Mizuho Dealer's Eye

August 2023

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Mizuho Bank, Ltd.

Global Markets Trading Department

Junya Tagawa, Global FI Team, Global Markets Trading Department

U.S. Dollar – August 2023

Expected Ranges **Against the yen: JPY140.00–145.00**

1. Review of the Previous Month

The dollar/yen pair fell in July.

In a speech at the end of June, FRB chair Jerome Powell said he would not rule out successive rate hikes going forward. With US economic indicators also moving firmly, the pair's topside hit 145.07 yen. The pair began July trading at 144.41 yen before hitting a monthly high of 144.91 on July 3. There were concerns about this high price, but the pair was also bought on the downside, so it continued moving flatly in the 144 yen range. However, the yen was bought during Tokyo trading time on July 7 as stocks moved bearishly. The dollar was then sold during North America trading time on weak jobs growth in the US private sector. All this saw the currency pair sliding to the 142 yen range.

The yen was bought in the second week on concerns about a policy shift by the Bank of Japan (BOJ). With the greenback also moving heavily on expectations for slower inflation in the US, the pair was pushed down to 140 yen. The US June CPI data was released on July 12. With the headline and core figures both down on forecasts, the currency pair then dropped to the lower-138 yen level. The US then released some weak June PPI data on July 13, with the pair hitting a monthly low of 137.25 yen.

The pair moved in the 138 yen range in the first half of week three. As the markets began to price in bearish comments made by BOJ governor Kazuo Ueda on July 18, the pair then edged up to the lower-140 yen mark on July 19. US interest rates rose in the latter half of the week. With leaked reports also saying a BOJ official did not believe the BOJ needed to tweak its YCC, the dollar/yen pair surged to just below 142 yen.

In the last week, Jerome Powell's comments at the FOMC meeting were not as hawkish as expected, so the dollar was sold for a time, though it was then bought on the better-than-expected result of the US second quarter GDP data. The pair fluctuated wildly at the week's end on the statement released after the BOJ meeting, but investors then tested its topside, with the pair closing the month trading at 141.66 yen during Tokyo trading time on July 31.

2. Outlook for This Month

The dollar/yen pair is expected to move firmly in August.

Under the banner of flexibility, the Bank of Japan (BOJ) raised the ceiling of its fixed rate operations to 1.00% at its closely-watched Monetary Policy Meeting. The yen rose sharply directly afterwards. In his subsequent press conference, though, BOJ governor Kazuo Ueda repeated that this did not signify a normalization or tightening of policy. With the governor apparently maintaining a fighting pose, the markets shifted tack and they tried pushing the currency pair back to the 141 yen range during overseas trading time. The BOJ then announced a special bond-buying operation the following Monday, perhaps with an eye on rising Japanese government bonds (JGB) yields, with the dollar/yen pair subsequently rising to just below 142 yen and Japanese stocks also climbing by 350 yen. We have to go back to the before the term of the previous BOJ governor Haruhiko Kuroda to find the last time when

the BOJ purchased 10-year JGBs at 1% under its fixed rate operations, with this level representing quite a shift. As such, although the BOJ has not actually scrapped its YCC, stock prices and foreign exchange rates suggest it might as well have done. Nonetheless, some voices ae calling for calm, stating that the BOJ's next move would involve scrapping negative interest rates, so its hands will be tied for the time being.

With interest rates facing upwards pressure on YCC flexibility while also being kept in check by special operations, investors will need to keep an eye on where 10-year interest rates end up actually settling. Nonetheless, when the dollar/yen pair hits 142 yen, market participants will try pushing it up to 145 yen, just like they did between the end of June and the start of July. With major policy events out of the way in Japan, the US and Europe, the pair's movements will also cool off as overseas markets enter holiday mode. One potential risk involves the pair rising sharply amid thin trading on an upswing in US economic indicators.

Dealers' Market Forecast

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

Bullish on the dollar	13 bulls	145.00 – 138.00	Bearish on the dollar	5 bears	144.00 – 135.90

* Ranges are central values

Miyachi	Bear	143.50 – 135.50	The dollar will be sold as US inflationary indicators cool off and sentiments move bearishly. Investors will probably continue to unwind their yen short positions against the dollar for the time being. Attempts on the dollar/yen pair's downside will also be supported by the heaviness of the USD/CNH pair's topside.
Kawai	Bull	145.00 – 138.00	The dollar/yen pair fell to around 138 yen soon after the BOJ Monetary Policy Meeting announced its YCC would be managed with greater flexibility, though the pair soon rose again. The YCC has effectively been scrapped, but it will take time before the BOJ gets around to scrapping negative interest rates, so the dollar/yen pair looks set to move firmly.
Kawabata	Bull	144.00 – 138.00	With the BOJ allowing yen interest rates to rise, it seems the BOJ's YCC has effectively been scrapped, but the distance from current interest rate levels has doused any momentum for speculative yen buying. Yen carry trades have benefitted from rising US stock prices, with this a further reason why the dollar/yen pair will probably edge higher in a range.
Kato	Bear	144.00 – 134.00	In the end, the markets are seeing some adjustment to the margin added to Japanese/US interest-rate differentials, with investors yet to begin fully pricing in a shift in US monetary policy. However, the scale of this adjustment seems too small.
Yamazaki	Bull	145.50 – 138.80	The dollar/yen pair is expected to trade firmly. Though the BOJ tweaked its YCC when it met on July 28, overseas economic indicators continue to move firmly, so the dollar/yen pair will remain on an upwards trajectory for now.
Ito	Bear	144.00 – 138.00	Though the BOJ announced it was essentially scrapping its YCC, the yen continues to be sold. However, US interest rates only have limited room left to rise, so the dollar/yen pair will move with a heavy topside. Investors will try pushing the pair below 140 yen when US interest rates slide, but the pair's downside will move firmly on sharp US/Japanese interest rate differentials.
Yamagishi	Bear	145.00 – 137.00	Yen interest rates have more room to rise now the BOJ has added greater flexibility to its YCC, so the yen will probably face upward pressure against the dollar. With inflation also slowing in the US, the FRB is unlikely to hike rates sharply at its next meeting. The dollar will also be sold on growing expectations for an end to rate hikes.
Omi	Bull	145.00 – 139.00	US policy rates will remain high in August, with the greenback likely to remain bullish and the yen bearish as the BOJ remains in easing mode. However, with the YCC adding greater flexibility to its YCC at the end of July, yen buying could increase at times.
Ueno	Bull	143.00 – 138.00	Several major central bank events took place late July. Amid thin summer trading in August, the dollar/yen pair is unlikely to make any sharp movements. Nonetheless, US indicators are moving firmly on the whole, so the pair will probably tilt in a bearish yen direction.
Yamaguchi	Bull	145.00 – 137.00	Though the BOJ announced greater flexibility for its YCC, Japanese/US interest-rate differentials are unlikely to shrink, so the dollar/yen pair looks set to move firmly. However, with the ECB and FRB adopting a cautious stance when it comes to further rate hikes, the currency pair's room on the topside will be capped.
Matsunaga	Bull	144.00 – 139.00	The BOJ surprised the markets by making its YCC policy more flexible. However, there remains a gap between US and Japanese monetary policy, with the US keeping policy rates high to tackle inflation while the BOJ remains in easing mode. The dollar/yen pair will also remain firm on hopes regarding the strong US economy.

Tagawa	Bull	145.00 – 140.00	Several key policy events are out of the way and the markets have entered summer dry season. Risk could lie on the upside as investors focus on where 10-year interest rates will settle.
Katoono	Bear	144.00 – 135.90	Long-term Japanese interest rates will face upwards pressure as investors try to gauge how much the BOJ will tolerate after making its YCC policy more flexible, so the dollar/yen pair will move with a heavy topside. The pair will also be weighed down as the FRB and ECB adopt a cautious stance towards further rate hikes.
Kobayashi	Bull	145.00 – 137.50	When it met in July, the BOJ lifted the cap of its fixed rate operations from 0.5% to 1.0%. However, the markets reacted to this news by selling the yen. If the US releases some more strong economic indicators, the dollar/yen pair will have its topside tested further by renewed expectations for further rate hikes.
Henmi	Bull	145.00 – 138.00	The yen will move bullishly at times on the BOJ's YCC adjustment, but with negative interest rate likely to remain in place, then yen will continue to be sold steadily. With US interest rates also remaining at highs, the dollar/yen pair looks set to move firmly.
Suzuki	Bull	145.00 – 138.00	Investors should be on guard against rising yen interest rates on the back of the BOJ's YCC adjustment. However, the US economy remains firm and there are no signs of an economic slowdown, despite stubbornly-high inflation and rate hikes. As such, the dollar/yen pair looks set to continue moving firmly.
Okuma	Bull	144.00 – 137.00	The BOJ decided to make its YCC policy more flexible, but BOJ governor Kazuo Ueda has insisted that the BOJ will continue to ease, so Japanese rate hikes still seem some way off, with investors likely to remain focused on Japanese/US interest-rate differentials. Though inflation has cooled in the US, the economy remains firm, so there is unlikely to be any one-sided yen buying.
Nishi	Bull	145.00 – 138.00	The yen only underwent a temporary ride after the BOJ tweaked its YCC at the Monetary Policy Meeting. The BOJ remains in easing mode, with the dollar/yen pair set to edge higher on Japanese/US interest-rate differentials. If US economic indicators move firmly, investors will price in a further rate hike, with this likely to support the pair's rise.

Takuya Nishi, Forex Sales, Global Markets Trading Department

Euro – August 2023

Expected Ranges **Against the US$: US$1.0700–1.1200**
Against the yen: JPY148.00–158.00

1. Review of the Previous Month

After opening July trading at the lower-$1.09 mark, the euro/dollar pair rose to the $1.12 range mid-July before dropping back to around $1.10.

The pair fell to the mid-$1.08 level on July 3 on the weak result of the preliminary eurozone Manufacturing PMI data for June, though the pair swung back thereafter when the greenback was sold on some bearish US economic indicators. The pair hit $1.09 on July 5 after France released some strong May industrial production data, though it then dropped back to the mid-$1.08 mark on the weak result of the preliminary eurozone Non-Manufacturing PMI data for June. Amid rising US interest rates, the pair temporarily fell to $1.0834 on July 6, though it then strengthened to $1.09 on the firm result of Germany's May Manufacturing Orders indicator. With US interest rates rising again during NY trading time, the pair weakened again, though it bounced back after hitting $1.0834. US interest rates fell sharply on July 7 after the US June nonfarm payrolls figure fell below expectations, with the currency pair surging to the upper-$1.09 level at the end of the week.

