Mizuho Dealer's Eye

May 2020

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Derivatives & Forex Department

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U.S. Dollar – May 2020

Expected Ranges **Against the yen: JPY104.00–108.00**

1. Review of the Previous Month

In April the dollar/yen pair moved in a narrow range around three yen in width, from 109.38 yen to 106.36 yen. The pair's movements were quite restrained compared to March, when it had fluctuated sharply by over ten yen.

The dollar was bought in the week beginning April 1. The pair temporarily fell to 106.93 yen on April 1 after the Nikkei Average fell by over 1,000 yen. It then rallied to the 108 yen range on April 2 as crude oil futures rose on news that Saudi Arabia had called an emergency meeting of OPEC+ to hammer out a deal on coordinated production cuts. Crude oil prices stopped soaring on April 3, with the pair moving with a lack of direction to close the week trading at 108.49 yen.

The pair floated around the upper-108 yen level in the week beginning April 6. News emerged on April 6 that the rate of infections had slowed in Europe and elsewhere. As risk appetite grew, the pair hit a monthly high of 109.38 yen. Japanese prime minister Shinzo Abe declared a state of emergency on April 7, though the impact was limited. Risk aversion then intensified as New York State recorded a record level of COVID-19 deaths. The trend spilled over into April 8, with the pair temporarily hitting a weekly low of 108.51 yen. However, with the Nikkei Average moving firmly, the pair was pulled back up to the 109 yen level. Its stay at this level was short-lived, though, with the pair then moving at the mid-108 yen level again. OPEC+ reached a provisional agreement on crude oil production cuts on April 9. The cuts were less than expected, though, so the pair then tumbled to the lower-108 yen mark. With the Easter holidays taking place on April 10, investors refrained from any active trading.

Despite the OPEC+ agreement on crude oil production cuts, crude oil prices fell over the weekend, with the pair subsequently tumbling to the mid-107 mark on April 13. It then dipped below 107 yen on April 14 as US interest rates fell, with the pair then hitting a weekly low of 106.93 yen on April 15. With stocks and US interest rates dropping on April 16, the markets saw some renewed emergency dollar buying, with the pair breaking above 108 yen. However, it then tumbled to the lower-107 yen level as investors reacted badly to the release of some bearish US economic indicators. The pair topped 108 yen on April 17 on hopes for a COVID-19 cure, though in then moved around 107 yen ahead of the weekend.

Crude oil prices fell into negative territories in the week beginning April 20, though the pair floated around the upper-107 yen mark. Japanese importers bought the dollar on April 20 to make payments, so the pair rose to just under 108 yen, though it then moved with a lack of incentives. WTI crude oil futures moved in negative territories, but the impact on the foreign exchange market was muted. The pair fell to 107.52 yen on April 22 as Brent crude oil futures fell, though it then strengthened to 107.94 yen as US stocks climbed at a faster pace, with the pair also bolstered by rising US interest rates. The pair hit a weekly high of 108.05 yen on April 23 on reports that the Bank of Japan (BOJ) was discussing measures to deal with COVID-19. However, this momentum waned on news that a COVID-19 vaccine developed by a US pharmaceutical company had proved ineffective in its first clinical trial, so the pair fluctuated gently around 107.60 yen. With several central banks set to hold monetary policy meetings the following week, the markets slipped into wait-and-see mode on April 24.

The dollar weakened in the week beginning April 27. The BOJ's monetary policy meeting had decided to implement further easing on April 24. This was as expected, with the meeting springing no surprises. The dollar was sold and the pair dipped below 107 yen on April 28 before tumbling to the mid-106 yen level. The pair traded around 106 yen on April 30 too.

2. Outlook for This Month

The economy has frozen up on the spread of COVID-19, but things might begin to open up again in May. However, amid concerns about a second wave of infections, there is unlikely to be any dramatic economic recovery. If the number of infections does grow again, the yen could be pushed up by a sense of disappointment, so caution will be needed.

The government is considering whether to extend the state of emergency, but several nations in the West will probably move to ease lockdown conditions from May. However, an early easing of lockdown conditions would dramatically raise the possibility of a second wave of infections. Plans to quickly reopen the economy run contrary to US opinion polls that indicate many people are worried about infections increasing again.

US economic growth is expected to contract by 40% in some sectors over April–June. The employment situation is particularly parlous. The unemployment rate looks set to top 10% when the US April employment data is released on May 8, with the US economy already in crisis. As such, the government seems to be caught in a dilemma between preventing infections and re-opening the economy. Even if the US manages to re-open the economy without kicking off a new wave of infections, the rest of the world will probably remain in lockdown. Business and tourism is unlikely to return to pre-pandemic levels any time soon in Africa or Central and South America. Moves are underway to approve several promising COVID-19 drugs, including Japan's Avigan, so a vaccine could well be developed in record time. Nonetheless, there are likely to be deep-rooted concerns about a second wave of infections. Most infectious disease epidemics come in several waves. When the Spanish Flu struck in 1918, one hundred years ago, the second wave in winter was far more deadly than the first wave in spring. President Trump has struck a bullish tone when it comes to COVID-19 as he aims for a V-shaped economic recovery ahead of the November presidential election. At this moment in time, though, a gentle U-shaped recovery seems more likely as the economy slowly opens through a series of breakthroughs and setbacks. In fact, if each country moves to completely restart economic activity at an early stage, this could lead to global disappointment and new turmoil if a second wave occurs, so a V-shaped recovery seems extremely unlikely.

In the foreign exchange markets, the dollar/yen pair's movements are quite restrained compared to other assets. Crude oil futures are trading in unprecedented negative territories and the BOJ also introduced some new monetary easing measures on April 27, but the pair has continued to trade around 106–107 yen. This is probably due to several factors. For a start, mechanical trading systems had suffered heavy losses when the market fluctuated wildly on the spread of COVID-19 in March. Furthermore, some investors have become less sensitive to extreme economic indicators or policy shifts, while moves are also underway to conclude foreign exchange hedges at an earlier date. Some observers have claimed we are getting accustomed to life under COVID-19, but things will be different in the next stage. Concerns of a second wave of infections will grow as people grow tired of lockdowns and economic activity suppression starts up again. If infections do start to increase again, hopes for a U-shaped recovery (let alone a V-shaped recovery) will drop off sharply, with the yen rising on risk aversion, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	6 bulls	108.75 – 105.00	Bearish on the dollar	15 bears	108.00 – 104.00

* Ranges are central values

Tanaka	Bull	108.50 – 105.00	Pessimism about COVID-19 is receding, with lockdown restrictions being eased across Europe and the US, for example. A real economic recovery is some way off, though, while a relaxation of rules could lead to a second wave of infections, so caution will be needed. The dollar/yen pair will rally slightly, though its topside will probably be capped by changes to Japanese supply and demand conditions.
Takeuchi	Bear	109.00 – 104.00	Policy mobilization by several central banks has managed to keep a lid on panic dollar buying. However, the negative impact on the real economy will become more apparent in indicators released from here on. The dollar/yen pair will probably undergo a gentle slide.
Tsutsui	Bull	110.00 – 104.00	May will be a month of volatile trading. US real interest rates are bottoming out, with the foreign exchange markets likely to be hit by dollar demand and rising US interest rates. The dollar/yen pair will face buying demand when it dips below 105 yen.
Kato	Bull	108.00 – 105.00	The attention of market participants is shifting from the spread of COVID-19 to the impact on the real economy. The initial mood of panic-stricken risk aversion looks set to come under some adjustment in May.
Seki	Bear	108.00 – 104.00	Adjudging that now is not the time to worry about federal debt, the FRB is offering full-spectrum overarching support to the US government and Treasury Department. The FRB looks set to continue providing funds while expanding its B/S. It will probably implement further easing as it seeks to deal with job losses and an economic slowdown. The dollar/yen pair will also be weighed down by sluggish crude oil prices.
Mitsuishi	Bear	108.00 – 104.00	A debate has begun in the US about normalizing economic activity. There are some hopes that the US will undergo a V-shaped recovery, but it seems the negative impact on the real economy will outweigh these hopes, with the dollar/yen pair set to trade with a heavy topside as a result.
Yamagishi	Bear	109.00 – 104.00	The FRB has instituted the most sweeping quantitative easing measures of all the central banks of the US, Japan and Europe. Dollar demand has eased and US interest rates are facing downward pressure, so the greenback looks set to swing lower, just as it did after the financial crisis. The basis cost is currently improving, with LIBOR rates also trending downward. The greenback will also weaken if the US introduces some fiscal expansion to back up quantitative easing measures.
Tasaka	Bear	109.00 – 104.00	The real economy has been hit by the COVID-19 shock. Investors should also be wary of the ongoing risk of a credit crunch in the financial markets on plummeting crude oil prices. The dollar/yen pair may rise for a time on headlines related to COVID-19 vaccines or treatments, but any upswing will be transitory.
Omi	Bull	109.00 – 106.00	The dollar is expected to remain at highs on euro bearishness, rallying US stocks, and hopes about the re-opening of the economy, for example, with the dollar/yen pair also likely to be pulled higher.
Ueno	Bear	108.00 – 104.00	The markets will be swept by hopes that the COVID-19 situation will calm down. Stock markets are seeing some buy-backs, while dollar long positions are being unwound in the foreign exchange markets. With US policy rates falling to around zero, the dollar/yen pair will be susceptible to downswings.

