Mizuho Dealer's Eye

July 2023

Mizuho Bank, Ltd.

Global Markets Sales Department

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U.S. Dollar – July 2023

Expected Ranges **Against the yen: JPY141.00–149.00**

1. Review of the Previous Month

The dollar/yen pair's topside edged higher in June.

The pair opened the month trading at the lower-139 yen mark on June 1. Its downside then hit a monthly low of 138.44 yen on the worse-than-expected results of the US May Manufacturing ISM Report on Business, though its fall was halted at this level and it climbed to around 140 yen on June 2 on the significant upswing in the nonfarm payrolls data.

The Nikkei Stock Average hit a 33-year high in the second week. The RBA also unexpectedly implemented a rate hike on June 6, followed by a similar move by the BOC on June 7. With the FOMC meeting and release of the US May CPI data looming the following week, though, the impact on the greenback was minimal. As such, the currency pair continued moving with a lack of direction around 139 yen.

The third week saw the release of the US May CPI data on June 13. Though the headline figure confirmed that inflation was slowing overall, the core figure was up on expectations, with the pair then dipping to the lower-139 yen mark. The FOMC kept its policy rate fixed when it met on June 14, though the dollar was initially bought when the dot plot hinted at two more rate hikes within the year. In his press conference, FRB chair Jerome Powell said no decisions had been made about July, with the pair subsequently facing a little more downward pressure, but with investors focusing on the aforementioned rate hike projection, the pair rose back above 140 yen. The Bank of Japan (BOJ) decided to maintain the status quo at the Monetary Policy Meeting on June 16. Though this was as expected, the yen was sold as some investor hopes for a policy shift waned. With US interest rates also rising, the pair strengthened to just below 142 yen.

The BOJ reaffirmed its commitment to easing in the fourth week, so the yen was sold as investors focused on the gap between the monetary policy of Japan and other countries. The dollar/yen pair continued rising, despite verbal interventions by BOJ and government officials aimed at checking the yen's slide. The dollar was bought on real-demand on June 20, a date when payments are often due, with the currency pair topping 142 yen. The pair was then pushed down by selling to lock in profits at this level, though the overall momentum remained unchanged. On June 22, the pair hit the 143 yen range after FRB governor Michelle Bowman said further rate hikes would be needed to keep a lid on inflation, with the pair then rising to the upper-143 yen level on June 23 to close at highs.

At the end of the week, on June 26, Masato Kanda, Japan's Vice-Minister of Finance for International Affairs, intervened verbally to halt the yen's slide before the Tokyo markets opened. In the BOJ's Summary of Opinions, meanwhile, several participants said the BOJ should discuss revising its YCC in the near future. However, none of this had a major impact on the pair's movements. The pair continued to move firmly and it then topped 144 yen on June 27 on some bullish US economic indicators. At the ECB Forum on Central Banking on June 28, three central bank governors spoke about the volatile inflation environment. These did not include BOJ governor Kazuo Ueda, so the yen was sold and the currency pair strengthened to the upper-144 yen mark. The pair continued to steadily hit new daily highs at the month's end. With the greenback bought on real demand, the pair temporarily hit 145.07 yen during the morning of June 30 before moving at the mid-144 yen level thereafter.

2. Outlook for This Month

The dollar/yen pair will continue to move firmly in July.

Though the figures suggest inflation is slowing in the US, inflationary pressures remain strong, particularly when it comes to core inflation. At the end of June, FRB officials and FRB chair Jerome Powell dropped several hints about a recommencement of rate hikes. As such, some investors have started to price in multiple rate hikes going forward and it seems likely that the FOMC will lift rates in July at the very least. Though the US is going through a period of rate hikes, the economy remains strong, as evinced in particular by the jobs data and leading indicators related to housing, so it is hard to imagine the dollar shifting in a downwards direction in the near future, neither on monetary policy nor on concerns about a recession.

On the other hand, there is a consensus that the BOJ will stick to the easing path for the time being. Each central bank is committed to fighting stubbornly-high inflation, with some even implementing unexpected rate hikes. Under these circumstances, the BOJ remains an outlier with its ongoing pursuit of large-scale easing. The ECB Forum on Central Banking contained no surprises, but with the governors of each major central bank expressing their intentions to continue tightening, BOJ governor Kazuo Ueda stood out in a bad way with his comments suggesting the BOJ would broadly keep its easing policy unchanged. When the BOJ met in June, some participants called for the bank to consider scrapping its YCC in the near future. However, not much time has passed since the commencement of the BOJ's review of its easing policies (as announced in April), so it is hard to imagine any decisive policy shift any time soon. Each country is approaching the end of rate hikes, with their respective currencies likely to move bullishly and bearishly at times depending on the rate of slowing inflation or the impact of rate hikes on the economy, for example. As mentioned above, though, the yen will continue to be sold steadily on the divergence of monetary policies, with the dollar/yen pair likely to be supported significantly by yen selling against other currencies. However, the pair's topside has grown steadily heavier as it edges up the 140 yen range, with concerns rising as the authorities and government officials make more comments related to exchange rates. With concerns growing about strong verbal interventions and concrete moves to halt the yen's slide, the pair is unlikely to rise at last year's pace. However, the pair will move firmly overall on deep-rooted yen selling and the dollar's unsurprising strength in the face of persistent inflation and the robustness of the US economy, with investors expected to steadily test the pair's topside.

Dealers' Market Forecast

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

Bullish on the dollar	15 bulls	149.00 – 141.00	Bearish on the dollar	4 bears	147.25 – 138.50

* Ranges are central values

Miyachi	Bear	148.00 – 139.00	The markets have priced in an FRB rate hike. At the same time, there will also be concerns of an intervention and speculation about a BOJ policy shift when the yen weakens. As such, the dollar/yen pair will probably trade with a heavy topside. Speculators have also piled up yen positions, so the yen will only have limited room on the downside, including the cross yen.
Kawai	Bull	148.00 – 142.00	The dollar/yen pair will move firmly overall on the divergent monetary policies of Japan and the US, but with the Japanese authorities also dropping comments aimed at curbing the yen's slide, the pair's topside could also be capped by concerns of an intervention.
Kawabata	Bull	148.00 – 142.00	The BOJ has indicated it will continue to ease until it feels secure in hitting its inflation target, so the yen will continue to be sold on the divergent monetary policies of the US and Japan. With the FRB and ECB also hinting at further easing, the dollar/yen pair will be supported by yen selling, principally when it comes to the cross yen.
Kato	Bear	146.50 – 134.00	There are constant concerns of an intervention when the dollar/yen pair hits the 140 yen range. The pair's topside could also grow heavier when the pair hits 146 yen and it could be pushed back toward 140 yen by exporter movements at the end of the fiscal year.
Yamazaki	Bull	148.00 – 142.50	The dollar/yen pair will continue to face upward pressure, but its topside will be held down by concerns of a monetary policy shift, with the BOJ potentially scrapping its YCC at the end of July, for example. Market participants should be wary of comments by officials, statistics, and headlines related to the Chinese economy.
Ito	Bull	150.00 – 140.00	BOJ monetary policy and the real-demand flow suggests the yen will remain bearish for now. The BOJ will probably shift policy when it meets at the end of July, though investors should not get their hopes too high. The authorities might also intervene swiftly in the forex markets if the yen falls sharply.
Yamagishi	Bull	148.00 – 140.00	US economic indicators continue to swing above expectations, with the dollar/yen pair set to move firmly on forecasts for an FRB rate hike. The pair is moving close to the 145 yen range, a level that prompted an intervention last September, but the contradictions of the policy mix suggest investors should be more less wary of an intervention in the forex markets and more wary of a monetary policy response in the form of a scrapping on the BOJ's YCC.
Omi	Bull	148.00 – 143.00	US policy rates will remain high in July, with the dollar likely to remain bullish and the yen bearish as the BOJ continues to ease. However, the dollar could be sold temporarily if the FOMC decides to keep rate hikes on hold in July too.
Ueno	Bull	150.00 – 142.00	The dollar will continue to be bought and the yen sold on the contrasting monetary policy management in the US and Japan. Several Japanese officials have made comments aimed at curbing yen bearishness, though the impact of these is likely to be minimal and short-lived. As such, the dollar/yen pair looks set to remain strong until it seems more likely that the Japanese authorities will make some concrete moves.
Yamaguchi	Bull	150.00 – 140.00	With the US economy moving strongly, the dollar/yen pair looks set to continue trending upwards on subdued expectations for a BOJ policy shift. The yen will continue to be sold on monetary policy differences in July too, with the pair expected to move firmly despite concerns of an intervention by the authorities.
Matsunaga	Bear	145.50 – 139.00	The sense of labor market tightness and the pace of inflation is easing in the US. Under these circumstances, dollar buying looks set to gradually slow. However, a shift in the direction of yen bullishness also seems unlikely given firm consumer demand in the US and the hawkishness of FRB members. The dollar/yen pair looks set to continue trading around 140 yen.

Tagawa	Bull	149.00 – 141.00	The dollar/yen pair will swing up and down, though the yen will continue trending lower overall on the divergent monetary policies of the US and Japan. The pair will also be supported by a bullish cross yen. However, concerns of an intervention by the Japanese authorities will grow when the pair approaches 150 yen, so the pair's topside will probably be capped.
Harada	Bull	152.00 – 140.00	With expectations for a BOJ policy shift waning, the dollar/yen pair will continue to rise on the firmness of the US economy and stubbornly-high inflation. A number of key central bank events are lined up at the end of month, with the pair likely to move firmly despite concerns of an authority intervention until these events are out of the way.
Katoono	Bear	148.00 – 138.00	There is a sense that pressure for rate hikes is easing in the US. There are also expectations that the BOJ will revise its YCC when it meets in July, With concerns of an intervention also likely to increase when the yen weakens, the pace of the dollar/yen pair's rise will probably slow in July. The pair could undergo some adjustment in the run up to the last week, when several major central banks will be meeting.
Kobayashi	Bull	150.00 – 138.00	There are concerns of an intervention by the Japanese authorities, but until an actual intervention takes place, the yen will remain bearish against the dollar on the divergent monetary policy stances of the US and Japan.
Henmi	Bull	147.50 – 142.00	The risk of a US economic recession is waning on strong labor market conditions, with the FRB set to remain in hawkish mode. There are concerns about an intervention by the Japanese authorities, but the impact of any intervention will be muted as long as the BOJ continues to ease. The dollar/yen pair will move firmly in July.
Suzuki	Bull	149.00 – 141.00	Any dollar slide will be muted given persistent inflation and strong economic conditions in the US. With the BOJ continuing to ease, the yen will be sold against other currencies, with the dollar/yen pair also set to move firmly.
Okuma	Bull	150.00 – 140.00	The US economy remains firm, with FRB member also still in hawkish mode, so there are growing expectations for rising US interest rates. Concerns about an intervention by the Japanese authorities are also on the rise, but with investors still focused on widening Japanese/US interest-rate differentials, the dollar/yen pair looks set to move firmly this month.
Nishi	Bull	149.00 – 142.00	With US economic indicators moving firmly, the dollar/yen pair will continue to edge higher on Japanese/US interest-rate differentials. The FRB is also growing more hawkish, with its members voicing support for two more rate hikes within the year, for example, though the markets have still not fully priced in this hawkishness. The pair could move skittishly downwards on concerns of an intervention, so caution will be needed.

