Mizuho Dealer's Eye

February 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – February 2020

Expected Ranges **Against the yen: JPY108.00–110.50**

1. Review of the Previous Month

The dollar/yen pair traded erratically in January with an eye on stock prices. It fell for a time on rising geopolitical risk, for example, though it also hit the 110 yen mark for the first time since May 2019.

It opened the month trading at the mid-108 yen mark on January 3. The pair then plummeted below 108 yen, as risk aversion grew on news about the assassination of the head of Iran's Revolutionary Guard Corps in an air strike and when the US December Manufacturing ISM Report on Business dipped below 50, hitting its lowest level since June 2009. With concerns rising on January 6 about retaliatory measures by Iran's supreme leader Ayatollah Khamenei, the pair tumbled to the upper-107 yen level. It rallied to the upper-108 yen mark on January 7 on the firm result of the US December Non-manufacturing ISM Report on Business, though it then plunged to a monthly low of 107.65 yen as geopolitical risk grew on reports that Iran had launched missiles at US air bases stationed in Iraq. However, a high-ranking Iranian official then said Iran did not want a war. With President Trump also ruling out military action, stock markets rallied and the dollar/yen pair also shot up to 109.25 yen and continued to rise toward January 14.

The US December employment data was released on January 10, with the pair boosted by the strong hourly wages result. With reports then emerging on January 14 that the US had removed China from its list of currency manipulators, the pair broke through 110 yen for the first time since May 2019 to reach the lower-110 yen range. With a US/China phase one trade agreement looming, the pair dropped back to the upper-109 yen level on January 15 after US treasury secretary Steven Mnuchin denied the US would remove tariffs on Chinese goods. In the end, though, the agreement was signed off smoothly. The markets also reacted warmly to the release on January 16 of some bullish US retail sales data for December and the robust settlement results of major US financial companies. All this saw the pair hitting a monthly high of 110.30 yen on January 17. On January 21, though, President Trump said the US would look seriously into imposing sanctions on European cars if a trade deal with Europe was not reached. With stock markets also sliding on rising concerns about a new coronavirus outbreak, the pair weakened to the upper-109 yen mark.

Market participants then tested the pair's downside from January 22 on the coronavirus epidemic. The pair bounced back to 110 yen for a time on January 22 after the Chinese government announced a nationwide effort to minimize the spread of the new coronavirus, but with stocks tumbling on concerns about a global economic slowdown, the greenback continued to edge lower, with the pair hitting 108.73 yen on January 27, its lowest point in nearly two weeks. As selling eased off in stock markets, the pair rallied to the 109 yen range on January 28. With the January 29 FOMC meeting passing smoothly, the pair ended the month trading around 109 yen.

2. Outlook for This Month

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

Since the end of January, stocks have fallen on concerns about a global economic slowdown in the wake of the new coronavirus outbreak, with the currency pair also sliding to the upper-108 yen mark for a time. Rather than reflecting a rise in global risk aversion, though, this writer believes these movements are just a reaction to factors that arose when US stock markets edged towards a phase of adjustment after a period of trading at highs. After topping $29,000 at the start of January, the NY Dow Jones renewed record highs on successive days before hitting $29,348.10 on January 17. The new coronavirus began to be regarded as a fully-fledged factor on January 21, the first business day after a US national holiday. The Dow Jones then fell by around 3% from its peak to $28,535.80 on January 27, but this was perhaps a healthy trend, with stock markets letting off a bit of steam before trending upwards again. Meanwhile, the dollar/yen pair has fallen by around 1.5%, from 110.30 yen to 108.73 yen. Even when the situation regarding Iran deteriorated at the start of the year, the pair only fell to 107.65 yen, so perhaps January was a month that actually confirmed the pair's firmness.

US stocks still have room for further adjustment, while a huge volume of US treasury redemptions are taking place up until mid-February, so the currency pair will probably slide to around 108 yen. However, the Iowa Democratic caucus will be taking place on February 3. This will mark the first of several preliminary elections and caucuses in the run up to the US presidential election, with President Trump also likely to step up moves aimed at his re-election. After signing the phase one US/China trade agreement last month, Mr. Trump said the US would look seriously into imposing sanctions on European cars if a trade deal with Europe was not reached, thus suggesting that his next target would be trade talks with Europe. As such, stock and forex markets could be pushed down at times by factors related to the US president. However, a strong US economy and bullish US stock movements could prove lifelines to Mr. Trump's chances of re-election, so he is unlikely to make any moves that completely sever these lifelines. Rather, he will probably try to utilize them skillfully to boost US stock prices and ferment an atmosphere of risk appetite, so the Dow Jones will probably renew record highs again, with the dollar/yen pair rallying to the 110 yen range. Incidentally, FRB chair Jerome Powell will be testifying before Congress on February 11. The impact on the currency pair will probably be muted, but the contents will need to be monitored for the hints they may contain about the direction of monetary policy in 2020.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	108.00 – 110.50	Bearish on the dollar	9 bears	107.50 – 110.50

* Ranges are central values

Tanaka	Bull	108.00 – 110.50	The sudden outbreak of the coronavirus has spread across the globe. As concerns grow, it is hard to gauge how things will develop, so market participants will need to monitor events closely. The dollar/yen pair is currently moving with a heavy topside, but if the situation does not worsen and the contagion peaks out, the pair will probably bounce back.
Takeuchi	Bear	107.50 – 110.50	Risk aversion swept the markets on headlines about the new coronavirus outbreak, but this trend will probably ease off going forward. However, the impact on the real economy could become more apparent from here on. Investors will also move to convert funds into yen for BS hedges and dividend payments scheduled for the end of March, so the pair could also move heavily on the topside due to real-demand factors.
Tsutsui	Bear	105.50 – 111.00	Attention will be focused on the Democratic contenders for the US presidential election. If left-wing candidates make the top 3 in a caucus held at the start of the month, this will push stocks lower and the yen higher. The FOMC has also pushed for reflation and it has indicated it wants to maintain reserves of at least $1.5 trillion. These are significant moves, with the yen likely to climb as interest-rate markets factor in a 75bp rate cut.
Kato	Bear	107.00 – 111.00	It is still too early to tell what impact the new coronavirus outbreak will have on the global economy, but with a US presidential election looming, the markets will probably push for FRB rate cuts. The yen will slowly-but-surely start to face appreciatory pressures again.
Seki	Bear	108.00 – 109.50	The dollar/yen pair has not fallen on the news about the spread of the coronavirus, thus confirming the strength of the buying flow. However, risk aversion is unlikely to ease just yet. Furthermore, rather than rushing to sell when the pair hit lows, exporters will probably sell when the pair rallies at times. With turmoil set to continue after the Spring Festival holiday in China, the pair's downside might be tested again this month.
Mitsuishi	Bull	108.00 – 111.00	Market participants will need to monitor the impact of the new coronavirus outbreak, but US stock prices will be supported by investors who were behind the buying curve, with the dollar/yen pair also moving firmly on the varying strengths of the US and Japanese economies.
Yamagishi	Bear	107.00 – 110.00	Uncertainty will reign until the picture clears up regarding the new coronavirus outbreak, with the dollar/yen pair set to trade with a heavy topside. Though the US and Japan will probably keep monetary policy fixed for now, if expectations for US rate cuts flare again and the authorities drop some hints in the wake of plummeting stock prices, for example, the greenback might face a rise in selling pressure.
Tasaka	Bull	108.00 – 110.50	Investors will need to monitor the impact of the new coronavirus outbreak on the Chinese economy, but with positions also growing lighter, US stocks will probably rise at times. With President Trump also likely to step up moves aimed at his re-election, the dollar/yen pair will probably climb higher on bullish stock movements toward the latter half of the month.
Omi	Bear	108.00 – 110.00	The pair is expected to move with a heavy topside on concerns about the coronavirus outbreak.

Ueno	Bull	108.00 – 110.50	The dollar/yen pair's room on the downside has been capped, despite the emergence of risk related to the coronavirus. There remains lingering headline risk, but the markets seem to be moving relatively calmly. Investors will probably try testing 110 yen again this month.
Okamoto	Bull	108.00 – 110.50	Concerns about the new coronavirus will peak out, with the focus likely to shift back to the fundamentals from here on. Inflation is moving weakly in the US and the environment is ripe for low interest rates. The dollar/yen pair looks set to climb gently as investors confirm that economic indicators have bottomed out.
Onozaki	Bull	108.50 – 110.50	Despite lingering concerns about the new coronavirus outbreak, risks are now all out in the open. As long as no headlines emerge that strike a more negative tone than warranted by the available information, the dollar/yen pair's room on the downside will probably be capped. However, there is still uncertainty about whether investors will push the pair above 110 yen and chase its topside.
Tamai	Bull	108.00 – 110.50	The new coronavirus outbreak continues to spread and uncertainty still lingers, but the reaction of the markets is gradually growing more muted. With the firmness of the dollar/yen pair's downside now confirmed, stocks will probably rally, with the dollar/yen pair set to move firmly too.
Harada	Bull	108.50 – 111.00	Stock markets are gradually regaining composure, despite concerns about the coronavirus, with investors likely to test the firmness of the dollar/yen pair's downside at 109 yen. However, the primary elections scheduled for February and March will lead to a rise in volatility, so caution will be needed.
Oba	Bear	107.50 – 110.50	The FOMC struck an even more dovish tone when it met in January with the decision to revise its monetary policy framework toward the middle of the year, for example. Furthermore, concerns about an economic slowdown due to the new coronavirus outbreak could also lead to some preventative easing, so the dollar/yen pair is expected to slide in tandem with falling US interest rates.
Takamura	Bull	107.50 – 111.50	The US, Europe and Japan will probably leave monetary policy fixed for now. With stock markets moving firmly on a waning of the trend of yen appreciation on US/China trade frictions, the greenback will be an easy currency to buy given the comparatively high interest rates in the US. The dollar and yen have both been bought on the coronavirus outbreak, so any yen appreciation will be capped.
Matsumoto	Bear	107.50 – 110.50	From here on, the markets are unlikely to shift wholeheartedly toward risk appetite given concerns about the new coronavirus outbreak. Expectations for further US rate cuts have also flared up in the wake of the FOMC meeting, so interest rate movements will also weigh down the dollar/yen pair's topside.
Itsumi	Bull	108.00 – 110.50	Investors will need to wait until the release of economic indicators from March onwards to gauge the impact of the coronavirus outbreak. At this moment in time, there seems to be scarcity of factors. However, risk tolerance levels will probably improve on the healthy settlement results of US corporations, with the dollar/yen pair moving firmly as a result.
Otani	Bear	107.00 – 110.50	Uncertainty continues to linger with regards to the new coronavirus outbreak, so the dollar/yen pair's topside will remain heavy. The primary season will also kick off this month with a Democratic caucus in Iowa. With the left-wing candidate Senator Bernie Sanders trending high in the opinion polls, there is a risk the yen could also appreciate.
Tanishiki	Bull	108.00 – 111.00	Investors will need to monitor the impact of the coronavirus outbreak on the real economy, though there is no need for excessive concern judging from the data already released. The dollar/yen pair will also be supported by firm US corporate settlement results.
Okuma	Bull	108.00 – 110.50	Despite concerns of an economic slowdown, US stock markets continue to move firmly on strong US corporate settlement results. The dollar will also be bought alongside the yen on risk aversion due to growing concerns about the new coronavirus outbreak, so the dollar/yen pair looks set to move firmly.

