Mizuho Dealer's Eye

January 2024

Mizuho Bank, Ltd.

Global Markets Trading Department

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U.S. Dollar – January 2024

Expected Ranges **Against the yen: JPY138.00–145.00**

1. Review of the Previous Month

The dollar/yen pair fell in December to temporarily drop below 141 yen for the first time in four and a half months.

The pair opened the month trading at the lower-148 yen level. The US November Manufacturing ISM Report on Business then fell slightly, while FRB Chair Jerome Powell commented that the FRB policy rate was "well into restrictive territory." All this saw the pair falling to the mid-146 yen mark.

The following week saw the pair moving firmly at 147 yen on December 5 on the strong results of the US November Non-manufacturing ISM Report on Business. On December 7, BOJ Governor Kazuo Ueda said the BOJ would face an "even more challenging" situation around the turn of the year. This followed on from comments the previous day by BOJ Deputy Governor Ryozo Himino. As expectations grew that the BOJ would scrap negative interest rates, yen interest rates soared and the yen was bought, with the currency pair falling to around 146 yen. As the yen was bought during overseas trading time, the pair plummeted to 141.60 yen, though it rallied to around 144 yen toward the end of trading. The US released some firm November employment data on December 8. As US interest rates rose, the currency pair climbed to the upper-144 yen level.

The following week saw the pair climbing to the upper-145 yen mark on December 11. With reports then saying the BOJ would not abolish negative rates when it met in December, the pair continued climbing to hit the mid-146 yen level. The pair tumbled to the lower-145 yen range on December 12 as US interest rates fell. The closely-watched FOMC meeting on December 13 turned out to be dovish on the whole, so US interest rates fell and the currency pair temporarily dropped below 141 yen toward December 14. The pair then rallied to the lower-142 yen mark. With NY FRB President John C. Williams pouring cold water on expectations for rate cuts on December 15, the pair strengthened to the mid-142 yen level.

The following week saw the pair hitting 143 yen for a time on December 18 on hawkish comments by several FRB officials. The pair soared to the upper-143 yen level on December 19 after the BOJ decided to maintain its policy of large-scale easing. The pair moved erratically after Kazuo Ueda's press conference, but with an early lifting of negative rate hikes unlikely, the yen was sold at a faster pace and the currency pair climbed to the upper-144 yen level. The pair moved in a range around the upper-143 yen level on December 20 before temporarily breaching 143 yen on December 21 after Japan's Cabinet Office upgraded its inflation outlook. With the final US 3Q GDP data also revised downwards, US interest rates fell and the pair tumbled to around 142 yen.

With overseas markets on holiday over December 25–26, the pair moved with a lack of direction around the mid-142 yen level. On December 27, the pair temporarily weakened to the upper-141 yen mark on sliding US interest rates, though it moved firmly thereafter. The previous day's dollar selling spilled over into December 28, with the pair slipping to a monthly low of 140.27 yen for a time, though it then bounced back to the 141 yen level. On December 29, the end-of-month real-demand flow pushed the pair to the upper-141 yen level. The pair dropped to the 140 yen level during overseas trading time, though it subsequently closed the month trading around 141 yen.

Speculation that the BOJ would soon abolish negative interest rates faded on January 1 after a major earthquake struck Japan's Noto Peninsula. With US interest rates also rising, the currency pair rose to the upper-143 yen mark on January 4.

2. Outlook for This Month

The dollar/yen pair is likely to trend lower in January.

Late 2023 saw a surge in speculation about BOJ and FRB policy shifts, with the dollar sold and the yen bought. This trend looks set to continue on the whole, with discussions about the policy shift likely to flare up around the start of the year in particular. A lot will depend on the results of major US indicators released early January, such as the December employment data (released January 5) and the December CPI data (release January 11), but there could be speculation that the FOMC might discuss the specific timing of rate cuts when it meets over January 30–31 FOMC, with the markets also potentially pricing in a faster pace of 2024 rate cuts too. As such, it seems the greenback will continue to be sold, principally on falling US interest rates. January will see a number of other dollar-selling factors too. US real estate conditions are moving bearishly, with the labor market also growing looser and investors likely to focus on the risk of a recession in the US, for example. There will also be political turmoil ahead of the US presidential election. Furthermore, at the start of the year, market participants will probably focus on chaos surrounding the impending stopgap bill deadline.

In Japan, meanwhile, the BOJ's Monetary Policy Committee (MPC) will be meeting over January 22–23. In December, BOJ Deputy Governor Ryozo Himino touched on the possibility that any policy shift would only have limited side effects. BOJ Governor Kazuo Ueda's comments about the "challenging" situation also led to a surge in market expectations for an early scrapping of negative interest rates. However, several officials then poured cold water on these expectations. The BOJ also left its accommodative policy unchanged when it met in December, while Mr. Ueda remained in dovish mode in his press conference, so the yen then moved bearishly. Investors will need to monitor the scale of the damage caused by the earthquake that struck Japan's Noto Peninsula on January 1, but expectations for an early lifting of negative interest rates are receding. However, the current data suggests inflation remains high in Japan, with inflation also likely to move firmly going forward on inbound consumption and rising wages. As such, it seems likely the BOJ will scrap negative interest rates and YCC within 2024. This writer believes this will essentially start to happen from June, after the BOJ has some more solid data, including the results of the spring wage negotiations and the BOJ's second broad perspective review to be held in May. Market participants are focusing on the BOJ's next move, with sentiments likely to be swayed by every utterance made by the BOJ from the first meeting of 2024 onwards. As such, if the dollar is sold against the yen on concerns about the yen's upwards momentum, this could lead to even more selling, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the dollar	7 bulls	146.00 – 141.00	Bearish on the dollar	9 bears	145.00 – 139.00

* Ranges are central values

Miyachi	Bear	145.50 – 138.50	The FRB's hawkish stance is easing and a major turning point seems to be looming. Yen short positions have already built up substantially as investors use the yen for carry trades. As such, the dollar/yen pair will probably move with a heavy topside this month.
Kawai	Bull	146.00 – 142.00	The minutes to the FOMC meeting will be released early January, with investors expecting the FOMC to keep its restrictive policies in place for now. There is also growing speculation that the BOJ will postpone any policy shift. There is also likely to be a backlash to the yen's sharp rise in December. As such, the dollar/yen pair looks set to move firmly in January.
Kawabata	Bear	145.00 – 140.00	Expectations for cooling inflation have risen after the release of the CPI data in December. Depending on the results of economic indicators, the trend of dollar bullishness might be unwound as the markets price in the prospect of FRB rate cuts. There could be some speed adjustment too, with investors likely to continue selling back the dollar/yen pair.
Kato	Bull	145.00 – 140.00	There will be some adjustive dollar buying in January. Some foreign investors are expecting the BOJ to take some action in January based on the Japanese political schedule going forward, but the target for both the government and the BOJ will probably be the spring wage negotiations.
Yamazaki	Bear	144.00 – 139.00	The dollar/yen pair will trend lower in January. As investors focus on falling US interest rates, the yen will rise on dollar weakness. The likelihood of a BOJ policy shift is unlikely to rise for the time being, with downward pressure also likely to be limited.
Ito	Bear	145.00 – 140.00	Expectations for an early BOJ policy shift receded following the shock earthquake that hit Japan's Hokuriku region, with the yen sold from the start of the year. However, speculation will gradually grow about the BOJ scrapping negative interest rates in the wake of the spring wage negotiations. As investors focus on US rate cuts, the dollar/yen pair looks set to continue trading with a heavy topside.
Omi	Bull	146.00 – 141.00	The US will probably keep policy rates high this month, with the BOJ also likely to remain in easing mode. Given this, it seems the dollar will move bullishly and the yen bearishly. However, the pair's topside will be capped by speculation about US rate cuts.
Yamaguchi	Bear	145.00 – 139.00	The dollar/yen pair will continue to be swayed by speculation about US and Japanese monetary policy. With labor supply and demand tightness easing and inflation slowing in the US, investors are pricing in rate cuts, with the greenback likely to remain bearish in January. Meanwhile, the BOJ will probably steer policy with an eye on the damage caused by the huge earthquake that struck Japan's Noto Peninsula.
Matsunaga	Bull	146.00 – 141.50	In the US, the economy is moving firmly and inflation has still not cooled enough. Given this, it seems unlikely to FRB will rush heedlessly toward cutting rates. As market expectations for rate cuts wane, the dollar/yen pair is likely to bounce back.
Tagawa	Bull	148.00 – 141.00	With a major earthquake also occurring, it seems less likely that the BOJ will scrap negative interest rates when it meets in January. Quite a few foreign investors and so on are expecting the BOJ to do away with negative interest rates this month, so the yen will probably fall when these expectations wane.
Katoono	Bear	145.00 – 138.00	At the start of the year, market themes will probably include BOJ and FRB policy shifts and the growing risk of a recession in the US. On the whole, the yen will probably face upwards pressure as Japanese/US interest-rate differentials shrink.

