Mizuho Dealer's Eye

May 2022

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – May 2022

Expected Ranges **Against the yen: JPY125.00–135.00**

1. Review of the Previous Month

The yen fell to around 20-year low against the dollar in April, with the dollar/yen pair topping 130 yen on April 28.

The pair opened the month trading at the upper-121 yen mark on April 1. The US then released some comprehensively bullish employment data for March. As speculation grew about a +50bp rate hike at the May FOMC meeting, US interest rates rose and the pair topped 123 yen for a time. The pair temporarily fell on April 5 after Bank of Japan (BOJ) governor Haruhiko Kuroda verbally intervened to halt the yen's slide. However, FRB board member Lael Brainard then made some hawkish comments during overseas trading time. With the greenback also bought at a faster pace on rising US long-term interest rates, the pair soared to the mid-123 yen level.

US interest rates continued rising, while BOJ reiterated that it would continue to ease and tolerate yen bearishness, with the currency pair subsequently rocketing to the upper-125 yen mark on April 11. The pair fell slightly on April 12 after Japanese finance minister Shunichi Suzuki verbally intervened to halt the yen's slide, but with US long-term interest rates moving firmly, the pair approached its previous day high during European trading time. The March US CPI data was then released during US trading time. It showed inflation rising to its highest level in roughly 40 years, but the core CPI figure dipped below expectations, so the pair plummeted to the upper-124 yen mark directly after the announcement. After a round of selling, the pair bounced back to the lower-125 yen mark. The pair soared on April 13 after BOJ governor Haruhiko Kuroda reiterated that the BOJ would continue to ease, with the currency pair hitting 126.32 yen, its highest level for around 20 years. Trading was subdued on April 15 due to the Easter holidays. With US long-term interest rates remaining at highs, the pair temporarily renewed a high of 126.70 yen during this time.

After previously signaling his acceptance of yen bearishness, BOJ governor Haruhiko Kuroda changed tack on April 18 when he made some comments aimed at restraining the yen's slide. The pair weakened for a time, but US long-term interest rates then rose during overseas trading time, while St. Louis FRB president James Bullard made some hawkish comments, so the pair hit 127 yen. It continued to rise thereafter. The greenback was bought on April 20 as investors focused on the divergent monetary policies of Japan and the US. It was also bought on real demand related to the 5th and the 10th of the month. All this saw the pair hitting around 20-year high of 129.43 yen. The pair fell for a time on April 21 on position adjustments, though it then rallied to the lower-128 yen mark on rising US interest rates and hawkish comments by several FRB officials. The yen rose for a time on April 22 on news that a coordinated intervention had been discussed during a meeting between the US and Japanese finance ministers, though the yen then trended downwards again after BOJ governor Haruhiko Kuroda said the BOJ would continue to ease aggressively even if the yen fell.

Risk aversion intensified on April 25 as concerns grew about an economic slowdown on the resurgence of Covid-19 cases in China, so the pair edged lower as the Nikkei Average and Asian stocks moved bearishly. With US interest rates also sliding, the pair dropped to the mid-127 level. Stock markets then rallied, while the greenback was also bought on rising US long-term interest rates, so the pair rose to the upper-128 mark on April 27. The BOJ met to set policy on April 28, with the currency pair soaring on news that the BOJ had carried out yield control operations on consecutive days. The pair topped 130 yen, with the yen then weakening to the upper-130 mark against the dollar.

2. Outlook for This Month

The dollar/yen pair will continue to rise this month as investors focus once more on the divergent monetary policies of the US and Japan.

The greenback was bought across the board in April as US bond yields rose sharply on expectations for faster FRB rate hikes. With BOJ governor Haruhiko Kuroda voicing tolerance for a weak yen and with the BOJ carrying out several yield control operations, it became clear that the BOJ remained in easing mode and would continue to tolerate yen bearishness. As a result, the yen was sold comprehensively, not only against the dollar but against other currencies too. Stocks fell toward the end of the month. This was due to concerns about sharp US rate hikes and fears about a Chinese economic slowdown as China pursued a zero-Covid policy in the face of a surge in cases. With yields on US bonds also sliding, there was some adjustment to the trend of sharp yen depreciation, with the yen rallying slightly against the dollar. As expected, the BOJ maintained the status quo when it met to set policy on April 28, but the BOJ clarified that it has conducted yield control operations on consecutive days, so the dollar/yen pair surged again to top 130 yen, with the yen then weakening to the upper-130 yen mark against the greenback.

The FOMC will be meeting over May 3‑4. The markets are expecting a 50bp rate hike and the commencement of balance sheet tapering. The April US CPI data will also be released on May 11, with the release of the FOMC minutes set to follow on May 25. If Japanese/US interest-rate differentials widen further on FOMC hikes rates in May and the FOMC minutes then turn out to be hawkish in the face of surging inflation, the dollar/yen pair will probably strengthen further on rising US interest rates.

One yen-buying factor could be an intervention by the Japanese authorities, but this seems unlikely. The Japanese authorities did make comments aimed at halting yen depreciation during the yen's sharp slide in April. However, history shows they only intervened in the currency markets once during the Asian financial crisis of 1998. The Ministry of Finance (MOF) stayed its hand even when the yen slumped to 134 yen in 2002. The person in charge of forex policy at the MOF back then is today's BOJ governor Haruhiko Kuroda. Mr. Kuroda voiced his tolerance of yen depreciation several times last month, so we are unlikely to see the yen rising on a currency market intervention.

However, the dollar/yen pair could be pushed lower. The RMB has fallen sharply against the greenback on concerns about the spread of Covid-19, with the euro also falling to a 2017 low against the dollar on news that Russia would stop supplying natural gas. If these concerns about Covid-19 or natural gas supplies ease, these two currencies will rally against the dollar, so the greenback's movements against other currencies will also require monitoring.

Dealers' Market Forecast

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

Bullish on the dollar	14 bulls	135.00 – 127.00	Bearish on the dollar	6 bears	132.00 – 125.00

* Ranges are central values

Yano	Bull	133.00 – 128.00	There is a sense the dollar/yen pair has been ‘over-bought,’ so there could be some adjustments on profit taking and so on. However, there are number of factors conducive to yen bearishness (Japanese and US monetary policy, etc.), so the pair will continue to move firmly in May.
Ushijima	Bear	133.00 – 125.00	On the whole the yen will continue to weaken against the dollar on the divergent monetary policies of the US and Japan. However, the trend of yen bearishness could ease for a time after the FOMC meeting at the start of May. Stock prices have fallen and there are concerns about the economic impact of US rate hikes, with the pair’s topside likely to grow heavy in the short term in tandem with the cross yen.
Tsutsui	Bear	131.50 – 126.00	The US has adopted several aggressive policies to tackle inflation. With stocks, credit and BEI all facing downward pressure, the impact of these policies may become more apparent this month. US interest rates will probably hit a ceiling, with the dollar/yen pair shifting in a bearish direction.
Kato	Bear	131.50 – 125.00	May will be a month of adjustment. Japanese investors had decreased their hedged foreign bond holdings and increased their open foreign bond holdings, but yen bearishness has been met with comparative passiveness. Companies are starting to complain about the yen’s weakness, so the ruling Liberal Democratic Party will need to announce measures to curb the yen’s slide ahead of the looming elections.
Yamazaki	Bull	134.00 – 128.00	The yen topped 130 yen on the BOJ’s stance. Investors should also monitor the FOMC meeting and moves by the ECB (when it comes to the cross yen). The dollar/yen pair will probably rise as the markets price in US rate hikes on a rise in the neutral rate. ECB policy rate changes will also require monitoring.
Ito	Bull	132.00 – 127.00	The BOJ maintained the status quo at the Monetary Policy Meeting, with BOJ governor Haruhiko Kuroda sticking to his guns too. The dollar/yen pair will rise on the divergent BOJ/FRB stances and real-demand flows, but investors have priced in US rate hikes to a large extent, so the pace of the pair’s rise will probably slow.
Yamagishi	Bull	133.00 – 126.00	The dollar/yen pair will continue rising on the divergent monetary policies of the US and Japan. Inflationary factors are capped on the supply side in Japan, with the BOJ continued to ease in an attempt to boost demand. Rather than reacting to the forex markets, the BOJ seems to be guiding policy with on eye on its inflation targets.
Omi	Bull	135.00 – 127.00	The dollar will remain bullish and the yen bearish on widening Japanese/US interest-rate differentials as the BOJ continues to ease and the FRB continues to tighten. Nonetheless, some Japanese officials have voiced concerns about the yen’s sharp slide, so the yen will probably soar at times.
Ueno	Bull	135.00 – 127.00	The time seems ripe for some adjustment, but with the Japanese authorities continuing to talk about further easing, it is hard right now to locate any factors that could shift the prevailing trend of speculative yen selling.
Kai	Bull	135.00 – 129.00	With the BOJ reconfirming its easing stance, the yen will continue to weaken on differences in monetary policy. With liquidity thin on the ground during the Japanese Golden Week holidays, the yen will continue to renew lows against the dollar. The yen will continue to trend lower after the FOMC meeting on expectations for 75bp rate hikes from June onwards, for example.
Onozaki	Bear	132.00 – 125.00	There are differences in monetary policy, but the debate will probably shift from rate hikes to QT. Stocks are also coming under some adjustment, so the dollar/yen pair could slide on falling US stocks. The pair’s topside will also be capped as the Japanese authorities face more pressure to curb the yen’s slide when the pair top’s 130 yen.
Harada	Bear	135.00 – 121.50	Concerns linger about an economic slowdown on rising US interest rates. Under these circumstances, growth stocks and other US stocks will move bearishly. HY spreads are also widening, with investors focusing on tail risks. Given this, the dollar/yen pair will probably fall during phases of risk aversion.

