Mizuho Dealer's Eye

October 2019

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – October 2019

Expected Ranges Against the yen: JPY106.00–109.00

1. Review of the Previous Month

The dollar/yen pair rose in September. After opening the month trading at 106.14 yen on September 2, it then moved with a heavy topside on declining hopes regarding US/China trade frictions. It temporarily hit a monthly low of 105.74 yen on September 3 on the bearish results of the US Manufacturing ISM Report on Business for August. Risk sentiments improved on September 4 after the UK parliament approved a bill to extend the EU withdrawal date to avoid a no-deal Brexit, with the pair rebounding to the lower-106 yen mark. It then rose to the 107 yen range on September 5 on news that the US and China had agreed to hold cabinet-level meetings at the start of October. It weakened for a time on September 6 after the US posted some worse-than-expected employment data for August, though it then rallied after FRB chair Jerome Powell expressed optimism about the direction of the US economy.

The pair then broke above 107 yen on September 9 on speculation that the Bank of Japan (BOJ) was considering some new easing measures. It climbed to the upper-107 yen level on September 10 on reports that China was prepared to accept more US agricultural products on the way to striking a trade deal. It then moved firmly on September 11 as the markets reacted warmly when China released a list of US products that were exempt from tariffs. On September 12, news emerged that advisors to President Trump had said the US was examining a limited agreement aimed at postponing or scrapping further tariff increases. This saw the currency pair rising to the lower-108 yen mark. The US released some better-than-expected August retail sales data on September 13, with the pair subsequently moving firmly around 108 yen.

The pair then fell to the mid-107 yen level on September 16 on news of an attack on a Saudi petroleum facility, though it bounced back to the 108 yen range after a round of selling. On September 17, the NY FRB announced it was pumping $75 billion into the repo market. Dollar selling intensified as a result, with the pair tumbling to around 108 yen. On September 18, the FOMC announced a 25bp rate cut, though on the whole the meeting struck a more hawkish tone than expected, so the pair rose to temporarily hit a monthly high of 108.48 yen. The Bank of Japan's (BOJ) Monetary Policy Committee (MPC) decided to keep policy fixed when it met on September 19, so the pair weakened to the upper-107 yen level. However, the MPC appeared more open to the idea of easing compared to the previous meeting, so the pair soon rebounded to around 108 yen. On September 20, President Trump said China's agricultural purchases were insufficient, with the currency pair subsequently plunging to the mid-107 yen mark.

The euro/yen pair was sold on September 23 when a German September PMI (preliminary) dipped below 50 for the first time in six-and-a-half years, with the dollar/yen pair also pulled down to the lower-107 yen range. On September 24, news emerged that the Speaker of the US House of Representatives Nancy Pelosi had launched formal impeachment proceedings against President Trump. This saw the dollar/yen pair dropping to the upper-106 yen level. It then strengthened to the upper-107 yen mark on September 25 on hopes regarding US/China trade talks and the announcement of an initial agreement with regards to US/Japanese trade talks. On September 26, China's foreign minister Wang Yi said China was prepared to buy more US goods. This comment saw the pair bouncing back to just below 108 yen. However, the pair then tumbled to the upper-107 yen mark on reports that the US was looking into introducing restrictions on Chinese investment.

2. Outlook for This Month

The dollar/yen pair is expected to trade with a heavy topside in October.

The FOMC implemented a 25bp rate cut in September. This followed on from a similar cut in July. However, the accompanying statement and the contents of the dot chart did not suggest a further rate cut was on the cards, so the meeting was read as more hawkish than expected. Ten of the 17 contributors to the dot chart expressed a negative opinion regarding further rate cuts within the year, with the results also suggesting that the US will keep policy fixed in 2020 before lifting rates from 2021 onwards. Nonetheless, bets on a further rate cut in 2019 have risen to over 70% on the interest-rate futures market and investors have priced in 2–3 rate cuts up until the end of 2020, so market opinions are diverging from the FRB's forecast. Opinions regarding monetary policy will be swayed by the results of economic indicators going forward, so this divergence will probably be ironed out in time. Opinions within the FOMC are also divided at present. There are also a number of global uncertainties, including US/China trade frictions. Given this, expectations for rate cuts are unlikely to suddenly fade away.

As broadly expected, the BOJ's MPC left policy unchanged when it met last month. However, market attention focused on a new phrase in the accompanying statement about how the BOJ would "reexamine economic and price developments at the next meeting (at the end of October)." This was read as hinting at further easing at the next meeting onwards. However, the BOJ has been pursuing a "different dimension of monetary easing" for a while now, so there is speculation the BOJ will want to refrain from any further easing as far as possible. Provided there are no sharp shifts in economic trends or foreign exchange levels, it seems likely the BOJ will continue to hint at easing depending on the circumstances, without taking any concrete steps in this direction. Though the FRB and BOJ have both adopted an accommodative stance, there is a gap when it comes to how much space each bank has for easing. This factor will probably lead to yen-buying pressure.

The US and China are also set to hold cabinet-level trade talks at the start of October. There are high hopes for progress at the moment, but excessive pessimism is unwarranted given how trade talks have developed thus far. President Trump is expected to step things up as next year's presidential election approaches, but there is still some time left, so the US is unlikely to soften its hardline stance toward China just now, with the issue likely to continue pouring cold water on risk sentiments.

Dealers' Market Forecast

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

Bullish on the dollar	7 bulls	107.00 – 110.00	Bearish on the dollar	9 bears	106.00 – 109.00

* Ranges are central values

Tanaka	Bear	106.00 – 109.00	There are high hopes regarding US/China trade talks, but President Trump's actions will be geared towards next year's presidential election, so it will remain difficult to predict how things will develop. It is hard to see China making any concessions either, so on the whole the talks likely to drag on without any breakthrough or breakdown. The dollar/yen pair is expected to continue trading in a range with a slight sense of disappointment.
Tasaka	Bear	106.50 – 109.00	The dollar/yen pair is expected to hit highs on hopes for progress in US/China trade talks, though it is then expected to hit lows on a sense of disappointment as talks fail to yield any results. However, the pair will be supported on the downside by hopes regarding the November APEC Economic Leaders' Meeting as well as by a demand rush before the fourth round of tariff hikes comes into effect on December 15.
Oba	Bull	106.75 – 109.25	The dollar/yen pair is expected to move firmly on ongoing hopes for progress in US/China trade talks. The ceiling of the 'cloud' in the daily Ichimoku Kinkyo Hyo trading chart (around 106.89 yen) will mark the pair's downside target, with market participants expected to gradually test the pair's topside. However, there are deep-rooted concerns about President Trump's behavior, so the dollar is unlikely to see any aggressive buying.
Takamura	Bull	107.00 – 109.50	The main headwind for the dollar/yen pair this year has been the US/China trade friction. Based on the current stance of each party, it seems unlikely things will worsen from here on. Though the FOMC implemented a rate cut in September, the US economy is moving strongly and expectations for further rate cuts are receding, so the currency pair looks set to trade firmly.
Tanishiki	Bear	106.00 – 109.00	The yen weakened in September on hopes regarding US/China trade talks, but the markets have already priced in moves by both sides towards an agreement (such as China's decision to buy more agricultural products), so the yen is unlikely to weaken further. As such, the dollar/yen pair is expected to float around the lower end of its current trading range.
(Mio) Otani	Bear	106.00 – 109.00	The dollar/yen pair moved firmly in September on expectations for progress in US/China trade talks, but it is hard to see the two sides reaching a complete agreement. The cabinet-level talks at the start of October will probably invite a sense of disappointment, with the pair subsequently moving with a heavy topside.
Takeuchi	Bear	106.00 – 109.50	There are hopes for improved US/China relations in the run up to the cabinet-level meetings in October and the APEC Economic Leaders' Meeting in November. However, it is hard to imagine any fundamental resolution given the political situation in both countries (the impending US presidential election and the 70th anniversary of the founding of the People's Republic of China). The dollar/yen pair's topside will be capped, with the pair moving in a range as investors steadily test its downside.
Kato	Bull	107.00 – 112.00	With President Trump focusing on the looming presidential election, he will probably push hard for deals on the foreign policy front until the end of the year. He will want to achieve some kind of tactical victory when it comes to China, North Korea and Iran.

Seki	Bear	106.00 – 109.00	The dollar/yen pair rose in September on hopes for progress in US/China trade talks, for example, but the two sides are unlikely to make about unexpected concessions during a cabinet-level meeting, so the pair looks set to trade with a heavy topside. However, expectations for further rate cuts are waning, with the markets also expecting some moves to boost the economy and stock prices in the run up to the US presidential election. As such, the pair is unlikely to fall sharply this month.
Mitsuishi	Bear	105.00 – 109.00	With a US election looming next year, President Trump will try to score some results when it comes to the US/China trade problem and other foreign policy issues. It is hard to see China making any major concessions, though, so the situation is unlikely to reach any fundamental resolution. The dollar/yen pair is expected to move with a heavy topside this month.
Okamoto	Bull	106.50 – 110.50	Hopes for reconciliation between the US and China will continue even after the cabinet-level meetings scheduled for mid-October. The dollar/yen pair will grow less susceptible to the unstable political situation in each country, with attention likely to shift to the fundamentals. If the consumer/services markets remain relatively unscathed, the pair with probably move firmly.
Ueno	Bull	107.00 – 110.00	The major theme this month will be the US/China trade issue. Though the two sides are unlikely to reach an agreement, they will probably strike a conciliatory tone, so risk sentiments will probably not deteriorate sharply. The pair will probably trade with a heavy topside with the mid-108 mark acting as a ceiling, though the pair will move bullishly on the whole.
Tamai	Bear	106.50 – 109.00	The dollar/yen pair could rise for a time on US/China trade talks, but a comprehensive agreement looks some way off, with a partial agreement also looking unlikely. US indicators also point to signs of weakness in the manufacturing sector and so on, so the pair looks set to trade with a heavy topside.
Harada	Bull	107.00 – 111.00	With US stock markets remaining at highs, US economic indicators look set to remain bullish. With a US presidential election looming next year, US/China trade talks are also showing signs of progress. For now, the dollar/yen pair is expected to move firmly.
Moriya	Bear	106.00 – 109.00	Attention will focus on the cabinet-level US/China trade talks, but any substantial progress seems unlikely given events so far. Furthermore, though the FRB has dropped no strong hints about further rate cuts, the global economic situation is not bullish enough to warrant any sharp decline in market expectations for rate cuts, so the dollar/yen pair is expected to move with a heavy topside.
Okuma	Bull	107.00 – 110.00	The US economy is moving firmly compared to Europe. Long-term interest rates fell until August, but they have now begun rising, so the US will probably attract investment. The dollar is likely to be bought during phases of risk aversion (related to the US/China trade issue or the situation in the Middle East, for example), so the dollar/yen pair looks set to move firmly.

