Mizuho Dealer's Eye

December 2022

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Mizuho Bank, Ltd.

Global Markets Sales Department

Yuma Matsuki, Forex Sales, Global Markets Sales Department

U.S. Dollar – December 2022

Expected Ranges Against the yen: JPY131.00–145.00

1. Review of the Previous Month

In November, after the FOMC meeting and the release of the US October employment data, the dollar/yen pair fell to it its lowest level since August after the US CPI data fell below market expectations.

The pair opened the month trading at 148.73 yen. As expected, the FOMC implemented a large rate hike when it met on November 2, but with expectations growing that the pace of rate hikes would be slowed from the next meeting, the pair plunged to 145.68 yen. However, the greenback was then bought at a faster pace after the US authorities expressed caution about the idea of halting rate hikes, so the pair shot back up to the upper-147 yen level. On November 3, the yen was bought on risk aversion on news about a North Korean missile launch, so the pair fell to the lower 147-yen mark. The US released some better-than-expected October employment data on November 4, but the unemployment rate was weaker than expected. As US long-term interest rates fell, the pair slipped to the mid-146 yen level.

The pair opened the following week trading at 146.89 yen on November 7. The dollar was then bought and the pair climbed to 147.55 yen after the Chinese authorities said they would continue to pursue a Zero Covid policy. A wait-and-see mode prevailed over November 8–9 ahead of the US mid-term elections and other events, so the pair moved in range of the lower-145 yen mark and around the lower-146 yen mark. The US October CPI data was released on November 10. The headline and core figures were both down on market forecasts and this led to some strong dollar selling, with the pair tumbling to 140.20 yen. On November 11, speculation grew that the FRB would slow the pace of rate hikes after the November University of Michigan Consumer Sentiment Index fell below expectations, with the pair also sliding to 138.46 yen.

The pair opened the third week trading at 139.61 yen. It was then bought at this key level and it climbed to the upper-140 yen level, though it then dropped below 140 yen after FRB officials made some dovish comments. The pair plummeted to 137.67 yen on November 15 after the US October PPI data fell below expectations. However, the pair then recovered to the lower-139 yen mark as the greenback was bought on risk aversion after a missile landed in Poland. The pair ended the week trading around 140 yen as FRB officials made a series of mixed comments over November 16–18.

At the start of the fourth week, on November 21, the pair rose to 142.25 yen on dollar buying. Concerns about an economic recession grew on November 23 on the release of a worse-than-expected US PMI for November. US interest rates also fell after the minutes to the November FOMC meeting revealed support for a slower pace of rate hikes in the near future. All this saw the currency pair weakening to the mid-139 yen level.

The pair opened the fifth week trading at 139.36 yen on November 28. The yen was then bought on risk aversion following demonstrations in China over the government's Covid-19 policy, with the dollar/yen pair tumbling to a monthly low of 137.50 yen. The pair then rallied, in part due to hawkish comments by FRB officials. It then swung to and fro around the mid-138 yen mark on November 29 amid the end-of-month real-demand flow. This flow also influenced the markets on November 30, with the pair moving at the 138 yen mark.

2. Outlook for This Month

The dollar/yen pair is expected to trade with a heavy topside in December.

The markets have more-or-less priced in a +50bp rate hike when the FOMC meets on December 14, so the impact of this move will be limited. However, the minutes to the November FOMC meeting revealed that a majority of members believed it would soon be appropriate to slow the pace of rate hikes. Based on this, investors will be watching for any specific comments about slower rate hikes or about the terminal rate at the December FOMC meeting.

The results of the October CPI data would support arguments for a slower pace of rate hikes, with the headline and core figures both falling below market expectations. Of course, inflation remains some way off the 2% target, but with October inflationary indicators and University of Michigan's one-year-ahead expected inflation rate both sliding, it seems inflation is peaking out. If inflation-related indicators fall below market expectations going forward, the markets will focus even more on the possibility of a slower pace of rate hikes, with US interest rates likely to fall and investors likely to test the dollar/yen pair's downside again.

However, many FRB officials have made hawkish comments aimed at putting the brakes on market moves to stop pricing in rate hikes. Investors are also still focused on Japanese/US interest-rate differentials on the divergent monetary policy stances of the US and Japan. Given this, the pace of the pair's slide will probably be gentle, with the pair set to move in the 130-yen range.

In recent times, though the currency pair has hit 140 yen at times, it has responded swiftly to negative news and has soon dropped back to the 130-yen range. The pair will probably face strong downward pressure on the technical front too, with the pair's conversion line moving below the base line (a selling signal).

Investors should also pay attention to China's Zero Covid policy. With Chinese citizens continuing to protest, there are signs that the government might adjust this policy. The authorities have gradually begun to normalize production and daily lives in some areas. If there is some announcement about the scrapping of the Zero Covid policy across the whole of China, the CNH might be bought against the dollar on hopes for a recommencement of economic activity in China, with this possibly serving to push the dollar/yen pair lower too.

The pair has seen a fall in liquidity since the intervention in the forex markets. With market participants also likely to fall over the Christmas holiday period, the pair will probably trade with a lack of incentives overall. However, if a sense of direction emerges on some headlines or major movements, the pair could move erratically, 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	4 bulls	143.00 – 135.00	Bearish on the dollar	14 bears	142.00 – 134.00

* Ranges are central values

Miyachi	Bear	140.00 – 132.00	There remains a gap between Japanese and US monetary policy, but US interest rates are facing less upwards pressure, with the global rate-hike cycle also slowing. Signs of change have also been seen when it comes to the supply and demand environment in Japan. Given all this, investors will probably test the dollar/yen pair's downside in the short term this month.
Tsutsui	Bull	143.00 – 136.50	There are concerns about an economic downswing and rising yen interest rates, with the forex options market pricing in the risk of yen appreciation. We will have to wait until May before we see signs of wages clearly rising in Japan. With US policy rates also remaining high, it seems the dollar will move bullishly and the yen bearishly again this month as investors focus on interest-rate differentials.
Kato	Bear	142.00 – 132.00	The dollar/yen pair will face some adjustment in December too. Some US officials continue to make hawkish comments, but the impact of sharp rate hikes on the real economy is becoming clear and it is growing harder to overlook the impact on employment. With seasonal factors also playing a role, the dollar/yen pair will probably trade with a heavy topside in December.
Yamazaki	Bear	142.00 – 135.00	Inflationary expectations look set to linger, but the pace of rate hikes will probably slow slightly compared to expectations, so the dollar/yen pair will probably face some adjustment in December. Investors should pay attention to price movements as liquidity falls at the year's end.
Ito	Bear	142.00 – 134.00	A terminal rate for the federal funds rate is starting to loom into view, so US interest rates will only have limited room to rise. The dollar/yen pair is gradually moving into a risk-off phase on concerns about an economic slowdown. A lot will still depend on the data, but the pair will probably trade with a heavy topside this month.
Yamagishi	Bull	143.00 – 135.00	Consumer spending and employment are both moving firmly in the US. inflationary pressures still linger on this strong economic performance, with recent comments by FRB officials also pouring cold water on optimism about inflation. It seems the US will continue to pursue "stronger and longer" monetary tightening, with the dollar/yen pair's downside set to move firmly.
Omi	Bear	141.00 – 135.00	The dollar/yen pair's movements will be deadlocked, with the greenback sold on expectations for a slower pace of US rate hikes and bought on speculation that the terminal rate will be raised. Inflation seems to be slowing, with rate hikes likely to be scaled back, so dollar selling will probably prevail overall.
Ueno	Bull	143.00 – 135.00	A lot will depend on the results of the CPI data (released December 13) and the FOMC meeting (December 13–14). Investors have priced in a +50bp rate hike at the December FOMC meeting, so unless the dot chart is revised sharply or some other surprise emerges, the dollar/yen pair will probably move with a lack of incentive as liquidity falls.
Kai	Bear	140.00 – 135.00	Expectations for US rate hikes will rise ahead of the FOMC meeting, but investors have not priced in a +75bp hike at the December ECB meeting, so the euro might be bought and the dollar sold this month. With the ECB meeting taking place after the FOMC meeting, the greenback could be sold on a surprise ECB rate hike.
Matsunaga	Bull	143.00 – 135.00	Investors began pricing in a slower pace of FRB rate hikes in November. The FOMC might only implement a +50bp rate hike in December, but if it reiterates its commitment to reining in inflation, the yen will probably move bearishly again as investors focus once more on the divergent monetary policies of the US and Japan.
Onozaki	Bear	141.00 – 135.00	Dollar buying will ease off as the end of US rate hikes looms into view. The dollar/yen pair will also move with a heavy topside as investors focus on a slower pace of rate hikes at the December FOMC meeting. However, market participants will probably search for the pair's downside in the 130 range, with the pair likely to move around the upper-130 yen mark on the whole.

Harada	Bear	141.00 – 133.00	The FOMC has moved hawkishly until now, but the dollar/yen pair's upward momentum might slow this month as the FOMC now starts looking to slow the pace of rate hikes. With the topic of the next BOJ governor becoming an issue toward the New Year, it seems the pair's rise may already have peaked out.
Katoono	Bear	142.50 – 134.50	A slower pace of US rate hikes seems nailed on, with the dollar set to be sold at a faster pace from the December FOMC meeting to the end of the year. With the US mid-term elections now out of the way, investors will now monitor whether the focus in the US shifts from tackling inflation to supporting the economy.
Kobayashi	Bear	145.00 – 133.00	The FRB has hiked rates by +75bp for four consecutive times, but it will probably slow the pace of rate hikes at the last FOMC meeting of the year in December. Under these circumstances, the dollar-buying trend will probably come to an end, with investors likely to test the dollar/yen pair's downside.
Henmi	Bear	142.00 – 132.00	Market participants should be wary of hawkish comments by FRB officials aimed at cooling market optimism. However, it seems dollar bullishness is peaking out, with the dollar/yen pair set to continue trading with a heavy topside.
Suzuki	Bear	142.50 – 134.00	Dollar bullishness has been driven by rising interest rates, but this trend seems to have eased off. The dollar/yen pair has risen since the start of the year, but it will probably face some adjustment in December on seasonal factors, with the pair likely to trade with a heavy topside.
Kimura	Bear	141.00 – 134.00	US interest rates have prompted rate hikes across the globe, but this trend has eased. Before now, the yen had stood out as the only currency not impacted by this trend, but this situation is also improving. With funds flowing into the currencies of Oceania and other non-dollar currencies effected by high interest rates, it is growing harder to gauge a sense of direction for the dollar/yen pair, though it will probably trade with a heavy topside.
Okuma	Bear	142.00 – 134.00	The dollar plunged after the CPI shock and its comeback has been muted, with the unit moving with a bearish undertone. It seems inevitable that the pace of rate hikes will be slowed. With speculation also brewing that the BOJ will tweak its easing policy in the next fiscal year, it seems the dollar/yen pair's downside will edge lower this month.

