Mizuho Dealer's Eye

March 2024

MIZUHO

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Mizuho Bank, Ltd.

Global Markets Trading Department

Takuyoshi Ito, Forex Sales, Global Markets Trading Department

U.S. Dollar – March 2024

Expected Ranges Against the yen: JPY146.00–153.00

1. Review of the Previous Month

The dollar/yen pair opened February trading at the 146 yen range on the slightly hawkish contents of the Bank of Japan (BOJ) Monetary Policy Meeting and FRB chair Jerome Powell's press conference after the FOMC meeting. US interest rates fell on February 1 on some weak US employment statistics and the bearish movements of US regional bank stocks, with the currency pair also sliding temporarily to 145.90 yen. However, it then rocketed to the mid-148 yen mark on February 2 after the US released some very strong employment data for January.

The pair continued rising on February 5 on the bullish result of the US January Non-manufacturing ISM Report on Business. The pair dropped below 148 yen on February 6 as US interest rates began sliding. It then plummeted to a weekly low of 147.62 yen on February 7 as risk aversion grew when US regional bank stocks weakened. On February 8, speculation grew about prolonged easing by the BOJ following dovish comments by BOJ deputy governor Shinichi Uchida, so the yen was sold and the currency pair rose toward 149 yen. With US interest rates also rising on firm US employment statistics during overseas trading time, the pair continued climbing to hit 149.48 yen.

After opening at 149.21 yen on February 12, the pair edged lower amid a holiday in Japan. The pair underwent a continual slide on falling US interest rates, though it then moved firmly as US interest rates began rising on hawkish comments by FRB officials. On February 13, the pair inched up to the mid-149 yen level with an eye on rising Japanese stocks. With the US releasing some strong January CPI data during overseas trading time, the dollar/yen pair hit 150 yen for the first time since November 17 last year, with the pair then rising to 150.88 yen. On February 14, the pair dipped to the mid-150 yen mark on comments by Masato Kanda, Japan's vice finance minister for international affairs. The pair plunged to 149.51 yen for a time on February 15 on the weak results of the US January retail sales data, but with US interest rates rising again, the pair bounced back to the lower-150 yen level. It then rose temporarily to 150.65 yen on February 16 as investors focused on persistent US inflation after the US January PPI data swung upwards. However, it then moved with a heavy topside on dovish comments by FRB officials.

The minutes to the FOMC meeting were released on February 21. The contents were slightly hawkish, with the FOMC remaining cautious about the possibility of early rate cuts, but the impact on the currency pair was muted. The pair topped the mid-150 yen mark on February 22 as yields on US treasuries rose on the firm results of US indicators. The stocks of a major US semiconductor stopped soaring on February 23 and the NASDAQ fell slightly, with the dollar/yen pair also edging down to 150.30 yen on falling European and US interest rates.

On February 26, the pair rose temporarily to 150.83 yen as the yen underwent a one-sided slide on the bullish movements of the Nikkei, for example, though its topside was not tested further. The yen was bought back on November 27 when the Japanese CPI data rose above expectations, though the pair's room on the downside was capped. The pair then returned to the mid-150 yen mark during overseas trading time when an FRB official said it was too early to talk about rate cuts. Then yen was bought during Tokyo trading time on February 29 on comments by BOJ board member Hajime Takata. With long positions also being unwound, the pair dropped below 150 yen for the first time since February 21. It then moved flatly ahead of the release of the US January PCE figure.

2. Outlook for This Month

The dollar/yen pair will continue moving firmly in March.

With US indicators moving bullishly, expectations for the first US rate cut have been pushed back to June. Several FRB officials have also cautioned against cutting rates too early. Some inflation indicators have shown signs of slowing, but most observers still believe the time is not yet ripe for rate cuts, with the currency pair likely to continue moving firmly as a result. FRB chair Jerome Powell has said the FRB is facing the “last mile” in its fight against inflation. It seems this last mile is dragging out, with investors now focusing on Mr. Powell’s testimony to Congress on March 6. If he makes some hawkish comments and the US then releases some strong employment and inflation data, the “dots” may be revised upwards at the March FOMC meeting. The markets have priced in rate cuts to the tune of 75bp within 2024, with some investors believing there is limited room for more dollar buying, but expectations for rate cuts could fall further is the dots are upgraded, so caution will be needed.

On the other hand, there are plenty of dovish factors on the Japan side. Expectations for prolonged easing grew last month on comments by BOJ deputy governor Shinichi Uchida. Though the BOJ will probably scrap negative interest rates in March or April, it is in no position to implement successive rate hikes thereafter, with Japan likely to remain on the easing path. The markets have already factored in an end to negative rates, so there are doubts about whether the yen will be bought back. The dollar/yen pair will also be bought on the real-demand flow. There will be a lot of foreign-currency buying in Japan on the introduction of the new NISA scheme, so the currency pair is unlikely to undergo any sharp falls.

There are concerns about interventions when the pair rises. Of course, the authorities will not say what level would prompt an intervention, but such a move seems likely around 152 yen, so investors will be watching the pair at this level. However, with the yen plummeting from the start of the year, there was already some short-term adjustment in February, so perhaps the environment is not ripe for an intervention when the pair rises on dollar buying. If the authorities do intervene, if will probably be in the region on 4-to-5 yen given how much yen short positions have piled up in the currency futures market. There will be hearty buying demand lined up toward 145 yen, though, so in the end the pair’s room on the downside will probably be capped. Even if risk aversion grows on risk related to commercial real estate and the geopolitical situation, the dollar is still likely to see more buying than the yen.

Dealers' Market Forecast

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

Bullish on the dollar	10 bulls	152.25 – 147.00	Bearish on the dollar	6 bears	152.00 – 145.00

* Ranges are central values

Miyachi	Bear	152.00 – 145.00	The dollar/yen pair's topside will be capped by speculation about BOJ monetary policy shifts and subsequent adjustments to Nikkei Average prices. Some countries are also growing more dovish, with investors unwinding their yen shorts, particularly in relation to the cross yen. This could see the pair undergoing some correction, so caution will be needed.
Kawai	Bull	152.00 – 148.00	The dollar/yen pair underwent a sustained rise, but this pair's movements were deadlocked late February on deep-rooted concerns about US inflation and expectations for long-term easing by the BOJ. The central banks of the eurozone, Japan and the US will be meeting in March (in that order). These are unlikely to result in a new trend, with the pair set to move in a range with a lack of direction.
Kawabata	Bear	152.00 – 145.00	Expectations for US rate cuts have receded after several FRB officials voiced caution about an early move, with the dollar/yen pair likely to be bought on yen carry trades on Japanese/US interest-rate differentials. There are also concerns about interventions, though, so the pair is unlikely to renew recent highs. The yen will be susceptible to buy-backs from March onwards as a BOJ policy shift loom into view.
Kato	Bear	152.00 – 145.00	The risk is shifting from "it might be Trump" to "it's going to be Trump," with the likelihood of an intervention by the Japanese authorities lower than before. However, the dollar/yen pair has entered the realm of over-buying for the first time in a while, so the pair's topside is unlikely to make further gains.
Yamazaki	Bear	152.00 – 145.00	Speculation is growing about an end to BOJ easing, with the currency pair set to trend lower (yen bullishness). One factor will be the March BOJ meeting, but it seems the BOJ is preparing to push back any moves from March to April. Nonetheless, the pair will face strong downward pressure.
Ito	Bull	153.00 – 146.00	The "dots" could be revised upward at the March FOMC meeting on bullish US indicators. Expectations for the first rate cut have been pushed back to June, with the dollar likely to be bought if these expectations are pushed back further. Even if the authorities intervene in the forex markets, the dollar/yen pair will be bought on the downside.
Omi	Bull	153.00 – 147.00	The greenback will probably remain bullish and the yen bearish in March as US policy rates stay high and the BOJ remains in easing mode. However, the dollar/yen pair's topside will be capped by speculation about the timing of the first rate cut.
Yamaguchi	Bull	152.00 – 147.00	Economic and inflation-related indicators remain unexpectedly strong in the US, with expectations for early rate cuts receding. Though FRB officials have hinted at rate cuts within the year, the dollar will face buying pressure if the commencement of rate cuts is pushed back.
Matsunaga	Bull	152.50 – 147.50	The markets are now only expecting three US rate cuts in 2024 given the strong results of US inflation-related indicators. When the FOMC meets in March, though, investors should monitor the dot chart to gauge the gap between FRB and market forecasts regarding rate cuts. If the FRB expects a slower pace of rate cuts, investors could test the dollar/yen pair's topside.
Tagawa	Bull	152.00 – 146.50	It seems certain that the BOJ will scrap negative interest rates in March or April. Investors will be listening out for hints about rate hikes thereafter. Investors are also pricing in FRB rate cuts, with the reaction to official comments growing more muted. The dollar/yen pair will probably move with a lack of direction around 150 yen.
Katoono	Bear	151.50 – 145.00	While the FRB is procrastinating about the timing of rate cuts, the BOJ looks set to scrap negative rates at its March or April meetings. The yen will probably rise at times on this difference. Yen short positions have swollen quite high recently, with this also likely to push the yen higher.

Suzuki	Bull	153.00 – 145.00	Even if the BOJ scraps negative rates when it meets in March, it is unlikely to hike rates intermittently thereafter, so any impact will only be short-lived. With expectations for US rate cuts also waning, investors will start focusing again on Japanese/US interest-rate differentials, with the yen likely to be sold further.
Okuma	Bull	152.00 – 147.00	The BOJ has started to lay the ground for an exit from easing, though it is unlikely to make any concrete moves until April or later. The dollar/yen pair will remain firm on Japanese/US interest-rate differentials and persistent US inflation.
Nishi	Bull	153.00 – 147.00	The fight against inflation is stalling in the US on robust consumer spending, with FRB officials taking a hawkish stance. Expectations for early rate cuts are waning, but the dollar/yen pair will only have limited room to rise. However, the yen is also unlikely to be bought on BOJ comments, so the pair looks set to continue edging higher.
Ito (Motoi)	Bull	151.00 – 147.00	With the BOJ Monetary Policy Meeting looming at the end of March, the BOJ will start to drop comments about the end of negative rates. There has been a dearth of factors recently, so the markets will be easily swayed by any comments, with the dollar/yen pair likely to fall this month.
Han	Bear	152.00 – 147.00	The timing will be ripe for a BOJ policy shift once Japan's spring wage negotiations take place, so the dollar/yen pair's topside will grow heavier. The yen could strengthen on bullish stocks and an adjustment to carry trades on accumulated cross yen pairs, so caution will be needed.

