Mizuho Bank

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Mizuho Dealer's Eye

April 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – April 2020

Expected Ranges **Against the yen: JPY105.00–110.00**

1. Review of the Previous Month

March was a volatile month, with the dollar/yen pair fluctuating by over ten yen wide, from 111.71–101.18 yen.

The dollar weakened in the week beginning March 2. The pair opened the month trading at the upper-107 yen mark on March 2. China had released some weak economic indicators at the end of February, but the Nikkei Average continued to move firmly, so the pair temporarily rallied to a monthly high of 108.57 yen. The FOMC announced an emergency 50bp rate cut on March 3, while FRB chair Jerome Powell discussed economic uncertainty. As a result, yields on 10-year US treasuries dipped below 1.0%, with the dollar/yen pair also breaching 107 yen. The pair then recovered to the mid-107 yen mark on March 4 on news that Joe Biden had won the Super Tuesday primary elections. However, it then fell to a weekly low of 105.97 over March 5–6 on concerns about COVID-19.

The pair moved erratically in the week beginning March 9 as each country enacted measures to tackle the COVID-19 outbreak. Crude oil prices had fallen sharply at the weekend after an OPEC Plus meeting failed to reach an agreement on cooperative production cuts, so the dollar was sold at a faster pace on March 9, with the pair tumbling to 101.18 yen. The pair bounced back to the lower-105 yen mark on March 10 after President Trump announced measures to alleviate the damage caused by COVID-19, but with the WHO declaring COVID-19 a pandemic on March 11, stock markets moved bearishly and the pair weakened to the mid-104 yen mark. As stocks fell across the world, the pair dropped to around 103 yen on March 12, though it then climbed to 106.10 yen as the euro/dollar pair fell on the results of the ECB Governing Council meeting. The Nikkei Average climbed on March 13 after the Bank of Japan (BOJ) strengthened its easing stance. President Trump also declared a national emergency and he released $50 billion in federal funding to help bolster the healthcare system. All this saw the dollar/yen pair hitting a weekly high of 108.50 yen.

The pair moved bullishly in the week beginning March 16 on 'emergency dollar buying.' It opened the week trading at the mid-106 yen mark. The pair was pushed up to the mid-107 yen mark by hopes for moves on the policy front after the BOJ decided to bring forward its monetary policy meeting. However, it then fell to a weekly low of 105.15 yen after the New York FRB's March Empire State Manufacturing Index posted a record fall. Emergency dollar buying intensified from March 17–19, with the pair subsequently climbing to the upper-110 yen mark. Dollar buying eased off on March 20, but the greenback was still in demand, with the pair closing the week trading at 110.80 yen.

It hit a low in the second half of the week beginning March 23. It opened the week trading at the lower-110 mark on March 23. The pair then rallied to the lower-111 yen mark after the FRB announced unlimited open-ended treasury and MBS purchases. Stock markets rose sharply and the pair hit the mid-111 yen mark on March 24 on hopes that the US Congress would soon pass an economic stimulus package. The pair suffered a slight reactive dip the following day, though its downside was supported by yen selling and it moved in the 111 yen range. It then weakened to 107.75 yen over March 26–27. US new applications for unemployment insurance data hit a record high on March 26, with market participants also focusing on fund repatriations by Japanese investors.

The pair moved with a dearth of new factors in the week beginning March 30. It fell to 107.14 yen on March 30 on fund repatriations by Japanese investors at the end of the Japanese fiscal year, though it then rallied to 108 yen on dollar buying. Amid an absence of any new factors, the pair continued moving at the 108 yen range toward March 31.

2. Outlook for This Month

The dollar/yen pair is expected to move erratically on news related to COVID-19 this month too. The virus spread at an unexpectedly-fast pace in March, but the authorities are now on high alert, so the pair's movements will probably be less volatile compared to March.

The US, Europe and the rest of the world continue to buffeted by COVID-19, with the number of infections still growing. Investors will be watching to see when the outbreak will peak, but there is a risk the crisis could deepen and drag on even longer until a vaccine or some kind of effective treatment is available. It is hard to predict how things will develop from here on. All the authorities can do is work to prevent the virus from spreading while monitoring its development and working on effective countermeasures.

Under these circumstances, the financial markets seem to be regaining composure, with stocks falling at a slower pace, for example, and the trend of dollar appreciation and basis dispersal on dollar buying easing off. This comes on the back of coordinated global action regarding monetary easing, fiscal mobilization, and moves by central banks to provide dollars. However, this is an unprecedented global crisis, with lives threatened everywhere and movements restricted. The impact on the real economy will be substantially different from the impact of the financial crisis of 2008. This has become a war with no end in sight, where experience and common sense do not apply.

Of course, the biggest risk is of the markets being thrown into turmoil again as infections spread further, but another worry involves investor movements in the wake of recent bearish asset prices or corporate movements following the decline in economic activity. As problems emerge over time, this could lead to unwinding, fund repatriations, and moves to obtain dollars. These flows could impact unstable markets, so caution will be needed. There is also the risk that instability could be spurred on by downgrading by credit rating agencies. However, market participants are already moving to price in deteriorating economic indicators. The reaction to negative figures could grow more muted from here on as the focus shifts from these indicators.

Risk tolerance levels have fallen in the foreign exchange markets, with active trading kept in check. More people are working from home and liquidity is noticeably falling. With exports dipping and demand for dollars growing, the dollar/yen pair could see less selling moving forward, but with exporters also hit by falling crude oil prices, for example, hedges look set to decrease. With liquidity falling, there will probably be some erratic flow-driven movement. It will be hard to discern a sense of direction as the currency pair is pulled between risk-off yen buying and dollar buying on moves to obtain greenbacks. If anything, market participants will probably find it slightly easier to buy the yen, with the yen subsequently trending higher.

Dealers' Market Forecast

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

Bullish on the dollar	3 bulls	110.00 – 107.00	Bearish on the dollar	18 bears	110.00 – 105.00

* Ranges are central values

Tanaka	Bear	110.00 – 105.00	Composure is returning on coordinated global action regarding monetary easing, fiscal mobilization, and moves by central banks to provide dollars, but markets will remain unstable as infections spread and asset prices fall. There will be a tug-of-war between risk-off yen buying and dollar buying on moves to obtain greenbacks, though yen buying looks set to prevail.
Takeuchi	Bear	110.00 – 105.00	Excessive demand for the greenback has finished now central banks have pumped dollars into the markets. The impact of COVID-19 is likely to grow deeper and longer-lasting. The negative impact on global economic activity will be also become more apparent from here on.
Tsutsui	Bull	110.00 – 106.00	With each nation implementing financial and fiscal measures, volatility will ease off in April. Investors will be watching to see when the COVID-19 outbreak peaks out and they will be looking for opportunities to buy US stocks and bonds, so the greenback will probably appreciate.
Kato	Bear	110.00 – 103.00	It is hard to imagine new money actively emerging on the Japanese side. Investors in the US and Europe will be monitoring the impact of the COVID-19 outbreak for the time being. However, it seems likely the worst will be over by the time the Golden Week holidays commence. Investors will try pushing the yen higher at the start of the month, with the yen moving bearishly thereafter.
Seki	Bear	110.00 – 105.00	Major central banks are working together to promote monetary easing and provide liquidity. With the US also set to implement a huge fiscal spending package, excessive demand for dollars has eased off. With infections set to peak in the US, though, risk aversion will probably push the dollar/yen pair lower.
Mitsuishi	Bear	110.00 – 104.00	The US is now seeing more infections than anywhere else. Japanese/US interest-rate differentials are also shrinking, while there remain concerns about the direction of the economy, despite large-scale fiscal mobilization. As such, risk aversion looks set to continue for a time, so the yen will probably appreciate.
Yamagishi	Bear	110.00 – 104.00	'Emergency dollar buying' movements have eased off. After the US implemented a zero-interest-rate policy in December 2008 during the financial crisis, the dollar weakened against the yen for three years until it hit the 75 yen range in October 2011. The trend of dollar selling and yen buying looks set to intensify on shrinking Japanese/US interest-rate differentials.
Tasaka	Bear	110.00 – 105.00	The 'cash is king' phase of extreme risk aversion has peaked out, with investors likely to factor in the negative impact of COVID-19 on the real economy going forward. Stocks could weaken and the yen could appreciate on the release of some worse-than-expected indicators.
Omi	Bull	110.00 – 107.00	Emergency dollar buying looks set to continue. With spring approaching, though, market confusion looks set to gradually ease off and market volatility will calm down as the spread of COVID-19 slows.
Ueno	Bear	110.00 – 104.00	Dollar tightening has eased on moves by major central banks to provide liquidity. With a new quarter also beginning, the yen will be susceptible to buying on risk aversion.

Okamoto	Bear	110.00 – 105.00	It seems the markets have emerged from the worst of the COVID-19 shock. Irregular dollar-buying pressure has eased off. With Japanese/US interest-rate differentials shrinking, risk-off yen buying will probably intensify again.
Onozaki	Bull	112.00 – 107.00	The phase of excessive dollar demand seems to have passed, but COVID-19 infections show no signs of slowing. The impact on the economy will probably grow more pronounced from here on, though the subsequent risk aversion could lead to some emergency dollar buying rather than yen buying.
Tamai	Bear	110.00 – 105.00	There are no signs of the COVID-19 outbreak easing off and there is no knowing how long economic activity will remain in the doldrums. Each country is taking countermeasures, but these have yet to have any impact, so the dollar/yen pair looks set to move with a heavy topside on lingering risk aversion.
Harada	Bear	111.00 – 102.00	It remains unclear what impact the COVID-19 outbreak will have, so risk aversion looks set to continue. The impact will probably become more apparent in economic indicators released from here on, with the dollar/yen pair set to continue trading with a heavy topside.
Oba	Bear	110.00 – 105.00	Things look bleak for the economic outlook on the back of the COVID-10 outbreak, with investors likely to remain in risk-off mode. Companies will be releasing their results at the end of the fiscal year, but expectations are low given the impact on the virus on the real economy, so the yen will probably be pushed higher against the dollar by stock market movements.
Takamura	Bear	110.00 – 104.00	The outlook has shifted in a bearish direction. Last month's phase of dollar buying was a short-lived response. Demand for the greenback as a high-interest-rate currency has waned in the wake of the FOMC's emergency rate cut. The yen will continue to be bought on risk aversion. Amid concerns of further infections in the US and elsewhere, the dollar/yen pair looks set to trade with a heavy topside.
Matsumoto	Bear	110.00 – 105.00	Last month saw moves to ensure liquidity in the wake of the COVID-19 outbreak, with market participants chasing dollars on concerns about funding at the end of March. However, the greenback looks set to move heavily this month now dollar demand has eased off. With global business sentiments also deteriorating on the spread of COVID-19, the dollar/yen pair looks set to trade with a heavy topside.
Itsumi	Bear	110.00 – 105.00	The dollar will weaken on waning demand and concerns of a US economic recession. With economic indicators all deteriorating on the COVID-19 outbreak, risk aversion looks set to continue, with the dollar/yen pair expected to move bearishly.
Otani	Bear	110.50 – 105.00	The dollar/yen pair's movements have calmed after major central banks supplied dollar funds to the markets, so the phase of dollar appreciation is easing off. With Japanese/US interest-rate differentials also shrinking on the FRB's rate cut, the pair looks set to move with a heavy topside.
Tanishiki	Bear	110.00 – 104.00	Extraordinary demand for the dollar is starting to ease, so investors should be wary of an unwinding of dollar long positions going forward. With Japanese/US interest-rate differentials also shrinking, the dollar/yen pair could drop out of its core range.
Okuma	Bear	110.00 – 105.00	The hub for new COVID-19 infections has shifted from Europe to the US. There are now concerns about the impact on the US economy, with the employment situation deteriorating sharply, for example. Under these circumstances, risk aversion will probably lead to more yen buying than dollar buying, with the dollar/yen pair set to trade with a heavy topside.