Tomohisa Ueno, Forex Sales, Derivatives & Forex Department

Euro – February 2020

Expected Ranges **Against the US$: US$1.0900–1.1200**
Against the yen: JPY119.00–123.00

1. Review of the Previous Month

The euro/dollar pair edged lower in January.

After opening the month trading at the lower-$1.12 mark on January 2, the pair then fell to the upper-$1.11 level. Risk aversion then intensified on January 3 on news about a US military attack on Iran. The greenback was bought, with the pair sliding to the lower-$1.11 mark for a time. However, it then rallied to the mid-$1.11 range when the US released some lackluster economic indicators.

With tensions rising between the US and Iran, the dollar was sold at a faster pace on January 6, with the currency pair temporarily rallying to $1.12. After a round of selling, though, the pair dropped back to the upper-$1.11 mark. It then weakened to the lower-$1.11 level on January 7 as the dollar was bought on some bullish US economic data. The dollar was sold again on January 8 on news that Iran had launched missiles at a US airbase stationed in Iraq, but with President Trump not mentioning any military response, geopolitical risk waned. The dollar was subsequently bought and the currency pair dipped to the lower-$1.11 level. As US interest rates rose on January 9, the greenback was bought and the pair moved with a heavy topside around $1.11. This trend continued on January 10, but the dollar was then sold on some weak US employment data, so the pair rallied slightly to the lower-$1.11 level.

As concerns about the Iran situation eased from January 13, the dollar moved bullishly. The pair then rose to the mid-$1.11 mark toward January 15 on news regarding the phase one US/China trade agreement. The minutes to the December ECB Governing Council were released on January 16 and they suggested the Council wanted to keep policy fixed for the time being, so the pair's topside extended to the upper-$1.11 range. However, the US then released some bullish indicators over January 16–17. With China also posting a strong indicator on January 17, concerns about a global economic slowdown eased, with the euro/dollar pair breaking through the $1.11 mark toward January 17.

The euro was bought and the pair topped $1.11 for a time on January 21 after Germany released some buoyant economic data, though the pair then moved bearishly on growing concerns about US/Europe trade frictions. Political uncertainty in Italy erupted on January 22, though the impact on the pair was minimal. A new coronavirus outbreak then swept China. With the US also releasing some firm economic data, the greenback was bought and the currency pair edged lower to break below $1.10 on January 28 for the first time in around two months. It continued to trade with a heavy topside thereafter to close the month trading at the lower-$1.10 level.

2. Outlook for This Month

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

The euro was swayed by external factors in January, with the currency pair hit by rising tensions between the US and Iran at the start of the month and then by headlines about the new coronavirus at the end of the month. One factor originating from Europe was the ECB Governing Council meeting on January 23, but the Council left policy rates and the pace of its bond purchases fixed, with the meeting springing no surprises on the policy front. The Council has also indicated it will leave policy unchanged until inflation approaches target. As for new details, the Council announced it had launched a strategic policy review. The review will be the largest one since 2003 and it will encompass a wide area, including ways to hit targets, measurement methods, the monetary policy toolkit, and communication practices. The review will include the side effects of the current policy of low interest rates and it could lead to some fundamental shifts in policy thinking in future. However, the review will run up to the latter half of 2020, so it will be difficult to gauge in the short term exactly what impact the review will have on the markets.

Under these circumstances, it is hard to see the ECB or FRB making any major policy shifts for the time being. On the economic front, though tensions between the US and China have eased somewhat, there remain concerns about the new coronavirus outbreak and the situation in the Middle East, while political risk related to Italy and so on continues to smolder in the eurozone. Given this, on the whole the markets will not be expecting to see any triggers capable of boosting Europe's moribund economy (or its manufacturing sector in particular). Market trends are unlikely to shift unless some surprises occur.

The euro will continued to be swayed by external factors rather than any factors emanating from within Europe. At the same time, with Europe facing internal problems on the economic front, it is hard to imagine investors keeping hold of the euro, with the euro/dollar pair set to trade with a heavy topside.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.0925 – 1.1200	Bearish on the euro	17 bears	1.0850 – 1.1150

* Ranges are central values

Tanaka	Bear	1.0850 – 1.1150	The US/China trade problem and the Brexit issue has taken a breather for now and it is too early to tell how the new coronavirus will impact the Chinese economy (and subsequently the European economy). Amid a dearth of decisive or positive factors, the pair will probably continue trading in a range with downside risk.
Takeuchi	Bear	1.0850 – 1.1150	The negative impact of the coronavirus outbreak on the real economy could become apparent from here on. There is a dearth of positive factors, with car sales down on the introduction of new restrictions on exhaust gas, for example, so investors will probably test the euro/dollar pair's downside.
Tsutsui	Bear	1.0800 – 1.1200	Recent indicators suggest Europe's economy has bottomed out, though it is still moving weakly compared to the US. Chinese economic activity has been hit by the new coronavirus outbreak and this could damage the European economy. With trade negotiations with the EU/US and EU/UK also set to kick off in earnest, the euro/dollar pair looks set to weaken further this month.
Kato	Bull	1.0900 – 1.1200	The euro will continue to face selling pressure, but there is a sense the single currency has been oversold in the short term, so there could be some corrective movements.
Seki	Bear	1.0800 – 1.1100	Investors will need to monitor economic activity in China now the Spring Festival holiday is out of the way, but the European economy will probably be hit by a slowdown in China. The euro/dollar pair will face more downward pressure, though this could be alleviated slightly if the dollar/yen pair weakens.
Mitsuishi	Bear	1.0800 – 1.1300	There have been signs that the European economy is starting to bottom out, but the economy will be hit by the recent new coronavirus outbreak. The euro looks set to trade with a heavy topside against the dollar, especially given the differing pace of economic growth in the US and Europe.
Yamagishi	Bear	1.0900 – 1.1100	In her press conference after the January ECB Governing Council meeting, ECB president Christine Lagarde said the economy continued to face substantial downside risk. The inflation target review will also lead to expectations of prolonged easing, with European interest rates clearly trending downward, so the euro will be prone to selling.
Tasaka	Bear	1.0850 – 1.1150	There are signs that the European economy is recovering, but it is likely the economy is just 'bottoming out.' Monetary easing looks set to continue, while Europe will also be next on President Trump's list when it comes to tariff hikes. Amid a scarcity of euro-buying factors, the euro/dollar pair will continue to trade with a heave topside.
Omi	Bear	1.0950 – 1.1150	With more observers expecting the ECB to stick to its policy of monetary easing, the euro will be a hard currency to buy.
Ueno	Bear	1.0850 – 1.1100	A comparison of Europe and the US shows the latter in a stronger position when it comes to the economy and policy rates. The dollar has also acted as a refuge currency when concerns about the coronavirus increased. For now, the risk will lie substantially on the downside.

Okamoto	Bear	1.0800 – 1.1200	Economic indicators had started to show signs of improvement, particularly when it comes to Germany and France, but the new coronavirus outbreak has poured cold water on this recovery. Trade talks with the EU have also risen to priority position in the Trump administration's to-do list, so the euro/dollar pair will be prone to downswings this month.
Onozaki	Bull	1.0950 – 1.1200	After being sold on the new coronavirus outbreak, there is a sense the euro is now undervalued. It seems euro-selling momentum has run its course, so provided no headlines emerge that strike a more negative tone than warranted by the available information, the dollar/yen pair's room on the downside will probably be capped.
Tamai	Bear	1.0850 – 1.1150	The eurozone economy remains weak and it could be hit further if the Chinese economy is negatively impacted by the coronavirus outbreak. All this could delay the eurozone's economic recovery. The euro/dollar pair is expected to trade with a heavy topside in February.
Harada	Bear	1.0900 – 1.1100	Though the January ECB Governing Council meeting left policy unchanged, attention is focused on the movements of the ECB under its new structure and president. Christine Lagarde might well prove an 'owlish' president, but with Council members generally inclining in a dovish direction, the euro/dollar pair looks set to remain bearish from here on.
Oba	Bull	1.0950 – 1.1100	The Chinese economy could slow for a time on the new coronavirus outbreak. There is a risk this could push the European economy down too, so the euro will be a hard currency to buy at the start of February. The impact of the outbreak is still unclear, but it seems the euro is being over-sold at present, so it will probably be bought back in the near future.
Takamura	Bear	1.0850 – 1.1150	As expected, the new Lagarde administration kept policy rates fixed, with policy now under a general review. There are also concerns about Brexit and it remains to be seen how negotiations will progress during the transitional period, but this is unlikely to be viewed as a factor just yet. Rather than any factors on the euro's side, it seems the euro/dollar pair's topside will be held down by dollar strength.
Matsumoto	Bear	1.0900 – 1.1150	It appears Europe's economy has bottomed out, with the euro moving firmly at times, though it seems the euro/dollar pair has stopped climbing. The pair's topside looks set to grow heavier on monetary policy and political risk in the eurozone.
Itsumi	Bear	1.0800 – 1.1100	European fundamentals remain weak, while the EU looks set for stormy negotiations with the UK. The negative impact of the coronavirus will also make the euro a hard currency to actively buy, so the euro/dollar pair is expected to trade with a heavy topside.
Otani	Bear	1.0900 – 1.1100	The euro/dollar pair will trade with a heavy topside on concerns about the coronavirus and lingering uncertainty about negotiations between the EU/US and the EU/UK. However, there are also signs that the European economy is recovering, so the pair's room on the downside will also be capped.
Tanishiki	Bull	1.0900 – 1.1250	The euro was sold on the new coronavirus outbreak, so it will probably be bought back as concerns fade. However, Europe's economic indicators have yet to bounce back, so the euro/dollar pair is unlikely to stage a fully-fledged comeback just yet.
Okuma	Bear	1.0900 – 1.1100	There are growing concerns about a Chinese economic slowdown on the spread of the new coronavirus. This is also expected to have a negative impact on the European economy. There is a sense the European economy has bottomed out, but economic indicators have yet to manifest signs of a recovery, so the euro/dollar pair is expected to move bearishly.

