MIZUHO Mizuho Bank

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Mizuho Dealer's Eye

December 2019

Mizuho Bank, Ltd.

Derivatives & Forex Department

Junki Onozaki, Forex Sales, Derivatives & Forex Department

U.S. Dollar – December 2019

Expected Ranges **Against the yen: JPY107.50–110.00**

1. Review of the Previous Month

The dollar/yen pair moved firmly in November. After opening the month trading at 108.04 yen on November 1, the pair then fell to a monthly low of 107.89 yen on reports casting doubt on the likelihood of the US and China reaching a long-term trade agreement.

The pair rallied to the mid-108 yen mark during a Tokyo holiday on November 4 after US Secretary of Commerce Wilbur Ross voiced optimism about US/China trade meeting. The US released a better-than-expected Non-manufacturing ISM Report on Business for October on November 5, with the pair subsequently rising to the lower-109 yen level, though it then fell back to the upper-108 yen level on November 6 on news regarding US/China trade talks that the heads of the US and China might push back the signing of any agreement to December. The pair topped 109 yen on November 7 on reports that the Chinese Commerce Ministry had reached an agreement with the US to phase out tariff increases. With US stock markets also renewing highs, the pair climbed to 109.49 yen, its highest level since August this year, though it failed to top 109.50 yen and it then slowed before dropping to 109.08 on November 8. The markets reacted badly to more turmoil in Hong Kong on November 11, with the pair dropping below 109 yen to dip to 108.90 yen while trading with a lack of direction.

The pair weakened further on November 13 on the situation in Hong Kong and stormy discussions between the US and China regarding agricultural purchases. On November 14, China released some worse-than-expected industrial production and retail sales data for October. As risk aversion intensified, the pair slipped to 108.24 yen. However, sentiments improved on November 15 after the US released some better-than-expected retail sales data. With US stocks moving firmly, the pair rallied to 108.86 yen.

With the markets remaining in risk-on mode at the start of the next week on November 18, the pair climbed to 109.07 yen. Amid uncertainty about US/China trade talks, the pair weakened to around the mid-108 yen mark on November 19. The US Senate then passed the Hong Kong Human Rights and Democracy Act on November 20. With tensions between the US and China worsening, the pair's room on the downside widened and it fell again to the lower-108 mark. The pair then dipped to 108.28 yen on November 21 on news that President Trump planned to sign off on the Hong Kong Human Rights and Democracy Act. However, China's deputy prime minister Liu He then voiced optimism about a phase one agreement, so the pair bounced back to the upper-108 yen level.

At the start of the next week, on November 25, China announced it would be cracking down on intellectual property right infringements, one of the sticking points during US/China trade talks. As risk sentiments improved, the pair rose to 108.98 yen. Amid deep-rooted hopes for progress in US/China trade talks on November 26, the pair climbed to 109.20 yen level on news that the US and China had held a cabinet-level phone conference. The US released its second preliminary Q3 GDP results on November 27. Consumer spending (a constituent part) beat expectations, with the figure for capital investment also revised upwards, for example. With the October durable goods orders indicator also recording positive growth, the dollar was bought and the pair rose to a monthly high of 109.61 yen. The pair then fell on November 28 after President Trump signed off on the Hong Kong Human Rights and Democracy Act. With the US on holiday, though, the pair ended up trading in a narrow range.

2. Outlook for This Month

The dollar/yen pair's downside is expected to edge lower in December, though the pair will probably trade in a range, as it did last month.

Before November, the pair's trends had been shaped by US/China trade frictions and Brexit. However, negative movements related to these factors were thin on the ground in November, with risk-off factors waning for a time. As a result, the pair climbed to 109.61 yen, its highest level since May, some six months ago. The FOMC hinted at an end to rate cuts when it met at the end of October, but with US stock markets renewing record highs on successive days, it seems market sentiments have improved. With the pair facing real-demand sell-backs whenever it approached 110 yen, it failed to top this key level despite bullish stock movements, though on the whole it moved firmly in November. A number of major events are lined up this month, including the invocation of US tariff hikes on China, a UK general election, and an FOMC meeting. As such, there are a number of smoldering concerns that could prevent the yen from undergoing a one-sided slide.

The pair moved firmly last month on growing hopes regarding a US/China trade agreement, but these expectations seem somewhat over-played, with the pair likely to react sensitively to negative headlines from here on. With memories still fresh of the sharp yen appreciation that occurred on January 3 this year, the dollar/yen pair might suffer a sharper-than-expected slide amid thin trading around the turn of the year, so caution will be needed. Under these circumstances, though a number of key events are lined up this month, the factor attracting most attention will be the invocation of US tariff hikes on Chinese goods, scheduled for December 15. Mobile phones, laptops and games consoles feature heavily on the list of items hit by this round of tariff hikes. However, the US will find it hard to replace these goods using imports from other countries, so this round is likely to have a big impact. It will probably have a clear effect on the US economy through sluggish consumption and so on. With a US presidential election looming next year, attention will focus on whether President Trump will take this action as he seeks reelection. The Trump administration has yet to make an announcement, but as some reports suggest, it seems the administration will end up postponing the tariff hikes scheduled for December 15. A comprehensive overview of all these factors suggests the pair will find it hard to break the 110 yen mark. Given the excessive hopes regarding the major factors lined up this month, the pair will probably react sensitively to negative headlines, with its topside gradually edging lower. However, the US will probably postpone the invocation of new tariffs on Chinese goods, so the pair's room on the downside will also be capped and it will probably trade in a range.

Dealers' Market Forecast

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

Bullish on the dollar	15 bulls	108.00 – 111.00	Bearish on the dollar	6 bears	107.75 – 110.25

* Ranges are central values

Tanaka	Bear	107.50 – 111.00	Concerns about US/trade frictions and Brexit have eased, so provided phase one US/China trade talks do not break off, the dollar/yen pair is likely to continue trading at highs on risk appetite as central banks across the world continue to pursue easing. However, there could also be some downside risk if these problems flare up again.
Takeuchi	Bear	108.00 – 110.50	Market participants have tested the dollar/yen pair's recovery high on hopes for progress in US/China trade talks and the firm movement of US indicators. However, the US has implemented the Hong Kong Human Rights and Democracy Act and there are growing concerns this could negatively impact US/China trade talks, so it would be dangerous for investors to chase the pair's topside above this level.
Tsutsui	Bull	106.50 – 112.50	The dollar/yen pair was sold on several factors, but it will probably be bought toward mid-December. US/China trade frictions are unlikely to prove much of a factor, with the dollar set to be pulled higher by economic indicators and events in Europe and the UK. After hitting the 112 yen range, the pair will probably be sold from there on until the end of the month.
Kato	Bull	107.50 – 112.00	President Trump is under fire from the Democrats, so he will probably try to bolster his authority toward the end of the month by striking some foreign-policy deals. However, the pair has only moved bullishly because of risk aversion, with its topside likely to grow heavier as time passes.
Seki	Bull	109.00 – 111.00	China was somewhat affronted when the US introduced the Hong Kong Human Rights and Democracy Act, but market participants are still expecting a partial agreement in US/China trade talks in the end. If the US postpones the December 15 tariff hike on Chinese goods, the dollar/yen pair's topside will probably be tested again.
Mitsuishi	Bull	108.00 – 111.00	The dollar/yen pair looks set to move firmly on: a partial agreement in US/China trade talks; hopes that the US will postpone the December 15 tariff hike on Chinese goods; and the comparative bullishness of US economic indicators.
Yamagishi	Bear	108.00 – 110.00	The markets have probably factored in hopes regarding a partial agreement in US/China trade talks. There are high hurdles in the way of scrapping the tariff hikes and there is unlikely to be much further developments so the markets might see some selling on the fact. Amid deep-rooted uncertainty about the future, there will be concerns about downside risk.
Tasaka	Bull	108.00 – 112.00	With the end-of-year sales season approaching, President Trump will be trying to keep stock markets buoyant and avoid a slump in consumer sentiments. US/China trade talks are unlikely to break off, with risk appetite likely to see the pair rising above 110 yen as market participants test its topside.
Omi	Bull	107.20 – 109.90	The dollar/yen pair is expected to continue edging higher. The dollar will continue to be supported by hopes regarding the signing of a US/China trade deal, with the greenback also bolstered as stocks move bullishly and composure returns to US interest rates, for example.
Ueno	Bull	108.00 – 111.00	Funds continue to flow into risk assets, with US stocks renewing record highs, for instance. Though the US/China trade dispute has yet to yield an agreement, talks have not broken off either, so the dollar/yen pair is unlikely to face a major turning point this month. The pair will probably edge higher amid inactivity and a lack of selling.

Okamoto	Bull	108.00 – 111.00	Though hopes are centered on US/China trade talks, US indicators are also starting to improve on US rate cuts. Even if a US/China agreement is kicked into the long grass, the US will probably postpone the implementation of part two of the fourth round of tariff increases. The dollar/yen pair looks set to undergo a gentle rise as the fundamentals improve.
Onozaki	Bear	107.50 – 110.00	The dollar/yen pair will face real-demand selling when it approaches 110 yen. Given the excessive hopes regarding the major factors lined up this month, the pair will probably react sensitively to negative headlines, with its topside gradually edging lower. However, the US will probably delay the implementation of new tariffs on Chinese goods, so the pair's room on the downside will also be capped and it will probably trade in a range.
Tamai	Bull	107.50 – 110.50	Hopes are rising that a phase one agreement will be reached in US/China trade talks, with the FOMC likely to freeze rate cuts in December. The dollar/yen pair is also likely to move firmly on Brexit hopes. However, the pair's topside grows heavy around 110 yen and it could weaken if US/China trade talks break off, so caution will be needed.
Harada	Bull	107.50 – 111.00	The markets remain in risk-on mode on hopes regarding a US/China trade agreement, so the dollar/yen pair is likely to move firmly for now. November is usually the month when the yen is at its most bearish. The key point will be whether the pair retains this momentum in December.
Oba	Bull	108.75 – 110.50	The dollar/yen pair broke above its 200-day moving-average line to move firmly at the upper-108 yen level. It looks set to remain firm on hopes regarding US/China trade talks. If the US delays the implementation of tariff hikes, the pair could be tested up to the mid-110 yen mark, but the pair's topside will be capped until a concrete agreement is reached.
Takamura	Bull	108.00 – 112.00	The FRB has shifted its monetary policy into wait-and-see mode. Given the strength of the US economy and the hopes that US/China trade talks will reach a soft landing, the dollar/yen pair looks set to continue moving firmly.
Matsumoto	Bear	108.00 – 110.50	The dollar had been supported by hopes regarding US/China trade talks, but US/China frictions have intensified on the situation in Hong Kong. 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	108.80 – 110.50	The markets have factored in a partial US/China trade deal to a large extent, but if the US decides to postpone the December 15 tariff increase, risk sentiments could improve sharply, with the dollar/yen pair pushed above 110 yen.
Otani	Bull	108.00 – 111.00	The pair will be supported by ongoing hopes for a partial agreement when it comes to US/China trade talks. Furthermore, with many US indicators also moving comparatively firmly, the pair looks set to move firmly.
Tanishiki	Bear	107.00 – 110.00	The Chinese authorities made loud moves about retaliatory measures if the US enacted the Hong Kong Human Rights and Democracy Act, so it will probably announce some specific measures from here on. The dollar/yen pair's topside looks set to move heavily on chilly relations between the US and China.
Okuma	Bull	108.00 – 111.00	There are concerns about US/China frictions related to Hong Kong, but with US indicators moving firmly, uncertainty about the direction of the US economy is easing. US stocks will remain firm on bullish consumer spending, with the dollar/yen pair set to move firmly.