Okamoto	Bull	109.00 – 105.00	The dollar/yen pair looks set to move firmly as the COVID-19 outbreak cools off and risk aversion continues to unwind on moves to lift lockdown conditions. However, each central bank is providing and ample amount of dollars, so there is unlikely to be much dollar-buying demand.
Onozaki	Bull	108.00 – 105.00	The dollar/yen pair has been swept by headlines about COVID-19, but this trend will ease off. The pair will gradually bounce back after seeing some adjustments. However, the pair's topside will be held down by pessimism about the real economy.
Tamai	Bear	108.00 – 106.00	There remains considerable uncertainty about the future. With crude oil prices also moving sluggishly, the dollar/yen pair is expected to move with a heavy topside. However, the cross yen is also rising as risk assets trend upwards on hopes that economic activity will be re-opened, so the pair's downside will also be capped, with the pair set to trade in a narrow range.
Harada	Bear	110.00 – 104.00	There is still a lot of uncertainty due to the impact of COVID-19, with the markets likely to remain in risk-off mode. After moving firmly, employment is now undergoing a steep fall, with the dollar/yen pair set to move with a heavy topside.
Oba	Bear	108.00 – 104.00	Investors are getting accustomed to life under COVID-19, with attention now shifting to when the economy will re-open. Concerns of a second wave of infections will grow as economic activity starts up again. If infections do start to increase again, hopes for a U-shaped recovery (let alone a V-shaped recovery) will drop off sharply, with the yen rising on risk aversion, so caution will be needed.
Takamura	Bear	108.00 – 104.00	The COVID-19 outbreak is peaking out in Japan and the US, so there could be some position unwinding in the short term. Emergency dollar-buying demand is waning, while US long-term interest rates are moving at lows, so there is ample room for some adjustment in a dollar-selling direction.
Matsumoto	Bear	109.00 – 104.00	Risk aversion looks set to continue as the global economy is weighed down by the impact of COVID-19. Some countries will re-open their economies, but the dollar/yen pair will trade with a heavy topside until some overarching solution emerges.
Itsumi	Bear	108.00 – 104.00	As excessive concerns about COVID-19 wane, market attention is shifting to economic policy. The FRB has struck a very strong stance involving unlimited quantitative easing and zero interest rates, so the dollar/yen pair will probably swing lower on excessive dollar supplies and falling interest rates.
Otani	Bear	108.00 – 104.00	Signs of economic normalization are appearing in some regions across the US, but the negative impact of COVID-19 on the real economy is also starting to emerge, so the dollar/yen pair's movements will continue to be shaped by yen bullishness.
Tanishiki	Bear	108.50 – 105.50	A risk-on mode is prevailing on hopes that economic activity will restart. However, the dollar has been sold comprehensively during phases of risk appetite. This trend looks set to continue in May, with the dollar/yen pair trading with a heavy topside.
Okuma	Bear	109.00 – 104.00	There are hopes that economic activity will recommence, but tensions will remain until a COVID-19 vaccine is discovered, so a V-shaped recovery seems unlikely. Dollar demand is easing on a sense of surplus, so the dollar/yen pair will probably trade with a heavy topside.

Hisaki Hemmi, Forex Sales, Derivatives & Forex Department

Euro – May 2020

Expected Ranges **Against the US$: US$1.0600–1.1150**
Against the yen: JPY113.00–118.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at $1.1025. Due to concerns about spreading CORONA-19 throughout Europe, the pair was sold with awareness of uncertainty about the future of the European economy, so it fell to the lower-$1.09 level. The euro was sold again on April 2 after the German government predicted a sharp fall in GDP. As such, the pair moved bearishly at the lower-$1.08 level. It then dropped below $1.08 on April 3 as investors reacted badly to some lackluster European economic indicators.

The euro edged higher and the pair hit the lower-$1.08 level on April 6 after the number of COVID-19 infections fell for four straight days in Spain. Amid a dearth of any new factors on April 7, the pair climbed to the lower-$1.09 mark for a time as the euro/yen pair appreciated on the firm movements of European stocks. The euro/dollar pair then dropped back to the lower-$1.08 mark on April 8 after a meeting of EU finance ministers failed to reach an agreement on COVID-19 countermeasures. The pair then climbed to around the mid-$1.09 level on April 9 after the greenback was sold on news about further FRB easing measures. With market participants thin on the ground due to the Easter holidays on April 10, the pair moved with a lack of incentives in the $1.09 range.

The pair temporarily dipped below $1.09 on April 13 as the euro/yen pair weakened. The greenback was then sold on April 14 as US interest rates fell. With hopes also growing that the COVID-19 outbreak was peaking out in the EU, the euro/dollar pair moved firmly to rise to just below $1.10. It then dropped back to the mid-$1.08 level on April 15 on falling crude oil prices. However, the dollar was then sold on deteriorating US economic indicators, so the pair strengthened to the lower-$1.09 mark. The greenback was bought on April 16, so the pair traded with a heavy topside to dip to the lower-$1.08 range. It then rose to the upper-$1.08 level on April 17 as the dollar was sold on falling US interest rates.

The pair moved with a lack of direction at the mid-$1.08 mark on April 20. The dollar was bought on risk aversion on April 21 as stocks fell globally and crude oil prices trended downwards, with the pair temporarily dipping to the lower-$1.08 level. It was then dragged up to the upper-$1.08 range by a bullish euro/yen pair. The euro was sold and the euro/dollar pair fell to around $1.08 on April 22 on the release of some bearish European economic indicators. This trend continued on April 23, with the pair tumbling to the mid-$1.07 level. It then rallied to the mid-$1.08 mark after German chancellor Angela Merkel told EU heads of state that the EU needed to put together a huge budget to tackle the COVID-

19 crisis. However, the euro was then sold and the pair moved with a heavy topside at the upper-$1.07 mark on news that the EU heads-of-state meeting would fail to reach an agreement on a rescue package. On April 24, the EU heads-of-state meeting signaled they would discuss the details of any rescue package at a later date. As uncertainty about the eurozone grew, the pair moved with a heavy topside around $1.08.

The pair then fluctuated gently in the lower-$1.08 range on April 27 as a wait-and-see mood prevailed ahead of the ECB meeting at the end of the month. As US stocks rose at a faster pace on April 28, the greenback fell on an unwinding of the trend of emergency dollar buying. The pair climbed to just below $1.09, but with a US credit rating agency then downgrading Italian government bonds, the euro weakened and the pair fell to the lower-$1.08 level at the month's end.

2. Outlook for This Month

The euro/dollar pair looks set to undergo a gentle slide in May.

Three months have passed since the COVID-19 outbreak. The outbreak was originally centered around China, but it soon spread to the rest of the world. With several major global cities on lockdown, economic activity stalled last month. The outbreak is peaking out in Europe, with governments now looking at easing lockdowns in a staged manner. One positive factor is the growing sense of hope that economic activity can restart, but with each area at different stages when it comes to the COVID-19 response, governments will need to deal with the risk of a second wave of infections. With supply chains stretching across the world, it seems more time will be needed before economy activity can fully get back to normal. COVID-19 struck when Europe's economy was already in the doldrums due to tougher restrictions on exhaust gases and the fact that a tax break on small vehicles had come to an end in China. As such, it seems Europe will continue to post weaker fundamentals than Japan and the US.

On the political front, investors should be wary of the growing risk of a no-deal Brexit. The EU and UK entered into FTA negotiations at the end of January, but there remain intractable issues related to the Irish border and fishing, for example. An FTA agreement will need to be concluded before the withdrawal period terminates at the end of December, but given how previous EU FTAs took several years to conclude, this schedule seems incredibly tight. An extension to the withdrawal period will probably be the first step to avoiding a no-deal Brexit. A decision on this matter will need to be made by the end of June. Negotiations will only be taking place twice, on May 11 and the week beginning June 1. The EU and UK will need to reach an agreement on a Brexit extension during this time, but UK prime minister Boris Johnson inserted a clause in the EU Withdrawal Act banning such an extension, so political turmoil related to Brexit looks set to sweep the markets from May to June. Given these concerns about the direction of the political and economic situation, it seems there will be ample room for euro selling this month.

Dealers' Market Forecast

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

Bullish on the euro	2 bulls	1.1100 – 1.0700	Bearish on the euro	19 bears	1.1000 – 1.0600

* Ranges are central values

Tanaka	Bear	1.1000 – 1.0600	The EU's inability to reach a swift agreement on an emergency fiscal package has been covered up by the fact the worst of the COVID-19 outbreak seems to be over. Any euro rally will be muted though and it seems the euro/dollar pair will continue to trend lower on several concerning factors.
Takeuchi	Bear	1.1100 – 1.0600	The euro/dollar pair's movements will be swayed by a tug-of-war between dollar and euro bearishness on the impact of COVID-19. The European economic slowdown will become more apparent on deteriorating economic indicators. The euro will continue to face some gentle downward pressure.
Tsutsui	Bear	1.0900 – 1.0500	The European economy has been hit hard as the movement of people and goods came to a standstill due to COVID-19. Europe also look set to recover at a slower pace compared to other regions. With the dollar also continuing to bounce back, the euro/dollar pair looks set to fall this month.
Kato	Bear	1.1000 – 1.0700	The attention of market participants is shifting from the spread of COVID-19 to the impact on the real economy. The initial mood of panic-stricken risk aversion looks set to come under some adjustment this month.
Seki	Bear	1.1000 – 1.0600	Several moves are underway to ease lockdown restrictions, but an economic recovery is a long way off and it seems further easing measures could be taken off the table. It will be hard for the nations of Europe to move in lockstep when it comes to fiscal discipline, with the euro/dollar pair set to trend lower.
Mitsuishi	Bear	1.1000 – 1.0600	Europe's economy was already stalling and the situation will probably worsen again due to COVID-19. The euro/dollar pair will probably move with a heavy topside.
Yamagishi	Bear	1.1000 – 1.0600	Italy, Spain and other European nations have been hit hard by the COVID-19 outbreak. In the IMF's growth rate forecast for 2020, the eurozone trailed behind the US and Japan when it came to GDP growth rate and the scale of revision from the previous forecast. The euro will be a hard currency to buy given this harsh prognosis.
Tasaka	Bear	1.1000 – 1.0600	Europe's economy has been hit hard by the COVID-19 shock, while EU nations still find it hard to move in lockstep on the political front, so investors will find it hard to buy the euro. As such, the euro/dollar pair will probably have its downside tested.
Omi	Bear	1.1100 – 1.0800	The euro/dollar pair will continue to trend lower on easing measures to deal with COVID-19 together with the negative impact of the outbreak on the European economy.
Ueno	Bear	1.1000 – 1.0500	Amid hopes that the COVID-19 outbreak will be brought under control, there will be some unwinding to the trend of dollar buying. However, the virus continues to spread. With the economy also moving sluggishly and policy rates moving in negative territories, investors will refrain from actively buying the euro. The risk remains on the downside.
Okamoto	Bear	1.1000 – 1.0550	COVID-19 infections have stopped accelerating in Europe. The ECB remains in easing mode, while several cities are moving to ease lockdown conditions. Despite these positive factors, the EU remains divided with regards to how to support Southern European nations. Amid ongoing political uncertainty, the euro/dollar pair will probably trend lower.

