Mizuho Dealer's Eye

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Mizuho Bank, Ltd.

Global Markets Trading Department

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U.S. Dollar – October 2023

Expected Ranges **Against the yen: JPY146.00–153.00**

1. Review of the Previous Month

The dollar/yen pair opened September trading at the mid-145 yen mark. The US August employment data was released on September 1. The NFP data beat expectations, but the unemployment rate deteriorated and the average wage growth figure also moved sluggishly, so the currency pair then plummeted to 144.44 yen on a sense that the labor market was growing less tight. The pair then rose to 146.30 yen on the better-than-expected result of the August US Manufacturing ISM Report on Business, etc.

In the first half of the second week, the pair rose to the upper-147 yen mark in tandem with rising US interest rates. It fell to the lower-147 mark on September 6 after Japanese Vice Minister of Finance Masato Kanda intervened verbally to curb the yen's slide, but with the August US Non-Manufacturing ISM Report on Business moving firmly, the pair bounced back to the upper-147 mark. The yen was sold in the run up to the Tokyo Fix on September 7, with the pair hitting a 2023 high of 147.87 yen. With Japanese stocks moving bearishly and US interest rates falling, though, this momentum was short-lived and the pair fell back. Risk aversion grew on the morning of September 8 on news that the US Department of Commerce would be conducting an examination of semiconductors made by the Chinese firm Huawei. With Japanese Finance Minister Shunichi Suzuki also making verbal interventions to slow the yen's slide, the currency pair plunged to 146.60 yen. The pair was subsequently supported by real-demand buying, though, so it soon bounced back to the upper-147-yen level.

The yen was bought in the third week after BOJ governor Kazuo Ueda hinted in an interview on September 11 that negative interest rates be might lifted in near future, with the currency pair then opening around 147.15 yen. With the USD/CNH pair also falling after Chinese officials made comments aimed at curbing RMB bearishness, the dollar/yen pair temporarily fell to 145.91 yen. However, the US August core CPI (month-on-month) data then topped expectations on September 13. With investors also focusing on the strong results of the US August retail sales data and Producer Price Index on September 14, the pair strengthened to the upper-147 yen level.

In the first half of the fourth week, the pair moved in the mid- to upper-147 yen range. It climbed to 148.12 yen on September 20 after FOMC members upgraded their federal funds rate projections for 2024. In his press conference, FRB chair Jerome Powell commented that "we are prepared to raise rates further if appropriate." The dollar was bought as a result, with the pair renewing a high for the year of 148.36 yen. With US interest rates moving at highs on September 21, the pair hit a 2023 high of 148.46 yen. After a round of buying after the FOMC meeting, the pair temporarily dropped to 147.32 yen in tandem with falling US short-term interest rates. The greenback was bought on September 22 after the BOJ announced it was keeping policy unchanged, so the currency pair rose to 148.16 yen. In his press conference, BOJ governor Kazuo Ueda poured cold water on market speculation about an early end to negative interest rates, so the yen was sold further and the pair climbed to 148.42 yen.

In the final week, the pair weakened for a time after Finance Minister Shunichi Suzuki verbally intervened to stem the yen's slide. With a number of Japanese and US monetary events now out of the way, though, the markets focused again on the divergent monetary policies of the US and Japan, so the pair renewed a high for the year before temporarily hitting 149.71 yen. The authorities had intervened last year when the pair approached 150 yen, so market concerns about an intervention gradually increased at this level.

2. Outlook for This Month

The dollar/yen pair is expected to trade firmly in October. There are three main reasons for this.

(1) Japanese/US interest-rate differentials: At the FOMC meeting on September 21, FRB chair Jerome Powell expressed the opinion that monetary policy would stay at a restrictive level until it could be confirmed that inflation was sustainably falling toward target, with the markets interpreting this as a "higher for longer" message. In the FRB's quarterly economic outlook, meanwhile, 12 out of 19 FOMC participants voiced support for one more rate hike this year. At the moment, the markets have factored in 0.2 rate hikes in November and 0.4 hikes in December (one full rate hike = 25bp) and there is still room to price in more rate hikes. At the September 22 BOJ meeting, meanwhile, BOJ governor Kazuo Ueda said it would not be impossible that the BOJ might have enough information and data by the end of the year to anticipate that wages and prices were entering a virtuous cycle. He also commented that when the BOJ could be sure prices were undergoing a sustainable increase accompanied by wage increases, then a number of options would be on the table, including a scrapping of negative interest rates. Investors should be on guard against the BOJ suddenly shifting its stance on rate hikes, but at this moment in time, there is a clear gap between the monetary policy outlooks of the FRB and BOJ.

(2) The CTD of US 20 Year T-Bond Futures (USZ3): In September, US treasury yield curves were up by around 20–52bp by close of trade on strong US economic growth and an increased supply of government bonds, for example. If interest rates keep rising, the CTD of US 20 Year T-Bond Futures (USZ3) might change and there is a risk that the duration might lengthen. Investors who hold USZ3 long positions will probably carry out adjustive selling if durations suddenly increased, with this selling potentially leading to further selling, so caution will be needed.

(3) The RMB: Concerns about a Chinese economic slowdown are growing on China's deepening real-estate slump. In the wake of this, it seems the People's Bank of China (PBOC) is moving in a more accommodative direction compared to other major central banks, with the PBOC cutting the deposit reserve requirement ratio for large banks by 0.25% on September 14, for example. The authorities have also intervened recently to curb the RMB's slide. However, if US interest rates remain high or rise further, the Chinese economy would find this hard to bear and the impact of dollar bullishness on Asian-currency bearishness would be impossible to ignore. As outlined below, there are two main risk scenarios too.

(1) An intervention by the BOJ: The markets are slowly growing more concerned now the dollar/yen pair is approaching the level that prompted an intervention last year. Even if the BOJ stages an intervention, though, the aforementioned factors will still apply, while crude oil prices are trying to break out of their (yen-denominated) price range on the upside. As such, concerns will probably grow about Japan's trade deficit, so the effects of any intervention will probably be muted.

(2) US treasuries are downgraded on a government shutdown in the US: With the new US fiscal year looming on October 1, stormy negotiations were underway in the US Congress about a funding bill. The rating of US treasuries might be downgraded if no agreement is reached and the government shuts down. If this happens, the dollar and stocks will probably slide.

Dealers' Market Forecast

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

Bullish on the dollar	15 bulls	152.00 – 146.00	Bearish on the dollar	1 bear	151.00 – 144.00

* Ranges are central values

Miyachi	Bull	154.00 – 147.00	There is a sharp divergence in US and Japanese monetary policy, with the yen also likely to be sold as Japan's trade deficit swells on rising commodity prices. There are concerns about an intervention. This could restrain the dollar/yen pair's rise and give rise to carry trades, with the pair set to rise at a modest pace this month.
Kawai	Bull	151.00 – 146.00	The FOMC upgraded its dot chart projections in September, with the dollar/yen pair continuing to edge higher on rising US interest rates too. US rates only have limited room to rise further, though, and there are also concerns about an intervention by the Japanese authorities, so although the pair will move bullishly overall, it will trade in a range with a heavy topside.
Kawabata	Bull	152.00 – 147.00	The September FOMC and BOJ meetings drew even more attention to the divergent directions of US and Japanese monetary policy. The yen is unlikely to rise given interest-rate differentials and the expectations of market participants. The yen might be bought for a time on position adjustments or an intervention, but there are no other bullish-yen factors, so the dollar/yen pair will continue to inch higher.
Kato	Bear	151.00 – 144.00	Attention is starting to focus on the tumultuous Japanese political situation and there is even talk of dissolution. The government had given tacit approval to yen bearishness on expectations for inbound tourism, but curbing inflation was listed as one of the five pillars of the economic strategy unveiled on September 26.
Yamazaki	Bull	152.00 – 147.00	The dollar/yen pair looks set to continue rising. There is a dearth of bearish factors, so the pair will continue to edge higher. Now the first half of the year has passed, there are growing concerns about an intervention, so the pair is unlikely to undergo a one-sided rise.
Ito	Bull	152.00 – 145.00	The dollar will remain bullish and the yen bearish on US and Japanese monetary policy. Crude oil prices are rising and this will also lead to more demand for yen selling. There could be an intervention at highs, but even if this happens, the fundamentals suggest the dollar/yen pair will only fall to around 145 yen at most.
Omi	Bull	153.00 – 147.00	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	152.00 – 147.00	The dollar will remain bullish and the yen bearish. There is a clear divergence in monetary policy, with the dollar also being bought on rising crude oil prices. However, there will be growing concerns about an intervention when the dollar/yen pair tops 150 yen. The pair could fall in the event of an actual intervention, so caution will be needed.
Matsunaga	Bull	151.00 – 145.00	The US economy is expected to reach a soft landing. Crude oil prices are also rising and there is speculation about ongoing FRB tightening, so the dollar will probably remain firm. However, if some weakness is observed in US indicators like consumer spending, corporate capital investment, or housing demand, the yen could be adjusted higher, so caution will be needed.
Tagawa	Bull	152.00 – 145.00	It seems expectations for a scrapping of YCC or verbal interventions to curb the yen's slide will not be enough to shift the dollar/yen pair's trend. In the end, the underlying theme will remain the FRB's "Higher for Longer" stance. As such, the pair will remain on an upwards trajectory.
Katoono	Bull	152.00 – 146.00	Investors should still pay attention to high US interest rates due to soaring commodity prices and sticky core inflation in the US. There are also concerns about the direction of the Chinese economy, while it seems rate hikes may be peaking out in the eurozone, so the dollar will move comparatively bullishly by comparison.

