

# Mizuho Dealer's Eye

January 2023

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Sales Department

# U.S. Dollar – January 2023

**Expected Ranges**

**Against the yen: JPY125.50–133.50**

## 1. Review of the Previous Month

The dollar/yen pair opened December trading at the lower-138 yen mark. The dollar had been sold at the end of November, so the yen rose and the pair fell to the mid-133 yen level. The US November employment data was released on December 2. The nonfarm payrolls figure and other results outperformed expectations, so the pair rocketed to just below 136 yen, though it then weakened to the lower-134 yen level on falling US interest rates.

In the second week, the pair climbed to the upper-136 yen mark on December 5 on the better-than-expected results of the US Non-Manufacturing ISM Report on Business for November. The pair then fluctuated gently before rising to the upper-137 yen mark on December 7 with an eye on US interest rates. However, it then weakened to the mid-136 yen range after the US 3Q price of labor per single unit of output data (final) was revised down sharply. The pair dropped to the mid-135 yen level toward the weekend, though it closed the week trading at the mid-136 yen level on December 9 on the better-than-expected results of the US November PPI data and December University of Michigan consumer sentiment index (provisional).

US interest rates rose mid-December on a sluggish auction of US 10-year treasuries. The dollar/yen pair also climbed to the upper-137 yen level, though it then plunged to the upper-134 yen mark on December 13 after the greenback fell back on the weak results of the US January CPI data. The pair moved bearishly at the mid-134 yen mark on December 14 on reports that the Bank of Japan (BOJ) might review its monetary policy in 2023. As expected, the FOMC implemented a +50bp rate hike at its closely-watched meeting, with the policy rate projection for 2023 also topping 5%, so the currency pair temporarily hit 135.99 yen, though it then dropped back to the upper-134 yen level on concerns about a recession. The euro was bought and the dollar sold on December 15 after ECB Governing Council struck a hawkish stance, with the dollar/yen pair also falling, though the dollar rebounded sharply as risk aversion grew on falling US stocks, with the pair also soaring to 138.18 yen. The pair then closed at the upper-136 yen level following adjustments.

On December 19, the pair opened the fourth week trading below its previous close at around 136 yen on reports that the Japanese government and BOJ had decided to revise their joint statement. The pair then rallied to the lower-137 yen level after Japan's Chief Cabinet Secretary Hirokazu Matsuno denied these reports. However, at the closely-watched BOJ Monetary Policy Meeting on December 20, the BOJ decided to partially revise its yield curve controls (YCC) to allow long-term interest rates to float in a wider around  $\pm 0.5\%$ , with the dollar/yen pair subsequently plummeting to the lower-133 yen mark. In his press conference, BOJ governor Haruhiko Kuroda insisted that monetary easing would continue. Nonetheless, the yen continued rising and the pair hit 130.58 yen for the first time since its low of August 2022. The pair rallied to the lower-133 yen toward the weekend as the final US 3Q GDP data was upgraded and US interest rates rose.

Amid thin liquidity in the final week, the pair climbed to the mid-134 yen mark on rising US interest rates, though it then dropped back to the upper-130 yen level to finish the year trading at this level.

## 2. Outlook for This Month

Market participants are expected to test the dollar/yen pair's downside in January.

As broadly expected, the FOMC implemented a +50bp rate hike in December. The FOMC has previously hiked rates by +75bp at four successive meetings, so the +50bp rate hike represented a slight slowdown. Of course, a lot will depend on the results of US economic indicators going forward, but it is very likely the FOMC will only lift rates by +50bp or perhaps even +25bp when it meets in February. Apart from the ECB, major central banks are revising their recent hawkish stances, so there will probably be some more correction to the trend of yen selling on interest-rate differentials.

The markets also pushed the yen higher last month when the last month's BOJ Monetary Policy Meeting partially revised its YCC band. From here on, investors will be monitoring the BOJ Monetary Policy Meeting and there will also be speculation about whether the Japanese government and BOJ will revise their joint statement and price targets. Furthermore, the yen will probably rise on uncertainty about the next BOJ governor, with the dollar/yen pair likely to be pushed down for a while by issues related to Japanese monetary policy.

With regards to the Japanese supply and demand situation, meanwhile, importers' willingness to buy dollars has dropped off slightly as commodity prices regain composure. It also seems long-term investors have more-or-less finished their hedge payments. At the same time, there will probably be considerable demand for sell-backs among exporters as the yen rises sharply, with the Japanese short-term supply and demand environment inclining slightly in the direction of dollar selling. Together with the better-than-expected rise in inbound consumption, it seems the dollar/yen pair's room on the topside will be capped.

However, given how dollar buying was supported by the CNH's movements during Asian trading time last year, investors should also pay attention to CNH trends this month. If the CNH is sold on the recent surge in Covid-19 cases, this could support the dollar/yen pair's downside.

Based on the above, it seems investors will test the dollar/yen pair's downside at the start of the year on shifts in US/Japanese monetary policy and a short-term reversal of Japanese supply and demand conditions. There is also an anomaly whereby the pair's movements in January seem to reflect its movements for the rest of the year, so after the sharp fluctuations last year, investors should pay attention the currency markets at the start of 2023.

## Dealers' Market Forecast

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

Bullish on the dollar	9 bulls	135.00 – 127.50	Bearish on the dollar	10 bears	133.75 – 127.00
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### \* Ranges are central values

Kawai	Bear	136.00 – 128.00	Though BOJ governor Haruhiko Kuroda has ruled it out, market participants will be focusing on the exit strategy of Japanese monetary policy, so they will probably test the pair's downside at the start of the month.
Miyachi	Bear	133.50 – 125.50	With a BOJ Monetary Policy Meeting looming mid-January, speculation will be smoldering about the BOJ's next move, with the dollar/yen pair set to trade with a heavy topside on the whole. With dollar-buying demand also easing on short-term Japanese supply and demand conditions, it is hard to see the pair undergoing a sharp rise like it did in 2022.
Tsutsui	Bull	135.00 – 129.00	The dollar/yen pair will move erratically on US inflationary trends and the BOJ's monetary policy stance. Wages continue to rise in the US, while the BOJ is unlikely to move until Japanese interest rates clearly rise, so accumulated yen long positions will be unwound as investors focus on Japan's trade deficit.
Kato	Bear	133.00 – 127.00	No matter what BOJ governor Haruhiko Kuroda says, in January–March investors will focus on how the BOJ is being forced into shifting policy. BOJ monetary policy normalization and the impact on employment of the FRB "overkill" will be major themes this month too, with the dollar/yen pair likely to continue facing adjustive pressure in a bullish-yen direction.
Yamazaki	Bull	138.00 – 130.00	The surprise shift in BOJ monetary policy has impacted the dollar/yen pair's direction. China is shifting its Covid-19 policy, but this could have a positive or negative effect. If the impact seems more positive than negative, this could push the pair upwards.
Ito	Bull	135.00 – 127.00	Inflation is peaking out across the globe, with attention now turning towards an economic slowdown. The yen rose on a surprise move by the BOJ at the end of 2022, but it is too early to start factoring in a policy shift. The dollar/yen pair's topside has clearly grown heavier, but investors should continue to monitor US interest rate movements.
Yamagishi	Bull	135.00 – 127.00	The dollar/yen pair has fallen by over 20 yen from a high of 151 yen. The pair has also recovered to the halfway point between its 2021 high and low. After a round of adjustment on expectations for a halt to US rate hikes, the pair looks set to move firmly as the greenback is bought on the stark Japanese/US interest-rate differentials and yen selling on supply and demand trends related to Japan's historic trade deficit.
Omi	Bear	133.00 – 125.00	The dollar/yen pair's movements will be deadlocked in January, with the greenback sold on expectations for a slower pace of US rate hikes and bought when the terminal rate is raised. It also seems the time has come for the BOJ to revise its monetary policy, so the yen will be bought slightly.
Ueno	Bull	134.00 – 127.00	There is unlikely to be any substantial flows as business corporation put together their budgets for the next quarter. The BOJ Monetary Policy Meeting implemented a policy shift when it met last month, but it will probably maintain the status quo this month. There is a shortage of events capable of shaping the dollar/yen pair's movements this month, but there will probably be some adjustment after the pair's sharp fall last month.
Kai	Bear	132.00 – 128.00	The yen will continue to be bought until the January 18 BOJ Monetary Policy Meeting, with the pair likely to settle in the upper-120 yen range. However, if the BOJ refrains from any more policy shifts in January, investors will then move to factor in the February FOMC meeting, so the pair will probably return to the lower-130 yen range toward the end of the month.
Matsunaga	Bear	134.00 – 127.00	The BOJ is unlikely to shift monetary policy any time soon, but with speculation smoldering about a revision to its easing stance, investors will find it hard to actively buy the dollar. With the FRB also facing less room for rate hikes going forward, the dollar/yen pair looks set to continue trading with a heavy topside.

Onozaki	Bull	136.00 – 128.00	The BOJ surprised the markets by widening its YCC tolerance band, but it is still too early to focus on a policy shift. Japanese/US interest-rate differentials remain wide, so the dollar will probably edge higher on buying, though probably not at the same pace as last year.
Harada	Bear	135.00 – 125.00	The FOMC slowed the pace of its rate hikes to +50bp last month. Speculation also grew that Japan might exit its policy of large-scale easing after the BOJ MPC widened its YCC band last month. As such, the dollar/yen pair looks set to remain bearish this month.
Katoono	Bear	133.00 – 126.50	The dollar's room on the top will be capped as investors cautiously try to discern how much room the FRB still has to hike rates. Speculation is also growing that the BOJ might shift its easing stance after widening its YCC band in December. Though a shift is unlikely right now, the dollar/yen pair could still swing lower on speculation, so caution will be needed.
Kobayashi	Bull	135.00 – 127.50	The yen swung upward after the BOJ widened its YCC band, but with the FOMC also expected to hike rates again at its next meeting, the yen will continue to weaken at a gentle pace against the dollar. However, the currency pair could move skittishly on BOJ movements, so caution will be needed.
Henmi	Bear	137.00 – 128.00	Amid strong concerns about a BOJ exit strategy, the dollar/yen pair could move with a heavy topside if investors focus on the ceiling of US rate hikes. Investors should also be wary of FRB hawkishness on high US inflation and a bullish jobs climate.
Suzuki	Bull	135.50 – 127.50	There remain deep-seated expectations for a BOJ policy shift, but the recent yen bullishness was just an over-reaction to surprise news and it is still too early to expect more policy tweaks. If investors focus again on wide Japanese/US interest-rate differentials, the yen will be conducive to selling.
Kimura	Bull	133.00 – 128.00	Markets have still not fully processed the BOJ's policy shift and the situation remains turbulent, with investors set to continue testing the dollar/yen pair's topside at the start of January. However, Japanese/US interest-rate differentials have not shrunk much, so the pair will gradually strengthen again thereafter.
Okuma	Bear	136.00 – 128.00	There is strong speculation that the FRB will wind down its rate hikes in March. With speculation also smoldering about further BOJ tightening, investors are starting to focus on shrinking Japanese/US interest-rate differentials. There are also growing concerns about a slowdown on bearish economic indicators, with the dollar/yen pair set to move with a heavy topside this month.