Hiroshi Seki, Forex Sales, Derivatives & Forex Department

Euro – April 2020

Expected Ranges	**Against the US$: US$1.0500–1.1100**
	Against the yen: JPY115.00–121.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at $1.1052 during Tokyo trading time on March 2.

With US interest rates moving at record lows, the pair rocketed for a time to the lower-$1.12 mark when the FRB announced an emergency rate cut on March 3. After a round of buying, the pair dipped back to the upper-$1.11 mark as US interest rates topped 1.0%, though dollar selling accelerated on March 5 as US interest rates fell, with the pair temporarily rising to the mid-$1.12 mark. The greenback was sold and the pair hit $1.1355 for a time on March 6 before the release of the US employment data for February. The data turned out to be quite bullish in the end, though the market reaction was muted. The dollar was bought back slightly, with the pair closing the week at $1.1280.

The pair opened at the lower-$1.14 mark on March 9. With US interest rates moving at record lows and US stock transactions suspended, the pair then climbed to a monthly high of $1.1495. However, concerns then grew about the spread of COVID-19 in Europe too, so the pair moved with a heavy topside. The greenback was bought back on March 10 on hopes regarding a rescue package by the US government, so the pair edged down to the upper-$1.12 mark. It was bought back to the $1.13 range on March 12 after the ECB Governing Council decided to ramp up it easing measures, though the pair fell to the $1.10 range on the commencement of a US ban on flights from Europe. It then tumbled to $1.1055 on March 13.

The FRB implemented an emergency 1.00% rate cut in the early hours of March 16 and it also announced a new round of easing, so the euro bounced back and the currency pair hit $1.124 during European trading time. US stocks then plummeted, but the dollar was bought back thereafter, so the pair dipped below $1.11. However, dollar buying slowed after the NY FRB announced a new repo operation, so the pair rallied to the upper-$1.11 mark. It fell to around $1.10 on March 17 on moves to get hold of the dollar. It then weakened to the upper-$1.08 mark on March 18 on speculation that central banks would be buying the dollar as part of rebalancing operations. News then emerged that the EU was looking into activating the European Stability Mechanism (ESM) to prepare multiple credit lines for European countries, with the pair dropping to the lower-$1.08 mark as a result. On March 19, the ECB announced an easing package worth 750 billion euros, so the euro was bought and the currency pair hit $1.09, though it then fell to the upper-$1.06 mark on dollar buy-backs. The pair closed the week at a monthly low of $1.0638 on March 20.

After opening at the upper-$1.06 mark on March 23, the pair climbed to the lower-$1.08 mark as the dollar was sold after the FRB announced an easing package. The pair moved firmly on March 24 on expectations that a US House of Representatives bill would be passed soon. The ECB had indicated it was prepared to implement the Outright Monetary Transaction (OMT) if needed, but there was a growing sense that this would not happen just yet, so the pair rose to around $1.09 on March 25. Dollar selling continued on March 26. With the benchmark yield on 10-year US treasuries breaking below 0.70% on March 27, the pair strengthened to around $1.115, its highest level since March 10. Things changed at the start of the next week, though, with the euro sold and the pair moving below $1.10 at the end of the month.

2. Outlook for This Month

The euro/dollar pair is expected to fall at a gentle pace in April.

A European economic slowdown is becoming more likely. The COVID-19 outbreak had been viewed as a problem affecting other countries, but the virus is now spreading rapidly throughout Europe, with governments taking strict measures to keep the virus in check. The economy has been hit hard, particularly when it comes to services, with vital external demand also slowing. Under these circumstances, the eurozone may post q-o-q negative growth over the first and second quarters. Social functions have also slowed at a remarkable rate, with several European nations moving to support the economy through fiscal expansion. As with other regions, the eurozone financial authorities will probably boost corporate cashflows, with fiscal tools also used to supplement household and corporate spending. If we assume the outbreak will peak out in July in Europe, then real GDP growth in 2020 will probably come in at +0.5% y-o-y, but Europe faces several problems besides Brexit and COVID-19, with more Syrian refugees potentially entering Europe from Turkey, for example. The US has declared a state of emergency, with the number of COVID-19 sufferers set to surge in April. The same applies to Europe, though, and it seems unlikely the situation will suddenly improve, so market participants will find it hard to actively buy the euro.

The ECB made three monetary policy decisions when it met in March: (1) implement more bridge financing, (2) ease the criteria for the third targeted long-term refinancing operation (TLTRO3), and (3) increase the asset purchase program (APP) by 120 billion euros. However, it delayed plans to push interest rates further into negative territories. Under (1), the ECB will provide cashflow support up until June 24, with the applicable rate set at 0% (MRO rate). The applicable rate for (2) was set at -0.25% (MRO rate minus 25bp), while the lending rate was set at -0.75% (deposit facility rate minus 25bp; the rate was previously -0.50%). These could be classed as a different form of rate cut, while the maximum available amount under the TLTRO3 was also raised. As for (3), though there remain constrictions when it comes to contribution rates and outstanding issues, ECB president Christine Lagarde has indicated she will tolerate some flexibility. The announcement initially drew a negative market response, but the Council decided to postpone any 'all-pain no-gain' moves to push rates further into negative territories, so the announcement should be seen as a positive factor when it comes to the direction of policy management from here on. With each country easing at a faster pace, though, it is hard to see the (negative-interest-rate) euro being bought back against the (zero-interest-rate) dollar, with the euro/dollar pair set to fall at a gentle pace.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.1350 – 1.0800	Bearish on the euro	17 bears	1.1200 – 1.0700

* Ranges are central values

Tanaka	Bear	1.1200 – 1.0600	COVID-19 infections continue to spread through the US and Europe, but the weakness of Europe is becoming apparent again as the region lags behind in its response due to an inability to work together in times in times of emergency. The economic impact is also growing deeper and Europe has less room to maneuver on the policy front, so the euro/dollar pair will continue to have its downside tested.
Takeuchi	Bear	1.1300 – 1.0800	Excessive dollar demand has waned thanks to central banks pumping more dollars into the markets, but economic activity is slowing on the COVID-19 outbreak and there are no signs of things improving, particularly in Europe, so the euro/dollar pair will continue to face downward pressure.
Tsutsui	Bear	1.1150 – 1.0500	Europe has implemented some historically-large financial and fiscal measures, but the impact of collapsing healthcare systems is too large to ignore, with the euro set to weaken against the dollar on an economic slowdown. The euro/dollar pair will weaken in April on investor fund outflows.
Kato	Bear	1.1200 – 1.0600	If the COVID-19 problem drags on, the euro will be a hard currency to buy. Investors will continue to buy the dollar on risk aversion.
Seki	Bear	1.1150 – 1.0800	The euro/dollar pair will move erratically, but the euro will probably not be bought given the substantial negative interest rates in the eurozone, so the pair will continue to face downward pressure. However, the negative impact of COVID-19 on the US economy is also becoming apparent, so the pair's room on the downside will be capped.
Mitsuishi	Bear	1.1200 – 1.0600	The European economy was showing signs of bottoming out, but it will now be damaged immeasurably by the COVID-19 outbreak, with a further economic slowdown inevitable. Under these circumstances, the euro/dollar pair's room on the topside will be capped.
Yamagishi	Bull	1.1400 – 1.0700	Europe and the US are both facing difficult times. The European economy had already started slowing before the COVID-19 outbreak. The US economy had remained firm, but it is now facing a reverse wealth effect as stock prices plummet, with economic indicators deteriorating markedly. The euro will be a comparatively easier currency to buy.
Tasaka	Bear	1.1200 – 1.0700	The European economy is slowing on the COVID-19 outbreak. This has been a big shock and there are no signs of conditions easing, with the economy set to slow further. Amid a dearth of euro-buying factors, the euro/dollar pair will probably have its downside tested.
Omi	Bull	1.1200 – 1.0800	The euro has fallen on monetary easing measures introduced to deal with the COVID-19 shock, but this trend will probably ease off, with the euro bouncing back. With warm weather approaching, the euro/dollar pair will regain composure as the outbreak looks set to taper off.
Ueno	Bear	1.1200 – 1.0700	The COVID-19 outbreak continues to ravage the markets, even though the situation in Italy and Spain shows signs of peaking out. Even if the virus is brought under control, there will be considerable concerns about the damage caused to the economic base, so the euro will remain a hard currency to actively buy.

