Mizuho Dealer's Eye

December 2023

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Trading Department

Motoko Kobayashi, Forex Sales, Global Markets Trading Department

U.S. Dollar – December 2023

Expected Ranges Against the yen: JPY144.50–150.00

1. Review of the Previous Month

The dollar/yen pair hit a 2023 high of 151.92 yen in November, though it dropped back thereafter.

It opened the month trading at the lower-151 mark on November 1. The trend of dollar bullishness then eased following comments by Japan's Vice-Minister of Finance for International Affairs Masato Kanda aimed at restraining the yen's slide. The FOMC kept rates fixed for the second straight meeting when it met, with the dollar then sold on dovish comments by FRB chair Jerome Powell. The pair temporarily touched 149.20 yen on November 3 on the lackluster result of the US October employment data.

The pair opened the second week trading at the mid-149 yen level on November 6, though it soon weakened to a weekly low of 149.28 yen. However, BOJ Governor Kazuo Ueda then made some dovish comments, while some FRB officials make hawkish noises, so US interest rates bounced back and the pair hit the 150 yen range for a time. The pair continued climbing from November 7 on rising US interest rates, with the greenback bought even more on November 9 when FRB chair Jerome Powell said the FRB would not hesitate to hike rates again if necessary. The pair renewed a weekly high of 151.60 yen on November 10 as US interest rates rose on the firm results of some US economic indicators.

The yen was sold in the third week, with the currency pair temporarily hitting a 2023 high of 151.92 yen on November 13. The greenback was sold just below the pair's 2022 high, with the pair then plummeting to the lower-151 yen level, though the overall momentum was unchanged. The US released some bearish October CPI data on November 14, with US interest rates sliding and the currency pair plunging to the lower-150 yen mark. The pair fell to 150.05 yen for a time on November 15 when the US released some weak October retail sales data and PPI data, but the November NY FRB Manufacturing Index then sharply outperformed forecasts, so US interest rates stopped sliding and began rising, with the pair subsequently returning to the lower-151 yen mark. The pair fell sharply over November 16-17 on some bearish US economic indicators and falling US interest rates. It dropped below 150 yen to temporarily hit a weekly low of 149.20 yen.

The pair opened the fourth week trading at 149.97 yen on November 20. The greenback was then sold against the RMB, while US interest rates dipped, so the pair tumbled further to the lower-148 yen level. The pair temporarily weakened to 147.16 yen on November 21 as US interest rates continued sliding. With the FOMC then releasing some slightly hawkish minutes, the pair bounced back to the mid-148 yen range. On November 22, the pair hit the upper-149 yen level as US interest rates rose on the firm results of some US economic indicators. Amid a dearth of factors on November 23-24, the pair floated in the 149 yen range with an eye on stock prices and interest rates.

In the fifth week, the pair fell to 148.55 yen on November 27 on bearish indicators and sliding US interest rates. It then weakened to 147.33 yen during overseas trading time on November 28 on dovish comments by FRB governor Christopher Waller. The greenback was sold and the pair dipped to 146.68 yen on November 29, though its topside then rose to 147.91 yen for a time on the firm result of the US 3Q GDP data. On November 30, the pair moved with a lack of direction around 147 yen on end-of-month flows.

2. Outlook for This Month

The dollar/yen pair is likely to move with a heavy topside in December, though the market could move erratically on thin liquidity, so caution will be needed.

The US released some bearish economic indicators in the first half of November, but US interest rates then rose on dovish comments by BOJ Governor Kazuo Ueda and hawkish comments by FRB officials, with the pair rising to temporarily hit a 2023 high of 151.92 yen on November 13. However, the US then released some bearish CPI, PPI and retail sales data, so expectations for further US rate hikes waned and the US interest rates fell, with the currency pair dropping back. FRB governor Christopher Waller then made some dovish comments towards the month's end, before the FRB slipped into silent mode, so the pair weakened to the upper-146 yen mark for a time.

December will see the final FOMC and BOJ meetings of the year. Most observers expect the FOMC to keep rates fixed when it meets over December 12-13, with some even expecting the FRB to start cutting rates early in 2024. The FOMC will probably maintain the status quo in December. The US has released some bearish economic indicators recently, so if FRB chair Jerome Powell makes some dovish comments after the policy announcement, US interest rates will probably slide, with the dollar/yen pair falling further for a time.

Meanwhile, the BOJ will hold a Monetary Policy Meeting on December 18-19. If it tightens policy, the yen might swing sharply higher against the greenback, but the BOJ seems unlikely to shift into tightening mode. In fact, if the BOJ reconfirms that it will stick strongly the easing path, the yen will be sold after the policy announcement, with the currency pair likely to rise as a result. Nonetheless, US interest rates have moved bearishly since the FRB decided to postpone a further rate hike, so it is hard to imagine the pair moving strongly enough to renew a 2023 high, with attempts on its topside also likely to be capped.

Investors should also be on guard against thin liquidity in December. With a number of central bank events lined up, trading will be thin as investors remain in wait-and-see mode. If the meetings spring some surprises, the markets could move very erratically, so caution will be needed. Christmas and the end-of-year holidays will also be taking place in the last week of December, with market participants likely to be thin on the ground and liquidity falling. As such, the pair could fluctuate violently on major flow trends and headlines, so caution is required.

Dealers' Market Forecast

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

Bullish on the dollar	9 bulls	150.00 – 145.00	Bearish on the dollar	7 bears	149.00 – 144.50

* Ranges are central values

Name	View	Range	Comment
Miyachi	Bear	149.00 – 144.50	The dollar will be sold on seasonal factors at the year's end and this could lead to an unwinding of yen short positions. The yen could also surge on end-of-year BOJ trends, so caution will be needed. US interest rates will only have limited upward momentum, so the dollar/yen pair's topside will be capped.
Kawai	Bear	150.00 – 144.00	In November, the dollar/yen pair fell to 146 yen on growing expectations for early US rate cuts. Many FRB officials have adopted a prudent stance towards inflation, so market expectations for early rate hikes might wane. In the short term, though the pair looks set to continue sliding, just like it did in November.
Kawabata	Bear	150.00 – 145.00	The momentum for FRB rate hikes is waning, with the FRB shifting to a data-driven approach. The dollar/yen pair will grow more susceptible to weak indicators. With FRB officials also voicing confidence about cooling inflation and tightening labor market conditions, the pair will be sold back this month.
Kato	Bear	149.00 – 143.00	The BOJ's stance will probably be neutral for the markets, with excessive yen bullishness unlikely at this moment in time. In November, the dollar/yen pair's movements were shaped in large part by the commencement of speculative position adjustments in bond markets. Proper market adjustment is unlikely to take place until 2024.
Yamazaki	Bear	149.00 – 144.60	There will be come correction towards the year's end. The dollar/yen pair had risen for a year, but the greenback's momentum has eased and the yen could move bullishly. However, there is unlikely to be a full shift in direction, with the markets just likely to see some temporary adjustment.
Ito	Bull	150.00 – 145.00	The trend of US dollar bullishness has been adjusted on expectations for early US rate cuts, though many FRB officials remain supportive of high interest rates. It is too early for a pivot, so investors should focus on the important data this month. However, it seems the BOJ will remain strongly committed to easing, so the dollar/yen pair's downside will move firmly.
Omi	Bull	150.00 – 145.00	The US will probably keep rates high this month, with the BOJ also likely to remain in easing mode. As such, the dollar will move bullishly and the yen bearishly. However, the dollar/yen pair's topside will be capped by deteriorating US indicators and speculation about US rate cuts.
Yamaguchi	Bull	150.00 – 146.00	The markets are pricing in rate cuts next year, but there are still no signs of the US economy stalling. With inflation also remaining high, the timing of rate cuts will probably be pushed back, with the dollar/yen pair likely to rise again.
Matsunaga	Bear	149.00 – 145.50	The US economy has been supported by firm consumer spending, but dark clouds are emerging, with the dollar/yen pair likely to trade with a heavy topside. However, if the markets move strongly to factor in US policy rate cuts, the FRB will probably move to restrain these moves. The pair's room on the downside will be capped.
Tagawa	Bull	150.00 – 145.00	The dollar/yen pair is undergoing some adjustment, but US rate cuts do not seem like a real possibility just now. With the yen supply and demand balance also showing no signs of improving, the adjustive trend of yen bullishness is likely to be short-lived.
Katoono	Bull	150.50 – 144.50	More observers are expecting a shift in the policy stances of the FRB and BOJ, but with the US still some way off hitting its inflation targets, the FRB will probably keep rates high, even if it does not hike rates again. With the BOJ also likely to keep policy unchanged, the dollar/yen pair will probably rise again in December.

Kobayashi	Bear	150.00 – 144.50	Expectations for further FRB rate hikes are waning and US interest rates are sliding on expectations for a US economic slowdown. Further US rate hikes seem very unlikely, with the greenback unlikely to be bought actively given the sluggishness of US interest rates. As such, the dollar/yen pair looks set to move bearishly in December.
Henmi	Bull	151.00 – 145.00	The FRB was grown more dovish on high inflation and bearish employment-related indicators, but the US economy remains firm. Market expectations for an early rate hike are waning, so the dollar/yen pair will probably be bought back.
Suzuki	Bull	150.00 – 145.00	Some FRB officials have talked about rate cuts in 2024, but it seems the markets have overly factored in such a move. The BOJ's stance remains unchanged, so dollar bearishness will probably ease off, with the dollar/yen pair set to move firmly this month.
Okuma	Bull	150.00 – 145.00	The greenback was sold on weak US economic indicators and dovish comments by FRB officials, but this remains within the bounds of adjustive movements. With the BOJ likely continue easing for now, the dollar/yen pair's room on the downside will be capped.
Nishi	Bull	150.00 – 145.00	The US October CPI data moved bearishly and some FRB officials have made dovish noises, with this raising market expectations for early rate cuts. However, the US economy remains firm and FRB officials remain in hawkish mode, so the dollar/yen pair move firmly with an eye on the data.

