Mizuho Dealer's Eye

September 2023

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Mizuho Bank, Ltd.

Global Markets Trading Department

Hiroyuki Yamazaki, Global FI Team, Global Markets Trading Department

U.S. Dollar – September 2023

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

1. Review of the Previous Month

The BOJ decided to tweak its YCC policy at the end of July, but with the bank still committed to keeping interest rates in check, the dollar/yen pair rose to the lower-142 yen mark at the start of August. As this trend continued, the pair floated around 143 yen. The US posted some mixed July employment data at the weekend, with the dollar then sold and the pair dropping below 142 yen.

At the start of the next week, on August 7, the pair bounced back to 142 yen as the greenback strengthened once more on firm US interest rates and bullish Japanese stocks, with the pair eventually hitting the mid-142 yen level. The yen was sold and the dollar bought on August 8 after Japan and China released some worse-than-expected economic indicators, with the pair entering the 143 yen range and continuing to trade at this level. The pair edged higher thereafter to temporarily hit the 144 yen range on August 10. The US released some weaker-than-expected July CPI data on August 10, so the greenback was sold for a time and the pair plummeted to the lower-143 yen mark. However, the pair then rallied sharply to the upper-144 yen level after the yen was sold on risk appetite after US stock futures climbed higher.

When the markets opened after a long weekend on August 14, the pair entered the 145 yen range to hit the mid-145 yen level. With the RMB moving at lows on August 16, the dollar/yen pair also moved firmly. As US long-term interest rates continued climbing, the pair hit the mid-146 yen mark for a time. However, there were strong concerns about an intervention by the Japanese authorities at this level. With news also emerging that the Chinese authorities had ordered state-owned banks to step up their interventions in the forex markets to support the RMB, the yen faced buying pressure, with the dollar/yen pair dropping below 146 yen once more. This trend continued on August 18, with the pair falling to around 145 yen.

China announced a rate cut at the start of the following week on August 21, so the dollar strengthened and the dollar/yen pair rose again. The pair recovered to 146 yen again during overseas trading time, though it then dropped back on concerns over an intervention. After a prolonged climb, US interest rates stopped climbing too, so the pair fell below 145 yen to hit the upper-144 yen mark. It moved at this level over the following day too, though it then changed direction and bounced back to 145 yen. It continued rising during overseas trading time to rally to 146 yen again on August 25.

The pair climbed further on FRB chair Jerome Powell's speech at the Jackson Hole symposium, with its topside gaining to the mid-146 yen level over August 28. The pair then entered the 147 yen range to hit a 2023 high of 147.37 yen on August 29 as US interest rates rose during European trading time. However, its gains were pared back on the worse-than-expected result of the July US JOLT Job Openings figure, with the pair dropping into the 146 yen range over August 30. It continued swinging to and fro around 146 yen towards the month's end.

2. Outlook for This Month

The dollar/yen pair looks set to rise in September. The pair was impacted in part by the movements of the RMB in August, though it has been swayed more by US interest rates recently. There are many ways to interpret FRB chair Jerome Powell's speech at the Jackson Hole economic symposium in August, but the markets read it as hawkish and it roused speculation about further rate hikes within the year. Expectations for a monetary policy shift by the BOJ are also waning following comments by BOJ governor Kazuo Ueda about Japan's inflation rate. As such, Japanese/US interest-rate differentials will probably widen on the clear difference in the monetary policies of the BOJ and FRB. The dollar/yen pair looks set to continue rising on these differentials.

China also faces concerns about defaults by major property developers, with the situation set to remain bearish and the RMB likely to face ongoing selling pressure. With the dollar growing comparatively stronger, the dollar/yen pair will face upward pressure on cross trading.

However, with attention still focused on inflation in the eurozone, investors should monitor the movements of the ECB as it continues to lift its policy rate. With inflation still rising, the ECB is likely to keep hiking its policy rate from a continuity perspective, even if this hits the economy, with the greenback set to face downward pressure from euro buying.

Concerns about an intervention will rise when the dollar/yen pair climbs to key levels, but the pair has continued to rise since the turn of the year to approach last year's highs. Its current level suggests there will be several occasions when the pair moves with a heavy topside when it approaches 150 yen.

Dealers' Market Forecast

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

Bullish on the dollar	12 bulls	149.00 – 143.50	Bearish on the dollar	3 bears	148.00 – 140.00

* Ranges are central values

Kawai	Bull	148.00 – 144.00	With several US and Japanese policy events looming at the end of the month, the dollar/yen pair will move skittishly early September with an eye on economic indicators. Once these events are out of the way, the pair will edge higher again on the divergent monetary policy stances of the FRB and BOJ, though its topside will be capped by concerns over an intervention.
Kawabata	Bull	150.00 – 145.00	The yen continued to weaken overall after the last BOJ policy shift, with the yen unlikely to be bought on Japanese factors. The dollar/yen pair has moved at highs since last year. The authorities will probably try to curb the pair's rise at times, though there is a dearth of factors capable of shifting the pair's trend.
Kato	Bear	147.00 – 140.00	Japan is facing strong inflationary pressures on yen weakness, with the BOJ and Japanese government likely to discuss revising the contents of their joint declaration. With inbound tourism also moving sluggishly on moves to release wastewater into the sea, the Japanese government will probably apply pressure to try curbing the yen's slide.
Yamazaki	Bull	152.00 – 142.00	The dollar/yen pair looks set to rise in September. The markets are pricing in more US rate hikes before the end of the year. The Chinese economy is also moving sluggishly, with major property firms facing a liquidity crisis. With expectations also muted when it comes to a Japanese policy rate shift, the pair will continue to face upward pressure.
Ito	Bear	148.00 – 142.00	The dollar/yen pair's topside will gradually grow heavier. There is only limited room for US interest rates to rise further, so the pair is unlikely to undergo a one-sided rise. The BOJ's stance remains unchanged, though, so the pair's downside will still be supported by yen selling. In the end, the pair will continue to trade in a range around 145 yen.
Omi	Bull	149.00 – 143.00	US policy rates will stay high in September, with the greenback likely to remain bullish and the yen bearish as the BOJ remains in easing mode. However, the dollar could be sold at times if US indicators deteriorate.
Yamaguchi	Bull	149.00 – 144.00	There are growing signs that the US labor market is cooling off, but inflation remains at highs, so the FRB looks set to continue tightening. Even if the FRB postpones rate hikes, the dollar/yen pair will move firmly on the divergent monetary policies of the US and Japan.
Matsunaga	Bull	147.00 – 143.50	Economic sentiments are deteriorating in the US, but the labor market remains tight and inflation high, so the FRB will remain in tightening mode. As such, the dollar/yen pair will continue to move firmly.
Tagawa	Bull	150.00 – 145.00	The BOJ has effectively scrapped its YCC and BOJ board member Naoki Tamura has dropped hints about an end to negative interest rates. Nonetheless, the dollar/yen pair has continued to climb. The US is also unlikely to bring forward the timing of rate cuts, so the pair looks set to move at highs in September.
Katoono	Bull	150.50 – 143.50	The greenback will remain strong on the firmness of US consumer spending and employment indicators. The debate about the neutral rate is likely to flare up again ahead of the September FOMC meeting, but a number of factors now point to a further rate hike at the November FOMC meeting.
Kobayashi	Bear	148.00 – 140.00	The yen will continue to weaken on the divergent direction of monetary policy in the US and Japan. However, US employment indicators remain bearish, with the FOMC likely to postpone further rate hikes when it meets in September, so the dollar/yen pair will be adjusted downwards at times this month.

Henmi	Bull	148.00 – 143.00	The FRB has hit pause on rate hikes. There are also concerns over an intervention by the Japanese authorities, while dollar long positions have accumulated since July. Given this, it seems the dollar/yen pair could face downside risk this month. With the BOJ still sitting on its hands, though, the yen is unlikely to be bought, with the pair set to move firmly overall.
Suzuki	Bull	148.50 – 143.50	There are strong fears about an intervention, though there are no other factors supporting yen buying. The dollar/yen pair will continue to move firmly providing the FOMC does not shift its stance sharply or no impactful factors emerge (such as a sharp downturn in employment or inflation).
Okuma	Bull	150.00 – 143.00	The US labor market shows signs of loosening, but the FRB remains in hawkish mode, with US long-term interest rates remaining high and the US economy moving firmly on an exuberant stock market. There are also expectations for further rate hikes within the year, with the dollar/yen pair likely to move firmly this month.
Nishi	Bull	149.00 – 144.00	There is only limited room for further rate hikes in the US, but rate cuts are still some way off. The Japanese government and the BOJ have not ramped up their rhetoric about an intervention either, so the yen will remain susceptible to selling. The dollar/yen pair will edge higher with an eye on the key 150 yen mark.

Hisaki Henmi, Forex Sales, Global Markets Trading Department

Euro – September 2023

Expected Ranges **Against the US$: US$1.0700–1.1200**
Against the yen: JPY156.00–162.00

1. Review of the Previous Month

The euro/dollar pair fell last month.

With European stocks moving bearishly on August 1, the pair edged down to the upper-$1.09 level. The dollar was then sold and the pair bounced back to $1.10 on August 2 after a major US credit rating agency downgraded its rating for US treasuries. With US economic indicators moving firmly, though, US interest rates rose and the currency pair dropped back to the lower-$1.09 mark. The eurozone released a bearish June Producer Price Index (PPI) on August 3, with the pair dropping to $1.0913 as German interest rates fell. The dollar was then sold and the pair rose to $1.01 on August 4 after the release of the US July employment data.

With US interest rates rising and Germany releasing some bearish industrial production data for June, the pair weakened to the mid-$1.09 level on August 7, though it then rallied as US interest rates began falling. On August 8, the Italian government released plans to tax windfall bank profits. German interest rates subsequently fell and the currency pair slid to $1.0930. On August 9, the Italian government then announced it was scaling back its tax plans, so the pair rallied to the upper-$1.09 level. The pair bounced back to $1.10 on August 10 and it then edged up to $1.1065 on the results of the US July CPI data. However, the greenback was bought back sharply as US stocks and interest rates shifted course, with the euro/dollar pair also plummeting below $1.10. The dollar was bought on August 11 as European stocks fell and the US July PPI data rose above market expectations, so the pair tumbled to $1.0943 to trade at the mid-$1.09 level.

