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Mizuho Dealer's Eye

June 2020

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Mizuho Bank, Ltd.

Derivatives & Forex Department

Michiyoshi Kato, Global FI Team, Global Markets Trading Department

U.S. Dollar – June 2020

Expected Ranges **Against the yen: JPY106.00–111.00**

1. Review of the Previous Month

A mood of self-restraint swept the globe in May. At the start of the month, the markets were watching to see whether the dollar/yen pair would be pushed to 105 yen on the US employment data released in April. However, with the FRB taking proactive and swift measures since March, the risk-off crisis mood rapidly wore off, so the pair remained deadlocked at the 107 yen mark.

Amid concerns about the negative impact of COVID-19 on the global economy, the dollar/yen pair approached May trading at the mid-107 yen level. With Japanese investors thin on the ground over the Japanese Golden Week holiday, the yen was bought in the cross-yen market on risk aversion as a result of deteriorating US/China relations. Market participants pushed the yen higher, with the currency pair hitting a monthly low below 106 yen (105.99 yen). However, it seemed there was also hearty appetite among Japanese investors for yen selling around 105 yen. As a mood of self-restraint prevailed, not many market participants were willing to increase their exposures. The US released some unprecedented April employment data on May 8, though the data was not as bad as expected, so the dollar and stocks were bought back sharply soon after the announcement.

The dollar/yen pair's movements were deadlocked thereafter. Economic indicators had less of an impact as market participants shifted their focus back to US/China tensions and the US presidential election. The US actually released some significantly worse-than-expected April retail sales data on May 15, but the forex markets reacted coolly as if they had been expecting this result.

The pair then made minor fluctuations around the upper-107 yen level from mid-May. Though it threatened to hit 108 yen on several occasions, there were no real attempts to test the pair's topside. Attention shifted to US/China trends in the final week after China introduced a national security law to tighten its grip over Hong Kong. The US called for a meeting of the UN Security Council, but with China holding a veto, the US's move were all bark and no bite. There seemed to be a performative aspect on both sides, with Beijing trying to play tough for its domestic audience while the US acted with an eye on the impending presidential election. Market participants saw through this, so the pair traded with a lack of momentum as June approached.

2. Outlook for This Month

Some bright signs have finally started to appear, with the state of emergency being lifted in Japan, for

example. There are probably many people who, like this writer, are tired and stressed after a long period of self-restraint and lockdown. However, it is hard to imagine the foreign exchange markets simply heading in a bright direction. In June, it seems the forex markets will continue to be pulled to and fro by 'the risk of rising US/China tensions' and 'hope that corporate economic activity will soon begin again in earnest'. It seems likely both the Trump and Biden camps will ramp up criticism of China as the source of COVID-19 as they switch into election mode, with the Chinese side also likely to make retaliatory moves. There is often talk about China selling off US treasuries or devaluating the RMB. In fact, these scenarios are quite unlikely, but experience suggests these risks will act to push the dollar/yen pair lower. It is well known that US administrations often seek to rally the country against a shared enemy when there is domestic trouble. China certainly presents an easy target in this respect. It also goes without saying that the forced shutdown of economic activity will hit the global economy hard from here on. The negative impact of COVID-19 was starkly revealed in the unprecedented April employment data.

Though the dollar/yen pair broke below 106 yen at the start of May, this trend was kept in check by the strong stance the FRB had adopted since March. The FRB has announced a program of unlimited treasury buying and the purchase of corporate bonds (including junk bonds). This has seen a sense of relief sweeping the frozen corporate bond market and the financial sector as a whole. It is also having a positive impact on the stock markets, with concerns of risk aversion waning. As a result, the dollar and stocks have been bought even after the release of bearish economic indicators or the emergence of risk-off factors. With investors shrinking their exposures and raised their hedging ratios, it seems there were a lot of funds waiting in standby for the right opportunities when c . The fact these funds are lining up to take advantage of the right investment chance probably explains why the dollar/yen pair's downside has been supported by mysterious demand for yen selling. If we assume portfolios are edging towards full hedging when it comes to foreign exchange risk, the next move could be in the direction of yen selling to a certain extent. With the fundamentals pointing to yen buying, investors should be on guard against an unwinding of short positions, particularly in the cross-yen market.

Dealers' Market Forecast

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

Bullish on the dollar	7 bulls	110.00 – 106.00	Bearish on the dollar	14 bears	109.00 – 105.00

* Ranges are central values

Tanaka	Bear	108.50 – 105.00	The spread of COVID-19 has slowed, with tensions between the US and China likely to grow from here on. With both sides likely to take a hardline stance as they play to domestic audiences, the dollar/yen pair could face downside risk on concerns about an escalation.
Takeuchi	Bear	110.00 – 105.00	The negative impact of COVID-19 on the real economy will continue to emerge from here on. There are positive signs, with economic activity re-opening in stages, but more bad news could emerge from here on in the form of corporate bankruptcies and more job losses, for example, so risk appetite seems unlikely. The dollar/yen pair will probably undergo a gentle slide.
Tsutsui	Bull	110.00 – 106.00	The US and Japan have seen some unprecedented fiscal mobilization and liquidity support in terms of both scale and speed, so Japanese institutional investors will probably move actively to invest in the US going forward. With many market participants expecting yen appreciation, the dollar/yen pair's topside looks set to edge higher this month.
Kato	Bull	111.00 – 106.00	Japanese investors have lifted their hedging ratios to considerably high levels on the COVID-19 crisis. With the fundamentals hinting at yen appreciation, it seems there is a lot of new money lining up in reserve for when the new fiscal year begins.
Seki	Bear	109.00 – 105.00	The dollar/yen pair is unlikely to diverge sharply from its range. The main themes are likely to be the re-opening of economic activity, ongoing easing by central banks, and concerns about intensifying US/China relations and a second wave of infections. Stocks will probably not fall sharply, but there will be a dearth of dollar-buying factors, so the currency pair looks set to trade with a heavy topside.
Mitsuishi	Bear	109.00 – 105.00	There are deep markets hopes for a resumption of economic activity and a V-shaped recovery in the US, but the employment situation has deteriorated sharply and it seems the impact on the real economy could be worse than the markets are expecting. With US/China tensions also flaring up again, it seems the dollar/yen pair will move with a heavy topside.
Yamagishi	Bear	109.00 – 105.00	Amid uncertainty as COVID-19 continues to spread through the emerging economies, the dollar will be bought as a base currency and the yen as a refuge currency, so the dollar/yen pair will trade with a lack of direction. The recent FOMC meeting debated the introduction of an FRB YCC program. If this does come to pass, US treasury yields and the dollar/yen pair will both face downward pressure.
Tasaka	Bear	109.00 – 105.00	Amid a dearth of new factors, the dollar/yen pair looks set to continue trading in a range. There are hopes for an economic recovery as major countries move to recommence economic activity, but the hit to the real economy could be worse than market participants are expecting. There are no factors prompting risk appetite, so the currency pair will probably move in a range with a heavy topside.
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	Bull	110.00 – 106.00	The dollar and yen and quite similar in respect to being safe low-yield assets and also the currencies of countries pursuing accommodative monetary and fiscal policies. It is hard to imagine any sharp fluctuations, but there will probably be rising hopes regarding the re-opening

			of the economy, so the movements of the cross yen will probably push the dollar/yen pair's topside higher.
Okamoto	Bear	108.50 – 106.00	Risk appetite is increasing on hopes for the development of a vaccine, the lifting of the lockdown, and the resumption of economic activity, but this will probably be dampened by concerns about a new US/China cold war and a second wave of COVID-19 infections. Amid a dearth of any risk-on factors, the bottom of the dollar/yen pair's range looks set to edge lower.
Onozaki	Bull	109.00 – 104.00	Lockdown conditions have eased in the US and Europe while the state of emergency has been lifted in Japan, but there are lingering concerns about a second wave, so it will take time for consumer spending and corporate economic activity to recover. The Hong Kong issue has been overshadowed by COVID-19, but there are growing concerns that the US will hit China with sanctions following the passing of the new national security law.
Tamai	Bear	109.00 – 105.00	There are growing hopes for a recovery when economic activity resumes, but this resumption will probably be accompanied by a resurgence in infections, with pessimism swelling again. With fears also growing about worsening US/China relations, the dollar/yen pair looks set to trade with a heavy topside.
Harada	Bull	111.00 – 106.00	The dollar/yen pair will gradually bounce back as economic activity resumes. The economy will also be boosted by US and Japanese monetary and fiscal policy. As risk appetite grows, the currency pair will also climb higher.
Oba	Bull	109.50 – 106.00	The dollar/yen pair looks set to move firmly as stock markets perform solidly on hopes for a resumption of economic activity. Even if some risk-off factors emerge, it seems speculators and so on have already raised their hedge ratios to high levels, so further selling seems unlikely, with the pair's downside capped.
Takamura	Bear	109.00 – 105.00	With US interest rates moving at lows, there will not be much appetite for dollar buying. It seems likely there will be some adjustment in the direction of dollar selling. However, stock markets are moving stably as economic activity resumes in the US, for example. With the currencies of emerging economic also being sold (and the dollar bought) on COVID-19, it seems the dollar/yen pair's room on the downside will be capped.
Matsumoto	Bear	110.00 – 106.00	The markets have reacted warmly to moves to resume economic activity, but there are concerns about a second wave of infections. With US/China tensions also flaring again, investors are unlikely to incline sharply in the direction of risk appetite. With dollar bullishness waning, the dollar/yen pair looks set to edge lower this month.
Itsumi	Bear	108.50 – 106.00	Risk appetite is unlikely given the spread of COVID-19 in the emerging economies together with concerns about a new US/China cold war. However, there is deep-rooted uncertainty about the future, so the dollar is unlikely to be sold given its status as a base currency that retains its value.
Otani	Bear	109.00 – 105.50	The dollar/yen pair will be supported by hopes about the resumption of economic activity, but there are concerns about intensified US/China frictions and a second wave of infections, so the pair looks set to trade with a heavy topside.
Tanishiki	Bear	100.00 – 106.00	With the US experiencing the world's highest number of COVID-19 deaths, President Trump will be wanting to shift the blame elsewhere. The passing of a new national security law in Hong Kong will give him the excuse to tighten sanctions on China. As such, the dollar/yen pair will probably move with a heavy topside.
Okuma	Bull	110.00 – 106.00	Despite concerns about deteriorating US/China relations, US stocks are moving firmly again on hopes for an economic recovery. With the emerging economies also hit by COVID-19, the dollar/yen pair looks set to move firmly on risk-off dollar buying.