Okamoto	Bear	1.1250 – 1.0700	Europe is also becoming a center of the COVID-19 outbreak. With its fundamentals also moving bearishly, there will be a dearth of buying factors. Even if the situation calms on the actions of each government and central bank, investors will remain in risk-off mode, so the euro is expected to face selling pressure again.
Onozaki	Bear	1.1200 – 1.0700	There are no signs of the COVID-19 outbreak calming down. The impact on the economy will grow more apparent from here on. Europe will also be hit hard, so the euro will be a hard currency to buy.
Tamai	Bear	1.1200 – 1.0700	Europe's economy will continue to slow for a time on the COVID-19 outbreak, with Europe likely to recover at a slower pace than the US. The euro will be susceptible to selling, with the euro/dollar pair set to trade with a heavy topside.
Harada	Bear	1.1200 – 1.0500	The eurozone economy was recovering, but it will now be damaged substantially by the COVID-19 outbreak. With the euro being sold, the euro/dollar pair will probably weaken on the outbreak.
Oba	Bear	1.1150 – 1.0600	The COVID-19 outbreak shows no signs of slowing in the US and Europe, with economic activity decreasing sharply. Each government is putting together a response, but there is an undeniable sense that Europe is lagging behind, so the euro/dollar pair will probably trade with a heavy topside until the issue is fundamentally resolved through the development of a vaccine, for example.
Takamura	Bear	1.1200 – 1.0700	The euro/dollar pair will be supported for a time by an adjustment to the short-term trend of dollar bullishness, but there are concerns that the economies of Italy, Spain and so on will be hit hard by the COVID-19 outbreak, with these concerns already manifesting in PMI results, for instance. The euro/dollar pair will continue to trade with a heavy topside.
Matsumoto	Bear	1.1200 – 1.0800	The euro will probably be bought as moves to procure the dollar ease off. However, the ECB has announced some new easing measures, while COVID-19 is also spreading throughout Italy, Spain and other eurozone nations, so investors are likely to focus on Europe's deteriorating business sentiment, with any euro appreciation capped.
Itsumi	Bear	1.1200 – 1.0500	The fundamentals remain very weak in Japan, Europe and the US. Exports to China have slowed on the COVID-19 outbreak, with infections also spreading throughout Europe, so concerns are growing about the impact on the European economy, with the euro likely to weaken against the dollar.
Otani	Bull	1.1400 – 1.0800	The surge in demand for the dollar is easing off now major central banks have pumped dollars into the markets. This trend will support the euro/dollar pair. With COVID-19 spreading throughout Italy, Spain and other European nations, though, the pair's topside will probably be capped.
Tanishiki	Bull	1.1300 – 1.0800	Investors are focusing on the negative impact of the COVID-19 outbreak on the US, European and Japanese economies. Though the FRB has already introduced an easing package, including substantial rate cuts, the ECB decided to maintain the status quo without pushing rates further into negative territories. The euro will probably be a comparatively easier currency to buy.
Okuma	Bear	1.1200 – 1.0700	China is racing to reopen it manufacturing and other production hubs, but supply chains will remain in turmoil for the now, so a European economic slowdown seems inevitable. COVID-19 infections continue to increase, particularly in France, Italy and Spain, so the euro/dollar pair looks set to move bearishly.

Fumihiko Kanda, Europe Treasury Department

British Pound – April 2020

Expected Ranges	**Against the US$:**	**US$1.0500–1.3000**
	Against the yen:	**JPY120.00–143.00**

1. Review of the Previous Month

The pound/dollar pair moved firmly at the start of March, though its movements were very volatile thereafter.

The pair moved heavily the start of the month. However, the dollar was then sold across the globe on March 3 as the G7 held an emergency telephone conference on how to tackle COVID-19. The greenback also fell after the FRB instituted an emergency 0.5% rate cut in the wake of the G7 conference. The currency pair bounced back as a result. With central banks implementing coordinated rate cuts on March 4, the pound was bought back when the Bank of England (BOE) next governor Andrew Bailey struck a cautious stance with regards to rate cuts. Sterling was also pushed up by speculation that the UK budget bill would prove expansionary on its release on March 11. Dollar selling continued thereafter, with the pair pushed upwards as a result. Dollar selling intensified on March 9 when crude oil prices fell sharply, so the pair rallied to a monthly high of $1.32. This represented a peak, though, with the pair subsequently pushed down by selling.

The BOE implemented an emergency 0.5% rate cut during the early hours of March 11, UK time. The pair was sold to the lower-$1.28 level, though it soon rebounded. The government then announced a GBP30 billion budget proposal just after lunchtime. Expectations were already high, though, so the impact on the pair was muted. US stocks and the financial markets fell sharply on March 12. The greenback was subsequently bought and the currency pair plummeted. The pair continued sliding on March 13, with the week beginning March 9 posting the biggest weekly slide since 2016, when the Brexit referendum took place. This trend continued on March 17. The UK government announced GBP330 billion (42 trillion yen) in loan guarantees for businesses, though this failed to have an impact. The German ZEW Indicator of Economic Sentiment for March then posted its steepest m-o-m fall since records began in 1991. The euro crashed as a result and the pound was also dragged lower. The pound/dollar pair broke below the crucial $1.20 mark on March 18. In then plunged below $1.1838, its low in the wake of the 2016 referendum. The BOE decided to roll forward a 0.15% rate cut (policy rate = 0.10%) on March 19 and it also announced it would be buying an further GBP200 billion of assets (with the ceiling of the program set at GBP645 billion). With several central banks and governments also announcing countermeasures, though, the impact of the BOE's move was hard to discern. The pair hit a monthly low of $1.1413 on March 20, though these movements were unwound from the following week. FRB chair Jerome Powell hinted at further easing on March 26, while the US posted a record high increase in new applications for unemployment insurance, so the dollar was sold and the currency pair rallied to the $1.20 range. The BOE's Monetary Policy Committee (MPC) meeting also passed by uneventfully on the same day. The pair was pushed up to the $1.24 range on March 27 as the end of the month approached.

2. Outlook for This Month

The movements of the pound/dollar pair could be swayed sharply by COVID-19 trends in April. Market participants should wary of pound buy-backs, but the pair will continue to move bearishly on the whole.

As events last month showed, the various financial and fiscal support packages did not fundamentally solve the COVID-19 problem, so their impact on the markets was muted. There will be less room to maneuver going forward, so these packages will probably attract even less attention from here on. The UK government lagged behind the US and Europe when it came to tackling COVID-19, though it finally instituted a lockdown on the evening of March 23. This measure could be revised from here on, but it will remain in place for at least three weeks (it was confirmed on March 27 that UK prime minister Boris Johnson had also contracted COVID-19, so the lockdown will probably be tightened going forward). If these efforts succeed in getting the outbreak under control (or if some effective treatment is developed), the pound will be bought back as risk sentiments improve. However, the virus will do significant damage to the UK economy. Furthermore, trade talks with the EU will be delayed. These were already pressed for time, so this delay will lead to fears of a no-deal Brexit at the end of the year. All this will act to weigh down the pound/dollar pair's topside. A preliminary estimate by a UK think tank suggests that the UK economy could contract by 15% in the second quarter. Of course, this slowdown is due to a transitory factor, namely COVID-19, but this sensational figure and uncertainty over Brexit will hit the pound further this month.

During this turbulence, the pound was sold to its lowest level against the greenback since 1985. Sterling is known to be a weak currency during times of crisis and it also fell by around 20% against the dollar during the financial crisis and after the Brexit referendum. Judging from these experiences, it seems the currency pair's downside could hit $1.05 this time too. This level would be close to its 1985 low, so it could act as the pair's ultimate support line if risk sentiments deteriorate further from here on.

Perhaps there is no point following the events schedule under these circumstances, but the BOE's MPC will not be meeting this month, while the UK parliament will be in special recess until April 21, after the Easter holidays.

Ai Ando, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – April 2020

Expected Ranges	**Against the US$:**	**US$0.5960–0.6330**
	Against the yen:	**JPY64.00–68.00**

1. Review of the Previous Month

The AUS/USD pair moved by around 1,200 pips in March, from the upper-$0.66 mark to around $0.55.

The Australian dollar was bought and the pair rose to the mid-$0.65 level on March 3 after the RBA cut the cash rate by 25bp. The FOMC then instituted an emergency 50bp rate cut during NY trading time. The pair was soon bought to the mid-$0.66 mark, though its stay here was short-lived and it dropped back to $0.6590. Stocks continued to fall on March 6 on risk aversion. The Australian dollar was boosted by falling US interest rates, so the currency pair climbed to the mid-$0.66 level. OPEC Plus failed to reach an agreement when it met on March 9, with Russia and Saudi Arabia announcing production increases. Crude oil prices fell sharply on this price war, with the S&P futures market tumbling soon after opening. As circuit breakers were set off, a flash crash occurred, with the Australian dollar also sold sharply as stop losses were activated. The AUS/USD pair temporarily plummeted to $0.6311, its lowest point for 11 years.

Stocks rallied on March 10 on hopes regarding a US economic support package. As US interest rates rose, the greenback was bought and the pair fell to the $0.64 range. The Australian government announced a stimulus package worth AUD17.6 billion on March 12, though the reaction of the markets was muted. President Trump then announced a ban on visitors from Europe, while the ECB decided to keep policy rates fixed, with US stocks plummeting again. As circuit breakers were activated during the second week, the currency pair fell to the $0.62 range. President Trump then declared a state of emergency on March 13. He also announced a $50 billion support package, so excessive risk aversion eased off. Stocks rebounded sharply and the greenback was bought, with the AUD/USD pair tumbling to the lower-$0.61 mark. The RBNZ implemented a 75bp rate cut on March 16, with the FOMC also deciding to cut rates by 100bp during an emergency meeting. US stock futures plummeted again and circuit breakers were activated. The currency pair temporarily dropped below $0.61, though it soon bounced back. The RBA decided to cut the cash rate to 0.25% during an emergency meeting on March 19. It also announced easing in the form of government bond purchases, for example, and it established a financial support program for small and medium sized companies. Australian interest rates fell sharply and the currency pair temporarily dipped to $0.55, though it was bought back during NY trading time.

On March 20, the RBA announced it would purchase AUD50 billion of government bonds, while the Australian government said it would postpone 2021 budget deliberations until October. As stocks stopped falling, the currency pair rallied to the \$0.58 range. US stock futures plunged to the lowest circuit breaker level soon after markets opened on March 23, with the AUD/USD pair also sliding to the \$0.57 range. The FRB announced a second economic support package during NY trading time, so the greenback was sold and the pair was bought back to the \$0.58 range. On March 24, stocks rallied sharply and the pair rose to just under \$0.60 on hopes for an early agreement on a \$2 trillion US economic support package. These hopes continued to boost stock prices from March 25, with the currency pair climbing to the mid-\$0.61 level.

2. Outlook for This Month

The AUS/USD pair's floor price will probably grow firmer in April.