Hiroshi Matsunaga, Forex Sales, Global Markets Trading Department

Euro – March 2024

Expected Ranges **Against the US$: US$1.0650–1.0950**
Against the yen: JPY159.00–164.50

1. Review of the Previous Month

The euro/dollar pair fell sharply in the first week on the results of US employment-related indicators. The pair fell to a weekly low of $1.0780 on February 1 on firm US interest rates, though it then bounced back to the upper-$1.08 mark when the eurozone preliminary HICP for January swung upwards. It plummeted to $1.0781 on February 2 on the strong results of the US January employment data. With US interest rates moving at highs, the pair traded with a heavy topside to close the week at $1.0791.

The currency pair strengthened throughout the second week. It opened the week at $1.0780 on February 5. FRB officials made some hawkish comments during US trading time. With the US also releasing a strong January Non-manufacturing ISM Report on Business, the pair broke below $1.0730. Germany's December manufacturing export orders data beat expectations on its release on February 6, with the currency pair topping $1.0760. However, its topside was weighed down as the euro was sold against the yen and pound, with the euro/dollar pair falling to a weekly low of $1.0722. The pair rallied slightly amid a dearth of factors over February 7–8. The pair was also supported by the February 9 release of Germany's final CPI data for January. It temporarily hit a weekly high of $1.0796, though its rise was halted here and it closed the week at $1.0784.

The currency pair swung to and fro late in the third week. It opened the week trading at $1.0788 on February 12. With the Tokyo market on holiday, the pair only made minor fluctuations. Germany released a better-than-expected February ZEW Indicator of Economic Sentiment on February 13, so the euro was bought for a time, though the euro/dollar pair then fell to $1.0701 after the US released some strong CPI data for January. The pair moved firmly to rally to $1.0734 on February 14 as US interest rates fell. The euro was bought on February 15 on hawkish statements by ECB president Christine Lagarde and it temporarily hit $1.0784 on the weak results of the US January retail sales data. On February 16, the pair fell to $1.0733 for a time when the US January PPI data swung sharply above forecasts. However, the euro was then bought back ahead of a long holiday in the US, so the pair closed the week trading at $1.0776.

The pair rose in the middle of the fourth week on falling US interest rates. It opened the week at $1.0786 on February 19. There was a lack of factors amid a US holiday, so the pair made minor fluctuations around the mid-$1.07 mark. It then climbed to the lower-$1.08 level on February 20 on falling US interest rates. The pair floated around the lower-$1.08 level on February 21. As stocks rose on healthy US corporate settlement results, the pair strengthened to a weekly high of $1.0889 on February 22. However, it then weakened on the bearish result of the eurozone February Manufacturing PMI and the strong result of a US employment indicator. On February 23, the pair continued floating around the lower-$1.08 mark at the start of trading and it closed the week essentially unchanged at $1.0822.

The pair moved flatly in the fifth week. At the start of the week, it climbed to the mid-$1.08 level on February 26 on rising German interest rates. The euro was bought at the end of the month, but the pair moved with a lack of direction and noteworthy factors on February 27. It broke through $1.08 at the start of European trading time on

February 28, though it soon bounced back.

2. Outlook for This Month

Though the markets priced in a later commencement of rate cuts in the US, the euro/dollar pair continued to rally through February on improving risk sentiments, for example.

The ECB Governing Council will be meeting on March 7 and the FOMC on March 20.

Judging from ECB president Christine Lagarde's recent comments, it seems the ECB is aware that eurozone inflation is steadily slowing, but there remains a lot of pressure pushing wages higher, with the ECB recognizing that wage trends will hold the key to whether inflation cools further going forward, with the ECB president pouring cold water on expectations for early rate cuts.

The ECB will probably make a decision about future monetary policy while monitoring the wage data from April onwards, so it seems unlikely the ECB will unveil a concrete schedule for the direction of monetary policy when it meets in March. As such, the impact of the March meeting will be minimal.

In the US, meanwhile, expectations for a rate cut at the March FOMC meeting have dissipated on the current strong results of US employment and inflation-related indicators, with the issue of rate cuts also attracting less attention. Investors will be watching to see what the dot chart says about the outlook for rate cuts in 2024, but the FRB also looks set to make a decision about rate cuts while monitoring the results of economic indicators from here on, so as with the ECB meet-up, the FOMC get-together is also unlikely to result in a new trend forming for the euro/dollar pair.

From here on, the markets will be watching to see whether the ECB or FRB moves first to cut rates. The main thing to keep an eye on will be the economic situation in the US and Europe, with the currency pair likely to be swayed significantly by the results of economic indicators. However, investors are pricing in FRB and ECB rate cuts from June onwards. As such, it will be difficult to gauge the timing of rate cuts just from the results of economic indicators in March. Given this, it seems the pair will continue to trade with a lack of direction this month.

Dealers' Market Forecast

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

Bullish on the euro	5 bulls	1.1000 – 1.0740	Bearish on the euro	11 bears	1.1000 – 1.0650

* Ranges are central values

Miyachi	Bear	1.0990 – 1.0650	The US economy is moving firmly and the FRB has kicked rate cuts into the long grass. Economic activity in Europe is subdued in contrast, with the euro/dollar pair likely to move with a heavy topside. Dollar long positions are also building up in IMM currency futures, so the euro will be susceptible to selling.
Kawai	Bull	1.1100 – 1.0750	The ECB will be meeting in March followed by the FOMC. Both are expected to keep policy fixed, with neither meeting likely to see a new trend forming for the euro/dollar pair. However, the pair will be supported by real demand (the eurozone's current account balance), with the pair set to move firmly this month.
Kawabata	Bear	1.1000 – 1.0700	Investors are pricing in rate cuts in the latter half of 2024, but ECB officials are taking a noticeably cautious stance regarding whether inflation is slowing, so the euro itself it likely to move firmly. However, the eurozone economy remains weak, so the euro/dollar pair will continue to trade in a range.
Kato	Bull	1.1000 – 1.0750	With the risk of a second Trump presidency rising, clouds are gathering over the direction of the US. As such, the euro/dollar pair will probably move bullishly again as investors focus comparatively more on US factors than eurozone factors.
Yamazaki	Bull	1.1000 – 1.0650	The euro/dollar pair is expected to trend upwards. The eurozone economy has performed better than expected, with the pair rising in February too. This trend will continue in March, with the pair likely to undergo a gentle rise. However, the pair is unlikely to just keep rising, with its room on the topside capped.
Ito	Bear	1.1000 – 1.0600	The euro/dollar pair will be swayed by moves to price in US rate cuts. The greenback will move bullishly on the strong US economy, with the pair's topside likely to move heavily. Though it is too early to talk about rate cuts, the ECB could move faster than the FRB to implement early cuts as wage pressures ease and keynote inflation slows.
Omi	Bear	1.1000 – 1.0600	The euro/dollar pair will continue floating on speculation about the timing of ECB rate cuts. Under these circumstances, with ECB officials also making dovish comments, the pair will trade with a slightly heavy topside in March.
Yamaguchi	Bear	1.1050 – 1.0700	It seems Europe will manage to avoid a recession, but the euro/dollar pair's trend will be decided by whether the US or Europe is the first to cut rates. The greenback is likely to be sold further as expectations for US rate cuts rise again, with the euro also likely to be bought at times.
Matsunaga	Bear	1.0950 – 1.0650	Going forward, the focus will be on whether the US or Europe cuts rates first. Investors are pricing in FRB and ECB rate cuts from June onwards. As such, it will be difficult to gauge the timing of rate cuts just from the results of economic indicators in March. Given this, it seems the pair will continue to trade with a lack of direction this month.
Tagawa	Bull	1.0950 – 1.0740	This month's theme will probably concern how the eurozone economy is not performing as badly as expected. If it still seems that the ECB and FRB will cut rates in the latter half of 2024, the euro/dollar pair will trade firmly in March.
Katoono	Bear	1.1000 – 1.0650	Inflation is unexpectedly persistent in the US, but it is steadily slowing in the eurozone, with investors likely to price in the scenario of early rate cuts by the ECB.

Suzuki	Bull	1.1100 – 1.0700	There remain concerns about an economic slowdown in Europe, but it seems investors are pricing in later rate cuts by the eurozone compared to the US. With the eurozone's current account balance also remaining high. The euro/dollar pair looks set to move firmly on interest rates and real demand.
Okuma	Bear	1.1050 – 1.0750	As with the FRB, the ECB has poured cold water on the possibility of early rate cuts, with uncertainty about the eurozone economy also easing. Though the euro/dollar pair will move firmly, it will probably trade with a heavy topside as the US economy performs more strongly than expected.
Nishi	Bear	1.1000 – 1.0600	Though the FRB has pushed back the timing of rate cuts, the eurozone economy is moving sluggishly and inflation looks set to slow, with the ECB likely to cut rates earlier than the FRB. If this scenario does come to pass, the euro/dollar pair will move bearishly.
Ito (Motoi)	Bear	1.0900 – 1.0700	The euro/dollar pair will continue to trade with an eye on the different macro-economic situations. The US economy is moving firmly, so the necessity for early rate cuts is diminishing. On the other hand, the eurozone economy is moving weakly, with the dollar likely to be bought and the euro sold.
Han	Bear	1.0950 – 1.0650	The eurozone economy is moving weakly compared to the firm US economy, so the euro/dollar pair will remain susceptible to selling. It also seems likely that the ECB will cut rates earlier than the FRB.

