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Mizuho Dealer's Eye

January 2020

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Mizuho Bank, Ltd.

Derivatives & Forex Department

Hiroaki Yamagishi, Forex Sales, Derivatives & Forex Department

U.S. Dollar – January 2020

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

1. Review of the Previous Month

The dollar/yen pair moved firmly in a range in December. After opening the month trading at the mid-109 yen mark on December 2, the pair then rose to a high of 109.73 yen as Asian stocks climbed after China posted an improved PMI for November. The US then released a bearish November Manufacturing ISM Report on Business, while US Secretary of Commerce Wilbur Ross dropped hints that tariffs might be hiked again on Chinese goods, so the pair dropped down below 109 yen. Risk aversion reigned on December 4 as investors cast doubts on the possibility of a US/China trade deal. As US stocks and interest rates fell, the pair dropped to a low of 108.43 yen. It continued to make small movements between the mid- and upper-108 yen mark as market participants waited for some news regarding the FOMC meeting and US/China talks.

The phrase about "but uncertainties about this outlook remain" was removed from the FOMC's statement when it met, so the currency pair rose for a time, but with the FOMC also hinting that policy rates would be kept fixed for the whole of 2020, interest rates fell and the pair tumbled to the mid-108 yen level. This trend reversed on December 12 after President Trump said trade negotiations with China were going well, with the pair climbing to the mid-109 yen level on reports the US/China negotiations had reached an agreement in principle. The pair hit a high of 109.71 yen on December 13.

In the wake of the US/China agreement and the overwhelming victory by the ruling party in the UK general election, a sense of relief swept the markets now these major events were safely out of the way. As stocks rose and US interest rates climbed, the pair kicked off the week beginning December 16 moving at highs around the mid-109 yen mark. With the pound/yen pair and the euro/yen pair then sliding on renewed fears about a no-deal Brexit, the dollar/yen pair also edged lower for a time, though it then moved firmly without dipping below 109 yen. The Bank of Japan's monetary policy meeting was held on December 19, while President Trump was impeached, but none of these were read as factors, with the pair continuing to move in the lower-109 yen range.

With market participants thin on the ground as Christmas loomed, the pair remained deadlocked at the lower-109 yen level amid a dearth of factors from December 20. With overseas investors taking a breather, the pair continued to move with a lack of incentives over December 26–27. Amid thin trading toward the year's end, the greenback was sold against the euro and commodity currencies, with the dollar/yen pair also weakening. The pair fell to 108.47 yen on December 31 to close the year trading at 108.68 yen.

The trend spilled over into 2020, with the pair's downside tested at the start of the new year. Though US stocks rose sharply at the start of trading on January 2, the pair was sold to 108.22 yen on falling US interest rates. With tensions between the US and Iran rising, risk aversion intensified on January 3. The dollar was sold and the yen bought at a faster pace, with the pair falling to a time to 107.84 yen, its lowest level in three months. It closed January 3 trading at 108.18 yen.

2. Outlook for This Month

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

The two biggest events last month were the US/China trade talks and the UK general election. Both passed by without any hiccups, with the currency pair moving strongly on the whole.US stocks continued to move at highs, with the greenback bought on risk appetite. US stocks fell sharply several times last year as investors called for rate cuts, but stocks moved smoothly last month even after the US FOMC decided to keep policy rates fixed. It seems the US has emerged from the so-called 'rate cut spiral' whereby plummeting stocks ramp up the pressure for rate cuts. If rates continue to rise at a gentle pace while stocks remain firm, the dollar/yen pair looks set to move firmly, as it did last month.

The FRB implemented preventative rate cuts three times last year in order to boost the economy. Its seems the positive spiral persists whereby an accommodative monetary policy and President Trump's tax cuts feed through into higher stocks, thus creating a wealth effect and boosting consumer spending. As such, the dollar/yen pair's topside might be tested again when risk appetite rises. However, when the pair rises sharply, the Trump administration will probably move to rein in dollar bullishness, so the pair is unlikely to undergo a one-sided rise. A US presidential election will be held this year, with the Democratic Party presidential primaries set to commence from February 3, so the pair's movements will be shaped more and more by election-related factors going forward.

Investors should also be on guard against the risk of yen appreciation. The yen has tended to move bullishly in January these past few years, with market participants also on alert this year too. The type of sharp yen appreciation seen during last year's 'flash crash' was avoided at the start of 2020, but the yen could strengthen and the dollar weaken on geopolitical risk related to Iran and so on or renewed concerns about US/China relations. Though stocks are moving at highs, investors should watch out for destabilizing factors. There is growing skepticism about how long the situation can continue whereby 'you have got to keep dancing as long as the music is playing.' Stock prices and PERs keep rising despite business results not showing any significant improvements. The bubble formed by accommodative monetary policies could burst for a time, so caution will be needed. If this does happen, the dollar/yen pair will probably be pushed lower by risk aversion.

Attention will probably focus on the Iran situation at the start of the year, but President Trump has insisted he does not want to start a war with Iran. As such, the situation is unlikely to deteriorate sharply. Furthermore, a glance at recent IMM currency futures data compared to data from the start of 2019 (after the 'flash crash') reveals that yen short positions have shrunk considerably, so there is less pressure for

yen buying on position unwinding compared to last year. As such, though the yen could rise in January, it is unlikely to rise sharply like last year.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	107.00 – 110.00	Bearish on the dollar	9 bears	107.00 – 109.50

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	106.50 – 109.50	The pair is likely to move skittishly with a heavy topside on concerns about the situation in the Middle East (reprisals, etc.), but with a US presidential election looming, the pair's downside will be supported, so it will probably continue to trade in a range.
Takeuchi	Bear	106.50 – 110.00	A breakthrough in US/China trade talks seems unlikely, with the dollar/yen pair not expected to climb further. A mood of risk aversion will probably prevail given the deteriorating relations between the US and Iran.
Tsutsui	Bull	107.00 – 111.00	The dollar look set to move even more firmly. Stocks and other dollar-denominated assets will prove more attractive to investors. With the State of the Union Message scheduled for February 4 and US Senate impeachment proceedings likely to take place thereafter, President Trump will probably keep a low profile in January.
Kato	Bull	107.00 – 111.00	With a US presidential election looming, President Trump will probably refrain from tweeting anything that could prompt risk aversion among market participants. The fundamentals and so on suggest it will still be some time before the US economy starts to slow.
Seki	Bear	106.50 – 109.50	For political reasons, it will be hard for the FRB to hike rates during the US presidential election. As such, the next monetary policy shift will probably be a rate cut when the economy deteriorates next year. US long-term interest rates only have limited room to climb, while hopes for further progress in US/China trade talks are low, so the dollar/yen pair's topside will be capped.
Mitsuishi	Bull	107.00 – 111.00	US/China trade frictions have eased for now and the FRB is not expected to hike rates for the time being. Given this, it seems the dollar/yen pair will move firmly on bullish US stock movements. However, the yen could rise sharply is concerns about the situation in the Middle East flare up, so caution will be needed.
Yamagishi	Bull	107.00 – 110.00	US/China trade talks have taken a breather. With consumer spending firm in the US and stocks moving at highs, the dollar/yen pair looks set to move firmly too. With the US and Iran looking for a behind-the-scenes compromise, the situation is unlikely to worsen substantially. The yen tends to appreciate in January, but with IMM yen shorts down compared to last year, any unwinding will be limited.
Tasaka	Bull	107.00 – 110.00	The dollar/yen pair will be pushed down for a time on concerns about increasing tensions between the US and Iran, but with a US presidential election looming, President Trump will probably refrain from any moves that could push stocks lower, with the situation in the Middle East also unlikely to deteriorate.
Omi	Bear	107.10 – 108.70	The dollar/yen pair has moved with a heavy topside at 109 yen. Geopolitical risk looks set to deepen, so the dollar will probably slide and the yen rise this month.
Ueno	Bull	107.00 – 109.50	The dollar/yen pair fell at the start of the year. This was due to rising tensions between the US and Iran, but both parties will want to avoid any full-on collision. Though a lot depends on headlines, the pair will probably move firmly as concerns ease.
Okamoto	Bear	107.00 –	The US and China are scheduled to sign a phase one agreement on January 15, but there has been no overarching progress, so this is unlikely to pull the dollar higher. The dollar/yen pair will be

		109.50	pushed down for a time on risk in the Middle East caused by the US, but with a war looking unlikely, the pair's room on the downside will be capped.
Onozaki	Bull	107.50 – 110.00	The US and China will be signing a phase one agreement on January 15. The yen rose at the start of the year on tensions in the Middle East, though the dollar/yen pair's room on the downside was capped. The pair will probably pass through January without any major crashes. However, it will move with a heavy topside when it hits 110 yen.
Tamai	Bear	107.00 – 109.50	Investors have already priced in the signing of a phase one agreement between the US and China, so this factor will not support the dollar/yen pair. Relations between the US and Iran are unlikely to deteriorate sharply, but the pair's topside will nonetheless be held down by risk aversion.
Harada	Bear	107.50 – 109.50	The markets kicked off 2020 in risk-off mode after the US assassinated the head of Iran's Revolutionary Guard Corps. The dollar/yen pair remained at yen highs at the start of the new year. Amid a dearth of factors, January looks set to be a month of high volatility on geopolitical risk and so on.
Oba	Bull	107.00 – 110.00	There are concerns about rising geopolitical risk on deteriorating relations between the US and Iran, but this factor was probably priced in at the start of the year. The dollar/yen pair hit a yearly low on Japan's first trading day of 2020, but the pair actually seems to be moving firmly and it could be supported at its 100-day moving average.
Takamura	Bull	107.00 – 110.50	The US and China will be signing a phase one agreement mid-January, but the markets have already factored this in apparently. The FRB will probably remain in wait-and-see mode when it comes to monetary policy, with the dollar/yen pair set to move firmly on the strong US economy and hopes for further progress in US/China trade talks.
Matsumoto	Bear	107.00 – 109.50	The US and China reached a 'phase one' agreement last month, though the dollar/yen pair failed to hit 110 yen. Until the two sides make some real progress (by agreeing to scrap tariffs, for example), the pair is unlikely to be pushed sharply higher. The pair could also slide on deteriorating relations between the US and Iran.
Itsumi	Bull	107.50 – 110.00	The dollar/yen pair look set to continue trading in a range around 109 yen. The pair's topside will be capped by uncertainty regarding US/China frictions, but with a US presidential election looming in November, there is no need for excessive caution.
Otani	Bull	107.00 – 110.00	The US and China will sign a trade agreement mid-January. With the FRB also likely to refrain from cutting rates, the dollar/yen pair looks set to move firmly. However, the pair will probably slide in the short term on headlines about the situation in the Middle East, so caution will be needed.
Tanishiki	Bull	107.50 – 109.50	President Trump has said he wants to untangle the US from Middle-Eastern affairs, so he is unlikely to launch a fully-fledged attack on Iran. Investors are waiting to buy when the dollar/yen pair hits 107 yen, so then yen is unlikely to strengthen further, with pair more likely to return to its range.
Okuma	Bear	106.50 – 109.50	Though the dollar/yen pair rose at the end of 2019, it could not hit 110 yen and it seems to be moving heavily on the topside. As such, though a military skirmish seems unlikely, the pair is being weighed down by geopolitical risk related to the deteriorating situation in Iran. The pair's topside will also be capped by concerns about sluggish economic indicators.

