Mizuho Dealer’s Eye

April 2023

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Sales Department

Shogo Tagawa, Forex Sales, Global Markets Sales Department

U.S. Dollar – April 2023

Expected Ranges **Against the yen: JPY125.00–135.00**

1. Review of the Previous Month

The dollar/yen pair opened March trading at the lower-136 yen mark. The pair fell to the lower-135 yen mark at the start of the month as the dollar was sold on falling US interest rates. However, the US then released a bullish February Manufacturing ISM Report on Business. With the US price of labor per single unit of output data (final) also being revised upwards, US interest rates began rising and the currency pair hit 137 yen.

After a round of dollar buying, the pair's gains were pared back. During his testimony to Congress on March 7, though, FRB chair Jerome Powell said the FRB was prepared to increase the pace of rate hikes if necessary and he also commented that "the ultimate level of interest rates is likely to be higher than previously anticipated," with the dollar subsequently bought across the board on these hawkish comments. The pair's topside then extended to a 2023 high of 137.90 on March 8. Risk aversion grew on March 9 on concerns about the financial problems of a US bank, so the greenback was sold and the pair fell below 136 yen. However, the Bank of Japan (BOJ) the announced it would keep policy fixed when it met on March 10. The yen was sold directly after this announcement, with the currency pair rising to just below 137 yen. The dollar was then sold when the February US employment data revealed that wages growth had slowed.

With credit concerns also growing after a US regional bank went bust, the yen was bought on risk aversion, with the dollar/yen pair falling to the lower-132 yen level toward March 13. This pessimism eased on March 14, though, with the pair then rising to the mid-133 yen mark on rising US interest rates. At+0.5% m-o-m, the US February core consumer price index (CPI) figure was up on expectations, with the pair heading toward 135 yen on rising US interest rates. The dollar was sold on March 15 as US interest rates fell sharply on risk aversion following rumors that a major European bank was facing credit problems. With news also emerging on March 16 that a US regional bank was trying to find a buyer, the yen was bought at a faster pace and the currency pair tumbled to the upper-131 yen mark. The dollar saw some buy-backs thereafter on news that several major US banks would provide support.

With the markets remaining in risk-off mode, the pair fell to the upper-130 yen level on March 20. After a round of selling, though, the pair bounced back to 132 yen. As expected, the FOMC implemented a +25bp rate hike on March 22. This was read as dovish, so the greenback was sold. Bank shares and other US stocks then fell sharply after US treasury secretary Janet Yellen said the US was not considering "blanket insurance" for all deposits. This trend continued on March 23, with the pair falling to the lower-130 yen mark. The greenback was then sold at a faster pace on March 24 after European bank stocks plummeted. As a result, the dollar/yen pair temporarily fell to the upper-129 yen level.

Risk aversion waned on March 27 on some positive news about a US regional bank. With the dollar being sold towards the month's end, the pair climbed to the upper-$133 yen mark for a time.

2. Outlook for This Month

The dollar is expected to fall and the yen rise in April.

Risk aversion prevailed in March on credit concerns about US regional banks and a major European bank, with the dollar/yen pair trading with a heavy topside to drop below 130 yen. Excessive concerns about the US financial system then eased on news that some regional banks would be bought out, so the dollar was bought again. However, the pair's rally was quite muted compared to its rally towards 135 yen after the release of the US February consumer price index (CPI) data. With President Biden also saying the banking crisis was still not over, it seems this rally was merely due to a slight withdrawal of 'excessive concerns,' with investors still worried that tougher banking regulations might act as a new risk-off factor. Furthermore, though FRB chair Jerome Powell has said he envisages one more rate hike this year, the markets are split evenly when it comes to pricing in another hike, so it seems there are concerns about the negative impact of tightening on the financial environment. The Bank of Japan (BOJ) will also be meeting to set policy for the first time under its new structure at the end of April. Most observers believe the BOJ will stick to the status quo for now, but it is also possible the BOJ might announce a policy shift. The Japanese March CPI data is also set for release on April 21. If this points to stronger-than-expected inflationary pressures, a policy tweak/shift will become a more realistic possibility. Investors are starting to focus on FRB rate hikes, so if a BOJ policy shift does seem more likely, market participants will then focus on a future shrinkage of Japanese/US interest-rate differentials. Based on the above, it seems the dollar/yen pair will be susceptible to more downward pressure in April.

However, the US also released some firm economic indicators in March. Inflationary pressures also remain high, as evinced by a comment by a FRB official that "inflation is still too high." US interest rates rose and the dollar was bought at the start of March on hawkish comments by FRB chair Jerome Powell. Controlling inflation remains the FRB's number one priority. With Mr. Powell also commenting that "the ultimate level of interest rates is likely to be higher than previously anticipated," some observers believe it is too early to start talking about rate cuts. With concerns about the financial system smoldering away, market participants will be focusing on comments by FRB officials ahead of the May FOMC meeting as they try to gauge the direction of monetary policy.

Dealers' Market Forecast

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

Bullish on the dollar	5 bulls	135.50 – 130.00	Bearish on the dollar	13 bears	135.00 – 128.00

* Ranges are central values

Kawai	Bear	135.00 – 126.00	Investors will probably test the dollar/yen pair's downside as the FRB shifts into dovish mode on regional bank failures in the US and international financial concerns. The yen will also be bought when the BOJ Monetary Policy Meeting is held for the first time under the new administration of Kazuo Ueda in April.
Miyachi	Bear	135.00 – 128.00	In April, investors will be watching closely when the BOJ meets to set policy for the first time under the leadership of Kazuo Ueda. With the markets also focusing on an end to US rate hikes, the dollar/yen pair is expecting to move with a heavy topside.
Tsutsui	Bear	134.00 – 125.00	In the US, there are concerns about inflation and the impact of tighter banking controls on the price of commercial real-estate and other assets. In Japan, meanwhile, investors will be focusing on the policies of the new BOJ administration, particularly its YCC response. Interest rates will probably fall and the dollar weaken in April due to concerns about asset movements.
Kato	Bear	133.50 – 128.00	Investors are wary about hedged or open foreign bond investment given hedging costs and solvency problems. The yen is unlikely to be sold given financial instability in the US and Europe, speculation about the end of rate hikes in major countries, and expectations for the new BOJ administration under Kazuo Ueda. Investors will try pushing the dollar/yen pair below 130 yen again.
Yamazaki	Bull	135.50 – 129.50	Bank credit concerns have eased somewhat. If this problem is resolved, investors will probably focus once again on FRB moves as it tries to tackle inflation. If they do, the dollar/yen pair looks set to rise and move firmly.
Ito	Bear	135.00 – 127.00	There is a large diversion between the FRB's prognosis and the outlook priced in by the markets. The key point this month will be whether recent financial concerns can be wiped away. With US interest rates capped, the dollar/yen pair will probably move with a heavy topside. There are also growing concerns about a BOJ policy shift on Japan's CPI data and bearish answers.
Yamagishi	Bull	137.00 – 130.00	A lot will depend on the direction of market concerns about US bank failures, but if the situation calms, the FRB will probably not cut rates given high inflation in the US, so the dollar/yen pair looks set to move firmly. The pair's stay below 130 yen was short-lived during its recent bearish phase, with the yen likely to be sold on the supply and demand front given Japan's huge trade deficit of around JPY20 trillion a year.
Omi	Bull	135.00 – 130.00	The FRB looks set to keep its policy rate at a high level given prolonged inflation, though it will find it hard to hike rates further in case this leads to financial instability. This suggests the dollar/yen pair will trade in a range.
Ueno	Bear	137.00 – 126.00	The yen has been bought on bank instability in the US and Europe, but this situation is calming and the dollar/yen pair is rallying. However, with expectations growing for a BOJ policy shift under its new leadership, investors will probably test the pair's downside this month.
Kai	Bear	135.00 – 130.00	The yen will weaken in the first half of April as risk aversion wanes. However, even if US indicators remain bullish and FRB officials continue to make hawkish comments, the dollar/yen pair's rise will likely be muted unless some new surprise emerges. Concerns are also smoldering about a policy shift when the BOJ meets at the end of April, with the pair set to edge lower.
Matsunaga	Bull	135.50 – 129.50	The FRB remains broadly focused on controlling inflation. With the authorities also moving swiftly to tackle bank liquidity concerns, the dollar was start moving firmly again as financial concerns ease.

Onozaki	Bull	137.50 – 130.00	The dollar will probably be bought on a dearth of yen-buying factors, but with the FRB edging closer to ending rate hikes, the dollar/yen pair's topside will also be capped. Investors should focus on a low of 130 yen and the pair's recent high just below 138 yen.
Harada	Bear	137.00 – 125.00	In March the markets were swept by concerns of a financial crisis for the first time since 2008 as several US regional banks failed and some European banks merged on credit concerns, with expectations for US rate hikes falling sharply as a result. With investors starting to price in rate cuts from mid-2023, the dollar/yen pair looks set to trend lower.
Katoono	Bear	135.00 – 127.50	Though risk aversion related to financial instability has waned, it still exists. With expectations for FRB rate hikes also receding sharply, US interest rates are likely to remain subdued. The BOJ will be meeting to set policy at the end of April. This will be the first Monetary Policy Meeting under the leadership of Kazuo Ueda, so the yen will probably be bought on expectations for a policy shift.
Kobayashi	Bear	137.00 – 128.00	The US and Europe still face lingering financial instability following the failure of several regional banks in the US. Though FRB chair Jerome Powell has ruled out rate cuts this year, the markets are starting to price in 2023 rate cuts, with the dollar/yen pair set to continue trading with a heavy topside.
Suzuki	Bear	135.50 – 128.00	Concerns about an economic slowdown have grown on US regional bank failures. With speculation also smoldering about FRB rate cuts within the year, the dollar is likely to remain bearish. The dollar/yen pair's topside will also be capped by expectations for a BOJ policy shift when Kazuo Ueda takes the reins.
Kimura	Bear	134.00 – 128.00	Though bank credit concerns have eased, they still linger, so there is still a risk that the yen could rise on market nervousness. With the BOJ also meeting for the first time under Kazuo Ueda at the month's end, the dollar/yen pair will probably move with a heavy topside on concerns about a policy shift.
Okuma	Bear	135.00 – 128.00	With concerns smoldering away about financial system instability in the US and Europe, speculation about US rate cuts within the year is growing on uncertainty about the direction of the US economy. On the other hand, the yen will probably move firmly on expectations for a BOJ policy shift when Kazuo Ueda become governor, so investors will probably test the dollar/yen pair's downside.

