Mizuho Dealer's Eye

March 2023

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – March 2023

Expected Ranges **Against the yen: JPY132.00–142.00**

1. Review of the Previous Month

The dollar/yen pair opened February trading at the lower-130 yen mark. It fell to the lower-128 yen level early February on dovish comments by FRB chair Jerome Powell, though it then rose to the lower-136 yen range on the firm movements of US economic indicators and the submission of proposals for the next Bank of Japan (BOJ) governor.

The pair opened the month trading at 130.12 yen. The FOMC implemented a +25bp rate hike on February 1, but the pair slid to the 128 yen range when FRB chair Jerome Powell commented that the disinflation process had begun. The pair then fell to the lower-128 mark on February 2. It climbed to the 131 yen range on February 3 on the firm results of the US January employment data and the January Non-Manufacturing ISM Report on Business.

In the second week, the pair rose to the upper-132 yen level during overseas trading time on February 6 when the yen was sold on reports that the Japanese government was sounding out Masayoshi Amamiya as the next BOJ governor. On February 7, the pair plunged to the mid-130 yen mark for a time as US interest rates fell when FRB chair Jerome Powell's comments were not as hawkish as feared. The pair was swayed by reports about the next BOJ governor on February 9, though it returned to the mid-131 yen mark as US interest rates rose on a sluggish auction of US treasuries. The yen was bought on February 10 on reports that Kazuo Ueda rather than Masayoshi Amamiya would be appointed as the next BOJ governor, so the currency pair tumbled to 129.80 yen, though it then bounced back to the mid-131 yen level as Mr. Ueda said the BOJ would need to continue monetary easing for the time being.

In the third week, the pair climbed to the upper-132 yen mark on February 13 as expectations declined for an early tweaking of policy under the new BOJ structure. The pair then rose to the lower-133 yen range on February 14 as US interest rates climbed on speculation that the FRB would hike rates for a prolonged period after the US January consumer price index (CPI) topped expectations. On February 15, the pair strengthened to the lower-134 yen mark on the better-than-expected results of the US January retail sales data and the February NY FRB Manufacturing Index. The pair then climbed to the mid-134 yen level on February 16 after the US January Producer Price Index (PPI) data topped expectations and an FRB official made some hawkish comments. This trend continued on February 17, with the pair rising to 135.12 yen, though it moved sluggishly thereafter.

In the fourth week, the pair moved in the lower-134 range during a US holiday on February 20. It then climbed to the lower-135 yen level on February 21 on the better-than-expected results of the preliminary US January Manufacturing and Services PMIs. As US interest rates fell over February 22, the pair dropped below 135 yen, though it bounced back after the minutes to the February FOMC meeting suggested the FRB remained in hawkish mode. The pair hit 135 yen for a time on February 23 after the US new applications for unemployment insurance data pointed to tight labor market conditions. On February 24, Kazuo Ueda said he supported monetary easing during an interview to sound out his opinions as the potential next BOJ governor. With the greenback also bought after the US January Personal Consumption Expenditure (PCE) deflator swung higher than expected, the currency pair rose to the mid-136 yen level.

The fifth week saw the pair floating around the lower-136 yen mark on February 27. The pair was also pulled higher by the cross yen on February 28 to hit a new high of 136.92 yen. However, the pair then fell to around 136 yen to close the month at 136.23 yen after the US February Conference Board Consumer Confidence Index deteriorated by more than expected.

2. Outlook for This Month

The trend of dollar bullishness and yen bearishness will continue in March.

After bottoming out at 127.22 yen on January 16, the pair began rising to hit its highest level in around two months. US economic and inflation indicators beat market expectations last month. As such, market expectations for FRB tightening have risen again, with investors pricing in total rate hikes of +75bp at the three FOMC meetings from March onwards. The markets are also factoring in a higher terminal rate for the federal funds rate. Furthermore, though investors had priced in rate cuts in 2023, these expectations have also dropped off. In Japan, meanwhile, expectations of an early policy shift have declined following hearings to sound out the opinions of candidates for the top BOJ positions. The current BOJ administration will meet for the last time to set policy over March 9–10. Given the responses by BOJ deputy governor Masayoshi Amamiya to questions from the Diet last month, it seems the BOJ will stick to the status quo this month. As such, the yen will probably be sold and the dollar bought on the divergent monetary policies of the US and Japan, just like last year.

Attention will also focus on comments by FRB officials and US economic indicators. With US economic indicators moving firmly, FRB hawkishness seems nailed on, but investors should still pay attention to comments about the pace of rate hikes or the terminal rate. The markets are expecting a +25bp rate hike at the March FOMC meeting, but speculation is also growing about a +50bp hike. The terminal rate might also be upgraded on the FOMC's December dot chart, with appetite for dollar buying likely to grow on comments by officials. US economic indicators are also likely to remain firm in February and this will probably push the dollar/yen pair higher. However, Japan's trade balance is improving and speculators are also scaling back their yen short positions, so the pair is unlikely to soar as high as it did last year, with this rise likely to be a gentle one overall.

Some FRB officials have suggested the unexpectedly-strong US employment data and retail sales data in January might be due to seasonal factors, though. If the US does release some sluggish economic indicators for February, the dollar could be sold sharply on a sense that the recent bullishness of indicators was indeed due to transitory seasonal factors, so market participants should be wary of downside risk.

Dealers' Market Forecast

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

Bullish on the dollar	11 bulls	140.50 – 133.00	Bearish on the dollar	8 bears	138.50 – 130.00

* Ranges are central values

Kawai	Bull	141.50 – 132.00	Though expectations for an early shift in BOJ policy have waned on comments by the prospective next BOJ governors, expectations are growing for prolonged FRB rate hikes, so the dollar/yen pair will probably move firmly in the short term on the divergent monetary policies of the US and Japan.
Miyachi	Bull	141.00 – 133.50	With investors focusing on ongoing inflation in the US, the dollar has bounced back. The markets are also pricing in factors related to the next BOJ governor, so the dollar/yen pair will probably be bought in the short term.
Tsutsui	Bear	139.00 – 130.00	The markets are essentially expecting the federal funds rate to be lifted to the mid-5% range. A lot will depend on inflation indicators, but US interest rates are unlikely to shift much if inflation moves flatly or rises slightly, with the dollar likely to slide in currency markets. Investors will also focus on the fall in imputed rents.
Kato	Bear	139.00 – 133.00	In interviews with candidates for the BOJ governorship, Kazuo Ueda answered a question by Upper House secretary general Hiroshige Seko by saying that the merits of large-scale monetary easing outweighed the downsides, though he was probably responding to concerns from the reflationary faction. He probably knows the BOJ will need to steer policy while monitoring the actual merits and demerits.
Yamazaki	Bull	139.50 – 133.00	The BOJ meeting in March will probably pass by smoothly, with the BOJ likely to maintain the status quo for the time being. With the US economy moving firmly, the dollar/yen pair looks set to remain bullish in March. Investors should pay attention to US economic indicators and headlines related to the BOJ.
Ito	Bull	141.00 – 131.00	The markets have factored in long-term tightening by the FRB given the recent bullishness of US economic indicators. US interest rates could rise further depending on the results of indicators going forward, so the dollar might remain strong from here on. Expectations for a BOJ policy shift are receding and Japan still has a large trade deficit, so investors will find it hard to actively buy the yen.
Yamagishi	Bull	139.00 – 133.00	The US has posted several firm economic indicators, with the economy moving bullishly and the labor market tight, with the FRB concerned about inflation. The FOMC still has room to lift rates at the next three FOMC meetings, with the dollar likely to be bought on a continuation of "higher and longer" rate hikes. With Japan's trade deficit also at record highs, the yen will probably be sold on the supply and demand front.
Omi	Bull	138.00 – 133.00	The dollar will be bought as investors factor in prolonged rate hikes in the US, with the dollar/yen pair also likely to remain firm on ongoing easing by the BOJ. However, though US economic indicators are moving strongly at present, dollar buying could ease if these indicators deteriorate.
Ueno	Bear	138.00 – 130.00	Though the CPI figure and other US inflation indicators had fallen, they recently swung higher than market expectations, with the greenback bought as a result. However, it seems unlikely that the FRB will shift policy when it meets this month. The dollar/yen pair's February gains will probably be pared back in March.
Kai	Bear	137.50 – 134.50	Investors will continue to buy the dollar at the start of March on firm US indicators. Expectations for rate cuts within the year have waned, but more time and data will be needed before the markets price in further rate hikes. BOJ governor Haruhiko Kuroda could spring a surprise at his last meeting, while hawkish expectations could wane in the March dot chart, so caution will be needed.
Matsunaga	Bear	138.50 – 132.50	The markets are expecting rates to be hiked to the mid-5% mark on firm US economic indicators. Funds are currently flowing out of risk assets, so the FRB is unlikely to continue making hawkish comments. The dollar could be sold on adjustments in the wake of the FOMC meeting.

Onozaki	Bear	138.00 – 130.00	The dollar has been bought on growing expectations for ongoing FRB rate hikes after the release of several bullish US economic indicators in February. Though investors are anticipating more rate hikes in the months ahead, they should remain on guard against the possibility of an FRB policy shift.
Harada	Bear	140.00 – 129.00	In February, the dollar/yen pair bounced back as investors priced in rate hikes and US employment moved stronger than expected. However, non-employment economic indicators remain bearish, will the FRB likely to take a prudent stance towards rate hikes going forward. The dollar/yen pair's topside looks set to grow heavier this month.
Katoono	Bear	138.50 – 129.00	The terminal rate is being upgraded in the face of persistently-high US inflation, but dollar buying will be capped as long as investors expect rate hikes to be halted this year. The market will probably move cooly with an eye on the direction of problems related the debt ceiling and disparities.
Kobayashi	Bull	140.50 – 131.00	The dollar will be bought again on expectations that for prolonged rate hikes in the US on the strong results of economic indicators. At the same time, concerns about a sharp shift in BOJ policy have essentially been wiped away, with the dollar/yen pair like to move firmly again on the divergent monetary policies of the US and Japan.
Henmi	Bull	141.00 – 132.00	The round of yen buying on expectations for BOJ tightening has ended, while expectations for early US rate cuts have waned. US interest rates still have room to rise on the results of economic indicators and there is also speculation that the FRB might shift in a hawkish direction, so the dollar/yen pair looks set to move firmly.
Suzuki	Bull	140.50 – 133.50	The dollar will remain strong on persistent inflation and healthy employment conditions. Speculation about the next BOJ governor and BOJ policy shifts have also waned and this will probably support the dollar/yen pair.
Kimura	Bull	140.00 – 134.00	It seems Kazuo Ueda, candidate for the next BOJ governor, is examining an exit from monetary easing. This 'different dimension of monetary easing' has lasted a while and it will take time to wind it down, with the BOJ likely to remain cautious in March. The dollar/yen pair will continue to move firmly on dollar buying.
Okuma	Bull	140.00 – 133.00	Expectations are growing for prolonged US rates hike on the recent bullishness of US indicators, with investors expecting the terminal rate to be revised upwards. With BOJ tightening also expected to occur at a gentle place, the dollar/yen pair is expected to continue moving firmly.

