Mizuho Bank

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Mizuho Dealer's Eye

July 2020

Mizuho Bank, Ltd.

Derivatives & Forex Department

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U.S. Dollar – July 2020

Expected Ranges **Against the yen: JPY106.00–111.50**

1. Review of the Previous Month

After remaining in the 107 yen range from mid-April throughout May, the dollar/yen pair seemed to emerge gently from this deadlock in June.

The US was swept by anti-racism demonstrations at the start of June. With investors also focusing on US/China frictions in relation to Hong Kong, the currency pair fell from the upper-107 yen mark to 107.38 yen, though it then surged to the upper-108 yen level while activating stop losses after stocks rose in Europe and the US (June 2). The US then released some better-than-expected economic indicators, including the US ADP National Employment Report for May and the ISM Non-Manufacturing Report on Business for May. With the ECB also announcing more asset purchases through its Pandemic Emergency Purchase Programme (PEPP), the pair hit the 109 yen range during Tokyo trading time on June 4. The markets were generally expecting a slide in the US employment data, but nonfarm payrolls actually rose by 2.5 million when the US May employment data was released on June 5, so the pair strengthened to 109.85 yen.

The yen then moved bullishly mid-June. With stocks sliding across the globe in the second week particularly, the cross yen weakened, with the dollar/yen pair also falling to the mid-106 yen mark. On June 15, the FRB announced it would begin buying a broad and diversified portfolio of corporate bonds as part of its Secondary Market Corporate Credit Facility (SMCCF). With the Bank of Japan also announcing more cashflow support on June 16, stock prices recovered and the dollar/yen pair bounced back to the mid-107 yen mark. However, it then dropped to 106.67 yen on market concerns of a second wave of Covid-19 infections in the US and Japan.

From the fourth week to the end of the month, the market was swept by speculation about end-of-month asset allocation movements and large-scale investor flows, with market participants attempting to push the pair below 106 yen. During NY trading time on June 23, the pair fell from the lower-107 yen level to 106.075 yen on speculation about yen buying on fund repatriations by Japanese firms. This level was met with hearty demand, though, so the pair climbed to the upper-107 yen mark at the month's end in blithe disregard of the results of economic indicators and so on. During this time, stocks weakened and bonds strengthened (interest rates fell) on concerns that the US would delay reopening the economy on concerns of a second wave of Covid-19 infections, though the impact on the dollar/yen pair was negligible.

2. Outlook for This Month

The markets will focus on two main themes: (1) The risk of increasing US/China tensions and (2) hopes that economic activity will fully resume. On a daily basis, market movements will also be shaped by (3) judgements about the risk of a second wave of Covid-19 infections and the subsequent impact on economic activity. From this month onwards, the key factor will be whether these themes lead to a rise or fall in market volatility. This writer believes volatility will fall, with US and other risk assets rising and the dollar/yen pair pushed up.

There will be some comments by high-ranking US officials that could be seen as exacerbating US/China frictions, but these will be aimed primarily at the US population ahead of the US presidential election. China will have its hands full trying to deal with the Covid-19 outbreak while calming structural instability through economic growth measures, so exacerbating tensions with the US will not be an option. Beijing will probably make some hardline comments aimed at Washington, but it would be best to regard these as part of attempts to shore up the internal situation. As such, US/China frictions will probably not act to push up volatility this month.

Since entering June, market participants have focused on the risk that the resumption of economic activity might be delayed by the spread of Covid-19, but this factor has not led to increased volatility either. This is clear from a glimpse at the VIX Index futures. Even when a second wave of infections swept the US late June, nothing much changed, with the index set to remain at the same level from the spot delivery month until the delivery month in October this year, just before the US presidential election, before falling from November until 2021.

This is probably because the markets have reacted well to measures announced by several countries toward a resumption of economic activity. These measures can be summarized as (1) investing in healthcare research/business with the aim of preventing a new outbreak, (2) providing fiscal and financial support to individuals and companies hit by the suspension/collapse of consumption and economic activity, and (3) providing central bank liquidity with the aim of avoiding a financial crisis. Though some of these moves have been delayed or appear excessive, on the whole they have not been met by uncertainty or disappointment, with the markets adjudging then to be more than acceptable. This assessment probably explains why concerns about the spread of Covid-19 and the impact on economic activity have only been short-lived themes for the markets.

As a result, it seems volatility will continue to fall until uncertainty or disappointment arises with regards to fiscal and monetary policies. Seasonally speaking, volatility tends to fall in July and rise in August, but it seems unlikely to rise in August this year. Funds tend to allocate assets in accordance with volatility, so in the above scenario, funds will probably invest in risk assets going forward, with the dollar/yen pair also pushed higher.

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	110.00 – 106.00	Bearish on the dollar	11 bears	109.00 – 105.00

* Ranges are central values

Tanaka	Bull	110.00 – 106.00	There are concerns about a second wave of Covid-19 infections worldwide, but further lockdowns seem unlikely given concerns about the economic impact, with the economy set to continue recovering at a gentle pace. There is uncertainty about US/China relations, but the dollar/yen pair will continue to move flatly on liquidity support.
Takeuchi	Bear	110.00 – 105.00	There is a dearth of new factors capable of shifting the market significantly, so the dollar/yen pair looks set to continue trading in a range. Under these circumstances, the pair's topside will probably be capped by growing concerns about a second wave of Covid-19 infections in the US and elsewhere.
Tsutsui	Bull	111.50 – 106.00	The dollar/yen pair will be swayed by volatility and supply/demand trends. Judging from the VIX Index futures, it seems market participants have priced in a new Covid-19 outbreak, with concerns now falling. This month will see a mechanistic build-up of risk parity fund assets, with the currency pair likely to be pushed higher.
Kato	Bull	110.00 – 106.00	The dollar/yen pair will be swayed by concerns about a new Covid-19 outbreak and potential yen selling as Japanese investors make new investments. As such, it is hard to discern a clear trend. However, yen selling will start to grow more pronounced on the supply and demand situation.
Seki	Bear	109.00 – 105.00	The yen is a deflationary currency. US government debt is also rising on large-scale fiscal mobilization, with the dollar also being pushed down by the US's deteriorating fiscal balance. Given these factors, it seems the dollar/yen pair will trade with a heavy topside this month. It could also be weighed down by efforts by the US government to guide the greenback lower in the run up to the US presidential election.
Yamagishi	Bull	110.00 – 106.00	The dollar is the base currency and investors will try to obtain it as a new wave of Covid-19 infections breaks out, so the dollar/yen pair looks set to move firmly. However, interest rates will be kept low by FRB monetary easing, with the yen also likely to be bought on risk aversion, so it is hard to see the currency pair undergoing a one-sided rise.
Ushijima	Bear	110.00 – 105.00	US stocks were bought sharply on expectations up until early June, though there are concerns about the gap between stock prices and the real economy. The greenback will probably be sold as stock prices are corrected on a second wave of Covid-19 infections and renewed US/China tensions.
Tasaka	Bear	109.00 – 105.00	Amid a scarcity of new factors, the dollar/yen pair looks set to continue trading in a range. With Joe Biden looking the likely winner of the presidential election, President Trump may take a more hardline stance with China while seeking to guide the dollar lower in the run up to the election, so caution will be needed.
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 economic activity, for example, with the dollar/yen pair also likely to be pulled higher.
Ueno	Bull	110.00 – 106.00	One positive factor will be the comparatively firm movements of risk assets. However, with no end in sight to the Covid-19 crisis, it is hard to be optimistic based on this factor alone. As attention focuses on the US presidential election, the dollar/yen pair will probably remain deadlocked for

			now.
Yamaguchi	Bear	109.00 – 106.00	Recent economic indicators have confirmed that the US economy it bottoming out, but there remains the risk of a second wave of Covid-19 infections, so the dollar/yen pair looks set to move with a heavy topside. The pair could face more downside risk if US/China frictions escalate.
Onozaki	Bull	110.00 – 106.00	The dollar/yen pair will continue to trade in a range. Business activity is starting to pick up again, but it is hard to imagine normal service resuming for individuals afraid of a second wave and companies riven with nervousness. For now, investors will continue to move cautiously on uncertainty about the economic situation.
Tamai	Bull	109.00 – 106.00	There are likely to be some restrictions on economic activity given concerns about a second wave of Covid-19 infections, but it is hard to imagine a lockdown like the one in April being imposed. The dollar/yen pair will probably move firmly on expectations for a gentle recovery. However, the pair's topside could be capped by uncertainty about the US presidential election, for example.
Harada	Bear	109.00 – 105.00	Though economic activity has resumed, the risk of a new Covid-19 outbreak cannot be ignored. US stock markets are recovering, but the real economy is not keeping up, so the dollar/yen pair will trade with a considerable amount of downside risk.
Oba	Bull	109.00 – 106.00	With some US states putting a temporary freeze on moves to resume economic activity, the concerns of market participants are being fully priced in. Even if the US does not enjoy a V-shaped recovery, the real economy could undergo a U-shaped recovery. Buying will be stimulated when the dollar/yen pair hits 106 yen again.
Kobayashi	Bear	110.00 – 105.00	Economic activity is being held back in the US by concerns of a second wave of Covid-19 infections. With US/China trade frictions also leading to risk aversion, the dollar/yen pair will probably trend lower.
Takamura	Bear	109.50 – 105.50	The consensus is that the FRB will keep its interest rate outlook unchanged for now. With Japanese/U.S. interest-rate differentials now eradicated, the dollar/yen pair will probably move in a range overall, providing there is no second wave of Covid-19 infections. Given the weak recovery of economic indicators and concerns about a second wave, there is a sense stock markets are moving too bullishly, so the yen could trend higher on some stock market correction.
Matsumoto	Bear	109.00 – 106.00	The markets will continue to price in a second wave of Covid-19 infections in the US and tensions between the US and China. There are also concerns about unruly behavior by President Trump in the run up to the US presidential election. Given these uncertainties, it is hard to imagine any one-sided dollar buying.
Henmi	Bear	109.00 – 105.00	There are growing concerns about a second wave of Covid-19 infections in the US and Europe, while the outbreak look set to peak in the emerging economies from summer onward, with the dollar/yen pair set to move heavily on deep-rooted uncertainty. Furthermore, with President Trump falling behind Joe Biden in the polls, he could make some moves to boost his support, so caution will be needed.
Otani	Bull	110.00 – 106.00	There are growing concerns in the US about a second wave of Covid-19 infections and a slowing economic recovery. Under these circumstances, the dollar will be bought on risk aversion, with the dollar/yen pair moving firmly as a result. However, the yen will also be bought at times of risk aversion, so the pair will continue to move in a range.
Okuma	Bear	109.00 – 105.00	There are lingering concerns about deteriorating US/China relations and trade frictions between the US and Europe. When risk aversion swells on growing concerns about a new Covid-19 outbreak in the US, the yen will be bought more than the dollar, so the dollar/yen pair is unlikely to rise.

