Mizuho Dealer's Eye

February 2024

MIZUHO

U.S. Dollar 2
Euro 6
British Pound 10
Australian Dollar 12
Canadian Dollar 14
Korean Won 16
New Taiwan Dollar 18
Hong Kong Dollar 20
Chinese Yuan 22
Singapore Dollar 24
Thai Baht 26
Malaysian Ringgit 29
Indonesian Rupiah 31
Philippine Peso 33
Indian Rupee 35

Mizuho Bank, Ltd.

Global Markets Trading Department

Yuuka Omi, Forex Sales, Global Markets Trading Department

U.S. Dollar – February 2024

Expected Ranges **Against the yen: JPY145.00–150.00**

1. Review of the Previous Month

After opening the month trading at 141.12 yen on January 2, the dollar/yen pair edged up to the mid-141 yen range. It hit 142 yen for a time before temporarily dropping below 142 yen in tandem with falling US interest rates. It traded with a lack of direction around 142 yen on January 3, though it then climbed to the upper-143 yen mark for a time. The US released a bullish December ADP National Employment Report and new applications for unemployment insurance data on January 4, so the pair temporarily rose to 144.85 yen. The yen was sold on January 5, so the pair hit a weekly high.

At the start of the next week, the pair edged down to the lower-144 yen level on January 8. It then dipped to the upper-143 yen mark during overseas trading time on the low level of the one-year-ahead expected inflation rate in the NY FRB's December survey. It temporarily fell to the mid-143 yen level on January 9, though it began rising again to the mid-144 yen level during overseas trading time as the dollar was bought. Japan released some weak November employment data on January 10, so Japanese interest rates fell and the currency pair tested 145 yen. It then rose towards 146 yen during overseas trading time on rising US interest rates. The pair edged down to the mid-145 yen mark on January 11. It then soared to 146.41 yen for a time during overseas trading time after the US released some higher-than-expected CPI data for December, though it subsequently dropped back to the lower-145 yen mark. It continued trading in the 145 yen range on January 12.

The pair swung to and fro at the start of the next week on January 15. It entered the 146 yen range on January 16 on rising US interest rates. Its topside then hit 147 yen during overseas trading time as US interest rates continued rising on hawkish comments by FRB governor Christopher Waller. With the greenback bought on January 17, the pair headed toward 148 yen. With the US then releasing some strong December retail sales data and industrial production data during overseas trading time, the pair's topside struck 148.52 yen for the first time since the end of November last year. The pair dipped below 148 yen on January 18, though it recovered to 148 yen on the strong results of the US new applications for unemployment insurance data. It continued trading around 148 yen on January 19.

At the start of the next week, the pair moved in a range around 148 yen on January 22. The Bank of Japan (BOJ) decided to maintain the status quo at the Monetary Policy Meeting on January 23, so the currency pair climbed to the upper-148 yen mark before dropping back to around 148 yen. It then plummeted to around 147 yen during overseas trading time as investors interpreted BOJ governor Kazuo Ueda's press conference as laying the ground for a scrapping of negative interest rates. The pair then shot back to 148.70 yen on rising US interest rates. The pair broke below 148 yen on January 24 on rising yen interest rates. It then tumbling to 146.65 yen on sliding US interest rates during overseas trading time, though it rallied to the mid-147 yen level as US interest rates rose on the strong preliminary results of a US January PMI. The pair edged up to the upper-147 yen mark on January 25. It was pushed down to the lower-147 yen level for a time as US interest rates fell on the weak results of the US new applications for unemployment insurance data, but it recovered to the upper-147 yen level as US interest rates bounced back. The US December PCE Deflator fell within the bounds of expectations on its release on January 26, but the

consumer spending figure was up on expectations, so the greenback was supported and the currency pair strengthened to the lower-148 yen mark.

Dollar buying was short-lived, with the pair edging down to the mid-147 yen level at the start of the next week on January 29. The pair then rocketed to just under 148 yen for a time on January 30 on the strong results of the US January Consumer Confidence Index. It continued trading around 147 yen on January 31.

2. Outlook for This Month

The dollar/yen pair is expected to float at highs in February. Specifically, the dollar will probably be bought and the yen sold slightly to just below 150 yen.

The greenback will be bought and the yen sold on Japanese/US interest-rate differentials, with this likely to surpass any dollar selling and yen buying on speculation about whether the BOJ will scrap negative interest rates or about when the FRB might start cutting rates.

The BOJ was expected to abolish negative interest rates by as early as the end of this fiscal year, but this was before the earthquake struck the Noto Peninsula at the start of 2024. The BOJ will probably push back the timing of this move given the impact of the earthquake and so on.

Furthermore, though some US inflation indicators have slowed, data related to employment and consumption is moving firmly, so it is probably too early for the FBB to drop hints about the timing of rate cuts.

The dollar was sold and the yen bought at the end of 2023 on speculation about early monetary policy shifts. This trend has waned on the aforementioned factors, though, with current policies suggesting the dollar will be bought and the yen sold again on Japanese/US interest-rate differentials, with the currency pair likely to move bullishly around 150 yen.

Dealers' Market Forecast

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

Bullish on the dollar	6 bulls	150.00 – 145.00	Bearish on the dollar	10 bears	149.00 – 143.25

* Ranges are central values

Miyachi	Bear	149.00 – 142.50	The dollar/yen pair will move with a heavy topside in February on speculation about US rate cuts and rising expectations for a BOJ monetary policy shift. With the monetary policies of each country also growing more dovish, the cross yen might drop back, so caution will be needed.
Kawai	Bull	150.00 – 145.00	Neither the FOMC nor the BOJ will be meeting in February, so the dollar/yen pair will probably trade in a range without a clear sense of direction, based on economic indicators. The pair could drop to around 145 yen on monetary policy comments by high-ranking officials, but the dollar will probably be bought substantially on any dip, so the pair looks set to move firmly.
Kawabata	Bear	149.50 – 144.50	The FRB is examining when to lower rates, but unless the FOMC announces a clear direction, the dollar/yen pair will probably be swayed by indicators, just like it was in December. However, if the Summary of Opinions released at the January BOJ meeting is anything to go by, February will probably see speculation about the BOJ lifting negative interest rates, with the pair's topside likely to be capped as a result.
Kato	Bull	149.00 – 144.00	The dollar/yen pair fluctuated more than expected, but the trend of corrective dollar buying is expected to broadly draw to a close. The spring wage negotiations still remain key, so the pair will continue to be swayed by corrective moves in February, but the greenback has already been bought to a considerable extent, to the pair looks set to move with a heavy topside this month.
Yamazaki	Bull	152.00 – 145.00	The dollar/yen pair looks set to rise in February. The yen will continue to face substantial selling pressure from portfolio investments. The currency pair will climb as the yen weakens on this selling. Investors should also pay attention to comments about the timing of a US monetary policy shift or BOJ rate hikes.
Ito	Bear	150.00 – 143.00	The markets will focus on US rate cuts as US inflation slows. A lot depends on the indicators, but there are still strong expectations for rate cut in March. Momentum is also rising for wage hikes in Japan, so expectations will probably grow for a BOJ policy shift too, with the dollar/yen pair likely to move with a heavy topside.
Omi	Bull	150.00 – 145.00	The US will probably keep policy rates high this month, with the BOJ also likely to remain in easing mode. As a result, the dollar looks set to remain bullish and the yen bearish. However, the pair's topside will be capped by speculation about US rate cuts.
Yamaguchi	Bear	149.00 – 144.00	The US economy is moving firmly, but inflation also seems to be slowing, so speculation will continue to grow about US rate cuts within the year. It is still possible that the BOJ will scrap negative interest rates too, so the dollar/yen pair will probably move with a heavy topside.
Matsunaga	Bear	149.00 – 143.50	It is hard to see the FRB rushing haphazardly to cut rates, but expectations for rate cuts at the March FOMC meeting could rise again depending on the results of US economic indicators. The dollar/yen pair could dip back in reaction to the yen's sharp fall in January, so caution will be needed.
Tagawa	Bull	149.80 – 145.00	A lot will depend on the FOMC. The dollar/yen pair will move flatly unless the FRB drops some new hints. Expectations for a March US rate cut are unlikely to rise any further, with speculation also unlikely to grow about the BOJ scrapping negative interest rates. If forced to choose, though, this writer believes the pair will move bullishly this month.
Katoono	Bear	149.00 – 143.50	There will be no major central bank meetings this month. Trading will also be somewhat thin as Chinese markets close for the Spring Festival. After climbing since the start of the year, the dollar/yen pair will probably come under some adjustment in February. There is also strong speculation that the BOJ will lift negative interest rates in March or April, so the pair could move with a heavy topside.

Kobayashi	Bear	149.00 – 143.00	The US economy is moving firmly, but inflation also seems to be cooling down. Under these circumstances, it seems the US is moving closer toward rate cuts. If the BOJ announces some concrete policies related to the scrapping of negative interest rates, the yen could rise sharply, so caution will be needed.
Suzuki	Bear	150.00 – 143.00	The US economy remains firm and the phase of rate cuts seems to be approaching sooner or later, so the dollar/yen pair will probably move with a heavy topside. The BOJ has not completely ruled out a policy shift when it meets in March, so investors should monitor BOJ-related headlines.
Okuma	Bull	150.00 – 145.00	The dollar/yen pair will continue to move firmly even if the BOJ makes some hawkish noises. The pair will move with a lack of direction until each major central bank meets in March, but it will probably remain firm given the current strength of US economic indicators.
Nishi	Bear	149.00 – 143.00	The yen is moving bearishly again, but speculation about US rate cuts is growing as inflation gradually cools. With wages facing upward pressure in Japan, there will also be growing expectations that the BOJ will abolish negative interest rates. There could also be a reaction to the yen's sharp slide, with the dollar/yen pair likely to trade with a heavy topside.
Ito (Motoi)	Bear	149.00 – 144.00	US inflationary pressures are gradually cooling on the whole, with the FRB likely to cut rates in the first half of 2024. On the other hand, it seems the BOJ is steadily laying the ground for a scrapping of negative interest rates. Under these circumstances, it seems the dollar/yen pair will face downward pressure this month.

