Mizuho Dealer's Eye

August 2022

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Mizuho Bank, Ltd.

Global Markets Sales Department

Kazutada Harada, Forex Sales, Global Markets Sales Department

U.S. Dollar – August 2022

Expected Ranges **Against the yen: JPY128.00–138.00**

1. Review of the Previous Month

As the yen weakened in July, the dollar/yen pair hit its highest level in 24 years.

As concerns about a US recession grew at the start of the month, the pair dropped down June's low of 134.75 yen. At the start of the next week, the pair began trading around 135 yen on July 4. The pair then edged higher as risk appetite grew on expectations that President Joe Biden would scrap some tariffs on Chinese goods. The US then released a bullish June Manufacturing ISM Report on Business. The minutes to the FOMC meeting also proved hawkish, with the FOMC focusing more on inflation than the economy. The dollar was subsequently bought a faster pace, with the currency pair moving at the upper-135 yen mark. The pair then fell to the mid-135 yen level on July 8 after former Japanese prime minister Shinzo Abe was attacked, but it moved firmly thereafter on the unexpectedly firm results of the US June employment data.

The pair continued moving firmly the following week. With political stability looking likely following the results of the Japanese upper house election, stock markets rose and the greenback was bought. After hitting the 137-yen mark, the pair's topside edged higher as the dollar was bought and other currencies weakened on concerns about a global economic slowdown. The US June CPI data was released on July 13, with the data sharply up on expectations and the previous month's result. The dollar was bought as a result, with the currency pair surging to the upper-137 level. With the pair moving firmly at 138 yen, the dollar was bought on real demand on July 14, with the pair also soaring as US interest rates rose outside trading time. The pair then hit 139 yen, its highest level in roughly 24 years. Dollar buying came to an end on July 15 on a sense of achievement after hitting record highs. With China also releasing some weak 2Q GDP data, the pair was adjusted to the mid-138 yen mark. Inflationary expectations were low in the July University of Michigan Consumer Sentiment Index, so expectations for a 100bps rate hike waned and the pair dropped to the lower-138 level.

The pair stopped rising in the week beginning July 18. Expectations for a huge +100bps rate at the July 27 FOMC meeting then dropped off, so the pair inched lower to hit the upper-137 yen level. The Bank of Japan (BOJ) decided to stick to easing when it met to set policy on July 21, with governor Haruhiko Kuroda also making dovish comments, so the pair rose to the upper-138 yen mark as the yen was sold on the divergent monetary policies of the BOJ and FRB. However, the pair dropped back again thereafter as the US released some weak economic indicators, including the July Philadelphia FRB Manufacturing Index.

The pair then fell sharply in the latter half of the final week. As expected, the FOMC hiked rates by +75bps, but the pair weakened to the lower-136 yen mark after FRB chair Jerome Powell said the likelihood of a large rate hike at the next meeting would depend on the data. The pair continued moving bearishly toward the weekend as the US released some lackluster 2Q GDP data and the US interest rates fell. The pair then dropped to 132 yen for a time.

2. Outlook for This Month

The dollar/yen pair is expected to move firmly this month. As broadly expected, the FOMC lifted rates by 75bps on July 27. The meeting was short on noteworthy factors. Given the uncertainty about recent US inflation and economic indicators, though, the FOMC refrained from giving any clear indication about the future direction. Investors should continue to keep an eye on economic indicators (particularly employment indicators) and comments by FRB officials. The international Jackson Hole Symposium will be reconvening late August. With the FOMC not giving any clear guidance, more observers will be monitoring the symposium for clues about the rate-hike process going forward.

The BOJ decided to keep negative interest rates and yield curve controls in place at the Monetary Policy Meeting last month. The inflation outlook was upgraded in the BOJ's Outlook for Economic Activity and Prices, with no mention of stubbornly-high business prices either. However, the BOJ reconfirmed its commitment to easing. It downgraded its economic forecast on slowing external demand and supply constraints, for example, and it also said wages would need to rise further.

Japanese/US interest-rate differentials have risen as a result. US stocks have moved bearishly recently, but with market participants thin on the ground over the summer holiday season, there has been no selling and there could even be a summer rally. If this happens, US interest rates will rise further. This could also push the yen lower. Japan actually posted a record trade deficit in the first half of the year. If the trade deficit widens further on yen bearishness, the dollar/yen pair might also be swayed by the fundamentals.

A glance at recent movements shows the pair dropping back after failing to hit 140 yen mid-July, with the pair's rise halted. Given the pace of the pair's rise from the mid-130 yen mark and the results of RSI and other technical indicators, it was no surprise the pair weakened over the latter half of July. As mentioned above, though, there is a clear divergence in the monetary stances of Japan and the US. The yen will also be a hard currency to buy given risk asset fundamentals and trade-related supply and demand factors. As such, the pair looks set to continue rising in August.

Dealers' Market Forecast

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

Bullish on the dollar	11 bulls	138.00 – 130.00	Bearish on the dollar	7 bears	135.00 – 130.00

* Ranges are central values

Yano	Bear	135.00 – 130.00	The US will probably lift rates again to combat inflation, but there are growing concerns when it comes to indicators (apart from employment). Liquidity will fall in August on the Japanese Obon holiday and so on, with the pair set to move with a heavy topside on deteriorating sentiments.
Ushijima	Bull	140.00 – 130.00	US interest rates and the dollar/yen pair came under some adjustment late July, but this was not too deep. If the FRB continues to lift rates, US interest rates will stop falling in the near future, with the currency pair likely to test 140 yen again.
Tsutsui	Bull	139.00 – 132.00	Provided commodity prices don't surge and instead remain at their current high levels, inflation is unlikely to climb higher. The FRB will probably return to hiking rates by 25bps rather than 75bps. The dollar/yen pair's downside will move firmly on Japanese/US interest-rate differentials, but there also few factors capable of pushing the pair's topside higher.
Kato	Bull	136.20 – 131.00	The dollar/yen pair underwent some adjustment soon after entering the latter half of the year. There is a clear sense of overkill, though. Investors have piled up yen short positions, particularly when it comes to the cross yen, but there will be some unwinding going forward. However, there remains a decisive yield gap. The pair's adjustment also took place at a breakneck speed, with this adjustment likely to be corrected in August, with the pair set to move somewhat bullishly.
Yamazaki	Bull	137.50 – 134.00	Amid a dearth of new factors, the dollar/yen pair may face some adjustment in August. The pair was already adjusted down to around 135 yen toward the end of July, but there remains a clear gap between Japanese and US interest rates, so the pair will move firmly on deep-rooted appreciatory pressure.
Ito	Bull	139.00 – 131.50	The FRB will remain in hawkish mode as it seeks to rein in high inflation. Inflationary expectations are falling on concerns the economy might stall on faster tightening, but with the situation fundamentally unchanged, there is also little room for US interest rates to fall. A lot will depend on the data, but the pair will probably rise again after a round of position adjustments.
Yamagishi	Bull	138.00 – 130.00	It seems a little premature to expect the FRB to call a halt to rate hikes as inflation peaks out. The BOJ also remains in easing mode as inflation remains on the supply side only, so the dollar looks set to remain bullish and the yen bearish. Japan's trade balance is also worsening on soaring resource prices, with the yen likely to continue moving bearishly on supply and demand factors.
Omi	Bear	136.00 – 131.00	The dollar/yen pair will move in a range between 131–136 yen this month. The dollar will continue rising and the yen falling on the divergent monetary policies of the US and Japan, but the pair's topside will be held down by concerns of a US recession and peaking inflation.
Kai	Bear	135.00 – 130.00	The dollar will continue to be sold in the short term on growing concerns about a recession. The dollar/yen pair has broken clearly through its 50-day moving average line, with investors now focusing on the weight of its topside. However, the situation in Japan remains unchanged, with Japan likely to be the only country with negative interest rates when September rolls around, so the pair's room on the downside will be capped.
Onozaki	Bull	139.00 – 130.00	With the dollar/yen pair falling sharply at the end of July, the time is ripe for some adjustment. There are concerns about a US recession, but with yen-buying factors thin on the ground, the pair will be bought when it dips to the lower-130 yen range. However, US interest rates have also stopped rising on FRB rate hikes, so the pair is unlikely to renew highs.
Harada	Bull	138.00 – 128.00	The dollar/yen pair's one-sided rise eased off last month. However, investors will continue to focus on the divergent monetary policies of the US and Japan. There could also be some risk appetite as stock markets undergo a summer rally, so the currency pair looks set to move firmly.

Katoono	Bear	135.50 – 127.00	With the July FOMC meeting over, there is a growing sense it will slow the pace of rate hikes after the next meeting. As such, the greenback will probably be sold as US interest rates peak out and the US economy slows. Market participants might test the dollar/yen pair's downside as yen shorts are unwound on shrinking Japanese/US interest-rate differentials.
Kobayashi	Bull	137.00 – 128.00	The dollar was sold at a faster pace on recessionary concerns towards the end of July, but stocks continue to move firmly. If yields on US treasuries recover after a round of selling, investors will probably test the dollar/yen pair's topside again.
Henmi	Bear	135.00 – 130.00	The dollar/yen pair has risen since March, but this trend came to an end as FRB hawkishness eased and investors focused on the risk of a recession. The pair had previously undergone a one-sided rise, so the time will be ripe for some adjustment in August.
Otani	Bull	138.00 – 130.00	The dollar/yen pair underwent some adjustment late July, but the FRB remains focused on fighting inflation, so the dollar will probably be bought again after a round of adjustment. The pair will also be pushed higher as the trend of US stock market correction draws to a close.
Suzuki	Bull	137.00 – 131.50	With the pace of FOMC rate hikes slowing and recessionary concerns growing, the dollar has stopped climbing. The dollar/yen pair's topside will grow slightly heavier, but this adjustment is likely to be short-lived given the ongoing divergence in BOJ and FRB policy, with the pair set to move firmly.
Kimura	Bear	136.50 – 129.50	The FOMC implemented a 75bps in July, but it is hard to imagine it hiking rates by a similar amount going forward. Yen short positions have piled up since April, but the situation is ripe for some profit taking, so the dollar/yen pair will probably move bearishly this month.
Okuma	Bear	135.00 – 130.00	Economic indicators are deteriorating, with uncertainty about the US economy growing. More observers are expecting rate hikes to end within the year, with rate cuts to follow next year. As US long-term interest rates fall, the dollar/yen pair will probably have its downside tested.