Masayuki Tsunashima, Forex Sales, Derivatives & Forex Department

Euro – October 2019

Expected Ranges | **Against the US$: US$1.0700–1.1100**
Against the yen: JPY115.00–119.00

1. Review of the Previous Month

The euro/dollar pair rose to $1.1109 in September, though it then fell to its lowest level since 2017 on uncertainty about the direction of the eurozone economy.

The pair began the month trading at the upper-$1.09 mark during Tokyo trading time on September 2. The euro was then sold by speculators and so on, so the pair moved with a heavy topside. With the US/China trade issue continuing to smolder away, the euro was sold against the yen on uncertainty about Brexit, with the euro/dollar pair also sliding to $1.0926 on September 3, though it then bounced back on the bearish result of the US Manufacturing ISM Report on Business for August. The Service PMI results of several major European nations were released on September 4. These moved firmly on the whole and this helped to push the pair higher. On September 5, the UK House of Commons passed a bill aimed at extending the EU withdrawal date to avoid a no-deal Brexit. The markets reacted warmly to this, with the pair's topside extending to $1.1084. It then moved in a narrow range around the mid-$1.10 level.

The ECB Governing Council met on September 12 and it decided to introduce a comprehensive package of further easing that included rate cuts and quantitative easing, with the pair subsequently plunging to $1.0927. However, ECB president Mario Draghi then insisted that fiscal policy play a more active role than monetary policy. With news also emerging that several major eurozone nations were opposed to a recommencement of quantitative easing, the pair rallied to the upper-$1.10 level and it then hit a monthly high of $1.1109 on September 13.

The dollar was bought and the pair fell on September 16 after a Saudi petroleum facility was attacked. It then moved around $1.1000. However, on September 17 the NY FRB announced it had conducted a repo operation to pump $53.2 billion into the markets. This led to a trend shift and the greenback was now sold, with the pair climbing to the upper-$1.10 mark. The pair then tumbled to $1.1014 on September 18 in the wake of a hawkish FOMC meeting. It temporarily rallied to the upper-$1.10 level on September 19 on news that the eurozone's current account surplus had expanded in July, though it was then pulled down to the lower-$1.10 mark as the euro/pound pair moved bearishly after the Bank of England's Monetary Policy Committee (MPC) meeting decided to keep policy rates fixed.

France and Germany released some bearish PMIs on September 23, so the euro was sold and the euro/dollar pair fell to $1.0966. The pair bounced back to the lower-$1.10 level for a time on September 24, but with President Trump making positive noises about US/China trade talks, the dollar was bought and the pair dropped back.

2. Outlook for This Month

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

In his press conference after the ECB Governing Council meeting on September 12, ECB president Mario Draghi talked up the downside risks to the economy. These fears were borne out with the release of several worse-than-expected PMIs on September 23. As such, there is deep-rooted uncertainty about the European economy. In particular, though the eurozone had previously been pulled along by the German manufacturing sector, the German Manufacturing PMI dipped to 41.4 to undergo a more-or-less continual fall since dipping below 50.0 (the key line dividing expansion from contraction) in January 2019. This suggests some major factors will be needed to wipe away this uncertainty, with the euro/dollar pair set to continue trading with a heavy topside for now. On October 24, the ECB Governing Council will be meeting and the October PMIs will also be released, so investors should monitor the impact of these events. At the time of writing, further rate cuts seem unlikely, with the ECB expected to remain in wait-and-see mode for now. Eurozone PMIs have become a focal point since last month's bearish results, so market participants should keep a close eye on them. If the eurozone posts some particularly bearish results, this will exacerbate concerns about the direction of the eurozone economy, with the euro likely to be impacted too.

Furthermore, UK prime minister Boris Johnson has said the UK will leave the EU by the end of October. At this moment in time, most observers believe this will not happen, so perhaps the Brexit deadline will be extended. However, even is this does come to pass, this will not solve the problem and the euro/dollar pair will continue to be swayed by news related to the issue, so investors should be particularly wary of downside risk.

At the same time, the greenback looks set to continue moving firmly. The Dollar Index rose to its highest level in around two years in September, with dollar long positions apparently building up substantially. Depending on how things develop, market participants might move to unwind these positions, with the dollar then sliding and the euro rising, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.0800 – 1.1200	Bearish on the euro	15 bears	1.0700 – 1.1100

* Ranges are central values

Tanaka	Bear	1.0700 – 1.1100	There remain several euro-selling factors, such as the divergent economic performance of the US and Europe (with the European economy undergoing a German-led slowdown), expectations for ECB rate cuts, concerns about Brexit, and internal political uncertainty. The euro/dollar pair's slide is expected to remain muted as President Trump intervenes to curb dollar bullishness.
Tasaka	Bear	1.0700 – 1.1100	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	1.0800 – 1.1050	There were expectations for a gentle economy recovery in the eurozone, but things have worsened again in Germany and so on. ECB Executive Board member Philip R. Lane has hinted that interest rates could be pushed further into negative territories, so the euro is unlikely to face any adjustive buying for the time being. The euro/dollar pair will probably trade with a heavy topside as investors check for signs of an economic slowdown.
Takamura	Bear	1.0700 – 1.1050	There are no signs of the eurozone economic slowdown easing off, so there will remain expectations for further ECB easing. The Brexit issue could also face a major turning point in October. With the greenback moving firmly on the strong US economy, the euro/dollar pair looks set to continue trading with a heavy topside.
Tanishiki	Bear	1.0700 – 1.1100	The eurozone economy is slowing, with the ECB also steering monetary policy in the direction of rate cuts and quantitative easing, so it will remain hard for investors to actively buy the euro. The pair is also expected to move bearishly as the Brexit deadline looms at the end of the month.
(Mio) Otani	Bear	1.0700 – 1.1100	If it seems the ECB is running out of policy options, the euro could be pushed higher for a time, but with Germany and other eurozone economies slowing, the euro/dollar pair looks set to continue trading with a heavy topside.
Takeuchi	Bear	1.0700 – 1.1100	The eurozone economy seems weak compared to the economies of Japan and the US. The slowdown is particularly pronounced when it comes to the manufacturing sector in Germany and elsewhere, so growth looks set to remain sluggish. The euro/dollar pair will probably fall on ECB monetary policy. As such, it seems investors will continue testing the pair's downside.
Kato	Bear	1.0550 – 1.1050	The European economy is noticeably slowing, though data suggests speculators are moving to unwind their euro short positions. As such, there is probably ample room for euro shorts to build up again.
Seki	Bear	1.0700 – 1.1100	The slowdown in the German manufacturing sector is filtering through supply chains to impact the rest of the eurozone. The service sector has moved bullishly, but there are concerns it might also be impacted. With the ECB adopting an accommodative stance, it is hard to imagine the euro/dollar pair rising.
Mitsuishi	Bear	1.0700 – 1.1100	The economies of Germany and other eurozone nations are noticeably slowing, so the euro/dollar pair is likely to move with a heavy topside on speculation about further easing. The interminable Brexit issue will also prevent the euro from rising.

Okamoto	Bear	1.0700 – 1.1100	The eurozone economy has slowed further. Though further ECB easing is likely to be ineffective, the euro/dollar pair will also be weighed down by split opinions about the idea of recommencing QE. Market participants should pay attention to fiscal mobilization moves in each country, but if seems this mobilization lacks support, the euro could be sold again, so caution will be needed.
Ueno	Bull	1.0800 – 1.1200	The euro/dollar pair will be swayed by the impending UK withdrawal from the EU at the end of October. Amid lingering concerns about the UK prime minister forcing the country out of the EU, there is no clear market consensus about how things will develop, though the pair will be susceptible to short covering if a no-deal Brexit is avoided.
Tamai	Bear	1.0700 – 1.1100	The eurozone economy is undergoing a marked slowdown, while the Brexit deadline is also looming at the end of October, so investors will probably test the euro/dollar pair's downside. Even if a no-deal Brexit is avoided, it is hard to see the UK leaving the EU at the end of October as planned.
Harada	Bear	1.0800 – 1.1050	The eurozone economy has deteriorated sharply, so the euro/dollar pair looks set to continue falling. Indicators like German PMIs are moving particularly bearishly. Germany accounts for around 20% of the eurozone's GDP, so a slowdown there will affect the entire zone.
Moriya	Bear	1.0700 – 1.1100	Germany and other eurozone economies have slowed markedly, so the euro will remain a hard currency to buy. If the Brexit deadline is extended, the euro might be pushed up for a time, but this move will just buy time and the euro's rally will be short-lived.
Okuma	Bear	1.0750 – 1.1050	While the ECB has announced a comprehensive easing package that includes rate cuts and a recommencement of QE, expectations for further FRB rate cuts in 2019 are waning. European economic indicators remain bearish too and there is also uncertainty about the impending Brexit deadline, so the euro/dollar pair looks set to move weakly.

Taihei Yamamoto, Europe Treasury Department

British Pound – October 2019

Expected Ranges	**Against the US$:**	**US$1.2200–1.3000**
	Against the yen:	**JPY132.00–140.00**

1. Review of the Previous Month

The pound/dollar pair opened September trading at $1.2138. With the UK prime minister announcing that parliament would be prorogued for five weeks from the second week of September, the pair dipped below the psychologically-important $1.20 mark on September 3 to hit $1.1959 for the first time since October 2016. However, the Conservatives then lost their majority in the House of Commons when Tory MP Phillip Lee defected to the pro-EU Liberal Democrats, so the pair bounced back. With the Conservatives in disarray, the House of Comments then approved a bill on September 4 aimed at extending the withdrawal date to avoid a no-deal Brexit. A proposal by prime minister Boris Johnson to hold a general election was also voted down. Furthermore, on September 5, Mr. Johnson's brother Jo Johnson announced he was resigning as a government minister and as an MP, with the prime minister losing even more power.