Kai Ohashi, Global FI Team, Global Markets Trading Department

Euro – December 2023

Expected Ranges **Against the US$: US$1.0800–1.1250**
Against the yen: JPY160.00–163.80

1. Review of the Previous Month

The euro/dollar pair rose in November. The pair temporarily dropped to $1.0517 early November as German interest rates fell sharply. The FOMC meeting was not as hawkish as the markets had feared, with FRB chair Jerome Powell saying the necessity of further rate hikes had decreased, for example, so the meeting was not generally seen as an important factor. Euro selling eased toward the weekend. With US interest rates also sliding and European stocks moving firmly, the currency pair strengthened to the lower-$1.07 level.

In the second week, the pair climbed to the mid-$1.07 mark for a time, though it then moved in a range from $1.06 to around $1.07. Germany released some firm September manufacturing orders data on November 6, so the pair temporarily rose to the mid-$1.07 level. It then fell to the upper-$1.06 level on November 7 on the weak results of Germany's September industrial production data. The pair rallied to the $1.07 range on falling US interest rates toward the end of trading. With German interest rates sliding, the pair dipped to $1.0660 on November 8, but the markets then reacted warmly to rising European stocks and tumbling US interest rates, so the pair bounced back to $1.07. On November 9, the pair rose to around $1.0720 for a time after several ECB officials clearly stated that rate cuts would not begin any time soon, though the pair then dropped to the mid-$1.06 level on rising US interest rates.

The pair rose in the third week as US inflation indicators weakened. Germany released a strong November ZEW Indicator of Economic Sentiment on November 14. With the US October CPI data moving weakly, US/German interest-rate differentials then shrank. All this saw the currency pair climbing to the upper-$1.08 level. The pair temporarily rose to the upper-$1.08 mark on November 15 on the bearish result of the US October PPI data. This trend was short-lived, though, with the pair soon dropping back to the mid-$1.08 mark. It then touched $1.0895 on November 16 as a US employment indicator worsened. The greenback was sold on November 17. With German interest rates also rising again and European stocks moving bullishly, the pair climbed to the lower-$1.09 level.

The pair moved in a range around $1.09 in the fourth week. It then strengthened to the mid-$1.09 range on November 20 as US/German interest-rate differentials shrank and European and US stocks rose. Dollar selling continued on November 21, with the pair temporarily hitting $1.0965, but the greenback was then bought back, so the pair weakened to the lower-$1.09 mark. The pair dipped to $1.0853 on November 22 as German interest rates fell and the US released some strong economic indicators. However, it climbed to the lower-$1.09 level on November 23 as German interest rose after the eurozone's November preliminary Manufacturing and Non-manufacturing PMIs both performed well. Friday, November 24 sat in a trough between Thanksgiving and the weekend, so market participants were thin on the ground and the pair moved in the lower-$1.09 range.

In the final week, the pair tumbled to $1.0925 after ECB president Christine Lagarde said eurozone activity "has stagnated in recent quarters and is likely to remain weak for the rest of the year." However, the pair rose sharply to touch $1.1009 after FRB governor Christopher Waller said he was "increasingly confident that policy is currently well positioned." The pair then climbed to $1.1017 on dollar selling and demands for US rate cuts, through downward pressure from interest rates also filtered across to European bonds, with the pair subsequently moving in

the upper-$1.09 range.

2. Outlook for This Month

In December, the euro/dollar pair will probably rise slightly while floating in a range. The pair strengthened in November. Following the FOMC meeting and the release of the US October ISM data at the start of the month, US OIS rates then fell, with US treasury yields then sliding and US/German interest-rate differentials shrinking, with the pair pushed higher as a result.

There are three major reasons why the pair could rise in December.

(1) Demands for US rate cuts. FRB governor Christopher Waller, a well-known hawk, has commented that he is "increasingly confident that policy is currently well positioned." A famous US investor (who is said to have sowed the seeds for the downswing in US rates late October) has also said he expects the FRB to implement a rate cut as early as the first quarter next year. As moves to price in US rate cuts accelerate, US treasury yields will probably fall, with the euro being bought and the dollar sold as a result.

(2) The different tones of the ECB and FRB. Several ECB officials have made hawkish noises. For example, ECB president Christine Lagarde said now was "not the time to start declaring victory," adding that price growth might actually accelerate again over the next few months. This marks a contrast with the US, where FRB members have started to drop dovish comments.

(3) Seasonal factors. The euro/dollar pair has risen in eight of the past ten Decembers (by an average of +0.99%). This seems due in part to the fact that Europe carries out large-scale bond issuances at the start of the year.

However, there are also three major reasons why the euro/dollar pair could fall this month.

(1) Uncertainty about the eurozone economy. The recent Bank Lending Survey said the tightening of credit standards had moderated slightly, though it also said loan demand had decreased following a sharp rise in interest rates. Investors should be on guard against a scenario whereby demands for US rate cuts ease off while demands for eurozone rate cuts spring up.

(2) US interest rates could trend upwards again. The US posted some bearish October indicators in November. This was due in part to a UAW strike and an end to the grace period for student loan repayments, with this sluggishness working to push interest rates lower. These temporary factors will no longer apply in December, so economic indicators could move strongly again. Furthermore, though FRB governor Christopher Waller made some dovish comments, as mentioned earlier, he also made some hawkish noises, saying that "the recent loosening of financial conditions is a reminder…that policymakers must be careful about relying on such tightening to do our job." Under these circumstances, with US swap spreads widening since mid-November, US economic indicators could bounce back, with FRB officials then making verbal interventions to curb expectations for rate cuts. This would see expectations for rate cuts waning, with US treasury yields then rising and the dollar being bought. Investors should be on guard against such a scenario.

(3) The results of a US financial institution's investor trend survey. In addition to the above, the results of a survey about US bond position trends (long, neutral or short) has revealed that all investors have adopted long positions since June, with active investors adopting their strongest long positions since the survey began, so investors should be on guard again a sharp unwinding on falling interest rates.

Dealers' Market Forecast

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

Bullish on the euro	2 bulls	1.1250 – 1.0800	Bearish on the euro	14 bears	1.1100 – 1.0700

* Ranges are central values

Miyachi	Bear	1.1100 – 1.0750	The weakness of European economic sentiments is becoming apparent, with Europe having more stagflation risk compared to the US and Japan. Investors should be on guard against dollar selling on seasonal factors, but the euro is unlikely to be actively bought.
Kawai	Bull	1.1200 – 1.0800	The euro/dollar pair rose in November on emergent expectations for an early US rate cut. Many FRB officials have adopted a cautious stance toward inflation, so market expectations for an early US rate cut will probably wane. However, last month's trend of euro/dollar pair bullishness will probably continue for the remainder of the year.
Kawabata	Bear	1.1100 – 1.0700	With inflation cooling, the ECB is monitoring economic conditions in the eurozone. With the US loosening its tightening bias, the difference between the policy stances of the US and Europe is shrinking, with the euro/dollar pair set to trade in a range for now while monitoring the results of indicators. The pair will probably move flatly around $1.07, its high after the release of US CPI data in November.
Kato	Bear	1.1100 – 1.0700	The euro/dollar pair will probably be adjusted within a bull market. There were quite a lot of euro bears, so the pair's slightly one-sided climb in November was probably a reaction to this. If position adjustments ease off, the sharp pressure for euro buying will probably ease off too.
Yamazaki	Bear	1.1100 – 1.0700	The euro/dollar pair rose sharply in November, but there does not seem to be many factors behind euro buying. The pair is already approaching highs, so in December it will probably move in a range between $1.09-1.10 or else fall slightly.
Ito	Bull	1.1300 – 1.0800	Inflation is slowing, but moves to price in an April 2024 rate cut seem to have gone too far. However, concerns about a eurozone economic slowdown are slowly rising on persistently-high interest rates, so the euro/dollar pair will trade with a heavy topside. Nonetheless, the dollar's topside will also be held down by expectations for a policy shift in the US, so the currency pair will probably move with a firm downside.
Omi	Bear	1.1100 – 1.0600	The euro/dollar pair will move with a heavy topside on speculation about ECB rate cuts. However, there is also speculation about US rate cuts, so the pair's room on the downside will be capped. If this speculation about ECB rate cuts is wiped away, the pair will move firmly as the ECB keeps its policy rate high.
Yamaguchi	Bear	1.1100 – 1.0700	The eurozone has released a series of bearish economic indicators, with economic growth stalling compared to other major countries and regions. If inflation remains at highs, the ECB will remain in hawkish mode, but if inflation slows, euro selling could accelerate.
Matsunaga	Bear	1.1100 – 1.0750	Expectations for US rate hikes have waned and risk sentiments are improving, with the euro/dollar pair continuing to move firmly. With concerns about a eurozone economic slowdown smoldering away, though, the euro is unlikely to be bought further. The euro/dollar pair will move with a heavy topside unless the fundamentals improve significantly.
Tagawa	Bear	1.1300 – 1.0700	The dollar will be sold as US interest rates peak out. However, European economic trends and the ECB's stance suggest there will be no reasons to actively buy the euro, so the euro/dollar pair is likely to move firmly rather than undergoing a rise.
Katoono	Bear	1.1050 – 1.0650	With the ECB debating whether to shift towards rate cuts, the eurozone economy is slowing sharply, so the euro/dollar pair looks set to move bearishly while monitoring the fundamentals. Investors are also pricing in the maintenance of the FRB's hawkish stance.