Onozaki	Bear	1.1000 – 1.0500	The markets are growing less susceptible to headlines related to COVID-19, but it will still take some time before the European economy recovers. Under these circumstances, investors will find it hard to actively buy the euro.
Tamai	Bear	1.1200 – 1.0700	The COVID-19 outbreak is peaking out in the US and Europe, but economic activity will only recommence in a staged and limited fashion. The eurozone includes several fiscally-weak nations like Italy, so it will take time for the economy to recover. As such, the euro/dollar pair looks set to continue trading with a heavy topside.
Harada	Bear	1.0900 – 1.0300	The pace of new COVID-19 infections is peaking out in Europe, but productive activity remains in lockdown and it will take some time before the eurozone economy recovers. The euro/dollar pair looks set to continue trending lower in May.
Oba	Bear	1.1000 – 1.0600	The countries of Europe are easing lockdown conditions faster than the US, but there are concerns about a second wave of infections. If Europe follows China into steadily re-opening its economic activity the euro could be bought, but the euro/dollar pair's topside will probably be held down by a strong mood of wait-and-see.
Takamura	Bull	1.1100 – 1.0700	Major eurozone nations look set to ease lockdown conditions, with the COVID-19 outbreak starting be brought under control faster than in the US. There will also be some adjustment to the short-term trend of emergency dollar buying, with the euro set to move firmly against the greenback.
Matsumoto	Bear	1.1100 – 1.0600	It seems the pace of new COVID-19 infections has peaked out, but Europe has been hit hard by the outbreak and there is still no room for complacency. The impact on the real economy will also become more apparent from here on, with the euro/dollar pair set to remain bearish.
Itsumi	Bear	1.1150 – 1.0500	Major cities are expected to ease lockdown conditions in stages, but it will take some time before frozen economic activity returns to normal, so a eurozone economic recovery still seems some way off. The euro/dollar pair will also be weighed down by Brexit uncertainty.
Otani	Bear	1.1000 – 1.0600	The euro will be supported as major European nations ease lockdown conditions, but with the negative impact on the real economy growing more apparent, the euro/dollar pair looks set to trade with a heavy topside.
Tanishiki	Bull	1.1100 – 1.0700	Europe will be hit hard by COVID-19, but so will other areas around the world. The FRB has cut dollar interest rates to zero, but the ECB looks set to get through this troubling time without cutting rates, so the euro/dollar pair's topside looks set to edge higher.
Okuma	Bear	1.1100 – 1.0600	There is no end in sight to the COVID-19 outbreak. When it comes to a recovery fund, opinions are divided between the fiscally-sound Northern European nations on the one hand and the Southern European nations, led by France. If this rupture drags on, the euro will remain susceptible to selling.

Taihei Yamamoto, Europe Treasury Department

British Pound – May 2020

Expected Ranges	**Against the US$:**	**US$1.2000–1.2700**
	Against the yen:	**JPY120.00–137.00**

1. Review of the Previous Month

The pound/dollar pair opened April trading around $1.24. The UK GDP growth rate had been released at the end of March, with grown already dropping to zero in the pre-lockdown days of October–December. As concerns grew about a UK economic slowdown, a US credit rating agency downgrading gilts (UK government bonds) one notch, from the third rank of 'Double A' to the fourth rank of 'Double A Minus,' with the pound/dollar pair then trading with a heavy topside at the start of the month. The revised UK composite Purchasing Managers' Index (PMI) for March was released on April 3, with the indicator dropping to 36.0, its lowest level since records began. UK prime minster Boris Johnson had self-isolated after contracting COVID-19, but on April 5 his condition suddenly worsened and he was taken to an intensive care unit (ICU), with the pair then falling to a monthly low of $1.2166 on concerns about political leadership in the UK.

On April 9, the Bank of England (BOE) announced it would provide funds to the government if the government had trouble raising funds through the issuance of gilts (a similar measure had been adopted during the global financial crisis of 2008). This temporary measure to deal with the COVID-19 crisis led to pound buying, with the currency pair rising to $1.2648. However, it dipped back on April 17 after President Trump indicated his support for a strong dollar when he said during a press conference that "the dollar is the whole ball game. And we have a strong dollar." The UK March new applications for unemployment insurance data was released on April 21. Applications were up 12,200 on the previous month (February: up 5,900), with the unemployment rate subsequently climbing to 3.5%, its highest level since 2014, with the pound/dollar pair falling to $1.2248 as a result. The International Labour Organization's measure put the unemployment rate at 4% for December–February. The UK Office for Budget Responsibility said unemployment could rise to 10% by the end of the pandemic. However, on April 23 the UK Debt Management Office announced plans to issue GBP 180 billion worth of government bonds over May–July, so the pound/dollar pair bottomed out on expectations for fiscal mobilization. Gilt yields have been moving at historical lows and they only rose slightly on news about the bond issuance plan, with the markets also appearing unfazed. On April 24, the BOE announced it would implement an emergency liquidity provision operation at the end of May to help mitigate the impact of the COVID-19 outbreak on the markets. This inviting some pound selling, with the currency pair eventually returning near to its level from the start of the month.

2. Outlook for This Month

The pound/dollar pair is expected to move with a slightly heavy topside in May.

The BOE revived its CTRF at the end of March for the first time since 2012. UK financial institutions initially sought over GBP 11 billion, but this demand dropped off entering April. There was zero demand for the one-month funding operation on April 24, so it seems the markets are regaining composure. The markets have also calmed down after North Sea Brent crude oil futures bounced back from 2002 lows. However, the UK has been hit hard by the COVID-19 outbreak, so risk-evasive pound selling is unlikely to drop off sharply. The BOE will holding its closely-watched Monetary Policy Committee (MPC) meeting on May 7. The MPC will be unveiling its economic outlook, though it is not expected to make any particular policy changes. Last month, the National Institute of Economic and Social Research (NIESR) said lockdown measures and so on would see the UK's Q1 GDP falling by 5% on the previous quarter, with GDP in Q2 set to plunge by 15–25%. The NIESR also said the real growth rate would dip by 12.8% in 2020. With the lockdown beginning late March and expected to last three months, the NIESR predicted that the unemployment rate would hit 10% in April–June. The UK government had announced it would issue GDP 156.1 billion of gilts over the year from April as part of measures to deal with COVID-19, but it then announced it would sell even more debt over the three months from May. The government has implemented some unprecedented measures to tackle the outbreak, including paying 80% of the wages of people temporarily out of work due to COVID-19, but there are deep-rooted concerns about how long it can continue to offer this kind of support.

When it comes to trade relations after the interim period, the UK and EU will be holding video conferences on May 11 and June 1, with heads of state set to assess how much progress has been made. The EU's chief negotiator has already expressed dissatisfaction that the UK has made no concessions when it comes to fishing rights and so on. The UK government has insisted there will be no extension when the interim period concludes at the end of 2020, but there is strong sense that an extension will be unavoidable given the situation regarding COVID-19. According to a UK opinion poll carried out over March 20–23, 64% of respondents said the government should apply for an extension in order to concentrate on tackling COVID-19.

Shiho Kawaguchi, Sydney Treasury Office, Asia & Oceania Treasury Department

Australian Dollar – May 2020

Expected Ranges	Against the US$:	US$0.6230–0.6690
	Against the yen:	JPY67.20–74.50

1. Review of the Previous Month

As US stock futures fell, the AUS/USD pair tumbled from the lower-$0.61 mark to upper-$0.60 level at the start of the month. The US new applications for unemployment insurance data had been released on March 28, with the number of applications doubling on the previous week to renew a record high for the second straight week. As a result, the pair dipped to around $0.60. It then fell below $0.60 after the PBOC lowered the reserve requirement rate for banks in the agricultural sector. As demand for the greenback grew, the pair then fell to the $0.59 range.

With the number of global COVID-19 infections peaking out, the Australian parliament passed a large-scale employment bill on April 6. The RBA also kept its policy rate fixed, with uncertainty about the future easing off, but risk aversion flared up again after NY recorded a record number of COVID-19 fatalities. On April 8, S&P downgraded its outlook for Australian government bonds to 'Negative,' with the currency pair subsequently sliding to $0.6116. However, stocks then rose and the pair hit $0.6230 as optimism grew on news that some parts of Europe were examining ways to end the lockdown and return to normality. OPEC+ then reached a provisional agreement to cut production to 10 million barrels a day, but this was less than expected, so the news was greeted with risk aversion.

Crude oil futures markets then saw a 'flight to quality' on April 13 on expectations for further oil production cuts, with gold subsequently climbing. Commodity currencies also strengthened, with the AUS/USD pair hitting the $0.64 mark. The greenback had previously been bought on concerns about tight demand, but the FRB then strengthened its operations to provide liquidity. With signs that the COVID-19 outbreak was also slowing, dollar demand relaxed, with the Australian dollar also bought back. The currency pair then dropped below $0.63 on April 15 after the IEA forecast that the global glut in crude oil supplies would still remain even after the OPEC+ production cuts. Australia's March employment data was released on April 16. The data had not deteriorated as much as the markets had feared it would due to COVID-19. Though the pair rose to $0.6310 for a time, it soon dropped back to the mid-$0.62 level on deep-rooted concerns that the situation would deteriorate. However, investors then reacted warmly when President Trump announced moves to reopen the US economy. As US stocks rose, the pair rallied to around $0.6330. Crude oil futures fell sharply on April 17, but moves were then taken to restart economic activity following the shutdown that had been enacted to prevent COVID-19 from spreading. With a pharmaceutical company also announcing that a drug had worked with COVID-

19 patients, stocks rose and the currency pair climbed to the upper-$0.63 level. As market tensions eased somewhat, the trend of dollar buying was unwound.

On April 20, the CME announced that WTI futures could sink into negative territories. As investors dumped crude oil futures, the market did indeed dip below zero for the first time. The AUD/USD pair was also dragged down to the lower-$0.63 level. Crude oil prices then recovered and stocks rose across the globe after the US approved a fourth economic stimulus package. The currency pair hit the $0.64 range for a time, but with a US drug company announcing that a COVID-19 vaccine had failed a clinical trial, US stock gains were pared back and the currency pair floated at the upper-$0.63 mark.

Australia's Q1 CPI data was released on April 29, with the figure rising to its highest level since 2014 due to the recent forest fires and the COVID-19 outbreak. With some lockdown restrictions being lifted, sentiments improved slightly at the month's end. The Australian dollar was also supported by real-demand buying, with the currency pair rising to the $0.65 range.

2. Outlook for This Month

Investor's will test the AUD/USD pair's topside in May, with the pair's topside edging higher thereafter.