On September 9, parliament voted 311 to 302 to force the government to release communications related to prorogation and the entire text of Operation Yellow Hammer, the government's plan in the event of a no-deal Brexit. The government subsequently published materials outlining the expected impact of a no-deal exit. The documents suggested the UK would face food shortages, rising prices and civil unrest, so opposition parties called for parliament to be re-opened in order to prevent a no-deal Brexit, though in the end parliament was shut down for five weeks from September 10. On September 11, Scotland's highest court ruled that the prorogation was unlawful on the grounds that the prime minister had gained permission from the queen under false premises, with the case them moving to the Supreme Court for a final decision.

The Bank of England (BOE) Monetary Policy Committee (MPC) met on September 19 and it decided to keep policy fixed for the ninth straight meeting. The accompanying statement said that if Brexit-related uncertainties persisted for a prolonged period, demand growth would remain below potential and this would increase excess supply, with "domestically generated inflationary pressures…reduced." The pair weakened for a time, though these movements were subdued. The UK government then submitted a written document to the EU regarding Brexit, while the EU's chief Brexit negotiator Michel Barnier met with his UK counterpart Stephen Barclay in Brussels on September 20. All this saw the pair rising to $1.2582.

On September 24, the UK Supreme Court reached a unanimous 11-0 judgement that the proroguing of parliament was unconstitutional, so parliament reconvened again on September 25. As for UK economic indicators, credit card lending grew by +3.3% y-o-y in August, thus marking the lowest level of growth since February 2015, while inflation expectations for the next 12 months dipped to 2.9%, down from 3.2% in August, with UK economic activity slowing markedly. On September 27, MPC member Michael Saunders said it was "quite plausible" that the BOE's next move might be a rate cut. Mr. Saunders had previously shifted from a neutral to a hawkish position, so this statement saw the pair dipping below $1.23 to hit a two-week low.

2. Outlook for This Month

The UK is scheduled to leave the EU on October 31. Though parliament was set to be prorogued until October 14, it has re-opened earlier than planned following the Supreme Court decision, so forces opposed to a forced exit now have more time. Parliament has passed a bill that forces the prime minister to apply for a three-month extension if deal is not reached by October 19, but Mr. Johnson has said he will not seek an extension even in the event of no deal. He also insists that the government would be within its legal rights to take the UK out of the EU at the end of October, so the situation remains up in the air.

Attention is also focused on the likelihood of a general election. The Labour Party is the largest opposition party and it has said it will not agree to a general election until a no-deal Brexit is off the table. However, moves to overthrow the cabinet are also accelerating within the Conservative Party, with the former prime minister David Cameron accusing Mr. Johnson of throwing his support behind Brexit to further his own career, for example. It would not be unusual if the Tories themselves called a vote of no confidence. The leave vote will probably by split between the no-deal-supporting Tories and the Brexit Party, so an election could well lead to a change of administration. According to an opinion poll published after the Supreme Court decision, 43% of respondents said Mr. Johnson should resign, above the 39% who said he should stay in his post. The government's Operation Yellow Hammer paper approved last month says a plausible no-deal scenario could involve fresh-food shortages, logistical chaos, rising prices and civil unrest, with the document providing a rebuke to the Johnson administration's quest for a no-deal exit. However, last month saw the commencement of 'Get Ready for Brexit,' a government publicity campaign involving the creation of a special website and the release of a series of outdoor/social media advertisements and TV commercials, with Brexit now seeming more imminent. Either scenario could come to pass, so sterling looks set to move erratically this month.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – October 2019

Expected Ranges	**Against the US$:**	**US$0.6650–0.6950**
	Against the yen:	**JPY71.50–74.50**

1. Review of the Previous Month

The AUD/USD pair climbed from the $0.67 range to the $0.68 range in September before falling back to the $0.67 range.

The US and China hit each other with tariff increases at the beginning of the month. The Australian dollar was sold at the start of September 3, with the currency pair dipping to the upper-$0.66 level. The RBA board then kept the cash rate fixed at 1%, while the accompanying statement also contained no surprises. Investors had been expecting a dovish statement, so they now reacted by buying the Australian unit, with the pair climbing to the mid-$0.67 mark. Australia's 2Q GDP data was released on September 4, with the month-on-month and year-on-year figures both conforming with market forecasts, so expectations for an October rate cut waned. The pair temporarily climbed to the $0.68 range on news that Hong Kong's ruling administration had scrapped an extradition bill. On September 5, reports emerged that the US and China had agreed to hold cabinet-level talks at the start of October, with the pair subsequently bought to the lower-$0.68 mark. It then climbed to the mid-$0.68 level for a time on September 6 on the worse-than-expected results of the employment data for August.

The pair strengthened to the upper-$0.68 level on September 11 on news that China would be introducing some measures to mitigate the impact of trade frictions. On September 12, President Trump announced he would be postponing a planned tariff hike on some Chinese goods from October 1 to October 15, with the currency pair then hitting $0.6895, its highest level for six weeks. A Saudi petroleum facility was attacked on September 14, with the pair then sliding to the mid-$0.68 mark on risk aversion when trading opened the following week on September 16. The minutes to the September RBA board meeting were released on September 17 and they were read as dovish on the whole, so Australian interest rates fell sharply and the pair tumbled to the lower-$0.68 range. The NY FRB then pumped funds into the overnight repo market for the first time in ten years, with the Australian dollar climbing and the currency pair rallying to the mid-$0.68 level. As expected, the FOMC implemented a 25bp rate cut when it met on September 18. However, the accompanying statement and the interest rate forecast were more hawkish than expected, so US short-term interest rates rose. The currency pair subsequently fell to the lower-$0.68 mark. Australian employment data for August was released on September 19, with the unemployment rate deteriorating to 5.3% (forecast: 5.2%). Though the number of full-time workers fell, the number of part-time works increased sharply, with the data pointing to dark clouds over the labor market. As a result, the pair dropped below $0.68 for the first time in two weeks.

It then weakened to the mid-$0.67 mark on September 20 as risk aversion greeted news that a Chinese trade delegation had cancelled a US farm visit. Reports emerged at the weekend that the cancellation would have no impact on US/China trade talks, so the pair bounced back to the $0.6770 range when the following week opened on September 23. In a speech on September 24, RBA governor Philip Lowe did not drop any strong hints about an upcoming rate cut. As such, his speech was read as less dovish than expected, so the pair was bought to the $0.68 range. The CNH was sold on September 25 after the HIBOR fell sharply, with the currency pair also sliding. The greenback was then bought across the board when President Trump said the US and China were close to reaching an agreement, so the pair then dipped to the mid-$0.67 level.

2. Outlook for This Month

Market participants will probably test the AUD/USD pair's topside in October.

According to the minutes to the August RBA board meeting, "the upward trend in wages growth appeared to have stalled." It also became clear that the RBA would be looking out for improvements in the unemployment rate when deciding how to steer interest-rate policy going forward. However, the employment data for August was then released and it revealed that labor market conditions had worsened, so more investors have begun pricing in an October rate cut. At +1.6%, the 2Q inflation rate dipped below the RBA's target for 2–3% for the first time in a while. With the unemployment rate also deteriorating, it seems the RBA has ample reasons for cutting rates at it tries to hit its targets for employment and inflation. In a speech on September 24, RBA governor Philip Lowe dropped no specific hints about an upcoming rate cut. The speech was a mixture of dovishness and hawkishness, so although expectations for rate cuts waned slightly, the interest-rate futures market still puts the odds of a 25bp rate cut by the RBA in October at around 77%, so a rate cut seems the most likely scenario from here on.

A glance at Australia's fundamentals shows the Australia's 2Q GDP data (released last month) dropping to +1.4% y-o-y, with growth falling to its lowest level in ten years. Consumer spending moved sluggishly and housing investment was also weak, but a sharp rise in iron ore prices saw the current account balance hitting the black for the first time in 44 years, up sharply on market expectations. Other Asian nations have seen exports to China and so on slumping on the back of US/China trade frictions, but primary commodities like iron ore and coal account for 80% of Australia's total exports, for example, while China sweeps up around 30% of Australia's exports, with iron ore accounting for around 50% of this figure. As such, even if iron ore prices undergo a mild correction, it is likely external demand will continue to boost the Australian economy as infrastructure investment expands in China on stimulus policies. The Australian dollar will gradually face more appreciatory pressure due to the impact of income tax cuts and government's infrastructure plans, with the unit also boosted by the emerging effects of continuous RBA rate cuts.

In the short term, even if the RBA does implement a rate cut when it meets in October, the markets have already priced this in to a considerable extent. However, if the RBA springs a surprise and keeps rates fixed, this will probably lead to Australian-dollar buying. Furthermore, the Australian unit will also be supported by hopes regarding the US/China trade talks penciled in for the start of October, but if the talks come to nothing, stock prices could fall sharply, with investors also testing the AUD/USD pair's downside again as a result. Attention will remain focused on US/China trade talks this month.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – October 2019

Expected Ranges **Against the US$: C$1.3100–1.3500**
Against the yen: JPY78.00–84.00

1. Review of the Previous Month

The Canadian dollar strengthened against the greenback in September for the first time in a while, though the USD/CAD pair's level did not actually change much from the start to the end of the month. The pair hit a monthly high of C$1.3383 on September 3 and a monthly low of C$1.3134 on September 10.

With the Canadian dollar edging lower, the pair opened the month trading at the lower-C$1.33 mark. The closely-watched US Manufacturing ISM Report on Business for August was released on September 3 and it dipped below the key 50 mark to hit 49.1. This led to more risk aversion, with the pair temporarily hitting a monthly high of C$1.3383. The Bank of Canada (BOC) met to set policy rates on September 4. With the FRB and other central banks adopting an accommodative stance globally, there was speculation the BOC would also adopt an easing bias. However, it kept its policy rate fixed at 1.75%, as expected, and it gave no particular signals about future rate cuts, so the Canadian dollar began climbing. As a result, the pair dipped to the lower-C$1.32 range on the same day. Canada's employment data for August was released on September 6. The number of people in work had grown by 81,100, significantly up on market expectations, so the Canadian unit rose higher and the pair tumbled to the mid-C$1.31 mark.

The pair then hit a monthly low of C$1.3134 on September 10. The US August retail sales figure and September Michigan Consumer Sentiment Index were released on September 13, with both beating market forecasts. With US interest rates also undergoing a sustained rise from the start of the month and US/Canadian interest-rate differentials widening, the currency pair rose close to C$1.33.

