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Mizuho Dealer's Eye

March 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – March 2020

Expected Ranges Against the yen: JPY108.00–111.00

1. Review of the Previous Month

The dollar/yen pair fluctuated relatively widely in February compared to the most recent month, when it had generally traded in a range between 108–110 yen. Market participants focused mainly on the spread of the new coronavirus and US economic indicators. From mid-February toward the end of the month, the US posted some bullish key economic indicators, while reports suggested the spread of the new coronavirus was slowing, so risk sentiments improved. The pair subsequently hit 112 yen for the first time since April 2019. However, the pair then plummeted on February 21 after a US February PMI fell to its lowest level in six years and four months. The mood shifted to risk aversion in the week beginning February 24, with the NY Dow Jones falling by over $1,000, with the pair then hitting 108 yen during Tokyo trading time on February 28. Outlined below are the movements for each week.

The pair opened the week beginning February 3 trading at the $108.40 level. The markets were in risk-off mode at the start of the week as China (the epicenter of the new coronavirus outbreak) came back after the Chinese New Year holidays. The pair fell to a monthly low of 108.32 soon after trading started in Sydney. Stock markets then fell sharply in China and the rest of Asia, though the impact on the dollar/yen pair was muted. In fact, as Asian stocks stopped falling on February 4, the pair bounced back to the 109 yen level. With the NY Dow Jones then rising by over $500, the pair strengthened to the 109.50 yen level. The US released some better-than-expected non-farm payrolls data for January on February 7, with the pair then hitting 110 yen, though its stay here was short-lived and it ended the week trading at 109.7 yen.

The pair opened the week beginning February 10 at the upper-109 yen level. It touched 110.15 yen for a time before moving with a lack of incentive from the upper-109.50 yen level to the 110.10 yen level. It closed the week trading at the 109.70 yen level.

With the US also on holiday at the start of the week beginning 17, the pair moved with a lack of incentive. February 19 saw news that the number of people infected by the new coronavirus was increasing at a slower pace, while the Chinese government announced some policies to support business. With the US also releasing a series of better-than-expected key economic indicators, risk sentiments improved sharply. As a result, the dollar/yen pair rose to 111.60 yen. The risk-on mood continued into February 20, with the pair hitting a monthly high of 112.23 yen. However, it dropped back on February 21.This day saw a US February PMI falling to its lowest level since 2013. As US interest rates fell, the pair slumped temporarily to the 111.40 yen level. It finally closed the week trading at the mid-111.50

yen level.

In the week beginning February 24, risk aversion intensified on news about the spread of the new coronavirus in several countries around the world. With the NY Dow Jones falling sharply on consecutive days, the dollar/yen pair also plummeted. It fell to the 108 yen level for a time during Tokyo trading time on February 28, with the trend continuing in overseas markets.

2. Outlook for This Month

The dollar/yen pair is expected to move with a heavy topside in March.

It will probably float in a range from the upper-108 yen level to 111 yen. The last week of February saw reports about the spread of the new coronavirus in several countries. With concerns about the future growing, stocks were sold and bond prices rose. The dollar was also sold and the yen bought on risk aversion. This trend will probably continue in March.

The main focus this month will be whether the infection of the new coronavirus can be stopped and or slowed. In the US, in particular, cases of coronavirus infections in people who had not been to China have been confirmed, and the US that has been 'left out in the cold' is also coming under pressure to take action. President Trump will probably announce some measures to tackle the new coronavirus, though the impact on the currency pair will probably be muted. This writer expects the virus to spread throughout the US, with economic activity starting to slow there. Super Tuesday (the biggest event in the run up to the presidential election) is looming on March 3, though this is also likely to have minimal impact on the currency pair given current sentiments.

Stock markets are falling across the world, with consumer activity in the US also stalling. If it seems more likely that economic activity will not function properly, the FOMC may shift its policy when it meets in March. The FOMC policy rate announcement is looming on March 19 and a rate cut could be on the cards. In his testimony to the House Financial Services Committee at the start of February, FRB chair Jerome Powell said current monetary policy would continue to support US economic growth, thus hinting that policy might remain fixed for a time. Furthermore, though he said the new coronavirus outbreak was becoming a risk factor for the global economy, he said it was too early to say what the economic impact would be. The US composite PMI for February then fell to its lowest level since 2013, though, while the NY Dow Jones suffered historical losses, so the impact of the new coronavirus is now becoming apparent. As such, investors will be watching the March FOMC meeting closely.

Dealers' Market Forecast

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

Bullish on the dollar	8 bulls	107.50 – 111.00	Bearish on the dollar	13 bears	107.00 – 110.00

* Ranges are central values

Tanaka	Bear	106.50 – 110.00	The infection of the new coronavirus is becoming a long-term concern as it sweeps across the US and the rest of the world. As such, it will certainly have a negative impact on the economy. Concerns are also growing on uncertainty about the US presidential election, so the dollar/yen pair will probably have its downside tested on risk aversion.
Takeuchi	Bear	107.00 – 110.00	Investors have not sufficiently factored in the impact on the markets of the spread of the coronavirus. Though the situation in China could ease off, attention will focus on whether the virus spreads to the continents of Africa and South America. The negative impact on the economy will also become more apparent from here on.
Tsutsui	Bull	107.00 – 112.50	Market themes will be the US presidential election, concerns about the spread of the new coronavirus, and the likelihood that a vaccine will be discovered. The markets have fallen on the Bernie Sanders whirlwind and the coronavirus, with the financial markets now expecting rates to be cut by 75bp this year. The dollar/yen pair's downside will grow firmer this month, with market participants then chasing its topside.
Kato	Bear	105.00 – 110.00	The FRB will probably shift its stance slightly. The Chinese authorities have also cut rates in order to promptly pump liquidity into the markets in response to the spread of the coronavirus. This probably follows on from the agreement reached at the G20 meeting. Perhaps the FRB will follow suit next.
Seki	Bear	107.00 – 109.50	The markets are seeing a mechanistic rebalancing of stocks and bonds, with stocks possibly sold above and beyond what their real value and sentiments would suggest. They will probably fall further ahead of a selling climax. Risk aversion could push the dollar/yen pair down to a yearly low.
Mitsuishi	Bull	107.00 – 111.00	The current weakness of US stocks and the dollar is a reactive adjustment to the bullishness seen at the start of February. The US has ample room for easing compared to other major countries, with US stock markets likely to bottom out on rising expectations for easing, As such, the dollar/yen pair is expected to move firmly.
Yamagishi	Bear	107.00 – 110.00	The yen will be bought as a safety asset as risk aversion flares up again. With the new coronavirus outbreak showing no signs of slowing, the yen will be pushed higher. If the impact on the real economy becomes apparent in economic indicators or if high-ranking FRB officials drop hints about rate cuts, the dollar will probably face more selling pressure.
Tasaka	Bull	107.50 – 110.50	Stocks and currencies are in panic mode on uncertainty about the direction of the new coronavirus outbreak. At the recent G20 meeting, central banks of each country agreed to work together to tackle the coronavirus and they have now adopted an accommodative stance in monetary policy. As composure gradually returns to the markets, stocks and the dollar/yen pair will bounce back.
Omi	Bear	107.50 – 110.50	Risk aversion on the spread of the new coronavirus will gradually ease from here on. However, the dollar/yen pair will probably move with a heavy topside owing to the negative impact on the real economy.
Ueno	Bear	107.00 – 110.50	The outlook for the dollar/yen pair will depend on the outlook regarding the spread of the new coronavirus. In an IMF report estimating the impact on the economy, not many observers believed a pandemic was the likely scenario. With expectations growing for US rate cuts, risk will probably trend downwards.

Okamoto	Bear	107.00 – 111.00	Market participants are focusing on the risk of a pandemic when it comes to the new coronavirus. As such, they are moving swiftly to price in rate cuts. With US interest rates sliding, it seems the yen is being bought on risk aversion once more. There remains a Japan selling risk, so although the main scenario is one of yen bullishness, the dollar/yen pair might also move steadily this month.
Onozaki	Bull	108.00 – 110.00	Despite lingering concerns about the spread of the new coronavirus, falling stocks and the rising yen at the end of February were just an adjustment to earlier bullish trends. The FRB has hinted at rate cuts, but the markets have already factored this in to a large extent, so the dollar/yen pair's room on the downside will be capped.
Tamai	Bear	107.50 – 111.00	The dollar/yen pair will probably move with a heavy topside on uncertainty about how long the coronavirus outbreak will continue. If the virus spreads to US from here on, risk aversion will intensify, so caution will be needed. However, there will probably be some correction if interest rates fall sharply.
Harada	Bull	108.00 – 111.00	The dollar/yen pair will probably trade in a range as risk markets are buffeted by the new coronavirus. There does not seem to have been much risk-off yen buying for geopolitical reasons. Signs are also emerging that stocks have been oversold, so investors will look for opportunities to push the dollar/yen pair higher.
Oba	Bear	107.00 – 110.00	US investors have been complacent and have tended to regard the new coronavirus outbreak as someone else's problem, but they are now switching fully into risk-on mode, with the dollar/yen pair set to fall further and stocks and interest rates edge even lower. The pair will probably be sold, particularly before major-indicator announcements. Several countries could intervene substantially to support the markets, so caution will be needed.
Takamura	Bull	107.50 – 111.50	The impact of the new coronavirus has become a major market theme, but stock markets have already entered a period of adjustment. There will be considerable demand for the dollar during phases of risk aversion, so the dollar/yen pair's room on the downside will gradually narrow. As the impact of the virus outbreak wanes, the pair will probably be bought back.
Matsumoto	Bear	107.50 – 110.50	The markets remain on guard against headlines related to the new coronavirus. Stock markets have entered a phase of adjustment, with expectations for US rate cuts also growing again. The dollar is unlikely to rise on the back of interest rate movements. The presidential election campaign has also kicked off in earnest and this will shape the dollar/yen pair's movements too.
Itsumi	Bear	107.00 – 110.00	If several countries place restrictions on travel and productive activities as they seek to halt the spread of the new coronavirus, then even though US economic indicators are moving firmly, risk sentiments will inevitably decline, with the dollar/yen pair moving heavily on the topside.
Otani	Bear	107.00 – 110.50	With the new coronavirus spreading out from China to the rest of the world, the dollar/yen pair is expected to continue trading with a heavy topside. US interest rates have fallen sharply and rate cuts are looking more likely. Under these circumstances, investors will probably test the dollar/yen pair's downside.
Tanishiki	Bull	106.50 – 111.00	The impact of the new coronavirus is still unclear, but stock markets have already entered a period of adjustment to a large extent, so there could be a rally going forward. Investors have already priced in a rate cut at this month's FOMC meeting, so the dollar/yen pair is unlikely to weaken further.
Okuma	Bull	108.00 – 111.50	If the spread of the new coronavirus peaks in the first half of March and infections slow thereafter, risk aversion will ease. The US economy is also moving firmly, so the dollar/yen pair will probably bounce back, with investors then chasing its topside.