Kobayashi	Bear	145.00 – 137.00	With more investors pricing in US rate cuts and with US interest rates falling, the dollar/yen pair fell to the 141 yen level. Market participants will continue to test the pair's downside in January too as they anticipate US rate cuts and a shift in BOJ monetary policy.
Suzuki	Bear	146.00 – 138.00	Expectations for a BOJ policy shift are waning in the wake of the Noto Peninsula earthquake. In the long run, though, it seems the main theme will remain shrinking Japanese/US interest-rate differentials. The dollar/yen pair will move with a heavy topside amid start-of-year flows.
Okuma	Bull	146.00 – 141.00	There is a growing sense that it is too early to expect FRB rate cuts. With US stocks also moving firmly, the dollar/yen pair will grow firmer. The yen will probably be sold on a growing sense that the BOJ will keep policy loose for a prolonged period, so the currency pair will move firmly this month.
Nishi	Bear	145.00 – 140.00	Though expectations for a BOJ policy shift have waned in the wake of the Noto Peninsula earthquake, the US economy is showing signs of both weakness and strength. Expectations for a BOJ policy shift will gradually rise again if it seems Japan has achieved a virtuous cycle of prices and wages. With investors also likely to focus on US rate cuts, the dollar/yen pair will move with a heavy topside.
Ito (Motoi)	Bull	145.00 – 139.00	US interest rates trended lower entering December, but there is a sense this trend has gone a little too far, so there will probably be some unwinding in January. The likelihood of the BOJ scrapping negative interest rates this fiscal year has also fallen in the wake of the recent earthquake. Under these circumstances, the dollar/yen pair will probably rise this month.

Junya Tagawa, Global FI Team, Global Markets Trading Department

Euro – January 2024

Expected Ranges **Against the US$: US$1.0750–1.1250**
Against the yen: JPY153.50–160.00

1. Review of the Previous Month

[The euro/dollar pair fell in December before rising thereafter]

After opening December trading at $1.0895, the euro/dollar pair underwent a gentle slide. Investors were apparently focused on the pair's 200-day moving average around $1.0820, but the pair then dropped below this level after an ECB official ruled out further rate hikes. The pair then broke below $1.0800 as the markets priced in rate cuts. The president of the Latvian central bank then poured cold water on these moves when he said rate cuts would not be necessary in the first half of 2024, so the pair rallied for a time, though it then hit a monthly low of $1.0724 during US trading time on December 8.

In the second week, the pair moved flatly ahead of the FOMC meeting, though the dollar then fell across the board on the dovish results of the meeting. The euro/dollar pair subsequently strengthened to the $1.0900 level. The ECB dropped no hints about rate cuts at its closely-watched meeting, so the euro rose sharply. The currency pair topped the key $1.1000 mark at one point. A sense of achievement prevailed toward the weekend, with the pair also adjusted down to the $1.0900 level on falling German interest rates.

The pair moved with a heavy topside in the third week on the worse-than-expected result of Germany's December IFO Business Climate Index, though the pair edged higher thereafter. The greenback was comprehensively sold in the latter half of the week, so the euro/dollar pair climbed back to $1.1000.

The last week saw thin trading related to the end of the year, so the pair moved flatly. Despite a dearth of noteworthy factors at the month's end, the pair broke above $1.1100 for the first time since July. On December 28, the pair hit a monthly high of $1.1139. There was some adjustment at the year's end, with the pair ending 2023 trading at $1.1038.

2. Outlook for This Month

[The euro/dollar pair is expected to move flatly in January]

The ECB has kept rates fixed for two straight meetings. This was as expected, but investors were surprised by the absence of any signs of rate cuts. This still marked a contrast with the FRB, which has dropped hints about rate cuts while keeping rates unchanged, with the forex markets reacting by buying the euro against the greenback.

In contrast to the ECB's announcement, though, the OIS market has totally priced in a rate cut by the April meeting this year, with bets on two rate cuts also standing at around 50%. There are unlikely to be even more moves to price in rate cuts this upcoming month, with the focus instead shifting to whether these expectations for rate cuts recede.

There are several reasons for these deep-rooted expectations for rate cuts. For a start, inflation has peaked out in the eurozone. Furthermore, economic sentiments are deteriorating swiftly, with market participants simply taking this to mean that the eurozone's economy is slowing. Under these circumstances, rate-cut expectations are unlikely to fade away. If they remain in place, the euro/dollar pair's level is unlikely to shift significantly. It is a cliché, but a lot will depend on the data.

The impact of the dollar's movements will also be key. The pair will also be swayed by speculation about whether the ECB or FRB will lift rates first.

Dealers' Market Forecast

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

Bullish on the euro	11 bulls	1.1250 – 1.0800	Bearish on the euro	5 bears	1.1200 – 1.0700

* Ranges are central values

Miyachi	Bull	1.1200 – 1.0800	The FRB's monetary policy shift will be a major turning point for the markets. The dollar will be susceptible to selling on the whole. However, economic sentiments are moving weakly in the eurozone, so the euro/dollar pair's room on the topside will be capped.
Kawai	Bear	1.1100 – 1.0700	The ECB president has declared that interest rates will remain fixed for now. When the minutes to the FOMC meeting were released at the start of the year, they also hinted that the FRB's restrictive policy stance will remain unchanged for the time being. The euro/dollar pair will move in a range on this lack of a broad direction for European/US interest-rate differentials, with the pair likely to move with a slightly bearish tone.
Kawabata	Bull	1.1200 – 1.0700	Inflation is noticeably slowing in the eurozone, but the ECB remained on guard against inflation when it met in December and it clearly ruled out any discussion about rate cuts, with expectations for rate cuts receding compared to the dollar. A lot will depend on the inflation indicators released at the start of the month, but the euro/dollar pair will probably move in a range with a bullish tone.
Kato	Bear	1.1250 – 1.0800	The euro/dollar pair will face some adjustment in January. The dollar has been sold on a growing sense of a gap between the US and Europe, but this seems to have gone too far in December and it seems the greenback has been oversold against the euro, so the markets will see some adjustment this month.
Yamazaki	Bull	1.1250 – 0.0800	The euro/dollar pair will trend upwards in January. The euro has risen since October. This trend looks set to continue on sliding US long-term interest rates and the US policy rate outlook. Investors will try pushing the pair to around $1.125.
Ito	Bull	1.1200 – 0.0800	The eurozone economy is slowing and several PMIs have deteriorated, so the euro/dollar pair is unlikely to rise sharply. However, the euro will be swayed by the strength and weakness of the dollar, with the pair's topside likely to test $1.12 on dollar selling.
Omi	Bull	1.1300 – 1.0800	Expectations for ECB rate cuts are fading and speculation is growing about FRB rate cuts, so the euro/dollar pair is likely to continue moving firmly. However, the pair seems swayed by speculation about ECB and FRB rate cuts and it will be buffeted by comments made by each bank's officials.
Yamaguchi	Bull	1.1200 – 1.0800	The ECB remains in hawkish mode, despite signs of an economic slowdown. In the US, meanwhile, expectations are growing for intermittent rate cuts. As such, the euro will remain susceptible to buying against the dollar. However, the euro will be sold if the eurozone economy deteriorates by more than expected, so caution will be needed.
Matsunaga	Bear	1.1200 – 1.0750	The euro/dollar pair was bought in December on expectations for FRB rate cuts, but further euro buying seems unlikely given the Europe's economic situation. The pair will move with a heavy topside unless the fundamentals improve significantly.
Tagawa	Bull	1.1250 – 1.0750	The euro/dollar pair will move flatly on the whole. The euro will rise if the ECB rules out any rate cuts and when expectations for rate cuts wane.
Katoono	Bull	1.1250 – 1.0900	There are many concerning factors about the future of the European economy. However, the FOMC is expected to drop hints about early rate cuts when it meets at the end of January. The ECB will be meeting before then and it will probably maintain its hawkish stance. All this will emphasize the contrast between the US and Europe, so the euro/dollar pair will probably have room to rise in the short term.

Kobayashi	Bear	1.1250 – 1.0700	The euro/dollar pair rose to the $1.11 level in December on falling US interest rates. In January, the pair will continue to be swayed by shifts in expectations for US rate cuts. However, investors will find it hard to actively buy the euro given the weakness of the European economy, so the pair will probably hover at highs.
Suzuki	Bull	1.1250 – 1.0700	There are deep-rooted concerns about the eurozone economy, so the euro/dollar pair's room on the topside will be capped. However, the dollar will continue to slide on expectations for early rate cuts in the US. This will probably push the currency pair higher.
Okuma	Bear	1.1100 – 1.0700	The ECB remains in hawkish mode, but the euro/dollar pair will move heavily as the temporary surge in expectations for early FRB rate cuts calms down. The pair's topside will remain heavy given the growing speculation about rate cuts on Europe's slowing economy.
Nishi	Bull	1.1200 – 1.0700	ECB President Christine Lagarde has said interest rates will be kept fixed for several quarters, so the euro will probably move firmly against the dollar. However, the euro/dollar pair's topside will be weighed down by the deteriorating real economy.
Ito (Motoi)	Bull	1.1300 – 1.0800	Economic momentum is waning in the US and there is increasingly less need for the FRB to maintain policy rates at high levels. However, early rate cuts seem unlikely in Europe given the persistent inflationary pressures there. As such, the euro/dollar pair will probably rise this month.

