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Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Forex Department

Kiyotaka Tauchi, Forex Sales, Forex Department

U.S. Dollar – May 2018

Expected Ranges Against the yen: JPY106.00–111.00

1. Review of the Previous Month

The dollar/yen pair moved firmly in April.

The pair began the month trading at the lower-106 yen mark on April 2. Amid concerns about a U.S./China trade dispute, the pair temporarily hit a low of 105.66 yen as risk aversion flared up when IT stocks and other equities fell sharply. However, it then bounced back to the upper-106 yen level as U.S. stock markets rallied. China's finance ministry then announced a further 25% tariff on 106 U.S. import items, including agricultural goods. Amid growing concerns about mounting trade tensions between the U.S. and China, the currency pair dropped back to the upper-105 yen range. However, Beijing did not immediately implement the tariffs, saying instead that the timing would be announced at a later date. With news also emerging the NAFTA negotiations had entered the final stage, the pair was bought back to the upper-106 yen level once more. The Trump administration then announced it was sending several high-ranking officials, including Larry Kudlow, director of the U.S. National Economic Council (NEC), to negotiate an agreement with China. As risk aversion eased, the pair climbed to the mid-107 yen mark.

It then moved in range around the lower-107 yen mark mid-April. News then emerged that the FRB had raided the office of President Trump's personal lawyer. With tensions also rising in Syria, the pair fell again to hit the upper-106 yen level for a time. However, fears of a U.S./China trade spat decreased after Chinese president Xi Jinping signaled his intention to open up domestic markets and lower customs duties. The U.S., Britain and France then attacked the Syrian army, but this appeared to be a one-off event, so concerns about increasing tensions in Syria eased off. With a U.S./Japan heads of state meeting also passing smoothly on April 19, the markets relaxed and the pair finally recovered to the 107 yen range.

Geopolitical risk dropped off toward the end of the month after North Korea announced it would stop developing intercontinental ballistic missiles and nuclear weapons. With yields on 10-year treasuries also climbing to around 3% for the first time since January 2014, the pair rose to the upper-108 level. The U.S. then released some better-than-expected Housing Starts data for March and a Consumer Sentiment Index for April. With 10-year treasury yields also topping 3%, the pair climbed to the lower-109 yen mark. This level saw selling to lock in profits, though, while U.S. stocks also fell as the markets reacted badly to rising corporate fundraising costs. The yen was subsequently bought back and the pair slid to the mid-108 yen level. However, the yen was then sold as U.S. stocks pared back losses. The greenback was also bought, particularly against the euro following the release of some sluggish eurozone economic indicators. All this saw the pair strengthening to the mid-109 yen range. It then hit a high of

109.54 yen on April 27 to close the month moving at highs around the lower-109 yen mark.

2. Outlook for This Month:

With concerns about a U.S./China trade dispute receding and geopolitical risk related to the Korean peninsula and Syria also easing, the dollar/yen pair climbed to the 109 yen range last month. However, a number of events are lined up from the start of May, so the pair could move erratically. There are also concerns that Japan could come under pressure to rectify its trade imbalance with the U.S. during talks between the two countries. As such, the pair is expected to move sluggishly this month.

The FOMC will be meeting over May 1–2. The target range for the federal funds rate (FF rate) was hiked by 0.25% at the last meeting. The economic outlook of FOMC participants was also more optimistic than before, with the FF rate projection subsequently upgraded. Furthermore, the minutes to the meeting (released last month) indicated that the Q1 slowdown was due to transitory factors, with the cycle of post-hurricane reconstruction coming to an end and tax refunds delayed, for example. As such, many observers are now expecting further rate hikes to take place, not this month but definitely at subsequent meetings. If the FOMC ends up adopting a cautious dovish stance in the face of excessive expectations for rate hikes, this could see interest rates falling sharply, with the dollar/yen pair's movements hit by turbulence, so caution will be needed. From here on, the Trump administration and Congress will start to put together the budget for fiscal 2019. If they show disregard for fiscal discipline or if a trade/currency war becomes a more realistic prospect, U.S. treasuries might be sold off by China (the largest national holder of U.S. government debt) and so on, with U.S. treasury prices and the dollar/yen pair facing more downward pressure as a result. The Trump administration is trying to cut the deficit before the mid-term elections in November and it has announced tariffs worth $150 billion on Chinese imports. President Trump has also said he will be dispatching treasury secretary Steven Mnuchin and U.S. Trade Representative (USTR) Robert Lighthizer to China in the near future to discuss trade. Mr. Lighthizer is also scheduled to meet Japan's economic and fiscal policy minister Toshimitsu Motegi in June to talk trade. Japan and China were left on the monitoring list in the U.S. Report on International Economic and Exchange Rate Policies. The U.S. has also expressed concerns to China about the RMB and it has criticized the yen's real effective exchange rate and nominal effective exchange rate as being too low. As such, the situation will remain unpredictable going forward. Furthermore, the U.S has placed restrictions on imports of steel and aluminum. The EU is exempt until the start of May, but it could fall foul of these restrictions thereafter. A glance of the Trump administration's negotiations until now shows risk aversion commonly flaring up before or during the negotiations on U.S. threats, only for risk appetite to recover thereafter as a collision is narrowly avoided or kicked into the long grass, for instance. Given this, the dollar/yen pair will probably not be actively bought while the trade issue continues to smolder away.

Dealers' Market Forecast

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

Bullish on the dollar (6 bulls: 107.00–113.00, Core: 107.25–112.25)

Kato	107.00 – 112.00	From May, the movements of the currency markets will be strongly influenced by political issues (such as the political situation in Japan or the U.S./North Korea heads of state meeting). There are no signs of prime minister Shinzo Abe being forced to resign at present, but 'post-Abe' maneuverings should be monitored as potential factors behind yen bullishness.
Sato	107.00 – 113.00	Risk appetite will probably rise on: bullish U.S. economic indicators; expectations for a faster pace of rate hikes on rising inflation; and waning geopolitical risk. There are lingering concerns about U.S./Japan trade talks, but cabinet-level talks will be commencing from June, so the dollar/yen pair's movements in May will continue to be marked by dollar bullishness and yen bearishness.
Fujimaki	107.50 – 112.50	The economy is performing strongly, rates are being lifted at a steady pace and inflation could climb going forward. Stocks have also regained composure and interest rates are trending upward. Based on the above, the dollar/yen pair looks more likely to rise than fall on the whole.
Okamoto	107.00 – 113.00	The dollar/yen pair may continue to be weighed down by trade frictions and the tariffs on imports of steel and aluminum. However, these factors have yet to impact economic indicators. With geopolitical risk also cooling across the board, the pair will remain conducive to buying this month.
Tsuruta	108.00 – 111.50	The U.S./China trade dispute and the U.S./Russia standoff over Syria have attracted considerable attention, but these tensions are now easing off. With the heads of North and South Korea also having met, risk-off factors related to North Korea and so on are thin on the ground. It is hard to see the dollar/yen pair rising significantly beyond its current range, but it looks set to continue moving firmly nonetheless.
Okuma	107.50 – 112.00	A meeting between North and South Korea passed smoothly and a U.S./North Korea heads of state meeting is penciled in for June. Under these circumstances, geopolitical risk related to North Korea is easing off. Furthermore, the strength of the U.S. economy has been confirmed by bullish employment and inflation indicators, so expectations will probably grow for faster FRB rate hikes, with the greenback remaining an easy currency to buy.

Bearish on the dollar (5 bears: 105.00–111.00, Core: 105.00–111.00)

Tauchi	106.00 – 111.00	With concerns about a U.S./China trade dispute easing off and geopolitical risk related to North Korea and Syria also easing, the dollar/yen pair climbed to 109 yen last month. However, there are concerns that Japan could come under pressure to rectify its trade imbalance with the U.S. during talks between the two countries. Warning signals are also starting to flash when it comes to the Abe administration's policy management. As such, the pair looks set to move sluggishly this month.
Yamashita	105.00 – 110.00	President Trump is trying to build domestic support in the run-up to the mid-term elections, so he is unlikely to give much way when it comes to trade. There are concerns that stock prices might be hit by overheating interest rates. The dollar will be a risky currency to buy given the fears of a trade war and the risk of a stock market crash.
Yano	105.00 – 110.00	The dollar/yen pair is moving firmly at present on rising U.S. interest rates. However, the current situation seems somewhat strange given that interest-rate differentials have not attracted much attention despite deep-rooted expectations for rate hikes. As such, this rise will probably be short-lived and the pair's topside will continue to be held down by profit taking and so on.
Ueno	106.00 – 111.00	Inflation is being pushed up by bullish commodity prices while the basis for rising U.S. interest rates (namely the sharply deteriorating U.S. fiscal situation) remains firm. However, there are growing concerns that rising interest rates could lead to ballooning corporate funding costs and subsequently to a U.S. economic slowdown. The dollar is unlikely to see any active buying and the dollar/yen pair will gradually enter a phase of adjustment.
Moriya	105.00 – 111.00	The dollar/yen pair rose last month, but this was largely due to an unwinding of risk aversion. Though the risk of a sharp fall is receding, the markets will probably regard rising interest rates as a negative factor for stock markets, with the pair's topside likely to grow steadily heavier.

Tomoko Yamashita, Forex Sales, Forex Department

Euro – May 2018

Expected Ranges **Against the US$: US$1.1800–1.2200**
Against the yen: JPY129.00–134.00

1. Review of the Previous Month

The euro/dollar pair began the month trading at the lower-$1.23 mark on April 2. With the European markets on holiday, the pair rose close to the mid-$1.23 level, but it dropped back to the mid-$1.22 range on April 3 after the German Manufacturing PMI for March was revised downward. The dollar was sold and the pair rose to the lower-$1.23 mark on April 4 as concerns of a U.S./China trade dispute increased after Beijing announced some new tariffs. However, it dropped to the lower-$1.22 level on April 5 when Larry Kudlow, director of the U.S. National Economic Council (NEC), said the Trump administration would hold talks with China aimed at finding a solution. The greenback was then sold and the pair rose to the upper-$1.22 mark on April 6 on the weak results of the U.S. March employment data.