Yuta Kimura, Forex Sales, Derivatives & Forex Department

Euro – March 2020

Expected Ranges **Against the US$: US$1.0800–1.1400**
Against the yen: JPY115.00–121.00

1. Review of the Previous Month

In February the euro/dollar pair swung to and fro while hitting its lowest point for three years.

The pair kicked off the month trading around $1.1090 on February 3. The UK prime minister Boris Johnson struck a hardline stance in Brexit talks in the first week. The dollar was also bought as the markets reacted warmly to Chinese moves to soften the economic blow of the new coronavirus outbreak. All this saw the pair dropping to $1.1033. As risk appetite continued to improve, the greenback was bought further after the US released a better-than-expected Non-manufacturing ISM Report on Business for January, so the pair broke below $1.10 to hit $1.0994. Germany then released some worse-than-expected manufacturing orders and industrial production data for December on February 6–7, so the euro was sold and the pair tumbled to $1.0942.

Concerns about political instability in Germany flared up in the second week following the resignation of chancellor Angela Merkel's would-be successor Annegret Kramp-Karrenbauer, leader of the largest governing party. The euro/dollar pair weakened to $1.089 as a result. It then broke below $1.09 and fell to $1.0891 on February12 after the eurozone released a worse-than-expected industrial production indicator for December and US interest rates rose. The pair climbed for a time on February13 as US interest rates fell, though it then dropped to $1.0827 after the euro/yen pair was pulled lower by concerns about the spread of the new coronavirus. Germany released some worse-than-expected 4Q GDP data on February 14. With the German ZEW Indicator of Economic Sentiment for February also dropping sharply below expectations on its release on February 18, the euro was sold at a faster clip and the euro/dollar pair fell to $1.0785.

The euro was sold and the dollar bought at the start of the third week on concerns about a European economic slowdown coupled with the bullish movement of US economic indicators. The pair subsequently weakened to $1.0782 before moving around $1.08. The yen was sold and the dollar bought on February 20 on concerns about the new coronavirus in Asia. The euro/dollar pair was also pulled down to $1.0778 to hit its lowest point in three years. However, France, Germany and the eurozone then released some better-than-expected February PMI data on February 21, while the US released a bearish PMI for February, so the euro was bought and the dollar sold, with the currency pair bouncing back to $1.0863 before moving at the upper-$1.08 mark.

Risk aversion intensified in the fourth week on rising global panic about the coronavirus, with the euro/dollar pair rising to $1.0872 on February 25. The pair's topside was held down on February 26 after the US released some better-than-expected housing starts data for January, but global stock markets then fell sharply over February 27–28 on renewed concerns about the impact of the coronavirus on the global economy. This spurred on dollar selling, with the rising to $1.1027 at the end of the week.

2. Outlook for This Month

The euro/dollar pair will probably be bought back in March.

Amid growing panic about the spread of the new coronavirus, the dollar was bought excessively mid-February, but the pair has bounced back sharply since late February as this trend unwinds. There has been no news about a major coronavirus outbreak in the US, but this seems just a matter of time given how the number of infected people is swelling across the world. As such, though the pair has returned to its level from the start of February, there could be further rises from here on. The service industry is not the only sector to be hit economically by the new coronavirus, with factories also closing and firms adjusting their work shifts and so on. It is hard to calculate how much damage the new coronavirus will have on the global economy. The market consensus is chilly, with stock markets moving bearishly across the world.

Under these circumstances, the ECB Governing Council on March 12 and the FOMC meeting on March 18 will attract attention as investors try to gauge the response of the ECB and FRB. The FRB is facing more pressure for rate cuts, with US rate cuts becoming a burning issue, so expectations for such a move by the FOMC will probably grow in the wake of FRB chair Jerome Powell's emergency statement on February 28. If the FOMC does cut rates on March 18, this will be different from the 'preventative rate cut' implemented at the end of 2019 in the sense that it will be a 'prescriptive rate cut' aimed at alleviating the damage caused by the new coronavirus. As such, the markets will probably react by selling the dollar.

In Europe, meanwhile, the EU and Germany both released a series of worse-than-expected indicators in February, while the political situation in Germany also remains up in the air. The spread of the new coronavirus infection is also raising concerns about default risk when it comes to the bond yields of Italy and other eurozone countries. Though the ECB will naturally be under pressure to cut rates, it does not have much room to maneuver compared to the FRB, so it is hard to imagine the ECB moving ahead of the FOMC by implementing a rate cut on March 12. Given the above, it seems the euro will be bought and the dollar sold on shrinking US/European interest-rate differentials. As mentioned above, though, it is hard to gauge the impact of the coronavirus. As such, the euro/dollar pair could fluctuate violently, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro	5 bulls	1.0825 – 1.1225	Bearish on the euro	16 bears	1.0600 – 1.1100

* Ranges are central values

Tanaka	Bear	1.0500 – 1.1100	The new coronavirus has also spread to Europe and it shows no signs of slowing down, with the impact on the Chinese economy also likely to prompt an economic recession. Stormy Brexit negotiations with the UK will be another factor of uncertainty. The US also faces uncertainty in the form of the presidential election, but selling factors will prevail in the end, with the euro/dollar pair likely to face ongoing downside risk.
Takeuchi	Bear	1.0600 – 1.1100	From here on the markets will start to factor in the global spread of the new coronavirus. The virus has yet to spread to Africa, but when it does so, this will probably lead to selling in Europe, a region geographically close to Africa.
Tsutsui	Bear	1.0500 – 1.1100	The Chinese economy is facing downside risk related to the new coronavirus. The European economy depends in large part on external demand, so there are concerns a Chinese slowdown could impact Europe. As such, the main scenario is of euro bearishness ($1.05 level). However, the German finance minister has called for a relaxation of fiscal discipline, so the situation will require monitoring. There could well be a trend rally ($1.15 level) too.
Kato	Bull	1.0800 – 1.1300	The FRB will probably adopt a dovish stance in the wake of the recent G20 agreement. The euro/dollar pair's room on the downside will be capped until it seems that the negative impact of the new coronavirus on the global economy is starting to wane.
Seki	Bear	1.0700 – 1.1100	The eurozone growth rate and the German interest rate forecast will be downgraded. The CDU espouses balanced finances, so until it changes its tune, fiscal expansion seems unlikely in Germany. There is a risk the new coronavirus could spread beyond Italy, so the euro will be a hard currency to buy.
Mitsuishi	Bear	1.0600 – 1.1200	It seems the adjustment to the euro's fall in the first half of February has more-or-less come to an end. Investors will now turn their eyes back to the variant performance of the European and US real economies, with the US also apparently having more room to move when it comes to monetary policy. As such, the euro will probably begin sliding.
Yamagishi	Bull	1.0900 – 1.1150	Expectations for US rate cuts have soared and the phase of dollar bullishness is now undergoing some adjustment. As such, the euro will probably be bought back as investors look for somewhere to park their money. Europe does not have much room for further rate cuts, so if the US does cut rates, the dollar will probably be bought and the euro sold on shrinking interest-rate differentials.
Tasaka	Bear	1.0600 – 1.1100	China's economy has slumped on the impact of the new coronavirus. There are also concerns that the virus could spread throughout Europe. As such, a European economic slowdown looks nailed on. The euro/dollar pair rose at the end of February, but investors will probably test its downside again going forward.
Omi	Bull	1.0850 – 1.1150	The euro/dollar pair will probably bounce back on dollar selling. However, formal Brexit negotiations with the UK will begin this month and they look set to be difficult, so the euro's rally will be muted.
Ueno	Bear	1.0700 – 1.1100	The euro/dollar pair bounced back in the latter half of February. This was probably an adjustment to the recent trend of dollar buying. The coronavirus is starting to impact Europe, with the European economy moving sluggishly and China (a region with strong economic links to

			Europe) also undergoing an economic slowdown. As such, investors will continue to avoid actively buying the euro.
Okamoto	Bear	1.0600 – 1.1100	European fundamentals look set to slump as the Chinese economy slows on the new coronavirus and the number of infected people grows in Europe too. The euro/dollar pair is currently being bought on low US interest rates, but euro-selling pressure will grow from here on.
Onozaki	Bear	1.0600 – 1.1100	Amid ongoing concerns about the new coronavirus, Chinese economic activity could slump. This would have a negative impact on Europe, which depends in large part on external demand. Uncertainty will also rise on the commencement of Brexit negotiations.
Tamai	Bear	1.0700 – 1.1200	There are concerns about the spread of the new coronavirus in Europe too. With Europe also weighed down by a Chinese economic slowdown, the euro/dollar pair will continue to move with a heavy topside.
Harada	Bull	1.0600 – 1.1500	The euro continued to be sold on the bearish results of eurozone economic indicators, but US interest rates have also been pushed down by the new coronavirus. With the dollar facing more selling pressure, the euro will grow comparatively easier to buy.
Oba	Bear	1.0700 – 1.1100	European industry has been hit by the Chinese economic slowdown. With Europe and the US also hit by the spread of the coronavirus, it seems the euro/dollar pair will move with a heavy topside. The pair is being bought back on the better-than-expected results of several European economic indicators, but it will face more selling pressure from here on as the coronavirus spreads at a faster pace.
Takamura	Bull	1.0750 – 1.1100	The European economy could be hit by sluggish exports as the Chinese economy slows on the coronavirus. The euro/dollar pair was bought back in the latter half of February, but this was due to a short-term adjustment rather than the bullishness of European economic indicators. The pair will probably trade with a heavy topside this month.
Matsumoto	Bear	1.0750 – 1.1100	The euro has been bought back on a sense the European economy has bottomed out, but the euro's rise will be slowed by renewed concerns about the new coronavirus. Monetary policy and European political risk also suggest the euro/dollar pair will move with a heavy topside.
Itsumi	Bear	1.0500 – 1.1000	Economic indicators are starting to reflect the impact of the coronavirus. As investors focus on concerns about a Chinese economic slowdown, this will also hit the European economy (which relies on exports to China), so the euro looks set to move bearishly.
Otani	Bear	1.0700 – 1.1100	With the new coronavirus spreading across the European mainland, the euro/dollar pair will probably move with a heavy topside. There are signs the euro is growing less bearish as the European economy bottoms out, but any rebound will be muted in nature.
Tanishiki	Bear	1.0700 – 1.1100	After trending lower, there are signs that PMIs have bottomed out. The euro will also be bought on falling US interest rates. However, Europe will be hit as the Chinese economy slows on the new coronavirus. The euro/dollar pair looks set to trade with a heavy topside.
Okuma	Bear	1.0600 – 1.1100	The new coronavirus will lead to a Chinese economic slowdown. Europe has strong links with China, so concerns are also growing about a European economic recession. The negative impact will become more apparent in economic indicators from here on. With political uncertainty also growing in Germany, the euro looks set to move bearishly.