Ryosuke Kawai, Forex Sales, Global Markets Sales Department

Euro – April 2023

Expected Ranges **Against the US$: US$1.0600–1.1100**
Against the yen: JPY138.00–147.00

1. Review of the Previous Month

The euro/dollar pair fell mid-March on credit concerns involving a major European bank, though it then rose on the broadly dovish contents of the March FOMC meeting and hawkish comments by ECB officials.

The pair opened the month trading around $1.0573. Germany released some healthy preliminary January CPI data on March 1, so the pair rose to $1.0691 for a time. The preliminary eurozone February HICP consumer price index was then released on March 2, with the core figure recording record growth, though the market response was muted. With European/US interest-rate differentials then widening on rising US interest rates, the currency pair fell to the upper-$1.05 mark.

The pair rose to around $1.07 at the start of the second week as the yen was bought and the dollar sold on firm stock movements. However, it then fell to around $1.055 during NY trading time on March 7 as US interest rates rose on FRB chair Jerome Powell's testimony to Congress. The US February employment data was released on March 10. Though the nonfarm payrolls figure beat expectations, the unemployment rate was worse than expected, with the average hourly wages figure also dropping below expectations, so the greenback was sold on speculation about slowing wage inflation. The dollar was sold at a faster pace and the pair temporarily rose to the $1.07 range as US long-term interest rates fell on several US regional bank failures, with the pair closing the week trading at the mid-$1.06 level.

The impact on the US regional bank failures continued to be felt in the third week. The currency pair temporarily rose to the mid-$1.07 mark again on March 15 on rising German interest rates, but with credit concerns then hitting a major European bank, German interest rates plummeted, with the currency pair falling sharply to temporarily hit a 10-week low of $1.0517. When the ECB Governing Council met on March 16, it stuck to its guns by implementing a +50bp rate hike. This came despite growing speculation that the ECB might scale back or shelve rate hikes in the face of the credit concerns of a major European bank. However, the ECB did not make any forecast about future rate hikes, so the pair plunged to the mid-$1.05 level on falling German interest rates.

The pair opened the fourth week trading at $1.0681. Concerns then eased on reports that a major Swiss bank would be bought. The currency pair also rose when FRB chair Jerome Powell's press conference after the March 22 FOMC meeting was read as dovish. As a result, the pair temporarily soared to the $1.09 range for the first time since early February before then hitting a monthly high of $1.0930 on March 23. However, European bank stocks fell on March 24 as concerns about European bank problems grew again, with the currency pair plummeting to the lower-$1.07 mark.

The pair rose again in the fifth week on hawkish comments by ECB officials and a strong German inflation indicator, with the pair trading around $1.09 as of 11:00 Tokyo trading time on March 31.

2. Outlook for This Month

The dollar/yen pair will probably float up and down in April on headlines related to global financial concerns, though it looks set to continue moving firmly on the divergent monetary policy stances of the US and Europe.

The pair moved firmly on this divergence from January, though its movements in February and March were mainly shaped by dollar strength or weakness. On March 2 (before the emergence of credit concerns involving a major European bank), the eurozone released its closely-watched HICP data. The core figure hit record growth, but the impact on the markets was muted, so it seems market participants had already priced in the attainment of the terminal rate at an early stage.

There was speculation that the March ECB Governing Council would scale back or shelve rate hikes when it met on March 16 given the recent news about major European bank facing credit concerns, but the Council stuck to its guns by implementing a +50bp rate hike, with the ECB's deposit facility rate lifted from 2.50% to 3.00%. The accompanying statement predicted that inflation would remain too high for a prolonged period, with the Council indicating it would continue to prioritize the fight against inflation, though it made no mention of further rate hikes at the next meeting onwards.

ECB staff projections hinted that inflationary pressures might weaken on ongoing financial market tensions, a slowdown in bank lending, and the impact of monetary tightening, with the inflation outlook also downgraded compared to December, but the ECB is still expecting inflation to hit +5.3% in 2023 and +2.9% in 2024, figures that support ongoing rate hikes.

As with the ECB, speculation also grew that the FOMC would shelve rate hikes when it met on March 22. The FOMC ended up implementing a +25bp rate hike, but FRB chair Jerome Powell recognized that financial concerns were having the same impact as rate hikes, thus suggesting the FRB will shift in a dovish direction and pause rate hikes in May.

The credit concerns of a major European financial institution resulted in the institution being taken over by another bank, but the markets look set to remain skittish and there is no room for complacency. While recognizing the strong mood of uncertainty, though, ECB president Christine Lagarde insisted that future rate hikes would depend on the data. As such, while monitoring global financial uncertainty, investors will be focusing on the eurozone March HCIP data (set for release at 18:00 Japan trading time on March 31) as they try to gauge the direction of the ECB Governing Council meeting penciled in for May (as of 12:00 on March 31).

Dealers' Market Forecast

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

Bullish on the euro	16 bulls	1.1100 – 1.0675	Bearish on the euro	2 bears	1.1100 – 1.0575

* Ranges are central values

Name	View	Range	Comment
Kawai	Bull	1.1100 – 1.0600	The euro/dollar pair will probably swing up and down on headlines related to global financial concerns, but it looks set to move firmly overall on the divergent monetary policy stances of the US and Europe.
Miyachi	Bull	1.1200 – 1.0700	The ECB remains in hawkish mode. With FRB rate hikes drawing to a close, the euro will generally remain an easy currency to buy. The euro will also be supported by the improving trade balances of Europe's major countries.
Tsutsui	Bear	1.1000 – 1.0650	There are concerns that asset prices will be hit by tougher banking rules in the US, with investors also likely to focus on the risk of a European economic slowdown on ongoing rate hikes to tackle inflation. The markets have already priced in ECB rate hikes, so attention should be paid to economic trends.
Kato	Bull	1.1200 – 1.0700	The ECB has insisted it will not let financial instability lead to systemic risk. With the FRB also relaxing its hawkish stance slightly, the two central banks continue to adopt divergent stances. Despite a sense that things are peaking out, investors will probably try to push the euro/dollar pair a little higher on the comparative difference in interest-rate movements.
Yamazaki	Bull	1.1150 – 1.0700	The euro/dollar pair looks set to move firmly. Bank credit concerns are easing and investors will start to focus again on central bank moves to tackle inflation. The greenback will also be bought, though, so the pair's rise will be capped.
Ito	Bear	1.1200 – 1.0500	With inflation still high in the eurozone, the ECB remains convinced that further rate hikes will be needed. The euro/dollar pair's room on the downside will be capped despite concerns about the financial situation, will the euro likely to be bought against the dollar on expectations for US rate cuts. However, a glance at euro long positions suggests the pair will move with a heavy topside after a round of dollar selling.
Yamagishi	Bull	1.1100 – 1.0700	The eurozone core inflation rate hit a record high. Service prices are growing firmly on rising wages, with the ECB likely to implement two or three more rate hikes to tackle inflation. The euro will probably be bought on financial policy, but the euro/dollar pair will face some adjustment around the key $1.10 mark, with the pair set to float at highs.
Omi	Bull	1.1100 – 1.0500	The euro looks set to remain firm on ongoing ECB rate hikes. However, the euro/dollar pair's topside will grow heavier if news emerges about financial system instability.
Ueno	Bull	1.1200 – 1.0600	Though European inflation indicators are trending lower, ECB officials have suggested rate hikes will continue after the banking turmoil calms down, so it seems the eurozone still has more room for rate hikes compared to the US. However, with the eurozone at the center of the banking crisis, investors will find it hard to adopt euro long positions, so the euro/dollar pair is unlikely to rise sharply.
Kai	Bull	1.1100 – 1.0800	The US has released some healthy indicators and FRB officials will continue to make hawkish comments, but with the ECB steadily implementing rate hikes, investors are likely to continue focusing on shrinking interest-rate differentials. The euro/dollar pair failed to breach the $1.10 mark in February, but it will probably do so this month.
Matsunaga	Bull	1.1100 – 1.0600	It seems the ECB will continue hiking interest rates longer than the FRB. As investors focus on the end of the FRB's rate-hike cycle, the euro looks set to continue moving firmly against the dollar.

Onozaki	Bull	1.1200 – 1.0500	There remain strong concerns about eurozone inflation, with the ECB likely to continue hiking rates. With the ECB seemingly more hawkish than the FRB when it comes to rate hikes, the euro will probably be bought this month.
Harada	Bull	1.1100 – 1.0650	The eurozone core inflation rate remains high. Under these circumstances, the ECB is unlikely to shift its stance. Considering how the markets have priced in the US policy rate, it seems the euro/dollar pair will move firmly this month.
Katoono	Bull	1.1100 – 1.0700	With the ECB prioritizing the fight against stubbornly-high core inflation, it is more prepared to implement large rate hikes than the FRB, so the euro will probably move bullishly against the dollar. There are concerns about growing financial instability, but this instability emanated from the US, so it is hard to imagine the euro/dollar pair undergoing a one-sided slide.
Kobayashi	Bull	1.1000 – 1.0750	While the markets are pricing in US rate cuts within the year, the ECB looks set to tighten for a prolonged period on stubbornly high inflation. As such, the euro looks set to continue rising against the dollar.
Suzuki	Bull	1.1100 – 1.0750	The ECB will remain in hawkish mode on financial instability and high eurozone inflation. This marks a strong contrast with the US, where some investors are even expecting rate cuts within the year, so the euro/dollar pair looks set to move firmly this month.
Kimura	Bull	1.1300 – 1.0600	There have been some buybacks now bank credit concerns have eased, with investors set to focus once more on central bank stances. Though investors focused on the euro/dollar pair's high level mid-March, the pair looks set to move firmly in April on anticipation for rate hikes amid growing expectations for an economic recovery.
Okuma	Bull	1.1200 – 1.0600	There is growing speculation that the FRB will soon halt rate hikes before cutting rates later in the year. In contrast, the ECB still has room for further rate hikes. With the euro also supported by anticipation for rising European interest rates, the euro/dollar pair looks set to move firmly this month.