Kobayashi	Bull	152.00 – 145.50	The FRB hinted at further rate hikes within the year when it met in September. In contrast, the BOJ reiterated that it would stick to its deep-rooted easing policy. The dollar/yen pair will continue to rise on these divergent stances.
Henmi	Bull	152.00 – 146.00	The divergence in US and Japanese monetary policy became all the clearer after the September FOMC and BOJ meetings, so the dollar/yen pair will continue to move firmly this month. The weakness of yen supply and demand will also persist, with investors likely to test the pair's 2022 highs this month.
Suzuki	Bull	151.00 – 147.00	The dollar will be bought on the firmness of the US economy and expectations for long-term US monetary tightening. There are also concerns of an intervention, so investors are unlikely to forcefully test the pair's topside. However, the pair looks set to continue moving firmly.
Okuma	Bull	153.00 – 146.00	The FRB struck a hawkish stance at the FOMC meeting, but the BOJ remains dovish, with investors focusing again on Japanese/US interest-rate differentials and the divergent policies of the US and Japan. US long-term interest rates also remain high on inflationary concerns, with the dollar likely to remain firm this month.
Nishi	Bull	153.00 – 146.00	After the September FOMC meeting, it seems the FRB will push back the pace of rate cuts in 2024. The dollar/yen pair will continue to rise on Japanese/US interest-rate differentials, with the pair set to remain firm despite concerns of an intervention by the Japanese government and the BOJ.

Tomoko Yamaguchi, Forex Sales, Global Markets Trading Department

Euro – October 2023

Expected Ranges	**Against the US$: US$1.0400–1.0850**
	Against the yen: JPY156.00–160.00

1. Review of the Previous Month

The euro/dollar pair fell sharply in September. The pair hit $1.0843 at the start of the month. The US August employment data was then released and it revealed that the unemployment rate had risen and wages had slowed. US interest rates fell on these signs that the US labor market was growing less tight, with the euro/dollar pair temporarily hitting a monthly high of $1.0882. Buying was short-lived, though, and the pair dropped back to $1.0772 as US interest rates rose and the dollar was bought on the strong results of the US August Manufacturing ISM Report on Business.

The next week saw the release of some bearish final eurozone August Services PMI data on September 5, with the pair subsequently tumbling to the lower-$1.07 level. The markets also reacted badly when the eurozone downgraded its final 2Q GDP data on September 7. With US interest rates also rising on firm US economic indicators, the pair moved heavily and it dropped to $1.0686 for a time. The German final August CPI figure was released on September 8. The data was much as expected, though the impact on the currency pair was muted. With US interest rates then falling, the pair rallied to $1.0744, but its momentum stalled and it fell back to continue trading in the $1.07 range.

The ECB Governing Council implemented a +25bp rate hike in its closely-watched meeting on September 14, but it also downgraded its inflation outlook and GDP growth forecast for 2025, so the euro was sold across the board. The pair temporarily plunged to $1.0632 for the first time in six months. On September 18, German interest rates rose and the pair rallied to $1.07 after sources reported that the ECB would soon start discussing how to tackle excess liquidity. However, the greenback was bought and the pair fell back to $1.0660 on the hawkish contents of the September 20–21 FOMC meeting.

The pair tumbled to $1.0615 on September 22 after France released a worse-than-expected September composite PMI. On September 25, meanwhile, ECB board member Isabel Schnabel commented that eurozone economic activity was clearing slowing. With US interest rates also rising, the pair dropped to $1.0488 toward September 28, close to its low for the year. Germany released some worse-than-expected September CPI data on September 28, but investors then began selling the dollar, so the currency pair bounced back to the $1.06 range at the month's end.

The euro/yen pair's movements were shaped by the dollar in September, with the pair moving in a narrow range around two yen wide. After opening the month at 157.75 yen, the pair temporarily rose to the mid-158 yen mark toward September 7, though it then fell to a monthly low of 156.65 yen on September 11 on some weak eurozone economic indicators and a bearish dollar/yen pair. It then rallied to a monthly high of 158.61 yen on September 12. The pair tumbled to 156 yen again after the ECB Governing Council meeting, but it rallied to the upper-157 yen level toward the month's end as the dollar/yen pair strengthened.

2. Outlook for This Month

The euro/dollar pair is expected to trade with a heavy topside in October. The ECB Governing Council implemented a rate hike in September. This marked the first time rates had been lifted for ten straight meetings. However, the accompanying statement said that "based on its current assessment, the Governing Council considers that the key ECB interest rates have reached levels that, maintained for a sufficiently long duration, will make a substantial contribution to the timely return of inflation to the target." This led to a growing sense that rate hikes had reached their terminal phase. The euro was sold directly after and this trend continued until the end of the month. After the meeting, the hawkish Klaas Knot, president of Holland's central bank, also said he was satisfied with current monetary policy, so it seem unlikely the ECB will lift rates again unless inflation accelerates once more. The FOMC kept its policy rate fixed, as broadly expected, but the projections of FOMC members struck a hawkish tone, with members expecting a further rate hike within the year and the policy rate to remain at highs over 2024. The dollar will continue to be bought in October on the divergent monetary policies of the FRB and ECB.

Furthermore, the economic indicators of Germany and other eurozone nations have weakened since last month and they continue to underperform expectations. The OECD's economic outlook was released on September 19 and this also downgraded the outlook for eurozone economic growth from +0.9% y-o-y to +0.6% y-o-y. Concerns about the direction of the Chinese economy continue to simmer too, with uncertainty also growing outside the eurozone. The US economy remains firm, though, so the euro will be sold on this differing economic performance. If the US continues to release strong economic indicators in October, the euro/dollar pair could fall further, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro	3 bulls	1.0850 – 1.0450	Bearish on the euro	13 bears	1.0750 – 1.0400

* Ranges are central values

Miyachi	Bear	1.0650 – 1.0100	The euro will continue to move weakly on widening US/European interest-rate differentials and the differing economic sentiments in the US and Europe. Furthermore, though a turning point in monetary policy is drawing closer, the euro will be sold on a potential lack of maneuverability in ECB policy or on position adjustments by speculators, so the euro/dollar pair will move bearishly.
Kawai	Bull	1.0850 – 1.0450	When the ECB Governing Council met in September, it downgraded its economic outlook while also releasing a dovish statement. Several indicators also point to deteriorating economic sentiments in Europe. As a result, the euro/dollar pair has continued to trend lower. However, there is only limited room for US interest rates to rise further and there is also a sense that the euro has been over-sold, so the pair will probably bounce back in October.
Kawabata	Bull	1.0850 – 1.0450	Policy rates clearly peaked out at the September ECB Governing Council, with the dollar/yen pair moving bearishly late September. However, the pair's gains since the start of the year have now been pared back, so the pair's slide on position adjustments will ease off this month. The pair will probably rally in a range provided core inflation does not slow.
Kato	Bear	1.0700 – 1.0450	The euro/dollar pair's downside will be bolstered by ongoing euro buying on the real-demand flow. The ECB Governing Council effectively announced it was halting rate hikes, but the FRB has yet to announce that its terminal rate has been reached, so this divergence will have a major impact on the pair's movements.
Yamazaki	Bear	1.0700 – 1.0500	The dollar will remain bullish and the euro bearish. There are still strong expectations for another US rate hike towards the year's end, so the greenback may trend higher. The pair's downside will be capped, with the pair likely to continue trading with a firm undertone.
Ito	Bear	1.0850 – 1.0300	The ECB has yet to announce an end to rate hikes, but market participants generally believe the terminal rate has been reached. With the FRB likely to hike rates again, the euro/dollar pair looks set to move heavily. The pair's topside will also be capped by built-up euro long positions.
Omi	Bull	1.0800 – 1.0300	The euro/dollar pair will continue to move firmly as the ECB keeps policy rates high. However, the US policy rate also remains at high, so the pair will continue to fluctuate gently in a range.
Yamaguchi	Bear	1.0850 – 1.0400	With the economy continuing to slow, the ECB effectively announced an end to rate hikes. However, the FOMC will probably hike rates again this year while keeping its policy high throughout 2024 too. As such, euro selling will continue on interest-rate differentials.
Matsunaga	Bear	1.0700 – 1.0400	The ECB downgraded its economic outlook after the September ECB Governing Council meeting. The euro/dollar pair's topside will be capped by ongoing concerns about an economic slowdown. It crude oil and gas prices remain high towards winter, the pair could face more downward pressure, so caution will be needed.
Tagawa	Bear	1.0700 – 1.0400	The eurozone's September Manufacturing and Services PMIs both dropped below the key 50 level. Concerns about a European economic recession are also growing on comments by ECB officials about a slowdown. The euro will be susceptible to selling on the whole.
Katoono	Bear	1.0750 – 1.0350	Some difficult operations will be needed to prevent stagflation from growing. Inflation remains high and the eurozone economy still shows no signs of improvement. As such, the euro is unlikely to be bought back in the short term.

Kobayashi	Bear	1.0800 – 1.0300	Though the ECB implemented a rate hike in September, it downgraded its outlook for fiscal 2014 onwards, with the euro falling across the board. On the other hand, the FRB has hinted at a further rate hike within the year. With the eurozone economy manifesting no signs of recovery, the euro/dollar pair looks set to move bearishly this month.
Henmi	Bear	1.0750 – 1.0300	Though the ECB implemented a rate hike, the markets reacted by selling the euro, with the euro/dollar pair maintaining the downward trend that began in July. There are concerns about a Chinese economic slowdown and fears about the ripple effect on the European economy, so the euro will remain bearish this month.
Suzuki	Bear	1.0700 – 1.0400	The ECB has downgraded its economic outlook and momentum for rate hikes is also falling. This marks a clear difference from the FRB. With energy consumption set to increase toward winter, there are also concerns about eurozone supplies. As such, the euro/dollar pair will continue to move bearishly.
Okuma	Bear	1.0800 – 1.0400	The FRB has left the door open for further rate hikes, but there is a growing sense that ECB rate hikes have come to an end. There are rising concerns about a European economic slowdown, with the euro also set to move bearishly on high crude oil prices.
Nishi	Bear	1.0800 – 1.0300	The ECB Governing Council downgraded its outlook for real GDP in September and there remain concerns about an economic slowdown. With the ECB also hinting at an end to rate hikes, the euro/dollar pair will continue to move bearishly for a time.

Masayuki Nakajima, Europe Treasury Department

British Pound – October 2023

Expected Ranges **Against the US$: US$1.0900–1.2400**
Against the yen: JPY179.00–185.00

1. Review of the Previous Month

The pound weakened and the dollar strengthened further in September as the FOMC "hawkishly kept policy unchanged" while the BOE surprisingly kept policy unchanged. This trend was also supported by climbing crude oil prices and rising US interest rates on concerns about a US government shutdown.