Kazutada Harada, Forex Sales, Global Markets Sales Department

Euro – December 2022

Expected Ranges	**Against the US$: US$0.9990–1.0550**
	Against the yen: JPY140.00–148.00

1. Review of the Previous Month

With the dollar moving bearishly in November, the euro/dollar pair edged back above parity.

The greenback was sold at the start of the month on news that the People's Bank of China (PBC) had intervened in the currency markets, so the pair edged higher, though it then fell to around $0.9870 after the US released some better-than-expected economic indicator. The pair moved in a range on November 2. It then rose to $0.9976 immediately after the release on the FOMC statement on hints that the pace of rate hikes would be slowed toward December. FRB chair Jerome Powell then said the debate about the pace of rate hikes and the debate about interest rate levels were two separate things, though he insisted that further rate hikes were necessary. The markets switched to dollar buying and euro selling in the wake of these hawkish comments. The dollar was bought on November 3–4 on anticipation for rising interest rates. The euro then edged higher towards the weekend, with the pair closing the week at $0.9960.

On November 7, the pair returned to parity as the greenback was sold on risk appetite. The pair continued trading in a range midweek. The dollar was bought slightly on November 10 ahead of the release of the US October CPI data, with the pair temporarily dropping to $0.9936. US interest rates then fell after the US October CPI fell below expectations. Amid a flurry of dollar selling, the pair surged to $1.02 for the first time since August. The dollar was sold on November 11 too, with the pair hitting $1.03.

The greenback was bought on November 14, so the pair dropped to $1.0272. However, it rallied to $1.03 as US interest rates fell on comments by FRB vice chair Lael Brainard. On November 15, the pair surged to $1.0481 on the weak result of the US October PPI data. The dollar was then bought back, with the pair moving at $1.03. The pair fell for a time on dollar buying over November 16–18, but on the whole it moved without a sense of direction at the upper-$1.03 level.

The greenback was bought on November 21 and the euro was sold on concerns about eurozone energy supplies as crude oil prices rose, so the currency pair weakened. The US released some worse-than-expected economic indicators over November 22–23. The dollar was also sold as US interest rates fell after the minutes to the November FOMC meeting revealed some support for slowing the pace of rate hikes. All this saw the euro/dollar pair recovering to $1.04. This trend continued on November 24, with the pair moving firmly. Amid a dearth of new factors, the pair moved with a lack of incentives on November 25. It traded with a lack of direction around $1.04 throughout the day.

On November 28, the pair rose to just below $1.05 following hawkish comments by ECB Governing Council member Klaas Knot. However, it was then sold back after failing to reach $1.05. It moved in a range towards the month's end on a dearth of new factors.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside this month. The euro will remain a hard currency to buy given concerns about the Ukraine situation and energy supply shortages, for example.

The latter concern will become more pressing as energy use ramps up in Europe when winter truly arrives in December. Europe's economic indicators show signs of a slowdown in sectors susceptible to the energy situation, with households also feeling the pinch from persistently high inflation. With uncertainty rising in Europe over energy supplies, the eurozone could face stagflation conditions. ECB board member and chief economist Philip R. Lane has said the energy supply problem is connected to high inflation and the economic slowdown, with energy-price-driven inflation set to cool off in 2023 as this particular supply-side factor eases off. However, Lane's comments concern 2023 and they have done nothing to remove the uncertainties facing the eurozone right now.

Meanwhile, the pace of US rate hikes is expected to slow from this month onwards. The FOMC has lifted rates rapidly by over 4% since entering 2022 and the impact of these hikes is starting to make itself felt. The greenback has been sold as the market rushed to price in a slower pace of rate hikes after the US CPI downswing in November. It seems the trend of dollar bullishness will peak out the closer we get to the end of the rate-hike cycle. Since last year, the dollar has been bought in tandem with US rate hikes, with the euro/dollar pair breaching parity in summer. With the pace of rate hikes slowing and most observers expecting the FOMC to lift rates by just +50bp this month, the euro/dollar pair is bouncing back after bottoming out in September.

Nonetheless, the US continues to tighten policy through rate hikes, with the final landing point for rate hikes still some way off, so the greenback will continue to have an edge over the euro. One uncertainty in both Europe and the US is the concern that rate hikes might lead to an economic slowdown, but Europe faces further uncertainties related to energy supplies and the Ukraine situation, so investors will find it hard to build up euro long positions. As such, the euro/dollar pair's room on the topside will be capped this month and the pair looks set to move bearishly around parity.

Dealers' Market Forecast

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

Bullish on the euro	7 bulls	1.0700 – 1.0100	Bearish on the euro	11 bears	1.0600 – 1.0000

* Ranges are central values

Miyachi	Bull	1.0700 – 1.0250	Pressure for rising US interest rates is easing off. With the dollar also undergoing adjustment, the euro/dollar pair looks set to move firmly this month. Europe continues to face negative factors like bearish sentiments and the Russian invasion, but the pair's downside will be supported by dollar selling.
Tsutsui	Bear	1.0500 – 1.0100	The ECB is aggressively hiking rates to tackle high inflation brought about by supply constraints, but this is causing the eurozone economy to noticeably slow. The ECB will probably call a halt to rate hikes in the near future, with the euro/dollar pair likely to move bearishly as a result.
Kato	Bear	1.0600 – 1.0000	The dollar will probably be sold at a faster pace on seasonal factors from mid-December. With the ECB also likely to opt for QT, the euro/dollar pair will have room to rise temporarily. However, the core fundamentals seem to be weakening, so investors should be wary of sell-backs.
Yamazaki	Bear	1.0700 – 0.9900	Concern is growing about China's Zero Covid policy. With the Ukraine situation continuing to smolder too, the euro will stop rising in December. The euro/dollar pair is unlikely to undergo a one-sided move toward the month's end and it will probably face some adjustment.
Ito	Bear	1.0600 – 0.9900	The dollar has been sold on the Fed Pivot. The euro rose in November on expectations for ECB rate hikes, but the euro/dollar pair's topside will continue to be held down by the energy crisis. Euro bullishness will also be kept in check by the heaviness of the cross yen's topside on concerns about an economic slowdown.
Yamagishi	Bull	1.0700 – 1.0000	With prices continuing to rise for a prolonged period, the ECB is concerned about an inflationary spiral. Germany's CPI figure (EU base) rose to 11.3% in November, with the eurozone continuing to face record inflation (which is also higher than inflation in the US and Japan). As such, the ECB still has ample room for rate hikes, with the euro likely to be bought. Cooling commodity prices will also act as a positive supply-and-demand factor for the euro.
Omi	Bull	1.0600 – 1.0100	The euro/dollar pair will continue to rise as the dollar is sold on expectations for a slower pace of rate hikes by the FRB. The ECB might also scale back its rate hikes, though. With some observers also saying inflation is peaking out in the eurozone, the pair's rise will be muted.
Ueno	Bull	1.0700 – 1.0100	The euro/dollar pair often forms a white candlestick in December as European firms repatriate funds ahead of their settlement results, with this situation occurring 68% of the time (15/22 years) since 2000. Inflation still hasn't peaked out either, so the pair looks set to move firmly this month.
Kai	Bear	1.0550 – 1.0200	The markets have yet to price in a +75bp rate hike by the ECB, so the euro will probably be bought and the dollar sold in December. The ECB will be meeting after the FOMC, so even if the FOMC meeting leads to growing expectations for dollar buying, this trend could reverse if the ECB springs a surprise.
Matsunaga	Bear	1.0500 – 1.0000	The euro/dollar pair looks set to move bearishly on concerns about stagflation in the eurozone on external factors like the Ukraine problem and renewed spread of Covid-19 in China. The pair will also be weighed down as the ECB slows the pace of rate hikes.
Onozaki	Bull	1.0800 – 1.0000	The eurozone faces concerns related to the Ukraine situation and stagflation. However, though the FRB is set to begin discussions about winding down rate hikes when it meets in December, the ECB remains in rate-hike mode, so the euro will probably be bought this month.

Harada	Bear	1.0550 – 0.9990	The euro/dollar pair looks set to trade with a heavy topside. The eurozone faces concerns about the Ukraine situation and the energy supply problem. The euro will also be weighed down by uncertainties about rate hikes, so investors will continue to find it hard to buy the single currency in December.
Katoono	Bear	1.0450 – 1.0150	With inflation remaining high, the ECB is likely to continue implementing large rate hikes and it will start to discuss QT in earnest. However, there are also concerns about stagflation, with the eurozone economic growth rate set to slide on the Ukraine situation and energy worries.
Kobayashi	Bear	1.0600 – 0.9800	The ECB looks set to hike rates again as it tries to rein in inflation. However, investors will find it hard to buy the euro given the Ukraine situation, the energy supply problem, and an economic slowdown within the eurozone. As such, the euro/dollar pair is expected to move bearishly this month.
Henmi	Bull	1.0600 – 1.0200	There are no reasons to actively buy the euro, with recessionary concerns growing on rising geopolitical risk and inflation. The dollar is peaking out, though, while the ECB continues to implement large-scale rate hikes, so the euro/dollar pair looks set to move firmly this month.
Suzuki	Bear	1.0600 – 1.0000	The euro/dollar pair will be supported by expectations for a slower pace of rate hikes in the US. However, the eurozone faces several challenges, including the energy supply problem and recessionary concerns. The pair's room on the topside will be capped and it will probably move with a heavy topside.
Kimura	Bear	1.0600 – 1.0100	The ECB is aggressively hiking rates to tackle inflation. The eurozone faces strong stagflation concerns, though, so any euro buying will probably be short-lived, with the euro/dollar pair likely to move skittishly with an eye on commodity prices.
Okuma	Bull	1.0650 – 1.0050	It seems the ECB Governing Council will slow the pace of rate hikes when it meets in December. With inflation remaining high, though, the ECB will continue to fight inflation, even it if means sacrificing the economy to a certain extent. With the ECB expected to continue hiking rates longer than the FRB, it seems the euro/dollar pair will move firmly this month.

