Mizuho Dealer's Eye

May 2023

Mizuho Bank, Ltd.

Global Markets Sales Department

Hisaki Henmi, Forex Sales, Global Markets Sales Department

U.S. Dollar – May 2023

Expected Ranges **Against the yen: JPY132.00–138.00**

1. Review of the Previous Month

The dollar/yen pair moved firmly in April.

After opening the month at 133.34 yen, the pair dropped down to the lower-132 yen mark on the worse-than-expected result of the US March Manufacturing ISM Report on Business. With some other US economic indicators also moving bearishly the following day, US interest rates fell and the pair weakened to the upper-131 yen level. The US then released a weak March Non-Manufacturing ISM Report on Business on April 5, so US interest rates fell further and the currency pair hit a monthly low of 130.64 yen. It then returned to the upper-131 yen level. The US released some firm March employment data on April 7, so the pair rallied to 132 yen as excessive concerns about the US economy eased.

On April 10, Kazuo Ueda insisted that easing would continue in his first press conference since becoming governor of the Bank of Japan (BOJ), so the yen was sold and the currency pair rose to the upper-133 yen mark. The pair moved at the 133 yen range amid a dearth of factors on April 11, though it was pulled up to the 134 yen range by a bullish euro/yen pair on April 12. However, it then tumbled to around 133 yen on the worse-than-expected result of the US March consumer price index (CPI). With the US March Producer Price Index (PPI) also falling sharply below expectations on its release the following day, US interest rates moved bearishly and the pair plummeted to around 132 yen. FRB governor Christopher Waller made some hawkish comments on April 14. With the University of Michigan's expected inflation rate for one year's time also rising above market expectations, the pair rallied to the upper-133 yen level.

The pair then climbed to the lower-134 yen range on April 17 on rising US interest rates. With the April NY FRB Manufacturing Index also moving firmly, the pair's topside extended to the mid-134 yen level. The pair temporarily hit the upper-134 yen mark on April 18. Its momentum then slowed, though it moved around 134 yen on some firm US economic indicators and hawkish comments by FRB officials. Investors tested the pair's topside on April 19 with an eye on rising European interest rates, with the pair subsequently rising to the upper-134 yen mark. The yen was sold and the pair hit 135.14 yen during overseas trading time on news that the BOJ would adopt a cautious stance toward adjusting its YCC when it met in April. The pair moved bearishly on April 20 as US interest rates fell. The yen was bought on April 21 on expectations that the BOJ would change its policy after Japan's March CPI data revealed core inflation had topped expectations, so the pair fell to the mid-133 yen level, though it then returned to 134 yen on the healthy results of a US indicator.

The pair moved firmly around the mid-134 yen mark on April 24 after BOJ governor Kazuo Ueda reiterated that easing would continue. Concerns about the financial system flared up again on April 25 on the unexpected financial results of a mid-sized US bank, with US interest rates sliding and the dollar/yen pair dropping to the mid-133 yen mark. Risk aversion continued on April 26, with the currency pair weakening to 133.01 yen on falling US interest rates, though it was bought back to the upper-133 yen level toward close of trading. The pair bounced back to the lower-134 yen mark for a time on April 27 after the US 1Q core Personal Consumption Expenditure deflator (preliminary) topped market expectations. The pair climbed to the upper-134 level on the results of the BOJ

Monetary Policy Meeting on April 28. Yen selling then accelerated when Kazuo Ueda began his press conference, with the pair eventually hitting a monthly high of 136.56 yen.

2. Outlook for This Month

The dollar/yen pair will move firmly in May.

The Bank of Japan (BOJ) stuck to the status quo when it met to set policy at the end of April. At the meeting of the House of Representatives Financial Affairs Committee on April 24, the new BOJ governor Kazuo Ueda made several comments of a similar nature, saying it would be “appropriate to continue easing using the current YCC,” that the BOJ was “determined to keep easing for now as it takes into account the time needed for financial policies to bear fruit,” and that the BOK would “keep easing as it takes seriously the risk of inflation trending lower,” for example. He also hinted that the BOJ would undertake a broad perspective review. The idea of a review is not new in itself, though Mr. Ueda did discuss a timeframe of around a year to eighteen months. There is no guarantee that the BOJ will not tweak policy during this period, but if we consider the implementation of the review as a gateway to gauging when policy will change, then it seems the emergence of BOJ risk has become less likely, at least for now. There has been yen-buying pressure since December last year, but this will probably wane as market concerns about BOJ policy revisions ease.

In the US, the FOMC will also be meeting over May 2–3. The hawkish tone was scaled back slightly in the March statement, but the FOMC still implemented a 25bp rate hike, with FRB chair Jerome Powell indicating that the FRB was prepared to continue hiking rates if necessary. The US has released some mixed economic indicators recently. Major US firms have started to release their financial results, but these results are not weak enough to reignite financial concerns and market pessimism. There had been concerns about the May FOMC meeting, but it now seems likely the FOMC will implement a 25bp rate hike as expected. There is a sense that the CPI and PPI data is peaking out, but the core PCE data and the figure for expected inflation in a year’s time both remain high, so the FRB will probably not shift in a dovish direction. Even if the May hike marks the last rate hike for 2023, US interest rates will probably remain high going forward, so the dollar/yen pair looks set to move firmly.

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	138.00 – 132.50	Bearish on the dollar	6 bears	137.75 – 131.00

* Ranges are central values

Kawai	Bull	138.00 – 132.00	The BOJ scrapped its forward guidance at the Monetary Policy Meeting in April, but BOJ governor Kazuo Ueda indicated in his press conference that easing would continue, so the dollar/yen pair will probably edge higher as expectations for an early normalization of BOJ policy wane.
Miyachi	Bull	138.50 – 133.00	At the closely-watched meeting of the BOJ Monetary Policy Meeting, the BOJ decided not to tweak its YCC policy, with market expectations for yen bullishness then waning. The yen will probably be sold on interest-rate differentials, at least against the other major currencies.
Kato	Bear	138.00 – 128.00	BOJ governor Kazuo Ueda is a scholar, so if the BOJ does conduct a review, he will probably be forced to recognize the impossibility of the BOJ's current monetary policy. With the phase of rate hikes also coming to an end in the US, the dollar/yen pair's topside will gradually grow heavier from here on.
Yamazaki	Bull	138.00 – 134.00	When the BOJ met at the end of April, it gave the impression that any YCC revisions would occur later than the June date expected by the markets, with the dollar subsequently rising and the yen falling. The dollar/yen pair will probably strengthen in May, though investors should pay attention to movements in overseas markets.
Ito	Bear	137.00 – 130.00	With the phase of rate hikes drawing to a close on the US, the dollar/yen pair will only have limited room to rise on Japanese/US interest-rate differentials. However, the BOJ's new leadership has succeeded in giving the markets a dovish impression. There will also be some hearty real-demand buying, so the pair's room on the downside will be capped. Investors should be wary of a financial crisis flaring up again.
Yamagishi	Bull	138.00 – 132.00	Core inflation remains in the 4% range in the US, with inflation unlikely to cool given tight labor supply and demand, so the FOMC may not give a clear indication that rate hikes will end in May. There is also strong demand for yen selling on Japan's annual JPY 20 trillion trade deficit, with the dollar/yen pair set to move firmly.
Omi	Bull	138.00 – 132.00	US policy rates will remain high in May, with the dollar likely to remain bullish and the yen bearish as the BOJ continues to ease. However, the dollar could be sold at times if the FRB calls a halt to rate hikes.
Ueno	Bull	138.00 – 130.00	The phase of US rate hikes is coming to an end, but US inflationary indicators might also fall at a slower pace than the markets are expecting. Expectations for an early policy shift by the BOJ are waning, so the dollar/yen pair looks set to move firmly in May. The risk could lie in the movements of US financial institutions.
Yamaguchi	Bull	137.00 – 133.00	There are still no signs of inflation cooling off in the US, so the FRB will probably remain in tightening mode. However, when it met in April, the BOJ indicated it would continue to ease for the time being. The dollar will probably move firmly on these divergent policies.
Matsunaga	Bear	137.50 – 132.00	Economic sentiments are deteriorating, with dollar buying set to ease off. However, the FRB's direction remains unchanged and it is still committed to tackling inflation, so yen buying also seems unlikely. The dollar/yen pair will probably move in a range around the lower-130 yen mark.
Harada	Bear	138.00 – 133.50	US economic indicators are currently pointing to strong inflationary pressures, with GDP starting to weaken by more than expected. The US could post some firm employment indicators at the start of the month, but economic trends suggest rates will be hiked at a slower than last year, with the dollar/yen pair set to move bearishly.

Katoono	Bear	137.00 – 129.50	The FRB's cycle of rate hikes could reach a turning point given global financial uncertainties and concerns about stagflation in the US. The dollar/yen pair's topside will probably grow heavier as US interest rates slide.
Kobayashi	Bull	137.50 – 133.00	Inflation remains high in the US and there are expectations for further rate hikes. However, the BOJ reiterated its commitment to easing at the Monetary Policy Meeting at the end of April. The yen looks set to continue trending lower against the dollar on these divergent monetary policies.
Henmi	Bull	138.00 – 132.00	The BOJ remains committed to easing and a policy shift seems some way off, so the yen will face strong selling pressure in May. With a US rate hike also looming, the dollar will be bought on Japanese/US interest-rate differentials, with the dollar/yen pair set to move firmly.
Suzuki	Bull	139.00 – 133.00	Yen selling will continue for now as the BOJ remains committed to easing. The dollar could be pushed down by speculation about an end to US rate hikes, so caution will be needed, but there is comparatively more demand for yen selling, so the dollar/yen pair is expected to edge higher.
Okuma	Bear	138.00 – 133.00	Though the BOJ decided to continue easing, it will probably edge toward tightening going forward. In the US, meanwhile, concerns about a recession are growing and there remain concerns about the financial system, so the dollar/yen pair will move with a heavy topside.