Hiroyuki Yamazaki, Global FI Team, Global Markets Trading Department

Euro – February 2024

Expected Ranges **Against the US$: US$1.0650–1.0950**
Against the yen: JPY155.00–163.00

1. Review of the Previous Month

[The euro/dollar pair moved bearishly]

The euro/dollar pair began the month trading at $1.1046 on January 2. It then broke below the key $1.1000 mark during European trading time as European stocks and bonds moved bearishly. It subsequently fell to $1.0938 during US trading time as stocks and bonds dropped back after having climbed at the end of 2024, with the greenback also bought in forex markets. The pair temporarily fell below $1.0900 on January 3 as the dollar was bought on the results of the US Manufacturing ISM Report on Business for December. After moving flatly on January 4, the pair then rallied to $1.095 on the results of the final December services PMI data for the eurozone and each European country. The US released some strong December employment data at the weekend, so the pair dropped below $1.09 for a time, though its trend switched at this level, with the pair eventually returning to around $1.095.

In the week beginning January 8, the pair swung back and forth from around $1.0950. Germany released some worse-than-expected November industrial production data on January 9. With the euro also edging lower on comments by the governor of Portugal's central bank, the currency pair hit $1.0911 for a time. On January 10, ECB board member Isabel Schnabel said it was too early to start talking about rate cuts, so German interest rates rose and the euro/dollar pair climbed to just under $1.0970. The pair dipped to $1.0930 on January 11 on the stronger-than-expected result of the US December CPI data, though it then strengthened to $1.0980 on falling US interest rates.

In the week beginning January 15, the euro/dollar pair fell below $1.09 as the dollar was bought back. It opened the week trading at $1.0946 on January 15. The pair dropped below $1.09 on January 16 as the eurozone's November consumer expected inflation rate fell and US interest rates rose. The pair temporarily hit a weekly low of $1.0845 on January 17 as the greenback was bought on some healthy US economic indicators, but it then rallied to the upper-$1.08 mark as US interest rates regained composure. The pair bounced back to the $1.09 range for a time on January 18, though it continued moving at the upper-$1.08 level toward January 19.

In the week beginning January 22, the currency pair fell on sliding German interest rates. The pair opened the week trading at $1.0893. With European stocks moving firmly and US interest rates falling on January 24, the pair rallied to hit a weekly high of $1.0932. It stay at this level was short-lived, though, with the pair dropping back below $1.09 on rising US interest rates. On January 25, ECB President Christine Lagarde dropped hints about a commencement of rate cuts at the ECB Governing Council meeting. With wages and the keynote inflation rate also sliding, German interest rates fell sharply, with the currency pair dropping to the lower-$1.08 mark. The pair bounced back to around the mid-$1.08 level on January 26 and then continued trading at this level amid a shortage of incentives. The pair remained bearish over January 29–30.

2. Outlook for This Month

[The euro/dollar pair will move bearishly in February too]

A glance at the euro/dollar pair's movements in January show the pair being swayed by interest rate trends. As for these trends going forward, it seems the ECB is heading toward cutting rates in 2024. ECB President Christine Lagarde has dropped hints about summer rate cuts, with the ECB likely to continue steering the ship towards rate cuts while monitoring the results of economic indicators (particularly whether wage and price growth is falling). Though the euro is unlikely to fall sharply over the upcoming month, it will probably face downward pressure on the whole.

There is also the possibility that the US will cut rates too, but the results of economic indicators in January suggest the US faces less pressure for rate cuts compared to Europe, with this likely to exert strong downward pressure on the euro/dollar pair.

The euro will also face selling pressure on escalating geopolitical risk related to Iran and Israel, so caution will be needed.

Dealers' Market Forecast

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

Bullish on the euro	1 bull	1.1100 – 1.0700	Bearish on the euro	15 bears	1.1000 – 1.0650

* Ranges are central values

Miyachi	Bear	1.0950 – 1.0500	The eurozone has the weakest economic sentiments out of the US, Japan and Europe, so investors will refrain from actively buying the euro. As the central bank of several disparate nations, there is also a danger that the ECB will be slow to respond when it comes to a monetary policy shift. As such, the euro/dollar pair's topside will be capped in February.
Kawai	Bear	1.1050 – 1.0700	There will be no central bank meetings in the EU or Europe in February, so the euro/dollar pair will probably trade in a range without a clear sense of direction. The pair will be swayed by monetary policy comments by high-ranking officials, though its movements will be capped. The pair will remain bearish this month.
Kawabata	Bear	1.1000 – 1.0600	With inflation trending lower, the market focus will shift to sluggish economic sentiments in the eurozone, with investors set to continue searching for the timing of rate cuts. The euro/dollar pair will trend lower in a range in reaction to the results of recent indicators, with the pair also likely to swayed by comments by ECB President Christine Lagarde aimed at pouring cold water on expectations for early rate cuts.
Kato	Bear	1.1000 – 1.0700	The phase of adjustment will cool off, though the euro is unlikely to start trending clearly upwards again. Investors will be paying more attention to the FRB's stance ahead of March, with this stance key to gauging the direction of the euro/dollar pair, though the pair looks set to move flatly on the whole.
Yamazaki	Bear	1.0950 – 1.0650	The euro/dollar pair will continue to face downward pressure. Expectations for ECB rate cuts have risen on recent inflation and wage trends, with the pair likely to face more downside pressure. Investors should pay attention to US economic indicators going forward.
Ito	Bear	1.1000 – 1.0600	The ECB Governing Council remained dovish when it met in January. Though it is too early for rate cuts, wage pressures are easing and keynote inflation is slowing, so the euro/dollar pair will move with a heavy topside as investors focus on rate cuts. The pair will also be pushed lower in February by the external environment and seasonal factors.
Omi	Bear	1.1000 – 1.0600	The euro/dollar pair will continue floating on speculation about the timing of ECB rate cuts. ECB officials made several dovish comments towards the end of January, so the pair will trade with a slightly heavy topside in February.
Yamaguchi	Bear	1.0950 – 1.0700	The eurozone economic indicators released in January were generally bearish, with mention of strong inflationary pressures and unit labor costs also removed from the ECB's January statement. As such, expectations for early rate cuts are growing. The euro/dollar pair is likely to move with a heavy topside this month.
Matsunaga	Bear	1.1050 – 1.0650	The eurozone's 4Q GDP data was released in January. Though GDP managed to avoid contracting for the second straight month, there is still no room for optimism when it comes to the European economy. Provided the FRB does not cut rates sharply, the euro/dollar pair will continue to move bearishly this month.
Tagawa	Bear	1.1000 – 1.0600	The euro/dollar pair hit $1.11 for a time at the end of 2023, though it has since dropped back on dovish central bank statements. The consensus is that the ECB will start cutting rates before the FRB, with the euro/dollar pair likely to move with a heavy topside this month.
Katoono	Bull	1.1100 – 1.0700	The CPI data remained strong in December and there remains a dearth of factors capable of justifying an early rate cut. The market have rushed to price in rate cuts, but they are now adjusting their stances, with investors likely to compare Europe's situation to that of the US, where expectations for rate hikes first emerged.

Kobayashi	Bear	1.0950 – 1.0650	The ECB kept policy fixed in January. However, the European economy remains noticeably weak and inflation seems to be cooling. If the topic shifts to a phase shift towards rate cuts, for example, the euro/dollar pair will probably move more bearishly.
Suzuki	Bear	1.1000 – 1.0500	The eurozone economy remains in a parlous state. Expectations for US rate cuts are also waning. This marks a sharp contrast with Europe, with the ECB already making concrete noises about the timing of rate cuts, so the euro/dollar pair looks set to move bearishly.
Okuma	Bear	1.1000 – 1.0650	Concerns about early ECB rate cuts are waning, but there are fears about the deteriorating situation in the Middle East and a eurozone economic slowdown. Germany's economy seems particularly weak, with the euro/dollar pair likely to trade with a heavy topside.
Nishi	Bear	1.1000 – 1.0650	It is too early for ECB rate hikes, with such a move expected from mid-2024 onwards. At 0.0% in the fourth quarter, though, Europe's real economy is moving sluggishly and the euro/dollar pair will continue to move bearishly for now. More time will also be needed before expectations for US rate cuts fully take root, with the pair set to move with a heavy topside for the time being.
Ito (Motoi)	Bear	1.1000 – 1.0600	Investors will focus on the divergent economic trends in the US and Europe. Though the US economy is moving firmly, the eurozone economy has slowed closer to a recession, with the euro likely to continue trading bearishly against the dollar.

Masayuki Nakajima, Europe Treasury Department

British Pound – February 2024

Expected Ranges **Against the US$: US$1.2500–1.2900**
Against the yen: JPY186.00–191.00

1. Review of the Previous Month

The GBP/USD pair jostled up and down in January, though it moved flatly on the whole. However, sterling rose by around +4.5% against the yen and just under +2% against the euro.

US interest rates had fallen and the greenback had weakened on the FOMC's dovish shift, but this trend was unwound in the first week, with the GBP/USD pair dropping from $1.2731 at the end of 2023 to $1.2611 by January 2–3. In his speech after the December 13 FOMC meeting, FRB chair Jerome Powell had mentioned how the FOMC had discussed the timing of rate cuts, but when the minutes to the meeting were released on January 3, they were not as inclined towards rate cuts as Mr. Powell's comments had suggested. The currently pair fluctuated gently on January 4, though it then moved erratically on January 5. The preliminary eurozone December Harmonised Index of Consumer Prices (HICP) was released in the morning of January 5 (London trading time) and it revealed that inflation had accelerated from +2.4% y-o-y the previous month to 2.9% y-o-y, with the euro subsequently bought and the dollar sold. Sterling was also dragged higher too. However, the US December employment data and Non-manufacturing ISM Report on Business were released during the afternoon (London trading time) and these posted mixed results, with the pound swinging up and then down against the dollar.

In the second week, the greenback rose on January 11 after the US December CPI data swung above forecasts, though the pair dropped back on January 12 after the US December PPI data deteriorated, with the currency pair buffeted by US economic indicators. On the whole, though, the pair essentially traded flatly with a lack of direction throughout the week.