Oba	Bull	137.00 – 126.00	The dollar will remain bullish. The BOJ reconfirmed its easing stance at the end of April, so the yen was sold as expectations for a policy adjustment waned. The BOJ is the only central bank to remain in easing mode, so the yen will remain conducive to selling.
Katoono	Bull	134.50 – 126.00	The yen will continue to be sold on divergent US/Japanese monetary policies and real-demand trends. There will be concerns about headline risk related to curbs on yen bearishness, but the investors will probably try pushing the dollar/yen pair's topside to around 20-year high.
Kobayashi	Bull	135.00 – 125.00	The BOJ remains in easing mode, but the FOMC looks set to hike rates by 50bp and commencement balance sheet tapering when it meets over May 3–4. The yen will fall further against the dollar on widening Japanese/US interest-rate differentials.
Henmi	Bull	134.00 – 128.00	The dollar/yen pair will face some adjustment on a sense of technical over-heating, but the yen is unlikely to rise against the greenback given real-demand trends and the clear differences in US/Japanese monetary policy.
Otani	Bull	135.00 – 127.00	The BOJ kept things unchanged at the Monetary Policy Meeting at the end of April, with the BOJ continuing to ease aggressively. On the other hand, the FOMC is expected to implement a 50bp rate hike in May. As such, the dollar/yen pair will continue to move firmly on divergent US/Japanese monetary policy.
Suzuki	Bull	135.00 – 127.00	The dollar/yen pair has risen these past two months and investors should be on guard against an adjustment, but there is a clear difference between the FOMC and BOJ when it comes to QE tapering, so the pair looks set to remain firm.
Kimura	Bear	132.00 – 124.00	With central banks across the world tightening monetary policy to tackle surging inflation, the BOJ stands out with its ongoing commitment to easing. However, there is a sense the yen has been oversold since March, so there could be some position unwinding after the FOMC meeting.
Okuma	Bull	135.00 – 127.00	Though the FRB is moving hawkishly, the BOJ remains committed to aggressive easing. The yen will continue to be sold and the dollar bought on these divergent monetary policies. With US interest rates also rising, investors will try pushing the dollar/yen pair's topside even higher.

Tomohiro Suzuki, Forex Sales, Global Markets Sales Department

Euro – May 2022

Expected Ranges **Against the US$: US$1.0200–1.0800**
Against the yen: JPY133.00–140.00

1. Review of the Previous Month

The euro/dollar pair fell sharply in April as the Ukraine situation dragged on and US interest rates rose.

The pair opened the month trading at $1.1074 on April 1. It continued moving with a heavy topside and it then edged lower after hitting a monthly high of $1.1076 during European trading time. It remained at the mid-$1.10 mark on April 4, but the euro was then sold on speculation that the US and Europe would hit Russia with sanctions, so the pair plummeted to the mid-$1.09 mark. It fell below $1.09 on April 6, with the same trend continuing thereafter. With uncertainty also growing about the French presidential election, the pair weakened to around the mid-$1.08 level on April 8.

The pair continued floating around $1.08 thereafter, though it then rallied to $1.09 on April 11 on reports that Emmanuel Macron would probably be re-elected as president. The pair soon dropped back, though. When the ECB Governing Council met on April 14, it forecast that the APP would be brought to a close in the third quarter, but there were no particular surprises, so the euro was sold and the pair temporarily dipped to the mid-$1.07 level. The pair then bounced back slightly to hit $1.08 and it floated at this level over the Easter holiday.

As US interest rates rose after the Easter holiday, the dollar was bought and the pair breached $1.07 again on April 19. However, euro buying intensified on April 20 after the governor of Latvia's central bank talked about the possibility of a rate hike in July too, so the currency pair strengthened to the mid-$1.08 level. This momentum picked up pace on April 21 when ECB vice-president Luis de Guindos said a rate hike could happen in July depending on the data, so the euro/dollar pair rallied to the mid-$1.09 level for a time. With the yen being sold on Bank of Japan (BOJ) easing, the euro/yen pair also temporarily hit a 7-year high of 140.00 yen. On the same day, though, San Francisco FRB president Mary C. Daly said the FRB would "likely be taking a 50 basis point increase in a couple of the meetings," so the greenback was bought and the euro's gains were pared back, with the euro/dollar pair dropping back to the lower-$1.08 level.

The euro was bought slightly and the currency pair rose to the mid-$1.08 mark on April 25 after Emmanuel Macron won the French presidential election. However, risk aversion intensified on concerns of a Chinese economic slowdown on a lockdown in Beijing. The dollar was bought as a safe currency, so the pair dropped below $1.07 to hit the upper-$1.06 level for a time. Concerns about a Chinese slowdown continued over April 26. With stock markets also sliding on a US company's unimpressive settlement results, the euro/dollar pair's downside also slid to the lower-$1.06 level. The pair continued trading with a heavy topside on April 27. It then fell to the lower-$1.05 mark for a time after Russia stopped supplying natural gas to Poland and Bulgaria. The pair remained subdued and it continued to move at the mid-$1.05 mark on April 28.

2. Outlook for This Month

A lot will depend on the Ukraine situation, but the euro/dollar pair will probably trade with a heavy topside overall in May.

The Russia/Ukraine situation is dragging on and there is no end in sight. The eurozone depends heavily on Russian energy and it faces considerable geopolitical risk. This will continue to act as a negative factor for the currency pair. The euro fell sharply on April 27 after Russia stopped supplying natural gas to Poland and Bulgaria. If the situation improves, then the euro could be bought, but there has been no progress when it comes to setting up humanitarian corridors, let alone negotiating a ceasefire. Things have gotten steadily worse, with Russian president Vladmir Putin even hinting at the use of nuclear weapons at the month's end. Given the relations between the two countries and Russia's hardline stance, it seems the euro/dollar pair's topside will continue to be held down by a lack of progress.

Concerns about inflation have risen on soaring commodity prices as a result of the Ukraine situation. ECB officials have also made a number of hawkish comments, with the markets gradually starting to price in rate hikes. The governor of Latvia's central bank has talked about the possibility of a rate hike in July too, while ECB vice-president Luis de Guindos also said a rate hike could happen in July depending on the data. This dependence on the data suggests a July rate hike is not nailed on just yet. The ECB's guidance has indicated that the Asset Purchasing Program (APP) will come to an end on the third quarter, with rate hikes set to commence some time thereafter. There will be no ECB Governing Council meeting until June, so any concrete discussion of the timing or any policy shifts will probably have to wait until then. ECB president Christine Lagarde had previously ruled out a 2022 rate hike, so attention will focus on whether she has shifted her stance. Either way, the markets will probably react skittishly to comments by ECB officials this month.

The FOMC is expected to implement a 50bp rate hike in May. This comes as the jobs situation remains buoyant despite high inflation, with momentum growing for further rate hikes going forward. The euro will remain conducive to selling on the sharp difference between ECB and FRB monetary policy.

Dealers' Market Forecast

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

Bullish on the euro	7 bulls	1.0800 – 1.0350	Bearish on the euro	13 bears	1.0800 – 1.0200

* Ranges are central values

Yano	Bear	1.0700 – 1.0300	The markets are pricing in a July ECB rate hike, but there are doubts about whether the eurozone's fundamentals can withstand an early rate hike. The euro/dollar pair will probably face downside risk as speculation about a July rate hike wanes.
Ushijima	Bear	1.1000 – 0.9900	The euro will continue to move bearishly against the dollar on the tumultuous Ukraine situation. Some ECB voices are calling for a July rate hike, but there not many other factors supporting the euro right now. In fact, the euro might be sold as expectations for a July rate hike ease, so caution will be needed.
Tsutsui	Bear	1.0800 – 1.0100	The Ukraine situation remains deadlocked. With Europe being pushed to shift its energy policy, the economy is facing more downside risk. Despite fiscal expenditure by each European nation, the ECB will probably switch back to easing (liquidity provision, for example). The euro looks set to remain bearish this month.
Kato	Bull	1.0950 – 1.0350	A lot will depend on the Ukraine issue this month too. The energy problem will take time to resolve and it will continue to prompt attempts on the euro/dollar pair's downside. However, speculative positions have surged in a very short period of time, so the pair will probably face some adjustment in May.
Yamazaki	Bull	1.0750 – 1.0350	Investors will continue to price in US rate hikes. However, some new factors will probably be needed to push the euro/dollar pair below $1.04. The Ukraine crisis has prompted euro selling, but with ECB rate hikes becoming more likely on rising inflation within the eurozone, the pair will probably rise from its current level.
Ito	Bull	1.1100 – 1.1350	There are no signs of improvement in the Ukraine situation, so the euro/dollar pair will probably trade with a heavy topside. However, ECB president Christine Lagarde and other ECB officials have made hawkish comments about inflation, so the pair could rally sharply if risk sentiments improve.
Yamagishi	Bull	1.0800 – 1.0300	The euro/dollar pair will move firmly on ECB policy normalization. The Ukraine situation will drag on, with an agreement unlikely until the Russian Victory Day holiday on May 9, so the euro will probably be sold as a result. The CPI has hit record highs for five straight months. With the APP set to end in July and a September rate hike looking more likely, the euro/dollar pair will probably bottom out this month.
Omi	Bear	1.0800 – 1.0000	The euro/dollar pair will fall as the greenback is bought on US monetary tightening. Expectations are also growing for ECB rate hikes, but there is no decisive information about the timing or pace of such a move, so this is unlikely to support euro buying.
Ueno	Bear	1.0800 – 1.0200	Russia has stepped up the pressure by halting supplies of natural gas to Poland and Bulgaria. This is probably meant to serve as a warning shot to Germany and other major European nations. With Russian Victory Day looming on May 9, investors should pay attention to Russian economic and military moves.
Kai	Bear	1.0600 – 1.0300	Russia has stopped supplying natural gas to Poland and Bulgaria. Germany has provided tanks to Ukraine, so it will also face concerns about a supply cut-off. With the FOMC also moving ahead with rate hikes, the euro will continue to be sold in May.
Onozaki	Bull	1.1200 – 1.0400	The ECB has adopted a more hawkish stance. The Ukraine situation is still concerning, but it will become less of a market theme. The euro has been sold for a while, but the environment is becoming more ripe for some buy-backs.
Harada	Bear	1.1300 – 0.9800	The eurozone will be hit as the Ukraine situation drags on. The ECB has shifted in a slightly hawkish direction, but the pace of tightening is still quite slow compared to the US. As such, the euro/dollar pair looks set to move bearishly on the Ukraine situation, concerns about an economic slowdown, and monetary policy.