Takuyoshi Ito, Forex Sales, Global Markets Sales Department

Euro – March 2023

Expected Ranges **Against the US$: US$1.0300–1.0900**
Against the yen: JPY138.00–147.00

1. Review of the Previous Month

The euro/dollar pair moved bearishly last month as the dollar was bought back.

At the start of the month, the pair soared to the $1.10 range for the first time since April 2022 as US interest rates fell in the wake of FRB chair Jerome Powell's press conference after the FOMC meeting. The ECB Governing Council then implemented a +50bp rate hike, but investors focused on comments by ECB president Christine Lagarde about slowing inflation. With German interest rates also falling, the pair temporarily dropped below $1.09. The US January employment data and January Non-Manufacturing ISM Report on Business were released at the weekend, with both indicators topping expectations. The greenback was bought as a result, with the euro/dollar pair falling below $1.08. The dollar was bought back further on firm US indicators, with the currency pair's topside edging lower. However, the pair's downside moved firmly as investors slipped into wait-and-see mode ahead of the February 14 release of the US January CPI data. The pair continued moving in lockstep with US interest rates. It touched a weekly high of $1.0805 after the release of the US January CPI data, though its momentum soon slowed as US interest rates rose on speculation about prolonged FRB rate hikes. The pair retained its firmness when US interest rates fell, but the greenback was bought as US interest rates rose on a series of bullish US economic indicators and hawkish comments by FRB officials, so the pair weakened to the $1.06 range. FRB chair Jerome Powell had mentioned disinflation in his press conference after the February FOMC meeting, so the meeting was read as dovish, but when the minutes to the meeting were released, they revealed that several members had voiced support for a 50bp rate hike. The slightly-surprising minutes reconfirmed the FRB's ongoing hawkishness, so the dollar was bought and the currency pair dropped to the $1.05 range for the first time since January 6. With the European CPI data also remaining high, it seemed that ECB would continue to hike rates, though the markets focused more on US monetary policy. The greenback was bought on February 24 after the US January Personal Consumption Expenditure (PCE) deflator swung sharply above expectations, with the euro/dollar pair temporarily hitting a weekly low of $1.0536. US interest rates fell slightly and German interest rates rose on February 27, so the pair bounced back to the $1.06 range. European currencies were also bought back on reports that an agreement about Northern Ireland had been reached in the long-running Brexit saga.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside this month.

The pair has been supported by FRB dovishness and ECB hawkishness, but the greenback was bought back on the strong results of US indicators last month. The pair's movements will continue to be swayed by dollar strength and weakness. The firmness of the US economy will feed into the prolongation of restrictive policies, with US interest rates likely to face upwards pressure, so the euro/dollar pair will probably move with a heavy topside on the whole. Though the FOMC only lifted rates by +25bp when it met in February, some investors are pricing in a +50bp hike at the next meeting on buoyant economic conditions in the US. If the US continues to release strong economic indicators, dollar buy-backs look set to continue.

On the other hand, the ECB has implemented a +50bp rate hike at two straight meetings, with the deposit facility rate raised from 2.00% to 2.50%.The eurozone's headline Harmonized Index of Consumer Prices (HICP) indicator continues to slow, but the core figure remains high, so it will be no great shock if the ECB hikes rates by +50bp at this month's meeting too. Many investors expect the terminal rate to hit 3.50% and the terminal rate to be reached over the next five meetings. However, the markets have already priced in rate hikes at subsequent meetings (3.75%), so the euro/dollar pair is unlikely to rise further. Nonetheless, ECB officials continue to make hawkish comments on the improved outlook for economic activity and the firmness of the labor market, so it still seems likely the terminal rate will be revised upwards or the timing of the terminal rate pushed back. From here on, inflation will probably slow on falling energy prices, but the ECB might remain in hawkish mode on deep-rooted inflationary pressures. With FRB monetary policy also likely to shift in a hawkish direction, the market focus could shift abruptly to the possibility of an economic slowdown on tightening. The currency pair's topside will probably be held down as the cross yen is also impacted by stock bearishness due to tightening.

This month will see the implementation of the quantitative tightening (QT) package agreed at the December ECB meeting. Though assets will be scaled back by 15 billion euros a month, this is unlikely to have a big impact on the markets. At the start of the month, investors should focus on the March 2 release of the preliminary eurozone February HICP figure.

Dealers' Market Forecast

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

Bullish on the euro	15 bulls	1.0900 – 1.0450	Bearish on the euro	4 bears	1.0825 – 1.0300

* Ranges are central values

Kawai	Bull	1.1000 – 1.0400	The euro/dollar pair is undergoing some adjustment on US economic indicators. However, the core eurozone HICP figure remains at record highs, with the ECB concerned about persistent inflation. As such, the pair will probably move firmly as the ECB remains in hawkish mode.
Miyachi	Bull	1.1100 – 1.0450	Though the greenback will be bought back on persistent inflation in the US, the ECB remains in hawkish mode, so the euro/dollar pair's room on the downside will be capped.
Tsutsui	Bear	1.0750 – 1.0250	Investors should monitor weather-related factors when it comes to gauging the direction of the eurozone economic recovery. There has been a pre-emptive surge in demand, so market participants will need to pay close attention to economic indicators going forward, particularly those related to consumer spending. The muted reaction of interest rate markets to hawkish comments by ECB officials also suggests the euro will fall at a faster rate than the dollar.
Kato	Bull	1.0900 – 1.0500	February was a month of adjustment, but the ECB still basically remains fixated on inflation. With indicators showing no signs of cooling, the euro will move firmly again going forward.
Yamazaki	Bull	1.0900 – 1.0400	With the eurozone CPI data continuing to rise, the euro looks set to remain firm. However, the US economy is also bullish and the dollar also quite strong, so the euro/dollar pair's room on the topside will be capped. Investors should also pay attention to the Ukraine issues.
Ito	Bear	1.0900 – 1.0300	The markets have factored in ECB rate hikes. There is more concern that the FOMC might accelerate rate hikes again after slowing them in February. The greenback will probably rise if the US releases some more bullish indicators this month. The currency pair's topside will probably be held down as the cross yen is also impacted by stock bearishness due to tightening.
Yamagishi	Bull	1.0900 – 1.0300	The euro/dollar pair will move firmly on expectations for further ECB rate hikes. The eurozone unemployment rate is quite low and core inflation is rising at a faster pace. The ECB is concerned that the jobs situation could lead to an inflationary spiral as wages and prices are pushed up, so it will probably remain in hawkish mode until wage inflation cools.
Omi	Bull	1.0800 – 1.0300	The euro looks set to remain firm on ongoing ECB rate hikes. However, the greenback will also move firmly as investors price in prolonged US rate hikes, so the euro/dollar pair's level is unlikely to shift much.
Ueno	Bull	1.1000 – 1.0500	The euro/dollar pair has moved bearishly on dollar bullishness. The greenback has been bought on firm CPI and employment data, but with US interest rates quite high, these indicators are unlikely to remain bullish going forward. On the whole, the pair will probably emerge from its downward trend in March.
Kai	Bull	1.0800 – 1.0450	Investors will continue to buy the dollar at the start of March on firm US indicators. Expectations for rate cuts within the year have waned, but more time and data will be needed before the markets price in further rate hikes. The March ECB meeting could lead to a shrinking of US/European interest-rate differentials, while the March dot chart could also lead to a waning of expectations for hawkishness, so caution will be needed.
Matsunaga	Bull	1.1000 – 1.0450	The euro is moving bearishly at present on deteriorating risk sentiments and speculation about long-term FRB rate hikes. The European economy is recovering, though, while inflation remains at highs, so the euro/dollar pair will probably be supported in the medium to long term by expectations for prolonged ECB rate hikes.

Onozaki	Bull	1.1100 – 1.0500	There remain strong concerns about eurozone inflation, with the ECB likely to continue hiking rates. Speculation is also growing about prolonged FRB rate hikes, but the ECB seems more inclined to lift rates, so the euro will probably be bought.
Harada	Bull	1.0900 – 1.0450	There are ongoing concerns about an economic slowdown in the eurozone, but inflationary concerns remain strong, so the ECB is unlikely to shift its stance and the euro will probably move firmly. However, inflation may already have peaked out in the eurozone, so the pair's topside could be capped.
Katoono	Bull	1.0900 – 1.0450	The euro will move bullishly in the short term on deep rooted expectations for large rate hikes by the ECB against the backdrop of high inflation. Though market participants will be looking out for changes in the Ukraine situation toward spring, the euro/dollar pair will probably strengthen again after moving bearishly in February.
Kobayashi	Bear	1.0850 – 1.0300	Though the eurozone economy continues to slow, the FRB is expected to hike rates for a prolonged period on the back of firm economic indicators, so the euro/dollar pair looks set to move bearishly this month. The euro/dollar pair's downside will also be capped by ongoing ECB tightening in the face of historically-high eurozone inflation.
Henmi	Bear	1.0800 – 1.0300	Though the ECB remains in hawkish mode, there is strong speculation that the FRB will grow more hawkish in the face of renewed inflationary concerns in the US, so the euro will probably edge lower against the dollar.
Suzuki	Bull	1.0900 – 1.0400	There remain concerns about an economic slowdown, but the ECB will remain hawkish as it prioritizes the fight against inflation. The euro will continue to move firmly against the dollar.
Kimura	Bull	1.0650 – 1.0500	There remains geopolitical risk related to commodities and the Ukraine situation, but European interest rates are rising in tandem with inflation, so the euro/dollar pair will probably be bought when it hits $1.05. With the pair also swayed by dollar buying at the end of the fiscal year, it is unlikely to make any sharp movements.
Okuma	Bull	1.1000 – 1.0450	ECB president Christine Lagarde has reiterated that the ECB will continue to lift rates, so the euro will be supported by expectations for higher interest rates. It still seems likely that the ECB will hike rates by more than the FRB, with the euro/dollar pair set to move firmly as a result.