Joseph McElhill, Europe Treasury Department

British Pound – December 2022

Expected Ranges **Against the US$: US$1.1900–1.2400**
Against the yen: JPY165.00–173.00

1. Review of the Previous Month

The pound fluctuated against the yen and euro in November, though a glance back reveals that these movements remained within a range. The euro/pound pair in particular has remained deadlocked between $0.8570–0.88 in the two months since the pound and UK gilt prices plummeted after the announcement of the UK budget plan at the end of September. The pound/dollar pair's movements were driven by greenback, with the pair clearly rising from the $1.16 range to the $1.20 range.

The greenback was bought at the end of October and this trend continued in November, with the pound/dollar pair falling to $1.12 at the start of the month. However, the pound was bought on November 4 as UK gilt rates rose on news the Bank of England (BOE) would soon be announcing details of the unwinding of its emergency gilt buying operation. The US October employment data was released on the same day, with the dollar then sold across the board. The currency pair rose to the mid-$1.15 mark on the evening of November 5 while also soaring from 165 yen to 169 yen against its Japanese counterpart. The markets then remained in wait-and-see mode ahead of the release of the US October CPI data on November 10. The greenback was sold sharply when the data was released during overseas trading time as investors focused on how the headline and core figures were both down on market expectations. The pound/dollar pair moved firmly to temporarily top $1.17 for the first time since late August. The dollar was sold at a faster pace on November 15 when the US October PPI data dropped below expectations, with the pound/dollar pair temporarily soaring to $1.20, though it was soon pushed back to $1.18. Sterling moved flatly against the yen and euro. The UK October CPI data was released on the morning of November 16. At +11.1% y-o-y, inflation hit its highest level in 41 years, with the dollar/pound pair then fluctuating around $1.19.

The UK November Manufacturing and Services PMIs were released on November 23. Both were broadly up on market expectations, with sterling noticeably rising against the dollar, yen and euro. The greenback was then sold on some weak US November PMI data and the release of the minutes to the FOMC meeting, with the pound/dollar pair topping $1.21 toward Asian trading time the following day. During this time, the eurozone released a broadly-bullish November PMI on the same day, but sterling still rose sharply against the euro, with the euro/pound pair dropping from $0.87 to below $0.86 during London trading time. The pound/yen pair also soared from right around 168 yen to 169 yen. November 24 was marked by a lack of movement due to Thanksgiving in the US. However, the previous day's trend continued as BOE deputy governor Dave Ramsden stated that the BOE would continue to tighten policy to tackle inflation. The pound/dollar pair hit a monthly high of $1.2153, with the euro/pound pair also falling to a low of £0.8573.

2. Outlook for This Month

The pound is expected to trade with a heavy topside in December. With regards to the euro/pound pair, investors should keep an eye on the £0.8573 mark, a level tested once on both October 28 and November 24. Trading will be thin on the ground in December due to Christmas, with the dollar also likely to be sold at a gentle pace, just like in November. However, if the euro/pound pair does breach this key support level, the pound will probably shoot up thereafter.

Market participants should also keep an eye on the Covid-19 situation in China. The Australian dollar was sold sharply in November on headlines about the spread of Covid-19 and a ramping-up of China's Zero Covid policy. Demonstrations against this policy have continued to sweep Shanghai and other areas recently. If the Chinese government ignores these protests and expresses its intention to tighten restrictions to stop the spread of the disease, the Australian dollar will fall, with the pound rising against its Australian counterpart. As with the euro, the pound's movements against the Australian dollar have remained deadlocked for around two months, so if sterling breaks out of this range on the topside, this could open up the room for further rises.

One risk event in the UK is the BOE's policy rate announcement on December 16. On November 24, Monetary Policy Committee (MPC) member Catherine Mann and BOE deputy governor Dave Ramsden (both known as hawks) said the BOE should continue lifting rates to return inflation to the 2% target, even if this placed more pressure on households. The markets have priced in a rate hike to the tune of +58 basis points at the December MPC meeting, much the same as in November.

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

Australian Dollar – December 2022

Expected Ranges	**Against the US$: US$0.6350–0.6930**
	Against the yen: JPY92.10–95.60

1. Review of the Previous Month

In November, the AUD/USD began the month trading around $0.64. As expected, the FOMC implemented a 75bp rate hike on November 2, but the accompanying statement was read as dovish and the greenback was sold for a time, with the currency pair rising to around $0.65. In his press conference, though, FRB chair Jerome Powell said it was too early to talk about bringing an end to rate hikes. As US interest rates bounced back, the pair dropped down to the mid-$0.63 handle. The pair then fell to the upper-$0.62 level on November 3 as investors continued buying the US dollar on the structural comparison between the rate-hike stances of the US and Australia. The Australian dollar was bought and the pair rose to around the mid-$0.63 handle on November 4 on expectations that China would relax its anti-Covid policies. The US October employment data was then released, with the greenback bought for a time on the better-than-expected nonfarm payrolls figure, though US interest rates then edged lower on the lackluster unemployment rate and average hourly wages data, with the currency pair subsequently climbing to around $0.6470.

On November 10, the pair fell temporarily to $0.6387 on concerns about the US October CPI data. With the headline and core CPI figures both falling below expectations, speculation grew that the FRB would slow the pace of rate hikes, with stocks and bonds then rising and the greenback weakening. As a result, the AUD/USD pair rose to the lower-$0.66 level. The US dollar continued to move bearishly on November 12 on the previous day's CPI announcement. Investors remained in risk-on mode on news that the Chinese health authorities would be relaxing some Covid-19 restrictions, with stocks rising and the US dollar falling. The pair subsequently hit the $0.67 range.

The greenback was sold and the pair temporarily hit $0.6797 on November 15 on the worse-than-expected result of the US October PPI data. On November 16, stocks fell and the pair tumbled to $0.6635 on some hawkish comments by an FRB official.

The pair then fell to $0.6585 on November 21 as sentiments deteriorated on the renewed spread of Covid-19 in China. However, the University of Michigan's November consumer sentiment was released on November 23 and its one-year inflation expectation figure was lower, with sentiment-related indicators then rising. With the minutes to the FOMC meeting also hinting at a slower pace of rate hikes, the currency pair rose to around $0.6780. With speculation growing that the FOMC would only institute a 50bp rate hike when it met in December, US interest rates fell and the US dollar was sold, with the pair subsequently rising to the upper-$0.67 handle the following day.

Asian stocks moved bearishly on November 28 on demonstrations in China against the government's Zero Covid policy. As investors fled to the US dollar, the AUD/USD pair's downside hit the lower-$0.66 level. News emerged on November 29 that China would be holding a press conference about its Covid-19 measures. As speculation grew that some rules would be relaxed, Chinese stocks rose and the pair rose to $0.67. Sentiments improved on November 30 after it was announced that strict anti-pandemic measures would be lifted in Zhengzhou, the largest site of iPhone production in China.

2. Outlook for This Month

Interest rates will start to regain composure in US and Australia in December as inflationary pressures ease. As interest-rate differentials shrink, capital inflows will continue flooding away from the US dollar and back toward the Australian dollar.

As expected, the RBA lifted rates by 25bp in November. The accompanying statement predicted that the Australian CPI data would peak at 8% towards the end of 2022, with rate hikes set to continue going forward. Employment conditions remain tight, with the number of full-time jobs increasing and the unemployment rate falling to 3.4% in the most recent Australian October employment data. With wage indicators also remaining on an upwards trajectory, the conditions for a potential inflation rise are all lined up. In a speech on November 22, RBA governor Philip Lowe said stock movements had grown more unstable, with costs being pushed up by external factors. As such, the RBA was finding it more difficult to keep inflation within a narrow target range using monetary policy, with Mr. Lowe hinting that the RBA might revise its current inflation target of between 2–3%.

In the US, meanwhile, core and headline inflation both dipped below expectations in the US October CPI data, with expectations then growing about a slower pace of rate hikes. The minutes to the FOMC meeting also contained a mention about how it would probably become appropriate to slow the pace of rate hikes in the near future. Speculation has since grown that the FOMC will only institute a 50bp rate hike when it meets in December. With US indicators moving bearishly and FRB officials starting to talk about curbing the pace of rate hikes, there could well be some adjustment to the trajectory of US rate hikes (in a slower direction) going forward. If this happens, this will probably see bonds rising and the US dollar falling. Speculation is also growing that the Chinese authorities might relax its Covid-19 measures in the face of demonstrations, so the AUD/USD's topside will have room to edge higher as sentiments improve.

Yasuko Iwata, Canada Office, Americas Treasury Department

Canadian Dollar – December 2022

Expected Ranges	**Against the US$: C$1.3000–1.3800**
	Against the yen: JPY98.40–107.00

1. Review of the Previous Month

In his press conference after the FOMC meeting on November 2, FRB chair Jerome Powell hinted that the terminal rate might end up higher than originally envisaged, though he also suggested the pace of rate hikes might be scaled back in future, so the greenback was sold and the USD/CAD pair fell from the C$1.37 range before the meeting to $1.35.

The Canadian October employment data was released on November 4. The net change in employment figure posted an increase of 108,000 jobs, up sharply on the forecast for a 10,000 rise. The unemployment rate remained at 5.2%, while the average hourly wage of full-time workers rose by 5.5% y-o-y, up on September's figure. The Canadian dollar was bought on this strong data, with the currency pair sliding to the upper-C$1.34 mark.

The US October CPI data was released on November 10, with the headline and core figures both down on the previous month and on expectations. US interest rates plummeted on growing speculation that the FOMC would slow the pace of tapering when it met in December. The greenback fell sharply against other major currencies the following week when the October PPI data (released November 15) fell on the previous month, with the USD/CAD pair sliding to C$1.3226 for the first time since September.