Mikiko Tamai, Forex Sales, Derivatives & Forex Department

Euro – December 2019

Expected Ranges **Against the US$: US$1.0900–1.1200**
Against the yen: JPY119.00–122.00

1. Review of the Previous Month

The euro/dollar pair fell in November. After opening the month trading at the mid-$1.11 mark on November 1, the pair then swung to and fro on US indicators.

It hit a monthly high of $1.1175 on November 4 on the better-than-expected result of the German Manufacturing PMI for October, for example, though it then weakened as US interest rates rose on hopes regarding US/China trade talks. News emerged on November 5 that the US might scrap some of the new tariffs placed on Chinese goods. As the greenback continued rising, the pair broke below $1.11 and it then fell to the mid-$1.10 range on the result of the October US Non-Manufacturing ISM Report on Business. Germany released a stronger-than-expected economic indicator on November 6, with the pair subsequently rising to around $1.11, but with stock markets moving bearishly, the euro/yen pair was sold and the euro/dollar pair also dropped back. On November 7, news emerged that the US and China had reached an agreement to phase out new tariff increases, with the dollar then bought and the pair falling to the lower-$1.10 level. The pair fell further on November 8 after President Trump said he had not agreed to scrap tariffs on Chinese goods.

On November 11, the pair was pulled higher as the pound moved bullishly in relation to the UK general election in December, though it moved heavily on the topside on uncertainty about US/China trade talks. The greenback was bought on November 12 as US stocks and interest rates climbed. In his testimony to Congress on November 13, FRB chair Jerome Powell suggested that policy would be left unchanged, with the dollar subsequently rising and the pair dipping temporarily below $1.10. The pair rallied to the $1.10 range on November 14 when the markets reacted warmly to news that Germany had avoided negative GDP growth in the third quarter. It then weakened to a monthly low of $1.0989 for a time, but with US interest rates sliding, it rose again to the lower-$1.10 level. On November 15, the pair rose after the US trade secretary said the possibility of a phase one trade agreement had risen.

Reports then emerged on November 18 that the Chinese side was pessimistic about US/China trade talks, with the greenback also sold on news that President Trump and FRB chair Jerome Powell had clashed over negative interest rates and dollar strength. The pair moved with a lack of incentives amid a dearth of any specific factors on November 19. The dollar was then bought on rising US interest rates on November 20, but the pair bounced back on news that the US and China had postponed a phase one trade agreement until next year. The euro/yen pair rose on November 21 on reports that the US would delay the December imposition of new tariffs on Chinese goods, with the euro/dollar pair also pulled up to the upper-$1.10 mark. However, it then dropped back to the mid-$1.10 level on rising US interest rates and reports that the US was examining a study justifying the imposition of tariffs on EU goods. On November 22, in her first speech since assuming the office of ECB president, Christine Lagarde said Europe needed a new policy mix, with the euro/dollar pair subsequently rising to the upper-$1.10 mark for a time. However, it then fell to the lower-$1.10 level as the greenback was bought on a bearish eurozone PMI and a better-than-expected US PMI.

Germany released an improved November IFO Business Climate Index on November 25, but the pair moved with a heavy topside as the dollar was bought on hopes regarding US/China trade talks. The pair then traded in a range around the lower-$1.10 level on November 26. The dollar was bought and the pair temporarily fell below $1.10 on November 27 on the results of several better-than-expected US indicators, but it was dragged back to the $1.10 range as the euro/yen pair moved higher on hopes regarding the UK general election. The trend continued into November 28, with the pair pulled along by a bullish pound. With the US on holiday, though, the pair continued to trade within a range.

2. Outlook for This Month

The euro/dollar pair is expected to trade firmly in December.

Though European economic indicators remain weak, they are in a better shape than before and they seem to have bottomed out. German indicators in particular had raised concerns about an economic slowdown, but these rallied in November, with the German October Manufacturing, Services and Composite PMIs all improving and beating market expectations, for example, and the German 3Q GDP hitting +0.1% q-o-q after previously recording negative growth in the second quarter. Furthermore, though the German November ZEW Indicator of Economic Sentiment remained negative (a sign of pessimism), the result marked a sharp improvement, up from -22.8 last time to hit -2.1. Other October PMIs across the eurozone were also up on the previous month, so the euro may move firmly on a sense that the European economy has bottomed out. However, several US economic indicators released in November were up on the previous month, thus suggesting the FRB would be justified if it decided to stop cutting rates. Most observers think the FOMC will keep rates unchanged when it meets in December, with the dollar also likely to move firmly, so the euro/dollar pair's room on the upside will be capped. However, the UK will be holding a general election in December. At this moment in time, it seems Boris Johnson's Conservative Party will gain a majority. The Conservatives have already agreed a withdrawal deal with the EU, so hopes are rising that the UK will implement this deal if the Tories win, with a Soft Brexit then going ahead. The pound would be bought in this scenario, with the euro also dragged higher. Based on this, it seems the euro/dollar pair will move firmly this month.

Amid a mood of risk appetite, the euro/yen pair is expected to undergo a gentle rise in December. There is a risk that US/China trade talks might be pushed back to 2020, with the US proceeding with plans to implement a fourth round of tariff hikes in December. If this happens, concerns about US/China trade talks would flare up again, with the yen also bought at a faster pace. With the US and China both desiring an agreement, though, most observers think the US will hold off from implementing new tariff hikes, even if a phase one agreement is not reached. As such, it seems unlikely the US will push ahead with the fourth round of tariff hikes.

Attention will also be focused on the December 12 ECB Governing Council meeting. The Council introduced a monetary easing package when it met in September, and although inflation remains low, economic indicators are improving, so the Council is unlikely to announce any new measures this month. This will Christine Lagarde's first meeting as chair, though, so it will be an important meeting for gauging how things will develop from here on. She will probably stick to the path set by former president Mario Draghi on the whole, but the meeting will nonetheless attract a lot of attention.

Dealers' Market Forecast

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

Bullish on the euro	8 bulls	1.0925 – 1.1200	Bearish on the euro	13 bears	1.0850 – 1.1150

* Ranges are central values

Tanaka	Bear	1.0800 – 1.1150	As for Brexit, it seems the UK general election will pass with any major upsets. With the ECB also likely to maintain the status quo as it gets its internal opinions in order, the euro/dollar pair is expected to continue moving flatly. However, the pair will continue to be sold on eurozone political uncertainty and the gap between economic sentiments in Europe and the US, for example, so its topside will be held down.
Takeuchi	Bear	1.0850 – 1.1100	There remain deep-rooted concerns about an economic slowdown in Germany and elsewhere, with results markedly deteriorating when it came to manufacturing and business confidence. Amid lingering concerns about Brexit, the euro/dollar pair will continue to face downward pressure. The pair will be sold when it stages a comeback.
Tsutsui	Bull	1.0950 – 1.1150	The euro/dollar pair is moving bearishly, though it will be supported in December as investors move to buy at lows towards the end of the year. It could fluctuate sharply around the time of the UK general election, but its central value will be unchanged. There is unlikely to be any talk of fiscal mobilization in December, with any selling likely to be pushed back until the new year.
Kato	Bear	1.0700 – 1.1200	The prognosis for December is unchanged on the previous month. There are no signs of improvement when it comes to the real eurozone economy. With political event risk still lingering, investors will continue to chase the euro/dollar pair's downside.
Seki	Bear	1.0700 – 1.1100	There is an undeniable sense that monetary easing has run its course, but with interest rates remaining deeply in negative territories, the euro/dollar pair looks set to move bearishly. Buying factors include a Brexit delay and fiscal expansion in Germany, but the euro/dollar pair will probably move with a heavy topside as investors try to push the dollar even higher.
Mitsuishi	Bear	1.0800 – 1.1200	There are signs that European economic sentiments are bottoming out, but there remains a large gap between the temperature of sentiments in Europe and the US, so the euro/dollar pair's topside will probably be held down. The pair will also move bearishly on uncertainty about the direction of Brexit.
Yamagishi	Bull	1.0900 – 1.1200	Economic sentiments are improving in Germany and elsewhere, so if the economy seems to be bottoming out, the euro/dollar pair's room on the downside will be capped. Concerns about a no-deal Brexit have also eased off a little. If uncertainty about the December UK general election is wiped away, the euro might also be dragged higher.
Tasaka	Bear	1.0800 – 1.1150	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. With uncertainty lingering about the Brexit negotiations, market participants look set to continue testing the euro/dollar pair's downside.
Omi	Bull	1.0980 – 1.1180	The euro/dollar pair will remain deadlocked this month. Amid a dearth of any of its own factors, it seems the pair will be swayed by the direction of US/China trade talks.
Ueno	Bull	1.0900 – 1.1200	The ruling Conservative Party looks set to win the UK general election. Though a consensus is currently being formed, it seems this factor could support the euro. If it also appears that European indicators have bottomed out, the euro will probably move bullishly against the dollar.
Okamoto	Bear	1.0900	The eurozone economy has still not bottomed out. Expectations are not rising when it comes to