Motoki Amanuma, Europe Treasury Department

British Pound – April 2023

Expected Ranges	Against the US$: US$1.1900–1.2500
	Against the yen: JPY159.00–166.00

1. Review of the Previous Month

After opening the month trading at the $1.20 level on March 1, the GBP/USD pair temporarily fell to the mid-$1.19 level after BOE governor Andrew Bailey's comments about rate hikes were read as dovish. The US released a better-than-expected February Non-Manufacturing ISM Report on Business on March 3, but with the benchmark yield on 10-year US treasuries dropping back below 4%, the pair rallied to the mid-$1.20 mark.

In the next week, on March 7, the pair plummeted to the lower-$1.18 level as investors priced in a +50bp rate hike at the next FOMC meeting following hawkish comments by FRB chair Jerome Powell, with the pair dropping below its support level at the 200-day moving average line. The US February employment data was released on March 10. With the unemployment rate and the average hourly wages data both moving bearishly, US interest rates fell and the pair temporarily rose to the $1.21 range.

Financial instability grew on March 13 on a series of US regional bank failures. US interest rates had risen on expectations for more rate hikes within the year, but investors now began pricing in rate cuts as interest rates began sliding, with the dollar also sold at a faster pace. Concerns about European financial stability flared up again on March 15 on news that major stockholders would not be providing further support to a major European bank. With the UK chancellor Jeremy Hunt saying the UK would not fall into recession in 2023, the pound moved steadily, though the GBP/USD still dropped to a weekly low of $1.2012. The pair bounced back to the lower-$1.21 level on March 16 on reports that several major US banks would provide support. On March 17, the pair continued rallying on a sense of relief to hit $1.22.

The pair opened March 20 trading at the upper-$1.21 mark, with the pair buffeted by risk aversion on reports that AT1 bonds would be written down to zero when a major Swiss bank bought out by a struggling counterpart. However, the markets were soothed by news that the takeover was going ahead, with investors also calmed by reports that major central banks had reached a dollar swap agreement, so the currency pair then strengthened to the upper-$1.22 level. The euro moved bullishly across the board on March 21 when the European authorities insisted the financial system was stable and German interest rates rose. However, the greenback was then bought after US treasury secretary Janet Yellen said the authorities would repeal deposit insurance. With sterling being sold against the dollar and euro, the GBP/USD pair dropped below $1.22 for a time. The UK February CPI data was released on March 22 and it topped expectations. With a +25bp rate hike now looking more likely at the following day's BOE Monetary Policy Committee (MPC) meeting, the currency pair temporarily climbed to the $1.23 range. As expected, the BOE implemented a +25bp rate hike on March 23, with the pair hitting the upper-$1.22 level. Risk aversion prevailed as European bank stocks fell again on March 24, with the pair also dropping to the lower-$1.22 level.

At the start of the next week, on March 27, news emerged that the US authorities were looking at supporting banks by expanding an emergency bank financing facility, for example. The markets were also soothed by an announcement that a mid-sized US bank had reached an agreement to buy a regional bank that had gone bankrupt at the start of the month. With European stocks rallying on a sense of relief, the pound moved firmly.

2. Outlook for This Month

The GBP/USD pair is expected to trade at highs with a heavy topside this month.

The BOE’s Monetary Policy Committee (MPC) will not be meeting in April, with the next meeting set for May 11. The guidance was not tweaked in the press conference after the March meeting, with the BOE still keeping the door open for further rate hikes. With the UK February CPI data unexpectedly swinging upwards, the interest-rate futures market has begun to price in another +25bp rate hike. However, the UK continues to post headlines about the soaring cost of living. One survey said the price of food rose by 15% in March, with food inflation accelerating to +17.5% year-on-year. BOE governor Andrew Bailey said the February CPI rise was transitory, with inflation set to decelerate sharply from summer to drop below 4% within the year. The jobs market remains tight and wages continue to grow at a fast clip, though, so if some strong CPI data is released this month too, sterling could face some upside risk. However, the end of energy subsidy program was extended from April to July, so inflation will probably slow and the economy improve on falling energy costs. The UK 2Q GDP data was also upgraded slightly on forecasts. The impact of all this will be limited, though, with the UK economy likely to continue slowing. Furthermore, the markets were swayed by financial instability late March. Market sentiments improved toward the end of the month, but risk could break out again as long as interest rates remain at high levels. On this point, the UK financial sector is believed to be relatively stable given how it comprises several large financial institutions, with BOE Governor Andrew Bailey also emphasizing this stability. The pound was sold on the recent European financial instability, so there could be risk if the problem rears its head again, though sterling might also be bought depending on the circumstances. On the technical front, the GDP/USD pair has continued moving in a range at highs since the end of 2022. Investors will probably try pushing the pair up to a 2023 high while monitoring how it moves around $1.24, a level that has become its topside resistance line.

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

Australian Dollar – April 2023

Expected Ranges **Against the US$: US$0.6550–0.6950**
Against the yen: JPY86.00–92.50

1. Review of the Previous Month

After moving around $0.67 handle early March, the AUD/USD pair fell from $0.67 handle to $0.65 handle as investors focused on the dovish contents of the RBA board's statement. The pair's topside was held down from mid- to late-March on growing anxiety in the banking sector.

In the first week, the pair fell to $0.6695 on the bearish results of Australia's 4Q GDP data and January CPI data. However, the Australian dollar was then bought back on the firm results of the February Chinese PMI and bullish Shanghai stocks, with the pair subsequently hitting a monthly high of $0.6782. The US February Manufacturing ISM Report on Business was then released and it revealed that prices paid index had risen. As inflation concerns rose, US interest rates climbed and with the greenback was bought, the currency pair's topside was held down.

In the second week, the Chinese National People's Congress set a growth target of around 5.0% for 2023. As the RMB moved bearishly, the Australian dollar was sold and the AUD/USD pair tumbled to the lower-$0.67 level. As expected, the RBA board raised its policy rate by +25bp to 3.60%. The accompanying statement was read as dovish, though, so the Australian dollar weakened and the pair fell to around $0.67. US stocks were then sold and the currency pair dropped to the upper-$0.65 handle after FRB chair Jerome Powell hinted hawkishly that the FRB was considering accelerating the pace of rate hikes again. The pair then hovered around $0.66 on the weak results of the Chinese February CPI/PPI data and the increase in US new applications for unemployment insurance. The US February employment data was released on March 10. Though the number of people in work had increased, the unemployment rate had deteriorated, for example. As expectations for a +50bp rate hike waned, the greenback was sold. The AUD/USD pair climbed to the mid-$0.66 handle, though its topside moved heavily and it closed at $0.6580 as risk aversion prevailed on regional bank failures in the US.

In the third week, the FRB, the US Department of the Treasury and the FDIC announced a measure to guarantee all major-bank deposits, with concerns about systemic bank risk easing as a result. Amid growing speculation about an end to FRB rate hikes, US interest rates fell and the US dollar weakened, with the currency pair climbing to the lower-$0.67 level. However, risk aversion grew again mid-week on the financial travails of a large Australian bank. The pair then fell to the upper-$0.65 level.

The Australian February employment data was released in the latter half of the week, with the unemployment rate falling to its lowest level in around 50 years. With a Swiss bank also announcing it would receive liquidity support from a major European bank, credit concerns eased and the AUD/USD pair rallied to $0.67. The pair then moved in a range between $0.6650–$0.6759 until the middle of the following week, though it then fell to $0.6625 on March 24 as banking sector concerns erupted again in Europe and elsewhere.

In the fifth week, Australia posted a bearish February retail sales figure. This suggested household spending was slowing on high interest rates. Australia's February CPI figure also slowed to 6.8%, thus supporting the RBA's claim that inflation had peaked, with investors moving to price in no new rate hikes at the April RBA meeting. The currency pair weakened to the upper-$0.66 level and it then floated around $0.67 on the rebalancing flow at the end

of the month and quarter.

2. Outlook for This Month

The AUD/USD pair looks set to trade in a range around the upper-$0.65 handle to the upper-$0.67 level in April. The minutes to the March RBA board meeting revealed that members had "agreed to reconsider the case for a pause at the following meeting, recognising that pausing would allow additional time to reassess the outlook for the economy. At what point it will be appropriate to pause will be determined by the data and the Board's assessment of the outlook." Australia's February retail sales data (released late March) suggested consumer spending had slowed on high interest rates. Australia's February CPI indicator also slowed and inflationary pressures eased, with the data thus supporting the RBA's forecast. As such, it has become more likely that the board will opt to keep the policy rate fixed when it meets in April.

As expected, the FOMC implemented a +25bp hike when it met in March, but the wording of its statement was changed in light of the recent financial sector turmoil, with the FRB leaving open the option of halting rate hikes. This led to growing speculation about an end to US rate hikes, but Boston FRB president Susan Collins (a non-voting member), Minneapolis FRB president Neel Kashkari (a voting member) and several other FRB officials have said further rate hikes will be needed and the FRB should commit to returning inflation to the 2% target, so the direction of FRB monetary policy is still not fixed. A lot of data will be released between now and the next FOMC meeting in May. In April, investors will be monitoring the results of US indicators, the external environment, and the direction of comments by FRB officials.

At present, expectations are growing that the RBA board will keep the policy rate fixed when it meets in April, but the AUD/USD pair's topside set to move heavily. Furthermore, though concerns about banking sector instability have eased to some extent, the risk has not been completely eradicated, with the currency pair likely to be weighed down again by risk sentiments at times. However, a Chinese March PMI suggested the economy was improving, with the Australian dollar likely to be supporting again by Chinese economic trends. The greenback will also be sold on growing expectations for an end to US rate hikes as inflation and consumer spending cools off, with this likely to support the AUD/USD pair. It will take time before all the factors are in place to push the pair fully in any one direction, with the pair likely to move in a range in April after the RBA board opts to keep the policy rates fixed. Market participants should continue to monitor the data closely.