In the second week, the pair rose to $1.10 on July 10 on hawkish comments by Bundesbank president Joachim Nagel. The pair fell to the upper-$1.09 mark for a time on July 11 on the weak result of the German July ZEW Indicator of Economic Sentiment. It then climbed to $1.11 on July 12 on the release of a bearish US consumer price index (CPI) for June. July 13 saw the release of some hawkish minutes to the June ECB Governing Council meeting. With the US also releasing a bearish June producer price index (PPI), the euro/dollar pair rose to the $1.12 range. The pair's topside was held down by the firm result of a US economic indicator on July 14, with the pair floating at the lower-$1.12 level.

In the third week, European stocks fell on July 17 and investors focused on hawkish comments by Bundesbank president Joachim Nagel, with the currency pair moving in a range at the lower-$1.12 level. With US interest rates sliding, the pair temporarily hit a monthly high of $1.1276 on July 18, though it then fell back to the lower-$1.12 mark on rebounding US interest rates and dovish comments by Klaas Knot, president of Holland's central bank. With US interest rates rising and European currencies falling on the weak results of the UK June CPI data, the pair hit $1.11 on July 19. It then tumbled to the lower-$1.11 range on July 20 on some firm US employment data. The pair remained bearish at the week's end on July 21.

In the fourth week, the pair tumbled to the upper-$1.10 mark on July 24 on the weak results of the preliminary eurozone Manufacturing and Non-manufacturing PMI data for July. Germany then released a bearish July IFO Business Climate Index on July 25. With the ECB's 2Q euro area bank lending survey also moving weakly, the pair continued sliding to hit the lower-$1.10 mark. The dollar was sold after FRB chair Jerome Powell's press conference on July 26, with the pair temporarily rallying to the $1.11 range. It then rose to $1.1149 for a time on July 27 on rising German interest rates. As expected, the ECB Governing Council implemented a +25bp rate hike. However, ECB president Christine Lagarde struck a cautious tone when she said any further rate hikes would depend on the data, so the euro was sold and the pair crashed to $1.0966. The pair then dipped to $1.1047 on July 28, though it

then moved at $1.10 on firm European stock movements and bearish US economic indicators. The pair moved at the lower $1.10 level on July 31 too.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in August.

As expected, the ECB Governing Council implemented a 25bp rate hike when it met on July 27, with its deposit facility rate lifted from 3.50% to a record high of 3.75%. Whereas ECB president Christine Lagarde had actively supported tightening, she now struck a more cautious tone when she said any further rate hikes would depend on the data, thus suggesting that the ECB's rate-hike cycle was drawing to a close.

With employment and wage conditions remaining tight in the eurozone, inflation also remains stubbornly high at 5%, but there are signs of a slowdown when it comes to the recent GDP data, eurozone PMIs and the German IFO Business Climate Index, for example, with the real economy showing clear signs of deterioration. There are also concerns about stagflation and it is growing more likely that the ECB will also start to focus more on bolstering the economy than controlling prices.

The FOMC also decided to implement a +25bp rate hike when it met on July 26 while indicating that future rate hikes would depend on the data. Though the ECB and FRB have adopted the same stance, the situation is different on the economic front. Though the eurozone continues to release some generally bearish economic indicators, the jobs situation remains firm in the US. If the US releases some even stronger data going forward, the dollar will be bought as investors price in further rate hikes within the year, with the euro/dollar pair likely to move with a heavy topside. Speculative long positions also remain piled up when it comes to IMM currency futures contracts. Given this, euro selling could accelerate if these positions are unwound, so caution will be needed.

The Jackson Hole symposium will be held over August 24–26 and investors will also need to monitor this for clues to the direction of monetary policy for the rest of the year. If the ECB reverts back to hawkish mode on concerns about an inflation spiral, this will spur on euro buying.

Dealers' Market Forecast

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

Bullish on the euro	7 bulls	1.1300 – 1.0850	Bearish on the euro	11 bears	1.1200 – 1.0700

* Ranges are central values

Name	View	Range	Comment
Miyachi	Bull	1.1300 – 1.0850	Dollar selling will be supported by bearish US economic sentiments. The euro/dollar pair looks set to move firmly as a result. However, European fundamentals are prompting stagflation concerns, so the euro is unlikely to see any one-sided buying.
Kawai	Bear	1.1150 – 1.0700	The ECB had previously struck a hawkish tone, but the statement released after the July ECB Governing Council meeting shifted in a dovish direction that hinted at an end to rate hikes. With eurozone economic sentiments also worsening, the euro/dollar pair looks set to move bearishly.
Kawabata	Bear	1.1200 – 1.0800	The ECB has shifted from tightening to a wait-and-see mode on the back of cooling inflation indicators, so the euro/dollar pair will probably move in a range with the ceiling set at the pair's July high. The pair's movements will continue to be swayed by US interest rates, but with inflation cooling in the US, the pair will probably trade with a lack of direction.
Kato	Bull	1.1350 – 1.0800	The US will probably halt rate hikes earlier than Europe. A clear difference is emerging between the stances of the ECB and FRB. Europe will follow in the US's footsteps eventually, but it is unlikely to overtake the US.
Yamazaki	Bull	1.1200 – 1.0850	Indicators suggest the US is skillfully managing the inflation situation, with this proving a positive factor for the US economy. However, the euro/dollar pair is unlikely to fluctuate much during phases of risk appetite, so the pair will probably trade with a lack of direction.
Ito	Bear	1.1200 – 1.0700	The ECB Governing Council has shifted from hawkish to dovish mode. It is good news that inflationary pressures are waning, but the euro/dollar pair will continue to trade with a heavy topside on concerns about stagflation. There could be some adjustment to accumulated euro long positions, particularly during phases of risk aversion, so caution will be needed.
Yamagishi	Bear	1.1250 – 1.0700	After previously striking a hawkish tone, ECB president Christine Lagarde hinted about a pause to rate hikes at the July ECB meeting when she said any future rate hikes would depend on the data. The ECB will find it hard to implement further rate hikes given the deteriorating economic sentiments in the eurozone, with the euro/dollar pair likely to face some adjustment at times.
Omi	Bull	1.1300 – 1.0800	The euro/dollar pair looks set to remain firm on the back of ongoing ECB rate hikes. However, the US federal funds rate also remains at a high level, so the pair will continue to fluctuate gently in a range.
Ueno	Bull	1.1200 – 1.0750	There have been more moves to price in ECB rate hikes than FRB rate hikes. However, Europe has released a series of weak economic indicators. The euro/dollar pair will continue to be adjusted on expectations for monetary policy shifts.
Yamaguchi	Bear	1.1200 – 1.0800	As with the FRB, the ECB has stated any future rate hikes will depend on the data. Though inflation remains high, economic indicators continue to move bearishly, so expectations for further rate hikes are unlikely to rise.
Matsunaga	Bear	1.1200 – 1.0850	The ECB remains committed to tackling inflation, but there are growing concerns about an economic slowdown, with European economic sentiments worsening, for example, so ongoing ECB rate hikes will not lead directly to euro bullishness. As such, the euro/dollar pair will probably continue trading with a heavy topside.

Tagawa	Bear	1.1200 – 1.0800	ECB president Christine Lagarde's comments are likely to have even more of an impact on the bullish bias regarding the euro. These comments may not lead to euro selling, but the euro/dollar pair will probably move with a heavy topside as investors adjust their euro long positions.
Katoono	Bull	1.1200 – 1.0900	The ECB recently indicated that future rate hikes will depend on the data. With core inflation within the eurozone remaining high, the euro/dollar pair will probably move bullishly as investors focus on the gap between the stances of the FRB and ECB.
Kobayashi	Bear	1.1300 – 1.0850	The eurozone continues to release bearish economic indicators and there are no signs of a recovery. If the US releases some strong economic indicators going forward, this will reignite speculation about further rate hikes, with the euro likely to be sold against the dollar as a result.
Henmi	Bear	1.1200 – 1.0700	The ECB is relaxing its rate hike stance amid concerns about a eurozone economic slowdown. There were expectations that the euro/dollar pair would be bought on the comparative hawkishness of the ECB, but this scenario now seems less certain, with the euro likely to be sold.
Suzuki	Bull	1.1400 – 1.0950	The euro/dollar pair will probably be bought given the persistence of high inflation and tightening in Europe compared to the US. Though there remain deep-rooted concerns about an economic slowdown on the results of each European nation's economic indicators, the currency pair looks set to move firmly.
Okuma	Bear	1.1200 – 1.0700	There will be no monetary policy announcements in August, with the euro/dollar pair likely to swing to and fro on the results of major economic indicators. At present, the eurozone has released some noticeably weak indicators. Amid growing uncertainty about the direction of the European economy, the pair looks set to move bearishly.
Nishi	Bear	1.1200 – 1.0700	When they met in July, the FOMC and ECB both stressed that future rate hikes would depend on the data. This FRB is winning in this respect, with concerns of a slowdown waning in the US while concerns about stagflation rise in Europe.

Masayuki Nakajima, Europe Treasury Department

British Pound – August 2023

Expected Ranges	**Against the US$: US$1.2500–1.3000**
	Against the yen: JPY178.00–185.00

1. Review of the Previous Month

The GBP/USD pair opened July trading at $1.27, with the sterling then strengthening and the pair soaring above $1.30 mid-July. However, expectations for BOE rate hikes then waned after the UK June consumer price index (CPI) fell sharply below forecasts on its release on July 19, so the pair dropped below $1.30 and its topside weighed heavily.

The first week saw the pair edging upwards from Monday to Thursday. Sterling then soared against the dollar on July 7 when the US nonfarm payrolls figure for June fell below expectations, with the pair then renewing a 2023 high of $1.2848 for the first time since June 16.

This trend spilled over into the second week, with the pound rising by close to 2% against the greenback. On July 12, the currency pair then topped $1.30 for the first time since April 2022. The US June CPI data was released on July 12 and this was down on expectations, with the dollar then sold against a wide range of currencies.