Fumihiko Kanda, Europe Treasury Department

British Pound – March 2023

Expected Ranges	**Against the US$: US$1.1750–1.2350**
	Against the yen: JPY158.00–166.00

1. Review of the Previous Month

In February the GBP/USD pair was pushed down by dollar buying.

After opening the month trading at the $1.23 level on February 1, the pair moved cautiously ahead of the FOMC meeting. The results of the FOMC meeting were released during NY trading time, with the currency pair rising after the greenback was sold on the slightly dovish contents. The pair hit a monthly high of $1.2401 on February 2. As expected, the Bank of England (BOE) lifted its policy rate by 0.50% to 4.00%, with UK interest rates then falling. The accompanying statement and BOE Governor Andrew Bailey's press conference were read as dovish, so the pair eventually dropped to the lower-$1.22 mark. The US January employment data and January Non-Manufacturing ISM Report on Business were released on February 3, with both indicators sharply above expectations, so the dollar was bought further and the currency pair weakened to $1.20.

At the start of the next week, the pair dropped below $1.20 on February 7, though it then recovered to the mid-$1.20 mark during NY trading as the dollar was sold after FRB chair Jerome Powell mentioned the disinflation process for the first time. The greenback was sold further on February 9 and the pair rose to the upper-$1.21 level. The closely-watched UK 4Q GDP data was released on the morning of February 10, with GDP moving flatly on the previous quarter. This meant the UK had technically avoided recession. The pound's reaction was muted though and it was not bought substantially. With the USD/JPY pair swayed by reports about the Bank of Japan (BOJ) leadership, the GBP/USD pair hovered around $1.21.

The pair then climbed to $1.22 during the morning of February 14 on the firm results of the UK January employment data. The pair fluctuated sharply when the US January consumer price index (CPI) data turned out much as expected, with the pair hitting the upper-$1.22 mark for the first time in two weeks before converging on $1.21. The UK January CPI figure was released on February 15 and it revealed that inflation had slowed more than expected, so the currency pair dropped below $1.21. The US released some better-than-expected January retail sales data in the afternoon, so the dollar was bought and the pair temporarily dipped to $1.19. The pair opened February 16 trading at the mid-$1.20 level. The greenback was then bought on the higher-than-expected upswing in the US January PPI data. The pair dropped back to the $1.19 range before hitting a monthly low of $1.1915. This trend continued over February 17, with the pair sliding to the lower-$1.19 level, even though the UK released some better-than-expected retail sales data for January.

The UK February composite PMI figure was released on February 21 and it unexpectedly remained above the key 50 level, so the currency pair rallied to $1.21. However, the pair then edged down on selling. With the US then releasing a stronger-than-expected consumer spending indicator on February 24, the dollar was bought and the pair fell to the lower-$1.19 mark again.

At the start of the next week, on February 27, news emerged that UK Prime Minister Rishi Sunak and European Commission President Ursula von der Leyen had reached an agreement on the intractable issue of Northern Ireland's post-Brexit status. Sterling was subsequently bought back and the currency pair rose to $1.20.

2. Outlook for This Month

The GBP/USD pair is expected to move with a heavy topside in March.

The BOE Monetary Policy Committee (MPC) will be meeting on March 23. According to Colin Asher, Senior Economist at Mizuho Bank's London Branch, the MPC will probably implement a 0.25% rate hike. In his press conference after the February meeting, BOE governor Andrew Bailey refused to give a clear answer about why the BOE continued to lift rates despite signs of slowing inflation. Mr. Bailey explained that the BOE had still not seen clear proof that the inflation rate was moving below target and he suggested the BOE would need more evidence that inflation risk was under control. BOE deputy governor Ben Broadbent has stated that a large gap has emerged between the median forecast and the real figure, thus suggesting the BOE is aware of the risk of inflation swinging above the central value of the bank's outlook. This is another reason to expect rate hikes. The interest rate futures market has basically factored in a 0.25% hike based on last month's upswing in the UK February PMI data.

The financial markets are expecting inflation to peak out, but the news in the UK is still dominated by headlines about the soaring cost of living. Some surveys show the retail price of pasta doubling compared to two years earlier. Reports do indeed suggest that the UK CPI figure has slowed since peaking at 11.1% in October, but food prices continue to rise, with food price inflation hitting 16.8% year-on-year in January. With each sector also facing strikes, it seems wages will continue to exert upwards pressure on inflation. The markets still vividly remember how gilts crashed on the economic policies of the previous Truss administration, with the current administration now focused on improving the primary balance. Opinion polls showed 73% of respondents disapproving of Liz Truss just before she stepped down, but a poll at the end of February suggested the situation is not much better for Rishi Sunak, with close to 70% of respondents disapproving of his administration. Household costs will increase sharply in April when the current fuel subsidies are cut (monthly bills also show the amount owed before subsidies are applied, with this writer's electricity bill up more than three times compared to a year ago). Individuals are going to feel the pinch even more from April onwards. Together with the BOE's unimpressive policy rate, this is another reason to expected the GBP/USD pair to trade with a heavy topside in March. On the technical front, the pair has seen strong support at the lower-$1.19 mark (the pair's 200-day line) entering 2023, so investors will be watching to see whether the pair is defended at this line in March too.

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

Australian Dollar – March 2023

Expected Ranges **Against the US$: US$0.6600–0.7000**
Against the yen: JPY89.00–93.40

1. Review of the Previous Month

After hitting a monthly high of $0.7158 on February 2, the AUD/USD pair fell to the upper-$0.66 handle towards the month's end. As expected, the FOMC implemented a +25bp rate hike at the start of the month. Yields on US treasuries fell sharply as investors focused on dovish comments by FRB chair Jerome Powell, with stocks and the US dollar also falling. The currency pair subsequently rose to $0.7145 and this trend continued into February 2, with the pair's topside hitting $0.7158 for the first time in six months. A survey by the US employment firm Challenger revealed that over 102,000 jobs were lost in January on the back of recent large-scale layoffs. This was the largest round of layoffs since 2020, but new applications for unemployment insurance also fell. The greenback was bought on the apparent firmness of the US labor market, with the currency pair falling to $0.7069. On February 3, the pair tumbled to the lower-$0.69 level on the better-than-expected result of the US January employment data.

As expected, the RBA board raised its policy rate by +25bp to 3.35% when it met on February 7 and its statement continued to insist that more rate hikes would be needed over the upcoming months, though the phrase about policy not being on a "pre-set course" was removed. This change was read as hawkish and the Australian dollar rose. The AUD/USD pair then rose to the upper-$0.69 level after FRB chair Jerome Powell stated that inflation would slow sharply in 2023. The pair temporarily fell to $0.6891 on bearish Chinese stock movements on February 13, though it then returned to the upper-$0.69 level for a time.

On February 14, though, the US January consumer price index (CPI) data confirmed that inflationary pressures remained strong, so US interest rates rose and the greenback was bought, with the currency pair falling to $0.6942. In a hearing in the Upper House on February 15, RBA governor Philip Lowe talked about the risk of rate hikes dampening consumer spending by more than expected. He also said there was not much room left for further rate hikes. All this saw the currency pair sliding to $0.6865.

The Australian dollar was supported on February 20 when Shanghai stocks recorded their highest gains since November 2022 on optimism about the Chinese economic recovery. The minutes to the February RBA board meeting were released on February 21 and they revealed a debate had taken place about whether to return to +50bp rate hikes. However, the US then released a firm preliminary PMI for February, so investors tested the AUD/USD pair's downside. An Australian 4Q wages indicator hit a 10-year high on its release on February 22, but this was still below the RBA's forecast and market expectations, so the Australian dollar was sold. The minutes to the February FOMC meeting revealed that almost all members had voted for a +25bp rate hike, though several members had supported a +50bp hike. Furthermore, the minutes contained a comment about how "a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2%," thus suggesting the FOMC would return to a hawkish path if inflation remains high. US stocks fell as a result, with the AUD/USD pair's downside temporarily hitting $0.6795. US interest rates rose on February 24 as it seemed the FRB would face more pressure to lift rates after the US January Personal Consumption Expenditure (PCE) deflator topped expectations. The currency pair subsequently fell to $0.6719 to drop below $0.67

for a time towards the month’s end.

2. Outlook for This Month

The possibility has arisen of the FRB returning to a hawkish trajectory. With Australia also adjusting its monetary policy path, the Australian dollar looks set to move bearishly this month. The markets are currently pricing in a terminal rate of 5.4% for the federal funds rate, with rate hikes to the tune of around +80bp expected within the year. On the other hand, the terminal rate for Australia’s policy rate is expected to hit 4.35%, with investors pricing in rate hikes to the tune of +100bp this year. The RBA board will be meeting on March 7, with the FOMC’s monetary policy announcement set for March 22. Market participants should monitor the results of each indicator until these announcements.

The US new applications for unemployment insurance data and the continuing jobless claims data both fell in February, despite a series of large-scale layoffs, with the firmness of the US labor market also confirmed when the January employment data topped expectations. Furthermore, the US January CPI data confirmed the persistence of inflationary pressures, with the January PPI data also swinging above expectations. With the January PCE deflator also topping expectations, it seems inflation remains deep-rooted in the US. Also, the minutes to the February FOMC meeting revealed that although almost all members had voted for a +25bp rate hike, some members had supported a +50bp hike. The minutes also struck a hawkish tone about the future outlook, with one comment stating that “a restrictive policy stance would need to be maintained until the incoming data provided confidence that inflation was on a sustained downward path to 2%.”