Masayuki Nakajima, Europe Treasury Department

British Pound – March 2024

Expected Ranges **Against the US$: US$1.2400–1.2800**
Against the yen: JPY187.00–193.00

1. Review of the Previous Month

The GBP/USD pair swung up and down in February, though it moved flatly on the whole.

In the first week, the pair fell slightly. As mentioned below, the BOE made a slightly hawkish monetary policy announcement on February 1, with the pair subsequently rising on the same day. However, the US then released some very strong January employment data on February 2, so the pair's gains from the previous day were all pared back.

In the second week, the pair weakened on February 5 before bouncing back from February 6. The February 2 announcement of the strong US employment data played a role, with the pair also weighed down after FRB chair Jerome Powell struck a hawkish stance during a TV interview at the weekend. However, the pair was supported when UK house prices rallied by more than expected after mortgage rates fell. Comments by BOE Monetary Policy Committee (MPC) members Catherine Mann, Jonathan Haskel, Huw Pill and Sarah Breeden then reconfirmed that the BOE's hawkish group was maintaining a neutral position.

The currency pair fell in the third week. The US released some strong January CPI data on February 13, with the greenback then rising across the globe. The UK's January CPI data (released February 14) then fell below market expectations, as did the UK's 4Q 2023 GDP data (released February 15), with the GBP/USD pair then falling further. The pair had fallen by as much as -0.8% from the start of the week to February 14. The trend of global dollar bullishness then eased. The UK January retail sales data was released on February 16 and it suggested the UK would avoid recession. As such, the pair's losses were pared back towards the week's end, with the pair closing around $1.26.

The pair rebounded slightly in the fourth week. Investors paid attention to comments by BOE officials. In his hearing before the UK House of Commons on February 20, BOE Governor Andrew Bailey said the BOE would not need to hit its inflation target before commencing with rate cuts. He also said the markets had gone too far in pricing in rate cuts. After previously calling for rate hikes, meanwhile, BOE policymaker Megan Greene changed tack at the February MPC meeting, though on February 23 she also said she "would need to wait to see more evidence that inflation isn't as entrenched as we had feared" before she would be willing to vote for rate cuts.

The GBP/JPY pair rose sharply in February, primarily on the yen's weakness. Its momentum slowed as it traded in the 190 yen range for the first time since August 2015. Expectations grew for a more gradual pace of BOJ monetary policy normalization after Japan released some weak real GDP growth data for 4Q 2023.

2. Outlook for This Month

The pound has been supported by the likelihood that the BOE will keep interest rates at high levels for a longer period compared to the other major central banks of the US and Europe, with the GBP/USD pair expected to remain

firm in March too.

When it met in February, the BOE's Monetary Policy Committee (MPC) kept its policy rate fixed at 5.25%, as expected, though two members voted for rate hikes. Three members had voted for rate hikes at the last meeting in December, but Megan Greene withdrew her support for such a move. Though investors had focused on the possibility of the "ultra hawk" Catherine Mann voting for a rate hike, it was somewhat surprising that Jonathan Haskel had also voted for a rate hike too. This is because Mr. Haskel had previously hinted that he would shift in a dovish direction after the UK November CPI data (released December 20) had suggested inflation was slowing substantially. Only the "ultra dove" Swati Dhingra had voted for a rate cut, with the other six members voting to maintain the status quo, with the voting distribution somewhat on the hawkish side. Also, the BOE's inflation outlook suggested that as long as the policy rate moved in line with market expectations, CPI would hit +2.2% y-o-y in 3Q 2024, above the BOE's target of +2.0% y-o-y. At the end of January, bets on a -25bp rate cut at the May MPC meeting had risen to around 76% in short-term interest rate markets, with such a move at the June meeting fully priced in, though the BOE seemed to implicitly pour cold water on these expectations.

However, the BOE's policy announcement was not totally hawkish. There were some dovish elements too. For a start, the phrase about how "further tightening in monetary policy would be required if there were evidence of more persistent inflationary pressures" was removed from the statement, with this seemingly opening the door to rate cuts. Furthermore, the BOE's inflation outlook said that if it policy rates remained at 5.25%, then the inflation rate would fall from 2025 onwards to drop sharply below the BOE's +2.0% y-o-y target from 4Q 2025. Given this forecast, it seems investors are expecting rate cuts within the year, with the main issue being when these cuts will commence. In a speech on February 23, though, Megan Greene said that although UK wages were heading in the right direction, they remained fairly high compared to the US and the eurozone, with this standing in the way of rate cuts.

The eurozone negotiated wage figure for 4Q 2023 (released February 20) stood at +4.46% y-o-y, down on the 3Q figure of +4.69% y-o-y. Average weekly wage growth (including bonuses) is a closely-watched indicator in the UK wages data. In October–December 2023, average weekly wages had grown by a 3-month average of +5.8% y-o-y. Though this was down from a peak of +8.5% y-o-y in May–July 2023, it still represented a high level. In March, the currency pair is unlikely to be swayed sharply by the monetary policy meetings in the UK, the US, Europe or Japan. As for UK factors, market participants will focus on the release of the draft budget on March 6.

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

Australian Dollar – March 2024

Expected Ranges **Against the US$: US$0.6350–0.6650**
Against the yen: JPY95.40–99.50

1. Review of the Previous Month

The AUD/USD pair continued moving bearishly on February 1 on risk aversion related to Australia's 4Q CPI data (released January 31) and the settlement results of US regional banks. The pair fell to $0.6508, though it then rallied to the upper-$0.65 mark when the greenback was sold on the bearish result of a US economic indicator. The pair then tumbled to $0.6504 on February 2 as the US dollar was bought on some strong US employment data for January.

As US interest rates rose, the pair weakened to $0.6469 on February 5. The RBA board kept its policy rate fixed at 4.35% when it met on February 6. The pair rose to $0.6525 when the accompanying statement said that "inflation is still high… and a further increase in interest rates cannot be ruled out," though the pair then dropped back. Investors continued to test the pair's 100-day moving average resistance level of $0.6538 on February 8. However, the Australian dollar was weighed down by emergent concerns about Chinese deflationary pressures after China's January CPI data underwent its largest slide in 15 years, so the pair dropped back without breaching the resistance level. The US new applications for unemployment insurance data then fell, thus hinting at the firmness of the US economy, so the greenback was bought further and the pair weakened to the upper-$0.64 level. The pair returned to the lower-$0.65 mark on February 9 as the US dollar was sold after the US annual CPI figure was revised downwards.

The US January CPI data topped expectations on its release on February 13. With moves to price in US rate cuts also sliding, the greenback surged and the AUD/USD pair fell sharply to hit $0.6443 for the first time since November 2023. February 14 saw buying by exporters, With US interest rates also sliding, the Australian dollar rose and the currency pair strengthened to around $0.6490. Australia's January employment data was released on February 15. The number of full-time workers had only increased by 500, with the unemployment rate hitting the 4% range for the first time in two years. The pair subsequently fell to $0.6478, though it soon bounced back. Investors tested its topside further when the US January retail sales data fell sharply.

The minutes to the RBA meeting were released on February 20. They revealed that members had discussed further rate hikes and this led to a growing sense that rate hikes were still on the table, with this supporting the Australian dollar. However, the minutes also contained a statement about how "increasing the cash rate target now would not prevent the Board from easing monetary policy if the economy were to weaken more sharply than envisaged," thus raising the possibility that the RBA might steer in the direction of rate cuts even after lifting rates, so the pair's gains were kept in check. The minutes to the FOMC meeting were released on February 22 and they reaffirmed that the FOMC was adopting a cautious stance toward the prospect of early rate cuts, with the currency pair then weakening to around $0.6550 on bearish stock movements. After US stock markets closed, a major US semiconductor firm released its settlement results for November 2023–January 2024. These were sharply above expectations, with the firm also predicting strong sales over February–April 2024. Asian stocks rose as a result, with the AUD/USD pair climbing to $0.6595 on risk appetite. However, the pair then dropped to the mid-$0.65 mark on the firm results of a US indicator.

Australia's January monthly CPI data was released on February 28. At 3.4%, the figure was unchanged on the previous month, with the currency pair then sliding to $0.6537 as concerns about rising inflation waned. The RBNZ then decided not to hike rates and its statement said the risk of rate hikes in 2024 was quite low, with the NZ dollar then plummeting. The Australian dollar was also pulled down, with the AUD/USD pair dropping to the upper-$0.64 level.

2. Outlook for This Month

Australia's economic indicators gradually regained composure in February. In the US, meanwhile, expectations for an early rate hike waned. Australia's 4Q 2023 CPI data fell by more than expected (its monthly CPI indicator dropped to 3.4% in December), while Australia's January employment data suggested labor market tightness was easing off. As such, expectations for an early RBA rate cut have risen. Given this, it seems the AUD/USD pair will continue to face pressure on the topside.

The minutes to the RBA's February meeting revealed that the board had discussed further rate hikes, with expectations for the timing of the first RBA rate cut subsequently being pushed back from August to September in the interest rate futures market. However, the greenback continued to be bought on a series of bullish US economic indicators. Though the US January CPI data was up on forecasts, the new applications for unemployment insurance data and the January employment data pointed to the ongoing firmness of the US labor market, with expectations for early US rate cuts subsequently declining. The minutes to the FOMC meeting revealed that the FOMC remained cautious regarding early rate hikes, with expectations for the first FOMC rate hike being pushed back to the second half of 2023 in the interest rate futures market. At this moment in time, the markets are pricing around one 25bp rate cut in July 2024. If the data released in March also suggests the current situation will continue, then the likelihood of further RBA rate hikes will continue to slide. In the US, meanwhile, it will probably take time before the authorities get further evidence to confirm that inflation is steadily slowing. As such, it seems the AUD/USD pair will face more downward pressure.