Kazuhiro Takeuchi, Forex Sales, Derivatives & Forex Department

Euro – June 2020

Expected Ranges	**Against the US$: US$1.0800–1.1400**
	Against the yen: JPY117.00–122.00

1. Review of the Previous Month

The euro/dollar pair swung to and fro in May. It rose at the start of the month but then fell back, though its room on the downside was also capped.

The euro was bought in the latter half of April and this trend also spilled over into May. With the ECB Governing Council also striking a more hawkish tone than expected at its meeting on April 30, the pair opened May trading at the $1.10 mark on May 1, its highest level in around a month. There was then some selling for profit taking just before the pair's technical 200-day moving-average line at the mid-$1.10 mark. With the eurozone also releasing a bearish Manufacturing PMI for April, the pair dropped back to the lower-$1.09 level. With Japan on Golden Week holidays, Germany's federal constitutional court ruled that the ECB's quantitative easing program was unconstitutional, while Germany released some worse-than-expected industrial production data for March. The euro continued to fall as a result, with the pair temporarily dropping below $1.0800.

The US April employment data was released on May 8. The results were not as bad as expected, so dollar buying intensified for a time, though the impact on the euro/dollar pair was muted. The pair continued to trade with a heavy topside. The greenback was sold on May 13 after FRB chair Jerome Powell said the outlook was extremely unclear and downside risk was very substantial. The currency pair temporarily rose to just below $1.09, though it then lost momentum and its topside was not tested. The US released a stronger-than-expected economic indicator on May 15. With a major credit rating agency also downgrading its outlook for France, the euro was pushed lower for a time. In its financial stability report, though, the FRB hinted that asset prices would plummet on the COVID-19 pandemic, so the dollar weakened and this supported the euro/dollar pair.

Amid growing hopes for the establishment of an EU recovery fund, the markets reacted well when Germany released a better-than-expected ZEW Indicator of Economic Sentiment on May 18. With hopes also growing with regards to the development of a COVID-19 vaccine, risk aversion waned and the currency pair rose higher to hit the lower-$1.10 mark again on May 21. However, investors focused once more on the pair's 200-day moving average line at this level. The greenback was also bought on concerns about the deterioration of US/China relations, a trend that had begun during the initial phase of the COVID-19 outbreak. All this saw the currency pair dropping back temporarily to the $1.08 mark. With Germany releasing a better-than-expected May IFO Business Climate Index on May 25, though,

the pair was supported at this level.

Headlines then emerged on May 26 that the ECB was looking into extending its Pandemic Emergency Purchase Programme (PEPP; not including the Bundesbank). With hopes also growing with regards to a European recovery fund, the pair climbed to $1.10. May 28 saw speculation that the euro would be bought on end-of-month rebalancing. As a result, the currency pair broke above its 200-day moving average line and the ceiling of the 'cloud' in the daily Ichimoku Kinko Hyo trading chart to hit the $1.11 range.

2. Outlook for This Month

The euro/dollar pair will trade with a lack of incentives in June and it is unlikely to have its topside tested on the whole.

The COVID-19 outbreak is slowing and several countries in Europe are moving to re-open their economic activity, with commercial activity in the eurozone set to gradually recover going forward. The ECB has also managed keep a lid on rising yields within the eurozone through an unprecedented program of asset purchases, with panic averted for a time. However, that fact remains that Europe has been one of the economic areas hit hardest by the COVID-19 pandemic. Rising hopes for a resumption of economic activity are a very positive factor, but there is no room for excessive optimism. European countries have already begun a phased lifting of lockdown conditions. Some regions have already seen an increase in COVID-19 cases after the lockdown was lifted, so there is still no room for complacency. Nonetheless, the currency pair will probably be swayed by positive headlines for now.

However, after rushing to price in this optimism, investors may start to focus more on an economic downswing on the release of several bearish economic indicators from here on, so the pair's topside will probably be held down. Furthermore, it must not be forgotten that Europe has long had weaker fundamentals compared to Japan and the US. Europe has been hit hard by COVID-19. European countries have now started to send out payments as part of the compensation schemes set up for furloughed workers. Given the unprecedented size of these economic support packages, there is a latent yet growing risk that some countries might run out of money, so caution will be needed. Many nations in Southern Europe and elsewhere in the eurozone lie on shaky economic foundations, with the situation very unpredictable when it comes to the eurozone as a whole.

The EU held a summit in April to discuss the huge costs needed to fund the recovery from the COVID-19 outbreak. The summit recognized the need for a huge package of economic support, with several support schemes set to commence from here on. At 750 billion euros, the announced relief and recovery fund was larger than the markets had expected and was thus received warmly. However, the package requires approval by each EU member state, so it still has to pass many hurdles. There are underlying concerns that the package will just pay the bills of Italy and other hard-hit Southern European nations with lax fiscal management. These risks, some of which are already starting to emerge, will probably weigh down the movements of the euro/dollar pair in the mid- to long-term too.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.1250 – 1.0875	Bearish on the euro	17 bears	1.1200 – 1.0700

* Ranges are central values

Name	View	Range	Comment
Tanaka	Bear	1.1200 – 1.0700	The COVID-19 outbreak has slowed and the markets have reacted well to news of the European recovery fund, so the euro/dollar pair has seen an unwinding of short covering. However, there are still high hurdles in the way of the fund's establishment. There are many selling factors too, including economic trends and Brexit, while the RMB's movements are also a cause for concern. The pair's topside will be capped and it will also face downside risk.
Takeuchi	Bear	1.1400 – 1.0800	The markets are happy with the scale of the European recovery fund, but the fund requires the approval of each member state, so it has a long way to go yet. The eurozone will also continue to post bearish economic indicators, so investors are unlikely to test the euro/dollar pair's topside.
Tsutsui	Bull	1.1250 – 1.0800	Moves are underway to establish a European recovery fund, while the ECB is also providing liquidity support (with the 'capital key' restriction also abolished in the PEPP). The euro/dollar pair will probably bounce back as speculator and investor funds flow into the underweighted euro.
Kato	Bear	1.1200 – 1.0500	The eurozone has a huge trade surplus, so it will probably be hit hard by slump in global trading activity. With the US also mobilizing on the monetary and fiscal fronts, the euro will be a comparatively unattractive currency.
Seki	Bear	1.1200 – 1.0700	The European recovery fund has led to euro buying, though the fund still faces high hurdles. Given the eurozone's negative interest rates and substantial COVID-19 damage, investors will find it hard to keep buying the euro, with the euro/dollar pair likely to trade bearishly again.
Mitsuishi	Bear	1.1200 – 1.0800	Though the COVID-19 outbreak has cooled off, it will have a massive impact on the real economy. The eurozone also has less monetary policy room compared to the US. Given all this, it seems the euro/dollar pair will move with a heavy topside this month.
Yamagishi	Bear	1.1300 – 1.0700	The COVID-19 outbreak has peaked out, but the economy will be hit hard by the extended lockdown. The European recovery fund will lead to stormy arguments between Northern and Southern Europe, with Europe lagging behind the US and Japan when it comes to fiscal mobilization. The euro will be a hard currency to buy given the bleak outlook for the economy.
Tasaka	Bear	1.1200 – 1.0800	The proposal to establish a European recovery fund worth 750 billion euros has had a major impact, but the EU's disparate nations are unlikely to unite around this issue and reach an agreement. As a rupture seems more likely, the euro/dollar pair will edge lower.
Omi	Bear	1.1200 – 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	Bull	1.1300 – 1.0850	There are hopes for a resumption of global economic activity and there will be positive news in related to the swift establishment of a recovery fund in Europe. Amid growing concerns about intensified US/China frictions, there is a good chance that the euro/dollar pair will move firmly.
Okamoto	Bear	1.1200 – 1.0800	The euro/dollar pair is being supported by expectations toward the European recovery fund, but it will be hard to get each country to agree. The German economy relies heavily on external demand, so it will probably take some time to recover. As such, the currency pair's room on the

			topside will be capped.
Onozaki	Bear	1.1200 – 1.0500	Eurozone economic indicators are moving bearishly. The COVID-19 outbreak will have a major impact. The debate about the establishment of a European recovery fund will also be stormy and it will take time to reach an understanding about each country's fiscal burden. Investors are unlikely to test the euro/dollar pair's topside.
Tamai	Bear	1.1200 – 1.0650	It is unclear whether the European recovery fund will be established. The euro/dollar pair has risen on these hopes, though there are doubts about whether the pair can rise even higher. The pair will also move bearishly on concerns related to a second wave of infections or Brexit, for example.
Harada	Bear	1.1200 – 1.0400	Though productive activity is gradually resuming in Europe, the eurozone continues to release a series of bearish economic indicators. An economic recovery is unlikely right now. As such, the euro/dollar pair looks set to continue trending lower in June.
Oba	Bull	1.1200 – 1.0900	The eurozone continues to release bearish economic indicators, though economic activity looks set to resume soon. There are concerns about a second wave of COVID-19 infections. However, though the dollar has been bought on comparatively-high US interest rates, it is now losing its investment appeal, so the euro/dollar pair looks set to move bullishly this month. The ceiling of the 'cloud' in the daily Ichimoku Kinko Hyo trading chart will probably act as a support.
Takamura	Bull	1.1250 – 1.0900	Compared to the situation in the US and so on, it seems several major European nations are moving swiftly to resume economic activity, while the European Commission has introduced a large-scale stimulus package. The euro/dollar pair is unlikely to undergo a firm rise right now, but demand for the dollar is waning now US interest rates have shriveled, so the pair will probably be supported on the downside.
Matsumoto	Bear	1.1200 – 1.0600	Positive factors are emerging, including moves to resume economic activity in Europe and the proposed establishment of a European recovery fund. However, it will take time for the economy to recovery and for economic activity to return to normal. The euro/dollar pair's room on the topside will be capped until this uncertainty goes away.
Itsumi	Bear	1.1200 – 1.0500	Economic activity has resumed now lockdowns have been lifted, but economic indicators remain bearish. With the debate about a Brexit deadline extension also heating up, the euro will probably be sold this month.
Otani	Bear	1.1200 – 1.0700	Economic activity is resuming as lockdowns are lifted, but there are no signs of domestic demand recovering any time soon and there are also lingering concerns about a second wave of infections, so the euro/dollar pair will probably move with a heavy topside.
Tanishiki	Bear	1.1200 – 1.0700	The euro/dollar pair's movements have correlated more with stock prices since the COVID-19 crisis began. The pair is being supported by the comparative revival in interest rates, but it seems stock prices are undergoing some correction on deteriorating US/China relations, so the pair will probably be held down.
Okuma	Bear	1.1200 – 1.0600	Each EU member state has a different perspective when it comes to the European recovery fund, so there will be some stormy discussions ahead. There are also concerns about a second or third wave of COVID-19 infections, while uncertainty about Brexit is also growing again, so the euro looks set to move bearishly.