Kobayashi	Bear	1.1100 – 1.0700	The euro/dollar pair recovered to the $1.10 range on falling US interest rates, but Europe remains in the grip of an economic slowdown. Even if the ECB remains in hawkish mode, the currency pair will probably drop back if US interest rates stop sliding.
Henmi	Bear	1.1100 – 1.0700	The euro/dollar pair rallied on dollar selling, but the eurozone economy is slowing and there is a lot of policy uncertainty in Europe, so it is hard to imagine the euro rising strongly against the dollar. The currency pair will probably slide again when the greenback is bought back.
Suzuki	Bear	1.1150 – 1.0700	The euro/dollar pair's recent rise was mainly due to dollar selling, with the eurozone economy starting to feel the pinch from monetary tightening. If dollar selling eases off, the euro/dollar pair will probably move bearishly again.
Okuma	Bear	1.1100 – 1.0700	The eurozone inflation rate has slowed more than expected, with expectations growing for an early ECB rate cut. Furthermore, there is discord within the German coalition government, with the far right also on the rise in Holland, so the euro/dollar pair will probably trade with a heavy topside on political risk too.
Nishi	Bear	1.1100 – 1.0750	The euro/dollar pair is moving firmly on dollar selling related to expectations for an early US rate cut, but with concerns growing about a eurozone economic slowdown, the pair's topside will be capped. These concerns have grown on monetary tightening, with the pair set to move heavily this month.

Masayuki Nakajima, Europe Treasury Department

British Pound – December 2023

Expected Ranges **Against the US$: US$1.2400–1.2900**
Against the yen: JPY185.00–190.00

1. Review of the Previous Month

In November, the GBP/USD pair soared by around +4.5%, up from $1.215 at the end of October to $1.27 as of November 29. Other G10 currencies made even greater gains during the same period, with the Swedish Krona rising by +8.2% against the dollar, for example, so it seems the main driver of the GBP/USD pair's bullishness was the global trend of dollar bearishness that came when the US October CPI data (released November 14) swung below market expectations. However, sterling also gained slightly on the euro, with the pound's strength also down to the firmness of the UK's economic indicators, including the preliminary November PMI data (released November 23).

In the first week, the GBP/USD pair strengthened by over 2%, from $1.212 to $1.238. There were several factors behind the dollar's weakness. The November 1 FOMC meeting was read as dovish, for example, while the US Treasury Department slowed the pace of debt increases in its regular quarterly auction on November 1. Furthermore, when the US October employment data was released on November 3, it revealed that jobs growth had slowed by more than expected, with the unemployment rate also at its highest level for about two years. When the BOE's Monetary Policy Committee (MPC) met on November 2, it kept its policy rate fixed at 5.25%.There were six votes for this decision and three against.

In the second week, the dollar rose and the pound was pushed lower again. The preliminary UK 3Q real GDP figure was released on November 10, with growth moving flatly on the previous quarter, thus beating market expectations for a slide of -0.1% q-o-q. However, the breakdown showed major indicators like consumer spending and corporate investment slowing, with negative growth avoided thanks to the UK's improved trade balance. This suggested the UK economy was still stalling on BOE tightening.

The GBP/USD pair rallied by around +1.5% in the third week. The US October CPI data fell below market expectations on its release on November 14, with the greenback then sold across the globe. However, the UK October CPI data was released on November 15 and the October retail sales data on November 17, with both indicators down on market expectations. With expectations for further BOE rate hikes waning, investors held off from actively testing the pair's topside.

The pair rose sharply in the fourth week to hit $1.26 for the first time since early September. The GBP/JPY pair also hit 188 yen for the first time since November 2015. Sterling was pushed up by the November 23 release of the preliminary UK November PMI data. At 50.5, the November Services PMI data was particularly strong, up above the key 50.0 mark for the first time in four months since July 2023.

This trend spilled over into the fifth week, with the GBP/USD pair reaching $1.27.

2. Outlook for This Month

In December, the markets will continue to focus on the end of US rate hikes, with the GBP/USD pair likely to

remain bullish on dollar bearishness and falling US interest rates. However, the greenback fell at a record fast pace in November, so in the short term it would only be natural if it swung back upwards.

As for UK-specific factors, the BOE's Monetary Policy Committee (MPC) will be meeting on December 14. As expected, the MPC kept the policy rate fixed at 5.25% in November, but this was a 6-to-3 vote, with three members calling for rate hikes in the face of persistent inflationary pressures. In September, four members had actually voted for a rate hike. The hawkish BOE Deputy Governor Jon Cunliffe has stepped down to be replaced by Sarah Breeden, with this probably explaining why the number of votes for a rate hike had fallen. In his statement, BOE Governor Andrew Bailey insisted that it was too early to start thinking about rate cuts. He said rate hikes were succeeding in bringing inflation down to the 2% target, though he added that the BOE would need to keep monitoring the situation to confirm that this trend was continuing. He added that although the MPC had decided to keep rates fixed, it would be watching closely to see if further rate hikes might be necessary. Though the BOE is still biased toward rate hikes, expectations for further hikes have waned in the short-term interest rate market. This comes after a speech by Huw Pill on November 9, with the BOE's chief economist saying the policy rate was already having a restrictive enough impact on the economy, with no further rate hikes needed to keep inflation in check. Based on this series of comments, it seems the MPC will vote to keep rates fixed when it meets in December, even though Catherine Mann and other hawkish members have called for rate hikes. It is also likely that the MPC will pour cold water on market expectations for rate cuts (the markets are predicting that the BOE will start cutting rates in June-August 2024).

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

Australian Dollar – December 2023

Expected Ranges **Against the US$: US$0.6450–0.6800**
Against the yen: JPY96.00–99.00

1. Review of the Previous Month

After opening November trading at the lower $0.63 handle, the AUD/USD pair strengthened to the upper-$0.66 level towards the month's end.

The FOMC kept its policy rate fixed when it met on November 1, with the accompanying statement hinting that the necessity of rate hikes had fallen on rising US treasury yields. The greenback was sold and the AUD/USD pair soared to just below $0.64. On November 2, the US announced that new applications for unemployment insurance and continuing jobless claims had both risen, with the currency pair then rising to around $0.6450 as investors tested its topside. The Australian 3Q retail sales data was released on November 3 and it was up +0.2% q-o-q, with the pair then hitting its highest level in five weeks. The US then released some worse-than-expected October employment data, with the greenback sold as US treasuries were bought. The pair subsequently climbed to the $0.65 range.

On November 7, the RBA announced a +25bp rate hike. The pair touched the $0.65 range soon after, but investors had already priced in the hike, so the pair then dropped to around $0.64 as market participants "sold on the fact." Yields fell following an auction of 10-year US treasuries on November 8, so the US dollar moved bearishly and the currency pair remained in the $0.64 range. On November 9, US treasury yields soared on a sluggish auction of 30-year treasuries and hawkish comments by FRB chair Jerome Powell, so the greenback was bought and the pair broke below $0.64 to slide to the upper-$0.63 level.

The US October CPI data was released on November 14, with prices slowing across the board. As US treasury yields fell below 4.5%, the US dollar was sold and the currency pair rallied to around $0.65. China released some stronger-than-expected October industrial production and retail sales data on November 15, with the Australian dollar also supported when Australia's 3Q wages data topped expectations. The Australian October employment data was released on November 16. Though the number of people in work has increased a lot more than expected, the unemployment rate had worsened slightly, with working hours growth also declining. The data was not read as strong enough to support a December rate hike, so the Australian dollar was sold and the pair temporarily dropped to around $0.6460. On November 17, US stocks rallied and the currency pair climbed back to $0.6515.

The pair rose to the mid-$0.65 handle on November 20 when the People's Bank of China set the RMB's reference rate at its highest level since August. The minutes to the RBA meeting were released on November 21 and they revealed that members thought that one or two more rate hikes would be needed to slow inflation, so the currency pair remained firm. The pair rose to $0.6591 on November 24 as the greenback was sold on the worse-than-expected result of the October Manufacturing PMI.

As US long-term interest rates continued falling, the US dollar was sold and the pair hit the $0.66 range on November 27. In a speech on November 28, RBA Governor Michele Bullock said stronger-than-expected economic demand was driving up inflationary pressure, with the currency pair then climbing to $0.6632. The hawkish FRB governor Christopher Waller then commented that he was "increasingly confident that policy is currently well

positioned to slow the economy and get inflation back to 2%." US treasury yields fell on the slightly dovish stance, with the greenback sold and the currency pair strengthening to $0.6666. The Australian October CPI data swung below expectations on its release on November 29, with the pair fighting to remain at $0.66 at the month's end.

2. Outlook for This Month

In November, the AUD/USD pair rose to $0.66 on a range of supportive factors. With the US October CPI data slowing by more than expected, expectations grew that the FRB would stop hiking rates. US treasury yields subsequently plummeted, with yields on 10-year treasuries dropping below 4.5%. Interest-rate markets continued to price in a 25bp rate cut by the FOMC by May next year, with 10-year treasury yields sliding towards the month's end. Yields fell further at the month's end as US treasuries were bought when hawkish FRB governor Christopher Waller made a dovish comment about how he was "increasingly confident that policy is currently well positioned to slow the economy and get inflation back to 2%."

Australia's 3Q wage data rose by +1.3% on the previous quarter and +4.0% on the previous year. On a quarterly basis, this was the biggest rise on record, with this suggesting underlying inflation was rising. As expected, the unemployment rate stood at 3.7% on Australia's October employment data. The unemployment rate had moved in a range from 3.4%-3.7% since June last year and it remained in this range. The number of people in work grew by far more than expected. The minutes to the RBA meeting revealed that members believed one or two more rate hikes would be needed to slow inflation. Gasoline prices cooled off slightly in Australia's October CPI data, with prices falling by more than expected. Utility bills and rents continued to rise, though, with the likelihood of a further rate hike in December waning. This raised the possibility that the phase of rate hikes was coming to an end. However, there were a number of other factors pushing the Australian dollar higher, so the currency pair managed to stay in the $0.66 range.

The pair is likely to be swayed by end-of-year real-demand flows in December. On the macro front, though, investors will basically continue to price in an FOMC rate cut by May next year, with US treasury yields falling. Furthermore, Australia continues to face underlying inflation on economic demand, with wages rising, immigration climbing and rents/utility bills trending upwards. As such, US/Australian interest-rate differentials will continue to shrink and this will support the AUD/USD pair.

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

Canadian Dollar – December 2023

Expected Ranges **Against the US$: C$1.3300–1.3800**
Against the yen: JPY106.00–110.60

1. Review of the Previous Month

Signs of a US economic slowdown emerged in November. WTI futures prices also moved erratically, jumping from the mid-$70/barrel mark to the lower-$80/barrel level. The USD/CAD pair also fluctuated sharply, starting at C$1.3875 and then swinging from the lower-C$1.39 mark to C$1.35.

