Mizuho Dealer's Eye

February 2023

MIZUHO

U.S. Dollar 2
Euro 6
British Pound 10
Australian Dollar 12
Canadian Dollar 14
Korean Won 15
New Taiwan Dollar 17
Hong Kong Dollar 19
Chinese Yuan 21
Singapore Dollar 23
Thai Baht 25
Malaysian Ringgit 27
Indonesian Rupiah 29
Philippine Peso 31
Indian Rupee 33

Mizuho Bank, Ltd.

Global Markets Sales Department

Shinichi Tsutsui, Global FI Team, Global Markets Sales Department

U.S. Dollar – February 2023

Expected Ranges **Against the yen: JPY126.00–136.00**

1. Review of the Previous Month

The dollar/yen pair opened January trading at the lower-131 yen mark. The pair fell back on dollar selling late December, though it rose to the mid-134 yen level on January 6 ahead of the release of the US December employment data and other major indicators. The December employment data was released on January 6. The nonfarm payrolls figure was not as strong as expected, with the pace of wage hikes slowing. With the US December Non-Manufacturing ISM Report on Business also falling sharply, the currency pair tumbled to the lower-131 yen mark.

The pair traded in a narrow range thereafter. The US December consumer price index (CPI) was released on January 12. The data was essentially the same as prior forecasts, but US interest rates then fell sharply after an FRB official said +25bp rate hikes would be appropriate going forward. As rate curves grew considerably steeper, the pair fell below 130 yen to plunge to the 127 yen level.

On January 18, at the monetary policy announcement after the Bank of Japan (BOJ) Monetary Policy Meeting, the BOJ announced that it would maintain the allowable range of fluctuation in long-term interest rates for yield curve control (YCC) at around ±0.5% and expand Funds-Supplying Operations against Pooled Collateral in order to reinforce the sustainability of its YCC (loans can be extended for up to 10 years at interest rates the BOJ deems appropriate). The dollar/yen pair had traded in the 128 range just before the announcement, but it now soared to the upper-131 mark. However, this momentum was short-lived and the pair was sold back below 128 yen on the same day to hit the mid-127 yen level.

Volatility then eased when it came to stocks, interest rates and currencies, with assets bought across the board. Interests rates fell as various products were bought in bond markets, with hi-tech stocks and other risk assets also bought. During this time, the currency pair was bought back and it edged up from the 128 yen level to the lower-131 yen level.

The pair then converged on 130 yen towards the month's end as its range narrowed to around 129–131 yen.

2. Outlook for This Month

The dollar/yen pair will bounce back in February as investors search for its downside. The key points will be Japanese/US interest-rate differentials and supply and demand conditions.

First, with regards to the interest-rate differentials, the respective issues in the US and Japan will be summarized.

The FOMC will be meeting early February. Though soaring inflation has taken a breather in the US, the FOMC will probably continue to lift rates gradually by +25bp until it can confirm that inflation has cooled.

Furthermore, attention will be focused on the assessment and diagnosis of the authorities when it comes to the impact of the FRB's aggressive rate hikes on inflation and the real economy. One major factor behind inflation has been the rise in imputed rents, but rents are steadily calming down, though there is uncertainty about whether wage

rises have clearly slowed, so it seems unlikely that inflation will fall to around 2% year-on-year in the near future. Under these circumstances, FRB officials will probably make comments aimed at reining in optimism regarding the inflation outlook. In response, market participants will probably revaluate interest rate levels once again and respond to rising interest rates.

In Japan, at the BOJ Monetary Policy Meeting in January, it decided to expand its Funds-Supplying Operations against Pooled Collateral in order to reinforce the sustainability of its YCC, with the announcement that it had supplied loans with 5-year durations, etc. already having an impact. There was no particular market reaction when the BOJ conducted its second funds-supplying operation on January 31, so investors will need to monitor the situation to gauge whether this policy will continue to affect interest-rate markets going forward. The issue of the next BOJ governor will also heave into view early February. The impact of this issue will be short-lived, though. In January, the BOJ said it would keep its policy rate unchanged on expectations that inflation would drop below +2%. Given this and the impact of the YCC, it seems yen interest rates will only have a limited impact on the forex markets.

When it comes to supply and demand, investors are focusing on commodity prices. Given the ravenous demand for resources in China and elsewhere, a lot of commodity futures prices (excepting natural gas) rose throughout January, with importer demand for resources and so on likely to rise again this month. There will be considerable exporter demand for dollar selling at its current level toward the end of the fiscal year, but Japan's trade balance is sharply in the red (excess imports), so this selling will probably be outstripped by importer demand for dollar buying on rising commodity prices.

Going forward, a lot will depend on whether Japanese/US interest-rate differentials widen or how supply and demand conditions are impacted by commodity prices. Given the aforementioned factors, though, it seems importer demand for dollar buying will have a major impact on the markets in February. Investors will search for the dollar/yen pair's downside as various events take place, but the pair will probably rise on dollar buying on interest-rate differentials and supply and demand conditions.

Dealers' Market Forecast

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

Bullish on the dollar	5 bulls	135.00 – 127.00	Bearish on the dollar	13 bears	132.50 – 125.00

* Ranges are central values

Kawai	Bear	133.00 – 127.00	Investors will be monitoring Japanese/US interest-rate differentials this month. When it meets in February, though, the FOMC is unlikely to spring any surprises big enough to shift the consensus. As such, the dollar/yen pair will probably move with a lack of direction in a range around 130 yen. However, with attention focusing on the next BOJ governor, the pair will probably move with a slightly bearish edge.
Miyachi	Bear	131.50 – 125.00	The FRB is lifting rates at a slower pace while central banks across the world are relaxing their tightening stances. With speculation also growing that the BOJ will shift its stance as it moves to appoint a new governor, the dollar/yen pair will probably move with a heavy topside.
Tsutsui	Bull	136.00 – 126.00	There are plenty of market factors line up this month. The BOJ Monetary Policy Meeting will be held early February, while investors will also be focusing on the candidates for the next BOJ governor. With investors having priced in rate cuts, US interest rates will face some correction, with the dollar/yen pair likely to be revised upwards. The pair will probably bounce back as investors test its downside.
Kato	Bear	133.00 – 125.00	The markets will move erratically in February on the announcement about the next BOJ governor. Investors have accumulated a lot of short positions with an eye on monetary policy shifts, so the environment is ripe for some short covering. The dollar/yen pair will also be impacted as the direction of monetary policy changes becomes clearer toward spring.
Yamazaki	Bear	132.50 – 127.50	With inflation cooling, rate hikes are also likely to take a breather. As the Reiwa Rincho (the Japanese national council on structural reforms) has indicated, there are deep-rooted concerns about a Japanese monetary policy shift, so investors should pay attention to headlines. Overall, market participants should be wary of the dollar/yen pair trending lower on growing expectations for future rate hikes by the BOJ.
Ito	Bull	134.00 – 126.00	Investors are pricing in FRB dovishness while anticipating a BOJ policy shift, so the dollar/yen pair will continue trading with a heavy topside. However, the FRB still remains on guard against inflation, so the markets may have overly factored in this dovishness. The dollar/yen pair will probably move with a firm downside on the real-demand flow.
Yamagishi	Bull	135.00 – 127.00	The dollar/yen pair has fallen by around 20 yen, more than half the 38-yen range fluctuation seen last year, from a high of the 151 yen level. The round of adjustment is perhaps coming to an end. With the US CPI still above +6%, the FRB might hike rates for a longer period than expected on concerns about inflation. The dollar/yen pair's downside will also be supported by real-demand yen selling on Japan's historic trade deficit.
Omi	Bear	132.00 – 127.00	The dollar/yen pair's movements will be deadlocked in February, with the greenback sold on expectations for a slower pace of US rate hikes and bought when the terminal rate is raised. There will also be expectations for a BOJ monetary policy shift, but yen buying has slowed slightly following the January BOJ Monetary Policy Meeting.
Ueno	Bear	132.00 – 125.00	US rate hikes are drawing to a close. With speculation smoldering about a BOJ monetary policy shift, the dollar/yen pair's risk probably lies on the downside.
Kai	Bear	132.00 – 125.00	If the FOMC meeting at the start of February reconfirms that interest-rate differentials are shrinking, the dollar will continue to be sold. Furthermore, the BOJ will be appointing a new governor and deputy on February 10, with the yen likely to rise if these figures turn out to be hawkish.
Matsunaga	Bull	133.00 – 128.50	The FOMC indicated it would focus on tackling inflation when it met in December. If it does so again in February, the greenback will probably be bought as investors tweak their expectations for FRB dovishness. With investors also focusing on the identity of the next BOJ governor and BOJ policy shifts, the dollar/yen pair looks set to move firmly this month.

Onozaki	Bull	135.00 – 128.00	FRB rate hikes are drawing to a close and there are concerns about yen bullishness on expectations about BOJ movements. However, there is unlikely to be excessive yen buying given ongoing Japanese/US interest-rate differentials. The dollar will be bought steadily.
Harada	Bear	133.00 – 125.00	Apart from employment, economic indicators like housing sales and retail sales are clearly slowing. Under these circumstances, though the FRB lifted rates last year, it will have to take a more cautious stance this year. As such, the dollar/yen pair’s downside looks set to edge lower.
Katoono	Bear	133.00 – 125.50	The dollar/yen pair will be weighed down by ongoing expectations for an end to the US rate-hike cycle and a revision to BOJ monetary policy. US employment indicators have moved firmly, but there are now signs of bearishness, so the FRB will probably look for the right time to adjust policy as it aims for a soft landing.
Kobayashi	Bull	132.00 – 125.00	The markets are already factoring in a +25bp rate hike at the next FOMC meeting, but the US has released a number of bearish indicators recently. However, the yen will face buying pressure on expectations that the BOJ will shift policy after BOJ governor Haruhiko Kuroda steps down, so the dollar/yen pair will probably trade with a heavy topside.
Henmi	Bear	133.00 – 125.00	With inflation in the US remaining stubbornly high, investors should be on guard against FRB hawkishness. However, though US rate hikes are drawing to a close, there is a lot of speculation about a shift to the BOJ’s easing policy or the identity of the BOJ’s next governor, with the dollar/yen pair set to continue trading with a heavy topside.
Suzuki	Bear	133.00 – 125.00	The markets are already factoring in an FOMC shift in a dovish direction. With no surprises likely, the dollar/yen pair will continue trading around 130 yen overall. However, there are still deep-rooted expectations for a BOJ policy shift, so investors should be more concerned about downward pressure.
Okuma	Bear	132.00 – 126.00	US inflationary pressure is waning, with expectation growing that the FRB will slow the pace of rate hikes. On the other hand, the yen will probably be bought on growing expectations for a shift in the BOJ’s easing stance, with the dollar/yen pair’s downside set to edge lower.