Yuma Matsuki, Forex Sales, Global Markets Sales Department

Euro – May 2023

Expected Ranges **Against the US$: US$1.0900–1.1300**
Against the yen: JPY146.00–155.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at the lower-$1.0803 mark on April 3. The pair then fell to the upper-$1.07 mark as the dollar was bought when crude oil prices rose after the OPEC+ meeting, but with US economic indicators moving bearishly, the pair climbed to around $1.09. The US released some worse-than-expected jobs opening data on April 4, so the greenback was sold and the pair strengthened to the upper-$1.09 level. The dollar was bought on position adjustments over April 5–6, with the pair dropping below $1.09 for a time, though it then recovered to the lower-$1.09 level. On April 7, the US released some satisfactory employment data for March, so the dollar was bought and the euro sold, though the currency pair continued trading in the lower-$1.09 range overall.

The pair opened the second week trading at $1.0914 on April 10. The dollar/yen pair then rose sharply after the new governor of the Bank of Japan (BOJ) Kazuo Ueda said easing would continue for the time being, with the euro/dollar pair also pulled down to the lower-$1.08 mark. Amid a dearth of factors, the euro/dollar pair traded around $1.09 throughout April 11. The greenback was sold across the board on April 12 after the US March CPI data fell below expectations. The euro/dollar pair also strengthened to $1.10, with the pair also bolstered by the dovish contents of the minutes to the FOMC meeting. The pair climbed to the mid-$1.10 level on April 13 on the bearish result of a US indicator and hawkish comments by ECB members. The dollar was then bought and the pair fell to the upper-$1.09 level on April 14 on the results of the University of Michigan Consumer Sentiment Index.

The pair moved in a narrow range around $1.09 in the third week. On April 17, the pair traded at just $1.10, though it then fell back to the lower-$1.09 level as US interest rates rose on some firm US economic indicators. It then moved with a lack of incentives at $1.09 over April 18–19. The pair temporarily plunged to the lower-$1.09 level on April 20, though it then rallied to the upper-$1.09 mark after the minutes to the March ECB Governing Council meeting revealed strong inflationary concerns. S&P Global released some strong eurozone services and composite PMI data on April 21, with the euro/dollar pair also pushed up when several ECB members made hawkish comments about rate hikes. The pair closed the week trading just below $1.10.

The pair opened the fourth week trading at $1.0992 on April 24. German interest rates then climbed on the strong result of the German April IFO Business Climate Index, with the currency pair also rising to the mid-$1.10 level. With concerns about financial instability flaring up again, German interest rates plummeted on April 25, with the pair also dropping back to around the mid-$1.09 mark. The euro was bought on April 26 on the better-than-expected result of the German May GfK Consumer Confidence Index, with the euro/dollar pair then hitting a 13-month high of $1.1096. The pair returned to the lower-$1.10 level toward the end of trading as US interest rates rose again. The pair temporarily dipped below $1.10 on April 27 as US interest rates rose further on the strong result of a US inflation indicator. As dollar buying eased off, the pair traded at the lower-$1.10 mark on April 28. (As of 12pm Tokyo trading time on April 28)

2. Outlook for This Month

Though expectations are growing for a halt to rate hikes in the US on signs of an economic slowdown, the ECB looks set to continue lifting rates on stubbornly-high core inflation. As such, the euro/dollar pair is expected to move firmly in May.

One major factor will be the results of the ECB and FOMC meetings at the start of May.

The minutes to the March ECB meeting revealed that the overwhelming majority of ECB officials had supported a +50bp rate hike, despite rising international financial instability on the collapse of SVB. At 6.9%, the eurozone March CPI figure was down sharply on February's 8.5%, but the breakdown showed that this was mainly due to falling energy prices, with the crucial services inflation figure actually up on the previous month. Given the above, we can see why the ECB remains committed to hiking rates. The markets are pricing in a +30bp hike at the next meeting, with forecasts split between +25bp and +50bp. Even in the ECB lifts rates by just +25bp, thus lifting rates at slower pace than the precious meeting, this is unlikely to lead to euro bearishness. Regardless of the scale of rate hikes, the very fact the ECB looks set to continue lifting rates means the euro/dollar pair will face upwards pressure in May.

Furthermore, PMIs are a sign of economic sentiments, and although the eurozone's April Manufacturing PMI fell on the previous month to continue moving below 50, the composite and services PMIs both rose on the previous month to approach the mid-50 range, with these results likely to support the euro's firmness.

However, concerns about an economic slowdown have grown in the US following the collapse of SVB. The US released some fairly weak economic sentiment indicators in April, particularly when it came to manufacturing, with the markets continuing to be swayed strongly by negative factors. There are also whispers that the FRB will call a halt to rate hikes in the near future. With FRB officials also making comments to this effect, the markets have essentially priced in a +25bp rate hike at the May FOMC meeting.

Though inflation remains deep-rooted, there are signs it is peaking out, while the collapse of SVB has also pointed to the impact of FRB rate hikes on the real economy. Even if the FOMC springs no surprises and implements a +25bp hike, the dollar will probably move with a heavy topside on expectations that the FF rate will be kept fixed for a while going forward. The greenback will also face downward pressure as the problem of the US federal debt ceiling starts to rear its ugly head again.

Dealers' Market Forecast

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

Bullish on the euro	13 bulls	1.1300 – 1.0850	Bearish on the euro	3 bears	1.1150 – 1.0700

* Ranges are central values

Kawai	Bull	1.1300 – 1.0800	The minutes to the March ECB Governing Council meeting continued to point to strong inflationary concerns. The Council and the FOMC will meet in the first week of May, with the euro/dollar pair set to move firmly on their divergent stances, particularly on the hawkishness of the ECB.
Miyachi	Bull	1.1350 – 1.0950	The gap in the monetary policy stances of the ECB and FRB could become even clearer. If this happens, market participants will continue to buy European currencies on interest-rate differentials and they will probably test the euro/dollar pair's topside.
Kato	Bull	1.1400 – 1.0900	As the phase of rate hikes comes to an end in the US, this will have a direct impact of US/European interest-rate differentials. In the end the dollar will face more selling pressure against the euro.
Yamazaki	Bull	1.1350 – 1.0630	With geopolitical risk becoming a given, inflation remains a problem in many countries, with the euro likely to rise given how the eurozone still has pressure and room for rate hikes. Investors should pay attention to headlines about an economic recession or financial institutions.
Ito	Bear	1.1300 – 1.0700	Though the FRB looks set to halt rate hikes, the ECB still has room to lift rates, so the euro will probably move strongly against the dollar. However, expectations are running ahead when it comes to rate hikes, so the euro/dollar pair could move with a heavy topside when investors price in such a move. Euro long positions could be adjusted under a risk scenario, so caution will be needed.
Yamagishi	Bull	1.1300 – 1.0700	The eurozone core inflation rate is rising at a faster pace and inflation shows no signs of cooling. With PMIs hitting an 11-month high, it seems business confidence is also improving. The euro will probably be bought on expectations for further rate hikes by the ECB, with the euro/dollar pair set to float at highs, though it could face some adjustment when it hits the key $1.10 mark.
Omi	Bull	1.1300 – 1.0800	The euro looks set to remain firm on the back of ongoing ECB rate hikes. However, the euro/dollar pair's topside will grow heavier if headlines emerge about financial system instability.
Ueno	Bull	1.1300 – 1.0800	Europe still has a lot more room left for rate hikes compared to the US. However, there are concerns about an economic slowdown in Europe, while fears of financial instability still linger, so the euro/dollar pair is unlikely to rise sharply.
Yamaguchi	Bear	1.1150 – 1.0750	The ECB Governing Council is expected to lift its policy rate again, though prices in the eurozone are showing signs of cooling slightly. The euro/dollar pair might also move heavily on risk aversion if the financial instability that began in the US grows worse.
Matsunaga	Bull	1.1200 – 1.0850	It seems the ECB could 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.
Harada	Bull	1.1150 – 1.0900	Prices in the eurozone are showing signs of cooling off, but core inflation (excluding energy prices) remains high. Under these circumstances, with the ECB Governing Council expected to lift its policy rate again going forward, the euro/dollar pair looks set to edge higher.

Katoono	Bull	1.1200 – 1.0850	The euro will move firmly against the dollar on the ECB's hawkish stance as it continues to prioritize the fight against stubbornly-high core inflation. There are also concerns about the ripple effect of financial instability, but investors will probably focus on the divergent monetary policy stances of the ECB and FRB in May.
Kobayashi	Bear	1.1150 – 1.0600	There are signs that inflation is slowing in the eurozone. Furthermore, concerns about financial instability swept the markets on the operating difficulties of some US regional banks, and if these concerns flare up again, the euro will probably be sold on risk aversion. As such, the euro/dollar pair looks set to move bearishly in May.
Henmi	Bull	1.1200 – 1.0900	Inflation remains high in Europe and the ECB looks set to remain more hawkish compared to the FRB. After moving firmly at 2023 highs, the euro/dollar pair will probably start climbing again.
Suzuki	Bull	1.1150 – 1.0900	Core inflation remains high in the eurozone and the ECB remains in hawkish mode. With the FOMC also moving closer to ending rate hikes, the euro/dollar pair looks set to move firmly on the clear difference in ECB and FRB policy.
Okuma	Bull	1.1300 – 1.0800	There remain concerns that the ECB will continue to hike rates in the face of high inflation. As such, there remain deep-rooted expectations for rising euro interest rates. In contrast, inflation continues to slow in the US, so the euro will be an easy currency to buy and the euro/dollar pair will probably move firmly.