Oba	Bear	1.0700 – 1.0200	With support growing in Germany for a phased ban on imports of Russian crude oil, the euro could be sold on growing concerns about the negative impact of energy shortages on the European economy. There is unlikely to be any position unwinding as the Ukraine situation drags on.
Katoono	Bear	1.0800 – 1.0100	There is uncertainty about the direction of ceasefire talks between Ukraine and Russia. The schism between Russia and Europe is becoming more prominent, so the risk of stagflation will linger on soaring energy costs. The euro/dollar pair will move bearishly as expectations for an early rate hike wane.
Kobayashi	Bear	1.0800 – 1.0300	The FOMC looks set to announce a 50bp rate hike and the commencement of balance sheet tightening when it meets over May 3–4, with US interest rates likely to rise. However, there has been no improvement when it comes to geopolitical risk related to Ukraine. As such, the euro/dollar pair looks set to remain bearish.
Henmi	Bull	1.0800 – 1.0300	The euro will be bought back as uncertainty about the Ukraine situation eases, but the euro/dollar pair's room on the top will be capped by widening European/US interest-rate differentials.
Otani	Bear	1.1000 – 1.0200	As the Ukraine situation drags on, the euro will move heavily on the topside on concerns about eurozone energy supplies. With the US pushing ahead with rate hikes, the euro will be a hard currency to actively buy given the divergent policy stances of the US and Europe.
Suzuki	Bear	1.0800 – 1.0200	The ECB has tilted in a slightly hawkish direction, but any action will have to wait at least until the next ECB Governing Council meeting in June. The dollar will be bought on rising expectations for FOMC rate hikes. With the Ukraine situation also dragging on, the euro/dollar pair will probably move with a heavy topside for now.
Kimura	Bull	1.0800 – 1.0350	Energy supply concerns have surged on the Russia/Ukraine issue. Investors will continue to test the euro/dollar pair's downside in the first half of the month, but there could be some sharp unwinding thereafter, so market participants should be on guard against volatile trading.
Okuma	Bear	1.0900 – 1.0300	There are concerns about an economic slowdown in China on tougher Covid-19 restrictions. With the Ukraine situation also dragging on, the euro/dollar pair is likely to remain bearish on risk aversion. Though the FRB is pushing forward with monetary normalization, ECB rate hikes still seem some way off, so the pair will probably trade with a heavy topside.

Joseph McElhill, Europe Treasury Department

British Pound – May 2022

Expected Ranges **Against the US$: US$1.2400–1.2700**
Against the yen: JPY158.00–163.00

1. Review of the Previous Month

After moving firmly across the board, the pound fell sharply on weak indicators toward the end of April.

The pound strengthened against the euro on April 4. Amid expectations for further EU sanctions on Russia, the euro fell comprehensively on concerns about the impact on the eurozone economy. However, the markets reacted well on April 5 when several UK March PMIs underwent a clear upward adjustment. Sterling moved firmly across the board during this time and it hit a monthly high of $1.3167 against the dollar. However, the GDP/USD pair then fell back after dovish FRB board member Lael Brainard hinted that FRB balance sheet tapering (QT) could take place at a faster pace than the markets were expecting. The greenback was bought comprehensively thereafter, with the GBP/USD pair also dropping below it support line around $1.3090 to temporarily hit $1.3046.

The pair moved firmly thereafter, but it dropped below its March 15 low of $1.30 on April 8 before dropping to a 17-month low of $1.28925. However, sterling only moved bearishly against the dollar and it actually moved firmly against the yen and euro. The dollar's bullishness was probably due to FRB monetary policy normalization. The Dollar Index also rose by around 1% on the same day.

The GBP/USD pair rose sharply on April 14. This was partly due to the upswing in the March UK CPI data (released the same day). After rising to around $1.3150, the pair then dropped back to around $1.3050. This came after the euro crashed when ECB president Christine Lagarde suggested during her press conference after the same day's ECB Governing Council meeting that the ECB might not lift rates until a few months after its Asset Purchasing Program (APP) came to an end.

The pound then fell sharply on April 22 after the March UK retail sales data (released the same day) dipped sharply. The GBP/USD pair then broke below the psychologically-important $1.30 mark and an April 13 low of $1.2973. It then plunged to $1.2823 for the first time since October 2020, some 19 months ago. It continued falling for three days and it weakened to $1.2529 during the evening of UK trading time on April 27. It finally saw some buy-backs thereafter and it rallied to the mid-$1.25 level to finish the month at this level.

2. Outlook for This Month

There was a strong sense that something was out of place when the pound was sold so sharply late April. Perhaps, the markets were swept by a sharp rise in bearish sentiments about the direction of the UK economy.

On April 19, the IMF predicted that the UK would face the worst inflation shock out of all the G7 nations over the next two years. Sterling was not clearly swayed by the announcement, with the GBP/JPY pair actually rising sharply, as mentioned above, but the downswing in the retail sales data then seemed to add credibility to the IMF's pessimistic forecast. BOE governor Andrew Bailey also commented that UK inflation would rise on soaring fuel costs. This comment raised alarm bells about soaring prices and it also indicated that the UK would find it extremely hard to strike a balance between controlling inflation and avoiding an economic recession. However, it should not be interpreted as a hint that the BOE will actively rate hikes again going forward. Furthermore, BOE Monetary Policy Committee (MPC) member Catherine Mann was one of the four hawks who voted for a +50bp rate hike at the February MPC meeting, so her aforementioned comment may not necessarily reflect the general consensus of the MPC.

UK economic indicators will impact the stances of each MPC member, so they will require monitoring in the run up to the MPC meeting on May 5. The FRB is in the lead when it comes to major-country momentum for (further) rate hikes. ECB momentum remains quite low, but it is gradually shifting towards rate hikes and there is a sense that the ECB is lagging behind, relatively speaking, with the BOJ nowhere near a rate hike. Given this, it seems the forex market pecking order for the time being will be the dollar first, followed by the euro, the pound and finally the yen. From here on, investors will be monitoring real movements for the emergence of any factors capable of shaking up this order.

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

Australian Dollar – May 2022

Expected Ranges **Against the US$: US$0.6960–0.7470**
Against the yen: JPY90.50–95.75

1. Review of the Previous Month

The AUD/USD pair hit a 2022 high of $0.7661 in April, though it fell by around 600 pips toward the end of the month and was adjusted down to the $0.70 range.

The RBA kept policy fixed when it met on April 5, though the phrase about how "the Board is prepared to be patient" was absent this time around, so the Australian dollar was bought and the pair rose to $0.7661 for the first time since June 2021. Dovish FRB board member Lael Brainard then hinted at accelerated balance sheet tapering, so US interest rates soared and the greenback was bought, with the currency pair dropping to around $0.7580. The minutes to the FOMC meeting were released on April 6 and they revealed that many members believed a significant +50bp rate hike would be appropriate at the next FOMC meeting in May. As stocks fell and the US dollar rose, the AUD/USD pair temporarily fell below $0.75. Australia's February trade balance was released on April 7 and it was down on the previous month. US long-term interest rates also rose when St. Louis FRB president James Bullard said the policy rate should be lifted to 3.00–3.25% in the latter half of 2022. The greenback was subsequently bought and the currency pair dropped to the upper-$0.74 mark.

The US dollar continued to be bought as the benchmark yield on 10-year US treasuries rose to a 3-year high on April 11. US interest rates fell after the release of the US March CPI data on April 13, with the yield on Australian 3-year bonds then falling -9 bp to 2.47%. The Australian dollar subsequently moved bearishly as the Australian April Consumer Confidence Index fell for the fifth straight month. The USD/JPY pair then topped 126 yen after BOJ governor Haruhiko Kuroda said Japan would continue to ease aggressively, with the AUD/JPY pair also temporarily hitting a high of 93.87 yen. The Australian March employment data was released on April 14. The underemployment rate decreased from 6.6% to 6.3%, but jobs growth slowed and the unemployment rate remained at 4.0%, down on the 3.9% forecast. The Australian dollar was sold on a sense of disappointment, with the AUD/USD pair falling from the upper-$0.74 mark to just below $0.74.

The pair then fell to the mid-$0.73 mark on April 18 after China posted some unexpectedly weak retail sales data for March. With US interest rates remaining at highs throughout the week, the greenback was bought and the currency pair fell below $0.73 to close the week at $0.7244.

With Sydney markets on holiday on April 25, concerns of a Chinese economic slowdown grew on a surge of Covid-19 cases in China. The Australian dollar was sold on risk aversion and the pair dropped below $0.7135 for a time. Risk aversion on Chinese concerns continued on April 26. With stocks falling sharply during overseas trading time, the greenback was bought and the Dollar Index renewed a 2020 high. The AUD/USD pair fell sharply by over 100 pips throughout the day, falling from $0.7229 to $0.7119. The Australian dollar was bought for a time on April 27 on the stronger-than-expected result of the Australian Q1 CPI data. However, US interest rates then rose and the greenback was bought on the end-of-month spot settlement date, so the pair tumbled to $0.7101.

2. Outlook for This Month

In the first week of May, the markets will be swayed by the May 3 RBA board meeting, the May 4 FOMC meeting, and the impending release of the April US employment data.

Australia's Q1 CPI data (released April 27) was up +5.1% year-on-year to hit a 20-year high. The trimmed mean (the core inflation rate; an indicator closely watched by the RBA) rose by 3.7% month-on-month, up sharply from the target of 2–3%. With interest rates subsequently rising, Australia's overnight index swap (OIS) market has priced in a rate hike of over 0.15% at the March RBA board meeting. With federal elections looming on May 21, the consensus had been that the RBA would kept policy rates fixed to avoid impacting the general election. However, Australia posted some strong QI CPI data, while the phrase "prepared to be patient" was removed from the RBA's statement in April. These hawkish signals suggest the RBA may indeed implement a rate hike in May.

In the US, meanwhile, the markets are pricing in a 0.5% hike at the May, June and July FOMC meetings. If the RBA does institute a rate hike on May 3, the Australian dollar will be bought for a time on expectations for financial normalization. If the FOMC then decides to tighten at a faster pace when it meets on May 4, the greenback will probably be sold to lock in profits. However, the AUS/USD pair will be pushed down when investors focus on the different pace of monetary tightening in the US and Australia. Concerns are also growing about a Chinese economic slowdown on lockdowns across China. With risk aversion also lingering and US interest rates remaining at highs, the currency pair could trade with a heavy topside. The Dollar Index is moving around record highs at the lower-$103 mark. If it tops its 2016 high of $103.90, investors may try pushing the AUD/USD pair back to its recent low of $0.6968 (January 28).

