Mizuho Dealer's Eye

November 2023

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Mizuho Bank, Ltd.

Global Markets Trading Department

Hiroshi Matsunaga, Forex Sales, Global Markets Trading Department

U.S. Dollar – November 2023

Expected Ranges **Against the yen: JPY148.50–152.50**

1. Review of the Previous Month

After opening the month trading at 149.52 yen, the dollar/yen pair rose to 150.16 yen for the first time since October last year after the US released a strong August JOLT Job Openings figure on October 3. Immediately after, a surge in yen buying saw the pair crashing temporarily to a weekly low of 147.30 yen, though it soon bounced back to around 149 yen. The pair weakened to the lower-148 yen level on October 4 on the release of a bearish US September ADP National Employment Report, though it then rallied to the mid-149 yen mark on October 6 after the nonfarm payrolls figure in the US September employment data significantly beat market forecasts.

The pair slid to the mid-148 yen level in the first half of the second week on dovish comments by FRB officials, though it bounced back to the upper-149 yen mark following the strong results of the US September Producer Price Index (PPI) on October 11 and the US September Consumer Price Index (CPI) data on October 12. It then moved firmly to close the week trading at the mid-149 yen level.

The pair continued moving in a range around the mid-149 yen mark in the third week. However, it plummeted to a weekly low of 148.75 yen on October 17 on reports that the Bank of Japan (BOJ) would upgrade its inflation outlook for the next fiscal year when it met at the end of the month. The pair soon rallied though and it headed towards 150 yen on the strong results of the US September retail sales data. The pair continued trading around the upper-149 yen level from the latter half of the week and it temporarily hit a weekly high of 150 yen on October 20, though it soon dropped back to 149.60 yen.

The pair rose to 150.11 yen on October 23 at the start of the fourth week, though it soon dropped back. It then moved with a lack of direction around the upper-149 yen mark again. However, the pair climbed to the lower-150 yen level on October 25 on the bullish results of the US September New Homes Sales figure. With the yen also sold during Asian trading time on October 26, the pair hit a 2023 high of 150.78 yen, though buying was short-lived and it edged down to the mid-149 yen level over the latter half of the week.

In the fifth week, the pair fell to around 149 yen on October 31 on expectations for a policy shift ahead of the BOJ meeting. The BOJ eased its YCC, though it kept its accommodative policy unchanged. As a result, the pair rallied to 150 yen once more.

2. Outlook for This Month

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

The market focus will remain on US and Japanese monetary policy, with the FOMC set to meet at the start of the month. The US released some strong September CPI data, with the preliminary US 3Q GDP figure also topping expectations. As this shows, inflationary pressures remain strong in the US while the economy continues to be bolstered by consumer spending. Under these circumstances, the FRB is unlikely to alter its stance and it will remain in wait-and-see mode while monitoring the data. If the FOMC meeting passes smoothly, the dollar/yen pair will

continue to move firmly on speculation about prolonged monetary tightening.

However, there will probably be limits to dollar buying. With US long-term interest rates rising further in October, more FRB officials have begun to voice concerns, so it seems US interest rates will not rise much further. As such, the greenback will also have limited room to rise on interest-rate differentials.

In Japan, meanwhile, the BOJ only tweaked its YCC slightly and essentially kept policy rates fixed when it met at the end of October, with attention now shifting to the timing of forex interventions in November. At the end of October, Japanese Vice Minister of Finance Masato Kanda said the authorities were on standby to respond to excessive fluctuations in one-sided sharp foreign exchange movements, thus signaling that interventions could take place even if the yen only underwent a gentle slide. Investors should be on guard when the dollar rises on attempts to test the pair's topside as it renews 2023 highs, but the pair will continue to be weighed down by concerns of an intervention.

Attention is also focusing on trends in the Middle East. The yen could be bought if risk sentiments worsen on a deteriorating situation, but the yen will also be pushed lower as crude oil prices rise on growing tensions. On the whole, it seems the impact on the dollar/yen pair will be limited in the short term.

Provided the FOMC springs no major surprises at the start of the month, the pair looks set to continue moving flatly while swinging to and fro on the results of economic indicators.

Dealers' Market Forecast

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

Bullish on the dollar	14 bulls	153.00 – 147.00	Bearish on the dollar	2 bears	151.00 – 145.50

* Ranges are central values

Name	View	Range	Comment
Miyachi	Bull	154.00 – 147.00	Yen selling related to Japanese current account and capital account flows is increasing. It is also hard to imagine Japanese/US interest-rate differentials shifting dramatically after the central bank meetings. As such, the dollar/yen pair looks set to move with a firm downside this month. The markets are on guard against interventions by the authorities, but the pair will probably edge higher.
Kawai	Bull	152.00 – 147.00	The dollar/yen pair only fell slightly on reports that the BOJ would tweak its YCC again at the end of October. While the BOJ has still not indicated when it will scrap negative interest rates, the US still faces strong inflationary concerns and high interest rates, so the dollar/yen pair looks set to move firmly. However, the pair's topside will be capped by concerns over an intervention.
Kawabata	Bull	152.00 – 147.00	Investors were expecting the BOJ to tweak its YCC again in the face of rising yen interest rates, so this by itself will only have a limited impact on the yen. The same goes for the upwards revision to the inflation outlook, with the yen likely to continue edging lower until expectations grow for an end to negative interest rates.
Kato	Bear	150.00 – 145.00	The BOJ is already adopting a neutral stance towards the markets. When this is considered together with US economic trends, it seems the dollar/yen pair's topside will grow heavier going forward.
Yamazaki	Bear	152.00 – 146.00	The BOJ has indicated it will relax its YCC policy even further. If the BOJ moves toward ending its accommodative stance, the yen might strengthen. There have been no signals to this effect so far, but there are strong concerns over an intervention, so the dollar/yen pair's topside will probably be capped at the lower-150 yen level.
Ito	Bull	152.00 – 145.00	Yen bearishness was temporarily held in check by rising interest rates after the BOJ tweaked its policy. However, the FRB is unlikely to shift its hawkish stance given the current strength of the US economy. The dollar/yen pair's downside looks set to remain firm on appetite for real-demand buying and stark Japanese/US interest-rate differentials.
Omi	Bull	153.00 – 147.00	The dollar/yen pair is likely to remain bullish in November as policy rates stay high in the US and the BOJ remains in easing mode. However, the greenback might also be sold at times if US indicators deteriorate.
Yamaguchi	Bull	153.00 – 148.00	Though the BOJ continues to ease strongly, the FRB has indicated that policy rates will remain at highs. The dollar/yen pair will continue to move firmly on these divergent monetary policies.
Matsunaga	Bull	152.50 – 148.50	The US economy is moving firmly on consumer spending and there is speculation that easing will continue for a prolonged period. Given this, it seems likely the dollar/yen pair will remain firm this month. However, with FRB officials warning about rising long-term interest rates, the pair's topside will probably be capped.
Tagawa	Bull	152.00 – 147.00	The BOJ's end-of-October meeting has passed and it also seems unlikely the FOMC will spring any surprises when it meets early November. If the dollar remains strong, the dollar/yen pair will rise. The pair has also been bolstered by the weak yen and has received support from the cross yen during phases of dollar weakness, with this trend set to continue in November.
Katoono	Bull	153.00 – 148.00	With the BOJ remaining in easing mode as US interest rates stay high, the yen is likely to continue moving bearishly. There are hopes for a US/China rapprochement at the heads-of-state meeting in November. Investors will also be worried about the direction of the stopgap budget as its deadline looms. This mix of positive and negative factors will probably push US interest rates higher.

Kobayashi	Bull	152.50 – 147.00	The BOJ reiterated its commitment to easing when it met at the end of October. In the US, meanwhile, FRB members will remain hawkish on the firmness of the economy. Investors will test the dollar/yen pair's topside again, but there will remain concerns of an intervention when the yen hits lows.
Henmi	Bull	154.00 – 148.00	The dollar/yen pair's topside my be held down by the BOJ's YCC adjustment and concerns of an intervention, but the FRB is unlikely to move in a dovish direction just yet given the strength of the US economy, so the pair looks set to remain firm. There are no signs of change when it comes to weak yen supply and demand conditions, with investors likely to test the pair's topside.
Suzuki	Bull	153.00 – 147.00	The yen will continue to be sold after the BOJ reconfirmed its stance. US interest rates remain high and the US economy is moving firmly, so the FRB is likely to remain in hawkish mode. Though there are strong concerns about an intervention, investors will steadily test the dollar/yen pair's topside on the sharp divergence in the stances of the BOJ and FRB.
Okuma	Bull	153.00 – 147.00	The BOJ continues to pursue a policy of negative interest rates. Most observers also believe the FOMC will keep its policy rate unchanged, but the FRB is likely to remain in hawkish mode given inflationary concerns and the firm US economy, so the dollar/yen pair looks set to move firmly.
Nishi	Bull	153.00 – 146.00	The US released a series of strong economic indicators in October, with the FRB likely to maintain its hawkish stance. The dollar/yen pair's downside will move firmly despite concerns about an intervention by the Japanese government and the BOJ. With the BOJ continuing to ease, Japanese/US interest-rate differentials will remain wide.

Tomohiro Suzuki, Forex Sales, Global Markets Trading Department

Euro – November 2023

Expected Ranges **Against the US$: US$1.0350–1.0850**
Against the yen: JPY156.00–162.00

1. Review of the Previous Month

The euro/dollar pair opened the month trading at $1.0564 on October 2. As US interest rates rose, ECB Vice-president Luis de Guindos expressed confidence that inflation would slow in the near future. The pair subsequently fell to the upper-$1.04 level before temporarily hitting a 2023 low of $1.0448 on October 3. However, it stopped sliding at this level and then rallied to $1.05 as US interest rates fell on weak US indicators and European stocks bounced back. The pair faced some downward pressure from the results of the US employment data on October 6, but it then climbed to around $1.06 with an eye on sliding US interest rates.