However, if it seems stock markets and housing markets are getting ahead of themselves when it comes to expectations for rate cuts, then the wealth effect might make it harder for the authorities to lower rates, so caution will be needed. Under this scenario, the pair's downside will probably be supported. Other factors potentially supporting the Australian dollar including expectations that the Chinese authorities will implement another stimulus package. In February, concerns about Chinese deflation grew after China's January CPI data fell sharply, with the 5-year prime loan rate (the base rate for housing loans) then being lowered from 4.2% to 3.95%.Chinese stocks were subsequently bought, with the Australian dollar temporarily rising in tandem with a bullish RMB, though it seems this trend has run out of steam. Investors should also keep an eye out for any new Chinese economic measures.

Mizuho Ashizaki, Canada Office, Americas Treasury Department

Canadian Dollar – March 2024

Expected Ranges **Against the US$: C$1.3300–1.3700**
Against the yen: JPY105.00–112.00

1. Review of the Previous Month

In February, both the US and Canada seemed to be heading down the path of rate cuts, but with the timing uncertain, investors tried to gauge when the first cuts would take place while continuing to monitor the results of major economic indicators. The US labor market remained firm, but the US inflation data rose at a faster pace. Some FRB officials made some slightly dovish statements, but with inflation remaining strong, most officials tried to reign in expectations for early rate cuts. The greenback faced strong upwards pressure, though its topside was weighed down by uncertainty regarding the timing of rate cuts.

The US January employment data was released on February 2. At +353,000, the nonfarm payrolls figure was up sharply on market expectations for a +185,000 rise, with wages also growing at the fastest pace in around two years. As speculation about early rate cuts receded, US interest rates rose and the USD/CAD pair also strengthened to the mid-C$1.34 level.

The Canadian January employment data was released on February 9. At 5.7%, the unemployment rate was below expectations (5.9%) and the previous result (5.8%). At +37,300 (forecast: +15,000), meanwhile, the number of workers was up sharply on the previous month's rise of just +100. Average hourly wage growth slowed from 5.7% in December to 5.3%. The Canadian dollar was bought on these strong results, with the currency pair hitting C$1.3413 for a time.

The US January CPI figure was released on February 13 and it was up 3.1% y-o-y. This was down on December's 3.4% figure, though it above forecasts for a 2.9% rise. The core CPI data (excluding volatile food and energy prices) was up 3.9% y-o-y. This was unchanged on the previous month and above market forecasts for a 3.7% rise. This led to a growing sense that the FRB would delay rate cuts, so the US dollar was bought and the currency pair hit C$1.3586. The US January retail sales data was released on February 15. At -0.8%, the figure was sharply down on expectations (-0.2%) and the previous month (0.4%).With the US January industrial production data then deteriorating, the greenback was sold further and the pair weakened to the mid-C$1.34 mark.

The Canadian January CPI data was released on February 20. At 2.9% y-o-y, the figure was below forecasts (3.3%) and the previous month (3.4%).The core inflation trimmed mean and median figures (two indicators closely monitored by the Bank of Canada) were also both down on forecasts and the previous month. With inflation apparently slowing, speculation grew about early Bank of Canada (BOC) rate cuts, with the Canadian dollar sold and the currency pair climbing to C$1.3530. Thereafter, the pair continuing jostling up and down in a narrow range on the results of US indicators. Toward the end of the month, speculation grew that the US would push back the commencement of rate hikes. With the greenback also bought at the month's end, the pair continued rising. It topped C$1.36 for a time on February 28, with the US dollar continuing to rise.

2. Outlook for This Month

The Bank of Canada (BOC) will meet to set policy rates on March 6. The markets believe rates will be left unchanged. Canadian inflation slowed to 2.9% in January. This is within the BOC's target range of 1–3%, but core inflation remained above 3%. When the minutes to the BOC meeting were released last month, they revealed that several members had voiced caution above early rate cuts in the face of stubbornly high inflation. Most observers think the first BOC rate reduction will take place in June, but with productivity stalling, the BOC is also concerned about rising wages. Monetary policy influences consumer spending and there is a possibility that economic activity might slow substantially, with some investors believing the BOC might have to cut rates earlier than expected.

Looser conditions in labor markets will also play a key role in determining the timing of rate cuts, so market participants will be monitoring the situation. Canada's January employment data was not as strong as the headlines might suggest. Average hourly wage growth slowed, the labor-force participation ratio fell, the number of part-time works rose sharply while the number of full-time jobs shrank, and companies placed a freeze on hiring, with the data itself actually quite bearish.

According to economists, retail sales in the fourth quarter were overwhelmingly driven by car sales, which accounted for over half of all quarterly growth. This came on the back of loosening supply constraints, so from the BOC's perspective, it is unlikely to become an inflation risk. The January retail sales data will be released on March 22, with the markets expecting it to be down on December. Meanwhile, the FOMC will be meeting over March 19–20. The FOMC is expected to leave rates fixed, but investors will be monitoring the statement for any changes as they try to gauge the timing of rate cuts. Inflation grew at a faster pace in January, with several FRB officials subsequently trying to dampen expectations for early rate cuts. During a speech, FRB vice chair Philip Jefferson said it would be appropriate to reduce rates from the latter half of 2024 onwards, so expectations for a June rate cut have fallen, with market participants now beginning to think the first cut will take place in July.

In March, investors will be monitoring economic indicators as they try to gauge the timing of rate cuts. The markets could fluctuate wildly on the inflation or employment data, so caution will be needed. The FRB will be keeping an eye on the data for a few months at least, so there will remain deep uncertainty about the timing of rate cuts. In Canada, some observers are predicting that the BOC will bring forward rate cuts, so the greenback looks set to remain bullish, with the USD/CAD pair trading between $1.33–1.37.

Shuhei Yamauchi, Seoul Treasury Office, East Asia Treasury Department

Korean Won – March 2024

Expected Ranges	**Against the US$: KRW 1,290–1,350**
	Against the yen: JPY 10.87–11.49 (KRW100)

1. Review of the Previous Month

The USD/KRW pair continued moving with a lack of direction in February. The pair opened the month trading at KRW1335.0. With stock markets moving firmly, overseas investors pumped funds into South Korea. There was also demand for settlements by exporters at the start of the month, so the pair temporarily hit a low of KRW1320.

The US employment data was released during the evening of February 2. The data was up on market expectations, so the pair strengthened to open February 5 trading at KRW1337.0. With exporters then selling the dollar, the pair's topside edged lower. On February 6, the Chinese authorities announced a stimulus package to tackle sliding stock prices, with the government also tightening market oversight. The RMB strengthened as a result, with the won also bought and the currency pair dropping back to the lower-KRW1320 level. Trading was thin on the ground ahead of the Lunar New Year holidays on February 7–8, with the pair fluctuating gently just under KRW1330.

The pair made minor fluctuations when the markets came back from holiday on February 13. US interest rates then rose during overseas trading time as the US January CPI data topped market expectations. The currency pair hit a monthly high of KRW1340.4 on February 14. There was hearty exporter demand for dollar selling at these highs, so the pair's level edged lower and it traded at the mid-KRW1330 level until the weekend.

When China came back from the Spring Festival holidays on February 19‐20, the pair moved from the mid- to the upper-KRW1330 level with an eye on Chinese stocks and the RMB. A US hi-tech giant released some strong settlement results on February 22. Semiconductor and other South Korean stocks also moved bullishly, with the won being bought as a result, so the currency pair dipped below KRW1330 for a time.

The pair moved with a lack of direction over February 26‐27. The South Korean government then announced a "Corporate Value-up Programme" to tackle the "Korea discount" on stock prices, but the impact on the markets was muted. Stocks fell and the won faced more selling pressure, though the pair's topside was held down. As importers bought the won on February 28, the pair touched KRW1337 for a time. It then closed the month at KRW1333.6.

2. Outlook for This Month

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

The pair traded in a range around KRW1330 in February. US interest rates rose on the upswing in the US CPI data, for example, with the currency pair moving firmly as a result. Dollar buying was subdued, though, perhaps because investors focused on the possibility of US rate cuts from mid-2024 onwards, so the pair's room on the topside was capped.

The Bank of Korea (BOK) kept policy rates fixed for the ninth straight month when it met on February 22. One member also voiced support for rate cuts, but the BOK's governor ruled out such a move in the first half of 2024,

with the BOK taking a prudent stance regarding early rate hikes. The impact on the currency pair has been muted, with the won unlikely to fall any time soon on market moves to price in BOK rate cuts.

At around $54.7 billion, South Korea's exports were up +18.0% y-o-y in January. Exports were up for the fourth month in a row, a trend dating back to October. Semiconductor exports in particular were up a whopping +56.2% y-o-y. Exports of AI-related memory were up, with prices also rising on the improved supply and demand situation. South Korea's trade balance also remained in the black for the eighth straight month, dating back to June last year, with trade clearly improving. As investors focus on this real-demand flow and a halt to rising US interest rates, the won will gradually edge higher against the dollar in March.

Kazuki Hisamoto, Taipei Treasury Office, East Asia Treasury Department

New Taiwan Dollar – March 2024

Expected Ranges **Against the US$: NT$30.75–31.75**
Against the yen: JPY4.55–4.80

1. Review of the Previous Month

The USD/TWD pair rose in February.

The pair opened the month trading at TWD31.280 on February 1. The US released some bearish 4Q unit labor cost data on February 1, so the greenback was sold and the currency pair temporarily fell to TWD31.194. The US January employment data was then released on February 2. The nonfarm payrolls figure, the unemployment rate and the average hourly wages figure were all sharply up on expectations, so the US dollar was bought across the globe, with the USD/TWD pair climbing to the mid-TWD31.30 mark before the Spring Festival holidays.

The markets were on holiday over February 8–14 due to the Spring Festival. On February 13, the US released some stronger-than-expected January CPI data, so expectations for early US rate cuts faded. With the Spring Festival holidays over, the currency pair rose mid-February as the greenback was bought on rising US interest rates. The US released some better-than-expected January PPI data on February 16, so the US dollar was bought further, with the pair strengthening to the TWD31.40 range.