Norio Kawabata, Forex Sales, Global Markets Sales Department

Euro – July 2023

Expected Ranges **Against the US$: US$1.0600–1.1100**
Against the yen: JPY154.00–160.00

1. Review of the Previous Month

The euro/dollar pair kicked off June trading at the upper-$1.06 level. The dollar was sold at the start of the month after the US ISM payments price indicator fell sharply below expectations. The euro/dollar pair had been sold until May, but the pair's slide was now halted. The greenback was then bought after the US debt ceiling issue was resolved, though, with the US May employment data also substantially beating expectations. All this saw the pair swinging to and fro around $1.07. However, ECB officials then made some hawkish comments, with ECB president Christine Lagarde saying inflationary pressures remained strong and ECB board member Isabel Schnabel also stating that keynote inflation remained high, for example. The greenback was also sold as US interest rates fell on speculation that the US labor market might deteriorate following the release of some bearish initial claims for unemployment insurance data on June 8. With the eurozone April industrial production data (released June 14) also bouncing back, the euro/dollar pair edged higher to hit the mid-$1.08 range. As expected, the FOMC reached a unanimous decision to keep rates fixed at its closely-watched meeting during US trading time on June 14. However, the FOMC's Summary of Economic Projections (SEP) hinted at two further rate hikes within the year, while FRB chair Jerome Powell also struck a very hawkish tone in his press conference ("nearly all Committee participants view it as like that some further rate increases will be appropriate…the risks to inflation are to the upside still"), so the US dollar was bought back and the currency pair fell to around $1.08.

As expected, the ECB Governing Council lifted its policy rate by 25bp to 4.00% when it met on June 15. It also upgraded its core inflation rate projection for 2023 (from 4.6% at the last meeting to 5.1%) and for 2024 (from 2.5% to 3.0%). In her press conference, meanwhile, ECB president Christine Lagarde dropped clear hints about ongoing rate hikes at the July ECB meeting ("it is very likely the case that we will continue to increase rates in July"). All this saw the currency pair rebounding sharply to hit the mid-$1.09 range. ECB officials continued to make hawkish comments thereafter. Isabel Schnabel pointed to the risk that eurozone inflation might swing above the upgraded outlook, for example, and she added that a "monetary policy stance that errs on the side of determination insures against costly policy mistakes caused by inflation being more persistent than expected." This did not lead to further euro buying against the dollar, though.

With the forex markets moving sluggishly during a US holiday on June 19, the euro/dollar pair moved with a lack of incentives around $1.09. In his closely-watched testimony to Congress on June 21, FRB chair Jerome Powell voiced support for two further rate hikes within the year. The markets did not move to price in further rate hikes, though, so the currency pair remained firm. On June 22, the BOE lifted its policy rate by a higher-than-expected 50bp (from 4.5% to 5.0%). The euro was also pulled higher, with the euro/dollar pair strengthening to the $1.10 range. However, German released a worse-than-expected IFO Business Climate Index on June 26. With a number of US economic indicators (durable goods orders, new homes sales, and the Consumer Confidence Index) also swinging upwards on their released on June 27, the euro was sold and the dollar bought, with the pair dropping back to the mid-$1.08 level.

2. Outlook for This Month

In July, the euro/dollar pair will move in a range while being swayed by eurozone inflationary trends and expectations for US monetary tightening.

The ECB hiked rates for the eighth straight time when it met in June and it also upgraded its core inflation rate forecast for 2023 and 2024. ECB president Christine Lagarde hinted at a further hike in July, with several ECB officials also talking about eurozone inflationary pressures and the necessity for further tightening after the June rate hike. Though a lot will depend on inflationary trends, it seems the cycle of ECB rate hikes will continue for the time being.

In the UK, meanwhile, the CPI data swung upwards and the BOE implemented a higher-than-expected 50bp rate hike. With other central banks in Europe also implementing rate hikes, European currencies look set to move firmly on expectations for further tightening. Nonetheless, Germany's IFO data fell below expectations on its release in late June, as did several eurozone PMIs (France, Germany and the UK), so anticipation for a further rate hike at the September ECB Governing Council meeting could drop off sharply.

In his testimony to Congress, meanwhile, FRB chair Jerome Powell said the FRB might implement two further rate hikes within the year if the data calls for such a move. Investors will be monitoring the economic indicators released in July, but with the greenback also likely to move bullishly for the time being, it is hard to imagine the euro/dollar pair undergoing a one-sided rise.

The BOJ has indicated it will continue to ease until it feels secure in hitting its inflation target, so the euro/yen pair will continue to strengthen while renewing new highs. The euro/dollar pair will be swayed by the movements of US interest rates on the results of US economic indicators. It will also be buffeted by speculation about further tightening at the September ECB Governing Council meeting following the release of European inflation indicators and comments by ECB officials, with the pair likely to move in a range with a ceiling of $1.10, the mark the pair hit late June.

Dealers' Market Forecast

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

Bullish on the euro	13 bulls	1.1150 – 1.0700	Bearish on the euro	6 bears	1.1000 – 1.0525

* Ranges are central values

Miyachi	Bear	1.0900 – 1.0550	Though the ECB remains in tightening mode, the current slowdown in economic sentiments is raising concerns about stagflation, with the euro/dollar pair set to trade with a heavy topside. Accumulated euro long positions are also shrinking, with the pair's topside likely to be weighed down this month.
Kawai	Bull	1.1200 – 1.0700	The ECB reconfirmed its hawkish stance when it met in June, with the euro expected to remain bullish. If US economic indicators move firmly and US/European interest-rate differentials widen, the euro/dollar pair will probably fall at times, though any adjustment will be short-lived.
Kawabata	Bull	1.1100 – 1.0600	The ECB has upgraded its inflation forecast for up until next year and it also dropped hints about another rate hike when it meets in July, with the euro/dollar pair set to continue moving in lockstep with inflationary trends. It is also possible that the FRB might hike rates again too, so the pair will probably trade in a range with its topside at June's $1.10 mark.
Kato	Bull	1.1300 – 1.0750	The euro/dollar pair will continue to move firmly on the divergent policy stances of the ECB and FRB. Market participants will grow more cognizant of bad debts in the US commercial property loan sector going forward, with this likely to spur on dollar selling against the euro.
Yamazaki	Bull	1.1050 – 1.0700	Amid ongoing pressure for higher policy rates to tackle inflation, the US economy remains surprisingly firm. This will probably offset euro appreciatory pressure, with the euro/dollar pair likely to move in a range in July.
Ito	Bull	1.1100 – 1.0600	The euro/dollar pair will continue to be swayed by factors related to inflation policy and an economic slowdown. The pair will remain within its recent range, but euro long positions are still at high levels, so this will be a concern. The pair is susceptible to risk aversion, so investors should be on guard against position adjustments.
Yamagishi	Bull	1.1200 – 1.0600	The ECB upgraded its inflation rate forecast in its June staff projections. In her press conference after the ECB Governing Council meeting, ECB president Christine Lagarde said wages were becoming the main driver of inflation. The ECB will remain in hawkish mode on concerns of an inflationary spiral, with the euro likely to be bought in July.
Omi	Bull	1.1100 – 1.0700	The euro looks set to remain firm on the back of ongoing ECB rate hikes. However, US policy rates also remain at a high level, so the pair will continue to fluctuate gently in a range.
Ueno	Bull	1.1150 – 1.0600	The ECB probably has more room for further rate hikes compared to the FRB. However, market participants are pricing in impending rate hikes by both central banks, with the euro/dollar pair likely to swing back and forth on inflation-related indicators.
Yamaguchi	Bear	1.1000 – 1.0500	The ECB clearly remains in tightening mode and the markets have fully priced in a July rate hike. However, economic indicators are starting to show signs of a slowdown. With the US economy moving firmly, the dollar will be susceptible to buying against the euro.
Matsunaga	Bear	1.1000 – 1.0700	The impact of monetary tightening is starting to become apparent in Europe, with economic sentiments worsening and banks getting stricter when it comes to lending, for example. Given this, it seems ongoing ECB easing will not lead directly to euro appreciation. The euro/dollar pair's topside will also be weighed down by prolonged monetary tightening in the US.

Tagawa	Bull	1.1100 – 1.0600	The FRB is making hawkish noises, but the markets have still only priced in once more rate hike this year. It seems the euro has the lead on the dollar when it comes to room for further rate hikes. The euro/dollar pair will probably move firmly this month, though investors should keep an eye on European inflation.
Harada	Bull	1.1500 – 1.0500	The euro/dollar pair looks set to move firmly in July. There are no major European events lined up at the start of the month, so the pair will mainly be swayed by the dollar's movements. The ECB clearly remains in tightening mode and investors will be monitoring the ECB Governing Council meeting at the month's end to gain clues about ECB policy in September.
Katoono	Bull	1.1050 – 1.0750	Inflation is sticky in the eurozone, even when compared to other major countries and regions, so it seems the ECB will continue lifting rates for a prolonged period. The US only has limited room left for rate hikes, so the euro looks set to move firmly against the dollar.
Kobayashi	Bear	1.1000 – 1.0500	Though there are signs of an economic slowdown in Europe, the US economy continues to move firmly. The markets have already priced in a rate hike when the ECB Governing Council meets in July, so the euro looks set to move bearishly against the dollar.
Henmi	Bear	1.1100 – 1.0700	The ECB is becoming more hawkish than the FRB. Though Europe faces weakness on the economic front, concerns of a recession are easing in the US. As such, the dollar will probably be preferred over the euro.
Suzuki	Bull	1.1150 – 1.0700	The ECB clearly remains in hawkish mode. Investors should be concerned about the emerging economic slowdown, but with the ECB commencing rate hikes somewhat later than the FRB, it still has more room for tightening compared to its US counterpart, so the euro/dollar pair looks set to continue moving firmly.
Okuma	Bear	1.1000 – 1.0500	Though the ECB continues to lift rates, European economic indicators are starting to slow. There are growing concerns that rate hikes could lead to a recession. With investors also irked by the Chinese economic slowdown, the euro/dollar pair looks set to move bearishly this month.
Nishi	Bull	1.1200 – 1.0700	Though the FRB is moving closer to ending rate hikes, the ECB is still pushing forward in this respect. The euro/dollar pair will probably be bought on the gap between US and European monetary policy.