OPEC Plus failed to reach an agreement when it met early March, with Russia and Saudi Arabia then launching into an oil price war. Financial markets had been moving skittishly on the COVID-19 outbreak, with risk aversion increasing on plummeting crude oil prices.US stocks also plunged to circuit breaker floors on successive days. Amid emergency dollar buying, the AUS/USD pair broke below its \$0.600 support line to hit \$0.5510 for the first time since 2003. The RBA held its first emergency meeting in 22 years on March 19, with a decision made to cut rates again following on from an earlier cut on March 3. The cash rate was lowered to 0.25% for the first time since 2002. Amid purchases of government and state bonds in secondary markets, the RBA set a target of 0.25% for the benchmark yield on 3-year Australia government bonds. The central bank also announced financial support for small and medium sized companies and it decided to provide a 3-year lending facility (AUD90 billion) with a fixed 0.25% rate to authorized deposit-taking institutions. The Australian government also announced two emergency stimulus packages (AUD17.6 billion and AUD66.4 billion). When RBA funding is added to the equation, Australia's economic stimulus adds up to around 10% of GDP so far. A recession is classified as 'two consecutive quarters of negative growth.' On this definition, Australia had avoided recession for 114 quarters up until October–December 2019, a world record. With the COVID-19 outbreak showing no signs of ending, though, a recession will probably be unavoidable over the first half of 2020.

The phase of 'emergency dollar buying' has cooled off. With RBA governor Philip Lowe also stating that the RBA is prepared to intervene in the foreign exchange markets if necessary, excessive Australian dollar short positions are now seeing some buy-backs. The AUD/USD pair's movements will be shaped by COVID-19 trends from here on, but if 'emergency dollar selling' continues to cool off, the pair could move firmly considering how US/Australian interest-rate differentials are inverting at present. However, market volatility remains at high levels, with the currency pair fluctuating wildly each day, so market participants should remain on guard against sudden price movements.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – April 2020

Expected Ranges **Against the US$: C$1.3800–1.4800**
Against the yen: JPY74.00–80.00

1. Review of the Previous Month

The USD/CAD pair opened March trading at C$1.3351.With the COVID-19 outbreak spreading across the globe, the World Health Organization (WHO) declared a pandemic. The greenback was then bought on risk aversion. Crude oil markets also fell sharply as Russia and Saudi Arabia entered into a price war amid plunging demand. All this had a huge impact on the Canadian dollar. The currency pair continued falling to drop temporarily below C$1.46 for the first time since January 2016. The FRB implemented an emergency rate cut and the Bank of Canada (BOC) also followed suit by cutting its policy rate by 0.5% to 1.25% on March 4. The USD/CAD pair subsequently rose to C$1.3431.

OPEC and OPEC Plus held a cabinet-level meeting on March 6, but an agreement was not reached on Russia's plan to curtail production. As Russia and Saudi Arabia launched a price war, the Brent futures market saw its steepest fall since 1991, during the Gulf War. After hitting $27.34, WTI crude oil prices returned to $36.35 and then moved in a narrow range. The FRB implemented another emergency rate cut on March 15, with its policy rate lowered to 0.25%, though the reaction was muted. Crude oil prices fell sharply again on March 16 to hit $28.10. This led to Canadian-dollar selling, with the currency pair climbing to C$1.3766. Crude oil prices continued to fall to hit $20.06 on March 18, with the USD/CAD pair also hitting a monthly high of C$1.4668. Crude oil prices then rallied to C$27.89 and the pair dipped back to C$1.415. On March 20, though, Canada posted 500,000 new applications for unemployment insurance, a figure equivalent to 2.5% of Canada's labor force. The Canadian dollar was sold again, with the currency pair climbing to C$1.44. The pair then swung between C$1.43–1.45. It was then reported that the US had more COVID-19 infections that China. The US also posted a record 3.283 million new applications for unemployment insurance (prior market forecast: one million) on March 26, so the greenback was sold and the pair dropped to C$1.4011 for a time. The BOC implemented the third rate cut for the month on March 27, with the policy rate lowered to 0.25%. The pair rose slightly to hit C$1.4150. On the same day it was reported that President Trump had signed off on an economic stimulus package worth $2 trillion. However, a US consumer confidence index then fell sharply, while the greenback continued to weaken on concerns about the spread of COVID-19 in the US. With crude oil prices also rising and news emerging that G20 heads of state had agreed to pump five trillion into the global economy through national COVID-19 countermeasures, the USD/CAD pair fell below C$1.40 mark. Crude oil prices then fell below $20/barrel to hit $19.85, though, so the pair strengthened again toward the month's end.

2. Outlook for This Month

The BOC implemented three rate cuts in March, with the policy rate lowered to 0.25%. With COVID-19 spreading across the globe, infections in Canada topped 6,000 toward the end of March. In addition to the COVID-19 pandemic, the Canadian economy has also been hit hard by plummeting crude oil prices, with commodity-producing regions damaged significantly. Western Canadian Select (WCS) has fallen to a record-low of $4.51/barrel, less than the cost of actually shipping the oil to refineries. As such, oil sand producers may end up sharply curtailing production or suspending operations.

The Canadian government has announced a fiscal stimulus package of around C$107 billion (5% of GDP) to help support companies and individuals. The package includes C$52 billion in direct support and C$55 billion in tax deferrals. The BOC has also established a new facility for banks in order to pump funds into the markets and potentially expand credit facilities in the future. On March 27, the BOC also announced that it would purchase C$5 billion of government bonds and short-term corporate debt a week to help the financial system recover in an appropriate manner. The purchases will continue until the economy embarks on a steady recovery. Furthermore, the BOC mentioned it would purchase commercial paper for a year to ease tensions in the frozen commercial paper market. The BOC signaled its intention to stimulate the economy and pump liquidity into the markets through unlimited, ongoing interventions. The Canadian dollar had a comparatively high benchmark rate, but this is now close to the level prevailing in other developed nations, so Canada will have less room to stimulate the economy through rate cuts. However, after keeping its powder dry during the 2008–2009 financial crisis, the BOC has now activated its quantitative easing program as it attempts to deal with the terrible situation. BOC governor Stephen Poloz said the BOC's policies were not excessive and he commented that "a firefighter has never been criticized for using too much water."

With the number of COVID-19 infections increasing and no end to the outbreak in sight, the economy is clearly slowing, so investors will continue to monitor the policies pursued by the Canadian government and the BOC. The BOC will hold its monetary policy meeting on April 15, with the FOMC also meeting to set policy rates on April 29. Attention this month with focus on the COVID-19 outbreak, the direction of the Russia/Saudi price war, and the extent to which economic indicators are hit by COVID-19.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – April 2020

Expected Ranges	**Against the US$:**	**KRW1,190–1,270**
	Against the yen:	**JPY8.475–9.259 (KRW100)**
		(KRW10.800–11.800)

1. Review of the Previous Month

In March the USD/KRW pair rose sharply, though it was only up slightly on the end of February at the close of trading. It fluctuated violently on COVID-19 in March too.

The pair opened the month trading at KRW1205.00. The FRB held an emergency meeting during overseas trading time on March 3 and it instituted a 50bp rate cut. The won was also bought when the centrist candidate Joe Biden won the Super Tuesday US primaries on March 3. All this saw the pair hitting a low of KRW1179.90 on March 5. With several countries announcing measures to combat COVID-19, including the banning of visiting ships and voluntary lockdowns, stock markets moved erratically. As demand for the dollar also tightened, the greenback was bought and held onto in both spot and swap markets. During this time, the FRB decided to implement a further 100bp rate cut on March 15 (early hours of March 16, Japan time), with the policy rate range set at 0.00–0.25%. With six major central banks also deciding to expand their dollar swaps, facilities to support commercial paper were revived on March 17. The BOK also instituted a 50bp rate cut on March 16, with the policy rate lowered to 0.75%. However, market participants still sought the dollar, so the currency pair topped KRW1250 on March 19 before shooting up to KRW1296.00. The pair's topside was held down just before KRW1300. On the same day, the FRB also announced it had concluded currency swap deals with nine central banks, including the Bank of Korea (BOK). This relieved the tension on the USD/KRW pair. The FRB also announced it was expanding its QE program on March 23. On March 24, meanwhile, South Korea increased an economic stimulus package from KRW50 trillion to KRW100 trillion. With expectations also rising for a $2 trillion package of economic support in the US, the currency pair fell to KRW1120 on March 25. The US stimulus package was passed by the Senate on March 26, while FRB chair Jerome Powell signaled his commitment to easing during an interview during overseas trading time. Dollar selling accelerated as a result, with the pair tumbling to KRW1205 on March 27. The US fiscal plan was also approved during overseas trading time on the same day. The pair rallied slightly the following week to close at KRW1217.40.

2. Outlook for This Month

In April, the USD/KRW pair will move firmly or appreciate on the whole, though it will probably move skittishly on COVID-19 and so on. At the time of writing, the number of infected people continues to rise across the globe. The crucial point will be when this outbreak peaks out.

The US and Europe have enacted strong measures, including lockdowns, while South Korea will require all people entering the country to isolate themselves for two weeks from April 1. The negative impact on economic activity is growing clearer by the day. Under these circumstances, many firms across the world will gradually cut staff levels going forward. This could lead to further falls in stock prices, for example.

The US and South Korea have introduced stimulus packages and the BOK has established various facilities. These could support global and South Korean fundamentals and sentiments. Other measures could be introduced from here on, but it is too early to be optimistic. If stocks fall further, overseas investors might sell South Korea equities again, with the greenback then bought and the won sold.

Sentiments are unsettled and there could still be some sharp fluctuations when it comes to stocks, currencies, bonds and commodities. As such, investors should remain wary of USD/KRW pair movements on the upside or the downside, though the pair looks set to move firmly with an upward bias on the whole.

Hirochika Shibata, Taipei Treasury Office

New Taiwan Dollar – April 2020

Expected Ranges	**Against the US$:**	**NT$30.10–30.70**
	Against the yen:	**JPY3.45–3.70**

1. Review of the Previous Month

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

The pair opened the month trading at TWD30.250. Stocks rose globally at the start of the month when Joe Biden won the Super Tuesday US primaries. Taiwanese stocks were also bought and this led to Taiwan-dollar buying, with the currency pair falling to a monthly low of TWD29.865 on March 4. Some new market factors then emerged. Crude oil prices plummeted, for example, while President Trump announced some economic measures and the US introduced entry restrictions. As stocks moved erratically, the currency pair floated around TWD30.

Stocks fell globally in the latter half of the month on concerns about COVID-19. Taiwanese equities also fell, with overseas investors selling on balance, so the Taiwan dollar fell at a faster rate. The USD/TWD pair subsequently hit a monthly high of TWD30.540 on March 20.

Stocks rallied across the globe at the end of the month on expectations that the US would soon put together an economic package to mitigate the impact of COVID-19. With exporters also selling the greenback, the Taiwan dollar faced less depreciatory pressure, with the currency pair moving close to TWD30.20 as a result.

2. Outlook for This Month

The Taiwan dollar is expected to move bearishly against the dollar in April.