Akio Okamoto, Forex Sales, Derivatives & Forex Department

Euro – January 2020

Expected Ranges **Against the US$: US$1.1000–1.1300**
Against the yen: JPY119.00–123.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at the lower-$1.10 mark on December 2. The US November Manufacturing ISM Report on Business then dipped below expectations. With tensions to US/China trade talks also rising, the greenback was sold and the pair rose to just below $1.11. It was pulled higher by a bullish pound on December 4 as hopes grew regarding Brexit. The pair hit a weekly high of $1.1116 before dropping back to the mid-$1.10 level. It edged higher and rallied to the $1.11 range amid a dearth of factors on December 5. The greenback was bought on December 6 on the results of the US employment data for November, with the pair weakening to close the week trading around the mid-$1.10 level.

It moved from the mid-$1.10 mark to around $1.11 over December 9–10. It then climbed to the mid-$1.11 level on December 11 after the dollar was sold on the results of the FOMC meeting. In her press conference after the ECB Governing Council meeting on December 12, the new ECB president Christine Lagarde said the eurozone economic slowdown was showing signs of bottoming out. She also expressed optimism about current economic trends. All this saw the euro/dollar pair moving firmly, though it then dropped back to the lower-$1.11 mark on news related to the imposition of additional US tariffs on Chinese goods. The markets reacted warmly to news on December 12 that the ruling Conservative Party was set to gain a majority in the UK general election, with the pair shooting up to renew a high on December 13. It temporarily climbed to around $1.1200, though it dropped back on adjustive selling to close the week trading around $1.1120.

At the start of the next week, on December 16, the pair edged up to $1.1150 on a dearth of factors. It dipped back to $1.1127 after France and Germany both released worse-than-expected Manufacturing PMIs. With European stocks rising, though, the euro was dragged higher and the pair strengthened to around $1.1150. Reports on December 17 stated that UK prime minister Boris Johnson was aiming to pass a bill that would block any extension to the Brexit transitional period. Sterling was subsequently sold, with the euro/dollar pair also pulled back down to $1.1129 for a time. The pair was then bought back to $1.1175 after the eurozone released a better-than-expected trade balance figure for October, though it was then sold back to around $1.1170, with the euro/yen pair also falling. The euro/dollar pair continued to trade with a lack of direction around $1.1120–30 over December 18–19. It broke below its previous-day low of $1.1107 on December 20 to drop to $1.1090 while activating stop losses. It was

also sold on the worse-than-expected result of the eurozone's December Consumer Confidence Index to temporarily dip to $1.1067. After a round of selling, the pair edged up to close the week trading at $1.1083.

With many European nations off for the Christmas and Boxing Day holidays in the week beginning December 23, the pair moved in a range around the lower-$1.11 mark. From December 27 to the end of the month, it edged higher on end-of-month flows. It topped the key $1.12 mark to hit $1.1240 for the first time since August 7, 2019. It closed the year trading at the $1.1211 level.

Despite a lack of any noteworthy factors, the pair was sold back to the upper-$1.11 level on January 2. Risk aversion flared up on January 3 after the US unexpectedly assassinated an Iranian military commander. The pair fell to the lower-$1.11 mark for a time, but with the greenback being sold on some weak US indicators, the pair rallied to close the week trading at the mid-$1.11 mark.

2. Outlook for This Month

The euro/dollar pair looks set to move firmly in January.

The ECB Governing Council decided to keep policy fixed last month at its first meeting with Christine Lagarde as president. Though the meeting lacked surprises, many members criticized negative interest rates and other accommodative policies, with the ECB announcing it would conduct a strategic review running up until the end of 2020, the first such review since 2003. The review will begin in June and will conclude within the year. The current inflation target of around 2% was set at the last review in 2003, with attention likely to focus on this debate this time around too. As such, the January 23 ECB Governing Council meeting is likely to be a non-event with no surprises. Meanwhile, Europe's economic fundamentals had shown signs of slowing on the US/China trade war and so on. Though uncertainty regarding external factors is clearing up, there are still no signs of an economic upswing in Europe. Some say this is due in large part to sluggish automobile production compared to other regions, with growth remaining slow on tougher restrictions on CO_2 emissions (particularly in Germany and Italy) and an end to a tax break on automobiles in China, for example. Though the details are unclear, the US and China will probably sign a phase one agreement this month, though this is probably not lead to a sudden bounce in automobile demand. There is also the lingering risk that the US might slap tariffs on EU cars. As such, the automobile industry and Europe's economy as a whole will probably recover at a sluggish pace going forward. As mentioned above, it seems a direction is unlikely to emerge from factors emanating from the eurozone, so the euro/dollar pair will probably continue to be swayed by headlines in other countries and regions. Tensions are rising in the Middle East, but a fully-fledged war between the US and Iran is unlikely if the past is any guide. Even if war does break out, this will probably be contained in the Middle East and the Gulf region without spreading to the rest of the world, so risk aversion is unlikely to last into the long term. Under these circumstances, though investors will find it hard to actively buy the euro, risk sentiments will probably improve, with the euro likely to trade firmly against the dollar.

Dealers' Market Forecast

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

Bullish on the euro	10 bulls	1.1050 – 1.1250	Bearish on the euro	11 bears	1.1000 – 1.1250

* Ranges are central values

Tanaka	Bear	1.1000 – 1.1250	The euro/dollar pair will probably move skittishly on the situation in the Middle East and trends related to Brexit (with the deadline looming at the end of the month). The Middle East problem concerns the US, while a hard Brexit seems unlikely. The gap between economic sentiments in the US and Europe is also nothing new. As such, the pair is expected to move with a lack of direction this month.
Takeuchi	Bull	1.1050 – 1.1250	German manufacturing remains in the doldrums, with automobile sales markedly slowing on the ending of a Chinese tax break and the introduction of emissions regulations in Europe. However, the markets have already factored in a slowdown to a large extent and there are hopes for a cyclical recovery from here on.
Tsutsui	Bear	1.0800 – 1.1250	The European economy is moving weakly compared to the firm US economy, so this month will probably see the start of some asset allocation moves. The trend of euro selling and dollar buying will begin again, with investors set to test the euro/dollar pair's downside. The markets will still find it hard to price in fiscal mobilization.
Kato	Bear	1.0800 – 1.1300	Though the European economy is showing signs of bottoming out, it is still moving weakly compared to the US economy, so there will probably be some speculative euro selling in January too.
Seki	Bear	1.1000 – 1.1250	Investors are starting to become aware of the damage caused by negative interest rates in the eurozone, but any monetary policy changes are unlikely for now under the new regime of Christine Lagarde. In light of the weak fundamentals and the euro bullishness seen at the end of December, it seems the euro/dollar pair will undergo some adjustment at the start of the year.
Mitsuishi	Bear	1.0900 – 1.1300	There are signs that the European economy is bottoming out, though the real economy remains weak. There remain a considerable of number of Brexit-related issues too, including the transitional period, so the euro/dollar pair looks set to move with a heavy topside.
Yamagishi	Bull	1.1100 – 1.1250	Sweden has scrapped negative interest rates for the first time in five years. This has led to speculation about a similar move by the ECB, with the benchmark yield on 10-year German government bonds rising to a 7-month high at the end of 2019. The euro will probably be bought on shrinking European/US interest-rate differentials.
Tasaka	Bear	1.1050 – 1.1250	The euro/dollar pair will be supported for a time by falling US interest rates and dollar selling on rising geopolitical risk. However, the euro continues to face a number of selling factors too, including an economic slowdown in Europe's core nations and political risk in the periphery nations. As such, the euro/dollar pair looks set to continue trading with a heavy topside.
Omi	Bull	1.1070 – 1.1280	The euro/dollar pair will be weighed down as the cross yen weakens on geopolitical risk. There remains a dearth of factors specific to the euro, but with the risk of a no-deal Brexit also decreasing, the pair's room on the downside will also be capped.
Ueno	Bull	1.1050 – 1.1300	The markets have finished pricing in the weakness of the economy. Unless the economy slows further or there is a shift in monetary policy, the impact on euro trends will be muted. The Brexit issue has been assimilated and there will be considerable demand for refuge when the situation deteriorates in the Middle East of other risk events occur.