Sterling fell sharply by around 1.8% against the dollar in the third week. The UK June CPI data fell sharply below market expectations on its release on July 19, with the GBP/USD pair plummeting after dropping below the key $1.30 level. At +7.9% y-o-y, the UK June CPI figure was down sharply on May's +8.7% y-o-y and it was also under the market forecast of +8.2% y-o-y, with inflation below +8% y-o-y for the first time in 15 months. At +6.9% y-o-y, the core inflation rate was also down on May's +7.1% y-o-y and the market forecast of +7.1% y-o-y. Yields on 2-year UK government bonds (gilts) fell by -20bp directly after the announcement, the largest fall since March 2023. The BOE terminal rate priced in by the markets also dropped below 6.0% after the announcement.

The pair swung back and forth in the fourth week as the central banks of the US, Europe and Japan all held meetings. On July 26, the FOMC implemented a further +25bp rate hike for the first time in two meetings. In his press conference, though, FRB chair Jerome Powell hinted that the FOMC might shelve a further rate hike in September depending on the data. With the greenback subsequently falling in currency markets, the GBP/USD pair rose to around £1.30. However, though the ECB Governing Council hiked rates by +25bp for the ninth straight month when it met on July 27, in her press conference ECB president Christine Lagarde hinted that rates might be kept fixed from September onwards. As expectations for ECB tightening waned, the euro was sold and the dollar bought back, with the GBP/USD pair also falling back below $1.28. The preliminary real 2Q real GDP growth data for major eurozone nations was then released on July 28. The data was up sharply on expectations, so European currencies were bought back and sterling also followed suit so hit $1.285 against the dollar at the start of the fourth week.

2. Outlook for This Month

The pound is expected to move firmly against the dollar and yen in August. With the markets focusing on the possibility of an end to FRB and ECB rate hikes, sterling will be supported by expectations for prolonged BOE tightening.

The BOE Monetary Policy Committee will be meeting on August 3 and it will probably announce a further +25bp rate hike. Though the BOE lifted the pace of rate hikes to +50bp when it met in June, this came before the release of the UK June CPI data. At +7.9% y-o-y, the UK June CPI figure was down sharply on May's +8.7% y-o-y and it was also under the market forecast of +8.2% y-o-y, with inflation below +8% y-o-y for the first time in 15 months. Given this, it now seems likely the BOE will return to the previous pace of rate hikes. Unlike the FRB and ECB, the BOE is unlikely to drop hints that it might shelve rate hikes when it next meets on September 21. Though UK CPI growth is slowing, it still remains high compared to the US and the eurozone, with the BOE coming under sharp criticism from the UK parliament and the general public for its laggardly inflation response. On July 28, the BOE announced it would commence a review of its economic outlook led by former FRB chair Ben Bernanke. This is in response to criticism that the BOE did not foresee high inflation and has thus been lacking when it comes to monetary tightening. The review will begin this summer, with the result set for release in spring 2024. It is not unusual for the BOE to hire someone externally to analyze and run monetary policy, but the hiring of Mr. Bernanke shows how hard the BOE is finding it to restore confidence in its ability to tackle inflation.

Meanwhile, the movements of the GBP/JPY pair will depend in large part on the extent to which upwards pressure on the USD/JPY pair eases in the wake of the BOJ's decision to tweak its yield curve control (YCC) policy on July 28. Investors should read Mizuho's *Forex Medium-Term Outlook* and so on to gain a clearer picture of USD/JPY trends, but as the BOJ's statement suggested, the BOJ intends to continue easing from here on, so any correction to yen bearishness will be muted. Japan/UK interest-rate differentials could shrink to a certain extent, but they will remain wide apart overall. Real market movements show the GBP/JPY pair falling from the 181 yen range to the mid-176 yen mark when the yen appreciated and the dollar depreciated after the BOJ adjusted its YCC policy on July 28, but the USD/JPY soon rallied on a growing sense that the BOJ would remain in easing mode, with the GBP/JPY pair moving stably again at the mid-181 yen mark, the same level as is started the week.

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

Australian Dollar – August 2023

Expected Ranges **Against the US$: US$0.6500–0.6900**
Against the yen: JPY91.00–97.00

1. Review of the Previous Month

The AUD/USD pair fluctuated around $0.6650 at the start of July. It then hit a monthly high of $0.6895 mid-July before returning to the mid-$0.66 range at the month's end.

As broadly expected, the RBA kept the cash rate fixed at 4.10% when it met to set policy at the start of July. However, the accompanying statement hinted at further monetary tightening with a phrase about how the RBA remained "resolute in its determination to return inflation to target and will do what is necessary to achieve that," with the currency pair then moving around $0.67. However, the Australian dollar then moved heavily on the worse-than-expected results of China's June Services PMI and other Chinese indicators, so the pair weakened to the mid-$0.66 handle. The minutes to the June FOMC meeting revealed that some members had voiced support for further rate hikes, so the greenback was bought and the currency pair moved at the mid-$0.66 level. The pair temporarily fell below $0.66 on the better-than-expected results of the US June ADP National Employment Report. However, the US June employment data showed the nonfarm payrolls figure dipping below market expectations, so the US dollar was sold sharply and the currency pair shot up to $0.67. The Chinese government then announced the stimulus policy to support the real estate sector by giving troubled property developers an extra year to repay loans, with this move also bolstering the Australian dollar.

The US June CPI data was released mid-July. It had slowed dramatically on a year-on-year basis, so the greenback was sold and the AUD/USD pair temporarily climbed from around $0.6690 to $0.6796. The RBA then decided to appoint deputy governor Michele Bullock as its next governor, with the Australian dollar then sliding as investors focused on how the new governor would be more dovish compared to her predecessor Philip Lowe. The US dollar was then bought on the firm results of the University of Michigan Consumer Sentiment Index for July and one-year-ahead expected inflation rate, so the currency pair dipped to the lower-$0.68 handle. The pair fell further on concerns about a Chinese economic slowdown following the worse-than-expected results of China's 2Q GDP data, retail sales figure, and real estate investment data, for example. The greenback was bought at a faster pace and the pair dropped below $0.68 after US treasury secretary Janet Yellen said the US labor market was moving firmly and an economic slowdown was unlikely.

The pair then soared to the mid-$0.68 level late July on the better-than-expected results of the Australian June employment data. However, the US new applications for unemployment insurance data also pointed to the firmness of the US labor market, so expectations for further US rate hikes grew and US treasury yields rose, with the AUD/USD pair dropping back to $0.67. The pair was also weighed down when Australia 2Q GDP data slowed by more than expected. As expected, the FOMC implemented a +25bp rate hike at its closely-watched meeting. Amid a dearth of new factors, though, the US dollar was sold and this supported the currency pair. The RMB then rose after its reference rate was set at a higher level, with the AUD/USD pair temporarily rising to $0.6821 as a result. With the US 2Q GDP data and June durable goods orders indicator beating expectations, though, the greenback was bought and the pair dropped to around $0.6720. As expectations for an end to US rate hikes receded, stock prices

fell further and the currency pair slid to around $0.6710. The yen was then bought on reports that the Bank of Japan (BOJ) was thinking about revising its YCC policy. The cross yen was sold and the Australian dollar was also pulled down, with the AUD/USD pair dropping to the lower-$0.66 handle.

2. Outlook for This Month

In August, the AUD/USD pair will be swayed by moves to determine peak interest rates in the US and Australia on the back of slowing inflation in both countries. At 6.0% y-o-y, Australia's 2Q GDP result (released July 28) was down sharply on 1Q's 7.0% figure. At below 6.0% y-o-y, Australia's 2Q CPI trimmed mean was also down on expectations and the previous quarter's figure. In the wake of this, investors stopped pricing in even one more rate hike before the year's end, with some observers now expecting rates to peak at the current level of 4.1%. Inflation has been pushed up by Australia's jobs environment. In the June employment data, the unemployment rate hit 3.5%, with the previous month's rate also being revised from 3.6% to 3.5%, thus suggesting that labor market conditions remain tight. Furthermore, the Fair Work Commission (FWC), Australia's workplace relations tribunal lifted the minimum wage by 8.6% from July 1. With Australia's labor market growing tighter, firms are also being pressed into hiking wages as a defensive move to prevent employees from quitting. Also, many firms are being forced to lift wages by labor agreements that link pay to inflation. Market participants should examine this month's data to reassess what contribution the jobs situation is having on rising inflation. If it seems that inflation is flaring up again, further RBA rate hikes will grow more likely and this will support the AUD/USD pair's downside. Meanwhile, the markets are expecting the Chinese authorities to put together a new package to support the struggling real estate sector. If China announces some concrete policies, the RMB will rise, with the Australian dollar likely to follow suit.

On the other hand, the US posted some strong preliminary 2Q GDP data, with expectations for an end to FOMC rate hikes now waning. However, the futures market has pricing in a peak rate of between 5.25–5.50%, which suggests investors are not expecting any more rate hikes before the end of the year. In fact, investors are pricing in one rate cut by May 2024. The US July employment data will be released on August 4. The unemployment rate will probably remain at 3.6%, but the July nonfarm payrolls growth is likely to be down compared to June, with the July average hourly wages also expected to slow slightly on June. If this happens, some observers believe the greenback will be sold, with this bolstering the AUD/USD pair. However, the environment has grown more conducive to some dollar selling and yen buying in the wake of the BOJ's YCC adjustment. If the Australian dollar is also sold against the yen on cross yen trades, this could also weaken the AUD/USD pair at times, so caution will be needed.

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

Canadian Dollar – August 2023

Expected Ranges **Against the US$: C$1.3000–1.3500**
Against the yen: JPY103.30–109.30

1. Review of the Previous Month

With Saudi Arabia and Russia announcing cuts to oil production at the start of July, WTI futures prices rose and the Canadian dollar was bought, with the USD/CAD pair falling from the mid-C$1.32 level to the lower-C$1.32 level. On July 4, though, China and Europe both released June PMI's that were down on the previous month, so the US dollar was bought on concerns about an economic slowdown. The US June ADP National Employment Report was released the following day and it was up sharply, while Canada's May trade balance fell deeper into the red. US long-term interest rates subsequently rose and the USD/CAD pair climbed to C$1.3387. The Canadian June employment data was released on July 7. The number of people in work was up sharply on the previous month, but wage growth fell, thus suggesting labor market supply and demand was easing. In the US, average wages in June were up on the previous month, but the nonfarm payrolls figure was down on a month-on-month basis. The greenback had previously been bought, but it was now sold and the currency pair dipped to C$1.32.