Masayuki Nakajima, Europe Treasury Department

British Pound – July 2023

Expected Ranges **Against the US$: US$1.2500–1.2900**
Against the yen: JPY180.00–187.00

1. Review of the Previous Month

After hitting $1.24 at the end of May, the GBP/USD pair strengthened by over 3% to hit $1.28 by June 16. The dollar then rallied across the globe in the latter half of the month, so the pair was adjusted down to $1.26 as of June 28, though it remained on an upwards trajectory on a monthly basis. The pound had risen against the yen since April and this trend accelerated in June, with this currency pair rising by nearly 10 yen, up from the 173 yen range at the end of May to 182.56 yen as of June 28.

The greenback fell in the first week as uncertainty about the US debt ceiling issue receded on June 1. The GBP/USD pair also bounced back to hit $1.25 for the first time since early May. However, the dollar than rebounded on the June 2 released of the May US employment data, with the nonfarm payrolls figure swinging sharply above market expectations, so the pair dropped back below $1.25.

The GBP/USD pair rose by around 1% in the second week. This was the first +1% weekly rise since the week of April 28. The US May Services ISM Report on Business was released on June 5 and the US new applications for unemployment insurance data on June 8, with both indicators suggesting labor supply and demand was growing less tight in the US. This spurred on dollar depreciation.

Sterling continued rising against the dollar and yen in the third week. The G3 made a series of monetary policy announcements. Though the FOMC kept rate hikes on hold, the ECB continued to lift rates. In Japan, meanwhile, the BOJ remained in cautious mode when it came to the possibility of revising its yield curve control (YCC) and other aspects of its accommodative monetary policy. The yen weakened further on the BOJ's stance, with the GBP/JPY pair hitting the 180 yen range on June 16 for the first time since December 2015. With the UK labor market growing tighter, expectations swelled for further BOE rate hikes, with this helping to push the GBP/JPY pair higher.

The GBP/USD pair moved with a heavy topside in the fourth week to drop by around 0.8% compared to the end of the previous week. FRB chair Jerome Powell gave his quarterly testimony to the US House of Representatives on June 21 and the Senate on June 22. He reiterated that more rate hikes might be needed within the year, with the dollar then rebounding globally as a result. The BOE surprised the markets on June 22 when it increased the pace of rate hikes from +25bp to +50bp. Though the pound strengthened immediately after the announcement, its topside was held down thereafter.

Sterling dropped back in the fifth week. It fell by over 1% against the greenback on June 28. As discussed below, this might have been due in part to a sharp fall in the bonds of the UK's largest private water company, though it seems likely the GBP/USD pair's slide was predominately driven by profit taking.

2. Outlook for This Month

The GBP/USD pair will hover at highs in July, though sterling will continue to rise against the yen. When it met in June, the FOMC indicated it expected rates to be lifted two more times in 2023. With US economic indicators moving bullishly thereafter, the movements of short-term US interest rates suggests more investors are expecting the next rate hike to take place as early as July. The GBP/USD pair will continue to respond sensitively to the movements of US economic indicators. With the BOE adopting a hawkish stance when it met in June, though, it seems the pound will continue to be supported by expectations for tightening. When discussing how long the BOE's policy rate would remain at peak levels on June 28, BOE Governor Andrew Bailey suggested this period could last longer than traders were currently expecting. As of June 29, the short-term interest-rate markets were expecting the BOE's policy rate to peak out at just under 6.25% in February 2024, with the rate expected to remain fixed for at least six months thereafter and the first rate cut likely to have taken place by September next year.

Investors should remain on guard against the prospect of an economic slowdown on the BOE's prolonged tightening. It was noteworthy how the UK's building approvals data fell on its release on June 1. Just 48,690 approvals were made in April, down from 51,488 in March and also below market forecasts for 53,000 approvals. The May RICS house price survey (released June 8) was also down by 30%. Though this was an improvement on April's -39% figure, it still represents a significant slump. The BOE looks set to continue hiking rates as long as the impact of its tightening is restricted to an adjustment in housing prices, but consumer spending might slow on falling asset prices and rising mortgage repayments, so caution will be needed.

There was a lot of political turmoil in the UK in June, though this was nothing to worry about. The impact on the financial markets was also muted when former prime minister Boris Johnson resigned as an MP on June 9. On June 28, bonds in the UK's largest private water company fell sharply. The firm was privatized in the late 1980s under the Thatcher administration. The firm's debt has swollen to over £13 billion in the 30 years or so since privatization, with the firm now unable to respond to crumbling infrastructure. If the firm is nationalized using taxpayer's money, this will be a further blow to the Conservative Party and its leader Rishi Sunak. However, London's water problem is nothing new. Of course, there was probably some connection between the pound's slide and the tanking of the firm's bonds on June 28, but the main reason for the pound's fall was probably due to profit taking. This synopsis is supported by the fact that net pound long positions had risen to record highs in Chicago IMM positions as of June 20. The markets probably just needed an excuse to sell the pound.

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

Australian Dollar – July 2023

Expected Ranges **Against the US$: US$0.6500–0.6900**
Against the yen: JPY93.00–98.00

1. Review of the Previous Month

The AUD/USD pair began June moving around $0.65. It rose to $0.69 mid-June before falling back to $0.66. The Australian dollar was bought at the start of the month after concerns about a Chinese economic slowdown eased on some firm Chinese indicators. With US indicators also moving bearishly, the greenback was sold and this supported the pair's movements. Australia's workplace relations tribunal Fair Work Commission (FWC) then announced that the minimum wage would lift by 8.6% from July, with the currency pair subsequently climbing to $0.6638.

The RBA announced a 25bp rate hike when it met on June 6 and its statement also hinted at more tightening going forward, so the pair strengthened to $0.6686. The pair then soared on June 8 after the yield on Australian 3-year bonds hit its highest level since 2012. Signs of a cooling in the US labor market then appeared after new applications for unemployment insurance rose sharply in the US. The greenback was sold as expectations for FRB rate hikes waned, with the AUD/USD pair rising to $0.67 to then hit $0.6750 on bullish US stock movements.

The pair rose from the mid-$0.67 range to $0.69 mid-June. As expectations grew that the FOMC would keep rates fixed, the US dollar was sold on the weak results of the US May CPI data, with the currency pair subsequently climbing to $0.6807. The FOMC did keep rates fixed after over a year of persistent tightening, though it did hint at hiking rates again to tackle inflation. The dot plot's central value for the end of 2023 was also upgraded to 5.6%. This saw yields on US treasuries inverting further. Amid a frantic mixture of buying and selling, the currency pair moved between the mid-$0.67 handle and $0.6835.

The Australian May employment data was released on June 15. The unemployment rate improved and the labor situation showed signs of firmness, with the AUD/USD bouncing back to $0.6795 on the increased likelihood of a rate hike at the July RBA meeting. With yields on short-term Australian bonds also rising, Australian government bond yields inverted for the first time since the financial crisis in 2008, with this raising fears of a recession. The ECB then implemented a +25bp rate hike and it hinted at a similar move in July, so the greenback was sold against the euro. With the US also releasing several bearish economic indicators, US stocks continued rising and this supported the Australian dollar, with the AUD/USD pair strengthening to $0.6893. The trend continued on June 16, with the pair touching $0.69 on several occasions. With the BOJ reaffirming its commitment to easing at the Monetary Policy Meeting, the yen weakened, with the Australian dollar rising to a 2023 high of 97.67 against Japanese yen.

The AUD/USD pair fell from the upper-$0.68 range to the upper-$0.65 level mid-June. The minutes to the June RBA board meeting were released on June 20. They revealed that the board had discussed keeping rates fixed, with a delicate balance struck between those for and against further rate hikes. Yields on Australian government bonds subsequently fell on these dovish minutes. With Asian stocks and the RMB also moving bearishly, the AUD/USD pair fell to the $0.66 range. Australia's May CPI indicator fell sharply on its release on June 28, with the currency pair also sliding to around $0.6620. The greenback was then bought after FRB chair Jerome Powell once again voiced support for ongoing rate hikes, so the pair dipped below $0.66 as investors tested its downside.

2. Outlook for This Month

In July, the AUD/USD pair will continue moving with an eye on interest rates and consumption trends. Australia's workplace relations tribunal Fair Work Commission (FWC) has announced that the minimum wage will be lifted by 8.6% from July 1. With Australia's labor market growing tighter, firms are also being pressing into hiking wages as a defensive move to prevent employees from quitting. Firms with labor agreements in place to lift wages in line with inflation have found themselves implementing pay rises of around 7%. Amid concerns about this spurring on further inflation, the RBA decided to lift the cash rate by +25bp when it met in June. The interest rate markets are pricing in two more rate hikes this year. At 5.6%, Australia's May CPI indicator was down on forecasts for a 6.1% rise (April: 6.8%), but investors will need to monitor consumption and price trends from July onwards.

On the other hand, the US released a series of bearish economic indicators from the start of June and signs appeared that inflation might be calming. At present, though, there are growing indicators that the economic slowdown might be bottoming out. Housing sales had moved sluggishly on rising costs related to rising housing loan interest rates and supply chain problems, but the US May New Homes Sales figure hits its highest level in a year, thus suggested the housing market is bottoming out. Furthermore, the US new applications for unemployment insurance data (released June 29) underwent its sharpest fall since October 2021, with the employment market also moving firmly. At 109.7, meanwhile, the US June Consumer Confidence Index also hit its highest level since January last year. Though the FOMC kept rates fixed when it met in June, its members unanimously recognized that more rate hikes would be needed, with their projections suggesting at least two more hikes will probably be needed before the year is out. The FOMC's dot plot also forecast that the federal funds rate would hit 5.6% by the end of 2023. The interest rate markets have priced in an 84% chance of a rate hike when the FOMC meets in July. The phase of tightening has lasted longer than expected. If it seems it will drag on past September too, this will weigh down the AUD/USD pair's movements.

The Australian dollar is also being pushed down by the laggardly Chinese economic recovery. If Chinese economic indicators remain bearish and the RMB continues to slide, the pair's downside could fall further. There is speculation about whether the Chinese authorities will introduce some new measures to bolster the real estate sector, with property-related stocks now rising. However, this trend will be short-lived unless some concrete stimulus measures are implemented. If some measures are announced, this will support the AUD/USD pair.