Okamoto	Bull	1.1000 – 1.1300	Though political risk is falling, German and other European fundamentals are yet to show signs of recovery. However, the situation in the Middle East is gradually regaining composure. With the US and China set to sign a phase one agreement, sentiments will also improve once this event and others are out of the way. This will also support the euro/dollar pair's downside.
Onozaki	Bull	1.1000 – 1.1200	Investors will need to monitor the risk of a no-deal Brexit in 2020, but with attention focused on the US and China, it seems the UK is unlikely to become a major factor. As such, euro-selling pressure will be muted for now. With risk smoldering away, though, it is also hard to imagine investors actively testing the euro/dollar pair's topside.
Tamai	Bear	1.0950 – 1.1250	The eurozone economy remains weak, while geopolitical risk is also rising on deteriorating relations between the US and Iran, so the euro will probably be sold this month. There will some adjustive selling, with the euro/dollar pair's December gains pared back.
Harada	Bull	1.1000 – 1.1250	Europe faces a number of political risks related to Brexit and so on. With the economy also slowing, there is considerable uncertainty about the direction of the euro. Concerns of a hard Brexit are easing on the results of the UK general election, so the euro/dollar pair's downside will probably grow firmer from here on.
Oba	Bull	1.1050 – 1.1250	Concerns about a UK economic slowdown have grown since the UK released a worse-than-expected construction PMI for December. As such, the euro was sold on a bearish pound at the start of the year. However, Brexit concerns have also eased since the UK general election, so it seems investors will continue to look for buying opportunities.
Takamura	Bear	1.1000 – 1.1250	The ECB will probably keep monetary policy fixed for a time under the new regime of Christine Lagarde. The Brexit issue is unlikely to prove much of a factor until fully-fledged negotiations between the UK and EU commence. Rather than being pulled along by the euro, the euro/dollar pair will probably trade with a heavy topside as the dollar moves bullishly on the firm US economy.
Matsumoto	Bear	1.1100 – 1.1250	Political risk related to Brexit and so on continues to smolder away, with the economies of Germany and the rest of Europe remaining weak. Monetary policy is unlikely to change any time soon, so the euro/dollar pair will probably move bearishly. The pair is expected to be swayed by the movements of the dollar and other currencies apart from the euro itself.
Itsumi	Bear	1.0800 – 1.1250	The euro/dollar pair will continue to be weighed down by the sluggish European economy and concerns about a no-deal Brexit. Though expectations are muted when it comes to financial and fiscal policy, the dollar will probably be bought on the firmness of the US economy and hopes for progress in US/China trade talks.
Otani	Bear	1.1050 – 1.1300	With the ruling Conservative Party gaining a majority in the UK general election, fears of a hard Brexit have eased. This will probably wane as a factor going forward. The euro/dollar pair is expected to move firmly on the movements of the euro/yen pair following the signing of a US/China trade agreement.
Tanishiki	Bear	1.1000 – 1.1250	Fears of a hard Brexit have eased on the results of the UK general election, so the room on the euro/dollar pair's downside will be capped. Attention will focus on whether the new ECB president Christine Lagarde actually starts to change monetary policy.
Okuma	Bear	1.1050 – 1.1250	President Trump has made some positive noises about a next-phase talk on US/China trade issue. Uncertainty is smoldering away with regards to the Middle East, but if sentiments improve on hopes for progress in US/China trade negotiations, the euro/dollar pair will probably move firmly.

Ko Nagai, Europe Treasury Department

British Pound – January 2020

Expected Ranges	**Against the US$:**	**US$1.2800–1.3500**
	Against the yen:	**JPY138.00–146.00**

1. Review of the Previous Month

The pound/dollar pair swung to and fro in December. It was swayed by opinion polls related to the general election at the start of the month. Though there were some discrepancies in the results of different polling firms, on the whole it still seemed the Conservative Party would win. As a result, the pound was bought and the pair edged upwards after starting the month trading at a monthly low of $1.2897 on December 2.

On December 10, one UK polling firm released its projection for the UK general election. The same firm has made the most accurate prediction during the 2017 general election, so when its projection showed the Conservative Party's lead shrinking compared to another poll the firm carried out on November 27, the pound fell for a time, though it was soon bought back on December 11. The UK general election was held on December 12. Exit polls released later that night showed the Tories winning a majority, so sterling soared and the pound/dollar pair hit a monthly high of $1.3516. The pound rose over 3.5% against the dollar, just under 2.8% against the euro and more than 3.7% against the yen after the results were released.

However, the pound soon began falling on December 17. This was due to renewed uncertainty about the likelihood of the UK signing a free trade agreement with the EU after UK prime minister Boris Johnson said the Brexit deadline would not be extended beyond the end of 2020. The Bank of England (BOE)'s Monetary Policy Committee (MPC) met on December 19. As expected, it kept the policy rate fixed at 0.75% and its target for government bond and corporate bond purchases at GBP 435 billion and GBP 10 billion, respectively. Investors focused on the policy rate vote, but this was also unchanged on the previous meeting, with Michael Saunders and Jonathan Haskel voting for a 25bp rate cut. This was as expected, but coming as it did after Mr. Johnson's comments on December 17, the meeting was met with concerns about uncertainty, so the pound continued to fall. During the afternoon of the same day, the UK House of Commons passed the EU Withdrawal Agreement Bill (WAB) by a huge 358 votes to 234. The vote itself was nailed on after the results of the general election, but it nonetheless spurred on further pound bearishness. The pound/dollar pair dipped to the $1.31 range, thus losing its post-election gains.

On December 20, it was announced that Andrew Bailey, head of the UK's Financial Conduct Authority (FCA), had been appointed as the next governor of the BOE (starting from Monday, March

16, 2020), though the impact on the markets was muted. Mr. Bailey had worked at the BOE for about 30 years and had also served as deputy governor, but he had not had many opportunities to comment on monetary policy in the past and it was unclear whether he was hawkish or dovish, so it was difficult for investors to gauge a direction for monetary policy of the BOE from this appointment. Trading was very thin from December 23 as momentum slowed on the Christmas and New Year holidays. Amid a dearth of buying factors, the pound was gradually sold. The situation remained uncertain and the pound/dollar pair closed the month trading around $1.32.

2. Outlook for This Month

The pound/dollar pair will trade in a range overall in January, though investors should be on guard against downside risk.

The immediate focus will be on the Brexit deadline looming on Friday, January 31, 2020. The Withdrawal Bill already passed its second reading in the House of Commons on December 19, so it seems certain to pass through the House of Commons at the start of the year before being approved in the House of Lords, with the UK leaving the EU on January 31. Market participants have been pricing in this scenario since the results of the December general election became clear, so the impact on the pound will probably be negligible. The transitional period will begin on Saturday, February 1, with the government aiming to end the transition by Thursday, December 31. The focus during this transitional period will fall on the negotiations between the UK and EU about a free trade agreement (FTA), but these negotiations look set to commence from March this year, so this theme will not impact the pound much in January. As such, attention could fall instead on economic sentiments in the UK.

Since the 2016 referendum, the debate has focused on the Brexit issue, with sentiments worsening on uncertainty about the future. This tendency is clearly visible in the PMI results. The Manufacturing PMI has continued to move below 50 (the key line dividing expansion from contraction) since May 2019. The Services PMI had also swung to and from around 50, though it has moved below 50 for two straight months since November 2019. January's Manufacturing and Services PMIs will be released on Thursday, January 2 and Monday, January 6, respectively (the Manufacturing PMI had already been released at the time of writing), but with the December election out of the way, attention will focus on whether the January PMIs will be bolstered by a decline in uncertainty. The markets have priced in an improvement in sentiments to a certain extent, but with the FTA negotiations yet to commence, sentiments could still be hit by uncertainty, with the PMIs moving weakly as a result, so caution will be needed. In other words, the pound/dollar pair's room on the topside will be capped for now, with the pair also facing downside risk.

The BOE's MPC will be meeting on Thursday, January 30. At the last meeting, the BOE said both rate hikes and rate cuts were on the table, but the situation has not really changed since December last year (UK/EU FTA negotiations have yet to commence), so the BOE will probably adopt the same stance this month. For the same reason, the two members who voted for a rate cut at the last meeting (Michael

Saunders and Jonathan Haskel) will probably do so at this month's meeting too. Depending on the results of the PMIs and other indicators released in January, other members might shift their stances, so caution will be needed.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – January 2020

Expected Ranges	Against the US$:	US$0.6800–0.7050
	Against the yen:	JPY74.40–76.90

1. Review of the Previous Month

In December, the AUD/USD pair rose from the mid-$0.67 mark to the lower-$0.70 range.

China's manufacturing and non-manufacturing PMIs were released at the end of November and they both topped 50, with the Australian dollar subsequently being bought when trading began on December 2. This trend continued and the pair soared to $0.6820 as US stocks fell after US Secretary of Commerce Wilbur Ross said the US might hike tariffs on Chinese goods again if no agreement was reached. As expected, the Reserve Bank of Australia (RBA) kept the cash rate fixed when it met on December 3. The accompanying statement struck an optimistic tone overall, so the pair climbed to the mid-$0.68 level. The Australian 3Q GDP data was released on December 4 and it fell on the previous quarter, so the pair dipped to the lower-$0.68 level for a time, though it then rallied to the mid-$0.68 level on positive news regarding US/China trade talks. Australia released some worse-than-expected October trade balance figures and retail sales data on December 5, so the pair temporarily fell to $0.6830.

On December 10, the pair rose slightly on the better-than-expected result of the Australian 3Q House Price Index, though it soon dipped back. The FOMC kept interest rates fixed when it met on December 11, though its statement struck an optimistic tone regarding the economy, so the greenback was sold against other currencies, with the AUD/USD pair also bought to $0.6880. It then climbed to the $0.69 range on December 12 on optimism regarding a US/China trade agreement. News emerged on December 13 that President Trump had approved a phase one agreement with China. With exit polls also suggesting the ruling Conservative Party had won the UK general election, the pair rose on risk appetite to temporarily hit $0.6939 for the first time since July. However, with President Trump saying he would keep a 25% tariff rate on $250 billion of Chinese goods, the pair was sold back to $0.6860.

On December 17, the RBA released the minutes to its December board meeting. This confirmed that the RBA would review its economic outlook when it met in February 2020, with the minutes also reconfirming that the RBA was prepared to introduce further easing as needed to push employment and inflation closer to the RBA's targets. All this led to speculation about rate cuts from 2020, with the pair then tumbling to $0.6850. Australia's closely-watched employment data for November was released on December 19. The number of full-time and part-time jobs both recorded positive growth after having contracted the previous month, with the unemployment rate also improving from 5.3% to 5.2%. This saw bets on a February rate cut falling from 59% to 39% in the interest rate futures market, with the

AUD/USD pair bought to $0.6880. The US personal income data for November was released on December 20, with income up significantly more than expected. With positive news also emerging with regards to US/China negotiations, the pair rose to the $0.69 range as investors tested its topside. Trading tapered off thereafter in the run up to the Christmas and New Year holidays, with US stocks renewing record highs on consecutive days on hopes regarding a US/China trade agreement. The Australian dollar was bought and the pair rose above $0.7000 on December 31.

2. Outlook for This Month

The AUD/USD pair is expected to move firmly in January.

Global risk sentiments improved sharply from the latter half of December on hopes for a 'phase one' US/China agreement and on a ruling party victory in the UK general election. A Christmas rally also saw major US stocks renewing record highs on consecutive days. President Trump has tweeted that a phase one agreement between the US and China will be formally signed at the Whitehouse on January 15, so it seems this agreement will become reality.