In the latter half of the month, US interest rates rose further as market expectations for early US rate cuts faded when the minutes to the FOMC meeting (released February 21) revealed the FOMC was cautious about early cuts. Thereafter, with several FRB also taking prudent stances regarding early rate cuts, the greenback was bought at a faster pace, with the currency pair rising to TWD31.620 for a time. With US interest rates remaining high at the month's end, the US dollar continued to face buying pressure, with the pair moving firmly at the upper-TWD31.50 level.

2. Outlook for This Month

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

The US released some stronger-than-expected employment and inflation data in February. The FOMC minutes and comments by FRB officials also suggested the FRB was taking a cautious stance regarding early rate cuts, so US interest rates subsequently rose and the greenback was bought, with the currency pair rising.

The pair looks set to weaken in March. Market expectations for US rate cuts have faded to around three reductions in 2024. This is now consistent with the FRB's prognosis, so US interest rates are unlikely to rise further, with the US dollar likely to face less buying pressure in the near future. With US stocks rising, though, the Taiwan Capitalization Weighted Stock Index has hit record highs to take hold at 19,000 points. Given this, overseas investors will probably pour funds into Taiwan, so the Taiwan dollar will be susceptible to buying pressure, with the USD/TWD pair likely to start sliding as a result. However, the US economy is picking up pace again. If expectations about the timing of rate cuts are pushed back further, this could place buying pressure on the greenback, so caution will be needed.

Ken Cheung, East Asia Treasury Department

Hong Kong Dollar – March 2024

Expected Ranges **Against the US$: HK$ 7.8000–7.8350**
Against the yen: JPY 18.70–19.60

1. Review of the Previous Month

Hong Kong dollar spot exchange market in February

The USD/HKD spot climbed steadily to 7.825 level, extending the uptrend since late November. With Fed's pushback for early rate cuts and robust US inflation and job data, the interest rate market has largely priced out possibility of a March rate cut and the total expected number of rate cuts throughout the year diminished to below 4. The carry trade opportunity of long USD/HKD spot has returned, as the HKD T/N forward point dropped to below -2 points. The Hang Seng Index played a catch-up with the global risk rally after the Chinese New Year holiday, but has not yet recouped its year-to-date loss. IPO activities remained subdued so far in 2024. The Stock Connect inflow to HK equities picked up gradually, climbing to above HKD 40bn year-to-date. The HK property market turmoil continued, with the Centa-City Leading (CCL) Index sliding to its 7 year low. The HK property transaction volume remained subdued, while the cases of negative equity outstanding jumped to the 20-year high at 2023-end. The simultaneous declines in stock and property markets bode ill for investment inflow to HKD market.

Hong Kong dollar interest rate market in February

HKD HIBOR stopped falling further, with the 1-month and 3-month tenors hovering at 4.5% and 4.7%, respectively. The stabilization of HKD HIBOR curve could be attributed to the prospect of higher USD rates and fading seasonal decline in HKD rates in February. The HKMA aggregate balance remained broadly changed at near HKD 45bn, as the HKD spot was fluctuating around the mid-point of its trading band. The HKD IRS curve climbed as expectations for Fed's rate cut retreated, but the IRS receiving flow weighed on the HKD IRS curve compared to the USD IRS curve. The HKD IRS carry (customer pays fixed 3Y HKD IRS, receives floating 3-month HKD HIBOR) dropped subsequently due to the steady short-term HKD HIBOR and the higher HKD IRS.

2. Outlook for This Month

Hong Kong dollar spot exchange market in March

We expect the HKD spot to fluctuate around 7.8 level throughout this year. In our base scenario of Fed's insurance rate cut cycle this year, the carry trade flow will support the USD/HKD spot and the persistent USD-HKD interest rate gap indicates further downside on the HKD forward curve. Domestically, the battered HK equities and property markets, their link to the bearish China outlook and increasing concern over HK structural deficits will continue to discourage foreign investors flow. Loan demand for HKD is set to remain weak given high interest rates and grim HK growth outlook.

Hong Kong dollar interest rate market in March

HKD rates are likely to hold steady at their current levels as the Fed continues to push back expectations for rate cuts in the near future. The updates on the Fed's rate projections at the upcoming FOMC meeting will provide more details on the Fed's easing plan this year following the release of robust US data. The HKD quarter-end seasonality will kick in in March and any downside for HKD rates should prove to be limited. Considering the weak loan demand, HKD rates are expected to trade at a discount against the USD rates. With HKD spot unlikely to touch the trading band, the HK aggregate balance will probably remain unchanged at near HKD 45bn.

Hiroshi Takemoto, Treasury Department, MHBK (China)

Chinese Yuan – March 2024

Expected Ranges **Against the US$: CNY 7.1000–7.2500**
Against the yen: JPY 19.30–21.40

1. Review of the Previous Month

In February, the U.S. dollar/Chinese yuan exchange rate remained flat.

On February 1, the U.S. dollar/Chinese yuan onshore exchange market opened trading at the upper-CNY-7.17 level. Before market opening, Federal Reserve Board (FRB) Chair Jerome Powell held a post-Federal Open Market Committee (FOMC) press conference, indicating lower possibility for a policy interest rate cut in March. In reaction, U.S. dollar-buying became dominant. On February 6, the Chinese monetary authorities made announcements on political measures to support stock price levels. As a consequence, on February 7, the Chinese yuan occasionally appreciated against the U.S. dollar, albeit to a limited extent. Also, before the Chinese New Year holidays, liquidity levels fell thereafter, and the U.S. dollar/Chinese yuan exchange continued fluctuating mainly at around the CNY 7.19 level, with U.S. dollar/Chinese yuan exchange market trading closing on February 9.

After the Chinese New Year holidays, the U.S. dollar/Chinese yuan exchange rate did not move significantly, and the U.S. dollar/Chinese yuan exchange market opened trading at the lower-CNY 7.19 level on February 19. Thereafter, the media reported that consumption activities had rallied during the Chinese New Year holidays. Furthermore, before the Chinese New Year holidays, financial statistics were released, confirming an improvement in fund procurement in the household sector. As a result, Chinese stock prices remained high. As market sentiment improved, the U.S. dollar/Chinese yuan exchange rate momentarily reached the CNY 7.17 level on February 21. However, there were some speculations about additional measures of monetary easing by the Chinese monetary authorities as well as the remarks by FRB board members to curb expectations for an early policy interest rate cut. Consequently, the U.S. dollar/Chinese yuan exchange rate returned to the CNY 7.19 level once again.

In the last week of the month, there were few new trends in the market, as the National People's Congress of the People's Republic of China was scheduled for the following month. Thus, the U.S. dollar/Chinese yuan exchange rate continued fluctuating at the CNY 7.19 level. As of 19:00 of February 27 (CST) (the time of this writing), the U.S. dollar/Chinese yuan exchange rate has remained at the upper-CNY 7.19 level. The monthly fluctuation range of the U.S. dollar/Chinese yuan onshore exchange rate was 251 pips as of the time of this writing, and this is the narrowest range recorded since June 2015.

2. Outlook for This Month

In March, the U.S. dollar/Chinese yuan onshore exchange rate is forecast to remain stable, although it is not likely to rise significantly.

In February, the reserve requirement ratio and deposit interest rates of Chinese banks were cut. Furthermore, the five-year loan prime rate was also lowered. There are persistent expectations for a cut of the one-year medium-term lending facility, linked to the one-year loan prime rate, which is the de facto policy interest rate. Under such

circumstances, existing interest rate levels have been maintained. However, it seems likely that there will be more additional measures of monetary easing, such as an increase of fund supply at the time of rollover. While Chinese government bond yields remain low, the board members of the FRB in the U.S. have been making remarks to curb expectations for an early policy interest rate cut based on the strong economic indices of the U.S. Therefore, upward pressure on the U.S. dollar/Chinese yuan exchange rate based on the interest rate differentials between the U.S. and China is likely to persist for a while.

As the media has reported that there were many people going out and that the consumption level was high during the Chinese New Year holidays, Chinese stock prices seem to have bottomed out. There was finally a positive figure (with a cumulative inflow since the beginning of the year) in north-bound investment in Chinese yuan-denominated stocks via Hong Kong through the Stock Connect scheme. Furthermore, even prior to that, there was a net buy of Chinese government bonds and financial bonds by foreign investors. However, with regard to the real estate sector, there has been a persistent problem of stagnation especially in Tier 2 cities and the grade below. Thus, it is not yet the time to be optimistic about the economic outlook. From the viewpoint of fundamentals, the Chinese yuan is more likely to weaken. In response to this situation, the Chinese monetary authorities are keeping the U.S. dollar/Chinese yuan exchange rate from rising further by setting the PBOC central parity rate toward a stronger Chinese yuan. Judging from the current attitude, it is most likely for the Chinese monetary authorities to continue controlling downward pressure on the Chinese yuan using the same method. Thus, the U.S. dollar/Chinese yuan exchange rate is expected to rise only to a limited extent.

The National People's Congress of the People's Republic of China will open on March 5. Market participants are waiting to see the target growth rate for 2024 and policy measures to achieve the goal. On one hand, it is possible for the Chinese yuan to strengthen based on expectations for economic growth. On the other hand, however, downward pressure on the Chinese yuan could also strengthen temporarily due to speculations about an increase in money supply, of which market participants should remain attentive.

Ayaka Matsumoto, Asia & Oceania Treasury Department

Singapore Dollar – March 2024

Expected Ranges **Against the US$: SG$ 1.3300–1.3700**
Against the yen: JPY 108.00–113.00

1. Review of the Previous Month

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

On February 1, the U.S. dollar/Singapore dollar exchange market opened trading at the upper-SGD 1.33 level. At the beginning of the month, U.S. economic indices turned out to be weak, leading interest rates in the U.S. to fall. In reaction, market participants sold the U.S. dollar in an accelerated manner, and the U.S. dollar/Singapore dollar exchange rate fell to the mid-SGD 1.33 level. On February 2, the January employment statistics of the U.S. turned out to the strong, and the U.S. dollar strengthened in the overall foreign exchange market. Following the trend of U.S. dollar-buying, the U.S. dollar/Singapore dollar exchange rate exceeded the SGD 1.34 mark.