Amid a dearth of any noteworthy factors, the pair temporarily fell to the upper-$1.08 mark on August 14 as US long-term interest rates hit their highest level in nine months. The pair then fell to $1.0901 on August 15 as risk aversion grew on a surprise Chinese rate cut. The pair fluctuated gently around the lower-$1.09 mark on August 16, though the greenback was then bought as the minutes to the July FOMC meeting reconfirmed the FRB's hawkishness, so the currency pair dropped back below $1.09. The pair continued moving bearishly on dollar firmness on August 17 to drop down to $1.0857. With the euro/yen pair sliding on August 18, the euro/dollar pair also moved with a heavy topside. The pair then hit $1.0845 as US interest rates rose during NY trading time.

With European stocks moving firmly on August 21, the pair temporarily hit $1.09, though it then dropped back to the mid-$1.08 level on August 22 as German interest rates fell. On August 23, the pair dipped to $1.0802 on the weak results of the preliminary eurozone Manufacturing and Non-manufacturing PMIs for August. This trend continued on August 24, with the pair moving at the lower-$1.08 mark, though it then rose to around $1.08 on August 25 as German long-term interest rates climbed.

With the London market on holiday on August 28, the pair moved with a lack of incentive. The dollar was then sold on some weak US indicators on August 29. The euro/dollar pair was pushed higher to hit the $1.09 range on August 30. The pair was sold back on August 31, though it continued to trade around $1.09.

2. Outlook for This Month

The euro/dollar pair is expected to move firmly in September. The euro had moved firmly against the dollar on speculation that European monetary policy would remain more hawkish compared to the US. After hitting a high of $1.1276 in July, though, the pair trended lower. Eurozone economic indicators have deteriorated, while tweaks to the ECB's statement in July suggested the phase of rate hikes could be coming to an end. With uncertainty also brewing about the direction of Europe's economy, expectations for rising interest rates waned. All this had a significant impact on the pair's movements. Investors focused on the weakness of Europe's economy in August too. With the FRB also reconfirming its hawkish stance, market participants tested the euro/dollar pair's downside. At the Jackson Hole symposium, though, ECB president Christine Lagarde dropped hints about ongoing rate hikes. With expectations for US rate hikes also waning, the currency pair tried to stage a comeback.

The ECB Governing Council will be meeting on September 14. Though the headline Harmonised Index of Consumer Prices (HCIP) data has slowed, the core figure remains high. With employment conditions also moving firmly, the ECB is unlikely to shift in a dovish direction. Christine Lagarde's comments at the Jackson Hole symposium were probably aimed at nipping these expectations in the bud, so from here on the euro is likely to be supported by buying as markets focus on the divergent monetary policies of the US and Europe. However, if Germany and other European nations continue to post weak economic indicators, rate hikes could be put on hold in the eurozone, especially given strong uncertainty internally and externally on concerns about the direction of the Chinese economy. This would work to push the euro lower, but a European economic slowdown would also loosen energy supply and demand conditions, with the trade balance likely to improve as a result, so the euro could be boosted by the supply and demand environment. As such, the euro/dollar pair is unlikely to undergo the kind of one-sided fall seen in July, with its room on the downside also capped.

Dealers' Market Forecast

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

Bullish on the euro	5 bulls	1.1200 – 1.0800	Bearish on the euro	10 bears	1.1100 – 1.0700

* Ranges are central values

Name	View	Range	Comment
Kawai	Bear	1.1500 – 1.0650	With eurozone economic sentiments clearly deteriorating, the euro/dollar pair will continue to move bearishly this month. This writer believes the ECB Governing Council will keep policy rates fixed when it meets on September 14 out of concern for the economy, with this likely to push the pair lower over the latter half of the month.
Kawabata	Bull	1.1100 – 1.0800	The euro/dollar pair's movements will continue to be passively swayed by eurozone inflation indicators and the US monetary policy outlook. US indicators are deteriorating, with the pair also moving firmly in reaction to concerns about dollar strength around the time of the Jackson Hole symposium. Given this, it seems the pair will move in a range with its ceiling at $1.10.
Kato	Bull	1.1200 – 1.0850	There are some concerns about Germany's real economy, but the weakness of the real economy has placed restraints on fuel and other import costs, so this sluggishness may not necessarily work to push the pair lower. The pair looks set to remain firm.
Yamazaki	Bear	1.0900 – 1.0750	The euro/dollar pair will move somewhat bearishly within a range. With inflation falling at a slower pace, the ECB will continue to face pressure to hike policy rates, with the euro set to move firmly against the strong dollar.
Ito	Bear	1.1200 – 1.0700	Inflation is falling in the eurozone, but there are worries that it still remains high. Opinions are divided about the possibility of a rate hike at the next ECB Governing Council meeting, but the pair's topside will move heavily on growing fears of an economic slowdown. The pair's topside will also be weighed down by the build-up of euro long positions.
Omi	Bull	1.1300 – 1.0800	The euro/dollar pair looks set to remain firm on 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.
Yamaguchi	Bull	1.1200 – 1.0800	US economic indicators are moving bearishly, with expectations for rate hikes waning. With inflation still high in the eurozone, though, the ECB remains committed to fighting inflation and it will need to continue intermittently hiking rates from here on. This will place more appreciatory pressure on the euro.
Matsunaga	Bear	1.0950 – 1.0700	Core inflation remains high in Europe, but there are growing concerns about an economic slowdown, with economic sentiments deteriorating in Europe, for example, so the euro will not simply be pushed higher by the ECB's hawkish stance. The euro/dollar pair will continue trading with a heavy topside.
Tagawa	Bear	1.0990 – 1.0740	Prices are trending lower in the eurozone. With the eurozone August Servies PMI also dropping below the key 50 mark, a contrast has also emerged between US and European economic sentiments. As such, it seems the euro will be conducive to selling.
Katoono	Bear	1.1050 – 1.0700	Core inflation indicators are slowing, while concerns about an economic downswing are being fanned by the slowdown in China. As such, the ECB will only have limited room for further rate hikes. The euro looks set to continue moving bearishly against the strong dollar.
Kobayashi	Bear	1.1100 – 1.0600	The eurozone economy is noticeably slowing, with more market participants now expecting the ECB to shelve rate hikes when it meets in September. If it does pause rate hikes, the euro/dollar pair is likely to fall further.

Henmi	Bull	1.1200 – 1.0700	There is a risk the ECB will put rate hikes on hold, but if this happens, the euro will be supported by supply and demand. With expectations for US rate hikes waning, Europe will seem more hawkish than the US at times, with the euro/dollar pair set to move firmly this month.
Suzuki	Bear	1.1100 – 1.0700	There are strong concerns about an economic slowdown in Germany and other eurozone nations. With momentum for ECB rate hikes waning, a clear gap is emerging between the eurozone and the US, where the economy remains firm, with the euro/dollar likely to move bearishly as a result.
Okuma	Bear	1.1100 – 1.0700	Though inflation remains high, the eurozone has released some bearish economic indicators, so expectations for ECB rate hikes are waning. There are growing concerns about the German economy in particular, with the euro/dollar pair's topside likely to grow gradually heavier.
Nishi	Bear	1.1100 – 1.0700	Prices remain high within the eurozone, with more tightening needed there compared to the US. There are also concerns about a eurozone economic slowdown, though, so the euro/dollar pair's topside will move heavily. Investors should also be wary of an adjustment to accumulated euro long positions.

Masayuki Nakajima, Europe Treasury Department

British Pound – September 2023

Expected Ranges **Against the US$: US$1.2400–1.2800**
Against the yen: JPY182.00–189.00

1. Review of the Previous Month

The pound edged lower against the dollar in August. Its fall accelerated on the sharp downswing in the eurozone and UK August preliminary Services PMIs (released August 23), with the GBP/USD pair dropping to $1.2548 on August 25. In this way, the pair fell by -2.3% on its end-of-July figure of $1.2835. With US interest rates then falling, the pair rallied to $1.26 on August 30. Sterling moved firmly against the other G10 currencies. By August 30, it had risen to 185 yen against its Japanese counterpart, up from 182.61 at the end of July.

The pound moved flatly against the dollar in the first week. On August 3, the BOE lifted its policy rate from 5.00% to 5.25%. This was the 14th successive hike, with the policy rate lifted to its highest level since April 2008, some 15 years ago. At the June meeting, the rate had been lifted by +0.50%, up from +0.25% at the previous meeting. However, with the UK June CPI data then falling below +8% y-o-y for the first time in 15 months, the pace of rate hikes was returned to its previous level. However, the BOE maintained its forward guidance about how rates could rise again if inflation continued.

In the second week the GBP/USD pair fluctuated up and down around the time of the US July CPI announcement.

In the third week, sterling strengthened despite concerns about the Chinese economy and global dollar bullishness on rising US treasury yields. The UK average weekly wages (excluding bonuses) data was released on August 15, with 2Q wages rising +7.8% on the same period last year. This led to growing expectations for further BOE rate hikes. The number of people in work fell by 66,000 q-o-q in the second quarter, while the unemployment rate rose from 4.0% in May to hit 4.2% in June, so the data was not totally bullish. However, the BOE will probably focus more on strong wage growth as it tries to gauge the stickiness of high inflation.

The pound fell sharply in the fourth week. This was prompted by the August 23 release of the preliminary August eurozone and UK PMI data. Services are central to the eurozone economy, so it was particularly noteworthy that the eurozone Services PMI had fallen from 50.9 to 48.3. This was below the market forecast of 50.5 and it marked the first time the indicator had dipped below 50 this year. The UK Services PMI also fell from 51.5 in July to 48.7. This suggested that ECB and BOE monetary tightening was already impacting the services industry.