		– 1.1100	an end to further ECB easing and the launch of fiscal mobilization in each eurozone country. Amid a dearth of any particular drivers, the euro/dollar pair is unlikely to stage an autonomous recovery. The pair will continue to be swayed by factors emanating from the US and UK, for example, and it looks to set continue falling on an absence of buying factors.
Onozaki	Bull	1.1000 – 1.1200	Investors need to monitor the December 12 UK general election, but with attention glued to US/China relations, it appears UK trends have not become a major driver. Brexit remains a concern, but if this does not become a factor, the euro/dollar pair will only face limited downward pressure. However, it is also hard to imagine market participants actively testing the pair's topside.
Tamai	Bull	1.0900 – 1.1200	It seems the Conservative Party will win the UK general election, so Brexit expectations will probably rise. Though eurozone economic indicators remain weak, there are signs of improvement, so the euro/dollar pair will probably move firmly. With the US calling an end to rate cuts though, the pair's room on the topside will also be capped.
Harada	Bear	1.0850 – 1.1150	European economy continues to release a number of bearish economic indicators, so the euro/dollar pair will remain prone to downward swings. The UK general election on December 12 will probably have a major impact on the pair's movements.
Oba	Bull	1.0950 – 1.1150	The pound and euro will probably move firmly at the start of the month on hopes that the Conservative Party will gain a majority and then pass its withdrawal deal though parliament. If things go as expected, the euro will be bought for a time, but investors are unlikely to actively test the pair's topside given the current weakness of Europe's economic indicators.
Takamura	Bear	1.0850 – 1.1200	The pair could fluctuate on the December 12 UK general election, so caution will be needed. However, with the eurozone economy moving bearishly and the US economy bullishly, the comparative strength of the dollar will see the euro/dollar pair moving with a heavy topside on the whole.
Matsumoto	Bear	1.0900 – 1.1150	The euro/dollar pair is expected to move bearishly on the comparative weakness of the eurozone economy, the continuation of monetary easing, and uncertainty about the Brexit negotiations. The UK general election will be a major topic.
Itsumi	Bull	1.0850 – 1.1200	Political activity is likely to increase in the run up to the UK general election on December 12, so the pound and the euro look set to move skittishly. There are concerns about an economic slowdown even in Germany, the European economy's last bastion, so the euro will probably be sold.
Otani	Bear	1.0850 – 1.1150	There remain deep-rooted concerns about a eurozone economic slowdown, with the euro/dollar pair set to trade with a heavy topside. Amid uncertainty about Brexit, investors are unlikely to actively but the euro.
Tanishiki	Bear	1.0850 – 1.1150	According to opinion polls, the UK general election on December 12 looks set to pass smoothly with a Conservative victory. The US has slammed the brakes on rate cuts. There is also a dearth of reasons to actively buy the euro. As such, it seems the euro/dollar pair will continue to trade with a heavy topside.
Okuma	Bear	1.0850 – 1.1200	It seems the European economy is bottoming out, though Germany continues to release a number of bearish economic indicators. There is uncertainty about whether the German government will press forward with fiscal mobilization, so the euro/dollar pair looks set to move bearishly.

Fumihiko Kanda, Europe Treasury Department

British Pound – December 2019

Expected Ranges	**Against the US$:**	**US$1.2000–1.3500**
	Against the yen:	**JPY130.00–147.00**

1. Review of the Previous Month

The pound/dollar pair moved with a heavy topside in November. With the risk of a no-deal Brexit easing off slightly at the end of October and a general election looming in December, November was a comparatively quiet month.

The UK did not leave the EU at the end of October, with the currency pair subsequently kicking off the month trading at the mid-$1.29 mark on November 1. The UK released its October Services PMI on November 5. At 50, the result beat expectations, though the pair was weighed down by dollar bullishness on buoyant US indicators. The Bank of England (BOE) kept policy fixed when it met on November 7. With two members calling for a 0.25% rate cut, though, the meeting was read as dovish and sterling was subsequently sold, with the pair dropping below $1.28 for a time. November 8 also saw concerns about a US/China dialogue, with the pair then hitting a monthly low of $1.2769 amid a mood of risk aversion. On November 11, Brexit Party leader Nigel Farage announced he would not be standing candidates in Conservative strongholds. As expectations grew that the Tories would be able to form a stable majority, the pound rose sharply and the pair was bought to just below $1.29. The pair rose higher on November 15 on news that Mr. Farage has reached a deal with the Tories on electoral cooperation. On November 18, meanwhile, it was reported that Tory candidates had pledged to support the prime minister's withdrawal agreement if they were elected, with the pair subsequently hitting a monthly high of $1.2985.

The pair was then swayed by headlines about party approval ratings. The pound was bought when the Conservatives edged up in the polls and it was sold on fears of a hung parliament whenever the opposition closed the gap in the polls. With the pair reacting in this way to the different results of each polling firm, it moved without a sense of direction to float around $1.29 toward the month's end.

2. Outlook for This Month

The biggest event in this month will be the December 12 general election. On the whole, the pound will be bought if the Conservative Party gains a simple majority, with sterling sold in any other scenario.

The focus of the election has already shifted from Brexit to whether a hung parliament can be avoided. The financial markets and the real economy are tired of worrying about a Brexit that never seems to materialize, so they are hoping the direction of Brexit will be settled with an absolute Conservative majority. The pound/dollar pair will continue to be swayed by opinion polls and headlines related to the election, but a sense of direction is unlikely to form. Opinion polls released at the end of November showed the Conservative lead shrinking slightly. One polling company puts the lead at less than seven points. In this scenario, the Tories would find it hard to gain a majority, with the polls of several other companies also pointing in this direction. However, the UK has a single-seat constituency system, so there will be plenty of wasted votes. This is a further reason why it is hard to read how vote will go just from a simple comparison of party approval ratings. We will not know the results until the votes are actually counted, so the pound/dollar pair will probably trade without a sense of direction until December 12. As mentioned above, sterling will be bought if the Tories gain a simple majority and it will be sold in the event of a hung parliament. If the opposition Labour Party gains a simple majority, the will raise the likelihood of a second referendum. The markets would react to this ongoing uncertainty by selling the pound.

There is likely to be some brisk pound trading as the new Brexit deadline looms at the end of January next year, but with the Christmas holidays around the corner in the UK and Europe, market liquidity will probably fall in December.

The BOE's Monetary Policy Committee (MPC) will be meeting on December 19. At the November meeting, two members unexpectedly called for a rate cut. Nonetheless, the markets are expecting policy to be left unchanged.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – December 2019

Expected Ranges	**Against the US$:**	**US$0.6670–0.6920**
	Against the yen:	**JPY72.50–75.50**

1. Review of the Previous Month

In November the AUD/USD pair fell from the lower-$0.69 mark to the $0.67 range.

China's Caixin PMI hit its highest level in two years on November 1, while the US October nonfarm payrolls figure also significantly beat expectations, so stocks rose and the currency pair climbed to the lower-$0.69 level. On November 4, US Secretary of Commerce Wilbur Ross made some optimistic comments about US/China trade talks. The greenback was subsequently bought and the pair fell to the upper-$0.68 level. It then rose temporarily to the lower-$0.69 mark on November 5 after the Reserve Bank of Australia (RBA) decided to keep its policy rate fixed. With news then emerging that the US might scrap some of the tariffs imposed on Chinese goods, the US dollar edged higher, with the pair dropping back. It then swung to and fro. It weakened on November 6 on reports that a US/China deal might be pushed back until December. On November 7, reports from the Chinese Commerce Ministry suggested an agreement had been made for a phased withdrawal of US/China tariff hikes. As risk appetite improved, stock markets renewed record highs. The pair then bounced back to the $0.69 range. The RBA released its Quarterly Statement on Monetary Policy on November 8. This was clearly marked by an easing bias, with the AUD/USD pair subsequently sliding. President Trump then poured cold water on claims that an agreement had been reached with China to scrap tariffs, so the pair dipped to the upper-$0.68 level.

On November 12, the Reserve Bank of New Zealand (RBNZ) released its expected inflation rate data. This was down on the previous result and this led to growing speculation that the RBNZ would cut rates when it met to set policy the following day, with the New Zealand dollar falling sharply as a result. The Australian dollar was also pulled lower. Though the markets were expecting a rate cut, the RBNZ actually kept its policy rate fixed at 1.00% on November 13. Speculators had built up short positions on excessive expectations for rate cuts, but they now moved to unwind these positions. The AUD/USD was also dragged higher by the New Zealand dollar to temporarily hit the mid-$0.68 level, though its gains were soon pared back. The Australian October employment data was released on November 14. All headings moved weakly, with expectations for rate cuts then flaring up again. China then released some worse-than-expected indicators, so the currency pair crashed to the upper-$0.67 mark. It rallied to the lower-$0.68 mark on November 15 on hopes regarding US/China trade negotiations. The pair then weakened on November 18 on news the Chinese authorities were pessimistic about trade talks. On November 19, it emerged the RBA board had discussed rate cuts when it met in October. As a result, the currency pair temporarily fell to the upper-$0.67 range. It was then bought back to the lower-$0.68 mark on rising US stocks.

The US Congress approved the Hong Kong Human Rights and Democracy Act on November 20. Amid growing concerns about US/China trade talks, the Australian dollar was sold. The currency pair then fell to the upper-$0.67 mark on reports that the US and China were unlikely to conclude a phase one trade agreement within the year. The pair moved erratically on November 25 on a speech by RBA governor Philip Lowe, though it continued moving in a range at the upper-$0.67 level. Risk aversion intensified on November 28 on reports that President Trump had signed the Hong Kong Human Rights and Democracy Act. As a result, the pair fell to the mid-$0.67 mark for a time.

2. Outlook for This Month

The AUD/USD pair is expected to trade with a heavy topside in December, though its topside could be tested depending on the direction of US/China negotiations.

The pair's topside was tested at the start of November on US indicators and optimism regarding US/China trade negotiations. However, investors had already tried and failed to top the 200-day moving average line three times in 2019, with the fourth attempt also ending in failure as the pair dropped back just before this level. Expectations had swollen on reports about a phased abolition of US/China tariffs, but these expectations shriveled after President Trump poured cold water on these reports, with the pair's topside subsequently capped.

As for Australia's fundamentals, Australia's Wage Price Index for July–September fell on both a q-o-q and a y-o-y basis. Australian October employment data saw the number of full-time and part-time workers both falling, with the figure for total number of people in work undergoing its largest fall in 17 months. The unemployment rate also weakened to 5.3% again and this also invited market disappointment. The minutes to the November RBA board meeting were also released the following week and these revealed that the RBA had discussed cutting rates for the fourth time in 2019, a move that also surprised the markets. On November 26, RBA governor Philip Lowe gave a speech about 'Unconventional Monetary Policy.' He said the Australian economy had not yet reached the stage where QE would be needed. He added that he did not expect this stage to be reached in the near future. He also mentioned how: (1) QE would become an option "at a cash rate of 0.25 per cent, but not before that"; (2) if the RBA did introduce QE, "we would purchase government bonds"; (3) "negative interest rates in Australia are extraordinarily unlikely"; (4) and that the RBA would consider QE if "if we were moving away from, rather than towards, our goals for both full employment and inflation." With the employment data deteriorating, market bets on a December rate hike had risen to nearly 25% for a time, though they fell to 14% in the wake of Mr. Lowe's speech. Expectations for a 2020 rate cut are growing, though, with the markets factoring in around one rate cut by April. Mr. Lowe said the RBA would not implement QE until the cash rate hit 0.25%. In the wake of this suggestion that the RBA could cut the cash rate to 0.25%, though, market participants have revised their consensus how 0.5% marks the bottom.