The FOMC kept the upper range of its policy rate fixed at 5.50% when it met at the start of the month. This was as expected, so the impact on the currency pair was muted. The US employment data was released on November 6, though, and it suggested that employment conditions were deteriorating, with the number of people in work and the average hourly wages data falling below expectations. As a result, yields on 10-year US treasuries plummeted to the 4.5% range for the first time since October 11. The greenback also fell sharply, with the USD/CAD pair hitting C$1.3629, its lowest level since October 18. However, the greenback was bought back and the pair hit C$1.37 on November 7 as crude oil prices fell on forecasts for slowing demand.

FRB chair Jerome Powell made some hawkish comments about rate hikes mid-November, with the US dollar bought further and the pair hitting C$1.38 on a sluggish auction of 30-year US treasuries. The US October CPI data was released on November 14 and it was down on forecasts and on the previous month. This led to a growing sense that the US rate-hike cycle had peaked out, so yields on 10-year US treasuries fell sharply, down -0.2% on the previous day. The US dollar was sold and the currency pair hit the C$1.36 range. WTI futures prices then crashed to the lower-$72 mark on rising concerns about demand as US inventories grew. The Canadian dollar was sold and the USD/CAD pair rallied to C$1.3777, though its topside grew heavy and it continued trading in the lower-C$1.37 range.

The Canadian October CPI data was released on November 21, with the headline and core figure both down on the previous month, as broadly expected. However, this did not shift the currency pair's course. The Canadian September retail sales data was then released on November 24, though, and it was up by a substantial +0.6% on the previous month, an improvement on August's figure of -0.1% m-o-m. The Canadian dollar was subsequently bought, with the currency pair temporarily dropping below C$1.36. There were a number of key events lined up towards the month's end. These included the release of Canada's 3Q GDP data on November 30 and the US November employment data on December 1, with OPEC+ also set to hold a cabinet-level meeting on November 30 after a previous meeting was postponed on disagreements about production levels. With investors in wait-and-see mode, the pair was trading in the C$1.35 range as of November 28.

2. Outlook for This Month

The Bank of Canada (BOC) will be meeting on December 6. The minutes to the October meeting were released on November 8 and they revealed that some members had said it was likely a further rate hike would be needed. On

November 22, BOC governor Tiff Macklem also said the BOC was prepared to lift its policy rate again if inflation remained high. At the same time, though, he also said that "interest rates may now be restrictive enough to get us back to price stability."

While the US economy is showing signs of stagnation, the Canadian economy has already begun slowing, with consumer spending and the household sector being hit particularly hard by high interest rates. As such, the BOC will probably keep its policy rate fixed at 5% this month.

Investors should continue to monitor US economic trends this month too. Signs of a slowdown were seen in the employment data, the CPI data and other major US economic indicators released in November. Market participants will be watching to see whether this trend continues this month too.

Major currencies rose against the greenback on November. At +0.9%, though, the Canadian dollar's rise was the smallest among all the G10 currencies (Bloomberg; as of November 28). As such, if the US economy clearly slows and US interest rates fall further, the Canadian dollar has ample room to rise against its US counterpart. However, the USD/CAD pair's room on the downside will be capped by interest-rate differentials and the different pace of economic growth in the US and Canada, with the pair likely to be supported at C$1.33.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – December 2023

Expected Ranges **Against the US$: KRW 1,270–1,330**
Against the yen: JPY 11.11–11.76 (KRW100)

1. Review of the Previous Month

The USD/KRW pair fell in November. The pair opened the month trading at KRW1353.0. It then hit a monthly high of KRW1358.7 on concerns about the FOMC meeting, set to be held during overseas trading time. The FOMC hinted at an end to the rate-hike cycle, so US interest rates fell. The greenback was sold across the board, with the USD/KRW pair also falling sharply. It then weakened to KRW1310 toward November 3.

The US October employment data was released during overseas trading time on November 3, with US interest rates falling further on the worse-than-expected result. The pair opened the following week trading at KRW1308.8 on November 6. The South Korean authorities then announced a ban on short selling in stock markets until June 2024, with the won bought as funds flowed into South Korean stocks. The currency pair subsequently broke through KRW1300. It then dropped back from November 7 with an eye on the movements of US interest rates. It then rallied to just below KRW1320 toward the weekend.

With the release of the US CPI data looming on November 14, the dollar strengthened on concerns, with the currency pair edging up to around KRW1330 at the start of the next week. However, the US CPI data suggested inflation was slowing, so US interest rates fell again on growing expectations for an end to rate hikes. The USD/KRW pair broke through KRW1300 again to drop to around KRW1290.

The greenback was sold on November 20 on expectations for a US monetary policy shift. The RMB also rose when the People's Bank of China set the RMB's reference rate at a higher level than the markets had forecast. The won was also pulled up by these movements. The currency pair slid to a monthly low of KRW1284.0 on November 21. Dollar selling eased off from November 22. The FOMC minutes were read as hawkish, with the USD/KRW pair also moving firmly on adjustments ahead of the Thanksgiving holiday. As a result, the pair rallied to KRW1300 toward the end of the week.

US interest rates fell further on comments by FRB officials during overseas trading time on November 28, with the pair then tumbling to KRW1286.1 on November 29. The BOK kept its policy rate fixed at 3.5% when it met on November 30. The BOK also upgraded its 2024 inflation outlook from 2.4% to 2.6%.The forecast for 2023 was also lifted from 3.5% to 3.6%, which suggested the fight against inflation would last longer than originally expected. The BOK meeting was much as expected, so the impact on the currency pair was muted. In the end, the pair closed the month at KRW1290.0, down 60.5 won on the end of October.

2. Outlook for This Month

The USD/KRW pair will bounce back after moving bearishly in December.

The greenback was sold in November as US interest rates fell on expectations for an end to the US rate-hike cycle and for early US rate cuts. The won was also supported when the RMB firmed up and began rising. The

USD/KRW pair fell by close to 60 won in one month, with won bullishness largely driven by external factors.

South Korea's October trade balance was in the black for the fifth straight month. At $55.09 billion, exports were up +5.1% y-o-y. Export growth returned to positive territories for the first time in 13 months. At $8.94 billion, exports of semiconductors (South Korea's main export item) fell by -3.1%, but this was the smallest contraction in 15 months. The reason exports returned to positive territories in October was because growth a year earlier had contracted by -5.8% due to a slump caused by monetary tightening and global economic stagnation. However, automobiles, shipping, general machinery and other major items continue to see positive growth, with semiconductor exports also expected to recover gradually, with exports likely to continue growing until early 2024. If semiconductor market conditions improve and exports undergo a full recovery, the won will be bought further on real demand, though this trend will only have a limited impact in December.

The currency pair will continue to be swayed by external factors. It will continue to move with a heavy topside early December on expectations for a US policy shift. However, if the FOMC pours cold water on excessive market expectations for rate cuts when it meets over December 12–13, the dollar will recovery after previously having been sold. As the trend of dollar selling undergoes some adjustment late December, the currency pair will probably recover to KRW1300.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – December 2023

Expected Ranges **Against the US$: NT$30.80–31.50**
Against the yen: JPY4.70–4.85

1. Review of the Previous Month

The USD/TWD pair fell in November.

The pair opened the month trading at TWD32.440 on November 1. With US interest rates remaining at highs, Taiwanese stocks fell and the Taiwan dollar was sold. The pair temporarily rose to TWD32.495 early November, its highest level in seven years and four months. However, the FOMC then decided to keep policy rates unchanged, so expectations for further rate hikes waned. With the US also releasing some worse-than-expected October employment data, US interest rates fell and the greenback weakened, with the currency pair dropping to TWD32.1 to move flatly thereafter.

FRB chair Jerome Powell's speech during overseas trading time on November 9 was read as hawkish, so US long-term interest rates rose and the US dollar was bought back, with the currency pair rising to TWD32.30. With a Taiwanese semiconductor firm then booking record sales for October, the Taiwan Capitalization Weighted Stock Index rose at a faster pace. As overseas investors poured funds into Taiwanese stocks, the Taiwan dollar was bought. The US October CPI data was released on November 14 and it was slightly down on expectations. As the greenback moved bearishly on falling US interest rates, the USD/TWD pair fell sharply to drop below TWD31.50.

The US released some better-than-expected new applications for unemployment insurance data on November 22. With the inflationary expectations heading in the University of Michigan Consumer Sentiment Index also up on the previous release, US interest rates rose and the US dollar was bought for a time, with the currency pair climbing to TWD31.60. However, FRB Governor Christopher Waller then dropped hints about rate cuts on November 28. With NY FRB President John C. Williams also stating that inflationary expectations were stabilizing, speculation grew that the US rate-hike cycle was drawing to a close. Taiwanese stocks rose on falling US interest rates. As overseas investors pumped funds into Taiwan, the Taiwan dollar was bought and the currency pair temporarily fell to TWD31.232. The pair then moved with a heavy topside to float in the TWD31.20 range towards the month's end.

2. Outlook for This Month

The USD/TWD pair will probably weaken in December.

November saw speculation that the US rate-hike cycle was drawing to a close. With Taiwan's CPI data also growing at a faster pace than the previous month, US/Taiwan interest-rate differentials shrank and the currency pair fell sharply. The Taiwan dollar was also bought when overseas investors pumped more funds into Taiwan after a Taiwanese semiconductor company posted strong settlement results.