The Canadian October CPI data was released on November 16. The headline figure was unchanged on the previous month, but the core figure was up on September.

However, there was a sense that the US dollar had been oversold after the release of the US October CPI data, while several FRB officials made hawkish comments about future rate hikes. Furthermore, crude oil prices continued falling on expectations for slowing demand following a renewed surge in Covid-19 cases in China. As such, neither the US or the Canadian dollar rose further, with the currency pair continuing to trade between the C$1.33 range and just below C$1.35.

Canada's 3Q GDP data was released on November 29. At +2.9% y-o-y, the figure was up sharply on expectations (+1.5% y-o-y). However, the details showed signs of weakness as a result of rate hikes. Household spending had contracted for the first time since 2Q 2021, for example, while housing investment had also fallen sharply. As a result, the USD/CAD pair topped C$1.35 for the first time in around three weeks, with the greenback bought and the Canadian dollar sold at a faster pace.

2. Outlook for This Month

The Bank of Canada (BOC) is expected to implement another rate hike when it meets on December 7, but market opinions are divided as to whether this will be +0.25% or +0.50%.

However, Canada has the largest household-debt-to-disposable income ratio in the G7 (185% in 2021; OECD figure), with the lion's share of this debt held in the form of mortgages that have soared in tandem with BOC rate hikes. Given this, most observers now believe the terminal rate will end up as 4.50% after one or two more rate hikes.

This differs from the US, where it now seems likely the terminal rate will end up higher than envisaged in September. As such, it seems US/Canadian interest-rate differentials will widen even further going forward.

However, economic indicators related to sentiments and so on are starting to show the strain of rate hikes in both Canada and the US. In the US in particular, the FRB will probably tweak the size of rate hikes while keeping an eye on economic indicators going forward, with the greenback unlikely to undergo the kind of one-sided rise seen recently. The USD/CAD pair is expected to move between C$1.30–C$1.38 in December.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – December 2022

Expected Ranges **Against the US$: KRW 1,290–1,350**
Against the yen: JPY 10.204–10.870 (KRW100)

1. Review of the Previous Month

The USD/KRW pair suffered a record reactionary fall in November. During overseas trading time at the end of October, a renowned FRB watcher wrote an article speculating that the terminal rate of the federal funds rate would end up higher than the had FOMC predicted at its previous meeting (upper-4%). As a result, the pair rose to KWR1429.6 on November 1, though this marked a high for the month.

The pair opened the following week trading at KRW1411.0 on November 7. It was soon pushed down as South Korean stocks were bought by overseas investors. The pair breached the key KRW1400 mark on November 8. The US October CPI data was released on November 10. The headline figure stood at 7.7% y-o-y (forecast: 7.9% y-o-y) and the core figure at 6.3% y-o-y (forecast: 6.5% y-o-y), with the data down on expectations. There had been concerns about the impact of inflation on rising rents, but rents had also risen at a slower pace, with US interest rates of all durations subsequently falling sharply by 20–30bp. As market participants suddenly began unwinding their dollar long positions, the USD/KRW pair underwent a record fall of over 100 won.

Composure gradually returned to the markets from November 14, with the currency pair's downside growing firmer. The pair then rose on November 16 after geopolitical risk increased on news that a missile had landed in Poland. Furthermore, US interest rates bounced back during overseas trading time on November 17 after several FRB officials made verbal interventions to pour cold water on market expectations for an early end to rate hikes, with the greenback then bought again.

South Korea's October export data was released on November 22. At -16.7% y-o-y, the bearish result was down on the forecast for a slide in the region of -5.5% y-o-y, with the USD/KRW pair then hitting KRW1362.9. However, the greenback was sold again and the pair dropped back following the release of the minutes to the FOMC meeting on November 24. As broadly expected, the Bank of Korea (BOK) lifted rates by 25bp (from 3.00% to 3.25%) when it met on November 24. This suggested the rate-hike cycle was drawing to a close, but the impact on the currency pair was muted.

The pair moved with a heavy topside at the end of the month to close at KRW1318.8, down 105.5 won compared to the end of October.

2. Outlook for This Month

The USD/KRW pair will move with a lack of direction in December.

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

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

As for (1), dollar long positions have been unwound on falling US long-term interest rates after the US October CPI data suggested inflation was easing, with the USD/KRW pair also impacted. Other inflationary indicators and data related to jobs and housing also suggest the inflation rate will fall further in the near future, with the markets seemingly selling the greenback on anticipation for such a scenario. FOMC members will be updating their federal fund rate projections when the FOMC meets on December 15, but this is unlikely to lead to dollar buying at this moment in time.

With regards to (2), the BOK implemented a rate hike (3.00%→3.25%) on November 24. The BOK governor predicted that inflation would remain at 5% until the start of 2023 before steadily slowing to around 3.6% across the year. He also forecast that the economy would recover in the second half of 2023. As a result, market participants began focusing on the end of rate hikes. There were concerns about won bearishness, but the currency has also recovered sharply, so there is no need for the BOK to rush into lifting policy rates. As such, any won-buying pressure will probably be limited this month.

As outlined above, the trend of dollar buying on expectations for US policy rates is drawing to a close, though no new driving factors have arisen yet. The USD/KRW pair will probably trade in a range until the clear emergence of some new factors.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – December 2022

Expected Ranges **Against the US$: NT$30.50–32.20**
Against the yen: JPY4.40–4.65

1. Review of the Previous Month

In November, the Taiwan dollar rose against the US dollar for the first time in around two months after the USD/TWD pair fell sharply on the results of the US October CPI data.

The pair opened the month trading at TWD32.240 on November 1. It temporarily rose to TWD32.314 on demand for overseas remittances, but the markets then slipped into wait-and-see mode ahead of the FOMC meeting. FRB chair Jerome Powell struck a hawkish tone in his press conference after the FOMC meeting, so Taiwanese stocks fell and the Taiwan dollar was sold, though the pair's topside was capped as exporters sold the US dollar. Taiwanese stocks then rose on the results of the US employment data. The Taiwan dollar was bought too, with the currency pair dropping below TWD32 on November 8.

The US October CPI data was released mid-November. The data was down on expectations, so the greenback weakened across the board. The USD/TWD pair also plummeted down to around TWD31.30 on November 11. As expectations grew that the FRB would slow the pace of rate hikes in the wake of the US CPI data, Taiwanese stocks were bought back and overseas investors continued pumping funds into Taiwan, with the currency pair dropping to around TWD31 on November 15. However, Taiwanese stocks and the Taiwan dollar stopped rising as risk aversion grew on news that a missile had landed in Poland, a NATO member.

The pair continued moving around TWD31.20 in the latter half of the month, though Taiwanese stocks then edged higher and the Taiwan dollar was bought on growing speculation about a slower pace of rate hikes following the release of the minutes to the FOMC meeting. The pair dropped below TWD31 on November 25 to temporarily fall to TWD30.836, its lowest level in around two months. There was a mixture of buying and selling by overseas investors towards the end of the month, but with exporters selling the greenback at the month's end, the pair traded below TWD31.

2. Outlook for This Month

In December, the USD/TWD pair will probably be swayed by US economic indicators and rate hikes.

Taiwanese stocks were bought back in November and the Taiwan dollar rose as overseas investors pumped funds into Taiwan on speculation that the US would lift rates at a slower pace in the wake of the US October CPI data. However, Taiwan's economic indicators are moving bearishly at present. The export figure was down on a y-o-y basis for the second straight month, with the days of the economy moving strongly on bullish exports peaking out. Export orders also remained down on a y-o-y basis. China is Taiwan's biggest export destination, but there are no signs China will change its Zero Covid policy any time soon, so exports look set to continue falling from here on.

The USD/TWD pair will probably be swayed sharply by US trends in December. The US October CPI data had a big impact in Taiwan too, with Taiwanese stocks and the Taiwan dollar rising. This influence looks set to continue in December too. With expectations rising for a slower pace of rate hikes, the Taiwan dollar could fall sharply if the CPI data does not fall below expectations or if the FOMC opts for a 0.75% rate hike, so caution will be needed.

The Central Bank of the Republic of China (Taiwan) (CBC) will also be meeting in December to set policy. The CBC looks set to continue tightening, but some observers think the CBC will postpone any rate hikes on concerns about an economic slowdown, with long-term interest rates sliding. The CBC's governor has said the USD/TWD pair's rate will not be determined by US/Taiwan interest-rate differentials. This suggests the pair would not necessarily be impacted by a Taiwanese rate hike, though investors should remain on guard.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – December 2022

Expected Ranges **Against the US$: HK$ 7.7950–7.8400**
Against the yen: JPY 17.20–18.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

Alongside the USD broad sell-off and the re-pricing of Fed's slowing rate hike pace, the USD/HKD moved away from 7.85 level and lost ground as much as to its 9-month low of 7.8004 level. The unwinding of long USD/HKD carry trade was the primary reason for the HKD notable rebound. The HKD T/N swap point (5-day average), the key gauge of carry return of long USD/HKD spot, pulled back to the positive territory for the first time since March. That says, the long USD/HKD carry trade had collapsed with tighter HKD liquidity condition vs. USD following several rounds of HKMA's liquidity drainage. The return of equity inflow on the China reopening trade also boosted HKD demand. On the data front, the Q3 GDP growth contraction was confirmed at -4.5%YoY and the government slashed its annual GDP forecast for 2022 sharply to -3.2% from -0.5% to +0.5% on the deteriorating outlook for HK exports and China economy. CPI inflation for October eased back to +1.8%YoY from prior +4.4%YoY, as the low base effect form the public housing rentals waiver dropped out. Meanwhile, the HK Global Financial Leaders' Investment Summit and the sport event of Hong Kong Rugby Sevens were successfully held, marked the progress of the HK reopening.

Hong Kong dollar interest rate market in November

The HKD liquidity tightening and year-end HKD seasonality sent HKD rates higher. Looking at the HKD HIBOR curve, the 3-month tenor, which covers the year-end HKD funding, jumped to above 5% and surpassed the 3-month USD LIBOR at premium of +50bps, while the 1-month HKD HIBOR – USD LIBOR spread was at par. Indeed, the HKD aggregate balance has tumbled from HKD 337.5bn in March to below HKD 100bn currently and the tighter HKD liquidity drove HKD rates higher. In the medium term, 3Y HKD IRS retreated to near 4.5% as the Fed signaled to slow its rate hike pace soon. The negative HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) turned positive for the first time since late 2020, reflection expectation for a reversal to a rate cut cycle in coming years.