The main themes will remain inflation and rate hikes, but events in the first week of May will require monitoring first of all. The AUD/JPY has been adjusted by over 5 yen, but it will probably trade in a range in May as the Bank of Japan continues to ease.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – May 2022

Expected Ranges **Against the US$: C$1.2400–1.3000**
Against the yen: JPY96.00–105.00

1. Review of the Previous Month

The USD/CAD pair opened April trading at C$1.2489. With the Ukraine situation and Western sanctions on Russia dragging on for longer than expected, the markets were swayed on successive days by optimistic and pessimistic news. All this had a big impact on commodity prices, with inflationary concerns growing. The minutes to the FOMC meeting hinted at several 0.5% rate hikes. With FRB officials also making hawkish comments, expectations grew for US quantitative tightening (QT).Yields on 10-year US treasuries soared and the greenback was bought as US interest rates were pushed higher. The USD/CAD pair moved heavily as crude oil prices topped $100/barrel and Canada posted some bullish economic indicators, but a May rate hike seemed nailed on following comments by FRB chair Jerome Powell, so the greenback moved firmly and the currency pair topped C$1.28 towards the month's end.

With the Bank of Canada (BOC) Monetary Policy Committee (MPC) meeting looming, the Canadian dollar moved strongly at the start of the month amid market expectations for a 0.5% rate hike. Canada's February trade balance was released on April 5, with exports hitting record highs on the strong performance of energy products. With crude oil also breaking through $105, the Canadian dollar was bought and the USD/CAD pair fell to C$1.2403. The March Canadian employment data was released on April 8. The net change in employment figure dropped below expectations, but the unemployment rate fell to 5.3% and the full time jobs figure substantially outperformed expectations. The Canadian dollar was bought on this bullish data, though crude oil prices then fell on news about a surge of Covid-19 cases in China, so the Canadian dollar was sold. Dovish FRB board member Lael Brainard then hinted at accelerated balance sheet tapering and a rate hike in May, so yields on 10-year US treasuries rose.

The US dollar saw a surge in buying and the USD/CAD pair rose to C$1.2676 by April 13. The BOC's MPC met on the same day and it decided to raise its policy rate by 0.5% to 1.00%. It also signaled its intention to stop reinvesting bonds and commence with QT. These results were as expected, but the Canadian dollar nonetheless rose and the currency pair fell to C$1.2522. The markets then moved to and fro, with the pair breaching C$1.26 again to trade in a narrow range. The March Canadian CPI figure (released April 20) rose to 6.7% year-on-year. This topped the 6.1% forecast to hit its highest level since January 1991. The currency pair dropped to C$1.2472, but its slide was short-lived and it then soared to C$1.2715 on April 21 when FRB chair Jerome Powell said the FOMC would discuss a 0.5% rate hike when it met in March. It also emerged that most FOMC members supported a May rate hike and lifting the FF rate to or above its neutral level, so the markets moved further to price in rate hikes. At the end of April, China reported a surge in Covid-19 cases. With no end in sight to the Ukraine situation either, risk aversion grew and the currency pair strengthened to the mid-$1.28 level. The greenback then continued trending higher.

2. Outlook for This Month

Financial volatility has grown on accelerated inflation, supply chain turmoil, and geopolitical risk, with the Bank of Canada (BOC) making the decision to lift its policy rate to 1.00% when it met in April. It said the Canadian economy would grow strongly on firm consumer spending and bullish export/capital investment growth. It also voiced optimism about housing market concerns, saying that although prices remained very high, they would cool off in future. It also adopted the hawkish opinion that more rate hikes would be needed, while BOC governor Tiff Macklem said the BOC might discuss a 0.5% hike at the June meeting. The BOC has also indicated that it will prudently consider the impact on households when tightening policy and it decided to determine the size of rate hikes based on the annualized quarter-on-quarter inflation. The inflation rate rose to around 6% q-o-q in 2Q, though it is expected to drop to around 2.5% in 4Q.

The Canadian federal government's 2022 budget proposal focused on the housing market, environmental issues, increased defense spending, and economic normalization after the Covid-19 crisis. The budget allocated C$15 billion to a green economy growth fund designed to attract C$125 billion of investment from the private sector and overseas investors. Demand for renewable energy is soaring on decarbonization moves. Canada has many rare metals and other mining resources, so strong export growth could revitalize the economy. Canada has relied on raw material exports, but it also plans to raise productivity going forward. Some say Canada is lagging behind other Western nations when it comes to technology development and so on, but with the economy of the US (Canada's largest trading partner) moving firmly, Canada will probably post strong export growth going forward. Crude oil prices have soared on concerns about Russian supplies during the Ukraine crisis. OPEC+ has not met its production targets, with supply and demand currently unbalanced. With uncertainty growing regarding the Ukraine situation, crude oil will continue to trade around $100 for now.

The FOMC will be meeting on May 4. Some members have voiced support for a 0.75% rate hike, but the market consensus is that the FOMC will implement a 0.5% hike. The FOMC is also expected to announce that balance sheet tapering will begin in June. The greenback will continue to move firmly on the FRB's hawkish stance and rising US interest rates, but the Canadian dollar will be supported by bullish crude oil prices, with the USD/CAD pair set to trade with a heavy topside. The pair will also be swayed by rising Covid-19 cases in China and the Ukraine situation, so caution will be needed. The pair is expected to move between C$1.24–1.30.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – May 2022

Expected Ranges **Against the US$: KRW 1,240–1,290**
Against the yen: JPY 9.901–10.417 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose sharply in April.

The pair opened the month trading at KRW1215.2 on April 1. It climbed to KRW1420 on April 4 on the release of some bullish US employment data at the weekend. The dollar stopped rising against other currencies at the start of the week. With US stocks also rising and risk sentiments improving, the currency pair dropped back to a monthly low of KRW1210.4. The pair rose again as investors focused on accelerated FRB rate hikes following some hawkish comments by FRB board member Lael Brainard.

The start of the next week saw the pair rising to KRW1230.0 on April 11 on rising US interest rates. Inflation then rose across the globe, with China posting some stronger-than-expected March CPI and PPI data, for example. This led to anticipation for rising overseas interest rates, with the currency pair subsequently climbing to KRW1238.4. However, South Korea's deputy prime minister then made a verbal intervention to curb the won's slide, while the greenback also stopped rising after the US March CPI announcement passed smoothly. The BOK dropped a surprise when it unanimously decided to lift rates from 1.25% to 1.50% on April 14, but the impact on the USD/KRW pair was minimal.

With major European and North American countries emerging from the Easter holidays, the currency pair began trading at KRW1230.0 on April 18. The dollar was bought in the first half of the week on rising crude oil prices and US interest rates, with the currency pair moving firmly. It climbed to KRW1241.0 during overseas trading time on April 19 after an FRB official voiced optimism about the economy. The pair then dipped as US interest rates finally fell slightly and overseas investors bought back South Korean stocks. However, US interest rates rose again in the latter half of the week as several FRB and ECB officials talked about faster rate hikes. With Chinese stocks also falling on lockdowns, the USD/KRW pair renewed a high for a year. In the last week, concerns about China swept the markets from April 25 onwards. With the BOK governor also signaling tolerance for the won's current weakness, the currency pair topped the key KRW1250 mark. The pair hit a monthly high of KRW1274.7 on April 28. In the end, the pair closed the month at KRW1255.9, up 43.8 won on the end of March.

2. Outlook for This Month

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

The BOK dropped a surprise when it implemented a 25bp rate hike on April 14, but the greenback was bought on the FRB's aggressive rate hikes, so the currency pair renewed a 2020 high.

The pair will be swayed by three main factors in May: (1) FRB policy discussions (about the speed of rate hikes), (2) BOK financial normalization, and (3) geopolitical risk related to Russia and Ukraine.

As for (1), the FRB is being buffeted by inflationary pressures, with the markets pricing in 50bp rate hikes at the next four FOMC meetings. Some FOMC members have hinted at 75bp rate hikes, so there is still room for the dollar and interest rates to rise higher. Even if the FOMC does not decide to lift rates faster than the markets are expecting when it meets on May 5, US interest rates remain at high levels, so the dollar will continue to face buying pressure.

With regards to (2), the BOK implemented a 25bp rate hike in April and it dropped hints about further hikes within the year. This will probably prevent any one-sided dollar buying. However, the BOK governor has said the won's current level is not too low, so fears of an intervention by the authorities are easing off.

Turning to (3), and inflation is rising as commodity prices are pulled higher by geopolitical risk related to Ukraine. However, the markets are becoming less reactive to sudden news, so this is losing its power as a dollar-buying factor.

Under these circumstances, the won will join other currencies in moving bearishly against the dollar, with the USD/KRW pair set to continue moving firmly. The pair's resistance line of KRW1240 might not provide that much resistance in the end.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – May 2022

Expected Ranges **Against the US$: NT$29.00–29.90**
Against the yen: JPY4.25–4.50

1. Review of the Previous Month

The USD/TWD pair rose in April to temporarily hit its highest level in around 20 months.

The pair opened the month trading at TWD28.650. During a holiday, the pair rose as US interest rates climbed on comments by an FRB official. Overseas investors then sold Taiwan stocks at a faster pace, while domestic investors sent more funds overseas, so the pair edged higher to hit TWD28.9.

The greenback was bought mid-April too, with the pair hitting TWD29 on April 11 for the first time in around 18 months. However, Taiwanese stocks then rallied and overseas investors switched from selling to buying Taiwanese stocks on balance, so the pair dropped below TWD29 again. This trend was short-lived, though, and the pair returned to the TWD29 range as overseas investors sold Taiwanese stocks and repatriated dividends received from major Taiwanese companies. The pair edged higher to hit TWD29.3 on April 20 on rising US interest rates.

This trend continued late April. The Taiwan dollar faced selling pressure, but exporters then sold the greenback at the month's end, so the currency pair moved with a heavy topside. It temporarily hit a 20-month high of TWD29.544 on April 28 and then moved at the TWD29.5 mark, but the Taiwanese dollar was bought back on April 29, so the pair returned to TWD29.4.

2. Outlook for This Month

The USD/TWD pair is expected to strengthen in May.