Fumihiko Kanda, Europe Treasury Department

British Pound – June 2020

Expected Ranges	Against the US$:	US$1.1850–1.2650
	Against the yen:	JPY125.00–135.00

1. Review of the Previous Month

The pound weakened in May, though its fall was halted.

The pound/dollar had soared on the 4 p.m. fixing at the end of April. It subsequently hit a monthly high of $1.2600 at the start of May, though it was then sold back. The Monetary Policy Committee (MPC) of the Bank of England (BOE) met on May 7. There were rumors of further easing, but the MPC kept policy unchanged in the end. With the UK on holiday on May 8, the pair was bought back to the upper-$1.24 mark. On Sunday May 10, UK prime minister Boris Johnson announced a roadmap to a lifting of the lockdown, though this was criticized for being too vague. The pound was then sold again at the start of the week. The UK released its Q1 GDP result on May 13. At -2.0% month-on-month, the figure was not as bad as expected, so the pound was bought back, though only for a short time. Sterling was then sold from the afternoon of May 15. Perhaps this was because investors turned their focus to stormy UK/EU trade talks.

The pound/dollar pair hit a monthly low of $1.2075 during Asian trading time on May 18, though it then bounced back. This came as the greenback was sold when risk sentiments improved on news that a US company had developed a COVID-19 vaccine, with the euro also bought after Germany and France announced a European recovery fund plan worth 500 billion euros. The currency pair was bought to just below $1.23 on May 19, though it then traded with a heavy topside on speculation that the BOE would be introducing negative interest rates, with the UK also announcing a record April budget deficit on May 22. UK/EU trade talks had been held up by arguments about fishing rights, but the EU indicated on May 26 that it was prepared to compromise on the issue, so the currency pair was bought back to the upper-$1.23 level. On May 27, though, the UK's Brexit negotiator David Frost said the UK could not agree to the EU's demands, so the pair's gains were pared back. The pair ended the month trading at $1.22–23.

2. Outlook for This Month

The pound/dollar pair is expected to continue trading with a heavy topside in June. The focus will fall on COVID-19 and the extension to the Brexit interim period.

On May 5, the UK released its new car registrations data for April. At -97.3% month-on-month, the figure suggested the economy had slumped since the start of the lockdown on March 23. The UK's Q1

GDP data was not as bad as expected, but the impact of the lockdown had yet to bite, with economic indicators set to deteriorate in earnest from here on. One positive factor is the global trend toward easing lockdown conditions. The UK has also released a somewhat-vague roadmap, with the 'second step' commencing on June 1 with the re-opening of some schools. The UK has been the hardest hit region in Europe, with even prime minister Boris Johnson incapacitated by COVID-19, so the UK seems to be steering a more cautious path than other neighboring countries (for example, though the EU is gradually lifting restrictions on movement between EU countries, from June 8 the UK will require any visitors to self-isolate for 14 days). However, as market sentiments improve when each country begins easing restrictions, the UK's particular situation will probably be overlooked. If the COVID-19 situation deteriorates, the pound/dollar pair will be pushed down by demand for the dollar.

The UK is currently in a Brexit interim period and it will need to notify the EU by the end of June of it wants to extend this period, so sterling will also be weighed down by the risk of a no-deal Brexit at the year's end. Fishing rights remains a sticking point, with no movement seen on the issue at the end of last month either. Nonetheless, the UK government remains insistent that the interim period will finish at the end of the year. If the two sides make progress towards a deal this month, the pound will be bought, though it will be sold if no progress is made. Even if no progress is made, sterling will be bought for a time if the interim period is extended.

The BOE's Monetary Policy Committee (MPC) will be meeting on June 18. BOE governor Andrew Bailey and several other members refused to rule out the introduction of negative interest rates last month. Economists are not expecting any sudden introduction of negative rates, but with yields of UK government bonds up to five years in duration moving in negative territories, for example, many market participants are expecting interest rates to slide, so the currency pair will probably move skittishly around the time of the meeting.

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

Australian Dollar – June 2020

Expected Ranges	**Against the US$:**	**US$0.6370–0.6760**
	Against the yen:	**JPY67.60–73.00**

1. Review of the Previous Month

Australia released a bearish April manufacturing indicator at the start of May. With President Trump also hinting about hitting China with tariff hikes in retaliation for the spread of COVID-19, the AUD/USD pair opened the month moving around $0.64. Australia also released its retail sales data for March on May 6. The indicator posted its highest growth since records began, though the currency pair only fluctuated gently at the mid-$0.64 level. Australia's March trade balance was released on May 7, with the surplus hitting record levels on a surge in mineral exports. With China also unexpectedly posting a trade surplus for April, the Australian dollar rose. The RBA released its Quarterly Statement on Monetary Policy on May 8. Though the RBA's forecast for 1H GDP growth had fallen by around 10%, it predicted the economy would grow by 6% in 2021. The markets reacted warmly to this by pushing the AUD/USD pair up to the mid-$0.65 mark.

With Asian stocks rising across the board on May 11, the pair climbed to around $0.6560, though risk appetite then waned. With lockdown conditions being eased across the world, China and South Korea recorded a new increase in infections. With two regional FRB governors also voicing opposition to negative interest rates, the greenback was bolstered and the pair tumbled to the mid-$0.64 mark. It then fell to $0.6434 on May 12 on reports that China had banned imports from four Australian meat processing plants. US interest rates rose and the currency pair weakened on May 13 after FRB chair Jerome Powell said the FRB was not discussing negative interest rates. The pair then tumbled to around $0.6400 on May 14 on the release of Australia's employment data for April and after President Trump commented that it was great time to have a strong dollar. After plunging sharply, US stocks now began climbing upwards, with the currency pair also rallying to $0.6465. The greenback was sold on May 15 after the US retail sales figure for April plunged sharply into negative territories. The pair subsequently rose to the mid-$0.64 level. The US dollar was then bought back on the better-than-expected result of the May Michigan Consumer Sentiment Index, so the pair dipped to around $0.64.

Australian stock prices surged to open May 18 trading significantly higher than the previous day's close, with the currency pair also pulled up from the lower-$0.64 level to just below $0.6530. It topped its April high of $0.6570 on May 19 on buying by Australian exporters and funds, though it then dipped to around $0.6530 as US stocks fell on skepticism about the results of clinical trials for a COVID-19 vaccine. With the greenback moving bearishly on May 20, the pair rose to the $0.66 level for the first

time in two months while activating stop losses. The US Senate then passed a bill aimed at banning some Chinese companies from listing in the US. As concerns grew about worsening US/China relations, the pair fell from just below $0.66 to temporarily hit the mid-$0.65 level as the markets reacted badly to comments by RBA governor Philip Lowe on May 21. Although Mr. Lowe said the RBA was not looking at negative interest rates, he did hint at further easing. The US dollar was bought on May 22 on US/China frictions, so the AUD/USD pair tumbled to the lower-$0.65 mark. It seemed a new national security law for Hong Kong (effective from August) was set to pass on the last day of the National People's Congress on May 28. With the US voicing strong opposition, the pair moved around $0.6535 on risk aversion.

On May 25, the US Department of Commerce added several Chinese companies and institutions to its import black list for contributing to human rights infringements. The currency pair temporarily breached its 200-day moving average ($0.6659) on May 26 on hopes regarding a COVID-19 vaccine and a resumption of economic activity, though the greenback was then bought and the pair was pulled down to around $0.6650 on news that President Trump was looking at hitting Chinese officials and companies with sanctions. On May 27, the pair temporarily hit $0.6680 for the first time since March. It then dropped back on news that the US was considering abolishing preferential tariffs aimed at Hong Kong, with the pair subsequently trading around $0.66 at the month's end.

2. Outlook for This Month

The AUS/USD pair will move around $0.66 in June, though investors will continue to test the $0.67 mark.

The COVID-19 outbreak has slowed and there have been several reports about the promising results of clinical trials for a COVID-19 vaccine, with financial market risk sentiments improving throughout May. With the Australian dollar rallying in tandem with stock prices, the pair has continued to move around $0.66 on worsening US/China trade frictions and comments by FRB chair Jerome Powell ruling out the introduction of negative interest rates. With China also pushing forward with a new security bill for Hong Kong in the wake of the National People's Congress, the currency pair will probably trade with an eye on US/China frictions. Tensions have heightened on the back of tit-for-tat measures, including the imposition of tariffs, the blacklisting of officials and companies, and the proposal of new regulatory laws and visa restrictions, for example. Relations between Sydney and Beijing are also strained. Before COVID-19 had been declared a pandemic, Australia had joined the WHO is calling for an independent investigation into China's response. This has drawn a strong response. China has banned imports from four Australian meat processing plants, for example, and there are also concerns that it will review imports of coal from Australia.

A lot depends on how things develop from here on. With lockdown conditions being eased across the world, US/China tensions may only have a limited impact on the AUS/USD pair. If so, the pair will probably head toward $0.67, though there could be some risk-off adjustment too.

The large-scale repo operations conducted in March will be coming to an end in June. The focus

will be on how many of these agreements can be rolled over. Amid concerns that the amount might be less than expected, short-term interest rates are growing more resistant to downswings, so caution will be needed. Other flows will include the repatriation of dividends and so on.

Reiko Kanemoto, Canada Office, Global Markets Coordination Department

Canadian Dollar – June 2020

Expected Ranges **Against the US$: C$1.3600–1.4400**
Against the yen: JPY74.00–80.00

1. Review of the Previous Month

The USD/CAD pair opened May trading at $1.4023. During the month it hit a high of C$1.4147 (May 6) and a low of C$1.3759 (May 26).