Mitali Chakradeo and Yasuko Iwata, Canada Office, Americas Treasury Department

Canadian Dollar – July 2023

Expected Ranges **Against the US$: C$1.3000–1.3500**
Against the yen: JPY105.00–110.00

1. Review of the Previous Month

After moving at the upper-C$1.35 mark at the end of May, the USD/CAD pair fell to C$1.34 at the start of June when the greenback was sold after the US May Manufacturing ISM Report on Business fell below expectations. The US dollar was then sold against the Australian dollar after the RBA unexpectedly announced a rate hike on June 6, with the USD/CAD pair also sliding below C$1.34. The Bank of Canada (BOC) implemented a 0.25% rate hike for the first time in three meetings when it met on June 7, with its policy rate rising to 4.75%. The USD/CAD subsequently fell to C$1.3322 for a time, though the greenback was bought back over the next few days. The reason for the BOC's rate hike was the unexpected excess of demand in the Canadian economy, with the BOC deciding its monetary policy was not dampening this demand enough. In its statement after the meeting, the BOC said it would be closely monitoring the core CPI data and inflation outlook to ensure inflation hit the 2% target. It also reiterated that it would be paying particularly close attention to the demand situation, inflationary expectations, the pace of wage hikes, and corporate price setting activity.

The US May CPI data was released on June 13, with the headline and core figures down on expectations on a year-on-year basis. As anticipation for FOMC rate hikes waned, the currency pair dropped below C$1.33, its support line since the start of the year. When the FOMC met on June 14, it decided to keep the ceiling of its policy rate fixed at 5.25%, as expected. However, the terminal rate in the dot chart was revised to 5.6%, up on March, with US interest rates and the USD/CAD pair both rising. The ECB then implemented a 0.25% rate hike the following day, though, so the euro was bought and the greenback sold, with the USD/CAD pair also dropping to a 9-month low at the lower-C$1.32 level.

The US dollar was sold further on June 22 when the BOE hiked rates by 0.5%, with the USD/CAD pair then falling to the lower-$1.31 mark. Canada's May CPI data was released on June 27. The headline figure was up on a m-o-m and y-o-y basis, though the core figure was down on expectations. The markets had been pricing in a July BOC rate hike, but with CPI growth slowing in May, this scenario seemed less likely, so the Canadian dollar was sold and the currency pair rose to just under C$1.32.

2. Outlook for This Month

The Bank of Canada (BOC) confounded expectations by implementing a rate hike when it met in June. One reason behind this decision was the fact that Canada's 1Q GDP figure hit 3.1% year-on-year, up significantly on the BOC's forecast of +2.3% y-o-y. A glance at the economic indicators released since April also provide support for the BOJ's decision. Though there are signs of a slowdown when it comes to manufacturing, the unemployment rate remained at a record low 5.2% in May, with wages also rising by over 5%. The April retail sales data (released June 21) also bounced back from the negative figure seen in May, with the headline and core (excluding automobiles) figures both up on expectations, thus pointing to the strength of consumption.

The Canadian May CPI data was released on June 27 and it showed inflation growing at the slowest pace for two years, with market expectations for a July rate hike subsequently waning. However, the markets have fully priced in one more 0.25% hike up until the September meeting.

In the US, meanwhile, the dot chart was revised upwards when the FOMC met in June, with participants suggesting two more rate hikes could take place before the year is out. Despite this, the markets have only factored in one further rate hike so far.

The main driver of the USD/CAD pair's movements will remain the gap between the terminal rates of the US and Canada. The greenback's fall and the Canadian dollar's rise in June could also be explained by the fact that the differential between 2-year US and Canadian bond yields shrank, with yields easily swayed by monetary policy. From March this year, yields on 2-year US bonds were up by around 0.7% or more on their Canadian counterparts, though this gap closed to just 0.17% as of June 27.

Future FRB and BOC monetary policy will both be driven by the data, so investors should focus on the major indicators released in July, including the inflation rate, inflationary expectations, and the employment data. With a BOC meeting looming on July 12, the release of the BOC's Business Outlook Survey (June 30) and the June employment data (July 7) will be of particularly importance.

In July, the USD will trade in a range from C$1.30–C$1.35 while being swayed by major economic indicators, market moves to factor in terminal rates in the wake of these indicators, and the differentials on US and Canadian 2-year bonds. With the ECB and BOE expected to implement more rate hikes than the US throughout the rest of the year, the USD/CAD pair's topside will probably grow heavier from here on.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – July 2023

Expected Ranges **Against the US$: KRW 1,290–1,340**
Against the yen: JPY 10.64–11.23 (KRW100)

1. Review of the Previous Month

The USD/KRW pair fell toward mid-June, though it pared back its losses in the latter half of the month.

After opening the month trading at KRW1321.0, the pair weakened as expectations for a rate hike at the mid-June FOMC meeting faded on a decline in inflationary pressures in the US. The pair then rallied as the robust US employment data pointed to the firmness of the labor market.

The following week saw investor sentiments improving from June 5 as the markets priced in a pause in US rate hikes. As funds flowed into South Korean stocks, the USD/KRW pair weakened. The pair then dropped below the key KRW1300 level on June 9.

With the release of the US May CPI data looming during the evening, the greenback was sold further during June 13 on a growing sense that inflation would slow by more than expected, with the currency pair plunging to lower-KRW1270 as a result. At +4.0% y-o-y, the US May CPI data slowed sharply, with the pair temporarily hitting a monthly low of KRW1267.0 on June 14. Importers then bought the greenback on a sense it was at a good level, so the pair edged higher. The FOMC decided to kept rates fixed when it met, but the dollar was bought back on speculation that US rate hikes would continue for a prolonged period, with the pair then rebounding to KRW1280.

The following week saw the People's Bank of China (PBC) lowering its loan prime rate on June 20. This cut was lower than some investors had expected, so the RMB was sold on concerns about the Chinese economy, with the won also following suit. Concerns then grew on FRB chair Jerome Powell's hawkish testimony to the US Congress on June 21, with the USD/KRW pair climbing to KRW1290. The BOE unexpectedly implemented a 50bp rate hike on June 22. With several other European central banks also hiking rates, speculation grew about a prolonged phase of global tightening, with the currency pair subsequently bouncing back to the key KRW1300 range on June 23.

The pair began the following week trading around KRW1308 on June 26. It then fell to a low around KRW1300 after the PBC announced it would be lowering its reference rate for the offshore RMB. The pair dropped below KRW1300 again for a time on June 27, though it rallied on June 28 on end-of-month real-demand flows and fund inflows from overseas investors. Amid strong demand for the dollar, the currency pair strengthened to the upper-KRW1310 mark on June 29.

2. Outlook for This Month

The USD/KRW pair looks set to move firmly in the KRW1300 range in July.

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

As for (1), though the FOMC opted to keep rates fixed in June, the dot plot (the federal funds rate projections of

FOMC members) moved hawkishly, with participants expecting two more rate hikes within the year. FRB chair Jerome Powell adopted the same stance in his testimony to Congress and at the ECB Forum on Central Banking. With the governors of the ECB and BOE also talking about the long road ahead when it came to tackling inflation, investors are focusing on the prospect of a prolonged period of global tightening. If markets price in further US and European rate hikes and their respective currencies are bought, this will place downward pressure on the won.

With regards to (2), the BOK will be meeting on July 13. When it met in May, the BOK kept its policy rate fixed for the third straight month. With South Korea's inflation rate continuing to trend lower, it seems likely the BOK will keep policy fixed in July too. Any intervention when the USD/KRW pair enters the lower-KRW1300 range will also probably be muted.

In addition to the above, the RMB is moving bearishly on the slower-than-expected pace of the Chinese economic recovery. The movements of the won have been strongly correlated with those of the RMB. Though this correlation waned at times during June, the Korean unit did slide in tandem with the RMB over the latter half of June. Concerns about the Chinese economy often prompt fund outflows from South Korean stocks, so if these sentiments continue in July, this will be a bearish factor for the won, with investors likely to test the unit's downside against the dollar.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – July 2023

Expected Ranges **Against the US$: NT$30.80–31.80**
Against the yen: JPY4.50–4.72

1. Review of the Previous Month

In June, the USD/TWD pair hit the TWD31 mark for the first time in around seven months.

The pair opened the month trading at TWD30.740 on June 1. The breakdown of the US May Manufacturing ISM Report on Business revealed the report's price indicator had fallen sharply. With concerns about inflation fading, speculation grew that the FOMC would shelve rate hikes when it met in June. The greenback subsequently weakened, with the currency pair temporarily hitting TWD30.620 on June 2 as Taiwanese stocks bounced back. However, US interest rates then rose on the results of the US May employment data, so investment flowed out of Taiwan and the pair soon recovered to TWD30.7. The pair continued to move firmly thereafter on Taiwanese and overseas investment flows.

The greenback strengthened for a time mid-June as the RMB weakened and the FOMC meeting struck a hawkish tone. Overseas investors then pumped funds back into Taiwan, though, with the Taiwan Capitalization Weighted Stock Index renewing a high for the year to hit 17,000 points for the first time in around 14 months. As a result, the currency pair continued moving in a range with its topside held down before TWD30.8.

The Taiwan dollar was sold at a faster pace in the latter half of the month. With speculation swirling about further US rate hikes within the year, Asian currencies like the yen and RMB moved bearishly, with the Taiwan dollar also sliding. With Taiwanese investors also sending investment funds overseas, the pair hit the TWD30.9 mark on June 20 before then rising to just below TWD31 before the Dragon Boat Festival holiday, though the pair's topside was capped as exporters sold the greenback at this level. Taiwanese stocks fell and the Taiwan dollar was sold after the holidays, with the pair hitting TWD31 on June 26 for the first time in around seven months. Exporters sold the US dollar at the end of the quarter, so the pair's topside was capped for a time, but the pair then rose to TWD31.151 on June 30 to close the month at highs.

2. Outlook for This Month

The USD/TWD pair is expected to move firmly in July.

Though overseas investors pumped funds into Taiwan in June, Taiwanese investors sent investment funds overseas, with the pair moving in a range on a mix of selling and buying. However, the pair broke out of its range late June as Taiwanese stocks fell and the Taiwan dollar weakened. Though the FOMC shelved rate hikes when it met in June, it did drop hints about future rate hikes. When the Central Bank of the Republic of China (Taiwan) (CBC) met to set policy the day after the FOMC meeting, it also held off form lifting rates, though it said any future moves would depend on the data and it restricted itself to just ruling out an end to rate hikes. As such, the CBC meeting was not as hawkish as the FOMC's meeting. There is a sense that this gap between US and Taiwanese monetary policy will eventually push the Taiwan dollar lower.