Tomohisa Ueno, Forex Sales, Global Markets Sales Department

Euro – February 2023

Expected Ranges	**Against the US$: US$1.0700–1.1100**
	Against the yen: JPY137.00–144.00

1. Review of the Previous Month

The euro/dollar pair moved firmly in January.

After opening the year trading at the lower-$1.07 mark on January 2, the pair edged down to the upper-$1.06 level as major markets remained on holiday. With the release of the German December consumer price index (CPI) looming, the euro was sold on January 3 on growing expectations that inflation would slow, with the pair subsequently falling to the lower-$1.05 mark. In the end, the CPI result was broadly as expected. With US interest rates also sliding, the pair rallied to hit the $1.06 level toward January 4. The US released some bullish economic indicators on January 5, while the minutes to the December FOMC meeting also turned out hawkish, so US interest rose and the currency pair fell to the lower-$1.05 range. This bearishness spilled over into January 6, with the pair dropping to a monthly low of $1.0482 at the start of trading. However, the greenback was then sold on the generally lackluster results of the US December employment data and December Non-Manufacturing ISM Report on Business, so the pair surged to the mid-$1.06 level.

Its topside extended to the mid-$1.07 range on January 9 as the dollar was sold on falling US interest rates. The pair moved with a lack of incentive between the lower- and mid-$1.07 marks on January 10, though it climbed to the upper-$1.07 range on January 11 on hawkish comments by Bank of Finland governor Olli Rhen. The pair edged up to the upper-$1.07 mark early doors on January 12. It then strengthened to the upper-$1.08 level after US interest rates fell when the US December CPI data confirmed that inflation had slowed. Amid a dearth of factors, the pair moved from the lower- to mid-$1.08 range on January 13.

The yen was bought and the dollar sold on January 16, with the euro/dollar pair also rising temporarily to the upper-$1.08 level. On January 17, news emerged that the ECB would consider scaling back its rate hikes when it met in March. As German interest rates plummeted, the currency pair dropped below $1.08. The pair rose to the upper-$1.08 mark on January 18 as the greenback was sold on falling US interest rates, though after a round of selling the pair dropped back below $1.08. The minutes to the December ECB Governing Council meeting were released on January 19. The minutes struck a hawkish tone, with several ECB officials also making hawkish comments, so German interest rates rose and the pair climbed to the lower-$1.08 range once more. With ECB officials making hawkish comments over consecutive days, the pair edged higher to hit the mid-$1.08 mark on January 20.

As ECB officials continued to make hawkish noises, the euro was bought and the pair climbed to the lower-$1.09 range on January 23. The pair then weakened to the lower-$1.08 level toward January 24, though it rallied slightly on falling US interest rates to hit the upper-$1.08 mark. The pair moved strongly from January 25 as the greenback was sold on falling US interest rates, with the pair hitting a monthly high of $1.0929 on January 26. With FOMC and ECB meetings looming at the start of February, the pair moved with a lack of incentive around the upper-$1.08 level. The pair climbed to the lower-$1.09 range again on January 30 on the stronger-than-expected result of Spain's January CPI data, though it then dropped back to the mid-$1.08 mark. The pair was moving at the

mid-$1.08 level as of noon in Tokyo on January 31.

2. Outlook for This Month

The euro/dollar pair is expected to move firmly February.

The pair's movements will undoubtedly be shaped by European and US monetary policy trends this month, particularly the results of the FOMC meeting over Tuesday, January 31–Wednesday February 1 and the ECB Governing Council meeting on Thursday, February 2.

As with past FOMC meetings, readers are invited to read this report's US Dollar section for a detailed forecast for this month's FOMC meeting, but with several FRB officials hinting at a slower pace of rate hike from the last meeting onwards, the consensus is that the FOMC will lift rates by +25bp this time around (as against +50%bp at the last meeting). With the US policy rate approaching the dot chart's median projection for the end of 2023, the accompanying statement will probably contain some changes. However, there seems to be no good reason right now for the FOMC to shift its stance of depending on the data, so the euro/dollar pair is unlikely to be swayed sharply by the announcement.

In Europe, meanwhile, after lifting its policy rate by +75bp at two straight meetings, the ECB Governing Council only implemented a +50bp hike at its last meeting. The minutes to the last meeting revealed that there was initially a lot of support for another +75bp rate hike, with participants ultimately deciding to slow the pace of rate hikes while indicating there will be several +50bp rate hikes going forward.

Tight commodity demand has eased on Europe's warm winter, but inflation remains at high levels, with market participants moving to factor in +50bp rate hikes based on recent comments by ECB officials. Based on all of this, it seems the ECB Governing Council will unsurprisingly lift its policy rate by +50bp when it meets on February 2 and it will probably remain in fighting mode when it comes to future rate hikes.

The impression is that the ECB still has more room to lift rate hikes than the FOMC. There are renewed concerns that the Ukraine situation could deteriorate now Europe and the US have decided to supply Ukraine with tanks, but with a year passing since fighting broke out, the markets have grown less reactive to events. The euro will continue to be an easy currency to buy in February.

Dealers' Market Forecast

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

Bullish on the euro	14 bulls	1.1100 – 1.0600	Bearish on the euro	4 bears	1.0975 – 1.0500

* Ranges are central values

Name	View	Range	Comment
Kawai	Bull	1.1000 – 1.0600	When it meets in February, the ECB Governing Council is unlikely to shift its policy stance or slow the pace of rate hikes, so the euro/dollar pair looks set to move firmly as investors continue to focus on shrinking European/US interest-rate differentials. Investors will also be watching ECB president Christine Lagarde's February 2 press conference to gauge the extent to which the ECB will remain in hawkish mode going forward.
Miyachi	Bull	1.1200 – 1.0700	The dollar will be sold overall on a slower pace of FRB rate hikes, with this likely to support the euro/dollar pair's downside. Furthermore, it will take time before a consensus grows about the ECB shifting its comparatively-hawkish stance when it comes to tightening, so the euro will be an easy currency to buy.
Tsutsui	Bear	1.0950 – 1.0500	In the wake of the warm winter, the economic situation has improved and attention is shifting to the inflation situation. The ECB will remain in hawkish mode, but the key focus will be how the market reacts to the impact of rate hikes. Investors should also bear in mind that the euro/dollar pair could be peaking out from a technical perspective.
Kato	Bear	1.0950 – 1.0500	There is a clear gap between US and European monetary policy, with the euro remaining stronger compared to the dollar. However, short-term investors have accumulated a lot of long positions, so the environment will be conducive to adjustive euro selling, with the euro/dollar pair's topside likely to be capped.
Yamazaki	Bull	1.1100 – 1.0600	The euro/dollar pair will strengthen this month. Speculation about dollar interest rates is receding, but there is still speculation about rising euro interest rates, as seen with the recent situation in Spain, so the euro/dollar pair will probably trend upward on these differing expectations.
Ito	Bear	1.1000 – 1.0500	The euro is continuing to rise on high eurozone inflation and hawkish comments by ECB members. However, investors are pricing in ECB hawkishness, so the euro/dollar pair's room on the topside will be capped. If the FRB remains in hawkish mode, the currency pair will face some correction.
Yamagishi	Bull	1.1200 – 1.0500	The core eurozone HICP is rising at a faster pace. The ECB will probably remain in hawkish mode on inflationary concerns and an improving economy. When the ECB meets in February, it may drop hints about a +50bp rate hike at the March meeting. The euro/dollar pair will also be supported by improved supply and demand conditions on the falling price of natural gas.
Omi	Bull	1.1100 – 1.0600	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. However, the ECB might also scale back its rate hikes. With some observers also saying inflation is peaking out in the eurozone, the pair's rise will be muted.
Ueno	Bull	1.1100 – 1.0700	As mentioned above, the euro/dollar pair is expected to move firmly in February.
Kai	Bull	1.1100 – 1.0700	Investors will focus once more on shrinking interest-rate differentials in the wake of the FOMC and ECB meetings early February, so euro buying and dollar selling is likely to accelerate again. The ECB has yet to play the QT card, for example, with investors set to intermittently review their euro forecasts going forward.
Matsunaga	Bear	1.1000 – 1.0650	Amid signs Europe's economy is improving, the euro has strengthened on ECB hawkishness, but the markets are pricing in future ECB rate hikes to a considerable extent, so the euro/dollar pair's room on the topside will be capped. If the FRB confirms its commitment to fighting inflation, the euro will probably face some corrective selling.
Onozaki	Bull	1.1300 – 1.0600	Though the FRB is moving closer to ending rate hikes, the ECB remains committed to lifting rates. There are a number of concerns within the eurozone, but the euro will probably be bought on monetary policy.