Masayuki Nakajima, Europe Treasury Department

British Pound – May 2023

Expected Ranges **Against the US$: US$1.2200–1.2800**
Against the yen: JPY163.00–172.00

1. Review of the Previous Month

The GBP/USD pair had risen since the start of March, but in April it moved with a heavy topside after failing in its fourth attempt to take hold at $1.25.

In the first week, the pair soared from $1.23 to $1.25 toward April 4, though it fell from April 5 to float up and down. The US released a weak March Manufacturing ISM Report on Business on April 3 and a weak March JOLT Job Openings figure on April 4, with the greenback then sliding on falling US interest rates. In a speech on April 4, Bank of England (BOE) Chief Economist Huw Pill said that although "headline inflation is set to fall significantly in the course of this year owing to a combination of base effects and falls in energy prices, caution is still needed in assessing inflation prospects on account of the potential persistence of domestically generated inflation," thus indicating his support for a further rate hike at the May meeting. With a mood of risk aversion prevailing, though, the pair's upwards momentum was short-lived.

In the second week, the currency pair rose from April 10 until the early morning of April 14 and it returned to $1.25, though it then began sliding from the morning of April 14. The dollar weakened on April 12 following the downswing in the US March the consumer price index (CPI) data. The minutes to the March FOMC meeting had been released a day earlier and they revealed that several members had discussed freezing rate hikes in the wake of financial instability related to bank failures. This also supported dollar bearishness. However, the dollar bounced back on April 14 on the release of the US March retail sales data and the Expected Inflation Rate (one year later; preliminary) in the April University of Michigan Consumer Sentiment Index. In a speech on April 12, meanwhile, BOE Governor Andrew Bailey said the risk of financial instability would not distract the BOE from its fight against inflation. Then, on April 13, Huw Pill said the UK could see a "positive demand shock" as low unemployment rate gave workers more room to spend.

In the third week, sterling rose against the dollar and yen on strong inflation indicators, though it continued trading with a heavy topside throughout the week. The UK March CPI data was released on April 19. At 10.1% y-o-y, the figure was down on February's +10.4% y-o-y, though it was up on market expectations for a slowdown to +9.8% y-o-y. At +6.2% y-o-y, core inflation was also unchanged on the previous month and was also above market forecasts for a slowdown to +6.0% y-o-y.

There was a dearth of UK-related factors in the fourth week, with the GBP/USD pair instead buffeted sharply by global dollar movements. On the evening of April 21, S&P upgraded its credit rating outlook for UK gilts, so sterling rose at the start of the week and on April 25 the pair tried hitting $1.25 for the third time that month, though it then dropped back to $1.24. The pair was then pulled above $1.25 by euro bullishness on April 26, though it returned to the upper-$1.24 range by close of trade. The pair edged up to the upper-$1.24 mark during Tokyo trading time on April 27.

2. Outlook for This Month

In May, the foreign exchange markets could be swayed sharply by the statement the FOMC releases on Wednesday, May 3, but on the whole the pound is expected to strengthen against the dollar.

This is because sterling still has room to rise if investors are forced to sharply revise their expectations about when policy rates will peak out in the US. There are two reasons why this is so: (1) UK and US 2-year interest-rate differentials shrank as UK interest rates rose on the upswing in US wage and inflation indicators, but the pound's movements against the dollar have been capped, so the pound still has room to rise in tandem with interest rates; (2) US Commodity Futures Trading Commission (CFTC) data on pound positions shows that the selling-on-balance amount has continued to shrink since September 2022. $1.25 has formed the GBP/USD pair's ceiling since April, but the pair probably has a lot of room to climb higher if it breaks through this ceiling.

As for UK-related factors, the BOE Monetary Policy Committee (MPC) meeting on Thursday, May 11 will be crucial. Market expectations for rate hikes have grown since the upswing in the UK March CPI data. A glance at the short-term-rate market shows the probability of a +25bp rate hike at the May BOE meeting rising from 80% to 100%, with bets on a further +25bp hike at the June meeting also rising to 100% for a time (this probability only stood at around 60% at the time of the last meeting). The market's expected terminal rate stood at around 4.8% on April 18, but it has since approached 5.0% in the wake of the CPI announcement. This is the highest level since October 2022, when the former prime minister Liz Truss had to step down in the wake of bond market turmoil.

A further glance at the UK March CPI data suggests faster food and drink inflation was the main reason why the CPI swung above market forecasts, but services inflation also remains noticeably high. Service prices are being driven up by labor shortages and the rising wages that follow. On April 18, the day before the CPI announcement, the average weekly wages (excluding bonuses) data was released for the three months from December 2022 to February 2023, with the figure hitting +6.6% on the same period the previous year, up on market expectations for a +6.2% rise. Labor shortages are also hitting the jobs markets in other developed countries, but in the UK this is due to structural factors, namely the outflow of foreign workers following Brexit, so there are concerns this could become a long-term phenomenon.

Under these circumstances, attention is focused on whether the BOE will adopt a hawkish stance, as the markets are expecting. The data suggests this scenario is very likely. However, if the BOE shows strong concern about the economy, this will probably push the pound lower.

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

Australian Dollar – May 2023

Expected Ranges **Against the US$: US$0.6500–0.6850**
Against the yen: JPY87.50–91.50

1. Review of the Previous Month

The AUD/USD pair mainly moved in a range from $0.66 to $0.68 over April, though it weakened to $0.65 towards the end of the month.

In the first week, the pair soared to $0.6790 on April 3 when the greenback was sold at a faster pace on the bearish result of the US March Manufacturing ISM Report on Business. The RBA board kept its policy rate fixed when it met on April 4, with the forward guidance in its statement also inclining in a dovish direction, so the currency pair fell to the lower-$0.67 level. New Zealand dollar soared on April 5 after the RBNZ unexpectedly announced a +50bp rate hike. Australian dollar was also pulled higher, hitting $0.6780 temporarily. Australian dollar was then bought when the published draft of a speech by RBA Governor Philip Lowe mentioned "the decision to hold rates steady this month does not imply that interest rate increases are over. Indeed, the Board expects that some further tightening of monetary policy may well be." The pair's downside was supported throughout the week by bearish US indicators.

In the second week, Australia released a bullish April Consumer Confidence Index, while Asian stocks also moved firmly. Reports also emerged that China and Australia had agreed to review Chinese sanctions and tariffs on Australian barley. The FOMC also released some dovish minutes to its March meeting, while the results of the Australian March employment data pointed to a tight labor market. All this led to US-dollar selling, with the AUD/USD pair generally climbing, though it dropped back at the weekend. On April 14, Federal Reserve Bank governor Christopher Waller said the US policy rate would need to be tightened further. The greenback was also bought when the US April University of Michigan Consumer Sentiment Index and one-year expected inflation rate topped forecasts, with the currency pair then plummeting to the lower-$0.67 handle.

In the third week, the pair moved with a heavy topside on growing expectations for ongoing rate hikes in the US. The RBA then released some slightly-hawkish minutes, though, while the RMB was also bought when China's 1Q GDP data beat forecasts, so the Australian dollar was supported and the pair moved around $0.67 throughout the week.

In the fourth week, concerns about an economic slowdown flared again on the possibility of a renewed Covid-19 surge in China, with the Australian dollar pulled down by a bearish RMB. With Australia's CPI data also down on the previous month, it seemed inflationary pressures were declining, so the AUD/USD pair's topside was held down by growing speculation that the RBA board would keep rates fixed at its next meeting. News then emerged that the US First Republic Bank would have its access to the FRB's emergency lending program restricted. Financial stocks and other equities also fell on banking concerns after the employment data pointed to lingering inflation risk. All this saw the currency pair temporarily falling to the upper-$0.65 level. The pair returned to the lower-$0.66 range at the end of the month.

2. Outlook for This Month

The Australian dollar’s movements could be shaped more by external factors in May. The RBA board will be meeting on May 2 and the FOMC will be meeting to set policy on May 3. Though the US monetary policy announcement will be taking place a day later, investors will find it very hard to take positions based solely on the RBA’s monetary policy decision, so any major movements will probably have to wait until after the FOMC announcement.

A lot of US data released in April revived concerns about recessionary risk, with the US 1Q preliminary GDP figure slowing, for example, though the US applications for unemployment insurance data (released at the month’s end) pointed to the firmness of the labor market, while the US 1Q core PCE figure (an indicator closely watched by the US financial authorities) also grew at a fast clip. Many recent comments by US financial authority figures suggest they are currently more concerned by inflationary risks than recessionary risks, with the markets expecting the FOMC to implement a 25bp rate hike when it meets in May. However, the Federal Reserve Bank might be forced to pause rate hikes in light of the troubles of the First Republic Bank. Investors also need to consider how the Australian dollar will be impacted by any decision the FOMC makes based on the recent mixed economic data. If the FOMC halts rate hikes or announces some dovish forward guidance when it meets this month, the greenback will probably be sold as US interest rates slide, with the Australian dollar also supported by expectations for a stock rally. However, the AUD/USD pair’s topside could be held down by rising US interest rates if the FOMC implements another rate hike or announces some hawkish forward guidance, for example, or if financial authority figures make some hawkish comments.

In Australia labor conditions continue to grow tighter, but Australia’s March CPI indicator and 1Q CPI data suggested that inflationary pressures continue to wane. With the interest on fixed-rate mortgage loans set to be reset in the latter half of 2023, consumer spending will probably weaken, with demand-side inflationary pressure likely to ease. Under these circumstances, it seems the RBA is under no rush to hike rates, so it will probably leave the cash rate fixed this month too. As such, it is hard to see the AUD/USD pair’s topside breaking sharply above its range. Investors should continue to monitor the impact of previous rate hikes on the economy.