The pair opened the second week trading at the mid-$1.05 mark on October 9. European stocks fell on instability in the Middle East, but the pair edged higher as the greenback was sold on dovish comments by FRB officials. The pair hit $1.06 and then moved with a lack of direction at this level. With German interest rates rising on October 12, the currency pair strengthened to the mid-$1.06 level, though it then dropped back to the lower-$1.05 mark on October 13 as US interest rates rose on the US September CPI result and an auction of US treasuries.

The pair opened the third week trading at the lower-$1.05 mark on October 16. As German interest rates climbed and European stocks rose on declining risk aversion, the pair rose to the mid-$1,05 level. Germany released a better-than-expected October ZEW Indicator of Economic Sentiment on October 17, with the pair subsequently rising to just below $1.06. On October 19, FRB chair Jerome Powell did not drop any strong hints about further rate hikes, so US short-term interest rates fell and the currency pair rebounded to $1.06. Amid a dearth of noteworthy factors, the pair then moved flatly around the upper-$1.05 level.

The pair opened the fourth week trading at the upper-$1.05 mark on October 23. The greenback was then sold during overseas trading time, so the pair climbed to the upper-$1.06 level. It continued edging higher on October 24 to temporarily hit a monthly high of $1.0695. The euro/yen pair was also pulled along to hit a 2023 high of 159.90 yen. However, Germany and the eurozone then released bearish October PMIs, so the euro/dollar pair dropped back to the upper-$1.05 level. It then moved at the mid-$1.05 mark. As expected, the ECB Governing Council left policy rates unchanged when it met on October 26. The pair only moved slightly on ECB president Christine Lagarde's press conference too, with no major trends emerging. In the end, the pair regained composure at the mid-$1.05 level. Investors adjusted their positions ahead of major events toward the month's end. With the dollar also being sold on October 30, the pair rallied to $1.06. The pair moved around $1.06 on October 31 as the markets assimilated the results of the BOJ meeting.

2. Outlook for This Month

The euro/dollar pair will move with a heavy topside overall in November, though its downside may be tested at times.

When it met last month, the ECB Governing Council kept policy rates fixed for the 11th straight month, dating back to July 2022. In her press conference, ECB president Christine Lagarde said the bank was not ruling out further rate hikes and she emphasized that more rate hikes could be on the cards in future. However, it did not seem that the ECB was shifting its policy focus from inflation to the economy. From another perspective, it seems the eurozone's problems are piling up. Amid an uncertain economic outlook, there are concerns that crude oil prices might soar on Middle East risk and tight natural gas supplies. This is particularly problematic given the onset of winter, a time when energy consumption soars. Germany is the central pillar of the eurozone economy and on October 30 it released some better-than-expected GDP data, though GDP was also down on the previous period. Given these subdued interest rates and the lackluster eurozone economic outlook, there seems to be a dearth of factors that could lead to euro buying.

The FOMC also kept its policy rate fixed when it met last time. In his press conference, FRB chair Jerome Powell clearly refused to say that the rate-hike cycle had ended and he said further rate hikes would depend on the data, with Mr. Powell continuing to strike a hawkish tone. However, though the FRB is moving swiftly to tighten policy, indicators related to wage trends and consumer spending still remain strong, so there seems to be strong grounds for Mr. Powell's hawkish stance. As such, though the ECB and FRB seem to be in a similar situation, the reality is quite different. The FOMC will be meeting at the start of November, with the US October employment data set for release on November 3. Investors should watch these results closely. However, the dollar will be more attractive than the euro given interest-rate differentials (including the potential room for further hikes) and the different economic situation in the US and the eurozone.

Dealers' Market Forecast

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

Bullish on the euro	4 bulls	1.0800 – 1.0425	Bearish on the euro	12 bears	1.0750 – 1.0350

* Ranges are central values

Dealer	View	Range	Comment
Miyachi	Bear	1.0750 – 1.0200	Though economic sentiments are sluggish in Europe, US sentiments remain strong, so the euro/dollar pair will move with a heavy topside. Though the pair is trending lower, there still remains a lot of speculative euro long positions, so on the whole investors will find it hard to buy the single currency.
Kawai	Bear	1.0750 – 1.0400	The eurozone economy faces even more downside risk, so the euro/dollar pair will move bearishly overall. The ECB Governing Council shelved rate hikes when it met in October, with monetary policy at a turning point in both the US and Europe, so the pair will probably trade in a range with a lack of direction.
Kawabata	Bull	1.0800 – 1.0400	With inflation cooling, the ECB has stopped hiking rates, just as it said it would. Economic sentiments are moving bearishly in the eurozone, with the ECB likely to remain in wait-and-see mode. However, the FRB is also expected to keep rate hikes on ice, so although the euro/dollar pair's rebound will be muted, it will edge higher in a range.
Kato	Bull	1.0800 – 1.0500	The US will feel the negative impact of overhasty rate hikes. The US economy will also be pushed down by the divergent fiscal policies of the eurozone and US. As such, a comparative gap between the US and the eurozone will become more apparent going forward. The euro/dollar pair will move firmly on comprehensive dollar bearishness.
Yamazaki	Bull	1.0750 – 1.0450	There will be a halt to the trend of euro bearishness. With policy rate hikes also taking a breather and levelling off, the euro/dollar pair will continue to undergo a gentle recovery. There are also concerns about rising energy prices, but the pair will probably trend higher for a time.
Ito	Bear	1.0800 – 1.0300	ECB president Christine Lagarde has pointed to the necessity of ongoing tightening, but the ECB is shifting its focus more toward the economy. The US has left interest rates high on its strong economy, with the situation totally different in the US and Europe. As such, the euro/dollar pair will probably move with a heavy topside.
Omi	Bull	1.0800 – 1.0400	The euro/dollar pair will continue to move firmly as the ECB keeps policy rates high. However, the US policy rates also remain high, so the pair will continue to fluctuate gently in a range. The euro will probably be sold at times on headlines related to the end of rate hikes.
Yamaguchi	Bear	1.0750 – 1.0350	Though investors are focusing on an economic slowdown in Europe, inflation remains at highs. It will take time before the ECB starts discussing rate hikes, with the euro/dollar pair likely to move with a heavy topside on the ECB's dovish stance.
Matsunaga	Bear	1.0700 – 1.0350	The ECB is gradually shifting its focus from inflation to the economy. With the European economy moving sluggishly, the euro/dollar pair will continue to move with a heavy topside. Consumption is shrinking and sentiments are worsening in the eurozone and this could push the pair down further, so caution will be needed.
Tagawa	Bear	1.0665 – 1.0400	The ECB has insisted that future moves will depend on the data, but hardly any market participants are expecting rate hikes going forward. The euro itself has no particular trend themes and investor interest is thin on the ground, so the euro/dollar pair's movements will probably be led by the greenback.
Katoono	Bear	1.0680 – 1.0500	The ECB has taken a cautious stance toward tightening in the face of eurozone stagflation, with the euro/dollar pair likely to continue moving bearishly. The pair will also be weighed down by dollar buying on growing expectations for a soft landing in the US.

Kobayashi	Bear	1.0750 – 1.0350	The FRB remains in hawkish mode on the strong US economy, but the eurozone faces geopolitical risk and a slowing economy, so the euro/dollar pair will continue to move bearishly in November.
Henmi	Bear	1.0800 – 1.0200	As concerns grow about a European economic slowdown, the ECB is unlikely to shift in a hawkish direction. With the ECB also releasing a dovish statement, the euro is unlikely to rise on interest rates. With investors also likely to focus on energy concerns as winter looms, the euro/dollar pair looks set to move bearishly in November.
Suzuki	Bear	1.0850 – 1.0350	The eurozone faces many challenges, with the economic outlook deteriorating and energy supplies set to grow tighter as consumption grows towards winter. The euro/dollar pair's topside will also be weighed down by the stark divergence in FRB and ECB monetary policy.
Okuma	Bear	1.0800 – 1.0350	Indicators are pointing to sharply different economic conditions in the EU and Europe. There are concerns about a European economic slowdown, with the euro also likely to be sold as tensions grow in the Middle East, so the euro/dollar pair will move with a heavy topside.
Nishi	Bear	1.0800 – 1.0300	The ECB is shifting from controlling inflation to supporting the economy. The FRB remains hawkish and it has hinted that further rate hikes could be on the cards this year given the strength of the US economy. The euro/dollar pair's topside will be weighed down by this contrast between the US and Europe. It will also move heavily as energy costs rise on the deteriorating situation in the Middle East.

Masayuki Nakajima, Europe Treasury Department

British Pound – November 2023

Expected Ranges **Against the US$: US$1.1900–1.2400**
Against the yen: JPY178.00–184.00

1. Review of the Previous Month

The GBP/USD pair fluctuated sharply in October, but a glance at the month as a whole shows the pair essentially moving flatly around $1.21.

The pair strengthened in the first half of the first week. However, things changed with the release of the US employment data on October 6. At +336,000, the nonfarm payrolls figure was almost double the market forecast for a +170,000 rise, so the pound fell and the dollar rose.