Fumihiko Kanda, Europe Treasury Department

British Pound – February 2020

Expected Ranges	**Against the US$:**	**US$1.2800–1.3400**
	Against the yen:	**JPY138.00–145.00**

1. Review of the Previous Month

The pound/dollar pair moved bearishly in January. It fell in the first half of the month on rising expectations for rate cuts, though the pound was bought back in the latter half of the month as these expectations waned.

The pair hit a monthly high of $1.3266 on January 2. It had been bought back at the end of 2019 and this trend spilled over in 2020, with the pair breaking through $1.32 at the start of the month. January 3 was dominated by headlines about Iran, but the impact on the pair was muted. The UK parliament reconvened from its winter break on January 7, with deliberations about the withdrawal bill kicking off again, though this also had minimal impact. Iran launched a retaliatory attack on January 8, but the US reported no losses of life, so the greenback moved firmly, with the pound sold and the currency pair dipping below $1.31. This trend continued into the afternoon after President Trump made some placatory comments regarding Iran. On January 9, Bank of England (BOE) governor Mark Carney said rate cuts might be warranted depending on the direction of Brexit. This led to pound selling, though the pound/dollar pair remained in the $1.30 range. On January 10, though, Silvana Tenreyro, a member of the BOE's Monetary Policy Committee (MPC), said she might support a rate cut. In the evening, meanwhile, MPC member Gertjan Vlieghe said in an interview that he would also vote for a rate cut at the January 30 MPC meeting if the economic situation did not improve. As expectations for such a move grew, the currency pair dipped below $1.30 on January 13. After hitting a monthly low of $1.2955 on January 14, the pair was bought back on adjustive moves. On January 15, MPC member Michael Saunders called once more for a rate cut (Saunders and Jonathan Haskel had voted for a cut at the last meeting), though the reaction was muted. On January 17, sterling was sold on growing expectations for a rate cut after the UK retail sales data for December fell below expectations.

On January 20, UK Chancellor of the Exchequer Sajid Javid said during trade negotiations that the UK would not align with EU regulations. As a result, the pair was sold further and the pair dipped close to a monthly low. The pound was bought on January 21 as expectations for a rate cut waned on the strong results of the UK employment data for November. It was bought back further on January 22 on the better-than-expected results of the January Manufacturing Confidence data (despite this being an indicator not usually attracting much attention). The euro weakened on ECB president Christine Lagarde's press conference after the January 23 ECB Governing Council meeting, with the pound also dragged lower. However, the pound/dollar pair then rallied to the mid-$1.31 level on January 24 as expectations for a rate cut waned after the preliminary January UK Composite PMI topped expectations to hit its highest level since September 2018. As this news had already factored in, though, the pair soon dropped back and it continued to move with a heavy topside around $1.30 the following week. At the much-anticipated BOE MPC meeting on January 30, members voted 7-2 to keep policy fixed, so the pair was bought back to the $1.31 level.

2. Outlook for This Month

The pound/dollar pair is expected to move without a sense of direction in February.

The Brexit referendum took place in June 2016, but Brexit finally became reality at the end of January. However, the transitional period will last until the end of 2020, so the pair has not moved skittishly in response. The EU withdrawal bill passed smoothly through the UK parliament in January (and thus passed into UK law). However, this bill rules out any extension to the transitional period, even if a free trade agreement (FTA) is not signed with the EU. Given how long it usually takes to get a FTA signed, it seems very unlikely some kind of conclusion will be reached by the end of June, the EU's deadline for discussing an extension to the transitional period (the European Commission will settle its negotiating position at a board meeting on February 25, with the actual negotiations set to kick off in earnest from March 3, though of course, the UK government has ruled out any extension to the transitional period). As already reported, this suggests concerns of a 'No-deal Brexit' will probably flare up again in the latter half of 2020. Incidentally, though the UK's European Parliament MPs have lost their positions, the UK will still have to obey EU rules during the transitional period, with the UK still contributing to the EU's budget. This is probably one more reason why the UK wants to bring the transitional period to an end as soon as possible. Nonetheless, parties on both the UK and EU side have recently made comments about wanting to reach a resolution within the year, so the pound will probably be bought at times until the markets start to truly focus on the risk of a No-deal Brexit, though the currency pair's room on the topside will probably be capped. One positive factor for the pound could be some form of fiscal mobilization as a result of Brexit. The Budget bill will be submitted in March, with investors likely to focus on related headlines.

Furthermore, the BOE raised expectations for rate cuts last month. However, the last meeting marked the last time policy was decided under the administration of BOE governor Mark Carney. From here on, MPC meetings will take place under the governorship of Andrew Bailey. It was originally assumed that Mr. Carney would continue to steer policy after Brexit, but with the Brexit deadline extended from the original deadline of March 2019, this did not come to pass. Mr. Bailey's policy stance remains unclear and he is an unknown quantity, so market participants will need to play close attention to what he does and says from here on.

Sterling has not been particularly affected by the new coronavirus outbreak, but if risk aversion intensifies from here on, this will probably push the pound lower, particularly against the yen, so caution will be needed.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – February 2020

Expected Ranges	**Against the US$:**	**US$0.6600–0.6850**
	Against the yen:	**JPY72.00–74.50**

1. Review of the Previous Month

In January the AUD/USD pair fell from the $0.70 mark to the mid-$0.68 level.

The pair had risen to the $0.70 range at the end of December as risk appetite intensified on expectations for a US/China trade agreement. When 2020 trading opened on January 3, tensions in the Middle East intensified following a US airstrike in Baghdad. As risk aversion grew, the pair was adjusted sharply to temporarily hit $0.6930. The greenback was bought back on January 7 after the US released a better-than-expected non-manufacturing ISM Report on Business for December, with the currency pair plunging to $0.6850. With Australia's retail sales data for November topping expectations, though the pair rallied to $0.6900 on January 10.

The closely-watched US/China phase one trade agreement was signed on January 15, so major US stocks kicked off January 16 trading above their closing prices from the previous day before then going on to renew highs. The currency pair also strengthened to $0.6930 on this risk-on momentum, though the greenback was then bought and the pair dropped below $0.69 again after the US released some bullish December retail sales data on the same day. The US released some unexpectedly-strong December housing starts data on January 17, so the greenback was bought and the currency pair moved with a heavy topside to slide to $0.6870.

The markets switched into risk-off mode on January 21 on news related to the new coronavirus outbreak, with the pair also plummeting to $0.6840. The closely-watched Australian employment data for December was released on January 23. The results topped forecasts, with expectations for a rate cut at the February RBA board meeting then waning. The pair rose to around $0.6880 for a time, though it soon stalled to drop back to $0.6840 again. With Sydney on holiday on January 27, major stocks and US interest rates fell sharply on concerns about the coronavirus outbreak. Amid risk aversion on January 28, the pair hit a 2020 low of $0.6737 before rising slightly to $0.6760. Australia released some better-than-expected 4Q CPI data on January 29, so expectations for a rate cut eased off and the pair bounced back to $0.6770. However, the greenback was bought and the Australian dollar sold again around the time of the FOMC meeting, with the pair renewing a 2020 low of $0.6736.

2. Outlook for This Month

The AUS/USD pair is expected to move with a heavy topside in February.

A phase one trade agreement between the US and China was signed without any problems at the start of the year, despite the recent risk of the US calling the talks off in anger, so the markets switched into risk-on mode. News about the new coronavirus then erupted, though, so risk aversion intensified late January. With Australia also reporting infections, there are concerns the tourism industry could be hit hard, with exports also at risk from a Chinese economic slowdown. The impact of the Australian bush fires could also dampen consumer sentiments and spending.

A glance at Australia's fundamentals shows the November retail sales data, the December employment data and the 4Q CPI figure all topping expectations to move firmly, thus backing up claims of a modest recovery when it comes to the economy and inflation. The markets were particularly surprised when the unemployment rate dipped to 5.1%. As a result, the interest rate futures market saw bets on a December RBA rate cut plunging from 60% before the employment data was released to 17%. In addition to this surprisingly-strong employment data, inflationary indicators also trended upwards. All this suggests the RBA's board will indeed keep the cash rate fixed when it meets in February. As mentioned above, though, market sentiments have deteriorated on the bush fires and the coronavirus outbreak. With US indicators also moving firmly since the turn of the year and the greenback being bought back, investors will hold off from actively chasing the currency pair's topside for now. However, when it seems the coronavirus is being brought under control, the pair could rebound sharply, so caution will be needed.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – February 2020

Expected Ranges **Against the US$: C$1.3100–1.3400**
Against the yen: JPY81.00–84.00

1. Review of the Previous Month

The USD/CAD pair opened the month trading at C$1.2994. With tensions between the US and Iran rising to the surface at the start of the month, crude oil prices (WTI) soared on concerns about supply and demand, with the Canadian unit also pushed up, though crude oil prices then fell after a skirmish between the US and Iran was avoided. With Canada releasing some mixed economic indicators, the Canadian dollar plummeted when the Bank of Canada (BOC) shifted monetary policy in a dovish direction. As crude oil prices continued to fall, the Canadian dollar moved bearishly overall throughout the month.