Harada	Bull	1.1100 – 1.0650	There are concerns about an economic slowdown in the eurozone, but inflation remains high, so even if rate hikes take a breather, the ECB will probably remain in hawkish mode. With energy prices also remaining high, the euro is likely to continue moving firmly.
Katoono	Bull	1.1000 – 1.0600	The ECB remains in hawkish mode as it continues to position tackling stubbornly high inflation as its main priority. With the US also examining when to being the rate-hike cycle to an end, the euro will probably move strongly against the dollar. The euro/dollar pair will continue to move firmly, though investors will be monitoring the intensifying Ukraine situation.
Kobayashi	Bull	1.1100 – 1.0500	The markets are already pricing in a +25bp hike at the next FOMC meeting. The US has recently released a series of bearish economic indicators, with the dollar also sold on hawkish comments by ECB officials. This will probably support the euro/dollar pair this month.
Henmi	Bull	1.1500 – 1.0600	While the US is looking to end rate hikes, the ECB remains concerned about stubbornly high core inflation and wage inflation, so the ECB is unlikely to ease off when it comes to rate hikes. With Europe also helped on the supply and demand front by the warm winter, the euro/dollar pair is moving firmly and investors will probably test the key $1.10 mark.
Suzuki	Bull	1.1100 – 1.0700	There are concerns about an economic slowdown, but inflation remains high, so there are no signs of the ECB shifting its hawkish stance right now. The FOMC's shift in a dovish direction will also support the euro/dollar pair.
Okuma	Bull	1.1300 – 1.0700	While expectations are growing that the FRB will slow the pace of rate hikes, the ECB has indicated it will lift rates by +50bp at both the February and March meetings, so it seems the ECB still has considerable room to hike rates. The euro will continue to be bought on shrinking European/US interest-rate differentials.

Joseph McElhill, Europe Treasury Department

British Pound – February 2023

Expected Ranges **Against the US$: US$1.2200–1.2600**
Against the yen: JPY158.00–162.00

1. Review of the Previous Month

In January, the GBP/USD pair topped its December high to hit $1.2477, its highest level since June last year. After opening the month trading in the mid-$1.20 range on January 3, the pair was pushed down to the lower-$1.19 mark by demand for dollar buying. It then rose to the upper-$1.20 level on January 4 on the better-than-expected result of the final UK December Manufacturing PMI. The greenback was bought and the pair fell to the upper-$1.18 mark on January 5 on the strong result of the US December ADP National Employment Report. This trend continued on January 6, with the pair sliding to a monthly low of $1.1842 on dollar buying. The US December employment data revealed that wages had risen at a slower pace. With the US December Non-Manufacturing ISM Report on Business also falling sharply below expectations, the dollar was sold across the board, with the GBP/USD pair rallying to around $1.21.

The trend of dollar bearishness continued the following week, with the pair rising to $1.22 on January 9. The greenback was bought for a time and the pair weakened to the lower-$1.21 level on January 10 on concerns about FRB chair Jerome Powell's speech, but the pair moved to and fro thereafter on a lack of any noteworthy factors. The pair fell slightly on January 11 as US gilts rose (interest rates fell). The US released its closely-watched December consumer price index (CPI) indicator on January 12. The data was much as expected, so investors temporarily tried pushing the pair through $1.21, though it then bounced back to the mid-$1.22 level. The pair continued moving firmly in the $1.22 range on January 13 after the UK released some better-than-expected November GDP data.

As the trend of dollar bearishness continued the following week, the pair climbed to the upper-$1.22 mark on January 16, though it then dropped back to the upper-$1.21 level as the greenback was bought on the movements of the dollar/yen pair. The GBP/USD pair strengthened to the upper-$1.22 range on January 17 on the firm results of the UK November employment data. The UK then released some strong December CPI data. The greenback also weakened across the board as the dollar/yen pair was sold intermittently after the Bank of Japan Monetary Policy Meeting. All this saw the currency pair rising to $1.23 on January 18. The US also released a series of worse-than-expected indicators on the same day, so the dollar fell further and the GBP/USD pair temporarily climbed to the lower-$1.24 mark. The pair moved at the upper $1.23 level on January 19. It fell to the lower-$1.23 range for a time on January 20 after the UK released some worse-than-expected December retail sales data, but the greenback remained bearish, so the pair bounced back to the $1.24 range.

The weekend's trend of dollar weakness continued the following week. On January 23, the currency pair rose to $1.2447, its highest level since June 2022. However, there was some adjustment to the trend of dollar selling during overseas trading time, so the pair dipped to the lower-$1.23 mark. It then fell to the upper-$1.22 mark on January 24 after the UK released a worse-than-expected preliminary January PMI figure. After the Bank of Canada met to set policy, speculation grew that the FRB might also halt rate hikes in the near future. As the greenback underwent a comprehensive slide, the GBP/USD pair rose to the $1.24 range on January 25. The dollar was

temporarily bought and the pair fell to the mid-$1.23 level on January 26 on the firmer-than-expected results of the preliminary US 4Q GDP data and the new applications for unemployment insurance data. The closely-watched US December Personal Consumption Expenditure (PCE) core deflator was released on January 27, but the result was broadly as expected, so its impact was minimal. With the dollar remaining bearish, the pair continued moving firmly at the mid-$1.23 mark.

2. Outlook for This Month

In February, the pound's movements will be swayed sharply by the results of the February 2 Bank of England (BOE) Monetary Policy Committee (MPC) meeting. There were not many speeches by BOE members in January compared to their counterparts in the ECB and FRB, with the few speeches that did place containing no mention about the BOE's policy rate. However, one clear message from the December 16 MPC meeting (when 2 members voted for no change, 6 members for a +50bp hike and one member for a +75bp hike) is that opinions are a lot more divided within the BOE compared to the ECB and FRB. February often sees some surprises that go against market expectations, so investors should monitor the BOE's MPC meeting this month.

In addition to the results of the meeting and the release of the minutes, February will also see the release of the BOE's Quarterly Report and the 'Super Thursday' press conference by the BOE governor. As well as the policy decision and voting pattern, investors will also be monitoring the governor's speech to see if there are any changes from the last meeting (November 3; +75bp). The situation within the UK is also changing. In its November Quarterly Report, the BOE predicted that gross domestic product (GDP) would contract by -1.5% in 2023. However, the monthly GDP data moved in positive territories in October and November. Growth was low at +0.5% m-o-m and +0.1% m-o-m respectively, but the last time the UK posted two consecutive months of positive growth was in February 2022. At 46.7, the preliminary January Manufacturing PMI (released January 24) was up on December, but it remained below 50 (a sign on contraction) for the sixth straight month. The Non-Manufacturing PMI also dropped below forecasts and below the previous month's figure to hit its lowest level since January 2021.

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

Australian Dollar – February 2023

Expected Ranges **Against the US$: US$0.6860–0.7250**
Against the yen: JPY86.00–92.00

1. Review of the Previous Month

The AUD/USD pair began 2023 trading around $0.68 on January 1. It weakened to the upper-$0.66 mark before then rising to the mid-$0.69 level. With many cities still on holiday on January 2, the pair floated around $0.68. It tumbled temporarily to $0.6688 on January 3 with an eye on bearish US stock movements. The RMB was bought on January 4 on news that the Chinese authorities were considering some support measures for some large property developers, with investors subsequently testing the AUD/USD pair's topside. The pair's topside then rose to the lower-$0.68 mark on reports that China was considering lifting some sanctions on Australian coal imports as early as April. The US released a better-than-expected December ADP National Employment Report on January 5. With demand for labor remaining strong, stocks fell on concerns that the FRB would continue to lift interest rates. The currency pair was also pulled down to the mid-$0.67 level on US stock movements. The US released some strong December employment data on January 6, but stocks and bonds then rose and the greenback fell as investors focused on the weak average hourly wages data. The greenback was sold further when the US December Non-Manufacturing ISM Report on Business fell below expectations and dipped below 50, with the AUD/USD pair rising to the upper-$0.68 mark as a result.

This trend spilled over into the following week, with the pair's topside rising further. With the RMB then climbing higher on reports the Chinese authorities would be easing some borrowing restrictions in the property development sector, the AUD/USD strengthened to the mid-$0.69 mark on January 9. Australia released some better-than-expected November retail sales data and consumer price index (CPI) data on January 11, so the currency pair rose to the lower-$0.69 mark. As expected, the US December CPI data contracted on the previous month for the first time in over two and a half years on its release on January 12. With expectations growing that the FRB would slow the pace of its aggressive rate hikes, the greenback was sold and the AUD/USD pair surged to the upper-$0.69 level for a time. The US January University of Michigan's survey (preliminary) expected inflation rate for the next year was released on January 13, with the data dropping below expectations. As US stocks rose, the currency pair climbed to around $0.6970.

With stocks moving firmly, the pair broke through $0.70 on January 16, though it moved with a heavy topside around this level. The US released some worse-than-expected December retail sales data and producer price index data on January 18, with the greenback sold and the currency pair temporarily climbing to $0.7063. However, the pair then dropped back to the mid-$0.69 level on falling stocks. The pair fell to $0.6872 for a time on January 19 after Australia's December employment data unexpectedly worsened. Amid a lack of decisive factors, the pair edged up to the upper-$0.69 level on January 20. With Australia's 4Q CPI hitting +7.8%, its highest level in 33 years, speculation grew at the month's end that the RBA would continue to hike rates, so the pair's topside extended to the lower-$0.71 level. The US December Personal Consumption Expenditure (PCE) core deflator then slowed and the US December personal income/spending data fell. With the University of Michigan's survey (final) expected inflation rate for the next year also dipping on the preliminary figure, consumer sentiments improved, with the

AUD/USD pair supported by expectations that the FRB would slow the pace of rate hikes even further.

2. Outlook for This Month

In February the AUD/USD pair will be swayed by expectations for rate cuts in the US and the direction of Australian monetary policy. When the US December CPI data was released on January 12, it hinted that inflation might be slowing, with US stocks subsequently pushed up. With the US December PCE core deflator also slowing on its release on January 27, there is a growing sense in the markets that the FRB will probably slow the pace of rate hikes. If this trend continues, the currency pair will be supported by rising stocks and US-dollar weakness.

If FRB chair Jerome Powell rules out rate cuts in the latter half of 2023 in his press conference after the FOMC meeting on February 1, the greenback will probably move firmly, but given the ongoing bearishness of the recent CPI figure, consumer spending and other data, it seems the FRB will be calling a halt to rate hikes in the not-too-distant future. The US January employment data will be released on February 3. With a number of firms announcing substantial layoffs in January, there are some concerns that the unemployment rate might deteriorate, but with the recent new applications for unemployment insurance data falling unexpectedly, some observers are bullish about the jobs situation. As they try to restrain inflation, though, monetary authorities will be focusing less on a jobs slump and more on whether average hourly wages are cooling off. As such, if the number of people in work increases by more than expected while average hourly wage growth slows, this will ease concerns of a recession while also giving the FRB more space to slow the pace of rate hikes even further, with the greenback likely to slide as a result.