Hiroyuki Yamazaki, Global FI Team, Global Markets Trading Department

Euro – August 2022

Expected Ranges **Against the US$: US$0.9500–1.0500**
Against the yen: JPY133.00–142.00

1. Review of the Previous Month

The euro/dollar pair plummeted below parity in the first half of July on uncertainty about the European economy, though it rallied slightly late July after the ECB implemented a 50bp rate hike.

The pair moved around the mid-$1.040 at the start of the month. As uncertainty grew about the direction of Europe's economy, the pair plunged to around 20-year low of mid-$1.020 as concerns grew about a debt default by a German energy company and yields on European bonds fell. Meanwhile, the dollar was bought on bullish US economic indicators and the hawkish contents of the minutes to the FOMC meeting, so the pair continued falling toward the weekend to temporarily drop to around $1.01 on July 8.

This trend continued the following week. Concerns about an economic slowdown grew as central banks tightened policy. With Europe facing ongoing energy supply problems too, the pair edged lower. The pair fell to just above parity for a time on July 12 on the weak results of the German ZEW Indicator of Economic Sentiment for July. It then rallied for a time, but the euro was then sold on July 13 on the strong results of a US inflationary indicator, so the pair temporarily broke below parity for first time in around 20 years. The pair then recovered to $1.010 for a time, though it dropped back below parity again and crashed to $0.9952 on July 14. It then bounced back to around $1.010 toward the weekend on waning expectations for large-scale FRB rate hikes.

The pair rallied from the following week. The weekend's trend continued and the pair rose close to $1.020 on July 18 before shooting up to the upper-$1.020 mark on July 19 on rising European bond yields. It continued moving around the mid-$1.020 level on expectations that the ECB would hike rates when it met on July 21. However, it then dropped to the mid-$1.01 mark on July 20 on the lackluster result of the July European CPI data and political turmoil in Italy. The pair rose ahead of the ECB meeting on news that Russia and Germany had reached an agreement to resume natural gas supplies. When the ECB Governing Council met on July 21, it instituted a +50bp rate hike for the first time since June 2000, some 22 years ago. As a result, the pair temporarily surged to $1.0279. However, the pair dropped back to a level below $1.020 after ECB president Christine Lagarde said the terminal rate of hikes had not changed. It then fluctuated around $1.020.

The pair continued moving in the $1.020 range in the final week, though it then plummeted to the lower-$1.01 level as European bond yields fell on the announcement on July 26 that Russia would be placing further restrictions on gas supplies to Europe. FRB chair Jerome Powell struck a dovish tone in his press conference after the July 27 FOMC meeting, to the currency pair rose again to hit $1.020. It then plunged to the lower-$1.01 level on July 28 after the July eurozone sentiment survey deteriorated, for example, though the dollar/yen pair then fell sharply on news that US GDP had contracted by -0.9% in 2Q (forecast: +0.4%). The euro/dollar pair was also pushed up to temporarily climb to around $1.0250.

2. Outlook for This Month

There will be some adjustment in August on a sense that key factors are now out of the way, but the environment surrounding Europe remains tough, so although the euro/dollar pair will not undergo a one-sided slide, it is still expected to move bearishly this month.

The eurozone faces a mountain of problems. It faces restrictions on gas supplies from Russia owing to the Ukraine issue, for example. A further issue concerns the effectiveness of the ECB rate hikes and the Transmission Protection Instrument (TPI). There are also recessionary concerns and political turmoil in Italy, not to mention new Covid-19 outbreaks. As investors focus on a potential adjustment from September onwards, the currency pair is unlikely to undergo a one-sided fall in August. However, there are no European factors capable of pushing the pair higher, so the pair look set to move bearishly in August while showing some firmness when it draws close to breaking parity.

There is a chance the euro/dollar pair might rise on dollar bearishness. However, the FOMC instituted another 75bp in July to tackle inflation. The prognosis for future rate hikes has also been toned down slightly, with the FOMC also downgrading its outlook for the economy. As such, it is likely investors are already adjusting their bets on dollar bullishness. The pair's crash in the last week of July may be a sign of this adjustment. This trend will probably continue throughout August as investors seek new factors, with the euro/dollar pair set to trade bearishly yet firmly.

Dealers' Market Forecast

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

Bullish on the euro	6 bulls	1.0500 – 1.0000	Bearish on the euro	12 bears	1.0400 – 0.9900

* Ranges are central values

Name	View	Range	Comment
Yano	Bear	1.0300 – 0.9900	The euro/dollar pair dropped below parity for the first time in around 20 years in July, though it did not fall further. The pair will continue moving with a heavy topside on 'speculation about rate hikes to control inflation' and 'concerns about an economic slowdown in Germany and elsewhere on unstable gas supplies from Russia.'
Ushijima	Bear	1.0400 – 0.9800	Gas prices remain high in Europe and the gas supply problem is starting to hit the economies of Germany and so on. The ECB will also find it hard to lift rates at a fast pace given the economic differences within the eurozone. As the FRB continues to push forward with rate hikes, the euro/dollar pair will move bearishly to potentially break parity again.
Tsutsui	Bear	1.0350 – 0.9600	Stagflation is growing worse within the eurozone. After eliminating negative interest rates, the ECB will probably call a halt to rake hikes. Thereafter, it will probably focus its actions on periphery-nation bonds while monitoring economic conditions. Investors will test the euro/dollar pair's downside on the differential between US and European interest rates.
Kato	Bull	1.0500 – 1.0100	A lot depends on the how badly the Ukraine issue hits eurozone trade. When it comes to rate hikes, the ECB will shift gradually into wait-and-see mode, so the negative impact on the real economy will probably be minimized.
Yamazaki	Bear	1.0350 – 0.9950	The ECB has lifted policy rates and toughened its anti-inflation stance. The euro/dollar pair has rallied after breaching parity, but Europe still faces a number of problems. These include political instability in Italy, the impact of rate hikes on each country, and the problem of Russian gas supplies. After rallying, the pair will probably edge lower on economic uncertainty.
Ito	Bear	1.0400 – 0.9700	The FRB and ECB are both prioritizing the fight against high inflation, but the ECB also has to deal with the risk of internal market fragmentation. With recessionary concerns also growing on the energy problem, the forecast looks negative for the euro.
Yamagishi	Bull	1.0600 – 0.9900	The ECB is clearly prioritizing the fight against inflation. The euro/dollar pair will move firmly on expectations for continuous rate hikes until the start of 2023. Inflation is moving around 6–20% within the eurozone and there are also fiscal difference among countries. However, the ECB will probably remain hawkish after reaching a consensus on the TPI.
Omi	Bull	1.0500 – 1.0000	The euro will be pushed higher by ECB rate hikes. However, Europe faces an energy supply problem and there are also concerns about an economic slowdown on rate hikes, so the euro/dollar pair's rise will be capped.
Kai	Bull	1.0350 – 0.9950	Though the ECB eliminated negative interest rates in July, it will not be meeting again until September. Recessionary concerns are growing and there are fears about the direction of the European economy. Russia still controls the gas taps, so investors should watch out for euro selling too.
Onozaki	Bull	1.1000 – 1.0000	Europe has clearly embarked on a path of rate hikes. Though still concerning, the Ukraine situation is becoming less of a market theme. Investors have also priced in FRB rate hikes, so the euro will probably be bought on ECB rate hikes.
Harada	Bear	1.0600 – 0.9900	The euro/dollar pair will continue moving heavily on the Ukraine situation, etc. The ECB has eliminated negative interest rates, but with the FRB pushing forward with rate hikes, the euro/dollar pair will probably edge lower.
Katoono	Bear	1.0300 – 1.0000	The problem of Russian energy supplies is being compounded by the record hot weather, with concerns of stagflation emerging just as the ECB has embarked on rate hikes. The impact of the ECB's new TPI program will probably be muted too, with the normalization process facing numerous hurdles.

Kobayashi	Bear	1.0400 – 1.0000	Investors will find it hard to actively buy the euro given the slowing eurozone economy, Italian political instability, and geopolitical risk related to Ukraine, for example. As such, the euro is likely to remain bearish in August.
Henmi	Bear	1.0400 – 0.9800	Inflation remains high and there are also concerns about a European economic slowdown on the impact of geopolitical risk (including the problem of gas supplies). As such, the euro/dollar pair looks set to trade with a heavy topside.
Otani	Bear	1.0400 – 0.9800	The eurozone economy is slowing and there is also geopolitical risk related to the Italian general election and uncertainty about gas supplies. As such, investors will find it hard to actively buy the euro. The euro/dollar pair will continue to trade with a heavy topside in August.
Suzuki	Bear	1.0400 – 1.0000	The ECB implemented a rate hike, but there is uncertainty about the pace of rate hikes going forward. There are several negative factors, including the gas supply problem and political instability in Italy and elsewhere, so the euro/dollar pair will move with a heavy topside.
Kimura	Bull	1.0500 – 1.0000	The euro/dollar pair rallied after dipping below parity in July. The ECB is also likely to continue tightening as it prioritizes the fight against inflation. As such, investors will find it hard to test the pair's downside again. The pair will trade in a range while searching for a sense of direction.
Okuma	Bear	1.0350 – 0.9950	The Russian energy supply problem will not be solved any time soon. With demand set to climb ahead of winter, the ECB will find it harder to normalize monetary policy. The pair will also be weighed down by political instability in Italy and it might break below parity again.