On January 3, the US assassinated the Iranian military commander Qassem Suleimani in a drone strike. Crude oil prices then rose to $63.84 on reports that Iran was preparing retaliatory measures, with the Canadian dollar also bought as a result. Crude oil prices rose to $65.65 on January 7, with the USD/CAD pair also dropping to a monthly low of C$1.2957. Iran's revenge took the form of a missile attack on a US military base in Iraq, with tensions ratcheting up. In a speech, though, President Trump said the US would not use force against Iran but would instead rely on economic sanctions. As tensions in the Middle East eased, crude oil prices plummeted to $59.15, with the Canadian dollar also tumbling to C$1.3044.

January 9 saw the release of the December housing starts data (197,300 against the forecast for 210,500) and the November building approvals data (down -0.4% m-o-m against the forecast for +1.0% m-o-m). With both indicators dipping below expectations, the Canadian dollar was sold further and the currency pair topped C$1.310. The Canadian employment data for December was released on January 10. The number of people in work grew by 35,200, up sharply on expectations for 25,000 new jobs, while the unemployment rate bounced back from 5.9% in November to 5.6%. With crude oil prices falling, though, Canadian-dollar buying was muted, so the pair rallied again after hitting C$1.3029. The US and China formally signed a phase one trade agreement on January 15. With the US December wholesale price index (WPI) also dipping below expectations, the greenback was sold and the currency pair fell back. It then moved in a narrow range between C$1.303–1.305.

As expected, the BOC kept the policy rate fixed at 1.75% when it met on January 22. The accompanying statement struck a dovish tone, while BOC governor Stephen Poloz mentioned future rate cuts in his press conference. The Canadian unit was subsequently sold, with the currency pair shooting up to C$1.3153. As global concerns grew about the spread of the new strain of coronavirus at the end of the month, the greenback was bought and the USD/CAD pair hit C$1.320 on January 27.

2. Outlook for This Month

As expected, the BOC kept the policy rate fixed at 1.75% at its recent meeting.

The accompanying statement touched on the surprising bearishness of recent Canadian economic indicators. It also hinted that the BOC might cut rates if economic growth slows for a prolonged period on sluggish consumer spending, housing market activity and corporate investment. However, it also mentioned how Canadian household debt was at a high level from a global standpoint, thus suggesting the BOC is taking a cautious stance when it comes to rate cuts. Furthermore, the BOC said that although the housing market was showing signs of slowing, market conditions would remain healthy on deep-rooted housing demand as immigration numbers continued to increase.

In a speech on January 9, BOC governor Stephen Poloz said he was unsure what impact the US/China trade agreement would have on Canadian exports, adding that the situation would require monitoring going forward. He also voiced concerns that the manufacturing slowdown could impact the services industry, employment and consumption. There are still no signs of a global manufacturing recovery, but with the service sector and consumer spending remaining strong despite a manufacturing slowdown, optimism grew that an economic slowdown would be avoided. However, there is growing unease about the prolonged manufacturing decline and the potential impact. The US/China phase one trade agreement commits China to buying $200 billion worth of US products, but this might dampen Canadian exports to China. Sino/Canadian relations had already deteriorated in 2018 after Canada arrested the CFO of the Chinese telecommunications equipment manufacturer Huawei at the request of the US. China introduced sanctions that led to a decline in imports of Canadian canola oil and soya beans, for example, with these sanctions still remaining in place. The Huawei CFO's extradition trial began on January 20 and market participants will be monitoring it closely. The price of canola oil fell sharply on concerns that exports to China could fall even further on the spread of the coronavirus. There are also fears that demand for crude oil will dip in February on the coronavirus outbreak. Crude oil markets will require monitoring to see how oil-production nations (OPEC and OPEC Plus, etc.) respond. Attention will also focus on the release of Canada's 4Q GDP data on February 28. With uncertainty sweeping the markets on the spread of the coronavirus, investors will probably seek safe assets, with the Canadian dollar continuing to weaken against its US counterpart.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – February 2020

Expected Ranges	**Against the US$:**	**KRW1,150–1,210**
	Against the yen:	**JPY9.009–9.524 (KRW100)**
		(KRW10.500–11.100)

1. Review of the Previous Month

In January the USD/KRW pair rose compared to the end of December.

It opened the month trading at KRW1153.80. Sentiments deteriorated sharply on January 3 on news that the head of Iran's Revolutionary Guard Corps had been killed in a US air strike. The pair then climbed to just under KRW1180 in the week beginning January 8 on reports that Iran had launched missiles at a US military base in Iraq. However, the pair dropped back after President Trump said he was not minded to launch a military attack on Iran.

The pair fell to a monthly low of KRW1150.60 on January 14 on real-demand movements and speculator position adjustments ahead of the BOK meeting. It then floated in a range from the upper-KRW1150 mark to around KRW1160. Two members voted for rate cuts when the BOK met on January 17. The markets had expected only one vote for such a move, though the impact on the pair was muted. January 21 saw concerns about the spread of pneumonia on the new coronavirus outbreak. With Chinese and Hong Kong stocks hit, risk sentiments plummeted and the currency pair rose to KRW1170.00 on January 22. The following week was also swept by concerns about the new coronavirus outbreak and the impact on supply chains. As investors focused on the potential negative impact on the Chinese and global economies, the USD/KRW pair was pushed higher. It hit a monthly high of KRW1191.90 on January 31 before closing the month at KRW1191.80.

2. Outlook for This Month

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

Factors will include concerns about the spread and potential impact of the new coronavirus outbreak. South Korea's economy relies heavily on China's economy, so if the negative impact on economic activity becomes apparent, this will probably hit the won and South Korean stocks. Some observers are expecting China's Q1 GDP growth to drop below +5% y-o-y. The virus could have been spread by people moving around during the Chinese Spring Festival holiday. The incubation period for the virus is said to be around ten days, so more symptoms could emerge at the start of February. The currency pair could be pushed up by this news at the start of the month.

The pair will also be swept by speculation about the February BOK Monetary Policy Committee

(MPC) meeting. Though two members voted for rate cuts at the January meeting, expectations for an imminent rate cut are unlikely to flare up given comments by the BOK governor. Furthermore, President Moon Jae-in announced policies to curb real-estate speculation at the start of the year, so it seems expectations for a rate cut before the April parliamentary elections have eased off slightly. Other factors could include the buoyant preliminary 4Q GDP result and expectations for improvements in the semiconductor market. Under these circumstances, the won will probably not be sold on monetary policy, though it is likely to be hit by the new coronavirus outbreak. Expectations for rate cuts could grow again depending on the negative impact on the Chinese and South Korean economies, so caution will be needed.

As for the US, the FRB will probably keep monetary policy unchanged for now, though political events will require monitoring in February. Primary elections and caucuses ahead of the November presidential election will kick off in Iowa on February 3, while President Trump will be delivering his State of the Union address on February 4.Sentiments could be swayed by the results or contents of these events, so investors should remain vigilant.

Based on the above, it seems there are no positive factors capable of pushing the USD/KRW pair sharply lower. The pair will be easily swayed by sentiments and so on. As such, it will inevitably jostle up and down in February, though it looks set to move firmly overall.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – February 2020

Expected Ranges	**Against the US$:**	**NT$29.80–30.60**
	Against the yen:	**JPY3.50–3.70**

1. Review of the Previous Month

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

After opening the month trading at TWD30.110, the pair then weakened to the TWD29 mark for a time as exporters sold the US dollar. With tensions rising in the Middle East, risk aversion intensified and funds flowed out of Taiwanese stock markets at a faster pace. With the greenback being bought and the Taiwan dollar sold, the currency pair bounced back to the TWD30 mark. It then hit a monthly high of TWD30.160 on January 8 after Iran launched missiles at a US military base.

However, the Iranian foreign minister Mohammad Zarif said Iran was not looking to escalate the situation or start a war. With President Trump also saying he did not want to use military force, risk aversion eased off and the currency pair dropped back to the TWD29 mark. Taiwan held a presidential election and a Legislative Yuan (parliamentary) election on January 11. President Tsai Ing-wen of the ruling Democratic Progressive Party (DPP) was re-elected, with the DPP also winning a majority in the Legislative Yuan. In the week beginning January 13, a sense of ease swept the markets now the elections had passed smoothly. With stocks rising and overseas funds flowing into Taiwan, the greenback was sold and the Taiwan dollar bought. As a result, the pair tumbled to TWD29.850 toward January 14.

With the long Chinese New Year holiday then looming, stock markets saw selling to lock in profits, so the Taiwan dollar moved with a heavy topside. Risk aversion then intensified on concerns about the new coronavirus outbreak, so the currency pair entered the holiday moving firmly around TWD29.9. The virus continued to spread during the holiday, so overseas markets remained in risk-off mode. As a result, stocks fell sharply when trading opened again on January 30, with the US dollar bought and the Taiwan dollar sold. This saw the currency pair soaring to the upper-TWD30.2 mark.

2. Outlook for This Month

The USD/TWD pair is expected to move firmly in February.

A glance at the economic indicators released in January shows the export amount rising by +4.0% y-o-y in December to record two straight months of positive growth. The breakdown shows key exports of electronic parts hitting +11.9% y-o-y, with exports of IT and telecommunication products to the US also continuing to grow by a substantial +15.1% y-o-y, with these results pulling the overall data up. A glance at 2019 reveals signs of a recovery in the latter half of the year, but this was not enough to compensate for the decline in exports to China during the first half of the year, with growth dipping by -1.4% on the whole. The overall CPI data for December was up on the previous month, from +0.59% y-o-y to +1.13% y-o-y, though the core CPI data (excluding volatile fresh food prices) was more-or-less unchanged on the previous month at +0.57% y-o-y. The overall CPI data was pulled higher by rising food prices. It does not seem that inflation is accelerating on the whole.