The GBP/USD pair fell around -1% in the week beginning September 4. The greenback strengthened across the globe on rising crude oil prices and firm US economic indicators. In a hearing with parliament's Treasury Committee on September 6, BOE Governor Andrew Bailey said that further rate hikes might not be needed going forwards. All this saw the currency pair moving with a heavy topside.

The pair then fell by -0.7% in the second week. In particular, its fall intensified after the September 14 ECB Governing Council meeting, with sterling caught up in the bearish movements of the euro/dollar pair. The ECB implemented a +25bp rate hike when it met in September, but it sharply downgraded its GDP forecast while revising its forward guidance, so its move was read as a "bearish rate hike." UK economic indicators also moved weakly on the whole. Data about the labor market was released on September 12 and it revealed that wages (excluding bonuses) had risen an average of +7.8% y-o-y in the three months through to July. This was the same result as the previous three months, which had seen the highest wage rises since records began in 2001. At +4.3%, though, the unemployment rate was up on the previous month for the third straight month. The July GDP data was released on September 13 and this was down -0.5% on the previous month. July was a rainy month and there were a lot of strikes, so this may have dampened economic activity, but the contraction was observed across a range of sectors, including services, construction and manufacturing.

Sterling also fell by -1% in the third week. The FOMC kept policy rates fixed on September 20, but it hinted at further rate hikes, so its decision was read as a "hawkishly keeping policy unchanged," with the dollar subsequently climbing against a wide range of currencies. The markets had been expecting a further BOE rate hike on September 21, but the BOE actually kept rates fixed, with the pair falling as a result. The GBP/USD pair rallied for a time to its level from before the BOE policy announcement, but the UK then released a worse-than-expected August retail sales figure and preliminary September Services PMI on September 22, so concerns of an economic slowdown grew and the pair faced more downward pressure.

In the fourth week, the dollar was adjusted towards the month's end, with the currency pair dropping back to around $1.22 on September 28.

2. Outlook for This Month

There are no signs of an end to rising US interest rates and dollar strength, so the GBP/USD looks set to continue sliding in October. Sterling's weakness against the greenback comes on the back of global dollar bullishness, but the pound fell against both the yen and dollar in September. The GBP/JPY pair fell from the 185 yen range at the end of August to below 181 yen at one point. The yen fell and the dollar rose on growing expectations for long-term easing in the US, but the BOE's decision to keep rates fixed had a bigger impact on the markets.

Looking back at the September BOE meeting, it seems the decision to shelve rate hike was a very close one. Five of the nine voting members voted not to hike rates, including BOE Governor Andrew Bailey, but four members said a +0.25 rate hike was necessary. The UK August CPI data had been released on September 20, one day earlier, with the figure dropping from +6.8% y-o-y in July to +6.7, with inflation falling for the first time in 18 months. This probably swung the decision towards not lifting the policy rate. The markets were actually expecting inflation to accelerate again to +7.0% y-o-y. BOE Governor Andrew Bailey said inflation would continue to fall significantly going forward. This led to a growing sense that further rate hikes were unlikely in future.

However, the BOE's policy announcement was not a one-sided affair. When it came to the goal of reducing the stock of gilts held by the BOE for quantitative tightening purposes over the 12-month period from October 2023 to September 2024, the BOE decided to increase the pace of this reduction from £80 billion in the year to September 2023 to £100 billion (including redemptions and market sales). Governor Bailey also said it was too early to discuss rate cuts.

The UK's September Services PMI (preliminary) fell to 47.2. With house prices also falling, there are clear signs that the UK economy is slowing. However, the situation seems more worrisome for the eurozone, with Germany at risk of a recession and Italy's finances in a parlous situation, for example. In Japan, BOJ governor Kazuo Ueda has indicated that easing will continue, while speculation has also grown about a general election after Prime Minister Fumio Kishida instructed ministers to finalize new economic measures within October. This political uncertainty will probably give rise to expectations that the BOJ will delay monetary policy normalization. In the end, sterling might be bought back against other major currencies apart from the dollar, if only from a lack of alternatives.

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

Australian Dollar – October 2023

Expected Ranges **Against the US$: US$0.6300–0.6700**
Against the yen: JPY93.60–98.00

1. Review of the Previous Month

After opening September trading at the mid-$0.64 mark, the AUD/USD pair rose to a monthly high around $0.6510 when US interest rates fell in the run up to the September 20 FOMC meeting, though the pair then renewed a 2023 low of $0.6331 towards the month's end.

After moving in the upper-$0.64 range early September, the pair then hit $0.65 as the greenback was sold on some bearish US August employment data and the decision by the People's Bank of China (PBOC) to lower its foreign exchange reserve requirements ratio from 6% to 4%.

The RBA kept its policy rate fixed at 4.1% when it met on September 5, with rates left unchanged for the third straight month. This led to a growing sense that rate hikes had come to an end, with the Australian dollar sold as a result. The accompanying statement said that although inflation had passed peak, services prices and rents still continue to climb at a fast pace. The statement also reiterated that some further tightening might be needed going forward. The Australian 2Q GDP was released on September 6. At +2.1% y-o-y, the figure was up on expectations for a +1.8% rise, with the currency pair's downside supported by the apparent strength of the Australian economy.

Australia then released some better-than-expected August employment data on September 14, with the Australian dollar bought immediately after. However, the data also revealed that the increase in jobs was mainly down to non-full-time work, so this buying was short-lived.

The minutes to the RBA meeting were released on September 19 and the revealed that RBA board had discussed a +25bp rate hike, though members eventually decided it would be prudent to allow more time to see the full effects of the tightening cycle and thus left rates unchanged. The AUD/USD pair's reaction was muted. The pair temporarily hit $0.65 late September as US interest rates fell in the run up to the FOMC meeting. However, the FOMC then left policy rates fixed. Members also upgraded their federal funds rate projections for the end of 2024 and the end of 2025 in the dot chart. In his press conference, meanwhile, FRB chair Jerome Powell dropped hints about further rate hikes. As such, the FOMC was seen as "hawkishly keeping policy unchanged," so US treasury yields rose sharply and the dollar strengthened. The currency pair subsequently fell to around $0.6450. The Bank of Japan's Monetary Policy Meeting kept policy and its forward guidance unchanged when it met on September 22, so the yen fell across the board.

The benchmark yield on 10-year US treasuries temporarily rose to 4.45% on September 25, its highest level since 2007, so the greenback was bought and the AUD/USD pair weakened to $0.6404 for a time. The pair then climbed to $0.6409 on September 27 after Australia's August CPI indicator accelerated. The main reason for this was rising fuel costs, but when these fluctuating factors and holidays were removed from the equation, the CPI figure actually slowed on the previous month. US treasury yields then rose higher, with the benchmark 10-year yield hitting a 16-year high. As a result, the currency pair edged down to around $0.6350, though it then rallied to $0.64 on rising Australian interest rates.

2. Outlook for This Month

When it met in September, the RBA kept the cash rate fixed for the third straight month. This led to a growing sense that the rate-hike cycle had ended, with the Australian dollar then weakening. In comparison, the FOMC meeting saw members upgrading their policy rate projects for the ends of 2024 and 2025, with FRB chair Jerome Powell also hinted at further rate hikes. The greenback was subsequently bought on rising US interest rates, with the AUD/USD pair moving with a heavy topside. However, the Australian August CPI indicator (released at the month's end) rose for the first time in four months. Gasoline prices had risen above A$2 per liter, with the data also pushed up by the rising cost of services like hair salons, rental cars, sports, insurance, and financial services. The service sector is a labor-intensive industry, with service prices also bolstered by rising wages. As such, the August CPI data pointed to the risk of accelerating underlying inflation. Nonetheless, there is a strong consensus that the RBA board will keep policy rates fixed when it meets on October 6. The board will probably refrain from making a decision until it has observed the 3Q quarterly data released on October 25. If Australia's 3Q CPI figure swings upwards, this will re-ignite market speculation about further rate hikes, so the pair will probably strengthen again to $0.65 on rising Australian interest rates. The futures market is currently pricing in one RBA rate hike (+25bp) by the end of March 2024.

Before the release of the 3Q CPI data, market participants will be focusing on the minutes to the FOMC meeting (released October 12) and the minutes to the RBA meeting (released October 17). If the minutes remind investors of the FOMC's hawkish decision to keep rates fixed in September or if the upgraded dot chart revives the potential for further rate hikes, the greenback could be bought as US interest rates rise again, with the AUD/USD pair continuing to trade with a heavy topside.

Rents and mortgage repayments remain high in Australia, with the recovery of consumption in Australia driven by those without mortgages or consumers who are not stressed by rising housing costs. Mid-season sales also took place in September, with this also spurring on consumption. Investors should monitor the movements of Australia's September household consumption data and retail sales figures to gauge the impact on the 3Q CPI data.

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

Canadian Dollar – October 2023

Expected Ranges **Against the US$: C$1.3350–1.3850**
Against the yen: JPY105.00–112.00

1. Review of the Previous Month

August's trend of USD bullishness continued in early September.

The Canadian 2Q GDP data was released on September 1, with GDP unexpectedly contracting by -0.2% on the same quarter last year. Amid market concerns about the impact of rate hikes, it seemed even more unlikely that the Bank of Canada (BOC) would hike rates when it met on September 6. As yields on 2-year Canadian bonds fell sharply, the USD/CAD pair strengthened to C$1.36. As expected, the BOC kept its policy rate fixed at 5.00% when it met on September 6. The US August Services ISM Report was released on the same day, with the figure improving on July and also up on expectations, so investors continued to buy the greenback. The US weekly applications for unemployment insurance data was released the following day, with new and ongoing applications both down on the previous week. This result saw the currency pair rising to a September high of C$1.3695.