Joseph McElhill, Europe Treasury Department

British Pound – August 2022

Expected Ranges **Against the US$: US$1.1800–1.2200**
Against the yen: JPY160.00–168.00

1. Review of the Previous Month

The pound fell against the dollar and yen at the start of the month, though it rose against the euro. It was bought back against the dollar and yen from mid- to late-July before falling back again.

Sterling opened the month trading at GBP0.8650 against the euro, with the pound then bought until GBP0.84, a level that had acted as a support line since May.

The greenback was bought against the other major currencies in the first half of the month as expectations for FRB rate hikes grew on bullish US indicators. With the eurozone facing several risk factors, including the problem of Russian gas supplies, the euro was sold particularly sharply against the dollar, with the euro/dollar pair dropping below parity. The GBP/USD also broke below $1.20 to temporarily dip under $1.18 on dollar buying.

Sterling also moved bearishly on the July 5 resignations of the UK Chancellor Rishi Sunak and UK Secretary of State for Health and Social Care Sajid Javid. The euro/dollar pair then bounced back. With Bank of England (BOE) Governor Andrew Bailey also hinting that rates could be lifted by more than 25bp at the August Monetary Policy Committee (MPC) meeting, the pound rallied to $1.19 and the upper-162 yen mark against its US and Japanese counterparts. It seems the pound rose on July 18 because BOE MPC member Michael Saunders made a comment that the BOE's policy rate would probably top 2%. With Saunders set to step down in August, though, the impact of his comments were muted and the pound's topside was held down.

From July 21, US interest rates fell as concerns about a US recession grew after the July Philadelphia Federal Reserve business confidence index fell significantly below expectations. The greenback was sold as a result. The GBP/USD pair also edged up to return to $1.20. The dollar was sold and the pound bought on July 27 after FRB chair Jerome Powell hinted at a slower pace of rate hikes at the FOMC meeting, with the GBP/USD pair opening July 28 trading at the upper-$1.21 level. It then moved with a heavy topside around $1.21. However, the greenback was sold again during the afternoon after the US 2Q GDP data dropped below expectations to post negative q-o-q growth, so the currency pair climbed back to the mid-$1.21 level at the month's end.

2. Outlook for This Month

The GBP/USD pair will move in a narrow range around $1.20 in August.

On the pound side, attention will be focused on the results of the August 4 BOE Monetary Policy Committee (MPC) meeting. At the time of writing on July 27, the consensus is for a 0.50% rate hike. This is mainly due to a comment by BOE Governor Andrew Bailey. With the inflation outlook for October topping 11%, Bailey hinted on July 19 that rates could be lifted by 0.50% at the next meeting (August meeting).

The pound was bought as investors priced in the rate hike, but it seems the markets have interpreted the potential

50bp rate hike as just an 'acceleration' rather than a lifting of the final target of the rate-hike cycle.

As of July 19, moves in the interest rate futures market suggested investors were expecting the rate-hike cycle to peak out at 3.11% at the June 2023 MPC meeting. However, by July 22, after they had assimilated the aforementioned comments, investors were now expecting rates to peak out at 2.90% in February 2023, some four months earlier and 0.2% lower. The markets have already factored in a 50bp rise in August and the pound might fall sharply if expectations for 2022 rate hikes fall on dovish comments by Governor Bailey, so caution will be needed.

Attention should also be paid to the Conservative Party leadership race, set to run until September. Recent polls suggest Foreign Minister Liz Truss is in the driving seat. However, there are lots of question marks about her ability to run the economy. She has called for tax cuts (and an end to tax rises) without saying how they would be paid for, for example, and she also said the UK could learn from Japan when it came to tackling inflation. Market participants will need to monitor opinion polls going forward, but it seems likely the pound will strengthen if a Sunak victory looks likely or weaken if Truss looks likely to become the next prime minister.

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

Australian Dollar – August 2022

Expected Ranges **Against the US$: US$0.6680–0.7200**
Against the yen: JPY91.40–96.20

1. Review of the Previous Month

The AUD/USD pair renewed a 2022 low in the first half of July as the greenback was bought on recessionary concerns and expectations for sharp rate hikes by the FRB. After hitting a 2022 low of $0.6682 on July 14, the pair then rose from $0.66 to $0.70 in the latter half of the month as investors moved to price in a 0.75% rate hike at the end-of-month FOMC meeting, down from the previous +1.0% forecast.

At the start of the month, investors moved to factor in a +50bp rate hike at the July 5 RBA meeting. With reports also saying the US would soon be lifting some sanctions on Chinese goods, the currency pair rose to just before $0.69. The RBA's June statement had said "the central scenario is for strong household consumption growth," but this phrase was absent from the July statement, while a phrase about how "higher inflation and higher interest rates are putting pressure on household budgets" was newly added. The greenback was bought as demand for safety grew on recessionary concerns, with the currency pair sliding to $0.6762. On July 8, the US dollar was bought and the AUD/USD pair moved with a heavy topside on the strong results of the US June employment data. Recessionary concerns eased slightly, but it then became apparent that the FRB now had more room to continue hiking rates to fight inflation. With concerns about further Chinese lockdowns also smoldering away, US stock futures and crude oil prices fell, so the Australian dollar was sold and the pair temporarily fell to $0.6716.

The US posted a strong CPI figure of +9.1% y-o-y on July 13, with the pair then dropping to $0.6726 as the US dollar was bought on expectations for FRB rate hikes. The pair strengthened to around $0.6785 on July 14 on the firm results of the Australian June employment data, but the greenback was then bought after the US June PPI data pointed to strong final demand growth, so the pair renewed a low at $0.6682. A sense of relief then grew after FRB governor Christopher Waller voiced support for a 0.75% rate hike. As stock market losses were pared back, the currency pair rallied to the mid-$0.67 level. US interest rates fell and the US dollar was sold on July 15 on a lower expected inflation rate in the July University of Michigan Consumer Sentiment Index.

In the latter half of the month, several FRB officials ruled out very large rate hikes and voiced support for a 0.75% hike. This led to waning market expectations for a 1% hike at the next FOMC meeting. As expectations for a +100bp hike waned on the results of the July University of Michigan Consumer Sentiment Index, the greenback was sold and the currency pair rose to the mid-$0.68 mark. The Australian dollar was bought on July 19 on the hawkish content of the minutes to the RBA board meeting. The Australian 2Q CPI figure dropped below expectations on its release on July 27, but with the FOMC expressing caution about further rate hikes, the US dollar was sold and the pair hit the $0.70 range. Anticipation for a faster pace of US rate hikes waned toward the end of the month. As yields on US treasuries fell, the US dollar was sold at a faster pace and the currency pair jostled around $0.70.

2. Outlook for This Month

As excessive expectations for accelerated US rate hikes drop off, the AUD/USD pair will be continue to face some adjustment in the first half of August.

The Australian 2Q year-on-year CPI data was released in July. Both core and overall CPI were up sharply on the previous figures, with Treasurer Jim Chalmers saying the inflation rate would peak out at 7.75% within the year. Price stability is the RBA's main priority right now, with the central bank likely to prioritize moves to keep inflationary expectations in check. As such, the RBA will probably remain committed to rate hikes. Several regional Australian banks have upgraded their policy rate forecasts on expectations for faster RBA rate hikes, with the cash rate set to rise to around 3% by the year's end. The July RBA statement hinted that household spending was weakening on sharp rate hikes, so market participants should remain vigilant for any policy tweaks by the RBA.

With regards to the US, at one point investors had been expecting the FOMC to implement a 1% rate hike when it met over July 27‑28, but the FRB has subsequently adopted a cautious stance towards the prospect of faster rate hikes, so excessive recessionary concerns have eased and the currency pair's losses from the first half of July have been pared back. This adjustment will probably continue for a while and this will support the Australian dollar in the first half of August.

However, US economic indicators continue to hint at an economic slowdown, so if it seems US rates could be lifted by 0.75% or more, the AUD/USD pair's downside will be tested again as investors flee back to the US dollar on renewed recessionary concerns. Furthermore, a glance at the Australian dollar's seasonality chart these past ten years suggests August is typically a bad month, when stocks are prone to falling and risk aversion subsequently prone to rising, with the currency pair often moving with a heavy topside in August. This tendency should also be borne in mind.

Yasuko Iwata, Canada Office, Americas Treasury Department

Canadian Dollar – August 2022

Expected Ranges **Against the US$: C$1.2700–1.3200**
Against the yen: JPY100.00–110.00

1. Review of the Previous Month

The USD/CAD pair opened the month trading at C$1.2893.

The start of the month saw growing concerns about an economic recession due to rising interest rates. Crude oil, copper and other commodity prices fell sharply, with WTI futures prices dropping below $100/barrel. The greenback was bought and the currency pair topped its June 17 level of C$1.3079 to hit C$1.3084 on July 15.

The Canadian June net change in employment figure was released on July 8. The figure unexpectedly fell for the first time since January this year, but the unemployment rate also fell from 5.1% to a record low of 4.9%. Average hourly wages of full-time workers also shot up by +5.6% year-on-year (May: +4.5%), with a 0.75% rate hike at the July Bank of Canada (BOC) meeting now seeming more likely. However, the US also released some bullish June employment data on the same day. Amid expectations that the FRA would continue to actively lift rates, the USD/CAD pair moved from the lower-C$1.29 level to the mid-C$1.30 mark.