Sterling bounced back against the dollar in the fifth week as the July US JOLT Job Openings figure (released August 29) fell and the August US ADP National Employment Report (released August 31) dropped below market expectations.

2. Outlook for This Month

The pound will continue to trade with a heavy topside against the dollar in September. The market's expected terminal rate stood at 5.794% at the end of July. When the UK average weekly wages (excluding bonuses) data was released on August 15, though, it revealed that wages had risen +7.8% on the same period last year in the second

quarter, with the expected terminal rate then shooting up to 6.0%. However, on August 23 it was revealed that the preliminary August UK Services PMI had fallen sharply from 51.5 in July to 48.7, with the expected terminal rate then dropping to around 5.76%.

Key economic indicators in September will include the labor market statistics released on Tuesday, September 12 and the UK August CPI data released on Wednesday, September 20. If the decline in service-industry sentiments leads to slowing wages and service prices, expectations for further BOE rate hikes could drop off sharply.

Investors should also focus on US economic trends to gauge the direction of the GBP/USD pair. The July US JOLT Job Openings figure fell, with US interest rates sliding and the dollar weakening. US economic indicators continue to drop below market expectations, but these indicators have yet to show signs of a decisive downswing, as seen in the August eurozone and UK Services PMI data. The dollar will probably rise once more against European currencies as investors focus on the firmness of the US economy.

Sterling has risen markedly against the yen on the back of the yen's one-sided slide these past two months. Mizuho's *Forex Medium-Term Outlook* and other reports suggest the dollar and pound will continue to rise against the yen as long as expectations remain subdued for a fully-fledged policy shift by the BOJ.

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

Australian Dollar – September 2023

Expected Ranges **Against the US$: US$0.6300–0.6700**
Against the yen: JPY92.30–96.30

1. Review of the Previous Month

After opening the month at $0.6717, the AUD/USD pair was weighed down by several factors and in mid-August it fell to $0.6365 for the first time since the start of the year. It then rallied to the upper-$0.64 level towards the month's end.

The RBA kept its policy rate fixed when it met at the start of the month. Commodity prices also dropped back, while a major US credit rating agency downgraded its rating for US long-term treasuries. The US also released a bullish July ADP National Employment Report, while Australia's 2Q retail sales figure fell for the third straight quarter. All this saw the currency pair dropping to the lower-$0.65 handle. China's July trade data saw imports and exports both down on expectations. With a US bank also suffering a credit downgrade, risk aversion grew, with the pair temporarily sliding to $0.64. However, Philadelphia Fed president (and FOMC voting member) Patrick T. Harker then hinted that rate hikes could end. LNG prices then rose by 40% on supply concerns as it seemed likely a strike would take place at an Australian LNG plant. The US July CPI data slowed on its release on August 10. With US employment data also showing signs of slackening, it seemed more likely that the FOMC would keep rates fixed in September, so the greenback was sold and the AUD/USD pair rose to $0.6617.

In his testimony to parliament mid-August, RBA governor Philip Lowe said some fine-tuning would probably be needed going forward. With the governor leaving the door open to further rate hikes, the currency pair strengthened to $0.6533. The minutes to the RBA board meeting also hinted at further rate cuts with a comment that "some further tightening of monetary policy might be required to ensure that inflation returns to target in a reasonable timeframe," with the pair then rising to $0.6521, though its downside then fell to the lower-$0.64 level after the greenback was bought on the hawkish contents of the FOMC meeting. The pair dipped to $0.6365 when the Australian July employment data dipped below expectations.

The People's Bank of China lowered its 1-year loan prime rate by -10bp late August. This was less than expected, though, so the RMB was sold and the AUD/USD pair also followed suit to drop to $0.6388 for a time. The pair temporarily rose to the mid-$0.64 handle on August 23 as the Australian dollar was bought by Australian investors. Once this flow ended, the pair dropped down to around $0.6410. However, speculation about an end to US rate hikes then grew after the US August PMI deteriorated. The greenback was sold and investors began short covering, with the currency pair rising to $0.6481 for a time. Australia's July retail sales figures were temporarily boosted by the success of the Matildas at the Women's World Cup, with the Australian dollar also bought by local corporations for dividend reserves, so the pair rose to the mid-$0.64 level. However, with a comparatively large number of option pins set at $06410, gamma investors sold the Australian dollar, with the currency pair's topside held down by these offensive and defensive moves.

Australia's July CPI data was released towards the month's end and it revealed that inflation had slowed more than expected on a y-o-y basis. As expectations for a September Australian rate hike waned, the pair weakened to $0.6450. However, several US economic indicators then pointed to the risk of a US economic slowdown, so the

greenback was sold on a growing sense that US rate hikes were drawing to a close. The AUD/USD pair subsequently rose again to trade around the upper-$0.64 handle.

2. Outlook for This Month

The AUD/USD pair was weighed down by several factors in August. The data suggested the Australian jobs environment had grown slacker, with Australia's 2Q wage index swinging lower and the July unemployment rate rising to 3.7%, for example. Finely-tuned expectations for further Australian rate hikes also receded on a growing sense that inflationary pressures from the labor market had eased. The People's Bank of China lowered its 1-year loan prime rate by -10bp, though this cut was smaller than expected. The markets were clearly disappointed, with the RMB moving bearishly and the Australia dollar weighed down. With several indicators pointing to a Chinese economic slowdown, the Chinese government was forced to carry out some stimulus and it implemented a series of measures, including cutting stamp duty on securities trades. However, it seems the impact on the markets was short-lived. During this time, the Australian dollar was supported from the end of August to September by moves from Australian exporters to buy the Australian dollar for dividend reserves. It was also boosted by economic data pointing to a US economic slowdown.

The AUD/USD pair will be supported at times by corporate Australian-dollar buying in September too, with the pair likely to jostle up and down as investors compare the speed of the slowdown in the US and Australia. FRB chair Jerome Powell's closely-watched speech at the Jackson Hole symposium contained no decisive comments about US monetary policy, so attention is now focusing on the September FOMC meeting. Most observers believe the FOMC will keep policy fixed, but investors will be monitoring the dot chart to see whether the federal funds rate predictions for the end of 2023 and the end of 2024 will be upgraded from June's dot chart. The next focal point will be how long the FRB keeps its policy rate at high levels after the rate-hike cycle comes to an end. If the policy rate forecast is revised upward compared to June, the greenback will probably be bought, with the AUD/USD pair falling. As for the Australian monetary policy, RBA governor Philip Lowe will be stepping down mid-September to be replaced by current deputy governor Michele Bullock. In a speech on August 29, Ms. Bullock said that the RBA would be making decisions about further rate hikes on a month-by-month for the time being. With inflation still too high, though, she said her first priority was to fight inflation. In July, Australia's retail sales were pushed up by special demand related to the school holidays and the success of the Matildas at the Women's World Cup, but several other indicators have suggested inflationary pressures are dropping off, with pressure from RBA rate hikes also easing. If this trend continues, the currency pair will probably trade with a heavy topside. With China releasing several bearish economic indicators, the currency pair will also be pushed down by growing concerns about the direction of the Chinese economy.

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

Canadian Dollar – September 2023

Expected Ranges **Against the US$: C$1.3100–1.3700**
Against the yen: JPY104.00–109.00

1. Review of the Previous Month

Concerns about the Chinese economy grew in August. The US also released more treasuries to pay for its fiscal deficit. With inflation still strong and the risk of a recession also falling, US interest rates rose sharply. The greenback strengthened against the other major currencies, so after hitting a low of C$1.3093 for a time in July, the USD/CAD pair rose to the mid-C$1.36 level for the first time in two months.

The pair opened August trading at C$1.3190. China's July Manufacturing PMI then hit a 2023 low, while the credit rating agency Fitch Ratings downgraded US treasuries one notch from the highest rating. The US dollar was subsequently bought on risk aversion. The US and Canada released some mixed July employment data on August 4. The USD/CAD pair swung lower for a time, but this trend was short-lived and the pair was bought back to just below C$1.34. China's July trade balance was released on August 7, with its deficit swelling. As concerns about a global economic slowdown grew, US stocks and crude oil prices fell sharply, with the currency pair topping C$1.35 for the first time since the end of May.

The US July CPI and PPI data was released mid-August and they were broadly in line with market expectations. With Canada's July core CPI data up slightly on the previous month, the currency pair weakened for a time. Market concerns about a Chinese real-estate slump then increased. Uncertainty about the direction of the Chinese economy grew, with the offshore RMB hitting a 16-year low against the greenback, for example. The USD/CAD pair also rose to C$1.3575 at this time.

The US dollar was bought further late August as yields on 10-year US treasuries climbed. Canada released some bearish June retail sales data on August 23. Canadian long-term interest rates fall sharply, as did the likelihood of a rate hike at the September 6 Bank of Canada (BOC) meeting. The Canadian dollar was sold and the currency pair topped C$1.3600. It then traded at C$1.35 until FRB chair Jerome Powell's speech at the Jackson Hole symposium on August 25. Mr. Powell did not rule out further rate hikes in his speech, so the pair then rose to C$1.3640 for a time. However, the US then released a worse-than-expected Consumer Confidence Index and Job Openings figure on August 29, so fears grew about a slowdown in consumption and employment. As US interest rates fell sharply, the greenback was sold and the currency pair plummeted from the lower-C$1.36 mark to around C$1.3570.

2. Outlook for This Month

With the US and Canada in the final phase of rate hikes, inflation is still stubbornly high, even though it is slowing, with the economy also remaining firmer than expected. As such, there is a growing sense that interest rates will remain high in the US for a prolonged period. In August, though, US long-term interest rates rose sharply on the back of bullish 10-year treasury yields, with this also pushing the greenback higher. The US dollar was also bought and the Canadian dollar sold on risk aversion as concerns about the Chinese economy grew.