Yasuko Iwata, Canada Office, Americas Treasury Department

Canadian Dollar – May 2023

Expected Ranges **Against the US$: C$1.3200–1.3800**
Against the yen: JPY96.00–100.80

1. Review of the Previous Month

At the start of the month, the Canadian dollar was bought as crude oil prices rose on the surprising news that OPEC + had reached a deal to cut production, with the USD/CAD pair dropping below C$1.35 for the first time since February 21 to hit C$1.3407 on April 3. The Canadian March employment data was released on April 6. The net change in employment figure was up sharply on expectations, with the unemployment rate also staying at a record low 5%, though the hourly wages data was down on the previous month. The US March employment data was then released on April 7. The nonfarm payrolls figure was up on forecasts, with the unemployment rate also falling on the previous month, so the greenback was bought and the Canadian dollar sold, with the currency pair rallying to the lower-C$1.35 mark.

The pair hit the mid-C$1.35 level toward mid-April as US interest rates rose. The US March CPI data was then released on April 12, with the headline figure down on February. The US March PPI data was released on April 13 and this was also down on expectations, so the US dollar was sold and the currency pair tumbled to C$1.3302. However, subsequent US economic indicators showed no signs that inflation was slowing. With FRB officials also making hawkish comments, the greenback's slide was halted.

The US dollar then strengthened from mid-April onwards, with the currency pair edging up from the mid-C$1.33 mark to C$1.34. There were several factors behind this, such as the 1Q settlement results of US companies, the results of US indicators, crude oil and US stock movements, and comments by US financial authority figures about rate hikes, with the pair also swayed by the weak results of Canada's February retail sales data and March housing starts figure.

In the last week of April, the markets were swept with banking concerns again after warnings about the settlement results of First Republic Bank, a regional US bank. With US stocks and crude oil prices falling sharply, the greenback was bought on risk aversion, with the USD/CAD pair hitting a one-month high of $1.36 before then surging to the mid-$1.36 level.

2. Outlook for This Month

As with March, the Bank of Canada (BOC) kept rates fixed when it met on April 12. Its accompanying economic outlook also said consumption would fall as repayment burdens grew on rising mortgage loan interest rates. It also said exports and capital investment would be curbed by falling overseas demand, with the economy set to slow from the latter half of 2023. It also predicted that GDP would hit 1.4% in 2023 (as against the 1.0% forecast made in January) and 1.3% in 2024 (January forecast: 1.8%). The BOC also said inflation would drop to the 3% range in the middle of 2023, but it added that inflation was unlikely to return to 2% given particularly high services prices, inflationary expectations, and strong wage growth. While monitoring the impact of previous rate hikes, the BOC also reiterated that it was prepared to lift rates again if this was needed to bring inflation back down to 2%. At +4.3% y-o-y, Canada's headline CPI figure for March (announced April 18) was actually down sharply on February's +5.2% y-o-y, but this was mainly due to falling gasoline prices, with core CPI only falling from 4.85% to 4.5%. A rate cut within the year seems unlikely right now, with the BOC's policy rate expected to remain at 4.50%.

On the other hand, the FOMC lifted the FF rate by 0.25% in March on concerns about the financial system, with its dot chart suggesting the rate hike at the May meeting would mark the last hike of 2023.

With the US and Canada both getting closer to the terminal rate, the outlook for the USD/CAD pair will probably be shaped more by economic trends (a soft landing or a hard landing) going forward.

At the moment, weak US economic indicators are hitting market sentiments, with the greenback thus being bought and the Canadian dollar sold on risk aversion. It seems financial instability will be limited to just a few financial institutions, but if concerns about an economic slowdown deepen from here on, market expectations for FRB rate cuts could grow, with the US dollar sliding on falling US interest rates. If it seems the US economy is heading toward a soft landing and inflation remains stubbornly high, more rate hikes will seem likely, with the greenback then bought on rising US interest rates.

The Bank of Canada will not be meeting in May, with the currency pair expected to move between C$1.32–1.38 on the FOMC results and the US economic and political situation (such as the debt ceiling problem).

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – May 2023

Expected Ranges **Against the US$: KRW 1,310–1,370**
Against the yen: JPY 9.620–10.200 (KRW100)

1. Review of the Previous Month

The USD/KRW pair moved firmly in April.

The pair opened the month trading at KRW1306.2 on April 3. During a holiday on April 2, crude oil prices had risen when OPEC+ unexpectedly announced further production cuts. The greenback rose and the won was sold on concerns about renewed inflation. South Korea's March trade balance improved by more than expected (forecast: -$6 billion; result: -$4.62 billion), but the impact on the won was muted. The US then released a series of firm economic indicators, so the won moved bearishly and the currency pair fell to the lower-KRW1300 range. Emerging currencies were then sold and the won fell over April 6 on the bearish result of a US indicator, with the pair moving at KRW1320. Major markets across Asia, the US and Europe then closed for the Easter holidays, with the currency pair continuing to float gently around KRW1320. As expected, the Bank of Korea (BOK) kept policy rates fixed when it met on April 11, so the market reaction was muted. The pair rose back to the upper-KRW1320 mark on April 12, but it then fell sharply on April 14 on news that the BOK and the National Pension Service had concluded a forex swap deal on April 13, with the pair also buffeted by what appear to be an intervention in the forex markets. The pair dropped below KRW1300 to hit a monthly low of KRW1,294.7. However, the won then fell from April 17 onwards. The USD/KRW pair rose on expectations that inflation would drag on in the US and Europe. This came after the University of Michigan's expected inflation rate and the UK inflation rate both rose. The pair was also support by won selling and dollar buying related to dividend payments by South Korean companies. The currency pair hit a 2023 high on April 25, though it then plunged to KRW1330 on an intervention by the authorities. However, the US then released some bearish economic data during overseas trading time, so the won fell as the emerging currencies were sold. The pair hit a monthly high of KRW1342.9 on April 26. The pair was trading at KRW1338.0 as of close of trading on April 27, up 36.1 won on the end of March.

2. Outlook for This Month

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

The pair will be swayed by two main factors this month: (1) Inflation changes and FRB monetary policy, and (2) BOK monetary policy.

As for (1), the consensus is that the FOMC will implement a +25bp rate hike this month, but there are concerns about financial instability, with US regional banks having trouble again. With the US also releasing some bearish economic indicators, investors may well focus on the end of the rate-hike phase. Provided the outlook for the US policy rate is not revised sharply, it seems dollar buying could cool off for a time.

With regards to (2), the BOK kept its policy rate at 3.5% when it met on April 11. There were no major changes to the BOK's outlook for the economy or inflation recently, but it did downgrade its 2023 GDP forecast slightly compared to the end of February (1.6%). It also tried to rein in expectations for a commencement of rate cuts in the second half of the year by insisting that there was still a lot of uncertainty when it came to controlling inflation. The next BOK meeting will take place on May 25, but investors expect the bank to keep the policy rate unchanged, so any won-buying pressure will be capped.

As mentioned above, there is lack of noteworthy factors when it comes to monetary policy, but the authorities did intervene several times in April when the USD/KRW pair rose, with the pair also likely to be weighed down at times by concerns of an intervention in May too. However, the recovery in the semiconductor market is taking time, with South Korea's trade deficit becoming entrenched. Real-demand won buying is also tapering off, with stock markets also lacking vim, so there will be a shortage of won-buying factors, with the currency pair expected to move firmly in May.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – May 2023

Expected Ranges **Against the US$: NT$30.40–30.90**
Against the yen: JPY4.26–4.47

1. Review of the Previous Month

The USD/TWD pair rose on risk aversion in April.

Trading began on April 6 owing to a holiday. During the holiday, concerns of a recession had grown on the release of some US economic indicators, so the pair opened the month trading at TWD30.500, higher than its previous close. US stocks weakened and Taiwanese equities also fell as geopolitical risk rose following talks in the US between Taiwan's president Tsai Ing-wen and speaker of the US House of Representatives Kevin McCarthy, with the Taiwan dollar sliding as a result. However, the greenback was also sold by exporters when the pair hit TWD30.5, so the pair moved with a heavy topside.

China carried out large-scale maneuvers mid-April in response to president Tsai Ing-wen's trip to the US, but the impact on Taiwanese stocks was muted, with the currency pair moving with a lack of direction at the upper-TWD30.4 level. Taiwanese stocks bounced back on April 14 and the Taiwan Capitalization Weighted Stock Index approached 16,000 points, so after hitting a 10-month high, the USD/TWD pair temporarily dropped down to TWD30.405. However, investors then focused on FOMC rate hikes in May after the US released some bullish economic indicators, with the pair subsequently returning to TWD30.5.

The pair hit TWD30.6 on April 20. With exporters also in wait-and-see mode in the face of the greenback's bullishness, the pair's topside was not held down and it moved in the lower-TWD30.6 range. Risk aversion then grew as concerns about the financial system rose again on the settlement results of a US regional bank. Taiwanese stocks fell and the Taiwan dollar was sold, with the currency pair temporarily rising to TWD30.750 on April 26. However, the pair's topside was held down as exporters sold the US dollar at the month's end, with the pair then moving at the lower-TWD30.7 mark.

2. Outlook for This Month

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

Though investors focused on geopolitical risk at times in April, the main reason behind the Taiwan dollar's slide was recessionary concerns. March saw investors focusing on an end to US rate hikes in March following financial market instability, with Taiwanese stocks bought back, but when concerns about the financial system grew in April, this led to worries about an economic slowdown, so Taiwanese stocks and the Taiwan dollar both fell.