On May 1, Tiff Macklem, dean of the Rotman School of Management at the University of Toronto, was designated the next governor of the Bank of Canada (BOC). At his first press conference, Mr. Macklem said the economy was not going to return to normal immediately after the COVID-19 crisis. He also hinted at monetary easing. As a result, the Canadian dollar was sold and the currency pair temporarily hit C$1.4102.

May 5 saw rising hopes for a relaxation of restrictions on global economic activity and coordinated crude oil production cuts. After dropping close to $15/barrel at the end of April, WTI now rose to $25/barrel. However, prices then dropped by around $2 on concerns about swelling inventories in the US, so the USD/CAD pair hit a monthly high of C$1.4147 on May 6. The US Energy Information Administration's weekly crude oil inventories data showed crude oil inventories increasing by less than expected. With hopes also rising that US economic activity would re-open in stages, the currency pair returned to the lower-C$1.41 level. With the markets in risk-on mode, Canada released its April employment data on May 8. The data suffered an unprecedented slump, with the number of people in work down by 1,993,800 and the unemployment rate up to 13.0%. This was not as bad as the markets had expected, but the data did not count 1.1 million people temporarily furloughed, so it seems the actual unemployment rate was even worse. The US employment data for April was released on the same day. At 14.7%, the unemployment rate hit its highest level since the Great Depression of the 1930s. The Canadian dollar continued to be bought after the statistics announcements, with the currency pair remaining around C$1.3930.

Economic activity gradually resumed from May 11 to May 15, though researchers in the US warned of a second wave of COVID-19 infections if restrictions were lifted too early. The markets focused on this threat again, with the currency pair subsequently rising to around C$1.4095.

WTI prices rose to $33/barrel on May 18. Prices were boosted when oil-producing nations reached an agreement on coordinated production cuts, with fuel demand also undergoing a gentle recovery as each nation lifted restrictions on mobility. The Canadian dollar was bought as a result, with the pair sliding to around C$1.39. The risk-on mood continued thereafter when clinical trials of a COVID-19

vaccine showed early signs of promise. On May 22, China announced it would apply a national security law to Hong Kong. As concerns about US/China tensions grew, risk aversion increased and the pair topped C$1.40.

WTI rose to $34/barrel on May 26. This came on expectations that major oil-producing nations would continue coordinated production cuts, with prices also boosted by global moves to resume economic activity and hopes for the development of a vaccine. After hitting a monthly low of C$1.3759 for a time, the currency pair closed the month trading at C$1.3777.

2. Outlook for This Month

The Bank of Canada (BOC) will meet to set policy rates on June 3. This will be the first meeting since Tiff Macklem become governor. The BOC has lowered rates three times in the wake of the COVID-19 crisis. With the policy rate now down to a record low 0.25%, the markets are not expecting any more rate cuts this year. On May 21, before he stepped down, ex-BOC governor Stephen Poloz predicted that rates would remain low. He also suggested the impact of COVID-19 will not be as bad as some thought.

The FOMC will also be meeting on June 10. It will probably keep policy rates fixed at 0.00–0.25%. The minutes to the FOMC meeting held at the end of April (released May 20) revealed that several members believed rates should be kept at zero for a prolonged period. Even after the COVID-19 crisis winds down, it seems interest rates will be kept at zero in the US until we see a recovery in the unemployment rate, the inflation rate, and other economic indicators. Some market participants believe they will remain at zero for several years.

Canada also began a phased re-opening of the economy in May. This seems like the first step toward an economic recovery, but the future remains uncertain given the possibility of a second wave of infections together with concerns about US/China tensions, for example. The markets are swinging between risk appetite and risk aversion on these optimistic and pessimistic scenarios. This situation will probably continue in June. Investors will be watching the economic indicators released after the phased ending of lockdown conditions to see how they compare to pre-crisis levels.

WTI prices are undergoing a gentle recovery, but OPEC and the International Energy Agency (IEA) are expecting crude oil demand to shrink by record levels in 2020 as economic activity slows on the COVID-19 crisis. Crude oil demand will probably bounce back as the economy normalized and oil-producing nations continue to pursue large-scale coordinated production cuts. If crude oil continues to move stably at $35–40/barrel, the Canadian dollar could rise to around $1.36 against the greenback.

Yasunori Shimoyama, Seoul Treasury Office, East Asia Treasury Department

Korean Won – June 2020

Expected Ranges	**Against the US$:**	**KRW1,200–1,260**
	Against the yen:	**JPY8.475–9.091 (KRW100)**
		(KRW11.000–11.800)

1. Review of the Previous Month

In May, the USD/KRW pair jostled up and down in a range from KRW1210–1250.

The pair opened the month trading at KRW1226.10. Market attention shifted to the squabble between the US and China over the blame for the spread of COVID-19. With sentiments moving bearishly from the start of the month, the pair floated at KRW1220. However, after the US and China held talks on May 8, the pair fell to a monthly low of KRW1214.00 at the start of the next week, on May 11.

US/China frictions rumbled on, though, with President Trump threatening to break off relations with Beijing on May 14. Sentiments also worsened on reports that US pension funds would be banned from investing in Chinese stocks. With concerns also growing of a second wave of infections when economic activity resumed, the pair climbed to KRW1230 on May 18. Despite all this, the pair weakened to the lower-KRW1220 mark on May 19 after news emerged during overseas trading time the previous day that a US biomedical company was developing a new vaccine, though it then edged higher on real-demand won selling.

The National People's Congress began in China on May 22, with Beijing threatening to take a tougher line with Hong Kong. As sentiments deteriorated, the pair rose to a monthly high of KRW1244.30 on May 25.

The BOK instituted a 25bp rate cut on May 28, with the policy rate lowered to 0.50%. The pair jostled up and down around the time of the announcement. However, the BOK governor failed to unveil any concrete policies with regards to the much-anticipated asset purchasing program, apart from saying the BOK would actively buy assets if necessary. He also seemed to adopt a somewhat negative stance with regards to any actual purchases. After climbing beforehand, stocks and bonds were now sold off. The currency pair swung between the upper-KRW1230 mark and the lower-KRW1240 level, though it moved without any broad sense of direction. The National People's Congress than approved the establishment of a new national security law for Honk Kong. News then emerged that President Trump would be holding a meeting about China on May 29. This bolstered the pair and it closed the month trading at KRW1238.50.

2. Outlook for This Month

The USD/KRW pair is expected to float at highs in June. The focus will fall on US/China tensions, economic trends, and fears of a second wave of COVID-19 infections, with market sentiments unlikely to improve.

China and the US have clashed on the issue of blame for the emergence and spread of COVID-19 together with China's tougher stance towards Hong Kong. It seems President Trump could be trailing in the polls when it comes to November's presidential election, so he may adopt a more hardline approach to China going forward. As such, sentiments are unlikely to improve. Under these circumstances, won-buying appetite will probably remain subdued.

As for economic trends, the South Korean economy faces structural issues related to its strong reliance on external demand. Furthermore, on May 28 the government asked people to stay at home until June 14 owing to signs of a second wave of COVID-19 infections, so the results of the retail sector and other service industries could worsen again.

With regards to monetary policy, the US and South Korea will probably maintain the status quo for now. Further rate cuts in the US would signify a shift to negative interest rates, so the FRB will probably refrain from such a move. The Bank of Korea lowered interest rates when it met on May 28. With the governor explaining that rates were now close to the 'effective lower bound,' a further rate cut seems unlikely at the moment.

Of course, sentiments will be easily swayed, so investors should be wary of any moves on the upside or the downside. In light of the above, though, it seems the pair will move at highs in June.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – June 2020

Expected Ranges	Against the US$:	NT$29.50–30.20
	Against the yen:	JPY3.50–3.70

1. Review of the Previous Month

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

The pair opened the month trading at TWD29.960. Overseas stocks fell at the start of the month on growing concerns about US/China trade frictions as the US blamed China for the spread of COVID-19. Taiwanese stocks also plummeted, though they were then bought back and the Taiwan dollar was bought too, with the currency pair falling for a time to TWD29.776. However, Taiwanese stock markets then saw more selling on balance by overseas investors, so the Taiwan dollar was sold. Exporters brought the greenback when the pair moved close to TWD29.90, though, so the pair moved with a heavy topside.

With cities across the world easing lockdown restrictions, stocks were bought mid-May on hopes for a resumption of economic activity, with the USD/TWD pair also sliding, though it then moved with a lack of incentive around TWD29.90 amid a dearth of any noteworthy factors.

China held its National People's Congress late May and it debated a new national security law for Hong Kong. As risk aversion intensified, the pair closed at TWD30 for the first time in around three weeks. The Taiwan dollar usually rises on buying by exporters toward the end of the month, but amid concerns of deteriorating US/China relations, the pair ended the month floating around TWD30.

2. Outlook for This Month

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

As lockdown conditions were eased across the globe in May, the Taiwan dollar was bought on hopes for a resumption of economic activity, though the Taiwan dollar is now prone to selling on the situation in Hong Kong. However, we have yet to see the kind of sharp movements that occurred when US/China trade frictions intensified last year. With the spread of COVID-19 also slowing, the dollar will probably be pushed lower and the Taiwan dollar higher as risk appetite swells on hopes for a resumption of economic activity.

The Taiwanese authorities downgraded their GDP forecast for 2020 from +2.73% to +1.67%, its lowest level for five years, but the figure remains in positive territories. The services industry and

tourism have been hit hard by COVID-19, but electronics manufacturers have been boosted by an increase in the number of people working from home. This has alleviated the damage to the Taiwanese economy, with the Taiwan dollar supported by the fact Taiwan has suffered less economic damage compared to other countries. However, external demand could fall depending on the extent of the second wave of COVID-19 infections, so although Taiwan has managed to keep a lid on infections, the situation will require monitoring from here on.