Hiroki Kashiwagi, Canada Office, Americas Treasury Department

Canadian Dollar – April 2023

Expected Ranges **Against the US$: C$1.3300–1.3850**
Against the yen: JPY93.00–100.00

1. Review of the Previous Month

The USD/CAD pair began March trading at the lower-C$1.36 mark. Crude oil prices fell sharply on March 3 on reports that the UAE was considering leaving OPEC. As the currency of an oil-producing nation, the Canadian dollar temporarily fell to a monthly low of C$1.3557 against the US dollar, though it then strengthened across the start of the month.

The greenback was bought on March 7 after investors focused on the divergent monetary policy stances of the US and Canada following some hawkish comments by FRB chair Jerome Powell in his testimony to the US Congress, with the USD/CAD pair rising sharply to C$1.3760. As expected, the Bank of Canada (BOC) kept its policy rate at 4.5% on March 8, so the currency pair continued rising. On March 10, the pair then hit an overnight high of C$1.3859 for the first time since October 2022. However, the US February employment data was released on the same day, with the average hourly wages figure dropping below expectations. This contrasted with the better-than-expected average hourly wages figure in the Canadian employment data so the US dollar was sold and the Canadian dollar bought, with the USD/CAD pair dropping back to $1.3766, with C$1.3859 thus marking its high for the month.

Investors focused on concerns about financial system instability mid-March after the failure of two US regional banks. As expectations for US rate hikes waned on these concerns, the greenback was sold and the currency pair slid to C$1.3653 on March 14. However, Credit Suisse also reported financial difficulties on March 15, so the US dollar was bought on risk aversion, with the pair then rallying to C$1.3814 amid erratic trading.

The Canadian dollar was sold on risk aversion related to financial system turmoil toward the end of the month, though it was also bought on shrinking US/Canada interest-rate differentials. During this time, the USD/CAD pair edged lower as concerns about the financial system eased. The Canadian February CPI data was released on March 21 and the FOMC then announced a +25bp rate hike on March 22, but this news did not shift the pair as much as usual. However, the pair did surge to $1.3804 for a time on March 24 as risk aversion greeted news that the CDS of a German bank had risen sharply.

2. Outlook for This Month

When the Canadian February CPI data was released on March 21, it confirmed that inflation remained entrenched. Though headline inflation had fallen to +5.4% y-o-y, (January: +5.9% y-o-y), core CPI had only slowed to +4.8% y-o-y (January: +5.0% y-o-y). Though the situation is the same in the US, the Bank of Canada (BOC) indicated it would stop lifting rates after January because of the impact on households with a high dependency on loans and also because time would be needed for rate hikes to take effect, with the bank subsequently keeping its policy rate fixed at 4.5% when it met on March 8. In his testimony to Congress, meanwhile, FRB chair Jerome

Powell hinted that the terminal rate might end up higher than originally envisaged. Given this, the divergence in the monetary policy stances of the two central banks became more pronounced from early March, with the yield spread on US and Canadian 2-year government bonds widening to around 75bp and the USD/CAD pair hitting a high of C$1.3859.

It was originally believed US/Canadian interest-rate differentials would support the currency pair's topside for a time, but these differentials then shrunk as investors moved to price in US rate cuts within the year. This came after concerns about financial system instability swept the markets after the failure of two US regional banks. WTI crude oil prices and the Canadian dollar have fallen at times on risk aversion related to this instability, with the USD/CAD pair now being swayed by different factors.

Though investors focused on the divergent monetary policies of the BOC and FRB in March, things will probably be different in April. If concerns about the financial system rise again and risk aversion intensifies, the Canadian dollar will be sold for a time. However, though US bullishness and Canadian dollar bearishness was supported by US/Canadian interest-rate differentials from February, these differentials have since shrunk. As the FOMC's dot chart (released March 22) showed, participants are only expecting one more rate hike going forward, with this also likely to hold down the USD/CAD pair's topside. The pair is expected to move in a range between C$1.33 and C$1.385 in April.

Hirobumi Nakano, Seoul Treasury Office, East Asia Treasury Department

Korean Won – April 2023

Expected Ranges **Against the US$: KRW 1,280–1,340**
Against the yen: JPY 9.901–10.526 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved with a slightly heavy topside in March.

After rising to KRW1326.6 at the end of February, the won was then bought on end-of-month real demand, so the pair was pushed down and it opened the month trading at KRW1318.0 on March 2. Real demand for the won remained muted, as evinced by South Korea's February trade balance (-$5.3 billion), but the pair did see some adjustive selling in reaction to the extremely fast pace of its previous rise, so it weakened toward March 7. However, medium-term and other US interest rates then soared during overseas trading time on March 8 after FRB chair Jerome Powell commented in his testimony to the US Congress that the pace of rate hikes might be accelerated depending on the data going forward. With the greenback bought across the board, the USD/KRW pair rose to a monthly high of KRW1329.0 on March 9. However, medium-term and other US interest rates then plummeted by over 20bp during overseas trading time on March 10 following the failure of the US regional bank SVB. With the dollar then sold aggressively across the markets, the currency pair dropped below the key KRW1300 level. With Credit Suisse also announcing the discovery of major problems, US interest rates continued to move erratically downwards. Amid a mood of risk aversion, overseas investors also sold South Korean stocks. The USD/KRW pair climbed back to KRW1310 on March 16. However, the Swiss National Bank then announced it would provide up to $50 billion Swiss francs to Credit Suisse. With the ECB also implementing a 50bp rate hike, as expected, US interest rates edged higher and stock markets rallied. Concerns about the banking system steadily eased on March 19 on news that UBS would be buying out and thus saving Credit Suisse. The FOMC then implemented a 25bp rate hike on March 22. Though this was expected, FRB chair Jerome Powell also hinted in his press conference that rate hikes might come to an end as early as May. The market interpreted this as a dovish shift by the FRB, with the dollar subsequently sold. The pair then fell to a monthly low of KRW1276.5. With South Korean companies distributing dividends in volume, though, the RMB faced less selling pressure at the month's end. In the end, the pair closed the month at KRW1301.9, down 21.1 won on the end of February.

2. Outlook for This Month

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

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), though the FOMC implementing a 25bp rate hike (4.75%→5.00%) in March, FRB chair Jerome Powell adopted a dovish position during in press conference in the wake of the recent travails of the banking system. The dollar will probably be sold on speculation about an end to rate hikes as early as May and the start of rate cuts within the year. However, the US authorities have strengthened their stance towards guaranteeing deposits, so

concerns about the impact on other regional banks are waning. With labor and housing supply and demand also remaining firm, expectations for rate cuts within the year may well fall off, with the dollar bought again as a result.

With regards to (2), the BOK kept its policy rate at 3.5% when it met on February 23. With US interest rates also sliding, the markets are expecting the BOK to start cutting rates in the latter half of 2023. South Korea's trade balance is moving bearishly. With many South Korean companies also set to distribute dividends from April onwards, the won will face strong selling pressure and it is hard to find any factors conducive to won buying. The USD/KRW pair will also move firmly given that the authorities seem prepared to tolerate the won sliding to the KRW1300 range.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – April 2023

Expected Ranges **Against the US$: NT$30.00–30.70**
Against the yen: JPY4.28–4.40

1. Review of the Previous Month

The USD/TWD pair rose in March on concerns about rate hikes, though it then fell after some US regional bank failures.

The greenback rose during a market holiday on March 1, with the pair opening at TWD30.560 when trading resumed. It then climbed to the mid-TWD30.6 mark, though the US dollar was sold at this level, so the pair's topside was capped and it continued moving in a range around TWD30.60. However, the greenback was then bought and the pair strengthened to just below TWD30.80 on March 8 after FRB chair Jerome Powell struck a hawkish tone in his testimony to the US Congress. The US dollar was bought again on March 9 on renewed concerns about accelerated rate hikes, with the pair hitting TWD30.8.

March 9 also saw reports about a struggling US regional bank, so bank stocks and other US equities fell on March 10. With the Taiwan dollar also sliding on bearish Taiwanese stocks, the currency pair temporarily hit TWD30.893. News about more US regional bank failures emerged over the weekend, so risk aversion intensified on March 13. However, speculation then grew that the FOMC might halt rate hikes due to these bank failures, so foreign capital flowed into Taiwan. With the Taiwan Capitalization Weighted Stock Index rising on the previous day once again, the Taiwan dollar was bought and the currency pair fell to the lower-TWD30.6 level. Composure then returned to the markets, but with a major Swiss bank also facing difficulties, the pair continued trading around TWD30.6.

The FOMC implemented a 0.25% rate hike late March, but US interest rates fell after FRB chair Jerome Powell said during his press conference that the FOMC had discussed ending rate hikes. With the greenback moving bearishly on March 23, the USD/TWD pair dropped to TWD30.3. With exporters also selling the US dollar at the month's end, the pair temporarily fell to TWD30.290 on March 28. With US interest rates rising, though, the currency pair moved firmly to return to TWD30.4.

2. Outlook for This Month

The USD/TWD pair is expected to trade in a range in April.

The US dollar rose in March on renewed concerns about ongoing US rate hikes, though risk aversion then intensified after some US regional bank failures. Taiwanese stocks also fell for a time, but expectations for US rate hikes then waned, with the greenback also sold on falling US long-term interest rates, so the pair edged lower.

The Central Bank of the Republic of China (Taiwan) (CBC) also implemented a 0.125% rate hike when it met to set policy. However, the CBC did not outline a clear direction going forward, so investors should continue to monitor inflationary trends.

The USD/TWD pair is expected to move in a range in April. With financial instability still not completely

eradicated, expectations for US rate hikes are unlikely to rise any time soon. Though the currency pair will continue moving with a heavy topside, it will also move firmly. Taiwanese exports continue to fall and Taiwan's trade surplus is shrinking, with real demand for the Taiwan dollar less intense than before. As a result, the pair will probably move in a range.