Stocks fell globally in March on growing concerns that the COVID-19 outbreak would lead to an economic slowdown. Taiwanese stocks were no exception, with the Taiwan Capitalization Weighted Stock Index down 25% on the end of February at one point. With central banks also pursuing easing, the Bank of Taiwan (BOT) cut rates for the first time in around three years and nine months.

Taiwan's industrial production data for February rose by a huge +20.34% on the same month of the previous year, though this was partially because the Chinese New Year holidays fell in February last year. Taiwan has seen relatively few COVID-19 infections, so although overseas production has been hit, the impact on production in Taiwan has been muted. However, export orders in February dipped below expectations to hit 0.8% y-o-y. Measures to tackle the COVID-19 outbreak could have a huge impact on supply chains and distribution going forward.

As mentioned above, though production is moving firmly in Taiwan, Taiwanese stocks have also been hit by COVID-19, with the outbreak likely to prove a crucial factor in April too. With the outbreak showing no signs of ending, the USD/TWD pair's movements will probably be marked by dollar buying on bearish stock prices.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – April 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7800**
	Against the yen:	**JPY 13.60–14.45**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

In March, the Hong Kong dollar rallied against the U.S. dollar to HKD 7.7524—the highest rate in 3.5 years, as a result of the emergency decision by the Federal Reserve Board (FRB) to cut the interest rate by 150 basis points. Despite the rise of the U.S. dollar index based on concerns over the U.S. dollar liquidity level, the interest rate differential between the Hong Kong dollar and the U.S. dollar widened, and this continued strengthening the Hong Kong dollar. While COVID-19 was spreading worldwide, stock prices depreciated globally, and this also weakened the Hong Kong stock market. However, the Hong Kong dollar exchange market was supported by intermittent capital inflow from the Chinese market into the Hong Kong stock market through the Stock Connect scheme. Furthermore, the Hong Kong dollar was seen as a safe asset in the Asian region, thanks to its robust U.S. dollar peg, attracting assets from the Asian market and further supporting the Hong Kong dollar exchange market. On the other hand, the growth rate of the first quarter is likely to fall further. The retail sales of January fell to –21.4% year-on-year despite the fact that this was recorded before the outbreak of the COVID-19 crisis, and the February PMI of Hong Kong fell from the 46.8 observed in the previous month to 33.1 to reach an all-time low. Under such circumstances, the February unemployment ratio rose sharply to 3.7% for the first time in nine years.

Hong Kong interest rate market in March

In March, the Hong Kong dollar interest rates fell once after the decision of the FRB to urgently cut the interest rate. However, the Hong Kong dollar interest rates rallied rapidly thereafter, when demand to procure U.S. dollars increased, facing the confusion in the world stock market, which saw a major collapse and which thus strengthened the pressure to redeem funds. Under such circumstances, market participants were concerned over the U.S. dollar liquidity level. Despite the fact that the FRB cut the interest rate further, the U.S. dollar LIBOR rose rapidly, and the one-year Hong Kong dollar currency basis fell to an all-time low at –54 basis points, demonstrating the strength of pressure to procure U.S. dollars. The Hong Kong dollar interest rates rose also thanks to other factors unique to the Hong Kong dollar, such as the recovering demand for IPOs as well as the seasonal demand typically seen at the end of a quarter period. Moreover, the one-month and three-month interest rate differentials between the

Hong Kong dollar and the U.S. dollar widened to 90 basis points and 50 basis points, respectively, and this was another reason for the Hong Kong dollar to strengthen in the spot exchange market. On March 16, the Hong Kong Monetary Authority (HKMA) cut the countercyclical capital buffer (CCyB) from 2% to 1%. As a result of this decision, the bank credit expanded and HKD 400–600 billion was supplied in the market for the purpose of economic stimulus.

2. Outlook for This Month

Hong Kong dollar spot exchange market in April

In April, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within a range between HKD 7.7500 and HKD 7.7800. The decision by the FRB to cut the interest rate and introduce measures of unlimited quantitative easing changed the structure of the fundamentals in the Hong Kong dollar exchange market. As the FRB decided took a zero-interest rate policy, the interest rate differentials between the U.S. dollar and the Hong Kong dollar expanded. As a result, a large amount of liquidity provided through the measures of unlimited quantitative easing would lead to capital inflow into the Hong Kong dollar market, thanks to higher interest rates. Thus, the U.S. dollar/Hong Kong dollar exchange rate could approach the upper end of the fluctuation band at HKD 7.75, as was the case in the second half of 2008, which was the last time that the FRB took measures of quantitative easing. Furthermore, demand for the Hong Kong dollar is also expected to increase through capital inflow based on the Stock Connect scheme as well as on the recovery of demand for IPOs.

Hong Kong dollar interest rate market in April

In April, the Hong Kong dollar interest rates are forecast to rise, as the FRB denied the possibility of a negative interest rate; meanwhile, U.S. interest rates hit bottom. The Hong Kong dollar HIBOR could fall slightly, after the end of the quarter period. However, demand to procure the U.S. dollar remains strong with growing concerns over the COVID-19 pandemic, and this is likely to continue supporting the U.S. dollar LIBOR, while also keeping the Hong Kong dollar HIBOR high. Under such circumstances, the major downward risk is the further appreciation of the Hong Kong dollar. If the U.S. dollar/Hong Kong dollar exchange rate approaches the upper end of the fluctuation band at HKD 7.75, the HKMA would intervene in the market by selling the Hong Kong dollar in the foreign exchange market in order to maintain the U.S. dollar peg. As the aggregate balance will increase from the current USD 54 billion level, the Hong Kong dollar interest rates would face downward pressure. However, given the existing high market value of the Hong Kong dollar and the pessimistic economic growth outlook, the Hong Kong dollar is less attractive now than it was in 2008 for investment. Therefore, capital inflow into the Hong Kong dollar exchange market and the liquidity supply from the HKMA are likely to be moderate.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – April 2020

Expected Ranges	**Against the US$:**	**CNY 6.9000–7.2000**
	Against the yen:	**JPY 14.58–16.09**
	Against 100 yen:	**CNY 6.2189–6.8588**

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate rose in March.

The U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.97 level. Once the Federal Open Market Committee (FOMC) held an emergency meeting to cut the interest rate by 50 basis points, the U.S. dollar/Chinese yuan exchange rate fell significantly at the opening of the onshore market on March 4 and reached the lower-CNY 6.92 level. On March 9, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.91 level. However, Chinese stock prices fell as well thereafter, due to worsening risk sentiment based on the worldwide spread of COVID-19. In reaction, the 10-year Chinese government bond yield fell in an accelerated manner, leading the U.S. dollar/Chinese yuan exchange rate to rally slightly, then recovering to the CNY 6.95 level.

On March 12, stock prices in Asia fell, following a significant fall in U.S. stock prices, while the State Council of the People's Republic of China decided to cut the reserve requirement ratio (RRR), and this led the U.S. dollar/Chinese yuan exchange rate to rise. As a result, the exchange rate rose and once reached the lower-CNY 7.03 level. However, the exchange rate did not continue rising and fell to approach CNY 6.98 on March 13, the following day, when the trend was reversed. It should also be mentioned that, on March 13, the People's Bank of China (PBOC) announced its decision to cut the RRR to provide liquidity of CNY 550 billion.

In the third week of the month, the FRB took an emergency decision to cut the interest rate further by 1%, providing liquidity in the market. Furthermore, six central banks, including those of Japan, the U.S., and countries in Europe, announced a coordinated action through a U.S.-dollar liquidity swap agreement. Many countries thus announced various measures against the confusion in the financial market. The PBOC also supplied an additional CNY 100 billion (one-year) in the market through the medium-term lending facility (MLF) on March 16. However, the sense of uncertainty in the market persisted, and market participants continued liquidating U.S.-dollar assets. Under such a context, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.12 level in the onshore market. On March 20, the LPR that was previously expected to fall turned out to be unchanged, leading the U.S. dollar/Chinese yuan exchange rate to fall slightly. Yet, the overall trend of the market did not change.

In the fourth week of the month, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a range between CNY 7.05 and CNY 7.12. The basis swap rates between the U.S. dollar and other major currencies demonstrated a decline in demand for the U.S. dollar, leading the U.S. dollar index to fall. It should also be pointed out that the PBOC cut the seven-day reverse repo rate from 2.40% to 2.20% on March 30.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is most likely to fall in April.

As a result of the lockdown in Wuhan, the Chinese yuan depreciated significantly from the end of January to after the Chinese New Year holidays. However, the U.S. dollar/Chinese yuan exchange rate had been relatively stable at around CNY 7.0. After the middle of March, the Chinese yuan depreciated due to a significant increase in global demand for the U.S. dollar. However, the Chinese yuan depreciated less than other major currencies and the currencies of other emerging countries. It can thus be said that the Chinese yuan is one of the currencies that remained stable in terms of the percentage change.

It is a known fact that the negative impact of the spread of COVID-19 on the Chinese economy has been enormous. However, the political actions taken by China and other countries in March showed some differences. As was written in "1. Review of the Previous Month" above, China has taken measures to support companies and has provided liquidity through the cut of the RRR. However, the MLF interest rate level has been maintained and the LPR remains unchanged, and this shows that the impact of the COVID-19 crisis on the Chinese market seems to be relatively small compared to other major developed countries in which various emergency measures have been taken, such as interest rate cuts and expansion of the balance sheet. Furthermore, the Chinese monetary authorities have been taking measures unique to China, such as the limit of the daily fluctuation of the exchange rate set out based on the PBOC central parity rate as well as countercyclical factors. It seems that these measures have also been playing a role in controlling the volatility of the market. After the trend of U.S. dollar-buying (based on the falling liquidity level in the U.S. dollar market that resulted from credit contraction) slows, downward pressure on the U.S. dollar/Chinese yuan exchange rate is likely to strengthen.

On the other hand, Vice Premier of China Liu He mentioned a possible cut of the deposit base rate at the end of February. If the spread of COVID-19 starts impacting commercial banks, which are already suffering from an increase of bad debts, it would be possible for the deposit base rate to be cut for the first time in approximately five years. Market participants should be aware that, in such a case, the Chinese yuan could depreciate substantially.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – April 2020

Expected Ranges	**Against the US$:**	**SG$ 1.4000–1.4900**
	Against the yen:	**JPY 75.00–76.00**

1. Review of the Previous Month

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

In March, the U.S. dollar/Singapore dollar exchange market opened at the upper-SGD 1.39 level. Along with the increase of COVID-19 cases, the Singapore dollar weakened in February. However, as market participants expected the Federal Reserve Board (FRB) to cut the interest rate, Singapore dollar-buying dominated the market at the beginning of March. Thereafter, the FRB indeed cut the interest rate by 50 basis points as an emergency measure, and this strengthened the Singapore dollar further, with the U.S. dollar/Singapore dollar exchange rate falling once to reach the SGD 1.36 level.

