# Mizuho Dealer's Eye

**June 2023**

MIZUHO

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Global Markets Sales Department

Hiroaki Yamagishi, Forex Sales, Global Markets Sales Department

# U.S. Dollar – June 2023

**Expected Ranges** **Against the yen: JPY136.00–143.00**

## 1. Review of the Previous Month

The dollar/yen pair rose towards the end of May.

It began the month trading at the 136 yen range. The pair remained bullish on May 1 on the results of the previous weekend's Bank of Japan (BOJ) meeting. Concerns about the US financial situation then calmed on news that a major US bank would be buying a failed mid-sized US bank. With the US April Manufacturing ISM Report on Business also beating expectations, the pair rose to the 137 yen range. Australian interest rates rose on May 2 after the Reserve Bank of Australia (RBA) unexpectedly implemented a rate hike. US interest rates followed suit and the currency pair was bought to 137.78 yen. US banking shares tumbled from May 3 and the US March JOLT job openings figure also dipped below expectations, so the pair was sold to a monthly low of 133.50 yen on May 4, though it was then bought back to the 135 yen range after the US released some strong April employment data on May 5.

In the week beginning May 8 after a long holiday in Japan, the pair jostled up and down on US economic indicators. The pair floated around 135 yen in the first half of the week. The US April consumer price index (CPI) data was released on May 10. At +4.9% y-o-y, the headline figure was down on market expectations, with the currency pair then plummeting to the lower-134 yen mark. It then fell to 133 yen for a time on May 11 on the sluggish US April producer price index (PPI) data. However, the May University of Michigan Consumer Sentiment Index was released on May 12 and its expected inflation rate was up on market expectations, so the pair rocketed back to the upper-135 yen level.

Concerns about the US debt ceiling receded in the week beginning May 15. As US interest rates rose, the dollar/yen pair also renewed a 2023 high. The pair moved in a range around 136 yen at the start of the week. Market sentiments improved and the pair rose to the upper-137 yen level on May 17 on news that President Joe Biden and House of Representatives Speaker Kevin McCarthy had said a deal was possible. The US released some bullish new applications for unemployment insurance data on May 18. With US interest rates also continuing to rise on hawkish comments by FRB officials, the pair's topside extended to 138.75 yen.

In the week beginning May 22, the currency pair hit the 140 yen range for the first time in six months on widening Japanese/US interest-rate differentials. On May 24, FRB Governor Christopher Waller hinted at a continuation of rate hikes, so US interest rates soared and the pair strengthened to the mid-139 yen mark. The US then released some strong 1Q GDP data (revised) and new applications for unemployment insurance data on May 25, with the pair subsequently hitting the 140 yen range. The pair then climbed to 140.73 when the US released a higher-than-expected April PCE core inflation rate on May 26.

In the week beginning May 29, the greenback was bought and investors tested the pair's topside again on news that a deal had been reached on raising the US debt ceiling. The pair hit a monthly high of 140.39 yen on May 30, though it then dropped below 140 yen as the yen was bought on concerns of an intervention by the Japanese government following a tripartite meeting between the Japanese Ministry of Finance, the Financial Services Agency and the BOJ. The pair moved in the 139 range over May 31.

## 2. Outlook for This Month

In June, the dollar/yen pair is expected to move firmly on expectations for FRB rate hikes amid concerns about deep-rooted inflation in the US.

Though the FRB has continued to lift rates for over a year, most US economic indicators remain firm overall, with employment conditions still tight too. The tight labor supply and demand conditions are leading to pressure for wage hikes, so the FRB will probably remain in hawkish mode for now on concerns about inflation. Even if the FRB decides not to lift rates in June, recent comments by FRB officials suggest that rate hikes could continue from July onwards, with these comments also pouring cold water on market expectations for early rate cuts. The core inflation rate of the April Personal Consumption Expenditure (PCE; an indicator closely watched by the FRB) hit 4.7% to rise at a faster pace for the first time in three months. The FRB's own economic outlook is also predicting core inflation of 3.6% throughout 2023. With inflation remaining far above the 2% target, the FRB will find it hard to cut rates. As market expectations for rate cuts wane and US interest rates rise, the dollar/yen pair will probably strengthen further.

With regards to the charts, the pair will probably break above the key 200-day moving average line, with the pair likely to swing upwards for technical reasons too. There was no sense of achievement even after the pair topped the key 140 yen mark, with attention now likely to focus on its November 2022 high of 142.25 yen. However, the pair has risen by over ten yen in the two months from its March low, so there could be a sharp correction. The pair temporarily topped the 140.36 yen low that it hit after the authorities intervened for the first time in 24 years on September 22, 2022, with investors likely to grow wary of a yen-buying/dollar-selling intervention by the Japanese authorities when the pair moves in the 140 yen range.

Japan's trade deficit will also lead to yen selling on the supply and demand front, with this likely to support the dollar/yen pair's downside. The deficit stopped swelling as soaring commodity prices cooled off, but the deficit has become entrenched on structural economic changes, with Japan posting a deficit for 21 straight months up until April and the deficit set to reach a record high of 21 trillion yen in fiscal 2022. There are many Japanese real-demand investors lined up to buy the dollar when the currency pair slides, so the pair is expected to move firmly on the downside in the absence of any policy shifts by the BOJ, for example.

The yen could rise and the greenback slide on expectations for a change in BOJ policy. Kazuo Ueda has maintained the status quo since taking the top position at the BOJ, but it seems he will have to tweak policy at some point given rising inflationary pressures in Japan and concerns about the side effects of monetary easing. In April, the core CPI figure (excluding fresh food and energy) hit 4.1%, the highest growth for around 40 years, with inflationary pressures making it harder for the BOJ to justify continuing its policy of unprecedented monetary easing. The yen's sharp fall could also place more pressure on the BOJ to shift tack. When it meets in June, the BOJ might revise its YCC policy or drop hints about such a move at the July meeting, so caution will be needed. The yen strengthened by over seven yen when the BOJ widened the YCC band in December last year, with any policy shift also likely to have a big impact on the dollar/yen pair's movements from here on too.

## Dealers' Market Forecast

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

| Bullish on the dollar | 10 bulls | 143.00 – 136.65 | Bearish on the dollar | 8 bears | 142.50 – 134.25 |
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* Ranges are central values

| Name | View | Range | Comment |
|---|---|---|---|
| Miyachi | Bull | 143.00 – 137.00 | The FRB will continue to find it hard to shift course in the face of stubbornly high inflation. The dollar/yen pair will be supported by widening Japanese/US interest-rate differentials. However, speculation about BOJ policy tweaks will rise when the pair surges, so investors should be on guard against a sharp shift in the pair's trajectory. |
| Kawai | Bear | 142.00 – 135.00 | The dollar/yen pair hit a 2023 high in May on widening Japanese/US interest-rate differentials and concerns about the US debt ceiling issue. With the FOMC meeting and the BOJ Monetary Policy Meeting to be held in mid-June, the pair will probably move with a heavy topside on concerns about an intervention by the Japanese authorities. |
| Kawabata | Bull | 142.50 – 136.30 | Investors are now starting to price in further FRB rate hikes in the face of rising stock prices and stronger-than-expected US indicators. A lot will depend on the data released at the start of the month, but the dollar/yen pair will probably be supported by carry-trade yen selling if uncertainties ease when it comes to the US debt ceiling issue and if volatility remains low. |
| Kato | Bear | 143.00 – 134.00 | A glance at Netflix, Amazon Prime or other media suggests it is becoming commonplace to search for yen-selling factors. If stocks continue moving firmly, the authorities will probably tolerate a virtuous cycle of prices rises, though there is a sense of prices moving too fast. The trilateral meeting is clearly a warning sign. |
| Yamazaki | Bull | 144.00 – 137.00 | The dollar/yen pair will continue to trend upwards. The timing of the YCC revision has been pushed back, while the problem of the US debt ceiling also looks set for resolution, so the dollar will continue to move bullishly and the yen bearishly for a time. The pair will probably strengthen until the next FOMC meeting. |
| Ito | Bear | 143.00 – 135.00 | Market participants have priced in one rate hike up until the July FOMC meeting and they have also revised their expectations for a rate cut within the year. There is only limited room for US interest rates to rise further, so it is hard to see the dollar/yen pair rising sharply. There are no buying factors on the yen side, though, so the pair will continue to float at highs. |
| Yamagishi | Bull | 143.00 – 136.00 | US indicators point to a tight labor market, so the FRB looks set to continue lifting rates on deep-rooted concerns about inflation on the back of rising wages. The dollar/yen pair will move firmly overall. However, it has already risen sharply by over ten yen in just two months. The BOJ could also tweak policy on rising inflation in Japan, so investors should also be on guard against the risk of yen bullishness. |
| Omi | Bull | 143.00 – 136.00 | US policy rates will remain high in June, 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 | 142.00 – 137.00 | A lot will depend on the results of the FOMC meeting over June 13–14, but the FRB appears to be inclining in a hawkish direction, so dollar selling seems unlikely this month. The dollar/yen pair is expected to move firmly overall, but concerns of an intervention by the Japanese authorities will probably grow when the pair tops 141 yen. |
| Yamaguchi | Bull | 144.00 – 137.50 | The FRB will continue to tighten policy as it tries to quell inflation, with the dollar/yen pair set to move firmly. On the other hand, the BOJ remains strongly committed to easing, so yen selling looks set to continue. |
| Matsunaga | Bear | 142.00 – 134.00 | FRB members are divided when it comes to the direction of monetary policy going forward, with the dollar being driven higher in part by market speculation. If composure returns to the markets on signs of easing US labor market conditions and a resolution to the US debt ceiling problem, then there could be some adjustment to the trend of dollar bullishness. |