The FRB and BOC maintain that monetary policy will depend on the data going forward, so the USD/CAD pair's movements will continue to be swayed by economic trends in the US, Canada and China, for instance. It will soon be 18 months since rate hikes began, with the FRB growing more confident about reaching a soft landing and market bets on a hard landing also falling. However, high interest rates have already had an impact on consumer trends in Canada. Interest payments on mortgages have risen at their fastest ever pace, for example. Retail sales have also slowed since April, with overall sales moving flatly on the previous month in June. Once automobiles are removed from the equation, sales fell on a m-o-m basis for two straight months to hit -0.8% in June, with the volume of sales also down -0.2% m-o-m, despite a growing population.

In addition to slowing consumption, the August employment data will not be released until September 8. With the Bank of Canada (BOC) meeting on September 6, it will probably keep its policy rate fixed as it tries to gauge the impact of previously-implemented monetary tightening (market bets on a rate hike at the September meeting stood at around 26% as of August 29). As with August, US long-term interest rates will probably rise in September as the US issues more treasuries against the backdrop of a deteriorating financial situation. With concerns also lingering about the Chinese economy and property market, the greenback will be bought in September too. The US labor market has remained firm, but if some worrying signs emerge, expectations for another US rate hike within the year will wane, with US interest rates falling and the US dollar also tumbling.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – September 2023

Expected Ranges **Against the US$: KRW 1,290–1,350**
Against the yen: JPY 10.75–11.36 (KRW100)

1. Review of the Previous Month

The USD/KRW pair was pulled up by the RMB's movements in August.

The pair opened the month trading at KRW1276.2 on August 1. The RMB was sold and the pair rose in the morning after China released a worse-than-expected PMI. On the morning of August 2, a US credit rating agency downgrading its rating for US treasuries. As market sentiments worsened, South Korean stocks fell and the won moved bearishly. The currency pair topped KRW1300 on August 3. The won then fell sharply on August 4, with the pair hitting KRW1310.

The following week saw the pair dropping below KRW1300 for a time on August 7 on apparent real-demand flows. With China releasing some bearish trade data on August 8, though, the RMB weakened and the won followed suit. The currency pair topped KRW1320 on August 9 as risk aversion grew after some medium and small-sized US banks had their credit rating slashed. China's July loan data was released on August 11 and it was down sharply on expectations, so the RMB fell on growing speculation about monetary easing by the People's Bank of China (PBC). The USD/KRW pair subsequently strengthened to around KRW1325.

The pair opened the following week trading at KRW1330 on August 14. With South Korea on holiday on August 15, the PBC unexpectedly cut its medium-term lending facility (MLF) rate, with the won falling as a result. This trend continued on August 16, with the USD/KRW pair then rosing to a 2023 high of around KRW1343.0 on August 17. On August 18, the Chinese authorities set its reference rate at a much higher level than expected as part of moves to curb RMB bearishness, with the USD/KRW pair temporarily hitting KRW1330.

The next week saw the pair approaching its 2023 high of KRW1343.0 once again on August 21, but its topside was held down as the South Korean authorities indicated their intention to curb the won's slide. The pair continued to fluctuate gently on concerns about FRB chair Jerome Powell's speech at the Jackson Hole symposium, but won bearishness eased on August 24 as US interest rates fell, with the currency pair also tumbling below KRW1320 for a time. When the BOK met on August 24, it kept its policy rate fixed at 3.50% for the fifth straight meeting. This was as expected, though, so the impact on the markets was minimal.

The next week saw the pair undergoing minor fluctuations over August 28–29 as the markets assimilated comments made at the Jackson Hole symposium. The pair moved with a slightly heavy topside as exporters converted funds into won at the month's end, with the pair continuing to move at the lower-KRW1320 mark. Amid a mix of buying and selling at the month's end, the pair closed the month at KRW1321.8.

2. Outlook for This Month

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

When the BOK met on August 24, it kept its policy rate fixed for the fifth straight meeting. Though South

Korea's CPI slowed to +2.3% y-o-y in July, the BOK has suggested inflation might pick up again from autumn onwards, with the bank reiterating that it will maintain a restrictive policy for some time. However, there is still some lag when it comes to a full semiconductor market recovery. The current account balance was released around the same time and it revealed that the 2023 data was down on the precious year, with a fully-fledged recovery expected to take place late 2024. Many officials have said rates could be hiked again if necessary, but the BOK is likely to keep rates fixed for the time being.

As for overseas trends, when he gave his closely-watched speech at the Jackson Hole symposium, FRB chair Jerome Powell reiterated that rate hikes would depend on the data going forward. Inflation continues to slow in the US, but it remains high and there is still room for further rate hikes. The greenback's movements will be shaped by the results of economic indicators in the run up to the September FOMC meeting.

The won was also sold in August as the RMB fell. The Chinese government has cut lending rates and announced some stimulus measures, so RMB bearishness seems to be easing, but investors will need to monitor the impact of these moves, with the RMB unlikely to bounce back sharply.

Based on the above, it seems the USD/KRW pair will continue to be swayed by external factors in September, but the trend of dollar bullishness and RMB bearishness has grown less pronounced compared to August. As with August, the authorities seem prepared to curb the won's slide when the pair approaches a 2023 high of KRW1340, so the pair's topside will probably be kept down at this level. There will also be a dearth of won-buying factors, though, with the pair set to continue trading at the lower-KRW1300 level.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – September 2023

Expected Ranges **Against the US$: NT$31.50–32.10**
Against the yen: JPY4.55–4.68

1. Review of the Previous Month

In August the USD/TWD pair rose to renew a high for the year.

The pair opened the month trading at TWD31.350 on August 1. The Taiwan dollar was sold as dividends continued to flow abroad to overseas investors, with the currency pair hitting TWD31.5 for the first time in around eight months. The pair climbed to TWD30.6 on August 2 as funds moved into safe assets after the credit rating of US treasuries was downgraded. The markets then closed due to a typhoon. The pair hit TWD31.7 on August 4, but exporters sold the greenback at this level, so the pair's topside was held down. However, China's trade balance was released on August 8 and it revealed that imports and exports had both fallen more than expected. With Taiwanese stocks also sliding, the Taiwan dollar weakened and the currency pair climbed to TWD31.8.

Asian currencies moved bearishly mid-August on the results of the US July CPI data, with the Taiwan dollar also moving with a weak undertone. Taiwanese stocks then crashed on August 14 on concerns about the Chinese economy, with the Taiwan dollar also sold and the pair rising to TWD31.9. China implemented a surprise rate cut on August 15, so worries about the Chinese economy intensified, with the pair temporarily hitting TWD31.990. However, exporters sold the greenback just below the key TWD32 mark, so the pair's topside was held down.

The pair continued to move firmly late August on RMB bearishness and falling Taiwanese stocks, but with investors also selling the US dollar, the pair's topside moved heavily and it moved in a range around TWD31.90. The pair fell to around TWD31.75 on August 24 as Taiwanese stocks rose sharply on the robust financial results of a major US semiconductor company. This trend was short-lived, though, with the pair soon returning to TWD31.8.

2. Outlook for This Month

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

In August, the Taiwan dollar was sold on risk aversion related to concerns about the Chinese economy. Taiwan ships many exports to China, with China and Hong Kong accounting for around 35% of all Taiwanese exports in July, for example. However, electronic parts form the lion's share of Taiwanese exports to China, with exports also likely to be hit by a global slowdown in PC and smartphone sales.

The USD/TWD pair is expected to move in a range in September. Though the Taiwan dollar was sold in August, the pair's topside was often held down as exporters sold the greenback at highs, so the pair failed to hit the TWD32 mark. Though exports have fallen, imports have fallen even more, so Taiwan's trade surplus is growing and it hit a record monthly high of $8.48 billion in July. Taiwan stocks are moving bearishly, US interest rates remain at high levels, and there are a number of factors pushing the Taiwan dollar lower. Nonetheless, the pair's topside will be capped by Taiwan's trade surplus, with the pair likely to continue trading in a range.

The Central Bank of the Republic of China (Taiwan) (CBC) will be holding its quarterly Monetary Policy

Meeting in September, though it will probably keep policy unchanged for the second straight meeting. Taiwan's CPI figure has moved below 2% these past two months (the core figure remains in the upper-2% range). With exports continuing to fall on a global demand shortage, it seems unlikely the CBC will implement a rate hike, even if the ECB and FRB continue to lift rates. There are concerns about rising property prices and the authorities could respond by placing restrictions on real estate purchases, just like they did at the time of the June CBC meeting and even before that. Furthermore, the USD/TWD pair's level is not too low from a historical perspective, with the CBC unlikely to hike rates to ward off Taiwan-dollar selling.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – September 2023

Expected Ranges **Against the US$: HK$ 7.7800–7.8500**
Against the yen: JPY 18.20–19.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in August

The USD/HKD spot reversed its downtrend, rebounding sharply from 7.7926 to 7.845 level, as HKD rates plummeted dramatically after the peak of dividend payouts flow. As a result, the re-widening USD-HKD rate spread triggered the return of the carry trade flow of long USD/HKD spot position. The HKD T/N forward points, a gauge of carry return of long USD/HKD spot, dropped as much as to -6 points per day, indicating the significant carry return of long USD/HKD spot. Moreover, the HKD demand weakened on the diminishing HKD dividend payouts flow. On the equities side, the Hang Seng Index tumbled amid the mounting China property crisis and sharp RMB depreciation. Against this background, the HK IPO market remained sluggish, while the Stock Connect flow to HK picked up as mainland China investors sought out bargains. Meanwhile, the HK reopening recovery showed signs of losing momentum. The HK PMI for July dropped for 5 straight months, falling below the 50 expansion mark for the first time this year. Although domestic consumption rebounded, the trade sector continued to deteriorate. The labour market condition remained tight, with the unemployment rate dipping to 2.8%.