Risk aversion increased in March on the deteriorating Ukraine situation, but things cooled off in April. Nonetheless, the Taiwanese dollar still weakened on rising US interest rates. The greenback was bought on these rising rates as overseas investors pulled funds out of Taiwan and domestic investors sent more funds overseas. The trend of US dollar bullishness and Taiwan dollar bearishness was given a push when importers bought the greenback. With exporters also refraining from selling the US dollar as they remained in wait-and-see mode, the currency pair was supported by real-demand moves too. The weakness of the Taiwan dollar saw Taiwan's foreign currency reserves posting a month-on-month slide for the first time in eight months in March. Investors will be watching to see how much further the reserves drop in April.

With the FOMC expected to hike rates in May, the Taiwan dollar will remain bearish as US interest rates rise and funds flow out of Taiwan. Of course, exports (a factor supporting the Taiwan dollar) remain healthy and they hit a record monthly high in March 2022. With the US dollar so strong, though, many exporters are holding back from selling the unit, so the pair's topside is not being held down. Concerns about an economic slowdown are also growing as China implements more lockdowns on surging Covid-19 cases. If Taiwanese stocks slide on this, the Taiwan dollar will continue to be sold for a time. There are also fears about how corporate activity will be hit by surging Covid-19 cases in Taiwan. With vaccination rates high and not many people falling seriously ill, Taiwan is shifting to a 'with-Covid' phase, despite the rise in cases, so if the impact on economic activity is negligible, the currency pair is unlikely to be affected.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – May 2022

Expected Ranges	**Against the US$: HK$ 7.8300–7.8500**
	Against the yen: JPY 15.90–16.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

HKD spot extended its depreciation trend towards its weak-side convertibility undertaking of 7.85, touching its 2.5 year low of 7.847. The HKD weakening was driven by the Fed's aggressive tightening plan. As Fed's 50bps rate hike in coming meetings is on the table, the negative HKD-USD rate spread widening and the pre-positioning of long USD/HKD carry trade were pressuring the HKD spot. The sell-offs of Chinese investment on mounting delisting risk of Chinese firms listed on US exchanges and the grimmer China growth outlook amid the extended lockdowns were fuelling capital outflow pressure from HK stock markets. On the domestic side, HK labour market condition deteriorated amid the 5th wave of Covid spread, with jobless rate spiking to 5% from prior 4.5%. Daily infected cases fell back to below 500 from the peak of more than 70,000.

Hong Kong dollar interest rate market in April

While USD LIBOR curve climbed robustly amid Fed's rate hike cycle, HKD HIBOR curve slipped after the quarter-end. Given the ample HKD liquidity condition, 1-month and 3-month HKD HIBOR remained low at 0.2% and 0.5%, respectively. HKMA aggregate balance remained unchanged at HKD 337.5bn as the HKMA had halted the extra Exchange Fund and Bills (EFBs) issuances since February. In other words, HKD liquidity will only change when HKD spot dropped to 7.85 level. 1-month and 3-month HKD HIBOR – USD LIBOR spread fell to below -40bps and -60bps, respectively. The widening negative HKD-USD rate spread is set to weigh on HKD spot. In the longer tenor, HKD IRS curve tracked on USD IRS curve as Fed is likely to front-load its rate hikes to stem US inflationary pressure. 3Y HKD IRS jumped to near 3%.

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2. Outlook for This Month

Hong Kong dollar spot exchange market in May

In the midst of Fed's aggressive tightening cycle and falling HKD-USD rate spread, the HKD weakening to 7.85 level is just matter of time under the Linked Exchange Rate System. In the previous Fed's rate hike cycle, the HKD spot slid to 7.85 level in April 2018 when the Fed raise its policy rate to 1.75%. With the Fed signaling a 50bps rate hike in coming meetings, the Fed fund rate will likely reach 1.75% as soon as in July. The actual hike in Fed fund rate will raise the short-term return of long USD effectively, leading to the return of long USD/HKD spot carry trade. The simultaneous balance sheet reduction at a rapid pace (targeting USD 95bn per month in coming months) will squeeze USD liquidity as well and push USD rates higher. We reckon that the HKD spot will touch 7.85 as soon as in May, while there could be some back-and-forth movement subsequently due to HKD purchase amid the dividend season.

Hong Kong dollar interest rate market in May

HKD rates will track USD rates higher amid Fed's aggressive tightening cycle. We expect HKD spot to fall to 7.85 level as soon as in May and the HKMA will intervene in the FX market to buy HKD to defend the USD-HKD peg. The FX intervention will drain HKD liquidity and push HKD rates higher. With Fed's 50bps rate hike on the table and HKD spot flirting with 7.85 level, the HKMA aggregate balance will start to fall from HKD 337.5bn but it will take time to reach around HKD 150bn level, which is assumed to be the level to trigger spikes in HKD rates. The HKD IRS curve is still subjected to upside risk as the Fed is determined to do the fast tightening to bring down inflation. It will be too early for the HK banks to raise prime rates in coming months as the previous prime rate hike took place when 1-month HKD HIBOR climbed to 2.2%. Yet, as the Fed is set to front-load its rate hikes and the timing for prime rate hike could come as early as in Q3-2022 now.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – May 2022

Expected Ranges **Against the US$: CNY 6.4500–6.7000**
Against the yen: JPY 18.50–20.00

1. Review of the Previous Month

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

On April 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.34 level. After the Qingming Festival holidays, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.37 level on April 6 with a weaker Chinese yuan than the closing rate of the previous trading day, due to the appreciation of the U.S. dollar. However, the U.S. dollar did not appreciate further against the Chinese yuan. Then, on the evening of April 13, the State Council of China implied a deposit reserve requirement ratio cut. However, the foreign exchange market did not react to this event in any particular way. On the night of April 14, the outcome of the European Central Bank (ECB) committee meeting turned out to be as had been expected, which weakened expectations for a hawkish monetary policy, as previously held by some market participants, leading to the selling of the euro and the buying of the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.38 level. However, the exchange rate did not fluctuate further.

On April 20, China's loan prime rate (LPR) was announced to be kept at the existing level, while some market participants were expecting it to be cut. However, some state-owned banks seemed to have bought the U.S. dollar, as Chinese stock prices were falling, while the Federal Reserve Board (FRB) was expected to tighten its monetary policy in the U.S. Furthermore, the Chinese monetary authorities were expected to ease their monetary policy, and this further strengthened the upward pressure on the U.S. dollar/Chinese yuan exchange rate. As a result, the U.S. dollar/Chinese yuan exchange rate rapidly exceeded the CNY 6.40 mark and the CNY 6.45 mark, and reached the CNY 6.50 level on April 22.

In the following week, the upward pressure on the U.S. dollar/Chinese yuan exchange rate remained strong on April 25. Thus, the U.S. dollar/Chinese yuan exchange rate continued rising to once reach the upper-CNY 6.57 level. However, the People's Bank of China (PBOC) subsequently announced its decision to cut its foreign currency reserve requirement ratio by 1% (effective as of May 15), which inverted the trend, and the U.S. dollar/Chinese yuan exchange rate started to fall. On April 26, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.52 level. Thereafter, the U.S. dollar/Chinese yuan exchange market was stabilized again, and the U.S. dollar/Chinese yuan exchange rate was fluctuating at around the CNY 6.55 level as of April 27.

2. Outlook for This Month

In May, the U.S. dollar/Chinese yuan exchange rate is forecast to remain stable.

The U.S. dollar/Chinese yuan exchange rate has been on a rise since April 19, mainly because of strengthened pressure to sell the Chinese yuan. It can be said that the market has reflected the expected early interest rate hikes in the U.S. to a great extent, gradually shifting the focus of the market to the expected monetary easing by the

Chinese monetary authorities.

In April, the Chinese monetary authorities cut their deposit reserve requirement ratio as a measure of monetary easing. However, the cut was less significant than the market consensus. Furthermore, the LPR was maintained at the existing level (the medium-term lending facility [MLF] interest rate—the base rate for the LPR—was also rolled over at the existing level), despite the fact that many market participants had been expecting the LPR to be cut. These decisions of the Chinese monetary authorities confirmed their cautious attitude toward monetary easing.

On the other hand, Shanghai has been maintaining its strict policy against the propagation of Covid-19 cases, while cases are also increasing in Beijing, fueling concerns in the market. Under such circumstances, there has been impact on the operation of factories and transportation, negatively affecting actual business activities. Therefore, it is certain that a sense of uncertainty has been increasing regarding the domestic economic outlook. It is possible for the Chinese monetary authorities to take further measures of monetary easing, which is likely to lead the U.S. dollar/Chinese yuan exchange rate to rise further.

It is also worthy to note that the trade surplus has been shrinking due to increasing concerns over a slowdown in exports, while there has been growing pressure for security investment outflow in the stock and bond markets. These factors are likely to encourage market participants to sell the Chinese yuan as well, from the viewpoint of the international balance of payments, and this previously was a factor toward strengthening the Chinese yuan.

Even though the Chinese monetary authorities have not made any announcement regarding the current exchange rate, they have always been sensitive to violent exchange rate fluctuations. It can thus be understood that the Chinese monetary authorities cut the foreign currency reserve requirement ratio in order to give warning to the rapid depreciation of the Chinese yuan. Indeed, after the announcement of the foreign currency reserve requirement ratio cut, the rise of the U.S. dollar/Chinese yuan exchange rate stopped for a while. However, the exchange rate has not yet started to fall, remaining at the same level. This is thus most likely to be a short halt, and the U.S. dollar/Chinese yuan exchange rate is more likely to start rising again.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – May 2022

Expected Ranges **Against the US$: SG$ 1.3600–1.4100**
Against the yen: JPY 91.00–96.00

1. Review of the Previous Month

In April 2022, the Singapore dollar continued depreciating against the U.S. dollar.

At the beginning of the month, the Singapore dollar exchange rate started gradually depreciating against the U.S. dollar. While the U.S. dollar/Singapore dollar exchange rate was fluctuating at the lower-SGD 1.35 level at the beginning of the month, the Singapore dollar depreciated against the U.S. dollar thereafter due to the appreciation of the U.S. dollar based on the rise of interest rates in the U.S. The Singapore dollar continued depreciating toward April 10, reaching the upper-SGD 1.36 level.