However, the Canadian dollar was then bought and the USD dollar sold on September 8 on the release of the Canadian August employment data. The net change in employment figure was up sharply on the previous month, while the unemployment rate moved flatly and wage growth accelerated. In an interview with a Japanese newspaper, BOJ governor Kazuo Ueda then hinted that negative interest rates might be lifted by the year's end. With Chinese loan data also showing signs of improvement, investors continued to sell the greenback. On September 5, Saudi Arabia and Russia had announced they would be extending a program of autonomous production cuts until December, with Canadian buying also supported by expectations that crude oil prices would remain high.

The Canadian August CPI data was released on September 19, with the headline and core figures both up sharply on expectations. As Canadian long-term interest rates soared, the Canadian dollar was bought and the USD/CAD pair temporarily fell to C$1.3381. As expected, the FOMC kept its policy rate fixed at 5.25%–5.50% when it met on September 20. However, members upgraded their FF rate projections for the ends of 2024 and 2025, so the greenback was bought back and the currency pair hit the upper-C$1.34 level. Canada's July retail sales data was released on September 22. After falling sharply in June, the headline and core figures both recovered, but the preliminary figure for August had contracted by -0.3% month-on-month, so the impact on USD/CAD pair was limited, with the pair moving in a range from the upper-C$1.34 mark to the lower-1.35 level toward the month's end.

2. Outlook for This Month

The Bank of Canada kept its policy rate fixed at 5.0% when it met on September 6. A few things influenced the decision, including a noticeable slowdown in consumption, slowing movement in the housing market, and the impact of the forest fires that had broken out in several regions. A sharp slowdown in the 2Q growth rate had also played a role, with the BOC stating that "the Canadian economy has entered a period of weaker growth, which is needed to relieve price pressures."

Tight labor market supply and demand conditions are gradually easing off, but wage growth remains high.

Furthermore, though inflation is slowing, there are no signs of core inflation decelerating. As such, the BOC did not rule out the necessity of another rate hike. When it comes to future monetary policy decisions, the BOC also said, "in particular, we will be evaluating whether the evolution of excess demand, inflation expectations, wage growth and corporate pricing behavior are consistent with achieving the 2% inflation target."

Canada's August CPI figure was sharply up on expectations. After this announcement, market expectations grew for a rate hike when the BOC meets on October 25. As of September 26, market bets on an October rate hike stood at 46%. This figure has fallen slightly after the release of Canada's July retail sales data, but if the September data tops the August data on rising gasoline prices and so on, a rate hike at the subsequent meeting could also be a possibility.

When gauging the direction of the USD/CAD pair, investors will continue to focus on Canadian economic trends. The results of indicators released before the October 25 BOC meeting have an important impact on any decision about rate hikes. These indicators include the September employment data (October 6), the BOC's 3Q Business Outlook Survey (October 16), the September CPI data (October 17), and the August retail sales data (October 20). The USD/CAD pair is expected to trade in a range from C$1.3350–1.3850 in October.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – October 2023

Expected Ranges **Against the US$: KRW 1,310–1,370**
Against the yen: JPY 10.87–11.36 (KRW100)

1. Review of the Previous Month

The dollar/won pair rose in September. The pair opened the month trading at KRW1325.0. The RMB then strengthened after the Chinese authorities decided to lower China's foreign exchange reserve requirements ratio. The won was also pulled higher, with the currency pair dropping below the key KRW1320 level. The US released some sluggish employment data during overseas trading time on September 1, with the pair sliding to a monthly low of KRW1315.5 on September 4. Things changed on September 5 when the won weakened after the RMB was sold on the bearish results of a Chinese PMI. The pair hit a high of KRW1337.5 over September 6–7, though its topside was held down by won buying on what appeared to be an intervention by the authorities.

The pair opened the next week trading around KRW1334 on September 11. The RMB and yen then rose after their respective authorities made verbal comments to restrain their slide, with the won also moving bullishly. The dollar was sold on caution from September 12 ahead of the release of the US CPI data, so the pair continued moving in the KRW1320 range. The ECB unexpectedly implemented a rate hike during overseas trading time on September 14. As investors focused on widening interest-rate differentials, the won weakened and the pair temporarily hit KRW1330 on September 15, though the won was pulled back up by the firm movements of the RMB.

With several central bank meetings looming from the middle of the following week, the pair fluctuated gently over September 18‐19. The pair then moved slightly bearishly as exporters sold the greenback. With US interest rates rising and caution growing about the FOMC meeting, the pair moved around KRW1330. The FOMC kept policy rates fixed when it met during US trading time on September 20. The FOMC struck a hawkish tone, though, with members upgrading their interest rate forecasts from 2024 onwards, for example, so the dollar was bought across the board and the USD/KRW pair also rose. The pair then hit a monthly high of KRW1342.2 on September 21.

The pair was held down as exporters sold the dollar and it continuing moving at KRW1330. However, it then soared on September 26 as the greenback was bought on rising US interest rates. The pair renewed a 2023 high of KRW1349.5. With a long holiday looming, the last trading day took place on September 27. With the dollar strengthening during overseas trading time, the pair hit a high of KRW1356.0 during the morning before closing at KRW1349.3.

2. Outlook for This Month

In October, the USD/KRW will probably float around a higher level in the mid-KRW1300 range.

Before a long holiday at the end of September, the pair rose to a 2023 high as US long-term interest rates hit 4.5%. If US interest rates continue to move firmly while investors monitor the results of various economic indicators in October, the currency pair will probably move strongly.

The BOK will be meeting on October 19. The BOK has maintained a hawkish stance that leaves the door open for rate hikes depending on the won's level. However, even though authority figures have intervened verbally at the won's current level, the actual likelihood of a rate hike seems quite low. The BOK is also ringing alarm bells about rising household debt. Despite high interest rates, South Korean household debt is rising, with total debt hitting KRW1.862 trillion by the end of June 2023, up 0.5% on the end of March. Household debts is at 105% of GDP, far above the figure of 80% or lower that the BOK considers safe. This ballooning debt is linked to a rise in property-related borrowings, but the government has tried to keep a lid on consumer buying appetite by announcing plans to significantly increase supply in the real estate market. Monetary policy might also be used to restrain consumer behavior, but the South Korean economy does not seem strong enough to withstand a rate hike, so it seems the BOK will keep policy fixed for now.

South Korea's August trade balance was in the black for the third straight month, but exports fell by -8.3% y-o-y to slide for the 11th month in a row. At -21.2%, exports of semiconductors (South Korea's main export item) contracted for the 13th straight month. The won will probably rise if the semiconductor market looks set to undergo a fully-fledged recovery, but some time will be needed before this happens.

Hirochika Shibata, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – October 2023

Expected Ranges	**Against the US$: NT$32.10–32.50**
	Against the yen: JPY4.55–4.68

1. Review of the Previous Month

In September, the USD/TWD pair hit a 2023 high.

The pair opened the month trading at TWD31.820 on September 1. It then faced upward pressure from Taiwan-dollar bearishness, with the Taiwan unit also sold by overseas investors. With exporters also selling the greenback, though, the pair continued moving with a heavy topside around TWD31.90. However, Taiwanese stocks moved weakly on September 6 on rising US interest rates, so the Taiwan dollar was sold and the currency pair climbed to the upper-TWD31.9 level. This trend continued into September 7, with the pair hitting the TWD32 range for the first time in around ten months.

The Chinese authorities intervened verbally to stabilize the RMB's movements mid-September. With the RMB rallying sharply, Asian currencies rose across the board, with the Taiwan dollar also bought and the USD/TWD pair falling below TWD32. However, the greenback was also bought by importers at lows, so the pair soon recovered to TWD32. The pair then floated in a range around TWD32.0. The results of the US August CPI data suggested inflation was trending lower. As expectations for a rate hike at the September FOMC meeting faded, Asian stocks rose on September 14, with Taiwanese equities also climbing. The Taiwan dollar was bought and the pair temporarily weakened to the mid-TWD31.8 mark, though it soon returned to TWD31.9. The pair then moved in a range around TWD31.9 until the FOMC meeting.

As expected, the FOMC left its policy rate fixed when it met late September. However, the dot chart predicted one further rate hike this year, with the outlook for 2024, also upgraded, so the meeting was read as hawkish and US interest rates rose. Amid concerns about high US interest rates, Taiwanese stocks and the Taiwan dollar was sold on September 21, with the currency pair rising to the mid-TWD32.1 level. The pair's topside was then weighed down as exporters sold the greenback at the month's end, but with Taiwanese stocks moving bearishly, the pair hit TWD32.2 on September 26. On the last trading day of the month, before the Mid-Autumn Festival, the pair temporarily hit a 2023 high of TWD32.294.

2. Outlook for This Month

The USD/TWD pair is expected to move with a heavy topside in October.

US long-term interest rates rose after the September FOMC meeting, with Taiwanese stocks and the Taiwan dollar falling, so the currency pair hit a 2023 high at the month's end. The Central Bank of the Republic of China (Taiwan) (CBC) held its quarterly Monetary Policy Meeting in September and it kept policy unchanged for the second straight meeting. The CBC's governor Yang Chin-long said CPI was expected to grow by less than 2% in 2024. The bank's previous long-term inflation target had been around 1%, but the governor said caution would be needed if the longer-term CPI growth average rose from 1% to 1.5% and he added that current high interest rates could remain in place for longer.