## Euro – January 2023

### Expected Ranges

**Against the US\$: US\$1.0450–1.0900**

**Against the yen: JPY134.50–145.00**

### 1. Review of the Previous Month

In December, the euro/dollar pair temporarily hit the lower-\$1.07 mark for the first time in around six months.

After opening the month trading around \$1.04 on December 1, the pair soared to \$1.0534 as the greenback was sold on bearish US economic indicators and falling US long-term interest rates. It fell to \$1.0430 on December 2 on the results of the US November employment data. It was then bought back to close the week at \$1.0451.

The weekend's trend of dollar selling continued on December 5, with the pair rising to \$1.0595 for a time, though it then weakened to the upper-\$1.04 mark on the firm results of a US economic indicator. The pair temporarily recovered to the \$1.05 range on December 6, though it then fell back to the upper-\$1.04 level as the dollar was gradually bought back on risk aversion. The pair fell to \$1.0444 for a time on December 7 on real-demand dollar buying and rising US interest rates. The eurozone then posted a better-than-expected 3Q GDP result. With US economic indicators also moving bearishly, the pair topped \$1.05 once again. The pair floated around the lower-\$1.05 mark over December 8–9 with an eye on the movements of US interest rates.

On December 12, the pair moved with a lack of momentum at the lower-\$1.05 level. It then rose to the upper-\$1.06 mark for a time on December 13 on the weak result of the US November CPI data. On December 14, the greenback was bought after the FOMC meeting, though it was then sold back, with the pair rising to the upper-\$1.06 range. The pair edged lower on dollar buying on December 15. However, the ECB Governing Council then upgraded its inflation outlook, with ECB president Christine Lagarde also voicing strong concerns about inflation. With expectations also growing about future ECB rate hikes, the pair rocketed to \$1.0737 for the first time in around six months. The pair then fell to the \$1.06 range as the greenback was bought on risk aversion. Concerns grew that the ECB's prolonged stance of aggressive monetary tightening would lead to an economic slowdown in the eurozone, with the euro subsequently sold and the pair closing the week at \$1.0584.

On December 19, the euro was bought on the firm results of a German economic indicator, with the pair also pushed up to the upper-\$1.06 level after ECB vice-president Luis de Guindos hinted that the ECB would continue to implement +50bp rate hikes from 2023 onwards. The pair was then pushed back to the upper-\$1.05 level. On December 20, the Bank of Japan (BOJ) sprung a surprise when it decided to widen its yield curve control (YCC) band, though the pair nonetheless rose to the lower-\$1.06 mark. The markets reacted well to the release a strong German economic indicator on December 21, but with the dollar being bought back against the yen, the euro/dollar pair moved with a heavy topside to fall to around \$1.06. The pair rose to \$1.0659 on falling US interest rates on December 22, though it then dropped to \$1.0573 on the firm results of the US final 3Q GDP result. After a round of selling, the pair returned to the \$1.06 range. The pair's topside was capped on December 23 as a cautious mood prevailed ahead of the holidays in Europe and the US, with the pair closing the month trading at \$1.0615.

In the week beginning December 26, the pair floated around \$1.06 amid thin trading at the year's end. The pair edged higher at the year's end to close the year at \$1.0715.

## 2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in January.

The euro was bought last month on the release of some bearish US indicators early December. When the ECB Governing Council met on December 15, it lifted its policy rate by +50bp to 2.50%. This was smaller than the +75bp hike at the previous meeting. However, the ECB struck a hawkish tone. Its statement said that “interest rates will still have to rise significantly at a steady pace,” for example, while ECB president Christine Lagarde said in her press conference that “we should expect to raise interest rates at a 50-basis-point pace for a period of time.” With expectations growing for further rate hikes in the wake of the ECB Governing Council meeting, the euro/dollar pair soared to \$1.0737 for the first time in around six months. However, the pair then fell back on concerns about a eurozone economic slowdown on prolonged monetary tightening by the ECB. The pair continued to float at highs thereafter with an eye on US/European economic indicators and US interest rates. The December German CPI figure (released January 3) rose to +9.6%, with CPI growth slowing for the second straight month, so the euro/dollar pair was sold to the lower-\$1.05 mark for a time.

Though it is confirmed inflation is peaking out in the European region, it remains at high levels. With the FRB and other major central banks slowing the pace of monetary tightening, the ECB is expected to pursue longer and more substantial monetary tightening than the FRB, with the euro likely to be bought on hawkish comments by the ECB Governing Council or robust European economic indicators.

However, as December's price movements of the euro show, there are concerns that the European economy might slow as inflation peaks out in the eurozone and monetary tightening drags on for a prolonged period. With energy prices falling, it also seems that the eurozone's trade balance will not deteriorate significantly, but if energy prices soar again on intensified geopolitical risk, for example, the European economy could slow, with the euro subsequently falling, so caution will be needed.

While the FRB is slowing the pace of monetary tightening, the ECB has indicated it will continue to tighten significantly for a prolonged period. This will act as a euro-buying factor. However, investors will find it hard to actively chase the euro/dollar pair's topside on peaking out of inflation in the European region, concerns about an economic slowdown, and geopolitical risk, for example.

## Dealers' Market Forecast

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

Bullish on the euro	15 bulls	1.0900 – 1.0400	Bearish on the euro	4 bears	1.0725 – 1.0250
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\* Ranges are central values

Kawai	Bull	1.1000 – 1.0400	Though the FRB has slowed the pace of tightening, the ECB has adopted a hawkish stance, with the euro likely to move firmly on shrinking European/US interest-rate differentials.
Miyachi	Bull	1.0850 – 1.0450	The ECB Governing Council clearly adopted a hawkish stance when it met last time. With the FRB also expected to slow the pace of rate hikes, dollar selling looks set to continue for the time being.
Tsutsui	Bear	1.0700 – 1.0200	Investors will probably focus again on rising wages in the US and an economic slowdown in Europe. The ECB has clearly indicated its commitment to tackling inflation and lifting interest rates, but the markets are unsure about the wisdom of this course, so investors will probably move to price in an economic slowdown.
Kato	Bull	1.0800 – 1.0300	The energy crisis has eased somewhat, partly thanks to a warm winter. The ECB has inherited the Bundesbank's traditions as an inflation fighter and will thus remain on guard against inflation. Given this, the euro/dollar pair looks set to continue moving firmly this month.
Yamazaki	Bull	1.0880 – 1.0400	The euro/dollar pair continues to rise steadily on the ECB's revised monetary policy. Soaring fuel costs have eased off recently, but the pace of the euro's rise will probably slow going forward. Though investors should continue to monitor the Ukraine situation, the pair looks set to continue rising at a gentle pace in January.
Ito	Bear	1.0800 – 1.0200	With the FRB moving towards ending rate hikes while the ECB is adopting a hawkish stance towards inflation, the euro will probably move bullishly against the dollar. There are still doubts about whether rising interest rates will act to push euro higher. With investors focusing even more on stagflation, the euro/dollar pair's topside looks set to grow steadily heavier.
Yamagishi	Bull	1.0900 – 1.0200	Eurozone inflation remains in double digits, with the core CPI figure and services prices still high. With several ECB officials making bearish comments, the markets are expecting the ECB to tighten policy by lifting rates by a further around 1.5% while starting to shrink its balance sheet from March. As such, the euro/dollar pair looks set to move firmly.
Omi	Bull	1.1000 – 1.0300	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. It is possible 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	1.0850 – 1.0450	There is a dearth of factors capable of shifting the dollar/yen pair's direction, with the pair likely to swing to and fro as market participants monitor the results of US and European CPI data and so on. However, the ECB still has more room to hike rates compared to the FRB, so the euro will remain a comparatively easy currency to buy.
Kai	Bear	1.0600 – 1.0450	The likelihood of euro buying has fallen on expectations that the German CPI data will slow. The Russia/Ukraine situation has been deadlocked, but fighting could intensify ahead of one-year anniversary of the invasion. The greenback might also be bought ahead of the February FOMC meeting, so the euro/dollar pair will probably trade with a heavy topside.
Matsunaga	Bull	1.0750 – 1.0400	There are concerns about a eurozone economic slowdown, but the euro will continue to be supported in the short-term by the ECB's hawkish stance. With investors also reacting warmly to stable energy prices, the euro/dollar pair looks set to continue moving firmly.

Onozaki	Bull	1.1000 – 1.0300	Though the FRB is moving closer to ending rate hikes, the ECB remains committed to lifting rates. There are a number of concerning factors in the European region, but the euro will probably be bought on monetary policy.
Harada	Bull	1.0900 – 1.0250	The trend of rising US interest rates is easing off. The euro/dollar pair was bolstered last month by the FOMC's +50bp rate hike and it will probably continue trending upwards this month too. However, inflation in the eurozone is showing signs of cooling off, so the pair's room on the topside will probably be capped.
Katoono	Bull	1.0800 – 1.0450	There is an undeniable sense that price hikes are peaking out, but they remain at high levels, so the ECB is unlikely to change its hawkish stance. There are concerns about a European economic slowdown on aggressive tightening, but with the FRB moving closer to ending rate hikes, it seems the euro will more bullishly against the dollar.
Kobayashi	Bull	1.0900 – 1.0450	The FRB is expected to slow the pace of monetary tightening, but the ECB has committed to significant long-term tightening, so the euro will probably be bought on monetary policy. However, the euro/dollar pair will likely trade with a heavy topside on concerns about a eurozone economic recession.
Henmi	Bull	1.1000 – 1.0300	As investors focus on the ceiling for US rate hikes, the ECB looks set to continue hiking rates. There are doubts about whether the economy can withstand this tightening, but the euro/dollar pair is expected to edge higher.
Suzuki	Bull	1.0900 – 1.0400	It seems US interest rates have stopped rising, while the ECB remains in hawkish mode. There remain a number of concerns, including a potential recession and the Ukraine situation, but the euro/dollar pair looks set to move firmly on shrinking European/US interest-rate differentials.
Kimura	Bear	1.0750 – 1.0300	The euro/dollar pair's rally since October seems to be easing, with the pair now deadlocked. There are strong concerns about employment-related indicators on fears about the impact of ECB tightening on the jobs situation, so the pair will probably move with a heavy topside.
Okuma	Bull	1.0900 – 1.0300	The Ukraine situation is still up in the air, but concerns about the energy situation are receding on forecasts for warm weather and the growing use of wind power as a substitute energy source. With the ECB also expected to implement successive +50bp rate hikes, the euro/dollar pair looks set to move firmly.