Australia's 3Q GDP result (released in December) was down on the previous quarter. With the October trade balance and retail sales data also swinging lower, the currency pair's topside was held down as expectations for a rate cut grew at the start of December. However, Australia then released some bullish employment data for November, so moves to factor in rate cuts waned again in the latter half of the month. Australia's unemployment rate had worsened from 5.2% in September to 5.3% in October, so attention was focused on the November result. In the end, the rate improved to 5.2%, so a sense of relief swept the markets. Bets on a February rate cut had risen to around 60% in the interest rate futures market before the announcement of the employment data, but they have now fallen to 39%.

Meanwhile, the RBA board will be reviewing it economic outlook when it meets in February, so investors will be monitoring January's Australian indicators to gauge the direction of the review. The pair's downside might be tested if the Australian dollar is sold on fund inflows into the US or if Australia releases some bearish indicators for January.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – January 2020

Expected Ranges **Against the US$: C$1.2800–1.3300**
Against the yen: JPY82.00–85.00

1. Review of the Previous Month

The USD/CAD pair opened the month trading at C$1.3295 in December. Recessionary concerns then faded as the US and China reached a trade agreement, for example. December was a month of Canadian-dollar bullishness.

Concerns about stormy US/China trade talks had flared up again at the end of November on the passing of the Hong Kong Human Rights and Democracy Act. The US then passed the Uyghur Human Rights Policy Act on December 2. With the US also announcing the restoration of tariffs on steel and aluminum exports from Brazil and Argentina, risk aversion intensified. The USD/CAD paired edged up from the upper-C$1.32 mark to the lower-C$1.33 level.

As expected, the Bank of Canada (BOC) kept the policy rate fixed at 1.75% at the monetary policy meeting on December 4. However, the accompanying statement mentioned signs of a global economic recovery and the firmness of the Canadian economy. Some market participants had expected the statement to drop hints about a rate cut in the near future, so this hawkish release was actually met with Canadian-dollar buying, with the currency pair temporarily hitting C$1.3159. The Canadian November employment data was released on December 6. The net change in employment figure was down for the second straight month to dip by 71,200 people. This was also down on expectations for a rise in the region of 10,000. However, the November US nonfarm payrolls change was sharply up on expectations, with the unemployment rate also dipping. The Canadian dollar was sold for a time, with the USD/CAD pair soaring to C$1.3270. Crude oil prices (WTI) then rose to $59.20/barrel on news that OPEC and OPEC Plus had agreed to coordinate petroleum production cuts. A provisional agreement was also reached with regards to the United States-Mexico-Canada Agreement (USMCA). With the Canadian economy moving bearishly, though, the Canadian dollar's rise was capped. As expected, the US FOMC kept interest rates fixed when it met on December 11. The accompanying statement suggests the FOMC would refrains from rate hikes for the whole of 2020, so US interest rates fell and the dollar was sold.

The ruling Conservative Party won the UK general election on December 12. This alleviated uncertainty about Brexit, with market hopes growing for a recommencement of investment between the UK and EU. Reports also said President Trump had approved a phase one trade agreement between the US and China, though the details of the deal were unclear. As part of the agreement, the December 15 tariff hike on Chinese goods was postponed. Canada then released some worse-than-expected October

manufacturing sales and retail sales data, with the Canadian dollar sold to C$1.3185. However, the Canadian unit continued to move bullishly toward the end of month on fading recessionary concerns, rising crude oil prices (WTI), and a strong Canadian consumer price index for November. All this saw the pair dipping below the key C$1.3 mark on December 31 for the first time since October 2018.

2. Outlook for This Month

The BOC kept the policy rate fixed at 1.75% when it met in December. With global manufacturing moving sluggishly on US/China trade frictions and with several countries cutting rates on concerns about an economic slowdown, the BOC kept the policy rate fixed on the firmness of the Canadian economy. Other Canadian indicators released in December were generally bearish in tone. A particularly big surprise was struck when the employment data fell sharply below expectations.

After cutting rates three times in 2019, the US economy is now being supported by firm employment and consumer spending. However, the Manufacturing Activity heading of the US November Manufacturing ISM Report on Business has fallen for four straight months. Manufacturing has not bounced back from this slump, so although the US trade deficit has shrunk, imports and exports have both fallen. Retail sales have dipped in the eurozone, while manufacturing remains in the doldrums. As with the US, most observers believe Canada will keep policy rates fixed throughout 2020, with the BOC expected to maintain the status quo at the monetary policy meeting held on January 22. If an intensification of US/China trade frictions is avoided in the run up to the US presidential election and the easing policies of each nation start to bear fruit, the Canadian economic indicators will also recover gradually. Canada's population surged in the fourth quarter last year on an influx of immigrants and non-residents. The population growth rate hit its highest level since 1990. This will probably have a buoyant impact on the housing and labor markets and will likely support economic growth from here on. The dip in Canada's GDP data in October was due to transitory factors such as strikes in the US automobile industry, so there is considerable optimism that growth will top 2% again in the first quarter. With the US and China set to sign an agreement in January, attention will be focused on whether risk appetite continues into 2020. With investors monitoring for signs on improvement in Canadian economic indicators, they will also need to pay attention to speeches by BOC senior deputy governor Carolyn Wilkins and BOC governor Stephen Poloz at the start of the month, particularly in light of the recent Canadian-dollar bullishness. The January 13 release of the Business Outlook Survey will also require attention.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – January 2020

Expected Ranges	Against the US$:	KRW1,140–1,190
	Against the yen:	JPY9.091–9.615 (KRW100)
		(KRW10.400–11.000)

1. Review of the Previous Month

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

It opened the month trading at KRW1181.00. It then rose as overseas investors continued to sell on balance in South Korean stock markets. Sentiments also deteriorated during overseas trading time after President Trump said he would slap tariff hikes on steel and aluminum exports from two South American countries. The markets also reacted badly when President Trump commented during overseas trading time on December 3 that a US/China trade deal might have to wait until after the US presidential election. As a result, the pair hit a monthly high of KRW1195.80 on December 4. However, several reports and comments by high-ranking figures roused optimism about US/China trade talks, so the pair's topside was capped.

Investors focused on numerous factors in the week beginning December 9, including the FOMC and ECB Governing Council meetings, the UK general election, and the December deadline for the hiking of US tariffs on Chinese goods. Nonetheless, the pair moved flatly until the middle of the week. Sentiments improved sharply and the won was bought during overseas trading time on December 12 on reports that the US and China had reached a 'phase one agreement.'

Market movement was muted for a time in the run up to Christmas and the New Year, but real-demand won buying continued, so the pair's level edged lower. It hit a monthly low of KRW1155.50 on December 30 before closing at KRW1156.40.

2. Outlook for This Month

The USD/KRW pair is expected to move flatly in January.

It fell at a faster pace in December after the US and China reached a phase one trade agreement, etc. On the technical front, the pair has clearly dropped below its 50-day, 100-day and 200-day moving averages, with investors now testing the key level around KRW1150. One key point this month will be whether it breaks below this key mark or bounces back. As outlined below, though, the factors prevailing at the moment are all best viewed through a longer-term lens. Despite the emergence of various reports, the factors are unlikely to reach any definitive conclusion this month, so the pair will probably move

flatly overall.

The first thing to focus on right now are sentiments. President Trump has said the US and China will sign a phase one agreement on January 15. Market participants will be monitoring whether the agreement is actually signed. They will also be paying attention to the contents of the agreement and the likelihood that phase two negotiations will commence. Meanwhile, North Korea's Workers' Party Central Committee held a rare 4-day meeting recently. The contents of the meeting have been subject to several rumors and the situation will require monitoring from here on. As mentioned above, though, this factor is a slightly long-term issue and it is not likely to impact the pair much in the short term.

With South Korean parliamentary elections looming in April, there have also been whispers about a BOK rate cut. Market participants have already considered this possibility, though, so even if some concrete news in this area emerges, even if it causes some minor ripples, it probably will not have a major impact on the currency pair.

Based on the above, it seems the pair will continue to be swayed by sentiments in January. It is unlikely to incline in any one direction and will probably move flatly throughout the month.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – January 2020

Expected Ranges	Against the US$:	NT$29.80–30.50
	Against the yen:	JPY3.55–3.70

1. Review of the Previous Month

The USD/TWD pair's movements in December were markets by U.S.-dollar bearishness and Taiwan-dollar bullishness.

After opening the month trading at TWD30.530 on December 2, the pair jostled up and down on headlines related to US/China trade talks, with President Trump suggesting a deal might have to wait until the US presidential elections, for example. There was no concrete progress, though, so the pair moved without a sense of direction and it continued trading in a narrow range between TWD30.461–30.540 toward December 11.

As expected, the FOMC kept monetary policy unchanged when it met during overseas trading time on December 11. In the subsequent press conference, though, FRB chair Jerome Powell said a broad and sustainable rise in the inflation rate would be needed before the FRB hiked rates. This seemed to rule out rate hikes for a time, so the greenback moved bearishly. The trend of US-dollar bearishness and Taiwan-dollar bullishness continued in Taiwanese markets on December 12, with the pair temporarily falling to TWD30.315. President Trump then said the US and China were very close to signing a deal, so it seemed the December 15 tariff hike on Chinese goods would be avoided. As risk appetite grew, the currency pair fall to the TWD30.1 range on the Taiwan dollar's strength.

Stocks moved firmly and funds continued to flow into Taiwanese markets in the latter half of January on hopes regarding a phase one agreement between the US and China. The greenback was sold and the Taiwan dollar bought, but the pair kept surging toward the close of trading on each business day, so the pair's room on the downside was always capped at the end of the day. Exporters sold the greenback at a faster pace toward the month's end, so the pair hit a low of TWD30.011 during trading, though it recovered to close at TWD30.1.

The Central Bank of the Republic of China (Taiwan) held its quarterly monetary policy meeting in Taiwan on December 19, though the policy rate was left unchanged for the 14th straight meeting, so the impact on the pair was minimal.

2. Outlook for This Month

The USD/TWD pair's movements will continue to be marked by US dollar bearishness and Taiwan

dollar bullishness in January.