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| Tagawa | Bull | 143.00 – 136.00 | The markets are pricing in one more FRB rate hike, but the dollar/yen pair looks set to continue moving firmly on healthy US economic indicators. Though there is a fundamental lack of yen-buying factors, investors should be wary of verbal interventions by the Japanese authorities. |
| Harada | Bear | 144.00 – 134.50 | Though upwards pressure on interest rates is steadily weakening in Japan, investors will probably be monitoring this month's BOJ meeting for signs of a monetary policy shift by BOJ governor Kazuo Ueda, with the dollar/yen pair likely to move with a heavy topside. |
| Katoono | Bear | 142.00 – 134.00 | Expectations for further FRB rate hikes have flared up again, but it still seems the FRB will only have limited room for further hikes given financial system instability and recessionary concerns. Even if the FOMC does lift rates in June, the dollar/yen pair's subsequent rise will probably be capped. |
| Kobayashi | Bull | 143.00 – 135.00 | The FRB looks set to continue tightening in the face of firm US economic indicators and high inflation. On the other hand, the BOJ shows no signs of shifting its easing stance under the new leadership of Kazuo Ueda. Given this, it seems the greenback will continue to be bought against the yen on these divergent monetary policies. |
| Henmi | Bear | 143.00 – 135.00 | Though Japanese/US interest-rate differentials are widening, US interest rates only have limited room to rise further, so the dollar/yen pair's room on the topside will be capped. The pair's topside will probably grow heavier on an unwinding of dollar longs and movements by the Japanese authorities. |
| Suzuki | Bull | 143.50 – 137.50 | Expectations for a June FOMC rate hike are steadily rising on stubbornly-high inflation and the firm results of US indicators. The pair will be swayed by moves by the authorities to curb the yen's slide, but the impact of these moves will probably be limited given the wide divergence in US and Japanese monetary policy, with the dollar/yen pair set to continue moving firmly in June. |
| Okuma | Bear | 141.00 – 134.00 | Though the BOJ remains in easing mode, there are concerns that the Japanese authorities may act to rein in yen bearishness in the face of the dollar/yen pair's recent rise. With US long-term interest rates also trending lower, the pair is expected to trade with a heavy topside. |

Takashi Miyachi, Forex Sales, Global Markets Sales Department

# Euro – June 2023

**Expected Ranges** **Against the US$: US$1.0450–1.0900**
**Against the yen: JPY143.00–153.00**

## 1. Review of the Previous Month

The euro/dollar pair opened the month trading at the lower-$1.10 level. The eurozone April preliminary CPI data was released on May 2, with core CPI slowing on the previous month. The euro was sold on speculation about slowing inflation, with the pair sliding to the mid-$1.09 level. As expected, the FOMC implemented a 25bp rate hike at its closely-watched meeting on May 3. In his press conference, though, FRB chair Jerome Powell hinted at a pause in rate hikes, so the pair rallied to the key $1.1092 mark on falling US interest rates. The ECB Governing Council then held its own closely-watched meeting on May 4. It also decided to lift rates by 25bp, but its accompanying statement said that previous rate hikes were starting to bear fruit, so the euro was sold and the currency pair dropped back to the upper-$1.09 level. The April US employment data was released on May 5, with the dollar moving firmly on the better-than-expected results of the nonfarm payrolls and average hourly wages indicators, for example. The currency pair weakened to the mid-$1.09 level, but it then rallied slightly to close the week at the lower-$1.10 mark. In the second week, the pair weakened from the mid-$1.10 mark to the lower-$1.10 level on May 8 on the worse-than-expected result of the May eurozone Sentix Investor Confidence Index. The pair then fell to the mid-$1.09 level midweek as European bank stocks moved heavily on the topside and the euro saw some adjustive selling. The pair recovered to $1.10 on May 10 when the US April CPI data fell below expectations. With German interest rates also falling, though, the pair dipped back to right around $1.09 on May 11. The May University of Michigan Consumer Sentiment Index was released at the weekend and it revealed that inflationary expectations had risen to their highest level since 2011, so the pair closed the month moving at lows after hitting the mid-$1.08 mark.

Mid-May saw the pair initially trading at the mid-$1.08 level. At -31.8, though, the May NY FRB's Manufacturing Index was down on expectations, so the greenback was sold. The pair then bounced back to the $1.09 range on May 16 on the firm movements of European stock markets. However, news emerged on May 17 that President Joe Biden and House of Representatives Speaker Kevin McCarthy might reach an agreement about the debt ceiling issue by May 21, with the dollar bought as a result. The currency pair continued tumbling to hit the upper-$1.07 mark on May 18 on rising US interest rates and hopes for a resolution to the debt ceiling issue. It rallied slightly on May 19 to close at the lower-$1.08 mark. The pair opened the fourth week trading at the lower-$1.08 mark. It then weakened to the upper-$1.07 level on May 23 when the eurozone May Manufacturing PMI dropped below expectations. The German May IFO Business Climate Index was then released on May 24 and it was also down on forecasts, so the pair continued falling to hit the mid-$1.07 mark. The final German 1Q GDP data was released on May 25 and it revealed that the German economy had contracted, so the pair fell to the lower-$1.07 range on widening US/German interest-rate differentials. The pair tumbled to $1.0702 on May 26 as the greenback was bought on hopes regarding the US debt ceiling issue. With the London and New York markets on holiday at the start of the final week, the pair fluctuated gently in the $1.07 range at the month's end. Spain then released some worse-than-expected May CPI data on May 30. With the dollar also being bought on the end-of-month flow, the

pair fell to a May low of $1.0673.

## 2. Outlook for This Month

The euro/dollar pair looks set to continue trading with a heavy topside in June.

The phrase about further rate hikes was removed from the statement released after the last FOMC meeting, but with inflation remaining stubbornly high in the US, it is probably too early to say that the rate hike cycle has completely come to an end. FRB officials continue to make hawkish comments too. US/German interest-rate differentials had shrunk to their lowest levels in nearly nine years late April as investors priced in ECB hawkishness, but it is hard to see these differentials shrinking further.

A glance at economic sentiments in the US and Europe is also revealing. Consumer spending and the employment situation remains strong in the US, for example. On the other hand, though the eurozone managed to avoid a GDP contraction in the first quarter, the impact of rate hikes and tougher bank lending rules will become more apparent from here on, with the eurozone economy set to move weakly overall going forward. Under these circumstances, there is a risk of ECB hawkishness leading to a deterioration in economic sentiments, with the euro likely to be a hard currency to actively buy.

Furthermore, speculative IMM currency futures positions have seen euro longs swelling to their highest level since September 2020, so if speculators start to unwind these positions, the euro/dollar pair's room on the topside will be capped.

If US interest rates remain at high levels, meanwhile, there is still a risk that some US financial institution might face credit concerns again, with the dollar likely to be sold and the euro bought if concerns about a US credit crunch rise.

In addition to the aforementioned movements of US/European interest-rate differentials, US/European economic sentiments and speculative forward positions, investors should also pay attention to the Russia/Ukraine situation. There are whispers of a Ukrainian counter-offensive and the euro might be sold if fighting intensifies. Given all this, it seems likely that the euro/dollar pair will trade with a heavy topside in June.

## Dealers' Market Forecast

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

| Bullish on the euro | 16 bulls | 1.1000 – 1.0500 | Bearish on the euro | 2 bears | 1.1000 – 1.0475 |
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* Ranges are central values

| Dealer | View | Range | Comment |
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| Miyachi | Bear | 1.0900 – 1.0450 | With inflation remaining stubbornly high in the US, it cannot be said for sure that the FRB's rate hike cycle has ended, with US/European interest-rate differentials likely to widen going forward. The US also seems to have an advantage on the eurozone when it comes to economic sentiments, with the euro/dollar pair set to trade with a heavy topside. |
| Kawai | Bull | 1.1200 – 1.0600 | The euro/dollar pair dropped below $1.07 in May on rising US interest rates and progress regarding the debt ceiling issue. Core inflation remains high in the eurozone, though, with the ECB likely to remain in hawkish mode, so the pair will probably bounce back on a sense of over-selling. |
| Kawabata | Bull | 1.1000 – 1.0500 | There were signs that inflation was cooling in the eurozone. With the US policy forecast also tilting in a tightening direction, the euro/dollar pair's rise cooled off in May. The pair will probably move passively on the whole, though it could break above its recent range if the ECB clearly signals it intends to continue tightening policy. |
| Kato | Bull | 1.1300 – 1.0400 | The overall structure will remain unchanged. Europe still has room for rate hikes, but in the US, investors will still be trying to gauge when the FRB will call a halt to rate hikes. |
| Yamazaki | Bull | 1.0900 – 1.0500 | The euro/dollar pair fell throughout May, but with the ECB committed to lifting rates, the trend of euro bearishness will soon come to an end. One key point will be the direction of US policy, but the pair looks set to bottom out and then rise in June. |
| Ito | Bull | 1.1000 – 1.0500 | ECB officials have talked about the need for further rate hikes in the face of persistently-high inflation, so the euro/dollar pair will be supported by the divergent stances of the US and Europe. However, the pair's topside could be held down if investors adjust their long positions on speculation about an economic slowdown. |
| Yamagishi | Bull | 1.1000 – 1.0500 | At 5.6%, eurozone inflation remained far above the 2% target in April. With the unemployment rate also at a record low 6.5%, the ECB looks set to continue hiking rates until a slowdown in inflation is confirmed. The euro/dollar pair is expected to move firmly, but with the FRB also continuing with rate hikes, the pair's topside will grow heavier from the key $1.10 mark. |
| Omi | Bull | 1.1100 – 1.0600 | The euro looks set to remain firm on the back of continuing ECB rate hikes. However, the euro/dollar pair's topside will grow heavier if headlines emerge about financial system instability. |
| Ueno | Bull | 1.1100 – 1.0500 | With the end of US rate hikes drawing near, investors are focusing on improved US economic indicators and a flattening-out of US inflation indicators. The euro/dollar pair's movements will be shaped by the greenback. When the dollar moves firmly, investors should pay attention to the pair's downside. |
| Yamaguchi | Bull | 1.1100 – 1.0500 | The ECB looks set to continue lifting rates until it seems inflation is clearly under control, though it seems the end is drawing closer as the ECB remains a few footsteps behind the FRB. However, the eurozone's current account balance has improved, so the euro will probably face upwards pressure on the foreign exchange supply and demand front. |
| Matsunaga | Bull | 1.1000 – 1.0600 | The euro/dollar pair rose at a fast clip, though it is now facing some adjustment. The ECB remains committed to tackling inflation, though, so any euro slide will only be in reaction to its previous sharp rise. If the eurozone releases some strong inflation data, the pair will probably start moving bullishly again. |