Junki Onozaki, Forex Sales, Derivatives & Forex Department

Euro – July 2020

Expected Ranges **Against the US$: US$1.1000–1.1400**
Against the yen: JPY118.00–123.00

1. Review of the Previous Month

The euro was bought at the start of June, though the euro/dollar pair moved bearishly in the latter half of the month.

The pair opened the month trading at the lower-$1.11 mark on June 1. It then moved firmly on bullish European stock movements. Expectations grew that the German government would introduce a new stimulus package worth up to 100 billion euros. With hopes also rising for a resumption of economic activity and further stimulus measures in each European country, European stocks rose sharply and the pair rallied to the $1.12 mark. As expected, the ECB Governing Council kept policy rates fixed when it met on June 4. However, euro buying accelerated after the Council unexpectedly decided to increase the envelope for the PEPP by 600 billion euros. ECB president Christine Lagarde also commented that growth would decline at "an unprecedented pace in the second quarter of this year," adding that "annual real GDP is expected to fall by 8.7% in 2020 and to rebound by 5.2% in 2021." This focused market attention on an expansion of monetary easing, with the pair subsequently soaring to $1.1362.

On June 10, the pair edged higher on falling US interest rates. It then hit a monthly high of $1.1423 after FRB chair Jerome Powell said during a press conference that an economic recovery would take time. The pair then rose to the mid-$1.13 mark on June 12 on reports that the German government had reached an agreement on VAT cuts. However, the dollar was then bought toward the end of trading, so the pair moved around the mid-$1.12 level.

During FTA negotiations on June 15, the UK prime minister and the EU Commission president said the Brexit transitional period would not be extended, with talks instead accelerated in order to reach a deal. With US interest rates also falling on news about FRB corporate bond purchases, the currency pair climbed to the lower-$1.13 level. However, the greenback was then bought on risk aversion on concerns about a second wave of Covid-19 infections in the US and China, with the pair dropping below $1.12 on June 18. On June 23, US presidential aide Peter Navarro said the trade deal with China was over. This focused attention on deteriorating US/China relations, with the pair dropping to the lower-$1.12 mark as a result. Mr. Navarro later denied this, though, so the pair rallied to the upper-$1.12 level. It then climbed to $1.1348 after several European nations released better-than-expected PMIs. The dollar was then bought on risk aversion as investors reacted badly to news that the US was considering hitting EU and UK goods with new tariffs worth $3.1 billion. On June 26, meanwhile, ECB president Christine

Lagarde commented that "we probably have passed the lowest point [of the Covid-19 outbreak…but] the recovery is going to be incomplete." All this saw the pair floating around $1.12.

2. Outlook for This Month

The euro/dollar pair will probably trade without a clear sense of direction in July.

The ECB Governing Council decided to increase the €750 billion envelope for its Pandemic Emergency Purchase Programme (PEPP) by €600 billion to a total of €1,350 billion, with the timeframe of the PEPP extended to at least the end of June 2021. The markets reacted well to this news and the euro was bought. This unprecedented move by the ECB will probably see off any panic-driven movements, with the markets unlikely to be roiled even in the event of a second wave. However, investors should be aware that the situation remains unpredictable. Business activity in Europe has started to resume after the lockdowns instituted to prevent Covid-19 from spreading, but sentiments are recovering at a sluggish pace. Even though state of emergency declarations and lockdowns have started to be lifted, people are still afraid of a second wave, while it is also hard to imagine companies resuming normal activity given the uncertainty about the future. Given this economic uncertainty, individuals and firms will probably remain cautious for now. Judging from the present situation, it seems some time will be needed before commercial activity bounces back and the economy recovers. Based on this, the euro/dollar pair is unlikely to have its topside tested by investors actively buying the euro.

However, the pair will probably be supported by external factors. The US was 'the only country with interest rates' after Japan and Europe introduced negative interest rates, but US rates are now falling in the wake of the FRB's emergency rate cuts, for example. As a result, the differential on US and German 10-year interest rates has shrunk by over 1.0% this past year. This will probably lead to a decline in dollar buying on the discrepancy between US and Japanese/European interest rates. Furthermore, when Covid-19 first emerged, Italy and other European nations stood alongside China when it came to the sheer number of infected people. However, Covid-19 cases are now surging in the US, with the Covid-19 outbreak spreading beyond Europe to encompass the whole world. As such, it is hard to imagine investors holding off from buying the euro solely on concerns about the economic situation in Europe.

Under these circumstances, though it is hard to make a bullish prognosis for the euro/dollar pair given the ongoing concerns about the Covid-19 outbreak, the pair's room on the downside will also be capped by external factors.

Dealers' Market Forecast

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

Bullish on the euro	12 bulls	1.1500 – 1.1000	Bearish on the euro	9 bears	1.1400 – 1.0900

* Ranges are central values

Tanaka	Bear	1.1400 – 1.1000	Attention will focus on the extraordinary EU summit held in the middle of the month to discuss the European recovery fund. The Frugal 4 are showing a willingness to compromise, but the road to an agreement remains steep. The dollar has been sold on improved sentiments, but there are doubts about how long this trend will last, with the euro/dollar pair set to peak out for a time.
Takeuchi	Bear	1.1400 – 1.1000	Hopes regarding the European recovery fund have run their course. The negotiations will probably get stormier ahead of the fund's implementation, so the euro is unlikely to undergo a one-sided rise. The economic fundamentals also suggest a dearth of buying factors, so although the euro is moving firmly due to a lack of alternatives, this trend will probably be short-lived.
Tsutsui	Bull	1.1500 – 1.1100	The euro's bearish trend seems to have ended last month. The euro is clearly being supported by the monetary policies of each nation, with the single currency's slide also halted by financial measures, including the expansion of the PEPP/APP programs. As such, it seems the euro/dollar pair's downside will be capped by supply and demand trends.
Kato	Bear	1.1400 – 1.0900	There remain concerns about a second wave of Covid-19 infections, so the global economic recovery will be sluggish in nature. With short-term investors building up euro shorts, the euro/dollar pair is unlikely to rise further.
Seki	Bull	1.1500 – 1.1100	The euro will probably rise in the face of dollar bearishness. Further negative interest rates would lead to systemic instability, so this option will probably be avoided. Euro buying is likely to be supported by the recovery fund and expectations for the ECB's bold policy response.
Yamagishi	Bull	1.1500 – 1.1000	The euro faced increased selling pressure on the huge impact of the Covid-19 outbreak, but the situation in Europe has now calmed down compared to the US, where cases are surging. With US interest rates also being kept low, there is not much room for a widening of US/European interest-rate differentials, so the euro/dollar pair will continue to be bought back.
Ushijima	Bull	1.1500 – 1.1100	US stocks and the dollar moved firmly up until June, but the greenback will probably undergo some adjustive selling in the near future. Europe's fundamentals remain weak, but the euro will be supported by dollar bearishness, with the euro/dollar pair likely to remain firm.
Tasaka	Bull	1.1500 – 1.1000	The euro is unlikely to be bought on European economic trends or discussions about the European recovery fund. However, the euro/dollar pair will be supported as the greenback moves bearishly on expectations for low US interest rates and moves by President Trump ahead of the presidential election.
Omi	Bear	1.1300 – 1.0800	The euro/dollar pair will continue to trend lower on the monetary easing measures introduced to deal with Covid-19 together with the impact of the severity of the Covid-19 problem and so on in Europe.
Ueno	Bull	1.1500 – 1.1000	The euro could move bullishly if investors seek a safe harbor from risk assets. It is hard to see a road back to the economic situation before Covid-19, so the euro/dollar pair looks set to continue rallying.

Yamaguchi	Bear	1.1400 – 1.0900	The euro's rise at the start of June was probably due to rising hopes that the economy would be boosted by fiscal and monetary policy. The euro will probably be sold back as these hopes wane when the number of Covid-19 cases in Europe rises and economic indicators fail to improve.
Onozaki	Bull	1.1400 – 1.1000	Investors are unlikely to actively chase the euro/dollar pair's topside given uncertainty about a second wave of Covid-19 infections. However, though market participants initially steered clear of the euro as the number of infected people surged in Italy and so on, the number of cases is now increasing across the world, so the currency pair may show signs of firmness going forward.
Tamai	Bear	1.1400 – 1.0900	There remains uncertainty about an agreement on the recovery fund, so after rising on hopes, the euro/dollar pair may now trade with a heavy topside. The dollar will also be bought at times on risk aversion related to concerns about a second wave of Covid-19 infections, so the pair looks set to move bearishly.
Harada	Bear	1.1400 – 1.0600	Though productive activity is gradually resuming in Europe, the eurozone continues to release several bearish economic indicators. An economic recovery seems unlikely right now. As such, the euro/dollar pair looks set to continue trending lower.
Oba	Bull	1.1400 – 1.1000	The recovery fund is the subject of stormy negotiations. The euro/dollar pair rose to $1.14 on anticipation of a resumption of economic activity, though it subsequently lost momentum. With the economy unlikely to recover beyond expectations, the pair's topside will be capped. However, with European/US interest-rate differentials also unlikely to widen, the pair will move firmly to a certain extent.
Kobayashi	Bear	1.1400 – 1.0800	The eurozone's June composite PMI posted a better-than-expected improvement, with the euro/dollar pair bouncing back on improved sentiments. However, the pair now looks set to move bearishly on concerns about US/Europe trade frictions and a second wave of Covid-19 infections.
Takamura	Bull	1.1500 – 1.1100	The euro/dollar pair looks set to move firmly. US interest rates are moving stably at lows, with the US also in worse shape than the eurozone with regards to the spread of Covid-19. The euro has no buying factors of its own, but it will move firmly compared to the dollar.
Matsumoto	Bull	1.1400 – 1.1000	There is not much room for a widening of US/European interest-rate differentials, so the euro/dollar pair will probably remain firm considering the interest rate situation. One euro-buying factor was the plan to set up a European recovery fund, but negotiations have stalled, so the pair looks set to trade with a heavy topside too.
Henmi	Bull	1.1500 – 1.1000	There are growing concerns about a second wave of Covid-19 infections in the US and Europe, while the outbreak look set to peak in the emerging economies from summer onward, with the dollar likely to be sold on deep-rooted uncertainty. Furthermore, with President Trump falling behind Joe Biden in the polls, he could make some moves to boost his support, so caution will be needed.
Otani	Bear	1.1400 – 1.1000	The euro/dollar pair is moving firmly on expectations for an economic recovery and hopes regarding a Covid-19 recovery fund, but European nations will find it hard to reach a consensus, so there might be no agreement in July. There is room for a downswing given how investors have built up euro long positions, so caution will be needed.
Okuma	Bull	1.1500 – 1.1000	Despite stormy negotiations about a Covid-19 recovery fund, the markets have reacted well to the ECB's Covid-19 measures. With the US, Europe and Japan all adopting accommodative stances, the dollar will lose momentum and the euro/dollar pair looks set to move firmly.