Most recently, few people have acquired immunity after contracting COVID-19, so the WHO has rung alarm bells about a second wave of infections. However, some places are easing lockdown restrictions as the pace of new infections slows, with recent risk-evasive moments now being unwound.

At the end of April, market participants focused on the pair's 100-day line around $0.6570 and its Fibonacci retracement level around $0.6690, with investors likely to cautiously test the pair's topside going forward.

When it comes to Australian economic indicators released from here on, the markets have factored in the impact of the lockdown to a certain extent. As RBA governor Philip Lowe has indicated, though, the Australian unemployment rate will probably climb to around 10% at the end of June, with Australia's GDP expected to contract by around 10% in the latter half of the year, so the Australian dollar looks set to move heavily.

There are also concerns that some countries might keep their lockdowns in place for now and push back the recommencement of economic activity. Risk sentiments will also be weighed down by uncertainty when investors focus on crude oil futures again. As such, the currency pair is expected to jostle up and down in May.

Mizuho Ashizaki, Canada Office, Global Markets Coordination Department

Canadian Dollar – May 2020

Expected Ranges **Against the US$: C$1.3800–1.4500**
Against the yen: JPY74.00–80.00

1. Review of the Previous Month

The USD/CAD pair opened April trading at C$1.4259. Though an agreement was made on crude oil production cuts, it was still hard to strike a balance between crude oil supply and demand, with prices continuing to fall on a shortage of storage facilities. Crude oil prices then fell into negative territories for the first time ever on futures rollovers. The movements of the Canadian dollar were impacted heavily by crude oil prices once again in April. Prices had dropped below $20/barrel, but they then rocketed to $29.13/barrel on reports that OPEC+ (OPEC and non-OPEC members like Russia) would be holding discussions aimed at crude oil production cuts. The USD/CAD pair also edged up to the lower-C$1.39 level before trading in a narrow range thereafter. OPEC and other oil-producing nations like Russia agreed to reduce output by 9.7 million barrels a day over May and June, but the markets adjudged that the cuts did not go far enough given the supply and demand balance, so crude oil prices fell. The USD/CAD pair also topped C$1.40.

The Canadian March employment data was released on April 9. The markets were expecting a net decrease of 500,000, but the actual figure was double this, with Canada shedding 1.01 million jobs and the unemployment rate climbing from 5.6% in February to hit 7.8%. The US weekly new applications for unemployment insurance data was also released on the same day. At 6.606 million, this also topped expectations, with the US March core CPI figure also recording its steepest month-on-month decline in ten years. The Canadian dollar was bought back and the USD/CAD pair hit the mid-C$1.39 level on these bearish US economic indicators. The Bank of Canada (BOC) kept policy rates fixed at the monetary policy meeting on April 15. The Canadian dollar was then sold again when crude oil prices dipped below $20/barrel to hit $19.20 once more, so the currency pair hit C$1.4132 again. The US new applications for unemployment insurance data was released on April 16, with new applications rising by 5.245 million. With the Philadelphia FRB Manufacturing Index also dropping sharply below expectations, the greenback was sold and the currency pair fell to C$1.4063. After rallying to $20/barrel, though, crude oil prices then begin falling again, with the Canadian dollar also tumbling to C$1.4183 against its US counterpart. Crude oil futures (May contracts) then fell into negative territories for the first time ever on April 20, with the currency pair subsequently soaring to C$1.4265. The markets then reacted well to news that OPEC might be convening a meeting on May 10 to discuss further production cuts. As a result, crude oil prices rallied slightly to return to positive territories. The Canadian dollar was also dragged higher by this news.

News emerged at the month's end that President Trump was calling for states to lift lockdown conditions in three phases with the aim of re-opening the US economy. With the EU also talking about the need to relax border restrictions, risk aversion eased slightly on hopes for renewed economic activity. With crude oil prices also rising, the USD/CAD pair broke below C$1.40 to trade at the mid-C$1.39 mark.

2. Outlook for This Month

The number of people infected with COVID-19 in Canada has topped 50,000. Around 82% of these found in the states of Ontario and Quebec. The pace of COVID-19 deaths and new infections has slowed in Ontario, with infections falling far below predictions of 80,000, so it seems the outbreak has peaked out. Canada is following Europe and the US in planning a phased removal of lockdown conditions, but things remain on hold, with workplaces (except in key industries) still closed and gatherings still discouraged. The economy has stalled on falling crude oil prices and the COVID-19 outbreak, with the Canadian government offering substantial support to states, households and businesses. Since before the outbreak, state-level debt had stood at C$853 billion, higher than the federal debt. State governments also have to cover healthcare and education costs, with several states covering these costs through energy-sector earnings. Alberta's budget is based on crude oil prices. In February the budget was calculated based on a crude oil price of $58.00/barrel, but prices have since fallen into negative territories.

Petroleum and gas companies are seeking $20–30 billion of support from the government. The BOC is providing ongoing support by expanding its asset purchasing program, for example, but this is still not enough and more measures will be needed going forward. Germany and Canada are the only G7 nations to retain a AAA credit rating, but with Canada's finances appearing shaky, there are growing concerns about a downgrade. If this does happen, the Canadian dollar will be hit hard. The government will finally try to kickstart economic activity again in May while learning to co-exist with COVID-19. There is still no vaccine, though, and there is a risk that infections might pick up again. Under these circumstances, it is hard to see stalled demand recovering any time soon. If the number of infections rises again and hopes for a resumption of economic activity in May are thwarted, crude oil prices will probably tumble again.

Canada has shut down non-essential business from mid-March and the government has asked people to stay at home, so the Canadian April employment data looks set to deteriorate sharply on its release on May 8. Attention will also focus on the support measures offered by the government and the central bank going forward. Market participants should continue to monitor the COVID-19 outbreak, crude oil prices, and discussions by oil-producing nations about further production cuts.

Yasunori Shimoyama, Seoul Treasury Office, East Asia Treasury Department

Korean Won – May 2020

Expected Ranges	**Against the US$:**	**KRW1,180–1,260**
	Against the yen:	**JPY8.475–9.174 (KRW100)**
		(KRW10.900–11.800)

1. Review of the Previous Month

In April the USD/KRW pair jostled up and down in a comparatively wide range from KRW1200–1250.

The pair opened the month trading at KRW1219.80. Market participants paid particular attention to the COVID-19 outbreak in the West, with the number of fatalities in the US rising above those in China, for example, with the pair subsequently climbing to a monthly high of KRW1242.50 on April 2. Crude oil prices stood alongside COVID-19 as a risk factor attracting market attention, with news emerging that the US had offered to act as an intermediary in talks between Russia and Saudi Arabia. With the number of new daily COVID-19 infections also dropping gradually in South Korea, the won was bought and the pair fell to a monthly low of KRW1206.80 on April 10.

OPEC+ then agreed to cut production by 9.7 million barrels a day, but this was seen as insufficient by the markets. The won was also sold in relation to dividend flows. US indicators and the business results of several major US corporations also remained in the doldrums. All this saw the pair gradually rising to KRW1215–1230. South Korea held parliamentary elections on April 15. The ruling party scored a major victory and earned a working majority, but the impact on the currency pair was muted. China released its Q1 GDP data on April 17. At -6.8% y-o-y, the figure fell into negative territories for the first time since 1992, when the first formal GDP announcement was made. This was not far off market predictions, though, so this news also had minimal impact on the pair.

During overseas trading time on April 20, WTI crude oil futures temporarily dipped into negative territories for the first time ever, with sentiments subsequently deteriorating. News also emerged on April 21 that North Korean leader Kim Jong Un was in a critical condition after an operation. All this saw the pair rising to the KRW1240 range for a time. However, it then dropped back after on denials by the South Korean government and other skeptical comments.

The last week saw some real-demand won buying in relation to the end of the month. Risk sentiments also improved slightly as lockdown rules were relaxed in the West and hopes grew for a recommencement of economic activity. The USD/KRW was pushed down as a result and it closed the month trading at KRW1218.20 on April 29.

2. Outlook for This Month

The USD/KRW pair is expected to move flatly in May. The focus will remain on COVID-19 trends and the impact on the economy.

At the time of writing, new infections have dropped to around 10–20 a day in South Korea, with the outbreak apparently coming to an end. The US and Europe are also moving gradually to re-open their economies. There are signs of global stock markets recovering on this good news, but crude oil prices are falling on sliding demand and a lack of storage space, with sentiments also dampened.

Economic support measures by each government and central bank easing measures are contributing greatly to market stabilization.

If the COVID-19 situation continues to improve, the USD/KRW pair could also face downward pressure, though investors should remain on guard. There are still no effective COVID-19 treatments, so a second wave of infections could occur if economic activity kicks off again. It is also hard to imagine market sentiments fully recovering until crude oil prices bounce back.

South Korea is putting together an economic package worth around KRW240 trillion, or around 10% of annual GDP. This will support the economy, though it may take months before the effects are truly felt.

Based on the above, it seems sentiments will be swayed by various factors, with the currency pair set to move flatly on the whole. However, sentiments will remain volatile and they could suddenly lurch sharply up or down, so caution will be needed.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – May 2020

Expected Ranges	**Against the US$:**	**NT$29.50–30.20**
	Against the yen:	**JPY3.45–3.70**

1. Review of the Previous Month

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

The pair opened the month trading at TWD30.300. There was a holiday at the start of the month, but when the market reopened on April 6, the pair hit a monthly high of TWD30.375. However, with the number of new COVID-19 infections in the US and Europe rising at a slow pace, risk appetite increased, so Taiwanese stocks rose and the Taiwan dollar was bought, with the currency pair sliding to around TWD30.10.

US stocks rose mid-April on hopes that the US economy might re-open soon. Taiwan stocks were also pulled higher, so the Taiwan dollar was bought and the pair temporarily hit the TWD29.9 range. Once the pair dipped below TWD30, importers moved to buy the greenback, so the Taiwan dollar's topside was held down and the pair moved around TWD30.05.

The pair continued to move in a range around TWD30.05 late April on a dearth of any particular factors. Exporters then sold the greenback toward the month's end, while overseas investors bought the Taiwan dollar, so the currency pair's movements were marked by Taiwan-dollar bullishness. In particular, with capital continuing to flow in from overseas, the pair broke below TWD30. This saw the Taiwan dollar bought at a faster pace, with the pair temporarily falling to TWD29.720 for the first time in around one year and 11 months. It remained below TWD30 at the close of April trading.