2. Outlook for This Month

Hong Kong dollar spot exchange market in December

Heading to December, the Fed's likely 50bps hike will widen the USD-HKD rate spread again but the strong seasonal HKD demand at year-end will keep HKD rates elevated. Against this backdrop, market participants are not expected to rebuild the carry trade position of long USD/HKD spot aggressively and the HKD will likely stay away from its weak-side convertibility undertaking of 7.85 level by year-end. In this sense, the HKMA's FX intervention and the HKD liquidity drainage will pause and we expect the HKD to stay in the weak half of its trading band for a while before Fed signals to finish its rate hike cycle. Meanwhile, the capital inflow driven by the China reopening trade will help propel HKD demand.

Hong Kong dollar interest rate market in December

The year-end HKD seasonality will likely keep HKD rates elevated and the HKD-USD rate spread is expected to remain positive in the coming month. However, the pause in FX intervention and HKD liquidity withdrawal should help moderate upward pressure on the HKD rates. Considering the narrowing gap between HK prime rate and 1-month HKD HIBOR, we expect HK banks to maintain a 25bps rate hike on HKD prime rate following Fed's likely 50bps hike in December. While it would be too early to call for a pause in Fed's rate hike cycle, the short-term HKD rates will remain in an uptrend. However, the HKD IRS curve will come under downward pressure on expectation for Fed's pivot in coming years.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – December 2022

Expected Ranges **Against the US$: CNY 7.0000–7.4000**
Against the yen: JPY 18.30–20.80

1. Review of the Previous Month

In November, the U.S. dollar/Chinese yuan exchange rate reached its highest level since the beginning of the year, after which the rate did not move in any direction.

On November 1, the U.S. dollar/Chinese yuan exchange market opened at the CNY 7.32 level. The People's Bank of China (PBOC) central parity rate was set at the CNY 7.2 level, with the Chinese yuan at more than 300 pips weaker than the previous day. In the exchange market as well, the U.S. dollar continued appreciating as a result of the rise of interest rates in the U.S. On the same day, the U.S. dollar/Chinese yuan exchange rate thus reached CNY 7.3280, which is the highest rate observed this year. Thereafter, the U.S. dollar/Chinese yuan exchange market remained volatile, and the exchange rate returned to the CNY 7.25 level. After the Federal Open Markets Committee (FOMC) meeting was held for two days in the U.S., the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.32 again. However, on November 4, the U.S. dollar/Chinese yuan exchange rate fell and once reached the CNY 7.17 level.

On November 7, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.23 level. The Chinese yuan appreciated occasionally with factors related to the Covid-19 pandemic. However, this trend faded gradually after November 7, leading the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 7.27 level. Thereafter, the October CPI of the U.S. was announced on November 10, and the result turned out to be below the estimate. In reaction, interest rates fell sharply in the U.S., encouraging market participants to sell U.S. dollar in an accelerated manner. As a result, the U.S. dollar/Chinese yuan exchange rate fell to approach the CNY 7.16 level. On November 11, China announced its decision to shorten its Covid-19 quarantine period, fueling expectation that other Covid-19 restriction measures might also be relaxed. Consecutively, the Chinese yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate fell sharply and temporarily reached the CNY 7.06 level.

On November 14, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.08 level. As was the case in the second half of the previous week, the Chinese yuan was on an uptrend, and the U.S. dollar/Chinese yuan exchange rate fell to the CNY7.02 level. Thereafter, the U.S. dollar appreciated toward the second half of the week, following remarks by Federal Reserve Board (FRB) officials. In China, major domestic statistics were released on November 15 with figures weaker than estimated. Furthermore, the number of Covid-19 cases was increasing, and this also accelerated the depreciation of the Chinese yuan. As a consequence, the U.S. dollar/Chinese yuan exchange rate remained high. During the evening of November 17, the U.S. dollar/Chinese yuan exchange rate once rose to reach the CNY 7.16 level.

On November 21, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.14 level. On one hand, the Chinese yuan was depreciating as a result of the increasing number of the country's Covid-19 cases. On the other hand, the U.S. dollar was also depreciating, as market participants expected policy interest rate hikes in the U.S. to slow based on the minutes of the FOMC meeting, as well as based on remarks made by FRB officials. As a result, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within the range between the CNY

7.13 level and the 7.17 level without moving in any direction. In the evening of November 25, China announced a decision to cut its deposit reserve requirement ratio by 0.25%, in reaction to which the Chinese yuan depreciated. However, the U.S. dollar/Chinese yuan exchange rate rose only to a limited degree.

On November 28, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.23 level. As risk-averse sentiment grew in the market during the weekend, the U.S. dollar/Chinese yuan exchange market opened with a higher rate than the closing rate of the previous day mainly in the offshore market. However, the stock market was strengthened by expectations for the relaxation of the zero-Covid policy and measures to support the real estate sector. As a result, the U.S. dollar/Chinese yuan exchange rate fell sharply to the CNY 7.15 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange market is forecast to remain volatile, and the U.S. dollar/Chinese yuan exchange rate is likely to continue fluctuating without moving in any direction. However, it is not likely for the U.S. dollar/Chinese yuan exchange rate to rise significantly.

The U.S. market is likely to follow factors related to policy interest rate hikes by the FRB. The U.S. dollar/Chinese yuan exchange rate is expected to follow new factors related to the timing and scale of policy interest rate hikes and cuts in 2023 based on the dot plot revealed at the FOMC meeting, held in December, as well as remarks to be made by FRB Chair Jerome Powell. The key factor in the U.S. dollar/Chinese yuan exchange market remains the difference in monetary policy between the U.S. and China. Thus, from a long-term perspective, upward pressure on the U.S. dollar is likely to weaken, as the timing of the end of the policy interest hikes becomes clearer.

With regard to the situation in China, the number of Covid-19 cases is on the rise in major cities such as Beijing and Guangzhou, and anti-Covid restriction measures are being strengthened. As of now, there is no sign that the number of Covid-19 patients will start decreasing any time soon, which is likely to keep the U.S. dollar/Chinese yuan exchange rate stable. However, market participants are recently more significantly reacting to headlines related to the relaxation of Covid-19 restrictions. Thus, it is possible for the Chinese yuan to appreciate sharply in the times ahead, about which we should remain careful. In the middle of November, when the government announced its decision to revise its Covid-19 restriction measures including the shortening of the quarantine period, the Chinese yuan appreciated against the U.S. dollar by more than 1,200 pips.

The depreciation of the Chinese yuan is also caused by concerns over an economic downturn resulting from preventive measures after an increase of Covid-19 cases, along with weakening domestic demand. On November 25, there was a decision to support the real estate sector by offering loans with low interest rates, and the PBOC decided to cut its deposit reserve requirement ratio. Thus, China is likely to maintain its "moderate" and "targeted" monetary policy.

In general, there will be both factors to weaken the U.S. dollar and factors to weaken the Chinese yuan. Thus, the U.S. dollar/Chinese yuan exchange market is expected to remain volatile, and the exchange rate is likely to continue fluctuating without moving in any direction. However, if the Chinese yuan one-sidedly depreciates against the U.S. dollar, it is possible for the PBOC to set the central parity rate toward a stronger Chinese yuan compared to the market estimate. Thus, the U.S. dollar/Chinese yuan exchange rate is not likely to rise significantly.

In addition, market participants should keep an eye out for headlines related to the Central Economic Work Conference in China, foreign investors' security investment flow, and trade policy in the U.S. and China.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – December 2022

Expected Ranges **Against the US$: SG$ 1.3570–1.4320**
Against the yen: JPY 94.30–103.90

1. Review of the Previous Month

The Singapore dollar continued appreciating against the U.S. dollar in November 2022.

At the beginning of the month, the Singapore dollar was slightly weak. On November 3, a Federal Open Market Committee (FOMC) statement contained an additional phrase to emphasize that the effect of measures of monetary tightening taken so far would be taken into consideration. In reaction, risk-taking sentiment grew in the market. However, Federal Reserve Board (FRB) Chair Jerome Powell pointed out at a press interview held immediately after that the policy interest rate might be higher than originally estimated at the end of the series of policy interest rate hikes. As a consequence, the U.S. dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate rose to temporarily reach the mid-SGD 1.42 level.

However, thereafter, the trend was inverted and the U.S. dollar/Singapore dollar exchange rate started to fall. After the FOMC meeting, the appreciation of the U.S. dollar slowed down, while expectations were growing for the relaxation of the zero-Covid policy in China, leading the Singapore dollar to start appreciating. As interest rates were also on a fall in the U.S., the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.40 level toward November 9.

On November 10, the fall of the U.S. dollar/Singapore dollar exchange rate stopped temporarily. However, the CPI of the U.S. was announced on November 11, after which the U.S. dollar/Singapore dollar exchange rate started falling again. The October CPI of the U.S. turned out to be lower than the market estimate, leading interest rates in the U.S. to fall as well. As a consequence, the U.S. dollar depreciated while the Singapore dollar appreciated. The Singapore dollar was also supported by the expectation for the relaxation of the zero-Covid policy in China. The U.S. dollar/Singapore dollar exchange rate thus fell below the SGD 1.37 level, after which the exchange rate continued fluctuating within a limited range during the middle of the month. The October Producer Price Index (PPI) of the U.S. declined, leading the U.S. dollar to depreciate. However, the media reported thereafter that a Russian missile landed in Poland, and this led to an offset of the appreciation of the overall Asian currencies. The U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the SGD 1.37 level.

Thereafter, the U.S. dollar/Singapore dollar exchange rate remained low toward the end of the month. This is due to the fact that the number of Covid-19 patients increased and because there was a Covid-19 death in Beijing. Multiple FRB officials made remarks to accept a slowdown in policy interest rate hikes, and this occasionally improved market sentiment. However, this trend was offset by the media report about strengthened movement restrictions in China. Thus, the U.S. dollar/Singapore dollar exchange rate remained low toward the end of the month. As of now, the U.S. dollar/Singapore dollar exchange rate is fluctuating at the lower-SGD 1.37 level (as of the morning of November 30).