The GBP/USD pair weakened in the third week on global dollar bullishness, though sterling strengthened against other major G10 currencies like the yen and euro. The UK December CPI data was then released on January 17. At +4.0%, the figure was up on November's +3.9% y-o-y and on market expectations for a slowdown to +3.8% y-o-y, with this news pushing the pound higher.

In the fourth week, the pound moved with a heavy topside against the dollar and yen, though it rose against the euro. In her press conference after the ECB Governing Council meeting on January 25, ECB president Christine Lagarde stuck by her comments made at the Davos summit in Switzerland that rate hikes would probably begin in summer, for example, and she also said progress was being made when it came to inflationary trends. The US 4Q GDP figure was released on the same day and it was up sharply on expectations, so the dollar soared against the euro, with the GBP/USD pair's topside also held down by some unwinding.

2. Outlook for This Month

It seems the Bank of England (BOE) will lag behind the FRB and ECB when it comes to the timing of rate cuts, with the speed of rate cuts also likely to be slower, with this likely to continue supporting the pound's movements.

Though the details were not clear at the time of writing, one crucial factor will be the FOMC's policy announcement on Wednesday, January 31. The markets are expecting rate cuts from as early as March, so they will be focusing on the FOMC's outlook for inflation and the economy. Given how strong the US real GDP had performed in the fourth quarter, it seems unlikely that the FOMC will opt for an early rate cut, though some investors seem convinced the FOMC will carry out preventative rate cuts in order to ensure a soft landing.

In the eurozone, meanwhile, market participants will be monitoring the result of the preliminary January HICP data (released Thursday, February 1) in the wake of ECB president Christine Lagarde's dovish comments at the January ECB Governing Council meeting. The CPI data accelerated in December on the rising contribution of energy prices, though this will probably be a transitory factor, as the ECB insists. Investors will be watching to see whether inflation undergoes a clear slowdown based around service prices.

In the UK, the BOE will be making a monetary policy announcement on Thursday, February 1. It will probably keep policy rates fixed, but three members voted for a rate hike at the last meeting, so attention will focus on whether this number falls. Amid growing signs of an economic slowdown, the BOE might shift its stance from controlling inflation to protecting the economy, so caution will be needed. However, there is a risk that wage growth might remain stubbornly high, so it is hard to imagine expectations for early rate cuts soaring on official comments, as has been the case with other major central banks. This monetary policy stance will support the pound, particularly against the euro.

Sterling's movements against the yen will continue to be rocked by speculation about Bank of Japan (BOJ) monetary policy normalization. At the January meeting, BOJ governor Kazuo Ueda seemed to strike an upbeat tone regarding the prospects for the economy and inflation. For now, though, Japanese interest rates will remain at a low level compared to rates in the US and Europe. If it seems more likely that the BOE will keep its policy rate high for a prolonged period, sterling might break above the key 190 yen mark against its Japanese counterpart.

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

Australian Dollar – February 2024

Expected Ranges **Against the US$: US$0.6440–0.6840**
Against the yen: JPY95.80–98.00

1. Review of the Previous Month

The AUD/USD pair opened January trading at the lower-$0.68 handle. Investors had overly priced in early US rate cuts, but these expectations waned in the first half of the week. As US interest rates rose, the greenback was bought and the currency pair moved heavily. The US then released some better-than-expected December employment data on January 5, so expectations for rate cuts receded further, with the pair temporarily dropping to the mid-$0.66 level.

US interest rates rose on January 11 after the US December CPI data swung upwards. The greenback was bought and the pair fell to $0.6648 for a time. On January 15, the People's Bank of China (PBOC) unexpectedly kept its one-year mid-term lending rate fixed. As yields on Chinese sovereign bonds rose, the RMB was bought, with the AUD/USD pair also rising temporarily to $0.6703. This trend was short-lived, though, with the pair sliding to the upper-$0.66 handle with an eye on Australia's bearish December household spending data. The pair then fell below its $0.6640 support line on January 16. It then dropped below $0.66 as yields on US treasuries rose after FRB governor Christopher Waller poured cold water on the idea of early rate cuts. China's 4Q GDP data (y-o-y) was released on January 17 and it was up on the government's 2023 growth target of 5%. However, China also released some sluggish real-estate investment data and residential real-estate figures for December, with the AUD/USD pair then weakening to the lower-$0.65 level with an eye on rising US interest rates. The greenback was then bought at a faster pace and the currency pair fell to $0.6525 after the US December retail sales data posted sharp growth. The pair subsequently moved in a narrow range from the mid-$0.65 level to the mid-$0.66 handle toward the end of the month. Australia's December employment data was released on January 18. At 3.9%, the unemployment rate was unchanged on the previous month, but the number of people in full-time work fell sharply, with the currency pair then dropping from the mid-$0.65 handle to $0.6525 on these signs of labor market slackness. However, the number of people looking for work also fell sharply on a falling labor participation rate. With $0.6525 also acting as a support line, the pair soon returned to the mid-$0.65 range. The Australian dollar was also supported when US stock indices hit record highs on consecutive days, though the AUD/USD pair's topside remained heavy on concerns about high stock prices.

The Australia dollar was bought on January 23 on reports that the Chinese government was considering a stimulus package to prevent Chinese stocks from falling sharply. The currency pair subsequently climbed to the $0.66 range, with the Australian dollar also strengthening to around 97.80 yen against its Japanese counterpart. There were no particular surprises at the Bank of Japan (BOJ) Monetary Policy Meeting, though the yen weakened slightly on the maintenance of negative interest rates. In his press conference, BOJ governor Kazuo Ueda said the prospects of keynote inflation hitting the 2% target were "gradually heightening." This was read as a positive step towards a policy adjustment, with the yen then strengthening to around 97.20 yen against the Australian dollar. During this time, the AUD/USD pair climbed to $0.6614 before weakening to the upper-$0.65 level. The greenback then strengthened on rising US treasury yields, but with the S&P500 hitting record highs again, the pair continued

trading in a range. The pair trended upwards on January 24 as option pins bounced just before $0.6565. China then announced it would be lowering its deposit reserve requirement ratio by 50bp on February 5, with the Australian dollar subsequently supported by speculation that Chinese demand would increase on this provision of liquidity by the PBOC. The pair then moved with a lack of direction until the FOMC meeting.

2. Outlook for This Month

January saw some adjustment to excessive market expectations for early US rate cuts, with the AUD/USD pair falling from $0.67 to $0.65. The US labor market has continued to show signs of firmness recently. As such, bets on a US rate cut at the March FOMC meeting have fallen to around 30%, with more observers now expecting the first cut to take place in May.

On the other hand, the markets are now expecting Australia's policy rate to be cut by around once (25bp) by August this year. Australia's stage-three tax cuts will begin in July 2024. The government had originally planned to set tax brackets so that middle-and high-income earners could also receive tax cuts, but on Thursday, January 25, the government announced it would be lowering the scale of tax cuts for these earners while also revising the tax bracket in which low-income earners could realize the benefits of tax cuts. According to Australia's Treasury Department, inflation will be pushed up by around 0.1%pt by the implementation of these new tax brackets. If these tax cuts boost consumption by more than expected or if they slow the pace of falling inflation, this will lessen the impact of the measures the RBA has already introduced to tackle inflation. Furthermore, the IMF has said further rate hikes will be needed to return inflation to the RBA's 2–3% target range by early 2026. Meanwhile, with the unemployment rate still at 3.9%, wages are still facing upwards pressure, with labor market conditions suggesting there will be no room for a debate about rate cuts any time soon. Based on the above, this writer believes expectations about the timing of Australia's first rate cut will be pushed back beyond August.

When Australia's 4Q CPI data (y-o-y) was released on Wednesday, January 31, it revealed that inflation had fallen from 5.4% to 4.1%, with the trimmed mean (y-o-y) also falling from the (downgraded) 5.1% figure in 3Q to 4.2%. On a standalone monthly basis, the CPI indicator had fallen from 4.3% the previous month to 3.4%. A glance at the details reveals that the figure was impacted by a y-o-y slowdown in sectors like clothing and shoes, with the prices of furniture and household appliances also continuing to soften. As with before, insurance and financial services continued to push inflation higher. With the markets expecting the first Australian rate cut to take place in the latter half of 2024, investors should pay close attention firstly to the release of the FOMC statement and the US employment data early February in order to gauge the direction of US monetary policy. US stocks are moving at record highs, but if expectations for a rate cut at the March FOMC meeting wane on this wealth effect or the strength of the US labor market, this will support US interest rates, with the AUD/USD likely to move with a heavy topside in the short term.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – February 2024

Expected Ranges **Against the US$: C$1.3200–1.3700**
Against the yen: JPY106.00–110.50

1. Review of the Previous Month

With the labor market and consumer spending still moving bullishly, the US economy moved firmly in January, with several FRB officials pouring cold water on the idea of early rate cuts. Amid deep-rooted concerns about a revival of inflation, market expectations for early rate cuts waned too. There was also a dearth of factors supporting the Canadian-dollar, with the USD/CAD pair moving strongly throughout the month.

The US December employment data was released on January 5. At 3.7%, the unemployment rate was flat on the previous month and below forecasts of 3.38%. The new applications for unemployment insurance figure was also at its lowest level since October last year, with the US labor market in robust shape. As expectations for early rate cuts waned, US long-term interest rates rose. The greenback was bought and the currency pair hit the upper-C$1.33 mark, though it then plunged to the upper-C$1.32 level when the US dollar was sold on the bearish results of the US December Non-manufacturing ISM Report on Business.