The three rate hikes this year have not had much impact besides a recovery in housing prices. As such, the RBA will probably face more pressure for further easing from here on. Under these circumstances, the AUD/USD pair will trade with a heavy topside and it is hard to imagine market participants actively testing its topside. As for US/China negotiations, both sides have indicated they want to reach an agreement. If the two sides reach a 'phase one' agreement, the pair's topside could be tested at times.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – December 2019

Expected Ranges **Against the US$: C$1.3000–1.3500**
Against the yen: JPY80.00–83.00

1. Review of the Previous Month

The Bank of Canada (BOC) Monetary Policy Committee (MPC) released a dovish statement at the end of October, so the Canadian dollar weakened, with the USD/CAD pair subsequently kicking off November trading at C$1.3167. The Canadian unit then fell on bullish US economic indicators, Canadian soft data, and disappointed hopes regarding progress in US/China trade talks. The US released some strong October employment data on November 1. The greenback rose sharply as a result, with the pair temporarily hitting C$1.3196. However, on November 2 it was reported that progress had been made when it came to a phase one agreement in US/China trade talks. As risk appetite grew, the Canadian dollar was bought and the pair fell to C$1.3130, though it gradually recovered thereafter.

News then emerged that the US trade deficit had shrunk in September, as broadly expected. With the October US Non-manufacturing ISM Report on Business also rising, the greenback was bought. When the Canadian October employment data was released on November 8, it revealed that the number of full-time workers had fallen, particularly when it came to construction and manufacturing. Though the markets were expecting a rise of 15,000, the number of people in full-time work actually fell by 1,800. Furthermore, the new housing starts data for October also dipped below expectations. The pair soared on these disappointing results to top C$1.320.

The German 3Q GDP result was released on November 14. With GDP growing by +0.1% q-o-q, fears of a recession eased off slightly. As a result, the US dollar stopped rising for a time. Uncertainty about the direction of US/China trade talks then rose after the US said not all goods would be included in a plan for a phased withdrawal of tariff hikes, with the US and China also clashing on the issue of Chinese purchases of US agricultural products. On November 20, meanwhile, the US Senate showed its support for Hong Kong demonstrators by passing the Hong Kong Human Rights and Democracy Act. China then threatened the US with retaliatory measures if the Act became law. Risk aversion then grew on news that a phase one US/China trade agreement might be pushed back to 2020. The Canadian dollar was then sold and the pair hit C$1.3328 after Carolyn Wilkins, the BOC deputy governor, said a 1.75% policy rate gave the BOC room to maneuver.

In a speech on November 21, though, BOC governor Stephen Poloz struck a different tone when he said monetary conditions were "about right." The Canadian dollar was bought back sharply as a result, with the USD/CAD pair soaring to the upper-C$1.32 mark.

2. Outlook for This Month

During his testimony to Congress, FRB chair Jerome Powell struck a hawkish tone. He said there were no plans to cut rates at the present moment, adding that the economy would continue to grow at a gentle pace.

There remains uncertainty about US/China trade though. With President Trump calling for the FRB to ease policy, market participants need to remain vigilant. Canadian prime minister Justin Trudeau will be announcing some new policies when he gives his Throne Speech on December 5. He runs a minority government and will thus require the support of the New Democratic Party, so observers are expecting any new policies to veer in a left wing direction. If this happens, it could clash with the Liberal Party's plans to boost exports and expand petroleum pipelines. This could have a significant impact on the Canadian economy. The Bank of Canada (BOC) will meet to set policy rates on December 4. The consumer price index (CPI) figure remained within the bounds of the BOC's target of 2% on October. Furthermore, BOC governor Stephen Poloz mentioned in a speech that although the BOC was monitoring trade issues, current monetary conditions were "about right." As such, the BOC is expected to leave the benchmark rate at 1.75%. The USD/CAD pair will continue to be swept by risk aversion and appetite in December on news of progress or setbacks in US/China trade talks. With Canadian indicators also moving somewhat bearishly, the Canadian dollar is expected to continue sliding at a gentle pace.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – December 2019

Expected Ranges	**Against the US$:**	**KRW1,160–1,200**
	Against the yen:	**JPY9.091–9.434 (KRW100)**
		(KRW10.600–11.000)

1. Review of the Previous Month

The USD/KRW pair underwent an end-of-month to end-of-month rise in November.

It opened the month trading at KRW1170.00. Sentiments then improved on hopes for progress in US/China trade talks together with the better-than-expected results of the October US employment data and October US Non-manufacturing ISM Report on Business. As a result, the pair hit a monthly low of KRW1154.00 on November 8.

However, risk aversion increased from November 11 as tensions in Hong Kong intensified and Hong Kong stocks fell, for example, so the pair rallied. During overseas trading time on November 12, President Trump said he would ramp up tariffs on Chinese goods if the two parties did not reach a 'phase one' agreement. With China also releasing some lackluster economic indicators on November 14, the pair climbed to the KRW1170 mark. On November 15, Larry Kudlow, director of the US National Economic Council, said the US and China were close to reaching a phase one agreement. As a result, the won was bought and the currency pair dropped to the lower-KRW1160 mark on November 18. However, sentiments worsened on concerns about stagnating or deteriorating US/China trade talks following news that the US Senate had passed the Hong Kong Human Rights and Democracy Act during the morning of December 20. During overseas trading time on the same day, meanwhile, it was reported that a US/China trade agreement might be pushed back to 2020. All this saw the USD/KRW pair rising. It temporarily hit the KRW1180 mark on November 22 after Chinese premier Xi Jinping said although China did not want a trade war, it was not afraid of one either.

At the weekend, President Trump said the US and China were very close to reaching a trade deal. As such, the won was bought when trading began the following week, on November 25.The markets also reacted warmly when China said it was minded to strengthen intellectual property protections, a key sticking point between the two sides. Sentiments were also boosted on November 26 when the US and China said they would continue talks to iron out any remaining problems. During the morning of November 28, though, President Trump signed the Hong Kong Human Rights and Democracy Act, with the pair climbing to the KRW1180 mark again on the passing of this legislation. However, though China threatened retaliatory moves, it did not announce any concrete measures, so the markets did not over-react. The Bank of Korea's Monetary Policy Committee (MPC) kept policy rates fixed when it met on November 29. One member called for rate cuts, though, while the outlook for GDP and the CPI was also downgraded to a relatively large extent. As such, the meeting was seen as quite dovish, with the currency pair then hitting a monthly high of KRW1182.20 before closing the month at KRW1181.20.

2. Outlook for This Month

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

The focus will remain on US/China relations. It still seems the two sides are just one step away from reaching a 'phase one' agreement, but President Trump signed the Hong Kong Human Rights and Democracy Act during the morning of November 28, Asian trading time, so investors should keep an eye on China's reaction. China has clearly stated it will take retaliatory measures, but it has yet to announce any concrete moves at the time of writing, so there is slight sense of stalemate. China could curb the activity of US companies in China by preparing an entity list, for example. With growth slowing, though, it seems unlikely that the Chinese economy will see any serious tightening right now. Meanwhile, the US has announced it will lift tariffs again if a 'phase one' agreement is not reached, a situation China will want to avoid. Based on the above, it seems the two sides will cut tariff rates or refrain from any new measures as they continue to work towards a 'phase one' agreement. A 'phase two' agreement seems unlikely in the current climate, though, so sentiments are not expected to undergo a fully-fledged recovery. Under these circumstances, it seems the pair will move firmly in a range between KRW1160-1200 while jostling up and down on sentiments.

However, China has said it will react strongly to the passing of the Hong Kong Human Rights and Democracy Act, so market participants need to remain vigilant. If China passes some measures which significantly impact US/China relations or the global economy, the won could be sold sharply, so caution will be needed.

However, investors will not need to pay too much attention to monetary policy. The FOMC looks set to keep policy rates fixed for now, while the Bank of Korea (BOK) may implement one 25bp rate cut in the run up to parliamentary elections in April next year. The won could be sold slightly on the BOK's monetary stance at the start of 2020, but there is no need to be overly-cautious right now.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – December 2019

Expected Ranges	**Against the US$:**	**NT$30.10–30.70**
	Against the yen:	**JPY3.50–3.65**

1. Review of the Previous Month

The USD/TWD pair fluctuated gently around the mid-TWD30 mark in November.

The pair opened the month trading at TWD31.500 on November 1. As hopes grew for progress in US/China trade talks, Taiwanese stocks rose and overseas funds flowed into Taiwan, so the dollar was sold and the Taiwan dollar bought. The pair dipped below TWD30.4 on November 4 for the first time since July 2018. It weakened to TWD30.330 for a time on November 5, but hopes regarding US/China trade talks then faded slightly on a US/China heads-of-state meeting and reports that the signing of a phase one agreement might be pushed back until December. As a result, the pair bounced back to the TWD30.4 mark. However, news then emerged that the US and China had agreed to a staged abolition of tariffs. The dollar was sold and the Taiwan dollar bought again, so the USD/TWD pair moved with a heavy topside.

Concerns about the deteriorating situation in Hong Kong then grew as demonstrations intensified. As stocks moved heavily on the topside, the dollar was bought and the Taiwan dollar sold. The greenback was then bought at a faster pace on a growing sense that the US and China were having trouble reaching a phase one agreement, with the currency pair rising to TWD30.590 toward November 15.

The pair's topside was held down in the latter half of November by renewed hope for progress in US/China trade talks, with the pair weakening to the TWD30.4 mark. There was no signs of concrete progress (such an agreed date for a heads-of-state meeting), though, so the pair continued trading in a range around TWD30.5 thereafter. The Taiwan dollar was bought late November as exporters sold the greenback at a faster pace. With President Trump signing the Hong Kong Human Rights and Democracy Act, for example, concerns about US/China trade talk refused to go away. As such, the pair could not break out of its range and it remained stubbornly deadlocked.

2. Outlook for This Month

In December, the USD/TWD pair's movements are likely to be marked by U.S.-dollar bearishness and Taiwan-dollar bullishness.

