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Mizuho Dealer's Eye

November 2019

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Mizuho Bank, Ltd.

Derivatives & Forex Department

Hisaki Hemmi, Forex Sales, Derivatives & Forex Department

U.S. Dollar – November 2019

Expected Ranges **Against the yen: JPY107.00–110.00**

1. Review of the Previous Month

The dollar/yen pair rose towards the latter half of October. After opening the month trading at 108.07 yen on October 1, the pair then fell to 107.63 yen after the September US Manufacturing ISM Report on Business dipped to its lowest level since 2009. The September ADP National Employment Report was released on October 2 and the September US Non-Manufacturing ISM Report on Business was released on October 3. Both indicators posted bearish results, with the currency pair subsequently sliding to a monthly low of 106.48 yen, its lowest level for around a month. The US then released some mixed employment data for September on October 4, but the data was not as weak as feared, so the pair rallied to the 107 yen range.

The pair then climbed to the mid-107 yen mark on October 7 after Beijing made some positive noises about US/China talks. However, the US added eight Chinese companies to its black list on October 8, with China then considering retaliatory moves, so the pair fell back to the upper-106 yen mark. China adopted a forward-looking stance during US/China trade talks on October 9, so the pair bounced back to around the mid-107 yen level. On October 10, the US government eased trading restrictions on a major Chinese electronic equipment company. With President Trump also expressing optimism about a trade deal with China, the pair rallied to the 108 yen range. The pound/yen pair and euro/yen pair rose on October 11 on hopes that the UK and EU would reach a Brexit deal. The dollar/yen pair was also dragged up to around the mid-108 yen mark. News then emerged that US/China trade talks had produced a partial agreement, though the impact on the pair was muted.

With Japan coming back from a holiday on October 15, the pair's topside extended to 108.90 yen on ongoing hopes about a Brexit agreement. However, China then suggested it might retaliate after the US lower housed passed the Hong Kong Human Rights and Democracy Act on October 16. As expectations for a US/China trade agreement waned slightly, the pair tumbled to the mid-108 yen level for a time. The pair continued to be supported by deep-rooted hopes for a Brexit deal, though, so it rallied to the upper-108 yen level. News then emerged on October 17 that the UK and EU had reached a deal, with the pair subsequently breaking above its October 15 high to climb to 108.94 yen. It moved with a heavy topside at this level, though, and it then weakened to around mid-108 yen on October 18 on weak US economic indicators and bearish US stock movements.

The pair floated around the mid-108 yen mark toward October 23 on uncertainty regarding the Brexit

negotiations, but risk appetite then grew on some bullish US settlement results and hopes for progress in US/China trade talks, so the pair hit the 109 yen range on October 28 for the first time since May 31, some five months ago, and it continued to move firmly toward October 29. The FOMC then hinted that it might call an end to rate cuts during the morning of October 31, with the pair subsequently rising to hit a monthly high of 109.28 yen, though it dipped back to the 108 yen range after the FOMC said it was prepared to cut rates again if needed. It then moved around 108.65 yen during Tokyo trading time on the weak result of the Chinese Manufacturing PMI for October.

2. Outlook for This Month

The dollar/yen pair is expected to trade firmly in November.

The FOMC instituted a 25bp rate cut in October, following on from similar cuts in July and September. The "act as appropriate" phrasing was absent from the accompanying statement for the first time in four meetings, with the FOMC hinting the may hit the pause switch on further rate cuts. In his press conference, though, FRB chair Jerome Powell refused to rule out future rate cuts depending on the circumstances, so the meeting appeared to pass without any major hiccups, with the S&P renewing record highs thereafter, for example.

The Bank of Japan's Monetary Policy Committee (MPC) also kept policy fixed. Given positive signs regarding US/China trade talks and the Brexit negotiations together with uncertainty about the impact of Japan's consumption tax hike, it seems the BOJ is keeping some major cards in reserve. Its forward guidance was only tweaked slightly too, with the markets still expecting some more easing going forward. As such, the BOJ meeting also passed smoothly on the whole.

With neither of these major events in the US and Japan acting a key drivers, it seems the dollar/yen pair will be swayed by the direction of US/China trade talks from here on. The key event in November would have been the APEC heads-of-state summit, but this was called off. However, Washington has said the timeframe for US/China trade talks remains unchanged, with talks set to run as planned. Optimism is also on the rise in the markets, but the pattern of negotiations breaking off before tensions subsequently ease has been repeated several times heretofore, so many market participants are wary of inclining their positions in just one direction at this moment in time. From here on, risk appetite will probably rise on swelling hopes as a partial US/China trade deal seems more likely, with the dollar/yen pair expected to break clearly through its 200-day moving average line (its current resistance line) to extend its topside to the upper-109 yen mark. However, intellectual copyright infringements and technology transfers have been key issues ever since the US/China trade dispute first began and it will take a long time for these to be fully resolved during US/China trade talks, so even though the dollar/yen pair will rise on hopes regarding the talks in November, it is unlikely to have enough momentum to break above 110 yen and there are concerns that it could weaken as investors 'sell the fact' in the latter half of November. However, the partial US/China agreement will probably not be scrapped from here on. Market sentiments have also improved now that the Brexit deadline has been pushed back to the end

of January. As a result, the dollar/yen pair is unlikely to fall sharply in November.

Dealers' Market Forecast

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

Bullish on the dollar	13 bulls	107.50 – 110.50	Bearish on the dollar	8 bears	107.00 – 110.00

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	107.00 – 110.00	With central banks adopting an accommodative stance and the situation also improving when it comes to the major uncertainties of US/China trade issues and Brexit, risk appetite will probably improve, with the dollar/yen pair likely to move at highs. However, the pair will grow heavier from around 109 yen as the markets factor in these positive factors. There is also a risk that the pair could weaken as these problems flare up again.
Takeuchi	Bear	107.00 – 110.00	Market participants will test the dollar/yen pair's recovery high on the firm movement of US indicators and hopes for progress in US/China trade talks, but the talks are unlikely to reach any overarching resolution and it would be inadvisable to chase the pair's topside above this level. There is likely to be some real-demand selling in expectation of some range trading, with the pair's topside held down.
Tsutsui	Bull	107.50 – 111.00	Risk appetite is growing in the stock markets and so on. This will pull the greenback higher in November. The US has released some mixed economic indicators, but these are nothing to worry about compared to the situation in other countries. There are concerns about high stock prices, with many market participants also expecting US interest rates to slide, so the pain will probably felt in the bull market.
Kato	Bull	107.00 – 112.00	Things are taking more time than originally expected, but as with last month, the key factor in November will be President Trump's deal-making diplomacy. Many market participants believe the dollar/yen pair is some way off from hitting 110 yen, but this could in fact lead to attempts on the pair's topside.
Seki	Bear	107.50 – 109.50	The Brexit deadline was extended and this led to dollar selling. It is also hard to foresee US/China trade talks making any further progress in November, while a December tariff hike seems unavoidable. If this state of affairs continues, the dollar/yen pair will probably trade with a heavy topside in the end.
Mitsuishi	Bear	107.00 – 110.00	There are expectations that the US will see a pause in rate cuts. Concerns about US/China trade frictions and Brexit are also waning. As such, the dollar/yen pair looks set to move firmly overall. However, it will take time before any of these uncertainties reach a fundamental resolution, so the pair's room on the topside will be capped. The pair could fall if these risks flare up again, so caution will be needed.
Yamagishi	Bear	106.50 – 109.50	The yen is weakening on a US/China truce, but there are concerns about a global economic slowdown, while deep-rooted US/China frictions also remain unresolved, so the dollar/yen pair will move with a heavy topside. US vice president Mike Pence gave a hawkish speech about China, so if the Huawei issue flares up again and US/China relations worsen, this could lead to pressure for rate cuts.
Tasaka	Bull	107.50 – 110.50	US/China talks will inevitably drag on, but with the end-of-year sales season looming, President Trump will want to avoid a situation in November whereby falling US stock prices lead to worsening consumer sentiments. US/China trade talks are expected to pass smoothly this month, with the dollar/yen pair breaching 110 yen at times.
Omi	Bear	105.80 – 109.30	During its meeting at the end of October, the FOMC said a sharp surge in inflation would be needed for it to hike rates again. With the CPI figure moving below 2% y-o-y, it is hard to imagine inflation-related indicators accelerating sharply. The greenback has strengthened on rising US

			interest rates, but there could be some adjustment this month.
Ueno	Bull	107.50 – 110.50	With central banks clearly shifting in an accommodative direction, funds are shifting to risk assets. The biggest theme will be the US/China trade issue. Even if there is no sharp progress in this area, a rupture also seems unlikely, so the dollar/yen pair looks set to move firmly overall.
Okamoto	Bear	107.00 – 110.00	The situation is regaining composure when it comes to US/China trade frictions and Brexit. However, the US and China have made no moves to lower or scrap tariffs. If the fundamentals do not improve, the dollar/yen pair is unlikely to strengthen further. The 110 level could appear faraway yet so close.
Onozaki	Bull	107.75 – 110.50	Smoldering concerns related to US/China trade talks and Brexit have eased off for a time, with risk aversion dropping off. The dollar/yen pair's topside is unlikely to rise sharply, but the greenback looks set to move relatively strongly. However, it topside will probably be kept down by a sense of achievement once it tops 110 yen.
Tamai	Bull	107.50 – 110.00	The FOMC adopted a negative stance towards future rate cuts when it met in October. The dollar/yen pair is also likely to move firmly on hopes for progress in US/China trade talks. However, the US released some bearish indicators in October, so the pair's topside will probably be capped as the FRB keeps rates fixed for now.
Harada	Bull	107.00 – 110.50	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 showing signs of progress. The dollar/yen pair is expected to move firmly for the time being.
Oba	Bull	107.50 – 110.00	The dollar/yen pair is moving firmly on hopes regarding US/China trade talks. If the pair breaks clearly above its 200-day moving average line, it may head toward the 110 yen mark. With volatility low late October, though, it seems the markets are storing up energy and the pair could fluctuate up and down on headlines, so caution will be needed.
Takamura	Bull	107.50 – 111.00	The dollar/yen pair has been driven lower by US/China trade frictions and Brexit, but the outlook for both these issues is not as pessimistic as before. With the FRB also expected to pause rate cuts, it seems the US economy will continue moving firmly. There is no clear reason why 110 yen should not be achievable, with the pair expected to trade firmly in November.
Matsumoto	Bear	107.00 – 110.00	Though the FOMC hinted that it might put a stop to rate cuts when it met in October, there remain concerns about a global economic slowdown and US/China trade frictions, so the FRB's next step might still be a rate cut. There will also be some real-demand dollar selling around 110 yen, so the dollar/yen pair will probably trade with a heavy topside.
Itsumi	Bull	107.50 – 110.00	With the US and China reaching a partial agreement and Brexit fears easing off, risk tolerance levels are rising. US settlement results are also moving bullishly on the whole, so the dollar/yen pair will also supported by firm stock movements. However, there is still uncertainty about whether US/China trade talks can produce an overarching resolution, so the pair's topside will probably grow heavier as the pair approaches 110 yen.
Otani	Bull	107.50 – 110.00	The FOMC hinted that it might slam the brakes on rate cuts when it met in October. There are also hopes for progress in US/China trade talks. As such, the dollar/yen pair looks set to continue moving firmly. However, some new factors will probably be needed to push the pair clearly above 110 yen, so the pair looks set to move firmly in the 109 yen range.
Tanishiki	Bull	107.00 – 110.50	US stocks and the cross yen have moved firmly in the wake of the comparatively hawkish FOMC meeting, so the risk of yen appreciation on deteriorating risk sentiments seems to have waned. Though the schedule is being shuffled around, the dollar/yen pair looks set to edge higher on hopes for a partial agreement in the run up to a US/China heads-of-state meeting.
Okuma	Bull	107.50 – 110.00	The markets have been held down by US/China trade issues, but hopes for progress are rising and the markets are moving firmly as a result, with US stocks renewing highs, for example. As such, US long-term interest rates are rallying too. With the FRB hinting that it could shelve rate