The USD/TWD pair looks set to move firmly in July. The reason the Taiwan dollar did not strengthen in June despite bullish Taiwanese stocks movement is because Taiwanese investors sent more investment funds overseas. If this search for overseas yields continues and overseas investors also sell Taiwanese stocks on balance, exporters will be the only party still buying the Taiwan dollar. Given this, if Taiwanese stocks move bearishly as investors focus on the possibility of further US rate hikes within the year, the Taiwan dollar will probably weaken. Furthermore, if the Taiwan dollar undergoes a sharp fall like it did last year, exporters might hold off from selling the greenback. Exporter demand for US-dollar selling grew last month in relation to the end of the quarter, with the currency pair's topside weighed down for a time. These same exporters will probably slip into wait-and-see mode in July, with the pair's topside potentially hitting new heights, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – July 2023

Expected Ranges **Against the US$: HK$ 7.8000–7.8500**
Against the yen: JPY 17.60–18.80

1. Review of the Previous Month

Hong Kong dollar spot exchange market in June

HKD spot was fluctuating between 7.810 and 7.845 level in June. In early June, USD/HKD spot came off from 7.845 level as the Fed managed to cool down expectation for an imminent rate hike and the pause on the Fed's rate hike cycle drive the USD/HKD lower. Since the mid-June, the spike in HKD rates on the half year end seasonal demand and dividend payouts from Chinese corporate boosted HKD demand and HKD spot rebounded to near 7.81 level. Equity inflow to HKD market was modest. Stock Connect flow to HK market was stalling in June. IPO activities in HK market remained subdued. The collapse of China reopening trade dampened sentiment in HKD market and capital outflow pressure weighed on the HKD. The launch of HKD-RMB dual counter model did little to boost HK stock market trading volume and HKD demand. On the data front, CPI inflation edged down to 2.0%YoY on soaring energy and transport costs. The unemployment rate for May remained unchanged at 3.0% and the tight labour supply prompted the government to relax restrictions on the labour imports for 2 years.

Hong Kong dollar interest rate market in June

HKD rates jumped following HKMA Chief Executive Eddie Yue's remark on higher HKD rates due to the half-year-end seasonal factor as well as dividend payouts from Chinese corporate (see the inSight article on 14 June 2023 from HKMA website). Specifically he said the possibility that HKD interbank rates would catch up with or even overshoot the USD rates on certain days could not be ruled out. Subsequently, HK banks rushed to pay up HKD rates in the interbank market to acquire more HKD funding, lifting HKD HIBOR curve to above 5% across tenors. The thinner HKD liquidity buffer alongside the decline in HK aggregate balance should also fuel HKD rates upward momentum and HKD volatility when banks are keeping more HKD cash balance to prepare for more frequent liquidity squeeze. As a result, 1-momth HKD HIBOR climbed for 10 straight days, setting its 16-year high of 5.10%, and HKD HIBOR – USD LIBOR spread narrowed notably. HKD IRS curve held up as the Fed projected two more rate hikes until year-end after a pause. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) picked up in positive territory alongside the spikes in 3-month HKD HIBOR.

2. Outlook for This Month

Hong Kong dollar spot exchange market in July

HKD spot will probably fluctuate in weak half of its trading band as the Fed signals that its rate hike cycle is not yet over. As HKD rates played a catch up with USD rates, the narrowing HKD-USD rate spread would keep the HKD away from 7.85 level despite increasing chance for Fed's rate hike in July. In light of higher HKD rates and HKD rates volatility, the carry trade of long USD/HKD spot is less appealing. Meanwhile, the HKD demand for dividend payouts from Chinese corporate will continue to support HKD. Alongside the collapse of China reopening trade, the softening capital inflow to HK equities and weak IPO flow will keep a lid on the HKD upside.

Hong Kong dollar interest rate market in July

We expect HKD rates to fall back somewhat after the half-year-end but stay relatively high given low HK aggregate balance at around HKD 45bn. Admittedly, HKD liquidity condition has becoming thin and banks will likely to reserve more HKD funding to prepare for HKD rates volatility. Hence, we do not expect HKD rates to return to its year-to-date lows until Fed shows a pivot signal. In light of uncertainties over the growth outlook and property market, HKD loan demand will likely remain weak and HKD rates will probably trade at a discount against the USD rates for a while.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – July 2023

Expected Ranges **Against the US$: CNY 7.0500–7.3500**
Against the yen: JPY 19.50–20.50

1. Review of the Previous Month

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

On June 1, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.10 level. In reaction to hawkish remarks made by Federal Reserve Board (FRB) officials, interest rates fell in the U.S., and the U.S. dollar/Chinese yuan exchange rate temporarily fell to the CNY 7.05 level on June 3. However, the exchange rate soon returned to the original level. On June 6, there was a media report that a major Chinese bank had lowered its deposit interest rate, and on June 7, China's trade statistics were released with weak export figures, encouraging market participants to sell the Chinese yuan. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate remained robust.

On June 13, the People's Bank of China (PBOC) announced its decision to cut its seven-day reverse repo rate by 10 basis points. Furthermore, at a Federal Open Market Committee (FOMC) meeting in the U.S., there were hawkish remarks that indicated that additional policy interest rate hikes are likely. On June 15, the following day, the one-year MLF matured, and its interest rate was cut by 10 basis points. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.18 level, renewing its high. Thereafter, May major economic indices (industrial production, retail sales, and fixed asset investment) were announced in China, and many of such figures turned out to be weaker than expected. However, the U.S. dollar/Chinese yuan exchange rate did not rise further. Subsequently, the U.S. economic indices turned out to be weak, encouraging some market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.10 level toward June 16.

However, the U.S. dollar/Chinese yuan exchange rate did not continue falling for a long time. On June 19 in the following week, the U.S. dollar/Chinese yuan exchange rate started rising again. The U.S. dollar/Chinese yuan exchange rate remained robust thereafter, even though the one-year LPR was announced on June 20 and the rate was not lowered as much as expected. The Chinese onshore market was closed because of the holiday for the Dragon Boat Festival. However, the U.S. dollar appreciated in the offshore market because of the hawkish remarks made by FRB Chair Jerome Powell at a U.S. Congressional testimony. Consequently, the U.S. dollar/Chinese yuan exchange market opened trading, exceeding the CNY 7.20 level after the consecutive holidays. The U.S. dollar/Chinese yuan exchange rate renewed its highest level in the year, and on June 27, the PBOC central parity rate was set toward a stronger Chinese yuan than the market estimate. There were some state-owned companies selling the U.S. dollar in the morning, lowering the U.S. dollar/Chinese yuan exchange rate. However, on June 28, the following day, the U.S. dollar/ Chinese yuan exchange started rising again. As of 11:00 a.m. (CST) on June 29, the U.S. dollar/Chinese yuan exchange rate was fluctuating at around the CNY 7.25 level.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to continue rising; however, market participants need to remain careful about actions by the Chinese monetary authorities.

Since the beginning of the year, the U.S. dollar/Chinese yuan exchange rate had not moved in any direction. However, in May, the cap of the referential caps on Chinese yuan deposit interest rates was revised (to cut the lending interest rate by lowering the bank deposit interest rate), followed by various actions by the Chinese monetary authorities that remained inactive previously, and this has been attracting substantial attention in the market.

Expectations for Chinese economic recovery have been growing, as China has resumed full-fledged economic activities. However, such expectations diminished, after the release of the recent weak economic data. As a result, the reverse repo rate, the MLF interest rate, and the LPR were cut in June. While the FRB implies further policy interest rate hikes, the Chinese monetary authorities continue taking actions of monetary easing, which is strengthening upward pressure on the U.S. dollar/Chinese yuan exchange rate. Given the current level and trend, it is possible for the U.S. dollar/Chinese yuan exchange rate to approach the CNY 7.32 level—the highest level observed in 2022.

On the other hand, when the Chinese yuan depreciates one-sidedly, market participants must remain attentive of actions taken by the Chinese monetary authorities. In the onshore U.S. dollar/Chinese yuan exchange market, the daily fluctuation range is limited to 2% up or down from the PBOC central parity rate, and this is determined every business day. On June 29, the PBOC central parity rate was set with the Chinese yuan at 311 pips stronger than the market estimate. Such a counter-cyclical action to control the upper end of the exchange rate fluctuations was also seen in 2019, when there was a growing tension between the U.S. and China on trade issues, as well as in 2022, when policy interest rate hikes in the U.S. were accelerating toward weakening the Chinese yuan. In both instances, the U.S. dollar/Chinese yuan exchange rate started to decline as a result.

From the viewpoint of fundamentals, such as differences in monetary policy between the U.S. and China, there has been upward pressure on the U.S. dollar/Chinese yuan exchange rate. On the other hand, however, market participants must remain cautious of actions taken by the Chinese monetary authorities for a while, keeping in mind that the U.S. dollar/Chinese yuan exchange market has a managed floating exchange rate system under which fluctuations can be physically controlled.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – July 2023

Expected Ranges **Against the US$: SG$ 1.3300–1.3850**
Against the yen: JPY 102.50–108.00

1. Review of the Previous Month

In June, the U.S. dollar/Singapore dollar exchange fell and rose again to return to the original level.

On June 1, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.35 level. Thereafter, market participants actively bought the currencies of emerging countries, based on the strong figures in the Chinese economic indices. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.34 level. Also, the U.S. Senate passed a bill to suspend the debt ceiling, improving the risk sentiment in the market. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.34 level on June 2. However, the U.S. dollar/Singapore dollar exchange rate rallied to the SGD 1.35 level thereafter, as the May employment statistics of the U.S. turned out to be strong.

On June 5, the May ISM non-manufacturing business confidence index of the U.S. turned out to be weaker than the market estimate, encouraging market participants to actively sell the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.34 level. On June 7, the May trade statistics of China turned out to be sluggish, leading the U.S. dollar/Singapore dollar exchange rate to temporary decline. However, the central bank of Canada announced its unexpected decision to raise its policy interest rate thereafter, which strengthened the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to rally. Then, on June 8, the number of unemployment insurance claims in the U.S. recorded an increase, weakening the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.34 level.

On June 13, the May Consumer Price Index (CPI) of the U.S. recorded a slowdown in growth, which weakened the U.S. dollar, leading the U.S. dollar/Singapore dollar exchange rate to fall to the upper-SGD 1.33 level, although the exchange rate recovered to the SGD 1.34 level soon after. On June 14, the May Producer Price Index (PPI) of the U.S. turned out to be below the market estimate, in reaction to which the U.S. dollar/Singapore dollar exchange rate fell again to the upper-SGD 1.33 level. However, at a Federal Open Market Committee (FOMC) meeting in the U.S., two more policy interest rate hikes became likely before the end of the year, encouraging market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate rallied to the mid-SGD 1.34 level on June 15, the following day. However, the ECB raised its policy interest rate thereafter, which slowed down the U.S. dollar-buying, leading the U.S. dollar/Singapore dollar exchange rate to fall to the upper-SGD 1.33 level.

On June 19, the Singapore dollar weakened, as there was no economic stimulus announced in China. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.34 level. On June 20, the People's Bank of China (PBOC) decided to lower its loan prime rate (LPR). However, some market participants saw this decision insufficient toward supporting the economy, and thus the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.34 level. On June 21, interest rates fell in the U.S., and the U.S. dollar/Singapore dollar exchange also fell accordingly. On June 22, various central banks in Europe decided to start raising their respective policy interest rates, leading interest rates in the U.S. to rise, and this encouraged market participants to buy the U.S. dollar. Consequently, the U.S. dollar/Singapore dollar exchange rate rose further to reach the SGD 1.35 level on June 23.