Taiwanese stocks have been pushed lower by US/China tensions, but Taiwanese companies could benefit if the US shuts out Chinese firms, so the strained relations will not be purely negative for Taiwan. The COVID-19 outbreak has been contained in Hong Kong, but if demonstrations now break out again or if the National People's Congress approves a new national security law for Hong Kong, the markets will focus once more on the situation in Hong Kong. If China adopts a more hardline approach or the demonstrations intensify, this could strain relations between China and Taiwan too, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – June 2020

Expected Ranges	Against the US$:	HK$ 7.7500–7.7800
	Against the yen:	JPY 13.55–14.10

1. Review of the Previous Month

Hong Kong dollar spot exchange market in May

In May, the Hong Kong dollar appreciated against the U.S. dollar at the beginning of the month, after which the National People's Congress was held with the proposed national security law for Hong Kong on the agenda, leading the Hong Kong dollar to depreciate against the U.S. dollar. With growing risks for Chinese companies to be unlisted in the U.S., IPO demand in the Hong Kong market is increasing. Furthermore, market participants were putting out carry trades in order to take advantage of the interest rate differentials between the Hong Kong dollar and the U.S. dollar, and this also contributed to the increase of demand for the Hong Kong dollar. As a result, the U.S. dollar/Hong Kong dollar exchange rate remained stable at around HKD 7.75—the upper end of the fluctuation range during the first part of the month. However, concerns grew again in the market thereafter over the political situation surrounding the proposed national security law for Hong Kong, as the situation could lead the "one country, two systems" principle to lose its substance. U.S. President Donald Trump expressed his intention to take a strict stance toward the Chinese government, and U.S. Secretary of State Mike Pompeo mentioned the possibility of taking away a special trade status given to Hong Kong. As a consequence, the one-year Hong Kong dollar forward point rose and almost reached +800 points for the first time in 4.5 years. The Hong Kong dollar also weakened, leading the U.S. dollar/Hong Kong dollar spot exchange rate to reach the upper-HKD 7.75 level and showing signs of capital outflow. Also, the Hong Kong dollar spot exchange market remained sensitive to media reports related to the national security law for Hong Kong thereafter. The macroeconomy of Hong Kong was affected by the spread of COVID-19 and weakened significantly. The GDP for the first-quarter period recorded a decline of 8.9% year-on-year, while the April unemployment ratio reached its all-time high at 5.2%. Furthermore, due to immigration control, the number of visitors to Hong Kong decreased dramatically, and retail sales recorded a decline of over 40% for two consecutive months.

Hong Kong interest rate market in May

In May, the Hong Kong dollar interest rates bottomed out in the middle of the month, after which interest rates started to rise, as concerns were growing over capital outflow that resulted from political uncertainty, while IPO demand was increasing. The Hong Kong dollar forward curve rose rapidly, and

the interest differentials between the Hong Kong dollar HIBOR and the U.S. dollar LIBOR widened to almost reach 80 basis points for both the one-month and three-month rates. The U.S. dollar/Hong Kong dollar spot exchange rate did not reach the upper end of the fluctuation band, and thus the Hong Kong Monetary Authority (HKMA) did not supply liquidity via market intervention. As a result, the increase of the aggregate balance increased from the HKD 84.71 billion recorded at the end of April only to HKD 94.75 billion. Also, the Hong Kong dollar interest rate swap rate rose along with the rise of the Hong Kong dollar HIBOR, while concerns were growing over political uncertainty, and fund procurement in the Hong Kong dollar has become harder than that in the U.S. dollar, leading the Hong Kong dollar currency basis to have also increased.

2. Outlook for This Month

Hong Kong dollar spot exchange market in June

In June, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.7500 and HKD 7.7800. Downside risks are likely to increase in the Hong Kong dollar spot exchange market with rising volatility, as the tensions between the U.S. and China have been intensifying with growing political uncertainty. As the level of political uncertainty is getting high again, concerns over capital outflow are also growing. Furthermore, the strict stance of the U.S. regarding Hong Kong-related issues could also encourage market participants to sell the Hong Kong dollar. However, it is unlikely for the special trade status of Hong Kong to be lost in the near future. U.S. Congress expects that it would take substantial time to examine if Hong Kong maintains a high level of autonomy after the approval of the national security law for Hong Kong at the National People's Congress. Thus, as has been the case so far, the Hong Kong dollar exchange market is expected to see some supporting factors, such as the interest rate differentials between the Hong Kong dollar and the U.S. dollar, as well as growing IPO demand.

Hong Kong dollar interest rate market in June

In June, the Hong Kong dollar interest rates are forecast to rise, as the aggregate balance of the HKMA remains low and as concerns over capital outflow have been growing. While political uncertainty is increasing, the HKMA is not expected to intervene in the spot exchange market at the HKD 7.75 level, which is the upper end of the fluctuation range, and the aggregate balance is likely to remain at the current level. It is also unlikely for the issuance of exchange fund bills to be reduced for the purpose of liquidity supply. From a short-term perspective, Hong Kong dollar interest rates are likely to rise, as some Chinese companies are scheduled to hold IPOs in the times ahead, while there will also be seasonal demand at the end of the quarter period. If the relationship between the U.S. and China deteriorates further, long-term Hong Kong dollar interest rate swap rates and the long-term Hong Kong dollar currency basis could both rise to a great extent, reflecting a possible change to the U.S. dollar peg system in the Hong Kong dollar exchange market.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – June 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

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

At the end of April, U.S. President Donald Trump made a remark that he was considering a retaliatory customs duty against China, as he feels that the reaction by China to the initial spread of COVID-19 was not satisfactory. As a result, the Chinese yuan depreciated against the U.S. dollar in the offshore market during the Labor Day holiday, and the U.S. dollar/Chinese yuan exchange rate once reached the CNY 7.15 level. Once this trend passed, the U.S. dollar/Chinese yuan exchange rate started to fall gradually in the offshore market, and on May 6 after the Labor Day holiday, the U.S. dollar/Chinese yuan onshore exchange market opened trading at around CNY 7.10.

Since the second week of the month, the Chinese yuan depreciated against the U.S. dollar, as Federal Reserve Board (FRB) Chair Jerome Powell denied the possibility of negative interest rates (May 13), U.S. President Donald Trump implied the possibility of cutting ties with China during a television interview (May 14), and the U.S. having announced a sanctions measure against Huawei Technologies Co., Ltd. (May 15). As a result, the U.S. dollar/Chinese yuan onshore exchange rate continued rising gradually to reach the mid-CNY 7.11 level on May 18.

At the end of the month, major developed countries started to loosen their lockdowns, including the U.S. On the other hand, at the National People's Congress was held on May 22, and the media reported the plan to discuss and approve the national security law for Hong Kong—this intensified protests in Hong Kong. In response to the national security law for Hong Kong, the U.S. implied the possibility of discontinuing preferential treatment for Hong Kong (i.e., customs duties, visas, and assets freezes). U.S. Secretary of State Mike Pompeo also released a statement saying that it was difficult to confirm whether Hong Kong still maintains a high level of autonomy from China, further intensifying the tensions between the U.S. and China. As a result, the downward pressure on the Chinese yuan strengthened and the U.S. dollar/Chinese yuan exchange rate continued renewing its highest rate since the beginning of the year, once reaching CNY 7.1765.

On May 28, the National People's Congress wrapped up, and "The NPC Decision on Establishing and Improving the Legal System and Enforcement Mechanisms for the Hong Kong Special Administrative Region to Safeguard National Security" (i.e., the draft decision on the national security law for Hong

Kong) was adopted. In reaction to this, U.S. President Donald Trump made a remark that he would announce a new policy measure against China on May 29, leading the Chinese yuan to depreciate in the offshore market.

As of this writing on 12:00 p.m. on May 29 (CST), the U.S. dollar/Chinese yuan pair was trading at around CNY 7.15 with a rise of approximately 900 pips compared to the end of April.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain high in June.

As mentioned above, "The NPC Decision on Establishing and Improving the Legal System and Enforcement Mechanisms for the Hong Kong Special Administrative Region to Safeguard National Security" (i.e., the draft decision on the national security law for Hong Kong) was adopted at the National People's Congress, and its details are to be confirmed through the National People's Congress Standing Committee meeting. At the current moment, it is unknown how much effect this bill will have. According to some media reports, the details will be confirmed in several weeks and will come into effect by around September.

On May 27, U.S. Secretary of State Mike Pompeo released his official view that Hong Kong is now not autonomous from China. This statement may lead to the cancellation of the preferential treatment for Hong Kong under the Trump administration. Under the *United States–Hong Kong Policy Act*, the preferential treatment for Hong Kong can be discontinued by Presidential decree, if the U.S. President considers that Hong Kong is not sufficiently autonomous from China. It is thus important to see this possibility as a strategic option for U.S. President Donald Trump to put pressure on China.

As the presidential election in the U.S., scheduled for November, is approaching, political headlines in the U.S. and China are likely to continue impacting the market. In particular, the Chinese yuan exchange market is expected to depend based on the relationship between the U.S. and China, as was seen last year. However, at the current moment, it is difficult to foresee the outcome of the opposition over Hong Kong as well as the progress of the pending trade negotiations between the U.S. and China.

In order for risk sentiment to be improved, it is important for market participants to have a somewhat clear idea regarding the future situation, and this would take some time given the schedule for the national security law for Hong Kong and the presidential election in the U.S.

Thus, the U.S. dollar/Chinese yuan exchange rate is most likely to remain high in June, while market participants should remain attentive of any unexpected remarks made by important officials that could become a factor toward leading the Chinese yuan to depreciate.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – June 2020

Expected Ranges	Against the US$:	SG$ 1.3800–1.4400
	Against the yen:	JPY 75.00–76.50

1. Review of the Previous Month

In May, the Singapore dollar slightly depreciated against the U.S. dollar.

The U.S. dollar/Singapore dollar exchange market opened trading in May at the SGD 1.40 level. At the beginning of the month, the U.S. dollar appreciated slightly against the Singapore dollar. U.S. President Donald Trump revealed his view that the rate of the global spread of COVID-19 was a result of negligence in the initial reaction taken by China, while also announcing a possible retaliatory measure for such negligence. Thus, concerns grew over the intensification of the tensions between the U.S. and China. Under such circumstances, the overall currencies of emerging countries weakened. However, on May 8, the U.S. and China held a ministerial-level telephone conference to discuss tensions, and this led market participants to believe that tensions between the two countries had been somewhat mitigated. As a consequence, the Singapore dollar slightly rallied. The Singapore dollar appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell from the lower-SGD 1.42 level to reach the mid-SGD 1.41 level.

Thereafter, Federal Reserve Board (FRB) Chair Jerome Powell made a remark stating that the economic outlook of the U.S. is "extremely uncertain" on May 13. In reaction to this, risk-averse sentiment grew in the market again. Following this trend, the Singapore dollar started to weaken gradually, and the U.S. dollar/Singapore dollar exchange rate fluctuated at the lower-SGD 1.42 level.