Taihei Yamamoto, Europe Treasury Department

British Pound – March 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 GBP/USD pair moved in a narrow range around $1.30 in February.

On February 10, part of the UK's draft negotiating paper for the Brexit talks was photographed as UK chancellor of the exchequer Sajid Javid carried it to Downing Street. This revealed how the UK was planning to ask for permanent "equivalence assessment" when it came to access to EU markets for UK financial service firms. However, the EU's chief negotiator swiftly rebuffed this idea, saying that "certain people in the UK should not kid themselves about this."

On February 11, meanwhile, a German fintech-related bank announced it was pulling out of the UK (with accounts for British people closing on April 15) due to licensing problems related to Brexit. This was the first sign of what would happen after the end of the free trade in services between the EU and UK. The bank said it had adjudged it difficult to continue from a cost perspective once the UK left the EU's common system of financial licensing. On February 13, UK prime minister Boris Johnson carried out his first cabinet reshuffle since assuming the top spot in July last year, with chancellor of the exchequer Sajid Javid subsequently resigning on the grounds of a disagreement with the prime minister's office. He was replaced by his deputy Rishi Sunak, with the pound then rising on expectations for increased fiscal expenditure. However, the currency pair's topside was capped by concerns that the resignation would lead to anti-Johnson moves within the Conservative Party.

The UK retail sales data for January was released on February 20. It posted a 1.6% month-on-month rise (excluding fuel). This was higher than all the forecasts in a Reuters survey, with inflation seeing its highest upswing since May 2018. Amid growing concerns about the impact of the new coronavirus on Asia's economy, though, the markets saw some emergency dollar buying. A UK carmaker then announced a slump in sales to China. It also said costs were soaring because it had to fly parts in from China to keep it European factories operating. All this led to pound selling. The EU also held its first heads-of-state meeting since the UK withdrawal, but there was no discussion about how to replace seven years' worth of contributions from the UK totaling 75 billion euros, with no agreement reached regarding the mid-term draft budget either. As a result, the meeting was seen as contributing to European political instability when it drew to a close on February 21.

Long-term UK interest rates then fell for a time to their lowest level since October 2019 (bond prices rose), with the pound sold at a faster pace. With the new coronavirus also spreading through Europe, speculation grew that the Bank of England (BOE) would cut rates in the near future.

2. Outlook for This Month

The GBP/USD pair is likely to trade with a lack of incentives in March.

The budget for the new fiscal year will be announced on March 11. The impact of resignation of the chancellor of the exchequer will be minimal as it is common knowledge that the budget is actually being prepared by the prime minister's special advisor Dominic Cummings, with the announcement set to go ahead as planned. The new chancellor is 39-year-old Rishi Sunak, though comments on social media are already ridiculing him as 'chancellor in name only.' Dominic Cummings is strongly in favour of public spending and it seems he has been given the green light by the prime minister's office to control the Treasury. UK bond yields will probably be pushed higher by concerns about a loss of fiscal discipline. We could see a debate about scrapping rules stating that net investment in the public sector be capped at 3% of GDP, for example, or those stating that spending plans must be reviewed if sovereign debt repayments hit 6% of income. This process suggests the ruling Conservative Party will keep their pledge of spending an extra $20 billion a year on railways and roads, for instance. Some reports also say the government is planning to scrap the BBC license fee by 'replacing with a system of flat rates for each channel' or by 'decriminalizing the non-payment of the license fee,' for example. It seems Mr. Cummings is also examining the idea of a 'mansion tax' to pay for increased spending.

As for monetary policy, Andrew Bailey, former deputy BOE governor and head of the UK's Financial Conduct Authority (FCA), will become to BOE's new governor on March 16. Mr. Bailey's first headache will be the fact that UK financial services will lose their complete and unlimited access to the EU market once the transitional period finishes at the end of 2020. The end of June marks the deadline for an agreement about equivalence for financial services, but with the UK prime minister indicating he wants the UK to have its own independent financial rules, there are doubts about whether an agreement will be reached in time. Mr. Bailey has a large presence among financial regulators in the city and there are hopes he will be able to steer the BOE through choppy waters. However, Mr. Bailey is still an unknown quantity when it comes to his monetary policy leanings, so the markets will probably react skittishly to comments he makes after assuming office.

EU/UK trade negotiations are set to commence from March. As mentioned above, the main focus will be financial regulations. When it comes to customs, investors will be watching to see whether the UK requests a Canada-type FTA (with zero tariffs or preferential tariffs applied to almost all goods). Any FTA will include some customs clearance red tape, but the UK will be aiming during negotiations to keep procedures to a minimum in order to lower the burden on business and keep distribution flowing smoothly along the Strait of Dover. On the other hand, the EU has said it will not support a Canada-style FTA if the UK tries to boost its competitiveness by cutting taxes or easing regulations in a manner than goes against EU rules. The next looming issue will be the end-of-June deadline for deciding whether to extend the transitional period. The Conservative Party won after pledging in its manifesto to completely leave the EU by the end of 2020, so it will probably lose support if it ends up requesting an extension.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – March 2020

Expected Ranges	**Against the US$:**	**US$0.6350–0.6600**
	Against the yen:	**JPY68.50–71.00**

1. Review of the Previous Month

In February, the AUD/USD pair temporarily fell to the $0.65 level to hits its lowest level since 2009.

Chinese stock markets came back from the Chinese New Year holidays on February 3 and they opened around 10% down. This fall eased off thereafter, though, with the currency pair subsequently moving firmly around $0.6700. The RBA board kept the cash rate fixed at 0.75% when it met for the first time this year on February 4. The accompanying statement was not as pessimistic as feared, so the pair shot up to around $0.6740. It then hit a weekly high of $0.6774 for a time on February 5 on reports that a vaccine was being developed for the new coronavirus. Dollar assets were bought on February 6 on speculation that the US would release some firm employment data for January. As stocks renewed highs, the pair dipped slightly to $0.6720. The RBA downgraded its 4Q expected GDP rate when it released its quarterly report on February 7. With the US also releasing some better-than-expected nonfarm payrolls data for January, the pair fell sharply to hit $0.6660.

The markets reacted warmly to news on February 10 that several major firms had restarted their Chinese operations, with the currency pair temporarily bouncing back to the $0.67 level. The Australian dollar was then bought after the Australian housing loan figure for December significantly outperformed expectations. In his testimony to Congress on February 11, FRB chair Jerome Powell said he was keeping an eye on the impact of the new coronavirus, though he dropped no hints about a shift in the FRB's policy rates. The Australian dollar was bought for a time, though it soon swung back. The RBNZ decided to keep policy rates fixed when it met on February 12, though the phrase about implementing further easing if necessary was removed from the accompanying statement. The New Zealand dollar subsequently climbed by over 50pip, with the AUD/USD pair also pulled higher to attempt $0.6750. On February 13, the Chinese authorities announced a sharp rise in the number of deaths and infections attributable to the new coronavirus. As stocks fell sharply, the currency pair dipped to around $0.6707 for a time. The minutes to the RBA board meeting were released on February 18. They revealed that the board had discussed rate cuts in February, so the pair then weakened to the $0.6690 level.

Australia released its January employment data on February 20, with the unemployment rate worsening. With news also emerging that China had lowered its prime rates, the pair plummeted to $0.6610 to hit its lowest level since 2009. The US posted its February Services PMI on February 21, with the indicator falling to its lowest level since 2013. The greenback subsequently fell, with the pair bouncing back to around $0.6640. With the new coronavirus spreading to more countries toward the weekend and news emerging about the postponement of the Chinese National People's Congress, for example, risk aversion flared up again on February 24. With the S&P then suffering its sharpest loss since February 2018, the pair dipped to around $0.6600. Risk aversion continued thereafter, with the pair renewing a low of $0.6435 on February 28.

2. Outlook for This Month

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

When it met in February, the RBA board said the impact of forest fires and the new coronavirus would place temporary pressures on Australian economic growth, though it voiced optimism about the economy and it kept its growth forecast for 2019 and 2020 unchanged. It also said the impact of these factors would be short-lived, with the economy suffering no major damage in the medium term. However, the minutes to the meeting were then released and they revealed that the board had discussed rate cuts. The Chinese authorities also announced a sharp rise in the number of deaths and infections attributable to the new coronavirus (owing to the fact they had changed their method of measurement). With Australia's January unemployment rate also deteriorating by more than expected, the AUS/USD pair fell to its lowest level since 2009. With outbreaks of the new coronavirus being reported across the world from late February, concerns about the impact on the global economy have flared up again, with the Australian dollar facing downward pressure. Under these circumstances, expectations for rate cuts have risen again, with the Australian interest rate futures market pricing in around one rate cut by July this year.