On June 26, market participants continued buying the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate remained robust. However, on June 27, the PBOC set its U.S. dollar/Chinese yuan central parity rate toward a stronger Chinese yuan than the market estimate for a second consecutive day, and this strengthened the Chinese yuan. Following this trend, the overall Asian currencies strengthened as well, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.34 level. Thereafter, the fall of the exchange rate slowed down for a while, and the U.S. dollar/Singapore dollar exchange rate is currently fluctuating at around the SGD 1.3500 level (as of June 28).

2. Outlook for This Month

In July, the U.S. dollar/Singapore dollar exchange rate is forecast to remain robust.

At a June FOMC meeting in the U.S., attracting substantial attention in the market, the existing monetary policy was maintained for the first time in 11 meetings. However, the policy interest rate outlook (dot plot) by FOMC members was revised upward, and the expected interest rate at the end of the year was 5.6%, suggesting that there would be two more policy interest rate hikes. In the market, there were expectations for the beginning of policy interest rate cuts before the end of the year. However, given that the dot plot and the inflation outlook were revised upward in June, it seems now difficult for the FOMC to start cutting its policy interest rate before the end of the year. Compared to the policy interest rate outlook by the dot plot, the market has not yet sufficiently reflected the expected interest rate hikes. If the Federal Reserve Board (FRB) does not change its plan, the market is likely to start reflecting interest rate hikes to approach the dot plot, and interest rates in the U.S. could also rise. Thus, the U.S. dollar/Singapore dollar exchange rate is likely to continue fluctuating, following interest rate hikes reflected in the market based on U.S. economic indices as well as on remarks by FRB officials. In general, the U.S. dollar is expected to continue strengthening, as the FRB remains hawkish.

In Singapore, the Monetary Authority of Singapore (MAS) decided to maintain its monetary policy at its meeting held in April, as downward risk on the economy had grown. The next MAS meeting is scheduled for October. Inflation is likely to peak out soon, while market participants remain cautious of an economic downturn based on the current economic indices. Under such circumstances, it is unlikely for the MAS to take measures of monetary tightening at the next meeting in October. Furthermore, concerns are currently growing about the Chinese economy. In June, the PBOC announced a decision to cut its loan prime rate (LPR), but some market participants thought that this was insufficient to support the Chinese economy, spreading disappointment in the market. Thus, concerns over the Chinese economy are likely to continue encouraging market participants to sell the Singapore dollar, as has been the case so far.

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

Thai Baht – July 2023

Expected Ranges **Against the US$: THB 35.10–36.35**
Against the yen: JPY 4.00–4.10

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around the upper-THB 34 level. On June 1, the May Caixin China General Manufacturing PMI and the Caixin China General Services PMI were announced, and on June 2, the May employment statistics of the U.S. were released. As there were both strong and weak figures in these major economic indices, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range between the mid-THB 34 level and the upper-THB 34 level. On June 6, the media reported that the May Consumer Price Index (CPI) of Thailand had turned out to be significantly below the market estimate (+0.53% year-on-year). Yet, the U.S. dollar/Thai baht exchange market did not react dramatically to this result. However, both the central bank of Australia and the central bank of Canada made an unexpected announcement to raise their respective policy interest rates on June 6 and 7, respectively, which led market participants to expect policy interest rate hikes in the U.S. as well and to start buying the U.S. dollar. However, on June 8, the number of unemployment insurance claims in the U.S. turned out to have grown much more significantly than expected. In reaction, the trend became inverted, and the U.S. dollar/Thai baht exchange rate started to fall to approach the mid-THB 34 level. Thereafter, the U.S. dollar/Thai baht exchange rate continued fluctuating at the same level for a while, as a Federal Open Market Committee (FOMC) meeting was scheduled for June 14 and 15.

In the middle of the month, the U.S. dollar/Thai baht exchange rate fluctuated in both directions on June 13, as the seven-day reverse repo rate was lowered in China, which had not been expected, while the May CPI was announced in the U.S. On June 14, the following day, the central bank of Thailand held an analyst meeting, and the Thai monetary authority officials made hawkish remarks, pointing out that the current policy interest rate was not yet neutral. However, this did not have significant impact on the U.S. dollar/Thai baht exchange market, as the announcement of the outcome of the FOMC meeting in the U.S. was approaching on the same day, local time. At the FOMC meeting, which was held attracting substantial attention in the market, the policy interest rate was maintained at the existing level, which had been anticipated. However, the dot plot showed the possibility of two more policy interest rate hikes before the end of the year. Thus, the U.S. dollar appreciated immediately after this outcome. Yet, the appreciation of the U.S. dollar slowed down soon thereafter, in reaction to the press conference of Federal Reserve Board (FRB) Chair Jerome Powell held after the FOMC meeting as well as the weak figures in the U.S. economic indices. Thereafter, the U.S. dollar/Thai baht exchange rate remained high for a while, based on the weakness of the Chinese yuan.

At the end of the month, the default of a major Thai company impacted other companies, and the overall Thai stock market weakened. Following this trend, on June 22, the U.S. dollar/Thai baht exchange rate exceeded the THB 35 mark, which had been the resistance line since the previous month. The U.S. dollar/Thai baht exchange rate thus exceeded the THB 35 level for the first time in approximately two months. Thereafter, the outcome of the House of Representatives election in Thailand held in May was officially approved, with an agreement to convene the National Assembly (Thailand's parliament) at the beginning of July. Thus, the sense of uncertainty is mounting regarding the stability of the government. Furthermore, the central bank of Thailand announced on June 27 that it would start relaxing restrictions in the foreign exchange market in the second half of this year. As a result, the Thai baht weakened further, and the U.S. dollar/Thai baht exchange rate rose to the mid-THB 35 level toward the end of the month. As of June 29, when this article was being written, the U.S. dollar/Thai baht exchange rate has been trading at the same level.

2. Outlook for This Month

In July, the U.S. dollar/Thai baht exchange rate is forecast to remain volatile, possibly momentarily renewing its highest level in the year.

The outcome of the House of Representatives election of Thailand held in May was officially approved by the committee for election administration on June 19. As a result, the National Assembly (Thailand's parliament) will open on July 3, and on the following day, there will be voting to elect the chair and the deputy chair of the House of Representatives, while negotiations will start to select the prime minister within 10 days after voting. However, as of the time at which this article was being written, there has not been an agreement in the negotiation regarding the chair between the Move Forward Party, which won a majority of seats in the National Assembly at the election, and the For Thais Party, with the second largest number of seats in the National Assembly. Thus far, the media reported that the parties had agreed that the chair would be elected from the Move Forward Party. However, the For Thais Party denied this media report, opening negotiations again. This fueled the sense of uncertainty over the stability of the new government. The media have also reported that the election of the prime minister has also been difficult, as there was no sufficient support. Thus, concerns over political stagnation could grow further in the times ahead. Some media outlets have reported that the military forces and the police had been preparing for protests in case the leader of the Move Forward Party, Pita Limjaroenrat, is not elected as prime minister. If market participants are aware of the growing uncertainty in politics in Thailand, the U.S. dollar/Thai baht exchange rate could rise even further.

With regard to external factors, in terms of the monetary policy of the U.S., FRB Chair Jerome Powell has suggested the possibility of one or two additional policy interest rate hikes in the times ahead. In the Chinese economy, based on the figures announced on June 28 by the Ministry of Tourism and Sports of Thailand, the number of Chinese tourists in Thailand was approximately 285,000 in May, recording negative growth from the previous month (at approximately 328,000) for the first time this year. This seems to suggest that a downturn in the Chinese economy is starting to impact the Thai economy, partly in a visible manner. Important economic indices will be announced from the end of June toward the beginning of July in both China and Thailand. Depending on the results, the trend in the U.S. dollar/Singapore dollar exchange market could change significantly.

There are some risk scenarios. For example, expectations for additional policy interest rate hikes in the U.S. could weaken due to sluggish figures in U.S. economic indices, such as those related to the labor market in particular. It is also possible for a coalition government to be established in Thailand in order to avoid an economic downturn amid political stagnation. However, it is most likely that volatility will rise in the U.S. dollar/Thai baht market from the beginning of July to the middle of July, as many important events are scheduled for this period. Market participants should therefore remain cautious, expecting the U.S. dollar/Thai baht exchange rate to renew its highest rate in the year.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – July 2023

Expected Ranges	**Against the US$: MYR 4.65–4.75**
	Against the yen: JPY 30.40–31.35

1. Review of the Previous Month

In June, the Malaysian ringgit remained weak from the time of a Federal Open Market Committee (FOMC) meeting held on June 15 to the end of June. The U.S. dollar/Malaysian ringgit exchange rate continued rising somewhat one-sidedly and once approached the MYR 4.70 level.

At the beginning of the month, market participants did not carry out active transactions in the market, as the FOMC meeting was scheduled for June 15. Thus, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around the MYR 4.6 level, as was the case at the end of the previous month. On June 1, the ADP employment statistics of the U.S. were released, demonstrating a significant fall of salary levels, which attracted attention in the market. Furthermore, a Federal Reserve Board (FRB) official made dovish remarks, as a result of which the U.S. dollar/Malaysian ringgit exchange rate fell temporarily to the MYR 4.58 level. However, market participants did not continue buying the Malaysian ringgit. Then, on June 7, the trade statistics of China were released, revealing significant slowdown in exports. On June 9, April industrial production was announced, and the result turned out to be substantially lower than the market estimate. Moreover, the deputy governor of the central bank of Malaysia stated that domestic inflation was restrained. For these reasons, there were not many market participants buying the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate continued rising slowly.

In the middle of the month, the May Consumer Price Index (CPI) of the U.S. was announced on June 13, and the result turned out to be +4.0% year-on-year, exceeding the market estimate and demonstrating a slowdown in inflation. Thus, the market further reflected the expected FOMC decision to maintain its existing monetary policy to be taken at the FOMC meeting in the U.S. scheduled for June 14, the following day. At this FOMC meeting, which attracted substantial attention in the market, the policy interest rate was maintained at the existing level, as was anticipated. However, the majority of FOMC members expected at least two more policy interest rate hikes before the end of the year. Because of this hawkish outcome of the FOMC meeting, in the U.S. dollar/Malaysian ringgit exchange market, market participants actively sold the Malaysian ringgit in the morning of the following day. Consequently, the U.S. dollar/Malaysian ringgit exchange rate rose to temporarily reach MYR 4.635. Thereafter, a European Central Bank (ECB) meeting was held, and its outcome was hawkish, suggesting further policy interest rate hikes, which encouraged market participants to buy the euro and sell the U.S. dollar. In the U.S. dollar/Malaysian ringgit exchange market, the exchange rate momentarily reached the MYR 4.58 based on the depreciation of the U.S. dollar. However, thereafter, the trend in the U.S. dollar/Malaysian ringgit exchange market became inverted, and the exchange rate approached the MYR 4.65 level, this time demonstrating the weakness of the Malaysian ringgit.