One worry will be the direction of financial instability. With expectations for US rate hikes waning, funds are flowing into the Taiwan dollar. However, if financial instability impacts the real economy, this could lead to falling exports, bearish Taiwanese stock movements, and Taiwan-dollar selling, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – April 2023

Expected Ranges **Against the US$: HK$ 7.8000–7.8500**
Against the yen: JPY 16.20–17.30

1. Review of the Previous Month

Hong Kong dollar spot exchange market in March

The recent banking turmoil in US and Europe fueled volatility HKD market occasionally but the HKD did not move away persistently from its weak-side convertibility undertaking of 7.85 level at the late-stage of Fed's rate hike cycle. Following the collapse of Silicon Valley Bank (SVB), the Fed managed to go ahead with a 25bps hike and the persistent carry return of long USD/HKD pushed HKD spot back to near 7.85 level. In addition to the carry trade flow, capital outflow form HKD market was limited given the prevailing China reopening trade. The year-to-date Stock Connect inflow to HK equities climbed robustly in March towards HKD 70bn. In the midst of risk-off period, IPO activities remained subdued. On the data front, HK retail sales for January improved on the seasonal consumption related to Chinese New Year. Trade figures for February came in less-worse than expected but trade growth still fell notably after removing the seasonal distortion and the increasing global recession risk will likely weigh on HK recovery, despite the China reopening.

Hong Kong dollar interest rate market in March

HKD rates swayed up and down as the banking turmoil derailed the Fed's rate path. In any case, HKD rates held up above the low in February while was trading at discount of USD rates. 1-month and 3-month HKD HIBOR – USD LIBOR spread stayed at -150bps and -130bps, respectively. That says, HKD liquidity condition remained relatively ample compared to the USD market amid the US banking turmoil and credit tightening. As the HKD did not touch 7.85 level, the HK aggregate balance stayed unchanged at HKD 77bn and the threat of massive HKD liquidity drainage should ease if the Fed halted its rate hike cycle sooner. As 1-month HKD HIBOR remained soft, HK banks refrained from raising the prime rate after Fed's 25bps hike. With the pricing of Fed's sooner rate cut, HKD IRS curve tracked on USD IRS to drop, with 3Y and 5Y HKD IRS tumbling to 3.3% and 3.2% from 4.5% and 4.2% at February-end, respectively. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) flipped back to positive territory on resurfacing expectation for a Fed's rate cut cycle.

2. Outlook for This Month

Hong Kong dollar spot exchange market in April

As the Fed is not likely to change its course to a rate cut cycle very soon, the carry trade flow of long USD/HKD is set to continue for a while and leave the HKD spot trading at near 7.85 level most of time. Admittedly, sentiment remained fragile and the escalation of US banking turmoil could fuel Fed's rate cut expectation and trigger the temporary unwinding of long USD/HKD carry trade. Meanwhile, capital inflow should help support the HKD as long as the China reopening trade maintained its momentum. Considering the

banking turmoil in US and Europe markets, the steady China growth outlook and stable financial markets will be appealing to some foreign investors and the outflow pressure will be contained. The history of Fed's insurance cut in 2019 suggested the Fed's modest rate cut will not bring HKD spot from 7.85 to 7.75 immediately and the FX market adjustment will take time. In the back-end curve, the 1Y HKD forward may reverse its downtrend and rebounded from around -800 points given sooner Fed's pivot.

Hong Kong dollar interest rate market in April

We expect HKD rates to stay below USD rates given flush HKD liquidity condition. With deteriorating sentiment, IPO activities in HK stock market will likely remain subdued and HKD funding demand should prove to be soft. As the Fed made a dovish shift, the threat of HKD liquidity squeeze via the massive HKMA's FX intervention eased notably and hence banks will tend to offer their excess cash in the money market. Under the Linked Exchange Rate Regime, the Fed's policy rate change will transmit to the HKD FX market first and hence the decline in HKD HIBOR will be lagging behind Fed's actual rate cut.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – April 2023

Expected Ranges **Against the US$: CNY 6.7000–6.9500**
Against the yen: JPY 18.00–20.30

1. Review of the Previous Month

The U.S. dollar/Chinese yuan exchange rate once reached its highest level since the beginning of the year. However, seen from a monthly point of view, the exchange rate declined slightly.

In March, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.93 level. On March 1, the Chinese PMI was announced, revealing a strong figure, which supported the Chinese yuan, and the Chinese yuan appreciated. As a result, the U.S. dollar/Chinese yuan exchange rate fell significantly to the CNY 6.86 level. Thereafter, interest rates rose in the U.S., encouraging market participants to actively buy the U.S. dollar again. Furthermore, at the National People's Congress of the People's Republic of China, the target growth rate for FY2023 was announced to be around 5%, with a downward revision. In reaction, market participants sold the Chinese yuan, and this led the U.S. dollar/Chinese yuan exchange to rally. On March 7, market participants continued buying the U.S. dollar even more vigorously based on a hawkish statement made by Federal Reserve Board (FRB) Chair Jerome Powell at a congressional testimony. Consequently, the U.S. dollar/Chinese yuan exchange rate reached the CNY 6.97 level. On March 8, the U.S. dollar/Chinese yuan exchange rate reached CNY 6.9782—the highest rate since the beginning of the year.

However, market participants started to sell the U.S. dollar in an accelerated manner thereafter, in order to avert risks, having seen the collapse of a local bank, Silicon Valley Bank (SVB), in the U.S. On March 13, the U.S. dollar/Chinese yuan exchange rate fell sharply to the CNY 6.83 level. The U.S. dollar/Chinese yuan exchange rate once rallied to approach the CNY 6.90 level. Thereafter, major domestic statistics were released on March 15, and this was seen as a positive factor in the market, although impact on the exchange market was limited, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.88 level without moving in any direction.

Also, the Loan Prime Rate (LPR) was maintained at the existing level, which did not impact the exchange market. Subsequently, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range without moving in any direction, as a Federal Open Market Committee (FOMC) meeting in the U.S. was approaching. At said meeting, concerns were expressed regarding the current financial uncertainty that could affect the economy and inflation. In reaction, the U.S. dollar depreciated in the foreign exchange market. Then, on March 23, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 6.81 level—the lowest rate in the month. However, the exchange rate did not fall further and rapidly returned to the level observed before the FOMC meeting. Toward the end of the month, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 6.88 level.

2. Outlook for This Month

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

At the beginning of March, the outcome of the National People’s Congress was announced, but there was no surprising element in the announcement. With regard to the foreign exchange market and monetary policy, the same principles were repeated, once again emphasizing that China would aim to generally maintain the stable Chinese yuan exchange rate while taking proactive fiscal policy and moderate monetary policy. At the moment, there has been no major shift in the monetary policy of the People’s Bank of China (PBOC), and market participants are losing interest in the PBOC. Thus, the U.S. dollar/Chinese yuan exchange market is not likely to be led by factors related to the Chinese yuan. As can be confirmed in the fact that there is a high level of correlation between the U.S. dollar index and the U.S. dollar/Chinese yuan spot exchange rate, the U.S. dollar/Chinese yuan exchange rate continues to follow factors related to the U.S. dollar.

Currently (as of this writing), a sense of uncertainty has been growing in financial markets after the collapse of SVB. It is certain that this event is one of the factors to weaken the attitude of the FRB, which had previously been strengthening its hawkish attitude to compete with inflation and the labor market in the U.S., which has remained strong even with measures of monetary tightening. It is thus more likely for the market to start reflecting an early start of policy interest rate cuts. As the policy interest rate of the U.S. is approaching the terminal rate, it is unlikely for the U.S. dollar to appreciate further unless many of the economic indices turn out to be unexpectedly strong.

It is also worth noting that expectations are growing for the domestic economy of China to recover, as China has finally stepped out of its zero-Covid policy. Therefore, security investment inflow is expected to increase after seeing a large outflow. There has already been a rapid increase in northbound inflow through the Stock Connect scheme (from Hong Kong to Shanghai and Shenzhen). In the bond market, the government bond yields of developed countries remain high, and thus there is limited inflow from foreign investors into the Chinese bond market. However, the inflow might increase further once market participants have confirmed a recovery in the real economic data and the real estate sector as a result of the economic bailout measures by the Chinese monetary authorities.

The foreign exchange market has not yet reflected the opposition between the U.S. and China as well as the growing geopolitical risks, of which market participants should remain attentive. However, as the U.S. dollar is likely to be the leading force in the exchange market, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low in March.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – April 2023

Expected Ranges **Against the US$: SG$ 1.3000–1.3550**
Against the yen: JPY 96.50–103.00

1. Review of the Previous Month

The U.S. dollar/Singapore dollar exchange rate remained low in March.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.34 level on March 1. Thereafter, the exchange rate fell to the upper-SGD 1.33 level, having seen strong figures in the economic indices of China. However, during local trading hours, Federal Reserve Board (FRB) officials made hawkish remarks, which slowed down the fall of the U.S. dollar/Singapore dollar exchange rate. On March 2, market participants continued buying U.S. dollars, and the U.S. dollar/Singapore dollar exchange rate once reached the SGD 1.35 level. Subsequently, the February service industry PMI of China was announced on March 3 with positive growth, which kept the U.S. dollar/Singapore dollar exchange rate from rising significantly. Then, on March 7, FRB Chair Jerome Powell made a hawkish remark at a congressional testimony, and this led the U.S. dollar to appreciate significantly, with the U.S. dollar/Singapore dollar exchange rate rising to reach the upper-SGD 1.35 level. After fluctuating without moving in any direction, the U.S. dollar/Singapore dollar exchange rate temporarily fell to the lower-SGD 1.34 level, as the February employment statistics of the U.S. were released on March 10 showing a slowdown in the growth of salaries, while there was news about the collapse of a bank in the U.S.

During March 13–14, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at around the SGD 1.34 level. On March 15, risk-averse sentiment grew in the market, having seen the financial problems of a major bank, Credit Suisse, in Switzerland. Following this trend, market participants started actively selling the Singapore dollar as well, and the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.35 level. However, a cautious feeling was growing in the market over the credit crisis in financial institutions in the U.S. and Europe, and this led interest rates in the U.S. to decline while encouraging market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell below the SGD 1.34 level toward the end of the day on March 17, local time.