Investors will be monitoring whether the new coronavirus continues to spread in February. Concerns about the Middle East eased toward mid-January, while the Taiwanese presidential and parliamentary elections also passed smoothly, so the greenback weakened and the Taiwan dollar strengthened, with the currency pair settling at the TWD29 mark. Following the spread of the new coronavirus, though, stocks fell sharply after the Chinese New Year holidays, with the pair shooting up to the TWD30.2 mark. There are some concerns about the impact on supply chains, with Taiwanese stocks falling at a faster pace than major overseas indicators. If stocks remain bearish, the Taiwan dollar will continue to swing lower against its US counterpart.

The markets may also focus on the results of major US and Chinese economic indicators. When it met in January, the FOMC talked about lingering uncertainty related to outlook for the coronavirus and so on. As this shows, the virus has become a new risk, with concerns about a global economic slowdown starting to emerge. Under these circumstances, if economic indicators noticeable worsen, expectations may rise for a preventative rate cut when the FOMC next meets in March.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – February 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7600–7.7800**
	Against the yen:	**JPY 13.70–14.20**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

In January, the Hong Kong dollar appreciated against the U.S. dollar from the HKD 7.77 level to HKD 7.7624—the highest level since March 2017. This is based on the fact that market participants regained carry positions to buy the Hong Kong dollar and sell the U.S. dollar by profiting from the interest rate differentials between the Hong Kong dollar and the U.S. dollar, while the protests in Hong Kong and the frictions between the U.S. and China were attracting less attention in the market than before. Furthermore, there were also successive IPOs of Chinese companies, and this increased capital inflow from speculative investors into the Hong Kong market. On the other hand, from a macroeconomic point of view, there are still significant and persistent risks of an economic slowdown in Hong Kong. While the retail sales and PMI remained stable, the unemployment rate has risen to 3.3%—the highest in 2.5 years—and there is no sign of recovery. The spread of the new coronavirus, with its high mortality rate, is expected to further deteriorate the economic growth outlook of Hong Kong. The one-year Hong Kong dollar forward point thus continued rising to exceed +200 points—the highest in three years.

Hong Kong interest rate market in January

The liquidity level in the Hong Kong dollar market has been relatively low, as there were as many as 21 IPOs in January, while there was seasonal high capital demand at the end of the year. The overall HIBOR curve has been high, and the overnight Hong Kong dollar HIBOR sometimes exceeded 2%, while the one-month and three-month HIBOR rose to 2.1% and 2.3% from 1.9% and 2.2%, respectively. The interbank interest rate for commercial banks in Hong Kong rose to 1.09% for the first time in 11 years, reflecting the rise of the banks' fund procurement cost. Thus, the interest rate differentials between the Hong Kong dollar and the U.S. dollar were maintained at 40 basis points and 50 basis points for one month and three months, respectively. The interest rate differentials between the Hong Kong dollar and the U.S. dollar have been a driving force in the Hong Kong dollar spot exchange market, and the Hong Kong dollar interest rate swap rate for three years and fiver years fell below 2%, following the fall of U.S. interest rates.

Hong Kong stock market in January

The benchmark Hang Seng Index continued rising to reach 29,174 for the first time in nine months, thanks to the first-phase agreement in the trade negotiations signed by the U.S. and China. The protests in Hong Kong were calming, and there were successive IPOs by Chinese companies—both leading to capital inflow into the Hong Kong stock market. However, the spread of the new coronavirus in China led said index to fall sharply to the 27,000 level thereafter.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

In February, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.76 and HKD 7.80. While the interest rate differentials between the Hong Kong dollar and the U.S. dollar are likely to continue supporting the Hong Kong dollar, the spread of the new coronavirus in China has been causing a fall in stock prices, which is likely to keep the Hong Kong dollar from appreciating further in the times ahead. While risk-averse sentiment is strengthening in the market, Chinese companies have been postponing IPOs, and it is possible for those IPOs to be cancelled if the tensions between the U.S. and China persist. As it is not possible to expect the Chinese monetary authorities to take effective actions such as those taken at the time of the outbreak of SARS in the third quarter of 2003, Hong Kong assets are likely to lose attractiveness in investment with increasing budget expenditures and falling credit quality. Even if Chinese companies confirm their plans for IPOs, capital inflow into the Hong Kong market is likely to be limited.

Hong Kong dollar interest rate market in February

In February, the Hong Kong dollar interest rates are forecast to fall, as the liquidity level is likely to rise with the reduced number of planned IPOs that were previously very active. Concerns over capital outflow remains relatively moderate, and thus it is unlikely for the Hong Kong dollar spot exchange rate to fall to HKD 7.85 to the U.S. dollar, leading to liquidity absorption by the Hong Kong Monetary Authority (HKMA). The HKMA aggregate balance that is used to measure the liquidity level in the Hong Kong dollar market is forecast to remain at HKD 54 billion. If the new coronavirus starts spreading from China to all over the world, the foreseen monetary easing by the Federal Reserve Board (FRB) is likely to impact the market in an accelerated manner, leading the U.S. dollar interest rates to fall, which may eventually lead to a fall in Hong Kong dollar interest rates.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – February 2020

Expected Ranges	**Against the US$:**	**CNY 6.8000–7.1000**
	Against the yen:	**JPY 14.93–16.32**
	Against 100 yen:	**CNY 6.1300–6.7000**

1. Review of the Previous Month

Foreign exchange market

In January, the Chinese yuan appreciated against the U.S. dollar, thanks to the improvement of the risk sentiment in the market.

At the beginning of the month, the tensions between the U.S. and Iran strengthened and risk-averse sentiment temporarily grew in the market, encouraging market participants to buy the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate once rose to the upper-CNY 6.97 level. However, the tensions between the U.S. and Iran were mitigated thereafter, which weakened the risk-averse sentiment in the market, encouraging market participants to buy back the Chinese yuan. As a consequence, the U.S. dollar/Chinese yuan exchange rate once returned to the CNY 6.86 level in the middle of the month.

On January 15, a first-phase agreement was successfully signed as a result of trade negotiations between the U.S. and China. However, as there was no more new influential factors in the market, the impact of this event on the market was limited, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around CNY 6.88 for a while. Then, on January 17, China's GDP for the fourth quarter in 2019 turned out to be 6.0%—as had been estimated in the market. Even though the annual GDP of 2019 recorded negative growth of 0.5% from the 6.6% recorded in 2018, this was still within the target range for the GDP growth rate set out for 2019, at between 6.0% and 6.5%. Furthermore, other major economic indices all turned out to be strong, including industrial production, retail sales, and fixed-asset investment, which collectively strengthened the Chinese yuan, and the U.S. dollar/Chinese yuan exchange rate once approached CNY 6.84.

However, before the Chinese New Year holidays, the risk sentiment in the market worsened due to media reports on the growing impact of a new coronavirus. While stock prices were falling worldwide, the Chinese yuan depreciated against the U.S. dollar and the exchange rate exceeded CNY 6.93 to the U.S. dollar.

Interest rate market

On January 1, the People's Bank of China (PBOC) decided to cut its deposit reserve requirement ratio by 50 basis points from January 6 in order to secure stable capital supply for financial institutions, and this resulted in a capital supply of CNY 800 billion. However, as this capital supply had already been anticipated from the end of last year, its impact on the interest rate market was limited.

Furthermore, the liquidity level was maintained high through open-market operations and a new MLF. Thus, the interest rates for terms that go beyond the Chinese New Year, which were kept from rising, slowed in the middle of the month. Thereafter, the money interest rates remained stable until before the Chinese New Year.

2. Outlook for This Month

Foreign exchange market

In February, the Chinese yuan is expected to remain stable.

The risk sentiment in the market improved, thanks to the first-phase agreement signed by the U.S. and China after their trade negotiations, and this is likely to keep the Chinese yuan robust in February. On the other hand, there are difficult issues remaining for the second-phase agreement, and the next customs duty is not likely to be cut before an agreement is concluded between the U.S. and China, while the first-phase agreement itself faces many questions regarding its executability. The Chinese yuan is therefore not likely to appreciate rapidly either.

Also, the outbreak of the new coronavirus in Wuhan may lead to the deterioration of the risk sentiment in the market, while impacting consumption activities in China. This may further worsen the economic growth outlook of China, possibly leading the Chinese yuan to depreciate in the times ahead.

Interest rate market

The capital market is forecast to remain stable after digesting the fund procurement demand for the Chinese New Year holidays.

At the moment, there has no impact of the outbreak of the new coronavirus in the capital market. The liquidity level is expected to remain high, fluctuating at the current level. On the other hand, if the new coronavirus spreads rapidly after the Chinese New Year holidays, concerns for an economic downturn would grow, leading to risk-averse sentiment in the market, and the interest rates may fall. Market participants should therefore remain attentive of media reports and the actions taken by the related authorities.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – February 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3550–1.3800**
	Against the yen:	**JPY 78.50–80.00**

1. Review of the Previous Month

In January 2020, the Singapore dollar depreciated against the U.S. dollar.

The U.S. dollar/Singapore dollar exchange market opened in January at the lower-SGD 1.34 level. On January 2, the preliminary figure for the October–December quarter GDP was announced to be +0.8% year-on-year. However, as this result had been already anticipated in the market, its impact on the market was limited. On January 3, the following day, the media reported that the U.S. had killed in an air raid the commander of Iran's Revolutionary Guards Corps, and this strengthened tensions in the Middle East. As a consequence, risk-averse sentiment strengthened in the market. In reaction to this headline, the Singapore dollar depreciated, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.35 level. Thereafter, Iran started taking retaliatory measures against the U.S., attracting global attention to the geopolitical situation in the Middle East. However, the situation was ameliorated from January 9. The U.S. dollar/Singapore dollar exchange rate remained at the lower-SGD 1.35 level.