# British Pound – January 2023

## Expected Ranges

**Against the US\$: US\$1.1600–1.2400**

**Against the yen: JPY154.00–165.00**

## 1. Review of the Previous Month

The GBP/USD pair fluctuated gently in December, though it then fell by around 10% or more from the start of 2023.

The pair began December trading in the \$1.20 range. It then rose to the \$1.23 range on weak US economic indicators and a suggestion by the FRB chair Jerome Powell at the end of November that rate hikes might be curtailed. The pair dropped to \$1.21 on December 2 on the firm results of the US November employment data. The pair moved without a sense of direction in the week beginning December 5 as investors remained in wait-and-see mode ahead of the following week's FOMC meeting. The pair rose to the \$1.24 range on December 13 as the dollar was sold on the lower-than-expected results of the US November CPI data. It then hit a monthly high of \$1.2446 on December 14, though it then dropped to the \$1.23 range after the FOMC meeting. The greenback was bought on December 15 as the markets processed the hawkish results of the FOMC meeting. As expected, the Bank of England (BOE) raised its policy rate by +50bp to 3.50%, with sterling then sold and the pair falling to the mid-\$1.21 mark. The pair continued trading with a heavy topside thereafter. The pound moved around £0.86 mark against the euro before the BOE's announcement, but it then fell to around £0.88 towards the month's end, with the pound clearly losing momentum. The GBP/USD pair also edged down to hit a monthly low of \$1.193 on December 22. The pair then moved without a sense of direction with market participants thin on the ground over the Christmas holidays. It closed the year floating around \$1.20.

On the other hand, the yen rose sharply against the pound. The yen moved bullishly on when the Bank of Japan tweaked its policies. With sterling also moving bearishly, the currency pair moved in a 10-yen range throughout December, from 158 yen to 169 yen. It then breached 160 yen at the end of the year.

## 2. Outlook for This Month

The GBP/USD pair is expected to continue trading with a heavy topside in January.

With the pace of central bank rate hikes peaking out, investors began pricing final policy rates into exchange rates to a certain extent. The BOJ then sprang a major surprise by revising its monetary policy. However, this will only have a limited impact on the GBP/USD pair's range, with attention more likely to focus on the movements of the GBP/JPY pair. A glance at implied volatility in the currency options markets suggests the GBP/JPY pair will probably fluctuate by five yen (around 3%) over the month, with investors pricing in a fluctuation rate similar that which prevailed in December (the GBP/USD pair is expected to fluctuate by around 2.5%). Furthermore, the euro often moves in tandem with the pound, so investors are focusing on the fact that the pound is moving relatively weakly against the euro too. With the eurozone and the UK more susceptible to rising fuel costs and the impact of war than US owing to their proximity to Ukraine, both the euro and pound moved weakly against the greenback in

2022, but sterling's recent underperformance is probably due in large part to concerns about UK economic turmoil. When the Truss administration came to power at the end of September 2022, it soon announced a populist budget plan, but this sent gilts tumbling, with Truss herself soon stepping down thereafter. Her successor Rishi Sunak has embarked instead on a program of fiscal austerity. The BOE has acted more dovishly than the FRB, but it has also moved quietly to lift rates to combat soaring prices, with consumer sentiments being hit hard by rising mortgage rates, for example. Also, though the UK unemployment rate is low following an outflow of workers post-Brexit, numerous public sector unions are striking due to soaring costs (at the end of the year, there were reports every other day about near-simultaneous strikes by railway workers, airport workers, and nurses, for example). The FOMC will not be meeting until February 1, with the next BOE policy announcement also not expected until February 2, so the pound could strengthen in January on some changes in the outlooks for economic indicators.

# Australian Dollar – January 2023

## Expected Ranges

**Against the US\$: US\$0.6600–0.6890**

**Against the yen: JPY86.00–92.00**

## 1. Review of the Previous Month

The AUD/USD pair swung to and fro in early December. The US October Personal Consumption Expenditure (PCE) core deflator and the November Manufacturing ISM Report on Business both posted bearish results, but the US then released some better-than-expected November employment data, so the greenback was bought and currency pair weakened to \$0.6743. However, the data was not strong enough to dampen expectations for a slower pace of US rate hikes going forward, so the pair then rose to \$0.6794 before temporarily hitting \$0.6851 for the first time since November. Speculation about a large FRB rate hike then flared up again on the unexpectedly bullish result of the US November Non-Manufacturing ISM Report on Business. US interest rates rose, stocks fell and the greenback strengthened, with the AUD/USD pair tumbling to around \$0.6690. On December 6, the RBA board decided to lift its policy rate by +25bp to 3.10%. The accompanying statement did not really contain any hints about an end to rate hikes, so Australian rate hikes rose sharply on the unexpected slightly-hawkish tone of the statement. However, the pair's reaction was muted and it floated around the lower-\$0.67 mark. The pair fell temporarily below \$0.67 on December 8 on bearish stock movements, but with the US weekly new applications for unemployment insurance data rising on the previous week to hit its highest level since February 2022, speculation grew about a slower pace of FRB rate hikes, with the greenback also weakening as a result. The pair subsequently strengthened to around \$0.6770. It then moved around the mid-\$0.67 mark.

The US November CPI data was released mid-December and it hinted that inflation might be peaking out. The greenback was sold as US interest rates fell, with the AUD/USD pair soaring to \$0.6893 for a time. As expected, the FOMC implemented a +50bp rate hike. The pair fell to around \$0.6812 directly after the announcement, though it was soon bought back. Australia released some better-than-expected November employment data on December 15, though the impact on the currency pair was muted. With China's November retail sales data then sliding, the greenback was bought on risk aversion, with the pair dropping to \$0.6677. It then moved in the upper-\$0.66 range.

With trading thin due to a holiday mood late December, the pair rose on December 19 on news that Australian Minister for Foreign Affairs Penny Wong would be making a diplomatic trip to Beijing on December 20. When it met to set policy on December 20, the BOJ announced it would be widening its yield curve control (YCC) band. This surprise led to yen buying and US-dollar selling, with the AUD/USD pair also rising 50pips from around \$0.6690, though it was then pulled down to around \$0.6630 when the Australian unit was sold against the yen. The minutes to the December RBA board meeting revealed that the board had discussed ending the policy tightening cycle that month, though the plan was shelved owing to a shortage of data to support such a move. Furthermore, though the RBA was planning to lift rates again, it reiterated that the timing and scale of any hikes would depend on the data. With liquidity thin on the ground towards the year's end, the markets focused on China's announcement about its 'zero-Covid' policy. With Hong Kong stocks moving firmly, the Australian dollar was supported and the AUD/USD pair rose to the lower-\$0.68 handle.

## 2. Outlook for This Month

Neither the FOMC nor the RBA will be meeting to set policy this month, so January will be a time to reassess future policy directions or the extent to which inflationary pressures are starting to wane in the face of aggressive rate hikes by central banks.

The FOMC indicated it would continue hiking rates when it met in December, but this is steadily becoming less of a factor for the markets, with investors become less reactive to upgrades to the dot chart and more reactive to policy shifts in the direction of slower rate hikes. The RBA discussed bringing the rate-hike cycle to an end when it met in December, but with Australia's domestic economic data continuing to move firmly, it seems inflationary pressure is still smoldering away in the face of tight labor conditions. Based on this, it seems the US dollar will be sold and the Australian dollar bought, with the reverse flow from 2022 set to continue. The market focus is falling less on US/Australian interest-rate differentials and more on central bank shifts in the direction of tweaking policy. When it comes to gauging the direction of policy, market participants will need to monitor the release of the minutes to the December FOMC meeting (January 4, US trading time) and the release of the December US employment data (January 6, US trading time).

On the other hand, the yen is continuing to trend higher as investors focus again on a shift in BOJ monetary policy in the direction of tightening. The Australian dollar could move heavily on a bearish AUD/JPY pair, so caution will be needed.

Stocks and the Australian dollar were bought temporarily on risk appetite last month on anticipation of a demand recovery following the scrapping of its 'zero-Covid' policy, but concerns have also grown about a global surge in Covid-19 cases and there are also fears that the scrapping of the policy will spur on inflation. As such, the AUD/USD pair is unlikely to break sharply out of its range in January.

## Canadian Dollar – January 2023

### Expected Ranges

**Against the US\$: C\$1.3300–1.3800**

**Against the yen: JPY91.00–103.00**

### 1. Review of the Previous Month

Several major central banks held meetings in December, including the Bank of Canada (BOC), the FRB, the ECB and the BOJ. The greenback had undergone a one-sided rise since October, but this trend eased off, with the USD/CAD pair trading in a range between C\$1.3500 and the upper-C\$1.36.

At the start of December, FRB chair Jerome Powell struck a dovish stance when he said the FRB might start to scale back its rate hikes as early as December. As US interest rates fell sharply, the US dollar was sold and the currency pair fell to C\$1.3385. The US then released a bullish November Non-Manufacturing ISM Report on Business on December 5. This led to growing expectations for ongoing FRB rate hikes, so the greenback was bought back and the pair climbed to the C\$1.36 range.