At the end of the month, the Malaysian ringgit continued to depreciate, and the U.S. dollar/Malaysian ringgit exchange rate rapidly exceeded the MYR 4.65 mark. Then, on June 20, the loan prime rate was cut in China, weakening the Chinese yuan. Furthermore, the May trade statistics revealed negative year-on-year growth both in imports and exports, even though the fall was less significant than the previous month. As a consequence, market participants did not actively buy the Malaysian ringgit. On June 22, the Bank of England and the central bank of Norway announced their unexpected respective decisions to raise their respective policy interest rates. In addition, FRB Chair Jerome Powell implied the possibility of two additional policy interest rate hikes before the end of the year. Thus, the Japanese yen depreciated against many other currencies, as the policy interest rate had not been raised yet in Japan. The Malaysian ringgit continued weakening somewhat one-sidedly against other major currencies. However, against the Japanese yen, the Malaysian ringgit strengthened, and the Malaysian ringgit/Japanese yen exchange rate once reached the upper-JPY 30 level. Thus, the trend in the Malaysian ringgit exchange market differed substantially depending on the currency pair.

2. Outlook for This Month

The central bank of Malaysia is scheduled to hold a monetary policy meeting on July 6. At the meeting in May, the central bank of Malaysia decided to raise its policy interest rate, which had not been anticipated in the market. Furthermore, on June 23, the May CPI of Indonesia was announced, and the headline inflation rate fell below the 3% level, demonstrating a substantial slowdown. On the other hand, the core inflation rate, which is carefully observed by the central bank, remained high, at 3.5%. Thus, market participants should carefully observe the decision by the central bank regarding monetary policy.

Furthermore, the governor of the central bank of Malaysia, Nor Shamsiah Mohd Yunus, who led Malaysia's monetary policy since 2018, was replaced on July 1 after completing his five-year term. Abdul Rasheed Abdul Ghaffour, who was the deputy governor of the central bank, stepped up to be appointed as the new governor. If Ghaffour decides to raise the policy interest rate at the first monetary policy meeting as the new governor, it would fuel expectations for the Malaysian ringgit to rally. However, such a policy interest rate hike would naturally strengthen downward pressure on the economy, increasing burden on people, with higher interest rates. Thus, it would be a difficult decision to make. It is also worth noting that the central bank of Malaysia held an emergency meeting on June 27 and announced a statement that the central bank was ready to intervene in the market if the Malaysian ringgit depreciates excessively. Even though the reaction in the market after the announcement was limited, the statement also mentioned a plan to encourage exporting companies to buy the Malaysian ringgit as foreign currency assets. It is therefore possible for market participants to buy more Malaysian ringgits based on actual demand in the medium-to-long term.

In June, the May trade statistics of Malaysia were released, revealing a struggle in exports, which are the driving force of the Malaysian economy, even though the decline turned out to be slightly slower than the previous month. Under such circumstances, ringgit-buying based on actual demand is also likely to decline, deteriorating the conditions related to supply & demand. Thus, it is difficult to expect the Malaysian ringgit to start rallying in the foreseeable future. It is also worth noting that, in addition to weakness in the Chinese economy and in the crude oil market, there also will be state elections scheduled this month. If the multi-party coalition government turns out to be vulnerable, the Malaysian ringgit could depreciate further based on political factors, of which market participants must remain careful.

For the above reasons, it is still too early to predict when the Malaysian ringgit will start rallying. On the other hand, we have already seen all the negative factors for the Malaysian ringgit. The U.S. dollar/Malaysian ringgit exchange rate has now approached the all-time low recorded in November last year. Thus, if market participants expect no more negative factors in the U.S. dollar/Malaysian ringgit exchange market, they may start actively buying the Malaysian ringgit all of a sudden. Such a situation can be induced if the Chinese economy hits the bottom or if the U.S. ends policy interest rate hikes. Market participants should thus continue observing any dramatic changes in external factors.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – July 2023

Expected Ranges **Against the US$: IDR 14,900–15,300**
Against the yen: JPY 0.9524–0.9804 (IDR 100)

1. Review of the Previous Month

In June, the U.S. dollar/Indonesian rupiah exchange rate remained flat.

At the beginning of the month, the Indonesian market was closed on June 1 and 2. In the meantime, the media reported that Federal Reserve Board (FRB) officials had made remarks to support the end of policy interest rate hikes at a Federal Open Market Committee (FOMC) meeting in June. In reaction, market participants sold the U.S. dollar. As a result, on June 5, after the weekend, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,800 level. On the same day, the May Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +4.0%, year-on-year—below the market estimate. The inflation rate thus fell within the inflation target range set out by the central bank of Indonesia, which is 2.0–4.0%. However, the market reacted only to a limited degree, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating between the mid-IDR 14,800 and the upper-IDR 14,800 level without moving in any direction. On June 6, the central bank of Australia decided to raise its policy interest rate. On June 7, the central bank of Canada also decided to raise its policy interest rate. In reaction, market participants expected the FRB to also raise its policy interest rate. Under such circumstances, the U.S. dollar appreciated on June 8 during trading hours in Asia, and the U.S. dollar/Indonesian rupiah exchange rate once reached the IDR 14,900 level. However, on June 8, local time in the U.S., the number of new unemployment insurance claims in the U.S. turned out to be above the market estimate, which led the U.S. dollar to start depreciating. On June 9, the following day, the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 14,800 level.

In the following week, the CPI of the U.S. was announced on June 13, local time, and the result was +4.0% year-on-year—almost as had been anticipated in the market. Thus, the impact of this on the Indonesian rupiah exchange market was limited. As a decision from the FOMC meeting was to be out on June 14, market participants maintained a wait-and-see attitude thereafter, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the mid-IDR 14,800 level and the IDR 14,900 level. Furthermore, in the U.S. at that FOMC meeting, which attracted substantial attention in the market, the policy interest rate was maintained at the existing level. On the other hand, the policy interest rate outlook was revised upward, implying two more policy interest rate hikes before the end of the year, and this encouraged market participants to buy the U.S. dollar. On June 15, the following day, local time, the Indonesian rupiah depreciated against the U.S. dollar, and the exchange rate reached the mid-IDR 14,900 level. Then, in the following week, on June 19, market participants maintained a wait-and-see attitude, anticipating the outcome of the monetary policy meeting of the central bank of Indonesia and the announcement of additional economic stimulus measures in China. As a result, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the mid-IDR 14,900 level and the upper-IDR 14,900 level. However, on June 20, the People's Bank of China (PBOC) decided to cut its policy interest rate, leading the Chinese yuan to depreciate. Under such circumstances, the Indonesian rupiah also depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once reached the lower-

IDR 15,000 level.

On June 21, market participants sold the U.S. dollar while buying back the Indonesian rupiah. As a result, the U.S. dollar/Indonesian rupiah exchange rate returned to the mid-IDR 14,900 level. On June 22, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. Thus, there was little reaction to this decision in the market. Before the announcement of the outcome of the central bank meeting, the Indonesian rupiah appreciated temporarily, and the U.S. dollar/Indonesian rupiah exchange rate once fell below the IDR 14,900 level. However, the Indonesian rupiah weakened again toward the afternoon, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,900 level. On June 22, local time in the U.S., FRB Chair Jerome Powell's remarks were seen as hawkish, and thus the U.S. dollar appreciated. On June 23 during trading hours in Asia, the Indonesian rupiah depreciated against the U.S. dollar, and the exchange rate approached the IDR 15,000 level again. On June 26, the U.S. dollar continued appreciating, and the Indonesian rupiah continued weakening against the U.S. dollar. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating at the lower-IDR 15,000 level. However, the exchange rate did not rise further than this level, and the Indonesian rupiah did not depreciate much further against the U.S. dollar. From June 28 to 30, the Indonesian market was closed, and there were few transactions in the U.S. dollar/Indonesian market. The U.S. dollar/Indonesian rupiah exchange rate thus remained at around the IDR 15,000 level on June 27, at which level monthly trading closed.

2. Outlook for This Month

In July, the Indonesian rupiah is forecast to remain weak.

The Asian currencies are expected to remain weak due to persistent concerns over the economic outlook of China. Furthermore, the May trade balance of Indonesia turned out to be at its lowest since April 2020, and it seems that pressure to sell the Indonesian rupiah has been strong based on actual demand. The Indonesian rupiah is therefore forecast to remain weak. The trade balance deteriorated in May due to a significant growth in imports, which demonstrates the strength of the domestic economy of Indonesia. On the other hand, however, exports have been struggling partly because of the falling price of coal—a major export item for Indonesia. Last year, when coal prices were on an uptrend, the Indonesian rupiah remained relatively robust, even with the trend of U.S. dollar-buying based on the rapid rise of interest rates in the U.S. However, since the second half of last year, coal prices have been on a sharp fall, leading to a decline in exports. At the beginning of the year, the correlation between coal prices and the Indonesian rupiah exchange rate was temporarily interrupted due to the sense of uncertainty over the economic outlook in the U.S. However, the level of correlation has been rising slowly again since May. While coal prices have fallen, the price of crude oil, an imported item, has rallied, thanks to an OPEC agreement to reduce oil output. Therefore, the current market environment has not been favorable for the trade balance of Indonesia. If the current situation remains as-is, the current account balance could turn into a deficit.

It is also worth noting that the outcome of the FOMC meeting in the U.S. in June was seen as hawkish in the market, and market participants started buying the U.S. dollar. Since then, the U.S. dollar has been on an uptrend, and the Indonesian rupiah depreciated against the U.S. dollar to the IDR 15,000 level. Toward the end of last year, the Indonesian rupiah depreciated against the U.S. dollar to the mid-IDR 15,700 level. However, there was then a surplus in the trade balance, and the depreciation of the Indonesian rupiah was not seen only as a negative factor. On the contrary, the trade balance is currently deteriorating, and Indonesian monetary authorities seem more cautious than last year about the depreciation of the Indonesian rupiah. The central bank of Indonesia made it clear that it was ready to intervene in the foreign exchange market, if necessary. Thus, if the Indonesian rupiah continues depreciating, the central bank of Indonesia might intervene in the market, about which market participants must remain careful.

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

Philippine Peso – July 2023

Expected Ranges **Against the US$: PHP 55.00–57.00**
Against the yen: PHP 0.38–0.41

1. Review of the Previous Month

The market sentiment improved, as the debt ceiling issue in the U.S. was resolved, avoiding a default of the U.S. government and mitigating concerns over a global financial crisis. In addition, the May foreign currency reserves of the Philippines turned out to be USD 101.3 billion. Even though this amount was smaller than that of the previous month, the decline was minimal. Furthermore, the April trade balance of the Philippines revealed a trade deficit of USD 4.53 billion, which is below USD 4.7 billion, the market estimate, and which is below 5.1 billion, the previous month's deficit, despite the decrease both in imports and exports. Thanks to these figures, the Philippine peso remained robust at the beginning of the month, albeit with some fluctuations due to the evolving policy interest rate outlook in the U.S. Thus, the U.S. dollar/Philippine peso exchange rate rose to approach the PHP 56 level.