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| Tagawa | Bull | 1.1000 – 1.0500 | Expectations are growing for ECB rate hikes in the face of stubbornly-high core inflation. However, US interest rates remain higher. Rather than a euro rise, it seems more likely that the euro/dollar pair's downside will edge higher. |
| Harada | Bull | 1.1150 – 1.0600 | With core inflation remaining high in the eurozone, the ECB is likely to remain in hawkish mode. With an end to rate hikes also looming in the US, the euro will be an easy currency to buy. |
| Katoono | Bull | 1.1000 – 1.0600 | Though the US rate hike cycle is coming to an end, hardly any ECB officials are making dovish noises, so it seems the euro/dollar pair will be bought on the divergent monetary policies of the US and Europe. The euro saw some one-sided selling against the dollar in May, but the pair will probably bounce back in June. |
| Kobayashi | Bear | 1.1100 – 1.0500 | Though the ECB is expected to continue tightening, the eurozone economic recovery could stall on the economic travails of China, the eurozone's largest trading partner. With the FRB also set to hike rates again in June, the euro/dollar pair will continue to move bearishly. |
| Henmi | Bull | 1.1000 – 1.0400 | The greenback rose as investors priced in US rate hikes in June and July, but the ECB looks set to remain in hawkish mode from here on as inflation drags on. The euro/dollar pair will be bought back in June. |
| Suzuki | Bull | 1.1000 – 1.0500 | Core inflation and so on looks set to remain high in the eurozone. While there is strong speculation about an end to FOMC rate hikes, the ECB has struck a noticeably hawkish tone, with some investors predicting several more rate hikes going forward. As such, the euro/dollar pair is expected to move firmly in June. |
| Okuma | Bull | 1.1000 – 1.0550 | Though the ECB scaled back its rate hikes, ECB president Christine Lagarde has stated that rate hikes will continue. Though expectations for FRB rate cuts have waned, the euro/dollar pair still looks set to move firmly on the divergent policies of the ECB and FRB. |

Masayuki Nakajima, Europe Treasury Department

# British Pound – June 2023

**Expected Ranges** **Against the US$: US$1.2200–1.2600**
**Against the yen: JPY168.00–177.00**

## 1. Review of the Previous Month

The GBP/USD pair rose clearly above the key $1.25 mark at the start of May, though it then moved with a heavy topside to drop below $1.25 again from mid-May as US interest rates rose and the dollar strengthened. With expectations for BOE rate hikes growing on an upswing in the April UK consumer price index (CPI) data, sterling moved firmly compared to the other G10 currencies. It climbed against the yen in particular to breach the 140 yen mark for the first time since November 2022, with the GBP/JPY pair rising from the lower-171 yen level at the end of April to hit the 174 yen range by May 30.

$1.25 had marked the GBP/USD pair's ceiling since the start of April, but it broke clearly above this level in the first week of May. The FRB and ECB then made some monetary policy announcements on May 3 and 4, respectively. Both central banks opted for a +25bp rate hike, but while FRB chair Jerome Powell hinted at an end to rate hikes, ECB president Christine Lagarde hinted at further hikes when she said there was still some space before policy rates peaked out. The greenback subsequently weakened on a growing sense that FRB would bring rate hikes to a close (or even begin cutting them) while the ECB continued to lift rates.

The second week saw the dollar being sold on the release of the April US CPI data on May 10, with the GBP/USD pair rising to a 2023 high of $1.2679. The pound then rallied after the BOE's monetary policy announcement on May 11, though this trend was short-lived and the pair was held down as the greenback rallied globally, with the pair then falling at a sharper pace.

In the third week, China released a series of worse-than-expected major indicators during Asian trading time on May 16, with the dollar also rising on the firm results of the US April retail sales data. The GBP/USD then fell at a faster pace on the same-day release of a UK employment-related indicator, with the number of people in work and the number of vacancies both falling sharply.

The pair continued falling in the fourth week. The UK April CPI data was released on May 24 and it was significantly up on forecasts, so sterling temporarily strengthened against the dollar. It soon fell back to drop below its level from before the CPI announcement, though. The US employment data was released on May 25, with the strength of the economy reconfirmed when the new applications for unemployment insurance figure fell sharply below forecasts. As US interest rates rose, the greenback climbed even higher. At +0.8% m-o-m, the UK April retail sales data (excluding automobiles and fuel) beat market expectations (+0.4% m-o-m) on its release on May 26, so the GBP/USD pair rallied during London trading time. However, the US also released a better-than-expected April Personal Consumption Expenditure on the same day, so the pair's topside was held down at the close of trading.

## 2. Outlook for This Month

The GBP/USD is expected to trade with a heavy topside in June, though sterling looks set to move firmly against

the yen and other currencies. The markets were hit by concerns about the US debt ceiling issue in May, but President Joe Biden and House of Representatives Speaker Kevin McCarthy seem to have reached a deal, so the market focus will probably shift back to the monetary policies of each country. Investors have priced in a 60% chance of a further +25bp rate hike at the June FOMC meeting, but this probability could rise depending on the results of the US May employment data, set for release on June 2. On the other hand, investors had priced in a Bank of England (BOE) terminal rate of 4.89%, but a week later this figure had shot up to 5.53% on May 30 after the upswing in the UK April CPI data. Stock markets tumbled in the UK and Europe after the UK CPI announcement, so the pound's rise was short-lived and it seems investors are growing more concerns about the negative impact on the economy of rising interest rates. However, the UK released some firm April retail sales data after the CPI announcement, so it seems the pound could be boosted by growing expectations for a further rate hike. As expected, the BOE lifted its policy rate by +25bp to 4.50% when it met on May 11, but it also said that policy decisions would depend on the data going forward. The BOE's next meeting is penciled in for June 22, so attention will be focused on the economic data released before then, particularly the April employment data (released June 13) and the May CPI data (released June 21).

Released a day before the BOE meeting, the UK May CPI data will be particularly crucial. At +8.7% y-o-y, the UK April CPI data was up sharply on expectations for a rise of +8.2% y-o-y, with yields on gilts surging and interest rates climbing across the globe. This represented a slowdown on the +10.1% figure recorded in March, but the breakdown by contribution levels shows that most of the decline can be explained by the fact that energy price inflation slowed on a y-o-y basis after previously having surged in April 2022 after Russia invaded Ukraine. Service prices grew at a faster clip (from +6.6% y-o-y to +6.9% y-o-y), while food price inflation remained high (from +19.1% y-o-y to +19.0% y-o-y). With the price of used cars and other core goods also rising at a faster pace, the data gave an overall impression of strong downward rigidity of inflation. The number of people in work fell by 136,000 m-o-m in April, the largest fall since the pandemic, but it seems a further economic cooling will be needed before wage growth and services inflation is brought under control.

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

# Australian Dollar – June 2023

**Expected Ranges** **Against the US$: US$0.6400–0.6750**
**Against the yen: JPY89.10–92.50**

## 1. Review of the Previous Month

Investors tested the AUD/USD's topside early May, with the pair hitting $0.6818 for the first time since February on the May 10 release of some bearish US CPI data. Risk aversion then intensified, though, so the pair temporarily hit a 2023 low of $0.6458 towards the month's end before closing May trading around $0.65.

The RBA's board unexpectedly implemented a +25bp rate hike when it met on May 2. With the accompanying statement also stating that some further tightening might be needed, the currency pair climbed to around $0.6720. As expected, the FOMC lifted rates by 25bp when it met on May 3. Wording about further rate hikes was removed from its statement, but in his press conference FRB chair Jerome Powell ruled out rate cuts on persistently-high inflation, so the pair tumbled to $0.6670. Risk aversion then grew on news that a US regional bank was trying to find a buyer, so the pair plummeted to around $0.6640. However, Australia's March trade balance swung sharply upwards, while the RBA warned about the risk of rising inflation in its Quarterly Statement on Monetary Policy, so the Australian dollar was bought. The US April employment data revealed that the number of people in work and wages had grown at a faster pace, so the greenback was bought and the currency pair temporarily weakened to $0.6689. Stocks then rose sharply after a major US IT company posted healthy results. Risk sentiments also improved when US regional bank stocks climbed, with the AUD/USD pair rising to the mid-$0.67 range again. The US dollar was sold on May 10 on the release of some bearish US CPI data for April, so the pair hit $0.6818 for the first time since February.

The US debt ceiling issue rose to prominence mid-May as time ran out to avoid a default. Concerns about the management of US regional banks also flared up again, while the RMB moved bearishly on the release of several weak Chinese economic indicators. As risk aversion intensified, the currency pair was pushed down to the lower-$0.66 handle. The Australian 1Q wages data was then released, with market participants adjudging that wages were not growing fast enough to spur on inflation. Concerns about a tight labor market also eased on the release of Australia's April employment data, with the number of people in work unexpectedly falling and the unemployment rate rising to 3.7%. This led to growing expectations that the RBA would keep rates fixed again when it met in June, with the pair then dropping to $0.6632. The US then posted some firm new applications for unemployment insurance data. With Dallas FRB president Lorie Logan also stating there were still no clear grounds for pausing rate hikes, US interest rates rose and the currency pair temporarily dipped to $0.6605.

With the deadline for the US debt ceiling issue looming, the markets remained in wait-and-see mode late May. The RBNZ implemented a +25bp rate hike when it met on May 24, but the NZ dollar then fell on a growing sense that further tightening would be unnecessary in New Zealand. The Australian dollar was also pulled lower, with the AUD/USD pair falling to the lower-$0.65 level. The pair then fell further on dovish comments by RBNZ governor Adrian Orr. Furthermore, with the US April PCE core deflator also beating forecasts, the greenback was bought on growing expectations for US rate hikes, with the currency pair dropping below $0.65. Australia's April CPI data was also up on expectations, but China also released a bearish May Manufacturing PMI around the same time, so

the Australian dollar continued sliding and the pair hit $0.6458 for a time. The pair closed the month trading around $0.65.

## 2. Outlook for This Month

In June, the AUD/USD is likely to be supported by rising stocks as sentiments recover on a sense of relief after an agreement is reached over the US debt ceiling issue. If negotiations drag on past the X-date and a compromise is not reached, this will have a huge impact, with US governmental institutions shutting down, for example, so it seems likely a compromise will be reached before the US defaults. However, the markets are always swayed every time the debt ceiling issue arises with all its farcical tug-of-war negotiations.

After an agreement is reached, the market focus will probably shift to US and Australian monetary policy and the outlook for the Chinese economic recovery. The RBA board will be meeting on June 2. At +6.8%, the Australian April CPI data (released last month) was up on forecasts for a 6.4% rise, with expectations for further rate hikes now swelling. However, the Australian 1Q wages data (released May 17) was unchanged on the previous quarter and was only up by around 0.3%pt year-on-year, with most observers believing this will not spur on inflation further. Furthermore, when rising wages are outstripped by rising CPI data, this does not boost household purchasing power but instead places pressure on living expenses, with consumer spending usually moving in a bearish direction. As such, it seems the RBA should soon start to focus on the risk of an economic slowdown. In particular, a substantial resetting of interest on fixed-rate mortgage loans will commence in a month's time, with fears of an economic downturn only likely to increase going forward. Furthermore, the Australia April employment data (released May 18) saw the unemployment rate rising by 0.2%pt on the previous month, with this deterioration suggesting Australia's tight labor market conditions might be easing somewhat. When it meets in June, the RBA board should think carefully about whether another rate hike is really needed. If it decides not to hike rates, the AUD/USD pair's topside will probably be held down.