			cuts for the time being, the pair looks set to move strongly.

Kazutada Harada, Forex Sales, Derivatives & Forex Department

Euro – November 2019

Expected Ranges **Against the US$: US$1.0950–1.1250**
Against the yen: JPY121.00–122.50

1. Review of the Previous Month

The euro/dollar pair rose to $1.1180 in October on hopes for progress when it came to a Brexit agreement. It then edged lower in the run up to the ECB Governing Council meeting.

The US released some worse-than-expected indicators at the start of the month, including the September US Manufacturing ISM Report on Business, the September ADP National Employment Report and the September US Non-Manufacturing ISM Report on Business. As a result, the dollar was sold and the euro bought on risk aversion. The pair then hit the $1.10 range for a time on firm European stock movements, though it subsequently tumbled to the upper-$1.09 level on positive headlines related to US/China trade talks. The pound/dollar pair soared on October 9 on reports that the EU was prepared to make a major concession in the Brexit negotiations. The euro/dollar pair was also pulled up to around $1.10 again, though euro-buying was short-lived.

With Japan and the US on holiday on October 14, the euro/dollar pair began the day trading around $1.1028 and it traded without a sense of direction at this level thereafter. The euro was then bought and the pair rose to $1.1070 after the EU's chief Brexit negotiator Michel Barnier made several optimistic comments about a Brexit deal. It rose further to hit $1.1140 on October 17 on reports about a draft Brexit deal. On October 18, FRB vice chair Richard Clarida said the FRB would "act as appropriate to sustain growth." The dollar was subsequently sold on expectations for rate cuts, with the currency pair climbing to $1.1172.

At the start of the next week, on October 21, the pound rose on hopes for a Brexit deal, with the euro/dollar pair also dragged higher to temporarily hit a weekly high of $1.1180. The EU then indicated that Italy's draft budget for the next fiscal year would breach the eurozone's fiscal discipline , with the currency pair edging lower as European stock market gains were pared back. The pound then weakened on reports that the UK parliament would find it difficult to approve the EU withdrawal deal by the end of October, with the euro/dollar pair also pulled lower. As expected, the ECB Governing Council kept policy rates fixed when it met on October 24, so the currency pair's reaction was muted. However, the situation regarding Brexit remained up in the air, with the possibility of a UK general election also rearing its head, to the pound fell and the euro/dollar pair was also pulled down below $1.11 for a time.

2. Outlook for This Month

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

When it met late October, the ECB Governing Council maintained the status quo, as expected. It left its forward guidance unchanged while keeping its deposit rate fixed at -0.5%. It also said it would commence its asset purchasing program from November 1, as planned. Since assuming the ECB presidency in 2011, Mario Draghi has earned the nickname 'Super Mario' for his large-scale easing measures. He lived up to his nickname in September when he began easing again. This comprehensive package includes rate cuts, tiered interest rates, a new asset purchasing program, and an easing of conditions for the TLTRO III. Christine Lagarde will be assuming the presidency at the next ECB Governing Council meeting. Lagarde is said to be relatively dovish, so attention will focus on her next move, though she will probably remain on the easing path for now.

The eurozone economy is clearly slowing. The eurozone, German and Italian Manufacturing PMIs are all moving below 50. A eurozone bank lending survey also suggests that lending to business has continued to stall since peaking in 2018. At +0.2% q-o-q, meanwhile, the eurozone's real GDP growth rate clearly slowed over the second quarter (Q1: +0.4% q-o-q).

The EU has once again agreed to extend the Brexit deadline from the end of October. The deadline has now been pushed back to the end of January 2020, so the UK could still face a general election. Though Brexit is reaching the final stage, this decision means uncertainty will continue into 2020.

The euro/dollar pair had edged higher up until mid-October, but with the eurozone economy clearly slowing and the markets still facing perpetual Brexit uncertainty, the pair is expected to continue trading with a heavy topside in November.

Dealers' Market Forecast

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

Bullish on the euro	6 bulls	1.1025 – 1.1290	Bearish on the euro	15 bears	1.0900 – 1.1250

* Ranges are central values

Tanaka	Bear	1.0950 – 1.1250	The euro/dollar pair was pulled higher by a bullish pound on optimism about Brexit, but the euro will continue to be sold on the diverging performance of the European and US economies together with political uncertainty within the eurozone, for example. For now, the pair will probably float at highs on a growing sense of relief, but the Brexit situation remains unresolved, so the risk lies on the downside.
Takeuchi	Bear	1.0900 – 1.1300	The euro will be pushed lower by the weak European economy, with manufacturing slowing, particularly in Germany. There are many factors driving the euro lower, including the ECB's accommodative monetary policy, the Brexit issue, and eurozone political uncertainty. The euro/dollar pair will be sold when it stages a comeback.
Tsutsui	Bear	1.0850 – 1.1200	Attention will focus on the likelihood of fiscal mobilization and the performance of Chinese economic indicators. The euro will continue to move bearishly until there are some moves on the fiscal front. Though the euro/dollar pair may rise, it is also likely to face some temporary adjustment. Brexit is unlikely to act as a factor until the December general election.
Kato	Bear	1.0700 – 1.2000	The European economy will continue to slow, as it did last month. Brexit was delayed, as expected. Political events continue to pose a risk, so euro shorts are expected to gradually build up.
Seki	Bull	1.1100 – 1.1300	A European economic slowdown is becoming a given. With the Brexit issue kicked into the long grass and Germany pursuing fiscal expansion, the euro/dollar pair is expected to continue moving firmly for now.
Mitsuishi	Bear	1.0800 – 1.1200	The eurozone economy is moving weakly. Expectations for further FRB rate cuts have also dropped off sharply. As such, the euro/dollar pair's topside is being held down. Political uncertainty and Brexit concerns will also prompt euro bearishness.
Yamagishi	Bear	1.0900 – 1.1200	The euro was bought back for a time on hopes for progress in Brexit negotiations. However, there are deep concerns about a Chinese economic slowdown and a related slump in Germany and elsewhere, with market participants expecting more easing. As such, the euro will be a hard currency to actively buy. From here on, the focus will fall on the possibility of fiscal mobilization.
Tasaka	Bear	1.0900 – 1.1200	Economic conditions are worsening in Germany and other core eurozone nations. With political risk also continuing to smolder away in the periphery nations, the euro faces a multitude of selling factors. European currencies were bought for a time on progress in the Brexit negotiations, but market participants are now expected to test the euro/dollar pair's downside again.
Omi	Bull	1.1080 – 1.1280	While the dollar will be sold on some adjustment to the trend of dollar bullishness, the euro will be bought on a sense that the ECB is running out of room for further easing. As such, the euro/dollar pair is expected to strengthen. The euro could weaken on concerns about a no-deal Brexit, but with negotiations kicked into the long grass, the situation will probably not deteriorate.
Ueno	Bull	1.1050 –	The biggest topic right now is Brexit. With a UK general election looming in December, there remains event risk, but with the risk of a no-deal Brexit waning, the euro/dollar pair is unlikely to

		1.1300	fall sharply.
Okamoto	Bear	1.0900 – 1.1300	The euro/dollar pair will be pulled higher by a bullish pound, but there are no signs of optimism when it comes to the eurozone's fundamentals. Only countries like Germany and Holland have room for fiscal mobilization, so the euro is unlikely to be bought on fiscal moves. The pair's topside could fall again toward late November on concerns about a resurgence of political risk.
Onozaki	Bull	1.1000 – 1.1300	There are still concerns about Brexit, the most important issue at present, but with the risk of a no-deal Brexit waning, downside pressure on the euro will be capped. However, market participants are unlikely to actively test the pair's topside, so the pair will probably trade in a range.
Tamai	Bear	1.0900 – 1.1300	The European economy remains in the doldrums, while the FRB is not expected to cut rates again, so the euro/dollar pair will probably move with a heavy topside. Brexit concerns have eased off for a time. The issue has only been kicked into the long grass, but it is unlikely to impact the pair this month.
Harada	Bear	1.0950 – 1.1250	The European economy has deteriorated sharply, so the dollar/yen pair looks set to continue falling. Uncertainty about Brexit has eased a little, but with the right still on the rise in Europe, the euro looks set to continue moving bearishly.
Oba	Bull	1.1000 – 1.1250	The risk of a no-deal Brexit has eased off, so the euro looks set to move firmly. With the ECB hinting at further easing when it met recently, though, investors will find it hard to actively buy the euro. Attention will focus on the euro/dollar pair's 100- and 200-day moving average lines.
Takamura	Bear	1.0850 – 1.1250	A no-deal Brexit has been avoided for now, but the eurozone economic slowdown shows no signs of easing off, so there will probably remain expectations for further quantitative easing or deeper negative interest rates. With the US economy moving firmly, the dollar will remain strong, so the euro/dollar pair is expected to move with a heavy topside.
Matsumoto	Bear	1.0900 – 1.1250	There are concerns about an economic slowdown in Germany and the rest of the eurozone, while inflation is also slowing. Under these circumstances, the euro will be sold on ECB hints about a continuation of easing. There remain uncertainties about the EU withdrawal agreement, so the euro/dollar pair is expected to move bearishly.
Itsumi	Bear	1.0800 – 1.1200	Political activity looks set to increase in the run up to the UK general election on December 12, so the pound and the euro will probably move skittishly. There are concerns about an economic slowdown even in Germany, the European economy's last bastion, so the euro is likely to be sold.
Otani	Bear	1.0900 – 1.1250	There are deep-rooted concerns about an economic slowdown in Germany and elsewhere in the eurozone. There are also lingering uncertainties about the Brexit issue. As such, the euro/dollar pair is likely to trade with a heavy topside. However, the likelihood of a no-deal Brexit has fallen sharply, so the pair's room on the downside will be capped.
Tanishiki	Bear	1.0900 – 1.1250	The euro was bought as concerns of a no-deal Brexit waned, but this round of buying now seems to be over. The eurozone economy is clearly slowing, especially compared to the bullish hard data and corporate results emanating from the US, so the euro/dollar pair is likely to drop back this month.
Okuma	Bull	1.1000 – 1.1250	Some bright signs are starting to emerge when it comes to the results of European economic indicators, so there is a sense the economy has bottomed out. Concerns about a no-deal Brexit has waned now the UK has decided to hold a general election in December, so the euro/dollar pair is expected to move firmly on a sense of relief.