Joseph McElhill, Europe Treasury Department

British Pound – July 2020

Expected Ranges	**Against the US$:**	**US$1.2150–1.2850**
	Against the yen:	**JPY131.00–139.00**

1. Review of the Previous Month

In June, the pound/dollar pair fluctuated wildly from $1.22 to $1.28.

After moving firmly at the end of May, sterling rose in the first week of June to renew monthly highs against the dollar, yen and euro. On June 4, Bank of England (BOE) governor Andrew Bailey warned domestic banks to prepare for a no-deal Brexit at the year's end. This saw the pound's movements peaking out, with the pound/dollar pair sliding from the $1.26 range to around $1.2510. However, with the greenback sliding across the board, the pair edged higher again for three straight days, with sterling hitting 139.74 yen and $1.2813 against its Japanese and US counterparts, its highest levels since the end of March.

The pound dropped back in the second week. The UK released its April industrial production index and manufacturing index on June 12. These both fell sharply below expectations and this pushed the pound lower. However, the pound/dollar pair's weakness was primarily down to dollar bullishness in the wake of the June 9/10 FOMC meeting. In its statement, the FOMC indicated its intention to keep interest rates from rising above current levels. This led to growing concerns about the introduction of a YCC policy, so the greenback was bought on risk aversion, with the pound/dollar pair pushed down from the $1.28 range to the $1.25 range, with its gains from the start of the month essentially wiped out.

When the BOE's Monetary Policy Committee (MPC) met on June 18, it kept the base rate fixed at 0.10% while announcing it would pump another 100 billion pounds into its asset purchasing program. This was all in accordance with market expectations. However, though the base rate decision was unanimous, the second decision was reached by an 8-1 vote. This was read as hawkish by some market participants, so the currency pair rallied from the $1.23 range to the $1.24 range.

Sterling strengthened in the first half of the fourth week. Looking back, it seems this was due to dollar bearishness. It is hard to find the exact cause, but some observers believe the dollar was sold after the markets reacted badly to news about a new surge in Covid-19 cases in the southern part of the US. In the wake of this news, the pound rose against the dollar and yen to hit $1.2543 and 133.99 yen respectively. On June 23, though, US presidential aide Peter Navarro said the trade deal with China was over. This led to risk aversion on concerns about the global economy, with the yen and dollar both strengthening. Sterling was sold against both currencies to end the month trading around 132.30 yen and around $1.2280 respectively.

2. Outlook for This Month

The pound will continue to move flatly with an eye on the greenback's movements in July.

A glance at sterling's movements against the yen and dollar these past three months shows the UK unit generally moving in the $1.24 range against the greenback and around 133 yen against its Japanese counterpart.

The dollar will be bought on risk aversion early July in the wake of the FOMC meeting, so the pound/dollar pair will move bearishly, though it is unlikely to break below its end of March low around $1.2150. The surge in new Covid-19 cases in the southern part of the US and Florida has significantly hit risk sentiments in the financial markets these past two weeks. However, if the situation improves on the restrictions that were re-imposed last weekend, this could result in a US-led global stock rally, with the pound/dollar also likely to rise.

However, with restaurants, bars, museums and other public facilities in the UK set to open from July 4, there are lingering concerns about a 'second wave,' so to pair's topside will probably be held down.

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

Australian Dollar – July 2020

Expected Ranges	**Against the US$:**	**US$0.6770–0.7060**
	Against the yen:	**JPY72.50–76.70**

1. Review of the Previous Month

The AUD/USD pair rose sharply in the first week of June on risk appetite. With the Australian 1Q GDP announcement looming, the pair rose to a high of $0.6982 on June 3 on expectations for a GDP upswing. In the end, the announcement was broadly in line with expectations, so the market regained composure and the pair traded at the lower-$0.69 mark. It then floated in the lower-$0.69 range on June 4. With stock prices undergoing some correction, the pair fell slightly on some selling for profit taking during Asian trading time. The April Australian retail sales figure posted a record slump, but the impact on the currency pair was muted. On June 5, the pair temporarily topped $0.7000, its highest mark since January. With commodity prices rallying and economic activity resuming, the pair hit $0.7013.

The second week saw an Australian holiday on June 8. US interest rates fell and the greenback was sold following a successful auction of US 3-year treasuries, with the AUD/USD pair subsequently rising to $0.7030. Risk appetite continued on June 9, with the pair renewing a 2020 high of $0.7043, though it then dipped to right around $0.69 on adjustive selling to lock in profits. The Australian dollar was also weighed down by deteriorating relations between Australia and China. On June 10, the pair climbed on exporter real-demand flows and short covering to trade around $0.7000. The FOMC met during the early hours of Sydney trading time on June 11, with the greenback sold after the FOMC said it expected interest rates to remain at zero until the end of 2022. This saw the currency pair hitting a 2020 high of $0.7063. New Covid-19 cases in the US then increased at their fastest pace since mid-May. This led to concerns of a second wave, so risk appetite waned and the pair dipped to the lower-$0.68 mark.

With concerns of a second wave rising in the third week, the pair fell to $0.6777 on June 15 after Australian prime minister Scott Morrison predicted the budget deficit would balloon to record levels in 2020 and 2021. However, the FRB then announced during US trading time that it would be buying corporate bonds. With three US stock indices then returning to positive territories, the AUD/USD pair also rallied to around $0.6920. The minutes to the June RBA monetary policy meeting were released on June 16. They suggested that the economic downswing might not be as bad as originally thought, with the RBA also appearing to stick to its accommodative approach. This release saw the pair climbing to $0.6977. The pair moved between $0.6830 and $0.6930 in the latter half of the week before ending the week trading at the lower-$0.68 level.

At the weekend, the Australian state of Victoria extended its state of emergency owing to a surge in urban Covid-19 cases. As a result, the pair opened the next week trading around $0.6810 on June 22. US stock futures then returning to positive territories after an initial dip, with the AUD/USD pair also climbing to the upper-$0.69 mark. On June 23, US presidential aide Peter Navarro said the trade deal with China were over. This saw the pair crashing temporarily to $0.6850, though it then rallied to around $0.6930 after Mr. Navarro denied this news. In the latter half of the week, the southern states of the US reports a record rise in new Covid-19 cases. With Texas also imposing some restrictions on economic activity to keep infections in check, US stocks fell sharply. The currency pair also tumbled to the mid-$0.68 level.

2. Outlook for This Month

In July, the AUD/USD pair will probably trade in a range around $0.68 to the $0.69 range.

The pair will be supported on the downside by four factors. Firstly, the greenback will be sold every time investors are reminded that FOMC members expect interest rates to remain at current levels until 2022. Secondly, recent discussions suggest yield curve controls (YCC) might well be introduced in the US in the second half of 2020. Thirdly, the US June employment data and business confidence indices are expected to show improvements, with Australia's May retail sales figure and so on also expected to pick up. Fourthly, when the second wave of Covid-19 infections calms, the pair might well return to the $0.69 range on risk appetite.

However, there are also two reasons why the currency pair might be pushed lower. Firstly, Australia and other countries may be forced to halt efforts to resume economic activity depending on the speed of the second wave of Covid-19 infections, so investors should monitor the number of new cases. Secondly, the pair could be swayed by news about US/China frictions or Australia/China tensions, so this situation will require vigilance too.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – July 2020

Expected Ranges **Against the US$: C$1.3500–1.4000**
Against the yen: JPY75.00–80.00

1. Review of the Previous Month

The USD/CAD pair opened June trading at C$1.3711. As lockdowns began to be eased across the world, economic activity underwent a phased resumption. Optimism spread that the Covid-19 outbreak had peaked out. Crude oil prices (WTI) also rose on growing hopes for a recovery in fuel demand. Though prices were weighed down by uncertainty about the future, the Canadian dollar was still bought. However, risk aversion intensified toward the month's end on uncertainty about a second wave of Covid-19 infections, so crude oil prices fell again and the Canadian dollar edged lower.

The Bank of Canada (BOC) kept the policy rate fixed at 0.25% when it met on June 3. As the number of Covid-19 patients trended lower, optimism grew about a gradual domestic economic recovery. The Canadian dollar was bought and the currency pair weakened to C$1.3481. The Canadian April trade balance was released on June 4, with the deficit surging from C$1.53 billion the previous month to hit C$3.25 billion. Exports and imports both fell.