Interest rates in the U.S. remained low, as market participants were concerned with a potential credit crunch. Under such a circumstance, the U.S. dollar/Singapore dollar exchange rate continued falling slowly. Thereafter, the outcome of a Federal Open Market Committee (FOMC) meeting on March 22 in the U.S. was considered dovish in the market, while U.S. Secretary of the Treasury Janet Yellen made a remark to emphasize that an upward revision in deposit insurance was not considered. As a consequence, the U.S. dollar depreciated further, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-1.32 level. On March 24, however, market participants started actively buying the U.S. dollar, responding to strong figures in the economic indices of the U.S., along with the remark by an FRB official about a possible upward revision on the estimated peak policy interest rate, with all of this leading the U.S. dollar/Singapore dollar exchange rate to rise to the mid-SGD 1.33 level.

Then, on March 28, the media reported on the acquisition of a collapsed bank in the U.S., and this improved risk sentiment in the market, encouraging market participants to buy the Singapore dollar. As a result, the U.S.

dollar/Singapore dollar exchange rate fell to the lower-SGD 1.32 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate stopped falling and continued fluctuating between the upper-SGD 1.32 level and the lower-SGD 1.33 level (as of March 30).

2. Outlook for This Month

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

Since the second half of last year, the Singapore dollar continued appreciating against the U.S. dollar. It seemed that this trend had slowed down once in February. However, in March, the U.S. dollar continued depreciating against the Singapore dollar again. The U.S. dollar started to depreciate mainly because market participants grew cautious about a possible credit crisis in the financial system in the U.S. and Europe, expecting the FRB to raise its policy interest rate less significantly than previously estimated. With regard to uncertainty about the financial system in the U.S. and Europe, there have been no excessive concerns, as a series of bailout plans have been announced. However, market participants need to continue assessing the impact of the financial uncertainty on the real economy for a while, sensitively reacting to related headlines. At an FOMC meeting in March, the policy interest rate in the U.S. was raised by 25 basis points in the end, even though some market participants expected the FRB to stop raising its policy interest rate due to the uncertainty related to the financial system. However, as long as the sense of uncertainty persists concerning the current system, interest rates in the U.S. are difficult to rise, and market participants are expected to avoid buying the U.S. dollar.

In April, a Monetary Authority of Singapore (MAS) meeting is scheduled for April 10–14, and this is attracting substantial attention in the market. Last year, the MAS decided to raise the slope and middle point of its exchange rate policy band a number of times, demonstrating its firmly hawkish attitude. Many market participants are likely to expect measures of monetary tightening at the April MAS meeting as well. In March, the U.S. dollar/Singapore dollar exchange rate fell, mainly because market participants sold the U.S. dollar. However, expectations for monetary tightening by the MAS are also considered one of the factors for the fall of the exchange rate. Therefore, if the MAS announces its plan to take measures of monetary tightening, it would encourage market participants to buy the Singapore dollar.

After attracting attention in the market, if the MAS decides to shift from the hawkish policy that has been observed so far, or if uncertainty over the financial system is mitigated at an early point, leading interest rates in the U.S. to rise, it is possible for the U.S. dollar to start appreciating again. However, it is most likely for the U.S. dollar/Singapore dollar exchange rate to remain low in April.

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

Thai Baht – April 2023

Expected Ranges **Against the US$: THB 33.80–35.10**
Against the yen: JPY 3.78–3.90

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell in March. The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35 level. Thanks to the strong figures in the Chinese economic indices, the Thai baht strengthened at the beginning of the month, and the U.S. dollar/Thai baht exchange rate soon fell below the THB 35 level. However, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range thereafter, as the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell and the release of the February employment statistics of the U.S. were scheduled for the following week. Said congressional testimony turned out to be hawkish, implying the acceleration of policy interest rate hikes, and this led the two-year U.S. government bond yield to reach the 5% level. The expected terminal interest rate before the end of the year was also raised to the upper-5%, and, as a result, the U.S. dollar/Thai baht exchange rate recovered to the THB 35 level. However, the media started reporting on management issues at a local bank, Silicon Valley Bank (SVB), in the U.S. on March 9, and the bank collapsed on March 10, the following day, with this significantly worsening the market sentiment. Market participants reacted to this event first by buying the U.S. dollar but later switched to better-quality options. As a result, U.S. government bond yields fell sharply, leading the U.S. dollar/Thai baht exchange rate to fall to the upper-THB 34 level.

In the middle of the month, various support measures were taken after the collapse of SVB, such as depositor protection and liquidity supply. However, the media also reported on issues in management at a major bank, Credit Suisse, in Switzerland, and this led the U.S. dollar/Thai baht exchange rate to fall further to the mid-THB 34 level. As was the case with SVB, the central bank of Switzerland immediately announced its intention to support Credit Suisse and took support measures. Consequently, the U.S. dollar/Thai baht exchange rate stopped falling temporarily. However, the U.S. dollar continued depreciating thereafter, and the U.S. dollar/Thai baht exchange rate approached THB 34, as interest rates in the U.S. were on a downtrend and as the estimated inflation rate declined in the U.S.

At the end of the month, the House of Representatives of Thailand was dissolved in preparation for the general election. The U.S. dollar/Thai baht exchange rate rose to the mid-THB 34 level before a Federal Open Market Committee (FOMC) meeting in the U.S., as one of the candidates for Prime Minister and who has strong support in the opinion poll promised to raise the minimum wage significantly, and this fueled concerns that Thailand could become less competitive in exports, with increased costs. Then, on March 22, the FOMC meeting was held in the U.S., and FRB Chair Jerome Powell made a remark that he had considered stopping policy interest rate hikes due to issues related to the collapse of SVB. As a result, short-term interest rates in the U.S. fell. Furthermore, U.S. Secretary of the Treasury Janet Yellen frequently changed her view on the expansion of deposit insurance coverage, and this kept market participants cautious. As a result, the U.S. dollar continued depreciating in the overall foreign exchange market, and the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 34 level. In the last week of the month, the media reported that there was an agreement on the acquisition of SVB by another

local bank, and this changed the trend, with the risk-taking sentiment growing in the market as well. Interest rates in the U.S. also rose. However, the U.S. dollar/Thai baht exchange rate did not remain at the mid-THB 34 level for a long time. Thereafter, the Monetary Policy Committee (MPC) of the central bank of Thailand decided to raise its policy interest rate by 25 basis points. However, as this decision had already been anticipated in the market, there was little market impact. By the end of the month, there were some transactions based on actual demand at the end of the quarter period, as a result of which the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range again. On March 30, trading closed in the onshore market at the lower-THB 34 level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain low in April. The U.S. dollar started to appreciate in February, thanks to extremely strong figures in the January employment statistics of the U.S. However, in March, the appreciation of the U.S. dollar ended, due to the collapse of SVB and the media reports on issues in management at Credit Suisse in Switzerland.

Because the media reported uncertainty about financial stability in the U.S. and Europe, there were a series of central bank meetings in the U.S. and Europe, starting from the ECB meeting held on March 16, followed by the FOMC meeting and the Bank of England meeting. All three central banks raised their policy interest rates. However, unlike their previous meetings, they were more cautious about their outlook for future monetary policy. Following these three central banks, the central bank of Thailand held its MPC meeting on March 29 and decided to raise its policy interest rate by 0.25%, as had been anticipated in the market. The central bank stated that it was necessary to continue the normalization of monetary policy, as inflation needs control, while the Thai economy was supported by the tourism industry, which is recovering faster than expected.

However, if the central bank of Thailand raises its policy interest rate again at the next MPC meeting, the policy interest rate would reach 2.00%—the level before the Covid-19 pandemic. It seems reasonable to raise the policy interest rate to 2% in order to control inflation. However, further policy interest rate hikes would cause concerns in the corporate sector. Thus, it is expected for market participants to expect the end of policy interest rate hikes at this level. Therefore, market participants are unlikely to actively buy the Thai baht because of the normalization of monetary policy. Furthermore, concerns over banks in the U.S. and Europe were mitigated, and this makes it unlikely for market participants to buy the U.S. dollar to avert risks. Thus, the U.S. dollar/Thai baht exchange rate is not expected to move in any direction in the times ahead until the next important event that creates a new trend.

On the other hand, in terms of the policy interest rate in the U.S., there is a gap between the dot plot announced at the FOMC meeting in March and the terminal interest rate currently expected by market participants. Because the estimate by FOMC members has more impact than that by market participants, it is possible for U.S. dollar-buying to increase with a small trigger, which we need to remain careful about. In April, there is no important cyclical event at the central bank of Thailand and the FRB. Furthermore, the so-called "blackout period" will start from the end of April, in preparation for the FOMC meeting in May. For these reasons, the U.S. dollar/Thai baht exchange rate is forecast to remain low in April, waiting for the next event.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – April 2023

Expected Ranges **Against the US$: MYR 4.35–4.45**
Against the yen: JPY 29.58–30.49

1. Review of the Previous Month

In March, the U.S. dollar/Malaysian ringgit exchange market remained volatile, due to the uncertain situation in the banking sector spreading from the U.S. At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange rate once exceeded the MYR 4.5 level. However, at the end of the month, market participants bought back the Malaysian ringgit. Therefore, from a monthly point of view, the Malaysian ringgit appreciated against the U.S. dollar.

At the beginning of the month, the central bank of Malaysia decided to maintain its policy interest rates at the existing levels on March 9 for the second consecutive time. This decision was not a surprise to market participants. Even though there was no particular event in Malaysia, on March 7, local time, in New York, Federal Reserve Board (FRB) Chair Jerome Powell implied at a congressional testimony that the peak policy interest rate might exceed the previous estimate. This led market participants to expect an acceleration of policy interest rates hikes in the U.S. As a result, the U.S. dollar appreciated sharply. Following this trend, the Malaysian ringgit depreciated, and the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.5 level, which had been a psychological turning point. In terms of interest rates in the U.S., there was an inverted yield curve, and the two-year U.S. government bond yield exceeded the 5% level for the first time since 2007.

