Mizuho Dealer's Eye

October 2022

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – October 2022

Expected Ranges **Against the yen: JPY138.00–148.00**

1. Review of the Previous Month

After hitting a high of 145.90 yen, the dollar/yen pair's topside was held down in September after the Bank of Japan (BOJ) staged its first yen-buying interventions in 24 years.

The pair began the month floating around 139.30 yen. With US long-term interest rates climbing, though, the pair then surged to 140.23 yen, its highest level for around 24 years. The US released some firm August employment data on September 2, with the pair's topside extending to the 143 yen range after the US came back from holiday on September 6. The pair strengthened even further on September 7 as the markets continued trading with an eye on Japanese/US interest-rate differentials. The pair temporarily hit 144.99 yen during overseas trading time and it headed toward 145 yen, but US interest rates stopped climbing due to concerns about a global economic slowdown, so the pair fell back to around 144 yen. It then weakened to the 141 yen range on September 9 on expectations that the Japanese authorities would intervene to curb the yen's sharp fall following news of a meeting between the Ministry of Finance (MOF), the BOJ and the Financial Services Agency (FSA).

The US released some stronger-than-expected August CPI data on September 13, so the currency pair surged to the mid-144 yen mark. It remained at highs thereafter before hitting 144.96 yen on September 14. However, Japanese officials then made verbal interventions to curb the yen's slide. With the BOJ also implementing a rate check, the pair slipped back to the mid-142 yen level.

With Japan and the UK on holiday on September 19, the greenback was bought ahead of the FOMC meeting. On September 21, Russian president Vladmir Putin announced a 'partial mobilization,' with the yen subsequently bought on risk aversion, but the FOMC announced a +75% rate hike during overseas trading time, while the policy rate forecast in the dot chart was also upgraded sharply, so the pair shot up to 144.70 yen. However, FRB chair Jerome Powell voiced caution about the pace of future rate hikes during his press conference, so the pair plummeted to the mid-143 yen level for a time. The yen was sold from the morning of September 22 on speculation that the BOJ would maintain the status quo at the Monetary Policy Meeting. The dollar/yen pair broke through 145 yen when the BOJ's statement contained no policy shifts, as expected. The pair jostled up and down on verbal interventions to curb the yen's slide, for example, but the pair then hit a high of 145.90 yen after BOJ governor Haruhiko Kuroda maintained his dovish stance. Nonetheless, the pair then plunged to 140.31 yen on news that the BOJ had staged a yen-buying intervention for the first time in 24 years. The pair recovered to the 143 yen range during overseas trading time, but wild trading continued, with the pair then plummeting to 140.35 yen.

With Tokyo on holiday on September 23, interest rates soared across the globe after the UK announced a huge package of tax cuts. The dollar was bought sharply and the currency pair rallied to 143 yen. The pair rose at the start of the next week too as the greenback was bought after US 10-year interest rates hit 4.0% on the risk aversion emanating from the UK. However, the pair moved with a heavy topside around 145 yen on concerns about market interventions. Composure returned to the markets on a UK intervention on September 28, though concerns about the UK's finances lingered. Amid a dearth of new factors, the dollar/yen pair continued trading at the 144 yen range on September 30.

2. Outlook for This Month

Despite concerns about interventions, the dollar/yen pair will continue to move firmly in October on deep-rooted demand for yen-selling. However, there could be some temporary adjustment on the results of US inflation indicators.

Though major central banks are moving to tackle inflation, the Bank of Japan (BOJ) remains in easing mode. The yen has been sold on this fundamental difference, with the markets focusing on a 24-year high for the pair. The yen has weakened in tandem with Japanese/US interest-rate differentials. With the real-demand flow also inclining in the direction of dollar buying, the yen will continue to edge lower.

In an interview, BOJ governor Haruhiko Kuroda suggested the BOJ's forward guidance would continue to have a strong easing bias for the next 2–3 years unless inflation remained above 2%. Though this did not necessarily signify that BOJ policy would remain unchanged until Mr. Kuroda stepped down, this was how it was read by the markets and this probably explains why the dollar/yen pair subsequently surged and why the authorities were forced into making an intervention. The authorities are also aware that the BOJ's stance is pushing the yen lower, so the interventions will probably be seen as successful if they just serve to slow the pace of the yen's slide. As such, interventions will probably lead to erratic movements as the markets take advantage of each chart point. In the end, the yen is likely to continue trending lower even if the authorities stage interventions that go against the BOJ's policy stance.

However, investors have priced in future US rate hikes to a considerable extent since the dot chart was upgraded during the September FOMC meeting, so US rate hikes may only have limited room for further rises going forward. At this moment in time (September 30), there is still some room left to price in rate hikes, but if the US September CPI data (released October 13) confirms that inflation is slowing, the dollar/yen pair might peak out. More investors are testing the pair's topside as FRB officials announce a series of measures prioritizing the fight against inflation, but the best to hope for is that these moves just buy investors some time.

UK trends will also require attention. UK assets have been sold since prime minister Liz Truss announced a huge package of tax cuts. Some composure returned following an intervention by the Bank of England, but concerns about the UK's finances still linger and volatility will probably return to the markets. The greenback will be bolstered by risk aversion on rising US interest rates and rising inflationary pressures on the pound's slide. As such, investors could test the dollar/yen pair's topside, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	14 bulls	147.25 – 141.75	Bearish on the dollar	4 bears	147.00 – 140.00

* Ranges are central values

Yano	Bull	147.00 – 142.00	The authorities staged a yen-buying intervention for the first time in 24 years, though its effect was short-lived. The dollar/yen pair's room on the topside will be capped by growing concerns about another such intervention if the yen falls further, but there are also no reasons to expect the pair to fall. The pair looks set to continue trading firmly amid rising expectations for US rate hikes.
Ushijima	Bull	148.00 – 140.00	The dollar/yen pair's topside has been held down just below 145 on several occasions since the intervention, but as the impact of the intervention wanes, it seems just a matter of time before the pair hits new highs. With the yen remaining the only currency with negative interest rates, the pair will continue to trend higher on expectations for FRB rates hikes to the tune of 125bp before the year is out.
Tsutsui	Bull	147.50 – 140.00	The positions of the financial authorities will remain unchanged in the face of US inflation and Japanese deflation. As such, the yen will continue to weaken on widening Japanese/US interest-rate differentials. The markets will be on guard against interventions to curb excessive fluctuations, with investors targeting the upper-147 yen mark, a level last seen in 1998.
Kato	Bear	147.00 – 140.00	The FOMC upgraded its terminal rate outlook, while BOJ governor Haruhiko Kuroda has said rate hikes will be off the table for a few years yet. As such, the dollar/yen pair will trend upwards on the whole. However, the pace of the pair's rise could slow at times on concerns about interventions by the Japanese authorities.
Yamazaki	Bear	147.00 – 140.00	The dollar/yen pair peaked out around 145 yen in September after an intervention by the Japanese authorities, with the pair subsequently trading with a heavy topside. Investor attention is shifting to recessionary concerns in Europe, with the pair also set to move with a heavy topside on expectations for unstable trading.
Ito	Bear	148.00 – 138.00	The dollar/yen pair will continue to move firmly in October on strong yen-selling demand, but there will be some temporary corrections on the results of US inflation indicators. If the pace of 2023 US rate hikes is revised, the currency pair will probably peak and then fall.
Yamagishi	Bull	147.00 – 142.00	Inflation has risen due to monetary easing and high-pressure economies in the Covid-19 pandemic. There are no signs of this inflation peaking out, so the greenback will remain bullish until it seems US rate hikes and interest rate rises are peaking out. The BOJ has not shifted its stance, with the dollar also likely to be bought on unstable market conditions.
Omi	Bull	147.00 – 142.00	The dollar/yen pair will continue to edge higher as the US moves to aggressively tighten policy. However, the speed of this rise could be slowed by interventions. The Dollar Index is also moving at highs, so investors should be on guard against adjustments to the trend of dollar bullishness.
Ueno	Bull	147.00 – 142.00	The yen is likely to continue sliding amid a dearth of factors capable of shifting the dollar/yen pair's trend. However, investors will be on guard against interventions following the invention on September 22.
Kai	Bull	147.00 – 142.00	The environment will remain conducive to dollar bullishness. The dollar/yen pair will probably edge higher. A glance at the y-o-y US CPI data suggests core inflation could remain strong in September, so investors should be wary of rising expectations for more rate hikes.
Onozaki	Bear	146.00 – 140.00	There remains a dearth of yen-buying factors, but with the authorities intervening just before 146 yen, the pace of the dollar/yen pair's rise will probably slow on concerns about another intervention. The pair is approaching its highest point in 24 years, with investors likely to focus on concerns about the greenback's strength.

Harada	Bull	155.00 – 140.50	The BOJ is the only central bank that continues to pursue negative interest rates while the FRB is becoming more hawkish, with investors likely to focus on these divergent stances. There will be concerns about yen-buying interventions, will the dollar/yen pair looks set to continue trending higher.
Katoono	Bull	147.00 – 140.50	The BOJ's easing stance has become more apparent in the wake of its September meeting, with the yen likely to remain commensurably weak. However, the dollar/yen pair's topside will be held down by concerns about an intervention by the Japanese government/BOJ, so the pair looks set to continue jostling at highs.
Kobayashi	Bull	153.00 – 140.00	Though the FRB has said it will implement substantial further rate hikes within the year, the BOJ remains in easing mode. There will be concerns about interventions by the Japanese authorities, but with Japan the only country left with negative interest rates, the dollar/yen pair looks set to continue trending upward.
Henmi	Bull	148.00 – 140.00	There will be concerns about an intervention when the dollar/yen pair tops 145 yen, so it is hard to see the yen falling sharply on speculative movements. However, there is a clear contrast in the monetary policies of Japan and the US, so dollar-buying will prevail in the end.
Suzuki	Bull	148.00 – 141.50	The dollar/yen pair's topside has moved heavily since the intervention last month, but the situation remains unchanged with it comes to interest-rate differentials and the supply and demand environment, so there are doubts about how long the impact of the intervention will last. The pair will continue to trend upward on the wide divergence between the stances of Japan and the hawkish US.
Kimura	Bull	149.00 – 142.50	European currencies have moved erratically in tandem with fluctuating bond prices, but the dollar/yen pair has only dropped slightly on falling interest rates in other countries, with yen-selling pressure remaining quite strong. The pair looks set to edge higher despite concerns about an intervention.
Okuma	Bull	147.00 – 142.00	The dollar will continue to be bought on widening Japanese/US interest-rate differentials and the divergent monetary policy stances of the US and Japan. Concerns of an intervention will flare at times. However, the impact of the last yen-buying intervention is already fading, despite it being the largest such intervention in history, so the dollar/yen pair looks set to move firmly this month.