The pair weakened to $1.2261 on April 9, though it then shot up to the lower-$1.23 level after ECB president Mario Draghi said the eurozone economy would continue to grow in 2018 in the ECB's Annual Report. The pair rose to the upper-$1.23 range on April 10 after National Bank of Austria governor and ECB board member Ewald Nowotny hinted that policy rates could be lifted by 20bp, though it then crashed to the lower-$1.23 mark after an ECB spokesperson said Mr. Nowotny's comments did not represent the ECB's view. The pair hit $1.2396 on April 11, though it subsequently fell to the mid-$1.23 level as the dollar was bought after the release of the minutes to the FOMC meeting. The eurozone February industrial production data was released on April 12 and it dropped sharply below expectations. With the minutes to the ECB Governing Council meeting also proving dovish, the pair tumbled to around $1.23. It weakened to $1.2325 on April 16. However, with European interest rates rising and President Trump criticizing moves to guide currencies lower, the dollar was sold and the pair rose to the upper-$1.23 range. It temporarily hit $1.2414 on April 17, but it then plummeted to the lower-$1.23 level after the German April ZEW Indicator of Economic Sentiment tumbled to its lowest level since November 2012. The final eurozone March CPI data was released on April 18. It was down on the provisional data and the February data, so the pair temporarily tumbled to the lower-$1.23 mark, though it rallied to the upper-$1.23 level toward the close of trading. It then fell to the lower-$.123 mark on April 19 as the greenback was bought on rising U.S. interest rates. On April 20, officials in the know were reported as saying the ECB was inclined to wait until July before announcing when QE would be wound down. As expectations for rate hikes declined, the pair weakened to the mid-$1.22 level. The Bundesbank Monthly Report was released on April 23 and it stated that growth had noticeably slowed over the first quarter. This saw the pair dropping below $1.22 and it then moved with a heavy topside on the worse-than-expected results of German IFO Business Climate Index, released April 24. With the Dow Jones falling sharply, though, the

dollar was sold and the pair rallied to the mid-$1.22 level. As expected, the ECB Governing Council kept policy unchanged when it met on April 26. With Mario Draghi's press conference also not particularly hawkish, the pair tumbled to the upper-$1.21 mark as euro long positions were unwound. The euro was then sold by overseas investors and so on, with the pair falling further to hit the upper-$1.20 mark on April 27. It was bought back to $1.2130 for a time on April 30. With the UK GDP data deteriorating, though, the pound weakened and the euro followed suit, with the pair dropping back to the $1.20 range.

2. Outlook for This Month:

The euro/dollar pair is expected to continue moving with a heavy topside this month.

As expected, the ECB Governing Council kept interest rates and its statement unchanged when it met last month. In his press conference, though, ECB president Mario Draghi said the economy was continuing to enjoy firm, broad growth and there were strong signs that wages were rising, though he made no mention of monetary policy. ECB figures were also reported as saying last month that the ECB was inclined to wait until July before announcing when QE would be wound down, so the ECB will probably want to monitor economic and inflationary trends from here on. For eurozone nations and the ECB, things could get ugly. The economy and prices across the eurozone have been supported by Germany, so a lot depends on German trends. The ECB has kept interest rates negative for a while now. If it wants to escape this situation, it will need the German economy to be as strong as it was last year. However, economic indicators have pointed to a German economic slowdown entering 2018. This is due in large part to a threat by IG Metall, the world's largest labor union, to strike over pay and working hours, but the February retail sales figures (m-o-m) and industrial production data (m-o-m) both fell sharply below market forecasts on their release last month. Furthermore, the German March CPI data only grew at the same pace as the previous month, with the euro's rise cancelling out bullish crude oil prices. As for business confidence, the German Chamber of Commerce had upgraded its 2018 growth forecast in October 2017 on accelerating capital investment and it upgraded the forecast again in February, but the recent April German ZEW and IFO indicators both dropped below market forecasts, with eurozone economic indicators moving bearishly on the whole (as mentioned above) on these headwinds from Germany. After emerging from the euro crisis and subsequently expanding, the eurozone economy has slowed recently. Though some believe this downswing will be temporary, there is not enough time between now and July to determine whether or not this is true. President Trump's trade war has targeted the eurozone (including Germany) alongside Japan, China and the NAFTA nations. ECB president Mario Draghi has also raised this as a risk factor, albeit one that is still an unknown quantity. Of course, it will take time for the eurozone to put together some retaliatory measures (tariffs, etc.), but President Trump is losing momentum domestically, so he may ramp up the pressure in the run up to the mid-term elections in November. If he does so, there are concerns this could dampen corporate and consumer sentiments. Angela Merkel is running an unstable coalition government in Germany, while the Five Star Movement is on the rise in Italy and the Brexit negotiations are growing murkier. When this situation is combined with the factors mentioned above, it seems the euro/dollar pair

will move bearishly this month.

Dealers' Market Forecast

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

Bullish on the euro (1 bull: 1.1900–1.2400, Core: 1.1900–1.2400)

Name	Range	Comment
Tsuruta	1.1900 – 1.2400	The euro/dollar pair has continued to move firmly in a range, but it is now performing somewhat bearishly. Though economic indicators are moving sluggishly, the ECB is steadily moving toward normalizing policy. Under these circumstances, the pair is unlikely to undergo a one-sided fall and it will probably stage a self-propelled comeback.

Bearish on the euro (10 bears: 1.1700–1.2200, Core: 1.1750–1.2200)

Name	Range	Comment
Tauchi	1.1800 – 1.2200	With eurozone inflation moving sluggishly, the ECB Governing Council will probably hold off from revising its forward guidance until it meets in July. There are concerns about deteriorating relations with Russia on the Syria situation and the attack on a former Russian double agent. With the political situation also tumultuous in Italy, the euro's topside will be weighed down, with the euro/dollar pair also set to move heavily on the topside.
Kato	1.1700 – 1.2200	It is becoming harder to overlook the impact of euro bullishness on the eurozone's fundamentals. Speculator euro longs have also accumulated to record levels and this situation is starting to come under some adjustment.
Yamashita	1.1700 – 1.2100	The German economy has supported the eurozone but it is now noticeably slowing. With each eurozone nation also struggling with euro bullishness, the ECB is finding it harder to adopt an unqualified hawkish stance. There is also political risk related to the rise of the euro-sceptic Five Star Movement in Italy, so the euro/dollar pair looks set to move with a heavy topside.
Yano	1.1800 – 1.2200	It is hard to say that the eurozone's fundamentals are moving firmly. Under these circumstances, the euro/dollar pair is moving with a heavy topside as speculators start to unwind their accumulated euro long positions. With the minutes to the recent ECB Governing Council meeting also striking a dovish tone, the pair looks set to remain bearish going forward.
Sato	1.1700 – 1.2200	The dollar is likely to be bought back on bullish U.S. economic indicators and expectations for accelerated rate hikes on rising inflation. Despite lingering expectations for an ECB policy shift, there is unlikely to be any new information emerging for the time being, so the euro/dollar pair looks set to continue moving bearishly.
Fujimaki	1.1900 – 1.2200	The eurozone economy is started to show distress signals on the negative impact of euro bullishness. At the same time, there is a substantial build-up of speculative euro long positions, so there could be some further position adjustments going forward. With crude oil prices remaining high, though, ECB officials continue to strike hawkish poses, so the euro/dollar pair could be bought when it is sold below $1.2.
Okamoto	1.1800 – 1.2200	The weakness of eurozone economic indicators is growing more noticeable and the ECB has pushed back the debate about tapering. The euro had been bought since last summer on expectations for ECB policy normalization, but this trend now seems to have ended. The euro/dollar pair will be held down for now on selling related to position adjustments.
Ueno	1.1800 – 1.2200	The ECB gave a bullish assessment of the eurozone economy at its recent meeting, but it also mentioned the weakness of eurozone economic indicators, with the risk of a slowdown also smoldering away. After piling up to record high levels recently, speculative euro long positions are now going through a phase of adjustment. The euro/dollar pair will continue to tumble for now on this adjustment.
Moriya	1.1700 – 1.2200	The euro had moved bullishly on expectations for ECB tapering, but this trend is now easing off. Eurozone economic indicators have moved bearishly recently, while euro long positions are still piled up to a considerable extent. Given this, the euro/dollar pair looks set to move bearishly this month.
Okuma	1.1700 – 1.2200	A number of European economic indicators have moved bearishly recently, while ECB president Mario Draghi has indicated that the eurozone economic recovery may have peaked out. Most observers have adopted a cautious view with regards to the likelihood of the ECB winding down its huge asset purchasing program in September. With concerns also growing about euro bullishness, the euro/dollar pair look set to move bearishly this month.

Taihei Yamamoto, Europe Treasury Department

British Pound – May 2018

Expected Ranges	Against the US$:	US$1.3450–1.4000
	Against the yen:	JPY145.00–154.00

1. Review of the Previous Month

The pound/dollar pair moved firmly at the start of April, though it eventually traded with a black candlestick as UK economic indicators moved bearishly across the board on the cold snap (the "beast from the east").