The US June CPI data was released on July 12, with the headline and core figures both down on expectations. As US long-term interest rates fell, the USD/CAD pair weakened to the mid-C$1.31 mark. As expected, the Bank of Canada (BOC) then lifted its policy rate by 0.25% to 5.00%, with the US dollar sold and the Canadian dollar bought again. As a result, the currency pair temporarily dipped to C$1.3093. However, the University of Michigan Consumer Sentiment Index was released on July 14, with the preliminary June data up sharply on expectations and the expected inflation rate also up on the previous month, so the greenback was bought back and the pair climbed to the lower-C$1.32 level. Though Canada's headline June CPI figure slowed, the core figure was up on the previous month. The Australian June employment data was then released on July 19 and this was up sharply on forecasts, so the Australian dollar was bought and the US dollar sold, with the USD/CAD pair also sliding back to C$1.31.

Late July saw the release of the Canadian May retail sales data on July 21, with the headline figure down and the core figure moving flatly on the previous month. The Canadian dollar was subsequently sold, with the currency pair recovering to C$1.32. The pair then move in a narrow range around C$1.315–1.3230 ahead of the FOMC meeting on July 26.

As expected, the FOMC implemented a 0.25% rate hike, thus lifting the ceiling of its policy rate to 5.50%. The greenback was sold thereafter, with the pair temporarily dropping below C$1.32, though it was then bought back to the lower-C$1.32 level.

2. Outlook for This Month

On July 12, the Bank of Canada (BOC) lifted its policy rate by 0.25% to 5.00%. According to the BOC's statement, global inflationary pressures are easing as energy prices fall, though labor supply and demand remains tight in Canada, with the services sector continuing to face inflationary pressure on excess demand.

The BOC released its economic forecast at the same time. The 2023 GDP forecast was upgraded from April's +1.4% prediction to +1.8%, with the BOC now expecting to hits its 2% inflation target by the middle of 2025, two quarters later than originally envisaged. The BOC maintained that the future interest rate outlook would depend on the data, though it left the door open for further rate hikes from September. As of July 27, market bets on a rate hike at the September 6 meeting had risen to around 38%, with investors pricing in the possibility of another rate hike before the end of the year and the BOC's policy rate rising to 5.25%.

After the July 26 FOMC meeting, meanwhile, FRB chair Jerome Powell hinted that the terminal rate was drawing closer and he maintained that any decision on further rate hikes would depend on the data and would be determined at each respective meeting. As of July 27, the markets had yet to price in a rate hike at the FOMC meeting on September 20.

With the BOC and FRB both stating that future monetary policy will depend on the data, investors should continue to monitor key indicators like the inflation rate, inflationary expectations, and the employment data in August. The USD/CAD pair is expected to trade in a range from C$1.30 to C$1.35. If the US posts some strong employment data or if the inflation rate rises again, the pair could break above its recent resistance point of C$1.3370.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – August 2023

Expected Ranges **Against the US$: KRW 1,250–1,320**
Against the yen: JPY 10.76–11.36 (KRW100)

1. Review of the Previous Month

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

The pair opened the month trading at KRW1314.7 on July 3. After hitting a monthly high of KRW1316.4, it then moved bearishly as overseas stocks markets moved firmly and South Korea's trade balance returned to the black for the first time in 16 months. The pair was also swayed when the RMB appreciated on July 4, with the won moving bullishly and the USD/KRW pair dipping temporarily below the key KRW1300 mark, though the won moved bearishly again on July 5 on the weak results of a Chinese PMI. The US released a healthy economic indicator during the night, so the pair recovered to KRW1310 for a time on July 6. However, moves to price in US rate hikes from September onwards then waned on the weak results of the US June employment data.

The following week saw the pair opening at KRW1299.0 on July 10. A wait-and-see mode prevailed over July 11–12 ahead of the release of the US June CPI data. As US interest rates fell on expectations that the CPI data would slow, the currency pair moved with a heavy topside. When the data was actually released during the evening of July 12, it revealed that inflation had slowed, so US interest rates fell and the greenback was sold, with the pair then moving at KRW1270 on July 13. The BOK then decided to keep its policy rate fixed for the fourth straight meeting when it met on July 13. This was as expected, though, so the impact on the markets was negligible. The dollar was sold further over July 14, with the pair moving close to KRW1260.

The following week saw won buying on real demand over July 17–18, with the currency pair temporarily falling to a monthly low of KRW1257.3. The pair continued moving in the KRW1260 range amid some adjustment over July 19– 20. Semiconductor stocks then fell during US trading time, so the won fell sharply on July 21, with the USD/KRW pair bouncing back to around KRW1285. With FRB, BOJ and EBC meetings looming, the pair jostled up and down the following week on real-demand flows related to the end of the month.

After rising to around KRW1288 on July 24, exporters converted funds into won while the pair was moving at highs, so the pair then dipped below KRW1280. With the won moving heavily on the topside over July 25–26, the pair fluctuated around the upper-KRW1270 mark. US interest rates fell on July 26 on the results of the FOMC meeting, so the pair temporarily fell to around KRW1267 on July 27, though it rose again after a round of selling. The ECB implemented a rate hike when it met during the evening of July 27. With investors focusing on the widening spread between domestic and overseas interest rates, the pair opened July 28 trading around KRW1283. The won was gradually bought thereafter, with the pair closing around KRW1277.

2. Outlook for This Month

The USD/KRW pair is expected to float in the upper-KRW1200 range in August.

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

(2) BOK monetary policy.

As for (1), the FOMC implemented a 25bp rate hike when it met in July, as expected. In his press conference, FRB chair Jerome Powell stated that monetary policy from September onwards would continue to depend on the data. He also voiced confidence about the direction of the US economy, saying it would probably avoid recession and achieve a soft landing, for example, and he said rate cuts within the year were unlikely. Though the FOMC meeting sprung no surprises, it did leave some uncertainty about policy management from September onwards, so investors will continue to monitor economic indicators in August too. The next FOMC meeting will not take place for nearly two months, though, with the same indicators also set for release in September too, so it will be hard to nail down a sense of direction for the pair.

With regards to (2), when the BOK met on July 13, it kept its policy rate fixed for the fourth straight month. Though inflation growth continues to decline in South Korea, the BOK believes the CPI data will swing up again from August onwards and it remains on guard against price movements. The BOK might lift rates again if household debt balloons or the won weakens, but if the currency pair remains around KRW1300, the BOK will probably keep rates fixed when it meets on August 24 too.

In addition to the above, RMB trends will also impact the USD/KRW pair, so caution will be needed. The RMB fell from the start of July in tandem with sliding US interest rates. Though this downwards momentum has eased, the People's Bank of China continues to set the RMB's reference rate against the dollar at a higher rate than in the actual markets, which suggests the Chinese authorities are still worried about RMB depreciation. If the RMB starts trending lower again, the will place more downward pressure on the won.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – August 2023

Expected Ranges **Against the US$: NT$30.90–31.80**
Against the yen: JPY4.42–4.65

1. Review of the Previous Month

The USD/TWD pair rose in July.

The pair opened the month trading at TWD31.135 on July 3. With Taiwanese stocks moving bearishly, overseas investors sold the Taiwan dollar at a faster pace, but with exporters also selling the US dollar, the pair moved with a heavy topside at the lower-TWD31.1 mark. Taiwanese stocks then crashed on concerns about further US rate hikes, though, so the pair hit TWD31.2 on July 6 before shooting up to TWD31.3 on July 7.

Mid-July saw investors focusing on a slowdown in the US jobs market following the release of the US June employment data. With US interest rates remaining high, though, the Taiwan unit was sold as domestic investors sent more funds overseas. With overseas investors also selling the Taiwan dollar, the pair rose to the upper-TWD31.3 level on July 10. The pair temporarily climbed to TWD31.400 on July 11, though it then dropped to the lower-TWD31.3 mark as Taiwanese stocks rallied. The US June CPI data then dropped below expectations, thus confirming that inflation was slowing. US interest rates fell and US stocks rose, with Taiwanese stocks also bouncing back. The Taiwan dollar was also bought back, with the currency pair dropping below TWD31.1 on July 13. With the US June PPI data also down on expectations, the pair hit the TWD30 range on July 14 to temporarily hit TWD30.840. However, the greenback was bought back when trading opened the next week on July 17. Asian currencies were also sold when China's 2Q GDP data dropped below expectations, so the currency pair returning to the TWD31 range.

Late July was dividend season for Taiwanese firms, so the Taiwan dollar was sold as overseas investors sent funds overseas. With Taiwanese stocks also falling, the pair returned to TWD31.2 on July 21 before rising to the mid-TWD31.3 level on July 22. With the FOMC meeting looming, a wait-and-see mode prevailed. Taiwanese stocks were then pulled up by a bullish Dow Jones after the FOMC meeting, with the currency pair then dropping to the mid-TWD31.1 level on July 27. However, US interest rates then rose on some robust US economic indicators, so the pair rose again to hit TWD31.4. With investment funds flowing abroad and overseas investors repatriating their dividend earnings, the pair temporarily hit TWD31.440 on July 31.

2. Outlook for This Month

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

June's trend of Taiwan-dollar bearishness eased in July, though the Taiwan dollar fell again toward the month's end. In particular, the Taiwan unit was sold in the latter half of the month as overseas investors sent dividend earnings back home.

The USD/TWD pair looks set to move firmly this month. The pair is currently being swayed again by the movements of Taiwanese stocks, but with US long-term interest rates remaining high, Taiwanese investors are also

sending money overseas, so the pair's downside will move strongly. In July, the FOMC said a recession was unlikely and it indicated it would continue to tighten, so for now a close eye should also be kept on the movements of Taiwanese investors.

Taiwan's trade balance improved in June, but this was largely because imports shrunk, with the export amount actually slipping further into negative territories on a year-on-year basis. At -24.9% y-o-y, the same was also true for export orders, so there is still considerable uncertainty when it comes to the export recovery going forward. Trade trends also suggest the Taiwan dollar is unlikely to strengthen.