The BOC lifted its policy rate by +50bp from 3.75% to 4.25% when it met on December 7. Previous BOC statements had said that “the policy interest rate will need to rise further,” but the December statement was revised to state instead that the Governing Council would consider “whether the policy interest rate needs to rise further,” with the BOC also hinting that the recent rate hike might be the last one depending on how the economy performed going forward. The Canadian dollar was sold on this BOC’s stance, with the USD/CAD pair temporarily hitting C\$1.3700, but it continued trading in the C\$1.36 range ahead of the following week’s FOMC meeting and US November CPI announcement. The US CPI data was released on December 13, with the headline and core figure both slowing on the previous month. With US interest rates falling sharply, the greenback was sold at a faster pace and the pair temporarily fall to C\$1.3522. As expected, the FOMC implemented a +50bp rate hike when it met on December 14. It also upgraded the central value of its policy rate forecast for the end of 2023 from 4.625% in September 2022 to 5.125%, higher than the markets were expecting. In his press conference, FRB chair Jerome Powell also reiterated his hawkish stance, though the US dollar did not undergo a sharp rise and the currency pair remained in the C\$1.35 range.

The ECB also followed suit by adopting a hawkish stance when it met on December 16. With expectations rising for more global tightening going forward, stocks and crude oil prices fell sharply, with the US dollar bought on risk evasion and the USD/CAD pair rising again to the C\$1.36 range.

On December 20, the BOJ expanded its yield curve control (YCC) band for 10-year government bonds from around  $\pm 0.25\%$  to around  $\pm 0.50\%$ . The yen subsequently soared against other major currencies, with the CAD/JPY pair also hitting 96.72 yen for the first time since March 2022.

With market participants thin on the ground over the Christmas holidays, the greenback was sold against the yen and it also weakened on a falling US consumer expected inflation rate and rising crude oil prices, for example, with the USD/CAD pair closing the month trading in the mid-C\$1.35 level.

## 2. Outlook for This Month

The Canadian November CPI data was released on December 21, 2022. The headline figure fell on the previous month to hit +6.80% y-o-y, though the core (central) figure stood at +5.00% y-o-y, up on October's 4.90% y-o-y. At glance at the details showed gasoline prices falling on the previous month, but mortgage repayments, rents and food prices all rose.

The BOC will next meet on January 25. The December CPI data and the results of the BOC's survey of business and consumer inflation expectations will be released before then, with the results of these indicators likely to have a big impact on the BOC's decisions when it meets in January. If inflation remains at highs, the BOC will probably implement a further +25bp rate hike.

However, the US labor market remains tight and wages continue to rise, so the FRB's stance is likely to remain more hawkish than the BOC's stance. As such, it is hard to see US/Canada interest-rate differentials shrinking, at least in 1Q 2023. The USD/CAD pair is expected to trade in a range between C\$1.3300–C\$1.3800 in January.

# Korean Won – January 2023

## Expected Ranges

Against the US\$: KRW 1,230–1,290

Against the yen: JPY 10.204–10.753 (KRW100)

## 1. Review of the Previous Month

The USD/KRW pair fell in the latter half of December. During his press conference during overseas trading time on November 30, FRB chair Jerome Powell said more evidence was needed to adjudge whether inflation was falling, though he hinted that the pace of rate hikes could be slowed as early as December, so US interest rates of all terms fell by over 15bp. As a result, the pair opened December trading at KRW1301.0. With the semiconductor market slowing, though, South Korea's October trade balance deteriorated (forecast = -\$4.327 billion; result = -\$7.010 billion), with the currency pair then moving firmly. The pair opened the next week trading at KRW1297.0 on December 5. With Shanghai having scrapped some Covid-19 testing rules the previous day, the RMB appreciated, with the USD/KRW pair also moving with a heavy topside. However, the pair strengthened on December 6 after US interest rates bounced back on the release of a firm US economic indicator during overseas trading time. The pair hit a monthly high of KRW1325.8 on December 7. There were high hopes about an easing of China's 'zero-Covid' policy, but the eventual easing was just within the bounds of expectations and nothing more, so there was some selling on a sense of disappointment, with the currency pair then moving flatly toward December 13 on a dearth of any noteworthy factors. The US November CPI data was released during overseas trading time on December 13. Inflation had slowed by more than expected, so the greenback was sold across the board, with the pair falling to KRW1292.0 on December 14. As expected, the FOMC implemented a +50bp rate hike when it met on December 14, though the accompanying statement struck a hawkish tone, so concerns about a recession grew and the USD/KRW pair rallied again on dollar buying, with the pair undergoing a fully-fledged rise on December 15. At the start of the next week, on December 20, the Bank of Japan (BOJ) expanded the control band of 10-year government bond (JGB) yields from  $\pm 0.25\%$  to  $\pm 0.50\%$ . As yen interest rates soared, the yield on JGBs approached the 0.5% ceiling. This led to dollar selling, with the USD/KRW pair also falling to KRW1273.0. Liquidity gradually dried up toward the year's end, with the currency pair pushed down by real-demand won buying. Furthermore, Asian stocks were bought after China relaxed its immigration rules, with the won also bought. In the end, the pair closed the month at KRW1264.5, up 54.3 won on the end of November.

## 2. Outlook for This Month

The USD/KRW pair is expected to continue sliding at a gentle pace in January.

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. At the December FOMC meeting, FOMC members upgraded their policy rate outlook from September, but with the markets focusing on slowing inflation, the impact on the markets was muted.

As for (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% throughout the year. He also forecast that the economy would recover in the second half of 2023. As a result, expectations for an end to rate hikes rose across the board. With the BOJ also effectively implementing a rate hike in December, the greenback has been comprehensively sold. There had been fears about won bearishness, but the USD/KRW pair has since breached the key KRW1300 mark. With the BOK facing less pressure to hike its policy rate to defend the won, there will only be limited pressure for won buying on rate hikes.

As outlined above, the trend of dollar buying on expectations for US policy rate hikes is drawing to a close, but no new driving factors for 2023 have arisen yet. However, speculation about the new BOJ governor will rise from the start of the year, with speculation about an end to BOJ easing likely to grow. Under these circumstances, the pair will probably be more susceptible to falls on indirect dollar selling.

# New Taiwan Dollar – January 2023

**Expected Ranges**                      **Against the US\$: NT\$30.20–31.20**  
**Against the yen: JPY4.25–4.45**

## 1. Review of the Previous Month

The USD/TWD moved in a range in December.

The pair opened the month trading at TWD30.820 on December 1. Taiwan stocks then rose after FRB chair Jerome Powell said in a speech that rate hikes might be slowed in December. As foreign funds flowed into Taiwan, the Taiwan dollar rose and exporters rapidly sold the greenback, with the currency pair falling to the TWD30.6 range. The pair temporarily fell to TWD30.439 on December 5 as the RMB strengthened on news that China would be easing its Covid-19 restrictions. However, the US dollar was then bought on the better-than-expected result of the US November Non-Manufacturing ISM Report on Business, with more participants in the services sector suggesting US inflation would not cool down for a while. The pair returned to the TWD30.6 range on December 6. With the FOMC meeting and the release of the US November CPI data looming the following week, the pair continued moving in a range around TWD30.70.

The pair remained in a range mid-December, though US interest rates then fell, stocks rose and the greenback weakened after the US November CPI data revealed that inflation had slowed. With Taiwan stocks also bouncing back, the Taiwan dollar was bought and the currency pair fell to the TWD30.5 range. However, the pair then returned to the TWD30.7 range as Taiwanese stocks were sold after some Chinese economic indicators deteriorated and the US November retail sales data dropped below expectations.

The pair moved in the TWD30.7 range on bearish Taiwan stock movements late December. However, the US dollar was sold by exporters when the pair moved at highs, so the pair moved with a heavy topside. With foreign market participants thin on the ground over the Christmas holidays, the pair continued moving in a range, with its movements mainly shaped by real-demand trade transactions. US hi-tech stocks then moved bearishly after Christmas as US long-term interest rates rose. With Taiwan stocks and the Taiwan dollar also falling, the pair temporarily rose to TWD30.778.

## 2. Outlook for This Month

With the Spring Festival taking place in January, the Taiwan dollar will probably be bought by exporters in the first half of the month.

There were a lot of events in December, with the dollar/yen pair fluctuating widely, though the USD/TWD pair's movements were relatively deadlocked. However, a glance back at 2022 reveals that the pair's movements underwent their sharpest fluctuations since the 1997 Asian currency crisis. The main reason for this was US monetary tightening and the bearish movements of Taiwan stocks on concerns about an economic slowdown. These recessionary fears have appeared in the actual export data, with exports undergoing y-o-y falls for three straight months after having previously risen continuously for over two years. In November export orders shrunk by a hefty

-23.4% on the same period last year, with exports likely to continue sliding going forward.

The Central Bank of the Republic of China (Taiwan) (CBC) hiked rates for the fourth straight meeting when it met in December, but it left the deposit reserve requirement ratio unchanged after having previously lifted it at two straight meetings, with the CBC apparently slowing the pace of tightening. In his press conference, the CBC governor Chin-Long Yang said rate hikes might be halted if the CPI data dropped below +2% and he also sounded concerns about a recession, with the CBC starting to look for an exit from tightening.

The Spring Festival will be taking place in the second half of January, so exporters will probably sell the greenback before the holidays, with the Taiwan dollar likely to appreciate early in the month. However, the situation remains up in the air when it comes to US stock movements and rate hikes, so the pair will probably swing up and down in a range.

# Hong Kong Dollar – January 2023

**Expected Ranges**                      **Against the US\$: HK\$ 7.7800–7.8200**  
**Against the yen: JPY 16.60–17.80**

## 1. Review of the Previous Month

### Hong Kong dollar spot exchange market in December

HKD spot were returning to its weak-half of trading band above 7.80, as the USD-HKD rate spread resumed positive after Fed's another 50bps rate hike. In December, the HKD spot rebounded as much as to 7.7617, the strongest level since June 2021, before settling at near 7.80. The China reopening trade driven by the cancellation of China's zero Covid policy also brought solid foreign capital inflow to Chinese investment listed on the HK stock market and hence sent HKD stronger. Meanwhile, the Stock Connect inflow from onshore China investors held steady at around HKD 380bn, which is lower than the accumulated inflow size in 2021 and 2020. On the macro side, the China's Covid policy relaxation will bring forward the HK border reopening to mainland China and speed up HK economy recovery. The return of tourists from mainland China is set to boost consumption in HK. Domestically, HK government announced it would scrap the limit of gathering size and vaccine pass. However, the trade sector will likely remain sluggish given weak external demand.