The pair opened the month trading at $1.4024. The March UK Construction Purchasing Managers Index then hit 47.0 (forecast: 50.8), down on February's figure of 51.4, with the March Services PMI also sliding to 51.7 (forecast: 54.0), down on the 54.5 recorded in February. These represented the lowest levels since directly after the Brexit referendum, with the pair subsequently dropping to $1.3960. The Chinese authorities then hinted they might slap an extra 25% tariff on U.S. automobiles and pharmaceuticals, with the greenback being sold on growing concerns about a tit-for-tat trade war between the U.S. and China. Bank of England (BOE) Monetary Policy Committee (MPC) member Ian McCafferty then said the BOE should not delay the next rate hike. As expectations grew for a UK rate hike, the pound rallied against the dollar. As a result, the pair hit $1.4377, its highest level since the Brexit referendum. The UK employment data was released on April 17, with the unemployment rate dipping to 4.2%, its lowest level in over 40 years. With the release of the UK CPI data looming the next day, though, attention focused on the wage growth data for December–February for what it would reveal about real wages. In the end, wages grew by 2.8%, down on forecasts for growth in the region on 3.0%, so the pair dropped back. With home prices in London falling (-1.0% y-o-y) for the first time since September 2009, the closely-watched UK March inflation rate (CPIH) slowed to +2.3% y-o-y (forecast: +2.5% y-o-y). The CPI figure also came in at just +2.5% y-o-y once housing costs were removed from the equation (forecast: +2.7%), with real wages climbing for the first time in a year. However, expectations for a rate hike waned and the pound was sold to lock in profits, so the pair dropped below $1.42. On April 19, the governor of the BOE hinted that a May rate hike was not a foregone conclusion. The OIS market had already completely priced in such a move, but bets on a May rate hike now dropped to around 30%, with the pair also sliding to $1.3985. The following week saw reports that foreign minister Boris Johnson and secretary of state for international trade Liam Fox (both Brexit hardliners) might resign if the UK remained in the customs union. Paradoxically, this led to speculation that the UK might be left with a Soft Brexit cabinet, so the currency pair stopped sliding. However, the dollar was then bought as yields on 10-year treasuries floated around 3%, so the pair failed to stage a comeback and it renewed a low. The preliminary UK Q1 GDP data was released on April 27. At +0.1% q-o-q, the economy grew at its slowest pace since 2012. As doubts about the feasibility of a next month's UK rate

hike increased, the pair tumbled to $1.3748. In the last week, Amber Rudd, UK home secretary and a potential candidate for the next UK prime minister, had to resign over a scandal involving post-war immigrants. Amid concerns that the May administration might drop in the polls ahead of the local election in May, the pair continued to be sold. It closed the month after hitting a monthly low of $1.3715.

2. Outlook for This Month:

The pound/dollar pair has fallen every May for the past ten years, apart from when the financial crisis hit in 2009 (a 90% frequency). As the phrase 'sell in May' suggests, the pound is comparatively sensitive to risk and it is prone to selling in May.

Brexit negotiations kicked off again last month, with the EU's chief Brexit negotiator Michel Barnier saying that there was still no agreement on 25% of the text. He said Brexit might not go as planned as long as issues such as the Northern Ireland border remained unresolved. At the same time, UK Brexit minister David Davis also told the UK parliament that there was likely to be a 'bare-bones' deal, with a broad agreement reached and the details filled in at a later date. There is still a large gap between the two sides. The UK government is expected to release a 50-page dossier of demands at the start of May, but unless it contains some compromises, a final agreement by October (the deadline for talks) will grow more unlikely, with the pound sold as a result. The EU has proposed that Northern Ireland alone remains in the customs union, but EU officials soon ruled out this 'backstop measure' on the grounds that the whole of the UK should remain in the customs union. The Brexit negotiations looks to be stormy from here on. Furthermore, the government is being propped up by outside-cabinet support from the Democratic Unionist Party (DUP), but the DUP has also expressed its displeasure with the UK plan and it emphasized that it would end its outside-cabinet support if an agreement was not reached (with the May administration losing its majority). The UK House of Lords voted by 348 votes to 225 to oppose the plan to leave the customs union, one of the May administration's key policies. This also added to the difficulty of negotiations. A number of problems are piling up within and without the UK and it seems the government is also making things difficult for itself. According to a YouGov poll, 44% of respondents said they would welcome a second referendum against 41% who opposed such a move. Though this does not mean the referendum will be rerun any time soon, it might suggest a general election is growing more likely. Local elections will be held on May 3. These are the biggest elections since last year's general election, with over 4000 seats up for grabs. A YouGov poll suggests the government will struggle, with support for the Tories only standing at 29% as opposed to Labour's 51%. Bookmakers put the odds of Theresa May resigning by the end of September 2018 at 3/2. With the UK parliament preferring to retain close relations with the EU, it may end up acceding to the EU's demands, with a Soft Brexit agreement looking likely. For now, though, uncertainty will probably put a dampener of direct investment, with sterling sold as a result. As for UK monetary policy, attention will be focused on the BOE's inflation report (set for release on May 10) and the direction of policy rates. At the last MPC meeting, Michael Saunders and Ian McCafferty once again spoke in favor of a rate hike, though BOE governor Mark Carney struck a more cautious tone, so the opinion of the markets is divided. With

the inflation rate currently trending below the 2018 projection (2.9%), the quarterly inflation report might be downgraded.

Miki Yamaguchi, Sydney Office, Asia & Oceania Treasury Department

Australian Dollar – May 2018

Expected Ranges	Against the US$:	US$0.7400–0.7650
	Against the yen:	JPY81.00–84.00

1. Review of the Previous Month

The AUS/USD pair hit a 2018 low of $0.7525 in April.

The pair kicked off the month trading at the upper-$0.76 mark on April 2. The board of the Reserve Bank of Australia (RBA) met on April 3. It kept the cash rate fixed at 1.50%, as expected, so the impact on the pair was negligible. The Australian February retail sales data was released on April 4. At +0.6% m-o-m, it beat the market forecast for +0.3% m-o-m, with the pair hitting the $0.77 range.

On April 10, Chinese president Xi Jinping signaled his intention to open up domestic markets and lower customs duties. This move eased concerns about a U.S./China trade dispute. As risk appetite intensified, the Australian dollar was bought as a risk currency and the pair rose to the mid-$0.77 level. With the Australian unit moving firmly, the pair then hit the $0.78 range for a time, but with the U.S., Britain and France launching a missile attack on Syria, the pair dropped back to $0.77. Global metal prices soared on April 18 after the U.S. placed sanctions on several Russian firms. The price of aluminum futures soared to a 7-year high in the London Metal Exchange (LME), with nickel prices also hitting a 9-year high. Crude oil prices also hit a 4-year high on the tensions in Syria. With commodity prices climbing, the Australian dollar was bought as a commodity currency and the pair rose to an April high of $0.7813 on April 19. However, the greenback was then bought during overseas trading time on the same day after long-term treasury yields rose to 2.9%. As a result, the pair crashed to the lower-$0.77 mark.

These yields continued rising on April 20. The greenback was bought and the pair fell further to hit the mid-$0.76 level. The following week saw the 10-year treasury yield finally rising to 2.99%, just below the key 3% mark and its highest level in four years. As a result, the pair weakened to the lower-$0.76 mark. The Australian CPI data for January–March was released on April 24. At +0.4% q-o-q and +1.9% y-o-y, the data fell below the market forecast of +0.5% q-o-q and +2.0% y-o-y. This was also short of the RBA's inflation target (2–3%), so expectations for an early RBA rate hike waned and the pair tumbled to the upper-$0.75 mark. The greenback continued to be bought and the Australian dollar sold on rising treasury yields on April 25, with the pair sliding to the mid-0.75% level. Treasury yields stopped climbing on April 27, but the U.S. dollar was still bought, with the currency pair hitting a 2018 low of $0.7525.

2. Outlook for This Month:

The AUS/USD pair is expected to move bearishly in May.

The pair hit a 2018 low in April after yields on 10-year treasuries topped 3%. Amid rising geopolitical risk related to Syria, crude oil prices rose at a faster pace and expected inflation rates climbed. Furthermore, amid concerns that the Trump administration might issue more treasuries, 10-year treasury yields have risen to 4-year highs. The pair's technical support line sits around $0.76 (the line connecting its lows from 2016 and 2017), but the pair is likely to break below this line and subsequently face more downward pressure. Additionally, the Australian Q1 CPI data came in below the RBA's inflation target (2–3%). As such, the RBA will probably keep monetary policy fixed for now, with the pair subsequently moving with a heavy topside.

The U.S. FOMC will also be meeting over May 1–2. The FOMC implemented a 25bp rate hike at the last meeting in March and it will want to monitor the impact of this, so it is not expected to tighten further this month. Furthermore, FOMC members stuck to the projection for three rate hikes in 2018 in their economic and interest rate forecast, so the next rate hike will probably take place in June at the earliest. As such, this month's meeting is unlikely to have a big impact on the forex markets.

However, concerns about U.S./China trade friction and U.S. protectionism have been boiling away since March and this situation will require monitoring from here on. China has made some conciliatory noises, but if things develop into a fully-fledged trade war, this will exert downward pressure on Asia and the global economy, with the Australian economy also hit. Concerns about the North Korean situation are also easing after a heads of state meeting between North and South Korea, for example. Eyes will now turn to the U.S./North Korea heads of state meeting, scheduled to take place by mid-June. Political trends and news will require monitoring in May too.

Australian indicators and events to watch out for in May include: the RBA board meeting (May 1), the March trade balance (released May 3), the March building approvals data (May 3), the RBA's Quarterly Statement on Monetary Policy (May 4), the March retail sales data (May 8), the March mortgage approvals data (May 11), the minutes to the RBA meeting (May 15), the Q1 wage growth data (May 16), the April employment data (May 17), and the April building approvals data (May 30).

Junichiro Miki, Canada Office, Global Markets Coordination Department

Canadian Dollar – May 2018

Expected Ranges	Against the US$:	C$1.2400–1.3100
	Against the yen:	JPY83.00–88.00

1. Review of the Previous Month

The USD/CAD pair entered April trading at $1.2898. March's downward trend continued in the first half of April, though the pair began rising in the latter half of the month after the Bank of Canada (BOC) met to set the policy rate. The pair's high for the month was C$1.2944 (April 2) while its low was $1.2528 (April 17).

On April 3, news emerged that the U.S. would make concessions when it came to tariffs on passenger vehicles, the main stumbling block in the NAFTA renegotiations, with an agreement set to be announced in the near future. The Canadian dollar subsequently climbed, with the currency pair dropping below C$1.28. The Canadian March employment data was released on April 6. The data was strong, with the number of jobs rising by 32,000. At +3.1% y-o-y, though, average hourly wages growth was down on market forecasts, so the pair moved flatly as a result.