The FOMC meeting is also looming on June 14. Philadelphia FRB president Patrick Harker and several other FRB officials have talked about postponing a further rate hike at the June meeting. Opinions are divided, though, with Dallas FRB President Lorie Logan also stating there are still no clear grounds for pausing rate hikes, for example. These grounds would be slowing inflation, but demand would need to cool off for this to happen, so investors will be monitoring the June 2 release of the US May employment data for signs of cooling demand. If it seems the tightness of the jobs environment is easing as the number of new jobs rise at a slower pace and average hourly wage growth slows, this will support the AUD/USD pair as rising US interest rates are kept in check. If it seems that US labor conditions remain tight, though, the currency pair could drop down to the $0.64 range again.

As for the outlook for the Chinese economic recovery, China has released a series of bearish economic indicators, with the RMB sliding, so this will probably remain a drag on the AUD/USD pair's movements. The pair hit a 2023 low of $0.6458 on May 31 and investors may test its downside again as long as factors continue to weigh the Australian dollar down.

Hiroki Kashiwagi, Canada Office, Americas Treasury Department

# Canadian Dollar – June 2023

**Expected Ranges** **Against the US$: C$1.3300–1.3800**
**Against the yen: JPY96.00–105.00**

## 1. Review of the Previous Month

Crude oil prices moved bearishly at the start of May on concerns about an economic slowdown in the US, so the Canadian dollar was sold and the USD/CAD pair moved from the upper-C$1.35 mark to the lower-C$1.36 level. Canada's employment data was released on May 5 and it was up sharply on forecasts. There had been expectations that wage growth would slow, but growth was actually unchanged on the previous month. The Canadian dollar was subsequently bought, with the currency pair plummeting as a result. The pair opened May 8 trading at C$1.3315, its lowest point for the month.

The pair then moved in a narrow range around the upper-C$1.33 mark. However, the Canadian dollar was sold over May 11–12, so the pair strengthened. The US April CPI data was released on May 10, though this did not impact the pair's movements much. The US then released some better-than-expected new applications for unemployment insurance data on May 11. Crude oil prices also fell on concerns about a sudden build-up of inventories in crude oil markets. All this saw the USD/CAD pair climbing to C$1.3496. The Canadian dollar was also sold on May 12 on news that Canada's bank lending standards would be tightened to a level last seen in 2020.

Mid-May saw a lack of progress when it came to the US debt ceiling issue, with the currency pair continuing to trade around C$1.35. The Canadian April CPI data was released on May 16. At +4.4% year-on-year, the figure was up on expectations (4.1%) and the previous month's result (4.3%). Markets had been expecting the Bank of Canada (BOC) to keep rates fixed, but expectations for a rate hike now began swelling. The US retail sales data was then released on May 17 and the results confirmed the strength of the US economy, with the currency pair swing to and fro on this mixture of factors.

The pair continued rising toward the end of the month. The minutes to the May 2–3 FOMC meeting were released on May 24 and they revealed that some members had called for further rates hikes, so the USD/CAD pair rose sharply to break through the key C$1.36 mark. The US PCE deflator was announced on May 26 and this confirmed that inflationary pressures remained strong, so the greenback was bought and the pair moved at May highs at the month's end.

## 2. Outlook for This Month

The Bank of Canada (BOC) kept its policy rate fixed at 4.5% at both its March and April meetings. The BOC did not meet in May, though BOC governor Tiff Macklem did give a speech on May 2. He predicted that inflation would fall to around 3% by this summer, though he said more time would probably be needed before inflation returned to the 2% target.

The headline April CPI figure (released May 16) then hit an annualized 4.4%. Though this was due in large part to rising gasoline prices, it was still up on March's figure of 4.3%. Until now, the BOC has kept rates fixed while

maintaining it is prepared to lift rates further if needed, but some market participants now believe the BOC will start hiking rates again. Speculation is also swirling away about another FRB rate hike, with expectations for a rate cut within the year waning.

The Canadian dollar was sold on crude oil movements from April to the start of May, but the situation has changed recently. In particular, after hitting a high of $84/barrel on April 12, WTI prices then plummeted to a low of $68/barrel on May 4 on concerns about sluggish demand due to financial system instability and an economic slowdown. The Canadian dollar was also sold in tandem, but with supply and demand growing tighter and WTI prices rising again, the USD/CAD pair's downside will also probably be capped.

Amid a lack of any clear trends or factors, the pair looks set to move in a range in June. Financial system instability has not been totally eradicated, with the pair likely to move in a range from C$1.33 to C$1.38 on a mixture of factors, including further US rate hikes, a decision about the debt ceiling issue, and expectations for further BOC rate hikes. The first thing to monitor will be the BOC meeting on June 7.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

# Korean Won – June 2023

**Expected Ranges** **Against the US$: KRW 1,310–1,350**
**Against the yen: JPY 10.26–10.81 (KRW100)**

## 1. Review of the Previous Month

The USD/KRW pair fell in May. After opening the month trading at KRW1342.2 on May 2, the pair continued fluctuating gently in the run up to the FOMC meeting. The FOMC implemented a 25bp rate hike when it met to set policy during overseas trading time on May 3, though the greenback weakened as investors focused on an end to FRB rate hikes. The currency pair fell sharply at the start of trading on May 4 and it temporarily weakened to KRW1320.

With the pair trading at lows the following week, the dollar was bought by importers on real demand on May 8, but the pair's gained were wiped out as overseas investors moved to invest in South Korean stocks. The US CPI data was released on May 11. The data was weaker than expected and this focused the attention on a potential end to the US rate-hike cycle, so the dollar was sold and the pair tumbled to the mid-KRW1310 level. However, China then released some bearish CPI data and the RMB weakened, with the USD/KRW pair rising as a result. During overseas trading time on May 11, it was announced that small- to mid-sized US banks had seen their deposits falling substantially. As risk aversion grew, the won weakened and the pair rose to a weekly high around KRW1337 on May 12.

The next week saw the pair rallying to KRW1340 on May 15 on won weakness. With the RMB also moving bearishly, the pair hit a monthly high of KRW1343.0 on May 17. However, the won began rising from May 18. As investor sentiments improved on signs of progress in negotiations about the US debt ceiling, overseas investors pumped more funds into South Korean stocks. The won was bought and the pair dropped back to the mid-KRW1320 mark at the weekend.

The following week saw the pair falling over May 22–23 too. FRB chair Jerome Powell then hinted that rate hikes might be shelved. With funds continuing to flow into South Korean stocks too, the pair fell to a monthly low of KRW1308.1 on May 23. As expected, the BOK kept its policy rate fixed for the third straight meeting when it met on May 25. The BOK also released a downgraded growth forecast for 2023 (from 1.6% to 1.4%), so the won moved bearishly and the pair bounced back to KRW1320. At the end of the month, news emerged that President Joe Biden and House of Representatives Speaker Kevin McCarthy had reached a deal over the debt ceiling issue, though the pair floated with a lack of direction after the markets came back from holiday. The pair closed May 30 trading at KRW1324.9.

## 2. Outlook for This Month

The USD/KRW pair is expected to float in the lower-KRW1300 range in June.

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), investors believe the FOMC will not hike rates in June, though some are also expecting rate hikes to continue on healthy employment conditions and stubbornly high inflation, with uncertainty rising. When it comes to gauging the direction of US policy rates, investors will be paying close attention to the June 13–14 FOMC meeting, with a wait-and-see mode likely to prevail from the start to the middle of June. The FOMC meeting could have a big impact on investor sentiments, so caution will be needed.

With regards to (2), the BOK kept its policy rate at 3.50% when it met on May 25. It also downgraded its 2023 growth forecast from 1.6% at the end of February to 1.4%. It also upgraded its inflation outlook from 3.0% at the end of February to 3.3%.With interest rates rising overseas, the six members of the BOK Monetary Policy Board also indicated that the terminal rate might reach 3.75% and they refused to rule out further rate hikes. BOK governor Rhee Chang-yong also reconfirmed the BOK's 2% inflation target and he said it was premature to talk about rate cuts until the CPI figure dropped to 2%.

In addition to the above, the RMB is continuing to move bearishly as the Chinese economy recovers at a slower pace than expected. The won's movements are highly correlated with those of the RMB, so the Chinese unit's weakness will probably prevent the won from rising. If concerns about the US debt ceiling issue ease and more investment flows to stock markets and other risk assets, the won will probably be bought by overseas investors. In light of the above, it seems the currency pair will be swayed by a mixed bag of factors and it will probably float around the lower-KRW1300 mark in June.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

# New Taiwan Dollar – June 2023

**Expected Ranges** **Against the US$: NT$30.00–31.00**
**Against the yen: JPY4.45–4.68**

## 1. Review of the Previous Month

The USD/TWD pair fell in May.

With the markets on holiday, the pair opened the month trading at TWD30.800 on May 2. With the greenback moving bullishly, the pair hit TWD30.8, but exporters sold the US dollar at this level, so the pair moved with a heavy topside. The FOMC then decided to implement a rate hike, but it hinted that rate hikes could be paused from the next meeting onwards, so US interest rates fell on May 4. Asian currencies subsequently strengthen across the board, with the USD/TWD pair also falling to the mid-TWD30.6 level. Though the US dollar weakened at times, it was also bought by importers, so the pair moved firmly on the downside.

Taiwanese stocks moved bearishly mid-May on uncertainty about the US debt ceiling issue, with the Taiwan dollar edging lower and the currency pair temporarily rising to TWD30.838. However, Taiwanese stocks were then bought on a growing sense of optimism about the US debt ceiling issue, with the Taiwan Capitalization Weighted Stock Index hitting 16,000 points on May 18 for the first time in around 11 months. The Taiwan dollar was also bought back and the currency pair moved in the TWD30.7 range.

Late May saw the pair temporarily dropping below TWD30.6 on May 22, though it soon rallied to hit TWD30.7 again. Semiconductor-related stocks and other Taiwanese equities then soared from May 25 after a major US semiconductor company posted healthy results. As foreign funds flooded into Taiwan, the Taiwan dollar was bought. The pair fell to TWD30.536 for a time on May 30, but with bond investment funds then flowing out of Taiwan, the pair returned to TWD30.6.

## 2. Outlook for This Month

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

Taiwanese stocks were bought back in May, with the Taiwan Capitalization Weighted Stock Index rising to 16,000 points once more to hit its highest level in around a year. Overseas investors also bought more Taiwanese stocks on balance, but with US interest rates rising, Taiwanese investors also sent funds overseas, with the pair's downside also bolstered when importers bought the greenback, so the Taiwan dollar did not rise commensurately with the inflow of foreign funds.