Ko Nagai, Europe Treasury Department

British Pound – November 2019

Expected Ranges	Against the US$:	US$1.2500–1.3200
	Against the yen:	JPY136.00–144.00

1. Review of the Previous Month

After opening the month at $1.2289, the pound/dollar pair edged higher from mid-October after a withdrawal deal was reached with the EU.

After hovering at the $1.23 level, the pair hit a monthly low of $1.2196 in the morning during London trading time on October 8 on news that UK prime minister Boris Johnson was not able to reach a Brexit agreement with German chancellor Angela Merkel. However, it then bounced back on October 9 on headlines that the EU was prepared to make major concessions in the Brexit negotiations. Mr. Johnson met Irish prime minister Leo Varadkar on October 10, with both men agreeing that the framework of an agreement was in reach. The EU's chief Brexit negotiator Michel Barnier then met the UK Brexit secretary Stephen Barclay on October 11, with the two parties subsequently commenting that enough progress had been made to enable to two sides to commence work on preparing a draft withdrawal deal. All this positive news saw the pound/dollar pair raising by around 5% from its monthly low. These headlines also led to rising hopes for an agreement in the run up to an EU heads-of-state summit on October 17. News emerged about an agreement after 10 am UK time on the same day, with the pound subsequently soaring and the pair bought to just below $1.30. However, it then dropped back on news that the draft agreement was opposed by Northern Ireland's Democratic Unionist Party (DUP), a party whose votes would be needed to get any deal through parliament. A number of major UK indicators were released that week, including the August unemployment data, the August average wages data, the September CPI data and the September retail sales figure, but these results did not manage to shift the attention from Brexit.

UK MPs voted to delay a decision on the withdrawal deal when they met on at the weekend (October 19), but the fact Mr. Johnson and the EU had agreed on a withdrawal deal meant that the risk of a no-deal Brexit had faded. With market participants swept with a sense of optimism, the pair hit a monthly high of $1.3012 when the next week opened on October 21. On the evening of October 22, the UK House of Commons decided that three days was insufficient time to scrutinize the EU Withdrawal Agreement Bill (WAB). As expectations for a withdrawal by the end of October waned, the pair temporarily dipped to the lower-$1.28 mark.

Uncertainty swept the markets on October 24 on news that Mr. Johnson would put forward plans for a general election on December 12. Sterling was subsequently sold, with the currency pair also dipping

below $1.28. The prime minister put his plans for a general election before parliament on October 28, but it did not obtain the required support from two-thirds of MPs in the House of Commons. The Labour Party changed tack on October 29 and said it would now support an election, so the bill passed through the House of Commons with 438 votes. This saw the pair soaring to the lower-$1.29 level. The pound had fallen when the prime minister announced his election plans on October 24, so although the markets found it somewhat hard to digest the news, this bounce was probably a positive reaction to the fact that progress had finally been made after several days of deadlock. The pair remained shrouded in uncertainty as it closed the month trading around $1.29.

2. Outlook for This Month

The pound/dollar pair will continue to be buffeted by Brexit trends in November, though it will probably trade in a range with a downside bias. UK prime minister Boris Johnson reached an agreement with the EU about a withdrawal deal in mid-October, a major event that supported the pair's movements. There is still considerable uncertainty, though, so the pair will probably trade without a sense of direction.

On October 28, the EU agreed to push the Brexit deadline back to January 31, 2020, so attention has now shifted to the general election. Opinion polls by a UK research company put support for Mr. Johnson's Conservative Party at 36%, up on the opposition Labour Party's 23% (as of October 25), with the Tories in the lead right now. The prime minister probably wanted to go into an election after getting the EU Withdrawal Agreement Bill (WAB) though parliament, but with the situation remaining deadlocked, he then probably wanted to call an election before his approval ratings slipped lower. However, market participants should remember how public opinion shifted after prime minister Theresa May called an election in 2017. At one point, the Tories had had an overwhelming lead of over 20% in the polls, but Labour ultimately caught up, with the government only ending up with 318 seats, eight short of the 326 needed for a majority. This hung parliament explains the chaotic situation we see today. It seems significant steps were made in October, with the UK government sealing a withdrawal deal with the EU before calling a general election, but investors still remember the 2017 election, so in their minds a general election means uncertainty. If the Tories remain in front, sterling will probably move firmly, but it Labour makes up ground as the election draws closer, the prospect will loom into view of an alliance between the Conservatives and the Brexit Party, a party that is even opposed to Hard Brexit and instead supports a no-deal Brexit. If this happens, uncertainty will increase and this will push the pair lower, so caution will be needed.

The Bank of England's Monetary Policy Committee (MPC) will be meeting on November 7. It is expected to leave policy rates fixed. It will also be releasing its Inflation Report. If the inflation outlook is revised downwards, investors will focus a little on the prospect of rate cuts from December onwards, with the pound moving bearishly as a result. Though the risk of a no-deal Brexit has waned, the prolonged uncertainty is impacting consumer sentiments. Since October, BOE MPC member Gertjan Vlieghe has been warning about the risk of uncertainty dragging on, so market participants will be

watching to see whether the MPC adopts a more dovish tone when it meets this month.

Shiho Kawaguchi, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – November 2019

Expected Ranges	Against the US$:	US$ 0.6860–0.7000
	Against the yen:	JPY74.50–76.00

1. Review of the Previous Month

The RBA cut the cash rate from 1.00% to 0.75% at the start of October, with the AUD/USD pair subsequently dropping into the $0.66 range. The greenback was then sold on the bearish results of the September US Manufacturing ISM Report on Business, with the pair bouncing back from $0.6672 to return to the $0.67 range. On October 2, news emerged that Germany's five leading research institutes had downgraded their growth rate forecasts for 2020, with European stocks then falling and the AUD/USD pair pulled down to $0.6670. The greenback was sold on October 3 on the weak result of the September US Non-Manufacturing ISM Report on Business, so the pair rebounded to the mid-$0.67 level. The US September employment data was released on October 4. Though the net change in employment figure dipped below forecasts, the unemployment rate improved, with the pair rising to $0.6774 on risk appetite.

US troops began withdrawing from Syria on October 8. They had been stationed there to support Kurdish fighters, so this move led to renewed geopolitical risk, with the greenback and crude oil prices rising. The AUD/USD pair also swung to and fro on concerns about US/China relations. The US and China held trade talks over October 10–11. Though the currency was buffeted by headlines, it moved firmly on expectations that a partial agreement would be reached. A deal was indeed agreed, with the US postponing the further tariff hikes set to begin on October 15, so the pair climbed to $0.6810.The markets reacted warmly to the phase 1 agreement reached during US/China trade talks at the weekend, with the Australian dollar bought on October 14, though it was then sold as investors moved to lock in profits, with the pair trading wildly to return to the $0.67 range. As Chinese stocks and the CNH rose sharply, the AUD/USD pair moved with a heavy topside to float around the upper-$0.67 mark. News emerged on October 16 that China was prepared to take strong measures if the US passed the Hong Kong Human Rights and Democracy Act, so the pair dipped to $0.6724 on concerns about US/China frictions. However, it rallied to the $0.6760 range after President Trump hinted at a resolution to the US/China trade dispute. Australia released some firm September employment data on October 17. As expectations for a November rate cut waned, the pair was sold to the $0.6790 range. It was then pushed up to $0.6833 on risk aversion after the UK and EU agreed on a withdrawal deal.

The pair opened trading at the mid-$0.68 mark on October 21 and it then climbed to the upper-$0.68 mark on a growing sense of optimism about Brexit. The pair hit a weekly high of $0.6883 on October

22, though it fell to the mid-$0.68 mark on growing concerns about Brexit. It then tumbled to the lower-$0.68 mark on October 23, though it subsequently rallied to the mid-$0.68 mark on reports that the Chinese government was introducing new measures to support trade. The US released a firm Manufacturing PMI during NY trading time on October 24, with the currency pair facing downward pressure as a result. This trend continued into October 25, with the pair temporarily hitting a weekly low of $0.6810.

The pair dropped to $0.6811 on October 28, but President Trump then hinted that preparation was well underway ahead of signing a deal in November, with China also indicating it was prepared to scrap a ban on US chicken imports, so the markets slipped into risk-on mode. With hopes growing that US/China trade talks would result in a deal, the Australian dollar and other commodity currencies rose on October 29. Markets bets on an FOMC rate cut also rose to 90%, while the Australian dollar was boosted by hawkish comments from RBA governor Philip Lowe, so the pair hit a high of $0.6872. As expected, the FOMC cut rates to 1.50–1.75% on October 31, with the currency pair renewing a high in the $0.69 range.

2. Outlook for This Month

Market participants will probably test the AUD/USD pair's topside and push it higher in November. Outlined below are the main reasons for expecting the pair to move bullishly.