On April 9, though, the BOC published its business outlook survey for January–March, with the Canadian unit climbing and the currency pair falling on the bullish result. News then emerged that Saudi Arabia was targeting crude oil prices of $80/barrel ahead of the Saudi Aramco IPO on April 10. With crude oil prices then hitting a 40-month high of $67/barrel on rising tensions in Syria, the USD/CAD pair dropped to the C$1.25 range.

It continued to float in this range thereafter. However, the BOC then decided to leave its policy rate fixed at 1.25% when it met on April 18. The BOC's stance was read as being slightly dovish, so the Canadian dollar weakened and the pair strengthened.

The Canadian March CPI data was released on April 20. At +2.3% y-o-y, the data was down slightly on the market forecast (+2.4% y-o-y). With the Canadian February retail sales figures also falling below expectations, the currency pair was pushed higher.

U.S. interest rates then underwent a noticeable climb, with the benchmark 10-year treasury yield hitting 3%, for example, so the pair continued to rise on April 24. With the euro also moving bearishly after the ECB meeting, the pair traded at the mid-C$1.28 mark.

2. Outlook for This Month:

Since last month, there have been several optimistic reports that an agreement will be reached in the NAFTA renegotiations. With the U.S. and Canada also making positive noises, the markets appear to have factored in an announcement next month about such an agreement.

When it meets in April to set the policy rate, the BOC will probably adopt the same stance that it took

in March, when it said it would "remain cautious with respect to future policy adjustments, guided by incoming data," thus signaling a neutral position that it would raise rates at some point, but would proceed cautiously. A lot depends on the results of economic indicators. Results have generally not been too bad in 2018, but they are not as bullish as they were in 2017. Furthermore, as the BOC has indicated, exports are moving bearishly. As such, the BOC will be in no rush to lift rates.

A lot also depends on U.S. rate hikes and there will probably be two more of these in 2018.

With other currencies also moving strongly, the greenback has moved somewhat bearishly since the turn of the year. However, European fundamentals are starting to slow and the euro also seems to be slipping, so the USD/CAD pair will probably continue trading in a range around C$1.24–1.31 on the whole.

The U.S. has ramped up oil production on rising crude oil prices, while the markets have also priced in a continuation of the deal to limit output, so crude oil prices are not expected to rise sharply. However, a mood of optimism will probably prevail for the time being.

Yasunori Shimoyama, Seoul Treasury Office

Korean Won – May 2018

Expected Ranges	Against the US$:	KRW1,040–1,090
	Against the yen:	JPY9.90–10.64 (KRW100)
		(KRW9.40–10.10)

1. Review of the Previous Month

In April, the USD/KRW pair generally strengthened until the end of the month, though it then fell after the leaders of North and South Korea met on April 27. The rise until that point was probably due in large part to bullish U.S. long-term interest rates and needs that overseas investors would repatriate dividends received from South Korean firms.

The pair opened the month trading at KRW1061.00. The won was bought after an agreement was reached between Washington and Seoul late March to ban attempts guide the won lower. As a result, the pair tumbled to KRW1054.00 on April 3. With South Korea going through a phase of rate hikes and also posting a current account surplus, this rise was generally down to a broad market consensus that the won was an easy currency to buy, with the South Korean unit also probably bought on speculation that Seoul would now find it harder to guide the won lower.

However, the won was then sold on fears of a U.S./China trade war and growing concerns about an airstrike on Syria. When Syria was indeed bombed the following business day (April 16), the pair climbed to KRW1075. However, with meetings between the North/South Korean heads of state and the U.S./North Korean heads of state looming, Pyongyang started to give off conciliatory signals, so the pair weakened to temporarily dip below KRW1060 on April 19. Incidentally, the Bank of Korea's Monetary Policy Committee (MPC) struck no particularly strong tone when it met on April 12.

With crude oil prices subsequently rising, though, long-term treasury yields climbed as the inflation outlook improved, so the dollar was bought and the USD/KRW pair rose sharply.

However, the Panmunjom Declaration released after the April 27 North and South Korean heads of state meeting was read as comparatively momentous. It pledged to replace the Korean War armistice with a peace treaty, for example, while also committing to complete denuclearization on the Korean peninsula and a phased disarmament. As a result, the won was bought sharply in the overseas NDF market on April 27, with the won also rising in overseas markets on April 30. As a result, the pair closed the month trading at KRW1068.00.

2. Outlook for This Month:

The USD/KRW pair is expected to move with a heavy topside in May. The North and South Korean heads of state meeting concluded on a wave of optimism and a U.S./North Korean heads of state meeting now looks a more realistic prospect. On the whole, this amicable mood will probably lead to more won buying.

The leaders of North and South Korea met on April 27, the first such meeting since 2007. The Panmunjom Declaration was released after the meeting and it seemed comparatively momentous. It pledged to replace the Korean War armistice with a peace treaty, for example, while also committing to complete denuclearization on the Korean peninsula and a phased disarmament. As a result, the won was bought sharply in the overseas NDF market on April 27.

The spotlight will now shift the U.S./North Korean heads of state meeting, which President Trump has said could take place over the next three or four weeks. It is unclear whether the meeting will be held in May, but various headlines about the meeting will emerge from here on, with the currency pair swayed to some extent by the tone of these reports. The North/South Korean meeting was welcomed by numerous countries and the United Nations, with hopes now swelling when it comes to the U.S./North Korean summit. The Trump administration has set some tough conditions for this meeting and there remain a number of uncertainties when it comes to whether an agreement can be reached between the two sides. However, a breakdown could lead to war, so the two sides will probably find some points of compromise in the end. This is also likely to invite more won buying, with the Korean unit likely to face a slight increase in buying pressure on these hopes, even before the meeting.

However, other factors for concern continue to smolder away. If some factors arise that could negatively impact stock markets, the mood could suddenly switch to one of risk aversion. Potential risk factors currently include rising crude oil prices, the attendant rise in U.S. long-term treasury yields, and the ongoing issue of U.S. trade policy. With crude oil in particular, the U.S. looks set to decide by May 12 on whether to reimpose economic sanctions in Iran. If it does so, crude oil prices could soar again, with U.S. treasury yields rising on inflationary concerns and stocks also being hit hard. The USD/KRW pair would probably rise under this scenario. If the won is sold on risk aversion and the dollar bought on rising U.S. long-term treasury yields, this could lead to some relatively large price movements.

Based on the above, it seems the USD/KRW will generally move with a heavy topside in May on won buying. Depending on the factors, though, the pair could rise sharply, so caution will be needed.

Yuji Miura, Taipei Treasury Office

New Taiwan Dollar – May 2018

Expected Ranges	Against the US$:	NT$29.20–30.00
	Against the yen:	JPY3.57–3.80

1. Review of the Previous Month

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

The pair began the month trading at TWD29.100 on April 2. The greenback was then bought and the Taiwan dollar sold as overseas funds flooded out of Taiwanese stock markets, with the pair rising to TWD29.189 toward April 3. However, it then moved with a heavy topside on dollar selling by exporters. It closed trading at TWD29.148 just before the holidays started on April 4.

During the holidays, it was announced that several high-ranking officials in the Trump administration, including Larry Kudlow, director of the U.S. National Economic Council (NEC), would head to China to negotiate an agreement in the trade dispute. The news was warmly received, with the greenback subsequently rising. With the dollar being bought and the Taiwan dollar sold, the pair climbed to a high of TWD29.279 when trading reopened after the holidays on April 9. However, exporters then stepped up moves to sell the greenback and buy the Taiwan dollar, so the pair moved with a heavy topside. U.S. interest rates then fell on April 10 on concerns about rising tensions in Syria. With the dollar moving bearishly, the USD/TWD pair traded heavily on the topside.

With Taiwanese stocks sliding in the latter half of the month, overseas funds continued to flow out of Taiwan. As a result, the currency pair moved bullishly to temporarily hit TWD29.426 on April 16, its highest level since February 2018. Thereafter, as concerns about the Syrian situation and a U.S./China trade spat receded, the benchmark 10-year treasury yield climbed to the 3% mark. With overseas funds also continuing to flow out of Taiwan, the currency pair trended upwards to climb to TWD29.7 toward April 27.

However, U.S. interest rates stopped climbing toward the end of the month. With exporters also selling the greenback and buying the Taiwan dollar at the month's end, the pair moved with a heavy topside and it weakened to TWD29.5.

2. Outlook for This Month:

The USD/TWD pair is expected to move with a heavy topside in May.

A glance at the economic indicators released in April shows Taiwan's March export data rising by +16.7% y-o-y, the first positive growth in two months. The total export amount was USD 29.99 billion, a record on a standalone monthly basis. Exports of electronic parts (a key Taiwanese export item) grew by an impressive +21.5% y-o-y and this pulled the overall result higher. Exports to China and Hong

Kong (which account for over 40% of Taiwan's total exports) grew by a huge +30.9% y-o-y, with the data confirming the ongoing bullishness of Taiwanese exports. Taiwan's trade surplus also hit USD6 billion. Though this was below the all-time record (USD6.6 billion in September 2017), the surplus remained at a high level. Taiwan's March CPI data was also up +1.57% y-o-y. With energy prices climbing, the data rose for the fifth straight month, though growth was down compared to February (+2.19% y-o-y), when travel costs rose sharply due to the Spring Festival holidays. When highly-volatile fresh food prices were removed from the equation, the core CPI data came in at +1.53% y-o-y.

In May, attention will focus on the movements of U.S. interest rates as well as the movements of overseas funds in Taiwanese stock markets.

With regards to the former, the greenback was pushed higher in April when the benchmark 10-year treasury yield temporarily hit 3%. If interest rates rise further on bullish crude oil prices and growing concerns about inflation, the USD/TWD pair will probably test the TWD30 mark. However, as seen in the past, the stock markets could react badly to the negative impact of rising interest rates on the U.S. economy. If this does come to pass, interest rates could stop climbing as stocks fall, with the greenback no longer pushed upwards by rising U.S. rates, so caution will be needed.

Overseas investors have continued to pull funds out of Taiwanese stock markets these past three months. The total amount of outflows has hit TWD82 billion. If this trend continues, it could support the currency pair's movements, just like it did in April.