A significant geopolitical risk event occurred in the second week when Israel was attacked on October 7 by Hamas, the Islamic group that effectively controls the Palestinian territory of Gaza. The greenback rose against the pound and other European currencies at the start of the week, though investors then sold the dollar. This selling seemed to come after US long-term interest rates fell when NY markets reopened on October 10. Investors fled to safe assets as tensions in the Middle East grew. There was also a growing sense that the FRB would shelve rate hikes following comments by Dallas FRB president Lorie Logan and FRB Vice Chair Philip Jefferson, for example.

The GBP/USD pair moved flatly between $1.21 and $1.22 in the third week. The US had released some strong September CPI data the previous week and it now released some firm September retail sales data. Amid uncertainty about US fiscal policy, US long-term interest rates also rose to just below the key 5.0% mark over October 19–20. Despite this, the dollar lacked upwards momentum, with the Swiss franc and other currencies also rising against the greenback. As US long-term interest rates approached the key 5.0% mark, it seems investors also focused on the potential impact on the real economy of high interest rates and tight US financial conditions. The UK released some labor market data on October 17 and the September CPI figure on October 18, with these indicators lending credence to speculation that the BOE would shelve rate hikes when it met in November.

The ECB's monetary policy announcement on October 26 contained almost no surprises, while the preliminary US 3Q real GDP growth rate was up sharply on expectations. Despite these results, the GBP/USD pair essentially moved flatly throughout the fourth week. Attention was focused on the UK's preliminary August PMI results. In the end, the PMIs proved a mixed bag, with the Manufacturing PMI hitting 45.2 (market forecast: 44.7) and the Services PMI 49.2 (market forecast: 49.3), so the reaction of the markets was muted.

With the FOMC meeting looming on November 1, the pound and other European currencies were bought back slightly against the dollar in the fifth week.

2. Outlook for This Month

The GBP/USD pair looks set to continue trading without a sense of direction in November.

The FOMC monetary policy announcement will be out on November 1, with the BOE's announcement following the day after. The 3Q real GDP data and other US indicators have performed surprisingly well, so FOMC

participants will probably sit back for now to observe what impact previous rate hikes are having on the real economy. Most observers believe the BOE will keep policy rates fixed when it meets this month and there seems little room for any surprises. In September, five members voted to keep rates fixed, with four actually voting for a rate hike. Deputy Governor Jon Cunliffe had been one of the hawkish voices, but he will step down this time to be replaced by Sarah Breeden. It is unclear what policy stance the new member will adopt. However, a series of economic statistics released in October pointed to sluggish wages and a slowing economy. Furthermore, it will take time for previous policy rate hikes to take effect and they could act as a brake on the economy going forward. Given this, it seems unlikely that votes for a rate hike will rise, even if they do not fall. The BOE was also be releasing its new economic outlook at the same time as its monetary policy announcement. The BOE will probably downgrade its real GDP outlook for 2024 (+0.4% y-o-y), but it will probably upgrade its 2025 outlook slightly to reflect expectations for policy rate cuts (as factored into swap curves).

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

Australian Dollar – November 2023

Expected Ranges **Against the US$: US$0.6240–0.6500**
Against the yen: JPY92.70–97.00

1. Review of the Previous Month

In October the AUD/USD pair fluctuated in a wider range while hitting a year low.

The pair opened the month at $0.6438. Liquidity was thin amid holidays in Australia and China. With several US FRB officials saying policy rates would have to be kept at high levels (or even lifted) to combat inflation, speculation then grew about a US rate hike in November. US treasury yields surged and the greenback was also bought on the firmness of US indicators, with the currency dropping to a 2023 low of $0.6286. After hitting 150.16 yen, the USD/JPY pair then plummeted to 147.43 yen on speculation about an intervention, with the AUD/JPY pair also falling from around 94.40 yen to temporarily hit 93.066 yen. The US September employment data was released on October 6, with the nonfarm payrolls figure up on both the forecast and the previous month. This led to growing expectations for a further US rate hike. The AUD/USD pair dropped from $0.6361 to around $0.6315 soon after. After a round of selling, though, the pair was pulled back to around $0.64 as stock prices bounced back.

On October 9, several FRB officials voiced concerns that rising US treasury yields might dampen the economy. As the necessity of further rate hikes seemed to decline, market expectations for such a move dropped off. As stocks continued to climb, the currency pair hit $0.64. The minutes to the FOMC meeting mentioned how risk was becoming more balanced, with the minutes seemingly pointing to a shift away from the previous position of prioritizing rate hikes. Stocks subsequently rose and the greenback weakened, with the AUD/USD pair climbing to around $0.6410. The US then released some stronger-than-expected September CPI data on October 12. As expectations for further rate hikes grew, US interest rates climbed and the greenback was bought, with the currency pair dropping to the lower-$0.63 handle.

Moves to price in further rate hikes accelerated in the latter half of the month on the firm results of US economic indicators. The US dollar was also bought on risk aversion related to concerns about the Middle East, so the currency pair's topside was held down. The Australian September employment data was released on October 19, with the Australian dollar sold and the currency pair temporarily dropping below $0.63 when the number of people in full-time work fell.

The pair rose to $0.64 for a time on October 25 on the stronger-than-expected Australian 3Q CPI figure, but with the housing sales figure in the US September housing starts data topping expectations, speculation grew about prolonged high interest rates, so US interest rates climbed, the greenback appreciated and the AUD/USD pair moved heavily to drop to around $0.6310. In her testimony to parliament on October 26, RBA Governor Michele Bullock said the previous day's strong CPI data was within the bounds of expectations, a comment that led investors to sell the Australian dollar. With the pair also weighed down by bearish stock movements, it renewed a 2023 low of $0.6270. The pair moved around $0.63 toward the month's end.

2. Outlook for This Month

The US released a series of strong economic indicators in October. With risk aversion also growing on the situation in the Middle East, the greenback was bought on several occasions, with the AUD/USD pair's topside weighed down as a result. A rate hike at the November RBA board meeting also seemed more likely after Australia released some firm September CPI data. Speaking about the CPI data in her testimony to parliament the following day, though, RBA Governor Michele Bullock said, "we all know that fuel prices have been rising, so that wasn't a surprise," so the probability of a rate hike fell and the currency pair renewed a 2023 low of $0.6270.

The FOMC will be meeting on Wednesday, November 1. With the US Treasury Department also set to hold its regular quarterly auction, attention will focus on the scale of medium and long-term treasury issuances. The markets are expecting an increase, but if market demand is comparatively weak compared to the amount supplied, US long-term interest rates might climb higher, with this decreasing the necessity for further rate hikes to control inflation. However, even if the likelihood of further rate hikes decreases under such a scenario, the greenback will still be bought as US long-term interest rates move at high levels. As such, the AUD/USD pair will move with a heavy topside at the start of the month.

The Australian 3Q wages data will be released mid-November. The Australian unemployment rate still remains below 4%, so investors should be on guard against wages growing at a faster pace. The minimum wage was raised significantly in July, so wages could well accelerate sharply. If this happens, expectations will grow for a further RBA rate hike before the year's end, so market participants should keep a close eye on the 3Q wages result. There will still be risk-evasive demand for the greenback when geopolitical risk rises on the situation in the Middle East, with this also likely to weigh the currency pair down. The FOMC will be meeting on Wednesday, November 1 and the RBA on Tuesday, November 7. Investors should monitor these meetings to gauge the direction of monetary policy, each nation's economic outlook, and interest-rate differentials.

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

Canadian Dollar – November 2023

Expected Ranges **Against the US$: C$1.3400–1.3950**
Against the yen: JPY106.00–110.00

1. Review of the Previous Month

After moving around C$1.34 late September, the USD/CAD pair climbed close to C$1.39 in October on economic indicators, rising US treasury yields, and crude oil price trends, for example.

The US dollar was bought and the Canadian dollar sold at the start of the month after Canada's September S&P Global Manufacturing PMI fell to 47.5, its lowest level since 2020. The US ADP National Employment Report then dropped sharply below expectations, but the previous month's data was upgraded, while the US then released a better-than-expected Manufacturing ISM Report on Business, so the greenback was bought. As crude oil prices fell, the currency pair temporarily rose to C$1.3786 on October 5. The US and Canadian employment data was released on October 6, with both results up sharply on expectations. However, the greenback was then sold after FRB officials spoke about proceeding cautiously in the face of rising treasury yields.

The US September CPI data was released mid-October and it was slightly down on the previous month. This was as expected, though, so concerns grew that the FRB would keep rates at high levels or even hike them in future, with the US dollar and US long-term interest rates rising sharply as a result. However, the Canadian dollar was then bought back to the lower-C$1.36 mark as crude oil prices rose on the conflict between Israel and Hamas. Canada's September CPI data was released on October 17 and this was down on the previous month, with demand falling on rate hikes. As investors focused on geopolitical risk related to the Middle East, US treasury yields fluctuated wildly, with the USD/CAD pair moving from the upper-C$1.36 level to the lower-C$1.37 mark. Canada's August retail sales data was released on October 20. With growth slowing on the previous month, market expectations for a Canadian rate hike waned.

As expected, the Bank of Canada (BOC) kept its policy rate fixed at 5.00% for the second straight meeting when it met on October 25. The Canadian dollar was subsequently sold, with the currency pair rising to the lower-C$1.38 level for the first time in seven months. With US long-term interest rates rising and crude oil prices falling, the pair moved in the C$1.38 range towards the month's end.

2. Outlook for This Month

As expected, the Bank of Canada (BOC) kept its policy rate fixed at 5.00% when it met on October 25. The decision came as more evidence suggested the economy was slowing (particularly consumption and demand for housing, durable goods, and services) and that inflationary pressures were declining as a result of previous rate hikes, with economic supply and demand moving closer toward equilibrium.