In the middle of the month, Silicon Valley Bank (SVB) collapsed in the U.S., which led to growing concerns in the market over the management stability of a major bank in Switzerland, Credit Suisse, and market participants took actions to avert risks. Due to the uncertainty in the U.S., funds are flowing into safe assets such as the euro and the Japanese yen. Under such circumstances, market participants did not buy the U.S. dollar as a key currency, and this weakened the U.S. dollar. Thereafter, a series of bailout measures were announced, which mitigated the concerns in the market. And, before the Federal Open Market Committee (FOMC) meeting scheduled for March 22, the February CPI and PPI of the U.S. were announced, gathering substantial attention in the market, and the result turned out to be as estimated in the market for the CPI and slightly below the market estimate for the PPI. Reaction in the exchange market to the economic indices was limited, while the collapse of SVB and the problems at Credit Suisse caused confusion in the market.

However, at the end of the month, the uncertainty in the banking sector was mitigated, thanks to the media report on bailout measures including interventions by monetary authorities in various countries, and this also improved the risk sentiment in the market. As a result, the U.S. dollar/Malaysian ringgit exchange rate started falling. In Malaysia, the February trade statistics were released with a delay, revealing results that were stronger than the market estimate. On the other hand, however, exports to China, one of Malaysia's major trade partners, recorded a year-on-year decline of 6%, which was a source of concern. At the FOMC meeting in the U.S. that gathered substantial attention in the market, the policy interest rate was only raised by 25 basis points, as had been expected in the market, as the concerns related to the banking sector had not been completely swept away. At the press conference after the meeting, FRB Chair Jerome Powell expressed his firm belief that the currently growing uncertainty in the banking sector

would not seriously impact efforts to control inflation. However, market participants reacted by selling the U.S. dollar. Then, on March 24, the February CPI was announced, and the result turned out to be +3.7%—slightly above the market estimate. Food prices remained high, with year-on-year growth of +7.0%, which pushed the overall rate high. Thereafter, there was no particular factor to impact the market, and the U.S. dollar/Malaysian ringgit exchange rate fell further when market participants bought the Malaysian ringgit toward the end of the month.

2. Outlook for This Month

In April, the U.S. dollar/Malaysian ringgit exchange market is forecast to fluctuate, with market participants being concerned about the stability of the financial system in the U.S., as has been the case so far.

The monetary market has somewhat stabilized for now, as the monetary authorities of various countries promptly took bailout measures. On the other hand, however, an economic recession is expected as a result of active measures taken by central banks to control inflation. Under such circumstances, the financing environment, which grew favorably thanks to global financial loosening after the outbreak of the Covid-19 pandemic, tightened rapidly with the sharp rise of interest rates. For this reason, the volatility in the foreign exchange market is expected to rise further if concerns grow over more cases of bank failure, following SVB and Signature Bank. At the time of the collapse of SVB in March, the U.S. dollar/Malaysian ringgit exchange rate rose only in a limited manner, as the issue involved a headline from the U.S. However, if uncertainty in the banking sectors spreads further, market participants are expected to start selling the currencies of emerging countries to avert risks. Thus, the U.S. dollar/Malaysian ringgit exchange rate is likely to exceed MYR 4.53—the high recorded in March.

In terms of domestic factors, key indices are the trade statistics and the CPI. It is also important to note that the central bank of Malaysia has no monetary policy meeting scheduled for April and that the next meeting will be held on May 3. The March trade statistics are to be released on April 19, and market participants should look particularly at trade with China, as well as the growth rate in petroleum oil-related products. While expectations are growing for the economic recovery of China after the lifting of its zero-Covid policy, trade with China is currently declining remarkably. Furthermore, the North Sea crude oil price has constantly been under USD 80, which we should keep in mind. The February PPI recorded negative year-on-year growth, while the February CPI remains high, with positive year-on-year growth of +3.7%. If food and services prices continue to rise, a decline in personal consumption could slow down the domestic economy.

On the other hand, if the above risk factors end up leading to no serious consequence, the U.S. dollar is expected to depreciate slowly, strengthening the Malaysian ringgit. In terms of the Malaysian ringgit/Japanese yen exchange market, the first Bank of Japan meeting under the new governor, Kazuo Ueda, is scheduled for April 28, and this is gathering attention in the market. Thus, market participants should remain attentive about violent fluctuations in the Malaysian ringgit/Japanese yen exchange rate before and after any announcement from the Bank of Japan meeting.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – April 2023

Expected Ranges	Against the US$: IDR 14,800–15,300
	Against the yen: JPY 0.8621–0.8929 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,200 level on March 1. On the same day, the February CPI of Indonesia was announced, and the result turned out to be 5.47%, close to the market estimate: 5.42%. Thus, market participants reacted to this event only to a limited degree. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the lower-IDR 15,200 level and the upper-IDR 15,200 level. During overseas trading hours, U.S. economic indices were announced with strong figures, in response to which interest rates rose in the U.S., strengthening the U.S. dollar. As a result, on March 2, the following day, the Indonesian rupiah depreciated against the U.S. dollar. While market participants continued buying the U.S. dollar, the depreciation of the Indonesian rupiah gradually accelerated. Then, on March 7, local time, the congressional testimony of Federal Reserve Board (FRB) Chair Jerome Powell was considered hawkish in the market. In reaction, interest rates rose in the U.S., and the appreciation of the U.S. dollar accelerated further. On March 8, the following day, local time, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,400 level. Toward the second half of the week, the U.S. dollar remained somewhat strong. Under such a condition, the Indonesian rupiah remained weak at around the mid-IDR 15,400 level. However, on March 10, local time, U.S. employment statistics were released, revealing an unemployment rate higher than expected, as well as the growth rate of average wages being slower than the previous rate. Having seen these figures, market participants sold the U.S. dollar. Furthermore, the media reported thereafter on the collapse of Silicon Valley Bank (SVB), a local bank in the U.S., and this further encouraged market participants to sell the U.S. dollar. As a result, on March 13, after the weekend, the Indonesian rupiah fell further, and the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 15,300 level and remained at the same level. Then, on March 15, the trade balance was announced, revealing a trade surplus that was much more significant than expected. However, this is considered to be the result of a decline in imports, which led to an increase in surplus. Thus, it did not significantly impact the exchange market. On the same day during local trading hours, market participants became aware of concerns over the management stability of Credit Suisse, taking measures to avert risks. As a result, on March 16, the following day, market participants sold the currencies of emerging countries. Following this trend, the Indonesian rupiah depreciated against the U.S. dollar as well, and the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 15,400 level. Yet, toward market closing, the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 15,300 level. On the same day, the central bank of Indonesia held a monetary policy meeting and decided to maintain the policy interest rate at the existing level. However, as this had been anticipated in the market, there was little exchange market impact. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range, remaining at the same level. However, on March 22, local time, which was a national holiday in Indonesia, the outcome of a Federal Open Market Committee (FOMC) meeting was announced, revealing a decision to raise the policy interest

rate by 0.25%. Even though the policy interest rate hike itself was in line with the expectations in the market, the press conference of FRB Chair Jerome Powell after the FOMC meeting was considered dovish, which led interest rates in the U.S. to fall, encouraging market participants to sell the U.S. dollar. As a result, on March 23, after consecutive holidays, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate rose to the mid-IDR 15,100 level. While market participants continued actively selling the U.S. dollar, the Indonesian rupiah remained robust, and the U.S. dollar/Indonesian rupiah fell below the IDR 15,100 level, reaching the mid-IDR 15,000 level for the first time since the beginning of February, with trading closing at this exchange rate.

2. Outlook for This Month

In April, the Indonesian rupiah is forecast to remain robust against the U.S. dollar.

As a result of a series of headlines related to management instability at various financial institutions and mounting systemic risks, the policy interest rate hikes reflected in the market have decreased sharply. Some even expect policy interest rate hikes to stop soon. Under such circumstances, interest rates in the U.S. are expected to fall, leading the U.S. dollar to depreciate. While market participants are aware of systemic risks, the currencies of emerging countries tend to weaken, making it easier for market participants to sell the Indonesian rupiah as well. However, at the current moment, there are a series of bailout measures announced to support banks, while an agreed acquisition was announced for the collapsed SVB. Thus, concerns about systemic risks have been somewhat mitigated for now. If concerns over systemic risks do not grow again, interest rates are likely to fall again, encouraging market participants to sell the U.S. dollar, as a result of which the Indonesian rupiah is expected to appreciate against the U.S. dollar.

On the other hand, it is still difficult to say that the environment surrounding Indonesia is desirable, and there are persistent risks for the Indonesian rupiah to depreciate from a medium-term perspective. Last year, the annual trade surplus of Indonesia was the largest in history, partly because coal prices were rising. However, coal prices have been on a decline since the second half of last year. In particular, since the beginning of this year, there has been a significant drop. The coal price has already hit the price observed before the sharp rise of the coal price, even fueling concerns over a decline of trade surplus, leading to a current account deficit. Given such a situation, the Indonesian rupiah is forecast to depreciate against the U.S. dollar in the medium term.

In April, the U.S. dollar is expected to depreciate, while the Indonesian rupiah is expected to appreciate, following the end of policy interest rate hikes in the U.S., which will be further reflected in the market. However, the Indonesian rupiah is expected to depreciate against the U.S. dollar toward the second half of the month.

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

Philippine Peso – April 2023

Expected Ranges **Against the US$: PHP 53.50–56.00**
Against the yen: PHP 0.40–0.43

1. Review of the Previous Month

The market sentiment improved, thanks to strong figures in the Chinese concomitant indices as well as due to a dovish remark by Federal Reserve Board (FRB) officials, while the governor of the central bank of the Philippines, Felipe Medalla, expressed his view that the central bank was likely to raise its policy interest rate by 50 basis points if the February CPI turns out to be above 9%. These factors all supported the Philippine peso, and the U.S. dollar/Philippine peso exchange rate occasionally recovered to the PHP 54 level. However, the February CPI of the Philippines turned out to be +8.6% year-on-year. Even though it recorded a slight slowdown from the previous month's result, this made many market participants expect policy interest rate hikes to slow down to 25 basis points at the next monetary policy meeting. Furthermore, at a congressional testimony, FRB Chair Jerome Powell made a hawkish remark such that the FRB was likely to raise the policy interest rate of the U.S. more than originally planned. In reaction, the trend was inverted, and the Philippine peso started to depreciate against the U.S. dollar. Thus, the appreciation of the Philippine peso seen at the beginning of the month was offset.