In May, the USD/TWD pair will be swayed by the movement of Taiwanese stocks on the outlook for the global economy. At -3.02% y-o-y, Taiwan's 1Q GDP data worsened by more than expected. The main reason was a sharp slide in exports, but Taiwan may have trouble hitting the 'around 2%' 2023 growth forecast given by the Central Bank of the Republic of China (Taiwan) and the Executive Yuan, Republic of China (Taiwan). Furthermore, this forecast is predicated on semiconductor and other exports rallying in the latter half of 2023 on the silicon cycle, but if the global economy slows, demand for final consumer goods will wane, with semiconductor demand and exports not recovering as expected. When they released their 1Q results, major semiconductor manufacturers also indicated that they expected semiconductor sales to undergo a y-o-y slide in 2023. However, as of May it is still not clear whether an economic slowdown will actually occur, so Taiwanese stocks will continue to be swayed by US and European monetary policy and economic indicators along with growing financial instability, with the USD/TWD pair also likely to jostle up and down in lockstep.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – May 2023

Expected Ranges	**Against the US$: HK$ 7.8200–7.8500**
	Against the yen: JPY 16.50–17.50

1. Review of the Previous Month

Hong Kong dollar spot exchange market in April

HKD spot was hovering at near 7.85 level most of the time in April given the persistent USD-HKD interest rate spread. As the US banking turmoil eased, the Fed is expected to deliver an extra 25bps hike in May to curb inflation and the carry trade flow of long USD/HKD spot returned to pressure the HKD spot. In order to defend the USD-HKD peg, the HKMA intervened in the FX market to buy HKD and the HK aggregate balance dropped further. Some traders were aware of HKD liquidity squeeze risk and unwound the long USD/HKD spot position for profit-taking, fueling HKD volatility. Onshore China investors paid attention to the cheap valuation for H-shares compared to A-shares, and the year-to-date Stock Connect inflow to HK picked up to above HKD 100bn from HKD 75bn at March-end. IPO activities resumed but the related IPO flow did little to support the HKD. On the data front, the border reopening to mainland China was supporting local consumption and growth. HK labour market condition remained tight, with the unemployment rate falling to 3.1%. Exports demand stayed soft given the increasing recession risk for US and Europe economies.

Hong Kong dollar interest rate market in April

As the HKMA intervened in the FX market to buy HKD and defend the USD-HKD peg, HKD aggregate balance dropped to its 15-year low of HKD 49.23bn. Such level is below the low during the Fed's previous rate hike cycle between 2019 and 2020, entering into the uncharted territory in the post-QE era. While an immediate HKD liquidity squeeze did not take place, market participants would be more concerned with the potential HKD liquidity squeeze in case of spike in HKD demand. After the HKD liquidity drainage, 1-month and 3-month HKD HIBOR picked up to 3.2% and 3.7% level, respectively, but maintain deep discount against the USD LIBOR curve. Meanwhile, the uncertain HK economic outlook and sluggish property market dampened loan demand and suppressed HKD rate curve. The HKD IRS curve tracked on USD IRS curve, which was more or less the same with the March-end level, as market participants were awaiting the policy guidance from the upcoming FOMC meeting in May. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) was moving between positive and negative territory given fluctuating expectation for Fed's rate policy.

2. Outlook for This Month

Hong Kong dollar spot exchange market in May

While the Fed is expected to end its rate hike cycle soon, the central bank is not likely to reverse to cut its interest rate in coming months given high inflation. Despite tighter HKD liquidity, HKD loan demand appears to remain soft and HKD rates was hovering at low level. Against this backdrop, the persistent USD-HKD rate spread is likely to keep the HKD spot on the back foot at near 7.85 level before the HK aggregate balance drops further. Separately, equity inflow to HK market could slow if China reopening trade momentum stalled. The risk of China-US tensions could also discourage foreign investors' Chinese investment in HK and hence capital flow is unlikely to support HKD. Meanwhile, China tech giants' plan to spin off could activate the IPO market but its impact to boost HKD demand may prove to be limited given high global rates and souring sentiment. HKD forward found its support at around -800 points on HKD liquidity risk given subdued aggregate balance.

Hong Kong dollar interest rate market in May

Despite the recent HKD liquidity drainage, HKD rates remained soft and the persistent USD-HKD rate spread will likely keep the HKD spot trading at around 7.85 level. That said, there will be further downside for the HK aggregate balance before HKD rates rise. While the border reopening to mainland China should support HK growth outlook, HKD loan demand remained soft as investors stayed cautious on HK investment outlook and property market. Yet, in light of tighter HKD liquidity, we reckon that HK banks will turn more cautious to offer their excess HKD liquidity in the market and the HKD rates may have been bottoming out. Externally, interest rate market is pricing in Fed's pivot in Q4-2023 and Fed's rate cut could drive HKD rates lower subsequently.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – May 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

In April, the U.S. dollar/Chinese yuan exchange rate rose slightly.

In April, the U.S. dollar/Chinese yuan exchange market opened at the CNY 6.87 level. The March manufacturing PMI of China (Caixin) turned out to be above the market estimate thereafter. In reaction, the U.S. dollar/Chinese yuan exchange rate once rose to the mid-CNY 6.89 level after market opening on April 3. However, there was no other factor to lead the U.S. dollar/Chinese yuan to rise much further. Market participants maintained a wait-and-see attitude thereafter, as the release of the U.S. employment statistics was scheduled for the end of the week. Under such circumstances, the market was closed for the Qingming Festival holidays. Thus, the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range for a while. Then, the March employment statistics of the U.S. turned out to be almost as estimated. In reaction, the U.S. dollar strengthened, and the U.S. dollar/Chinese yuan exchange rate rose slightly. However, thereafter, the March core CPI of the U.S. was announced on April 12, while the March PPI of the U.S. was announced on April 13, both revealing a slowdown. As a result, the U.S. dollar weakened. On April 14, the U.S. dollar/Chinese yuan fell to once reach the CNY 6.83 level after the opening of the onshore market. However, the U.S. dollar/Chinese yuan recovered and approached the CNY 6.88 level immediately after that.

On April 17, the one-year MLF was rolled over at maturity with the same interest rate, and this did not impact the exchange market. On April 18, the GDP and other major statistics of China were released with both strong and weak figures. Even though the U.S. dollar/Chinese yuan exchange rate fluctuated in both directions immediately after the announcement of these figures, there was no significant movement in the market, and the U.S. dollar/Chinese yuan exchange rate remained at the CNY 6.87 level. On April 19, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 6.90 level due to transactions based on actual demand. However, the fall was offset on the following day.

Thereafter, the media reported that U.S. President Joe Biden would sign an executive order in several weeks, in order to curb investment in China. In reaction, Chinese stock prices fell, and pressure to sell the Chinese yuan strengthened slightly. As a result, the U.S. dollar/Chinese yuan exchange rate rose and once reached the CNY 6.93 level on April 25. As of 10:00 a.m. on April 27 (CST), the U.S. dollar/Chinese yuan exchange rate was fluctuating at around the CNY 6.93 level.

2. Outlook for This Month

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

The market has already reflected a policy interest rate hike of 25 basis points at a Federal Open Market Committee (FOMC) meeting in May. Under such a condition, there has currently been no new factor to change the trend in the U.S. dollar/Chinese yuan exchange market. There was a media reported that U.S. President Joe Biden would sign an executive order to curb investment in China, making it possible to weaken the Chinese yuan by revealing frictions between U.S. and China. However, for the current moment, the impact of this has not been significant in the foreign exchange market compared to that in the Chinese stock market.

The flow of people and commodities within China has already returned to the state before severe anti-Covid measures were introduced. Since April 29, a negative Covid-19 PCR test certificate has been unnecessary at the time of entry to China. Furthermore, restrictions on international movement have been lifted daily, in increasing amounts. The March retail sales of China tuned out to be +10.6% year-on-year, exceeding +7.5%, which was the market estimate. Thus, consumption has started recovering since the end of zero-Covid measures. It is also worth noting that the real estate sector, which accounts for 30% of China’s GDP, seems to have finally hit bottom. Under such circumstances, the first-quarter-period GDP of China turned out to be robust, at +4.5% year-on-year. It can therefore be said that the situation is optimistic, as the GDP growth rate is steadily approaching 5%, the growth rate target set out by the government. Even though the sustainability of the economic recovery would depend on the economic indices to be announced in the times ahead, market participants are likely to start worrying about a recession in the U.S. Thus, even if the economic indices of China deteriorate, it is unlikely for market participants to very actively sell the Chinese yuan.

There has been pressure to sell the U.S. dollar, as the policy interest rate hikes in the U.S. are expected to peak out soon, and some market participants are speculating about the start of policy interest rate cuts; meanwhile, the Chinese economy has been steadily recovering. Based on such opposing situations in the U.S. and China, the U.S. dollar/Chinese yuan exchange rate is forecast to remain low in May, and it is most likely to start declining in the medium term.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – May 2023

Expected Ranges **Against the US$: SG$ 1.3000–1.3550**
Against the yen: JPY 97.00–103.00

1. Review of the Previous Month

In April, the U.S. dollar/Singapore dollar exchange rate remained steady.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.33 level on April 3. Since the OPEC and OPEC+ countries gave an unexpected announcement on April 2 to relay their decision to reduce oil production, crude oil price rose and the U.S. dollar strengthened. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.33 level. However, the March ISM manufacturing index of the U.S. turned out to be below the market estimate thereafter, which encouraged market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.32 level. However, on April 5, U.S. economic indices were released, fueling concerns over an economic slowdown. Thus, risk-averse sentiment grew in the market, and market participants sold the currencies of emerging countries. Consequently, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level on April 6. Then, on April 7, the March employment statistics of the U.S. were released, and the unemployment ratio turned out to be favorable, which encouraged market participants to buy the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to rise even further.