Hong Kong dollar interest rate market in August

The HKD HIBOR curve came off notably from their 16-year highs, with 1-month and 3-month falling to 3.8% and 4.5% from 5.43%, respectively, as the seasonality of the dividend payouts flow receded. Notably, the overnight HKD HIBOR fell to below 2% for the first time since early June. Our calculations based on the dividend payment announcements from companies in the Hang Seng China Enterprise Index indicated that the dividend payouts flow peaked in the week of 29 July. Additionally, the end of Silver Bond subscription period in late July led to the return of HKD funding. During this period, the HKD spot remained within its trading band, and hence HK aggregate balance stayed unchanged at near HKD 45bn. The HKD IRS curve tracked on USD IRS to hold up, as the Fed chair Powell kept the door opened for rate hikes at the Jackson Hole symposium. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) slid lately due to the collapse in 3-month HKD HIBOR.

2. Outlook for This Month

Hong Kong dollar spot exchange market in September

The USD/HKD spot may potentially test the 7.85 level again due to the USD-HKD interest rate spread re-widening, which reignited the carry trade of long USD/HKD spot. On the one hand, the risks of USD rates are skewed towards upside as the Fed indicated chances for further rate hike. On the other hand, the dividend flow in HKD market has peaked out and the HKD demand receded due to lackluster IPO activities. Worse still, the

escalating China property crisis raised concern among investors, prompting investors to reduce their exposure on China and HK equities. This could fuel capital outflow pressure from HK financial markets and in turn dampen HKD demand.

Hong Kong dollar interest rate market in September

HKD rates fell back significantly across tenors as the HKD liquidity condition eased following the dividend payouts season. Considering the low aggregate balance of HKD 45bn, the downside for HKD interest rates should prove to be limited. In case of USD/HKD spot hitting 7.85, the HKMA will intervene in the FX market to defend the SUD-HKD peg, resulting in a HKD liquidity drainage. Unless the aggregate balance of HKD declines notably, the HKMA will unlikely reduce its issuance of Exchange Fund Bills (EFBs) to inject HKD liquidity. It appears that HK banks managed to secure sufficient HKD funding via the HKD time deposit and HKD rates will remain relatively stable in the near term. However, the Q3 quarter-end seasonality and the limited buffer liquidity in HKD at low HK aggregate balance may constrain the downside risk for HKD rates. It is worth noting that HKD rates volatilities have been increasing and HK banks have been utilizing the discount window facility more frequently. As the Fed is expected to stay on hold in September, HK banks will likely keep their prime rate unchanged.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – September 2023

Expected Ranges **Against the US$: CNY 7.0000–7.3500**
Against the yen: JPY 19.41–20.62

1. Review of the Previous Month

In August, the U.S. dollar/Chinese yuan exchange rate rose once but remained low thereafter.

On August 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.15 level. The July manufacturing PMI of China turned out to be below the 50 mark, with the figure released by the National Bureau of Statistics of China on July 31 being 49.3 and the figure released by Caixin on August 1 being 49.2. As a result, downward pressure on the Chinese yuan strengthened. Thereafter, interest rates rose in the U.S. after U.S. government bonds were downgraded, leading the U.S. dollar to appreciate. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose and once reached the upper-CNY 7.19 level on August 2. However, this trend was only temporary, and the U.S. dollar/Chinese yuan exchange rate started to decline after a while. On August 4, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.15 level, after which the U.S. dollar stopped depreciating and started to appreciate, following headlines regarding the employment statistics. The U.S. dollar/Chinese yuan exchange rate reached the lower-CNY 7.17 level, and then weekly trading closed.

On August 7, the U.S. dollar/Chinese yuan exchange market opened trading at the upper-CNY 7.18 level with a weaker Chinese yuan compared to the closing rate of the previous week. This is due to the employment statistics of the U.S. announced on August 4 that continued impacting the market in the following week. On August 8, the PBOC central parity rate was set at the CNY 7.15 level for the first time in approximately one month, toward a weaker Chinese yuan than the previous CNY 7.13–7.14 level. As a consequence, the U.S. dollar/Chinese yuan exchange market opened at the CNY 7.20 in the actual market as well and continued rising to the lower-CNY 7.22 level thereafter. Then, trade statistics were released on August 8, and price statistics were released on August 9, both of which turned out to be weak. However, they did not have significant impact on the foreign exchange market. Also, during the nighttime of August 10, the July Consumer Price Index (CPI) of the U.S. was announced, which strengthened the U.S. dollar. On August 11, the U.S. dollar/Chinse yuan exchange rate thus rose to the upper-CNY 7.23 level, and weekly trading closed.

On August 14, the U.S. dollar/Chinese yuan exchange market opened trading at around the CNY 7.25 level. On August 15, the one-year MLF rate was cut by 15 basis points, while market participants expected it to be maintained at the existing level. Furthermore, major economic indices, including those for retail sales and industrial production, turned out to be weaker than expected, and this weakened the Chinese yuan. On August 17, the U.S. dollar/Chinese yuan exchange rate rose to reach the upper-CNY 7.31. However, the media later reported some actions to stop the depreciation of the Chinese yuan, leading the U.S. dollar/Chinese yuan exchange rate to fall sharply to the mid-CNY 7.27 level. On August 18, the U.S. dollar/Chinese yuan exchange market closed trading at the mid-CNY 7.28 level.

On August 21, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.29 level. On the same day before market opening, the one-year LPR was cut by 10 basis points. Because this LPR cut was not as significant as previously expected, the U.S. dollar/Chinese yuan rose to the mid-CNY 7.31 level. In the evening,

market participants continued buying the Chinese yuan mainly in the offshore market, and this led the Chinese yuan to appreciate to the CNY 7.27 level. Thereafter, the Chinese yuan did not appreciate further, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range between CNY 7.26 and CNY 7.29. In the following week, the U.S. dollar/Chinese yuan exchange rate remained at the CNY 7.29 level during the daytime on August 30.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to fall, while market participants should be careful about pressure to strengthen the U.S. dollar and weaken the Chinese yuan.

The next important event in the U.S. is the Federal Open Market Committee (FOMC) meeting in September. At this 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. Thus, the future trend depends on economic indices, as was explained by the Federal Reserve Board (FRB) Chair Jerome Powell at the FOMC meeting in July. Market participants should remain cautious, because if economic indices remain strong, the interest rate market is likely to reflect additional policy interest rate hikes, which is expected to strengthen the U.S. dollar. However, in the long run, the U.S. dollar is most likely to continue weakening, as the FRB starts discussing the possibility of ending policy interest rate hikes by the end of the year and to start cutting the policy interest rate next year.

In China, on the other hand, there are many factors to weaken the Chinese yuan. For example, the August economic indices turned out to be weak, while the one-year MLF rate and LPR were both cut. There were also various economic measures such as the deregulation of property purchases. These factors all contributed to the depreciation of the Chinese yuan. Furthermore, the PBOC central parity rate was raised from the CNY 7.15 level to the CNY 7.20 level in the middle of August, and the upper end of the 2% daily fluctuation range was raised from the CNY 7.30 level to the CNY 7.35 level. This also led the U.S. dollar/Chinese yuan exchange rate to rise in the actual exchange market.

However, it is also worth noting that, in July, a Chinese bank cut its interest rate on U.S. dollar fixed deposits, and the macroprudential cap was raised for corporate financing. These actions still have impact on the market. In addition, some believe that Chinese monetary authorities have taken various actions to stop the Chinese yuan from depreciating further than the current level, such as via foreign currency-selling and Chinese yuan-buying in the offshore Chinese yuan spot exchange market and the futures exchange market.

Market participants should also be careful about geopolitical risks with the U.S. and Japan, even though there has currently been no significant impact on the foreign exchange market.

It is possible for the U.S. dollar/Chinese yuan exchange rate to remain at its highest level in the year. However, the U.S. dollar is most likely to decline in the long run, based on the narrowing interest rate differentials between the U.S. and China after the end of policy interest rate hikes in the U.S.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – September 2023

Expected Ranges **Against the US$: SG$ 1.3200–1.3800**
Against the yen: JPY 105.00–111.00

1. Review of the Previous Month

In August, the U.S. dollar/Singapore dollar exchange rate rose.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.32 level on August 1. Economic indices released in China turned out to be weak, which encouraged market participants to sell overall Asian currencies. On August 2, risk-averse sentiment grew in the market, as a major ratings agency had downgraded U.S. government bonds on the previous day. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.34 level. On August 3, the U.S. dollar/Singapore dollar exchange rate remained at the same level. However, on August 4, July employment statistics were released in the U.S., and the number of non-agricultural employees turned out to be lower than the market estimate, which led the U.S. dollar/Singapore dollar exchange rate to fall sharply to reach the upper-SGD 1.33 level.

On August 7, the U.S. dollar/Singapore dollar exchange rate continued fluctuating without moving in any direction at around the SGD 1.34 level. However, on August 8, trade statistics of China were released with figures weaker than the market estimate, which encouraged market participants to sell Asian currencies further. As a result, the U.S. dollar/Singapore dollar exchange rate once rose to the lower-SGD 1.35 level. On August 9, the People's Bank of China (PBOC) set its central parity rate at a stronger Chinese yuan than the market estimate, which led the U.S. dollar/Chinese yuan exchange rate to fall to the lower-SGD 1.34 level. On August 10, the July Consumer Price Index (CPI) of the U.S. turned out to be lower than the market estimate, encouraging market participants to sell the U.S. dollar for a while. However, the U.S. dollar/Singapore dollar exchange rate soon rose to the upper-SGD 1.34 level again. On August 11, the July Producer Price Index (PPI) of the U.S. turned out to be above the market estimate, as a result of which the U.S. dollar/Singapore dollar exchange rate continued rising to the lower-SGD 1.35 level.

On August 14, interest rates rose in the U.S., and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.35 level. The U.S. dollar/Singapore dollar exchange rate remained high both on August 15 and August 16. Thereafter, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.36 level on August 17, as market participants continued selling the Chinese yuan based on concerns over the Chinese economy. However, market participants were cautious about actions to be taken by Chinese monetary authorities to stop the depreciation of the Chinese yuan, and this led the Chinese yuan to rally. As a consequence, the U.S. dollar/Singapore dollar exchange rate also rallied to the upper-SGD 1.35 level.