On the other hand, in Australia, the minutes to the RBA board meeting revealed that a debate had taken place about whether to return to +50bp rate hikes, with the minutes also suggesting that inflation was more entrenched than previously thought. With an Australian 4Q wages indicator hitting a 10-year high, it seems inflationary pressures are continuing to smolder away. The Australian January unemployment rate was up +0.2% on the previous month, but the reference period was two weeks at the start of the year, a time when employment is relatively slow, so this figure should be reassessed again once the February employment data is released. Additionally, many homeowners with fixed rate mortgages will see their repayment rates reset at a higher rate in the latter half of 2023. Many households will be faced with unchanging incomes but higher mortgage repayments, so these households will probably rein in spending going forward. Inflationary pressures will probably wane on demand-side weakness, so the authorities will need to avoid any excessive monetary tightening while making allowances for financial restrictions to ensure they do not lead to an economic slowdown.

Recent data suggests the US will move in a more hawkish direction against this backdrop in March, with the Australian dollar set to move bearishly as a result. Incidentally, a glance at the Australian dollar’s seasonality these past five years shows the AUD/USD pair falling toward the end of March (2022 excepted).

Hiroki Kashiwagi, Canada Office, Americas Treasury Department

Canadian Dollar – March 2023

Expected Ranges **Against the US$: C$1.3000–1.3800**
Against the yen: JPY96.00–103.00

1. Review of the Previous Month

In January the USD/CAD pair had trended lower, but the greenback was bought against the Canadian dollar and other major currencies from the start of February on a series of better-than-expected US economic indicators. After opening the month trading at a low of C$1.3264 on February 2, the currency pair rose toward the month's end.

The pair fell below C$1.33 on February 1 for the first time since mid-November. It then fell to C$1.3264 for a time on February 2 as the US dollar was sold when FRB chair Jerome Powell's comments after the FOMC meeting were not as hawkish as expected. On February 3, the US released its January employment data and the January Non-Manufacturing ISM Report on Business. Both indicators were sharply up on expectations, so the currency pair then soared to C$1.3475 as investors focused on the firmness of the US economy.

Market participants also focused on trends related the leadership of the FRB and Bank of Canada (BOC) early February. In a speech on February 7, BOC governor Tiff Macklem said the BOC would halt rate hikes to avoid an excessive economic slowdown, while on February 8 the BOC released the minutes to its meeting for the first time ever. In the US, meanwhile, FRB chair Jerome Powell mentioned signs of disinflation during an interview. This saw the USD/CAD pair tumbling to C$1.3361 on February 8.

The pair strengthened toward mid-February as the US released a series of better-than-expected economic indicators. Canada's January employment data was released on February 10. This was stronger than expected, like the US data, with the unemployment rate also hitting a historically-low 5.0%.The Canadian dollar was subsequently bought for a time and the pair fell to the lower-C$1.33 mark, but the US CPI data was then released on February 14 and if confirmed that inflation remained strong. With the US also releasing some firm January retail sales data on February 15 and a strong January PPI indicator on February 16, the currency pair climbed to C$1.3479.

Interest rates rose towards the month's end as concerns grew that the FRB would continue to hike rates, with the USD/CAD pair rising. Canada's headline CPI figure for January was released on February 21 and it slowed by more than expected. With the US January PMI data (released February 21) and the US January PEC deflator (released February 24) also topping expectations, the currency pair climbed higher.

2. Outlook for This Month

On February 25, the BOC said it would hold off from hiking rates while it monitored the impact of monetary policy to ensure it was not slowing the economy too much. In his press conference on February 1, meanwhile, FRB chair Jerome Powell had explained there would be several more rate hikes to come. Since the US January employment data was released on February 3, the divergent stances of the FRB and BOC towards rate hikes has been reflected in the widening spread on two-year government bond yields.

As for the real economy, recent data about economic trends, inflation and jobs suggest Canada is walking in the same direction as the US. When Canada's January CPI data was released on February 21, it revealed that the headline figure had fallen to +5.9% y-o-y (December: +6.3%), while the core figure had also fallen slightly to +5.0% y-o-y (December: +5.2%). Labor conditions also remain historically tight, with the unemployment rate hitting 5.0% in January (unchanged on December).

If the BOC sticks to its plans to keep rates fixed when it meets on March 8, the focus will shift to FRB monetary policy trends and whether the US economy can avoid a recession and achieve a soft landing, with the USD/CAD pair swayed mainly by US economic indicators and US interest rates. The pair is expected to trade in a range between C$1.3300–C$1.3800 in March.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – March 2023

Expected Ranges	**Against the US$: KRW 1,290–1,360**
	Against the yen: JPY 10.000–10.638 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose sharply in February. The pair opened the month trading at KRW1232.0 on February 1. South Korea's trade balance worsened in January at -$12.69 billion (forecast: -$9.27 billion), but the impact on the currency pair was muted. The greenback was then sold and the pair fell to a monthly low of KRW1216.4 on dovish comments by FRB chair Jerome Powell after the February FOMC meeting. However, the ECB then implemented a +50bp rate hike and it hinted it would also lift rates by +50bp in March, so the pair rose on receding expectations for slower inflation. The US released some very strong employment data during overseas trading time on February 3, so the pair opened the next week trading at KRW1247.5 on February 6. This level saw some real-demand won buying, but overseas investors then sold South Korean stocks after previously betting on expectations for slower inflation, so the pair rose sharply by 35.8 won throughout the week.

The pair continued rising the following week. The US January consumer price index (CPI) data was released on February 14, with CPI up +6.4% y-o-y (forecast: +6.2%). The US January Producer Price Index (PPI) figure was released on February 16 and this also topped expectations at +0.7% m-o-m (forecast: +0.4%). The USD/KRW pair was pushed up sharply by these indicators and it returned to the key KRW1300 mark on February 17, but the authorities then seemed to intervene, with the pair's movements gradually regaining composure. The pair floated around KRW1300 for a while, though it then soared to a monthly high of KRW1326.6 as US interest rates rose sharply after the US released a series of strong economic indicators during overseas trading time on February 24. The pair closed the month at KRW1322.6, up 90.7 won on the end of January.

2. Outlook for This Month

The USD/KRW pair is expected to move with a firm downside in March.

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), the greenback was sold on expectations for slowing inflation seen until January, but this trend has eased, with the currency pair now swinging to and fro on the results of economic indicators. The markets are still expecting the FOMC to implement a +25bp rate hike when it meets in March, but if inflationary indicators continue to rise, this could lead to growing expectations for a +50bp hike, so caution will be needed. Based on accumulated dollar short positions and the FRB's stance, it seems the greenback will remain strong for a time.

With regards to (2), the BOK kept its policy rate at 3.5% when it met on February 23. The outlook for the economy and inflation has not changed since the last meeting, so the BOK is unlikely to lift its policy rate this time. Furthermore, BOK officials have only intervened verbally to say they are monitoring the USD/KRW pair's movements, with the authorities prepared to tolerate won weakness around KRW1300. Under these circumstances, the won will only face limited buying pressure from BOK monetary policy.

The won is also prone to weakening during March and April as these are months when South Korean companies distribute dividends based on results at the end of December (with overseas investors subsequently converting their won dividends into dollars). Overseas investors are also slowing their purchases of South Korean stocks. With South Korea's trade deficit also showing signs of entrenchment, there seems to be a shortage of factors conducive to won buying.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – March 2023

Expected Ranges **Against the US$: NT$30.00–30.80**
Against the yen: JPY4.30–4.45

1. Review of the Previous Month

The Taiwan dollar hit is highest level against the US dollar for around seven months in February, though it dropped back thereafter.

The USD/TWD pair opened the month trading at TWD30.050 on February 1. Overseas investors had bought Taiwanese stocks in January and this trend continued into February, with the pair dropping below TWD30. The greenback remained weak on February 2 following FRB chair Jerome Powell's press conference the previous day. With exporters also selling the US dollar, the currency pair temporarily fell to TWD29.658, with the Taiwan dollar hitting its highest level against its US counterpart for around seven months. However, the US then released some strong employment data for January. As concerns about prolonged inflation grew on the firmness of the jobs markets, US interest rates rose, US stocks fell, and the greenback strengthened, with Taiwanese stocks and the Taiwan dollar also sliding. The pair returned to TWD30 on February 7, but with Taiwan stocks moving bearishly, overseas investors continued to sell the Taiwan dollar.

The US dollar remained bullish and the Taiwan dollar bearish mid-February as expectations grew for ongoing rate hikes in the US. The US January CPI data was released on February 14 and this also contributed to concerns about prolonged rate hikes, with the currency pair then rising to TWD30.3 on February 15. The Taiwan dollar was bought for a time as Taiwanese stocks rallied, but the pair moved firmly thereafter.

With the US on holiday, the pair moved in a range late February. However, the US then released some worse-than-expected February Manufacturing and Service PMIs (preliminary). With a large US retailer also releasing some worse-than-expected results, US stock markets dropped and Taiwanese stocks were also sold, with the currency pair rising to TWD30.5 on February 22 before temporarily hitting TWD30.534. Taiwanese stocks then regained composure and the Taiwan dollar was bought back, with the pair moving at TWD30.4.

2. Outlook for This Month

The USD/TWD pair is expected to strengthen in March.

In February, stocks fell and the US dollar rose as US interest rates climbed on renewed concerns about ongoing rate hikes in the US. The Taiwan dollar is usually only involved in real-demand transactions, so it is easily impacted by bearish stocks (when overseas investors sell Taiwanese stocks). The trend of falling Taiwanese stocks and a weakening Taiwan dollar grew more pronounced last year. However, though Taiwanese stocks fell in February, the Taiwan Capitalization Weighted Stock Index finished February up on the previous month, with overseas investors buying on balance Taiwanese stocks, so it seems that USD/TWD pair was influenced more by rising US interest rates (and a subsequent shift of funds from within Taiwan to overseas) than by Taiwanese stock movements last month.

The pair will probably be swayed sharply by US monetary policy in March too. The US released several bullish indicators in February, including the employment data and figures related to inflation and consumer spending. This led to growing expectations for stubborn inflation and ongoing rate hikes. The March FOMC meeting will attract a lot of attention, with the greenback likely to strengthen if the FRB adopts a hawkish stance toward tackling inflation.