The markets will not react much to the bullish results of any economic indicators covering the period from before the coronavirus outbreak, with investors waiting to see the results from January onwards. Australia's 4Q GDP data will be released on March 4, but the currency pair will probably trade with a heavy topside even if the data springs an upside surprise. The next few weeks will be crucial. Pessimism could swing to optimism on reports about trials of a vaccine for the new coronavirus, for example, or pessimism could breed further pessimism. The currency pair is expected to continue trading with a heavy topside on risk aversion until some positive news emerges regarding the coronavirus.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – March 2020

Expected Ranges **Against the US$: C$1.3200–1.3500**
Against the yen: JPY79.00–85.00

1. Review of the Previous Month

The USD/CAD pair opened February trading at C$1.3238. Canada then released some slightly improved indicators, including the retail sales figure and the employment data. However, crude oil prices then fluctuated on concerns about falling demand in the wake of the new coronavirus outbreak. This had a huge impact on the Canadian dollar, with the greenback being bought and the Canadian dollar sold on risk aversion throughout the month.

The US released its January Manufacturing ISM Report on Business on February 3, with the indicator topping the key 50 mark for the first time in six months. As a result, the pair bounced back sharply from the mid-C$1.32 mark to top C$1.33. Canada released some better-than-expected January employment data on February 7, with the Canadian dollar bought back and the pair hitting C$1.3279. However, news then emerged that Russia was dragging its feet when it came to an agreement on coordinated production cuts by members and non-members of the Organization of the Petroleum Exporting Countries (OPEC). As crude oil prices fell, the Canadian dollar was sold and the pair hit the upper-C$1.331 mark.

Canada released its December housing starts figure and building approvals result on February 10. Both indicators were up on expectations and on the previous month, but crude oil prices then fell further on news about the new coronavirus outbreak. As WTI intermediate crude oil futures hit $49.72, the currency pair soared to C$1.3329. However, OPEC then downgraded its crude oil demand forecast for 2020 when it met on February 11. Crude oil prices subsequently shot up to break through $52. The pair then moved in a narrow range between C$1.324–1.327.

Canada released its December manufacturing shipments data on February 18. Shipments of automobiles and planes fell sharply below expectations, with the Canadian dollar dropping back slightly. Canada's January CPI data was then released and it beat expectations on a y-o-y and m-o-m basis, so the Canadian dollar rose to C$1.3215.

The US Markit Manufacturing PMI for February was released on February 21. It dipped below expectations, with yields on 10-year treasuries then sliding. News then emerged that the number of people newly infected with coronavirus had fallen in China to their lowest level since January 29. As concerns about sliding crude oil demand eased off, crude oil prices rocketed to $54.50. During this time, the USD/CAD pair fell from the mid-C$1.32 level to C$1.3202. Other countries besides China then began to announce an increase in coronavirus infections, though. As concerns grew about the negative impact on the global economy, crude oil prices tumbled below $50, with the Canadian dollar sold on risk aversion. As a result, the currency pair climbed to the mid-C$1.33 level.

2. Outlook for This Month

In a speech in Toronto, Bank of Canada (BOC) senior deputy governor Carolyn Wilkins voiced concerns about a slowdown in manufacturing growth, but she also said inflation was moving stably around the 2% target, with Canada’s prolonged economic slowdown easing off. House prices are rising in Canada on an increase in immigrant numbers and the availability of low-interest loans as a result of monetary easing. Household debt is at a very high level, but companies have also piled up record levels of debt. Canada’s companies have the third highest debt levels in the G20, following on from China and France, with the real-estate, manufacturing, crude oil and gas sectors accounting for 45% of all non-financial-sector debt. Canada’s Office of the Superintendent of Financial Institutions (OSFI) announced it would set the level of the Domestic Stability Buffer at 2.25% of total risk-weighted assets from April 30, 2020 as a way to tackle risk. In a forum in Melbourne, BOC governor Stephen Poloz said Canada’s economy had recovered and normalized after 2014’s oil shock thanks to fiscal policy, though interest rates remained at low levels. He also talked about downside risks and he said growth would remain low going forward.

The BOC’s monetary policy meeting will be held on March 14. Market participants are expecting rates to be left unchanged. Canadian interest rates remain low and the BOC will want to maintain as much room as possible for rate cuts as an easing measure when things turn bad. It is said the coronavirus outbreak will peak in March and April, but there is no way of telling when the situation will calm down, so it is hard to guess what impact the virus will have or when the economy will recover. Crude oil prices have fallen sharply on the outbreak and there are concerns about the impact on exports. At the same time, an indigenous group began a demonstration against the construction of a pipeline on February 14 and this has impeded rail freight transportation. As a result, shipments of crude oil, grains, propane and lumber have stalled. The situation will cause huge damage to exports, with attention focusing on negotiations between the government and the protestors. Investors will be monitoring the spread of the coronavirus in March too. With crude oil prices falling, investors will also be watching to see whether OPEC reaches a deal on production cuts when it meets on March 5, while the FOMC meeting on March 18 will also require monitoring.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – March 2020

Expected Ranges	**Against the US$:**	**KRW1,170–1,250**
	Against the yen:	**JPY8.696–9.346 (KRW100)** **(KRW10.700–11.500)**

1. Review of the Previous Month

The USD/KRW pair rose in sharply in the latter half of February.

It opened the month trading at KRW1197.00. Chinese stocks stopped sliding on February 4 after China announced it was pumping RMB1.2 trillion into the markets to offset the impact of the new coronavirus and so on with the currency pair subsequently falling to the upper-KRW1170 mark for a time on February 6. It rose to the KRW1190 mark again on February 10, but China then released a bullish CPI result for January and it also announced that the increase in the number of new coronavirus patients had slowed down, so the pair then tumbled to a monthly low of KRW1176.40 on February 12. However, a major US IT company then announced its Q1 business results had dropped below expectations. With South Korea also reporting a surge in new coronavirus patients over February 19–20, the pair began climbing. The USD/CNH pair then rose on February 20 after China lowered the LPR, with the USD/KRW pair also pushed up as a result. New coronavirus cases continued to surge in South Korea from February 21. The KOSPI plummeted on February 24, with the USD/KRW pair climbing to the KRW1220 mark before hitting a monthly high of KRW1220.50 on February 25.

The number of South Korean coronavirus infections continued to grow thereafter, though the currency pair remained relatively calm and it moved in a range between KRW1210–1220. The Bank of Korea (BOK) Monetary Policy Board met on February 27. The markets were expecting a rate cut, but the Board left policy interest rate unchanged. In his press conference, BOK governor Lee Ju-yeol also said the BOK was some distance from cutting rates. All this saw the pair closing the month at KRW1213.70.

2. Outlook for This Month

In March, the USD/KRW pair will move firmly or trend upward on the whole, though it will probably move skittishly on the new coronavirus and so on. At the time of writing, new coronavirus cases are rising across South Korea and the rest of the world. The key point will be when the outbreak peaks out.

By the end of February, the virus had spread from nearby China to distant Europe and the US. Risk sentiments have sharply deteriorated, with shares in US and European markets falling sharply and yields on 10-year US treasuries renewing record lows, for example. The US Centers for Disease Control and Prevention (CDC) also say the spread of the new coronavirus in the US is inevitable, but market conditions will shift depended on whether the virus can be controlled to a certain extent or whether it develops into a global pandemic.

When the situation worsened in the latter half of February, the USD/KRW pair continued to float at highs with KRW1220 as its topside. Market participants will be monitoring highs around this level for the time being, but the pair could breach this ceiling depending on the circumstances.

At its meeting on February 27, the BOK Monetary Policy Board surprised the markets by keeping policy fixed. However, speculation is growing about a rate cut at the next meeting, so this could exert selling pressure on the won. The South Korean government is now discussing a fiscal package. If this package is well-received or proves a success, this will support the won, though this is probably something to consider in the slightly longer term.

If speculation grows about US rate cuts this would support stock prices and push the greenback lower, with the USD/KRW pair's topside held down as a result, so investors should keep an eye on the situation.

In light of the above, it seems the pair will move firmly or trend upward on the whole, though it could fluctuate violently depending on events.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – March 2020

Expected Ranges	**Against the US$:**	**NT$30.10–30.80**
	Against the yen:	**JPY3.55–3.70**

1. Review of the Previous Month

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

The pair opened the month trading at TWD30.350. Overseas markets had slipped into risk-off mode at the end of January on concerns about the spread of the new coronavirus. As a result, the greenback was bought and the Taiwan dollar was sold at the start of February. It temporarily hit TWD30.365, but exporters then bought the Taiwan dollar at lows, so the currency pair's gains from the end of January were pared back. Stocks then rallied on reports about the development of a vaccine for the new coronavirus. The Taiwan dollar was bought as a result, with the currency pair dropping below TWD30 on February 6.

It bounced back for a time toward mid-February, but exporters then sold the greenback. With stocks also rising on hopes that the spread of the new coronavirus was being halted, the US dollar was sold and the Taiwan dollar bought. The pair then moved with a heavy topside in a range around TWD30.

Hopes that the new coronavirus outbreak would be contained continued into the latter half of the month, with investors also hopeful with regards to the impact on the economy. However, the markets then reacted badly to news that Apple had failed to hit its sales forecasts, with Apple-related stocks then leading a downswing in Taiwanese stock markets. With more overseas investors selling on balance, the USD/TWD pair rose to the TWD30.2 level on February 20 as the greenback was bought. The coronavirus then spread to other regions outside Asia, including the US, Europe and the Middle East. With US stocks falling sharply, the pair hit a monthly high of TWD30.420 on February 24. However, its topside was held down as more exporters sold the US dollar toward the end of the month. The pair subsequently dipped to the TWD30.3 level.

2. Outlook for This Month

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

A glance at the economic indicators released in February shows the January export amount falling by -7.6% y-o-y. With the number of business days down due to the Chinese New Year holidays, the data fell into negative territories for the first time in three months. The breakdown shows key exports of electronic parts growing slightly at +2.9% y-o-y, thus keeping the overall slide in exports in check. Exports to China and Hong Kong (which account for over 40% of all Taiwan's exports) dropped -7.8% y-o-y and pulled the overall figure down. The overall CPI data for January was up on the previous month, from +1.14% y-o-y to +1.85% y-o-y. The core CPI data (excluding volatile fresh food prices) was also up on the previous month, from +0.57% y-o-y to +0.90% y-o-y. This was due to rising food prices and an increase in the cost of travel and other services owing to the Chinese New Year holidays. Investors will be watching to see whether this climb continues from here on.