On August 21 and August 22, the U.S. dollar/Singapore dollar exchange rate continued fluctuating without moving in any direction at the upper-SGD 1.35 level. However, on August 23, the August Purchasing Managers' Index (PMI) was announced in the U.S. and Europe, and the results turned out to be lower than the market estimate. In reaction, the U.S. dollar/Singapore dollar exchange rate fell sharply to the lower-SGD 1.35 level. On August 24, market participants continued selling the U.S. dollar at the beginning of the day. However, during overseas trading hours, interest rates rose in the U.S., and the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.35 level. Then, on August 25 at Jackson Hole Economic Symposium, Federal Reserve Board (FRB) Chair Jerome

Powell stated that the policy interest rate would be raised further, when necessary, and this encouraged market participants to buy the U.S. dollar.

On August 28, the U.S. dollar/Singapore dollar exchange rate continued fluctuating without moving in any direction at the mid-SGD 1.35 level. However, on August 29, the U.S. dollar/Singapore dollar exchange rate once fell to the upper-SGD 1.34 level when U.S. economic indices turned out to be weak.

2. Outlook for This Month

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

From the beginning of July to the middle of July, the U.S. dollar/Singapore dollar exchange rate continued falling and once reached the SGD 1.31 level. However, the U.S. dollar/Singapore dollar exchange rate continued rising thereafter until the middle of August. This trend is generally the same as that of the U.S. dollar index, and the U.S. dollar/Singapore dollar exchange market thus seems to follow factors related to the U.S. dollar.

In the first half of July, market participants occasionally sold the U.S. dollar, as U.S. economic indices turned out to be weak. However, in the second half of July, a Federal Open Market Meeting (FOMC) meeting was held, and the FRB suggested the possibility of raising the policy interest rate further. Furthermore, at Jackson Hole Economic Symposium held in the second half of August, FRB Chair Jerome Powell stated once more that the policy interest rate could be raised if necessary. Thus, in the market as well, many believe the possibility of additional policy interest rate hikes in the U.S. Thus, given the statements released by the FRB so far, it is difficult to expect the FRB to start cutting the policy interest rate immediately, unless the situation changes significantly, such as in the sudden weakening of inflation pressure or a sharp decline in U.S. economic indices. For this reason, the U.S. dollar is forecast to remain robust in the times ahead.

In Singapore, the revised figure for the country's second-quarter GDP was announced on August 11. The seasonally adjusted figure turned out to be +0.1% from the previous quarter, revised downward from the preliminary figure, which was +0.3%. Even though a technical recession was avoided, as the figure turned positive from the figure for the first quarter (which was -0.4%), the Ministry of Trade and Industry of Singapore (MIT) revised the annual GDP outlook for 2023 downward from 0.5–2.5% to 0.5–1.5%. Thus, the economic outlook in Singapore is not optimistic, while inflation pressure has already peaked out. Under such circumstances, it is difficult for market participants to expect the Monetary Authority of Singapore (MAS) to introduce measures of monetary tightening at a meeting to be held in October. Market participants are thus unlikely to buy Singapore dollar.

For these reasons, pressure to buy the U.S. dollar is forecast to remain strong in the times ahead.

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

Thai Baht – September 2023

Expected Ranges **Against the US$: THB 34.50–35.60**
Against the yen: JPY 4.05–4.20

1. Review of the Previous Month

In August, the U.S. dollar/Thai baht exchange rate rose. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 34 level on August 1, while it was a national holiday in Thailand. On August 2, the central bank of Thailand decided to raise its policy interest rate by 25 basis points, as had been anticipated in the market, at its monetary policy meeting. Even though there was a change in the statement regarding further policy interest rate hikes, the impact of this decision was limited in the market. On the contrary, the market sentiment worsened, as a ratings company downgraded U.S. government bonds, and the July ADP employment statistics of the U.S. turned out to be strong. Furthermore, the voting to nominate the new prime minister of Thailand was postponed from August 3, fueling concerns in the market about political difficulty in Thailand. For these reasons, the U.S. dollar/Thai baht exchange rate remained robust, rising to the mid-THB 34 level. Thereafter, the July Consumer Price Index (CPI) of Thailand was announced on August 7, revealing negative growth, which weakened expectations for additional policy interest rate hikes in Thailand. Furthermore, on August 8, the trade statistics of China were released with weak figures, which weakened the overall Asian currencies. As a result, the U.S. dollar/Thai baht exchange rate continued rising and reached the lower-THB 35 level. Thereafter, the U.S. dollar/Thai baht exchange rate remained stable at this level for a while.

In the middle of the month, the People's Bank of China (PBOC) announced on August 15 a decision to cut its one-year medium-term lending facility rate by 0.15%, and this had not been expected in the market. On the same day, the July retail sales of the U.S. turned out to be significantly stronger than the market estimate. Thanks to these two events, the rise of the U.S. dollar/Thai baht exchange rate accelerated. On August 16, in the early morning of August 17 local time in Bangkok, the minutes of a Federal Open Market Committee (FOMC) meeting were released, and the contents also supported the rise of the U.S. dollar/Thai baht exchange rate. As a result, the U.S. dollar/Thai baht exchange rate reached its monthly high at the mid-THB 35 level on August 17. However, the media reported thereafter that Chinese monetary authorities had instructed state-owned banks to intervene in the market, which led the U.S. dollar/Thai baht exchange rate to start falling.

At the end of the month, Srettha Thavisin of the For Thais Party was nominated to be the new prime minister of Thailand as a result of the voting held on August 22. As a result, concerns over political uncertainty in Thailand were swept away, and the Thai baht appreciated significantly. The U.S. dollar/Thai baht exchange rate once fell below the THB 35 level. On August 23, U.S. economic indices turned out to be weak, and the U.S. dollar/Thai baht exchange rate fell further. However, on August 25, the Ministry of Commerce of Thailand announced Thailand's July trade statistics, revealing a slowdown in exports and the expansion of the trade deficit, encouraging market participants to sell the Thai baht. As a consequence, the U.S. dollar/Thai baht exchange rate rose to the lower-THB 35 level. Meanwhile, at Jackson Hole Economic Symposium, Federal Reserve Board (FRB) Chair Jerome Powell gave a speech that had attracted significant attention in the market, but there was no surprise in the outcome. As of 16:00 on August 30 local time in Bangkok, when this article was being written, the U.S. dollar/Thai baht exchange

rate remained at the lower-THB 35 level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to remain stable.

The new prime minister of Thailand was finally nominated approximately three months after the House of Representatives (lower house) election in Thailand on May 14. Even though the election recorded a historically high voting rate of approximately 75%, the Move Forward Party, which won the election, was excluded from the government structure, and the new administration was formed under the coalition between the For Thais Party, which came in the second place in the election, and the former ruling party (pro-military party). The result of the election was thus far from the reflection of the will of the people. However, at the current moment, there have been no signs of a large-scale protest. It is also important to note that, from the time of the election until the nomination of the new prime minister, the Thai baht exchange market was not impacted significantly by the political situation, although there was some fluctuation when the media reported that the case of the media shares held by the former leader of the Move Forward Party, Pita Limjaroenrat, would be investigated under the constitutional court and when the new prime minister of Thailand was nominated. Given such circumstances, the U.S. dollar/Thai baht exchange rate is unlikely to fluctuate violently related to the political situation in the times ahead, as the new prime minister has now been nominated.

On the contrary, market participants should carefully observe economic trends in Thailand. On August 21, the second-quarter GDP was announced, which turned out to be +1.8% year-on-year—significantly below the market estimate, which was +3.0% year-on-year. Household consumption remains healthy, and service exports continue expanding as foreign tourists are coming back. However, exports remain sluggish, slowing down the economic recovery. Under such circumstances, the sense of uncertainty is growing in the market regarding the economic situation in China and the rest of the world. Exports from Thailand are thus likely to remain sluggish for a while. It is also worth noting that the latest July CPI of India recorded positive growth based on the rising prices of vegetables and cereals, reaching the highest level in a year and three months. In Thailand, as well, the bad weather is starting to impact agricultural production. It is possible for the household economy to be tightened by the inflation of food prices in the time ahead. It is also possible for personal consumption to be tapered, as interest rates remain high. The number of foreign tourists is also declining, as the number of tourists from China, the key country, has not grown as much as expected. Therefore, it is difficult for the Thai economy to easily recover further.

For these reasons, there are many factors of uncertainty in the Thai economy, and thus the Thai baht is not expected to appreciate significantly in the near future. Even if the U.S. dollar/Thai baht exchange rate falls temporarily, it would be a limited trend, and thus the exchange rate is forecast to remain generally stable.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – September 2023

Expected Ranges **Against the US$: MYR 4.58–4.68**
Against the yen: JPY 31.05–32.05

1. Review of the Previous Month

In August, the Malaysian ringgit remained weak against the U.S. dollar, as U.S. dollar interest rates were on a rise. At the beginning of the month, the U.S. dollar/Malaysian ringgit exchange market opened trading at the upper-MYR 4.50 level and rose sharply to the mid-MYR 4.60 level.

In early August, market participants sold U.S. government bonds, in response to the decision by a major ratings agency to downgrade the sovereign rating of the U.S. As a result, U.S. dollar interest rates rose, and the U.S. dollar appreciated; meanwhile, the Malaysian ringgit depreciated. Furthermore, ADP employment statistics revealed an increase in the number of employees, which led market participants to expect interest rates in the U.S. to remain high for a long period. The media reported thereafter that Saudi Arabia and Russia had agreed to reduce oil production, which led crude oil prices to rise to the mid-USD 85 level. However, the impact on the Malaysian ringgit exchange market was limited. Then, on August 8, the July exports of China recorded a decline that was much more significant than expected. June industrial production also recorded negative growth. As a consequence, the Malaysian ringgit continued depreciating, and the U.S. dollar/Malaysian ringgit exchange rate approached the MYR 4.6 mark.