After contracting for two quarters, Taiwan's GDP returned to growth. Consumer spending grew by more than expected, but private sector capital investment shrank, with this acting as a drag. When it comes to the Taiwan economy, capital investment and export trends will be impacted by semiconductor demand, but this is unlikely to recover on AI demand alone, so a lot will depend on whether global demand grows for final consumer goods expands, with the semiconductor sector likely to be swayed by global economic trends.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – August 2023

Expected Ranges	**Against the US$: HK$ 7.7700–7.8400**
	Against the yen: JPY 17.20–18.70

1. Review of the Previous Month

Hong Kong dollar spot exchange market in July

The HKD spot extended its rally towards the 7.80 handle, driven by the narrowing USD-HKD rates spread due to tight HKD liquidity condition. The HKD forward points curve bottomed out in April and front-end curve continued to rise towards the par level. The HKD T/N forward points has been gyrating at the par level over past few weeks, prompting market participants to unwind the carry trade of long USD/HKD spot. The dividend payouts flow from HK-listed Chinese companies also kept the HKD supportive. Despite the steady southbound Stock Connect flow to HK, HKD IPO activities remained subdued and the impact from equities on HKD market was largely muted . On the data front, retail sales rebounded less than expected, indicating a slowing consumption recovery due to the China growth slowdown and weakening purchasing power from mainland China investors. Additionally, Hong Kong property prices have turned south again. However, the unemployment rate for June edged down to near its 4-year low of 2.9%, reflecting a tight labor market condition.

Hong Kong dollar interest rate market in July

While the Overnight HKD HIBOR came off from its half-year end high of 5.75% to near 4%, the 1-month and 3-month HKD HIBOR remained high above 5% due to tight HKD liquidity conditions, indicating a narrowing USD-HKD rate spread. So far this year, the HKMA had conducted several rounds of FX intervention to defend the USD-HKD peg, resulting in a decline in the HK aggregate balance to near HKD 45bn and a significant tightening of HKD liquidity conditions. Due to thin HKD liquidity buffer, HK banks have tapped into the HKMA's discount window more often to acquire HKD funding. In response to the Fed's 25bps rate hike, HKD banks raised the HKD prime rate by +12.5bps to maintain their mortgage business's profit margin. The HKD IRS curve remained relatively stable as the Fed nears the end of its rate hike cycle but is not expected to pivot. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) picked up in positive territory due to the spikes in 3-month HKD HIBOR.

2. Outlook for This Month

Hong Kong dollar spot exchange market in August

We expect the HKD spot to remain supportive due to the narrowing USD-HKD rate spread, which indicated a slight market interest in the long USD/HKD spot carry trade. Additionally, the demand for HKD driven by dividend payouts from Chinese corporations is expected to continue supporting the currency throughout August. Furthermore, the prospect of increased stimulus following the Chinese Politburo meeting is likely to stimulate capital inflows into Hong Kong equities, which will, in turn, keep the HKD supportive. However, as the HKD approaches the 7.8 level, any indication that the Fed's tightening cycle is coming to an end could trigger a sell-off

in the USD/HKD pair, leading to a strengthening of the HKD towards the strong half of its trading band.

Hong Kong dollar interest rate market in August

HKD rates are expected to remain high under the USD-HKD peg, as the Fed is not likely to make a pivot in its monetary policy any time soon. The aggregate balance of HKD 45bn is expected to be the equilibrium level. Considering the tight HKD liquidity condition and the possibility of Fed’s pause in its rate hike, HKD spot is unlikely to reach its strong-side or weak-side convertibility undertaking. That says, the aggregate balance will remain constant at its current level and HKD rates will continue to follow USD rates. It appears that HK banks have adapted to the tighter HKD liquidity conditions, and the occasional HKD liquidity squeeze was short-lived, with the HKMA’s discount window being utilized more often. Consequently, the HKMA is likely to maintain its current approach to HKD liquidity management and avoid reducing the issuance of Exchange Fund Bills and Notes to inject liquidity into the market.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – August 2023

Expected Ranges	Against the US$: CNY 6.9000–7.3000
	Against the yen: JPY 19.23–20.41

1. Review of the Previous Month

In July, the U.S. dollar/Chinese yuan exchange rate remained low.

At the beginning of the month, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.25 level on July 3. There was a growing gap between the U.S. dollar/Chinese yuan exchange rate and the market outlook of the People's Bank of China (PBOC) central parity rate, which had been set toward a stronger yuan since around the end of June. This situation kept the U.S. dollar/Chinese yuan exchange rate from rising further. Also, there was no surprise in the contents of the minutes of the Federal Open Market Committee (FOMC) meeting, and market participants kept a wait-and-see attitude before the release of the employment statistics of the U.S. Thus, the U.S. dollar/Chinese yuan exchange rate did not move in any direction. On July 7, the U.S. dollar/Chinese yuan exchange market closed at the mid-CNY 7.22 level.

On July 10, the U.S. dollar/Chinese yuan exchange market opened at the mid-CNY 7.22 level. On the same day, market participants actively sold the U.S. dollar after the U.S. dollar/Chinese yuan exchange rate had reached the CNY 7.24 level. The June Consumer Price Index (CPI) and the Producer Price Index (PPI) of the U.S. were announced on July 12 and 13, respectively, revealing figures below the market estimate. As a result, less market participants expected the policy interest rate hikes to continue, which encouraged them to sell the U.S. dollar further. On July 14, the U.S. dollar/Chinese yuan exchange rate once reached the CNY 7.11 level.

On July 17, the U.S. dollar/Chinese yuan exchange market opened at around the CNY 7.15 level. On the same day, the second-quarter GDP of China and major economic statistics were announced, and many of the figures turned out to be below the estimated level. As a consequence, the Chinese yuan weakened. On July 19, the U.S. dollar/Chinese yuan exchange rate rose to reach the upper-CNY 7. 22 level. Thereafter, the monetary authorities of China announced a decision to raise the macroprudential adjustment parameter for the first time since October last year on July 20, which encouraged market participants to buy the Chinese yuan. Thus, the U.S. dollar/Chinese yuan exchange market opened at the CNY 7.18 level on July 20 with a gap from the closing rate of July 19, which was at the CNY 7.22 level. In the second half of the week, the U.S. dollar/Chinese yuan exchange rate remained low. However, the U.S. dollar/Chinese yuan exchange rate once rose from the CNY 7.16 level to the CNY 7.19 level on July 21.

On July 24, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.18 level. The exchange rate occasionally rose to the CNY 7.20 level based on market transactions. However, the statement released after the Politburo of the Chinese Communist Party meeting revealed details of real estate policy support, and this strengthened the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.13 level. At the FOMC meeting, the policy interest rate was raised by 25 basis points. However, the market had already reflected this decision, and there was no surprising factor at a press conference involving Federal Reserve Board (FRB) Chair Jerome Powell after the FOMC meeting. Therefore, there was no substantial impact on the U.S. dollar/Chinese yuan exchange market. On July 28, the U.S. dollar/Chinese yuan exchange market closed trading at

around the CNY 7.15 level.

2. Outlook for This Month

While the U.S. dollar/Chinese yuan exchange rate is expected to fall in August, market participants should remain attentive of pressure to strengthen the U.S. dollar and weaken the Chinese yuan.

At the FOMC meeting held in July, the policy interest rate was raised by 25 basis points. On the other hand, there has been so far no information released by FRB Chair Jerome Powell regarding the next policy interest rate hike, and this led the U.S. dollar to depreciate. However, on the following day, the second-quarter GDP of the U.S. was announced, revealing strength in personal consumption and capital investment, with figures exceeding the estimate. These results confirmed that the U.S. economy was relatively stable. Thus, depending on the economic indices that will be announced in the coming weeks, it is very possible for the policy interest rate to be raised again in September. At the moment, only about half of the expectations for a policy interest rate hike by the end of this year have been reflected in the short-term interest rate market. Therefore, if economic indices in the U.S. remain strong in the times ahead, further policy interest rate hikes would be reflected in the interest rate market, also leading the U.S. dollar to appreciate again in the foreign exchange market, of which market participants should remain cautious.

On the other hand, in China, the summary of the outcome of the Politburo of the Chinese Communist Party meeting was released on July 24, mentioning the optimization of the real estate sector, debt risk control in municipal governments, the expansion of domestic demand, and strengthened investment in infrastructure, etc. In China, the economic growth of the second quarter was clearly stagnant. Under such circumstances, market participants are buying the Chinese yuan, expecting economic stimulus measures. Therefore, if more specific measures are announced to support the Chinese economy, the Chinese yuan is likely to continue appreciating further in the times ahead.

On the other hand, if announcements of economic measures were to halt or if domestic economic indices in China turn out to be weak, it is also likely for the appreciation of the Chinese yuan to end as well, leading the U.S. dollar/Chinese yuan exchange rate to rise again, of which market participants should remain attentive.

It is also worth noting that Chinese banks started lowering term deposit interest rates in the U.S. dollar in July. Furthermore, the macroprudential adjustment parameter was increased for cross-border financing of corporate entities. Thus, there were a number of changes in monetary policy that led the U.S. dollar to depreciate and the Chinese dollar to appreciate. The PBOC central parity rate was also continuously set toward a stronger Chinese yuan than the market estimate. If the Chinese yuan weakens again, similar actions to those taken in July could be taken again, about which market participants should remain careful.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – August 2023

Expected Ranges **Against the US$: SG$ 1.3100–1.3700**
Against the yen: JPY 101.00–107.00

1. Review of the Previous Month

The U.S. dollar/Singapore dollar exchange rate fell in July.

On July 3, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.35 level. The June ISM manufacturing business confidence index of the U.S. turned out to the weaker than the market estimate thereafter, which led the U.S. dollar/Singapore dollar exchange rate to fall to reach the lower-SGD 1.34 level. On July 4, market participants continued to buy overall Asian currencies. However, on July 5, the June Caixin China General Services PMI turned out to be weaker than the market estimate, which changed trends in the market, and the U.S. dollar/Singapore dollar exchange rate remained stable. On July 6, the U.S. dollar/Singapore dollar exchange rate once fell below the SGD 1.35 level. However, U.S. economic indices turned out to be strong, encouraging market participants to buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.35 level. The, on July 7, the June employment statistics of the U.S. revealed a change in the number of non-agricultural employees, which turned out to be weaker than the market estimate. Consequently, the U.S. dollar weakened, and the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.34 level.

On July 10, the U.S. dollar/Singapore dollar exchange rate continued rising during trading hours in Asia, as economic indices in China turned out to be weak. However, during overseas trading hours, market participants sold the U.S. dollar against other currencies. In reaction, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.34 level on July 11, the following day. On July 12, market participants continued actively selling the U.S. dollar. Under such circumstances, the June Consumer Price Index (CPI) of the U.S. turned out to be below the market estimate, and this led the U.S. dollar/Singapore dollar exchange rate to fall to the upper-SGD 1.32 level. On July 13, interest rates continued falling in the U.S., and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.32 level. The exchange rate continued falling on July 14, reaching the upper-SGD 1.31 level.