On February 5 local time in Asia, Federal Reserve Board (FRB) Chair Jerome Powell made an unenthusiastic remark about a policy interest rate cut in March. As a result, the U.S. dollar/Singapore dollar exchange rate continue rising, as was the case in the previous week. During overseas trading hours, the January Non-Manufacturing ISM Report On Business® of the U.S. was released, recording positive growth more significant than expected. This encouraged market participants to buy the U.S. dollar further, and the U.S. dollar/Singapore dollar rose to approach the mid-SGD 1.34 level. Thereafter, the U.S. dollar/Singapore dollar exchange rate continued fluctuating in both directions at the lower-SGD 1.34 level, following trends of interest rates in the U.S. On February 9, there were fewer transactions involving overall Asian currencies, as the Chinese New Year holidays were approaching. Thus, the U.S. dollar/Singapore dollar exchange rate also fluctuated within a narrow range.

After the Chinese New Year holidays, the January Consumer Price Index (CPI) of the U.S. was announced on February 13 local time in the U.S., attracting substantial attention in the market. The result turned out to be a more-significant rise than expected, which led the U.S. dollar to appreciate rapidly. Following this trend, the U.S. dollar/Singapore dollar exchange rate rose to temporarily reach the lower-SGD 1.35 level. Thereafter, the January retail sales figure of the U.S. was announced on February 15, and the February University of Michigan Consumer Sentiment Index was announced on February 16, both of which turned out to be below the expected level. Consequently, the U.S. dollar/Singapore dollar exchange rate slowly fell to the mid-SGD 1.34 level. In the middle of the month, there were few influential factors in the market after the announcement of a series of key indices such as the January CPI of the U.S. Thus, the U.S. dollar/Singapore dollar exchange rate continued fluctuating within a narrow range at around the mid-SGD 1.34 level.

On February 22 local time in Europe, the U.S. dollar weakened, and the U.S. dollar/Singapore dollar exchange rate fell temporarily below the SGD 1.34 level. However, on the same day, U.S. economic indices turned out to be strong, including the number of new unemployment insurance claims in the U.S. Furthermore, Vice Chair of the FRB Philip Jefferson made a remark to curb expectations for excessive policy interest rate cuts. In reaction, the U.S. dollar/Singapore dollar exchange rate recovered immediately to the SGD 1.34 level. Thereafter, toward the end of the month, the U.S. dollar/Singapore dollar exchange rate did not move in any direction and fluctuated within a narrow range at around the mid-SGD 1.34 level without any new factor in the market.

2. Outlook for This Month

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

However, there are many events related to central banking, such as the Federal Open Market Committee (FOMC) scheduled for March, and market participants should remain cautious of a sudden change in the market trend in case of any surprising outcome.

In February, the U.S. dollar/Singapore dollar exchange rate rose based on the appreciation of the U.S. dollar. This was mainly because of the fact that the U.S. economy remained strong, and FRB officials made remarks to curb expectation for policy interest rate cuts. The January CPI of the U.S. turned out to be +3.1% year-on-year, still far from the target range. Furthermore, employment related indices in the U.S. remain strong at the moment. Thus, the market consensus is that it is unlikely for the FOMC to cut its policy interest rate in March. If this turns out to be the case, the U.S. dollar is expected to remain strong. It is also worth noting that the dot plot will be released at an FOMC meeting in March. Thus, market participants should be attentive of the number of policy interest rate cuts expected in 2024 according to the latest dot plot, as well as the remarks by FRB Chair Jerome Powell about the U.S. economy and policy interest rate cuts that are to be made at the press conference after the FOMC meeting.

On the other hand, in Singapore, the January CPI turned out to be +2.9% year-on-year, falling below the estimate. The inflation rate has certainly been on a fall, also compared to +3.7% year-on-year—the previous month's result. Thus, the outcome of the measures of monetary tightening has become visible. Under such circumstances, it is difficult to expect further measures of monetary tightening. At the previous meeting, the Monetary Authority of Singapore (MAS) stated boldly regarding the economic outlook of Singapore that the domestic economy would strengthen further for greater growth, given there are no further global shocks. However, due to measures of monetary tightening, this year, there have been risks of global economic downturn. Market participants should remain cautious of this point, as Singapore is highly dependent on external demand.

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

Thai Baht – March 2024

Expected Ranges **Against the US$: THB 35.00–36.30**
Against the yen: JPY 4.10–4.25

1. Review of the Previous Month

In February, the U.S. dollar/Thai baht continued rising.

At the beginning of the month, the U.S. dollar/Thai baht exchange market opened trading at around the mid-THB 35 level. On February 2, the January employment statistics of the U.S. turned out to be strong, which strengthened the U.S. dollar against almost all the other currencies. Under such circumstances, on February 5, the following week, the U.S. dollar/Thai baht exchange rate continued rising, as there were also other supporting factors for the U.S., such as Federal Reserve Board (FRB) Chair Jerome Powell's hawkish remarks, the headline to report the January Consumer Price Index (CPI) of Thailand that turned out to be -1.11% year-on-year with a larger negative figure than the market estimate, and the January Non-Manufacturing ISM Report On Business® of the U.S. that turned out to be strong. As a result, the U.S. dollar/Thai baht exchange rate once reached the upper-THB 35 level. Thereafter, the rise of the U.S. dollar/Thai baht exchange rate slowed down, and the exchange rate returned to the mid-THB 35 level. However, on February 7, the Bank of Thailand (BOT) decided to maintain its policy interest rate at the existing level at its monetary policy committee (MPC), as had been anticipated in the market. However, it was revealed that two out of seven members of the MPC had voted for a policy interest rate cut. This fueled expectation for a policy interest rate cut, and the Thai baht depreciated. Consequently, the U.S. dollar/Thai baht exchange rate rose to approach the THB 36 level.

In the middle of the month, the January CPI of the U.S. was announced on February 13 with a result that exceeded the market estimate. As a result, expectations for policy interest rate cuts in the U.S. declined. Under such circumstances, the U.S. dollar/Thai baht exchange rate rose to the lower-THB 36 level. However, the exchange rate did not rise significantly further, and the U.S. dollar/Thai baht exchange rate continued fluctuating without moving in any direction for a while. Then, on February 19, the fourth-quarter GDP of Thailand was announced, and the result turned out to be weak at -0.6% from the previous quarter and +1.7% year-on-year. In reaction, Prime Minister of Thailand Srettha Thavisin requested the BOT to hold an emergency meeting and cut the policy interest rate. This revealed opposition between the Thai government and the BOT once again. However, the U.S. dollar/Thai baht exchange rate did not move significantly and continued fluctuating at around the THB 36 level.

At the end of the month, there were no significant factors in the market. Yet, the U.S. dollar/Thai baht exchange rate declined slightly, falling slowly to the upper-THB 35 level. As of February 27, the day on which this article was written, the U.S. dollar/Thai baht exchange rate has still been fluctuating at the upper-THB 35 level.

2. Outlook for This Month

The rise of the U.S. dollar/Thai baht exchange rate is forecast to slow down in March.

At the first Federal Open Market Committee (FOMC) meeting in 2024 held at the end of January, the FOMC

revealed its intention not to hurry to cut its policy interest rate until it is more certain to achieve the inflation target, even though a policy interest rate cut would be the only next step possible for the FOMC. After the FOMC meeting as well, Federal Reserve Board (FRB) officials also made remarks to emphasize that it was too early to consider a policy interest rate cut. As a consequence, the market has already reflected to a great extent a delay in the start of policy interest rates cuts in the U.S. Therefore, in the times ahead, it will be difficult for the U.S. dollar/Thai baht exchange rate to rise in an accelerated manner based on the expected delay in the start of policy interest rate cuts in the U.S.

With regard to the domestic situation in Thailand, there are various factors to cause the depreciation of the Thai baht in the market, such as weak domestic indices of Thailand as well as remarks by members of MPC in the BOT to support policy interest rate cuts. However, the breakdown of the GDP of Thailand for the fourth quarter of 2023 has revealed strong growth in personal consumption expenditures at +7.4% year-on-year, even though the GDP itself turned out to be significantly below the market estimate, attracting substantial attention in the market. These figures confirmed the remark made at the previous MPC meeting at the BOT held on February 7, emphasizing that domestic demand was expanding and that the slowdown of the Thai economy was based on external and structural factors. After the release of economic indices, a BOT official made a remark that personal consumption turned out to be stronger than expected. Furthermore, according to data announced by the Ministry of Tourism & Sports of Thailand, the number of Chinese tourists in Thailand, one of the main numbers of focus for the Thai economy, has been on the rise since the second half of last year, and it exceeded 500,000 in January 2024. The figure is expected to remain strong in February after the Chinese New Year holidays, for which market participants should follow closely. Under such circumstances, the BOT is not very likely to change its monetary policy any time soon. Given that an MPC meeting is scheduled for April, the Thai baht is not likely to depreciate against the U.S. dollar further. It is, however, worth noting that the Thai government has asked the BOT to cut the policy interest rate, while there has been growing dissatisfaction among some members of the public over the treatment of former Prime Minister Thaksin Shinawatra. These factors have led to a sense of uncertainty in the Thai political situation, with some risks to raise the U.S. dollar/Thai baht exchange rate in the times ahead.

Rui Uchida, Mizuho Bank (Malaysia) Berhad

Malaysian Ringgit – March 2024

Expected Ranges **Against the US$: MYR 4.73–4.83**
Against the yen: JPY 31.05–32.05

1. Review of the Previous Month

In February, the Malaysian ringgit exchange market was impacted by external factors, as expectation for policy interest rate cuts in the U.S. receded due to strong employment indices and the gradual slowdown of inflation. The U.S. dollar/Malaysian ringgit exchange rate exceeded the highest rate recorded in November last year, reaching the lowest rate for the Malaysian ringgit in 26 years since the time of the Asian financial crisis in 1998.