### Hong Kong dollar interest rate market in December

HKD rates reversed to fall in late December as some banks offered their excessive HKD cash that was preserved for year-end liquidity squeeze in quiet market condition. In this circumstance, the seasonality of year-end HKD liquidity squeeze eased and, alongside the Fed's rate hike, the USD-HKD rate spread rose. 1-month and 3-month HKD HIBOR- USD LIBOR spread narrowed to near par and around +20bps from monthly highs of +86bps and +68bps, respectively. As HKD spot was trading at the strong-half of its trading band in December, the HKMA aggregate balance remained largely unchanged at HKD 96bn. After Fed's 50bps rate hike, HK banks raised prime rate by another 25bps to 5.625%. In the medium term, 3Y HKD IRS entered into a range trading above 4% as investors were mulling over Fed's rate hike cycle next year given the counteracting forces of rising US recession risk and inflation outlook after China reopening. In any case, the HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) rose further as market participants expect the Fed to reverse to a rate cut cycle in coming years.

## 2. Outlook for This Month

### Hong Kong dollar spot exchange market in January

With the Fed's rate hike cycle still on course, the carry trade opportunity of long USD/HKD is back. T/N HKD FX swap point, a gauge of long USD/HKD spot carry trade, fell back to the negative territory. Looking ahead, the Fed is set to extend its rate hike cycle to curb inflation in H1-2023 and the higher USD rate will likely keep the HKD spot on the back foot above 7.80 handle. Yet, HKD rates have been playing a catch-up with USD rates this year and HKD spot is less likely to hit its weak-side convertibility undertaking of 7.85 level. In H2-

2023, the Fed may consider putting a pause on its rate hike cycle and the materializing Fed's rate hike expectation will likely push HKD spot back to below 7.80 handle. Meanwhile, the China full reopening will boost HK growth and the return of investment flow to the HK economy will support the HKD spot.

### **Hong Kong dollar interest rate market in January**

HKD rates will likely come off as the year-end seasonality faded out. 3-month HKD HIBOR is subjected to the downside at current level of around 5%, compared to the upper limit of Fed fund target rate at 4.5%. In the longer term, 3-month HKD HIBOR tracks on the Fed fund target rate largely. HK banks will likely extend its prime rate hike cycle as Fed's rate hike cycle stays the course in H1-2023. Meanwhile, HKD-USD rate gap has been narrowing and the moderating carry trade flow of long USD/HKD spot suggested steadier HKMA aggregate balance. If the Fed's rate cut expectation materialized with the US recession, the HKD-USD rate gap would likely reverse to positive and this could send the HKD spot towards the strong-side convertibility undertaking of 7.75 level. With increasing US recession risk, the HKD IRS curve is subjected to downside pressure.

# Chinese Yuan – January 2023

**Expected Ranges**                      **Against the US\$: CNY 6.8200–7.0500**  
**Against the yen: JPY 18.15–19.95**

## 1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 7.0 level, after which the exchange rate did not move in any direction.

Toward the end of November, Chinese stock prices rallied, thanks to measures to support the real estate sector, while anti-Covid-19 restrictions were partially relaxed in multiple regions. As a result, market participants were encouraged to buy the Chinese yuan. On December 5, the U.S. dollar/Chinese yuan exchange rate, which had been on a decline from the CNY 7.20 level, fell below the CNY 7.0 mark. As interest rates were also falling in the U.S., the U.S. dollar/Chinese yuan exchange rate fell to the mid-CNY 6.94 level on the same day for the first time since September. Thereafter, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.95–6.98 level without moving in any direction.

On December 13, the November Consumer Price Index (CPI) of the U.S. was announced, attracting substantial attention in the market and revealing a slowdown in inflation. This led market participants to expect inflation to decline. Thus, interest rates in the U.S. fell, and the U.S. dollar weakened. Following this trend, the U.S. dollar/Chinese yuan exchange rate fell sharply and once approached the CNY 6.94 level. On the following day, the trend in the U.S. dollar/Chinese yuan exchange market did not change significantly, as there was no surprise in the outcome of the Federal Open Market Committee (FOMC) meeting, in the FOMC statement, and in the press conference of Federal Reserve Board (FRB) Chair Jerome Powell. The U.S. dollar/Chinese yuan exchange rate thus continued fluctuating at the CNY 6.96–6.99 level.

At the end of the month, there was a series of important announcements, such as pertaining to the relaxation of the anti-Covid-19 restrictions at entry to China as well as the resumed issuing of passports for people in Mainland China. This led the U.S. dollar/Chinese yuan exchange rate to fall to approach the CNY 6.95 level temporarily. However, as there were few market activities at the end of the year, the exchange rate did not move significantly thereafter.

## 2. Outlook for This Month

In January, the U.S. dollar/Chinese yuan exchange rate is expected to remain low.

While the CPI of the U.S. has revealed a slowdown in inflation, the rapid policy interest rate hike by the FRB has peaked out. As a result, the one-sided appreciation of the U.S. dollar has slowed since November. At a press conference in December, FRB Chair Jerome Powell mentioned upside risks to prices while also confirming the current slowdown in inflation. Thus, depending on future outcomes of economic indices (such as the CPI and personal consumption deflator), the U.S. dollar could appreciate again, for which market participants should remain attentive. However, this is not the most-likely scenario.

On the other hand, the Chinese government is rapidly shifting from its severe “zero-Covid-19 policy.” From the viewpoint of a person that lives in China since the time before the beginning of the Covid-19 pandemic in Wuhan in December 2019, it has become considerably easier to live a daily life, as there is now no need to show a negative PCR test result to enter a public institution or to cross a provincial border. However, as of the end of December 2022, it is difficult to say that economic activities have really resumed, as the actual number of Covid-19 cases has increased while anti-Covid-19 restrictions have been relaxed. It is thus likely to take a long time for economic indices to start rallying to confirm recovery in various sectors including consumption, industrial production, and real estate.

From a medium- to long-term perspective, the Chinese yuan is expected to rally after the end of the Covid-19 pandemic and due to vigorous measures taken by the Chinese monetary authorities to support the economy. However, the U.S. dollar/Chinese yuan exchange rate is not likely to fall further, as there have not been enough signs that the economy has bottomed out and started recovering to lead Chinese yuan interest rates to rise. In the U.S. dollar/Chinese yuan exchange market in January, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low, without moving in any direction—as was the case in December.

# Singapore Dollar – January 2023

**Expected Ranges**                      **Against the US\$: SG\$ 1.3300–1.4000**  
**Against the yen: JPY 91.51–102.30**

## 1. Review of the Previous Month

In December 2022, the Singapore dollar continued appreciating against the U.S. dollar.

The Singapore dollar remained strong from the beginning of the month. This was a result of the fact that interest rates fell in the U.S. after the announcement of the November Manufacturing ISM Report On Business, which showed a decline. While the overall Asian currencies strengthened, the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.34 level. However, thereafter, the November Non-Manufacturing ISM Report On Business was announced on December 5, revealing a strong figure, which led interest rates in the U.S. to rally. Consecutively, the U.S. dollar strengthened, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.36 level.

The U.S. dollar/Singapore dollar exchange rate subsequently continued fluctuating within a narrow range. On December 7, the Chinese government announced its decision to relax its zero-Covid-19 policy. However, as this had been reported by the media already, there were only limited reactions in the market. Thereafter, the November Producer Price Index (PPI) of the U.S. was announced, the result of which exceeded the market estimate. Yet, there were few moves in the market as market participants were waiting for the Federal Open Market Committee (FOMC) meeting.

On December 13, the November Consumer Price Index (CPI) of the U.S. was announced, and the results, including that of the core index, were below the market estimate. Thus, the cautious feeling weakened in the market before the opening of the FOMC meeting. Interest rates fell in the U.S., and the U.S. dollar depreciated. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.34 level again. On December 14, an FOMC meeting was held in the U.S., attracting substantial attention in the market. However, the outcome was almost as had been anticipated in the market. Immediately after the announcement of the outcome, the U.S. dollar exchange rates fluctuated, but this was only a temporary reaction.

Subsequently, most Asian currencies depreciated during trading hours in Asia on December 15. This was due to weak figures in the major November economic indices of China, as well as due to a sharp increase in new Covid-19 cases. In particular, market participants sold the Korean won and the Thai baht. Under such circumstances, the Singapore dollar also depreciated, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.35 level. On December 16, the Singapore dollar continued weakening. Market participants remained cautious and continued averting risks, as central banks in the U.S. and Europe maintained a hawkish attitude. Thus, Asian currencies remained weak, and the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.36 level.

Thereafter, the Singapore dollar strengthened toward the end of the month. On December 19, Asian currencies were supported by the fact that the Central Economic Work Conference was held in China in the previous week, at which the zero-Covid-19 policy was justified, while the introduction of additional support measures for the real estate sector was implied. Furthermore, stock prices rose in the U.S. and Europe, which also led the U.S. dollar/Singapore dollar exchange rate to fall. As a consequence, the U.S. dollar/Singapore dollar fell to the mid-SGD 1.34 level toward December 27.

Toward the end of the month, the Singapore dollar remained strong, thanks to headlines related to the relaxation of the zero-Covid-19 policy. The overall Asian currencies remained strong, and the U.S. dollar/Singapore dollar reached the lower-SGD 1.34 level, at which monthly trading closed.

## 2. Outlook for This Month

In January 2023, the Singapore dollar is forecast to appreciate against the U.S. dollar.

In 2022, the Singapore dollar was the only currency in the Asia-Oceania region that appreciated against the U.S. dollar at the annual level.

Looking back the annual movement of the Singapore dollar, the U.S. dollar/Singapore dollar exchange rate rose slowly from the beginning of 2022 to the middle of October. The Singapore dollar weakened due to upward pressure on the U.S. dollar based on continued policy interest rate hikes in the U.S. Thus, the U.S. dollar/Singapore dollar exchange rate, which was at the lower SGD 1.35 level at the beginning of 2022, rose to the upper-SGD 1.43 level toward the middle of October.

However, after the Monetary Authority of Singapore (MAS) meeting held in October 2022, the Singapore dollar continued appreciating every month without exception, and the U.S. dollar/Singapore dollar exchange rate started offsetting the depreciation of the Singapore dollar observed previously. In the end, the U.S. dollar/Singapore dollar exchange market closed trading in December at the lower-SGD 1.34 level. This means that the depreciation of the Singapore dollar in 2022 was entirely offset before the end of the year.

