.

Hong Kong dollar interest rate market in September

While the Hong Kong dollar is likely to depreciate against the U.S. dollar to HKD 7.85, the Hong Kong dollar interest rates are expected to rise further in the times ahead. In such a case, the HKMA would be obliged to intervene in the foreign exchange market in order to tighten liquidity. The checkable deposit balance of the HKMA has currently been relatively low, which may increase the volatility of the Hong Kong dollar interest rates. On the other hand, a large-scale IPO in the Hong Kong market was postponed, which can be a factor to stabilize the Hong Kong dollar interest rates. However, it is also possible for the Hong Kong dollar interest rates to sharply rise, depending on seasonal factors such as fund procurement at the end of a quarter period. In the U.S., it is expected that the FRB will cut the interest rate by at least 25 basis points at the Federal Open Market Committee (FOMC) meeting in September. However, it is likely for the central bank of Hong Kong to postpone an interest rate cut so as to follow the U.S., as the liquidity level is low.

Kazuki Baba, Treasury Department, MHBK (China)

Chinese Yuan – September 2019

Expected Ranges	**Against the US$:**	**CNY 7.0000–7.2000**
	Against the yen:	**JPY 14.58–15.71**
	Against 100 yen :	**CNY 6.3600–6.8600**

1. Review of the Previous Month

Foreign exchange market

In August, the Chinese yuan sharply depreciated, and the U.S. dollar/Chinese yuan exchange rate significantly exceeded CNY 7.0.

On August 5, the People's Bank of China (PBOC) set the U.S. dollar/Chinese yuan central parity rate at a level above CNY 6.9 for the first time since December last year, and this fueled the speculation that the Chinese monetary authorities have accepted the depreciation of the Chinese yuan, which immediately accelerated the depreciation of the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate exceeded CNY 7.0. Thereafter, the PBOC released a statement to express its plan to stabilize the Chinese yuan exchange market, and this slowed down the depreciation of the Chinese yuan for the moment. From August 8 onward, the U.S. dollar/Chinese yuan central parity rate was set above the CNY 7.0 level. However, the yuan was set stronger than expected, and the U.S. dollar/Chinese yuan trading exchange rate remained stable at around CNY 7.05.

On August 13, the U.S. announced its decision to postpone the imposition of a customs duty on some Chinese products. In reaction, the Chinese yuan appreciated against the U.S. dollar, and the exchange rate temporarily approached CNY 7.01 on August 14, the following day. However, thereafter, Chinese economic indices were released with weak figures while the outlook for the future trade negotiations remained uncertain, which limited the appreciation of the Chinese yuan. Thus, the U.S. dollar/Chinese yuan exchange rate started to slowly rise again and approached CNY 7.04.

On August 19, the U.S. announced its decision to extend by 90 days the grace period before imposing an export ban against Huawei Technologies, and this led the U.S. dollar to appreciate, with the U.S. dollar/Chinese yuan exchange rate reaching the CNY 7.06 level. Thereafter, the U.S. dollar weakened once. However, this depreciation of the U.S. dollar did not last long, and the U.S. dollar/Chinese yuan exceeded the recent high to almost reach CNY 7.10 on August 23, with dominant pressure to sell the

Chinese yuan based on the uncertain outlook of the trade frictions between the U.S. and China. Furthermore, on August 23, China announced its plan to impose an additional customs duty of 5–10% on certain U.S. products worth USD 75 billion in two steps on September 1 and December 15, while also re-introducing a customs duty of 5–25% on automobiles and auto parts manufactured in the U.S., worth USD 14 billion. In return, the U.S. announced its decision to raise its fourth additional customs duty from 10% to 15% and to 30% on imports worth USD 250 billion, from October 1. This further fueled concerns over the trade frictions between the U.S. and China, leading the Chinese yuan to depreciate. The U.S. dollar/Chinese yuan exchange rate thus exceeded CNY 7.15.

Interest rate market

During the first half of the month, risk-averse sentiment was globally dominant in the market due to the trade frictions between the U.S. and China. However, the downward pressure on short-term interest rates was limited, and interest rates remained low. The MLF that matured on August 15 was rolled over almost at the same value, maintaining the high liquidity level in the capital market. However, major Chinese banks were hesitant with offers supposedly due to the tax raise, which strengthened upward pressure on short-term interest rates—the terms of which do not go beyond the end of the month. On August 20, the new Loan Prime Rates (LPR) were released, revealing the rate for one year at 4.25% (–6 basis points from the previous rate) and 4.85% for five years. As these rates fell within the range previously estimated in the market, there was no particular market impact. Thereafter, money interest rates remained low and stable.

2. Outlook for This Month

Foreign exchange market

The Chinese yuan has been currently depreciating more significantly than expected due to the uncertainty caused by the trade frictions between the U.S. and China, and the trend does not show any sign of ending so far. Trade negotiations continue behind the scenes, and it is possible for the concerns to be temporarily mitigated in the times ahead. However, the U.S. can still raise its customs duties, and China is not likely to make a concession. Given such a situation, it is also possible for the Chinese yuan to depreciate further as a result of an exchange of additional customs duties. At least, it is more likely for the depreciation of the Chinese yuan to accelerate until the end of the year. On the other hand, market activities are likely to be less vigorous next year, waiting for the mid-term elections for U.S. President Donald Trump's administration, and this is likely to result in a partial return of risk-averse sentiment in the market. Furthermore, interest rate cuts in the U.S. would lead to the depreciation of the U.S. dollar, while the acceptance of the depreciation of the Chinese yuan has a limit from the viewpoint of capital outflow. For these reasons, from a medium-term perspective, the U.S. dollar/Chinese yuan exchange rate is expected

stop rising, allowing the Chinese yuan to appreciate.