The Canadian May employment data was then released on June 5. The number of jobs increased by 289,600, up on expectations of a slide in the region of 500,000, with the employment situation recovering slightly from the sharp downturn seen in April. At 13.7%. the May unemployment rate hit a record high, though the result was as expected, so it had a limited impact on the markets. The Canadian dollar was then bought on hopes that an OPEC+ meeting would reach an agreement on coordinated crude oil production cuts. Crude oil prices then rose when an agreement was reached on a substantial crude oil production cut on June 6. Crude oil hit to $39.91/barrel, with the USD/CAD pair also dipping temporarily to C$1.3316. When the FOMC met on June 10, it predicted that policy rates would remain near zero until 2020, with the FOMC also announcing its intention to continue with measures to stimulate the economy. It also emphasized the current uncertainty and the major risks facing the US economy. Stock prices fell and the greenback was bought on risk aversion. Crude oil prices dipped back to $34.36 and the Canadian dollar was sold at a faster pace, with the currency pair rallying to C$1.3686 before then trading between C$1.35 and the lower-C$1.36 level.

At the month's end, global Covid-19 cases topped 10 million, with fatalities topping 500,000. The International Monetary Fund (IMF) then downgraded its 2020 forecast for global economic growth from -3.0% in April to -4.9%. Reports then emerged that several regions in the US would temporarily halt moves to re-open the economy in the face of a second wave of Covid-19 infections. As pessimism grew, the USD/CAD pair rose slightly from the mid-C$1.36 mark to the lower-C$1.37 level.

2. Outlook for This Month

The Bank of Canada (BOC) kept the policy rate fixed at 0.25% last month. As the number of Covid-19 cases fell in Canada, economic activity underwent a phased resumption. Canada has now moved to phase two. Despite optimism that the economy bottomed out in April, the BOC said it would maintain low interest rates given uncertainty about the future amid concerns about a second wave of infections.

The North America Free Trade Agreement (NAFTA) will end and the United States-Mexico-Canada Agreement (USMCA) will begin on July 1. With this date looming, reports say the US is planning reimpose tariffs on imports of aluminum from Canada, with the US once again calling for Canada to open up its markets to US dairy products, something Canada has long resisted. There are concerns that the US's protectionist stance will lead to worsening US/Canadian relations. The weakness of the Canadian dollar is good for exports, but with the US economy (Canada's largest export market) only recovering in fits and starts, export growth is unlikely right now.

With the number of Covid-19 cases swelling in the US, the EU is looking into banning travel from the US. A ban on unnecessary or non-emergency travel between the US and Canada was extended to late July and it will probably be extended again. Aircraft demand is likely to remain in the doldrums for now, so although oil-producing nations have cut output, it is hard to see the balance improving between crude oil demand and excessive inventories. The number of operating Canadian oil and gas rigs had dropped to record lows, with production being reduced substantially. Companies in the Canadian oil sands industry have sharply cut spending on environmental measures in order to reduce costs, but this has driven away disgruntled investors.

The BOC will meet to set the policy rate on July 15. The markets expect the rate to be kept at 0.25%. When it comes to US/Canada trade, attention will focus on the July 1 start of the USMCA. Covid-19 cases and fatalities have risen across the globe in a new stage of the outbreak. Moves to develop a Covid-19 vaccine have accelerating worldwide, with the National Research Council Canada(NRC) announcing in May that it would cooperate with the Chinese firm CanSino Biologics in the biotechnology field to develop a vaccine, for example. Some reports say a vaccine could be ready by autumn while others say it will take 18 months. This has roused hopes, but it is still too early to see how events will pan out.

The Canadian dollar will remain bearish for now as the greenback is bought on risk aversion.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – July 2020

Expected Ranges	**Against the US$:**	**KRW1,180–1,240**
	Against the yen:	**JPY8.547–9.174 (KRW100)**
		(KRW10.900–11.700)

1. Review of the Previous Month

In June, the USD/KRW pair edged lower while trading in a range between KRW1185–1235.

The pair opened the month trading at KRW1230.30. It then moved flatly before soon hitting a monthly high of KRW1232.00. In a press conference held on the last weekend of the end of May, President Trump said he would end preferential treatment for Hong Kong, though he did not mention any specific economic policies aimed at China, so concerns about US/China frictions eased. Global risk sentiments improved sharply as economic activity resumed. With news emerging the same week that South Korea would introduce a third supplementary budget, the largest one in history, the USD/KRW pair fell. The US released its May employment data on June 5. This was up sharply on expectations, so hopes for an economic recovery grew and risk assets were bought back at a faster pace.

On June 8, meanwhile, the US financial authorities announced they would be expanding the Main Street Lending Program (a lending scheme aimed at small and medium-sized companies) to include more firms. This led to dollar selling, with the currency pair hitting a monthly low of KRW1188.60, its lowest point since March. On June 10, the FOMC predicted that interest rates would be kept at zero until 2022, while FRB chair Jerome Powell also struck a dovish tone when he said the negative hit to the economy could last for a longer period. Despite this, the view grew that further easing in the US was not on the cards. Stock prices had previously risen at a breakneck pace, but global stock markets now plummeted. As a result, the USD/KRW pair rocketed to around KRW1210.

During overseas trading time on June 15, the FRB announced it would buy US corporate bonds using its emergency lending program. Following a period of correction, stock prices now bottomed out and the currency pair dropped back to around KRW1204. After close of trading on June 16, though, the pair rose after North Korea blew up its joint liaison office with South Korea. The pair then rose to KRW1218.60 after South Korea's president strongly criticised the demolition. However, the Bank of Korea (BOK) then intervened in the currency markets as it focused on the won's bearishness on the back of the North Korean problem, so the won's slide was short-lived. Pyongyang then suspended a military action plan aimed at South Korea and it removed some loudspeakers near the demilitarized zone (DMZ), so geopolitical risk waned and the currency pair broke below KRW1200 again on June 24, but with the number of new Covid-19 cases accelerating in the US and Brazil, the greenback was bought and the pair dropped back to around KRW1210. However, the won was bought on real demand at the month's end, so the pair weakened to close the month at KRW1203.00 on June 30.

2. Outlook for This Month

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

The main market driver has been news about a second wave of Covid-19 infections, with market participants growing less reactive to news about an economic recovery as urban lockdowns are lifted. Stock prices have bounced back strongly as each national government and central bank pursues accommodative policies. IT stocks and other equities with growth potential continue to climb, but construction and finance-related equities are moving sluggishly, with investors growing more resistant to the idea of indiscriminate stock buying. South Korea also faces geopolitical risk in relation to North Korea, so there seems a dearth of factors conducive to active won buying.

Other market topics will include President Trump's moves ahead of the November US presidential election. The US/China agreement is still alive right now, with the two sides still talking, but market sentiments have worsened on news that Washington is looking at imposing new tariffs on goods from Europe and the UK, so market participants will probably continue buying the dollar intermittently on risk aversion.

When it comes to monetary policy, the US and South Korea will probably remain in wait-and-see mode for the time being. FRB chair Jerome Powell has ruled out negative interest rates, so for now easing will probably involve tweaking the conditions of the bond purchasing program introduced by the FRB to tackle Covid-19. When the Bank of Korea (BOK) cut interest rates on May 28, the BOK governor said policy rates were nearing the effective lower bound, so the Monetary Policy Board will probably just monitor how the markets are reaching to current easing policies when it meets on July 16. The BOK also discontinued its operation to provide dollar liquidity on June 19, so it is unlikely to introduce more easing measures from here on unless the economy stalls further. As such, the USD/KRW pair will not be impacted significantly by monetary policy, with the market swayed instead by the aforementioned second wave of Covid-19 infections and US policy.

However, the BOK intervened to buy the won when geopolitical risk related to North Korea flared up on June 17, with the authorities obviously concerned about won bearishness, so the won is unlikely to fall too far. As such, the pair will probably move firmly with its ceiling at the KRW1240 resistance line. US and global stocks rose from the end of March onwards on monetary and fiscal easing, but there could be a sharp correction if expectations for rising stock prices wane, so market participants will need to monitor stock movements.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – July 2020

Expected Ranges	**Against the US$:**	**NT$29.40–30.00**
	Against the yen:	**JPY3.55–3.70**

1. Review of the Previous Month

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

The pair opened the month trading at TWD30.000. It moved at TWD29.80 at the start of June as Taiwanese stocks rose on the back of demonstrations in the US after a white police officer killed a black man. It dipped temporarily below TWD29.80 as the Taiwan dollar continued to move bullishly on capital inflows. With the US also posting some better-than-expected employment data, stocks rose and the currency pair weakened to around TWD29.72.

With the FOMC meeting moving mid-June, US interest rates fell on concerns about the introduction of yield curve controls (YCC), so the greenback was sold and the pair dropped to around TWD29.60. Though the FOMC postponed the introduction of YCC, FRB chair Jerome Powell said such a move was under consideration, so the greenback continued to be sold and the pair fell below TWD29.60 temporarily. However, the pair then rose to around TWD29.67 as stocks fell across the globe on concerns about a second wave of Covid-19 infections. Risk appetite then grew on reports that the Trump administration was considering a $1 trillion infrastructure plan, with Taiwanese stocks rising and the currency pair dipping below TWD29.60 again. With Taiwanese stocks moving firmly, investors then tried pushing the pair below TWD29.50. The Monetary Policy Meeting of the Central Bank of the Republic of China (Taiwan) maintained the status quo, so the impact on the markets was muted.

The latter half of the month began with a lack of incentives, with exporters selling the greenback ahead of the Dragon Boat Festival holidays. This trend continued after the holidays, with the greenback sold at a faster pace, so the pair fell below TWD29.50 for the first time in around 26 months before sliding temporarily to TWD29.423 on the last trading day of the month. However, there was some adjustment before the end of the day, so the pair closed the month trading at TWD29.660.

2. Outlook for This Month

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

In June, the pair was swayed at times by the volatile movements of stocks on news about a second wave of Covid-19 infections, but there was deep-rooted appetite for Taiwan-dollar buying, with the unit hitting its highest level against the greenback in around two years.

The Central Bank of the Republic of China (Taiwan) kept the policy rate at a record low 1.125% at the June Monetary Policy Meeting in order to lessen the domestic impact of the Covid-19 outbreak and support fiscal policies and monetary easing. However, it revised its 2020 GDP outlook from 1.92% as of March to 1.52%. Nonetheless, the bank predicted that the economy would bottom out in the second quarter before bouncing back thereafter.

A glance at Taiwanese economic trends shows manufacturers of electronic parts performing strongly despite the Covid-19 crisis thanks to a rise in remote working, with export orders moving firmly in May at +0.4% year-on-year.