- When it comes to options, an indicator of real market trends, one-month 25-delta risk reversals are still at dollar call overs, but the minus value is approaching zero, with demand for AUD calls rising sharply.
- The RBA board implemented a preventative rate cut when it met on October 1, while recent Australian employment indicators have moved firmly, so it is hard to imagine the RBA cutting rates again this month.
- The FRB cut rates again when the FOMC met in October, so although the gap between US and Australian real interest rates remains negative, this gap is shrinking, with Australian-dollar selling pressure set to gradually ease from here on. Furthermore, the trend line (connected to the lower value of the US/Australia real interest rate gap) is trending upwards. It seems investors are unwinding their Australian-dollar short positions.
- After cutting rates from 1.75–1.50% in October, the FOMC looks set to keep rates fixed for a while, so as the recent uncertainty clears up to a certain extent, risk appetite will increase and EM and commodity currencies grow comparatively easier to buy.
- The Australian 3Q CPI data was released in October, with inflation approaching the RBA's target range. With the building approvals data also rising on a monthly basis, demand within Australia seems to be moving firmly.

However, the pair will probably jostle up and down when risk sentiments are weighed down by uncertainties related to Brexit fears, concerns about the situation in the Middle East, and worries about potential conflicts in the US/China trade talks.

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – November 2019

Expected Ranges **Against the US$: C$1.3000–1.3500**
Against the yen: JPY80.00–84.00

1. Review of the Previous Month

Concerns about US/China trade frictions eased off slightly in October, with the Canadian dollar moving comparatively strongly. However, it then moved somewhat bearishly at the month's end in the wake of monetary policy meetings in Canada and the US. The USD/CAD pair hit a monthly high of C$1.3348 on October 3 and a monthly low of C$1.3042 on October 29, its lowest level since July.

The pair entered the month trading at the lower-C$1.32 mark. The September US Manufacturing ISM Report on Business was released on October 1. At 47.8, it dipped below market expectations and sharply below the key 50 mark. This suggested a recession was looming, with risk aversion intensifying. Canada then released some bearish July GDP data on the same day, with the pair subsequently rising to the C$1.33 range.

It then floated in the lower-C$1.33 range. The Canadian September employment data was released on October 11. The number of people in work rose by 53,700, sharply up on forecasts for a rise in the region of 7,500. With investors focusing on a global economic slowdown, the comparative firmness of the Canadian economy saw the Canadian dollar rising, with the USD/CAD pair temporarily dropping below C$1.32.

The Canadian dollar then edged higher towards the month's end, with the pair sliding to the C$1.30 range for the first time since July this year. As for factors, tensions eased for a time on expectations for a partial agreement in US/China trade talks in the run up to the APEC summit in November. In Europe, meanwhile, the risk of a hard Brexit subsided. All this led to an improvement in global risk sentiments. Improvements were also seen in Canada's Q3 Business Outlook Survey.

As expected, though, the Bank of Canada's Monetary Policy Committee (MPC) kept its policy rate fixed at 1.75% when it met on October 30. However, the accompanying statement was relatively dovish and it discussed a global economic slowdown, for instance. In his press conference, meanwhile, BOC governor Stephen Poloz revealed that the MPC has discussed an 'insurance cut,' with investors subsequently focusing on the prospect of rate cuts in the near future. As a result, the Canadian dollar fell sharply, with the USD/CAD pair temporarily bouncing back to the C$1.32 range.

2. Outlook for This Month

As expected, the FOMC implemented another rate cut when it met at the end of October, but with US/China trade tensions easing off, for example, the FOMC struck a neutral tone and it indicated that US monetary policy would be driven by the data going forward. Though the US has instituted several rate cuts, Canada has kept policy rates fixed. As mentioned last month, though, the currency pair will probably fluctuate if the Bank of Canada (BOC) tweaks its monetary policy.

What was striking about the BOC's statement at the end of October was the comment about how "despite this [falling commodity prices], the Canada-US exchange rate is still near its July level, and the Canadian dollar strengthened against other currencies," with the BOC commenting on how the Canadian dollar is moving strongly compared to other currencies during this phase of unchanged monetary policy. From this viewpoint, it seems likely market participants will trade with an eye on the C$1.3 mark.

Of course, policy will continue to be driven by the data, but the BOC looks set to implement a rate cut either within 2019 or early in 2020. Consequently, it seems the pair will continue trading in a range, as it did in October.

Canada held a general election on October 21. Though Justin Trudeau's Liberal Party retained power, it lost its majority, a fact that will probably push the Canadian dollar lower from here on.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – November 2019

Expected Ranges	**Against the US$:**	**KRW1,140–1,200**
	Against the yen:	**JPY9.091–9.569 (KRW100)**
		(KRW10.450–11.000)

1. Review of the Previous Month

The USD/KRW pair underwent a month-on-month slide in October. This was probably due to the achievement of a partial deal during US/China trade talks together with speculator position adjustments.

After opening the month at KRW1199.00, the pair then hit a monthly high of KRW1206.00 on October 2. Expectations for a US rate cut grew on the mixed results of several US indicators released at the start of the month, so the pair dipped below KRW1200 and remained there. The pair then fell to the lower-KRW1180 level in mid-October on news that a partial agreement has been reached during cabinet-level US/China trade talks. Sentiments temporarily worsened on October 16 after China threatened to retaliate if the US passed the Hong Kong Human Rights and Democracy Act, though the impact on the pair was minimal. The BOK also implemented a 25bp rate but on the same day, but this result was broadly as expected, apart from the fact there were two dissenting votes, so the decision did not affect the pair much.

During overseas trading time on October 17, China made a positive statement regarding US/China trade talks. With the UK and EU also reaching a Brexit deal, the pair temporarily fell below KRW1180 on October 18. China's deputy prime minister Liu He and President Trump then made some upbeat comments about US/China trade talks. With speculators also adjusting their positions, the pair dipped below KRW1170 on September 24. During this week, the pair was swayed by US settlement results and Brexit trends, though the won moved comparatively strongly and the pair traded at lows around KRW1170. In a closely-watched speech about Chinese policy on October 24, US vice president Mike Pence criticised China's response to events in Hong Kong, but he also said he did not want to see a divided China, for example, with the speech more composed than a similar one in October 2018, so the impact on the markets was negligible.

The USD/KRW pair fell further in the week beginning October 28. During overseas trading time on the same day, President Trump said US/China talks were proceeding faster than expected, with the pair subsequently dropping to the KRW1162 range on October 29. The results of the FOMC meeting were released during overseas trading time on October 30. The FOMC implemented a 25bp rate cut, but the phrase about how the FRB would "act as appropriate" was replaced in the statement by a phrase about how it would assess "the appropriate pass." The markets read this a hint that the FOMC would pause

rate hikes. However, the FOMC also mentioned there were high hurdles such as the inflation rate in the way of any rate hikes, so US long-term interest rates fell and US stocks moved at highs. This flow continued thereafter, with the won also bought on real demand, so the pair fell to monthly low of KRW1159.6 on October 31 to close the month trading at KRW1163.4.

2. Outlook for This Month

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

The pair will continue to be swayed by sentiments on the whole. Sentiments began improving in October after a provisional agreement was reached during US/China trade talks, with the currency pair generally trading at a level below KRW1200. Speculators had previously built up dollar long positions, but they now moved to close these positions out and they shifted slightly instead dollar shorts and won longs, which explains why the pair fell.

Attention from here on will probably shift to whether the 'phase one' provisional agreement between the US and China can be moved on to a final deal. However, there is no room for complacency and there are still lingering concerns that the US will hit China with a new round of tariff hikes in December. 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 moving with an eye on sluggish sentiments while swinging to and from on moves by President Trump and Chinese leaders. If the US and China conclude a final 'phase one' agreement, this could lead to more won buying, but if an agreement is not reached, the USD/KRW pair could rise sharply again, so caution will be needed.

It seems the US and South Korea will also take a short break when it comes moves on the monetary policy front. Last month, the BOK decided to lower its policy rate to 1.25%, a historically-low level. Though the BOK said it still had room to act on the policy front, it did not mention any specific policies and it also said it was considering other moves besides rate cuts. From here on, the BOK will probably act prudently and refrain from making any more moves in 2019. However, it could implement some kind of measures before next April's parliamentary elections, so market participants should remain vigilant going forward. On the other hand, the FOMC implemented a 25bp rate on October 30, with its statement then revised in a neutral direction. It seems the markets are also expecting the FOMC to take a breather for the rest of the year.

When it comes to the fundamentals, there is an undeniable sense that the US is doing better. The semiconductor industry is one of South Korea's most important industries. Though it appears this sector is emerging from the worst, other economic indicators are starting to show signs of weakness.

Based on the above, it seems the USD/KRW pair will continue to be swayed by sentiments in November. The won could be bought to around KRW1140 if the US and China reach an agreement, but if talks break off, the pair might head toward KRW1200 again, so caution will be needed.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – November 2019

Expected Ranges	Against the US$:	NT$30.10–30.80
	Against the yen:	JPY3.45–3.60

1. Review of the Previous Month

The Taiwan dollar strengthened against the US dollar in October.

The USD/TWD pair opened the month trading at TWD31.050 on October 1. With stocks moving firmly, the US dollar was sold and the Taiwan dollar bought, though the greenback was then bought back close to the key TWD31 mark, with the pair moving flatly overall. The US released a worse-than-expected September Manufacturing ISM Report on Business during overseas trading time on October 3, so on the following day, the interest rate futures market saw an acceleration of moves to factor in another FRB rate cut within 2019, with the currency pair subsequently weakening. The pair broke below TWD31, while overseas investors continued to pour funds in Taiwanese stocks thereafter, so the greenback was sold and the Taiwan dollar bought, with the pair hitting the TWD30.8 range for the first time in five months just before the National Day holidays in Taiwan.

The US and China held cabinet-level trade talks during the holidays, China agreed to buy more US agricultural products, with both sides also reaching a partial agreement when it came to issues like foreign exchange and financial services. With the US also postponing a planned tariff hike on Chinese goods, stocks rose and fund inflows increased sharply at the start of the next week, on October 14. The US dollar was sold and the Taiwan dollar bought at an accelerated pace, with the USD/TWD pair dipping to a low of TWD30.571 for the first time in around a year. However, the currency pair was supported at this level by considerable demand for US-dollar buying.

The greenback was bought for a time in the latter half of the month, with the pair bouncing back to the TWD30.7 range. However, there was a growing sense of optimism that US/China trade talks would result in the signing of a deal at the January APEC summit. With the Taiwan Capitalization Weighted Stock Index also hitting its recent high from the start of 2018 to then climb to its highest level since 1990, the Taiwan dollar continued moving bullishly. The currency pair's downside edged lower and the pair fell to the lower-TWD30 level. Exporters sold the US dollar and bought the Taiwan dollar at a faster pace toward the month's end. The greenback was also sold on falling US interest rates, with the pair dipping to the TWD30.3 range.