WTI prices soared during the early hours of September 14 after a Saudi petroleum facility was attacked by a drone, so the Canadian dollar faced appreciatory pressure. Nonetheless, the pair then floated around the upper-$1.32 level until the end of the month. Canadian released some mixed economic data during this time, including the retail sales figure.

2. Outlook for This Month

After the September FOMC meeting, expectations for two more US rate cuts within the year waned. Uncertainty about US/China trade frictions continues to smolder away and the time has now come when investors should consider the impact of this uncertainty on the economy, though tensions and market attention have eased off compared to one point.

The impact of the Saudi petroleum facility attack on crude oil prices was also short-lived. Geopolitical risk remains in the Middle East and there is latent pressure for price rises, though the trend for crude oil prices is unlikely to shift substantially.

The USD/CAD pair is approaching the upside of its 200-day line since August (C$1.33 as of September 25), so market participants will need to monitor whether it breaks clearly above this line. In the medium term, though, the pair looks set to continue trading in a range between C$1.30–1.35.

The pair will probably fluctuate if the BOC tweaks its monetary policy. Of course, a lot will depend on the performance of Canadian economic indicators, but overall it seems the BOC will keep monetary policy fixed for the rest of the year. The pair may face some upside risk as a result of a slide in the value of the Canadian dollar.

Canada will be holding a general election on October 21. Recent opinion polls point to a close fight between Justin Trudeau's Liberal Party and the Conservatives, with the situation up in the air. It is hard to imagine the announcement of any particular fiscal policy pledges at this moment in time, but the ultimate victor will find it hard to maintain a strong political base, a fact that could push the Canadian dollar lower.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – October 2019

Expected Ranges	**Against the US$:**	**KRW1,175–1,220**
	Against the yen:	**JPY8.772–9.217 (KRW100)**
		(KRW10.850–11.400)

1. Review of the Previous Month

The USD/KRW pair underwent a month-on-month slide in September.

After opening the month trading at the KRW1210 range, it then hit a monthly high of the KRW1216 range on the following day. The Hong Kong government scrapped an extradition bill on September 4, while news emerging on September 5 that the US and China had agreed to meet again in October. As risk sentiments improved substantially, the won was bought. Global sentiments remained firm thereafter. There was also some real-demand won buying in the run-up to the three-day Chuseok holiday in South Korea. On September 11, meanwhile, reports stated that China would announce some measures aimed at alleviating the impact of trade frictions. During the Chuseok holiday, the Chinese government announced it was exempting some US agricultural products from tariffs, with the US also announcing it was pushing back the imposition of further tariffs on Chinese goods from October 1 to October 15, with concerns about US/China trade frictions subsequently easing off. The ECB also announced an easing package that included a reduction in deposit rates. All this saw risk sentiments improving.

As a result, the currency pair hit a monthly low of the KRW1180 range on September 16. The Reserve Bank of Australia released some dovish minutes to its September meeting on September 17. With yields on long-term US treasuries also rising after the FOMC meeting on September 18, the pair climbed to the KRW1197 range toward September 19. It met some resistance just below KRW1200. However, news emerged during overseas trading time on September 20 that a Chinese trade delegation had cancelled a planned US farm visit. Europe then released some weak economic indicators during overseas trading time on September 23, while reports emerged on September 24 that President Trump could face impeachment. All this saw the pair breaking through KRW1200 on September 26. Risk sentiments then worsened during overseas trading time on September 27 as reports emerged that the Trump administration was considering placing restrictions on Chinese investment, with the pair moving at the KRW1200 range at the start of trading on September 30. However, the same day also saw end-of-month real-demand won buying, so the pair closed at the KRW1196 range.

2. Outlook for This Month

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

The pair will be swayed by sentiments on the whole. After breaking through KRW1200 at the start of September, the pair is now trading around KRW1200 again on deteriorating sentiments and a slight recovery in US long-term treasury yields (after they had previously plummeted).

Attention will focus on this month's planned US/China trade talks, but it is hard to see the talks reaching any fundamental resolution. Sentiments are unlikely to shift wholeheartedly in the direction of risk appetite until the major instability of the US/China trade dispute is out of the way, so as with before, the pair will probably continue to move with an eye on sluggish sentiments while swinging up and down on moves by President Trump and Chinese leaders.

A number of worrisome matters and events are also lined up in October. The start of the month will see demonstrations in Hong Kong to coincide with China's National Day and the 70th anniversary of the founding on the People's Republic, for example. The Bank of Korea (BOK) might also cut rates when it meets on September 17, while the FOMC meeting and the Brexit deadline are looming at the month's end.

The BOK is expected to implement one more rate cut within the year and this could well happen in October, or otherwise in November. As such, monetary policy will probably act to push the won lower. At the same time, around 70–80% of market participants are also expecting the FOMC to cut rates one more time in 2019. The last FOMC meeting was slightly more hawkish than the markets had expected, with opinions also clearly divided within the FRB, so investors will need to monitor comments by members with voting rights toward the end of the month. If expectations for a rate cut ease off, this will probably push the dollar higher.

The other events will also require monitoring, while other issues also continue to smolder away, including the possibility of President Trump's impeachment or the imposition of US restrictions on Chinese investment. The USD/KRW pair will be swayed by bearish sentiments on the whole, though as with before, investors will have to judge the situation at times. Based on all this, the pair is expected to float at highs this month.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – October 2019

Expected Ranges	**Against the US$:**	**NT$30.70–31.30**
	Against the yen:	**JPY3.35–3.60**

1. Review of the Previous Month

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

The pair opened the month trading at TWD31.440 on September 2. With stock prices moving firmly, overseas funds flowed into Taiwan. The dollar was sold and the Taiwan dollar bought, with the pair weakening to the TWD31.3 range. After a round of Taiwan-dollar buying, the pair returned to the TWD31.4 range. The Hong Kong government then formally scrapped an extradition bill. Concerns about a no-deal Brexit also receded after the UK House of Commons approved a motion forcing the government to seek an extension to the Brexit deadline. As risk aversion eased off, the Taiwan dollar was bought again, with the currency pair dipping to the TWD31.2 range on September 5. The US then announced it would delay the imposition of new tariffs on Chinese goods, with reports also suggesting China would agree to expand its purchases of US agricultural products. The markets also reacted well when China published a list of US tariff-exempt goods on September 11. The Taiwan dollar was subsequently bought at a faster pace, with the pair then hitting TWD31.018 on September 12, its lowest level for around two months.

However, this flow dropped off in the latter half of the month. Several monetary policy meetings were held in major nations like the US and Japan. As expected, the FOMC implemented a 25bp rate cut at its closely-watched meeting, though FOMC members did not hint at further rate cuts in their federal fund rate projections, while FRB chair Jerome Powell also said there were no plans to slash rates again at present, so the meeting was read as hawkish, with the greenback bought thereafter. The USD/TWD pair also rose the following day, though its topside was weighed down by inflows of overseas funds into Taiwanese stock markets, so its rise was capped. Its topside remained heavy toward the end of the month as exports sold the greenback, with the pair dipping below the key TWD31 mark for a time, though the US dollar was bought at this level, with the pair subsequently trading in a range around TWD31.

The Central Bank of the Republic of China (Taiwan) held its quarterly Monetary Policy Meeting on September 19. The discount rate (the policy rate) was left unchanged for the 13th straight meeting, dating back to September 2016, so the impact on the markets was muted.

2. Outlook for This Month

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

A glance at the economic indicators released in September shows the August export amount rising for the first time in two months to hit +2.6% y-o-y. The overall figure was buoyed when key exports of electronic parts grew by +7.5% y-o-y, with exports of IT and telecommunication products to the US also soaring by +31.4%. The overall CPI data for August was up +0.43% y-o-y and the core CPI data (excluding volatile fresh food prices) up +0.39% y-o-y. These figures were roughly unchanged on the previous month, a sign that inflationary trends had not shifted significantly. The Bank of Taiwan (BOT) also released its latest growth forecast at its Monetary Policy Committee (MPC) meeting. The figure for 2019 was upgraded from +2.06% y-o-y in June to +2.40% y-o-y. With US/China trade frictions dragging on, the BOT predicted that growth would be boosted by an increase in Taiwanese exports.

The US and China will be holding cabinet-level talks again at the start of October, so market participants should monitor how things develop. Optimism grew in September when President Trump announced the US would delay the imposition of new tariffs. If some concrete progress is seen in October, the Taiwan dollar will probably face more buying pressure again.

Fund flows by overseas investors also shifted substantially in September. Taiwanese stock markets saw four straight weeks of significant buying on balance by foreign investors entering September, a sharp contrast to what had gone before. A lot depends on US/China trade talks, but if this trend continues in October, this will support Taiwan-dollar buying.

However, there is considerable appetite for dollar buying when the USD/TWD pair dips below TWD31, so the pair is unlikely to fall sharply and it will move firmly when it does breach TWD31. As such, the pair is expected to trade in a range this month.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – October 2019

Expected Ranges	**Against the US$:**	**HK$ 7.8200–7.8500**
	Against the yen:	**JPY 13.40–13.90**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

In September, the Hong Kong dollar reached its high against the U.S. dollar at the HKD 7.8166 level for the first time in approximately one month. However, the trend changed thereafter, and the Hong Kong dollar depreciated to the HKD 7.84 level. The large-scale protest was not at all likely to come to an end. However, the Hong Kong authorities announced that the extradition bill would be officially withdrawn, which reassured market participants that further deterioration of the situation would be avoided. As the possibility for the central government to directly intervene also decreased, risk-averse sentiment in the market was mitigated. On the other hand, there have been active IPOs by large companies, which may attract the attention of foreign investors again. As an external factor, it should be reminded that the Federal Reserve Board (FRB) cut the interest rate by 25 basis points at the Federal Open Market Committee (FOMC) meeting held in September, as had been anticipated by the majority of market participants. However, in its interest rate outlook, the FRB did not imply any further interest rate hikes for the next several years, which was seen as hawkish by many market participants. In response to such an outcome of the FOMC meeting, interest rates rose in the U.S., which led the interest rate differentials between the Hong Kong dollar and the U.S. dollar to widen, keeping the Hong Kong dollar from appreciating against the U.S. dollar in the spot exchange market. Along with the widening of the interest rate differentials, pressure for capital outflow was mitigated and the negative margin was widened for the one-year Hong Kong dollar forward point. The economic growth outlook for Hong Kong has been deteriorating due to the persistent trade frictions between the U.S. and China as well as due to the ongoing protests against the Hong Kong government. As a result, the August PMI of Hong Kong reached its lowest level in approximately 10 years, at 40.8.