The US November CPI data was released on January 11. At 3.4% y-o-y, the data was up on forecasts for 3.2% and the previous month's figure of 3.1%, with inflation accelerating. Market expectations for a March commencement of FRB rate cuts waned, with the USD/CAD pair then bouncing back to the mid-C$1.34 level. However, the US then released a lower-than-expected December PPI figure the following day, which suggested that inflation was slowing. As US interest rates fell, the currency pair also weakened to the mid-C$1.33 level. The pair's downside moved firmly, though. The US retail sales data was released on January 17 and it was up on the previous month and on expectations, with consumer spending moving strongly. FRB board members then made hawkish comments ruling out early rate cuts on consecutive days. As a result, the greenback continued to trend upwards. The currency pair temporarily hit C$1.3542 during this time. The greenback faced upward pressure thereafter too, but the pair moved with a lack of direction with a heavy topside ahead of the January 30-31 FOMC meeting. The US University of Michigan Consumer Sentiment Index then hit a 7-month high. With the expected inflation rate for 5-10 years ahead falling and the US Existing Home Sales indicator also moving bearishly, the currency pair fell back to the mid-C$1.34 mark.

As expected, the Bank of Canada (BOC) left rates fixed when it met to set policy on January 24. The US released some bullish preliminary US S&P Global PMI data the same day, so the markets reacted warmly by buying the US dollar at a faster pace. This saw the USD/CAD pair rising to the upper-C$1.34 level. The US 4Q GDP data was released on January 25. At an annualized 3.3%, the data was down on the previous quarter's 4.9%, but the strong data was still up on expectations. With the US economy moving firmly, the greenback was bought. With the FOMC meeting looming, though, investors remained in wait-and-see mode and refrained from any active trading. The pair moved in a narrow range from the lower-C$1.34 level to the mid-C$1.34 mark toward the end of the month.

2. Outlook for This Month

As expected, the Bank of Canada (BOC) kept its policy rate fixed at 5.0% when it met to set policy in January. Its GDP forecast was revised down to 0.8% in 2024 and 2.4% in 2025, with the phrase about being "prepared to raise the policy rate further if needed" also dropped from its statement. Canada and the US are still heading toward rate cuts, but the markets have tried to gauge when these cuts will take place and they will continue to do so while moving skittishly on the results of US economic indicators. Expectations are now growing for a commencement of US rate cuts in May and Canadian rate cuts in June.

Though Canada accepted a record number of immigrants last year, the Canadian economy posted negative growth in the second and third quarters. Two million mortgages will also be up for renewal in Canada over 2024 and 2025, with consumer spending slowing as many Canadians already feel the pinch of an economic slowdown in their daily lives. Some observers think Canada will cut rates before the US, with others strongly believing the first cut will take place in April, so caution will be needed. However, the headline and core figures in Canada's December CPI data were still some way off the BOC's 2% target, with BOC governor Tiff Macklem also suggesting the BOC might need to lift rates depending on inflation trends. Canada's December inflation data deteriorated, but this was mainly due to a sharp hike in mortgage repayments and rents on rising interest rates, with inflation actually slowing when it came foodstuffs and other categories that had previously risen at a fast clip the previous three months. Some investors think inflation will slow going forward. However, average hourly wages continue to grow as a brisk 4-5%, Crude oil prices are also rising slightly on supply concerns on rising geopolitical risk related to the Middle East and Chines stimulus measures. There are concerns all this will lead to a faster pace of inflation from here on.

The markets will be trying to gauge the timing or rate cuts in February too, with the USD/CAD pair likely to continue fluctuating on the results of US economic indicators. If some data points to a Canadian economic slowdown, the pair's downside will grow stronger, though investors should be on guard against Canadian-dollar buying on rising crude oil prices. With the FRB also likely to continue dampening expectations for early rate cuts, the currency pair will probably trade between C$1.32-1.37 in February.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – February 2024

Expected Ranges **Against the US$: KRW 1,290–1,350**
Against the yen: JPY 10.75–11.49 (KRW100)

1. Review of the Previous Month

The USD/KRW pair rose in the first half of January and it floated at highs thereafter. The pair opened the month trading at KRW1293.0. The won fell back after previously having strengthened slightly on the end-of-year export flow, with the currency pair then topping KRW1300. Expectations for early US rate cuts then waned on comments by FRB officials and bullish US economic indicators, with the pair also moving firmly as a result. It soared to KRW1317.2 on January 5 as risk aversion grew after North Korea launched a missile over the sea west of South Korea. The US then released some strong employment data during US trading time. The pair continued moving firmly from January 9 to rise to KRW1320. As expected, the BOK kept rates fixed when it met to set policy on January 11. A phrase about the possibility of a further rate hike was removed from the accompanying statement, but BOK governor Rhee Chang-yong continued to insist that it was too early to talk about rate cuts. The USD/KRW pair's gains were pared back slightly and it weakened to the lower-KRW1310 mark. The US CPI data topped market expectations on its release during overseas trading time on January 11, with the currency pair then moving in a range around the mid-KRW1310 level on January 12.

Investors searched for new factors over January 15-16, with the greenback then bought on growing geopolitical risk related to the Middle East and North Korea. FRB Governor Christopher Waller had been one of the first to discuss the possibility of rate cuts, but he now made some cautious comments about such a likelihood, with US interest rates soaring as a result. The currency pair temporarily hit a monthly high of KRW1346.7 on January 17. The pair's rise then halted after the Seoul authorities made a verbal intervention at the weekend. The pair subsequently traded around KRW1340.

The pair broadly moved in a range between KRW1330-1340 from January 22 to the end of the month. Momentum was low as a wait-and-see mode prevailed ahead of the FOMC meeting at the month's end. The won was bought for a time as the RMB rose on reports that the Chinese authorities were considering some policies to stabilize stock markets, but the currency pair's downside was capped as expectations for US rate cuts faded. With exporters also selling the dollar towards the month's end, the pair's topside was held down around KRW1340. In the end, the pair closed the month at KRW1334.6, up +46.6 won on the end of December.

2. Outlook for This Month

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

The pair rose in January as expectations for US rate cuts receded. The pair topped KRW1300 to hit a high of KRW1340. With investors continuing to focus on the US economy and monetary policy trends, the pair looks set to move with a heavy topside.

A lot will depend on the results of the January FOMC meeting, but one key issue will be the timing of rate cuts.

US rate cuts are expected by March at the earliest or from the latter half of 2024 onwards at the latest. The currency pair will be swayed by mixed economic indicators and comments by authority figures, but US/South Korea interest-rate differentials are unlikely to widen further, with the pair's topside likely to gradually edge lower. The BOK kept rates fixed when it met to set policy in January. Wording about the possibility of further rate hikes was removed from the BOK's statement, but the BOK also said it was too early to talk about rate cuts. The South Korean authorities made verbal interventions when the won depreciated in January, so it seems the BOK is well aware of the risk of the yen weakening if it cuts rates before the US. Given this, such a move seems unlikely right now.

At $57.6 billion, South Korea's exports were up +5.1% y-o-y in December. Semiconductors recorded positive growth for the second straight month to post the highest monthly growth in 2023. A semiconductor market slowdown meant exports for 2023 as a whole were down -7.6% y-o-y, but semiconductor exports recovered in the latter half of the year and this trend will probably continue in 2024, so South Korea's trade surplus will probably expand, with the won also bought as a result. One concern is low Chinese growth, but in February the won is expected to edge higher against the dollar.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – February 2024

Expected Ranges **Against the US$: NT$30.40–31.40**
Against the yen: JPY4.55–4.75

1. Review of the Previous Month

The USD/TWD pair rose in January.

The pair opened the month trading at TWD30.740 on January 2. The US released some better-than-expected December employment data on January 5, so expectations for early US rate hikes receded. On January 10, NY FRB president John C. Williams said the FRB would "need to maintain a restrictive stance of policy for some time," with US interest rates then rising at a faster pace. As the greenback was bought across the globe, the USD/TWD pair strengthened to around TWD31.00.

Taiwan held a general election on January 13. The Democratic Progressive Party's Lai Ching-te won the presidency, but his party failed to secure a majority in parliament. The result was a hung parliament, with Taiwan stocks then falling at a faster pace on speculation that the government's ability to enact economic policy would wane. As overseas investors sold the Taiwan dollar, the currency pair rose to around TWD31.30. During overseas trading time on January 16, FRB governor Christopher Waller said there was no rush to cut rates, with US interest rates then rising. China then published its December real-estate prices data on January 17, with risk sentiments deteriorating when the data fell on the previous year. The Taiwan dollar was subsequently sold at a faster pace, with the USD/TWD pair temporarily rising to TWD31.640.

Major semiconductor firms began releasing their quarterly results in the latter half of the month, with these generally outperforming market expectations. The 2024 semiconductor market outlook was also optimistic, with funds then flowing into semiconductor and AI shares. The Taiwan Capitalization Weighted Stock Index rose to 18,000 points, its highest level in around one year and ten months. The amount of buying-on-balance by overseas investors rose sharply and the Taiwan dollar was bought, with the currency pair sliding to around TWD31.30. The US 4Q PCE result was released during overseas trading time on January 25. The data fell on the previous quarter to hit 1.7%, with US interest rates falling and the greenback sold. The pair was also pushed down as exporters sold the US dollar towards the month's end, with the pair's topside moving heavily at the lower-TWD31.20 level.

2. Outlook for This Month

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

Excessive expectations for 2024 rate cuts waned in January, with US interest rates then rising. There were also concerns about political risk on events like the Taiwanese general election, with risk sentiments deteriorating for a time. All this pushed the currency pair higher. After a round of greenback buying, though, the Taiwan dollar was bought back as Taiwanese stocks rose on an optimistic outlook for the semiconductor market in 2024.