Interest rate market

Governor of the PBOC Yi Gang made a remark that the current interest rate level is appropriate. In such a context, a matured one-year MLF (3.3%) worth approximately CNY 500 billion was converted into a targeted MLF (3.15%) worth approximately CNY 30 billion on August 23, in order to virtually cut the interest rate for medium-size and small-size enterprises. At the moment, there has been some effect of the investment in infrastructure, strengthening the economic environment to resist negative factors in the market to some extent. For these reasons, it is unlikely to see immediate measures of monetary easing in the times ahead. As the policy interest rate and the market interest rates have currently been almost at the same level, the policy interest rate may be cut in order to follow interest rate cuts in the U.S and to keep the interest rate differentials between the U.S. and China, although this will depend on how much the U.S. interest rate will be cut. Market participants should thus keep an eye on actions to be taken by the monetary authorities.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – September 2019

Expected Ranges	Against the US$:	SG$ 1.3650–1.3950
	Against the yen:	JPY 75.00–78.00

1. Review of the Previous Month

In August, the Singapore dollar remained weak.

In August, there were negative factors such as the announcement made by the U.S. on the imposition of an additional customs duty against China as well as the media report on the intensification of the trade negotiations between Japan and Korea. As a result, the Chinese yuan depreciated significantly on August 5. Following this trend, the currencies of emerging countries also weakened, and the U.S. dollar/Singapore dollar exchange rate rose sharply from the mid-SGD 1.37 level to the upper-SGD 1.38 level (the Singapore dollar depreciated). Thereafter, the Chinese yuan started to rally, and this led the Singapore dollar to rally as well. However, concerns over the trade frictions between the U.S. and China persisted, and the Singapore dollar depreciated slowly toward the middle of the month.

On August 13, the U.S. announced its decision to change some details regarding the additional customs duty, and this once mitigated the risk-averse sentiment in the market and led the Singapore dollar to appreciate sharply. Thus, the U.S. dollar/Singapore dollar exchange rate returned from the SGD 1.389 level to the SGD 1.380 level. However, on the same day, the Singapore government cut the 2019 growth rate outlook for Singapore significantly to 0.0–1.0% (the previous outlook was 1.5–2.5%). Furthermore, the Singapore government pointed to increased risks for the economy due to various factors such as the situation of the trade negotiations between the U.S. and China, Brexit negotiations, the political situation in Hong Kong, and the frictions between Japan and South Korea. As a consequence, market participants started to dominantly sell the Singapore dollar again, leading the U.S. dollar/Singapore dollar exchange rate to temporarily exceed SGD 1.39 and renewing its monthly high.

Thereafter, the U.S. dollar depreciated, along with the fall of U.S interest rates. While dominantly buying the currencies of emerging countries such as the Singapore dollar, Mexican peso, and South African rand, market participants waited for the speech by Federal Reserve Board (FRB) Chair Jerome Powell at Jackson Hole Economic Symposium, held on August 23.

Under such circumstances, Editor-in-chief of *Global Times* Hu Xijin tweeted his forecast of China's

retaliatory customs duty on the U.S., in reaction to which the U.S. President Donald Trump also released a comment. In the meantime, FRB Chair Jerome Powell made a speech that was gathering significant attention in the market. However, the impact of this on the market was limited, even though it turned out to be slightly more dovish than the market estimate, as market participants were more interested in media reports related to the trade frictions between the US. and China.

In response to the exchange of comments between the U.S. and China, the U.S. dollar/offshore Chinese yuan exchange rate rose to the CNH 7.13 level on August 26 after the weekend. Following this trend, the U.S. dollar/Singapore dollar exchange rate rose rapidly to the SGD 1.392 level, again renewing the monthly high. However, the exchange rate did not stay at this level, as there was no sufficient factor. In the end, the U.S. dollar/Singapore dollar pair has been trading within the range between SGD 1.386–1.389 (when this article was being written).

2. Outlook for This Month

The Singapore dollar is forecast to weaken in the U.S. dollar/Singapore dollar exchange market in September.

In August, FRB Chair Jerome Powell made a speech at Jackson Hole Economic Symposium that attracted significant attention in the market, implying interest rate cuts in the times ahead by saying that there had been remarkable risks and that thus he would act as appropriate. However, this was not considered enough to carry out necessary monetary easing, which can offset the downward risks generated by the further deterioration of the trade frictions between the U.S. and China. In response, U.S. President Donald Trump directly criticized Jerome Powell, using the expression, "Who is our bigger enemy, Jay Powell or Chairman Xi?" in the above-mentioned exchange of comments. Every time such a hysteric comment like this is released, the emerging currency market becomes unavoidably unstable.