On July 17, the April–June quarter GDP of China turned out to be weak, which encouraged market participants to temporarily sell the Singapore dollar. However, the U.S. dollar/Singapore dollar exchange rate started to fall again after a short while. On July 18, the June retail sales of the U.S. turned out to be below the market estimate, which led the U.S. dollar/Singapore dollar exchange rate to momentarily reach the upper-SGD 1.31 level. However, the exchange rate recovered to the SGD 1.32 level immediately after that. On July 20, the People's Bank of China (PBOC) decided to raise maximum financing in foreign currencies for companies and financial institutions, and this supported Asian currency exchange rates. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.32 level. On July 21, the media reported that the Bank of Japan would maintain its yield curve control policy at the meeting scheduled for the following week, and this led the U.S. dollar/Japanese yen exchange rate to rise. Following this trend, the U.S. dollar/Singapore dollar exchange rate also rose to the lower-SGD 1.33 level.

On July 24, there was no significant factor to impact the market, and the U.S. dollar/Singapore dollar exchange rate did not move in any direction. However, on July 25, interest rates fell in the U.S., and this led the U.S. dollar/Singapore dollar exchange rate to fall slowly to the upper-SGD 1.32 level. Then, on July 26, the Federal Open

Market Committee (FOMC) decided to raise the policy interest rate at its meeting but did not reveal any plan about subsequent policy interest rate hikes, stating that such would depend on economic indices. In reaction, market participants continued selling the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.32 level. On July 27, U.S. economic indices turned out to be strong, encouraging market participants to buy the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level.

2. Outlook for This Month

In August, the U.S. dollar/Singapore dollar exchange rate is forecast to remain stable.

At the FOMC meeting in July, the policy interest rate was raised by 25 basis points. This decision had been anticipated in the market, and therefore market participants were more interested in indications of further policy interest rate hikes in the future. On this point, Federal Reserve Board (FRB) Chair Jerome Powell emphasized that future policy interest rate hikes would depend on the economic indices to be announced in the times ahead, by stating at the press conference after the FOMC meeting that it was certainly possible that the FOMC would raise the federal funds rate again at the September meeting if the data warranted it. Immediately after the FOMC meeting, market participants occasionally sold the U.S. dollar. However, it is still possible for the policy interest rate to be raised again, while the FOMC confirmed that there would be no policy interest rate cut before the end of the year. Thus, it seems unlikely for market participants to continue selling the U.S. dollar enough to encourage the FRB to change its current monetary policy immediately, unless multiple indices show declining inflation pressure. For this reason, the pressure to sell the U.S. dollar is not expected to strengthen in August, with remaining expectation for further policy interest rate hikes.

With regard to domestic factors in Singapore, the June CPI was +4.5% year-on-year, falling below the previous month's figure by 0.6%, renewing the lowest figure in a year and four months since February 2022. In reaction to this result, the Monetary Authority of Singapore (MAS) and Singapore's Ministry of Trade and Industry revised the CPI outlook to 4.5–5.5%, by lowering the figure by 1.0% from the previous month's outlook. Even though the inflation rate remains high, it is likely to peak soon. Given this situation, it is unlikely for the MAS, which decided to discontinue measures of monetary tightening in April, to introduce measures of monetary tightening again.

The U.S. dollar/Singapore dollar exchange market has been impacted more by factors related to the U.S. dollar than those related to the Singapore dollar. Under such circumstances, market participants actively sold the U.S. dollar in July, having seen the decline in U.S. economic indices. However, as is discussed above, it is still possible for the FRB to raise its policy interest rate further in the times ahead, and the U.S. dollar/Singapore dollar exchange rate is forecast to stop falling and to remain stable in August.

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

Thai Baht – August 2023

Expected Ranges **Against the US$: THB 33.90–35.10**
Against the yen: JPY 3.98–4.18

1. Review of the Previous Month

In July, the U.S. dollar weakened against the Thai baht, even though there were many headlines related to politics in Thailand. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35 level. After the general election in Thailand, there were some debates regarding the party from which the chair of the House of Representatives of Thailand would be selected. In the end, a long-standing member of the National Assembly neither from the Move Forward Party nor from the For Thais Party was selected. Thus, the sense of uncertainty was mitigated, and the U.S. dollar/Thai baht exchange rate fell to a level around the THB 35 level. Then, the minutes of the Federal Open Market Committee (FOMC) meeting held in June revealed that almost all of the committee members had expected further policy interest rate hikes, which strengthened the U.S. dollar. However, on July 7, the June employment statistics of the U.S. were released, revealing slowing growth. On the other hand, it also turned out that the wage level continued to rise. As a result, in the foreign exchange market, the U.S. dollar/Thai baht exchange rate did not move in any direction, fluctuating within a narrow range mainly at the lower-THB 35 level.

In the middle of the month, the used car price recorded its most-significant drop since the beginning of the Covid-19 crisis, based on which market participants expected the core Consumer Price Index (CPI) of the U.S. to fall. As a result, the U.S. dollar/Thai baht exchange rate fell below the THB 35 level. However, before the announcement of the CPI of the U.S., Thailand's Election Commission pointed out to the Constitutional Court the media shareholding of the head of the Move Forward Party, Pita Limjaroenrat. Market participants negatively reacted to this case, and the U.S. dollar/Thai baht exchange rate rose sharply to the lower-THB 35 level. However, thereafter, the June CPI of the U.S. did not reach the market estimate, and this led the U.S. dollar/Thai baht exchange rate to fall to the mid-THB 34 level in the end. Also, Pita Limjaroenrat was not elected to be Prime Minister of Thailand. However, the majority of market participants expected voting to happen more than once, and thus impact on the foreign exchange market was limited. Thereafter, the media reported that if Pita Limjaroenrat was not elected to be Prime Minister, the Prime Minister would be elected from the For Thais Party, which forms the coalition government with the Move Forward Party. Positively reacting to this headline, the U.S. dollar/Thai baht exchange rate fell further to the lower-THB 34 level. Even after the release of the sluggish economic indices of China, the U.S. dollar/Thai baht exchange rate remained low. On July 19, Thailand's Election Commission referred to the previously mentioned media shareholding of Pita Limjaroenrat to the Constitutional Court, as a result of which Pita Limjaroenrat was suspended from the National Assembly before second voting for the election of the Prime Minister. However, this made it even more likely for the new Prime Minister to be elected from the For Thais Party, and this led the U.S. dollar/Thai baht exchange rate to fall below the THB 34 mark. Thereafter, the CPI of the U.K. turned out to be above the market estimate, leading U.K. bond yields to rise. Following this trend, interest rates rose in the U.S., and the fall of the U.S. dollar/Thai baht exchange rate slowed down at around the THB 34 level.

At the end of the month, a Bank of Japan official made a negative remark related to yield control curve

adjustment, and this led the U.S. dollar/Japanese yen exchange rate to rise. Following this trend, the U.S. dollar/Thai baht exchange rate returned rapidly to the mid-THB 34 level. In the last week of the month just before major central bank meetings in Japan, the U.S., and Europe, the secretary-general of the Office of the Ombudsman in Thailand announced its plan to ask the Constitutional Court to rule on whether the parliamentary decision to block the renomination of Pita Limjaroenrat for prime ministerial election violated the constitution. Furthermore, the chair of the House of Representatives of Thailand postponed the second prime ministerial voting without indicating the new date. However, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range. Also, an FOMC meeting was held without causing further commotion in the market, as the decision to raise the policy interest rate had already been reflected in the market. On July 27, the U.S. dollar/Thai baht onshore exchange market closed trading at the lower-THB 34 level.

2. Outlook for This Month

In August, the U.S. dollar/Thai baht exchange rate is forecast to remain stable. In the second half of 2023, the economic recovery plan put forward by the Thai government has been delayed by several worrying factors, and the situation in Thailand is far from perfect. In response to the situation in which exports have recorded nine consecutive months of year-on-year decline on a customs clearance basis, the Ministry of Finance of Thailand revised its economic growth rate for 2023 downward only by 0.1%. This revision shows that the Thai monetary authorities are aware not only of the slowdown in exports but also of the fact that economic recovery would be delayed by a prime ministerial election that has not been concluded in two months after the House of Representatives election.

At the current moment, the judgment on the case of the leader of the first ruling party of Thailand, Pita Limjaroenrat, by the Constitutional Court has been put on hold. If the appeal by Thailand's Election Commission is accepted, things would become difficult for the eight-party coalition based on the Move Forward Party and the For Thais Party. Because it would be impossible for the For Thais Party to form a government on its own, the party might form a coalition with the former ruling party of the military government. If that happens, there may be violent protests by many voters who were expecting the promotion of democratic politics. In the past, violent protests affected the tourism industry more than the manufacturing industry. Such a situation would slow down recovery in the tourism industry. Because the Thai government cannot count on exports, it is placing focus on tourism, and there is no optimistic outlook for the Thai economy for the second half of the year, thus market participants are unlikely to buy the Thai baht.

The U.S. dollar/Thai baht exchange rate is likely to remain stable also from the viewpoint of monetary policy in the U.S. after the FOMC meeting in July. The policy interest rate was raised by 25 basis points, which had been anticipated in the market. However, the attitude of Federal Reserve Board (FRB) Chair Jerome Powell did not change even after seeing weak figures in the June CPI and Producer Price Index (PPI) of the U.S. Thus, there is likely to be no change in monetary policy in the U.S. unless inflation continues to slow and the labor market calms at the same time. With regard to economic outlook in the U.S. as well, market participants do not expect a phase of recession any longer. The Jackson Hole Economic Symposium, which attracts substantial attention in the market every year, is scheduled for the end of August. Prior to that, price indices are to be announced in the U.S. However, unless the price indices turn out to be significantly below the estimated level, the statement by FRB Chair Jerome Powell at Jackson Hole Economic Symposium is likely to be similar to that after the FOMC meeting held in July. In such a case, the market would not excessively reflect policy interest rate cuts, and the U.S. dollar/Thai baht exchange rate is not likely to move in any direction.

For the above reasons, there are more negative factors for the Thai baht than for the U.S. dollar in August. Thus, the U.S. dollar/Thai baht exchange rate is forecast to remain stable.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – August 2023

Expected Ranges **Against the US$: MYR 4.47–4.57**
Against the yen: JPY 30.41–31.36

1. Review of the Previous Month

In July, the U.S. dollar/Malaysian ringgit exchange rate fell sharply toward the middle of the month, as market participants expected disinflation, having seen price indices in the U.S. On a monthly basis, the Malaysian ringgit recorded a rise for the first time since March.