At the beginning of the month, the January employment statistics of the U.S. were announced on February 2, local time in New York, and the results turned out to be significantly stronger than the market estimate. As a result, U.S. government bond yields rose sharply by 12–20 basis points. Also, Federal Reserve Board (FRB) officials repeatedly made remarks to imply their intention of narrowing the gap between the dot plot outlook for policy interest rate cuts in 2024 (by 75 basis points) and the outlook by market participants (122 basis points). Consequently, interest rates in the U.S. rose. In the U.S. dollar/Malaysian ringgit exchange market, market participants did not carry out active transactions, as the Chinese New Year holidays were approaching. Thus, the U.S. dollar/Malaysian ringgit onshore exchange market remained extremely quiet.

In the middle of the month, the Consumer Price Index (CPI) of the U.S. was announced on February 13, and the result tuned out to be above the market estimate. In reaction, the U.S. government bond yield rose sharply by 12–20 basis points. As the U.S. dollar appreciated rapidly in the foreign exchange market, market participants sold the currencies of the overall emerging countries. Following this trend, the Malaysian ringgit also depreciated against the U.S. dollar. Thus, the U.S. dollar/Malaysian ringgit exchange rate rose to reach the mid-MYR 4.78 level. Furthermore, the confirmed figure of the fourth-quarter GDP was announced on February 16, and the result was revised significantly downward from +3.4% year-on-year to +3.0% year-on-year, as a result of which the annual GDP for 2023 was calculated to be +3.7%. This figure was rather disappointing, as it turned out to be weaker by 0.3% than the outlook by the government, which was +4.0%.

Toward the end of the month, Malaysian ringgit-buying slowed down, as the U.S. dollar/Malaysian ringgit exchange rate approached the MYR 4.8 mark, which is the psychological turning point. Under such circumstances, on February 21, the Malaysian ringgit depreciated to the level seen in the financial crisis in Asia in 1998. It is also worth noting that the January trade statistics were announced on January 20, revealing a persistent slowdown in the leading electrical and electronics industry at –6.5%, even though on a headline basis the result recorded positive year-on-year growth for the first time since February 2023. Furthermore, there has been no sign of recovery in exports to China. The U.S. dollar/Malaysian ringgit exchange rate exceeded the highest rate recorded in November 2023. In reaction, the governor of the central bank of Malaysia made an emergency remark to warn against excessive depreciation of the Malaysian ringgit. After the announcement of this remark, some market participants sold the U.S. dollar against the Malaysian ringgit, as the U.S. dollar/Malaysian ringgit exchange seemed to have risen as high as it could. In February, the U.S. dollar/Malaysian ringgit exchange market opened trading at the MYR 4.72 level and moved toward the historical low for the Malaysian ringgit throughout the month in a somewhat one-sided

manner, as there was no factor that encouraged market participants to buy the Malaysian ringgit.

2. Outlook for This Month

Since the beginning of the year, market conditions have been severe for the Malaysian ringgit, as market participants have sold the Malaysian ringgit every time there was an announcement for an economic index of the U.S. On the other hand, in the past two months, there have been some signs of change in domestic and overseas indices, which is an important point in predicting future trends in the Malaysian ringgit exchange market.

With regard to domestic indices, the fourth-quarter GDP and the annual GDP for 2023 were announced on February 16, and both figures turned out to be disappointing. Because the figures were even below the government outlook, market participants must have turned pessimistic about the domestic economy of Malaysia after the announcement. The January trade statistics also revealed a slowdown in the leading electric and electronic industry, while exports to China, the main trade partner for Malaysia, turned out to be weak, and this did not encourage market participants either. On the other hand, however, on a headline basis, the figure recorded positive growth for the first time since February 2023. The semiconductor industry has been recovering on a global scale, and this is a supporting factor for the future economy of Malaysia, which is subject to the influence of the country's leading electric and electronics industry.

With regard to external factors, since the beginning of the year, market participants bought the U.S. dollar and sold the Malaysian ringgit. Under such a circumstance, as of December last year, there was a gap of about three in the number of interest rate cuts in the U.S. expected for 2024 between three in the dot plot, which was announced at the Federal Open Market Committee (FOMC) meeting in December reflecting the views of the FOMC members, and six as expected by market participants. Now, the outlook by market participants is approaching that of the FOMC members, and the gap has been almost offset. In other words, if interest rates in the U.S. rise further from the current level, it would mean that market participants have turned more hawkish than the FOMC members. Even though such a situation is possible, it is not very likely for it to happen given the current inflation indices. The next FOMC meeting is scheduled for February 21, and a new dot plot will be released, which can trigger a new trend in the market.

For the above reasons, in March, the Malaysian ringgit is not likely to depreciate in somewhat of a one-sided manner as was the case in January and February. The U.S. dollar/Malaysian ringgit exchange rate is forecast to remain unstable, without moving in any direction.

Masayuki Tsunashima, Asia & Oceania Treasury Department

Indonesian Rupiah – March 2024

Expected Ranges	**Against the US$: IDR 15,400–15,800**
	Against the yen: JPY 0.9434–0.9804 (IDR 100)

1. Review of the Previous Month

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

At the beginning of the month, the U.S. dollar/Indonesian rupiah exchange market opened trading at the upper-IDR 15,700 level. Thereafter, the January Consumer Price Index (CPI) of Indonesia was announced, and the result turned out to be +2.57% year-on-year—slightly above the market estimate. However, there was little reaction to this announcement in the market. On the same day local time, U.S. stock prices rose based on strong figures in corporate performance, and this improved risk sentiment in the market. As a consequence, the Indonesian rupiah appreciated against the U.S. dollar on February 2, the following day, local time in Asia. The U.S. dollar/Indonesian rupiah exchange rate then reached the mid-IDR 15,600 level. Also, on February 2 local time in the U.S., the employment statistics of the U.S. were announced, and the results turned out to be stronger than anticipated. In reaction, market participants bought the U.S. dollar. On February 5 local time in Asia, after the weekend, the U.S. dollar appreciated, and the U.S. dollar/Indonesian rupiah exchange rate reached the lower-IDR 15,700 level. On February 6, market participants bought the Chinese yuan, as stock prices in China were rising. Following this trend, other Asian currencies also strengthened, and the Indonesian rupiah rallied against the U.S. dollar, leading the exchange rate to reach the lower-IDR 15,600 level toward February 7, the following day. On February 12, after consecutive holidays in Indonesia, the U.S. dollar/Indonesian rupiah exchange market opened trading at the lower-IDR 15,600 level, and the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating at the same level without moving in any direction, as the presidential election scheduled for February 14 was approaching. Then, on February 14, the presidential election was held in Indonesia, attracting substantial attention. On the same day, the result of early vote counts was announced, revealing that Prabowo Subianto had won a majority, as a result of which his team declared victory. In the opinion poll carried out before the presidential election as well, it was shown that Prabowo Subianto was likely to win the election. Thus, the result of the election did not cause significant confusion in the market. While waiting for the official results of the election, market participants were certain that the presidential election would not end up in a second ballot. Under such circumstances, the Indonesian rupiah appreciated slightly against the U.S. dollar at market opening on February 15. The U.S. dollar/Indonesian rupiah exchange market thus opened trading at the mid-IDR 15,500 level. However, the January CPI of the U.S. was announced on February 13 local time in the U.S. and the January trade balance of Indonesia was announced on the same day with weak figures. As a result, trends in the U.S. dollar/Indonesian rupiah exchange market changed, and market participants bought the U.S. dollar, weakening the Indonesian rupiah and leading the U.S. dollar/Indonesian rupiah exchange to approach the IDR 15,600 level. Thereafter, the U.S. dollar/Indonesian rupiah exchange rate continued fluctuating within a narrow range, mainly at around the lower-IDR 15,600 level. On February 21, the central bank of Indonesia held a meeting and decided to maintain its policy interest rate at the existing level, as had been anticipated in the market. The market therefore did not react significantly to the news. The U.S. dollar/Indonesian rupiah exchange rate thus continued fluctuating at around the IDR 15,600 level. However, toward the end of the month, some market

participants sold the Indonesian rupiah based on actual demand. As a result, the U.S. dollar/Indonesian rupiah exchange rate returned to the upper-IDR 15,600 level before market closing.

2. Outlook for This Month

In March, the Indonesian rupiah is forecast to remain stable.

In the U.S. interest rate market, around six expected policy interest rate cuts (–1.25%) in the U.S. were reflected as of January this year. However, there are currently around three policy interest rate cuts reflected in the market. While expectation for policy interest rate cuts recedes, interest rates in the U.S. were on an uptrend, and market participants mainly bought back the U.S. dollar at the beginning of February. This is because of the situation in which concerns over an economic downturn in the U.S. were mitigated in the market. At the moment, the U.S. stock market has also been strong. In February, however, there were also some phases in which stock prices rose and the currencies of emerging countries strengthened based on improved risk sentiment in the market after the policy interest rate cut in China. Following this trend, the Indonesian rupiah also appreciated slightly against the U.S. dollar.

Because stock prices are expected to remain high in March, the currencies of emerging countries are likely to strengthen.

It is also worth noting that a presidential election was held in Indonesia on February 14, attracting substantial attention, and the victory of Prabowo Subianto became certain, which makes a second ballot in June unlikely. For the Indonesian economy, this was a positive factor such that the country managed to avoid political uncertainty caused by a second ballot.

At the press conference held after the central bank meeting in February, the governor of the central bank of Indonesia, Perry Warjiyo, indicated his intention to maintain the policy interest rate at the existing level for a while. Even though the rise of rice prices remains a source of concern, the inflation rate has remained within the inflation target range set out by the central bank. Furthermore, rice prices are likely to stabilize after rice harvesting in March. Therefore, it does not seem necessary for the central bank to change its monetary policy at this moment. The central bank is expected to maintain its current monetary policy for a while, after which it will start cutting the policy interest rate after the start of policy interest rate cuts in the U.S.