Yuuka Omi, Forex Sales, Global Markets Sales Department

Euro – October 2022

Expected Ranges **Against the US$: US$0.9500–1.0100**
Against the yen: JPY137.00–144.00

1. Review of the Previous Month

Amid concerns of a recession in the eurozone, the euro/dollar pair moved with a heavy topside on September 1 and it temporarily fell to a weekly low of $0.9910. It continued moving with a heavy topside at the weekend. Concerns about energy supplies then flared again on news that the reopening of the Nord Stream 1 pipeline would be delayed.

The weekend's trend continued into the following week, with the euro sold on September 5. The pair then broke below $0.99 for a time as investors focused on weak eurozone indicators, with the eurozone August PMI being downgraded, for example. The greenback was bought on rising US interest rates on September 6, with the euro/dollar pair hitting its lowest level for around 20 years. The pair stopped falling on September 7 and it gradually pared back its losses. With the ECB Governing Council meeting looming the following day, the pair recovered to $1.00 by close of play on deep-rooted expectations that the ECB would implement larger rate hikes to tackle inflation. The ECB announced a 75bp rate hike when it met on September 8, with the currency pair temporarily hitting a weekly high of $1.0030, though it then dropped back to the lower-$0.99 range on strong concerns about a eurozone economic recession. An ECB member made some hawkish comments at the weekend, with the pair moving firmly at $1.00 on September 9.

At the start of the next week, the pair temporarily rose to a weekly high of $1.0198 on September 12 as European stocks moved bullishly. The pair flipped back on September 13. The greenback was bought on some firm US economic indicators, so the pair broke below parity again to plunge to the upper-$0.99 mark. The dollar was bought again on September 14, with the pair temporarily hitting a weekly low of $0.9956. The euro was bought on bullish European stock movements on September 15, so the pair recovered to float around $1.00. The pair continued floating around $1.00 on September 16. This trend continued the following week, with the pair floating around $1.00 on September 19 too. The pair touched $1.0051 during Tokyo trading time on September 20, though it then fell back to the mid-$0.99 level during overseas trading time as the greenback was bought on rising interest rates and the better-than-expected results of a US economic indicator. At the weekend, the pair plummeted to $0.9810 on September 21 as the dollar was bought on the results of the FOMC meeting. The pair continued to renew lows on September 22 before sliding to the upper-$0.96 level.

The pound fell sharply at the start of the next week and the euro was also dragged down, with the euro/dollar pair plunging to a 2022 low of $0.9528 on September 26. However, the pound then rallied when the BOE made an emergency statement, with the euro/dollar pair also dragged back to the $0.97 range. The pair dropped to the $0.96 range and moved flatly on September 27 before then falling to the upper-$0.95 level on dollar buying. On September 28, the pair edged to the lows seen at the start of the week. However, US interest rates then fell and the dollar was sold after the BOE intervened to buy UK gilts, so the euro/dollar pair surged to the mid-$0.97 level. The pair was bought back again on September 29 to temporarily hit a weekly high of $0.9815. At the weekend, the pair continued to move at highs around $0.98 on September 30.

2. Outlook for This Month

The euro will continue to be sold against the dollar in October. The pace of the yen's fall has slowed, meanwhile, so the euro will probably undergo a gentle slide against its Japanese counterpart.

Until last month, the pair had moved in a range close to parity (1 euro = 1 dollar), but it finally fell clearly below parity in September after the FOMC meeting. The ECB is also tightening policy, but the FRB is tightening quite aggressively, so the euro will continue to be sold and the dollar bought on the divergent monetary policies of the US and Europe.

One more factor behind euro bearishness is the suspension of the Nord Stream pipeline. Russia has turned off the gas taps to Europe in retaliation for the financial sanctions that the EU imposed after Russian invaded Ukraine. The euro is subsequently being pushed lower by deep rooted concerns about a eurozone economic slowdown on these energy troubles.

Interest-rate differentials are also widening within the eurozone and there are growing concerns about the deteriorating finances of Europe's southern nations. Eurozone countries with weak fiscal bases have seen yields on their government bonds rising in the wake of the ECB's rate hikes. The ECB is deliberating measures to stop rates widening within the zone, but if this gap continues to grow, this could lead to regional splits on a sense of unfairness. Italy is also set to inaugurate a new administration that has voiced support for fiscal expansion and opposition to the euro, so there are concerns that yields on Italian government bonds might rise even further. When added to concerns about regional splits, it seems the euro could be pushed even lower this month.

Furthermore, though the euro had moved strongly and the yen weakly on the BOJ's adherence to large-scale monetary easing, the pace of the yen's slide slowed last month on comments by Japanese government officials and an intervention by the government and the BOJ, with the euro set to undergo a gentle slide against the yen going forward.

There is a risk that the trend of dollar bullishness could face some correction. The greenback grew comparatively strong at the end of September as the pound weakened and the euro was also dragged lower by UK fiscal policy, though the dollar has since been sold on a pound rally. The Dollar Index also remains at highs, so if the trend of dollar bullishness continues to undergo some adjustment, the euro's slide is also likely to slow.

Important events this month include the release of the German ZEW Indicator of Economic Sentiment for September (Tuesday, October 18), the release of the eurozone September CPI data (Wednesday, October 19) and the ECB Governing Council meeting (Thursday, October 27). The two indicators released mid-October will give a clearer picture of the economic situation. After monitoring these indicators, investors will try to gauge the scale of the impending rate hikes at the end-of-month ECB meeting.

Dealers' Market Forecast

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

Bullish on the euro	2 bulls	1.0150 – 0.9625	Bearish on the euro	16 bears	1.0000 – 0.9500

* Ranges are central values

Yano	Bear	1.0000 – 0.9500	Concerns about gas supplies have grown on the damage to the Nord Stream pipeline, with investors focusing again on the risk of an economic slowdown. With the greenback also moving firmly, there is a dearth of reasons to actively buy the euro. The euro/dollar pair looks set to move bearishly.
Ushijima	Bear	1.0000 – 0.9500	The greenback continues to move strongly against the other major currencies. European gas prices have soared on the Ukraine situation and there are strong inflationary concerns, with the euro also likely to move heavily on concerns about pound bearishness on the UK's expansionary fiscal policy.
Tsutsui	Bear	0.9850 – 0.9000	The euro will weaken at a faster pace. In contrast to the US, inflation in Europe is being driven by external factors. If the impact of rate hikes on the eurozone economy becomes even more apparent, the markets will price in a suspension of ECB rate hikes. The euro/dollar pair will fall at a faster pace on interest-rate differentials.
Kato	Bull	1.0100 – 0.9650	The key will lie in each nation's response to the bond markets, as epitomized by the BOE's LDI policy. Haphazard rate hikes in the US and elsewhere could negatively impact the real economy through bond market disorder, so the response of the authorities of each country will have a major impact on the currency markets.
Yamazaki	Bear	1.0000 – 0.9500	The euro/dollar pair looks set to move bearishly again. Fighting continues in Ukraine, while inflation remains high and fuel prices are becoming more of a concern as winter approaches. However, the euro/dollar pair will probably be bought at lows on a sense it is too cheap.
Ito	Bear	1.0200 – 0.9000	The ECB is accelerating the pace of rate hikes to tackle high inflation, so European energy prices remain a concern and the risk of stagflation is growing. UK policy moves have also led to rising market risk across the globe and this will probably push the euro lower.
Yamagishi	Bull	1.0200 – 0.9600	The euro will move firmly on expectations for rate hikes, despite concerns about energy supplies and so on. The ECB is concerned about an inflationary spiral if prices rise for a prolonged period. Germany's September CPI data (EU basis) hit 10.9% and it seems the ECB's inflation forecast for 2023 was somewhat optimistic at 5.5%, so there is still ample room for rate hikes.
Omi	Bear	1.0100 – 0.9500	The euro/dollar pair will be weighed down by Europe's energy problems and concerns about an economic slowdown. Furthermore, the ECB's aggressive rate hikes have not shored up the euro, with the FRB's aggressive rate hikes also likely to push the euro lower.
Ueno	Bear	1.0000 – 0.9500	Europe faces high inflation, weak economic trends, and smoldering geopolitical risk. There remains a dearth of factors conducive to euro buying. Euro bearishness has eased recently, but the single currency will probably move weakly again going forward.
Kai	Bear	1.0100 – 0.9400	Geopolitical risk has risen higher now Russia as annexed several territories in Ukraine. With recessionary concerns also growing, the euro will continue to be sold this month. However, the ECB adopted a more hawkish stance at its meeting at the end of the month, so the euro/dollar pair could be bought back at times.
Onozaki	Bear	1.0000 – 0.9200	Ukraine remains a pressing issue. Other problems plaguing the eurozone include inflation and the Italian political situation. Amid a scarcity of euro-buying factors, the euro/dollar pair will probably hit new lows.

Harada	Bear	1.0000 – 0.9500	Europe faces many uncertainties, including soaring energy costs, the rise of the far right in Italy, and the Russia situation. Under these circumstances, investors will find it hard to actively buy the euro. Europe has joined the US in lifting rates, but given the aforementioned situation, it seems the euro will continue to move bearishly against the dollar.
Katoono	Bear	1.0050 – 0.9550	The ECB has strengthened its rate-hike stance in the face of stubborn inflation. However, concerns of a recession are also growing, interest-rate differentials are widening, and there are concerns about the political situation in Italy and elsewhere. As such, the euro looks set to continue moving bearishly. The euro/dollar pair's topside will also be held down by concerns about energy supplies ahead of the winter.
Kobayashi	Bear	1.1000 – 0.9500	The ECB has followed the FRB into commencing large-scale rate hikes, but there have been no improvements when it comes to problems like Italian political instability, a eurozone economic slowdown, and energy shortages ahead of winter. As such, it seems the euro/dollar pair will continue to move bearishly.
Henmi	Bear	1.0000 – 0.8900	The ECB has begun hiking rates, but the impact of geopolitical risk is growing stronger and there are doubts about whether the economy can withstand a series of rate hikes. With no signs of inflation peaking out, it seems funds will continue to flood out of Europe.
Suzuki	Bear	1.0000 – 0.9600	The US economy has remained strong despite rate hikes. There is also a shortage of reasons to buy the euro given the energy crisis and the prolonged Ukraine situation. As a result, the euro/dollar pair looks set to continue moving bearishly.
Kimura	Bear	1.0000 – 0.9000	The euro seems to be rallying as US interest rates stop rising. However, Europe faces several uncertainties, including weak eurozone PMIs, revived tensions between Russian and Ukraine, and soaring inflation within the eurozone. As such, it seems the euro/dollar pair's topside will be weighed down in the medium term.
Okuma	Bear	1.0100 – 0.9600	The euro is being weighed down by several factors, such as the deepening energy crisis in Europe, the rise of the far right in Italy, and the economic policies pursued in the UK. The euro/dollar pair will continue to trade with a heavy topside until the Russia/Ukraine situation improves, with investors likely to test the pair's downside.