Ken Cheung, Hong Kong Treasury Department

Hong Kong Dollar – May 2018

Expected Ranges	Against the US$:	HK$ 7.8400–7.8500
	Against the yen:	JPY 13.40–14.10

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

In April, the U.S. dollar/Hong Kong dollar exchange rate reached the HKD 7.85 level for the first time since the introduction of the U.S. dollar peg system in 2005 (accepting the exchange rate fluctuation between HKD 7.75–HKD 7.85 to the U.S. dollar). It seems that the Hong Kong dollar is depreciating due to the widening interest rate differentials between the U.S. dollar and the Hong Kong dollar. Under such a circumstance, the Hong Kong Monetary Authority (HKMA) carried out market interventions by buying the Hong Kong dollar in order to protect its currency. Thus, within approximately one week, as much as HKD 50 billion was absorbed from the market. As a result of this operation, the Hong Kong dollar interest rates are gradually following the appreciation of the U.S. dollar interest rates, leading the Hong Kong dollar to appreciate against the U.S. dollar. The U.S. dollar/Hong Kong dollar exchange rate therefore momentarily reached the HKD 7.8415 level. In the U.S. dollar/Hong Kong dollar forward market, the one-year U.S. dollar/Hong Kong dollar forward rate rose to -400 points from -630 points for the first time in approximately 10 years as a result of a market outlook that envisions interest rate differentials between the U.S. and Hong Kong narrowing further in the times ahead.

Hong Kong dollar interest rate market in April

As a result of the foreign currency market intervention by the HKMA, the current account balance (which is an index to measure the liquidity level in the interbank market) decreased from approximately HKD 180 billion to approximately HKD 130 billion. Under such a condition, the Hong Kong one-month HIBOR exceeded 1%, and the interest rate differential between the one-month HIBOR and the one-month LIBOR narrowed down to -100 basis points. Furthermore, the overall HIBOR level remained higher than that observed in the previous month. The interest rate differentials for longer-term rates have also narrowed, albeit to a lesser degree than those for shorter terms.

Hong Kong stock market in April

The benchmark Hang Seng Index remained low at the 30,000 level in April due to capital outflow from the Hong Kong dollar market and persistent concerns over a trade war between the U.S. and China. Furthermore, it seems that some market participants are selling Hong Kong stocks and buying Chinese stocks, as Chinese yuan-denominated A-shares will be incorporated into the MSCI emerging market index.

2. Outlook for This Month:

Hong Kong dollar spot exchange market in May

The U.S. dollar/Hong Kong dollar exchange rate is forecast to fluctuate between HKD 7.840 and HKD 7.850 in May. Even though the interest rate differentials between the U.S. and Hong Kong have been gradually narrowing, there is still a gap between the two. Thus, market participants are likely to continue carrying out transactions by buying the U.S. dollar and selling Hong Kong dollar. Furthermore, funds are flowing out to Chinese stocks, as Chinese yuan-denominated A-shares will be incorporated into the MSCI emerging market index, and this is expected to continue encouraging market participants to sell the Hong Kong dollar. On the other hand, the current depreciation of the Hong Kong dollar is considered to be the adjustment of the interest rate differentials between the U.S. dollar and the Hong Kong dollar. Given that the Hong Kong monetary authorities hold foreign currency reserves amounting to twice as much as the base currency (cash and demand deposits etc.), the U.S. dollar peg system is likely to continue in the times ahead.

Hong Kong dollar interest rate market in May

Even though the HKMA absorbed funds from the market through foreign currency market intervention, the interest rate differentials between the U.S. dollar and the Hong Kong dollar have still been widening. Therefore, the HKMA is likely to continue intervening in the foreign currency market. Under such a condition, the Hong Kong dollar interest rates are expected to start gradually following the appreciation of the U.S. dollar interest rates in May. Even though this depends on the timing of the next interest rate hike by the Federal Reserve Board (FRB), financial institutions in Hong Kong will face growing necessity to raise interest rates in the times ahead.

Kazuki Baba, Treasury Division, MHBK (China)

Chinese Yuan – May 2018

Expected Ranges	Against the US$:	CNY 6.2000–6.6000
	Against the yen:	JPY 15.45–17.42
	Against 100 yen:	CNY 5.7400–6.4700

1. Review of the Previous Month

Foreign exchange market

In April, the Chinese yuan depreciated against the U.S. dollar due to the appreciation of the U.S. dollar in markets outside China, as caused by the appreciation of U.S. interest rates.

In the previous month, risk-averse sentiment grew in the market due to additional customs duties between the U.S. and China. However, concerns over a trade war were gradually mitigated, and the U.S. dollar/Japanese yen exchange rate rose to the mid-JPY 107 level in the first half of the month. The Chinese yuan depreciated against the U.S. dollar due to the media report on possible Chinese yuan devaluation by the Chinese monetary authorities as a means to oppose to the U.S. in trade-related matters. As a result, the U.S. dollar/Chinese yuan exchange rate once approached CNY 6.32. However, geopolitical risks grew thereafter with issues related to Syria, which led the U.S. dollar to depreciate in markets outside China. Following this trend, the U.S. dollar/Chinese yuan exchange rate fell to once approach CNY 6.27. Even though President of China Xi Jinping promised to further promote economic reforms at the Boao Forum for Asia on April 10, the impact of this in the market was limited. Then, on April 17, the first-quarter GDP was announced in China, and the result was as expected in the market. In the evening of the same day, it was announced that the deposit requirement ratio was cut. However, the impact of this on the foreign exchange market was also limited. Toward the second half of the month, commodity prices appreciated, and the 10-year U.S. government bond yield rose to exceed 3%. As a result, the U.S. dollar continued appreciating against other major currencies. Following this trend, the U.S. dollar appreciated also against the Chinese yuan toward the end of the month, and the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.34 level.

Interest rate market

At the beginning of the month, with an easing trend remaining in the Chinese yuan interest rate market, the Chinese yuan interest rates declined significantly for all terms after the end of the previous month.

However, the overnight interest rate occasionally rose, thanks to fund procurement needs by some non-bank financial companies. Thereafter, interest rates for terms less than a week started to rise, as the balance between capital demand & supply was deteriorating due to tax payments. However, the Chinese monetary authorities announced the decision to cut the Chinese yuan deposit requirement ratio, which led market participants to anticipate the improvement of the liquidity level after the enactment of the decision on April 25. As a result, the interest rates for terms longer than a week started to fall. On April 25, the deposit requirement ratio was cut. However, the overall capital volume declined through open-market operations while fund procurement needs increased toward the end of the month. The overnight interest rate and other interest rates for terms less than a month generally rose as a consequence.

2. Outlook for This Month:

Foreign exchange market

In May, the U.S. dollar/Chinese yuan exchange market is likely to continue following trends in markets outside China.

The U.S. dollar continues appreciating against the Chinese yuan as a result of the current appreciation of commodity prices and the U.S. interest rates. Under such circumstances, it is important to see how much further the U.S. dollar will appreciate. Even though market participants should bear in mind that there are persistent concerns over a trade war between the U.S. and China, it seems that China has started to soften its attitude toward the U.S., as President of China Xi Jinping made a remark that he would further promote economic reforms. It should also be mentioned that, at the central politburo meeting, the Chinese monetary authorities emphasized the importance to promote domestic demand and cut costs for fund procurement. It is also possible that the Chinese monetary authorities will make small changes to the current monetary policy in order to control downward risks on the economy caused by excessive financial deleveraging and growing trade frictions. It is therefore important to keep an eye out for remarks related to future monetary policy by the Chinese monetary authorities.

Interest rate market

Having passed the end of the month, Labor Day fund procurement needs are expected to decline for a while. However, market participants should remain careful about rising upward pressure on interest rates in the medium term, as there may be consequences of strengthened monetary surveillance by the Chinese monetary authorities, as well as tightened regulations for the purpose of deleveraging. The three-month SHIBOR once fell below 4%, and the overall interest rates have been falling since the middle of March. However, the three-month SHIBOR returned once to the 4% level at the end of March. Market participants

should therefore be attentive to see whether the interest rates will fall further in the times ahead.

Noriko Suzuki, Asia & Oceania Treasury Department

Singapore Dollar – May 2018

Expected Ranges	Against the US$:	SG$ 1.3100–1.3350
	Against the yen:	JPY 81.50–83.50

1. Review of the Previous Month

In April, the Singapore dollar remained robust against the U.S. dollar at the beginning of the month, as the Monetary Authority of Singapore (MAS) was about to announce its monetary policy. However, in the second half of the month, the Singapore dollar depreciated significantly against the U.S. dollar as a result of the appreciation of the U.S. dollar interest rates.

At the beginning of April, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.31 level, while there were few market actions during the Easter holidays. In the first week of the month, there were small fluctuations in the Chinese yuan markets and other major currency markets following media reports related to trade relations between the U.S. and China. However, in the Singapore dollar market, there was no clear trend, as there was a balance between Chinese yuan-selling based on the concerns over trade friction and Japanese-yen buying based on risk-averse sentiment. As a result, the U.S. dollar/Singapore dollar exchange rate hovered around at the lower-SGD 1.31 level. In the second half of the week, the Singapore dollar weakened slightly, and on April 6, market participants sold the Singapore dollar and the U.S. dollar/Singapore dollar exchange rate approached SGD 1.32 level. In the March employment statistics of the U.S., which also gathered significant attention in the market, the increase in the number of non-agricultural employees turned out to be smaller than expected in the market. However, this was seen as a reaction to the rapid expansion seen in the previous month and therefore the impact on the exchange market was minimal.