The risk-taking sentiment grew on January 11 and thereafter, waiting for the first-phase agreement to be signed by the U.S. and China after the trade negotiations on January 15. Under such circumstances, the currencies of emerging countries strengthened, led by the Korean won. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell again to the mid-SGD 1.34 level.

Thereafter, the first-phase trade agreement was indeed signed by the U.S. and China. Even though the immediate reaction in the market was positive, risk-taking sentiment did not grow as much as expected, as there were many factors of concern in the contents of the agreement, such as those related to customs duties. Thus, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the SGD 1.34 level. On January 17, Singapore's December non-oil domestic exports were announced, and the result turned out to be +2.4% year-on-year—significantly higher than the market estimate, which was –2.0% year-on-year. As a result, the U.S. dollar/Singapore dollar exchange rate fell slightly but continued fluctuating at the lower-SGD 1.34 level.

However, on January 21 and thereafter, market participants started selling the Singapore dollar due to the spread of pneumonia caused by the new coronavirus. As a result, the U.S. dollar/Singapore dollar exchange rate rose and reached the SGD 1.35 level on January 24. Thereafter, there was no sign of improvement in the situation related to the coronavirus, and the Singapore dollar remained weak. As of this writing (January 30), the U.S. dollar/Singapore dollar exchange rate has risen to the lower-SGD

1.36 level.

2. Outlook for This Month

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

In January, there were numerous factors to lead the Singapore dollar to strengthen, such as the first-phase agreement in the trade negotiations between the U.S. and China, as well as strong figures in the economic indices in Singapore. However, in the second half of the month, media reports related to the outbreak of the new coronavirus significantly worsened the risk sentiment in the market. As a result, the U.S. dollar appreciated in the ASEAN foreign exchange market. In particular, the depreciation of the Singapore dollar and the Malaysian ringgit was significant. Furthermore, the stock price index (the MSCI emerging market index) also recorded a fall of approximately 3% within a week, the largest fall since July last year, demonstrating the fragility of the currencies of ASEAN countries.

The most-influential factor for now is the situation related to the new coronavirus, and it is important to precisely evaluate the impact of its spread on the economy. In general, risk-averse sentiment is likely to grow worldwide, and in particular, negative impact is expected on the Singapore economy, as it is highly dependent on exports to China (8% as a percentage of its GDP). Thus, the Singapore dollar is likely to remain weak, as was the case in January.

As is shown by the statistics in January, the Singapore economy seems to have passed its bottom after experiencing a deterioration in 2019. While the trade negotiations between the U.S. and China are moving to the second phase, the Singapore economy had been expected to recover even further. However, there are now concerns that the spread of pneumonia as caused by the new coronavirus will impact the economy of China and Singapore. Market participants must carefully observe signs in various economic indices.

Takeshi Hashi, Bangkok Treasury Office

Thai Baht – February 2020

Expected Ranges	**Against the US$:**	**THB 30.50–32.00**
	Against the yen:	**JPY 3.40–3.60**

1. Review of the Previous Month

In January, the U.S. dollar/Thai baht exchange rate rose significantly.

The U.S. dollar/Thai baht exchange market opened trading at the mid-THB 30.10 level on January 2, with some improvement from the significant depreciation observed at the end of 2019. While the market remained quiet for several days at the beginning of the year, on January 7, the media reported that Iran had attacked a military facility of the U.S. in Iraq, to which market participants reacted by selling the Thai baht. As a result, the U.S. dollar/Thai baht exchange rate once rose to THB 30.30. On January 8, the governor of the central bank of Thailand, Veerathai Santiprabhob, made a remark that capital outflow would be deregulated further in the next several months, which led the U.S. dollar/Thai baht exchange rate to continue rising. However, on January 9, the geopolitical situation in the Middle East was intensified, and market participants bought the U.S. dollar while also buying back the Thai baht. On January 10, the December consumer sentiment index of Thailand was released, recording negative growth from the previous month for the 10th consecutive month, although the impact of this was limited in the market.

In the middle of the month, market participants continued selling the U.S. dollar, as they did in the previous month, and the U.S. dollar/Thai baht exchange rate once fell to the mid-THB 30.10 level on January 13. However, the Thai baht appreciated too rapidly, and the exchange rate soon returned to the lower-THB 30.20 level. In the morning of January 14, the U.S. removed China from its list of currency manipulators in its foreign exchange report. Positively reacting to this headline, Asian currencies such as the Chinese yuan and the Korean won appreciated against the U.S. dollar. Following this trend, market participants sold the Thai baht, and the U.S. dollar/Thai baht exchange rate once rose to the lower-THB 30.30 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range until January 20. However, on January 21, the outbreak of the new coronavirus was confirmed in China, and overall stock prices fell due to concerns over the spread of the virus. Market participants sold the overall Asian currencies, and the Chinese yuan depreciated further. Under such circumstances, Thai baht-selling also dominated the U.S. dollar/Thai baht exchange market, and the exchange rate rose to approach THB 30.40.

In the second half of the month, the excessive pessimism surrounding the coronavirus was mitigated on January 22. However, on January 23 and thereafter, the media reported on the spread of the coronavirus inflection, which worsened the market sentiment once more. As a result, the U.S. dollar/Thai baht exchange rate exceeded the THB 30.50 mark. Thereafter, the U.S. dollar/Thai baht continued appreciating. Following the depreciation of the Chinese yuan, the U.S. dollar/Thai baht exchange rate reached the THB 31.00 mark on January 29. Toward January 30, the Thai baht continued weakening against the U.S. dollar, and the exchange rate exceeded the psychological turning point at THB 31.00 to the U.S. dollar, momentarily approaching the THB 31.30 level.

2. Outlook for This Month

In February, the Thai baht is forecast to remain weak.

In January, risk-taking sentiment grew in the market during the first half of the month, with a positive headline related to the first-phase agreement in the trade negotiations between the U.S. and China. However, in the second half of the month, concerns grew over the outbreak of the new coronavirus in China and the spread of its infection, reversing the market sentiment and fueling risk-averse sentiment. The U.S. dollar/Thai baht exchange rate fell below THB 30.00 at the end of 2019, which seemed to have been the bottom. Under such circumstances, it can be said that the U.S. dollar/Thai baht pair has been in a bull market from the point of view of technical analysis, as the daily Ichimoku chart clearly exceeded the cloud as well as the 200-day moving average line (THB 30.72). In 2019, market participants bought the Thai baht based on both risk-averse sentiment and risk-taking sentiment. However, since the media reported on the outbreak of the new coronavirus, market participants are very concerned with the spread of the coronavirus infection to Thailand, which is geographically close to China, with many Chinese tourists. Therefore, the correlation with the Chinese yuan market and the Shanghai stock market tends to become high, and the Thai baht has been depreciating in reaction to the depreciation of the Chinese yuan.

The spread of the coronavirus has been faster than that of SARS in 2003, while the economic influence of China in the world since then has grown much more significant. Therefore, there are severer concerns over the negative impact of the coronavirus on the global economy than in 2003. For the Thai economy as well, pessimism has been spreading in the market. In 2003, it took approximately half a year for the infection of SARS to be controlled, and thus it is likely to take about the same time or longer for the spread of the coronavirus to be controlled.

It is unknown how much further the U.S. dollar/Thai baht exchange rate will rise in the times ahead. From the point of view of technical chart analysis, the turning points may be THB 31.20 and THB 31.63, with a 38.2% return and a 50% return, respectively, from THB 29.75, the low observed at the end of 2019 to THB 33.50, the high observed in July 2018. In FY2019, the Thai baht appreciated much more rapidly than other Asian currencies, with an appreciation of 8.5% against the U.S. dollar. Thus, many market participants expect the Thai baht to rally in the times ahead. Based on historical data, the Thai baht is likely to appreciate from January toward March. At the same time however, the sense of uncertainty persists until the spread of the coronavirus has been controlled. Under such circumstances, the Thai baht is likely to remain weak in February, as was the case in the second half of January.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – February 2020

Expected Ranges	Against the US$:	MYR 4.0300–4.1200
	Against the yen:	JPY 26.18–27.32
	Against 100 yen:	MYR 3.6600–3.8200

1. Review of the Previous Month

In January, the U.S. dollar/Malaysian ringgit exchange rate once rose due to the tensions between the U.S. and Iran. However, there were also supporting factors for the Malaysian ringgit, such as the first-phase trade agreement between the U.S. and China, which led the U.S. dollar/Malaysian ringgit exchange rate to reach MYR 4.0520—the lowest in 2.5 years.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading with a strong Malaysian ringgit with expectations for the first-phase trade agreement between the U.S. and China, as was the case at the end of the previous year. Thereafter, there was panic buying of safe assets, as the geopolitical situation was intensified after the U.S. killed the commander of Iran's Revolutionary Guard Corps. As a result, the U.S. dollar/Malaysian ringgit exchange rate once recovered to the MYR 4.11 level on January 8. However, the media reported that both countries were ready to calm the situation, which encouraged market participants to buy back risk assets. In consequence, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.07 level on January 10.

In the middle of the month, the phase-one trade agreement was signed by the U.S. and China on January 15, which mitigated the impact of negative factors for the Malaysian ringgit, such as the 2019 GDP growth rate of China recording its lowest level since 1990 (+6.1%) as well as the media report related to the ban on Indian palm oil import triggered by criticism against human rights abuses in Kashmir by Prime Minister Mahathir bin Mohamad. As a result, the Malaysian ringgit appreciated against the U.S. dollar. On January 17, the U.S. dollar/Malaysian ringgit exchange rate thus renewed the low recorded in March last year, reaching MYR 4.0520 for the first time since July 2018.

Toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate rallied from the low, with the threat of the coronavirus as well as the unexpected interest rate cut announced by the central bank of Malaysia. Concerns over the spread of the coronavirus were fueling concerns over a slowdown in demand in the global economy. Under such a condition, production at two major oil fields was suspended due to the pipeline closure by anti-government forces in Libya. As a result, the crude oil price that had been on a rise started to fall, leading the U.S. dollar/Malaysia ringgit exchange rate to rise to the MYR 4.06 level in consequence.

Furthermore, on January 22, the central bank of Malaysia decided to cut its overnight policy rate (OPR) by 25 basis points to 2.75%. This was an unexpected interest rate cut, and only one company out of 14 was anticipating in this decision. The majority expected an interest rate cut only after March, when the GDP for FY2019 has been announced in the middle of February. On the other hand, the December CPI was announced on the same day, but the result was +1.0% year-on-year, as had been estimated previously. The annual CPI turned out to be +0.7% year-on-year, the lower end of the range estimated by the central bank. At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate continued rising to temporarily reach MYR 4.09, with risk-averse sentiment that resulted from the concerns over the spread of the coronavirus. As of January 30, the U.S. dollar/Malaysian ringgit pair has been trading at around MYR 4.08.

2. Outlook for This Month

In February, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.03 and MYR 4.12. After the unexpected interest rate cut by the central bank announced in January, the GDP growth rate for the fourth quarter in 2019 and the annual GDP growth rate for 2019, which are to be announced on February 12, are expected to be weaker than the government estimate (+4.7 year-on-year), which is likely to keep the Malaysian ringgit from appreciating. On the other hand, however, there are also supporting factors such as the phase-one trade agreement signed by the U.S. and China in January as well as foreign investors returning to invest in Malaysian government bonds.

As was discussed above, the policy interest rate cut announced on January 22 was a surprise for most market participants. The central bank explains that this was a preemptive action. However, it seems to have been a measure to promote economic growth, given that the annual CPI that was announced on the same day turned out to be +0.7% year-on-year—0.2% lower than the estimate in the government budget plan released in October last year.

As was pointed out in the article released last month, it seemed difficult to maintain the annual GDP growth rate for 2019 at the upper-4% level without revitalizing foreign direct investment (FDI), and thus the Finance Ministry of Malaysia implied that if the annual GDP growth rate for 2019 does not reach the target level (+4.7% year-on-year), the target growth rate for 2020 (+4.8% year-on-year) might be revised. The GDP growth rate has been +4.6% year-on-year with accumulated data up to the July–September quarter in 2019. In order for the annual growth rate to reach the government's plan, the quarter growth rate for the October–December period must exceed +4.8% year-on-year, recovering from the +4.4% year-on-year recorded in the July–September period. As direct investment has not been fully revitalized yet, it is now quite likely for the target to be missed.

On the other hand, with regard to the capital flow of foreign investors, there was a net inflow worth approximately MYR 8 billion that went into the Malaysian government bond market both in November and December, leading the government bond yields to fall. While the revision of the constituents of the FTSE Russell index is scheduled for March, the current situation is a reflection of the view by market participants that it is unlikely for Malaysian government bonds to be excluded from the index. On the other hand, the stock market remains weak, and the KL Composite Index has been approximately 10% lower than the level observed as of the time of the general election two years ago. These factors are also considered to be reasons for the interest rate cut.

With regard to the supply & demand balance in the Malaysian ringgit market, the approved value for direct investment has been accumulating, thanks to the improvement in the November exports compared to the decline in October, in addition to the factors mentioned above. The impact of the outbreak of the coronavirus may result in weakening pressure to sell the Chinese yuan, which is highly correlated with the Malaysian ringgit due to a decline in the deficit in the travel balance of/regarding China. However, it may also result in a worldwide decline in demand. It is thus difficult to foresee the outcome at this moment. As the central bank is not likely to welcome violent fluctuations of the exchange rate, the Malaysian ringgit is most likely to continue appreciating slowly against the U.S. dollar.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2020

Expected Ranges	**Against the US$:**	**IDR 13,500–13,900**
	Against 100 rupiah:	**JPY 0.77–0.81**
	Against the yen:	**IDR 123.46–129.87**

1. Review of the Previous Month

In January, the U.S. dollar/Indonesian rupiah exchange rate remained stable, as was the case in December last year. The Indonesian rupiah appreciated against the U.S. dollar from the IDR 13,900 level—the high for the U.S. dollar/Indonesian rupiah exchange rate—to temporarily fall below the IDR 13,600 level.

The U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 13,800 level on January 2. While there were few market participants at the beginning of the year, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range. On the same day, the December Consumer Price Index of Indonesia was announced, and the result turned out to be +2.72% year-on-year—the lowest growth rate since March last year. Then, on January 3, the following day, the tension between the U.S. and Iran escalated, worsening the geopolitical situation in the Middle East. The U.S. killed in an air raid the commander of Iran's Revolutionary Guard Corps, Qasem Soleimani, fueling concerns over possible retaliatory actions by Iran. While the crude oil price was appreciating, the Indonesian rupiah weakened against the U.S. dollar, and the exchange rate approached IDR 13,965 to the U.S. dollar toward January 6 in the following weak. However, risk-averse sentiment was mitigated thereafter, and on January 8, Iran released a statement that Iran did not wish to go to war with the U.S. U.S. President Donald Trump also released a statement that they didn't want to use military force. The situation was calming down, and the Indonesian rupiah appreciated against the U.S. dollar and the exchange rate reached the mid-IDR 13,800 level on January 9. Risk-taking sentiment grew among investors, and capital inflow continued into the Indonesian government bond market. As a result, the Indonesian rupiah strengthened rapidly, and the U.S. dollar/Indonesian rupiah exchange rate fell below IDR 13,800 and reached the mid-IDR 13,700 level on January 10.

In the middle of January, the Indonesian rupiah remained strong. While the phase-one trade agreement was to be signed by the U.S. and China, risk-taking sentiment continued growing among investors with expectations. Under such circumstances, the U.S. released a foreign exchange report on January 13, removing China from the list of currency manipulators, and this contributed to the continued capital inflow into Indonesia. The U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 13,700 level, and the Indonesian rupiah continued appreciating against the U.S. dollar to the upper-IDR 13,600 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the upper-IDR 13,600 level, and the Indonesian rupiah remained strong. On January 15, the December trade balance of Indonesia was announced. Even though there was a trade deficit, the figure was smaller than the market estimate, and exports recorded a positive year-on-year growth rate, which also supported the Indonesian rupiah. Then, on January 16, the Indonesia's president Joko Widodo expressed concern over the possibility for the rapid appreciation of the Indonesian rupiah to raise pressure for exporters. However, the Indonesian rupiah exchange market remained stable.

At the end of the month, the central bank of Indonesia held a monetary policy meeting on January 23, and despite the view of some market participants that expected an interest rate cut, the policy interest rate was maintained at the existing level, as had been anticipated by most market participants. In reaction to this, capital inflow into Indonesia increased on January 24, the following day. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate finally fell below the IDR 13,600 level. The Indonesian rupiah reached its monthly high at the upper-IDR 13,500 level. Thereafter, the Indonesian rupiah weakened slightly, as market participants sold the Indonesian rupiah based on concerns over the spread of the new coronavirus as well as the U.S. dollar settlement at the end of the month. As of the time of this writing (January 30), the U.S. dollar/Indonesian rupiah pair was trading at the mid-IDR 13,600 level.

2. Outlook for This Month

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

The December trade balance of Indonesia was announced last month, and there was a trade deficit, as was the case in November. This could be a positive factor for the future trade balance in which exports recorded positive year-on-year growth for the first time since October 2018. However, there is still a trade deficit, and it is impossible to mitigate the current account deficit. Given the recent appreciation of the Indonesian rupiah, it would be difficult for the trade balance to recover, as is clear from the remark made by President Joko Widodo, who expressed his concern over the negative impact of the appreciation of the Indonesian rupiah on exporters, which was already discussed above in the review of the previous month's section. As it is not easy to reduce the current account deficit, potential downward pressure on the Indonesian rupiah is expected to persist in the times ahead.

On the other hand, there continued to be vigorous capital inflow into the Indonesian government bond market from foreign investors in January. Foreign investors' holdings of Indonesian government bonds increased by more than IDR 30 trillion between the beginning of January and January 24. Throughout last year, foreign investors' holdings of Indonesian government bonds increased nearly by IDR 170 trillion, which contributed to the stability of the Indonesian rupiah market. Comparing the annual increase in foreign investors' holdings with that in January this year, it is clear how fast the figure has been growing this year. In the end, the Indonesian rupiah remained strong in January, and this vigorous capital inflow can be seen as a result of the deterioration of the geopolitical situation in the Middle East and in the progress in the trade negotiations between the U.S. and China. However, there has currently been a factor to worsen investor sentiment, which is the spread of the new coronavirus infection. The infection has been increasing, and it is unlikely for the spread to be controlled any time soon. It is also possible for the Indonesian rupiah to depreciate after the appreciation based on the vigorous capital inflow observed last month. It is thus likely for the pressure to buy Indonesian rupiah to weaken in the times ahead.

Thanks to the capital inflow discussed above, long-term interest rates in Indonesia have fallen, along with which the inflation rate has also been falling. As the Indonesian rupiah has been strong, there are now nearly all the factors necessary for the central bank of the Indonesia to cut the policy interest rate. At the time of the monetary policy meeting held in January, the central bank implied the possibility of further monetary easing depending on the economic situation. It is therefore possible for the policy interest rate to be cut further before the end of this month, at the earliest.

For the above reasons, the Indonesian rupiah is forecast to weaken in February.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – February 2020

Expected Ranges	**Against the US$:**	**PHP 50.20–52.00**
	Against the yen:	**JPY 2.10–2.17**

1. Review of the Previous Month

In 2020, the U.S. dollar/Philippine peso exchange market opened trading at PHP 50.60 on January 2. The geopolitical situation in the Middle East has been escalating, fueling risk-averse sentiment in the market. As a result, the U.S. dollar/Philippine peso exchange rate rose to the PHP 51 level (the weekly closing rate recorded on January 3 was PHP 51.09 to the U.S. dollar). After the weekend, the U.S. dollar/Philippine peso once traded at PHP 51.32 on January 6. However, optimism regarding the situation in the Middle East gradually spread, as it was likely that a military confrontation would be avoided, leading the U.S. dollar/Philippine peso exchange rate to the upper-PHP 50 level.