2. Outlook for This Month

In November, the USD/TWD pair's movements will continue to be marked by US-dollar bearishness and Taiwan-dollar bullishness.

A glance at the economic indicators released in October shows the September export amount falling by -4.6% y-o-y, with growth dipping into negative territories after accelerating the previous month. The breakdown shows key exports of electronic parts hitting +2.4% y-o-y, with exports of IT and telecommunication products to the US also growing by a brisk +18.5, but exports to China and Hong Kong stalled and this pulled the overall data down. The overall CPI data for September was unchanged on the previous month at +0.43% y-o-y, while the core CPI data (excluding volatile fresh food prices) rose slightly by +0.52% y-o-y, with inflationary trends not undergoing any major changes.

In November, attention will remain focused on headlines related to US/China trade talks. At cabinet-level trade talks held in October, the two sides reached a partial deal, with bureaucrats putting together a draft agreement for President Trump and Chinese premier Xi Jinping to sign at November's APEC summit, so market participants will be monitoring whether everything goes smoothly from here on.

The currency pair will also be swayed by the results of US economic indicators. Several indicators have fallen below market expectations, with October's retail sales figure dipping into negative territories, for example. If this trend continues, this will lead to growing expectations for a further rate cut at the December FOMC meeting or sometime next year, with the greenback likely to face selling pressure.

As for Taiwanese factors, fund flows by overseas investors have shifted sharply since September, with funds continuing to flood into Taiwan. As a result, the Taiwan Capitalization Weighted Stock Index has risen to its highest level since 1990, so the environment is ripe for some selling for profit taking. However, if this trend continues into November, this will support more Taiwan-dollar buying.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – November 2019

Expected Ranges	Against the US$:	HK$ 7.8200–7.8500
	Against the yen:	JPY 13.55–14.00

1. Review of the Previous Month

Hong Kong dollar spot exchange market in October

In October, the U.S. dollar/Hong Kong dollar exchange rate fluctuated at around HKD 7.84. After October 1, the National Day of the People's Republic of China, the protests intensified and the Hong Kong government introduced an emergency law to ban face masks, further fueling social uncertainty. However, this did not bring further confusion to the Hong Kong financial market. It should also be mentioned that the U.S. Lower House approved the *Hong Kong Human Rights and Democracy Act*, which did not significantly impact the Hong Kong dollar market either. Pressure for capital outflow was also limited, and market participants did not sell the Hong Kong dollar enough to lead the U.S. dollar/Hong Kong dollar exchange rate to exceed the HKD 7.8460 level. However, the growth outlook for Hong Kong deteriorated dramatically due to the social uncertainty, and retail sales recorded an all-time low, at –23% year-on-year. In reaction to this, the Hong Kong government announced new relief measures, including a subsidy for fuel. On the other hand, as a result of the deterioration of U.S. economic indices, the U.S. dollar depreciated, and, with growing expectation for an interest rate cut by the Federal Reserve Board (FRB), the interest rate differentials widened between the Hong Kong dollar and the U.S. dollar, supporting the Hong Kong dollar as a result.

Hong Kong dollar interest rate market in October

Due to the persistent trade frictions between the U.S. and China, as well as the protests in Hong Kong, the Hong Kong economy has been weakening. Under such circumstances, the Hong Kong Monetary Authority (HKMA) announced its decision to lower the countercyclical capital buffer (CCyB) from 2.5% to 2.0%. This 0.5% cut of the CCyB is expected to supply banks with funds of HKD 200–300billion. As the U.S. dollar/Hong Kong dollar spot exchange rate did not reach HKD 7.85, the lower end of the fluctuation band, the checkable deposit balance of the HKMA remained stable at the HKD 54 billion. However, as IPOs became active again, the liquidity level in the Hong Kong dollar market fell. The one-month Hong Kong dollar HIBOR reached its lowest level in seven months, at 1.54%, after which it remained at around the 1.70% level. Thereafter, along with a fall of U.S. interest rates, the three-month Hong Kong dollar HIBOR fell to 2.1%—the lowest level in five months. On the other hand, the inter-bank interest rate for commercial banks in Hong Kong exceeded 1% for the third consecutive

month for the first time since February 2008, as a result of the rise of fund procurement costs. With regard to long-term interest rates, the three-year and five-year Hong Kong dollar IRS interest rates rose and approached 1.8% despite the fall of the three-month Hong Kong dollar HIBOR.

Hong Kong stock market in October

In October, the benchmark Hang Seng Index recovered to the 27,000 level, thanks to the progress in the trade negotiations between the U.S. and China, as well as due to mitigated risks of a "no-deal Brexit." The Hong Kong government announced its decision to relax housing loan rules, by lowering the minimum rate of down payment, strengthening the real estate sector in Hong Kong. IPO stocks are outperforming, encouraging active IPOs.

2. Outlook for This Month

Hong Kong dollar spot exchange market in November

In November, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.82 and HKD 7.85. Despite the uncertainty in domestic politics, activities in the Hong Kong financial market have been stable, and capital outflow is likely to remain limited. It seems that the stable real estate prices seen after the deregulation of housing loans have been helping the Hong Kong market maintain the capital level. While the FRB is in a phase of interest rate cuts, the Hong Kong dollar interest rates have currently been maintained, widening the interest rate differentials between the Hong Kong dollar and the U.S. dollar. This situation is expected to support the Hong Kong dollar market. However, market participants remain sensitive about the rising political risks in Hong Kong. With concerns over a breakdown of the "one country, two systems" structure, market participants are thus growing more skeptical about the U.S. dollar peg system, and this may strengthen pressure for capital outflow. Thus, there's a possibility for the Hong Kong dollar to be sold again to HKD 7.85.

Hong Kong dollar interest rate market in November

The HKMA lowered the countercyclical capital buffer (CCyB) in order to actively supply liquidity, and this has been keeping the Hong Kong dollar interest rates from rising further. The HKMA can cut the CCyB from 2.0%—the existing level—to the minimum of 0%, if necessary. However, as the checkable deposit balance of the HKMA has been relatively low, at HKD 54 billion, the liquidity level may fall toward the end of the year due to increasing IPO activities. In the times ahead, the FRB is expected to cut its policy interest rate further. However, it is unlikely for commercial banks in Hong Kong to follow this trend given the rise of fund procurement costs. The Hong Kong dollar prime rate is therefore likely to remain at the existing level. With regard to long-term interest rates, the Hong Kong dollar IRS interest rates are forecast to fall, following the fall of U.S. interest rates.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – November 2019

Expected Ranges	**Against the US$:**	**CNY 7.0000–7.3000**
	Against the yen:	**JPY 14.25–15.71**
	Against 100 yen:	**CNY 6.3600–8.2500**

1. Review of the Previous Month

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

During the holidays of the National Day of the People's Republic of China, the Chinese yuan depreciated in the offshore market. Furthermore, the media reported that the U.S. government had been discussing possible restrictions of Chinese stocks in U.S. pension funds. As a result, the Chinese yuan depreciated also in the onshore market after the holidays of National Day. While trade negotiations between the U.S. and China were scheduled for October 10, the media reported some positive outlook, such as a possible agreement on the currency exchange rate, as well as approval for Chinese manufacturers of communication appliances to use U.S. products. Furthermore, U.S. President Donald Trump made an optimistic remark toward an agreement after the negotiations started, fueling expectations for a progress in the trade negotiations between the two countries. As a result, the Chinese yuan strengthened, and the U.S. dollar/Chinese yuan exchange rate fell from a level above CNY 7.15 to a level near CNY 7.10.

As a result of the negotiations, there was partial agreement between the U.S. and China, which led the Chinese yuan to appreciate. The U.S. dollar/Chinese yuan exchange rate thus once approached CNY 7.05, after which the exchange rate gradually fell again. On October 16, the U.S. took an action to support the approval of the *Hong Kong Human Rights and Democracy Act*, against which China implied a retaliatory action. As a result, concerns grew over possible progress in the trade negotiations between the U.S. and China, which led the U.S. dollar/Hong Kong dollar exchange rate to rise to approach CNY 7.10. Thereafter, however, the U.K. and the European Union reached an agreement regarding Brexit procedures, which encouraged market participants to buy the euro and British pound, bringing the U.S. dollar/Chinese yuan exchange rate back again to a level close to CNY 7.07.

Then, on October 19, People's Bank of China (PBOC) Governor Yi Gang released a statement through the International Monetary Fund (IMF) to relay his view that the Chinese yuan exchange rate was at an appropriate level, and this led the Chinese yuan to strengthen, with the U.S. dollar/Chinese yuan exchange rate once reaching the CNY 7.05 level. On October 23, the British Parliament rejected the accelerated process for the exit from the European Union at the end of October, and this encouraged market participants to sell the British pound. In exchange, market participants bought the U.S. dollar,

and the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.08 level. Thereafter, market participants started selling the U.S. dollar even more actively, and the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7.06 level, after which the exchange rate returned to the CNY 7.07 level. Thus, the U.S. dollar/Chinese yuan exchange rate continued moving in both directions.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange market will depend on the outcome of the summit meeting between the U.S. and China.

In the coming month, it is likely for the U.S. and China to hold telephone dialogue and mutual visits for negotiations in order to hold a summit meeting and sign a partial agreement before the end of November. Therefore, the U.S. dollar/Chinese yuan exchange rate is likely to follow media reports related to this matter. There is also an additional customs duty worth USD 160 billion that is to be imposed on December 15. However, depending on the outcome of the future negotiations between the U.S. and China, the imposition is likely to be postponed if there is an agreement, which would result in the appreciation of the Chinese yuan for a short while. On the other hand, there are more-difficult issues involving structural reforms that are not included in the partial agreement, such as the protection of intellectual property rights, issues related to subsidies for state-owned companies, and systems to evaluate the level of China's compliance with the agreement. From this point of view, it is difficult to expect the Chinese yuan to appreciate sharply and one-sidedly in the near future. As is suggested in the remark by PBOC Governor Yi Gang, emphasizing that the Chinese yuan exchange rate has been at an appropriate level, it is likely for the Chinese monetary authorities to make efforts to stabilize the market at the current level without changing the level of the U.S. dollar/Chinese yuan exchange rate. If the U.S. and China do not reach an agreement and if the customs duty that has been postponed from October 15 is finally imposed on China by the U.S., the relations between the U.S. and China would deteriorate further. In such a case, the Chinese yuan, which has been currently appreciating, may suddenly start depreciating. Market participants should therefore remain cautious.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – November 2019

Expected Ranges	Against the US$:	SG$ 1.3500–1.3900
	Against the yen:	JPY 77.00–80.00

1. Review of the Previous Month

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

In October, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.38 level, after which the Singapore dollar strengthened as U.S. economic indices were released with weak figures on October 3 and 4. Furthermore, the media reported that there was a "partial agreement" in the trade negotiations between the U.S. and China that had been held since October 10, in response to which the Singapore dollar continued appreciating against the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate remained at the SGD 1.37 level.