In Australia, meanwhile, the 4Q CPI figure (released January 25) was up on expectations, with the Australian dollar climbing and the US dollar sliding on expectations for ongoing RBA rate hikes. The AUD/USD pair's downside will edge higher on these 'expectations for FRB discussions about halting rate hikes' and 'the fact the RBA still has ample room for rate hikes,' with the pair's topside likely to head toward the upper-$0.71 mark. (The next upper resistance line will be June's $0.7283).

However, a glance at the Australian dollar's chart shows the unit moving heavily around $0.7140 after topping its August 2022 high of $0.7137. As such, there are several scenarios that could see the greenback moving firmly. This could happen if FRB chair Jerome Powell makes some hawkish comments in his press conference after the FOMC meeting, for example, or if the US January employment data shows wages noticeably rising, or even if the RBA's statement contains some dovish comments. In these scenarios, investors should be on guard against Australian-dollar sell-backs. (The lower support lines will be the $0.6872 low from January 19 and the 200-day line around $0.6810).

Hiroki Kashiwagi, Canada Office, Americas Treasury Department

Canadian Dollar – February 2023

Expected Ranges **Against the US$: C$1.3000–1.3700**
Against the yen: JPY92.00–100.00

1. Review of the Previous Month

Though the US dollar rose sharply against other major currencies in 2022, if dropped back against the Canadian dollar entering 2023. In 2022, the USD/CAD pair hit a high of C$1.3885 in October. It then fell back in November before rising again to hit C$1.3699 in December. However, the pair then trended lower from January 2023.

The pair opened 2023 trading at the upper-C$1.35 mark and it continued fluctuating sharply at the start of the month. The greenback was bought back after being sold at the end of 2022. With crude oil prices also falling, the currency pair hit a high of C$1.3680 on January 3. However, it then fell to C$1.3471 as risk appetite spread after China moved to re-open. The US dollar was bought on January 6 after the US December employment data significantly outperformed expectations, with the USD/CAD pair rising again to C$1.3593. The Canadian December unemployment rate beat expectations on its release on January 6, while the markets also reacted warmly to China's re-opening, so the pair continued to fluctuate wildly to drop to C$1.3359 on January 9.

The pair fluctuated gently in a range mid-January. It fell to C$1.3347 on January 12 on the release of the US December consumer price index (CPI) data, but it generally traded in a range between $1.3450 and $1.3350. However, the US dollar was bought and the Canadian dollar sold on risk aversion on January 18 on the worse-than-expected results of the US December retail sales data, so the currency pair temporarily rose to C$1.3521.

On January 25, the Bank of Canada implemented a +25bp rate hike while indicating it would not be hiking rates for a while thereafter. With the US also releasing some mixed economic indicators, including the 4Q preliminary GDP data and the December personal income/spending data, the USD/CAD pair edged lower. On January 27, the pair hit C$1.3300 for the first time since November 2022.

2. Outlook for This Month

Canada's December CPI data was released on January 17, with the headline figure falling to +6.3% y-o-y (November: +6.8%) and the core figure dipping slightly to +5.3% y-o-y (November: +5.4%).

The Bank of Canada (BOC) released its 4Q Business Outlook Survey on the same day and this had deteriorated on the previous quarter's survey, with several indicators suggesting Canada's economy might be slowing. However, the unemployment rate (released on January 6) improved to 5.0% (November: 5.1%), with employment conditions in Canada also historically tight.

Given this economic situation, the BOC only implemented a +25bp rate hike when it met on January 25 and it indicated it would call a halt to rake hikes for the time being while it monitored the impact on monetary policy.

There are signs of an economic slowdown in Canada and the US. Provided the gap between US and Canadian interest-rate differentials does not shift significantly, the USD/CAD pair look set to continue moving bearishly. The next downside target will be C$1.300, with the pair expected to trade in a range between C$1.3000–C$1.3700.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – February 2023

Expected Ranges	**Against the US$: KRW 1,200–1,260**
	Against the yen: JPY 10.309–10.870 (KRW100)

1. Review of the Previous Month

The USD/KRW pair continued falling in January. The yen was bought and the dollar sold on reports that the Bank of Japan (BOJ) would be upgrading its price outlook, with the USD/KRW pair subsequently kicking off 2023 trading at KRW1261.0 on January 2. With investors thin on the ground early in the week, the pair was swayed by real-demand transactions. It hit a monthly high of KRW1280.9 on January 4. However, it gradually fell back as overseas investors continued to buy South Korean stocks. Though the greenback was bought during overseas trading time, the currency pair continued trading with a heavy topside. The pair then fell to KRW1260.2 on January 6 as investors appeared to cut their losses on long positions. The US then released a very bearish December Non-Manufacturing ISM Report on Business (result: 49.6, forecast: 55.0) during overseas trading time on January 6, so the currency pair opened the next week trading at KRW1253.0 before falling thereafter. Overseas investors bought South Korean stocks that week too, with the won bought in volume. The US December consumer price index (CPI) data was released during overseas trading time on January 12. The markets reacted well to the downswing in inflation, with US interest rates falling by over 10bp. On January 13, meanwhile, the Bank of Korea (BOK) lifted its policy rate from 3.25% to 3.50%. The USD/KRW pair fell further on these intermittent won-buying factors. Overseas investors, etc. bought South Korean stocks throughout the week beginning January 16, so the currency pair moved with a heavy topside. However, on January 18, the BOJ surprised the markets by announcing that it would not be revising its easing policies. The dollar/yen pair saw short covering, with the USD/KRW pair also rising to KRW1246.5. This marked the pair's recovery high, though, and it then fell back. The pair renewed a low at the month's end on real-demand won buying in the Korean New Year holidays. The pair fell to a monthly low of KRW1227.1 on January 30 and it failed to rally thereafter. The pair closed the month at KRW1231.9, down 32.6 won on the end of December.

2. Outlook for This Month

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

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 apparently selling the US dollar on anticipation for such a scenario. The FOMC will probably discuss the timing of when to halt rate hikes when it meets on February 2, with the greenback likely to see continued selling on expectations for an FRB policy shift.

As for (2), on January 13, the BOK lifted its policy rate from 3.25% to 3.50%. The BOK governor predicted inflation would move around 3.6% in 2023 and he also said the economy may have contracted over 4Q 2022, with the BOK meeting generally hinting at an end to rate hikes. In the end, GDP did contract by -0.4% in Q4, with the impact of rate hikes starting to be felt. Many observers also believe the USD/KRW pair has been adjusted enough, so the BOK faces less incentive to hike rates to stop the won from falling. Under these circumstances, BOK policy will continue to have minimal impact on the currency pair's movements.

South Korea's trade deficit is also becoming entrenched on high commodity prices and worsening conditions in the semiconductor sector. However, overseas investors continue to buy South Korean stocks, with the won seeing considerable buying in January. Though South Korea's trade deficit looks set to continue for now, stock buying by overseas investors also looks set to slow as KOSPI rises. When this happens, the currency pair will probably bounce back.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – February 2023

Expected Ranges **Against the US$: NT$29.50–30.25**
Against the yen: JPY4.15–4.40

1. Review of the Previous Month

In January, the Taiwan dollar hit its highest level against the US dollar in around five and a half months.

After opening the year trading at TWD30.740 on January 3, the USD/TWD pair continued moving in a range. However, the greenback then weakened when the average hourly wages figure in the US December employment data grew at a slower pace than expected, with the pair dropping to the lower-TWD30.5 mark on Saturday business day, January 7, though trading was very thin on the ground and the pair soon bounced back. The greenback continued moving bearishly in the second week, with the pair dropping below TWD30.5 on January 10 to hit the lower-TWD30.4 mark.

The US December consumer price index (CPI) fell below expectations mid-January, with expectations growing that the FRB would slow the pace of rate hikes. US stocks rose and Taiwanese stocks also moved bullishly, with the currency pair dropping to the lower-TWD30.3 level on January 13. Stocks continued moving firmly on January 16, while the greenback was sold by exporters ahead of the Spring Festival, so to pair weakened to the mid-TWD30.2 mark. However, importers then bought the US dollar ahead of the Spring Festival, so the pair edged back to the upper-TWD30.3 mark.

Taiwan was on vacation for several days late January owing to the Spring Festival. Stocks rose in overseas markets during this time, with foreign capital then pouring into Taiwan on January 30, after the holidays. As the Taiwan dollar was bought, the currency pair fell to TWD30.1. The pair then fell below TWD30 on January 31 for the first time in around five and a half months. If temporarily hit TWD29.994, but then returned to the TWD30 range.

2. Outlook for This Month

The USD/TWD pair is expected to weaken in February.

The Taiwan dollar was bought in January as the greenback was sold across the board on expectations that the FRB would slow the pace of rate hikes. Risk assets were also bought, with stocks moving firmly and Taiwanese equities also being purchased, so the Taiwan dollar was bought as funds flowed into Taiwan.

The Taiwan dollar looks set to remain bullish in February. With inflation slowing in the US, the FRB is slowing the pace of its monetary tightening, with the US dollar set to fall and the Taiwan dollar rise.