On January 8, the media reported that Iran had attacked a U.S. military base in Iraq, and this encouraged market participants to buy the U.S. dollar again. However, the U.S. dollar/Philippine peso exchange rate only reached PHP 51.25 and did not reach the highest rate for the U.S. dollar recorded on January 6. In the end, market participants started buying Asian currencies again with expectation for the amelioration of the situation. The U.S. dollar/Philippine peso exchange market closed weekly trading at PHP 50.66 on January 10.

On Monday, January 13, the Philippine financial market was closed due to the eruption of the Taal volcano. On January 14, the U.S. dollar/Philippine peso exchange market opened at PHP 50.40 with the peso significantly stronger than the closing rate of the previous week (PHP 50.66 to the U.S. dollar). There was no negative impact of the volcano eruption, and the Philippine peso appreciated against the U.S. dollar, thanks to (1) the fact that the geopolitical situation in the Middle East was ameliorated, (2) the December employment statistics released on January 10 confirming the steadiness of the employment market in the U.S., (3) a U.S. foreign exchange market report that removed China from a list of currency manipulators, and (4) improved investor sentiment in waiting for the phase-one trade agreement to be signed by the U.S. and China.

After the market opening on January 14, the U.S. dollar/Philippine peso traded at PHP 50.37, renewing the highest rate for the Philippine peso against the U.S. dollar recorded in 2019 (PHP 50.40 to the U.S. dollar) (which also turned out to be the monthly high in January).

However, the appreciation of the Philippine peso was also limited. The secretary of the U.S. Department of the Treasury denied the abolition of a customs duty in the phase-one agreement between the U.S. and China, while the November amount of overseas Filipino workers remittances turned out to be USD 2.37 billion with a year-on-year increase of 2% without reaching the market estimate (USD 2.44 billion with an increase of 4.6%), and market participants were aware of the risk of the spreading of infection of the new coronavirus that started in Wuhan, China. As a result, market participants bought the U.S. dollar and sold the Philippine peso toward the end of the month. As of this writing (7 p.m. on January 30), the U.S. dollar/Philippine peso pair has been trading at around PHP 51.

2. Outlook for This Month

The Philippine financial market remained stable after the eruption of Taal volcano in January.

Market participants did not actively sell the Philippine peso, and the Philippine peso interest rates have not risen since the eruption.

The Philippine stock price index fluctuated at the 7,700-point level for a week after the eruption (January 14–January 17).

Although there has been a net sell by foreign investors in the Philippine stock market, this has been the case since May 2019. There was no change in the amount of the net sell.

As the alert level was lowered from four to three, it seems that the risks related to the volcano have been digested in the market (although needless to say it remains a risk factor, and market participants need to stay vigilant).

On January 23, the Philippine GDP for the October–December quarter in 2019 was released, and the result was 6.4% year-on-year, accelerating from the July–September quarter, which recorded 6% year-on-year. However, the annual GDP recorded +5.9% year-on-year—the lowest figure recorded since 2011.

The governor of the central bank of the Philippines made a remark such that further monetary easing was possible. However, market participants saw this as a message to emphasize that there are means to support the Philippine economy outside of carrying out monetary easing.

It is unlikely for the policy interest rate to be cut so easily, as the inflation outlook released by the central bank is 2.9% for both 2020 and 2021, around the central value of the inflation target (between 2% and 4%), while food prices may rise in the times ahead due to the impact of the volcano eruption. The monetary policy committee at the central bank of the Philippines has a meeting scheduled for February 6, and the author of this article personally expects the policy interest rate to be maintained at the existing level.

The most-important factor has currently been the new coronavirus.

On January 30, the media reported that the first person in the Philippines tested positive for an infection by the coronavirus. This person is a Chinese national from Wuhan, and it is now more likely for the infection to spread even further. In the past several weeks, the U.S. dollar/Philippine peso exchange rate has been stable, and the exchange rate rose to the PHP 51 level only to remain at the level for a short time, if any. However, risk-averse sentiment grew in the market, and it would not be surprising if market participants start actively selling the Philippine peso.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – February 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 January, the U.S. dollar/Indian rupee exchange rate did not move into any direction.

At the beginning of the year, the U.S. dollar/Indian rupee exchange market opened trading at INR 71.36. On January 3, the media reported that the U.S. killed in an air raid the commander of Iran's Revolutionary Guard Corps, in Iraq, and this led the exchange rate to rapidly rise to INR 72. Market participants sold the Indian rupee to avert risks, and the crude oil price appreciated due to concerns over the worsening geopolitical situation in the Middle East. As India imports a large amount of crude oil, market participants can expect the trade balance of India to deteriorate, leading to the weakening figure in the current account deficit. Thus, the Indian rupee is more likely to be sold than other emerging currencies in Asia. On January 8, the Brent oil price rose to USD 71.75 (the WTI oil price rose to USD 65.65) at which moment the U.S. dollar/Indian rupee exchange rate rose to reach its monthly high at INR 72.13. However, when the exchange rate exceeded the INR 72 level, the central bank of India intervened in the market by selling the U.S. dollar and buying the Indian rupee, so the exchange rate did not rise further.

However, the media reported thereafter that Iran did not wish to go to war with the U.S., while U.S. President Donald Trump confirmed that the U.S. would not attack again unless Iran takes retaliatory action, and this ameliorated the risk sentiment in the market. Then, on January 9, the U.S. dollar/Indian rupee exchange rate recovered to the level observed before the Iran attack. After the market close of the second week of the month, the number of non-agricultural employees of the U.S. was announced, and the figure turned out to be weaker than the estimate. Furthermore, the Consumer Price Index of India reached its highest level since July 2014, which further decreased the possibility of an interest rate cut. The U.S. dollar/Indian rupee exchange rate started falling and reached its monthly low at INR 70.70 on January 14.

Toward the second half of the month, headlines related to the new coronavirus dominated the media, in reaction to which risk-averse sentiment grew again in the market and the U.S. dollar/Indian rupee exchange rate rose to the mid-INR 71 level. However, the exchange did not rise further, and as of this writing (January 30), the U.S. dollar/Indian rupee pair has been trading at the INR 71.48 level. Thus, the U.S. dollar/Indian rupee exchange rate fluctuated in both directions in January, but in the end, the monthly trading is closing to the same level as at the beginning of the month.

In January, the Indian rupee/Japanese yen exchange rate did not move in any direction.

The Indian rupee/Japanese yen exchange market opened trading at JPY 1.522 in 2020. Thereafter, the Japanese yen appreciated against the U.S. dollar in the wake of the U.S. attack on Iran to the mid-JPY 107 level from the JPY 109 level. Following this trend, the Indian rupee/Japanese yen exchange rate fell to the JPY 1.495 level for the first time since September 2019. Thereafter, the media reported the possibility of retaliatory attacks by Iran, and Iran's attack of a U.S. military base in Iraq was announced, with which the exchange rate fluctuated. However, the situation calmed, and attention in the market returned to headlines related to the trade negotiations between the U.S. and China.

Under such circumstances, the Chinese yuan appreciated against the U.S. dollar and the exchange rate returned to the level before the sharp appreciation of the exchange rate observed in August last year. Furthermore, the U.S. removed China from a list of currency manipulators, and this led the U.S. dollar/Japanese yen exchange rate to rise to the JPY 110 level. Following this trend, the Indian rupee/Japanese yen exchange rate rose to JPY 1.522 on January 14—the monthly high in January. Thereafter, the U.S. dollar/Japanese yen exchange rate remained high. However, the Indian rupee/Japanese yen exchange rate started falling again, along with the depreciation of the Indian rupee in the U.S. dollar/Indian rupee exchange market. As of this writing (January 30), the Indian rupee/Japanese yen pair has been trading at the JPY 1.523 level. As was the case with the U.S. dollar/Indian rupee exchange rate, the Indian rupee/Japanese yen exchange rate did not move into any direction in January.

2. Outlook for This Month

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

The spread of pneumonia caused by the new coronavirus that has been gathering substantial attention impacted the stock, bond, and foreign exchange markets since the middle of January. Furthermore, toward the end of the month, the U.S. Department of State raised its alert level on January 27. On January 29, there were headlines related to this issue such as the fact that the World Health Organization held an extraordinary meeting, to which however the U.S. dollar/Indian rupee exchange did not react violently. While it remains an issue about which market participants should be careful, there has been no panic situation seen in the financial markets.

With regard to other countries, monetary policy meetings were held smoothly in the EU, the U.S., and Japan, with those countries scheduling other such meetings for March. With regard to the U.K.'s exit from the EU, the U.K. signed the Brexit bill on January 29. With regard to the trade negotiations between the U.S. and China, the phase-one trade agreement was signed between the U.S. and China, even though there are many undone issues. For these reasons, all of the issues seem to have hit bottom.

When it comes to India, there is a budget announcement scheduled for February 1. As this concerns the budget plan for the next fiscal year, it most likely will confirm the expansion of expenditures from a political point of view. Thus, economic expansion is likely, which would encourage foreign investors to buy Indian stocks, leading the Indian rupee to appreciate. On the other hand, the central bank of India has been intervening in the market by buying the U.S. dollar and selling the Indian rupee when the U.S. dollar/Indian rupee exchange rate reaches the mid-INR 70 level. Thus, as long as the central bank continues intervening in the market, the Indian rupee is not likely to appreciate much further against the U.S. dollar. The next key will be the monetary policy meeting at the central bank of India, which is scheduled for February 6. It is most likely that India's central bank will maintain its policy interest rate at the existing level. However, in order to understand future decisions by India's central bank regarding monetary policy, market participants should remain attentive of the price outlook and how the central bank analyzes the impact on the real economy as resulted from the interest rate cuts equivalent of 1.35% in total that were carried out last year.