With the Covid-19 crisis continuing in July, the Taiwan dollar looks set to continue moving strongly on Taiwan's robust economy. The unit has hit a two-year high, though, so it will probably move with a heavy topside. Furthermore, with uncertainty still remaining when it comes to US/China relations and the Covid-19 outbreak, investors should be wary of risk aversion.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – July 2020

Expected Ranges	**Against the US$:**	**HK$ 7.7500–7.7800**
	Against the yen:	**JPY 13.50–14.00**

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

In June, the Hong Kong dollar appreciated to HKD 7.7500 to the U.S. dollar—the upper end of the fluctuation band. The Hong Kong Monetary Authority (HKMA) intervened in the foreign exchange market by selling the Hong Kong dollar in order to maintain the U.S. dollar peg. Concerns over China's National Security Law for Hong Kong have already been reflected in the market, and market participants are waiting for the next action to be taken by U.S. President Donald Trump regarding the discontinuation of preferential treatment for Hong Kong as a separate customs and travel territory from the rest of China. The benchmark Hang Seng Index has already rallied from the depreciation caused by the confusion in the market related to the National Security Law, while the Hong Kong dollar market is also supported by pressure for capital inflow based on IPOs of Chinese companies, as well as on the reflow of dividends. In reaction to the HKMA's action to supply liquidity in the market, the interest rate differentials between the Hong Kong dollar and the U.S. dollar narrowed, bringing the one-year Hong Kong dollar forward point back to the +300-point level. Various restrictions to prevent the propagation of Covid-19, such as measures of social distancing, have been gradually loosened, somewhat improving retail sales. On the other hand, the May unemployment ratio rose to 5.9%, exceeding the highest figure recorded at the time of the financial crisis in 2009.

Hong Kong interest rate market in June

In June, the Hong Kong dollar interest rates fell as a result of the HKMA's measure to provide liquidity. As HKMA intervened in the foreign exchange market by selling the Hong Kong dollar and buying the U.S. dollar, the aggregate balance rose from HKD 94.7 billion to HKD 126.5 billion—the highest level in approximately two years. Despite active IPOs, the one-month Hong Kong dollar HIBOR and the three-month Hong Kong dollar HIBOR fell from a level near 2% to almost 0.50% and 0.80%, respectively. As a result, the difference from the U.S. dollar LIBOR narrowed from around 90 basis points to 30 basis points and 50 basis points, respectively. The Hong Kong dollar interest rate swap rate followed the fall of the U.S. dollar interest rate swap rate that resulted from the statement by the Federal Reserve Board (FRB) to imply that the policy interest rate would be maintained at near-zero for several years to come.

2. Outlook for This Month

Hong Kong dollar spot exchange market in July

In July, the U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate within the range between HKD 7.7500 and HKD 7.7800. The Hong Kong dollar is expected to remain robust in July thanks to IPOs of Chinese companies, as well as to the reflow of dividends. As a result of the market intervention by the HKMA to supply liquidity, the interest rate differentials between the Hong Kong dollar and the U.S. dollar have narrowed, making the Hong Kong dollar carry trade less attractive to investors. Furthermore, U.S. President Donald Trump implied a revision on the preferential treatment for Hong Kong based on its introduction of the National Security Law, which may raise the volatility of the Hong Kong dollar market. It is unlikely for President Trump to introduce severe monetary sanctions, such as to discontinue the free exchange between the U.S. dollar and the Hong Kong dollar, as doing so would risk the status of the U.S. dollar as the key currency. In Hawaii, U.S. Secretary of State Michael Pompeo held dialogue with China's top diplomat, Yang Jiechi, of the Politburo of the Communist Party of China, and the tensions between the U.S. and China were somewhat mitigated. As Hong Kong's pro-democracy group has been losing power, it is unlikely for large-scale protests to continue. The key to the Hong Kong dollar market would be future actions by U.S. President Donald Trump after the Chinese authorities have announced the details of the National Security Law for Hong Kong.

Hong Kong dollar interest rate market in July

In July, the Hong Kong dollar interest rate is forecast to fall further, following the fall of the U.S. dollar interest rates caused by the dovish attitude of the FRB. Once the widening of the aggregate balance and the rise of capital demand at the end of the quarter period have peaked out, downward pressure on the Hong Kong dollar interest rates is likely to grow. As the pressure for capital outflow based on concerns over the confusion in the market surrounding the National Security Law has been generally weakening, the Hong Kong dollar interest rates are expected to fall, along with the stability of the market.

Kei Yano, Treasury Department, MHBK (China)

Chinese Yuan – July 2020

Expected Ranges	**Against the US$:**	**CNY 6.8500–7.1500**
	Against the yen:	**JPY 14.69–16.06**
	Against 100 yen:	**CNY 6.2300–6.8100**

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate fell in June.

At the end of May, U.S. President Donald Trump held a press conference. Despite concerns by market participants concerning possible sanctions against China by the U.S. as a result of the National Security Law in Hong Kong, such as in the form of discontinuation of the trade agreement between the U.S. and China, as well as additional economic sanctions, the contents of the press conference turned out to not be as extreme as expected. As a result, the Chinese yuan appreciated mainly in the offshore market. Thereafter, the media reported that China would halt purchase of agricultural products from the U.S. as a retaliatory action against the U.S., and this led the Chinese yuan to depreciate and temporarily reach the upper-CNY 7.13 level. However, this trend did not last for a long time, and market participants sold the U.S. dollar more actively thereafter, waiting for the Federal Open Market Committee (FOMC) meeting. The U.S. dollar/Chinese yuan exchange rate thus momentarily reached the CNY 7.05 level.

At the FOMC meeting, which attracted substantial attention in the market, it was made clear that the zero-interest rate policy would be maintained until 2022 while asset purchases would also continue. However, there was no new factor to report, and the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.08 level.

Thereafter, the media reported on a second wave of Covid-19 infections, and this worsened the risk sentiment in the market, as a result of which the U.S. dollar/Chinese yuan exchange rate approached the CNY 7.10 level. However, on the following day, the Federal Reserve Board (FRB) announced that it will start purchasing U.S. corporate bonds, while the Bank of Japan expanded aid for corporate finance. Positively reacting to these headlines, Asian stock prices rose sharply, leading the Chinese yuan to appreciate against the U.S. dollar. The media reported thereafter that top diplomats of the U.S. and China held dialogue and reached a trade agreement, and this led the Chinese yuan to appreciate temporarily. Thus, the U.S. dollar/Chinese yuan exchange rate fluctuated within the range between CNY 7.07 and CNY 7.10.

On June 23, White House trade advisor Peter Navarro made a remark that the trade deal between the U.S. and China was "over," and this briefly led the U.S. dollar/Chinese yuan exchange rate to rise sharply from the CNY 7.06 level to the CNY 7.08 level, mainly in the offshore market. However, the media report on this was denied thereafter, and the exchange rate returned to the original level. Furthermore, on June 24, the following day, market participants sold the U.S. dollar, and the Chinese yuan appreciated further to the lower-CNY 7.05 level to the U.S. dollar. Thus, the U.S. dollar/Chinese yuan exchange rate fluctuated daily. However, toward the end of the month, the exchange rate did not fluctuate violently, as market participants were waiting for the release of important economic indices, which were scheduled to be released at the beginning of the next month.

2. Outlook for This Month

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

The draft for Hong Kong's National Security Law, which will be the pillar of the national security system in Hong Kong, was approved on June 30 at the National People's Congress. It could enter force before July 1—the anniversary of Hong Kong's return to China. In reaction to this, the U.S. announced a visa restriction toward key members of the Communist Party of China, intensifying the tension between the U.S. and China.

While the presidential election in the U.S. is scheduled for November, political headlines are likely to influence the market both in the U.S. and in China. In particular, the Chinese yuan is expected to fluctuate following the political distancing between the U.S. and China, as was the case last year.

On the other hand, some media reported that the two countries had already been planning a trade agreement. While both countries have been suffering from economic downturn that resulted from the spread of Covid-19, it is unlikely for them to demonstrate a rigid attitude toward abolishing the first-phase agreement. Therefore, the Chinese yuan is not expected to depreciate against the U.S. dollar to renew the recent high in the U.S. dollar/Chinese yuan exchange market as recorded before the first-phase agreement.

The U.S. dollar/Chinese yuan exchange rate is thus most likely to remain high, although market participants should remain attentive to related headlines, as the exchange rate could see sudden fluctuations.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – July 2020

Expected Ranges	**Against the US$:**	**SG$ 1.3500–1.4500**
	Against the yen:	**JPY 76.00–78.50**

1. Review of the Previous Month

In June, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate fluctuated at the lower-SGD 1.42 level. However, toward June 11, the Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate fell significantly. Surrounding the National Security Law for Hong Kong that was established at the end of May, market participants were concerned over the reaction of the U.S. against China. However, despite the speculation in the market, the U.S. did not take any severe action, and this led stock prices to rise. Commodity prices strengthened as well. Under such circumstances, most currencies of emerging countries appreciated as well. Then, on June 4, the European Central Bank (ECB) announced a decision to increase its Pandemic Emergency Purchase Programme at its committee meeting. On June 5, U.S. employment statistics were released, with relatively strong figures. Thus, there were several positive factors to support the currencies of emerging countries. However, a Federal Open Market Committee (FOMC) meeting was held in the U.S. on June 9 and 10, and there was no further monetary easing. Furthermore, the contents of the statement suggested that it would take time for the economy to recover after the Covid-19 crisis, fueling risk-averse sentiment in the market. As a result, the appreciation of the Singapore dollar that had continued from the beginning of the month slowed down. The U.S. dollar/Singapore dollar exchange rate, which was at the lower-SGD 1.42 level at the beginning of the month, fell briefly to the lower-SGD 1.38 level toward June 11 (i.e., the Singapore dollar appreciated).

Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating just below the SGD 1.40 level. Thereafter, the central bank of Indonesia announced its decision to cut the policy interest rate, while U.S. economic indices turned out to be weaker than expected. As a result, the currencies of emerging countries depreciated slightly, following which the Singapore dollar also weakened. However, this factor was not strong enough to create a clear trend in the market.