2. Outlook for This Month

The Singapore dollar is forecast to continue depreciating against the U.S. dollar in December 2022.

The Singapore dollar has been recording monthly growth since the Monetary Authority of Singapore (MAS) meeting held in October. This is mainly a result of the series of measures of monetary tightening taken by the MAS at every meeting, as well as the fact that market participants had started discussing the exact timing of the end of policy interest rate hikes in the U.S. (in many cases leading interest rates to fall in the U.S.).

In particular, since the announcement of the October Consumer Price Index (CPI) of the U.S., the U.S. dollar index itself has been declining significantly, suggesting that the discussion of the end of policy interest rate hikes in the U.S. is leading directly to the improvement of market sentiment. This has been encouraging vigorous capital inflow into the Singapore market. Thus, the Singapore dollar is currently robust.

However, in December, the last FOMC meeting of the year is being scheduled in the U.S. The FRB is likely to announce its last policy interest rate hike of the year. As China's tail risk is growing as well, the Singapore dollar is expected to weaken in the coming month.

If everything goes as planned, the next MAS meeting will be held in April next year. It is very possible for the MAS to hold an emergency meeting before that to announce an additional measure of monetary tightening. In any case, there will be a time lag, and the Singapore dollar is likely to be overwhelmed by the pressure of U.S. dollar appreciation supported by the hawkish attitude maintained in the U.S.

Furthermore, China's tail risk can also lead the Singapore dollar to depreciate. The Chinese authorities are introducing severe movement restrictions, provoking intense protests every day. Security forces have been mobilized, and it is uncertain when the situation will get under control. The proportion of the Chinese yuan in the Singapore dollar NEER is high, and thus the depreciation of the Chinese yuan can immediately lead to the depreciation of the Singapore dollar.

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

Thai Baht – December 2022

Expected Ranges **Against the US$: THB 34.00–36.50**
Against the yen: JPY 3.84–3.97

1. Review of the Previous Month

In November, the appreciation of the U.S. dollar, which lasted for a long time, was offset, leading the U.S. dollar/Thai baht exchange rate to fall significantly. The U.S. dollar/Thai baht exchange market opened trading at around the THB 38 level. At the beginning of the month, market participants actively sold the U.S. dollar, and the U.S. dollar/Thai baht exchange rate fell to the mid-THB 37 level before the Federal Open Market Committee (FOMC) meeting. At the FOMC meeting, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that was unequivocally hawkish, leading the U.S. dollar to temporarily appreciate. However, the October employment statistics of the U.S. were released thereafter, and the unemployment ratio rose while the salary increase was slow. As a result, the U.S. dollar/Thai baht exchange rate was pushed back to the lower-THB 37 level before the closing of weekly trading. On November 7, the October Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be slightly below the estimate. However, its impact on the market was limited, and market sentiment improved on the following day, positively reacting to the rise of stock prices. As expectations for a slowdown in policy interest rate hikes by the FRB were also growing, the U.S. dollar weakened against the Thai baht, and the exchange rate reached the upper-THB 36 level despite the fact that it was before the announcement of the CPI of the U.S. After attracting substantial attention in the market, the October CPI of the U.S., including the core CPI, turned out to be below the estimate. As a consequence, interest rates in the U.S. fell sharply for all periods, and market participants sold the U.S. dollar. Thus, the U.S. dollar/Thai baht exchange rate fell sharply to the lower-THB 36 level.

In the middle of the month, the Chinese government decided to shorten the Covid-19 quarantine period, leading the U.S. dollar/Chinese yuan exchange rate to fall sharply. Following this trend, the U.S. dollar/Thai baht exchange rate fell below the THB 36 level. On November 15, the October Producer Price Index (PPI) of the U.S. was announced, but this also did not reach the estimated level. Because price indices in the U.S., including both the CPI and PPI, fell below the estimated level, the U.S. dollar depreciated further. As a result, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 35 level. However, market participants became aware of geopolitical risk thereafter, following headlines about a Russian missile that landed in a NATO-member country, and this stopped the fall of the U.S. dollar/Thai baht exchange rate. Furthermore, FRB officials commented on the possibility for the policy interest rate to be raised higher, which led interest rates in the U.S., which were on a fall, to rally. In reaction, the U.S. dollar/Thai baht exchange rate also reached the THB 35.80 level.

At the end of the month, the GDP of Thailand for the third-quarter period demonstrated economic recovery from the second-quarter period. However, the number of new Covid-19 cases in China continued to increase, which worsened market sentiment. Consequently, the U.S. dollar/Thai baht exchange rate recovered to the THB 36 level. Thereafter, the media reported that Shanghai had strengthened its Covid restrictions, and this led the U.S. dollar/Thai baht exchange rate to rise to the lower-THB 36 level. However, on November 23, the minutes of the FOMC meeting in November were released, and this information made market participants aware of a possible slowdown in policy interest rate hikes. As a result, interest rates in the U.S. fell and the U.S. dollar depreciated. As another result, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 35 level again. Then, after the weekend on November 28, the Thai baht weakened due to concerns over protests against the Chinese government. However, in the U.S., interest rates fell, and the central bank of Thailand decided to raise its policy interest rate by 25 basis points at the MPC meeting held at the end of the month. Market participants expected policy interest rate hikes in the U.S. to slow down, narrowing interest rate differentials between the U.S. and Thailand, as the central bank of Thailand was seen to continue raising the policy interest rate in a moderate manner. Thus, the U.S. dollar/Thai baht exchange rate fell further to the lower-THB 35 level. In November, the Thai baht appreciated against the U.S. dollar by approximately 7.8%, which is the highest monthly increase in 24 years since 1998.

2. Outlook for This Month

In December, the U.S. dollar/Thai baht exchange rate is forecast to continue falling based on external factors. A slowdown in policy interest rate hikes in the U.S. has already been reflected in the market. Market participants expect the policy interest rate hikes to end in the middle of 2023. This estimate may change after the FOMC meeting scheduled for December, and that would also impact the U.S. dollar/Thai baht exchange market. The FOMC is most likely to end up suggesting a careful decision on monetary policy with consideration of impact on the U.S. economy, which remains sluggish due to interest rate hikes. However, if November indices such as the CPI and PPI of the U.S. turn out to be below the estimated level again, market participants would expect interest rates in the U.S. and stock prices to fall, leading to a slowdown in policy interest rate hikes. Thus, it is realistic to expect the U.S. dollar/Thai baht exchange rate to fall below the THB 35 level. It is also worth mentioning that investors may sell the U.S. dollar to take profit in December, and this is a supporting factor for the Thai baht together with the growing number of tourists in Thailand—a number that is recovering at a faster rate than originally expected.

On the other hand, FRB officials have been making hawkish remarks since the end of November, as if they were trying to lower expectations in the market, which have grown excessively. Indeed, factors for price increase in the U.S. have been shifting from price increases for goods to prices increases for services. Because service prices are influenced more significantly than the goods prices via the increase of salaries in the U.S., the U.S. economy is expected to continue facing upward pressure on prices for a while. Thus, it is an urgent need for the FRB to control inflation, which makes it necessary to continue rising policy interest rate. Thus, the hawkish remarks by FRB officials are likely to keep the U.S. dollar from depreciating. It is also worth noting that protests against the Chinese Communist Party in China and the strict zero-Covid policy insisted on by the Chinese government might weaken Asian currencies such as the Thai baht, as the Chinese yuan is an influential currency for the Thai baht exchange market—and this is another factor to keep the U.S. dollar/Thai baht exchange rate high.

Furthermore, on November 28, the ministry of commerce of Thailand released trade statistics that revealed negative growth year-on-year both in terms of imports and exports. Because the manufacturing PMI has been worsening mainly in developed countries, this could fuel a sense of uncertainty over the economic outlook of Thailand, which is highly dependent on external demand, and this would lead the Thai baht to depreciate in the times ahead.

However, from a global perspective, it can be said that the appreciation of the U.S. dollar has started to slow down. Thus, the U.S. dollar/Thai baht exchange rate in December is forecast to mainly decline. Yet, market participants should remain careful about the possibility of U.S. dollar-buying, which could be encouraged by U.S. economic indices and important remarks by U.S. monetary authority officials.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2022

Expected Ranges **Against the US$: MYR 4.30–4.50**
Against the yen: JPY 30.58–32.05

1. Review of the Previous Month

In November, the Malaysian ringgit significantly appreciated against the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate dropped by more than 6% in one month.

At the beginning of the month, the Malaysian ringgit weakened, and the U.S. dollar/Malaysian ringgit exchange rate renewed its high in 25 years at MYR 4.748 after the announcement of the policy interest rate by the central bank of Malaysia on November 3, with similar announcements from other major central banks. In the early morning of November 3, the Federal Open Market Committee (FOMC) announced its decision to raise its policy interest rate sharply by 75 basis points for the fourth consecutive time. After this announcement, Federal Reserve Board (FRB) Chair Jerome Powell made a hawkish comment at a press conference, suggesting that the policy interest rate might be raised to a level higher than originally planned. This encouraged market participants to sell the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate rose to approach the MYR 4.75 level. Thereafter, the central bank of Malaysia announced its policy interest rate at 3 p.m. in the afternoon, local time, and the Malaysian policy interest rate was raised by 25 basis points for the fourth consecutive time. Even though this had been anticipated in the market, Malaysian ringgit-selling dominated the market based on interest rate differentials between the U.S. and Malaysia.

In the middle of the month, market participants bought back the Malaysian ringgit at different prices. Then, on November 10, the October Consumer Price Index (CPI) of the U.S. was announced, and the outcome turned out to be below the market estimate. As a result, in the U.S. market, stock and bond prices rose, while the U.S. dollar depreciated. This almost offset the policy interest rate hike of 75 basis points expected at the next FOMC meeting scheduled for December. On November 11, the third-quarter GDP was announced, and the year-on-year growth rate turned out to be +14.2%, significantly exceeding +8.9%—the year-on-year GDP growth rate recorded in the second-quarter period. Thereafter, the media reported that a missile landed in Poland, and this caused violent fluctuations in the market. On the same day, the October Producer Price Index (PPI) of the U.S. turned out to be below the market estimate, leading the U.S. dollar/Malaysian ringgit exchange rate to fall below the MYR 4.5 level. Furthermore, on November 17, the October trade statistics of Malaysia were released, revealing a slowdown in the growth of exports, which had been leading the Malaysian economy since the time of the start of the Covid-19 crisis. Even though this impacted the U.S. dollar/Malaysian ringgit exchange market only to a limited degree immediately after the release, it was seen to be a source of uncertainty over the future of the Malaysian economy.

Toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate fell even further. On November 19, the 15th general election was held, which ended in a hung parliament with no single party achieving a majority. This rapidly fueled political uncertainty. Then, the king of Malaysia, Al-Sultan Abdullah, had a discussion with political party leaders while also organizing a meeting for state governors in order to control the situation. As a result, on November 24, Anwar Ibrahim of the Alliance of Hope (PH), who long served as the head of an opposition party, was appointed to be the 10th prime minister. The U.S. dollar/Malaysian ringgit exchange rate fell by approximately 800 points, reflecting the minutes of the FOMC meeting, which had turned out to be slightly dovish. On November 25, the following day, the U.S. dollar/Malaysian ringgit exchange rate momentarily reached the MYR 4.45 level. On the same day, the October CPI was announced. As was the case previously, the result revealed significant upward growth in food prices, at +7.1% year-on-year, and in restaurants, at +6.8% year-on- year. However, the headline index turned out to be at +4.0%, recording a slowdown from the previous month, even though it was slightly above the market estimate.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue fluctuating, sensitively reacting to moves in the U.S. dollar exchange market as well as headlines related to domestic politics.

In the U.S., the November CPI is scheduled to be out on December 13, while an FOMC meeting was scheduled for December 15. At the current moment, the market consensus is that the FOMC will raise its policy interest rate by 50 basis points in December, while market participants are also very attentive of the November CPI to see if inflation has been calming. Depending on the November CPI, market participants could grow cautious of long-term inflation, leading to a series of large-scale interest rate hikes. If the U.S. economy slows down as a result, downward risks on the U.S. dollar would increase due to concerns over stagflation.

In Malaysia, Anwar Ibrahim of the Alliance of Hope (PH), who long served as the head of an opposition party, was appointed to be the new prime minister of Malaysia after the change of government at the 15th general election. Anwar Ibrahim obtained support from two thirds of the parliament by forming a coalition with the United Alliance of Sabah and the Sarawak Parties Alliance, as well as the National Front (BN) with the United Malays National Organisation (UMNO) led by Ahmad Zahid. However, as of now, it is clear that the alliance is not very strongly united. Thus, the public attention is on his political management skills at the parliamentary session that will resume on December 19. The National Front (BN), the former ruling party alliance led by the former prime minister, Ismail Sabri, ended up remaining in the ruling party alliance after many complications. However, as the alliance lost miserably at the general election, it is inevitable for the alliance to lose its political influence within the ruling alliance. The government will be operated with consideration of the Malaysian Islamic Party (PAS)—the leading conservative opposition party that increased its number of parliament seats significantly at the general election held this time—while building a strong cooperative relationship with the United Alliance of Sabah and the Sarawak Parties Alliance based in East Malaysia. The new government under the prime minister, Anwar Ibrahim, did not have an easy start. However, foreign investors have growing expectations for him to bring changes to political corruption and reform fiscal systems. If he can use such positive factors in an effective manner, Malaysia would certainly be able to obtain investment capital flow from foreign investors, encouraging market participants to buy back the Malaysian ringgit.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2022

Expected Ranges **Against the US$: IDR 15,500–15,700**
Against the yen: JPY 0.93–0.98 (IDR100)

1. Review of the Previous Month

In November, the Indonesian rupiah depreciated against the U.S. dollar. On November 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,600 level. Thereafter, the October Consumer Price Index (CPI) of Indonesia was announced, revealing a year-on-year increase of 5.71%, which was below the market estimate. However, the market reacted to this only to a limited degree. As the Federal Open Market Committee (FOMC) meeting was scheduled to open at the daybreak of November 3 in Asia time, the U.S. dollar/Indonesian rupiah exchange rate did not move in any direction, fluctuating between the lower-IDR 15,600 level and the mid-IDR 15,600 level. The outcome of the FOMC meeting was seen as dovish. However, after the meeting, Federal Reserve Board (FRB) Chair Jerome Powell commented that it would be too early to consider ending policy interest rate hikes at the press conference, and this comment was seen as hawkish. In reaction, the Indonesian rupiah started to depreciate against the U.S. dollar after the market opening of November 3, Asian time. On November 4, the following day, market participants continued buying the U.S. dollar. Under such circumstances, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate finally reached the lower-IDR 15,700 level. On November 7 in the following week, market participants actively sold the U.S. dollar, having seen the figures in the October employment statistics of the U.S. that were released on Friday of the previous week, local time. Following this trend, the Indonesian rupiah appreciated to the mid-IDR 15,600 level at the beginning of Asian trading hours. However, market participants started to buy back the U.S. dollar thereafter, and the Indonesian rupiah weakened. The U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,700 level. Subsequently, the third-quarter GDP of Indonesia was announced, revealing year-on-year growth of 5.72%, demonstrating the maintained robustness of the domestic economy. However, the U.S. dollar/Indonesian rupiah exchange market was impacted by this announcement only to a limited degree. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction, mainly around the upper-IDR 15,600 level, as the October CPI of the U.S. was scheduled to be out on November 10. That turned out to fall below the market estimate. As a consequence, on November 11, the following day, the Indonesian rupiah appreciated significantly against the U.S. dollar, from market opening, Asian time. The U.S. dollar/Indonesian rupiah exchange market opened at around the IDR 15,500 level, once approaching the IDR 15,400 level. On November 14 in the following week, U.S. dollar-selling slowed down, and the appreciation of the Indonesian rupiah seen in the previous week was somewhat offset. Then, on November 15, the October trade balance of Indonesia was announced, revealing figures above the market estimate. However, as market participants were buying back the U.S. dollar, the Indonesian rupiah remained on a downtrend. On November 16, the media reported that a missile had landed in Poland, and this fueled risk-averse sentiment in the market. Under such circumstances, the Indonesian rupiah continued depreciating against the U.S. dollar to approach the IDR 15,600 level. On November 17, the central bank of Indonesia decided to raise its policy interest rate by 0.5%. However, this decision had been anticipated in the market, and reaction in the market was limited. On the contrary, the Indonesian rupiah depreciated against the U.S. dollar to the upper-IDR 15,600 level, as market participants were buying the U.S. dollar, having seen the strong October sales of the U.S. as announced on the previous day, local time. On November 21, risk-averse sentiment grew in the market, due to an increase in Covid-19 cases in China. Under such a context, the governor of the central bank of Indonesia, Perry Warjiyo, commented that the economic growth rate for next year might fall to 4.37%, leading the Indonesian rupiah to depreciate against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell to the lower-IDR 15,700 level. Then, on November 24, the minutes of the FOMC meeting in the U.S. turned out to be dovish, which led the Indonesian rupiah to strengthen against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell to the lower-IDR 15,600 level. However, the Indonesian rupiah did not appreciate further. On November 28 in the following week, risk-averse sentiment remained in the market as Covid-19 cases continued to increase in China, while some market participants were selling the Indonesian rupiah based on actual demand at the end of the month. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate rose to the mid-IDR 15,700 level.

2. Outlook for This Month

In December, the Indonesian rupiah is forecast to remain weak.

Since November, a slowdown in policy interest rate hikes in the U.S. has been increasingly reflected in the market, weakening the U.S. dollar. On the other hand, there are also negative factors, such as concerns over increasing Covid-19 cases in China, which are keeping the Indonesian rupiah from appreciating. In reaction to the fall of interest rates in the U.S. and U.S. dollar-selling, other Asian currencies are generally appreciating against the U.S. dollar. However, the Indonesian rupiah depreciated slightly against the U.S. dollar. When the U.S. dollar was on an uptrend, the Indonesian rupiah remained relatively strong. Thus, it is possible that there were less market participants to buy back the Indonesian rupiah compared to other currencies, as there had been relatively fewer short positions against the U.S. dollar. Yet, there may have also been a sense of uncertainty over the future of Indonesia.

With regard to the current domestic economy in Indonesia, the third-quarter GDP recorded an annual growth rate of +5.72%, demonstrating a healthy economic condition. The statement of the central bank of Indonesia also confirmed the bank's confidence in the domestic economy. However, there have been concerns over a possible economic slowdown in Indonesia next year, following a global economic downturn, as was also pointed out by the governor of the central bank of Indonesia, Perry Warjiyo, who commented that the economic growth rate for next year might fall to 4.37%. Thus, the future outlook remains uncertain. So far, the rise of coal prices had been a major factor that supported the Indonesian economy. However, the rise of coal prices has recently been slowing down. Thus, this can be a major factor for a slowdown in the Indonesian economy if the coal price continues to fall. It is also worth mentioning that a presidential election is scheduled for 2024. Given that, in the past, direct investment tended to decline before an election, direct investment from foreign investors may start declining in the times ahead. Furthermore, interest rate differentials between the U.S. and Indonesia are currently narrowing as a result of policy interest rate hikes in the U.S. Under such circumstances, Indonesia has become a less attractive country for investment compared to the past. Thus, security investment capital is also likely to flow out of the country until the U.S. starts cutting its policy interest rate.

From a short-term perspective, the Indonesian rupiah is forecast to temporarily appreciate against the U.S. dollar, as policy interest rate hikes in the U.S. are slowing down. However, as a sense of uncertainty persists over the future outlook, the Indonesian rupiah is more likely to weaken against the U.S. dollar in the times ahead.