In October, investors are likely to test the currency pair's 2022 high of TWD32.345. Last year's trend of Taiwan-dollar bearishness came under some adjustment when the US CPI data began falling, but the Taiwan dollar's current weakness is due to rising US interest rates and a strong US dollar, with the USD/TWD pair's movements likely to be swayed by US trends from here on too. The US is expected to hit a soft landing, so the trend of US-dollar bullishness is unlikely to shift. However, the US also faces concerns, such as a decline in savings due to the pandemic, the suspension of moratorium on student loan repayments, rising energy costs, and doubts about the firmness of consumption. If deteriorating US indicators lead to growing speculation that rate cuts might be brought forward, the USD/TWD pair might drop back, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – October 2023

Expected Ranges **Against the US$: HK$ 7.7800–7.8400**
Against the yen: JPY 18.50–19.40

1. Review of the Previous Month

Hong Kong dollar spot exchange market in September

HKD defied the USD strength and higher UST yields as HKD rates quickly caught up with USD rates due to the quarter-end seasonality. Subsequently, HKD T/N forward points turned positive, indicating negative return of long USD/HKD spot. The carry trade flow of long USD/HKD reversed, and USD/HKD spot fell back from its 4-month high of 7.8479 to 7.814 level. HK stock markets remained bearish amid deepening China woes, with the Hang Seng Index retesting its 9-month lows. The IPO activities remained subdued in this period. However, mainland China investors continued to buy HK equities via the Stock Connect scheme, with the year-to-date Stock Connect net inflow rising to a high of HKD 260bn. The elevated HKD rates dampened HK property market and investment. The Centa-City Leading (CCL) Index, which serves a leading indicator for HK property prices, pared back its earlier gains. HK PMI for August picked up slightly to 49.8 from prior 49.4, but remained below 50 expansion mark. Labour market condition remained tight, with the unemployment rate staying flat at a low level of 2.8%.

Hong Kong dollar interest rate market in September

The HKD HIBOR curve rebounded sharply due to the quarter-end seasonality and the HK government green bond subscription. The overnight HKD HIBOR bottomed out at 1.77% at August-end and then rose to near 5.8% in late September. Similarly, the 1-month and 3-month HKD HIBOR soared to near 5.3%, respectively, indicating a narrowing HKD-USD rate spread. With the HKD staying within the trading band, HK aggregate balance was flat at near HKD 45bn. The tight HKD liquidity conditions fueled HKD rates volatilities and HK banks tap into the discount window facilities more frequently to secure HKD funding. Following Fed's hawkish pause, the HKD IRS curve tracked higher on USD IRS curve as Fed is set to hold its interest rates higher for longer. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) climbed notably to near +60bps from +18bps at August-end, with front-end HKD rates jumping at a faster pace compared to the back-end.

2. Outlook for This Month

Hong Kong dollar spot exchange market in October

Considering Fed's stage near the end of its rate hike cycle and persistently tight HKD liquidity conditions, we expect the USD/HKD spot to revert to the mid-point of its trading band at 7.8 level. The HKD interest rate movement will play a crucial role in driving the HKD spot As we enter into the fourth quarter, the preparation of the year-end funding rate, given the tight HKD liquidity condition, is likely to limit the downside of HKD rates. Additionally, the narrow HKD-USD rate spread should provide support to the HKD spot. However, the risks of capital flow are skewed to the downside as foreign investors continue to reduce their exposure on Chinese investments given the deepening China property crisis, countering the Stock Connect inflow from mainland China investors. The IPO related demand for HKD should remain weak given lackluster HK IPO activities.

Hong Kong dollar interest rate market in October

HKD rates are expected to retreat in October following a liquidity squeeze due to quarter-end seasonality and HK government green bond subscription. However, the downside should prove to be limited, when market participants start to prepare the year-end funding. That says, the 3-month HIBOR, which will cover the year-end funding period, will likely remain elevated in coming months. Overall, the tight HKD liquidity condition should keep HKD rates supportive. Considering Fed's hawkish pause, we believe that HKD rates will stay higher for longer under the USD-HKD peg. In order to mitigate impact from rising HKD funding costs and preserve mortgage profits margin, HK banks may raise the interest rate cap on the mortgage loan by reducing the discount against the HK prime rate, while refraining from raising the prime rate in the absence of Fed's further rate hikes.

Hitoshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – October 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 September, the U.S. dollar/Chinese yuan rose.

On September 1, the U.S. dollar/Chinese yuan exchange market opened trading at exactly CNY 7.24. On September 4, after market closure in the U.S., the U.S. dollar strengthened against all the other currencies, thanks to the rise of U.S. interest rates after the release of U.S. employment statistics. On September 5, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.30 level. Then, on September 7, the August trade statistics of China were released, revealing that both imports and exports recorded a decline smaller than the market estimate. However, market participants continued selling the Chinese yuan thereafter, possibly due to weak demand. As a consequence, the U.S. dollar/Chinese yuan exchange rate exceeded CNY 7.3280—the highest rate in 2022. On September 8, the Chinese yuan continued depreciating against the U.S. dollar, mainly led by the offshore market, and the U.S. dollar/Chinese yuan exchange rate reached CNY 7.3510—the highest rate in September.

On September 11, the People's Bank of China (PBOC) released a statement to confirm its intention to correct any one-sided movement in the market if needed, while also asking market participants to maintain the stability of the market in a proactive manner. In reaction, the U.S. dollar/Chinese yuan exchange rate once fell to the lower-CNY 7.27 level. On September 14, the PBOC announced its decision to cut the reserve requirement ratio (RRR) by 25 basis points. As a result, the Chinese yuan weakened temporarily against the U.S. dollar, albeit to a limited extent. On September 15, the August figures of retail sales and industrial production were announced, revealing a greater growth than expected, encouraging market participants to actively buy the Chinese yuan. Consequently, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.24 level. Yet, the U.S. dollar/Chinese yuan exchange rate did not fall further and soon returned to the CNY 7.27 level.

On September 20, the head of the PBOC's monetary policy department, Zou Lan, announced in a press conference that he would rigorously control any action to confuse the foreign exchange market. However, this did not have significant impact in the market. Thereafter, the U.S. dollar strengthened against all the other major currencies, based on the outcome of a Federal Open Market Committee (FOMC) meeting and on remarks made by Federal Reserve Board (FRB) Chair Jerome Powell. Following this trend, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.31 level on September 21. On September 25, toward the end of the month, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 7.30 level, as National Day of the People's Republic of China was approaching.

2. Outlook for This Month

Even though the U.S. dollar/Chinese yuan exchange rate is likely to rise only to a limited degree, the exchange rate is not expected to fall significantly.

In September, the U.S. dollar strengthened, and the U.S. dollar/Chinese yuan exchange rate temporarily exceeded CNY 7.3280 in the onshore market for the first time since the beginning of November last year. And since that same month, when strict anti-Covid-19 measures were being gradually lifted in China, the U.S. dollar/Chinese yuan exchange rate fell below the CNY 6.70 level. However, expectations for domestic economic recovery did not grow significantly in the end. Thus, the U.S. dollar/Chinese yuan exchange rate remained robust until now based on the differences in monetary policy between the U.S. and China, and this is likely to continue keeping the U.S. dollar/Chinese yuan exchange rate from falling for the time being.

On the other hand, in August, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.30 level. In reaction, the PBOC took some countercyclical actions by setting the PBOC central parity rate toward a stronger Chinese yuan, while the Chinese monetary authorities strengthened their control over the one-sided Chinese yuan depreciation. Thus, it seems that market participants see the upper-CNY 7.30 as the psychological turning point for the U.S. dollar/Chinese yuan exchange market, and the U.S. dollar/Chinese yuan exchange rate has recently been low even though it has not fallen significantly. Market participants are expected to continue carefully observing monetary policy decisions both in the U.S. and China. Under such circumstances, the U.S. dollar/Chinese yuan exchange rate is forecast to remain high, fluctuating in both directions.

With regard to domestic factors in China, various economic stimulus measures were announced in the two months following the Chinese Communist Party Politburo meeting on July 24. The measures cover a wide range of sectors, not only the real estate sector (which attracted substantial attention in the market regarding the deregulation on housing loan conditions in first-tier cities) but also the financial sector, in which the stamp duty on security transactions was halved. The Chinese authorities are expected to continue taking active policy measures in order to achieve the growth target set out in the five-year plans. Because the policy interest rate in the U.S. has nearly peaked out, upward pressure on the Chinese yuan and downward pressure on the U.S. dollar is/are likely to strengthen gradually from the medium- to long-term perspective. Market participants should this keep in mind.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – October 2023

Expected Ranges **Against the US$: SG$ 1.3450–1.4100**
Against the yen: JPY 106.00–112.00

1. Review of the Previous Month

In September, 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 lower-SGD 1.35 level on September 1. After the release of the September employment statistics of the U.S., market participants actively sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate temporarily fell to the upper-SGD 1.34 level. However, the August ISM manufacturing business confidence index of the U.S. was released thereafter, recording a result better than the market estimate, and this changed the trend in the market. Meanwhile, the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.35 level. On September 4, there were few market transactions, as there was a holiday in the New York market. On September 5, market participants sold Asian currencies, as the Chinese economic indices were released with weak figures. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.36 level. From September 6 toward September 8, market participants continued selling Asian currencies, and the U.S. dollar/Singapore dollar exchange rate rose to the mid-SGD 1.36 level.

On September 11, the People's Bank of China (PBOC) set its central parity rate toward a stronger Chinese yuan than the market estimate, and this strengthened the Chinese yuan. Following this trend, the Singapore dollar also appreciated against the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.35 level. On September 13, the August Consumer Price Index (CPI) of the U.S. was announced with a result stronger than the market estimate, and this encouraged market participants to buy the U.S. dollar temporarily. However, the U.S. dollar/Singapore dollar exchange rate fell to the original level after a short moment. On September 14, however, the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.36 level based on strong figures in U.S. economic indices.

On September 18 and 19, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at around the lower-SGD 1.36 level, as a Federal Open Market Committee (FOMC) meeting in the U.S. was approaching. On September 20, the outcome of that meeting turned out to be hawkish, which encouraged market participants to buy the U.S. dollar. On September 21, market participants continued buying the U.S. dollar actively, as was the case with the previous day, based on the outcome of the FOMC meeting in the U.S. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate rose to the upper-SGD 1.36 level. However, this trend slowed down before the exchange rate reached SGD 1.37. On September 22, the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.36 level, due to weak economic indices in the U.S. However, one member of the Federal Reserve Board (FRB) of Governors, Michelle Bowman, made a hawkish remark thereafter, which led the U.S. dollar/Singapore dollar exchange rate to return to the mid-SGD 1.36 level.