Thereafter, however, risk-averse sentiment grew in the market, as the crude oil price fell significantly as a result of the failure of OPEC negotiations to reduce oil production. Furthermore, on March 11, Director-General of the World Health Organization Tedros Adhanom Ghebreyesus made a speech to declare a pandemic, and this led overall risk assets to depreciate. Under such circumstances, the Singapore dollar depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.40 level.

In the middle of the month, the U.S. announced various monetary and economic measures, leading U.S. stock prices to rise. Following this trend, market participants bought the U.S. dollar, and overall Asian currencies weakened further. As some market participants speculated that the supply & demand balance for the U.S. dollar might be tightened, the U.S. dollar appreciated against other major currencies despite the fact that the FRB announced its decision to cut the interest rate further. Following this trend, the U.S. dollar strengthened against the Singapore dollar significantly, and the exchange rate once reached the SGD 1.46 level.

However, on March 23, the FRB held an emergency Federal Open Market Committee (FOMC) meeting. As a means to fight the spread of COVID-19, the FRB announced its decision to take measures of unlimited monetary easing. In reaction, U.S. dollar-buying slowed down, leading Asian currencies to appreciate.

Thereafter, the Monetary Authority of Singapore (MAS) held its semiannual monetary policy meeting, which is usually held in April, ahead of schedule in order shift to monetary easing. However, this had already been anticipated in the market and the reaction was thus limited. Therefore, after the announcement of the monetary easing policy, the Singapore dollar strengthened slightly, and the U.S. dollar/Singapore dollar pair has been trading at the SGD 1.42 level (as of this writing on March 30).

2. Outlook for This Month

The Singapore dollar is expected to weaken in April 2020.

The MAS held its semiannual monetary policy meeting in March and announced its plan to lower the rising speed of the nominal effective exchange rate (NEER) to "neutral" while also lowering the central value of the policy fluctuation band. On the other hand, the width of the policy fluctuation band was maintained without any revision.

Given the current situation, the MAS decided to announce its monetary policy ahead of schedule on March 30, while this is usually done in April. Although the policy to lead the Singapore dollar to appreciate had already been adjusted downward at the meeting held in October 2019, the trend and the central value were revised downward this time in order to carry out further monetary easing. In the statement released at the time of the announcement, the MAS pointed out that the spread of COVID-19 had been significantly slowing down the economy not only in Singapore but also worldwide, especially hitting the tourism industry and supply chains hard, while demand is also rapidly falling. On March 26, the Ministry of Trade and Industry of Singapore announced the preliminary GDP for the first quarter, which turned out to be -2.2% year-on-year (while the result for the fourth quarter in 2019 was +1.0%), recording a significant slowdown. There has been a decline in the production, construction, and service industries, and it was announced that the GDP outlook will be +4.0 to +1.0% year-on-year in 2020.

At the moment, the Singapore government has a fiscal policy that goes beyond 10% of the GDP of Singapore. While there is a need for monetary and fiscal aid worldwide, it can be said that the Singapore government has an extremely powerful fiscal policy. However, in its statement, the MAS expressed its view that the future outlook remained highly uncertain, calling for attention in the market. Under such circumstances, there seems to be not enough factors for the Singapore dollar to start appreciating again. The Singapore dollar is thus expected to remain weak against the U.S. dollar in April.

Kazuhiro Suzuki, Bangkok Treasury Office

Thai Baht – April 2020

Expected Ranges	**Against the US$:**	**THB 32.30–33.50**
	Against the yen:	**JPY 3.10–3.40**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Thai baht exchange rate remained at the mid-THB 31 level. First of all, the U.S. dollar/Thai baht exchange rate rose to the THB 31.60 level, as risk-averse sentiment strengthened due to the February manufacturing PMI of China recording an all-time low. However, after the G7 Finance Ministers and Central Bank Governors Meeting (by telephone), the Federal Reserve Board (FRB) decided to cut the interest rate by 50 basis points as an emergency measure, which led the 10-year U.S. government bond yield to fall below 1%. In reaction, market participants sold the U.S. dollar and the U.S. dollar/Thai baht exchange rate fell to approach THB 31.30. Toward the second half of the week, the February CPI of Thailand was announced with a weak figure, which led the exchange rate to return to the THB 31.60 level. At the end of the week, market participants actively sold the U.S. dollar as the number of COVID-19 cases increased in the U.S. on March 6. The U.S. dollar/Thai baht exchange market closed for the week at the lower-THB 31.40. On March 9, the crude oil price fell sharply, as OPEC+ failed on March 6 in the negotiations to agree on a coordinated cut in crude oil production. This led stock prices to fall worldwide, leading the U.S. dollar/Thai baht exchange rate to rise, once reaching THB 31.60. However, the Dow Jones Industrial Average recorded its largest fall since the financial crisis in 2008, encouraging market participants to sell the U.S. dollar and causing the exchange rate to fall the THB 31.40 level. Then, in the middle of the month, the depreciation of the Thai baht accelerated. Even though market participants were expecting U.S. President Donald Trump to hold a press conference regarding his economic policy, there was no press conference, and the foreign exchange market saw only small fluctuations. On March 11, the World Health Organization (WHO) declared a pandemic, and the U.S. announced its decision to halt travel from Europe, which weakened stock prices significantly in both Europe and the U.S. As a result, the U.S. dollar/Thai baht exchange rate approached the THB 31.70. Then, on March 13, the overall Asian stock prices fell, and the U.S. dollar/Thai baht exchange rate reached the THB 32.00 level. Thereafter, U.S. President Donald Trump declared a national emergency. The U.S. dollar/Thai baht pair continued trading at the upper-THB 31, with expectation for measures to be taken to control the spread of COVID-19. On March 15, the FRB decided to cut the interest rate by 1% as an emergency measure, encouraging market participants to buy the U.S. dollar, all in order to maintain the liquidity level. Furthermore, the U.S. stock market recorded its most-significant fall ever recorded. On March 16 and thereafter, the stock market continued fluctuating violently and Asian currencies depreciated. As a result, the U.S. dollar/Thai baht exchange rate reached the THB 32.60 level on March 19.

At the end of the month, the Thai baht remained high. The FRB increased currency swap partners in order to provide U.S. dollar liquidity. However, the reaction was limited in the U.S. dollar/Thai baht exchange market, and the exchange rate remained at the mid-THB 32 level. During the night of March 20, the BOT decided to cut the interest rate by 0.25% as an emergency measure, which led the U.S. dollar/Thai baht exchange rate to approach THB 32.70, at which level weekly trading closed. On March 23, the Thai baht remained weak due to the unexpected interest rate cut by the BOT, and the U.S. dollar/Thai baht exchange rate once exceeded THB 33. Before the MPC meeting, however, the U.S. dollar/Thai baht pair returned to the THB 32.80 level. On March 25, the MPC meeting was held, and the policy interest rate was maintained at the existing level. The GDP growth rate recorded its largest negative growth rate since the financial crisis in 2008, at –5.3%. However, the reaction in the market was limited. On the contrary, market participants were expecting the U.S. economic indices to decline significantly, leading the U.S. dollar to weaken against other major currencies. Moreover, on March 27, Asian stock prices rose with expectation for measures to be taken by various governments. Following this trend, the U.S. dollar/Thai baht exchange rate reached the THB 32.30 level during the day. However, the exchange rate started to return before the end of the week, and weekly trading closed at the THB 32.50 level. On March 30, the U.S. dollar/Thai baht exchange rate continued rising from the morning, and trading closed in Bangkok at around THB 32.70 to the U.S. dollar.

2. Outlook for This Month

In March, stock prices fluctuated violently worldwide along with the spread of COVID-19, encouraging market participants to reduce their risk assets. In order to secure liquidity levels, market participants even sold U.S. bonds, which are generally considered to be a safe asset, in order to hold U.S. dollars in cash. As a result, the Thai baht depreciated against the U.S. dollar by more than 8% compared to the end of last year. The U.S. dollar/Thai baht exchange rate once reached the THB 33 level, rising to the highest level since November 2018.

In order to control the spread of COVID-19, the Thai government announced a national emergency on March 26, banning the entry of non-citizens, etc., into the country. Even though this is a temporary measure valid only until the end of April, it is difficult to expect that the situation regarding restrictive measures will improve by that time, given the increase of COVID-19 cases observed worldwide. It is thus likely for commercial facilities in Thailand to remain closed for an extended period of time. Along with such immigration control, it is expected that the tourism industry, which accounts for 20% of Thailand's GDP, will be severely impacted. Furthermore, Thailand is Southeast Asia's largest automobile-manufacturing region. As many manufacturers have stopped production, the Thai economy has been severely impacted. Thus, the Thai government plans to provide economic stimulus by concentrating on its budget, which had not yet been executed, in the second quarter. However, the Thai economy is likely to continue slowing down without a recovery in external demand and in the tourism industry. Therefore, as has been forecast by the central bank of Thailand, the GDP growth rate for 2020 is likely to record a negative figure for the first time since the financial crisis in 2008.

The Thai baht depreciated significantly, as assets returned to the U.S. dollar market. However, thanks to the FRB's measure to provide liquidity, the trend is likely to slow down gradually in the times ahead. It should also be mentioned that the U.S. economy could slow down further due to the rapidly growing trend of layoffs, which would weaken the U.S. dollar against other major currencies. In such a case, the appreciation of Asian currencies, including that of the Thai baht, is likely to slow down. However, the sense of uncertainty persists in the market, and the VIX Index recorded its all-time high in March, by far exceeding the levels seen at the time of the financial crisis in 2008 and the debt crisis in Europe. As of the time at which this article is being written, the VIX Index remains high. Thus, there is likely to be a net selling of Thai government bonds and stocks by foreign investors in the times ahead. With the declining fundamentals of Thailand, it is difficult to expect investment funds to return to the Thai baht market, encouraging market participants to sell the Thai baht.