Then, the Singapore government revised its GDP outlook downward in August, while releasing a statement that the government was carefully observing not only the trade frictions between the U.S. and China but also other global downside risks. In the region, central banks started to actively carry out monetary easing, such as the central bank of Indonesia, which cut the interest rate again. Under such circumstances, it is increasingly likely for the Monetary Authority of Singapore (MAS) to shift its monetary policy toward monetary easing at the next meeting scheduled for October.

Under such a context, the U.S. dollar/Singapore dollar exchange rate is forecast to continue rising. In August, the upper limit for the U.S. dollar/Singapore dollar exchange rate was SGD 1.390. However, if there is another risk factor related to the trade frictions between the U.S. and China, it is possible for the

exchange rate to exceed this level.

It should also be mentioned that there has been vigorous demand to buy the U.S. dollar until the exchange rate reaches the SGD 1.385 level, and this would limit the fall of the U.S. dollar/Singapore dollar exchange rate. Market participants should remain attentive to see whether the U.S. dollar/Singapore dollar exchange rate will exceed the recent fluctuation range (between SGD 1.385–1.390).

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – September 2019

Expected Ranges	**Against the US$:**	**THB 29.70–31.20**
	Against the yen:	**JPY 3.40–3.52**

1. Review of the Previous Month

In August, the U.S. dollar/Thai baht exchange rate remained stable.

In August, the U.S. dollar/Thai baht exchange market opened trading at around THB 30.90. U.S. President Donald Trump implied enacting a fourth customs duty against China, and this fueled risk-averse sentiment in the market. As a consequence, the U.S. dollar/Thai baht exchange rate fell to approach the THB 30.70 level toward the following day. During overseas trading hours, the exchange rate fell to around THB 30.70 to the U.S. dollar because of the outcome of the July employment statistics of the U.S. as well as due to the remark by NEC Chair Larry Kudlow regarding the trade frictions between the U.S. and China. However, on August 5, after the weekend, the Chinese yuan started to depreciate against the U.S. dollar in the morning, and the U.S. dollar/Chinese yuan exchange rate exceeded CNY 7.0 for the first time since 2008, following which the U.S. dollar/Thai baht exchange rate also rose sharply to the upper-THB 30.80 level. Then, on the following day, the People's Bank of China (PBOC) set its central parity rate toward a stronger Chinese yuan, encouraging market participants to buy back the Chinese yuan. As a result, the U.S. dollar/Thai baht exchange rate also fell to the mid-THB 30.70 level. Then, on August 7, the central bank of Thailand held a Monetary Policy Committee (MPC) meeting, and the interest rate was cut, while no interest rate cut was expected in the market. Thus, the U.S. dollar/Thai baht exchange rate immediately rose from the THB 30.70 level to approach THB 30.90. However, the exchange rate soon returned to the mid-THB 30.70 level. Thereafter, the U.S. dollar/Thai baht pair has been trading at this level.

After the weekend, the market was closed on August 12 because of a Thai national holiday. However, in overseas markets, the trend from the previous week persisted, and the U.S. dollar/Thai baht exchange rate rose to approach THB 30.85. On August 15, the U.S. saw the inverted yield curve for its 10-year and two-year bonds, and this fueled risk-averse sentiment in the market and the U.S. dollar/Thai baht exchange rate rose to temporarily approach THB 30.90. Then, on August 16, Finance Minister of Thailand Uttama Savanayana announced in the morning via social media a large-scale economic stimulus measure. However, the U.S. dollar/Thai baht exchange rate rose to the lower-THB 30.90 level, as market participants speculated that the second-quarter GDP of Thailand, which was scheduled to be out in the following week, would turn out to be weaker than that of the first quarter. Thereafter, the U.S. dollar/Thai

baht exchange rate continued fluctuating at around THB 30.90, as economic indices related to housing in the U.S. turned out to be stronger than expected and while the August result of the University of Michigan Consumer Sentiment Index turned out to be weaker than expected.

In the following week, the second-quarter GDP of Thailand was announced on August 19 to be 2.3%, showing a slowdown from the 2.8% recorded for the first quarter—and this is the lowest level since the third quarter in 2014. The annual GDP outlook for FY2019 was also revised downward to 2.7–3.2%, even though the reaction in the market was limited. Thereafter, market participants sold the U.S. dollar, waiting for the speech by Federal Reserve Board (FRB) Chair Jerome Powell scheduled for the weekend. As a result, the U.S. dollar/Thai baht exchange rate fell below THB 30.80 toward overseas trading hours. On August 22, the Federation of Thai Industries (FTI) announced the number of automobiles manufactured in July, which turned out to be 170,847, with negative year-on-year growth of 6.7%, recording negative year-on-year growth for the third consecutive month. However, market participants reacted to this news only to a limited degree. Then, on August 23, FRB Chair Jerome Powell made a speech at the Symposium in Jackson Hole after attracting significant attention in the market, confirming the growing concerns over an economic slowdown, and this encouraged market participants to sell the U.S. dollar in response. Furthermore, both the U.S. and China announced a retaliatory customs duty against each other, and this led the U.S. dollar to depreciate sharply, with the U.S. dollar/Thai baht exchange rate temporarily approaching THB 30.60. Then, on August 26, the 10-year U.S. government bond yield fell below 1.5%, encouraging market participants to sell the U.S. dollar further. As a result, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 30.50 level. Thereafter, market participants sold the Thai baht to some extent because of weak figures in Thai economic indices. The U.S. dollar/Thai baht pair has been trading at around the THB 30.60 level (when this article was being written).