A glance at the economic indicators released in November shows the October export amount falling by -1.5% y-o-y, with growth moving in negative territories for the second straight month. This result was also below market expectations (-0.3% y-o-y). The breakdown shows key exports of electronic parts hitting +5.3% y-o-y, with exports of IT and telecommunication products to the US also growing by a brisk +20.8, but exports to China and Hong Kong stalled and this pulled the overall data down. The overall consumer price index (CPI) data for October was essentially unchanged on the previous month at +0.39% y-o-y, while the core CPI data (excluding volatile fresh food prices) rose slightly by +0.66% y-o-y, with inflationary trends not undergoing any major changes.

The currency pair will continue to be swayed by headlines about US/China trade talks in December. Reports suggest the two sides are in talks about concluding a phase one trade agreement within the year, but with President Trump signing the Hong Kong Human Rights and Democracy Act, for example, concerns are growing about the impact on negotiations, so investors will need to pay close attention to whether there are any signs of progress.

Several major central banks will also be holding monetary policy meetings in December, so attention should be paid to these results too. The FOMC will be meeting over December 10–11. After the last meeting (in September), there were hints that rate cuts could be brought to a close, so the FOMC will probably keep policy fixed. However, the federal funds rate projection of FOMC members for 2020 onwards will be released after the meeting. It is quite possible this will be revised from the previous projection (in September). The Central Bank of the Republic of China (Taiwan) will also be holding its quarterly monetary policy meeting on December 19. However, the MPC will probably keep policy rates fixed, so the impact on the pair is likely to be negligible.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – December 2019

Expected Ranges	**Against the US$:**	**HK$ 7.8150–7.8450**
	Against the yen:	**JPY 13.60–14.10**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

In November, the Hong Kong dollar appreciated against the U.S. dollar from the HKD 7.84 level to approach the HKD 7.82 level, despite the fact that concerns about the situation in Hong Kong were growing. The fierce clash between protesters and the police had almost no impact on the Hong Kong financial market. Furthermore, the government has abstained from intervening in the protest with the People’s Liberation Army. Furthermore, there was a large-scale IPO at USD 11.2 billion, the largest amount in Hong Kong since 2010, which brought capital inflow into the Hong Kong market, supporting the Hong Kong dollar. It should also be mentioned that the U.S. Congress rapidly approved the *Hong Kong Human Rights and Democracy Act,* while the protests in Hong Kong have been gathering worldwide attention. Even though there has so far been no capital outflow from the Hong Kong market, the economic growth outlook for Hong Kong has been deteriorating due to the political uncertainty. The Hong Kong economy has entered a phase of recession, with the GDP recording negative growth of 2.9% year-on-year for the third-quarter period. Also, the Hong Kong government announced an estimate for the economic growth rate in 2019, at –1.3%—the first negative annual growth rate estimated after the global financial crisis in 2008.

Hong Kong dollar interest rate market in November

In November, commercial banks in Hong Kong postponed the prime rate increase at the beginning of November due to the interest rate cut by the Federal Reserve Board (FRB) in the U.S. However, Hong Kong interest rates rose thereafter as a result of growing concerns over decreasing funds after the IPO, as well as due to capital outflow. The liquidity level in the Hong Kong dollar market thus deteriorated, and the one-week Hong Kong dollar HIBOR rose up to 3.10% during the large IPO in the middle of November. Furthermore, the Hong Kong dollar interest rates rose with concerns over future capital outflow, and the depreciation of the Hong Kong dollar resulted from the sense of uncertainty surrounding the situation in Hong Kong. Thus, the one-month and three-month Hong Kong dollar HIBOR recorded its highest levels in approximately five months, at 2.75% and 2.53%, respectively. Unlike the U.S. dollar interest rates, which fell after the consecutive interest rate cuts by the FRB, the one-month and three-month Hong Kong dollar HIBOR-U.S. dollar LIBOR spread widened sharply to

+99 basis points and +66 basis points, respectively. The aggregate balance, which is used as an index to measure the Hong Kong dollar liquidity level remained at HKD 54.4 billion without any change, as the U.S. dollar/Hong Kong dollar exchange rate did not approach the HKD 7.85 level—the upper end of the Hong Kong dollar exchange rate fluctuation band.

Hong Kong stock market in November

In November, the benchmark Hang Seng Index (HSI) fluctuated within a limited range between 26,200 and 27,900 as a result of the progress in the trade negotiations between the U.S. and China, as well as due to the deterioration of the situation in Hong Kong. Even though the retail and real estate sectors were affected by the protest, the stock market remained robust, thanks to growing expectation for progress in the trade negotiations between the U.S. and China, as well as due to capital inflow from China.

2. Outlook for This Month

Hong Kong dollar spot exchange market in December

In December, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.815 and HKD 7.845. While it is difficult for the protests to end soon, there has been less speculation about the mass arrest of extremist protestors and about capital outflow. The situation is thus expected to become slightly less tense by the end of this year. Therefore, the one-year Hong Kong dollar forward rate is most likely to fall from +250—the highest record in three years. Also, it is not likely for the financial market in Hong Kong to collapse so as to cause panic selling of the Hong Kong dollar once again. However, as a large-scale IPO has been completed, capital inflow will be limited. Furthermore, there have been growing risks for the "one country, two systems" structure in Hong Kong, and the growth outlook for Hong Kong has been deteriorating, fueling pessimistic feelings about the Hong Kong dollar in the market. As the *Hong Kong Human Rights and Democracy Act* has been approved in the U.S., the U.S. government will be annually evaluating whether a high degree of autonomy is being given to Hong Kong. This inevitably means that the status of Hong Kong as an international financial hub may be in danger. Therefore, the U.S. dollar–Hong Kong dollar peg is likely to be maintained. Also, concerns are growing over the sales of Hong Kong dollar assets as well as capital outflow from a medium-term point of view due to the instability of the financial market environment, falling profitability, and overvalued assets.

Hong Kong dollar interest rate market in December

Despite the fact that a large-scale IPO has completed, the liquidity level in the Hong Kong dollar market is expected to be relatively low in December, due to the demand for fund procurement in Hong Kong dollars at the end of the year. The interest rate differentials between the Hong Kong dollar and the U.S. dollar are expected to remain positive in the next several months. While the aggregate balance has been USD 54 billion, at its lowest level, the prime rate has also been at its all-time low, and there has so far been no possibility for the rate to be cut further. As the political situation in Hong Kong is likely to slightly ameliorate before the end of the year, if the pressure for capital outflow weakens, it would be possible to keep the Hong Kong dollar interest rates from rising further. From a medium-term point of view, the Hong Kong dollar interest rates are likely to fall, following the U.S. dollar interest rates, if the economic data weakens in the U.S. and if the FRB cuts interest rates again in the second half of 2020.

Kazuki Baba, Treasury Department, MHBK (China)

Chinese Yuan – December 2019

Expected Ranges	**Against the US$:**	**CNY 6.9000–7.1500**
	Against the yen:	**JPY 14.55–15.94**
	Against 100 yen:	**CNY 6.2700–6.8800**

1. Review of the Previous Month

At the beginning of the month, the Chinese yuan continued appreciating against the U.S. dollar, as both the U.S. and China released a statement hinting at certain progress in the trade negotiations. The media reported that U.S. Secretary of Commerce Wilbur Ross shared optimism about an agreement with China, and this accelerated the appreciation of the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7.0 level, the psychological turning point, on November 5 for the first time since August this year. Thereafter, the media reported that the U.S. was excluded from the list of possible places to sign a partial trade agreement with, which makes it more likely for the two countries to have some frictions after the partial agreement. As a consequence, the U.S. dollar/Chinese yuan exchange rate once approached the CNY 7.02 level again. However, the media reported that the Ministry of Commerce of China had agreed to gradually remove the additional customs duty, and this strengthened the Chinese yuan again, leading the U.S. dollar/Chinese yuan exchange rate to fall, temporarily reaching the CNY 6.97 level.

On November 8, U.S. President Donald Trump made a remark to deny the agreement on customs duty removal, while also announcing as part of his speech that he would significantly raise the customs duty if the agreement is not signed. As a result, the sense of uncertainty in the market grew regarding the trade negotiations between the U.S. and China, while concerns persisted over the deterioration of the situation in Hong Kong. The Chinese yuan thus continued depreciating, and the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.04 level during the second half of the month.

Toward the end of the month, the media reported that the U.S. and China would continue dialogue for the first partial agreement, fueling optimism about the trade negotiations between the U.S. and China. The Chinese yuan thus appreciated against the U.S. dollar, and the exchange rate reached the CNY 7.02 level.

During the first half of the month, the People's Bank of China (PBOC) decided to roll over a medium-term lending facility (MLF) worth CNY 400 billion out of CNY 403.5 billion that had reached the maturity date. At the same time, the MLF interest rate was cut from 3.30% to 3.25%. The PBOC therefore maintained its monetary easing policy, in reaction to the low PMI and the current appreciation of food prices.

In the second half of the month, the PBOC supplied funds through a reverse repo on November 18 for the first time since October 25. Furthermore, the interest rate was also cut from 2.55% to 2.50%. The liquidity level in the capital market was somewhat raised thanks to the operation interest rate cut as well as the fund supply. It should also be mentioned that the LPR that was announced on November 20 turned out to be 4.15% with a fall of 5 basis points from the previous month, as had been anticipated in the market. While the liquidity level in the capital market remained high, interest rates remained stable for terms that go beyond the end of the year or the Chinese New Year.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange market is likely to continue reflecting progress in the trade negotiations between the U.S. and China. As of the time of this writing, the U.S. and China are holding a summit dialogue in order to sign the partial agreement. However, the U.S. dollar/Chinese yuan exchange market has not started moving into any direction, as the agreement has not yet been signed. If the first agreement is signed, it is likely for the Chinese yuan to appreciate further against the U.S. dollar. However, it still seems difficult to achieve the total removal of the customs duty as requested by China. Furthermore, there are some issues to clear in terms of structural reforms, such as the protection of intellectual property rights, subsidies for state-owned enterprises, and the evaluation system for China's compliance with the agreement. These are difficult challenges under the current circumstances. Thus, the appreciation of the Chinese yuan against the U.S. dollar is also likely to be limited. The U.S. dollar/Chinese yuan exchange rate is forecast to continue fluctuating in both directions for a while toward next year. It is likely for U.S. President Donald Trump to lead the process of partial agreement as a means for a political campaign before the presidential election in the U.S. scheduled for November. On the other hand, he is also likely to keep the customs duty active as a means of negotiations. It is thus unlikely for the Chinese yuan to continue appreciating one-sidedly against the U.S. dollar. Therefore, the Chinese yuan is forecast to appreciate slowly in December.

Even though the liquidity level in the capital market remains high, demand for fund procurement tends to increase toward the end of the year in preparation for the end of the year and the Chinese New Year. Market participants should thus remain cautious about the appreciation of interest rates for all terms.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – December 2019

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.3900**
	Against the yen:	**JPY 77.00–82.00**

1. Review of the Previous Month

The Singapore dollar depreciated against the U.S. dollar in November.