A glance at the economic indicators released in December shows the export amount rising by +3.3% y-o-y. This represented the first growth in three months and it was also up on the market forecast for +1.1 y-o-y. The breakdown shows key exports of electronic parts hitting +10.1% y-o-y, with exports of IT and telecommunication products to the US also growing by an impressive +22.7%. These results covered for a slump in other products and they pulled the overall data up. However, the December imposition of further US tariffs on Chinese goods was looming on the horizon in November, so these figures may be due to a rush of demand before the tariff hike. As such, it is unclear whether this growth will continue going forward. The overall CPI data for November was up slightly on the previous month, from +0.38% y-o-y to +0.59% y-o-y, while the core CPI data (excluding volatile fresh food prices) fell slightly on the previous month at +0.55% y-o-y. This indicated that the inflation rate had not shifted substantially.

Overseas factors to watch out for in January include the release of several important US economic indicators, President Trump's impeachment proceedings, and Brexit (with the deadline looming on January 31). The US/China phase one trade agreement is not expected to cause major waves, but if a formal signing schedule is finalized, this could prompt risk appetite, with the Taiwan dollar pushed upward as a result.

As for Taiwanese factors, attention will focus on the Taiwan presidential election, with voting opening on January 11. Recent opinion polls give President Tsai Ing-wen of the ruling Democratic Progressive Party (DPP) a 50% approval rating. This gives him a clear lead over Han Kuo-yu, the candidate for the main opposition Kuomintang party. However, some have also said the DPP could lose its simple majority in the parliamentary elections held at the same time. If this happens, it might grow harder to enact policy swiftly. These concerns could see stocks falling and the Taiwan dollar weakening, so caution will be needed.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – January 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7800–7.8200**
	Against the yen:	**JPY 13.80–14.20**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in December

In December, the U.S. dollar/Hong Kong dollar exchange rate rose sharply from the HKD 7.83 level to HKD 7.7828—the highest level in five months—as the interest differentials between the Hong Kong dollar and the U.S. dollar increased while the situation of the protests in Hong Kong was mitigated. At the Hong Kong legislative election, the pro-democracy candidate saw a remarkable, victory and the *Hong Kong Human Rights and Democracy Act* became effective in the U.S., after which the protests in Hong Kong peaked out. As the situation of the protests became less intensive, concerns over capital outflow were mitigated and Hong Kong stock prices rallied after a decline, thanks to capital inflow. From the point of view of carry trade, the interest rate differentials widened between the Hong Kong dollar and the U.S. dollar after the preemptive interest rate cut of 75 basis points by the Federal Reserve Board (FRB)—this also supported the Hong Kong dollar. On the other hand, as the Hong Kong dollar rallied, the one-year Hong Kong dollar forward points continued rising, reaching approximately +150 points. It should be pointed out, however, that the Hong Kong economy is expected to continue slowing down in the times ahead, and the Financial Secretary of Hong Kong released an outlook that the economy would continue declining in the fourth quarter.

Hong Kong dollar interest rate market in December

In December, the Hong Kong dollar short-term interest rates rose sharply as a result of high capital demand at the end of the year as well as due to active IPOs, and the one-week Hong Kong dollar HIBOR rose substantially to 3.95%—the highest level in 11 years. As the liquidity level in the Hong Kong dollar market declined, the one-month and three-month Hong Kong dollar HIBOR rose to 2.7% and 2.4%, respectively. Even though the FRB did not change the policy interest rate in December, the interest rate differentials between the Hong Kong dollar and the U.S. dollar widened, and the interest rate differentials for the one-month and three-month rates reached approximately 90 basis points and approximately 50 basis points, respectively.

The Hong Kong dollar long-term interest rates reflected the globally declining trend of monetary easing after the first phase of the U.S.-China trade deal. As a result, the three-year and five-year Hong Kong dollar interest rate swap rates rose to approach 2.0%.

Hong Kong stock market in December

The benchmark Hang Seng Index rallied toward the end of the year after a period of dullness, thanks to the improvement of the situation of the protests in Hong Kong. Furthermore, thanks to the first phase of the U.S.-China trade deal, the Hang Seng Index rose to the 28,000 level.

2. Outlook for This Month

Hong Kong dollar spot exchange market in January

In January, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within a range between HKD 7.78 and HKD 7.82. While the interest rate differentials between the Hong Kong dollar and the U.S. dollar are likely to support the Hong Kong dollar, it is possible for the decline of the Hong Kong stock market to keep the Hong Kong dollar from appreciating. On the other hand, due to the trade frictions between the U.S. and China, there are risks for Chinese companies to be unlisted from stock exchanges in the U.S. This might encourage Chinese companies to become listed in the Hong Kong market, keeping IPOs in the Hong Kong stock exchange active. Demand for the Hong Kong dollar related to these activities is likely to encourage market participants to continue buying the Hong Kong dollar in the times ahead.

Hong Kong is likely to maintain the U.S. dollar peg system, as there is no better alternative. Even though the Hong Kong government is expected to record a fiscal deficit for the first time in 15 years, the exchange fund that amounts to approximately HKD 4.2 trillion would be sufficient to cover the monetary base, which is around HKD 166 billion, demonstrating the stability of the U.S. dollar peg system.

Hong Kong dollar interest rate market in January

The Hong Kong dollar short-term interest rates are forecast to fall after digesting seasonal demand to procure the Hong Kong dollar as observed at the end of the year. However, given that IPOs remain active and Hong Kong dollar liquidity level is low, the fall of the Hong Kong dollar interest rates is likely to be limited. As Hong Kong protests started to ease, the Hong Kong dollar is expected to move away from the HKD 7.85 level—the upper end of the fluctuation band—making it difficult for interest rates to rise based on capital outflow. Furthermore, from a short-term perspective, it is unlikely for the interest rate differentials between the Hong Kong dollar and the U.S. dollar to be reversed. Commercial banks in Hong Kong have not cut the prime rate, while the FRB cut interest rates. The Hong Kong dollar interest rates are thus considered to have already hit bottom. It should also be mentioned that the FRB has stopped cutting interest rates for the moment, but it is ready to start cutting interest rates again if the U.S. economy declines. Monetary easing by the FRB would make it difficult for the interest rate differentials between the Hong Kong dollar and the U.S dollar to narrow.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – January 2020

Expected Ranges	**Against the US$:**	**CNY 6.8500–7.1000**
	Against the yen:	**JPY 14.93–16.20**
	Against 100 yen:	**CNY 6.1700–6.7000**

1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan exchange rate fell based on the progress in the trade talks between the U.S. and China.

At the beginning of the month, China announced a ban on U.S. Navy port visits to Hong Kong, along with sanctions on NGOs, in reaction to the approval of the *Hong Kong Human Rights and Democracy Act* in the U.S. Furthermore, the media reported that the U.S. House of Representatives had approved the *Uyghur Human Rights Policy Act*, in reaction to which market participants sold the Chinese yuan, and the U.S. dollar/Chinese yuan exchange rate rose to temporarily reach the HKD 7.07 level.

While waiting for the first-phase agreement in the trade talks between the U.S and China, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range at around HKD 7.04. Thereafter, the media reported on December 12 (CST) that the two countries had almost reached an agreement and that the agreement was only waiting for the signature of U.S. President Donald Trump, which led the U.S. dollar/Chinese yuan exchange rate go fall significantly. The U.S. dollar/Chinese yuan exchange rate fell temporarily to the CNY 6.92 level in the offshore market. However, on December 13, the following day, the U.S. dollar/Chinese yuan onshore market opened trading at around CNY 6.96, following the benchmark U.S. dollar/Chinese yuan rate set out by the PBOC with a weaker Chinese yuan. Furthermore, the first-phase trade deal did not demonstrate as much progress as expected, leaving some sense of uncertainty regarding effect, efficiency, and how further progress would be made in the second phase. As a consequence, the U.S. dollar/Chinese yuan soon returned halfway from its lowest level, reaching the CNY 7 level.

On December 20, the media reported that U.S. President Donald Trump and Chinese President Xi Jinping had telephone dialogue. However, there was no new progress in the relation between the two countries, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range at around CNY 7.0. On December 25, the exchange rate fell temporarily, as the liquidity level was low due to the Christmas holiday. However, in the end, the U.S. dollar/Chinese yuan exchange rate did not move significantly away from the HKD 7.0 level until the end of the month.

2. Outlook for This Month

In January, downward risks are forecast in the U.S. dollar/Chinese yuan exchange market.

Even though the U.S. and China did reach the first-phase trade deal, market participants are not seeing this with an entirely optimistic sentiment. This is reflected in the movement of the U.S. dollar/Chinese yuan exchange rate, which returned immediately to the CNY 7.0 level on the day after the announcement of the trade deal that resulted in the significant appreciation of the Chinese yuan. The USTR only announced a rough outline in its statement, leaving a sense of uncertainty about effectiveness and binding power. It seems that the two countries have different interpretations regarding the trade deal, given that the U.S. statements describe the deal as "binding and enforceable obligations," while the Chinese statement sees the deal as being "based on equality and mutual respect." It is thus too early to see this first-phase deal as a turning point in the trade frictions (which have lasted for almost two years) between these two countries.

However, if deals are signed and summit talks are held as has been currently announced, it would be sufficient to demonstrate healthy progress toward the next phrase outlined by the U.S. In the foreign exchange market, this can thus be a factor for the appreciation of the Chinese yuan.

Furthermore, the U.S. foreign exchange report, the release of which has been delayed, can also be a factor for the appreciation of the Chinese yuan. The foreign exchange report is released every year in April and October, but the report to be released in October has not yet been released. Market participants should remember that the previous report that was to be released in April was also delayed, after which, in August, China was nominated as a currency manipulator. It could be the case that the report for October will be released with the signed trade deal, in exchange of which the U.S. will remove China from its list of currency manipulators. If such a thing happens, the U.S. dollar/Chinese yuan exchange rate could fall even further.

On the other hand, it is difficult to predict future development on this matter, as the U.S. and China had been repeating "opposition" and "concession" many times in the past. In January, there are some factors that could lead to "opposition" between the two countries, such as the election in Taiwan. In the times ahead, market participants will be following the situation between the U.S. and China, as has been the case so far.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – January 2020

Expected Ranges	Against the US$:	SG$ 1.3350–1.3650
	Against the yen:	JPY 79.00–81.00

1. Review of the Previous Month

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

In December, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.36 level. On December 2, the November ISM Manufacturing Report on Business was released, with a figure weaker than the previous month, falling below 50 for the fourth consecutive month. In reaction to this, the U.S. dollar weakened, and the currencies of emerging countries appreciated. On December 5, U.S. President Donald Trump made a remark that the trade negotiations between the U.S. and China had been extremely smooth, which led the emerging currencies to appreciate. Following this trend, the Singapore dollar appreciated as well.