The Central Bank of the Republic of China (Taiwan) (CBC) will also be meeting to set policy in March. CPI had dropped to the +2% range, but it rose to the +3% range again in March on seasonal factors related to the January Spring Festival, with the CBC thus expected to implement a rate hike in March too. In 2022, Taiwan succeeded more than other countries in keeping a lid on inflation by controlling fuel prices, for instance. Commodities prices have fallen after soaring last year when Russia invaded Ukraine. However, this is unlikely to impact the year-on-year inflation rate much. Instead, prices will probably face upwards pressure from rising electricity bills (electricity costs were previously capped). Investors should also focus on the CBC's inflation outlook.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – March 2023

Expected Ranges **Against the US$: HK$ 7.8100–7.8500**
Against the yen: JPY 16.50–17.70

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

HKD spot revisited its weak-side convertibility undertaking of 7.85 again, given the flush HKD liquidity condition and sliding HKD-USD rate spread. HKD forward T/N, the gauge of carry return of long USD/HKD, once slumped to -8pts per day. Subsequently, the HKMA conducted FX intervention for the first time since November, buying total HKD 19bn this month. With shrinking HK aggregate balance, market participants mulled HKD liquidity tightening risk and abruptly unwound the long USD/HKD carry trade, sending the HKD spot back to 7.823 briefly. Afterwards, market participants re-entered the long USD/HKD carry trade position as the Fed is set to keep its policy rate higher for longer, and the USD/HKD was marching towards 7.85 level again. IPO activities remained very subdued in February, while the easing of China overseas IPOs rules should help support the IPO market in coming months. Meanwhile, HK government announced its budget for FY 23/24. Despite the HK reopening, the HK government maintained some stimulus to drive the recovery but reduced the size of sweeteners, with the amount of consumption voucher downsizing to HKD 5K from prior HKD 10K. The deepening fiscal deficit to HKD 139.8bn in FY 22/23 raised concern over the structural deficit but is unlikely to shake the USD-HKD peg. The data also showed that HK economy contracted by 3.5% annually in 2022.

Hong Kong dollar interest rate market in February

HKD rates bottomed out and moved higher after the HKMA's FX intervention, which effectively drained out HKD liquidity from the interbank market. With the largest FX intervention for a single day since July 2022 (-HKD 14.868bn), the HK aggregate balance slid to HKD 77bn from HKD 96bn in the prior week. Compared to the low of HKD 54bn during 2019-2020, the buffer against any potential HKD liquidity squeeze was thinner and HK banks turned more cautious to offer excessive HKD liquidity in the interbank market. In addition, the easing of China's overseas IPO rules and reviving IPO projects in HK market should point to tighter HKD liquidity condition in March. As such, 1-month and 3-month HKD HIBOR picked up from intra-month low of 2.1% and 3.4% to 2.9% and 3.8%, respectively. As the Fed is expected to keep its policy rate higher for longer, HKD IRS curve tracked USD IRS curve to go higher, with 3Y and 5Y tenor jumping to 4.4% and 4.2%, respectively. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) fell back to negative territory as expectation for Fed's pivot receded.

2. Outlook for This Month

Hong Kong dollar spot exchange market in March

After the unwinding flow, we expect HKD spot to drift back to 7.85 level given the return of long USD/HKD spot carry trade amid the Fed's rate hike cycle. Before the actual IPO projects re-activation, we expect HKD liquidity condition to stay more ample to USD liquidity and the HKD-USD rate spread will drop again. This will contribute to the HKD spot weakness and trigger the HKMA's FX intervention again. Yet, the HKD-USD rate spread is unlikely to return to the extreme level given the threat of HKD liquidity shortage on shrinking HKMA aggregate balance. We look for more fluctuations in the HKD spot market as the HKD weakness and HKD-USD rate spread adjustment is coming underway before the HK aggregate balance hits the bottom or Fed reverses its rate hike cycle.

Hong Kong dollar interest rate market in March

We reckon that HKD rates have bottomed out and will pick up on thinner HK aggregate balance and upcoming IPO projects, with front-end HKD rates under heavier upward pressure on HKD liquidity drainage. However, HKD liquidity condition should remain relatively loose compared to the USD, thanks to the buoyant capital inflow to HK market targeting on China/HK reopening trade. Considering the rebound in 1-month HKD HIBOR, the prime rate – 1-month HKD HIBOR spread narrowed and HK banks may resume its prime rate hike cycle by 25bps after the FOMC meeting in March. Under the USD-HKD peg, HKD rates should track on USD rates to go higher during Fed's rate hike cycle.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – March 2023

Expected Ranges **Against the US$: CNY 6.7000–7.1000**
Against the yen: JPY 18.30–20.45

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate rose sharply from the CNY 6.70 level to the CNY 6.97 level in February.

On February 1, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 6.75 level. After the Federal Open Market Committee (FOMC) meeting, the Federal Reserve Board (FRB) Chair Jerome Powell made a dovish comment regarding inflation at a press conference, and this led the U.S. dollar to weaken in the overall foreign exchange market. As a result, on February 2, the U.S. dollar/Chinese yuan onshore exchange market opened trading at around the CNY 6.70 level. Toward the weekend, however, the U.S. dollar/Chinese yuan exchange rate returned to the previous level. On February 3, the January employment statistics of the U.S. were released, and the figures turned out to be stronger than the estimate, and this led the U.S. dollar/Chinese yuan exchange rate to rise to the CNY 6.80 level.

On February 6, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 6.80 level. During the week, there were no new factors in the market, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range between CNY 6.77 and CNY 6.80.

On February 13, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 6.83 level. During the first half of the week, the exchange rate remained low and fell to the CNY 6.80 level, as the announcement of the January CPI of the U.S. was approaching. However, on February 14, the January CPI of the U.S. turned out to be strong, as were the PPI and the number of new claims for unemployment claims announced on February 15. As a consequence, the concerns of market participants grew over long-term inflation, leading interest rates in the U.S. to rise and strengthening the U.S. dollar. Toward the second half of the month, the Chinese yuan was supported by expectations for support measures to expand domestic demand in China as well as the fall of Chinese stock prices to adjust the earlier rise. Thus, on February 17, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.88 level.

On February 20, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.86 level. As Chinese stock prices had risen after the fall at the end of the previous week, the Chinese yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate fell to approach the CNY 6.85 level on February 20. Thereafter, interest rates in the U.S. rose, and the U.S. dollar appreciated as expectations for a policy interest rate cut by the FRB had diminished. Following this trend, the U.S. dollar/Chinese yuan exchange rate started rising again. In the middle of the week, the rise of the U.S. dollar/Chinese yuan exchange rate slowed down once before reaching the CNY 6.90 level. However, during the nighttime of February 23, the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 6.90 level and renewed its highest level for the year on February 24.

As of the morning of February 27 after the weekend, the U.S. dollar/Chinese yuan exchange rate momentarily reached the CNY 6.97 level.

2. Outlook for This Month

Although the U.S. dollar/Chinese yuan exchange rate could rise in a short-term perspective, there are remaining factors for the depreciation of the U.S. dollar and the appreciation of the Chinese yuan from a long-term perspective.

In the U.S., market participants are buying the U.S. dollar based on the hawkish attitude of the FRB based on the strong economic indices of the U.S. The U.S. dollar has been appreciating, as the estimated number of remaining policy interest rate hikes was increased. Until the FOMC meeting scheduled for March 21 and 22, market participants might continue buying the U.S. dollar if U.S. economic indices remain strong, although there could be some fluctuations. However, market participants are aware that the policy interest rate will peak out soon, and the FRB will start cutting its policy interest rate at some point. Thus, from a long-term perspective, market participants are expected to start selling the U.S. dollar in the times ahead.

On the other hand, in China, expectations for economic recovery seems to have diminished slightly after growing in reaction to the decision to lift the zero-Covid-19 policy, which was in effect since the beginning of the year. In general, there are few announcements on major economic indices in February because of the Chinese New Year, and Chinese economic indices for both January and February are released together in March. Thus, at this moment, it has not yet been confirmed with data that the Chinese economy has recovered from the impact of the zero-Covid-19 policy. If the major Chinese economic indices that are to be announced in mid-March turn out to be weak, it could change the market estimate such that the Chinese yuan would appreciate from a long-term perspective. On the other hand, if the indices turn out to be strong, the depreciation of the Chinese yuan that is currently observed is very much likely to be reversed. In either case, market participants need to remain cautious about high volatility in the market. It is important to keep an eye on the current evaluation on the economy as well as on the target economic growth rate at the National People's Congress, which is scheduled to open on March 5.

In addition, there are factors that could lead the Chinese yuan to depreciate, such as growing demand for overseas travels after the opening of national borders (which leads to a growing deficit in the service sector), as well as economic stimulus measures mainly in the real estate sector and geopolitical risks. On the other hand, however, there are also factors that could lead the Chinese yuan to appreciate, such as the expansion of domestic demand based on resuming movement of people and goods as well as domestic inflation risks in China and capital inflow from foreign investors into Chinese stock and bond markets.

As the U.S. dollar/Chinese yuan exchange rate has exceeded the CNY 6.90 level, the psychological turning point is now at the CNY 7.00 level. The U.S. dollar/Chinese yuan exchange market could become highly volatile when there are important events such as the National People's Congress, announcements of major domestic economic indices in China, and the FOMC meeting in the U.S. However, from a medium- to long-term perspective, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low, as the Chinese economy is likely to continue recovering and as many market participants expect the FRB's policy interest rate hikes in the U.S. to peak out.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – March 2023

Expected Ranges **Against the US$: SG$ 1.3050–1.3780**
Against the yen: JPY 97.00–104.00

1. Review of the Previous Month

In February, the U.S. dollar appreciated significantly against the Singapore dollar.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.31 level on February 1. Also, a Federal Open Market Committee (FOMC) meeting was held on the same day, local time, after which Federal Reserve Board (FRB) Chair Jerome Powell made a remark that the process of disinflation had started. In reaction, the U.S. dollar depreciated. Then, on February 2, the following day, market participants sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.30 level—the monthly low for the U.S. dollar. However, on February 3, the January employment statistics of the U.S. and the January Non-Manufacturing ISM Report On Business of the U.S. were released, with a rise. As a result, the U.S. dollar/Singapore dollar exchange rate rallied sharply to the lower-SGD 1.32 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at around the SGD 1.32 level without moving in any direction for a while. However, on February 10, the February United States Michigan Consumer Sentiment figure (preliminary) was announced with a positive increase, which led the U.S. dollar to strengthen, and the U.S. dollar/Singapore dollar exchange rate reached the SGD 1.33 level.