The pair looks set to weaken in February. With inflation indicators cooling in the US, attention is focusing on the likelihood of a March rate cut, with the US dollar likely to face selling pressure. Furthermore, with the

semiconductor market expected to recover in 2024, the Taiwan dollar could easily face buying pressure if hopes grow for an improvement to Taiwan's exports and trade balance. If Taiwanese stocks keep rising, meanwhile, overseas investors will probably pump funds into Taiwan, with this also leading to more Taiwan-dollar buying. However, Taiwan's December export orders figure was a bearish -16.0% y-o-y. As such, exports might not grow as much as expected, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – February 2024

Expected Ranges	**Against the US$: HK$ 7.7900–7.8300**
	Against the yen: JPY 18.20–19.20

1. Review of the Previous Month

Hong Kong dollar spot exchange market in January

The USD/HKD spot drifted higher to 7.82 from 7.81 in January, as investors pared back their expectations for Fed's aggressive rate cut this year. The widening USD-HKD rate gap, combined with seasonality of sliding HKD rates in January, created a carry trade opportunity of long USD/HKD spot. The mounting equity outflow pressure due to the bearish outlook of China and HK economy added depreciation pressure on the HKD market. The Hang Seng Index tumbled as much as by 13.5% from its year-end close. To restore market confidence on the financial markets, the Chinese government implemented more forceful measures, including a 0.5ppt Required Reserves Ratio (RRR) cut and a reported plan to establish a stabilization fund to buy A-shares. Among these market supportive measures, the promotion of Stock Connect and Bond Connect program may encourage foreign investors to return and purchase Chinese assets in HK, thereby maintaining HK's status as an international financial centre. The HK economic recovery was stagnant. The inbound tourism recovery was disappointing, while the short-term outbound travel to Shenzhen buoyed due to its competitive consumption prices amid the RMB depreciation. With the slumping land premium in the property downturn, the extension of HK government budget deficits also raised concern among investors.

Hong Kong dollar interest rate market in January

Expectations of Fed's rate cuts and the seasonal decline in HKD rates after the year-end sent HKD HIBOR curve lower. The 1-month and 3-month tenor dropped from 5.3% and 5.2% to 4.6% and 4.7% level, respectively. This indicates that the HKD HIBOR curve is no longer inverted as a soon Fed's rate cut in March may not materialize. With the HKD spot gyrating around 7.8 level, the HKMA aggregate balance remained broadly changed at near HKD 45bn. The HKD IRS curve picked up as market participants pared back their expectations for Fed's aggressive rate this year. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) dropped due to the falling short-term HKD HIBOR and the pick-up in HKD IRS.

2. Outlook for This Month

Hong Kong dollar spot exchange market in February

The HKD spot is expected to fluctuate around the 7.8 handle for some time, as our base scenario of Fed's insurance rate cut cycle is unlikely to push the HKD spot to the strong-side convertibility. Historical data from the 2019 rate cut cycle showed that the HKD spot only strengthened to the strong half of its trading band sustainably only after 3 rounds of Fed's rate cut. So far, the Fed has not yet provided a clear timeline for its rate cut cycle and the carry trade opportunity for long USD/HKD spot may arise intermittently before the Fed's rate cut cycle begins. Moreover, the struggling China and HK equities and the HK property downturn will likely discourage capital

inflows to HK markets. Due to high HKD rates under the USD-HKD peg, loan demand for HKD is expected to remain weak. These factors will likely weigh on the HKD spot and it will take time for HKD spot to touch 7.75 level unless the Fed introduces emergency rate cut in case of crisis.

Hong Kong dollar interest rate market in February

Despite the retracement of Fed's rate cut expectations, the HKD rates came off at a quickening pace, resulting in the widening negative HKD-USD rate gap. With the HKD unlikely to touch 7.75 level soon, the HKMA is not expected to intervene in the market by selling HKD to inject HKD liquidity. The stable HKD liquidity conditions should limit the downside for HKD rates. The relatively high HKD rates, the property sector rout and the bleak HK economy outlook will likely undermine HKD loan demand and keep HKD rates on the backfoot. The HKD IRS curve will likely trend lower in the Fed's rate cut cycle, but uncertainties over Fed's rate cut timeline may fuel volatilities in HKD rates.

Sae Sueyoshi, Treasury Department, MHBK (China)

Chinese Yuan – February 2024

Expected Ranges	**Against the US$: CNY 7.0000–7.2500**
	Against the yen: JPY 18.69–21.28

1. Review of the Previous Month

In January, the U.S. dollar/Chinese yuan exchange rate rose.

On January 2, 2024, the U.S. dollar/Chinese yuan exchange market opened trading at CNY 7.1072. On January 3, the minutes of a Federal Open Market Committee (FOMC) meeting in the U.S. were released, revealing an intention to maintain the policy interest rate high for a while. Furthermore, there was no precise discussion on future policy interest rate cuts, reducing expectation for early policy interest rate cuts in the market. As a result, market participants dominantly bought the U.S. dollar, and the U.S. dollar/Chinese yuan exchange rate rose to temporarily reach the CNY 7.17 level on January 5. On the same day, U.S. employment statistics were released with figures stronger than the market estimate. However, the Non-Manufacturing ISM Report On Business® was released thereafter, and the outcome was below the market estimate. Thus, the U.S. dollar/Chinese yuan exchange rate closed trading at the CNY 7.14 level.

On January 8, the U.S. dollar/Chinese yuan exchange rate opened trading at the mid-CNY 7.14 level. On the same day, an official of the People's Bank of China (PBOC) made a remark implying a possibility to cut the deposit reserve requirement ratio in order to promote financing, fueling expectation for monetary easing. Consequently, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.17 level toward January 10. On January 11 local time in the U.S., the December Consumer Price Index (CPI) of the U.S. was announced, and the outcome was above the market estimate, which resulted in temporary U.S. dollar-buying. However, interest rates in the U.S. fell thereafter, as a 30-year U.S. government bill auction recorded a strong result, which kept the U.S. dollar from appreciating further. As a result, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at around the CNY 7.16 level on January 12.

On January 15, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.18 level. Before the market opened, the medium-term lending facility rate was announced, and the rate was maintained at the existing level—contrary to the expectations of some market participants. In reaction, the Chinese yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate fell to the mid-CNY 7.16 level. Subsequently, interest rates rose in the U.S., and Federal Reserve Board (FRB) officials made hawkish remarks, which reduced the excessive expectations for policy interest rate cuts reflected in the market and strengthened the U.S. dollar. As a result, the U.S. dollar/Chinese yuan exchange rate rose to the CNY 7.19 level on January 16. On January 17, the December major statistics of China and the fourth-quarter GDP of China both turned out to be weaker than market estimates, which weakened the Chinese yuan. However, when the U.S. dollar/Chinese yuan exchange rate approached the CNY 7.20 mark, the rise of the U.S. dollar/Chinese yuan exchange rate slowed down, and the U.S. dollar/Chinese yuan exchange rate started fluctuating within a narrow range at around the CNY 7.19 level.

On January 22, the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.19 level. The loan prime rate was maintained at the existing level. On January 23, the media reported on expectations for measures of stabilization for the stock market, and this led Chinese stock prices to rally. Following this trend, the Chinese

yuan appreciated, and the U.S. dollar/Chinese yuan exchange rate fell to the CNY 7.16 level. On January 24, the deposit reserve requirement ratio cut was announced, fueling expectation for economic support. Furthermore, market participants sold the U.S. dollar in the overall foreign exchange market. The U.S. dollar/Chinese yuan exchange rate thus fell to the mid-CNY 7.14 level. After a while, however, the U.S. dollar/Chinese yuan exchange rate started to rally gradually, and at the end of the week, the U.S. dollar/Chinese yuan exchange rate reached the CNY 7.17 level on January 26. After the weekend, the U.S. dollar/Chinese yuan exchange rate has been fluctuating at around the CNY 7.18 level, as of January 30.

2. Outlook for This Month

The U.S. dollar is forecast to remain strong against the Chinese yuan from a short-term perspective, as factors to strengthen the U.S. dollar are currently more dominant.

The economic indices of China remain weak, as exemplified by the fall of the real estate sector. Pressure for capital outflow based on the fall in Chinese stock prices remained throughout the month of January. The recovery of the domestic economy may not happen until the second half of the year. Furthermore, the remarks by Prime Minister Li Qiang at the World Economic Forum at Davos did not suggest any economic stimulus measures, and expectations for economic recovery in China seem to be gradually reducing.

On the one hand, the PBOC central parity rate has been set toward a stronger Chinese yuan than the actual trading rate for more than half a year. When the U.S. dollar/Chinese yuan exchange rate rose in January as well, the PBOC central parity rate remained at around the CNY 7.10 level, suggesting that the upper end of the target fluctuation range for the U.S. dollar/Chinese yuan exchange rate is around the CNY 7.25 level, with the 2% limit of the daily fluctuation range.

On the other hand, the economic indices of the U.S. remain healthy, and there has been less expectation in the market for the FRB to start cutting its policy interest rate early. As of January 30, the policy interest rate cut by the FRB has been reflected only in less than half the market. Because there is no outlook for inflation to fall to 2%—the target rate set out by the FRB—the U.S. dollar is likely to remain strong in the foreign exchange market if the policy interest rate remains high.

It is also worth noting that the U.S. presidential election has been a new factor of uncertainty for the foreign exchange market. As the candidates begin to announce their political plans, preparing for Super Tuesday in March, market participants should continue to pay attention to the measures regarding China and changes in public opinion.

Based on pessimistic outlook about the Chinese economy and weakening expectation for policy interest rate cuts by the FRB, the current trend is likely to continue with a strong U.S. dollar and a weak Chinese yuan.

Tomokazu Moriya, Asia & Oceania Treasury Department

Singapore Dollar – February 2024

Expected Ranges **Against the US$: SG$ 1.3200–1.3700**
Against the yen: JPY 107.50–113.00

1. Review of the Previous Month

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

The U.S. dollar/Singapore dollar exchange market opened trading at the lower-SGD 1.32 level on January 2. As interest rates in the U.S. rose, the U.S. dollar strengthened thereafter, and the U.S. dollar/Singapore dollar exchange rate reached the upper-SGD 1.32 level. On January 3, a Federal Reserve Board (FRB) official made a remark to point out that there was a possibility for the policy interest rate to be raised further. In reaction, the U.S. dollar/Singapore dollar exchange rate continued rising to the SGD 1.33 level. Then, on January 5, the December employment statistics of the U.S. were released with healthy figures, which strengthened the U.S. dollar further, and the U.S. dollar/Singapore dollar exchange rate rose rapidly to the mid-SGD 1.33 level. Subsequently, the December Non-Manufacturing ISM Report On Business® was released, and the outcome turned out to be below the market estimate, which changed the trend, and the U.S. dollar/Singapore dollar exchange rate fell sharply to temporarily reach the mid-SGD 1.32 level. However, the U.S. dollar/Singapore dollar exchange rate immediately returned to the SGD 1.33 level thereafter.