Hong Kong dollar interest rate market in September

In the Hong Kong interest rate market, the one-month and three-month Hong Kong dollar HIBOR remained at 2.0% and 2.4%, respectively, despite vigorous demand for capital procurement based on the seasonal factor seen at the end of a quarter period as well as due to IPOs. Capital demand based on IPOs was kept moderate due to pessimistic outlook in the Hong Kong stock market. Furthermore, the U.S. interest rates remained relatively low even after the hawkish interest rate cut by the FRB. Thus, the interest rate differentials between the Hong Kong dollar and the U.S. dollar generally remained within a range between -15 basis points and +10 basis points for both one month and three months. With regard to the liquidity level in the Hong Kong dollar market, the balance of the Hong Kong Monetary Authority (HKMA) checkable deposit account remained stable at HKD 54 billion, as the U.S. dollar/Hong Kong dollar spot exchange rate did not reach the HKD 7.85 level—the lower end of the fluctuation band. The three-year and five-year Hong Kong dollar interest rate swap rates rose to reach 1.75% and 1.70% respectively.

Hong Kong stock market in September

The benchmark Hang Seng Index rose to temporarily reach 27,366 points, in response to the fact that the Hong Kong authorities officially withdrew the extradition bill in order to calm the ongoing protests against the government. However, even after the withdrawal of the reform bill the protest is not at all likely to come to an end, and this kept stock prices from rising further, mainly in the tourism, retail, and real estate sectors.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

In October, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within a range between HKD 7.82 and HKD 7.85. It does not seem like the protests in Hong Kong will calm down any time soon, while it is possible for the protests to grow even more violent on the occasion of national holidays and the 70th anniversary of the People's Republic of China, strengthening pressure for capital outflow again. As a result, the U.S. dollar/Hong Kong dollar exchange rate is once again approaching HKD 7.85—the lower end of the fluctuation band. It should also be mentioned that the economic growth outlook in Hong Kong has deteriorated, which may oblige market participants to make significant changes to their Hong Kong dollar assets. In addition to the sense of uncertainty related to the trade negotiations between the U.S. and China in October, such downward revision in Hong Kong dollar assets may further strengthen pressure for capital outflow from Hong Kong, keeping the Hong Kong dollar from appreciating against the U.S. dollar. As the FRB has not changed its dovish attitude, interest rate differentials between the Hong Kong dollar and the U.S. dollar may narrow in the times ahead, which may bring the U.S. dollar/Hong Kong dollar exchange rate close to the lower end of the fluctuation band.

Hong Kong dollar interest rate market in October

The Hong Kong dollar interest rates are forecast to continue rising, as the liquidity level of the Hong Kong dollar has been relatively low. Given that the balance of the HKMA checkable deposit account remains low, the Hong Kong dollar interest rates are more likely to be impacted by other factors such as the trend of IPOs. For example, an extremely large Chinese tech company may carry out an IPO in the times ahead.

With regard to the interest rates at commercial banks in Hong Kong, the deposit interest rates and the cost for fund procurement have been on the rise because virtual banks are emerging as new competitors. It should also be mentioned that the policy interest rate is likely to be kept unchanged at the FOMC meeting in October, while the majority of banks in Hong Kong have raised the interest rates for real estate loans. It is thus unlikely for commercial banks in Hong Kong to cut prime rates. From a long-term perspective, the Hong Kong dollar interest rate swap rates should follow the trend of the U.S dollar interest rates. Thus, if the trade negotiations between the U.S. and China end up in a failure, it would encourage the FRB to actively cut the interest rate, leading the Hong Kong dollar interest rate swap rates to fall.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – October 2019

Expected Ranges	**Against the US$:**	**CNY 7.0000–7.3000**
	Against the yen:	**JPY 13.96–15.44**
	Against 100 yen:	**CNY 6.4800–7.1600**

1. Review of the Previous Month

In September, the U.S. dollar/Chinese yuan exchange rate fell.

On September 1, the U.S. and China both introduced an additional customs duty on imports against each other (an additional customs duty on Chinese imports worth USD 110 billion introduced by the U.S. and a retaliatory customs duty on imports from the U.S. worth USD 75 billion to be imposed in a gradual manner by China). As this had already been announced, the impact on the Chinese yuan market was limited on September 2, after the weekend. However, the Chinese yuan remained weak, as had been the case since August, and the U.S. dollar/Chinese yuan exchange rate renewed its recent high. On September 3, the media reported that there had been a difficulty setting a date for the dialogue between the U.S. and China in Washington originally scheduled for September, in response to which the U.S. dollar/Chinese yuan exchange rate continued rising to temporarily reach the CNY 7.18 level (the monthly high in September).

However, on September 4, the chief executive of Hong Kong officially withdrew the extradition bill, and on September 5, the media reported that there would be trade negotiations between the U.S. and China in October, which put an end to the depreciation of the Chinese yuan. Thereafter, market participants sold the U.S. dollar against the Chinese yuan every day in particular during trading hours in London, keeping the U.S. dollar/Chinese yuan exchange rate low. Under such circumstances, on September 12, U.S. President Donald Trump announced his decision to postpone the imposition of the additional customs duty against China from October 1 to October 15, which led the Chinese yuan to appreciate further. Supported also by the headline that China was considering importing agricultural products from the U.S. as a sign of goodwill before the trade negotiations, the U.S. dollar/Chinese yuan exchange rate fell below CNY 7.10, temporarily reaching the CNY 7.06 level.

However, an MLF matured on September 17 and was rolled over at the existing interest rate of 3.30%. As some market participants had been anticipating a cut in the MLF interest rate as part of the preparation for the LPR cut, the attitude of the Chinese monetary authorities was seen as being unwilling to take measures of monetary easing, leading Shanghai stock prices to fall below the 3,000 mark. In reaction to this, market participants sold the Chinese yuan in an accelerated manner. Thereafter, an FOMC meeting was held, and the policy interest rate was cut by 25 basis points, as had been anticipated without any surprise, leading the U.S. dollar/Chinese yuan exchange rate to return to a level near CNY 7.10.

On September 20, the second LPR after the introduction of the new mechanism was announced. The one-year LPR was cut by 5 basis points to 4.20%, which was within the anticipated range, not impacting the market significantly. However, the media reported thereafter that a group of vice-ministerial-level Chinese representatives had cancelled a visit to farms at the last minute during their stay in the U.S., which was seen as a sign that an agreement between the U.S. and China would be difficult. As a consequence, the U.S. dollar/Chinese yuan exchange rate exceeded CNY 7.10. On September 24, the U.S. announced a planned visit by Vice Premier of China Liu He to the U.S. in the second week of October. However, this did not lead to a significant appreciation of the Chinese yuan, and the U.S. dollar/Chinese yuan pair has been trading at the lower-CNY 7.13 level as of 10:00 a.m., September 27 (CST).

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is likely to fluctuate according to the situation in the trade negotiations between the U.S. and China, as has been the case so far.

The exchange of retaliatory customs duties between the U.S. and China is entering the final phase. In the times ahead, the U.S. is scheduled to raise the tariff rate for the first to third additional customs duties worth USD 250 billion to 30% on October 15. Furthermore, on December 15, the U.S is scheduled to impose the remaining fourth additional customs duty worth USD 175 billion, while China is scheduled to re-impose an additional duty of 25% on automobiles and auto parts, which had been halted. Thus, for both countries, the additional customs duties will be levies on almost all imports.

Recently, the economic data of China confirmed a slowdown in the Chinese economy due to the trade frictions between the U.S. and China. In the U.S. as well, a rise of consumer prices has been observed due to the rise of wages and additional customs duties. Thus, the impact of the trade frictions has become visible. Compared to August in which both the U.S. and China had an aggressive attitude against each other, the two countries have weakened their attitude in September, so as to calm the situation. However, the trade dispute has only been "calm," and it is still too early to think that the trade negotiations have been making progress toward an improved situation.

The U.S. dollar/Chinese yuan exchange rate has returned to the base exchange rate for the U.S. dollar/Chinese yuan pair at the CNY 7.08 level as persistently set out by the PBOC since the second half of August in which the U.S. dollar/Chinese yuan exchange rate started renewing its high. In the middle of September, the actual trading exchange rate remained at around the middle of the fluctuation range for daytime transactions (+/-2% of the base exchange rate against the U.S. dollar). However, in the second half of September, the exchange rate moved upward again from the base exchange rate against the U.S. dollar. The PBOC then expressed its intention to control the depreciation of the Chinese yuan by setting out the base exchange rate against the U.S. dollar at the lower-CNY 7.07 level every day.

However, there is still some leeway before the upper end of the fluctuation range. Thus, it is possible for the Chinese yuan to continue depreciating against the U.S. dollar to the latest high observed at the beginning of September (CNY 7.1854 to the U.S. dollar recorded on September 3), if the situation in the trade negotiations between the U.S. and China is reported to be difficult. It should also be mentioned that the economic data in Europe remains weak, which can also be one of the factors supporting the U.S. dollar/Chinese yuan exchange rate.

In the last week of September before the holidays of the National Day of the People's Republic of China, U.S. Secretary of the Treasury Steven Mnuchin announced that trade negotiations with Vice Premier of China Liu He would start in Washington on October 7, which was the date previously announced, and this had little immediate impact on the U.S. dollar/Chinese yuan exchange market. However, if there is no significant progress in the negotiations, as was the case at the meeting in Shanghai held at the end of August, the downward pressure on the Chinese yuan may strengthen again, about which market participants should remain careful.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – October 2019

Expected Ranges	**Against the US$:**	**SG$ 1.3750–1.3950**
	Against the yen:	**JPY 76.00–79.00**

1. Review of the Previous Month

In September, the Singapore dollar appreciated against the U.S. dollar.