On September 25, the August CPI of Singapore was announced, and the result turned out to be 4.0% year-on-year, which was slightly lower than the previous month's result. However, as this result was anticipated in the market, there was little market impact. The U.S. dollar/Singapore dollar exchange rate thus continued fluctuating in both directions between the mid-SGD 1.36 level and the upper-SGD 1.36 level. From September 26 to September 27, interest rates in the U.S. were on the rise, and this led the U.S. dollar/Singapore dollar exchange rate to rise to the SGD 1.37 level. However, on September 29, the appreciation of the U.S. dollar slowed down, and the U.S. dollar/Singapore dollar exchange rate remained flat.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain robust.

In October, the Monetary Authority of Singapore (MAS) will hold a monetary policy meeting in Singapore. At the previous meeting held in April, the MAS decided to stop tightening monetary policy—this had been done five consecutive times already. At the meeting in October as well, the MAS is likely to maintain its existing monetary policy. Also, the MAS announced the results of surveys carried out by private economists as of September 2023 with regard to current domestic economic conditions in Singapore. The median of the estimated GDP growth rate for 2023 turned out to be 1.0% year-on-year, with a decline of 0.4 points from the previous result announced in June 2023. Because there is a sense of uncertainty in the Singapore economy based on growing concerns regarding economic outlook in China, which has an extremely close economic link with Singapore, it is not likely for the MAS to resume monetary tightening as discontinued at the previous meeting. Thus, the MAS meeting in October is not likely to encourage market participants to buy the Singapore dollar.

It is also worth noting that the FOMC decided to maintain its existing monetary policy at its meeting held in September. However, the dot plot showed that the policy interest rate outlook for the end of 2024 was higher than that related in June. Thus, the outcome of the FOMC meeting was considered hawkish by market participants, leading interest rates in the U.S. to rise after the meeting. As a consequence, market participants actively bought the U.S. dollar. In terms of policy interest rate hikes, one more raise was estimated before the end of the year—only half of which has so far been reflected in the market as of now. Thus, it seems that there is a gap in the outlook between the FRB and market participants. Given that U.S. economic indices remain strong, it is quite likely for the policy interest rate to be raised again, as was indicated by the dot plot. In such a case, upward pressure on interest rates in the U.S. is expected to strengthen even further. Even though the market is likely to remain volatile, occasionally reacting to U.S. economic indices and the remarks of FRB officials, market participants are still looking at whether the policy interest rate will be raised—not whether the policy interest rate will be cut. Under such a circumstance, market participants are unlikely to actively sell the U.S. dollar.

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

Thai Baht – October 2023

Expected Ranges **Against the US$: THB 35.90–37.40**
Against the yen: JPY 4.00–4.15

1. Review of the Previous Month

In September, the U.S. dollar/Thai baht exchange market opened trading at around the THB 35 level, after which the Thai baht reached its lowest rate against the U.S. dollar since November last year. Also, on September 1, the August employment statistics of the U.S. were released, revealing an improvement in the supply & demand balance in the labor market. However, other economic indices were also released on the same day, with both strong and weak figures, unexpectedly. As a result, there was little market impact from this announcement. The following week started with a holiday in the U.S., with long-term interest rates remaining strong, while the Chinese economic indices turned out to be weaker than the market estimate. Furthermore, the August Consumer Price Index (CPI) of Thailand turned out to record an increase, which had not been anticipated in the market, and the media reported on a pessimistic outlook for the Thai economy as expressed by the governor of the central bank of Thailand, Sethaput Suthiwartnarueput. Due to these negative factors, the Thai baht continued depreciating against the U.S. dollar, and the U.S. dollar/Thai baht exchange rate reached the mid-THB 35 level. It is also worth noting that Saudi Arabia and Russia decided to extend the voluntary cut in crude oil production, which had not been anticipated in the market. This led to a rise in crude oil prices, worsening the current account balance of Thailand, which is a resource-importing country, while also fueling concerns over inflation again. These factors further encouraged market participants to sell the Thai baht.

In the middle of the month, the People's Bank of China (PBOC) announced a plan to stabilize the foreign exchange market in order to stabilize the Chinese yuan, which had been weak against the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate fell, following which the U.S. dollar/Thai baht exchange rate also fell to temporarily reach the THB 35.40 level. However, the new Prime Minister of Thailand, Srettha Thavisin, announced his decision to raise the minimum wage ahead of schedule, which fueled concerns in the market about impact on private companies. Furthermore, the OPEC monthly report expected the supply & demand balance of crude oil would deteriorate in the fourth-quarter period of 2023. In reaction, market participants started to actively sell the Thai baht again.

The depreciation of the Thai baht did not slow down even before a Federal Open Market Committee (FOMC) meeting in the U.S. scheduled for September 20. Moreover, market participants were concerned about an oversupply of bonds based on the budget expansion included in the public promise by the newly formed Thai government under Prime Minister Srettha Thavisin. Under such a circumstance, crude oil prices reached their highest levels in approximately 10 months, which worsened the situation. As a result, the U.S. dollar/Thai baht exchange rate reached the THB 36 level for the first time since November last year. Also, at the FOMC meeting held in the U.S., Federal Reserve Board (FRB) Chair Jerome Powell relayed an optimistic outlook for the U.S. economy while also insisting that measures to control inflation were still ongoing. Furthermore, the dot plot indicated that there would be one more policy interest rate hike before the end of the year, and the median of the expected policy interest rate for 2024 and 2025 both turned out to be higher than the previous figures. Thus, the outcome of the FOMC meeting was hawkish. The U.S. dollar/Thai baht exchange rate once fell during the weekend, and interest rates rose in the U.S. after the FOMC meeting, keeping the U.S. dollar/Thai baht exchange rate stably at the mid-THB 36 level. Thereafter, there was no particular additional factor, but interest rates continued rising daily in the U.S., and the 10-year U.S. government bond yield reached its highest level since 2007. Under such circumstances, the U.S. dollar strengthened further, and the U.S. dollar/Thai baht exchange rate rose to the upper-THB 36 level. As of the closing of the onshore market of September 28, the Thai baht depreciated against the U.S. dollar more than twice as much as almost all the other Asian currencies in terms of percentage change from the end of the previous month.

2. Outlook for This Month

In October, the U.S. dollar/Thai baht exchange rate is forecast to remain stable with some upward shifts. In September, the Thai baht depreciated against the U.S. dollar more than any other major Asian currencies in terms of monthly percentage change. The Thai baht depreciated due to both domestic and overseas factors, which are not likely to improve in the short term. It is thus unlikely for the Thai baht to start rallying against the U.S. dollar any time soon.

Firstly, in terms of domestic factors in Thailand, a new government was formed under Prime Minister Srettha Thavisin after taking the longest time ever to come to a conclusion on the prime minister since an election. Because the new government has many economic stimulus measures that include fiscal expansion, as was shown in its public promises, market participants speculated that such measures would be financed through an increase of government bonds. Thus, due to concerns regarding oversupply, foreign investors actively sold Thai government bonds, converting assets denominated in Thai baht into those in other currencies. Furthermore, the government announced its intention to raise the minimum wage ahead of schedule without evaluating impact on private companies. Because resource prices are rising and concerns are being fueled over a further acceleration of inflation, market participants are uncertain whether the Thai economy will be able to recover from the slowdown seen in the second-quarter period. It is also worth mentioning that tourists, those from China, in particular, play an important role in economic recovery, and Thailand has recently waived tourist visas for visitors from China. However, some market participants estimate that the number of Chinese tourists is not likely to increase as much as originally expected, due to the depreciation of the Chinese yuan as well as due to increase of airfares. There are thus not many positive factors in Thailand.

Secondly, in terms of overseas factors, the Thai baht has been weak due to weakness in the Chinese economy as well as due to the appreciation of the U.S. dollar based on expectations for interest rates in the U.S. to remain high for a long period, as is the case with many other currencies of Asian emerging countries. At the FOMC meeting held in the U.S. in September, FRB Chair Jerome Powell emphasized the strength of the U.S. economy, and the outlook for the policy interest rate for the next couple of years was raised in the dot plot. Under such a circumstance, the U.S. dollar remains a currency that is extremely easy to buy for market participants, as it is a safe way to manage assets with high interest rates from a country with a high growth rate. Furthermore, because there is no FOMC meeting scheduled for October, market participants are likely to continue acting based on the hawkish outcome of the FOMC meeting in September. Thus, it is unlikely for the U.S. dollar to start depreciating significantly in October, even though the appreciation of the U.S. dollar may occasionally slow down to some extent depending on economic indices.

It is also worth noting a negative view on the Chinese economy has been evident, as a subsidiary of a major Chinese real estate company did not succeed in paying the principal for its bonds. Furthermore, concerns are growing again over the credit crunch in the real estate sector, as a meeting of creditors to restructure this company's debt was also postponed. Also, due to high unemployment among young people in China as well as the weak performance of the real estate sector, the consumption of goods has been sluggish in China. Since the Chinese yuan is highly influential in the Thai baht exchange market, the current situation is likely to weaken the Thai baht.

For these reasons, there are many factors that are likely to strengthen the U.S. dollar and weaken the Thai baht both in Thailand and overseas. The U.S. dollar/Thai baht exchange rate is therefore most likely to rise further in the times ahead.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – October 2023

Expected Ranges **Against the US$: MYR 4.65–4.75**
Against the yen: JPY 31.25–32.25

1. Review of the Previous Month

In September, the Malaysian ringgit remained weak based on the appreciation of the U.S. dollar, as there were persistent concerns over China's economic outlook, while there was no announcement of domestic economic indices that would significantly encourage market participants to buy back the Malaysian ringgit.

At the beginning of the month, the Malaysian ringgit rapidly depreciated against the U.S. dollar. On September 1, the August employment statistics of the U.S. were released with strong figures. In reaction, interest rates rose in the U.S., weakening the Malaysian ringgit. Furthermore, Saudi Arabia announced a decision to extend its voluntary cut of crude oil production by three months, which led the crude oil price to rise. However, this did not change the trend of the appreciation of the U.S. dollar. On September 7, the central bank of the Malaysia held a monetary policy meeting and decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. This was not a surprise, and thus there was little impact in the market. Furthermore, on September 8, the September figure of new unemployment insurance claims in the U.S. fell below the market estimate. Thus, at the beginning of the month, market participants sold the Malaysian ringgit based on strong figures in the labor market in the U.S.