Masayuki Nakajima, Europe Treasury Department

British Pound – January 2024

Expected Ranges **Against the US$: US$1.2500–1.2900**
Against the yen: JPY178.50–185.00

1. Review of the Previous Month

In December, the GBP/USD pair rose by +0.8%, up from $1.2627 at the end of November to $1.2726 by the end of December. This was the second straight month the pair had risen. The pair fell at the start of the month, though it then rallied sharply on the dovish FOMC meeting.

The pair weakened in the first week. Its record gains from November onwards were pared back slightly. The pair continued sliding in the week beginning December 4. The US November employment data was released on December 8. The unemployment rate fell further and wages rose at a faster pace, with expectations for early US rate cuts fading on the strength of the US economy.

The pair rebounded sharply in the second week. In his press conference after the FOMC meeting, FRB Chair Jerome Powell let slip that the FOMC had discussed the timing of rate cuts. With the FOMC seemingly shifting in a dovish direction, the dollar fell across the globe. The BOE's Monetary Policy Committee (MPC) kept its policy rate fixed at a 15-year high of 5.25% when it met on December 14. As with the previous month, three members had called for rate hikes (with six members supporting the status quo), with the BOE's statement continuing to insist that "monetary policy will need to be sufficiently restrictive for sufficiently long" to keep inflation in check. This marked a stark contrast with the FOMC's hints about 2024 rate cuts, with the GBP/USD pair then rising at a faster pace. The UK December preliminary Services PMI was released on December 15. At 52.7, the figure was up sharply on November's 50.9, with this also supporting the pound.

The pair jostled up and down in the third week, though it essentially moved flatly. The UK November CPI data was released on December 20. The data was down sharply on both a m-o-m and y-o-y basis, with the markets then focusing on waning inflationary pressures. The final UK 3Q GDP data was then released on December 22. The figure was down -0.1% on the previous quarter. This marked a downgrade on the preliminary figure, which had pointed to flat growth, with concerns about a UK economic slowdown then rising. However, the greenback also weakened on falling US interest rates, so the GBP/USD pair moved firmly.

With the dollar moving bearishly in the fourth week, the currency pair rose to the $1.28 level for the first time since August 2023, though it then dipped slightly toward the year's end.

2. Outlook for This Month

A glance at the GDP/USD pair's movements over the next 6 to 12 months suggests the pair will continue to strengthen as the greenback slides and US interest rates fall as the markets continue to focus on the possibility of a shift to rate cuts in the US. In January, though, there could be some unwinding to the trend of falling US interest rates and dollar bearishness that occurred after the FOMC's dovish shift in December, so caution will be needed.

As for UK factors, investors will focus on the employment-related data released on January 16 and the December

CPI data released on January 17. The November CPI data and 3Q GDP figure both dipped on their respective releases in December, with the BOE's policy focus likely to shift from high inflation to an economic slowdown. As with other developed nations, the key to controlling inflation lies in restraining services inflation and keeping a lid on strong wage growth. If the aforementioned data turns out to be weak, expectations may well grow for an early BOE rate cut. The BOE's next monetary policy announcement will take place on February 1.

Even if market speculation grows about early BOE rate cuts, it is doubtful that the BOE will actually go ahead with rate cut any time soon. UK wage growth is gradually slowing, though it still remains high compared to other major developed nations and regions. This is probably due to Brexit and the fact that services form a major part of the UK economy. The BOE will not easily abandon its hawkish stance, though it will be keeping an eye on the risk of an economic slowdown.

The GBP/JPY pair's movements will be shaped by those of the USD/JPY pair, though sterling is likely to move firmly against the yen. The greenback has moved bearishly across the globe, with the USD/JPY pair also falling sharply in December on speculation that the BOJ will scrap negative interest rates. However, the BOJ seems unlikely to shift its monetary policy any time soon given the results of the December meeting and the earthquake that struck Japan's Noto Peninsula early January.

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

Australian Dollar – January 2024

Expected Ranges **Against the US$: US$0.6500–0.6950**
Against the yen: JPY93.70–98.60

1. Review of the Previous Month

Expectations for US rate cuts in 2024 grew early December after FRB Chair Jerome Powell said that "the risks of under- and over-tightening are becoming more balanced." As US treasury yields fell, the greenback was sold and the AUD/USD pair strengthened to $0.6670. However, China's credit rating outlook was then downgraded, while the RBA's statement was also read as dovish. With the US November employment data also pointing to the firmness of the US economy and with China's November CPI figure falling to its lowest level in three years, the currency pair weakened to trade around $0.65 until December 13.

The pair climbed from the upper-$0.66 level to the upper-$0.68 handle in the latter half of the month. The FOMC unanimously decided to keep policy rates fixed when it met on December 13. The FOMC's outlook for interest rates and the economy also suggested that tightening would soon end, with rate cuts set to start in 2024, with US interest rates falling sharply as a result. The pair subsequently rose to around $0.6660. The Australian November employment data was released on December 14. The unemployment rate had risen to 3.9% on rising labor participation rates, but the number of people in work had soared, mainly due to a rise in full-time jobs, with the data pointing to the firmness of Australia's employment situation. This saw the pair temporarily hitting the $0.67 range. The RMB was bought on December 15 as China's November industrial production data grew at a faster pace to beat expectations. The Australian dollar was also pulled higher, with the AUD/USD pair rising to around $0.6730.

The minutes to the RBA meeting were released on December 19 and they revealed the RBA had discussed selling its government bond holdings before maturity, with the currency pair edging higher as a result. The USD/JPY pair then rocketed to around 97.60 yen for a time after the Bank of Japan (BOJ) Monetary Policy Committee (MPC) stuck to its easing stance, though the impact on the AUD/USD pair was muted. Richmond FRB President Tom Barkin then hinted that the US financial authorities might implement rate cuts if current inflation trends continued. As US treasury yields fell slightly, the currency pair strengthened to the upper-$0.67 level. As expected, the People's Bank of China kept 1-year and 5-year loan prime rates fixed on December 20, with the Australian dollar moving firmly as a result. The US 3Q GDP figure was downgraded to +4.9% q-o-q on December 21. This was down on prior forecasts, so the greenback was sold and the AUD/USD pair's topside was pushed up to around $0.68.

Investors refrained from any active trading ahead of the Christmas holidays. During this time, the US released a worse-than-expected November consumer spending figure and PCE Core Deflator, for example. The US dollar was subsequently sold, with the currency pair climbing to the $0.68 range. With trading thin on the ground after Christmas, the Dollar Index fell as US treasury yields dipped on strong demand at an auction of US treasuries. With the US S&P500 also approaching record highs, the currency pair was buoyed to the upper-$0.68 level to close the year trading at $0.6818.

2. Outlook for This Month

The AUD/USD pair's movements in December were generally shaped by US interest rates. When it met on December 13, the FOMC kept policy rates fixed. In his press conference, meanwhile, FRB Chair Jerome Powell hinted that rate cuts were beginning to "come into view." As US interest rates fell toward the end of the year, the greenback was sold and stocks rose, with the AUD/USD pair also rallying as a result.

Investors are expecting the US to implement at least once rate cut by May this year. This prognosis is not dramatically different from the prognosis held last year. When it comes to Australian policy rates, though, the markets are now pricing in a rate cut of around 25bp by June and it seems forecasts about the timing of rate cuts are gradually being brought forward. If events move in line with these expectations, US/Australian interest-rate differentials may only shrink slightly. As such, the facts that emerged recently suggest the AUD/USD pair will probably move in a range in January.

On the technical front, on December 28 the Demark of the TD Sequential (an indicator that gives hints about market turning points) hit a 13 indication, with the AUD/USD pair moving bearishly from the start of the year onwards. The short-term trend might also shift going forward, so investors will need to pay attention to indicators released in January, including the US December ADP National Employment Report (Thursday, January 4), the US December employment data (Friday, January 5), the Australian November CPI indicator (Wednesday, January 10), the US December CPI data (Thursday, January 11), and the Australian December employment data (Thursday, January 18). The November US employment data was impacted by a special factor, namely the conclusion of the strike by the United Auto Workers, with employment rising and the unemployment rate falling. However, average hourly wages continued to slide on a y-o-y basis, with the data confirming that labor market conditions were gently slowing. This trend will probably continue in the US December employment data, with this likely to support the trend of falling US interest rates. Australia's October CPI data fell sharply, mainly due to sliding gasoline prices. However, goods often account for a large proportion of sales in the first month of each quarter, so service price trends were probably not reflected much in the October data. In fact, the monthly CPI data may give a distorted picture compared to the averaged quarterly data. As such, investors should pay attention to the 4Q CPI data on its release on Wednesday, January 31. If services prices have not fallen by as much as expected, expectations for Australian rate cuts might be pushed back to the latter half of the year, with this likely to support the AUD/USD pair's downside.