The USD/TWD pair will probably fall further in December. As investors focus on the impending end of the US rate-hike cycle, US interest rates will be susceptible to downswings. Meanwhile, Taiwan's October CPI growth accelerated to +3.05% m-o-m. The Monetary Policy Meeting of the Central Bank of the Republic of China (Taiwan)

(CBC) will be held on December 14. With the release of Taiwan's September CPI data also looming, investors will be watching to see whether the CBC raises its policy rate. Under these circumstances, it seems US/Taiwan interest-rate differentials will continue to shrink for the time being, with the USD/TWD pair likely to face downward pressure. Furthermore, a semiconductor giant booked record sales, with Taiwan's October Export Orders data also up sharply on the previous month, so there is a growing sense that Taiwan's economy has bottomed out. As risk sentiments improve, it seems likely that Taiwanese stocks will rise and that overseas investors will continue pumping funds into Taiwan, with this also likely to push the USD/TWD pair lower.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – December 2023

Expected Ranges **Against the US$: HK$ 7.7600–7.8200**
Against the yen: JPY 18.70–19.50

1. Review of the Previous Month

Hong Kong dollar spot exchange market in November

The HKD spot strengthened to below 7.79 for the first time this year, as the HKD interest rates continued to climb due to year-end seasonality, resulting in the narrowing USD-HKD rate spread. Furthermore, the cooling US data and Fed's less hawkish tone suggested that US interest rates may have reached their peak. With HKD T/N forward points hovering at near par, HKD spot reverted to the mid-point of its trading band in the absence of carry trade flow. IPO activities picked up slightly but its impact on the HKD spot should be limited. Hang Seng Index found its footing as the China's strong property stimulus measures alleviated the concern over China property crisis and reduced capital outflow pressure from HK equities. The fundamentals of HK economy remain weak, as evidenced by the partial property purchase tax cut failing to stabilize the property market. The Centa-City Leading (CCL) Index has extended its decline to a 6.5-year low, and HK loan growth has dropped for 16 consecutive months amid increasing HKD rates under the USD-HKD peg.

Hong Kong dollar interest rate market in November

The year-end seasonality sent HKD rates higher across the curve. 1-month HKD HIBOR climbed to its 16-year high to cover the funding demand at the year-end. 3-month HKD HIBOR also jumped to its 22-year high of 5.7%, despite the US rates peaking. In comparison to the USD counterpart, both 1-month and 3-month The HKD-USD rate spread reversed to positive, fueling upside momentum for the HKD. HK aggregate balance held steady at near HKD 45bn, while HK banks reduced their usage of the discount window. HKD IRS curve came off along with the USD IRS as the Fed is expected to complete its rate hike cycle. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD LIBOR) jumped to more than +130bps on HKD liquidity tightening and falling HKD IRS.

2. Outlook for This Month

Hong Kong dollar spot exchange market in December

As the USD rates are expected to peak out, the HKD spot will likely revert to the mid-point of the trading band at 7.8 level. However, the HKD rate spikes and the possible reversal of USD-HKD rate spread could boost the HKD spot to 7.76 level briefly before moving back to near 7.8 in the beginning of 2024. The stabilizing China property sector and moderating capital outflow pressure from A-shares should help improve HKD sentiment. Looking ahead, we expect the HKD to test its strong-side convertibility undertaking and the Fed entered into a rate cut cycle resemble to the experience in 2020. While the current interest rate market is pricing in the first rate cut in June, we believe that the actual rate cut timing will remain uncertain and the HKD spot will fluctuate at near 7.8 for a while.

Hong Kong dollar interest rate market in December

The year-end seasonality is expected to send HKD rates higher across the curve in December. However, HKD rates will likely track lower with USD rates at the end of Fed's rate hike cycle. Under the USD-HKD peg, the HKD spot will likely strengthen to 7.75 level when the Fed enters into a rate cut cycle given the experience of Fed's rate cut cycle in 2020. If the Fed implemented an insurance rate cut similar to 2019, it will take longer to bring HKD to 7.75 level. In any case, the HKMA will intervene in the FX market and sell HKD at 7.75 to defend the USD-HKD peg, leading to liquidity injection into the market. In addition, the softening HKD loan demand in the HK economy downturn will contribute to downside pressure in HKD rates.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – December 2023

Expected Ranges	**Against the US$: CNY 7.0000–7.3000**
	Against the yen: JPY 20.12–21.05

1. Review of the Previous Month

In November, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.31 level and momentarily fell to the CNY 7.11 level.

On November 1, the U.S. dollar/Chinese yuan exchange market opened trading at the mid-CNY 7.31 level. As the October Purchase Managers' Index (PMI) turned out to be generally weaker than the market estimate, expectation for economic recovery in China receded. On the other hand, a Federal Open Market Committee (FOMC) meeting was held in the U.S. on November 1, and the policy interest rate was maintained at the existing level. Furthermore, Federal Reserve Board (FRB) Chair Jerome Powell made a remark that was generally considered dovish. Because there were unfavorable factors for both the Chinese yuan and the U.S. dollar, the U.S. dollar/Chinese yuan exchange rate continued fluctuating in both directions at the CNY 7.31 level until the announcement of employment statistics. Thereafter, the October employment statistics of the U.S. turned out to be weak, and this changed the trend in the market. Market participants actively sold the U.S. dollar, and trading closed on November 3 at the CNY 7.28 level.

On November 6, the U.S. dollar/Chinese yuan exchange market opened trading at the CNY 7.28 level. Market participants had sold the U.S. dollar due to the weak figures in the October employment statistics of the U.S. as released in the previous week, and the U.S. dollar/Chinese yuan exchange rate fell once to the upper-CNY 7.26 level. However, the fall of 10-year U.S. government bond yields started to slow down, and the U.S. dollar/Chinese yuan exchange rate recovered to the CNY 7.28 level on November 7. The, the October trade statistics of China were announced on November 7, while the October Consumer Price Index (CPI) and the Producer Price Index (PPI) were announced on November 9, but there was no significant reaction in the market, and the U.S. dollar/Chinese yuan exchange rate remained at the CNY 7.28 level.

On November 13, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.29 level. On November 14, the October CPI of the U.S. turned out to be below the market estimate, and this denied the possibility of additional policy interest rate hikes by the FRB. Consequently, interest rates fell in the U.S., weakening the U.S. dollar. Following this trend, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.24 level. On November 15, major October economic indices of China were released with both strong and weak figures. However, because the retail sales recorded a stronger figure than expected, market participants actively bought the Chinese yuan. As a result, the U.S. dollar/Chinese yuan exchange rate fell to the lower CNY 7.23 level. The Chinese yuan strengthened to the highest level since August. Toward the weekend, the U.S. dollar/Chinese yuan exchange rate fluctuated between the CNY 7.24 level and the CNY 7.26 level. Then, on November 17, interest rates fell in the U.S., after which the U.S. dollar/Chinese yuan exchange rate fell as well, and the U.S. dollar/Chinese yuan exchange rate once fell to the CNY 7.19 level.

On November 20, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.19 level. Interest rates fell in the U.S., and this weakened the U.S. dollar. Furthermore, the People's Bank of China (PBOC)

central parity rate, which had been at the CNY 7.17 level, was set at the lower-CNY 7.16 level. As a result, the Chinese yuan continued strengthening. Then, on November 21, the PBOC central parity rate was set toward an even-stronger Chinese yuan. Consequently, the Chinese yuan appreciated against the U.S. dollar above the PBOC central parity rate for the first time since July 2023. The U.S. dollar/Chinese yuan exchange rate once fell to the upper-CNY 7.12 level. Then, on November 22, U.S. economic indices turned out to be strong, which led the U.S. dollar to rally to some extent. However, the U.S. dollar did not recover significantly, as there were Thanksgiving holidays in the U.S. On November 24, the U.S. dollar/Chinese yuan exchange market closed trading at the CNY 7.14 level.

In the week commencing on November 27, the U.S. dollar/Chinese yuan exchange rate remained low, fluctuating at around the CNY 7.15 level. On November 29, the U.S. dollar/Chinese yuan exchange rate once fell to the CNY 7.11 level.

2. Outlook for This Month

The Chinese yuan is forecast to remain strong against the U.S. dollar for a long period of time.

The U.S. dollar/Chinese yuan exchange rate remained at around the CNY 7.30 level for almost three months. However, this trend ended in November. The Chinese yuan remained weak mainly due to the fact that the FRB maintained a hawkish attitude, although its monetary policy depended on economic indices, while there was no strong expectation for economic recovery in China. On the other hand, the Chinese yuan strengthened, and the U.S. dollar weakened in November, mainly because of the fall of interest rates in the U.S. based on weak figures in the U.S. economic indices as well as on some signs of economic recovery in China as seen in the October economic indices—even though there were both strong and weak figures.

Until the FRB clearly indicates its intention to start actively cutting its policy interest rate, interest rates in the U.S. are likely to fall only to a limited degree. Thus, based on the interest rate differentials between the U.S. and China, the appreciation of the Chinese yuan against the U.S. dollar is also likely to be limited. However, from a long-term perspective, the interest rate differentials between the U.S. and China are expected to narrow, which is likely to strengthen the Chinese yuan against the U.S. dollar.

In terms of domestic factors in China as well, downward pressure on the Chinese yuan could weaken in the time ahead, as the economic growth outlook of China is expected to improve, thanks to further fiscal stimulus measures, while the need to modify monetary policy, such as in reserve requirement ratio cuts, is likely to decrease if fiscal expansion is implemented. Furthermore, the PBOC continues to set its central parity rate toward a stronger Chinese yuan, even after the sharp fall of the U.S. dollar/Chinese yuan exchange rate, which is another factor to support the appreciation of the Chinese yuan.

On the other hand, market participants should remain cautious about the real estate sector, as new home sales and prices have not recovered significantly. Housing-related measures are seen as favorable in the market, but the level of trust in the real estate market is not likely to recover, while the labor market environment remains weak. Foreign investor funds have not returned to the bond and stock markets in China, and this is also slowing down the appreciation of the Chinese yuan.

As of November 29, the U.S. dollar/Chinese yuan exchange rate is on a downtrend. Once the exchange rate bottoms out, it is possible for the U.S. dollar/Chinese yuan exchange rate to rally for a short period of time. However, from a long-term perspective, the Chinese yuan is most likely to gradually appreciate while the U.S. dollar depreciates.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – December 2023

Expected Ranges **Against the US$: SG$ 1.3000–1.3600**
Against the yen: JPY 108.00–114.00

1. Review of the Previous Month

In November, the U.S. dollar/Singapore dollar exchange rate fell.