From April 10 to April 11, the U.S. dollar/Singapore dollar exchange rate remained steady. However, on April 12, the March CPI of the U.S. was announced, and the result turned out to be below the market estimate. As a result, market participants sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell sharply to the SGD 1.32 level. And, on April 13, the March PPI of the U.S. turned out to be weak, and the U.S. dollar/Singapore dollar exchange rate fell even further. On April 14, the U.S. dollar/Singapore dollar exchange rate once reached its monthly low. However, thereafter, the Monetary Authority of Singapore (MAS) decided to maintain its existing monetary policy at its meeting, encouraging market participants to sell the Singapore dollar. On the same day, local time, Federal Reserve Board (FRB) member Christopher Waller made a hawkish remark, which encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level.

From April 17 to April 19, market participants continued buying the U.S. dollar in the overall foreign exchange market, as was the case in the previous week. In reaction, the U.S. dollar/Singapore dollar exchange rate continued rising and reached the upper-SGD 1.33 level. However, thereafter, the exchange rate did not rise further. On April 20, the U.S. economic indices were released with weak figures, which led interest rates in the U.S. to fall. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.33 level. Yet, the U.S. dollar/Singapore dollar exchange rate did not continue falling for a long time and recovered to the mid-SGD 1.33 level on April 21.

On April 24, interest rates fell in the U.S., and this led the U.S. dollar/Singapore dollar exchange rate to fall to the lower-SGD 1.33 level. However, on April 25, concerns over the financial system started to grow again based on the weak accounting results of a local bank in the U.S. For this reason, risk-averse sentiment grew in the market, and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.33 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating mainly at the mid-SGD 1.33 level.

2. Outlook for This Month

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

On April 14, the MAS announced its decision to maintain the existing monetary policy. Thus far, the MAS introduced measures of monetary tightening at its ordinary and extraordinary meetings five consecutive times. Thus, many market participants were expecting the MAS to announce further measures of monetary tightening at the latest meeting as well. Yet, the MAS decided to end monetary tightening. This turned out to be a surprise, as market participants had anticipated monetary tightening before this announcement. Furthermore, on the same day, the MAS announced the GDP growth rate for the January–March quarter of 2023, and this was +0.1% year-on-year, revealing a significant decline from the previous quarter's result, which was +2.1% year-on-year. Thus, after this announcement, market participants sold the Singapore dollar. However, this was only a temporary trend, and the trend in the U.S. dollar/Singapore dollar exchange market was not dramatically changed. In its statement, the MAS expressed concerns over a slowdown in the global economy and its outlook for the core inflation rate to fall in the times ahead. Given such circumstances, it has become difficult for market participants to expect the MAS to introduce further measures of monetary tightening in the times ahead.

However, despite such a situation, the upward pressure on the U.S. dollar/Singapore dollar exchange rate has not changed significantly. This suggests that the U.S. dollar/Singapore dollar exchange market has been highly dependent on factors related to the U.S. dollar. Also, the outcome of the Federal Open Market Committee (FOMC) meeting scheduled for May 4 is gathering attention in the market. Even though, in general, the market has already reflected a policy interest rate hike at the May meeting, market participants are likely to expect it to be the last policy interest rate hike. Thus, the upward pressure on interest rates hikes in the U.S. is not likely to be very strong. In general, market participants are now speculating when the MAS will end policy interest rate hikes and start cutting the policy interest rate. Given this situation, downward pressure on the U.S. dollar is likely to strengthen in the times ahead, unless inflation pressures remain high, obliging the FRB to continue policy interest rate hikes for a longer period than the market estimate.

Thus, the outcome of the MAS meeting did not lead the Singapore dollar to appreciate. However, the U.S. dollar is likely to weaken, as market participants expect the FRB to stop raising its policy interest rate. The U.S. dollar/Singapore dollar exchange rate is therefore forecast to remain low in May.

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

Thai Baht – May 2023

Expected Ranges **Against the US$: THB 33.70–34.80**
Against the yen: JPY 3.83–3.95

1. Review of the Previous Month

In April, the U.S. dollar/Thai baht exchange rate did not move in any direction. The U.S. dollar/Thai baht exchange market opened trading at the lower-THB 34 level. At the beginning of the month, OPEC+ announced a decision to further reduce crude oil production, which was unexpected in the market. As a result, the crude oil price rose, fueling concerns that inflation might last for a long period. In reaction, the U.S. dollar/Thai baht exchange rate rose and once approached the mid-THB 34 level. However, on the same day, the U.S. economic indices announced turned out to be weak, and the trend was inversed. Market participants started selling the U.S. dollar in an accelerated manner. Following this trend, the U.S. dollar/Thai baht exchange rate fell sharply. Thereafter, there were weak figures in important indices related to the labor market in the U.S., such as the February JOLTS report and the March ADP National Employment Report. As a result, market participants started to sell the U.S. dollar before the Easter holidays, and the U.S. dollar/Thai baht exchange rate fell and once reached the upper-THB 33 level. Nevertheless, on April 7, the March employment statistics of the U.S. were released, and the results were generally at the expected levels. As market participants had already been highly cautious because of the weak figures in the U.S. economic indices announced previously, this announcement encouraged market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Thai baht exchange rate returned to approach the mid-THB 34 level.

In the middle of the month, the Songkran holidays in Thailand started on April 13. However, as the March CPI of the U.S. had been announced on April 12 while interest rates in the U.S. were falling after the release of the minutes of the Federal Open Market Committee (FOMC) meeting, the U.S. dollar/Thai baht exchange rate fell. However, on April 14, the depreciation of the U.S. dollar slowed down after reaching the THB 34 level. On the same day, U.S. economic indices were released, and the figures turned out to be not as weak as expected. Furthermore, the outlook for the inflation rate for next year rose, leading the U.S. dollar index to rally. As Federal Reserve Board (FRB) officials made hawkish remarks as well, interest rates rose in the U.S. As a result, the U.S. dollar offset the depreciation observed previously, and the U.S. dollar/Thai baht exchange rate returned to the lower-THB 34 level again.

Thereafter, toward the end of the month, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range between the lower-THB 34 level and the mid-THB 34 level. There were both strong and weak figures in the economic indices in the U.S. and China, and the U.S. dollar/Thai baht exchange rate fluctuated occasionally in accordance with announced economic figures and interest rates. However, the U.S. dollar/Thai baht exchange rate did not move out of the above-mentioned range and thus did not move in any direction. Then, on April 24, a local bank in the U.S. announced its accounting results, revealing a large amount of deposit outflow, fueling concerns over the financial system again. In reaction, the currencies of Asian currencies all depreciated against the U.S. dollar. On April 25, the following day, the U.S. dollar/Thai baht exchange rate reached the mid-THB 34 level, approaching the upper end of the fluctuation range. However, on April 26, the Ministry of Commerce of Thailand released trade statistics and the March export numbers recorded negative year-on-year growth of 4.20%, which was better than the market estimate (-14.70% year-on-year). Furthermore, the export value recorded its highest figure in 12 months, leading the trade balance to record a surplus for the first time in 12 months as well. This led the Thai baht to strengthen steadily. While other Asian currencies remained weak due to risk-averse sentiment in the market, the Thai baht was in the opposite situation. As a result, the U.S. dollar/Thai baht exchange rate fell to the lower-THB 34 level. As of April 27, when this article was being written, the U.S. dollar/Thai baht exchange rate was fluctuating at this level.

2. Outlook for This Month

In January 2023, the Thai baht appreciated thanks to expectations for the recovery of the tourism sector in Thailand, resulting from the end of the zero-Covid policy in China. In February, the appreciation was entirely offset, and in March, concerns over the financial system grew mainly in the U.S. and Europe. Compared to these three previous months, the U.S. dollar/Thai baht exchange rate did not fluctuate so significantly in April. However, there are many important events scheduled for May, and the U.S. dollar/Thai baht exchange market is expected to be unstable.

At the beginning of May, the Golden Week holidays start in Japan. In Thailand as well, there are national holidays on May 1, 4, and 5. Under such circumstances, the outcome of the FOMC meeting in the U.S. is scheduled to be out at 1:00 a.m. on May 4, local time, in Bangkok, and this is the first day of four consecutive holidays. Market participants expect the FOMC to raise its policy interest rate by 0.25% at this meeting. Market participants should remain careful about what happens next. Given the remarks made by FRB officials, including those of FRB Chair Jerome Powell, so far, it seems that the FRB is not planning to start cutting its policy interest rate before the end of the year. On the other hand, the market has already reflected several policy interest rate cuts in 2023. Market participants should thus understand how the gap will be filled based on the FOMC statement, the press conference of FRB Chair Jerome Powell, and the economic indices to be released after the FOMC meeting. The U.S. dollar/Thai baht exchange rate is expected to fluctuate in both directions in accordance with these factors. It is also worth noting that the central bank of Thailand is also scheduled to have a Monetary Policy Committee (MPC) meeting on May 31. Since the last MPC meeting, the monetary authorities of Thailand indicated repeatedly that monetary policy would be normalized in a moderate manner. Thus, the MPC is most likely to raise its policy interest rate from 1.75% to 2.00% in May, after which its monetary policy will be decided based on the monetary policy of the U.S.

On May 14, Thailand will hold its first general election for the House of Representatives since 2019. According to current media reports and surveys, the largest opposition party, the For Thais Party, is becoming dominant. However, given the number of seats at the Senate, it is not likely for the For Thais Party to be a single ruling party. Thus, if concerns were to grow over the political situation in Thailand, the Thai baht exchange market could become unstable, so market participants should remain careful.