In the week commencing on December 9, a Federal Open Market Committee (FOMC) meeting was held, in addition to the last trade talks between the U.S. and China before the due date for the imposition of the fourth customs duty as a sanction against China. At the FOMC meeting, the policy interest rate was maintained at the existing level, as had been anticipated in the market without any surprise. However, Federal Reserve Board (FRB) Chairman Jerome Powell made a remark to show his cautious attitude toward future interest rate hikes, and this weakened the U.S. dollar, leading the Singapore dollar to appreciate slightly. Furthermore, on December 13, trade talks between the U.S. and China were held, and U.S. President Donald Trump announced that the first-phase agreement had been reached with China. At the same time, he announced that the imposition of the customs duty scheduled for December 15 was postponed. In addition, regarding the Brexit deal, the media reported that the Conservative Party, the current ruling party in the U.K., was expected to win majority votes in the country's general election, and this mitigated concerns over the Brexit deals. In reaction to this, risk-taking sentiment grew in the market, and most emerging currencies appreciated. Following this trend, the Singapore dollar appreciated against the U.S. dollar to the SGD 1.350 level.

From the beginning of the month toward December 13, the Singapore dollar continued appreciating, almost without a pause. However, toward the second half of the month, there was no longer any influential factor, while concern over a hard Brexit grew again in the market. As a result, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the mid-SGD 1.35 level.

In the second half of the month, the market remained quiet, due to Christmas holidays, and the U.S.

dollar/Singapore dollar exchange rate continued fluctuating at the same level. However, toward the end of the month, the relationship between the U.S. and Iran intensified, and this weakened the U.S. dollar and strengthened the Singapore dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.35 level, and monthly trading closed at the lower-SGD 1.34 level.

2. Outlook for This Month

In January 2020, the Singapore dollar is forecast to remain strong and stable.

In December, the Singapore dollar remained strong and stable. The overall currencies of emerging countries strengthened, mainly thanks to the progress in the trade talks between the U.S. and China, as well as due to the mitigated risks of a hard Brexit. Following this trend, the Singapore dollar also strengthened.

At the moment, various geopolitical risks were mitigated. In terms of monetary policy, the FRB has made it clear that the existing interest rates would be maintained, while in emerging countries, monetary easing has been slowing down for the moment. Under such circumstances, the Singapore dollar is forecast to remain strong and stable in January, as was the case in the previous month.

It should also be mentioned that on January 2, the fourth-quarter GDP of Singapore was announced, even though the impact on the market was minimal. The result was +0.8%, showing that the economy has been expanding compared to the third quarter, which recorded +0.7%. As there has been progress in the trade talks between the U.S. and China and while there has been investment capital inflow into Singapore as a result of the worsened situation in Hong Kong, which was also mentioned in the previous month's article, the recovery of the Singapore economy has been steadily supported.

In 2019, the Singapore economy went into recession as a result of the escalated trade frictions between the U.S. and China. The GDP of Singapore fell from the +3.3% recorded in 2018 to +0.7%, barely achieving positive annual growth. In 2020, the measures of monetary easing that were actively taken in emerging countries are likely to have positive impact on the real economy, while more-concrete progress in the trade talks between the U.S. and China is likely to improve Singapore's exports. The Singapore economy is thus expected to recover compared to 2019.

It should also be mentioned that the government of Singapore is scheduled to announce an additional economic stimulus measure in the middle of February—something that market participants should carefully follow.

Hiroyuki Yamazaki, Bangkok Treasury Office

Thai Baht – January 2020

Expected Ranges	**Against the US$:**	**THB 29.30–31.00**
	Against the yen:	**JPY 3.58–3.68**

1. Review of the Previous Month

On December 2, the U.S, dollar/Thai baht exchange rate rallied. On the same day, the November CPI of Thailand was announced, and the result turned out to be strong, recording an acceleration for the first time in four months. However, the PPI recorded negative year-on-year growth for the sixth consecutive month, and the November business sentiment index announced by the Bank of Thailand also recorded a decline for the first time in two months. As a consequence, the U.S. dollar/Thai baht exchange rate rallied to the upper-THB 30.20 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained at the same level toward December 3. On December 3, the media reported that Thai Prime Minister Prayut Chan-o-cha called for U.S. dollar payment for trade settlement in order to control the appreciation of the Thai baht. However, the reaction in the U.S. dollar/Thai baht exchange market was limited. On December 4, the liquidity level fell due to Thai holidays in the following week. Also, U.S. interest rates rose with growing expectation for progress in the trade talks between the U.S. and China, which led the U.S. dollar/Thai baht exchange rate to reach its highest level in one month, approaching THB 30.40. After the weekend, the U.S. dollar/Thai baht exchange rate continued fluctuating at the mid-THB 30.30 level at the beginning of December 9. However, market sentiment worsened due to weak figures in the trade statistics of China that were released at the end of the previous week. As a result, the U.S. dollar started to depreciate gradually, following which the U.S. dollar/Thai baht exchange rate also fell to approach THB 30.30. December 10 was also a holiday in Thailand, and the U.S. dollar/Thai baht exchange rate continued fluctuating at around THB 30.30. On December 11, a Federal Open Market Committee (FOMC) meeting was held in the U.S., attracting substantial attention in the market, and the policy interest rate was maintained at the existing level—as had been anticipated in the market. The Federal Reserve Board (FRB) officials' quarterly forecasts for the policy interest rate also suggested that the rate would be maintained at the existing level in 2020. Furthermore, FRB Chair Jerome Powell made a remark regarding the interest rate hikes that the interest rates would not be raised unless inflation heats up and stays put, and this led the U.S. interest rates to fall. Following this trend, in the early morning of December 12, the U.S. dollar Thai baht exchange rate fell to the lower-THB 30.20 level. Toward the following day, the exchange rate approached its recent low at the mid-THB 30.10 level. However, the exchange rate did not fall below this level. On December 16, the following day, market participants sold the U.S. dollar even more actively, and the U.S. dollar/Thai baht exchange rate fell

again to approach THB 30.15. However, the exchange rate still did not fall below the recent low, confirming the steadiness of the support line around this level. Thus, the U.S. dollar/Thai baht exchange rate gradually rose and continued fluctuating at the THB 30.20 level. Thereafter, the market consensus was that the policy interest rate would be maintained at the existing level at the Monetary Policy Committee (MPC) meeting at the central bank of Thailand scheduled for December 18. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at around a level slightly above THB 30.20. On December 18, the MPC decided unanimously to maintain the existing monetary policy. As the outcome of the meeting was as expected, there was no significant confusion in the Thai baht exchange market, and the U.S. dollar/Thai baht exchange rate continued fluctuating within the same range. In the evening of December 19, the U.S. dollar/Thai baht exchange rate continued fluctuating at around THB 30.20. Thereafter, from December 20 toward December 25, the Thai baht intermittently appreciated against the U.S. dollar toward the mid-THB 30.10 level. On December 25, the exchange rate continued fluctuating at around THB 30.15 to the U.S. dollar. In the meantime, the November trade statistics (on a customs basis) of Thailand were released on December 23, and the decline was more significant than expected for both imports and exports. It should also be mentioned that the central bank's revision on the inflation target range from 1–4% to 1–3% was approved on December 25. The market was quiet thereafter, and the U.S. dollar/Thai baht pair continued fluctuating at the mid-THB 30.10 level until daytime on December 30. However, the exchange rate fell sharply below the THB 30 level at around the market closing at the end of the year. In reaction to this, the exchange rate fell below THB 29.90 to the U.S. dollar in the offshore market.

2. Outlook for This Month

Toward market closing at the end of December, the U.S. dollar/Thai baht exchange rate thus fell rapidly below THB 30 and continued falling below THB 29.90 during overseas trading hours. Even though the U.S. dollar/Thai baht exchange rate has currently been stable, as it fell below THB 30 once, the U.S. dollar/Thai baht exchange rate is forecast to remain at around THB 30 in reaction. The November trade statistics released in December confirmed that there has been no sign of recovery in trade both in terms of imports and exports, with negative year-on-year growth of 13.9% and 7.7%, respectively. There seems to be no positive factor in the next fiscal year and after. Because of the decline in imports, the trade surplus remains unchanged. However, exports continue declining. As the first-phase trade deal was agreed between the U.S. and China on December 13, the effect of this can be expected in the times ahead. However, the Thai economy has only seen negative impact. Therefore, Thai economic growth, which is currently expected to fall below 3%, can be revised downward, and the economic outlook for the next fiscal year might be negatively affected. Furthermore, as trade declines, domestic demand, which had been a supporting pillar for the Thai economy, has also been slowing down. Even though the CPI has recovered slightly, it is still far from reaching 1%. The decline in trade has seriously affected automobile production in Thailand—which is an important domestic industry and which is expected to

continue declining in the times ahead. Under such circumstances, 2020 can be a challenging year for the Thai economy, and, in order for the Thai baht to appreciate further, new factors are needed.

Chai Foo Khai, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – January 2020

Expected Ranges	**Against the US$:**	**MYR 4.0700–4.1500**
	Against the yen:	**JPY 25.77–27.03**
	Against 100 yen:	**MYR 3.7000–3.8800**

1. Review of the Previous Month

At the beginning of December, the U.S. dollar/Malaysian ringgit exchange rate remained high, fluctuating at around MYR 4.18, due to the sense of uncertainty in the market related to the trade talks between the U.S. and China. However, Chinese economic indices improved, while the media reported that the U.S. and China had agreed on the first-phase trade deal, and this allowed the Malaysian ringgit to appreciate against the U.S. dollar, resulting in the U.S. dollar/Malaysian ringgit exchange rate falling to the lower-MYR 4.13 level in the middle of the month. Toward the end of the month, the exchange rate continued falling based on the steady crude oil market, as well as due to monetary easing in China. In the end, the U.S. dollar/Malaysian ringgit exchange market closed at MYR 4.11 at the end of the year.

At the beginning of the month, expectations for a trade deal between the U.S. and China were overshadowed by the *Hong Kong Human Rights and Democracy Act* signed by U.S. President Donald Trump as well as the *Uyghur Human Rights Policy Act* approved at the House of Representatives in the U.S. Then, on December 4, the October trade statistics were released, recording negative growth again—albeit less significant than expected. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate remained high. However, the North Sea Brent Crude oil price rallied remarkably after the OPEC announcement of a significant reduction in oil production. Furthermore, the Chinese yuan appreciated after the announcement of China's Caixin/Markit services purchasing managers' index (PMI), which recorded its highest level in seven months. Following this trend, the fall of the U.S. dollar/Malaysian ringgit exchange rate accelerated.