However, there are concerns that Taiwanese exports could fall on an economic slowdown. Taiwan's 4Q preliminary GDP figure hit -0.86%, with the data contracting on a quarterly basis for the first time since 2016 as exports slowed. The leading export orders indicator also fell sharply in December at -23.2% year-on-year, with exports likely to fall going forward too. If there is less demand for US-dollar selling among exporters and if Taiwanese stocks move bearishly on the deteriorating results of Taiwanese firms, the Taiwan dollar will be sold, so

investors should monitor Taiwan export trends.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – February 2023

Expected Ranges	**Against the US$: HK$ 7.8000–7.8500**
	Against the yen: JPY 16.10–17.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

USD/HKD spot climbed for second consecutive month to 7.83 level as the carry trade flow of long USD/HKD spot returned. In light of fading year-end HKD seasonality and persistent equities inflow, HKD rates dropped sharply and the widening HKD-USD negative rate spread offered a carry trade opportunity of long USD/HKD. HK equities buoyed on the back of China reopening trade, with Hang Seng Index soaring by 14% in January to its 11-months fresh high, while the year-to-date Stock Connect flow into HK equities was modest at HKD 13.5bn. Meanwhile, HK growth outlook improved after the border reopening to mainland China since 8 January. The return of visitors from China is set to boost consumption in HK. HK PMI also picked towards 50 expansionary mark, reflecting the improvement in business confidence. However, with rising recession risk in US and Europe, the deteriorating exports demand will likely drag on HK growth.

Hong Kong dollar interest rate market in January

HKD rates dropped sharply as the year-end seasonality faded out. Moreover, HK banks might reset the HKD funding plan on the back of increasing expectation for Fed's pivot later this year, and offered their excessive HKD cash aggressively. HKD HIBOR curve retreated across tenors, with 1-month and 3-month tenor down notably to 2.7% and 3.6% from 4.35% and 4.99% at Dec-end, respectively. As a result, the HKD HIBOR – USD LIBOR spread turned negative, with 1-month and 3-month tenor dropped to -179bps and -108bps, respectively. With the HKD spot staying away from 7.85 level, the HKMA aggregate balance held steady at HKD 96.4bn. There was no FOMC meeting in January and the HKD prime rate remained unchanged at 5.625%. As expectation for Fed's pivot was intensifying, 3Y and 5Y HKD IRS slid to 3.6% and 3.3% from 4.3% and 4.0% at Dec-end, respectively.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

With the HKD-USD rate spread reversing to negative, the HKD spot is expected to stay the weak half of its trading band above 7.8 handle. Actually, the Fed's rate hike cycle is still on course and HKD-USD rate spread should remain negative largely. Meanwhile, capital inflow to HK market is returning given the China reopening trade and improving HK property outlook. The solid capital inflow will likely keep the HKD spot away from its weak-side convertibility undertaking of 7.85 level. The bullish HK stock markets will also help boost sentiment in HK IPO markets and the related capital inflow will help support the HKD spot. In the medium term, the HKD spot is expected to strengthen further if the Fed put a pause on its rate hike cycle and even signaled to a rate cut

cycle.

Hong Kong dollar interest rate market in February

The persistent capital inflow to HK stock markets and property sector will offer liquidity to the market and we expect the HKD rates to remain soft compared to the USD rates. Considering the history of 3-month HKD HIBOR tracking on Fed fund target rate, downside for HKD rates should prove to be limited amid Fed's rate hike cycle. As HK banks refrained from delivering aggressive rate hikes previously, we expect HK banks to extend the prime rate hike cycle at the gradual pace of +25bps hike after the FOMC meeting. With increasing expectation for Fed's pivot and rising US recession risk, we expect HKD rates to fall in tandem with USD rates in the medium term.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – February 2023

Expected Ranges **Against the US$: CNY 6.6000–6.9000**
Against the yen: JPY 18.20–20.20

1. Review of the Previous Month

In January, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.70 level once before rallying slowly.

On January 3, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.92 level. The liquidity level in the market was particularly low, due to the Covid-19 pandemic as well as the New Year holidays. However, market participants came back gradually, and U.S. dollar-selling dominated the market thereafter. The December PMI of China was affected by the increase of Covid-19 cases both in the manufacturing industry and in the non-manufacturing industry. However, on December 4, the People's Bank of China (PBOC) released a statement to underline that it would maintain a moderate monetary policy in 2023, supporting major infrastructure industries such as the real estate sector. As a result, market participants expected the economy of Mainland China to revitalize, and the U.S. dollar/Chinese yuan exchange market closed on January 6 by falling to the CNY 6.82 level.

On January 9, the U.S. dollar/Chinese exchange market opened at the mid-CNY 6.81 level. While there weren't many new factors in the market, market participants expected that the interest rate hikes by the Federal Reserve Board (FRB) could slow down, and dovish sentiment in the market kept the U.S. dollar/Chinese yuan exchange rate from rising further. On January 12, the December Consumer Price Index (CPI) of the U.S. was released, and the outcome revealed a slowdown from the previous figure—as had been anticipated previously. In reaction, the U.S. dollar/Chinese yuan exchange rate fell to the upper-CNY 6.72 level. On January 13, the U.S. dollar/Chinese yuan exchange market closed at the CNY 6.70 level.

On January 16, the U.S. dollar/Chinese yuan exchange market opened at the mid-CNY 6.69 level. After the appreciation of the Chinese yuan seen in the previous week, the trend in the market became inverted, and the U.S. dollar/Chinese yuan exchange rate remained stable. Toward the first half of the week, the U.S. dollar/Chinese yuan exchange rate rose to the mid-CNY 6.78 level, following a rise in U.S. dollar interest rates. Then, on January 17, the major statistics of China were released with figures above the estimated levels. However, the impact of this on the foreign exchange market was minimal. On January 18, the U.S. dollar/Japanese yen exchange rate, which had been rising, started to fall after the monetary policy meeting at the Bank of Japan. Following this deprecation of the U.S. dollar, the U.S. dollar/Chinese yuan exchange rate also fell to the CNY 6.74 level. However, the U.S. dollar/Chinese yuan exchange rate rose again to approach the CNY 6.78 level on January 19.

After the Chinese New Year holidays, the U.S. dollar/Chinese yuan exchange market opened on January 30 with a stronger Chinese yuan than the closing rate of the previous business day, and as of this writing, the U.S. dollar/Chinese yuan pair has been trading at the CNY 6.75 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain low in February.

In the U.S., the pace of interest rate hikes is expected to either slow down or be discontinued in the times ahead. The FRB is therefore likely to take a dovish attitude, and the U.S. dollar is most likely to depreciate. This has already been reflected in the foreign exchange market to some extent, and market participants should be careful about the risk of the inflation rate remaining high. However, the above conditions are expected to keep the U.S. dollar/Chinese yuan exchange rate from rising further.

On the other hand, the number of Covid-19 cases in China has peaked out, fueling expectations for the opening of national borders and the recovery of the domestic economy. On the one hand, once the national borders are opened, demand for overseas tourism is expected to grow, leading to an increase in the deficit in the services sector. Furthermore, economic stimulus measures to be taken mainly in the real estate industry and the ban on Chinese semiconductor chips by the U.S. are likely to weaken the Chinese yuan. On the other hand, market participants are expected to continue buying the Chinese yuan for a while with expectations for an increase in domestic demand and economic recovery in China based on the returning movement of people and goods. Indeed, at the beginning of the year, capital inflow into the Chinese stock market from foreign investors recorded a rapid increase compared to the past several years. It is also worth noting that there are concerns over inflation based on economic recovery, making it difficult for the monetary authorities to take vigorous measures of monetary easing, such as a base interest rate cut.

In the U.S. dollar/Chinese yuan exchange market, the rapid depreciation of the Chinese yuan, which was seen since the beginning of the year, was somewhat corrected. However, from a medium- to long-term perspective, the U.S. dollar/Chinese yuan exchange rate is expected to stop rising, as market participants expect economic recovery in China, while the FRB's policy interest rate is likely to peak out soon.

Hayaki Narita, Asia & Oceania Treasury Department

Singapore Dollar – February 2023

Expected Ranges **Against the US$: SG$ 1.2990–1.3970**
Against the yen: JPY 90.20–102.38

1. Review of the Previous Month

In January 2023, the Singapore dollar appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the SGD 1.34 level. On January 9, Asian currencies strengthened, as entry restrictions to China had been relaxed during the previous weekend. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.32 level. The media reported that the Chinese government was considering taking further expansionary fiscal measures to support China's economy, and this was also a positive factor for the Chinese yuan.

On January 10, the appreciation of the Chinese yuan slowed down. As there were no new factors in the market, Asian currencies did not move in the same direction. The U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at the upper-SGD 1.32 level. On the same day, local time, Federal Reserve Board (FRB) Chair Jerome Powell gave a speech. However, there was no new information in the speech, with little impact on the foreign exchange market.

On January 13, the U.S. dollar/Singapore dollar exchange rate fell. On the previous day, the December Consumer Price Index (CPI) of the U.S. was announced, revealing a slowdown. As a result, concerns over hawkish moves by the FRB were mitigated. Interest rates in the U.S. fell, following which the U.S. dollar depreciated as well. Thus, the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.32 level. In the following week, the Singapore dollar continued slowly appreciating against the U.S. dollar on January 16. While the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.7 level for the first time since July 2022, the Singapore dollar followed the Chinese yuan and appreciated. Consequently, the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.31 level.

On January 17, the Singapore dollar weakened. Then, in waiting for a decision by the Bank of Japan that was to be made on the following day, market participants dominantly bought the U.S. dollar with caution regarding new factors that could arise in the market. As a result, the U.S. dollar/Singapore dollar exchange rate returned to the mid-SGD 1.32 level. On January 18, the Bank of Japan held a monetary policy meeting, attracting substantial attention in the market, and the existing monetary policy was maintained. This weakened the uncertainty in the market. As the result, Singapore dollar appreciated, and the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.31 level. Then, on January 19, Asian currencies weakened, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.32 level again. Market participants continued buying the U.S. dollar because of a hawkish remark made by an FRB official on the previous day, local time.

On January 20 and thereafter, the U.S. dollar/Singapore dollar exchange rate continued falling slowly toward the end of the month. Even though there were few market transactions in Asian currencies because of the Chinese New Year holidays, risk-taking sentiment grew in the market, as some FRB officials had supported an interest rate hike of 25 basis points at the Federal Open Market Committee (FOMC) meeting held in February. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.31 level. As stock markets

remained strong, Asian currencies generally strengthened, and, as of January 30, the U.S. dollar/Singapore dollar pair was trading at the SGD 1.31 level.