Joseph McElhill, Europe Treasury Department

British Pound – October 2022

Expected Ranges **Against the US$: US$1.0500–1.1200**
Against the yen: JPY150.00–160.00

1. Review of the Previous Month

The pound fell sharply across the board in September. Until the evening of September 22, Tokyo trading time, the dollar moved comprehensively strongly against the other major currencies, with sterling also moving bearishly against the dollar but firmly against the euro and more-or-less flatly against the yen. The dollar's firmness was supported by the FOMC decision to implement a 75bp rate hike on September 21. This rate hike was much as expected, but with FOMC members clearly upgrading their federal funds rate projections for 2023, the dollar moved firmly across the board in the wake of the announcement.

In contrast, the BOJ kept policy fixed at the Monetary Policy Meeting on September 22 and it also extended a Covid-19 measure (Special Funds-Supplying Operations to Facilitate Financing in Response to the Novel Coronavirus (Covid-19)) that was set to wind down at the end of September. As a result, the dollar/yen pair fell to 145.90 yen toward the evening of Tokyo trading time on the same day. At this point, the BOJ intervened to buy the yen for the first time in 24 years (the Ministry of Finance led the operation). The GBP/JPY pair also plummeted from a weekly high of 164.42 yen to 159.09 yen in just a few hours. However, the pound's fall was halted at this level.

The BOE's Monetary Policy Committee (MPC) also met on September 22 and the results of the meeting (see below) caused no ripples. UK chancellor Kwasi Kwarteng then released a package of tax cuts and fuel subsidies on September 23. The markets reacted badly to the size of the package (£45 billion as opposed to expectations for around £30 billion), with sterling then falling sharply. This huge fiscal expansion would apparently be paid for through the issuance of government bonds, but gilts then fell sharply on concerns about deteriorating finances and rising prices, with the benchmark yield on 10-year gilts rising by over 50bp (the price fell) in two business days over September 22–23. The pound plummeted across the board. It hit a 37-year low of $1.0840 against the dollar and it also tumbled to a 20-month low of $0.8935 against the euro. Sterling also dropped to a 6-month low of 155.32 yen against its Japanese counterpart.

In an interview with BBC News on Sunday, September 25, the UK chancellor said the government was focused more on long-term economic growth than on short-term market fluctuations and he also said the government would introduce further measures going forward. As a result, the pound plunged further during Tokyo trading time the following day, with sterling sold to $1.0327 to renew record lows. Speculation grew during London trading time that the BOE would hold an emergency meeting in the wake of the crisis, so the pound rallied to $1.08. At the close of trading on the same day, the BOE said it would not hesitate to introduce emergency measures, though it did not announce any policy shifts.

2. Outlook for This Month

The pound will probably stay deadlocked at its current lows in October. The Truss administration launched on September 6, but it didn't really get going until September 20, after the mourning period of Queen Elizabeth II had ended. Nonetheless, the financial markets (and voters) do not seem impressed. Rising long-term interest rates (falling government bond prices) is a global phenomenon affecting the US and eurozone too, but gilts prices have fallen particularly sharply on the negative reaction to the announcement of fiscal expansion funded by the issuance of government bonds. As mentioned above, there are structural reasons for this (concerns about deteriorating finances and rising prices) and it is hard to imagine this trend shifting any time soon. Voters are usually quite susceptible to a bit of pork-barrel spending, but measures such as scrapping the cap on banker bonuses and abolishing the top tax rate of 45% were seen as designed to make the rich even richer, with critics saying the Tories were extending preferential treatment to the wealthy. Another factor behind the pound's weakness is the BOE's rate-hike stance, with the BOE seen as more passive compared to the FRB or ECB. Dollar and euro movements suggest the currency markets have recently taken rising policy rates (outlooks) as a factor prompting currency buying. When it met on September 22, the BOE MPC lifted its policy rate by 50bp (from 1.75% to 2.25%). Though this probably seemed less impressive than the ECB's 75bp rate hike, three of the nine MPC members actually voted for a 75bp hike, so the results of the meeting were probably more hawkish than expected (though Swati Dhingra, successor to head hawk Michael Saunders, only voted for a 25bp rise).

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

Australian Dollar – October 2022

Expected Ranges **Against the US$: US$0.6280–0.6840**
Against the yen: JPY91.70–97.70

1. Review of the Previous Month

The AUD/USD pair climbed from $0.68 to $0.69 between September 1–12. In the latter half of the month, it hit a monthly high of $0.6916 before then falling by over 550pips.

The pair fell to $0.67 on September 1 on risk aversion after a lockdown was announced in the Chinese city of Chengdu in Sichuan Province. The pair's topside was also held down by the deteriorating Australian 2Q capital investment data. The pair then rose from the upper-$0.67 mark to the mid-$0.68 level on September 2 on the release of the US August employment data. Though the US labor participation rate had improved, average hourly wage had risen at a slower pace. US interest rates subsequently fell on a sense that US households would be less able to tolerate price rises, so the greenback was sold and the AUD/USD pair closed the week trading at the lower-$0.68 mark.

As expected, the RBA lifted the cash rate by +50bp to 2.35% when it met on September 6. In its statement, the RBA said it expected CPI growth to slow as supply side issues were resolved, with the currency pair then dropping to around $0.6730 after the meeting. Investors tried pushing the pair below $0.67 several times over September 7, but the pair eventually rose to $0.6770 as US interest rates fell on bearish crude oil prices. On September 8, RBA governor Philip Lowe said the rising cash rate was laying the ground for a slower pace of tightening, thus hinting that the RBA might put an end to large-scale rate hikes. Commodity prices bounced back on September 9, so the Australian dollar rose and the pair closed the week at $0.6847. The euro rose sharply on September 12 on hawkish comments by ECB officials. The greenback was sold and the AUD/USD pair rose to $0.69. The pair then hit a monthly high of $0.6916 on September 13, though it then crashed to the lower-$0.67 level on the stronger-than-expected US August CPI data. The pair weakened to the upper-$0.66 level on September 16, though it closed the week trading at the lower-$0.67 mark after the greenback was sold after the University of Michigan 1-year expected inflation rate fell.

The minutes to the September RBA meeting were released on September 19. They mentioned that the policy rate was approaching the neutral rate and they revealed there had also been discussions about a +25bp rate hike. The currency pair fell from the mid-$0.66 mark to the lower-$0.65 level on these dovish contents. The FOMC then implemented a +75bp rate hike on September 21. FOMC members also upgraded their interest rate projections for 2022. This suggested rates would continue to be lifted at the same pace, with the Australian dollar weakening as a result. The yen then strengthened against the Australian dollar after an intervention by the Bank of Japan (BOJ). The UK government announced a substantial package of tax cuts on September 23. With concerns growing that interest rates would climb on soaring inflation, risk assets were sold as a faster pace. Risk assets and the Australian dollar were weighed down over September 26–27 by hawkish comments by officials from each major central bank. The Dollar Index hit a record high on September 28 as demand grew for refuge dollar buying. This flow saw the AUD/USD pair hitting a low of $0.6363. The Bank of England (BOE) then announced some emergency gilt purchases to calm the market turmoil that had greeted the UK announcement about huge tax cuts. US government bonds rose sharply and US treasuries followed suit. As US interest rates fell, the greenback was sold and the

AUD/USD pair dropped back to the lower-$0.65 level.

The S&P500 suffered its sharpest falls for over two and a half years late September after FRB vice chair Lael Brainard reiterated her hawkish stance. US bonds were then sold on end-of-month factors and US interest rates rose, so the currency pair fell back below $0.64 to tumble to $0.6390.

2. Outlook for This Month

On September 8, RBA governor Philip Lowe said the rising cash rate was laying the ground for a slower pace of tightening. The minutes to the September RBA meeting also revealed discussions had taken place about a +25bp rate hike. All this suggests the RBA might put an end to large-scale rate hikes. Meanwhile, FOMC members upgraded their forecasts for inflation and the terminal rate in the dot chart. With many US financial figures still in hawkish mode, investors moved to price in widening interest-rate differentials going forward. The greenback was also bought on the stronger-than-expected US August CPI result. US/Australian interest-rate differentials will continue to steadily widen overall in October.

After the UK announced a stimulus package of large-scale tax cuts, concerns grew that the BOE would face more pressure to tighten (lift rates) to tackle inflation. These concerns led to falling stocks and bonds, with sterling also sliding. Bonds were then bought back after the BOE announced some emergency government bond purchases, with UK interest rates then falling. US bond rates also followed suit, with the Australian dollar bolstered as the greenback was sold on falling US interest rates. All this could lead to deteriorating risk sentiments and thus to demand for the US dollar as a refuge currency, so the AUD/USD pair's topside looks set to grow heavier.

In September, the Australian dollar's fall was triggered by overheating US consumer prices. If this trend continues, US financial authority figures will probably make hawkish comments aimed at stabilizing prices, with the AUD/USD likely to renew lows as a result in October. Events and indicators to monitor this month include the statement of the October RBA meeting (released October 4), the US September employment data (October 7), the US September CPI data (October 13), and the Australian September employment data (October 20). Furthermore, the BOE and BOJ both staged interventions lasts month, while the People's Bank of China has also asked state-owned banks to prepare to sell the greenback to halt the RMB's slide, so investors should also monitor the impact of central bank interventions on the Australian dollar.

Yasuko Iwata, Canada Office, Americas Treasury Department

Canadian Dollar – October 2022

Expected Ranges **Against the US$: C$1.2900–1.4000**
Against the yen: JPY102.00–110.00

1. Review of the Previous Month

The USD/CAD pair opened September trading at C$1.313. The greenback moved bullishly from the middle of the month.

With FRB officials making hawkish comments at the start of September, the pair moved with a heavy topside at C$1.31 after the average hourly wages figure grew at a slower pace in the US August employment data. When the Bank of Canada (BOC) met on September 7, it decided to lift its policy rate by 0.75% to 3.25%, as broadly expected. In its statement, the BOC indicated it would continue to actively lift rates when it said further hikes were needed given the inflation outlook. The Canadian August employment data was released on September 9, with the net change in employment figure surprisingly falling for the third straight month. The unemployment rate had risen from 4.9% in July to 5.4%, but the average hourly wages of full-time workers grew by +5.6% y-o-y, up on the previous month, so the Canadian dollar was not pushed lower and the pair continued trading at C$1.30.

Things changed with the release of the US August CPI data on September 13. With headline and core inflation both unexpectedly rising on the previous month, US interest rates rose on a growing sense that the FOMC would hike rates by at least 0.75% when it met in September. After being sold against the other major currencies since the start of the week, the greenback now rose, with the USD/CAD pair also rising from C$1.29 to hit C$1.31 again. Recessionary concerns then grew on large-scale rate hikes, with the Canadian dollar also sold on falling commodity prices.