2. Outlook for This Month

In May, the USD/TWD pair's movements will probably be marked by dollar bearishness and Taiwan-dollar bullishness.

The pair was influenced by factors related to COVID-19 in April. With the outbreak slowing in several countries and hopes rising for an end to lockdown conditions and a resumption of economic activity, risk appetite has grown in the stock markets and so on.

However, even though Taiwan has had relatively few COVID-19 infections, it has suffered a heavy economic blow in areas such as tourism and the food industry, for example, with Taiwan's economic indicators also deteriorating. Taiwan has not had to implement a lockdown, though, with economic activity also brisker compared to other countries, so Taiwanese stocks are moving firmly.

The pair's movements will be swayed by factors related to COVID-19 in May too, but the dollar looks set to weaken and the Taiwan dollar strengthen on risk appetite as hopes grow for a resumption of economic activity as lockdown conditions are eased in each country. A crucial factor will be whether governments succeed or fail in keeping the number of infections down after lockdowns finish. It will take time before this becomes clear, though, with the markets likely to be driven by hopes for the time being. However, if the number of infections rises again after lockdown conditions are eased, this will lead to risk aversion, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – May 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7700**
	Against the yen:	**JPY 13.60–14.10**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

In April, the Hong Kong dollar appreciated to HKD 7.7500 to the U.S. dollar—the upper end of the fluctuation band—for the first time in approximately four years. In reaction, the Hong Kong Monetary Authority (HKMA) intervened in the market by selling the Hong Kong dollar and buying the U.S. dollar for the first time since October 2015, all in order to maintain the U.S. dollar peg rate. As a result, the HKMA supplied liquidity worth more than HKD 20 billion to the market. Thus, the Hong Kong dollar market strengthened mainly based on the interest rate differentials between the Hong Kong dollar and the U.S. dollar, as well as on the capital inflow into the stock market. Indeed, the Hong Kong dollar forward rates remained high throughout the curve after the liquidity supply by the HKMA, with the one-year Hong Kong dollar forward point remaining at around +150 points. Since the beginning of the year, capital inflow into the Hong Kong stock market through the Stock Connect scheme has been significantly higher than the level seen at the same time of the year during the past two years. As a consequence, the Chinese yuan/Hong Kong dollar cross rate has been at the HKD 1.09 level—the all-time low. On the other hand, the labor market in Hong Kong has been weakening since the beginning of the outbreak of the COVID-19 crisis. The unemployment rate in March rose from 3.7% to 4.2%—reaching the highest level in nine years. The Hong Kong government announced its second economic package to ensure subsidies to companies that promise to retain their employees. With such economic stimulus measures, the fiscal deficit of Hong Kong is likely to expand by approximately 10% this year, based on which Fitch lowered the rating of Hong Kong by one notch, from AA to AA-.

Hong Kong interest rate market in April

In April, interest rates in Hong Kong fell, following the fall of the U.S. dollar interest rates caused by a decrease in U.S. dollar capital demand. The interest rate differentials between the Hong Kong dollar and the U.S. dollar have been reflecting the liquidity level in the Hong Kong dollar market, being lower than the U.S. dollar market. The interest rate differentials between the Hong Kong dollar and the U.S. dollar have increased, reaching 90 basis points and 70 basis points, respectively, for one month and three months, leading the U.S. dollar/Hong Kong dollar spot exchange rate to HKD 7.75—the upper end of the fluctuation band. The aggregate balance, which is the index used to measure the liquidity level in the

Hong Kong dollar market, is expected to increase from HKD 54 billion to over HKD 84 billion during the next several weeks through the decision by the HKMA to reduce Exchange Fund Bills (EFBs). Furthermore, due to concerns over a slowdown of the U.S. economy, the Federal Reserve Board (FRB) is seen to postpone the normalization of its monetary policy, and this led the Hong Kong dollar interest rate swap rates and the U.S. dollar interest rate swap rates to decrease.

2. Outlook for This Month

Hong Kong dollar spot exchange market in May

In May, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.7500 and HKD 7.7700. The Hong Kong dollar is likely to continue trading against the U.S. dollar at around the upper end of the fluctuation band until the Hong Kong dollar interest rates fall as a result of the measure taken by the HKMA to supply liquidity, narrowing the interest rate differentials between the Hong Kong dollar and the U.S. dollar. For now, the interest rate differentials between the Hong Kong dollar and the U.S. dollar remain unchanged even after the HKMA's measure to supply liquidity and as the forward rates remain high throughout the curve. Thus, the U.S. dollar/Hong Kong dollar exchange rate is likely to remain at around the upper end of the fluctuation band based on the demand for the Hong Kong dollar in the carry trade market, which uses rate differentials between the Hong Kong dollar and the U.S. dollar. While the monetary market stabilizes worldwide, demand for IPOs has been recovering in the Hong Kong stock market, and capital inflow through the Stock Connect scheme has increased current Hong Kong dollar demand. On the other hand, the fiscal deficit of the Hong Kong market increased rapidly in FY2020 to approach the 10% mark. The fiscal deficit is expected to continue in the next few years to come. In other words, the foreign-currency reserves in Hong Kong are expected to decrease in the times ahead, possibly destabilizing the U.S. dollar peg. In such a case, there are risks for the rating for Hong Kong to be downgraded further, while concerns over rising asset values and political instability could cause a decrease in capital inflow into the Hong Kong dollar market in the times ahead. Therefore, in the medium-term perspective, the Hong Kong dollar is expected to depreciate against the U.S. dollar to the HKD 7.80 level.

Hong Kong dollar interest rate market in May

In May, the Hong Kong dollar interest rates are forecast to fall further due to the fall in the U.S. dollar interest rates as well as the HKMA's measures to supply liquidity. As demand for assets in the U.S. dollar decreased slightly, the U.S. dollar LIBOR has been on a fall again, pushing down the Hong Kong dollar HIBOR as well. What is important here is that the HKMA has shifted its monetary policy to a dovish stance by reducing the issuance of EFBs. As a result, the liquidity supply in Hong Kong dollar is likely to accelerate even under the U.S. dollar peg. The aggregate balance is expected to be over HKD 100 billion by the end of the second quarter. The Hong Kong dollar interest rate swap rate curve is therefore likely to follow the U.S. dollar interest rate swap rate curve under the U.S. dollar peg. Given the growing concerns over serious downside risks for the U.S. economy that resulted from the outbreak of the COVID-19 crisis, it is unlikely for the FRB to normalize its monetary policy for a while.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – May 2020

Expected Ranges	**Against the US$:**	**CNY 6.9000–7.2000**
	Against the yen:	**JPY 14.58–16.09**
	Against 100 yen:	**CNY 6.2200–6.8600**

1. Review of the Previous Month

Foreign Exchange Market

In April, the U.S. dollar/Chinese yuan exchange rate returned to the level of market opening at the end of the month.

During the first half of the month, the Chinese yuan appreciated against the U.S. dollar, thanks to expectation for the spread of COVID-19 to slow down. As the media reported that the spread of COVID-19 was slowing down in Europe and in the U.S., and while the media reported that the Federal Reserve Board (FRB) in the U.S. had decided to supply funds worth USD 2.3 trillion, market participants started actively selling the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate once fell below CNY 7.04 from around CNY 7.10.

Thereafter, the People's Bank of China (PBOC) decided to cut its MLF interest rate by 20 basis points, and this fueled speculation about monetary easing, reversing the trend in the U.S. dollar/Chinese yuan exchange market. Furthermore, on April 17, China's GDP for the first-quarter period was announced, and the outcome turned out to be –6.8%—significantly slower than the market estimate, which was –6.0%—and this also encouraged market participants to sell the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate approached the CNY 7.08 level. Thereafter, the U.S. dollar/Chinese yuan exchange rate continued rising to temporarily approach the CNY 7.10 level, following the PBOC central parity rate, which was set toward a weaker Chinese yuan. However, toward the end of the month, the U.S. dollar/Chinese yuan exchange rate retuned to the CNY 7.07 level, as there were signs for economic activities to resume, thanks to various economic measures considered by the governments of various countries.

Interest Rate Market

The Chinese yuan interest rates fell following the cuts of the reserve requirement ratio and the interest rate for excess reserves.

On April 3, the PBOC announced its decision to cut the reserve requirement ratio and the interest rate for excess reserves. As a result of the reserve requirement rate cut, liquidity worth CNY 200 billion was supplied, while the interest rate for excess reserves, theoretically the lowest overnight interest rate in the money market, was also cut, and this strengthened downward pressure on interest rates for all terms. Furthermore, on April 15, CNY 100 billion was supplied through the MLF, cutting the interest rate from 3.15% to 2.95%. Interest rates continued falling, and the one-year SHIBOR once reached the all-time low at the 1.67 level. Then, on April 20, loan prime rates (LPRs) were announced, and the one-year LPR turned out to be –20 basis points (4.05%) and the five-year LPR turned out to be –10 basis points (4.65%). However, these results had been anticipated in the market, and thus there was little market impact.

2. Outlook for This Month

Foreign Exchange Market

The U.S. dollar/Chinese yuan exchange rate is forecast to remain stable in May.

As a result of the global spread of COVID-19, economic activities slowed down in major developed countries. Under such circumstances, China had already passed the peak of the crisis. As a result, the Chinese yuan remained relatively stable despite the rapidly growing volatility in the market based on the sense of uncertainty.

China's National People's Congress, which had been postponed, is now scheduled for the end of May, and market participants are waiting to see the economic growth target as well as the details for fiscal stimulus measures. It has already been decided that a fiscal deficit will be tolerated while a special government bond will be issued. Further fiscal measures to support the economy are expected. In terms of monetary policy, the PBOC has increased liquidity supply while cutting various interest rates. Even though the PBOC might continue leading interest rates to fall further, many other countries are also taking measures of monetary easing. Thus, it is not likely for the Chinese yuan to continue depreciating one-sidedly in the times ahead. The upward pressure on the Chinese yuan is forecast to strengthen after the normalization of economic activities and the recovery of the U.S. dollar supply & demand balance.

Interest Rate Market

Interest rates are forecast to remain low.