A lot will depend on the FOMC meeting in June, but the pair will probably move in a range on a mix of buying and selling. The markets have started to price in a rate hike at the June FOMC meeting on the back of firm US indicators and hawkish comments by FRB officials, but the US dollar will continue to be bought against the Taiwan dollar on rising interest rates, with the pair's correlation to Taiwanese stock movements weakening entering 2023. Even when Taiwanese stocks are bought on risk appetite, Taiwan-dollar bullishness will be kept in check by rising US interest rates. However, though trade movements show Taiwanese exports falling by -13.3% year-on-year in

April, imports also decreased, with Taiwan's trade surplus expanding, so there will probably be firm demand for Taiwan-dollar buying. As with last year, though, if the Taiwan dollar falls sharply, exporters might hold off from selling the greenback, with the pair breaking out of its range on the topside. June will also mark the end of the quarter, so attention should be paid to the movements of real-demand investors in response to the pair's fluctuations.

The Central Bank of the Republic of China (Taiwan) (CBC) will be meeting to set policy in June. Most observers think the CBC will maintain the status quo, but this writer believes it will implement a rate hike. The CBC had predicted that CPI would fall to 2.01% in the second quarter, and although it is hard to state for sure until the May CPI data is released, it seems inflation has not slowed to this figure. Inflationary sentiments are deep-rooted too, so the CBC still needs to hike rates to rein in inflation. Furthermore, the CBC has only been lifting rates by 0.125% each time and it only meets four times a year. During this phase of rate hikes, it also only lifted rates by a total of 0.75% from the pandemic low, so it still has room for further rate hikes. Looking back to 2012–15, the last time the policy rate was at the same level of 1.875%, CPI was temporarily above 2% then too, so a rate hike seems appropriate from a historical perspective too.

Ken Cheung, East Asia Treasury Department

# Hong Kong Dollar – June 2023

**Expected Ranges** **Against the US$: HK$ 7.8000–7.8500**
**Against the yen: JPY 17.20–18.20**

## 1. Review of the Previous Month

**Hong Kong dollar spot exchange market in June**

HKD spot moved away from its weak-side convertibility undertaking of 7.85 level and strengthened as much as 4-month high of 7.8066 level, as market participants unwound its carry trade position of long USD/HKD following the soaring HKD rates. In early May, the Fed raised its policy by 25bps to 5-5.25% and signaled that a pause on its tightening cycle was on the cards. Despite higher US rates, HKD rates played a fast catch-up with USD rates and narrowing USD-HKD rate spread boosted the HKD spot. The seasonal HKD buying for Chinese companies' dividend payouts and upcoming IPO projects for China tech giants' spin-offs also supported the HKD spot. The year-to-date Stock Connect flow to HK equities continued to climb above HKD 120bn on cheaper H-shares valuation compared A-shares. The waning China recovery momentum and resurfacing RMB depreciation to above 7 handle did little to weigh on the HKD. On the data front, HK Q1 GDP jumped by 2.7%YoY on strong consumption recovery after the border reopening to mainland China, ending the year-on-year contraction for 4 straight quarters.

**Hong Kong dollar interest rate market in June**

1-mth 3-mth HKD HIBOR soared as much as to their 5-month highs of near 4.8%, reflecting the delayed impact of thinner HKD liquidity buffer after several rounds of HKMA's FX intervention. With HK aggregate balance falling to its post-QE low of HKD 44.8bn, the mini HKD liquidity squeeze due to HKD funding transfer to Singapore (according to a local media report on 11 May) and previous HK banks' 12.5bps hike in prime rate prompted market participants to hoard more HKD liquidity to prepare for mounting HKD rate volatility in the interbank market. HKD IRS curve tracked higher USD IRS curve as Fed's rate cut expectation pulled back on sticky inflation. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) climbed further in positive territory given the even faster rally in HKD HIBOR.

## 2. Outlook for This Month

**Hong Kong dollar spot exchange market in June**

We expect the HKD spot to fluctuate in the weak half of its trading band before the Fed signals a pivot. So far the HKD spot was showing resilience to the USD strength and higher USD rates. In our view, the USD rate hike in June, if any, is not necessary to push HKD spot back to its weak-side convertibility undertaking of 7.85 level, as HK aggregate balance is sufficiently low to prompt HK banks to raise the prime rate again following a surprising 12.5bps hike in May. While the prime rate applies to retail customers and mortgage loans, the prime rate hike transmits signal of HKD liquidity condition and banks set HKD interbank rates higher. Considering the narrowing USD-HKD rate spread and rising HKD volatility, the carry trade of long USD/HKD is no longer

appealing and HKD selling pressure was waning. Moreover, the seasonal HKD demand on Chinese corporate's dividend payout, the Stock Connect inflow to buy HK equities and upcoming IPO activities from the China tech giant's spin-offs should hold up the HKD spot.

**Hong Kong dollar interest rate market in June**

The HKD liquidity tightening was materializing to push HKD rates higher across tenors. The HKD liquidity buffer is thin now and market participants turned to pay HKD rates alongside the increasing HKD buying demand derived from dividend payouts and the seasonality from the half-year end. With waning carry trade interest of long USD/HKD spot, the HKD spot is not likely to return to 7.85 in the near term and HK aggregate balance could manage to stay unchanged at current level. Meanwhile, HKD loan demand will remain weak as investors stayed cautious on HK investment outlook and property market. This suggested that HKD rates will likely stay below USD rates before the Fed signals a pivot.

Sae Sueyoshi, Treasury Department, MHBK (China)

# Chinese Yuan – June 2023

**Expected Ranges** **Against the US$: CNY 6.9500–7.1500**
**Against the yen: JPY 18.88–20.58**

## 1. Review of the Previous Month

In May, the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.0 level, renewing the highest level since the beginning of the year.

After China's Labor Day holiday, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 6.89 level. Led by transactions in the market, the U.S. dollar/Chinese yuan exchange rate rose to once reach the CNY 6.92 level on May 4. However, concerns over stability in the financial sector in the U.S. were raised again, weakening the U.S. dollar, slowing down the rise of the exchange rate. On May 5, trading closed at the CNY 6.90 level.

On May 8, the U.S dollar/Chinese yuan exchange market opened trading at around the CNY 6.90 level. While the exchange rate continued fluctuating within a narrow range, the U.S. dollar/Chinese yuan exchange market fluctuated at around the time of the announcement of the U.S. Consumer Price Index (CPI). Yet, the fluctuation remained within a limited range. On May 11, the April CPI and the Producer Price Index (PPI) were announced in China, and the results turned out to be below the expected level. As a result, the U.S. dollar strengthened against a wide range of currencies. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose. On May 12, the U.S. dollar/Chinese yuan exchange market closed at the upper-CNY 6.95 level.

On May 15, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 6.95 level. Chinese stock prices rallied, which led the U.S. dollar/Chinese yuan exchange rate to fall to once reach the CNY 6.94 level. Then, on May 16, the April figures of the major economic indices of China turned out to be weaker than expected, and this encouraged market participants to sell the Chinese yuan. During the night of the same day, the U.S. dollar appreciated in reaction to the improvement in the U.S. economic indices, such as retail sales and industrial production, leading the U.S. dollar/Chinese yuan exchange rate to approach the CNY 6.98 level, renewing the highest level since the beginning of the year. On May 17, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.0 mark. Then, on May 19, the U.S. dollar/Chinese yuan exchange rate rose further to once reach the CNY 7.06 level.

On May 22, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.02 level. On May 22, the Loan Prime Rate (LPR) was announced, and the rate was maintained at the existing level. Under such circumstances, Federal Reserve Board (FRB) officials made hawkish remarks, and the number of unemployment claims in the U.S. improved, which were both positive factors for the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate continued rising. On May 25, the U.S. dollar/Chinese yuan exchange rate once approached the CNY 7.08 level. On May 26, the exchange rate was adjusted slightly, and trading closed at the CNY 7.06 level.

On May 29, the U.S. dollar/Chinese yuan exchange market opened at the mid-CNY 7.06 level. As there was no new factor to impact the market, the U.S. dollar continued strengthening, and the Chinese yuan continued weakening. As a result, the U.S. dollar/Chinese yuan exchange rate rose to once approach the CNY 7.10 level on May 30.

## 2. Outlook for This Month

In June, the U.S. dollar/Chinese yuan is forecast to approach its highest level, after which the Chinese yuan is forecast to appreciate from a medium- to long-term perspective.

In the U.S., economic indices turned out to be stronger than expected, gradually fueling expectations for a policy interest rate hike at the June meeting of the Federal Open Market Committee (FOMC). In May, the U.S. dollar strengthened with expectations for a resolution to the issue of the debt ceiling. However, market participants are likely to start selling the U.S. dollar in the medium-to-long term, if the center of market participants' interest shifts to the timing of the end of policy interest rate hikes as well as to the beginning of policy interest rate cuts in the times ahead.

On the other hand, in China, the April economic indices all turned out to be below the estimated levels. As a result, the Chinese yuan weakened significantly in May, and the U.S. dollar/Chinese yuan exchange rate exceeded the CNY 7.0 level. Thus, concerns persisted surrounding the recovery in the domestic economy. However, with regard to personal consumption in particular, it is possible that the figure declined to adjust for the rise in March, in which the result was relatively strong. It is possible for market participants to start actively buying the Chinese yuan again if the figure rallies in May, in which there was demand in travelling for the Labor Day holiday, and in June, in which online sales are scheduled to start.

In addition, the G7 summit meeting in May ended without any announcement of sanctions on Chinese companies such as restrictions on investment. As the lack in progress in the relationship between the U.S. and China is leading foreign investors to lose their appetite for investment in China, there are still risks for the Chinese yuan to depreciate in the times ahead.

If expectations grow for a policy interest rate hike in June, it is possible for the U.S. dollar to continue appreciating against the Chinese yuan in the short term. However, if the Chinese yuan continues depreciating one-sidedly, market participants should also remain cautious of actions by the People's Bank of China (PBOC) to control the depreciation of the Chinese yuan. The PBOC may revert the market trend by cutting the foreign currency reserve requirement ratio and by setting the PBOC central parity rate using the counter-cyclical factor, as was saw in the second half of last year. Thus, the depreciation of the Chinese yuan to be seen in the short term is likely to be limited.