The main focus in March will remain on whether the new coronavirus continues to spread. The US dollar fell and the Taiwan dollar rose toward mid-February on optimism that the virus could be contained, but investors then focused on risk after Apple's business results deteriorated. With concerns also growing that the virus could spread to the US and so on, the USD/TWD pair shot back up in the latter half of February. It subsequently climbed to the upper-TWD30.4 level. If the spread of the new coronavirus drags on into the long term, this will have a negative impact on supply chains. If it then seems that the business results of Taiwanese firms are unlikely to recover for now, stocks will remain bearish and the currency pair's movements will be marked by dollar buying.

Market attention will also be focused on the results of the Super Tuesday primary elections in the US, for example, and on the results of US and China's key economic indicators. This month will start to see the release of data from February, when the new coronavirus outbreak became a real issue, so investors be watching to see what impact the virus has had on economic sentiments and so on. If economic indicators noticeably worsen, expectations may increase again for a preventative rate cut when the FOMC next meets in March.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – March 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7700–7.7850**
	Against the yen:	**JPY 13.80–14.50**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

In February, the trend in the market was reversed, and the Hong Kong dollar depreciated due to Asian currency-selling that resulted from the spread of the new coronavirus (COVID-19) as well as the narrowing interest rate differentials between the Hong Kong dollar and the U.S. dollar. At the beginning of February, the Hong Kong dollar reached HKD 7.7600 against the U.S. dollar, its highest rate in three years despite the spread of COVID-19, as a result of the fact that the Hong Kong dollar depreciated thanks to the interest rate differentials between the Hong Kong dollar and the U.S. dollar. However, in the middle of February, the interest rate differentials narrowed between the Hong Kong dollar and the U.S. dollar, and this slowed down the appreciation of the Hong Kong dollar. Market participants were further encouraged to sell the Hong Kong dollar in order to move assets from the Asian market to the U.S. market. Economic indices remained strong in the U.S., which made it likely for the Federal Reserve Board (FRB) to maintain its current monetary policy. On the other hand, some central banks in Asia started to cut policy interest rates due to the rapid spread of COVID-19 in Asia. As a consequence, interest rate differentials narrowed between the U.S. and Asia, leading to capital outflow from the Asian market. Furthermore, pessimism about the Hong Kong market slowed IPOs of Chinese companies in Hong Kong, reducing capital inflow from Chinese companies into the Hong Kong stock market. As a consequence, the Hong Kong dollar weakened to the HKD 7.80 level toward the end of February. The economic growth outlook for Hong Kong has equally worsened. Due to the sense of uncertainty caused by protests, the fourth-quarter GDP of Hong Kong declined to –2.9% year-on-year, while the annual growth rate turned out to be –1.2%, recording a negative growth rate for the first time in 10 years. The retail sales figure of Hong Kong is also expected to record a significant decline, as the number of visitors to Hong Kong, considered to be a leading indicator, fell sharply by 98% year-on-year. Unemployment has risen to 3.4%, the highest level in three years, and the decline in the labor market has led to a fall in disposable income and worsening consumer sentiment.

Hong Kong interest rate market in February

In February, it became more probable for Chinese companies to significantly delay their IPOs in the Hong Kong stock market, and this led to a sharp fall of Hong Kong dollar interest rates. The U.S.

dollar/Hong Kong dollar spot exchange rate has been fluctuating between HKD 7.75 and HKD 7.80. As there are only limited risks for the Hong Kong Monetary Authority (HKMA) to carry out an operation to absorb liquidity at HKD 7.85 in order to maintain the U.S. dollar peg, excessive funds, originally prepared for IPOs, seem to have been supplied in the market. The one-month Hong Kong dollar HIBOR fell to 1.7% for the first time in four months, while the three-month Hong Kong dollar HIBOR remained below the 2% level almost throughout the month of February for the first time since May last year. In other factors, the FRB suggested that its policy interest rate would be maintained at the current level for several months, as a result of which the one-month and three-month interest rate differentials between the Hong Kong dollar and the U.S. dollar narrowed from 59 basis points and 61 basis points to 6 basis points and 26 basis points, respectively. In terms of long-term interest rates, the Hong Kong dollar interest rate swap rate has been falling, along with the fall of the U.S. dollar interest rate swap rate based on the U.S. dollar peg system.

2. Outlook for This Month

Hong Kong dollar spot exchange market in March

In March, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.7700 and HKD 7.7825. The economy in the Asian region is likely to suffer from more-serious difficulties than the U.S. economy, and this makes it likely for the Hong Kong dollar to depreciate. If the interest rate differentials narrow between the Hong Kong dollar and the U.S. dollar or if the interest rate differentials between the Hong Kong dollar and the U.S. dollar are reversed as a result of a fall in the Hong Kong dollar yields, market participants would be unwilling to continue carry trades by buying the Hong Kong dollar and selling the U.S. dollar. Indeed, the one-month Hong Kong dollar forward rate has been negative for the first time since November last year, and if the interest rate differentials between the Hong Kong dollar and the U.S. dollar are reversed for long-term rates, it is possible for the U.S. dollar/Hong Kong dollar exchange rate to return to the upper end of the fluctuation band as a result of the depreciation of the Hong Kong dollar. The fall in the benchmark Hang Seng Index has also been reflecting the slowdown in capital inflow into the Hong Kong dollar, which resulted from the deterioration of expected revenues in the Hong Kong stock market and in the Chinese stock market. As Chinese companies have been delaying their IPOs in Hong Kong, there may be capital outflow from the Hong Kong dollar market. In the end, if the fiscal deficit increases, raising the risk for the credit ratings of Hong Kong assets to be downgraded, the asset value of the Hong Kong dollar would also depreciate.

Hong Kong dollar interest rate market in March

In March, the Hong Kong dollar interest rates are likely to stabilize, thanks to seasonal demand for fund procurement, which is often observed at the end of a quarter period. The U.S. dollar/Hong Kong dollar exchange rate has been reaching the HKD 7.80 level, while the HKMA aggregate balance has been low, at HKD 54 billion. Thus, commercial banks are likely to become careful about providing liquidity in the times ahead. However, Chinese companies are delaying scheduled IPOs in the Hong Kong stock market, and this would keep the Hong Kong dollar interest rates from rising. In terms of long-term interest rates, under the U.S. dollar peg system, the Hong Kong dollar interest rate swap rate is expected to follow the fall of the U.S. dollar interest rate swap rate, which has started to reflect the outlook for an early interest rate cut by the FRB facing the risk of COVID-19 spreading further.

Kazuki Baba, Treasury Department, MHBK (China)

Chinese Yuan – March 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 February, the Chinese yuan depreciated against the U.S. dollar due to the growing risk-averse sentiment that has resulted from the spread of the new coronavirus (COVID-19).

After the Chinese New Year holidays, the Chinese yuan depreciated significantly, and the U.S. dollar/Chinese yuan exchange market opened trading by exceeding the CNY 7.0 due to concerns over the spread of COVID-19 as well as downward risks on the Chinese economy. Thereafter, the Chinese monetary authorities announced monetary measures such as liquidity supply as well as fiscal measures, such as the issuance of additional municipal bonds, which temporarily led the Chinese yuan to appreciate. As a result, the Chinese yuan temporarily returned to approach CNY 6.96 against the U.S. dollar. Thereafter, however, the number of new COVID-19 cases and deaths continued increasing daily. Furthermore, on February 12, the number of infected patients increased sharply as a result of the revision made to the diagnosis standard, while the infection spread outside China, limiting corporate activities. The National People's Congress, which had been scheduled for March, was postponed, strengthening risk-averse sentiment again in the market. As there is no clear solution to the situation, business activities in China have been delayed further. Under such circumstances, market participants have become aware of the possible slowdown of Chinese economic growth, leading the Chinese yuan to depreciate slowly toward the second half of the month. As a consequence, the Chinese yuan weakened to temporarily approach CNY 7.04 to the U.S. dollar. Toward the end of the month, the U.S. dollar/Chinese yuan exchange rate fell slightly, approaching the CNY 7.02 level.

Interest rate market

The People's Bank of China (PBOC) carried out open-market operations and provided funds through a reverse repo every day from the beginning of the month. On February 4, the seven-day and 14-day interest rates were both cut by 10 basis points. Furthermore, a PBOC official expressed an intention to maintain the high level of liquidity in the money market, while also mentioning a new MLF to be conducted in March with a lower interest rate. While interest rates continue falling due to the high liquidity level and along with the operation interest rate cut mentioned above, the PBOC conducted a new MLF on

February 18 and cut the interest rate by 10 basis points. Along with the MLF interest rate cut, the one-year LPR that was announced on February 20 turned out to be –10 basis points year-on-year (–5 basis points year-on-year for the five-year rate). As the MLF interest rate cut had already been reflected in the market, there was little market reaction. However, toward the second half of the month, interest rates continued falling.

2. Outlook for This Month

Foreign exchange market

In March, the Chinese yuan is forecast to remain stable.

In China, the increase of new COVID-19 cases has been slowing down, and there has been no other factor to lead the Chinese yuan to depreciate further. For the moment, the economic slowdown of China seems to have already been reflected in the market. Therefore, if the Chinese monetary authorities announce further economic stimulus through monetary and fiscal measures, it would be a positive factor for the Chinese yuan.

However, the spread of COVID-19 remains a risk factor. If the global economy slows down with spreading infection outside China, it is possible for the Chinese economy to decline further, leading the Chinese yuan to depreciate. Market participants should therefore remain cautious.

Interest rate market

The Chinese interest rate market is forecast to remain stable after the current phase of falling interest rates.

The Chinese yuan interest rates have currently been falling for the moment due to the spread of COVID-19. Under such circumstances, the downward pressure on the interest rates is likely to continue growing unless the situation improves. Even after the improvement of the situation, it would take a significantly long time for the economy to entirely recover. Thus, the interest rates are likely to remain low and stable for the time being.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – March 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3700–1.4200**
	Against the yen:	**JPY 77.00–80.00**

1. Review of the Previous Month

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

In March, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.36 level, after which the exchange rate started rising gradually, as was the case at the end of the previous month. While concerns were growing over the spreading of the new coronavirus (COVID-19), the majority of Asian currencies weakened. On February 5, the media reported positive news about the development of vaccination against COVID-19, and this temporarily mitigated the risk-averse sentiment in the market. However, the Monetary Authority of Singapore (MAS) announced that there would be sufficient leeway to accept a fall of the Singapore dollar nominal effective exchange rate if the economic conditions worsen due to the spread of COVID-19. In reaction, the U.S. dollar/Singapore dollar exchange rate rose sharply from the SGD 1.36 level to the lower-SGD 1.38 level.