The reserve requirement ratio will be cut on May 15, as has already been announced, and the liquidity level is expected to remain high. Many central banks are taking measures of monetary easing in reaction to the spread of COVID-19, following which the PBOC has also supplied liquidity and cut various interest rates. At the moment, the fall of interest rates is slowing down and the Chinese yuan interest rates are forecast to remain stable at the current level.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – May 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3800–1.4400**
	Against the yen:	**JPY 74.50–77.00**

1. Review of the Previous Month

In April, the Singapore dollar appreciated slightly against the U.S. dollar.

In April, the U.S. dollar/Singapore dollar exchange market opened trading at the SGD 1.42 level. Thereafter, U.S. dollar-buying was slightly more dominant at the beginning of the month. While concerns persisted over the slowdown of the global economy that resulted from the spread of COVID-19, investors continued averting risks, weakening the currencies of emerging countries. Following this trend, the Singapore dollar depreciated against the U.S. dollar, and the exchange rate once reached the lower-SGD 1.44 level.

On April 7, the spread of COVID-19 was confirmed to be slowing down in multiple states in the U.S., while the death rate in Europe started to fall, which led stock prices to rise worldwide. As a result, the currencies of emerging countries strengthened. Furthermore, the FRB announced an additional aid package worth USD 2.3 trillion, which accelerated U.S. dollar-selling, leading the U.S. dollar/Singapore dollar exchange rate to fall to the lower-SGD 1.41 level.

However, this trend did not last for a long time. Toward the middle of the month, many economic indices recorded historic falls in the U.S., and the crude oil future price fell below USD 30 again. These negative factors encouraged market participants to buy the U.S. dollar. Then, on April 17, U.S. President Donald Trump announced guidelines for resuming economic activities in the U.S., which had been severely affected by the spread of COVID-19. In reaction, risk-taking sentiment strengthened temporarily in the market. However, the WTI crude oil future price for May fell sharply, while stock prices were also falling, which weakened the Singapore dollar. The Singapore dollar depreciated against the U.S. dollar, and the exchange rate rose to the mid-SGD 1.43.

Thereafter, the Singapore dollar strengthened again toward the end of the month. Many European counties started planning to gradually loosen lockdowns, fueling expectations for economic activities to resume, leading the risk sentiment in the market to improve. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell slightly. The U.S. dollar/Singapore dollar pair has currently been trading at the SGD 1.41 level, and the Singapore dollar has appreciated slightly against the U.S. dollar compared to the beginning of the month (as of this writing on April 29).

2. Outlook for This Month

The Singapore dollar is forecast to appreciate against the U.S. dollar in May.

In April, the Singapore dollar appreciated slightly against the U.S. dollar despite the fact that domestic economic indices remained weak, and COVID-19 spread further domestically.

The appreciation of the Singapore dollar can be explained by the fact that the Federal Reserve Board (FRB) took measures against capital inflow from emerging currency markets to the U.S. dollar market, all as a result of concerns over the decreasing supply of U.S. dollars that was observed in March. Furthermore, the risk sentiment in the market was improving with expectations for the loosening of lockdowns in Europe and the U.S. As a result, in April, the Singapore dollar appreciated not only against the U.S. dollar but also against other currencies such as the Malaysian ringgit, the Korean won, the Philippine peso, and the Indian rupee, demonstrating particular stability compared to other currencies of emerging countries. Given that the U.S. has already announced further economic stimulus measures, the Singapore dollar is likely to remain strong in May.

However, it should also be mentioned that the economic outlook in Singapore remain sluggish, even though this is not likely to have significant impact on the Singapore dollar exchange market. On April 28, the MAS underlined once again its outlook that the Singapore economy would decline this year, as had already been previously announced. The MAS explained that the expected economic decline would be due to confusion in supply chains, travel restrictions in effect in many countries, and a significant fall in demand. The Gross Domestic Product (GDP) for 2020 is now expected to be –4.0% to –1.0% year-on-year.

In addition to this outlook, if the economic indices in Singapore turn out to be equally weak intermittently, it is possible for the MAS to hold an irregular meeting earlier than scheduled, while the MAS meeting is normally held semiannually (April and October), as was the case in March, all in order to introduce further measures of monetary easing. Market participants should therefore remain attentive.

Hiroyuki Yamazaki, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – May 2020

Expected Ranges	**Against the US$:**	**THB 31.50–33.00**
	Against the yen:	**JPY 3.15–3.35**

1. Review of the Previous Month

At the beginning of the month, the Thai baht appreciated against the U.S. dollar from around the THB 33.15 level. In Thailand, as a state of emergency was declared in the second half of March and as the number of new cases of COVID-19 infection exceeded 100 every day, the U.S. dollar/Thai baht exchange rate rose sharply toward the end of March. Furthermore, at the end of March, the central bank of Thailand released an extremely weak economic outlook, while business confidence in the tourism industry recorded its lowest figure in nine years, accelerating Thai baht-selling rapidly. As a result, the U.S. dollar/Thai baht exchange rate rose to once reach THB 33.16. Thereafter, the media reported that an OPEC Plus emergency meeting would be held in Saudi Arabia, which led the crude oil future price to rise, following which stock prices rallied in major countries. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell below the THB 33 level. In the following week, the number of new deaths caused by COVID-19 flattened in Europe and the U.S., and thus market participants expected an improvement in the situation related to COVID-19, leading the U.S. dollar/Thai baht exchange rate to continue slowly falling. With violent fluctuation, the U.S. dollar/Thai baht exchange rate fell to approach the THB 32.60 level toward April 10. In the middle of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating at the same level. Also, the March consumer sentiment index of Thailand and the number of foreign tourists for the first-quarter period worsened dramatically. However, the increase in the number of new cases of COVID-19 remained relatively moderate in Thailand, and the Songkran holidays had originally been scheduled for that period. Therefore, there was no significant fluctuation in the market until April 15, and the U.S. dollar/Thai baht exchange rate remained at the THB 30.60–30.70 level. Then, on April 16, the media reported that Prime Minister of Thailand Prayut Chan-o-cha had instructed related institutions to plan a possible loosening of various restrictions from May, which led the Thai baht to appreciate again. Thereafter, the number of unemployment insurance initial claims in the U.S. recorded a significant increase, and this negatively impacted the Thai baht exchange market, with the U.S. dollar/Thai baht exchange rate temporarily rising. However, market sentiment improved again, thanks to the rise of stock prices in the U.S., and the Thai baht appreciated against the U.S. dollar. The U.S. dollar/Thai baht exchange rate thus temporarily fell below the THB 32.50 level on April 17. On April 20, market sentiment improved, as an economic stimulus package worth approximately USD 59 billion to tackle with COVID-19 crisis had been approved in Thailand on April 19. However, the media also reported that the state of emergency was likely to be extended. As a result, the U.S. dollar/Thai baht exchange rate continued fluctuating around the THB 32.50 level toward April 21. On April 22, the number of new COVID-19 cases in Thailand fell to its lowest level since March 14, and this led the Thai baht to appreciate. Therefore, on April 23, the U.S. dollar/Thai baht exchange rate continued fluctuating at around THB 32.30. However, on April 24, the media reported that the clinical trial of an antiviral drug had failed despite expectations, and this negatively impacted the Asian stock market. Following the weakening stock market in Asia, the U.S. dollar/Thai baht exchange rate start rising again, reaching the mid-THB 32.40 level again. In Thailand, the number of new COVID-19 cases continued decreasing, fueling expectations for various restrictions on economic activities to be loosened toward the end of the month. However, the government announced its decision to extend the current state of emergency again until the end of May in order to prevent a second wave of infection. However, this did not impact the market significantly, and the U.S. dollar/Thai baht exchange rate has been currently fluctuating at the THB 32.40 level as of this writing.

2. Outlook for This Month

The Thai baht exchange rate has been fluctuating in accordance with the situation surrounding the COVID-19 crisis. However, as of the end of April, it seems that the increase of new COVID-19 cases and the rise of the worldwide impact of the COVID-19 crisis have been slowing down (even though it is still increasing), thanks to the measures of social distancing including lockdowns as introduced in many affected areas. Based on the slowdown in increase, there have been discussions on the gradual loosening of lockdowns. However, if lockdowns are loosened now, it is possible to see second and third waves of spread. Given the accumulating knowledge about the virus, it can be said that the situation has changed from one month or two months ago, but it is difficult to assess the current situation. In Thailand, the state of emergency was extended by one month even though the number of daily new cases of COVID-19 has been in single digits. Even though if Thailand, as just one country, were to loosen its state of emergency, major problems might not occur; however, as COVID-19 is a worldwide issue, it seems that it would be necessary for Thailand to be cautious. On the other hand, the central concern has been shifting from the COVID-19 crisis itself to the economic impact of the crisis. The larger the economy is, the severer the impact of lockdown becomes. It almost seems as if there is a competition for enduring the economic burden of various aid packages.

In May, the Thai baht is forecast to depreciate slightly against the U.S. dollar. While the future outlook remains uncertain, risk-taking sentiment is likely to grow in the market once the lockdown is loosened, leading the Thai baht to appreciate. Furthermore, the number of new COVID-19 cases has been lower in Thailand compared to its neighboring countries, Europe, and the U.S. Thus, market participants expect Thailand to control the impact of the crisis on its economy, which is another factor for the appreciation of the Thai baht. On the other hand, the economy, which had heretofore been supported by exports and the tourism industry, will depend on domestic demand for a while, which is likely to keep the Thai baht from appreciating rapidly. The Thai baht is therefore forecast to depreciate slightly against the U.S. dollar.