On April 14, the Monetary Authority of Singapore (MAS) revised its monetary policy and announced its decision to raise the slope of the policy band while also raising the mid-point of the policy band, which are both measures to lead the Singapore dollar to appreciate. However, the MAS decided to maintain the width of the policy band at the existing level. In general, the MAS revises its monetary policy twice a year in April and October. However, recently the MAS announced its decision to raise the slope of the policy band consecutively at the ordinary meeting in October last year as well as at the extraordinary meeting in January this year. The decision in April to take measures of monetary tightening is seen to be a step further in monetary policy, as it is the first time since April 2014 that the slope of the policy band and the mid-point of the policy band were both raised at the same time. The MAS explained that the objective of this decision was to slow inflation.

On the same day, the MAS also announced the preliminary result of the GDP for 1Q 2022, and the result turned out to be +3.4% year-on-year, recording a slowdown from +6.1% recorded in 4Q 2021. In its statement, the MAS estimated the annual GDP growth for the 2022 rate to be 3–5%, with the caveat that there would be no change in the trend caused by persistent issues in Russia and Ukraine, as well as the Covid-19 pandemic, affecting the market again. Thus, the economy of Singapore is expected to recover in general, while the pace of the recovery is likely to be slow.

After the announcement of the revision to monetary policy, the Singapore dollar appreciated against the U.S. dollar in the foreign exchange market. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.35 level. The MAS has also revised the inflation outlook upward (from 2.5–3.5% to 4.5–5.5%), and thus the MAS is likely to have taken the additional measures of monetary tightening announced in April in order to mitigate growing concerns over inflation.

However, thereafter, the Singapore dollar started to depreciate toward the end of the month. Along with the appreciation of the U.S. dollar based on the rise of interest rates in the U.S., the Chinese yuan depreciated based on concerns over the Chinese economy. Following this trend, the Singapore dollar also depreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate rose to once reach the SGD 1.39 level. Subsequently, the Singapore dollar rallied to some extent, and monthly trading closed at the mid-SGD 1.38 level.

2. Outlook for This Month

In May 2022, the Singapore dollar is forecast to continue depreciating against the U.S. dollar.

As was anticipated in the market, the MAS announced its decision to revise its monetary policy with a hawkish attitude on April 14. In reaction, the Singapore dollar appreciated not only against the U.S. dollar but also against other currencies in the Singapore dollar nominal effective exchange rate (NEER) policy band.

However, this measure does not seem to be a decisive factor toward leading the Singapore dollar to appreciate from the medium- to long-term perspective. At the moment, market participants are more conscious of concerns over a slowdown in the global economy, along with the worldwide appreciation of the U.S. dollar, rather than the hawkish revision of the monetary policy announced by the MAS. Indeed, even though the Singapore dollar appreciated temporarily after the MAS meeting held on April 14, the Singapore dollar continued depreciating toward the end of the month.

In particular, the Singapore dollar exchange market is severely impacted if market participants sell the Chinese yuan, as the weight of the Chinese yuan is significant in the NEER basket. The People's Bank of China (PBOC) is likely to maintain measures of monetary easing for a while in order to keep the Chinese yuan stable toward the National Congress of the Chinese Communist Party scheduled for autumn (October and November). The depreciation of the Chinese yuan is an important factor toward understanding the trend in the U.S. dollar/Singapore dollar exchange market.

If the Federal Reserve Board (FRB) maintains its hawkish monetary policy for the next several months, it is possible for the U.S. dollar/Singapore dollar exchange rate to exceed the SGD 1.38 level so as to temporarily reach the SGD 1.40 level or even higher. However, if the PBOC manages to stabilize the Chinese yuan exchange rate, the Singapore dollar is also likely to be strengthened toward the end of the year. In any case, in the near future, the Singapore dollar is forecast to weaken slightly, even despite the measures of monetary tightening announced by the MAS.

Kazuhiro Suzuki, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – May 2022

Expected Ranges	**Against the US$: THB 33.70–35.00**
	Against the yen: JPY 3.65–3.80

1. Review of the Previous Month

In April, the U.S. dollar/Thai baht exchange market opened trading at the THB 33.20 level. Upward pressure on U.S. interest rates started growing again after the trend of U.S. bond purchases at the end of March for the purpose of rebalancing. Under such circumstances, the March employment statistics of the U.S. were released, confirming the shrinking labor market, which led the U.S. dollar/Thai baht exchange rate to the mid-THB 33 level. On April 5, the March Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be higher than expected, at +5.73% year-on-year. As a result, market participants temporarily bought the Thai baht. However, Federal Reserve Board (FRB) members made hawkish remarks thereafter, in reaction to which interest rates rose in the U.S. Following this trend, the U.S. dollar/Thai baht exchange rate rallied to the mid-THB 33 level again. Thereafter, the U.S. dollar/Thai baht exchange rate remained high because of significant policy interest rate hikes expected in the U.S. in the times ahead.

In the middle of the month, the U.S. dollar/Thai baht exchange rate did not move in any direction in the onshore market, as the Songkran holidays were approaching in Thailand. On April 12, the March CPI of the U.S. was announced, revealing a slowdown in the growth of core CPI, and this led long-term interest rates in the U.S. to fall, while weakening the U.S. dollar. As a consequence, the U.S. dollar/Thai baht exchange rate fell to the THB 33.40 level. However, FRB officials made hawkish remarks thereafter, which led interest rates in the U.S. to rally. Following this trend, the U.S. dollar/Thai baht exchange rate also started to rise. As a result, on April 15, toward the end of the Songkran holidays, the U.S. dollar/Thai baht exchange rate rose to approach the THB 33.70 level. Then, on April 18, after the Songkran holidays, the U.S. dollar/Thai baht exchange rate remained stable at the upper-THB 33 level due to the rise of U.S. interest rates and crude oil prices observed during the holidays. Market participants were also conscious of upside inflationary risks fueled by the housing-related indices in the U.S. that turned out to be higher than expected. Under such circumstances, the U.S. dollar/Thai baht exchange rate reached a level at around THB 33.80 for the first time in four months since April last year.

At the end of the month, FRB Chair Jerome Powell made a remark such that the Federal Open Market Committee (FOMC) would consider a policy interest rate hike of 50 basis points at the May meeting, just before the blackout period. As a result, the U.S. bond yield started to rise, reflecting the further acceleration of interest rate hikes expected in the U.S. Consequently, the U.S. dollar/Thai baht exchange rate rose to approach the THB 34 level on April 21. On April 25, the media reported that Beijing was considering introducing a lockdown measure following Shanghai due to an increase of Covid-19 cases, and this fueled concerns over a slowdown of the Chinese economy as well as further confusion in the supply chain. As a result, the U.S. dollar/Thai baht exchange rate exceeded the THB 34 level, reaching the THB 34.10 level. On April 26, the following day, market participants continued buying the U.S. dollar in order to avert risks, even though the U.S. dollar was sold back briefly in the morning. As a consequence, the U.S. dollar/Thai baht exchange rate continued rising and reached the THB 34.20

level. Thereafter, market participants remained cautious about the possible expansion of the lockdown in China. Furthermore, the Ministry of Finance of Thailand announced its decision to revise its annual GDP outlook for 2022 downward on April 27 (from 4.0% to 3.5%). These factors led the U.S. dollar/Thai baht exchange rate to continue renewing its high. Moreover, the media reported that Russia had discontinued gas supply to two countries in Europe, and this fueled concerns over the European economy, resulting in the further appreciation of the U.S. dollar. In the end, the U.S. dollar/Thai baht exchange market is about to close monthly trading at the mid-THB 34 level.

2. Outlook for This Month

In April, the U.S. dollar/Thai baht exchange rate finally exceeded the THB 34 mark—the level that the exchange rate did not reach while approaching it several times—reaching its highest rate for the U.S. dollar and the lowest rate for the Thai baht since July 2017. The most-significant difference between the recent situation in the market and that of autumn last year is global inflation based on the rise of energy prices, as well as the FRB's acceleration of interest rate hikes in the U.S. as a result of the shift in U.S. monetary policy focusing now on the control of inflation. In addition, there has also been concern for lockdown measures to be expanded in China, which is maintaining a zero Covid policy. Therefore, the concern over a slowdown of the Chinese economy has also been impacting the currencies of Southeast Asian countries.

In May, the FOMC is expected to raise its policy interest rate by 50 basis points, and this almost entirely been reflected in the market. Therefore, the policy interest rate hike of 50 basis points itself is not likely to impact the market significantly. Rather, it is the FRB statement that is likely to impact the market, depending on the FRB's intention for consecutive hikes of 50 basis points in the future, with these also reflected in the market. Even though it is unlikely for the FRB to accelerate its policy interest rate hikes further, the U.S. dollar is expected to continue appreciating for a while. It is also to mention that there are negative factors at play, such as the lockdowns in China based on a zero Covid policy and China's concomitant slowdown in logistics. However, these issues are likely to be resolved with the passage of time, and therefore their impact on resource prices and the foreign exchange market is expected to decline in the times ahead, if not in May.

Finally, in terms of domestic factors in Thailand, there are no remarkable factors at play that are likely to impact the market. However, in May, the country will be essentially entirely open, which is likely to support the Thai baht exchange market to some extent. However, the expected number of tourists in Thailand for 2022 is still around one fifth of what it was in 2019 before the outbreak of the Covid-19 pandemic. Therefore, the downward pressure on the U.S. dollar/Thai baht exchange rate is expected to be weak. For these reasons, the U.S. dollar/Thai baht exchange rate is most likely to rise in May. Given the trend observed in 2017, the U.S. dollar/Thai baht exchange rate is not likely to stay at the THB 34 level for a long time. Thus, market participants should keep in mind that there are risks for the U.S. dollar/Thai baht exchange rate to rise toward reaching the THB 35 level with certain additional momentum.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2022

Expected Ranges **Against the US$: MYR 4.30–4.45**
Against the yen: JPY 28.57–30.30

1. Review of the Previous Month

In April, Malaysian ringgit was sold and depreciated significantly against the U.S. dollar as a result of the accelerated depreciation of the Chinese yuan as well as due to the gradual appreciation of the U.S. dollar. As a result, the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.3 level, which was a psychological turning point. As there were few transactions in the market during the period of Ramadan, the depreciation of the Malaysian ringgit did not slow down, and market participants sold the Malaysian ringgit leading to further depreciation, confirming the weakness of the Malaysian ringgit.