The U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.36 level. On November 4, after the ministerial talks between the U.S. and China, both countries released positive remarks regarding the outcome of the talks. Furthermore, U.S. Secretary of Commerce Wilbur Ross also made an optimistic remark regarding the first partial agreement with China, ameliorating the market sentiment. The Singapore dollar thus appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell at the mid-SGD 1.35 level. On November 6, the media reported that the first agreement in the trade negotiations between the U.S. and China would be delayed until December, temporarily weakening the Singapore dollar. However, the Singapore dollar rallied shortly thereafter, and the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the mid-SGD 1.35 level.

On November 12, the media reported that the U.S. and China are facing a challenge during the trade negotiations regarding the purchase of agricultural products made in the U.S., while market participants speculated on the impact of the intensified protests in Hong Kong on the future progress of the trade negotiations between the U.S. and China. As a consequence, the trend was reversed, and the Singapore dollar started to depreciate against the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to rise to the mid-SGD 1.36 level. On the same day, the September retail sales for Singapore were also announced with a strong figure exceeding the market estimate. However, due to concerns over the stalemated trade negotiations between the U.S. and China, the overall Asian currencies depreciated. Under such circumstances, the strength of the September retail sales supported the Singapore dollar exchange market only to a limited degree. On November 18, the media reported that the U.S. government had further extended the grace period by 90 days before the export ban on U.S. products to a major Chinese communication appliance company. This gave some hope to market participants that had previously been pessimistic about the trade negotiations between the U.S. and China. Yet, the Singapore dollar appreciated against the U.S. dollar only slightly in reaction. The U.S. dollar/Singapore dollar exchange rate continued fluctuating at the mid-SGD 1.36 level.

Thereafter, the U.S. Senate also approved the *Hong Kong Human Rights and Democracy Act*, while there was some possibility for the first partial agreement in the trade negotiations between the U.S. and China to be delayed. Mainly for these reasons, on November 20, the Singapore dollar weakened further.

On November 21, the third-quarter GDP of Singapore was announced, and the result turned out to be stronger than the market estimate, as was also the case with the retail sales figure that was announced in the middle of the month. However, the media continued repeatedly reporting on negative issues regarding progress in the trade negotiations between the U.S. and China. The trend in the Singapore dollar exchange market was thus not reversed.

On November 28, U.S. President Donald Trump signed the *Hong Kong Human Rights and Democracy Act*. In reaction to this, the Chinese government announced that they would take retaliatory action, further fueling pessimistic sentiment in the market regarding any possible end to the trade frictions between the U.S. and China. Market participants actively sold the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate has been fluctuating at around SGD 1.365 level (as of November 28).

2. Outlook for This Month

The Singapore dollar is forecast to weaken in December.

In November, the important economic indices of Singapore all turned out to be strong, including the GDP. However, media reports related to the trade negotiations between the U.S. and China had significant impact on the exchange market, and the Singapore dollar generally remained weak. Among Asian currencies, the depreciation of the Singapore dollar is particularly significant. Thus, market participants should remain cautious of any progress in the trade negotiations. At the current moment, the situation has become even more serious, as the U.S. has signed the *Hong Kong Human Rights and Democracy Act*. It would thus be difficult to solve this problem quickly. The Singapore dollar is therefore forecast to weaken in the times ahead.

On the other hand, the July–September quarter GDP of Singapore (+0.5% year-on-year) recorded a sign of recovery from the result of the April–June quarter (+0.1% year-on-year). This was also above the level estimated in the market. Thus, market participants are now observing whether GDP growth rate can remain positive annually, as had been estimated by the government of Singapore.

In terms of the third-quarter GDP, household expenditures and foreign investment recorded a particularly significant increase, leading to an overall positive growth rate. As governmental expenditures declined, the growth in domestic demand was partially offset. However, the figure remained positive, as was the case with the July–September period.

What should be underlined is the increase in the foreign currency deposit balance as a percentage of the GDP of Singapore (1.6% as of June 2018 and 3.0% as of September 2019). Foreign investment increased mainly because of such an increase in foreign currency deposits. This implied that some foreign currency assets might have flown into the Singapore market, as the situation in Hong Kong continued worsening.

In order for the annual GDP growth rate to remain positive, the October–December quarter GDP needs to record a similar figure, and therefore capital inflow as was discussed above can be a supporting factor. However, it is now too early to say that the investment business in Hong Kong has really been shifted to Singapore. For the Singapore economy to recover in a sustainable manner, it is essential to recover net exports, which are currently negative. First of all, more-detailed outcomes should be released for the trade negotiations between the U.S. and China.

Kazuhiro Suzuki, Bangkok Treasury Office

Thai Baht – December 2019

Expected Ranges	**Against the US$:**	**THB 30.00–30.50**
	Against the yen:	**JPY 3.55–3.70**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rose slightly before returning to the level observed at the beginning of the month.

In November, the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 30.10 level. On November 1, the October CPI of Thailand was announced, and the result turned out to be 0.11%, significantly falling below 0.30%—the estimated level. However, this had only limited impact on the market, as market participants were waiting for the release of the October employment statistics of the U.S. scheduled for the nighttime of the same day. During overseas trading hours, the October employment statistics of the U.S. were released with strong figures. Furthermore, expectations were growing for the Monetary Policy Committee (MPC) meeting scheduled for November 6 in the following week. As a result, the U.S. dollar/Thai baht exchange rate slowly rose to the upper-THB 30.20 level toward November 5. On November 6, the MPC decided to cut the interest rate by 25 basis points. At the same time, the Bank of Thailand (BOT) announced a measure to relax the control over capital outflow that was considered to be one of the factors behind the appreciation of the Thai baht. In response to this, the U.S. dollar/Thai baht exchange rate rose to temporarily reach the upper-THB 30.30 level. However, there were market participants that sold the U.S. dollar for the purpose of profit-taking, and thus the exchange rate returned to a level near THB 30.30 to the U.S. dollar. On November 7, the media reported that the U.S. and China had agreed on the gradual removal of the additional customs duty, in reaction to which market participants bought the U.S. dollar, and the U.S. dollar/Thai baht exchange rate rose to the mid-THB 30.40 level. Although the exchange rate fell slightly thereafter, the Thai baht remained weak until the weekly trading closed.

In the middle of the month, U.S. President Donald Trump made a remark that there had been no agreement with China about the removal of the customs duty, and this led the U.S. dollar/Thai baht exchange rate to fall. Thus, on November 13, the exchange rate fell below THB 30.30 to the U.S. dollar. Furthermore, on November 14, the media reported that it was possible that no agreement would be signed in the trade negotiations between the U.S. and China before December 15—the deadline before the imposition of the additional customs duty against China. As a result, the U.S. dollar/Thai baht exchange rate fell below the THB 30.20 level. Then, on November 15 in the U.K., it became more likely for the Conservative Party, the current ruling party, to win the general election scheduled for December.

Political risks in the U.K. were thus mitigated, and, thanks to the ameliorated market sentiment, the British pound strengthened. Following this trend, the Thai baht also rallied slightly, and the U.S. dollar/Thai baht exchange rate reached the 30.20 level. Then, on November 18, after the weekend, the third-quarter GDP of Thailand was announced, and the result turned out to be 2.4%, falling below 2.7%, the estimated level, while exceeding 2.3%, the result from the second quarter. There were thus both positive and negative elements in the result, and therefore the impact on the Thai exchange market was minimal. On the other hand, the media reported that China was reluctant to sign a trade agreement with the U.S., to which market participants reacted, and the U.S. dollar/Thai baht exchange rate fell below the THB 30.20 level. There was no positive factor to offset the negative view about the trade frictions between the U.S. and China on November 19 and thereafter. Therefore, the U.S. dollar/Thai baht exchange rate continued fluctuating mainly at around the THB 30.20 level.

At the end of the month, the October automobile production was announced on November 20, recording negative year-on-year growth of 22.5%. On November 21, the October export value was announced also with negative year-on-year growth of 4.5%. These figures were the reflection of the slowdown in the Thai domestic economy, which led the U.S. dollar/Thai baht exchange rate to reach the lower-THB 30.20 level. However, the exchange rate did not rise further, thanks to market participants that were buying the Thai baht based on the current account surplus in Thailand. At the end of the week, the governor of the BOT, Veerathai Santiprabhob, who was visiting Laos, made a remark to give warning to the appreciation of the Thai baht, which caused market participants to expect the monetary easing to continue in the times ahead. As a result, the Thai baht was sold, and the U.S. dollar/Thai baht exchange rate reached the mid-THB 30.20 level in the morning of November 25. However, the exchange rate fell again toward the market close on November 26, as market participants bought the Thai baht in reaction to positive media reports related to the trade negotiations between the U.S. and China. Then, on November 27, the following day, there was some U.S. dollar-buying, as the preliminary result of the third-quarter GDP of the U.S. was revised upward. However, in the end, trading closed at the lower-THB 30.20 level—the same level as seen on the previous day.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is likely to continue fluctuating within a narrow range.

In November, the U.S. dollar/Thai baht exchange rate reached the mid-THB 30.10 level at the beginning of the month for the first time in approximately six years and five months. However, after the MPC meeting, the exchange rate rose to the mid-THB 30.40 level with expectation for progress in the trade negotiations between the U.S. and China. The Thai baht thus reached its lowest level in approximately one month since the beginning of October. Yet, the Thai baht depreciated, as was expected by the BOT, only for a short time, and the exchange rate started to fluctuate again thereafter following the headlines related to the trade negotiations between the U.S. and China. Thus, in one week, the U.S. dollar/Thai baht exchange rate returned to the level observed before the MPC meeting with violent fluctuations in the market. Thereafter, there were both those that were buying the Thai baht based on the healthy current account surplus level and those that were buying the U.S. dollar based on actual demand, keeping the fluctuation of the exchange rate within a narrow range.

As is the case with other currencies, the U.S. dollar/Thai baht exchange market is also more impacted by overseas factors rather than by domestic factors. In particular, the trade frictions between the U.S. and China are currently the most-influential factor in the market, and without any doubt, all currency markets have been affected by this issue in 2019. Without a trade agreement between the U.S. and China, even if the BOT takes action to suggest further monetary easing, there would only be limited effect. As market participants see the Thai baht as an attractive target for investment, thanks to the current account surplus of Thailand, the U.S. dollar/Thai baht exchange rate may remain at the same level as in the second half of November and thereafter.