When the BOC met to set policy on July 13, it sprung a surprise when it implemented a 1% rate hike for the first time since 1998. The overnight rate was lifted from 1.50% to 2.50%, its highest level since October 2008. With inflation topping forecasts and inflationary expectations also rising, the BOC reiterated it would accelerate the pace of rate hikes. In his press conference, BOC Governor Tiff Macklem said the goal of the recent rate hike was to "get our policy rate quickly to the top end or slightly above the neutral range (2–3%)."

With the BOC implementing a 1% rate hike, speculation then grew that the FOMC might also hike rates by 1% when it met in July. The greenback strengthened against all the major currencies, with the USD/CAD pair hitting C$1.31 for the first time since November 2020 before climbing temporarily to C$1.3224.

However, no FRB officials came forward to support a 1% rate hike. With the US also posting some bearish economic indicators, the US dollar was sold over the latter half of the month, with the currency pair trading below C$1.30.

As expected, the FRB implemented a 0.75% rate hike when the FOMC met on July 27. In the subsequent press conference, FRB chair Jerome Powell said the FF rate would probably be lifted to 3–3.5% by the year's end. The markets had already priced in rate hikes up to 3.5%, so US interest rates actually crashed back after the announcement. The US dollar was sold and the Canadian dollar bought, with the currency pair bought back to the lower-C$1.28 mark towards the month's end.

2. Outlook for This Month

The Bank of Canada (BOC) will not be meeting in August, with the next meet-up penciled in for September 7. As of July 28, the markets were expecting the BOC to lift rates by 0.50–0.75% at the next meeting. However, housing-

related indicators have moved bearishly recently on rising mortgage rates, so the likelihood of a 0.75% rate hike has fallen.

The markets are now focusing on the possibility of a recession, so investors will need to monitor global economic trends going forward.

Canadian economic indicators like the employment data and inflation rate will also need monitoring. Household debt ratios have also risen beyond US levels, mainly due to rising mortgage rates, so housing-related indicators will require particular attention.

If recessionary concerns grow from here on, crude oil prices will probably fall and there is unlikely to be strong appetite for Canadian-dollar buying.

With the greenback being sold after the July FOMC meeting, the USD/CAD pair might drop to C$1.26–1.27 for a time. This trend will be short-lived, though, with the pair set to trade in a range from C$1.27–1.32 in August.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – August 2022

Expected Ranges **Against the US$: KRW 1,280–1,330**
Against the yen: JPY 10.204–10.638 (KRW 100)

1. Review of the Previous Month

The USD/KRW pair moved firmly in July.

The pair opened the month trading at KRW1290.0 on July 1. This represented its monthly low, with the pair soon moving firmly on the announcement that South Korea's June trade deficit had hit a record high.

The pair opened the next week trading at KRW1299.5 on July 4. It then moved with a lack of direction around KRW1300 toward July 5. However, the won was sold by speculators in the NDF market during overseas trading time on July 5, with the pair rising to the KRW1315 mark in tandem with the NDF rate.

The US released some bullish employment data during overseas trading time on July 8, with the pair opening the next week trading at KRW1297.0 on July 11. The pair then rose as risk aversion swept the markets on concerns about lockdowns in China on a resurgence of Covid-19 cases. The BOK implemented a 50bp rate hike (1.75%→ 2.25%) when it met on July 13. In his press conference, the BOK governor also said inflation would peak some time between the latter half of 3Q and the first half of 4Q, with the policy rate expected to rise to around 2.75%–3.00% by the year's end. This result was broadly as expected, but the pair then dropped back slightly on what appeared to be an intervention by the authorities. However, the US then released some worse-than-expected June CPI data during overseas trading time, so some investors began to factor in a 1% rate hike at the July FOMC meeting. Under these circumstances, the USD/KRW pair strengthened to a monthly high of KRW1326.7 on July 15.

There was a dearth of new factors in the first half of the week beginning July 18, with the currency pair falling as overseas investors bought South Korean stocks and the RMB appreciated on bullish Chinese stocks. The pair's topside was also capped by hopes for progress in talks over a currency swap agreement during US treasury secretary Janet Yellen's visit to South Korea, with the pair dropping to KRW1302.8 on the morning of July 20. Stocks fell and bonds rose in the latter half of the week as the markets focused on recessionary concerns after the ECB unexpectedly implemented a 50bp rate hike.

The currency pair then moved with a lack of direction as the dollar was sold and overseas investors sold South Korean stocks. The FOMC implemented a 75bp rate hike on July 27, but FRB chair Jerome Powell then commented that the pace of rate hikes would depend on inflation indicators going forward and he hinted that the FF rate would reach the lower-3.0% range by the year's end, so the greenback was sold across the board. The pair fell at the month's end as the won was bought on real demand, with the pair closing at KRW1299.1, up 0.7 won on the end of June.

2. Outlook for This Month

The USD/KRW pair is expected to move more-or-less flatly in August.

The pair will be swayed by three main factors this month:

(1) Inflationary changes and FRB monetary policy, (2) BOK monetary policy, and (3) soaring resource prices and supply chain turmoil due to geopolitical risk surrounding Russia and Ukraine.

As for (1), the FOMC implemented a 75bp rate hike when it met on July 27. In his press conference, FRB chair Jerome Powell said the FRB would continue to lift rates to tackle inflation, though he also predicted the FF rate would end the year in the lower-3% range, thus raising the possibility that the FOMC might not implement a 75bp rate hike in September. With the economy slowing and the expected inflation rate falling on recent rate hikes, interest rates are falling, with Mr. Powell's comments also supporting this trend. A lot will depend on the results of the CPI data (released August 10), but the markets are factoring in a lull in dollar buying.

With regards to (2), the BOK implemented a 50bp rate hike (1.75%→2.25%) when it met on July 13. It might implement another 50bp hike in August, with the BOK clearly prioritizing the fight against inflation. The authorities have also expressed concerns about the USD/KRW pair's excessive rise, so this could also slow the pair's upwards trajectory.

As for (3), soaring resource prices continue to act as an inflationary factor, with Russia turning off some gas pipelines, for example. Furthermore, the won is facing less buying pressure on the real-demand front as South Korea's current account balance deteriorates on supply chain turmoil related to Chinese lockdowns, for example.

In addition to the above, the won is also being sold as overseas investors sell South Korean stocks intermittently as funds flow to the dollar. Under these circumstances, the USD/KRW pair will probably trade in a range at highs around KRW1,300.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – August 2022

Expected Ranges **Against the US$: NT$29.75–29.99**
Against the yen: JPY4.45–4.66

1. Review of the Previous Month

In July, the Taiwan dollar fell to its lowest level against the US dollar in roughly two years.

The USD/TWD pair opened the month trading at TWD29.790 on July 1. The Taiwan dollar was sold as overseas investors repatriated funds, with the pair subsequently rising to around TWD29.83 on July 6. The Taiwan Capitalization Weighted Stock Index had dipped below 14,000 points, but it now rallied, so the Taiwan dollar was bought and the currency pair temporarily recovered to around TWD29.75 on July 8.

The pair then hit TWD29.9 on July 12 as the Taiwan Capitalization Weighted Stock Index dipped back below 14,000 points after Taiwanese stocks were sold on concerns about a global recession. However, Taiwanese stocks bounced back on July 13 on news the Taiwan's National Financial Stabilization Fund had decided to intervene in the stock markets, so the Taiwan dollar was bought and the pair returned to around TWD29.85. The US dollar strengthened across the board on July 14 after the US June CPI figure hit a higher-than-expected 9.1%. The Taiwan dollar was sold again, with the currency pair climbing to around TWD29.96 on July 15. This trend faced some adjustment following the release of the July University of Michigan Consumer Sentiment Index, so the pair temporarily dropped to around TWD29.92, though it then rose to TWD29.982 on July 19.

The Taiwan dollar was bought as Taiwanese stocks bounced back on July 20, with the pair sliding to around TWD29.85, though it then returned to TWD29.9 as the greenback was bought by importers. Taiwanese stocks fluctuated gently thereafter, but the US dollar faced more buying pressure as overseas investors repatriated dividends received from Taiwanese companies. However, exporters then sold the greenback at the month's end, so the pair continued trading with a lack of direction in a range around the lower-TWD29.9 mark.

2. Outlook for This Month

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

US long-term interest rates stopped soaring in July, with the trend of Taiwan-dollar bearishness also easing off. As recessionary concerns grew, though, the Taiwan Capitalization Weighted Stock Index temporarily dipped below 14,000 points to hit its lowest level in roughly 19 months. However, this did not lead to the kind of sharp Taiwan-dollar depreciation seen in March and April.

The currency pair will probably trade with a heavy topside in August. There are concerns exports might fall as the economy slows, but exports and export orders remains on an upwards trajectory at the moment. In April, the export orders amount contracted on the same period the previous year, but this was a transitory blip caused by Chinese lockdowns, with the figure returning to positive territories in May and June. The export amount is increasing, but y-o-y growth still remains more-or-less flat owing to the impact of Chinese lockdowns. There are worries about the spread of new Covid-19 variants, but if the impact of Chinese lockdowns eases, exports will probably pick up.

Furthermore, though commodity prices soared on recessionary concerns, the situation is calming down now, with the record-high import amount also set to fall. If it seems Taiwan's trade surplus will expand, the USD/TWD pair will probably trade with a heavy topside just below the key TWD30 mark, even if concerns of a global recession climb.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – August 2022

Expected Ranges **Against the US$: HK$ 7.8400–7.8500**
Against the yen: JPY 16.50–17.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

HKD spot returned to its weak-side convertibility undertaking of 7.85, as the Fed is set to maintain its aggressive tightening cycle to restore price stability. As the HKD rates came off from its half-year high, USD-HKD interest rate spread was widening again, reviving the carry trade of long USD/HKD spot. Indeed, the T/N HKD forward dropped to average -3points per day and the carry trade flow returned. The fading HKD buying flow for dividend payment from Chinese firms and moderating Stock Connect inflow in July also contributed to the HKD weakness. Meanwhile, the HK recovery remained on track. Despite the pick-up in infected cases, HK government refrained from tightening the social distancing measures. PMI eased but stayed above 50 expansionary mark. The unemployment rate dropped dramatically to 4.7% from 5.1%, while retail sales figure was distorted by the consumption voucher distribution.