At the moment, the U.S. dollar/Thai baht exchange rate has been fluctuating at the upper-THB 32 level, thanks to expectations for the economic stimulus measures that have been discussed in many countries around the world. However, there are still many market participants selling the Thai baht, and the U.S. dollar/Thai baht exchange rate is more likely to remain on an uptrend for a while. The next turning point is seen to be around THB 33.40 from the point of view of chart analysis. If the exchange rate exceeds this level, it could also reach THB 34. If the impact of the spread of COVID-19 continues to be severe in the times ahead, the U.S. dollar/Thai baht exchange rate is likely to rise again.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – April 2020

Expected Ranges	**Against the US$:**	**MYR 4.2300–4.4800**
	Against the yen:	**JPY 24.40–26.00**
	Against 100 yen:	**MYR 3.8500–4.1000**

1. Review of the Previous Month

In March, the U.S. dollar/Malaysian ringgit exchange rate renewed its high (MYR 4.4480) for the first time in three years, as there were three negative factors for the Malaysian ringgit: the change of the government after the collapse of the ruling alliance, the spread of COVID-19 cases, and the sharp fall of the crude oil price. In the middle of the month, the Malaysian government announced a policy to ban travel (a "semi-lockdown"), which caused a decrease in the number of market participants. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange market was volatile at the end of the month.

The end of February saw some political conflict, as a result of which the opposition party returned to power, while Muhyiddin Yassin was announced as the new Prime Minister of Malaysia by King Al-Sultan Abdullah. Against such a backdrop, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.20 level in March. On March 3, the central bank of Malaysia announced its decision to cut the policy interest rate (OPR) by 0.25% for the second consecutive time to 2.50%—the lowest rate in 10 years. On the same day, local time, the Federal Reserve Board (FRB) in the U.S. decided to cut the interest rate by 0.50% for the first time since the financial crisis in 2008 as an emergency measure against the spread of COVID-19. In reaction, market participants bought the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate fell rapidly to MYR 4.1590, which in the end turned out to be the monthly low. Thereafter, Saudi Arabia and Russia failed to reach an agreement on the reduction in oil production at the OPEC+ meeting, and this led to a sudden increase in oil production and the dumping of oil. As the crude oil price (Brent) fell to approach USD 25 per barrel, the U.S. dollar/Malaysian ringgit exchange rate rose sharply and approached MYR 4.30. On the other hand, the Malaysian ringgit/Japanese yen exchange rate followed the sharp decline of the U.S. dollar/Japanese yen exchange rate to the JPY 101 level on March 9, approaching JPY 24—the lowest since October 2011.

On March 15, the U.S. announced the second interest cut in the month (–1%), taking a zero-interest-rate policy and starting measures of quantitative monetary easing again. However, stock prices continued to fall, and on March 16, the following day, the Malaysian government announced a semi-lockdown from March 18 until the end of the month. While the crude oil price continued falling, the KLCI stock price index fell sharply to nearly reach the MYR 1,200 level for the first time since 2009. Market participants sought U.S. dollars in cash, as a safe asset. Thus, despite the interest rate differentials between the U.S.

dollar and the Malaysian ringgit, the U.S. dollar/Malaysian ringgit overnight currency swap point fell sharply to exceed –20. Market participants also sold 10-year Malaysian government bonds, and the U.S. dollar/Malaysian ringgit exchange rate continued renewing the daily high in the exchange market, with few market participants. On March 23, the U.S. dollar/Malaysian ringgit exchange rate thus reached its monthly high at MYR 4.4480. However, on the same day, the FRB in the U.S. decided to introduce a policy of unlimited quantitative monetary easing at its third emergency meeting. On March 26, the Malaysian government announced new economic measures ahead of schedule, which fueled risk-taking sentiment in the market. The trend in the U.S. dollar/Malaysian ringgit exchange market thus changed, and the exchange rate fell to MYR 4.25 to the U.S. dollar on March 27. However, the scale of the economic measures announced on the same day turned out to be significantly larger than expected, and this fueled concerns over the fiscal conditions. As a result, the U.S. dollar/Malaysian ringgit exchange rate rallied rapidly to the MYR 4.34 level. In the end, monthly trading closed at the MYR 4.32 level.

2. Outlook for This Month

In April, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.23 and MYR 4.48. The impact of negative factors persists with the spread of COVID-19, the decline of the crude oil price, and the political uncertainty. Under such circumstances, the semi-lockdown policy has been extended by two weeks until April 14. As it is inevitable to see downward pressure on the economic growth rate of the country, market participants are uncertain if the government would be capable of executing the large-scale economic measures that were recently announced.

The top trade partners for Malaysia, which is an exporting country, are Singapore, China, the U.S., the EU, and Japan, all of which suffer from the increase in COVID-19 cases. Thus, the business performance of major industries, such as petroleum gas, electrical, and electronics, is likely to fluctuate according to the economic conditions of trade partners. It should also be mentioned that there has been no sign of recovery in the crude oil price, while 20% or more of the revenues included in the governmental budget plan for FY2020 depends on revenues related to petroleum oil. Thus, domestic think tanks point to pressure on fiscal policy, expressing concerns over the plan to resume public infrastructure projects such as that of the East Coast Rail Link.

On March 27, the Malaysian government announced economic stimulus measures to fight the spread of COVID-19 with a total value of MYR 250 billion, including a stimulus plan worth MYR 20 billion that had already been announced previously. Even though the value of the economic measures indeed exceeds 16% of the GDP of Malaysia, the details of the sources of the funds have not been announced. Market participants should remain attentive about reactions to be taken by rating agencies in the times ahead.

In terms of capital flow, the FTSE Russell is expected to announce the result of the semi-annual revision on the constituents of its World Government Bond Index at the beginning of April, and market participants are waiting to see whether Malaysian government bonds will remain in the index. If the component ratio of Malaysian governmental bonds remains the same, it would be a supporting factor for the Malaysian ringgit.

It should also be mentioned that, due to the spread of COVID-19 cases, the central bank of Malaysia postponed until April 3 the release of its annual report and economic outlook announcement, originally scheduled for March 25. As of the end of February, the governmental estimate of the GDP growth rate for FY2020 was +3.2–4.2% year-on-year and this estimate is likely to be revised downward. The new government of Prime Minister Muhyiddin Yassin plans to hold a parliamentary session on May 18, until which the political conditions remain uncertain. While the corporate activities of many companies are on halt, the Malaysian ringgit exchange rate is likely to fluctuate violently. However, in general, the Malaysian ringgit is forecast to remain weak in April.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – April 2020

Expected Ranges	**Against the US$:**	**IDR 15,000–19,000**
	Against 100 rupiah:	**JPY 0.60–0.70**
	Against the yen:	**IDR 142.86–166.67**

1. Review of the Previous Month

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

On March 2, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 14,300 level. At the end of February, the Indonesian rupiah depreciated sharply, and that trend remained in the market, leading the Indonesian rupiah to depreciate against the U.S. dollar to the lower-IDR 14,400 level. However, the central bank of Indonesia thereafter announced its so-called "triple intervention" involving the spot foreign exchange market, the domestic non-deliverable forward market, and the bond market, and this pushed the U.S. dollar/Indonesian rupiah exchange rate back to the IDR 14,200 level. Then, on March 3, the Federal Reserve Board (FRB) in the U.S. decided to cut its interest rate as an emergency measure, which weakened the U.S. dollar toward March 4, the following day. As a consequence, the Indonesian rupiah strengthened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,100 level—the monthly high for the Indonesian rupiah. However, the number of COVID-19 cases continued to increase worldwide every day. Thus, in the end, the Indonesian rupiah weakened against the U.S. dollar once again, and the exchange rate reached the lower-IDR 14,400 level on March 10. Even though the U.S. dollar/Indonesian rupiah exchange rate did not touch the IDR 14,500 mark, on March 12, the Jakarta Stock Exchange Composite Index recorded a fall of more than 5%, strengthening risk-averse sentiment in the market. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate finally exceeded the IDR 14,500 level. From this point on, the depreciation of the Indonesian rupiah accelerated sharply.

In the second half of the month, the U.S. dollar/Indonesian rupiah exchange rate finally exceeded the IDR 15,000 mark on March 16. On the same day, the February trade balance of Indonesia was announced with a large trade surplus of USD 2.34 billion as a result of a dramatic decline of imports from China. However, this is simply an impact of COVID-19 that became more visible, and thus the Indonesian rupiah continued to depreciate. On March 19, the central bank of Indonesia held a monetary policy meeting, attracting substantial attention in the market, and the seven-day reverse repo rate was cut by 25 basis points to 4.50% as a means of additional monetary easing. It was a difficult decision to cut the interest rate as the Indonesian rupiah continued to depreciate, and after the interest rate cut, the depreciation of the Indonesian rupiah accelerated further. Thus, the U.S. dollar/Indonesian rupiah exchange rate finally exceeded the IDR

16,000 mark. The Jakarta Stock Exchange Composite Index also fell below 4,000, with persisting risk-averse sentiment. Under such a context, the U.S. dollar/Indonesian rupiah exchange rate exceeded IDR 16,500 on March 23, reaching the lower-IDR 16,600 level. The Indonesian rupiah thus weakened to its lowest level since the Asian financial crisis in 1998. However, the sense of uncertainty over the supply of U.S. dollars was mitigated thereafter, and the pressure to buy the U.S. dollar weakened. As a result, the depreciation of the Indonesian rupiah slowed down. Yet, there was also some demand to buy the U.S. dollar for settlement at the end of the month, and this kept the Indonesian rupiah weak. The U.S. dollar/Indonesian rupiah exchange rate thus remained unstable, fluctuating between IDR 16,000 and IDR 16,400 (as of the closing rate of March 30, the day on which this was written).

2. Outlook for This Month

In April, the Indonesian rupiah is forecast to depreciate against the U.S. dollar.

The financial market continues to follow headlines related to COVID-19, and there has so far been no sign that the spread will slow down. The situation continues to deteriorate, and many cities in developed countries have been in lockdown in order to slow the spread of the virus. However, the number of cases continues to rise. It is thus impossible to foresee how long the crisis will continue and how much it will impact the real economy. However, it is now more likely for the crisis to last longer and for the damage to be more significant than previously estimated. In particular, the situation is getting more serious in the U.S., a country with enormous influence on the world economy, and this has been a worrying fact for future outlook. The number of Americans that applied for unemployment benefits was released on March 26 and the result was 3.28 million. The figure was extraordinarily high, given that it was only 280,000 in the previous week. This is only the beginning, and it is possible for many economic indices to have incredibly weak figures, never seen previously, in the times ahead. As the economic weakening becomes more visible, market participants should remain cautious about the further depreciation of the Indonesian rupiah as resulting from more capital outflow from Indonesia. Foreign investors have already been moving their assets away from Indonesian government bonds in an accelerating manner. At the end of February, the balance of Indonesian government bonds held by foreign investors was IDR 1.048 quadrillion, while the balance had decreased to IDR 935 trillion as of March 26. The capital outflow has been faster than ever, and given the current situation of the spreading of COVID-19, the pace is not likely to slow down in the near future. On the contrary, as the balance is still above IDR 900 trillion, there could be further capital outflow. Market participants should therefore remain attentive.