The U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.38 level. In September, the U.S. and China both introduced a customs duty against each other as a sanctions measure, which kept the Singapore dollar weak. As a result, the U.S. dollar/Singapore dollar exchange rate exceeded SGD 1.390 and temporarily reached the mid-SGD 1.39 level. However, in the evening of September 3, the economic indices of the U.S. were released with weak figures, which reversed the trend, and the U.S. dollar/Singapore dollar exchange rate started to fall. Furthermore, in the next day, the Hong Kong government withdrew the extradition bill, while the media reported that the U.S. and China would hold trade negotiations at the beginning of October, which ameliorated the risk sentiment in the market. Thus, the Singapore dollar strengthened and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.380 level on September 7.

On September 11, there was progress in the trade negotiations between the U.S. and China, as China announced its decision to exclude some U.S. products from its customs duty list. In response to this, the U.S. also decided to postpone the raising of its customs duty against China (from October 1 to October 15), leading the Singapore dollar to appreciate further. The U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.370 level.

However, on September 14, the media reported that there had been attacks on a petroleum processing facility in Saudi Arabia, which led the crude oil price to rise sharply on September 16 in the following week. Due to the worsening geopolitical situation in the Middle East as well as due to the rise of the crude oil price, the currencies of resource-importing countries, such as the Indian rupee, weakened. Following this trend, the Singapore dollar also started to depreciate. Once the rise of the crude oil price slowed down, market participants took a wait-and-see attitude, waiting for the FOMC meeting in the U.S. As a result, the U.S. dollar/Singapore dollar exchange rate remained within a narrow range. At the FOMC meeting held on September 19, attracting substantial attention in the market, the policy interest rate was cut, as had been anticipated in the market. However, as this was not a surprise, the impact on the Singapore dollar exchange market was limited.

At the end of the month, the trade negotiations between the U.S. and China were going through difficulties, which encouraged market participants to sell the Singapore dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.38 level (as of September 27).

2. Outlook for This Month

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

In September, many central banks announced an interest rate cut. The next Monetary Authority of Singapore (MAS) meeting is scheduled for October, and it is likely for the monetary policy to be changed in Singapore as well, as there has been a slowdown in the GDP, while there is a general trend of monetary easing worldwide (it is expected that the current "leading the appreciation of the Singapore dollar" will be changed to "neutral").

On the other hand, at the Federal Open Market Committee (FOMC) meeting in September, the Federal Reserve Board (FRB) Chair Jerome Powell made a remark that the future monetary policy would "depend on how the economy evolves" and "if the economy turns downward, a more-extensive sequence of rate cuts could be appropriate," leaving some possibility for the interest rate to be cut again in the U.S. before the end of the year, unlike the dot plot (interest rate outlook), which was considered hawkish.

Since the beginning of the year, the interest rate was cut twice in the U.S. (July and September), and this has been supporting the currencies of emerging countries. Furthermore, despite what the dot plot suggests, market participants are persistently expecting an additional interest rate cut. Under such a circumstance, if expectations grow for an interest rate cut in the U.S. and if the MAS makes an unexpected decision (by maintaining the policy to lead the Singapore dollar to appreciate), the Singapore dollar is likely to appreciate and the U.S. dollar/Singapore dollar exchange rate may approach the lower-SGD 1.37 level again.

However, looking back at the economic indices in the U.S. that were released in September, it can be said that the overall U.S. economy has been robust, mainly led by household activities. In order for the FRB to cut the interest rate again, there must be a convincing reason.

For the above reasons, the U.S. dollar/Singapore dollar exchange rate is forecast to remain high (the Singapore dollar is forecast to remain weak) from a short-term perspective as a result of the rise of the U.S. interest rates after the impact of the interest rate cut in the U.S. faded, along with the change of the stance of the MAS as the central bank (shifting toward leading the Singapore dollar to depreciate).

Takeshi Hashi, Bangkok Treasury Office

Thai Baht – October 2019

Expected Ranges	**Against the US$:**	**THB 30.00–31.00**
	Against the yen:	**JPY 3.45–3.58**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell to temporarily its lowest level in six years.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 30.60. On September 2, the Ministry of Commerce announced the August Consumer Price Index, and the result turned out to be 0.52% year-on-year, significantly slowing down from the previous month's result, which was 0.98%. Then, on September 3, the August U.S. Manufacturing ISM Report on Business was released, and the result was significantly weaker than expected in the market. As a result, market participants started to sell the U.S. dollar, which led the U.S. dollar/Thai baht exchange rate to fall to approach THB 30.60. On September 4, the Hong Kong government withdrew the "extradition bill," which fueled expectations for a resolution to the protests, leading the U.S. dollar/Thai baht exchange rate to slowly fall. On September 5, the ISM non-manufacturing index turned out to be strong and the U.S. interest rates started to rise, which accelerated U.S. dollar-buying. As a result, in the evening of September 6, the U.S. dollar/Thai baht exchange rate rose to approach THB 30.65. Then, on September 11, the Thai baht was bought seemingly based on actual demand, which led the U.S. dollar/Thai baht exchange rate to fall below THB 30.60 to reach the upper-THB 30.50. On September 12, the media reported that the U.S. would delay increasing its next customs duty against China from October 1 to October 15, and this fueled risk-taking sentiment in the market. As a consequence, the overall Asian currencies were bought and the U.S. dollar/Thai baht exchange rate fell below THB 30.50, reaching the lower-THB 30.40 level for the first time in six years. In the afternoon, the Finance Minister of Thailand Uttama Savanayana released a comment that the central bank and the Finance Minister of Thailand was closely monitoring the trend in the Thai baht market, which led the U.S. dollar/Thai baht exchange rate to returned to the mid-THB 30.40 level. However, during overseas trading hours of the same day, the deposit interest rate was cut by 10 basis points at the European Central Bank (ECB) Committee meeting, which encouraged market participants to buy the U.S. dollar against other currencies. Following this trend, the U.S. dollar/Thai baht exchange rate rallied to the mid-THB 30.40 level. Then, on September 13, Asian currencies strengthened, thanks to growing expectation for progress in the trade negotiations between the U.S. and China. Following this trend, the U.S. dollar/Thai baht exchange rate renewed its monthly low and fell below THB 30.40. In the middle of the month, however, the media reported that there had been attacks on a petroleum processing facility in Saudi Arabia on

September 16, which worsened the risk sentiment in the market. Under such circumstances, market participants sold Asian currencies, and the U.S. dollar/Thai baht exchange rate rose to the lower-THB 30.50. Then, on September 18, a Federal Open Market Committee (FOMC) meeting was held after attracting substantial attention in the market, and the policy interest rate was cut by 0.25%, as had been anticipated in the market. Thereafter, Federal Reserve Board (FRB) Chair Jerome Powell held a press conference, at which he insisted that future interest rate cuts would depend on how the economy evolves. As the already-grown expectation for an additional interest rate cut before the end of the year was partially fading, U.S. dollar-buying dominated the market. However, the impact of this on the U.S. dollar/Thai baht exchange market was limited. Then, on September 20, the August trade statistics of Thailand (customs basis) were released, revealing a year-on-year decline in both imports and exports. However, the trade balance turned out to be USD 2.053 billion, which led the U.S. dollar/Thai baht exchange rate to temporarily reach the mid-THB 30.40 level. On September 24, some market participants anticipated an announcement of a policy interest rate cut or a regulation to control the appreciation of the Thai baht at the Monetary Policy Committee (MPC) meeting at the central bank, which was scheduled for the following day. Thus, the U.S. dollar/Thai baht exchange rate rose to the mid-THB 30.50 level. However, at the MPC meeting held on September 25, the existing monetary policy was maintained, and the policy interest rate was maintained at 1.50%. After the announcement of these decisions, market participants started buying the Thai baht, as some of them were anticipating an additional interest rate cut. As a result, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 30.50 level. On September 27, there were no more significant factors in the market, and market participants bought the U.S. dollar as part of the repatriation and rebalancing flow for the end of the month and the quarter period, leading the U.S. dollar/Thai baht exchange rate to approach its monthly high at THB 30.65.

2. Outlook for This Month

The fall of the U.S. dollar/Thai baht exchange rate is expected to slow down for a while.

The MPC meeting was held at the central bank of Thailand on September 25 with substantial attention in the market, and the existing monetary policy was unanimously maintained with a vote of 7 to 0. Unlike the previous MPC meeting held on August 7 at which votes were split at 5 to 2, the decision was taken unanimously this time. While the decision taken at the previous MPC meeting to cut the interest rate was a surprise, as there was no market consensus, the decision taken this time did not have impact strong enough to slow down the appreciation of the Thai baht, as it had been more than a month since the previous MPC meeting. As the effect of the additional interest rate cut is likely to be limited, the decision of the September meeting was taken unanimously, leaving a strong impression regarding the weakening influence of the proponents of interest rate cuts. It should also be mentioned that the MPC released a statement on the same day revealing downward revisions to the GDP outlook for 2019 and 2020, as well as the inflation rate, and all of this shows growing concerns over an economic slowdown.

In the U.S., the FOMC decided to cut the policy interest rate on September 18, and even though this would depend on economic conditions, the possibility of further interest rate cuts before the end of the year was suggested. At the current moment, the likelihood of an additional interest rate cut before the end of the year by the FOMC is around 85%. If the interest rate is indeed cut, it would be the same level as the policy interest rate of the central bank of Thailand, at 1.5%. Concerns are growing over a global economic downturn based on major external factors such as the trade frictions between the U.S. and China and the Brexit negotiations. Under such circumstances, it could take a long time for optimistic sentiment to grow in the market.