At the beginning of the month, the Malaysian ringgit was on a gradual fall, even though it did not depreciate beyond a certain level. In the early morning of April 7, the minutes of the Federal Open Market Committee (FOMC) meeting were released, and the contents turned out to be hawkish, suggesting that the FOMC would discuss the possibility of starting balance sheet reduction in May at the earliest, at a pace of USD 95 billion a month. As some market participants had already bought the U.S. dollar ahead of time, there was little reaction in the market after the release of the FOMC minutes. Furthermore, even though crude oil prices also fell, the Malaysian ringgit depreciated only to a limited extent, as the U.S. dollar did not appreciate significantly.

Toward the middle of the month, the Malaysian ringgit continued depreciating slowly, as was the case at the beginning of the month. Thereafter, the March inflation indices were announced, attracting substantial attention in the market, and both the Consumer Price Index (CPI) and the Producer Price Index (PPI) turned out to be strong. However, these results had already been reflected in the market. On the contrary, because all factors in favor of the U.S. dollar had already been reflected in the market, market participants sold the U.S. dollar, occasionally buying back the Malaysian ringgit, even though this trend did not last for a long time. Furthermore, among the major currencies, it was only the Japanese yen that was depreciating. Therefore, the Malaysian ringgit/Japanese yen exchange rate continued rising one-sidedly, reaching a level just below the JPY 30 level. Then, on April 18, the March trade statistics were released. Exports significantly exceeded the market estimate because of the rise of resources prices, such as palm oil prices, which turned out to be 1.6 times higher than last year, and natural gas prices, which turned out to be two times higher than last year, even though the electrical and electronic sectors—the main sectors of the country—made a significant contribution to the growth of exports.

At the end of the month, market participants sold the Chinese yuan with concerns over the economic impact of the lockdowns in China. Following this trend, the Malaysian ringgit also depreciated. Furthermore, crude oil prices declined as China announced its outlook for demand decline. As market participants lost reasons to buy the Malaysian ringgit, the U.S. dollar/Malaysian ringgit exchange rate rapidly exceeded the MYR 4.3 level, which had been a psychological turning point. The Malaysian ringgit continued depreciating even faster thereafter. Then, on April 22, the March CPI of Malaysia was announced. While the headline CPI turned out to be 2.2%, stabilizing again, the core CPI recorded a rise for the sixth consecutive month, at 2.0%, demonstrating price increase in a wide range of sectors. Market participants did not buy back the Malaysian ringgit thereafter, and the U.S. dollar/Malaysian ringgit exchange market closed monthly trading with the significant depreciation of the Malaysian ringgit.

2. Outlook for This Month

In May, an FOMC meeting is scheduled in the U.S. for May 5, at which point market participants would be able to predict when the Malaysian ringgit might start rallying. Toward the second half of April, the trend to sell the Malaysian ringgit accelerated rapidly. However, the Malaysian domestic economy has been steadily recovering with stable important indices, while the number of Covid-19 cases has been steadily decreasing. In terms of prices as well, the inflation level has been much more stable than the U.S. and Europe, even though market participants need to remain careful about the uptrend of the core CPI. Furthermore, there have been significant expectations for economic recovery after the opening of national borders in April. The government of Malaysia has also been steadily carrying out the necessary work to facilitate its Standard Operating Procedure (SOP).

In terms of domestic politics, the 15th general election for electing members of the lower house of the Malaysian parliament, the term of which is to end in May 2023, is upcoming. The main ruling party, the United Malays National Organization, has decided at its Supreme Council meeting that the party would propose the current prime minister, Ismail Sabri Yaakob, as its candidate for the election. There had previously been some concerns about possible opposition between Ismail Sabri Yaakob, who ranks third in the hierarchy in the party, and the party's president, Ahmad Zahid. However, the party prioritized the political stability that was promised to the Malaysian king, Al-Sultan Abdullah, and thus it has become unlikely for the party to cause serious political confusion.

This year, the period of Ramadan ends on the evening of May 2. For multi-ethnic countries like Malaysia, it will be a time for all ethnic groups in the country to resume economic activities to a full extent. It is therefore reasonable for the Malaysian ringgit to start rallying in May. Under such a context, the most-important factor in May will be the lockdown policy in China—the largest trade partner for Malaysia. While the lockdown has been expanding into major cities, including Shanghai, some media outlets report increasing doubt about China's zero Covid policy. If China, with its significant economic power, sees an economic slowdown due to the increase of Covid-19 cases, it would lead to a slowdown of the global economy, also affecting the Malaysian economy.

On the other hand, it is also quite likely for market participants to start buying back the Malaysian ringgit, based on the steady recovery of the domestic economy as well as growing expectation for interest rate hikes in the second half of the year. For such to happen, the condition would be for the current depreciation of the Chinese yuan to slow down, while market participants are starting to see the end of the appreciation of the U.S. dollar after the FOMC meeting in the U.S. scheduled for May 5, and this marks the end of supporting factors for the U.S. dollar.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2022

Expected Ranges **Against the US$: IDR 14,200–14,500**
Against the yen: JPY 0.86–0.89 (100IDR)

1. Review of the Previous Month

In April, the U.S. dollar/Indonesian rupiah continued fluctuating within a narrow range. However, toward the end of the month, the Indonesian rupiah depreciated slightly against the U.S. dollar.

On April 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,300 level. Even though interest rates continued rising in the U.S., this did not lead to an outflow of foreign investor investment capital from the Indonesian government bond market. On the other hand, the Jakarta composite index continued renewing its all-time high, and the Indonesian rupiah remained stable. Therefore, toward the following week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating from the mid-IDR 14,300 level to the upper-IDR 14,300 level. Furthermore, in the following week commencing on April 11, the U.S. dollar/Indonesian rupiah exchange rate remained at the same level without moving in any direction, as there was no new factor to impact the market. On April 18, the March trade balance of Indonesia was announced, revealing a trade surplus greater than the market estimate. Both imports and exports recorded year-on-year growth greater than the market estimate. In particular, exports grew significantly, thanks to the rise of resource prices, leading to an increase in trade surplus. This confirmed once again the robustness of the Indonesian rupiah. Then, on April 19, the following day, the central bank of Indonesia held a monetary policy meeting and decided to maintain its seven-day reverse repo rate, which is the policy interest rate of Indonesia, at 3.50%. As this outcome had been anticipated in the market, there was little market reaction. The U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range from the mid-IDR 14,300 level to the upper-IDR 14,300 level. However, on April 22, President of Indonesia Joko Widodo announced a decision to ban the export of palm oil from April 28. Furthermore, the overall Asian currencies depreciated due to growing concern over the Chinese economy, while lockdown measures were in place in Shanghai. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,400 level on April 25 in the following week. However, on April 26, the following day, the Indonesian government announced that crude palm oil would be excluded from the ban on the export of palm oil. In reaction, the Indonesian rupiah rallied, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 14,400 level once again. However, on April 27, the following day, the Indonesian government announced again that the ban on the export of palm oil would be expanded to include crude palm oil and its refined products, as a result of which the Indonesian rupiah depreciated again against the U.S. dollar. The U.S. dollar/Indonesian rupiah exchange rate has been fluctuating at the upper-IDR 14,400 level (as of April 28).

2. Outlook for This Month

In May, the Indonesian rupiah is forecast to remain stable against the U.S. dollar.

In April, interest rates continued rising in the U.S. However, the impact of this on the U.S. dollar/Indonesian rupiah exchange market remained limited. In March this year, there was a monthly outflow from the Indonesian government bond market of foreign investor capital worth almost IDR 50 trillion. Unlike such a case, in April, there has only been monthly capital outflow of IDR 17 trillion as of April 27. Also, the 10-year U.S. government bond yield has already been close to 3%, which means that the yield is unlikely to rise further. It is therefore not easy to expect the depreciation of the Indonesian rupiah to accelerate as a result of capital outflow related to security investment.

The situation in Russia and Ukraine remains uncertain, keeping resources prices high, which is a supporting factor for the Indonesian exchange market. As a result, the March trade balance of Indonesia turned out to be a significant surplus. However, there is also a source of concern: export restrictions on palm oil, which one of the major export items of Indonesia. Similar policy might also be taken for coal. However, it is unlikely for the Indonesian government to take measures to weaken the Indonesian rupiah. The Indonesian government probably has the intention to keep current measures of monetary easing for as long as possible in order to maintain and support the recovery of the domestic economy. In such a situation, the Indonesian government is not expected to continue imposing restrictions on exports, as this would lead to the depreciation of the Indonesian rupiah.

As the Indonesian rupiah exchange rate has remained stable, the central bank of Indonesia has maintained its policy interest rate at the lowest level ever. This means that the central bank still has possible measures to take in order to control the depreciation of the Indonesian rupiah. However, on April 25, the governor of the central bank of Indonesia, Perry Warjiyo, mentioned the possible necessity to accelerate the normalization of monetary policy if the Indonesian government makes revisions to energy prices and subsidies. Previously, Warjiyo expected a change in the policy interest rate to be made in the July-September period this year. However, if this is moved forward, it would be a supporting factor for the Indonesian rupiah.

For these reasons, the Indonesian rupiah is forecast to remain stable in May.

Yuichiro Sakaki, Manila Treasury Office, Asia & Oceania Treasury Department

Philippine Peso – May 2022

Expected Ranges	**Against the US$: PHP 51.00–53.50**
	Against the yen: PHP 0.39–0.43

1. Review of the Previous Month

In response to the plan to reduce petroleum reserves led by the U.S., the WTI crude oil price fell below USD 100. Furthermore, the March consumer price index of the Philippines turned out to be 4.0% year-on-year, exceeding the market estimate, which was 3.7% year-on-year. However, as market participants expected the central bank of the Philippines to start normalizing monetary policy in the second half of this year, at the beginning of the month the Philippine peso appreciated to reach PHP 51.140 against the U.S. dollar—the highest rate in approximately one month. Thereafter, however, multiple high-level Federal Reserve Board (FRB) officials made hawkish remarks, including FRB member Lael Brainard, who had been previously considered to have a dovish attitude among FRB members. In addition, market participants were aware of the possibility for the FRB to turn toward an even-more hawkish stance in the times ahead, depending on the inflation rate, even though the minutes of the Federal Open Market Committee (FOMC) meeting turned out to be almost as anticipated in the market. As a result, interest rate hikes in the U.S. had been reflected further in the market, strengthening the U.S. dollar worldwide. In reaction, the Philippine peso depreciated against the U.S. dollar.