At the beginning of the month, the U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.37 level on November 1. Based on the outcome of a Federal Open Market Committee (FOMC) meeting, market participants expected policy interest rate hikes in the U.S. to end soon. Under such circumstances, the U.S. dollar continued depreciating, and the U.S. dollar/Singapore dollar exchange rate fell to the lower-SGD 1.36 level on November 2. On November 3, the October employment statistics of the U.S. were released, and the results turned out to be below the market estimate. As a result, the U.S. dollar weakened further, and the U.S. dollar/Singapore dollar reached the lower-SGD 1.35 level.

On November 6, the U.S. dollar/Singapore dollar occasionally below the SGD 1.35 level. However, the fall of interest rates in the U.S. stopped thereafter, and the U.S. dollar started to rally. Immediately reacting to this, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.35 level. On November 7 and 8, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at the upper-SGD 1.35 level without moving in any direction. However, on November 9, Federal Reserve Board (FRB) Chair Jerome Powell suggested the possibility of monetary tightening, and this encouraged market participants to buy the U.S. dollar, while the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.36 level.

On November 14, the October Consumer Price Index (CPI) of the U.S. was announced, and the result turned out to be below the market estimate. As a result, market participants actively sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.34 level. On November 15 through to November 17, the U.S. dollar/Singapore dollar exchange rate remained low and reached the lower-SGD 1.34 level, due to the weak figures in U.S. economic indices.

On November 20, the People's Bank of China (PBOC) set its central parity rate toward a stronger Chinese yuan for the first time since August, as a result of which the currencies of Asian countries appreciated. Following this trend, market participants bought the Singapore dollar, and the U.S. dollar/Singapore dollar exchange rate fell to the SGD 1.33 level. On November 21, the PBOC set its central parity rate again toward a stronger Chinese yuan. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.33 level. However, the minutes of an FOMC meeting were released on the same day, local time, revealing hawkish content, which led the U.S. dollar/Singapore dollar exchange rate to recover to the SGD 1.34 level. On November 23, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at around the SGD 1.34 level without moving in any direction, as that day was a holiday both in the U.S. and Japan.

On November 27, the housing index of the U.S. fell below the market estimate, which encouraged market participants to sell the U.S. dollar. Furthermore, on November 28, the following day, FRB officials made dovish remarks, which led the U.S. dollar/Singapore dollar exchange rate to fall further to the lower-SGD 1.33 level. On November 29, as was the case with the previous day, the U.S. dollar/Singapore dollar exchange rate fell to the upper-

SGD 1.32 level. However, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level thereafter.

2. Outlook for This Month

In December, the U.S. dollar/Singapore dollar exchange rate is forecast to remain low.

In November, the U.S. dollar/Singapore dollar fell, mainly because of increased U.S. dollar-selling in the overall foreign exchange market, as it had become less likely for the FRB to additionally raise its policy interest rate in the U.S. From October 31 to November 1, the latest FOMC meeting was held, and the policy interest rate was maintained at 5.25‒5.50%. FRB Chair Jerome Powell made a remark that the FOMC was moving forward carefully considering uncertainty, risks, and the past trend. Thus, the FOMC appeared to be more cautious about the need for additional policy interest rate hikes compared to previous meetings. Furthermore, the October CPI of the U.S. confirmed a slowdown in inflation, making it almost impossible for the FOMC to raise its policy interest rate at its December meeting. As a result, the market reflected several policy interest rate cuts to be seen next year. This year, inflation lasted for a longer period than expected, and the U.S. economy remained strong, which both led interest rates in the U.S. to rise. However, if the policy interest rate hikes end and the market starts to reflect future policy interest rate cuts, it is unlikely for interest rates in the U.S. to rise significantly. Thus, pressure to buy the U.S. dollar is unlikely to strengthen in the time ahead.

On the other hand, looking at economic indices released in Singapore, the third-quarter GDP (revised figure) turned out to be +1.1% year-on-year, exceeding the preliminary figure and the previous quarter's figure. According to the statement released by Singapore's Ministry of Trade & Industry, economic expansion is likely to accelerate further in the time ahead, and the GDP growth rate is expected to reach 1‒3% in 2024. The October CPI turned out to be +4.7% year-on-year, recording positive growth for the second month, reaching the highest level in five months, which is a source of concern. However, the latest figures in the economic indices confirm economic stability, making it unlikely for market participants to sell the Singapore dollar so actively.

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

Thai Baht – December 2023

Expected Ranges **Against the US$: THB 33.80–35.70**
Against the yen: JPY 4.15–4.27

1. Review of the Previous Month

In November, the U.S. dollar/Thai baht exchange rate fell. The U.S. dollar/Thai baht exchange market opened trading in November at the lower-THB 36 level. Thereafter, the exchange rate rose based on weak figures in the economic indices of China. However, in the evening of the same day, the November Federal Open Market Committee (FOMC) meeting came to a close, and the policy interest rate was maintained at the existing level for the second consecutive month. Furthermore, Federal Reserve Board (FRB) Chair Jerome Powell suggested a possible end to policy interest rate hikes, which offset the rise of the U.S. dollar/Thai baht exchange rate seen during the daytime. Also, an economic index confirmed a slowdown in wage increases in the U.S., while the October employment statistics of the U.S. turned out to be below the market estimate. As a result, interest rates fell in the U.S. Consequently, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 35 level. Thereafter, the Consumer Price Index (CPI) recorded negative growth for the first time since the times of the COVID-19 crisis, in 2021. However, the reaction to this news in the market was minimal, and the U.S. dollar/Thai baht exchange rate remained low. However, on November 10, the government of Thailand revealed conditions to receive benefits in digital currency worth THB 10,000. Because the number of recipients was not so low as once expected, concerns grew over fiscal deterioration, and the U.S. dollar/Thai baht exchange rate returned to the THB 36 level.

In the middle of the month, the October CPI of the U.S. was announced after consecutive holidays in Thailand, and both the headline CPI and core CPI turned out to be below the market estimate, as a result of which interest rates fell sharply in the U.S. Following this trend, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 35 level. Thereafter, the October retails sales of the U.S. turned out to be stronger than the market estimate, while economic indices of China weakened. As a consequence, market participants started to buy the U.S. dollar and sell the Thai baht. Therefore, the U.S. dollar/Thai baht exchange rate once rose to the upper-THB 35 level. However, interest rates in the U.S., which had once rallied, started to decline again. Furthermore, the People's Bank of China (PBOC) central parity rate was set toward a stronger Chinese yuan against the U.S. dollar, encouraging market participants to sell the U.S. dollar and buy the Thai baht. Thereafter, the third-quarter GDP of Thailand fell below the market estimate. However, this did not impact the market, and the U.S. dollar/Thai baht exchange rate continued falling, reaching the lower-THB 35 level.

At the end of the month, interest rates continued falling in the U.S., and this weakened the U.S. dollar, while the U.S. dollar/Thai baht exchange rate fell to approach the THB 35 level. However, the exchange rate did not fall so significantly below this level, and this was seen as a turning point in the market. Furthermore, the expected inflation rate of the U.S. rose, and the number of new unemployment insurance claims in the U.S. recorded a decline. As a result, market participants started to buy the U.S. dollar, and the U.S. dollar/Thai baht exchange rate rallied to the lower-THB 35 level. From November 23 toward the weekend, there were few market participants, as there were Thanksgiving holidays in the U.S. while also being a national holiday in Japan. Even with the low level of liquidity and a lack of important headlines, the U.S. dollar/Thai baht exchange rate once reached the mid-THB 35 level. In

the last week of the month, the U.S. bond auction confirmed a high level of demand, which led interest rates to fall in the U.S. Following this trend, the U.S. dollar/Thai baht exchange rate fell below the THB 35 level. Furthermore, an FRB director made a remark that he would not deny the market estimate of policy interest rate cuts. As a result, interest rates fell sharply in the U.S., significantly weakening the U.S. dollar, and the U.S. dollar/Thai baht exchange rate reached the upper-THB 34 level for the first time since the beginning of August. On October 29, the central bank of Thailand held a Monetary Policy Committee meeting, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. This did not have any impact on the market.

2. Outlook for This Month

If interest rates continue falling in the U.S. in December, the U.S. dollar/Thai baht exchange rate is also likely to continue falling. Interest rates in the U.S. started to fall when FRB Chair Jerome Powell suggested a possible end to policy interest rate hikes in the U.S. after the November FOMC meeting. Thereafter, the October CPI of the U.S. turned out to be below the market estimate, suggesting a slowdown in inflation. Furthermore, an FRB director did not deny a market estimate that forecast more significant policy interest rate cuts than indicated by the dot plot. As a result, medium- and long-term U.S. bond yields fell by approximately 60 basis points from the beginning of the month. As a result of the fall of interest rates in the U.S., the U.S. dollar weakened globally, and the U.S. dollar index has dropped by approximately 4% from the beginning of the month, as of the time at which this article was written. This is a favorable situation for the currencies of emerging countries, including the Thai baht.

The last FOMC meeting of the year is the most-important event in December for the U.S. dollar/Thai baht exchange market, as it will undoubtedly give key indications for U.S. monetary policy for next year. The dot plot is also to be updated this time, showing how FOMC officials evaluate the current U.S. economy and what monetary policy they are likely to take. Such information is also important for market participants to predict U.S. interest rates in the time ahead.

However, the fall of interest rates is also likely to improve the monetary environment in the U.S. (i.e., recovery in capital demand and consumption). Until now, the rise of interest rates in the U.S. was seen to have the same effect of monetary tightening as policy interest rate hikes. Thus, the fall of interest rates is likely to have an asset effect through the rise of stock prices. From this point of view as well, the fall of interest rates is not a favorable situation for the FRB. Thus, despite the fact that some FRB officials have recently made dovish remarks, it is too early for the FRB to weaken its attitude. At the December meeting, the FOMC might take a wait-and-see attitude and focus on not giving too much indication. In such a case, it is unlikely for the U.S. dollar to depreciate significantly. However, based on market sentiment, the U.S. dollar could remain weak in the time ahead.