In the middle of the month, the July Consumer Price Index (CPI) of the U.S. was announced on August 10, revealing a core inflation rate that remained high. In reaction, U.S. government bond yields rose, accelerating the depreciation of the Malaysian ringgit. Furthermore, the media reported that a major Chinese real estate company, Country Garden, had delayed the principal payment of its corporate bonds, which fueled risk-averse sentiment in the market. The media also reported that the ruling coalition was struggling at the state election. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate exceeded rapidly the MYR 4.6 level, which had been a psychological turning point. The Malaysian ringgit thus remained particularly weak among all the Asian currencies, and the U.S. dollar/Malaysian ringgit exchange rate rose to the MYR 4.64 level. In China, the economic indices, such as retail sales and industrial production, continued worsening, while the unemployment ratio was on a rise. Given such a situation, the People's Bank of China (PBOC) decided to cut the policy interest rate for the second time and for the first time in three months. On the evening of August 17, the media reported that state-run banks would intervene in the market more actively, which encouraged market participants to buy back the Chinese yuan temporarily. However, market participants did not continue buying back the Malaysian ringgit.

Toward the end of the month, market participants remained particularly cautious, as Jackson Hole Economic Symposium was scheduled for August 25. There were no active transactions in the market, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. Only some market participants sold the U.S. dollar and the euro, having seen the August Purchasing Managers' Index (PMI) of the U.S. and the euro zone, which both turned out to be weak. Also, Federal Reserve Board (FRB) Chair Jerome Powell gave a speech at Jackson Hole Friday morning, local time in New York, emphasizing once again his firm attitude to control inflation. However, he did not clearly discuss the possibility to raise the neutral interest rate, which market

participants were waiting to hear. Thus, there was no particular surprise in the speech, and there was no remarkable reaction in the market after the speech. Then, on August 25, the July CPI was announced, and the headline index turned out to be +2.0% year-on-year, while the core index turned out to be +2.8% year-on-year, both revealing a slowdown in inflation. As there weren't many factors to encourage market participants to buy the Malaysian ringgit, the Malaysian ringgit depreciated rather one-sidedly.

2. Outlook for This Month

Jackson Hole Economic Symposium, which attracted significant interest in the market, closed without any surprise, and FRB Chair Jerome Powell did not make any particular remark about the raising of the neutral interest rate. Based on this, market participants are likely to look for the best timing to buy back the Malaysian ringgit. This also means that the U.S. dollar/Malaysian ringgit exchange rate is not likely to exceed the current level to reach the MYR 4.7 level without new factors to strengthen the U.S. dollar or to weaken the Malaysian ringgit.

Important domestic events to come include the monetary policy meeting to be held by the central bank of Malaysia, scheduled for September 7. One of the most-important figures to be considered by the central bank of Malaysia in making decisions on its monetary policy is the July CPI, announced on August 25. The July figure confirmed a slowdown in domestic price increases. At the previous monetary policy meeting held in July, the central bank of Malaysia expected vigorous personal consumption to support the domestic economy. However, trade statistics have been on a decline since June, while there has been no sign of economic recovery in China, the country's major trade partner, with struggles by major real estate companies. Under such circumstances, market participants see it unlikely for the central government to raise its policy interest rate further—also because the policy interest rate has already returned to pre-Covid levels. Therefore, in terms of the policy interest rate, it is difficult to find a reason to expect the Malaysian ringgit to appreciate at this point. It is also worth noting that the ruling coalition led by Prime Minister Anwar Ibrahim won the state election held in August, but the victory was not so easy, with fewer seats in Parliament. The political situation is thus far from ideal.

In terms of external factors, FRB Chair Jerome Powell made a speech at Jackson Hole Economic Symposium that was seen as somewhat hawkish. However, he did not mention the neutral interest rate, which market participants were waiting to hear about. Thus, given the situation, U.S. dollar interest rates are likely to rise only to a limited extent, and the Malaysian ringgit may start rallying against the U.S. dollar in September and beyond.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – September 2023

Expected Ranges **Against the US$: IDR 15,100–15,800**
Against the yen: JPY 0.9174–0.9709 (IDR 100)

1. Review of the Previous Month

The Indonesian rupiah depreciated in August.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,100 level on August 1. On the same day, the July Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +3.08% year-on-year, which is within the target range set out by the central bank of Indonesia (2–4%). Even though the figure was slightly below the market estimate, it had little impact on the market. On the same day, local time, the media reported that U.S. government bonds had been downgraded, which fueled risk-averse sentiment in the market. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,100 level on August 2, the following day. Toward August 3, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,200 level. Then, on August 4, local time, the July employment statistics of the U.S. were released. Even though the change in the number of non-agricultural employees was below the estimate, the average wage recorded greater growth than expected. The July unemployment rate also turned out to be lower than expected. Thus, there were both positive and negative factors in the economic data. After the weekend, the U.S. dollar/Indonesian rupiah exchange market opened trading on August 7 at the mid-IDR 15,100 level—almost at the same level as the closing rate of the previous week. Thereafter, the second-quarter GDP was announced, and the result turned out to be +5.17% year-on-year, which was the largest figure in the past three quarters. However, there was little reaction to this news in the market. On August 8, exports from China turned out to be below the market estimate, which fueled risk-averse sentiment in the market. Under such circumstances, the Indonesian rupiah remained weak, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,200 level. On August 10, local time, the CPI of the U.S. was announced, and the result turned out to be almost at the same level as expected in the market. The reaction to this news in the market was thus limited. On August 11, the following day, the U.S. dollar/Indonesian rupiah exchange rate remained at around the IDR 15,200 level during trading hours in Asia. However, on the same day, local time, the July core Producer Price Index (PPI) (year-on-year) of the U.S. was announced, and the result turned out to be above the market estimate. Market participants were thus convinced that inflation in the U.S. had not slowed down as much as expected and started actively buying the U.S. dollar. As a result, the Indonesian rupiah weakened further, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,300 level on August 14 in the following week during trading hours in Asia. Toward August 15, the following day, the depreciation of the Indonesian rupiah accelerated, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,300 level—the monthly low for the Indonesian rupiah. On August 16, the appreciation of the U.S. dollar slowed down, and the Indonesian rupiah rallied, leading the U.S. dollar/Indonesian rupiah exchange rate to reach the upper-IDR 15,200 level. However, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 15,300 level thereafter. On August 22, the current account balance for the second quarter was announced,

revealing a deficit for the first time in two years. However, the impact on the market was limited. On August 23, the rise of interest rates in the U.S. slowed down toward market closing in Asia. Thus, market participants started to sell the U.S. dollar, strengthening the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,200 level. During local trading hours in the U.S., the PMI of the U.S. was announced, and the result turned out to be below the market estimate. In reaction, interest rates in the U.S. fell, encouraging market participants to sell the U.S. dollar. As a result, on August 24, the following day, the Indonesian rupiah appreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,200 level, local time, in Asia. On the same day, the central bank of Indonesia held its regular meeting and decided to maintain its policy interest rate at the existing level. However, there was little reaction to this news in the market, as this decision had been anticipated by market participants. Also, Federal Reserve Board (FRB) Chair Jerome Powell made a speech at Jackson Hole Economic Symposium on August 25, local time, but the contents were generally what had been anticipated in the market without any new information. Thus, on August 28 in the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 15,200 level—almost at the same level as the closing rate of the previous week.

2. Outlook for This Month

The Indonesian rupiah is forecast to weaken in September.

The inflation rate of Indonesia has been declining more sharply than expected by the central bank of Indonesia at the beginning of the year. The inflation rate has thus reached a level at around 3%, the middle point of the inflation target range, at 2–4%. Given this situation, the central bank is likely to shift its focus from control of inflation to boosting the domestic economy.

However, the current account balance for the second quarter revealed a deficit for the first time in approximately two years, due to the decline of resource prices. Thus, from the viewpoint of supply & demand, the Indonesian rupiah is more likely to weaken. Under such circumstances, it may be difficult for the central bank of Indonesia to start cutting its policy interest rate. Furthermore, it is still possible for the FRB to raise its policy interest rate further in the U.S. Thus, if the central bank of Indonesia decides to cut its policy interest rate, it may weaken the Indonesian rupiah based on the difference in monetary policy between the U.S. and Indonesia. At the regular meeting held in August, the governor of the central bank of Indonesia, Perry Warjiyo, made a remark that the central bank would prioritize the stability of the foreign exchange rate. For this reason, as well, it seems unlikely for the central bank of Indonesia to start cutting its policy interest rate. The central bank of Indonesia is therefore expected to maintain its policy interest rate at the existing level while adjusting the exchange rate by intervening in the market if downward pressure on the Indonesian rupiah strengthens.

However, it is not always possible to perfectly control the depreciation of the Indonesian rupiah through market interventions. For example, when the Indonesian rupiah depreciated sharply in the second half of last year, the central bank of Indonesia seems to have intervened in the foreign exchange market. However, the Indonesian rupiah continued depreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once reached the IDR 15,700 level. As was discussed above, market participants are more likely to sell the Indonesian rupiah from the viewpoint of supply & demand, as there is a deficit in the current account balance in Indonesia. The Indonesian rupiah is therefore forecast to remain weak.

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

Philippine Peso – September 2023

Expected Ranges **Against the US$: PHP 55.00–58.00**
Against the yen: PHP 0.38–0.40

1. Review of the Previous Month

A major ratings agency downgraded the U.S. credit rating, which fueled risk-averse sentiment in the U.S. As a result, overall Asian currencies depreciated. Following this trend, the Philippine peso also depreciated, and the U.S. dollar/Philippine peso exchange rate reached the PHP 55 level. Thereafter, interest rates continued to rise in the U.S. based on strength in the U.S. labor market as well as the increased issuance of U.S. government bonds, which strengthened the U.S. dollar. Furthermore, the July Consumer Price Index (CPI) of the Philippines turned out to be +4.7% year-on-year, falling below the market estimate, which was +4.9% year-on-year, along with the previous month's result, which was +5.4% year-on-year. Due to the slowdown in inflation, less market participants expected the central bank to raise its policy interest rate at the monetary policy meeting scheduled for August 17. This weakened the Philippine peso, and the Philippine peso continued depreciating significantly every day since the beginning of August. On August 7, the governor of the central bank of the Philippines, Eli Remolona, acknowledged the necessity of additional policy interest rate hikes, as there was still potential inflation pressure. On the other hand, he also expressed apprehension about excessive measures of monetary tightening that could slow down economic growth. As a consequence, the depreciation of the Philippine peso accelerated, and the U.S. dollar/Philippine peso exchange rate reached the PHP 56 level for the first time in approximately two months.