From January 8 to January 10, the U.S. dollar/Singapore dollar exchange rate continued fluctuating at around the SGD 1.33 level without moving in any direction. Thereafter, the December CPI of the U.S. was announced on January 11, and the result turned out to be above the market estimate, which led the U.S. dollar/Singapore dollar exchange rate to temporarily reach the mid-SGD 1.33 level. However, the exchange rate did not continue rising for a long time, and on January 12, the U.S. dollar/Singapore dollar exchange rate fluctuated in both directions at around the SGD 1.33 level.

On January 15, the market was closed in the U.S. and thus the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range. On January 16, Christopher Waller, who is a member of the Federal Reserve Board of Governors, made a hawkish remark, which strengthened the U.S. dollar further, and the U.S. dollar/Singapore dollar exchange rate rose to the SGD 1.34 level. Then, on January 17, Chinese economic indices turned out to be weak, which encouraged market participants to sell the Singapore dollar. Furthermore, the December retail sales of the U.S. turned out to be stronger than the market estimate. As a result, the U.S. dollar/Singapore dollar exchange rose to the upper-SGD 1.34 level. Subsequently, from January 18 toward January 19, the U.S. dollar weakened gradually, and the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.33 level.

On January 22 local time in Asia, Chinese stock prices fell, which encouraged market participants to sell the Singapore dollar. However, on January 23, the media reported that Chinese monetary authorities were considering a CNY two trillion stock market support measure, which strengthened the overall Asian currencies. Under such circumstances, the U.S. dollar/Singapore dollar exchange rate remained low. On January 24 as well, the U.S. dollar/Singapore dollar remained low for a while, after which the January PMI of the U.S. was announced with a healthy figure, which led the U.S. dollar/Singapore dollar exchange rate to rally. On January 26, U.S. economic

indices turned out to be strong, which encouraged market participants to buy the U.S. dollar. However, this trend did not last for long.

On January 29, the Monetary Authority of Singapore (MAS) held a meeting, but its monetary policy was kept unchanged, as had been anticipated in the market. Thus, impact on the foreign exchange market was limited. Thereafter, interest rates fell in the U.S., and market participants actively sold the U.S. dollar. As a consequence, the U.S. dollar/Singapore dollar exchange rate fell to the upper-SGD 1.33 level. On January 30, the U.S. dollar/Singapore dollar exchange rate remained at around the SGD 1.34 level without moving in any direction.

2. Outlook for This Month

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

In January, the U.S. dollar/Singapore dollar exchange rate rose significantly. However, this was mainly led by factors related to the U.S. dollar. At the Federal Open Market Committee (FOMC) meeting held in December, FRB Chair Jerome Powell revealed that the FRB started discussing policy interest rate cuts, while the dot plot implied three policy interest rate cuts before the end of 2024, and this fueled expectation for early policy interest rate cuts. In January, however, multiple FRB officials made cautious remarks regarding policy interest rate cuts. As of the end of 2023, a policy interest rate cut at the FOMC meeting in March was reflected in almost 100% of the market. However, as of January 29, it is reflected only in approximately 50% of the market. The number of policy interest rate cuts expected in 2024 has also dropped slightly, but at least five policy interest rate cuts are still reflected in the market, and this means that more policy interest rate cuts are reflected in the market than that in the dot plot, in which three policy interest rate cuts can be expected in 2024. It is necessary to observe economic indices and remarks by FRB officials in order to know the trend of policy interest rate cuts in the times ahead. However, if FRB officials continue making cautious remarks regarding policy interest rate cuts, the expectation in the market for policy interest rate cuts could also decline further.

In Singapore, the MAS held a meeting on January 29, but monetary policy was kept unchanged, as had been anticipated in the market. With regard to the economic outlook in Singapore, the MAS commented that the domestic economy is expected to strengthen and grow further, unless there is another global crisis. With regard to inflation, the MAS commented that it is possible for the core inflation rate to remain high during the first half of this year, but it is expected to start falling gradually before the fourth-quarter period. The MAS seems to remain cautious about inflation rates. However, given that inflation pressure is currently weakening, it is not likely for the MAS to change current monetary policy to take further measures of monetary tightening. For this reason, it is seen as difficult for upward pressure on the Singapore dollar to strengthen in the times ahead.

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

Thai Baht – February 2024

Expected Ranges **Against the US$: THB 34.70–36.30**
Against the yen: JPY 4.10–4.20

1. Review of the Previous Month

In January, the U.S. dollar/Thai baht exchange rate rallied, as less market participants expected policy interest rate cuts in the U.S. The U.S. dollar/Thai baht exchange market opened trading in 2024 at the lower-THD 34 level. The December Manufacturing ISM Report On Business® turned out to be stronger than the market estimate, while a Federal Reserve Board (FRB) official made hawkish remarks. As a result, the U.S. dollar/Thai baht exchange rate rose to the mid-THB 34 level on January 3. On January 5, the December employment statistics of the U.S. turned out to be healthy. However, on the same day, December non-manufacturing industry business confidence indices were released, revealing weak figures in employment and in number of new orders, and this kept the U.S. dollar/Thai baht exchange rate from rising further. After the weekend, Prime Minister of Thailand Srettha Thavisin requested a policy interest rate cut to the central bank of Thailand. This news story encouraged market participants to sell the Thai baht, and the U.S. dollar/Thai baht exchange rate rose to the lower-35 level. Thereafter, interest rates fell in the U.S., and the U.S. dollar/Thai baht exchange rate was pushed back to the THB 34 level. However, the central bank of Thailand announced that it would hold a press conference regarding its monetary policy on January 15. Market participants expected the central bank to announce new measures of monetary easing, strengthening the U.S. dollar/Thai baht exchange rate once again. However, the U.S. dollar/Thai baht exchange rate rallied only to limited extent.

In the middle of the month, the December Consumer Price Index (CPI) of the U.S. turned out to be almost as had been anticipated in the market. However, the December Producer Price Index (PPI) of the U.S. did not reach the market estimate. As a result, the U.S. dollar/Thai baht exchange rate continued fluctuating at around the THB 35 level without any remarkable move. Then, on January 15, the central bank of Thailand held a press conference and denied a policy interest rate cut, by explaining that policy interest rate cuts would not contribute to a solution to the structural problems of the economy. After the press conference, market participants actively bought the Thai baht. However, this trend was offset by the rise of interest rates in the U.S., and the U.S. dollar/Thai baht exchange rate started fluctuating at around the THB 35 level again. Subsequently, a member of the Federal Reserve Board of Governors made a comment that there was no reason to cut the policy interest rate in a hurry, which reduced the expectation for policy interest rate cuts in the U.S. reflected in the market, while long-term interest rates in the U.S. started rising. Furthermore, the December retail sales of the U.S. turned out to be stronger than the market estimate. Based on these factors, the U.S. dollar/Thai baht exchange rate reached the upper-THB 35 level for the first time in approximately one month. Thereafter, the strength of the U.S economy was confirmed with various indices such as those related to the housing market and to employment. However, some market participants sold the U.S. dollar at this level. Thus, the U.S. dollar/Thai baht exchange rate continued fluctuating within a narrow range.

At the end of the month, a spokesperson from an agency within the Thai government made a prediction that the GDP growth rate of Thailand for 2023 would be 1.8%—lower than the estimate announced by the agency itself. However, this caused only limited impact on the foreign exchange market. In addition to Prime Minister of Thailand

Srettha Thavisin, the deputy minister of finance and deputy vice-minister of finance also mentioned the necessity of policy interest rate cuts, confirming the pessimistic view of the government officials of Thailand regarding the domestic economy. It is also worth noting that the U.S. economic indices intermittently recorded strong figures, leading to the steadiness of interest rates in the U.S. As a result, the U.S. dollar/Thai baht exchange rate continued mainly at the upper-THB 35 level—the highest level observed in January. In the last week of the month, an Iran-backed militant group attacked a U.S. military base, and this intensified the situation in the Middle East. Furthermore, the Supreme Court of Hong Kong ordered the liquidation of a major Chinese real estate company. However, market participants prioritized adjustment before a Federal Open Market Committee (FOMC) meeting in the U.S. Thus, interest rates in the U.S. fell, and the U.S. dollar weakened. On January 30, the U.S. dollar/Thai baht exchange rate in the onshore market remained at the lower-THB 35 level.

2. Outlook for This Month

In February, the U.S. dollar/Thai baht exchange rate is forecast to remain stable, as has been the case so far. On February 7, the central bank of Thailand is scheduled to have the first Monetary Policy Committee (MPC) meeting in the year. In January, there was a request for a policy interest rate cut to the central bank of Thailand by Prime Minister of Thailand Srettha Thavisin, the deputy minister of finance, and the deputy vice-minister of finance. Thus, the government officials of Thailand expressed their view that the Thai economy is in crisis, suffering from a high interest rate. However, the central bank of Thailand does not seem to have the view that the domestic economy of Thailand is in such a crisis. Thus, at its press conference, the central bank clearly denied the possibility of a policy interest rate cut after the request by Prime Minister of Thailand Srettha Thavisin, explaining that the weakness of the Thai economy was caused by other factors unrelated to the policy interest rate. For this reason, it is unlikely for market participants to obtain new information at the MPC meeting to be held in February at the central bank of Thailand, as the situation has not changed significantly after the press conference, and thus the central bank is most likely to maintain the existing monetary policy.

In terms of external factors, the outcome of the FOMC meeting in January has not been announced yet as of the time at which this article was being written. Even though it is unlikely for the FRB to make an important decision in January, a policy interest rate cut in March has already been reflected in approximately 50% of the market. The message from the FOMC would depend on the views on the current U.S. economy held by FRB Chair Jerome Powell and other FOMC members. Therefore, it is possible for the economic outlook to change drastically after the FOMC meeting. The December inflation rate of the U.S. revealed that the PCE deflator had fallen below the 3% level for the first time since 2021. On the other hand, personal consumption increased, suggesting that the wage level continues to rise. Since the PCE deflator is calculated using the actual amount of money spent by personal consumers in all of the U.S., FRB members consider it an important index. With a healthy level of consumption confirmed by rising wages, the FRB may find it less necessary to mention policy interest rate cuts to the market.