Toward the end of the month, White House trade advisor Peter Navarro made a remark that the trade agreement with China is "over" (although this remark was withdrawn thereafter), while Covid-19 continued spreading in Brazil. With such risk-averse factors, the U.S. dollar/Singapore dollar exchange rate fluctuated within a narrow range at around the SGD 1.39 level. As of June 29 at the time of this writing, the U.S. dollar/Singapore dollar exchange rate has been holding at the mid-SGD 1.39 level.

2. Outlook for This Month

In July 2020, the Singapore dollar is forecast to continue appreciating.

In June, the Singapore dollar continued appreciating against the U.S. dollar, as was the case since the end of May, until around June 11. However, the sense of uncertainty was fueled by the U.S. economic outlook, and market participants bought the currencies of emerging countries less actively. As a result, the appreciation of the Singapore dollar also slowed down. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. In the end, monthly trading closed with a stronger Singapore dollar than at the beginning of the month.

At the current moment as of this writing, important factors in the overall market have included the possible intensification of opposition between the U.S. and China, along with a possible second wave of Covid-19 infections. In the Singapore dollar exchange market as well, such factors will be more influential than domestic ones. If the above factors have negative outcomes, the Singapore dollar is expected to weaken. However from a medium- to long-term perspective, the Singapore dollar is likely to gradually appreciate against the U.S. dollar, thanks to worldwide economic recovery, along with the effect of the powerful monetary easing that has been introduced by the Federal Reserve Board (FRB).

In Singapore, the 2020 Singapore circuit breaker measures, abbreviated as "CB" (for "Circuit Breaker") and colloquially known as the "Singapore Lockdown," came to an end, and economic activities have been gradually restarting. Furthermore, according to the Singapore Tourism Board, it has been reported that the opening of large-scale tourist facilities such as casinos will be approved from July 1. Thus, domestic economic activities in Singapore are expected to revive themselves further in the times ahead. Positively reacting to this headline, the Singapore dollar has been above the center point in the foreign exchange policy fluctuation band (NEER) and has been robust on a weighted average basis. Even though it is possible for the Singapore dollar to be affected by global economic trends led by the U.S. and China from a short-term perspective, the Singapore dollar is expected to remain stable in the times ahead, as was the case in June, given that there is no serious risk factor.

Yuki Inoue, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – July 2020

Expected Ranges	**Against the US$:**	**THB 30.00–31.50**
	Against the yen:	**JPY 3.40–3.60**

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell, as was the case in May.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate fell. On June 1, the fall of the U.S. dollar/Thai baht exchange rate accelerated, falling below the support line at around THB 31.80, reaching the lower-THB 31.70. Also, the deputy governor of the central bank of Thailand made remarks such as: "The Thai baht has been appreciating faster than other Asian currencies in these two weeks" and "The central bank of Thailand is ready to take measures to control the appreciation of the Thai baht." However, the appreciation of the Thai baht continued, and the U.S. dollar/Thai baht exchange rate fell to approach THB 31.50 toward June 2. The media reported that foreign exchange dealers in the country had been invited to the central bank of Thailand in order to discuss the rapid appreciation of the Thai baht, which somewhat helped the situation, and the U.S. dollar/Thai baht exchange rate recovered to the THB 31.60 level toward June 4. However, once stock prices rose further and as risk-taking sentiment strengthened in the market, the U.S. dollar/Thai baht exchange rate started falling again. As the European Central Bank (ECB) announced its decision to take measures of monetary easing more significantly than expected and as the May employment statistics of the U.S. turned out to be stronger than expected, the U.S. dollar/Thai baht exchange rate was led to fall further to reach the lower-THB 31.40 level with risk-taking sentiment in the market.

In the middle of the month, the U.S. dollar/Thai baht exchange rate fell rapidly after which there was a slight rally. At a Federal Open Market Committee (FOMC) meeting held in the U.S. on June 9 and 10, Federal Reserve Board (FRB) Chair Jerome Powell expressed a pessimistic view about the economic outlook, while a dot plot chart showed that the zero-interest rate policy would continue until the end of 2022. As a consequence, the U.S. interest rates fell rapidly, accelerating U.S. dollar-selling, and the U.S. dollar/Thai baht exchange rate fell sharply to the THB 31 level. On June 11, the following day, the Dow Jones Industrial Average fell sharply due to the sense of caution against the second wave of Covid-19 infections. Following this trend, the Asian stock market also saw a significant fall toward June 15, leading the U.S. dollar/Thai baht exchange rate to rally to the THB 31.10 level with growing risk-averse sentiment in the market. On the same day, the FRB announced its decision to increase its corporate bond purchasing program, mitigating the risk-averse sentiment in the market with a sense of relief about stock purchases. As a result, the U.S. dollar/Thai baht exchange rate fell below the THB 31 level. However, geopolitical risks heightened on the Korean peninsula thereafter, encouraging market participants to buy the U.S. dollar again. On June 17, the U.S. dollar/Thai baht exchange rate thus rose to approach the THB 31.20 level. Thereafter, market participants reacted positively to the fact that the U.S. and China softened their attitudes toward the execution of the trade agreement. Therefore, the U.S. dollar/Thai baht exchange rate fell to approach the THB 31 level.

At the end of the month, the U.S. dollar/Thai baht exchange rate approached its low. On June 22 after the weekend and thereafter, the Thai baht continued appreciating gradually, as the outcome of the monetary policy committee (MPC) meeting was scheduled to be announced by the central bank of Thailand on June 24. On June 24, Thailand's Ministry of Commerce announced the country's May trade statistics on a customs basis, and exports turned out to be -22.5% year-on-year, recording the most-significant decline since July 2009. At the MPC meeting, which attracted substantial attention in the market, the policy interest rate was unanimously maintained at 0.50%—the all-time low—as had been expected in the market. The economic outlook was also announced, and the GDP growth rate for 2020 was revised significantly downward to -8.1% (it was -5.3% in March). At the press conference, the MPC mentioned that there had been signs of economic recovery after the loosening of the lockdown, and this led the Thai baht to appreciate against the U.S. dollar, with the U.S. dollar/Thai baht exchange rate reaching the lower-THB 30.80 level. Toward the end of the month, some market participants bought the U.S. dollar due to concerns over the spreading of Covid-19 infections, while other market participants bought the Thai baht at the end of the month. With these two opposite market flows, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at around THB 30.90.

2. Outlook for This Month

Despite the weakness in the economic outlook, the Thai baht is forecast to remain strong.

After briefly reaching the THB 33 level at the beginning of April, the Thai baht has continued appreciating against the U.S. dollar without interruption, and the appreciation was accelerated in June. In Thailand, there has been no new case of community-acquired Covid-19 for more than a month, and economic activities are gradually reopening. Then, the Thai government decided to extend its declaration of the state of emergency, which was originally to end at the end of June, by one month. However, it has already been announced that schools will open and that borders will be open to foreign nationals, including Japanese, with business reasons. Thus, it appears that economic activities in Thailand will become normalized further in the times ahead. This seems to have been one of the factors that supported the appreciation of the Thai baht in June, as there was large-scale capital inflow from foreign investors into the Thai bond market.

However, the outlook for the Thai economy is far from optimistic. On June 24, the central bank of Thailand held an MPC meeting, and there was no additional interest cut. However, the GDP outlook for 2020 was revised downward again, demonstrating the pessimistic view of the central bank about the influence of the Covid-19 crisis on the Thai economy. The expected number of foreign tourists and the exports outlook were also revised downward, and it is clear that the outlook for the Thai economy has been pessimistic. Yet, the Thai baht has been appreciating, which is causing serious concerns for the central bank. Apart from the MPC statement, the central bank of Thailand verbally intervened in the market several times in June. As the central bank will not be able to cut the interest rate much further while concerns are growing over the expansion of the household debt balance, market participants are worried about the possible introduction of new restrictions to control the appreciation of the Thai baht. It is thus important to keep an eye out for actions taken by the central bank. Furthermore, market participants should also pay attention to the new governor of the central bank of Thailand, to be elected after Veerathai Santiprabhob, who will finish his five-year term at the end of September. Application for election is open until July 10, with an extension from the original date of June 16. Thus, a new structure for the central bank is likely to be announced in the middle of July. Facing an unprecedented crisis for the Thai economy, the central bank is limited in its traditional operation of monetary policy. Thus, an ideal person would be someone that can propose a unique solution from the point of view of the central bank.

Despite the uncertainty surrounding the outlook of the Thai economy, the U.S. dollar/Thai baht exchange rate is forecast to continue falling. Covid-19 continues to spread mainly in the U.S., and the total number of cases worldwide has exceeded 10 million while the total number of deaths has exceeded 500,000. The figures are still growing worldwide, and it is possible for market participants to briefly sell the Thai baht when risk-averse sentiment grows in the market due to the second wave of Covid-19 infections. However, the Thai baht is generally expected to remain high in July.

Shinichi Sekigami, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – July 2020

Expected Ranges	**Against the US$:**	**MYR 4.2200–4.3200**
	Against the yen:	**JPY 24.80–25.50**
	Against 100 yen:	**MYR 3.9200–4.0200**

1. Review of the Previous Month

In June, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.35 level. Thereafter, the exchange rate fell to the MYR 4.23 level during the first part of the month, due to the rally of the crude oil price as well as the growing risk-taking sentiment. However, concerns over the second wave of the Covid-19 crisis grew, leading the U.S. dollar/Malaysian ringgit exchange rate to rally. The U.S. dollar/Malaysian ringgit exchange rate thus fluctuated within the range between MYR 4.26 and MYR 4.29 thereafter.

At the beginning of the month, the North Sea Brent crude oil price recovered to USD 40 per barrel after the agreement between Saudi Arabia and Russia on reducing production. The asset market remained stable despite the opposition between the U.S. and China and despite the controversial murder of a black man in the U.S., leading the U.S. dollar/Malaysian ringgit exchange rate to fall to the MYR 4.25 level on June 3. However, April trade statistics were released thereafter, revealing figures significantly weaker than expected. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate rallied to the MYR 4.28 level on June 4, the following day. April exports recorded negative growth of 23.8% year-on-year—the largest fall in 10 years—while the trade balance recorded a deficit of MYR 3.5 billion, recording the highest trade deficit for a single month for the first time in 22 years since 1997. Thereafter, the 2020 Malaysia Conditional Movement Control Order, commonly referred to as the "CMCO" and which continued for approximately a month, was loosened further, replaced by the Recovery Movement Control Order (RMCO), defining the period between June 10 and August 31 as the period for recovery. In reaction, the U.S. dollar/Malaysian ringgit exchange rate reached MYR 4.2350—the lowest rate in three months on June 11, with growing expectation for economic recovery.