On the other hand, in terms of domestic factors in Thailand, the plan to give out digital currency was approved in November, but its source of funding has not yet been identified, nor has an increase in public debt been approved to ensure the implementation of this plan. As such plan is a key measure of the current government, if it fails, the current government could lose credibility in its political standing, although its fiscal concerns would be alleviated. Such a situation could encourage foreign investors to sell their assets in Thailand, and this would result in a depreciation of the Thai baht.

For these reasons, the U.S. dollar is most likely to continue depreciating in December. However, if the FRB shows a hawkish attitude or if the plan of the government of Thailand actually fails, the U.S. dollar/Thai baht exchange rate could rally, for which market participants should remain careful.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – December 2023

Expected Ranges **Against the US$: MYR 4.62–4.75**
Against the yen: JPY 31.45–32.47

1. Review of the Previous Month

Interest rates in the U.S. started to peak out in summer, and market participants were waiting for the time to start buying back the Malaysian ringgit. After the Federal Open Market Committee (FOMC) meeting held in the U.S. on November 2, it seems that the time has finally come for market participants to consider buying back the Malaysian ringgit.

At the beginning of the month, the central bank of Malaysia held a monetary policy meeting on November 2, while the FOMC held its meeting in the U.S. on the same day, both of which attracted substantial attention in the U.S. dollar/Malaysian ringgit offshore exchange market. In the early morning of November 2, the FOMC meeting was held, and the Fed Funds Rate was maintained at the existing level, as had been anticipated in the market. Even though the possibility of a policy interest rate hike before the end of the year was not denied, the outcome of the FOMC meeting was seen as somewhat dovish, as a result of which interest rates in the U.S. fell. Furthermore, the central bank of Malaysia held a monetary policy meeting on the same day, at which the policy interest rate was maintained at the existing level for the third consecutive time. Some market participants had been concerned about the possibility of an unexpected policy interest rate hike, as the central banks of Indonesia and the Philippines had both raised their respective policy interest rates in the previous month. However, the central bank of Malaysia did not raise its policy interest rate in the end, due to the depreciation of the Malaysian ringgit. Furthermore, on November 3, U.S. employment statistics turned out to be below the market estimate, and this strengthened the Malaysian ringgit, while the U.S. dollar/Malaysian ringgit exchange rate once reached the MYR 4.62 level.

In the middle of the month, the October Consumer Price Index (CPI) of the U.S. was announced on November 14, revealing a decline, in reaction to which the U.S. dollar interest rates fell sharply. The market reflected almost no policy interest rate hike at the FOMC meeting in December. Under such circumstances, on November 15, the following day, market participants bought the Malaysian ringgit in the onshore U.S. dollar/Malaysian ringgit market. On the same day, the industrial production and retails sales of China were also announced, revealing positive growth, encouraging market participants to buy the Chinese yuan, supporting the Malaysian ringgit as well. Then, on November 17, the third-quarter GDP of Malaysia was announced, and the result was +3.3% year-on-year, which was slightly better than the +2.9% year-on-year recorded in the second-quarter period. As a result, the central range of fluctuation for the U.S. dollar/Malaysian ringgit exchange rate fell below the MYR 4.70 level.

At the end of the month, there were few market participants, as there were Thanksgiving holidays, and key economic indices had already been released both in Malaysia and other countries at the beginning to the middle of the month. In terms of domestic economic data, the trade statistics of Malaysia were released on November 20, and the level of decline was smaller in both imports and exports. A recovery in exports to China has yet to be confirmed, and it seems premature to say that there is a recovery trend. Furthermore, on November 24, the CPI of Malaysia turned out to be below the market estimate, confirming a steady slowdown of inflation. However, this was not sufficient enough to demonstrate the expected recovery of the domestic economy. Thus, the Malaysian ringgit

appreciated only to a limited degree against other ASEAN currencies.

2. Outlook for This Month

In December, the U.S. dollar/Malaysian ringgit exchange rate is forecast to be unstable. Interest rates in the U.S. seem to have finally started to peak out after the FOMC meeting held in the U.S. on November 2. Accordingly, market participants started to buy back the Malaysian ringgit, and the Malaysian ringgit started to appreciate in the onshore U.S. dollar/Malaysian ringgit market. However, it is important to point out that the overall ASEAN currencies, which had remained weak, also started to appreciate against the U.S. dollar, as a result of the depreciation of the U.S. dollar. Under such circumstances, the appreciation of the Malaysian ringgit was relatively small compared to other currencies. This situation can be explained mainly by the fact that there was no strong supporting factor for the Malaysian ringgit in the domestic economic indices, as a recovery in exports to China as well as U.S. and Europe is yet to be confirmed with the struggling manufacturing industry, even though personal consumption remains robust.

The last FOMC meeting of the year is scheduled for December 14. Based on the Fed Funds Rate futures market, the possibility for an FOMC policy interest rate hike in December is less than 10%. Under such circumstances, market participants should focus on two issues: the Fed Funds Rate future outlook by FOMC members, i.e., the so-called dot plot, and the remark by FRB Chair Jerome Powell regarding the U.S. monetary authorities' view on the current inflation level. In the U.S. dollar market, the current consensus of the market is for the FOMC to start cutting its policy interest rate at the May meeting in 2024. However, depending on the dot plot, market participants could expect U.S. interest rates to rise, making it less likely for interest rates in the U.S. to start falling in the time head. In such a case, pressure to buy back the Malaysian ringgit could weaken, which a possible source of concern.

For the above reasons, the U.S. dollar/Malaysian ringgit exchange rate is forecast to remain slightly unstable, fluctuating in reaction to trends in overseas markets, especially the U.S. market. Thus, the U.S. dollar/Malaysian ringgit exchange rate is expected to fluctuate in a somewhat wide range between MYR 4.62 and MYR 4.75.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – December 2023

Expected Ranges	**Against the US$: IDR 15300–16000**
	Against the yen: JPY 0.9346–0.9804 (IDR 100)

1. Review of the Previous Month

In November, the Indonesian rupiah appreciated against the U.S. dollar.

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at around the IDR 15,900 level on November 1. On the same day, the October Consumer Price Index (CPI) of Indonesia turned out to be +2.56% year-on-year, falling below the market estimate. However, reaction in the market to this headline was minimal. During overseas trading hours, the outcome of a Federal Open Market Committee (FOMC) meeting was announced, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. However, at the press conference after the meeting, Federal Reserve Board (FRB) Chair Jerome Powell suggested an end to the policy interest rate hikes, albeit without clearly denying the possibility of a policy interest rate hike in December. In reaction to this, interest rates in the U.S. fell, encouraging market participants to sell the U.S. dollar. On November 2, the following day, local time, in Asia, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,800 level, with a significantly stronger Indonesian rupiah. Toward November 3, the Indonesian rupiah continued appreciating against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,700 level. On the same day, local time, in the U.S., the employment statistics of the U.S. were released, and the results turned out to be below the market estimate. In reaction, market participants sold the U.S. dollar in an accelerated manner. As a consequence, on November 6, in the following week, the U.S. dollar weakened further, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,500 level. On November 9, local time, in the U.S., FRB Chair Jerome Powell made a remark such that he was not convinced that interest rates were sufficiently restrictive, and this comment led interest rates in the U.S. to rise, strengthening the U.S. dollar. As a result, the U.S. dollar/Indonesian rupiah exchange rate returned to the IDR 15,700 level on November 10, the following day. Toward November 14, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the lower-IDR 15,700 level. However, on November 14, local time, in the U.S., the October CPI of the U.S. was announced with a result that was below the market estimate, and this encouraged market participants to sell the U.S. dollar again. Consequently, on November 15, the following day, the U.S. dollar depreciated against the Indonesian rupiah, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper-IDR 15,400 level. Thereafter, as a result of the rise of interest rates in the U.S., the U.S. dollar/Indonesian rupiah exchange rate once returned to approach the IDR 15,600 level. However, on November 20, the Chinese monetary authorities set the PBOC central parity rate toward a stronger Chinese yuan, and this weakened the U.S. dollar and strengthened the Chinese yuan. Following this trend, the Indonesian rupiah also appreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate reached the upper IDR 15,300 level. On November 21, local time, in the U.S., the minutes of the FOMC meeting were released, and the contents turned out to be slightly hawkish, stating that further monetary tightening would be necessary if inflation does not slow down sufficiently. In reaction, the U.S. dollar appreciated. On November 22, the following day, the U.S. dollar continued appreciating, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,600 level. Then, on November 23, the central

bank of Indonesia held a meeting and decided to maintain its policy interest rate at the existing level. As this decision had been anticipated in the market, there was little market reaction. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating at the upper-IDR 15,500 level. On November 27, interest rates in the U.S. fell again, and the U.S. dollar weakened further. As a result, the U.S. dollar/Indonesian rupiah exchange rate fell to the upper-IDR 15,300 level toward November 29.

2. Outlook for This Month

The Indonesian rupiah is forecast to weaken in December.

While market participants are expecting policy interest rate hikes in the U.S. to end soon, the U.S. dollar is expected to remain weak. However, pressure to sell the Indonesian rupiah is also likely to persist based on actual demand, as the third-quarter current account balance of Indonesia was announced on November 21, revealing a deficit—as was the case in the second quarter.

Market participants are increasingly expecting policy interest rate hikes in the U.S. to end soon, given the remark made by FRB Chair Jerome Powell after the FOMC meeting held at the beginning of November. As a result, in most of November, interest rates in the U.S. were on a downtrend, and the U.S. dollar depreciated. Even though figures in U.S. economic indices could change the trend, interest rates in the U.S. are likely to continue falling, while the U.S. dollar is likely to continue depreciating in December.

On the other hand, the current account balance of Indonesia recorded a deficit in the third-quarter period, as was the case in the second-quarter period. This is due to the fact that the trade surplus declined from the last year, while there were no more special supporting factors, such as the rise of resources prices. The current account balance recorded a deficit from 2012 to 2020, and during this period, the Indonesian rupiah remained weak. From a medium- to long-term perspective, actual demand impacts the foreign exchange market to a great extent. Thus, given the latest current account deficit, the Indonesian rupiah is expected to remain weak for a long period of time again.