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

Canadian Dollar – January 2024

Expected Ranges **Against the US$: C$1.3000–1.3700**
Against the yen: JPY103.00–109.00

1. Review of the Previous Month

The USD/CAD pair moved around C$1.36 at the end of November. The greenback was then sold on December on the growing likelihood of US rate cuts in 2024. The pair temporarily dropped below C$1.32 at the month's end, with the US dollar moving bearishly and the Canadian dollar bullishly. Canada's November employment data was released early December. Though the unemployment rate had deteriorated by 0.1Pt, the number of employees had risen so the currency pair fell slightly. However, at its meeting on November 30, OPEC+ had predicted that the global economy would slow in 2024, with WTI futures falling further on concerns about excess supply, so the greenback was bought back. As expected, the Bank of Canada (BOC) kept its policy rate fixed at 5% when it met on December 6, with its statement mentioning that "the economy is no longer in excess demand."

The US November CPI data was released mid-December and it suggested more time might be needed before inflation returned to the 2% path. As expected, the FOMC kept the ceiling of its policy rate fixed at 5.50% when it met on December 13. There was no discussion about further rate hikes, with the US dollar sold when FRB Chair Jerome Powell mentioned that the FOMC had discussed scaling back its tightening. The Canadian November CPI data then released. The data was unchanged on October and was up on expectations, with the USD/CAD pair then sliding to the lower-C$1.33 level.

The Canadian October retail sales data was released late December, with the headline and core figures both up on the previous month. The US 3Q GDP data and a price indicator were released on the same day, with growth slowing on the previous quarter in both cases. Investors continued to sell the greenback as a result, with the currency pair falling below C$1.33. Canada's October GDP data was released on December 22, with the m-o-m and y-o-y figures both down on expectations. However, the US November PCE Core Deflator was also down on a m-o-m and y-o-y basis and also below expectations, so investors continued to sell the US dollar and buy the Canadian dollar. With WTI futures rising on December 27, the USD/CAD pair temporarily hit a 5-month low of C$1.3177. However, there was a growing sense at the month's end that the Canadian dollar had been over-bought. With US long-term interest rates also rising, the greenback was bought back and the pair returned to the mid-C$1.32 mark.

2. Outlook for This Month

As expected, the BOC and FRB both left their policy rates fixed when they met in December. There were a few factors behind the BOC's decision. Policy rates had clearly restrained spending and had prompted an economic slowdown, with all this leading to a broader decline in inflationary pressures. Market expectations for further BOC and FRB rate hikes have totally disappeared, with investors forecasting rate cuts as early as March 2024 for the US and April for Canada (as of December 29).

US economic trends will continue to play a major role this month, with investors watching in particular to see if the conditions fall in place for US rate cuts (namely an ongoing fall in inflation and a growth slowdown).

In a speech at the end of 2023, meanwhile, BOC Governor Tiff Macklem said it was still too early to start discussing rate cuts. In all respects, though, the Canadian economy is one step ahead of the US economy in the sense it is already slowing. As such, even if the US releases some bearish economic indicators in January, any Canadian dollar bullishness will be restrained by the stalling Canadian economy.

With regards to the USD/CAD pair, investors should focus on a topside of C$1.3700 and whether the pair will drop below its 2023 low of C$1.3093.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – January 2024

Expected Ranges **Against the US$: KRW 1,260–1,330**
Against the yen: JPY 10.64–11.24 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose in the first half of December, though it fell after the FOMC meeting, with the pair mainly swayed by speculation about US monetary policy. The pair opened the month trading at KRW1300.0. It then moved firmly as US interest rates rose on hawkish comments by FRB officials.

The pair continued moving firmly the following week. It was supported by real-demand dollar buying at the start of the month, with the greenback also bought on risk aversion as concerns about the global economy grew after the US released some bearish employment-related data. The pair temporarily hit a monthly high of KRW1327.2 on December 7. However, BOJ Governor Kazuo Ueda then said the BOJ would face an "even more challenging" monetary policy situation around the turn of the year, with the yen bought during overseas trading time toward December 8. The won was also bought, with the USD/KRW pair sliding to KRW1306.

The pair moved firmly the following week on concerns about the impended US CPI data and FOMC meeting. It mainly traded in the KRW1310 range. The US CPI data was broadly in line with expectations, so the impact on the markets was minimal. The FOMC meeting on December 13 was surprisingly dovish, with US interest rates falling as a result. The USD/KRW pair plummeted the day after to temporarily hit KRW1290.

In the following week, the pair moved in a range around KRW1300. The yen fell after the Bank of Japan (BOJ) met to set policy on December 19, with the USD/KRW pair also pulled up to KRW1309, though its topside was capped. With the year's major events now out of the way, the pair continued moving with a lack of direction on real-demand flows. After Christmas, the pair stayed in a range around KRW1300 in the final week, though it then weakened on falling US interest rates on December 28. The dollar was sold and the won bought by exporters at the year's end, with the currency pair temporarily hitting a monthly low of KRW1286.3. In the end, the pair closed the month at KRW1288.0, down 2.1 won on the end of November.

2. Outlook for This Month

The USD/KRW pair is expected to trade with a heavy topside in January.

The pair's topside grew heavy in December when expectations for US rate cuts rose after the FOMC meeting. With US interest rates facing downward pressure, in January the pair will continue to be swayed by expectations for early US rate cuts and a soft landing for the US economy, with the pair likely to remain bearish.

South Korea's November trade balance was in the black for the sixth straight month. At $55.8 billion, exports were up 7.8% y-o-y. Exports saw positive growth for the second straight month and they also set a new high for the year on a monthly basis. Exports of semiconductors (South Korea's main export item) returned to positive growth for the first time since August 2022, with 12 of 15 South Korea's major export items up on the same month last year. As this data shows, exports are clearly bouncing back. South Korean stocks also moved firmly toward the year's end, with KOSPI returning to the 2,600 mark for the first time in around three months. Won buying will be supported by bullish stocks and fund inflows from overseas investors.

As mentioned above, the main overseas factors will be expectations for early US rate cuts and falling US interest rates, with US/South Korea interest-rate differentials set to shrink in January too. With dollar-buying factors thin on the ground, the USD/KRW pair will move with a heavy topside in January.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – January 2024

Expected Ranges	**Against the US$: NT$30.10–31.10**
	Against the yen: JPY4.50–4.65

1. Review of the Previous Month

The USD/TWD pair fell in December.

The pair opened the month trading at TWD31.320 on December 1. As US hi-tech stocks continued to fall, Taiwanese stocks also moved heavily on the topside on selling by overseas investors, with the Taiwan dollar sold as a result. Taiwan's November CPI data was released on December 7 and it was down on the previous month, with the Taiwan dollar sold further and the currency pair climbing to TWD31.561 for a time.

When the FOMC met on December 13, it downgraded its outlook for the federal funds rate from 2024 onwards. In his press conference, meanwhile, FRB Chair Jerome Powell said the FOMC had begun discussions about the timing of rate cuts. All this saw US interest rates falling sharply. The greenback was sold across the globe, with the USD/TWD pair dropping below TWD31.30. As Taiwanese stocks moved firmly on sliding US interest rates, the Taiwan dollar faced buying pressure, with the currency pair weakening to around TWD31.20.

The final US 3Q GDP data was released on December 21 and it was down on the preliminary data. With Philadelphia FRB President Patrick T. Harker also saying the FRB had taken a positive view of rate cuts, US interest rates fell at a faster pace. The greenback faced more selling pressure, with the USD/TWD pair dropping below TWD31.20. With the Taiwan Capitalization Weighted Stock Index then renewing a 2023 high, more overseas investors bought Taiwanese stocks. Exporters also sold the US dollar before the end of the quarter, with the currency pair temporarily dropping to TWD30.641. The pair then moved with a heavy topside to float around TWD30.70 towards the month's end.

2. Outlook for This Month

The USD/TWD pair is expected to fall in January.

Expectations for US rate cuts from 2024 onwards grew in December, with US interest rates then falling sharply. The US dollar was subsequently sold across the globe, with the USD/TWD pair plummeting too. Furthermore, as US hi-tech stocks rose, Taiwanese stocks were pulled higher to renew highs for the year, with overseas investors pumping more funds into Taiwan. With the dollar also sold by exporters at the end of the quarter, the currency pair moved heavily and it fluctuated lower.

The pair looks set to fall further in January. Amid expectations that the US will cut rates in the near future, US interest rates will face downward pressure, with US/Taiwan interest-rate differentials likely to shrink. This will probably place more selling pressure on the greenback. Furthermore, Taiwan is expected to post firm export growth in the first quarter of 2024, so the US dollar will face pressure from real-demand selling by exporters. If Taiwanese stocks climb higher on falling US interest rates, overseas investors will probably pour more funds into Taiwan, with the Taiwan dollar facing more buying pressure as a result. A closely-watched Taiwanese general election will be held in January. Uncertainty will probably fade once this key event is out of the way, with risk sentiments likely to improve thereafter. The USD/TWD pair will be susceptible to downswings on the whole.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – January 2024

Expected Ranges **Against the US$: HK$ 7.7800–7.8200**
Against the yen: JPY 17.50–18.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in December

The HKD spot whipsawed at near 7.8 handle, as the Fed confirmed to kick off its rate cut cycle next year. Subsequently, interest rate future market is pricing in Fed's aggressive rate cuts in 2024, with the first rate cut to come as soon as in March. However, the HKD forward curve reversed to move lower given uncertainties over the timing of HKMA's liquidity injection via the FX intervention at 7.75 level. Dramatically the 1Y HKD forward points dropped to below -500 points. Moreover, the year-end HKD liquidity squeeze did not materialize and the HKD spot was settling at 7.81 level in the absence of carry trade flow. The equity inflow to HK markets were not encouraging as China and HK stock markets are set to become the worst performers around the world this year. IPO activities remained subdued in the last month of this year. Despite the Fed's dovish shift, there was no relief in the HK property market, with the Centa-City Leading (CCL) Index sliding to its 6.5 year low. The HK property transaction volume remained low after the partial property purchase tax cut in October.