At a Federal Open Market Committee (FOMC) meeting held in the U.S. on June 14, the policy interest rate was maintained at the existing level, as had been anticipated in the market. However, the FOMC suggested the possibility of taking additional measures of monetary tightening, as the inflation rate remained high. Since this outcome was seen hawkish, the market reflected expectations for policy interest rate cuts in the U.S. to a lesser degree, encouraging market participants to buy the U.S. dollar against a wide range of other currencies. However, the April amount of overseas Filipino workers remittances recorded positive growth of 3.7% year-on-year, exceeding the market estimate, which was a positive growth of 3.2%. Thus, pressure to sell the Philippine peso was limited. Furthermore, concerns were growing over the economic recovery of China, and the supply & demand balance outlook deteriorated, leading crude oil future prices to fall to their lowest levels in approximately three months. In addition, Secretary of Finance of the Philippines Benjamin Diokno does not seem to be in a hurry to cut the policy interest rate even after the slowdown in inflation and declared that the existing policy interest rate would be maintained until the end of the year. Thus, market participants no longer expected early policy interest rate cuts. Also, the market sentiment continued to improve with U.S. stock prices remaining on an uptrend, recording all-time highs for a fifth consecutive week. As a result, the Philippine peso remained robust and continued appreciating toward the middle of the month.

At a Congressional testimony, Federal Reserve Board (FRB) Chair Jerome Powell maintained a hawkish attitude, but he mentioned nothing new. Furthermore, on June 22, the central bank of the Philippines decided to maintain its policy interest rate at the existing level, as had been anticipated by a majority of market participants, but the governor of the central bank of the Philippines stated that he was ready to resume monetary tightening if necessary while seeing early policy interest rate cuts unlikely. Thus, the Philippine peso remained robust. However, the Philippine peso did not appreciate against the U.S. dollar further than at around the PHP 55.50 level. Thus, the U.S. dollar/Philippine peso exchange rate continued fluctuating in both directions. Thereafter, various central banks around the world took measures of monetary tightening, leading the U.S. dollar to appreciate. Furthermore, the euro depreciated against the U.S. dollar due to concerns over an economic downturn in Europe, encouraging market participants to buy the U.S. dollar against a wide range of other currencies. Following this trend, the Philippines peso depreciated temporarily. However, thereafter, the governor of the central bank of the Philippines Felipe Medalla shared his view that policy interest rate cuts would be difficult, while the U.S. continued taking measures of monetary tightening while also expecting the economic growth rate of this year to exceed 6%. This supported the Philippine peso, and the U.S. dollar/Philippine peso exchange rate fell below the PHP 55.50 level. Thus, the Philippine peso remained strong throughout the month.

2. Outlook for This Month

At the FOMC meeting held in the U.S. in June, the policy interest rate was maintained at the existing level. However, the FOMC mentioned the possibility of resuming measures of monetary tightening in order to control inflation. Furthermore, the median policy interest rate outlook for the end of the year by FOMC members turned out to be 5.625%, with an upward revision from the previous figure, which was 5.125%, revealing that the FOMC expects two more policy interest rate hikes before the end of the year. FRB Chair Jerome Powell maintained a hawkish attitude, stating that it would still take a long time to bring the inflation rate back to 2% and that it would most likely take about two years before the FOMC starts cutting its policy interest rate. It is also worth noting that major central banks around the world are continuing to take measures of monetary tightening in order to control persistent inflation.

On the other hand, given the risk factors, such as a resurgence of the U.S. financial crisis and its concomitant economic recession, it is difficult for the U.S. to continue raising the policy interest rate. Thus, there has been some gap between the outlook of market participants and that of FOMC members, who anticipate two policy interest rate hikes before the end of the year. The market is currently reflecting no policy interest rate hike before the end of the year; however, market participants are speculating about one more policy interest rate hike, after which the policy interest rate is seen to remain at the same level.

Even though this outlook is not exactly the same as the outlook by FOMC members, it is unlikely for the market to reflect more policy interest rate hikes in an accelerated manner, leading interest rates in the U.S. to rise in the times ahead. Furthermore, there are persistent concerns about the high inflation rate and the maintained upward pressure on wages based on tight labor market conditions. Thus, it is also unlikely for the FOMC to start cutting its policy interest rate before the end of the year. For these reasons, the interest rate level in the U.S. is expected to remain flat for a while. The policy interest rate in the U.S. is expected to be raised once more and maintained at the same level thereafter. On the other hand, the policy interest rate in the Philippines is likely to be maintained at the same level for a while. Therefore, from the viewpoint of policy interest rate differentials, it is unlikely for the U.S. dollar/Philippine peso exchange rate to move in any direction. However, the U.S. dollar is expected to remain strong, as FRB Chair Jerome Powell said at a Congressional testimony that they would need one or two policy interest rate hikes before the end of the year, making additional policy interest rate hikes in the U.S. more likely.

It is also worth noting that the trade deficit of the Philippines remains high. Thus, from the viewpoint of supply & demand, market participants are likely to sell the Philippine peso based on strong domestic demand in the Philippines. For these reasons, the U.S. dollar is expected to appreciate, while the Philippine peso is expected to depreciate slowly. The governor of the central bank of the Philippines, Felipe Medalla, stated that the central bank was aware of the impact of the policy interest rate differentials between the U.S. and the Philippines on the U.S. dollar/Philippine peso exchange rate. Thus, the central bank is ready to resume policy interest rate hikes if necessary, maintaining a hawkish attitude, by denying the possibility of early policy interest rate cuts even after the end of policy interest rate hikes. The central bank of the Philippines might also intervene in the foreign exchange market if the Philippine peso starts depreciating rapidly. The Philippine peso is thus supported by these factors. However, market participants must also keep in mind that such factors could also strengthen downward pressure on the Philippine peso in the medium-to-long term, as policy interest rate hikes can negatively affect the Philippine economy.

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

Indian Rupee – July 2023

Expected Ranges **Against the US$: INR 81.60–83.10**
Against the yen: JPY 1.70–1.83

1. Review of the Previous Month

In June, the Indian rupee appreciated before the U.S. dollar/Indian rupee exchange rate reached the INR 83 level.

In June, the U.S. dollar/Indian rupee exchange market opened trading at the mid-INR 82 level. At the beginning of the month, the U.S. dollar/Indian rupee exchange rate continued fluctuating within a narrow range. However, there were some large-scale transactions to buy the Indian rupee when the U.S. dollar/Indian rupee exchange rate rose to the IDR 82.70 level, and the Indian rupee started to appreciate against the U.S. dollar slowly. The central bank of India did not intervene in the market even when the U.S. dollar/Indian rupee exchange rate approached the INR 82 mark. However, there were market participants carrying out transactions to sell the Indian rupee based on actual demand, supporting the U.S. dollar/Indian rupee exchange rate from falling further. Thus, the U.S. dollar/Indian rupee exchange rate remained stable at the middle of the month. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate fell below the INR 82 level. When the U.S. dollar/Indian rupee exchange rate approached the INR 81.80 level, the central bank of India intervened in the foreign exchange market in order to continue controlling the excessive appreciation of the Indian rupee. Thereafter, the trend became somewhat inverted, and the U.S. dollar/Indian rupee exchange rate exceeded the INR 82 level, at which level monthly trading closed (as of June 28).

On June 8, a monetary policy committee decided to maintain the policy interest rate at 6.50% for the second consecutive time. This decision seems to be based on the decline of the latest Consumer Price Index (CPI) as well as on the downward revision on the price outlook. However, the statement of the monetary policy committee mentioned an unchanged monetary policy as well as continued efforts to achieve the inflation target.

As a result, the BSE SENSEX rose significantly, temporarily exceeding the 64,000 level. The index fell temporarily thereafter, based on additional policy interest rate hikes expected in the U.S. as well as on falling Asia-related stock prices after the policy interest rate cut in China. However, capital inflow from foreign investors continued based on Adani's market losses, which kept the index from falling further.

With regard to Indian economic indices, the May CPI turned out to be +4.3% year-on-year, revealing a slowdown from the previous month. The CPI is approaching +4.0%—the inflation target set out by the central bank of India. Yet, the inflation rate remains high. April industrial production turned out to be above the market estimate. On the other hand, the May trade balance saw an increase in the trade deficit. Thus, the trade balance of India has always been in deficit.

2. Outlook for This Month

In July, the U.S. dollar/Indian rupee exchange rate is forecast not to fall further, leading the Indian rupee to depreciate slowly.

In July, the U.S. dollar/Indian rupee exchange rate is expected to stabilize slowly, not falling much further, based on the foreign exchange market intervention by the central bank of India when the U.S. dollar/Indian rupee exchange rate falls below the INR 82 level, as well as on occasional Indian rupee-selling based on actual demand. Under such circumstances, upward pressure on the U.S. dollar is likely to strengthen again with expectations for an additional policy interest rate hike at the July Federal Open Market Committee (FOMC) meeting in the U.S. as well as growing expectations for further policy interest rate hikes in the times ahead. Therefore, the Indian rupee is expected to start depreciating slowly in July.

In June, India's monetary policy committee decided to maintain its policy interest rate at the existing level. However, monetary policy was kept unchanged (policy interest rate hikes to control inflation continued). Furthermore, at a press interview, the chair of the monetary policy committee implied the end of the pause announced at the time of the April meeting, by mentioning the recent unexpected policy interest rate hike by the central banks of Australia and Canada.

In order to assess the external environment, the central bank of India sees it important to observe the Federal Reserve Board (FRB) decision on an additional policy interest rate hike in July as well as its attitude regarding further policy interest rate hikes in the times ahead. The latest CPI has been on a downtrend partially because of a base effect. On the other hand, toward a monetary policy committee meeting in August, market participants need to observe the effect of policy interest rate hikes even more carefully, i.e., whether the June CPI will be below the +4.0 level—the inflation target. It is still possible for the central bank to start raising its policy interest rate again in order to avert risks.

In the medium-to-long term, the currencies of emerging countries, including the Indian rupee, are expected to start appreciating against the U.S. dollar, as the FRB is soon likely to end policy interest rate hikes to start policy interest rate cuts, which is likely to be next year or beyond. However, as mentioned above, the central bank of India continues to intervene in the foreign exchange market in order to keep the U.S. dollar/Indian rupee exchange rate from falling rapidly, and the Indian rupee is expected to depreciate slowly without seeing a significant shift in the market trend.