2. Outlook for This Month

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

In August, the second-quarter GDP of Thailand was announced, confirming an economic slowdown. However, the result was within the anticipated range, which led the Thai baht to appreciate. On the other hand, the U.S. dollar/Thai baht exchange rate has been fluctuating violently in response to media reports regarding remarks made by U.S. President Donald Trump and because of the trade frictions between the U.S. and China. It can even be said that the U.S. dollar/Thai baht exchange rate follows the situation regarding the trade frictions between the U.S. and China, and, because of this, downward pressure on the U.S. dollar/Thai baht exchange rate is forecast to remain strong, keeping the exchange rate from rising. Among the currencies of Southeast Asia, market participants have been choosing to buy the Thai baht, thanks to various factors such as political stability, maintained trade surplus, low inflation rate, and positive

yield curve. However, as has been clearly stated in the statement released by the central bank of Thailand, it is unquestionable that the appreciation of the Thai baht will negatively impact the Thai economy, making the question now regarding how far Thailand should accept the appreciation of the Thai baht. The latest trade statistics revealed positive year-on-year growth for both imports and exports, while the number of tourists also started to record positive year-on-year growth. Thus, despite the appreciation of the Thai baht, there have been positive signs for the Thai economy. For this reason, it is possible for Thailand to accept the further appreciation of the Thai baht, allowing the U.S. dollar/Thai baht exchange rate to fall below the THB 30 level, for which market participants should be prepared.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – September 2019

Expected Ranges	Against the US$:	MYR 4.1700–4.2500
	Against the yen:	JPY 24.60–25.50
	Against 100 yen:	MYR 3.9200–4.0700

1. Review of the Previous Month

In August, the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.2000 level that was recorded in March, renewing its high since the beginning of the year, as a result of the intensification of the trade frictions between the U.S. and China as caused by the unexpected imposition of the fourth additional customs duty by the U.S.

At the Federal Open Market Committee (FOMC) meeting held on July 31, the Federal Reserve Board (FRB) cut the policy interest rate by 0.25%, as had been anticipated. However, FRB Chair Jerome Powell made a hawkish remark by emphasizing that the interest rate cut was a mid-cycle adjustment and not the start of a rate-cutting cycle. Thus, expectation for further interest rate cuts faded momentarily, and the U.S. dollar/Malaysian ringgit exchange rate started to rise at the beginning of the month from the MYR 4.12 level to the MYR 4.14 level, inverting the previous trend. On August 1, the following day, U.S. President Donald Trump suddenly announced the imposition of an additional customs duty on imported products from China worth USD 300 billion, which led the U.S. dollar/Malaysian ringgit exchange rate to continue rising to reach MYR 4.16 on August 2. Furthermore, on Monday, August 5, the People's Bank of China (PBOC) set the U.S. dollar/Chinese yuan central parity rate at the CNY 6.90 level for the first time since December 2018. This was seen by some as a retaliatory action against the additional customs duty imposed by the U.S., and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.0 mark—reaching its highest level since 2008. As a result, the U.S. nominated China as a currency manipulator for the first time in 25 years since 1994. Along with the depreciation of the Chinese yuan, the U.S. dollar/Malaysian ringgit exchange rate approached MYR 4.18 on August 5 and continued rising on August 7 to almost reach the MYR 4.2000 level—the highest level since the beginning of the year, recorded in March this year. Under such circumstances, multiple countries cut their policy interest rates in Asia.

In the middle of the month, on August 13, U.S. President Donald Trump hinted at an additional customs duty against imports from China, and this led the U.S. dollar/Malaysian ringgit exchange rate to rise to reach the MYR 4.20 level again, even though the exchange rate did not exceed that level. However, President Trump later announced that he would postpone the imposition of the additional customs duty

until the middle of December, and this led the U.S. dollar/Malaysian ringgit exchange rate to fall to reach the MYR 4.18 level on August 14, the following day. While the U.S. dollar/Malaysian ringgit exchange rate was still on the rise because of the CPI, which turned out to be weaker than expected, as well as the Brent crude oil price, which was below USD 60 per barrel, the exchange rate rallied to MYR 4.1640 on August 19 after the announcement of the April–June quarter GDP, which turned out to be stronger than expected, as well as due to the additional deregulation on foreign exchange administration rules by the central bank of Malaysia on August 16.

At the end of the month, it was suggested in the minutes of the FOMC meeting in the U.S. that there were mixed opinions with regard to an additional interest rate cut in September that had already been anticipated as a 100% certainty in the interest rate futures market, and this led the U.S. dollar to start rallying. On Friday, August 23, when the Symposium in Jackson Hole attracted significant attention in the market, U.S. President Donald Trump suddenly announced his plan to further raise the customs duty by 5% on imports from China worth USD 75 billion. While this developed into mudslinging, with China also announcing the imposition of a retaliatory customs duty on imports from the U.S. worth USD 75 billion, the U.S. dollar/Chinese yuan exchange rate continued rising. Following this trend, the U.S. dollar/Malaysian ringgit exchange rate largely exceeded the MYR 4.20 level on August 26 for the first time since November 2017. Thereafter, the U.S. dollar/Malaysia ringgit exchange rate renewed its highest level since the beginning of the year, at MYR 4.2288, on August 29.