At the beginning of the month, market participants both bought and sold the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around the MYR 4.65 level. On July 3, the ISM manufacturing index of the U.S. was announced, and the result turned out to be below the market estimate. Furthermore, the employment statistics also recorded a decline. As a result, the U.S. dollar depreciated. On the other hand, the central bank of Malaysia absorbed funds in the short-term market, leading the KLIBOR to rise sharply. The interest rates for one month, three months, and six months rose by 27 basis points, 14 basis points, and 14 basis points, respectively, in one week. In the foreign exchange market as well, market participants bought the Malaysian ringgit. Then, on July 6, the central bank of Malaysia held a monetary policy meeting and maintained its policy interest rate at the existing level, as had been anticipated in the market, even though some were cautious about the possibility for the central bank to unexpectedly raise its policy interest rate for the second consecutive time. Thus, after the monetary policy meeting, the U.S. dollar/Malaysian ringgit pair continued trading at around the MYR 4.65 level.

In the middle of the month, the Consumer Price Index (CPI) and the Producer Price Index (PPI) of the U.S. were announced on July 12 and July 13, respectively, and both turned out to be below the market estimates. As a result, market participants expected disinflation, and the U.S. dollar depreciated sharply. Also, the U.S. dollar/Malaysian ringgit exchange rate fell by 1,400 pips in one week. While the U.S. dollar weakened against all major currencies, the Malaysian ringgit recorded the second most-significant rise against the U.S. dollar, after the South African rand, in terms of weekly foreign exchange rate fluctuation, as the Malaysian ringgit remained particularly strong, recovering from recent weakness. Then, on July 17, the second-quarter GDP of China was announced, disappointing some market participants and encouraging them to sell the Chinese yuan. Furthermore, the media reported that oil production had resumed at a large oil field in Libya, and this led crude oil prices to fall. As a result, the Malaysian ringgit depreciated slightly. However, on July 20, the People's Bank of China (PBOC) announced its decision to raise the central parity rate as well as the macroprudential adjustment parameter, increasing the maximum limit of cross-border financing. As a consequence, the Malaysian ringgit remained strong.

At the end of the month, the June CPI of Malaysia was announced on July 24. In general, a slowdown in domestic inflation was confirmed. Even though the central bank of Malaysia might still raise its policy interest rate further in the times ahead as part of its monetary policy, market participants saw this as not very likely, given the current inflation level as well as the policy interest rate that returned to the level before the Covid-19 pandemic. As a result, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating with a weak Malaysian ringgit at the upper-

MYR 4.5 level. On July 27, the Federal Open Market Committee (FOMC) meeting was held in the U.S., and the policy interest rate was raised by 0.25%, as had been anticipated in the market. As this decision was not a surprise, the U.S. dollar weakened slightly after the announcement of the outcome of the meeting. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate also fell to the MYR 4.52 level. Furthermore, the Bank of Japan tweaked a yield curve control policy by allowing yields to exceed the upper limit, at the 0.5% level. Thus, the volatility level rose not only in the U.S. dollar/Japanese yen exchange market but also in the overall Asian currency exchange market.

2. Outlook for This Month

The Malaysian ringgit is forecast to remain stable in August. In July, the U.S. dollar depreciated significantly based on the price indices in the U.S. that were announced toward the middle of the month. As a result, the U.S. dollar/Malaysian ringgit exchange rate fell sharply from MYR 4.65 to the MYR 4.52 level. Thereafter, market participants bought back the U.S. dollar. However, the Malaysian ringgit remained strong, following the appreciation of the Chinese yuan. Thus, the Malaysian ringgit has been robust in comparison with other currencies of ASEAN member states. For example, looking at the foreign exchange rate percentage change of the currencies of the five ASEAN countries as well as the Singapore dollar and the Indian rupee in the period between the FOMC meeting in June and the FOMC meeting in July, the Malaysian ringgit recorded a rise of approximately 2.2%, which is the second-largest rise after the Philippine peso.

On the other hand, with regard to the domestic economy of Malaysia, there was no significant change in economic conditions during this period. It can thus be said that the Malaysian ringgit appreciated against the U.S. dollar mainly because of external factors, such as the depreciation of the U.S. dollar and the slowdown in the depreciation of the Chinese yuan. The second-quarter GDP is scheduled to be out on August 18. If the result turns out to be a surprise, the U.S. dollar/Malaysian ringgit exchange rate could fluctuate based on factors related to the Malaysian ringgit, about which market participants should remain cautious. However, if there is no surprise in the announced figure, in general, market participants are likely to expect that the appreciation of the U.S. dollar is forecast to end soon, based on the outcome of the FOMC meeting held on July 27. There will be some time before the next FOMC meeting scheduled for September 21. As the recent CPI and the PPI of the U.S. have shown a steady slowdown, the U.S. dollar is expected to continue depreciating in the times ahead if the same trends continue. As a result, the U.S. dollar/Malaysian ringgit exchange rate is forecast to fall below the MYR 4.50 level, and once the exchange rate falls below this level, market participants are likely to start buying back the Malaysian ringgit in a full-fledged manner.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – August 2023

Expected Ranges **Against the US$: IDR 14,950–15,400**
Against the yen: JPY 0.9091–0.9524 (IDR 100)

1. Review of the Previous Month

The Indonesian rupiah depreciated slightly against the U.S. dollar in July.

At the beginning of the month, the U.S. dollar/Indian rupiah exchange market opened trading at the lower-IDR 15,000 level on July 3. Thereafter, the June inflation rate of Indonesia was announced, and the result was +3.52% year-on-year. Even though the inflation rate remained within the inflation target range set out by the central bank of Indonesia for the second consecutive month, there was little reaction to this news in the market. Thus, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range between the lower-IDR 15,000 and the mid-IDR 15,000 level. On July 5, local time, in the U.S., the minutes of a Federal Open Market Committee (FOMC) meeting were released, implying the possibility of further policy interest rate hikes. In reaction, market participants started actively buying the U.S. dollar. Following this trend, the Indonesian rupiah depreciated against the U.S. dollar. On July 10 in the following week, the Indonesian rupiah depreciated further against the U.S. dollar, and the exchange rate once reached the lower-IDR 15,200 level. Thereafter, market participants sold back the U.S. dollar while waiting for the announcement of the Consumer Price Index (CPI) of the U.S., and this led the Indonesian rupiah to rally gradually against the U.S. dollar. On July 12, local time, the CPI of the U.S. was announced, and the result turned out to be below the market estimate. As a consequence, the U.S. dollar depreciated further, and on July 13, the following day, the Indonesian rupiah continued appreciating. Meanwhile, the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 14,900 level when Asian markets opened. Toward July 14, the Indonesian rupiah continued appreciating even further, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 14,900 level. However, U.S. economic indices were released on the same day, local time, with figures exceeding the market estimates. As a result, the U.S. dollar started to rally. On July 17 in the following week, the Indonesian rupiah depreciated against the U.S. dollar, and the exchange rate reached the upper-DIR 14,900 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate did not move in any direction, fluctuating within a narrow range at around the IDR 15,000 level, as both the central bank of Indonesia and the FOMC were to hold monetary policy meetings in the following week. On July 25, the central bank of Indonesia decided to maintain its policy interest rate at the existing level at its said monetary policy meeting. Because this decision had been anticipated in the market, reaction to this news in the market was limited. Then, on July 26, the following day, local time, the said FOMC meeting was held in the U.S., and the policy interest rate was raised by 0.25%. On the other hand, the press conference of Federal Reserve Board (FRB) Chair Jerome Powell was seen to be dovish, leading the U.S. dollar to depreciate. On July 27, the following day, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 14,900 level. Toward the end of the month, there were some market participants selling the Indonesian rupiah based on actual demand, and the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 15,000 level. At the end of the month, the Indonesian rupiah remained weak, and trading closed at the upper-IDR 15,000 level.

2. Outlook for This Month

The Indonesian rupiah is forecast to remain weak in August.

The inflation rate in Indonesia is falling faster than the estimate made by the central bank of Indonesia. The June CPI (total) was +3.5% year-on-year, falling within the target range set out by the central bank of Indonesia, which was between 2% and 4%, as was the case in May. The inflation rate fell mainly because of the fact that the base effect of food price inflation had declined. However, the core CPI excluding food and fuel prices has also been on a decline, albeit to a lesser extent. The inflation rate is thus expected to remain within the target range in the future.

While there has been a slowdown in inflation, the central bank of Indonesia decided to maintain its policy interest rate at the existing level again in July. At the press conference after the monetary policy meeting, the governor of the central bank of Indonesia, Perry Warjiyo, expressed a cautious feeling about the outlook of the Chinese economy, while confirming that the domestic economy of Indonesia was revitalized faster than expected, maintaining the actual GDP growth rate for 2023 at +4.5% to +5.3% year-on-year.

The impact of the economic slowdown in China can be a negative factor for the domestic economy of Indonesia. However, because the Indonesian economy is dependent on domestic demand, whereas other Asian countries are dependent on external demand, the Indonesian economy has been stronger than the economies of other Asian countries. Under such circumstances, it does not seem very necessary for the central bank of Indonesia to start cutting its policy interest rate now.

Furthermore, the FOMC decided to raise its policy interest rate by 0.25% at a meeting held in July. Thus, a policy interest rate cut would inevitably impact the U.S. dollar/Indonesian rupiah exchange market as well. Since the second half of last year, resource prices have dropped, and the trade surplus has decreased. It is thus likely that pressure to sell the Indonesian rupiah is strengthened based on actual demand. At the current moment, the Indonesian rupiah has been increasingly depreciating against the U.S. dollar. Therefore, if the central bank of Indonesia decides to cut its policy interest rate, the depreciation of the Indonesian rupiah could accelerate further.

Thus, after evaluating the positive effect on the domestic economy and the negative effect on the foreign exchange market, the central bank of Indonesia is likely to maintain its policy interest rate at the existing level without cutting it for a while. On the other hand, the U.S. could still raise its policy interest rate. Thus, the Indonesian rupiah is forecast to remain weak against the U.S. dollar in the coming month.