Furthermore, at China's National People's Congress, which started on May 22, the Chinese government announced its intention to approve the national security law for Hong Kong. The U.S. announced its disagreement with this plan, gathering substantial attention in the market as another factor further causing the deterioration of the relationship between the U.S. and China. Under such circumstances, the currencies of emerging countries depreciated. As a result, the U.S. dollar/Singapore dollar exchange rate, which had once fallen to the SGD 1.41 level, rose to the lower-SGD 1.42 level once again.

Thereafter, the Singapore dollar appreciated slightly toward the end of the month. This is because many countries started to loosen lockdown measures that had been taken to stop the spread of COVID-19. As expectations were growing for economic recovery, the currencies of emerging countries appreciated. Following this trend, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate reached the lower-SGD 1.41 level. However, in the end, the Singapore dollar weakened slightly compared to the beginning of the month.

2. Outlook for This Month

In June, the Singapore dollar is forecast to continue depreciating.

While many countries are loosening the lockdown measures that they had been taken to stop the spread of COVID-19, risk sentiment was somewhat improved. However, at the end of the month, the Singapore dollar weakened slightly compared to the beginning of the month.

Currently, the export volume of Singapore has been improving except for indices related to petroleum oil. Unlike the market estimate, domestic export statistics showed an increase for the second consecutive month. In particular, the growth in the pharmaceuticals sector has been supporting the improvement of the figures. However, the global outlook for economy and trade volume remains negative. As the manufacturing PMI has also been significantly falling, Singapore, an exporting country, is likely to see negative impact.

It should also be mentioned that, at the Monetary Authority of Singapore (MAS) regular monetary policy meeting held on March 30, the MAS expressed its intention to accept ahead of schedule the depreciation of Singapore's currency in order to support a domestic economy that is dependent on trade. However, the Singapore dollar exchange rate remained at the same level after this announcement, and thus market participants expect further depreciation of the Singapore dollar in the times ahead. If the economy starts to decline, the Singapore dollar is therefore likely to weaken. Given the current situation, the Singapore dollar is forecast to slightly weaken, as the full economic impact after the loosening of the lockdown is still yet to be seen in official statistics, although this all depends on the global economic trends in the times ahead.

On the other hand, June 1 will herald the start of easing regarding the 2020 Singapore Circuit Breaker, commonly referred to as the "CB," as a stay-at-home order and preventive measure implemented on April 7, 2020 by the Singapore government in response to the COVID-19 pandemic. This begins the resuming of economic activities in three phases. From June 2, many companies are expected to start operating again. The government also implied the possibility of starting the second phase, which was initially set to come at least after four weeks, earlier than expected, although this will depend on the number of new COVID-19 cases. As domestic economic activities are recovering, the downward pressure on the Singapore dollar is also likely to slightly weaken in the times ahead.

Takeshi Hashi, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – June 2020

Expected Ranges	Against the US$:	THB 31.30–32.30
	Against the yen:	JPY 3.27–3.41

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell in May. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around THB 32.50. On May 4, the market was closed, as that day was a national holiday in Thailand, and the U.S. dollar/Thai baht exchange rate approached THB 32.60—the monthly high. However, the situation with COVID-19 was relatively stable in Thailand, and expectations were growing for economic activities to resume. As a consequence, the Thai baht appreciated against the U.S. dollar, and the exchange rate fell to the THB 32.40 level. Then, on May 5, the April CPI of Thailand was announced, and the result turned out to be –2.99% year-on-year, slightly weaker than the estimate. However, May 5 was situated between two national holidays, and reaction in the market was limited. On May 7, China's export figures were announced, and the result turned out to be a positive figure, whereas the market estimate had been two-digit negative growth. Positively reacting to this news, market participants actively bought the Thai baht with the outlook that the second phase of loosening Thailand's lockdown would start early. On May 8, the Ministry of Commerce of the People's Republic of China announced that, after a U.S.-China telephone conference, the two countries had agreed to cooperate with each other via forward-looking trade negotiations. As concerns over the tensions between the U.S. and China were somewhat mitigated, market sentiment improved, and Thai baht-buying dominated the U.S. dollar/Thai baht exchange market, which closed at its lowest level in approximately two months. Then, on May 12, the U.S. dollar/Thai baht exchange rate fell slightly with expectations for Thailand to begin the second phase in its loosening of the national lockdown. On the same day during overseas trading hours, the U.S. dollar depreciated, as market participants saw the possibility for negative interest rates to be introduced. At his lecture held on May 13, Federal Reserve Board (FRB) Chair Jerome Powell did not mention the possibility of introducing negative interest rates. However, a negative outlook has become prevalent regarding future economic conditions, and this weakened the stock market in the U.S. While U.S. interest rates were falling, the U.S. dollar/Thai baht exchange rate also fell, fluctuating sensitively at around the THB 32 level. Then, on May 14, U.S. President Donald Trump made remarks implying his preference for a strong U.S. dollar and the possibility of cutting ties with China, and this encouraged market participants to continue buying the U.S. dollar. However, the Thai baht weakened only slightly compared to the previous day, and daily trading closed at that level. Then, on May 19, market participants started buying the Thai baht at the opening of the market, and the U.S. dollar/Thai baht exchange rate fell

below the THB 32 level, which had been a resistance level, reaching the upper-THB 31 level for the first time in approximately two months. Thereafter, some market participants sold back the Thai baht as a means of adjustment. However, FRB Chair Jerome Powell made a remark stating that he was considering possible additional capital supply, to which market participants reacted positively. As a result, daily trading closed at the upper-THB 31 level to the U.S. dollar. On May 20, the central bank of Thailand announced its decision to cut its policy interest rate by 0.25% to 0.50%—the lowest interest rate ever observed—immediately after which market participants sold the Thai baht. However, market participants started buying the Thai baht thereafter in reaction to the measure of monetary easing. Trading closed at around THB 31.80 to the U.S. dollar—near the monthly low. On May 22, both Hong Kong and Chinese stock prices fell sharply, fueling risk-averse sentiment in the market. Following this trend, the U.S. dollar/Thai baht exchange rate also rallied slightly. Thereafter, the Ministry of Commerce of Thailand released its April trade statistics (on a customs basis), and exports recorded positive growth of 2.12% year-on-year against the market estimate—although there was only minor reaction to this news in the market. On May 25 and thereafter, the Thai government decided to extend its declaration of a state of emergency originally intended to end on May 31 by one month, to which market participants did not react very much either. Due to concerns over the tensions between the U.S. and China, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at around THB 31.80, and monthly trading closed with a low exchange rate.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain low in June.

In April and May, market participants bought the Thai baht even though there was no positive domestic news in Thailand, and this trend was similar to that observed in FY2019. The U.S. dollar/Thai baht exchange rate continued rising consistently from the beginning of the year toward the end of March—reaching its highest level since October 2018 at the end of March. Unlike other currencies, the Thai baht continued appreciating in 2019, recording positive growth almost as high as 8% against the U.S. dollar throughout the year. As if to adjust such one-sided appreciation, the Thai baht depreciated sharply at the end of March while market participants were encouraged to buy the U.S. dollar with growing concerns about liquidity levels, leading the U.S. dollar/Thai baht exchange rate to rally significantly. It seems that such a trend was adjusted again in April and May, and the U.S. dollar/Thai baht exchange market showed trends that can be described as regression toward the mean.

Under such circumstances, some important market factors seem to be present, including: (1) the second wave of COVID-19 infections, (2) other factors that could further inflame tensions between the U.S. and China after the situation of trade frictions, (3) the U.S. Presidential election, (4) the delayed recovery of the global economy, and (5) the possible introduction of negative interest rates in the U.S. To be more precise, (1) could be a positive factor toward encouraging market participants to buy the Thai baht, as the number of new cases of COVID-19 infections in Thailand has been limited compared to other countries.

With regard to (2), market participants are likely to buy the Thai baht compared to other Asian currencies if the outcome of the situation is similar to that of the 2019 trade frictions between the U.S. and China. Even though much of the impact of (3) is unknown, U.S. President Donald Trump is likely to make efforts to raise stock prices before the U.S. Presidential election, and this would lead to capital return to not only the U.S. stock market but also to overall risk assets. Thus, market participants are expected to also buy Asian currencies. The consequence of (4) is also extremely difficult to foresee. Under the current situation in which it is unknown when Thailand can start accepting foreign visitors, there is no immediate impact expected for the Thai baht market or for any other currency. With regard to (5), FRB Chair Jerome Powell has not been very motivated to introduce negative interest rates. However, market participants do see it as a possibility, which is also a factor toward leading the Thai baht to appreciate. For these reasons, the Thai baht is expected to appreciate slightly against the U.S. dollar if the current situation does not change dramatically. Further, the Thai baht has already depreciated significantly against the U.S. dollar since the beginning of the year, at which the U.S. dollar/Thai baht exchange rate was at the THB 30.00 level. Therefore, the moderate appreciation of the Thai baht is likely to continue for a while in the times ahead, and the U.S. dollar/Thai baht exchange rate is thus most likely to remain low in June.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – June 2020

Expected Ranges	Against the US$:	MYR 4.3000–4.4000
	Against the yen:	JPY 24.40–25.00
	Against 100 yen:	MYR 4.0000–4.1000

1. Review of the Previous Month

In May, economic activities resumed gradually as the restrictions related to COVID-19 were loosened. However, concerns persisted surrounding a second wave of COVID-19 infections, along with the spat between the U.S. and China regarding the initial spread of COVID-19. This all caused the U.S. dollar/Malaysian ringgit exchange rate to fluctuate within a range between MYR 4.29 and MYR 4.37.

The Malaysian government was inclined to allow companies to resume operations, and this supported the Malaysian ringgit exchange market, leading the U.S. dollar/Malaysian ringgit exchange rate to reach the MYR 4.30 level at the end of April. However, at the beginning of the month, U.S. President Donald Trump relayed his plan to increase customs duties on imports from China as a retaliatory action against China's actions during the initial spread of COVID-19, and this led the U.S. dollar/Malaysian ringgit exchange rate to rally to the MYR 4.34 level at the beginning of the month. However, the exchange rate did not exceed the MYR 4.35 level, and the lockdown measures were officially loosened "with conditions" as of May 4, allowing economic activities in almost all sectors to resume. As a consequence, the trend was reversed, and the U.S. dollar/Malaysian ringgit exchange rate started to fall.