Ironically, the trade balance of Indonesia recorded significant surplus in March due to the impact of the spreading of COVID-19. However, this is only a result of the temporary decline of imports, and it is not a positive factor. While production activities have been slowing down worldwide, exports could decrease in the times ahead, which is a worrying factor.

Market participants should remain careful about any rapid depreciation of the Indonesian rupiah in

April.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – April 2020

Expected Ranges	**Against the US$:**	**PHP 50.60–52.00**
	Against the yen:	**JPY 2.11–2.20**

1. Review of the Previous Month

In March, the U.S. dollar/Philippine peso exchange market opened trading at PHP 51.02 (while the closing rate at the end of February was PHP 50.97).

There had been risk-averse sentiment in the market, as the February PMI for the manufacturing and service industries in China had recorded an all-time low. However, the emergency decision by the Federal Reserve Board (FRB) to cut the interest rate supported the Philippine peso, and the U.S. dollar/Philippine peso traded at PHP 50.54 on March 4.

On March 9, the OPEC+ meeting failed to result in an agreement regarding the coordinated reduction of oil production, and this led crude oil to fall by 20%. Despite the serious confusion in the global financial markets, the U.S. dollar/Philippine peso exchange market opened trading at PHP 50.63.

Following the trends in the world stock market, which continued to see violent fluctuations every day, the U.S. dollar/Philippine exchange rate did not move into any direction. On March 11, the U.S. dollar/Philippine peso pair once traded at PHP 50.465—the monthly high of the Philippine peso.

Thereafter, the World Health Organization (WHO) declared COVID-19 a pandemic, and the Dow Jones Industrial Average recorded its lowest level observed since Black Monday, and this fueled risk-averse sentiment in the market. As a result, market participants sold the Philippine peso, and the U.S. dollar/Philippine peso exchange rate reached PHP 51.31 on March 13. Then, on March 16, the FRB decided to cut the interest rate further, but the confusion in the market persisted, leading the U.S. dollar/Philippine peso exchange rate to once reach PHP 51.50.

In the evening of March 16, the Philippine government declared a lockdown for the entire island of Luzon, in reaction to which the Philippine financial market (foreign exchange, bonds, and stocks) was closed on March 17.

On March 18, the U.S. dollar/Philippine peso exchange market was opened once again. Due to the closure of the capital region, the Philippine peso weakened, and the U.S. dollar/Philippine peso exchange rate once reached PHP 51.85 (the monthly low of the Philippine peso). However, the liquidity level of the market was low, with few market participants and whenever there was a large-scale purchase of U.S. dollars, the Philippine peso was bought back and then fluctuated violently, leading the exchange rate to reach PHP 51.01 to the U.S. dollar.

Also, the central bank of the Philippines cut the policy interest rate by 0.50% on March 19 and cut the deposit reserve requirement ratio (RRR) from 14% to 12% on March 24. However, these actions did not have significant impact on the market.

On March 25, the U.S. dollar/Philippine peso exchange rate fell to PHP 50.80 due to the recent depreciation of the crude oil price as well as the measures of monetary easing taken by the FRB. However, there were not enough factors to support the Philippine peso. In the end, the U.S. dollar/Philippine peso exchange rate fluctuated at around PHP 51 (the closing rate in the onshore market was PHP 50.96 to the U.S. dollar on March 30, when this report was written).

2. Outlook for This Month

The Asian currency index fell by 3.7% from the beginning of the month, while the Philippine peso depreciated against the U.S. dollar only by 0.7%.

Even though the U.S. dollar/Philippine peso exchange rate approached the PHP 51 level many times since the beginning of the year, the daily closing rate sat at the PHP 51 level only on 11 out of 60 business days, in total.

At the moment, the PHP 51 level has been a psychological turning point at which market participants are cautious about possible action by the Philippine monetary authorities to prevent the Philippine peso from depreciating further.

The Philippine stock market was open on March 19 for the first time since the lockdown of the island of Luzon and the Philippine Stock Exchange index (PSEi) fell temporarily by over 24% from the previous day, at which point the index reached 4,039.15 points for the first time since December 2011.

On March 30, however, the index returned to the 5,000-point level at market closing—the level of before the lockdown of the capital region. The weekly transactions of Philippine stocks by foreign investors recorded a net sell for the sixth consecutive week. However, there was also a sign that pressure to sell Philippine stocks has weakened slightly.

As many central banks around the world have taken large-scale measures of monetary easing, stock indices have recovered worldwide. However, the trend of the stock market seems to be only a result of short covering.

As the number of COVID-19 cases has been increasing in the U.S., stock prices are expected to fall worldwide even further, encouraging market participants to buy the U.S. dollar due to credit contraction.

It is true that the crude oil price has been depreciating, which is a supporting factor for the Philippine peso. However, the depreciation of the crude oil price can also easily lead to the depreciation of stock prices as well as credit contraction risks.

So far, the rapid spread of COVID-19 was observed mainly in China, followed by Europe and the U.S. However, the center of the spread could shift to Southeast Asia in the times ahead.

In the U.S. dollar/Philippine peso exchange market, the transaction volume has been reduced to approximately half, as market participants are reluctant to carry out active transactions after the lockdown of the island of Luzon. Thus, the trend of the market follows the level of actual demand, and the Philippine peso could start depreciating at any point.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – April 2020

Expected Ranges	**Against the US$:**	**INR 72.00–78.00**
	Against the yen:	**JPY 1.35–1.54**

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate renewed its all-time high in March.

In February, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range at around INR 71.50. However, as headlines related to COVID-19 started to gather substantial attention in the market, the U.S. dollar/Indian rupee exchange rate rose sharply on February 28 and exceeded INR 72. In March, the U.S. dollar/Indian rupee exchange market opened trading at INR 72.25. Thereafter, the PMI of both the manufacturing and service industries recorded an all-time high in China. Furthermore, the Federal Reserve Board (FRB) in the U.S. decided to cut the interest rate by 0.5% as an emergency measure, and this ended up in causing further confusion in the stock market in the U.S. Risk-averse sentiment continued growing rapidly, having seen a sharp fall in the stock market as well as in the interest rate market. As a consequence, the U.S. dollar/Indian rupee exchange rate continued rising for seven consecutive business days until March 9, exceeding the INR 74 mark.

On March 10, after the three consecutive holidays of Holi (an Indian national holiday), there were rumors about a tax cut and an industry support program to be announced by U.S. President Donald Trump. Under such circumstances, some market participants bought back overall Asian currencies, following which the U.S. dollar/Indian rupee exchange rate also returned to the mid-INR 73 level. However, this trend did not last long, and thereafter the exchange rate continued fluctuating at the lower-INR 74 level with speculation about foreign exchange market interventions and an emergency interest rate cut by the Reserve Bank of India (RBI). However, the liquidity level in the U.S. dollar market declined, and the U.S. dollar index reached its highest level in three years thereafter, which led the U.S. dollar/Indian rupee exchange market to open on March 19 with a large gap from the closing rate of the previous day. The U.S. dollar/Indonesian rupee exchange rate thus rapidly exceeded INR 75. On March 23, after the weekend during which the Indian government announced a lockdown, the U.S. dollar/Indian rupee exchange rate rose to reach INR 76.30.

While many central banks announced measures to supply liquidity, the appreciation of the U.S. dollar gradually slowed down. Following this trend, the U.S. dollar/Indian rupee exchange rate fell to the lower-INR 75 level, partially thanks to the foreign exchange market intervention by the RBI. On the morning of March 27, the RBI announced a policy interest rate cut by 0.75% as well as other monetary measures. However, this did not create any trend in the foreign exchange market. As of March 30, the day on which this article was written, the U.S. dollar/Indian rupee exchange rate was fluctuating at around INR 75.59.

The U.S. dollar/Indian rupee exchange rate had previously reached an all-time high in November 2018, at INR 74.48. However, this record was largely renewed when the exchange rate reached INR 76.30.

The Indian rupee/Japanese yen exchange rate fell in March.

In March, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.485 level. Due to the impact of COVID-19, risk-averse sentiment grew in the market, and 10-year U.S. government bonds reached the 0.5% level for the first time in 10 years. As the OPEC+ meeting postponed an agreement regarding reduced oil production, market participants actively sold crude oil, leading stock markets in many countries to rapidly weaken. Under such circumstances, funds gathered in the Japanese yen market, as the yen is considered to be a safe asset. As a consequence, the U.S. dollar/Japanese yen exchange rate once fell to the JPY 101 level. At the same time, as already mentioned above, the U.S. dollar was appreciating while the Indian rupee was depreciating, leading the U.S. dollar/Indian rupee exchange rate to continue rising for seven consecutive days. Following this trend, the Indian rupee/Japanese yen exchange rate fell sharply, and on March 9, the exchange rate fell to momentarily reach JPY 1.365.

Thereafter, the U.S. dollar/Japanese yen rallied rapidly, following which the Indian rupee/Japanese yen exchange rate rallied as well. However, the liquidity level remained low, which kept the market extremely unstable, with a fluctuation range of JPY 0.07 within a day on March 13. In the second half of March, the Indian rupee/Japanese yen exchange rate continued fluctuating at the same level at around JPY 1.45 without moving into any direction. As of March 30, the day on which this article was written, the Indian rupee/Japanese yen pair was trading at the JPY 1.43 level.

2. Outlook for This Month

In April, the U.S. dollar/Indian rupee exchange rate is forecast to remain unstable.

In March, in addition to the lockdown, there were various announcements regarding both fiscal and monetary measures in India for the purpose of fighting the COVID-19 pandemic. The former include: (1) insurance for medical workers, (2) aid to secure food and fuel for those who live in poverty, and (3) financial aid in cash for those who live in poverty, all of which will lead to an expenditure of INR 1.7 trillion. In terms of monetary measures, the interest rate was cut by 0.75%, a larger cut than the expected 0.5%, even though the announcement was slightly later than expected. Furthermore, other measures were also announced, such as measures to maintain the liquidity level as well as a grace period for loan repayment. However, these measures unfortunately did not have significant impact on the foreign exchange market, and the trend in the U.S. dollar/Indian rupee exchange market remained unchanged.

The Indian rupee exchange market is forecast to follow changes in market sentiment, according to headlines related to COVID-19, along with following monetary and fiscal policies in developed countries, rather than domestic factors.

There are some factors that could lead the Indian rupee to appreciate, such as the fact that the RBI has been intermittently intervening in the foreign exchange market in order to keep the Indian rupee from depreciating further, along with the possibility for vaccination against COVID-19 to be announced. However, in general, market participants should remain more careful about downside risks (factors that can lead the Indian rupee to depreciate).