At an average of 3%, the BOC's 2024 inflation forecast was also upgraded from the 2.5% prediction made at the July meeting. When it came things that could push inflation higher, the BOC mentioned rising household and corporate inflationary expectations, an increase in unusual weather, and rising geopolitical uncertainty related to the

conflict between Israel and Hamas. At 1.2% for 2023 and 0.9% for 2024, the BOC's growth outlook was also downgraded from the October forecast (1.8% for 2023 and 1.2% for 2024).

The BOC also spoke about how progress toward price stability was slowing and it voiced concerns about growing risk related to the Israel situation, with the central bank maintaining that it was prepared to lift policy rates if necessary.

When it comes to the USD/CAD pair's movements in November, investors will be focusing on US/Canadian economic trends and the impact of geopolitical risk on US interest rates. As for economic trends, inflation rates will be key. In particular, observers will be watching to see if US employment and consumption indicators remain firm from here on. Canada's economy has already begun a consumption-led slowdown, with Canada's 2Q GDP growth slowing to an annualized 0.2%, for instance. As such, the Canadian 3Q GDP data will attract a lot of attention on its release at the end of November.

The USD/CAD pair's topside and downside have both shifted upward, with the pair expected to trade in a range between C$1.3400–1.3950 in November.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – November 2023

Expected Ranges **Against the US$: KRW 1,320–1,370**
Against the yen: JPY 10.87–11.36 (KRW100)

1. Review of the Previous Month

In October, the USD/KRW pair floated around the mid-KRW1300 mark. The pair opened the month trading at KRW1360.0 on October 4. During a long South Korean holiday, the greenback was bought as US interest rates continued rising. The pair subsequently hit a 2023 high of KRW1363.5. The trend of dollar buying came under some correction on October 5 as US interest rates fell, with the pair also weakening to the mid-KRW1340 level, though it then recovered to KRW1350.

The pair continued moving around KRW1350 on October 10, though it then fell to a monthly low of KRW1337.5 on October 11 as US long-term interest rates slid to 4.5%.The pair fluctuated gently ahead of the released of the US September CPI data. After the CPI announcement, the US held a sluggish auction of 30-year treasuries. As US interest rates began rising, the currency pair bounced back to KRW1350.

Risk aversion intensified on October 16 after Israel's Gaza evacuation deadline passed, so the won faced downward pressure. Overseas investors also continued to pull funds out of stock markets. As expected, the BOK kept its policy rate fixed at 3.5% when it met on October 19. The BOK's statement mentioned uncertainty related to geopolitical risk in the Middle East. The statement also said inflationary risk had grown and it hinted that the inflation target might take longer to achieve. Five of the six board members voted to leave further rate hikes on the table, with the BOK maintaining a hawkish stance overall. The results of the meeting fell within the bounds of expectations, though, so the impact on the currency pair was muted. However, US interest rates rose to just below 5% around the time of the meeting. As a result, the USD/KRW pair climbed to around KRW1359.

As US interest rates fell, the pair dropped back to the lower-KRW1340 mark on October 24. However, the end of the month saw real-demand buying, with US long-term interest rates also remaining at highs. On October 26, the pair temporarily rose to KRW1360.0. The pair continued moving firmly towards the month's end and it closed October 30 trading at KRW1350.9, up +1.6 won on the end of September.

2. Outlook for This Month

In November, the USD/KRW will probably float in the mid-KRW1300 range.

In October, the pair was supported by rising US interest rates and concerns about the Middle East, with the pair jostling around KRW1350. It seems the pair will continue to be swayed by external factors in November too. The BOK kept its policy rate fixed when it met on October 19. The BOK indicated it would need to maintain a restrictive monetary policy in order to keep a lid on inflation and household debt, with its hawkish stance still leaving the door open for further rate hikes. However, one member supported rate cuts and said the BOK should adopt a flexible policy approach. However, a rate cut would widen the gap between the monetary policies of South Korea and other countries. It might also impact the won's movements and lead to won bearishness, so it is unlikely to happen any

time soon.

South Korea's September trade balance was in the black for the fourth straight month. Sales of semiconductors (South Korea's largest export item) hit $9.93 billion, down 13.6% on the same period last year, but with demand conditions improving and demand also growing for high-value-added goods, the monthly figure saw its highest growth in 2023, with the situation steadily improving. Nonetheless, one major reason for the trade surplus is lower import costs due in large part to falling energy prices. With the situation regarding the Chinese economy and the overall external environment growing more uncertain, won-buying pressure will remain subdued.

In the short term, investors will be focusing on the results of the November 1 FOMC meeting and US interest rate trends. If US interest rates continue to move firmly, the USD/KRW pair's downside will be capped, with the pair likely to move around KRW1350 in November too.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – November 2023

Expected Ranges	**Against the US$: NT$32.35–32.75**
	Against the yen: JPY4.55–4.70

1. Review of the Previous Month

In October, the USD/TWD pair rose to hit a 2023 high.

The pair opened the month trading at TWD32.235 on October 2. Risk sentiments had improved at the end of September after a US government shutdown was avoided. As more funds flowed into Taiwanese stocks, the Taiwan dollar was bought. News emerged on October 7 that Israel had been hit by a large-scale rocket attack from Gaza. As risk aversion grew at the start of the week, US interest rates fell and the greenback weakened, with the currency pair dropping temporarily to TWD32.068.

The US released some stronger-than-expected September CPI data on October 12, so US interest rates rose at a faster pace and the US dollar was bought across the board. US tech stocks fell on rising US interest rates, with funds also flooding away from Taiwanese stocks. As the Taiwan dollar was sold at a faster pace, the USD/TWD pair climbed to the upper-TWD32.3 mark. However, the pair's topside was capped as investors focused on TWD32.40, the pair's high from October 2022, so the pair floated just below TWD32.4.

The US released some strong September retail sales data late October. With FRB chair Jerome Powell also hinting hawkishly that policy rates would remain at highs, US interest rates surged on October 23 to hit 5.021% for the first time since July 2007. With US long-term interest rates remaining high, Taiwanese stocks and the Taiwan dollar were sold, with the pair rising on October 26 to hit TWD32.482, its highest level since June 2016. The US September PCE Deflator then fell below market expectations, so US short-term interest rates fell. The greenback was also sold by exporters at the month's end, so the currency pair floated with a heavy topside at the lower-TWD32.40 mark.

2. Outlook for This Month

Investors will probably test the USD/TWD pair's topside in November.

The US released a series of strong indicators in October, including the September CPI data and the September retail sales data. As US long-term interest rates rose, the greenback moved bullishly across the board, with the USD/TWD pair also breaching the key TWD32.4 mark to hit new highs. As interest rates surged, hi-tech stocks fell sharply, with Taiwanese stocks also plummeting. IT and semiconductor stocks comprise around 40% of the Taiwan Capitalization Weighted Stock Index, with the Index highly susceptible to rising interest rates. With overseas investors selling Taiwanese equities, funds flowed out of Taiwan, with the Taiwan dollar moving bearishly as a result.

After topping the key TWD32.40 level, the currency pair will probably have its topside tested in November. With US indicators moving firmly on the whole, investors are concerned about policy rates remaining high for a prolonged period. Under these circumstances, US interest rates are unlikely to fall until signs of a US economic

slowdown emerge, so there is unlikely to be a trend shift toward US-dollar bearishness. Furthermore, though the Taiwan dollar will be boosted by Taiwan's improving exports and trade balance, the leading export orders indicator remains in the doldrums, so more time will be needed before Taiwan's trade surplus expands. Given this, the Taiwan dollar is unlikely to face buying pressure, with the trend of US-dollar bullishness and Taiwan-dollar bearishness set to continue.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – November 2023

Expected Ranges **Against the US$: HK$ 7.8000–7.8400**
Against the yen: JPY 18.80–19.50

1. Review of the Previous Month

Hong Kong dollar spot exchange market in October

The HKD spot entered into a range trading between mid-7.81 and mid-7.83 level in October. The retracement in HKD rates after the quarter-end resulted in the USD-HKD rate spread re-widening, leading to a HKD spot correction towards the mid-point of weak-half trading band. IPO activities picked up but the flow size was not enough to support the HKD spot. Mainland China investors continued to buy HK shares via the Stock Connect, with the year-to-date inflow up to above HKD 280bn. However, the sinking Hang Seng Index reflected the ongoing capital outflow from foreign investors. The USD-HKD peg celebrated its 40th anniversary in October while market conditions stayed calm. On the policy front, the annual Policy Address revealed several stimulus measures including cutting the property purchase tax for both local residents (limited to second homes) and foreigners, lowering the stamp duty on equities trading to 0.1% from 0.13% and promoting fertility by offering a cash bonus of HKD 20K for each newborn. However, market participants were largely muted to the new policy measures. The Centa-City Leading (CCL) Index, which serves a leading indicator for HK property prices, sank to the lowest level since 2017.

Hong Kong dollar interest rate market in October

The HKD liquidity condition eased after the quarter-end and the refund of HK government Green Bond subscription. As a result, overnight HKD HIBOR came off from its record high of 5.81% to as much as to 3.43%. 1-month HKD HIBOR dropped to below 5% while the 3-month tenor stayed above 5.2% given its coverage to year-end period. Hence, 1-month HKD HIBOR – USD LIBOR spread dropped to near -50bps while its 3-month tenor spread held steady at near -40bps. IPO activities picked up in October but the overall size remained notably below the year-to-date amount in the past two years. With HK aggregate balance hovering at its lows of HKD 45bn, HKD rates volatilities remained elevated, prompting HK banks to seek funding management through the discount window to meet their financial needs. The back-end HKD IRS curve came under upward pressure amid the long-term UST yield rallies, as the Fed will likely keep interest rates higher for longer to contain inflation risk. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) remained largely unchanged at near 50bps.