The media reported at the end of the month that an Iran-backed militant group had attacked a U.S. military base in Jordan with drones, killing U.S. soldiers, and this intensified the situation in the Middle East. It is also worth noting that a major Chinese real estate company decided to start its own liquidation, which fueled the sense of uncertainty over the Chinese real estate marker as well as the overall Chinese economic outlook. This could keep the Thai baht from appreciating in the times ahead. On the other hand, there has also been positive news, as short-stay visas will be exempted mutually between Thailand and China from March. However, some surveys show that the destination for Chinese tourists during the Chinese New Year tend to be neighbors, such as Hong Kong or Macau. It is therefore unlikely for the tourism industry in Thailand to become the driving force in the country's economic

recovery. For the above reasons, the U.S. dollar/Thai baht exchange rate is forecast to remain stable in February.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – February 2024

Expected Ranges **Against the US$: MYR 4.68–4.78**
Against the yen: JPY 30.77–31.75

1. Review of the Previous Month

In January, the U.S. dollar appreciated and weakened the Malaysian ringgit toward the second half of the month, as the outlook was revised for policy interest rate cuts in the U.S.

At the beginning of the year, there was no event that impacted the foreign exchange market. However, some market participants seem to have moved their position predicting the Federal Reserve Board (FRB) to revise its outlook downward for its policy interest rate cuts. As a result, the U.S. dollar appreciated sharply, while there were few market transactions. Furthermore, on January 4, U.S. employment indices were released, revealing strong figures, such as those in ADP employment statistics, and this encouraged market participants to buy the U.S. dollar. The intensification of the situation in the Middle East also encouraged, albeit slightly, market participants to buy the U.S. dollar. In the wake of the Noto earthquake in Japan, the U.S. dollar/Japanese yen exchange rate rose to temporarily reach JPY 146, as market participants expected the Bank of Japan to end a negative interest rate policy at a later date than previously planned. Following this trend, the Malaysian ringgit/Japanese yen exchange rate also reached the JPY 31 level. On the other hand, on January 5 local time in New York, U.S. employment statistics were released with strong figures. However, in the U.S. dollar/Malaysian ringgit onshore exchange market, there was no remarkable reaction to this news, and the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range at around the MYR 4.65 level.

Toward the middle of the month, Christopher Waller, who is a member of the Federal Reserve Board of Governors, made a hawkish remark. Furthermore, U.S. economic indices, such as retails sales and industrial production, turned out to be stronger than the market estimate. As a result, the U.S. dollar appreciated. Moreover, in Malaysia, the GDP and trade statistics of Malaysia turned out to be weak on January 19, and this weakened the Malaysian ringgit further. As the Malaysian ringgit remained weak, the U.S. dollar/Malaysian ringgit exchange rate rose to a fluctuation range at around the MYR 4.72 level.

At the end of the month, the appreciation of the Malaysian ringgit slowed down, as market participants took risk-averse activities, having seen the fall of Chinese stock prices. As a consequence, the U.S. dollar/Malaysian ringgit exchange rate rose to approach the MYR 4.75 level for the first time in 12 weeks. On January 24, the central bank of Malaysia held a monetary policy meeting, but the policy interest rate was maintained at 3.0%, as had been anticipated in the market. The central bank statement was released at the same time, and there were no particular changes in the contents except for the addition of a phrase to point out that the depreciation of the Malaysian ringgit was not a reflection of the current domestic economy. Then, on January 22, the December Consumer Price Index (CPI) of Malaysia was announced, and the result turned out to be +1.5%, as had been anticipated in the marker. On the same day, the annual CPI for 2023 was also announced, and the result was +2.5%. Even though there was a significant drop from the 3.3% recorded in 2022, the market reacted only to a limited extent. Toward the end of the month, the U.S. dollar/Malaysian ringgit exchange rate continued fluctuating within a narrow range also in the onshore market in Malaysia, as a Federal Open Market Committee (FOMC) meeting in the U.S. was scheduled for

the early morning of February 1, local time in Malaysia. On a monthly basis, the U.S. dollar/Malaysian ringgit exchange rate rose significantly by approximately 1,400 pips.

2. Outlook for This Month

In February, there is no central bank meeting scheduled in Japan, the U.S., or Malaysia. It is expected that there will be few market participants in the onshore market in Malaysia due to the Chinese New Year holidays in the middle of the month. In this context, market participants should remain cautious of violent fluctuations under low liquidity.

With regard to the domestic economy in Malaysia, the trade statistics of Malaysia continue to decline, as there is no sign of economic recovery in China. It is still difficult to expect the domestic economy to recover with Chinese tourists at this moment. Under such circumstances, the steady domestic personal consumption has been the only positive factor. Due to the stagnant growth in exports, there is no strong trend to buy the Malaysian ringgit. For this reason, the U.S. dollar/Malaysian ringgit exchange market is likely to follow factors in the external market, as was the case in January.

Toward the end of last year, market participants actively bought the currencies of emerging countries while selling the U.S. dollar, expecting the U.S. interest rates to peak out in 2024. Following this trend, the Malaysian ringgit remained strong. In 2024, on the other hand, the trend changed, and the Malaysian ringgit weakened, and there is currently no factor to change this trend. As was discussed above, there is no central bank meeting scheduled in Japan, the U.S., or Malaysia. Given the current appreciation of the U.S. dollar, there are not so many factors to reduce expectation for policy interest rate cuts in the U.S. There is no doubt that the Malaysian ringgit has already been at a historically low level, and therefore the central bank of Malaysia is likely to remain cautious. Nevertheless, the U.S. dollar/Malaysian ringgit exchange rate is most likely to continue rising gradually in February until it reaches the highest possible level.

With regard to the Malaysian ringgit/Japanese yen exchange market, the Consumer Price Index (Tokyo) was announced on January 26, and the result fell below the 2% level, confirming a slowdown. Under such a context, it is not likely for the Bank of Japan to change its monetary policy for example by ending the negative interest rate policy at the next meeting scheduled for March 19. Thus, the U.S. dollar/Japanese yen exchange rate is expected to continue fluctuating within a narrow range at the upper-JPY 140 level. Based on this, the Malaysian ringgit is most likely to appreciate, while the Japanese yen is likely to depreciate.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – February 2024

Expected Ranges **Against the US$: IDR 15,700–16,000**
Against the yen: JPY 0.8929–0.9434 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the year, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,400 level on January 2. On the same day, the December Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +2.61% year-on-year. Even though this figure was slightly below +2.74% year-on-year—the market estimate—the reaction in the market was limited. Thus, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range between the lower-IDR 15,400 level and the mid-IDR 15,400 level. Thereafter, fewer market participants expected early policy interest rate cuts in the U.S., as a result of which interest rates in the U.S. rose and the U.S. dollar appreciated. Under such circumstances, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate approached the IDR 15,500 level toward January 5. On January 5 local time in the U.S., the December employment statistics of the U.S. were released, and the results were stronger than the market estimate. However, the Non-Manufacturing ISM Report On Business® was released thereafter, turning out to be below the market estimate. Consequently, after the weekend, the U.S. dollar/Indonesian rupiah exchange market opened trading on January 8 at around the IDR 15,500 level, which is almost at the same level as the closing rate of the previous week. Thereafter, interest rates in the U.S. rose gradually, and the Indonesian rupiah depreciated slowly against the U.S. dollar. Then, on January 15, the December trade balance of Indonesia was announced, revealing a trade surplus larger than the market estimate. However, the market reacted to this news only to a limited extent. On January 16 local time in the U.S., Christopher Waller, who is a member of the Federal Reserve Board of Governors, made a remark that there was no rush to cut the policy interest rate as was done previously. In reaction, the U.S. dollar strengthened further. As a result, the Indonesian rupiah depreciated against the U.S. dollar, and the U.S. dollar/Indonesian rupiah exchange rate once reached the mid-IDR 15,600 level on January 17, the following day, local time in Asia. On the same day, the central bank of Indonesia held a monetary policy meeting and decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. Thus, the reaction in the market was limited. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at around the IDR 15,600 level. Then, on January 25, the media reported on the possible resignation of Indonesia's finance minister. In reaction, the Indonesian rupiah depreciated against the U.S. dollar further in an accelerated manner. In the meantime, the media reported that an official of the central bank of Indonesia made a remark referring to possible foreign exchange market interventions. However, the depreciation of the Indonesian rupiah did not stop, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,800 level. As a Federal Open Market Committee (FOMC) meeting was scheduled for the end of the month, the depreciation of the Indonesian rupiah slowed down slightly thereafter, and the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 15,700 level on January 30.

2. Outlook for This Month

In February, the Indonesian rupiah is forecast to remain weak.

As of this writing on January 30, the FOMC meeting is scheduled for January 31 local time in the U.S., and market participants expect the FOMC to maintain its policy interest rate at the existing level. On the other hand, approximately 50% of the market reflects a policy interest rate cut at the FOMC meeting in March. Given the current inflation rate and the employment data of the U.S., as well as the latest remarks made by Federal Reserve Board (FRB) officials, it is difficult to find the necessity to cut the policy interest rate in March. Therefore, the FOMC is expected to make hawkish comments to calm market expectations for policy interest rate cuts, which is then likely to lead to a rise of interest rates in the U.S. and the appreciation of the U.S. dollar.

In Indonesia, on the other hand, a presidential election is scheduled for February 14. According to the current opinion polls, Prabowo Subianto is in the lead. As the election approaches, political confusion is anticipated, and the media reported the possible resignation of ministers opposing current-president Joko Widodo, who was trying to maintain his influence. Neither Prabowo Subianto nor Ganjar Pranowo, who comes in second in the opinion poll, is/are expected to make a significant change to the current political measures under current-president Joko Widodo. Under such circumstances, the political confusion can only be temporary if the next president is elected at the election scheduled for February, impacting the foreign exchange market only to a limited extent. However, if the new president is not elected in February and a re-election is held in June, political confusion could persist, leading to a downturn of the domestic economy of Indonesia. In such a case, market participants are likely to sell the Indonesian rupiah.