This is partially thanks to the fact that the MAS continued announcing changes in monetary policy in a flexible manner, even by holding an extraordinary meeting. However, this is probably not the main factor. The main factor is most likely related to the situation in the U.S. It can be explained that the sharp appreciation of the Singapore dollar seen so far was caused accidentally by the depreciation of the U.S. dollar.

While inflation indices in the U.S. show a slowdown, interest rates fell in the U.S., and the U.S. dollar depreciated toward the end of the last year. Furthermore, market participants were probably interested in the Singapore dollar compared to other currencies in the Asia-Oceania region, as Singapore was conducting measures of monetary tightening in a relatively vigorous manner.

Under the current conditions, the Singapore dollar has appreciated significantly against the U.S. dollar. However, the appreciation of the Singapore dollar in the NEER currency band is moderate, and the Singapore dollar can appreciate further. Furthermore, the monetary policy of Singapore is flexible. Therefore, given that the U.S. dollar remains weak based on expectations for the Bank of Japan to shift its monetary policy, the Singapore dollar is forecast to remain strong against the U.S. dollar in January. Major risk factors include a sharp increase of new Covid-19 cases as a result of the relaxation of the travel restrictions in China as well as a global recession toward the second half of 2023. If such things happen, the U.S. dollar would strengthen again. Market participants should therefore remain cautious without being too optimistic about the current situation.

# Thai Baht – January 2023

## Expected Ranges

**Against the US\$: THB 33.30–35.20**

**Against the yen: JPY 3.74–3.90**

## 1. Review of the Previous Month

The fall of the U.S. dollar/Thai baht exchange rate that started in November stopped in December. However, the exchange rate did not rise significantly either. The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35 level in December. In the early morning of December 1, local time, in Bangkok, Federal Reserve Board (FRB) Chair Jerome Powell suggested a slowdown of policy interest rate hikes in the U.S. in his speech, in reaction to which market participants started to sell the U.S. dollar. Under such a circumstance, the U.S. dollar/Thai baht exchange rate quickly fell below the THB 35 level. Market participants were also encouraged to sell the U.S. dollar, as China relaxed its anti-Covid-19 restrictions. As a result, at around noon of December 5, local time, in Bangkok, the U.S. dollar/Thai baht exchange rate fell to approach the mid-THB 34 level. Thereafter, the November Non-Manufacturing ISM Report On Business of the U.S. turned out to be stronger than the market estimate, and this led the U.S. dollar to rally. However, the November Consumer Price Index (CPI) of the U.S. turned out to be below the market estimate on December 13, and this led the U.S. dollar to weaken again. Thus, the U.S. dollar/Thai baht exchange rate fluctuated violently, following figures in economic indices in the U.S. until the release of the outcome of the Federal Open Market Committee (FOMC) meeting on December 15 (in the early morning, local time, in Bangkok).

At an FOMC meeting in the U.S. that attracted substantial attention in the market, the policy interest rate was raised by 50 basis points, as had been anticipated in the market. Even though policy interest rate hikes slowed down, the dot plot that was reported at the same time revealed that the median interest rate expected at the end of 2023 rose to 5.125% from the 4.625% expected in the previous report, and this had been unexpected. As a consequence, the U.S. dollar/Thai baht exchange rate rose. However, after reaching the lower-THB 35 level, the rise of the exchange rate stopped and remained sluggish thereafter, as U.S. economic indices were announced with weak figures. On December 20, the Bank of Japan decided to change its bond yield curve policy to allow for more fluctuation, and this turned out to be a surprise in the market. In reaction, the U.S. dollar/Japanese yen exchange rate fell sharply. Following this trend, the U.S. dollar/Thai baht exchange rate also fell to approach the mid-THB 34 level.

At the end of the month, there were few transactions in the U.S. dollar/Thai baht exchange market, as Christmas and year-end holidays were approaching. As China continued relaxing its anti-Covid-19 restrictions, the number of Covid-19 cases increased in China, and market participants grew concerned about the impact on the economy in the Asian region. As a result, the Thai baht, like the currencies of other Asian currencies, occasionally weakened against the U.S. dollar. However, toward the end of the month, the U.S. dollar/Thai baht exchange rate remained within a narrow range between the upper-THB 34 and the mid-THB 24 level with low liquidity in the market. The trading for 2022 closed at this level.

## 2. Outlook for This Month

The Thai baht is forecast to remain robust in January, reflecting expectations for recovery in the tourism industry, although there are some risk factors.

In China, the zero-Covid-19 policy will basically end on January 8, as the compulsory quarantine of a total of eight days will be abolished for those entering Mainland China from other countries. As a consequence, those that are in China can travel abroad, raising expectations for an increase of Chinese tourists in Thailand. Before the outbreak of Covid-19, the number of Chinese tourists in Thailand was approximately 11 million in 2019, accounting for about 30% of the total number of tourists in Thailand (approximately 39.9 million). The revenue from Chinese tourists was approximately USD 17.1 billion, also accounting for about 30% of the total revenue in tourism. Thus, the importance of Chinese tourists was much more significant than those from other countries. This year, Chinese New Year falls on January 22, and there will be long holidays surrounding this date. It is thus expected that Chinese tourists will return to Thailand for the Chinese New Year holidays, supporting the healthy recovery of tourism in Thailand.

It is important to mention, however, that there are some sources of concern. Firstly, anti-Covid-19 restrictions will be abolished, while the number of Covid-19 cases is increasing in China. As the number of Chinese tourists increases, the number of Covid-19 cases in Thailand could also increase again. The Ministry of Public Health of Thailand has already decided not to carry out Covid-19 tests on Chinese tourists, as will be the case with tourists from other countries, and this is fueling concerns about Covid-19 cases increasing again in Thailand. Furthermore, some have expressed concerns that the number of tourists from China might not increase as expected, as the domestic economy in China has been sluggish, which might discourage Chinese tourists from traveling abroad. In order to foresee future trends, market participants should observe the return of Chinese tourists in Thailand after the abolition of anti-Covid-19 restrictions in China, along with the increase of Covid-19 cases in Thailand thereafter.

In addition, market participants should also know that other factors that could weaken the Thai baht include risks in supply & demand. On December 27, the Ministry of Commerce of Thailand released the November trade statistics, revealing a decline in exports for the second consecutive month, reflecting the global economic downturn as well as the lockdown measures in China.

For the tourism industry in Thailand, the relaxation of anti-Covid-19 restrictions in China was long-awaited news. If Chinese tourists return to Thailand, it would be a supporting factor for the Thai baht. However, at the same time, there are also risk factors that could weaken the Thai baht and that we should also be careful about.

# Malaysian Ringgit – January 2023

## Expected Ranges

**Against the US\$: MYR 4.38–4.48**

**Against the yen: JPY 29.85–30.77**

## 1. Review of the Previous Month

In December, there were few transactions in the market, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around the MYR 4.40 level throughout the month.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at around the MYR 4.40 level, after which the Malaysian ringgit strengthened slightly. On December 1, the October core Personal Consumption Expenditure (PCE) Deflator, an important inflation index used by the Federal Reserve Board (FRB), was announced confirming a slowdown in price inflation. As a result, expectations for future inflation were weakened. On December 5, however, the November Non-Manufacturing ISM Report On Business was announced with an unexpectedly strong figure. In reaction, interest rates in the U.S. rose, encouraging market participants to buy the U.S. dollar. As a result, the U.S. dollar/Malaysian ringgit exchange rate once reached the MYR 4.41 level. However, the rise of the exchange rate did not last for long. As the Chinese government announced its decision to partially relax its anti-Covid-19 restrictions, market participants bought the Chinese yuan, and the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.40 level, as market participants also bought the Malaysian ringgit. However, the U.S. dollar/Malaysian ringgit exchange market remained quiet thereafter, as this was a “blackout” period, with FRB officials refraining from making any public comments before the Federal Open Market Committee (FOMC) meeting scheduled for December 15.

In the middle of the month, the November Consumer Price Index (CPI) of the U.S. was announced, and market participants were waiting for decisions by major central banks regarding monetary policy. As the CPI fell below the market estimate, market participants sold the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate once fell below the MYR 4.39 level. Thereafter, an FOMC meeting was held, attracting substantial attention in the market, and the outcome turned out to be hawkish, giving the impression that it would take a long time for policy interest rate hikes to end. As a monetary authority, the FRB demonstrated its determination to concentrate itself on the control of inflation even if such could cause a certain level of economic recession. However, the reaction in the market was limited. On the following day, both the European Central Bank (ECB) and the Bank of England (BoE) decided to raise their respective policy interest rates by 50 basis points, while their respective economies were almost certainly going into a recession. After these important events, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating at around the MYR 4.42 level.

At the end of the month, the number of market participants was low, as the end of the year was approaching. Under such a condition, there were few transactions in the U.S. dollar/Malaysian ringgit exchange market. On December 19, the Prime Minister of Malaysia, Anwar Ibrahim, won a motion of confidence at the first parliamentary session. This fueled expectations for the stabilization of the domestic politics, even though some opposition parties continued criticizing him. Furthermore, the Bank of Japan decided to change its bond yield curve control policy to allow for more fluctuation. As a result, the U.S. dollar/Japanese yen exchange rate fell sharply to the JPY 130 level. In reaction, the currencies of emerging countries strengthened. Following this trend, the Malaysian ringgit remained

robust at MYR 4.43 against the U.S. dollar. As the Japanese yen appreciated sharply, the Malaysian ringgit/Japanese yen exchange rate fell below the JPY 30 level. On December 23, the November CPI turned out to be +4.0% year-on-year—slightly higher than the market estimate. Prices increased in the service sectors, such as for restaurants and hotels, and this pushed up the overall inflation rate. This was seen as a reason for the central bank of Malaysia to raise its policy interest rate further at the monetary policy meeting that was scheduled for January 19. In 2022, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.2 level, after which the exchange rate rose to MYR 4.75 for the first time since the Asian financial crisis as a result of the appreciation of the U.S. dollar caused by policy interest rate hikes in the U.S. After violent fluctuations, the U.S. dollar/Malaysian ringgit exchange market closed annual trading with a Malaysian ringgit weaker than the beginning of the year, by 2,000 pips.