2. Outlook for This Month

In September, the U.S. dollar/Malaysian ringgit exchange rate is expected to again renew its highest level since the beginning of the year. However, there are various factors of uncertainty for the Malaysian ringgit that are attracting attention in the market, such as the fact that the intensification of the trade frictions between the U.S. and China offset the positive effect on the emerging stock market generated by expectations for future interest rate cuts in the U.S., while there have been risks for Malaysian government bonds to be excluded from the composition of the FTSE Russell World Government Bond Index.

The focus of the trade frictions between the U.S. and China has shifted from the import volume to the customs rate, and market participants are not expecting the U.S. to cut the interest rate but are demanding the U.S. to do so, expanding the inverted yield curve. In the middle of August, the April–June quarter GDP of Malaysia was announced, and the outcome was stronger than expected, recording positive growth from the previous quarter, which is rare in Asia. However, this is thanks to the fact that net exports expanded due the significant fall in imports, and thus market participants should not take this as positive news.

In general, there has been vigorous appetite to buy bonds, mainly among domestic investors. Thus, the

Malaysian 10-year government bond yield fell from 3.6% to 3.2% only in August. In the middle of April, FTSE Russell announced its plan to consider including Chinese government bonds by removing Malaysian government bonds from its World Government Bond Index. The decision on this is to be made in September. As it has been estimated that the investment balance by foreign investors based on this index is around USD 8 billion, most market participants expect the situation to remain the same. However, they should also remain cautious about this as a factor of possible turbulence in the market. It should also be mentioned that some market participants expect the current policy interest rate OPR to be cut from 3%, the current level, due to concerns over a worldwide economic downturn. However, as the decision on the above issue is to be made in September, an interest rate cut can be expected only in November at the very earliest.

Foreign direct investment in Malaysia recorded significant growth for two consecutive quarters—the October–December quarter last year and the January–March quarter this year. However, investment slowed down significantly in the most-recent April–June period. Yet, the approved investment value continued to increase mainly for investment from the U.S. with the purpose of transferring manufacturing bases. Therefore, market participants should remain attentive to see if there will be any incentive shown in the governmental budget bill for FY2020, to be announced on Friday, October 11, changing the capital flow.

However, there is no particular positive factor for the Malaysian ringgit in September, and thus the U.S. dollar/Malaysian ringgit exchange rate is likely to renew its high since the beginning of the year before the economic recovery of Malaysia.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – September 2019

Expected Ranges	**Against the US$:**	**IDR 14,100–14,500**
	Against 100 rupiah:	**JPY 0.73–0.76**
	Against the yen:	**IDR 131.58–136.98**

1. Review of the Previous Month

In August, the Indonesian rupiah depreciated at the beginning of the month, after which the U.S. dollar/Indonesian rupiah pair continued trading within a narrow range at around the IDR 14,200 level.

On August 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,000 level. At the end of the previous month, the Federal Open Market Committee (FOMC) decided to cut the interest rate at its regular meeting. However, Federal Reserve Board (FRB) Chair Jerome Powell made a remark to calm excessive expectation in the market for interest rate cuts, in response to which the Indonesian rupiah weakened against the U.S. dollar, leading the U.S. dollar/Indonesian rupiah exchange rate to reach the IDR 14,100 level. On the same day, the July CPI of Indonesia was announced, and the outcome was 3.32% year-on-year. Furthermore, U.S. President Donald Trump announced the imposition of a new customs duty on Chinese products, and this led the Indonesian rupiah to continue depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,200 level on August 2, the following day. Then, in the following week, the second-quarter GDP of Indonesia was announced on August 5, and the result turned out to be 5.05%—the lowest figure in two years. Under such circumstances, the Indonesian rupiah continued depreciating due to concerns over the intensification of the trade frictions between the U.S. and China. On August 6, the U.S. dollar/Indonesian rupiah exchange rate reached its monthly high at around the IDR 14,360 level. Thereafter, the IDX Composite (an index of all the stocks listed on the Indonesia Stock Exchange) rallied, mitigating risk-averse sentiment in the market. Following this event, the Indonesian rupiah also appreciated (the U.S. dollar/Indonesian rupiah exchange rate fell), and on August 9, the exchange rate again reached the upper-IDR 14,100 level.

In the middle of the month, risk-averse sentiment strengthened again in the market toward August 12 and 13, encouraging market participants to sell the Indonesian rupiah. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,300 level. However, on August 13, during overseas trading hours, the U.S. announced its decision to partially postpone the imposition of the additional customs duty against China, and this mitigated risk-averse sentiment in the market. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate was pushed back to the IDR 14,200 level once again. In the U.S.,

long-term interest rates became higher than short-term interest rates, inverting the relationship between the short-term and long-term interest rates, and this is considered to be a sign of an economic recession in the times ahead. Under such circumstances, risk-averse sentiment strengthened in the market again, and on August 15, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,300 level once more. However, the U.S. dollar/Indonesian rupiah exchange rate remained relatively stable thereafter, fluctuating at the IDR 14,200 level.