2. Outlook for This Month

Hong Kong dollar spot exchange market in November

With the Fed signal to end its rate hike cycle, we expect the HKD spot to revert to the mid-point of its trading band. This is further supported by the narrowing USD-HKD rate spread until the end of the year, as the lack of carry trade flow will be beneficial for the HKD spot. However, foreign investors tend to withdraw their

investments in HK given the weak fundamentals for HK economy and the spillover effects from the China property crisis. The decline in Hang Seng Index and shrinking transaction volume for HK equities reflected the departure of foreign investors, while the cut in the stamp duty for equities trading to 0.1% from 0.13% is unlikely to reverse the bearish picture of HK economy and the declining status as the international financial centre. In the long term, the structural budget deficit in the property sector downturn could undermine the stability and confidence on the USD-HKD peg.

Hong Kong dollar interest rate market in November

HKD rates are expected to pick up again as the year-end seasonality started to kick in. Despite the relatively small size, the return of IPO activities will intermittently tie up some of the liquidity in HKD, thereby maintaining supportive rates. As the Fed is set to skip its rate hike in November, HK banks will likely keep its prime rate unchanged. However, the rising UST yields and Fed's guideline to keep interest rates higher for longer will likely pose upward pressure on the HKD rates.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – November 2023

Expected Ranges **Against the US$: CNY 7.2000–7.3500**
Against the yen: JPY 20.13–20.55

1. Review of the Previous Month

In October, the U.S. dollar/Chinese yuan onshore exchange rate continued fluctuating within a narrow range.

After National Day in China, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.29 level. As there were no new headlines to impact the market, the U.S. dollar/Chinese yuan continued appreciating within a narrow range at around the CNY 7.30 level. Thereafter, the September Consumer Price Index (CPI) of the U.S. was announced on October 12, and it confirmed the validity of the monetary policy of the Federal Reserve Board (FRB), which has been maintaining its policy interest rate high. In reaction, the U.S. dollar appreciated, following which the U.S. dollar/Chinese yuan exchange rate appreciated slightly as well. However, the People's Bank of China (PBOC) continued setting its central parity rate toward a stronger Chinese yuan, and this kept the U.S. dollar/Chinese yuan exchange rate from rising further than the CNY 7.32 level. Thus, the exchange rate did not continue rising, and the U.S. dollar/Chinese yuan exchange rate continued fluctuating within a narrow range thereafter.

In the middle of the month, the PBOC continued setting its central parity rate at the CNY 7.1790 level with a stronger Chinese yuan than that of the actual trading rate. Under such circumstances, the CNY 7.32 level remained at the upper end of the fluctuation range for the U.S. dollar/Chinese yuan exchange rate. Then, on October 18, the GDP and major statistics of China were released, right after which the Chinese yuan appreciated against the U.S. dollar, and the exchange rate once reached the CNY 7.29 level. However, the U.S. dollar/Chinese yuan exchange rate returned to the upper-CNY 7.31 level before the end of the same day.

On October 24, the Standing Committee of the National People's Congress held a meeting to approve the supplementary issuance of CNY 1 trillion worth of government bonds as well as the plan to raise the fiscal deficit from 3.0% to 3.8% of GDP. However, the impact of this on the foreign exchange market was not significant. Thereafter, the U.S. dollar/Chinese yuan exchange rate rose slowly to the upper-CNY 7.31 level, with strong upward pressure on interest rates in the U.S. However, the PBOC continued setting its central parity rate at the upper-CNY 7.17 level, which kept the U.S. dollar/Chinese yuan exchange rate from rising further than the CNY 7.31 level. Thus, the U.S. dollar/Chinese yuan exchange market closed trading in October at the CNY 7.31 level.

2. Outlook for This Month

In November, the U.S. dollar/Chinese yuan exchange rate is not likely to rise significantly. However, the exchange rate is not likely to fall significantly either.

Since before National Day in China, the PBOC has been setting its central parity rate toward a stronger Chinese yuan, and this is keeping the U.S. dollar/Chinese yuan exchange rate from rising further from the CNY 7.32 level. At the same time, however, the U.S. dollar/Chinese yuan exchange rate is kept from falling because of the difference

in monetary policy between the U.S. and China. In the onshore market, trading volume has fallen to approximately one thirds of normal levels, and this is keeping the U.S. dollar/Chinese yuan exchange rate from rising. Thus, the U.S. dollar/Chinese yuan exchange rate remains high without moving further.

Also, the PBOC central parity rate has been fixed at the current level, which suggests that the Chinese monetary authorities consider the CNY 7.32 level as one of the support levels. Thus, unless the PBOC central parity rate is moved, the U.S. dollar/Chinese yuan exchange rate is unlikely to rise further from the current level. Yet, the real estate sector has been sluggish, weakening the economic outlook of China. As a result, foreign investors continue to flee from assets denominated in Chinese yuan, and this can be confirmed in the security investment flows.

As has been the case so far, upward pressure is likely to strengthen on the U.S. dollar/Chinese yuan exchange rate. Given such a circumstance, the U.S. dollar/Chinese yuan exchange rate is most likely to remain stagnant at the upper end of the fluctuation range in November. On the other hand, however, the U.S. dollar/Chinese yuan exchange rate is expected to start falling slowly from a medium-term perspective, as the policy interest rate is likely to peak out soon, leading U.S. monetary authorities to likely start discussing policy interest rate cuts, while the economy of China is expected to start recovering, albeit slowly.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – November 2023

Expected Ranges **Against the US$: SG$ 1.3400–1.4000**
Against the yen: JPY 106.50–112.50

1. Review of the Previous Month

In October, the U.S. dollar/Singapore dollar exchange rate remained flat.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.36 level on October 2. Thereafter, the September ISM manufacturing business confidence index of the U.S. turned out to be above the market estimate, and this encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.37 level. On October 3, interest rates continued rising in the U.S., and the U.S. dollar/Singapore dollar exchange rate remained high and stable. However, on October 4, the September ADP number of private-sector employees in the U.S. turned out to be below the market estimate. The September ISM non-manufacturing business confidence index of the U.S. also recorded negative growth from the previous month, and this encouraged market participants to sell the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate occasionally fell below the SGD 1.37 level. On October 5, the U.S. dollar/Singapore dollar exchange rate did not rise. On October 6, the September employment statistics of the U.S. were released, and the number of non-agricultural employees turned out to be above the market estimate. In reaction, market participants once bought the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate rose to the lower-SGD 1.37 level. However, the trend changed thereafter, and the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.36 level.

On October 9, local time, in Asia, market participants bought actively the U.S. dollar, as risk-averse sentiment prevailed based on concerns over the situation in the Middle East. However, on the same day, local time, in the U.S., market participants sold the U.S. dollar, as a Federal Reserve Board (FRB) official made a dovish remark. From October 10 to October 11, interest rates in the U.S. were on a decline, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.36 level. However, on October 12, the September Consumer Price Index (CPI) of the U.S. turned out to be above the market estimate, and this led the U.S. dollar/Singapore dollar exchange rate to rally and occasionally recover to the SGD 1.37 level. Then, on October 13, the Monetary Authority of Singapore (MAS) held a meeting and announced its decision to maintain the current monetary policy. However, as this decision had been anticipated, the reaction in the market was not significant.

From October 16 to October 17, the U.S. dollar/Singapore dollar exchange continued fluctuating at around the CNY 1.37 level without moving in any direction. However, on October 18, concerns grew further over the situation in the Middle East, fueling risk-averse sentiment in the market. Under such circumstances, market participants bought the U.S. dollar. Then, on October 19, interest rates remained high in the U.S., and the U.S. dollar remained robust.

On October 23, local time, in the U.S., the 10-year U.S. government bond yield exceeded the 5.0% mark. However, the yield level fell thereafter, following which the U.S. dollar depreciated as well. On October 24, the U.S. dollar/Singapore dollar exchange rate continued falling, as was the case on the previous day, reaching the lower-SGD 1.36 level. On October 25, the U.S. dollar/Singapore dollar exchange rate returned to the SGD 1.37 level,

thanks to strong figures in U.S. economic indices. On October 26, this trend continued, and the U.S. dollar/Singapore dollar exchange rate continued rising. However, once U.S. dollar-buying slowed down, the trend changed, and the U.S. dollar/Singapore dollar exchange rate fell back to the upper-SGD 1.36 level.

On October 30, market participants continued selling the U.S. dollar in the overall foreign exchange market, as a result of which the U.S. dollar/Singapore dollar exchange fell to the mid-SGD 1.36 level.

2. Outlook for This Month

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

At the MAS meeting held in October, the existing monetary policy was maintained. Regarding the economic outlook of Singapore, the MAS made a comment that the global economic outlook was still uncertain and thus the economic recovery of Singapore might be slower than expected. On the other hand, the MAS did not change its monetary policy at the October meeting, pointing out that the continued rise of the Singapore dollar nominal effective exchange rate (S$NEER) policy band was necessary to control import inflation and domestic cost pressure as well as to ensure price stability in the medium term. On the same day, the preliminary figure for the third-quarter GDP of Singapore was announced, and the result turned out to be +0.7% year-on-year. Even though this figure is slightly above the market estimate or the previous quarter's result, the MAS remained cautious regarding Singapore's future economic outlook, stating that there was great uncertainty regarding the timing and degree of recovery, even though a gradual recovery was expected for the second half of 2024, as the electronics cycle slowly moves upward. The inflation level is also likely to peak out soon, making it unlikely for the MAS to see the necessity to take further measures of monetary tightening.