Thereafter, the U.S. dollar/Singapore dollar exchange rate remained high. On February 10, the Chinese government announced its decision to partly deregulate corporate activities and transport. Furthermore, on February 11, the number of new COVID-19 cases started to decline, while expectations continued to grow for the economic stimulus measures to be taken by the Chinese monetary authorities. Thus, the U.S. dollar/Singapore dollar exchange rate fell slightly to the upper-SGD 1.38 level. However, this was only a temporary trend, and on February 13, the media reported an increase in the number of new COVID-19 cases once again, worsening the risk sentiment in the market. As a consequence, the U.S. dollar/Singapore dollar started to rise slowly again.

On February 17, the People's Bank of China (PBOC) lowered its medium-term loan rates in order to support China's economy, and this led Asian currencies to appreciate. The rise of the U.S. dollar/Singapore dollar exchange rate also slowed down. However, on February 21, concerns grew over the spread of COVID-19, while the U.S. economic indices turned out to be strong, strengthening the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.40 level for the first time since May 2017.

Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. The U.S. dollar/Singapore dollar pair has been trading at the SGD 1.39 level (as of this writing on February 27).

2. Outlook for This Month

In March, the Singapore dollar is forecast to weaken.

The situation regarding COVID-19 has currently been attracting substantial attention in the market, and the situation has not yet improved, with an increasing number of new cases not only in China but also in other countries. Market participants should thus remain careful and continue observing the development of the situation.

It should be pointed out that the current situation is different from the time of the spread of SARS in 2002–2003, although both cases started in China, as the economic scale (global share) of China has grown significantly. The global economic share of China was around 5% in 2003, while it is now 18%. The share of overseas travel consumption has almost reached 20%. Thus, a decline of domestic demand in China or a fall in the number of Chinese tourists would now affect the world economy more severely. Furthermore, it can also be pointed out that more companies have moved their supply chain hubs to China (they were mainly in Germany, Japan, and the U.S. in 2003). Thus, it is possible for the negative impact on the world economy to be even more significant than the impact from the economic share of China.

On the other hand, in the U.S., the impact of COVID-19 has so far been seen to be minimal. However, if the number of cases increases in the U.S. and if the government starts to introduce harsher travel restrictions, U.S. stock prices and U.S. interest rates would fall, further strengthening pressure to sell the currencies of emerging countries.

At its semi-annual monetary policy meeting held in October 2019, the MAS decided to slightly cut the rate of increase for the "moderate and gradual" policy fluctuation band for the Singapore dollar nominal effective exchange rate. Furthermore, on February 5, 2020, the MAS announced its intention to accept the depreciation of its currency given the negative impact of the spread of COVID-19. As a result, the Singapore dollar weakened significantly. Thus, there are currently few factors to change the trend to lead the Singapore dollar to appreciate. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate is forecast to continue rising slowly (the Singapore dollar is forecast to weaken) in March, as was the case in February.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – March 2020

Expected Ranges	**Against the US$:**	**THB 31.00–32.20**
	Against the yen:	**JPY 3.35–3.55**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate continued rising due to the spread of the new coronavirus (COVID-19).

At the beginning of the month, the U.S. dollar/Thai baht exchange rate fluctuated within a narrow range at the lower-THB 31 level. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 31.10 level on February 3. Market participants were carefully observing the Chinese market after the Chinese New Year holidays. The confusion in the market was not as dramatic as expected, as the stock market started to rally after a sharp fall. Thus, some market participants bought back Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate fell to approach THB 30.90, the monthly low, toward February 4. However, expectations were growing for the central bank of Thailand (BOT) to cut the interest rate at the BOT's Monetary Policy Committee (MPC) meeting scheduled for February 5, leading the U.S. dollar/Thai baht exchange rate to rally to the THB 31 level again and reach the THB 31.10 level. At the MPC meeting, the interest rate was unanimously cut by 25 basis points, and thus the policy interest rate fell to 1.00% for the first time. In reaction, the U.S. dollar/Thai baht exchange rate rose to the mid-THB 31.20 level, after which the exchange rate fell to the THB 30.90 level again, with some market participants selling the U.S. dollar to take profits. Thereafter, the U.S. dollar/Thai baht exchange rate slowly returned to the THB 31 level with risk-averse sentiment in the market that grew based on the spread of COVID-19. On February 7, the constitutional court of Thailand decided to order the government to vote on the budget bill, which had already been done once by both the Senate of Thailand and the House of Representatives of Thailand in January. Thus, concerns grew about the possibility for the execution of the budget plan to be delayed further, which led the U.S. dollar/Thai baht exchange rate to rise and almost reach THB 31.40 during overseas trading hours.

In the middle of the month, the U.S. dollar/Thai baht exchange rate remained at the level around THB 31.20. After February 10, a national holiday in Thailand, on February 12, market sentiment improved, as the number of new cases of COVID-19 infection in Mainland China had decreased on the previous day. As a result, market participants actively bought back Asian currencies. Following this trend, the U.S. dollar/Thai baht exchange rate also fell and approached THB 31.10. However, on February 13, the following day, China changed the diagnosis standard for COVID-19, and the number of infected patients increased sharply. The fall of the U.S. dollar/Thai baht exchange rate therefore slowed down. Thereafter, the exchange rate continued fluctuating within a narrow range around THB 31.20 to the U.S. dollar. After the weekend, Thailand's GDP for the fourth quarter in 2019 was announced on February 17, and the result turned out to be +1.6% year-on-year, falling below the result of the third quarter (+2.6% year-on-year after an upward revision) as well as the market estimate (+1.9% year-on-year). However, as February 17was a holiday in the U.S. dollar market, the impact was limited.

At the end of the month, the trend in the U.S. dollar/Thai baht exchange market changed dramatically and the exchange rate rose sharply. On February 20, market participants bought the U.S. dollar, thanks to strong figures in the U.S. economic indices that had been released on the previous day, while Asian currencies were mainly sold due to the increasing number of new COVID-19 cases in Singapore, South Korea, etc. Under such circumstances, the U.S. dollar/Thai baht exchange rate started rising rapidly in the morning, and the exchange rate approached THB 31.50 to the U.S. dollar toward overseas trading hours. On February 21, the trend remained unchanged, while political uncertainty in Thailand increased further, as the Constitutional Court of Thailand concluded that the large amount of loans to the Future Forward Party from its leader, Thanathorn Juangroongruangkit, was against the Constitution and gave an order to dissolve the party. As a result, the U.S. dollar/Thai baht exchange rate rose to the upper-THB 31.60 level. After the weekend, stock prices started to fall globally, and bond prices started to rise on February 24, due to increasing COVID-19 cases in various countries such as Italy and Iran, fueling risk-averse sentiment in the market. Following this trend, the U.S. dollar/Thai baht exchange rate also temporarily reached the THB 31.90 level on February 26. However, the U.S. dollar weakened thereafter, and the U.S. dollar/Thai baht exchange rate returned to the THB 31.50 level toward the end of the month.

2. Outlook for This Month

The U.S. dollar is likely to continue weakening against the U.S. dollar due to external factors.

Because of the spread of COVID-19, the Thai baht depreciated against the U.S. dollar, and the U.S. dollar/Thai baht exchange rate temporarily reached the THB 31.90 level for the first time since May last year. As of this writing, the U.S. dollar/Thai baht exchange rate has been at the THB 31.60 level. The rate of depreciation against the U.S. dollar since the start of the year has been more than 5% for the Thai baht, higher than the Korean won and the Singapore dollar, despite the fact that the number of infected patients is higher in Korea and Singapore.

There are multiple possible factors for this phenomenon. First of all, risk-averse sentiment grew in the market as COVID-19 started to spread, and this also impacted other Asian currencies. Also, while the Thai economy started to slow down compared to last year, the tourism industry remained strong. Due to the spread of COVID-19, the tourism industry is expected to decline in the times ahead. Furthermore, approximately 25% of the total foreign visitors in Thailand come from China (based on the data for 2019). The Thai tourism industry is thus dependent on Chinese tourists, and this encouraged market participants to sell the Thai baht. Secondly, the appreciation of the Thai baht observed last year has been corrected this year, while market participants remain cautious about market interventions by the BOT. Last year, the Thai baht appreciated against the U.S. dollar by 8.6%, which was pointed out to be too high compared to the fundamentals, and which has probably been corrected this year. Furthermore, market participants remember that the BOT intervened in the market when the U.S. dollar/Thai baht exchange rate fell below the THB 30 level at the end of last year, immediately after which the exchange rate returned to the THB 30 level. In fear of being identified as a currency manipulator, the BOT had not recently been intervening in the market so as to keep the exchange "at a certain level," even though the BOT had been accepting foreign exchange market interventions to control the pace of the "violent exchange rate fluctuation." With the market intervention carried out at the end of last year, market participants saw the determined attitude of the BOT, making them reluctant to continue buying the Thai baht from the beginning of the year. For these reasons, it is considered that the depreciation of the Thai baht has been more significant than other countries, despite the fact that the number of patients infected with COVID-19 has been relatively low in Thailand.

In terms of the monetary policy of the BOT, the policy interest rate was unanimously cut by 25 basis points at the MPC meeting held on February 5, making the policy interest rate 1.00%—the lowest rate ever. Within six months after the BOT's initial interest rate cuts that started in August of last year, the BOT has cut the interest rate to a total of 75 basis points. The BOT explained that the interest rate cut in February was a measure "urgently" taken, as the sense of uncertainty in the market was growing due to the delay in the execution of the budget plan based on the spread of COVID-19 as well as the problem of drought. As the policy interest rate fell below 1.25%, the lowest level seen previously, it is now very possible for the BOT to cut the policy interest rate further.

Theoretically speaking, if the number of new COVID-19 cases continues to increase in the times ahead, market participants are likely to sell Asian currencies to avert risk. The U.S. dollar/Thai baht exchange market is thus expected to follow such a trend. However, the appreciation of the U.S. dollar has also been slowing down, and thus the rise of the U.S. dollar/Thai baht exchange rate in March is likely to be more moderate than in February.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – March 2020

Expected Ranges	**Against the US$:**	**MYR 4.1800–4.2800**
	Against the yen:	**JPY 25.32–25.97**
	Against 100 yen:	**MYR 3.8500–3.9500**

1. Review of the Previous Month

In February, the U.S. dollar/Malaysian ringgit exchange rate rose significantly from the MYR 4.09 level to the MYR 4.24 level due to concerns over a decline in global demand based on the outbreak of the new coronavirus (COVID-19). In addition, the Malaysian economic growth rate for the fourth quarter turned out to be weaker than expected, there was growing expectation for additional interest rate cuts, and there was sudden political confusion amid the resignation of Prime Minister Mahathir bin Mohamad.