The June trade statistics of the Philippines revealed a decrease in the trade deficit from USD 4.44 billion as observed in May to USD 3.92 billion. Furthermore, the governor of the central bank of the Philippines, Eli Remolona, expressed a cautious attitude about starting to cut the policy interest rate too early, as doing so would involve risks in shifting monetary policy in a short period of time. However, risk-averse sentiment grew in the market due to concerns growing again over the economic outlook of China. Moreover, the second-quarter GDP of the Philippines turned out to be +4.3% year-on-year, falling significantly below the market estimate, which was +6.0% year-on-year. Thus, there were both positive and negative factors, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a limited range toward the middle of the month. In the meantime, market participants expected the policy interest rate in the U.S. to remain high for a longer period of time, based on which interest rates continued rising in the U.S., strengthening the U.S. dollar. As crude oil prices also continued rising, while market participants expected the policy interest rate in the Philippines to remain at the existing level, the Philippine peso continued depreciating and renewed its yearly low on August 14. The U.S. dollar/Philippine peso exchange rate once reached PHP 56.990 for the first time since the end of November last year. Then, on August 17, the central bank of the Philippines held a monetary policy meeting and decided to maintain its policy interest rate at the existing level for the third consecutive time, which had been anticipated by the majority of market participants. The governor of the central bank of the Philippines, Eli Remolona, made a remark to emphasize that the decision to maintain the policy interest rate was based on a hawkish perspective and that he was ready to raise the policy interest rate if inflation risk grows. He also stated that the central bank occasionally intervened in the Philippine peso exchange market with sufficient foreign currency reserves. In reaction to these remarks, the Philippine peso rallied

significantly, and thus, in the middle of the month, the U.S. dollar/Philippine peso exchange rate returned to the level observed at the beginning of the month.

The governor of the central bank of the Philippines, Eli Remolona, confirmed his hawkish attitude, insisting that the current options were whether to raise the policy interest rate or to maintain the policy interest rate at the existing level, as it was not yet the time to discuss policy interest rate cuts. However, Secretary of Finance Benjamin Diokno made a remark such that, after maintaining the policy interest rate at the existing level until the end of the year, it would be possible to start cutting the policy interest rate from the first quarter of next year. In reaction to this comment, the Philippine peso depreciated again, and the U.S. dollar/Philippine peso exchange rate approached the yearly low again. Thus, in August, the Philippines remained particularly weak, even compared with other Asian currencies.

2. Outlook for This Month

Based on the declining inflation and the slowdown in economic growth, the central bank of the Philippines decided to maintain its policy interest rate at the existing level at the monetary policy meeting held on August 17. However, the central bank continued emphasizing its hawkish attitude, insisting persistent inflation risk and possible interest rate hikes in the times ahead. Recently, the U.S. dollar appreciated, and Asian currencies depreciated mainly because of concerns in the market growing again over the outlook of the Chinese economy based on weak figures in economic indices. Under such circumstances, the Philippine peso depreciated further, and the U.S. dollar/Philippine peso exchange rate once reached its lowest level in approximately nine months. There are thus persistent concerns over the further depreciation of the Philippine peso based on the difference in the policy interest rates between the U.S. and the Philippines. Facing such a situation, depending on monetary policy decisions in the U.S., it is possible for the central bank of the Philippines to see necessity to raise its policy interest rate further in order to maintain the difference in the policy interest rate between the U.S. and the Philippines, even if inflation continues to slow down as expected by the central bank of the Philippines. Even though interest rate hikes can support the Philippine peso to some extent, factors related to the U.S. dollar are likely to continue leading the U.S. dollar/Philippine peso exchange market. Furthermore, given the impact on economic activities from the medium- to long-term perspective, the positive impact on the Philippine peso is expected to be temporary, and the Philippine peso is more likely to continue weakening. However, officials at the Philippine monetary authorities continue emphasizing a hawkish attitude by pointing out that the central bank had been intervening in the market in order to stabilize the Philippine peso exchange rate and is ready to raise the policy interest rate further, while denying the possibility of cutting the policy interest rate in the near future. Therefore, the U.S. dollar/Philippine peso exchange rate is not likely to exceed the PHP 57 mark for the time being. In terms of supply & demand, the trade deficit of the Philippines has been shrinking. However, the trade deficit is likely to remain high in the times ahead due to the stability of domestic demand and impact from the depreciation of the Philippine peso, encouraging market participants to sell the Philippine peso.

It is also worth noting that the U.S. monetary authorities maintain the possibility to raise the policy interest rate further in the times ahead, while the inflation rate remains above the target range, albeit with some slowdown, revealing strong inflationary pressure. However, market participants still think that monetary tightening in the U.S. is in its final phase. Yet, as U.S. monetary authorities are cautious about inflation, it is not likely for the monetary authorities to start cutting the policy interest rate before the end of the year, as doing so would cause the market to reflect early policy interest rate cuts and to fuel expectations for inflation. For these reasons, the policy interest rate is most likely to remain at the existing level until the end of the year. Because there will be no particular factor to

strengthen the Philippine peso, the U.S. dollar is forecast to remain strong against the Philippine peso in the times ahead.

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

Indian Rupee – September 2023

Expected Ranges **Against the US$: INR 81.80–83.20**
Against the yen: JPY 1.68–1.82

1. Review of the Previous Month

In August, the U.S. dollar/Indian rupee exchange rate once rose but fell again to the level observed at the beginning of the month.

In August, the U.S. dollar/Indian rupee exchange market opened trading at the lower-IDR 82 level. At the beginning of the month, the U.S. dollar strengthened based on hawkish remarks made by Federal Reserve Board (FRB) officials along with improved figures in economic indices. As a result, the Indian rupee depreciated. When the U.S. dollar/Indian rupee exchange rate reached the INR 82.85 level, the Reserve Bank of India (RBI) seemed to have intervened in the foreign exchange market by selling the U.S. dollar and buying the Indian rupee, in order to keep the exchange rate from rising further. Thus, the U.S. dollar/Indian rupee exchange rate remained flat at this level for a while. Thereafter, the upward pressure on the U.S. dollar persisted in the market, and the Indian rupee started to depreciate slowly. The U.S. dollar/Indian rupee exchange rate thus occasionally exceeded the INR 83 mark, which was the psychological turning point. On the other hand, the RBI intervened in the foreign exchange market again, and some market participants bought the Indian rupee based on actual demand. As a consequence, the Indian rupee rallied significantly toward the end of the month. In the end, the U.S. dollar/Indian rupee exchange rate closed trading at around the INR 82.65 level (as of August 25).

The BSE SENSEX rose to exceed the 66,000 level at the beginning of the month, after which it fell, as downward pressure strengthened again. As the Monetary Policy Committee (MPC) decided to maintain the policy interest rate at the existing level, the BSE SENSEX occasionally fell further. Toward the end of the month, some market participants sold their stocks to take profit, and the BSE SENSEX fell below the 65,000 mark at the end of the month. On the other hand, there has been no sign of excessive selling of stocks to change the overall trend, and the BSE SENSEX does not seem to be falling further.

With regard to economic indices in India, the July Purchasing Managers' Index (PMI) numbers for the manufacturing and service industries were announced at the beginning of the month, revealing both strong and weak figures. The August MPC meeting attracted significant attention in the market, and the policy interest rate was maintained at the existing level (6.50%) for the third consecutive time. On the other hand, the monetary policy stance was kept unchanged to continue raising the policy interest rate in order to control inflation. Then, the July year-on-year Consumer Price Index (CPI) rose to reach +7.44%, exceeding 6% that sits at the upper end of the inflation target range set out by the RBI. The July trade balance revealed a persistent deficit, making the Indian rupee a currency to be sold in the market.

2. Outlook for This Month

In September, the U.S. dollar/Indian rupee exchange rate is expected to fluctuate at around the INR 83 mark with a possibility to exceed this level.

In September, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate, with the INR 83 level as the upper end. In August, the U.S. dollar/Indian rupee exchange rate occasionally slightly exceeded the INR 83 level. However, the RBI continues to intervene in the foreign exchange market in order to keep the U.S. dollar/Indian rupee exchange rate from rising further. Under such circumstances, the U.S. dollar/Indian rupee exchange rate is expected to fluctuate at around the INR 83 mark and there is generally a possibility for the U.S. dollar/Indian rupee exchange rate to exceed the INR 83 level. It may be the case that the central bank of India wants to keep the U.S. dollar/Indian rupee exchange rate at this level for the moment. However, if the U.S. dollar/Indian rupee exchange rate exceeds the INR 83 level for a longer period, the fluctuation range may move upward.

At the MPC meeting held in August, the policy interest rate was maintained at the existing level for the third consecutive time. However, the CPI outlook for FY2023 to FY2024 was revised upward from +5.1%, as announced at the previous meeting in June, to +5.4%. Furthermore, the July CPI rose to exceed the upper end of the inflation target range partially due to a food price increase based on bad weather. As the governor of the central bank of India has also suggested the possibility to consider raising the policy interest rate further depending on the inflation trends, it has become more likely for the central bank to raise the policy interest rate again at the next MPC meeting scheduled for October.

From the medium- to long-term perspective, the U.S. dollar is expected face pressure to depreciate, and the currencies of emerging countries (including the Indian rupee) are expected to face pressure to appreciate when the policy interest rate hikes end in the U.S. (most likely in the middle to the second half of next year). However, as the central bank of India is expected to intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from significantly falling, there are market participants that will sell the Indian rupee based on actual demand. Thus, the Indian rupee is forecast to start depreciating slowly rather than appreciating significantly.

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

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