In addition to the above factors, market participants should also pay attention to the Thai economy. While the economic indices of Thailand are expected to remain weak, if the U.S. decides to cut the interest rate again toward the end of the year, the central bank of Thailand is most likely to follow the trend, but it is unlikely for Thailand to change its monetary policy before the U.S. does. There are now fewer factors both for the U.S. dollar and the Thai baht, and there will be a long holiday period in China in October for National Day of the People's Republic of China, Thus, it is likely for the market to remain quiet for the next several weeks. It should be added, however, that the end of the year is coming near and that demand for the U.S. dollar is likely to increase at the end of the quarter period. Given this, the U.S. dollar/Thai baht exchange rate is likely to rally after falling without any factors. As the exchange rate once approached THB 30.50 to the U.S. dollar, the psychological turning point, the fall of the U.S. dollar/Thai exchange rate is expected to slow down in October, along with possibly more short-covering activities.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2019

Expected Ranges	**Against the US$:**	**MYR 4.1500–4.2300**
	Against the yen:	**JPY 25.00–26.30**
	Against 100 yen:	**MYR 3.8000–4.0000**

1. Review of the Previous Month

In September, the U.S. dollar/Malaysian ringgit exchange rate fell from the highest level since the beginning of the year (MYR 4.2288) recorded in the previous month, as expectations grew for proactive fiscal policy with economic stimulus in the governmental budget bill for FY2020, to be released in October, although the worsening outlook for the global economy kept the U.S. dollar/Malaysian ringgit exchange rate weak.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading low at the MYR 4.22 level. On September 4, the July trade surplus recorded an increase to MYR 14.3 billion—stronger than expected in the market. In particular, exports to China increased by 3.8%, while exports to the U.S. increased by 7.9%, which showed that Malaysia had been successful in responding the needs of the two countries to find an alternative trade partner. Furthermore, there were other positive factors such as the withdrawal of the extradition bill in Hong Kong and the rally of the crude oil price, which both led the Malaysian ringgit exchange rate to rally against the U.S. dollar, and the exchange rate reached the MYR 4.20 level. Thereafter, the media reported that the U.S. and China would resume high-level trade negotiations at the beginning of October, which led risk asset values to rally. As the U.S. employment statistics also turned out to be weak, the U.S. dollar/Malaysian ringgit exchange rate fell further, reaching the MYR 4.16 level on September 10.

In the middle of the month, the industrial production index turned out to be weak, which led the U.S. dollar/Malaysian ringgit exchange rate to rally slightly. However, on September 12, the U.S. and China both announced decisions to mitigate additional customs duties against each other, while the central bank of Malaysia decided to maintain the policy interest rate at 3.00%. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.15 level on September 13.

On September 15, petroleum oil facilities in Saudi Arabia were attacked, and the Brent oil price rose sharply to reach USD 72 per barrel on September 16. However, geopolitical risks grew with possibly the involvement of Iran in the armed forces of Yemen, leading the U.S. dollar/Malaysian ringgit exchange rate to rise to MYR 4.18 on September 17. Then, on September 18, the Federal Reserve Board (FRB) decided to cut the interest rate again by 25 basis points, as had been anticipated in the market. However, the opinions of the committee members remained split. In response to the hawkish statement of the Federal Open Market Committee (FOMC), the U.S. dollar/Malaysian ringgit exchange rate once approached MYR 4.20. However, attention in the market shifted to the vice-ministerial negotiations aimed at solving the trade issues between the U.S. and China. Under such a condition, the rise of the U.S. dollar/Malaysian ringgit exchange rate was offset and fell to the MYR 4.16 level again on September 23.

At the end of the month, U.S. President Donald Trump made a remark that there would be no need to end the trade negotiations before the presidential election scheduled for next year. As there was also actual demand to buy the U.S. dollar for the end of the quarter period, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.19 level on September 26. During the U.S. trading hours of the same day, the FTSE Russell announced its decision to keep Malaysian government bonds in its World Government Bond Index. Although Malaysian government bonds remained in the downgraded list, there was a sense of relief in the market, and thus the U.S. dollar/Malaysian ringgit exchange market opened at MYR 4.18 in the morning of September 27 with the Malaysian ringgit stronger than the closing rate of the previous day. The U.S. dollar/Malaysian ringgit pair was then trading at the same level even at market closing of the same day.

2. Outlook for This Month

In October, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.15 and MYR 4.23. Negative factors for the overall emerging market include the trade frictions between the U.S. and China, which have started to impact economic indices with possible impact on the world economy as well, along with the sense of uncertainty regarding the monetary policy in the U.S. On the other hand, the Finance Ministry of Malaysia is to announce on October 11 a governmental budget bill for FY2020, and if the fiscal policy turns out to be as proactive as expected in the market, it would be a supporting factor for the Malaysian ringgit.

When it comes to the trade statistics of Malaysia, the current account surplus increased due to a significant decline in imports for the past two consecutive months. In particular, the importation of "capital goods" has declined significantly, which is seen to be the impact of the trade frictions between the U.S. and China. From a short-term perspective, the external demand for the current account surplus is likely to support the GDP in the second half of the year. However, there are concerns that this may lead to a slowdown in future production. Facing such a situation, the central bank of Malaysia decided to maintain its policy interest rate at the existing level at a meeting held in September, while emphasizing that monetary easing would be continued when the economy slows down. Thus, if the economy continues slowing down, it is possible for the central bank to cut the interest rate at the meeting scheduled for November 5—the last one before the end of the year. If the trade negotiations between the U.S. and China remain stagnant, downward pressure on the Malaysian ringgit would also increase in October.

In the bond market, on the other hand, Malaysian government bond yields have significantly fallen after the FTSE Russell decided to keep the Malaysian government bonds in the World Government

Bond Index. As it is still listed as a possible target of exclusion, it should be regarded as a grace period before the next review by FTSE Russell, scheduled for March next year. However, for now, it has still been a source of relief for foreign investors.

The most-important event in October is the release of the governmental budget bill for FY2020, scheduled for October 11. As a proactive fiscal policy to support small and medium-sized enterprises, as well as the low-income class, the government is expected to maintain the GDP growth rate. The finance minister has also made a remark to prepare for a revision to the fiscal deficit target for FY2020 announced last year (-3.0% of GDP), all the while remaining careful of the reaction from ratings agencies. In addition, approved direct investment from abroad has been accumulating mainly for the purpose of shifting production bases from the U.S. and China. It is thus very possible for the Malaysian government to take an actual measure and to introduce incentives for investment such as a tax exemption. In such a case, demand to buy the Malaysian ringgit is likely to increase toward the end of the year, supporting the Malaysian ringgit market.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2019

Expected Ranges	**Against the US$:**	**IDR 14,000–14,400**
	Against 100 rupiah:	**JPY 0.74–0.78**
	Against the yen:	**IDR 128.21–135.13**

1. Review of the Previous Month

In September, the U.S. dollar/Indonesian rupiah exchange rate returned to the level seen at the beginning of the month after falling to some extent.

On September 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,100 level. On the same day, the August CPI of Indonesia was released, and the result was 3.49% year-on-year, without a significant gap from the market estimate. Thus, the impact on the market was limited. While there were few factors in the market, the U.S. dollar/Indonesian rupiah exchange rate remained at around IDR 14,200 without moving into any direction. However, on September 4, market participants sold the U.S. dollar, as the U.S. economic indices turned out to be weak on the previous day, which strengthened the Indonesian rupiah. Furthermore, on the following day, the media reported that governments of the U.S. and China had agreed to hold trade negotiations in Washington at the beginning of October, which ameliorated the risk sentiment in the market. While the Jakarta Stock Price Index remains high, the Indonesian rupiah strengthened against the U.S. dollar, and the exchange rate reached the lower-IDR 14,000 level on September 9 in the following week. Thereafter, there were no more strong factors in the market, and the U.S. dollar/Indonesian rupiah exchange rate remained within a narrow range mainly at the mid-IDR 14,000 level.

In the middle of the month, foreign investors actively bought Indonesian government bonds from September 12 toward September 13, which led the Indonesian rupiah to appreciate against the U.S. dollar. Thus, the U.S. dollar/Indonesian rupiah exchange rate fell to the lower-IDR 13,900 level—the monthly low in September. At the end of the week, petroleum facilities in Saudi Arabia were attacked on September 14, and this fueled concerns over the crude oil supply. Thus, on September 16, at the beginning of the following week, the crude oil price increased rapidly. Along with the sharp rise of the crude oil price, the Indonesian rupiah weakened against the U.S. dollar, and the exchange rate retuned to the IDR 14,100 level on September 17. Thereafter, the rise of the crude oil price slowed down, and market participants took a wait-and-see attitude, waiting for the Federal Open Market Committee (FOMC) and the monetary policy meeting at the central bank of Indonesia. Thus, the U.S. dollar/Indonesian rupiah exchange rate remained at the upper-IDR 14,000 level. On September 19, the FOMC decided to cut the interest rate, followed by the central bank of Indonesia, which also cut the policy interest rate for the third consecutive month, as had been anticipated in the market. As both decisions had been expected in the market, the impact on the Indonesian rupiah market was limited.

Toward the end of the month, investor risk sentiment worsened again, while domestic importing companies were buying U.S. dollars based on actual demand, which led the Indonesian rupiah to weaken again. On September 27, the U.S. dollar/Indonesian rupiah exchange rate rose (the Indonesian rupiah depreciated against the U.S. dollar) and almost reached IDR 14,200 (as of September 27).

2. Outlook for This Month

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

The August trade balance released last month revealed a small surplus with persistently weak export conditions with negative year-on-year growth. While the current account deficit is strengthening pressure to sell the Indonesian rupiah, foreign investors are buying Indonesian government bonds, creating a source for financing. However, there have been persistent concerns that may worsen the risk sentiment in the market, such as the tense geopolitical situation in the Middle East and the trade frictions between the U.S. and China. Given such circumstances, market participants should be cautious of the risks of the deprecation of the Indonesian rupiah. Even though the crude oil price has currently been stable, we all remember the sharp rise of the crude oil price observed last month and should remain careful about the possibility for the crude oil price to rise sharply again.

The two interest rate cuts carried out in July and September as well as expectations for further interest rate cuts in the U.S. are likely to support the currencies of emerging countries, including the Indonesian rupiah. Given that the U.S. economy has not yet entered a true phase of recession, it would be difficult for the Federal Reserve Board (FRB) to continue actively cutting the interest rate further. However, many market participants are still expecting further interest rate cuts in the U.S. While there are various risk factors that can significantly slow down the global economy, it is not impossible for the Federal Reserve Board (FRB) to take an unavoidable decision to cut the interest rate further. Thus, expectations for further interest rate cuts are likely to remain in the market for a while, which would keep the Indonesian rupiah stable to some extent. However, at the same time, the central bank of Indonesia has also cut the interest rate for three consecutive months, which makes it difficult to hope too much for the appreciation of the Indonesian rupiah. On the contrary, market participants should be cautious of the possibility for emerging currencies to be sold when the above-mentioned risk factors come to the surface.