Hong Kong dollar interest rate market in July

HKD HIBOR curve climbed the new highs in the current Fed's rate hike cycle. In early July, 1-month HKD HIBOR came off briefly as seasonal HKD funding demand waned. However, the soaring US CPI Inflation to 9.1%YoY consolidated expectation for Fed's aggressive rate hikes and 1-month HIBOR jumped towards 1%. 3-month HKD HIBOR climbed robustly towards 2% alongside the decline in HKMA aggregate balance, which fell below HKD 200bn after the frequent HKMA's FX intervention. Against the USD rates, 1-month and 3-month HKD HIBOR – USD LIBOR spread dropped to -120bps and -80bps from -90bps and -50bps, respectively. With rising US recession risk and the possible Fed's rate cut cycle in coming years, the HKD IRS curve was fluctuating at above 3%.

2. Outlook for This Month

Hong Kong dollar spot exchange market in August

With more Fed's aggressive rate hike on the table and fading dividend flow from Chinese corporate, the HKD spot is likely to stick to its weak-side convertibility undertaking of 7.85 level. Considering relatively ample HKD liquidity condition, the negative HKD-USD rate spread and the ongoing carry trade of long USD/HKD spot will leave the HKD under pressure at near 7.85. Moreover, the moderating Stock Connect inflow to HK equities due to the China Covid spread and property sector rout will weigh on the HKD spot. IPO activities remained subdued and the related capital inflow is unlikely to boost the HKD spot. With T/N HKD forward staying at around -3points per day, the carry trade flow of long USD/HKD spot will remain the dominant factor to drive HKD weakness.

Hong Kong dollar interest rate market in August

Following the HKMA's frequent FX intervention to defend the USD-HKD peg, the HKMA aggregate balance outstanding could drop towards the threshold of HKD 100bn sooner than expected. Before reaching this threshold, HK banks are preserving more cash balance to prepare the shrinking HKD liquidity pool. We maintain our call that HK banks will raise the prime rate in late September after the FOMC meeting. From the perspective of banking business, the narrowing 1-month HIBOR – prime rate spread will motivate HK banks to raise the prime rate. We expect HK banks to raise prime rate when 1-month HIBOR rose to above 2%. HKD IRS curve is expected to fluctuate given uncertainties over Fed's rate cycle to fight the inflation and recession risk in coming years.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – August 2022

Expected Ranges **Against the US$: CNY 6.6000–6.9500**
Against the yen: JPY 19.14–21.21

1. Review of the Previous Month

In July, the U.S. dollar/Chinese yuan exchange market opened at the CNY 6.69 level and rose to temporarily reach the CNY 6.77 level.

On July 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.69 level. While market participants were waiting for the U.S. to cut tariffs on Chinese goods, there was no concrete announcement on this matter during the U.S.-China dialogue held on July 5. Thus, the reaction in the market was minimal. In the evening of the same day, the U.S. dollar appreciated, while the euro depreciated further, and this led the U.S. dollar/Chinese yuan exchange rate to rise to the lower-CNY 6.72 level. However, on July 6, the following day, the U.S. dollar/Chinese yuan returned to the CNY 6.70 level, and the exchange remained at the same level in the second half of the week.

On July 11, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.69 level. Market participants remained cautious about the June Consumer Price Index (CPI) of the U.S., which was to be out in the middle of the week, as well as the possible spreading of Covid-19 cases in China. Thus, the U.S. dollar/Chinese yuan exchange rate remained high and stable. On July 14, after the announcement of the CPI of the U.S., the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 6.76 level.

On July 18, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.74 level. As market participants were no longer expecting the Federal Open Market Committee (FOMC) to raise its policy interest rate by 100 basis points at the upcoming meeting, U.S. dollar-selling dominated the market at the beginning of the week, and the U.S. dollar/Chinese yuan exchange rate fell to the lower-CNY 6.73 level. Thereafter, the Chinese yuan depreciated due to concerns over an increase of Covid-19 cases in China. Consequently, the U.S. dollar/Chinese yuan exchange rate rose to once reach the lower-CNY 6.77 level.

On July 25, the U.S. dollar/Chinese yuan exchange market opened at the mid-CNY 6.75 level. During the first half of the week, the exchange rate did not move in any direction, as market participants were waiting for the FOMC meeting. However, in the evening of July 27, the FOMC mentioned a possible slowdown in its interest rate hikes, which encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell from the CNY 6.76 level on July 27 at market closing to the CNY 6.74 level on July 28 at market opening.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain robust in August.

From the end of April to the middle of May, the Chinese yuan depreciated at a record rate, due to a growing sense of uncertainty over the Chinese economic outlook based on the reinforced quarantine measures in Shanghai

as well as on speculations about further measures of monetary easing by the Chinese monetary authorities. In the end, the Chinese monetary authorities announced some economic stimulus measures. However, at the current moment, the one-year LPR, which is the base rate for corporate loans, has been maintained at 3.70% (the last cut was in January 2022), while the five-year LPR, which is used as the housing loan interest rate, was cut only by 15 basis points to 4.45% in May. On the other hand, China's second-quarter GDP was announced in July, recording negative growth of -2.6% compared to last quarter. Furthermore, the International Monetary Fund (IMF) revised downward the 2022 growth rate outlook for China by 1.1 points to 3.3%. Thus far, there has been no policy measure that can impact the foreign exchange market. However, the persistent recession in China that has resulted from the zero Covid policy is likely to remain a factor for the depreciation of the Chinese yuan, keeping the U.S. dollar/Chinese yuan exchange rate from falling.

In terms of securities investment flow from overseas investors into the financial market, there has been only a small capital inflow into the stock market, and there has been a monthly net sell in the bond market since February. Few factors for the appreciation of the Chinese yuan include the robust trade balance. However, in China, there are more factors to lead the Chinese yuan to depreciate against the U.S. dollar.

In the money market, the liquidity level remains high, and thus the overnight SHIBOR once fell below the 1% level in July. The interest rate differentials between the U.S. and China have been widening, which is also likely to support the appreciation of the U.S. dollar against the Chinese yuan.

However, in the U.S., there have been discussions about a recession. Thus, it is possible for the U.S. dollar/Chinese yuan exchange rate to fall based on the weakening of the U.S. dollar. Thus, market participants should remain attentive of U.S. economic indices as well as remarks by Federal Reserve Board (FRB) officials.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – August 2022

Expected Ranges **Against the US$: SG$ 1.3700–1.4420**
Against the yen: JPY 92.50–102.00

1. Review of the Previous Month

In July 2022, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the Singapore dollar depreciated gradually against the U.S. dollar. The U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.40 level, as U.S. stock prices fell, and U.S. economic indices were released with weak figures. Furthermore, on July 5, concerns over the European economy grew due to uncertainty about gas supply from Norway, and this fuelled demand for the U.S. dollar as a safe asset. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.40 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range toward July 14. Waiting for the announcement of the June Consumer Price Index (CPI) of the U.S., the overall Asian currencies strengthened slightly. However, the CPI turned out to be above the estimated level, and this temporarily led the exchange rates to fluctuate violently. The U.S. dollar strengthened again, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.41 level.

On July 14, the Monetary Authority of Singapore (MAS) made an emergency revision to its monetary policy without waiting until the regular meeting scheduled for October and announced its decision to raise the mid-point of the nominal effective exchange rate (NEER). This revision was intended to lead the Singapore dollar to appreciate, and the slope and width of the NEER were maintained at the existing levels. This announcement turned out to be a surprise in the market, and, as a result, the Singapore dollar once appreciated sharply. The Singapore dollar appreciated against the U.S. dollar as well, and the U.S. dollar/Singapore dollar exchange rate fell from the upper-SGD 1.40 level to the mid-SGD 1.39 level. However, on July 15, the GDP of China for the April-June quarter was announced, and the result was below the estimated level. In reaction, the overall Asian currencies weakened. Following this trend, the Singapore dollar also weakened, and the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.40 level again.

Thereafter, the attention of market participants shifted to the European Central Bank (ECB) and the Federal Open Market Committee (FOMC). While many expected the ECB to raise its policy interest rate significantly, the stock market in Asia remained robust. The U.S. dollar/Singapore dollar exchange rate fell gradually to reach the lower-SGD 1.39 level. At the meeting, the ECB announced its decision to raise the policy interest rate by 50 basis points. In reaction, the U.S. dollar weakened, while the euro strengthened. Following this trend, the Singapore dollar appreciated. On July 22, interest rates in the U.S. fell, as the PMIs (Purchasing Managers' Index) of the eurozone and the U.S. declined. While the U.S. dollar remained weak, the U.S. dollar/Singapore dollar exchange rate fell to the SGD 1.38 level.

On July 27 and 28, an FOMC meeting was held, at which the policy interest rate was raised by 75 basis points, as had been anticipated in the market. Federal Reserve Board (FRB) Chair Jerome Powell mentioned a possible slowdown of interest rate hikes in the times ahead, by emphasizing that the pace of interest rate hikes would depend on economic data. On July 28, local time, the real GDP of the U.S. for the April-June quarter was announced, and

the result turned out to be low, which led interest rates in the U.S. to fall, and the U.S. dollar remained weak. As a consequence, the Singapore dollar strengthened, and the U.S. dollar/Singapore dollar exchange rate has been fluctuating at the upper-SGD 1.37 level (as of July 29).