On Friday, December 13, U.S. President Donald Tramp tweeted "Getting VERY close to a BIG DEAL with China. They want it, and so do we!" before the market opened in Asia. Breaking news then reported that the first-phase trade deal was only waiting for the signature of President Trump and that China was requesting the withdrawal of the additional customs duty that was to be imposed on December 15 in exchange for the guaranteed import of U.S. agricultural products. Then, on December 11, less market participants expected an interest rate hike at a Federal Open Market Committee (FOMC) meeting, and this led the U.S. dollar index to reach its lowest point in five months. On the other hand, the U.S. dollar/Malaysian ringgit exchange rate fell further to the lower-MYR 4.13 level.

New European Central Bank (ECB) Governor Christine Lagarde revised the GDP and inflation

outlook upward, while the Conservative Party of the U.K. won in the country's general election, which both mitigated the sense of uncertainty in the market. As a result, many U.S. stocks renewed their all-time high. On December 16, the November industrial production of China was announced with a result stronger than expected, while the crude oil (Brent) price recorded its highest level in three months, at USD 66.78 per barrel, encouraging market participants to buy the Malaysian ringgit. However, there were few signs of movement in the market in the middle of the month toward the second half of the month, and the U.S. dollar/Malaysian ringgit exchange rate reached a stalemate at around MYR 4.14.

However, on December 28, China announced its decision to apply the prime rate, which was introduced in August, to floating interest rate loans, and this fueled expectation for economic stimulus, leading the Malaysian ringgit to appreciate. In the end, yearly trading closed at around MYR 4.09 to the U.S. dollar. As 2019 is the year of the boar according to the Japanese zodiac calendar, and as the year of the boar is said to symbolize the concept of "motionlessness," the U.S. dollar/Malaysian ringgit exchange rate also recorded its narrowest range of annual fluctuation (MYR 4.0550–4.2288) since the discontinuation of the fixed exchange rate system in July 2005.

2. Outlook for This Month

In the new year, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.07 and MYR 4.15 in January. There are also factors of uncertainty for the Malaysian ringgit, such as the continued slowdown in exports as well as the weakening stock market. On the other hand, there are also factors to support the further appreciation of the Malaysian ringgit, such as anticipation for the Chinese economy to hit bottom as well as expectation for direct investment flow from abroad (FDI), mainly from the U.S. and China.

U.S. Secretary of the Treasury Steven Mnuchin announced that the first-phase trade deal between the U.S. and China, which has been attracting substantial attention in the market, would be signed in January. While the trade statistics of Malaysia continue to decline, Chinese economic indices have been on a recovery in the past two months. Furthermore, the imposition of the additional customs duty scheduled for December 15 was postponed, which is another positive factor, and expectations are growing for a change in trend toward recovery. With regard to foreign direct investment (FDI) for which a request has already been made, such as that from China as well, the mitigation of the trade frictions between the U.S. and China is likely to encourage investment in facility reinforcement, which was previously discouraged. Market participants should thus remain careful about the possibility for risk-taking sentiment to grow in the market, as the trade deal will be documented and signed in the times ahead.

It should also be mentioned that the domestic inflation rate (CPI) is likely to be around +0.7%, lower than the outlook released by the government in October (+0.9% year-on-year) at the end of 2019. In 2020, the current cap on the regular gasoline price might be removed, and the annual inflation rate is expected to be 1–2%. Given that the current policy interest rate is 3.00%, there is still sufficient room for interest rate cuts. On the other hand, it is seen to be difficult to maintain a GDP growth rate at the

upper 4% level unless FDI from abroad becomes more active. Malaysia's finance minister suggested the possibility of revising the financial plan for next year if the GDP growth rate in 2019 does not reach the planned level (+4.7% year-on-year). However, if the growth in investment is slow, it is also possible for the interest rate to be cut in order to support the GDP level.

A major risk factor for the Malaysian ringgit exchange market is the condition of the ruling party, which is suffering from internal conflict. Prime Minister of Malaysia Mahathir bin Mohamad has publicly announced his decision to abdicate in order to nominate Anwar Ibrahim as his successor after the APEC meeting scheduled for November (which Malaysia is hosting for the first time in 22 years). While there are many losses in a by-election, the instability of the government could be a factor for selling the Malaysian ringgit. Market participants should thus remain cautious about the future development of this situation.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – January 2020

Expected Ranges	Against the US$:	IDR 13,800–14,200
	Against 100 rupiah:	JPY 0.76–0.79
	Against the yen:	IDR 126.58–131.58

1. Review of the Previous Month

In December, the Indonesian rupiah appreciated, and the U.S. dollar/Indonesian rupiah exchange rate fell from IDR 14,100 to below IDR 13,900.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 14,100 level on December 2. On the same day, the November Consumer Price Index of Indonesia was announced, and the result was +3.0% year-on-year without a large gap from the market estimate. As there was no significant factor, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 14,100 level without moving in any direction. U.S. President Donald Trump then made a remark to emphasize that trade talks between the U.S. and China had been "extremely smooth," which ameliorated investor sentiment. As a consequence, the Indonesian rupiah appreciated on December 5, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,100. On December 6, the following day, the Indonesian rupiah appreciated against the U.S. dollar to reach the lower-IDR 14,000 level, thanks to capital inflow related to security investment by foreign investors. Then, on December 10 in the following week, the media reported that officials of the central bank of Indonesia mentioned the possibility of cutting the interest rate again, which kept the Indonesian rupiah from appreciating further.

In the middle of the month, the media reported on December 13 that the U.S. agreed to postpone the imposition of an additional customs duty against China, and this improved investor risk sentiment. As a consequence, the U.S dollar/Indonesian rupiah exchange rate fell below IDR 14,000 and the Indonesian rupiah continued appreciating against the U.S. dollar to the upper-IDR 13,900 level. However on December 16, in the following week, the November trade balance of Indonesia was announced, revealing a deficit of USD 1.33 billion, significantly larger than the market estimate. This led the U.S. dollar/Indonesian rupiah exchange rate to the lower-IDR 14,000 level again. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around IDR 14,000 without moving in any direction, as a monetary policy meeting of the central bank of Indonesia was approaching. On December 19, the central bank of Indonesia decided to maintain the seven-day reverse repo rate, the policy interest rate, at 5.00%—as had been anticipated in the market. The impact of this decision was thus limited in the Indonesian rupiah market.

At the end of the month, many market participants were on Christmas, year-end, and New Year holidays. Under such circumstances, the stock prices remained globally high and stable, including the Jakarta Stock Price Index. Following this trend, the Indonesian rupiah also remained strong. While some market participants were buying the U.S. dollar for settlement at the end of the month, the Indonesian rupiah continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 13,900 level on December 26. With expectation in the market for further progress in the trade negotiations between the U.S. and China, capital inflow from abroad continued as well. While the market remained quiet, the U.S. dollar/Indonesian rupiah exchange rate finally fell below the IDR 13,900 level on December 31, at the very end of the month. Thereafter, the Indonesian rupiah approached IDR 13,870 against the U.S. dollar, recording the highest rate since the beginning of the year. Yearly trading closed at this level.

2. Outlook for This Month

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

Last year, the Indonesian rupiah exchange market remained stable compared to the year before, with approximately one third of the fluctuation width. However, factors related to Indonesia are not favorable for the Indonesian rupiah.

As was pointed out above, the November trade balance of Indonesia released last month revealed a deficit that was much more significant than the market estimate. While exports declined sharply, imports also declined, and this expanded the trade deficit. There has been no change in the constant year-on-year decline in exports. In terms of the trade balance, it is not easy to cut the deficit in the current account balance, and this is a potential downward risk for the Indonesian rupiah.

The Indonesian rupiah remained stable last year partly thanks to foreign investors that were looking for a place of investment while interest rates generally remained low. In one year, foreign investors' holdings of Indonesian government bonds increased by nearly IDR 170 trillion. However, unlike last year, in which market participants were concerned with interest rate cuts in the U.S., it is questionable if security investment will grow to the same extent this year. While investor sentiment improved in December, foreign investor holdings of Indonesian government bonds decreased by approximately IDR 5 trillion for the first time in four months, suggesting a slowdown. Once security investment by foreign investors starts to decline, it is possible for the Indonesian rupiah to start depreciating again.

It should also be pointed out that investor sentiment could possibly be ameliorated further to encourage market participants to buy more Indonesian rupiah, depending on progress in the trade negotiations between the U.S. and China. It is unlikely for the situation to worsen dramatically, as a U.S. presidential election is scheduled this year. On the other hand, it is also unlikely for the U.S. to make significant concession to completely abolish the customs duty to dramatically improve the situation. It thus seems difficult to expect the Indonesian rupiah to appreciate further.

For the above reasons, the Indonesian rupiah is forecast to remain weak against the U.S. dollar in January. Market participants should be careful about headlines that could worsen investor sentiment, which is currently on a recovery.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – January 2020

Expected Ranges	Against the US$:	PHP 49.90–51.75
	Against the yen:	JPY 2.120–2.170

1. Review of the Previous Month

In December, the U.S. dollar/Philippine peso exchange market (onshore market) opened trading at PHP 50.85—the same level as the closing rate of the previous month.

There were many factors to encourage market participants to buy Asian currencies, such as the improvement of Chinese economic indices and the stock price rise in various Asian countries. However, many market participants chose to wait and see the progress in the trade negotiations between the U.S. and China, as well as for the situation related to the protests in Hong Kong. The pressure to buy the Philippine peso thus did not strengthen in the market. On the contrary, there were market participants buying the U.S. dollar seemingly based on actual demand, and the U.S. dollar/Philippine peso exchange market closed on December 2 by recovering to the PHP 51 level. As there were some negative remarks made by important officials concerning the trade talks between the U.S. and China, the U.S. dollar/Philippine peso pair once traded at PHP 51.15.