At the end of the month, the U.S. dollar/Indonesian rupiah exchange rate fluctuated at around the IDR 14,200 level on August 22. The central bank of Indonesia decided to cut its seven-day reverse repo rate, which is the policy interest rate, by 0.25% to 5.5%. Thus, the policy interest rate was cut for the second consecutive month—this had not been anticipated in the market. However, this did not accelerate the depreciation of the Indonesian rupiah. With some market participants buying the U.S. dollar at the end of the month, the U.S. dollar/Indonesian rupiah pair continued trading at the IDR 14,200 level, and trading in August closed at around IDR 14,200.

2. Outlook for This Month

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

First of all, with regard to the domestic environment surrounding the Indonesian rupiah, the large current account deficit currently observed is expected to persist for a while, given the fact that there was a deficit in the July trade balance announced last month, with exports constantly recording negative year-on-year growth. Last month, the current account balance for the second quarter this year was released, and the result turned out to be a deficit of USD 8.4 billion, even larger than the deficit recorded in the first quarter that was approximately USD 7 billion. Pressure to sell the Indonesian rupiah is therefore likely to persist in the times ahead.

Thus far, expectations for interest rate cuts in the U.S. have been a supporting factor for the Indonesian rupiah. This is likely to continue contributing to the stability of the Indonesian rupiah market to some extent. However, as was mentioned above, the central bank of Indonesia cut the interest rate for the second consecutive month, and the interest rate differentials between Indonesia and the U.S. are not widening. For this reason, it is unlikely for the Indonesian rupiah to appreciate one-sidedly in September. Whether or not the central bank of Indonesia will carry out additional measures of monetary easing would depend on future decisions regarding interest rate cuts in the U.S. as well as on the stability in the Indonesian rupiah market. It seems that expectations among market participants for interest rate cuts in the U.S. have been a little too overheated, given that the U.S. economy has not fallen into a serious recession just yet.

However, the current situation suggests that the U.S. is obliged to pre-emptively cut the interest rate at least once more. If the interest rate is cut in the U.S. in September, it is possible for the central bank of Indonesia to also cut the interest rate again at the meeting scheduled for September 19.

With regard to securities investment in Indonesia, the amount of Indonesian government bonds held by foreign investors had been on a decline toward the middle of August due to growing risk-averse sentiment in the market. However, as of August 29 (when this article was being written), foreign investors have bought back Indonesian government bonds up to the amount of IDR 1,012 trillion once again, approaching the figure recorded at the end of July (UDR 1,013 trillion). The question is whether Indonesian government bonds will be bought further from this point onward.

Under such circumstances, the Indonesian rupiah is forecast to remain weak in the U.S. dollar/Indonesian rupiah exchange market in September. While the trade frictions between the U.S. and China have intensified, it is likely for risk-averse sentiment to grow again in the market. If that happens, market participants should be careful about the possibility for the Indonesian rupiah to depreciate further.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – September 2019

Expected Ranges	**Against the US$:**	**PHP 51.75–53.00**
	Against the yen:	**JPY 2.000–2.050**

1. Review of the Previous Month

In August, the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.01. At the end of July, the U.S. dollar/Philippine peso was traded at PHP 50.81—the highest rate for the Philippine peso in a year and seven months. However, at the press conference after the Federal Open Market Committee (FOMC) meeting, Federal Reserve Board (FRB) Chair Jerome Powell emphasized that the interest rate cut was only a pre-emptive action, which cooled down the previously overheating expectation for interest rate cuts in the U.S., and the U.S. dollar/Philippine peso exchange rate recovered to the PHP 51 level.

At the beginning of the month, U.S. President Donald Trump announced his decision to impose a 10% customs duty on Chinese products worth USD 300 billion. Also, the July employment statistics revealed a change in the number of non-agricultural employees, remaining within the expected range. However, the figure in the previous month was revised significantly downward, slightly raising the unemployment ratio. As a consequence, risk-averse sentiment strengthened in the market (encouraging market participants to buy the U.S. dollar as a safe asset).

On August 5, the U.S. dollar/Chinese yuan exchange rate exceeded CNY 7—the lowest rate for the Chinese yuan in 11 years. In the early morning of August 6, U.S. Secretary of the Treasury Steven Mnuchin announced a decision to nominate China as a currency manipulator in response to the depreciation of the Chinese yuan. As a result, relations between the U.S. and China worsened, further fueling risk-averse sentiment in the market. Under such a context, the U.S. dollar/Philippine peso exchange rate rose rapidly to the PHP 52 level. Then, on August 8, the Philippine peso weakened further against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate almost reached PHP 52.40 for the first time in 2.5 months.