2. Outlook for This Month

In August 2022, the Singapore dollar is forecast to continue weakening against the U.S. dollar.

On July 14, the Monetary Authority of Singapore (MAS) revised its monetary policy without waiting until the regular meeting scheduled for October and announced its decision to raise the mid-point of the NEER. This revision was intended to lead the Singapore dollar to strengthen, and the slope and width of the NEER were maintained at the existing levels.

In general, the MAS revises its monetary policy twice a year, in April and October. However, since the meeting held in October last year, the MAS has revised its monetary policy intermittently through its extraordinary meeting held in January and April this year. Thus, measures of monetary tightening were announced four consecutive times. In addition to the revision of monetary policy, the MAS released a statement as of this writing to emphasize that it would be necessary to continue carrying out appropriate monetary tightening in the times ahead, given the rise of the inflation rate and the steady economic recovery. Furthermore, the preliminary figure of the second-quarter GDP was also announced, and the result was +4.8% year-on-year. This confirmed an acceleration from the first-quarter period, at which the result was +4.0% year-on-year. On this point, the MAS commented that the acceleration was mainly due to the fact that most of the restrictions on domestic and international movement were lifted. On the other hand, the MAS did not deny the possibility for the global recession to negatively impact the Singapore economy in the times ahead, estimating the annual GDP growth outlook for 2022 to be 3–5%, while expecting the growth outlook for 2023 to be more moderate. The MAS also commented that global inflation pressure was likely to remain high for several months, estimating the core inflation outlook to be 3.0–4.0% by revising upward the previous estimate (2.5–3.5%). With a growing sense of uncertainty concerning inflation and economic growth, MAS will continue cautiously observing the economic conditions both inside and outside the country.

Even with such a hawkish revision of the monetary policy by the MAS, the U.S. dollar remains high, and this trend is likely to continue for a while. The U.S. dollar has currently been strengthening further, thanks to two factors: demand to buy the U.S. dollar based on the intermittent interest rate hikes in the U.S. and on the depreciation of Asian currencies (i.e., the appreciation of the U.S. dollar), based on growing concerns over an economic downturn. For such a trend to change, it would be necessary for the FRB to slow down its intermittent interest rate hikes. However, given the U.S. inflation indices, which remain high, the FRB is likely to remain hawkish for a while.

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

Thai Baht – August 2022

Expected Ranges	**Against the US$: THB 36.20–37.30**
	Against the yen: JPY 3.66–3.80

1. Review of the Previous Month

In July, the Thai baht reached its weakest rate against the U.S. dollar since 2006. The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35 level and rapidly rose to the upper-THB 35 level, as market participants were concerned about an economic recession resulting from measures of monetary tightening taken by various central banks. Thereafter, market participants continued selling risk assets with concerns over the declining corporate performance of a major energy company in Germany as caused by the uncertain supply of natural gas from Russia, as well as with concerns over a possible economic downturn in Europe caused by the rise of energy prices. Furthermore, market participants were also concerned about a possible lockdown measure to be introduced again in China, as a highly contagious Covid variant was replacing the previous one and as large-scale Covid testing started again in Shanghai. As a result, the U.S. dollar/Thai baht exchange rate exceeded the THB 36 mark and reached a level at around the THB 36.30 level.

In the middle of the month, the Thai baht weakened further before the announcement of the Consumer Price Index (CPI) of the U.S. scheduled for July 13. The June CPI of the U.S. turned out to be above the market estimate, fueling expectations for the Federal Open Market Committee (FOMC) to raise its policy interest rate by 100 basis points at the July meeting, as the central bank of Canada had also raised its policy interest rate by 100 basis points. Thereafter, interest rates in the U.S. fell due to concerns over an economic downturn in the U.S. resulting from the probable large-scale policy interest rate hike. In reaction, the U.S. dollar weakened temporarily. However, the Thai baht also weakened with disappointment in the market, as the central bank of Thailand did not hold an extraordinary meeting until the regular meeting scheduled for August, while the second-quarter GDP of China turned out to be weak. The U.S. dollar/Thai baht exchange rate therefore remained stable, fluctuating within a narrow range between the mid-THB 36 level and the upper-THB 36 level.

At the end of the month, capital outflow from emerging countries increased on July 21, as market participants continued expecting the Federal Reserve Board (FRB) to rapidly raise its policy interest rate. Foreign investors thus actively sold Thai stocks and bonds. Furthermore, market participants were cautious about the possibility of a lockdown measure to be introduced again in China, which would also impact the supply chain. As a consequence, the Thai baht weakened further, and the U.S. dollar/Thai baht exchange rate once approached the THB 37 level on July 21. However, on the same day, local time, business confidence in the U.S. turned out to be weak, leading interest rates in the U.S. to fall. Thus, the U.S. dollar/Thai baht exchange rate did not rise further. On July 22 and thereafter, market participants started actively selling the Thai baht in reaction to the dovish remark made by the governor of the central bank of Thailand. However, the U.S. dollar/Thai baht exchange rate fluctuated mainly at the upper-THB 36 level, as market participants were waiting for the FOMC meeting in the U.S. scheduled for July 27. On July 27, the last business day in July in the Thai financial market, most transactions in the market seemed to have been carried out to adjust positions before four consecutive holidays in Thailand and before the

announcement of the outcome of the FOMC meeting in July.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain stable in August. As of the time of this writing, most market participants expect the central bank of Thailand to raise its policy interest rate by 25 basis points at its Monetary Policy Committee (MPC) meeting in August. However, most surrounding countries have raised their policy interest rate by 50 basis points or more. Under such circumstances, there would be almost no impact in the market even if the central bank of Thailand decided to raise its policy interest rate as well. On the contrary, if there is no clear intention of interest rate hikes included in the statement to be published after the MPC meeting, market participants might even sell the Thai baht with disappointment, as was seen in July.

Furthermore, the number of new Covid-19 cases has started to increase again in China, making it unlikely for the Chinese authorities to make any change to its zero Covid policy before the National Congress of the Chinese Communist Party, scheduled for autumn. Thus, it is difficult to expect the number of tourists in Thailand to recover via China, which was the country of origin of the largest number of tourists in Thailand before the Covid-19 pandemic. This also means that the Thai baht is likely to start strengthening later than originally estimated by the central bank of Thailand.

In the U.S., the foremost priority of the FRB is to control inflation, and it would take some more time (with economic indices suggesting a slowdown of inflation) for the FRB to be less aggressive. Market participants are likely to face concerns over an economic downturn in the U.S. as caused by the continued interest rate hikes by the FRB. Therefore, if long-term interest rates, such as the 10-year U.S. government bond yield, seem to have peaked out, the U.S. dollar, which so far has continued appreciating since the beginning of the year, could weaken to some extent, slowing down the rise of the U.S. dollar/Thai baht exchange rate. However, even in such a phase, market participants are likely to sell risk assets such as U.S. stocks, strengthening pressure on capital outflow from emerging countries. Thus, the U.S. dollar/Thai baht exchange rate is not likely to fall significantly.

For the above reasons, the Thai baht is generally forecast to remain at its weakest against the U.S. dollar in approximately 16 years. However, market participants should remain attentive, as the U.S. dollar/Thai baht exchange rate could fluctuate if any indications are given at the FOMC meeting in September at Jackson Hole Economic Symposium, which is to start on August 25.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2022

Expected Ranges **Against the US$: MYR 4.40–4.50**
Against the yen: JPY 30.30–31.25

1. Review of the Previous Month

In July, the Malaysian ringgit continued depreciating almost one-sidedly, and the U.S. dollar/Malaysian ringgit exchange rate remained at the MYR 4.45 level—seen for the first time since the Asian financial crisis in 1997.

At the beginning of the month, the central bank of Malaysia decided to raise its policy interest rate by 25 basis points on July 6 for the second consecutive time after the first decision in May. The policy interest rate was set at 2.25%. At the meeting, the central bank confirmed that interest rates were currently at a historically low level and that Malaysia was in the middle of a process to normalize such. Furthermore, the central bank confirmed that the domestic economy has continued to grow. As other major countries are raising their policy interest rate, the central bank of Malaysia is also planning to raise the policy interest rate at future meetings. As the interest rate hikes announced this time had already been anticipated in the market, reaction in the market was limited. On the other hand, the minutes of the Federal Open Market Committee (FOMC) meeting were released on the same day at New York local time, confirming the view that measures to control inflation would be taken even if such would impact economic growth. As a result, market participants bought the U.S. dollar and sold the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate once reached MYR 4.43.

In the middle of the month, market participants continued buying the U.S. dollar and selling the Malaysian ringgit. On July 13, the June Consumer Price Index (CPI) of the U.S. turned out to be +9.1%—exceeding the market estimate. As the CPI recorded its largest growth in approximately 40 years, market participants expected the FOMC to raise its policy interest rate by 100 basis points at its meeting scheduled for July 28, leading the U.S. dollar to appreciate. Then, on July 14, the following day, the Malaysian ringgit continued depreciating, and the U.S. dollar/Malaysian ringgit exchange rate rose to approach MYR 4.449, which was observed at the time of the first wave of the Covid-19 pandemic in March 2020. Thereafter, the U.S. dollar continued appreciating, and the euro/U.S. dollar exchange rate fell below parity for the first time in approximately 20 years. Following this trend, the depreciation of the Malaysian ringgit accelerated further. On the other hand, in the Japanese yen exchange market, the Japanese yen continued depreciating one-sidedly, and the U.S. dollar/Japanese yen exchange rate reached the JPY 139 level for the first time since 1998. In reaction, the Malaysian ringgit/Japanese yen exchange rate also reached the JPY 31.30 level. Furthermore, the central bank of Canada decided to raise its policy interest rate by 100 basis points, while in Asia, the policy interest rate was raised by 50 basis points in South Korea and by 75 basis points in the Philippines. Singapore also exceptionally took a measure of monetary tightening. In all of these cases, the policy interest rate was raised more significantly than estimated in the market. The interest rate hikes by various central banks caused fluctuations in the foreign exchange market.