However, on the same day, the April industrial production index was announced, and the outcome turned out to be –32%, recording an unprecedented fall and confirming the significant fall in exports in the trade statistics. Furthermore, during local trading hours on the same day, concerns grew rapidly over the second wave of the Covid-19 crisis, as the number of cases increased again in the U.S., leading stock prices to fall sharply. The Brent crude oil price also fell to the USD 38 level. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate rose sharply to the MYR 4.29 level on June 12. Thereafter, the appreciation of the exchange rate slowed down once more. However, the April unemployment rate turned out to be 5.0%, recording a high rate for the first time since 1990, with concerns over increasing cases of Covid-19 in the U.S. as well as geopolitical risks that resulted from North Korea's sudden destruction of a joint liaison office near the South Korean border. Thus, the U.S. dollar/Malaysian ringgit exchange rate remained stable above the MYR 4.25 level, fluctuating within the range between the MYR 4.26 and MYR 4.29 during the middle part of the month.

At the end of the month, the U.S. dollar remained strong. Peter Navarro, an advisor to U.S. President Donald Trump, made a remark about the trade agreement between the U.S. and China such that the deal was "over" (although he corrected this remark later), and this caused confusion in the market. On the other hand, in Malaysia, ruling parties did not manage to establish a strong counterpart for Prime Minister Muhyiddin Yassin for the election, and this kept the Malaysian ringgit from strengthening. Economic indices including the CPI also remained weak, and in the domestic stock market, there continued to be a net sell by foreign investors, recording a monthly capital outflow of USD 638 million. As the GDP outlook for Malaysia was revised downward both by the World Bank and the IMF, the U.S. dollar/Malaysian ringgit exchange rate approached the MYR 4.29 level again toward the end of the month. This trend continues in July.

2. Outlook for This Month

In July, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fluctuate within a range between MYR 4.22 and MYR 4.32. As there have been global concerns over the second wave of the Covid-19 crisis, it will take time for global demand to recover. However, economic reopening in Malaysia is accelerating, while the crude oil price has been recovering, and this is expected to keep the Malaysian ringgit from depreciating further. However, market participants should remain attentive of the local political conditions, as a Malaysian parliamentary session is scheduled to start again on July 13, and this can cause confusion in the market.

As is demonstrated by the fact that the global GDP growth rate outlook was revised downward, concerns over the second wave of the Covid-19 crisis are growing in major developed countries that prioritized economic recovery. Under such circumstances, it seems inevitable for the pace of the potential global economic recovery to slow down. On the other hand, in terms of domestic factors, the number of daily cases of Covid-19 in Malaysia has been in the single digits, and Malaysia has been one of the first countries to recover from the Covid-19 crisis in the ASEAN region, following Vietnam and Thailand. Even though the country still needs to change the structure of its supply chain after the Covid-19 crisis, the Malaysian ringgit is considered to be undervalued by more than 20% in terms of the real effective exchange rate, demonstrating a relatively fast economic recovery. Furthermore, the crude oil (Brent) price has been recovering to a level above the estimate by the central bank (between USD 25 and USD 35 per barrel). While an increase in the fiscal deficit is inevitable, these factors are likely to mitigate the negative impact. On June 26, S&P revised its sovereign rating outlook for Malaysia downward to "negative," followed by the same by Fitch. However, it seems that there is less risk for the existing A– rating to be revised downward.

The central bank of Malaysia is scheduled to hold the next monetary policy meeting for July 7. At the end of the June, the implied interest rate fell below the current policy interest rate for the Malaysian ringgit (2.00%) by 0.2% in the foreign exchange swap market. Even though the policy interest rate of Malaysia has already been at its lowest level in the past 10 years, the growth rate and inflation rate, which are important indices for the central bank, have been negative. The central bank decided to carry out a preemptive interest rate cut before the onset of the Covid-19 crisis in January. There are thus growing expectations for the central bank to support the Malaysian ringgit through its monetary policy.

Possible factors for confusion in the market lie in politics. As was pointed out in the article published last month, the government under Prime Minister Muhyiddin Yassin nominated members of the ruling party before the change of the government in 2018, i.e., the United Malays National Organization (UMNO), as chairs of many government-related organizations. The ratio of governmental debt as a percentage of GDP was shifted from a base of guarantee obligations and other related debts adopted by the former government under Mahathir Mohamad to a base that only uses the reference of the direct debt of the government adopted by the previous government under Najib Razak. On the other hand, opposition parties have been finding it difficult to choose a candidate for the post of prime minister between Mahathir Mohamad and PKR leader Anwar Ibrahim, while Sabah Heritage Party leader Shafie Apdal has also been mentioned as a possible candidate. The ruling party has been battling a persistent scandal related to 1MDB, and the outcome of the election remains uncertain. If an opposition party wins the election, the Malaysian ringgit could recover from a reduction of its value due to the political changeup seen at the beginning of March.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – July 2020

Expected Ranges	**Against the US$:**	**IDR 13,900–14,600**
	Against 100 rupiah:	**JPY 0.73–0.77**
	Against the yen:	**IDR 129.87–136.99**

1. Review of the Previous Month

In June, the Indonesian rupia weakened gradually against the U.S. dollar, after experiencing rapid appreciation.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,500 level on June 2. The risk tolerance of market participants improved, and stock prices rose globally. Under such circumstances, capital inflow from foreign investors increased in the Indonesian government bond market, fueling demand for the purchase of the Indonesian rupiah. As a result, the Indonesian rupiah appreciated rapidly. The Jakarta Composite Index also remained strong, vigorously encouraging market participants to take risks. Thus, on June 3, the following day, the Indonesian rupiah strengthened against the U.S. dollar, and the exchange rate approached IDR 14,000. On June 5, the U.S. dollar/Indonesian rupiah exchange rate finally fell below the IDR 14,000 level for the first time since February this year, and the Indonesian rupiah strengthened against the U.S. dollar to the IDR 13,800 level. On June 8, the start of the following week, the Indonesian rupiah appreciated against the U.S. dollar, and the exchange rate approached IDR 13,800, which was the highest rate this month, as the May employment statistics of the U.S. were released with strong figures. Thereafter, the Indonesian rupiah remained strong, fluctuating between the IDR 13,800 level and the IDR 13,900 level to the U.S. dollar. Under such circumstances, governor of the central bank of Indonesia Perry Warjiyo made a remark on June 10 that the Indonesian rupiah had been undervalued and that it could appreciate further, which would lead to positive impact on imports, offsetting the negative impact of the weakening competitiveness in exports.

In the middle of the month, U.S. stock prices recorded their fourth worst fall in history on June 11, strengthening risk-averse sentiment in the market. As a consequence, the central bank of Indonesia intervened in the market in order to stabilize the Indonesian rupiah market on June 12, the following day. Under such circumstances, the Indonesian rupiah depreciated against the U.S. dollar, and the exchange rate reached the IDR 14,100 level. On June 15 in the following week, the May trade balance of Indonesia was announced, revealing a significant decline in imports and exports. In particular, the decline of imports was remarkable, limiting the positive impact of the trade surplus that significantly exceeded the estimate in the market. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate remained relatively stable at around the IDR 14,000 level, while market participants waited for the monetary policy meeting of the central bank of Indonesia. On June 18, the central bank held said monetary policy meeting, attracting substantial attention in the market. As was anticipated in the market, the central bank decided to cut its policy interest rate, i.e., the seven-day reverse repo rate, for the first time in three months to 4.25%, in order to reflect the impact of the Covid-19 crisis, while also revising the GDP growth rate outlook downward. In reaction to these decisions, the Indonesian rupiah depreciated against the U.S. dollar and the exchange rate approached the IDR 14,200 level on June 19, the following day.

The Indonesian rupiah remained weak at the end of the month. On June 23, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 14,200 level, and the Indonesian rupiah remains weak thereafter, trading at around the IDR 14,100 level to the U.S. dollar (as of June 29).

2. Outlook for This Month

In July, the U.S. dollar/Indonesian rupiah exchange rate is expected to fluctuate within a narrow range.

While many countries are resuming economic activities, the spread of Covid-19 has been a serious problem in various countries, including the U.S. The situation in Indonesia is far from perfect. Despite being the currency of an emerging country under such circumstances, the Indonesian rupiah is currently not as weak as it was in March and April this year. Many central banks have supplied abundant funds in the market while repeatedly cutting interest rates. Thus, the prices of risk assets including stocks have been supported. Indonesian government bonds and stocks are not exceptions. Thus, the Indonesian rupiah has been relatively stable. This situation is not likely to change in the times ahead, contributing to the stability of the Indonesian rupiah market.

It should also be mentioned that, as was mentioned above, the trade balance recorded a significant surplus, as the slowdown of economic activities in Indonesia led to a significant decline in imports. It seems that the downward pressure on the Indonesian rupiah has been mitigated as a result. Even though the fundamentals of Indonesia are far from desirable, the prices of risk assets such as stocks and the government bonds of emerging countries have not been affected by the fundamentals as was also mentioned above. Thus, it seems more important for Indonesia that the pressure to sell the Indonesian rupiah has been controlled, thanks to the trade surplus despite the fact that imports and exports have declined significantly.

Needless to say, investors would temporarily sell the Indonesian rupiah when risk sentiment worsens in the market. However, there is likely to be a balance between risk-taking sentiment and risk-averse sentiment, as was the case of June in which the U.S. stock prices rallied immediately after a significant fall. Even if the Indonesian rupiah weakens momentarily, it is likely to be only a trend for the short term.