After the Chinese New Year holidays, the outbreak of COVID-19 fueled concerns over a decline in demand. Thus, the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.10 at the beginning of the month. From this point on, the Malaysian ringgit continued depreciating. Even though the fall of crude oil and palm oil prices stopped, the U.S. economic indices turned out to be relatively strong, and U.S. President Donald Trump won the impeachment acquittal, leading U.S. stock prices to an all-time high. Under such circumstances, the media began to report on the spread of COVID-19. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate continued rising to the MYR 4.14 level.

On February 12, the GDP growth rate of Malaysia for the fourth quarter in 2019 was announced, and the result turned out to be significantly lower than expected, reaching the lowest level since 2009, after the financial crisis. The annual growth rate for 2019 also turned out to be significantly lower than not only the government estimate but also the market estimate. Furthermore, at the same time as the announcement of the GDP, the central bank of Malaysia also pointed to a possible economic slowdown in the first quarter of 2020 as a result of the spread of COVID-19. On February 14, Prime Minister Mahathir bin Mohamad announced his decision to introduce an economic stimulus measure on February 27 in order to control the impact of COVID-19. On the other hand, the central bank of Malaysia also made a remark to underline that there was sufficient room for policy interest rate changes. Market participants expected the policy interest rate to be cut in March, leading the U.S. dollar/Malaysian ringgit exchange rate to exceed the MYR 4.15 on February 18.

At the end of the month, the number of new COVID-19 cases increased mainly in East Asia, and this fueled risk-averse sentiment in the market. Under such a condition, Malaysia faced a political shakeup. On February 7, the High Courts ordered a dismissal regarding the scandal of a state investment fund (1MDB), to return the budget of the former largest ruling party that had been legally seized at the time of the trial initiated by the new government after the change of government in 2018. Subsequently, there was some speculation about political reorganization based on an alliance between part of the ruling party and the former ruling party. This was revealed through a meeting held on February 23 between part of the ruling party and the major opposition party, two days after the council of the ruling party decided that Prime Minister Mahathir bin Mohamad would be able to make decisions regarding the timing for his post to be replaced by former Vice Prime Minister Anwar bin Ibrahim. As a result, on February 24, the following day, Prime Minister Mahathir bin Mohamad, who had firmly refused any newly formed coalition as suggested by a member of parliament, leading the reorganization, ended up calling for the resignation of his own government. While the King of Malaysia was attempting to calm the situation through the reorganization of the government, the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.24 level, renewing the high recorded last year. The rise of the exchange rate then slowed down, as it was announced that the economic stimulus measure that had been prepared before the resignation of the government would be declared on February 27. As of February 28, the U.S. dollar/Malaysian ringgit exchange rate was fluctuating at the MYR 4.22 level.

2. Outlook for This Month

In March, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.18 and MYR 4.28. In addition to the downward pressure on the GDP caused by the spread of COVID-19, the political shakeup attracted attention in the market at the end of February, and this is also likely to weaken the Malaysian ringgit.

With regard to the outbreak of COVID-19, the situation in Malaysia has been relatively calm as of the end of February. However, there has been significant damage to demand in China, which is Malaysia's most-important trade partner. Furthermore, as the number of Chinese tourists visiting Malaysia claims the third largest spot in Asia after Thailand and Japan, there would be an unignorable impact on the Malaysian economic growth rate. While resource prices have been low, China did sign the phase-one trade agreement with the U.S., agreeing to increase imports from the U.S. As a result, there have been concerns for Malaysia that China may replace petroleum gas from Malaysia, a major export from Malaysia to China, with that from the U.S. Given the economic slowdown confirmed in the fourth-quarter GDP, the Malaysian government announced an economic stimulus measure on February 27. The policy interest rate will be discussed at the meeting scheduled for March 3, and an additional interest rate cut has already been reflected in the domestic bond market after the interest rate cut at the previous meeting held in January.

The political situation saw more-significant confusion than expected. An internal conflict in the ruling coalition was revealed through an attempt to newly form a coalition between the non-mainstream group within the largest ruling party and the major opposition party. This led to a division in the ruling collation as well as to the resignation of the government under Prime Minister Mahathir bin Mohamad. With some parties asking for loosening the fiscal deficit target, which is currently set at –3.2% as a percentage of GDP, some major ratings agencies have been pointing out the possibility for the political shakeup to negatively impact the country's credit rating from a medium-term perspective. On February 29, the King of the Malaysia nominated Muhyiddin Yassin, supported by the opposition coalition, to be the next Prime Minister of Malaysia. After the first change of government in Malaysia, the opposition party returned to power after 20 months without an election.

Foreign capital inflow into Malaysia has been on the rise, supporting the Malaysian ringgit exchange market. However, due to the confusion related to political reorganization, market participants would be more aware of the risks for Malaysia to be excluded from the FTSE Russell World Government Bond Index, including the evaluation of ratings agencies, when the countries in the index are revised again in March. Furthermore, foreign direct investment, which increased through efforts by the government under Prime Minister Mahathir bin Mohamad, may also slow down, as overseas companies would lose trust in Malaysia. As the confusion could affect human resources matters at government offices and related agencies, with this aspect also being a source of concern for companies and investors, the new government should soon declare its political platform.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2020

Expected Ranges	**Against the US$:**	**IDR 13,900–14,600**
	Against 100 rupiah:	**JPY 0.75–0.79**
	Against the yen:	**IDR 126.58–133.33**

1. Review of the Previous Month

In February, the Indonesian rupiah depreciated significantly against the U.S. dollar.

In February, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 13,600 level on February 3. As concerns were growing over the spread of the new coronavirus (COVID-19), risk-averse sentiment grew in the market. As a consequence, the Indonesian rupiah weakened against the U.S. dollar, and the exchange rate reached the mid-IDR 13,700 level. Furthermore, on the same day, the January Consumer Price Index of Indonesia was announced, and the result turned out to be +2.68% year-on-year. On February 4, the following day, market participants continued selling the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 13,700 level. However, it appears that the central bank of Indonesia intervened in the market by selling the U.S. dollar and buying the Indonesian rupiah, leading the Indonesian rupiah to rally to the IDR 13,700 level. Then, on February 5, the fourth-quarter GDP of Indonesia turned out to be 4.97%, which is a very weak figure, falling below 5% for the first time in three years. In reaction, the Indonesian rupiah weakened temporarily. However, the Indonesian rupiah remained stable at the lower-IDR 13,700 level, after which the Indonesian rupiah appreciated again to the upper-IDR 13,600 level. On February 6, investor sentiment improved, and the Indonesian rupiah continued appreciating, with the U.S. dollar/Indonesian rupiah exchange rate reaching the lower-IDR 13,600 level. Thereafter, the exchange rate continued fluctuating, following media reports related to COVID-19. However, the U.S. dollar/Indonesian rupiah exchange rate did not move significantly, fluctuating from the IDR 13,600 level to the lower-IDR 13,700 level without moving into any direction.

In the second half of February, the January trade balance of Indonesia was announced on February 17, revealing a deficit of USD 860 million. However, the Indonesian rupiah remained stable at the upper-IDR 13,600 level. Then, on February 20, the Indonesian rupiah weakened against the U.S. dollar, and the exchange rate reached the upper-IDR 13,700 level. At the monetary policy meeting held at the central bank of Indonesia, attracting significant attention in the market, the seven-day reverse repo rate was cut by 0.25% to 4.75%. As this was positively seen as a line of economic support, the Indonesian rupiah rallied, and the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 13,700 level. However, on February 24, the number of COVID-19 cases increased in many countries around the world, including

Japan, South Korea, Italy, and Iran. As a result, risk-averse sentient dominated the market, and the Indonesian rupiah started to depreciate significantly against the U.S. dollar. The situation of COVID-19 infection worsened daily, severely affecting investor sentiment. Stock prices fell globally, and the depreciation of the Indonesian rupiah accelerated. Furthermore, at the end of the month, some market participants bought the U.S. dollar and sold the Indonesian rupiah for the purpose of settlement in U.S. dollars. Thus, on February 27, the Indonesian rupiah depreciated further, and in the end, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,000 level for the first time since December last year (as of the closing rate on February 27).

2. Outlook for This Month

In March, the Indonesian rupiah is forecast to weaken against the U.S. dollar.

The January trade balance of Indonesia was announced last year, revealing a trade deficit much larger than expected. Even though exports recorded positive year-on-year growth in December last year, year-on-year growth turned out to be negative in January against the market estimate. Thus, the trade balance was weak at the start of 2020. Furthermore, the GDP for the fourth quarter in 2019 also turned out to be weak, falling below 5% for the first time in three years. While COVID-19 continues spreading worldwide, its negative impact on the real economy has also been a source of concern. Even though there has still been no case of COVID-19 infection in Indonesia, some question the credibility of the data. Moreover, if the number of COVID-19 cases increases abroad, the world economy would slow down, severely affecting the Indonesian economy. In February, the central bank of Indonesia decided to additionally cut the interest rate in order to prevent such a situation. However, this may not be able to fully support the Indonesian economy. Given the weak fundamentals of Indonesia, it is difficult for market participants to find reasons to buy the Indonesian rupiah.

In February, there was a significant outflow of foreign investor capital from the Indonesian government bond market. As of February 26, foreign investor holdings of Indonesian government bonds recorded a decrease of IDR 24 trillion compared to the end of January. Even though U.S. interest rates were falling, such a large amount of capital flew out of Indonesia. This reveals a change in the behavior of the foreign investors that used to buy the Indonesian rupiah when interest rates were falling in the U.S. Concerns are growing daily over the spread of COVID-19, making it likely for market participants not to buy the Indonesian rupiah.

In February, the central bank of Indonesia was able to slow down the depreciation of the Indonesian rupiah to some extent through market intervention. However, it is not clear to what extent the central bank can control the depreciation of the Indonesian rupiah in the times ahead, and thus the situation remains unpredictable.