Hong Kong dollar interest rate market in December

HKD interest rates peaked out on Fed's dovish shift and fading year-end seasonality. With the Fed to begin its rate cut cycle as soon as in March, 3-month HKD HIBOR dropped more heavily to near 5.2% compared to the 1-month tenor, resulting in a 1x3mth HIBOR discount at near -20bps. With the HKD spot fluctuating at near 7.8, HK aggregate balance held steady at near HKD 45bn. HK banks ramped up the usage of the discount window facilities due to thin liquidity conditions at year-end, while overnight HKD HIBOR remained capped below 5%. HKD IRS curve tracked lower on the USD IRS as the Fed signaled to enter its rate cut cycle next year. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) jumped to more than +170bps on HKD IRS curve dropped faster than the declining 3-month HKD HIBOR.

2. Outlook for This Month

Hong Kong dollar spot exchange market in January

We expect the HKD spot to fluctuate near the mid-point of its trading band for some time. In our view, the HKD is not likely to appreciate to its strong-side convertibility undertaking of 7.75 level immediately at the timing of Fed's first rate cut. Looking back to the Fed's rate cut cycle in 2019, the HKD spot rallied to the strong half of its trading band sustainably only after 3 rounds of Fed's rate cut and eventually strengthened to 7.75 following the Fed's emergency rate cut due to the Covid outbreak. Even considering the negative impact from the social unrest in HK on the HKD during 2019, a gradual HKD appreciation is more likely amid Fed's insurance rate cut cycle. As the Fed has been preparing to ease currently, we look for an insurance rate cut cycle in 2024 and the HKD appreciation should prove to be gradual. While foreign investors remain cautious on Chinese and HK investments, the return of strong capital inflow amid Fed's rate cut cycle is unlikely.

Hong Kong dollar interest rate market in January

HKD rates will likely track lower with USD rates as the Fed confirms its policy pivot to a rate cut cycle. As the Fed's rate cut could come as soon as March, the 3-month HKD HIBOR is more heavily driven by the Fed's rate cut expectation and is trading at discount against its 1-month tenor. In the midst of Fed's insurance rate cut cycle, the HKD spot is not likely to touch its strong-side convertibility undertaking of 7.75 level soon and hence the HK aggregate balance is expected to remain unchanged at lows for a while. Considering the HK economic downturn and the sluggish property market, the soft loan demand will likely add downward pressure on HKD rates. The HKD IRS curve will likely drop in the Fed's rate cut cycle.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – January 2024

Expected Ranges **Against the US$: CNY 6.9000–7.2000**
Against the yen: JPY 19.03–21.16

1. Review of the Previous Month

In December, the U.S. dollar/Chinese yuan exchange rate fell slightly.

On December 1, the U.S. dollar/Chinese yuan exchange market opened trading at CNY 7.1340. On December 4, the U.S. dollar strengthened to offset the depreciation of the U.S. dollar observed from the previous weekend. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.14 level. On December 5, a major U.S. ratings company downgraded the rating outlook for China, and this weakened the Chinese yuan mainly in the offshore exchange market. In reaction, the U.S. dollar/Chinese yuan exchange rate rose also in the onshore exchange market, reaching the CNY 7.16 level on December 6. On December 7, market participants bought the Chinese yuan, and this kept the U.S. dollar/Chinese yuan exchange rate from rising further from the lower-CNY 7.16 level. In the afternoon of the same day, expectations grew for the Bank of Japan to modify its policy for monetary easing, and this encouraged market participants to actively buy the Japanese yen. Following this trend, the U.S. dollar depreciated, and the U.S. dollar/Chinese yuan exchange rate fell to temporarily reach the CNY 7.14 level.

Thereafter, market participants kept a wait-and-see attitude, as a Federal Open Market Committee (FOMC) meeting was approaching. On December 13, the FOMC meeting was held, confirming the increasingly dovish attitude of the FOMC. As a result, interest rates fell in the U.S., and the U.S. dollar depreciated. On December 14, the following day, the U.S. dollar/Chinese yuan onshore exchange market opened at the lower-CNY 7.13 level, after which the exchange rate fell to temporarily approach the CNY 7.10 level.

Toward December 19, the U.S. dollar/Chinese yuan exchange rate rose to the upper-CNY 7.14 level. However, on the same day during overseas trading hours, a Federal Reserve Board (FRB) official made a dovish remark, which led interest rates in the U.S. to fall, encouraging market participants to sell the U.S. dollar. As a consequence, the U.S. dollar/Chinese yuan exchange rate fell sharply to the CNY 7.11 level. Thereafter, the media reported that a major bank would cut its deposit interest rate, as a result of which the U.S. dollar/Chinese yuan exchange rate remained high, approaching the CNY 7.15 level. However, toward the end of the year, interest rates in the U.S. fell, and some market participants bought the Chinese yuan based on actual demand. Thus, the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.11 level again.

2. Outlook for This Month

The U.S. dollar/Chinese yuan exchange rate is forecast to remain low in January.

At China's Central Economic Work Conference held in December, the "moderate monetary policy" was maintained based on "seeking progress while maintaining stability"—a key principle. With regard to foreign-exchange rates as well, the main stance was to maintain "a reasonable and balanced level." Under such circumstances, it is difficult to expect the People's Bank of China (PBOC) to rely on interest rate cuts as a means to support the economy. The Chinese yuan is no longer significantly weaker than the PBOC central parity rate. However, the PBOC still tends to set the central parity rate with a stronger Chinese yuan than the market estimate. This suggests that the Chinese monetary authorities are still cautious about downward pressure on the Chinese yuan. Thus, the Chinese monetary authorities are likely to carry out fiscal and monetary policy without significantly impacting the Chinese yuan exchange market, by providing liquidity through measures such as the MLF (medium-term lending facility) and the Pledged Supplementary Lending (PSL). Because the policy interest rate hikes in the U.S. seem to have peaked out, the interest rate differentials between the U.S. and China are likely to narrow down in the times ahead. Under such a circumstance, the U.S. dollar/Chinese yuan forward points are likely to bottom out soon.

With regard to the fundamentals of China, it is not likely that the sources of concern, such as stagnant domestic and international demand as well as risks related to the real estate sector, are to be mitigated any time soon in 2024. Even though the outflow in security investment has gradually been decreasing, the sense of uncertainty persists in terms of economic outlook, and this could strengthen downward pressure on the Chinese yuan. On the other hand, the Chinese yuan is not likely to depreciate unilaterally, as there are counter-cyclical measures to stabilize the exchange market, as noted above. For this reason, the excessive depreciation of the Chinese yuan is not the most-likely scenario.

The phase of rapid policy interest rate hikes in the U.S. is ending, and market participants are now discussing when the policy interest rate cuts are to start. Under such a context, the market is likely to continue offsetting the appreciation of the U.S. dollar and the depreciation of the Chinese yuan observed in 2023.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – January 2024

Expected Ranges	**Against the US$: SG$ 1.3000–1.3500**
	Against the yen: JPY 104.00–110.00

1. Review of the Previous Month

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

On December 1, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.33 level. The November 2023 Manufacturing ISM® Report On Business® of the U.S. turned out to be below the market estimate thereafter, which led the U.S. dollar/Singapore dollar exchange rate to fall to the lower-SGD 1.33 level.

Over December 4–5, interest rates rallied in the U.S., and this encouraged market participants to buy the U.S. dollar. As a result, the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.34 level. On December 7, expectations grew for the Bank of Japan to revise its monetary policy, and this led the U.S. dollar/Japanese yen exchange rate to fall sharply, encouraging market participants to sell the U.S. dollar in the overall foreign-exchange market. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.33 level. However, on December 8, the November employment statistics of the U.S. were released with strong figures, which led the U.S. dollar/Singapore dollar exchange rate to recover to the SGD 1.34 level.

On December 11, the trend of the previous week continued, and the U.S. dollar/Singapore dollar exchange rate remained high. However, on December 12, the November Consumer Price Index (CPI) of the U.S. recorded a slowdown, as had been anticipated in the market. As a result, market participants sold the U.S. dollar, and the U.S. dollar/Singapore dollar exchange rate fell to once reach the SGD 1.33 level. Then, on December 13, the outcome of a Federal Open Market Committee (FOMC) meeting turned out to be dovish, which led the U.S. dollar/Singapore dollar exchange rate to fall sharply to the lower-SGD 1.33 level. On December 14, market participants continued selling the U.S. dollar with the same trend that was seen after the FOMC meeting. Under such a context, the U.S. dollar/Singapore dollar exchange rate fell to once reach the SGD upper-SGD 1.32 level. However, on December 15, a Federal Reserve Board (FRB) official made a remark to curb expectations of policy interest rate cuts. As a result, the U.S. dollar/Singapore dollar exchange rate recovered to the SGD 1.33 level.