On October 14, the Monetary Authority of Singapore (MAS) announced the outcome of its semi-annual monetary policy meeting. As imports and exports impact the economy of Singapore significantly, its monetary policy is based not on the interest rate but on the foreign exchange policy that controls the central level, fluctuation rate, and fluctuation range for the nominal effective exchange rate (NEER).

Before the meeting, some market participants expected the MAS to change the policy toward "leading the Singapore dollar to appreciate," by gradually raising the policy fluctuation band for the NEER, to a policy toward "lowering the appreciation rate to zero." However, in the end, the MAS announced its decision to "slightly lower the appreciation rate," and this turned out to be more hawkish than expected in the market. As a result, the Singapore dollar appreciated slightly against the U.S. dollar after the announcement of this decision. Furthermore, the third-quarter GDP of Singapore was also announced at the same time, and the result turned out to be +0.6% from the previous quarter, falling below the market estimate, which was +1.2% from the previous quarter. However, the growth rate did not record a negative figure for the second consecutive quarter (the second-quarter GDP recorded negative growth of –2.7%), and thus Singapore avoided entering a phase of recession.

Toward the second half of the month, the Singapore dollar continued appreciating, thanks to expectations for progress in the trade negotiations between the U.S. and China, as well as due to mitigated concerns over a possible "hard Brexit." As a consequence, the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.36 level.

At the end of the month, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the policy interest rate was cut by 25 basis points, as had been anticipated in the market. In reaction to this, the U.S. dollar appreciated for a short while. However, the medium- to long-term interest rates

in the U.S. fell significantly after a short period of increase, and this kept the U.S. dollar from appreciating further. In the end, the U.S. dollar/Singapore dollar exchange rate has been at the lower-SGD 1.36 level, without moving from the level seen before the policy interest rate cut.

2. Outlook for This Month

In November, the Singapore dollar is expected to weaken.

The Singapore dollar has been currently stable, thanks to the mitigated tensions in the market. However, media reports related to the trade negotiations between the U.S. and China are likely to remain a decisive factor.

After the trade negotiations, the U.S. and China reached a basic agreement in October. However, it is still possible for the two countries to face difficulties in the process of editing a formal written agreement based on the verbal negotiations, and thus market participants should remain cautious.

In the U.S., the FOMC decided to cut its policy interest rate for the third consecutive time. The interest rate cuts in the U.S. could lead to the depreciation of the U.S. dollar, which can be a factor to support the Singapore dollar market. However, in the statement released after the most-recent FOMC meeting, the expression "act as appropriate" was deleted for the first time after four meetings. Furthermore, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that he saw the current monetary policy stance to be appropriate. It has thus become harder to expect more interest rate cuts in the times ahead.

It should also be mentioned that the GDP of Singapore that was released in October turned out to be weaker than the market estimate. Although the country did not enter a phase of recession, it is clear that the economy of Singapore has been impacted by the decrease in global trade caused by the trade war between the U.S. and China. The MAS is scheduled to hold the next meeting in April, and if the economic growth of Singapore slows down further, an extraordinary meeting may be held—as was the case in January 2015—in order to introduce more-assertive measures of monetary easing. At the MAS meeting held in October, the monetary policy was modified toward monetary easing, as was done by the U.S. and European monetary authorities. However, in the case of Singapore, the new policy intends to "slightly lower the appreciation rate" without changing the central level of the NEER and fluctuation range. In the times ahead, the MAS may well change the monetary policy to "cut the appreciation rate to zero." However, if the MAS decides to lower the central level of the NEER (the median level has not been lowered since September 2009), the Singapore dollar is likely to depreciate significantly.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – November 2019

Expected Ranges	Against the US$:	THB 29.80–30.80
	Against the yen:	JPY 3.55–3.65

1. Review of the Previous Month

The U.S. dollar/U.S. dollar exchange rate continued falling in October.

At the beginning of October, the U.S. dollar/Thai baht exchange rate fell below the THB 30.50 level again. On October 1, the U.S. dollar/Thai baht exchange market opened trading at around THB 30.60. Although the exchange rate once rose to the upper-THB 30.60 level, the monthly high, the U.S. dollar remained weak, as the U.S. economic indices were released with weak figures every day, such as in the September Manufacturing ISM Report on Business, which recorded its lowest level since 2009. As a result, the U.S. dollar/Thai baht exchange rate fell below the THB 30.50 level toward October 4. After the weekend, the Thai baht continued appreciating from October 7, while the U.S. dollar/Thai baht exchange rate fluctuated due to media reports related to the ministerial-level negotiations between the U.S. and China scheduled for October 10 and 11. The media reports were dominantly negative, such as those regarding the expansion of the blacklist to limit transactions with U.S. companies, which put weight on the U.S. dollar/Thai baht exchange rate. Thus, the U.S. dollar/Thai baht exchange rate fell to reach the lower-THB 30.30 level—the lowest level in six years. Then, on October 9, the monetary policy committee (MPC) at the central bank of Thailand released the minutes of its meeting (held on September 25), referring to a possible additional interest rate cut and measures against the appreciation of the Thai baht. However, these were not enough to keep the Thai baht from appreciating further. Even though Thai Finance Minister Uttama Savanayana made a remark that the central bank of Thailand has a measure to control the Thai baht exchange market, reaction to this was also limited in the market.

In the middle of the month, the U.S. dollar/Thai baht exchange rate continued falling. The September consumer confidence index turned out to be 72.2, recording a fall from the 73.6 recorded in the previous month. While the ministerial-level negotiations between the U.S. and China continued, U.S. dollar-buying increased slightly with a sense of hope, following which the U.S. dollar/Thai baht exchange rate also returned to the upper-THB 30.40 level. After the weekend, the market was closed in Thailand on October 14. Many market participants thereafter gained hope for avoiding a "no-deal Brexit," and the U.S. dollar/Thai baht exchange rate remained at around THB 30.40. On October 16, the U.S. Lower House approved the *Hong Kong Human Rights and Democracy Act*, against which the Chinese government declared a retaliatory action, fueling risk-averse sentiment in the market. As the U.S. economic indices also turned out to be weak, the Thai baht appreciated against the U.S. dollar toward

October 18—the end of the week—reaching the THB 30.20 level.

At the end of the month, the U.S. dollar/Thai baht exchange rate continued falling. On October 21, the Ministry of Commerce of Thailand released the September trade statistics (on a customs basis), revealing a decline of 1.39% year-on-year in exports, unlike the market estimate (increase of 2.70% year-on-year). Then, on October 25, the Office of the United States Trade Representative (USTR) made an announcement that the U.S. and China would reach a final agreement regarding some discussed matters, and this fueled risk-taking sentiment in the market. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to the mid-THB 30.10 level. Toward the end of the week, the U.S. announced its decision to partially suspend the Generalized System of Preferences (GSP) for Thailand. However, this did not lead the Thai baht to depreciate dramatically on October 28, after the weekend. At the end of the month, there was demand for Thai baht-buying from exporting companies, and this supported the Thai baht. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range around THB 31.20.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate may fall below the THB 30.00 mark.

The U.S. dollar/Thai baht exchange rate has continued to fall. The exchange rate fell below the lowest level recorded in May 2013, temporarily falling to the THB 30.10 level in October. The appreciation rate of the Thai baht against the U.S. dollar has almost reached 8% since the beginning of the year. This appreciation rate is by far the highest among Asian currencies. It is considered that, even though the decrease in exports has been remarkable, the Thai baht has remained strong thanks to the stable current account surplus as well as political stability. In particular, there has recently been remarkable Thai baht-buying even when risk-averse sentiment is strong. The Thai baht can even be compared to safe assets such as the Japanese yen. Thus, even when other Asian currencies are being sold, market participants continue buying the Thai baht, demonstrating the outstanding strength of Thailand's currency. This point was also mentioned in the minutes of the monetary policy committee (MPC) meeting held at the central bank of Thailand (on September 25), as revealed on October 9. Furthermore, in the minutes, there was a detailed program to mitigate the appreciation of the Thai baht, and this attracted substantial attention in the market. The program includes: (1) gradual deregulation of foreign investment restrictions for residents in Thailand and (2) cooperation with other organizations such as in a reduction of the current account surplus through the promotion of investment. The program therefore does not have any particularly new action. Market participants may even have the impression that there are no more possible measures available for controlling the appreciation of the Thai baht apart from the above two, despite the fact that the central bank of Thailand considers that the depreciation of the Thai baht is based on speculative capital inflow from overseas investors. Now that market participants are aware that there are few possible actions left for the central bank of Thailand to control the appreciation of the Thai baht, including interest rate cuts, it is thus possible for the Thai baht to appreciate even further. It should also

be added that the USTR announced on October 25 that the Generalized System of Preferences for Thailand would be partially suspended from April 25 next year. The announced reason for this decision is that the protection of labor rights is not sufficient. However, it is evident that the true objective is to reduce the U.S. trade deficit toward Thailand. As this announcement was made immediately after the media report on the progress in the trade negotiations between the U.S. and China, many market participants had the impression that "the next target after China would be Thailand." Due to pressure from the U.S., the central bank of Thailand can no longer carry out active interventions in the foreign exchange market, and market interventions will certainly be even more difficult in the times ahead, which is also expected to lead the Thai baht to appreciate.