While, as of this writing, it has only been two weeks since the further monetary easing, the governor of the BOT, Veerathai Santiprabhob, already made a remark to point out that the effect of the interest rate cut had already been lost. As the Thai economy has been certainly slowing down, the depreciation of the Thai baht would create a desirable situation. Thus, the BOT is likely to introduce vigorous measures of monetary easing again at the next MPC meeting scheduled for December 18. However, it is unlikely for the BOT to cut the policy interest rate again. Generally speaking, a policy interest rate cut would not be an option at least for the next MPC meeting. Even if the policy interest rate is cut again, it could result in an undesirable situation from a long-term point of view, as it would reduce possible remedies for a further economic decline. Thus, the BOT is expected to take measures to stop the Thai baht from appreciation without maneuvering the interest rate. If by then there is no remarkable progress in the trade negotiations between the U.S. and China and if the trade issue remains a decisive factor in the market, the Thai baht is likely to remain high despite efforts made by the BOT. Thus, the U.S. dollar/Thai baht exchange rate is expected to continue fluctuating within a narrow range at around THB 30.20 level, the level currently seen in the market, until the end of the year.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2019

Expected Ranges	**Against the US$:**	**MYR 4.1400–4.2100**
	Against the yen:	**JPY 25.70–26.60**
	Against 100 yen:	**MYR 3.7600–3.8900**

1. Review of the Previous Month

In November, the U.S. dollar/Malaysian ringgit exchange rate recorded its lowest level since July at MYR 4.1230, with expectations for a partial agreement in the trade negotiations between the U.S. and China. Toward the end of the month, the exchange rate rallied to the MYR 4.18 level due to the sense of uncertainty concerning the political situation, as well as due to the outlook for the trade negotiations between the U.S and China related to the *Hong Kong Human Rights and Democracy Act*.

At the end of October, optimism grew in the market regarding the trade frictions between the U.S. and China, while the Federal Reserve Bank (FRB) decided to cut the interest rate and as the deadline for the Brexit negotiations was extended. Furthermore, the October Caixin manufacturing PMI of China demonstrated improvement. As a result, at the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate fell from MYR 4.18 to the MYR 4.16 level on November 1. The APEC meeting, at which an agreement between the U.S. and China had been anticipated, was cancelled thereafter. However, U.S. and Chinese officials hinted at the possibility for the two countries to sign the agreement at another occasion. As the FRB cut the interest rate for the third consecutive time, the stock market was also supported. Also, the September Caixin manufacturing PMI of China turned out to be strong as well, thanks to the robustness of new orders, despite the weakness of the National Statistics Bureau's PMI, demonstrating the effect of the exemption of the additional customs duty announced by the U.S. in September.

On November 4, the September trade statistics were released, and exports recorded a decline for the first time in three years—the impact of which was, however, limited in the foreign exchange market. On November 5, the monetary policy meeting was held, and the central bank of Malaysia decided to maintain its policy interest rate at 3.00%, and then, with expectations in the market that the first agreement between the U.S. and China would include a partial customs duty cut, the U.S. dollar/Malaysia ringgit exchange rate reached MYR 4.1230, the lowest since July this year, on November 8.

In the middle of the month, the September industrial production index was released on November 11 with a weak figure, while the July–September quarter GDP was expected to decline, which reversed the trend in the U.S. dollar/Malaysian ringgit exchange market. The exchange rate thus rose to the MYR

4.16 level on November 14. On November 15, the following day, the GDP was announced, and the result turned out to be +4.4% year-on-year, recording a slowdown as had been anticipated in the market. The U.S. dollar/Malaysian ringgit exchange rate thus did not move from the level around MYR 4.15 after the announcement. However, it should be pointed out that the achievement of the growth rate of +4.7% year-on-year, announced as governmental outlook for FY2019 with a budget plan for the next fiscal year, has become slightly more difficult, as it would require a growth rate of +5.0% year-on-year for the September–December quarter.

On November 16, at the by-election in the Tanjung Piai, Johor, the candidate of the ruling coalition, suffered a decisive defeat facing a candidate from the opposition party. This proved the dissatisfaction of the voters about the current Mahathir administration. As the relations between the U.S. and China were tense after the approval of the *Hong Kong Human Rights and Democracy Act* while the crude oil market was weak, the U.S. dollar/Malaysian ringgit exchange rate rose again toward the end of the month, reaching the MYR 4.17 level on November 21. The exchange rate declined slightly thereafter as a result of the rally of the crude oil price. As of November 28, the U.S. dollar/Malaysian ringgit exchange rate has been fluctuating at the MYR 4.16 level.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.16 and MYR 4.21. Also, there are factors of uncertainty in the Malaysian ringgit exchange market, such as a slowdown in exports, weak stock prices, and difficulty in achieving the first phase of the agreement between the U.S. and China. On the other hand, the governmental budget bill for 2020 demonstrated an attitude to welcome investment, which may fuel direct investment flow from abroad at the end of this fiscal year. In such a case, the Malaysian ringgit would appreciate against the U.S. dollar.

On November 15, the September–December quarter GDP was announced, and the result turned out to be +4.4% year-on-year, recording a slowdown from the previous period, as had been anticipated in the market. It seems that the trade frictions are starting to impact net exports, which was used to be a recent supporting factor, along with private consumption. Investment also declined in the government sector as much as in the January–March quarter, recording negative growth for the third consecutive period. In terms of the supply side, the mining industry sector recorded a particularly severe decline due to the reduced production of crude oil as a result of maintenance work at oil fields.

On the other hand, the international balance of payments for the September–December quarter recorded a surplus for the first time in two quarters, thanks to the improvement in the deficit balance in the financial account balance, even though the current account surplus declined from the previous quarter, and there has been an outflow of overseas investor funds from the domestic bond market. It should also be pointed out, however, that the foreign direct investment (FDI) flow that was announced at the same time confirmed that there had so far been no action taken by China and the U.S.—the countries of the largest and the second largest amount of investment approved. In order for the governmental outlook for the GDP for this fiscal year to be achieved, foreign direct investment would thus play a crucial role.

In terms of political issues, Malaysia's supreme court has continued the holding of a trial for the financial scandal of the previous prime minister concerning 1MDB (a government-invested development company), during which the ruling collation candidate suffered a decisive defeat at the by-election. The local media reported this mainly as a sign of dissatisfaction of voters regarding the fact that the new government has been taking a long time to achieve its public promise under Prime Minister Mahathir Mohamad. Some have suggested the possibility of cabinet reorganization, which would be another negative factor for the current Malaysian ringgit exchange market.

It should also be mentioned that the monetary policy meeting was held on November 5 in Malaysia and that the policy interest rate was maintained at 3.00%, as had been anticipated in the market. On November 7, the central bank of Malaysia cut its deposit reserve requirement ratio for the first time in three years, which further stabilized the liquidity level in the domestic market.

The U.S. dollar/Malaysian ringgit exchange rate has remained within the same range since October, and this can probably be changed only by an agreement between the U.S. and China or via investment capital inflow.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2019

Expected Ranges	**Against the US$:**	**IDR 14,000–14,300**
	Against 100 rupiah:	**JPY 0.76–0.79**
	Against the yen:	**IDR 126.58–131.57**

1. Review of the Previous Month

In November, the U.S. dollar/Indonesian rupiah exchange rate continued hovering around mainly at the IDR 14,000 level.

On November 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,000 level. The October Markit manufacturing PMI of Indonesia recorded its lowest level in four years, fueling concerns over the Indonesian economy. However, the impact of this on the Indonesian exchange market was limited. In the following week, the Indonesian rupiah appreciated against the U.S. dollar in the offshore NDF market on November 4, with expectation for progress in the trade negotiations between the U.S. and China. Following this trend, the Indonesian rupiah strengthened, and the U.S. dollar/Indonesian rupiah exchange rate once fell below IDR 14,000. On November 6, the following day, the third-quarter GDP was announced, and the result turned out to be +5.02%, slightly exceeding the market estimate, keeping the Indonesian rupiah strong. The Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate thus once reached its monthly low near IDR 13,970. However, the sense of uncertainty grew again in the market concerning the outlook of the trade negotiations between the U.S. and China, as a result of which the U.S. dollar/Indonesian rupiah exchange rate rallied to the IDR 14,000 level on November 7.

In the middle of the month, the risk sentiment in the market worsened in the week including November 11. Under such conditions, the Indonesian rupiah continued depreciating slowly, and the U.S. dollar/Indonesian rupiah exchange rate once reached the IDR 14,100 level on November 14. However, expectations for the trade negotiations between the U.S. and China grew again in the market, and the exchange rate returned to the upper-IDR 14,000 level on November 15—the following day. On the same day, the October trade balance of Indonesia was announced, and imports recorded negative year-on-year growth of 16.39%, a larger decline than the previous month, leading to a surplus of USD 161 million. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the upper-IDR 14,000 level without moving into any direction.

At the end of the month, market participants maintained a wait-and-see attitude before the monetary policy meeting of the central bank of Indonesia scheduled for November 21. At the meeting, the seven-day reserve repo rate, the policy interest rate of Indonesia, was maintained at 5.00%, as had been anticipated in the market. However, the deposit reserve requirement ratio for commercial banks was cut for the first time since June this year by 0.5% to 5.5%. On the same day, the Indonesian rupiah remained weak, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,100 level—the monthly high in November. Toward the end of the month, market participants bought the U.S. dollar based on demand for the import settlement of domestic companies, which strengthened pressure to sell the Indonesian rupiah. However, there was also capital inflow related to the Indonesian government bond auction, supporting the Indonesian rupiah. As a result, the U.S. dollar/Indonesian rupiah exchange market remained stable. In the end, the U.S. dollar/Indonesian rupiah pair has been trading at around IDR 14,100 (as of market closing on November 28).

2. Outlook for This Month

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

The October trade balance announced in November recorded a surplus, as was mentioned above. However, this was a result of the fact that imports declined significantly, and there is no change in the weakness in exports. There has been negative year-on-year growth in exports for a while now, confirming the sluggish situation. As 2019 is coming to a close, it can be said that the Indonesian rupiah was supported by security investment from abroad throughout the year, thanks to the U.S. interest rate cuts, while pressure to sell the Indonesian rupiah remained strong, due to the current account deficit of Indonesia.

The U.S. policy interest rate has already been cut for the third consecutive time, which significantly impacted the Indonesian rupiah exchange market, and it is now unlikely for the U.S. policy interest rate to be cut again any time soon. While the U.S. economy does not seem to be collapsing severely, the interest rate cut would only be possible after a while, if any. The central bank of Indonesia also postponed an interest rate cut in November after four consecutive policy interest rate cuts announced this year. However, the central bank of Indonesia has the intention to continue monetary easing, cutting the deposit reserve requirement ratio as part of such efforts. It is thus possible for the central bank of Indonesia to cut the policy interest rate again, while the domestic inflation rate remains within the target range and the Indonesian rupiah remains stable. It is thus difficult to expect the Indonesian rupiah to appreciate, as it is unlikely for the interest rate differentials between the U.S. dollar and the Indonesian rupiah to widen in the times ahead.