The trend was reversed on December 5. On the previous day, U.S. President Donald Trump, who used to expect that the trade negotiations between the U.S. and China would last long, made a remark describing the situation as extremely positive, and this encouraged market participants to buy the Philippine peso. On the same day, the November Consumer Price Index (CPI) of the Philippines was released, and the result turned out to be 1.3%—exceeding the market estimate, which was 1.2% and which also supported Philippine peso-buying. (Even though some market participants expected a policy interest rate cut before the end of the year, the CPI made it unlikely for the interest rates in the Philippines to fall in the times ahead.) In the end, the Philippine peso strengthened to reach PHP 50.765 to the U.S. dollar on December 6 (at market closing of the first week of December).

On December 6, during overseas trading hours, the November employment statistics of the U.S. were released, while Director of the National Economic Council (NEC) Larry Kudlow made a remark that President Trump would not sign a trade deal unless certain conditions are met, and this led the U.S. dollar/Philippine peso exchange market to open trading at PHP 50.83 after the weekend. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 50.70 and PHP 50.90 without moving in any direction, as the U.S. Federal Open Market Committee (FOMC) and the central bank of the Philippines (BSP) both had their meetings approaching.

After the FOMC meeting held on December 11, U.S. interest rates fell, as the interest rate outlook

for the U.S. dollar was maintained until the end of 2020, while the Federal Reserve Board (FRB) Chair Jerome Powell made a dovish remark. As a result, the U.S. dollar weakened in the foreign exchange market.

On December 12, the BSP announced its decision to maintain the policy interest rate at the existing level, which was not a surprise in the market. On the same day, during overseas trading hours, the media reported that the U.S. had cancelled the imposition of a customs duty against China scheduled for December 15, proposing a cut of the customs duty on Chinese imports worth USD 360 billion, and the U.S. and China then reached an overall agreement on the first-phase deal. In reaction to this, risk-taking sentiment strengthened in the market. As a result, in the U.S. dollar/Philippine peso exchange market on December 13, the Philippine peso was once traded at PHP 50.46 to the U.S. dollar, approaching the lowest rate since the beginning of the year (PHP 50.40 to the U.S. dollar).

After approaching its low, the U.S. dollar/Philippine peso exchange market remained quiet from December 16 without any important media reports related to the trade negotiations between the U.S. and China, while the Christmas and year-end/New Year holidays were approaching. While the exchange rate occasionally fluctuated in both directions based on actual demand, it remained within a core range between PHP 50.60–50.80 to the U.S. dollar. The yearly trading closed at PHP 50.635 to the U.S. dollar (as of 5:00 p.m. on December 27).

2. Outlook for This Month

As a result of the progress in the trade negotiations between the U.S. and China, a cyclical economic slowdown was avoided and market sentiment improved with a better economic outlook. The rise of interest rates has also been well controlled in the U.S.

In December, it would have been possible for the Philippine peso to appreciate significantly if market participants had not been so quiet due to the year-end/New Year holidays. Under such circumstances, market participants should keep an eye out for the U.S. dollar/Philippine peso exchange market at the beginning of the year, as the exchange rate could approach its low, with growing risk-taking sentiment in the market.

In 2019, the appreciation of the Philippine peso was most significant since 2012 (in terms of the comparison between the opening rate and the closing rate). While the depreciation of the Philippine peso, which continued for six years, has finally slowed down, this could have been a phase of adjustment.

This year, external factors are likely to be the main force in moving the U.S. dollar/Philippine peso exchange market, such as in the relationship between the U.S. and China, issues in Europe, and geopolitical risks in the Middle East. On the other hand, domestic factors include the twin deficits in the Philippines as well as measures of monetary easing policy taken by the BSP.

If market participants buy Asian currencies and sell the U.S. dollar in the overall foreign exchange market, the Philippine peso would follow the trend and appreciate. However, there are no conditions that present a favorable environment for market participants to actively buy the Philippine peso in terms

of the trade balance, as the trade deficit is expected to increase in the time ahead. (However, there is a factor for the appreciation of the Philippine peso in that the October remittances by overseas Filipino workers turned out to be USD 2.67 billion with positive year-on-year growth of 8%, exceeding the market estimate of USD 2.59 billion.)

As was discussed above, the BSP decided at its monetary policy committee meeting held in December to maintain its policy interest rate for the peso at 4%. It is almost certain that the BSP will continue taking measures of monetary easing this year.

The BSP has also announced that the inflation rate in 2020 was 2.9%. Thus, the inflation rate is likely to be within the inflation target range (2–4%). Governor of the BSP Benjamin Diokno made a remark that the interest rate would be cut twice.

It is also possible for the reserve requirement ratio for the balance of bank deposits to be cut further.

If the trade talks between the U.S. and China turn out to be successful and if U.S. interest rates continue rising, it is likely that demand for buying the U.S. dollar will grow. Philippine peso-buying is thus expected to be temporary, and the U.S. dollar/Philippine peso exchange rate is forecast to remain high.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – January 2020

Expected Ranges	Against the US$:	INR 69.50–73.00
	Against the yen:	JPY 1.48–1.56

1. Review of the Previous Month

In December, the U.S. dollar/Indian rupee exchange rate fell before rallying slightly.

After the market closing in the previous month, the July–September quarter GDP of India was announced, and the result turned out to be 4.5%—recording the lowest growth rate since the January–March quarter in 2013. However, as this had been anticipated, the impact on the foreign exchange market was limited. The U.S. dollar/Indian rupee exchange market thus opened trading in December at INR 71.78, after which the exchange rate reached its monthly high on the same day at INR 71.815. On the following day, U.S. President Donald Trump made a remark, pointing out that there was no deadline for the trade talks with China, and this led the Chinese yuan to depreciate. Following this trend, the U.S. dollar/Indian rupee exchange rate remained high. However, thereafter, the Reserve Bank of India (RBI) decided to maintain the policy interest rate at the existing level, while an interest rate cut was expected almost unanimously, which encouraged market participants to buy the Indian rupee.

On December 10 and after, risk-taking sentiment started growing in the market, as the media reported that the U.S. was considering postponing the imposition of the additional customs duty originally scheduled for December 15, while U.S. President Donald Trump made a remark that the two countries would soon reach an agreement. As a result, the overall Asian currencies strengthened. Furthermore, on December 13, the Chinese yuan reached its highest rate against the U.S. dollar in four months, while the media reported that the Conservative Party of the U.K. would win the majority votes in the country's general election. These factors worked positively for emerging currencies. At the same time, in India, the Consumer Price Index turned out to be 5.54%—exceeding the market estimate—as a result of which less market participants expected an interest rate cut in the times ahead. Furthermore, there was large-scale Indian rupee-buying from abroad for a case of corporate acquisition. For these reasons, the U.S. dollar/Indian rupee exchange rate fell to its monthly low at INR 70.510.

However, as was the case at the beginning of November, the exchange rate was supported firmly before reaching INR 70.50. In the second half of the month, the overall trade volume decreased, as market participants took year-end/New Year holidays. Under such circumstances, the RBI intermittently carried out market interventions by selling the Indian rupee. Furthermore, the WTI crude oil price exceeded USD 60 on December 16, and this was a negative factor for the Indian rupee. Then, on December 23, the U.S. dollar/Indian rupee exchange rate offset half of the fall observed since the beginning of the month. While

market activities decreased further during the Christmas holidays, the U.S. dollar/Indian rupee exchange rate did not move in any direction, and as of December 30, when this article was written, the U.S. dollar/Indian rupee pair was trading at the INR 71.35 level.

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

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.554 level in December. At the beginning of the month, the U.S. dollar/Japanese yen exchange rate rose sharply from the upper-JPY 107 level by approximately JPY 1 due to the trade frictions between the U.S. and China. Following this trend, the Indian rupee/Japanese yen exchange rate also fell to its monthly low at JPY 1.510 level. Thereafter, the U.S. dollar/Japanese yen exchange rate was at a stalemate until the end of the second week of the month. However, as was discussed above, as the Indian rupee appreciated against the U.S. dollar, the Indian rupee/Japanese yen exchange rate also rose thereafter.

On December 12 during overseas trading hours, U.S. President Donald Trump made an optimistic remark, which led the U.S. dollar/Japanese yen exchange rate to rise and immediately return to JPY 109.70. At that moment, the Indian rupee had weakened further, leading the U.S. dollar/Indian rupee exchange rate to reach its monthly high at the INR 1.554 level. However, the exchange rate did not rise further thereafter, as it was the end of the year. The U.S. dollar/Indian rupee exchange rate thus continued fluctuating within a narrow range. As of December 30, when this article was written, the U.S. dollar/Indian rupee exchange rate was at the INR 1.53 level.

2. Outlook for This Month

In January, the U.S. dollar/Indian rupee exchange rate is forecast to continue fluctuating without moving in any direction.

In December, the consumer price index recorded further growth, and the inflation rate reached its highest level since July 2016. Furthermore, the policy interest rate was maintained at the existing level—against the anticipation of market participants—in reaction to which interest rates moved to some extent (around +50 basis points for two-year government bonds). However, the impact on the foreign exchange market was minimal. Furthermore, as was mentioned in an article released in December, the U.S. dollar/Indian rupee exchange rate is unlikely to actively react to domestic factors in India.

There are mainly two important factors. The first factor is the trade negotiations between the U.S. and China. Based on recent headlines, it seems that the negotiations have passed the most-difficult part and that market participants are now slightly relieved. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate has returned to its lowest level since August last year, falling below CNY 7 to the U.S. dollar, and this has been positively impacting overall Asian currencies. However, the trade deal has not yet been signed, and thus the goal has not been achieved. Given the tendency of U.S. President Donald Trump to sometimes contradict his previous remarks and actions, it is possible for the trade deal to be withdrawn in the end, which remains a potential risk. Market participants should thus remain cautious

until the end despite the optimism spreading in the market.

The second factor is the general election in the U.K. The Conservative Party, which was the existing ruling party, achieved an overwhelming victory by winning 365 seats, a significant majority, making it less likely for the U.K. to have a no-deal Brexit. It should, however, be pointed out that, apart from the Brexit deadline, which is set at the end of January, U.K. Prime Minister Boris Johnson plans to have a buffer period during which the EU trade agreement will still be applied until the end of 2020. It is highly probable that this period could entail some confusion that might negatively impact the currencies of emerging countries.

At the current moment, there has been optimism spreading in the market regarding the trade negotiations between the U.S. and China, as well as regarding the Brexit negotiations. However, the situation remains unstable, and the U.S. dollar/Indian rupee exchange rate is expected to fluctuate in both directions in the times ahead.

This report was prepared based on economic data as of January 7, 2020.

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