Despite the appreciation of the Thai baht, there has been no optimistic outlook for the Thai economy due to the decline in exports. The GDP growth rate outlook for 2019 has been repeatedly revised downward, making it almost certain that the annual rate would be less than 3% year-on-year. At the end of the next month, the third-quarter GDP will be released, but even if it turns out to be a weak figure, the impact on the Thai baht exchange market would be limited. Market participants should be aware that Thailand is forecast to remain strong based on robust fundamentals and that the U.S. dollar/Thai baht exchange rate may fall below the THB 30.00 mark for the first time since 2013.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – November 2019

Expected Ranges	**Against the US$:**	**MYR 4.1600–4.2100**
	Against the yen:	**JPY 25.80–26.50**
	Against 100 yen:	**MYR 3.7700–3.8800**

1. Review of the Previous Month

In October, the global economic outlook continued deteriorating, putting weight on the Malaysian exchange market. On the other hand, the governmental budget bill for FY2020 turned out to have some economic stimulus, albeit with expanding fiscal deficit and government debt. As a result, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range between MYR 4.17 and MYR 4.20.

At the beginning of the month, market participants maintained a wait-and-see attitude in the U.S. dollar/Malaysian ringgit exchange market, as the ministerial-level trade negotiations between the U.S. and China were approaching. At the end of September, FTSE Russell announced its decision to keep Malaysian government bonds in the world government bond index (WGBI). However, Malaysian government bonds remained on the watchlist, and their place in the WGBI is to be evaluated again in March next year. Thus, the U.S. dollar/Malaysian ringgit exchange rate fell only to a limited extent. Then, the media reported that the U.S. would levy punitive tariffs against the European Union, while the August trade statistics of Malaysia revealed negative year-on-year growth in exports, which kept the U.S. dollar/Malaysian ringgit exchange rate from falling further. However, expectations for an interest rate cut by the Federal Reserve Board (FRB) grew in the market as U.S. economic indices turned out to be weak, balancing negative and positive factors in the U.S. dollar/Malaysian exchange market. As the announcement of the governmental budget bill for FY2020 was scheduled for October 11, the wait-and-see sentiment in the market was strengthened further, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around MYR 4.19 during the first half the month until the announcement of the budget bill. There were some negative factors, such as the decision by the U.S. to limit visa issuance for Chinese officials, the hawkish contents in the minutes of the Federal Open Market Committee (FOMC) meeting, as well as the U.S. withdrawal from Syria. However, there was only limited impact on the U.S. dollar/Malaysian ringgit exchange market.

On October 11, the Malaysian governmental budget bill for FY2020 was released, and its contents turned out to be generally in accordance with what had been anticipated. However, it was evident that the Malaysian government is eager to encourage more foreign direct investment in the advanced sector, such as in 5G and the fourth industrial revolution. The GDP growth rate outlook for 2020 (+4.8% year-

on-year) was higher than the expected annual growth rate for 2019 (+4.7% year-on-year), which is more optimistic than the market estimate. In order to accommodate this outlook, the government accepted the deterioration of the fiscal deficit as a percentage of GDP for 2020 (–3.2%) from the plan of the previous year (–3.0%).

In the week following the announcement of the governmental budget bill, there were also optimistic media reports regarding the trade frictions between the U.S. and China, leading the U.S. dollar/Malaysian ringgit exchange rate to fall slightly to the MYR 4.17 level. However, on October 16, the U.S. introduced economic sanctions against Turkey over a Syria offensive, raising geopolitical risks, along with which the U.S. dollar/Malaysian ringgit exchange rate rose to MYR 4.20. Then, the U.K. and the EU reached an agreement on Brexit deals, leading the U.S. dollar/Malaysian ringgit exchange rate to fall again temporarily to MYR 4.1750. However, the second-quarter GDP of China recorded its lowest growth rate in 27 years, leading the U.S. dollar/Malaysian exchange rate to rise to the upper-MYR 4.18 level. Toward the end of the month, market participants were looking out for the outcome of the political meeting between Japan and the U.S., as well as the conclusion of the Brexit deals. There were thus few signs of movement in the market, and the U.S. dollar/Malaysian ringgit was trading at the lower-MYR 4.18 level as of October 29.

2. Outlook for This Month

In November, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.16 and MYR 4.21. The trade statistics are showing a slowdown in the Malaysian economy, putting some weight on the Malaysian ringgit exchange market. On the other hand, expectations are growing for progress in the trade negotiations between the U.S. and China, and the governmental budget bill for FY2020 announced on October 11 revealed an active fiscal policy and the government's intention to encourage investment, both of which are likely to support the Malaysian ringgit exchange market.

In October, the U.S. dollar/Malaysian ringgit exchange rate has been fluctuating only within 240 points in both directions, which makes it likely for the October monthly fluctuation range to be the narrowest, except for the fluctuation range immediately after the shift to a floating exchange rate policy in 2005, falling below the 255 points recorded in July 2017. The government and the central bank of Malaysia maintain an attitude to keep a stable exchange market for economic stability. However, it seems that the fluctuation range became narrow due to reduced market transactions based on actual demand, as a sign of market interventions by the Malaysian monetary authorities was not seen from the balance of foreign currency reserves as of October 15. The August trade statistics were released at the beginning of October, revealing a slowdown—much more significant than expected—for both imports and exports. This confirmed that net exports increased in a negative sense for the third consecutive month.

Based on such circumstances, in the economic outlook included in the governmental budget bill for

FY2020, the current account surplus for FY2020 as a percentage of the GDP is expected to fall by 1% from FY2019. On the other hand, the Malaysian government expects the GDP growth rate for 2020 to be +4.8%, recording an increase from +4.7%—the expected result for 2019. Among the main constituents, the situation regarding foreign demand has been discussed above. With regard to personal consumption, which virtually accounts for more than 50% of the GDP as well, the percentage of subsidies in the general account expenditures is slightly lower than that in the budget bill in 2019. Thus, there is little hope for dramatic improvement, as the global economy is also slowing down. The only remaining main constituent is investment, and public investment such as the railway construction on the east coast is likely to resume. However, this is not enough to fill the gap. It seems that the Malaysian government is taking a strategy to fill this gap by increasing actual transactions of foreign direct investment through tax incentives targeting specific industries and objectives.

The last monetary policy meeting this year in Malaysia is scheduled for November 5. However, the government has just taken a fiscal measure, and thus it is likely for the policy interest rate to be maintained at the existing level. Foreign investor holdings of Malaysian government bonds turned out to be approximately MYR 1 billion, recording a net inflow, in September, when Malaysian government bonds remained in the world government bond index. The situation is thus stabilizing. The Malaysian ringgit has currently been weak in the U.S. dollar/Malaysian ringgit exchange market in comparison with the effective exchange rate. This means needs for more exports, which is not an uncomfortable condition for Malaysia. However, from a medium- to long-term perspective, the Malaysian ringgit is forecast to strengthen as a result of capital inflow based on direct investment.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – November 2019

Expected Ranges	**Against the US$:**	**IDR 13,900–14,300**
	Against 100 rupiah:	**JPY 0.75–0.79**
	Against the yen:	**IDR 126.58–133.33**

1. Review of the Previous Month

In October, the Indonesian rupiah remained strong in the U.S. dollar/Indonesian rupiah exchange market.

On October 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,100 level. On the same day, the September CPI of Indonesia was announced, and the result turned out to be +3.39% year-on-year, falling below the market estimate. However, the inflation rate remained stable and the impact on the Indonesian rupiah exchange market was limited. Yet, the Indonesian rupiah depreciated to the U.S. dollar to the lower-IDR 14,200 level as a result, recording the highest exchange rate of the month. On October 2, the following day, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,200 level again, fueling concerns for the U.S. economy. Under such circumstances, the Indonesian rupiah strengthened with expectation for additional monetary easing in the U.S. As a consequence, the Indonesian rupiah continued strengthening, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,100 level on October 4. Thereafter, however, the Indonesian rupiah stopped appreciating due to the persistent concerns over the trade frictions between the U.S. and China, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the mid-IDR 14,100 level without moving into any direction.

In the middle of the month, risk sentiment in the market ameliorated on October 14, as there was progress in the trade negotiations between the U.S. and China on October 11, at the end of the previous week. As a result, the Indonesian rupiah strengthened again, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,100 level. However, on October 15, the following day, the September trade balance of Indonesia was announced, revealing a deficit while a surplus had been expected. Furthermore, with the political uncertainty in Hong Kong as a new risk factor, investor sentiment deteriorated again. Therefore, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate almost reached the IDR 14,200 level on October 16.

At the end of the month, the second inauguration of Joko Widodo as president of Indonesia took place on October 20 without any problem, leading the U.S. dollar/Indonesian rupiah exchange rate to fall below the IDR 14,100 level on October 21. Furthermore, on October 22, the following day, it turned out that Sri Mulyani Indrawati would remain heading up the Ministry of Finance. Positively reacting to this news, the Indonesian rupiah strengthened, and the U.S. dollar/Indonesian rupiah exchange rate fell

momentarily below the IDR 14,000 level for the first time since the middle of September. Then, on October 24, the Indonesian rupiah continued strengthening, and the central bank of Indonesia decided to take an additional measure of monetary easing for the fourth consecutive month, as had been anticipated in the market. The seven-day reverse repo rate, the policy interest rate of Indonesia, was cut by 0.25% to 5.00%. Governor of the central bank of Indonesia Perry Warjiyo also implied further modification in the times ahead, showing a dovish attitude. However, there has been robust capital inflow based on foreign direct investment, keeping the Indonesian rupiah stable. Toward the end of the month, there was demand to buy the U.S. dollar for account settlement from Indonesian domestic companies, while there was also capital inflow into Indonesia from foreign investors with improving risk sentiment. With both factors offsetting each other, the Indonesian rupiah remains strong, and the U.S. dollar/Indonesian rupiah exchange rate has been fluctuating mainly at the lower-IDR 14,000 level (the closing rate of October 30).

2. Outlook for This Month

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

In October, the September trade balance was announced, revealing a deficit. Exports have been declining, continuing to record negative year-on-year growth. There has been no change in the structure in which the pressure to sell the Indonesian rupiah based on the current account deficit is offset by expectation for interest rate cuts in the U.S., along with capital inflow into Indonesia from foreign investors based on improving risk sentiment.

However, there has been a slight change in the market conditions.

In the U.S., the policy interest rate was cut in July, September, and October at three consecutive meetings. However, in the Federal Open Market Committee (FOMC) statement released after the most-recent meeting held at the end of October, the expression "act as appropriate" was deleted for the first time in four meetings. Federal Reserve Bank (FRB) Chair Jerome Powell also made a remark that the current monetary policy would remain appropriate, implying that there would be no more preemptive interest cuts in the times ahead. This is a reasonable judgment, given that the U.S. economy has not entered a phase of actual recession. The interest rate cuts in the U.S. are thus likely to stop for a while. It is of course impossible to completely deny the possibility for another interest rate cut by the FRB, as there are multiple risks that can lead the global economy toward an accelerated decline. However, it has at least become difficult to expect interest rate cuts in the U.S. with certainty. On the other hand, the central bank of Indonesia has also cut its interest rate for four consecutive meetings. As was discussed above, the central bank of Indonesia implied the possibility of further monetary easing. If the Indonesian rupiah exchange market remains stable, it is possible for the interest rate to be cut again before the end of this month, at the earliest. Therefore, capital inflow into Indonesia from foreign investors may slow down in the times ahead due to fading expectations for interest rate cuts in the U.S., as well as interest

rate cuts by the central bank of Indonesia.