On February 13, the October-December quarter GDP of Singapore was announced, and the outcome was weaker than the market estimate. Market participants continued buying the U.S. dollar, as was the case in the previous week. As a result, the U.S. dollar/Singapore dollar exchange rate continued rising. Thereafter, the rise of the exchange rate slowed down, and on February 14, the U.S. dollar/Singapore dollar exchange rate fell and once reached the lower-SGD 1.32 level. However, a number of FRB officials made hawkish remarks thereafter, while economic indices of the U.S. turned out to be strong, and this encouraged market participants to buy the U.S. dollar again. Consequently, the U.S. dollar/Singapore dollar exchange rate rose to once reach the lower-SGD 1.34 level on February 17.

On February 20, downward pressure strengthened occasionally in reaction to the appreciation of the U.S. dollar observed in the previous week. However, market participants sold the U.S. dollar only for a short while, and the U.S. dollar/Singapore dollar exchange rate thereafter continued fluctuating within a narrow range at around the SGD 1.34 level. On February 23, the January CPI of Singapore was released, and the outcome was weaker than the market estimate, and this encouraged market participants to sell the Singapore dollar. Under such circumstances, on February 24, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.34 level. On February 25, the January personal consumption expenditures (PCE) deflator turned out to be above the market estimate, and this encouraged market participants to buy the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate rose to temporarily reach the lower-SGD 1.35 level. Thereafter, the U.S. dollar/Singapore dollar continued fluctuating relatively high within the range between the upper-SGD 1.34 level and the SGD 1.35 level (as of February 27).

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain high in March.

Since October last year, in the U.S. dollar/Singapore dollar exchange market, the U.S. dollar continued one-sidedly weakening and the Singapore dollar continued one-sidedly strengthening without any moment of trend reversal. However, in February, this trend slowed down, and the U.S. dollar/Singapore dollar exchange rate rallied. Even though the trend observed since October last year is partially based on the monetary policy of the Monetary Authority of Singapore (MAS), the main factor was the depreciation of the U.S. dollar caused by expectations for the FRB to stop raising its policy interest rate in the U.S. However, in February, in addition to hawkish remarks made by a number of FRB officials, various economic indices in the U.S. suggested that the inflation rate in the U.S. remained high. As a result, market participants grew cautious about the possibility for the policy interest rate hikes to last for a long period. In order to know the number of remaining policy interest rate hikes in the U.S., market participants would need to see the figures of economic indices to be announced in the times ahead. However, as various FRB officials made remarks to imply the continuation of policy interest rate hikes, it is difficult for the market to reflect an early end of policy rate hikes. Market participants are thus expected to sell the U.S. dollar only to a limited degree.

In terms of factors related to the Singapore dollar, the January CPI was +6.5% year-on-year, remaining high. However, the pace of the rise is likely to peak out soon. Last year, the MAS raised the slope and the middle point of the exchange rate policy band several times, showing a highly hawkish attitude. Even though excessive concerns in the market were mitigated, concerns remain over a global economic slowdown. Under such circumstances, some expect the MAS to remain cautious about further monetary tightening. Given that the MAS is scheduled to have its next meeting in April, there are not many reasons to actively buy the Singapore dollar in the current situation.

Kenta Suehiro, Bangkok Treasury Office, Asia & Oceania Treasury Department

Thai Baht – March 2023

Expected Ranges **Against the US$: THB 34.40–35.50**
Against the yen: JPY 3.80–3.95

1. Review of the Previous Month

In February, the U.S. dollar/Thai baht exchange rate rose significantly. The U.S. dollar/Thai baht exchange market opened trading at around the THB 33 level. At the beginning of the month, the Federal Open Market Committee (FOMC) meeting was held in the U.S., attracting significant attention in the market, and the policy interest rate was raised by 25 basis points, as had been anticipated in the market. The Federal Reserve Board (FRB) also implied that there would be several policy interest rate hikes in the times ahead. However, both the FOMC statement and the press conference of FRB Chair Jerome Powell were seen as dovish by market participants. As a result, interest rates in the U.S. fell, and the U.S. dollar weakened. However, on February 3, the January employment statistics of the U.S. demonstrated that the labor market in the U.S. was stronger than expected, leading market participants to speculate that the FRB might raise its level for the target policy interest rate. Such a concern weakened the overall Asian currencies against the U.S. dollar. Following this trend, the U.S. dollar/Thai baht exchange rate, which was previously fluctuating at the upper-THB 32 level, rallied to the upper-THB 33 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating without moving in any direction for a while. On February 10, the media reported that the position of governor of the Bank of Japan would be handed over from Haruhiko Kuroda to Kazuo Ueda, who was previously a member of the policy board of the Bank of Japan. In reaction, the U.S. dollar/Thai baht exchange rate fell momentarily. However, the overall trend did not change.

In the middle of the month, the January CPI of the U.S. was announced on February 14, and this led the U.S. dollar/Thai baht exchange rate to rise based on concerns over the possibility for policy interest rate hikes in the U.S. lasting for a long period. The U.S. dollar/Thai baht exchange rate exceeded the THB 34 mark, after which the U.S. dollar continued appreciating based on the January PPI, which turned out to be above the market estimate, in tandem with hawkish remarks made by FRB officials. The U.S. dollar/Thai baht exchange rate rose to approach the mid-THB 34 level, offsetting the fall observed since the beginning of the year.

At the end of the month as well, the U.S. dollar/Thai baht exchange rate remained high. In addition to the appreciation of the U.S. dollar observed until then, the U.S. dollar/Thai baht exchange rate was further supported by the fact that the results of the fourth-quarter GDP of Thailand announced on February 17 exceeded the market estimate. Furthermore, on February 22, the minutes of the February FOMC meeting were released, confirming the hawkish attitude of the FRB. However, the market had already sufficiently reflected the hawkish attitude of the FRB, and thus impact on the market was minimal. The U.S. dollar/Thai baht exchange rate continued fluctuating at a level just below the THB 35 level for a while. However, on February 24, U.S. economic indices were released with strong figures, which led the U.S. dollar/Thai baht exchange rate to start rising again. As of February 27, the day on which this article was written, the U.S. dollar/Thai baht exchange rate had reached the THB 35 level.

2. Outlook for This Month

In March, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate based on U.S. economic indices.

Since the release of the January employment statistics of the U.S. on February 3, there has been significant recoil in the foreign exchange and interest rate markets based on figures in the U.S. economic indices that turned out to be stronger than the market estimate, as well as based on hawkish remarks by FRB officials. Three policy interest hikes of 0.25% by the FOMC in March, May, and June have already been reflected in the market. As a result, the Thai baht, which once appreciated against the U.S. dollar by approximately 5% compared with the beginning of the year depreciated in February to offset the appreciation. Given such circumstances, the rise of the U.S. dollar/Thai baht exchange rate is expected to slow down once. However, depending on the trends in U.S. economic indices, such as in the long-term interest rates in the U.S. that are just below the 4% mark, it is still possible for the U.S. dollar to appreciate further. Market participants should thus remain careful.

It is also important to observe trends in the Thai economy. On February 17, the fourth-quarter GDP of Thailand was announced, and the result was -1.5% from the previous quarter, while the annual growth was +2.6% (year-on-year). Even though the growth rate rose from that of the previous year, which was 1.6%, it was still below the market estimate, which was 3.2%. This is mainly due to a decline in exports. External demand, especially that from the U.S. and Europe, has been weak, which resulted in negative year-on-year growth in exports from Thailand in October, November, and December. In 2023, a further economic slowdown is predicted worldwide. Under such circumstances, it is important for the tourism sector, which has been recovering rapidly, to cover losses in other sectors. According to the Ministry of Transport in Thailand, the number of people entering Thailand was approximately 2.35 million in January 2023, demonstrating continued recovery in the tourism industry, thanks to which consumer sentiment has also been improving. Market participants are therefore carefully observing actions to be taken by the central bank of Thailand. A policy interest rate hike could worsen the consumer sentiment that has finally started to improve. However, it is not possible to ignore the heightening inflation pressure based on the recovery in the tourism sector as well as concerns about continued policy interest rate hikes in the U.S. The central bank of Thailand is scheduled to hold an MPC meeting on March 29. Based on remarks by officials from Thai monetary authorities, it is likely for the central bank to raise its policy interest rate by 0.25%. Even though the impact of the policy interest rate hike itself is expected to be minimal, it is important to wait for the interpretation of the central bank regarding the current economic trends.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – March 2023

Expected Ranges **Against the US$: MYR 4.38–4.58**
Against the yen: JPY 30.03–30.77

1. Review of the Previous Month

In February, the Malaysian ringgit remained weak, and the Malaysian-ringgit buybacks observed for one month at the beginning of the year were almost offset in one month, while the U.S. dollar/Malaysian ringgit exchange rate returned to the level before the Malaysian ringgit was bought back.

At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate fluctuated violently following key events in the U.S. On February 2, the Federal Open Market Committee (FOMC) decided to raise its policy interest rate by 25 basis points, as had almost been anticipated in the market, and it set its Federal funds target rate at the 4.50–4.75% level. At a press conference after the FOMC meeting, Federal Reserve Board (FRB) Chair Jerome Powell repeated emphasized that disinflation had started. After the announcement of the outcome of the FOMC meeting, market participants expected the FRB to stop raising its policy interest rate. On the following day, market participants actively bought the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate fluctuated at the lower-MYR 4.2 level. However, the January employment statistics of the U.S. were released on February 3, local time, in New York, with figures significantly stronger than the market estimate. In reaction, the U.S. dollar/Malaysian ringgit exchange rate rose sharply and fluctuated within a range at around the MYR 4.3 level. Thereafter, the fourth-quarter GDP was announced on February 10, revealing that net exports recorded positive growth of 23.4%, exceeding the market estimate and leading the rest of the figures. The annual GDP recorded a growth rate at the upper end of the government outlook. At the same time, the current account balance was also announced, revealing an expansion in the current account surplus thanks to a decrease in the deficit of the service balance based on an increase in trade surplus as well as recovery in the tourism industry. Even though the market did not react significantly to this result, it confirmed the strength of the Malaysian economy.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate rose further, as market participants bought the U.S. dollar based on the strong economic indices of the U.S., such as the CPI and retail sales. On February 14, the January CPI of the U.S. was announced, and the result turned out to be strong, at +6.4%; whereas, the market estimate was +6.2%. On February 15, the following day, the retail sales figure of the U.S. was announced, also exceeding the market estimate and confirming that consumption expanded steadily even with high inflation. Under such circumstances, market participants expected the policy interest rate in the U.S. to remain high for a long period and started actively buying the U.S. dollar. Furthermore, on February 16, the PPI of the U.S. was announced, also exceeding the market estimate, and the previous month's result was revised upward. This led the U.S. dollar to strengthen further. The ratings company, Fitch, maintained its sovereign rating for Malaysia at BBB+, with the outlook at "stable." An estimate for the GDP growth rate was also announced to be 4.0% in 2023 with slower growth but was to be 4.8% in 2024, as stable growth could be expected from a long-term perspective. The Malaysian ringgit exchange market did not react to this to a great extent, but this is expected to support the Malaysian ringgit exchange market from a long-term perspective.