It should also be mentioned that it is dangerous to be overly optimistic about the trade negotiations between the U.S. and China. Given that in the past there have been many instances in which market expectations were betrayed, deteriorating the risk sentiment of market participants, the market sentiment can be worsened at any moment.

For these reasons, in December, the Indonesian rupiah is forecast to remain weak in the U.S. dollar/Indonesian rupiah exchange market. It can be said that the trend is thus likely to remain unchanged.

However, market participants should remain cautious about the further depreciation of the Indonesian rupiah that could be caused by risk-averse sentiment based on the sudden deterioration of the geopolitical situation in the Middle East or the intensification of the trade frictions between the U.S. and China.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – December 2019

Expected Ranges	**Against the US$:**	**PHP 50.00–52.00**
	Against the yen:	**JPY 2.125–2.170**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso exchange market (onshore) opened at PHP 50.57, with the significant appreciation of the Philippine peso from the closing rate of the previous month, which was PHP 50.74 to the U.S. dollar.

On November 1, the October employment statistics of the U.S. were released during overseas trading hours, and market participants confirmed the healthy employment environment of the U.S., leading the S&P 500 stock index of the U.S. to renew its all-time high. The Dow Jones Industrial Average also traded at its all-time-high range.

Furthermore, at the end of the week, the U.S. and China both released a positive remark after the ministerial talks between the two countries, fueling optimism about the trade agreement. As a result, market sentiment improved significantly with expectation for progress in the trade issue.

On Tuesday, November 5, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7 mark for the first time in approximately three months, in reaction to which the U.S. dollar/Philippine peso exchange rate also reached PHP 50.40—renewing its highest rate for the Philippine peso since the beginning of the year.

On a weekly basis, the Philippine peso appreciated against the U.S. dollar for the sixth consecutive month—reaching its highest level since January 2018.

However, during the overseas trading hours of Friday, November 8, U.S. President Donald Trump made a remark to emphasize that the U.S. had not yet reached an agreement with China on the removal of the customs duty, and this weakened the optimistic sentiment in the market.

Furthermore, market sentiment worsened further due to the intensification of the democracy-related protests in Hong Kong. Thus, on November 11, after the weekend, the trend in the market was reversed, and the U.S. dollar/Philippine peso exchange rate reached PHP 50.63 with risk-averse sentiment.

After the appreciation of the Philippine peso, which continued for six weeks, market participants adjusted positions (by buying back the U.S. dollar), as a result of which the closing rate was PHP 50.86 to the U.S. dollar on November 11.

Thereafter, both optimism and pessimism occurred in the market. Under such circumstances, the U.S. dollar/Philippine peso exchange rate did not move into any direction, occasionally reaching the PHP 51 level with U.S. dollar-buying based on actual demand.

After the minutes of the FOMC meeting were released, fewer market participants expected an additional interest rate cut. Furthermore, market participants are aware of the fact that U.S. President Donald Trump signed the *Hong Kong Human Rights and Democracy Act*. However, there has surprisingly been no active U.S. dollar buying, and the closing rate of November 28 was PHP 50.705 to the U.S. dollar.

2. Outlook for This Month

While the appreciation of the Philippine peso has been slowing down, the U.S. dollar also remains weak.

It is easy to say that the outlook of the U.S. dollar/Philippine peso exchange market depends on the outcome of the trade frictions between the U.S. and China. However, there are also some key economic indices that are likely to gather attention in the times ahead as factors for the appreciation of the Philippine peso.

The September trade balance of the Philippines was a deficit of USD 3.12 billion, with an increase in deficit from the previous month, which recorded a deficit of USD 2.68 billion. However, this figure was within the range of market estimates.

The July–September quarter GDP growth rate of the Philippines turned out to be 6.2% year-on-year, thanks to the growth in public expenditures related to infrastructure. This figure was above 6%, the market estimate, confirming the accelerated growth from the previous quarter in which the GDP growth rate was +5.5% year-on-year, and achieving the highest level in six quarter periods. This level is also one of the highest among Asian countries.

The September amount of Overseas Filipino Workers (OFW) remittances was USD 2.38 billion. While this was at the level of the market estimate, the year-on-year growth rate reached +6.3%.

The October consumer price index of the Philippines recorded positive year-on-year growth of +0.8%, recording a slowdown for the fifth consecutive month and reaching the lowest level in three years and six months.

On November 14, the central bank of the Philippines announced its decision to maintain the policy interest rate at the existing level. The inflation outlook was +2.4% (while it was +2.5% at the previous announcement) for 2019 and +2.9% for both 2020 and 2021 (unchanged from the previous announcement).

Without inflation risk, which can lower the currency value, the Philippine monetary policy for monetary easing since the beginning of this year has become less vigorous. It can also be said that the policy interest rate was maintained at the existing level at the latest monetary policy meeting, which left some room for monetary easing next year and beyond.

Even though the Philippine peso exchange market is most likely to turn bearish in the times ahead, it would not be surprising if there is another phase of the appreciation in the Philippine peso before the end of the year.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – December 2019

Expected Ranges	**Against the US$:**	**INR 69.50–73.00**
	Against the yen:	**JPY 1.48–1.58**

1. Review of the Previous Month

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

The U.S. dollar/Indian rupee exchange market opened trading at INR 70.98 in November. Thereafter, the Chinese yuan, which has been a driver among the Asian currencies, appreciated, and the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7 mark for the first time in three months. This affected the overall Asian currencies, and the U.S. dollar/Indian rupee exchange rate also reached its monthly low at INR 70.5275. However, at this level, the central bank of India intervened in the market by buying the U.S. dollar and selling the Indian rupee in a large sum, and this kept the Indian rupee from appreciating further. On November 7, the media reported that the Ministry of Commerce of China was planning to gradually remove the additional customs duty while also lifting import restrictions on U.S. chicken. As a consequence, the overall Asian currencies appreciated. However, the reaction in the Indian rupee exchange market was limited. On the contrary, the U.S. dollar appreciated slightly against the Indian rupee. On November 8, a large ratings company revised downward the rating for India from "stable" to "negative," and this led the Indian rupee to depreciate further.

On November 11, the Indian rupee weakened, as, after trading closed in India in the previous week, the U.S. denied a remark made by China that there was an agreement on the removal of the customs duty that was reported on November 7, while the protests in Hong Kong intensified. Thereafter, the media reported that the trade negotiations were facing difficulty concerning agricultural products, while the industrial production of India recorded a negative year-on-year growth rate of 4.3%. As a result, the U.S. dollar/Indian rupee exchange rate rose to its monthly high at INR 72.245 on November 13.

Thereafter, market participants recognized some Indian rupee-buying, as there was a net purchase of stocks and bonds worth USD 2.27 billion by foreign investors, calculated using the data up to November 15. As a result, the U.S. dollar/Indian rupee exchange rate fell slightly. On November 20, the *Hong Kong Human Rights and Democracy Act* was unanimously approved at the U.S. Congress, strengthening concerns over the trade negotiations between the U.S. and China. However, the U.S. dollar/Indian rupee exchange rate did not significantly exceed the INR 72 level, fluctuating within a narrow range at the upper-71 level.

On November 26, U.S. President Donald Trump made a remark after market closing that both the U.S. and China were making efforts for an agreement, in reaction to which the U.S. dollar/Indian rupee exchange rate returned to the lower-INR 71 level. As of November 27, when this article was being written, the U.S. dollar/Indian rupee pair has been trading at around INR 71.40.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate is unlikely to fall in December.

In the previous month, the industrial production of India reached its worst level since 2009 immediately after the worldwide financial crisis, while the consumer price index recorded its highest level in 16 months, exceeding 4%, the central value of the target range set out by the central bank of India. However, the Indian rupee exchange market has not been significantly impacted by these factors. Even though there was some reaction in the market when a large ratings company cut its outlook for India, the market seems to be less responsive to domestic factors in India.

In the past several months, it has been repeatedly pointed out in this article that the current driver for the Indian rupee exchange market (or the overall Asian currency market) has been the Chinese yuan, as well as the trade negotiations between the U.S. and China, as the context. Since August, the Chinese yuan has continued depreciating, leading the overall Asian currencies to also depreciate. Thus, needless to say, when the Chinese yuan depreciated, the Indian rupee also depreciated, and when the Chinese yuan appreciated, the Indian rupee also appreciated. Furthermore, another key factor has been the market intervention (buying the U.S. dollar and selling the Indian rupee) by the Reserve Bank of India (RBI). The RBI tends to observe the effective exchange rate rather than the nominal exchange rate. As Indian economic growth has been slowing down, the currencies of its surrounding countries have been depreciating, which seems to be fueling concerns over the decline of India's competitiveness. Thus, the RBI tends to avoid the appreciation of the Indian rupee, by virtually leading the Indian rupee to depreciate. Once again, such actions taken by the RBI are based on the trade negotiations between the U.S. and China, as well as its concomitant depreciation of the Chinese yuan.

It is thus important to know how the trade negotiations between the U.S. and China will unfold in the times ahead. Looking back at the past month, U.S. President Donald Trump made a remark on October 28 that the negotiations had been conducted ahead of schedule, after which China announced that there was an agreement on the removal of a customs duty on November 7. However, the U.S. announced on November 8, the following day, that there had been no agreement. Furthermore, on November 13, the U.S. made a remark that there had been difficulty in negotiating over agricultural products, after which the *Hong Kong Human Rights and Democracy Act* was approved by the U.S. Congress on November 20. There have been no consistent actions from either country, and the two countries continue going back and forth on this issue. There has currently been optimism in the market however, as U.S. President Donald Trump made a positive remark again as mentioned above. However, looking back at the exchange between the two countries in the past, it is now more important to sign the document rather than exchanging comments.

It is difficult to logically predict the outcome of the trade negotiations between the U.S. and China, and thus the Indian rupee exchange market is likely to continue fluctuating along with the situation in the negotiations. However, the RBI is expected to intervene in the market when the Indian rupee appreciates, which makes it unlikely for the U.S. dollar/Indian rupee exchange rate to fall significantly.

It should also be mentioned that the outcome of the monetary policy meeting at the RBI is to be announced on Thursday, December 5. If there is an interest rate cut of 0.25%, the market is likely to react only to a limited extent, as an interest rate cut has been reflected in the market at the 80% level.