Tomokazu Moriya, Asia & Oceania Treasury Department

# Singapore Dollar – June 2023

**Expected Ranges** **Against the US$: SG$ 1.3200–1.3850**
**Against the yen: JPY 99.50–106.00**

## 1. Review of the Previous Month

The U.S. dollar/Singapore dollar exchange rate rose in May.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the mid-SGD 1.33 level on May 1. Thanks to the strong figures in U.S. economic indices, the U.S. dollar/Singapore dollar exchange rate continued rising to the upper-SGD 1.33 level. Thereafter, market participants maintained a wait & see attitude for a while before a Federal Open Market Committee (FOMC) meeting in the U.S. However, on May 3, the end of policy interest rate hikes in the U.S. was suggested at the FOMC meeting, and this encouraged market participants to actively sell the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.32 level. Then, on May 5, the April employment statistics of the U.S. were released with strong figures, encouraging market participants to buy the U.S. dollar. However, the U.S. dollar/Singapore dollar exchange rate rose only for a limited time.

On May 10, the April Consumer Price Index (CPI) of the U.S. was announced, and the result fell below +5.0% year-on-year for the first time since April 2021. In reaction, market participants sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.32 level. On May 11, the April price statistics of China were released with figures below the market estimate. In reaction, market participants sold Asian currencies. Furthermore, on May 12, U.S. economic indices turned out to be strong, encouraging market participants to buy U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.33 level.

On May 16, interest rates rose in the U.S. during local trading time, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.34 level. And on May 17, there was a talk about raising the debt ceiling in the U.S., while the Chinese economic indices turned out to be weak. Thus, the U.S. dollar/Singapore dollar exchange rate continued rising to the mid-SGD 1.34 level. On May 18, the U.S. employment statistics turned out to be stronger than the market estimate, and this encouraged market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.34 level.

From May 22 toward May 24, there were hawkish remarks made by Federal Reserve Board (FRB) officials as well as issues related to the debt ceiling in the U.S. As a result, risk-averse sentiment grew in the market, and the U.S. dollar/Singapore dollar exchange rate remained stable. Thereafter, U.S. economic indices were released with strong figures on May 25, further strengthening the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.35 level. On May 26, there was a positive media report related to the issue of the debt ceiling in the U.S., as a result of which risk-taking sentiment grew in the U.S., and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.35 level.

On May 29, there was no factor in the market, as it was a holiday in the U.S. and Europe. The U.S. dollar/Singapore dollar exchange rate continued rising slowly and reached the mid-SGD 1.35 level. However, on May 30, market participants sold the U.S. dollar against other currencies. Following this trend, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.35 level.

## 2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain stable in June.

In May, the U.S. dollar/Singapore dollar exchange rate rose mainly based on factors related to the U.S. dollar. At the FOMC meeting held in May, the possibility of ending the policy interest rates was suggested and expectation for additional policy interest rate hikes declined significantly in the market after the FOMC meeting. As a consequence, there were some phases in which market participants sold the U.S. dollar. However, the U.S. economic indices were released with strong figures in the middle of May and thereafter. Furthermore, there were hawkish remarks by FRB officials as well. As a result, expectation for additional policy interest rate hikes is growing again in the market. The decision by the FOMC on policy interest rate hikes in June and July would depend on the figures in the economic indices to be announced before other FOMC meetings. However, even if the policy interest rate is not raised in June, market participants would continue expecting the policy interest rate to be raised in July based on the series of hawkish remarks made by FRB officials in May. Thus, it is unlikely for market participants to actively sell the U.S. dollar for a while.

On the other hand, in Singapore, the revised result for the country's first-quarter GDP was announced on May 25. The revised figure was +0.4% year-on-year, with an upward revision of 0.1% from the preliminary result. However, as the figure recorded negative growth of 0.4% from the previous quarter period, this revealed growing recession risks. The Monetary Authority of Singapore (MAS) decided to discontinue its measures of monetary tightening at a previous meeting held in April. As concerns persist over an economic downturn, it is difficult to expect the MAS to start taking measures of monetary tightening again.

While market participants are carefully observing monetary policy in the U.S., the U.S. dollar/Singapore dollar exchange rate may fluctuate rapidly following figures in the economic indices in the U.S. as well as remarks by FRB officials, which requires attention. However, the U.S. dollar/Singapore dollar exchange rate is more likely to remain stable in the coming month.

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

# Thai Baht – June 2023

**Expected Ranges** **Against the US$: THB 34.20–35.10**
**Against the yen: JPY 3.92–4.07**

## 1. Review of the Previous Month

In May, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 34 level. At the end of April, the media reported that a third local bank in the U.S. had gone bankrupt. However, there was no significant confusion in the market, as there was an early decision on an acquisition. As the U.S. economic indices turned out to be strong thereafter, the U.S. dollar/Thai baht exchange rate remained stable. On May 3, the April Consumer Price Index (CPI) of Thailand was announced, and both the general index and the core index fell below the estimate. However, the results were within the range generally expected in the market. Thus, impact on the market was minimal. Thereafter, a Federal Open Market Committee (FOMC) meeting was held, attracting substantial interest in the market, and the policy interest rate was raised by 25 basis points. However, the possibility of ending the policy interest rate hikes was suggested at the same time. Thus, the U.S. dollar/Thai baht exchange rate fell below the THB 34 level. Furthermore, during consecutive holidays in Thailand, the April employment statistics of the U.S. were released, confirming the overall strength of the labor market in the U.S. As a result, market participants actively bought the U.S. dollar for a short time after the consecutive holidays. However, the trend became inverted thereafter, and the U.S. dollar/Thai baht exchange rate fell mainly due to investment in the Thai bond and stock markets based on an optimistic view about the tourism industry in Thailand. Furthermore, the April CPI of the U.S. reached its lowest level in approximately two years thereafter, and this led the U.S. dollar/Thai baht exchange rate to fall sharply to temporarily reach the mid-THB 33 level.

In the middle of the month, the April Producer Price Index (PPI) of the U.S. did not reach the market estimate, as was the case with the U.S. CPI. However, a business confidence index confirmed a rise in the expected future inflation rate. As a result, interest rates in the U.S. rose, led by interest rate futures. In reaction, the U.S. dollar/Thai baht exchange rate rose to approach the THB 34 level. On May 14, the opposition party in Thailand gained a large number of votes at the general election in Thailand, as had been anticipated in an opinion poll, and this confirmed the hope of the Thai people for a democratization of politics. In addition to the positive reaction to this in the market, the first-quarter GDP of Thailand was announced on May 15, with stronger figures than the market estimate, and this led the U.S. dollar/Thai baht exchange rate to fall. However, the fall of the U.S. dollar/Thai baht exchange rate slowed down thereafter as Federal Reserve Board (FRB) officials made hawkish remarks while U.S. economic indices turned out to be generally weak. Furthermore, on May 16, the following day, retail sales figures and the industrial production index were announced in China, and these both turned out to be weak. The Chinese yuan depreciated against the U.S. dollar, following which the U.S. dollar/Thai baht exchange rate also rose. Thereafter, the media reported on a possible solution to the U.S. debt ceiling problem before the end of the month, while U.S. economic indices demonstrated the strength of the U.S. economy, strengthening risk-taking sentiment in the market. As a consequence, the U.S. dollar/Thai baht exchange rate rose rapidly to the mid-THB 34 level.

At the end of the month, eight political parties signed a coalition agreement after the general election in Thailand. However, there was no statement regarding the disagreement among the eight parties regarding criminal law reform.

In the meantime, the media also reported on opposition between the Move Forward Party and the Pheu Thai Party regarding the main position in the government, and this fueled the sense of domestic uncertainty about Thai politics. Consequently, the U.S. dollar/Thai baht exchange rate remained stable. Furthermore, FRB officials made hawkish remarks, while U.S. economic indices turned out to be stronger than expected, raising expectations for additional policy interest rate hikes. As a result, the U.S. dollar/Thai baht exchange rate rose and started fluctuating within a range at the upper-THB 34 level. At the end of the month, a monetary policy committee meeting was held at the central bank of Thailand, and the policy interest rate was raised to 2.00%, as had been anticipated in the market. However, there was no reaction in the market after the announcement of this decision. The U.S. dollar/Thai baht exchange market remained stable.

## 2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain stable in June. As of the time at which this article is being written, the debt ceiling problem in the U.S. has not yet been completely resolved. However, a final agreement has been made. Furthermore, U.S. Secretary of the Treasury Janet Yellen has pointed to the uncertainty regarding financing after June 5. Thus, it is likely that related bills will be passed and that the problem will be resolved without any problem before June 5. For this reason, the U.S. dollar/Thai baht exchange market is expected to follow trends in Thai politics after the general election, trends in the Chinese economy, and monetary policy in the U.S. The U.S. dollar/Thai baht exchange rate is forecast to remain stable for the following reasons.

Firstly, with regard to political trends for after the general election in Thailand, the Thai population has put an end to the military government led by the existing ruling party, and opposition parties such as the Move Forward Party and the Pheu Thai Party increased their number of seats significantly. However, the eight parties in the coalition party have not reached a majority of seats in the upper and lower houses of the parliament, as is necessary to appoint a new prime minister. Thus, a new prime minister will be appointed based on votes at the upper house of the parliament. Even though the Move Forward Party won the election, the party's commitments include not only raising wages but also amending the penal code to include crimes such as those involving disrespect. On the latter point, there are different perspectives not only at the upper house but also among other seven parties that are in the coalition government. Therefore, the memorandum did not include the details of this commitment for when the coalition government was formed. Secondly, there has not been an agreement regarding the wage increase that was mentioned by various political parties at the time of the general election. Furthermore, if the wage increase passes in Thailand, the country's industrial competitiveness would decline significantly, as was seen at the time of the past government under Prime Minister Yingluck Shinawatra, while there are concerns over the bankruptcy of many small and medium-sized enterprises, fueling the sense of uncertainty in the market. There has already been a media report on opposition between the Move Forward Party and the Pheu Thai Party on the selection of the speaker of the lower house. While the tourism industry in Thailand is expected to recover at a faster pace than expected, the uncertainty in the political situation would be a significant negative factor for the Thai baht exchange market.

Thirdly, with regard to monetary policy in the U.S., the FOMC suggested the end of policy interest rate hikes in May. However, the U.S. economic indices continue to demonstrate the strength of the U.S. economy, and some FRB members with voting rights have recently made hawkish comments to support additional policy interest rate hikes. Therefore, the dot plot and the economic outlook, which will be updated in June, may not become so dovish as expected in the market, keeping the U.S. dollar from depreciating. This will be a supporting factor for the U.S. dollar/Thai baht exchange rate.