The Canadian August CPI data was released on September 20, with the data falling for the second month in a row. Canadian interest rates subsequently fell. With US interest rates remaining on an upward trajectory, interest-rate differentials widened, with the Canadian dollar sold and the currency pair hitting C$1.33. As expected, the FOMC implemented a 0.75% rate hike when it met on September 21, with the target range for the FF rate also lifted to 3.00–3.25%. The federal funds rate projection of FOMC members (the dot chart) was released on the same day. It remained at a high level (central value), as expected, so US interest rates subsequently soared and the greenback strengthened, with the currency pair hitting C$1.35. Canada's July retail sales data was released on September 23. At -2.5% m-o-m, the data dipped into negative territories for the first time since December last year. Sales were down for a wide range of products, including gasoline, new and used cars, clothing and accessories, with the data impacted by rising inflation and inflation rates.

At the end of the month, the UK Truss administration announced an economic stimulus package that included substantial tax cuts. As inflationary concerns grew stronger, the pound and risk assets were sold, with the Canadian dollar also sold and the USD/CAD pair also temporarily hitting C$1.3808 for the first time since May 2020.

2. Outlook for This Month

Two-year government bond yields inverted in the US and Canada after the release of the US August CPI data mid-September. Before then, Canadian 2-year bond yields had topped treasury yields or moved at more-or-less the same level, but with the US August CPI headline and core figures both up on the previous month, it seemed more likely that the FRB would continue to aggressively hike rates going forward. As a result, yields on 2-year treasuries shot above yields on 2-year Canadian government bonds. The contrast with the US became even starker when Canada's August CPI data fell on the previous month, with gap between 2-year US and Canadian government bond yields widening.

Furthermore, Canada posted a series of generally bearish economic indicators in September, including the housing market data, the employment data, the retail sales figure and the industrial products sales data, with Canada also in a different economic situation compared to the US.

The markets are pricing in a 4% policy rate by the end of the year and a 4.25% terminal rate by March 2023, both lower than the levels expected for the US.

The BOC has insisted Canada can reach a soft landing. When it meets on October 26, the BOC will be announcing its policy rate and its latest economic forecast, so investors will be focusing on whether is still believes a soft landing is possible.

Based on the above, it seems the greenback will remain bullish until the FRB is convinced inflation is trending downwards, with a definite terminal rate for the FF rate looming into view. As such, the USD/CAD pair will probably move toward C$1.40.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – October 2022

Expected Ranges **Against the US$: KRW 1,410–1,470**
Against the yen: JPY 9.804–10.204 (KRW100)

1. Review of the Previous Month

The USD/KRW pair underwent a historic climb in September. The dollar was sold and the RMB bought on August 31 on what seems to have been an intervention by the PBC. The USD/KRW pair also fell for a time, with the pair opening at KRW1,342.0 on September 1. The pair then rose on concerns ahead of the weekend release of the US employment data and the September 8 ECB meeting.

European interest rates and so on rose the following week on concerns the ECB would implement a 75bp rate hike when it met on September 8, with the USD/KRW pair undergoing an essentially one-sided rise. Exporters then bought the won on real demand on a sense it was now at a good price, so the pair fell slightly for a time. After a round of real-demand buying, though, the pair rose again to hit KRW1,388.4 on September 7. On September 8, just before South Korea's Chuseok holiday, the ECB implemented a 75bp rate hike during overseas trading time, with the markets also buying the euro and selling the dollar after ECB president Christine Lagarde hinted at continuous rate hikes. As a result, the USD/KRW pair fell slightly after South Korea came back from holiday on September 12.

The US August CPI data was then released during overseas trading time on September 13. At +0.1% m-o-m, the data was up on the -0.1% m-o-m forecast. Some observers had optimistically expected inflation to cool off, so the result saw US interest rates surging, with the currency pair also climbing again. The pair then moved firmly ahead of the September 22 FOMC meeting. As expected, the FOMC lifted its policy rate by 75bp (ceiling: 2.50% →3.25%). In their projections, though, FOMC members predicted that the FF rate would hit 4.375% by the end of 2022 and 4.625% by the end of 2023, thus indicating that rates would continue to rise into 2023 in order to tackle inflation. In his press conference, FRB chair Jerome Powell also spoke about the necessity for ongoing rate hikes and a high policy rate. He also said it would be hard to steer a soft landing for the economy. All this saw the USD/KRW pair breaching the key KRW1,400 mark.

Fears of deteriorating inflation grew on September 23 after the UK government announced a package of tax cuts. As yields on UK government bonds soared, interest rates in South Korea shot up by around 20bp a day. Under these circumstances, the USD/KRW pair strengthened to a monthly high of KRW1,442.2 on September 27. During overseas trading time on September 27, the Bank of England (BOE) announced a round of unlimited government bond purchases. As composure returned to the markets, the currency pair was adjusted slightly. In the end, the pair closed the month at KRW1,430.2, up 92.6 won on the end of August.

2. Outlook for This Month

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

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

(1) Inflationary changes and FRB monetary policy, and (2) BOK monetary policy.

As for (1), the FOMC implemented a 75bp rate hike when it met on September 22, while FOMC members also sharply upgraded their forecasts for the FF rate. In his press conference, meanwhile, FRB chair Jerome Powell effectively ruled out the possibility of a soft landing. With inflation also accelerating in the UK and Europe, the rate-hike struggle is growing fiercer in each country. Apart from expected inflation rates, there are few reasons to think the inflation rate could fall in the near future, with the FRB likely to continue prioritizing the fight against inflation.

With regards to (2), the BOK is growing concerns about US/South Korea interest-rate differentials and what they could mean for the USD/KRW pair's stability, with the BOK indicating its policy rate will be shaped by US policy going forward too. When it met in August, the BOK predicted the policy rate would stand at around 3% at the end of 2022, but it now seems rates will be hiked above this level. However, lending rates for property investment have soared in South Korea and this is putting pressure on households. At the same time, the interest rate burden is also forcing individual investors to cut their losses in stock markets, with risk assets in a parlous state. As such, overseas investors are unlikely to buy in South Korean markets, with the won likely to slide whether rates are lifted or not.

Based on the above, it seems the USD/KRW pair will undergo a structural rise in October. There could be some adjustment to the sharp rise seen in September and there are also concerns about interventions by the authorities, though overall the pair looks set to continue hitting highs this month.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – October 2022

Expected Ranges	**Against the US$: NT$31.50–32.50**
	Against the yen: JPY4.40–4.66

1. Review of the Previous Month

The USD/TWD pair rose in September to hit its highest level for around five years and eight months.

The pair opened the month trading at TWD30.470 on September 1. US interest rates had risen since FRB chair Jerome Powell's speech at the August Jackson Hole symposium, with the currency pair also edging higher. The US employment data was seen as satisfactory and this supported dollar buying, with the pair climbing to TWD30.9 on September 7.

The pair moved in a range mid-September ahead of the release of the US August CPI data. The data was stronger than expected and this led to expectations for faster rate hikes, so the greenback was bought and stocks weakened. Taiwan Capitalization Weighted Stock Index fell sharply and the USD/TWD pair topped TWD31 on September 14. As the Taiwan dollar continued to move bearishly, exporters remained in wait-and-see mode, to the Taiwan dollar was not bought much apart from a few real-demand transactions, with unit falling at a faster pace.

The currency pair rose further late September as overseas investors sold the Taiwan dollar. The greenback moved bullishly across the board in the wake of the FOMC meeting, so the pair breached TWD31.5 on September 22 to climb to TWD31.6. With importers and individual investors rushing to buy the greenback, the pair temporarily hit TWD31.901 on September 26. This marked the pair's highest level in around five years and eight months. After sitting in wait-and-see mode, exporters then moved to buy the US dollar towards the month's end (the end of the quarter), so the pair's topside was held down and it moved at TWD31.8.

2. Outlook for This Month

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

Exporters monitored the Taiwan dollar's bearishness in wait-and-see mode in September, so the Taiwan dollar was not bought much, with the unit also sold sharply by overseas investors.

When the Central Bank of the Republic of China (Taiwan) (CBC) met to set policy in September, it lifted the policy rate by 0.125% and the deposit reserve requirement ratio by 0.25%, just like it had done in June. At 2.66% y-o-y, the August CPI figure returned to the 2% range for the first time since February, with inflation standing at 3% for the year. This probably supported the CBC's decision to hike rates. In his press conference, though, the CBC governor Chin-Long Yang was vague about the future and he said tightening, easing or maintaining the status quo were all possible at the December CBC meeting. The CBC's decision was not unanimous, though, with one member strongly opposing a 0.25% hike because of rising property prices. Investors will need to study the minutes to this meeting in the run of up the next meeting.

The Taiwan dollar will continue to move bearishly in October. With the greenback moving bullishly across the board on rising US interest rates, the Taiwan dollar will continue sliding if exporters refrain from selling the greenback on expectations for Taiwan-dollar bearishness. Exports will also require monitoring. With consumer prices rising across the globe, consumers are holding off from buying final products, with inventory adjustments underway and Taiwanese exports growing at a slower pace. At 2.0%, export orders in August grew again after contracting in July, though the export amount grew at a slower pace at 2.0% y-o-y. With the globe entering a recession, exports will probably slide and Taiwan's trade surplus shrink, with the Taiwan dollar also likely to weaken. Investors should also monitor trade trends going forward.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – October 2022

Expected Ranges **Against the US$: HK$ 7.8400–7.8500**
Against the yen: JPY 17.80–18.75

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

HKD spot returned to its weak-side convertibility undertaking of 7.85 level as the Fed delivered a 75bps hike for third consecutive meeting. Yet, HKD rates played a catch-up with USD rates and USD-HKD rate spread held relatively steady. With capital outflow pressure being largely contained, the HKMA intervened in the FX market to defend the USD-HKD peg but the amount was tiny. In addition to carry trade factor, HK IPO activities remained subdued given bearish mood in HK equities. The Stock Connect flow to HK picked up modestly in September. Meanwhile, HK government took a bold step to loosen its border controls amid heavy pressure on the economy reopening. The requirements of the hotel quarantine and PCR test for inbound visitors was cancelled. Visitors will be allowed to enter restrictive venues including restaurants and bars if their virus test results are negative after 3 days. However, the relaxation is unlikely to attract plenty of foreign visitors when many countries (excluding China) dropped all of the inbound travel restrictions. On the contrary, domestic consumption could face a setback when residents departed from HK for outbound travel.

Hong Kong dollar interest rate market in September

HKD HIBOR curve jumped across tenors ahead of the quarter-end. 1-month and 3-month HKD HIBOR climbed to above 2.6% and 3.2%, respectively. Following Fed's 75bps hike in September, HK banks announced to raise the prime rate by 12.5bps for the first time since 2018. The prime rate hike was in line with expectation but the magnitude of baby-step rate hike was somewhat smaller than expected. With modest HKMA's FX intervention, the aggregate balance stood at around HKD 125bn level. With the fast rally in HKD rates, 1-month and 3-month HKD HIBOR – USD LIBOR spread rebounded to near -50bps and -40bps from near -70bps and -50bps, respectively. Following the re-pricing of higher terminal rate in current Fed's rate hike cycle, 5Y HKD IRS soared to its 14-year fresh high of 4.30%.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

Following Fed's 75bps hike, the carry return of long USD/HKD increased again and the resurfacing carry trade flow of long USD/HKD will likely send the HKD spot towards 7.85 level subsequently. Compared to the low of HKD 54bn in the previous Fed's rate hike cycle, the current aggregate balance of around HKD 120bn is relatively large and the ample HKD liquidity condition implies more shrinking room and HKD liquidity drainage. With bearish HK equities outlook and the China-US preliminary deal on auditing to avoid the delisting from US exchanges, Chinese companies will be less urgent to apply primary listing in HK exchanges and the IPO activities should remain subdued in the rest of this year. As a result, the capital inflow to HK should remain mild and the carry trade flow will be dominating to keep the HKD under pressure.