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

Philippine Peso – August 2023

Expected Ranges	**Against the US$: PHP 53.50–56.50**
	Against the yen: PHP 0.37–0.41

1. Review of the Previous Month

The June manufacturing PMI of the Philippines turned out to be 50.9, exceeding the 50 mark. However, the figure recorded negative growth and reached the lowest level in approximately one year, to which market participants reacted negatively. Furthermore, the June Consumer Price Index (CPI) of the Philippines turned out to be 5.4% year-on-year, falling below 5.5%, the market estimate, recording a decline for the fifth consecutive month, thus reaching the lowest level in approximately one year. Under such circumstances, more market participants expected the central bank of the Philippines to maintain its policy interest rate at the existing level for a longer period, leading the Philippine peso to depreciate. Furthermore, the June employment statistics of the U.S. revealed the strength of the upward pressure on the wage level, leading market participants to expect a policy interest rate hike at the Federal Open Market Committee (FOMC) meeting in July. As a consequence, the U.S. dollar appreciated against a wide range of other currencies. Thus, at the beginning of July, the Philippine peso started to weaken after strengthening throughout the month of June. Therefore, the U.S. dollar/Philippine peso exchange approached the mid-PHP 55 level.

However, risk sentiment improved thereafter, thanks to expectations for further economic measures in China, strengthening the overall Asian currencies. Under such circumstances, the May trade deficit of the Philippines decreased based on the increase in exports, which had not been anticipated, supporting the Philippine peso. Furthermore, the June CPI of the U.S. recorded a significant decline, which led many market participants to expect the phase of monetary tightening to end soon in the U.S. As a result, the Philippine peso appreciated significantly, and the U.S. dollar/Philippine peso exchange rate reached the mid-PHP 54 level. Thereafter, the June Producer Price Index (PPI) of the U.S. recorded its lowest growth rate in approximately three years, demonstrating the weakening upward pressure on prices. Thus, less market participants expected the FOMC to raise its policy interest rate, leading the U.S. dollar to depreciate even further. Moreover, the governor of the central bank of the Philippines, Eli Remolona, emphasized that it was too early to discuss policy interest rate cuts, as there were upward inflation risks, and implied the possibility to introduce additional measures of monetary tightening. In reaction, in the middle of the month, the Philippine peso appreciated against the U.S. dollar to its highest rate in approximately three months.

After the appreciation of the Philippine peso has slowed, the June international balance of payments of the Philippines turned out to be at a deficit of USD 606 million, with an increase in the deficit from the previous month in which the deficit was USD 439 million. As a result, the trend was inverted, and the Philippine peso depreciated against the U.S. dollar. However, there were generally few factors in the market, and market participants maintained a wait-and-see attitude, as an FOMC meeting was approaching. The U.S. dollar/Philippine peso exchange rate thus continued fluctuating within a narrow range at the upper-PHP 54 level. The outcome of the FOMC meeting in the U.S. was as had been anticipated by most market participants. Furthermore, the press conference by Federal Reserve Board (FRB) Chair Jerome Powell was not seen as hawkish as feared by some; thus, interest rates fell in the U.S., weakening the U.S. dollar. Following this trend, the Philippine peso appreciated sightly against the U.S. dollar.

However, it was not enough to change the trend in the market, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range, as was the case in the middle of the month.

2. Outlook for This Month

At the FOMC meeting held in the U.S. in July, the possibility of further policy interest rate hike was mentioned, albeit depending on various economic indices, despite the fact that the inflation rate remained high with multiple recent economic indices demonstrating the expansion of economic activities at a moderate rate, with the labor market remaining tight. Approximately 40% of the market has also already reflected additional policy interest rate hikes at the FOMC meeting in November. While there are mixed factors in the market with the slowing inflation and the tightening labor market, the U.S. monetary authorities maintained the possibility to raise the policy interest rate further. Even though it is seen unlikely for the U.S. economy to enter a phase of recession, economic growth in the U.S. is likely to start slowing down significantly before the end of the year. In the times ahead, the economy is expected to decline, and inflation is likely to continue slowing due to tightening credit conditions. Therefore, some market participants predict that monetary tightening in the U.S. will end soon. On the other hand, it is unlikely for U.S. monetary authorities to start cutting the policy interest rate any time soon, as these market participants are also cautious about inflation, and an interest rate cut would fuel expectations for further inflation again with the market reflecting future policy interest rate cuts. Under such circumstances, the policy interest rate is most likely to remain at the existing rate until the end of the year, and interest rates in the U.S. are not expected to move in any direction.

With regard to domestic factors in the Philippines, inflation continues slowing down, and the inflation rate is expected to return to the target range in the fourth quarter of this year. For this reason, the policy interest rate is expected to remain at the existing level for a while. However, as there are upward inflation risks, the governor of the central bank of the Philippines, Eli Remolona, who originally saw the possibility of cutting the policy interest rate before the of the year, stated that it would be too early to start discussing policy interest rate cuts. He even implied that further monetary tightening would be possible depending on economic indices. Given the possible wage increase, food price increase based on bad weather, and import price increase based on the depreciation of the Philippine peso, the central bank of the Philippines is maintaining measures of monetary tightening. Therefore, the U.S. dollar/Philippine peso exchange rate is not likely to move in any direction from the viewpoint of policy interest rate differentials between the U.S. and the Philippines, as both countries are likely to maintain a hawkish monetary policy.

The U.S. dollar/Philippine peso exchange market has recently been led by the trends in the U.S. dollar market, as market participants expect the phase of monetary tightening in the U.S. to end soon. As a result, the U.S. dollar depreciated, and the Philippine peso appreciated. However, the monetary policy of the U.S. is likely to remain unchanged for a while, and therefore the U.S. dollar is expected to remain stable after depreciating to some extent. Furthermore, the trade deficit of the Philippines remains high, even though it recently decreased. Thus, from the viewpoint of supply & demand, market participants are more likely to sell the Philippine peso with domestic demand in the Philippines remaining strong. For these reasons, the Philippine peso is forecast to continue depreciating at a moderate pace, in general. The central bank of the Philippines also revealed its intention to adjust monetary policy if necessary, and market participants speculate about market interventions by the central bank of the Philippines. These factors are likely to support the Philippine peso in the times ahead, if the Philippine peso weakens significantly from the current level.

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

Indian Rupee – August 2023

Expected Ranges **Against the US$: INR 81.60–83.00**
Against the yen: JPY 1.64–1.78

1. Review of the Previous Month

In July, the U.S. dollar/Indian rupee exchange rate fluctuated within a narrow range, and at the end of the month, the exchange rate returned to the level observed at the beginning of the month.

The U.S. dollar/Indian rupee exchange market opened trading in July at the lower-INR 82 level. At the beginning of the month, the Indian rupee depreciated slowly, and the U.S. dollar/Indian rupee exchange rate once reached the INR 83 level. However, the central bank of India intervened in the foreign exchange market by buying the Indian rupee, in order to firmly keep the U.S. dollar/Indian rupee exchange rate from rising further and to keep the exchange rate within a certain range. Thereafter, the June employment statistics of the U.S. were released with weak figures, rapidly weakening the upward pressure on the U.S. dollar, which had been persistent. Furthermore, the price indices of the U.S. confirmed a slowdown in inflation, which weakened the U.S. dollar and strengthened the Indian rupee. Toward the second half of the month, the U.S. dollar/Indian rupee exchange thus occasionally fell below the INR 82 level. However, when the exchange rate reached the INR 81.65–INR 75 level, the central bank of India intervened in the foreign exchange market by selling the Indian rupee to support the exchange rate from falling further. There were also some market participants selling the Indian rupee based on actual demand for the end of the month. As a result, the U.S. dollar/Indian rupee exchange rate stabilized. Thereafter, the U.S. dollar/Indian rupee exchange rate rallied slightly, and, in the end, trading closed at a level slightly below INR 82 (as of July 27).

The BSE Sensex once exceeded the 67,500 level. Even though the index renewed its highest point this year, it started to fall slightly thereafter. At the beginning of the month, the BSE Sensex occasionally fell, as market participants sold Indian stocks after the additional policy interest rate hike in the U.S. However, there was generally a significant return of investment funds from foreign investors, which continues bringing active capital inflow into the Indian market. As some market participants also sold Indian securities to secure profits, the BSE Sensex started to fall slightly thereafter, although the fall was not so significant.

With regard to the economic indices of India, the June manufacturing and service industry PMI turned out to be weaker than the market estimate. The June Consumer Price Index (CPI, year on year), which had attracted substantial attention in the market, turned out to be +4.81%, exceeding the previous month's result, which was +4.60%. This is an important index to evaluate the effect of the policy interest rate hike toward deciding on the monetary policy at the next MPC meeting. Since this month's figure demonstrated an uptrend, reversing the downtrend previously observed, it is possible that the base effect will start fading. Also, the May industrial production turned out to be above the market estimate. However, the June trade balance revealed an increase in the trade deficit. Thus, India's trade balance remains in the red.

2. Outlook for This Month

The U.S. dollar/Indian rupee exchange rate may remain low in August.

In August, the U.S. dollar/Indian rupee exchange rate is forecast to remain low, fluctuating with the INR 83 mark as the upper end. The central bank of India is expected to continue preventing the exchange from falling, keeping it within a narrow range by intervening in the foreign exchange market. However, at the same time, the capital inflow into India is also likely to keep the U.S. dollar/Indian rupee exchange rate from rising substantially. In terms of transactions based on actual demand, there are some transactions at around the upper-INR 81 level to the upper-INR 82 level, at which the U.S. dollar/Indian rupee exchange rate seems to remain stable based on the recent trend.

With regard to the CPI of India, as food prices are rising due to recent bad weather, some market participants expect the CPI to rise to the +5.0% level in the times ahead. The latest CPI of India was on a downtrend, partly because of the base effect. However, the June CPI of India that was announced in July recorded positive growth from the previous figure, making it important to evaluate the effect of the policy interest rate hikes. Under such circumstances, there will be some risk factors such as the possibility for the MPC to shift its monetary policy and to start rising the policy interest rate at the meeting in August, about which market participants should remain careful.

From a medium- to long-term perspective, there will be stronger pressure to weaken the U.S. dollar and to strengthen the currencies of emerging countries, including the Indian rupee, following the end of the policy interest rate hikes and the beginning of policy interest rate cuts in the U.S., which are expected to be next year or later. However, the trend in the U.S. dollar/Indian rupee exchange market is not likely to change substantially, as the central bank of India is expected to continue intervening in the foreign exchange market when the exchange rate falls, while some market participants are expected to sell the Indian rupee based on actual demand. Therefore, the Indian rupee is forecast to start depreciating slowly against the U.S. dollar in the times ahead.

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