It is also important to mention that there may be some side effects of the policy interest rate hike carried out at the meeting of the central bank of Indonesia in October. The October CPI of Indonesia was close to the lower end of the target range set out by the central bank of Indonesia, while the core CPI fell below the lower end of the target range. The policy interest rate was thus raised despite growing concerns over a slowdown of the domestic economy, and it could accelerate economic slowdown. Market participants should remain careful, as pressure to sell the Indonesian rupiah could strengthen in the time ahead, based on the downturn of the domestic economy of Indonesia.

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

Philippine Peso – December 2023

Expected Ranges **Against the US$: PHP 54.50–56.50**
Against the yen: PHP 0.365–0.385

1. Review of the Previous Month

In November, market participants expected policy interest rate hikes in the U.S. to end soon. As a result, the Philippine peso appreciated against the U.S. dollar significantly, and the U.S. dollar/Philippine peso exchange rate fell below the upper-PHP 56 level, at which the exchange rate has remained since the middle of August. Also, the employment statistics of the U.S. were released, with figures suggesting the end of the overheating of the labor market, as a result of which the market started to reflect the start of policy interest rate cuts that are seen to start in the middle of next year. Thus, the U.S. dollar weakened in the overall foreign exchange market. Following this trend, on November 6, the U.S. dollar/Philippine peso exchange rate reached the PHP 55 level for first time since August 4 at PHP 55.910 to the U.S. dollar.

The October Consumer Price Index (CPI) of the Philippines turned out to be +4.9% year-on-year, falling below +5.6% year-on-year, which was the market estimate, and recording a significant fall from the previous month in which the result was +6.1% year-on-year. Consequently, market participants expected the policy interest rate to be maintained at the existing level at the monetary policy meeting scheduled for November 16. On the other hand, the central bank of the Philippines revealed its plan to maintain monetary tightening measures until the inflation outlook falls within the target range. In addition, the crude oil price fell sharply, while the GDP of the Philippines for the third-quarter period turned out to be +5.9% year-on-year, revealing acceleration from the +4.3% year-on-year seen in the second-quarter period. Thus, in the market, there were both positive and negative factors for the Philippine peso. Under such circumstances, the U.S. dollar/Philippine peso exchange rate continued fluctuating at around the PHP 56 level toward the middle of the month, after the sharp appreciation of the Philippine peso.

In the second half of the month, the September amount of remittances from overseas Filipino workers turned out to be +2.6% year-on-year, exceeding the +2.4% year-on-year market estimate. Furthermore, as the October CPI of the U.S. turned out to be below the market estimate, the market further reflected policy interest rate cuts in the U.S. As a consequence, the U.S. dollar depreciated further, and the Philippine peso appreciated further against the U.S. dollar. Thereafter, the central bank of the Philippines decided to maintain its policy interest rate at the existing level, as inflation pressure weakened. Yet, the central bank of the Philippines maintained a hawkish attitude by emphasizing the importance of a sufficiently tight monetary policy, which worked in favor of the Philippine peso. Since the inflation level in the U.S. was declining and the labor market in the U.S. was weakening, market participants expected a significant cut of the policy interest rate in the U.S., weakening the U.S. dollar. As a result, the Philippine peso appreciated against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate once reached PHP 55.280. The Philippine peso remained on an uptrend throughout the month of November (as of November 29).

2. Outlook for This Month

At the Federal Open Market Committee (FOMC) meeting held in November, it was suggested that the necessity for additional policy interest rate hikes was decreasing. In reaction, market participants expected monetary tightening in the U.S. to end soon, which weakened the U.S. dollar significantly. However, the inflation rate in the U.S. is still far from the 2% target, and the U.S. economy remains robust. It is thus too early to start discussing a significant policy interest rate cut. Under such circumstances, it is likely for interest rates in the U.S. to stop falling. Furthermore, U.S. monetary authorities are maintaining a hawkish attitude, and they are likely to maintain the policy interest rate at the existing level, which also makes it likely for the fall of interest rates in the U.S. to be limited. Thus, the U.S. dollar is expected to remain stable. It is possible for the U.S. dollar to depreciate further for a short period of time, as there is a risk that expectations for policy interest rate cuts will become too high depending on future economic indices. However, U.S. monetary authorities are likely to remain cautious about policy interest rate cuts.

Given the increasing inflation pressure, the central bank of the Philippines decided to urgently raise its policy interest rate by 25 basis points in October. Thereafter, inflation slowed down, and the Philippine peso strengthened, while the central bank decided to maintain its policy interest rate at the existing level at the meeting in November. Even though monetary policy would depend on future economic data, the central bank revealed a hawkish attitude to maintain appropriate monetary tightening measures until the inflation outlook falls below the target range of 2–4%. Economic growth in the Philippines remains healthy, and it is unlikely for the U.S. to start cutting their policy interest rate any time soon. Under such circumstances, it is also unlikely for the central bank of the Philippines to cut its policy interest rate for a while. It is also worth noting that Philippine monetary authorities are likely to maintain a hawkish monetary policy for a while, as is done in the U.S., as inflation pressure persists. Thus, it is difficult to predict trends in the U.S. dollar/Philippine peso exchange market from the viewpoint of interest rate differentials between the U.S. dollar and the Philippine peso. However, the Philippine peso is more likely to remain weak, as the U.S. dollar is expected to remain robust and there is no particular factor to strengthen the Philippine peso. Meanwhile, crude oil prices have fallen, as risks related to the deteriorating situation in the Middle East have eased and market participants have become concerned about a decrease in demand. This has weakened pressure to sell the Philippine peso based on the supply & demand balance. In addition, seasonal factors such as overseas Filipino remittances are also likely to support the Philippine peso to some extent.

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

Indian Rupee – December 2023

Expected Ranges **Against the US$: INR 82.80–83.70**
Against the yen: JPY 1.70–1.82

1. Review of the Previous Month

In November, the U.S. dollar/Indian rupee exchange rate remained stable, fluctuating at the INR 83 level.

The U.S. dollar/Indian rupee exchange market opened trading in November at the lower-INR 83 level. At the beginning of the month, the U.S. dollar/Indian rupee exchange rate remained above the INR 83 mark. However, the outcome of the November Federal Open Market Committee (FOMC) meeting in the U.S. turned out to be slightly dovish, and the October employment statistics were released with weak figures. As a result, pressure to sell the U.S. dollar was strong, strengthening the Indian rupee. In the middle of the month, downward pressure on the Indian rupee temporarily strengthened due to a technical issue, leading the U.S. dollar/Indian rupee exchange rate to once exceed the INR 83.45 level. However, at this level, the Reserve Bank of India (RBI) intervened actively in the foreign exchange market so as to keep the exchange rate from rising further. As a result, the U.S. dollar/Indian rupee exchange rate fell significantly again. Toward the end of the month, the Indian rupee weakened slowly again against the U.S. dollar based on actual demand, bringing the exchange rate to the previous level. In the end, the U.S. dollar/Indian rupee exchange market closed trading at the lower-INR 83 level, with an Indian rupee slightly weaker than market opening (as of November 28).

The BSE SENSEX occasionally fell to approach the 63,500 level, following a downward trend seen in October. However, the trend changed thereafter, and the index started to rise. Having demonstrated the robustness of the market, the BSE SENSEX closed trading at above the 66,000 level. There was a net buy from foreign investors in November. Furthermore, Indian government bonds have been included in a government bond index. It is remarkable that investment funds are flowing into India in an accelerated manner.

In terms of Indian economic indices, the October Purchasing Managers Index (PMI) for the manufacturing and service sectors fell below the market estimate. Also, the October Consumer Price Index (CPI) turned out to be +4.87% year-on-year, falling below +5.02% seen in the previous data. Furthermore, the October trade balance revealed an increased deficit, renewing a record high. Market participants are thus likely to sell the Indian rupee, as has been the case so far.

2. Outlook for This Month

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

In December, the U.S. dollar/Indian rupee exchange rate is forecast to remain low, remaining at around the INR 83 level. In November, the U.S. dollar/Indian rupee exchange rate remained above the INR 83 level. Even though

the Indian rupee weakened temporarily, market participants knew that the RBI would intervene in the foreign exchange market so as to keep the exchange rate from rising further. Furthermore, some market participants were selling the U.S. dollar and buying the Indian rupee for market transactions. Under such circumstances, the Indian rupee has not depreciated excessively. If pressure to sell the U.S. dollar strengthens more remarkably, the RBI is likely to intervene in the foreign exchange market in order to keep the U.S. dollar/Indian rupee exchange rate from falling. Therefore, the U.S. dollar/Indian rupee exchange rate is expected to remain at around the INR 83 level.

The October CPI recorded a slight decline compared to the previous figure. At the Monetary Policy Committee (MPC) meeting held in October, the central bank decided unanimously to maintain the policy interest rate at 6.50% despite the recent sharp rise of the CPI. Thus, the MPC is expected to maintain the policy interest rate at the existing level again at its meeting in December, the last meeting of the year, in waiting to assess the effects of the policy interest rate hikes previously carried out.

In general, market participants tend to sell the Indian rupee, and this can be seen in the increased trade deficit. On the other hand, pressure to sell the U.S. dollar is expected to strengthen next year following the slowdown in the U.S. economy as well as due to the recurrent discussion about policy interest rate cuts, which is likely to start strengthening the Indian rupee. Furthermore, capital inflow (investment capital) to India is accelerating, as Indian government bonds have been included in a government bond index, and market participants should keep this in mind as a factor that would keep the U.S. dollar/Indian rupee from rising further. However, when the Indian rupee appreciates excessively, the RBI is likely to intervene in the foreign exchange market so as to keep the U.S. dollar/Indian rupee from falling further, while some market participants are also likely to sell the Indian rupee based on actual demand. For these reasons, the Indian rupee is still likely to depreciate gradually in the time ahead.

This report was prepared based on economic data as of November 30, 2023.

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