According to the March trade statistics announced by the Ministry of Commerce of Thailand, exports have been on steady recovery, and the trade balance recorded a surplus for the first time in 12 months. Furthermore, the number of foreign tourists from January to March 2023 has amounted to approximately 6.47 million, which would mean more than 25 million annually. The number of Chinese tourists has also been on a steady rise from approximately 91,000 in January to approximately 155,000 in February and to approximately 269,000 in March. This is also a positive factor for the Thai economy and the Thai baht exchange market. However, as is discussed above, given that there are many important events scheduled for May, the U.S. dollar/Thai baht exchange rate is forecast to fluctuate in an unstable manner, so market participants should remain cautious.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – May 2023

Expected Ranges	**Against the US$: MYR 4.40–4.52**
	Against the yen: JPY 29.41–30.30

1. Review of the Previous Month

In April, there were few transactions in the U.S. dollar/Malaysian ringgit market before and after the Hari Raya Puasa holiday. Under such circumstances, the Malaysian ringgit remained weak mainly in the second half of the month, as a result of Malaysian ringgit-selling.

At the beginning of the month, the Malaysian ringgit remained robust, thanks to the weak figures in the U.S. employment statistics and the rise of crude oil prices. The media reported the unexpected decision by OPEC+ to reduce oil production. As a result, the North Sea Brent crude oil price rose sharply to the USD 86 level. Furthermore, the February number of job openings in the JOLTS report recorded its lowest figure in approximately two years, falling below 10 million. In addition, on April 5, the March ADP National Employment Report of the U.S. was released, revealing figures below the market estimate. As a consequence, market participants grew cautious about the March employment statistics of the U.S. that were to be out on April 7, and U.S. dollar-selling increased. Thus, the U.S. dollar/Malaysian ringgit exchange rate once fell below the MYR 4.40 level. As the March employment statistics turned out to be strong, market participants expected the Federal Open Market Committee (FOMC) to raise its policy interest rate in May.

However, in the middle of the month, the March Consumer Price Index (CPI) of the U.S. was announced on April 12, and the result slowed down to +5.0% year-on-year, as energy prices fell, even though the fall of service prices started to slow down. It is also worth noting that the Producer Price Index (PPI) of the U.S. recorded its largest fall since April 2020 at -0.5% from the previous month, while the number of new unemployment claims turned out to be weak. As a result, the trend in the U.S. dollar/Malaysian ringgit exchange market became inversed, as these figures would justify the end of policy interest rate hikes at the FOMC meetings in May and June. Consequently, the U.S. dollar depreciated while the Malaysian ringgit appreciated, and the U.S. dollar/Malaysian ringgit exchange rate fell and once reached the MYR 4.38 level.

At the end of the month, there were few market participants due to the Hara Riya Puasa holiday, and Malaysian ringgit-selling dominated the U.S. dollar/Malaysian ringgit exchange market. On Monday, April 17, the Malaysian ringgit weakened due to a hawkish remark by Federal Reserve Board (FRB) member Christopher Waller as well as due to the strong figures in the April consumer sentiment index by the University of Michigan. On April 18, the GDP of China for the first-quarter period was also announced, revealing positive growth, thanks to the end of China's zero-Covid policy. However, this did not slow down the depreciation of the Malaysian ringgit, and impact was limited. Furthermore, on April 19, the March trade statistics recorded negative year-on-year growth, while imports also fell below the market estimate. As a result, market participants continued selling the Malaysian ringgit just before the Hari Raya Puasa holiday. Then, after consecutive holidays, a local bank in the U.S. announced its accounting results on April 25, revealing that customer deposits outflowed between January and March, and the media reported that the bank was considering selling its assets, fueling concerns over a crisis in the banking sector again. Consequently, market participants bought the U.S. dollar in order to avert risks, and the U.S. dollar/Malaysian ringgit exchange rate rose to once approach the MYR 4.46 level. After consecutive holidays, the depreciation of the Malaysian ringgit did not slow down until the end of the month.

2. Outlook for This Month

Since the announcement of the accounting results of the previously mentioned local bank in the U.S. at the end of April, market participants are growing cautious again about a banking crisis, which was once seen to have ended. Under such circumstances, there is a possibility for the U.S. dollar/Malaysian ringgit exchange rate to rise in May.

In May, the BNM monetary policy meeting is scheduled for May 3, while the FOMC meeting in the U.S. is scheduled for May 4. According to the market consensus, the central bank of Malaysia is expected to maintain its policy interest rate at the existing level at its monetary policy meeting on May 3, as the March CPI has confirmed that the domestic inflation level remains within the range expected by the central bank. In particular, trade statistics were recently released, and exports recorded negative year-on-year growth. Under such circumstances, if the BNM decides to raise its policy interest rate, the impact on the Malaysian ringgit exchange market would be substantial. Furthermore, the FOMC is most likely to raise its policy interest rate by 25 basis points at its meeting on May 4. However, as a cautious feeling is growing over a banking crisis, it would be difficult for FRB Chair Jerome Powell to decide whether or not to raise the policy interest rate.

On one hand, the trade statistics show that there is a persistent sense of uncertainty over the outlook of the domestic market in Malaysia. On the other hand, in April, the ratings agency, Moody's, announced its decision to maintain the sovereign rating of Malaysia, along with its stable outlook. At the time of this announcement, Moody's also released a statement to affirm that Malaysia's robust sources of domestic financing would persist as credit strengths. It is also worth noting that, on the same day, the Ministry of Finance of Malaysia also released a statement to welcome the announcement by Moody's. This confirmed that the Malaysian government was highly interested in evaluations by external ratings agencies. Various media reports also confirm that the Malaysian government will continue leading efforts to attract foreign investors in the times ahead. Thus, foreign investment is expected to be one of the key factors for the economic growth of Malaysia.

In summary, it is still possible for the U.S. dollar/Malaysian ringgit exchange rate to rise further, as concerns persist over a global financial crisis. However, the market has already reflected policy interest rate cuts from the FOMC meeting in June and thereafter. Under such circumstances, it is easier for market participants to buy the Malaysian ringgit based on the narrowing interest rate differentials between the U.S. and Malaysia, unless the banking crisis becomes a real problem.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – May 2023

Expected Ranges **Against the US$: IDR 14,500–15,100**
Against the yen: JPY 0.8800–0.9450 (IDR 100)

1. Review of the Previous Month

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

On April 3, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,000 level. As the risk sentiment in the market improved and as market participants started to buy back the currencies of Asian countries, the Indonesian rupiah also appreciated steadily. On April 3, the March Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +4.97% year-on-year, falling below +5.12%—the market estimate. However, as the central bank of Indonesia had already ended policy interest rate hikes, the reaction in the market was limited, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the upper-IDR 14,900 level. On April 4, the Indonesian rupiah remained robust and appreciated against the U.S. dollar to lead the U.S. dollar/Indonesian exchange rate to once reach the upper-IDR 14,800 level. Yet, at this level, there were also market participants that bought the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 14,900 level. On April 10 in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 14,900 level, and the exchange rate continued within a narrow range at around the IDR 14,900 level without moving in any direction.

As the March CPI of the U.S. was scheduled to be out on April 12, local time, in the U.S., market participants maintained a wait-and-see attitude, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the upper-DIR 14,800 level both on April 11 and April 12. On April 12, local time, in the U.S., the CPI of the U.S. was announced, and the result was almost as had been anticipated in the market. However, it confirmed that inflation had continued to slow down. Furthermore, the minutes of a Federal Open Market Committee (FOMC) meeting in March were released thereafter, and the contents were seen as dovish in the market. As a result, market participants started to actively sell the U.S. dollar. Following this trend, the Indonesian rupiah strengthened against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,700 level on April 13, the following day. On April 14, U.S. dollar-selling remained dominant, and the Indonesian rupiah strengthened further against the U.S. dollar and the exchange rate reached the mid-IDR 14,600 level, reaching its highest rate for the Indonesian rupiah since August last year. Weekly trading closed at this level. However, on April 17 after the weekend, many market participants bought back the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 14,800 level toward April 18. Then, on that day, the central bank of Indonesia held a monetary policy meeting, and the policy interest rate was maintained at the existing level—as had been anticipated. However, there was little reaction in the market. After a central bank meeting, the governor of the central bank of Indonesia, Perry Warjiyo, stated, as he did at the previous meeting, that the inflation rate would fall to the range of 2–4%, which is the target range set out by the central bank, before the end of the year. He also shared his view that the uncertainty in the financial sector in the U.S. and Europe was being mitigated and thus that there would not be excessive risk-averse sentiment in the market. There were consecutive holidays thereafter from April 20 to April 25. On April 26, after the consecutive holidays, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,800 level. While the U.S. dollar/Indonesian rupiah exchange rate once reached the IDR 14,900 level, the Indonesian rupiah rallied toward the end of the day. Toward April 27, the Indonesian rupiah strengthened against the U.S. dollar to the upper-IDR 14,600 level.

2. Outlook for This Month

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

Concerns surrounding the financial sector mainly in the U.S. and Europe were mitigated, and the capital outflow from emerging countries based on risk-averse sentiment seemed to slowdown. On the other hand, when it comes to economic indices in the U.S., the situation is far from optimistic, without any prospect for an economic recovery. Toward the end of April, market participants occasionally took risk-averse actions by reacting to the deposit outflow from one local bank in the U.S., and there could be similar situations in the times ahead. When concerns about financial institutions in the U.S. grow, market participants are likely to take risk-averse actions, weakening the U.S. dollar in the market. However, at the same time, there would also be capital outflow from emerging countries in such a situation. Thus, it is also possible for the currencies of emerging countries to weaken.

Under the current circumstances, the domestic economy of Indonesia seems to remain strong, as automobile production recorded positive growth from last year. However, the trade balance shows that the trade surplus is on a decline partly due to the decline of the coal price. The annual trade surplus recorded an all-time high in 2022, and this supported the Indonesian rupiah by turning the current account balance into a surplus. Thus, the decline in the trade surplus could change the trend and weaken the Indonesian rupiah.