The February trade deficit of the Philippines turned out to be USD 3.5 billion, falling below the market estimate and the result of the previous month, which were both a deficit of USD 4.7 billion. However, due to the deterioration of the outlook regarding the situation in Ukraine, concerns grew over further inflation and its impact on the world economy. In addition, waiting for the announcement of the March CPI of the U.S., market participants remained cautious about the acceleration of monetary tightening in the U.S. As a result, the U.S. dollar/Philippine peso exchange rate fell below the PHP 52.000 level. As the Consumer Price Index of the U.S. turned out not to be as high as expected, the Philippine peso rallied temporarily. However, as market participants expect the inflation pressure to remain strong in the times ahead, interest rate hikes in the U.S. remained reflected in the market. As a result, the Philippine peso remained on a downward trend. After the holidays of the Holy Week, the trend did not change due to the fact that long-term interest rates in the U.S. rose to their highest levels in approximately three years, while crude oil future price rose sharply after media reports about the EU ban on the trading of palm oil produced in Russia.

Interest rate hikes in the U.S. have been reflected in the market in an accelerated manner, and this does not seem to be slowing down. Furthermore, the International Monetary Fund (IMF) made a significant downward revision for the world economy growth rate outlook. As a result, the market sentiment worsened, leading the Philippine peso to depreciate. However, the U.S. dollar/Philippine peso exchange rate remained robust at around the PHP 52.500 mark—the recent low for the Philippine peso. Moreover, the crude oil price fell sharply, due to concerns over declining demand in China that resulted from possible lockdown measures in Beijing. The central bank of the Philippines suggested a possible interest rate hike in June, depending on the economic conditions of the country, and this led the Philippine peso to strengthen. Thus, in the second half of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 52.000 and PHP

52.500.

2. Outlook for This Month

The tensions in Ukraine have been intense for a long period, causing issues in the supply chain. Furthermore, crude oil prices remain high, although not as high as the highest prices seen recently, due to concerns over a decrease in demand. Thus, it is highly probable for the inflation pressure to strengthen again in the times ahead. Concerns over a slowdown in the global economy have also been worsening the risk sentiment in the market. Therefore, the sense of uncertainty is likely to keep the currencies of emerging countries in Asia, including the Philippine peso, from appreciating.

It is also worthy to note that FRB officials made a series of hawkish remarks, fueling expectations for an interest rate hike of 50 basis points in September, as well as in May, June, and July. Thus, it has become evident that the priority in the monetary policy of the U.S. is to control inflation rather than to avert risks, such as an economic slowdown as well as a fall of stock prices. Concerns over a further acceleration of monetary tightening of the U.S. are leading the U.S. dollar to strengthen globally, and this is strengthening downward pressure on the Philippine peso. The acceleration of monetary tightening remains a factor toward causing the rapid depreciation of assets that had been on an uptrend thanks to excessive liquidity, such as in stocks and bonds. Therefore, market participants should remain careful about the possibility of the rapid depreciation of the Philippine peso as resulting from risk-averse sentiment based on changes of asset prices.

On the other hand, the governor of the central bank of the Philippines expressed his intention to start normalizing monetary policy in June at the earliest, depending on conditions in the economic environment. Thus far, interest rate hikes of 50 basis points are expected before the end of the year. This expectation for interest rate hikes has been a factor to support the Philippine peso exchange market. This means that the difference in monetary policy will be narrowed between the U.S., which has already started normalizing monetary policy, and the Philippines, which is to start normalizing monetary policy in the times ahead. However, the U.S. has become even-more hawkish, leading interest rate hikes to be reflected in the market in an accelerated manner. Thus, the difference in the expected pace of interest rate hikes is a factor toward strengthening the U.S. dollar and weakening the Philippine peso.

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

Indian Rupee – May 2022

Expected Ranges	**Against the US$: INR 74.50–78.50**
	Against the yen: JPY 1.63–1.71

1. Review of the Previous Month

In April, the U.S. dollar/Indian rupee exchange rate was low at the beginning of the month, although it rose toward the end of the month.

Federal Reserve Board (FRB) chair Jerome Powell expressed his intention to actively raise the policy interest rate in order to control inflation, in reaction to which the yield of U.S. Treasury bonds rose rapidly. At the end of March, there were various factors to influence the market, such as the large number of victims that resulted from the intensification of war in the southeastern part of Ukraine, the lockdown measures that were introduced again in Shanghai, and the repatriation of foreign assets by Indian companies at the end of the fiscal year. Having seen these factors, the U.S. dollar/Indian rupee exchange market opened trading in April at INR 75.775. Thereafter, two major Indian financial companies announced a merger, which led domestic stock prices to rise sharply. As a result, market participants expected the capital outflow from domestic risk assets to be reversed, leading the Indian rupee to appreciate. Also, the media reported that U.S. President Joe Biden was considering releasing oil reserves of up to 180 million barrels over the next several months. This slowed down the rise of crude oil prices, supporting the Indian rupee. On the following day, the same trend continued, and the Indian rupee continued appreciating against the U.S. dollar for seven consecutive business days, reaching INR 75.315—the lowest rate of the month. Thereafter, however, the FRB gave a hawkish outlook, leading the 10-year U.S. Treasury bond yield to exceed the 2.6% level. Under such circumstances, the U.S. dollar appreciated, and it was inevitable for the currencies of emerging countries to depreciate. Following this trend, the trend in the U.S. dollar/Indian rupee exchange market also became inverted, and the exchange rate started rising. Furthermore, the media also reported that importers of resources in India had been hedging risks by buying the U.S. dollar in large amounts. As a consequence, the U.S. dollar/Indian rupee exchange rate returned to a level just before the INR 76 level.

In the second week of the month, the media reported that a local conglomerate was planning to invest USD 2 billion by issuing preferential shares to Abu Dhabi funds, and this encouraged some market participants to sell the U.S. dollar. However, other market participants remained cautious about the CPI that was scheduled to be released on the evening of April 12 (as a high inflation rate would fuel expectations for interest rate hikes in the U.S., leading to the appreciation of the U.S. dollar), and Indian resource companies bought the U.S. dollar to hedge risks, as they did in the previous week. As a result, the U.S. dollar/Indian rupee exchange rate recovered to the INR 76 level on April 11, the beginning of the week. When the exchange rate was high, market participants also expected the Reserve Bank of India (RBI) to intervene in the market by selling the U.S. dollar and buying the Indian rupee. However, the U.S. dollar/Indian rupee exchange rate continued rising slowly.

Thereafter, the crude oil price rose again, as there was an outlook for the EU to ban the import of petroleum from Russia. Also, the 10-year U.S. Treasury bond yield reached its highest level since December 2018, at 2.87%. In reaction, the U.S. dollar/Indian rupee exchange rate rose to the mid-INR 76 level at the beginning of the third week of the month. Also, on April 19, the Minister of Foreign Affairs of Russia Sergey Lavrov made a remark in an interview that a new phase in Russian strategy (for the eastern part of Ukraine) had begun, and he was convinced that Russia was now in an extremely important time in its special operations. In reaction, the U.S. dollar continued appreciating further, and the U.S. dollar/Indian rupee exchange rate exceeded the INR 76.50 level.

In the fourth week of the month, the U.S. dollar further appreciated against the Indian rupee, recording the monthly high at INR 76.77, as, at the end of the previous month, FRB Chair Jerome Powell expressed his intention to take proactive measures to control inflation by raising the FRB policy interest rate by 50 basis points in the following month. However, there was possible capital inflow into India on the occasion of an extremely large-scale IPO, along with possible market interventions by the RBI so as to sell the U.S. dollar, of which market participants remained cautious. As a result, the U.S. dollar/Indian rupee exchange rate did not reach the all-time high recorded in March. Trading closed at INR 76.53 on March 27.

2. Outlook for This Month

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

Three key factors in the U.S. dollar/Indian rupee exchange market remain the same as those discussed in the previous month's article: (1) market participants' preference for safe assets including the U.S. dollar based on geopolitical risks in East Europe; (2) Indian rupee-selling based on a growing trade deficit that has resulted from the rise of crude oil prices; and (3) Indian rupee-selling based on an outflow of foreign investor funds. These factors are expected to continue impacting the U.S. dollar/Indian rupee exchange market in May.

However, a major domestic life insurance company has announced an IPO that will happen between May 4 and May 9, and this is attracting substantial attention in the market due to being the largest IPO in the history of India. According to the latest estimate, as a result of this IPO, approximately INR 210 billion will be released into the market. This means that foreign investors need to sell the U.S. dollar and buy the Indian rupee. Therefore, a certain level of Indian rupee-buying is expected at the beginning of the month.

At the monetary policy meeting held in April, the RBI mentioned the possible discontinuation of monetary easing, even though the policy interest rate was maintained at the existing level. Furthermore, the RBI introduced new open-market operations, of which the effect was essentially the same as an interest rate hike. As a result, expectations grew rapidly for policy interest rate hikes in India, leading interest rates to rise. Consequently, the one-year treasury bill (short-term government bonds) yield reached 4.79% for the first time since March 2020, and the 10-year government bond yield reached 7.2% for the first time since May 2019. It is evident that market interest rates in India are rising. However, it is difficult to confirm Indian rupee-buying that corresponds to the level of the rise of interest rates. Thus, under the current conditions, the Indian interest rate market and the Indian rupee exchange market are not strongly correlated.

This is due to the fact that there is always a "counterpart" in the foreign exchange market, such as against the U.S. dollar or against the Japanese yen. As a result, the Indian rupee exchange market has been impacted not so much by domestic factors but by the above-mentioned three factors as well as the appreciation of the U.S. dollar based on the expected policy interest rate hikes by the FRB and its balance sheet reduction.

Also, a Federal Open Market Committee (FOMC) statement is to be released on May 4, after market closing in India. The U.S. dollar/Indian rupee exchange rate has currently been at its highest level, making it difficult for market participants to buy the U.S. dollar. However, after the FOMC meeting, it is possible for the U.S. dollar/Indian rupee exchange rate to renew its all-time high, which is currently INR 76.98. It might be time for market participants to consider buying a certain amount of U.S. dollars in order to avert risks in order to prepare themselves for the further appreciation of the U.S. dollar and the depreciation of the Indian rupee.