In the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range waiting for a Federal Open Market Committee (FOMC) meeting in the U.S. scheduled for September 21. However, the Malaysian ringgit depreciated gradually thereafter, as was the case at the beginning of the month. On September 13, the August Consumer Price Index (CPI) of the U.S. turned out to be +3.7% year-on-year, with a rise from the +3.2% seen in July. This led market participants once again to expect inflation in the U.S. to last for a long period, and this strengthened the U.S. dollar further. On the other hand, on September 12, the media reported that the People's Bank of China (PBOC) would take strict action against speculative transactions in the foreign exchange market, and this led the Chinese yuan to appreciate. Under such circumstances, the Malaysian ringgit did not depreciate further. Thereafter, numbers for retail sales and industrial production were announced in China with figures above the market estimate. As a result, market participants started to buy the Chinese yuan even more actively. This was a positive factor for the Malaysian ringgit, and the U.S. dollar/Malaysian ringgit stopped rising before reaching the MYR 4.70 level even though the U.S. dollar also remained strong.

At the end of the month, the U.S. dollar/Malaysian ringgit exchange rate remained unstable, as the outcome of the FOMC meeting was to be announced in the U.S. Instability in the market was also caused by a labor union's protest at an automobile company in the U.S. as well as due to media reports related to the real estate industry in China, worsening risk sentiments in the market. At the FOMC meeting, which attracted substantial attention in the market, the policy interest rate was maintained at the existing level. However, the policy interest rate outlook by the committee members was raised by 50 basis points both for the end of 2024 and 2025. This led interest rates in the U.S. to rise, and the U.S. dollar continued appreciating in the foreign exchange market as well. In the morning of the following day, the U.S. dollar/Malaysian ringgit exchange rate was unstable since the morning and once rose to reach MYR 4.6995. There were some transactions to sell the U.S. dollar thereafter, which seemed to be market interventions. There were also market participants that were selling the U.S. dollar after seeing that the U.S. dollar/Malaysian ringgit exchange rate would not exceed the MYR 4.7 level. Toward the end of the month, there were not as many month-end transactions as expected, and market participants did not start buying back the Malaysian ringgit.

2. Outlook for This Month

In October, market participants are likely to continue looking for an optimal timing at which to buy back the Malaysian ringgit, as was discussed in the previous month's article. While a sense of uncertainty over the domestic economy persists, pessimistic feelings about the outlook of the Chinese economy are also not likely to disappear any time soon. Under such circumstances, it is difficult to expect market participants to actively buy the Malaysian ringgit.

On September 7, the central bank of Malaysia released a statement at the same time as its monetary policy meeting, in which we can confirm the central bank's evaluation of the current situation and future plans regarding monetary policy. The central bank deleted the phrase "slightly moderate" to describe the current monetary environment from its statement in September. In other words, the central bank of Malaysia has changed its plan on its monetary plan since the time of the previous meeting held in July, at which it referred to there being some room for further policy interest rate hikes. This means that, after the meeting in September, it is possible for the central bank to cut its policy interest rate in order to boost economy in the times ahead.

The central bank of Malaysia changed its attitude mainly due to two reasons: domestic inflation that slowed further and a domestic economy that has started to slow. Regarding the former, the August CPI recently announced turned out to be +2.0% year-on-year, while the core CPI was +2.8%, recording a significant fall. Furthermore, regarding the latter factor, the August trade statistics of Malaysia, an importing country, recorded a two-digit negative growth rate for the third consecutive month. Exports continue to decline significantly. Previously, market participants were expecting the August trade statistics to demonstrate a recovery in exports to China. However, exports to all major trade partners including to China recorded a significant decline. While it is a good sign that the need to raise interest rates has decreased based on inflation, it also means that market participants are no longer likely to buy the Malaysian ringgit based on expectations for policy interest rates to rise. Because the U.S. dollar/Malaysian ringgit exchange rate has been at a historical high, it must have been a painful situation for the central bank of Malaysia, losing one of its measures to support the Malaysian ringgit.

Under such circumstances, the policy interest rate hike in the U.S. has come to the final stage after the FOMC meeting held in September. As there are about two months before the next FOMC meeting scheduled for November, it is very possible for market participants to start selling back the U.S. dollar, depending on the economic indices to be announced in the times ahead.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – October 2023

Expected Ranges	**Against the US$: IDR 15,200–15,700**
	Against the yen: JPY 0.9346–0.9756 (IDR 100)

1. Review of the Previous Month

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

On September 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,200 level. Thereafter, the August Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +3.27% year-on-year, which was slightly below the market estimate. The core CPI was also slightly below the market estimate. However, this impacted the market only to a limited degree, and the U.S. dollar/Indonesian rupiah exchange market closed trading at the mid-IDR 15,200 level, local time in Asia. On the same day, local time in the U.S., the August employment statistics of the U.S. were released with both strong and weak figures. In the following week, the U.S. dollar/Indonesian rupiah exchange market opened trading on September 4, local time in Asia, at the mid-IDR 15,200 level, almost at the same level as the closing rate of the previous week. Then, on September 5, the Purchasing Managers' Index (PMI) of China turned out to be below the market estimate, and this encouraged market participants to sell the Chinese yuan. Following this trend, market participants also sold the Indonesian rupiah, thus weakening it. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,200 level. On the same day during overseas trading hours, the media reported that Saudi Arabia had decided to extend the voluntary cut in crude oil production, and this strengthened the U.S. dollar. In reaction, the depreciation of the Indonesia rupiah accelerated on September 6, the following day, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,300 level. The U.S. dollar/Indonesian rupiah exchange rate continued fluctuating in both directions at around the IDR 15,300 level thereafter. Subsequently, the media reported that China had expanded the application of strengthened regulations on the usage of smartphones from the U.S., fueling concerns over heightening tensions between the U.S. and China. Thus, on September 7, the following day, the Indonesian rupiah weakened further, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,300 level. Then, on September 11, the People's Bank of China (PBOC) released a statement to give warning to the depreciation of the Chinese yuan, and this strengthened the Chinese yuan. In reaction, the Indonesian rupiah also rallied slightly, bringing the U.S. dollar/Indonesian rupiah exchange rate back to the lower-IDR 15,300 level. On September 13, local time in the U.S., the CPI of the U.S. was released, and the result turned out to be slightly above the market estimate, which strengthened the U.S. dollar during overseas trading hours. However, market participants were also aware that the inflation rate fell from the previous month, and this gradually slowed down the appreciation of the U.S. dollar. On September 14, the following day, local time in Asia, the U.S. dollar/Indonesian rupiah exchange rate continued hovering around at the mid-IDR 15,300 level. On September 15, the trade balance of Indonesia was announced, revealing a trade surplus that was above the market estimate. However, impact on the market was limited. Then, in the early morning of September 21, local time in Asia, the outcome of the September Federal Open Market Committee (FOMC) meeting was announced. While the policy interest rate was maintained at the existing level, the policy interest rate outlook for the end of 2024 was revised upward from the previous figure announced in June. In reaction, the U.S. dollar continued appreciating, which weakened the Indonesian rupiah. The U.S. dollar/Indonesian rupiah exchange rate thus reached the lower-IDR 15,400 level temporarily, which is the lowest rate for the Indonesian rupiah in approximately six months. On the other hand, the central bank of Indonesia also held a monetary policy meeting on the same day, and the policy interest rate was maintained at the existing level, as had been anticipated by the majority of market participants. Thus, impact on the market was limited. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range, mainly at the upper-IDR 15,300 level. However, toward the end of the month, some market participants bought the U.S. dollar and sold the Indonesian rupiah based on actual demand. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,400 level on September 26 and continued rising rapidly. On September 27, the U.S. dollar/Indonesian rupiah exchange rate momentarily reached the lower-IDR 15,500 level. Toward September 29, the U.S. dollar/Indonesian rupiah exchange rate fell slightly, and trading closed at the upper-IDR 15,400 level.

2. Outlook for This Month

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

While concerns are growing about policy interest rate hikes in the U.S. that last for a long time, the domestic inflation rate in Indonesia has constantly been on a fall, making it increasingly appropriate to start thinking about a policy interest rate cut. It is therefore likely for the U.S. dollar to appreciate against the Indonesian rupiah based on the difference in monetary policy between the U.S. and Indonesia. As the concerns over an economic downturn in China also support this trend, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,500 level in September for the first time since January this year.

Thus far, the governor of the central bank of Indonesia, Perry Warjiyo, has made a remark that he would prioritize the stability of the foreign exchange rate. Furthermore, the foreign currency reserves of Indonesia have been on a decline. Given such a circumstance, it is natural to think that the central bank of Indonesia has been intervening in the foreign exchange market. Even with the interventions by the central bank of Indonesia, the Indonesian rupiah has depreciated against the U.S. dollar to the upper-IDR 15,400 level, probably due to strong pressure to sell the Indonesian rupiah based on actual demand. Indeed, the trade balance has been on a decline, and the current account balance has been in a deficit since the second-quarter period.

As the pressure to sell the Indonesian rupiah based on actual demand continues to remain as downward pressure on the Indonesian rupiah, it is difficult for the central bank of Indonesia to decide to start cutting its policy interest rate. Thus, the central bank of Indonesia is expected to maintain the policy interest rate at the existing level for some time while controlling the depreciation of the Indonesian rupiah through market interventions.

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

Philippine Peso – October 2023

Expected Ranges **Against the US$: PHP 55.50–57.50**
Against the yen: PHP 0.375–0.395

1. Review of the Previous Month

The August employment statistics of the U.S. turned out to be strong, which strengthened the U.S. dollar. Furthermore, the August Consumer Price Index (CPI) of the Philippines turned out to be +5.3% year-on-year, significantly above the market estimate, which was +4.7% year-on-year, mainly as a result of the rise of food prices. Since the price increase accelerated for the first time in seven months, the Philippine peso started to weaken against the U.S. dollar in September. On September 6, the overall Asian currencies weakened due to growing concerns over China's economic outlook. Following this trend, the Philippine peso also depreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate temporarily reached the PHP 59.990 for the first time since the end of November last year. However, the U.S. dollar/Philippine peso exchange rate did not fall further than the PHP 57 level—the upper end of the fluctuation range set out by the Philippine monetary authorities. Thereafter, the U.S. dollar remained strong based on improved figures in U.S. economic indices. As a result, Asian currencies remained weak. However, the Philippine peso remained relatively strong. Also, the July unemployment rate of the Philippines turned out to be 4.8%, with an increase from the 4.5% recorded in the previous month. Furthermore, the July trade deficit of the Philippines grew from the USD 3.92 billion seen in the previous month to USD 4.2 billion. However, market participants bought back the Philippine peso. Thus, the Philippine peso remained relatively strong compared to other Asian currencies, which were generally weakening.