Hong Kong dollar interest rate market in October

HKD rates continued to track on higher USD rates following the Fed's 75bps rate hike in September. Against this backdrop, the retracement in HKD rates should prove to be limited after the quarter-end. Under the USD-HKD peg, HKD rates will track on USD rates (historically 3-month HIBOR tracked on Fed fund target rate) and we look for more upside for HKD HIBOR curve, with 3-month tenor to hit 4% possibly till year-end. HK banks kicked off the prime rate hike cycle with a 12.5bps baby-step hike and more prime rate hike will likely come to support the interest rate spread between prime rate and 1-month HKD HIBOR.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – October 2022

Expected Ranges **Against the US$: CNY 6.9000–7.4000**
Against the yen: JPY 18.24–21.16

1. Review of the Previous Month

In September, the U.S. dollar/Chinese yuan exchange rate rose sharply to its highest level in the year but fell at the end of the month.

On September 1, the U.S. dollar/Chinese yuan exchange market opened trading at around CNY 6.91. The People's Bank of China (PBOC) central parity rate was set toward a stronger yuan than the market estimate and the Chinese yuan remained weak at the beginning of the month. However, the appreciation of the U.S. dollar did not stop, as Jackson Hole Economic Symposium had been held in the previous week, at which Federal Reserve Board (FRB) Chair Jerome Powell emphasized that he would prioritize inflation even if that would mean some compromise on the economy.

On September 5, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-6.91 level. The Chinese yuan was generally weakening, due to strengthened measures against the Covid-19 pandemic in some cities as a result of an increase in Covid-19 cases in China. In the evening of the same day, the PBOC announced its decision to cut the foreign reserve requirement ratio. Immediately after the announcement, the Chinese yuan appreciated temporarily. However, on September 6, the U.S. dollar/Chinese yuan exchange rate started rising again as the market opened. As a consequence, in the morning of September 7, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.98 level, renewing its highest level in the year. Toward the end of the week, the depreciation of the Chinese yuan slowed, and on September 9, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 6.91 level.

On September 13, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.92 level after the Mid-Autumn Festival holidays. On the same day, the August Consumer Price Index of the U.S. was announced, revealing a result that was higher than the market estimate, and this led the U.S. dollar to continue appreciating. As a result, the U.S. dollar/Chinese yuan exchange rate rose sharply and approached the CNY 6.97 level. On September 15, the U.S. dollar/Chinese yuan exchange rate remained high, mainly thanks to the strength of the U.S. dollar. On September 16, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7 level at the opening of the onshore market for the first time since July 2020.

On September 19, the U.S. dollar/Chinese yuan exchange market opened at around the CNY 6.99 level. Immediately after market opening, the U.S. dollar/Chinese yuan exchange rate recovered to the CNY 7 level, after which the exchange rate remained high. On September 21, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.05 level. During the evening of September 21, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and the U.S. dollar appreciated against other major currencies. Consecutively, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.08 level on September 22, the following day. Then, on September 23, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.10 mark.

On September 26, the PBOC announced its decision to raise its foreign currency risk reserve requirement ratio from 0% to 20%, just before market opening. This announcement was expected to slow the Chinese yuan from depreciating, as it would increase transaction costs for companies that buy foreign currencies. However, the appreciation of the U.S. dollar and the depreciation of the Chinese yuan did not slow thereafter, and the U.S. dollar/Chinese yuan exchange market opened at the CNY 7.14 level, after which the exchange rate reached CNY 7.1690 before noon. Market participants became aware of the possibility for the exchange rate to reach CNY 7.1704—the upper end of the daily fluctuation range, which is 2%. In the evening of September 27, the media reported the speculation that the PBOC would introduce a counter-cyclical factor to the central parity rate again. However, Chinese yuan-selling did not slow down in the market, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.20 level on September 28, the following day, and approached the lower-CNY 7.25 level to renew the high, at around the upper end of the daily fluctuation range of 2%. In the evening of the same day, the media reported that the central bank of China had asked commercial banks to respect the central parity rate of the Chinese yuan. However, the reaction in the market was limited. Nonetheless, interest rates fell sharply in the U.S., following which the U.S. dollar/Chinese yuan exchange rate also fell. Furthermore, in the evening of September 29, the media reported that the PBOC had instructed state-owned banks to intervene in the foreign exchange market in order to stop the depreciation of the Chinese yuan. This headline led the U.S. dollar/Chinese yuan exchange rate to fall sharply to the CNY 7.11 level.

2. Outlook for This Month

In October, the U.S. dollar/Chinese yuan exchange rate is forecast to remain high, after once approaching the low.

In September, the U.S. dollar/Chinese yuan exchange rate rose to the lower-CNY 7.25 level for the first time since January 2008. This means that, compared to the CNY 6.91 level observed at the beginning of the month, the exchange rate rose by nearly 3,500 pips.

It is considered that the U.S. dollar/Chinese yuan exchange rate rose sharply in September mainly because it became clear that the U.S. would continue raising its policy interest rate during Jackson Hole Economic Symposium as well as the September FOMC meeting. Although the process of normalization of monetary policy by the FRB would last for a while, discussion on the end of interest rate hikes would start at some point from a medium- to long-term perspective. If this happens, the appreciation of the U.S. dollar is likely to peak out.

On the other hand, the PBOC reacted to the sharp depreciation of the Chinese yuan by cutting its foreign currency reserve requirement ratio, introducing again a foreign currency risk reserve system, as well as setting the PBOC central parity rate toward a stronger Chinese yuan compared to the market estimate, on a daily basis. With regard to the PBOC central parity rate, the Chinese monetary authorities have not made any official announcement that they had reintroduced a counter-cyclical factor, although the media has reported the speculation. Toward the end of the month, the PBOC has accelerated its measures to stop the depreciation of the Chinese yuan. Market participants should therefore remain attentive of the possibility for the U.S. dollar/Chinese yuan exchange rate to change the level significantly by around the National Day of the People's Republic of China.

From a short-term point of view, the Chinese yuan is likely to appreciate to correct the significant depreciation of the Chinese yuan discussed above. However, after some correction, the U.S. dollar/Chinese yuan exchange rate is forecast to start rising again, as there is no change in the weak Chinese economy mainly due to the weakness of the real estate sector, which resulted in economic stimulus measures and the "moderate" monetary policy.

After the National Day of the People's Republic of China, the 20th National Congress of the Chinese Communist Party will be held on October 16. Market participants should remain attentive to see if there will be any remarks made regarding additional stimulus measures for the sluggish real estate market, zero-Covid-19 policy, and trading.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – October 2022

Expected Ranges	**Against the US$: SG$ 1.3850–1.4620**
	Against the yen: JPY 97.00–108.00

1. Review of the Previous Month

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

From the beginning of the month, the Singapore dollar remained weak. This is due to the fact that, since the end of August, interest rates had been on the rise in the U.S., while the U.S. dollar had been appreciating. On September 2, the August employment statistics of the U.S. were released, revealing a sign of recovery in the supply & demand balance in the labor market, leading interest rates in the U.S. to fall to some extent. However, toward September 5, the Singapore dollar depreciated against other overall currencies, following which the U.S. dollar/Singapore dollar reached the SGD 1.40 level. Thereafter, the Singapore dollar remained weak. Then, on September 6, the August ISM non-manufacturing index of the U.S. was announced with positive growth, which led interest rates in the U.S. to rise in an accelerated manner. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.41 level toward September 8.

On September 9, the Singapore dollar rallied slightly. After the European Central Bank (ECB) monetary committee meeting and the speech by Federal Reserve Board (FRB) Chair Jerome Powell, risk sentiment in the market was somewhat improved. As a result, overall Asian currencies strengthened. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.40 level. Thereafter, market participant maintained a wait & see attitude, waiting for the announcement of the August Consumer Price Index of the U.S. scheduled for September 13. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the SGD 1.39 level. In the end, the August Consumer Price Index of the U.S. was announced to reveal positive growth. In reaction, interest rates in the U.S. rose, while U.S. stock prices fell significantly. Thus, the U.S. dollar appreciated rapidly, and the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.40 level again. Subsequently, market participants grew highly cautious before the Federal Open Market Committee (FOMC) meeting in the U.S., leading interest rates in the U.S. to rise gradually. Under such a condition, the U.S. dollar/Singapore dollar exchange rate continued rising slowly, and on September 17, the U.S. dollar/Singapore dollar exchange rate once reached the SGD 1.41 level.

On September 20 and 21, an FOMC meeting was held in the U.S., and there was a unanimous decision to raise the target range of the federal fund interest rate by 75 basis points from 2.25–2.5% to 3.00–3.25%. Furthermore, the Interest Rate on Reserve Balances (IORB rate) and the Overnight Reverse Repo Facility (ON RRP) were also raised by 75% respectively, without making any technical revision. In reaction, interest rates in the U.S. continued rising, and the U.S. dollar continued appreciating further. As a result, the U.S. dollar/Singapore dollar exchange rate rose significantly. Toward August 28, the U.S. dollar/Singapore dollar exchange rate rose sharply to once reach the upper-SGD 1.44 level, and the exchange rate has been at the highest level since March 2020 (as of September 29).

2. Outlook for This Month

The Singapore dollar is forecast to weaken against the U.S. dollar in October 2022.

The Singapore dollar exchange rate has recently been significantly impacted by factors related to the U.S. This trend is likely to last for a while, and the Singapore dollar is likely to remain weak toward the end of the year.

Important events in Singapore scheduled for October include the regular meeting of the MAS. It is likely that the MAS will take further measures of monetary tightening, as was the case at the regular meetings held in April and the emergency meeting in July. More precisely, the Monetary Authority of Singapore (MAS) is likely to make two revisions: rising the middle point of the SNEER and readjusting the slope of the SNEER (approximately 1–1.5% toward a stronger Singapore dollar), as was the case at the emergency meeting held last month.

Such decisions may lead the Singapore dollar to rally slightly against the U.S. dollar. However, given that the FRB remains hawkish without slowing down hawkish measures, the adjustment of both the SNEER middle point and the SNEER slope would only have temporary impact, no matter how hard the MAS tries. Thus, the forecast that has been repeated so far will not change, and the Singapore dollar is forecast to continue weakening toward the end of 2022.