On May 5, the central bank of Malaysia announced its decision to cut the policy interest rate (OPR) by 50 basis points—as had been expected by the majority of market participants. The policy interest rate has been cut by a total of 1.00% since the beginning of the year. However, the North Sea Brent crude oil price recovered to USD 30 per barrel, as OPEC+ members and U.S. shale oil companies started to reduce oil production, leading the U.S. dollar/Malaysian ringgit exchange rate to almost fall below the MYR 4.30 level.

On May 12, the Malaysia March industrial production index was announced, revealing negative growth that was much more significant than expected. Thus, concerns grew over the negative impact of the lockdown on the GDP growth rate for the first-quarter period. However, the GDP growth rate turned out to be positive, while negative growth had been expected. Yet, the figure is still at its lowest level since 2009, and market participants became cautious, as the impact of the lockdown is likely to become more visible in the second-quarter period. Thus, the overall impact of the GDP growth rate on the U.S. dollar/Malaysian ringgit exchange market was limited. Thereafter, concerns grew over the second wave of COVID-19 infections reported in the Chinese and Korean media. Under such circumstances, a

Malaysian parliamentary session was held on May 18 for only approximately 30 minutes without any discussion of the no-confidence motion against the Cabinet by former Prime Minister Mahathir bin Mohamad or of other subjects. In the meantime, the former attorney general denied his agreement with the settlement deal with the stepson regarding the prosecution against former Prime Minister Najib Razak as announced by the Malaysian Anti-Corruption Commission. Thus, concerns grew over the government's attitude toward this case of corruption, leading the U.S. dollar/Malaysian ringgit exchange rate to rise to the MYR 4.37 level once again.

Toward the end of the month, market sentiment improved based on expectations for the development of a vaccine for COVID-19. The Brent crude oil price also recovered to the USD 37 level, and the U.S. dollar/Malaysian ringgit exchange rate fell to MYR 4.33 on May 21. However, the U.S. dollar/Malaysian ringgit exchange rate did not fall below this level and rallied to the MYR 4.36 level before the Hari Raya Puasa holiday.

2. Outlook for This Month

In June, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within the range between MYR 4.30 and MYR 4.40. Even though it would take time for global demand to truly recover, economic activities are resuming, and oil-producing countries have succeeded in reducing oil production so as to lead the crude oil price to bottom out. Malaysian companies are also resuming operations, and serious risks for the depreciation of the Malaysian ringgit seem to have been mitigated. However, the sense of uncertainty persists regarding political issues, while market participants remain cautious about a possible fall in domestic demand in the second-quarter period.

On April 30, the central bank of Malaysia announced its decision to partially deregulate foreign exchange transactions. Major changes include the exemption of the obligatory conversion into the Malaysian ringgit for small amounts of export transactions worth MYR 200,000 or less per receipt, as well as the deregulation of foreign exchange forward contracts over 12 months backed by residents' foreign currency loans without approval until the end date of the loan, whereas such forward contracts previously required the approval of the central bank. Foreign investors can also provide financial guarantees for domestic companies without an upper limit. There has thus been progress in gradual deregulation after the tightening of restrictions regulations at the end of 2016, all in order to support domestic economic activities.

The fall of the GDP growth rate in the first-quarter period is mainly a result of the sharp decline of foreign demand (net exports). However, as personal consumption maintained positive growth of 6.7% year-on-year, the overall growth rate did not record a negative figure. However, the lockdown is expected to impact domestic demand in the second-quarter period, and a year-on-year negative growth rate of approximately 4% has been anticipated in the second quarter. Market participants should thus remain cautious. At the same time as the GDP growth rate, the international balance of payments for the first-quarter period was also announced with a net outflow of MYR 13.3 billion in terms of domestic security investment by foreign investors. However, capital outflow slowed down in April when Malaysian

government bonds were kept as a constituent of the FTSE Russell World Government Bond Index.

With regard to political issues, on May 18, before a Malaysian parliamentary session, members of the Malaysian Parliament that belong to the United Malays National Organization (UMNO) became chairs in the Malaysian Palm Oil Board, the Federal Land Development Authority, the Land Public Transport Agency, the government-owned electricity company, and UDA Holdings Berhad. Under the Mahathir administration, it was prohibited for members of Parliament who belong to a political party to be the head of a government-owned company (GLC)—in order to prevent corruption. Thus, such headlines could affect trust and investment flow from abroad, along with the stance of the new government toward a corruption-related trial. Parliamentary sessions are scheduled to reopen on July 13, and it is difficult to foresee the outcome at this moment. Thus, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain at the current level.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – June 2020

Expected Ranges	Against the US$:	IDR 14,200–14,900
	Against 100 rupiah:	JPY 0.71–0.75
	Against the yen:	IDR 133.33–140.85

1. Review of the Previous Month

In May, the Indonesian rupiah remain robust against the U.S. dollar—as was the case in April.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,900 level on May 4. While U.S. President Donald Trump continued hardening his stance toward China, investor sentiment worsened, and the IDX Composite (which is an index of all the stocks listed on the Indonesia Stock Exchange) fell dramatically. Following this trend, the Indonesian rupiah depreciated significantly against the U.S. dollar to the lower-IDR 15,100 level. On May 5, the following day, the first-quarter GDP of Indonesia was announced with year-on-year positive growth of 2.97%—the lowest growth rate in 19 years. As this was clearly a result of the spread of COVID-19 and its attack on the economy, the Indonesian rupiah remained weak, trading at the IDR 15,100 level to the U.S. dollar. However, on May 8, the U.S. and China held a ministerial-level telephone conference to discuss tensions, and this led market participants to believe that tensions between the two countries had been somewhat mitigated. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 15,000 level once again.

In the middle of the month, market participants maintained a wait-and-see attitude during the week commencing on May 11, as the monetary policy meeting of the central bank of Indonesia was approaching. The U.S. dollar/Indonesian rupiah exchange rate thus remained stable, fluctuating within a narrow range between the upper-IDR 14,800 level and the upper-IDR 14,900 level. Then, on May 15, the April trade balance of Indonesia was announced, recording a deficit for the first time in three months. The deficit turned out to be over USD 340 million—exceeding the market estimate. Both imports and exports recorded a significant year-on-year decline, fueling concerns over the future Indonesian economy. However, as market participants were less sensitive to economic indices, there was only limited reaction in the Indonesian rupiah market. On May 19, the central bank of Indonesia held its monetary policy meeting—attracting substantial attention in the market. While many market participants had expected an interest rate cut, the seven-day reverse repo rate—the policy interest rate of Indonesia—was maintained at the existing level. The central bank thus confirmed the importance of the stability of the Indonesian rupiah exchange rate, which had always been the priority of the central bank. In reaction, the Indonesian rupiah strengthened against the U.S. dollar to the lower-IDR 14,700 level toward May 20—the following

day.

Toward the end of the month, on May 26 after the Lebaran holidays (which were shorter than usual), expectations started to grow for the reopening of economic activities mainly in developed countries. Under such circumstances, investors maintained a risk-taking sentiment, the IDX Composite index rose, and the Indonesian rupiah remained strong. At the end of the month, the Indonesian rupiah appreciated against the U.S. dollar to finally reach the lower-IDR 14,600 level on May 29. Monthly trading closed at this level.

2. Outlook for This Month

The U.S. dollar/Indonesian rupiah exchange rate is forecast to stay consistently strong in June.

As was the case in Aril, the Indonesian rupiah remained strong in May. As mentioned above, the spread of COVID-19 infections slowed, mainly in developed countries, fueling expectations for the loosening of lockdowns and the resumption of economic activity. Furthermore, the central bank of Indonesia postponed its policy interest rate cut, and this also turned out to be successful in maintaining the strength of the Indonesian rupiah. It should also be mentioned that the central bank of Indonesia intervened in the foreign exchange market, the domestic non-deliverable forward market, and the government bond market, and this is likely to have contributed to the stability in the Indonesian rupiah market. Furthermore, as of the end of April, the amount of foreign currency reserves was announced with an increase of over USD 6.9 billion compared to the end of March, when foreign currency reserves decreased significantly as a result of foreign exchange market interventions. The central bank of Indonesia thus confirmed its competence in intervening in the market using various means. These factors are likely to continue contributing, to some extent, to the stability of the Indonesian rupiah market in June.

There has also been a sign of recovery in Indonesian securities investment, which tends to have short-term impact on the foreign exchange market. As of May 28, the holding of 10-year Indonesian government bonds by foreign investors increased for the first time in four months. Even though the increase is only a little less than IDR 7 trillion, it is possible for this amount to grow further in the times ahead, as many countries, including Indonesia, are resuming economic activities. In particular, 10-year Indonesian government bonds recorded a net sell of over IDR 120 trillion in the single month of March—this is an exceptionally large amount. Thus, once investor sentiment is improved, it is possible for investors to buy back such bonds in the times ahead. Market participants should also bear in mind that the Indonesian rupiah may appreciate even further in the short term.

For the above reasons, the Indonesian rupiah is most likely to remain strong in June, as was the case in the previous months. However, market participants should not expect too much. It is important to remain cautious about COVID-19, which has not yet been fundamentally resolved, while there are other factors of concerns persisting, such as the further inflaming of tensions between the U.S. and China. It is possible for the central bank of Indonesia to cut its policy interest rate by as early as June, based on the stability of the Indonesian rupiah exchange market. Market participants are reminded that Indonesia

is a country with a current deficit, and thus it is not possible to expect the Indonesian rupiah to continue steadily appreciating in the times ahead.

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

Philippine Peso – June 2020

Expected Ranges	**Against the US$:**	**PHP 50.00–51.80**
	Against the yen:	**JPY 2.075–2.150**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso onshore exchange market opened trading at PHP 50.55 on May 4, with a weaker peso compared to the closing rate at the end of the previous month (PHP 50.40 to the U.S. dollar). During the previous weekend, U.S. Secretary of State Mike Pompeo made a remark to bring China to account regarding the origin of COVID-19, fueling concerns over the further inflaming of tensions between the U.S. and China. As a consequence, risk-averse sentiment grew in the market, and market participants bought the U.S. dollar.

On May 6, the March trade balance of the Philippines was announced, revealing a deficit of USD 2.38 billion, which is a larger deficit than the USD 1.67 billion recorded in the previous month along with being larger than USD 1.95 billion, which is the figure that was expected by the market. In response to the increase of the deficit, market participants sold the Philippine peso immediately after this announcement, and the U.S. dollar/Philippine peso exchange rate reached PHP 50.64. However, the deficit level is relatively low compared to the figures seen in the past two years. Furthermore, market participants sold the U.S. dollar due to excessive liquidity. As a result, market participants revised their positions and gradually started to buy the Philippine peso again. On May 7, the first-quarter GDP growth rate turned out to be –0.2% year-on-year, recording negative growth for the first time since the 1997 Asian financial crisis. However, the Philippine peso remained strong.