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

Philippine Peso – March 2024

Expected Ranges **Against the US$: PHP 55.00–57.00**
Against the yen: PHP 0.360–0.385

1. Review of the Previous Month

In January, the outcome of a Federal Open Market Committee (FOMC) meeting turned out to be generally hawkish. However, with persistent expectation for early policy interest rate cuts in the U.S. and concerns over the stability of U.S. local banks, the U.S. dollar depreciated. As a result, on February 2, the Philippine peso appreciated against the U.S. dollar, reaching its highest rate in approximately three weeks. Thereafter, the January employment statistics of the U.S. turned out to be stronger than expected, leading interest rates in the U.S. to rise sharply. This also strengthened the U.S. dollar, changing trends in the U.S. dollar/Philippine peso exchange market. Thus, the Philippine peso depreciated occasionally on February 5. Thereafter, the January Consumer Price Index (CPI) of the Philippines was announced, and the result turned out to be +2.8% year-on-year, falling below the market estimate, which was +3.1% year-on-year and even further below the previous month's result, which was +3.9% year-on-year. Yet, the central bank of the Philippines (BSP) maintained a hawkish attitude, insisting that sufficient measures of monetary tightening were still necessary. Since there were also growing concerns over the stability of local banks in the U.S., the U.S. dollar weakened and the Philippine peso rallied. The Philippine peso remained strong at the beginning of the month.

Because the January CPI of the U.S. turned out to be above the market estimate, expectations for an early policy interest rate cut receded, and the U.S. dollar appreciated sharply. As a result, on February 14, the Philippine peso depreciated to the lowest rate against the U.S. dollar in approximately one week. However, the appreciation of the U.S. dollar slowed down thereafter, and remittances from overseas Filipino workers in December last year recorded positive growth of 3.8% year-on-year, exceeding the market estimate, which was +2.4% year-on-year. This led the Philippine peso to rally. Thus, there were both positive and negative factors in the market. Under such circumstances, the U.S. dollar/Philippine peso exchange rate continued fluctuating in both directions at around the PHP 56 level in the middle of the month. On February 15, the BSP decided to maintain its policy interest rate at the existing level, as had been anticipated by the majority of market participants. The central bank also emphasized that measures of monetary tightening would be maintained for a while. However, there was limited reaction to this news in the market.

At the end of the month, stock prices renewed all-time highs in Japan, Europe, and the U.S. The global rise of stock prices improved market sentiment. As a result, Asian currencies strengthened, and the Philippine peso appreciated against the U.S. dollar, temporarily reaching PHP 55.700—the highest rate in approximately 1.5 months. However, market participants confirmed the strength of the U.S. labor market thereafter, and interest rates in the U.S. rose based on the issuance of large corporate bonds and the outcome of U.S. government bond auctions. Consequently, the U.S. dollar strengthened, weakening the Philippine peso in return. There were no more influential factors in the market thereafter, and the U.S. dollar/Philippine peso exchange rate continued fluctuating within a narrow range at around the PHP 56 level, as was the case in the middle of the month (as of February 27).

2. Outlook for This Month

The U.S. economic indices recently announced have demonstrated the strength of the labor market in the U.S. and persistent inflation pressure. As a result, excessive expectation for early policy interest rate cuts in the U.S. receded. Currently, around three policy interest rate cuts are reflected in the market, and this is generally in line with the policy interest rate outlook released by U.S. monetary authority officials. Thus, it is unlikely for interest rates in the U.S. to rise much further. On the other hand, U.S. economic conditions remain healthy, suggesting a possibility of soft-landing. Furthermore, concerns over price and wage increases persist, making it unnecessary for monetary authorities in the U.S. to quicken pace for monetary easing. Therefore, U.S. monetary authorities are likely to maintain the current monetary policy, as it is difficult to either raise or cut the policy interest rate for a while. As a result, the U.S. dollar exchange market is not expected to see a clear trend in the times ahead.

The BSP is cautious of inflation risks based on the El Niño phenomenon. Furthermore, the BSP is likely to maintain measures of monetary tightening in the times ahead, as it is not likely to shift to policy interest rate cuts before the U.S. Because early policy interest rate cuts are not expected in either country, the gap in the policy interest rate between the two countries is expected to remain the same for a while. Under such circumstances, there is no factor to determine the trend in the U.S. dollar/Philippine peso exchange market. Because factors related to the U.S. dollar lead the market, the U.S. dollar/Philippine peso exchange rate is expected to remain volatile, fluctuating in accordance with speculations about the future policy interest rate in the U.S. based on U.S. inflation and labor indices. Yet, the U.S. dollar/Philippine peso exchange rate is most likely to continue fluctuating within a narrow range at around the PHP 56 level. The fluctuation range of the U.S. dollar/Philippine peso exchange rate is likely to be between around the PHP 57 level, the supporting line used by the Philippine monetary authorities last year, and around the PHP 55 level, observed thereafter when expectation grew rapidly for policy interest rate cuts in the U.S.

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

Indian Rupee – March 2024

Expected Ranges	**Against the US$: INR 82.60–83.50**
	Against the yen: JPY 1.74–1.85

1. Review of the Previous Month

In February, the U.S. dollar/Indian rupee exchange rate rose slowly from the INR 83 mark.

In February, the U.S. dollar/Indian rupee exchange market opened trading at the upper-INR 82 level. At the beginning of the month, the Indian rupee appreciated against the U.S. dollar based on market transactions with a movement to sell the U.S. dollar. On the other hand, when the U.S. dollar/Indian rupee exchange rate approached the INR 82.85 level, there was a movement to buy the U.S. dollar while the Reserve Bank of India (RBI) was intervening in the foreign exchange market to keep the U.S. dollar/Indian rupee exchange rate from falling by buying the U.S. dollar and selling the Indian rupee. As a result, the U.S. dollar/Indian rupee exchange rate started to rally. Meanwhile, the Monetary Policy Committee (MPC) decided to maintain its policy interest rate at the existing level at the meeting held in February with a somewhat dovish attitude. Consequently, the Indian rupee started to weaken slowly, and the U.S. dollar/Indian rupee exchange rate recovered to the INR 83 level. Thereafter, the U.S. dollar/Indian rupee exchange rate remained flat at the same level. Toward the end of the month, the Indian rupee appreciated against the U.S. dollar, based on large-scale transactions, and the U.S. dollar/Indian rupee exchange rate fell below the INR 83 level. However, the exchange rate did not fall further than the INR 82.85 level—the support line seen at the beginning of the month. Thus, in the end, the Indian rupee appreciated against the U.S. dollar only to a small extent on a monthly basis (as of February 23).

The BSE SENSEX occasionally fell below the 71,000 level due to some profit-taking. However, the index generally remained in an uptrend. Toward the end of the month, the BSE SENSEX rose sharply to approach the highest level in the year.

With regard to economic indices in India, the January manufacturing and service industry Purchasing Managers' Index (PMI) turned out to be strong. Also, the February MPC meeting was held, attracting substantial attention in the market, but the policy interest rate was maintained at the existing level (6.50%) for the sixth consecutive time. On the other hand, the votes by MPC members turned out to be one to five, which surprised market participants, as it revealed that there was one vote for a policy interest rate cut for the first time since the time of policy interest rate hikes in 2022. The monetary policy stance was kept unchanged (continued policy interest rate hikes in order to tackle inflation). However, it seems that the MPC turned slightly more dovish, shifting from the previous attitude to support policy interest rate hikes without hesitation. Also, the January Consumer Price Index (CPI) turned out to be +5.10% year-on-year, recording negative growth from the previous month's result, which was +5.69% year-on-year. The CPI thus remained below +6%—the upper end of the inflation target range. The January trade balance revealed a decrease in trade deficit. However, there has been a persistent deficit in the trade balance, making the Indian rupee an easy currency to sell.

2. Outlook for This Month

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

In March, the U.S. dollar/Indian rupee exchange rate is forecast to remain stable at around the INR 83 mark. In February, the Indian rupee appreciated further than this level based on market transactions. However, when the U.S. dollar/Indian rupee exchange rate fell lower, there were some market participants selling the Indian rupee based on actual demand, while the RBI also intervened in the foreign exchange market. Thus, there was no excessively violent fluctuation in the U.S. dollar/Indian rupee exchange market. Since the beginning of the year, the RBI has been controlling the U.S. dollar/Indian rupee exchange rate whenever the U.S. dollar appreciates or depreciates. As a result, the U.S. dollar/Indian rupee exchange rate has been fluctuating within an extremely narrow range. Under such circumstances, the U.S. dollar/Indian rupee exchange market is expected to remain generally stable, fluctuating within a narrow range between INR 83 and INR 84. However, market participants should pay close attention to changes in market trends from the middle to the second half of the year, when the U.S. policy interest rate cuts start, which would encourage market participants to sell the U.S. dollar.

In the February meeting, the MPC decided to maintain its policy interest rate at the existing level. However, unlike the previous meetings, it was not a unanimous decision, as there was an opposition vote (for a policy interest rate cut) for the first time. The latest CPI was below the upper end of the inflation target range (+6%), as had been the case so far. Thus, the RBI is lowering its inflation outlook, and the governor of the RBI, Shaktikanta Das, talked about the "last mile of disinflation." Given such a situation, depending on the inflation level, the RBI might shift its monetary policy from maintenance of the status quo to policy interest rate cuts toward the second half of the year.

In addition to investment into the Indian stock market, there has been an increasingly remarkable investment capital inflow into the Indian bond market as a means of long-term investment. This could keep the U.S. dollar/Indian rupee exchange rate from rising further. Furthermore, the U.S. economy has been slowing down, and the Federal Open Market Committee (FOMC) is likely to start cutting its policy interest rate in the U.S. Thus, toward the second half of this year, the appreciation of the Indian rupee is expected to become more evident. However, the Indian rupee is likely to start depreciating again as the RBI continues to intervene in the market to keep the U.S. dollar/Indian rupee exchange rate from falling further while market participants also continue selling the Indian rupee based on actual demand.

This report was prepared based on economic data as of February 29, 2024.

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