2. Outlook for This Month

The Singapore dollar is forecast to continue appreciating against the U.S. dollar in February 2023.

In January, the Singapore dollar remained generally on an uptrend. As was mentioned in last month's report, the current historic appreciation of the Singapore dollar is considered to be a result of the depreciation of the U.S. dollar. The Singapore dollar started appreciating exactly after the Monetary Authority of Singapore (MAS) meeting held in October 2022. Thus, it looks as if the monetary policy worked well to improve the trend of the Singapore dollar exchange market. While this is true to some extent, the main reason for the appreciation of the Singapore dollar is the correction of the excessive appreciation of the U.S. dollar in 2022.

The next MAS meeting is scheduled for April. Given the current appreciation of the Singapore dollar, it is less likely for the MAS to take further measures of monetary tightening. Remaining risks include inflation pressure, of which market participants should remain attentive. In Singapore, the GST was raised in January 2023, and it is likely to be raised again by 1% in 2024. Cost-push inflation pressure is expected to strengthen in the times ahead. Despite such a situation, the MAS took significant measures of monetary tightening ahead of time in 2022. There are thus few possible actions left for the MAS to undertake. For now, it is unlikely for monetary policy to change at the next MAS meeting in April. However, the outlook could have to change depending on the level of inflation pressure.

The Singapore dollar is forecast to remain strong for a while. However, from a medium- to long-term perspective, market participants should be prepared to see both the appreciation and depreciation of the Singapore dollar. During the first half of the year, there were a large number of negative factors for the Singapore dollar, such as an excessive pivot by the FRB, as well as geopolitical risks related to disappointment regarding the Chinese economy, which might not recover as much as expected. Furthermore, there are growing concerns about a global recession starting in the April–June quarter period (when the FRB's policy interest rate has reached the target level). It is thus possible to see the Singapore dollar starting to depreciate.

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

Thai Baht – February 2023

Expected Ranges **Against the US$: THB 31.80–33.80**
Against the yen: JPY 3.85–4.05

1. Review of the Previous Month

In January, the U.S. dollar/Thai baht exchange rate continued falling. In 2023, the U.S. dollar/Thai baht exchange market opened trading at the mid-THB 34 level. Expectations grew for recovery in the number of tourists from China, as entry restrictions to China were relaxed. As a result, the U.S. dollar/Thai baht exchange rate fell rapidly below the THB 34 level. Thereafter, the December Consumer Price Index (CPI) of Thailand turned out to be almost as expected, and thus market participants waited for the announcement of .S. economic indices before taking further actions. Subsequently, the December employment statistics of the U.S. were released showing weak figures thus demonstrating the deterioration of the U.S. economy. In reaction, the U.S. dollar/Thai baht started to trade at the THB 33 level. As interest rates in the U.S. fell as well, the U.S. dollar/Thai baht exchange rate once reached the lower-THB 33 level.

In the middle of the month, the U.S. dollar/Thai baht exchange rate did not fluctuate significantly after the speech by Federal Reserve Board (FRB) Chair Jerome Powell. Thereafter, the December CPI of the U.S. was announced, and the inflation rate turned out to be lower than the previous figure, as had been anticipated in the market. Consequently, market participants expected a slowdown in inflation in the U.S., strengthening Asian currencies against the U.S. dollar. Furthermore, foreign investors started to actively buy Thai bonds with expectations for early economic recovery in Thailand. By the middle of the month, the largest net buy in volume occurred since the outbreak of the Covid-19 pandemic. Under such circumstances, the U.S. dollar/Thai baht exchange rate fell below the THB 33 level. However, on January 18, the Bank of Japan held a monetary policy meeting, and its existing monetary policy was maintained, while current policy measures were applied more widely, which was contrary to what had been anticipated in the market. As a result, the U.S. dollar/Japanese yen exchange rate rose sharply. Following this trend, the U.S. dollar/Thai baht exchange rate rallied to once reach the lower-THB 33 level. Nevertheless, market participants continued expecting the Bank of Japan to modify its monetary policy soon. Thus, once the appreciation of the U.S. dollar/Japanese yen exchange rate slowed down, the U.S. dollar/Thai baht exchange rate started to fluctuate within a narrow range at around the THB 33 level.

At the end of the month, various countries in Asia saw consecutive holidays for the Chinese New Year. With few market participants, there was no significant movement in the U.S. dollar/Thai baht exchange market. On January 25, the central bank of Thailand held a monetary policy committee (MPC) meeting, and the policy interest rate was raised by 25 basis points for the fourth consecutive time, to 1.50%. After the MPC meeting, an official of the central bank of Thailand mentioned the necessity to continue moderately raising the policy interest rate. However, the interest rate hike had generally been anticipated in the market, and thus it had little impact on the market, with no particular surprise. It is also worth noting that the central bank of Canada implied at its regular meeting that it might end policy interest rate hikes at the next meeting. Market participants speculated that this might impact the decisions of the FRB, and this kept the U.S. dollar from appreciating. Thus, the U.S. dollar/Thai baht exchange rate remained stable at the upper-THB 32 level even after the announcement of the GDP of the U.S. for the October-

December quarter period (preliminary figure), which turned out to be higher than the market estimate. In the last week of the month, market participants did not actively take various action, in waiting for the Federal Open Market Committee (FOMC) meeting in the U.S. The U.S. dollar/Thai baht exchange rate thus continued fluctuating within a narrow range at around the upper-THB 32 level.

2. Outlook for This Month

In February, the U.S. dollar/Thai baht exchange rate is forecast to remain low. Since the end of September to the end of October 2022, the U.S. dollar/Thai baht exchange rate was at a recent high, at the lower-THB 38 level. As of the time at which this article is being written, the U.S. dollar/Thai baht exchange rate has already fell by approximately 16% from the recent high. Based on the high and low recorded in 2022, approximately 90% of the rise of the exchange rate seen in 2022 has already been offset. The U.S. dollar/Thai baht exchange rate is thus clearly on a down trend at the moment.

From February, it has become possible for Chinese tourists to visit Thailand in groups, and this is likely to support the recovery of the tourism industry in Thailand. Investor sentiment toward Thailand is thus expected to improve in the times ahead, creating a positive factor for the Thai baht.

Moreover, some central banks started to send signs about ending policy interest rate hikes, such as in the central bank of Canada, which implied an end to policy interest rate hikes at its next monetary policy meeting, as well as the central bank of Korea, which stopped mentioning the necessity of additional policy interest rate hikes, as was mentioned previously, in a statement released after its monetary policy meeting held in January. This situation can be favorable to the currencies of emerging countries from a short-term perspective, as the phrase of global interest rate hikes is coming to an end, even though concerns persist over an economic slowdown due to the rapid monetary tightening that has seen thus far.

However, there are some risk factors. The number of tourists from China might not rally in February as much as expected by the Thai government. It is also possible for the economic indices of the U.S. to remain weak. In such situations, market participants would stop selling the U.S. dollar and would start buying the U.S. dollar at some point, which would encourage market participants to sell the Thai baht to take profit, having seen the fall of the U.S. dollar/Thai baht exchange rate that has continued since November 2022. The U.S. dollar/Thai baht exchange rate is therefore possible to rally for a while.

It is also worth underlining, however, that there are generally more factors that can lead the U.S. dollar/Thai baht exchange rate to fall, such as the domestic inflation rate of Thailand (which seems to have peaked out), the attitude of the central bank of Thailand (which is expected to continue raising its policy interest rate), and Thai baht-buying based on the accelerating recovery of the tourism industry in Thailand. For this reason, the U.S. dollar/Thai baht exchange rate is most likely to remain on a downtrend. Furthermore, if the U.S. dollar/Japanese yen exchange rate falls sharply due to headlines related to the personnel changes of the Bank of Japan in April, the U.S. dollar/Thai baht exchange rate could fall further, as the depreciation of the U.S. dollar would impact the U.S. dollar/Thai baht exchange market as well.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – February 2023

Expected Ranges **Against the US$: MYR 4.22–4.29**
Against the yen: JPY 30.03–30.96

1. Review of the Previous Month

In December, the Malaysian ringgit remained strong against the U.S. dollar. The U.S. dollar/Malaysian ringgit exchange market opened trading on January 1 at the MYR 4.4 level and recorded a fall of approximately 1,500 pips in one month.

In January 2023, the U.S. dollar/Malaysian ringgit exchange rate did not fluctuate significantly at around the MYR 4.4 level at the beginning of the month. On January 6, local time, New York, the December employment statistics of the U.S. were released. While the unemployment ratio and the growth in the number of employees tuned out to be stronger than the market estimate, the average wage declined, which encouraged market participants to sell the U.S. dollar. Furthermore, the December Non-Manufacturing ISM Report On Business of the U.S. was announced on the same day, and the outcome was below the 50 level, which encouraged market participants further to sell the U.S. dollar. Also, in waiting for the announcement of the December Consumer Price index (CPI) of the U.S. on January 12, the U.S. dollar/Malaysian ringgit exchange rate rapidly fell below the MYR 4.4 mark. Thereafter, the December CPI of the U.S. was announced, and the outcome was +6.5% year-on-year, revealing a slowdown in inflation. In reaction, market participants sold the U.S. dollar in an accelerated manner. As a result, on December 13, the following day, the U.S. dollar/Malaysian ringgit exchange rate once fell below the MYR 4.33 level for the first time since April 2022. Then, in Malaysia, industrial production figures were announced on January 11, revealing a growth of +12.1% in the electric and electronic industry. While concerns over a global economic downturn persist, robust domestic economy supported the appreciation of the Malaysian ringgit.