On December 19, market participants sold the U.S. dollar in the overall foreign-exchange market, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.32 level. Over December 20–21, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at around the SGD 1.33 level. However, on December 22, U.S. economic indices were released with weak figures, which led the U.S. dollar/Singapore dollar exchange rate to fall to the lower-SGD 1.32 level.

On December 25, the liquidity in the market fell due to the Christmas holiday. Under such a context, the U.S. dollar/Singapore dollar exchange rate once reached the SGD 1.33 level. However, the trend did not last for a long time, and the exchange rate fell to the SGD 1.32 level soon after. Then, on December 28, U.S. economic indices were released, and the outcomes turned out to be weaker than the market estimate, with interest rates in the U.S. falling. Consequently, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.31 level. On December 29, the U.S. dollar/Singapore dollar exchange rate rallied slightly, and trading closed at the lower-SGD 1.32 level.

2. Outlook for This Month

The U.S. dollar/Singapore dollar exchange rate is forecast to remain low in January.

After a FOMC meeting held in December, attracting significant attention in the market, FRB Chair Jerome Powell stated in the press conference that he had an idea about when to start cutting the policy interest rate. Furthermore, the policy interest rate outlook given by the FRB members (dot plot) suggested that there would be three policy interest rate cuts in 2024. Based on this dovish outcome of the FOMC meeting, market participants expect six policy interest rate cuts in 2024. Now that the end of policy interest rate hikes has become certain, market participants are expecting the FRB to start cutting its policy interest rate in the near future. Even though market participants expect more policy interest rate cuts compared to the dot plot, it is highly likely that the next action for the FRB is to cut the policy interest rate rather than to raise it. Under such a context, interest rates in the U.S. are likely to remain on a down trend. Thus, in the foreign-exchange market, the pressure to sell the U.S. dollar is likely to strengthen in the times ahead.

In Singapore, the Monetary Authority of Singapore (MAS) plans to hold a meeting in January. At the previous MAS meeting held in October, the existing monetary policy was maintained with measures of monetary tightening. The November regular CPI turned out to be +3.6% year-on-year, recording a significant slowdown from +4.7% year-on-year for the October CPI and reaching the lowest level in approximately two years. The November core CPI turned out to be +3.2% year-on-year, also confirming the effect of the monetary policy taken by the MAS. However, the inflation level remains high. Thus, the MAS is likely to maintain the existing monetary policy also at the January meeting. At the previous meeting, the MAS announced its decision to revise its monetary policy on a quarterly basis, rather than semiannually as was the case in the past. Thus, depending on the inflation rate and economic conditions in the future, it is possible for the MAS to change its monetary policy in a flexible manner. However, it is not very likely for the MAS to shift its monetary policy toward monetary easing at the January meeting.

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

Thai Baht – January 2024

Expected Ranges	**Against the US$: THB 33.70–35.10**
	Against the yen: JPY 4.05–4.20

1. Review of the Previous Month

The U.S. dollar/Thai baht exchange rate fell in December. At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at the lower-THB 35 level. Based on the weak figures in the U.S. economic indices, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 34 level. Soon after that, market participants bought back the U.S. dollar, and the U.S. dollar/Thai baht exchange rate returned to the lower-THB 35 level. However, the exchange rate did not rise further from this level, as the release of the November employment statistics of the U.S. was approaching. On December 8, said statistics were released, attracting substantial attention in the market, revealing that the number of non-agricultural employees had increased and that the unemployment rate had improved while the average salary had increased from the previous month. This waned expectations for early interest rate cuts in the U.S. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to temporarily reach the upper-THB 35 level.

In the middle of the month, the November Consumer Price Index (CPI) of the U.S. was announced on December 12, and the result turned out to be as had been anticipated in the market. Thus, there was no violent fluctuation in the foreign-exchange market. However, on December 13, the following day, local time, in the U.S. (in the early morning of December 14 in Bangkok), the outcome of the Federal Open Market Committee (FOMC) meeting was announced, and the FOMC statement pointed out that the inflation had slowed down in the year and that the policy interest rate may have peaked. Furthermore, Federal Reserve Board (FRB) Chair Jerome Powell stated at the press conference that the FRB had started discussing when to start cutting the policy interest rate. Thus, the outcome of the FOMC meeting was considered dovish in the market, encouraging market participants to predominantly sell the U.S. dollar. As a consequence, the U.S. dollar/Thai baht exchange rate fell to the upper-THB 34 level. Thereafter, the U.S. dollar/Thai baht exchange rate rose temporarily several times, for example when an FRB official made a remark to curb expectations of early policy interest rate cuts in the market. However, the U.S. dollar/Thai baht exchange rate did not rise further than the THB 35 mark, and the exchange rate continued fluctuating between the THB 35 level and the upper-THB 34 level.

At the end of the month, the third-quarter GDP of the U.S. was announced on December 21, and personal consumption and the core Personal Consumption Expenditures (PCE) price index turned out to be lower than the market estimate. In reaction, expectations of early policy interest rate cuts in the U.S. strengthened again, and the U.S. dollar/Thai baht exchange rate started to fall. On December 22, the U.S. dollar/Thai baht exchange rate fell to the mid-THB 34 level. After the Christmas holidays in the U.S. and Europe, the U.S. dollar/Thai baht exchange rate continued falling further toward the end of the month. Thus, the U.S. dollar/Thai baht exchange rate reached the lower-THB 34 level, and trading closed for the year at the same level.

2. Outlook for This Month

The U.S. dollar/Thai baht exchange rate is forecast to stop falling, although it is likely to remain low in January.

In 2023, the U.S. dollar/Thai baht exchange rate reached the lower-THB 37 level at the beginning of October, and this was the highest exchange rate seen in the year. Since then, the U.S. dollar/Thai baht exchange rate has long been on a downtrend. At the end of December, the U.S. dollar/Thai baht exchange market closed trading at the lower-THB 34 level, which was approximately a 1.3% weaker U.S. dollar and 1.3% stronger Thai baht than the mid-THB 34 level—the U.S. dollar/Thai baht exchange rate observed at the beginning of the year.

While the U.S. dollar/Thai baht exchange rate remained on a downtrend, there were some moments at which the exchange rate rallied, as the November employment statistics of the U.S. were released at the beginning of December with strong figures. However, an FOMC meeting was held thereafter, cancelling out such trends. At the FOMC meeting, the dot plot revealed a lower policy interest rate outlook, suggesting three policy interest rate cuts in 2024. Furthermore, FRB Chair Jerome Powell mentioned the possibility of an end to policy interest rate hikes as well as a beginning of policy interest rate cuts. Thus, market participants understood that the FRB shifted to a dovish monetary policy. As a result, the U.S. dollar depreciated further. In particular, market participants had not expected FRB Chair Jerome Powell to express a willingness to start cutting the policy interest rate, saying that policy interest rate cuts had already been discussed. This was a more-significant shift to a dovish policy than anticipated. As long as expectations of early policy interest rate cuts in the U.S. persist, the U.S. dollar/Thai baht exchange rate is most likely to remain low in the times ahead.

On the other hand, there are many sources of concern in Thailand. There are many factors of uncertainty regarding digital currency provision, such as funding source and time of implementation (as of now, it is to be implemented in May). Furthermore, the approval of the budget plan for FY2024 was delayed due to the confusion at the time of the election held last year to elect a new prime minister. Thus, the domestic economy may incur some negative impact because of a decrease in public investment at the end of the year. It is also worth pointing out that, in the tourism sector, the number of tourists reached approximately 2.63 million in November 2023—the highest number in 2023—but that the increase was led by tourists from the U.S., Germany, and other European countries, while tourists from China, the key country, increased only slightly. Without Chinese tourists returning to Thailand, it is impossible for the tourism sector in Thailand to fully recover. The Tourism Authority of Thailand set the target number of Chinese tourists at 8.5 million, while the actual number of Chinese tourists who visited Thailand between January and November 2023 was approximately 3.1 million. Market participants should thus continue carefully observing this figure in the times ahead. Under such circumstances, the U.S. dollar/Thai baht exchange rate is forecast to remain low in January. However, the U.S. dollar/Thai baht exchange rate may stop falling before reaching the THB 34 level, the psychological turning point, or the upper-THB 33 level, the recent low, as there are many factors of uncertainty in the Thai economy.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – January 2024

Expected Ranges **Against the US$: MYR 4.55–4.68**
Against the yen: JPY 30.39–31.34

1. Review of the Previous Month

In December, the U.S. dollar/Malaysian ringgit exchange rate followed key events abroad and fluctuated rather violently without moving in any direction, which had been forecast last month.

At the beginning of the month, market participants avoided active transactions, waiting for the Federal Open Market Committee (FOMC) meeting scheduled for December 14. Thus, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range. On the other hand, the governor of the Bank of Japan, Kazuo Ueda, made a remark, predicting that the Bank of Japan would face a challenging situation at year-end and at the start of next year, fueling expectations for the normalization of Japanese monetary policy. As a result, the Japanese yen appreciated sharply, and the Malaysian ringgit/Japanese yen exchange rate fell significantly to the upper-JPY 30 level, while previously the Malaysian ringgit/Japanese yen pair had been trading at around the mid-JPY 31 level.