## 2. Outlook for This Month

In 2023, one of the key factors in the U.S. dollar/Malaysian ringgit exchange market is whether trade statistics, which has been the main driving force of the Malaysian economy, will continue growing in a sustainable manner mainly in the leading electric and electronic sectors, while concerns are mounting over a global economic recession. The political leadership of the new Prime Minister of Malaysia, Anwar Ibrahim, is another factor to look out for.

In terms of domestic politics, Anwar Ibrahim won the general election held in November and became the new Prime Minister of Malaysia via a change of government. Prime Minister Anwar Ibrahim has announced his plan to work hard to strengthen fiscal regulations by also serving as the Minister of Finance. Government debt in a broad sense, including guarantee obligations, has exceeded 80% of GDP. Moreover, the fiscal deficit has reached the mid-5% of GDP, larger by approximately 2% compared to the figure observed before the Covid-19 pandemic. Under such a difficult condition, it is important to mention that foreign investors are expecting a strengthened fiscal base to be established by the new Prime Minister, who also serves as the Minister of Finance. Prime Minister Anwar Ibrahim has already started revising the subsidy program, along with various infrastructure projects. If he succeeds in achieving visible outcomes despite criticism by opposition parties, foreign investors are likely to start investing in Malaysian sovereign bonds.

In terms of domestic economy, the most-important factor is trade statistics, even though it is also important to keep an eye on the core inflation index, which has recently been on a gradual uptrend. Market participants should observe the impact of the recent global economic downturn on Malaysia's imports, mainly in the electric and electronic sectors, which form the driving force of the Malaysian economy. The latest data from the September–November period shows that overall figures remain strong, even though, in looking at the figures more closely, there is a sign of decline in the growth of exports toward China and Europe. The semiconductor sector, which flourished during the Covid-19 pandemic, has been sluggish, and if this leads to a decline in exports, it would be difficult to avoid negative impact on the domestic economy.

For the above reasons, it is important to observe the market conditions in January in order to understand the trends in the U.S. dollar/Malaysian ringgit exchange market in 2023. As the revised budget plan for 2023 is likely to be submitted in February or March, market participants should evaluate the strength of the Malaysian economy through various economic outcome that will be released in January while also waiting for a decision regarding a policy interest rate hike that will be announced after a Bank Negara Malaysia (the central bank of Malaysia) monetary policy meeting scheduled for January 19.

# Indonesian Rupiah – January 2023

## Expected Ranges

**Against the US\$: IDR 15,300–15,700**

**Against the yen: JPY 0.813–0.870 (IDR 100)**

## 1. Review of the Previous Month

In December, the U.S. dollar/Indonesian rupiah exchange rate opened and closed at around the same level, offsetting fluctuations seen during the month.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,600 level. On December 1, the November Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +5.42% year-on-year—below the market estimate. As this was a decline for the second consecutive month, market participants sold the U.S. dollar more actively, with speculation that policy interest rate hikes in the U.S. would slow down. As a result, the Indonesian rupiah appreciated toward December 2, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,300 level. On December 5 in the following week, the media reported that China would relax its anti-Covid-19 movement restrictions, and this led Asian currencies to strengthen. Under such circumstances, the Indonesian rupiah continued strengthening, and the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 15,300 level. However, market participants bought back the U.S. dollar thereafter, and the Indonesian rupiah depreciated against the U.S. dollar to the mid-IDR 15,400 level. On the same day, local time, economic indices of the U.S. were released with strong figures, in reaction to which market participants bought the U.S. dollar. As a consequence, on December 6, the following day, the Indonesian rupiah depreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 15,600 level, as the announcement of the November CPI of the U.S. and a Federal Open Market Committee (FOMC) meeting were scheduled for the following week. On December 13, the November CPI of the U.S. turned out to be below the market estimate, and this encouraged market participants to sell the U.S. dollar. Under such a circumstance, on December 14, the following day, the Indonesian rupiah appreciated against the U.S. dollar, and the exchange rate reached the mid-IDR 15,500 level. However, some market participants were vigorously buying the U.S. dollar at the exchange rate. As a result, the appreciation of the Indonesian rupiah slowed down, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. On December 14, the FOMC meeting was held, and the policy interest rate was raised by 50 basis points, as had been anticipated in the market. On the other hand, the median interest rate for the end of 2023 estimated by FOMC members exceeded 5%, and this encouraged market participants to buy back the U.S. dollar. On December 15, the following day, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,500 level, with a strong Indonesian rupiah compared to the previous day. However, market participants bought back the U.S. dollar thereafter, and the Indonesian rupiah continued weakening against the U.S. dollar to the lower-IDR 15,600 level. On the same day, the November trade balance of Indonesia revealed a trade surplus of USD 5.16 billion, exceeding the market estimate. As a consequence, the Indonesian rupiah rallied slightly toward the closing of Asian trading hours. The U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,600 level. On December 20 in the following week, the Bank of Japan revised its bond yield curve control policy, which was a surprise. In reaction, market participants

actively sold the U.S. dollar and bought the Japanese yen. Following this trend, the Indonesian rupiah also appreciated against the U.S. dollar, and the exchange rate reached the upper-IDR 15,500 level. However, interest rates in the U.S. rose thereafter, which encouraged market participants to buy the U.S. dollar. This changed the trend, and the Indonesian rupiah depreciated against the U.S. dollar, while the exchange rate reached the lower-IDR 15,600 level. Then, on December 22, the central bank of Indonesia held a monetary policy meeting and decided to raise its policy interest rate by 25 basis points. However, the impact of this decision was minimal, as the level of the policy interest rate hike was lowered to the degree that had been anticipated in the market. At a press conference, the governor of the central bank of Indonesia, Perry Warjiyo, revised the world economic growth outlook for 2023 downward from the previous figure. On the other hand, Perry Warjiyo estimated the domestic economic growth rate to be within a range of +4.5–5.3%, revealing his confidence in the strength of the domestic economy. Then, on December 26, market participants started to actively buy the U.S. dollar and sell the Indonesian rupiah based on actual demand for the end of the year. As a result, the Indonesian rupiah remained weak. On December 28, the number of Covid-19 cases in China increased, which encouraged market participants to sell the Chinese yuan. Under such a condition, the Indonesian rupiah depreciated against the U.S. dollar, and the exchange rate approached the IDR 15,700 level. On December 29, the Indonesian rupiah depreciated against the U.S. dollar to the mid-IDR 15,700 level, which was the monthly high for the Indonesian rupiah. However, at this exchange rate level, there were also some market participants buying the Indonesian rupiah. As a result, the Indonesian rupiah rallied to the U.S. dollar and the U.S. dollar Indonesian rupiah exchange rate reached the mid-IDR 15,600 level. In the end, annual trading closed after the U.S. dollar/Indonesian rupiah exchange rate returned to approach the IDR 15,600 level.

## 2. Outlook for This Month

In January, the Indonesian rupiah is forecast to remain robust.

Policy interest rate hikes in the U.S. have started to slow down, and the market has started reflecting impacts of the end of the policy interest rate hikes in the first half of this year. Under such circumstances, market participants are most likely to continue selling the U.S. dollar, even though there could be some phases of adjustment. The domestic economy of Indonesia remains strong, as was reinforced in the comment made by the governor of the central bank of Indonesia, Perry Warjiyo, on December 22. Thus, when market participants buy the U.S. dollar, the Indonesian rupiah is expected to appreciate against the U.S. dollar. There are other positive factors for the Indonesian rupiah, such as the relaxation of anti-Covid-19 restrictions in China and the opening of China's national borders. On the other hand, however, market participants should also remain cautious about the possible spread of Covid-19 cases, as this has currently been a source of concern in China. This confirms once again that it is not possible to relax anti-Covid-19 restrictions while keeping Covid-19 cases from increasing. However, as many countries in the world have taken a decision to coexist with Covid, China is likely to gradually resume its economy without strengthening anti-Covid-19 restrictions again. It is, however, possible for Covid-19 cases to increase again, which would encourage market participants to temporarily sell the Chinese yuan to lead the Indonesian rupiah to depreciate against the U.S. dollar as well. However, in general, Asian currencies are expected to remain robust after the relaxation of anti-Covid-19 restrictions in China.

At a monetary policy meeting held at the central bank in December, the pace of policy interest rate hikes was lowered. The central bank of Indonesia continued raising its policy interest rate by 50 basis points for three consecutive meetings since September last year. However, at the meeting held in December, the policy interest rate was raised by only 25 basis points. Since last year, interest rate differentials between the U.S. and Indonesia have been narrowing, which has been resulting in an outflow of security investment from Indonesia. Because the pace of

policy interest rate hikes was lowered, just as was done in the U.S., the interest rate differentials are likely to remain narrow or become even narrower. Thus, it is difficult to expect security investment to return to Indonesia. This factor is likely to weaken the Indonesian rupiah. However, at the current moment, there has been a trade surplus that can offset the outflow of security investment. Thus, market participants are unlikely to sell the Indonesian rupiah immediately because of the security investment outflow. The most-likely scenario is for the recent trend of U.S. dollar-selling to dominate the market, resulting in the depreciation of the U.S. dollar and the appreciation of the Indonesian rupiah.

## Philippine Peso – January 2023

### Expected Ranges

**Against the US\$: PHP 54.00–58.00**

**Against the yen: PHP 0.40–0.43**

### 1. Review of the Previous Month

In December, the U.S. dollar remained weak, as was the case in the previous month, due to a remark made by Federal Reserve Board (FRB) Chair Jerome Powell, as well as due to a slowdown in inflation indices in the U.S., leading market participants to expect policy interest rate hikes in the U.S. to slow down. Furthermore, the November Consumer Price Index (CPI) of the Philippines turned out to be +8.0% year-on-year, which is the highest level in approximately 14 years. The acceleration of inflation led market participants to expect vigorous policy interest rate hikes. Moreover, the October unemployment ratio of the Philippines turned out to be at its lowest level since October 2019. For these reasons, the Philippine peso remained strong. It is also worth noting that crude oil prices fell sharply, and foreign investors' funds flew into the Philippine stock market, while market sentiment improved thanks to the expected relaxation of anti-Covid-19 restrictions in China. With these positive factors, the Philippine peso appreciated against the U.S. dollar at the fastest rate since November and reached its high in approximately four months at the beginning of December.