Toward the middle of the month, a series of key domestic economic indices were announced. As the Chinese New Year holidays were to start on January 22, market participants did not conduct active transactions in the market, and thus the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around the MYR 4.32 level. Then, on January 18, the trade statistics of Malaysia were released, revealing strength in annual volume exceeding MYR 1 trillion for the second consecutive year and positive growth of 25%. On the other hand, the December exports turned out to be +6.0% year-on-year, falling below the market estimate. Because exports are a driver of growth for the Malaysian economy, a sense of uncertainty persists about the future outlook of the Malaysian economy. On January 19, the following day, the central bank of Malaysia surprisingly decided to maintain its policy interest rate, while the market estimate was an interest rate hike of 25 basis points, which had been reflected in the market. Immediately after the announcement of this decision, market participants sold the Malaysian ringgit. However, as an interest rate hike for the March meeting was not denied, market participants bought back the Malaysian ringgit. The U.S. dollar/Malaysian ringgit exchange rate thus fell below the MYR 4.3 level.

At the end of the month, there were sporadic holidays related to the Chinese New Year, while market participants were coming back slowly. Under such circumstances, the Malaysian ringgit remained strong. On January 26, the GDP of the U.S. for the October-December quarter period (preliminary figure) was announced, with a stronger-

than-expected figure. The number of unemployment insurance claims also turned out to be strong, confirming the robustness of the U.S. economy and the U.S. labor market. However, this did not encourage market participants to buy the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating. While the appreciation of the U.S. dollar was slow, the Malaysian ringgit started to strengthen. Within three business days after the Chinese New Year holidays, market participants bought the Malaysian ringgit with the exchange rate fluctuating at approximately 400 pips. Monthly trading closed at the mid-MYR 4.2 level.

2. Outlook for This Month

In February, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue following trends in the U.S. dollar market. In November 2022, the U.S. dollar/Malaysian ringgit exchange rate reached the Malaysian ringgit's lowest level since the Asian financial crisis. Since then, the Malaysian ringgit rallied by approximately 5,000 pips in about two and half months, which is an increase of approximately 11% in terms of ratio of appreciation. As a result, the U.S. dollar/Malaysian ringgit exchange rate has almost returned to the level seen when the Federal Reserve Board (FRB) started regularly raising its policy interest rate at the Federal Open Market Committee (FOMC) meeting held in March 2022. Given that the U.S. dollar index is still about 5% higher than the level seen at the time of the FOMC meeting held in March 2022, it can be said that the Malaysian ringgit was particularly strong when the U.S. dollar peaked out. This is mainly thanks to strength in personal consumption in Malaysia after the domestic economy was reopened, as well as due to the Malaysian economy, supported by overseas trade. It is also worth noting that the Malaysian government was more successful in controlling inflation than other major countries, through a strategy to control energy and food prices. Thus, the stabilized price level in the domestic market also supported the economic growth of Malaysia.

On the other hand, there are some concerns regarding a slight slowdown in economic growth in Malaysia, even though the annual figures of major economic indices for 2022 turned out to be strong, and this was a slight surprise in the market. In particular, market participants should remain attentive of the impact of the economic slowdown in China—an important trade partner for Malaysia. It is also worth noting regarding the Chinese economy, however, that China started to work on economic recovery by shifting from a zero-Covid policy which was close to its limit in terms of implementation, and the pessimistic sentiment about the real estate sector has been mitigated, as the Chinese government is actively taking economic support measures. Thus, it is possible for market participants to buy the Malaysian ringgit further in the times ahead with expectations for economic recovery in China. Yet, it is also true that these factors to buy the Malaysian ringgit have already been reflected in the market to a great extent. Thus, there needs to be another factor to encourage market participants to buy the Malaysian ringgit or to weaken the U.S. dollar in order for the Malaysian ringgit to strengthen further, leading the U.S. dollar/Malaysian ringgit exchange rate to reach the MYR 4.1 level. For example, after the announcement of the economic and price indices of the U.S. in February and March, the market could reflect the situation in which the FOMC decides to downscale its policy interest rate hikes in an accelerated manner based on such indices, lowering the expected terminal rate further from 4.9%, announced last month by cutting approximately 10 basis points in one month.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2023

Expected Ranges **Against the US$: IDR 14,700–15,100**
Against the yen: JPY 0.8403–0.8696 (IDR 100)

1. Review of the Previous Month

In January, the Indonesian rupiah appreciated against the U.S. dollar.

The U.S. dollar/Indonesian rupiah exchange market opened on January 2 at the mid-IDR 15,500 level. On the same day, the December Consumer Price Index (CPI) of Indonesia was announced, and the result was +5.51% year-on-year, exceeding the market estimate. However, there was little reaction in the market. Toward the second half of the week, risk-averse sentiment increased in the market due to concerns over an increase in the number of Covid-19 cases in China. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. Then, on January 6, local time, the December employment statistics of the U.S. revealed weak growth in the average wage, while the December Non-Manufacturing ISM Report On Business turned out to be below the 50 mark. In reaction to these weak figures, interest rates in the U.S. fell, and market participants sold the U.S. dollar in an accelerated manner. As a result, on January 9 after the weekend, the Indonesian rupiah strengthened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,500 level. Toward the middle of the week, market participants bought Asian currencies, as China opened its national borders. Following this trend, the Indonesian rupiah appreciated further against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,500 level. On January 12, local time, the December CPI of the U.S. was announced, and the result turned out to be as anticipated in the market. However, interest rates in the U.S. fell, and market participants sold the U.S. dollar thereafter. As a consequence, on January 13, the following day, the Indonesian rupiah appreciated further against the U.S. dollar, and the U.S. dollar/Indonesian rupiah reached the mid-IDR 15,100 level. On the same day, the United States Michigan Consumer Sentiment (preliminary figure) was announced by the University of Michigan, and the result was above the estimated level. However, the inflation outlook next year turned out to be below the expected level, which encouraged market participants to sell the U.S. dollar. As a result, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell below the IDR 15,100 level on January 16 in the following week. The Indonesian rupiah continued appreciating during trading hours in Asia, and the U.S. dollar/Indonesian rupiah exchange rate once fell below the IDR 15,000 level. However, the December trade balance of Indonesia was announced on the same day, and the trade surplus turned out to USD 3.89 billion, falling below USD 4.01 billion—the estimated level. In reaction, market participants sold back the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 15,000 level. Then, on January 17, the 2022 GDP of China was announced, with growth of +3.0%, which is the lowest level since 1976, excluding the growth rate of +2.2% recorded in 2020 during the Covid-19 crisis. Even though this figure slightly exceeded the estimated level, it led the Chinese yuan to depreciate, following which the overall Asian currencies weakened as well. Under such circumstances, the Indonesian rupiah weakened also, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,100 level. Then, on January 19, the central bank of Indonesia decided to raise its policy interest rate by +25 basis points, as had been anticipated in the market. However, the

impact of this on the market was minimal. In a press conference, the governor of the central bank of Indonesia, Perry Warjiyo, shared his view that the current policy interest rate was sufficient to achieve the inflation target, implying the end of a series of policy interest rate hikes that started in August 2022. However, there was limited reaction to this remark in the market. Thus, toward the second half of the week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 15,100 level without moving in any direction. After the consecutive holidays of the Chinese New Year, the U.S. dollar/Indonesian rupiah exchange market opened trading on January 24 at around the IDR 15,000 level with a stronger Indonesian rupiah than the closing rate of the previous week, as the U.S. dollar remained weak. After the market opening, market participants continued selling the U.S. dollar, and the Indonesian rupiah continued strengthening toward market closing. The U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 14,800 level. However, the Indonesian rupiah did not appreciate further from this level and started to depreciate. Toward the second half of the week, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a limited range, at around the IDR 14,900 level. However, toward the end of the month, there was pressure to buy the U.S. dollar and sell the Indonesian rupiah based on actual demand. Thus, the Indonesian rupiah weakened against the U.S. dollar, and monthly trading closed at around the IDR 15,000 level.

2. Outlook for This Month

The Indonesian rupiah is forecast to remain strong in February.

Multiple indices indicate that inflation is slowing down in the U.S. There are also some figures that indicate a slowdown of the U.S. economy. Under such circumstances, market participants are expected to continue selling the U.S. dollar in February. It is also worth noting that the central bank of Indonesia decided to raise its policy interest rate by +25 bps at a January meeting; however, they implied that policy interest rate hikes would end soon, possibly at the monetary policy meeting to be held this month or thereafter, by stating that the existing policy interest rate (with a seven-day reverse repo rate at 5.75%) was sufficient to keep the inflation rate for 2023 within the targeted range. Given that some market participants expected the terminal rate to be 6.0%, the implication for the end of policy interest rate hikes at 5.75% can be seen as a factor to weaken the Indonesian rupiah. However, reaction in the market was limited. This is likely to be a result of the fact that market participants focused more on the healthy domestic economy of Indonesia. Because the central bank of Indonesia also forecasts the domestic economy to remain strong in 2023, the Indonesian rupiah is likely to remain as well.

On the other hand, the December trade balance of Indonesia revealed a trade surplus below the expected level, even though it did not turn out to be a deficit. The year-on-year growth in exports is also on a decline. This can be partly explained by the fact that coal prices have been falling. While concerns are growing over a global economic downturn, if coal prices continue to fall, it would be a negative factor for Indonesia, which has benefited from a trade surplus based on rising coal prices since the beginning of 2022. Furthermore, a presidential election is scheduled for February 2024. As decisions on policy measures largely depend on the result of the election, market participants would find it difficult to make large-scale investment. From a short-term point of view, the Indonesian rupiah is expected to remain strong based on the current strong domestic economy; however there are also concerns over a declining trade surplus and a slowdown of the domestic economy toward the second half of the year. Market participants should therefore be cautious about risks of depreciation of the Indonesian rupiah from a medium-term perspective.

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

Philippine Peso – February 2023

Expected Ranges **Against the US$: PHP 53.00–56.00**
Against the yen: PHP 0.40–0.44

1. Review of the Previous Month

At the beginning of the month, the Philippine peso depreciated against the U.S. dollar, as market sentiment deteriorated based on concerns over an economic slowdown in the U.S., while there was an outflow of foreign investor capital from the Philippine stock market. Thus, the U.S. dollar/Philippine peso exchange rate once reached the PHP 56 level. However, the December Consumer Price Index (CPI) of the Philippines turned out to be below the market estimate, and the November unemployment ratio of the Philippines fell to its lowest level in approximately 17 years. As a result, the Philippine peso rallied and remained strong thereafter. In addition, U.S. economic indices indicated a decline in business confidence as well as a slowdown in inflation, and this led market participants to expect a slowdown in policy interest rates hikes in the U.S. The U.S. dollar thus weakened in the overall foreign exchange market. As the November trade deficit of the Philippines also turned out to be below the market estimate, the Philippine peso appreciated against the U.S. dollar to the PHP 54 level. Thus, the Philippine peso appreciated significantly against the U.S. dollar at the beginning of January.