For the above reasons, the U.S. dollar/Indonesian rupiah exchange rate is forecast to fluctuate mainly within a range between IDR 14,000 and IDR 14,500 in July. If the exchange rate remains at this level, it is possible for the central bank of Indonesia to cut the interest rate again, as the inflation rate remains low. However, it is not likely to dramatically diminish the value of the Indonesian rupiah.

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

Philippine Peso – July 2020

Expected Ranges	**Against the US$:**	**PHP 49.30–51.40**
	Against the yen:	**JPY 2.100–2.175**

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Philippine peso exchange market opened trading at PHP 50.50. There were concerns over the intensification of the opposition between the U.S. and China, against the backdrop where China imposed its National Security Law on Hong Kong. However, U.S. President Donald Trump did not take a harsh attitude, and this mitigated the concern. There were also protests against racism in the U.S., but this had only limited impact on the market.

Thus, the Philippine peso approached its high, and the U.S. dollar/Philippine peso exchange rate fell below the core range (between PHP 50.50 and PHP 51.00 to the U.S. dollar) observed since the beginning of the year. From June 3, the Philippine peso renewed its high since the beginning of the year for three consecutive days. On June 4, the U.S. dollar/Philippine peso exchange rate fell below the PHP 50 level, which used to be a psychological turning pint. On June 5, the Philippine peso appreciated further against the U.S. dollar, and weekly trading closed at PHP 49.80 to the U.S. dollar (the highest rate for the Philippine peso since the beginning of the year).

Thereafter, the May employment statistics of the U.S. were released with unexpectedly strong figures. In reaction, on June 8, risk-taking sentiment grew in the market while the appreciation of the Philippine peso observed during the previous week was somewhat corrected. Thus, the Philippine peso was both sold and bought, trading at PHP 49.83 to the U.S. dollar—the same level as the closing rate of the previous week.

On June 10, the April trade statistics of the Philippines was announced, and exports recorded negative year-on-year growth of 50.8%, while imports also recorded significant negative year-on-year growth of 65.3%. These figures confirmed a serious economic slowdown. On the other hand, the trade deficit turned out to be USD 500 million, which is significantly lower than the market estimate, which was USD 2.35 billion, and this encouraged market participants to buy the Philippine peso. Thereafter, the U.S. dollar/Philippine peso exchange rate continued fluctuating between PHP 49.90 and PHP 50.00, waiting for a Federal Open Market Committee (FOMC) meeting in the U.S.

After the FOMC meeting, U.S. interest rates fell, and market participants sold the U.S. dollar in the foreign exchange market. Under such circumstances, the Philippine peso strengthened against the U.S. dollar in the market in the morning of June 11. However, due to concerns over the second wave of the Covid-19 crisis, U.S. stock prices started to fall, and market participants actively bought the U.S. dollar before three consecutive holidays in the Philippines. Thus, weekly trading closed at PHP 50.195 to the U.S. dollar. Then, on June 12 (a holiday in the Philippines), the March amount of Overseas Filipino Workers (OFW) remittances was announced, recording a year-on-year decline of 4.7%, which was seen as a factor in the Philippine peso being sold in the market.

After the consecutive holidays, the U.S. dollar/Philippine peso exchange rate once reached PHP 50.39—the lowest rate for the Philippine peso in approximately two weeks—on June 15. However, the Federal Reserve Board (FRB) announced its decision to purchase the corporate bonds of U.S. companies as part of its emergency financing program, and this action supported the Philippine peso, with the U.S. dollar/Philippine peso exchange rate falling below the PHP 50 level on both June 17 and 18.

On the other hand, market participants became aware of geopolitical risks due to the situation on the Korean peninsula as well as the military conflict between China and India. Furthermore, there were concerns over the second wave of the Covid-19 crisis, and this maintained the stability of the U.S. dollar. Thus, in the middle of the month, the U.S. dollar/Philippine peso pair continued trading at the lower-PHP 50 level. Then, on June 25, after market closing, the central bank of the Philippines announced its decision to cut its policy interest rate by 0.5 points to 2.25%. Positively reacting to this decision, the Philippine peso strengthened and the U.S. dollar/Philippine peso exchange rate fell below the PHP 50 level again, approaching the highest rate for the Philippine peso observed since the beginning of the year (as of this writing at 5:00 p.m. on June 29).

2. Outlook for This Month

As was mentioned above, the central bank of the Philippines cut its policy interest rate on June 25. Thus, the interest rate renewed its all-time low for the fourth consecutive time. This was an unexpected decision, as market participants expected the interest rate to be maintained at the existing level.

It seems that the central bank saw an additional measure of monetary easing necessary in order to support economic activities, while market participants expected the central bank to maintain the policy interest rate in order to evaluate the previous measures of monetary easing.

The central bank of the Philippines also revised its inflation outlook upward from 2.2% to 2.3% for 2020 and from 2.5% to 2.6% for 2021. Even though the interest rate was unexpectedly cut this time, some market participants expect this to be the last one for a while, and it is currently leading the Philippine peso to appreciate.

However, it should also be mentioned that there could be a decline in the optimism created by the global loosening of the lockdown as well as in the extreme levels of monetary easing carried out by the monetary authorities of the U.S. Many of the currencies of emerging countries depreciated since the beginning of the year and bottomed out in March, after which there was a rally against the U.S. dollar. However, market participants started to sell these currencies again since the middle of June. If this trend continues, there could be negative impact on Asian currencies, which have so far been relatively strong.

Also, U.S. stock price indices have been rallying since the sharp fall recorded in March. However, the Dow Jones Industrial Average and the S&P 500 Index still seem weak, while the Nasdaq Composite Index remains stable. The U.S. dollar/Philippine peso exchange rate will be affected by the impact of the second wave of the Covid-19 crisis and the market reaction to such.

In the first week of June, there was a weekly net buy by foreign investors in the Philippine stock market for the first time in 16 weeks. However, the latest figure turned out to be a net sell again.

As was mentioned above, OFW remittances recorded negative year-on-year growth, which is likely to impact investor sentiment as a fundamental problem after the further spread of Covid-19. As there are also geopolitical risks, market participants are not likely to actively buy the Philippine peso in the times ahead.

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

Indian Rupee – July 2020

Expected Ranges	**Against the US$:**	**INR 74.50–78.50**
	Against the yen:	**JPY 1.37–1.46**

1. Review of the Previous Month

In June, the U.S. dollar/Indian rupee exchange rate rose briefly and returned to the level observed at the beginning of the month.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 75.40. In the foreign exchange market, the U.S. dollar index fell to its lowest level in two months due to the global recovery of the stock market as well as the measures taken by the Federal Reserve Board (FRB). As a consequence, downward pressure increased also on the U.S. dollar/Indian rupee exchange rate. At the market opening of June 2, the U.S. dollar/Indian rupee exchange rate fell below the INR 75.50 level, which had been a psychological turning point. While Indian stock prices remained high, the media reported capital inflow from abroad into the Indian stock market. As a result, the U.S. dollar/Indian rupee exchange rate reached its monthly low at INR 75.005 on June 3. After approaching the INR 74 level multiple times, the U.S. dollar/Indian rupee exchange rate did not reach the INR 74 level, as there were speculations about market interventions by the Reserve Bank of India (RBI; the central bank of India) in addition to the U.S. dollar buying due to actual demand by importers. Until the second week of the month, the U.S. dollar/Indian rupee exchange rate continued fluctuating at around the INR 75.50–75.60, after which the central bank of the U.S. pointed to medium- to long-term economic risks caused by the Covid-19 crisis. As a result, risk-taking sentiment weakened in the market, and the U.S. dollar/Indian rupee exchange rate started to rise. At the same time, the number of new cases of Covid-19 started to increase again in the U.S. and China, and this led the U.S. dollar/Indian rupee exchange rate to rise to the INR 76 level on a closing-rate basis on June 15.

Thereafter, the media reported the first death in Ladakh due to a clash between Indian forces and Chinese forces, and this led the Indian rupee to weaken against the U.S. dollar, with the exchange rate reaching INR 76.33 on June 17 for the first time since April 28. However, this headline impacted the Indian stock market only to a limited degree, and risk-averse sentiment did not grow significantly in the market.

Since June 22, a company in the U.S. invested in a major Indian telecommunications company, and this encouraged market participants to sell the U.S. dollar and buy the Indian rupee. Also following other headlines related to the relationship between the U.S. and China, the U.S. dollar/Indian rupee exchange rate started to fall. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate continued fluctuating between the mid-INR 75 level and the upper-INR 75 level. As of June 29, the day on which this article was being written, the U.S. dollar/Indian rupee pair has been trading at the INR 75.53 level.

2. Outlook for This Month

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

In terms of foreign investor activities in the Indian market, which is a factor also looked at in the article published last month, there was a net sell of USD 350 million in the bond market during the period between June 1 and June 26. However, there was a net buy of USD 2.75 billion in the stock market. Therefore, by combining the figures in the bond and stock markets, there was capital inflow of approximately USD 2.4 billion. There was also a net investment of USD 2.4 billion in India from foreign investors. Needless to say, this encourages market participants to sell foreign currencies and buy the Indian rupee. Furthermore, since the second half of April, there have been announcements on investment by Amazon in Airtel (USD 2 billion) as well as investment from 10 companies, including Facebook, the Abu Dhabi Investment Authority, and Silver Lake in the U.S., into Reliance Jio (USD 15 billion), and this has also been encouraging market participants to buy the Indian rupee.

On the other hand, some market participants are conscious of possible market interventions by the RBI and are selling Indian rupee. Thus, India's foreign currency reserves renewed their all-time high in June. Foreign currency reserves increased by USD 12.2 billion from May 29 to June 19, absorbing the above-mentioned rupee-buying by foreign investors. As a result, the U.S. dollar/Indian rupee exchange rate is likely to remain unchanged.

The number of Covid-19 cases in India has been increasing by almost 20,000 daily, and the accumulative number of Covid-19 cases in India has exceeded 500,000. However, it seems that the Indian monetary market has not been reacting sensitively to changes in the number of Covid-19 cases in India. It should also be mentioned that the next RBI meeting is scheduled for August 6, and there is no upcoming important event related to monetary policy in India (as long as there is no extraordinary meeting).

Therefore, in July, market participants should observe how the trends in the U.S. dollar market move due to external factors rather than domestic factors in India.