However, the Thai baht exchange market is still expected to follow headlines related to COVID-19, and the market trend can change depending on how COVID-19 spreads in the times ahead. Market participants should thus remain cautious for a while.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2020

Expected Ranges	**Against the US$:**	**MYR 4.2900–4.4100**
	Against the yen:	**JPY 24.40–25.00**
	Against 100 yen:	**MYR 4.0000–4.1000**

1. Review of the Previous Month

In April, the U.S. dollar/Malaysian ringgit exchange rate remained volatile, fluctuating within the range between MYR 4.28 and MYR 4.40, while there were a limited number of market participants with economic activities restricted toward tackling the COVID-19 crisis.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.30 level. With measures of monetary easing taken worldwide, the U.S. dollar/Malaysian ringgit exchange rate fell to MYR 4.28, which ended up being the monthly low. On April 2, the number of COVID-19 cases was about to reach a million worldwide, and this led the U.S. dollar/Malaysian ringgit exchange rate to rally and approach MYR 4.40. The market thus remained highly volatile. Because Malaysian government bonds were kept as a part of the FTSE Russell World Government Bond Index, this temporarily strengthened the Malaysian ringgit and led the exchange rate to reach MYR 4.34. However, on April 3, the central bank of Malaysia released its annual report, revising the GDP growth rate outlook for 2020 downward to –2.0 to +0.5%, which led the U.S. dollar/Malaysian ringgit exchange rate to rally to the MYR 4.37 level again. On Monday, April 6, Prime Minister of Malaysia Muhyiddin Yassin announced a third economic stimulus package worth MYR 10 billion mainly in order to support medium- to small-scale enterprises. However, this did not satisfy market participants, and the U.S. dollar/Malaysian ringgit exchange rate rose again to MYR 4.39. Yet, with the U.S. government's approval of an economic stimulus package, the rallies of the Chinese yuan, and the rallies of the crude oil price supporting the Malaysian ringgit, on April 9, Fitch announced its decision to keep the long-term issuer default rating for Malaysia at A–, even though the sovereign rating outlook for Malaysia was revised downward from "Stable" to "Negative." Thus, the U.S. dollar/Malaysian ringgit exchange rate fell to the MYR 4.30 level on April 10.

In the middle of the month the fall of the crude oil price accelerated, and the U.S. dollar/Malaysian ringgit exchange rate rallied again. On April 17, the first-quarter GDP of China and the March retail sales were announced, revealing a significant decline. Market participants saw this simply as being indicative of a country in the situation of a lockdown, leading the U.S. dollar/Malaysian ringgit exchange rate to rise further. On Monday, April 20, the WTI crude oil future price for May reached the all-time low at –USD 40/barrel, recording a negative figure—which had never been seen before. Following this, the Brent crude oil price also fell below the price range estimated by the central bank between USD 25–USD 35/barrel. As a result, the U.S. dollar/Malaysian ringgit exchange rate almost reached MYR 4.40 again.

However, toward the end of the month, the number of daily new COVID-19 cases remained under 100 every day. The U.S. dollar/Malaysian ringgit exchange rate did not exceed the MYR 4.40 level in the end, after which the exchange rate rallied to the MYR 4.34 level on April 23. While the number of initial unemployment insurance claims recorded an all-time high in the U.S., the Malaysian government decided to extend the movement restriction order by two weeks until May 12. U.S. dollar/Malaysian ringgit exchange market closed at the MYR 4.37 level at the end of April.

2. Outlook for This Month

In May, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.29 and MYR 4.41. While COVID-19 cases continue to spread worldwide, the crude oil price recorded a historical fall. Under such circumstances, the Malaysian government decided to extend lockdown by two weeks until May 12, which will make the lockdown period a total of eight weeks. However, Malaysian government bonds were kept as a part of the FTSE Russell World Government Bond Index, while a major ratings agency decided to maintain the sovereign rating for Malaysia. And also, with the spread of COVID-19 cases slowing down in Malaysia, serious downward risks for the Malaysian ringgit have been mitigated.

The Malaysian government announced three economic stimulus packages, the total of which amounts to MYR 260 million, by focusing on low-income, self-employed workers, as well as medium- and small-scale enterprises. Even though the total amount of these packages only accounts for 17% of the GDP, the actual fiscal expenditures amounts only to MYR 35 billion (2.3% of GDP), revealing the economic weakness of Malaysia compared to the U.S., Japan, and Singapore. It is likely for the central bank of Malaysia to cut the interest rate significantly from 2.50% at the next monetary policy meeting scheduled for May 5. Also, after the change of government without an election, the first parliament session will be held on May 18. However, the secretariat of the ruling part announced that the session would be held for only one day. It seems that the session will be held only to comply with the country's Constitution, which stipulates that a Parliament session has to be held at least once every six months. As economic stimulus packages will not be discussed, the political conditions are likely to remain uncertain in the times ahead.

It should also be mentioned that the WTI crude oil future price fell to a negative figure, as buyers of crude oil were running out of storage places. It was also revealed that there was no sufficient cooperation among oil-producing countries for reduced production, and this led the local Brent crude oil price index also to fall sharply below the range between USD 25 and USD 35/barrel—the estimate in the annual report released by the central bank on April 3. Finance Minister of Malaysia Tengku Datuk Seri Zafrul Tengku Abdul Aziz also suggested that expenditures in the governmental budget plan might be revised depending on the future trend in the crude oil market. The media also reported that a state-owned oil company had been planning an increase in government dividend based on its fiscal conditions.

On the other hand, the FTSE Russell decided on April 2 to keep the Malaysian government bond as a part of its World Government Bond Index. Furthermore, S&P and Fitch also decided to maintain the A– for the sovereign rating for Malaysia, even though there were concerns over downgrading after the sharp fall of the crude oil price. Despite the fact that Fitch revised its outlook downward to "Negative," market participants bought back the Malaysian ringgit after the announcement, somewhat mitigating concern over large-scale capital outflow for the immediate future.

Given the macroeconomic conditions, there is no factor to encourage market participants to actively buy the Malaysian ringgit, and thus the U.S. dollar/Malaysian ringgit exchange rate is most likely to remain high in the times ahead. However, as the end of the COVID-19 crisis is approaching, the exchange rate is not likely to rise significantly either.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2020

Expected Ranges	**Against the US$:**	**IDR 14,900–16,100**
	Against 100 rupiah:	**JPY 0.65–0.71**
	Against the yen:	**IDR 140.85–153.85**

1. Review of the Previous Month

In April, the Indonesian rupiah rallied dramatically after the sharp depreciation observed in March.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 16,300 level on April 1. While COVID-19 continued spreading in Southeast Asia, risk-averse sentiment persisted in the market and the Indonesian rupiah remained weak. Finance Minister of Indonesia Sri Mulyani Indrawati expressed her view that the Indonesian rupiah would depreciate against the U.S. dollar from IDR 17,500 to IDR 20,000. In reaction to this, the governor of the central bank of Indonesia, Perry Warjiyo, gave a warning regarding the depreciation of the Indonesian rupiah, stating that the current Indonesian rupiah exchange rate was at the appropriate level. While risk-averse sentiment persisted in the market, the Indonesian rupiah depreciated against the U.S. dollar to the mid-IDR 16,500 level—the monthly low on April 2—the following day. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued within the range between the IDR 16,400 level and the IDR 16,500 level. On April 6, the Indonesian rupiah depreciated again to the mid-IDR 16,500 level. However, on April 7, the Indonesian government issued "pandemic bonds" in order to raise funds to tackle the COVID-19 crisis. Furthermore, the central bank of Indonesia announced that it had reached a repurchase agreement worth USD 60 billion with the U.S. Federal Reserve Board (FRB), and this further mitigated concerns over the U.S. dollar supply. As a result, the Indonesian rupiah appreciated against the U.S. dollar to the lower-IDR 16,100 level. This trend continued and the Indonesian rupiah continued appreciating, leading the U.S. dollar/Indonesian rupiah exchange rate to approach IDR 15,800 on April 9.

In the middle of the month, the Indonesian rupiah remained strong on April 13, with the same trend from the previous week, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. On April 14, the following day, the central bank of Indonesia held a monetary policy meeting, attracting substantial attention in the market, and decided to maintain the seven-day reverse repo rate—the policy interest rate of Indonesia—at 4.50%, while cutting the reserve requirement ratio for commercial banks by 200 basis points. Prior to this decision, some market participants anticipated further monetary easing, while others expected the monetary policy to remain unchanged. Thus, the Indonesian rupiah remained strong, and the U.S. dollar/Indonesian rupiah exchange rate approached IDR 15,500 on April 15, the following day. On April 16, after the appreciation of the Indonesian rupiah, the trend was reversed, and the Indonesian rupiah depreciated against the U.S. dollar to the mid-IDR 15,700 level. However, on the same day during overseas trading hours, U.S. President Donald Trump announced guidelines for resuming economic activities, which improved investor sentiment. As a consequence, the Indonesian rupiah appreciated significantly against the U.S. dollar to the mid-IDR 15,300 level. Then, on April 20, a major ratings company changed its rating outlook for Indonesia from "Stable" to "Negative." However, the impact of this on the Indonesian rupiah exchange market was limited.

Near the end of the month, on April 21, risk-averse sentiment grew in the market, as the crude oil price fell sharply the previous day during overseas trading hours. Under such circumstances, the Indonesian rupiah remained weak. On April 22, the Indonesian rupiah depreciated against the U.S. dollar again to the mid-IDR 15,500 level. Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around IDR 15,400 without moving in any direction for a while. However, thereafter, market sentiment improved with growing expectation for economic activities to resume, as the spread of COVID-19 was slowing down in developed countries. On April 29, as of this writing, market participants have been selling the U.S. dollar, and the Indonesian rupiah reached its monthly high against the U.S. dollar at the mid-IDR 15,200 level (as of the closing rate of April 29, the day of this writing).

2. Outlook for This Month

In May, the Indonesian rupiah could depreciate against the U.S. dollar.

In April, the Indonesian rupiah strengthened, which had not been anticipated. The Indonesian rupiah depreciated sharply in March mainly due to the rapid outflow of foreign investors' funds from the Indonesian government bond market, based on concerns over the U.S. dollar supply. However, as was mentioned above, numerous measures were taken to mitigate this concern, such as the repurchase agreement between the FRB and the central bank of Indonesia, supporting the Indonesian rupiah. Indeed, the issue of capital outflow has been almost resolved, given that foreign investors' holdings of Indonesian government bonds as of April 24 turned out to be almost at the same level as at the end of March. However, there has been no plan for economic activities to resume in Southeast Asian countries, as lockdowns have been extended. Market participants should thus not be overly optimistic. On the contrary, it is still possible for risk-averse sentiment in the market to strengthen dramatically in the times ahead. It is therefore possible for foreign investors' holdings of Indonesian government bonds worth over IDR 900 trillion to be sold, regarding which market participants should remain cautious.

One of the worrying factors that could strengthen risk-averse sentiment in the market is that various countries are taking fiscal measures, and market participants are aware of the weakening of fiscal conditions. Also, the rating for Indonesia was revised downward to "Negative." This rating still remains as investment grade even though it was downgraded by only just one notch. However, if market participants expect the rating to be downgraded further, they could end up selling Indonesian government bonds. Furthermore, the crude oil price has fallen dramatically, which is another worrying factor. If the crude oil price continues falling for a long period, the corporate performance of energyrelated sectors would worsen, causing negative influence on the overall economy. In general, the fall of the crude oil price can act as a positive factor for countries such as Indonesia, which import crude oil from abroad. However, it can also lead to the depreciation of the Indonesian rupiah—if the economy is negatively affected.