At the middle of the month, the U.S. dollar/Malaysian ringgit exchange rate fluctuated in both directions, following key events abroad, such as the announcement of the Consumer Price Index (CPI) of the U.S. and the FOMC meeting. Market participants sold the Chinese yuan based on the strong figures in the U.S. employment statistics as well as on the accelerated decline of the CPI of China. Furthermore, market participants anticipated the inflation of service prices when the CPI of the U.S. was announced on December 12. Thus, market participants continued buying the U.S. dollar, and the U.S. dollar/Malaysian ringgit exchange rate approached the MYR 4.71 level. Thereafter, however, the outcome of the FOMC meeting was considered dovish in the market, and market participants started selling the U.S. dollar predominantly on December 14. The U.S. dollar/Malaysian ringgit exchange market thus remained unstable.

At the end of the month, the number of market participants was limited because of the Christmas and year-end holidays. Market participants were also avoiding active transactions, and the liquidity level in the market was low. Under such circumstances, the trend of U.S. dollar-selling persisted. As a result, the U.S. dollar/Malaysian ringgit exchange rate once fell below the MYR 4.6 level for the first time since August.

In 2023, the U.S. dollar/Malaysian ringgit exchange rate fluctuated sensitively since the summer, waiting for the end of U.S. dollar interest rate hikes. Because the inflation rate remained high and the labor market remained strong, market participants did not start selling the U.S. dollar and buying back the Malaysian ringgit until November. It is also worth pointing out that the pace of the Malaysian ringgit buyback has been slow. Therefore, the full-fledged appreciation of the Malaysian ringgit is likely to start in 2024.

2. Outlook for This Month

Since November last year, market participants are starting to sell the U.S. dollar predominantly. Under such circumstances, the U.S. dollar/Malaysian ringgit exchange rate is forecast to continue following trends abroad.

On December 19, the November trade statistics were released without any sign of recovery in exports toward major trade partners including China. Malaysian ringgit-buying based on actual demand by exporting companies has been decreasing. It is thus still difficult to expect the Malaysian ringgit to appreciate in terms of the supply & demand balance. It is also worth noting that the central bank of Malaysia plans to hold a monetary policy meeting on January 24, and the priority of the central bank's monetary policy is likely to shift from the control of inflation to economic support, given that domestic inflation is certainly slowing down. In other words, there have not been enough sufficient factors to change the trend encouraging market participants to buy the Malaysian ringgit in an autonomous manner. Therefore, market participants are expected to continue moderately buying back the Malaysian ringgit for some time to come while carefully monitoring conditions in overseas markets, particularly those in the U.S. monetary markets.

With regard to the Malaysian ringgit/Japanese yen exchange market, it is important for market participants to carefully observe the monetary policy of the Bank of Japan after the Noto Peninsula earthquake that hit the country at the beginning of the year. Currently, the market has reflected the end of negative interest rates in the January–March period and interest rate hikes in summer. Market participants should remain attentive of small changes in monetary policy in Japan, observing the impact of the Noto Peninsula earthquake on the overall Japanese economy as well as remarks by the governor of the Bank of Japan, Kazuo Ueda, at various policy meetings. If the end of monetary easing is to be postponed, it is possible for the Japanese yen to weaken against the U.S. dollar again. Market participants should bear in mind that the Malaysian ringgit/Japanese yen exchange rate could start fluctuating within a narrow range around the mid-JPY 31 level again.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – January 2024

Expected Ranges **Against the US$: IDR 15,250–15,700**
Against the yen: JPY 0.8929–0.9434 (IDR 100)

1. Review of the Previous Month

In December, the Indonesian rupiah appreciated slightly against the U.S. dollar.

On December 1, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,500 level. On the same day, the November Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be slightly above the market estimate. However, there was limited reaction in the market. During overseas trading hours, Federal Reserve Board (FRB) Chair Jerome Powell gave a speech, which was considered dovish in the market, encouraging market participants to predominantly sell the U.S. dollar. Market participants continued selling the U.S. dollar in the following week, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,400 level on December 4, local time, in Asia. However, at this level, many market participants also bought the U.S. dollar, changing the trend in the market toward the afternoon. The Indonesian rupiah thus depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,500 level toward December 5, the following day. Thereafter, market participants maintained a wait-and-see attitude, waiting for the release of the employment statistics of the U.S., scheduled for December 8, local time. Under such circumstances, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range at around the IDR 15,500 level. On December 8, local time, in the U.S., the November employment statistics of the U.S. were released with figures slightly above the market estimate. In the following week, the Indonesian rupiah depreciated slightly, and the U.S. dollar/Indonesian rupiah exchange rate reached the mid-IDR 15,500 level at market opening on December 11, local time, in Asia. Thereafter, the Indonesian rupiah continued depreciating, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,600 level. However, in the middle of the week, market participants adopted a wait-and-see attitude in anticipation for the announcement of the CPI of the U.S. as well as the Federal Open Market Committee (FOMC) meeting, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 15,600 level.

On December 12, local time, in the U.S., the November CPI of the U.S. was announced, and the result turned out to be slightly above the market estimate, strengthening the U.S. dollar. As a result, on December 13, local time, in Asia, the Indonesian rupiah depreciated further, and the U.S. dollar/Indonesian rupiah exchange rate temporarily reached the upper-IDR 15,600 level. On December 13, local time, in the U.S., the outcome of the FOMC meeting was announced, and the policy interest rate was maintained at the existing level, as had been anticipated in the market. On the other hand, the inflation outlook was revised downward, and three policy interest rate cuts were predicted for 2024. Because the outcome of the FOMC meeting turned out to be dovish, interest rates fell in the U.S., and the U.S. dollar depreciated, strengthening the Indonesian rupiah. Consequently, the U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 15,400 level on December 14—the following day. After the phase of U.S. dollar-selling, the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,500 level again. While the holiday season was approaching, the U.S. dollar/Indonesian rupiah exchange rate remained at the same level. On December 21, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest rate at the existing level. Because this decision had been anticipated in the market, there was only limited market reaction. On December 22, local time, in the U.S., the Personal Consumption Expenditures (PCE) deflator of the U.S. was announced, and the result turned out to be below the market estimate. As a result, market participants started to sell the U.S. dollar predominantly again on December 27 after consecutive holidays. The Indonesian rupiah thus strengthened, and the U.S. dollar/Indonesian rupiah exchange rate once reached the upper-IDR 15,300 level. Toward the end of the month, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 15,400 level.

2. Outlook for This Month

The Indonesian rupiah is forecast to weaken in January.

The market has been reflecting policy interest rate cuts in the U.S. in an increasing manner. The U.S. interest rate market has reflected a policy interest rate cut at the FOMC meeting in March at the earliest and the total of six policy interest rate hikes in 2024. On the other hand, the policy interest rate outlook (dot plot median) for the end of 2024 was announced at the FOMC meeting in December, predicting three policy interest rate cuts in 2024. Thus, there is a gap between the outlook by market participants and the outlook by the U.S. monetary authorities.

The FRB is still expected to start cutting its policy interest rate before the end of this year. However, the CPI of the U.S. is currently above the 3% level—still far from 2%, the target level. Because the CPI is more than 1% higher than the target level, it is difficult to expect a policy interest rate cut under the current context. Thus, there is a good chance for the over-grown expectation for policy interest rate cuts in the market to recede in the times ahead, leading interest rates in the U.S. to rise while strengthening the U.S. dollar.

On the other hand, the November trade balance of Indonesia turned out to be below the market estimate. Because the trade surplus is shrinking, the current account balance for 4Q is expected to be in a deficit, as was the case in 3Q. Thus, market participants are likely to continue selling the Indonesian rupiah based on the supply & demand balance. The trend of the U.S. dollar buyback could be accelerated by Indonesian rupiah-selling based on actual demand. Market participants should thus remain careful of the possibility for the current trend of the depreciation of the U.S. dollar and the appreciation of the Indonesian rupiah to change in the times ahead.

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

Philippine Peso – January 2024

Expected Ranges **Against the US$: PHP 54.50–56.50**
Against the yen: PHP 0.380–0.405

1. Review of the Previous Month

At the beginning of the month, the U.S. dollar appreciated in reaction to a hawkish remark made by an official from U.S. monetary authorities. As a result, the Philippine peso depreciated against the U.S. dollar at market opening. However, there were some positive factors for the Philippine peso, such as the fall of the crude oil futures price and the November Purchasing Managers Index (PMI) for manufacturing in the Philippines that rose to 52.7 from the previous month's 52.4. Thus, market participants started predominantly buying back the Philippine peso, and the U.S. dollar/Philippine peso exchange rate returned to the original level. Thereafter, the November Consumer Price Index (CPI) of the Philippines was announced, and the result tuned out to be +4/1% year-on-year, recording a slowdown from the +4.9% observed in the previous month. However, the central bank of the Philippines stated that it would maintain a hawkish attitude until inflation slows down in a stable manner, and this kept the Philippine peso robust. Thus, at the beginning of the month, the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range between PHP 55.25 and PHP 55.50, as was the case at the end of November.