An FOMC meeting in the U.S. is scheduled for May 3, and as of the time of this writing, market participants have expected the FOMC to raise its policy interest rate by 0.25%. However, as inflation is slowing down, the FOMC is expected to maintain its policy interest rate at the meeting in June and thereafter. Some market participants, even though they are not the majority, expect the FOMC to continue raising its policy interest rate at the June meeting as well. Thus, when the policy interest rate hike in June as reflected in the market is unlikely to occur, the U.S. dollar could temporarily weaken, while the Indonesian rupiah could temporarily strengthen. Yet, after a short period, the Indonesian rupiah is likely to start depreciating again.

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

Philippine Peso – May 2023

Expected Ranges **Against the US$: PHP 54.50–57.50**
Against the yen: PHP 0.41–0.43

1. Review of the Previous Month

The March Consumer Price Index (CPI) of the Philippines was +7.6% year-on-year, showing a slowdown from +8.6%, the previous month's result, and recording its lowest level since September last year, confirming a slowdown in inflation. Furthermore, the February trade balance revealed that imports decreased unexpectedly, while exports also continued decreasing. This reduced the trade deficit. On the other hand, OPEC+ unexpectedly announced an agreement to cut oil production, which led crude oil futures prices to rise sharply, fueling concerns over inflation. Furthermore, the U.S. employment statistics turned out to be strong, which led market participants to anticipate additional policy interest rate hikes. As a result, the U.S. dollar strengthened against a wide range of other currencies. Following this trend, the Philippine peso weakened against the U.S. dollar. It is also important to note that the governor of the central bank of the Philippines Felipe Medalla suggested the possibility to stop raising the policy interest rate at the next meeting scheduled for May if the April inflation rate continues to fall. He also expressed his confidence about the outlook that the inflation rate would be below 4%, which is the upper end of the target range, by November this year. Thus, more market participants expected the central bank to end policy interest rate hikes soon, and this weakened the Philippine peso further. Toward the middle of the month, the U.S. dollar/Philippine peso exchange rate reached the PHP 55 level.

Thereafter, a Federal Reserve Board (FRB) official made a hawkish remark while expectations for inflation grew in the U.S. As a result, the U.S. dollar continued appreciating. Furthermore, the governor of the central bank of the Philippines, Felipe Medalla, stated once again that if the April CPI remained on a downtrend, he would consider to stop raising the policy interest rate at the monetary policy meeting in May and to maintain the policy interest rate at the existing level thereafter. It is also worth noting that the February amount of overseas Filipino workers remittances turned out to be USD 2.57 billion, recording a decline from the previous month's figure, USD 2.76 billion, and its year-on-year increase was below the market estimate. As a result, the Philippine peso depreciated sharply on April 17 and approached its lowest level since the beginning of the year. Thereafter, U.S. economic indices turned out to be strong, and less market participants expected policy interest rate cuts to start before the end of the year, also mitigating concerns over the financial sector. While market participants were starting to discuss controlling inflation, officials at U.S. monetary authorities made hawkish remarks, strengthening the U.S. dollar. Following this trend, the Philippine peso also weakened against the U.S. dollar, and the U.S. dollar/Philippine peso exchange exceeded the PHP 56 level. On April 19, the Philippine peso reached its lowest rate in four months against the U.S. dollar, renewing its yearly low.

At the end of the month, the Philippine government announced its outlook that the economic growth rate would remain at 6–7% this year and that the economy would continue growing significantly until 2028 at 6.5–8%, which supported the Philippine peso. Furthermore, an official at the central bank of the Philippines made a remark that the Philippine peso would stabilize in the medium term. This led market participants to speculate market interventions by the monetary authorities of the Philippines. As a result, the Philippine peso rallied, and the U.S. dollar/Philippines peso exchange rate reached the mid-PHP 55 level. However, the Philippine peso depreciated from a monthly point of view.

2. Outlook for This Month

Given concerns over an economic slowdown in the U.S. and risks about financial uncertainty growing again, there are limited possibilities for the FRB to raise its policy interest rate in the U.S. However, it would take a long time for the inflation level to become low enough to lead to policy interest rate cuts. Therefore, for the moment, the FRB is expected to maintain its existing policy interest rate or to raise its policy interest rate only once more.

On the other hand, the short-term interest rate market has already reflected policy interest rate cuts in the U.S. toward the end of the year. There is thus a gap between this and the estimate by officials at the U.S. monetary authorities. Given that it is unlikely for short-term interest rates to fall much further, the U.S. dollar exchange rate is not expected to move in any direction. However, many FRB officials also made remarks to support the idea to maintain the current policy interest rate for a long period or to raise the policy interest rate further, as inflation pressure remains strong. While financial uncertainty is being mitigated, upward pressure on the U.S. dollar could still strengthen in the times ahead, as market estimates will change as well, correcting the policy interest rate cuts that are already reflected in the market.

The governor of the central bank of the Philippines, Felipe Medalla, expressed his intention to stop policy interest rate hikes at the next monetary policy meeting in May if the April CPI turned out to have declined more than 0.3% from the last month. Until now, he stated that any stop of an interest rate hike at the monetary policy meeting in May would be too early. However, he seems to be more confident that the inflation rate would fall in the times ahead. Under such circumstances, there are less-hawkish views in the market. As the trade deficit of the Philippines still remains high, market participants are more likely to sell the Philippine peso.

The confusion in financial sectors has calmed down for the moment. However, concerns persist, and there is the growing possibility of a recession in the U.S. for the second half of the year. If this impact spreads to the rest of the world, the currencies of Asian countries could depreciate sharply amid risk-averse sentiment in the market.

Shuhei Watahiki, India Treasury Office, Asia & Oceania Treasury Department

Indian Rupee – May 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

In April, the U.S. dollar/Indian rupee exchange rate continued fluctuating in both directions within a narrow range.

In April, the U.S. dollar/Indian rupee exchange market opened trading at the mid-INR 82 level. At the beginning of the month, the Indian rupee continued appreciating slowly. However, on April 6, the April monetary policy committee meeting was held, and there was a unanimous decision to maintain the policy interest rate at 6.50% (the market estimate was 6.75% with a policy interest rate hike of 0.25%) for the first time in six meetings since May 2022, in which the central bank started to raise its policy interest rate. In reaction, the Indian rupee started to depreciate. Thereafter, on April 7, the March employment statistics of the U.S. were released, and the results were as had been expected in the market. As a result, the excessive concerns about the U.S. economy were mitigated among market participants, strengthening upward pressure on the U.S. dollar, leading to downward pressure on the Indian rupee. The March consumer price index (CPI) of the U.S., which attracted substantial attention in the market, turned out to be below the market estimate, leading interest rates in the U.S. to fall. Consequently, the U.S. dollar depreciated, and the Indian rupee appreciated again. However, the central bank of India continued intervening in the foreign exchange market by buying the U.S. dollar when the U.S. dollar/Indian rupee exchange rate reached the upper-INR 81 level, and thus the exchange rate did not fall further. The U.S. dollar/Indian rupee exchange rate continued fluctuating thereafter, following external factors (such as weak economic indices in the U.S., hawkish remarks by a Federal Reserve Board [FRB] official, the decision of the governor of the Bank of Japan to maintain measures of monetary easing, etc.). However, the U.S. dollar/Indian rupee exchange rate fluctuated in both directions generally only within a narrow range. In the end, trading closed when the U.S. dollar/Indian rupee exchange rate fell below the INR 82 level (as of April 25).

In terms of economic indices in India, the March Consumer Price Index (CPI) (year-on-year) was announced on April 12, recording a fall from the previous month's result, +6.44% to +5.66%, falling within the monetary policy target range set out by the central bank of India, which is within 2% above and below +4.0%, for the first time in two months. However, it is worth pointing out that the CPI is still near the upper end of the target range.

2. Outlook for This Month

In May, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate without moving in any direction, with the INR 83 level at the upper end of fluctuation.

In April, the central bank of India continued intervening in the foreign exchange market in order to keep the

Indian rupee from appreciating or depreciating excessively. Therefore, for the moment, the U.S. dollar/Indian rupee exchange rate is forecast to continue fluctuating within a narrow range between INR 81 and INR 83 to the U.S. dollar.

At the monetary policy committee meeting in April, the policy interest rate was maintained at the existing level, which was not in line with the market estimate. On the other hand, the text about monetary policy in the statement (i.e., a maintained attitude to raise the policy interest rate) was kept from the previous meeting's statement. The governor of the central bank of India also made a remark to emphasize that the decision in April was only a temporary stop of policy interest rate hikes and did not mean a shift in monetary policy, as the central bank would continue controlling inflation. Furthermore, the CPI recorded negative growth from the previous month. The CPI to be announced in May is also expected to record negative year-on-year growth (from +7.8% recorded in April 2022). However, it will probably still be above +4.0%, which is the monetary policy target range set out by the central bank of India. Thus, it is very possible for the central bank of India to raise its policy interest rate again at future monetary policy meetings (in June or August), of which market participants should remain attentive.

OPEC+ announced an agreement to cut oil production, strengthening upward pressure on crude oil prices, and this is a negative factor (that weakens the Indian rupee). On the other hand, a Federal Open Market Committee (FOMC) meeting is scheduled in the U.S. for the beginning of May. Market participants expect the FRB to continue raising its policy interest rate at this meeting. However, policy interest rate cuts are likely to start in the medium-to-long term, given the decline of the CPI of the U.S., along with weak figures in U.S. economic indices. Under such circumstances, market participants should remain cautious about situations involving the depreciation of the U.S. dollar and the appreciation of emerging currencies.

This report was prepared based on economic data as of April 28, 2023.