The U.S. may or may not raise its policy interest rate in the times ahead, depending on economic indices to be confirmed later. However, the dot plot released in September suggested another additional policy interest rate hike before the end of the year. Furthermore, FRB Chair Jerome Powell made a remark such that further monetary tightening could be justified if there was more evidence that the U.S. economy was growing strongly. Given such a point of view, interest rates in the U.S. are unlikely to fall unless there is a significant decline in the U.S. economy. Market participants should continue to closely monitor statements from FRB officials and economic indices. However, the possibility of additional policy interest rate hikes remains, so pressure to sell the U.S. dollar is not expected to increase easily.

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

Thai Baht – November 2023

Expected Ranges **Against the US$: THB 34.90–36.60**
Against the yen: JPY 4.05–4.20

1. Review of the Previous Month

In October, the U.S. dollar/Thai baht exchange rate renewed its annual high at the beginning of the month before falling thereafter.

In October, the U.S. dollar/Thai baht exchange market opened trading at the upper-THB 36 level. At the end of the previous month, a temporary funding bill was passed in the U.S., as a result of which a government shutdown was averted. Consequently, risk-taking sentiment grew in the market, and the U.S. dollar/Thai baht exchange rate remained steady. On October 3, the U.S. dollar/Thai baht exchange rate exceeded the THB 37 level. In reaction, the central bank of Thailand (BOT) made an announcement such that it was ready to intervene in the market in case of violent fluctuations in the exchange rate. However, this announcement did not change the trend in the market. Following the rise of interest rates in the U.S., the U.S. dollar/Thai baht exchange rate continued rising. On October 4, the U.S. dollar/Thai baht exchange rate reached the lower-THB 37 level, renewing its highest rate since the beginning of the year. However, the rise of interest rates in the U.S. started to slow down thereafter, and the rise of the U.S. dollar/Thai baht exchange rate also started to slow down. Then, on October 5, the September Consumer Price Index (CPI) of Thailand was announced, and the result turned out to be below the market estimate, and on October 6, the September employment statistics of the U.S. were released with both strong and weak figures. Meanwhile, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 37 level. On October 7, geopolitical risks intensified in the Middle East, as the Islamic group, Hamas, started attacks on Israel. Initially, the U.S. dollar/Thai baht exchange rate rose, following the rise of crude oil prices. However, as risk-averse sentiment grew further in the market, interest rates fell in the U.S. and Europe, and the U.S. dollar/Thai baht exchange rate also started to fall. Furthermore, multiple Federal Reserve Board (FRB) officials made dovish remarks, and the media reported on October 10 that the Chinese government was preparing new economic stimulus measures by accepting the expansion of its fiscal deficit. As a consequence, the U.S. dollar/Thai baht exchange rate dell in an accelerated manner. The U.S. dollar/Thai baht exchange rate fell even further in reaction to the significant depreciation of the Thai baht observed in the previous month. Thus, on October 12, the U.S. dollar/Thai baht exchange rate once reached the lower-THB 36 level. Once the fall of the exchange rate slowed down, there were no more factors to impact the market, and the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range for a while. However, the September retail sales figures of the U.S. were announced on October 17, and major economic indices of China were announced on October 18. These results turned out to be strong. Therefore, the U.S. dollar/Thai baht exchange rate started to rise slowly, once reaching the mid-THB 36 level. Thereafter, long-term interest rates in the U.S., which had continued rising, reached the 5% level on October 23. However, this level was not maintained, and the interest rates started to fall, which led the U.S. dollar/Thai baht exchange rate to fall as well, reaching the lower-THB 36 level again. Subsequently, the U.S. dollar/Thai baht exchange rate rallied once, but the general trend remained unchanged, and there was no significant rise thereafter. As of market closing on October 30, local time, in Bangkok, when this article was being written, the U.S. dollar/Thai baht exchange rate has fallen below

the THB 36 level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to rise only to a limited extent in November.

At the monetary policy committee (MPC) meeting held on September 28 by the BOT, the economic growth rate and price outlook for this year were revised downward, while the policy interest rate was raised by 0.25%. However, the decision to raise the policy interest rate was probably taken as a precaution against the recurrence of inflation based on the government's economic stimulus measures, as well as food price rises, as a result of the El Nino phenomenon. Thus, many market participants expect the policy interest rate to be maintained at the current level at the last MPC meeting of the year, scheduled for November 29. Under such circumstances, moves in U.S. interest rates are likely to impact the U.S. dollar/Thai baht exchange market. Given the latest economic indices in the U.S., it is unlikely for the U.S. to change the current stance such that the current monetary policy should remain tight for a while until the inflation rate is confirmed to be on a constant fall toward 2%. This estimate can be supported by the fact that, in October, the U.S. dollar/Thai baht exchange rate reached the THB 37 level for the first time since November last year, as a result of the rise of interest rates in the U.S. observed at the beginning of the month.

However, the latest trends suggest that the situation is gradually changing. After exceeding the THB 37 level at the beginning of October, the U.S. dollar/Thai baht exchange rate returned once to the THB 36 level. Then, from the middle of October toward the end of October, long-term interest rates in the U.S. steadily rose, once reaching the 5% level. Yet, the U.S. dollar/Thai baht exchange rate did not rise further than the mid-THB 36 level. This is partly because of economic stimulus measures in China. However, there are also important factors in Thailand. For example, on October 24, the Ministry of Commerce of Thailand announced exports on a customs-clearance basis, revealing a significant increase in agricultural produce, which contributed to positive growth of 2.1% year-on-year, which was positive year-on-year growth recorded for the second consecutive month. Because imports decreased, the trade balance turned out to be a surplus of approximately USD 2.1 billion—the highest value since March this year. Furthermore, the government is likely to consider cutting its expenditure by excluding the wealthy class of society from the plan to distribute digital money to citizens of 16 years of age or above, which is one of the major policy actions under the new government. Since the inauguration of the new government in September, concerns over fiscal deterioration, which was a cause for the depreciation of the Thai baht, have been mitigated. Thus, if signs of economic recovery were confirmed mainly in trade statistics, the Thai baht is forecast to strengthen in the times ahead.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – November 2023

Expected Ranges **Against the US$: MYR 4.73–4.83**
Against the yen: JPY 31.25–31.75

1. Review of the Previous Month

In October, market participants were waiting for the moment to buy back the Malaysian ringgit after interest rates in the U.S. peaked out. However, the U.S. dollar appreciated due to the intensified tensions in the Middle East, as well as due to the strong figures in the U.S. economic indices, while there were few factors to encourage market participants to buy the Malaysian ringgit. Thus, the U.S. dollar/Malaysian ringgit started to rise. Toward the end of the month, the Malaysian ringgit reached MYR 4.795 against the U.S. dollar—its lowest exchange rate since the Asian financial crisis in 1998.

During the first half of the month, the U.S. dollar/Malaysian ringgit exchange rate did not move in any direction. On October 6, local time, in New York, the employment statistics of the U.S. were released, and the figures turned out to be stronger than expected. Furthermore, the situation in the Middle East worsened, fueling risk-averse sentiment in the market. As a result, the Malaysian ringgit depreciated. On the other hand, Federal Reserve Board (FRB) officials made dovish remarks, which led interest rates in the U.S. to fall, and the appreciation of the U.S. dollar did not last for a long time. On October 12, the Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be above the market estimate, which strengthened the U.S. dollar. However, there were also transactions that seemed to be market interventions by the central bank of Malaysia. Thus, during the first half of the month, the U.S. dollar/Malaysian ringgit exchange rate did not reach MYR 4.74 without rising further.

Toward the second half of the month, the Malaysian ringgit remained weak, and the U.S. dollar/Malaysian ringgit exchange rate momentarily reached MYR 4.795 for the first time since the Asian financial crisis in 1998. On October 18, economic indices of China were released, including GDP and industrial production, and the figures were generally stronger than the market estimate, which encouraged market participants to buy the Chinese yuan. The Malaysian ringgit also appreciated immediately after the announcement of these figures, following the appreciation of the Chinese yuan. However, the Malaysian ringgit did not continue appreciating for a long time due to its recent weakness. On the contrary, market participants reacted more to the president of the Federal Reserve Bank of New York making a remark to approve additional policy interest rate hikes. Due to concerns over the situation in the Middle East, interest rates in the U.S. rose. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate rose sharply toward the afternoon of October 23, exceeding the MYR 4.795 level for the first time in 25 years. On October 26, the number of new home sales in the U.S. turned out to be higher than the market estimate, which strengthened the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate exceeded the MYR 4.79 level. Thereafter, some market participants bought back the Malaysian ringgit, as the U.S. dollar/Malaysian ringgit exchange rate reached its highest level in 25 years and as it was not likely to rise further. Furthermore, market participants also grew cautious of market interventions by the central bank of Malaysia, while there were few transactions in the market, as a monetary policy meeting was approaching in the following week. Under such circumstances, some market participants bought the Malaysian ringgit based on actual demand, which strengthened the Malaysian ringgit slightly, at which point monthly trading closed.

2. Outlook for This Month

As was discussed in last month's article, in November, market participants are expected to continue waiting for the right moment to buy back the Malaysian ringgit, as the U.S. dollar is likely to peak out soon, which has already been more or less reflected in the market.