In the second week of the month, the Singapore dollar appreciated, as market participants were expecting the MAS to resume its operation to lead the Singapore dollar to appreciate, even before the announcement of the monetary policy by the MAS scheduled for April 13. On April 10, President of China Xi Jinping emphasized his intention to further promote economic reforms at Boao Forum for Asia, which led the Singapore dollar to continue appreciating, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.30 level. On April 11 and 12, the Singapore dollar remained strong and the U.S. dollar/Singapore dollar exchange rate approached its high at the upper-SGD 1.30 level. However, the U.S. dollar/Singapore dollar exchange rate was pushed down several times at this level since the beginning of this year, and this time, as well, the exchange rate did not exceed this level. On April 12, the U.S.

dollar/Singapore dollar exchange rate was pushed back to the lower-SGD 1.31 level as a result of profit-taking actions while waiting for the announcement of the MAS. On April 13, the MAS changed the neutral stance that had maintained since April 2016 to a tightening stance and announced that it would resume its operation to lead the Singapore dollar to appreciate through the nominal effective exchange rate. In reaction to this, market participants bought the Singapore dollar immediately after the announcement, and the U.S. dollar/Singapore dollar exchange rate once reached the upper-SGD 1.30 level. However, this was within an expected range, and with the accumulated long Singapore dollar positions the U.S. dollar/Singapore dollar exchange rate returned to the lower-SGD 1.31 level, and then weekly trading closed at this level.

In the third week of the month, market participants sold the U.S. dollar in the overall market, as the U.S. began a missile attack against Syria with the U.K. and France. However, it was announced thereafter that the missile attack would occur only once, which kept market participants from buying the Singapore dollar further, and the U.S. dollar/Singapore dollar exchange rate did not mover further from around SGD 1.31. In the second half of the week, the U.S. dollar interest rates continued appreciating daily, which encouraged market participants to buy the U.S. dollar. On April 20, the overall Asian currencies depreciated. Following this trend, the Singapore dollar also depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.31 level.

In the fourth week of the month, the risk-averse sentiment was mitigated as North Korea had announced a suspension of missile tests and the closure of nuclear testing facilities during the preceding weekend. As a result, the U.S. dollar strengthened against other major currencies and the U.S. dollar/Japanese yen exchange rate rose sharply to the upper-JPY 108 level. Following this trend, Singapore dollar-selling also accelerated. On April 25, the 10-year U.S. government bond yield reached the 3% level for the first time in four years and three months, and this weakened the overall Asian currencies. Following this trend, market participants sold the Singapore dollar as well, and the U.S. dollar/Singapore dollar exchange rate almost reached SGD 1.33, reaching its low for the first time in three months. However, in the second half of the week, the pressure to sell the Singapore dollar was mitigated and the U.S. dollar/Singapore dollar exchange rate returned to the lower-SGD 1.32 level as a result of profit-taking actions.

2. Outlook for This Month:

In May, the Singapore dollar is forecast to weaken slightly, as the overall Asian currencies are likely to remain weak as a result of the appreciation of the U.S. dollar interest rates.

According to the Ministry of Commerce of Singapore, the preliminary figure for the January–March quarter GDP turned out to be strong at +4.3% year-on-year, exceeding +3.6% year-on-year—the result of

the October–December quarter last year. As the figure differed considerably depending on the sector and as global economic expansion is likely to slow down in the times ahead, the economy of Singapore is expected to hit a ceiling soon, mainly in terms of external demand. However, it is expected that an annual growth of +1.5–3.5% can be achieved in 2018. It should also be mentioned that the MAS shifted its monetary policy from neutral to tightening for the first time in two years, resuming the operation to lead the Singapore dollar to appreciate through the nominal effective exchange rate. The fundamentals show that the Singapore dollar is likely to remain strong in the times ahead.

However, on the other hand, capital outflow risks are growing in Asia, as the U.S. dollar interest rates are appreciating as a result of the inflation pressure strengthened by the appreciation of the crude oil price as well as the rewinding of the risk-averse sentiment after the mitigated risks related to Syria and the Korean peninsula. As the international balance of payments of Singapore has been stable, panic Singapore dollar-selling is not likely. However, the Singapore dollar exchange market is not free from the impact of the overall trend of U.S. dollar appreciation. According to the announcement made by the MAS in April, the Singapore dollar effective exchange rate had remained within the upper half of the policy fluctuation band (toward a stronger Singapore dollar) for the past half-year. Thus, even if the MAS changes the fluctuation band to a slightly higher level, there would still be some leeway for the Singapore dollar to depreciate. From the point of view of technical analysis as well, SGD 1.30 is a level that the U.S. dollar/Singapore dollar exchange rate approached many times but never exceeded. Therefore, if the U.S. dollar continues appreciating against other major currencies and Asian currencies, the Singapore dollar is likely to follow the trend, and the Singapore dollar, which continued appreciating over the past half-year, is likely to enter an adjustment phase in May.

Yuki Inoue, Bangkok Treasury Office

Thai Baht – May 2018

Expected Ranges	Against the US$:	THB 31.00–31.70
	Against the yen:	JPY 3.40–3.50

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate rallied significantly in the second half of the month.

At the beginning of the month, the U.S. dollar/Thai baht exchange rate remained flat. The Ministry of Commerce of Thailand announced the March Consumer Price Index on April 2, and the result turned out to be +0.79% year-on-year, lower than the market estimate (+0.97% year-on-year). However, the reaction in the market was minimal. During the trading hours outside Thailand, the U.S. stock market weakened due to concerns over trade friction between the U.S. and China as well as a cautious feeling related to the future of high-tech companies. In reaction to this, risk-averse sentiment grew in the market and U.S. dollar-buying dominated. As a result, the U.S. dollar/Thai baht exchange rate rallied to the lower-THB 31.20 level. On April 3, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 31.10 level, thanks to investment from abroad. However, on April 4, China announced its decision to levy an additional customs duty in response to the customs duty levied by the U.S., which fueled risk-averse sentiment market again, and the U.S. dollar/Thai baht exchange rate rose to the lower-THB 31.20 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained flat at the upper-THB 31.20 level before and after the holiday on April 6. On April 10, at Boao Forum for Asia, President of China Xi Jinping made it clear that he would continue reforming and opening up the market through a reduction of import duties on automobiles, along with deregulation on market entry by companies from outside China. As a result, concerns over trade friction between the U.S. and China were mitigated, and, with fading risk-averse sentiment in the market, the U.S. dollar/Thai baht exchange rate fell to approach THB 31.20.

In the middle of the month, there were few market actions due to the Songkran holidays. On April 11, the central bank of Thailand released the minutes of the Monetary Policy Committee (MPC) meeting and there was nothing new in particular. It stated that there was no signal for the normalization of monetary policy, although there were split opinions regarding the policy interest rate. Before the Songkran holidays, the liquidity level was low, and, following the trend of U.S. dollar-selling in the U.S. dollar/Japanese yen exchange market, the U.S. dollar was sold also against Thai baht. As a consequence, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 31.10 level, the monthly low. From April 13 to April 16, Thailand had public holidays, and the U.S. dollar/Thai baht exchange rate did not fall further, rallying to approach

THB 31.20. After the consecutive holidays, there was no significant factor to impact the market on April 17 and thereafter, as companies with actual demand were still on holiday. Under such a condition, the U.S. dollar/Thai baht exchange rate slowly rose to the upper-THB 31.20.

At the end of the month, however, the U.S. dollar/Thai baht exchange rate rallied significantly. Risk-taking sentiment grew in the market, as concerns were mitigated related to the trade friction between the U.S. and China as well as the situation in Syria. As a result, U.S. bond-selling accelerated and the U.S. interest rates appreciated, which encouraged market participants to buy the U.S. dollar. The U.S. dollar/Thai baht exchange rate thus exceeded THB 31.30. Then, on April 23, North Korea announce its decision to suspend its missile tests and close its nuclear testing facilities, which fueled the risk-taking sentiment further, leading the U.S. dollar/Japanese yen exchange rate to rise sharply. Following this trend, the U.S. dollar/Thai baht exchange rate also started to rise. According to the announcement of the Ministry of Commerce of Thailand, in the March trade statistics, exports recorded stronger-than-expected growth at +7.06% year-on-year. However, the reaction in the market to this news was limited. Thereafter, the 10-year U.S. government bond yield exceeded 3%, accelerating U.S. dollar-buying. Under such a condition, the appreciation of the Thai baht continued, and the U.S. dollar/Thai baht exchange rate reached the THB 31.60 level for the first time since late February this year. Capital outflow from the Thai bond market was also significant, and the Thai government bond yields are also rising rapidly.

2. Outlook for This Month:

The U.S. dollar/Thai baht exchange rate is likely to appreciate only to a limited extent.

The full denuclearization of North Korea was declared at the summit meeting between North Korea and South Korea held in North Korea, reaching an agreement that the Korean War would be officially ended by the end of the year. As a result, the 10-year U.S. government bond yield reached the important 3% mark, also as a result of the mitigated concerns over the trade friction between the U.S. and China as well as the appreciation of commodity prices, including such for crude oil. As a consequence of the appreciation of the U.S. bond yields, market participants are buying the U.S. dollar, selling the overall Asian currencies. Following this trend, the Thai baht was also sold, and the U.S. dollar/Thai baht exchange rate rose to the THB 31.60 level for the first time in approximately two months. However, the appreciation of 10-year U.S. government bonds does not seem to be continuing after reaching the 3% mark. Thus, in May, market participants are likely to sell the U.S. dollar so as to take profits, while stock prices are also likely to fall.

With regard to domestic factors in Thailand, investor capital from outside the country experienced a remarkable outflow out of the Thai bond market, after the acceleration of the inflow observed since the beginning of the year. According to the data announced by the Thai Bond Market Association (TBMA),

the capital outflow in April almost reached THB 2.4 billion, which is also causing the depreciation of the Thai baht. In reaction to the sharp rise of the U.S. dollar/Thai baht exchange rate, in the offshore market the swap discount level has been falling rapidly (the offshore interest rates have been appreciating) following the appreciation of the spot exchange rate. The central bank of Thailand has announced that from May it would increase the amount of short-term bonds to be issued, which had been reduced since April last year due to excessive capital inflow. Thus, it is important to continue carefully observing for how long the current appreciation of the Thai baht interest rates will last. The central bank of Thailand will have its MPC meeting on May 16. The central bank emphasized that the increase in the short-term bond issuance was nothing to do with the monetary policy outlook. However, given the fact that some committee members insisted on an interest rate hike at the previous MPC meeting held on March 28, the result of the voting can be a factor for fluctuations in the Thai baht exchange market, and therefore market participants should keep an eye out for the outcome of the meeting.