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

Philippine Peso – December 2022

Expected Ranges **Against the US$: PHP 55.00–59.00**
Against the yen: PHP 0.39–0.42

1. Review of the Previous Month

At the end of October, the Philippine peso appreciated against the U.S. dollar, reaching it highest rate in approximately one month. However, after the November Federal Open Market Committee (FOMC) meeting in the U.S., comments by Federal Reserve Bank (FRB) Chair Jerome Powell at the press conference turned out to be generally hawkish. Market participants thus expected that the policy interest rate in the U.S. would remain high for a longer term and that it would peak at a higher level than originally expected. As a result, the Philippine peso depreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached the upper-IDR 58 level. The October Consumer Price Index (CPI) of the Philippines turned out to be above the market estimate, at 7.7% year-on-year, reaching its highest level in approximately 14 years. However, the governor of the central bank of the Philippines, Felipe Medalla, revealed his plan to follow the U.S. and raise the policy interest rate by 75 basis points, at the monetary policy meeting in November, and this limited Philippine peso-selling. Furthermore, the September trade deficit decreased from the previous month's amount, which recorded an all-time high, as a result of an increase in exports and a decrease in imports. Consequently, the Philippine peso started to appreciate against the U.S. dollar. Thus, at the beginning of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating at the PHP 58 level.

The third-quarter GDP of the Philippines turned out to be strong, exceeding the market estimate at +7.6% year-on-year. As inflation continues to accelerate, market participants expected the central bank of the Philippines to continue raising the policy interest rate next year. This led to Philippine peso-buying. Furthermore, as inflation slowed down in the U.S., market participants expected the U.S. monetary authorities to slow down policy interest rate hikes, significantly weakening the U.S. dollar. In the meantime, China had relaxed anti-Covid restrictions, and this improved market sentiment. As a consequence, the Philippine peso appreciated sharply, and the U.S. dollar/Philippine peso exchange rate reached the lower-PHP 57 level. Subsequently, multiple officials from U.S. monetary authorities made hawkish comments to counter expectations for a slowdown in policy interest rate hikes in the U.S. Thus, the Philippine peso did not appreciate further. Moreover, on November 18, the central bank of the Philippines decided to sharply raise its policy interest rate by 75 basis points. However, this decision had already been anticipated in the market, and the impact of this in the market was limited. Thus, in the middle of the month, the U.S. dollar/Philippine peso exchange rate did not move in any direction, fluctuating within a narrow range.

There were both positive and negative factors, such as an increase in Covid-19 cases in China as well as concerns over assertive policy interest rate hikes as expressed by multiple officials from U.S. monetary authorities. Under such circumstances, the governor of the central bank of the Philippines, Felipe Medalla, made a comment that he was ready to slow down policy interest rate hikes. Positively reacting to this comment, Philippine stock prices rose in an accelerated manner. Thanks to the capital inflow as a result of this, the Philippine peso appreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached the PHP 56 level. As the minutes of the FOMC meeting in the U.S. turned out to be dovish, market sentiment improved. Furthermore, the October fiscal deficit of the Philippines tuned out to be PHP 99.1 billion, recording a significant decrease from the USD 179.8 billion recorded in the previous month, and this also kept the Philippine peso stable. Thus, monthly trading closed at the mid-PHP 56 level. The Philippine peso thus recorded its highest monthly rate of appreciation since March 2016.

2. Outlook for This Month

There will be downward pressure on the Philippine peso based on the robustness of the U.S. dollar and the trade deficit, which remains high. However, as the Philippine monetary authorities remain defensive, the depreciation of the Philippine peso is expected to be limited.

As the CPI of the U.S. demonstrated a slowdown in inflation, interest rates in the U.S. fell sharply with expectations for the U.S. monetary authorities to shift to a dovish attitude. Even though the U.S. dollar has also been on a downtrend, multiple officials from the U.S. monetary authorities made comments to counter expectations for dovish monetary policy. It is thus expected that the U.S. will continue raising its policy interest rate for a while by changing the increase to 50 basis points at the December FOMC meeting. Thus, it is unlikely that the upward trend for the U.S. dollar has ended. The FOMC meeting in November confirmed that the policy interest rate might peak out at a higher level than originally planned, and the FOMC was ready to continue raising its policy interest rate at a moderate rate. As policy interest rate hikes will be slower in the times ahead, the appreciation of the U.S. dollar is also likely to be slower than before. However, the upward trend for the U.S. dollar is expected to continue.

It is also worth mentioning that international commodity prices remain high, while imports are increasing as economic activities recover in the Philippines and as geopolitical risks persist. Furthermore, exports are not growing significantly due to concerns over an economic slowdown. Given these circumstances, it is difficult to expect the current account deficit to stop growing. With Philippine's high trade deficit and accelerating domestic inflation, the downward pressure on the Philippine peso is forecast to persist.

On the contrary, the central bank of the Philippines has sufficient reserves of foreign currencies compared to other emerging countries, which makes it possible to carry out foreign exchange market interventions. The central bank also continues to take measures to defend the Philippine peso by taking monetary policy that follows that of the U.S., in order to maintain interest rate differentials between the U.S. and the Philippines. There are also seasonal factors, such as demand for remittances from overseas Filipino workers. For these reasons, the Philippine peso is forecast to remain stable for a while.

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

Indian Rupee – December 2022

Expected Ranges **Against the US$: INR 80.00–84.50**
Against the yen: JPY 1.67–1.83

1. Review of the Previous Month

In November, the U.S. dollar/Indian rupee exchange rate fell and recovered slightly thereafter.

In November, the U.S. dollar/Indian rupee exchange market opened trading at INR 82.735, having seen China under confusion in the real estate sector and economic concern based on its zero-Covid policy. The Federal Open Market Committee (FOMC) meeting was also held, attracting substantial attention in the market, and the policy interest rate was raised by 0.75%, as had been anticipated in the market. However, Federal Reserve Board (FRB) Chair Jerome Powell made a comment that it would be way too early to stop policy interest rate hikes, which was seen a hawkish comment in the market. In reaction, the U.S. dollar/Indian rupee exchange rate reached INR 82.93—the monthly high in November. However, market participants remained cautious of U.S. dollar-selling market interventions by the Philippine monetary authorities. Thus, the U.S. dollar/Indian rupee exchange rate did not reach the INR 83 level.

On November 7 after the weekend, the overall Asian currencies, apart from the Chinese yuan, appreciated. Following this trend, the BSE SENSEX exceeded the 61,100 mark. With risk-taking sentiment growing in the market, the U.S. dollar/Indian rupee exchange rate also fell below the INR 82 level. On November 8, it was a holiday in Mumbai, and on November 9, the U.S. dollar/Indian rupee exchange rate fell to INR 81.22, due to concerns over the mid-term election in the U.S. and adjustments to existing U.S. dollar long positions. However, local importing companies rushed to buy the U.S. dollar at this level, and the exchange rate did not change easily. Subsequently, the Consumer Price Index (CPI) of the U.S. turned out to be weaker than expected, which led the U.S. dollar to depreciate. Following this trend, the Indian rupee appreciated against the U.S. dollar, and the U.S. dollar/Indian rupee exchange rate fell to INR 80.58—the monthly low in November. Weekly trading closed at this level.

In the third week of the month, the media reported that a major Indian conglomerate would buy a large amount of U.S. dollars, and this led the U.S. dollar/Indian rupee exchange rate to rise one-sidedly to rapidly return to the INR 81 level. Based on the interest rate differentials between the U.S. and India, the U.S. dollar/Indian rupee forward premium fell to its lowest level in 11 years. Import companies bought the U.S. dollar to cut cost for exchange contracts for importing, and this led the exchange rate to recover to the upper-INR 81 level.

In the fourth week of the month, the Chinese yuan and other Asian currencies generally weakened, as China had strengthened Covid-19 restrictions. On Monday, the U.S. dollar/Indian rupee exchange rate rose to INR 81.915. Toward the end of the month, there were few influential factors, and the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range. On November 29, trading closed at INR 81.72 to the U.S. dollar.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate is forecast to rise in December.

In November, the CPI of the U.S. led the U.S. dollar to depreciate significantly. However, regarding policy interest rate hikes in the U.S., many participants expect the target rate to be either 4.75–5.00% or 5.00–5.25%. In other words, the market has already reflected interest rate hikes of approximately 1% from the current level. Thus, this does not mean that policy interest rate hikes will end immediately. This is also clear from the fact that short-term U.S. government bond yields have not fallen. Thus, it is highly questionable if the U.S. dollar will depreciate based on declining expectations for policy interest rate hikes in the U.S., as is currently being predicted by the media. Why are U.S. government bond yields not falling while the U.S. dollar is depreciating? This seemingly contradictory situation would be explained either by pointing out that "investors sold the U.S. dollar in order to adjust U.S. dollar positions before the holiday season" or that "the appreciation of the U.S. dollar seen until October was excessive."

Even though it would depend on the December CPI of the U.S. and the outcome of the December FOMC meeting, the policy interest rate hikes in the U.S. are likely to continue until spring 2023, and it would be too early to expect the U.S. dollar to really start depreciating.

Market participants should also be attentive of an economic slowdown and political uncertainty resulting from zero-Covid policy in China, as well as growing geopolitical risks after a missile landed in Poland near the Ukrainian border, killing two people. When market participants are aware of these factors, risk-averse sentiment inevitably grows in the market, and market participants have no choice but to sell currencies of emerging countries and to buy the U.S. dollar, which would also impact the Indian rupee.

Domestic factors that would impact the U.S. dollar/Indian rupee exchange market include the trends in the crude oil market. The Brent crude oil price fell to USD 83.19 on November 28, falling below its lowest price recorded in September. This means that the price fell by approximately 35% from high recorded in March. The trade balance turned out to be a deficit of USD 25.9 billion in terms of the monthly average of this fiscal year and more than USD 180 billion in terms of the total amount of this fiscal year. This encouraged market participants to buy the U.S. dollar and sell the Indian rupee, and this was one of the main factors that led to the depreciation of the Indian rupee. Because import companies hedge against crude oil price changes, trends in the crude oil market do not immediately impact importing prices. However, if the crude oil price continues to fall, it would lead to a decline in trade deficits, leading to a decline in U.S. dollar buying as a consequence. On this point, market participants should wait for the OPEC Plus meeting scheduled for December 4 to see if there will be an agreement on production cuts.

In December, the U.S. dollar is thus forecast to appreciate against the Indian rupee, as policy interest rate hikes in the U.S. are expected to continue. As a subfactor, if geopolitical risks heighten, the U.S. dollar is expected to appreciate even further. If resource prices continue to fall, the Indian rupee would be supported, somewhat offsetting the appreciation of the U.S. dollar.