Thereafter, the market somewhat stabilized, as the media reported that the People's Bank of China (PBOC) had mitigated concerns over the depreciation of the Chinese yuan and that, in the U.S., Director of the National Economic Council Larry Kudlow made a remark to confirm that U.S. President Donald Trump wished to continue negotiations with China. As market participants adjusted positions, the U.S. dollar/Philippine peso exchange rate occasionally fell below the PHP 52 level. However, U.S. President

Donald Trump mentioned thereafter the possibility of postponing the trade negotiations between the U.S. and China scheduled for September. Furthermore, market sentiment worsened again, due to political uncertainty in Italy and Argentina as well as due to the intensification of the protests in Hong Kong. With concerns over a slowdown of the global economy, the 30-year U.S. government bond yield fell below 2.0% for the first time, while the 10-year U.S. government bond yield fell to the 1.5% level. Furthermore, the 10-year U.S. government bond yield temporarily fell below the yield of the two-year U.S. government bond yield for the first time since 2007. As a consequence, risk-averse sentiment grew further in the U.S. dollar/Philippine peso exchange market, and the Philippine peso depreciated against the U.S. dollar and the exchange rate once reached PHP 52.62 to the U.S. dollar on August 15. This level was the highest rate for the U.S. dollar in August.

Toward the end of the month, however, the U.S. dollar weakened. It seems that U.S. President Donald Trump made more optimistic remarks. However, market sentiment worsened due to the retaliatory customs duty announced by China as well as due to the negative remarks made by FRB Chair Jerome Powell regarding the global economy. Thus, the 10-year U.S. government bond yield that had once recovered to the 1.6% level rapidly fell below 1.5%, and this supported the stock market and the Philippine peso exchange market. On August 29, trading closed at PHP 52.18 to the U.S. dollar.

2. Outlook for This Month

The trade frictions between the U.S. and China are likely to significantly impact the U.S. dollar/Philippine peso exchange market in September.

The appreciation of the Philippine peso observed for 2.5 months from the middle of May was offset in two weeks in the U.S. dollar/Philippine peso market.

The Philippine peso has currently, as of August 29 (when this article was being written), been kept from depreciating further after positions were adjusted with all the negative factors taken into consideration, as the Philippine peso is seen to have depreciated too much recently, while there is some demand to buy the Philippine peso at the current reasonable rate.

Yet, it would not be a surprise if the U.S. dollar/Philippine peso exchange rate fluctuates within a range of PHP 2–3 toward the end of the year, as the current exchange rate is around the same level as at the beginning of the year.

Furthermore, as there has been persistent concern over the trade frictions between the U.S. and China, it is possible for the Philippine peso to start depreciating again.

In terms of the domestic environment, there are a number of negative factors for the Philippine peso.

The July CPI of the Philippines turned out to be 2.4% year-on-year, with a decline from the previous month that recorded 2.7% year-on-year. The growth rate of the April–June quarter GDP of the Philippines turned out to be 5.5%, falling below 5.9%, the market estimate, reaching its lowest level in four years and three months after recording 5.6% in the January–March quarter.

At the monetary policy committee meeting held at the central bank of the Philippines on August 8, the policy interest rate was cut by 0.25%. The central bank has expressed its wish to support the economy through monetary easing. Given the recent remark made by the governor of the central bank of the Philippines, Benjamin Diokno, it is likely for the policy interest rate to be cut for the second consecutive month at the monetary policy committee meeting scheduled for September 26.

While the central bank is likely to remain vigilant to prevent excessive fluctuation of the exchange rate, some depreciation of the Philippine peso may be accepted in order to stimulate personal consumption.

The June amount of overseas Filipino workers (OFW) remittances was USD 2.29 billon, recording a decline from the USD 2.61 billion recorded in the previous month and USD 2.51 billion, the market estimate. This was the lowest figure since September last year. Furthermore, the trade deficit of the Philippines is expected to increase in the times ahead, and there has been a weekly net sell of Philippine stocks by foreign investors for four consecutive months since the beginning of August. Thus, there are various factors to encourage market participants to sell the Philippine peso in September (as of 6:00 p.m., August 29).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – September 2019

Expected Ranges	**Against the US$:**	**INR 68.00–73.00**
	Against the yen:	**JPY 1.41–1.57**

1. Review of the Previous Month

In August, the U.S. dollar/Indian rupee exchange rate rose sharply.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 69.20. The exchange rate later reached INR 69.0125 against the U.S. dollar on August 1, and this turned out to be the monthly low in August. As U.S. President Donald Trump announced his decision to impose an additional customs duty against China, weakening the Chinese yuan, the U.S. dollar/Chinese yuan exchange rate was led to exceed the CNY 7 mark on Monday, August 5, after the weekend. As the CNY 7 level had been considered to be an absolute support line in the U.S. dollar/Chinese yuan exchange market, market participants were in panic mode and hurried to sell the overall Asian currencies. Following this trend, the U.S. dollar/Indian rupee exchange rate also rose rapidly to reach the upper-INR 70 level, and the Indian rupee depreciated against the U.S. dollar by 1.7% within a day from the closing rate of the previous Friday. Thereafter, the central bank of India held a meeting and decided to cut the interest rate by 0.35%, immediately after which the Indian rupee weakened. However, there was a flow that was considered to be a market intervention, slowing down the rise of the U.S. dollar/Indian rupee exchange rate exactly at the INR 71.00 level. Consequently, the Chinese yuan rallied, while the Indian stock market strengthened based on the interest rate cut, leading the U.S. dollar/Indian rupee exchange rate to fall.