The most-likely scenario would be that the U.S. dollar remains strong toward the end of 2022 and the beginning of 2023. The revisions to the monetary policy of the MAS will not be strong enough to impact the trend in the U.S. dollar/Singapore dollar exchange market, although they may somewhat slow down the depreciation of the Singapore dollar. In terms of the exchange rate, the U.S. dollar/Singapore dollar exchange rate is expected to temporarily reach the upper-SGD 1.46 level, or even higher (the SGD 1.48 level) toward the end of the year. The U.S. dollar/Singapore dollar is then likely to start slowly falling toward the middle of 2023 and to return to the SGD 1.40 level.

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

Thai Baht – October 2022

Expected Ranges **Against the US$: THB 37.40–38.90**
Against the yen: JPY 3.75–3.90

1. Review of the Previous Month

In September, the Thai baht weakened significantly against the U.S. dollar with nearly THB 2 between the high and the low of the U.S. dollar/Thai baht exchange rate. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the THB 36.60 level. Market participants actively bought the U.S. dollar with expectations for a large-scale policy interest rate hike in the U.S. This trend was supported by risk-averse sentiment due to strengthened measures against the of Covid-19 pandemic as a result of an increase of Covid-19 cases in China. Thus, the U.S. dollar/Thai baht exchange rate rose to the THB 36.80 level. However, this was adjusted before the announcement of the August employment statistics of the U.S., the figures of which turned out to be weak, leading the U.S. dollar/Thai baht exchange rate to fall to the mid-THB 36 level. Then, on September 5, the August Consumer Price Index of Thailand was announced, and the result turned out to be the highest in approximately 14 years. However, this result had been anticipated in the market and thus impact was limited. Thereafter, U.S. economic indices turned out to be stronger than the market estimate, leading the U.S. dollar/Thai baht exchange rate to rise to approach the THB 36.80 level. However, the trend was inverted thereafter, and the exchange rate fell, as market participants sold the U.S. dollar against a wide range of currencies, as interest rates in the U.S. were on a fall. Subsequently, the European Central Bank (ECB) decided to raise its policy interest rate significantly, by 0.75%. Federal Reserve Board (FRB) Chair Jerome Powell also confirmed a hawkish attitude. However, the appreciation of the U.S. dollar had already slowed down, and the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range at the lower-THB 36 level.

In the middle of the month, market participants were attentively waiting for the announcement of the August Consumer Price Index of the U.S. during the blackout period of the Federal Open Market Committee (FOMC). Before the announcement, the U.S. dollar/Thai baht exchange rate was at around the THB 36.30 level. However, as the August Consumer Price Index of the U.S. was announced and as the result was above the market estimate, the U.S. dollar strengthened in the overall market. As U.S. dollar interest rates also rose significantly, the U.S. dollar/Thai baht exchange rate rose to the THB 36.60 level. After the announcement of the August Consumer Price Index of the U.S., market participants expected the FRB to raise its policy interest rate by 100 basis points at the FOMC meeting scheduled for the following week. Under such circumstances, the Thai baht was ahead of the currencies of neighboring countries in terms of currency depreciation. Then, on September 15, the U.S. dollar/Thai baht exchange rate thus approached the THB 37 level. On September 16, the Chinese yuan reached its low against the U.S. dollar in approximately two years. Following this trend, the U.S. dollar/Thai baht exchange rate also reached the THB 37 level for the first time since December 2006. However, as this was a significant rise, there was some correction, and the U.S. dollar/Thai baht exchange market closed weekly trading at the THB 36.80 level. After the weekend, interest rates in the U.S. rose with cautious feelings in the market, while the central bank of Sweden announced a decision to raise its policy interest rate by 100 basis points. As a result, the depreciation of European bonds led to the depreciation of U.S. bonds, and the U.S. dollar/Thai baht exchange rate reached the THB 37 level again.

At the end of the month, the FOMC raised its policy interest rate by 75 basis points, which was the market consensus. However, the median of the future interest rate outlook by FOMC members was raised significantly from the previous level (announced in June). Thus, after the hawkish speech by FRB Chair Jerome Powell, the U.S. dollar/Thai baht exchange rate strengthened on the following day at the lower-THB 37 level. On September 23, the new U.K. government announced a decision to significantly cut taxes and to increase the issuance of government bonds. Due to concerns over the fiscal deterioration of the domestic economy, stock prices and bonds in the U.K., as well as the British pound itself, all fell, which affected interest rates and led to the rise of such worldwide. As a consequence, the Thai baht depreciated against the U.S. dollar in an accelerated manner, and the U.S. dollar/Thai baht exchange rate reached the upper-THB 37 level. Waiting for the Monetary Policy Committee (MPC) meeting in Thailand, market participants anticipated a policy interest rate hike of 25 basis points, which is weaker in effectiveness to control inflation compared to other countries. Thus, the U.S. dollar/Thai baht exchange rate renewed its high at the THB 38 level even before the MPC meeting started. The central bank of Thailand actually decided to raise its policy interest rate by 25 basis points, and such cautious attitude negatively affected the market. Thus, the U.S. dollar/Thai baht exchange rate renewed its highest rate at mid-THB 38. Toward the end of the month, the Bank of England intervened in the market by buying bonds in order to calm the confusion in the market. As a result, the U.S. dollar/Thai baht exchange rate once fell to the upper-THB 37 level. However, market participants persistently continued buying the U.S. dollar, and at the closing of the onshore market, the U.S. dollar/Thai baht exchange rate recovered to the THB 38 level again.

2. Outlook for This Month

In October, the U.S. dollar/Thai baht exchange rate is forecast to remain at its highest level in 16 years. In September, the U.S. dollar/Thai baht exchange rate reached the THB 38 level for the first time since June 2006 as a result of the rise of interest rates in the U.S., with the FRB's plan to continue raising the policy interest rate, along with confusion in the market being started in the U.K. While the market is dominated by the strong U.S. dollar, it is not only the Thai baht that recorded its lowest exchange rate against the U.S. dollar for the first time in several years or several decades. In the times ahead, inflow into emerging countries is not likely grow significantly, as market participants are concerned with a possible economic slowdown resulting from measures to control inflation taken by the major central banks with some sacrifice. Therefore, it would be too early to expect the Thai baht to start rallying against the U.S. dollar in October.

In order to control inflation in Thailand, in October there will be a salary increase of the largest scale in history, which will improve the salary level for laborers. However, it will not be enough to offset the inflation observed so far. It is therefore likely to take more time for inflation to calm. Under such circumstances, the effect of the current measure is limited. Furthermore, the household-debt-to-GDP ratio has been high, and the domestic economy has been weak, which is causing a delay for Thailand to take measures of monetary tightening compared to its neighboring countries. Thus, even though the central bank of Thailand raised its policy interest rate by 25 basis points, it is not sufficient to control inflation. As long as the central bank continues raising its policy interest rate at the current pace, the impact on the market is likely to be minimal. It is also worth noting that Thai-baht buying supported by foreign tourists has been higher than originally expected. However, the number of Chinese tourists is not likely to recover yet, and it will be difficult for the inflow to grow further. It is therefore difficult to expect this factor to change the trend and to lead the Thai baht to start appreciating against the U.S. dollar toward the end of the year.

In terms of external factors as well, there are many sources of uncertainty, such as the measures of monetary tightening maintained by major central banks discussed above and concerns over an economic slowdown in Europe and China, as well as the persistent conflict between Russia and Ukraine. The Thai baht is not free from the impact of these negative factors, as is the case with many other currencies.

For the above reasons, the current depreciation of the Thai baht has been a source of concern for the Thai government and its Ministry of Finance. However, other countries have similar situations, and thus it is difficult to say that the reason for the depreciation of the Thai baht is because of the fundamentals of Thailand. Under such circumstances, the central bank of Thailand is not likely to intervene in the foreign exchange market by defining the situation as speculative. Thus, the U.S. dollar/Thai baht exchange rate is forecast to remain high in October, mainly at its highest level in 16 years. Depending on the situation, the U.S. dollar/Thai baht exchange rate could also approach the THB 39 level.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2022

Expected Ranges	**Against the US$: MYR 4.60–4.70**
	Against the yen: JPY 30.77–31.75

1. Review of the Previous Month

In September, the U.S. dollar/Malaysian ringgit exchange rate mainly continued moving in one direction, and one day after another the Malaysian ringgit continued renewing its lowest exchange rate since the Asian financial crisis in 1998.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range between MYR 4.48 and MYR 4.50. On August 26, Federal Reserve Board (FRB) Chair Jerome Powell made a firm remark at Jackson Hole Economic Symposium such that he would continue raising the policy interest rate. After this, market participants maintained a wait & see attitude, waiting for a Bank Negara Malaysia (BNM) monetary policy meeting scheduled for September 8 as well as the Federal Open Market Committee (FOMC) meeting in the U.S. scheduled for September 22. On the other hand, in the U.S. dollar/Japanese yen exchange market, market participants continued selling the Japanese yen due to concerns over widening interest rate differentials between the U.S. and Japan. As a result, the U.S. dollar/Japanese yen exchange rate exceeded the JPY 140 level. Thereafter, market participants continued selling the Japanese yen, and the U.S. dollar/Japanese yen exchange rate rapidly rose to approach the JPY 145 level. The Malaysian ringgit/Japanese yen exchange rate rose to the JPY 32 level for the first time since 2015. Then, on September 8, the BNM monetary policy meeting was held, and the policy interest rate was raised by 25 basis points for the third consecutive time. While major countries in Europe and the U.S. continue raising their respective policy interest rates to a great extent, the BNM made a remark that the current inflation was at a controllable level and thus that it would raise its policy interest rate at a gradual pace. In reaction, the U.S. dollar/Malaysian ringgit exchange rate started rising in the middle of the month.

During that same time, the August Consumer Price Index of the U.S. was announced on September 13, revealing a significant rise in the prices of services and housing rents. The headline index and the core index, which excludes food and energy prices, turned out to be 8.3% and 6.3%, respectively, both exceeding the market estimate. After the announcement, some market participants expected a policy interest rate hike of 100 basis points in the U.S., and this caused some confusion in the U.S. market. As a result, the U.S. dollar/Malaysian ringgit exchange rate reached the MYR 4.52 level, while the euro/U.S. dollar exchange rate fell below parity again. The Malaysian ringgit/Japanese yen exchange rate remained low, not exceeding the JPY 32 level, as media sources had reported that the Bank of Japan was preparing to intervene in the foreign exchange market by checking exchange rates.