First of all, the Federal Open Market Committee (FOMC) in the U.S. and the central bank of Malaysia are both scheduled to hold a monetary policy meeting on November 2. Many market participants around the world are waiting to hear comments by FRB Chair Jerome Powell after the FOMC meeting. They almost unanimously expect the FMOC to maintain the federal funds rate and wish to know whether Powell will make a hawkish remark as he did after the last FOMC meeting. With regard to the monetary policy meeting at the central bank of Malaysia scheduled for the same day as the FOMC meeting in the U.S., market participants should carefully examine the contents of the statement released at the time of the meeting, as they unanimously expect the policy interest rate to be maintained at the current level. At the previous meeting held in September, there was a change in terms of the central bank's priorities in monetary policy, shifting from control of inflation to support for the domestic economy. Under such circumstances, there was a surprising event. A monetary policy meeting was held by the central bank of Indonesia on October 19. At this occasion, the central bank expressed concerns over the depreciation of the Indonesian rupiah, unexpectedly raising its policy interest rate. Furthermore, on October 26 in the following week, the central bank of the Philippines also announced its decision to raise its policy interest rate by 0.25%, while also mentioning the possibility of additionally raising the policy interest rate at the next monetary policy meeting scheduled for November. The central bank of the Philippines decided to raise its policy interest rate to respond to the rise of the domestic inflation rate. Thus, the objective of the policy interest rate raise of the central bank of the Philippines was slightly different from that of the central bank of Indonesia. However, it is likely that the decision of the central bank of Malaysia will be somewhat influenced by the fact that the two countries in ASEAN 5 unexpectedly raised their policy interest rates one after another. It is also important to note that the deputy minister of finance of Malaysia emphasized at Parliament that there was no need to raise the policy interest rate, as inflation had been under control, with the domestic inflation rate falling below the 2% level. Moreover, the governor of the central bank of Malaysia, Shaik Abdul Rasheed Abdul Ghaffour, said, as part of his keynote speech at an international conference on climate change and finance held in Kuala Lumpur, that the depreciation of the Malaysian ringgit did not reflect the basic economic conditions. He did not mention the policy interest rate raise for the purpose of keeping the Malaysian ringgit from depreciating. Instead, he emphasized his consistent idea to intervene in the market in order to stop the Malaysian ringgit from depreciating excessively. Given these points, it is at the moment unlikely for the central bank of Malaysia to follow the central bank of Indonesia and the central bank of the Philippines, which raised the policy interest rate unexpectedly. However, it is certain that the foreign currency reserves of Malaysia are recently decreasing because of the active U.S. dollar-selling market interventions carried out by the central bank of Malaysia. The central bank can keep the Malaysian ringgit from depreciating only to a limited degree through foreign exchange market interventions. The monetary authorities of Malaysia must therefore remain patient in stopping the persistent depreciation of the Malaysian ringgit.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – November 2023

Expected Ranges **Against the US$: IDR 15,800–16,100**
Against the yen: JPY 0.9174–0.9524 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 15,400 level. On the same day, the September Consumer Price Index (CPI) of Indonesia was announced, and the result fell to 2.28% year-on-year, which was almost the same level as the market estimate, which was 2.20% year-on-year. The CPI thus slowed down and approached the lower end of the inflation target range set out by the central bank, which is 2–4%. However, it is necessary to point out that the price level was high in September last year, due to revised gasoline prices, and this makes it easier to have a lower year-on-year growth rate. Furthermore, at central bank meeting held in September, the central bank of Indonesia announced that the inflation target range for 2024 would be revised to 1.5–3.5%. Thus, the reaction in the market was not significant. In the end, the U.S. dollar/Indonesian rupiah exchange market closed trading at the lower-IDR 15,500 level. Interest rates in the U.S. remained high, and the U.S. dollar remained strong, as was the case in the previous month. Under such circumstances, market participants sold the Indonesian rupiah even more actively due to the intensification of geopolitical risks in the Middle East. As a result, the U.S. dollar/Indonesian rupiah exchange rate reached the IDR 15,600 level. Then, on October 6, local time, in the U.S., the employment statistics of the U.S. were released with figures significantly stronger than the market estimate. As a result, the appreciation of the U.S. dollar accelerated. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,700 level on October 9 in the following week. On October 12, local time, in the U.S., the CPI of the U.S. was announced, and the result turned out to be slightly above the market estimate. Even though market participants bought the U.S. dollar immediately after the announcement, this trend slowed down toward October 13, when trading started in Asia. Thus, the U.S. dollar/Indonesian rupiah exchange rate started fluctuating within a narrow range at around the lower-IDR 15,700 level. Then, on October 16, the September trade balance of Indonesia was announced, and the result was stronger than the market estimate. However, both imports and exports turned out to be below the market estimate. This result confirmed the slowing trend in trade, as was the case in the previous month. However, the reaction in the market was not significant. Toward October 18, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the lower-IDR 15,700 level. However, on October 19, the depreciation of the Indonesian rupiah accelerated toward market opening, and the U.S. dollar/Indonesian rupiah exchange rate rose to the upper-IDR 15,700 level, rising further to the mid-IDR 15,800 level after market opening. At a regular meeting, the central bank of Indonesia decided to raise its seven-day reverse repo rate—one of the major policy interest rates of Indonesia—by 0.25% to 6%, which had not been anticipated in the market. In reaction to this announcement, the Indonesian rupiah appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once returned to the lower-IDR 15,800 level. However, on the following day, market participants started to buy the U.S. dollar and sell the Indonesian rupiah in order to avert risk. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell to the mid-IDR 15,800 level again. On October 23,

in the following week, the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,900 level, renewing the latest low for the Indonesian rupiah, as it did in the previous week. However, on the same day, local time, in the U.S., interest rates fell significantly, encouraging market participants to sell the U.S. dollar. As a result, the U.S. dollar depreciated, and the Indonesian rupiah appreciated after market opening. Meanwhile, the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,800 level. Yet, some market participants persistently continued buying the U.S. dollar while selling the Indonesian rupiah. Thus, the trend changed thereafter, and the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 15,800 level. Toward October 25, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at the upper-IDR 15,800 level. Then, on October 26, interest rates started to rise once again in the U.S. while the end of the month was approaching, encouraging some market participants to sell the Indonesian rupiah based on actual demand. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell to the mid-IDR 15,900 level toward October 27. Then, on October 30, market participants carried out some transactions to adjust their positions before the Federal Open Market Committee (FOMC) meeting in the U.S. The U.S. dollar/Indonesian rupiah exchange rate thus returned to the upper-IDR 15,800 level, and monthly trading closed.

2. Outlook for This Month

The Indonesian rupiah is forecast to remain weak in November.

A negative environment has persisted for the currencies of emerging countries, including the long cycle of policy interest rate hikes in the U.S., as well as the increase of risk-averse sentiment in the market based on the intensifying situation in the Middle East. Under such circumstances, the Indonesian rupiah is forecast to remain weak. Also, the central bank of Indonesia decided to raise its policy interest rate at a monetary policy meeting in October. As a reason for this decision, the central bank explained that it was a preventive measure to respond to a rise in inflation based on import prices, amid increasing uncertainty globally. However, the Indonesian rupiah has continued depreciating even after the policy interest rate hike, and the Indonesian rupiah has renewed its lowest rate recorded last year, remaining at its weakest range since 2020.

This was partially caused by the trade balance, which is currently worsening. The trade surplus has been gradually decreasing compared to that of last year in which the coal price was on the rise. In the second quarter, the current account balance also fell into a deficit. Pressure to sell the Indonesian rupiah is also likely to be strengthening based on actual demand. Under such circumstances, a large number of market participants seem to expect the Indonesian rupiah to depreciate in the times ahead. Market participants should also keep in mind that the Indonesian rupiah could depreciate further due to the intensification of the situation in the Middle East not only through growing risk-averse sentiment, which leads to the depreciation of the currencies of emerging countries, but also through the rise of the crude oil price, which worsens the trade balance of Indonesia.

The Indonesian rupiah is currently depreciating rapidly, and the central bank of Indonesia is protecting the currency through market interventions and policy interest rate hikes. However, at the current moment, the central bank has not succeeded in stopping the Indonesian rupiah from depreciating. The foreign currency reserves of Indonesia have already been on a decline since the first half of this year, and thus the central bank will be unable to keep the Indonesian rupiah from depreciating through market interventions at some point. If the situation remains unchanged without a solution for the persistent depreciation of the Indonesian rupiah, the U.S. dollar/Indonesian rupiah exchange rate could approach IDR 16,500—the all-time low for the Indonesian rupiah recorded at the time of the Asian financial crisis and the time of the expansion of the Covid-19 crisis.

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

Philippine Peso – November 2023

Expected Ranges **Against the US$: PHP 56.00–57.50**
Against the yen: PHP 0.370–0.395

1. Review of the Previous Month

In October, the U.S. dollar strengthened against a wide range of currencies, as many market participants expected additional policy interest rate hikes in the U.S., based on the fact that the U.S. managed to avoid a government agency shutdown, in tandem with strong figures in U.S. economic indices and hawkish remarks made by officials from U.S. monetary authorities. On the other hand, the September manufacturing PMI of the Philippines turned out to be 50.6, with improvement from the previous month. Furthermore, the September Consumer Price Index (CPI) of the Philippines turned out to be +6.1% year-on-year, recording the largest growth in four months. However, expectations for additional policy interest rate hikes also grew. Thus, there were both positive and negative factors in the market, and the U.S. dollar/Philippine peso exchange rate continued fluctuating at around the PHP 56 level at the beginning of the month. However, thereafter, the Islamic armed group, Hamas, started attacks on Israel, which intensified tensions in the Middle East. As a result, crude oil future prices rose sharply, while market participants started to actively buy the U.S. dollar with growing risk-averse sentiment. Consequently, on October 9, the U.S. dollar/Philippine peso exchange rate fell to approach the PHP 57 level, which is the support level suggested by the Philippine monetary authorities.