During the weekend, U.S. President Donald Trump made a remark that the September meeting with China might be cancelled, after which political uncertainty grew in Italy and Argentina, while concerns continued growing over the large-scale protests in Hong Kong in the week commencing on August 12. As a result, risk-averse sentiment increased worldwide. However, the U.S. dollar/Indian rupee exchange rate suddenly stopped rising each time before reaching INR 71.50 throughout the week, due to actions that were considered to be market interventions.

However, in the following week from the opening of the market on August 20, the U.S. dollar/Indian rupee exchange rate exceeded INR 71.50 for the first time since February this year. Thereafter, it turned out that there was a net sell of Indian stocks exceeding USD 1 billion by foreign investors after calculating both buy and sell transactions. This encouraged market participants to sell the Indian rupee and buy other

currencies. Thereafter, the Chinese yuan depreciated against the U.S. dollar to its lowest level in 11 years. Furthermore, the minutes of the meeting of the central bank of India held at the beginning of the month were released, implying further interest rate cuts. Under such circumstances, the U.S. dollar/Indian rupee exchange rate started to rise slowly. On August 26, the U.S. dollar/Indian rupee exchange rate reached INR 72.2550 for the first time since November 14 last year. As of August 29 (when this article was being written), the U.S. dollar/Indian rupee exchange rate remains high, at the INR 71.72 level.

The Indian rupee/Japanese yen exchange rate fell sharply in August.

The Indian rupee/Japanese yen exchange market opened trading at JPY 1.579 in August. At the beginning of the month, the U.S. dollar/Japanese yen exchange rate was at the lower-JPY 109 level. However, there were a series of negative factors, such as worsened figures in the U.S. economic indices, the announcement by the U.S. on the imposition of an additional customs duty against China, the depreciation of the Chinese yuan, and the nomination of China as a currency manipulator by the U.S. Department of the Treasury. As a result, risk-averse sentiment grew in the market, and, while market participants bought the Japanese yen as a safe currency, the U.S. dollar/Japanese yen exchange rate fell to the lower-JPY 105 in a short period of time. Amid this situation, the Indian rupee depreciated against the U.S. dollar, as was discussed above. Following this trend, the Indian rupee/Japanese yen exchange rate also fell rapidly below JPY 1.50 on August 5.

Thereafter, the Indian rupee/Japanese yen exchange rate remained low and continued fluctuating within a range between JPY 1.475–1.495. However, when the U.S. dollar/Indian rupee exchange rate approached its monthly high, the Indian rupee/Japanese yen exchange rate also fell to the JPY 1.45 level. The exchange rate then rallied slightly, and as of August 29 (when this article was being written), the Indian rupee/Japanese yen pair has been trading at the INR 1.479 level.

2. Outlook for This Month

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

In August, the Indian rupee depreciated significantly against the U.S. dollar. There are multiple factors behind this depreciation, including: (1) tax reform (announcement on the upward revision on income tax from 15% to 25% for yearly income of INR 20–50 million and from 15% to 37% for yearly income of INR 50 million or above), in response to which foreign investors withdrew their investment funds from India, increasing Indian rupee-selling; (2) a slowdown (or a future slowdown) in the Indian economy, due to a decline (or a future decline) in personal consumption, which accounts for 60% of the GDP of India, related to shadow banking; (3) seasonal factors that weaken the Indian rupee typically in August, known

as the "August Wall" in India, via which the Indian rupee has depreciated against the U.S. dollar in August in the past 10 out of 15 years; (4) the trade negotiations between the U.S. and China (as well as the concomitant depreciation of the Chinese yuan and other Asian currencies); and (5) the interest rate cut by the central bank of India.

The depreciation of the Indian rupee is thus based on multiple factors. However, the depreciation of the Indian rupee observed in August can be most-reasonably explained by (4) and (5), as (1) and (2) are not new factors that would not directly and convincingly explain the depreciation of the Indian rupee in August, while (3) can be a reason for the appreciation of the Indian rupee in September, as there has been such a trend in the past. Thus, (4) and (5) will be important factors in forecasting the market in September and thereafter.

With regard to the trade negotiations between the U.S. and China, it is difficult to make a forecast, as the situation is a highly political matter. The market consensus is that the frictions between the two countries will last for a long time. However, it seems that many market participants expect the current situation to persist rather than further intensify. While it may not be likely for the Chinese yuan to depreciate further, market participants should always pay attention to the central parity rate against the U.S. dollar announced daily by the People's Bank of China (PBOC). In any case, market participants also know that the problem will not be resolved immediately.

The central bank of India has already cut the interest rate four times for the total of 1.10% since the beginning of the year. At the meeting held in August, the central bank's stance in the monetary policy was described as "accommodative," after which the minutes of the meeting were released, revealing a reference to interest rate cuts to support the economic growth rate. Since August 2016, the central bank of India has an officially announced mandate to bring the consumer price index to 4% +/- 2%. However, the central bank recently seems to be adjusting the interest rate in order to maintain the growth rate. As has been written before in this section, the autonomy of the central bank is being questioned, with obvious pressure from political institutions. Under such circumstances, market participants have been obliged to accept the interest rate cuts.

As there has been no positive factor for the Indian rupee, the U.S. dollar/Indian rupee exchange rate is forecast to remain high in September.

This report was prepared based on economic data as of September 2, 2019.
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