For the above reasons, the Indonesian rupiah is forecast to remain weak against the U.S. dollar in October. As it is possible for risk-averse sentiment to strengthen again the market due to the sudden intensification of the geopolitical situation in the Middle East and the intensification of the trade frictions between the U.S. and China, market participants should be careful about the depreciation of the Indonesian rupiah based on the risk-averse sentiment in the market.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – October 2019

Expected Ranges	**Against the US$:**	**PHP 51.00–53.00**
	Against the yen:	**JPY 2.040–2.110**

1. Review of the Previous Month

In September, the U.S dollar/Philippine peso (onshore) exchange market opened trading at PHP 52.17.

The Trump administration imposed the scheduled fourth additional customs duty against China, in response to which the Chinese government also introduced a retaliatory customs duty against the U.S. On September 3, the Ministry of Commerce in China brought the dispute with the U.S. on customs duties to the World Trade Organization, which led the Philippine peso to weaken to PHP 52.365

However, market participants bought back the Philippine peso thereafter, as expectations grew for the end of the large-scale protests in Hong Kong and as concerns over the possible "hard Brexit" were mitigated, which both led the U.S. dollar/Philippine peso exchange rate to fall below the PHP 52 level on September 6 for the first time in three weeks.

Thereafter, there were both selling and buying instances in the market, following the progress in the trade negotiations between the U.S. and China, trends in the U.S. interest rates, and the fact that the July trade balance of the Philippines turned out to be a deficit of USD 3.39 billion with an increase from USD 2.37 billion—the previous month's result. Thus, the U.S. dollar/Philippine peso exchange rate continued fluctuating at around PHP 52. On September 13, trading closed at PHP 51.91 to the U.S. dollar.

In the week commencing on September 16, the petroleum oil facilities in Saudi Arabia were attacked, heightening the geopolitical risks in the Middle East, while the protests in Hong Kong intensified, as a result of which the market sentiment worsened. On September 17, the U.S. dollar/Philippine peso pair traded at PHP 52.395—the lowest rate for the Philippine peso in terms of daytime trading since August 29.

On the other hand, the pessimistic view was mitigated with expectations for the early normalization of crude oil production in Saudi Arabia. Furthermore, a Federal Open Market Committee (FOMC) meeting was scheduled for September 18 to reveal the monetary policy in the U.S. In such circumstances, the appreciation of the U.S. dollar was limited. Also, the depreciation of the Philippine peso that continued from the beginning of the week was adjusted, leading the U.S. dollar/Philippine peso exchange rate to PHP 52.20 before the FOMC meeting.

Even though the U.S. dollar strengthened slightly after the FOMC meeting concluded with a hawkish attitude, the geopolitical risks in the Middle East were reflected in the market. As expectations were growing for the ministerial trade negotiations between the U.S. and China scheduled for October, market participants continued buying the Philippine peso, and monthly trading closed at PHP 51.83 to the U.S. dollar.

2. Outlook for This Month

Last month, the central bank of the Philippines decided to cut the policy interest rate by 25 basis points (0.25%) on September 26, as had been anticipated in the market.

The inflation outlook was revised downward from 2.6% to 2.5% for 2019, while the outlook for 2020 and 2021 was set at 2.9%.

Furthermore, on September 27, the central bank of the Philippines decided to cut its deposit reserve requirement ratio (as of November 1).

Based on the monetary easing observed daily, the Philippine peso is likely to continue appreciating against the U.S. dollar.

Many market participants seem to expect economic support. Furthermore, the Philippine peso has been appreciating also partially due to the fact that the inflation risk in the Philippines, based on the sharp appreciation of the crude oil price related to the incident in Saudi Arabia, was mitigated.

From the beginning of the month, market participants seem to be buying the Philippine peso.

Given the current market trends, it seems more likely for the Philippine peso to continue strengthening. However, with the excess liquidity resulted from monetary easing, it is also unlikely for the Philippine peso to continue weakening.

The trend in the market thus depends on the relation between the U.S. and China.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – October 2019

Expected Ranges	**Against the US$:**	**INR 68.00–73.00**
	Against the yen:	**JPY 1.45–1.56**

1. Review of the Previous Month

In September, the U.S. dollar/Indian rupee exchange rate was on the rise.

The U.S. dollar/Indian rupee exchange market opened trading at INR 71.96. The trade negotiations between the U.S. and China attracted significant attention in the market, and the Chinese yuan recorded its lowest rate against the U.S. dollar in 11 years. While risk-averse sentiment was growing in the market, foreign investors sold Indian stocks worth USD 2.2 billion in August, following which market participants also sold the Indian rupee. Furthermore, the economic Indices of India revealed that the second-quarter GDP reached its lowest level in six years. There were thus a series of negative factors for the Indian rupee, and the U.S. dollar/Indian rupee exchange rate reached INR 72.41 for the first time since November last year, turning out to be the monthly high as well.

Thereafter, the media reported that the dialogue between the U.S. and China would be held at the beginning of October, while the U.S. dollar/Chinese yuan exchange rate returned to the previous level. Furthermore, the ISM manufacturing industry index of the U.S. fell down to the 50 mark—the turning point in evaluating the economic situation. There were also some positive news stories related to the protests in Hong Kong, as well as the Brexit negotiations, and this situation encouraged market participants to buy back the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange rate fell temporarily to below INR 71 at the middle of the month.

However, on September 16, petroleum facilities in Saudi Arabia were attacked, fueling geopolitical risks in the Middle East. In reaction to this, market participants moved their funds to safe assets. In addition, the WTI crude oil price rose to USD 63 (the Brent crude oil price rose to USD 69), which encouraged market participants to sell the Indian rupee. As a consequence, Indian rupee was sold, and the U.S. dollar/Indian rupee exchange rate approached INR 72. However, it was confirmed thereafter that oil production would rally immediately, calming the market. Furthermore, on September 20, a cut in the corporate tax was announced, fueling expectations for economic growth, leading the SENSEX index to rise almost by 5.5% in a single day. Thus, thanks to expectations for capital inflow from foreign investors, the Indian rupee appreciated against the U.S. dollar and the U.S. dollar/Indian rupee exchange rate fell to the INR 70 level again.

Toward the end of the month, the media reported on the cancellation of the dialogue between the U.S. and China in October. In response to this, the Chinese yuan depreciated while the manufacturing PMI of the eurozone fell significantly to 45.6. Furthermore, market participants were concerned about the Brexit issue, and the risk sentiment in the market remained weak. Under such circumstances, the U.S. dollar/Indian rupee exchange rate did not fall further. The U.S. dollar/Indian rupee exchange rate continued fluctuating in both directions within a narrow range, touching the monthly low at INR 70.35. Monthly trading closed at INR 70.86.

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

The Indian rupee/Japanese yen exchange market opened trading in September at JPY 1.486. Shortly after market opening, the Indian rupee/Japanese yen exchange rate fluctuated and touched the monthly low at JPY 1.463. While the Indian rupee appreciated in the U.S. dollar/Indian rupee exchange market, the Hong Kong government announced the withdrawal of the above-mentioned extradition bill, and the U.K. approved the Brexit deferral bill. Furthermore, the Federal Reserve Board (FRB) chair made an optimistic remark regarding the economy in the U.S. In such a context, expectations grew for additional monetary easing by the Bank of Japan, and the U.S. dollar/Japanese yen exchange rate recovered to the mid-JPY 108 level after falling to JPY 104.44 at the end of August. Following this trend, the Indian rupee/Japanese yen exchange rate also rose to JPY 1.526. Toward the end of the month, the Japanese yen momentarily appreciated against the Indian rupee in reaction to the attacks in Saudi Arabia. However, the Indian rupee/Japanese yen exchange rate rose to JPY 1.536 in the end, and trading closed at JPY 1.530 to the Indian rupee.

2. Outlook for This Month

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

Both the Japanese yen and the Indian rupee exchange markets have been influenced significantly by external factors. In August, risk-averse sentiment grew significantly, and the Indian rupee weakened from around the INR 68.75 recorded at the end of July to INR 72.41 on the first business day in September. However, the exchange rate returned to INR 70.35 to the U.S. dollar in the end. Even though there were some headlines in India, such as that the economic growth rate recorded its lowest level in six years, as well as mention of a tax cut, it seemed that the U.S. dollar/Indian rupee exchange market was rather influenced by external factors, such as the trade negotiations between the U.S. and China, expectations for an interest rate cut by the FRB in the U.S., and the Brexit negotiations. In such a context, the forthcoming important event is the ministerial meeting between the U.S. and China scheduled for the second week of October. However, as was discussed above, this meeting was originally scheduled for the beginning of October and was cancelled and rescheduled for the second week of October. Thus, it is uncertain if the meeting will actually take place. Even if the meeting is held as scheduled, there is no guarantee for an agreement, and the APEC meeting is scheduled for November, which is easily imagined to be the next challenge. Needless to say, it is impossible to predict remarks by U.S. President

Donald Trump, and he is not even hesitant to deny his own past statements—thus certainly helping to continue impacting the Indian rupee exchange market.

It should also be pointed out that the crude oil price rose for a short term in September. Even though the price appreciation has calmed for now, the situation remains highly volatile, and thus market participants should remain cautious. It has been calculated that the rise of USD 10 per barrel would lead the GDP to decline by 0.2% while leading the Consumer Price Index to rise by 0.3% in India. Furthermore, it would also inevitably increase the current account deficit, which is negatively seen by foreign investors. If the government decides to subsidize on this matter, market participants immediately imagine an expansion of the fiscal deficit (last year, there was a sudden announcement on a corporate tax cut that was pointed out to be a decrease in revenues). This is a negative factor for the Indian rupee market. In terms of crude oil, the FRB in the U.S. announced a sanction against the central bank of Iran, after which the president of Iran and U.S. President Donald Trump exchanged contradictory remarks, such as "It was the U.S. that suggested a meeting," "There was a request from Iran but it was rejected," etc. The trend in the crude oil market is therefore more politically motivated than usual.

With regard to domestic factors in India, the monetary policy meeting of the central bank of India is scheduled for October 4. Since India has cut the interest rate for four consecutive meetings and as the total interest cuts amount to 1.10%, the market consensus is that the policy interest rate in India would be maintained at the existing level (5.40%). Another key would be the revision to be made to the GDP outlook. At the previous meeting, the annual growth rate was forecast to be 6.90%, after which the second-quarter GDP declined to 5.0%. Thus, the central bank would be obliged to revise its forecast.

As there will be both positive and negative factors, the U.S. dollar/Indian rupee exchange rate is not likely to move into any direction.