At the end of the month, market participants maintained a wait & see attitude, waiting for an FOMC meeting in the U.S. scheduled for July 28. The U.S. dollar/Malaysian ringgit exchange rate also continued fluctuating within a narrow range between MYR 4.45 and MYR 4.46. After attracting significant attention in the market, the FOMC

decided to raise its policy interest rate by 75 basis points, as had been anticipated in the market. Some market participants had been expecting the FOMC to raise its policy interest rate by 100 basis points, and they sold back the U.S. dollar, which led the U.S. dollar/Malaysian ringgit exchange rate to fall to the mid-MYR 4.45 level. However, the trend of U.S. dollar-selling did not last for a long time, and monthly trading closed at this level.

2. Outlook for This Month

In August, the U.S. dollar/Malaysian ringgit exchange market is forecast to remain unstable, waiting for the outcome of the monetary policy meetings in both the U.S. and Malaysia, both scheduled for September, as there is no major event in Malaysia in August.

In major countries around the world, monetary tightening has been accelerating along with inflation. On the other hand, ASEAN countries have different levels of inflation with slightly different decisions regarding interest rate hikes by central banks. Under such circumstances, the inflation level is relatively low in Malaysia, as the government controls energy and food prices. Therefore, it can be said that the central bank of Malaysia has been able to plan moderate interest rate hikes, maintaining a good balance between inflation and economic conditions.

In terms of the latest indices of inflation, the June CPI was announced on July 22, and the headline CPI was 3.4%, while the core CPI excluding highly volatile food and energy prices was 3.0%. Both indices rose significantly from May. In particular, the headline CPI exceeded the upper end of the range of the outlook announced by the central bank. In response to this latest result, the central bank is starting to see the possibility of further interest rate hikes, whereas originally the central bank was expected to raise interest rates by a total of approximately 50 basis points at the two monetary policy meetings left before the end of the year.

On the other hand, the Malaysian ringgit has been at its lowest rate against the U.S. since the time of the Asian financial crisis in 1997 while at the highest rate against the Japanese yen in approximately six years based on the recent depreciation of the Japanese yen. In other words, the Malaysian ringgit exchange rate varies significantly depending on the other currency, and it has been extremely weak against the U.S. dollar. In terms of exchange rate fluctuations, almost all currencies except for the Russian ruble have depreciated against the U.S. dollar by 0–20% compared to the beginning of the year. Under such circumstances, the depreciation of the Malaysian ringgit depreciated only by approximately 6%, which is about at the middle of the list of ASEAN currencies. This gives the impression that the Malaysian ringgit could be slightly stronger given its abundant natural resources and stable foreign currency income based on exports growing mainly in the electrical and electronic sector.

The U.S. dollar has been on an uptrend since spring last year, thanks to expected interest rate hikes in the U.S., and this trend is expected to peak out toward the end of the year. Market participants should carefully observe the Malaysian ringgit exchange market in August, even though there are no important events scheduled, in order to prepare for the new trend to start in September, while knowing when market participants should start buying back the Malaysian ringgit and how strong the Malaysian ringgit will be after the U.S. dollar peaks out.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2022

Expected Ranges	**Against the US$: IDR 14,700–15,200**
	Against the yen: JPY 0.89–0.93 (IDR 100)

1. Review of the Previous Month

In July, the Indonesian rupiah was at its lowest rate against the U.S. dollar in approximately two years before rallying toward the end of the month.

At the beginning of the month, the Indonesian rupiah remained weak, as was the case at the end of the previous month, and the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,900 level on July 1. Thereafter, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,900 level. On the same day, the Consumer Price Index (CPI) of Indonesia was announced, revealing growth of 4.35%. The result thus finally exceeded the target range set out by the central bank of Indonesia, which was 2–4%. On the other hand, the core inflation rate turned out to be 2.63%. The governor of the central bank of Indonesia Perry Warjiyo made a remark such that he was not in a hurry to raise the policy interest rate, while the Indonesian rupiah continued weakening. Then, on July 4, risk-averse sentiment grew in the market, and the Jakarta Composite Index fell sharply. Under such a condition, market participants bought the U.S. dollar, and the Indonesian rupiah remained weak against the U.S. dollar. On July 5, the following day, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,000 level for the first time in approximately two years. On July 6, the following day, concerns over a global economic downturn persisted. Under such circumstances, risk-averse sentiment continued growing globally and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,000 level, renewing the latest low for the Indonesian rupiah. However, thereafter, the depreciation of the Indonesian rupiah slowed down. On July 7, the U.S. dollar/Indonesian rupiah exchange rate started to fluctuate at the upper-IDR 14,900 level. Thereafter, market participants maintained a wait & see attitude, waiting for the announcement of the June CPI of the U.S., and the U.S. dollar/Indonesian rupiah exchange rate did not move significantly. The June CPI of the U.S. turned out to be strong, and many Asian currencies weakened against the U.S. dollar. However, the U.S. dollar/Indonesian rupiah exchange rate remained stable at the upper-IDR 14,900 level. On July 15, the June trade balance of Indonesia revealed a surplus of over USD 5 billion, thanks to a sharp increase in the export of palm oil. This was confirmed to be a factor keeping the Indonesian rupiah more robust than other Asian currencies.

In the second half of the month, market participants maintained a wait & see attitude again, waiting for the announcement of the outcome of the regular meeting of the central bank of Indonesia. The U.S. dollar/Indonesian rupiah exchange rate did not move in any direction, fluctuating at the upper-IDR 14,900 level.

On July 21, the central bank held its monetary policy meeting, attracting substantial attention in the market. As a result, the central bank decided to maintain the seven-day reverse repo rate, i.e., the policy interest rate of Indonesia, at 3.50%, which is an all-time low—as had been anticipated in the market. However, some market participants were expecting the policy interest rate to be raised, and the decision made Indonesia one of the few cases in which the central bank has not discontinued the policy of monetary easing. Thus, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,000 level—the lowest

rate for the Indonesian rupiah seen recently. Then, on July 22, the following day, there were no new factors to impact the market, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 15,000 level—the same level as on the previous day. Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 15,000 level. However, the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. and the statement by Federal Reserve Board (FRB) Chair Jerome Powell turned out to be not as hawkish as anticipated in the market, leading the U.S. dollar to weaken. Following this trend, the Indonesian rupiah also strengthened against the U.S. dollar to the lower-IDR 14,900 level (as of market closing on July 28).

2. Outlook for This Month

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

As has been discussed thus far, the environment surrounding the Indonesian rupiah has changed, and the currency is no longer what it was when it was described as "fragile." First of all, in discussing the Indonesian rupiah, it is important to talk about the trade balance of Indonesia, which recorded a surplus significantly larger than the market estimate in July. In July, many commodities prices fell. However, the situation of coal prices is different from that of other commodities prices, and the price of coal for power generation remains high. This is thanks to growing interest in carbon neutrality as well as to the difficulty in investing in coal-related products, while it is not easy to import energy from Russia due to the situation in Russia and Ukraine. As supply is not catching up with demand, the price remains high. Given such a situation, coal prices are likely to remain high for a while, as the problems are not expected to be solved immediately. This is a supporting factor for the Indonesian rupiah.

Under such circumstances, the depreciation of the Indonesian rupiah has been relatively moderate compared with other Asian currencies. The situation is significantly different from that in 2018, when the Indonesian rupiah depreciated significantly following interest rate hikes in the U.S. The pace of interest rate hikes in the U.S. is not comparable to those in 2018. Furthermore, the central bank of Indonesia has not even started raising its policy interest rate, which is a rare case in Asia. Despite these conditions, the Indonesian rupiah has been much more stable than in 2018. This shows the strength of the Indonesian rupiah as the currency of a resource-rich country. Moreover, as interest rates remain low, domestic economic conditions have been healthy. With its large population and high domestic demand, Indonesia is an attractive country for direct investment, and this is also likely to support the Indonesian rupiah.

Risk scenarios include a situation in which the rise of the CPI cannot be controlled in the U.S., making the currently planned interest rates hikes insufficient. On the other hand, however, it is possible for the central bank of Indonesia to also start rising the policy interest rate in August or September. This also suggests that it is unlikely for the Indonesian rupiah, as an Asian currency that will see interest rate hikes in the times ahead, to depreciate.

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

Philippine Peso – August 2022

Expected Ranges **Against the US$: PHP 54.50–57.00**
Against the yen: PHP 0.39–0.43

1. Review of the Previous Month

There were growing concerns over a global economic slowdown, as was also confirmed by the weak figures in U.S. economic indices. As market sentiment worsened, major Asian currencies remained weak. Under such circumstances, the June Consumer Price Index (CPI) of the Philippines turned out to be +6.1% year-on-year—stronger than the estimate. This fueled concerns over the acceleration of inflation, revealing a growing current account deficit based on an increase in imports after the expansion of economic activities. Furthermore, the secretary of finance of the Philippines shared his GDP growth outlook for this year, stating that growth could be slower than previously estimated. Negatively reacting to this headline, the depreciation of the Philippine peso, which started in June, accelerated further. As a result, the U.S. dollar/Philippine peso exchange rate exceeded the PHP 56.000 level on July 7, for the first time since September 2005. Thereafter, the governor of the central bank of the Philippines, Felipe Medalla, mentioned the possibility of a large-scale interest rate hike at the meeting in August, and this slowed the depreciation of the Philippine peso, with the U.S. dollar/Philippine peso exchange rate continued fluctuating at around the PHP 56.000 mark. However, the Philippine peso depreciated sharply again on July 12, as the May trade deficit of the Philippines turned out to be larger than the market estimate, hitting a record high. As a result, the U.S. dollar/Philippine peso temporarily reached the PHP 56.450 level—the all-time low for the Philippine peso. The depreciation of the Philippine peso was thus one of the most significant among Asian currencies.