For the above reasons, the Indonesian rupiah is forecast to remain weak in November in the U.S. dollar/Indonesian rupiah exchange market. There are persistent potential risks factors, such as rapid deterioration of the geopolitical situation in the Middle East and the intensification of the trade frictions between the U.S. and China. Market participants should thus remain cautious about the possible depreciation of the Indonesian rupiah based on risk-averse sentiment in the market.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – November 2019

Expected Ranges	**Against the US$:**	**PHP 50.50–52.00**
	Against the yen:	**JPY 2.125–2.160**

1. Review of the Previous Month

In October, the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.80.

The media reported that the U.S. would limit capital inflow into China, and this fueled the sense of uncertainty over the trade frictions between the U.S. and China. At the beginning of the month, the U.S. dollar thus strengthened, and the U.S. dollar/Philippine peso exchange rate fluctuated within a narrow range at around PHP 52.

However, many market participants expected progress at the ministerial-level trade negotiations between the U.S. and China. Furthermore, expectation for economic recovery was also growing, as the central bank of the Philippines had announced its decision to cut the policy interest rate as well as the deposit reserve requirement ratio at the end of September. As a result, optimism spread in the market, strengthening pressure to buy the Philippine peso.

Furthermore, the U.S. economic indices turned out to be weak, which led the U.S. interest rates to fall, supporting the Philippine peso exchange market.

After the announcement of the September employment statistics of the U.S. (October 7), the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.57 at the same level as the closing rate of the previous week.

After some U.S. dollar-buying based on the result of the September employment statistics of the U.S., market participants maintained a wait-and-see attitude, waiting for the ministerial-level trade negotiations between the U.S. and China. The U.S. dollar/Philippine peso exchange rate fluctuated at the PHP 51.80 without moving into any direction.

The turning point was on October 10. The August trade balance of the Philippines was announced, revealing a deficit of USD 2.41 billion, smaller than both the market estimate (a deficit of USD 3.6 billion) and the result of the previous month (a deficit of USD 3.4 billion). Furthermore, the media reported that the U.S. government would approve some U.S. companies to supply products for Huawei, which strengthened the Philippine peso. With growing expectations for the trade negotiations between the U.S. and China, the U.S dollar/Philippine peso exchange rate reached PHP 51.58—at which level trading closed on October 11.

In reaction to the agreement reached at the ministerial-level trade negotiations between the U.S. and China, the U.S. dollar/Philippine peso exchange rate reached PHP 51.57 on October 14, after the

weekend. Thereafter, there was also progress in the Brexit negotiations, while geopolitical risks related to Turkey were mitigated, which both increased risk-taking sentiment in the market. As a result, on October 23, the Philippine peso reached its highest rate against the U.S. dollar since the end of July based on the closing rate at PHP 50.97—at which level trading closed.

As the Philippine peso reached its highest rate since the beginning of the year, some market participants actively bought the U.S. dollar against the Philippine peso based on actual demand, bringing the U.S. dollar/Philippine peso temporarily back to the PHP 51.33. However, the fundamentals did not change, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 51 level on October 30. Trading closed at PHP 50.885 to the U.S. dollar (as of 6:00 p.m., October 30).

2. Outlook for This Month

The third-quarter GDP of China recorded its lowest growth rate since the start of record-keeping, leading the International Monetary Fund (IMF) to revise downward the Asian economic growth rate for this year and next year. The cyclical slowdown of the global economy may have already been reflected in the market.

While expectations are growing for progress in the trade negotiations between the U.S. and China, there are various opinions about the Brexit negotiations in the U.K. However, as a "no-deal Brexit" was avoided, the market sentiment remarkably improved, which is likely to strengthen the Philippine peso further in the times ahead.

Domestic factors have also been supporting the appreciation of the Philippine peso, continuing from the middle of September.

First of all, it seems that monetary easing in the Philippines is slowing down. Governor of the central bank of the Philippines Benjamin Diokno made a remark, sharing his view that no interest rate cut is necessary before the end of this year. The deposit reserve requirement ratio for banks will be cut in multiple steps, and there will be a 1% cut in December. However, this has already been announced and reflected in the market. There thus seems to be no plan for monetary easing before the end of the year.

Overseas Filipino Worker (OFW) remittances amounted to USD 2.59 billion in August, recording a positive year-on-year growth of 4.6%—higher than the market estimate. Toward the end of the year, the inflow of foreign currencies will increase with OFW remittances. Market participants are aware that this is expected to lead the Philippine peso to strengthen.

Market participants would have to be extremely patient in order to keep their U.S. dollar long positions. The U.S. dollar/Philippine peso exchange rate has currently been approaching its lowest level since the beginning of the year (PHP 50.81 to the U.S. dollar). Thus, from a short-term perspective, it does not seem possible to avoid further appreciation of the Philippine peso (as of 6:00 p.m., October 30).

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – November 2019

Expected Ranges	Against the US$:	INR 68.00–72.50
	Against the yen:	JPY 1.47–1.58

1. Review of the Previous Month

In October, the U.S. dollar/Indian rupee exchange rate rose but returned to the level seen at the beginning of the month thereafter.

In September, market participants continued buying the Indian rupee, thanks to foreign investment capital inflow into the strong Indian stock market based on the weak crude oil market as well as a corporate tax cut. As a result, the U.S. dollar/Indian rupee exchange rate reached INR 70.35 by the last business day of September. In October, the U.S. dollar/Indian rupee exchange market opened trading at INR 70.73. At the beginning of the month, the PMI and CPI of the euro zone turned out to be weaker than expected, which deteriorated the risk sentiment in the market, encouraging market participants to buy the U.S. dollar. On October 4, the outcome of the monetary policy meeting was announced in India, and the policy interest rate was cut by 0.15% while the economic growth outlook was revised downward. While some market participants sold the Indian rupee because of downward revision to the economic growth outlook, other market participants that expected a more-significant policy interest rate cut bought the Indian rupee back. Thus, there were both buying and selling in the market, not leading the exchange rate into any direction.

In the second week of the month, headlines related to the trade negotiations between the U.S. and China continued impacting the U.S. dollar/Indian rupee exchange market, and the U.S. dollar/Indian rupee exchange rate continued fluctuating within the range between INR 70.80 and INR 71.20. It should however be mentioned that China implied a retaliatory action against the *Hong Kong Human Rights and Democracy Act* being approved in the U.S., and this led the U.S. dollar/Indian rupee exchange rate to move out from this range, reaching, INR 71.71—the monthly high in October.

Thereafter, the media reported that the U.K. and the EU had reached an agreement on the Brexit negotiations, and this increased risk-taking sentiment in the market. Following this trend, market participants also bought the Indian rupee, changing the trend and leading to the U.S. dollar/Indian rupee exchange rate to fall. Furthermore, some custodians bought the Indian rupee while there was a large-scale corporate bond issuance in U.S. dollars for a conglomerate in South India, further encouraging market participants to buy the Indian rupee. On the other hand, the U.S. economic indices turned out to be weak, such as for old housing and durable goods orders, keeping the U.S. dollar weak. Under such circumstances, the U.S. dollar/Indian rupee exchange rate fell to its monthly low at INR 70.685 on

October 29, partially also as a result of foreign exchange market interventions for adjustment by the Indian monetary authorities. On October 30, trading closed at INR 70.880 to the U.S. dollar.

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

At the beginning of the month, the Indian rupee/Japanese yen exchange market opened trading at JPY 1.529. The U.S. dollar/Japanese yen exchange rate was at the mid-JPY 108 level at the beginning of October, but the Japanese yen strengthened thereafter by approximately JPY 2 as a result of the weak figures in the U.S. economic indices (ISM and ADP). On October 3, the Indian rupee/Japanese yen exchange rate fell below JPY 1.50—recording the monthly low. However, in the second week, the U.S. dollar/Japanese yen recovered to the upper-JPY 108 level with growing expectations for the trade negotiations between the U.S. and China.

In the second half of the month, the Indian rupee strengthened against the U.S. dollar. In the meantime, the U.S. dollar/Japanese yen exchange rate remained high, fluctuating within a narrow range at around JPY 108.50. As a result, the Indian rupee/Japanese yen exchange rate fell gradually and temporarily exceeded the JPY 1.540 level on October 29. On October 30, trading closed at JPY 1.535 to the Indian rupee.

2. Outlook for This Month

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

At the monetary policy meeting held at the Reserve Bank of India (RBI) in October, the interest rate was cut for the fifth consecutive meeting. As a result of this decision, the main policy interest rate was set at 5.15% with a total cut of 1.35% from the beginning of the year. The decision of the interest rate cut this time was taken unanimously with positive votes even from Shri Chetan Ghate and Michael Patra, both known to be hawkish. The RBI also underlined that the future monetary policy would entail "easing," and the governor of the central bank repeated that no interest rate hike had been considered.

As had been pointed out in previous articles, the RBI officially took up the inflation target system in August 2016, and the target rate has been +4+/–2% for the general CPI. Since summer 2018, food prices fell sharply, and the CPI remained below +4%. Thus, policy interest rate cuts were justified. However, the latest CPI announced in October turned out to be +3.99%, thanks to the recovery of food prices as well as the effect of interest rate cuts. Thus, the target rate of +4% has been achieved.

The GDP outlook announced at the monetary policy meeting held in October was +6.1%, revised downward by 0.8% from the outlook announced in August. Because of this, some market participants expect another interest rate cut in the times ahead. However, the price environment has changed, and the inflation target has been achieved. It should thus be pointed out that it would be difficult to justify further interest rate cuts.

Another point to mention is that, as was the case in September, the Indian rupee exchange market in

October was mainly following foreign factors rather than the domestic factors discussed above. In particular, the trade negotiations between the U.S. and China and the Brexit negotiations attracted particular attention, while there has so far been no concrete outcome for either of these cases. Even though it is difficult to foresee such highly political events, it is certain that they will act as the main factors in the Indian rupee exchange market.

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