At the end of the month, an FOMC meeting was held in the U.S. on September 22, attracting substantial attention in the market. In reaction to the hawkish outcome of the FOMC meeting, the U.S. dollar/Malaysian ringgit exchange rate rose and reached the MYR 4.6 level. At the FOMC meeting, the policy interest rate was raised by 75 basis points, as had been anticipated in the market. However, the federal funds interest rate outlook given by FOMC members was raised significantly, and this encouraged market participants to buy the U.S. dollar. Thereafter, on the same day during trading hours in London, the Bank of Japan intervened in the foreign exchange market by selling the U.S. dollar. While the U.S. dollar/Japanese yen exchange rate fell by JPY 4, the Malaysian ringgit/Japanese yen exchange rate also temporarily fell below the JPY 31 level. However, thereafter, in spite of the Bank of Japan's intervention in the market, the U.S. dollar/Japanese yen exchange rate returned to approach the JPY 145, and the Malaysian ringgit/Japanese yen exchange rate returned to the mid-JPY 31 less than a week from such. In terms of domestic factors, the August trade statistics of Malaysia were released on September 20, with healthy figures apart from the fact that growth in exports to China—the largest trade partner for Malaysia—was slower than that of other countries. And on September 23, the August Consumer Price Index of Malaysia was announced, and prices increased by 4.7% year-on-year, led by food prices, although the result was within the expected range. After the announcement, market participants continued buying the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.6 level.

2. Outlook for This Month

In October, market participants are forecast to continue buying the U.S. dollar, as there have been few factors to encourage market participants to buy back the Malaysian ringgit. The Malaysian ringgit has already been almost at the all-time low against the U.S. dollar. The next psychological turning point would be MYR 4.885 recorded at the time of the Asian financial crisis in 1998. If the U.S. dollar/Malaysian ringgit exchange rate exceeds the level, it would be the all-time low for the Malaysian ringgit. Given the current level of the exchange rate, it is unlikely for the U.S. dollar/Malaysian ringgit exchange rate to reach this level. However, market participants should remain attentive to observe how much the Malaysian ringgit will depreciate against the U.S. dollar and when the U.S. dollar will peak out.

However, the current situation is caused by the situation in which the U.S. dollar is the only strong currency in the market. Compared to other major currencies such as the Japanese yen, the euro, the British pound, and the Chinese yuan, as well as other ASEAN currencies such as the Indonesian rupiah and the Thai baht, it can be said that the depreciation of the Malaysian ringgit is relatively moderate. For example, the percentage change against the U.S. dollar since the beginning of the year is -9.4% for the Malaysian ringgit, while it's -19.7% for the Japanese yen, -18.2% for the euro, -27.0% for the British pound, -11.8% for the Chinese yuan, -6.2% for the Indonesian rupiah, and -12.7% for the Thai baht. The depreciation of the Malaysian ringgit has been slower mainly because of (1) steady domestic economy, (2) abundant natural resources, (3) measures to control inflation and appropriate monetary policy taken by the government, and (4) geopolitical stability (please note that these four points are intertwined). Market participants should observe how these four factors will evolve in the times ahead in order to understand the future outlook of the market.

The Malaysian economy has been supported by a relatively stable trade surplus and personal consumption, and healthy economic growth was also confirmed by the most-recent statistics. Furthermore, Malaysia has resources such as natural gas and crude oil. Even though the prices of these resources are not likely to rise further, they are expected to continue contributing to the economic growth of Malaysia, as there is little risk of an extreme imbalance between supply & demand while also limiting the possibility of a drastic change in monetary policy and geopolitical stability. Under such circumstances, it would be natural for the Malaysian ringgit to rally against the U.S. dollar that continued appreciating even to a slightly excessive extent, once the expectation for interest rate hikes in the U.S. have started calming. In Malaysia, there are not many important events in the times ahead, apart from the announcement of the budget plan by the government, scheduled for October 7. Thus, until the Malaysian ringgit can start rallying against the U.S., the U.S. dollar/Malaysian ringgit exchange rate is likely to remain high, testing the patience of market participants.

Yu Tasai, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2022

Expected Ranges **Against the US$: IDR 15,000–15,500**
Against the yen: JPY 0.94–0.98 (IDR100)

1. Review of the Previous Month

In September, the U.S. dollar/Indonesian rupiah exchange rate rose (the Indonesian rupiah depreciated against the U.S. dollar).

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,800 level. Thereafter, expectation for a policy interest rate hike in the U.S. grew, leading interest rates in the U.S. to rise. In reaction, the Indonesian rupiah weakened against the U.S. dollar. On the same day, the August Consumer Price Index of Indonesia was announced, and the result was an increase of 4.69% year-on-year, which was slightly slower than the previous month, falling below 4.90%, which was the market estimate. However, impact on the foreign exchange market was limited. On September 3, the U.S. dollar remained strong, as the August employment statistics of the U.S. had been announced at the end of the previous week, with strong figures. Under such circumstances, the Indonesian rupiah depreciated further against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate rose to the IDR 14,900 level. On September 5 after the weekend, risk-averse sentiment strengthened in the market, as Russia indefinitely cut off gas exports to Europe via the Nord Stream 1 pipeline, while China strengthened anti-pandemic measures as a result of an increase of Covid-19 cases. As a result, the overall Asian currencies weakened. Following this trend, the Indonesian rupiah also weakened, and the U.S. dollar/Indonesian rupiah exchange rate fluctuated at the lower-IDR 14,900 level. However, on September 6, the following day, the Indonesian rupiah rallied, thanks to capital inflow from foreign security investment, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,800 level and remained stable. On September 7, U.S. bond yields rose, while market participants were expecting the Federal Reserve Board (FRB) in the U.S. to continue vigorous measures of monetary tightening. As a consequence, the U.S. dollar/Indonesian rupiah exchange rate also rose (the Indonesian rupiah depreciated), reaching the lower-IDR 14,900 level again. However, the appreciation of the U.S. dollar gradually lost momentum, and Asian currencies started to rally. Following this trend, the U.S. dollar/Indonesian rupiah exchange rate fell (the Indonesian rupiah appreciated against the U.S. dollar) as well. The Indonesian rupiah recovered to the lower-IDR 14,800 level against the U.S. dollar, and the exchange rate remained at the same level until September 12 in the following week. Then, on September 13, the August Consumer Price Index of the U.S. was announced, and the result was above the estimated level. In reaction, interest rates in the U.S. rose sharply, leading the U.S. dollar to strengthen. Under this circumstance, the U.S. dollar/Indonesian rupiah exchange rate also rallied, reaching the lower-IDR 14,900 level again. On September 14, the following day, the August trade balance of Indonesia was announced, revealing a trade surplus above USD 5.7 billion, which was higher than expected in the market. In reaction, the U.S. dollar/Indonesian rupiah exchange rate once fell below the IDR 14,900 level. However, the U.S. dollar/Indonesian rupiah exchange rate started rising because of the rise of interest rates in the U.S. that had continued since the announcement of the August Consumer Price Index of the U.S., as well as because of the appreciation of the U.S. dollar. The U.S. dollar/Indonesian rupiah exchange rate recovered to the IDR 14,900 level and rose further in an accelerated manner. Thereafter, market participants continued buying the U.S. dollar, waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. As a result, the Indonesian rupiah also remained weak, and the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,000 level. On September 22, Asian time, the outcome of the FOMC meeting was announced, and the contents were seen as hawkish, which accelerated the appreciation of the U.S. dollar further. The U.S. dollar/Indonesian rupiah exchange rate fluctuated within a range between the lower-IDR 15,000 level and the mid-IDR 15,000 level. On the same day, the outcome of the monetary policy meeting was also announced by the central bank of Indonesia, and the policy rate was raised by 50 basis points, which had not been expected. The policy interest rate was raised in order to control inflation while protecting the Indonesian rupiah. Thus, the major policy interest rate—the seven-day reverse repo rate—was raised to 4.25%. However, despite the fact that this decision was a surprise in the market, the Indonesian rupiah remained weak, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating mainly at the lower-IDR 15,000 level. On September 26, the British pound depreciated against the U.S. dollar due to concerns for deteriorating fiscal conditions. In reaction, risk-averse sentiment grew in the market, and the Indonesian rupiah deprecated. The U.S. dollar/Indonesian rupiah exchange rate thus rose further, and toward the end of the month, the exchange rate reached the IDR 15,200 level when monthly trading closed.

2. Outlook for This Month

In October, the U.S. dollar/Indonesian rupiah exchange rate is forecast to remain high (the Indonesian rupiah is forecast to remain weak against the U.S. dollar).

The August trade balance of Indonesia was announced in September, and the trade surplus turned out to be USD 5.7 billion—significantly exceeding the market estimate. This confirmed the strength of the trade balance of Indonesia. Furthermore, at the August meeting, the central bank of Indonesia decided to raise its policy interest rate by 25 basis points, and the governor of the central bank of Indonesia, Perry Warjiyo, had made a remark to emphasize that the central bank of Indonesia could not raise its policy interest rate as vigorously as the FRB. Nevertheless, the central bank of Indonesia raised its policy interest rate by 50 basis points at the September meeting. While there were supporting factors for the Indonesian rupiah, such as the trade balance and monetary policy, the Indonesian rupiah remained weak in September, and this is considered to be a result of the sense of uncertainty in the market related to interest rate hikes in the U.S., as well as the future economic outlook in Europe.

While the inflation rate in the U.S. remains high, the U.S. dollar is expected to continue strengthening, as has been the case so far, thanks to expectation for interest rate hikes in the U.S. Thus, in October, it is natural for the U.S. dollar to continue appreciating against the Indonesian rupiah. Furthermore, there are persistent sources of concern related to the future economic outlook in Europe, such as concerns over the fiscal weakness of the U.K. as well as concerns over energy supply as a result of the low water level of the Rhine River. Due to risk-averse sentiment in the market, it is likely for market participants to sell the currencies of Asian emerging countries. Following the trend of the appreciation of the U.S. dollar and the depreciation of Asian currencies, the U.S. dollar/Indonesian rupiah exchange rate is forecast to rise in October.

However, market participants are less likely to sell the Indonesian rupiah compared to other Asian currencies, as the trade balance has been improved in Indonesia and as Indonesia still has ample room for interest rate hikes compared to other countries in Asia. Moreover, the price of coal—a major export of Indonesia—remains high and does not seem to have peaked out yet. Thus, the trade surplus of Indonesia is likely to continue growing in the times ahead. Under such circumstances, from the viewpoint of domestic fundamentals, market participants are not likely to sell the Indonesian rupiah compared to other Asian currencies. Indeed, the percentage change of the Indonesian rupiah exchange rate against the U.S. dollar in September was third lowest after the Hong Kong dollar and the Singapore dollar. This trend is expected to continue in October.

Therefore, in October, the U.S. dollar/Indonesian rupiah exchange rate is forecast to rise mainly because of external factors. However, given domestic fundamentals, the depreciation of the Indonesia rupiah is likely to be moderate compared to other currencies of Asian countries.