In the middle of the month, the August trade balance of the Philippines was announced, and the trade deficit decreased from the previous month's figure to USD 4.13 billion, thanks to an increase in exports. Furthermore, the governor of the central bank of the Philippines, Eli Remolona, made a remark such that he might not exclude the possibility of deciding on raising the policy interest rate by 25 basis points during the monetary policy meeting to be held in November. In reaction, the Philippine peso rallied. Thereafter, the U.S. CPI rose, fueling expectations for additional policy interest rate hikes in the U.S. before the end of the year. Furthermore, the August amount of overseas Filipino workers remittances recorded negative growth from the previous month. As market participants were also aware of geopolitical risks, the Philippine peso remained weak, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range, at the PHP 56.70 level. Then, on October 19, the 10-year interest rate in the U.S. approached the 5% level, and the rise in interest rates in the U.S. led to the appreciation of the U.S. dollar. Consequently, the Philippine peso weakened against the U.S. dollar again, and the U.S. dollar/Philippine peso exchange rate approached the PHP 57 level. However, the Philippine peso did not depreciate further than this level.

Thereafter, interest rates in the U.S. started to rise again, and the 10-year interest rate in the U.S. approached the 5% level again. As a result, the U.S. dollar strengthened against a wide range of other currencies. On the other hand, many people expected that the war between Israel and Hamas would not expand further for a while, leading crude oil prices to fall significantly. Furthermore, the governor of the central bank of the Philippines, Eli Remolona, made a hawkish remark, suggesting the possibility of urgently raising the policy interest rate, and this supported the Philippine peso. As a result, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range. Thereafter, the September fiscal deficit of the Philippines recorded an increase, which weakened the

Philippine peso and which caused the U.S. dollar/Philippine peso exchange rate to approach the PHP 57 level—the lowest rate for the Philippine peso in approximately three weeks. However, the Philippine peso did not weaken further than this level, as in the previous case. Thus, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at the upper-PHP 56 level throughout the month, and this has been the case since the middle of August. On October 26, the central bank of the Philippines decided to raise its policy interest rate urgently in reaction to strengthening upward pressure on prices. However, as this had already been suggested, there was little impact on the Philippine peso exchange market.

2. Outlook for This Month

Interest rates in the U.S. continued rising sharply, given strong figures in U.S. economic indices and the increase in the supply of U.S. government bonds. However, officials from U.S. monetary authorities made a series of remarks to emphasize that the tighter financial market would reduce need for monetary authorities to raise policy interest rates further and that the current restrictive monetary policy should be maintained for a while. Thus, it has become more likely for the policy interest rate in the U.S. to be maintained for a long period, and this discourages market participants to sell the U.S. dollar. Furthermore, the recent inflation indices of the U.S. have been rising as a result of the rise of energy prices. Thus, the inflation level of the U.S. is not expected to decline at the same rate as previously seen, making it still possible for U.S. monetary authorities to additionally raise policy interest rates before the end of the year, as this was suggested as a possibility depending on economic data. If the situation in the Middle East worsens in the times ahead, interest rates in the U.S. could fall with risk-averse sentiment growing in the market. However, they could also rise in response to the rise of energy prices, and this would strengthen inflation pressure. It is difficult to predict which scenario is more likely. In either case, it is likely for market participants to buy the U.S. dollar against a wide range of other currencies. Thus, as long as market participants remain cautious about the possibility for the situation in the Middle East to worsen, the U.S. dollar is forecast to remain strong for a while.
The central bank of the Philippines still sees inflation risks, as inflation accelerated for the fourth consecutive month. As a consequence, monetary policy was tightened, and the policy interest rate of the Philippines was urgently raised. Concerns are growing over the depreciation of the Philippine peso, as interest rates are likely to rise further in the U.S., and market participants are likely to buy the U.S. dollar to shift to a safer asset. Under such circumstances, it is likely for the central bank of the Philippines to see the necessity to raise its policy interest rate further in order to keep the Philippine peso from depreciating more. Thus, the governor of the central bank of the Philippines, Eli Remolona, suggested that a decision could be made during a monetary policy meeting to be held in November to raise the policy interest rate further. Yet, the policy interest rate hike is still seen as a temporary solution that can keep the Philippine peso from depreciating only for a short period, given the medium- to long-term impact on economic activities, while the exchange market is led by the U.S. dollar. On the other hand, the governor of the central bank of the Philippines, Eli Remolona, made a remark such that he would intervene in the foreign exchange market, if necessary, in order to stabilize the Philippine peso exchange rate and to keep the Philippine peso from depreciating further. Thus, in the times ahead, the support level for the U.S. dollar/Philippine peso exchange rate is likely to remain at the PHP 57 level, which is the upper end of the fluctuation range defined by the Philippine monetary authorities. In terms of supply & demand, the trade deficit of the Philippines is likely to remain high, due to vigorous domestic demand and the depreciation of the Philippine peso, as well as due to crude oil prices, which are expected to remain high. Thus, market participants are likely to sell the Philippine peso. There could also be some phases in which the Philippine peso strengthens because of a seasonal reason when remittances from overseas Filipino workers increase. However, there are few factors that could change the market trend toward the Philippine peso remaining strong. Thus, the U.S.

dollar/Philippine peso exchange rate is forecast to continue fluctuating within a narrow range.

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

Indian Rupee – November 2023

Expected Ranges **Against the US$: INR 82.70–83.60**
Against the yen: JPY 1.75–1.87

1. Review of the Previous Month

In October, the U.S. dollar/Indian rupee exchange rate remained flat above the INR 83 mark.

In October, the U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 83 level. Since the beginning of the month, the U.S. dollar/Indian rupee exchange rate remained above the INR 83 level. When the exchange rate exceeds INR 83.25 to the U.S. dollar, the Reserve Bank of India (RBI) continues to intervene in the market in order to keep the Indian rupee from excessively depreciating. Toward the middle of the month, the U.S. dollar/Indian rupee exchange rate fell slightly due to growing pressure to sell the U.S. dollar, after which the exchange rate rose again gradually based on market transactions. Toward the end of the month, upward pressure on the U.S. dollar strengthened, and the trend started to change gradually again. The Indian rupee weakened, and the U.S. dollar/Indian rupee exchange rate reached the INR 83.28 level again. However, the RBI intervened in the market again at this level in order to weaken the upward pressure on the U.S. dollar. In the end, the U.S. dollar/Indian rupee exchange market closed trading at the lower-INR 83 level, with a slightly stronger Indian rupee compared to the exchange rate seen at the beginning of the month (as of October 23).

The BSE SENSEX started to fall in September and once fell below the 65,000 level. However, the index stabilized thereafter and did not fall further. The trend then changed, and the index started to rise. The index thus continued rising to once exceed the 66,500 level. However, the index did not continue rising further and fell again to fall below the 65,000 level. Therefore, in September, the BSE SENSEX rose once and at the end of the month and returned to the level seen at the beginning of the month.

In terms of the economic indices of India, there were both strong and weak figures in the September Purchasing Managers Index (PMI) for the manufacturing industry and service industry. Also, the October Monetary Policy Committee (MPC) meeting was held, attracting substantial attention in the market, and the policy interest rate was maintained at the existing level (6.50%) for the fourth consecutive time. On the other hand, the monetary policy stance remained unchanged with continued policy interest rate hikes to control inflation. Also, the September Consumer Price Index (CPI/year-on-year) slowed down to +5.02% year-on-year from the previous figure, which was +6.83% year-on-year. The September trade balance revealed a decrease in the trade deficit. However, there was still a deficit, and the Philippine peso has remained a currency that is likely to be sold.

2. Outlook for This Month

In November, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate at around the INR 83 level, as has been the case so far.

In November, the U.S. dollar/Indian rupee exchange rate is forecast to remain low, fluctuating at the INR 83 mark. In October, the U.S. dollar/Indian rupee exchange rate continued fluctuating at a level slightly above the INR 83 mark. However, the RBI continues to be intervening in the foreign exchange market in order to keep the exchange rate from rising. Furthermore, some market participants are selling the U.S. dollar and buying the Indian rupee following market transactions. Under such circumstances, the Indian rupee has not excessively depreciated.

In the times ahead, if the Indian rupee continues depreciating gradually, it is possible for the U.S. dollar/Indian rupee exchange rate to move from the current range between INR 82 and INR 83 to the new range between INR 83 and INR 84. However, for now, it is more likely for the U.S. dollar/Indian rupee exchange rate to remain at around the INR 83 mark.

At the MPC meeting held in October, the policy interest rate was maintained at 6.50%. Market participants had expected the MPC to start raising its policy interest rate again to avert risks, as the latest CPI data showed that the inflation level was above the 6.0% level—the upper end of the target range. However, under such conditions, MPC members unanimously decided to maintain the policy interest rate at the existing level. It is also important to mention that the September CPI demonstrated a slowdown to a level below the upper end of the inflation target range, and the inflation outlook was revised slightly downward. Thus, in the times ahead, it is possible for the MPC to change its stance to a more-hawkish one, as is the case with the U.S., and to maintain the status quo.

It is also possible for the Indian rupee to start appreciating next year and beyond, if capital inflow accelerates in response to the inclusion of Indian government bonds in a certain bond index and if there is a resurgence of expectations for an economic slowdown and interest rate cuts in the U.S. However, in such a situation, the Indian rupee is likely to start depreciating gradually again from a medium- to long-term perspective, as the RBI is likely to intervene in the foreign exchange market to keep the exchange rate from falling, while some market participants are expected to sell the Indian rupee based on actual demand.

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

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