In addition, there are some weak figures in Chinese economic indices, which is also a negative factor for Thai baht—as it is closely tied to the Chinese economy. For this reason, the U.S. dollar/Thai baht exchange rate in June is forecast to remain robust.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

# Malaysian Ringgit – June 2023

**Expected Ranges** **Against the US$: MYR 4.58–4.70**
**Against the yen: JPY 29.94–30.86**

## 1. Review of the Previous Month

In May, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.45 level. Thereafter, market participants bought the U.S. dollar, as interest rates rose in the U.S. based on negotiations related to the debt ceiling in the U.S., along with hawkish remarks made by Federal Reserve Board (FRB) officials. As a result, the U.S. dollar/Malaysian ringgit exchange rate once approached the MYR 4.64 level. The Malaysian ringgit remained weak.

At the beginning of the month, the central bank of Malaysia announced a decision to raise its policy interest rate by 25 basis points on May 3. Market participants paid attention to the fact that the central bank of Malaysia has still maintained existing measures of monetary easing with a statement leaving room for further monetary tightening. After this announcement, market participants bought the Malaysian ringgit, expecting the interest rate differentials between the U.S. and Malaysia to narrow. On May 4, the following day, the Federal Open Market Committee (FOMC) held a meeting and announced a decision to raise its policy interest rate by 25 basis points. However, this decision had been anticipated in the market. On the other hand, the FOMC removed from its statement the part that said that it anticipates that further policy interest rate increases would be needed. Furthermore, FRB Chair Jerome Powell also confirmed in a press conference held thereafter that the removal of this part was "a meaningful revision." Market participants saw this as a dovish statement that implies the end of policy interest rate hikes. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell to the mid-MYR 4.43 level. However, Malaysian ringgit-buying slowed down thereafter, and market participants bought the U.S. dollar rather one-sidedly from the middle of the month.

On May 10, the April Consumer Price Index (CPI) of the U.S. was announced, confirming that the inflation rate remained high. On the other hand, market participants saw the result fell below the 5% mark, and this led the U.S. dollar to depreciate. However, market participants did not buy back the Malaysian ringgit for a long time. On the same day, the April CPI of China was also announced with a significant decline, fueling a sense of uncertainty over economic recovery and weakening the Chinese yuan. Then, on May 12, the first-quarter GDP was announced, and the result turned out to be +5.6%. Even though the growth slowed down from the previous month, in which the result was +7.0%, this had already been reflected in the market, and market participants saw this as a result that confirms the strength of personal consumption. Furthermore, governors of local federal banks made various hawkish remarks, while expectations grew for progress in the negotiations related to the debt ceiling problem in the U.S. Consequently, U.S. dollar-buying dominated the market. Then, on May 18, the April trade statistics were released, and both imports and exports recorded two-digit negative year-on-year growth. Exports to major trade partners all declined significantly, including those to Japan, China, the U.S., and Europe. This fueled a sense of uncertainty over the outlook of the domestic economy.

At the end of the month, market participants remained nervous and maintained a risk-averse attitude, as the debt ceiling problem in the U.S. was due to be resolved on June 5. On May 25, based on the contents of the minutes of

an FOMC meeting as well as due to hawkish contents made by FRB officials, the U.S. dollar/Malaysian ringgit exchange rate continued rising slowly and renewed its high for the third consecutive week. In Malaysia, the April CPI was announced on May 26, and the result turned out to be 3.3% year-on-year, which had been anticipated in the market. This figure was seen as a positive sign to show the moderate stabilization of price levels in the domestic market. However, looking at the month as a whole, the Malaysian ringgit remained generally weak in May.

## 2. Outlook for This Month

In June, there will not be many immediate factors to encourage market participants to buy the Malaysian ringgit. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue rising slowly for a while, although market participants should remain attentive of the timing for the Malaysian ringgit to start rallying. In May, market participants closely followed headlines related to the debt ceiling problem in the U.S., and Secretary of the Treasury of the U.S. Janet Yellen anticipated a default on June 5, fueling a sense of crisis in the market. Under such circumstances, an agreement was made just before the due date. Now, the interest of market participants has shifted to the FOMC meeting scheduled for June 15.

In May, multiple FRB officials made hawkish remarks asking for further policy interest rate increases. In addition, the Chinese yuan weakened based on the weak figures of Chinese economic indices. In reaction, market participants sold the Malaysian ringgit in an accelerated manner, and the U.S. dollar/Malaysian ringgit exchange rate rapidly exceeded the MYR 4.60 level. Among the currencies of emerging countries, which generally all weakened against the U.S. dollar, the Malaysian ringgit depreciated particularly significantly. In November last year, the Malaysian ringgit depreciated against the U.S. dollar to the lowest rate since the Asian financial crisis in 1997. Since the U.S. dollar/Malaysian ringgit exchange rate has already exceeded the MYR 4.6 level, the central bank of Malaysia has been closely monitoring the exchange market. Thus, it is not probable for the Malaysian ringgit to continue depreciating further against the U.S. dollar in a one-sided manner in the times ahead. However, the latest domestic economic indices, such as trade statistics and the international balance of payments, revealed weak figures that fuel concerns about the economic outlook of Malaysia. Personal consumption is likely to remain strong in the times ahead, which is a positive factor for the Malaysian ringgit. However, the deterioration of the external conditions has been visible in the figures of economic indices. Therefore, under the current conditions, there is no factor to encourage market participants to actively buy the Malaysian ringgit.

It is also worth noting that state elections are scheduled for late June, such as those in Selangor and Penang. Even though these are assembly elections based on a completion of the office period, the results of the elections may weaken the influence of the new prime minister, Anwar Ibrahim, under the coalition government appointed in November last year. Such a possibility is a negative factor for the Malaysian ringgit. Thus, market participants should remain cautious of the outcome of state elections.

For the above reasons, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue rising slowly for a little while, unless market participants start expecting interest rate differentials between the U.S. and Malaysia to narrow based on the outlook for the end of policy interest rate hikes and the beginning of policy interest rate cuts in the U.S., while waiting for the FOMC meeting to be held on June 15.

Masayuki Tsunashima, Asia & Oceania Treasury Department

# Indonesian Rupiah – June 2023

| Expected Ranges | Against the US$: IDR 14,850–15,450 |
|---|---|
| | Against the yen: JPY 0.9009–0.9434 (IDR 100) |

## 1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the mid-IDR 14,600 level on May 2. On the same day, the April Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +4.33% year-on-year, revealing a continued slowdown in inflation. Even though the figure turned out to be slightly below the market estimate, it confirmed the outlook by the governor of the central bank of Indonesia, Perry Warjiyo, who predicted at the press conference held after the monetary policy meeting in April that the inflation rate would fall to the target range before August. Thus, the reaction to this result in the market was limited. On May 3, local time, in the U.S., a Federal Open Market Committee (FOMC) meeting was held, and the policy interest rate was raised by 0.25%, as had been anticipated in the market. On the other hand, the end of policy interest rate increases was implied, in reaction to which market participants sold the U.S. dollar. On May 4, the following day, local time, in Asia, the U.S. dollar weakened, and the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,500 level, which is the highest rate for the Indonesia against the U.S. dollar since June last year. However, market participants started to slowly buy back the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 14,600 level. Then, on May 5, local time, the April employment statistics of the U.S. were released with strong figures, which encouraged market participants to buy the U.S. dollar more actively. Under such circumstances, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,700 level on May 8, local time, in Asia.

On May 8, local time, in the U.S., the media reported that financing conditions were tightened in the SLOOS (Senior Loan Officer Opinion Survey) result announced by the Federal Reserve Board (FRB). However, the result was not as bad as expected, and market participants bought the U.S. dollar. As a consequence, on May 9, local time, in Asia, the U.S. dollar appreciated at market opening, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,700 level. On May 10, local time, in the U.S., the CPI of the U.S. was announced, and the result turned out to be +4.9% year-on-year, almost at the same level as the market estimate, which was +5.0%. Therefore, the reaction to this result in the market was minimal. Thereafter, the U.S. dollar continued appreciating gradually, and the Indonesian rupiah continued depreciating. The U.S. dollar/Indonesian rupiah exchange rate approached the IDR 14,800 level toward May 15 in the following week. On May 15, the April trade balance of Indonesia was announced, and the result exceeded the market estimate. However, exports recorded negative growth of 29.4% year-on-year. Yet, the reaction to this figure in the market was minimal. Furthermore, risk sentiment deteriorated in the market due to the problem related to the debt ceiling in the U.S., which also kept the Indonesian rupiah from appreciating. As a result, the Indonesian rupiah depreciated in an accelerated manner, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,800 on May 17. On May 24, local time, in the U.S., FRB member Christopher Waller made a remark that there is a possibility for the policy interest rate to be raised at the next FOMC meeting. In reaction, the Indonesian rupiah depreciated further on May 25, the following day, local time, in Asia,

and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,900 level. On the same day, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest rate at the existing level. Since this decision had been anticipated in the market, there was little reaction to the announcement in the market. On May 26, local time, in the U.S., the media reported that there had been an agreement on raising the debt ceiling in the U.S. As a result, market participants started buying the U.S. dollar on May 29 in the following week, and the Indonesian rupiah weakened against the U.S. dollar. Consequently, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 14,900 level. Toward the end of the month, some market participants actively bought the U.S. dollar and sold the Indonesian rupiah based on actual demand, and on May 31, the Indonesian rupiah weakened, with the U.S. dollar/Indonesian rupiah exchange rate once approaching the IDR 15,000 level. Trading closed at this level.

## 2. Outlook for This Month

In June, the Indonesian rupiah is expected to remain weak against the U.S. dollar.

Even though the April trade balance of Indonesia turned out to be stronger than expected, the trade surplus has been on a gradual decline since the second half of last year. Both imports and exports have been falling, and the April export value recorded significant negative growth of approximately 29% year-on-year. In April last year, exports increased significantly as a result of the sharp rise of coal prices, and thus it is necessary to take this impact into account when examining trade statistics. However, market participants should consider the possibility for the decline in exports to keep the Indonesian rupiah from appreciating. The sharp fall of coal prices, which started at the beginning of the year, slowed down in April. However, coal prices have been falling again since the beginning of May. Due to the fall of coal prices, the trade surplus could decline, generating a current account deficit, which would lead the Indonesian rupiah to continue depreciating for a long period, as was seen from 2012 to 2020. Thus, the fall of coal prices should be considered to be a factor to weaken the Indonesian rupiah.

It is also worth mentioning that the Chinese yuan continued depreciating in May due to growing concerns over the economic outlook in China. This trend also weakened the overall currencies of emerging countries in Asia. Because it is difficult to expect the concerns over the Chinese economic outlook to improve in the near future, it is likely for market participants to sell Asian currencies when risk sentiment deteriorates in the market. Under such circumstances, the Indonesian rupiah is expected to remain weak, and the depreciation of the Indonesian rupiah could accelerate when coal prices continue to fall. On the other hand, there has been a split in the market estimate regarding a policy interest rate increase in the U.S. at the next FOMC meeting in June, although more than 50% of market participants expect a rate increase. It is possible for the Indonesian rupiah to appreciate if the U.S. dollar depreciates based on the outcome of the FOMC meeting. Under such circumstances, market participants should be ready for temporary fluctuations in the U.S. dollar/Indonesian rupiah exchange rate after the FOMC meeting.