At the end of the month, the minutes of an FOMC meeting in the U.S. were released, confirming its hawkish attitude, which further strengthened the U.S. dollar. The U.S. dollar/Malaysian ringgit exchange rate thus rose to the mid-MYR 4.44 level. In terms of domestic economic indices, the January trade statistics were released on February 20, and both imports and exports fell significantly below the market estimate. This fueled concerns over Malaysia's trade in 2023. Furthermore, on February 23, the January CPI was announced, somewhat mitigating inflation as a result of a fall in prices of transportation, restaurants, and food. There were thus both strong and weak figures in domestic economic indices.

2. Outlook for This Month

It is difficult to forecast trends in the U.S. dollar/Malaysian ringgit exchange market in March. The central bank of Malaysia is scheduled to hold a monetary policy meeting on March 9, while the FOMC in the U.S. is scheduled to hold a meeting on March 23. Market participants are highly interested in the decision about a policy interest rate hike at these two meetings.

There were mixed views about the decision by the central bank of Malaysia regarding a policy interest rate hike. On February 24, the January CPI was announced, and the inflation rate turned out to be +3.7% year-on-year, confirming a slowdown in inflation after peaking out in the third-quarter period last year, and this had been anticipated in the market. However, there are some worrying elements in trade, which has been a driving force of the Malaysian economy. In the latest trade statistics, exports recorded negative year-on-year growth in all items except for the electric and electronics sector, which is the leading industry in Malaysia, recording positive year-on-year growth. Even though it is too early to make any judgement simply based on the results of January, exports to China had already started to decline previously, and market participants should remain attentive of the results of February and beyond. The central bank of Malaysia will have to make a decision on its monetary policy based on these figures. Although the central bank supports the domestic economy, it needs to remain cautious, as any hasty decision to raise its policy interest rate would lead to a slowdown in economic growth. On the other hand, at a monetary policy meeting held in January, the central bank of Malaysia decided to maintain its policy interest rate at the existing rate, unlike what market participants had anticipated. Thus, if the policy interest rate is kept unchanged for the second consecutive time, it would be a clear message to the market that policy interest rate hikes would end, fueling expectations for growing interest rate differentials between the U.S. and Malaysia and further weakening the Malaysian ringgit.

Regarding the FOMC meeting to be held in the U.S. on March 23, the market has already entirely reflected a policy interest rate hike of 25 basis points. Under such circumstances, it is possible for the FOMC to raise the policy interest rate by 50 basis points, depending on the results of the February employment statistics of the U.S., to be out on March 10, as well as the February CPI of the U.S., to be out on March 14. If the market starts to reflect a further policy interest rate hike, it is possible for the U.S. dollar/Malaysian ringgit exchange rate to exceed the MYR 4.58 mark, which is the current upper end of the fluctuation. Market participants should thus remain attentive in the times ahead.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2023

Expected Ranges **Against the US$: IDR 15,000–15,500**
Against the yen: JPY 0.8772–0.9091 (IDR 100)

1. Review of the Previous Month

In February, the Indonesian rupiah depreciated against the U.S. dollar.

On February 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the IDR 15,000 level. Thereafter, the January CPI of Indonesia was announced, and the result turned out to be +5.28% year-on-year, recording a slight decline from the result of December. In the previous month, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark after the monetary policy meeting that the existing policy interest rate was sufficient to achieve the inflation target, and this remark was confirmed to be true by these economic indices. Thus, there was little reaction in the market. During local trading hours, the outcome of the Federal Open Market Committee (FOMC) meeting was announced, and it was seen as dovish in the market, encouraging market participants to sell the U.S. dollar. On February 2, the following day, the Indonesian rupiah appreciated against the U.S. dollar thanks to the trend of selling U.S. dollars, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,800 level at market opening. The Indonesian rupiah remained strong against the U.S. dollar thereafter based on active U.S. dollar-selling in the market during morning trading hours, Asian local time. However, there were also market participants selling the Indonesian rupiah at this exchange rate, leading the U.S. dollar/Indonesian rupiah exchange rate to rally slightly toward market closing. On February 3, market participants continued actively selling the Indonesian rupiah. Under such a condition, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,900 level. On the same day, local time, the January employment statistics of the U.S. were released with strong figures exceeding the market estimate. As a result, on February 6, the following day, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,000 level with the U.S. dollar stronger and the Indonesian rupiah weaker than the closing rate at the end of the previous week. During Asian trading hours, market participants continued buying the U.S. dollar, as was the case at the end of the previous week. Following this trend, the Indonesian rupiah continued depreciating against the U.S. dollar slowly. Thereafter, the fourth-quarter GDP growth rate of Indonesia was announced, which turned out to be 5.01%, stronger than the market estimate, which was +4.92%. However, there was little reaction to this announcement in the market. As market participants continued buying the U.S. dollar, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate fell to reach the lower-IDR 15,100 level on February 7—the following day. On the same day, the January foreign currency reserves of Indonesia turned out to exceed the market estimate. However, there was little reaction to this in the market. On February 8, the January consumer confidence index of Indonesia was announced, demonstrating improvement from the previous figure and reaching the highest level since August last year. Consequently, market participants bought the Indonesian rupiah to some extent, but this was only a temporary reaction, and the U.S. dollar/Indonesian rupiah continued fluctuating in both directions at the lower-IDR 15,100 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating without moving in any direction within the range between the mid-IDR 15,100 level and the lower-IDR 15,200 level. Then, on February

16, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest rate at 5.75%, which had been anticipated in the market. After the meeting, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark such that the existing policy interest rate was sufficient to achieve the inflation target, as was the case with the previous month's meeting. Then, on February 24, local time, the January core deflator of the U.S. was announced, exceeding the market estimate. In reaction, market participants were encouraged to buy the U.S. dollar, while some market participants bought the U.S. dollar and sold the Indonesian rupiah based on actual demand for the end of the month. As a consequence, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,200 level, with monthly trading closing at this rate.

2. Outlook for This Month

In March, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

The central bank of Indonesia raised its policy interest rate by 25 basis points at its monetary policy meeting held in January. At the meeting held in February, the central bank decided to stop its policy interest rate hike, which had been implied previously, and it maintained the seven-day reverse repo rate—the policy interest rate of Indonesia—at 5.75%. The inflation rate of Indonesia has been on a fall after peaking out in September last year, at which the gasoline price was revised. The central bank of Indonesia thus expects the inflation rate to fall to 2–4%, i.e., the inflation target, in the second half of this year. Thus, the central bank of Indonesia is unlikely to raise its policy interest rate further, unless inflation rate starts rising again. This means that the central bank of Indonesia has stopped policy interest rate hikes before other central banks. Therefore, from the viewpoint of interest rate differentials, downward pressure on the Indonesian rupiah is likely to strengthen in the times ahead. Since February, the U.S. economic indices have been stronger than the market estimate, as was the case with the January employment statistics of the U.S. This mitigated concerns over an economic downturn in the U.S. Furthermore, as there could be a long period of inflation in the U.S., interest rates in the U.S. are likely to rise, while the U.S. dollar is likely to continue appreciating. For this reason, the Indonesian rupiah is forecast to remain weak against the U.S. dollar.

It is also worth noting that the price of coal, which is a major export item for Indonesia, has been falling significantly since the beginning of the year. Indonesia has expanded its trade surplus, thanks to coal prices, which had remained high due to growing geopolitical risks since the beginning of last year. Thus, the fall of coal prices can be a factor to weaken the Indonesian rupiah. Also, the annual trade surplus of Indonesia for 2022 recorded an all-time high, which contributed to the current account surplus, as was also the case in 2021. Partly thanks to this, the Indonesian rupiah remained more robust than other Asian currencies during the first half of 2022. However, since autumn last year, coal prices started to fall, and the Indonesian rupiah depreciated significantly against the U.S. dollar to lead the U.S. dollar/Indonesian rupiah exchange rate to reach the IDR 15,700 level. Thus, as coal prices are currently falling again and as the U.S. dollar has been strengthening, the Indonesian rupiah is forecast to continue depreciating further against the U.S. dollar.

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

Philippine Peso – March 2023

Expected Ranges **Against the US$: PHP 53.50–56.50**
Against the yen: PHP 0.40–0.43

1. Review of the Previous Month

At a press conference after a Federal Open Market Committee (FOMC) meeting, Federal Reserve Board (FRB) Chair Jerome Powell admitted that inflation had slowed down. As his remarks were not as hawkish as expected, the U.S. dollar weakened further. As a result, the Philippine peso appreciated sharply against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached the PHP 53 level for the first time since June last year. However, thereafter, the January employment statistics of the U.S. were released, and the figures turned out to be significantly stronger than the estimate, leading market participants to expect the monetary tightening in the U.S. to last for a while. As a consequence, the U.S. dollar rallied significantly. Furthermore, the January CPI of the Philippines, which was expected to have peaked out in December, turned out to be +8.7% year-on-year, with an increase from the figure in December, which was +8.1%, thus renewing its highest figure in 14 years. As a result of these factors, the Philippines peso depreciated sharply, and the U.S. dollar/Philippine peso exchange rate once reached the PHP 55 level. Thus, at the beginning of the month, the U.S. dollar/Philippine peso exchange market saw violent fluctuations.