In the middle of the month, market participants maintained a wait-and-see attitude, in anticipation of the announcement of the CPI of the U.S., as there was no other important event or index to be announced. As a result, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range. Thereafter, the CPI of the U.S. was announced, and the result turned out to be as anticipated by the majority of market participants, with little impact on the market. Thus, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at the upper-PHP 56 level. Thereafter, the governor of the central bank of the Philippines, Eli Remolona, made a remark to insist that it was unnecessary to raise the policy interest rate at the next monetary policy meeting, even though the August inflation had accelerated, which weakened the Philippine peso. Moreover, the economic indices of the U.S. turned out to be strong, raising interest rates in the U.S. and strengthening the U.S. dollar. Thus, the July figure of remittances from Overseas Filipino Workers recorded an increase of 2.6% year-on-year, exceeding the market estimate, which was 2.5% year-on-year. However, the Philippine peso remained weak.

At the Federal Open Market Committee (FOMC) meeting, the policy interest rate outlook was revised significantly upward, and the overall outcome was hawkish, which strengthened the U.S. dollar against all other major currencies. Following this trend, the Philippine peso weakened, and the U.S. dollar/Philippine peso exchange rate approached the PHP 59.990 level—the weakest daytime rate for the Philippine peso seen this year so far. However, the central bank of the Philippines decided to maintain its policy interest rate at the existing level thereafter, and the governor of the central bank of the Philippines, Eli Remolona, implied an additional interest rate hike in November, confirming that he was not thinking about cutting the policy interest rate before the end of the year. This encouraged market participants to buy back the Philippine peso, and the U.S. dollar/Philippine peso exchange rate remained at the PHP 56 level. As market participants expected interest rates to remain high for a long time, interest rates in the U.S. continued rising, strengthening the U.S. dollar. However, the governor of the central bank of the Philippines, Eli Remolona, also implied that the monetary authorities of the Philippines were keeping the U.S. dollar/Philippine peso exchange rate from falling further than the PHP 57 level, which strongly supported the Philippine peso. As a consequence, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at the upper-PHP 56 level toward the end of the month (as of September 27).

2. Outlook for This Month

At the FOMC meeting, the policy interest rate was maintained at the existing level. However, the median of the policy interest rate outlook by the FOMC members indicated one more policy interest rate hike in the U.S. Furthermore, the policy interest rate outlook was revised upward by 50 basis points both for 2024 and 2025 based on the strong economic outlook of the U.S. With the hawkish outlook for the policy interest rate, the FOMC emphasized that the policy interest rate would be kept high for a long time. The tightness of the U.S. labor market is gradually easing, and thus, the policy of monetary tightening seems to be in its final stage. However, market participants are very cautious about the resurgence of inflation due to early monetary easing. Thus, there is limited possibility for monetary easing for the coming years. Under such circumstances, it is difficult to expect the U.S. dollar to weaken based on a decline of interest rates in the U.S. For this reason, the U.S. dollar is forecast to remain strong against the Philippine peso for the time being.

The central bank of the Philippines revised its inflation outlook upward based on the acceleration of the inflation seen in August. While admitting that there were still upward risks on prices, the central bank also implied the possibility to raise the policy interest rate further, thus keeping a hawkish attitude. Therefore, market participants are still concerned about the depreciation of the Philippine peso based on the difference in monetary policy between the U.S. and the Philippines. Under such a condition, it is likely to be necessary for the central bank of the Philippines to raise its policy interest rate further, as is done by the FOMC, in order to maintain the difference in monetary policy between the U.S. and the Philippines. The governor of the central bank of the Philippines, Eli Remolona, has also implied the possibility of an additional policy interest rate hike as well as subsequent policy interest rate hikes, depending on economic figures. It is important to note, however, that the U.S. dollar/Philippine peso exchange market will be led by factors related to the U.S. dollar, as has been the case so far, even though policy interest rate hikes may support the Philippine peso to some extent seen from a short-term perspective. As for the impact of policy interest rate hikes on economic activities from a medium- to long-term perspective, support for the Philippine peso will be only a limited one. On the other hand, officials from the Philippine monetary authorities have made remarks that they have been intervening in the foreign exchange market in order to stabilize the Philippine peso exchange market. Based on transactions that seem to be market interventions, the Philippine peso has been stable at the PHP 57 level, i.e., the upper range of the fluctuation range for the U.S. dollar/Philippine peso exchange rate as set out by Philippine monetary authorities. Thus, this level is likely to remain as a support line for the U.S. dollar/Philippine peso exchange rate for a while. In terms of the supply & demand balance, the trade deficit of the Philippines has been decreasing. However, the trade deficit is expected to remain high due to vigorous domestic demand, the depreciation of the Philippine peso, and the rise of crude oil prices. Thus, market participants are likely to continue selling the Philippine peso in the times ahead. There are few factors to strengthen the Philippine peso, while the U.S. dollar remains strong against a wide range of other currencies. For this reason, the Philippine peso is forecast to remain weak against the U.S. dollar. However, since there has been strong support for the Philippine peso at around the PHP 57 level, the U.S. dollar/Philippine peso exchange rate is most likely to remain stalled for the time being.

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

Indian Rupee – October 2023

Expected Ranges **Against the US$: INR 82.30–83.50**
Against the yen: JPY 1.71–1.85

1. Review of the Previous Month

In September, the Indian rupee depreciated, and the U.S. dollar/Indian rupee exchange rate exceeded the INR 83 mark.

In September, the U.S. dollar/Indian rupee exchange market opened trading at around the mid-INR 82 level. At the beginning of the month, the Indian rupee continued slowly depreciating against the U.S., reaching slightly above the INR 83 mark. Thereafter, the U.S. dollar/Indian rupee exchange rate remained above the INR 83 level, making it more likely for the exchange rate to rise further. Under such a condition, the Reserve Bank of India (RBI) intervened vigorously in the foreign exchange market by selling the U.S. dollar and buying the Indian rupee, in order to keep the U.S. dollar/Indian rupee exchange rate from rising further. As a result, the U.S. dollar/Indian rupee exchange rate once fell. Toward the middle of the month, some market participants aggressively sold the Indian rupee based on actual demand, and this rapidly weakened the Indian rupee. However, the media reported thereafter that Indian government bonds had been included in an emerging market bond index. As a result, upward pressure on the Indian rupee strengthened, and the U.S. dollar/Indian rupee exchange rate fell below the INR 83 level again, as market participants expected an acceleration in capital inflow into the Indian bond market. Toward the end of the month, upward pressure on the U.S. dollar strengthened, and the U.S. dollar/Indian rupee exchange rate started to rise gradually again. In the end, trading closed slightly above the INR 83 mark (as of September 27).

The BSE SENSEX was on the rise, as the April-June quarter GDP was announced to reveal an acceleration for the second consecutive quarter. The index renewed its yearly high and continued rising, once approaching the 68,000 level. This is the most-significant rise since 2007, and the index recorded positive growth for 11 consecutive days. Thereafter, the index once started to fall, but it did not create a downtrend without falling below a certain level, which confirmed the general robustness of the index.

With regard to the economic indices of India, there were both strong and weak figures in the August Purchasing Managers' Index (PMI) in the manufacturing and service industries. The August Consumer Price Index (CPI), which attracted substantial attention in the market, turned out to be +6.83 year-on-year, revealing a slight slowdown from +7.44% year-on-year—the previous month's result. The August trade balance revealed an increase in the trade deficit. Since there has constantly been a trade deficit in India, market participants are likely to sell the Indian rupee, as has been the case so far.

2. Outlook for This Month

In October, the U.S. dollar/Indian rupee exchange rate is not very likely to rise further.

In October, the U.S. dollar/Indian rupee exchange rate is not expected to rise further after exceeding the INR 83 mark. In September, the U.S. dollar/Indian rupee exchange rate occasionally exceeded the INR 83 mark—a turning point in the market. However, the RBI continues to intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from rising further, and thus the Indian rupee has not depreciated excessively against the U.S. dollar.

If the Indian rupee continues to depreciate slowly in the times ahead, it is possible for the U.S. dollar/Indian rupee exchange rate to move from the range between INR 82 and INR 83 to the range between INR 83 and INR 84. However, for the moment, it is most likely for the U.S. dollar/Indian rupee exchange rate to fluctuate in both directions at around the INR 83 level.

Even though the August CPI recorded a slight slowdown from the previous month, it remains above +6.0%, which is the upper end of the inflation target range. At the monetary policy meeting held in August, the RBI revised its central bank inflation outlook upward, and the governor of the RBI mentioned the possibility to consider further policy interest rate hikes depending on the inflation level. Under such circumstances, there are persistent concerns that the RBI may start raising its policy interest rate again at its monetary policy meeting to be held in October.

If capital inflow into the Indian bond market increases in the times ahead as a result of the inclusion of Indian government bonds into an emerging market index as mentioned, the Indian rupee could appreciate significantly at some point. However, in such a case, the RBI may intervene in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling, of which market participants should remain careful.

From a medium- to long-term perspective, U.S. monetary policy is likely to remain hawkish. However, when concerns over an economic slowdown grow in the market again, the U.S. dollar is likely to depreciate, while the currencies of emerging countries, including the Indian rupee, are likely to appreciate. However, it is unlikely for the Indian rupee to appreciate significantly, as there will also be an outflow (Indian rupee-selling) from the RBI as part of its intervention in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling. For this reason, the Indian rupee is most likely to depreciate gradually.