Thereafter, the October trade deficit of the Philippines turned out to be USD 3.31 billion, revealing a significant fall from the previous month's result, which was USD 4.84 billion. However, the November Producer Price Index (PPI) of the U.S. recorded a rise, while market participants averted risks before the announcement of the November CPI. As a consequence, the U.S. dollar appreciated, and the Philippine peso started to depreciate against the U.S. dollar. Even though the November CPI of the U.S. revealed a slowdown in inflation, the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. turned out to be entirely hawkish, strengthening selling pressure on the overall Asian currencies. However, in the Philippines, the amount of remittances from overseas Filipino workers in October turned out to be USD 2.91 billion, exceeding the market estimate, with positive growth from the previous month. Furthermore, at the monetary policy meeting, the central bank of the Philippines decided to raise the policy interest rate by 50 basis points as had been done in the U.S. The governor of the central bank of the Philippines, Felipe Medalla, also made a comment, underlining that it would be extremely unlikely for the central bank to stop raising its policy interest rates at least at the next two monetary policy meetings, as inflation has been above the target level. He thus revealed his plan to maintain moderate measures of monetary tightening. As a consequence, the Philippine peso remained robust, and the U.S. dollar/Philippine peso exchange rate fluctuated at the upper-PHP 55 level toward the middle of the month.

Thereafter, government officials made comments that they expect the economic growth rate of the Philippines to exceed the target level this year, and this was a positive factor for the Philippine peso. Furthermore, the Bank of Japan unexpectedly shifted from measures of monetary easing, and this led the Japanese yen to appreciate sharply. Following this trend, a wide range of market participants sold the U.S. dollar, and this led the Philippine peso to appreciate. The governor of the central bank of the Philippines, Felipe Medalla, made a remark that the policy interest rate would peak higher than the current level, confirming once more his intention to continue raising the policy interest rate. In reaction, the Philippine peso continued appreciating against the U.S. dollar, and the exchange

rate reached PHP 55.10 on December 22 for the first time in approximately five months. However, the Philippine peso did not appreciate further past this level. Thereafter, concerns grew in the market over the possibility for the relaxation of anti-Covid-19 restrictions in China, toward leading to an acceleration of inflation. As a result, the U.S. dollar rallied, and the appreciation of the Philippine peso observed in December was mostly offset after the Christmas holidays.

## 2. Outlook for This Month

At the FOMC meeting in the U.S., the policy interest rate was raised by 50 basis points, confirming a slowdown in policy interest rate hikes. However, the FOMC statement turned out to be generally hawkish. The median outlook for the policy interest rate at the end of 2023 turned out to be 5.125%, revised upward from the outlook announced at the end of September. Furthermore, FRB Chair Jerome Powell made a remark that the scale of the policy interest rate hike at the next FOMC meeting would depend on economic data, leaving the possibility both for policy interest rate hikes at the same pace and for a slowdown in policy interest rate hikes. He also suggested a possibility to raise the peak level for the policy interest rate, commenting that the policy interest rate would not be cut until the FOMC is confident that inflation is moving down to 2% in a sustained way. Even though the pace of policy interest rate hikes was lowered, the FOMC remains determined to raise the peak level of the policy interest rate. The FOMC is therefore likely to continue raising the policy interest rate in order to control inflation and to maintain the policy interest rate high for a while thereafter. Thus, the trends in the market, which has already reflected an expected early end of policy interest rate hikes in the U.S., are likely to be adjusted, and the U.S. dollar is likely to appreciate gradually.

It is also important to note that the central bank of the Philippines has also started to slow down policy interest rate hikes, as was done in the U.S. And because the central bank of the Philippines has also indicated its plan to continue raising the policy interest rate in a moderate manner, it is difficult for the Philippine peso to start appreciating against the U.S. dollar based on interest rate differentials between the U.S. and the Philippines. Furthermore, the trade deficit of the Philippines is still high, even though it is currently on a fall. Inflation has also been accelerating, even though some expect inflation to peak out in December. There are also some factors to weaken the Philippine peso, such as the absence of demand for remittances from overseas Filipino workers after the Christmas holidays as well as concerns over an economic downturn based on the decision by various central banks to continue raising the policy interest rate.

# Indian Rupee – January 2023

## Expected Ranges

Against the US\$: INR 81.00–84.50

Against the yen: JPY 1.58–1.65

## 1. Review of the Previous Month

### **In December, the U.S. dollar/Indian rupee exchange rate was on an uptrend.**

After the confusion that broke out in late November, the Chinese yuan appreciated in December with speculation that anti-Covid-19 restrictions might be relaxed in China. While Chinese stock prices were also on an uptrend, risk-taking sentiment grew in the market, which was a positive factor for the Indian rupee. On December 1, the U.S. dollar/Indian rupee exchange market opened trading in December at the INR 81.08 level, and the exchange rate reached INR 80.985, which turned out to be the monthly low for the Indian rupee. However, it should be pointed out that the U.S. dollar/Indian rupee exchange rate was below the INR 81 mark only for about two minutes, after which there were speculations that a local petroleum oil company was buying U.S. dollars. The U.S. dollar/Indian rupee exchange rate thus recovered to the INR 81 level immediately. Thereafter, the U.S. dollar/Indian rupee exchange rate continued rising and reached the INR 81.75 level. At this level, there were even more market participants buying the U.S. dollar, as those that were originally selling the U.S. dollar started buying the U.S. dollar to avoid losses. When the U.S. dollar/Indian rupee exchange rate reached the INR 82 level, there were more market participants buying the U.S. dollar to avoid losses, and the exchange rate quickly reached the upper-INR 82 level. On December 7, the policy interest rate of India was raised by 0.35%, which had been anticipated in the market. Its impact on the market was thus minimal. Toward the end of the week, the U.S. dollar/Indian rupee exchange rate returned to the lower-IDR 82 level, while crude oil prices were falling. The trading this week closed at this level.

In the week commencing on December 12, market participants expected interest rate hikes in the U.S., and the U.S. dollar/Indian rupee exchange rate rose to the INR 82.75 level, as the November Producer Price Index (PPI) of the U.S. had been announced with a strong figure on Friday of the previous week, local time. Thereafter, market participants were aware of demand for the U.S. dollar by local importing companies, and the U.S. dollar remained strong. On the following day of the FOMC meeting, held attracting substantial attention in the market, the U.S. dollar/Indian rupee exchange rate fluctuated violently and fell temporarily to INR 82.415. However, at that level there were market participants that bought the U.S. dollar immediately, and the exchange rate rallied thereafter.

In the week commencing on December 19, the U.S. dollar/Indian rupee exchange rate remained just below the INR 83 level. While there were market participants buying the U.S. dollar based on actual demand, the central bank intervened in the foreign exchange market by selling the U.S. dollar when the exchange rate was high. Thus, the U.S. dollar/Indian rupee exchange rate did not move significantly. Around this time, market participants started to see the INR 83 level as the support line for the U.S. dollar/Indian rupee exchange rate, expecting the central bank to intervene in the market by selling the U.S. dollar at the INR 82.85–82.90 level.

On December 26, oil production levels fell due to a cold wave in the U.S., while Russia was likely to reduce production as well. As a result, market participants speculated that crude oil prices would rally. Furthermore, some pointed out the possibility for the annual trade deficit of India for FY2022 to reach USD 300 billion, and this was a negative factor for the Indian rupee. However, when the U.S. dollar/Indian rupee exchange rate was high, market

participants expected the central bank of India to intervene in the market. Also as there were few transactions in the market at the end of the year, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range. On December 28, the U.S. dollar/Indian rupee exchange rate reached its monthly high at INR 82.93, and trading closed on December 28 at INR 82.865.

## 2. Outlook for This Month

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

On November 10, the October Consumer Price Index (CPI) of the U.S. was announced, which led the appreciation of the U.S. dollar to stop. As a result, market participants started buying back the overall Asian currencies. An Asian currency index shows that Asian currencies have appreciated by more than 3.5% from November 9. However, the Indian rupee, which belongs to this group of currencies, has depreciated by 1.7% within the same period. Even if the Indian rupee is compared with other Asian currencies by looking at a slightly different period, it is visible that the Indian rupee is underperforming other Asian currencies. This is a result of domestic factors in India rather than external factors such as trends in the U.S. dollar exchange market or headlines related to China. More precisely, it is a result of the fact that the central bank of India has been intervening in the foreign exchange market by buying the U.S. dollar and selling the Indian rupee, when the U.S. dollar/Indian rupee exchange rate reached the INR 80 level or the INR 81 level. There are mainly two reasons for the central bank to intervene in the market. Firstly, the central bank needs to collect foreign currency reserves, which have decreased by USD 117.5 billion from the peak level observed in October last year. Indeed, foreign currency reserves of India have increased by USD 39 billion from the week of October 21, on which the foreign currency reserves recently bottomed out, to the week of December 16, for which data was recently released. Secondly, the central bank of India does not tolerate fluctuations in the exchange rate, and it seems to be preventing the Indian rupee from both appreciating and depreciating. By observing such a situation, local importing companies bought the U.S. dollar, as they assumed that the Indian rupee would not strengthen. With such transactions, the U.S. dollar/Indian rupee exchange rate approached the INR 83 level. As the central bank would not allow the Indian rupee to weaken excessively, market participants see the INR 83 level as a support line for U.S. dollar-selling interventions.

Other key factors include crude oil prices, which have started to rise, as discussed above. Furthermore, if food prices fall as a result of the good harvest of rabi crops, lowering the inflation level, market participants would expect policy interest rate hikes to end earlier, which is a domestic factor that can weaken the Indian rupee. It is also possible for the Indian rupee to weaken if concerns grow over an economic slowdown due to an increase of Covid-19 cases in China, weakening the Chinese yuan and encouraging market participants to sell Asian currencies.

On the other hand, it is possible for the Indian rupee to appreciate based on security investment in India by foreign investors. In December, Indian stock prices fell due to factors related to China. There are some funds that are to buy stocks in January before the announcement of the federal budget bill scheduled for the first week in February. If investment from foreign investors becomes active, the Indian rupee will be bought.

The next FOMC meeting is scheduled for February 2, and the central bank of India is scheduled to have its next meeting on February 8. As there is no event related to monetary policy in January, market participants should observe the above factors, expecting the U.S. dollar/Indian rupee exchange rate to remain high, as is the case currently.

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

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