If the situation of COVID-19 infection continues to worsen further, it is possible for the Indonesian rupiah to depreciate sharply. Market participants should therefore remain cautious about the depreciation of the Indonesian rupiah.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – March 2020

Expected Ranges	**Against the US$:**	**PHP 50.40–51.50**
	Against the yen:	**JPY 2.10–2.20**

1. Review of the Previous Month

At the beginning of the month (February 3), the U.S. dollar/Philippine peso exchange market opened trading at PHP 50.95 with a weaker Philippine peso compared to the closing rate of January (PHP 50.83 to the U.S. dollar). The Philippine peso depreciated due to concerns over the spread of the new coronavirus (COVID-19) and due to caution regarding the Chinese market after the Chinese New Year holidays.

After the Chinese New Year holidays, the Shanghai Composite Index once recorded a decline of 9% from market opening. With risk-averse sentiment in the market, the Philippine peso depreciated against the U.S. dollar, and the exchange rate once reached PHP 51.05.

However, the fall of the Shanghai Stock Price Index slowed down thereafter, while the U.S. Nasdaq Composite Index renewed its all-time high on February 4, local time, and this ameliorated market sentiment. As a result, the Philippine peso was bought back, and the U.S. dollar/Philippine peso traded at the upper-PHP 50 level. On February 5, the January Consumer Price Index of the Philippines was announced, revealing 2.9% year-on-year growth. The growth accelerated for the third consecutive month, reaching its highest level in eight months. However, market participants expected interest rates in the Philippine to fall in the times ahead, leading the Philippine peso to weaken.

On February 6, the central bank of the Philippines decided to cut its policy interest rate by 0.25% to 3.75% after the closing of onshore trading. The central bank explained that the interest rate cut was a preemptive measure given the negative impact of the spread of COVID-19 on the Philippine economy. As the interest rate cut had been anticipated as a market consensus, there was only limited reaction in the market.

Then, on February 7, the January employment statistics of the U.S. were released, and the U.S. dollar strengthened against the Philippine peso to PHP 50.855.

In addition to the optimistic sentiment about the spread of COVID-19 infection, the December trade deficit of the Philippines turned out to be lower than the market estimate, and a ratings agency, Fitch Ratings, upgraded the credit rating of the Philippines from "stable" to "positive." As a consequence, the U.S. dollar/Philippine peso pair once traded at PHP 50.42 on February 14, and the exchange rate approached PHP 50.37—the highest rate for the Philippine peso since the beginning of the year.

Thereafter, due to the global concern over the spread of COVID-19, the stock price declined worldwide toward the end of the month. The 10-year U.S. government bond yield renewed its all-time low, and the

U.S. dollar/Philippine peso exchange market closed trading at PHP 51.035 on February 26. It was the first time for the U.S. dollar/Philippine peso exchange rate to reach the PHP 51 level on a closing-rate basis since January 21 (as of 5:00 p.m. on February 26).

2. Outlook for This Month

As was discussed above, the credit rating of the Philippines was revised upward. Furthermore, the December amount of OFW (Overseas Foreign Worker) remittances reached USD 2.9 billion, recording year-on-year growth of 1.9%, exceeding the USD 2.37 billion recorded in the previous month. The annual figure for 2019 recorded year-on-year growth of 4.1%—recording positive growth for the 16th consecutive year.

This fact would have attracted more attention in the market, but under the current circumstances, market participants are hesitant to continue actively buying the Philippine peso. It should, however, be pointed out that the Philippine peso has not been falling below a certain level despite the risk-averse sentiment in the market.

The Philippine stock price index fell below 7,000 points on February 26 for the first time since November 2018. This was due to a deteriorated market sentiment. It is also possible that the market has been excessively reflecting risk-averse sentiment, in which case the Philippine peso may approach its high in the times ahead.

On the other hand, the central bank of the Philippines decided to revise its inflation outlook for 2020 upward by 0.1% to 3.0% while maintaining the outlook for 2021 at 2.9%. Since last year, the governor of the central bank of the Philippines, Benjamin Diokno, had been suggesting that the interest rate cut in 2020 would be 0.5% in total. As he set the GDP growth rate outlook for this year at 6.5%, a very challenging target, there is no doubt that he will take measures of monetary easing in the times ahead.

Market participants should remain careful about the scale and timing of interest rate cuts in the times ahead.

The central bank of the Philippines will make decisions by observing the global economic climate as well as the Philippine economic indices. It is possible for the interest rate to be cut significantly, making it easy for the Philippine peso to depreciate.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – March 2020

Expected Ranges	**Against the US$:**	**INR 69.50–73.00**
	Against the yen:	**JPY 1.50–1.58**

1. Review of the Previous Month

In February, the U.S. dollar/Indian rupee exchange rate rose after fluctuating for a while.

In February, the U.S. dollar/Indian rupee exchange market opened trading at INR 71.630. On February 3, the manufacturing PMI of India was announced, recording its highest figure in seven years. Furthermore, the crude oil price fell below USD 55 for Brent (USD 50 for WTI), and this encouraged market participants to sell the U.S. dollar in fear of the appreciation of the Indian rupee based on actual demand for exports. As a result, the U.S. dollar/Indian rupee exchange rate reached INR 71.085—the monthly low on February 4. On February 6, the central bank of India held a monetary policy meeting, attracting substantial attention in the market, and decided to maintain its policy interest rate at the existing level. Even though the central bank also announced a new measure to extend the use of the repo rate, the reaction in the foreign exchange market was limited. Thereafter, there were some announcements regarding strong figures in the U.S. employment statistics, the decision by a major ratings agency to maintain the rating of India, and the Consumer Price Index of India exceeding the estimate of February 12, yet none of these impacted the U.S. dollar/Indian rupee exchange market enough to create a trend.

Asian currencies weakened due to concerns over the spread of the new coronavirus (COVID-19). Following this trend, the Indian rupee also weakened. On the other hand, the crude oil price remained low while expectations were growing for economic stimulus measures in China, and stock markets remained stable in many countries. Thus, Indian rupee-selling did not dominate the market, and the U.S. dollar/Indian rupee exchange rate continued fluctuating at the lower-INR 71 level without moving into any direction.

However, the euro continued weakening due to weak economic indices as well as political uncertainty in Germany, while the British pound also remained weak, with trade negotiations attracting substantial attention in the market. Under such circumstances, the U.S. dollar continued appreciating in relative terms, and the U.S. dollar index reached its highest level since April 2017. Following this trend, the U.S. dollar/Indian rupee exchange rate also exceeded the INR 71.50 level on February 18. At the same time, the crude oil price, which had been falling previously, started to rally, which negatively affected the Indian rupee market. As of this writing on February 24, the U.S. dollar/Indian rupee pair has been trading at INR 71.84—the monthly high.

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

In February, the Indian rupee/Japanese yen exchange market opened trading at JPY 1.5152, after which the exchange rate reached its monthly low at JPY 1.5135 to the Indian rupee on February 3. At the beginning of the month, the U.S. dollar/Japanese yen exchange rate fluctuated at the lower-JPY 108 level. Thereafter, the exchange rate almost reached the JPY 110 level, thanks to the fact that stock prices remained high despite concerns over COVID-19, while U.S. economic indices turned out to be strong. Following this trend, the Indian rupee/Japanese yen exchange rate also rose. Thereafter, the U.S. dollar/Japanese yen exchange rate reached a stalemate, fluctuating within a narrow range between JPY 109.50 and JPY 110.0. As was discussed above, the U.S. dollar/Indian rupee exchange rate did not move into any direction during this period. The Indian rupee/Japanese yen exchange rate thus continued fluctuating at the same level for a while.

On February 17, however, the fourth-quarter GDP of Japan was announced, and the result turned out to be –6.3%, which encouraged market participants to sell the Japanese yen. Furthermore, China announced measures to support Chinese companies, and this weakened risk-averse sentiment in the market. It should also be mentioned that the media reported a case of corporate acquisition worth USD 22 billion by a major retail company in Japan, and this led the U.S. dollar/Japanese yen exchange rate to rapidly reach the JPY 112 level. At the same time, the Indian rupee weakened against the U.S. dollar. However, the depreciation of the Japanese yen was more rapid than the depreciation of the Indian rupee against the U.S. dollar, resulting in the appreciation of the Indian rupee against the Japanese yen. As a consequence, the Indian rupee/Japanese yen exchange rate rose to JPY 1.5665 for the first time since August last year. As of this writing on February 24, the Indian rupee/Japanese yen pair has been trading at the JPY 1.55 level.

2. Outlook for This Month

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

In February, at its monetary policy meeting the central bank of India decided to maintain its policy interest rate at the existing level, and this had been anticipated in the market. As has been pointed out in this article, the central bank seems reluctant to cut the interest rate, as prices are rising. Price inflation, which is an important index, has been accelerating further, at 7.59%. Although inflation as seen in vegetable prices had been continuously pointed out, the February figures suggest that price appreciation has been slowing down. On the other hand, price inflation was evident for other food categories such as meat, fish, eggs, milk, and beans. Furthermore, the core consumer price index (excluding food, beverages, and fuel) has risen to 4.2%, denying the explanation that the consumer price index has been high due to the rise of vegetable prices, which had resulted from bad weather. In February, various central banks cut interest rates, i.e., in Thailand (to 1.00%, the all-time low), in Indonesia (4.75%), and in China. Other non-Asian emerging countries also cut interest rates, including Russia, Mexico, and Turkey, confirming the global trend of monetary easing. For this reason, it is probable for the central bank of India to follow the trend and cut interest rates. However, from the point of view of prices, it is difficult to cut said rates. Thus, as was the case last year, the central bank of India is not likely to cut interest rates in consecutive months.

While there has been an obvious limit to monetary policy, the last resort would be fiscal policy. However, the budget plan released at the beginning of last month suggests that the fiscal deficit does not allow for significant fiscal stimulus measures or a cut in taxes. As it is difficult to take both monetary and fiscal measures, the only certainty is that the central bank keeps the Indian rupee from appreciating through market intervention (refer to the article released in January and February), as long as the crude oil price remains at the current level.

The U.S. dollar/Indian rupee exchange rate is expected not to move into any direction, as has been the case so far.

This report was prepared based on economic data as of March 2, 2020.