During the week commencing on May 11, the Philippine peso renewed its highest rate since the beginning of the year (PHP 50.37 to the U.S. dollar recorded on January 14) for three consecutive days, thanks to expectations for the partial loosening of lockdown measures in Metropolitan Manila, while economic activities were globally resuming. Furthermore, on May 6, the U.S. dollar/Indian rupiah pair was traded at PHP 50.26—the monthly high for the Philippine peso.

Thereafter, the U.S. dollar was supported by the fact that less market participants expected a negative interest rate for the U.S. dollar. On May 14, U.S. President Donald Trump expressed his positive view regarding the appreciation of the U.S. dollar. Furthermore, he made remarks that he was considering cutting ties with China and that he would closely observe Chinese companies listed in the U.S. Thus, the sense of uncertainty grew regarding the tensions between the U.S. and China, fueling risk-averse sentiment in the market. Then, on May 15, the February amount of Overseas Filipino Workers (OFWs) remittances was announced, recording year-on-year growth of 2.5%—falling below the year-on-year growth of 6.6%,

which was the figure recorded in the previous month, as well as the year-on-year growth of 3.7%, which was the market estimate. After the weekend, on May 18, the United States Department of Commerce announced a ban on exports against Huawei, which is a major Chinese telecommunications company. Furthermore, the crude oil price reached its high in three months. For these reasons, the U.S. dollar/Philippine peso once traded at PHP 50.915—the lowest rate of the Philippine peso in May.

Toward the end of the month, thanks to expectations for the fast development of a vaccine against COVID-19, the three major U.S. stock indices renewed their largest recovery since the sharp decline seen in March. Furthermore, the media reported that the Philippine government was considering dividing regions regarding levels of lockdown measures, and this led the Philippine peso to approach its high once again. Then, on May 27, the Philippine peso appreciated against the U.S. dollar to PHP 50.46. However, the April fiscal balance of the Philippines was announced thereafter with a deficit of PHP 273.9 billion—the largest deficit ever recorded—which weakened the Philippine peso. Also, at the National People's Congress in China, the national security law for Hong Kong was discussed, and this led the Chinese yuan to depreciate. Following this trend, the Philippine peso also weakened against the U.S. dollar. The U.S. dollar/Philippine peso pair has been trading at the PHP 50.60–50.70 level (as of this writing on 4:00 p.m. on May 28).

2. Outlook for This Month

Even though the currencies of emerging countries have currently been rallying thanks to the recovery of resource prices, these currencies have significantly depreciated against the U.S. dollar since the beginning of the year. Under such circumstances, the Philippine peso has been trading at the same level as at the beginning of the year with low volatility, mainly around PHP 50.50–51.00 to the U.S. dollar, maintaining healthy performance.

Since the lockdown of Metropolitan Mania (starting March 16), trade volume in the U.S. dollar/Philippine peso exchange market decreased sharply with few transactions. However, this trade volume increased significantly in the third week of May. On a weekly basis, the trade volume increased to 140% of the previous week and 240% of the third week of April, when the trade volume recorded a particularly significant fall. Liquidity has returned to around 80% of its ordinary level. Market participants are thus interested in seeing whether the above-mentioned range observed from the beginning of the year will be exceeded in the times ahead.

In May, the Philippine peso approached its high several times and finally renewed its highest rate since the beginning of the year. However, in the end, the U.S. dollar/Philippine peso exchange rate returned to the level seen at the beginning of the month. Also, after being traded at a negative price on April 20, the crude oil (WTI) price rallied rapidly and has been stabilizing, which is a factor to weaken the Philippine peso. However, this factor is seen positively in the market from the point of view of reducing the possibility of credit contraction and financial risk. It is possible for the Philippine peso to approach its highest rate again as a result of: the excessive liquidity of the U.S. dollar, the strength of

the U.S. stock market based on capital inflow into stocks that resulted from monetary easing, expectations for U.S. interest rates to become lower in the times ahead, and the loosening of lockdown measures starting on June 1.

On the other hand, it is questionable if the U.S. dollar/Philippine peso exchange market has already fully reflected the impact of the imposition of the national security law on Hong Kong that was approved at the National People's Congress. The opposition between China and the rest of the world has been intensifying due to the spread of COVID-19, and the situation is not any different in the Philippines. In April, the Chinese government announced the establishment of new administrative structures in the South China Sea—this was clearly a means to extend its effective control and to make the "nine-dash-line" (the ocean boundary as claimed by China) an accomplished fact. The Philippines and Vietnam, which also claim their own territorial rights, are against this, and this (along with the Hong Kong national security law) could also strengthen risk-averse sentiment in the market, leading the Philippine peso to weaken.

Some research institutes expect the amount of remittances from OFWs to decline by more than 30% this year due to the spread of COVID-19, and it has been estimated that more than 120,000 OFWs are unemployed, out of which more than 80,000 OFWs have returned to the Philippines. Under the "new normal," it may be difficult for them to go abroad immediately again, which means that the Philippines will lose a means of procuring foreign currencies. This will thus be a factor toward leading the Philippine peso to depreciate in the U.S. dollar/Philippine peso exchange market (even though the impact may be offset by a decrease in the trade deficit).

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

Indian Rupee – June 2020

Expected Ranges	Against the US$:	INR 74.00–78.50
	Against the yen:	JPY 1.36–1.48

1. Review of the Previous Month

In May, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 75.645, while expectations were growing for large-scale investment in a major internet company in India by an U.S. company, along with the development of anti-viral drugs. The tensions between the U.S. and China were further inflamed also at the beginning of the month, as U.S. President Donald Trump made a remark stating that he had seen documents that confirm China as being behind the origins of COVID-19. Under such circumstances, the U.S. dollar/Indian rupee exchange rate continued fluctuating at the upper-IND 75 level. However, the central bank of India seemed to have intervened in the foreign exchange market in order to close the gap between the NDF rate and the onshore market rate, and this encouraged market participants to buy the Indian rupee also in the spot exchange market. As a consequence, the U.S. dollar/Indian rupee exchange rate reached its monthly low at INR 75.09 on May 13.

Thereafter, the economic stimulus measures proposed by India's Ministry of Finance were evaluated as being not effective in a short term, and lockdown measures were extended. Thus, market participants lost hope, and the U.S. dollar/Indian rupee exchange rate rose to reach its monthly high at INR 76.05 on May 18. However, the exchange rate did not stay at this level and started to fall. On May 28, trading closed at INR 75.74 to the U.S. dollar.

Throughout the month, the U.S. dollar/Indian rupee exchange rate fluctuated within a very narrow range of 96 paise—the narrowest range since July last year.

In May, the Indian rupee/Japanese yen exchange rate fell once and returned to the level observed at the beginning of the month.

In May, the Indian rupee/Japanese yen exchange market opened trading at the JPY 1.427 level. As was mentioned above, concerns over the tensions between the U.S. and China persisted, and there was little liquidity available, as there was a long period of holidays in Japan. Under such circumstances, the Japanese yen appreciated, and the U.S. dollar/Japanese yen exchange rate once fell below the JPY 106 level. Following this trend, the Indian rupee/Japanese yen exchange rate also fell significantly to the JPY 1.392 level on May 6. However, U.S. interest rates rose slightly thereafter because of possible monetary easing by the People's Bank of China (PBOC), along with bidding results. As a consequence, the U.S.

dollar/Japanese yen exchange rate rallied rapidly by more than JPY 1, leading the Indian rupee/Japanese yen exchange rate to also temporarily recover to the JPY 1.43 level on May 12. Thereafter, the U.S. dollar/Japanese yen exchange rate generally remained at the upper-JPY 107 level—although the exchange once reached the JPY 108 level. As the U.S. dollar/Japanese yen exchange rate continued fluctuating within a narrow range as discussed above, the Indian rupee/Japanese yen exchange rate also remained at the same level, and trading closed at JPY 1.422 on May 28.

2. Outlook for This Month

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

The central bank of India held ahead of schedule a monetary policy meeting that was originally scheduled for June 5 and announced a decision to cut the policy interest rate (repo rate) by 0.4%. It should also be mentioned that the policy stance was maintained at "accommodative." As a result, the interest rate was cut by a total of 1.15% as a result of the spread of COVID-19. The governor of the central bank made a comment to emphasize that the economic outlook has weakened compared to that of last assessment, thus strongly suggesting further monetary easing under the precondition that prices will continue falling, as is estimated by the central bank. In addition to the change of the policy interest rate, other measures of deregulation were also announced, such as the extension of the moratorium period for term loans and the interest rate payment due dates for working capital, as well as measures to aid trade. However, these announcements had only limited impact on the foreign exchange market.

Other important factors for the Indian rupiah market involve the activities of foreign investors. The amount of foreign investor holding of Indian government bonds decreased by more than INR 750 billion in three months since February, and foreign investors have been selling the Indian rupee and buying the U.S. dollar, due to: 1) the fall of government bond yields, 2) the sense of uncertainty over Indian fiscal policy based regarding economic stimulus measures and the decrease in tax revenues, and 3) the rise of hedge costs for the Indian rupee exchange market. In May, foreign investor capital outflow from the Indian stock market slowed down, offsetting bond sales. However, depending on the development of the situation in the times ahead, this could affect the foreign exchange market—as was the case in 2018.

There were some headlines related to India that attracted substantial attention in the market however, such as: an increase in market borrowing by India's government (from INR 7.8 trillion to INR 12 trillion), as announced on May 11, in order to compensate for the decline in national revenue; the decision to take economic stimulus measures worth 10% of the GDP as announced on May 12; and the emergency interest rate cut by the central bank as announced on May 22. However, these factors did not lead the Indian rupee exchange rate to move into any direction.

As was discussed in the article published last month, the Asian currencies market, including the Indian rupee exchange market, is impacted more by external factors than by domestic factors, such as in tensions between the U.S. and China (and the concomitant trends in the Chinese yuan exchange market), as well as by issues related to COVID-19, including news about the development of a vaccine.

This report was prepared based on economic data as of June 1, 2020.
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