In the middle of the month, the employment statistics of the U.S. turned out to be stronger than the market estimate, while the U.S. CPI turned out to be high, which weakened expectation for an early policy interest rate cut. Furthermore, the government of the Philippines mentioned the possibility of a downward revision of the economic growth target for 2024, and this accelerated the depreciation of the Philippine peso. Thus, the Philippine peso weakened to lead the U.S. dollar/Philippine peso exchange rate to reach the PHP 56 level on December 13 for the first time in approximately one month. Thereafter, a Federal Open Market Committee (FOMC) meeting was held in the U.S., and its outcome turned out to be more dovish than expected, which weakened the U.S. dollar significantly. As a result, the Philippine peso rallied rapidly against the U.S. dollar. The central bank of the Philippines decided to maintain its policy interest rate at the existing level for the second consecutive time, as had been anticipated in the market. Yet, this did not impact the foreign-exchange market in any significant manner. Also, the October amount of OFW remittances recorded healthy growth, which strengthened the Philippine peso further. However, multiple officials at U.S. monetary authorities made remarks to curb expectations of an early policy interest rate cut thereafter, as a result of which the U.S. dollar rallied. The Philippine peso depreciated, and the U.S. dollar/Philippine peso exchange rate reached the PHP 56 level again. Therefore, the U.S. dollar/Philippine peso exchange rate ended up fluctuating violently in the middle of the month.

The governor of the central bank of the Philippines, Eli Remolona, expressed a negative view against policy interest rate cuts in the foreseeable future, as inflation pressure remains strong, and this supported the Philippine peso. Furthermore, the U.S. dollar remained weak based on expectations for policy interest rate cuts in the U.S. despite hawkish remarks made by officials of U.S. monetary authorities. Thus, the Philippine peso rallied. However, when the U.S. dollar/Philippine peso exchange rate approached the PHP 55.25 level, which is the recent high for the Philippine peso, the Philippine peso stopped appreciating, and market participants started predominantly selling the Philippine peso with caution for the rise of the exchange rate. Thus, the U.S. dollar/Philippine peso exchange rate did not break out of the fluctuation range seen at the end of November to the beginning of December. In the end, the U.S. dollar/Philippine peso exchange market closed trading in December at PHP 55.370. Thus, at the end of the month, the U.S. dollar/Philippine peso exchange rate returned to the level seen at the beginning of the month.

2. Outlook for This Month

At the FOMC meeting held in the U.S., the median policy interest rate outlook by FOMC members was announced to be three policy interest rate cuts in 2024, as they were gaining confidence in controlling inflation. Thus, the expected policy interest rate cuts accelerated from the previous figure announced in September, which was two policy interest rate cuts, while Federal Reserve Board (FRB) Chair Jerome Powell admitted that the FRB had started discussing the timing at which to start cutting the policy interest rate. Thus, the outcome of the FOMC meeting was certainly dovish, confirming a shift in the attitude of U.S. monetary authorities. It is also worth noting that FRB Chair Jerome Powell did not try to curb expectation for policy interest rate cuts. Thus, for the time being, market participants are likely to remain interested in knowing when (rather than if) the FRB will start cutting its policy interest rate. Under such circumstances, it is unlikely for expectation for policy interest rate cuts to wane significantly any time soon, and thus the U.S. dollar is expected to remain weak. On the other hand, it can also be said that there is no need to rush into monetary policy easing, given that the U.S. economy has been on a healthy recovery and that the monetary environment has been eased. Because there are also concerns about inflation pressure strengthening again, the U.S. dollar may rally if the over-grown expectations for U.S. policy interest rate cuts in the market is corrected based on the policy interest rate outlook announced by U.S. monetary authorities.

Even though the central bank of the Philippines decided to maintain its policy interest rate at the existing level based on a slowdown in inflation, inflation risks persist in the market. Under such circumstances, the central bank decided to maintain measures of monetary tightening. It is unlikely for the Philippines to start cutting its policy interest rate before the U.S. Since the economic conditions of the Philippines are seen to be healthy, the central bank of the Philippines is likely to remain hawkish for the time being. However, the U.S. dollar/Philippine peso exchange market is forecast to mainly follow trends in the U.S. dollar market, remaining volatile with the exchange rate fluctuating in accordance with the policy interest rate outlook in the U.S. It is also worth noting that the trade deficit of the Philippines remains high, mainly due to a decrease in exports, and remittances from overseas Filipino workers are expected to decline in the times ahead, losing the seasonal factor. Furthermore, risk asset prices are rising since the U.S. monetary authorities have shifted their policy, making it likely for crude oil prices to rise. Thus, from the viewpoint of supply & demand, market participants are likely to sell the Philippine peso, keeping the Philippine peso from appreciating further.

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

Indian Rupee – January 2024

Expected Ranges **Against the US$: INR 82.90–83.80**
Against the yen: JPY 1.67–1.79

1. Review of the Previous Month

In December, the U.S. dollar/Indian rupee exchange rate remained stable at around the INR 83 mark.

At the beginning of the month, the U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 83 level. The market opened with a lower exchange rate than the previous month's closing rate, as the July–September GDP of India had turned out to be strong. However, thereafter, the U.S. dollar/Indian rupee exchange rate returned to the original level led by market transactions. Subsequently, the U.S. dollar/Indian rupee exchange rate remained low. Yet, in the middle of the month, the outcome of a Federal Open Market Committee (FOMC) meeting in the U.S. turned out to be dovish, and the U.S. dollar/Indian rupee exchange rate temporarily fell below the INR 83 mark. Toward the end of the month, the Reserve Bank of India (RBI) intervened in the foreign-exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling further, while there were also occasional large-scale transactions in the market. As a result, the U.S. dollar/Indian rupee exchange rate rallied slowly. In the end, the U.S. dollar/Indian rupee exchange market closed trading with a slightly stronger Indian rupee compared to the rate at the beginning of the month (as of December 22).

The BSE SENSEX saw significant upward pressure and continued rising to exceed the 71,000 level, renewing the high in the year. This is considered to be a result of the strong GDP of India, the victory of Narendra Modi's party at the state election (which is considered to be a precursor to the general election in 2024), and the upward revision of the GDP outlook announced by the RBI.

In terms of India's economic indices, the November Purchasing Managers Index (PMI) for the country's manufacturing & service sector turned out to show mixed figures. Also, the December monetary policy committee (MPC) held a meeting attracting substantial attention in the market, deciding to maintain the policy interest rate at the existing level (6.50%) for the fifth consecutive time. On the other hand, the monetary policy stance (interest rate hikes to control inflation) was kept unchanged. The November Consumer Price Index (CPI, year-on-year) turned out to be +5.55%, recording a rise from the +4.87% seen in the previous month. However, the figure was below +6%—the inflation target. The November trade balance turned out to be a deficit, as has been the case constantly, even though there was a decrease in the deficit. Thus, market participants remain likely to sell the Indian rupee.

2. Outlook for This Month

In January, the Indian rupee is expected to start gradually weakening against the U.S. dollar.

In January, the Indian rupee is forecast to gradually weaken against the U.S. dollar from the INR 83 mark. In December, the U.S. dollar/Indian rupee exchange rate temporarily fell slightly below the INR 83 level. However, at that level, the RBI steadily intervened in the foreign-exchange market in order to keep the exchange rate from falling further, confirming the intention to keep the INR 83 level as the supporting line for the Indian rupee. Due to the recent pressure to sell the U.S. dollar, other currencies tended to strengthen against the U.S. dollar. However, the Indian rupee continues weakening against the U.S. dollar. Thus, the Indian rupee is expected to continue depreciating slowly, and the U.S. dollar/Indian rupee exchange rate is likely to move from the previous range of INR 82–83 to the range of INR 83–84.

At the MPC meeting held in December, the policy interest rate of India was maintained at the existing level, at 6.50%. The CPI of India is currently stable after a temporary and sharp rise, suggesting that it is now time to assess the impact of policy interest rate hikes. On the other hand, the RBI keeps its monetary policy stance unchanged with policy interest rate hikes. Thus, if the CPI shows signs of inflation again, the RBI will have an option to raise the policy interest rate without any hesitation.

In 2024, the Indian rupee is expected to appreciate more clearly toward the second half of the year if capital inflow into India accelerates based on the inclusion of Indian government bonds into a global bond index, while the U.S. economy is slowing down amid a phase of policy interest rate cuts. However, in such a situation, the RBI is likely to intervene in the foreign-exchange market to prevent the U.S. dollar/Indian rupee exchange rate from falling further, and the Indian rupee will be sold based on actual demand, leading the Indian rupee to start depreciating slowly again from a medium- to long-term perspective.

On the other hand, the annual Article IV Consultation report was released by the International Monetary Fund (IMF), and the report included a discussion on the foreign-exchange-market interventions by the RBI, pointing out that they are likely to be above the level required to control confusion in the market. It is unlikely for the RBI to accept criticism from the IMF in a straightforward manner. However, the attitude of the RBI about foreign-exchange-market intervention as a means of stabilizing the market could change in the times ahead, if criticism and pressure from abroad become more significant, about which market participants should remain cautious.

This report was prepared based on economic data as of December 29, 2023.