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

Philippine Peso – October 2022

Expected Ranges **Against the US$: PHP 57.00–62.00**
Against the yen: PHP 0.395–0.42

1. Review of the Previous Month

The August manufacturing PMI of the Philippines was 51.2, with some improvement from the previous figure, which was 50.8. However, the U.S. dollar was on an uptrend, due to concerns over an economic slowdown in China as a result of the lockdown measures and expectations for continued vigorous policy interest rate hikes in the U.S. that had grown based on hawkish remarks by Federal Reserve Board (FRB) officials, as well as due to strong figures in U.S. economic indices. Under such circumstances, the Philippine peso depreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached PHP 56.770 on September 2, exceeding 56.450—the lowest rate for the Philippine peso, observed on September 27, 2004. The market sentiment remained negative thereafter due to the energy crisis in Europe. As a result, Asian currencies remained weak, and the governor of the central bank of the Philippines, Felipe Medalla, expressed his concerns over the impact of the depreciation of the Philippine peso on inflation. However, he did not mention an immediate policy interest rate hike. Furthermore, the July trade deficit of the Philippines renewed its all-time high. Thus, the Philippine peso depreciated further against the U.S. dollar at the beginning of the month, falling below the PHP 57.000 level.

Thereafter, market participants maintained a wait & see attitude, waiting for the announcement of the Consumer Price Index of the U.S. The U.S. dollar/Philippine peso exchange rate thus continued fluctuating within a narrow range at around the PHP 57.000 level without moving in any direction. As some market participants expected inflation in the U.S. to peak out soon, the U.S. dollar depreciated occasionally. However, the August Consumer Price Index of the U.S. turned out to be higher than expected, as a result of which the market reflected the expected policy interest rate hikes in the U.S. in an accelerated manner, encouraging market participants to buy the U.S. dollar in the overall foreign exchange market. Moreover, the central bank of the Philippines announced a current account deficit outlook with a larger figure than the previous outlook, and this was a negative factor for the Philippines peso. Thereafter, market participants grew cautious, as a Federal Open Market Committee (FOMC9 meeting in the U.S. was approaching and as the outcome could turn out to be hawkish. As a consequence, the Philippine peso continued renewing its lowest rate against the U.S. dollar for several consecutive days. In the end, the Philippine peso depreciated against the U.S. dollar to the PHP 58.000 level.

On September 22, the FOMC statement and policy interest rate outlook (as well as a press conference by FRB Chair Jerome Powell) all turned out to be more hawkish than expected. In reaction, the U.S. dollar appreciated significantly, and the Philippine peso weakened against the U.S. dollar to the PHP 58.500 level. Thereafter, the central bank of the Philippines raised its policy interest rate by 50 basis points, as had been anticipated by the majority of market participants. However, impact on the Philippine peso exchange market was limited. The governor of the central bank of the Philippines, Felipe Medalla, made a remark revealing the possibility of proactive market interventions while also hinting at further interest rate hikes in the time ahead by emphasizing that the Philippine economy was strong enough to accommodate measures of monetary tightening—although he added that everything would depend on measures taken by the monetary authorities in the U.S. Yet, this remark did not change the trend of the market, and the depreciation of the Philippine peso accelerated due to the confusion of the U.K. market, as well as due to concern over a global recession. After renewing the lowest rate against the U.S. dollar day after day, the Philippine peso continued depreciating, and the U.S. dollar/Philippine peso exchange rate reached the PHP 59.000 level.

2. Outlook for This Month

After the FOMC meeting, the statement, policy interest rate outlook, and the press conference of FRB Chair Jerome Powell all turned out to be more hawkish than expected. This confirmed the attitude of the FRB to firmly continue measures of monetary tightening in order to control inflation, even if sacrificing economic growth and employment. It is thus likely for the U.S. dollar to remain strong against many other currencies in the times ahead, as the U.S. is expected to maintain its vigorous measures of monetary tightening. Furthermore, the current account deficit of the Philippines is forecast to grow further due to increased imports, with resumed economic activities, as well as with the rise of international commodities prices, which is a negative factor for the Philippine peso. The Philippine peso is therefore likely to continue depreciating. It is also worth noting that the possibility of an economic soft landing is becoming unrealistic after the policy interest rate hikes of the U.S. Under such a condition, the depreciation of the Philippine peso could occasionally accelerate due to deteriorating market sentiment or due to its concomitant large-scale adjustment for risk assets.

On the other hand, the central bank of the Philippines is ready to take any necessary measure to control inflation, depending on economic indices. Furthermore, it has been pointed out that the Philippine economy is strong enough to accommodate measures of monetary tightening. Thus, it is increasingly likely for the central bank of the Philippines to continue taking vigorous measures of monetary tightening in the times ahead in reaction to the hawkish policy taken in the U.S., as well as due to the further depreciation of the Philippine peso. This possibility is a positive factor for the Philippine peso. Finally, there are also some factors that could mitigate the down pressure on the Philippine peso, such as proactive market intervention by the Philippine monetary authorities, the fall of crude oil prices, and a seasonal increase in overseas Filipino workers' remittances.

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

Indian Rupee – October 2022

Expected Ranges **Against the US$: INR 78.50–83.00**
Against the yen: JPY 1.73–1.84

1. Review of the Previous Month

In September, the U.S. dollar/Indian rupee exchange rate reached its all-time high.

On September 1, the U.S. dollar/Indian rupee exchange market opened trading at INR 79.52. Because the number of Covid-19 cases started to increase again in China, the Chinese yuan depreciated, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.95 mark, which led other Asian currencies to depreciate as well. Furthermore, a Russian gas pipeline was shut down, which encouraged market participants to sell the euro and British pound and buy the U.S. dollar. As a result, the U.S. dollar index exceeded the 110 level for the first time in 20 years, confirming the strength of the U.S. dollar. Under such circumstances, market participants expected the Indian rupee to depreciate as well. However, the Indian monetary authorities intervened in the foreign exchange market by selling the U.S. dollar, which stopped the Indian rupee from depreciating further before the U.S. dollar/Indian rupee exchange rate reached the INR 80 level. At the same time, the crude oil price fell below the USD 90 level for the first time since February this year, which was also a positive factor for the Indian rupee.

In the second week of the month, the media reported that China exposure was decreasing in emerging market funds due to the zero-Covid-19 policy taken in China. Based on this report, market participants expected part of such funds to flow into India, and this led the SENSEX Index to recover to the 60,000 level. Market participants expected foreign investors to buy the Indian rupee. On September 12, the Consumer Price Index of India was announced after market closing, and the inflation level turned out to be above the market estimate, which made it more likely for the central bank to raise the policy interest rate. Furthermore, a bank in the U.S. announced its forecast that Indian government bonds would be incorporated into a JP Morgan global index. There were rumors among market participants that investment capital worth USD 30 billion would flow into India as a result. As a consequence, market participants sold the U.S. dollar and bought the Indian rupee in the foreign exchange market. On September 13, the U.S. dollar/Indian rupee exchange rate fell sharply to reach the INR 79.02 level—the monthly low. However, in the evening of the same day, the U.S. commodity index exceeded the market estimate, which led the U.S. dollar to strengthen significantly. The U.S. dollar/Indian rupee exchange rate reached the upper-INR 79 level. The Chinese yen also weakened against the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7 level, which had been a psychological turning point. The overall Asian currencies weakened.

In the third week of the month, President of Russia Vladimir Putin released a presidential order to mobilize reservists, while expectations grew for policy interest rate hikes in the U.S. As a result, the U.S. dollar appreciated, and the U.S. dollar/Indian rupee exchange rate exceeded the INR 80 mark before a Federal Open Market Committee (FOMC) meeting was held in the U.S. Thereafter, the outcome of the FOMC meeting was seen as hawkish in the market, and on September 22, the following day, the U.S. dollar strengthened, and the Indian rupee weakened significantly, and the U.S. dollar/Indian rupee exchange rate reached INR 80.875. On September 23, this trend persisted, and the U.S. dollar/Indian rupee exchange rate rose further to INR 81.245, while weekly trading closed at this level.

In the fourth week of the month, risk-averse sentiment grew in the market due to confusion in the U.K. The U.S. dollar/Indian rupee exchange market opened trading on Monday at INR 81.55. It seemed that the Reserve Bank of India (RBI) intervened in the market by selling the U.S. dollar when the U.S. dollar/Indian rupee exchange rate was at the INR 81.50 level. However, the appreciation of the U.S. dollar did not slow down. When the 10-year U.S. government bond yield reached 4%, the U.S. dollar/Indian rupee exchange rate rose further to INR 81.95 on September 28, recording a monthly high and renewing the all-time high. As of the afternoon of September 29, when this article was being written, the U.S. dollar/Indian rupee pair was trading at INR 81.86.

2. Outlook for This Month

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

As was the case in August, the U.S. dollar/Indian rupee exchange market in September turned out to be exactly how it was forecast in this article last month. As for the U.S. dollar/Indian rupee exchange market in October as well, the key factors are likely to remain.

Market participants are often attentive of U.S. dollar-selling market interventions by the Indian monetary authorities. At the beginning of September, the Indian monetary authorities carried out market interventions intermittently when the U.S. dollar/Indian rupee exchange rate was about to reach the INR 80 level, such that the exchange rate remained at the INR 79 level. Thereafter, the U.S. dollar appreciated significantly after the FOMC meeting in the U.S., and the Indian monetary authorities intervened vigorously in the market by selling the U.S. dollar. Thus, there was a net sell of U.S. dollars for the month of September. According to the latest available data, there was a confirmed net sell of U.S. dollars, worth USD 19.05 billion in the spot exchange market in July on a single-month basis. Furthermore, in the week of September 16, the foreign currency reserve was as little as USD 545.65 billion—the lowest since October 2, 2020. Regarding this point, there was a trial calculation in the report of the Reserve Bank of India (RBI) released at the beginning of September. According to this calculation, the current foreign currency reserves were approximately equivalent to nine months' worth of India's imports. It is still far from three-month's worth of the same, which is generally considered to be ideal. Thus, there is still more room for market intervention. However, market participants should keep in mind that market interventions can be a buffer in the foreign exchange market and that they do not change the trend in the market itself, as is clear from the trend in the U.S. dollar/Japanese yen exchange market after the market intervention of JPY 3.6 trillion by Japan's Ministry of Finance, carried out in September. In terms of the trade balance of India, the total trade deficit for the period between January and August was USD 185.4 billion. Thus, given that the average monthly deficit is USD 23.2 billion, it is clear that the Indian rupee will not start depreciating even if the RBI intervenes in the market using USD 19 billion.

On September 30, the outcome of the monetary policy meeting will be announced by the RBI. The market consensus is a policy interest rate hike of 0.35% or 0.50%. Furthermore, market participants are interested in (1) whether the inflation outlook will be revised upward and (2) whether the economic growth outlook will be revised downward. As is the case with the Federal Reserve Board (FRB), it is certainly important to know how much the policy interest rate will be raised in order to predict the so-called "terminal rate" at which the series of policy interest rate hikes will end. However, it is also important to carefully observe the economic outlook by the RBI.

For these reasons, the U.S. dollar/Indian rupee exchange rate is most likely to remain on an uptrend in October. However, because the FOMC meeting has already been held, there will not be enough factors for the exchange rate to continue renewing its high, as was observed in the last week of September. Thus, for the time being, it should be said that the U.S. dollar/Indian rupee exchange rate is forecast to remain high.