Thereafter, the Philippine peso occasionally rallied to adjust the sharp depreciation observed earlier, along with expectations for a large-scale policy interest rate hike in the Philippine. However, several FRB officials made hawkish remarks, and the U.S. dollar remained strong in the overall foreign exchange market. Under such circumstances, the Philippine peso started to depreciate slowly again. Moreover, the January CPI of the U.S. confirmed the strength of inflation pressure, once again leading market participants to expect monetary tightening policy to last for a long period. Thus, the Philippine peso further depreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached the PHP 55 level again. While some market participants expected a policy interest rate hike of 25 basis points while others expected that of 50 basis points, the central bank of the Philippines decided on February 16 to raise its policy interest rate by 50 basis points to 6%. However, as the U.S. dollar continued appreciating, this decision did not impact the market significantly. On the other hand, the governor of the central bank of the Philippines, Felipe Medalla, implied a policy interest rate of 25 basis points or 50 basis points at the next monetary policy meeting, expressing his intentions to continue raising the policy interest rate during the first half of the year, although adding that the final decision would be made based on economic indices. The Philippine peso thus remained relatively strong compared to other Asian currencies. However, toward the middle of the month, the Philippine peso continued depreciating.

Market participants continued actively buying the U.S. dollar, remaining cautious about a hawkish result of an FOMC meeting, which was approaching. However, the Philippine peso remained relatively strong compared to other Asian currencies, as the January international balance of payments of the Philippines increased to USD 3.08 billion from the previous month's result, USD 610 million. Furthermore, the minutes of the FOMC meeting were released, and there was no particular surprising outcome. Thus, market participants sold the U.S. dollar, and the overall Asian currencies strengthened as a result. With both positive and negative factors in the market, the depreciation of the Philippine pesos, which was seen in the middle of the month, slowed down at the end of the month. The U.S. dollar/Philippine peso exchange rate was fluctuating at around the PHP 55 level (as of February 23). Market participants expected monetary tightening policy in the U.S. to last for a long period with a pessimistic sentiment about inflation in the U.S., leading the Philippine peso to depreciate against the U.S. dollar. Thus, the U.S. dollar/Philippine peso exchange rate reached its highest level in approximately 1.5 months, and the Philippine peso generally remained weak throughout the month.

2. Outlook for This Month

The latest figures in the employment statistics of the U.S. and in the CPI demonstrated the strength of inflation pressure. As a result, market participants expected the policy interest rate in the U.S. to peak out at a higher level, while expectations for interest rate cuts diminished. The market interest rates expected for the end of the year also rose to be in line with the median of the policy interest rate forecast by FRB members. However, given the fact that energy prices remain high and as U.S. economic indices are seeing strong figures, inflation is likely to slow down only gradually in the times ahead. Furthermore, various FRB officials made hawkish remarks, making it likely for the policy interest rate to be raised in March at the next FOMC meeting. Thus, the U.S. dollar is expected to remain strong.

With regard to domestic factors, the central bank of the Philippines expected at the beginning of the year that inflation would peak in December and that policy interest rate hikes would end in the first-quarter period. However, inflation unexpectedly accelerated in January, making it necessary for the central bank to continue significantly raising its policy interest rate at a monetary policy meeting held in February. Thus, as is the case in the U.S., monetary tightening is likely to last for a long period. Policy interest rate hikes in the Philippines support the Philippine peso to some extent. However, the U.S. dollar/Philippine peso exchange market is mainly expected to continue following trends in the U.S. dollar market. The U.S. dollar/Philippine peso exchange rate is therefore likely to fluctuate in accordance with the inflation outlook in the U.S., while the general trend of depreciation is expected for the Philippine peso.

It is also worth noting that policy interest rate cuts are unlikely to happen any time soon, and thus the U.S. dollar is unlikely to start depreciating significantly, given the likely scenario in which the policy interest rate in the U.S. will be raised and will remain high for a while. Furthermore, due to growing domestic demand and facing high energy and food prices, the trade deficit of the Philippines is likely to remain high in the times ahead, although it has peaked out. For this reason, from the point of view of supply & demand as well, pressure to sell the Philippine peso is likely to remain strong.

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

Indian Rupee – March 2023

Expected Ranges	**Against the US$: INR 81.60–83.60**
	Against the yen: JPY 1.60–1.71

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate rose in February.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at INR 81.78. On February 1, a union budget was announced, to which the Indian stock market reacted positively, with stock prices rising by 1.7%. This supported the Indian rupee as well, and the U.S. dollar/Indian rupee exchange rate fell to INR 81.675. However, on the same day, the stock price of a new Indian conglomerate started to fall, causing overall Indian stock prices to start falling. Following this trend, market participants started to sell the Indian rupee as well. On February 2, the following day, the U.S. dollar/Indian rupee exchange rate exceeded the INR 82.00 mark, but on February 3, it returned to INR 81.76 again. It seemed as if the U.S. dollar/Indian rupee exchange rate was going to fluctuate at around the INR 82.00 level. However, on February 3, the employment statistics of the U.S. were released after the closing of the Indian market, and the result turned out to be significantly stronger than the market estimate, fueling expectations for additional policy interest rate hikes in the U.S. At the same time, therefore, less market participants expected the policy interest rate cuts to start before the end of 2023.

In reaction, the U.S. dollar/Indian rupee exchange market opened trading in the second week of the month with a stronger U.S. dollar than the closing rate of the previous week. On Monday, the U.S. dollar/Indian rupee exchange rate continued rising to reach INR 82.76. On February 7, Tuesday, the U.S. dollar/Indian rupee exchange rate exceeded the INR 82.80. On February 8, the outcome of a monetary policy meeting was announced by the central bank of India, but, as it was as anticipated in the market, there was little impact. Thereafter, the U.S. dollar/Indian rupee exchange rate once returned to the lower-INR 82 level. However, on February 10, the U.S. index provider, MSCI, gave an explanation at the time of a regular quarterly revision regarding four stocks related to a new Indian conglomerate, stating that stocks that are held by certain investors should no longer be designated as "free float" pursuant to the open market. This remark led Indian stock prices to fall further. Following this trend, the Indian rupee weakened as well.

In the third week of the month, the 10-year U.S. government bond yield reached its highest level in six weeks, while the two-year U.S. government yield reached its highest level since November last year. Even this was a condition to allow the U.S. dollar to appreciate, and the appreciation of the U.S. dollar against the Indian rupee was interrupted as the central bank of India intervened in the foreign exchange market by selling the U.S. dollar. At this point, market participants started to see the INR 82.80–82.90 level as the upper end of the fluctuation of the U.S. dollar/Indian rupee exchange rate. The volume of spot trades for the week was lower than usual by around 20%, with few signs of movement in the market. Furthermore, as interest rates rose in the U.S., interest rate differentials between the U.S. and India narrowed, leading the U.S. dollar/Indian rupee forward premium lowered, and, as a result, market participants did not actively sell the U.S. dollar, although at this spot exchange rate exporters generally tend to sell the U.S. dollar based on actual demand.

In the fourth week of the month, the U.S. dollar remained strong, but the central bank of India continued intervened in the market by selling the U.S. dollar when the U.S. dollar/Indian rupee exchange rate was high. Thus, the U.S. dollar/Indian rupee exchange rate remained high but did not exceed the recent high. In the options market, the one-month implied volatility of the U.S. dollar/Indian rupee exchange rate reached its lowest level in seven months. As the U.S. dollar was strengthening again, and as other Asian currencies were generally weakening, the Indian rupee outperformed other Asian currencies thanks to market intervention by the central bank of India.

At the end of the month, the U.S. dollar/Indian rupee exchange rate occasionally touched the INR 82.95 level. However, the exchange rate did not reach the INR 83.00 level. As of February 27, when this article was being written, the U.S. dollar/Indian rupee pair was trading at INR 82.82.

2. Outlook for This Month

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

In February, the U.S. dollar/Indian rupee exchange market moved as was forecasted in the previous month's article. In March as well, the most-important factor remains market interventions by the central bank of India. However, the central bank of India explains that the objective of its market interventions is not to adjust the exchange rate to a target level but to control volatility in the market. In February, the central bank of India started to intervene in the market by selling the U.S. dollar when the U.S. dollar/Indian rupee exchange rate was at around the INR 82.85 level, so as to keep it from exceeding the INR 83.00 level. However, if the U.S. dollar/Indian rupee exchange rate rises slowly, it would not mean a high volatility rate. Thus, as time goes by, the U.S. dollar/Indian rupee exchange rate is likely to rise.

In March, the outcome of a Federal Open Market Committee (FOMC) meeting is scheduled to be out on March 22. Until then, the U.S. dollar is expected to remain on a moderate rise, and the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate at around the INR 83 level, until the market starts to reflect a policy interest rate rise of 0.5% at the FOMC meeting.

The next monetary policy meeting in India is scheduled for April 6, and there is no key event related to monetary policy in India. At the February meeting, the annual inflation outlook for FY2023 was 5.3%, with a significant slowdown in inflation. On the other hand, with regard to monetary policy, the expression "withdrawal of accommodation" was used, as was the case at previous meetings at which the policy interest rate was raised, practically implying continued policy interest rate hikes. The central bank seems to have sent a message such that "if inflation is controlled well, a policy interest rate hike is not necessary" but that "if a policy interest rate hike is forecasted, a forecast for the control of inflation is not necessary." Many market participants pointed out that such a message was contradictory. As a consequence, market participants became even-more attentive of the CPI of India, to be announced twice before the monetary policy meeting in April. Out of these two, the CPI was already announced once, and the result turned out to be 6.52%—significantly exceeding the estimated level. The CPI is scheduled to be out again on March 13. If the result is at the upper-6% level, expectations are likely to grow for the central bank of India to raise its policy interest rate.

As was mentioned above, the two main factors in the U.S. dollar/Indian rupee exchange market are market interventions by the central bank of India and policy interest rate hikes in the U.S. Market participants should thus remain attentive of these two factors. Other factors in the market include the CPI of India, to be announced in March, as this will be important for the central bank of India to decide whether or not to raise its policy interest rate in April.