Having seen a slowdown in policy interest rate hikes in the U.S., Secretary of Finance of the Philippines Benjamin Diokno shared his view that the central bank of the Philippines would also be able to slow down policy interest rate hikes. Also, as the Philippine peso had appreciated rather excessively, the appreciation of the Philippine peso slowed down for a moment. Thereafter, the governor of the central bank of the Philippines, Felipe Medalla, implied an end to policy interest rate hikes before the end of the year. In reaction, the Philippine peso depreciated sharply against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate once reached the mid-PHP 55 level. However, the December CPI of the U.S. revealed a slowdown in inflation, leading market participants to expect the policy interest rate hikes in the U.S. to slow down further. Thus, the U.S. dollar weakened in the overall foreign exchange market, and the U.S. dollar/Philippine peso exchange rate recovered to the PHP 54 level. Thereafter, market sentiment improved, thanks to expectations for a slowdown in inflation worldwide, as well as optimistic views about the economic recovery in China. In reaction, Asian currencies strengthened. However, crude oil prices remained on an uptrend, and the WTI crude oil price exceeded the USD 81 level. As a consequence, concerns grew over the deterioration of the current account balance of the Philippines. Furthermore, the governor of the central bank of the Philippines, Felipe Medalla, made a remark to point out that the excessive appreciation of the Philippine peso would negatively impact the Philippine economy. There were thus both positive and negative factors in the market. Under such circumstances, the U.S. dollar/Philippine peso exchange rate continued fluctuating in both directions at the upper-PHP 54 level.

At the end of the month, officials of the U.S. monetary authorities made remarks to support the downscaling of policy interest rate hikes in the U.S. and to suggest that soft-landing would still be possible. Thus, concerns over an economic downturn were mitigated, and market sentiment improved. Consequently, the overall Asian currencies strengthened. Furthermore, the GDP of the Philippines for the October-December quarter period in 2022 turned out to be +7.2% year-on-year, which was above +6.6%, the market estimate, even though this is a slight slowdown from

the +7.6% recorded in the July-September quarter period. Moreover, the annual growth rate of 2002 turned out to be +7.6%, above +7.4%—the market estimate. As a result, the Philippine peso strengthened against the U.S. dollar to its highest rate in approximately seven months since June 2022. The Philippine peso has thus remained on an uptrend since November 2022, even though the appreciation of the Philippine peso was corrected once at the end of 2022 and at the beginning of 2023.

2. Outlook for This Month

The minutes of the Federal Open Market Committee (FOMC) meeting held in December gave warning such that market participants would not expect measures of monetary easing. Furthermore, the FOMC maintained the view that a restrictive interest rate would be appropriate for a while, in order to keep the inflation rate at +2%. The inflation rate in the U.S. is likely to peak out soon, showing signs of a slowdown. However, officials from U.S. monetary authorities have repeated that the inflation rate is still high, and therefore the policy interest rate will be raised and kept at a higher level for a while, even if the pace of policy interest rate hikes is dropped. Inflation has slowed down, which has led to an optimistic sentiment in the market. Thus, from a short-term point of view, it is possible for the U.S. dollar to depreciate further, offsetting the appreciation that has been observed since 2022. However, given the plan to continue raising the policy interest rate and to keep it high for a while to control inflation, the U.S. dollar is expected to appreciate slowly, while market participants correct their expectations for early policy interest rate cuts in the second half of this year—which has already been reflected in the market.

The central bank of the Philippines has also slowed down policy interest rate hikes and hinted at the end of policy interest rate hikes in the January-March period, expecting policy interest rate hikes to slow down in the U.S. and the inflation of the Philippines to peak out soon. As is the case with the slowdown of policy interest rate hikes in the U.S. that weakened upward pressure on the U.S. dollar, such decisions by the central bank of the Philippines are likely to weaken support for the Philippine peso. Therefore, it is unlikely for the Philippine peso to start appreciating against the U.S. dollar based on differences in monetary policy between the U.S. and the Philippines. Moreover, the governor of the central bank of the Philippines, Felipe Medalla, has expressed his concern that the excessive appreciation of the Philippine peso might negatively impact the Philippine economy. In addition, the trade deficit of the Philippines also remains high, even though it's showing signs of decrease, while there are other factors that can weaken the Philippine peso, such as the acceleration of inflation after the end of the zero-Covid policy in China, as such could oblige major central banks in the world to continue raising policy interest rates for a longer period, along with concerns over an economic slowdown.

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

Indian Rupee – February 2023

Expected Ranges **Against the US$: INR 80.00–83.50**
Against the yen: JPY 1.53–1.64

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate fell in January.

In 2023, the U.S. dollar/Indian rupee exchange market opened trading at INR 82.68. On January 3, the U.S. dollar/Indian rupee exchange rate rose and reached INR 82.945—the monthly high. However, before reaching INR 83.00, the U.S. dollar/Indian rupee exchange rate was lowered by U.S. dollar-selling interventions by the central bank of India. Furthermore, crude oil prices recorded their lowest levels in two weeks, while the minister of finance of China mentioned a fiscal expansion, which both turned out to be a positive factor for the Indian rupee. At the end of the first week of January, the U.S. dollar/Indian rupee exchange rate fell below the INR 82.50 level.

In the second week of the month, the U.S. dollar weakened in the overall foreign exchange market, as the U.S. economic indices released during the nighttime of Friday in the previous week revealed a sharper slowdown in wage growth, leading market participants to lose expectations for inflation and to anticipate the next policy interest rate hike to be 25 basis points. On January 10, the U.S. dollar depreciated, led by the NDF market, and the U.S. dollar/Indian rupee exchange rate fell below the INR 82.00 level. Some market participants sold the U.S. dollar further to avoid further losses, and the U.S. dollar/Indian rupee exchange rate fell sharply to the lower-INR 81 level.

In the third week of the month, the U.S. dollar/Indian rupee exchange rate steadily rose to INR 81.83, as market participants were aware of U.S. dollar-buying market interventions by the central bank of India. However, the December retail sales of the U.S. turned out to be weak, recording the lowest level in a year. In reaction, the U.S. dollar depreciated, and the U.S. dollar/Indian rupee exchange rate fell to the INR 81.20 level.

At the beginning of the fourth week of the month, the U.S. dollar/Indian rupee exchange rate fell below the INR 81.00 mark and reached INR 80.86—the monthly low—in reaction to weak figures in the U.S. economic indices. As was the case in the previous week, market participants speculated that the central bank of India was intervening in the market by buying the U.S. dollar, and this led the U.S. dollar/Indian rupee exchange rate to soon return to INR 81.00. Thereafter, the media reported that a local petroleum oil company was buying a large volume of U.S. dollars, and this led the U.S. dollar/Indian rupee exchange rate to rise further. There was also a report that foreign investors were buying the Indian rupee for a capital increase through a public offering of a major domestic infrastructure company. Thus, the U.S. dollar/Indian rupee exchange rate fluctuated at the upper-INR 81 level. As of January 30, on which this report is being written, the U.S. dollar/Indian rupee pair has been trading at INR 81.50.

2. Outlook for This Month

In February, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate without moving in any direction.

Since November 2022, the U.S. dollar has peaked out in the foreign exchange market based on the slowdown in policy interest rate hikes in the U.S. According to the U.S. dollar index, which is an index to show the movement of the U.S. dollar exchange rate against a group of major currencies, the U.S. dollar has depreciated by approximately 10% since the highest rate recorded in November. As a result, Asian currencies strengthened during the same period. According to the Asian currency index, which is an index to show the movement of Asian currency exchange rates against the U.S. dollar, Asian currencies appreciated by 7% since November. While the average Asian currency appreciated against the U.S. dollar by 7%, the Indian rupee appreciated against the U.S. dollar only by 1.5%. Thus, in the past three month, the Indian rupee clearly underperformed compared to other Asian currencies.

While there is no large movement in the U.S. dollar market, the Indian rupee has been weaker against the U.S. dollar compared to other Asian currencies. This means that there are specific factors in India to weaken the Indian rupee. However, it is also important to observe market interventions.

The foreign currency reserves in India amounted to USD 642 billion in September 2021, while they decreased by approximately USD 120 billion to USD 565 billion in October 2022. This is due to the fact that, in order to slow down the sharp depreciation of the Indian rupee, the central bank of India intervened in the foreign exchange market by selling the U.S. dollar and buying the Indian rupee by using foreign currency reserves. This trend changed in November 2022, and foreign currency reserves in India rallied from USD 565 billion to USD 574 billion—the highest level in half a year—by January 26 this year. This means that the central bank of India intervened in the market by selling the Indian rupee, and this weakened the performance of the Indian rupee among the better-performing other Asian currencies. On the other hand, as was mentioned in the review section of the report in January, the central bank of India sill intervenes in the market by selling the U.S. dollar when the U.S. dollar/Indian rupee exchange rate approaches the INR 83 level. Thus, when the exchange rate starts to fall, the central bank intervenes in the market by buying the US. dollar, while, when the exchange rate starts to rise, the central bank intervenes in the market by selling the U.S. dollar.

In February, there are a series of important events, including the announcement of the federal union budget of India, a Federal Open Market Committee (FOMC) meeting in the U.S., and a monetary policy committee meeting at the central bank of India. The U.S. dollar/Indian rupee exchange rate could fluctuate depending on the outcome of these events. However, if the central bank of India continues to intervene in the market both upward and downward, the U.S. dollar/Indian rupee exchange rate is likely to continue fluctuating within a limited range in the end.

This report was prepared based on economic data as of January 31, 2023.
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