Thereafter, the February employment statistics of the U.S. were released, and the figures turned out to be not as strong as some market participants had fearfully expected. Furthermore, in reaction to the collapse of Silicon Valley Bank (SVB) in the U.S., much less market participants expected interest rate hikes in the U.S. On the other hand, due to cautious feelings in the market about the financial sector in the U.S. and Europe, risk-averse sentiment grew in the market. However, the impact on the Philippine peso exchange market was limited, and the Philippine peso remained robust. In January, the trade statistics of the Philippines revealed that the trade deficit increased from the previous month due to a decrease in exports and an increase in imports. Furthermore, the January amount of overseas Filipino workers remittances amounted to USD 2.76 billion, recording year-on-year growth of 3.5%, which is lower than 5.3%, the market estimate. This kept the Philippine peso from appreciating. However, the confusion in the financial sector in the U.S. and Europe was well handled by the monetary authorities of various countries, which took measures to stabilize financial systems. The January fiscal balance of the Philippines was also announced, and the fiscal deficit observed in the previous month's result turned into a surplus of PHP 4.57 billion. Reacting positively to this, the Philippine peso remained on an uptrend toward the end of the month.

In the U.S., there was a slight weakening in the attitude of the Federal Open Market Committee (FOMC) about the continued measures of monetary tightening, as seen in its statement and in the press interview of FRB Chair Jerome Powell, which both turned out to be dovish. Furthermore, interest rate cuts in the U.S. were reflected in the market in an accelerated manner, leading the U.S. dollar to weaken. Moreover, the central bank of the Philippines revised its inflation outlook downward at a monetary policy meeting, and this kept the Philippine peso strong. However, the governor of the central bank of the Philippines, Felipe Medalla, implied the possibility to end the policy interest rate hikes at the next monetary policy meeting in May, albeit depending on economic data. In the meantime, upward pressure on the U.S. dollar strengthened, as interest rates rose in the U.S. after concerns were mitigated regarding the banking sector in the U.S. and Europe. As a consequence, the U.S. dollar/Philippine peso

exchange rate did not easily rise further after reaching a level near PHP 54. Thus, at the end of the month, the U.S. dollar/Philippine peso exchange rate remained flat at the lower-PHP 54 level. Thus, the Philippine peso remained stable throughout the month and reached its highest rate for the first time in approximately 1.5 years.

2. Outlook for This Month

At the FOMC meeting held in March, the policy interest rate in the U.S. was raised by 25 basis points. However, the FRB agreed that it was less necessary than before to raise the policy interest rate, as downward pressure on the economy and the inflation rate based on uncertainty in the financial sector can function in the same way as an interest rate hike. Thus, market participants see less possibilities for interest rates in the U.S. to rise further from a medium- to long-term perspective.

On the other hand, policy interest rate cuts toward the end of the year have been reflected in the market in an accelerated manner. The market reflects more interest rate cuts than the dot plot. Given that there is a limit for short-term interest rates to fall further, the U.S. dollar exchange rate is expected to remain at the same level without moving in any direction.

However, FRB Chair Jerome Powell emphasized that the inflation rate was still high and that the labor market was still tight, making it unnecessary to cut the policy interest rate before the end of the year. Thus, if the uncertainty in the financial sector has been mitigated, interest rate cuts reflected in the market would be corrected, strengthening the upward pressure on the U.S. dollar at the same time.

At the moment, Asian currencies have been stable, as market participants see little risk for the uncertainty in the financial sector in the U.S. and Europe to have direct impact on Asian countries. However, the appreciation of Asian currencies is a result of the fall of interest rates in the U.S., with risk-averse sentiment in the market. In the times ahead, if risk-averse sentiment is mitigated, it would place some weight on Asian currencies by leading interest rates in the U.S. to rise.

Because the inflation rate might peak soon, the central bank of the Philippines is likely to make a change to its monetary policy at its monetary policy meeting either in May or June by ending policy interest rate hikes. Furthermore, as the trade deficit of the Philippines remains high, there is no factor to lead the Philippine peso to strengthen further from the current exchange rate level, from the viewpoint of monetary policy as well as supply & demand.

The immediate concerns regarding the financial sector have been mitigated so far. However, they have not been completely swept away either. In the times ahead, if the financial crisis spreads worldwide, risk-averse sentiment would grow in the market, and Asian currencies could depreciate significantly as a result, for which market participants should remain careful.

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

Indian Rupee – April 2023

Expected Ranges **Against the US$: INR 81.50–83.50**
Against the yen: JPY 1.58–1.68

1. Review of the Previous Month

The U.S. dollar/Indian rupee exchange rate did not move in any direction in March.

The U.S. dollar/Indian rupee exchange market opened trading at INR 82.49. At the beginning of the month, Chinese economic indices turned out to be strong, which kept the Chinese yuan strong, while the media pointed out that a state-run bank in India had been selling U.S. dollars for purposes related to syndicated loans. As a result, the U.S. dollar/Indian rupee exchange rate remained low. On March 3, the media reported that foreign investor funds were flowing into the stocks of Adani Group, and this encouraged market participants to sell the U.S. dollar and buy the Indian rupee. As a consequence, the U.S. dollar/Indian rupee exchange rate fell below the INR 82 mark. Because the exchange rate exceeded the psychological turning point at INR 82, it continued falling slightly too fast and reached INR 81.62—the monthly low—on March 6. However, at this level, the central bank of India intervened in the market by buying the U.S. dollar, in reaction to which the U.S. dollar/Indian rupee exchange rate bottomed out. Thereafter, Federal Reserve Board (FRB) Chair Jerome Powell mentioned a possible policy interest rate hike of 0.5%, which led the U.S. dollar/Indian rupee exchange rate to rise rapidly to the INR 82.30 level. Thereafter, there was a remarkable net buy in the Indian stock market by foreign investors. Furthermore, some market participants sold the U.S. dollar, related to pension funds. There were thus more Indian rupee-buying flows. However, the Reserve Bank of India (RBI) intermittently intervened in the market by selling the U.S. dollar, which slowed down the U.S. dollar/Indian rupee exchange rate after reaching the INR 81 level. At the same time, the media reported on the collapse of Silicon Valley Bank (SVB), which worsened the risk sentiment in the market, encouraging market participants to prefer the U.S. dollar as a safe asset to the currencies of emerging countries. Having seen such a situation, local importing companies saw it unlikely for the Indian rupee to appreciate in the times ahead and bought the U.S. dollar to hedge positions. As a result, the U.S. dollar/Indian rupee exchange rate rose. On March 16, the U.S. dollar/Indian rupee exchange rate reached INR 82.81—the monthly high. However, on the same day, the RBI intervened in the market by selling the U.S. dollar in order to keep the Indian rupee from depreciating further. Thus, the U.S. dollar/Indian rupee exchange rate did not approach the INR 83 level. Once the media reported on bailout measures for banks in the U.S. and Credit Suisse, the market sentiment improved again, and the U.S. dollar/Indian rupee exchange rate also started to fall.

In the week commencing on March 20, market participants were observing the dealing of debtors for the Tier 1 assets of Credit Suisse. As a result, risk sentiment worsened again, and the U.S. dollar/Indian rupee exchange rate reached the upper-INR 82 level. After a Federal Open Market Committee (FOMC) meeting, which was seen as dovish in the market, the U.S. dollar/Indian rupee exchange rate fell to the lower-INR 82 level once again. However, the media reported that a local petroleum oil importing company was buying a large amount of U.S. dollars, and this kept the U.S. dollar/Indian rupee exchange rate from falling below the INR 82.00 level.

Toward the end of the month, market participants anticipated U.S. dollar-selling and Indian rupee-buying, in

preparation for the end of the accounting period. Under such circumstances, the media reported that First Citizens BancShares had agreed to wholly acquire the deposits of SVB, and this improved market sentiment, also supporting the Indian rupee. As a consequence, the U.S. dollar/Indian rupee exchange rate reached INR 82.34 at market closing on March 29.

2. Outlook for This Month

In April, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate at around the INR 83 level.

As for domestic factors in India, the situation followed what we described in the previous two months. In April as well, the most-important factor was the market interventions by the central bank. In March, the RBI intervened in the market by buying the U.S. dollar when the U.S. dollar was weakening to the INR 81 level in the first half of the month, while it intervened in the market by selling the U.S. dollar when market participants were buying the U.S. dollar and when the U.S. dollar/Indian rupee exchange rate reached INR 82.80 in the second half of the month. The central bank of India explains that it does not have a specific level for the exchange rate for its market interventions, but it intervenes in the market in order to keep the exchange rate from fluctuating too violently. In March, the central bank of India indeed intervened in the market by both selling and buying the U.S. dollar, actively controlling the exchange rate fluctuation. In April as well, market participants should keep in mind that the central bank of India is expected to intervene in the market by buying the U.S. dollar when the U.S. dollar/Indian rupee exchange rate approaches the mid-INR 81 level, while it is expected to intervene in the market by selling the U.S. dollar when the U.S. dollar/Indian rupee exchange rate approaches the INR 83 level.

It is also worth noting that the RBI has a monetary policy meeting scheduled for April 6. Because of the policy interest rate hike in February, the inflation rate was announced twice, and the outcome was at the mid-6% level both times, which is higher than the inflation target rate set out by the central bank. Originally, the majority of market participants expected the policy interest rate to be maintained at the existing level. However, given the situation discussed above, more market participants now expect a policy interest rate hike of 0.25%.

Factors in the U.S. include a fall in U.S. government bond yields. This is due to worsened risk sentiment in the market resulting from the collapse of SVB. In reaction, expectations for policy interest rate hikes diminished sharply as well. In the short-term interest rate futures market, a policy interest rate cut in July has been reflected. The current issues with the banking sector were not caused by a specific bank or a specific situation, but it is a universal problem related to asset liability management with rising interest rates. Thus, big or small, all banks will be affected by the situation to some extent. However, as bailout measures have already been announced, the worst-case scenario has been averted.

It is often the case that market participants react more when there is an unexpected event. In the times ahead, market participants should prepare for a rise of interest rates in the U.S. when further policy interest rate hikes become likely again.

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