The fundamentals of Thailand remain strong. According to the announcement by the Ministry of Commerce of Thailand, the March trade statistics showed positive year-on-year growth for both imports and exports, maintaining a healthy condition. On April 27, the Ministry of Finance revised its export outlook for this year upward to +8.0% year-on-year (while it was previously +6.6% year-on-year). Thus, the Thai monetary authorities remain optimistic, while the appreciation of the Thai baht is expected to continue. Even though there are factors for the appreciation of the U.S. dollar, such as the appreciation of commodity prices as well as the appreciation of the U.S. dollar interest rate, the appreciation of the U.S. dollar/Thai baht exchange rate is likely to be limited given the fundamentals of Thailand.

Teruhiko Yamada, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2018

Expected Ranges	Against the US$:	MYR 3.8500–3.9500
	Against the yen:	JPY 26.60–28.57
	Against 100 yen:	MYR 3.5000–3.7600

1. Review of the Previous Month

In April, the Malaysian ringgit was slowly sold.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the lower-MYR 3.86 level and reached MYR 3.8530 in the morning, renewing the highest rate since the beginning of the year, following the trend in the Chinese yuan exchange market. However, the Chinese yuan weakened thereafter, due to concerns over trade friction between the U.S. and China, following which market participants slowed down their Malaysian ringgit-buying. Thus, the U.S. dollar/Malaysian ringgit exchange rate reached a stalemate at the MYR 3.86 level. At around noon of April 6, Prime Minister Najib Razak held a press conference and announced that the Lower House of Parliament would be dissolved through an extraordinary session of the Parliament on April 7, although the reaction to this news was limited in the market. Thereafter, the Singapore dollar appreciated with speculation that the government of Singapore might resume its operation to lead the Singapore dollar to appreciate. Following this trend, the Malaysian ringgit strengthened as well. Thereafter, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating in both directions, with a series of media reports related to the trade friction between the U.S. and China. However, on April 11 and after, the situation in Syria tightened, fueling risk-averse sentiment in the market. As a result, market participants slowly sold the Malaysian ringgit. On April 13, the Monetary Authority of Singapore (MAS) announced its decision to start leading the Singapore dollar to appreciate at a moderate rate. However, the economic evaluation was not very hawkish, which kept the impact on the exchange market minimal. The U.S. dollar/Malaysian ringgit exchange market closed trading at the upper-MYR 3.87 level.

In the middle of the month, the Malaysian ringgit weakened because of the media report on the missile attack on Syria by the U.S., U.K., and France, made during the night local time in the U.S. The president of the Federal Reserve Bank of Boston also made a comment that more interest rate hikes than the median projected by the Federal Reserve Board (FRB) would be necessary in the U.S. this year, and this comment led the U.S. dollar to appreciate, encouraging market participants to sell the Malaysian ringgit. The *Semiannual Report on International Economic and Exchange Rate* was also released by the Department

of Treasury, gathering substantial attention but it did not identify any currency manipulator, as was previously anticipated, and the market reaction was limited. As the missile attack in Syria was seen as a temporary move, the Malaysian ringgit rallied once on April 17. However, the Malaysian ringgit weakened soon after with the appreciation of the U.S. dollar supported by the strong financial performance of U.S. companies as well as the appreciation of U.S. bond yields. The U.S. dollar/Malaysian ringgit exchange market closed at the upper-MYR 3.89 level.

In the second half of the month, the pressure to sell the Malaysian ringgit persisted in the market. From the beginning of the week, the inflation pressure strengthened as a result of the increase in the issuance of U.S. government bonds as well as the appreciation of the crude oil price. As a result, the 10-year U.S. government bond yield approached 3% for the first time in four years, encouraging market participants to sell overall Asian currencies. Following this trend, the Malaysian ringgit depreciated and the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 3.90 level. Thereafter, the appreciation of the U.S. interest rates led the 10-year Malaysian government bond yield to reach the 4.0% level for the first time in a year. As a consequence, the Malaysian ringgit depreciated against the U.S. dollar and the exchange rate fell to the MYR 3.90 level. On April 26, the European Central Bank (ECB) decided to maintain its monetary policy, as had been anticipated in the market. However, the governor of the ECB made a dovish remark at the press conference, which strengthened the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate once reached MYR 3.9230.

As of 09:30 of April 30, the U.S. dollar/Malaysian ringgit pair has been trading exactly at the MYR 3.92 level.

2. Outlook for This Month:

In May, event risks are forecast to remain as key factors in the Malaysian ringgit exchange market.

The most-important event is the general election scheduled for May 9. Even though the ruling party has the advantage, if the vote counting lasts for a long time or the opposition party wins, it is possible for the Malaysian ringgit-selling pressure to strengthen due to a sense of uncertainty for the future.

Depending on U.S. actions, the situation regarding the Korean peninsula could become tense once again, despite rapidly moving toward a peaceful settlement, with the same being said for Syria, where military tension is currently being mitigated. It is therefore safer to think that geopolitical risks will persist in the times ahead.

In May, the first-quarter GDP is scheduled to be announced and the result is likely to confirm the strong

domestic economy. However, if the figures turn out to be weak, expectations for an additional interest rate hike would completely disappear. Given the above factors, market participants should be careful about risk-averse sentiment in the market.

However, on the contrary, if key events end without any problem, confirming strong domestic business confidence, the Malaysian ringgit is forecast to start appreciating again.

Ryosuke Kawai, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2018

Expected Ranges	Against the US$:	IDR 13,600–14,100
	Against 100 rupiah:	JPY 0.75–0.80
	Against the yen:	IDR 124.00–134.00

1. Review of the Previous Month

In April, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within the range between IDR 13,735 and IDR 13,935, reaching the lowest level for the Indonesian rupiah for the first time in approximately two years and three months.

From the beginning of the month to the end of the month, Indonesian rupiah-selling was observed occasionally. However, market participants were expecting the central bank of Indonesia to intervene in the exchange market by buying the Indonesian rupiah at around IDR 13,800 to the U.S. dollar. Thus, the U.S. dollar/Indonesian rupiah exchange rate remained within a narrow range between IDR 13,750 and IDR 13,800. In the meantime, Moody's announced its decision to upgrade the rating of Indonesia on April 13, immediately after which the U.S. dollar/Indonesian rupiah exchange rate fell approximately by 50 points. However, the reaction in the market was limited.

On April 19, the central bank of Indonesia maintained its policy interest rate at the existing level for the seventh consecutive month. However, on April 20, the following day, Indonesia saw a departure of funds from investors outside the country, as the U.S. interest rates appreciated. Furthermore, some market participants sold the Indonesian rupiah as related to a large-scale dividend payment. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate rose rapidly to approach IDR 13,900.

In the following week after April 23, investors from outside Indonesia continued selling the Indonesian rupiah, and the central bank of Indonesia seems to have continued intervening in the exchange market, as it announced on April 24 that it had carried out large-scale market interventions in the foreign exchange market and in the government bond market.

On April 26, the U.S. dollar/Indonesian rupiah exchange rate rose to temporarily reach IDR 13,935. However, when the 10-year U.S. government bond yield fell below 3%, market activities calmed down. In the end, the U.S. dollar/Indonesian rupiah exchange market closed trading at around IDR 13,910 (as of market closing on April 30).

Since the sharp appreciation of the U.S. dollar/Indonesian rupiah exchange rate observed on April 20, the central bank of Indonesia announced its execution of large-scale market intervention while also calling for the people to remain calm and calling for currency hedging so that companies can avoid concentrated transactions in Indonesia rupiah-selling. Furthermore, on April 27, the central bank shared its view that the policy interest rate could be raised if it is necessary for stability while the Indonesian rupiah continues depreciating, showing its intention to make efforts to stabilize the Indonesian rupiah market.

In the meantime, the Jakarta Stock Exchange Composite Index continued falling, dropping below 6,000 for the first time in five months, and trading closed at 5994.60.

2. Outlook for This Month:

In May, there is likely to be pressure to sell the Indonesian rupiah, as was the case in the previous month.

In April, market participants sold the overall Asian currencies as a result of the appreciation of U.S. interest rates. Following this trend, the Indonesian rupiah was also sold and reached its low in approximately two years and three months.

In the meantime, the 10-year Indonesian government bond yield rose by approximately 0.7%, and investors from outside the country reduced their holdings by approximately IDR 25 trillion (approximately 3% of the total holdings) (as of April 26). The Jakarta Stock Exchange Composite Index also fell below 6,000 for the first time in five months.

Toward the end of the month, the market stabilized once. However, there has currently been no positive factor for Indonesia, as was pointed out in this review last month (the unexpected upgrading by Moody's did not significantly encourage Indonesian rupiah-buying). Therefore, the Indonesian rupiah is most likely to weaken in the coming month, while the central bank is likely to try to stabilize the currency market, watching the IDR 13,900–IDR 14,000 line.

However, it should be pointed out that, in 2015, the U.S. dollar/Indonesian rupiah exchange rate rose sharply at the end of September before falling rapidly at the beginning of October. It is thus not possible to deny the possibility for the central bank to intervene in the market by buying the Indonesian rupiah in a large sum in order to lower the interest rate when the rupiah-selling at the end of the month has ended.

In May, the amount of foreign currency reserves will gather attention, as it will show how much the central bank consumed foreign currencies, while the pressure to sell the Indonesian rupiah continues to strengthen.

In addition, if the January–March quarter current deficit increases, the pressure to sell the Indonesian rupiah may strengthen further in the times ahead.

The monetary policy of the central bank of Indonesia is expected to be kept unchanged for the eighth consecutive month, given the unstable foreign exchange market. However, if the U.S. dollar/Indonesian rupiah exchange rate appreciates sharply (if the Indonesian rupiah depreciates sharply), the central bank may raise the interest rate, as was discussed above.