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

Philippine Peso – February 2024

Expected Ranges **Against the US$: PHP 55.00–57.00**
Against the yen: PHP 0.370–0.400

1. Review of the Previous Month

In January, there was downward pressure on the overall Asian currencies, as market sentiment worsened due to the fall of U.S. stock prices as well as the hawkish comments seen in the minutes of a Federal Open Market Committee (FOMC) meeting. On the other hand, the December Consumer Price Index (CPI) of the Philippines turned out to be +3.9% year-on-year, recording a slowdown. However, the central bank of the Philippines made it clear that sufficient measures of monetary tightening had to be maintained to control persistent inflation risks. As a result, the U.S. dollar/Philippine peso exchange rate continued fluctuating in both directions. On January 8, Secretary of Finance Benjamin Diokno shared his intention to start measures of monetary easing in the second half of the year so as to cut the policy interest rate by 100 basis points before the end of the year. Furthermore, the November trade balance of the Philippines was announced thereafter, revealing an increase in the trade deficit of the Philippines. In reaction, the Philippine peso depreciated significantly against the U.S. dollar, and the U.S. dollar/Philippine peso exchange rate reached the PHP 56 level for the first time in approximately two months. On January 10, the U.S. dollar/Philippine peso exchange rate once reached PHP 56.410.

Subsequently, the Philippine peso rallied after significant depreciation. Furthermore, inflation-related indices of the U.S. were released suggesting a slowdown, which fueled expectation for early policy interest rate cuts in the U.S. once again. As a result, the trend reversed, and the U.S. dollar started to depreciate against the Philippine peso. The U.S. dollar/Philippine peso exchange rate thus returned to the PHP 55 level. Thereafter, November remittances from overseas Filipino workers turned out to be USD 2.719 billion, recording a decrease from USD 2.998 billion—the previous month's revised result. Moreover, officials at U.S. monetary authorities made remarks that curb the possibility of early policy interest rate cuts, while interest rates rose in the U.S. based on strong figures in U.S. economic indices. As a result, the U.S. dollar strengthened. Yet, the Philippine peso did not depreciate further than the PHP 56 level. The Philippine peso remained relatively strong compared to other Asian currencies. In the middle of the month, the Philippine peso started to rally, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range just below the PHP 56 level.

At the end of the month, less market participants expected early policy interest rate cuts in the U.S., and this strengthened the U.S. dollar. On January 23, the Philippine peso depreciated against the U.S. dollar once again and approached PHP 56.410—the intraday low recorded at the beginning of the month. The governor of the central bank of the Philippines, Eli Remolona, expressed an unchanged view once again, emphasizing that he would maintain sufficient measures of monetary tightening until he confirms a sustained downward trend in inflation, even though the January inflation rate is likely to be lower than that of December. However, the reaction in the market was limited, and the market sentiment worsened thereafter, due to concerns over an economic slowdown in China as well as the intensification of the situation in the Middle East. The Philippine peso remained on a downtrend, depreciating against the U.S. dollar to the lowest rate since the end of October last year. Thus, the Philippine peso remained weak throughout the month of January (as of January 29).

2. Outlook for This Month

According to monetary policy outlook by officials at U.S. monetary authorities, three policy interest rate cuts are expected before the end of the year. On the other hand, in the short-term interest rate market, approximately five to six policy interest rate cuts have been reflected. U.S. economic conditions remain steady, and market participants are expecting a soft-landing scenario. Under such circumstances, U.S. monetary authorities are likely to cut the policy interest rate in the second half of the year. It is thus difficult to expect the FOMC to suggest early policy interest rate cuts at the next meeting. Based on this, it can be said that the current expectation for policy interest rate cuts in the U.S. has been excessive, and interest rates in the U.S. could fall further. Given the current strength in the U.S. economic recovery and the easing financial environment, there is no need to take measures of monetary easing in a hurry. If interest rates fall, concerns over inflation could grow again in the market. Thus, the expectations for early policy interest rate cuts in the U.S. are likely to be corrected in the times ahead, as they are excessive compared to the policy interest rate outlook announced by U.S. monetary authorities. In such a process, it is possible for the U.S. dollar to rally. It is now important for market participants to know when exactly the policy interest rate will be cut in the U.S. It is not likely for the expectation for policy interest rate cuts in the U.S. to grow further so as to weaken the U.S. dollar significantly. Therefore, the U.S. dollar/Philippine peso exchange rate is not likely to fall further than the PHP 55 level—the latest high for the Philippine peso.

As inflation risks persist, the central bank of the Philippines repeatedly emphasized that it would maintain measures of monetary tightening. Furthermore, the central bank of the Philippines sees measures taken by the U.S monetary authorities as an important factor for its decision-making regarding monetary policy. For this reason, it is unlikely for the central bank of the Philippines to start cutting its policy interest rate before the U.S. The central bank of the Philippines is therefore likely to remain hawkish for a while without starting to cut its policy interest rate. On the other hand, inflation is slowing down, and thus an increasing number of market participants are expecting the policy interest rate in the Philippines to be cut in the second half of the year. Such a view is currently weakening the Philippine peso, but it is unlikely for the U.S. dollar/Philippine peso exchange rate to exceed the PHP 57 level, as this was the support line for the Philippine peso used by the Philippine monetary authorities last year. As the U.S dollar/Philippine peso exchange market is driven by factors related to the U.S. dollar, the U.S. dollar/Philippine peso exchange rate is expected to remain volatile, fluctuating in both directions, depending on the outlook for the U.S. policy interest rate. It is also worth noting that the trade deficit of the Philippines remains high due to a decrease in exports and an increase in imports. Furthermore, there will be less seasonal remittances from overseas Filipino workers in the times ahead. Given such a situation, the Philippine peso is likely to be sold based on the supply & demand balance, keeping the Philippine peso from appreciating sharply.

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

Indian Rupee – February 2024

Expected Ranges **Against the US$: INR 82.80–83.70**
Against the yen: JPY 1.69–1.81

1. Review of the Previous Month

In January, the U.S. dollar/Indian rupee exchange rate fluctuated in both directions around the INR 83 level and at the end of the month returned to the rate seen at the beginning of the month.

In January, the U.S. dollar/Indian rupee exchange market opened trading at the lower-INR 83 level. At the start of the month, there were few market participants due to year-end and New Year holidays, and the U.S. dollar/Indian rupee exchange rate did not fluctuate significantly. Due to upward pressure on the U.S. dollar, the Indian rupee weakened, and the U.S. dollar/Indian rupee exchange rate once reached the INR 83.35. Toward the middle of the month, there was a large-scale flow to strengthen the Indian rupee, and the U.S. dollar/Indian rupee exchange rate fell below the INR 83 level. However, 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 by buying the U.S. dollar and selling the Indian rupee, and this stabilized the U.S. dollar/Indian rupee exchange rate. Toward the end of the month, the U.S. dollar/Indian rupee exchange rate started to rally gradually and continued to rise beyond the INR 83 level. However, the RBI intervened in the foreign exchange market again to keep the U.S. dollar/Indian rupee exchange rate from rising further by selling the U.S. dollar and buying the Indian rupee when the U.S. dollar/Indian rupee exchange rate approached the INR 83.20 level. Thus, the U.S. dollar/Indian rupee exchange rate remained low. In the end, the U.S. dollar/Indian rupee exchange rate returned to the level observed at the beginning of the month, and the exchange market closed trading at this level (as of January 25).

The BSE SENSEX exceeded the 73,000 level and renewed its highest level in the year. On the other hand, some market participants sold stock to take profit, and this lowered the index to once fall below the 70,500 level. Thereafter, the U.S. dollar/Indian rupee exchange rate did not fall further and started to rally, once again approaching the 72,000 level.

With regard to Indian economic indices, the December manufacturing and service industry Purchasing Managers Index (PMI) had both strong and weak figures. The December Consumer Price Index (CPI) turned out to be +5.69% year-on-year. Even though the figure was higher than the previous month's result, at +5.55% year-on-year, it did not reach the inflation target, at +6% year-on-year. The December trade balance revealed a decline in the trade deficit. However, there is still constantly a trade deficit, and the Indian rupee remains a currency to be sold.

2. Outlook for This Month

In February, the U.S. dollar/Indian rupee exchange rate is expected to fluctuate at the INR 83 mark.

In February, the U.S. dollar/Indian rupee exchange rate is forecast to fluctuate at around the INR 83 mark. In

January, the U.S. dollar/Indian rupee exchange rate also fluctuated at around the INR 83 level, and at the end of the month, the exchange rate returned to the level seen at the beginning of the month. The U.S. dollar/Indian rupee exchange rate fluctuated in both directions, driven by market transactions, while the RBI intervened in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from both rising and falling significantly. Thus, these factors are balanced, generally preventing any violent fluctuations in the market. Even though the U.S. dollar/Indian rupee exchange rate is still likely to fluctuate at the INR 83–84 level in February, market participants should remain cautious of fluctuations caused by the trend to sell the U.S. dollar at the time of policy interest rate cuts in the U.S.

The December CPI of India recorded a slight rise compared to the previous month's result. Even though the CPI of India once rose sharply, the rise has been gradual in recent months. Market participants expect the Monetary Policy Committee (MPC) to maintain its current monetary policy at the next meeting scheduled for February. However, the MPC seems to be gradually adopting a hawkish attitude by assessing the effects of past policy interest rate hikes while leaving open the option of raising the policy interest rate further if the CPI rises sharply again.

As Indian government bonds have been incorporated into a government bond index, there has been an increasing amount of capital inflow based on security investment from foreign investors. Moreover, as the U.S. economy starts to slow down, starting to cut the policy interest rate, the Indian rupee is forecast to start appreciating against the U.S. dollar in the second half of the year. However, from a medium- to long-term perspective, the Indian rupee is still likely to start depreciating due to the market intervention by the RBI to keep the U.S. dollar/Indian rupee exchange rate from falling further, as well as due to capital outflow (Indian rupee-selling) based on actual demand.

This report was prepared based on economic data as of January 31, 2024.

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