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

# Philippine Peso – June 2023

**Expected Ranges** **Against the US$: PHP 55.00–57.50**
**Against the yen: PHP 0.39–0.42**

## 1. Review of the Previous Month

The April manufacturing PMI of the Philippines exceeded the 50.0 mark, even though it recorded negative growth from the previous figure. Furthermore, crude oil prices fell significantly based on concerns over a decline in demand in the U.S. and China, and this supported the Philippine peso. Then, the April Consumer Price Index (CPI) of the Philippines turned out to be 6.6% year-on-year, recording a decline of 0.2% from the previous month and revealing a slowdown more significant than the market estimate, which was 7.0% year-on-year. As a result, more market participants expected the policy interest rate increases to end at the monetary policy meeting on May 18, and the Philippine peso depreciated occasionally against the U.S. dollar. However, the outcome of the Federal Open Market Committee (FOMC) meeting in the U.S. turned out to be dovish, and interest rates fell in the U.S., while concerns continued growing over U.S. financial sectors. Consequently, the U.S. dollar depreciated against a wide range of other currencies. Following this trend, the Philippine peso continued appreciating at the beginning of May, as had been the case since the end of April. Thus, the Philippine peso reached its highest rate against the U.S. dollar in approximately three weeks.

However, the March trade deficit of the Philippines turned out to be USD 4.93 billion, exceeding the previous month's figure, with a market estimate that was USD 4.4 billion, which worsened the market sentiment. The first-quarter GDP of the Philippines turned out to be +6.4% year-on-year, exceeding +6.2% year-on-year—the market estimate. However, market participants expected the trade deficit to grow further in the times ahead, as domestic demand remained strong, which is likely to lead to a high import value. Thus, the Philippine peso started to depreciate significantly. Thereafter, the U.S. dollar appreciated with growing expectations for additional policy interest rate increases based on the rise of the U.S. expected inflation rate. Furthermore, the governor of the central bank of the Philippines, Felipe Medalla, mentioned the possibility to maintain the policy interest rate at the existing level at the next monetary policy meeting, while the March amount of overseas Filipino workers remittances recorded growth of +3.0% year-on-year, which fell below +3.4%—the market estimate. For these reasons, the U.S. dollar/Philippine peso exchange rate exceeded the PHP 56 mark for the first time in approximately one month before the monetary policy meeting was held in the Philippines on May 18.

On May 18, said monetary policy meeting was held in the Philippines, and the central bank decided to end its policy interest rate hike and maintain its policy interest rate at 6.25%, based on a decline in inflation and a slowdown in economic growth—as had been anticipated by the majority of market participants. Thereafter, the governor of the central bank of the Philippines, Felipe Medalla, expressed his intention to maintain the policy interest rate at the existing level for a while, while there is a possibility for the central bank to start raising its policy interest rate again depending on the figures in economic indices. In reaction, the Philippine peso started to rally. Furthermore, the governor of the central bank of the Philippines, Felipe Medalla, also stated that policy interest rate cuts would be a possibility if the U.S. decides to cut its own policy interest rate, even though the most-likely scenario would be for the policy internet rate to be maintained at the existing level for a while. However, market participants remain

optimistic regarding policy interest rate cuts in the U.S. before the end of the year, seeing it unlikely for the policy interest rate to be cut for a while. Because this made it unlikely for the policy interest rate in the Philippines to be cut in the near future, which led the Philippine peso to appreciate even further, while the U.S. dollar/Philippine peso exchange rate rose to reach the mid-PHP 55 level. Thereafter, the U.S. dollar/Philippine peso exchange market was impacted by the sentiment related to the debt ceiling issue in the U.S. In the meantime, expectations grew for additional policy interest rate increases in the U.S. based on hawkish remarks made by Federal Reserve Board (FRB) officials, and this led the Philippine peso to start depreciating. Thus, from the middle of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating without moving in any direction.

## 2. Outlook for This Month

Even though the financial crisis in the U.S. has been under control for now, it is difficult for the U.S. to continue raising its policy interest rate in the times ahead, given the possible comeback of the financial crisis and a concomitant economic downturn. Therefore, the short-term financial market in the U.S. has even reflected several policy interest rate cuts before the end of the year. However, the latest economic indices in the U.S. revealed persistent concerns over a high inflation rate and upward pressure on wages based on a tight labor market. Thus, some officials at U.S. monetary authorities have given warning to possible policy interest rate cuts before the end of the year, while some are making hawkish remarks, proposing to maintain the existing level of the policy interest rate or to continue raising the policy interest rate depending on the situation. Given these factors, it is considered improbable for the FRB to start cutting its policy interest rate for a while, keeping interest rates in the U.S. at the same level. Even though the short-term financial market in the U.S. less reflects the possibility of interest rate cuts in the near future, there is still a big gap between what is reflected in the market and what is predicted by the officials of the U.S. monetary authorities. Thus, as the market starts reflecting the current outlook, it is possible for upward pressure on the U.S. dollar to strength in the times ahead.

On the other hand, the central bank of the Philippines decided to stop raising its policy interest rate at the monetary policy meeting held in May, based on the slowdown in economic growth and inflation. The governor of the central bank of the Philippines, Felipe Medalla, mentioned the possibility for the policy interest rate to be maintained at the existing level at several meetings in the times ahead. Medalla also stated that the central bank was ready to start raising its policy interest rate again if necessary. There are also possible market interventions by the central bank when the Philippine peso continues depreciating, which is likely to support the Philippine peso to some extent.

From the viewpoint of interest rate differentials, the U.S. dollar/Philippine peso exchange rate is unlikely to move in any direction. However, the trend remains unchanged in which the U.S. dollar/Philippine peso exchange rate mainly follow factors in the U.S. dollar market. Thus, the U.S. dollar/Philippine peso exchange rate is most likely to continue fluctuating between the hawkish view and dovish view regarding monetary policy in the U.S. On the other hand, the trade deficit of the Philippines remains high. Because domestic demand is likely to remain strong, the supply & demand balance suggests that the Philippine peso is more likely to be sold—as has been the case so far. It is also worth noting that concerns persist over a possible financial crisis in the U.S., and Asian currencies may depreciate sharply based on risk-averse sentiment if the U.S. economy declines significantly, spreading impact to the rest of the world. Market participants should thus remain cautious of such possibilities.

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

# Indian Rupee – June 2023

**Expected Ranges** **Against the US$: INR 81.80–83.80**
**Against the yen: JPY 1.62–1.72**

## 1. Review of the Previous Month

**In the U.S. dollar/Indian rupee exchange market, downward pressure strengthened on the Indian rupee in May.**

The U.S. dollar/Indian rupee exchange market opened trading at the upper-INR 81 level in May. At the beginning of the month, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range at the same level. However, when the exchange rate approached the INR 81.60 level, the central bank of India seems to have occasionally intervened in the market by buying the U.S. dollar and selling the Indian rupee. Thus, the U.S. dollar/Indian rupee exchange rate has not moved in any direction.

Under such circumstances, upward pressure on the U.S. dollar strengthened, as U.S. economic indices were released with strong figures, while the expected inflation rate continued rising and multiple Federal Reserve Board (FRB) officials made hawkish remarks regarding additional policy interest rate increases. As a result, downward pressure on the Indian rupee strengthened gradually.

However, the central bank of India intervened in the market by selling the U.S. dollar and buying the Indian rupee when the U.S. dollar/Indian rupee exchange rate approached INR 82.80, just before reaching the INR 83 mark. Furthermore, there was a large transaction to buy the Indian rupee. These factors all kept the U.S. dollar/Indian rupee exchange rate from rising further.

In the second half of the month, the U.S. dollar/Indian rupee exchange rate remained rather low while rising slowly. In the end, the U.S. dollar/Indian rupee exchange market closed trading at around the mid-INR 82 level (as of May 29).

The BSE SENSEX continued rising, exceeding the 62,500 level. In particular, stock prices related to Adani Group rose sharply. Because the chairperson appointed by the Supreme Court of India concluded that there was no control over stock prices, capital inflow into the Indian stock market has been increasing.

With regard to the economic indices of India, the April manufacturing/service industry PMI was announced at the beginning of the month, with figures stronger than the market estimates. On May 12, the April Consumer Price Index (CPI) of India was announced, revealing a slowdown to +4.70% year-on-year from the +5.66% year-on-year observed in March. Even though the figure is approaching the monetary policy target set out by the central bank of India, i.e., +4.0% year-on-year, the CPI of India still remains higher than the target rate. The April trade balance confirmed a decrease in the trade deficit. However, there is a persistent trade deficit, as has long been the case.

## 2. Outlook for This Month

**In June, the U.S. dollar/Indian rupee exchange rate is forecast to continue fluctuating with the INR 83 level as the upper end.**

In June, the U.S. dollar is forecast to continue appreciating, while the Indian rupee is forecast to continue depreciating based on growing expectation for additional policy interest rate increases in the U.S. Based on this assumption, the U.S. dollar/Indian rupee exchange rate is expected to continue fluctuating with interventions by the central bank of India at around the INR 83 mark.

In May, the ratings agency, Fitch, downgraded the outlook for U.S. government bonds, and this locally strengthened downward pressure on the U.S. dollar. Thus, market participants should keep in mind that headline risks persist surrounding the future evolution of the debt ceiling issues in the U.S.

While market participants are attentively waiting for a monetary policy meeting to be held in June (at the previous meeting held in April, the policy interest rate was maintained at 6.50% in an unanimous decision), the central bank insists in its statement released last time as well as at the press conference of the governor of the central bank that the policy interest rate shall be maintained as a temporary measure and that such does not constitute a shift in monetary policy, announcing an intention to maintain existing monetary policy. While market participants are expecting additional policy interest rate increases in the U.S., the April CPI of the Philippines confirmed a slowdown, but it remained near the upper end of the target inflation rate. Market participants should thus prepare for the possibility for the central bank to start raising the policy interest rate once again.

From a medium- to long-term perspective, market participants should be prepared for the time at which the U.S. dollar starts depreciating, strengthening upward pressure on the currencies of emerging counties (either before the end of the year or at the beginning of next year), while the center of interest in the market shifts to the end of policy interest rate increases and the beginning of policy interest rate cuts in the U.S.

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