Yoichi Hinoue, Manila Office, Asia & Oceania Treasury Department

Philippine Peso – May 2018

Expected Ranges	**Against the US$:**	**PHP 51.00–52.50**
	Against the yen:	**JPY 2.00–2.20**

1. Review of the Previous Month

In April, the U.S. dollar/Philippine peso exchange market (onshore interbank market) opened trading at PHP 52.13.

On April 2, in reaction to the decision taken by the U.S. to levy additional import customs duties on steel and aluminum, China announced its decision to levy additional customs duties of up to 25% on 128 import items from the U.S. On April 4, China further announced 25% additional customs duties levied on 106 U.S. products, including agricultural products and automobiles. This fueled concerns in the market over a trade war between the U.S. and China.

This is generally a situation in which market participants buy the U.S. dollar based on growing risk-averse sentiment in the market. However, the pressure to buy back the Philippine peso persisted in the market, waiting for the release of the March U.S. employment statistics scheduled for April 6. Thus, the statistics were released when the U.S. dollar/Philippine peso exchange rate reached the PHP 52 level. The March employment statistics of the U.S. revealed the fact that the change in the number of non-agricultural employees was only +103,000 from the previous month (while the market estimate was +185,000). Thereafter, Federal Reserve Board (FRB) Chair Jerome Powell made a speech suggesting that the U.S. economy has been healthy and that the interest rate will be raised at a moderate rate. However, expectations for an interest rate hike did not grow due to the announced figures in the employment statistics.

After the release of the U.S. employment statistics, the U.S. dollar/Philippine peso exchange market opened trading at PHP 52.015, which is almost at the same level as the closing rate of the previous week. The U.S. dollar depreciated thereafter due to the fact that expectations for an interest rate hike faded while concerns over a trade war between the U.S. and China were mitigated. On April 11, the U.S. dollar/Philippine peso exchange rate fell below the PHP 52 level, temporarily trading at PHP 51.91.

However, on the same day, the February fiscal balance of the Philippines was announced with a deficit. Also, as the deficit of the February trade balance was larger than expected in the market and as demand for U.S. dollar-buying grew as a safe asset under the increasingly tight situation related to Syria, the U.S.

dollar/Philippine peso exchange rate remained high.

On April 16, the February amount of OFW (Overseas Filipino Worker) remittances was released and the result turned out to be USD 2.27 billion. Even though this number recorded year-on-year growth of 4.5%, it was lower than both the figure recorded in the previous month and the market estimate, which encouraged market participants to sell the Philippine peso. The U.S. dollar/Philippine peso exchange rate reached the PHP 52 level again.

Toward the end of the month, the 10-year U.S. government bond yield reached the 3% level for the first time since January 2014, which encouraged market participants to buy the U.S. dollar. As a consequence, the U.S. dollar-Philippine peso exchange rate once reached PHP 52.38. However, as geopolitical risks were mitigated rapidly, the depreciation of U.S. stock prices that continued falling daily (details below) slowed down, and some think that the attitude of the central bank of the Philippines toward its monetary policy has changed, thus market participants have been buying back the Philippine peso at a level lower than PHP 52 (as of 10:00 on April 30).

2. Outlook for This Month:

It seems that there are few factors to encourage market participants to buy the Philippine peso.

Based on the fiscal balance of the Philippines and on Philippine stock transactions by investors from outside the country (net selling for 13 weeks until April 23), the expected action is Philippine peso-selling.

Market participants generally prefer the U.S. dollar, as a result of the appreciation of the U.S. interest rates. On the other hand, when geopolitical risks increase, market participants buy the U.S. dollar as a safe asset.

In the middle of February, the U.S. dollar/Philippine peso exchange rate reached the PHP 52 level, after which the exchange rate continues to fluctuate at around PHP 52. In terms of the daily closing rate, the U.S. dollar/Philippine peso exchange rate fell below PHP 52 at the daily market closing only for nine days between February 14 and April 27.

This may give an impression that the U.S. dollar/Philippine peso exchange rate is always at the PHP 52 level.

Even though the peso is expected to continue depreciating against the U.S. dollar, it has to be emphasized that the U.S. dollar is not likely to appreciate much further.

This is partly due to the fact that market participants have been sensitive to actions taken by the monetary authorities of the Philippines to control the excessive depreciation of the Philippine peso, while the depreciation of the Philippine peso observed since the beginning of the year has not yet fully adjusted.

After fluctuating at the same level for 2.5 months, the U.S. dollar/Philippine peso exchange rate is waiting for a trigger to start moving into a certain direction.

Under such circumstances, it is curious that expectations for an interest rate hike have been rapidly growing among market participants.

Even though the central bank of the Philippines used to be cautious about raising the interest rate so far, it is possible that the interest rate will be raised at the next monetary policy committee meeting (scheduled for May 10) as a means to control inflation.

While the market environment allows for a risk-taking attitude, it is now easier to mitigate the impact of an interest rate hike in the market.

If this is the case, the U.S. dollar/Philippine peso exchange rate may start falling in the times ahead.

Junya Tagawa, India Office, Asia & Oceania Treasury Department

Indian Rupee – May 2018

Expected Ranges	**Against the US$:**	**INR 64.00–67.50**
	Against the yen:	**JPY 1.61–1.69**

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate appreciated sharply in April.

The U.S. dollar/Indian rupee exchange market opened trading at the INR 65.11 level. On May 3, the Reserve Bank of India (RBI) (the central bank of India) held a meeting, but there was nothing new that came out of this meeting, and the impact on the exchange market was limited. The U.S. dollar/Indian rupee exchange rate remained at around INR 65 all through the week without moving into any direction. In the following week, concerns grew over the relationship between the U.S. and Russia regarding the situation in Syria, which fueled risk-averse sentiment in the market, also encouraging market participants to sell the Indian rupee. As a consequence, the U.S. dollar/Indian rupee exchange rate renewed its high of INR 65.31since the beginning of the year. However, the appreciation of the exchange rate slowed down, as the March CPI of India and the February industrial production both turned out to be stronger than expected. The U.S. dollar/Indian rupee exchange market thus closed weekly trading at the INR 65.25 level.

At the beginning of the third week of the month, the risk sentiment in the market was pressured by the situation in Syria, as was the case in the previous week. Under such a condition, from the middle of the week, the WTI price fell far below USD 65. In reaction to this, market participants anticipated weak figures for the trade balance, selling the Indian rupee in advance. The U.S. dollar/Indian rupee exchange rate exceeded INR 66.00 for the first time since March last year and continued appreciating further thereafter. Trading thus closed for the week at that level.

In the fourth week of the month, the situation in the market did not change. Furthermore, the U.S. government bond yield exceeded the 3% mark, a psychological turning point, and capital outflow from emerging countries accelerated even further. As a result, the U.S. dollar/Indian rupee exchange rate continued appreciating to reach INR 66.97. As of April 27, when this review is being written, the U.S. dollar/Indian rupee pair has been trading at around INR 66.75 to the U.S. dollar

In April, the Indian rupee/Japanese yen exchange rate did not move into any direction.

The Indian rupee/Japanese yen exchange market opened trading at the JPY 1.63 level this month. The trade negotiations between the U.S. and China gathered significant attention in the market, and the situation was mitigated. In reaction to this, the U.S. dollar/Japanese yen exchange rate, which had been sitting at around JPY 106, started approaching JPY 107.50. Following this trend, the Indian rupee/Japanese yen exchange rate reached JPY 1.656, the monthly high in April.

Thereafter, the U.S. dollar/Japanese yen pair continued trading at the lower-JPY 107 level. However, as the Indian rupee depreciated against the U.S. dollar, the Indian rupee/Japanese yen exchange rate also started to fall slightly.

Toward the end of the month, the U.S. dollar/Japanese yen exchange rate saw the appreciation of the U.S. dollar and the depreciation of the Japanese yen, which led the U.S. dollar/Japanese exchange rate to exceed JPY 108. However, the U.S. dollar/Indian rupee exchange rate had already been high, and the impact of this on the market was limited. As of April 27, when this review being written, the Indian rupee/Japanese yen pair has been trading at around JPY 1.635.

2. Outlook for This Month:

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

The RBI report that was released last month turned out to be an optimistic one, with an estimated growth rate at 7.4% for this year and 7.7% for next year. For consumer prices as well, the figure announced in April was 4.10%, exceeding the level expected prior to the announcement, even though the growth slowed down from the previous month. Furthermore, the core consumer price recorded a growth of 5.2% (while it was 5.0% in the previous month). It should also be mentioned that the crude oil price was appreciating in April, as was mentioned above, and the upward pressure on consumer prices is expected to strengthen further in the times ahead. The manufacturing PMI has also been above 50—the key level to assess economic conditions, with an average of 51.5 recorded in FY2017.

Despite the optimistic forecast by the central bank and strong economic indices in India, Indian rupee-selling was associated with the appreciation of the crude oil price, which was the major factor for market actions last month. Among the emerging currencies in Asia, market participants were particularly selling the Indian rupee and the Indonesian rupiah—the currencies of countries with a current deficit. Once the appreciation of the crude oil price slows down, however, market participants are likely to pay more attention to the fundamentals of India as well.

It should be added that the U.S. dollar/Indian rupee exchange rate moved by nearly 3% in one month, and therefore market participants should bear in mind that the RBI may intervene in the market if the exchange rate continues to rise further.

In addition, there are two things to question regarding the fact that the U.S. dollar has appreciated following the rising yield of the U.S. government bonds. First of all, the 10-year U.S. government bond yield reached 3% in April for the first time in four years and four months. However, the central bank of the U.S. did not change the monetary policy; or, a change in the policy operation plan for the times ahead was not announced. The U.S. economic indices released this month did not show any dramatic recovery in the price level or employment. Secondly, the situation that has led to the depreciation of stock prices in the U.S. is not what President Donald Trump has wished for. Given these factors, it seems that the current interest rate appreciation is overshooting itself. Therefore, once the interest rate appreciation slows down, the upward pressure on the U.S. dollar is likely to start weakening.

This report was prepared based on economic data as of May 2, 2018.
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