As the June CPI of the U.S. turned out to be high, further interest rate hikes in the U.S. were reflected in the market, weakening major Asian currencies. Under such circumstances, the central bank of the Philippines held an extraordinary meeting on July 14 and decided to raise its policy interest rate by 75 basis points as an emergency measure, and this led the Philippine peso to rally significantly. However, there were negative factors as well, such as concerns over the fiscal and current account deficits of the Philippines and the further measures of monetary tightening in the U.S., which offset part of the appreciation of the Philippine peso observed after the announcement of the interest rate hikes. Thus, the appreciation of the Philippine peso was limited. The central bank of the Philippines has been shifting toward hawkish measures, mentioning an additional interest rate hike at its meeting in August. However, on the other hand, the May amount of Overseas Filipino Workers (OFW) remittances recorded an increase of 1.8% year-on-year only, which is below the market estimate, i.e., an increase of 4.3%. Furthermore, the June international balance of payments recorded a deficit of USD 1.57 billion, revealing only a small decrease in the deficit from the previous month, in which the deficit increased significantly. Negatively reacting to this news, the Philippine peso remained near its all-time low, and the U.S. dollar/Philippine peso exchange rate continued fluctuating at the same level without moving in any direction.

Thereafter, the U.S. dollar weakened, following the fall of interest rates in the U.S. caused by concerns over an economic downturn. Furthermore, the president of the Philippines, Bongbong Marcos, announced new

measures to support economic growth in his policy speech, while the governor of the central bank of the Philippines Felipe Medalla mentioned the possibility of an additional interest rate hike of 25 to 50 basis points at the meeting in August, in addition to the emergency interest rate hike of 75 basis points in July. As a result, the Philippine peso appreciated sharply on July 26, and the U.S. dollar/Philippine peso exchange rate recovered to the PHP 55 level. Toward the end of the month, the Philippine peso was stabilized and remained relatively strong compared to other major Asian currencies.

2. Outlook for This Month

The central bank of the Philippines used to have a plan to normalize monetary policy by gradually raising interest rates. However, the central bank recently significantly raised its policy interest rate as an emergency measure, suggesting that its plan has changed to carry out measures of monetary tightening more proactively in order to slow down the acceleration of inflation. Thus, even though it depends on economic figures, the central bank of the Philippines is expected to raise its policy interest rate further by approximately 100 basis points before the end of the year. The expected interest rate hikes are factors to lead the Philippine peso to appreciate. However, market participants should also remain attentive of the possibility for the large-scale interest rate hikes to impact the Philippine economy.

It is also worth noting that weak figures in the U.S. economic indices have revealed an economic slowdown, and some market participants are becoming more optimistic about inflation, as a result of which the market is no longer reflecting active interest rate hikes in the U.S. However, the U.S. is likely to continue raising its policy interest rate, at least for a while. As the European Central Bank (ECB) has also started raising its policy interest rate, the major central banks of the world are raising policy interest rates, fueling concerns over a global economic downturn. As a result, in the times ahead, downward pressure is likely to remain strong on the currencies of emerging countries, including the Philippine peso.

In response to the reopening of economic activities, the fiscal deficit of the Philippines is increasing due to the growing trade deficit based on increasing imports, as well as due to anti-Covid measures, and this is likely to weaken the Philippine peso in addition to the narrowing interest rate differentials between the U.S. and the Philippines based on the difference in the pace of monetary tightening. For these reasons, the Philippine peso is forecast to continue depreciating against the U.S. dollar in the times ahead.

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

Indian Rupee – August 2022

Expected Ranges **Against the US$: INR 78.00–83.00**
Against the yen: JPY 1.67–1.74

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee exchange rate continued renewing its all-time high.

The U.S. dollar/Indian rupee exchange market opened trading at INR 78.99 in July. In June, the U.S. dollar/Indian rupee exchange rate fluctuated before reaching the INR 79.00 level. However, on July 1, the exchange rate rapidly exceeded the INR 79 level to renew the all-time high. After the weekend, the U.S. dollar/Indian rupee exchange rate reached the monthly low at INR 78.87 on Monday, July 4, as a local exporting company sold a large amount of U.S. dollars, while market participants remained cautious after the U.S. dollar/Indian rupee exchange rate reached the INR 79 mark. However, the U.S. dollar index reached its highest level in 20 years, and on the following day, the U.S. dollar/Indian rupee exchange rate renewed its all-time high again at INR 79.385. Despite the expectation for a policy interest rate hike by the central bank of India, the 10-year Indian government bond yield reached its lowest level in six weeks due to concerns over a global economic downturn. Furthermore, in order to keep the Indian rupee from depreciating further, the Indian monetary authorities announced a decision to deregulate bond investment by foreign investors as well as domestic loans denominated in foreign currencies, as a result of which market participants maintained a wait & see attitude.

However, in the second week of the month, the U.S. dollar/Indian rupee exchange rate renewed its all-time high again at the beginning of the week, as the June employment statistics of the U.S. had been announced at the end of the previous week with figures that were significantly stronger than the estimate. Thereafter, the Indian monetary authorities intervened in the foreign exchange market by selling the U.S. dollar. However, despite the intervention, the U.S. dollar/Indian rupee exchange rate renewed its all-time high every day from Monday to Friday, reaching INR 79.96 in the end.

In the third week of the month, the rise of the U.S. dollar/Indian rupee exchange rate did not slow down, and on July 19, the U.S. dollar/Indian rupee exchange market opened trading with the exchange rate exceeding the INR 80 mark. On July 21, the U.S. dollar/Indian rupee exchange rate reached its monthly high, at INR 80.07. However thereafter, it was confirmed that the foreign currency reserves of Inia had decreased by USD 21 billion in a month, making market participants even more cautious about interventions in the foreign exchange market by the central bank. As a consequence, the U.S. dollar/Indian rupee exchange rate was pushed back to the INR 79 level. Furthermore, on Friday, the governor of the central bank of India made a remark such that he would not tolerate the instability in the foreign exchange market.

In the fourth week of the month, the market estimate for the July policy interest rate hike by the Federal Open Market Committee (FOMC) shifted downward from 100 basis points to 75 basis points. Under such circumstances, market participants actively sold the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate fell slightly, offsetting part of the rise observed previously. On July 27, an FOMC meeting was held, announcing a policy interest rate hike of 75 basis points, as had been anticipated in the market. However, Federal Reserve Board (FRB)

Chair Jerome Powell made a somewhat dovish remark, which led the U.S. dollar to weaken further. Following this trend, the U.S. dollar/Indian rupee exchange rate fell below the INR 79.80 level. On July 28, trading closed at INR 79.755.

2. Outlook for This Month

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

At the moment, the attention of market participants has been on the somewhat dovish remark made by FOMC Chair Jerome Powell at the press conference. However, this is considered to be a temporary phenomenon. In the end, the FOMC is likely to return to the previous principle such that interest rate hikes are necessary until inflation has been tamed. Even if (although unlikely) the FRB decides to give up interest rate hikes or to cut interest rates because of a recession in the U.S. economy, the rise of interest rates in the U.S. would stop and the U.S. dollar would depreciate against other major currencies. However, if risk-averse sentiment grows in the market based on the slowdown of the U.S. economy, market participants would sell the currencies of emerging market. Thus, we should keep in mind that it is unlikely for the U.S. dollar/Indian rupee exchange rate to fall easily.

It is also worth mentioning that, thus far, the U.S. dollar/Indian rupee exchange rate has continued rising because of the expanding currency account deficit of India, and this has attracted attention in the market just as much as the U.S. interest rate. The expansion of the current account deficit was mainly caused by an increase of the trade deficit resulting from the rise of resource prices. Indeed, the trade balance of India was announced in July with a deficit of USD 26.2 billion, which is the highest monthly deficit ever. When it comes to the recent crude oil prices, the Brent oil price fluctuated between USD 100 and USD 110 in July, revealing a slowdown compared to the high price seen in June. Thus, it can be said that the trade deficit pressure has been somewhat mitigated. However, even if crude oil prices drop by around USD 10, the impact of this is minimal and not enough to reduce the trade deficit, even though it could keep the deficit from increasing further. The trade deficit is thus likely to remain flat in the times ahead.

Finally, it is worthy to mention that market participants expect foreign exchange market interventions to control the depreciation of the Indian rupee. In July, the governor of the central bank of India made a strong remark regarding the control of the foreign exchange market when the U.S. dollar/Indian rupee exchange rate exceeded the INR 80 level, and this attracted substantial attention in the market. As a result, market participants are even more expecting the central bank to intervene in the foreign exchange market. However, it should also be reminded that, from November last year to date, the foreign currency reserves of India decreased by USD 70 billion. In the meantime, the Indian rupee depreciated significantly, and the U.S. dollar/Indian rupee exchange rate rose from INR 75 to INR 80. This means that, despite the large amount of market interventions, the depreciation of the Indian rupee did not slow down, which led the governor of the central bank to make the aforementioned remark. Market participants should be aware that foreign exchange market interventions can be a buffer for exchange rate fluctuations—but are not sufficient enough to stop fluctuations.

For the above reasons, the key factor in August is likely to be expected interest rate hikes in the U.S. The U.S. dollar/Indian rupee exchange rate is therefore forecast to remain as high as it is now or to rise even further, depending on the rise of interest rates in the U.S.

This report was prepared based on economic data as of July 31, 2022.
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