In terms of the trade balance of Indonesia, both imports and exports saw only a slight decline, with a surplus of USD 740 million in March, recording a large amount of surplus for the second consecutive month. On the other hand, the January–March quarter direct investment inflow recorded negative growth of 9.2% year-on-year. It is possible that the spread of COVID-19 has been delaying investment activities. If this trend continues, the international balance of payments might not improve, even if the current account balance has improved thanks to the strong trade balance. Thus, the conditions surrounding the Indonesian rupiah are expected to remain severe in the times ahead.

For the above reasons, the trend observed in April is likely to continue in May, and it is difficult for the Indonesian rupiah to remain strong. Market participants should remain cautious about the depreciation of the Indonesian rupiah based on growing risk-averse sentiment.

Yoichi Hinoue, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – May 2020

Expected Ranges	**Against the US$:**	**PHP 50.00–52.00**
	Against the yen:	**JPY 2.08–2.14**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at PHP 50.70.

The Philippine peso strengthened against the U.S. dollar at the beginning of April as a result of growing pressure to buy Asian currencies against the U.S. dollar as the crude oil price rallied, China's March manufacturing PMI exceeded the market estimate, and U.S. monetary authorities supplied U.S. dollar liquidity.

The media reported that negotiations to reduce oil production had been facing difficulties at the OPEC Plus meeting, while the government decided to extend the lockdown of its capital city, Manila, until April 30. As a result, the Philippine peso temporarily weakened. However, trading closed at PHP 50.585 to the U.S. dollar on April 8, before the Easter holidays.

The Philippine peso was supported mainly by the fact that the March Consumer Price Index of the Philippines turned out to be 2.5% year-on-year, recording a slowdown for the second consecutive month. Furthermore, the February trade balance of the Philippines, announced on April 8, revealed a deficit of USD 1.66 billion, which is a significantly smaller figure compared to the previous month, which had recorded a deficit of USD 3.5 billion, as a result of a decrease in imports.

During the Easter holidays (April 9 and 10), the U.S. dollar/Philippine peso exchange rate in the offshore market once fell below PHP 50.50, due to the media report that the Federal Reserve Board (FRB) would supply up to USD 2.3 trillion. However, on April 13, after the holidays, the U.S. dollar/Philippine peso onshore exchange rate opened trading at PHP 50.62, at the same level as before the holidays. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating at around PHP 50.60–50.70 in the middle of the month.

On April 16, the central bank of the Philippines (BSP) announced an emergency interest rate cut, in reaction to which the U.S. dollar/Philippine peso exchange rate on April 20 rose to PHP 50.96—the lowest rate for the Philippine peso since April 2.

However, with a limited number of market participants, the U.S. dollar did not appreciate further against the Philippine peso. While many countries were planning to resume economic activities, the U.S. dollar/Philippine peso exchange market closed trading at PHP 50.51 on April 29, the day of this writing.

2. Outlook for This Month

The BSP held an emergency meeting on April 16, moving forward the monetary policy meeting originally scheduled for May 21. The overnight reverse repo rate—the policy interest rate of the Philippines—was cut from 3.25% to 2.75%, which is the lowest rate ever recorded.

Needless to say, the monetary easing announced this time aims to support industries that are affected by the Enforced Community Quarantine (ECQ) on the mainland area of Luzon and that are in effect in order to control the spread of COVID-19. Under the unprecedented crisis, the BSP underlined the importance of reacting promptly, revealing its plan to take measures of monetary easing when necessary.

The ECQ, which was originally introduced until the end of April, has now been extended until May 15, because of which economic conditions will remain severe. However, the media reported that the movement restriction would partially be loosened in areas with less COVID-19 cases. In any case, it is certain that the Philippine government has started looking for strategies to resume economic activities.

It seems that the BSP wants to lead the Philippine peso to depreciate against the U.S. dollar based on measures of monetary easing.

At the moment, the Philippine peso has not been so weak due to the depreciation of the crude oil price as well as a decline of imports. Even though the February amount of Overseas Filipino Workers (OFW) remittances has not yet been announced, it is almost certain that the figures will considerably decline in March and April. Therefore, after the ECQ has been lifted, it will be essential for the Philippine peso to depreciate in order to support personal consumption, which accounts for 70% of the GDP of the Philippines.

In the U.S. dollar/Philippine peso exchange market, the Philippine peso recorded its latest high at PHP 50.465 on March 11 and the highest rate since the beginning of the year at PHP 50.37 on January 14, which both would be psychological turning points in the times ahead.

However, there were few market participants, and trading volume has been less than half of the usual level. Thus, it is uncertain if the exchange rate will move into any direction.

The current stability of the Philippine peso is based on the U.S. dollar liquidity supply carried out promptly by U.S. monetary authorities. Even though it may be still too early, market participants should be cautious about the timing for the current trend to be reversed, the possibility of further monetary easing in the Philippine peso market, and the depreciation of the Philippine peso led by the BSP.

Junya Tagawa, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – May 2020

Expected Ranges	**Against the US$:**	**INR 74.00–78.50**
	Against the yen:	**JPY 1.34–1.46**

1. Review of the Previous Month

In April, the U.S. dollar/Indian rupee exchange rate renewed its all-time high after which the exchange rate returned to the previous level.

The U.S. dollar/Indian rupee exchange market opened trading at INR 76 in April, after the first-quarter period in which the Indian rupee depreciated by more than 5%. On April 7, the exchange rate reached its monthly low, at INR 75.54 to the U.S. dollar. However, market participants were willing to buy the U.S. dollar against the Indian rupee at this level. Thus, the exchange rate did not stay at the INR 75 level for a long time, and it soon returned to the INR 76 level. Thereafter, the U.S. dollar/Indian rupee exchange rate continued rising to INR 76.88 on April 16 because of negative factors, such as the fluctuations of the crude oil price, the IMF's decision to revise the global economic outlook downward, and worsened figures in the U.S. economic indices.

The crude oil price remained low even after an agreement for reduced production was made at the OPEC Plus meeting, as market participants expected worldwide demand to decline further due to the spread of COVID-19. Following this trend, upward pressure strengthened on the U.S. dollar/Indian rupee exchange rate, leading it to reach INR 76.92—the all-time high—on April 22. However, the media reported that Facebook would finance a major Indian communications company, for which market participants expected the Indian rupee to be bought against the U.S. dollar, and the market trend was reversed. Furthermore, many saw that the spread of COVID-19 had peaked out in Europe and the U.S., and this supported the overall Asian currencies. As a consequence, the U.S. dollar/Indian rupee exchange rate continued fluctuating at the lower-INR 76 level. As of April 29, the day on which this article is being written, the U.S. dollar/Indian rupee pair has been trading at the INR 75.65 level.

In April, the Indian rupee/Japanese yen exchange rate continued fluctuating within a narrow range.

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.412 level in April. As was mentioned above, the Indian rupee reached its monthly high against the U.S. dollar. Under such circumstances, the number of COVID-19 cases decreased in the U.S., positively reacting to which the Japanese yen weakened against the U.S. dollar and the exchange rate reached the JPY 109 level. Following this trend, the Indian rupee/Japanese yen exchange rate reached its monthly high at JPY 1.444 on April 7. However, in the following week, the number of daily new COVID-19 cases reached its highest level in

New York, while the crude oil price fell, both worsening the risk sentiment. The U.S. dollar/Japanese yen exchange rate fell gradually to the lower-JPY 107 level. As was discussed above, the U.S. dollar/Indian rupee exchange rate rose to the upper-INR 76 level on April 16 and 21, and on these days, the Indian rupee/Japanese yen exchange rate fell to the monthly low, at JPY 1.395. Thereafter, the Indian rupee appreciated against the U.S. dollar. However, the Japanese yen also appreciated against the U.S. dollar to the JPY 106 level. Therefore, the Indian rupee/Japanese yen exchange rate continued fluctuating only within a narrow range at around the JPY 1.41 level. As of April 29, the day on which this article is being written, the Indian rupee/Japanese yen pair has been trading at the JPY 1.406 level.

2. Outlook for This Month

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

Facebook's support for an Indian company—an event that has had significant influence on the market in April—involves a large-scale deal worth USD 5.7 billion. The Indian rupee-buying for this deal is likely to be divided on multiple business days, and this is expected to strengthen the Indian rupee from a short-term perspective. The central bank of India could intervene in the market, and this would also support the Indian rupee in the times ahead. It should, however, be reminded that, in April, the central bank of India did not intervene in the foreign exchange market very often even though the U.S. dollar/Indian rupee exchange rate renewed its all-time high twice. Thus, it seems that the central bank of India does not have any target level for its market interventions, but market interventions are used to prevent violent fluctuations in the market. At the same time, the crude oil price has been falling. Thus, according to some market participants, the RBI would see no problems if the U.S. dollar/Indian rupee exchange were to reach the mid-INR 76 level. Market participants are therefore advised to expect market interventions when the Indian rupee weakens dramatically, rather than seeing market interventions as a reason for the appreciation of the Indian rupee.

With regard to the crude oil price, the Indian rupee normally appreciates when the crude price falls. However, the recent fall of the crude oil price has been fueling risk-averse sentiment in the market, and this affected the overall Asian currencies. Thus, under the current circumstances, the fall of the crude oil price is a factor for the depreciation of the Indian rupee. Furthermore, as India has poor crude oil storage facilities, it is difficult for India to take advantage of the current fall of the crude oil price, like how other oil importing countries have been doing.

From the point of view of capital outflow, it is important to observe the market activities of foreign investors. In March, there was a net sell of USD 8.3 billion, while as of April 27, there has been a net sell of a little less than USD 500 million in April. It thus seems there has been no panic selling. A great number of market participants are skeptical about the numbers of COVID-19 cases and the deaths caused by it, as announced by the Indian government. In the times ahead, the market activities of foreign investors are more likely to be influenced by whether the lockdown will be extended or partially loosened.

In general, market participants are likely to sell the overall currencies of emerging countries until the

COVID-19 crisis comes to an end. Given the capital transactions and market interventions by the central bank as discussed above, the U.S. dollar/Indian rupee exchange rate is forecast to remain at the current high level in the times ahead.